



Unlocking fixed income biodiversity opportunities: NWB Bank

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The biodiversity opportunity

While bond issuers have embraced the opportunity to help fund the transition toward carbon neutrality, the issuance of nature and biodiversity-related bonds remains more limited. However, biodiversity bond issuance is beginning to move from niche to mainstream. Environmental Finance's Biodiversity Insight 2024 reported that 2023 was a "stellar year" for those sustainable bonds issued with terrestrial and aquatic biodiversity conservation marked for use of proceeds. A reported 255 bonds worth US dollar (USD) 150 billion were issued over the 12-month period, with Europe (44%) issuing the lion's share of nature and biodiversity-related bonds worldwide. ¹

Additionally, the Taskforce for Nature-related Financial Disclosures (TNFD), which began to be implemented in September 2023, is likely to bring nature and biodiversity to the forefront of issuer and investor attention in the years ahead. Described as "The Paris Agreement for Nature" in providing measurable international targets on a "fair share" basis, TNFD reported in January 2024 that 320 organisations from over 46 countries have committed to making nature-related disclosures based on its recommendations.² While we are encouraged that the research expertise to protect and develop biodiversity is growing, and disclosure standards are improving, the missing piece of the puzzle at present is the detailed commitment from the corporate sector to champion biodiversity. However, that, too, is changing.

Case study: NWB Bank

NWB Bank, or to give it its full title Nederlandse Waterschapsbank, is a specialist financial institution that provides funding for water authorities and local government organisations in the Netherlands. It is wholly owned by the Dutch state and local authorities, and is the Dutch government's main financing partner for enhancing sustainability in the Netherlands, where transitioning to a climate-neutral and circular economy requires major decades-long investment.

The expression "Nederland Waterland" is used in the Netherlands to refer to the country's reliance on water management for safety and prosperity. With nearly 70% of the population living in areas below sea level and four major European rivers flowing through the country, water management is of national importance, and it is the water authorities that are responsible for managing it to protect biodiversity and the land's inhabitants.

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¹ <https://www.environmental-finance.com/content/downloads/environmental-finances-biodiversity-insight-2024.html>

² <https://tnfd.global/320-companies-and-financial-institutions-to-start-tnfd-nature-related-corporate-reporting/>

The proceeds from NWB Bank's Green Bonds (self-styled as “Water Bonds”) are used to finance and refinance eligible loans for activities such as waterway management, adaptation to climate change, protection and restoration of biodiversity and ecosystems related to water, and other activities consistent with climate change mitigation, climate change adaptation and biodiversity protection. NWB Bank offers reporting transparency, including an annual Water Bond Report posted to its website outlining eligible loans financed, a summary of Green Bond development, a mapping of water authorities' activities to European Union Taxonomy activities, project examples and an assessment of environmental impact.

NWB Bank Water Bonds are helping to promote biodiversity in the Netherlands by financing specific activities such as the development of flowering dikes and natural banks, the restoration of meandering streams, the provision of migration facilities for fish and the linking of nature reserves. The water authorities are also working to reduce their nitrogen emissions and combat invasive exotic species that threaten biodiversity.

An example of this is the Climate buffer in the Drents Overijsselse Delta Water Authority area, which is helping to protect the city of Meppel from flooding in the event of extreme rainfall. The climate buffer also helps to combat desiccation in the Holtingerveld Natura 2000 area by increasing the amount of freshwater available in times of drought. Furthermore, it makes the area more attractive for recreation, with the restoration of cultural-historical elements such as the characteristic alder canals and parts of the old waterways.

Figure 1: City of Meppel protected by the climate buffer in Drents Overijsselse Delta Water Authority area



Source: Shutterstock

Assessing the bank's fundamentals

NWB Bank is not a typical deposit bank. Its ownership model and designation as a bank “for and of the public sector” means its bonds are AAA/Aaa rated and guaranteed by the Dutch government. As a result, its bonds are on the low-end of the risk spectrum. However, we still carry out rigorous assessments of the bank's fundamentals, and our dynamic credit model, in combination with the views of our analysts, allows us to assess the medium-term default risks and portfolio eligibility of this investment. This includes financial metrics such as profitability, interest margin and capitalisation, and assessing the quality of its loan book and capital ratios.

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A good fit for our Green Bond strategy

According to PWC, more than half (55%) of the world's gross domestic product (GDP)—equivalent to an estimated USD 58 trillion—is moderately or highly dependent on nature, rising from USD 44 trillion in 2020.³ This makes biodiversity a critical growth area of the green bond market that, while still relatively niche, has enormous long-term investment potential. Being able to own assets such as NWB Bank's "Water Bonds" helps us to maintain exposure to biodiversity in our credit portfolios while also potentially benefiting from, in our view, an expected decline in interest rates in the coming 12–24 months.

Moreover, the direct impact made by NWB Bank's bond issuance, where the money is used directly to fund water-based projects and finance sustainability initiatives, confirms our belief that fixed income has several structural advantages over equities in terms of delivering a measurable, transparent and sustainable impact, and ensuring resources are directed to where they are needed most.

To learn more sustainable fixed income investing, read Nikko AM's investment guide [here](#).

If you have any questions on this report, please contact:

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³ [https://www.pwc.com/gx/en/news-room/press-releases/2023/pwcboosts-global-nature-and-biodiversity-capabilities.html#:~:text=More%20than%20half%20\(55%25\),is%20highly%20dependent%20on%20nature.](https://www.pwc.com/gx/en/news-room/press-releases/2023/pwcboosts-global-nature-and-biodiversity-capabilities.html#:~:text=More%20than%20half%20(55%25),is%20highly%20dependent%20on%20nature.)

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