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WWF UK RESPONSE TO THE DASGUPTA REVIEW

February, 2021

This document sets out our response to the Dasgupta Review on the Economics of Biodiversity – an independent, global review, led by Professor Partha Dasgupta (Frank Ramsey Professor Emeritus, University of Cambridge). In our response, we set out our perspectives on the review and its key findings, as well as its significance for policy making. We also explore how the review’s findings should be put into practice, particularly actions that can be taken to transform our economies and financial systems towards sustainability more quickly and capture the opportunities that this will bring.

As the UK government is the commissioning body for the review (and is hosting the G7, and the UN Climate Change Conference – COP26 – in 2021), it can play a vital role in demonstrating leadership in implementing the review’s findings and championing them internationally. Our response therefore focuses on what the UK government can do to drive these reforms, both at the domestic level and to help catalyse collective global action. Many of these actions will also be applicable to other countries, and several will require global cooperation.

OUR RESPONSE - KEY POINTS

- We welcome the Dasgupta Review, which uses a robust analytical framework to demonstrate how nature’s contribution to our continued economic prosperity and wellbeing is not reflected in current **economic models, tools and policymaking**.
- The powerful but unsustainable incentives that this embeds within our economic and financial systems are a primary reason for humanity’s overuse of nature and for the environmental crisis we now face.
- The review highlights the serious, deep-rooted institutional and market failures that mean societies are **failing to invest in the natural capital on which our ongoing prosperity depends**, and are instead rapidly eroding that asset base, with growing economic costs and vulnerability to future disasters.
- The review concludes that to protect nature and our future prosperity, we must ensure **our demands on nature don’t exceed its supply** (the review calls this balancing ‘**impact inequality**’). It recommends both reducing our demands on nature, and increasing nature’s supply relative to its current level (e.g. through conservation/restoration).
- The review underlines why we need a new **Global Goal for Nature** – in parallel to the ‘net zero’ goal in the Paris Agreement. This would commit governments to take action now to halt nature loss and ensure the world is ‘nature-positive’ by 2030.²

- The transition towards a **nature-positive global economy** will, as the review outlines, require a fundamental **transformation of our institutions and systems – particularly our finance and education systems** – to ensure our collective actions align with this overarching goal.
- The review notes that the global financial system is critical to supporting this transition, and needs reform to **remove subsidies and private financial flows that harm nature**. Instead, it must **channel financial investment towards economic activities that enhance our stock of natural assets** and encourage sustainable consumption and production. All actors in the system have a role to play, including governments, central banks, international financial institutions and private financial institutions.
- Markets can’t address these issues alone. It’ll take strong government policies (e.g. fiscal policies, regulation, market-based measures, and legal instruments) to ensure the ‘**rules of the game**’ governing the way the whole economy works provide a level playing field that rewards (rather than penalises) those who act sustainably.
- As the review outlines, this will require action on multiple levels. **Finance ministries must play a key role**, as they hold many of the levers of change. For example, they have the remit to introduce new measures of economic success (such as inclusive wealth), influence targets/goals, implement policy reforms, remove harmful subsidies, strengthen regulation in the finance sector, and help drive through changes to corporate law and governance, as well as institutional reform. As the review highlights, **these changes are all achievable**.
- Countries can take steps towards a nature-positive economy as they rebuild after the Covid-19 pandemic. For example, they can **direct economic stimulus packages at nature-positive economic sectors, while pursuing more permanent institutional, economic and fiscal policy reforms** that will deliver lasting, economy-wide change.
- **Targeted prioritisation of effort/resources will be vital**. Focus must be on those interventions that will lead to long-term, economy-wide changes in the fastest, most efficient and socially just way. The right mix will vary by country. Some interventions will require international and global cooperation.
- The UK government is uniquely well placed to champion the findings of the review. It is the commissioner of the review, has the G7 presidency in 2021, and will host COP26 in November. We urge the UK to demonstrate global leadership by taking steps to put the review findings into practice and building political will for a collective global response, working in close collaboration with China as host of the UN Convention on Biological Diversity COP15 in May.

WE PROPOSE FOUR PRIORITY ACTIONS THE UK GOVERNMENT SHOULD TAKE IN 2021:

1	Announce the UK’s support for the establishment of a new Global Commission on Economy and Nature (GCEN).	2	Incorporate climate and nature goals into UK economic, fiscal and budgetary policy.	3	Align regulation of the UK financial sector with climate and nature goals.	4	Promote the greening of global sovereign debt markets through the use of nature-performance bonds.
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- In 2020, global leaders signed the ‘Leaders Pledge for Nature’ (including the UK government). they committed to take urgent action to put nature on a path to recovery by 2030. In 2021 decision-makers must honour their commitments, agreeing an ambitious, feasible and measurable post-2020 Global Biodiversity Framework at COP15, backed by a credible global plan, finance and commitment to drive the transition to a nature-positive global economy.
- We urge the UK, and other nations, to seize the opportunity that the Dasgupta Review gives us to make this a defining moment in humanity’s history – one in which we change direction to a more sustainable pathway. We cannot fail. As the review reminds us all, we and our descendants deserve nothing less.

