

2022

State of Finance for Nature

Time to act:
Doubling investment by 2025 and
eliminating nature-negative
finance flows

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Executive Summary

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The State of Finance for Nature (SFN) 2022 report quantifies public and private finance flows to nature-based solutions (NbS) to tackle global challenges related to biodiversity loss, land degradation and climate change. Current investments are compared to investment needed to meet targets of the Rio Conventions under the United Nations Convention on Biological Diversity (UNCBD), United Nations Framework Convention on Climate Change (UNFCCC) and the United Nations Convention to Combat Desertification (UNCCD). This report is the second in a series that aims to inform public and private actors about progress against key targets and the extent to which finance flows are aligned with global targets and the investment needed to limit global warming to below 1.5 or 2°C, halt biodiversity loss and achieve land degradation neutrality. It also provides high-level recommendations on how to scale up financial flows to NbS and improve alignment with nature-positive outcomes.

This second edition has a broader scope than the inaugural report in 2021. First, analysis of capital flows has been expanded to include marine nature-based solutions. Second, the investment in NbS needed to limit climate change to below 1.5°C (in addition to the 2°C target) is estimated, given the enormous impact this has on nature and people. Third, public nature-negative capital flows have been quantified, to put into context capital flows to NbS. Fourth, the benefits of investing in NbS have been estimated to demonstrate to politicians, business and finance leaders that nature is a large part of the solution to global crises.

NbS can play a major role in addressing a broad range of societal challenges, from managing water scarcity to reducing disaster risk to poverty alleviation. The World Economic Forum (WEF) estimates that nature-positive policies could attract more than US\$10 trillion in new annual business value and create 395 million jobs by 2030 (WEF 2020a). This report focuses specifically on the ability of NbS to tackle societal challenges

related to the climate crisis, land degradation and biodiversity loss. Terrestrial and marine ecosystems are responsible for absorbing and storing about half of global carbon emissions (Griscom *et al.* 2017). The Intergovernmental Panel on Climate Change (IPCC) special report on limiting global warming below 1.5°C found that three of the five most effective strategies for reducing emissions are nature-based solutions: ecosystem protection, restoration and improved management of farmlands. Human rights and gender equality are integral to financing NbS, particularly the use of public funds to ensure equitable and effective solutions on the ground.

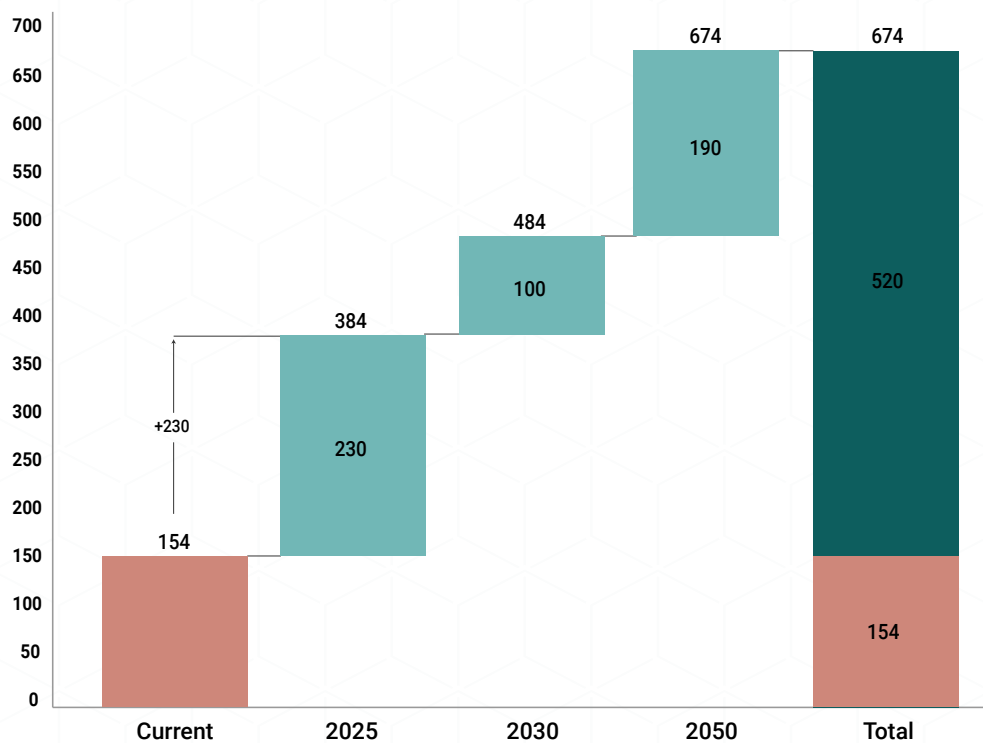
Key Messages

The key messages of this report are:

- **Finance flows to NbS are currently US\$154 billion per year, less than half of the US\$384 billion per year investment in NbS needed by 2025 and only a third of investment needed by 2030 (US\$484 billion per year)**

to limit climate change to below 1.5°C, halt biodiversity loss and achieve land degradation neutrality. Urgent and large increases in finance for nature are essential.

