IETA

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THE URGENT NEED

TO FINANCE NATURAL CLIMATE SOLUTIONS

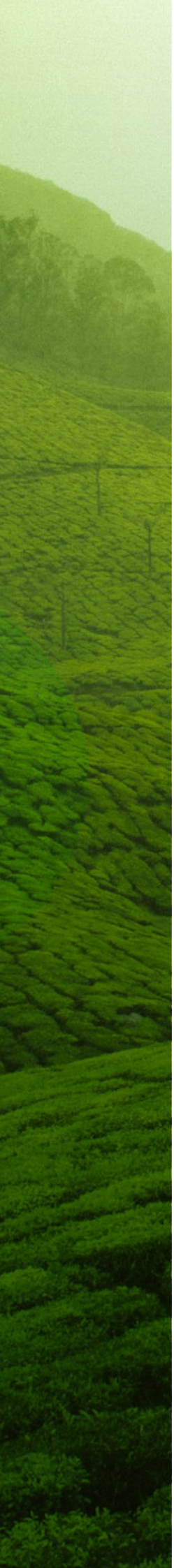
THE TIME TO ACT IS NOW

TO MEET **PARIS AGREEMENT GOALS**, IMMEDIATE ACTION MUST BE TAKEN TO HALT AND REVERSE NATURE LOSS AND SUSTAIN AND RECOVER NATURE'S ABILITY TO SEQUESTER CARBON.

We are dangerously close to tipping points in nature loss that will accelerate our climate breakdown.[1] This urgency demands private sector investment now, using the tools we have at hand today. Natural climate solutions (NCS) are actions to protect, improve management, and restore nature with positive climate mitigation outcomes and biodiversity and social gains.[2] NCS are a critical part of achieving a 1.5°C pathway and account for 65-85% of the practical potential of carbon credits in 2030.[3] Market mechanisms provide a readily scalable platform, enabling the private sector to take action and invest in NCS to address this challenge now. Investing to prevent the loss of natural ecosystems or to regenerate already converted ecosystems is cost-effective, impactful, and central to a just transition.

NCS can be developed across many types of ecosystems, either on land or the ocean, providing a scalable and geographically diverse option that can prevent nature loss. Reforestation of degraded lands, improved management of forested areas, restoration of coastal mangroves and tidal marshes, regenerative agriculture, agroforestry, or improvements to agricultural production and livestock management are a few examples of NCS available worldwide. The climate, business, and social case for directing private sector finance towards NCS is explored in more detail below. Given the urgency of the nature and climate crisis, pausing action while waiting for the next round of guidance or stronger public policy signals from governments is tantamount to failure to address the climate emergency.

GIVEN THE URGENCY OF THE NATURE AND CLIMATE CRISIS, PAUSING ACTION WHILE WAITING FOR THE NEXT ROUND OF GUIDANCE OR STRONGER PUBLIC POLICY SIGNALS FROM GOVERNMENTS IS TANTAMOUNT TO FAILURE TO ADDRESS THE CLIMATE EMERGENCY.



THE CLIMATE CASE TO INVEST IN NCS

Restoring and reducing the conversion of natural ecosystems is a cost-effective and indispensable near-term mitigation option to stay within a 1.5°C scenario. Land-use change, principally deforestation, contributes 12–20% of global emissions.[4] Peer-reviewed research released this year reaffirms that protecting nature is essential to meeting global climate goals, with the most impact coming from prioritising emission reductions (limiting land conversion), followed by CO2 removal.[5]

Mature standing forests – and other well-established natural ecosystems – contain irrecoverable carbon, which once released, will not be possible to recapture and store in timeframes meaningful to limiting climate change in line with 1.5°C.[6] This makes it clear that the time to act is now. Focus on reducing emissions from the land use sector helps avoid an overshoot of global targets and tipping points, which otherwise will only lead to a significantly increased future reliance on removals.[7] As the biospheric capacity to remove greenhouse gases (GHGs) is compromised, GHGs remain pooled in the atmosphere in greater quantities and on longer timeframes, undermining the impacts of global efforts to reduce anthropogenic emissions. Scaling carbon removals will not have a net impact on atmospheric concentrations of GHGs if the impact of deforestation and nature degradation is greater: more emissions simply create a need for more removals.

