PRIVATE FINANCE AND COGNITIVE BIASES:

A Theory of Change for Aligning Financial Actor Behaviour with Global Biodiversity Goals

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Introduction

Global biodiversity loss poses substantial risks to human well-being and economic stability. Yet, human activity has accelerated the decline in biodiversity to rates unprecedented in human history.[1,2] Reducing the underlying drivers of biodiversity loss requires transforming the global economy.[3] Financial institutions have a fundamental role to play in this transformation.

Achieving global commitments to halt and reverse biodiversity loss, including the goals and targets outlined in the Kunming-Montreal Global Biodiversity Framework (GBF), will require substantial investment. Through GBF Target 19, Parties to the Convention on Biological Diversity (CBD) committed to mobilising by 2030 at least USD 200 billion per year for biodiversity from all sources, including private finance.[4] At the EU level, this is reflected in the EU Biodiversity Strategy for 2030, which calls for unlocking at least EUR 20 billion a year.[5] Private finance for nature is gaining momentum, but major gaps remain.[3,6,7]

Mobilizing private finance for biodiversity faces the challenge that the value of biodiversity is often underestimated in economic decision-making.[2] For financial institutions, understanding the full scope of biodiversity risks and opportunities in their portfolios requires use of science-based methodologies and metrics.[8] However, inappropriate application of these can amplify the cognitive biases[1] of decision-makers in financial institutions and hinder alignment between private finance flows and global biodiversity goals.[9]

To shift private financial flows in support of biodiversity, it will be important to strengthen how financial institutions assess and manage biodiversity risks and opportunities. This also involves fostering nature-positive markets and improving the enabling environment, including fiscal policy. These factors will help address incentives and cognitive biases that investors and other finance sector actors face in support of transformative change.

Evidence and Analysis

Under PLANET4B, a Horizon Europe-funded project, expert researchers from the Norwegian Institute for Nature Research (NINA), in consultation with representatives of the financial industry, conducted systems mapping to understand how cognitive bias and other systemic factors affect whether and how investors consider biodiversity in their decision-making.

Using this analysis, researchers at CzechGlobe, together with researchers at NINA, mapped "pathways of change" for better integrating biodiversity into financial investment decisions. These pathways highlight how policymakers can enable transformative change towards more sustainable financial actor behaviour through policy measures.[10]

Building on NINA's research, this policy note developed by a group of experts at UNEP-WCMC, presents a Theory of Change describing activities and outputs that policymakers can support to help align private financial flows with global biodiversity goals. It is intended for policymakers at national and EU level who work in areas related to finance, the economy and the environment.

Background

The Theory of Change outlines activities and outputs through which policymakers at national and EU level can support alignment of private financial flows with global biodiversity goals, contributing to an improved state of nature. While the transformation of private finance will occur alongside other sustainable finance processes, this Theory of Change focuses on outputs and outcomes related specifically to biodiversity. Box 1 summarises the problem that the Theory of Change seeks to address, together with its intended long-term outcomes and overall impact.

Box 1

Problem statement, long-term outcomes and impact addressed by the Theory of Change

Problem statement:
Private financial institutions have limited capacity and incentives to assess and manage biodiversity risks and opportunities. Insufficient or inappropriate application of biodiversity metrics amplifies cognitive biases among decision-makers in financial institutions. This combination of factors hinders the alignment of private financial flows with global biodiversity goals, which is needed to halt and reverse biodiversity loss.

Intended long-term outcomes:
Financial actor behaviour and private financial flows are aligned with global biodiversity goals. This is driven by stronger and better understood business case for biodiversity-positive investments, as well as increased buy-in from C-suite and board-level decision makers within financial institutions.

Intended impact:
Improved state of nature.

[1] Cognitive biases are "systematic patterns of deviation from rational judgment that affect how investors perceive, evaluate and act on financial information".
[9] See Box 2 for examples of cognitive biases.

