

INVESTING IN NATURE: FINANCING CONSERVATION AND NATURE-BASED SOLUTIONS

A PRACTICAL GUIDE FOR EUROPE

*Including how to access support from the
European Investment Bank's dedicated
Natural Capital Financing Facility*





Boosting investment for biodiversity, conservation and nature-based adaptation to climate

IS THIS GUIDE RELEVANT TO ME?

Are you...

- ... an entrepreneur exploring nature-based solutions to improve project performance, cut costs or drive new revenue?
- ... a conservation organisation or foundation seeking to move towards a commercial business model?
- ... a corporation looking to offset the environmental impact of your operations?
- ... a financial institution looking to support conservation or nature-based climate projects?
- ... a fund manager considering raising capital for conservation or biodiversity projects in Europe?
- ... a city or municipality inspired to become greener, more biodiversity friendly and more resilient to climate change?

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PART A: WHAT ARE CONSERVATION AND NATURE-BASED SOLUTIONS? HOW COULD THEY BENEFIT ME?



Biodiversity is the variety of life on earth: the building blocks from which ecosystems - reefs, reedbeds, forests and grasslands - are formed. Humanity depends on the goods and services these ecosystems deliver: from food and fibre to oxygen and clean water.

Conservation of biodiversity and ecosystems offer **nature-based solutions to climate change** - cost-effective, scalable ways to increase the planet's resilience to temperature rises, natural disasters and other climate extremes, and humanity's ability to adapt.

N.B. Biodiversity, conservation and nature-based solutions to climate adaptation are **collectively referred to as 'conservation and nature-based solutions' for the remainder of this document.**

Introducing the European Investment Bank's Natural Capital Financing Facility ('NCF')

The NCF is a dedicated programme to support pioneering conservation and nature-based solutions projects.

It consists of:

- a **flexible finance facility** (typically providing direct/intermediated debt or investing in equity funds); in combination with
- a **technical assistance support facility** (grants for project preparation, implementation, monitoring and evaluation).

WHY DO CONSERVATION AND NATURE-BASED SOLUTIONS MATTER TO MY BUSINESS OR PROJECT?

Nature's contribution to the global economy is worth more than \$125 trillion annually.¹ Building conservation and nature-based solutions into projects represents a massive opportunity: from **lowering operational costs**, to unlocking **new revenue streams** to **increasing customer engagement** to delivering **public environmental goods**.

But deciding how to finance these projects, and harness nature's benefits, can be challenging. This guide will help you **identify the cost-saving and commercial opportunities** that nature could unleash for you. It will help you think about the optimal **financial structure for your project or business** and outline practical ways for you to **access financial support** to incorporate these solutions into your operations.

Inspiringly, a range of innovative and large-scale financing sources exist to help you do this:

- there are large **global sources**², dedicated to low-emission and climate-resilient development – such as the [Green Climate Fund](#) or the [Global Environment Facility](#);
- there are **regional public development funds**, that include a low-carbon focus as one of their key investment themes – such as the [European Regional Development Fund](#);

- there are **national sources**, such as the [Croatian Bank for Reconstruction and Development](#)'s efforts to support Croatia's rich native biodiversity
- there are **dedicated funding instruments** set up specifically to drive environment and climate action – such as the [European Commission's LIFE Programme](#); and
- there are a range of **non-governmental and philanthropic organisations** whose purpose is to drive more positive outcomes for both people and the planet – such as the [World Wildlife Fund](#) and the [Wyss Campaign for Nature](#).

Even if you have never considered nature a core part of your business you may still be eligible for funding, including from the European Investment Bank's dedicated **Natural Capital Financing Facility**. For example, if you are a **property developer**, could you access support to build green walls? If you are a **farmer** - could you secure finance for pollinator-friendly production? Equally, a range of support exists for projects or enterprises that have nature at their core: everything from **ecotourism** to **wild-caught fisheries**.



1. WWF, "Living Planet Report 2018: Aiming Higher" (2018).

2. Note that global mechanisms will have differing levels of activity within Europe, some of which may be relatively limited.

WHY CAN BANK FINANCING BE MORE ATTRACTIVE THAN USING GRANTS?

