COP15 MONTREAL | BIODIVERSITY

NATURE AND DEVELOPMENT BRIEF

Scaling Up Finance for Nature

WORLD BANK GROUP

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Humanity is entirely dependent on nature for survival, wellbeing, and economic prosperity. Investing in nature is critical not only for maintaining biodiversity and a stable climate, but also for reducing poverty and inequality, and maintaining the critical ecosystems that support livelihoods. The World Bank Group (WBG) has invested in natural capital for decades and is supporting people and communities to promote sustainable and resilient growth.

This Brief is one of a series exploring strategic areas for achieving impact at scale as countries implement the new global targets, once adopted, by investing in nature for green, resilient, and inclusive development; integrating action on nature loss and climate change; and scaling up finance for nature. It highlights the critical role of finance in achieving nature goals, and outlines the diverse ways in which the WBG is working with governments, financial institutions, and other key international partners to unlock investment from all sources.

KEY MESSAGES

- Nature underpins economies in tangible, measurable ways, and its rapid loss carries huge costs for governments, economic sectors, and communities.

- More public and private finance – an estimated annual investment of $700 billion over the next decade - is needed to reverse nature loss. Only one fifth of this amount is currently invested in biodiversity conservation globally (US$120-140 billion/year).

- Scaling up financing will require more direct investment in natural capital – 'financing green' and efforts to reduce financial flows (such as agricultural subsidies) that are harmful to nature – 'greening finance'. Policy reform and better data are also key to unlocking more finance.

- The World Bank Group is a leading multilateral financier of nature, deploying an unparalleled range of blended finance solutions, innovative financial instruments, and technical assistance that help create the enabling conditions for scaling of public and private investment in nature, and broader integration of nature into investment decision-making.

1. THE CHALLENGE

Nature loss carries material risks for governments, economic sectors, and local communities. Biodiversity loss is now ranked among the top three most severe risks over a 10-year horizon by governments and business leaders.[1] An estimated half the world's global value-added, or US$44 trillion annually, is generated in sectors that are highly or moderately dependent on ecosystem services[2]. For these sectors and their investors, nature loss is material[3], affecting their performance and financial position. Governments, including central banks and ministries of finance, are also exposed, as nature-related risks carry implications for fiscal and financial stability. At the local level, communities are at risk too, as they rely on nature for food, shelter, and livelihoods.

Nature represents an untapped investment opportunity. Investments in nature-based solutions, such as green infrastructure solutions, can simultaneously deliver financial benefits alongside climate, biodiversity, and broader development benefits. Three socioeconomic systems drive much of biodiversity and ecosystem services loss globally[4] – food, land use, and ocean use; infrastructure and the built environment; and energy and extractives. Shifting these to sustainable practices could deliver US$10.1 trillion in annual business opportunities and 395 million new jobs by 2030.[5]

A significant increase in financing from public and private sectors is needed to reverse nature's decline. Based on an assessment of financial resources needed to successfully implement the post-2020 global biodiversity framework[6], annual financing needs over the coming decade are estimated at least US$700 billion. The world currently spends only US$120-140 billion on biodiversity conservation[7], much of it in the form of domestic public spending, with limited private sector investment. Moving forward, private finance will play a critical role in closing this gap.

Much of broader finance continues to be harmful to nature, overshadowing current investments in nature. Governments alone spend 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.[8] The total volume of finance that undermines biodiversity goals is likely to be many times larger. A significant portion of the nature financing gap could be filled by repurposing such harmful subsidies.[9]

Nature loss is the result of an array of socioeconomic drivers, such as policy, market, and valuation failures, which are driving unsustainable production and consumption patterns. Governments lack fiscal space to sufficiently finance actions to halt nature loss and avoid its severe negative impacts. Natural capital assets, such as forests and water, tend to be public goods that are free and accessible to all. Maintaining them requires economic incentives, appropriate regulation, and enforcement, as well as financial instruments to channel nature-positive private finance. Shifting to sustainable production practices and nature-based solutions over conventional practices is not always economically viable. Many natural capital assets do not currently generate positive cashflows and financial returns because of underpricing and mismanagement, and this limits private sector investment. Knowledge, data, and decision-support tools are lacking for systematic incorporation of nature-related risks and opportunities into the investment decisions of governments, financial institutions, and companies. Most countries lack a robust pipeline of bankable and scalable projects that conserve nature.

