MOBILIZING PRIVATE CAPITAL FOR NATURE TO MEET CLIMATE AND NATURE GOALS

SEPTEMBER 2023

RACE TO RESILIENCE

RACE TO ZERO

BACKGROUND TO COLLECTION OF SERVICES AND MATERIAL INCLUDED IN THIS DOCUMENT

For this report, The Climate Champions Team (CCT), the Center for Global Commons (CGC) at Tokyo University, and Systemiq have convened a group of experts, academics and practitioners from across a number of organizations to present insights to accelerate flow of private capital to Nature-based Solutions[1] to accelerate climate action. This paper serves as a companion to 'Financing Nature Action: a transformative action agenda', a report by the CGC that will be launched at COP28, aiming to inspire collective action across the public, private and philanthropic system to scale and improve nature finance globally. The perspectives presented throughout this report represent views of various authors and are not necessarily attributable to all co-authors.

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FOREWORD

The objectives of the Paris Agreement cannot be met without nature. It remains undervalued and underutilized as a climate mitigation and adaptation solution. Nature-based Solutions (NbS) are a critical ally on the path to reach net zero emissions by 2050 - they have the potential to not only supply over one-third of cost-effective climate change mitigation needs by 2030, but also to contribute to adaptation goals, while supporting economies and future proofing development priorities. In addition, NbS can help reflect the avoided cost of biodiversity loss and tipping points associated with a changing climate as well as the benefits of protecting nature.

To achieve this potential, NbS require access to financing and resources and aligning the economic and financial architecture with an equitable, net zero and resilient global nature economy. The Report of the Independent High-Level Expert Group (IHLEG) on Climate Finance notes the importance of mobilizing private finance at the right scale, of the right kind and at the right time. It also notes investment opportunities in natural capital are highly country-specific - investment in NbS requires a certain level of risk tolerance and adaptability from investors to avoid the risk of stranded assets.

The private sector, armed with innovation and capital, is a formidable force. Now more than ever, we need its ingenuity and resourcefulness to come into play as climate change continues to be a grave and mounting threat to our wellbeing and a healthy planet. This paper presents the increasingly strong case for the private sector to invest in NbS and contribute to closing the financing gap of USD 484 billion per year by 2030. Fortunately, efforts are already underway.

At COP27, The High Level Champions (HLC), the UN Regional Commissions and COP27 Presidency released the Compendium of Climate-Related Initiatives, a pipeline of high-impact, Paris-aligned climate-related projects from across the UN's five economic regions. The aim is to catalyze the flow of finance from private investors into these investable climate-related projects. Advancing our work on this initiative has included convening regional finance forums, and matchmaking financiers with project owners.

Also at COP27, the HLC, the Marrakech Partnership and COP27 Presidency launched the Sharm El-Sheikh Adaptation Agenda (SAA) as the agenda of adaptation solutions with 2030 targets to drive system transformation across key impact systems *(food and agriculture, ocean and coastal zones, and human settlements, infrastructure, health, water and nature systems and cross-cutting systems like planning and*

finance). NbS are at the heart of the SAA given the critical role that nature plays to reduce risk and exposure to climate change and increase adaptive capacity of ecosystems and communities. Similarly, SAA elevates the role of finance, not only as a key sector to advance investments in climate adaptation, but also as the key enabler needed by businesses, local governments and local communities to accelerate the implementation of climate adaptation solutions across systems. This year, SAA Task Forces were set up to drive momentum towards accelerating the implementation of the SAA among Party and Non-Party Stakeholders with an emphasis on Nature, Finance and Inclusion.

The current economic system does not properly account for nature loss, and we are now starting to feel those losses in ways that are becoming costly. Therefore, we need to rewire the system to properly reflect nature's value and benefits in the financial and economic systems and prioritize investments in nature to reap those benefits. The market recognizes the urgent need to prioritize investment in nature and build frameworks that will allow the socioeconomic systems to value it. A number of creative financing solutions are showcased in this paper, and detail is provided on how private capital can be effectively channeled into potentially replicable and scalable climate-related initiatives that leverage natural capital and NbS to their full potential. It presents a compelling case for investors to integrate nature-related risks and opportunities into their investment strategies, emphasizing that responsible and sustainable investing is not just a moral obligation but a strategic imperative for resilient and profitable portfolios.

To catalyze this transformative shift, in a way that is compatible with sustainable development in the Global South, radical collaboration is key. Governments, investors, businesses, and civil society must unite their efforts to create favorable conditions for climate-related investments in nature. Policymakers and regulators can implement forward-thinking regulations that reward sustainability and penalize environmentally detrimental practices. Financial institutions can re-evaluate their lending and investment criteria to incorporate climate and nature-related risks and opportunities. Entrepreneurs and innovators can develop cutting-edge technologies that accelerate the adoption of NbS and foster sustainable practices and deliver climate mitigation and adaptation outcomes. It is imperative to drive convergence to accelerate the implementation of mitigation and adaptation solutions towards the goals and outcomes noted in the 2030 Breakthroughs and SAA.

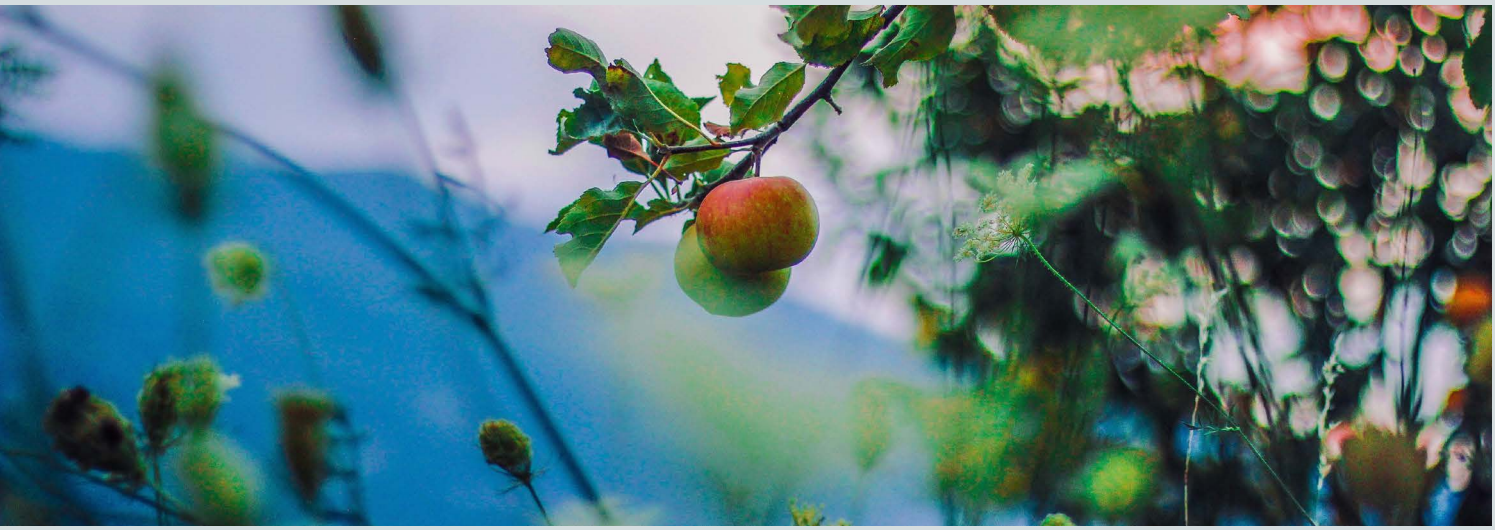
Investing in nature also presents an opportunity to recognize and elevate Indigenous People and Local Communities (IPLCs) leadership in climate action. Making up just 5 percent of the global population, IPLCs steward and protect 85 percent of the world's remaining biodiversity, including some of the most ecologically important areas to humanity. We must recognize the vital role of indigenous knowledge systems for planetary and territorial health, noting that their rights across value chains are fundamental.

The first Global Stocktake will take place at COP28. This will be a crucial moment to take stock and course correct from the path we are on towards the equitable net zero path where we need to be heading, as a global community. Each dollar invested in NbS is an investment in the future — a future where economic prosperity thrives in harmony with a healthy planet. By aligning their financial interests with the greater good, investors can be at the forefront of a transformation that shapes not just the business landscape but the fate of humanity itself.

DR. MAHMOUD MOHIELDIN
UN Climate Change High-Level Champion for COP27

H.E. RAZAN AL-MUBARAK
UN Climate Change High-Level Champion for COP28

KEY MESSAGES



The global economy is fully dependent on nature. Nature provides us with the food we eat, the water we drink, the air we breathe, and many of the materials we need for our production and consumption. It is fundamental for achieving climate goals under the Paris Agreement and the UN Sustainable Development Goals (SDGs). There is no pathway to a thriving economy, a healthy environment or an inclusive, prosperous society without shifting capital out of activities that destroy natural ecosystems into nature-positive solutions.[2]

Unfortunately, the transition to a nature-positive economy is significantly underfunded. The IHLEG Report on Climate Finance identified a USD 2.4 trillion annual climate financing gap by 2030 and set out a transformative action agenda to bridge that gap. Within this we face significant nature investment needs – estimated at close to USD 500 billion annually. This financing gap exists, in large part, because today's economic system does not: (i) adequately value natural capital; (ii) scale up successful business models for NbS; (iii) have the necessary enabling infrastructure and institutional capacity to structure and implement nature-positive interventions; (iv) have the political will and leadership to ensure that public commitments towards nature finance are followed through.

Political momentum, financial innovation and technological solutions are converging to tackle the barriers to mobilising finance, presenting a unique opportunity to ramp up ambition, drive action and unlock/redirect capital to a nature-positive economy that supports economic development and creates new jobs.

Scaling-up nature-positive business models represents a significant business opportunity – estimated at USD 10 trillion[3] – whilst bringing climate and social co-benefits. The global transition to a sustainable food and land use system could alone provide USD 4.5 trillion[4] a year of new business opportunities by 2030. Much of the capital required for this can come from the private sector, but it also requires public capital to be directed to nature to de-risk and unlock this private capital.

Delivering the transition to a nature-positive economy must grapple with the many facets of nature and not only focus on reducing greenhouse gas emissions. Defining and monitoring location-specific metrics is key for driving global, regional and local action on nature, underpinned by a consistent framework for accounting for natural capital, and high-quality nature data to accurately track and report on progress – which currently lags behind progress on climate.

