

In collaboration
with Oliver Wyman



Nature Positive: Financing the Transition in Cities

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About the Nature Positive Transitions series

Nature Positive: Financing the Transition in Cities is published by the World Economic Forum in collaboration with Oliver Wyman. It is part of the Forum's broader **Nature Positive Transitions series**, which outlines the different pathways to halt and reverse nature loss by 2030 – the mission at the heart of the Kunming-Montreal Global Biodiversity Framework from the United Nations biodiversity summit in 2022, known as COP15.

The reports in the series look at both industrial sector transitions and city transitions. They highlight the relevance of nature-related risks, identify the

impacts and dependencies of the economy and society on nature and provide guidelines for city and business leaders on key actions to accelerate the nature-positive transition.

The Nature Positive Transitions series builds on the [New Nature Economy Report Series](#).

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Foreword



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We stand at the crossroads of unprecedented urban growth and environmental challenges, and the need for innovative solutions has never been more pressing. Mobilizing new financial opportunities for sustainable urban development is essential, particularly as a shift towards a nature-positive future becomes central to all cities' continued viability.

Cities are the engines of global economic growth, yet they face mounting pressures from population rates, climate change and biodiversity loss. The integration of nature-based solutions into urban planning is not just an option – it is an imperative for fostering resilience, enhancing public health, and ensuring the well-being of future generations. This report serves as a clarion call to stakeholders across sectors – governments, financial institutions, private enterprises, and civil society – to recognize the immense potential of investing in urban nature.

While the agenda for urban nature finance is still in its infancy, the benefits are clear and compelling. By illustrating successful practices and highlighting the economic, social and environmental returns on investment, we can pave the way for a transformative shift in how cities approach development. This report aims to provide a comprehensive overview of the opportunities that lie ahead, encouraging stakeholders to embrace a collaborative approach to financing nature-positive initiatives.

As we anticipate a future where nature is seamlessly integrated into urban governance, it is crucial to create a robust financial ecosystem for sustainable urbanization by mobilizing resources and fostering public-private partnerships. Together, we can turn this nascent agenda into a cornerstone of urban development, ensuring that our cities thrive in harmony with nature.

Let this report be the catalyst for change, inspiring action and commitment from all corners of society.

Executive summary

Nature finance is a no-regret solution to mounting pressures in cities such as ageing infrastructure, water security and human health.

As the trend towards urbanization increases throughout the global economy, population growth is straining outdated urban infrastructure and resources are ever more limited.

Cities are the world's economic hubs, contributing 80% of global gross domestic product (GDP).¹ Yet close to half (44%) of that contribution is at risk due to nature loss. This global economic threat underscores the significance of safeguarding cities and their inhabitants from nature-related risks through preserving and enhancing biodiversity and natural ecosystems.

At present, a mere 0.3% of global urban infrastructure spend is allocated to nature-based solutions and on average less than 10% of total approved project expenditure from multilateral development banks (MDBs) between 2018 and 2023 was directed towards urban nature projects. Urban nature spend has decreased between 2018 and 2023, and only 37% of the world's 500 most populous cities have specific strategies in place to sustainably manage and protect nature.

The lack of investment in nature fails to reflect the values that nature provides to our society. Nature offers critical services and physical outputs such as clean air, water, climate regulation and biodiversity, as well cultural, recreational and emotional interactions that are directly or indirectly important for human health, well-being and economic stability.

Increasing the volume of investment in nature is crucial, but it is not enough if investments in environmentally harmful practices are not concurrently addressed. Close to \$7 trillion is invested globally each year in activities that have a direct negative impact on nature from both public and private sector sources. Without redressing this trend, cities risk losing out on the long-term environmental, social and economic advantages that nature can provide. There is a significant opportunity to expand nature-positive action beyond financing models such as green bonds,

and explore new opportunities to transform and make use of common sources of capital. This approach offers a way to drive more sustainable investments in biodiversity and create lasting nature-positive financial structures to support conservation efforts in cities globally.

As cities continue to invest in local development, they must simultaneously integrate nature into urban governance policies and directly invest in ecosystem conservation to ensure resilient urban environments. This can be achieved through:



Nature mainstreaming: integrating a nature lens into all financial flows and urban investment decisions to ensure that projects promote sustainability and resilience, rather than compromising them.



Nature-positive finance: identifying and expanding new financial opportunities for nature conservation, mobilizing additional resources and diversifying funding sources to complement existing public-sector-dominated financial flows for nature.

At present, cities are dependent on public sources for most nature financing. Current biodiversity financial flows amount to \$208 billion per year, up from \$166 billion in 2021. Public finance contributes 83% of this total (\$173 billion). Private finance accounts for \$35 billion. There is an undeniable opportunity for cities to use development finance as a catalyst for greater private sector participation in urban development priorities.

This report aims to advance the discourse on urban nature finance to overcome critical challenges faced by cities and promote sustainable city development driven by committed and well-defined multistakeholder action. It serves as a call to action for city leaders, financial institutions and businesses to embrace the transformative potential of urban nature finance for a sustainable future. Investing in nature means investing in cities that are livable, sustainable and adaptable to future challenges.

1

Global urbanization and the nature opportunity for cities

As investment in nature grows, global bodies should align on a common taxonomy for defining and measuring nature-related impacts.



1.1 Protecting and restoring nature in a rapidly urbanizing world

Urban populations are expected to double in size by 2050.² However, infrastructure development is expected to fall short of that growth, leaving urban residents facing declining standards of living and a degrading environment due to unplanned expansion, and insufficient and short-term investments.^{3,4}

If continued urban growth is to be sustainable, urban financing must be nature positive – meaning it must prevent any further loss of nature and begin to reverse and halt loss that has already been caused. That ultimately leaves cities with two responsibilities – attracting sufficient financing to address the anticipated growth in urban populations, and making sure that finance for

urban development is nature positive. Failure to address these will result in further destruction of nature in the urban realm and cities will continue to experience the negative consequences of a changing global environment.

At the 2022 United Nations nature summit, COP15, participating governments and organizations agreed under the Kunming-Montreal Global Biodiversity Framework (KMGBF) that “by 2050, biodiversity [shall be] valued, conserved, restored and wisely used, maintaining ecosystem services, sustaining a healthy planet and delivering benefits essential for all people.”⁵ For cities and industries, this means embedding nature into all decision-making structures and processes.



\$482
million

a year in health costs could be saved by adding urban trees in 10 of the world's megacities.

There are numerous avenues through which cities can look to incorporate nature into their urban development plans. From the presence and integration of natural elements into urban environments and landscapes, such as through nature-based solutions, to policy and regulatory measures. Examples of nature-based solutions include the installation of green infrastructure, afforestation efforts, rehabilitation of wetlands and introduction of wildlife corridors with native species. Examples of policies and regulatory measures may be incentives and mandates to redevelop brownfield sites, manage coastal zones, embed circular economy practices, install green roofs and advance car-free zones. The benefit of financing nature in cities has been demonstrated through numerous examples, yet not widely recognized or accepted by key decision-makers. Research and studies

suggest that nature-based interventions increase a city's resilience through an uptick in ecosystem-benefiting processes such as natural water filtration, urban cooling, pollution reduction and carbon sequestration.⁶ For instance, the addition of urban trees in 10 of the world's megacities could save \$482 million a year in health costs as a result of their ability to remove carbon dioxide and other pollutants from the atmosphere.^{7,8} Urban parks and green spaces can increase property values by 9.5%, while green roofs and walls offer 6.7% and 8% energy savings, respectively, to limit the heat island effect in urban centres.^{9,10}

Investing in nature-based solutions is beneficial for the bottom line, and demand analysis has demonstrated that the potential market size for nature-based solutions is large yet unlikely to be met anytime soon.¹¹

The growth of urban centres, poses a risk to biodiversity and natural habitats, not only because uncontrolled sprawl can encroach on natural sites but also because urban infrastructure development drives up the demand for raw materials and natural resources. Cities allocate less than 0.3% of their infrastructure budget to nature-based solutions. Harnessing the potential of nature-based solutions could lead to an investment opportunity as large as \$113 billion by 2030.¹²

Investment in nature alone is, however, insufficient to address global biodiversity loss. It is also necessary to address the impact of the \$6.7 trillion being funnelled into nature-negative industry practices.¹³

By redirecting financial investments and effectively integrating nature-positive principles in decision-making, there is the possibility to affect change on a grand scale.

Urban centres can tackle three of the primary industrial drivers of biodiversity and ecosystem loss: land use, infrastructure development and energy creation. By adopting nature-positive criteria in the expansion and development of these industries, cities can significantly mitigate their impact on global biodiversity while also unlocking substantial economic benefits – projected to deliver \$10.1 trillion in annual business opportunities and create 395 million new jobs by 2030.¹⁴

1.2 Aligning on a definition for nature finance

Investment in nature alone is insufficient. It is necessary to address the impact of the \$6.7 trillion being funnelled into nature-negative flows.

Urbanization and city life rely on nature, and a conscious investment in urban development can not only protect cities and people from natural disasters but also support the conservation and protection of natural systems from the increasing resource demand of urban centres.^{15,16}

Nature-negative flows have been shown to exceed nature-positive flows globally, highlighting the relevance of mainstreaming nature considerations across sectors to limit harm. While current nature-positive flows from across public and private sources equate to \$200 billion, \$6.7 trillion a year is directed to activities that negatively impact nature.¹⁷

The landscape of investment in nature is broad and nuanced. For the purpose of this report, urban nature finance refers to all financial investments in cities that directly involve or impact nature.

Under urban nature finance sits:



Nature mainstreaming: the adoption of nature considerations into business-as-usual operations through decision-making processes, governance structures or new and innovative technologies. Nature mainstreaming takes a system-level approach to minimize harm and impact on nature across all spheres, sectors and industries.

Examples of nature mainstreaming include the adoption of nature considerations in investment processes and governance structures (green finance), or technological innovation across sectors for more efficient resource use, including the reuse of waste material, biowaste recovery, or monitoring systems to conserve nature (green technology). These latter innovations may become nature-positive once sufficient scale is reached, and a clear correlation can be drawn between

the investment and impact in nature regeneration or protection (net positive impact).



Nature-positive finance: refers to investment into solutions that have a measurably positive impact on ecosystems and biodiversity against a set baseline (colloquially called “financing green”).

Examples of nature-positive finance could include rehabilitating a forest, introducing a series of wastewater treatment plants to treat and divert waste from freshwater ecosystems, or restoring ecological corridors alongside the implementation of a car-free zone in a city.

The measurability of impact is vital to distinguish nature-positive finance from nature mainstreaming. Both types of nature finance are applicable across a broad spectrum of industrial sectors, including agriculture, construction, infrastructure and utilities management. Only after deploying both in tandem will the nature-positive transition in cities be enabled.

Some global bodies have aligned on a definition for nature positive, including multilateral development banks (MDBs). MDBs have developed a common set of principles for tracking nature-positive finance and a taxonomy to better assess the impact of their investments. This is the first step in defining, mapping and redirecting financial flows towards interventions aimed at halting and reversing nature loss while achieving measurable biodiversity outcomes. MDBs’ aligned definition of nature-positive finance is “... finance that supports actions that protect, restore or enhance sustainable use and management of nature, or enables these actions, contributing to the implementation of the KMGBF and its broad ambition to halt and reverse nature loss by 2030, with a view to full recovery by 2050.”¹⁸

BOX 1 | Definitions of nature-positive activity types



Protection: activities that maintain the status and condition of biodiversity and ecosystems



Restoration: process of assisting the recovery of an ecosystem that has been degraded, damaged or destroyed relative to a reference state

