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INNOVATIVE SOLUTIONS FOR FINANCING NATURE

PRESENTATION TO NATURE FINANCE CONFERENCE 2023

WORLD BANK GROUP

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November 29, 2023, Singapore

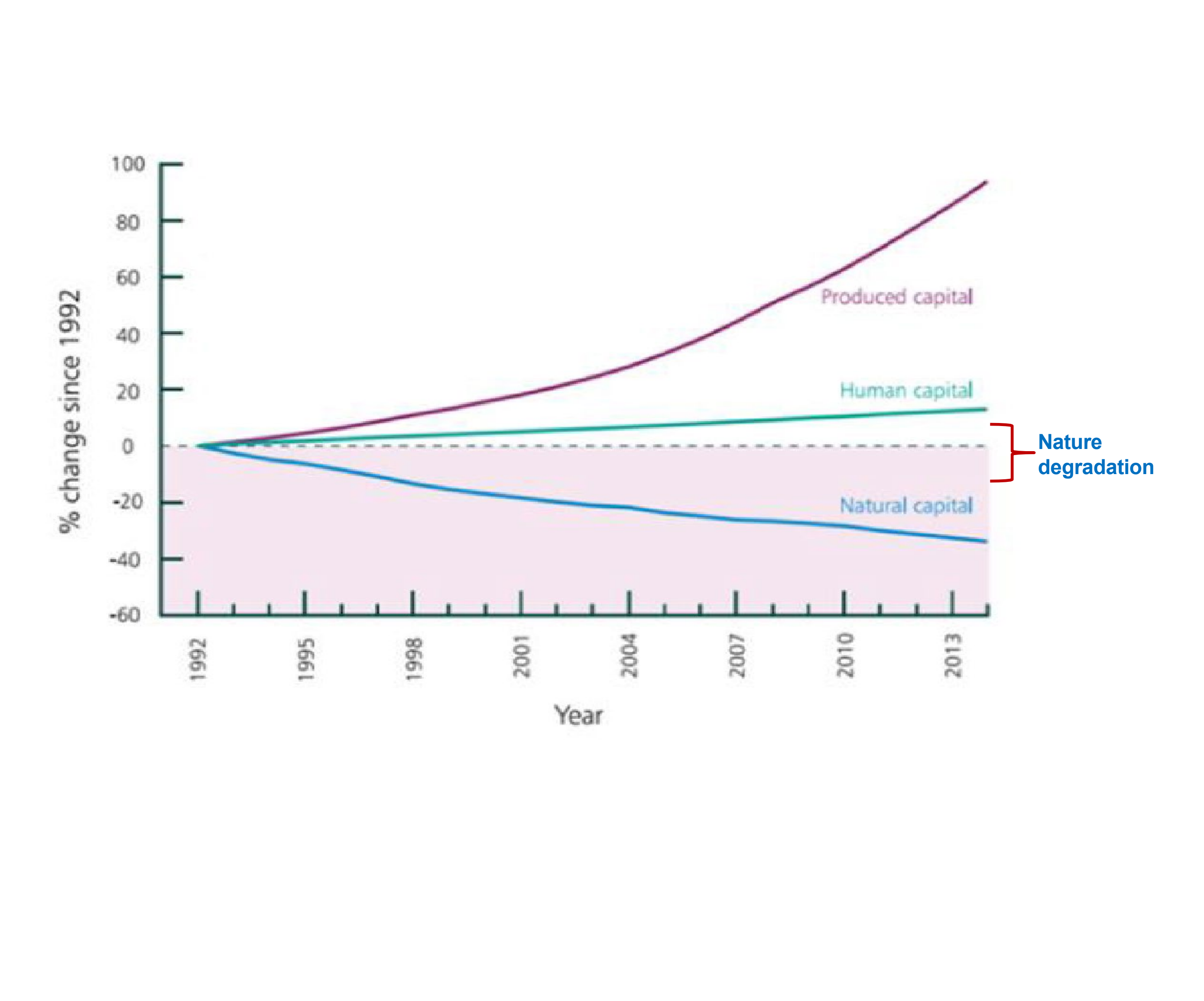
INNOVATIVE FINANCING SOLUTIONS FOR NATURE

