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This discussion paper was prepared by Sharon Ng'etich, Climate Change Officer, Economic, Youth and Sustainable Development Directorate at the Commonwealth Secretariat and reviewed by colleagues at the Climate Change Section including Unnikrishnan Nair, Mxolisi Sibanda, Carol Mwape, Kai Kim Chiang, Sam Ogallah, Sasha Jattansingh and Othniel Yila.

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Publications Section
Commonwealth Secretariat
Marlborough House, Pall Mall
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United Kingdom

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Accelerating Financing for Nature-based Solutions to Support Action Across the Rio Conventions

Introduction

Multi-impact scenarios, like those the world has experienced over the last two years, have heightened the inextricable link between humans and nature. The contribution of nature to human existence and well-being is vital and it is well understood that many societal challenges, such as human health, climate change, biodiversity loss, food and water security, disaster risk reduction (DRR) and environmental degradation, are tied to the state and functioning of the natural environment.¹ Nature-based solutions (NbS) have gained momentum over recent years, as a cost-effective way to deliver climate change goals, while simultaneously tackling biodiversity loss and land degradation. The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), in its 2019 global assessment report on *Biodiversity and Ecosystem Services*, estimate that NbS can positively contribute 37 per cent of the mitigation effort required up to 2030 to limit temperatures to below 2 degrees Celsius, mainly within the agriculture, forestry and land-use sectors.²

NbS can make an important contribution to tackling the interlinked climate, biodiversity and land degradation crises especially in the context of the COVID-19 pandemic and the need to adopt green recovery strategies. However, to promote low-carbon development pathways and resilience across both natural and human systems, their implementation must be accelerated, scaled up and adequately financed. This paper discusses financing of NbS, providing some examples where Commonwealth countries have been able to access finance through innovative mechanisms and NbS projects submitted to climate funds. The aim of this paper is to contribute towards learning, experience sharing and debate in this area, in order encourage further uptake of NbS by Commonwealth countries for co-ordinated action across the Rio Conventions.³

What are nature-based solutions?

The concept of NbS has developed and evolved over time, with work and input from various organisations, including the International Union for the Conservation of Nature (IUCN). Nevertheless, there is no globally adopted definition of

NbS and, for the purposes of this paper, NbS are considered as an overarching concept encompassing a wide range of ecosystem-related approaches and actions that address societal and biodiversity challenges and provide benefits to human well-being and nature.⁴

Recognising that climate change amplifies biodiversity loss and land degradation, and the role biodiversity plays in tackling climate change, a major attractiveness of NbS investments is their potential to provide solutions that meet the goals under the three Rio Conventions, simultaneously delivering multiple benefits. Thus, at the core of true and meaningful NbS is the emphasis of co-benefits, where there is demonstration of simultaneous positive outcomes for both humans and nature, with the benefits for nature being very explicit. Therefore, for a proposed solution to be classified as NbS, it must contribute to enhancement and maintenance of biodiversity and ecosystem services, not only for the good of current generations but positive impacts must also be long-term and not affect the ability of future generation to enjoy these benefits.⁵

NbS in the international environmental policy landscape

The increasing attention given to NbS is evidenced in the global environmental policy landscape. Its contribution for climate action is recognised in the 2015 Paris Agreement, which emphasises the importance of ensuring the 'integrity of all ecosystems, including oceans, and the protection of biodiversity... when taking action to address climate change'.⁶ Consequently, more than 60 per cent of signatories to the Paris Agreement referenced NbS in their Nationally Determined Contributions (NDC) actions.⁷ At the 2019 UN Climate Action Summit convened in the run up to UN Framework Convention on Climate Change (UNFCCC)- COP25, the 'NBS for Climate Manifesto' was launched, with the aim of unleashing the full potential of NbS. This

was supported by more than 70 governments, international organisations, civil society and the private sector. Most recently, the Communiqués of the 2021 G7 and 2020 G20 meetings acknowledged the benefits of nature-based solutions to climate change, biodiversity and human society.

The UN Convention on Biological Diversity (UNCBD) Draft post-2020 Biodiversity Framework 'references NbS in two proposed action targets (No.7 and No.10) and two resolutions: *Resolution 75/220 – Harmony with nature* and *Resolution 75/219 – Implementation of CBD and contribution to sustainable development*'.⁸ NbS will also feature prominently at the 26th session of the Conference of Parties (COP26) to UNFCCC; one of the conference goals is the 'protection of communities and natural habitats through the protection and restoration of ecosystems'.⁹ The first goal of the conference will also discuss deforestation, which is among a plethora of activities that contribute to greenhouse gases and can be addressed by NbS.

