

K4D International Nature Learning Journey

Session 5: Increasing financial flows and the role of finance in sustaining nature

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Mirova is a private fund management company focusing on sustainable development. The company was created to have full expertise on SGDs, the Paris Agreement and other sustainability topics; to develop new funds to support companies that are developing solutions to meet these challenges; and encourage investors to allocate more resources in this area. Mirova adopt a collaborative approach to push forward the frontier of sustainable finance, and innovate to support the transformation of the economy. Over the last eight years we have developed a special expertise on nature – protecting natural capital and supporting NbS at scale.

Why does natural capital matter? We need more than renewable energy to meet the SDGs. Nature is an important perimeter in the climate equation. If we want to meet the Paris agreement targets, we need to address emissions from agriculture and other land use as well as energy and industry. These form a quarter of global emissions.

Carbon sinks are also an important element of balance needed to meet carbon neutrality by 2050. Land and natural capital suffer from over-exploitation and under-investment. Poor land management practices have led to the loss of more than 25% of the world's arable land in the last two decades. This has an impact on climate change adaptation and mitigation, food security, biodiversity loss, poverty, forced migration and social instability.

Land degradation neutrality (LDN) means decoupling development and growth from land degradation and natural capital depletion. This means from 2030 on we need to restore all degraded land and implement sustainable land management,

There has been a recent acceleration in the trend to better support nature. Positive market trends include public policies with nature at the heart, particularly in post Covid-19 recovery. We see a strong political momentum in the UK and other countries behind this, which has translated to a transformation of the economy, and we see large corporations committed to nature. Financial institutions have also increased commitments to nature, with awareness that nature degradation is a risk and restoration is an opportunity.

A vast ecosystem of actors and stakeholders support NbS. Many connections and partnerships are being created to help shape the sector and scale up activities, with many synergies and economies of scale. We can have better results by working together. There is a transformation of normal businesses, plus a new economy of talented entrepreneurs, that are developing businesses that are impactful and very ambitious. Ecological farming and other activities can become real investment opportunities.

The cashflow of a given farm can be significantly improved by activating value creation drivers. These include yield improvement through good agronomical practices. Responding to market demand for better quality can increase revenue. Environmental and social good practices mean farms can be eligible for certification such as Fairtrade, Rain Forest Alliance, etc.

This requires a horizontal approach with local integration and adopting a landscape approach, creating synergies with local communities, jobs, working in harmony with the local environment,

respecting water cycles and biodiversity. This needs to be well integrated with the vertical dimension, including the supply chain and to reach end consumers.

The LDN fund is a unique coalition of actors for nature, with public and private investors and NGOs. A blended finance structure leverages public money to attract private investors. There is a distributional waterfall where commercial capital (80% of fund) is repaid first and the concessional capital (20% of fund) are the 'first loss' shares, who would be the first to lose money. This can then attract more co-investment at project level. In parallel a technical assistance facility has been developed that is grant funded, to provide technical support to scale up the projects on the ground. These types of blended finance are more common now.

The latest impact report of the LDN Fund: https://www.mirova.com/sites/default/files/2021-07/LDN%20Report%202021_DEF.pdf

More details on the investment and decision making process:

<https://www.mirova.com/sites/default/files/2020-08/Guidance%20for%20project%20developers.pdf>

Further reading:

<https://www.paulsoninstitute.org/key-initiatives/financing-nature-report/>

https://wwf.panda.org/discover/our_focus/freshwater_practice/?364413/Blueprints-for-bankable-nature-solutions-to-help-tackle-nature-and-climate-crises

<https://www.idhsustainabletrade.com/news/insights-idn-fund/>

Neha Dutt, Greening Finance Policy lead, Defra: Case study on the Task Force for Nature-related Financial Disclosure (TNFD)

The TNFD is part of the greening finance strategy. It aims to mainstream nature related risks into the risk architecture of economy actors and financial institutions, so that it can pivot a broader theory of change towards a more nature positive economy.

Emissions don't just come from fossil fuels, but from agriculture also. There is a massive supporting role that nature can play in helping to meet our climate targets. The reasons why the Bank of England think climate change is important are the same for nature.

The financial repercussions of climate change are clear, because of the impact on enterprise value creation, the ability of businesses to remain open, and the overall impact on the stability of the financial system. Climate change is one important part of the puzzle to enable us to hit our climate related targets. It's a necessary but not sufficient condition alone to meet net zero/30 by 30/CBD targets.