01 Why and How to Mobilize Nature Finance

02 Types of Nature Finance Instruments

03 Enhancing the Information Environment for Nature Finance

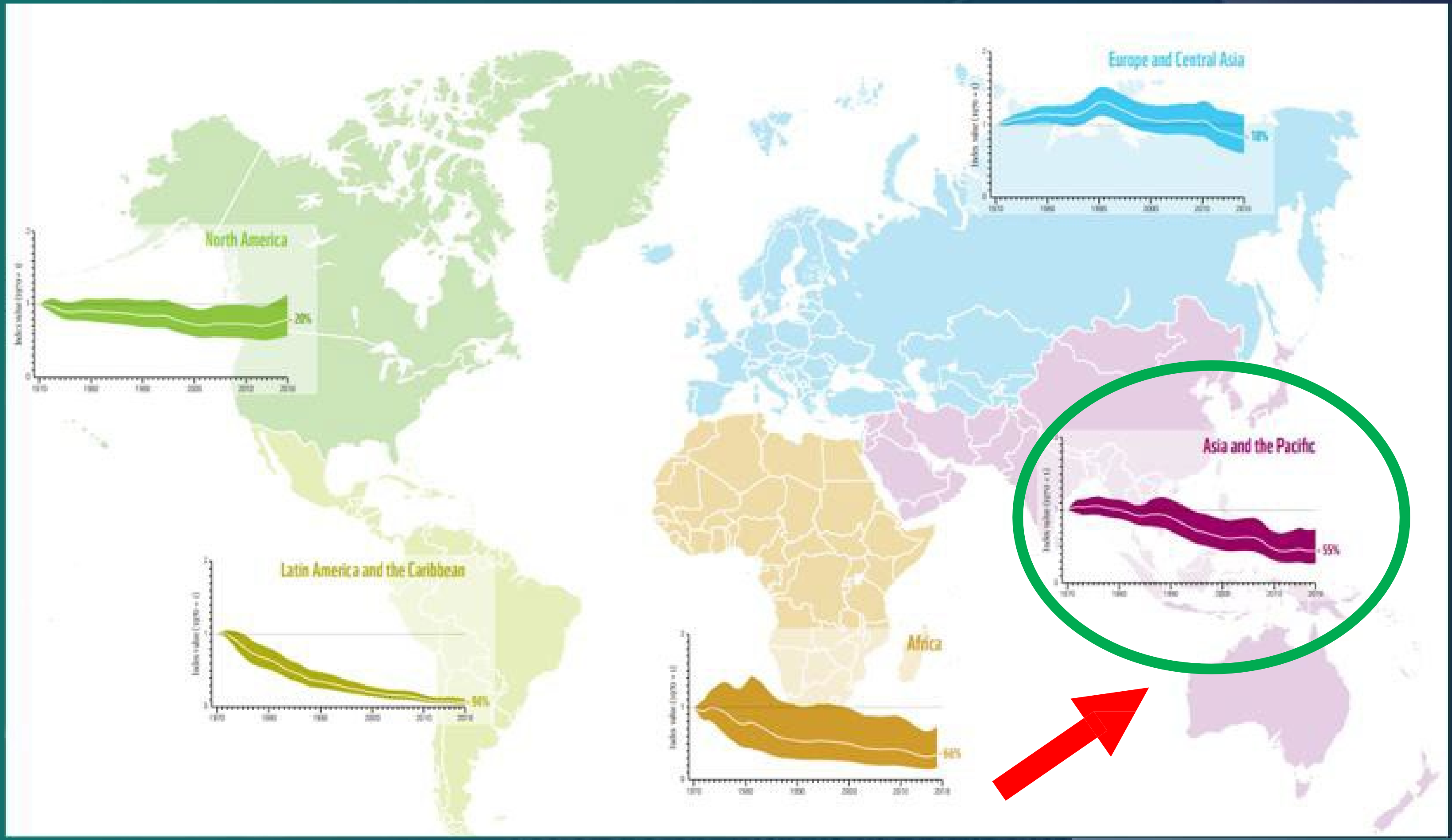
UK'S DASGUPTA REVIEW (2021): ECONOMIC GROWTH DEVASTATING NATURE



LEVEL OF DEGRADATION OF NATURE VARIES ACROSS REGIONS… BUT NATURE STEADILY DECLINING IN EAST ASIA & THE PACIFIC

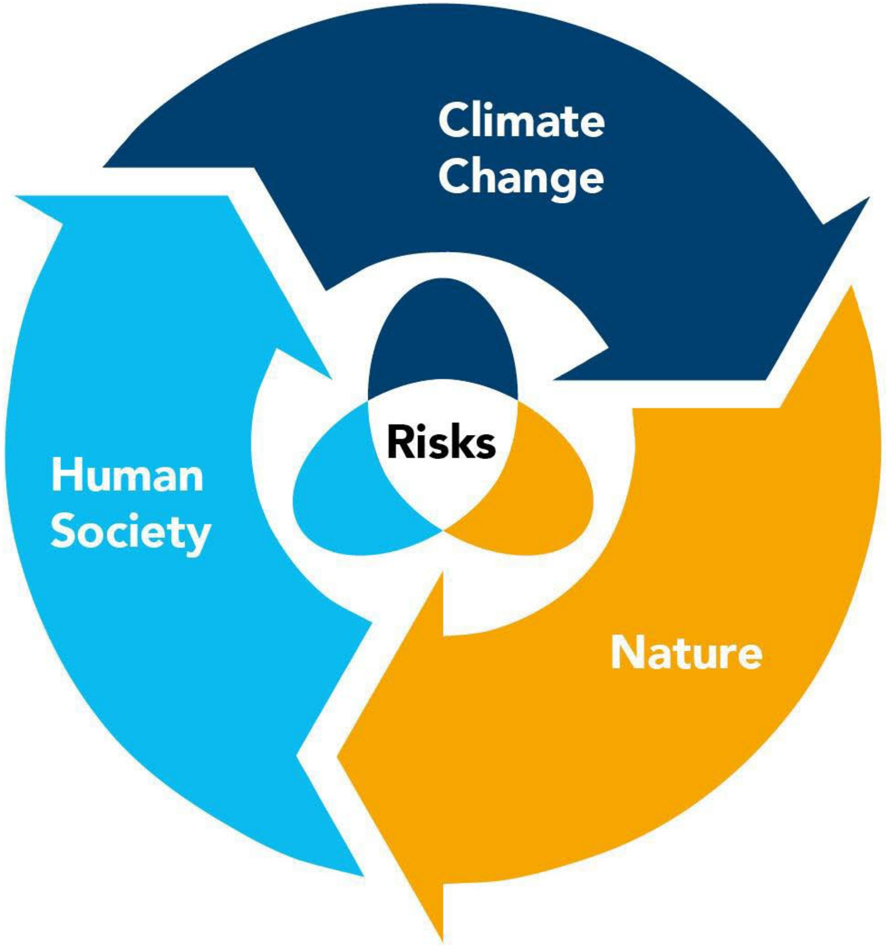
- Decline in initial values across all regions, between 1970 and 2018.
- Loss of species groups studied most profound in freshwater fish, reptiles, and amphibians.
- 2021 World Bank Report The Economic Case for Nature finds that protecting nature could avert global economic losses of US$2.7 trillion per year

Biodiversity Loss by Region: Changes in The Living Planet Index for each IPBES region during 1970 to 2018 (WWF, 2022)



