

Natural Capital Financing Facility (NCFF)

Fostering Investment in Biodiversity Conservation

Jane FEEHAN
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The EIB: the EU bank



- Natural financing partner for the EU institutions since 1958
- Around 90% of lending is within the EU
- Shareholders: 28 EU Member States

**Investing in
Europe's growth**

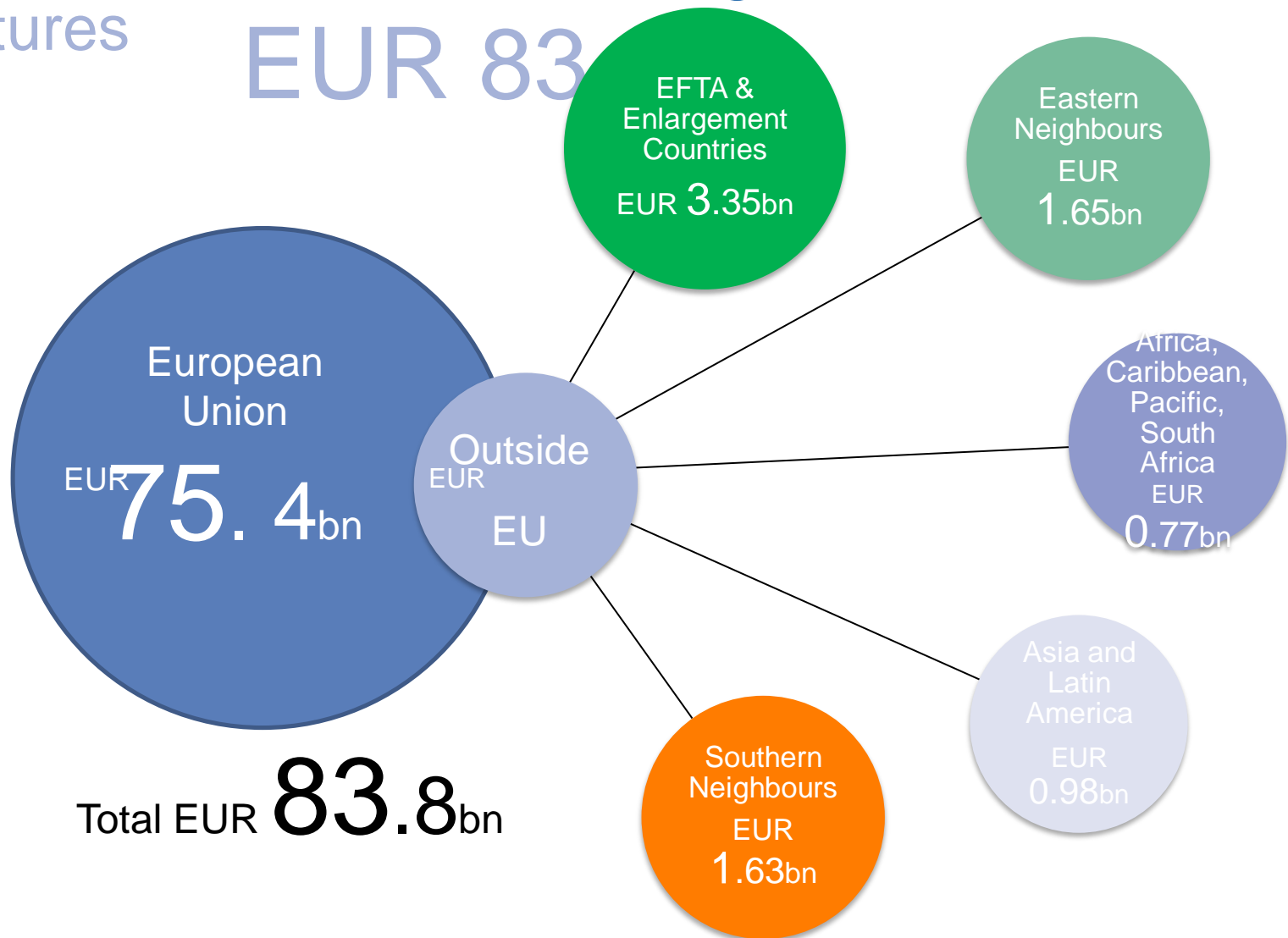
The EIB at a glance

- Largest multilateral lender and borrower in the world
 - We raise our funds on the international capital markets
 - We pass on favourable borrowing conditions to clients
- Some 450 projects each year in over 160 countries
- Headquartered in Luxembourg and has 40 local offices
- Around 3 000 staff:
 - Not only finance professionals, but also engineers, sector economists and socio-environmental experts
 - Almost 60 years of experience in financing projects

EIB Group financing in 2016:

Signatures

EUR 83.8bn



Our priorities

Environment



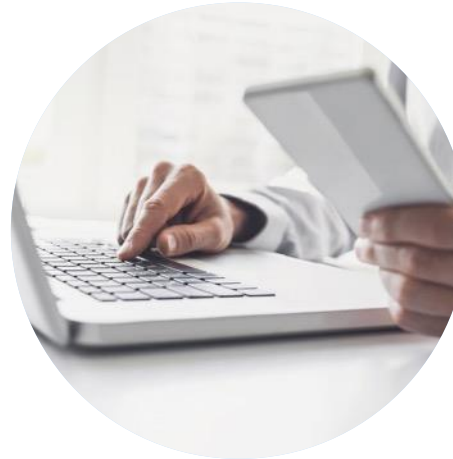
EUR
 16.9bn

Infrastructure



EUR
 19.7bn

Innovation



EUR
 13.5bn

SMEs



EUR
 33.6bn

What can the EIB do? – Financing Instruments

The EIB has an **extensive range of instruments** to finance public and private sectors at investment and sub-investment grades of risk to its disposal.

EIB lending instrument
For Investment Grade operations



EIB special activities
For Low and Sub Investment Grade operations

Banks



Public Sector
Financing

Project Finance
Direct Loans

Intermediated
Loans

Project Finance
with direct
project risk

Risk Sharing

Equity through
Funds

Project

Investing in Biodiversity:

Introducing the Natural Capital Financing Facility

What is the NCFF about? (1)