2. WHAT IS NEEDED

Finance from all sources needs to be scaled up to address the nature crisis and support countries and industries in the transition to sustainable practices. Domestic and international public finance, as well as philanthropic finance, remain essential contributors to nature finance globally. However, these sources alone will not be sufficient to fill the financing gap and enable implementation of the proposed post-2020 global biodiversity framework; going forward, private investment will play a pivotal role. Shifting finance – both public and private – towards sustainable economic activity calls for a holistic approach. This involves two types of activity: (i) scaling up direct investment in the conservation and restoration of nature, or '*financing green;*' and (ii) reducing the financial flows that are harmful to nature – '*greening finance*'. Implementing this shift requires concerted action by governments, the financial sector, corporates, and development partners (Figure 1).

GOVERNMENTS	PRIVATE SECTOR	DEVELOPMENT PARTNERS
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	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**	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

Figure 1. Key actions to unlock finance for nature by stakeholder group

- ***Financing Green*** unlocks investments in projects and programs that contribute to conservation, restoration, and the sustainable use of green and blue biodiversity and ecosystem services. There are opportunities to use concessional finance to de-risk and scale private investment and pilot financial solutions, such as fixed income products linked to forestry, non-timber forest products, wildlife, and fishing, which can channel financing from the capital markets. There are also opportunities to use domestic public finance more efficiently, for example through investments in nature-based solutions that generate nature co-benefits while meeting other development objectives.

- ***Greening Finance*** directs financial flows away from projects and programs that negatively impact green and blue biodiversity and ecosystem services, toward investments that mitigate negative impacts or deliver positive environmental co-benefits. This approach aims to mobilize funds by driving better risk management. Examples include incorporating nature-related risks into investment decisions, financing projects that reduce pollution, or repurposing biodiversity harmful incentives.

3. HOW IS THE WBG CONTRIBUTING TO SOLUTIONS?

The WBG is one of the leading financiers of nature globally. For over three decades, the World Bank has supported public and private investments in conservation and the sustainable management of natural resources globally through grants, loans, and blended finance. This support has focused on critical national and global natural assets, such as the Amazon and Congo rainforests, and on creating the enabling environment – through incentives and financing mechanisms – to attract public and private finance, and to create local economic opportunities linked to nature. Development policy lending is also helping bring green fiscal reform and other policies that support sector-wide green transformations into broader budgetary support and economic policy dialogue in client countries. Together, the World Bank, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA) develop innovative, integrated financing solutions that help clients address development challenges and unlock direct investment into natural capital. The WBG is working with clients and partners to integrate nature-related risks and opportunities into financial decisions to enhance alignment with Sustainable Development Goals (SDGs). Figure 2 outlines these key areas of support.

Figure 2: World Bank Group's contributions to scaling up finance for nature

WBG PROMOTES INTEGRATION OF NATURE CONSIDERATIONS INTO FINANCIAL MARKETS THROUGH:

Development and dissemination of sustainability data, green finance taxonomies, and analytics to support integration of nature into investment decisions, financial regulations, and risk assessments to align financial flows with the SDGs

Provision of technical assistance to central banks, ministries of finance, financial regulators, and supervisors to assess risks and develop roadmaps for greening the financial sector

Convening stakeholders and ensuring nature is integrated, with climate change, into the work programs of green finance networks

WBG INVESTS IN AND CATALYZES INVESTMENT IN NATURE AND ITS SUSTAINABLE USE IN CLIENT COUNTRIES THROUGH:

Loans and grants for conservation and restoration of natural capital assets, such as forests, coasts, fisheries, and watersheds

Financing establishment of sustainable value chains (e.g., timber, coffee), addressing cross-sectoral drivers of nature loss and the integration of nature-based solutions that harness ecosystem services into planning and infrastructure

Building a pipeline of nature-based projects, through advisory work, project design, and co-financing (e.g., via blended finance, guarantees, and equity)

Developing new financial instruments - pioneered thematic bonds, including green, blue, Sukuk, and wildlife conservation bonds connecting capital markets with projects

WBG SUPPORTS CREATION OF ENABLING CONDITIONS FOR INVESTMENT IN NATURE AT SCALE THROUGH:

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

3.1. FINANCING GREEN

Investing in and catalyzing investment for nature and its sustainable use

World Bank concessional finance provides a lifeline for countries conserving globally-significant natural ecosystems. Concessional lending from the International Development Association (IDA) serves the poorest countries and provides crucial funding for high-impact conservation, including for expansion of protected areas and enhancing their effectiveness across key biodiversity hotspots.

