



# Nature-Based Finance – Using Bonds To Restore The Planet

Peter Elwin, Director of Fixed Income & Head of Land Use and Textiles Programmes, Planet Tracker  
François Mosnier, Head of Oceans Programme, Planet Tracker

Wednesday, 03 August 2022



## A Word From Today's Chairman

**Simon Mills**  
Senior Consultant  
Z/Yen Group





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# Today's Agenda

- 15:00 – 15:05 Chairman's Introduction
- 15:05 – 15:25 Keynote Presentation – Peter Elwin, François Mosnier
- 15:25 – 15:45 Question & Answer



# Today's Speakers



**Peter Elwin**

Director of Fixed Income & Head  
of Land Use and Textiles  
Programmes  
Planet Tracker



**François Mosnier**

Head of Oceans Programme  
Planet Tracker



Planet Tracker

# Nature-based Finance

Where Investors and  
Lenders have an Interest  
in Conservation

3 August 2022

# Who we are

- PLANET TRACKER IS A NON-PROFIT SUSTAINABLE FINANCE THINK TANK

- Created to investigate the financial risks and opportunities related to environmental limits
  - producing thought-provoking analytics
  - providing interactive toolkits
  - publicising findings
  - engaging with financial markets and influencers
  - effecting change

- PLANET TRACKER IS PART OF THE TRACKER GROUP:

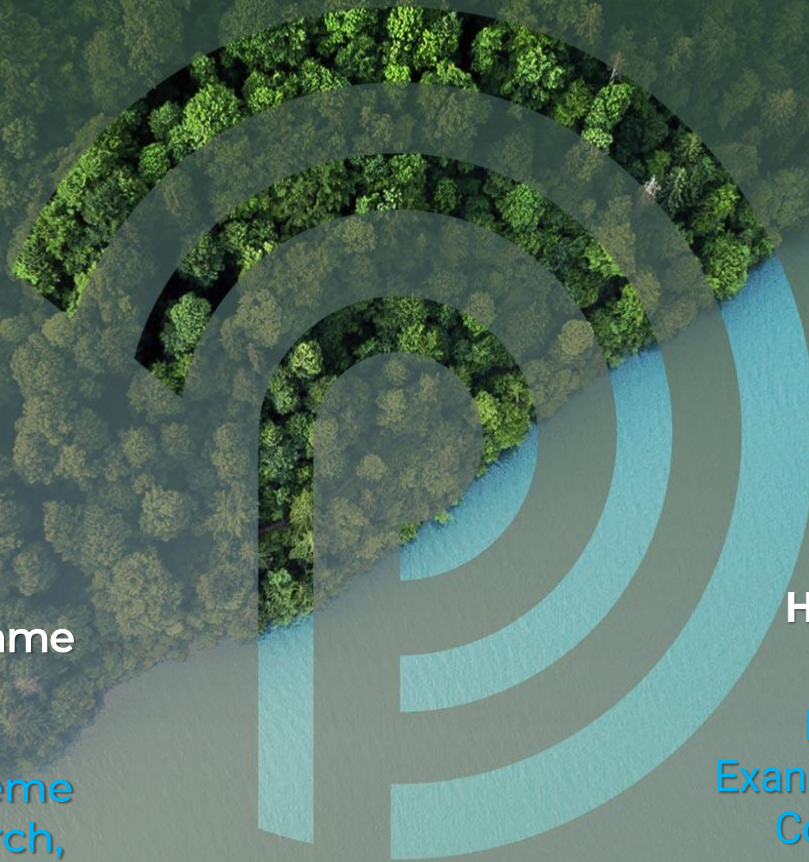


# Speaking today



Director of Fixed Income  
Head of Food & Land Use Programme

Previously Head of Research  
Universities Superannuation Scheme  
Deputy Head of European Research,  
JP Morgan



Head of Oceans Programme

Previously Financial Analyst,  
Exane BNP Paribas and Capital Group  
Conservation Finance Specialist  
Conservation Capital



# Agenda

01

What is Nature-based finance?

02

A sovereign example: the Deforestation-Linked Bond

03

A corporate example: the Blue Recovery Bond

An aerial photograph of a lush green forest. In the lower-left quadrant, a small cluster of buildings is visible. A large teal square is positioned in the center-left, containing the white number '01'. The top-left corner features a decorative graphic of three overlapping curved bands in shades of teal and orange, resembling a stylized sun or moon. The background is a misty, hazy landscape with rolling hills and dense trees.