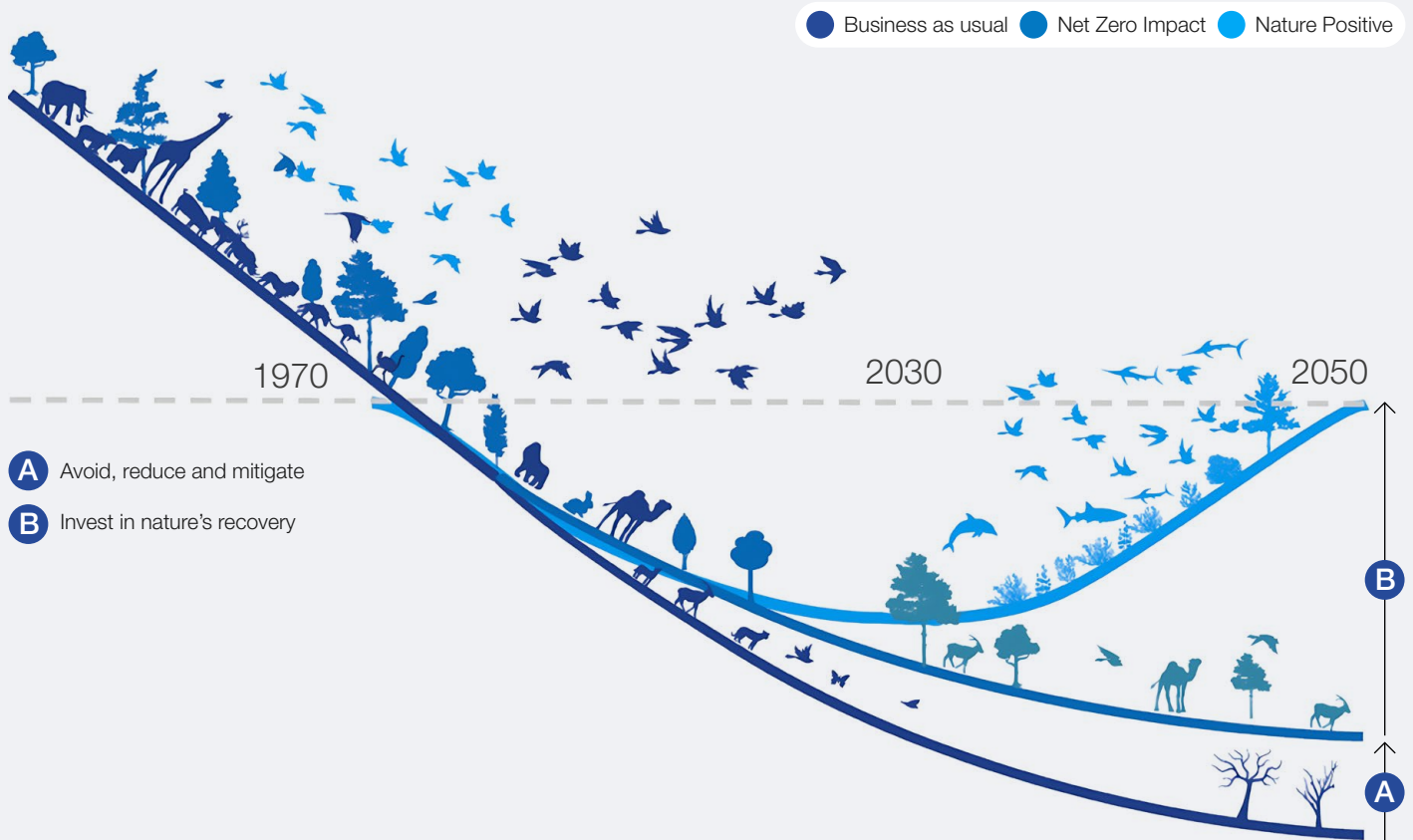


Sustainable use and management of nature: a shift of economic activity away from processes driving nature loss



Enabling conditions: policies, models and sectoral instruments, incentives, data, and other tools enabling the above activities

FIGURE 1 | A visual representation of nature positive



Source: World Wide Fund for Nature (WWF), (2020). *Living Planet Report 2020 - Bending the curve of biodiversity loss*; Food and Agriculture Organization of the United Nations (FAO); International Union for Conservation of Nature (IUCN); McKinsey; World Economic Forum.



2

Nature finance in urban development

Public, private and non-government participation is required to successfully mainstream nature and increase nature-positive finance.



As global powerhouses, cities are strategic actors in the quest for a nature-positive world. Working at the local level allows officials to see policies' impacts on nature up close. Cities can also assess their dependencies and impacts on key ecosystems inside and outside their boundaries with more accuracy. The more cities understand how they are interconnected with nature, the better they are able to control their pace of urbanization, protect themselves from disaster and provide essential services to citizens.

For cities to be able to incorporate nature into their urban development, a multistakeholder approach is required that integrates public and private sectors, including municipal and national governments, philanthropy, private sector companies, and institutional and private investors. There are many compelling reasons to incorporate nature into the development objectives of a city, including health, environmental and economic benefits. It is crucial for cities to align their development and nature priorities, both internally and externally, with key financing institutions; this alignment will help channel financial resources towards promoting nature-first urban development.



2.1 Making space for nature in urban development finance

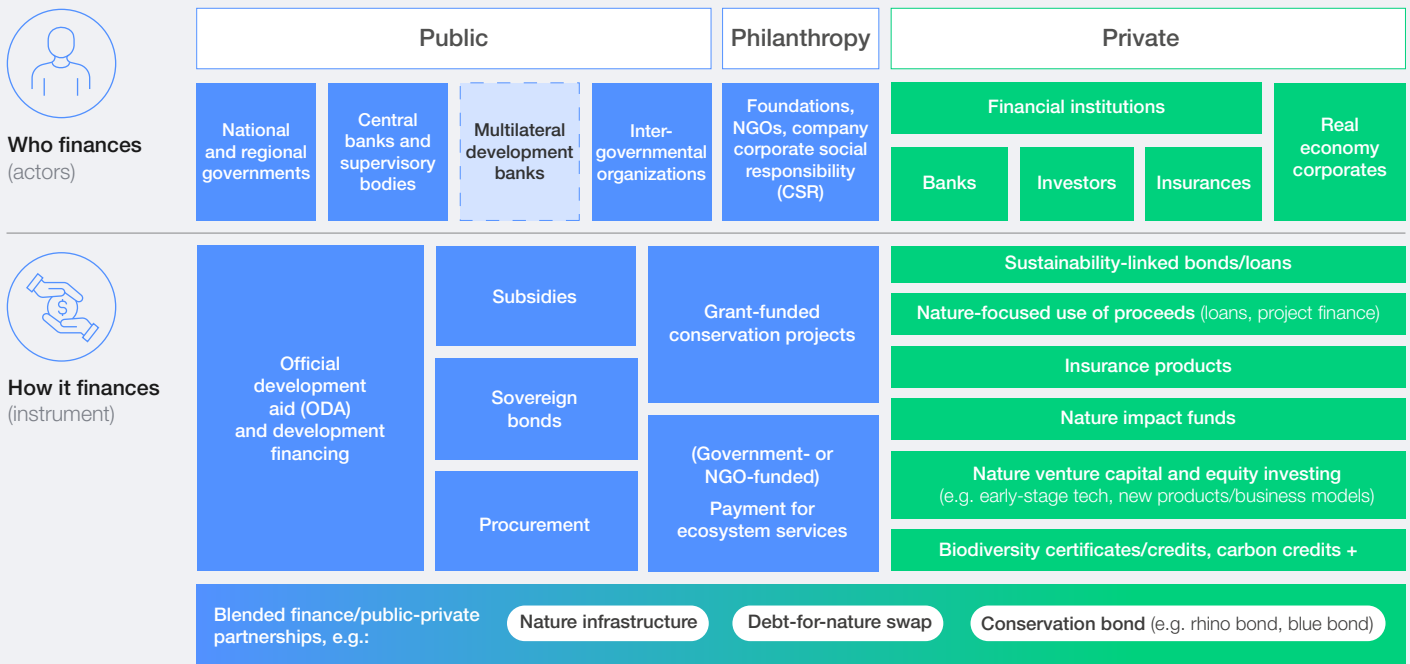
To better position nature finance within urban development, it is essential that city planners and local decision-makers recognize the role of nature in the quality of urban life and consistently integrate nature and green infrastructure as a key component of development projects. Limitations within existing frameworks and the absence of clear financing sources and mechanisms do, however, pose a challenge.¹⁹

Cities are struggling to manage budget deficits and keep up with the increasing costs of providing basic citizen services such as health, social services and emergency management. Growing populations have an increased demand for essential services, putting major cities under fiscal stress. Cities are looking

to balance their budgets while priorities are being reordered across sectors, making it challenging to invest in nature outright and leading to mismanagement of infrastructure development, resulting in environmental damage, economic stagnation and social decline.²⁰ Using external sources of nature funding can help address cities' budgeting limitations while managing numerous priorities through rapid growth and development.

One key mechanism that cities use to recoup costs for nature investments is through levies and surcharges on asset owners that stand to benefit from these investments. Residential or commercial real estate stand to benefit from government funding on green spaces or public transport, for example.

FIGURE 2 | Key financiers and mechanisms for nature finance



Source: World Economic Forum and Oliver Wyman.

2.2 Nature mainstreaming in cities

Globally, national, regional and local governments invest close to \$2.5 trillion a year across essential services in cities, such as transport, power, water and telecommunications.²¹ The trajectory of current investments will still, however, fall short of the \$94 trillion forecast required by 2040 to meet infrastructure needs in just 50 countries globally. A 2017 World Bank article, [Forecasting infrastructure investment needs for 50 countries, 7 sectors through 2040](#), estimates an \$18 trillion shortfall, with 39% of the need in China, India and Japan.

A large portion of governments' infrastructure investment is concentrated in cities, offering a considerable opportunity for cities to influence the impact of this development finance in nature. As such, it is critical for cities to understand the mechanisms through which they can influence and guide urban investments across public and private sectors.

Local governments looking to mainstream nature can introduce environmental impact assessments, nature-related due diligence criteria and strengthen nature governance. Stronger policy and regulatory frameworks, clearer representation of nature advocacy groups, and use of impact assessments can help minimize harmful investments and shift existing finance flows towards nature-positive solutions across all sectors.

National, regional and local governments

Given their prominent role in urban development finance, governments can play a crucial part in ensuring that urban development is aligned with Sustainable Development Goals and limits harm to nature by prioritizing interventions that ensure a net-positive impact.

City governments can ensure all financial flows adopt or consider nature by using:

1. **Policies and incentive mechanisms** that encourage positive actions or discourage negative actions. Incentive mechanisms such as compliance hurdles, taxes and fees, and offsets are frequently used to manage impact on nature.
2. **Natural capital accounting and valuation mechanisms** to develop and implement green budgeting mechanisms and embed nature into accounting processes. Introducing nature valuation can help illustrate the actual costs and benefits of major infrastructure projects and make the value of natural capital visible so it can be compared to other investment types.

\$2.5
trillion

a year is invested by national, regional and local governments globally in essential urban services.

Valuing natural capital within the appropriate policy and regulatory frameworks establishes the right environment to promote the use of nature credit markets and create an asset class within which nature and nature benefits can be traded.

Private sector

Private finance makes up 18% of the total spending on nature-positive action globally, totalling approximately \$25 billion. Finance from private sources is focused on safeguarding and minimising risk, and for that reason financiers increasingly see an opportunity in introducing sustainable business practices, implementing biodiversity credits and offsets and creating sustainable supply chains.

Under the existing market conditions, however, private investment cannot be expected to increase significantly without greater public-private collaboration and changes to regulatory structures and policies. Companies taking nature into account typically incorporate changes into their internal structures and operations by changing policies and processes, rather than by modifying the impact of their businesses on the environment. For example, companies may incorporate nature into their governance and decision-making processes or develop technology that limits the negative impact on nature (e.g., renewable energy sources).

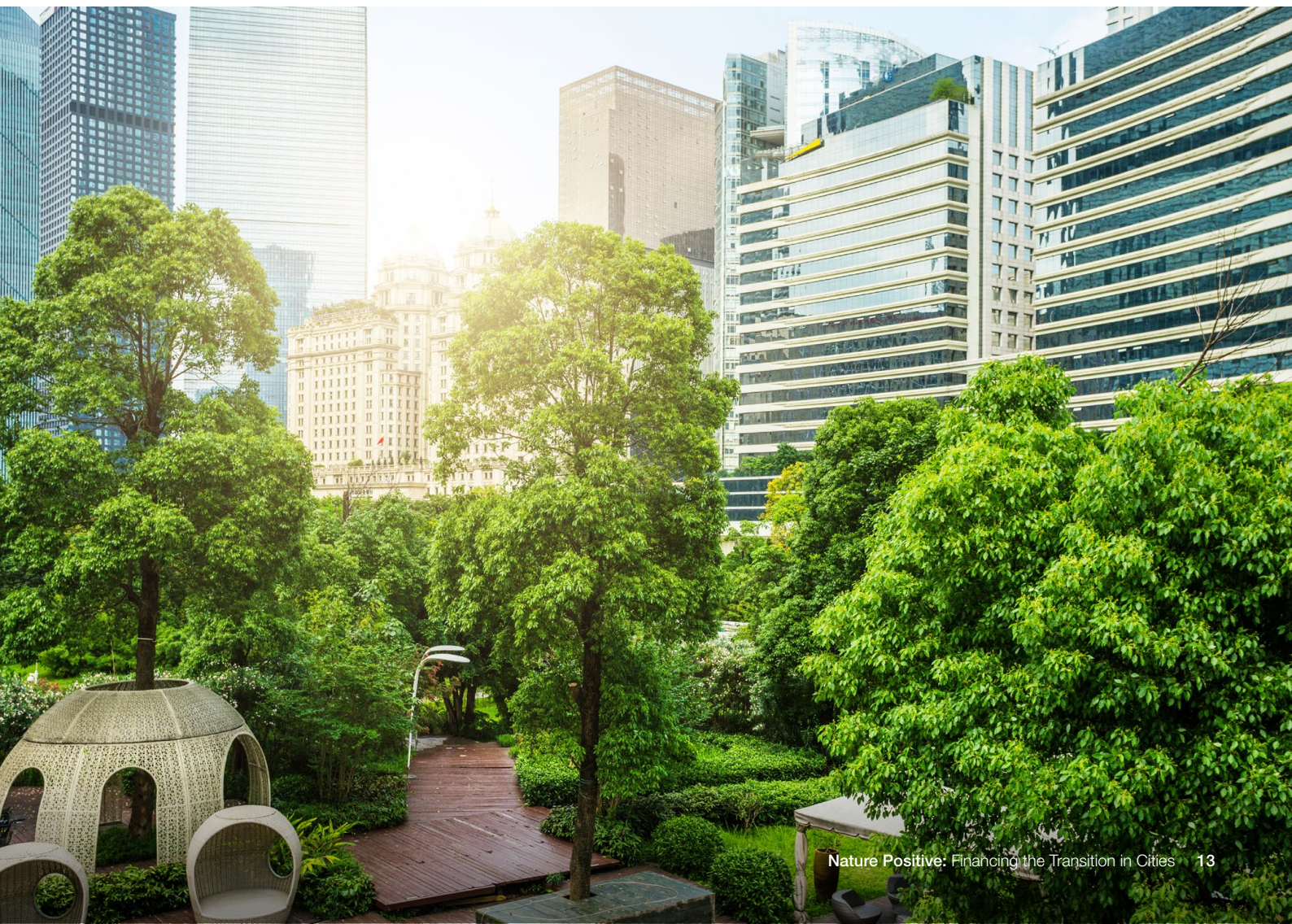
“ Private finance makes up 18% of the total spending on nature-positive action globally, totalling approximately \$25 billion.