As a core implementing agency for the Global Environmental Facility (GEF), the World Bank also helps clients access GEF grant and non-grant resources and often integrates these projects into larger operations that work across economic sectors. The GEF-funded, World Bank-led Amazon Sustainable Landscapes (ASL) program implements the Project Finance for Permanence approach, securing the policy changes and funding necessary to meet long-term conservation goals in the Amazon basin. In **Brazil**, the ASL program supports 120 protected areas covering 62 million hectares in total. It has secured US$230 million from various donors in a 25-year fund to overcome the challenge of limited in-country funding tied to short- or medium-term projects.

Multi-donor grant resources and concessional funds are also raised strategically to blend, de-risk, and pilot new financing financial instruments that attract private and institutional investors. The World Bank's Global Partnership for Sustainable and Resilient Landscapes (PROGREEN), the World Bank's Blue Economy Program (PROBLUE), and the Global Program for Sustainability (GPS) umbrella trust funds represent nearly US$500 million of grant resources. These funds are committed to accelerating and scaling up integrated landscape and seascape programs at country level, through foundational analytics and tools; to helping build a pipeline of projects; and ultimately to providing catalytic financing to attract cross-sectoral investments, including from the private sector. In **Ghana**, the World Bank's large multisectoral project blends an IDA credit of US$75 million with US$28.4 million in grants from the GEF, PROGREEN, and other trust funds to strengthen integrated landscape management through interventions in agriculture, forest, and small-scale mining, across three million hectares of land in the savannah and cocoa forest landscapes. This blended approach supports an integrated and holistic set of investments that secure both development and global environmental benefits. **Mozambique** is another example, where blended finance is used to pilot models that attract private finance (Box 1).

BOX 1. PILOTING PUBLIC-PRIVATE PARTNERSHIPS (PPPs) TO SCALE UP INVESTMENT IN NATURE

Mozambique has leveraged a portfolio of financial solutions to increase investments in nature action. The two-phase World Bank Mozambique Conservation Areas for Biodiversity and Development (MozBio Phase I and II) IDA project[10] supported five co-management agreements between the government and nonprofits, as well as private organizations, to manage five conservation areas and to finance anti-poaching activities. The PPP structure blends private investments in commercial nature-based activities with public and philanthropic investments in conservation, totaling a combined US$200 million. The model is being replicated across the country to attract investment in rural areas, develop the tourism sector, and conserve nature. The Sustenta Bio Matching Grant mechanism piloted by MozBio Phase II is also supporting the establishment of 108 small and medium-size nature-friendly businesses in conservation area buffer zones. The matching grant mechanism has mobilized about US$2 million of private finance from the supported businesses, benefitting around 4000 individuals.

The World Bank mobilizes capital markets to scale up sustainable development investments. The International Bank for Reconstruction and Development (IBRD) is an important source of financing, raising 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 IBRD member countries and contribute to the SDGs. While proceeds are not earmarked, by virtue of supporting the IBRD portfolio they support investments in nature in countries such as Argentina, Mexico, and Tunisia. Since 2018, IDA has also raised funds in the capital markets to supplement funds provided by donors, scaling up concessional financing available to the poorest countries.

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 issued the world's first labeled green bond in 2008, sparking a focus on sustainable investment in the capital markets; its success has inspired the creation of other thematic bonds, such as blue bonds, the green sukuk, and sustainable development bonds. In 2018, the World Bank supported the Republic of Seychelles with the issuance of the world's first sovereign blue bond 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 from the GEF. Earlier this year, the World Bank issued a first-of-its-kind, outcome-based US$150 million Wildlife Conservation Bond (WCB), mobilizing private sector financing to support wildlife conservation in South Africa (Box 2). World Bank technical assistance[11] has also facilitated the issuance of a green sukuk in Malaysia, and the first sovereign green bonds in Fiji, Nigeria, Egypt, and Colombia.

