

From individual transactions to investable pipelines

What nature bonds need to scale

Nature bonds can connect capital markets with biodiversity priorities, but successful issuance depends on more than investor interest. A recent webinar organized through the Revenues for Nature initiative examined the project pipelines, measurement systems and partnerships needed to move from promising transactions to a market that can be repeated and scaled.

Can a bond help restore a watershed, protect biodiversity or strengthen the natural systems on which an economy depends? The answer emerging from recent transactions is yes - provided that the instrument is built around clear priorities, credible projects and results that can be measured.

This was the central message of Nature Bonds: Mobilising Corporate and Sovereign Debt for Nature, a webinar convened as part of the UNDP-UNEP FI Public-Private Community of Practice on Nature and Development Finance under the Revenues for Nature initiative. Speakers from UNDP, Rand Merchant Bank, the Asian Development Bank and the incoming CBD COP17 Presidency examined how nature-related debt instruments are being applied in practice and what is needed to take them to scale.

Bond markets matter because they can provide capital over timeframes that are closer to those required for ecological restoration. But nature bonds are not a single product. They include sovereign and corporate instruments, green and blue bonds, sustainability-linked bonds and outcome-based structures. What connects them is the use of established debt markets to finance defined activities or incentivize measurable results for nature.

Different structures for different needs

The webinar distinguished between three broad approaches. With a use-of-proceeds bond, an amount equivalent to the capital raised is allocated to predefined eligible activities. A sustainability- or KPI-linked bond gives the issuer flexibility over how the proceeds are used, but links the financial terms of the bond to progress against agreed indicators and targets. An outcome bond links part of the investor return to independently verified conservation results.

The choice of structure depends on what the issuer can define, track and verify. A country or institution with a clear portfolio of eligible expenditure may use a use-of-proceeds approach. An issuer with robust performance indicators may consider a sustainability-linked structure. An outcome bond may be suitable when a specific conservation result can be measured objectively and when partners are prepared to pay for verified performance.

Across all three models, the credibility of the bond depends on the connection between finance and results. Investors need to understand what the instrument is intended to achieve, how performance will be assessed and how progress will be reported.

For governments the process starts with national priorities

Gaurav Gupta, Senior Nature Investment Advisor at UNDP, emphasized that sovereign borrowing for nature should be considered alongside a country's development priorities, natural capital dependencies and capacity to service debt. Nature supports productive sectors such as

agriculture, fisheries, forestry and water supply. Degradation can therefore affect revenues, exports, food security and long-term economic resilience.

The first question is not which bond to issue, but why new debt is needed and what it will finance. Governments need to assess their borrowing requirements and debt sustainability, identify the natural assets and economic sectors that require investment, and determine whether they have an adequate pipeline of eligible expenditure or projects.

Once these foundations are in place, the issuer can develop a bond framework, establish eligibility criteria and impact targets, obtain an independent external review, take the bond to market and report on allocations and results. This requires cooperation among ministries of finance, environment, agriculture and other relevant institutions.

Biodiversity Finance Plans can contribute to this process by helping countries identify financing priorities and solutions, and by providing a basis for developing project pipelines. However, bonds are not appropriate in every context. Countries facing serious debt constraints may need to consider alternatives such as blended finance or debt-for-nature conversions.

The Cape Water Bond shows why simplicity and replication matter

A practical example came from South Africa. Martin Potgieter of Rand Merchant Bank presented the Cape Water Bond, described during the webinar as the first nature-based outcome bond issued by a commercial bank. The bond supports the removal of invasive alien vegetation from water catchments in the Cape region.

Invasive trees can reduce water availability and displace the region's native vegetation. The project therefore brings together water security, biodiversity conservation and economic resilience. Its central performance measure is the number of hectares cleared. This measure was selected because it is objective, verifiable and easier for investors to understand than a more complex combination of ecological indicators.

The bond was designed to clear approximately 6,000 to 6,400 hectares. Investor returns increase as verified clearing results improve. If the project underperforms, investors receive a lower return and part of the foregone return helps finance the project. If the project performs well, outcome funders cover the additional return. Results are independently measured and reported to investors.

