Natural Capital Financing Facility (NCFF)

Fostering Investment in Biodiversity Conservation

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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

European Union
EUR 75.4bn

Outside EU

EFTA & Enlargement Countries
EUR 3.35bn

Eastern Neighbours
EUR 1.65bn

Africa, Caribbean, Pacific, South Africa
EUR 0.77bn

Asia and Latin America
EUR 0.98bn

Southern Neighbours
EUR 1.63bn

Total 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

Public Sector Financing
Project Finance Direct Loans
Intermediated Loans
Project Finance with direct project risk
Risk Sharing
Equity through Funds

Banks

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

FINANCIAL INSTRUMENTS
EUR 100-125M
(EUR 50m First Loss for EIB)

TECHNICAL ASSISTANCE
EUR 10m

DIRECT INVESTMENT IN PROJECTS
INTERMEDIATED INVESTMENTS
Private Equity Funds;
Credit Line to Banks

CO-INVESTORS
Private and/or Public

Investments
Project Level

NCFF
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 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 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
Payment for Ecosystem Services

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 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:**
  1. Clear regulatory environment
  2. Existence of market for project’s bankability
  3. 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?

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 NCFF 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.
Identification of a project opportunity

Projet appraisal
- Financial
- Economic
- Social
- Environmental
- Technical

Management Committee Review / Approval

Board of Directors' Approval

Repayment

Physical & financial monitoring

Disbursement

Contract signed

Negotiation

Loan approved
Grants for Technical Assistance: our Support Facility

- 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.
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