

Unlocking And Scaling Investments In Nature

- Industry and investors can reach Net Zero targets and contribute to CO2 reduction by investing in nature based climate solutions to decarbonize and mitigate climate change.
- Nature based climate solutions absorb carbon at a lower cost and greater scale than human-made tech solutions
- For corporates, investing in nature based climate solutions is in *addition* to the corporation's overall strategy to avoid and reduce CO2 emissions and the environmental impact of the business
- Climate investing has the characteristics of an early adopters' market, such as lack of common terminology, lack of transparency, and too many competing standards
- But things are changing quickly. There is a sense of urgency merging the "will and capital" needed to drive change -- at scale and in time.
- Entrepreneurs are making the sourcing, assessment, and monitoring of nature based solutions (NBS) easier, while investors are expected to become better informed and more collaborative.
- Banks have an influential role to play that is still unrealized

These were some of the key points made at [Unlocking And Scaling Investments In Nature](#), a recent Swiss INSEAD Alumni Entrepreneurship Club event. Alumni also heard about how nature based solutions fit into climate investing markets and the alternative asset universe, what the investment, or buyer side looks like today, and the characteristics of the seller side.

How Nature Based Solutions Fit into the Decarbonization Market

Investing in forestry and nature conservation is an established activity, part of the alternative asset class universe, but investing in nature because of its ability to absorb and store carbon, basically as a way to mitigate climate change, is new.



The event featured three panel members (from left to right): **Natascha Lander**, Co-Founder & Partner, B.E.L.I.E.V.E, **Jamie M. Lawrence**, Co-Founder & Forest Strategy Lead, Xilva AG, **Erik Ringvold**, MBA'18J, Associate Partner, McKinsey & Co., in a discussion moderated by **Lorenzo Garofano**, MBA'07D, Co-Founder Xilva AG (far right).

To avert climate-related disasters caused by CO2 in the atmosphere, there are three ways to invest in decarbonization, listed below. Nature based climate solutions fit into the avoidance and carbon removal categories.

- Avoidance (stopping deforestation and increasing conservation areas)
- Reduction of CO2 emissions (by using renewable energy sources and improving energy efficiency)
- Carbon removal (such as direct air capture, natural carbon sinks)

Carbon Credits and Voluntary Carbon Markets

Climate investing has enormous potential and voluntary carbon markets are key. There has been an upswing in carbon credit activity and volume in recent years. However, the volume must increase dramatically to make the kind of changes required to meet net zero and negative emissions scenarios, according to recent McKinsey & Co. research on the subject (link to download Erik Ringvold's [presentation](#)).

What are Nature Based Solutions (NBS)?

NBS are broad interventions (or solutions) that address society's needs for water, food, health, and protection from weather-related risks. A subset of NBS, nature based climate solutions address the biggest challenge facing society: climate change caused by CO2 emissions.

By absorbing or drawing down CO2, plants, forests, wetlands, soil and peatland are key parts of the solution. The sequestering process can be measured, verified, and certified to earn carbon credits.

Some NBS offer other ways to earn returns, such as harvesting timber.

Carbon credit pricing is a window into the costs, quality, and maturity of emerging climate solutions. The value attributed to carbon credits ranges anywhere between €1/ton to €2000/ton. Nature based climate solutions can be developed at a relatively low cost, as low as €3 per ton in the avoided nature loss category. For example, timberland projects in certain regions have high potential at a reasonable cost, such as the Amazon, Congo basin and Indonesia. Additional potential exists in Northern countries, such as Canada and Sweden, particularly for reforestation projects.

Timberland and managed forests are quite well understood by investors, but there are many more solutions to be found in this

category. For example, water catchment, coastal buffer zones; biodiversity solutions are emerging with talk of a \$2/ton carbon credit bonus for the additional biodiversity impacts.

Reforestation and food systems interventions are particularly attractive because of their additional benefits, and they are considered to be cost-effective when compared to the cost of other carbon removal approaches.

Regardless of the type of intervention, or the location, the key to generating value is to involve local communities, involving and benefitting the people who are actually caring for the natural resources. The local communities and landowners must benefit from the project-related revenues. This will ensure the kind of long-term carbon sequestration needed.

Early Investors

In the meantime, the early adopters of voluntary carbon credits, or investors, fall into four categories, listed below.

- Corporates on the path to Net Zero E.g., Microsoft is paying €2000/ton for carbon credits from emerging mechanical carbon capture solutions
- Institutional investors seeking impact returns
- Philanthropic (values-driven) investors
- Private capital investors

The Seller Side of the Market

Nature based climate solutions generate both financial returns and positive social, environmental, and economic effects for asset owners and stakeholders. Some of the seller side challenges discussed by the panel are listed below.

- There is a need for a single standard or set of standards for quality carbon credits
- Lack of common terminology
- Lack of transparency for both buyers and sellers
- Need for better access to tech or other solutions, especially those that address pain points in the market
- Some buyers are commodity seekers. They are still looking for “shovel ready” carbon. This contrasts with what is actually needed: a “contributing” mindset where buyers become active developers of carbon credit pipelines.
- Lack of investors for small companies and projects: it is easier to raise €100M than to raise the smaller amounts

Future Market Development

Despite the challenges, there are many opportunities for entrepreneurs to make climate investing as straightforward and accessible as other alternative asset classes. What is more, the banking sector could play a greater role in climate investing than anyone in the financial industry realizes yet.

Banks are well-positioned to create instruments, such as green bonds, non-listed NBS funds, and listed NBS funds. They have the resources (customers, systems, securitization experts, and risk management experts) to do it at scale and relatively lower costs than other institutions. The panel agreed that the opportunity for the banks that take the lead is both commercially interesting and good for the environment.

Related Links

[Intro to Carbon Markets](#) (pdf) shared by Erik Ringvold, McKinsey & Co.

[Xilva Company Presentation](#) (pdf) shared by Jamie M. Lawrence, Xilva AG

Event Recording <https://www.insead.ch/archives/24089> Access code: **NBXILV22a**

Links to Youtube and papers shared by speakers <https://www.insead.ch/archives/24124>