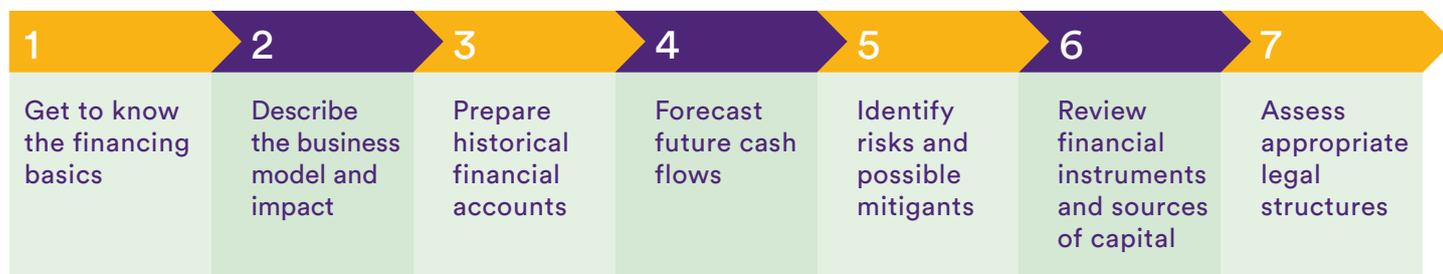
Grants provided by public institutions, philanthropies or companies have many advantages. However, there can also be inherent limitations from only relying on these sources of finance. For example, they can be limited in size or linked to very specific (often short) funding cycles. Most importantly, if they do not cover the full financing need of a project over its lifetime, project developers will need to re-apply for funding on a regular basis. This application process can be **time-consuming, costly** and **uncertain**.

Therefore, using a model which **generates its own revenues**, or consistently **saves costs over time**, can help to set your project on an independent and financially sustainable path.



PART B: A SEVEN STEP GUIDE TO FINANCING CONSERVATION AND NATURE-BASED SOLUTIONS PROJECTS

Engaging with potential investors and financial institutions (including the NCFE) requires a structured and rigorous approach. Taking yourself through the following seven steps should act as a helpful starting point to structure and prepare relevant information that you need to access the right type of financing, at the right time.



STEP 1: GET TO KNOW THE FINANCING BASICS

Understanding direct financing options through equity and debt

Companies typically rely on a combination of **debt** and **equity** to establish and grow their activities. **Table 1** provides an overview of the pros and cons of these ‘traditional’ financing instruments, including ‘hybrid’ solutions with both debt and equity features (for example, debt that can be converted into equity). A further deep dive on the specific features of debt and equity financing can be found in **Appendix 2**.

Table 1: Comparing direct debt and equity financing

		DESCRIPTION	PROs	CONs
DIRECT FINANCING	DEBT	<ul style="list-style-type: none"> • Loans from a bank or other financial institution (similar to a mortgage or car loan) • Repayments consists of (i) interest (variable or fixed rate) and (ii) principal (amortising gradually or bullet payment at end) • Interest margin, decided by the bank, depends on project’s risk profile, tenor (length of loan) and potential security (also called collateral, e.g. property or equipment) 	<ul style="list-style-type: none"> • Predictable repayments (interest and principal) which can be included in forecasts and budgets • No transfer of ownership meaning owners keep control on how the company is run (except if defaulting on payments or materially breaching agreements which can give lenders ability to step in) • Tax deductible interest expenses 	<ul style="list-style-type: none"> • Need sufficient cash-flow for regular principal and interest payments (for many small or early stage companies cash flow is uncertain) • Security (collateral) may be required (e.g. on property or equipment) or a third-party guarantee • Operational restrictions (e.g. possibly on amount of additional debt allowed or on total new investments)
	EQUITY	<ul style="list-style-type: none"> • Capital injection from investors in return for ownership share (based on a due diligence process and assessment of growth potential) • No gradual repayment, investors will receive capital gain/loss at sale (possibly regular dividend for mature companies) • Risk of performance sits until sale (can lose money and are ranking below debt providers. It is a “patient form of capital”) 	<ul style="list-style-type: none"> • Improves credit profile generally (e.g. strengthens the debt/equity ratio) and doesn’t require security • Limited cash flow requirements, (unlike debt, no interest cost or debt repayments) as part of normal operations • Strategic input and expertise complementing the management team can come from external investor network 	<ul style="list-style-type: none"> • Reduced control and autonomy in decision-making as investors will want a say in the operation of the business to drive growth • Generally takes longer to raise equity (thorough due diligence process) and more management reporting required • Divergent views between management and investors on direction of the venture or firm
	HYBRIDS	<ul style="list-style-type: none"> • Financing that combine debt and equity features • Mezzanine financing, as an example, gives lender ability to convert to equity at later stage (pre-defined criteria, typically at default) 	<ul style="list-style-type: none"> • Mezz tend not to require security, good if available collateral has already been offered to other lenders • Mezz potentially treated as equity on borrower’s balance sheet (depend on definition, can improve debt/equity ratio) 	<ul style="list-style-type: none"> • Mezz more costly and still requires regular interest, generally higher interest margin than other senior debt (subordinated = higher risk) • Mezz means more monitoring than for normal debt given equity features of the structure