The Commonwealth perspective on NbS

The Commonwealth has a long history in advocating for and acknowledging the important link between humans and nature. Through the Commonwealth Charter, Heads of Government specifically 'recognise the importance of the protection and conservation of our natural ecosystems and affirm that sustainable management of the natural environment is the key to sustained human development'.¹⁰

This recognition builds on the 1989 Langkawi Declaration, where Commonwealth Heads committed to promoting various approaches, including conservation and protection of forest and marine ecosystems against climate impacts, afforestation and agricultural practices in support of climate action, sustainable forest management, conservation of biological diversity and untouched natural habitats, and protection of marine ecosystems.¹¹

Several Commonwealth countries have also stood out to champion NbS. At the 2019 UN Climate Action Summit, New Zealand highlighted its strong support for NbS for climate change and was co-chair of the NbS Coalition, which launched the NbS for Climate Manifesto. Seychelles is adopting several NbS approaches linked to the conservation, protection and use of its oceans to adapt against climate change, and was appointed by the African Union as the continent's champion for the Blue Economy. It became the first country to undertake an innovative ocean-focused debt-for-nature swap. The UK and current Commonwealth Heads of Government Meeting (CHOGM) Chair-in-Office, has committed to spending at least £3 billion worth of its international climate finance on NbS.^{12,13} Rwanda, the incoming CHOGM Chair-in-Office, has placed emphasis on the importance of NbS in 'building back better' and building climate resilience, especially in the context of COVID-19.¹⁴

Financing NbS – closing the funding gap *Where are we and what is needed?*

Although nature-based solutions have been gaining visibility, there is still not enough up-take and effective use to deal with the pace of climate change, land degradation and biodiversity loss. Despite half of the world's economy significantly dependent on nature, this sector receives very little investment.¹⁵ It is estimated that approximately US\$133 billion per year is currently directed towards NbS; this represents 86 per cent public financing and 14 per cent private sector finance.¹⁶ This falls significantly short of the annual investment required to meet cross-cutting targets under the Rio Conventions.

In order to meet these targets, it is estimated that up to US\$8.1 trillion worth of investment in NbS is required, which represents US\$536 billion worth of funding every year.¹⁷ This translates to a tripling of investments by 2030 and quadrupling by 2050.¹⁸

Several funding avenues exist for NbS, ranging from wider climate funds such as

the Green Climate Fund (GCF) to dedicated funds that have emerged that target NbS-related actions – for example, the IUCN Kiwa Initiative¹⁹ and the Global EbA Fund.²⁰ However, although climate funds are an avenue for NbS investments, financing of NbS is particularly low in the climate finance space. This is partly due to the overarching challenge in accessing climate finance, especially for developing and climate vulnerable countries, and inadequate funding for adaptation actions, where estimates show that in 2018, less than 2 per cent of public adaptation financing went to nature-based solutions.²¹ Furthermore, NbS finance is also substantially more dependent on the public sector, unlike in climate finance where private sector investment accounts for most capital flows.²²

Innovative funding mechanisms for NbS

Private sector financing for NbS is still low. To meet the significant funding gap and scale up NbS to achieve effective long-term outcomes, there is a need to further catalyse investments and develop an enabling investment environment for the private sector. This can be done by creating investment opportunities directly from NbS actions, that is, through sustainable use of nature, and also by ensuring that private sector finance takes into account nature and biodiversity risks in addition to climate risks in all business operations and value chains, such that investments produce positive co-benefits.²³

The following examples of innovative mechanisms illustrate how the private sector can be leveraged for financing NbS.