However, private sector participation in urban development is driven first and foremost by returns on investment, as with all investing. If return on investment (ROI) is not forthcoming, then private investment is unlikely to increase. As such, investments are primarily focused on solutions with profitable outcomes, and environmental and societal outcomes may be deprioritized.

Multilateral development banks

Given the alignment of MDBs with Sustainable Development Goals, these institutions have long since adopted nature and climate considerations into their project evaluation processes, and continue to develop and promote environmental assessments, valuation and accounting standards across public and private sectors.

MDBs can have a clear influence in shifting cities' actions towards becoming more nature positive by providing technical assistance and incorporating nature considerations into their financing process. Within technical assistance and capacity-building programmes, MDBs help governments to implement structural reform in cities, introduce novel financial instruments and build capability in sourcing and assessing projects.



2.3 Nature-positive finance in cities

0.1%

or less of national budgets is allocated to biodiversity by governments globally.

Most finance for cities is allocated through government budgets, but development finance sources – mainly MDBs – and philanthropic support continue to provide essential, supplementary, and derisked finance to large urban development programmes.

We can expect an increase in private sector participation in nature-positive finance as private developers become more interested in investing in projects with measurable positive impacts on the environment; but that participation will still necessitate greater commercial viability of projects. These supplementary sources of finance are essential to bridge the funding gap, build critical infrastructure and transform cities as they continue to grow.

Cities around the world are developing strategies to attract new finance and creating initiatives with the private sector that make use of blended capital for nature protection and restoration. This collaborative process should operate across a long-term horizon to ensure success.

National, regional and local governments

Governments are the largest financers of urban development and provide support for nature by creating policies and frameworks that prioritise nature-positive urban development. Despite this, national governments allocate and spend less than 0.1% of their national budgets on biodiversity and five countries account for more than 75% of global biodiversity spend.

Subnational governments play a key role in public investment in nature-positive infrastructure for economic development and well-being. At present, subnational governments account for nearly 60% of total public investment on average across countries in the Organisation for Economic Co-operation and Development (OECD).

Municipal governments will need to create fiscal space and prioritize nature investments to ensure they do not compromise financial sustainability. MDBs have a role to play in supporting these efforts by assisting with reallocating existing funds or unlocking new sources of revenue.

Philanthropy

Philanthropy channels resources from affluent individuals and corporations through organizations with significant expertise in addressing social and environmental challenges. It has historically played a vital role in urban development as well as social and environmental welfare. Philanthropic groups are among the most effective nature and climate advocacy groups, playing an important role in drawing increased attention towards sustainable action across public and private sectors.

Philanthropy has proven essential in driving progress across many critical environmental issues yet only 11% of total philanthropic spend is represented by corporate philanthropy. However, giving for climate and nature is a growing practice. According to the World Economic Forum's 2024 report, [The Role of Corporate Philanthropy in Accelerating Climate and Nature Transitions](#), global corporate philanthropic funding for environmental causes alone represents almost half of all corporate philanthropy today, and saw a 127% rise in dollar terms between 2018 and 2022. Philanthropy strengthens advocacy and community engagement and is critical to empowering grassroots organizations and Indigenous groups as key stewards of nature. In the urban realm, philanthropy is essential as a catalyst for de-risking private sector investment and unlocking future finance.

Private sector

For greater private sector involvement, cities need to generate opportunities that enable the creation of revenue streams associated with nature. These are mostly generated through the protection, restoration and sustainable management of nature (e.g., through resorts and reserves) or by internalising positive externalities and compensating for business action (e.g. through participation in nature credit markets). Actions from companies have to have a measurable benefit for nature to be considered nature positive, which could be done through a broad set of actions from technological innovations to green space protection.

As a result, private sector investment in nature tends to increase only when there are clear dependencies on natural resources, or when the financial benefits and risks behind sustainable practices become evident.²⁷ Businesses dependent on wild pollinators, marine fisheries and forest timber could stand to lose \$2.7 trillion in global GDP annually if sustainable practices are not introduced soon based on current nature loss trends, meaning that they have an interest to act on reversing their loss.



Multilateral development banks

MDBs provide technical and regulatory assistance, concessional and long-term financing, and support for projects with high-risk profiles, and have long supported efforts for urbanization globally. MDBs operate to improve countries' economic standing, address inequality, promote job creation and develop critical infrastructure. MDBs are a valuable source of supplementary finance for cities and can lend to long-term projects with higher risk profiles.

MDBs are also a valuable source of concessional finance and grants for urban development projects. MDBs frequently enable cities to access capital

under favourable terms, such as lower interest rates and extended repayment periods. This helps diversify urban development funding sources, reducing reliance on governments for all nature-related investments. MDBs, adoption of novel financing mechanisms at scale can also act to mobilize private finance for nature.

To expand investment portfolios in cities, MDBs must be strongly engaged with federal governments, to strengthen creditworthiness and scale national projects. Given the prominence of cities' development needs, subnational government engagement is becoming a core part of MDBs' remits.

2.4 Overcoming funding gaps

To close funding gaps in urban nature finance and strengthen connections between cities and potential sources of nature funding, it is crucial to clearly assess and communicate the investment opportunities in nature. Currently, there is no universally accepted definition of "nature finance", which leads to a lack of clarity and consistency across sectors. Large financial institutions, private businesses and governments often do not differentiate their investments between nature-positive finance (aimed at creating positive environmental impacts) and nature mainstreaming (incorporating nature considerations into broader financial decisions).

As a result, the way nature finance is assessed within each industry and sector varies significantly, which hinders efforts to accurately identify and address gaps. This variability creates challenges in understanding the true scale of investments directed towards net positive outcomes in nature, as well as in measuring progress.

To address these issues, it is critical to establish a more granular view of how the public sector allocates funds specifically towards nature-positive outcomes. This clarity could reveal opportunities where private sector or philanthropic contributions would be most impactful, enabling targeted investments that complement public funding and maximize environmental, social and economic benefits.

3

Shaping nature finance in cities: a spotlight on MDBs

Cities' engagement with MDBs is critical for garnering reliable sources of finance for nature.



3.1 The relationship between MDBs, urban development and nature

Development finance plays a significant role in advancing a nature-positive transition in cities. By establishing a nature lens in all investment decisions, financial mechanisms can be aligned with goals to support urban development, putting nature protection, restoration and enhancement at the core.

Partnerships between local governments and MDBs are vital for catalysing urban transformation, de-risking investments in critical infrastructure and attracting additional external finance.

Stepping up to the challenge, MDBs have formulated an innovative set of nature-positive investment principles that are consistent with this vision and can provide inspiration to private sector investors. Initial steps include incorporating nature into investment decision criteria and assessments, and offsetting nature-negative business actions. The principal challenge, however, resides in the effective implementation of these principles, particularly within urban contexts.

3.2 Carving space for cities and nature in MDB reforms

“ Businesses dependent on wild pollinators, marine fisheries and forest timber could stand to lose \$2.7 trillion in global GDP annually if sustainable practices are not introduced.

MDBs possess the financial resources, technical expertise, on-the-ground presence and policy credibility needed to support countries and local governments in integrating and financing both development and environmental goals.

In response to increasing economic and environmental crises, and the pace of urbanization globally, MDBs have defined a process to reform their agendas, which centres around six main categories:²⁹

- Efficient use of capital
- New forms of capital
- Expanded mandates and associated shareholder capital
- Impact reporting
- Country engagement transformation
- Expanded private finance mobilization

If fulfilled, the above reforms could lead to up to a 30% increase in MDB lending capacity, compared to commitment levels of 2019 (see Figure 3). The role of MDBs in supporting the pressing demands of urbanization has become central in this comprehensive reform programme, as local

government leaders navigate how to overhaul the current financial framework to address their most pressing development challenges.

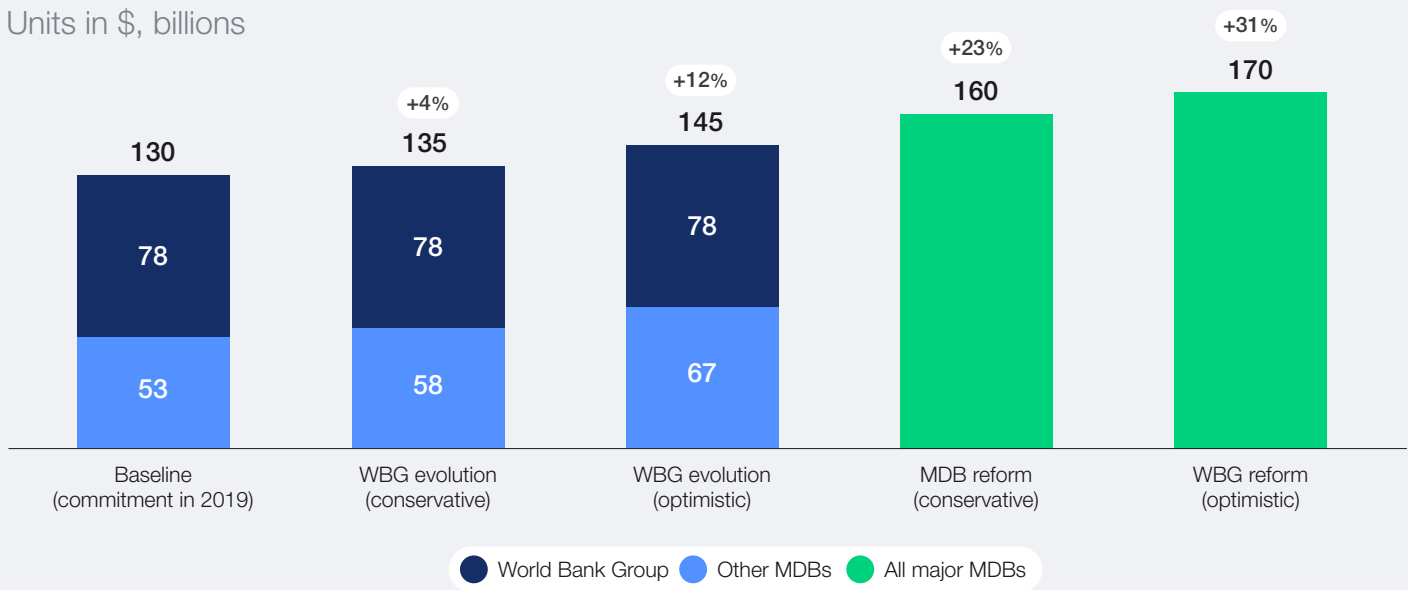
This reform process is following a deductive approach to define which investments are necessary to achieve the SDGs, and climate action and nature preservation are now seen as key enablers and mutually-reinforcing agendas, as well as an investment opportunity to mitigate global and local economic risks.

Reflecting this priority, 10 MDBs signed the *Joint Statement on Nature, People and Planet* at the UN Framework Convention on Climate Change's (UNFCCC) COP26 in Glasgow, which recognizes that tackling poverty, climate change and the drivers of nature loss are inextricably linked, and affirms their commitment to mainstream nature ever more deeply into their policies, analyses, assessments, advice, investments and operations.³⁰

With this growing awareness of the value of nature and the identification of a significant funding gap, the MDB reform process is an opportunity to capitalize on the pioneering efforts on nature mainstreaming at the urban scale and to increase funding for nature-positive initiatives at a time when MDBs are looking to strengthen subnational engagement.



FIGURE 3 | Scenarios of annual MDB reform gains



Source: Organisation for Economic Co-operation and Development (OECD). (2024). *Multilateral Development Finance 2024*.

3.3 State of MDB urban nature finance

The MDB common principles for tracking nature-positive finance is a valuable attempt to facilitate comparability across MDBs' respective screening and tracking processes.

The intention of these principles is to set a higher standard for urban nature finance, and to capture those MDB investments that make a demonstrable positive contribution (directly and/or through co-benefits) to putting nature on the path to recovery as part of implementation of the Kunming-Montreal Global Biodiversity Framework (KMGBF).

Despite recent progress, tracking current expenditures and financial contributions to nature-positive outcomes remains a central challenge due to several factors such as:

- **Limited standardization of nature definitions and tracking metrics.** There is no universal definition or standardized framework for what constitutes nature finance or nature-positive investments. This lack of clarity makes it difficult to consistently categorize and measure investments that support nature across different sectors.