Understanding intermediated debt and equity funds

There are a number of benefits of accessing debt and equity financing through **intermediaries** (kind of a “middle man”) such as a local bank operating in your part of the country or from a dedicated fund manager familiar with your sector. In general, working through intermediaries can increase access to capital for smaller conservation and nature-based solutions projects. Some intermediaries benefit from the support of public development Banks (e.g. EIB) and are able to pass-through financial advantages and/or offer complementary guidance to final beneficiaries on the implementation of their projects. More information about the pros and cons of such ‘intermediated’ debt or equity financing can be found in **Table 2**.

Table 2: Intermediated debt and equity financing

		DESCRIPTION	PROs	CONs
INTERMEDIATED	INDIRECT DEBT	<ul style="list-style-type: none"> • "On-lending" to end borrower by a local bank or other intermediary finance that was originally provided (long-term) by a different financial institution (such as the EIB) • Lending decisions and financial risk remains with the intermediary institutions • Contractual relationship only between end-borrower and intermediary (albeit gets informed about on-lending structure) 	<ul style="list-style-type: none"> • Better access to finance and support for high-impact segments through the network of local banks and intermediaries • Smaller loans tend to be possible allowing small business owners to obtain necessary financing • Lower transaction costs with straightforward legal and contractual agreements (typically national standards) 	<ul style="list-style-type: none"> • Potential lack of resources at local bank or intermediary to develop project pipeline in target impact sector (solutions include support facilities and technical assistance) • No direct access to network of large financial institutions for the final beneficiaries (may not be necessary)
	EQUITY FUNDS	<ul style="list-style-type: none"> • Portfolio structure whereby a fund manager raises capital from investors and/or financial institutions (such as the EIB) that are subsequently invested in projects • Fund manager responsible for pipeline development and due diligence • Strategy and return expectations determined with investors ahead of capital commitment 	<ul style="list-style-type: none"> • Diversification benefits due to portfolio approach (e.g. underperformers can be compensated by high-performing assets) • Provides access to investors for private equity transactions (may not have mandate / resources to invest directly) • The expertise of fund managers in specific sectors can improve ability to identify projects and create value 	<ul style="list-style-type: none"> • Potential restrictions agreed with investors at inception on asset type, geography, sector etc. which could limit flexibility of pipeline development • Potential high return expectations of investors for overall fund performance • Management and performance fees for fund managers increase pressure for return on underlying assets

Understanding where my finance is coming from

Where the finance for your project originates from will often determine the nature of it, and the conditions upon which it is given. Commercial funding (debt and equity finance) is typically provided by banks or investment funds. There are programmes with grant funding (concessional and ‘non-recoverable’) available for projects in very early stage or with high potential for environmental impact (e.g. public grants³ or funding from NGOs and philanthropies).

In addition, there are ways for commercial finance to be **‘blended’** with concessional and non-recoverable funding. Such blended finance structures can act to (i) improve access to finance (possibly “below market-rate”), (ii) de-risk projects for investors (e.g. **first-loss capital** in a portfolio, or through **guarantees**) or (iii) incorporate support for project preparation and pipeline development (e.g. **technical assistance**). An example of this is the NCFF which combines an EU guarantee and a support facility with commercial lending and investing activity, thereby increasing access to finance for conservation and nature-based solutions projects in Europe.

