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Going with the flow: The state of nature-related finance

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LLOYDS

Going with the flow

Conceptualising and explaining why nature matters in finance has proved harder than many expected.

This newsletter takes you on a whistlestop tour of the state of nature-related finance through green, blue and nature bonds, sustainability-linked and outcome-based bonds, carbon and nature markets, blended finance and debt-for-nature swaps. As usual, we anchor the debate in the debt markets,

rounding out the market insights with what investors are saying they need to better mobilise capital towards nature-positive activities.

The edition has a larger than usual bibliography, showcasing further reading on nature-related risk quantification, financial mechanisms and where the opportunities for tangible impact lie. If you're interested in the topic, please do explore those, and let us know if there's a key piece missing.

Defining nature

Let's start by describing what we mean by nature in this context: water, air, soil, habitats and biodiversity. Most of us understand that the health of these is important to life and to the success of businesses that rely on them. Colloquially, we've observed that nature-related finance tends to be considered separately from climate (e.g., greenhouse gas mitigation) and social (e.g., diversity and inclusion, healthcare and affordable housing) finance.

The problem we're facing today is that human impacts on nature are accumulating to such a level that nature is struggling to bounce back. Monitored populations of mammals, birds, amphibians, reptiles and fish have declined by an average of 73% globally since 1970.¹ In the UK, 75% of land is covered by at least one hotspot of natural capital depletion, and 25% by two or more.²



¹ WWF, October 2024. [2024 Living Planet Report](#)

² Oxford Martin School, April 2024. [Assessing the Materiality of Nature-Related Financial Risks for the UK](#)

How does the value of nature connect into financial decision-making?

Classifying nature as an asset – as natural capital – has been proposed to frame it in a similar way to produced capital and human capital; with tangible and intangible elements, with inputs and outputs.^{3,4,5} Nature is so intrinsic to the cost base, resilience and profit of most companies that it's hard but not impossible to extract the financial materiality. Academic research and case studies are doing precisely that.^{6,7,8,9}

Frameworks exist for integrating environmental data and financial decision-making. The Equator Principles, launched in 2003 and still used globally

today, embed environmental and social risk evaluation into project finance. In 2022, the Global Biodiversity Framework was adopted by 196 countries, with targets for 2030 and 2050 that link financial markets and nature positive contributions. We also have the voluntary Taskforce for Nature-related Financial Risks (TNFD) and the EU's Corporate Sustainability Reporting Directive (CSRD). These ask for assessments of the dependencies and impacts that a company has on natural processes. The next step will be ascertaining the link between this data, cash flows and credit quality.

What makes nature relevant to finance now, more so than before?

Observed natural hazard events together with scientific analysis about the direction of travel for nature's health are driving awareness and provoking questions.

Authorities, like the Financial Conduct Authority,^{10,11} the Financial Stability Board¹² and the European Central Bank¹³ have produced guidance on nature-related risks in support of prudential supervision. Accountants are in on it,¹⁴ as are lawyers and actuaries.¹⁵

Insurance and banking models are being enhanced to factor in the range of nature-related risks on their business, with agriculture, forestry, infrastructure and real estate deemed the sectors most affected by changes in nature-driven disruptions.¹⁶

As well as better understanding risks, nature is acknowledged as an area of opportunity; one that requires greater levels of financing to achieve global sustainability objectives.¹⁷

³ HM Treasury, August 2021. [The Economics of Biodiversity: The Dasgupta Review](#)

⁴ Helm, D., June 2016. [Natural Capital: Valuing the Planet](#)

⁵ Office of National Statistics, November 2024. [UK natural capital accounts: 2024](#)

⁶ Cambridge Institute for Sustainability Leadership (CISL). [Nature-related financial risks, accessed 20 October 2025.](#)

⁷ London School of Economics, 7 October 2025, [EarthCap](#)

⁸ TNFD, June 2025. [Evidence review on the financial effects of nature-related risks](#)

⁹ OECD, April 2023. [Assessing biodiversity-related financial risks](#)

¹⁰ FCA, October 2024. [Nature-related Risk: Handbook for Financial Institutions](#)

¹¹ Climate Financial Risk Forum, 23 October 2025. [Developing an approach to nature risk in Financial Services](#)

¹² Financial Stability Board, October 2023. <https://www.fsb.org/2023/10/fsb-nature-related-risks/>

¹³ Elderson, F. September 2024. [Nature-related risk: legal implications for central banks, supervisors and financial institutions](#)

¹⁴ The Institute of Chartered Accountants in England and Wales & Global Accounting Alliance, March 2025. [Nature-related dependencies, impacts, risks and opportunities](#)

¹⁵ Institute and Faculty of Actuaries. [Biodiversity Working Party](#), accessed 22 October 2025

¹⁶ Guardian, October 2025. [Towns may have to be abandoned due to floods with millions more homes in Great Britain at risk](#)

¹⁷ UN Biodiversity Conference COP16, February 2025. [Global biodiversity agreement mobilises \\$200 billion boost for nature](#)

Which financial instruments are being used to mobilise capital to protect and restore nature?