Green financial products – green bonds:

Green financial products apply a sustainability lens to traditional lending. Green bonds, which are debt instruments used to generate capital, are among the most visible green financial products and are emerging as a financing instrument for NbS. Sovereign green bonds are issued by national governments for green and environmentally sustainable projects, and are considered to be comparatively lower risk

and thus attract more investors. However, a key issue in applying green bonds is determining if a bond is truly 'green' or not; this is particularly relevant for NbS approaches, where the risk of 'greenwashing' is high. Often this is determined by issuers and investors. Nevertheless, to combat the risk of greenwashing, there exist some international metrics and standards proposed by different organisations. The Climate Bonds Initiative, for example, has developed sector-specific criteria and guidance to support issuers and investors.²⁴

Debt-for-nature swaps: This innovative mechanism allows governments to write-off a percentage of their foreign debt. The savings accumulated because of the debt restructuring, often channelled through dedicated trust funds, are then utilised for conservation and climate resilience actions. Although debt-for-nature swaps can mobilise significant amounts of financing to drive biodiversity and climate change outcomes, there are concerns over their inefficiency in comparison to other mechanisms. They often involve several years of complex negotiations, with one of the time-consuming sticking points being the scope of environmental outcomes to include in the swap.²⁵

Ecological fiscal transfers: Ecological fiscal transfers (EFT) distribute public revenues between governments in a country based on ecological indicators, for example, protected areas.²⁶ According to Busch et al. (2021), 'EFT have grown rapidly from US\$0.35 billion per year in 2007 to US\$23 billion per year in 2020'.²⁷ EFT can mobilise funding of NbS by compensating governments for the cost of conserving ecosystems, and in turn some of the conservation actions, such as protected areas, can also generate revenues. The distinguishing feature of EFT compared to other complementary mechanisms, such as Reducing Emissions from Deforestation and Forest Degradation (REDD+) and payments for ecosystem services, is funds are transferred

within a country to and between local governments.

Payments for ecosystem services

(PES): This mechanism is based on the 'user pays' concept, where those who are using or benefiting from an ecosystem service – for example, water regulation – should pay whoever is providing that service by maintaining and preserving a particular ecosystem. Payments are usually made directly through contracts or through governments in the form of taxes or fees. PES schemes are being mostly applied in the water and forestry sectors. However, challenges include insecure land tenures, which hinder many poor people from participating, and the often high project transaction costs associated with PES schemes.²⁸

Disaster risk insurance and reduced insurance premiums through adoption of green measures:²⁹ NbS assets, such as forests, can be insured against damage through already-existing insurance schemes that provide cover for losses resulting from natural disasters and extreme weather events. Going a step further, there is potential for insurance companies to offer lower premiums to sectors that face greater risks as a result of impacts on natural assets, if they 'adopt green measures that both contribute to mitigating the risks and produce environmental benefits'.³⁰

Carbon markets: Promoting NbS actions through carbon markets is not new, with the most prominent example of this being REDD+. The January 2021 report of the Taskforce on Scaling the Voluntary Carbon Market suggested that up to two-thirds of the carbon market up to 2030 could be made up of NbS, which could be a substantive funding avenue for NbS.³¹ However, for this potential to be realised, it is extremely important that carbon markets only support ecologically and socially responsible nature-based interventions³² and are not used as a replacement for decarbonisation. Essentially, in order for voluntary carbon markets to promote high-quality NbS investments, there is the need for regulation on which actions can qualify as offsets.

Table 1. Examples of Commonwealth countries that have funded Nbs-related interventions through innovative financial mechanisms