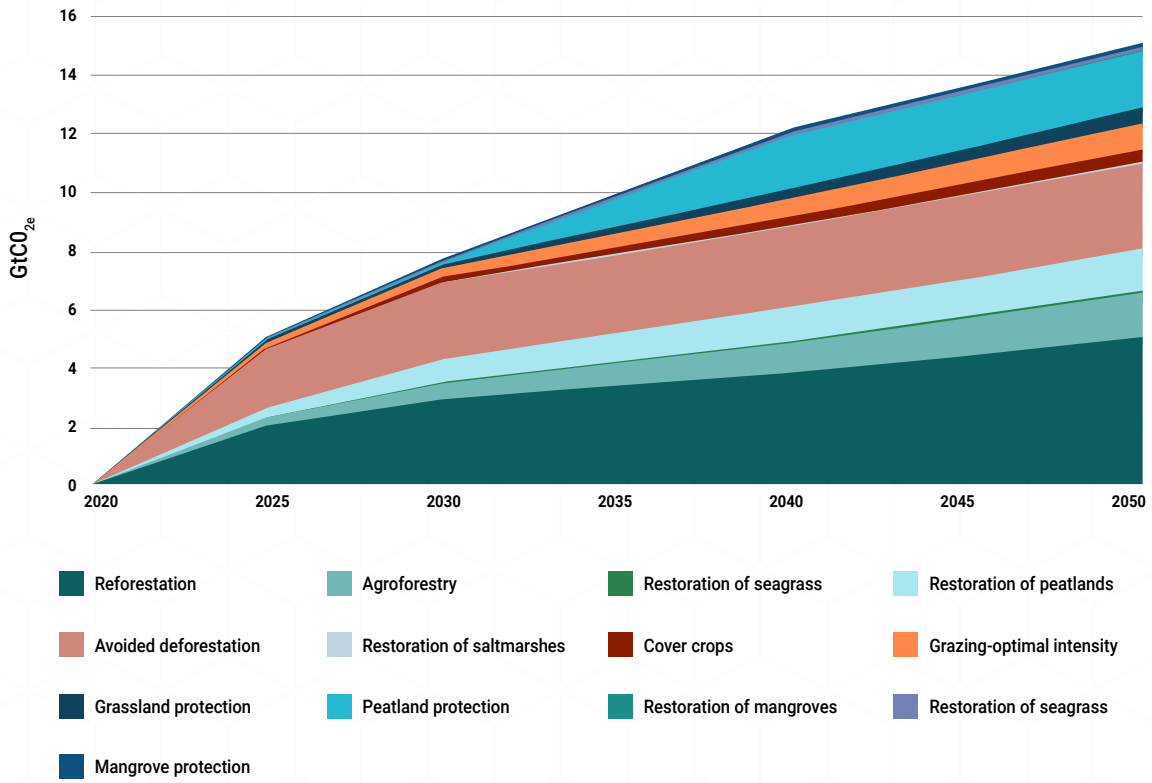
The trajectory of annual NbS investment needs to limit climate change to below 1.5°C, halt biodiversity loss and achieve land degradation neutrality, \$ billion (2022 US\$)