Private financial institutions comprise a wide range of service providers, including commercial banks, investment banks, insurance companies, pension funds, impact investors and others. Each type of financial actor has its own decision-making processes and behaviours that should align with global biodiversity goals. For brevity, in this brief and the Theory of Change, the term "financial actor" or "finance sector actor" refers to all types of financial institutions. Likewise, "financial actor behaviour" encompasses the decision-making processes and behaviours of these institutions. The development of the Theory of Change has been informed by studies of cognitive biases influencing decision-making on biodiversity, both in general and in the context of sustainable finance, carried out under the PLANET4B project. Cognitive biases are "systematic patterns of deviation from rational judgment that affect how investors perceive, evaluate and act on financial information".[9] Linkages to cognitive bias were considered in framing the Theory of Change and are highlighted in assumptions and hypotheses. Examples of cognitive biases relevant to private financial actors' decision-making on biodiversity are highlighted in Box 2 below.

Box 2

Examples of cognitive biases influencing decision-making on biodiversity risks and opportunities by investors and other finance sector actors, taken from Chudy and Barton (2025).[9]

Affect heuristic
Using emotions (positive or negative) to guide decisions, rather than objective analysis.

Availability heuristic
A mental shortcut where people estimate the likelihood of an event based on how easily examples come to mind.

Confirmation bias
The tendency to search for, interpret, and remember information that confirms existing beliefs.

Framing effects
The way information is presented (framed).

Loss aversion
The tendency to prefer avoiding losses more than acquiring equivalent gain.

Overconfidence bias
An inflated sense of one's knowledge, accuracy of predictions or ability to control outcomes in investment decisions.

Short-term bias
The tendency to focus on immediate outcomes.

Status quo bias
A preference for the current state of affairs, leading to resistance to change or new decisions.

Warm glow
A positive emotional response to doing something perceived as morally good, such as sustainable or ethical investing.

Theory of Change

The Theory of Change describes how policymakers can help support transformative change in private financial flows to benefit biodiversity. It is structured across five levels:

- **Activities:** Five categories of actions or interventions that policymakers at national and EU level can take to generate the proposed outputs.
- **Outputs:** Tangible products derived from the activities.
- **Intermediate outcomes:** Short- to medium-term changes that result from the uptake of the outputs by financial institutions and other actors.
- **Long-term outcomes:** Changes in institutions, markets or governance that result from achieving intermediate outcomes.
- **Impact:** The long-lasting change in nature that occurs as a result of these outcomes.

Theory of Change for Aligning Behaviour of Investors and Other Financial Actors with Global Biodiversity Goals

Click here for interactive link to Diagram

Problem statement

Private financial institutions have limited capacity and incentives to assess and manage biodiversity risks and opportunities. Insufficient or inappropriate application of biodiversity metrics amplifies cognitive biases of decision makers in financial institutions. This combination of factors hinders alignment of private financial flows with global biodiversity goals, which is needed to halt and reverse global biodiversity loss.

Pathway narrative

Enhancing use of biodiversity tools and data by financial institutions, strengthening regulatory and voluntary sustainability frameworks, improving fiscal and enabling policy environment, closing knowledge gaps through scientific research and further awareness raising can address the incentives and cognitive biases that investors and other finance sector actors face. This will promote changes in financial actor behaviour in support of biodiversity. Aligning private financial flows with global biodiversity goals will ultimately lead to an improved state of nature.