01

# What is Nature-based finance?

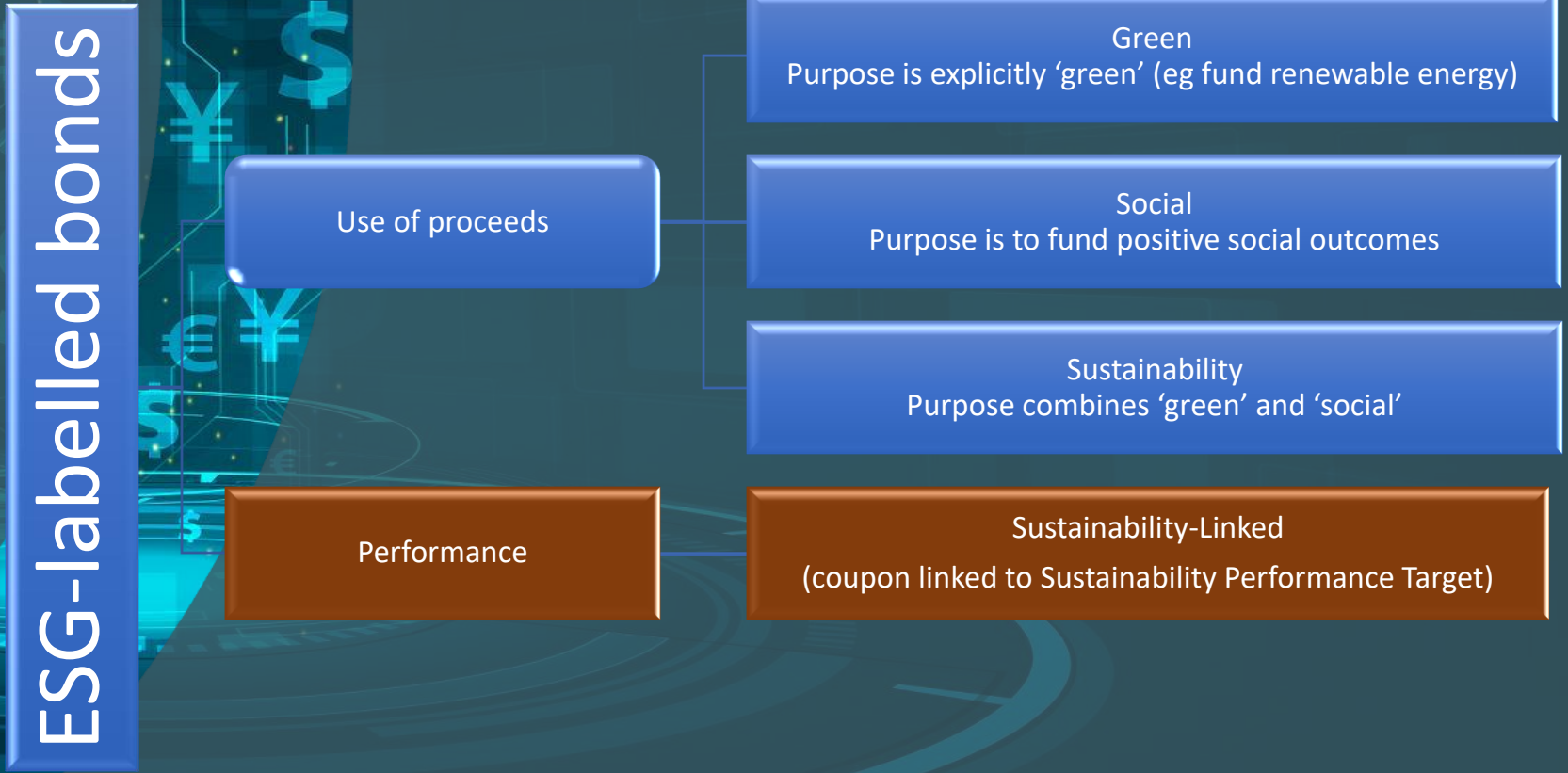
# Any financial instrument linked to nature

- The instrument is linked to nature in terms of outcomes

and/or

- A natural asset is used as collateral for the funds raised

# ESG-labelled Bonds and Loans



# Use of Proceeds bonds: **Green, Social, or Sustainable**

How the borrower uses the proceeds is defined in the bond terms (contractual obligation)

Requires processes for:

- Evaluating the project pre-issue
- (independent opinion)
- Monitoring the use of proceeds
- Reporting on the use of proceeds

Amount borrowed (bond or loan) must not exceed project spending

NB This is a challenge if the project is small

- Small bond issues - costs outweigh benefits
  - Investor minimum size restrictions
  - Post issue liquidity
- Loans (bank lending) are likely to be the only alternative