Attracting more private finance for nature will require interventions to strengthen the attractiveness of nature-positive business models and supply chains – including more efficient use of catalytic capital (philanthropic and public) to mitigate specific risks and aggregate projects to an investable scale that can then unlock large pools of private capital. Interventions should focus on scaling:

1. **Catalytic initiatives to accelerate the implementation of nature-positive business models and supply chains,** ensuring capital flows to the right people, projects and players on the ground to address all drivers of nature loss[5]. This includes initiatives to accelerate sustainable agriculture and ecosystem restoration supply chains (e.g., guaranteed offtake agreements and technical assistance for regenerative commodity production); and strengthening business models that monetize nature's services (e.g., through establishing high-integrity carbon and nature markets);

2. **Capital mobilization mechanisms leveraging public capital to attract private capital and address constraints in the financial system.** These could include credit mechanisms to improve the financial-risk reward ratios (e.g., third-party guarantees, diversification of investment portfolios, and partial or full risk transfer mechanisms); and addressing increasing debt unsustainability in Emerging Markets and Developing Economies (EMDE) (e.g., through debt conversion deals for nature and climate) – including ensuring that the nature transition does not create additional debt burden for countries.

This package of interventions can only succeed if complemented by the appropriate enabling infrastructure. We focus on five core enablers: i) aligning national policy and implementation architectures towards nature (including planning, incentivizing, monitoring, and capacity building); ii) NbS project pipeline accelerators; iii) inclusion of IPLCs; iv) mainstreamed data access and management standards; and v) a common approach towards accounting for nature.

An emerging range of nature-positive initiatives and bankable business models are providing proof points of successful investments into conservation and restoration initiatives (investments *'into'* nature) and into initiatives targeting nature-positive production and consumption (investments *'for'* nature). These now need to be scaled to deliver on our climate and nature commitments. To do so, private financial institutions and private sector entities should adopt the following 6-step action agenda:

1. **Adopt and support high-integrity science-based target-setting and disclosure frameworks,** including globally recognized standards for carbon and nature accounting and for assessing, managing and disclosing nature and climate-related impacts, risks and dependencies

2. **Integrate adaptation and resilience** into business and investment strategies

3. **Harness the power of technology** to collect and share the high-quality nature data and analytics that investors, businesses, civil society, and governments need for scaling up investments in NbS

4. **Scale catalytic initiatives** that accelerate the implementation of nature positive business models

5. **Work with governments, Development Finance Institutions (DFI)/ (Multilateral Development Banks (MDB), and philanthropies to catalyze more private capital for NbS**

6. **Share best practices, lessons learned, and examples of success across the public and private sector, to:**

   - Demonstrate the positive financial case for investing in nature, and showcase the bankability of NbS programs.

   - Create standardization where possible between markets and de-risking instruments to maximize replicability and compatibility.

GROWING MOMENTUM ON NATURE FINANCE

The global economy is fully dependent on nature. There is no pathway to a thriving economy, to achieving 1.5 degree targets under the Paris Agreement, or to an inclusive, prosperous society without shifting capital out of activities which are destroying natural ecosystems, and into nature-positive solutions. Our economic system depends on natural capital – the world's stock of natural resources – with half of global GDP (USD 44 trillion[6]) moderately to highly dependent on ecosystem services. Our current economic model, which extracts nature for short-term benefit, is inequitable and unsustainable. Most economic activity undervalues nature; the World Bank estimates that the collapse of select ecosystem services provided by nature such as wild pollination, food from marine fisheries, and timber from forests could lead to annual global GDP loss is around USD 2.7 trillion (2.3% of global GDP) by 2030[7]. It depletes our natural capital and as such has led us to breaking through 'safe and just'[8] earth system boundaries with dire consequences: wildfires, extreme weather, food insecurity, drought, and the resulting negative impacts on human health[9].

Yet, investing in nature is also an underestimated area of opportunity – strengthening natural capital is the most effective way of building climate resilience and sustainable development. The IPCC AR6 Report[10] recognizes nature as essential for human survival and well-being. NbS can deliver 37%[11] of the global climate change mitigation required by 2030, and are a "low-risk, no regret"[12] action to build resilience to climate change impacts in landscapes and communities. To meet our climate goals, 10 gigatons[13] of CO_2e must be mitigated per year through NbS, the equivalent of stopping burning oil globally. Furthermore, EMDEs can save an estimated USD 104 billion[14] in 2030 by reducing the negative impact of climate changes through NbS.

The social benefits of NbS are also significant. For example, delivering on critical transitions in the food and land use systems can boost income growth for the bottom 20% of the rural population, increase yields, and create over 120 million extra decent rural jobs[15].

NATURAL CAPITAL AND NATURE-BASED SOLUTIONS (NbS)

Natural capital is defined as the "stock of renewable and non-renewable natural resources (plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits to people"[16].

According to the International Union for Conservation of Nature (IUCN) Global Standard for Nature-based Solutions, NbS are "actions to protect, sustainably manage and restore natural or modified ecosystems, which address societal challenges, effectively and adaptively, providing human well-being and biodiversity benefits" [17]. In alignment with this, in 2022, the United Nations Environment Assembly (UNEA) adopted a multilaterally agreed definition of NbS[18].

Unfortunately, the transition to a nature-positive economy is significantly underfunded, in large part because today's system does not (i) adequately value natural capital; (ii) scale up successful business models for NbS; (iii) have the necessary enabling infrastructure and institutional capacity to structure and implement nature-positive interventions; (iv) have the political will and leadership to ensure that public commitments towards nature finance are followed through. As a result, the IHLEG Report identified a USD 2.4 trillion annual climate financing gap by 2030 and set out a transformative action agenda to bridge that gap. Similarly, a transformative action agenda is needed to meet the almost USD 484 billion annual investment needed in nature[19].

The good news is that political momentum, financial innovation and technological solutions are converging to address these barriers, presenting a unique opportunity to ramp up ambition, drive action, and unlock/redirect capital to a nature-positive net zero economy.

1 **Clear targets and policy signals are emerging:** Just as the Paris Agreement catalyzed climate action, the Kunming-Montreal Global Biodiversity Framework (GBF)[20], adopted at CBD COP15, can catalyze significant public and private sector attention on nature[21]. Nature is prominent in the upcoming COP28 agenda and was at the heart of the recent G7 communique for action[22]. The Belem Declaration[23], announced at the Amazon Summit, reinforced momentum to address deforestation. Global targets are cascading to regional regulation and action. For example, the EU's Deforestation Regulation makes it mandatory for companies to verify and issue 'due diligence' statements that goods placed in the EU market have not led to deforestation and the EU Corporate Sustainability Reporting Directive extends sustainability reporting for corporates. Additionally, several countries are considering national Country Packages for Forest, Nature and Climate[24] to drive enhanced investments in nature.

2 **Finance is taking on nature:** Nature-related risks and opportunities are increasingly recognized by financial institutions. The Network of Central Banks and Supervisors for Greening the Financial System (NGFS) published a statement highlighting the macroeconomic implications of nature loss and advocating for central banks to take an active role in driving nature action[25].

Industry is also moving, recognizing that net zero targets will be out of reach unless deforestation and land conversion is urgently halted and reversed by 2030[26]. For instance, launched at COP26, and contributing to the Glasgow's Leaders' Declaration on Forests and Land Use, the Finance Sector Deforestation Action (FSDA) brings together over 35 financial institutions with over USD 8.5 trillion in Assets Under Management (AUM) who are working towards eliminating agricultural commodity-

driven deforestation risks to their investment and lending portfolios and increasing investments in NbS by 2025[27] related to 'forest-risk' agricultural commodities (palm oil, soy, beef, pulp and paper). FSDA signatories are stepping up engagement with companies addressing deforestation impact, engaging with major data providers to call for issuer-level data on deforestation risk exposure and management. Some members are also paving the way to increase investments in NbS. For example, AXA Group has committed to investing EUR 1.5 billion to support sustainable forest management, and its alternative investments business AXA IM Alts launched a EUR 500 million Natural Capital Strategy impact fund. Similarly, asset manager Schroders has partnered with Conservation International to set up Akaria Nature Capital, a dedicated natural capital impact investment manager.

At the same time, financial innovation is increasingly demonstrating what is possible. New financing instruments for NbS, such as debt conversion mechanisms for nature ("debt-for-nature swaps") and blended finance vehicles, highlighted in this report, are reaching scale and can be replicated.

3 **Voluntary nature initiatives and standards are maturing, in turn driving national regulation:** The releases of the Science Based Targets for Nature (SBTN)[28], Taskforce on Nature-Related Financial Disclosures[29] (TNFD) framework and Nature Action 100, are operationalizing nature-related targets, disclosure and investor engagement. These frameworks have already catalyzed action among corporates and financial institutions, with several organizations now piloting interim SBTN and TNFD guidance. These voluntary initiatives are increasingly supported by national regulation. For example, Article 29 of the French law on Energy and Climate requires financial institutions to disclose information about their portfolio impacts on biodiversity and climate. Additionally, the Integrity Council for the Voluntary Carbon Market (ICVCM) and the Voluntary Carbon Markets Integrity Initiative (VCMI)[30] announced a joint effort to operationalize high-integrity voluntary carbon markets that investors and corporates can invest in as part of comprehensive end-to-end climate strategies. Whilst nascent, there is growing momentum around nature markets as a key enabler of mobilizing finance for nature at scale[31] reflecting the advance in natural capital accounting standards and methodologies.

4 **Natural Capital Accounting is increasingly adopted:** Shifting towards nature-positive activities at scale requires a transformation in the way we understand, measure and account for our relationship with nature. Historically, the lack of a harmonized approach to accounting for nature has hampered the mainstreaming of nature-positive practices and led to nature being excluded from decision-making processes. This is changing. In June 2023 the International Sustainability Standards Board (ISSB) issued its first two IFRS Sustainability Disclosure Standards, IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures. Practitioners have also commenced consultations[32] on the inclusion of biodiversity. The Capitals Coalition and the Transparent Initiative have developed standardized natural capital accounting and valuation principles for business in line with the EU Green Deal, providing a framework for nature-based accounting and decision-making[33].