ACTIVITY CATEGORIES

Concrete actions or interventions that policymakers at national or EU level can take

5.1 Support technological development and innovation in nature data and tools

5.2 Support development of corporate and finance guidance and standards (sector guidance, taxonomies, disclosure templates, certification standards)

5.3 Support enabling policy environment (integrate biodiversity into methods and processes for cost-benefit analyses used in policy decision-making, reflect biodiversity in supervisory regulation)

5.4 Support scientific research on business and biodiversity

5.5 Raise awareness on the importance of biodiversity among finance sector actors (campaigns, roundtables, training, case studies, media partnerships)

ASSUMPTIONS:
- Financial resources and other forms of support to tool and guidance development are used efficiently and effectively address key gaps
- Key data and tools gaps can be addressed with necessary investment
- Guidance developers are able to get buy-in from finance stakeholders

ASSUMPTIONS:
- Developers of sustainability regulations and frameworks are willing to incorporate biodiversity consideration in line with scientific recommendations
- There is sufficient scientific consensus on key aspects of biodiversity risk and opportunity measurement and reporting, upon which regulations and frameworks can draw

ASSUMPTIONS:
- Policymakers are able to dedicate attention and resources to supporting sustainable finance enabling environment alongside other priorities.

ASSUMPTIONS:
- Financial resources and other forms of support to scientific research are used efficiently and effectively to address key gaps
- Key gaps can be addressed within reasonable time and levels of investment
- Key stakeholders in the scientific community are willing to engage and build consensus

ASSUMPTIONS:
- Policymakers are able to identify suitable channels to reach finance sector with awareness raising activities

OUTPUTS

Direct, tangible products of the activities

Strengthened tools and guidance for understanding and mitigating *biodiversity risk*

4.1 Improved availability of data and tools on biodiversity and ecosystem services suitable for use by business and finance

4.2 Scenario modelling and stress-testing approaches used by financial institutions incorporate biodiversity risks

4.3 Guidance documents for integrating biodiversity risk into credit, equity, and insurance analysis, including passive instruments

Strengthened tools and guidance to underpin investment in *biodiversity opportunities and positive impacts*

4.4 Biodiversity credit certification standards and benchmarking frameworks strengthened

4.5 Green bond market further developed

4.6 New and improved blueprints for blended finance mechanisms for mobilising more private finance for nature developed

4.7 Financial opportunities associated with investing in biodiversity / nature positive investments clearly articulated, with evidence and case studies

Sustainable *finance* regulation and frameworks fully incorporate biodiversity

4.8. Nature taxonomies for sustainable finance clarified and operationalized

4.9. Sustainability reporting frameworks for finance that incorporate biodiversity promoted and used

4.10 Due diligence frameworks for finance incorporate biodiversity

4.11 Consensus on what "nature positive" means for development banks and different types of private financial institutions established

Sustainability regulation and frameworks for the *real economy* fully incorporate biodiversity

4.12 Corporate sustainability reporting and due diligence regulatory and voluntary frameworks incorporate biodiversity

4.13 Improved availability and accuracy of data on corporate biodiversity impacts, dependencies, risks and opportunities

Policy decision-making processes incorporate biodiversity risk considerations

4.14 Policy cost and benefit analyses fully incorporate biodiversity risks and opportunities

4.15 Areas of misalignment between fiscal policies and environmental policy objectives identified and addressed

Strengthened scientific consensus and guidance on links between biodiversity and economy

4.16 Scientific consensus on business biodiversity impact attribution strengthened

4.17 Scientific consensus on use of proxies in business impact measurement and reporting strengthened

4.18 Pilot studies linking biodiversity metrics to financial performance developed

4.19 New and improved nature-climate scenarios developed and piloted

4.20 Ecosystem service valuation methodologies strengthened and validated

Awareness-raising tools to change mindset on importance of biodiversity in the finance industry

4.21 Case study compendiums showcasing biodiversity-positive investments

4.22 Formal and informal capacity building for finance professionals incorporates information on biodiversity and nature

4.23 Investor-focused campaigns and media partnerships mainstreaming biodiversity finance

ASSUMPTIONS:
- Financial institutions have the capacity (both time/resources and technical knowledge) to learn how to use new and improved tools and data
- Decision makers in financial institutions overcome their cognitive biases against biodiversity risk when presented with improved data and evidence
- Uptake of strengthened tools and data will eventually become mainstreamed and new best practice norms will get established