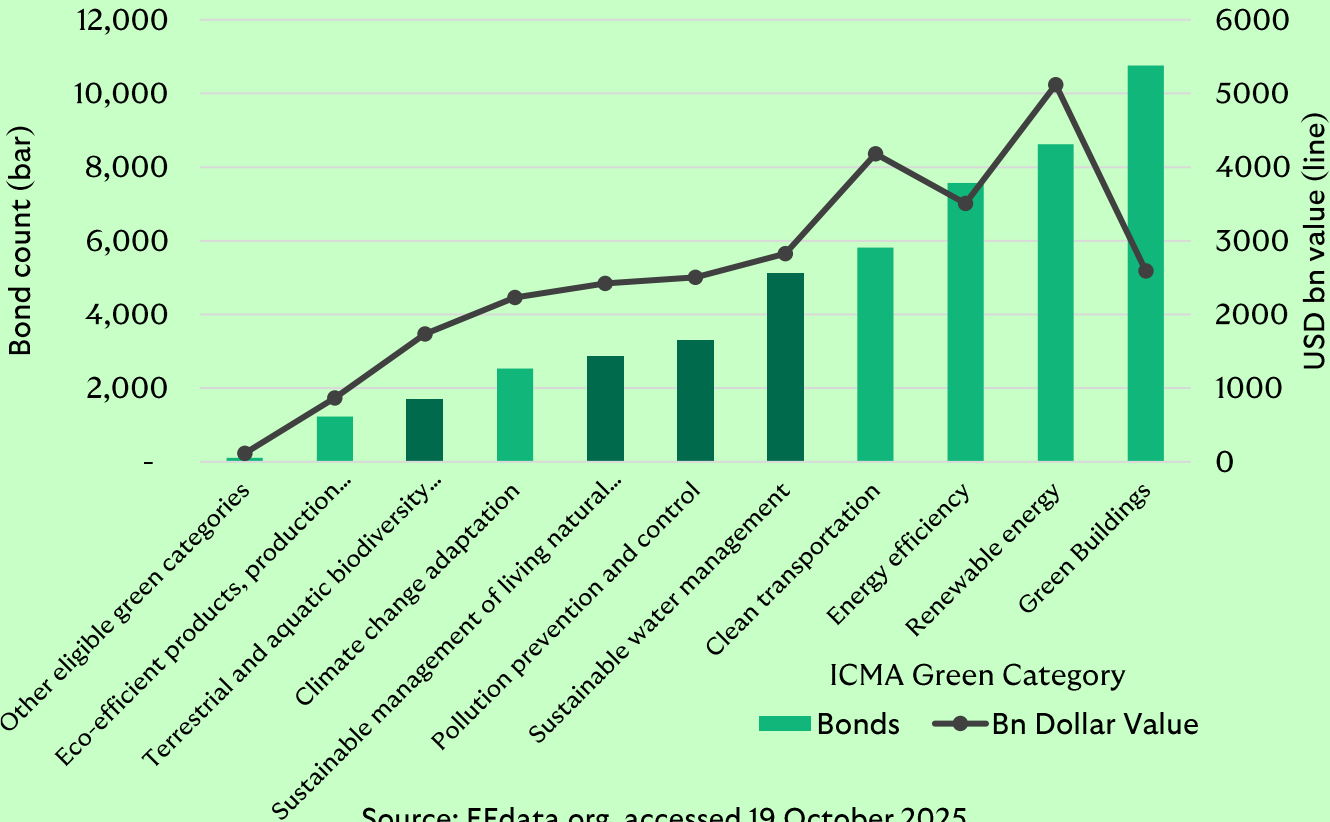
Green bonds can expand beyond the favoured ‘climate change mitigation’ use of proceeds to fund nature themes.

Green bonds are those that have specific criteria for how the proceeds will be used. Investors in a green bond can expect that the money they invest will contribute to environmental objectives. The green criteria typically rely on voluntary frameworks such as the ICMA Green Bond Principles, the Climate Bonds Initiative, or the EU Taxonomy in the case of regulated EU Green Bonds.

With an outstanding market value of USD 3 trillion,¹⁸ green bonds are an instrument familiar to many investors and would be well-served to channel funds to nature-positive activities. However, to date, this has not been the case to any meaningful degree.