¹ <https://www.gov.uk/government/collections/the-economics-of-biodiversity-the-dasgupta-review>

² <https://www.naturepositive.org/>

KEY MESSAGES OF THE DASGUPTA REVIEW

- Our economies, livelihoods and wellbeing all depend on nature. The choices we make now will affect the biosphere's future and, in turn, our own future prosperity. Humanity and our economies are embedded in the biosphere, not separate from it.
- We have collectively failed to engage with nature sustainably, to the extent that our demands far exceed its capacity to supply us with the goods and services we all rely on.
- Many ecosystems, from tropical forests to coral reefs, have already been degraded beyond repair, or are at imminent risk of 'tipping points'. These tipping points could have catastrophic consequences for our economies and wellbeing.
- Our unsustainable engagement with nature is endangering the prosperity of current and future generations. Low income countries stand to lose the most, as their economies are more reliant than high income countries on using nature's goods and services from within their own borders.
- Some ecosystems are global public goods – such as tropical rainforests – the loss of which will have serious consequences globally, but which are under increasing pressure through globally connected trade and supply chains.
- At the heart of the problem lie deep-rooted, widespread institutional and market failures (e.g. missing price and property rights, excess demand, uncertain environmental risks, perverse subsidies etc), as well as the fact that standard economic models view economies as outside the biosphere and concentrate on GDP alone.
- Because the biosphere is finite, and the efficiency by which we convert it during production cannot increase indefinitely, we cannot continue to grow economic output indefinitely (as measured by GDP).
- Humanity faces an urgent choice: continue down our current path, or pursue sustainable economic growth and development where our engagements with nature are not only sustainable, but also enhance our collective wealth and wellbeing and that of our descendants.
- Choosing a sustainable path will require transformative change, underpinned by levels of ambition, coordination and political will akin to, or even greater than, those of the Marshall Plan. The change required should be geared towards three broad transitions:
 - Ensure our demands on nature do not exceed its supply – by both increasing nature's supply relative to its current level (e.g. through conservation and recovery of ecosystems) and reducing our demands on nature (e.g. by stabilising population, reducing waste, consumption/dietary changes, efficient production, technology).
 - Change our measures of economic success to help guide us on to a more sustainable path, moving away from GDP towards 'inclusive wealth', which correlates strongly with the wellbeing of current and future generations.
 - Transform the systems that underpin our engagements with nature – above all our financial and education systems – to enable these changes and sustain them for future generations.
- COP15 and the COP26 in 2021 provide important opportunities to set a new, ambitious direction for the coming decade, and to establish the right environment to deliver on commitments made and the institutional arrangements needed to ensure those commitments are met.

OUR OVERALL REACTIONS TO THE REVIEW

We welcome the findings of the Dasgupta Review, which provides a profoundly important message to humanity about how we need to change the way we live on planet Earth if future generations are to prosper. Global environmental degradation is the most pressing economic and social challenge of our day, and nature loss is an existential threat to future generations.

The timing is significant, given its arrival in 2021 ahead of two key international summits being held to determine future action to address biodiversity loss (COP15, Kunming) and climate change (COP26, Glasgow). Governments at this time will also be ramping up Covid-19 recovery efforts and, hence, the review is likely to make a powerful addition to the argument for ensuring economic and fiscal policies are geared towards a sustainable, green economic recovery.

This groundbreaking work – the first of its kind to be commissioned by a government ministry of finance – uses a robust analytical framework to demonstrate how our economic models and policies are a primary reason for the environmental crisis we now face. In this document we therefore focus on the economic and financial system changes required.

The review highlights the serious flaw in the conventional management models on which our economies and businesses are based. In particular, it highlights the fact that infinite growth of output and consumption (which most economic models posit as the desired end goal) – is impossible within the confines of our one planet. It also highlights the many market and institutional failures which mean we are failing to invest in the natural capital on which our ongoing prosperity depends, and are instead rapidly eroding these very assets.

Current incentives embedded within the economic and financial system are stacked against sustainable management of the world's resources. This largely explains why attempts to tackle climate change and environmental decline have to date been largely unsuccessful, and why the trends continue to move at a fast pace in the wrong direction.