The NCFF is an European Commission (DG ENV, DG CLIMA) and EIB initiative to **stimulate financing for conservation, restoration, management and enhancement of natural capital.**

The NCFF:

- encourages investments in **revenue-generating or cost-saving projects** promoting the **conservation of natural capital to meet biodiversity/adaptation objectives** and support green growth;
- focuses on financing **proof of concept / pilot projects** for **ecosystem services and climate adaptation benefits**, especially challenges related to biodiversity, land use, forestry, soil, water, agriculture and waste;
- aims to **demonstrate to private investors** the attractiveness of natural capital projects.

What is the NCFF about? (2)

The Facility will focus on **market-based instruments** (particularly to sustain upfront investment) in four categories of projects or combinations of:

- **green infrastructure;**
- **biodiversity offsetting initiatives;**
- **projects using payment for ecosystem services (PES) mechanisms;**
- **pro-biodiversity businesses/corporates.**

Selected projects must be **capable of repaying a loan or an equity investment.**

NCFF **addresses barriers to mainstream commercial financing**, i.e. aims to test and demonstrate financing models with regards to innovative and/or low track-record approaches to invest in natural capital projects.

Final beneficiaries would include both private and public entities.

Rationale – Natural capital conservation

Address barriers for revenue-generating/cost-saving projects for the conservation of natural capital

- Establish a pipeline of replicable, bankable operations
- Demonstrate to private investors the attractiveness of natural capital projects
- Leverage funding from private investors through the use of EU Funds