# Sustainability – Linked (Performance) bonds

The use of proceeds is unrestricted

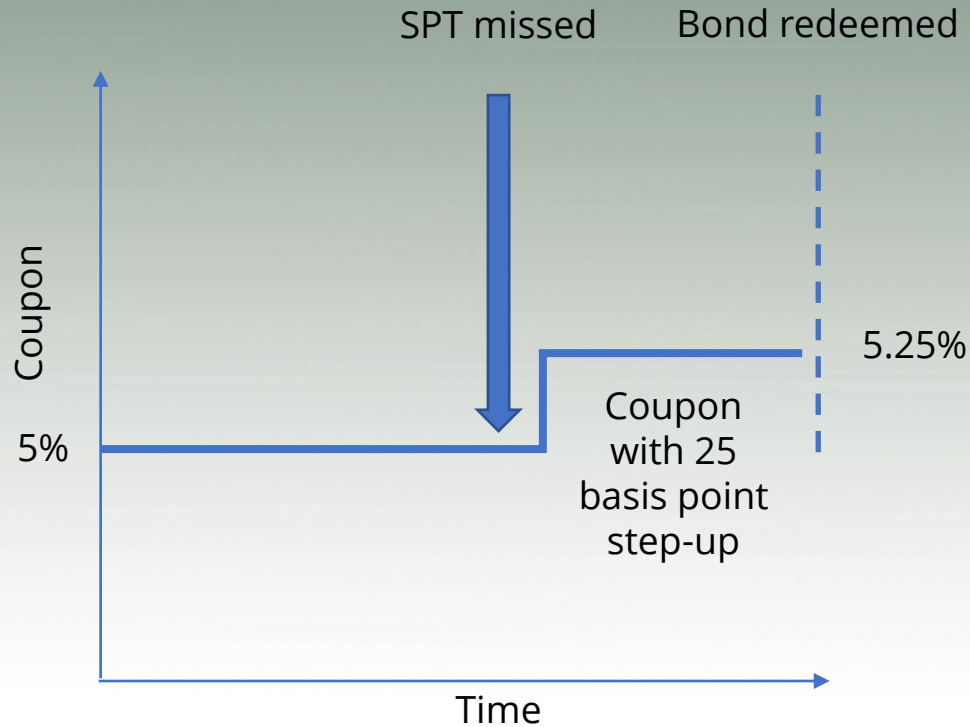
- Does not require a specific project – can be used for ‘general corporate purposes’
- Can combine ‘sustainable’ and ‘non-sustainable’ projects
- Useful for funding companies in transition

Coupon is adjusted (step-up, step-down, or both) if the borrower fails to achieve the Sustainability Performance Target

ICMA SLB Principles - requires processes for:

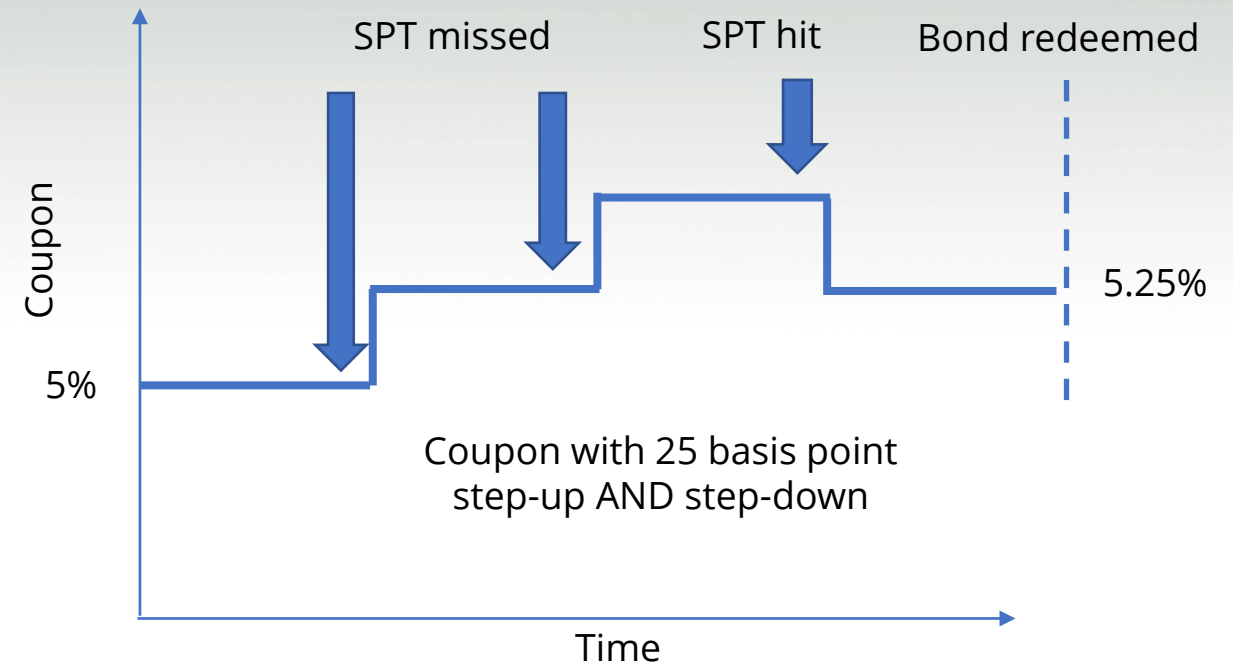
- Working out how to measure it reliably
- Monitoring vs the SPT (external verification)
- Reporting on the performance