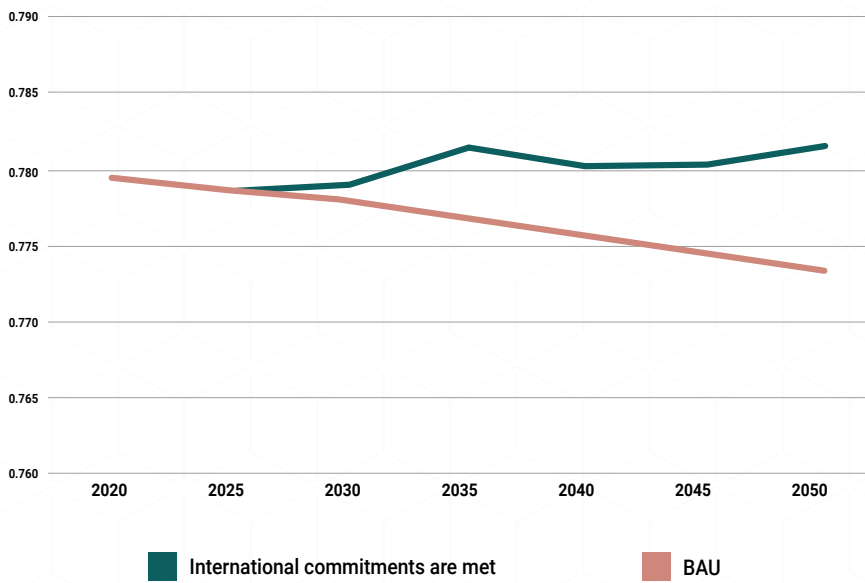
- **With sufficient finance, NbS provide the means to cost-effectively reach climate, biodiversity and land degradation neutrality targets**, particularly if investments simultaneously contribute to biodiversity (National Biodiversity Strategies and Action Plans [NBSAPs]), climate (Nationally determined contributions [NDC]) and restoration (Land Degradation Neutrality [LDN]) targets.¹ This “double” or “triple” win potential is particularly alluring given the current economic situation.
- Delayed action is no longer an option in the face of the devastating effects of climate change, the extinction crisis and severe land degradation globally. Politicians, business and finance leaders and citizens globally must transform their relationship with nature to work with it rather than against it. This report provides hope - **if we rapidly double finance flows to NbS, we can halt biodiversity loss (measured through the Biodiversity Intactness Index below), significantly contribute to reducing emissions (5 GtCO₂/year by 2025 further rising to 15 GtCO₂/year by 2050 in the 1.5°C scenario) and restore close to 1 billion ha of degraded land.**

¹ NBSAPs are national biodiversity action plans. NDCs refer to ‘nationally determined contributions’, essentially the climate targets that governments set for their own nation. LDN stands for ‘land degradation neutrality’ a key target of the UNCCD Convention.

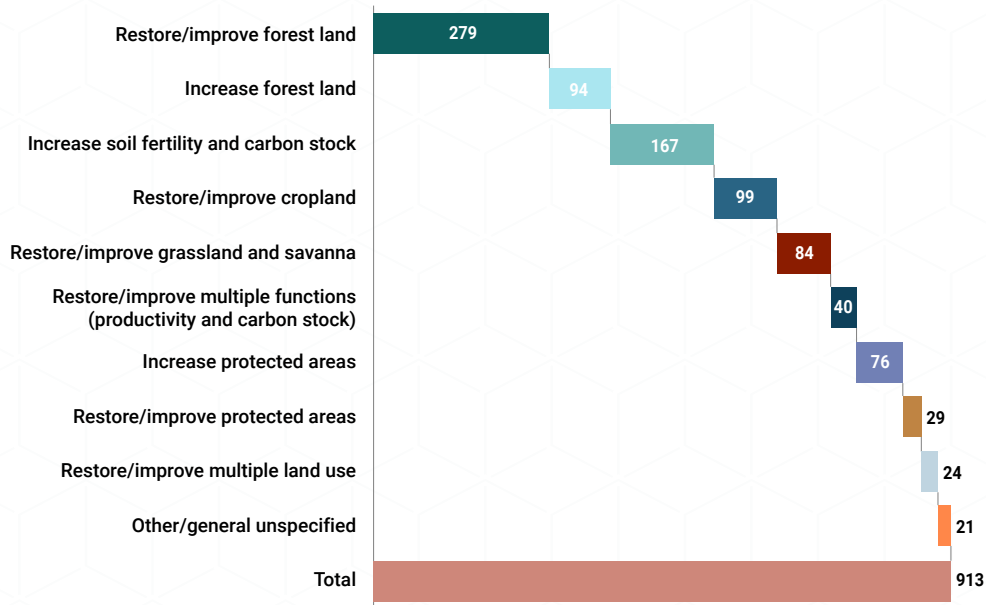
Greenhouse gas (GHG) removals by activity under the 1.5°C scenario, 2022 to 2050, GtCO₂e/year



