URBAN NATURE PLANS +

Short brief on financing and collaborations for urban nature plans

Financing and collaborations

*This short brief introduces **strategic financing** for urban nature plans, highlighting practical, collaborative and scalable ways to overcome current barriers. With a strategic approach to financing, cities can unlock the full potential of nature-based solutions as drivers of resilience and inclusive growth.*

Key messages:

1. Achieving global and EU biodiversity and climate goals requires scaling Nature-based Solutions (NbS) beyond pilots into mainstream infrastructure.

2. NbS financing is needed across three phases: planning/design, delivery, and maintenance.

3. Innovative financing mechanisms are emerging to overcome barriers, including municipal green bonds, portfolio financing models, and market-based instruments. The EC recently launched a roadmap on nature credits.

4. Cities face multiple financial barriers, ranging from public sector funding constraints and investor expectations to difficulties in quantifying benefits and ensuring community buy-in.

5. Addressing these barriers requires coordinated action. This calls for a shift from fragmented public funding to strategic, blended financial models that engage communities, attract private investment, and secure long-term maintenance.

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Why strategic financing matters?

Urban Nature-Based Solutions (NbS) are critical to addressing urban environmental, social, and economic challenges such as biodiversity loss, climate vulnerability, and declining public health. Despite growing recognition of their importance, widespread deployment of NbS is severely constrained by financing barriers (see Box 1). Current financing is dominated by public sector funds, with private sector investment still marginal (EIB, 2023).

Nature-based Solutions require funding across three main phases of implementation:

- **Planning / Design** (e.g., feasibility studies, community engagement)
- **Delivery** (e.g., infrastructure installation, land acquisition)
- **Maintenance / Stewardship** (e.g., long-term care, monitoring)

There are three main types of financing. All three of these sources of financing could be mobilised throughout the three phases of NbS implementation.

- **Public Finance**: EU funds, municipal budgets, and national subsidies remain the dominant source (82% of all NbS investment).
- **Private Finance**: Includes philanthropy, green bonds, carbon credits, biodiversity offsets, and impact investments.
- **Blended Finance**: Combines public and private funds for projects and attracts private capital. Still underused but crucial for scaling NbS.

There are a range of examples of emerging financing approaches that creatively try to tackle barriers.

- **Municipal Green Bonds**: Allocating city-level debt capital to urban green infrastructure.
- **Portfolio Financing Models**: Aggregating small NbS into investable portfolios (e.g., TreesAI in Glasgow).
- **Market-based Instruments**: Ecosystem service payments, biodiversity and carbon credits.

Box 1: A Case for Change

An estimated $8.1 trillion investment in nature is required over the next three decades to meet environmental targets, amounting to $536 billion a year by 2050 (World Economic Forum, 2021). NbS can offer a variety of benefits beyond its main environmental objective. These varied outcomes can attract funding from different sources, each focused on different results. Gaining support from multiple funding sources not only boosts the financial stability of NbS investments but also helps ensure lasting environmental benefits (Green Finance Institute, 2024b) and can support multifunctional outcomes if funders have differing impact requirements. At local, regional and international levels, public sector investment must be leveraged to stimulate an increase in private sector investment, thus rebalancing the current investment ratios between public and private sector investments (McQuaid et al., 2022).

Key Barriers

Despite innovative approaches, cities face **six key financial barriers** for urban nature plans.

Public Sector Funding Constraints

NbS are largely treated as 'public goods', making them heavily dependent on government budgets. Competing priorities and fiscal constraints limit consistent funding. Lack of dedicated municipal NbS budgets and susceptibility to political cycles further worsen this dependence.

Lack of Financial Knowledge and Expertise Related to Financing NbS

City departments often lack the skills to navigate complex funding applications and design sustainable finance plans. Monitoring and maintenance costs are frequently overlooked during project planning, undermining long-term sustainability. Cities may also lack knowledge and experience in dealing with private sector investment in NbS.

Changes in the EU regulatory environment are not favourable towards increased private sector investment in NbS

Recent backtracking on the requirements of the Corporate Sustainability Reporting Directive (CSRD) means that such reporting requirements now only apply to larger entities. While smaller entities are encouraged to comply with voluntary standards, e.g. the VSME standard, limited guidance is available. Unless organisations report nature-related financial risks and opportunities in their income statements and balance sheets, private investment in NbS will not move in the right direction. Cities need to take such changes into account.