The review points to the urgent need for the economics profession and economic policymakers to update their models and decision-making frameworks, to ensure the realities of managing our resources sustainably, and the importance of investing in nature, are put at the heart of economic decision-making.

In this sense, the review underlines why we need a new Global Goal for Nature – in parallel to the 'net zero' goal in the Paris Agreement – which would commit governments to take action now to halt nature loss and ensure the world is nature-positive by 2030.³

This transition towards a nature-positive global economy will, as the review outlines, require a fundamental transformation of our institutions and systems – particularly our finance and education systems – to ensure our collective actions are all aligned with this overarching goal.

In particular, we need to change the incentives underlying economic decision-making across the board. This cannot be tackled purely on a sector-by-sector basis, but instead requires fundamental changes in the rules of the game governing the way the whole system works.

³ <https://www.naturepositive.org/>

The review also shows that markets cannot solve this challenge by themselves. While the business case for sustainability is strengthening all the time (driven by a growing awareness of environmental issues, policy changes and rising demand for sustainable goods and services), the current system still tends to penalise sustainable long-term decision-making.

For example, fossil fuel subsidies undermine markets for green energy, and weak policies around protection of biodiversity mean that companies taking voluntary measures to protect or invest in nature face higher costs than competitors that do not. To drive change across whole sectors, we need a level playing field in which the rules of the game require and/or reward all businesses which make sustainable decisions.

Businesses have a crucial role to play in taking voluntary action to demonstrate the gains to be made and opportunities that can be grasped. They can also help to shape the reforms in the best way possible, and advocate for the policy changes that will enable them and others to go further – thus strengthening political will of governments to make the necessary changes. They must also help to educate and bring customers along with them, leading rather than waiting for customers to demand change.

The review also shows that we need global-level solutions to address many of these issues, including mechanisms to strengthen accountability for the environmental impacts of business operations and financing decisions in other countries. They must also include new financing mechanisms to facilitate payment between countries for protecting and investing in global public goods, such as tropical rainforests. There is also the need for new mechanisms to support a just transition to a sustainable economy, ensuring that the benefits and costs are shared fairly across countries.

IF WE ARE TO ENHANCE THE BIOSPHERE'S HEALTH AND REDUCE OUR DEMANDS, LARGE-SCALE CHANGES WILL BE REQUIRED TO OUR ECONOMIC MODELS

The building blocks for the necessary reforms are starting to be put in place on many of these fronts. But there is still a very long way to go. We need to speed up progress and focus on the priority areas for reform – the systemic solutions that will drive change at scale and across all sectors of the economy, rather than incremental changes or ones that focus on narrow issues.

This is obviously an issue for debate and, and as the solutions will vary in different contexts, we need an ongoing process of dialogue to discuss the implications of the review and drive forward change. These factors guide the policy recommendations we have made based on the findings of the review.

OUR RECOMMENDATIONS WE NEED TO REPURPOSE OUR ECONOMIES AND PRIORITISE THE MOST TRANSFORMATIVE CHANGES.

Fundamentally, the review highlights the need to repurpose our economies by changing our measures of economic success. It explains why, while GDP is an effective way to measure economic activity, it ignores the depreciation of assets (including natural assets), so encourages unsustainable growth. The review proposes that 'inclusive wealth' should be used as the primary measure of economic success instead of GDP, as this measures all assets (including natural assets) and corresponds directly with the wellbeing of current and future generations.

As part of this change, governments and businesses need to start to incorporate natural capital into their decision-making frameworks and processes. For example, governments should start to publish information on their natural capital stocks, trends and associated risks, liabilities and investment requirements in their annual budgetary reports. They should also assess and report the environmental impacts of fiscal/budgetary policies (e.g. related to climate, biodiversity, energy, waste, water, etc).

Similarly, businesses should also start to report publicly on the dependencies and impacts that their activities (including their supply chains) have on nature, and set out plans for how they will manage these and align with climate/nature-related targets.

But relying on reporting is not enough, as it will not necessarily lead to changes in behaviour that will align economic outcomes with environmental sustainability. Thus we also need to align economic decision-making with overarching climate, environment and development goals. To do that, government policy must require and provide incentives for businesses and the financial sector to value, pay for, and invest in the natural assets they depend on, for the long-term – and governments must do so themselves through their own policies and spending decisions.

Solutions will vary by country and by context, as highlighted in the review – there is no 'one size fits all' approach. Each country needs to identify the key steps it can take now, to drive progress as quickly as possible. There are also things that can be done at the global level that can have a significant impact across the whole world. As the world recovers and rebuilds from the pandemic, countries have an opportunity not only to put together measures that will shape short-term economic recovery but also to implement the systemic reforms needed to support and incentivise sustainability for the long term.

