

Markets, Financing and Incentives for Nature-based Solutions (NbS): Nature-based Enterprises Analysis

About this brief

This brief presents insights of the **survey findings and an analysis of the nature-based enterprise market sector** with reference to financing, including:

- ▶ Characteristics of surveyed NbEs
- ▶ Overview of market opportunities for NbEs
- ▶ Analysis of the distribution of financing sources in NbE
- ▶ Financing needs, challenges and barriers faced by NbEs
- ▶ Policy recommendations to enhance NbE access to financing

For more details and sources, read Chapter 6 of the Invest4Nature report:

Markets, Financing and Incentives for Nature-based Solutions (Deliverable 3.3)

➤ [Read the full report](#)

Context

Currently, there is a range of nature-based solutions (NbS) emerging, primarily supported by strong public funding, but a comprehensive market for NbS has not yet emerged. Despite the growing prominence of NbS in scientific and policy discussions, information and evidence pertaining to successful financing and incentive mechanisms remain fragmented and not readily accessible.

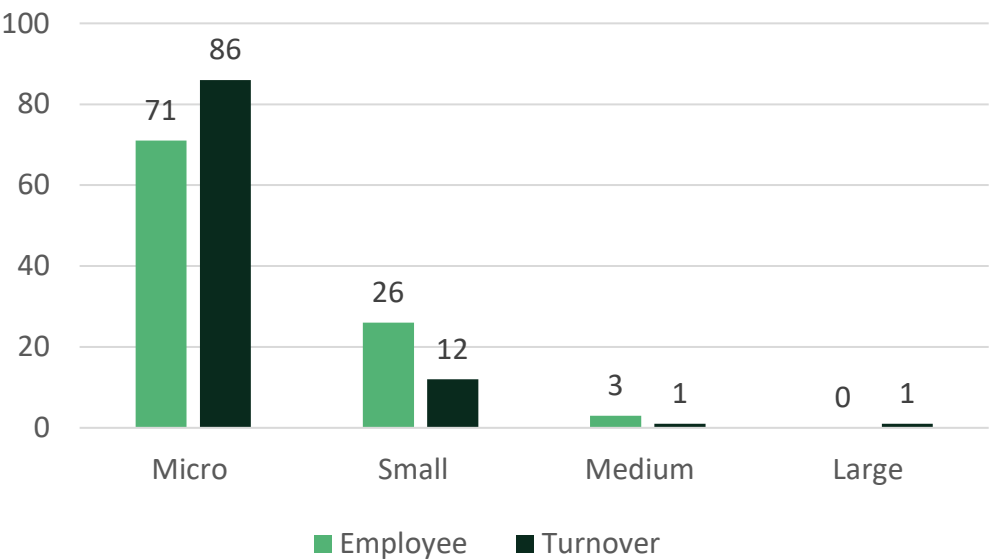
To address this gap, Invest4Nature has mapped the current state of the market for financing NbS in a full report to **explore the potential for increasing private sector engagement**. This includes a systematic literature review of the state-of-the-art for NbS financing models and incentives and an analysis of the needs and perspectives of different market players, including the public sector, the investor community and **Nature-based Enterprises (NbEs)**.

A survey was done on NbEs which represent the **supply side of NbS**, as nature and/or NbS form the core of their product or service offerings. Their market opportunities are thus inextricably linked to market demand and financing of NbS.

The findings are contextualised in terms of small and medium-sized enterprises (SMEs) based on the 2023 report of the annual EC and ECB Survey on the Access to Finance of Enterprises (SAFE), to help frame NbE findings and identify potential commonalities or differences between the general SME population and NbEs.

Characteristics of surveyed NbEs

Size of Organisation by T/O & Staff



The EU classification of SMEs was applied to this study, to make the following distinctions on organisational size:

- ▶ Micro-enterprises: < 10 employees & T/O of ≤€2m
- ▶ Small enterprises: < 50 employees & T/O of ≤€10m
- ▶ Medium-sized enterprises: < 250 employees & T/O of ≤€50m

In terms of both employees and turnover (T/O), the majority of NbEs were deemed to be micro enterprises. Only one NbE survey respondent had a turnover that was representative of a large enterprise.