5 **Technology enables new nature-positive businesses:** A technological revolution is underway, which is pushing the frontiers of measuring and tracking changes to the state of nature. Technologies such as remote sensing, as demonstrated by the likes of Land and Carbon Lab[34], and in-situ technologies like environmental DNA, as demonstrated by Nature Metrics[35] can generate and analyze vast amounts of nature data to support NbS investments at much lower cost. As these technologies scale, and if the data and insights derived from them are made widely accessible[36], they can enable higher-quality decision-making for nature, and support the mobilization of finance towards bona fide nature-positive actions.

Moreover, there is increasing momentum to integrate climate and nature in the reform of the financial system and in global policy processes. The Bridgetown and more recently Bridgetown 2.0 initiatives[37] have set an ambitious action agenda for scaling climate finance, through the creation of new financing instruments and the reform of DFIs. The Bridgetown 2.0 Initiative highlighted the importance of mobilizing private sector investment in the green transformation as one of its six priority action areas[38]. The IHLEG Report[39] has laid out a transformative action agenda to unlock investment for climate action in EMDEs, and made the case for an integrated financing package to mobilize private finance. An upcoming report by the Center for Global Commons builds on the IHLEG recommendations and aims to deepen the action agenda for nature finance and inspire collective action across the public, private and philanthropic system to scale and improve nature finance globally. Both papers emphasize the critical role private capital can play in bridging climate and nature financing gaps.

This paper conveys that the pipeline, financing infrastructure and political momentum to deliver NbS at scale is on the way and showcases examples of innovation and bankable business models that can be replicated – we now need private financial institutions to collaborate and deliver these models at scale.

NATURE 2030 GOALS ARE REFLECTED IN THE 2030 BREAKTHROUGHS AND SHARM-EL SHEIKH ADAPTATION AGENDA, GIVEN ITS DUAL CONTRIBUTION TO MITIGATION AND ADAPTATION

LAND USE:
By 2030, secure IPLC rights, protect 45 million hectares, restore 350 million hectares of degraded land and sustainably manage forests and other terrestrial biomes

FOOD SYSTEMS:
By 2030, demand-side food system action, including a culturally appropriate 40% global shift to the 'Planetary Health Diet' (Exponential Roadmap & EAT-Lancet) and halving per capita food waste

AGRICULTURE:
By 2030, climate-resilient, sustainable agriculture is the most attractive and widely adopted option for farmers everywhere and 2 billion hectares of land is sustainably managed

MANGROVES:
By 2030, secure the future of 15 million hectares of mangroves globally through collective action on halting mangrove losses, restoring half of recent mangrove losses and doubling the protection of mangroves globally and mobilizing USD 4 billion by 2030

CORAL REEFS:
Halt loss, protect and restore coral reefs to support people in tropical communities

SEAGRASS, MARSHES AND KELP FORESTS:
Halt loss, protect and restore seagrass, marshes, and kelp forests to support people in temperate communities

URBAN:
By 2030, USD 1 trillion invested in NbS for communities in urban areas

NATURE FINANCE:
By 2025, financial institutions contribute to halting land conversion by eliminating commodity-driven deforestation from portfolios and tap into the NbS investment opportunity of USD 484 billion/year needed by 2030

NATURE FINANCE FOR WHAT?

Nature faces systematic underinvestment. Mobilizing more private capital for nature needs to tackle the drivers of nature loss. This requires more investments in (i) conservation, restoration and sustainable management initiatives (investment *'into'* nature), and (ii) nature-positive production and consumption (investments *'for'* nature'). There is a significant opportunity to ramp up investment particularly from the private sector, which currently accounts for only 17% of NbS investments[40].

Finance has an essential role in turning the tide on nature loss and delivering on climate, nature and SDGs. The Paris Agreement (Article 2.1c) calls for making financial flows consistent with climate goals, while the GBF calls for "eliminating, phasing out or reforming incentives, including subsidies, harmful for biodiversity, in a proportionate, just, fair, effective and equitable way, by 2025, while substantially and progressively reducing them by at least USD 500 billion per year by 2030" (Target 18); and progressively "aligning all relevant public and private activities, fiscal and financial flows with the goals and targets of the Framework (Target 14)"[41].

Mobilizing finance for nature requires tackling all drivers of nature loss – meaning finance must flow into both conservation and restoration initiatives (e.g., securing tenure and protection of Indigenous territories, eco-tourism), as well as nature-positive production and consumption models (e.g., agroforestry, improves fish harvest management, biotechnologies). This will protect what we have, restore what is lost and address the destruction of nature as a key driver that exacerbates climate change.

Nature finance means driving more capital *"into"* nature – conservation and restoration – but also *"for"* nature – shifting agriculture, fisheries, forestry, mining, infrastructure – towards nature-positive outcomes. The need to invest *"into"* and *"for"* nature

in conjunction is clear in the tropical forest belt, for example. Investing in protected areas, in line with Target 3 of the GBF, can be a significant lever of change, but conservation mechanisms alone cannot seal the forest frontier – this requires a complementary 20% annual growth in regenerative business models[42].

Agriculture, forestry and ocean production (e.g., fisheries and mariculture) should be a particular focus of investment given its outsized impact on nature. The sectors drive 85% of species loss, 80% of deforestation, 70% freshwater use, and cause USD 12 trillion in "hidden costs"[43] – 30% of greenhouse gas emissions, food insecurity for 820 million people and obesity for 680 million, coastal flooding risks for 630 million people and extreme poverty (less than USD 1.90 a day) for smallholder farmers and fishers[44].

NbS receive USD 154 billion annually, close to 30 times less investment than renewable energy[45], energy efficiency and clean mobility. Specifically, total nature finance flows in 2022 demonstrate:

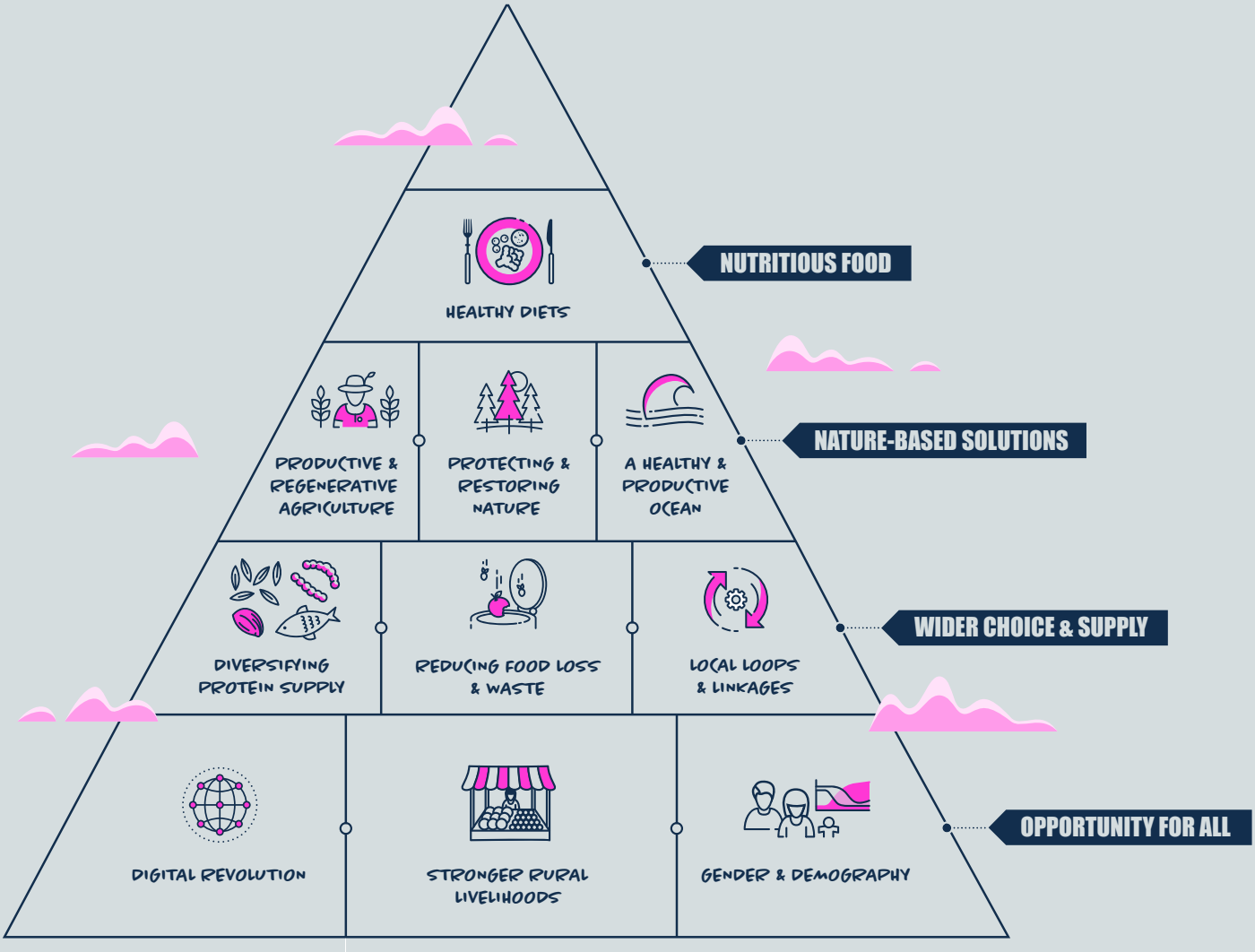
1. **Vastly insufficient mobilization of private finance for nature:** only 17% of flows towards NbS come from private finance sources, despite the dynamism of the private sector[46] and the economic opportunities of the nature-positive transition. There are several barriers to attracting private finance in EMDEs, including high cost of capital, real and perceived country and currency risks, measurement, valuation and data challenges, and a limited investable pipeline. These risks are compounded by nature-specific challenges to scale, including unbanked counterparts (e.g., smallholders farmers and fishers), policy uncertainty (e.g., relating to carbon markets and land rights) and the prevalence of environmental crime.

2. **Limited investment "for nature":** In 2019/20, food and agriculture systems received a tiny fraction (4.3%) of total global climate finance[47]. More finance must flow towards sustainable business models of agriculture (e.g., agroforestry, alternative proteins, no tillage grazing, bio-pesticides and organic fertilizer, precision farming, vertical polyculture), fisheries (e.g., fish sensing and tracking technologies) and forestry. Finance for food and agriculture systems must increase by at least sevenfold from current levels to reach the most conservative estimate needs for the climate transition[48].