3. For example, you may wish to explore publicly funded schemes such as the European Agricultural fund for Rural Development or the European Union’s LIFE and Horizon 2020 programmes.

Table 3: Sources of financing

COMMERCIAL FUNDING	CONCESSIONAL FUNDING	BLENDED FINANCE
Financing from <ul style="list-style-type: none"> • public development banks (e.g. from KFW or EIB); or • private financial institutions (e.g. from local banks or equity funds) 	Financing from <ul style="list-style-type: none"> • public institutions (e.g. from EU programmes or EIB); or • private institutions (e.g. from philanthropies, NGOs or lotteries) 	Vehicles that combine <ul style="list-style-type: none"> • commercial funding; and • concessional funding The NCFE itself is an example of a blended finance facility

STEP 2: DESCRIBE THE PROJECT: YOUR BUSINESS MODEL AND EXPECTED IMPACT

Providing information on your project and the underlying business model is essential to accessing commercial finance. A summary of the business case will help potential lenders or investors understand the vision and potential environmental and social impact of your activities. Writing a business plan will also force you to ask some fundamental questions about your project and future strategy which will make your financing needs much clearer and improve your understanding of relevant risks and opportunities.

Below, you can find a list of questions to help you prepare your presentation **about the project and its expected impact:**

QUESTIONS ABOUT THE PROJECT...

1. What problem are you trying to solve?
2. Will your project increase your revenue or reduce your costs?
3. How much investment is needed to make it happen?
4. Is it forming part of an on-going (mature) business or is it a stand-alone (new) initiative?
5. Are other players also seeking to address the same problem? Will it outperform other solutions?
6. Is your solution replicating a proven model or introducing new innovative features?
7. Could the proposed solution be replicated by others and scaled?
8. Is it generally hard to obtain private financing for this type of project?

QUESTIONS ABOUT THE IMPACT...

1. What social and environmental impact will the project have?
2. Are you trying to solve local, regional (European) or global issues?
3. Do you have clear goals and identifiable outcomes? Are they reasonable and measurable?
4. Is the project fighting biodiversity loss or improving climate adaption using nature based-solutions?
5. Are there any potential negative side effects? If yes, how are you taking them into account?

The type of information to be provided in a full business plan will depend on the sector and the target audience. However, a business plan will generally include:

- executive summary (highlighting the essential points and designed to grab attention)
- project description (including an explanation of how the investment figure was calculated)
- expected impact
- market analysis (of products/services and its competitors)
- information on the management team (details of key personnel, their responsibilities, skills and experience)
- review of risks and opportunities (potential downsides and upsides)
- demand analysis (details of current and intended client base and marketing plan)
- financial analysis (both historical and forecasted, including assumptions; see sections below for further details)

Note that a potential lender or investor will also ask you to provide third party documents, where available, to back up your assumptions (e.g. feasibility studies and official confirmations).

STEP 3: PREPARE HISTORICAL FINANCIAL STATEMENTS TO DESCRIBE YOUR CURRENT FINANCIAL STANDING

When aiming to raise finance, presenting **audited financial accounts** is most effective. If you are a conservation or nature-based firm or initiative, you may not have these audited accounts. You should instead be ready to provide **management accounts**: covering key items that reflect the financial position or credit profile of your on-going activities.

In brief, credit profile assessments typically include the evaluation of **financial leverage** (usually measured by debt/equity ratio from the balance sheet), **profitability** (tends to be measured by EBITDA or net income margins from income statements), or **cash flow** generation (shown in cash flow statements). Note that new ventures (start-ups) would not be expected to have historical accounts, as more emphasis is placed on the business model, plausibility of forecasts, shareholder support and quality of the team and its track-record.

STEP 4: SET UP A SIMPLE FORECAST TO ANALYSE CASH FLOWS

Before deciding on the type of financing, it is recommended you forecast revenue, operational costs, and required investments. The purpose of this exercise is to understand how much money is needed by when - and the ability of projected revenue streams and cash flows to cover your future financial obligations under various funding structures.

To illustrate how investing in conservation and nature-based solutions might generate revenues and / or cost-savings over time, and how this links to potential financing options, the cash flow patterns of several example projects are laid out in **Exhibit 1**.

