Green Finance Institute

Dasgupta Review:

A Pathway for Action for the Financial Sector

greenfinanceinstitute.co.uk

Background

The Green Finance Institute hosted a virtual convening of representatives from over 40 banks, asset managers and asset owners from across the globe to respond to the Dasgupta Review's findings.

The group discussed the conclusions of the Review and specifically Chapters 17 and 20 that highlight nature-related financial risk and impact, and the need to mobilise capital for nature.

Attendees were asked to respond to the findings and suggest courses of action to be taken to embed nature into financial decision-making and redirect the flow of capital away from nature-negative activities and towards nature-positive outcomes.

Several recommendations emerged that the Green Finance Institute, in partnership with the attendees and other stakeholders, is now exploring. Below is a summary of some of the key suggestions. Ten recommendations are for action from the financial sector and two call on the public sector for support. Several of the recommendations are also discussed in videos available here.

Dasgupta Review: A Pathway for Action for the Financial Sector

Nature-Related Risk Management

- Start to assess nature-based risk and impact
- Identify and focus on key sectors and geographies
- Implement nature-related policies
- Engage with and require sustainable supply chain certification schemes

Mobilising Capital

- Encourage greater use of green bonds/loans and sustainability-linked loans to achieve nature-positive outcomes
- Provide catalytic or accelerator capital
- Support the growth of the carbon offset market

Shared Learning and Upskilling

- Reduce initiative fatigue/ improve collaboration
- Embed nature into climate principles/stakeholder groups/alliances
- Develop in-house expertise, awareness and motivation

Public Policy and Co-Funding

- National biodiversity targets and baselines
- Use of public sector and philanthropic capital to crowd in private sector finance

Nature-Related Risk Management

Nature-Related Risk Management

1. Start to assess nature-based risk and impact

The Taskforce for Nature-related Financial Disclosures (TNFD) that will launch in summer 2021 will provide a much-needed framework of pragmatic guidance to the finance sector and companies to assist them in understanding how best to measure, disclose and ultimately reduce nature-related risk. Financial institutions are encouraged to be engaged as members or as part of the larger stakeholder group.

However, the TNFD framework will take time to become fully operational. To facilitate progress now, financial institutions are encouraged to use existing tools to integrate risk assessment into decision-making now by:

- taking the Business for Nature steps to become nature positive, through assessing, committing, acting to reduce material impacts and advocating for ambitious government policies to support further change;
- becoming familiar with Science Based Targets for Nature;
- assessing impact by joining the Partnership for Biodiversity Accounting Financials (PBAF);
- using frameworks such as the Natural Capital Protocol from the Capitals Coalition and its Finance Sector Supplement to measure and value natural capital impacts and dependencies across the entities and portfolios that are financed, invested in or underwritten;
- working with clients to apply the CDSB Framework to report on water and other natural capital-related risks in annual reports;
- carrying out nature-related risk assessments by using the methodology for Tropical Commodities from Orbitas;
- applying tools such as Trase and those highlighted in the Finance for Biodiversity Guide;
- screening projects for compliance with the IFC's Performance Standard 6 using the Integrated Biodiversity Assessment Tool (IBAT) and using IUCN's STAR metric within the IBAT (launching July 2021) which assesses geospatial impact on species under threat of extinction.

RECOMMENDATION IN PRACTICE:

Using the Natural Capital Protocol
Given the importance of water across Indian economy, YES BANK commissioned a report in 2017 to calculate the true value of water for an archetypal beverage company in Tamil Nadu using the Natural Capital Protocol. With data assumptions based on secondary research, the key results suggested that the extent of business, societal costs and benefits could potentially risk 98% of the beverage company's revenue.

YES BANK concluded that there is a need to revisit the core elements of current business models to not only include financial risks, but the growing scarcity of natural capital and factor in the actual cost of natural resources in order to build sustainable and resilient businesses. The report was published to provide guidance for the business community.

YES BANK has also applied the Natural Capital Protocol's Finance Sector Supplement on its green bonds to study their alignment to natural capital concerns and measure the impact and dependencies of the projects funded by these bonds.

RECOMMENDATIONS IN PRACTICE:

Using the PBAF Standard
ASN Bank has been measuring and reporting on its impact on biodiversity since 2014. PBAF helps ASN Bank with answering important questions on how it can measure both positive and negative impact on biodiversity.

The bank's experience with PCAF (the climate initiative that was also initiated by ASN Bank) has taught the bank about the importance of having a globally accepted standard for impact assessment and disclosure for financial institutions.

Moreover, the discussions with colleagues from other financial institutions in the process of developing the PBAF standard helps ASN Bank in gaining a better understanding of the challenges and solutions surrounding impact assessment and the ways in which the results can inform investment policies and decisions.

Using Science based Targets for Nature
The Church Commissioners for England recognised that there was no holistic framework for the assessment of impacts and dependencies on nature, and no widely recognised mechanism for companies to set targets to address them.