3. **Subsidies and continued investments into nature-negative practices:** fiscal support to destructive agriculture, sea use and forestry practices, as well as continued private investment into companies and projects facing high nature-related risks continues to undermine investments into nature-positive business models. Negative investments outnumber positive investments by a 3-7x order of magnitude[49]. Global public subsidies for agriculture and fisheries are estimated at around USD 670 billion per year, with most of this supporting harmful practices[50] – repurposing these flows to support nature-positive interventions can provide the liquidity needed to finance the transition to nature-positive.

Scaling-up nature-positive business models represents a significant business opportunity – estimated at USD 10 trillion[51] – whilst delivering climate and social co-benefits. The global transition to a sustainable food and land use system could alone provide USD 4.5 trillion a year of new business opportunities by 2030, with business models across regenerative agriculture (e.g., precision farming, agroforestry), healthy diets (e.g., organic food, product reformulation, alternative proteins) sustainable fisheries (e.g., improved harvest management, sensing and tracking technologies) and conservation and restoration of forests (e.g., carbon markets, eco-tourism, biotechnology). Together, these models can strengthen food security, rural livelihoods and representation of marginalized groups in decision-making fora[52].

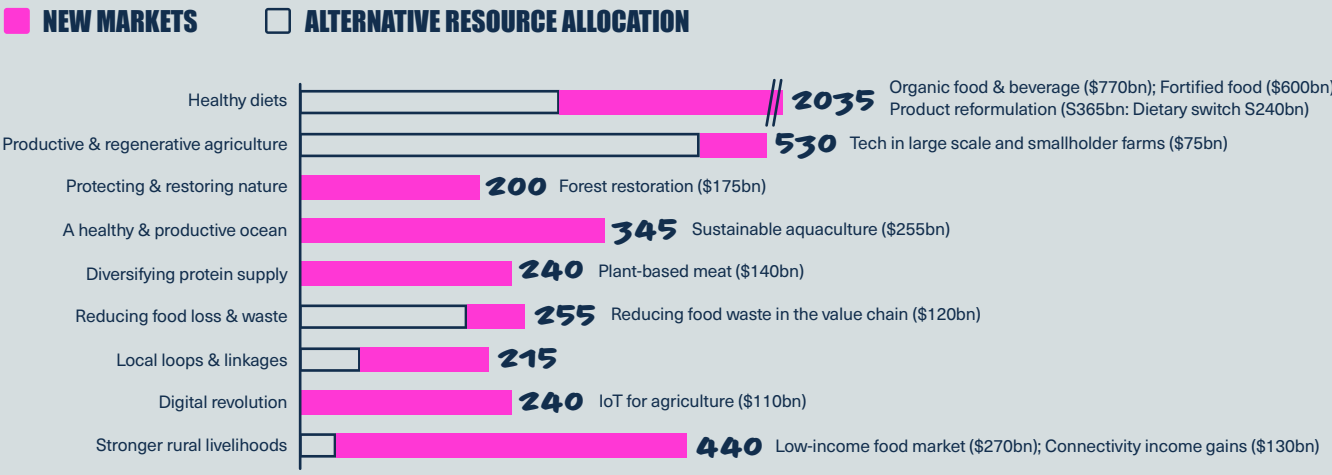
FIGURE 1: TRANSITIONING TO A SUSTAINABLE FOOD AND AGRICULTURE SECTOR REPRESENTS A USD 4.5 TRILLION OPPORTUNITY[53]



Source: Food and Land Use Coalition 'Growing Better', 2019

THERE IS AN ANNUAL BUSINESS OPPORTUNITY OF $4.5 TRILLION ASSOCIATED WITH THE TEN CRITICAL TRANSITIONS IN 2030

USD billions (2018 prices), 2030 estimates, examples of opportunities >$100bn



Source: SYSTEMIQ, Blended Finance Taskforce, 2019

The tools to overcome historic barriers to mobilizing more private finance for nature are increasingly available and have been piloted with early success. Despite the risk profile of NbS being mostly perceived as uncertain for many private investors – and high cost of capital in biodiverse EMDEs – blended finance vehicles and de-risking mechanisms more generally have nevertheless been tried and tested with success. Accelerators and coalitions are showing the bankability of business models by aggregating ventures to provide sufficient scale. Other challenges unique to nature, such as the difficulty of impact and yield measurement and valuation, and the lack of data management standards are starting to be addressed by emergent standards and frameworks such as TNFD and SBTN.

Attracting more private finance for nature will require interventions to strengthen the attractiveness of nature-positive business models and supply chains – including more efficient use of catalytic capital (private and public) to mitigate specific risks and aggregate projects to an investable scale to unlock large pools of capital. Interventions should focus on scaling:

1. **Catalytic initiatives to accelerate the implementation of nature-positive business models and supply chains, ensuring capital flows to the right people, projects and players on the ground to address all drivers of nature loss.** This includes initiatives to accelerate sustainable agriculture and ecosystem restoration supply chains (e.g., guaranteed offtake agreements and technical assistance for regenerative commodity production); and strengthening business models that monetize nature's services (e.g., through establishing high-integrity carbon and nature markets);

2. **Capital mobilization mechanisms to attract a mix of public and private capital and address constraints in the financial system.** This could include mechanisms to improve the financial-risk reward ratios (e.g., third-party guarantees, diversification of investment portfolios, and partial or full risk transfer mechanisms); and addressing increasing debt unsustainability in EMDEs (e.g., through debt conversion mechanisms for climate and nature).

These interventions should then be complemented by five core enablers: i) aligning national policy and implementation architectures towards nature (including planning, incentivizing, monitoring, and capacity building); ii) NbS project pipeline accelerators; iii) IPLCs; iv) mainstreamed data access and management standards; and v) a common approach towards accounting for nature.

CATALYTIC INITIATIVES TO ACCELERATE THE TRANSITION TO NATURE-POSITIVE BUSINESS MODELS AND SUPPLY CHAINS

Bankable business models exist across conservation and restoration, sustainable farming, fisheries and forestry. Scaling nature-positive business models and regenerative value chains that accurately reflect nature's contribution to people and planet will require building financing vehicles to aggregate and scale business models, mainstream technical assistance, and close financing gaps within supply chains.

ACTION 1: TRANSFORM AGRICULTURE AND ECOSYSTEM RESTORATION SUPPLY CHAINS TOWARDS NATURE-POSITIVE OUTCOMES

In a commodity value chain, the majority of climate and nature impacts take place at the nature steward level (farmer, fisher, logger, miner), with 90% of the largest food companies' emissions lying in Scope 3[54]. Yet this part of the value chain also receives the lowest share of the final product's added value; for example, the average coffee farmer receives just 1 cent of every USD 3 of coffee sold[55].

Lack of working capital is one of many challenges nature stewards face when looking to scale regenerative production models, along with uncertainty from short-term contracts and lack of clarity on what interventions they should focus on. Addressing these barriers requires a range of complementary interventions: from unlocking flows of private capital to strengthening credit enhancement mechanisms, increasing the provision of technical assistance, and building robust monitoring systems to track impact. Together, these interventions can support a fundamental systemic shift to move towards unlocking the economic opportunities associated with standing ecosystems (e.g., forests), sustainable agricultural production, and restoration (e.g., forest regrowth). A range of initiatives, focused on creating diverse, productive and transparent supply chains, are demonstrating what is possible:

Accelerating ecosystem restoration – African Forest Landscape Restoration Initiative (AFR100)[56]

AFR100 is a pan-African initiative that aims to restore at least 100 million hectares of land across 34 countries by 2030 – with an annual mitigation potential of 1.7 gigatons CO2e – AFR100 provides the most advanced example of large-scale forest restoration[57]. It leverages partnerships between governments, investors, donors and technical experts, creating transformational change in the way landscapes are managed, and aims to mobilize USD 100 billion to achieve its targets.

AFR100 projects have successfully crowded in a mix of public and private investment, and provides lessons for replication and scale:

1. **Concessional capital to catalyze private capital flow** – AFR100 has successfully leveraged concessional capital to crowd in private investment – it now has a broad pool of members, including public donors[58], private investors, and private sector partners[59] who have made large scale commitments. It has leveraged blended finance vehicles to mobilize private capital. SouthBridge Investments and the Arab Bank for Economic Development in Africa (BADEA) announced the USD 2 billion "Vumbuzi" Fund to turbocharge capacity-building and the attribution of grants and loans available for local restoration communities and entrepreneurs. This Fund opens the door for more private sector financial partners to invest in efforts aligned with AFR100. The USD 2 billion fund aims to blend USD 500 million of concessional finance with USD 1.5 billion private investment to support local restoration efforts across the continent.

2. **Technical assistance to scale pipeline** – regional coordinators provide support to project developers (mostly SMEs, < USD 2 million total assets) to catalyze flow of private capital and manage Forest Landscape Restoration (FLR) regional and national platforms, creating a space for investors to develop relationships with multiple actors. AUDA-NEPAD, the Secretariat for the initiative, has dedicated resources to engage and network between AFR100 countries, provide advisory services to financial and technical partners, strengthen the progress framework, and coordinate resource mobilization. AFR100 also works with regional incubators such as TerraFund, managed by World Resources Institute, the Land Accelerator program and the Restoration Factory – focused on capacity building, mentorship and technical training. These incubators helped businesses double in size, on average, and have attracted nearly 1,400 applicants in Africa, created 11,200 jobs, worked with 56,000 farmers, and restored 127,000 ha across 34 countries[60].

3 **Monitoring to demonstrate progress** – the AFR100 Secretariat has set up the AFR100 Monitoring Platform, and an accompanying monitoring framework with three main pillars: nature, governance and economy, each with a set of measurable metrics to assess impacts, provide technical adaptive management guidance, and ultimately unlock climate and nature finance. The Terrafund program, for example, tracks progress across five key indicators: trees restored, hectares under restoration, number of jobs created, livelihoods benefits (the number of people with increased income and skills), and financial growth[61]. Robust monitoring, reporting and verification (MRV) systems can support countries and projects to credibly demonstrate progress made on their commitments, attracting more investment by providing certainty to donors and investors on the integrity of their programs.

