

An aerial photograph of a landscape. A dirt path runs vertically through the center, separating a field of scattered trees on the left from a denser forest on the right. The ground is a mix of green and brown, suggesting a semi-arid or savanna environment.

FINANCING A NATURE-POSITIVE GLOBAL ECONOMY

Why protecting stability in nature
is necessary to protect stability
in the financial system

AN ACCELERATING CRISIS IN NATURE

The natural world is in crisis. Natural habitats are being destroyed to clear land for agriculture or urban development, or for timber. Endangered species are being hunted for food or illegal trade. Overfishing is devastating marine ecosystems. Climate change adds further pressure to stressed ecosystems. All together, these impacts are destabilizing nature, and thereby the stability of our economies and the financial system, too.

Human-caused pressures on the natural world are putting a staggering one million species at risk of extinction, according to an authoritative [recent report from IPBES](#). Its findings are echoed in WWF's flagship [Living Planet Report](#), which shows that our planet's wildlife populations have plummeted by 68% since 1970.

The COVID-19 pandemic is a wake-up call. Our broken relationship with nature, manifest in deforestation, land conversion, and depletion of natural capital, is not only increasing our exposure to [zoonotic diseases](#) but it is also accelerating climate change, nature loss, and water shortages.

Taken together, these crises reinforce each other. As we lose natural diversity and degrade ecosystem services, we radically restrict our opportunity to harness nature-based solutions to tackle climate change. In turn, climate breakdown further drives species extinction and lessens the resilience of natural systems.

The economic impacts of nature degradation

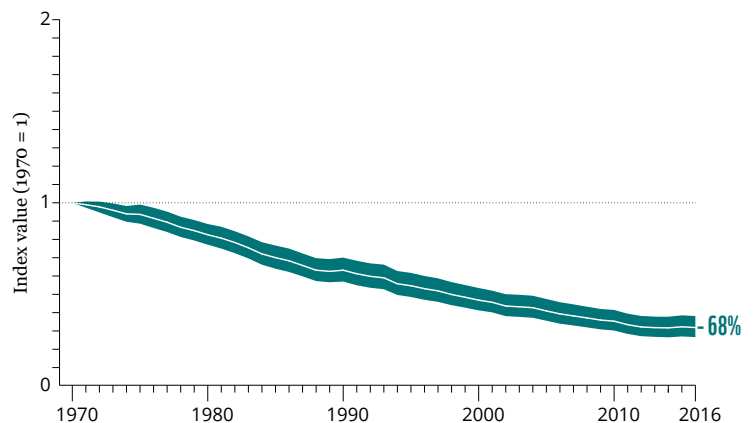
These nature-related risks could catastrophically destabilize our financial system and present an existential threat to the global economy and our future prosperity. The natural world is the very fundament that our societies and economies rest upon. It provides us with a range of services: providing food, water and fibre; regulating the climate; offering spiritual fulfilment and recreation. It is an asset of enormous economic, social and cultural value.

The global Living Planet Index: 1970 to 2016

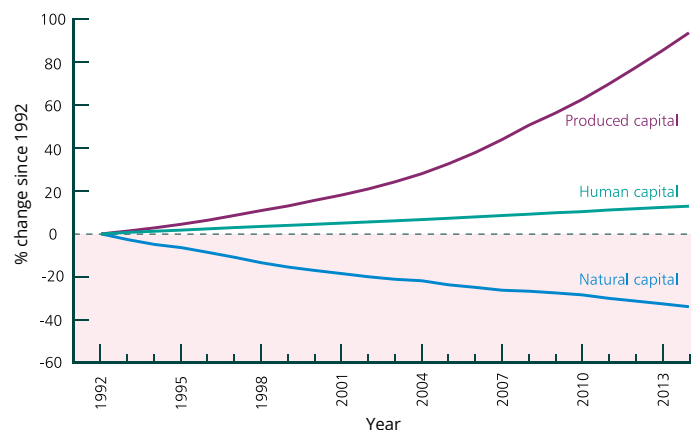
Average abundance of 20,811 populations representing 4,392 species monitored across the globe declined by 68%. The white line shows the index values and the shaded areas represent the statistical certainty surrounding the trend (range: -73% to -62%).
Source - WWF/ZSL (2020).

Key

- Global Living Planet Index
- Confidence limits



Global Wealth Per Capita, 1992 to 2014



Source: Managi and Kumar (2018).