- **Diverse and complex reporting standards and disclosure requirements.** Nature finance can come from various sources – public sector, private sector, philanthropic organizations and international funds – each with different reporting standards, priorities and methodologies. Without transparent and detailed reporting, it becomes challenging to assess the true extent of nature finance. This diversity complicates the tracking and aggregation of financial flows in the global economy.
- **Overlap of nature agendas with broader environmental investment categories.** Nature finance often intersects with broader categories like climate finance, sustainable development or corporate social responsibility investments. Distinguishing funds that specifically target nature-based solutions can be difficult when investments serve multiple purposes.
- **Fragmented data and reporting systems.** Financial flows to nature are tracked by numerous organizations and institutions, each using different methodologies and reporting systems. This fragmentation makes it hard to compile comprehensive and comparable data.

\$280
billion

in economic losses across the globe in 2023 due to natural catastrophes.

For the purpose of this report, the analysis of MDB urban nature spend encompasses all approved project finance that has impacts on nature, noting that all MDB investments have environmental due diligence assessments to ensure harm is limited. Without quantified impacts, investments cannot be categorized as nature positive.

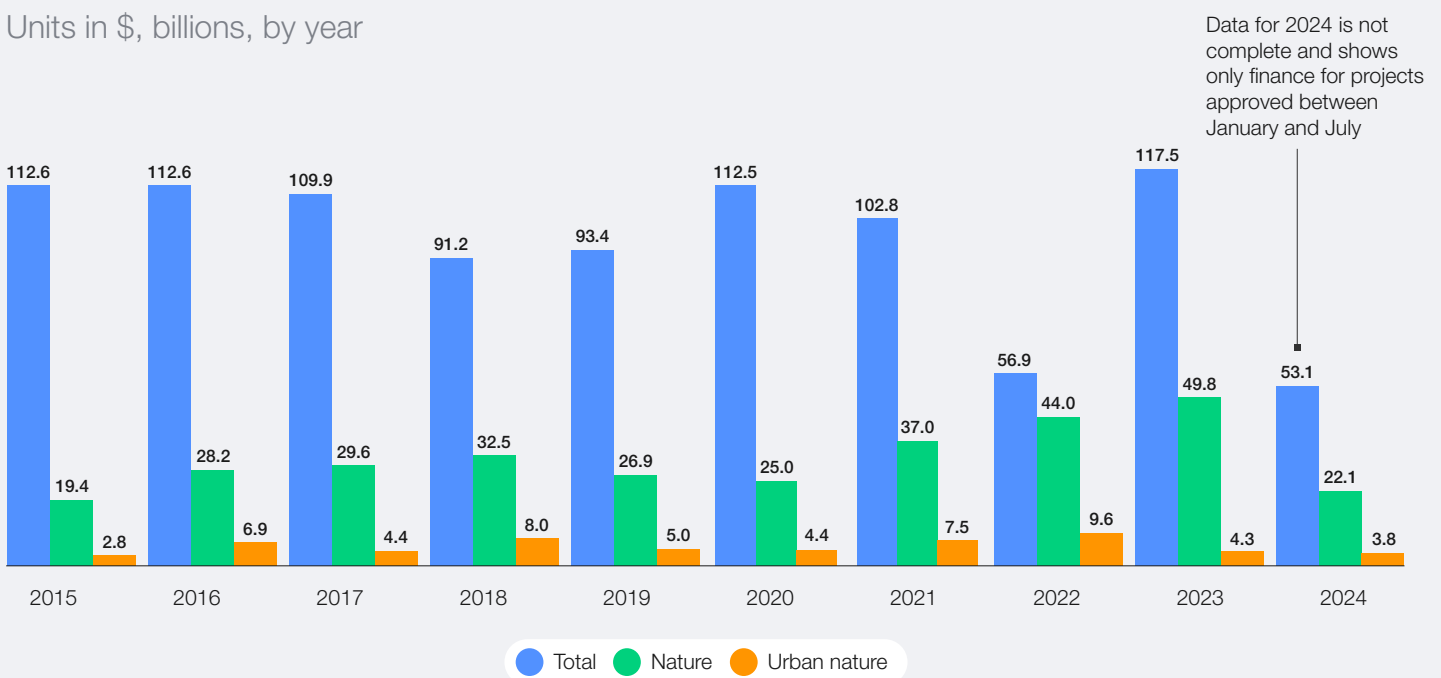
This analysis serves as an initial step towards understanding direction and magnitudes of urban nature finance flows. It aims to support the standardization of terminology and the development of traceability mechanisms for nature-positive finance and nature mainstreaming. By doing so, it seeks to identify investment opportunities and expedite the transition to nature-positive cities more effectively.

Urban nature's share in global development finance

Analysis of public MDB project data illustrates the financial flows from MDBs that is invested in nature finance (including both nature mainstreaming efforts and nature-positive finance).³¹ Overall analysis illustrates that urban nature finance makes up only a small portion of the total MDB nature finance flows. Approved MDB spend on projects related to nature in the urban realm has made up, on average, less than 10% of the total approved project expenditure for nature over the last decade. Despite the growing need for urban nature investment, MDBs are either investing in other areas, focusing in rural area, or both. Findings suggest that nature investments by MDBs are largely conducted outside cities.

FIGURE 4 Approved total, nature and urban nature project spend by selected banks (2015-2024)

Units in \$, billions, by year



Source: World Economic Forum analysis of publically available MDB project data from: Asian Infrastructure Investment Bank (AIIB); Asian Development Bank (ADB), Inter-American Development Bank (IDB), African Development Bank (AfDB), European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), World Bank Group (WBG).

Spending on urban nature sector

Global trends, innovations and crises, such as the COVID-19 pandemic, the emergence of new renewable energy technologies, and the rising costs of goods and services, show a considerable influence in MDB spending on nature over the past decade when comparing spending before and after the pandemic (see Figure 4). A sectoral breakdown

reveals that investments in nature do not solely come from a designated budget line for nature, but instead stem from expenditures across various sectors, all of which interact with nature.

Figure 5 illustrates the key sectors relevant to the environmental agenda in cities and the changes in MDB financial flows from 2018 to 2023.

FIGURE 5 | Approved urban nature project finance across selected sectors, from selected banks (2018 and 2023)

Units in \$, millions



Source: World Economic Forum analysis of publicly available MDB project data from: Asian Infrastructure Investment Bank (AIIB); Asian Development Bank (ADB), Inter-American Development Bank (IDB), African Development Bank (AfDB), European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), World Bank Group (WBG).

Between 2018 and 2023, there was a marked reduction in approved urban nature finance from MDBs into projects on infrastructure and the built environment. This decline in spending coincides with a global housing crisis that is leaving millions without adequate shelter and a rise in environmental challenges in cities across the world.³² In 2023, natural disasters across the globe resulted in an economic cost of \$280 billion, and trends demonstrate that annual losses due to environmental disaster are only increasing (see Figure 5).³³

In addition to housing, the sustained growth of cities necessitates the development of urban infrastructure that is resilient to changing environmental conditions. The challenge is to avoid adopting an approach in which the means justify the ends, which could jeopardize essential nature considerations in the pursuit of rapidly deploying critical infrastructure. It is imperative to ensure

that sustainability and environmental integrity are prioritized in the planning and implementation of urban projects.³⁴

Urban nature regional spending

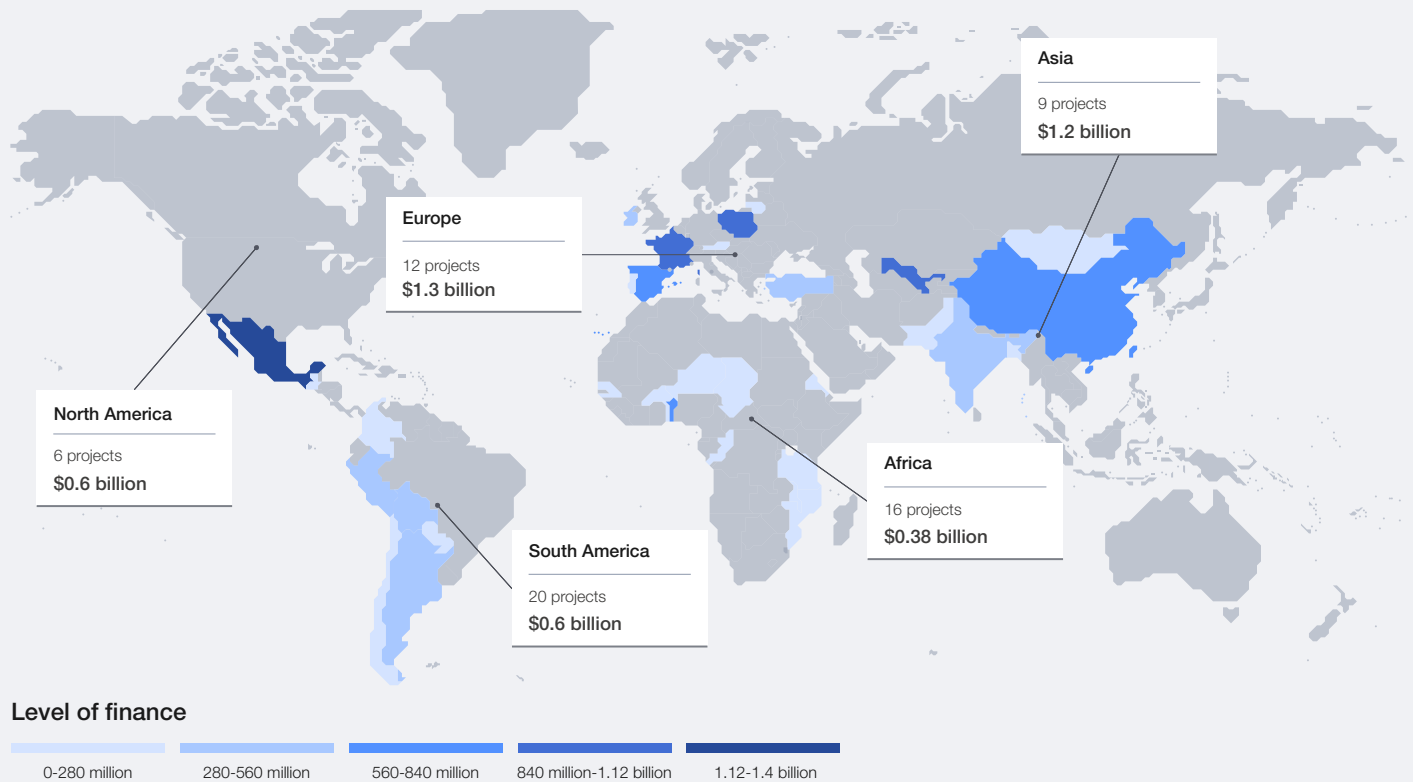
Analysis of approved project finance illustrates trends in global urban nature investment, demonstrating how MDB finance aligned closely to regions that experienced rapid urban land expansion and growth. In 2023, approved MDB project finance was concentrated in Asia and Europe, with each region making up approximately 30% of total spend across all banks.

Review of total project spend does not align directly with impact, however, and project size is tied to impact. With fewer projects in Asia and Europe, the project sum is on average larger and likely to be more impactful.



FIGURE 6 | MDB urban nature finance investments by country, 2023

Units in \$, in 2023



Source: World Economic Forum analysis of publicly available MDB project data from: Asian Infrastructure Investment Bank (AIIB); Asian Development Bank (ADB), Inter-American Development Bank (IDB), African Development Bank (AfDB), European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), World Bank Group (WBG).

3.4 | MDBs’ progress in mainstreaming nature

Nature-related investments are often segregated in multi-sectoral expenditures. Moving towards greater integration and accounting for the interconnections among investment decisions and the impact on nature is fundamental.

To create a sizeable shift towards prioritizing nature within urban infrastructure development, funding projects that generate ecological and social value need to be brought to the foreground. This shift can be incentivized by:

- Introducing policies and incentives for investments that bring long-term environmental outcomes and promote economic growth by embedding nature in cities.

- Modifying existing evaluative processes to incorporate nature and biodiversity considerations.

Changing the volume of funding that feeds into nature is insufficient for the purpose of galvanizing a transition towards a nature-positive society. Understanding the nature considerations used by financial institutions across all investment diligence processes and project assessments can help reshape investment pipelines.

MDBs have taken the first step towards integrating nature into project assessment processes, by incorporating nature-related lending terms and eligibility criteria into their due diligence processes.

3.5 Streamlining assessment processes and evaluation frameworks for “nature positive”

Financing processes are similar across MDBs, yet cities face numerous challenges accessing funding, including opacity and quantity of approval stages, and strict data and reporting requirements. This hampers visibility of the potential problems MDBs may find with a project proposal, such as feasibility, necessity of solution, or level of risk.

Due to the real or perceived challenges of the process, cities often fail to appropriately use sources of funding from external financial institutions, instead relying mostly on government budgets to support the implementation of nature-related initiatives. The challenges associated with urban nature financing can be seen through the MDB financing processes.

The *MDB Joint Statement on Nature, People and Planet* has identified changes MDBs will undertake to green their finance processes, such as introducing and incorporating more nature considerations in due diligence assessments.^{36,37} The statement has also led to the introduction of more nature-focused project funds and facilities, such as the Green Economy Financing Facility, and platformed programmes, such as Green Cities by the European Bank for Reconstruction and Development (EBRD).

Figure 7 illustrates the end-to-end financing process of MDBs, with an emphasis on nature-related assessments and criteria, and reported challenges by local governments at each step. This provides insight into how MDBs mainstream nature and shows the complexity of infusing nature considerations across every decision-making step.

