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RESOURCE

Building Investable NBS Programs: Economic & Financial Analysis

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Description / Abstract

The Module 2 of the Water Funds Toolbox by The Nature Conservancy (TNC) addresses the economic and financial analysis for building investable Nature-based solution programs.

Water insecurity is one of the greatest risks to global prosperity. Global water consumption has doubled since 1960, and by 2025, at least two-thirds of the world's population will likely be living in water stressed areas. In the future, government, utility and industry actors will be required to better manage scarce water resources and allocate them against competing needs.

Conventional interventions to secure water focus on grey infrastructure — constructed, man-made structures such as treatment facilities, stormwater systems, storage basins, dams, pipes, etc. — to transport, store and filter water for use, but nature, or green infrastructure, can perform many of these same functions, often at more cost-effective rates. Our science shows, working with nature delivers sustainable, cost-effective solutions: 1 out of 6 cities could pay for green infrastructure solely through savings in water treatment costs. There is an urgent need to mobilize the power of nature to meet water security challenges in a sustainable way.

The costs and benefits associated with constructing, operating and maintain grey infrastructure are relatively well-known and, therefore, well-integrated into current planning and lending processes. The same cannot be said for nature-based solutions (NBS). Though becoming increasingly defined, the business case for investing in nature is still an emerging field: robust examples of application in the water sector are required so that these solutions can become a trusted, mainstream alternative or addition to grey infrastructure. A business case, in the most basic sense, would provide the reasoning for initiating an NBS project.

As such, it is useful to analyze the return on investment (ROI) of a package of NBS interventions so investors can objectively compare results with grey infrastructure investments that would provide similar benefits. A return on investment (ROI) analysis refers to a common financial metric of profitability that measures the return — monetary value of the benefits the stakeholder receives — for the money they invested.

Other indicators like net present value, benefit-cost analysis, and cost-effectiveness

analysis can also indicate whether a project is a good investment. The types of indicators used will depend on factors like the stakeholders, the type of proposed investment and the potential investors. This guidance outlines the methodology for conducting financial and economic analyses, of which ROI, and the aforementioned indicators, are a component.

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