

Blue Impact Bonds for Nature

[Blue Impact Bonds for Nature](#) is a project that seeks to establish a replicable framework for an environmental impact bond, with proceeds funding nature-based restoration activities that mitigate climate change and improve coastal livelihoods. An Australian and global first, the project aims to showcase how nature-based solutions can benefit both investors and the environment, while aligning to the [Sustainable Blue Economy Finance Principles](#) (Principles).

Key facts:

- **Blue economy sectors targeted:** Not applicable
- **Project:** Blue Impact Bonds for Nature
- **Timeline of the project:** January 2021 – February 2024
- **Geography:** MidCoast Council, New South Wales, Australia
- **Key words:** alignment; climate change mitigation; inclusive livelihoods; blue bonds

Who?

HSBC, New South Wales Government, MidCoast Council, and The Nature Conservancy Australia.

The Nature Conservancy Australia is leading the project and is supported by HSBC’s Climate Solutions Partnership — a global network that aims to scale up climate innovation ventures, nature-based solutions, and transitions to renewable energy.

Where?

Blue Impact Bonds for Nature is being piloted for nature-based solutions around along coastal and estuary ecosystems in the mid-north coast of New South Wales, Australia. This location is favorable for the development of an environmental impact bond for several reasons including: local partners already engaged in

large-scale coastal wetland restoration, quality datasets that can be used to support ecosystem service modeling, and a series of restoration projects are identified as ‘shovel ready’.

A variety of nature-based solutions are being proposed to address local threats such as poor water quality as a result of drained wetlands and agricultural runoff, river sedimentation as a result of bank erosion, and decline in fish productivity as a result of physical barriers to fish passage and loss of nursery habitats.

Our pilot location is representative of a typical governance and spatial-management scale that could be replicated across the entire New South Wales coast and across other geographies.

What?

The Blue Impact Bonds for Nature framework helps identify investable nature-based solutions with revenue streams generated from increased ecosystem services. This approach builds upon previous Mapping Ocean Wealth Australia research which quantified the economic contribution of marine ecosystems to several coastal industries. Ultimately, the project aims to enhance capital market participation in mobilizing urgently needed conservation funds for environmental restoration and blue/green infrastructure improvements during this critical decade of action.

In the [Investing in Nature: Private finance for nature-based resilience](#) report, The Nature Conservancy and Environmental Finance surveyed 168 private investors and institutions and identified several barriers to natural capital investment. These included limited access to larger-scale opportunities, liquidity of investments and the need for risk sharing. The report also identified how to reduce these barriers by: (i) helping to develop standards and principles that support natural capital investments; (ii) supporting development of investable natural capital project pipelines; (iii) working with natural capital project developers to

design larger investment vehicles, and (iv) helping mobilize blended finance resources.

How?

The Blue Impact Bonds for Nature framework starts with accounting for the benefits provided by nature in both monetary and environmental terms. For example, the project is assessing how much blue carbon is sequestered per year by coastal wetlands, or tonnes of fish produced per hectare of wetland restored. The framework utilizes the United Nations System of Environmental-Economic Accounting to build natural capital account baselines and utilizes ecosystem service models like InVEST and AIREIS for projecting future uplift in benefits.

Next, the framework identifies which businesses or government agencies would benefit from increases in natural capital and ecosystem services. Importantly, these benefits need to be realised in economic and risk terms on a business’s balance sheet or risk register. Lastly, the framework establishes the financial mechanisms that allows for the environmental impact bond to be repaid by beneficiaries. This may include aggregating revenue from multiple beneficiaries each tied to a different ecosystem service. Options under consideration include carbon credits, biodiversity credits, environmental and utility levies, seafood premiums, new ventures, and recreational fishing licence fees.

Proceeds from the proposed environmental impact bond would support nature-based solutions (fencing, wetland restoration, sewerage and storm water upgrades, living shorelines) to address these threats. Beneficiaries include estuary users and industries such as: local community, tourism operations, aquaculture, agriculture, recreational fishing, commercial fishers, water managers and government.

The project aligns with the Principles; in particular because it: (i) considered scientific data and methodologies and builds from a

research report that HSBC and The Nature Conservancy funded, (ii) aims to deliver increased restoration, protection and preservation of the coastal ecosystems; (iii) leverages working in a consultative manner with local government and communities; (iv) aims to quantify co-benefits and understand long-term impact of any resultant investment (factoring in outcomes for livelihoods and primary industries). Further, the project has been developed while working closely with investors, capital markets and insurance to understand the best way to de-risk investments into coastal ecosystems, which in turn will help with scalability. Any resultant report deriving from the Blue Impact Bonds for Nature will be made publicly available.

Looking back...

“Blue Impact Bonds for Nature is a project in development undertaken by environmental and financial experts across The Nature Conservancy, HSBC, government agencies, and local stakeholders. Having an interdisciplinary team is critical for developing new financial mechanisms to scale investments in nature-based climate solutions, coastal ecosystems and nature-informed coastal infrastructure.”

- Alpa Bhattacharjee, Head of Sustainability, HSBC Australia