

Policy Brief

Markets, Financing and Incentives for Nature-based Solutions (NbS): Current Landscape of NbS Financing Models and Incentives

About this brief

This brief presents insights of the Invest4Nature (I4N) **systematic literature review of the state-of-the art for NbS financing models and incentives**:

- ▶ Trends in the current landscape
- ▶ Scale of NbS projects
- ▶ Source of financing
- ▶ Investment effectiveness
- ▶ Main drivers
- ▶ Main barriers
- ▶ Policy recommendations to enhance the scalability and effectiveness of NbS projects

For more details and sources, read Chapter 3 of the Invest4Nature report:

Markets, Financing and Incentives for Nature-based Solutions (Deliverable 3.3)

➤ [Read the full report](#)

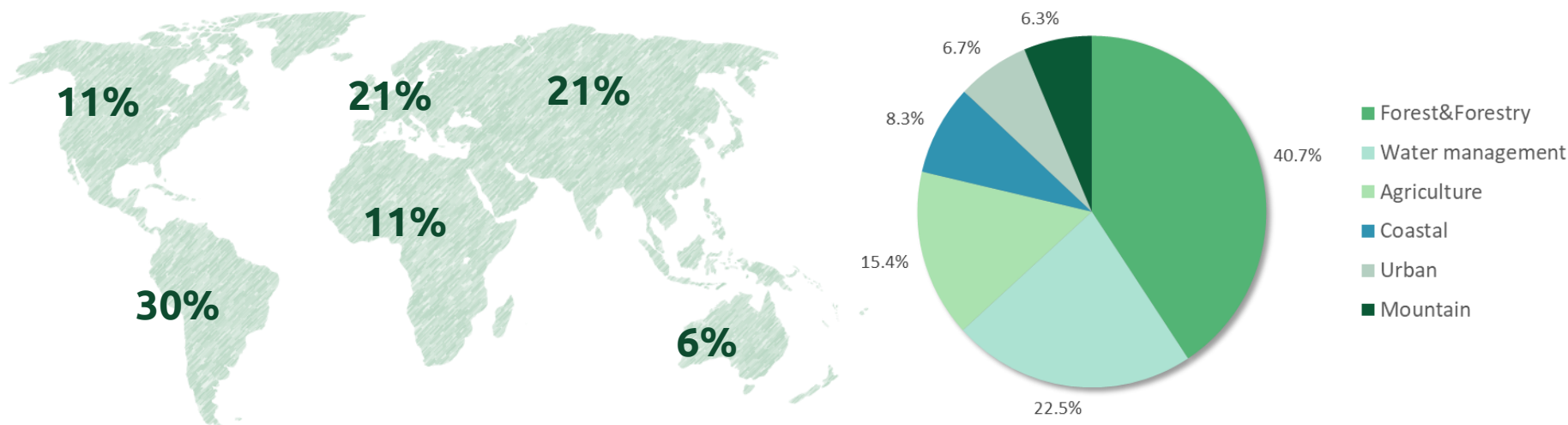
Context

Currently, there is a range of nature-based solutions (NbS) emerging, primarily supported by strong public funding, but a comprehensive market for NbS has not yet emerged. Despite the growing prominence of NbS in scientific and policy discussions, information and evidence pertaining to successful financing and incentive mechanisms remain fragmented and not readily accessible.

To address this gap, Invest4Nature has mapped the current state of the market for financing NbS in a full report to **explore the potential for increasing private sector engagement**. This includes a systematic literature review of the state-of-the art for **NbS financing models and incentives** and an analysis of the needs and perspectives of different market players, including the public sector, the investor community and Nature-based Enterprises (NbEs).

The **systematic review** explored the effectiveness of various financing models and incentives across different NbS types, scales of investment, and challenges. The findings aimed to provide a **better understanding of suitable financing models and incentives** to drive future NbS financing.