IT IS IMPORTANT FOR FINANCIAL INSTITUTIONS TO BUILD THEIR CAPACITY IN TIME TO ANALYSE AND MANAGE THE RISKS ASSOCIATED WITH BIODIVERSITY LOSS.

Frank Elderson, executive director of supervision, De Nederlandsche Bank

We are eroding the value of that asset. The UK government's [Dasgupta Review](#) on the Economics of Biodiversity found that the stock of natural capital per person has declined by 40% between 1992 and 2014. More than half of the global GDP – \$44 trillion each year – is generated by economic activities that are dependent on nature, according to the [World Economic Forum](#).

The global economy and the financial system that it relies upon depend, in turn, on a stable natural environment. That stability is under threat.

Financial risks from biodiversity loss

The exposures flowing from the natural world are becoming of concern to governments and regulators. The Dasgupta Review warned of ecosystems reaching tipping points which, once passed, risk catastrophic consequences for our economies and well-being.

A growing number of [financial institutions recognise](#) that they depend upon healthy natural systems. Investors and lenders are also exposed to transition risks – from regulatory, legal or consumer action to address biodiversity loss¹.

Financial regulators are seeking to understand the implications for market stability from such exposures. For example, last year the Dutch central bank DNB [found](#) that 36% of the global lending portfolio of Dutch financial institutions was exposed to companies dependent or highly dependent on nature. Just as climate change could lead to systemic impacts on economies and financial systems, regulators are becoming concerned that biodiversity degradation could lead to cascading and unpredictable impacts on the institutions and markets they oversee.

An emerging global response

The need for action on nature loss is becoming a society-wide imperative. Governments, business, civil society and consumers recognise the need for action. In September 2020, leaders representing 84 countries signed the [Leaders Pledge for Nature](#). WWF, meanwhile, is advocating a [New Deal for Nature and People](#) to protect and restore nature. Later in 2021, the Convention on Biological Diversity is due to agree a post-2020 Global Biodiversity Framework. This international agreement will be mirrored in national-level legislation and regulation.

A growing number of companies are recognising their responsibilities; 'no net loss' and 'nature positive' commitments are proliferating, as companies anticipate both looming regulation and rising consumer concerns. More than 500 companies have committed to reversing nature loss via the [Business for Nature coalition](#).



THE ECONOMY IS EMBEDDED IN THE BIOSPHERE

Source: The Economics of Biodiversity: The Dasgupta Review (2021)

THERE IS GROWING RECOGNITION OF HOW FORESTS AND BIODIVERSITY PLAY A CRUCIAL ROLE IN TACKLING CLIMATE CHANGE AND ENSURING ECOSYSTEM SERVICES.

Jan Erik Saugestad, CEO, Storebrand Asset Management

¹ Learn more from these WWF Resources, see "Managing Risks": Finance Resources | WWF (panda.org)

