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Matters relating to finance

Matters relating to the Standing Committee on Finance

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Item 8(a) of the provisional agenda

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Report of the Standing Committee on Finance

Addendum

High-level summary of the second part of the Standing Committee on Finance Forum on finance for nature-based solutions

Summary

This document contains a high-level summary of the second part of the Standing Committee on Finance Forum on finance for nature-based solutions. Building on the discussions at the first part of the Forum, matters explored at the second part related to closing the gap in investment in nature-based solutions by mobilizing and scaling up finance for climate mitigation and adaptation, catalysing climate action based on nature-based solutions, delivery of and access to finance for nature-based solutions in developing countries, and addressing barriers to scaling up finance for nature-based solutions.



I. Introduction

1. At its 22nd meeting the Standing Committee on Finance (SCF) agreed to organize the next SCF Forum on the topic of finance for nature-based solutions, which was welcomed by the Conference of the Parties (COP) at COP 25.¹ At SCF 24 it was decided to hold the Forum in two parts: the first part in virtual or hybrid format in 2021² and the second part in person in 2022.
2. The second part of the Forum on finance for nature-based solutions was held in person from 26 to 28 September 2022 in Cairns, Australia. Over 80 participants attended the Forum in person and another 30 participants participated virtually, representing the SCF, governments, United Nations agencies and international organizations, the operating entities of the Financial Mechanism, multilateral climate funds, bilateral agencies, the private sector, academia, think tanks, civil society organizations working on nature-based solutions and indigenous peoples organizations of Australia, including local elders.
3. The Forum included:
 - (a) Plenary sessions for experts to present the latest studies and findings on nature-based solutions and to facilitate sharing of views and experience among stakeholders relating to finance for nature-based solutions;
 - (b) Breakout group sessions, including case study presentations, aimed at facilitating in-depth discussion among participants on best practices and lessons learned relating to finance for nature-based solutions, and identifying challenges faced by stakeholders and possible solutions;
 - (c) Feedback sessions for discussion leaders to present outcomes of the breakout group sessions and share their insights;
 - (d) A final session on key outcomes and recommendations, aimed at facilitating deliberations on actions at the international, national and subnational level that may be pursued for addressing barriers to and mobilizing and accessing finance for nature-based solutions.
4. The programme for the second part of the Forum, biographies of speakers and discussion leaders, presentation slides and broadcast links are available on the Forum web pages.³
5. On the last day of the Forum, participants visited a nature-based solutions project site in the Russell River catchment, where they had an opportunity to learn about the project for protecting and improving the river ecosystem and to interact with the indigenous peoples, community services and government that manage it.

II. High-level summary

A. Conceptualization of nature-based solutions

6. Key findings in recent Intergovernmental Panel on Climate Change reports demonstrate the urgent need to address climate change and the importance of restoring and protecting nature. The impacts of climate change are being felt, including by the poorest countries, which are also the most vulnerable to climate change. However, many of those countries have high potential for implementing nature-based solutions as they are rich in biodiversity and have large carbon sinks.

¹ Decision 11/CP.25, para. 7.

² For information on the first part of the Forum, including programme and high-level summary, see <https://unfccc.int/topics/climate-finance/events-meetings/scf-forum/the-scf-forum-on-finance-for-nature-based-solutions-part-i>.

³ <https://unfccc.int/event/the-standing-committee-on-finance-forum-on-finance-for-nature-based-solutions-part-ii>.

7. To catalyse relevant action, public and private sector actors must better understand what nature-based solutions are. There has been progress in defining nature-based solutions, with the adoption of a definition by the United Nations Environment Assembly⁴ and development of a global standard for nature-based solutions by the International Union for Conservation of Nature.⁵ However, it is important to recognize that defining nature-based solutions could mean relabelling a multitude of existing efforts that are already contributing to restoring, rehabilitating and protecting nature while addressing climate change.

8. Environmental and social safeguards are an important component of nature-based solutions projects and programmes. In this context, Forum participants shared best practices and lessons learned relating to applying ecosystem- and rights-based approaches to nature-based solutions.

B. Closing the gap in finance for nature-based solutions

9. There is an urgent need to address the gap in financing for nature-based solutions, which is projected to reach USD 4.1 trillion by 2050.⁶ Forum participants identified a number of barriers to scaling up finance for nature-based solutions, including:

(a) The current rate and scale of mobilization of climate finance from both public and private sources not being commensurate with the growing investment needs;

(b) Difficulties integrating the value of ecosystem goods and services into economic and financial services and developing a business case for investing in nature and ecosystems, and lack of capacity in this regard, especially in developing countries;

(c) The comparatively longer time needed for nature-based solutions projects, compared with non-nature-based alternatives, to generate outcomes and benefits for the climate and nature;

(d) Difficulties identifying collateral for finance, especially in relation to land and water resources that are managed by local communities and indigenous peoples;

(e) Lack of reliable, verified data on nature and climate for assessing the risk of investment in nature-based solutions;

(f) Challenges associated with nature-related financial disclosure, such as defining criteria, metrics and methodologies associated with information to be disclosed and developing a global disclosure framework for addressing the circumstances and needs of private companies in developing countries;

(g) Uncertainty of international recognition of outcomes of nature-based solutions projects for the private sector.

