Latest developments in nature risks and financing opportunities
Emerging Lessons

Why nature is important— and how can we **assess** the impact of nature loss on the financial sector

How to **address** nature-related financial risks

How to **invest** in nature-related financing opportunities
Step up in financial sector awareness of nature risks and opportunities (NB presence at COP15/WEF Survey)

Data, methodologies, and targets to fully bring nature into financial sector risk assessments and investment decision making being developed – more work needed and forthcoming

Source: Google trends; *Numbers represent search interest relative to the highest point on the chart for the given region and time. 100=peak popularity for the term, 50=term is half as popular, and 0=not enough data for this term
Dasgupta Review:
Nature’s value must be at the heart of economics
Biodiversity Loss by Region
The Living Planet Index for each IPBES region (1970 to 2018)

The decline across Latin America and the Caribbean is far greater than any other region, with a 94% decrease between 1970 and 2018. Declines are seen across all the species groups studied but are most profound in freshwater fish, reptiles, and amphibians.
How much impact does NATURE have on the economy?

- The world cannot afford the collapse of ecosystem services, as such a collapse would cost 2.3 percent of global GDP (−$2.7 trillion) annually by 2030 and some of the poorer counties would be hit hardest.
Dual Relationship Between Nature, The Economy and the Financial System
Lesson 2

Why nature is important – and how can we **assess** nature impact on the economy and financial sector.

How to **address** nature-related financial risks – what our beneficiaries and partners can do (MoF, PS, CBs).

How to **invest** in nature-related financing opportunities – what WB and others are doing (SLB, etc).
How private finance can be mobilized to protect nature

From addressing nature risks → to investing in nature

The TNFD framework core components

- Disclosure Recommendations
- Risk & Opportunity Assessment Approach (LEAP)
- Core Concepts & Definitions
- Data, Metrics & Targets
- Additional Guidance

5 BIG IDEAS TO MOBILIZE PRIVATE FINANCE FOR BIODIVERSITY

1. Environmental Fiscal Reforms
   Governments could include the reforms as part of crisis recovery plans. Reforming agricultural subsidies and land ownership has the largest potential impact.

2. National Data Provision
   Governments can support the integration of biodiversity criteria in financial sector decision making by adopting natural capital accounting practices and providing relevant data as a public good.

3. Establish the Task Force for Nature-Related Financial Disclosure
   The initiative will provide a framework and guidance for regulating and supporting biodiversity reporting and risk assessment by real and financial sector firms.

4. Establish a ‘Nature Action 100’
   Investors could come together to identify the top 100 companies with the greatest negative impact on nature, to drive changes in real sector corporate behavior – including greening of supply chains.

5. Aggregate Projects
   MDBs and governments can mobilize private investment for biodiversity goals by serving as cornerstone investors and providing catalytic capital to funds and other financial instruments that aggregate projects.
Brazil: How Central Banks can address nature-related risks

**Nature Risk Assessments**

- 46% Brazilian banks’ non-financial corporate loan portfolio is concentrated in sectors highly or very highly dependent on one or more ecosystem services
- 9% potential long-term increase in NPLs from collapse in ecosystem services
- 7% percent of corporate loans to firms with environmental controversies

15% loans to co-operating in PAs

25% loans exposed if PA increased to close conservation gap

38% exposed if all priority areas protected
Malaysia: How Central Banks can address nature-related risks

Report Conclusions

- Nature and the financial system impact each other through economic activities
- Malaysian banks are potentially exposed to a variety of nature-related risks related to the deterioration of natural assets and ecosystems
- Additional analysis is needed to build on this exploratory study, which could also be improved with better data
How Central Banks can address nature-related risks: NGFS

The Network for Greening the Financial System (NGFS, a network of 114 CBs and fin supervisors)

NGFS’ Agenda for action on biodiversity loss, financial risk, and system stability

• (i) recognizing biodiversity loss as a potential source of economic and financial risk
• (ii) building skill and capacity to assess and address those risks
• (iii) exploring options for supervisory actions on managing biodiversity-related risks and minimizing negative impacts on ecosystems
• (iv) helping build the necessary financial architecture for mobilizing investment for a biodiversity-positive economy

NGFS’ recent actions:
• The NGFS acknowledged in 2022 that nature loss could be a potential financial stability threat and created a Task Force (TF) to mainstream the consideration of nature-related financial risk.
• The TF is currently developing nature-related financial risk scenarios that could be applied by supervisors and FIs - to shift financing away from nature-harming investments

Bending the curve on biodiversity loss
Source: International Institute for Applied Systems Analysis (IIASA), 2020 (Credit: Adam Islaam)
• Nature-related risks can be controlled by reducing the economy's impact on the biosphere.