Innovative financial mechanism	Commonwealth country example
Green bonds	Fiji In 2017, Fiji was the first developing country to issue a sovereign green bond, namely the Fiji Sovereign Green Bond (FSGB). The bond, which aimed at mobilising funding to build climate resilience, was extremely successful in attracting investments and was oversubscribed. ³³ The FSGB is also unique as the first sovereign green bond that focuses the majority (over 90%) of its proceeds on adaptation projects. ³⁴ One of the projects financed by the FSGB in 2017–18, was the pilot programme Reducing Emissions from Deforestation and Forest Degradation (REDD+). This pilot set the foundation for Fiji's national Emissions Reduction Programme (ERP), which is expected to help maintain existing national forest cover, increase afforestation, minimise forest degradation and promote sustainable forest management practices. ³⁵
Debt-for-nature swaps	Seychelles Seychelles became the first country in the world to successfully undertake an oceans-focused debt-for-nature swap, targeting the conversion of US\$21.6 million of national debt. ³⁶ Through the debt conversion, the Government of Seychelles was able to protect more than 30 per cent of its exclusive economic zone (EEZ), through Marine Protected Areas, and adapt to climate change through conservation initiatives, including implementation of a Marine Spatial Plan (MSP). ³⁷ However, one of the key challenges faced by Seychelles was capacity to access the new funding made available through the swap.
Ecological fiscal transfers (EFT)	India India's NDC references EFT as supporting achievement of its climate change targets. The EFT was implemented to 'compensate states for fiscal disability of forgone tax revenue due to forest cover, and also to recognize forests' huge ecological benefits'. Previously, states had been provided with forest grants and application of EFT increased the amount of funding provided. ³⁸
Payments for ecosystem services (PES)	Uganda The PES project, 'Developing an Experimental Methodology for Testing the Effectiveness of Payment for Ecosystem Services to Enhance Conservation in Production Landscapes in Uganda', was implemented between 2010 and 2014 by Uganda's National Environment Management Authority (NEMA) and project partners. Funded by the Global Environment Facility (GEF) with a grant of approximately US\$1million, the project looked at the effectiveness of PES for financing forest conservation efforts in non-protected areas. ^{39,40} The project covered around 800 hectares of land, providing incentives to 400 farmers for forest conservation. ⁴¹ One of the project outcomes was the reduction of deforestation in the project area.
Disaster risk insurance and reduced insurance premiums through adoption of green measures	South Africa The impacts of climate change and land degradation, including increased instances of droughts, floods and fire risks facing the Port Elizabeth catchment area in South Africa, incentivised the insurance company Santam to implement a project in 2014 to increase the health and integrity of the catchment area and build community resilience. Through the project, the company and its collaborating partners, the Department of Water and Sanitation and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), invested in sustainable land and water management practices to reduce flood and fire risks and stabilise water supply in the area. The aim of the project was not only to produce environmental and social benefits, for the insurer, the idea was also to keep insurance affordable and to reward landowners for implementing green sustainable actions to reduce the impact of climate change and, in turn, reduce the insurance claims to the company by the community. ⁴²

Climate finance for NbS

*What do the major climate funds say about NbS?*⁴³

The major climate funds all recognise the importance and role NbS can play in addressing climate, environmental and societal challenges. However, funding individual NbS projects cannot achieve NbS at scale, hence there is a need for policy coherence and more complementary and synergistic ways of working across these multilateral funds.

Green Climate Fund (GCF)

Three of eight result areas where GCF aims to have impact, cover NbS components or approaches, namely: ecosystems and ecosystem services; health, food and water security; and livelihoods of people and communities.⁴⁴ Its Environmental and Social Management System (ESMS) and Environmental and Social Policy (ESP) required the inclusion of 'environmental and social considerations in ways that not only include safeguard measures of "do no harm," but also improve environmental and social outcomes and generate co-benefits to the environment and the communities, including indigenous peoples, that depend on it'.^{45,46} As of June 2020, the GCF estimated approximately 30 per cent of its portfolio comprised NbS projects to support mitigation and adaptation actions, with investments totalling US\$2.9 billion.⁴⁷

Global Environment Facility (GEF)

In its August 2021 report to UNFCCC-COP26, the Green Environment Facility (GEF) highlighted that a significant proportion of its funding goes towards NbS projects.⁴⁸ A Technical Advisory Group (TAG) meeting convened by the GEF in early 2021 emphasised the need for NbS to be integrated as a cross-cutting theme in GEF programming, especially in light of post-COVID green recovery. Stronger integration would increase the societal benefits of GEF investments, which have largely been seen as not within the scope of GEF investments – despite their direct correlation with a healthy natural environment. (The role of GEF was traditionally viewed to be promoting environmental benefits, as opposed to co-benefits). The Scientific and Technical

Advisory Panel (STAP) of the GEF, in 2020, released an advisory document on 'Nature Based Solutions and the GEF'. The advisory document considers opportunities for GEF to promote NbS and lessons that can inform future investments.⁴⁹

Adaptation Fund

The Adaptation Fund estimates that more than 20 per cent of the fund's portfolio is directed towards enhancing the resilience of ecosystems against climate change, with approximately US\$138.3 million worth of investments.⁵⁰ The fund has put in place an Environmental and Social Policy (ESP) to ensure that its investments 'conserve biological diversity, lands and soil and, protect natural habitats', with many projects resulting in sustainable management of ecosystem services.^{51,52}

Climate Investment Funds (CIF)