In Figure 1, we see the volume and frequency of green bonds sorted by use of proceeds categories as articulated in issuers’ frameworks. Those coloured in dark green can be classed as nature for the purposes of this analysis. We see that ‘Terrestrial and aquatic biodiversity conservation’ and ‘Sustainable management of living natural resources’ are in the bottom half of volumes and frequency in green bond frameworks, and we expect allocation to be even lower proportionally.

Figure 1: Frequency of use of proceed categories in green bonds issued 2006 - 2025 YTD



Source: EFdata.org, accessed 19 October 2025

¹⁸ EFdata.org, Total outstanding market value (\$Bn), accessed 22 October 2025

Greater specificity is welcomed though there is concern that more labels might confuse the market.

Green bonds can have secondary labels that provide more specificity on the green categorisation. Examples include electric vehicle-themed bonds, biodiversity bonds and blue bonds. Blue bond proceeds would be understood to go to projects that have a positive impact on marine or freshwater habitats. They would typically align not only with the ICMA Green Bond Principles but also with the IFC Guidelines for Blue Finance or ICMA's blue bond practitioner's guide.^{19,20}

In a similar vein, in 2025, ICMA published guidelines on nature bonds, which seek to bring clarity on how green bonds can be deployed to better support nature-themed investments.²¹

Advocates of 'nature' and 'blue' bonds are promoting the distinct sub-labels so that the themes can be tagged, analysed and located by investors seeking thematic exposure and impact.

However, we have identified only two thematic nature funds specific to developed market fixed income space, and it is expected that investors will assess blue and nature bonds in line with their green bond methodologies and treat them as such.

Meanwhile, of the total 9,532 ICMA-aligned green bonds issued globally by corporates to date, only ~75 have used the sub-label 'blue', showing the nascency of the product.²² Alongside this, there have been several biodiversity-themed green bonds, but all in all, nature bonds are deemed to be very limited.²³



Sustainability-linked bonds tied to biodiversity and water KPIs are few and far between.

Sustainability-linked bonds (SLBs) are those instruments with a coupon dependent upon the achievement of a sustainability performance target. These targets are set ahead of issuing the bond, with the company selecting key performance indicators that are deemed material to their business.

In a global sample of 554 SLBs, 434 (78%) have an emissions reduction KPI. Meanwhile, 17 (3%) have a water-related KPI and only 7 (1%) have a biodiversity or conservation KPI.²⁴

With issuance of SLBs waning in the past two years, it is unlikely that SLBs will be the instrument of choice for nature-related financing. Added to that, the metrics and targets that reside within the nature space (e.g., Mean Species Abundance, peatland restoration, soil health) are more varied and more location-specific than the singular metric of a tonne of carbon dioxide equivalent, making it harder for investors to compare targets, monitor progress and track impact.

¹⁹ IFC, September 2025. [Guidelines for Blue Finance. V 2.0](#)

²⁰ ICMA, September 2023. [Bonds to Finance the Sustainable Blue Economy: Practitioner's Guide](#)

²¹ ICMA, June 2025. [Sustainable Bonds for Nature: Practitioner's Guide](#)

²² Bloomberg fixed income, accessed 16 October 2025

²³ Sustainable Fitch, 27 August 2025. [Few Existing GSS Bonds Would Qualify for Nature Bonds Label](#)

²⁴ EFdata.org, data accessed 19th October 2025

Outcome-based bonds are among the most cited instruments for nature financing potential, though the return profile might prevent them from scaling.

The World Bank's \$150 million Wildlife Conservation Bond ("Rhino bond") is an example of an outcome-based bond. In this example, the principal is protected by the World Bank, meanwhile investors forfeit upfront coupon payments. The amount forfeited is channelled into rhino conservation.

If the outcome is achieved, then investors receive an incremental success payment. In the Rhino bond case, depending on the rhino population growth the Global Environment Facility, a multilateral environmental fund, will pay investors.²⁵

Other outcome-based bonds include the Amazon Reforestation-linked Bond and the Plastic Waste Reduction-linked Bond.²⁶

With the 'who pays?' challenge at the heart of the nature finance debate, outcome-based bonds typically relying on philanthropic contributions for the interest upside and often require credit enhancements for example, guarantees.

Carbon and nature markets are gaining increasing focus, particularly as companies edge closer to their net zero interim targets and integrity standards have matured.

Through voluntary markets, funds can be deployed to support the mitigation and sequestration of carbon, with co-benefits to nature. Banks are critical in helping scale these markets, either participating with debt collateralised against carbon credit revenues or through outcome-based bonds. For example, the Amazon Reforestation-linked bond raised money through carbon removal units.

