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Nature Finance

A WORLD BANK PERSPECTIVE

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SOUTHEAST ASIA REGION

Nature at Risk

- Over 1 million species are currently at risk.
- Nature loss poses tangible risks for governments, industries, and local communities (agriculture, fisheries, tourism, water, climate etc.) [loss of 3 ecosystem could cost $2.7 trillion by 2050 or annual loss of 10% of SS Africa's GDP).
- Biodiversity loss is now a top-three risk over the next decade, as recognized by governments and business leaders.
- Sectors generating around $44 trillion annually are highly or moderately dependent on ecosystem services.
- Nature-related risks have implications for fiscal and financial stability, affecting governments, central banks, and finance ministries.
- Local communities are directly at risk as they depend on nature for food, shelter, and livelihoods.

Unraveling the Drivers of Biodiversity Challenges

- **Budget Squeeze for Nature Protection:**
  - Fiscal limitations hinder adequate funding to halt nature loss and avert its severe consequences.

- **Greening the Bottom Line:**
  - Saving nature demands economic incentives, smart regulations, and robust enforcement, along with financial tools to attract positive private investments. [Many value chains rely heavily on the harvesting of resources but fail to account for the negative impact that these economic activities have on the ecosystems. Businesses are only now starting to consider biodiversity and ecosystem services in their production and investment practices in response to the loss of nature affecting their bottom lines].

- **Capitalizing on Nature's Worth:**
  - Undervaluation and mismanagement mean many natural assets lack financial appeal, curbing private sector investments.

- **Data Deficit in Decision-Making:**
  - The absence of knowledge, data, and tools hampers integrating nature risks and opportunities into the decisions of governments, financial institutions, and businesses.

- **Nature Conservation Drought:**
  - Most countries lack attractive and scalable projects that make economic sense for conserving nature.

Constraints for private financing

Lack of incentives [perverse incentives: economic incentive generally favors expansion of economic activity, and often environmental harm, over conservation]. (E.g. carbon tax).

Paucity of data, measurement, and standards [no single, high-level policy goal for biodiversity conservation to work toward, similar to the 1.5°C temperature increase ceiling established by the Paris Agreement.

Scale and localized nature of biodiversity projects [Biodiversity projects often exhibit small-scale and localized characteristics, necessitating aggregation in many instances, and are further complicated by a lack of cash flow, posing challenges in attracting private sector financing].

Lack of corporate reporting requirements. [Biodiversity risk, stemming from both impact on and dependency on nature often not incorporated into investment decisions via risk measurement and reporting].

Nature presents an untapped investment opportunity

Nature and Finances should go Hand in Hand:

- Green infrastructure and sustainable practices offer financial benefits while contributing to climate, biodiversity, and broader development goals.

Substantial Economic Potential:

- Shifting towards sustainable agriculture, responsible land and ocean use, and improved infrastructure practices could open up significant economic opportunities, estimated at US$10.1 trillion annually (WEF).

Extensive Job Creation:

- The shift has the potential to create a substantial 395 million new jobs globally by 2030.

Balancing Profit and Positive Change:

- Investing in nature isn't just ethical; it's a pragmatic choice for financial success coupled with positive environmental impact.

A significant increase in financing from public and private sectors is needed

- **Biodiversity Budget:**
  - We're looking at a hefty bill of US$700 billion every year for the next 10 years to make the global biodiversity plan work.

- **Reality check:**
  - Currently, we're only putting in about US$120-140 billion to save nature. We're behind, and we need to catch up. Governments are spending at least US$800 billion each year in economic support – such as fossil fuel, fishing, and agricultural subsidies – that is potentially harmful to biodiversity, or five to six times as much as total spending on biodiversity

- **Mostly Government:**
  - Most of the financing is coming from the government, not so much from businesses.

- **Time for a Shift:**
  - Businesses need to start putting in more money. That's the big change we're aiming for, a game-changer in the plan.

Financing Green

Unlock	Unlock investments for conservation, restoration, and sustainable use of green and blue biodiversity through financing green initiatives.
Use	Use concessional finance to reduce risks and amplify private investment, exploring financial solutions tied to forestry, non-timber forest products, wildlife, and fishing.
Pilot	Pilot innovative financial tools like fixed income products linked to natural resources, tapping into capital markets for sustainable financing.
Enhance	Enhance the efficiency of domestic public finance, directing investments into nature-based solutions that yield co-benefits for nature while achieving broader development objectives.