FIGURE 7 MDB financing process, from assessment to repayment



Source: World Economic Forum analysis of data from: Asian Infrastructure Investment Bank (AIIB); Asian Development Bank (ADB), Inter-American Development Bank (IDB), African Development Bank (AfDB), European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD), World Bank Group (WBG).





3.6 Major funding mechanisms and the opportunity to further mainstream nature

To effectively integrate nature into urban planning processes and maximize impact, cities should use innovative and sustainable funding mechanisms. Nature- and sustainability-related instruments provide a greater level of control over managing the nature impact of investments in urban development and ensuring the support of actions that protect, restore or enhance sustainable use of nature. These often have more strict eligibility criteria to ensure a positive impact on nature, and can incentivize developers to offset negative impacts.

Urban financiers, including MDBs, deploy a range of financing mechanisms, of which a significant number have been created specifically for nature

and environmental investments. These include market-based solutions (loaned on debt or equity bases), policy-based tools (policies and regulation support), and partnerships and blended finance mechanisms (PPPs). Other innovative nature financing mechanisms, such as land value capture and payment for ecosystem services, are used to capture direct economic benefits from projects. Despite the multitudes of financial mechanisms available for use, MDBs still largely use investment loans across all income economies. In total, 61% of climate finance in low- and middle-income countries and 80% of finance in high-income countries comes from investment loans alone.

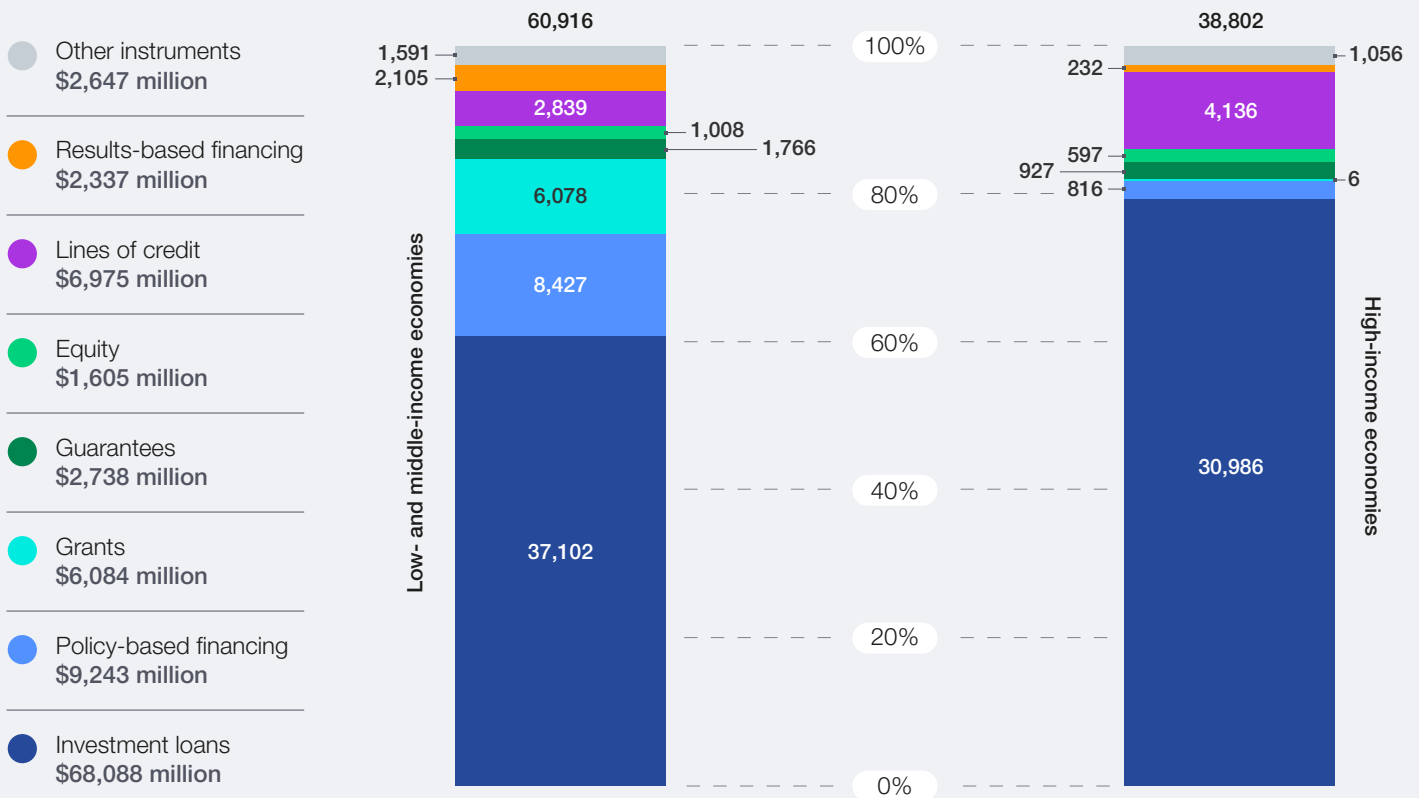
TABLE 1 Overview of instruments for mainstreaming nature and advancing nature-positive finance

Funding sources	Funding types			
	 Debt	 Equity	 Risk mitigation instruments	 Policies and other instruments
National governments	<ul style="list-style-type: none"> - Sustainability-linked bonds and loans - Sovereign debt - General obligation (GO) bond infrastructure debt funds - Blended finance instruments - Green revolving fund 		<ul style="list-style-type: none"> - Risk guarantees - Risk insurance products 	<ul style="list-style-type: none"> - Payment for ecosystems services schemes - Land value capture mechanisms (tax increment financing) - Externality taxes (e.g. carbon, land and water) - Land banking and readjustment
Central banks				<ul style="list-style-type: none"> - Monetary policy incentives - Disclosure regulations
Development banks (NDBs, MDBs)	<ul style="list-style-type: none"> - Sustainability-linked bonds and loans - Sustainability Sukuk - Use-of-proceeds bonds - Catastrophe bonds - Debt-for-nature swaps (DNS) - Blended finance instruments - Revolving funds 	<ul style="list-style-type: none"> - Private equity - Equity futures - Project-level equity 	<ul style="list-style-type: none"> - Risk guarantees - Risk insurance products 	<ul style="list-style-type: none"> - Technical assistance - Public-private partnerships - Payment for ecosystems services schemes - Land value capture mechanisms (tax increment financing)
Commercial banks	<ul style="list-style-type: none"> - Commercial loans - Sustainability-linked bonds - Catastrophe bonds/ insurance pool - Risk guarantees and insurance products - Syndicated loan 	<ul style="list-style-type: none"> - Sustainable EFTs and indices 		<ul style="list-style-type: none"> - Public-private partnerships - Payment for ecosystems services schemes - Land value capture mechanisms (tax increment financing) - Pooled finance/procurement
Insurance companies	<ul style="list-style-type: none"> - Yieldcos - GO bond - Revolving funds - Green investment funds 	<ul style="list-style-type: none"> - Private equity - Equity futures 	<ul style="list-style-type: none"> - Risk guarantees - Risk insurance products 	<ul style="list-style-type: none"> - Public-private partnerships
Private capital		<ul style="list-style-type: none"> - Sustainable EFTs and indices - Private equity - Equity futures 		<ul style="list-style-type: none"> - Property taxes from nature markets - Blended finance instruments - Pooled finance - Land sales and leasing
Not-for-profits	<ul style="list-style-type: none"> - Sustainability-linked bonds and loans - Green investment funds 	<ul style="list-style-type: none"> - Sustainable EFTs and indices 		<ul style="list-style-type: none"> - Sale of market goods
Foundations and philanthropies	<ul style="list-style-type: none"> - Green investment funds 			

● Public sector ● Private sector ● Other

Source: World Economic Forum and Oliver Wyman.

FIGURE 8 | Total MDB climate finance by instrument (in \$, millions)



Source: European Investment Bank (EIB).

Debt instruments

Debt instruments, such as investment loans, are the mechanisms most used by MDBs, particularly for climate finance.³⁸ Loans, bonds and blended finance instruments are preferred financial mechanisms, which require less technical understanding of finance and nature.^{39,40}

Debt instruments such as green bonds, sustainability-linked loans, and debt-for-nature swaps have contributed to the development of a dedicated market for nature finance and offer a diversified source of revenue for cities with limited budgets and autonomy.⁴¹

They typically require ongoing financing, however, with frequent application rounds, putting a constraint on limited city resources compared to more sustainable mechanisms like PPPs or project equity.⁴²

Independent research identified three mechanisms linked closely with the sustainable impact of

investments – cost of capital, access to liquidity, and changing corporate practices. Impact is attributed to an investor’s ability to alter each of these mechanisms.

Analysis identified that for public lending, loans are the highest impact asset class due to lenders’ ability to influence all three dimensions.⁴³

Equity instruments

Equity finance, typically in the form of project-level equity, is less frequently used for nature initiatives because nature projects are inherently high risk and may have unpredictable or poorly understood outcomes.⁴⁴

Risk mitigation instruments

Risk mitigation instruments such as guarantees, insurance products, hedging instruments and credit enhancements act to reduce risk and dependencies on nature, in order to conserve, restore and value biodiversity and ecosystem services.⁴⁵



Other funding mechanisms and enablers

Policies and regulatory instruments are also valuable means to embed nature into all investment decisions. Other instruments can generate investment flows into nature conservation by making biodiversity destruction expensive or untenable.⁴⁶

Green budgeting and natural capital accounting methods help to assess the value of ecosystem services and account for them in project balance sheets or embed nature considerations into project development and assessments.^{47,48}

Payment for ecosystem services (PES) schemes are another way to mandate nature investment by incentivizing upstream resource holders to protect nature resources being used further downstream.

Public private partnerships (PPPs) seek to improve the management of public resources and enable governments to retain ownership of assets and infrastructure.

Blended finance incorporates concessional and non-concessional capital to develop an investment portfolio considering differing investor needs. Due to the limitations in total public spending and the challenges associated with private sector participation, blended finance is a reasonable solution to increase finance for nature.

3.7 Increasing nature finance in cities

For cities to effectively finance nature, it is imperative to address several external challenges. These challenges impact both the ability of cities to attract investment and the capacity of financial institutions to identify impactful and profitable opportunities.

The nascent stage of the nature-positive movement has constrained institutions' capacity

to deliver significant impact, particularly in urban environments where investment outcomes are not well understood.

This uncertainty obstructs cities from strictly integrating natural elements into their urban landscapes and embedding nature into all aspects of governance and operational processes.

4

Challenges with nature finance in cities

Cities face barriers to nature finance from governance, policies, funding, data, engagement and capacity – hindering nature-positive urban development.



4.1 | Limitations to nature finance in cities

Many opportunities exist for cities that work to reduce the negative impact of urban development in nature; yet, there are significant barriers to this transition.

[Nature Positive: Guidelines for the Transition in Cities](#) (2024) highlighted the enabling factors cities need to prioritize when preparing a fertile ground







for mainstreaming nature and ensuring nature-positive finance is well integrated throughout urban development. Critical action fronts, such as available nature expertise, strengthened policy and regulatory environments, and the development of a nature action plan, can be resolved more easily than those related to unclear taxonomies and nature valuation, which require dedicated multilateral collaboration.

4.2 | Limitations in cities' enabling environment

Dialogue and consultations with financial institutions have illustrated a range of limitations with nature finance in cities. Long project implementation and payback horizons and high dependence on project context to develop a bespoke solution are particularly important in the creation of

nature-based solutions in cities. Difficulties with maintaining a portfolio of highly impactful nature-positive projects is in large part due to the lack of comparability, replicability and scalability of projects and solutions across regions and time.