CIF has two programmes that are targeted at NbS-related actions, namely the Nature, People and Climate Investments Program and the Forest Investment Program. The latter supports sustainable management of forests to achieve co-benefits for forests, climate change and human development, through direct investments to address deforestation and degradation at the national and local levels, for both the public and private sectors. The Nature, People and Climate Investments Program is a new initiative and is intended to avail scaled-up concessional resources for the sustainable use of land resources, to better livelihoods and tackle climate change.⁵³

Barriers to financing NbS

Some of the interconnected barriers that hinder the flow of finance towards NbS include the following:

- 1 **Lack of clear understanding of nature-based solutions, resulting from the absence of a common globally adopted and used definition:** There is still no global consistent definition of what constitutes NbS that is used among different stakeholders. This has led to misconceptions that such

solutions are ineffective and used for **greenwashing** proposed interventions that are actually not nature or climate friendly.⁵⁴

2 **Limited mainstreaming and embedding of NbS into legislation and policies:** Although awareness of NbS has grown, such solutions are still not meaningfully mainstreamed enough into climate, biodiversity and land degradation legislation and policies to generate adequate scaled-up investments. NbS therefore need to be specified, that is, categorised as NbS and better embedded in order to co-ordinate and pool resources – for example, mainstreaming NbS into national adaptation plans (NAPs).

3 **Challenges in common measurement and valuation of benefits and effectiveness:**

The lack of a standard definition of NbS has also resulted in lack of common and clear guidelines and metrics to value NbS, which is a key component for attracting investments into the sector. This absence significantly hinders financing, as measuring results and outcomes of NbS actions is seen to be difficult, increasing the perception of risk. Furthermore, it also makes it challenging to track financial flows for NbS, because investments are not fully captured in existing tracking systems and are only partly captured as 'sustainable finance', 'conservation finance', 'biodiversity finance' etc. This then fails to illustrate the full picture of NbS sector needs, leading to lower financing.⁵⁵

4 **Low private sector engagement in NbS and reliance on public sector financing:**

The private sector is extremely important for scaling up and mobilising increased financing for NbS; however, financing of NbS actions largely remains with the public sector, which limits potential investments. Lack of private sector funding is partly tied to the complex nature of NbS projects, in that they are aimed at providing multiple co-benefits and produce positive externalities, hence returns on investments may take longer. This is especially true for NbS actions for adaptation, where some projects do not consistently generate revenue. The public sector therefore plays an important role in

leveraging increased private sector funding, by de-risking investments in NbS.

5 **Challenges in designing effective and meaningful NbS pipeline projects and investments:**

The lack of clear definitions, common metrics to measure and quantify NbS, reduced mainstreaming into policy, and the complex nature of NbS, all mean there are often challenges in designing meaningful NbS pipeline investments. Stakeholders find it difficult to develop successful NbS projects that can secure climate finance.⁵⁶

Despite the financing challenges, there are Commonwealth countries that have been able to access finance to take forward NbS actions that address climate change, biodiversity loss and land degradation. An important element in promoting increased uptake of NbS is sharing of examples where meaningful NbS are being implemented and attracting funding. This paper therefore presents a few examples of cases where NbS-related interventions have been funded through climate funds.

The examples selected in Table 2 are those that were successful in securing funding through GEF and GCF grants. (NbS projects funded through blended finance and incorporating other financial instruments could not be easily identified for this paper.) The examples in Table 2 are presented because they address (to some extent) a simplified (non-exhaustive) checklist of questions based on the key barriers that hinder access to finance for NbS, namely:

- 1 Does the project include components of the overarching NbS approach?⁵⁷
- 2 Does the project include balanced positive outcomes for both nature and human well-being while not negatively impacting biodiversity or ecosystem integrity?
- 3 Is public sector funding utilised to mobilise private sector financing and involvement to achieve impacts at scale?
- 4 Overall, does the project by employing NbS approaches strive to achieve cross-cutting and synergistic goals under the three Rio Conventions?

