Is the taxonomy increasing investment into nature-positive activities?

An analysis of whether the EU taxonomy is fit for purpose to address the finance gap for protecting and restoring nature

Finance ClimAct

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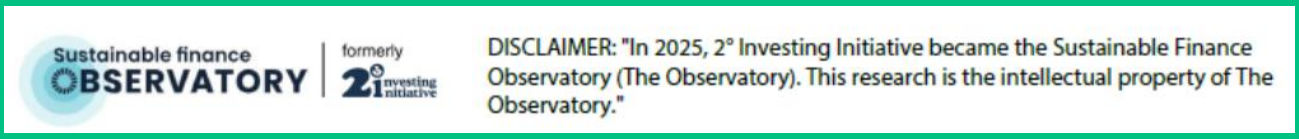

Executive Summary

Reaching EU and international biodiversity targets will require increasing investment in activities with positive biodiversity impacts (e.g. conservation and restoration) and activities that reduce the pressure on ecosystems (**nature-positive investments**) and reducing investment in activities with negative biodiversity impacts (**nature-negative investments**). The EU sustainable finance framework is intended to help reorient financial flows to support these goals. And the Taxonomy Regulation is generally considered the primary mechanism that is supposed to reveal information about nature-positive investments and therefore incentivise investment in nature positive activities.

The taxonomy framework establishes various incentive mechanisms to help reorient finance towards sustainable economic activities: it confers legitimacy and credibility on sustainable economic activities, acts as a market transparency tool that spurs economic actors to shift towards more sustainable practices, and is used throughout the EU sustainable finance framework as the reference against which investments and economic activities have their sustainability benchmarked. But nature-positive activities face additional hurdles to access finance compared to other sustainable economic activities: they are typically small-scale projects that require investment customisation and lack transparency and some of them fall short of providing clear financial revenue streams to investors. The taxonomy could be pivotal in helping overcome some of these hurdles.

Nevertheless, the taxonomy in its current state is critically limited as a tool to support nature-positive activities. Although the market of nature-focused funds has been growing for the past years, our review of empirical data shows that nature focused funds do not currently report against or use the taxonomy as the supportive structure it was meant to be, and this may be because of the regulatory inconsistencies which mean that biodiversity is currently only weakly integrated into the taxonomy framework. Despite the original ambition of the Taxonomy Regulation to cover five macro sectors of economic activities that can qualify as substantially contributing to the biodiversity environmental objective,[1] the Environmental Delegated Regulation only includes technical screening criteria for economic activities substantially contributing to the biodiversity environmental objective in the macro sectors of *Environmental protection and restoration activities (Conservation, including restoration, of habitats, ecosystems and species)* and *Accommodation activities*.

In this context, we renew calls for completing the taxonomy to foster a comprehensive coverage of nature-positive activities. This requires expanding the current sector coverage in the Environmental Delegated Regulation for the biodiversity environmental objective to cover the critical sectors of agriculture, fisheries and forestry. Not only are these the sectors that require the most funding to achieve biodiversity objectives, but these are also the sectors that receive the most attention from investors and are identified as the sectors where nature-based projects have the greatest potential.

Additionally, the paper summarises how nature-based solutions provide practical ecosystem-service based solutions to societal and economic problems and therefore may have a better investment case compared to traditional conservation and restoration projects. This in turn means that they can help address the problem that conservation and restoration projects hold little attractiveness for private investors and increase investment towards nature-positive activities. However, nature-based solutions are not currently integrated into the taxonomy framework in a manner which supports the biodiversity environmental objective. Developing a comprehensive classification of nature-based solutions in relevant sectors and a science-based assessment of their contribution to the biodiversity environmental objective (as well as climate change mitigation and adaptation and other environmental objectives) within the taxonomy framework could further enhance the ability of the taxonomy to increase investment in nature-positive activities.

[1] A level of ambition which is itself lower than the ambition initially proposed by the EU Platform on Sustainable Finance.

Ultimately, the conclusion of this paper is similar to the previous paper in this series[2] - further development of the regulatory framework is required so that it effectively contributes to the policy objective of reorienting finance towards nature-positive activities (as part of sustainable economic activities generally). At the moment the taxonomy framework has significant gaps in relation to the biodiversity environmental objective – and as the very foundation of the EU sustainable finance framework, it is critical that the taxonomy framework evolves to effectively support the reallocation of finance towards nature-positive activities.

This paper intervenes in the context of the Commission's ambition to reduce the burden associated with reporting requirements by 25% and various announcements in relation to proposed omnibus legislation to simplify the Taxonomy Regulation, CSRD and Corporate Sustainability Due Diligence Directive. Although enhancing the taxonomy to foster a more comprehensive approach to the biodiversity environmental objective need not be contradictory to reducing the reporting burden, it is difficult to reconcile this political direction of travel with the conclusion of this paper that further development of the Taxonomy Regulation is necessary to achieve the policy objective of helping to reorient finance towards biodiversity protection and restoration.

[2] Sustainable Finance Observatory (formerly 2° Investing Initiative), 2024, How to reveal nature-negative investments and support their reduction?

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Introduction

The interconnectedness of climate change and biodiversity loss[3] implies that the two issues cannot be addressed in siloes. Despite this emerging understanding, policy making has largely dealt with climate and biodiversity as separate issues[4] and nature has been relegated in terms of importance for some time. Recent efforts to put biodiversity on a more equal footing in terms of policy priorities include the 2022 *Kunming-Montreal Global Biodiversity Framework*[5] which sets objectives to reduce activities with negative biodiversity impacts and promote activities that support conservation and restoration of biodiversity and natural capital. At EU level, the *Biodiversity Strategy for 2030*[6] aims to put Europe's biodiversity on a path to recovery by 2030[7] and unlock at least €20 billion per year for nature by mobilising private and public finance[8] through implementation of the EU sustainable finance framework.

Reaching EU and international biodiversity targets will require increasing investment in activities with positive biodiversity impacts (e.g. conservation and restoration) and activities that reduce the pressure on ecosystems (**nature-positive investments**) and reducing investment in activities with negative biodiversity impacts (**nature-negative investments**).

The principal EU disclosure requirements intended to help reorient financial flows to support the goals of the Biodiversity Strategy include:

- the Corporate Sustainability Reporting Directive[9] (**CSRD**) which defines disclosure requirements for sustainability information by relevant organisations;
- the Sustainable Finance Disclosure Regulation[10] (**SFDR**) which defines disclosure requirements for sustainability information by financial institutions and financial products; and
- the Taxonomy Regulation[11] which provides a common classification system for sustainable economic activities.

These three pieces of legislation articulate requirements for all sectors of the economy to disclose sustainability information (including biodiversity information).

