



# Briefing Note

Prepared for the Launch of the  
**Biodiversity Instruments Concept Paper**  
on 31<sup>st</sup> March 2021

**NEW ZEALAND'S  
BIOLOGICAL  
HERITAGE**



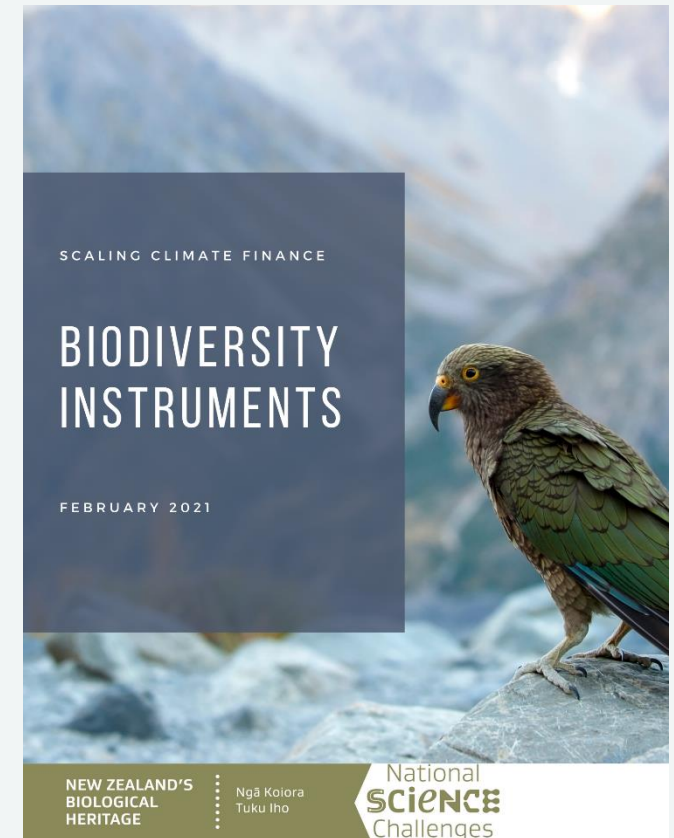
Ngā Koiora  
Tuku Iho

National  
**Science**  
Challenges

**MōHIIO**  
CLIMATE INNOVATION LAB

# Concept Paper: Biodiversity Instruments

- The BioHeritage Challenge is one of eleven challenges being funded through the National Science Challenges by Ministry of Business, Innovation and Employment (MBIE).
- The Bioheritage Challenge and the Adaptive Governance & Policy team (S07) commissioned the Climate Innovation Lab to identify the potential for innovative finance and funding mechanisms to support biodiversity protection and co-governance under te Tiriti o Waitangi.
- This briefing note outlines selected biodiversity financing options from their report.



# GLOBAL BIODIVERSITY FINANCING GAP



Credit: *Financing Nature: Closing the global biodiversity financing gap*, The Paulson Institute, The Nature Conservancy, and the Cornell Atkinson Center for Sustainability, 2020.

# Hauraki Gulf Blue Bond

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- Debt instrument
- Dedicated use-of-proceeds for freshwater, estuarine, marine & coastal conservation outcomes
- Credit rating from public sector engagement

## Problems addressed

- Addressing sedimentation requires large-scale investment
- Lack of upfront capital for environmental remediation
- Financial returns are long-run and diffuse
- Capacity to unify diverse actors (mana whenua, councils, businesses, community groups)
- Strong demand for green investment products, but lack of supply

## Applications

- Seychelles' sovereign blue bond (2018)
- Nordic-Baltic Blue Bond (2019)
- Councils, CCOs, central government & industry
- Coordinated monetary-fiscal policy



*Forest landscape restoration to reduce flood impacts, stabilise slopes & provide clean water*