Geographical and sectoral distribution of NbS projects

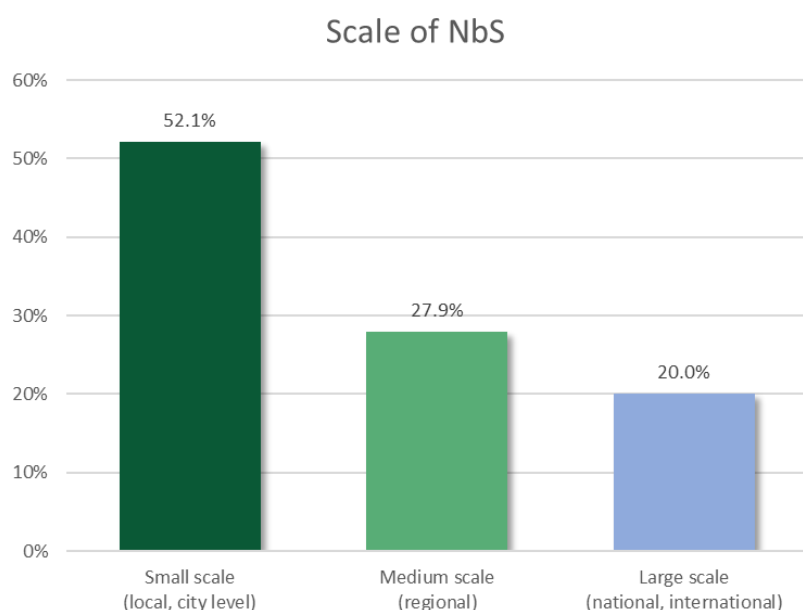


In the analysed literature, **Latin America** hosts the largest share of NbS projects, followed by **Asia** and **Europe**. In terms of natural landscape types, **forestry** landscapes account for the majority of these initiatives. **Water management** solutions also represent a significant portion. The remaining projects span **agriculture**, **coastal**, **urban**, and **mountain** landscapes.

Scale of NbS Projects

52% of projects are small-scale

...with few large-scale initiatives due to financial and governance challenges

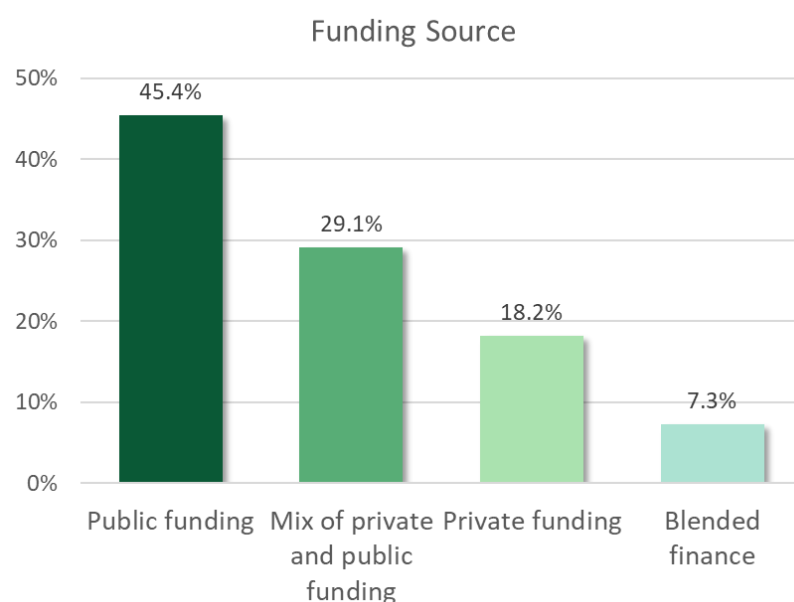


Small-scale investments of less than 2M€ are the most common, while **34.5% of projects lack financial data**, indicating a transparency gap.