Carbon credits can be generated by businesses

These bond structures have a clear call to action, though tend to be small in volume, with financial characteristics varying considerably deal to deal. This may stand in the way of them attracting mainstream capital.



that are reducing or removing greenhouse gas emissions. Once verified, these credits can be sold, generating financial flows linked to sustainable activities. With over 1,900 companies having set net-zero targets linked to the Science-based Targets initiative,²⁷ and many unlikely to achieve their stated goal, in coming years more companies are likely to pay for carbon and nature credits to offset their residual emissions. This has the potential to stimulate the market for nature-related finance.

²⁵ The World Bank. [Case Study: Wildlife Conservation Bond](#)

²⁶ The World Bank - IBRD Funding Program. [Outcome Bonds](#), accessed 19 October 2025

²⁷ SBTi, August 2025. [SBTi Trend Tracker 2025](#)

Blended finance structures, with public capital able to lower the risk for private investment, can support greater participation in nature-related finance

Blended finance is often cited as the panacea. It uses concessional capital from public or philanthropic sources to de-risk investments and “crowd-in” private capital into projects that deliver measurable environmental or social returns. The UK’s [National Wealth Fund](#) has been set up to do precisely this.

These tiered structures can work, although they are often complex and take time to align the wide range of stakeholders. The concept of climate change adaptation and resilience are closely intertwined with the state of nature and large-scale natural flood management projects are tabled for blended finance.^{28,29} For projects that bring public good, and that operate across private or national borders, blended finance can be a powerful vehicle.

Debt-for-nature swaps can help align national priorities for debt reduction and nature-positive activities.

Debt-for-nature swaps are designed to restructure sovereign debt in exchange for commitments to invest in biodiversity and climate resilience. They offer investors a way to support nature-positive outcomes while improving credit sustainability in emerging markets. These have been seen in Ecuador for Galápagos conservation, Belize for coastal ecosystems, Bahamas for mangrove restoration and Indonesia for coral reefs.

Concerns remain around the conditional terms set by the donor, the monitoring and governance and the market perception. Debt-for-nature swaps can be a catalyst for collaboration, supporting Sustainable Development Goals and bringing financial upside for the sovereign.



²⁸ Environment Agency and Department for Environment, Food & Rural Affairs. [Guidance: Natural flood management programme](#), accessed 22 October 2025

²⁹ Green Finance Institute. GFI Hive – Financing Natural Flood Management, accessed 26 October 2025

Where are investors on nature?

“Out of a survey of 557 global institutional and commercial investors, two-thirds intend to increase their investments in nature improvements, solutions or markets.”

- Green Finance Institute, 2024³⁰

As a theme, investors often talk about nature in their insights articles, impact reports³¹ and more recently, in engagement and stewardship initiatives. However, our research suggests that as a theme, it's not widely embedded into investment practices, though water security and flood risk are likely to be part of financial assessments.

There are few specific nature-themed strategies. Those that do exist are relatively new and therefore small, with many focusing on Emerging Markets. Asset managers share that nature-related metrics are yet to be mandated by asset owners at scale – perhaps due to the lack of unifying units (as tonnes of GHG emissions is for decarbonisation).

A clear theme from our investor discussions is the preference for simplicity. We hear that investors are happy to see nature themes embedded within existing green or sustainability-linked bonds, rather than new labels that add additional details but not necessarily clarity. Metrics and reporting, as discussed in our [previous edition on bondholder engagement](#) is advancing, with asset owners looking for strong environmental and social impact stories complementing financial outperformance.³³ However, there is a strong desire to keep structures straightforward and avoid uncertain outcomes in terms of returns.

“[Asset owner] client demand for nature-focused strategies is growing but identifying transaction and sourcing data is still a challenge, say bond investors.”

- Responsible Investor, 29 May 2025³²

³⁰ Green Finance Institute, May 2024. [Investing in nature](#).

³¹ Titles include: “Nature risks and opportunities for investors,” “Investing in Biodiversity,” “Investing in nature: Identifying leaders and laggards,” “Perspectives on climate change and nature.”

³² Responsible Investor, 29 May 2025. [How are investors capturing biodiversity opportunities in fixed income?](#)

³³ Lloyds Bank Corporate Markets, September 2025. [Balancing Trick: Unlocking value through dialogue](#)

Conclusion

Nature finance has long been the domain of academics and development banks. It now inhabits the private sector too. With elegant structuring solutions, nature-positive investments can support climate goals, reduce risk and improve profitability.

Mounting evidence of material risks teemed with the widening adoption of disclosures can support dialogue and action between stakeholders. This means nature is in with the chance to be seen not just as a backdrop to economic activity, but as a foundational asset.

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