Further Characteristics

Over 60% of surveyed NbEs were established in the last 10 years (at date of survey)

Almost **one-quarter** deliver products and/or services at **all levels** - local, regional, national and international

NbE's Main Goal:

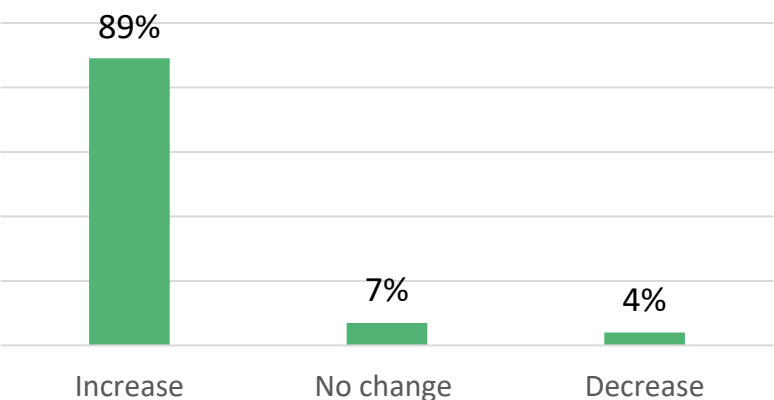
21% had an **economic** goal

10% had a **non-economic** goal (environmental and/or social)

69% had a **hybrid** goal (both economic and non-economic)

Overview of Market Opportunities for NbEs

Change in Market Demand



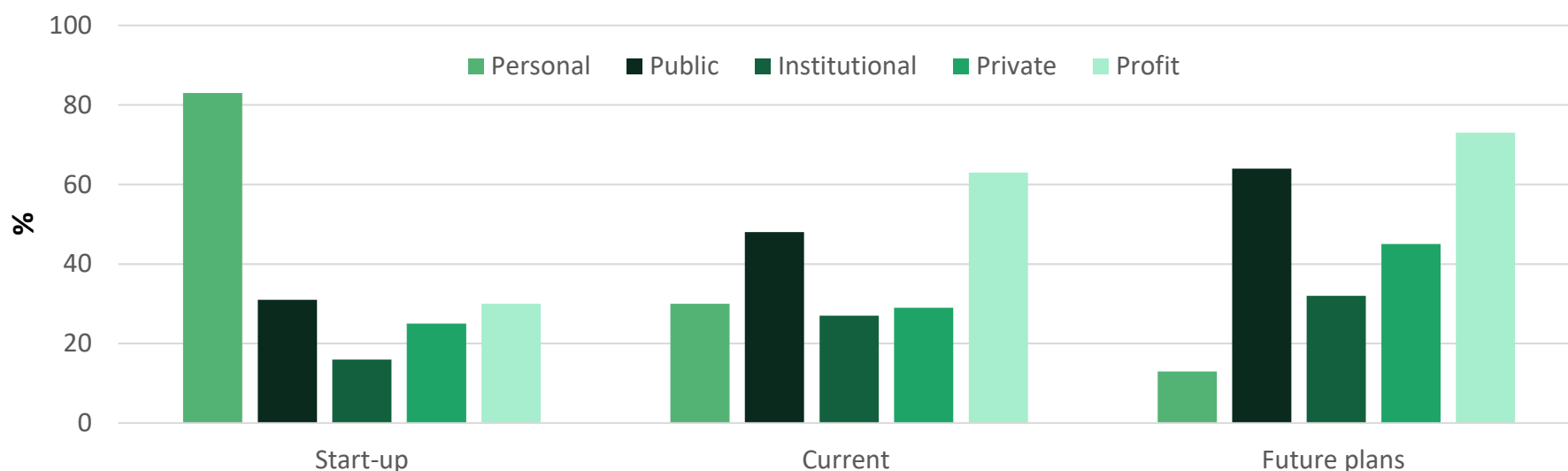
There are market opportunities for NbEs linked to an increase in demand for their products and services as well as an increase in financing for NbS.