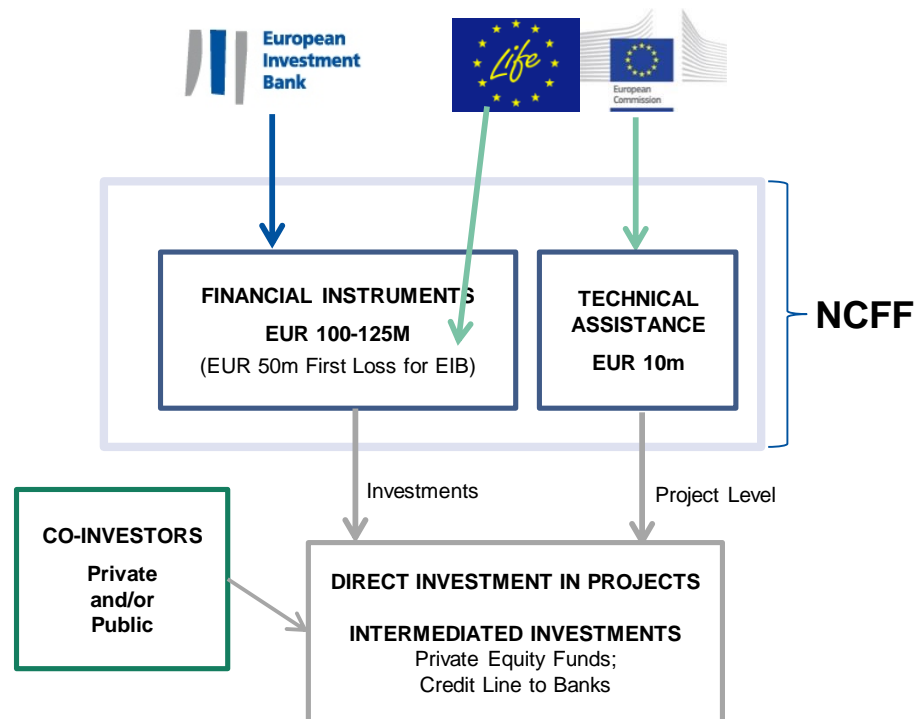
Innovative Aspects – Beyond public grants

- Beyond traditional financing for natural capital projects (i.e. public grants) by promoting market-based instruments
- Maximising “scarce” public funds (i.e. EU LIFE budget) by testing new instruments to mobilise or “crowd in” private finance
- Technical assistance for project preparation, implementation, monitoring and evaluation

Projects - Use of market-based instruments

- Payments for ecosystem services
- Green infrastructure projects
- Pro-biodiversity and pro-adaptation businesses
- Projects involving biodiversity offsets

Structure



NCFF : The four NCFF project categories in a nutshell

- ➔ **Projects using Payments for Ecosystem Services (PES):** payments involving payment or compensation for the benefits provided by ecosystems, such as cleaner water, higher soil quality or enhanced carbon sequestration
- ➔ **Green Infrastructure (GI) projects:** investments in natural capital that generate a range of goods and services, such as water quality, flood protection and climate change adaptation
- ➔ **Projects developing Biodiversity offsets:** conservation measures designed to compensate for the unavoidable damage to biodiversity arising from development projects.
 - No support for compensation to comply with article 6(4) of the Habitats Directive
- ➔ **Innovative pro-biodiversity and adaptation businesses:** projects involving the supply of goods and services from conservation activities, such as sustainable forestry, agriculture, aquaculture and ecotourism. Innovation may relate to innovative approaches to ecological restoration/conservation or innovative business models.