TABLE 2 | Overview of key enablers of a nature-positive transition in cities

Enablers	 Governance	 Policy	 Financing	 Data and analytics	 Stakeholder engagement	 Capabilities
Definition	Structures, units, official roles and processes in place to oversee nature-related efforts	Incentives and requirements that guide and promote the implementation of nature-positive solutions	Resources and mechanisms to obtain sufficient and timely funding to implement nature-positive actions	Processes and systems to gather and manage data on nature risks and impacts and to use analyses to inform decision-making	Strategies and channels used to engage relevant stakeholders and communicate the benefits of nature-positive solutions	Availability and talent of human resources and adoption of a culture of innovation and continuous research
Subcomponents	Governance structure and processes	Policy and regulations	Funding	Data management	Communication	Human capital
			Financing processes	Risk and impact analytics	Community engagement	Research and innovation

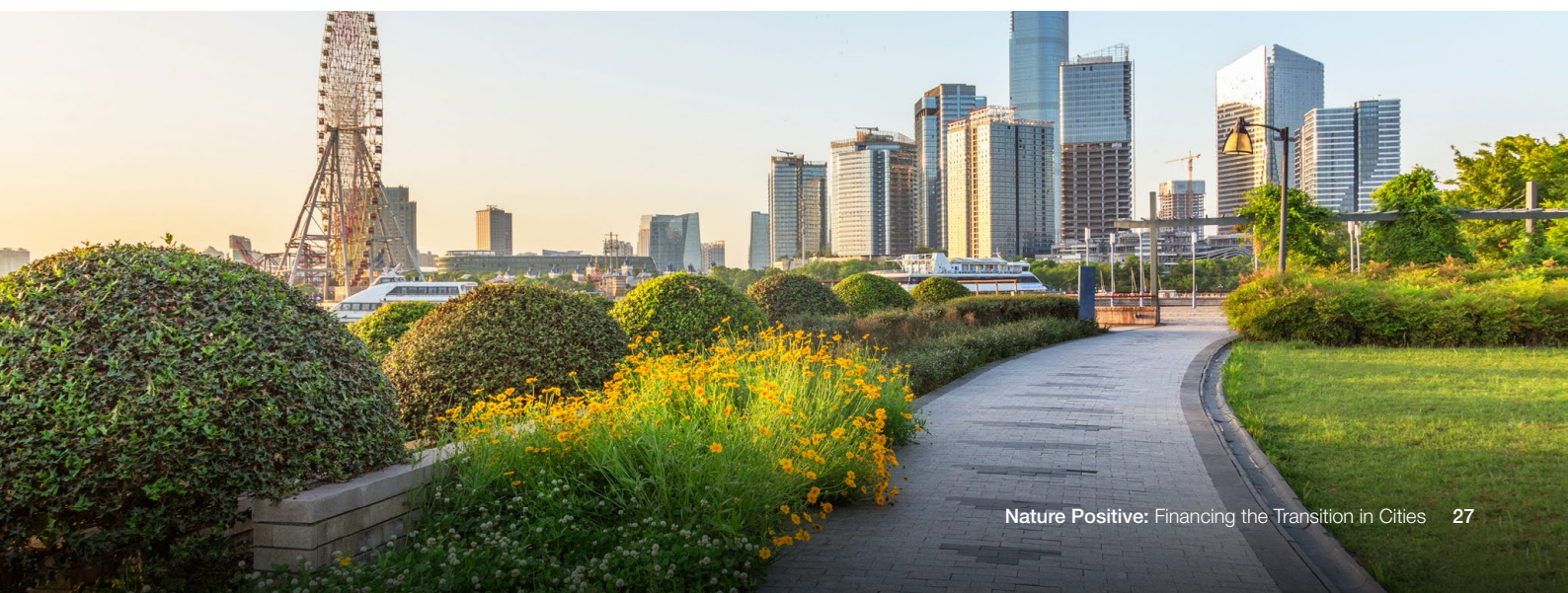


TABLE 3 | Limitations to cities' enabling environment











Enabler	Limitation	 Impact on nature mainstreaming	 Impact on nature-positive finance
 <p>Governance</p>	<p>Siloed governance</p> <p>Engaging with cities involves engaging with numerous siloed departments. Nature is a cross-sectoral issue affecting multiple departments and industries, yet city governments are often not well resourced to operate across departments or bring appropriate scale to projects.</p>	<p>Fails to address nature holistically, limits impact of solutions by creating changes in siloes rather than adopting cross-sector approaches where necessary.</p>	<p>Hinders implementation of projects that require multistakeholder engagement, particularly those that require engagement with local communities.</p>
 <p>Policy and regulation</p>	<p>Unattractive investment proposition</p> <p>An attractive policy and regulatory landscape can be a strong pull factor for greater nature finance. Cities often have confusing or poorly integrated policies, however, which create a barrier for investment, particularly from the private sector.</p>	<p>Fails to curb or mitigate nature-negative investments across urban development projects.</p>	<p>Limits the quantity of nature finance by failing to implement incentives to attract external finance.</p>
 <p>Finance</p>	<p>Creditworthiness</p> <p>Creditworthiness is one of the critical factors that lenders use to assess the viability and risk associated with an investment. Public and private sector lenders are unlikely to invest in cities that have a tenuous credit history and are likely to default on loans, limiting access to external finance.</p>	<p>Limits the level of urban development cities can conduct and available funding for nature innovation.</p>	<p>Creates difficulties with sourcing supplementary finance for co-financed projects, resulting in project delays or cancellations.</p>
<p>Nature accounting and valuation</p>	<p>Evaluating the socioeconomic and environmental benefits of solutions is considered one of the greatest challenges in investing in nature.</p> <p>Natural capital accounting plays a crucial role in addressing these challenges by providing a framework that enables government decision-makers to make informed decisions. It facilitates sustainability assessments, helps in the development of effective policies, and supports investments aimed at preserving and enhancing nature.</p>	<p>Limits the level of urban development cities can conduct and available funding for nature innovation.</p> <p>Limits private sector investment and effort to mainstream nature across all investments and hampers development of innovative solutions to enhance nature outcomes.</p>	<p>Undervalues the impact and bankability of solutions, resulting in withheld funding and under-used balance sheets.^{51,52}</p>
 <p>Data and analytics</p>	<p>Non-standard taxonomies</p> <p>The absence of a standard taxonomy for nature hinders consistent data use and sharing across organizations. This issue is exacerbated by the absence of uniform measurement units for key concepts like biodiversity, which encompasses genetic variety and species count, both of which can vary significantly by region.</p> <p>Ecosystems are dynamic and influenced by changing abiotic factors such as geographical features e.g. rocks, mountains, valleys, rivers, using simple metrics like species count or genetic diversity per unit area creates inadequate measurements.⁵³</p>	<p>Limits standardization of data and creates more isolated operations by promoting confusion around standard terminology.</p>	<p>Results in limited or complete lack of data to use as a baseline for current nature-positive initiatives or for funding applications.</p>

TABLE 3 | Limitations to cities' enabling environment (continued)

Enabler	Limitation	 Impact on nature mainstreaming	 Impact on nature-positive finance
 Stakeholder engagement	<p>Unfamiliarity with investment topic</p> <p>Limited and jargon-heavy communication about the benefits and impacts of investing in nature has left institutional investors poorly informed about the technicalities and associated risks.</p> <p>This results in fewer projects being developed and fewer successful business models globally, as nature projects are often tailored to specific circumstances and locations. Additionally, investors struggle to assess the nature impact of potential investment opportunities, which affects their investment criteria.⁵⁴</p>	<p>Limits the ability of financiers to raise awareness on alternative engineering solutions (such as nature-based or combined approaches) and hampers the development of new, impactful and innovative solutions that have a positive impact on nature.</p>	<p>Deprioritizes the urban nature agenda, as national governments prefer to finance initiatives that have large environmental impacts and operate on a large scale.⁵⁵</p>
 Capabilities	<p>Capacity constraints</p> <p>Governments often face resource constraints, which can hinder their ability to effectively use the skills and capabilities present within their own workforce when applying for project funding.</p> <p>This limitation necessitates significant technical support from MDBs throughout the due diligence and appraisal process.^{56,57,58,59,60}</p>	<p>Introduces challenges with using complex financial instruments such as green bonds, which require extensive due diligence processes that may take up to eight months.⁶¹</p>	<p>Creates difficulty with structuring projects that meet MDB environmental and social safeguards objectives.⁶²</p>



Despite the significant challenges cities face in accessing nature finance, there is a unique opportunity for transformation. Banks are beginning to recognize the importance of nature as infrastructure, and through the development of proof-of-concept projects, can mobilize finance towards infrastructure projects that benefit nature. In regions such as the Asia Pacific, where the demand for infrastructure continues to grow rapidly, a drastic 60% of wildlife populations have been lost and natural ecosystems have been severely degraded,

limiting their ability to absorb and withstand climate shocks. Nature-positive infrastructure and increased finance for nature is a cost-effective solution to addressing climate and economic challenges.

As cities increasingly recognize the economic, social and environmental value of nature finance, the desire to address challenges in their enabling environments will grow. These shifts promise to bridge financing gaps, drive sustainable development and facilitate greater urban resilience.

4.3 Emerging initiatives and progress

“ Fewer than 20% of the largest 500 cities in low- and middle-income countries are deemed creditworthy in their local context.

Despite these challenges, financial institutions are demonstrating a commitment to scale nature finance. The investment opportunity of nature action is considerable, providing a clear incentive to mainstream nature into business-as-usual activities. Championed by the MDB sector reforms, new initiatives aim to strengthen subnational performance and increase the attraction of finance.

Creditworthiness reforms and initiatives

Creditworthiness is not equal across all cities and regions. Cities in low- and middle-income countries are at particular risk of missing out on finance. The World Bank estimates suggest that fewer than 20% of the largest 500 cities in low- and middle-income countries are deemed creditworthy in their local context.

Global financial architecture reforms are working to close this divide by boosting liquidity for investments in renewable energy and sustainable food systems through measures that:

- Ensure MDBs adopt a new risk model to attract greater private finance flows to low- and middle-income countries.
- Encourage more efficient use of balance sheets by member states.
- Expand eligibility criteria for concessional financing to increase availability for vulnerable economies.

Additionally, financial institution initiatives, such as the World Bank’s City Creditworthiness Initiative, help city leaders develop an action plan that evaluates the enabling environment. These action plans must consider the financial, capacity and institutional reforms necessary to deliver infrastructure services and provide capability-building and technical support to improve regulatory frameworks within a city’s context.⁶³

CASE STUDY 1

Kampala

Overview: In 2012, the city began to improve its creditworthiness by addressing challenges such as poor revenue collection and management, weak governance and overdependence on government transfers.

Solution: The city developed a strategic plan that addressed capacity building, financial management and interaction with external

organizations to improve municipal revenues through efficient billing processes, better accounts and records management.

Outcome: One year after implementation, revenues increased by 86%, improving revenue from UGX 98.8 billion (Ugandan shillings) to UGX 226.5 billion in three years.

Creditworthiness reforms are pivotal in helping cities strengthen their ability to attract more finance by creating investment opportunities that are financially favourable for nature investments and

greener infrastructure investments. Creditworthiness programmes are also a valuable way for MDBs to provide cities with technical support and upskill local workforces on highly specialized topics.

Loans not backed by sovereign nations

The model for introducing non-sovereign-backed guarantees for loans has been deployed by the European Investment Bank (EIB) in creditworthy European cities.

The Inter-American Development Bank (IDB) is deploying this tool to attract greater investment into borrowing countries, particularly in sectors that the private sector has difficulties accessing. As part of the general practice for loans to subnational entities, the bank usually requires a sovereign guarantee. If the borrower (in this case the city) can demonstrate financial autonomy or capacity to repay resources on agreed terms, the bank may not require a sovereign guarantee.

These terms are particularly beneficial for urban nature investments, as they offer cities the opportunity to seek finance without the involvement of the national government, which may have nature objectives that are not necessarily aligned with those of municipalities. The IDB's terms are beneficial also for providing the private sector with avenues and opportunities to invest in nature in lower risk circumstances.

The use of non-sovereign-backed loans is advantageous in helping cities identify and target nature solutions that are the most beneficial to their urban contexts without having to adopt nationally

defined objectives. Non-sovereign-backed loans also enable cities to undertake programmes or projects that may be more innovative and entail greater risk, such as advanced green technology solutions.

Country platforms

Country platforms are government-led partnerships that exist to unlock international finance and align sectors on international objectives such as climate action using interdisciplinary frameworks. Integrating MDB task forces into country platforms could be an effective method of enabling MDBs to advocate for clear nature-positive strategies, including at the subnational scale.

MDBs have pledged to support country-led platforms and improve coordination for development, integrating policy reform, blended finance, and technical assistance for national governments. These developments present an opportunity for cities to advance their own agendas concerning environmental and nature policies and objectives, which can be effectively championed through these country platforms.

MDB participation in country platforms is a vital mechanism for advocating for the role of nature in cities and promoting the use of innovative policies, governance structures, and innovative investments as a means to mainstream nature across all levels of government operations.

CASE STUDY 2

Detroit and Moody's

Overview: In 2014, Detroit was facing economic decline due to diminishing population and declining job market, as well as high levels of municipal debt and socioeconomic challenges that led to the city's bankruptcy. The city's creditworthiness was assessed as being at Caa3, which is classed as default imminent with little prospect of recovery.

Solution: The city developed a plan of adjustment with Moody's that would help the city to restore basic services and strengthen major economic indicators. A plan of adjustment is a document that outlines how a debtor will address various creditor claims.

Outcome: Since this was established, the city was able to exceed expectations in the plan including:

- Growth in resident employment by 1.1% on average (resulting in 24,000 new jobs).
- Growth in property values by 94% across 10 years.
- Growth in income taxes by 5%, generating more revenue for the city.
- Change of credit rating from bankruptcy to investment grade, rating the city as Baa2 in 2024.⁶³

5

Addressing the limitations of nature finance

Addressing existing limitations to cities' enabling environments will help unlock strong MDB bilateral arrangements, catalysing private sector funding.