46% stated a **strong** increase in demand

43% stated a **slight** increase in demand

Financing and Incentives

Distribution of financing sources across different stages of NbE development



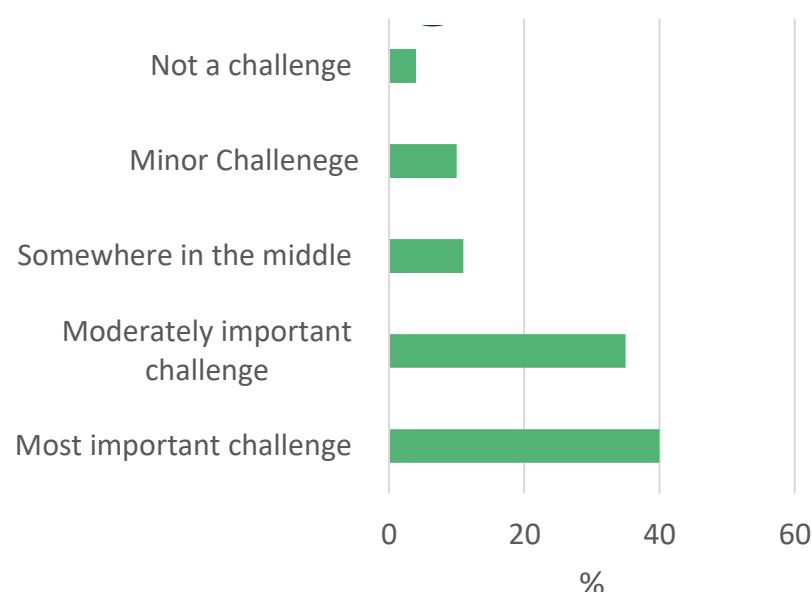
Financing over stages of development

- **Personal** financing was important at the start-up phase but diminishes in use across the three stages of NbE development.
- **Public** financing is the second most utilised mode of financing that increases steadily over stage of development.
- **Institutional** financing is lowest across first two stages, with a modest increase in use over time.
- **Private** financing grew across all three stages and is the third most prospectively utilised form of financing for future plans.
- **Profit**, reinvestment of profits generated from sales revenue, is the most utilised form of financing by NbEs, both currently and prospectively.

In comparison to the results of the [ECB Survey on the Access to Finance of Enterprises \(SAFE\)](#), NbEs in our survey were less likely to use institutional, or debt, financing than general SMEs. Moreover, general SMEs cite staff shortages, a rise in interest rates and cost of borrowing as main barriers to finance.