REGEN10: TRANSFORMING FOOD SYSTEMS THROUGH MULTI-STAKEHOLDER COLLABORATION[62]

Regen10 is a multi-stakeholder, collaborative platform that aims to build collective understanding of what it would take over this decade for 50% of the world's food to be produced in a way that benefits people, nature and climate.

Through farmer-centric, inclusive and evidence-based approaches, Regen10 aims to establish - by COP29 - a holistic Outcomes Framework with a core set of metrics to help collect, measure and understand the changes that occur over time on farms and in the landscapes in which they operate. It is also promoting knowledge exchange and learning about how to integrate and scale regenerative and agroecological approaches by gathering data and evidence from landscape-level food and farming systems, to address knowledge gaps and identify how policy, finance and technical assistance can support a transition to regenerative food systems.

Accelerating sustainable agricultural practices – Innovative Finance for the Amazon, Cerrado and Chaco (IFACC)[63] (Latin America)

The IFACC Initiative launched by The Nature Conservancy (TNC), Tropical Forest Alliance from The World Economic Forum, and The United Nations Environment Program announced an investment commitment from its signatories that aims to disburse USD 1 billion by 2025. In its first year, the initiative was able to direct USD 111 million for deforestation-and-conversion-free soy and cattle production in South America. Up to now, the initiative brings together 15 financial and agribusiness companies who have committed to accelerating deforestation-and-conversion-free soy and cattle production, agroforestry systems and sustainable management of non-timber forest products in South America. As cattle and soy production are the biggest drivers of deforestation and conversion of natural vegetation, the increasing investment in 'forest-positive' production models is critical. IFACC approaches this challenge by:

- **Gathering industry-wide participation:** the companies committed represent the entire value chain of sustainable commodity production in Brazil, from agriculture input retailer (AgroGalaxy) to local investment facility (Sustainable Investment Management), bank and catalytic fund (Agri3).

- **Convening diverse financial institutions and products:** IFACC combines farm loan products and low-cost crop finance loans (e.g., Agri3), farmland investment funds (equity funds, e.g., AGBI), capital market offerings such as securitized agriculture receivables (e.g., the Responsible Commodities Facility), sustainability-linked loans (&Green Fund), and carbon finance (e.g., SimFlor). The finance committed from private entities will accelerate the flow of capital to farmers to transition to more sustainable business models, including expanding agricultural crop production over degraded pasture lands and raising yields through sustainable intensification of cattle ranching.

REGENERATION – BUILDING VALUE CHAINS FOR TROPICAL COMMODITIES[64]

Regeneration delivers NbS by creating markets and catalyzing finance for regeneratively produced tropical commodities like coffee, cocoa and honey across forest frontier countries in Latin America, Africa and Southeast Asia. It seeks to tackle the lack of capacity, financing and incentives for farmers to produce sustainably, and the lack of demand at scale for deforestation-free, nature-positive commodities by a) supporting local communities via market access players and regenerative operators with technical assistance to transition to regenerative practices; b) creating demand in corporates for nature-positive commodities, thus building a market of off-takers; and c) catalyzing financing for forest protection and regenerative agriculture through donors and investors.

Regeneration brokers sales of tropical commodities with a quantifiable and monetizable value associated with ecosystem services, offers access to an inventory of nature-positive products with monitored and verified positive impacts, and supports interventions for regenerative and forest-positive transformation of supply chains.

The Rebuild facility, which sits within Regeneration, focuses on adding liquidity to the market – which was a critical safeguard when demand for coffee and cocoa products fell during COVID-19 – by providing working capital to deforestation-free, regenerative cocoa and coffee ventures. Delivered alongside technical support, the provision of a guaranteed market for regenerative products incentivizes nature-positive practices and safeguards farmer livelihoods. From 2020 to 2022, the Rebuild Facility successfully mobilized over EUR 14 million of private finance to benefit over 50,000 smallholder farmers, keeping over 100,000 hectares of land under sustainable land management.

ACTION 2: STRENGTHEN BUSINESS MODELS THAT MONETIZE NATURE'S SERVICES

While many remain relatively nascent, an increasing range of private sector business models are rewarding nature protection. One area that has seen huge momentum is high-integrity VCM. The demand for carbon credits is expected to increase exponentially, especially driven by the surge of corporate climate pledges that will boost activities in the voluntary market. As of November 2022, over one-third of the world's largest publicly traded companies had announced net zero targets. These companies are set to use carbon credits they purchase to offset emissions that are hard to completely abate, alongside actions to decarbonize their emission activities. In 2022, traded volumes reached ~155 MtCO2e[65] – a fivefold increase relative to 2020[66] – at a total value of over USD 2 billion. By 2030, the market is projected to grow fifteen-fold compared to 2021 levels. As the carbon market grows, it is critical that strong governance systems are in place to promote high-integrity credits and center justice and equity at the heart of carbon markets.

As nature markets scale alongside carbon markets ensuring the integrity of products is critical. This requires greater definition and standardization of the rules governing markets and guidance for buyers (companies, governments) buying and selling credits. For the VCM, initiatives like SBTi guidance[67] and VCMI's upcoming code of conduct[68] are adding robustness to the market. Science-based targets provide a clearly-defined pathway for companies to reduce greenhouse gas emissions, helping to prevent the worst impacts of climate change and future-proof business growth. Targets are considered 'science-based' if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to 1.5°C above pre-industrial levels. The SBTi is providing a set of guidelines helping companies on their path to reaching Net Zero. Complying with widely accepted and recognized frameworks helps to build standardization across businesses and sectors, which in turn creates clarity and then trust.

AFRICAN CARBON MARKETS INITIATIVE (ACMI)[69]

There has been a growing interest in creating connected or fully integrated carbon markets to increase trust in the supply of carbon credits and satisfy the 600% increase in demand by 2030 estimated from corporate net zero pledges[70].

ACMI, launched at COP27, aims to scale the African voluntary carbon market. To date, seven African nations have signed up to develop country carbon activation plans including Kenya, Malawi, Mozambique, DRC, Nigeria, Rwanda and Ghana. ACMI is managed by Sustainable Energy for All (SEforALL), the UN Economic Commission for Africa, and The Global Energy Alliance for People and Planet (GEAPP), with support from the HLC.

ACMI aims to help shape and harness the potential for carbon markets in Africa to deliver clean energy and sustainable development. It focuses on capturing more of Africa's potential in carbon markets by addressing the challenges to voluntary carbon market growth and building the foundations for a thriving voluntary carbon market ecosystem in Africa by 2030. ACMI aims to grow African carbon credits retirements from ~16 MtCO2e retired in 2020 to up to 1.5-2.5 GtCO2e per annum by 2050; and to raise the quality and integrity of African credits to mobilize more than USD 100 billion per annum by 2050, whilst also creating or supporting 100 million jobs by 2050. During Africa Climate Week 2023, investors from the United Arab Emirates committed to purchasing USD 450 million of carbon credits as part of ACMI[71].

Creating and aggregating NbS investment opportunities – The Mangrove Breakthrough[72]

Emerging models demonstrate how bankable NbS models can be structured and scaled at a landscape level. One such forum is the Mangrove Breakthrough, a multi-stakeholder initiative that aims to halt loss, restore half, and double protection of mangroves globally by 2030. To achieve its goal of securing the future of 15 million hectares of mangroves, it aims to mobilize USD 4 billion for investment in these critical coastal ecosystems by the end of the decade. To accelerate progress and address the signficant funding gap facing mangroves today, the Breakthrough is developing a Financial Roadmap – a strategy detailing a toolbox of complementary financial instruments and critical enabling conditions that can rapidly build, prove and scale mangrove-positive investment opportunities as an asset class. The Roadmap highlights that public, concessional, and private capital will all play a key role in realizing this vision, and emphasizes the need to prioritize development of the project pipeline, the importance of aggregation to get to scale, the need for de-risking and blended finance, and the necessity of foregrounding equity, empowerments and livelihoods. As it moves from strategy to implementation, the Roadmap will help unlock capital for sustainable, regenerative mangrove-positive projects.

Delta Blue Carbon[73], the largest blue carbon project globally, provides a clear example of success: this project seeks to restore and protect 350,000 hectares of mangroves in the Indus Delta region of Sindh Province, Pakistan. In the last six years it has planted 75,404 hectares of mangrove forests.

Notable features include:

1. **Verification, validation and sale of carbon credits:** Delta Blue Carbon has successfully completed its first verification generating over 3.1 million of carbon credits, which have been sold to blue chip off-takers including Microsoft, Trafigura, Carbon Growth Partners, Respira and other large corporates. Around 300,000 credits have also been sold on Singapore-based carbon exchange Climate Impact X with the latest pricing reaching USD 29.72 per ton.

2. **Public-Private Partnership (PPP) success:** The PPP between the Government of Sindh and Indus Delta Capital (IDC) has formed the basis for the project and aligned the long-term interests of the government and the project. Government support was instrumental in early project activities prior to carbon finance. Additional partners supporting the project include Pollination and the IUCN.