Greening Finance

Channel	Channel funds away from projects harming green and blue biodiversity, steering investments towards those mitigating negative impacts or generating positive environmental co-benefits where the biodiversity impact of projects cannot be avoided, biodiversity offsets are increasingly being used. .
Mobilize	Mobilize funds through improved risk management, integrating nature-related risks into investment decisions.
Finance	Finance projects focused on pollution reduction as a means of promoting positive environmental outcomes.
Repurpose	Repurpose incentives that harm biodiversity, fostering a financial approach aligned with conservation goals.

Concerted action needed

GOVERNMENTS

Dedicate sufficient and predictable domestic **public expenditure to conservation** of critical ecosystems

Support **green public finance** - repurpose harmful subsidies and incentives driving degradation of nature; green budget tagging

Create **enabling conditions** to catalyze private investment through policy and regulations that level playing field for sustainable practices

Develop **environmental markets** that allow private sector to monetize ecosystem services

Promote nature-related **data, standards, labels, and disclosure** to encourage market transparency and integration of nature-related risks in financial decision-making

PRIVATE SECTOR

Corporates: Improve **management and disclosure of nature-related risks** across operations and supply chains

Financial sector: Integrate nature into models and decision tools to channel **capital flows towards more sustainable activities** and away from those that are detrimental; **structure green investment** opportunities

Engage in multi-stakeholder coalitions to increase use of tools, standards, and reporting to **mainstream nature-related risks and oppportunities into investment decisions**

DEVELOPMENT PARTNERS

Invest in **global public goods** through provision of grants and concessional finance to support capital and operational expenditures that preserve natural capital

Catalyze **additional finance** for nature-positive investments by supporting development of innovative financial instruments and scaling up new models that increase participation of corporate and institutional investors

Support project **pipeline development** via grants, catalytic, and blended finance that pilot nature-friendly business models

Provide **decision-support tools, analytics, and technical assistance** to inform decisions of governments, private sector, and communities related to managing - and sharing benefits from - natural capital

WB is one of the leading financiers of nature globally

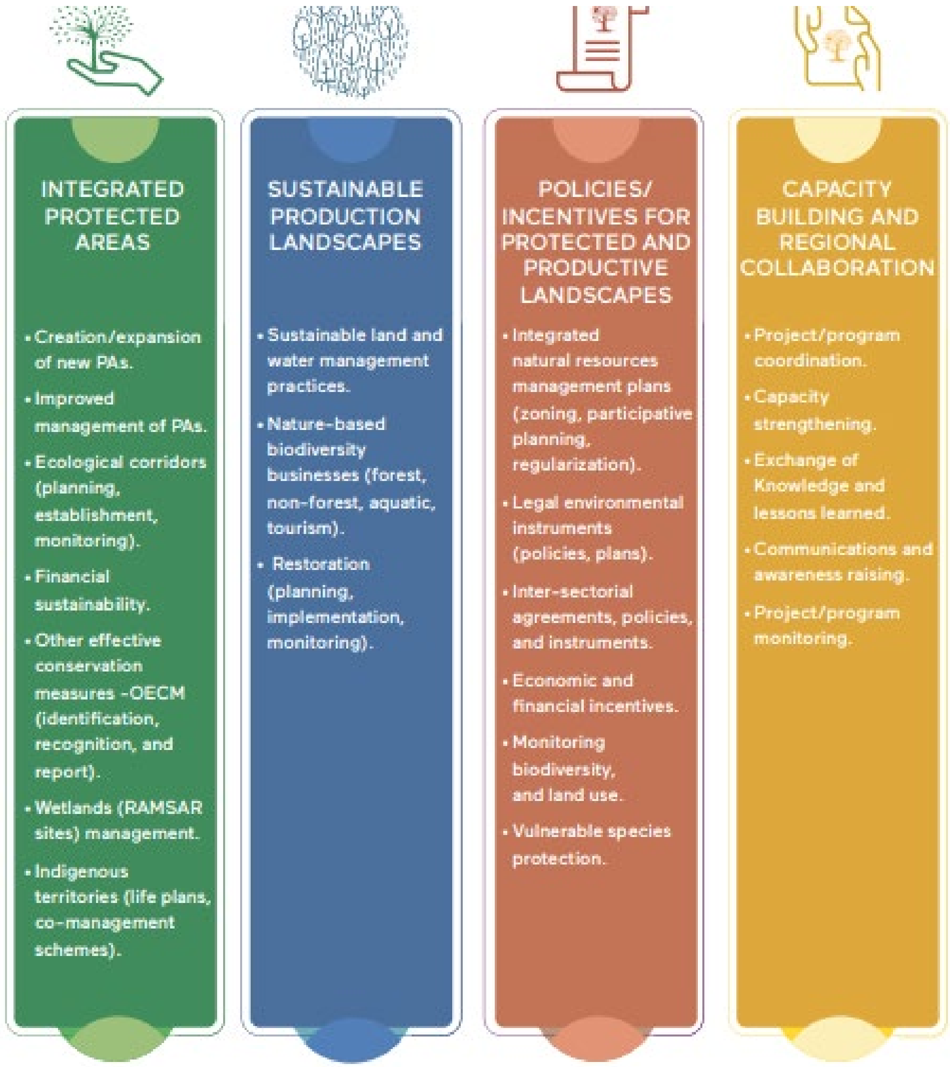
- The World Bank backs conservation and sustainable resource management globally, using a mix of grants, loans, and blended finance.
- Prioritize globally crucial natural treasures like the Amazon and Congo rainforests for targeted support.
- Create an enabling environment that attracts both public and private money using smart incentives and financing methods.
- Generate local economic opportunities tied to nature through impactful livelihood projects.
- Provide policy support for green fiscal reforms and other transformative policies, integrating them into broader budgetary support and economic policy discussions in client countries.