BOX 2. WILDLIFE CONSERVATION BOND (WCB)

This five-year US$150 million outcome bond, issued by the World Bank, will contribute to protecting and increasing black rhino populations in two protected areas in **South Africa**. The World Bank structured and issued a market-based financial instrument that blends private capital and funding from the GEF into a structured bond to generate funding for the WCB operation. In a sector that has historically been dominated by donors and philanthropic investors, this creates an opportunity for private investment in conservation to which South African parks would otherwise not have access. The WCB is a first-of-its kind bond for the conservation of a species, linking the investment return under a bond issuance to conservation performance. Investors accept project outcome risk in return for a potential payout if the project is successful, therefore transferring project risk from a donor to private investors. An advanced conservation monitoring and verification system is in place to track the key performance indicator. The WCB can be replicated to generate additional investments for other species and ecosystem services, such as provision of water or disaster risk reduction through green infrastructure.

Meanwhile, the sustainability-linked loan market, which the WBG supports, is also growing rapidly. For example, the IFC arranged a landmark US$300 million financing package for the first-ever blue loan to a global plastic resin manufacturer, led investments towards the blue economy in partnership with the Financial Institution clients in **China** (a US$200 million blue loan), **Philippines** (the first Blue Bond issuance in the country and one of the first in Asia), and a US$100 million senior loan for First Rand in **South Africa**.

WBG investments are also strengthening the nature-climate nexus by leveraging climate finance. Nature-based solutions and the sustainable management of ecosystems are embedded into the WBG Climate Change Action Plan (2021-2025) commitments, recognizing their role in climate change mitigation and adaptation. Synergies between investments in nature and climate action are significant (see brief *Integrating Nature and Climate Action*) and create opportunities for countries to invest in nature though carbon markets, corporate Paris-aligned commitments, and net-zero pledges. Global carbon pricing revenue in 2021 increased by almost 60 percent from 2020 levels, to around US$84 billion, and this could channel more finance into nature.[12]

Opportunities also exist in biodiversity credits and natural asset companies that can tap into voluntary carbon markets.

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 10 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.[13] In 2021, **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 equivalent under the Zambézia Integrated Landscape Management Program. FCPF is expected to pay up to US$50 million for 10 million tons of carbon emissions reductions that the program should generate through 2024. Another example is IFC's Forest Bond that 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. The World Bank is capitalizing a new multi-donor trust fund, Scaling Climate Action by Lowering Emissions (SCALE), to create a "one-stop shop" that brings together all results-based climate financing programs housed at the World Bank and increase the amount of funding available to countries.

The World Bank supports innovation in climate risk insurance markets and helps channel climate adaptation finance into sectors that depend on nature. The World Bank's Unleashing the Blue Economy of the Caribbean Project in **Grenada**, **Saint Lucia**, and **Saint Vincent and the Grenadines** is rapidly scaling up the world's first parametric climate risk insurance for the fisheries sector, piloted by the World Bank, the US State Department, and the Caribbean Catastrophe Risk Insurance Facility (CCRIF) Segregated Portfolio Company in 2019.[14] The unique insurance product provides fishers with immediate economic relief in of the event of adverse weather and/or direct damages caused by tropical cyclones to fisheries assets. This ensures greater food security and more resilient livelihoods – which are entirely dependent on coastal and marine natural capital – as well as reducing the risk of overexploitation. Such work is underpinned by World Bank's analytics, including on the role of insurers in natural capital management.

MIGA's guarantees are also helping scale up climate- and nature-related investments in emerging markets. MIGA is supporting Financiera De Desarrollo Territorial (Findeter) – one of Colombia's leading national development banks, to enhance the availability of local lending focusing on climate mitigation and green economic recovery. The instrument targets renewable energy projects – notably hydro and solar, urban mobility, and wastewater treatment. One of the objectives is to demonstrate the financial viability of green investments, encouraging domestic commercial banks to invest more in climate mitigation and adaptation projects, including those supporting nature, such as the development of green spaces in urban areas.

3.2. ENABLING ENVIRONMENT FOR INVESTMENTS IN NATURE

Project financing and financial innovation alone are not sufficient to mobilize finance at scale: enabling conditions are also needed to accelerate sector-wide transformations and crowd in private finance. Until multisector policies are aligned with the SDGs and economic incentives are redirected for positive rather than negative impact, markets will not efficiently distribute risks and allocate resources. Policy reform is critical to tip the balance in favor of sustainable practices, such as regenerative agriculture, and make them viable investments.

