NATURE-BASED SOLUTIONS FOR ADAPTATION

BRIEF SERIES

ISSUE 8, JULY 2026

INVESTING IN IMPACT
Connecting Carbon, Biodiversity, and Community Benefits

Finance is evolving from a focus on transactions and capital mobilization toward a broader focus on outcomes. Whether through carbon markets, biodiversity finance, or impact-focused investments, the ultimate challenge is ensuring financial flows generate measurable benefits for climate, nature, and communities. This brief synthesizes key insights from experts on financial mechanisms that promote climate adaptation, mitigation and biodiversity conservation, exploring how innovative financing mechanisms can mobilize investment, recognize the value of nature, and translate financial commitments into equitable and lasting outcomes for people and ecosystems.

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FROM MARKETS TO IMPACT

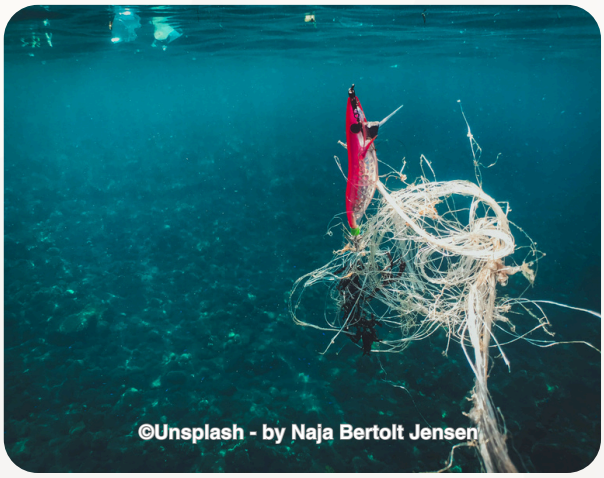
As climate change, biodiversity loss, and growing social inequalities continue to intensify, they are placing unprecedented pressure on both natural systems and the global economy, creating an equally unprecedented financing challenge. The economic case for investing in nature is clear: at least half of the world's GDP is moderately or highly dependent on nature and the ecosystem services it provides (PwC UK 2023). This dependence extends across the private sector. According to S&P Global Sustainable1, 85% of companies in the S&P Global 1200 Index have significant dependencies on nature within their direct operations, while 46% have at least one asset located in a Key Biodiversity Area (KBA), exposing them to growing reputational and regulatory risks as environmental degradation accelerates (S&P Global Sustainable1 2023).

Yet despite the increasing recognition that healthy ecosystems underpin economic resilience, current levels of investment remain far below what is needed. Addressing climate change, biodiversity loss, and widening inequalities will require financing at a scale that far exceeds the capacity of public funding alone (**Aftab Sheikh et al. 2025**). As governments, financial institutions, businesses, and development partners look to bridge this financing gap, innovative finance has emerged as a critical approach for mobilizing additional, blended capital for climate action and sustainable development.

Simultaneously, the financing conversation is shifting from how much finance is raised to what that finance achieves. Financial mechanisms are no longer judged solely by the volume of investment they attract, but by their ability to deliver measurable benefits for climate, nature, and people. This evolution reflects a growing recognition that long-term economic prosperity depends on healthy ecosystems, resilient communities, and inclusive development.

This shift is particularly relevant for Nature-based Solutions (NbS)[1], which offer integrated responses to climate adaptation, biodiversity conservation, and sustainable livelihoods. While NbS have demonstrated significant environmental and social benefits, scaling their implementation requires financing approaches that recognize the full value of nature, shift risk-return perceptions, ensure social equity and are underpinned by strong evidence of project impact (**Aftab Sheikh et al. 2025**).

Several complementary financing approaches are helping to create the conditions for scaling NbS by mobilizing investment, valuing natural assets, and strengthening the link between financial returns and measurable environmental and social outcomes. Three interconnected dimensions are particularly important. **Carbon finance and markets** demonstrate how market-based mechanisms can create incentives for climate action and ecosystem restoration. **Biodiversity finance** (and its related products) expands the conversation by recognizing the economic value of healthy ecosystems and the risks associated with their degradation. Finally, an increasing emphasis on **inclusive finance** highlights that investments should be assessed not only by the capital they mobilize, but by the lasting environmental and social outcomes they generate.