As a result, the Commissioners became the first investor to support the development of the Science based Targets for Nature framework. Widespread adoption will provide a consistent gold standard that will ensure companies take sufficient action, and that investors can easily recognise as the sign of a rigorous and ambitious target.

The framework encourages immediate action to assess exposure and prioritise action, whilst future progress tracking will enable peer comparison and assist capital allocation decisions.

2. Identify and focus on key sectors and geographies

In order to navigate the impact of biodiversity loss on the finance sector but equally the impact of the finance sector on biodiversity, it is recommended that financial institutions start by prioritising the sectors and geographies within their business to which there is greatest exposure and tackle them one-by-one. Unlike climate, biodiversity impact (and therefore risk) varies widely across the globe, and therefore financial institutions will require companies to provide geospatial data where possible.

The Natural Capital Finance Alliance with Global Canopy, for example, recommends target-setting in the following priority sub-sectors:

1. **Agricultural Products**
2. **Apparel, Accessories & Luxury Goods**
3. **Brewers**
4. **Distribution**
5. **Electric Utilities**
6. **Independent Power Producers & Energy Traders**
7. **Mining**
8. **Oil & Gas Exploration & Production**
9. **Oil & Gas Storage & Transportation**

PwC has highlighted the following industries in order of importance for dependencies on nature directly and via supply chains:

Percentage of direct and supply chain GVA with high, medium and low nature dependency, by industry

Source: WEF/PwC

SASB's materiality map also provides a basic guide to the key sectors that should be the focus with regard to natural capital risk. For example, it lists ecological impacts as being likely to be material for more than 50% of the extractive and minerals processing sector.

A sector-focus would also be useful in the establishment of biodiversity working groups. In the same way financial institutions and corporations have formed coalitions or taskforces to speed up learning around the decarbonisation of specific sectors (fashion, shipping, energy), sector-specific collaboration and shared learning with regards to nature-based risk are needed. Better still, current sector-specific alliances targeting net zero should expand their remit to include nature-positive targets. [see Recommendation 9]

RECOMMENDATION IN PRACTICE:

Understanding Sector Risk: BNP Paribas Asset Management

BNP Paribas Asset Management (BNPP AM) is working to improve its understanding of the breadth of its nature-related risk exposure to provide its portfolio managers with actionable insights. BNPP AM conducts ESG sector reviews to bring its portfolio managers up-to-speed on the latest risks and opportunities. These reviews cover a wide range of sustainability issues, from human rights to nature loss, highlighting our view of the leaders and laggards in each sector. BNPP AM has also contributed to case studies, in partnership with the Capitals Coalition and others, to explain its approach, looking at its dependencies or impacts in key sectors, including a study on seafood and plastics in the consumer sector.

3. Implement nature-related policies

There are several nature-positive policies that financial institutions can adopt now.

Fair Finance International (a Civil Society Network active in 14 countries) lays out best practices and assessment criteria for measuring biodiversity, forestry, fisheries, food-related risks (including forest risk commodities like soy, palm oil and timber) that banks can adopt in addition to policies for climate change, energy, and human rights. It recommends that financial institutions use these to adopt nature-positive policies. For example, recommended best practices include ensuring clients:

- refrain from trade in species on all appendices of the CITES (the Convention on International Trade in Endangered Species of Wild Fauna and Flora) list;
- adhere to AWS's (Alliance for Water Stewardship) International Water Stewardship Standard;
- or do not undertake agricultural endeavours in areas listed in the Ramsar Convention on wetlands.

Other key indicators for best practice include whether a financial institution publishes a sustainability report that contain disclosures from the GRI Standards, or whether an institution discloses the names of all outstanding project finance transactions and project-related corporate loans, including the information required by the Equator Principles.

In several countries Fair Finance ranks financial institutions against its best practices and assessment criteria. Rankings of financial institutions according to the extent of their adoption of the sorts of policies outlined above is identified as a key means to incentivise greater uptake of such policies and tools by the industry. An expansion of Fair Finance's banking sustainable finance policy league tables to the UK and the US is recommended and welcomed by financial institutions.

For asset owners, ShareAction published a ranking in 2020 that assessed the extent to which the 75 largest global asset managers consider biodiversity loss in their investment decisions and stewardship of companies and laid out recommendations for what more could be done. It recommends that asset manager and asset owners:

- adopt a cross-sectoral biodiversity policy which includes good practice principles;
- prioritise conservation during the early stages of project planning; and
- engage with operators of infrastructure assets

Institutional investors also report that they would benefit from asset managers applying such principles to fund development in order to better support asset owners in their desire to allocate capital to a nature-positive transition.

Other guidance around due diligence and best practices can be found within the Blue Economy Finance Principles and the PRI's Biodiversity discussion paper.