ASSUMPTIONS:
- Certifications and established methods for measuring positive biodiversity impacts promote credibility and trust among investors
- Financial institutions have the capacity (both time/resources and technical knowledge) to familiarise themselves with new tools and investment products
- Financial institutions are willing to accept a level of risk associated with investing in new asset classes
- Market conditions are favourable to developing new asset classes and investment products

ASSUMPTIONS:
- Institutional investors (e.g. pension funds) endorse sustainable reporting and due diligence frameworks that incorporate biodiversity, influencing expectations across the finance industry
- Financial institutions are willing an able to invest in innovation of existing risk and opportunity management and investment processes

ASSUMPTIONS:
- Mainstreaming of corporate sustainability reporting and due diligence processes on biodiversity issues results in increased availability of data that is useful and relevant for the needs of finance sector actors
- As more corporates assess biodiversity dependencies, risks and opportunities, they innovate and develop biodiversity risk mitigation measures and other investable opportunities

ASSUMPTIONS:
- Biodiversity-related costs and benefits of policies are possible to estimate using quantitative or qualitative methods that enable informed decision-making
- Policymakers are able to overcome short-term bias and status quo bias and support policy change

ASSUMPTIONS:
- Investors and other finance actors are willing and able to adopt latest scientific recommendations

ASSUMPTIONS:
- Knowledge gaps and cognitive biases of investors and other finance actors can be addressed and overcome with reasonable effort.

INTERMEDIATE OUTCOMES

The short- to medium-term changes in behaviour, practices, or systems that result from the uptake of the outputs by financial institutions and other actors

Biodiversity risk and opportunity management become more standard in investment processes

3.1. Financial institutions routinely apply biodiversity metrics in credit, equity, and due diligence processes

3.2. Science-based biodiversity risk assessment established as best practice (for private portfolios, and for sovereigns)

3.3. Improved risk screening tools and methods embedded in portfolio management systems

3.4. Biodiversity risks integrated into enterprise risk management (credit risk, stress testing, portfolio allocation)

3.5. Ecosystem service valuation and scenario analysis methodologies actively used in portfolio-level assessments to facilitate both risk management and opportunity identification

Markets for nature positive finance developed

3.6. Innovative blended finance mechanisms mobilise large-scale private capital for biodiversity-positive projects

3.7 Carbon and biodiversity credit markets further strengthened, demand grows

Strengthened enabling policy and fiscal environment

3.8. Fiscal policies (subsidies, tax incentives, procurement) reward biodiversity-positive investments

3.9. Development banks integrate biodiversity into strategies and lending criteria
Governmental policies recognise and price in the value of nature, and this is reflected across the enabling environment

3.10. Central banks recognise biodiversity risk and enforce greater monitoring by banks at a national level.

3.11. National statistical offices adopt and mainstream SEEA methodology and value data on natural capital

Knowledge of nature and biodiversity issues and capacity to assess biodiversity risks in finance industry strengthened

3.12 Strengthened awareness of the biodiversity crisis and vulnerability of the economy to biodiversity loss among financial actors

3.13 Improved awareness of biodiversity opportunities, nature positive finance opportunities and innovative funding instruments among financial actors

3.14. Financial institutions' capacity to assess biodiversity risks and opportunities strengthened

ASSUMPTIONS:
- Biodiversity risk and opportunity assessments appropriately reflect the scope of biodiversity risks and opportunities

ASSUMPTIONS:
- Markets with new asset classes and investment products are accessible to most financial actors.

