How Development Finance Can Damage Nature: New Study Shows Potential $800 Billion Cost to Society

New analysis reveals the potential damage to nature from Public Development Banks could cost society $800bn annually, equivalent to 7¢ for every dollar invested

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A global study of Public Development Banks (PDBs), such as World Bank, Asian Development Bank, and China Development Bank, estimates that potential damage to nature from development bank activities could cost society $800bn annually, equivalent to 7¢ for every dollar invested.

F4B calls on PDBs to publish a whole balance sheet stress test of nature-related financial risks and impacts.

A new report from Finance for Biodiversity (F4B) estimates that the value of the potential damage to nature from lending activities by public development banks (PDBs) worldwide is around $800bn annually. This 'nature at risk' value equates to 7¢ for every dollar invested and represents the potential economic costs of PDB investments which are carried out without effective measures to mitigate harm. This harm could undermine natural assets that economies around the world depend on, in spite of the mission of public development banks to support sustainable development.

Today's research, supported with analysis from Basic Roots and Vivid Economics, also finds that public development banks - of which there are more than 450 globally - are exposing themselves to huge nature-related 'dependency risk'. More than 40% of the total $11.6 trillion assets across PDBs is highly dependent on vulnerable ecosystems. Dependency risk refers to the extent that the financing activities of PDBs are highly dependent on nature which is already vulnerable - such as fishers relying on declining fish stocks - and hence reflects considerable long-term financial risks to PDB balance sheets.

While development banks do employ certain environmental safeguards, the report argues that these are not enough. PDBs need to better understand and systematically manage nature-related risks. The report urges every PDB to publish, within the next twelve months, a whole balance sheet stress test of nature-related financial risks and impacts.

The report - Aligning Development Finance with Nature's Needs: Estimating the nature-related risks of development bank investments - is launched ahead of the second Finance in Common Summit.

G7 country governments are especially influential shareholders in development banks. G7 members collectively hold 42.6% of the shares of the World Bank, 56.5% of the shares of the European Bank for Reconstruction and Development (EBRD), and 46.8% of the shares of Asian Development Bank. Through representatives on the boards of DFIs, these shareholder governments can demand nature-related stress tests, nature positive investment portfolios, and better management of nature-related risks.

Jeremy Eppel, F4B Ambassador, said: "These publicly-owned banks should be fulfilling their mandate to foster development in a way that protects the environment. Without adequate measurement and reporting of biodiversity risks, how can their shareholder governments or their citizens know that development banks are not damaging the biodiversity and other natural resources that they committed to protect?

"Many development banks have been slow to assess nature-related risks, citing a lack of data around biodiversity and nature. Our published methodology shows that any financial institution can make a credible, first-pass, biodiversity-related stress test of its balance sheet.

"G7 governments have recently said they will ask development banks to 'embed nature into their analysis, policy dialogue and operations'. G7 members also collectively hold between 40-55% of the shares of the seven largest multilateral development banks (MDBs). It's now time for these governments to use their influence and powers to ensure nature is considered across the work of these development banks."

Gilles Kleitz, Director of the Department of Ecological Transitions and Natural Resources, AFD, said: "We welcome F4B's work on developing a methodology to assess nature-related risks for development banks. F4B's overall finding, that 40% of the value of investments is dependent on nature, aligns with a similar finding from Banque de France, which found that 42% of the value of securities held by French financial institutions comes from issuers that are highly or very highly dependent on one or more ecosystem services. AFD is committed to integrating biodiversity across its entire operations, and to devoting 30% of its climate funding to benefit biodiversity directly, reaching €1 billion by 2025."

The research was published by Finance for Biodiversity with support and analysis from Vivid Economics and Basic Roots Consulting.

Ola Adeyemi
ESG Communications
+44 7721 655294

ola@esgcomms.com