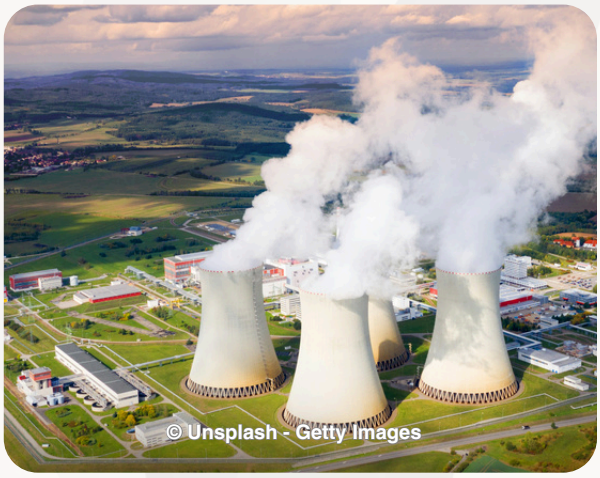


Together, these perspectives illustrate a broader transition in sustainable climate finance, and this brief explores how these three investment approaches can work together to mobilize capital while ensuring that financial flows contribute to resilient ecosystems, stronger communities, and long-term climate adaptation.

[1] Actions to protect, conserve, restore, sustainably use and manage natural or modified terrestrial, freshwater, coastal and marine ecosystems, which address social, economic and environmental challenges effectively and adaptively, while simultaneously providing human well-being, ecosystem services and resilience and biodiversity benefits (UNEA-5 2020 Resolution).

MOBILISING CAPITAL FOR CLIMATE ACTION

Carbon markets have emerged as one of the most prominent financial mechanisms for mobilizing private sector investment in climate action (Kerr and Hu 2025). By assigning an economic value to greenhouse gas emissions (GHG) reductions or removals, carbon markets create financial incentives for activities that protect, restore, or sustainably manage ecosystems. For NbS or nature-based projects (e.g. mangrove restoration, forest conservation, and peatland protection), they offer a promising opportunity to unlock new sources of finance for conservation, restoration, and climate adaptation efforts that have historically relied on limited public and donor funding.



Carbon markets operate by enabling the purchase and sale of carbon credits, each representing one tonne of carbon dioxide that has been reduced or removed. These markets generally fall into two categories. Compliance markets are established through government regulations that require entities to meet emissions reduction targets, while voluntary carbon markets allow companies and organizations to purchase carbon credits to meet voluntary climate commitments or sustainability goals. Both have the potential to channel investment toward NbS, though they differ in their governance, standards, and market drivers.

For NbS practitioners, carbon finance can provide long-term revenue streams that support ecosystem stewardship beyond the lifespan of traditional grant funding. Adaptation activities from NbS or nature-based projects can generate measurable carbon benefits while simultaneously strengthening biodiversity, improving water regulation, enhancing food security, and increasing community resilience to climate change. When designed effectively, carbon projects can, therefore, produce multiple co-benefits that extend well beyond emissions mitigation.

Voluntary Markets	Domestic Compliance Markets
• Main standards: Verra, Gold Standard, ACR • Market size: $1.4B • Projected 2030 market size: $5-20B	• Credits used in carbon tax or ETS • Main countries: Colombia, Chile, USA (California)

Source: Presenter, Maximiliano Bernal Temores (The Nature Conservancy)

Case Study: Blending Carbon Finance and Parametric Insurance for Coastal Resilience

Coastal regions in the Philippines are increasingly vulnerable to stronger storms and rising sea levels. To address these growing risks, the Princess Margriet Fund and the Netherlands Red Cross, with support from the Global EbA Fund, are exploring an innovative financing model that combines carbon finance, parametric insurance, catalytic donor funding, and trust fund structures to support mangrove restoration. Mangroves protect coastlines, support biodiversity, and store significant amounts of blue carbon, yet restoration efforts often face unreliable funding. By blending these financial instruments, the model aims to provide sustainable financing for ecosystem restoration while enabling rapid insurance payouts after climate-related disasters, helping communities recover and restore damaged ecosystems more quickly. Learn more about the project **here**.

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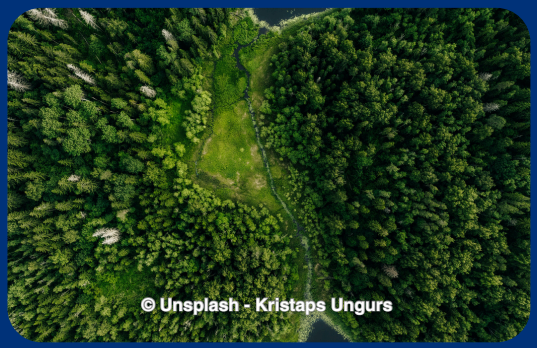
However, carbon markets are not a universal solution for financing NbS. Developing high-quality carbon projects requires significant technical expertise, robust monitoring and verification systems, clear land and carbon rights, and substantial upfront investment. Projects must also demonstrate additionality (that emissions reductions would not have occurred without carbon finance), permanence (that carbon benefits will be maintained over time), and safeguards against leakage (where emissions are displaced rather than reduced). These requirements can create barriers for community-led initiatives and smaller organizations with limited financial or technical capacity.