Biodiversity Intactness Index under different scenarios



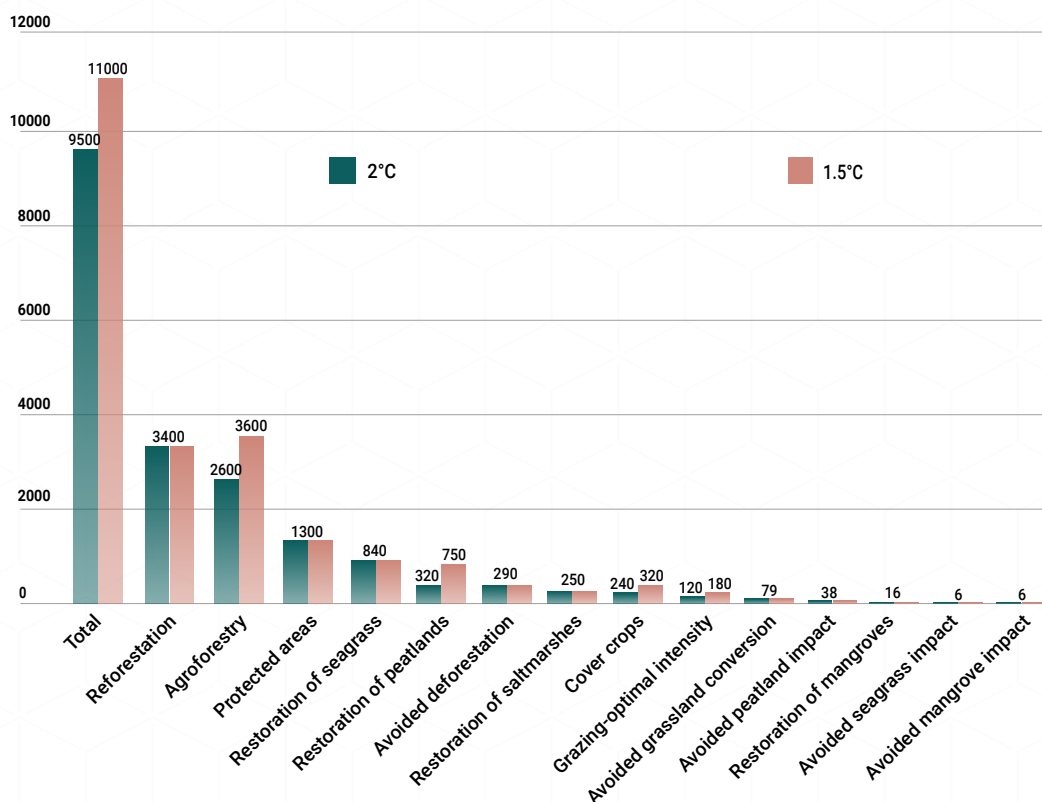
Global land restoration commitments by 2030, million hectares



- Limiting climate change to below 1.5°C is achievable only if action is immediate.** To complement non-nature-based mitigation actions, cumulative (2022-50) investment in NbS required to achieve the 1.5°C target in line with the Paris Agreement is at least US\$11 trillion (compared to an estimated cumulative

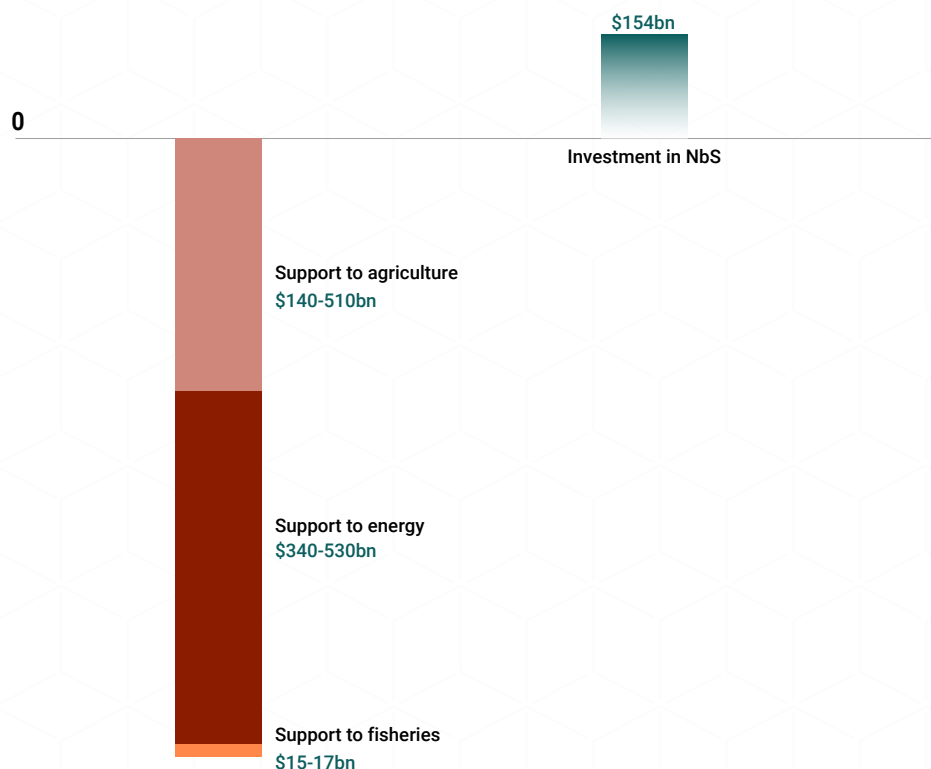
investment need of US\$9.5 trillion in the 2°C scenario). This cumulative investment takes the deployment of NbS close to its total potential identified given bio-physical, social and governance constraints. Strong action before 2030 is critical.