# Sustainability-linked bonds: coupon structure



In theory an SLB could have a variable coupon and a variable repayment

- Corporate SLBs have all used a step-up structure with one measurement point
- 25bps is the most common step



# Questions for sovereign issuers

- Who should receive 'penalty' payments?
  - Investors or a separate fund?
  - Step-up could reward investors for the adverse impacts of missing the SPT (quasi-hedge?)
- Step-down sounds easier to sell politically than step-up
  - And would (partially?) subsidise the costs of beating the SPT
- Single measurement and coupon change might create unhelpful incentives
  - If coupon rises / falls after the next election why should the current government care?





1. A sovereign example:

## The Deforestation-Linked Bond

# Performance or **Nature-based bonds**

## Deforestation-Linked Sovereign Bond (a new form of performance bond)

ESG-labelled bonds

Use of proceeds

Performance

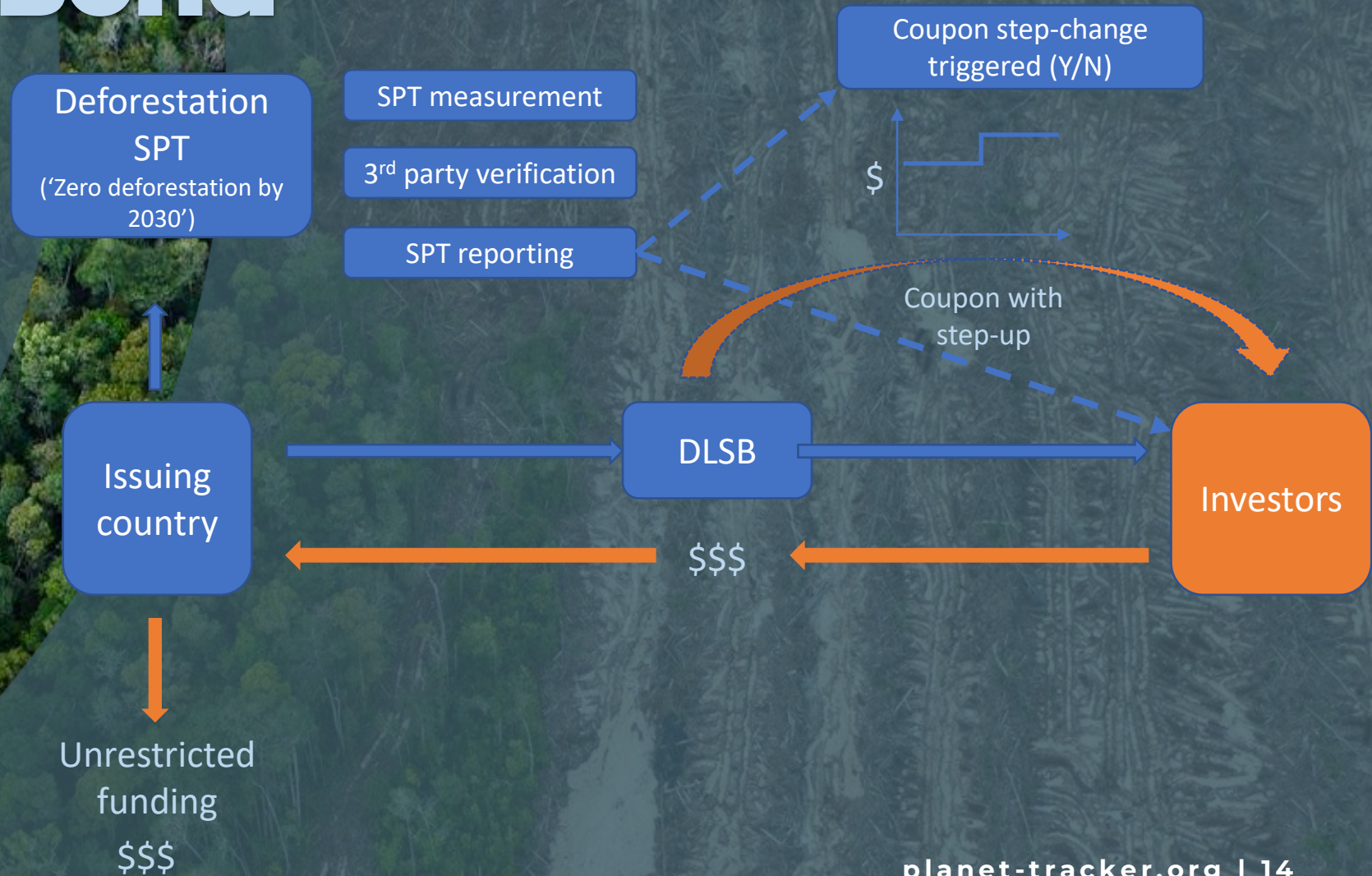
Policy  
(Michael Mainelli, 2005)