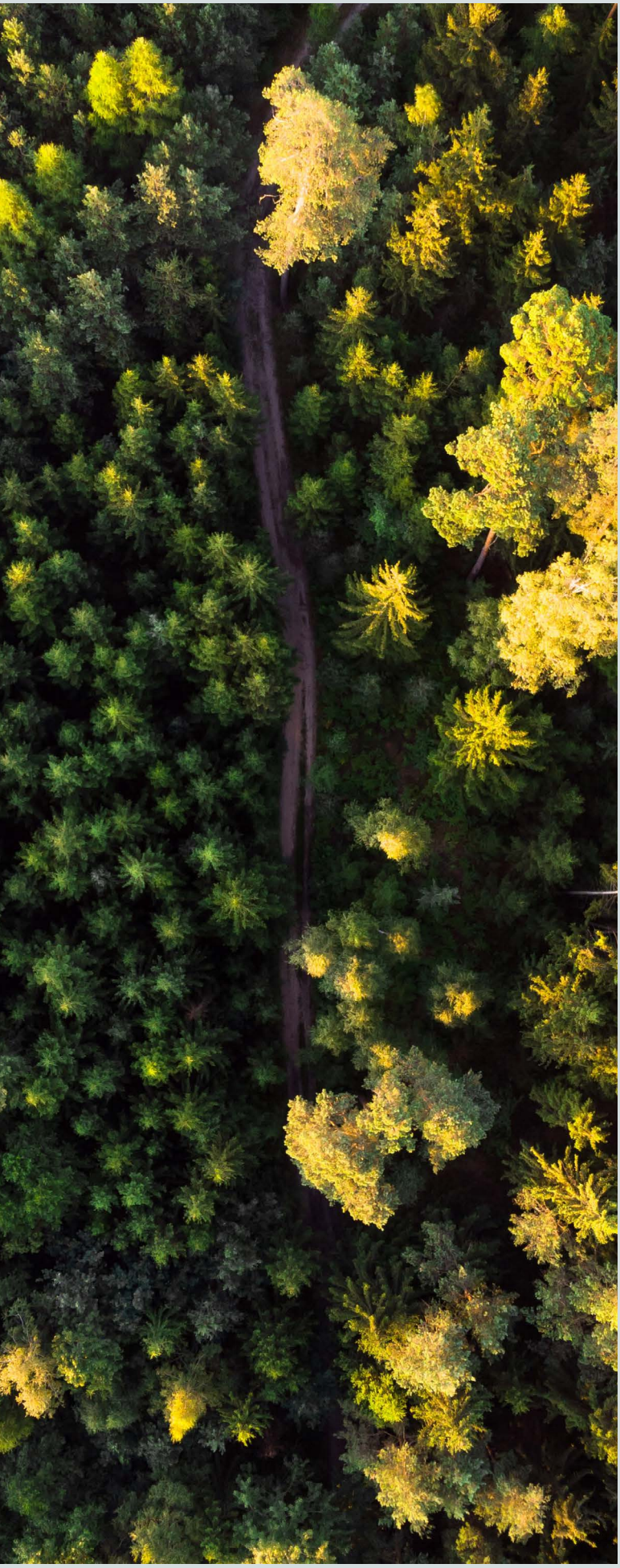
3. **Community Relationship:** The project has secured and maintained broad community support. This is due in part to the benefit-sharing approach including investments in health, education, local employment, and economic development. Communities engaging in subsistence fishing activities derive substantial benefits from the ecological restoration of the delta. Over time, community benefits are designed to grow with potential growth of the voluntary carbon market.

4. **Scale:** Delta Blue Carbon is the world's largest blue carbon project and one of the largest afforestation projects. This allows the project to leverage economies of scale and create more resilient environmental impacts through a landscape-level approach.

5. **Coastal Resiliency:** Mangroves support climate resiliency for communities and the delta ecosystem. Mangrove forests reduce storm surges and flooding for coastal communities. They also anchor sediment and reduce erosion that threatens the delta's long-term health.

6. **Scaling Attributes:** a number of levers have been demonstrated to support moving from concept to commercialization, allowing the project to become a best-in-class natural capital asset including:

   - Legal: project underpinned by long-term PPP with Government of Sindh;
   - Execution: planting has been successfully scaled to 92,000 hectares and the project is approaching a second issuance cycle;
   - Commercial: unique blend of climate finance in place combining developers equity and multi-year offtake contracts; and
   - Policy: authorization from Pakistani Government's Economic Coordination Committee received to allow the sale of carbon credits in international markets through to 2043

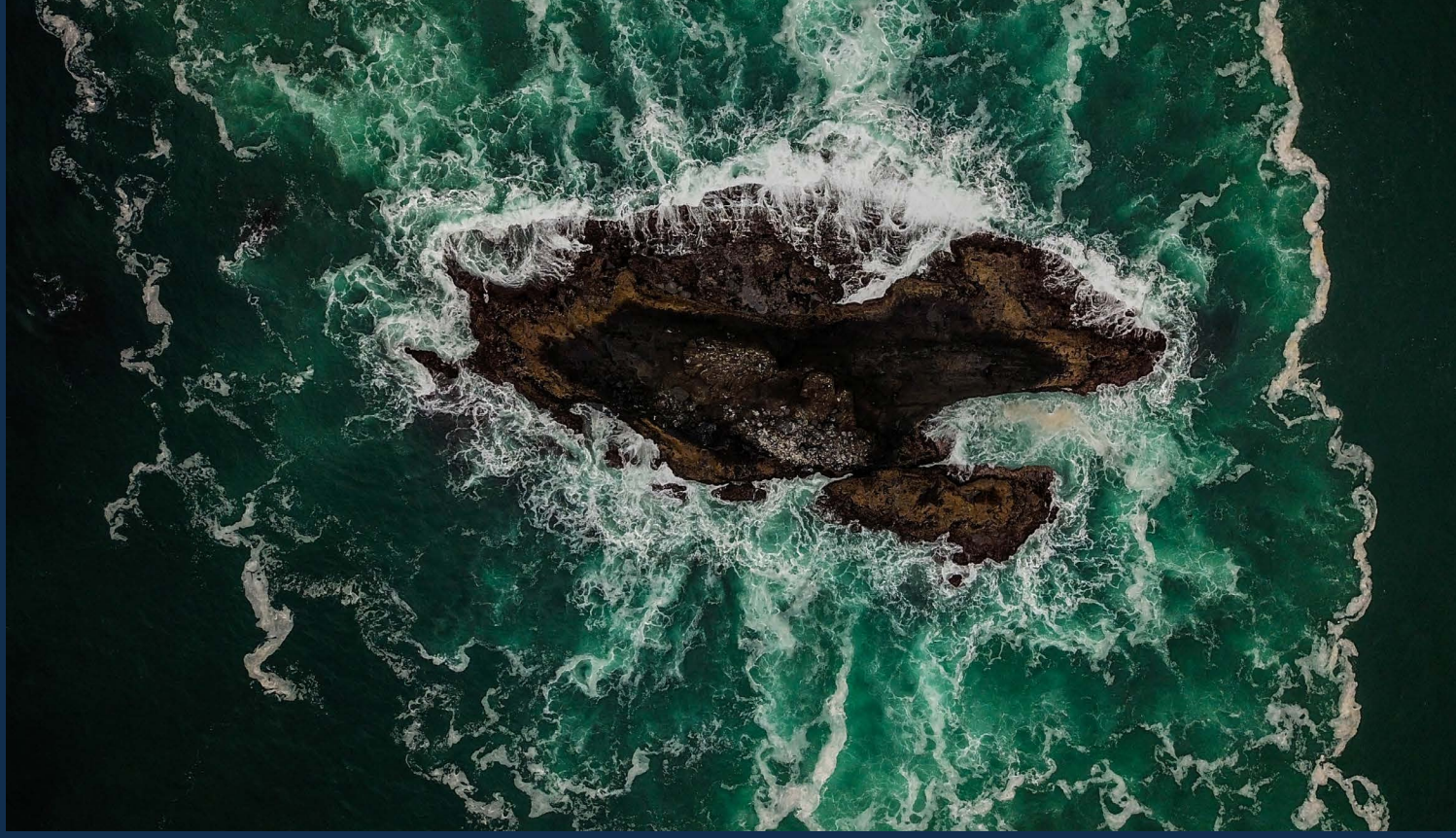


Similarly, **the Coral Reef Breakthrough**[74] – to be launched at COP 28 – aims to establish an accountability framework for governments and non-state actors to scale actions and finance for the protection of coral reef ecosystems. One replicable project that could be part of this Breakthrough is the Mesoamerican Reef (MAR) Insurance Program: this multi-year collaboration between Willis Tower Watson and the Mesoamerican Reef Fund provides coverage for key reef sites in Mexico, Belize, Guatemala, and Honduras. The parametric mechanism triggers pay-outs (by the insurer(s), AXA Climate being the initial underwriter) and the deployment of finance reef response brigades immediately after a qualifying hurricane event.

The goal of the brigades is to conserve and restore the reef system as soon as possible, with the program aiming to enhance the climate resilience of almost 2 million beneficiaries. Leads to change scale are the following:

1. **Enlargement potential:** following the initial pay-out experience, the parametric structure was further refined for more efficient use of premium based on existing local capacity of reef responders. Most recently, the program was further enlarged to include coverage for a total of 11 protected reef sites across the MAR region with premium support from ISF and the UN Development Program.

2. **Geographic replicability:** the success of the MAR Program has led to replication projects taking place across different geographies (including in the broader Caribbean as well as in the Pacific), as well as for additional climate hazards including ocean heat waves and terrestrial run-off due to extreme rainfall. In its second year, the program expanded to a total of seven sites, added Munich Re as a second underwriter and demonstrated successful proof of concept when it made its first pay-out after Category 1 Hurricane Lisa passed directly over Belize's Turneffe Atoll. In June 2023, the collaboration renewed for a third year, receiving support from the InsuResilience Solutions Fund (ISF) and the United Nations Development Program (UNDP), and the program is scaling up to cover two more sites in Honduras and two more sites in Belize, expanding the portfolio to 11 reef sites across the MAR region.



CAPITAL MOBILIZATION MECHANISMS TO ATTRACT A MIX OF PUBLIC AND PRIVATE CAPITAL AND ADDRESS CONSTRAINTS IN THE FINANCIAL SYSTEM

For nature positive business models and supply chains to achieve critical scale, large pools of private capital need to be unlocked. Some financial mechanisms – supported by catalytic capital – can help integrate nature into global capital markets by addressing cost of capital constraints and mitigating risks for private capital providers.

ACTION 3: IMPROVE FINANCIAL RISK-REWARD RATIOS TO INCREASE FLOW OF CAPITAL TO NBS

The risk-return profile of NbS has been historically seen as prohibitive by global capital markets. Investors have perceived outsized risks in nature investments, especially in EMDEs for three reasons: i) nature-related risks and opportunities are intrinsically localized. Taking a 'landscape approach' to investment – i.e. investing in different interventions to protect or restore a specific biome – such as coral reef, a mangrove forest, a watershed - will inherently see a high correlation between risks as they are all localized in the same defined geographical area; ii) nature-related risks are often misunderstood by investors as increasingly unpredictable (due to increased vulnerability of populations and increased number of nature / climate extreme events); iii) perception of specific country and macroeconomic risks (e.g., political and currency risks).