CLIMATE AND NATURE ARE CLOSELY INTERCONNECTED

Nature loss reduces resilience to climate change



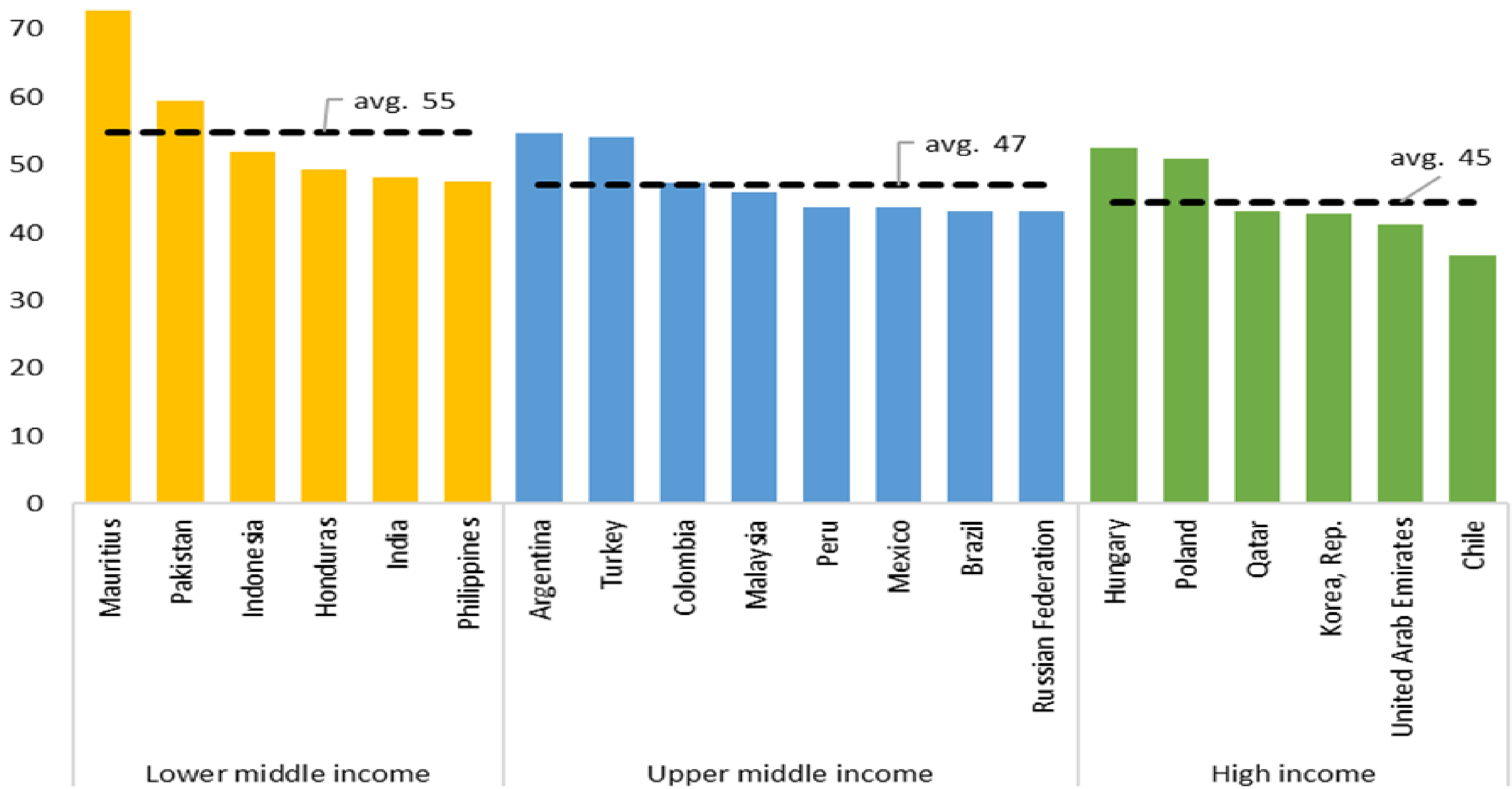
Climate change is a driver of nature loss

Source: IPCC, IPBES

DEPLETION OF THESE ECOSYSTEM SERVICES POSES PHYSICAL RISKS FOR THE FINANCIAL SECTOR

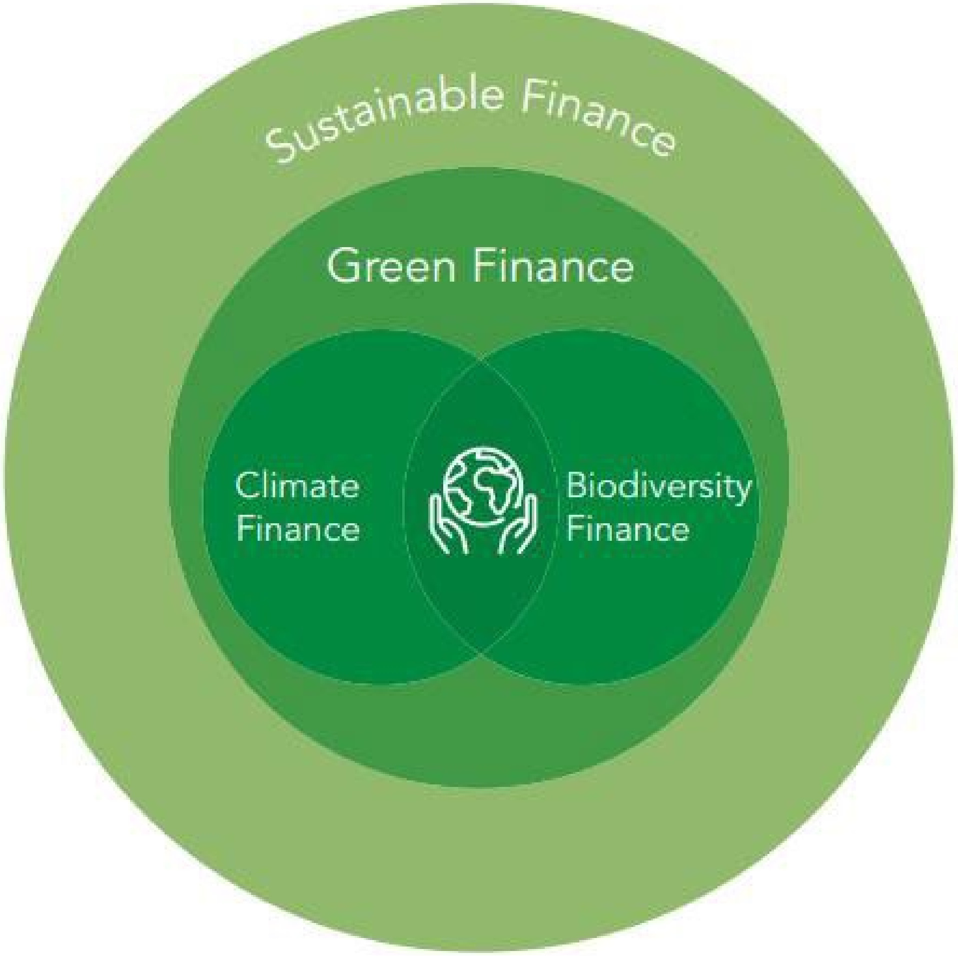
Banks in emerging markets allocate around **half of their credit portfolio** to firms with highly or very highly dependency on one or more ecosystem services