Exhibit 1 : Illustrative cash flow patterns of 6 example conservation and nature-based solutions projects

PROJECT EXAMPLE	TYPICAL CASH FLOW PATTERNS OVER TIME	CORE FINANCING NEED	EXAMPLE FUNDING	DESIRED OUTCOMES
SUSTAINABLE FORESTRY		<ul style="list-style-type: none"> Initial capital investment and ongoing operations (e.g. land acquisition, equipment, planting and maintenance of trees) 	<ul style="list-style-type: none"> Equity fund (see the example of the SLM fund, backed by NCOFF funding) 	<ul style="list-style-type: none"> Revenues from timber sales (for a newly planted facility, this will be a long cash cycle) Potential additional revenues (e.g. from sale of verified carbon units (VCUs) or Payment for Ecosystem Services)
SUSTAINABLE AGRICULTURE		<ul style="list-style-type: none"> Capital investment to adjust traditional practices (e.g. additional equipment) 	<ul style="list-style-type: none"> Indirect debt (for example, loan through a local bank) 	<ul style="list-style-type: none"> Premium prices for environmentally-supportive practices, and/or potential increased yields drive increased revenue Cost savings from reduced use of artificial inputs (fuel, fertilisers, pesticides)
SUSTAINABLE AQUACULTURE		<ul style="list-style-type: none"> Initial capital investment to establish new farm (infrastructure, equipment, purchase of stock etc.) 	<ul style="list-style-type: none"> Equity fund (with a mandate to invest in marine conservation) 	<ul style="list-style-type: none"> Revenues from sales of aquacultural products, increasing over time Enterprise becomes profit-making, allowing for potential 'exit' through sale of the enterprise, or shares, to new investor
ECOTOURISM*		<ul style="list-style-type: none"> Initial capital investment for creation of new lodge (infrastructure, equipment, land leases etc.) 	<ul style="list-style-type: none"> Indirect debt (loan from local financial institution e.g. HBOR, Croatia) 	<ul style="list-style-type: none"> Revenues from paying tourists increasing over time Revenues exceed operational costs (staff salaries, supplies etc.); debt repaid from profits
CARBON SEQUESTRATION PAYMENTS		<ul style="list-style-type: none"> Initial capital investment to establish new enterprise and start operations (acquire project land, baseline surveys etc.) 	<ul style="list-style-type: none"> Equity fund (e.g. with a mandate to invest in Payments for Ecosystem Services projects) 	<ul style="list-style-type: none"> Revenues from sale of Verified Carbon Units (VCUs) to voluntary corporate buyers or sale of biodiversity offset payments exceeding operational costs
GREEN INFRASTRUCTURE*		<ul style="list-style-type: none"> Initial capital outlay for purchase and installation of infrastructure 	<ul style="list-style-type: none"> Direct debt on concessional terms (to cover portion of infrastructural investment) 	<ul style="list-style-type: none"> Cost savings from reduced operational costs increase over time to optimum

* Further information for these examples, including alternative funding options, are explored within the Case Studies in Part D.



STEP 5: IDENTIFY KEY CHALLENGES, RISKS AND POTENTIAL RISK MITIGANTS

Conducting a well-structured SWOT exercise⁴, compiling a list of your key project risks and running calculations for ‘what if this happened’ scenarios will help you decide what type of financing is appropriate. Understanding what can affect revenues and cash flows and how one can mitigate such risks will make potential investors or lenders more comfortable and, as a result, help to reduce financing cost.

Even if you haven’t previously considered taking up a loan from a bank or going to external investors for equity (e.g. if you have only worked with grants so far), you may find that with the right amount of preparation and risk-mitigation you could also become eligible for commercial sources of financing.

Table 4, below, provides a list of various tools and actions that can be taken to strengthen the commercial viability or ‘bankability’ of natural solutions projects (e.g. by reducing risk).