ASSUMPTIONS:
- Financial actors are aware of changes in fiscal incentives
- Healthy economic performance

ASSUMPTIONS:
- Shifts in opinions of experts within financial institutions are able to influence buy-in at the C-suite level

LONG-TERM OUTCOMES

Changes in institutions, markets, or governance that result from achieving the intermediate outcomes

2.2 Business case for biodiversity-positive investments understood by finance actors, demonstrating competitive financial performance and risk reduction

2.3 C-suite and board-level buy-in: biodiversity risks and opportunities recognised as material to fiduciary duty

2.1 Financial actor behaviour and private financial flows are aligned with global biodiversity goals.

ASSUMPTIONS:
- Financial Institutions aim to make decisions on capital allocation on a rational basis
- Changes in decision-making norms influence the majority of financial institutions

IMPACT

Long-lasting change in nature as a result of the outcomes

1. State of nature improved

ASSUMPTIONS:
- More sustainable private financial flows will lead to reduction in negative and increase in positive impacts on nature from human activity.
- Improvement in state of nature is possible, despite certain ecological tipping points already exceeded or nearly exceeded.

Hypotheses for how outputs and/or outcomes address cognitive biases of investors and other finance sector actors that hinder sustainable investment behaviour

Improved biodiversity data and risk tools (Outputs 4.1–4.3)
With better data and tool on biodiversity and ecosystem services, financial actors will be able to conduct analyses that are more precise and more granular. This will provide more reliable estimates of biodiversity risks and opportunities, reducing overconfidence bias and improving evidence-based decision-making.

Scenario modelling and stress testing (Outputs 4.2, Outcomes 3.4)
Incorporating biodiversity into scenario models and stress testing approaches will make long-term risks more visible, countering short-termism and helping investors recognise systemic nature-related risks.

Clear guidance for integrating biodiversity into credit,equity and insurance analysis (Outputs 4.3)
Science-based guidance will help ensure that biodiversity risk metrics are appropriately applied in credit, equity and insurance analyses. This will help reduce financial actors' tendencies to use biodiversity metrics that are easily and readily available, regardless of how well they represent the phenomena in question. Established and widely recognized guidance will reduce confirmation bias, as there will be clear expectations for financial actors to consider biodiversity risks even when this challenges their prior beliefs.

Biodiversity credit Certification standards and (Outputs 4.4–4.5)
Credible biodiversity credit certification will help strengthen financial actors' trust in biodiversity benefits and financial opportunities associated with biodiversity credits. Mainstreaming of biodiversity credits and green bonds will mitigate financial actors' cognitive biases against these new opportunities, such as status quo bias or loss aversion.

Blended finance blueprints and case studies (Outputs 4.6–4.7)
Providing ready-made structures and real-world examples will close the intention–action gap, helping financial actors move from sustainability commitments to actual allocations.

Nature-inclusive taxonomies (Outputs 4.8)
Nature taxonomies will reduce information overload and confirmation bias, by providing clear terminology for sustainability reporting, due diligence and othe decision-making.

Incorporating biodiversity in sustainability reporting and due diligence frameworks for finance (Outputs 4.9–4.10)
Widely recognized voluntary frameworks and/or frameworks mandated through regulation standardize how financial institutions report or conduct due diligence on sustainability issues. With biodiversity considerations integrated in a scientifically robust way, financial actors' confirmation bias and status quo bias against considering biodiversity risks and opportunities are likely to be reduced.

Corporate reporting and due diligence on biodiversity impacts (Outputs 4.12–4.13)
Mainstreamed corporate reporting and due diligence on biodiversity issues will help generate more and better data on business dependencies, impacts, risks and opportunities related to biodiversity. This will counter financial actors' availability bias, ensuring they consider biodiversity alongside financial performance and other sustainability metrics (e.g. climate). More and better data on dependencies, impact, risks and opportunities related to biodiversity of companies in different sectors of the economy will also enable financial actors to conduct more precise and more granular analyses, reducing their overconfidence bias and improving evidence-based decision-making.

Policy alignment and fiscal incentives (Outputs 4.14–4.15, Outcomes 3.8–3.10)
Embedding biodiversity in cost-benefit analyses informing government policy will help align government spending and other fiscal policies with biodiversity goals. This will reduce the risk of conflicting incentives for investors and other finance sector actors, helping to overcome short-termism and status quo bias.