Credit exposure to processes with high/very high dependency (in percentage of banking system NFCs portfolio)



Source: *Calice et al. Forthcoming*

WHILE INVESTORS ARE INCREASINGLY COGNIZANT OF THESE RISKS, A MAJOR FINANCING GAP REMAINS



- **Nature finance is an estimated 10% of** funds available for sustainable finance
- One estimate suggests a **US$700+ billion annual investment 'gap' for** nature (Finance Earth 2021)
- **Public finance** provides majority of nature finance, but is **insufficient**

Source: Mobilizing Private Finance for Nature (2020)

QUESTION TO AUDIENCE

What was the number one barrier to financing nature according to a Nature Conservancy survey (2019) of 62 natural capital asset owners and managers?

A. High transaction costs
B. Limited experience with nature finance and its risks
C. Insufficiently large ticket size

Raise left hand if choice A, right hand if choice B, and both hands if choice C

IDEAS TO MOBILIZE PRIVATE FINANCE FOR NATURE

Closing the biodiversity financing gap requires:

1. More **efficient** use of public funds
2. **Alignment** of financial flows with the goals of the Kunming-Montreal Global Biodiversity Framework
3. **Mobilization** of private finance

The financial sector can:

1. **Support** better risk identification and management
2. **Enable** investment in opportunities associated with the **transition** to a nature-smart economy

http://pubdocs.worldbank.org/en/916781601304630850/Finance-for-Nature-28-Sep-web-version.pdf

RANGE OF DEBT AND NON-DEBT FINANCING INSTRUMENTS FOR NATURE

Type	Instrument
Policy	Fiscal and financial reform, taxes, fees, fines, penalties
Debt	MDB Concessional loans
	MDB Non-Concessional loans
	MDB Guarantees/ risk transfers
	Social, Green/SDG Bonds "Use of Proceeds" Bonds
	Sustainability-linked Bonds (KPIs linked Bond)
	Sustainability-linked loans
	Debt for Climate and Nature (DFCN) Project Swap
	DFCN programmatic swap
	Asset-backed securities (ABS, green securitization)
Non-Debt	Grants
	Insurance: Catastrophe bonds
	Biodiversity offsets
	Carbon offsets
	Green commodity private equity fund
	Natural Asset Companies (NACs, publicly traded equity)
	Private Sector Green Value-chain Initiatives

Source: Mobilizing Private Finance for Nature (2020)

NATURE-POSITIVE PERFORMANCE-BASED DEBT ISSUANCES

1. South Africa Wildlife Conservation Bond

2. Uruguay Sovereign Sustainability-linked Bonds

3. Belize Debt for Nature Swap

These all use blended finance to improve risk-return profiles

1. SOUTH AFRICA’S “RHINO BOND”

- The World Bank’s **$150 million** Wildlife Conservation Bond

- **First-of-its-kind outcome-based bond** that supports the financing of conservation activities, and together with financing from the Global Environment Facility transfers project risk from donors to investors