TO CREATE A NATURE-POSITIVE ECONOMY, WWF BELIEVES WE NEED:

Sustainable economic, fiscal and budgetary policies. In other words, all tax and spending policies must be designed and tested to ensure they align with and deliver on those overarching environmental goals, and build the resilience of the economy to the growing environmental challenges we face.

Regulation that aligns economic outcomes with the environmental goals. This means that these goals need to be incorporated centrally into the mandates of regulators.

Reforms to the financial system and the financial sector regulatory frameworks, to tackle excessive short-termism and ensure financial sector decision-making aligns with these environmental goals.

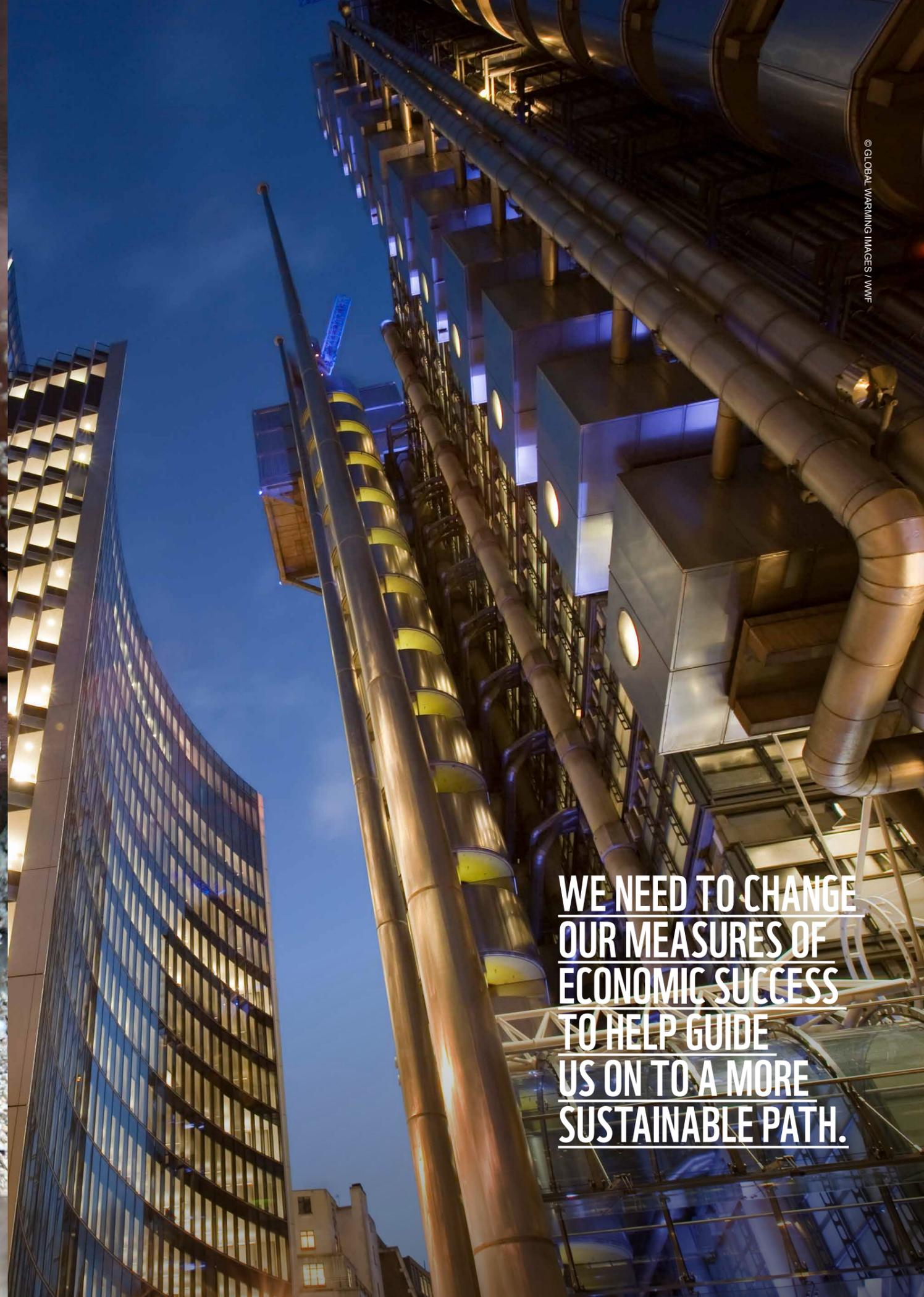
Changes to corporate governance and law, to properly hold companies to account on their environmental impacts in their own countries and abroad, and ensure that wider environmental impacts are given equal weight to profits in executive reward systems.