Scientific consensus (Outputs 4.16–4.20)
Agreed methodologies and evidence linking biodiversity to financial performance will reduce overconfidence in proprietary models and confirmation bias, as financial actors will be able to build on methodologies and data that are scientifically robust and quality assured.

Awareness campaigns and capacity building (Outputs 4.21–4.23, Outcomes 3.12)
Continuous training and visible success stories will reduce attention bias and help create positive associations with biodiversity issues, increasing the chances that investors consider biodiversity in investment decision and innovate institutional processes to account for biodiversity.

Key Findings and Policy Options

Based on the development of the Theory of Change, this section presents key findings and policy options that policymakers at national and EU levels can consider to enable sustainable investment behaviours, mobilize private finance for biodiversity and contribute to an improved state of nature. These build on the Theory of Change's five categories of priority actions and interventions: (i) supporting innovation in biodiversity data and tools, (ii) developing corporate and finance guidance and standards, (iii) strengthening the enabling policy and fiscal environment, (iv) advancing scientific research on business–biodiversity links, and (v) raising awareness through campaigns, training, and partnerships.

1. Strengthening biodiversity data and tools
Data on biodiversity impacts, dependencies, risks and opportunities is critical for addressing financial actors' status quo bias and short-termism. When investors and other finance sector actors make decisions, they are influenced by cognitive biases that can reduce their willingness to change existing processes or explore new, more sustainable investment opportunities. Data and evidence provide a stronger foundation for decision-making, reducing reliance on mental shortcuts.

As illustrated in the Theory of Change, strengthening tools to assess biodiversity impacts, risks and opportunities in financial institutions' portfolios is critical to demonstrating the business case and securing executive-suite commitment. Policymakers can consider measures to enable and encourage financial institutions to assess and disclose biodiversity issues, in line with the Kunming-Montreal Global Biodiversity Framework (GBF) Target 15.

2. Promoting corporate biodiversity reporting
Financial institutions rely on sustainability data reported by non-financial companies. Investors and other finance sector actors need information on biodiversity impacts, dependencies, risks and opportunities of companies in their portfolios. While some can be estimated, information reported directly by companies is often more accurate and reliable.

The Theory of Change highlights that sustainability data reporting by corporate entities (i.e. non-financial companies) is key for mainstreaming biodiversity risk and opportunity management in the financial industry and promoting development of nature positive finance markets. In line with GBF Target 15, policymakers can promote corporate reporting on biodiversity through a mix of regulatory measures, voluntary initiatives and enabling administrative actions.

3. Aligning financial regulations and fiscal policies with biodiversity goals
Ensuring that financial regulations and fiscal policies are aligned with global biodiversity goals promotes coherence, avoids conflicting signals and creates consistent incentives for biodiversity-positive financial decisions. Investors and other finance sector actors are more likely to overcome cognitive biases and adopt sustainable investment behaviour when the business case is clear and incentives are aligned.

Policymakers can pursue two complementary actions: (1) creating an enabling regulatory environment that reforms incentives harmful to nature and aligns financial flows with biodiversity objectives (GBF Targets 14 and 18), and (2) strengthening mechanisms that enhance biodiversity positive investment, such as sustainable finance taxonomies, nature markets and mechanisms for mobilizing finance (GBF Target 19).

4. Advancing research on biodiversity-finance linkages
Further scientific research is needed to address key gaps in the tools and knowledge available to financial institutions. Many financial institutions already apply biodiversity datasets, metrics and tools to understand nature-related risks and opportunities, and uptake is expected to expand as new instruments are developed. However, gaps persist and scientific consensus is still evolving.

Priority areas for further research include: business biodiversity impact attribution, use of proxies in measuring and reporting of biodiversity impacts, development of nature-climate scenarios and improvement of ecosystem service valuation methodologies. Policymakers can support research on links between biodiversity and economic activities, with priority given to these areas.

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understanding **P**lural values, intersectionality, **L**everage points, **A**ttitudes, **N**orms, behaviour and social l**E**arning in **T**ransformation for **B**iodiversity decision making

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