

Financing NbS: Overcoming obstacles and mobilizing investments for successful, sustainable NbS

Key messages from NbS Digital Dialogues Panel 5

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[You can watch the recording of the session on YouTube.](#)

SUMMARY

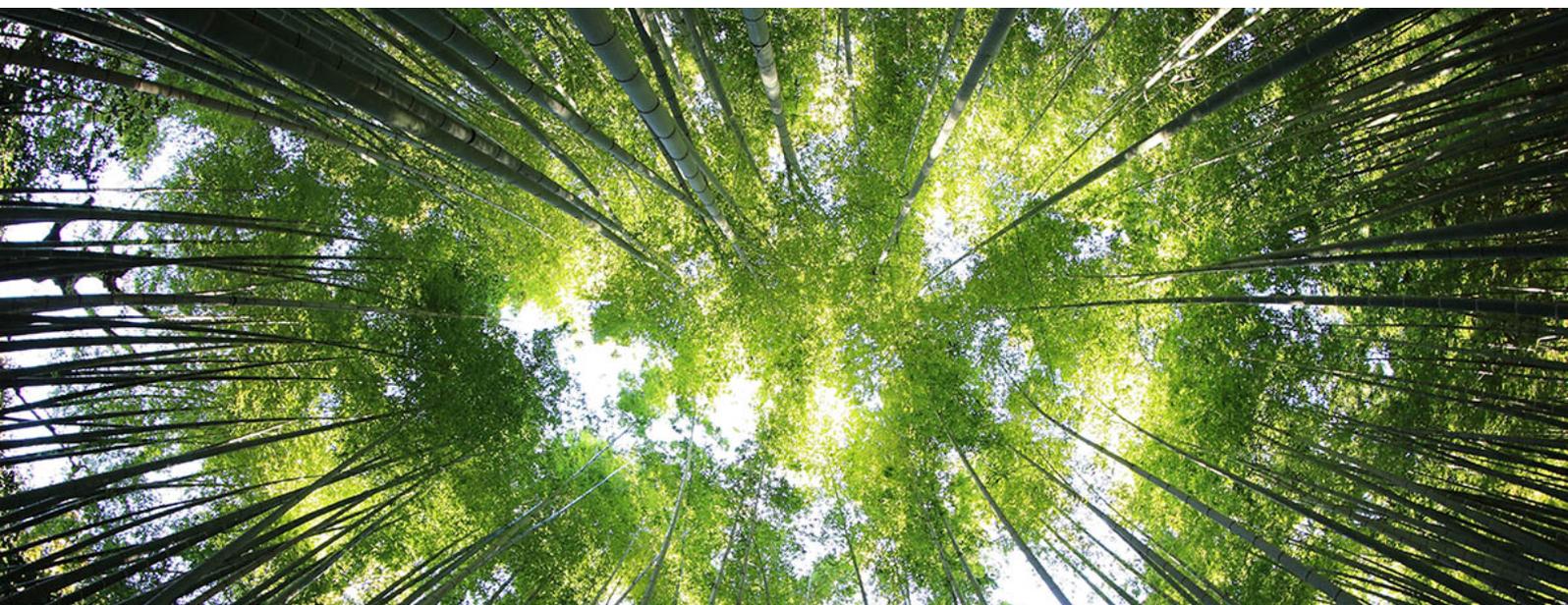
1. Financing for NbS should be delivered across all countries, with greatest need for funding in the Global South; funding must be directed to reduce inequalities and not perpetuate existing injustices.
2. The NbS financing gap (c.400 billion USD/year) can be closed by, among other methods, ending perverse public subsidies, reducing perception of risk by private investors, public-private partnerships for blended finance, and debt-for-nature swaps between nations.
3. Effective regulatory frameworks are needed to enable up-scaling of NbS, including multi-sectoral decision making, and regulations to incentivise the creation of public goods from NbS.
4. Valuation of NbS must include social and ecological values, in addition to economic value; nature must also be valued for its quality in addition to quantity, and valuation decisions should be made by a representative diversity of stakeholders. More broadly, we must shift away from using GDP as the only measure of progress.

5. To build back better from the pandemic, governments must tackle the underlying drivers of the health, nature and climate crises, including addressing environmental degradation.