Source of Financing

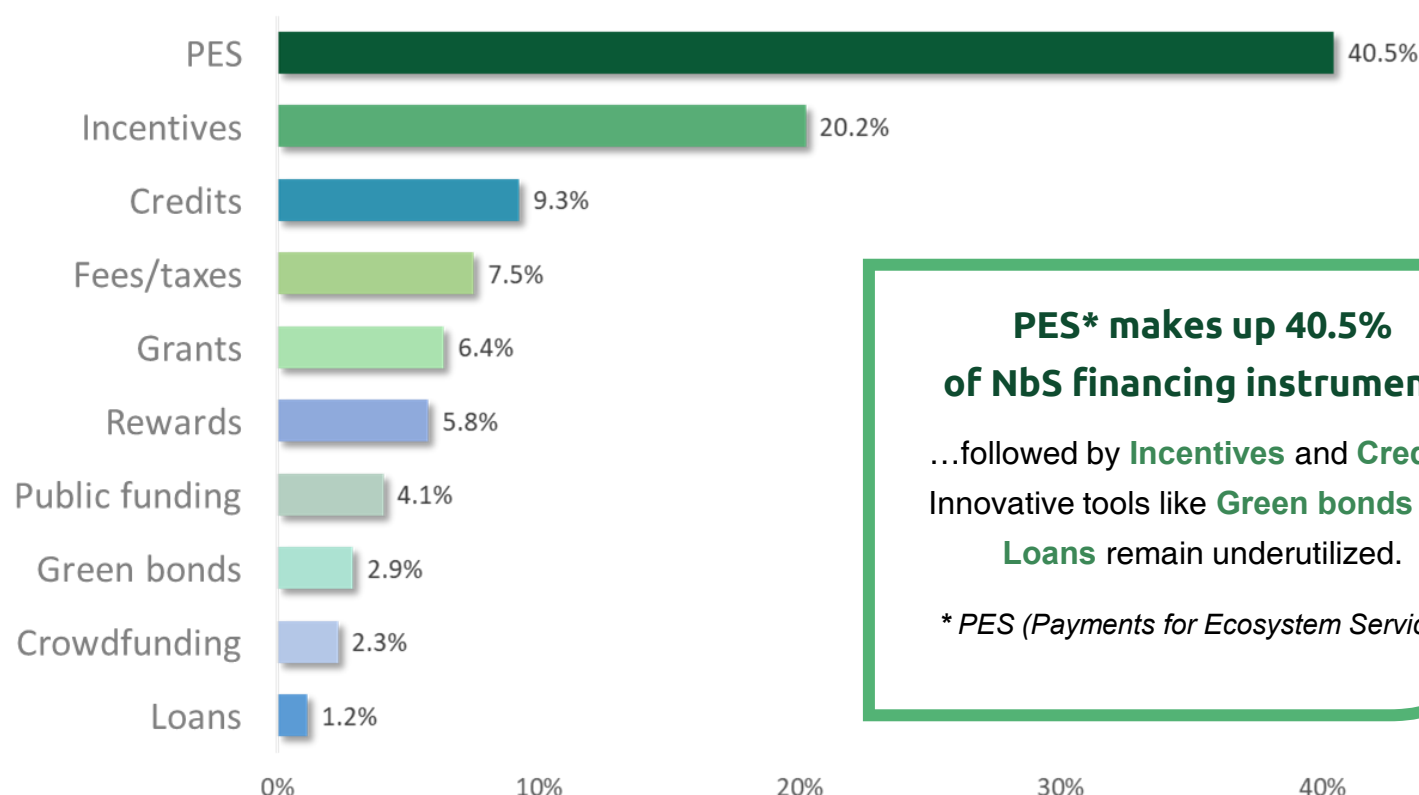
45% of funding is public

...which remains the dominant source



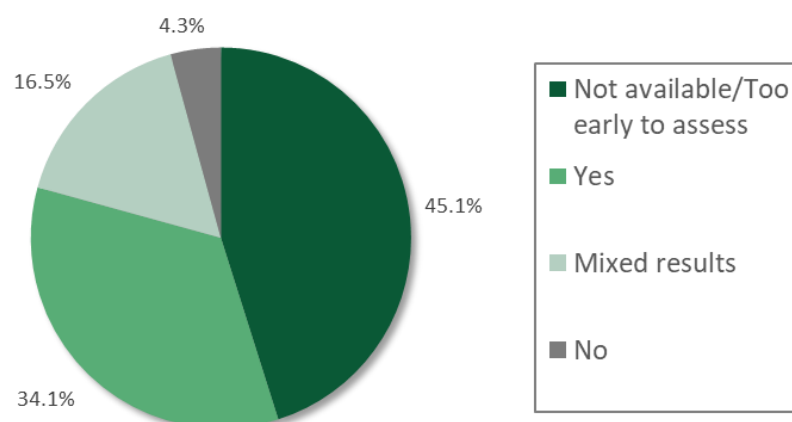
A total of 54.6% cases are funded - both alone and in combination with public funds - **by the private sector**.

Distribution of Financing Instruments and Incentives



Effectiveness

Was the financing or incentive successful?



34.1% of financing cases were successful

Positive outcomes were linked to **conservation benefits**, **financial gains**, and **livelihood improvements**, while failures often stemmed from ecological shortcomings, inadequate funding, and stakeholder misalignment. **45.1%** of analysed cases **lacked sufficient data**.

Natural landscape outcomes

Coastal, **mountain**, and **urban** NbS projects showed predominantly **positive results**, possibly due to well-defined objectives (e.g., mangrove restoration, soil erosion prevention).

While **forests** benefited from established financing programs like PES, land rights issues and community conflicts created challenges. **Water management** projects also faced **similar mixed outcomes**.

Strong success was observed in **sustainable land management** practices supported by PES, which helped enhance both ecological and socio-economic benefits, improving livelihoods of communities and land productivity.

Key Drivers

- ▶ Institutional and Political Support
- ▶ Market Opportunities
- ▶ Project Design and Implementation Technical Capacity
- ▶ Social and Community Engagement

Key Barriers

- ▶ Technical Challenges
- ▶ Social Barriers
- ▶ Financial Constraints
- ▶ Market Limitations
- ▶ Institutional and Policy Gaps

Policy Recommendations



1. Strengthen local capacity and community engagement

- ▶ Provide training and technical support to local stakeholders, project developers, and communities to enhance their participation in NbS projects.
- ▶ Facilitate participatory decision-making processes to build trust and improve project implementation.



2. Improve data transparency and monitoring systems

- ▶ Implement localized monitoring and reporting frameworks to track ecological and socio-economic outcomes of NbS projects.
- ▶ Ensure clear and accessible financial reporting mechanisms to reduce investment risks and attract funding.



3. Align financing instruments with local needs

- ▶ Adapt financing models to fit specific landscape needs (e.g., PES for forestry, blended finance for water management).
- ▶ Promote performance-based incentives that tie financial rewards to the successful delivery of ecosystem services.