RECOMMENDATION IN PRACTICE:

Ranking Netherlands' Financial Institutions
The Dutch Fair Bank Guide was launched in 2009. It consists of five civil society organisations: Oxfam Novib, World Animal Protection, Pax, Friends of the Earth and Amnesty International. Fair Finance Netherlands has published 18 policy assessments and 20 case studies during its 11 years, starting with banks and expanding to insurance companies and pension funds in the last five years.

The continued engagement with financial institutions in the Netherlands has attributed to Dutch institutions being at the forefront of many international initiatives, such as Partnership for Carbon Accounting Financials (PCAF) and PBAF. Dutch banks are also very active in international supply chain initiatives such as the RSPO, RTRS, MSC and FSC.

According to Fair Finance Netherlands' rankings, Dutch banks have shown a continuous improvement in the policy assessments which are conducted every two years in which the banks policies are assessed on 15 different themes. Currently the highest rankings banks are Triodos and Volksbank.

4. Engage with and require sustainable supply chain certification schemes

Despite evidence that sustainability certifications and verifications have a positive impact in reducing nature-negative business activity, very few financial institutions are members of groups such as the Roundtable for Sustainable Palm Oil, or engage with the Roundtable for Responsible Soy, Marine Stewardship Council and Forest Stewardship Council.

These certifications offer the opportunity to scale best practices for sustainable sourcing of agricultural commodities. As a minimum, financial institutions should ensure supply-chain and trade financing programmes link to these certifications. Furthermore, there is scope for improved effectiveness and scale of these certification programmes that the programme-developers say could be achieved with greater financial sector engagement.

There is also the potential for financial institutions to design investment and lending policies and instruments using the certifications that will support companies to transition away from unsustainable practices. For example, could banks collectively agree to apply a risk premium for clients who have not undergone the verification process, or offer discounts to those that do? A more detailed paper on the use of certifications by financial institutions can be found **here.**

RECOMMENDATION IN PRACTICE:

Certifications and Sustainability-linked Products
There are emerging examples where the financial services offered are linked to performance against certifications. Rabobank is a major financier of the Chilean salmon industry and, as part of a collaboration with the WWF, has provided green loans to clients in this industry. The performance indicators on the loans are linked to the Aquaculture Stewardship Council's certification standard.

The Marine Stewardship Council's certification had a similar role in the Norwegian SpareBank's €7.65m green loan in 2019.

RECOMMENDATIONS IN PRACTICE:

eco.business Fund:
Financing Sustainably-certified Businesses

The eco.business Fund was initiated in 2014 by KfW Development Bank, Conservation International, and impact asset manager, Finance in Motion, with financial support from the German Federal Ministry for Economic Cooperation and Development (BMZ). Finance in Motion has served as Fund Advisor since inception of the fund. The fund aims to promote business and consumption practices that contribute to biodiversity conservation, to the sustainable use of natural resources and to mitigate climate change and adapt to its impacts in Latin America, the Caribbean, and sub-Saharan Africa.

Investees receiving eco.business Fund financing must:

- either hold an eligible sustainability standard;
- implement either one of the practices outlined in the "Green List" ; or
- support a practice fully aligned with the Fund's mission.

Directing lending to businesses and producers that hold internationally recognized sustainability standards constitutes a cost-effective approach to financing sustainable production, as the monitoring and verification of sustainable practices is led by certified and independent bodies. It also enables the Fund to deliver deeper analysis of the benefits of its investments and draw upon the standards' own work on impact measurement. The Fund has selected a set of sustainability standards to be eligible for EBF financing based on a comprehensive review and assessment of their requirements. In sub-Saharan Africa, the eco.business Fund can also engage in strategic partnerships with commodity traders or other real-sector intermediaries that are focused on improving sustainable sourcing within their value chains through standards or programs that seek to verify the sustainability of suppliers of raw materials and/or third-party producers.

In April 2021, for example, the Fund provided an investment of $10 million to Co-operative Bank of Kenya (Co-op Bank), one of the leading commercial banks in the country. The subordinated loan will be on-lent to sustainable agribusinesses, contributing to the fund's mission of conserving biodiversity, promoting the sustainable use of natural resources, and mitigating and adapting to climate change. The investment will provide much-needed financing for businesses to enhance sustainable measures in their agricultural practices, particularly important in light of the challenging operating environment created by the COVID-19 crisis.

Through this new investment, the eco.business Fund and Co-op Bank will provide necessary credit to sustainably certified agribusinesses, such as those in the coffee, tea, and horticulture sectors; Kenya's main agricultural exports. By financing certified producers for measures such as solar and hydroelectric installations for tea factories that reduce reliance on fuelwood, and cold storage solutions that reduce post-harvest losses, the partners also hope to boost sustainable production practices and conserve the unique ecological landscape of the country.