Nature related risk is currently invisible in financial risk analysis, reporting and company valuations. Physical risks posed by nature are similar to those posed by climate change, and impact the physical ability of an institution to operate. Agriculture is a mainstay, but nature-related risks aren't just limited to agriculture and pollination. The pandemic has been perpetuated by systematic destruction of ecosystems. Stop future pandemics by investing in the health of our ecosystem. Transition risks can occur when moving towards a less polluting, greener economy, and include anything that triggers a massive revaluation in asset price.

The TNFD case study illustrates how nature can't remain invisible in finance risk and reporting. Its genesis began in WEF Davos in January 2019. At a G7 Environment Ministers' meeting in May 2019 the OECD & WWF/Axa reports were calling for a Taskforce on Nature-related Impact Disclosures. Framing our green finance strategy in the UK, with a commitment to work with international partners to catalyse a market-led coalition on mainstreaming and integrating nature-related financial risks and reporting. From 2020 to June 2021 were 10 months of intense preparation. Three co-chairs led 74

institutions from across the world to form recommendations for what the TNFD would need to deliver. The TNFD was launched on 10th June. The goal is to provide a framework for organizations to report and act on evolving nature-related risks, in order to support a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes. The TNFD is supported by governments but not driven by them. It aims to generate reporting and disclosure frameworks to help investors make more informed and aligned capital allocation decisions.

The TNFD is working very closely with the TCFD (Task Force on Climate-related Financial Disclosures) framework to ensure continued alignment and will build on the four-pillar approach adopted by the TCFD. It is currently in the build phase, which will be followed by testing and refining, consultation, launch and uptake.

DISCUSSION:

- This has given us a good understanding of the entry points and complexity and multiplicity of actors and drivers. There is a sense of momentum that is building which is very encouraging.
- **Revenue streams** - There are no obvious revenue streams that we can capture. We are trying to innovate and test models to directly link environmental and social impact with some revenue streams. We need to internalise positive externalities. Payment for ecosystem services schemes where either public or private entities are paying for these types of positive impacts. Ecotourism can be a revenue stream for the protection and conservation of nature. The key is to identify sectors where private revenue can play a role, so public money can be used where it's most needed.
- **Political enabling conditions** - the government is poised to play an important role in tackling some of the market failures that are weighing the natural capital sector down from progressing into a thriving, sustainable market. One of the biggest barriers is around data. There is a lot going on in this space ahead of COP 26. Governments need to play a crucial role in creating an open data base. This is politically sensitive because this might dislodge certain business models and impair their revenue streams.

Other politically enabling conditions include cross departmental coordination to progress nature-related risks and the understanding that these have the potential to create significant systemic financial risks. The Dasgupta review has been crucial in pushing nature out beyond environment departments to financial departments and regulators, to ensure consistent join up within governments, central banks and regulators. This will create a stable base line for markets to build on, with certain standards, rules and regulations underpinning it. The Environment Bill will create some of those conditions.

- **Disclosure** - Is the TNFD going to move companies beyond just disclosure? The TCFD has done a fantastic job of getting climate change on the radar, but there is some debate about how effective it has been in bending the curve of financial flows away from climate negative to climate positive projects. Demand for improved data is on the rise. It's more than companies just disclosing data, as there is a real push from investment managers to start processing this data. The TNFD will help to signpost how to do this.

We can't expect a company to disclose and report on its impacts on nature because this will open it up to litigation and liability risk. The idea is to move beyond physical dependencies but to enable companies and institutions to understand their nature-related risks. When the regulations reach a mature enough stage in terms of mandating nature-related risks disclosure from listed institutions, then it will become a requirement for companies to disclose impacts and dependencies.

- **Sector focus** - Are these initiatives able to work across sectors, rather than focusing on the rural and agriculture domain? There is a clear need to support a bottom-up approach by focusing on some sectors and activities that have a direct link and connection with nature. This needs to be connected to a top-down approach that creates more comprehensive frameworks, tools, methodologies, and KPIs.

The TNFD are planning to adopt a sectoral approach, which is different to the TCFD but is required. We need to embrace the fact that nature is more complex than carbon. Banks have teams that are led by sector, so the idea is to create a framework that is resonant with this structure, and done in a way to animate and energise the sector nature-related risks. We can't have a 'one size fits all' approach for nature as it won't be effective.

FURTHER INFORMATION:

[K4D Learning Journey on International Nature course overview](#)

Session 5 detailed outline and videos:

[Increasing financial flows and the role of finance in sustaining nature](#)