The structure mobilized a bond with a face value of 2.5 billion South African rand, while 150 million rand was directed to the underlying conservation work. The five-year financing period gives the implementing organization greater certainty than short grant cycles, while a government entity has committed to support the restored areas for a further 25 years.

The transaction took approximately two and a half years to develop, but it was intentionally designed as the first in a possible series of water bonds. The next issuances are expected to be faster because the partners can reuse the structure, documentation, measurement approach and investor relationships.

This illustrates an important route to scale. The market will not grow through complex one-off transactions alone. Replicable themes, simple indicators and reusable systems can reduce transaction costs and make it easier for investors to participate. Investors should also be engaged early in the design process, especially when an instrument introduces an unfamiliar risk-and-return model.

Multilateral development banks can demonstrate what is investable

Duncan Lang of the Asian Development Bank described a different approach based on thematic use-of-proceeds bonds. Since issuing its first water bond in 2010, ADB has expanded its thematic issuance across areas including green, blue, gender, health and education finance.

ADB launched a US\$100 million, ten-year biodiversity and nature bond at the previous CBD Conference of the Parties in Cali. The bond was purchased by Dai-ichi Life and linked to existing ADB-financed projects in China and India. By issuing the bond, ADB aimed to demonstrate that nature-positive projects can form part of an investable portfolio offered by a highly rated institution.

Future ADB biodiversity and nature bonds are expected to align with the Multilateral Development Banks' Common Principles and Nature Finance Taxonomy. Developed jointly by multilateral development banks, the taxonomy provides a shared framework for identifying activities that qualify as nature finance. Common definitions and metrics can improve consistency across issuances and give investors a clearer basis for comparison.

Classification alone is not sufficient. Projects included in future bonds will still need to show a meaningful connection to nature-positive outcomes. ADB is considering both projects with explicit nature-related performance indicators and wider projects in which eligible nature activities represent a material component.

The experience also points to a persistent financing gap before issuance. Technical assistance, project preparation and grants may sit outside the bond's eligible pool, even though this upstream work is often essential for turning biodiversity priorities into projects that meet investment requirements.

Measurement must be part of the financial design

Across the sovereign, commercial bank and multilateral development bank perspectives, measurement emerged as a foundation of credible nature finance. It cannot be added after a transaction has been designed. The indicators determine what can be financed, how performance is verified and what investors can reasonably expect.

There is also a balance to strike. Nature is complex, but the first transactions in a new market need outcomes that investors can understand and assess. A technically sophisticated indicator is not useful if it cannot be verified consistently or explained clearly. The most effective starting point may be one objective measure, supported by sound scientific evidence and transparent reporting.

Standards and taxonomies can strengthen this process, but they will continue to evolve as more transactions enter the market. Early issuances provide evidence that can inform future guidance, while shared frameworks can help successful approaches move beyond individual institutions.

Connecting finance with the road to COP17

Tigran Zakaryan of the incoming CBD COP17 Presidency placed the discussion within the wider implementation of the Kunming-Montreal Global Biodiversity Framework. Resource mobilization will be among the important issues considered at COP17, alongside efforts to align public and private financial flows with nature-positive development.

The Presidency plans to bring finance and environment ministries, central banks, international financial institutions and private-sector actors into the discussion. The aim is to strengthen

cooperation across institutions and help translate national biodiversity priorities into credible plans and investable projects.

Nature bonds can contribute to this agenda, but they form only one part of the financing mix. Sustainability-linked instruments, blended finance, debt-for-nature conversions, public expenditure and other mechanisms will all be needed. The appropriate solution will depend on national circumstances, market conditions and the type of activity being financed.

From promising transactions to a functioning market

The examples presented during the webinar show that nature bonds are moving from intention to issuance. Their long-term contribution, however, will depend on whether individual transactions become repeatable models.

Three requirements stand out: a pipeline rooted in national and institutional priorities; a structure that investors can understand and that can be used again; and measurable outcomes supported by credible verification and reporting. Partnerships are needed throughout - from governments and project developers to scientific experts, development finance institutions, commercial banks and investors.

Nature bonds will not close the biodiversity finance gap on their own. Their value lies in opening established capital markets to nature-related investment and bringing new participants into biodiversity finance. The next step is to use the lessons from early issuances to build a pipeline of transactions that is credible, investable and capable of being repeated at greater scale.