INTRODUCTION

The importance of nature and biodiversity for addressing the interlinked food, climate, and health crises has never been clearer. 50% of global annual GDP - 44 trillion USD/yr - is moderately or highly dependent on nature (Nature Risk Rising, WEF 2020a), and nature-based investments hold the potential to create 395 million jobs by 2030 (New Nature Economy Report II, WEF 2020b). Yet, global finance flows are primarily directed towards damaging, extractive industries, thereby depleting our life support systems. Business as usual is not viable. Although scaling up nature-based solutions (NbS) will require substantial investments, the costs of addressing the negative economic impacts stemming from nature's degradation, such as those associated with COVID-19, are of similar orders of magnitude. Thus, investing in nature makes economic sense. Yet, NbS are significantly underfunded, only receiving 3% of global finance flows for climate change mitigation. Globally, the funding gap for biodiversity protection is estimated to be in the range of 400 billion USD/year (Huwyler et al. 2014). Meeting the Bonn Challenge alone (restoring 350 million ha of forest by 2030) would cost around 1.2 trillion USD over the next decade, equivalent to around 0.1% of Global GDP, with an estimated return on investment of 9:1 through avoided loss of ecosystem services (Verdone and Seidl 2017). Session 5 of this online conference focused on 1) the role NbS can play in enabling a green recovery post COVID-19, 2) how to mobilize finance for NbS and 3) what this would mean for the private sector, governments, and global finance institutions, including multilateral agencies.

The panel discussion represented a diverse set of perspectives, across the private, academic and NGO sectors.



KEY MESSAGES

1. Where is finance needed? – Key investment gaps and opportunities to scale-up the impact of finance on NbS

- Two sectors hold significant potential to achieve impact at scale through NbS: the land-use sector and urban areas. Ecosystem restoration, nature-based food production including regenerative agriculture, and improved management of working lands, can substantially contribute to reducing emissions (Griscom et al. 2017, 2020), while increasing yield and the resilience of production (Soussana et al. 2017). Meanwhile, with 70% of the global population projected to live in urban areas by 2050 (UN 2018), NbS in towns and cities represent a huge opportunity. Investments in urban NbS will have a high economic benefit by reducing the impact of climate-driven extreme events on people and infrastructure. Hence, urban NbS should receive a core part of the 90 trillion USD which is estimated as the global requirement for new infrastructure assets 2015-2030 (Mercer; IADB, 2017). A substantial proportion of this investment can be accomplished through green infrastructure, bringing nature into cities to promote health and well-being, as well as essential services, such as sustainable drainage systems and heat reduction. In cities, particularly among disadvantaged groups, the impacts of global environmental change are compounding, and investments in nature, such as the planting of trees to reduce urban pollution, are a key part of the solution. Importantly, as experiencing nature is essential to foster an appreciation for nature, it is crucial to bring nature to the global urban youth increasingly disconnected from the natural world.
- Finance for NbS needs to be delivered across the globe, and not restricted to certain regions. Often, the emphasis is on investments in the Global South, particularly in the context of carbon offsets, which can in some cases sustain, or worsen existing injustices. NbS can bring benefits in countries of all income levels; for example the majority of agriculture in the Global North remains highly intensive, damaging and unsustainable.

2. Closing the finance gap – Sources and mechanisms of finance

- A diverse set of finance mechanisms is required to close the finance gap for investments in nature, currently estimated to be on the order of 300-400 billion USD/yr (Huwyler et al. 2014). This includes private capital flows, philanthropy, public finance, and development assistance. Governments should shift environmentally damaging subsidies (notably, of intensive agriculture, fishing, and fossil fuel production) to support a nature-positive COVID recovery.
- Governments also have a strategic role in incentivising financial flows from private investors by reducing the perception of risk. This can occur through blended finance mechanisms, whereby public finance is used to mobilize private capital flows, such as through providing

frameworks for Payments for Ecosystem Services schemes. This is especially valuable for reducing the risk for private investors in public/development schemes, and for funding some types of benefits from NbS which do not currently have market payment mechanisms. Intergovernmental schemes are also valuable; for example, debt for nature swaps allow a portion of a developing nation's foreign debt to another nation to be written off in exchange for investments in nature.