Mobilising Capital

Mobilising Capital

5. Encourage greater use of green bonds/loans and sustainability-linked loans to achieve nature-positive outcomes

Nature provides services that are estimated to be worth $125 trillion per year globally, yet there is a lack of awareness of potential debt issuers about how material natural capital is to their balance sheet and, by extension, the importance of factoring nature into capital-raising and borrowing plans.

The green bond and green loan principles do include biodiversity, and the Sustainability Awareness Bond criteria was expanded this year to include protection and restoration of biodiversity and ecosystems. Few issuers of these products, however, are allocating use of proceeds to Nature-based Solutions or the conservation or enhancement of biodiversity. Annual state of the market reports – such as Environmental Finance's Sustainable Bond Insights 2021 (see p.21) – estimate a 5-10% market share for such bonds.

The TNFD will hopefully boost awareness, but debt capital markets bankers are encouraged to speak now with Treasurers about Nature-based solution (Nbs) and nature-related investments as a potential factor to consider within use of proceeds of green bonds. Given the cost of capital will be essential within issuer decisions, credit rating agencies could provide the signal needed by including key natural capital parameters in their credit rating analysis.

In the sustainability-linked loan product market there is a lot of untapped growth potential for loans with flexible interest rates linked to measurable and reported nature-outcomes. For example, interest rates are lowered as nature-positive KPIs are met.

However, in order for the interest rate ratchets to have real impact, nature targets need to be science-based and ambitious on an absolute (rather than a relative) level. The potential interest rate differential also needs to be material otherwise it will be considered as PR opportunity and not material to an issuer's business strategy.

Central banks could help support the growth of such nature-positive products by providing cheaper capital (through credit lines to commercial banks). They could also provide interest rate support to domestic issuers that allocate use of proceeds to natural capital assets with interventions aligned with nature focused NDC targets, for example. Some of these ideas could be made mandatory for nature-based sustainability-linked products.

RECOMMENDATION IN PRACTICE:

PUMA's ESG-linked RCF

In December 2020, PUMA SE, the world's third largest manufacturer of sportswear, signed a €800 million ESG-linked syndicated revolving credit facility (RCF) – the company's first to incorporate an ESG mechanism.

The syndicated financing led by ING and Bank of America is a further step towards the execution of PUMA's plan to refinance the €900 million liquidity facility issued in May 2020 under the KfW programme.

In line with PUMA's 10FOR25 (10 sustainability targets PUMA wants to meet by 2025), including shifting to 100% cotton, polyester, leather & down sourced from certified suppliers, the margin under the new facility is adjusted annually based on the performance against goals of certain KPIs in areas related to climate, plastic & oceans, biodiversity, human rights and water & air.

RECOMMENDATIONS IN PRACTICE:

CEMEX's Sustainability-linked Loan
Mexico's CEMEX, one of the largest cement producers in the world, issued its first sustainability-linked loan in October 2020 - $3.2 billion - with five KPIs including nature specific KPIs (implementation of water management plans for arid regions, boosting biodiversity and third party certification of active quarry sites).

UPM's Biodiversity and Climate-related RCF
In 2020, Finnish forest industry company UPM linked the pricing mechanism of an RCF to its biodiversity and climate-related targets. The margin of the €750 million RCF is tied to two KPIs: a net positive impact on biodiversity in the company's forests in Finland and a 65% reduction in CO_2 emissions from fuels and purchased electricity between 2015 and 2030, in line with UPM's commitment to the UN business Ambition for 1.5°C. BNP Paribas acted as a sustainability coordinator for the facility.

6. Provide catalytic or accelerator capital

While there is not a lack of capital seeking nature-based investments, there is a lack of projects that have reached a stage of being able to attract investment or finance. There is a need for early-stage funding to support demonstrators to reach investment readiness and to help with the development of new products and markets.

Financial institutions can support this development and their own investment pipeline by acting as a source of accelerator funding or using corporate social responsibility budgets for technical assistance as part of research and development. If creatively implemented, such inhouse accelerators can also positively engage employees on the topic of biodiversity and finance.

RECOMMENDATIONS IN PRACTICE:

Morgan Stanley's Sustainable Investing Challenge
Morgan Stanley in partnership with the Kellogg Foundation, hosts an annual Sustainable Investing Challenge where it invites teams of graduate students from around the world to develop and pitch creative financial approaches to tackle pressing social and environmental challenges.

Among the winners that have gone on to provide innovative NbS financing solutions are Blue Forest Conservation's Forest Resilience Bond - a five-year $4 million bond aimed at warding off drought and fire in 15,000 acres of the Yuba River Watershed in northern California.

This year's winner was BeeBank & Brokerage with a proposal to pool loans and contract assurance to help beekeepers scale operations and expand practices that drive biodiversity conservation.

JPMorgan and NatureVest
JPMorgan sponsors The Nature Conservancy's NatureVest that sources and structures nature investment projects – to date representing more than $1.3 billion of committed capital.