*Rebuild & maintain sustainable fisheries*

*Purify waste water & alleviate flooding*

*Protect & restore mangroves, coastal wetlands & beaches*

*Conserve and protect water sources (i.e. in protected areas)*

*Riparian planting to maintain water quality & reduce erosion*

*Develop aquaculture*

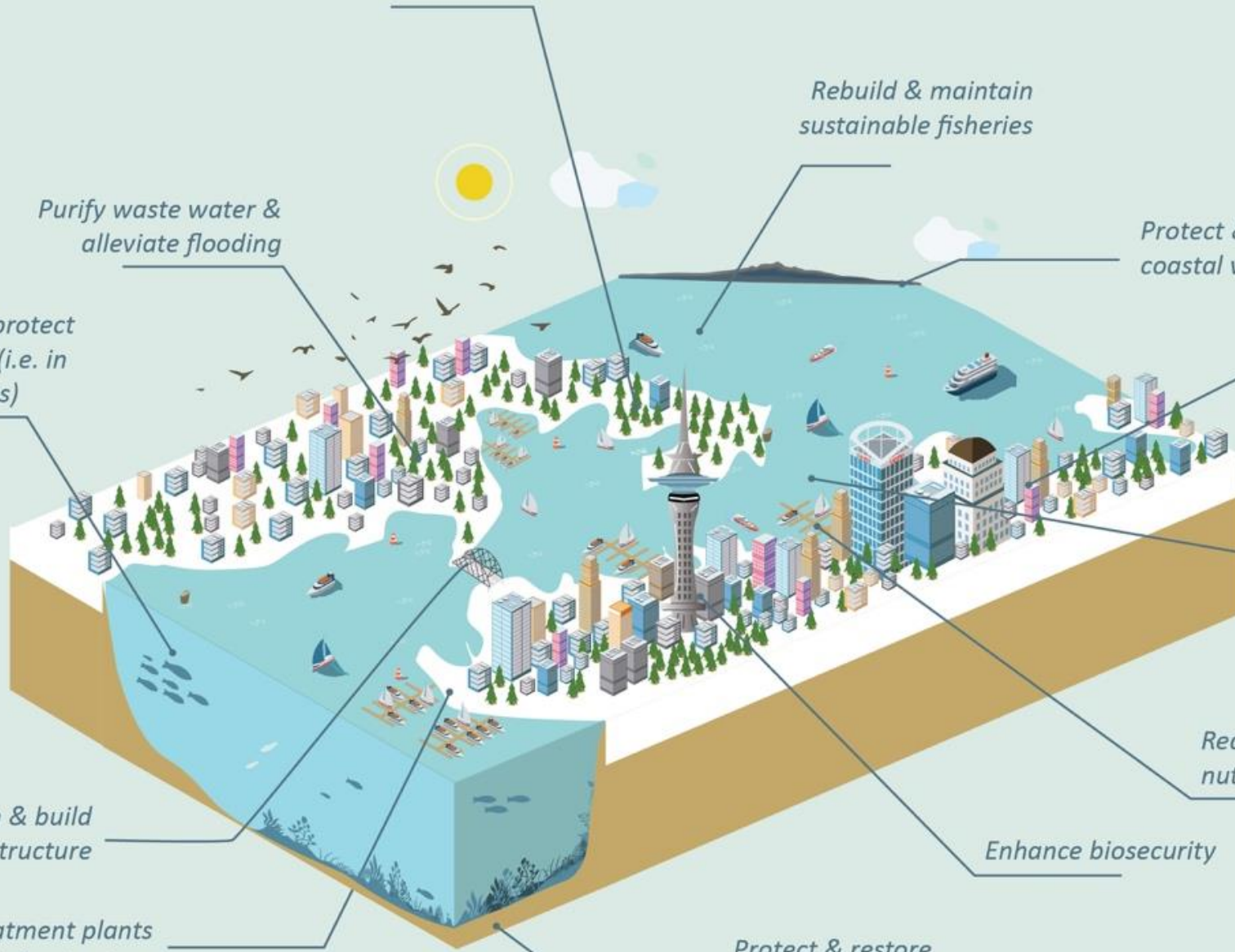
*Reduce marine debris, sediment, nutrients & heavy metals*