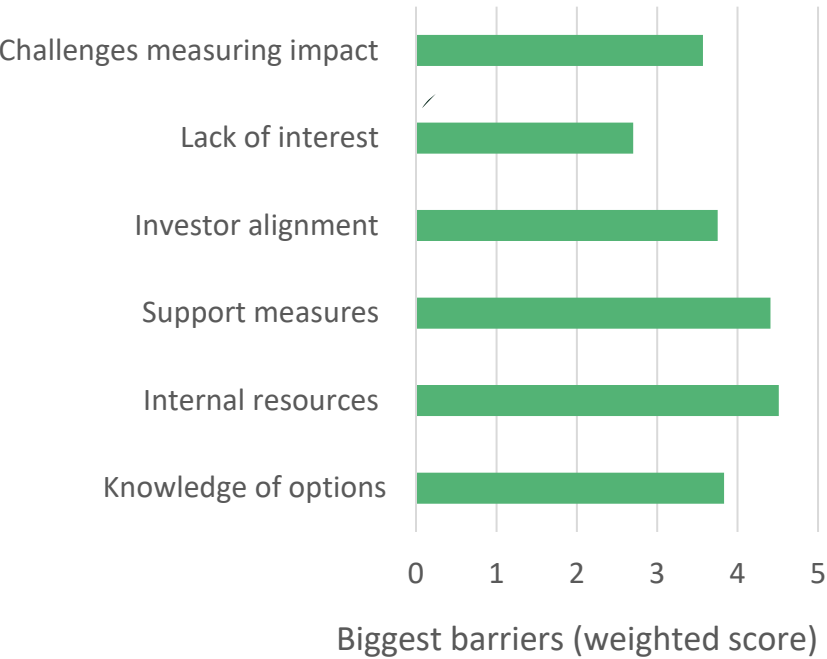
Financing challenges & needs

How challenging is financing for NbEs?



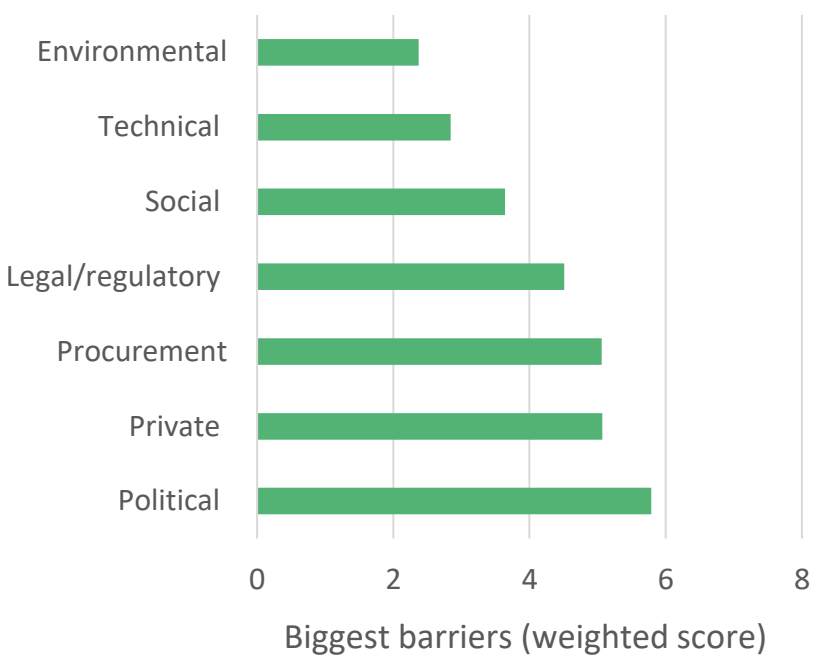
Previous research reported barriers to financing for NbEs to include a lack of financing of NbS in general, misalignment with investor interests, and over reliance on public sector financing ([McQuaid et al., 2021](#)).