Nature  
(F4Bi, 2020)

Sustainability-Linked  
(World Bank, 2021)

Deforestation-Linked  
(Planet Tracker, 2021)

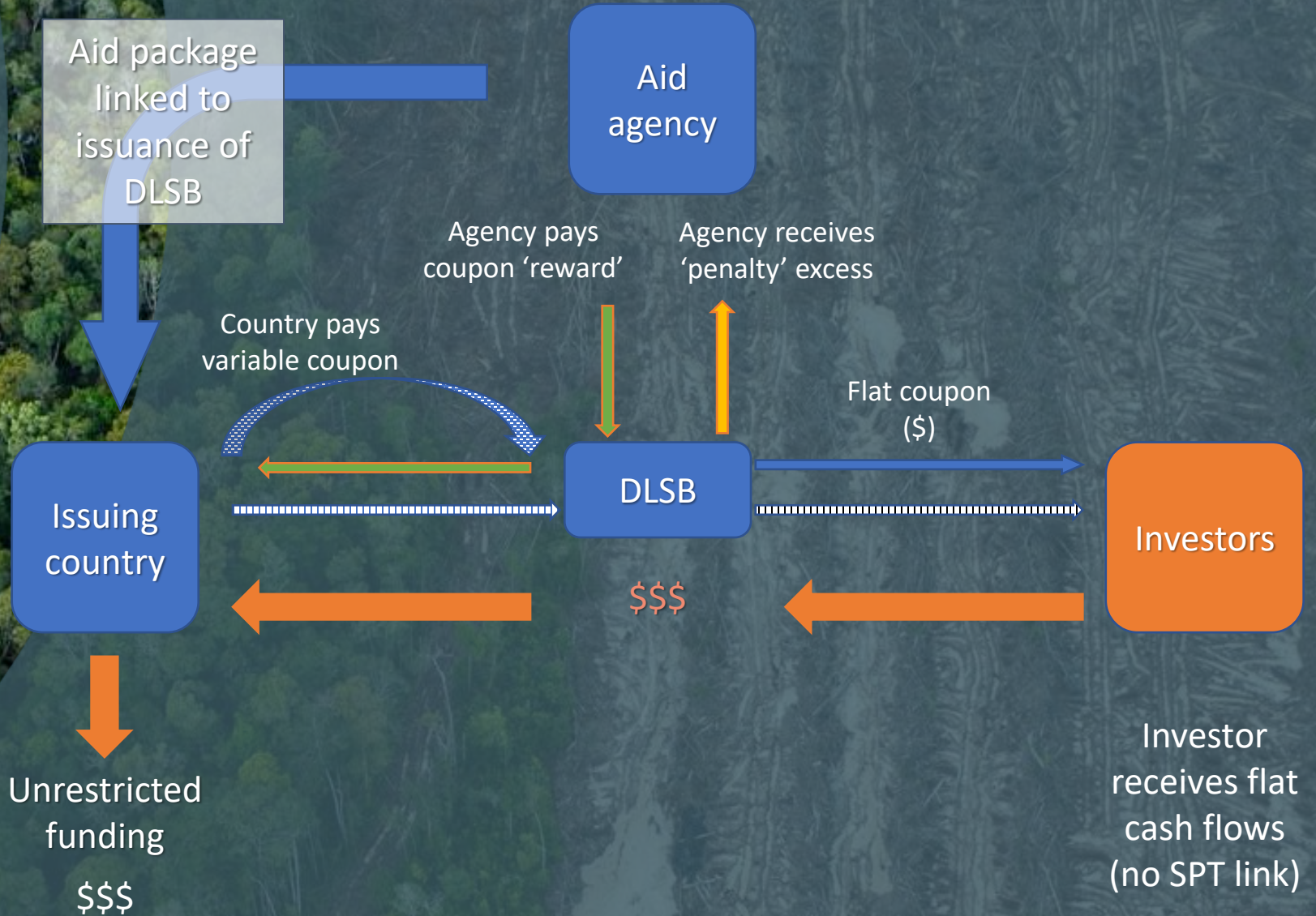
# Deforestation-Linked Sovereign Bond



# Advantages of a DLSB

- Issuing government is **financially incentivized** to align subsidies and tax incentives with zero deforestation SPT
- Citizens and businesses have an indirect **stake in success**
- DLSB provides **clear evidence** that the issuing government's intentions are serious