From the biodiversity perspective, while the CSRD and the SFDR can be considered more useful in revealing information on and therefore disincentivising nature-negative investments (see *Information Box How to reveal nature-negative investments and support their reduction*?), the Taxonomy Regulation is generally considered the primary mechanism that is supposed to reveal information about nature-positive investments and therefore incentivise investment in nature positive activities. As highlighted by the Commission, the taxonomy is intended to help 'scale up sustainable investment, by creating security for investors, [and] protecting private investors from greenwashing.'[12]

[3] Climate change is one of the five key drivers of biodiversity loss and the destruction of ecosystems which play a crucial role in regulating climate, therefore their destruction precipitates more climate change in turn.
[4] IPBES-IPCC co-sponsored workshop report on biodiversity and climate change
[5] Convention on Biological Diversity, 2022, CBD/COP/DEC/15/4
[6] European Commission, 2022, EU Biodiversity Strategy for 2030 COM(2020) 380 final
[7] European Commission, 2022, EU Biodiversity Strategy for 2030 COM(2020) 380 final
[8] European Commission, 2023, EU action on biodiversity financing
[9] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting
[10] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector
[11] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088
[12] European Commission (n.d.). EU taxonomy for sustainable activities

This paper reviews the extent to which the taxonomy framework is contributing towards one of its policy objectives i.e. the extent to which the taxonomy does in fact incentivise nature-positive investments in 'activities which explicitly and measurably maintain or enhance the integrity of ecosystems against a defined baseline - or create the enabling conditions for doing so.'[13]

- Section 1 summarises the theory of change for the taxonomy framework as (1) providing an incentive mechanism to reorient finance towards sustainable economic activities and (2) alleviating barriers to financing which is particularly important for nature-positive activities as they face additional hurdles to access finance compared to other sustainable economic activities.
- Section 2 illustrates the current limited utility of the taxonomy in supporting nature-positive investments. It discusses empirical data showing that nature-focused funds disclose very limited alignment with the taxonomy and do not use it as the supportive structure it was meant to be. It then investigates regulatory inconsistencies that constrain the ability of the taxonomy to effectively reorient investment towards nature-positive activities.
- Section 3 explores the potential of nature-based solutions as key activities that could help mainstream ecosystem-based activities for businesses and investigates how integrating nature-based solutions in the taxonomy could be instrumental to increase investment in nature-positive activities and foster a nexus approach to climate and nature.
- Section 4 sets out concluding remarks.

[13] Gerritsen, E., et al., 2022, Options for considering nature-positive finance tracking and taxonomy. Inter-American Development Bank Technical Note

Information Box: How to reveal nature-negative investments and support their reduction?
Reaching EU and international biodiversity targets will require increasing investment in activities with positive biodiversity impacts (e.g. conservation and restoration) and activities that reduce the pressure on ecosystems (**nature-positive investments**) and reducing investment in activities with negative biodiversity impacts (**nature-negative investments**).

A previous paper in this series[14] analysed how the principal adverse impact (**PAI**) concept is particularly relevant in the context of disclosures designed to reduce nature-negative investments. The concept of PAIs was introduced in the EU regulatory framework by the SFDR and relates to the most significant negative impacts of investments on the environment and people. PAIs are currently the primary (if not the only) regulatory mechanism that has the potential to reveal information on nature-negative investments. While the do no significant harm (**DNSH**) principle is also linked to nature-negative investments it does not facilitate any measurement or tracking.

However, there are several gaps and inconsistencies in the current PAI framework which limit its ability to reveal information on nature-negative investments (and correspondingly limit the ability to monitor reduction of nature-negative investments).

Through focussing on financial products which are designed to have higher sustainability performance, the PAI framework omits financial products with the most significant negative biodiversity impacts out of the scope of mandatory disclosure. In addition, the scarcity of biodiversity-related metrics for which disclosure is mandatory prevents any comprehensive and consistent reporting on biodiversity impacts. This problem is further exacerbated by the flexibility in the choice of additional indicators which can be disclosed enabling financial market participants to provide hardly any biodiversity-related information. Further limitations stem from financial market participant dependency on investee company disclosures under the CSRD and the influence of the materiality assessment on these disclosures. In addition, financial market participants may not have access to information about the negative biodiversity impacts of non-EU activities.

Addressing these limitations on biodiversity-related information to assist with reducing nature-negative investments must be achieved in a political context where the Commission has set a target of reducing the burden associated with reporting requirements by 25% and the recent announcement in relation to proposed omnibus legislation to simplify the Taxonomy Regulation, CSRD and Corporate Sustainability Due Diligence Directive. But the paper demonstrates convincingly that significant gaps remain for disclosure requirements linked to nature-negative investments. Therefore, navigating the path between ensuring the adequacy of information revealed by biodiversity disclosures while at the same time not increasing the reporting burden will be a difficult undertaking in the current political context.

[14] Sustainable Finance Observatory (formerly 2° Investing Initiative), 2024, How to reveal nature-negative investments and support their reduction?

Section 1

Theory of change for the taxonomy as an enabler of nature-positive investments

This section summarises the theory of change for the taxonomy framework as (1) providing an incentive mechanism to reorient finance towards sustainable economic activities and (2) alleviating barriers to financing which is particularly important for nature-positive activities as they face additional hurdles to access finance compared to other sustainable economic activities.

The overall objective for the taxonomy is to help 'direct investments to the economic activities most needed for the transition, in line with the European Green Deal objectives.'[15] The Taxonomy Regulation defines six environmental objectives: (1) climate change mitigation; (2) climate change adaptation; (3) sustainable use and protection of water and marine resources; (4) transition to a circular economy; (5) pollution prevention and control; and (6) protection and restoration of biodiversity and ecosystems. To qualify as environmentally sustainable, an economic activity must substantially contribute to one or more environmental objective, not significantly harm any other environmental objective, be carried out in compliance with minimum safeguards contained in the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights and comply with technical screening criteria.[16] These technical screening criteria are contained in the Climate Delegated Regulation[17] and the Environmental Delegated Regulation.[18]

Alongside this classification of sustainable economic activities, the taxonomy also establishes reporting obligations for companies and financial institutions:

- It requires non-financial and financial undertakings to disclose in the non-financial statement (as required by the Non-Financial Reporting Directive and as now amended by the CSRD) specific indicators displaying the extent to which their activities are associated with environmentally sustainable economic activities.[19]
- It requires financial products qualifying as Article 8 or Article 9 under SFDR to disclose information related to the proportion of investments aligned with the taxonomy.[20]

In addition to these disclosure requirements articulated in the Taxonomy Regulation itself, the taxonomy framework serves as the foundation for other disclosure requirements in the sustainable finance regulatory framework.

[15] European Commission (n.d.). EU taxonomy for sustainable activities
[16] Art 3, Taxonomy Regulation
[17] Commission Delegated Regulation (EU) 2023/2485 of 27 June 2023 amending Delegated Regulation (EU) 2021/2139 establishing additional technical screening criteria for determining the conditions under which certain economic activities qualify as contributing substantially to climate change mitigation or climate change adaptation and for determining whether those activities cause no significant harm to any of the other environmental objectives
[18] Commission Delegated Regulation (EU) 2023/2486 of 27 June 2023 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and amending Commission Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities
[19] Arti 8, Taxonomy Regulation
[20] Art 5 and 6, Taxonomy Regulation

1.1 The taxonomy as an incentive mechanism to increase investment in sustainable economic activities

The taxonomy provides a standardised categorisation of sustainable economic activities towards which financial flows should be reoriented to support a sustainable economic transition. It also seeks to improve transparency on sustainable investments by establishing disclosure obligations for companies and financial market participants.[21] These constitute incentive mechanisms which can be analysed under different angles.

First, the taxonomy has a *legitimising action*. By articulating a science-based definition[22] of what economic activities can be considered environmentally sustainable and under what conditions, the taxonomy provides a degree of credibility to these taxonomy-aligned activities (and associated investments). This is intended to reduce greenwashing by distinguishing between sustainable activities and investments and those which are not. This legitimising action can help support sustainability-oriented investors prioritise taxonomy-aligned activities to limit any legal and reputational risks related to greenwashing.[23]

Second, as a *market transparency tool*, the taxonomy helps investors make informed investment decisions. Through establishing compulsory and standardised sustainability reporting (along with the CSRD and SFDR) for relevant companies and financial market participants, it allows for a comparable sustainability assessment of economic activities and investments. Based on the theory (and with varying empirical evidence[24]) that mandatory sustainability disclosure spurs economic actors to shift towards more sustainable practices (to avoid risks and develop a competitive advantage), these disclosures can incentivise a shift towards more sustainable practices.