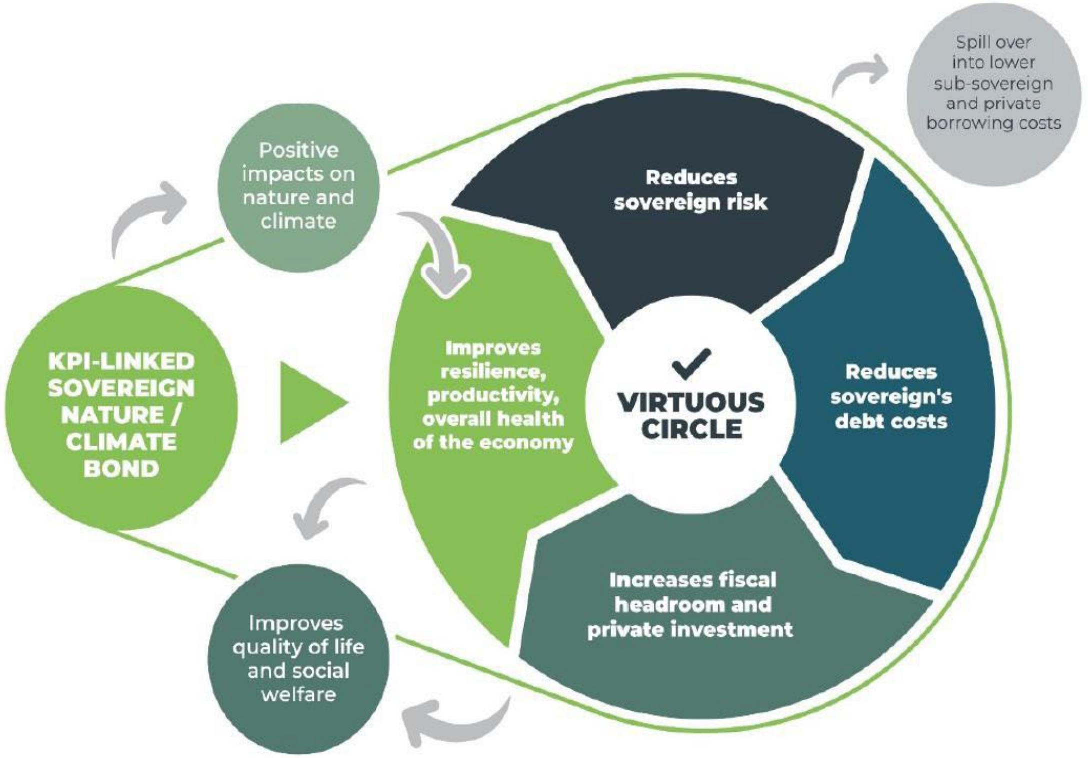
- The transaction mobilizes private capital to facilitate financing of black rhino conservation activities at two protected areas in South Africa

Rhino bond videos: https://www.youtube.com/watch?v=_8d7z1ViZ6c | https://www.worldbank.org/en/news/video/2022/03/23/saving-rhinos-and-livelihoods-in-south-africa

2. URUGUAY SOVEREIGN SUSTAINABILITY-LINKED BOND

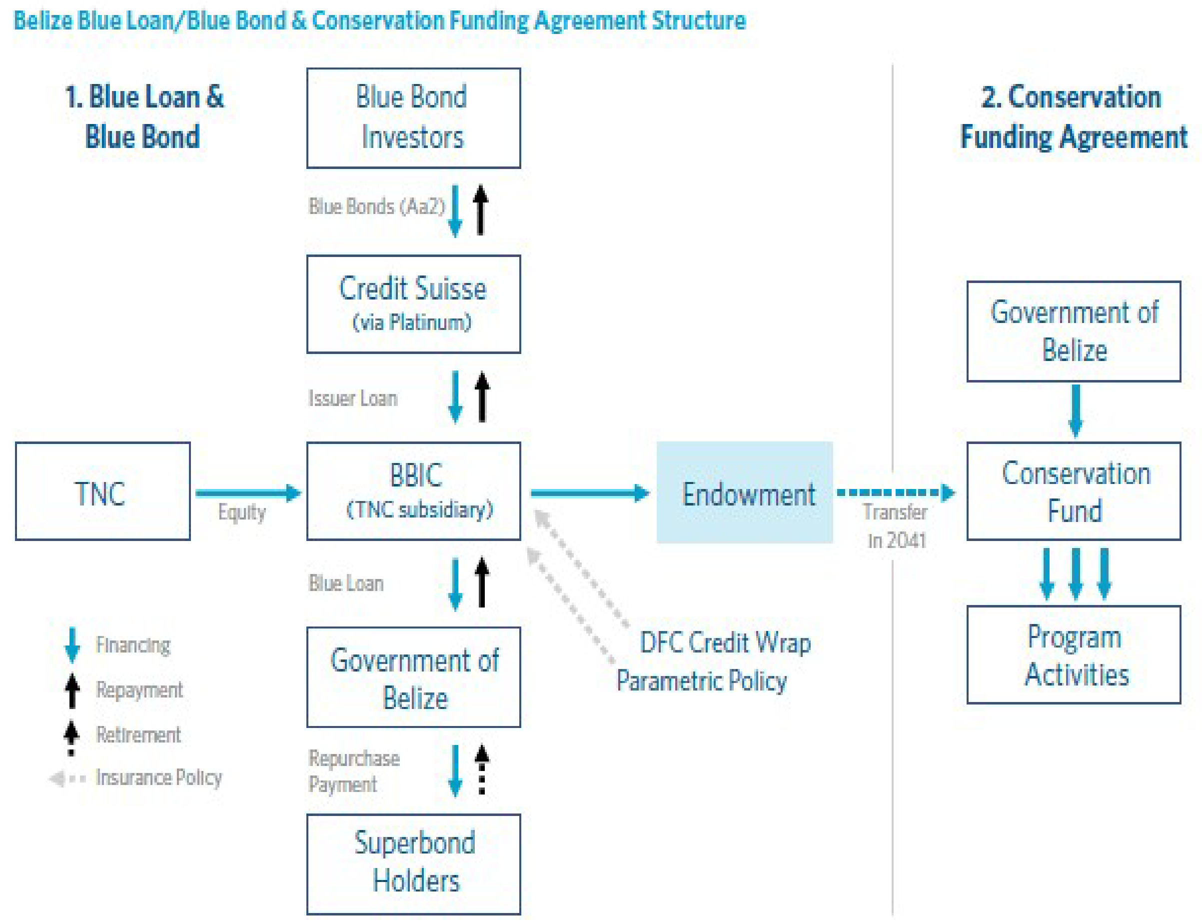
Development of ***Sovereign Sustainability-linked Bonds*** as an asset class