- DLSB helps establish an **ESG-labelled bond curve**
- Governance and reporting mechanisms required for the DLSB will **strengthen civil society**
- A DLSB could be combined with an **aid package**

# Deforestation-Linked Sovereign Bond plus aid





2. A corporate example:

## **The Blue Recovery Bond**

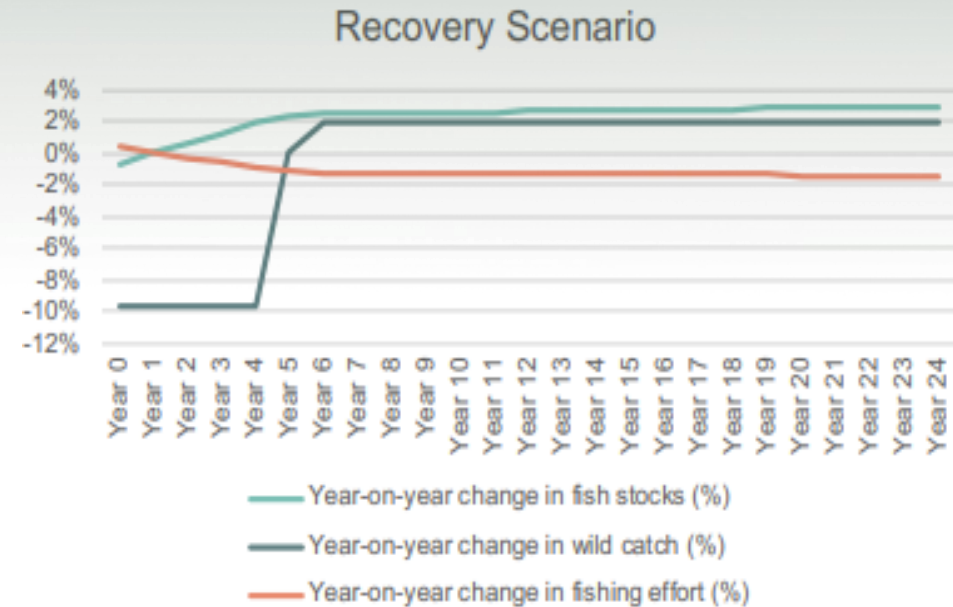
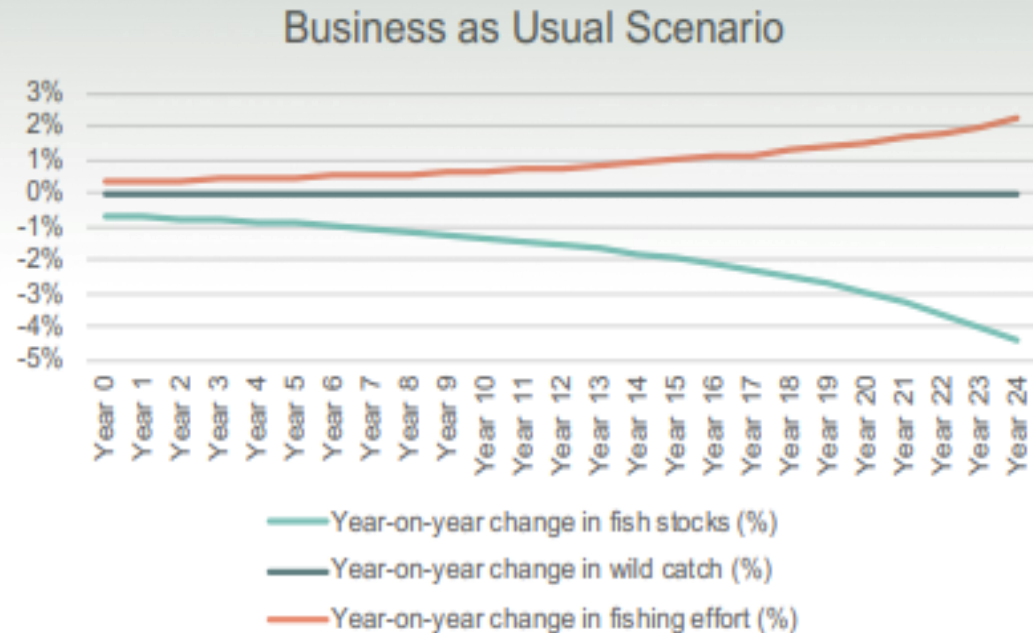
# The problem: **overfishing**