The taxonomy framework also provides the foundation for other regulatory requirements in the EU sustainable finance framework. For instance, the EU Green Bond Standard[25] has adopted the taxonomy framework to define which activities are eligible for use of the proceeds.[26] Likewise, credit institutions are compelled to report on the sustainability of their assets using the Green Asset Ratio (GAR), which calculates the share of taxonomy-aligned assets of a financial institution.[27] The taxonomy is also integrated into the MiFID II framework[28], as a way of assessing retail client sustainability preferences. And as mentioned previously the taxonomy framework is referenced throughout the SFDR and CSRD. Ultimately, the taxonomy is increasingly integrated into the EU regulatory framework as the reference against which investments and economic activities have their sustainability benchmarked. In addition, it is increasingly used by companies and financial market participants to inform strategic and operational decisions.[29,30]

Therefore, the taxonomy framework itself together with its integration into other regulatory requirements in the EU sustainable finance framework establish various incentive mechanisms to help reorient finance towards sustainable economic activities.

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[21] Art 5, 6 and 8, Taxonomy Regulation
[22] Although note that there is criticism about whether the technical screening criteria for certain economic sectors is adequate. In addition, the taxonomy framework has been subject to significant controversy in relation to the inclusion of certain gas and nuclear economic activities in the framework.
[23] This can also support governments in improving their investments and their work on green budgeting.
[24] Schütze, F., & Stede, J., 2021, The EU sustainable finance taxonomy and its contribution to climate neutrality. *Journal of Sustainable Finance & Investment*, 14(1), 128-160
[25] Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds
[26] Art 4, Green Bonds Standard
[27] Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation
[28] Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms
[29] Bioy, H., Pucci, N., 2024, The Current State of EU Taxonomy Alignment in 2024. Sustainalytics
[30] EBA, 2023, EBA Report in response to the call for advice from the European Commission on Green Loans and Mortgages

1.2 The taxonomy as a framework to alleviate hurdles to accessing finance for nature-positive activities

The taxonomy framework can also be understood to help facilitate access to finance for sustainable economic activities. On the one hand, taxonomy-aligned activities should be more attractive for sustainability-oriented investors or investors seeking to improve their sustainability performance. On the other hand, a high proportion of taxonomy-aligned activities could enable lower capital costs, because they may be eligible for subsidy and investment programmes focussed on taxonomy alignment[31] or can access favourable terms (e.g. interest rates and repayment periods) of specialised funding mechanisms, such as green bonds and green loans.[32]

Compared to other sustainable economic activities (e.g. economic activities which substantially contribute towards the climate mitigation environmental objective), nature-positive activities face additional hurdles to accessing finance. Among these hurdles is the fact that the design of nature-positive projects (such as conservation and restoration projects or nature-based solutions) are often very locally specific. 'Nature-based projects do not lend themselves to 'commodification': each investment needs to be tailor-made for specific local conditions, and they tend to be small-scale interventions in the landscape.'[29] Because they need to consider the specificity of the ecosystem that the project is embedded in, nature-based projects cannot be scaled and replicated globally without being customised to the local environment and similarly KPIs and metrics cannot be replicated from one project to another.

At the same time, nature-based projects are often small-scale –the majority of nature-positive investments are small deal tickets valued at less than $10M.[33] This local specificity aspect and typically small scale for nature-based projects constitute a hurdle for accessing finance as they entail high transaction costs and amounts that are too small for many investors (which explains why primarily public finance has been involved in these projects).

Moreover, a key issue to mobilising private finance for nature-based projects is that they lack clear financial return and generate benefits outside of the financial realm that are difficult to monetise which limits their attractiveness to private investors.[34]

Several solutions have been identified to help overcome these hurdles to attracting private finance.[35,36] One example is using the green bond market to fund a large group of small nature-based projects. This would help address the small ticket size of nature-based projects by bundling together several nature-based projects to invest in. The taxonomy categorisation of sustainable economic activities would be pivotal in facilitating this idea, by enabling relevant nature-based projects to be eligible for the EU Green Bond standard. Another example is using the taxonomy framework to develop clear and trustworthy documentation, standardised performance metrics and consistent disclosure that is needed by private institutional investors[37], therefore addressing the lack of transparency for nature-based projects and improving their ability to access private financing.[38,39]

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[31] Schütze, F., & Stede, J., 2021, The EU sustainable finance taxonomy and its contribution to climate neutrality. *Journal of Sustainable Finance & Investment*, 14(1), 128-16
[32] Nature Conservancy, Environmental Finance, 2019, Investing in Nature: Private finance for nature-based resilience
[33] PWC, 2023, Accelerating Finance for Nature: Barriers and recommendations for scaling private sector investment, Centre for Nature Positive Business
[34] Van Raalte, D. and Ranger, N., 2023, Financing Nature-Based Solutions for Adaptation at Scale: Learning from Specialised Investment Managers and Nature Funds. Global Center on Adaptation and Environmental Change Institute, University of Oxford.
[35] Nature Conservancy, Environmental Finance, 2019, Investing in Nature: Private finance for nature-based resilience
[36] WWF, 2021, Powering Nature: Creating the conditions to enable nature-based solutions
[37] Milborrow, I., King, J. & Bromfield, T., 2023, Closing the critical nature investment gap. PWC
[38] Rhetoric also used for UNBS by Papari, C.A., et al., 2024, Can the EU taxonomy for sustainable activities help upscale investments into urban nature-based solutions? *Environmental Science & Policy*, Volume 151, 2024, 103598
[39] This could also define metrics measuring benefits beyond financial profits which could help quantify the broader benefits of nature-positive investments and make it easier for investors to understand the returns they can expect.

Section 2

Limited utility of the taxonomy in supporting nature-positive investments

This section illustrates the current limited utility of the taxonomy in supporting nature-positive investments. It discusses empirical data showing that nature-focused funds do not report against or use the taxonomy as the supportive structure it was meant to be. It then investigates regulatory inconsistencies that constrain the ability of the taxonomy to effectively reorient investment towards nature-positive activities.

2.1 Empirical review: Existing nature-focused funds disclose minimal taxonomy alignment

Sustainable financial products (i.e. those categorised under Article 8 or 9 SFDR) must disclose various taxonomy related information. Article 9 financial products must disclose a 'description of how and to what extent the investments underlying the financial product are in economic activities that qualify as environmentally sustainable' [40] under the Taxonomy Regulation. This description shall specify the proportion of investment in environmentally sustainable economic activities.[41] This obligation is completed by the SFDR Delegated Regulation[42] which establishes that this information shall be included in pre-contractual disclosures and include a graphic representation of the proportion of investments aligned with the taxonomy.[43]

The Environmental Delegated Regulation which established the technical screening criteria for the biodiversity environmental objective was only published by the Commission in 2023 and applies from January 2024. Additionally, the taxonomy establishes, for financial undertakings, mandatory reporting on taxonomy-eligibility for all six environmental objectives from 2024 and on taxonomy-alignment for all six environmental objectives from 2026.[44] Therefore, it is still early days for financial product reporting on taxonomy alignment against the biodiversity related environmental objective. Nevertheless, some financial market participants already report taxonomy alignment for their nature-focused financial products in SFDR disclosures (i.e. against the taxonomy as a whole and not against a particular environmental objective).

[40] Art 5, Taxonomy Regulation
[41] Meanwhile Article 8 financial products must include a statement: 'The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.' (Art 6, Taxonomy Regulation)
[42] Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports
[43] Art 15, 18 and 19, SFDR Delegated Regulation
[44] Art 5, Environmental Delegated Regulation

Our review focused on EU nature-focused funds investing in activities relevant for the protection and restoration of terrestrial and aquatic natural capital[45], which are subject to EU regulatory requirements and qualify as Article 9 financial products and for which we were able to access SFDR disclosures. The sample therefore comprised the 25 nature-focused funds listed in *Annex 1: Sample of Article 9 nature-focused funds*.