Cumulative investment needs from 2022 to 2050 in 1.5°C and 2°C scenarios, \$ billion (2022 US\$)



- Private sector investment in NbS must increase by several orders of magnitude in the coming years from the current US\$26 billion per year, which represents only 17 per cent of total NbS investment.** While philanthropic capital and carbon markets have grown significantly between the SFN 2021 report and this edition, impact investment and investment in sustainable supply chains have increased very little. This is in stark contrast to the myriad of net zero and deforestation-free commitments made by agri-food companies, banks and investors, which have seen too little action and too little capital deployed. Voluntary business commitments without a time-bound plan or roadmap for implementation are not acceptable.
- Investment in marine NbS constitutes only 9 per cent of total investment in NbS,** which is very low given the role of the oceans in climate mitigation and supporting adaptation, food security and biodiversity conservation. Current annual investment in marine protected areas is US\$980 million, whereas terrestrial protected areas receive almost US\$23 billion. The annual finance gap to increase marine protected areas to 30 per cent by 2030 is US\$8–11 billion.
- Nature-negative expenditures far outweigh investments in nature-based solutions –** Government expenditure on environmentally harmful subsidies to fisheries, agriculture and fossil fuels is estimated at US\$500 billion to 1 trillion per year, which is three to seven times greater than public and private investments in NbS. These flows severely undermine efforts to achieve critical environmental targets. While robust evidence is lacking, it is widely recognised that private finance flows are predominantly negative for nature and almost certainly exacerbate the situation.
- It is critical to rapidly align policies, regulation, economic activity and financial flows with biodiversity values and with the Paris Agreement.** Governments need to lock in critical targets on biodiversity loss, take urgent action to raise ambition and implement emissions reduction targets in line with the Paris Agreement and action land restoration commitments. These targets must be underpinned by broad based resource mobilisation from all sources. Public and private actors need to mobilise the necessary finance and close the finance gap while governments anchor targets in national regulation/legislation.

Potentially nature-negative public financial flows, \$ billion per year (2022 US\$)



Recommendations

This report also examines how best to scale up and improve targeting of investment in NbS and who needs to do what over the next two to five years and to 2030. High-level recommendations are structured around the need to:

1. Financing green – increase direct finance flows to NbS through public domestic expenditure, nature-focused Official Development Assistance (ODA), ensuring that multilateral development banks (MDBs) and development finance institutions (DFIs) prioritise green finance, and providing regulation and incentives for private sector investment, particularly in nature markets and sustainable supply chains.

2. Greening finance – companies in the real economy and financial institutions need to transition to “net zero, net positive” and equitable business models in a time-bound manner with short-term targets. This requires disclosure of climate and nature-related financial risks, and where and how products are produced across supply chains. Align public and private financial flows with the goals and targets of the Global Biodiversity Framework, the Paris Agreement and restoration commitments. Accelerate reform of nature-harmful public financial flows to reduce investment needs to redress adverse effects through NbS. Integrate nature and climate-related risks and opportunities into business and financial decision-making, risk management and disclosure frameworks to reduce nature damaging private investment flows. Require national and international development finance institutions and multilateral development banks to remove climate and nature negative lending and investment from their portfolios.

3. Increase inclusion in financial systems for a just transition. Public and private sector efforts to scale up NbS investments need to integrate just transition principles, safeguarding human rights. This includes providing social protection, land rights and decent working conditions and the participation of local and indigenous communities, including women and other marginalised and vulnerable groups.