This is clearly a significant reform agenda. However, it's important that we don't let the complexity or scale of the task hamper progress. Policies and resources can be prioritised, with a focus on those interventions that will lead to positive long-term, economy-wide changes in the fastest, fairest and most efficient way. It will also require ongoing dialogue and cooperation across countries to translate the review's findings and high-level options for change into practical policies and strategies tailored to different contexts, which will evolve over time as progress is made in the transition.

MANY ECOSYSTEMS,
FROM TROPICAL
FORESTS TO CORAL
REEFS, HAVE
ALREADY BEEN
DEGRADED BEYOND
REPAIR, OR ARE AT
IMMINENT RISK OF
'TIPPING POINTS'.



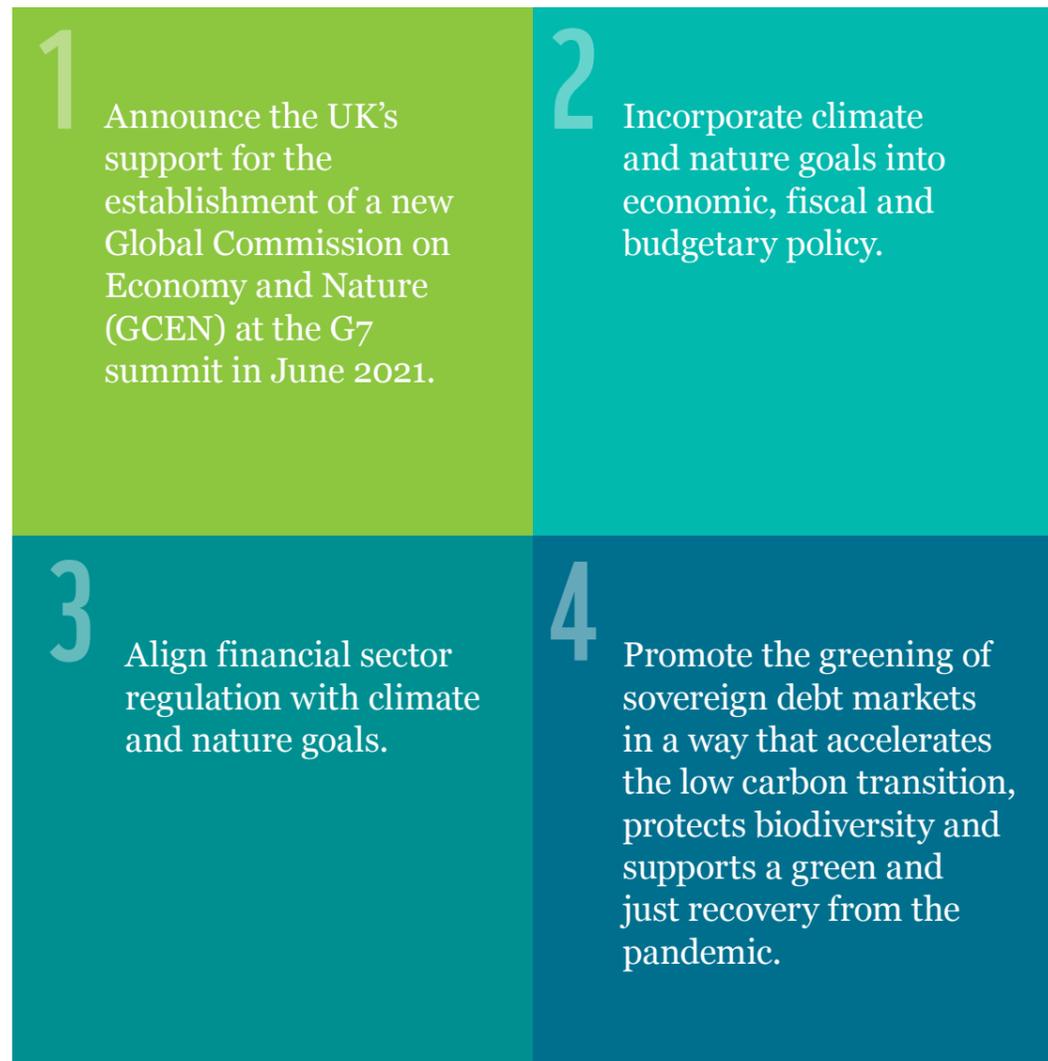
WE NEED TO CHANGE
OUR MEASURES OF
ECONOMIC SUCCESS
TO HELP GUIDE
US ON TO A MORE
SUSTAINABLE PATH.



With these factors in mind, we have four key recommended actions for the UK government in 2021 to drive change as quickly as possible.