Mismatches with traditional and ESG investor expectations

Traditional investors typically expect: Large-scale investments, whereas most NbS are small-scale. Short payback periods, whereas NbS often require long-term investment; Clear ROI, i.e. market-rate returns that adequately compensate for the risk profile of the investment, whereas NbS benefits are often indirect or non-monetary. If an NBS doesn't have a way to create cash flows from its benefits, it would have a clear negative ROI, which would not interest a traditional investor.

Moreover, liquidity, the ability to exit an investment or convert assets to cash at fair market value, is another critical concern. Infrastructure-like assets such as urban NbS often lack secondary markets or exit options, which can further deter private capital. These mismatches reduce interest from mainstream capital markets. While impact investors, who may be willing to accept below-market returns for measurable environmental or social outcomes, offer some potential, they currently account for less than 1% of global assets under management.

Difficulty in Quantifying NbS Benefits in monetary terms

NbS benefits like health improvement, flood mitigation, or biodiversity gains are often difficult to both quantify and monetise. The lack of standard metrics and data hampers investor confidence and limits cities' ability to build investable cases.

Lack of Awareness, Engagement and Social Acceptance

Community buy-in is essential for long-term success, especially in financing models involving co-investment or local contributions. However, engagement is often under-resourced, and public awareness of NbS benefits remains low.

Key Recommendations

To address these challenges, this short brief outlines the following actions for cities, funders, and policymakers.

Innovative use of public funds

Cities could combine funding from various departments within the local government to implement NbS that deliver specific cross-sectoral benefits. Another method to innovatively use public funds is to attract funding from different public budgets, such as health, education and policing through;

- Combining funds across municipal departments (e.g., health, parks, water).
- Pooling small NbS into portfolios to optimise resource use.
- Using EU funding to de-risk and attract private finance.

Prioritise collaboration and initiate co-creation processes

Co-creation across public departments and with private sector partners, community groups and other actors can lead to new public-private funding opportunities. By adopting a cross-departmental, multi-stakeholder collaboration approach, cities can gain a more comprehensive perspective on the integration and longevity of urban NbS and can reveal solutions and cost reductions for the city

- Develop partnerships with NGOs, philanthropy, and ESG-driven private investors.
- Pilot public-private partnerships (PPPs) with shared returns (e.g., carbon credits, tourism revenue).

Combine multiple small NbS projects

To address the issue of the scale of NbS, cities could further their multidisciplinary coordination efforts across municipalities in order to combine multiple small-scale NbS to form one larger NbS project. In this way, municipalities can share expertise, financing and resources, and citizen involvement can be spread over multiple smaller projects.

Explore blended financing

One approach is to tap into private sector investments, particularly through innovative financing mechanisms like green bonds, blended finance, or impact investment funds. The significance of blended financing to implement NbS should not be overlooked. Through blended financing mechanisms, NbS projects have access to a wider range of financial and technical resources, as well as a variety of expertise from various projects.

Strategically combining multiple sources of financing can contribute to a more dynamic tool than either the public or private sectors could offer individually. However, while blended finance relies on catalytic capital (from public or philanthropic sources) to de-risk or enhance returns for commercial investors who seek market-rate returns to attract such investors, projects generally require a viable revenue model. This underscores the need to explore and articulate non-traditional or indirect revenue mechanisms.

Consider alternative sources of investment

There are many different types of non-state investors with very different motivations as well as attitudes to, and appetites for, risk and return. For example, expectations from philanthropic investors are completely different from a traditional or ESG investor.

Promote accounting and mandatory reporting practices

Establishing clear requirements for tracking and reporting the outcomes of NbS projects in the public and private sectors helps to ensure transparency, accountability, and consistency in how these solutions are implemented and evaluated. Despite recent backtracking on CSRD legislation in Europe, voluntary reporting should be encouraged, while in the public sector, instruments like the CDP tracker support reporting. Mandatory reporting not only helps to measure and communicate the environmental, social, and economic benefits of NbS, but it also encourages better planning, resource allocation, and decision-making.

- Adopt common metrics to value ecosystem services (e.g., health savings, increased property values).
- Introduce mandatory impact reporting for NbS investments to improve transparency and track returns.

Promote community co-financing and awareness

Multidisciplinary expert teams, cross-sectoral collaboration, and active community involvement are essential for promoting social acceptance and ensuring meaningful community engagement in the implementation of NbS. These approaches foster the development of creative, locally supported solutions that address both environmental and social challenges.

- Develop participatory budgeting for green infrastructure.
- Use crowdfunding and local levies to support small-scale NbS.
- Invest in communication strategies to increase public understanding and ownership.

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