Equally important is ensuring that carbon finance delivers tangible benefits for the people who manage and depend on ecosystems. Projects that fail to recognize local rights, engage communities in decision-making, or distribute benefits fairly risk undermining both social equity and long-term environmental outcomes. Integrating strong governance, transparent benefit-sharing mechanisms, and meaningful participation from marginalized communities, such as women, youth, Indigenous Peoples and local communities, is essential to ensuring that carbon markets contribute to resilient and equitable NbS.

Spotlight initiative:

The **WALD Innovation Facility** is a grant programme managed by IUCN and funded by Germany's Federal Ministry of Economic Cooperation and Development (BMZ) through KfW Development Bank. It provides early-stage financing to innovative nature-based carbon projects that are not yet able to attract investment through the voluntary carbon market, helping them become investment-ready while delivering climate mitigation, biodiversity conservation, and sustainable livelihood benefits. Learn more about the initiative **here**.



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Ultimately, carbon markets should be viewed as one tool within a broader financing landscape. While they can mobilize significant investment and create incentives for ecosystem conservation and restoration, carbon alone cannot capture the full value of nature. The multiple ecological, economic, and social benefits generated by healthy ecosystems extend far beyond the carbon

they store, underscoring the need for financing approaches that recognize biodiversity and ecosystem resilience alongside climate mitigation.

EXPANDING THE LENS BEYOND CARBON

While carbon markets have helped demonstrate how market-based mechanisms can mobilize investment for climate action, they represent only one dimension of nature's value. Ecosystems provide a wide range of benefits that extend far beyond their capacity to store carbon, including maintaining biodiversity, regulating water supplies, protecting coastlines, supporting food systems, and enhancing resilience to climate change. These ecosystem services underpin economic stability and human well-being, yet they have historically remained undervalued or excluded from financial decision-making.

Biodiversity finance[2] addresses this gap by recognizing nature as a productive asset rather than an externality. It encompasses the policies, financial instruments, and investments that support the conservation, sustainable management, and restoration of ecosystems while generating environmental, social, and economic benefits. Rather than focusing on a single ecosystem service, biodiversity finance promotes investment in the health and resilience of entire ecosystems, acknowledging that functioning natural systems are fundamental to climate adaptation, sustainable livelihoods, and long-term development.

This broader perspective is increasingly shaping financial markets. Investors, businesses, and governments are recognizing that biodiversity loss poses material risks to supply chains, infrastructure, food security, and economic growth. At the same time, protecting and restoring ecosystems presents opportunities to reduce climate risks, strengthen resilience, and generate long-term value. Emerging frameworks for nature-related risk disclosure, biodiversity credits, green bonds, payments for ecosystem services and blended finance mechanisms reflect a growing effort to incorporate nature into financial decision-making and investment strategies.

Case Study: Financing Women as Stewards of Nature in Costa Rica

Costa Rica's +Women +Nature Programme demonstrates how biodiversity finance can deliver benefits for both nature and people. Led by the Ministry of Environment and Energy (MINAE) and UNDP BIOFIN, the programme created dedicated financial mechanisms, including concessional credit and improved access to payments for ecosystem services, to help women overcome barriers to financing in biodiversity-dependent sectors (e.g. forestry, agriculture, fisheries, and ecotourism). By placing women at the center of biodiversity finance, the initiative supports sustainable livelihoods, strengthens conservation efforts, and shows how inclusive financial design can help close both the biodiversity finance gap and the gender gap. Read more about this project **here**.

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[2] Biodiversity finance is the practice of raising and managing capital and using financial and economic incentives to support sustainable biodiversity management (UNDO BIOFIN n.d.).

For NbS, this shift presents an important opportunity. Many NbS interventions, including watershed restoration, agroecology, mangrove conservation, and landscape restoration, deliver multiple benefits simultaneously. They sequester carbon, conserve biodiversity, reduce disaster risk, improve water security, support livelihoods, and strengthen communities' ability to adapt to climate change. Recognizing this full range of outcomes can unlock more diverse and resilient sources of financing than carbon markets alone, allowing a transition from isolated pilot projects toward systemic transformation.