Among NatureVest's deals is an impact investment to protect 253,000 acres, the eastern United States- the Cumberland Forest Project, and the Seychelles debt-for-nature conversion.

YES BANK's Natural Capital Awards
YES BANK in India, through its Corporate Social Responsibility funds, has undertaken focused efforts to ensure conservation of biodiversity and endangered species, while mitigating the factors affecting them.

In addition to funding biodiversity conservation programmes, YES BANK institutionalised Natural Capital Awards to facilitate, reward and share best practices in natural capital measurement and accounting in India.

7. Support the growth of the carbon offset market

Developed correctly, the carbon offset market has the potential to increase capital flows towards nature-positive outcomes at large scale and should be encouraged. Currently offsets, generated through emission reductions such as planting trees, trade in a voluntary market, often on a project-by-project basis.

From $0.6bn by the most recent estimates, the voluntary carbon market could be scaled up to reach $50 billion by 2030 and $200 billion by 2050, depending on the prices achieved, by creating more transparent, liquid and standardised contracts as the Taskforce on Scaling Voluntary Carbon Markets (TSVCM) is developing.

To ensure any scaling up of the voluntary carbon markets has a positive impact on biodiversity, it would be beneficial if biodiversity were priced as a co-benefit within a carbon offsetting project.

In January the TSVCM issued a report highlighting the core principles for a voluntary carbon market and roadmap for scaling. Within the report, recommendations for natural climate solutions were given detailing avoidance of harm to nature and the use of nature within carbon sequestration.

For co-benefits, the Taskforce encourages recognition and further development of existing programs such as: the Blue Carbon Initiative for marine-based co-benefits; and Gold Standard's Black Carbon Quantification Methodology for co-benefits of addressing pollutants; the Verra's Sustainable Development Verified Impact Standard (SD Vista) and Gold Standard for the Global Goals for SDG outcomes; and Verra's Climate, Community & Biodiversity (CCB) Standards for benefits to community and biodiversity.

One way financial institutions can support the development of the voluntary carbon market is through assessing their own carbon offset programmes for impact on biodiversity.

Shared Learning and Upskilling

Shared Learning and Upskilling

8. Reduce initiative fatigue/improve collaboration

One takeaway from the development of climate finance is that multiple initiatives can become a resource drain on financial institutions and can have the counter-effect of slowing progress by promoting divergent messages. In the case of biodiversity there are several well-established initiatives already underway that institutions can join. In addition to practical frameworks and partnerships mentioned in Recommendation 1, there is the chance for shared learning within the Natural Capital Investment Alliance, and shared public commitment with the Finance for Biodiversity Pledge.

Greater collaboration between all biodiversity finance initiatives is welcomed, particularly in the lead up to both COP15 and COP26.

Given the local nature of biodiversity-related issues and their solutions, it is vital that global financial institutions also collaborate with local banks. Local banks play an instrumental role in supporting sustainable supply chains and providing loans to nature-dependent businesses. Their needs must be considered lest large banks curb nature-negative lending only for smaller banks to seize an opportunity to step in to fill the gap.

Moving beyond collaboration between global and local financial institutions, there is also a much-needed role at country level for networks for shared learning and best practices, particularly in countries where domestic environmental regulation is weak or risk of biodiversity loss severe. For example, domestic NbS networking and knowledge hubs that connect businesses, project developers, advisors, and policymakers with the finance sector.

9. Embed nature into climate principles/ stakeholder groups/alliances

Financial institutions recommend that net zero groups and climate finance alliances include nature within their remit to reflect the understanding that we are facing two interconnectedness crises (climate change and biodiversity loss) and to better facilitate solutions that work on both and help deliver resilience.

In connecting climate and biodiversity, it is useful to think about NbS as an umbrella concept that recognises all forms of solutions based in nature, encompassing not only Natural Climate Solutions but also Ecosystem-based Adaptation (EbA), Ecosystem-based Mitigation (EBM), Ecosystem-based Disaster Risk Reduction (Eco-DRR), and Nature-based Infrastructure or Green Infrastructure (GI).

10. Develop in-house expertise, awareness and motivation

Sustainable finance training within banks, asset managers and asset owners is limited and needs to be urgently increased. In addition to improving broad-based sustainable finance training across business lines, financial institutions should consider specific training on biodiversity risk and impact, as well as sharing emerging nature-based investment financing opportunities across teams.

Employment of nature specialists – ecologists, project developers – should also be considered to expand overall understanding and cross-pollinate learning.

To engage employees beyond training, financial institutions can also identify "Nature Champions" within leadership teams that can raise awareness and drive shifts in corporate culture.