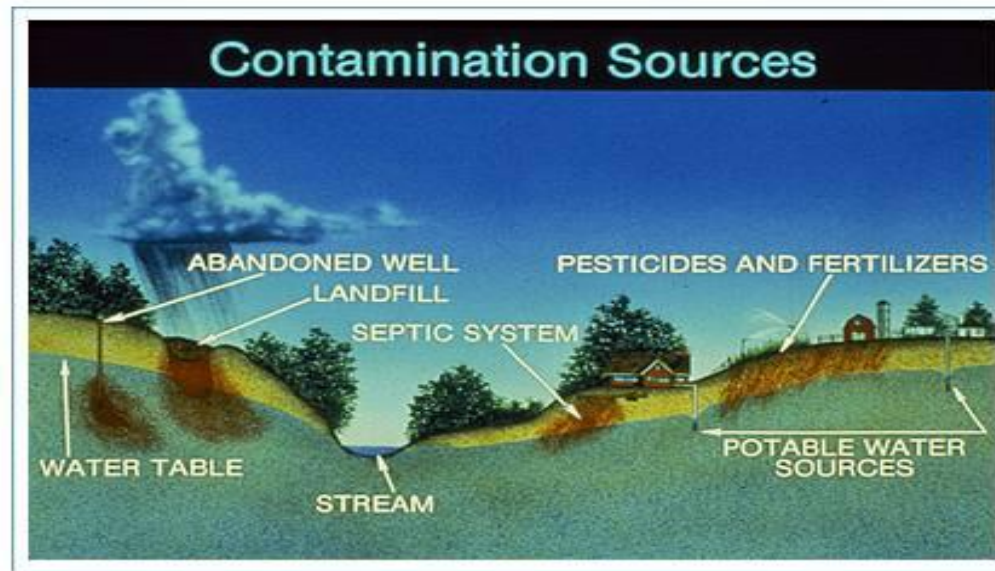
Green Infrastructure



Green infrastructure will include projects targeting the provision and maintenance of ecosystems and ecosystem services including nature-based climate adaptation projects:

- Restoration of degraded areas
- Habitat corridors, afforestation and fire prevention, flood protection and erosion control
- Water treatment/purification
- Urban green infrastructure such as green roofs etc

Payment for Ecosystem Services



Payment for ecosystem services are voluntary transactions where an ecosystem service(s) beneficiary conditionally compensates an entity responsible for maintaining well-defined ecosystem service(s), especially:

- Protection of water resources
- Protection of forest
- Protection of biodiversity

Characteristics and challenges:

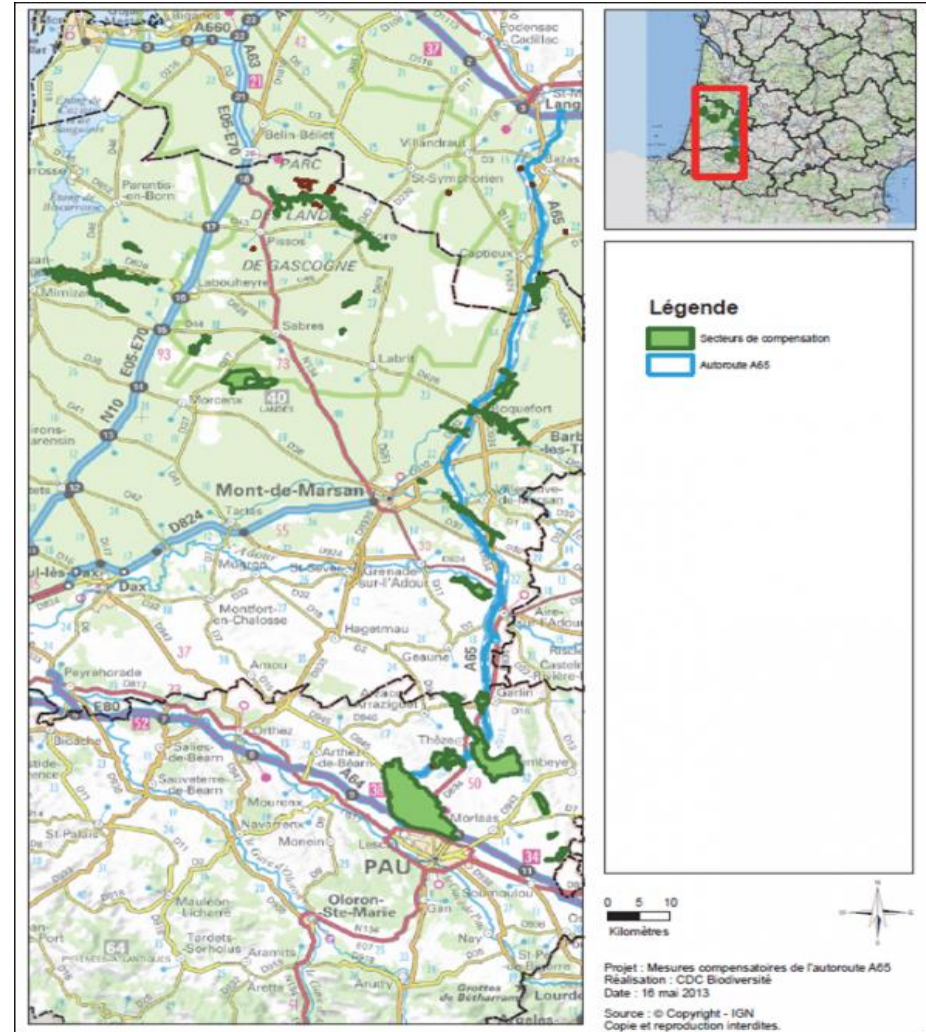
- Key challenge is to develop payment mechanisms capable of repaying an investment
- We know that ecosystem services are valuable, but there needs to be a financial, as well as economic rationale for investment