Among these 25 nature focussed funds:

- 15 funds disclosed the total proportion of investments aligned with the taxonomy globally. [46]
- Out of these 15 funds:
    - 9 funds reported 0% taxonomy-alignment;
    - 3 funds reported "minimum 1%" taxonomy-alignment;
    - 2 funds reported 5% taxonomy-alignment; and
    - Only two funds reported more than 5% taxonomy-alignment (10.2% and 60%).

The only fund which discloses a high proportion for taxonomy alignment was the ANZLAFF fund, which invests 'in a diversified portfolio of sustainable forestry or agricultural land and associated processing and infrastructure assets whilst contributing to the following impact objectives: (1) climate: deliver climate change adaptation through net sequestration, (2) conservation: increase protected and restored area, (3) shared prosperity: increase local community benefits and (4) bioeconomy: contribute sustainably produced food and fibre to the bioeconomy including increased circularity.'[47] Despite it being notionally a nature-focussed fund, the taxonomy-alignment of minimum 60% relates to investment in forestry assets that are considered to contribute to the climate change mitigation environmental objective (rather than the biodiversity environmental objective).

This review illustrates that currently there is very limited disclosure in relation to taxonomy-alignment for nature-focused funds subject to EU regulatory requirements. Although the market for nature-focused funds has been growing for the past years[48], this appears to be independent of the requirements and incentive mechanisms associated with the taxonomy framework (because very few nature-focused funds disclose a high proportion of taxonomy-alignment against the biodiversity environmental objective or otherwise or rely on the taxonomy framework to guide and assess their investment decisions).

Table 1 details some examples of nature-focused funds and the stated reasons why they do not disclose higher taxonomy-alignment.

[45] Such as sustainable aquaculture and innovations for the regeneration of marine ecosystems, regenerative agriculture and sustainable forestry, solutions for the reduction of biodiversity loss.
[46] Alignment was disclosed against the Taxonomy as a whole and not against an environmental objective.
[47] New Forests, 2023, Sustainable Finance Disclosure Regulation (SFDR) – Website Disclosures
[48] For example, the global AUM of biodiversity-labelled funds increased by 50% from January to September 2024 (Gangadia, K., 2024, Under the Canopy: Shedding Light on Biodiversity Funds. MSCI.)

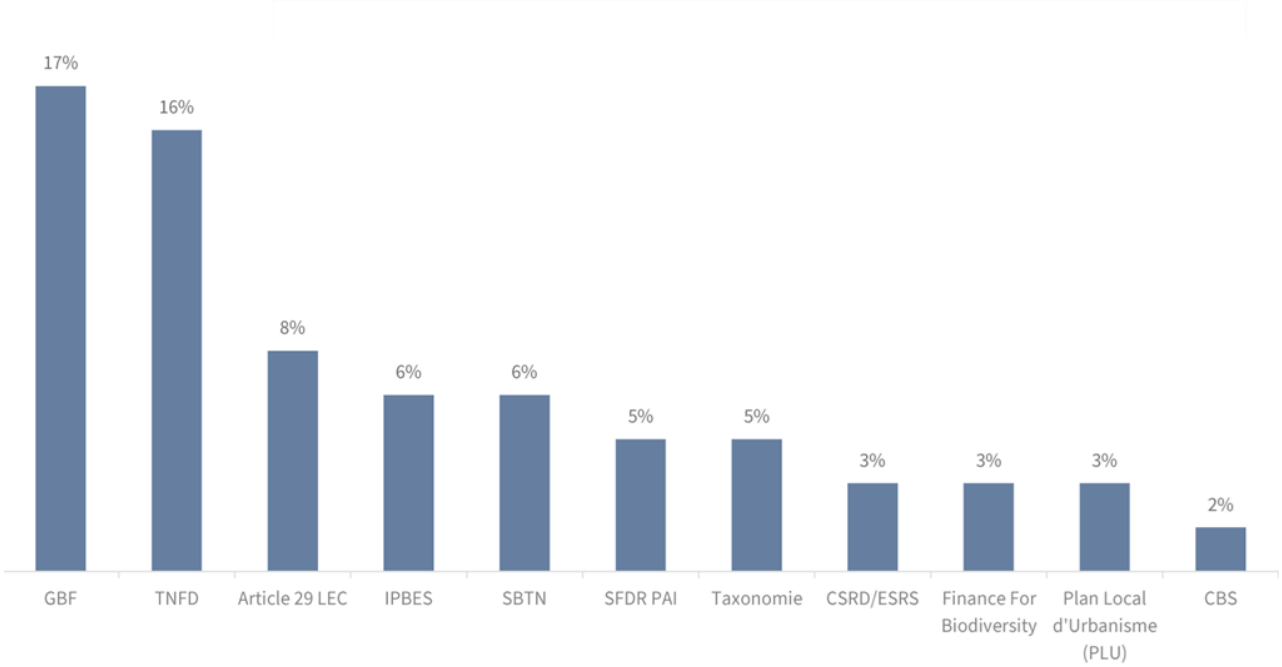
Table 1: Example of nature-oriented funds[49]

AXA World Funds ACT Biodiversity Fund (AXA) *240M USD AUM*
Targeted businesses: developing solutions to halt biodiversity loss, land degradation, desertification and protect ecosystems
Displayed minimum extent of taxonomy alignment: - *In the pre-contractual SFDR disclosure, it is stated that the taxonomy's criteria for environmental objectives are not considered. The fund relies on the UN SDGs as a framework to select and assess their investments' positive contribution for nature.*
SLF Equity Environment & Biodiversity Impact (SwissLife Asset Managers) *211M USD AUM*
Targeted businesses: businesses developing solutions that address biodiversity loss, control pollution and protect ecosystems, such as sustainable agriculture and forestry, water waste treatment etc.
Displayed minimum extent of taxonomy alignment: 0% *The fund mentions that its investments contribute to the 6th environmental objective of the taxonomy. It states that "the sub fund does not commit to invest in taxonomy aligned investments" and notably uses the UN SDGs n°12, n°14 and n°15 as a framework to guide the investments.*
Eco Business Fund (Finance in Motion) *793M USD AUM*
Targeted businesses: businesses contributing to sustainable agriculture and agri-processing, forestry, fisheries and aquaculture
Displayed minimum extent of taxonomy alignment: 0% *In its sustainability-related disclosure, it is stated that the share of sustainable investments that are not aligned with the EU taxonomy is 100%, considering that "the largest proportion of the sub-fund's investments are in economic activities in the agricultural sector, which is currently not covered by the Technical Screening Criteria of the Taxonomy Regulation.*
Aqua-Spark (Aqua-Spark) *500M USD AUM*
Targeted businesses: solutions for sustainable aquaculture, aiming to improve aquaculture's environmental footprint, increase biodiversity, animal welfare, health and nutrition
Displayed minimum extent of taxonomy alignment: 0% *"Currently 0% of our investments are classified as EU Taxonomy aligned. As the EU taxonomy is not final for all objectives and there is no EU Taxonomy for sustainable aquaculture, we are not able to perform an eligibility test for EU taxonomy alignment and assume that all investments are not EU taxonomy aligned."*

[49] Information obtained using the SFDR-related disclosure statement of each fund.

In addition to this observation that there is very limited disclosure in relation to taxonomy-alignment for nature-focused funds subject to EU regulatory requirements, a 2024 study based on interviews with 23 financial institutions operating in France[50], illustrates how little financial institutions rely on the taxonomy framework for their biodiversity investment strategy. As demonstrated in Figure 1, only 5% of the financial institution interviewed used the taxonomy framework – most rely on other frameworks to guide their investment strategy, such as the Global Biodiversity Framework and the Taskforce for Nature-related Financial Disclosures.