• Whether and to what extent risks for MoFs materialize depend on:
  > actions to reduce the impact of economic activities on nature and to drive conservation, restoration, and sustainable use of nature (limiting physical risk)
  > actions to drive a smooth economic transition (limiting transition risk).

• While roles of MoFs to manage nature-related risks will differ across countries, in each country the MoF has a pivotal role to play in mitigating and managing nature-related risks through policy, regulation, planning, and budgeting decisions

• Coordination with other parts of government is critical

• Coalition of Finance Ministers for Climate Action
Lesson 3

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How to invest in nature-related financing opportunities – what WB and others are doing (SLB, etc).
<table>
<thead>
<tr>
<th>Type</th>
<th>Instrument</th>
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<tbody>
<tr>
<td>Policy</td>
<td>Fiscal and financial reform, taxes, fees, fines, penalties</td>
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<td>Debt</td>
<td>MDB Concessional loans&lt;br&gt;MDB Non-Concessional loans&lt;br&gt;MDB Guarantees/risk transfers&lt;br&gt;Social, Green/SDG Bonds “Use of Proceeds” Bonds&lt;br&gt;Sustainability-linked Bonds (KPIs linked Bond)&lt;br&gt;Sustainability-linked loans&lt;br&gt;Debt for Climate and Nature (DFCN) Project Swap&lt;br&gt;DFCN programmatic swap&lt;br&gt;Asset based securities (ABS)</td>
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<td>Non-Debt</td>
<td>Grants&lt;br&gt;Insurance: Catastrophe bonds&lt;br&gt;Biodiversity offsets&lt;br&gt;Carbon offsets&lt;br&gt;Green commodity private equity fund&lt;br&gt;Natural Asset Companies (NACs)&lt;br&gt;Private Sector Green Value-chain Initiatives</td>
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Wildlife Conservation ‘Rhino’ Bond

- The World Bank’s $150 million Wildlife Conservation Bond (WCB)
- First-of-its-kind outcome-based bond that supports the financing of conservation activities, and together with financing from the Global Environment Facility (GEF) transfers project risk from donors to investors.
- The transaction mobilizes private capital to facilitate financing of black rhino conservation activities at two protected areas in South Africa.
Performance related instruments

Continue to contribute to development of **Sovereign Sustainability-linked Bonds** as an asset class

- Uruguay – 1st sovereign issuer with nature KPI (framework informed by GPS research)
- Working with African MOF on KPI framework
- Country feasibility studies - leading to engagements with potential issuers
- Developing global standards with ICMA
- Ground-breaking work on SBT modeling (Amazon deforestation)
- Working on developing sovereign SLB fund structure
- Members Advisory Board Sovereign Sustainability-linked Debt Hub (SSDH)
Belize Debt for Nature Swap

- USD 553m ‘superbond’ repurchased USD 360m (0.55c on $) debt conversion for marine conservation
- Commitment protect 30% Belize ocean by 2026 (1/2 high biodiversity protection zones) + other conservation measures over 20 years (Marine Spatial Planning/creation of Conservation Fund)
- USD 180 m in conservation funding over 20 years (annual cashflows from gov + endowment capitalized through the Blue Loan)
- ¼ county’s debt/overall reduced debt GDP 12%
- TNC subsidiary Nature Vest provided the Blue Loan to finance the repurchase/Credit Suisse financed blue bonds (Moody rating Aa2) which funded TNC subsidiary to make blue loan
- DFC provided Political Risk Insurance wrap on Blue Loan
- Parametric risk insurance (hurricane wrap) on Blue Loan
Thank you Nature