Table 2. Examples of public sector-funded NbS-related projects in Commonwealth countries (funded through GCF and GEF grants)

Project	Total value (US\$, millions)
Uganda: Building Resilient Communities, Wetland Ecosystems and Associated Catchments in Uganda ⁵⁸	44.3
Seychelles ⁵⁹ : Prioritising Biodiversity Conservation and Nature-based Solutions as Pillars of Seychelles' Blue Economy ⁶⁰	26.1
Regional (Madagascar, Mozambique, Tanzania, South Africa): Blue Action Fund (BAF) Ecosystem Based Adaptation Programme in the Western Indian Ocean (Madagascar, Mozambique, Tanzania, South Africa) ⁶¹	64.0
Sri Lanka: Managing Together: Integrating Community-centred, Ecosystem-based Approaches into Forestry, Agriculture and Tourism Sectors ⁶²	32.7
Bangladesh: Ecosystem-based Approaches to Adaptation (EbA) in the Drought-prone Barind Tract and Haor 'Wetland' Area ⁶³	60.3
Solomon Islands ⁶⁴ : Safeguarding Solomon Islands endemic and globally threatened biodiversity and ecosystem services from key threats, particularly invasive alien species and unsustainable land use practices (SAFE project) ⁶⁵	27.7
St Vincent and the Grenadines: Coastal and Marine Ecosystems Management Strengthening Project. ⁶⁶	11.0

In meeting the above checklist, the examples provided can then be considered as 'good examples', although not perfect or without room for improvement. Consequently, these examples are not presented as 'best practice' because, as discussed in this paper, there are no common and widely adopted standard metrics upon which to track and measure the effectiveness and benefits of NbS in order to arrive at such 'best practice' case studies.

Conclusion and way forward

NbS have a huge potential to contribute towards cost-effective actions across the Rio Conventions, maximising synergies and achieving multiple co-benefits for nature and human well-being. However, it is apparent that adoption and financing of NbS is still not happening at a pace and scale required to achieve the transformational shifts required to tackle pressing global challenges, especially in the context of the global COVID-19 pandemic. It is therefore imperative that all sources of funding and innovative mechanisms are made available and utilised to channel funding at scale to enable Commonwealth member states to fully implement high-quality NbS.

The following points are put forward as critical for accelerating the flow of climate finance towards NbS:

A pathway towards common understanding and measurement of meaningful NbS: Adopting a common and consistent understanding of NbS, its objectives and measurement metrics will facilitate and promote the design, valuation and monitoring of true NbS projects that can attract investment and deliver impact.

Scalability: For effective long-term impact that leads to a transformational shift towards a low-carbon climate and nature-resilient future, NbS must be scaled up substantively and in a way that ensures that current and future generations will be able to enjoy the benefits of healthier natural environments.

Increased private sector engagement and funding: The private sector is extremely important in achieving the required scale for transformational NbS and in bridging the immense NbS financing gap, which cannot be met solely by the public sector. The public sector has a crucial role to play in leveraging increased private sector funding by de-risking investments in NbS.

Increased mainstreaming and embedding NbS into international, national and local policies and legislation: Embedding NbS into policies, commitments, legislation and programming will better enable co-ordination and pooling of limited resources and capacities to achieve co-benefits and cross-cutting outcomes. The new post-2020 global biodiversity framework under the United Nations Convention on Biological Diversity (UNCBD), ongoing NDC revisions and the upcoming UNFCCC-COP26 provide ample opportunities to enhance mainstreaming of NbS into international and national targets and agreements. In addition, post COVID-19 green recovery strategies should also include meaningful NbS, as part of the options towards a climate- and nature-resilient low-carbon development pathway. Under the proposed Commonwealth Call to Action on Living Lands and Commonwealth Climate Finance Access Hub (CCFAH), the Commonwealth Secretariat will support member states to access all sources of funding for the implementation and scaling up of nature-based solutions.

Technical assistance and capacity building: Technical assistance is required to support the development of robust NbS project pipelines

that can secure climate finance. Experience from CCFAH indicates that long-term institutional and human capacity building is vital to support small and other vulnerable Commonwealth member states to access funding.

Sharing of lessons learned and experiences implementing NbS: Highlighting examples where NbS has been applied for effective biodiversity, land degradation and climate outcomes is a key contribution in strengthening and building confidence for increased investments, including by the private sector. Within the international community, there is an ongoing call to demonstrate more examples of where NbS is working. This was evident in the most recently held international events in this area, namely, Nature-based Solutions and the Post-2020 Biodiversity Framework (June 2021) and Caribbean Conservation Financing Congress 2021 (July 2021). The Secretariat, through CCFAH, will also continue to facilitate lessons and knowledge sharing on financing NbS, and highlighting experiences across the Commonwealth where NbS has been funded and applied in a manner that achieves objectives under the three Rio Conventions.

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