IMPLEMENTING THE FINDINGS OF THE DASGUPTA REVIEW: UK PRIORITIES

We propose the UK government should take the following urgent, transformative and impact-multiplying actions:



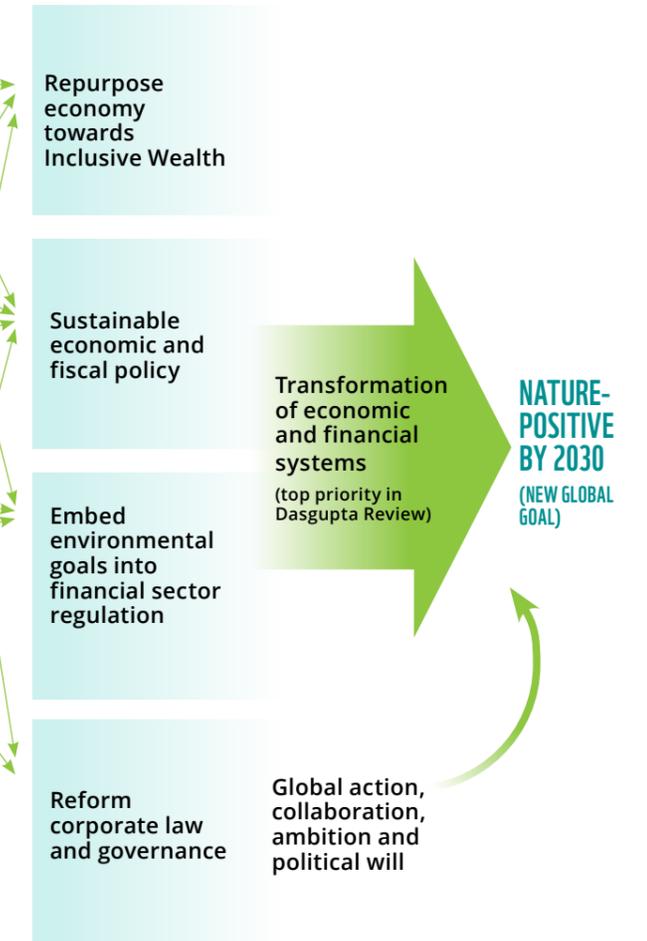
Further detail on each of these proposals is set out opposite.

DETAIL ON PROPOSED UK ACTIONS AND THE SYSTEM CHANGES THEY WOULD CONTRIBUTE TO

Proposed actions for the UK:



Key economic/financial system changes these actions would support:



1) SUPPORT THE ESTABLISHMENT OF A GLOBAL COMMISSION ON THE ECONOMY AND NATURE

Summary: *The UK should announce its support for the establishment of a new Global Commission on Economy and Nature (GCEN) at the G7 summit in June 2021, and champion it internationally to provide a mechanism to drive forward a coordinated global response to the review.*

The review describes the deep transformations that we need to make if we are to shift to a nature-positive global economy. A global challenge of this extent can only be met if we scale up the existing individual efforts and speed up progress through cooperation, joint solutions and international or cross-border mechanisms. Ongoing dialogue, research, and lesson-learning about how to bring about the necessary economic and financial sector reforms will be needed at the global level.

However, there is no existing mechanism or process that could oversee such an effort or provide such a platform. To help fill this gap, we propose that the UK government should work with other governments to establish a new Global Commission on the Economy and Nature (GCEN), modelled on the Global Commission on the Economy and Climate.

The GCEN would build on the foundations provided by the Dasgupta Review, bringing global leaders in government, business, finance, academia and civil society together to develop a global action plan for a nature-positive economy. It would also play a vital role in promoting cooperation between countries, developing policy recommendations, and coordinating delivery. It would complement existing policy processes (e.g. CBD, UNFCCC, SDGs) and draw on evidence from the science community (e.g. IPBES, IPCC, etc), ensuring that the voices of communities and citizen groups are represented.

The GCEN's remit could cover topics such as: changes needed in the global policy and financial architecture to support the transition; ensuring the transition is socially just and addresses issues such as geographical and intergenerational equity; how efforts can best support a sustainable, green recovery from the Covid-19 pandemic; how international trade and global supply chains can be shaped to support sustainable development and investment in nature; domestic policy reforms that would help to unlock larger global private finance flows for investment in nature.

A proposal setting out an indicative workplan for the establishment of the GCEN has been developed and is gathering momentum and interest. The UK government should throw its full weight behind establishing a new Global Commission on Economy and Nature – because if we're going to succeed, we need to see countries working together to tackle this enormous threat.