Table 4: Understanding risk mitigants and their relevance

RISK MITIGANT TOOLS	DESCRIPTION	TYPICAL BARRIERS OR RISKS IT CAN ADDRESS
ADDITIONAL EQUITY	Raising more capital from new and/or existing shareholders	Lack of equity overall or high financial leverage (e.g. relatively high debt compared to balance sheet size, potential risk that cash flows will not be sufficient to service debt)
GUARANTEES	Third-party that can step in to cover financial obligations in adverse scenarios	Can help to improve access to financing (and potentially reduce pricing / interest margin), overcome lack of credit history , novelty of concept or other risks (including lack of financial experience)
COLLATERAL	Pledging security for the payment of loans (e.g. property or land)	Same as above (guarantees). However, land tenure challenges can be a common reason that prevents land being used as collateral
OFF-TAKE AGREEMENTS OR SALES CONTRACTS	Entering into contractual arrangements with future buyers of products	Can help to improve credit profile and reduce demand risk (increase visibility and predictability of sales and cash flows)
TECHNICAL ASSISTANCE	Support programmes for capacity building and pipeline development (typically grants)	Support from external professionals (including mentoring, board advisors, consultants) or strengthening internal skills and capability to overcome lack of financial or project development experience
FIRST-LOSS OR SUBORDINATE CAPITAL	Subordinate capital layer in a fund acting as “buffer” for a portfolio	Having layers in a fund structure (with differentiated risk and return expectations instead of on equal terms) can help to increase access to risk-adverse investors
INSURANCE AND HEDGING	Standard or bespoke finance solutions to protect against specific risks or fluctuations in commodity prices	Can act to improve access to financing and potentially improve pricing / interest margin as certain risks are transferred to other parties. Adds complexity and costs. Standard “business as usual” insurance tends to be a requirement by lenders
RESULTS-BASED INCENTIVES	Contractual arrangement offering financial reward based on achievement of performance criteria	Additional (conditional) revenue stream by identifying partners willing to pay for impact or performance, which can strengthen credit profile and improve predictability of cash flows . Incentive mechanism which acts to compensate for the opportunity cost of alternative revenue options

4. A ‘Strengths, Weaknesses, Opportunities and Threats’ analysis.



STEP 6: ANALYSE DIFFERENT FUNDING STRUCTURES AND SOURCES OF CAPITAL

Review the pros and cons of various funding sources compared to your growth objectives, key risks and current stage of development. For example, is your business a 'start-up', which an experienced investor could help grow? Do you have available collateral (e.g. property or equipment) that can be used as security for a loan? Are there any third parties (e.g. a parent company) that could offer a guarantee?

Before you begin this process, it may be helpful to orientate yourself amongst the range of support available, using **Exhibit 2**, and revisit the pros and cons of debt and equity as laid out in **Step 1** and in **Appendix 2**.