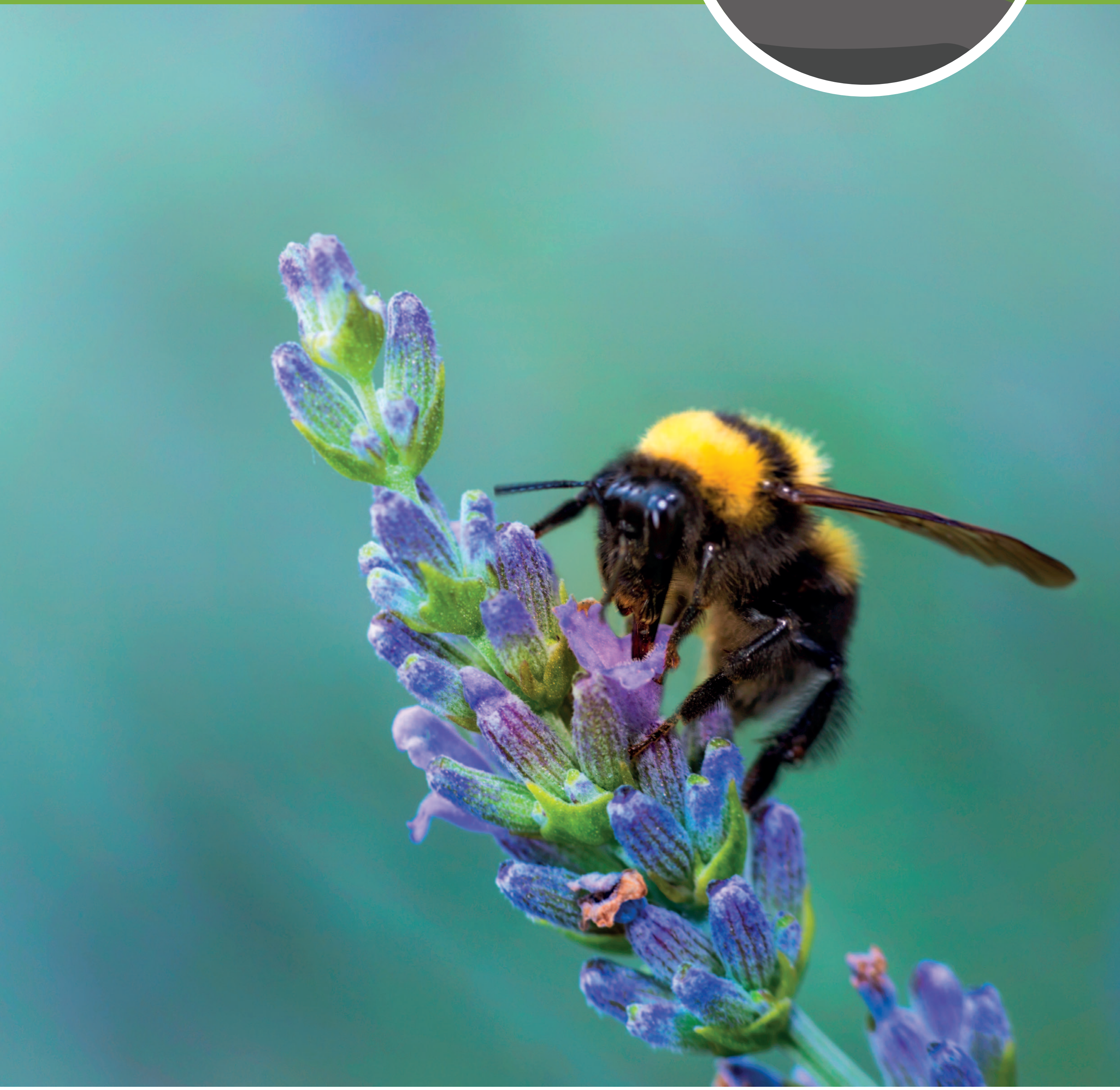
To drive cultural change, internal policies and performance metrics that provide incentives for the structuring, offering and use of financial products with positive impacts on nature could be incorporated.

RECOMMENDATIONS IN PRACTICE:

BNP Paribas' Biodiversity Training

BNP Paribas, for example, includes nature within its sustainability training for its 200,000 employees. For its top 500 management, natural capital specific training is provided and certification with the Cambridge Institute of Sustainable Leadership. At business, function and team level nature trainings are also offered.

Public Policy and Co-Funding Recommendations



Public Policy and Co-Funding

11. National biodiversity targets and baselines

As the Dasgupta Review observed, many of the processes that shape the natural world are "silent and invisible". As a result it is challenging to communicate both the use we make of ecosystem services and the economic activities which are adversely impacting nature. In order to catalyse action by the finance sector, public policy should address this barrier by setting actionable targets which provide clear direction and ambition for business and finance. This should start with the Convention on Biological Diversity adopting clear actionable high-level goal, such as the 'halt and reverse nature loss by 2030' proposed by Business For Nature, as well an objective of making all financial flows consistent with that goal (c.f. Article 2.1(c) of the Paris Agreement).