- **Uruguay – 1st sovereign issuer with nature KPI** (framework informed by WB Global Program on Sustainability research)
- 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)



3. BELIZE DEBT FOR NATURE SWAP

- Belize repurchases US$ 553m **‘superbond’** for US$360m (0.55c on $) debt conversion **for marine conservation**
- **Commitment to protect 30% of Belize ocean** by 2026 + other conservation measures over 20 years
- **US$180m in conservation funding** over 20 years
  R**educed Belize’s debt by 12% of GDP**
- TNC subsidiary gives Blue Loan for repurchase / Credit Suisse finances blue bonds \ funds TNC blue loan
- Blue loan has **Political Risk Insurance** wrap +**Parametric risk insurance** (hurricane wrap)



BEYOND BONDS: FINANCING NATURE WITH INSURANCE, CREDIT GUARANTEES AND INVESTMENTS IN VALUE CHAINS

Mesoamerican Coral Reef Insurance Fund

- 2019: **Reef insurance policy** specifically around **hurricane damage** in Mexico
- Proceeds used to repair damage from Hurricane Delta
- 2021: **Mesoamerican insurance fund** provides **parametric** insurance from southern Mexico to Belize, Guatemala and Honduras

Mexico: DFI Credit Guarantee Schemes for Climate and Nature

- **Mexican** Development Bank (DFI) FIRA has **credit guarantee** schemes with National Forest Fund, Fund for the Efficient Use of Water"
- FIRA offers **higher guarantee coverage for climate and conservation projects** at no additional cost

Ghana: Koa Cocoa and Landscape Resilience Fund

- Dedicated funds using **blended capital** to catalyze private sector
- Fund invests in factory with **decentralized value chain reusing** previously unused cocoa pulp
- Reduces food waste by 40%: **minimizing impact on land** and reducing carbon footprint

IMPROVING GLOBAL REPORTING CAN ENHANCE INFORMATION ECOSYSTEM FOR NATURE FINANCE

Examples of Global Initiatives to improve data and analytics on nature:

- **International Frameworks for Disclosures:**
  - **Task force on Nature-Related Financial Disclosures (TNFD)**-developed to be compatible with International Sustainability Standards Board **(ISSB)** standards
  - **Global Reporting Initiative (GRI)** (proposed reporting standard)
- **Climate and nature-related data and analytics for the financial sector:**
  - Network for Greening the Financial System (NGFS)

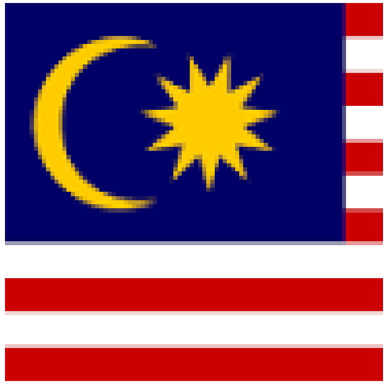
The TNFD framework core components

Source: Mobilizing Private Finance for Nature (2020)