- The need to rapidly adapt to climate change, and to safeguard the climate risk to infrastructure, especially in cities, is also forcing the insurance and re-insurance sectors to focus on NbS as cost-effective investments. NbS for adaptation and disaster risk reduction hold the potential to offer more resilient, safer insurance investments, such as in the case of New York City, where billions of dollars in savings were realised through nature-based stormwater management (CCAP, 2011).
- However, scientists must provide the information and tools that the private, public and NGO sector need in order to have confidence in investing in NbS, and make this common practice. There is a need for science-based targets for biodiversity, equivalent to greenhouse gas emission reduction targets which are now commonplace. Guidelines for companies to assess, prioritise, measure, address and track impacts and dependencies on nature are now available from the [Science Based Targets Network](#). In addition, NbS are often calculated to be cost ineffective, due to undervaluing of most of their benefits; hence scientists need to provide better evaluation frameworks and metrics, to reduce uncertainty around costs and effectiveness of NbS amongst potential funding bodies.

3. Regulations are key to foster enabling environments for scaling-up NbS

- Effective regulatory frameworks are a prerequisite for targeting and scaling-up finance of NbS, because current capital flows are contributing to the destruction of nature, rather than its care and 'commitments, and voluntary targets aren't enough' -Mark Gough, Capitals Coalition.
- Good corporate leadership is an essential ingredient to foster change, but few companies have stepped up despite a plethora of commitments over the past 3 decades. For example, only 50 of the 350 companies which contribute the most to tropical deforestation showed evidence of implementing time-bound commitments to eliminating deforestation in their supply chains (Global Canopy 2020) .
- Voluntary approaches are insufficient and it is time to move to talking about actions we must take, rather than could or should take. Hence, national and state governments need to foster

an enabling environment for the scaling up of NbS; this means introducing regulations and changing social/professional norms.

- At their core, regulatory frameworks should place the currently narrow focus on economic profit alongside the need for social and ecological returns on investment. This means including multiple values of nature within standard accounting methods (in progress by the Capitals Coalition and Value Balancing Alliance), and embedding methods for valuing nature within the finance departments of companies (which is now practised by a few companies).
- Achieving this vision will require addressing the sectoralized nature of decision-making (e.g. across disjointed ministries). For example, policies from economic and agricultural ministries are often crafted in silos, without proper engagement from environmental ministries, even though joint decision-making on these fronts is key for sustainable development. National-level decision making also needs to be inclusive of all stakeholder groups, with greater involvement of citizens in government decision making, including amplifying the views of those who are currently underrepresented.

4. Measuring the right thing – revisiting what we value, and how we measure values

- To scale-up financial flows to NbS we need to revisit how progress is defined and measured, and what values we prioritised. There needs to be a systemic change towards considering social and ecological values, beyond economic profit. This is crucial to ensure long-term investments in ecosystem resilience and human well-being. Fundamentally this is not happening because economic progress is not embedded in a broader focus on social and ecological values, and the relationship between the two.
- The current focus on economic growth as defined by GDP doesn't disaggregate growth according to whether the activities on which it is based benefit the social-ecological system in which we live; there is no separation between 'good growth' and 'bad growth'. As a result, allocation of finance to address global health, food, and environmental issues is 'reactionary', targeting the manifestations of environmental degradation (e.g. climate change and COVID-19), instead of addressing environmental degradation directly.
- Building back better requires treasuries of the world to recognise that the underlying causes of the health, nature and climate crises need to be addressed, and to promote a shift away from GDP as the only measure of progress. Institutionalising a focus on social and ecological values, sustainability, and use of a longer-term horizon for policy planning, is crucial to scale-up NbS. For example, finance flows to NbS should be tied to mandated ecological and social

indicators, beyond the quantities of trees planted or financial returns on investment.

- Importantly, however, the focus on what to measure and what values to consider is inevitably tied to issues of agency and power. Beyond what we are measuring, for whom are we measuring it? A variety of stakeholders have vested interests in NbS, and understanding who benefits and who loses is crucial for effective finance. Ultimately, beyond a broader focus on social and ecological values, investments in NbS should focus on inclusion, justice, and equity to avoid compounding existing inequalities and injustices. Understanding what values are delivered, and for whom, is crucial to mobilize private sector investments. To that end, natural capital approaches can help businesses recognize their impact and dependencies on nature, to embed sustainability in business operations.
- What is crucial however, is to promote more holistic, context-appropriate metrics focusing on qualities of natural capital, not just quantities. This is crucial to help businesses get a better grasp on what a nature-positive recovery looks like, beyond a carbon centric focus. Fundamentally, what matters to a business is what values drive productivity, and how. Already, we are seeing this shift happening across the standards businesses are using to disclose their sustainability metrics and it is crucial to push forward on this front.



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