However, valuing biodiversity also presents significant challenges. Unlike carbon, which can be measured using a common unit, biodiversity is complex, context-specific, and multidimensional. Measuring ecosystem health, species diversity, and ecological integrity requires robust science, appropriate indicators, and long-term monitoring. There is also a risk that reducing biodiversity to a financial asset could oversimplify nature's intrinsic, cultural, and social values if financial mechanisms are not designed carefully.

As biodiversity finance continues to evolve, ensuring integrity and equity will be essential. Biodiversity finance can operate at multiple scales: larger global markets may offer greater liquidity and standardized rules, while place-based approaches recognize that biodiversity is rooted in specific ecosystems and communities. Regardless of the financing model, investments should strengthen – not replace – effective conservation by respecting the rights, knowledge, and leadership of Indigenous Peoples and local communities through rights-based approaches, inclusive governance, community participation, capacity-building, and equitable benefit-sharing. Ultimately, expanding the lens beyond carbon enables decision-makers to recognize the full value of healthy ecosystems and to finance NbS that deliver integrated benefits for climate, biodiversity, and people.

FROM CAPITAL FLOWS TO REAL IMPACT

For NbS, this means recognizing that successful investments generate multiple, interconnected benefits. A restored mangrove forest, for example, can sequester carbon, reduce coastal erosion, support fisheries, conserve biodiversity, and strengthen local livelihoods. Likewise, restoring degraded watersheds can improve water security, reduce flood risk, and enhance ecosystem resilience while supporting agricultural productivity. Financing approaches that account for these interconnected outcomes are better positioned to deliver long-term resilience than those focused on a single objective or metric.

Achieving these outcomes depends not only on where finance flows, but on how it is designed and implemented. Inclusive finance places people at the centre of investment decisions, recognizing that Indigenous Peoples, local communities, women, and other rights holders are not simply beneficiaries of projects, but essential partners in

their design, implementation, and long-term stewardship. Meaningful participation, transparent governance, equitable benefit-sharing, and respect for local knowledge are fundamental to ensuring that investments produce sustainable and socially just outcomes.

This shift also calls for new approaches to measuring success. Traditional financial metrics, such as the amount of capital mobilized or the number of projects financed, provide only a partial picture of impact. Increasingly, governments, donors, investors, and practitioners are seeking evidence that investments improve ecosystem health, strengthen adaptive capacity, reduce vulnerability, and deliver tangible benefits for communities. Robust monitoring, evaluation, and learning (MEL) systems are more essential than ever to understanding whether investments are achieving their intended outcomes and to informing adaptive management over time.

For NbS practitioners, this presents an opportunity to strengthen the case for investment by demonstrating the full value of integrated solutions. By generating evidence of environmental, social, and economic impacts, practitioners can build confidence among funders while informing the design of future financing mechanisms that reward long-term resilience rather than short-term returns.

Ultimately, the transition from capital flows to real impact reflects a broader evolution in sustainable finance. Carbon markets, biodiversity finance, and other innovative financial mechanisms each have an important role to play, but their greatest potential lies in working together to support investments that are environmentally sound, socially inclusive, and economically sustainable. Financing NbS is, therefore, not simply about mobilizing more resources. It is about ensuring that every investment contributes to healthier ecosystems, more resilient communities, and a more climate-resilient future.

ACKNOWLEDGEMENTS

This brief was developed by the **NAbSA** team thanks to learnings from the **Wednesdays of Finance: Innovative for Climate, People and Nature** webinar series (May 2026), organised by NAbSA's Land & Natural Resource Management Task force. It represents the NAbSA team's synthesis and interpretation of the discussions and is intended to support knowledge sharing and learning. It was prepared independently and was not reviewed or endorsed by the webinar speakers or their affiliated organisations.

The team would like to thank Fernande Abanda (Chair of the Task force) and all members for their support, as well as the speakers who made this series a success, for their contributions and expertise: Maximiliano Bernal Temores (The Nature Conservancy), James McBreen (IUCN), Stanley Fu (Princess Margriet Fund at the Red Cross Netherlands), John Tobin-de la Puente (Cornell University), Alonso Martínez (UNDP), Ana Lucía Orozco Rubio (UNDP), Chloé L'Ecuyer-Sauvageau (UPA-DI), Erik Camelos Larrea (GIZ Ecuador), Albert Letting (IISD), and Lansana Hassan Sowa (SiLNoRF).