Development Policy Financing (DPF) supports green fiscal reform and other policies that incentivize shifts to sustainable practices in client countries. This World Bank instrument is designed to support government budgets, using priority government policy actions as prerequisites for the funds. For example, in **Brazil**, the US$200 million First Amazonas Fiscal and Environmental Sustainability Programmatic DPF has strengthened fiscal discipline in the state of Amazonas while also promoting an integrated approach to forest conservation and development, to help improve its recovery after COVID-19. The operation supported the adoption of the state's action plan to combat deforestation, and strengthened legislation for forest concessions and the state's fiscal and financing framework of a pioneer program for payment of environmental services to poor communities. This paved the way for the creation of local carbon credit markets.

Technical Assistance is also tailored to help countries identify strategic investments in natural capital, implement enabling sector policies, build institutional capacity, and develop mechanisms that channel finance to enterprises and local communities to improve landscape and seascape management. One key area of support is the establishment of markets for environmental services (Box 3), to help local actors monetize nature's services. Another is the removal of regulatory barriers to sustainable value chains, such as limited access to finance or insecure land tenure.

BOX 3. HARNESSING ENVIRONMENTAL MARKETS

The World Bank has helped a dozen countries in Latin America and the Caribbean, as well as a growing number of countries in other regions, to implement, evaluate, and improve payment for ecosystem services (PES) programs spanning different geographic scales, ecosystems, and sources of financing. Notable examples of this support include:

- **Mexico**, where the World Bank has supported 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 an effort to diversify the range of sources of financing, the World Bank's project has also contributed to the development of a sub-program, Fondos Concurrentes, which has pooled in funding for forest conservation from municipal governments, state governments, civil society, and water utilities, matching the federal budget and therefore scaling up the PES scheme.

- **Costa Rica**, where a user-financed PES mechanism supported by a water tariff and a fuel tax has mobilized more than US$500 million[15] in payments from public and private hydroelectric power utilities, households, agroindustry, hotels, and the food and beverage sector to conserve forest ecosystems and combats land degradation on more than 1.3 million hectares under PES contracts. 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.

3.3. GREENING FINANCE

The World Bank Group is supporting integration of nature considerations into financial decision-making, alongside climate change, to help align broader financial flows with the SDGs. Since the financial sector invests in companies that rely on ecosystem services and may facilitate the degradation of nature, financial institutions have an indirect (but significant) exposure to nature-related risks.[16] For example, the Dutch Central Bank found that Dutch financial institutions worldwide have €510 billion in exposure to companies with high or very high dependency on one or more ecosystem service.[17] Another assessment shows that 70 percent of corporate bonds held by the European Central Bank may be associated with high or very high negative impacts on nature.[18] With growing pressures from investors to have their assets allocated to support environmental, social and governance (ESG) considerations, financial institutions and companies are starting to take action to identify and better manage such risks. The WBG is facilitating this by providing sustainability data, tools, and taxonomies; technical assistance to governments; and support to coalitions of stakeholders.

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 is a case in point; the forthcoming edition of the portal, which 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.[19]

A recent assessment showed that 90 percent of sovereign ESG scores available to investors could be explained by a country's national income,[20] which may be diverting investments away from lower-income countries that need this financing the most. This complements World Bank's efforts to provide data and analysis on macro risks, debt sustainability, and financial sector assessments (the latter conducted jointly with the International Monetary Fund (IMF)). The World Bank is also supporting the development of key performance indicators for sovereigns[21] to facilitate the creation of sustainability-linked and performance-based sovereign financial products, helping scale up sovereign financing for nature. Underpinning these is the 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

Research and technical assistance are also paving the way for a new generation of stress-testing and economic policy. 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.[22] Malaysia has joined the Nature Task Force of the Network for Greening the Financial System, made up of 114 central banks and financial supervisors, and has recently started examining the financial materiality of nature-related risks. 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.[23] The end goal of these is to shed light on the importance of nature to financial and economic stability and prosperity, and prompt scenario development that looks not only at climate, but also at nature-related risks, informing policy and strategic public investments.