- Demand for seafood to **double** by 2050
- **90%** of global fish populations are either fully fished or overfished
- Wild catch production to decline slightly, costs on the rise

# A period of restraint **is needed**

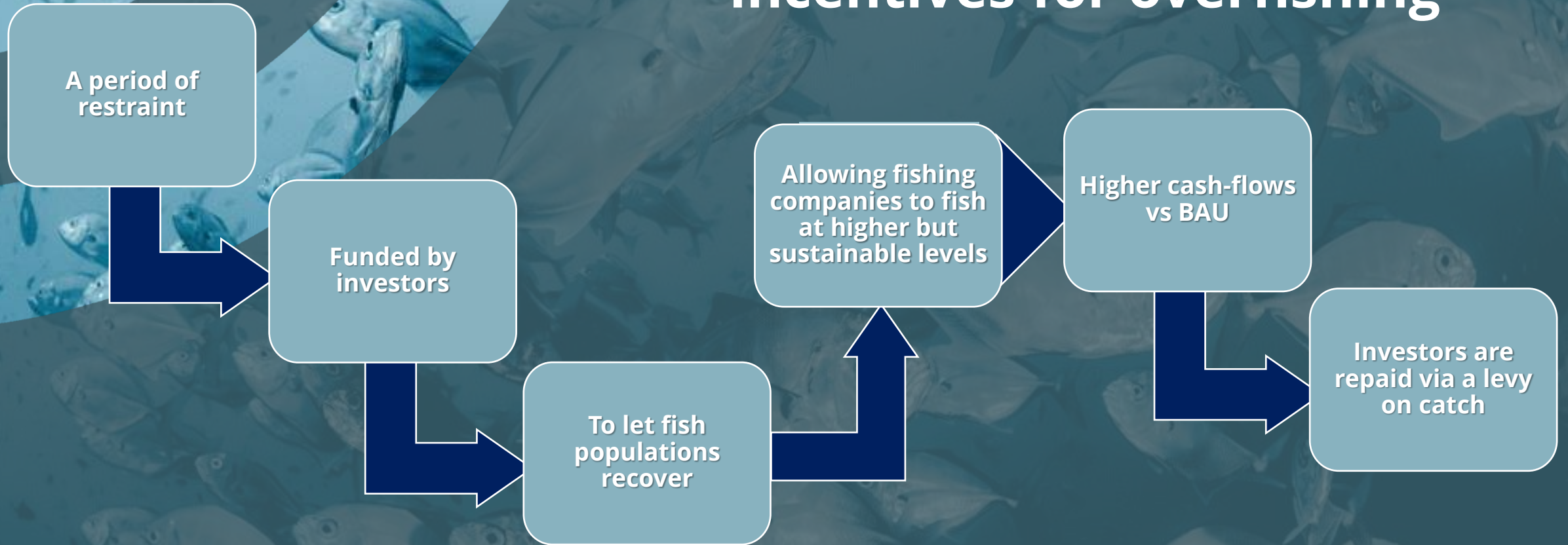
- The health of the ocean and commercially fished stocks can recover by 2040
- History shows that temporary restraints pay off after a few years
- But financial incentives for a restraint don't exist yet