Figure 1: Normative and regulatory frameworks used to elaborate biodiversity strategy[46]



This empirical information[51] shows that (1) for nature-focused funds subject to EU regulatory requirements, there is currently very limited disclosure in relation to taxonomy-alignment and (2) hardly any financial institutions in France use the taxonomy framework to design their biodiversity investment strategy. If in the current market nature-focused funds are developing without using the taxonomy, this raises questions about whether the taxonomy framework has any current utility in relation to supporting the biodiversity environmental objective.

[50] Bartle, Novethic, Caisse des Dépôts, AFR, 2024, La biodiversité, nouvelle frontière de la finance durable

[51] Although it should be noted that this information relates to a period when relevant legislation is being implemented. As mentioned earlier in this paper, this survey of nature-focused funds takes place in a context where, although the taxonomy-related disclosure requirements for financial products under the SFDR already apply, those of the Taxonomy Environmental Delegated Regulation are still in the process of being implemented (financial undertakings currently only have to mandatory disclose their exposure to taxonomy-eligible activities on all six environmental objectives) [51], which limits the amount of information available.

2.2 Analytical review: Explaining the weaknesses of the taxonomy for supporting investment in nature-positive activities

2.2.1 Biodiversity is currently only weakly integrated in the taxonomy framework

The Taxonomy Regulation itself identifies five macro categories of economic activities that can qualify as contributing substantially to the protection and restoration of biodiversity and ecosystems: (1) nature and biodiversity conservation, (2) sustainable land use management, (3) sustainable agricultural practices, (4) sustainable forest management and (5) activities enabling any of these activities articulated in (1) to (4).[52]

However, the Environmental Delegated Regulation only articulates technical screening criteria for the biodiversity environmental objective for the following macro sectors[53]:

1. Environmental protection and restoration activities
   1.1. Conservation, including restoration, of habitats, ecosystems and species
2. Accommodation activities
   2.1. Hotels, holiday, camping grounds and similar accommodation.

This is far from the coverage that was initially proposed by the *Platform on Sustainable Finance*, which included seven macro categories for economic activities to substantially contribute to the biodiversity environmental objective.[54]

Table 2: Platform for Sustainable Finance's proposed activities for the objective protection and restoration of biodiversity and ecosystems[55]

Protection and restoration of biodiversity and ecosystems	
Macro sector	Proposed activities
Environmental protection and restoration activities	Conservation, including restoration, of habitats, ecosystems and species
Accommodation	Hotels, holiday, camping grounds and similar accommodation
Agriculture and Fisheries	Delayed: Animal production, Crop production, Fishing
Forestry	Delayed: Forestry
Energy	Delayed: Environmental refurbishment of facilities that produce electricity from hydropower
Water supply, sewerage, waste management and remediation	Not developed: Remediation activities enabling restoration of ecosystems

This partial coverage of sectors prevents relevant economic activities in certain sectors that are crucial for achieving EU and international biodiversity objectives to be taxonomy-eligible (from the perspective of contributing to the biodiversity environmental objective) and thus, to benefit from the taxonomy incentive mechanisms detailed in Section 1. It deprives nature-positive activities outside the macro sectors covered in the Environmental Delegated Regulation from the legitimacy and credibility which the taxonomy framework confers on sustainable economic activities. This can increase the perception of greenwashing risk and it can jeopardise access to finance for these activities (e.g. because they may not be eligible for taxonomy-based funding or subsidy programmes or under the EU Green Bond Standard as explained in *Section 1.2 The taxonomy as a framework to alleviate hurdles to accessing finance for nature-positive activities*).

In particular, the failure to include the agriculture sector within the taxonomy framework (thus preventing sustainable agricultural practices from benefitting from the taxonomy incentive mechanisms) undermines the EU's ability to achieve its biodiversity objectives. The agricultural sector generates the highest negative impacts on ecosystems.[56] Conventional agriculture poses a threat to 54% of all the species currently at risk of

[52] Art 15, Taxonomy Regulation
[53] Annex IV, Environmental Delegated Regulation
[54] Platform on Sustainable Finance, 2022, Platform on sustainable finance, technical working group, Part A: Methodological report
[55] European Commission, 2023, Commission Staff Working Document SWD(2023) 239 final/2f
[56] Finance for Biodiversity, 2023, Briefing paper: Top 10 biodiversity-impact ranking of company industries

extinction[57], has caused 78% of global ocean and freshwater eutrophication[58] and its expansion has been responsible for almost 90% of deforestation worldwide.[59] It has been estimated that, among the $722-967bn of global biodiversity finance needs per year by 2030, the transition towards sustainable management of agriculture lands, forests and fisheries represents between $438bn and $580bn per year (i.e. between 50 and 80% of the total biodiversity finance needs).[60] In a word, achieving EU biodiversity objectives and enabling societies to live in harmony with nature cannot be achieved without heavy investment and focus on food systems.

Therefore, the taxonomy in its current state is limited as a tool to support nature-positive activities, as it does not define technical screening criteria for the biodiversity environmental objective in critical economic sectors and activities which are crucial for biodiversity protection and restoration. The incomplete coverage of nature-positive activities within the Environmental Delegated Regulation generates risks as not having a solid framework for defining what activities are nature-positive and specific technical criteria to evaluate them leaves the door open for funds to label themselves as biodiversity-focused while not investing in activities with positive impact for nature. It also makes it difficult for investors to compare funds, as their investment strategies might use different market methodologies and use different tools to ensure nature-related performance.

2.2.2 The climate-dominant approach and the weak integration of biodiversity creates a siloed approach to addressing climate and nature

Traditionally, the EU's approach to addressing climate change and biodiversity has been siloed. The European Green Deal was meant to deviate from this paradigm and encourage a more holistic approach to the environmental crisis, tackling simultaneously biodiversity and climate as mutually dependent and equally important issues.[61] But although the taxonomy covers both climate and biodiversity, the practical dominance of climate aspects over biodiversity aspects falls short of promoting a nexus approach to nature and climate.

Climate mitigation and biodiversity protection and restoration are addressed as two different environmental objectives in the taxonomy framework. While the structure of the taxonomy framework allows for an economic activity to contribute simultaneously to both environmental objectives, there is currently a weak integration of biodiversity in the taxonomy (see *Section 2.2.1*) particularly compared to climate. The Climate Delegated Regulation sector coverage of economic activities contributing to climate change mitigation and adaptation does not overlap with the Environmental Delegated Regulation sector coverage of economic activities contributing to biodiversity protection and restoration.[62] Therefore it can be argued that climate and biodiversity still remain siloed in the taxonomy framework, because in practice, economic activities either significantly contribute to the climate change environmental objectives (mitigation and/or adaptation) or to the biodiversity environmental objective.

The Do No Significant Harm (**DNSH**) principle goes some way to counteracting this siloed approach. From a biodiversity perspective, an environmentally sustainable economic activity which contributes to another environmental objective must not be: (i) significantly detrimental to the good condition and resilience of ecosystems; or (ii) detrimental to the conservation status of habitats and species, including those of Union interest.[63] Therefore the DNSH principle is supposed to ensure that biodiversity aspects are considered in the assessment of economic activities which are contributing to other environmental objectives.