2) INCORPORATE CLIMATE AND NATURE INTO ECONOMIC, FISCAL AND BUDGETARY POLICY

Summary: *The UK should start to incorporate climate and nature goals into UK economic, fiscal and budgetary policy, by announcing the introduction of a new sustainability and resilience-oriented UK fiscal policy goal in the 2021 budget, and by applying a net zero test to the 2021 budget spending package.*

A key message in the Review is that, whilst GDP is an important measure of economic activity, we need to stop using it as our primary measure of economic success and start using Inclusive Wealth instead (defined as the aggregate value of all assets, including natural assets). A focus on measuring and maximising our asset base will incentivise increased investment in activities that protect and restore those assets, improving future economic prospects and in turn our wellbeing.

The UK has already developed natural capital accounts, which are a key component of the Inclusive Wealth metric. These should be reported on in the Annual Budget and more emphasis placed on these in reporting by Government and other stakeholders if we are to shift incentives away from maximising short-term GDP.

However, by itself, that will not be enough. The overarching environmental goals, and associated new measures of economic success, need to be built into all key economic decision making frameworks and processes within the Treasury, and we do not need to wait for inclusive wealth metrics or natural capital accounts to be fully developed to make further progress on that.

The UK government's fiscal framework (which includes the fiscal rules, independent fiscal institutions, and budgetary processes, including spending and taxation) – one of the key levers for shaping the economy – also needs to centrally reflect this new objective. The fiscal framework plays a key role in maintaining fiscal discipline as well as macroeconomic stabilization and risk mitigation, and shapes the scale and nature of government spending and taxation.

The UK Government is already in the process of reviewing the fiscal framework.⁴ In doing so, it has the opportunity to create a new fiscal framework that sits at the core of an economic strategy geared towards maximising long-term societal well-being, sustainability and economic resilience.

We propose that government should announce the introduction of a new sustainability and resilience-oriented fiscal policy goal (or rule) in the 2021 budget, which will ensure that UK public spending and tax policies are refocused towards building the strong and resilient economy in the medium to long term (and which will be needed to pay back the debt that is inevitably going to build up as a result of the pandemic). In this way, the UK can harness fiscal policy as a way to help address the major future risks to the UK (including climate change and nature-loss, but also risks such as trade-related shocks associated with Brexit, demographic changes etc), and reduce their potential impact on the economy and on the public finances.

The new goal or rule would thus allow and incentivise increased investment in natural capital and climate adaptation and mitigation. This is particularly important as work by the Natural Capital Committee, WWF^{5,6} and others, has highlighted how vulnerable the UK is to nature-related risks such as flooding, drought, soil erosion and loss of pollinators. Unchecked, these will cause significant and growing costs to the economy and public finances in the future, dwarfing the costs of the pandemic.

The new fiscal framework should also include a Net Zero Test, to ensure that spending packages are aligned with the Paris Agreement. This could be applied to the 2021 budget, and refined for future fiscal events (annual budgets and spending reviews) and would involve assessing the emissions impacts of tax and spending decisions to ensure that on aggregate their impacts are aligned with achieving the Carbon Budget that will keep the UK on a trajectory to achieve its legal commitment of a net-zero economy by 2050. Only by doing so can HM Treasury ensure that spending decisions are supporting and not undermining the achievement of the Government's own stated goals and legal commitments.

3) ALIGN FINANCIAL SECTOR REGULATION WITH CLIMATE AND NATURE GOALS

Summary: *The UK should align financial sector regulation with climate and nature goals, by indicating a commitment ahead of COP26 that all regulated financial institutions will be required to develop and disclose a strategy that aligns with Paris Agreement goals (net zero), by supporting the work of the Taskforce on Nature-related Financial Disclosures, and by incorporating finance in the Due Diligence Obligation in the Environment Bill.*

The financial sector has a crucial role to play in shaping incentives for sustainability across the real economy through the lending, investment and capital allocation decisions it makes. Shifting financial sector incentives is therefore a priority for driving systemic, economy-wide change. Encouraging disclosure of climate and nature-related risks to the finance sector is an important part of this, as it will give investors a stronger incentive to shift capital away from environmentally damaging activities towards nature-positive investments.

Considerable progress has been made on climate change-related risks, particularly through the Taskforce on Climate-related Financial Disclosures (TCFD). The UK government has signalled that TCFD-aligned risk disclosures will soon be mandatory across the UK economy (e.g. all listed companies by 2022).⁷ Several other countries are following suit. The Taskforce on Nature-related Financial Disclosures (TNFD) will develop a similar framework for nature, paving the way for improved disclosure around nature-related risks to follow.

However, disclosure alone cannot address the scale of the challenge, as there are many externalities (e.g. climate and nature impacts from investments that do not fall on the investor) and relying on investors to fully avoid these kinds of impacts voluntarily is not likely to succeed within the timeframes outlined by the science. Ultimately, we must move beyond TCFD by regulating to ensure that all financial sector actors take adequate steps, to manage the full impacts of their investment and lending practices, and aligning with climate and nature outcomes.