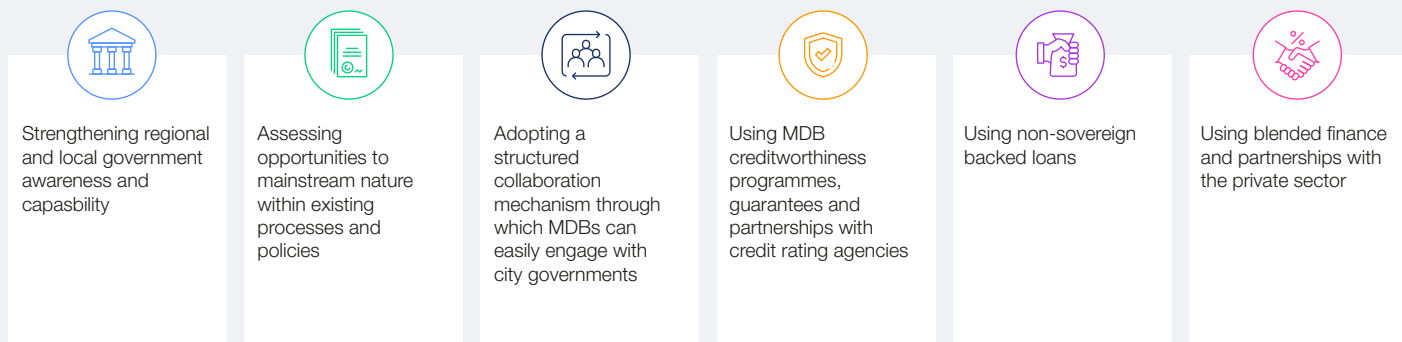
A multilateral approach to urban development is fundamental. National governments, subnational governments, private sector financial institutions and companies, non-government entities and international organizations such as MDBs all contribute to making cities liveable and prosperous.

To appropriately involve all these stakeholders and to elicit the greatest impact for nature, local economies and people's well-being, nature finance must be

addressed through its two opportunity fronts: nature mainstreaming and nature-positive finance.

Addressing existing limitations to cities' enabling environments will also help local governments unlock strong MDB bilateral arrangements, which catalyse private sector funding. Six opportunities can help cities increase their nature-positive footprint within their urban bounds and embed nature across all processes. (see Figure 9).

FIGURE 9 Opportunities for strengthening nature finance in cities



Source: World Economic Forum analysis.

5.1 Strengthening regional and local government awareness and capability

As cities continue to urbanize, they will have to consider nature-based solutions as a low-cost and effective form of infrastructure. Urban growth and expansion will continue to have a deleterious effect on the natural systems that cities depend on. At present, project developers struggle to convey the values and co-benefits of financing nature as urban infrastructure, and argue that greater awareness among financiers is necessary.

Understanding the impact of urban development on nature, and the risks associated with nature loss, will enable cities to implement mechanisms to embed nature in project evaluations and cross-sector city initiatives.

Opportunities for cities

Cities can increase their awareness and technical knowledge of nature infrastructure solutions and the added values and co-benefits of investing in nature by:

- Developing context-specific training programmes for staff, using information gained through a baseline assessment of current capabilities across government.
- Forming partnerships with other cities through global communities such as C40 or the African Natural Capital Alliance to promote learning and collaboration.
- Increasing nature-related training and skill development among public sector employees.
- Hiring environmental, biodiversity and ecology specialists to advise on infrastructure development initiatives.
- Establishing knowledge-sharing platforms and partnerships to promote government strategies and objectives and share progress.

\$7 trillion

is invested globally each year in activities that have a direct negative impact on nature from both public and private sector sources.



5.2 Assessing opportunities to mainstream nature within existing processes and policies

Mainstreaming nature within existing processes, policies and structures offers cities a unique opportunity to enhance environmental resilience, improve public health, and promote community well-being. By recognizing the intrinsic value of natural ecosystems and their services – such as air and water purification, climate regulation and biodiversity preservation – city officials can advocate for more targeted nature-related criteria when it comes to planning, designing and deploying urban development projects.

Mainstreaming nature is ensuring that urban governance holistically incorporates water, land, air, ocean and biodiversity considerations, and that regulations and policies are designed with nature in mind. Embedding nature into government processes and policies also improves public advocacy and engagement on nature-related initiatives and promotes nature stewardship.

Opportunities for cities

Cities can strengthen their understanding of their nature dependencies and introduce nature

considerations throughout their governance and processes by:

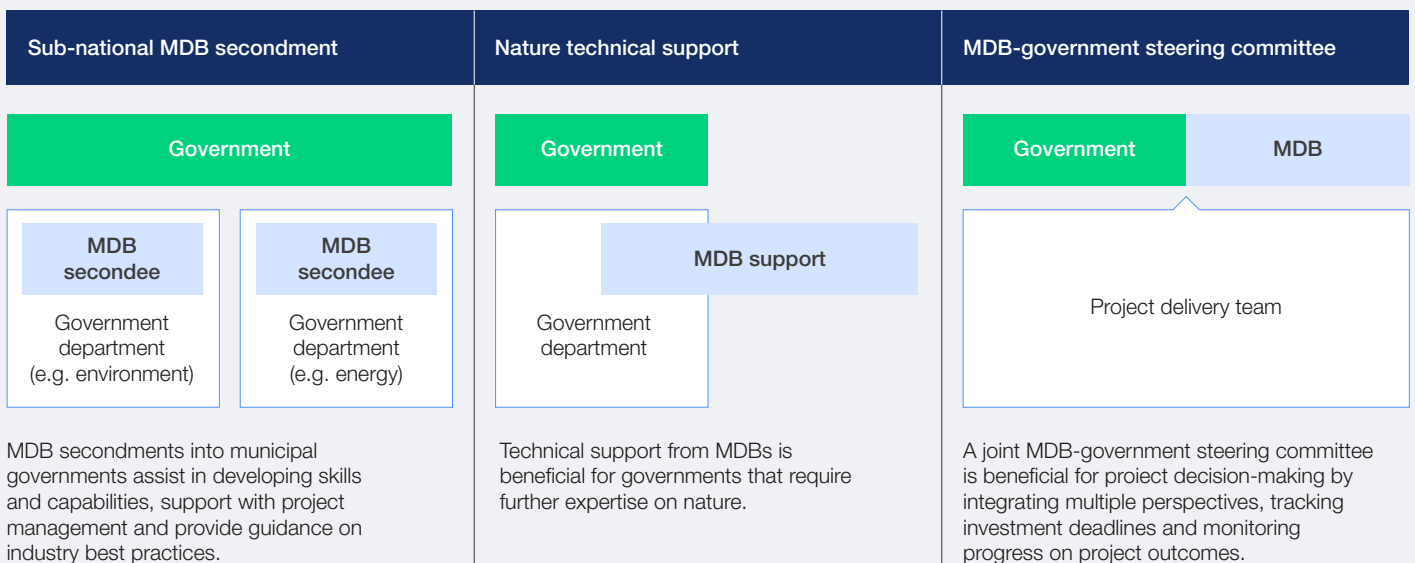
- Conducting a systematic review of current policies, processes and frameworks to assess opportunities to improve cities' relationships with nature.
- Introducing interdepartmental collaborations to ensure nature management is not isolated, and all relevant departments maintain ownership over their nature realm (e.g. freshwater, land, ocean and biodiversity).
- Introducing nature-positive policies that both encourage and incentivize direct investment in nature in cities, but also disincentivize harmful investments.
- Implementing a method to regularly track and evaluate progress against city nature objectives.

5.3 Adopting a structured collaboration mechanism through which MDBs can easily engage with city governments

Structured collaboration between cities and MDBs may be beneficial, such as adopting a mechanism that simplified the management of MDB relationships and which can aggregate and disburse

funds. Governments and MDBs share common objectives and stand to gain from collaborating on projects and upskilling municipal public sector workforces in a variety of ways (see Figure 10).

FIGURE 10 Models for MDB-government collaboration

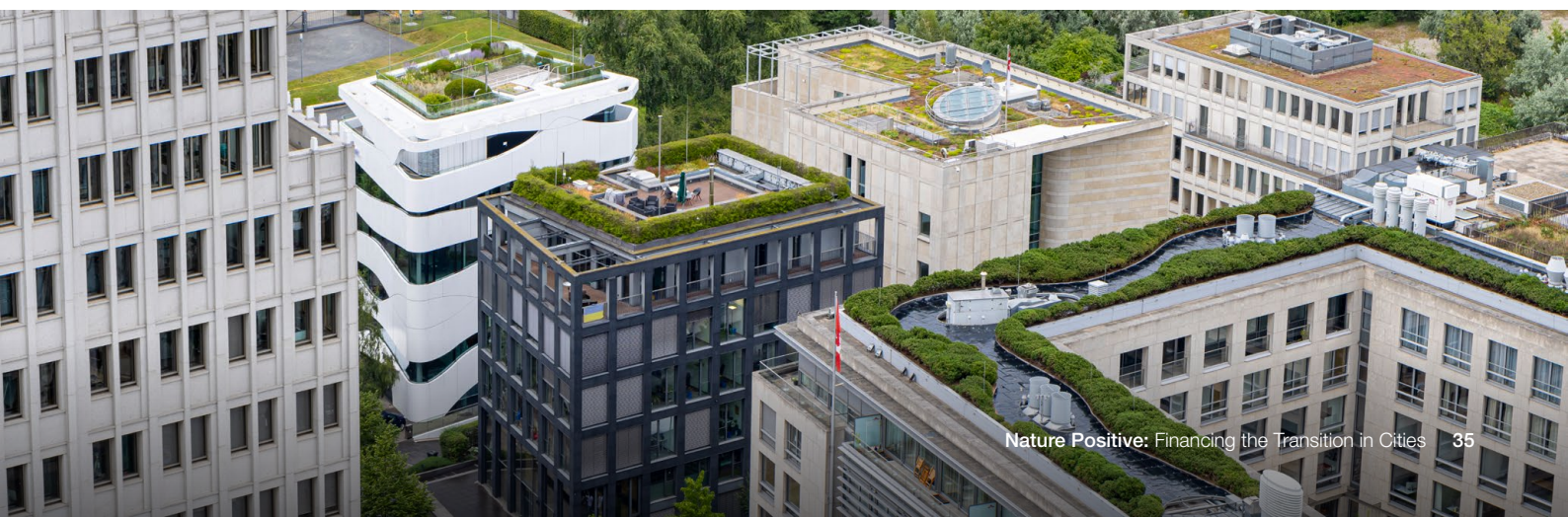


Source: World Economic Forum.

Opportunities for cities

Cities can adopt a more structured collaboration with MDBs by:

- Introducing secondments for MDB employees in subnational governments across nature-related departments and agencies to strengthen interest in attracting nature finance, and to embed nature considerations in governance structures.
- Enabling more technical support from MDBs for nature-positive solutions, as well as for maintaining an ongoing dialogue and interaction with MDBs.
- Establishing an MDB steering committee within each programme/project leadership team to oversee the implementation of programmes and initiatives to limit harm to nature.



5.4 Using MDB creditworthiness programmes, guarantees and partnerships with credit rating agencies

Credit guarantee programmes help to derisk borrowing for cities that are not creditworthy; fewer than 20% of the world's 500 largest cities in the developing world are deemed creditworthy.⁶⁵ For cities to limit their reliance on national governments for funding for urban development, they must take steps towards increasing their creditworthiness.

Cities should use guarantee funds, technical support and creditworthiness initiatives developed by MDBs, or form partnerships with credit rating agencies such as S&P and Moody's to develop new risk scores for climate and biodiversity.

Opportunities for cities

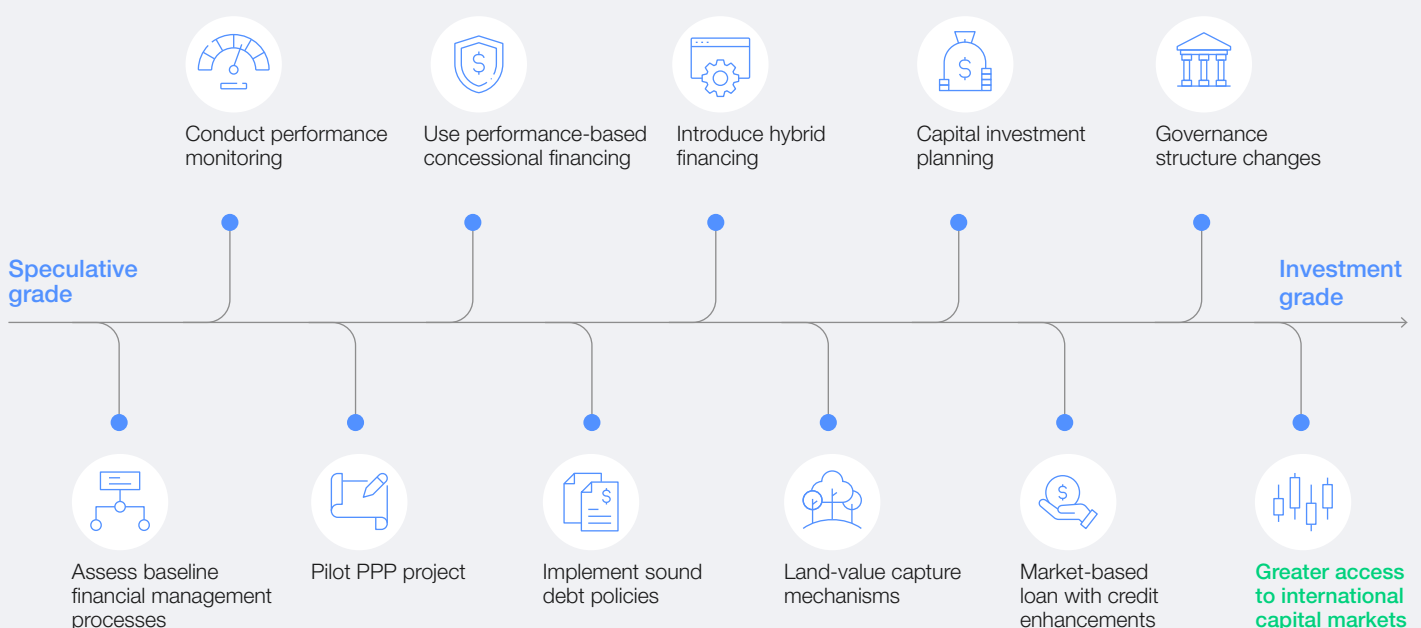
There are a range of interventions that cities can adopt to move towards attaining an investment grade credit rating. These include:

- Conducting a baseline assessments of conditions, which can be done through the [World Bank self-assessment tool](#).
- Using a guarantee fund to raise credit rating and gain access to better borrower terms.
- Developing capital investment plans, ensuring procedures and budget cycles align.