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[57] Lieb, T., 2023, Care about biodiversity? Push for food systems transformation. GreenBiz, World Economic Forum
[58] Poore, J. & Nemecek, T., 2018, Reducing food's environmental impacts through producers and consumers. Science
[59] FAO, 2020, FRA 2020 Remote Sensing Survey. FAO Forestry Paper, No.186. Rome
[60] Tobin-de la Puente, J. & Mitchell, A.W. (eds.), 2021, The Little Book of Investing in Nature, Global Canopy: Oxford ($15-420bn for sustainable agricultural croplands, $81bn for sustainable rangelands, $23-47bn for sustainable fisheries, $19-32bn for sustainable forestry).
[61] Paleari, S., 2024, The EU policy on climate change, biodiversity and circular economy: moving towards a nexus approach. *Environmental Science & Policy*, 151, 2024, 103603, ISSN 1462-9011
[62] Except for the restoration of wetlands covered by the Climate Delegated Regulation, which can be interpreted as being included in the broader activity of ecosystem restoration in the Environmental Delegated Regulation.
[63] Art 17, Taxonomy Regulation

However, the DNSH principle is not sufficient to foster a genuine nexus approach to climate and biodiversity. The DNSH principle focuses on avoiding negative impacts on biodiversity for activities significantly contributing to other environmental objectives, but it falls short of recognising the simultaneous benefits for climate and biodiversity that some activities can generate.

The fact that climate and biodiversity remain siloed in the taxonomy framework, combined with a market practice which focuses primarily on climate change considerations, contributes to keeping biodiversity considerations relegated to the background. Activities generating gains for biodiversity (whether primarily focused on biodiversity or driven by other environmental objectives but producing biodiversity co-benefits) need to be explicitly identified as contributing to the biodiversity environmental objective and have specific criteria allowing a quantitative assessment of their contributions to prevent greenwashing, foster and track investments in these activities and measure progress against biodiversity objectives.[64] Currently, several activities which potentially generate gains for biodiversity are covered by the taxonomy but (due to the absence of technical screening criteria in relation to the biodiversity environmental objective) can only be considered as substantially contributing to another environmental objective (see *Information Box: The illustrative example of the forestry sector*).

This dominant focus on the climate environmental objectives, means that any contribution to the biodiversity environmental objective is not assessed (which compromises the tracking and measuring of finance towards biodiversity objectives) and means that most taxonomy aligned activities at present can only be regarded as not significantly harming biodiversity (rather than contributing to biodiversity protection and restoration and therefore nature-positive activities).

Information Box: The illustrative example of the forestry sector

Forests are the home to important terrestrial biodiversity and ecosystems and store a significant proportion of terrestrial carbon stocks.[65] Therefore activities in the forestry sector are key for reducing pressure on biodiversity, strengthening ecosystem services and combatting climate change.

Currently, the taxonomy has only developed technical screening criteria to assess the contribution of afforestation, rehabilitation and reforestation of forests, forest management and conservation forestry for the climate change mitigation and adaptation environmental objectives. Therefore, economic activities in the forestry sector are currently not eligible to substantially contribute to the biodiversity environmental objective. For forestry-related activities contributing to climate change mitigation and adaptation, the DNSH principle requires that the relevant forest management plan includes provisions for 'maintaining and possibly enhancing biodiversity in accordance with national and local provisions.'[66] In other words, it requires that biodiversity is protected, but ensuring the enhancement of biodiversity and ecosystems is not mandatory.

Forestry strategies and outcomes can highly differ based on whether their initial prioritised target is related to climate (increasing carbon stocks) or nature (enhancing biodiversity), and the two objectives can conflict with one another.[67] Consequently, biodiversity needs to be properly taken into account for forestry activities to do more than just avoid significant harm and actually generate positive biodiversity gains.[68] The fact that technical screening criteria for the forestry sector only exists in the Climate Delegated Regulation does not enable this. This is a clear example of a sector where economic activities could contribute to both climate change mitigation/adaptation and biodiversity restoration (and not only its protection), but it is currently incorporated in the taxonomy in a way that only assesses contribution to climate change with little recognition of contribution to nature's recovery.

[64] Gerritsen, E., et al., 2022, Options for considering nature-positive finance tracking and taxonomy. Inter-American Development Bank Technical Note
[65] FAO, 2020, Global Forest Resources Assessment 2020 – key findings. Rome.
[66] Climate Delegated Regulation
[67] Choi, Y., et al., 2022, Can a national afforestation plan achieve simultaneous goals of biodiversity and carbon enhancement? Exploring optimal decision making using multi-spatial modeling. *Biological Conservation*, *267*.
[68] Reside, A. E., VanDerWal, J. & Moran, C., 2017, Trade-offs in carbon storage and biodiversity conservation under climate change reveal risk to endemic species. *Biological Conservation*, 207, 9-16.

Section 3

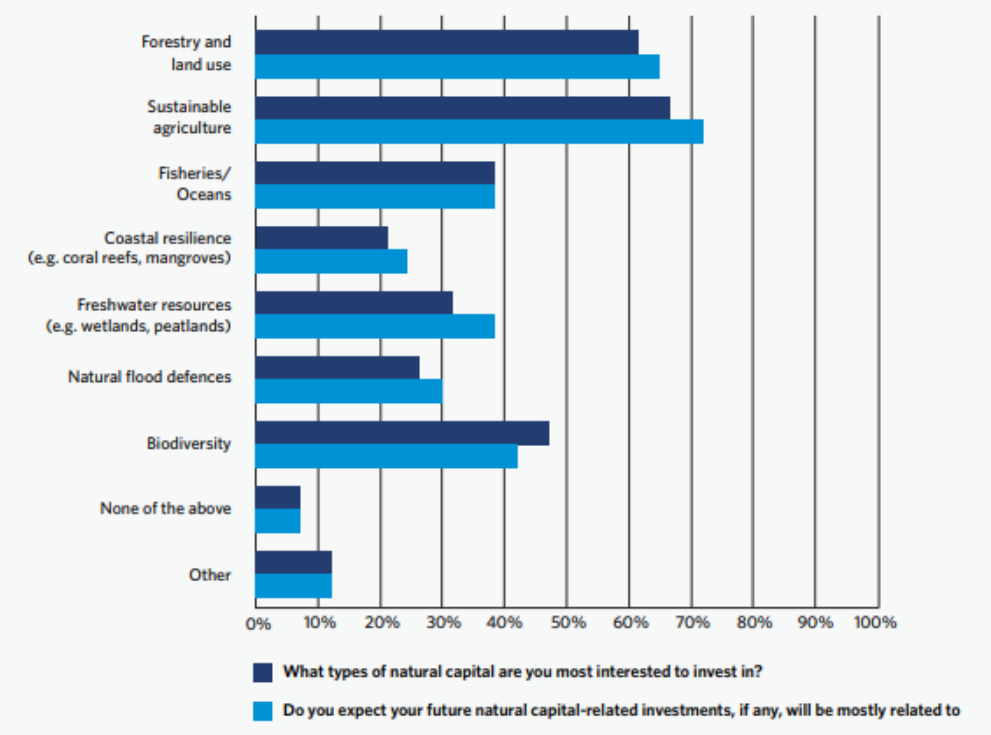
Nature-based solutions to help mobilise nature-positive investments

This section explores the potential of nature-based solutions as key activities that could help mainstream ecosystem-based activities for businesses and investigates how integrating nature-based solutions in the taxonomy could be instrumental to increase investment in nature-positive activities and foster a nexus approach to climate and nature.

Section 2 articulated that the Environmental Delegated Regulation only includes technical screening criteria for economic activities substantially contributing to the biodiversity environmental objective in the macro sectors of *Environmental protection and restoration activities (Conservation, including restoration, of habitats, ecosystems and species)* and *Accommodation activities*.

A key issue for mobilising private finance for nature is that conservation and restoration projects hold little attractiveness for private investors (see *Section 1.2 The taxonomy as a framework to alleviate hurdles to accessing finance for nature-positive activities)*. Contrary to the agriculture and forestry sectors that have traditional revenue streams, conservation and restoration projects often lack clear monetizable revenue streams[69] and generate benefits that are beyond the economic realm. As a result, investors feel less confident investing in these projects due to the 'perceived difficulty in measuring and generating returns from biodiversity gains'[70] (see *Figure 2: Relative investor interest in different types of natural capital*).