Catalytic capital (e.g., public concessional capital and private philanthropic funding) can play a critical role in de-risking NbS investment to mobilize private commercial capital. The risk-reward ratio of NbS investments can be strengthened through both financial and operational risk hedging mechanisms: a range of financing mechanisms allow for the decrease of risks and thus rebalance risk-return ratios, thereby attracting private finance. These could be categorized into: (i) third party (credit, political, foreign exchange) guarantees to delegate part of the NbS investments to parties other than project developers (whether they are private ventures or highly indebted governments alleviating their financial obligations against nature positive commitments); (ii) diversifying investment / business portfolios, which improves business and investment resilience to shocks by expanding the geographic or sectoral range of investments; and (iii) partial or full risk transfer mechanisms like risk distribution vehicles supported by guarantees (e.g. African Development Bank's Room2Run initiative in which it transferred the risk on a USD 2 billion portfolio to a group of London-based insurers and the UK's Foreign, Commonwealth and Development Office).

Additionally, the provision of technical assistance can further reduce risks. Strategic guidance from technical assistance providers to economic operators and policy makers is essential for nature-positive business models to achieve commercial success. They provide qualitative risk hedging support as training and assistance is needed to identify different risks[75] of investing (country risks vs. NbS specific risks) or not investing (e.g., regulatory headwinds, target addressable markets for new regenerative models, vulnerability of incumbent economic players to nature and economic shocks) and how to address them operationally.

Overall risk mitigation and credit enhancement solutions like guarantees can help catalyze private-sector investment at significantly larger multiples than traditional donor finance or concessional lending – by a factor of 55x and 5x respectively[76]. For example, USD 1 billion of public capital for project preparation, fee subsidies and administrative cost could contribute to mobilizing USD 30 billion of private capital. This provides a path forward for effective and catalytic use of public capital to accelerate climate and nature action in EMDEs[77].

De-risking mechanisms in sustainable food systems – IDH Farmfit and AGRI3

IDH Farmfit

Launched in 2019, IDH Farmfit is the world's largest blended finance fund for smallholder farmers. The Farmfit Fund is a blended finance fund which includes investments from Jacobs Douwe Egebers, Mondelez, Rabobank, Unilever and FMO. The Fund operates across Africa, Asia and Latin America, delivering working capital and long-term finance to smallholder farmers across staple foods. Access to affordable finance is one of the most significant barriers for smallholder farmers in EMDEs to transition their farming activities. Starting with EUR 100 million, the Fund is a replicable and scalable model to address the USD 170 billion financing gap in smallholder farming finance.

The Fund is backed by the Dutch Ministry of Foreign Affairs and has a USD 250 million guarantee in place from the United States International Development Finance Corporation ("DFC"):

- **Loss allocation:** the tripartite risk sharing agreement between IDH, USAID and senior capital investors mitigates to some extent high perceived private investor risk in smallholder

supply chains: IDH Farmfit Fund takes up to the first 30% first loss through sub debt, mezzanine investment or equity. Then, the DFC takes up to 50% second loss guarantee (up to USD 250 million), providing comfort to senior capital investors. These catalytic first and second loss guarantee providers take on the bigger shares of risk to provide additionality from the get-go, reducing participation rates over time to increase the share of commercial funding, as track record demonstrates creditworthiness of borrowers over time.

- **Stakeholder engagement:** cognizant of the complex nature of bringing multiple parties with different risk appetites together, the Farmfit Fund is supported by IDH's deep expertise in partnering with global brands to improve the sustainability of their supply chains. IDH leads interactions between the unique coalition of partners, including commercial banks, development banks, government bodies and value chain companies.

- **Technical assistance:** the built-in IDH Farmfit Business Support Facility provides technical assistance to help smallholders build competitive and inclusive businesses. It supports operations by providing tools and datasets to evaluate the viability of businesses, increasing probability of commercial success.

AGRI3 Fund

The AGRI3 Fund provides a similar example, deploying guarantees and technical assistance. Initially a partnership between UNEP, Rabobank, IDH and FMO, the Fund includes a USD 190 million guarantee facility (with Mirova Althelia as the lead-advisor), supported by a USD 15 million technical assistance facility (managed by IDH). The Fund deploys guarantees of average size ranging from USD 2-15 million to enable loans and investments with ticket size ranging from USD 5-25 million. In 2023, the Global Environment Facility (GEF) and Conservation International (CI) finalized a USD 13.5 million equity investment[78] in the fund to further catalyze private capital mobilization.

Guaranteed investments target sustainable agricultural production, avoided deforestation and reforestation projects, with co-benefits for rural livelihoods. The Fund's main goal is to mobilize USD 1 billion of financing by de-risking capital from financial institutions and other key parties in food and agricultural value chains. Current projects include USD 10 million funding to help Grupo Carvalho Dias restore pastureland and forests in Brazil, helping small-scale farmers switch to more sustainable pepper farming in China.

ACTION 4: ADDRESSING EMDE FINANCIAL DEBT UNSUSTAINABILITY WHILE ACHIEVING NATURE POSITIVE OUTCOMES

For many low-income and middle-income countries high debt burdens are a major constraint towards acting on nature, with many in, or at risk of, debt distress. The total external debt stock among EMDEs reached USD 11.4 trillion in 2022, a 15% increase on the previous year, and more than double the levels of a decade ago. About 60% of EMDEs are either in or close to debt distress, placing severe limits on public investment in NbS. The ten most forested EMDEs alone, for example, owe nearly USD 460 billion in external sovereign debt service over the next five years (2023-2027). The V20 group of countries most vulnerable to climate change - representing 1.7 billion people - face debt payments of USD 435 billion by 2026[79]. Additionally, interest rates have continuously progressed upwards in the past 18 months, which inevitably increases debt service burdens. The monetary tightening in key economies has further exacerbated financial stress, driving up refinancing costs. Furthermore, in the context of post-COVID or post natural disaster recovery, these already unsustainable sovereign debt servicing burdens become an immediate threat to the economic wellbeing of EMDEs, and limits the fiscal space for investing in the climate and nature transitions.

In this context, reducing sovereign debt burdens is a critical lever for mobilizing more finance for NbS. An increasing number of structured financial instruments offer ways to reduce debt burdens while increasing the supply of finance to achieve climate and nature objectives. Private investors have significant capacity to help mainstream these instruments, thus contributing to alleviating debt burdens in EMDEs and multiplying capital dedicated to nature, whilst maintaining the risk-reward ratios they have been mandated to invest into.

Tying debt restructuring to nature-positive outcomes – debt conversion for nature

In May 2023, Ecuador completed the 'Galapagos debt conversion for nature' or 'debt-for-nature swap' – the world's largest debt-for-nature transaction to date, eliminating USD 1 billion of its foreign debt, whilst mobilizing private sector funds to support in-country marine conservation projects in perpetuity. Ecuador exchanged over USD 1.6 billion of its international debt (up to 9% of its commercial sector debt) with a USD 656 million loan financed through the issuance of a 'Galapagos marine conservation-linked bond' by an EU based Special Purpose Vehicle (SPV), in a deal structured by Credit Suisse, who also led the buyback of Ecuador's existing debt at a 60% discount. Through this transaction, Ecuador will secure more than USD 1.1 billion in lifetime savings through reduced debt service costs. To ensure the success of the transaction, DFC provided political risk insurance for the entire value of the Galapagos marine bond, which was also bolstered by a USD 85 million credit guarantee provided by the Inter-American Development Bank (IADB). A group of 11 private insurers including AXA XL, Fidelis MGU, Chubb Global Markets, Sovereign Risk Insurance Ltd, Mosaic, Coface and others provided >50% reinsurance to facilitate DFC's commitment. This de-risking mechanism helped enhance the credit rating of the bond issuance to 'Aa2', signifying a high credit rating for bonds. This, in turn, reduced the interest payable on the bond to 5.6% per annum , reducing by two thirds Ecuador's cost of borrowing (via the loan) until maturity in 2041.

This approach provides Ecuador with a long-term, secured source of funding for conservation, with dedicated private sector funds that will provide grants to support marine conservation for a minimum of 18 years. The deal is expected to provide USD 450 million for Galapagos marine protection by 2041, with that money tied to conservation priorities identified by Ecuador and its partners. Funds are distributed through the Galapagos Life Fund ('GLF'), a Delaware incorporated trust fund operating in the Galapagos, and distributing an average of USD 12 million annually in grants and an additional USD 5-6 million annually into a permanent endowment that is expected to be worth USD 227 million through 2041 to enable the GLF to fund grants at the same level thereafter.

Further, in August 2023, the Government of Gabon and TNC announced the refinancing of USD 500 million of sovereign debt, generating an expected USD 163 million for ocean conservation. This debt-for-nature conversion is the first of its type in mainland Africa and is framed within Gabon's ambitious national effort to protect 30% of its ecosystem by 2030. This benefits from a credit enhancement mechanism provided by the US Development Finance Corporation, allowing investors to gain additional comfort and lowering relevant interest payments. Bank of America acted as Sole Initial Purchaser, Structuring Agent and Bookrunner on issuance. This debt-for-nature conversion is the first of its type in mainland Africa and is framed within Gabon's ambitious national effort to protect 30% of its ecosystem by 2030. This protection effort will be guided by a Marine Spatial Plan and accompanying protection and enforcement initiativesbe supported by the conservation funding generated by the transaction.

A transaction blueprint could be developed for several reasons:

1. **Credit, political, and currency guarantees are set to increase:** MDBs and DFIs are increasingly committing to guarantee loans in case of non-repayment by sovereigns. World Bank President Ajay Banga has made guarantees a central part of the Bank's reform agenda[80], while the African Development Bank and European Investment Bank have entered the debt-for-nature market[81,82].

2. **High replicability of the proceeds and impact framework:** the Ecuador transaction builds on Credit Suisse's prior transactions in Belize and Barbados, including the refinancing of commercial foreign currency debt, the use of political risk insurance, and the guarantee. Many sovereigns have expressed interest in structuring debt-for-nature transactions; for example, TNC alone is exploring swaps in seven countries around the world – and could replicate the model further given sufficient interest from financial institutions.

3. **Risk mitigation and portfolio alignment strategy:** the interest rate tied to the USD 656 million Ecuadorian bond is 5.6% p.a. for an 18-year tenor, compared to an average effective borrowing cost of 9%. This provides investors with an attractive risk-adjusted return together with positive environmental impact. At the same

time, the deals provide a developing country access to long-term cost-efficient funding from a diversified pool of private capital that in turn frees up constrained fiscal budgets to be deployed on other social and environmental priorities.