COUNTRY INIATIVES TO REDUCE INFORMATION GAPS FOR NATURE FINANCE

Brazil: Sustainable Rural Credit Bureau (Green Credit Bureau)-announced for 2023

- Increase information and transparency by allowing rural credit recipients to share their information with interested parties without third party intermediation
- Enable better asset pricing, which can improve credit conditions, support adoption of sustainable and social practices and “greener” agriculture

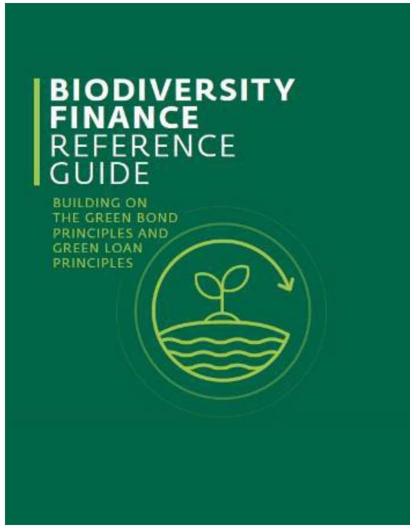


Malaysia: Joint Committee on Climate Change (JC3)**Climate Data Catalogue for the Financial Sector** launched in 2022

- Serve as a source of **reference on climate and environmental/nature data** to facilitate analysis of risks and opportunities by the financial sector
- Provide a call to action for stakeholders to **improve data availability & accessibility**

IFC'S BIODIVERSITY FINANCE REFERENCE GUIDE GIVES INVESTORS APPROACH TO ID ELIGIBLE USE OF PROCEEDS

Builds on the **Green Bond Principles and Green Loan Principles** and lists **eligible use of proceeds** to support private investments to create benefits for nature and/or to address the key drivers of biodiversity loss.



Biodiversity co-benefits:

- Climate smart agriculture: organic farming, regenerative farming, agroforestry
- Sustainable shipping: waste, bilge, ballast water treatment, noise abatement
- Plastic recycling and waste management
- Wastewater management

Conservation/ Restoration:

- Investment in conservation or restoration to create carbon and biodiversity credits
- REDD+ ventures

Nature-based solutions:

- Preservation or restoration of natural systems (e.g. wetlands, mangroves, forests) to manage water flow, floods, storm abatement, waste and pollution) to perform infrastructure service to complement to displace manmade infrastructure

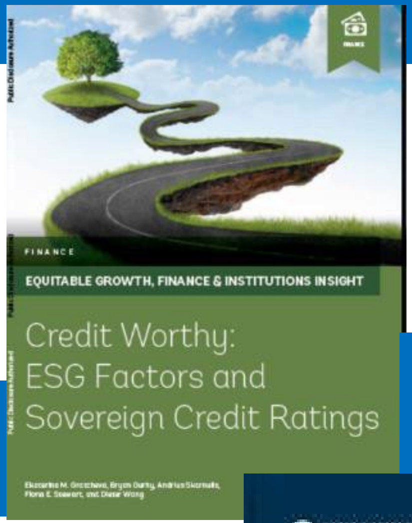
Source IFC 2022

WORLD BANK EFFORTS TO EMBED NATURE INTO FINANCE

Data

[Sovereign ESG Data Portal]

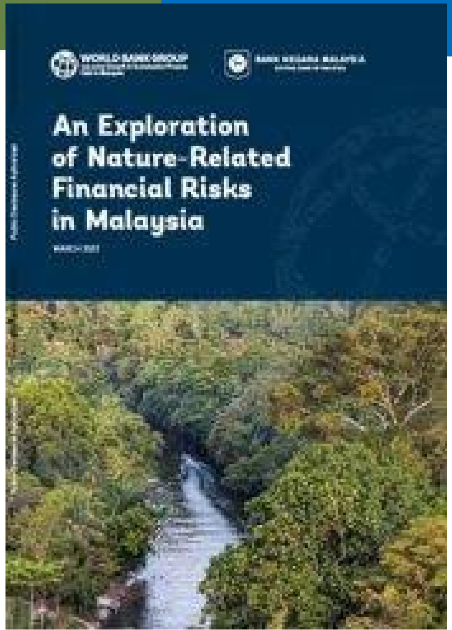
Research



Capacity building, disclosure, and engagements

Financial Instruments

Regulatory Tools



THANK YOU!

For more information, please contact rreddy5@worldbank.org

Further Resources (with hyperlinks):

World Bank (2020). Mobilizing Private Finance for Nature

IFC (2022). Biodiversity Finance Reference Guide