However, nature restoration and removals will play a major role in the coming decades as the need for removals increases dramatically. An estimated 210 GTCO2e of nature-based removals will be needed to limit global warming to 1.5°C, with additional scaling up needed until 2050, as we reach carbon neutrality.[8] Furthermore, the Agriculture, Forestry, and Other Land Use (AFOLU) sector is the only sector with large-scale potential for carbon removals in the immediate and short term.[9] The IPCC has assessed that the rapid deployment of measures across the AFOLU sector is essential in all pathways staying within the limits of the remaining budget for a 1.5°C target.[10]

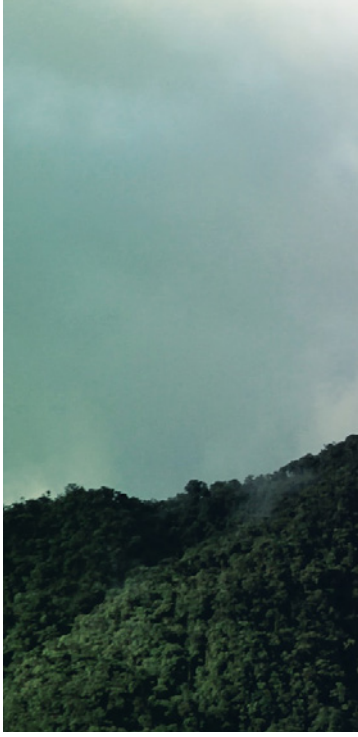
THE BUSINESS CASE TO INVEST IN NCS

Beyond the climate case, investments in NCS represent a cost-effective, near-term opportunity to help scale the impact of corporate transitions to net-zero, and to reduce risk and exposure to the negative impacts of nature loss. NCS can also represent a sustainable investment opportunity that helps diversify portfolios and maximise the impact of allocated capital.

STRONG INDUSTRY AND GOVERNMENT CONSENSUS THAT NCS ARE CRUCIAL TO SUPPORT NET ZERO

While leading net zero and climate target guidance for business differs on many issues, one area of strong agreement across these initiatives is the importance of investments in NCS to support credible corporate efforts to reach net zero. A key update to Oxford's revised principles for offsetting is to "highlight further recent evidence showing that nature-based solutions are critical for addressing the drivers and impacts of climate change".[11] The Science Based Targets Initiative's (SBTi) Beyond Value Chain Mitigation (BVCM) guidance makes a strong recommendation for companies to invest in BVCM, and recommends portfolios be designed to prevent ecological and climate tipping points e.g., protecting the climate sink function of natural ecosystems and phase-out of fossil fuels.[12] These highlight the consensus that NCS are a key component of credible and science-aligned plans to support the global transition to net zero. While there is still a need for these principles and guidance to more clearly create incentives for corporate investment in NCS, the evolving nature of the guidance shouldn't discourage corporate action now.

INVESTMENTS IN NCS REPRESENT A COST-EFFECTIVE, NEAR-TERM OPPORTUNITY TO HELP SCALE THE IMPACT OF CORPORATE TRANSITIONS TO NET-ZERO



GIVEN THE URGENCY OF THE NATURE AND CLIMATE CRISES, INVESTMENTS IN NCS CANNOT BE DELAYED.

Scaling the transition and building the high-integrity market we need cannot happen without investment that catalyses the ongoing transition. Recent guidance, including IETA's Guidelines for the High Integrity Use of Credits[13], the ICVCM Core Carbon Principles (CCP) labels[14], VCMI Claims Code of Practice,[15] The EU Carbon Removals Certification Framework,[16] and a joint policy statement from the U.S. government,[17] all reinforce the important role carbon markets play in pathways to net-zero. The fastest path to improvement in the carbon market is through smart investment in the continuously evolving market instruments available today.

NCS CONTRIBUTE TO A COST-EFFECTIVE APPROACH TO MANAGING RISK

Investment in NCS is an opportunity to mitigate the significant near-term risk to economic growth presented by ongoing nature loss. This impact can be quantified, with recent analysis of the impact of nature degradation in the UK, for example, estimating a reduction of GDP of up to 12% by the 2030s relative to a baseline scenario.[18] This is more than the impact of the global financial crisis or the recent COVID-19 pandemic. Globally, an estimated 55% of global GDP is moderately or highly dependent on nature,[19] and new research continues to reinforce the message that nature loss reduces prospects for future economic growth.[20] For businesses considering how to take action, it is important to reinforce that the impacts of nature loss do not respect borders. In the UK example above, half of the near-term risk was found to originate from international nature loss, and the impacts are forecast to hit sectors across the economy, not just those like agriculture that are most closely associated with land use. As a global market deploying NCS far beyond any single jurisdiction or value chain, carbon markets are well-positioned to help tackle these risks.

Economic incentives to invest in NCS are magnified by the low cost of natural climate solutions relative to other abatement options. Furthermore, alongside mitigating risk, investments in NCS can also be structured to deliver a financial return. Predicted growth in demand for credits[21] alongside increasing integration of voluntary and compliance carbon markets, means that investing in crediting natural climate solutions hedges against higher prices, secures access to high-quality carbon credits, and can bring financial returns.