There is an immediate opportunity for commercial International Financial Institutions (IFIs) in these types of transactions: bond holders and buyers can receive above market rate returns, re-insurers can benefit from high grade credit risk, and investment banks gain access to arranging and structuring fee pool.

While these transactions are gaining momentum, replicating and standardizing them is key as it will drive down transaction costs and increase the benefit for issuer countries. Decreasing transaction costs is critical to expand the impact case for each debt-for-nature swap and the universe of beneficiaries. This will be achieved by an enhanced familiarity with processes from the different service providers, which should reduce transaction time and associated cost. Replication and standardization are critical enablers and will initiate exponential financial and impact benefits.

Debt conversions for nature and climate provide a path forward for an effective and mutually benefitting partnership between DFIs providing credit enhancement and private capital. On one hand, DFIs working with private reinsurers can maximize their balance sheet capacities and contain their exposure to a sovereign. On the other hand, new issuance backed by credit enhancement - thus benefiting from a strong credit rating - can help a sovereign attract a new class of investors, motivated by ESG considerations. These new investors may not have traditionally considered securities from emerging sovereigns. These investors represent more diversified investor pool and can be considered as a more "patient capital" compared to other emerging market investors.

WORKING GROUP ON NATURE AND CLIMATE-LINKED SOVEREIGN FINANCING

This Working Group has been set up with a mandate to design and develop a mechanism to unlock credit enhancement for performance-based sovereign financing and other use cases including sustainability-linked bonds. The Working Group aims to align the capabilities and/or pool the capacities of international financial institutions to issue Credit Enhancement instruments such as partial risk guarantees and political risk insurance at the requisite scales. The Working Group is supported by the HLC and COP28 Presidency, led by the Sustainability-Linked Sovereign Debt Hub and TNC.

Indicators of growing momentum towards scaling of sustainability-linked sovereign debt instruments: Bridgetown Agenda[83], Sustainable Debt Coalition[84], Global Expert Review on Debt[85], Sustainability-Linked Sovereign Debt Hub.

CRITICAL ENABLING INFRASTRUCTURE

This package of interventions can only succeed if complemented by the right enabling infrastructure. We focus on five core enablers, which can be driven by the use of proceeds of the interventions themselves (e.g., MDB reform, sustainability-linked bonds, debt conversion deals for nature) or through private and public sector collaboration at the global, national, and sub-national levels.

1. **National policy and implementation architecture aligned towards integrated climate, nature and development outcomes. This includes:**

   a. **Planning:** e.g., integrated spatial plans that account for the location-specificity of nature to credibly deliver on climate, nature and social development targets in line with Target 1 of the GBF;[86]

   b. **Incentivizing:** e.g., through reviewing the mandates of bodies within the national and international financial structures to ensure alignment with global net zero and nature positive goals and re-orienting incentive structures, e.g., harmful subsidies;

   c. **Monitoring & Verification:** e.g., through robust monitoring, reporting and verification systems and enforcement mechanisms to prevent environmental crimes; and

   d. **Capacity building:** e.g., strengthening capacity for local and national governments to deliver on the goals of the Paris Agreement and GBF.

2. **Mainstreamed project pipeline accelerators:** Accelerators that increase bankability by offering repayable capital along with technical assistance to early-stage replicable/scalable pilots and project ideas are a critical component of the enabling infrastructure. Capacity building in three complementary investment windows is essential: Seed, Early Venture (together defined as Incubation period) and Venture. Private sector examples include the Nature+ Accelerator Fund[87] managed by Mirova which has a target capitalization of USD 200 million, and the Capital Mobilization Accelerator.

3. **IPLCs and indigenous knowledge included:** IPLCs own or govern over 30% of the world's land surface, and 36% of the area covered globally by Key Biodiversity Areas (KBAs). Case after case – from community forestry in Mexico[88] to subsistence farming in central India[89] – has demonstrated that IPLCs are often the most effective stewards for nature. Ensuring the inclusion of IPLCs, and respecting IPLC land rights, is not only a just imperative but a key enabler for meeting our climate and nature goals.

4. **Mainstreamed data access and management standards:** 70% of investors believe a lack of available data is a key barrier to making investments that support nature and biodiversity[90]. Available data is not current, comprehensive, collected regularly nor accurate enough to baseline the 'state of nature' and therefore to track changes over time. This prevents financial institutions from developing products that shift capital flows towards nature-positive activities. Strengthening the collection and disclosure of data can accelerate the use of decision-quality data for nature and support the direction of capital towards nature.

5. **A common language on natural capital measurement:** mainstreaming approaches to measure, track and account for nature (e.g., UN SEEA, Transparent Methodology) will facilitate the possibility for nature to be fully embedded in decision-making processes.

CALL TO ACTION

Scaling-up nature-positive business models represents a $10 trillion business opportunity, whilst delivering the progress we need to achieve net zero and nature positive targets. Mobilising the private capital we need will require more innovation, replication, and collaboration at scale. There are no silver bullets, but the tools are becoming tried and tested. The case studies shown in the report illustrate how the private sector can reinforce momentum, bring scale, and demonstrate leadership.

Through their innovation and investment, the private sector will play a critical role in delivering the finance for a transition to a nature positive and equitable future. This will require urgent action to strengthen the regulatory environment and build out public finance actions, as described by the Taskforce on Nature Markets[91], the IHLEG, and the Blended Finance Taskforce[92]. Businesses and financial institutions must co-create the conditions for scaling up private finance for NbS by focusing on six priorities:

1 Adopt and support high-integrity science-based target-setting and disclosure frameworks, including globally recognized standards for carbon and nature accounting and for assessing, managing and disclosing nature and climate-related impacts, risks and dependencies. Apply these to business strategies, investment decisions, portfolio evaluations, and procurement standards.

a. **Adopt carbon and nature accounting methodologies to embed nature within internal decision-making processes,** including through company-wide internal carbon pricing.

b. **Support high-integrity, science-based standards for target-setting, risk management, and accounting for nature.** A particular priority is aligning with emerging voluntary and regulatory initiatives, including the European Union's regulatory framework, SBTN and TNFD guidance, as well as emerging nature accounting standards, such as the Natural Capital Protocol, and the Capitals Coalition's Transparent methodology.

c. **Apply climate and nature-related risk assessments,** including by drawing on the recommendations of TCFD and TNFD and **disclose climate and nature-related impacts, risks and dependencies using these frameworks.**

2 Integrate adaptation and resilience into business and investment strategies:

a. **Design integrated climate and nature strategies.** As businesses and financial institutions increasingly seek to address nature-related risks, investment in NbS can improve resilience against climate shocks.

b. **Scale up financial instruments strengthening resilience and adaptation.** For example, the insurance industry has a key role to play in evaluating the role of nature in mitigating climate-related risks and can mainstream parametric solutions to rapidly pay-out after climate events to build physical and financial resilience for governments and communities.

3 Harness the power of technology to collect and share the high-quality nature data and analytics that investors, businesses, civil society, and governments need for scaling up investments in NbS:

a. **Leverage technological developments on data and analytics to measure, track**

and prioritize nature action. Businesses and financial institutions should leverage technological advances – for example through remote sensing satellite data and in-situ data technologies like eDNA and sensors – to improve the quantity and quality of nature data to drive robust decision-making.

b. **Collect and share nature data using robust standards to build the transparency and trust that are needed to drive innovation for investing in NbS.** Businesses and financial institutions should collect data in line with accepted standards to drive comparability and share data publicly where possible, in line with principles of the TNFD-proposed Nature-related Public Data Facility, which aims to drive a data revolution for NbS[93].

4 Scale catalytic initiatives that accelerate the implementation of nature positive business models:

a. **Accelerate the transition to nature positive business models through multi-stakeholder efforts,** for example through NbS insetting efforts across value chains[94], providing technical assistance, deploying credit enhancement mechanisms, and committing to off-take agreements for NbS.

b. **Support the strengthening of high-integrity standards for payments for ecosystem services,** for example, businesses and financial institutions can contribute to the development and implementation of public-private initiatives such as the Taskforce on Scaling Voluntary Carbon Markets.

5 Work with governments, DFIs/MDBs, and philanthropies to catalyze more private capital for NbS:

a. **Align advocacy, policy and engagement with net zero goals and the Global Biodiversity Framework.** The Race to Zero 5th (Persuade) Handbook provides an overview of the key nature-related policies that non-party stakeholders, including financial institutions, can advance and advocate for, and the UNEP FI High-level Roadmap provides useful guidance for financial institutions to translate GBF targets into action.

b. **Support MDBs and DFIs in pioneering blended finance instruments that can de-risk private sector investment for NbS.** This could include guarantee mechanisms, novel forms of risk insurance (including for sovereign risk), public finance support for innovation, and other instruments to reduce the risk premia for NbS in EMDEs. A joint commitment from MDBs/DFIs to unlock credit enhancement for sustainability-linked financing, as well as to put in place collaborative processes for developing NbS project pipelines, and building issuer capacity can be a powerful signal.

c. **Engage the philanthropic community to direct targeted investments to build the enabling infrastructure to mobilize more finance for NbS.** Philanthropic finance can play a leading role in deploying catalytic, early-stage capital to support civil society activities and policy shifts, as well as pipeline development through investments in technical assistance, project preparation, advisory and seed funding.

6 Share best practices, lessons learned, and examples of success across the public and private sector to:

a. Demonstrate the opportunity for investing in nature, and showcase the bankability of NbS projects; and

b. Create standardization and harmonization where possible between markets, processes and de-risking instruments to maximize replicability, scalability, and compatibility

Attracting more private finance for nature will require interventions to strengthen the attractiveness and scale of nature positive business models and supply chains – including a more catalytic use of public and philanthropic capital to mitigate specific risks and aggregate projects to an investable scale to unlock large pools of capital. Interventions should focus on scaling (a) business models and supply chains, ensuring capital flows to the right people, projects and players on the ground to address all drivers of nature loss, and (b) capital mobilization mechanisms to attract a mix of public and private capital and address constraints in the financial system.

There are already several examples of success. In this paper, we have showcased examples of innovative models that have already demonstrated positive climate, nature and social outcomes whilst delivering positive return. The blueprints are out there – now we need them to be replicated and scaled up.

ENDNOTES

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MOBILIZING PRIVATE CAPITAL FOR NATURE TO MEET CLIMATE AND NATURE GOALS

RACE TO RESILIENCE

RACE TO ZERO

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