Figure 2: Relative investor interest in different types of natural capital[71]



[69] Van Raalte, D. and Ranger, N., 2023, Financing Nature-Based Solutions for Adaptation at Scale: Learning from Specialised Investment Managers and Nature Funds. Global Center on Adaptation and Environmental Change Institute, University of Oxford.
[70] Nature Conservancy, Environmental Finance, 2019, Investing in Nature: Private finance for nature-based resilience
[71] Nature Conservancy, Environmental Finance, 2019, Investing in Nature: Private finance for nature-based resilience

In this context, the growing focus on nature-based solutions could be instrumental to increase investment in nature-positive activities by increasing the attractiveness of conservation and restoration projects to investors and businesses.

Nature-based solutions are 'actions to protect, conserve, restore, sustainably use and manage natural or modified terrestrial, freshwater, coastal and marine ecosystems, which address social, economic and environmental challenges effectively and adaptively, while simultaneously providing human well-being, ecosystem services and resilience and biodiversity benefits.'[72] Unlike traditional conservation and restoration approaches primarily aiming at protecting nature for its intrinsic value, nature-based solutions are ecosystem-based actions that value the instrumental property of nature as a means to provide services to society.[73] By harnessing natural capital assets, nature-based solutions offer practical solutions to societal and economic problems to communities.

Nature-based solutions find concrete applications across different sectors where they tackle business challenges while generating environmental and social gains. For instance, nature-based solutions can be used in Agriculture, Forestry, and Other Land Use sectors, where they play a crucial role in enhancing biodiversity and capturing carbon while also generating benefits for farmers and food businesses. There is clear evidence that using ecosystem-based approaches as integrated practices, such as conservation and regenerative agriculture, can contribute directly to enhancing ecosystems, increasing crop resilience to climate change, improving water availability and restoring soil health and biodiversity, thus raising agricultural productivity and crop yields for farmers.[74,75] Nature-based solutions also have concrete applications in industrial projects as a remediation or complement to grey infrastructure. For example, engineering wetland landscapes to avoid soil salination and treat industrial wastewater or implementing quarry lakes and infiltration landscape such as dams and terraces for water utilities.[76]

Nature-based solutions incorporated into the core operations of businesses can directly provide material services to private companies, therefore making the benefits of ecosystem-based approaches more tangible and explicit. In fact, there is growing evidence that nature-based solutions provide benefits that overcome those of grey engineered infrastructures in many contexts.[77,78,79] The WBCSD and the International Finance Corporation have notably established two catalogues of nature-based solutions that companies can invest in to address several of their business challenges, highlighting the business benefits of relying on nature-based solutions as infrastructure services providers.[80, 81]

Therefore nature-based solutions could provide an opportunity to mainstream conservation and restoration practices within several industries. The fact that they provide practical ecosystem-service based solutions to societal and economic problems and therefore may have a better investment case compared to traditional conservation and restoration projects. This means that they can help address the problem that conservation and restoration projects hold little attractiveness for private investors and increase investment towards nature-positive activities. At the same time, nature-based solutions can create synergies between climate change mitigation, adaptation and biodiversity protection and restoration.

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[72] United Nations Environment Programme, 2022, Resolution adopted by the United Nations Environment Assembly on 2 March 2022. UNEP/EA.5/Res.5
[73] IUCN, 2020, Guidance for using the IUCN Global Standard for Nature-based Solutions. A user-friendly framework for the verification, design and scaling up of Nature-based Solutions. First edition. Gland, Switzerland: IUCN.
[74] Miralles-Wilhelm, F., 2021, Nature-based solutions in agriculture – Sustainable management and conservation of land, water, and biodiversity. Virginia. FAO and The Nature Conservancy.
[75] NABU & BCG, 2020, The Biodiversity Imperative for Business: Preserving the Foundations of Our Well-Being
[76] International Finance Corporation & Conservation International, 2023, Catalogue of Nature-based Solutions for Infrastructure projects
[77] Portillo Purata, V. L., Gómez, S. & Rodríguez, S. E., 2022, 5 Barriers That Hinder Green Financing. World Resources Institute
[78] Seddon, N., et al., 2020, Understanding the value and limits of nature-based solutions to climate change and other global challenges. Philosophical Transactions of the Royal Society B. Vol. 375, Issue 1794
[79] Narayan, S., et al., 2016, The Effectiveness, Costs and Coastal Protection Benefits of Natural and Nature-Based Defences. PLOS ONE Vol. 11, No. 5
[80] WBCSD & KPMG, 2024, The Nature-based Solutions Map
[81] International Finance Corporation & Conservation International, 2023, Catalogue of Nature-based Solutions for Infrastructure projects

Given the potential of nature-based solutions to facilitate investment in nature-positive activities (through increasing the attractiveness of conservation and restoration projects to investors and businesses) nature-based solutions could be key elements to cover in technical screening criteria for the biodiversity environmental objective to increase investment in nature-positive activities.

There have been calls for a wider incorporation of nature-based solutions in the taxonomy framework and a more comprehensive assessment of their contribution towards environmental objectives.[82] Currently, some nature-based solutions are explicitly incorporated in the taxonomy framework (e.g. green roofs and walls (in installation, maintenance and repair of energy efficiency equipment)[83], wetlands restoration[82,84], flood and drought risk prevention and protection[85] and botanical gardens[82]). They are also considered as solutions to favour in some sectors such as water supply, sewerage, waste management and remediation activities or the construction and real estate.[83] Nonetheless, none of these are eligible as economic activities substantially contributing to the biodiversity environmental objective.

Developing a comprehensive classification of nature-based solutions in relevant sectors[86] and a science-based assessment of their contribution to the biodiversity environmental objective (as well as climate change mitigation and adaptation and other environmental objectives) within the taxonomy framework could help increase investment in nature-positive activities and foster a nexus approach to climate and nature.

[82] Papari, C.A., et al., 2024, Can the EU taxonomy for sustainable activities help upscale investments into urban nature-based solutions? *Environmental Science & Policy*, Volume 151, 2024
[83] Climate change mitigation environmental objective
[84] Climate change adaptation environmental objective
[85] Sustainable use and protection of water and marine resources environmental objective
[86] For example, agroforestry activities, cover cropping, creation of wildlife buffer zones, bioengineering wetlands in the mining sector etc.

Section 4

Conclusion

This paper illustrates that, in its current state, the taxonomy has limited utility as a tool to address the finance gap for protecting and restoring natural capital. The review of empirical data shows that nature focused funds do not currently report against or use the taxonomy as the supportive structure it was meant to be, and this may be because of the regulatory inconsistencies which mean that biodiversity is currently only weakly integrated into the taxonomy framework. Despite the original ambition of the Taxonomy Regulation to cover five macro sectors of economic activities that can qualify as substantially contributing to the biodiversity environmental objective,[87] the Environmental Delegated Regulation only includes technical screening criteria for economic activities substantially contributing to the biodiversity environmental objective in the macro sectors of *Environmental protection and restoration activities (Conservation, including restoration, of habitats, ecosystems and species)* and *Accommodation activities*.

This means that activities outside of these two macro sectors cannot be considered as substantially contributing to the biodiversity environmental objective. Therefore, the taxonomy in its current state is limited as a tool to support nature-positive activities, as it does not define technical screening criteria for the biodiversity environmental objective in critical economic sectors (e.g. agriculture, fisheries and forestry) which are critical for biodiversity protection and restoration. And consequently, it fails to support nature-positive activities in these sectors having facilitated access to finance.[88]

The incomplete coverage of nature-positive activities within the Environmental Delegated Regulation generates risks, as not having a solid framework for defining what activities are nature-positive and specific technical criteria to evaluate them leaves the door open for funds to label themselves as biodiversity-focused while not investing in activities with positive impact for nature. And it makes it difficult for investors to compare funds, as their investment strategies might use different market methodologies and use different tools to ensure nature-related performance.