10. To close the investment gap at the national level, governments could:

(a) Take the lead on financing for nature-based solutions by giving clear policy signals, such as integrating climate and nature into national development strategies and climate change plans;

(b) Coordinate national and subnational strategies for nature-based solutions in order to scale up domestic climate- and nature-based action, and enhance interministerial coordination for cross-sectoral cooperation on nature-based solutions, for example by removing subsidies that are harmful to nature and the climate;

(c) Promote use of financial instruments, such as nature or climate bonds or blended finance in co-investment schemes for nature-based solutions, although the

⁴ See United Nations Environment Programme document UNEP/EA.5/Res.5.

⁵ See <https://www.iucn.org/our-work/nature-based-solutions>.

⁶ See UNEP, World Economic Forum, the Economics of Land Degradation, et al. 2021. *State of Finance for Nature: Tripling investments in nature-based solutions by 2030*. Nairobi: UNEP. Available at <https://www.unep.org/resources/state-finance-nature>.

instruments should be flexible to accommodate local circumstances and accessible to local communities;

- (d) Play a facilitative role in:
 - (i) Reducing the time and costs associated with generating data and information related to nature-based solutions;
 - (ii) Encouraging participation of local and indigenous actors in planning and implementing nature-based solutions and safeguarding their rights and land tenure;
 - (iii) Creating regulatory frameworks and incentives for scaling up private sector investment in nature-based solutions, such as by supporting project developers and smallholders in formulating investment-ready project proposals.

11. At the international level:

(a) Partnerships and networks for nature-based solutions need to be further strengthened to facilitate exchange of information and lessons learned, acknowledging that nature-based solutions are context specific (i.e. based on the country's environmental, social and economic circumstances);

(b) Bilateral support plays an important role in supporting development and implementation of nature-based solutions in developing countries and needs to be better aligned with the development and climate priorities of the recipient countries;

(c) Multilateral development banks can leverage public climate finance for nature-based solutions to de-risk private investments, promote use of innovative financial instruments and provide risk management tools for governments and private businesses. In this regard, multilateral development banks' joint statement at COP 26⁷ on incorporating nature-based solutions into their investment portfolios sent out a strong positive signal;

(d) International climate funds can support large-scale nature-based solutions projects and programmes, de-risk associated private investments and provide expedited access to finance for nature-based solutions by speeding up decision-making processes for project approvals to reduce the time taken for fund disbursement.

12. Nationally determined contributions are increasingly referring to nature-based solutions as a way to achieve the countries' climate ambitions. There is a need for clarity on how developing countries can formulate and implement specific nature-based solutions projects and programmes and the overall costing of addressing associated needs.

C. Facilitating enhanced access to finance for nature-based solutions

13. In accessing international climate finance for nature-based solutions, developing countries are faced with complex accreditation processes, long project development timelines, slow disbursement processes and lack of technical capacity. Capacity-building and technical assistance should be strengthened for national and subnational governments of developing countries, and local communities and indigenous peoples to access international finance for nature-based solutions. Key considerations include:

- (a) Moving from short- to long-term and sustained capacity-building models;
- (b) Improving coordination of capacity-building activities across key government ministries;
- (c) Using readiness programmes of international climate funds to strengthen the country ownership of and institutional capacity to use international funding for nature-based climate projects;
- (d) Strengthening South–South cooperation to facilitate sharing of good practices and lessons learned relating to nature-based solutions.

⁷ Available at <https://thedocs.worldbank.org/en/doc/e523c9386dd95f2ec59613310611e1de-0020012021/original/MDB-Joint-Statement-on-Nature.pdf>.

14. Having information and data on nature and climate is key to preparing project or investment proposals for nature-based solutions, particularly in quantifying positive externalities, co-benefits and associated risks. In this context, it is important to recognize the value of knowledge from local communities and indigenous peoples. Forum participants agreed that local communities and marginalized groups need to be consulted throughout project cycles and empowered across decision-making processes in this context.

15. The private sector needs better access to international climate finance to scale up investment in nature-based solutions, which requires improved awareness-raising of the financial and technical support available from international climate funds, such as regarding how the funds can help mitigate the risks faced by the private sector and address gaps in information and data relating to investment in nature-based solutions.

D. Possible actions going forward

16. In relation to further catalysing nature-based climate action and accelerating mobilization and delivery of finance for nature-based solutions, Forum participants made the following suggestions for consideration by the SCF:

- (a) Facilitate a better understanding of financing for nature-based solutions, including in the context of climate finance;
 - (b) Ensure that needs for implementing nature-based solutions are considered in the report on the determination of the needs of developing country Parties related to implementing the Convention and the Paris Agreement;
 - (c) Integrate nature-based solutions into discussions as part of the biennial assessment and overview of climate finance flows;
 - (d) Facilitate provision of draft guidance to the operating entities of the Financial Mechanism on financing for nature-based solutions;
 - (e) Facilitate more efficient processes for approval of project proposals for accessing climate funds;
 - (f) Facilitate exchange of information on nature-based solutions by developing a knowledge depository system on best practices and lessons learned associated with nature-based solutions.
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