Development of markets for ecosystem services (e.g., payments for ecosystem services), allowing landholders and communities sustainably managing watersheds, forests, and fisheries to generate cash flows

Institution- and capacity-building, and creation of governance and benefit-sharing mechanisms for sustainable management of natural capital

Scaling up of natural capital accounting, decision-support tools, and research that policymakers need to value nature and to reform economic and sector policy

Nuts and bolts



Global public goods

Amazon Sustainable Landscapes (ASL) program

Securing the policy changes and funding necessary to meet long-term conservation goals in the Amazon basin.

Led by environmental authorities in each participant Amazon country and executed collaboratively by national and international public and private agencies, supported by civil society and community organizations.

Catalyzing financing

- In Ghana, the World Bank's project combined a $75 million loan with $28.4 million in grants to enhance integrated landscape management, covering agriculture, forests, and small-scale mining across three million hectares in savannah and cocoa forest landscapes. This blend backs a comprehensive set of investments, ensuring both developmental and global environmental gains.
- In Mozambique, the World Bank facilitated five co-management agreements between the government, nonprofits, and private organizations to oversee conservation areas and fund anti-poaching efforts. This public-private partnership blended private investments in nature-based ventures with public and philanthropic support for conservation, totaling $200 million. The successful model is now being expanded countrywide to attract investments, boost rural areas, promote tourism, and safeguard nature.

Mobilizing capital markets

The World Bank raises around US$50 billion each year from private investors in the debt markets via sustainable development bonds and green bonds. All World Bank bond proceeds finance sustainable development in member countries and contribute to the SDGs.

As the issuer of the first **green bond**, the World Bank has also created the blueprint for what is today a US$3.4 trillion global labeled bond market connecting mainstream investors with environmental and social projects.

The World Bank supported with the issuance of the world's first sovereign **blue bond** in the Republic of Seychelles to finance sustainable marine and fisheries projects, raising US$15 million from international investors, and providing a partial guarantee of US$5 million, which was further supported by a US$5 million concessional loan.

World Bank issued a first-of-its-kind, outcome-based US$150 million **Wildlife Conservation Bond** mobilizing private sector financing to support wildlife conservation in South Africa.

Strengthening the nature-climate nexus by leveraging climate finance

Through mechanisms like the REDD+, the WBG is helping client countries connect sustainable ecosystem management with carbon markets.

As of 2022, 47 countries were in the REDD+ Readiness Fund, of which 36 have programs implemented by the World Bank and 11 by other development partners and 15 countries in the Forest Carbon Partnership Facility (FCPF). *Contributions and commitments under the two funds total US$1.3 billion.*

- Mozambique became the first country to receive results-based payments for reduced emissions from avoided deforestation and forest degradation. FCPF paid US$6.4 million for reducing 1.28 million tons carbon dioxide.
- Vietnam recently received US$41.2 million for 10.3 million tons of CO2 as a result of its efforts to reduce carbon emissions in deforestation and forest degradation.