- Coordinating with central government to improve the enabling environment (e.g. policies and governance).
- Developing project pilots to test proposals and scale successful solutions.
- Incorporating credit rating agencies into strategic planning processes, ensuring goals and milestones are tied to agency objectives.
- Improving credit risk management processes through regular financial reviews of statements, cashflow projections and incorporating risk mitigation strategies.
- Improving investor relationship management to highlight credit rating and actions to improve credit ratings.
- Optimizing debt financing to enable accessing of debt at lower interest rates.
- Conducting regular benchmarking and peer comparisons to evaluate performance and monitor ratings.

Actions to improve creditworthiness from speculative to investment grade are shown below.

FIGURE 11 Actions to improve creditworthiness score from speculative to investment grade



Source: World Bank. (n.d.). *The Path to Credit Worthiness*; World Bank. (n.d.). *City Creditworthiness Initiative*; C40 Cities Climate Leadership Group. (2016). *Good Practice Guide to Creditworthiness*.

5.5 Using non-sovereign-backed loans

As cities with financial autonomy may struggle with accessing government finance, cities in low- and middle-income countries may face challenges associated with credit and regulatory considerations. The two largest guarantee funds, GuarantCo and the World Bank's Multilateral Investment Guarantee Agency (MIGA), provided only 1 out of 71 guarantees to sub-national governments.⁶⁶

New funds are being developed and paving the way for further subnational engagement, however. Key funds include CITYRIZ (Agence Française de Développement) and the Guarantee Facility for Sustainable Cities (UN Capital Development Fund and the EU).

Non-sovereign-backed guarantees for loans enable cities to maintain independent relationships with MDBs, and to attract and use finance for nature as they see fit. This limits cities' reliance on national governments to back high-risk loans and stipulate restrictive conditions on the loan's use.

Opportunities for cities

Cities can access non-sovereign-backed loans and develop the appropriate support framework for project implementation by:

- Understanding the options for different non-sovereign-backed loan products.
- Developing a suitable project proposal to use the non-sovereign-backed loan.
- Demonstrating a plan for assessing and mitigating risks and challenges throughout a project timeline.
- Identifying opportunities for partnerships with private sector and community involvement.
- Ensuring appropriate environmental standards are assessed and met.

5.6 Using blended finance and partnerships with the private sector

“ The two largest guarantee funds, GuarantCo and the World Bank's Multilateral Investment Guarantee Agency (MIGA), provided only 1 out of 71 guarantees to sub-national governments.

Blended finance and private sector partnerships are effective methods for cities to limit their reliance on national governments. This is particularly helpful in scenarios in which administering higher taxes or sourcing alternative public funding is challenging.

Blended finance has been shown to increase the commercial viability of Sustainable Development Goal-related investments by improving the risk-return profile via risk mitigation tools and the project profile through technical assistance.

For PPPs, a project company or special purpose vehicle (SPV) is established for the delivery of a project. This model works well as it strengthens investor confidence and brings in expertise on financial capital.

Opportunities for cities

Cities can look to increase private capital flows through blended finance by:

- Identifying potential projects that could benefit from blended finance or the use of PPPs for nature.
- Developing a framework for how the city uses blended finance with partners.
- Identifying and engaging private sector partners and deploying market incentives, such as policies which encourage private sector participation and involvement in the nature sector.

Conclusion

As urban centres continue to expand, they face the dual challenge of facilitating economic growth while safeguarding the planet's biodiversity and natural habitats. Unchecked urban sprawl not only threatens these vital ecosystems but also heightens the demand for raw materials and natural resources essential for infrastructure development. To navigate this complex landscape, it is imperative for city leaders to embed nature into urban development policies and to mainstream nature across all investment decisions. This approach not only enhances environmental sustainability but also delivers significant socioeconomic benefits, bolsters resilience and improves risk management strategies within cities.

Currently, the global momentum towards nature-positive finance in cities falls short of what is necessary to fulfil the objectives of the Rio Conventions – international agreements aimed at conserving biodiversity, mitigating climate change and combating desertification. A mere 0.3% of global urban infrastructure spending is allocated to nature-based solutions, and only 37% of the world's 500 most populous cities have specific strategies in place to sustainably manage and protect nature. Just 20% of those 500 cities are deemed creditworthy, meaning that no matter how strong their commitment to nature is, they will systematically struggle to finance their transition to a nature-positive development model.

Global calls for urban development in harmony with nature continues to grow as climate hazards become more frequent, and the connections between nature contributions and prosperous and resilient urban living are made more evident.

Positive changes in cities can be achieved through identification and scaling of new finance opportunities for nature conservation and regeneration (nature-positive finance), and by incorporating nature across all finance flows for urban development (nature mainstreaming).

While the focus on innovative financing tools and mechanisms is vital, cities must also prioritize transparency, accountability and capacity building as foundational elements for effective financial management in biodiversity conservation. Simply increasing funding is not enough; robust governance frameworks and transparent tracking of expenditures are essential measures to ensure that resources are used efficiently and yield meaningful outcomes for all nature realms: land, ocean, air and biodiversity.

Local governments are uniquely positioned to implement practical, context-specific solutions that prioritize nature regeneration as a means to reduce climate related risks, improve local economies and enhance citizens well-being. However, significant barriers hinder the development of nature-positive solutions, such as fragmented governance structures, unattractive policy frameworks, inadequate nature valuation, unfamiliarity on nature topics among investors, and inconsistencies in data and terminology.

To overcome these challenges, a series of targeted opportunities are proposed:

Enhancing regional and local knowledge:

Strengthening the understanding of how to incorporate nature as a fundamental component of urban infrastructure.

Leveraging non-sovereign-backed loans:

Using innovative financing options to support nature-positive urban growth.

Engaging with MDB creditworthiness

programmes: Building partnerships with credit rating agencies to enhance access to finance.

Exploring blended finance models:

Collaborating with the private sector to unlock additional resources for nature-positive investments.

Establishing structured collaboration

mechanisms: Facilitating ongoing and strengthening existing engagement between city governments and MDBs to streamline support and investment.

As cities create an environment that is more conducive for sustainable development finance and rewarding for investment, they will forge deeper connections with MDBs and private sector investors, ultimately enabling greater flows of finance into nature-positive urbanization.

Prioritizing nature is not merely an option; it is a necessity to prevent a future where urban living is jeopardized by ecological decline. A transformative shift in development priorities is under way as cities and related industries increasingly recognize that the vitality of natural ecosystems is intrinsically linked to the prosperity of local economies. By championing nature in urban strategies, it is possible to enhance the quality of life for all residents, create resilient communities and secure a sustainable future for generations to come.

Appendix

Methodology and data

Methodology

For this analysis, public project data from seven banks (listed below) was collated and aggregated to form a perspective on MDB financing towards nature-related urban development. (see Figure 12 and Table 4).

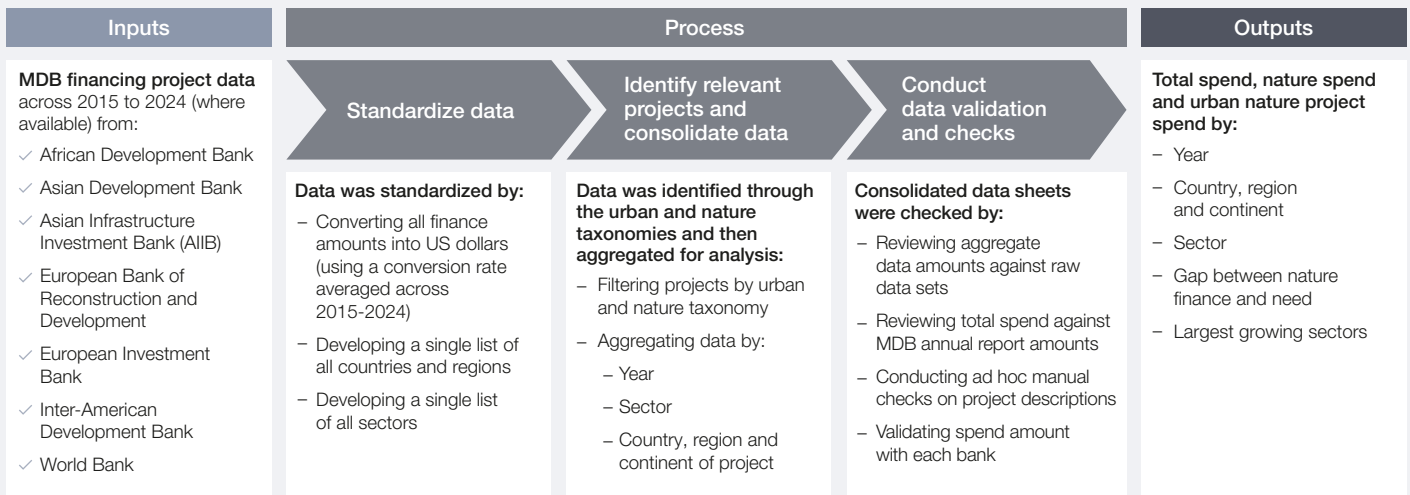
This report estimates:

- Total urban nature official development assistance (ODA) into cities.

- Urban nature finance flows by sector and region.

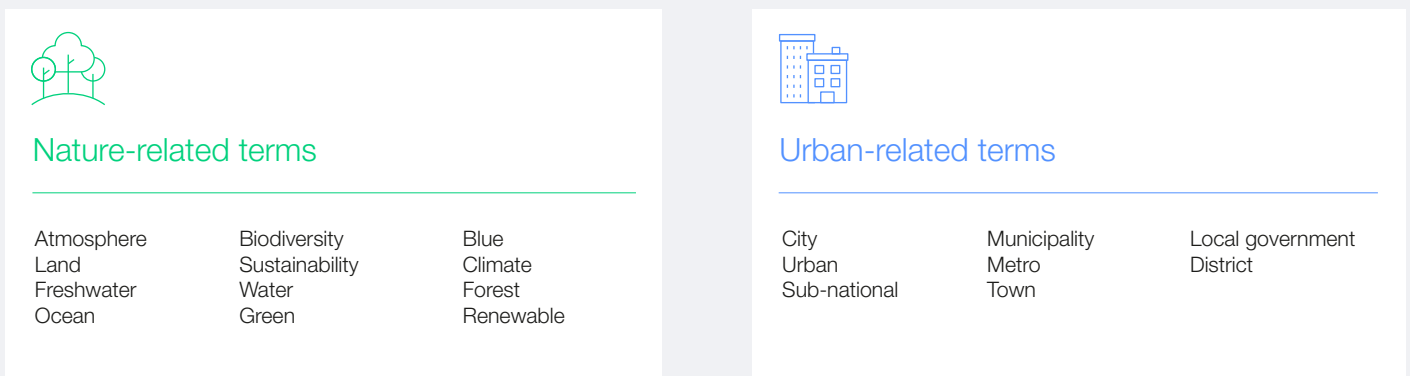
Nature- and urban-related terms were all validated with the MDBs, to ensure there was accuracy in the tagging of projects as urban nature projects. Projects that were both nature-related and urban-related were counted as urban nature projects. (see Figure 13). A taxonomy for nature-related and urban-related terms was used to filter project data in order to understand spend on nature and on urban initiatives, respectively.

FIGURE 12 MDB Project data analysis methodology



Source: World Economic Forum.

FIGURE 13 Taxonomy of nature and urban terms



Assumptions

TABLE 4 Data analysis assumptions

Assumptions	
1	<p>Only finance for approved projects has been considered. These terms vary across MDBs, but the terms included were:</p> <ul style="list-style-type: none"> – Approved – Active – Fully disbursed – Fully reimbursed – Closed – Ongoing – Complete/completed/completion – Disbursing – Repaying – Signed
2	Finance for banks was aggregated from 2015-2024, however, data from AIIB was not available for 2015.
3	Nature and urban taxonomies were applied to project descriptions for all banks to understand whether projects had a nature impact.
4	<p>Currencies were all converted into US dollars using an average currency of US dollars between 2015 and 2024, as of 4 September of each year.</p> <p>The exception was the Croatian kuna, which was replaced by the euro in 2023 and only a single data point (2022) was available.</p>
5	Countries listed in the project data were aggregated and unified to create a single list of countries using project data from all considered banks.
6	<p>All sector groups listed in the project data for all MDBs were consolidated into a list of 12 sectors:</p> <ol style="list-style-type: none"> 1. Agriculture, forestry, land use and fisheries 2. Cross-sectoral activities 3. Energy and mining 4. Environment 5. Financial sector 6. Industry, manufacturing and trade 7. Information and communications technology 8. Infrastructure and built environment 9. Institutional capacity support and technical assistance 10. None 11. Transport 12. Water and waste management.
7	If a project was considered an urban nature project, the entire sum of the project was counted.

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