A KEY ROLE FOR THE FINANCIAL SECTOR

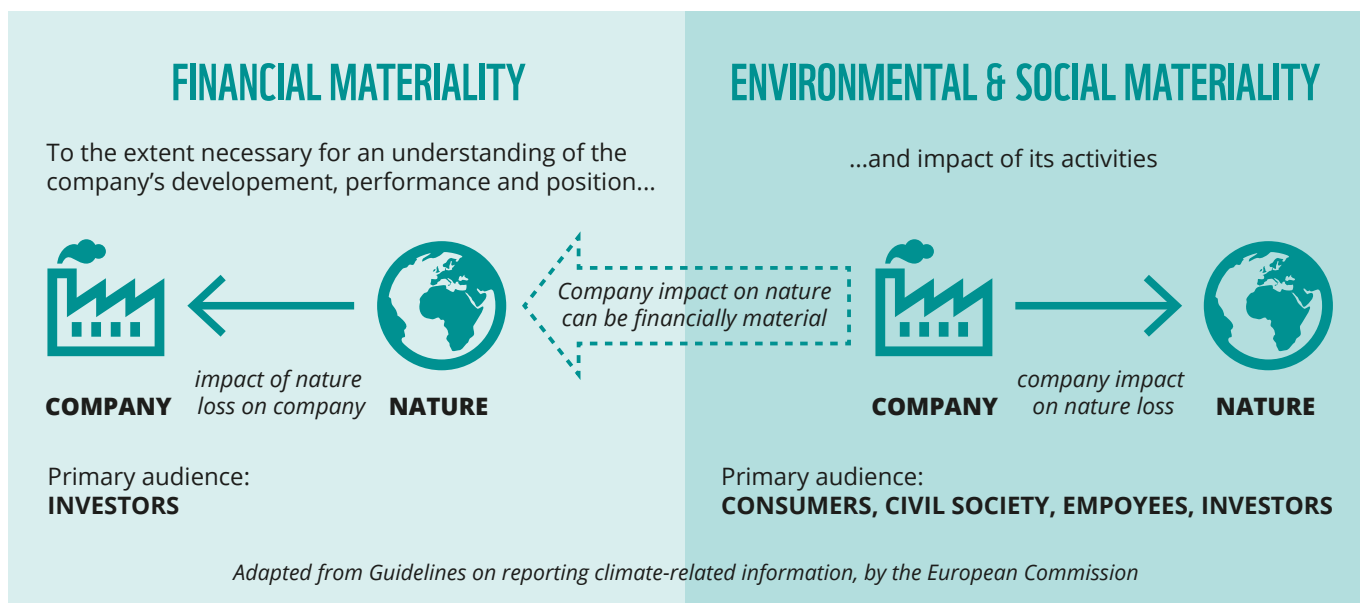
The financial sector plays a central role in allocating capital and, crucially, in pricing the risk involved in a specific economic activity. For too long, it has discounted and even ignored the risk inherent in the ongoing degradation of nature.

That **risk is being reassessed**. As the effects of biodiversity loss become apparent, and as policymakers act to protect natural ecosystems, activities and assets that degrade nature will become less profitable. Conversely, those that protect and add to natural capital will become more valuable. This will see providers of capital begin to respond.

Measuring and disclosing biodiversity risk and impact

The first steps towards this capital reallocation will be for financial actors to carry out an **accurate assessment of the risks and opportunities involved** and disclose the findings to regulators and shareholders.

The double-materiality perspective



TO AVOID FINANCIAL INSTABILITY, WE URGE CENTRAL BANKS AND FINANCIAL REGULATORS TO ASSESS THE FINANCIAL RISKS STEMMING FROM ENVIRONMENTAL DEGRADATION MORE THOROUGHLY, AND TO ACT ACCORDINGLY.

Andreas Staubli, CEO, PwC Switzerland.

There is a growing recognition that, to address environmental challenges such as biodiversity loss, companies and financial institutions should not only consider the financially material impacts on them from environmental risk but should also understand the impacts of their activities on the environment. This **double materiality** perspective, as it is known, takes into account longer-term challenges that may not yet have material economic effects.

Tools and frameworks are being developed to help financial institutions to carry out these processes. Foremost among them is the **Taskforce on Nature-Related Financial Disclosures**. Following the groundbreaking TCFD initiative on climate change, the TNFD aims to address the reporting, metrics, and data needs of financial institutions to enable them to better understand their risks, dependencies and

impacts on nature. The new EU Disclosure Regulation, meanwhile, introduces the concept of double materiality, initially for climate change, but with biodiversity on the agenda.

Investing in resilient nature

Although much of the discussion around nature and the economy focuses on risk, there is a substantial opportunity to be realised from investing in natural capital and in helping to increase the resilience of the natural world.