IFC's Forest Bond raised US$152 million from institutional investors for a REDD+ reforestation project in Kenya. Investors had the option to receive their coupon payments in either carbon credits generated by this project, or in cash.

Harnessing environmental markets

In Mexico, the World Bank is supporting the development and strengthening of the national PES program through a series of projects that began in 2005 and continues to this day. The program, financed primarily by the government’s budget, has covered between 2.5 and 3 million hectares of forest during this period.

In Costa Rica, where a user-financed PES mechanism supported by the World Bank using a water tariff and a fuel tax has mobilized more than US$500 million in payments from public and private entities. A quarter of the raised funds are used to compensate private landowners and protected areas for their contributions to the provision of ecosystem services in the watershed.

Provision of sustainability data, tools, and analytics

The World Bank provides sustainability data, tools and analytics to governments and market participants to better understand sustainability and aid its integration into risk analysis and investment decisions.

The World Bank's Sovereign Environmental, Social and Governance (ESG) Data Portal provides measures for countries' sustainability performance, will shed light on metrics such as deforestation, land cover changes, wealth accounting and help fill a data gap and bias in ESG scoring.

The World Bank is also supporting the development of key performance indicators for sovereigns to facilitate the creation of sustainability-linked and performance-based sovereign financial products, helping scale up sovereign financing for nature.

World Bank's two-decade long effort to extend principles of national wealth accounting beyond the standard GDP. The Changing Wealth of Nations promotes natural and human capital accounting, and the Global Program on Sustainability is supporting their uptake in client countries.

Technical assistance to central banks and financial regulators and supervisors

In Malaysia, the World Bank has supported the Central Bank's assessment of exposure of the country's financial sector to nature-related risks. Of the commercial loans portfolio analyzed, 54 percent were exposed to sectors highly or very highly dependent on ecosystem services.

The World Bank also supported Brazil's Central Bank assessment that found 46 percent of Brazilian banks' non-financial corporate loan portfolio was concentrated in sectors highly or very highly dependent on ecosystem services.

Development of sustainable finance taxonomies and standards

Promoting the adoption of green Public Finance Management frameworks, which cover green spending reviews and public budget tagging.

Helping galvanize sustainable investment in the private sector, by actively supported the establishment of the Taskforce on Nature-related Disclosures (TNFD).

IFC has developed a taxonomy of biodiversity relevant investment, and published Guidelines for Blue Finance and the Biodiversity Finance Reference Guide.

Supported development of green taxonomies in Bangladesh, Colombia, Indonesia, Mongolia, and South Africa.

Supporting multi-stakeholder coalitions

Coalition of Finance Ministers for Climate Action: WB serves as the Secretariat and partner of the Coalition of Finance Ministers for Climate Action, a group of finance ministers from 50 countries that have endorsed the Helsinki Principles and is committed to aligning fiscal policy and public expenditure with climate and – more recently – nature action plans.

Sustainable Banking Network: To help standardize nature and biodiversity risk assessment in supervisory tools and approaches, and support regulators in adopting them.

Moving forward: What would transformation look like?

Financial flows that are harmful to nature are reduced. These may include subsidies in agriculture, fisheries, and other sectors which can be a starting point for assessments and policy-based investments.

Nature finance transitions away from reliance on small-scale siloed grants. From small expenses supported by government budgets, and towards nature-positive projects that attract private sector financing, particularly through pay-for-outcomes instruments.

Countries are rewarded for making long-term investments in nature today, rather than taking a business-as-usual approach.

Moving forward: What would success look like?

A whole-of-economy approach is needed for countries to value natural assets and invest resources for the long term.

Utilizing Comprehensive Approaches:

- Leverage knowledge products, tools, technical assistance, and financing.
- Shift from heavy reliance on government budgets and grants.

Attracting Private Capital:

- Adopt a holistic approach to attract both domestic and foreign private capital.

Efficient Coordination:

- Globally and nationally coordinate policies and financial instruments.
- Include concessional finance from donors and private foundations.

Enhancing Knowledge Sharing:

- Strengthen platforms for financial regulators and industry associations.
- Improve decision-makers' ability to integrate nature-related risks and opportunities.

Standardization and Deployment:

- Adopt standardized taxonomies, reporting, and disclosure frameworks.
- Deploy existing policy, debt, and non-debt products to incentivize private sector participation, mobilize funds for nature action, and test new instruments tailored to diverse markets.

Thank you