Development of sustainable finance taxonomies and standards

Nature-risk disclosure frameworks and sustainable finance taxonomies are another important area of World Bank support that can inform financial decisions in the public and private sectors. The World Bank is promoting the adoption of green Public Finance Management frameworks, which cover green spending reviews and public budget tagging. To help galvanize sustainable investment in the private sector, the WBG has actively supported the establishment of the Taskforce on Nature-related Disclosures (TNFD), tasked with developing a framework for nature-related financial disclosure. In response to market demand for guidance on project eligibility criteria, including for blue issuances and lending, the IFC has developed a taxonomy of biodiversity-relevant investment, and published Guidelines for Blue Finance and the Biodiversity Finance Reference Guide. These classification tools help companies operating in emerging markets better identify investment eligible 'blue' and 'green' projects that constitute nature finance in line with the Green Bond Principles and Green Loan Principles. The WBG has also supported development of green taxonomies in **Bangladesh**, **Colombia**, **Indonesia**, **Mongolia**, and **South Africa**.

The IFC's Performance Standards on Environmental and Social Sustainability are globally recognized as good practice in managing environmental and social risk in private investment in emerging markets. IFC's performance standards are the backbone of the Equator Principles, adopted by 105 financial institutions in 38 countries, as well as the Organization for Economic Cooperation and Development export credit agencies. The Equator Principles embed sustainable finance in the practices of local financial institutions, including approaches to assessing and managing biodiversity risks. They provide an entry point for the development of appropriate tools and financial decision-making frameworks.

Harnessing Coalitions of Economic and Financial Policy Makers

To mainstream enhanced risk management, the WBG is supporting multi-stakeholder coalitions, such as the Coalition of Finance Ministers for Climate Action, and the Sustainable Banking Network. Their goal is to help standardize nature and biodiversity risk assessment in supervisory tools and approaches, and support regulators in adopting them. Since 2012, the IFC has spearheaded the Sustainable Banking Network[24] – a voluntary community of financial sector regulatory agencies and banking associations from 62 countries, accounting for US$43 trillion (86 percent) of emerging market banking assets. The Network promotes sustainable finance through improved ESG risk management in financial institutions and increased capital flows to sustainable activities. The World Bank also 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.

4. WHAT SUCCESS LOOKS LIKE

The financing needs for reversing the rapid decline of nature globally are immense. These are some of the markers of a successful approach to closing the financing gap:

- **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. This also means incorporating nature-related risk management into financial decision-making and aligning broader financial flows with nature goals.

- **Nature finance transitions away from reliance on small-scale siloed grants** and 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.

A whole-of-economy approach is needed for countries to value natural assets and invest resources for the long term. Knowledge products, tools, technical assistance, and financing can help client countries implement policy reforms and investment programs that shift the balance from an overreliance on limited government budgets and grants to finance nature, towards a longer term and holistic approach that secures natural assets and unlocks their value to attract domestic and foreign private capital. This will leverage the momentum in the private sector, where corporates and investors are starting to pay more attention to the ESG aspects of their investment decisions. The following action areas can help achieve this:

- **Global and national level coordination** for efficient deployment of policy and financial instruments, including concessional finance from donors and private foundations.

- **Strengthening of knowledge sharing and capacity building platforms** for financial sector regulators and industry associations in client countries, to enhance the ability of decision-makers to integrate risks and opportunities associated with nature.

- **Development and adoption of standardized taxonomies, reporting and disclosure frameworks** to promote acceptance, broad adoption, and systematic use of new instruments that efficiently mobilize capital for direct nature investments in priority biodiversity hotspots, and for transitioning economic sectors to sustainable production practices.

- **A mix of policy, debt, and non-debt products** already available in the market can be deployed more widely to incentivize private sector participation, secure funds for nature action, and test new instruments, including performance-based instruments and capital markets products tailored to domestic and foreign markets.

ENDNOTES

1 WEF (World Economic Forum). *Global Risks Report 2022*. Geneva: WEF. 2022.

2 WEF (World Economic Forum). 2020. *Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy*. Geneva: WEF.

3 Materiality refers to the significance of a matter in relation to a set of financial or performance information. If a matter is material to the set of information, then it is likely to be of significance to a user of that information (OECD). Materiality is rarely determinable by a bare quantitative equation; rather, it requires an assessment of whether a reasonable investor would consider the information relevant to its decision whether or not to invest in a company. That assessment may require consideration of both quantitative and qualitative factors. (Commonwealth Climate and Law Initiative)

4 The World Economic Forum estimates that together with climate change, three socioeconomic systems – food, land use, and ocean use; infrastructure and the built environment; and energy and extractives – endanger 80 percent of threatened or near-threatened species (WEF 2020b).