Recognising the importance of identifying dependencies on nature, a growing number of companies have committed to making disclosures following the Task Force on Nature-related Financial Disclosures (TNFD) guidance.[22] Private sector action is ever more important in 2024 as governments have signalled that public sector investment in nature is finite – the Kunming-Montreal Global Biodiversity Framework makes clear that private sector finance is necessary to mobilise the targeted USD 200 billion annually by 2030.[23] Carbon markets are an essential tool to leverage private sector investments in NCS, to augment public sector funding, and for businesses to take bold action to address nature-related risk to their bottom line while supporting the transition to net-zero.

THE CASE TO INVEST IN NCS AS A SOCIAL GOOD

Nature underpins modern society economically, socially, ecologically, and politically. Addressing the socioeconomic challenges of our time requires investment in nature's ability to continue to provide the foundation for our modern societies and economies. Investments in NCS can address these interlinked challenges and have the potential to multiply the impacts of action far beyond carbon.[24,25] For example, NCS deployed in working landscapes can restore biodiverse natural tree cover, reduce pressure on standing forests, and enhance soil organic carbon. Activities that integrate a landscape approach,[26] based on nature restoration and management of working landscapes, are essential for developing sustainable production practices and enhancing ecosystem and landscape health. Climate outcomes are only one aspect of NCS that are also instrumental to preserving biodiversity and creating just and sustainable economic opportunities for farmers, foresters, local communities and Indigenous Peoples.

ECONOMIC INCENTIVES TO INVEST IN NCS ARE MAGNIFIED BY THE LOW COST OF NATURAL CLIMATE SOLUTIONS RELATIVE TO OTHER ABATEMENT OPTIONS.

THE UTILITY OF NCS TO PROMOTE EQUITABLE, JUST ECONOMIC DEVELOPMENT, AND CONTRIBUTE TO SOLVING BIODIVERSITY AND CLIMATE CHALLENGES, UNDERSCORES THEIR IMPORTANCE AS PART OF THE POLICY TOOLKIT

Millions of people around the world rely on natural ecosystems for their livelihood and income.[27] Without forthcoming investment in NCS that facilitate sustainable economic practices, governments and communities are confronted with existing economic incentives that favour development through environmentally destructive practices.[28] Done well, financing NCS provides income to communities in least developed countries, and recognises Indigenous Peoples and Local Communities (IPLCs) for their indispensable role in protecting and maintaining nature. The utility of NCS to promote equitable, just economic development, and contribute to solving biodiversity and climate challenges, underscores their importance as part of the policy toolkit.

Prioritising the climate, biodiversity and social benefits in investment decisions will create an asset that generates revenue to finance sustainable development across multiple layers of society, from transitioning to the sustainable use of natural resources to improved health outcomes and a just climate transition. However, investment in nature for its climate, environmental and social benefits remain comparatively small; the majority of investments into nature are focused on more commercial assets that have some climate benefit but deemphasise the biodiversity and community benefits, missing out on the opportunity to maximise the impact of NCS. Carbon markets can underpin the business case for such investments that ultimately result in a variety of social, environmental, and economic benefits.[29]

NCS can also support bio-economies – economies based on the sustainable and circular use of biological resources.[30] When properly implemented, bio-economies will not only support climate change mitigation and adaptation, but also environmental services – such as reduced soil erosion, mitigation of natural disasters, and more consistent water provision, among others – stabilising subsistence food production for the rural poor, as well as improved quality of life for local communities and Indigenous people whose economies rely on a healthy ecosystem. The World Bioeconomy Forum's latest report[31] estimates that this global activity is valued at around US$ 4 trillion, with forecasts that it will reach about US$ 30 trillion by 2050. Investing in nature with a focus on the transition to bio-economies will create a virtuous cycle that preserves carbon in existing ecosystems and creates economic, social, and biodiversity benefits that further strengthen the same ecosystems.

THE TIME TO ACT IS NOW

There is a pressing case for the private sector to direct financing towards NCS, based on its vital contributions to mitigating climate change, its importance to the global economy, and broader social, environmental, and biodiversity benefits. The case to invest in NCS today is underpinned by **four realities discussed in this paper:**

01. The mitigation potential of NCS is higher relative to other abatement options currently available.
02. Nature loss is driving near-term threats to economic growth, putting billions of dollars of assets at risk of becoming stranded within the next 5 to 10 years[32]
03. The potential for nature to support mitigation decreases after 2030 as ecosystem functionality and natural carbon sinks pass crucial tipping points due to land conversion
04. NCS can help address challenges beyond climate and economic risk mitigation, and can bring significant benefits to people, communities, and biological diversity.

Carbon markets are an efficient market-based tool to drive private sector investments into these solutions and should be leveraged at the scale needed to meet these global challenges. Given the urgency of the nature and climate crises, investments in NCS cannot be delayed.

CARBON MARKETS ARE AN EFFICIENT MARKET-BASED TOOL TO DRIVE PRIVATE SECTOR INVESTMENTS INTO THESE SOLUTIONS AND SHOULD BE LEVERAGED AT THE SCALE NEEDED TO MEET THESE GLOBAL CHALLENGES.

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