*Design & build coastal infrastructure*

*Enhance biosecurity*

*Water quality treatment plants & green infrastructure*

*Protect & restore fisheries habitat*



# Debt-for-Nature Swaps (DNS)

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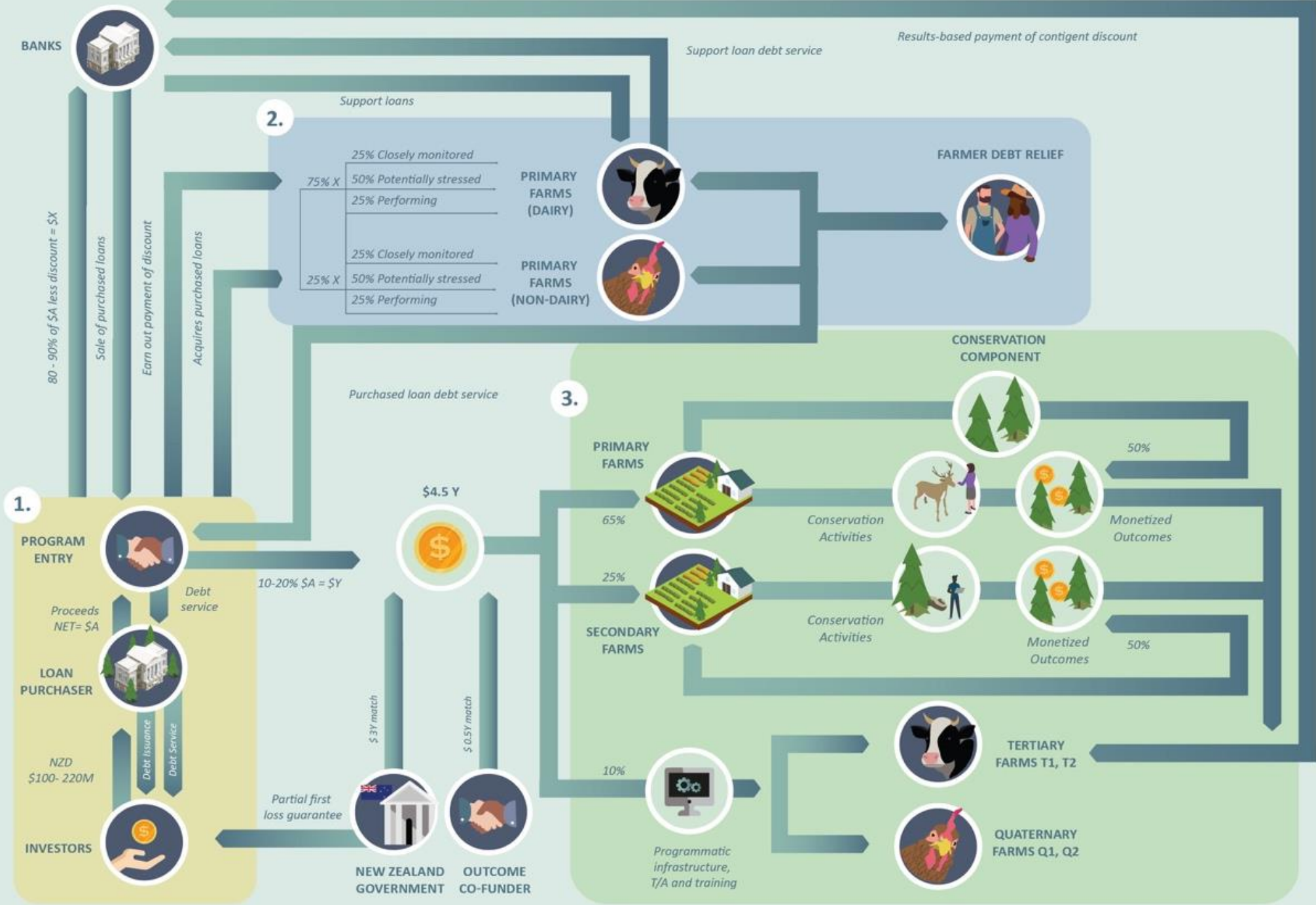
- Debt restructuring mechanism
- Forfeiture of debt stock or service in exchange for environmental remediation
- Intermediary acquires existing farm loans from lenders at a discount from principal value
- Debtors undertake regenerative & nature-based activities
- Banks provide funding for these activities, but on a strictly results-based payment basis
- Intermediary carries risk to benefit from improved farm performance

## Problems addressed

- Indebted farms are vulnerable to default
- Environmental compliance & climate change adds stress
- Agricultural debt amounts to 13% of bank lending, so risk to financial stability
- RBNZ identifies 3% of dairy loans as 'non-performing', 10% as 'potentially stressed', and 15% as 'closely monitored'

## Application

- Poland's USD\$500 million DNS (1992)
- Seychelles' USD\$20 million DNS (2018)
- Agricultural Debt-for-Nature Swaps is a globally pioneering concept
- Currently testing with agricultural lenders



# Regional Biodiversity Fund

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- Equity instrument
- Closed-end venture capital fund
- Investees in mature markets that contribute to biodiversity outcomes
- Investment strategy of targeting outsized returns from premium products, such as sustainably harvested timber, mānuka honey, carbon credits & ecotourism

## Problems addressed

- Direct investments are not easily scalable
- High search costs, high transaction costs, and low risk diversification
- Misalignments with institutional investor mandate

## Application

- HSBC Pollination Climate Asset Management
- Althelia Climate Fund
- Institutional investors, foundations and family offices
- Structured finance to enable public contributions – e.g. credit enhancements, purchase obligations or catalytic first-loss capital





# Biodiversity Payment Mechanisms

Type	Description	Examples
Grant-based Schemes		
Output or action-based grants	A non-repayable grant to parties who must undertake pre-defined activities	Jobs for Nature, New Zealand; Direct landowner grants, One Billion Trees Programme, New Zealand; Erosion Control Funding Programme, New Zealand
Environmental covenants	A grant provided in exchange for a covenant with an authority which restricts subsequent land use change	QEII National Trust, Ngā Whenua Rāhui Fund
Easement schemes	A payment provided to landowners who retire land from agricultural production in order to accelerate regeneration	Agricultural Conservation Easement Program, United States
Outcomes- or result-based schemes	A payment to an agent who assumes responsibility for achieving pre-defined results, verified independently	Burren Programme, Ireland
Compensatory Schemes		
Offsetting or trading schemes	A market mechanism that counter-balances the unavoidable impacts of development activities on biodiversity by enhancing the state of biodiversity elsewhere	Biodiversity Offsets Scheme, Australia; Wetland mitigation banking, United States
Redistributive schemes	A fiscal instrument which imposes a tax on ecosystem disruption, then recycles revenue into biodiversity improvements	Parliamentary Commissioner for the Environment's proposed levy for biogenic emissions, with revenue recycled into on-farm forest sinks

# Further Information

David Hall & Sam Lindsay (2021) *Scaling Climate Finance: Biodiversity Instruments. Concept Paper*. Auckland : Mohio Research. <https://doi.org/10.34721/yc1w-me20>

For more information on the Climate Innovation Lab, go to <https://www.mohio.co/>



Whakahou/ Restore-  
Adaptive Policy &  
Governance (S07)

<https://bioheritage.nz/goals/stategic-objective/policy/>

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