Such a framework would not only send a strong signal to any business whose activities contributed to nature loss, but it could also be translated into national biodiversity action plans focussed on the key drivers of biodiversity loss in each country. In order to track their achievement, national plans would need to be supported by the development of national and, in some cases, regional baselines and biodiversity finance gap assessments to assist governments in understanding where private finance will be needed and also where policy changes would be useful.

For the finance sector, such a package of national goals and baselines, supported by financing plans and ideally policy roadmaps for key sector, would allow investors to quantify the nature-related transition risks of those companies contributing to nature loss and give financial institutions the confidence and encouragement to request information from clients around nature-related risk exposure.

At the same time, establishing national targets, sectoral roadmaps and baselines will enable financial institutions to understand where opportunities lie in terms of investments helping to focus fund flows, and to determine how best to partner with public sector finance. Having agreed-upon targets and baselines would also better enable the development of standards and impact metrics that in turn could support the growth of nature-related financial products such as loans for positive nature outcomes, sustainability-linked loans with biodiversity KPIs, or discount rate loans to finance land-use transition.

Assessments of baselines, targets and finance gaps are currently carried out by the United Nations Development Programme's (UNDP) Biodiversity Finance Initiative (BIOFIN) in 40 countries to date, including Mexico, South Africa, India and China, with Ireland being an early adopter in Europe. The assessments follow a three- step process: measuring at national level expenditure levels (public and private), costing national biodiversity goals, and crafting national financing strategies with the most promising financing options to fill the gap (including understanding where subsidies may be negatively impacting a nature-positive strategy).

RECOMMENDATIONS IN PRACTICE:

BIOFIN's Biodiversity Finance Plans
National level implementation of Biodiversity Finance Plans is at various stages in the 40 countries participating in BIOFIN. Several teams successfully moved biodiversity finance to the forefront of national policy and fiscal agendas:

- In the Philippines, BIOFIN helped fill a gap in protected area legislation (2018) and supported the formulation of a US$43 million budget proposal for protected areas, adopted late 2019 for the 2020-2 budget. A new app 'GCash Forest' was launched with payment platform GCash/Alipay, combining incentives for sustainable behaviour with payments for tree planting, resulting in over 100,000 trees planted.
- New legislation was formally adopted on multiple finance solutions in Kazakhstan in 2017 and a new Environmental Code followed in 2021, including a host of initiatives that will help protect and restore the country's nature: biodiversity offsets, voluntary payments for ecosystem services, principles of sustainable ecotourism, and the development of methods and approvals for calculating greenhouse gas emissions, including in the forestry sector.
- In Georgia, the Environment Ministry saw a budget increase for biodiversity conservation from US$30,000 to US$270,000 after making a better investment case in 2019. Since then the budget allocation was preserved providing a total of US$420,000 additional generated resources for biodiversity finance.
- In Guatemala five coastal municipalities increased the funds available for coastal and marine biodiversity conservation and management by over 50% from 2018 to 2019 using results-based budgeting (over US$ 1 million in total).
- Mexico successfully re-designed two major environmental funds: (1) a national climate fund (previously not operational and not focusing on biodiversity) that since saw a turnover exceeding US$ 3 Million, with US$ 2 million directed to nature-based solutions for ecosystem resilience, and; (2) a green fund of Mexico City, resulting in a saving of US$ 3 million per year through efficiencies identified by BIOFIN and a more articulated focus on biodiversity.
- Sri Lanka adopted a sustainable finance sector policy and sustainable tourism certification in 2019. Sri Lanka and Cuba are implementing Payments for Ecosystem Services for the first time.
- Zambia enacted a national framework for green bonds early 2020.
- The Seychelles parliament formally adopted all of the finance solutions and launched the first ever Biodiversity Finance Unit in 2019.
- Belize started a Biodiversity Unit in April 2020.
- Kyrgyzstan became the first country to set an official reform agenda to revisit agriculture subsidies with a negative impact on biodiversity.
- Indonesia secured a US$ 2.7 million investment for a bird conservation centre in the Maluku Islands from Sukuk finance (type of Islamic bond).
- Finally, Ireland became the first West-European country to implement part of the BIOFIN methodology, completing the Biodiversity Expenditure Review and Policy and Institutional Review.

12. Use of public sector and philanthropic capital to crowd in private sector finance

Nature-based Solutions and projects have the potential to provide returns or repayment. They are, however, often unproven, small in scale, hard to replicate, and both challenging and costly to source and design.

As with any emergent market, there is a need for nature-based demonstrators to test and assess the possibility of creating desired environmental outcomes with simultaneous revenue streams that fit the needs of the finance community. Such trialing helps the market development of data sets for KPIs as well as standards.

Government or philanthropic capital can act as a catalyst in providing technical assistance or derisking more mature but still untested projects.