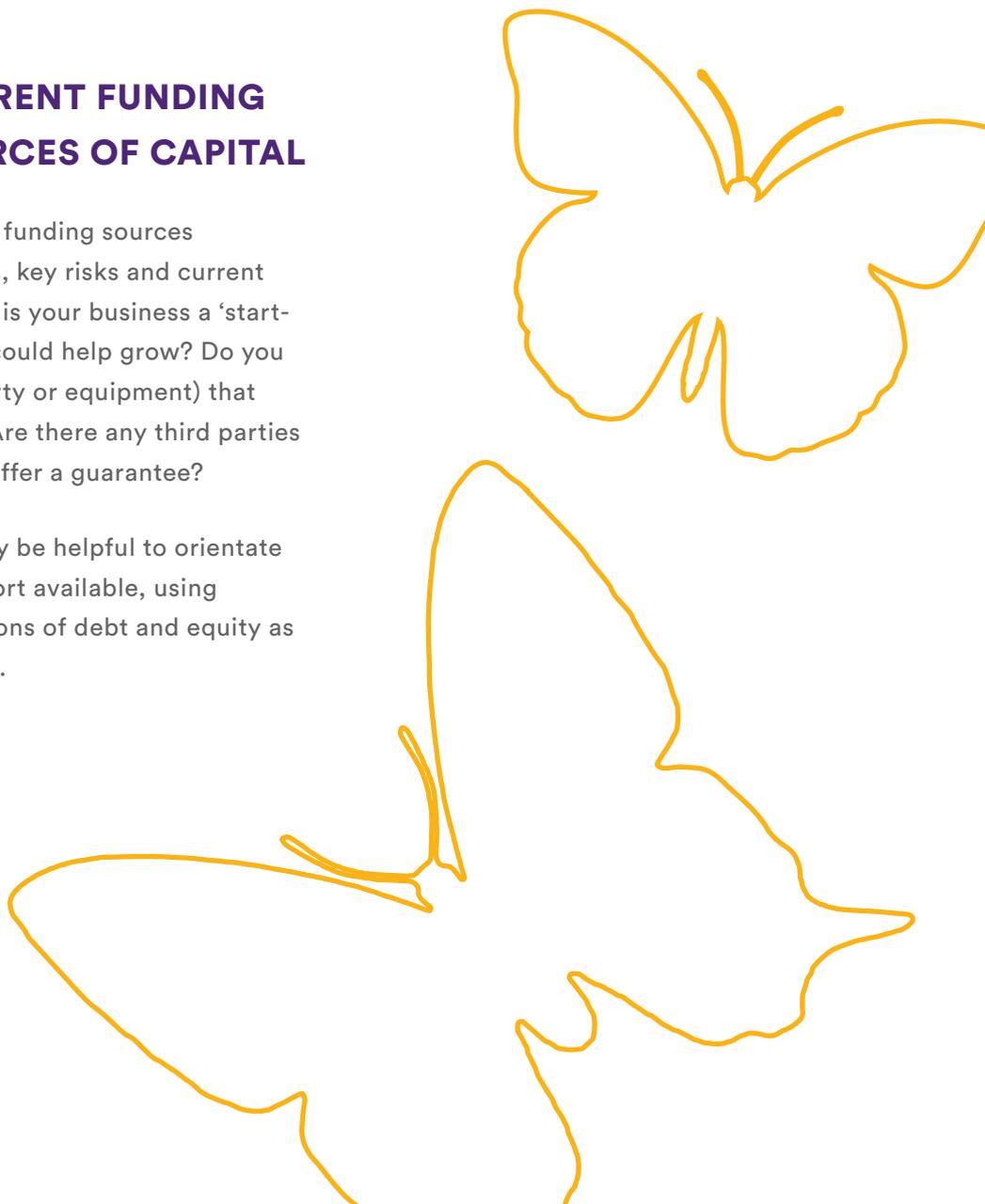
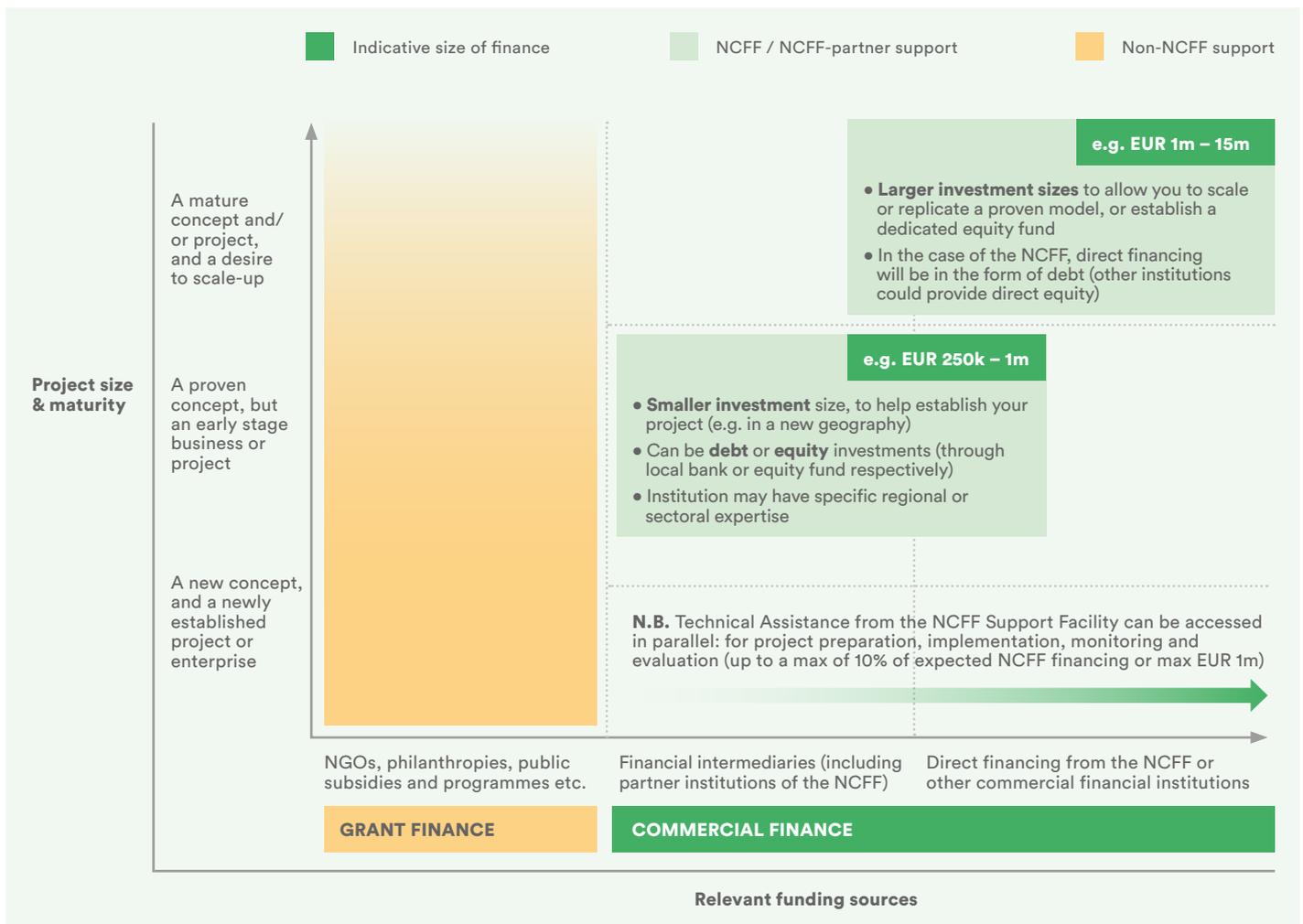