5 World Economic Forum. *The Future of Nature and Business*. Geneva: WEF, 2020. http://www3.weforum.org/docs/WEF_The_Future_Of_Nature_And_Business_2020.pdf.

6 Convention of Biological Diversity. 2021. Estimation of Resources Needed for Implementing the Post-2020 Global Biodiversity Framework. CBD/SBI/3/5/Add.2/Rev.18 December 2021

7 Deutz, A.; G. M. Heal; R. Niu; E. Swanson; T. Townshend; L. Zhu; A. Delmar; A Meghji; S. A. Sethi; and J. Tobin-de la Puente. 2020. *Financing Nature: Closing the Global Biodiversity Financing Gap*. Chicago: The Paulson Institute, The Nature Conservancy, and the Cornell Atkinson Center for Sustainability, 2020.

8 OECD (Organization for Economic Co-operation and Development). Biodiversity, natural capital and the economy. *OECD Environment Policy Papers, No. 26*. Paris: OECD Publishing, 2021. https://doi.org/10.1787/1a1ae114-en.

9 Convention of Biological Diversity. 2021. *Estimation of Resources Needed for Implementing the Post-2020 Global Biodiversity Framework*. CBD/SBI/3/5/Add.2/Rev.18 December 2021

10 Mozambique Conservation Areas for Biodiversity and Development project page: https://projects.worldbank.org/en/projectsoperations/project-detail/P131965?lang=en

11 This area of the World Bank's technical assistance recognizes that sovereign issuers have the greatest opportunity to drive capital towards environmental- and sustainability-related priorities and public goods, implement national strategies and meet international commitments. The World Bank facilitates the issuance of these bonds by providing technical assistance to public sector issuers, helping them identify suitable financing options and eligible projects and issue well-designed transactions that meet international standards and investor expectations.

12 World Bank. 2022. Global carbon pricing generating record revenues but much potential remains untapped. Blog. May 24, 2022. Available at: https://blogs.worldbank.org/climatechange/global-carbon-pricing-generating-record-revenues-much-potential-remains-untapped

13 Forest Carbon Partnership. Accessed on September 20, 2022. Available at: https://www.forestcarbonpartnership.org/

14 The instrument was piloted under the World Bank's Caribbean Ocean and Aquaculture Sustainability FaciliTy (COAST) project.

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17 van Toor, J., D. Piljic, G. Schellekens, M. van Oorschot, and M. Kok. *Indebted to Nature: Exploring Biodiversity Risks for the Dutch Financial Sector*. Amsterdam, Netherlands: De Nederlandsche Bank, 2020.

18 Kedward, K., A. Buller; and J. Ryan-collins. 2021. "Quantitative easing and nature loss: Exploring nature-related financial risks and impacts in the European Central Bank's corporate bond portfolio". In IPP Policy Report. UCL Institute for Innovation and Public Purpose.

19 Verisk Maplecroft and FTSE Russell have published research and products specifically dedicated to address this bias.

20 Gratcheva, E.M.; E. Teal; and Dieter Wang. "Demystifying Sovereign ESG" EFI Insight-Finance. Washington, DC: World Bank, 2020.

21 Analytical work includes a recent World Bank report, *Striking the Right Note: Key Performance Indicators for Sovereign Sustainability-Linked Bonds*, presents a framework to bridge the gap between climate and nature-related KPIs sovereign investors would view as appropriately ambitious actions and what issuing countries see as achievable targets.

22 "World Bank; Bank Negara Malaysia (BNM). *An Exploration of Nature-Related Financial Risks in Malaysia*. World Bank, Washington, DC: World Bank, 2022. https://openknowledge.worldbank.org/handle/10986/37314 License: CC BY 3.0 IGO."

23 Calice, P.; F. Diaz Kalan; F. Miguel. *Nature-Related Financial Risks in Brazil*. Policy Research Working Paper;No. 9759. Washington, DC: World Bank, 2021. © World Bank. https://openknowledge.worldbank.org/handle/10986/36201 License: CC BY 3.0 IGO.

24 SBFN, which consists of 47 emerging country members (70 member institutions – financial sector regulators and industry associations) representing 86 percent banking assets in the emerging markets.

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