Internal barriers to financing



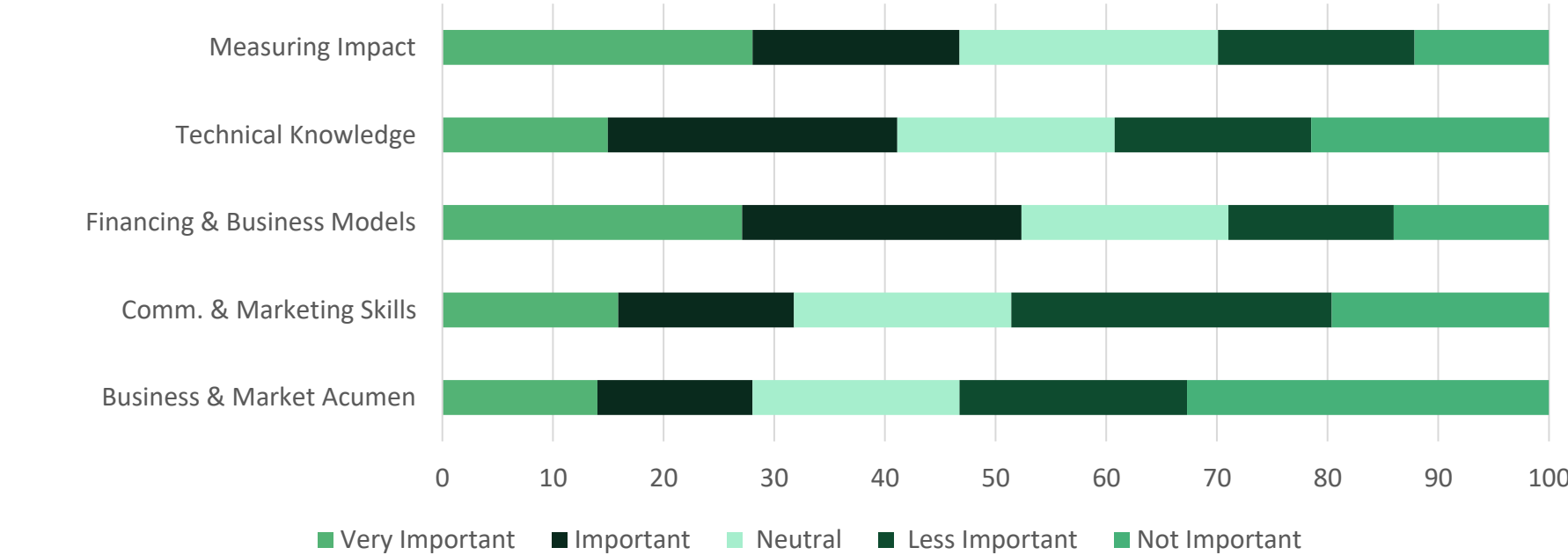
Internal resources, such as time and staff capacity, and a misalignment of **support measures** with business set-up were the top-rated internal barriers.

External barriers to financing



A lack of **political** prioritisation for investment in nature as well as a lack of **private** sector investment were among the top external barriers.

Ranking of importance of knowledge and skills in NbEs



‘Financing & business models’ and **‘measuring impact’** were the most important knowledge gaps reported by NbEs.



Policy Recommendations

NbEs need recognition from policymakers, greater stakeholder engagement with investors to remove barriers to investment, appropriate financial instruments and supportive policies, and capacity building to access different financing options.

Addressing the knowledge and skills gap

This research suggests that NbEs may **lack awareness and expertise** on the full range of financing options, and banks can be unaware of the increasing attractiveness of this industry sector.

More is needed by way of:

- ▶ **Concerted efforts** to inform **banks** and other investors about the specific needs and characteristics of nature-based enterprises i.e. the over reliance on personal financing at start-up stage.
- ▶ **Capacity building for NbEs** on accessing different financing options, triggered by their low up-take of institutional finance across all stages of development.
- ▶ **Further research** and pilots of financial instruments targeted towards NbEs.
- ▶ **Greater stakeholder engagement of investors and NbEs** to explore barriers and opportunities for increased impact investment.

While NbEs are experiencing strong market demand and optimism compared with average SMEs, accessing financing remains a key challenge and potentially a limiting factor to growth. Survey results (from the previous section) indicate that NbEs require **more support on financing and business models** to address these challenges.

Market opportunities

NbEs have **different characteristics** to the average EU SME, but economic policy makers may not be aware of these differences.

More is needed by way of:

- ▶ **Concerted efforts** to inform **policy makers** about the specific needs and characteristics of nature-based enterprises.
- ▶ **Greater recognition** of NbEs at national and regional policy level.
- ▶ **Further research** to determine the alignment of existing economic policies and instruments with the specific needs of NbEs and the potential of this sector.
- ▶ Based on new research knowledge, **new or adapted instruments** better suited to NbE needs could be piloted.

Measuring impact is consistently ranked as a key challenge and support requirement for NbEs. Given their small size, many existing impact measurement approaches are too onerous or costly for NbEs. Specific measures are needed to **adapt impact measurement approaches to the needs of micro and small enterprises** and to **provide training on the implementation** of these approaches.