There are attempts by governments to develop the pipeline and crowd in private finance such as the UK Government's Natural Environment Investment Readiness Fund, or the EIB's Natural Capital Finance Facility, as well as green banks' investments in NbS, or acting as first or last buyer of environmental credits to provide market support.

There are also several blended finance structures or public/private finance collaborative ventures such as the Tropical Landscape Finance Facility, Agri3 Fund, Land Degradation Neutrality Fund and the creative use of philanthropic capital in New Forests' TAFF2 fund.

It would be beneficial to share learnings and build stakeholder collaboration and confidence through national knowledge and networking hubs. There already exist some global examples of knowledge hubs specific to financing conservation projects such as the Coalition for Private Investment in Conservation and the Conservation Finance Alliance.

In addition to providing technical assistance or concessionary capital, there are also other ways to encourage investment in nature-based solutions. For example, ensuring traditional engineering solutions (in infrastructure in particular) incorporate costing for nature-based solutions in addition to grey infrastructure may result in greater uptake. Indeed, there are many changes to policy or regulation at national or regional (State) levels that could serve to support greater ability of the private sector to use nature-based solutions as part of sound business practice.

RECOMMENDATIONS IN PRACTICE:

Nature+ Accelerator

IUCN, GEF and Mirova, with support from the Coalition for Private Investment in Conservation (CPIC), launched the Nature+ Accelerator Fund in November 2020. The fund is currently open to investors with the expected first close in 2021 Q2. It is aiming to fund a portfolio of 70 nature-positive investment deals, under different financing windows (seed, early venture and venture) and is addressing a current acute gap on the market – a lack of investable project pipeline – by seeding and accelerating smaller investment deals to a more attractive investment size.

An initial $8 million of risk-tolerant concessional financing is provided by the Global Environment Facility (GEF) as an anchor investor. From there the Fund is aiming to attract additional junior and senior equity to the fund of $42M and grow a total of $200 million of investment pipeline made of transformational and scalable investment projects with significant positive outcomes for nature and society.

The project pipeline will be sourced through an open application process and direct sourcing from project developer, and from the CPIC network. The fund will be piloting the use of IUCN's STAR metric and IUCN Global NbS Standards on the investment portfolio.

RECOMMENDATION IN PRACTICE:

Partnerships for Forests: Supporting Growth
Recognising that public funding and government regulations alone will not be sufficient, Partnerships for Forests (P4F) is working to unlock more private finance that protects forests, restores landscapes and transforms food and land-use systems in a way that delivers economic returns for businesses and communities.

So far P4F has mobilized almost £245 million in private investment. This has been leveraged at a rate of £4 private investment to £1 public investment.

One example of a medium-scale investment is Komaza which works to unlock the potential of small-scale farmers to solve Africa's wood supply crisis. Based in Kenya, Komaza provides farmers with support across the forestry value chain, from seedlings to sawmills. P4F grant finance has helped prepare Komaza for growth. In particular, financial support was used to undertake key strategy planning, research and development, including; Eastern Africa expansion analysis, developing operational management procedures and standard operating practices to ensure consistent, high quality scaling and replication, supporting forestry R&D for smallholder farmers and helping to build scalable technology & data systems.

Komaza closed $28m Series B equity round in July 2020 and are in discussions to secure additional investment to support their growth and address the African wood supply crisis and regenerate degraded land.

At a larger scale, P4F provided grant finance and technical support to Royal Lestari Utama (RLU) to deliver a community partnership programme to help address community engagement and operational risks. RLU works towards the climate smart, wildlife friendly, socially inclusive production of natural rubber in Indonesia and is a joint venture between Barito Pacific Group (Indonesia) and Michelin Group (France).

In 2018, RLU successfully secured a $95m Sustainability Bond, the first in Asia, from the Tropical Landscapes Finance Facility (TLFF). Since then additional capital injections have been made by the partners to expand operations. P4F's risk mitigation combined with first loss financing from USAid were critical in delivering the successful bond issuance.

AGRI3 Fund: Loans for Sustainable Farming
The transition to a more sustainable agricultural system that can meet future demand and promote economic development without exacerbating environmental degradation is an urgent priority. Such a large-scale transformation, however, will require significant amounts of financing.

The AGRI3 Fund aims to mobilise $1 billion of financing by providing credit enhancement tools and technical assistance to enable a transition to more sustainable practices in agricultural value chains and avert deforestation. The Fund was born out of a partnership between UN Environment and Rabobank, who came together in 2017. The partnership has since expanded to include the Dutch development bank (FMO) and IDH The Sustainable Trade Initiative.

The Fund provides guarantees to commercial banks and other financial institutions, and subordinated loans to customers of these institutions, known as 'partner-banks', to mobilise financing by de-risking and catalysing transactions that actively prevent deforestation; stimulate reforestation; contribute to efficient sustainable agricultural production; and improve rural livelihoods.

A Technical Assistance facility has also been established to accelerate the development of investable opportunities and maximise their impacts.

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