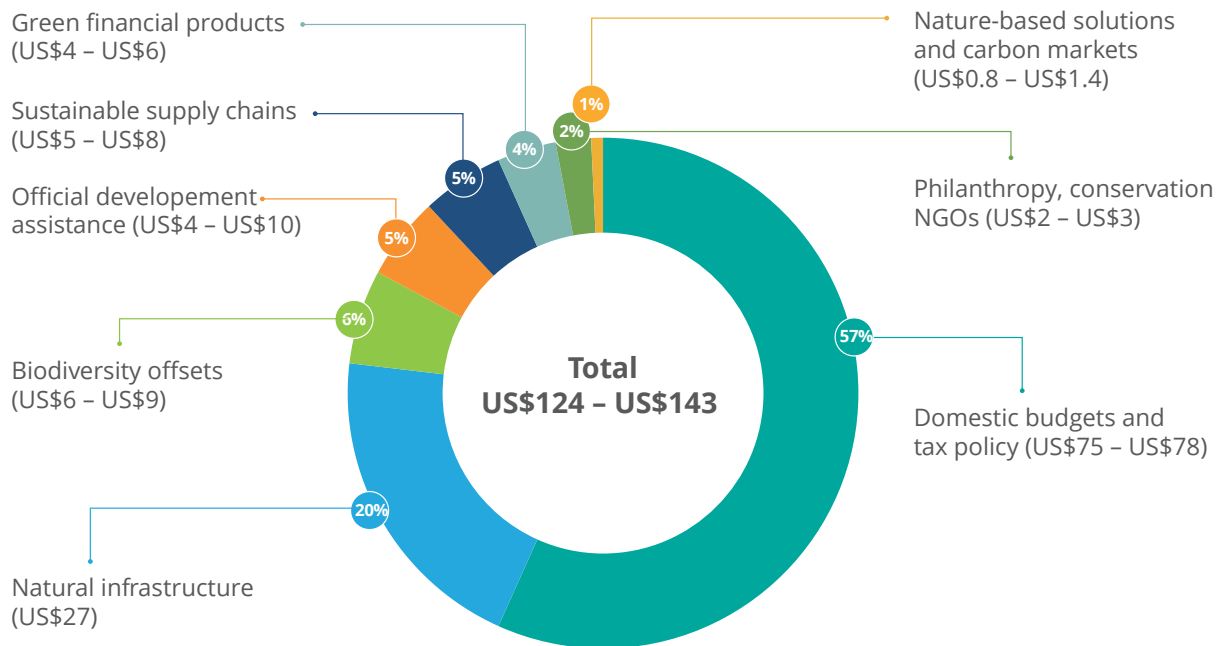
There are estimated annual flows of \$124-143 billion into biodiversity conservation globally, **according to the Paulson Institute**. As one response to the massive redirection of capital that is urgently needed, a fast-growing market in **nature-based solutions** is emerging. These aim to deliver

benefits to people, nature and climate by protecting, restoring and sustainably managing ecosystems.

But there are also broader opportunities. Companies are increasingly seeking advice and financing products to address biodiversity loss in their **operations and supply chains**.²

A growing number of investors, meanwhile, are looking for measurable **environmental and social impact**, whether in specialist impact investing vehicles, or more widely, across core equity and fixed income strategies.³

Global biodiversity conservation financing in 2019: Summary of financial flows into biodiversity conservation. (in 2019 US\$ billions per year)



Source: Financing Nature, Paulson Institute et al (2020)

WWF SUSTAINABLE FINANCE

Responding to the global crisis in nature will require a fundamental rethinking of our economic relationships with the natural world. A failure to do so will lead to ecological, social and economic catastrophe. The financial sector will be fundamental to this effort.

WWF works with private and public financial institutions as well as regulators to help them address nature loss and wider sustainability challenges, and to take advantage of related opportunities. This work is grouped into three pillars:

- Helping the financial sector and its regulators to **understand** and **manage risks** it faces from

nature loss, and the impacts it has on the natural world;

- Encouraging **disclosure** of nature-related risk and impacts; and
- Promoting the **reallocation of capital** to nature-positive economic activity.

For more information about our work, visit our [sustainable finance page](#). For collaboration and advice, please reach out to your nearest WWF office or contact us via finance@wwfint.org.

² See, for example, [Finnish pulp and paper company UPM's revolving credit facility](#), structured by BNP Paribas, linked to biodiversity goals.

³ The core impact investing market grew from \$502 billion in 2019 to \$715 billion in 2020, according to the Global Impacting Investing Network. However, if the definition of impact investing includes investors who are measuring the impact of their investments on achieving the UN Sustainable Development Goals, the figure is much larger.

**“SUSTAINABLE FINANCE IS
THE LINK BETWEEN FINANCIAL
SYSTEMS AND ECOSYSTEMS.
NATURAL CAPITAL GENERATES
SUSTAINABLE ECONOMIC AND
ENVIRONMENTAL BENEFITS
THAT SUPPORT HEALTHY AND
RESILIENT ECONOMIES.”**

Margaret Kuhlow
Finance Practice Leader
@WWFLeadFinance



Working to sustain the natural
world for the benefit of people
and wildlife.

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1196 Gland, Switzerland. Tel. +41 22 364 9111. Fax. +41 22 364 0332.

For contact details and further information, please visit our international
website at www.panda.org