⁴ The Terms of Reference for the Review is [here](#), pages 22 to 24

⁵ <https://www.wwf.org.uk/global-futures>

⁶ <https://www.wwf.org.uk/updates/developing-and-piloting-uk-natural-capital-stress-test>

The UK government must give certainty to the finance sector ahead of COP26. It must indicate its commitment to introduce a mandatory requirement for all regulated financial institutions⁸ to develop and disclose a strategy for aligning their operations and their financed emissions with Paris Agreement goals (net zero), and to report annually against these plans and associated short-term targets.⁹

The UK government should also state its commitment ahead of COP26 to support the work of the TNFD, to help fast-track development of the standards, frameworks, tools and metrics needed to support nature-related risk reporting and disclosure in the finance sector.

The UK also has a more immediate opportunity to accelerate progress by including finance in the Due Diligence Obligation (DDO) in the Environment Bill. This would require all companies and financial institutions to ensure they are not contributing to illegal deforestation through their supply chains and investment decisions. The UK government has recently proposed amendments on DDO to the bill, requiring those engaging in commercial activities involving the trade and use of 'forest-risk' commodities (e.g. palm oil, beef, paper & pulp, timber, rubber, soy and cocoa) to conduct risk-based due diligence to ensure the supply chains don't include illegal deforestation and human rights abuses.

However, the amendment does not currently extend to those financing such commodities. Given the UK's climate goals, and its position as a growing centre of green finance, it is essential that those providing finance to such supply chains are held to the same standards as their clients. Without addressing illegal deforestation and unsustainable agricultural production (the latter of which accounts for 24% of global emissions, and the former of which accounts for 8% of global emissions), it is unlikely that we will achieve our climate targets.

4) SUPPORT BIODIVERSITY PROTECTION AND A GREEN ECONOMIC RECOVERY BY GREENING SOVEREIGN DEBT MARKETS

Summary: *The UK should promote the greening of sovereign debt markets by championing nature-performance bonds (NPBs) and supporting the launch of a facility at the G7 in June 2021 to promote their implementation globally, to help protect biodiversity and support a green economic recovery.*

Sovereign debt is expected to grow significantly as countries borrow to recover from the COVID-19 pandemic, pushing some to require debt restructuring to avoid defaults. Many of the worst affected nations are also facing escalating damage from climate change and biodiversity loss, further constraining the economic activity needed to repay debts.

Nature-performance bonds (NPBs) – alternatively known as sustainability-linked bonds – are a new financial instrument designed to help address these interlinked issues – and would provide new finance to help countries recover from the pandemic, while also supporting investment in natural capital and the low carbon transition. NPBs provide a potential reduction in interest and/or principal over time, in return for the achievement of climate and nature-based outcomes (incl. restoring wetlands, protecting forests from encroachment, and reducing threats to wildlife and plant species).

By reducing the cost of capital for countries who over time are building their resilience to future environmental shocks, NPBs offer a powerful means to incentivise and help debtor countries to protect their natural assets – such as through protected areas, sustainable land/resource use, removal of environmentally damaging subsidies, investment in nature-based solutions and other measures. In turn this would act as a powerful catalyst for wider reform of economic, fiscal and budgetary policies to enable countries create the enabling conditions to pursue these measures.

NPBs should have strong appeal to both public and private sovereign creditors who want to ensure the sustainability of their investments, and promote a green recovery from the pandemic. Blended finance mechanisms could also be used to provide an element of subsidy where warranted, reflecting the fact that investing in nature and the low carbon transition also constitutes a global public good i.e. benefiting all countries globally, not just the country that itself invests in its own natural assets. Thus there is potentially an important role for multilateral development banks and other development financing institutions to play, to provide added incentives for the uptake of this kind of instrument.

As host to the G7 residency and COP 26 in 2021, the UK government could play a key role in championing NPBs globally, building consensus among policymakers, international organisations and the private sector, with the aim of establishing NPBs as a key element of international sovereign debt architecture. It can also support the creation of an international facility – to be announced at the G7 in 2021 – to help accelerate development of the NPB concept and build capacity to help debtor and creditor countries develop, negotiate and manage new bonds.

**OUR FLAWED
ECONOMIC MODELS
AND POLICIES
ARE A PRIMARY
REASON FOR THE
ENVIRONMENTAL
CRISIS WE
NOW FACE.**

⁷ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933783/FINAL_TCFD_ROADMAP.pdf

⁸ Including banks, asset managers, asset owners, insurers and other significant institutions in the finance sector.

⁹ Targets should cover all activities on science-based no/low overshoot 1.5°C scenarios that do not rely on excessive carbon dioxide removal technologies.

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