In this context, building on the recent preliminary recommendations from the Platform on Sustainable Finance to expand the coverage of the taxonomy for the Climate Delegated Regulation[89], we renew calls for completing the taxonomy to foster a comprehensive coverage of nature-positive activities. This requires expanding the current sector coverage in the Environmental Delegated Regulation for the biodiversity environmental objective to cover the critical sectors of agriculture, fisheries and forestry. Not only are these the sectors that require the most funding to achieve biodiversity objectives (see Section 2.2.1), but these are also the sectors that receive the most attention from investors and are identified as the sectors where nature-based projects have the greatest potential (see *Figure 2: Relative investor interest in different types of natural capital*).[90]

Finally, the paper summarises how nature-based solutions provide practical ecosystem-service based solutions to societal and economic problems and therefore may have a better investment case compared to traditional conservation and restoration projects. Which in turn means that they can help address the problem that conservation and restoration projects hold little attractiveness for private investors and increase investment towards nature-positive activities. However, nature-based solutions are not currently integrated into the taxonomy framework in a manner which supports the biodiversity environmental objective. Developing a comprehensive classification of nature-based solutions in relevant sectors and a science-based assessment of their contribution to the biodiversity environmental objective (as well as climate change mitigation and adaptation and other environmental objectives) within the taxonomy framework could further enhance the ability of the taxonomy to increase investment in nature-positive activities.

[87] A level of ambition which is itself lower than the ambition initially proposed by the EU Platform on Sustainable Finance.
[88] For example, by not enabling them to be eligible for taxonomy-based funding, such as green bonds under the EU Green Bond Standard.
[89] EU Platform on Sustainable Finance (2025). Simplifying the EU Taxonomy to Foster Sustainable Finance. Report on Usability and Data.
[90] Nature Conservancy, Environmental Finance, 2019, Investing in Nature: Private finance for nature-based resilience

Ultimately, the conclusion of this paper is similar to the previous paper in this series[91] - further development of the regulatory framework is required so that it effectively contributes to the policy objective of reorienting finance towards nature-positive activities (as part of sustainable economic activities generally). If implemented right, the taxonomy has the potential to incentivise investments in activities that are holistically sustainable and combat trade-offs between sustainable development objectives. Nevertheless, at the moment the taxonomy framework has significant gaps in relation to the biodiversity environmental objective – and as the very foundation of the EU sustainable finance framework, it is critical that the taxonomy framework evolves to effectively support the reallocation of finance towards nature-positive activities.

This paper intervenes in the context of the Commission's ambition to reduce the burden associated with reporting requirements by 25% and various announcements in relation to proposed omnibus legislation to simplify the Taxonomy Regulation, CSRD and Corporate Sustainability Due Diligence Directive. Although enhancing the taxonomy to foster a more comprehensive approach to the biodiversity environmental objective need not be contradictory to reducing the reporting burden, it is difficult to reconcile this political direction of travel with the conclusion of this paper that further development of the Taxonomy Regulation is necessary to achieve the policy objective of helping to reorient finance towards biodiversity protection and restoration.

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Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

Directive (EU) 2024/1306 of the European Parliament and of the Council of 29 April 2024 amending Directive 2013/34/EU as regards the time limits for the adoption of sustainability reporting standards for certain sectors and for certain third-country undertakings

Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives

Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation

Commission Delegated Regulation (EU) 2023/2486 of 27 June 2023 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and amending Commission Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities

Annex 1: Sample of Article 9 nature-focused funds

Funds	Legal base	Financial institution	Main themes
Eco Business Fund	LUX	Finance in Motion	Biodiversity conservation and restoration, sustainable use of natural resources, climate change mitigation and adaptation
Aqua-Spark	NETH	Aqua-Spark Management	Blue economy, biodiversity conservation and restoration, sustainable use of natural resources
Ocean 14 Capital	UK	G10 Capital Limited	Blue economy, biodiversity conservation and restoration
SWEN Blue Ocean Fund	FR	Swen Capital Partners	Blue economy, biodiversity conservation and restoration
Global Sustainable Food and Biodiversity Fund	IRL	Principal Asset Management	Social, and biodiversity conservation and restoration
SLF Equity Environment & Biodiversity Impact	LUX	Swiss Life Asset Managers	Biodiversity conservation and restoration, sustainable use of natural resources, pollution reduction
Ossiam Food for Biodiversity	IRL	Ossiam	Biodiversity conservation and restoration, sustainable use of natural resources, pollution reduction
Echiquier Climate & Biodiversity Impact Europe	FR	La financière de l'échiquier	Climate change mitigation, biodiversity conservation and restoration
AXA WF Act Biodiversity Fund	LUX	AXA Investment Managers	Biodiversity protection and restauration, sustainable use of natural resources
Fidelity Sustainable Biodiversity Fund	LUX	FIL Investment Management	Biodiversity conservation and restoration
UBAM - Biodiversity Restoration Fund	LUX	UBP	Biodiversity conservation and restoration
Federated Hermes Biodiversity Equity Fund	IRL	Hermes Investment Manager	Biodiversity protection and restoration
Mirova Biodiversity Equity	LUX	Natixis IM International	Biodiversity protection and restoration, sustainable use of natural resources
Prestige Luxembourg Uzès Biodiversité	LUX	Uzes gestion	Biodiversity protection
BNPP Ecosystem Restoration	LUX	BNP Paribas AM	Biodiversity conservation and restoration
&Green Fund	NETH	Sail Ventures	Biodiversity conservation and restoration
Natural Capital Fund	LUX	Climate Asset Management	Biodiversity conservation and restoration, climate change mitigation, sustainable use of natural resources
Global Fund for Coral Reefs	-	Pegasus	Blue economy, biodiversity conservation and restoration, climate change mitigation
Arbaro Fund	LUX	Finance in Motion	Biodiversity conservation and restoration, climate change mitigation
Livelihoods Carbon Funds #3	LUX	Innpact Fund Management	Biodiversity conservation and restoration, climate change mitigation
Tropical Asia Forest Fund 2	SING	New Forests	Biodiversity conservation and restoration, climate change mitigation
Natural Capital Transition Global Equity Fund	LUX	Aviva Investors	Biodiversity conservation and restoration
M&G Nature and Biodiversity Solutions Fund	LUX	M&G Investments	Biodiversity conservation and restoration
Robeco Biodiversity Equities	LUX	Robeco	Biodiversity conservation and restoration
ANZLAFF	SING	New Forests	Biodiversity conservation and restoration, climate change

Data obtained using Quantalys, MSCI and the SFDR reporting disclosure of each fund.

Finance ClimAct contributes to the implementation of French and European policies for sustainable finance, in line with the European Green Deal and France's National Low Carbon Strategy.

It will develop the tools, methods, and new knowledge to achieve this goal in the coming years by: (1) supporting investments in energy efficient, and low-carbon industries, (2) considering the double materiality of climate change in financial management and supervision and (3) integrating environ mental objectives into retail investors' decisions.

The project is coordinated by the French Agency for Ecological Transition, The Ministry for Ecological Transition, The Autorité des marchés financiers, the Autorité de contrôle prudentiel et de résolution, 2° Investing Initiative, The Institute for Climate Economics, the Institut de la Finance Durable and RMI.

Finance ClimAct is an unprecedented programme which comprises a total budget of 18 million euros, 10 million of which are provided by the European Commission.

Duration: 2019-2024

Finance ClimAct

With the contribution of the European Union LIFE program