Compensation/Offsetting



Compensation offsets are actions intended to compensate for residual, unavoidable environmental impacts of development by promoting conservation on or offsite of the development:

- On-site offset
- On-demand markets



Pro-Biodiversity Businesses



Pro-biodiversity businesses (especially for SMEs) and **corporate projects** dedicated to the improvement of natural capital and/or to climate adaptation objectives with clear and measurable impact targets.

The NCFF in practice

“The primary objective of the NCFF is to develop a pipeline of projects in EU-28, testing different financing options in order to identify the most suitable approach. The overall objective is to provide a proof of concept demonstrating to the market, financiers and investors, the attractiveness of such operations, thereby developing a sustainable flow of capital from the private sector towards the financing natural capital and achieving scale.”

- **EU Biodiversity Strategy targets; LIFE Regulation ; EU value-added**
- **Business Context:**
 - (i) Clear regulatory environment
 - (ii) Existence of market for project's bankability
 - (iii) Sound and efficient business model

- **The recipients of the NCFF must be legal entities registered in the EU.**

They may be:

- (i) **public bodies** – referring to national public authorities, regardless of their form of organisation whether central, regional or local structure, or the various bodies under their control, provided they operate on behalf of and under the responsibility of the national public authority concerned,
- (ii) **private commercial organisations**, and
- (iii) **private non-commercial organisations** (including NGOs);

- **Quality of the Counterparts:** Capacity ? Experience ? Allocated resources?
- **Operating structure:** Governance ? Co-investors ? Transparency ? Reporting ?

No special formalities but to start, promoters could post information and/or fill a formulaire to NCF_Instrument@eib.org in order to allow EIB assessing whether the project adheres to NCF objectives, eligibility criteria and alignment with various allocation constraints. Then:

- If positively screened, EIB submits to DG ENV and DG CLIMA for confirmation of eligibility;
- If confirmed, EIB engages discussion (eventually with demand for additional documents) with the promoter to request pre-appraisal opinion from comprehensive internal EIB team;
- If positive, due diligence (DD) is launched and project is posted on EIB website; DD comprises DD questionnaire, desk visits and eventually site visits;
- If DD positively concluded, the project is submitted for the EIB Management Committee then Board's approvals;
- After these approvals, negotiations of finance contracts begin.



- We can provide a grant to each selected operation for project preparation and capacity building, to help with the following:
 - Ascertaining the **feasibility of the operation** considered for financing under the NCFF;
 - **Developing the capacity of the final recipient** to develop projects that are technically, commercially and financially sustainable;
 - Guaranteeing the correct **reporting and monitoring** of the impacts on biodiversity, ecosystems and climate change adaptation of the underlying investments.

- Support facility grants are considered on a project-by-project basis – every project's needs are different.

For more information please contact:

Jane Feehan
*Operational Lead,
Natural Capital Financing
Facility*
Operations Directorate
j.feehan@eib.org

European Investment Bank
*100, Boulevard Konrad Adenauer
L-2950 Luxembourg*