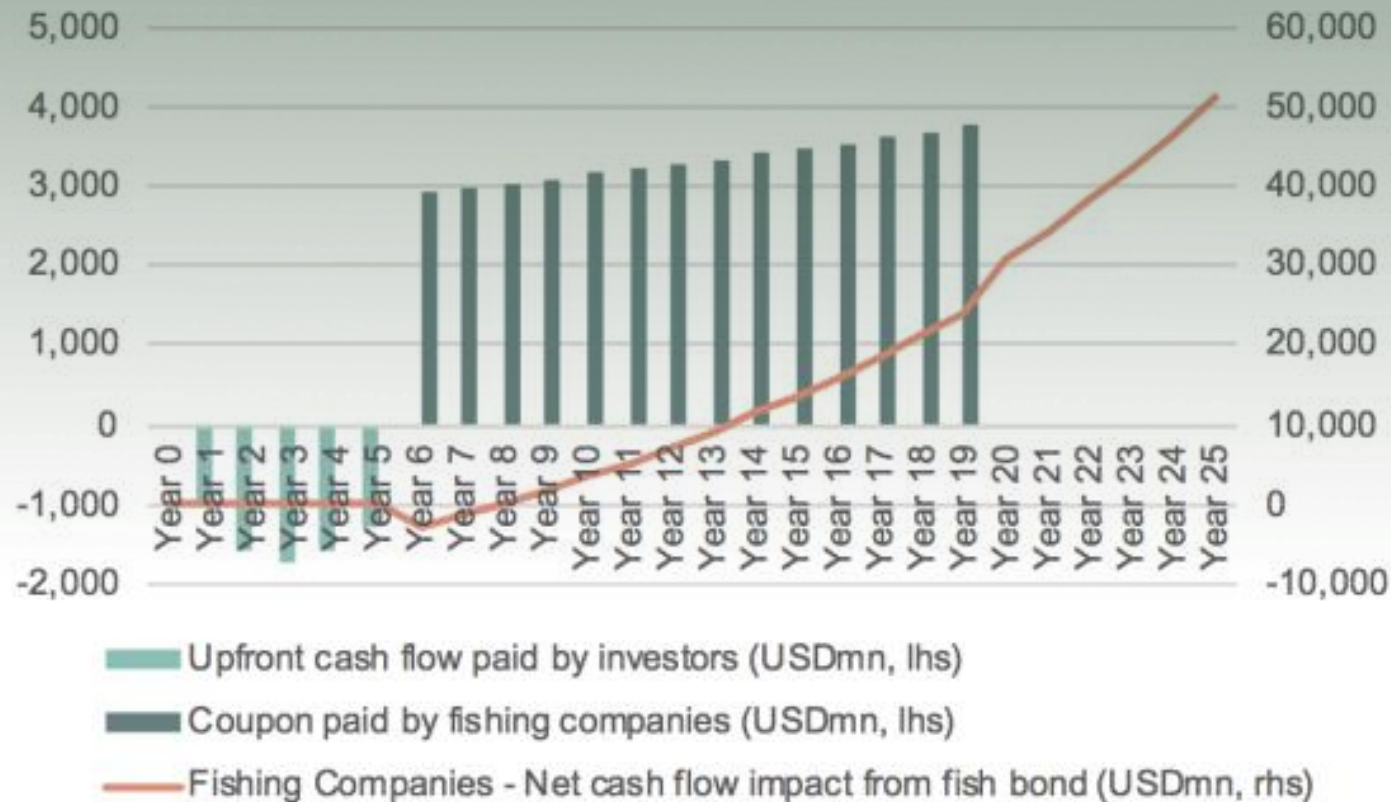


# The Blue Recovery Bond

Reversing the financial incentives for overfishing



# Modelling the Blue Recovery Bond



- USD 7bn investment over 5 years
- Fish populations growth up by 3.5%
- IRR: 26% for investors, 57% for fishing companies
- Fishing companies better off after 8 years

# Benefits



- Win-win-win instrument
- Incentivises corporates and investors in reducing overfishing
- Aligned interests for investors, corporates, governments and NGOs
- Provides funding for monitoring
- Allows companies to optimise capital by retiring some fishing vessels

# Challenges

- Finding the right bond issuer
- Agreeing on quotas
- Monitoring and regulation
- Bond vs equity investors
- Impact on processing and aquaculture
- Impact on employment and food availability

# Conclusion

- Nature-based finance: burgeoning but very promising
- Policymakers should support nature-based instruments
- Transaction costs (e.g. monitoring) are high but will decrease
- Scalability and replicability are key

An aerial photograph of a lush green tropical coastline with a vibrant blue ocean. A white circular line is drawn around a small, spherical representation of the same area, creating a 'micro-planet' effect. The micro-planet shows a mix of green forest, brownish-yellow land, and blue water with a small island and a shark swimming nearby. The text 'Thank you' is centered over the micro-planet.

# Thank you

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# Comments, Questions & Answers





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# Thank You For Listening

## Forthcoming Events

- Tue, 09 Aug (10:00-10:45) Bangladesh Trade, Development & Economic Prospects In The Emerging Asian-European Supply Chain
- Wed, 10 Aug (15:00-15:45) What Does An Information Commissioner Do?
- Thu, 11 Aug (12:00-12:45) Trust In AI: Rethinking Future Command
- Tue, 16 Aug (16:00-16:45) Community Chest: Bob McDowall - Anthropology & Technology: Complementary Aspects Of Human Behaviour

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