Exhibit 2: Size and maturity of projects in relation to relevant funding sources



STEP 7: ASSESS APPROPRIATE LEGAL STRUCTURES

Establishing the right legal structure from the outset is important. For example, would a **‘special purpose vehicle’** be beneficial (which can separate the project from other operations to isolate project risk)? Would a **‘holding company’**, combining a variety of projects with different revenue streams, be right? Would a conventional equity fund (with pre-determined term and return expectations) be more suitable? Review implications of each legal structure and have an initial idea of the legal structure you prefer, but always obtain formal legal advice before committing (technical assistance from the NCFE could help with this).



Table 2: Intermediated debt and equity financing

	LEGAL STRUCTURE	DESCRIPTION	PROs	CONs
STANDALONE PROJECTS	New corporate or project on existing balance sheet	<ul style="list-style-type: none"> Establishing a new corporate, or an existing organisation sets up a new subsidiary or project 	<ul style="list-style-type: none"> Simplicity; legal and transaction costs relatively low Can benefit from credit strength and track record in the case of an existing organisation Existing revenue streams of the organisation can help to mitigate cash flow risks of new project 	<ul style="list-style-type: none"> Project dependent on the credit profile of the existing organisations (which therefore must be strong) and new project can negatively impact existing organisation Can be challenging to isolate environmental and social impact of project.
	Special Purpose Vehicle (SPV)	<ul style="list-style-type: none"> A separate and "bankruptcy-remote" entity that isolates the project from a parent entity 	<ul style="list-style-type: none"> Financial risk and legal protection; can isolate certain types of financial risk (e.g. bankruptcy of parent), and limit legal liability in the case of project failure Can provide flexibility for certain features; such as asset ownership, choice of jurisdiction etc. Can facilitate performance and impact measurement 	<ul style="list-style-type: none"> Can be costly and complex to structure (high transaction and legal costs) Requires predictable and strong cash flows that can service debt on standalone basis Typically requires collateral due to lack of other recourse (e.g. lack of parent revenue streams or assets)
MULTIPLE ASSETS	Fund structure (GP / LP structures, layered funds)	<ul style="list-style-type: none"> Funds typically would have a general partner (GP) which raises capital from investors (limited partners, LPs) Layered funds have separate tranches for investors (different risk and return preferences) 	<ul style="list-style-type: none"> Provides diversification e.g. by investing in a variety of assets or geographies thereby spreading risk Can benefit from the expertise of an experienced fund manager (e.g. for generation of pipeline projects, due diligence etc.) Provides clarity and direction with pre-determined terms (investment strategy, horizon and return expectations) 	<ul style="list-style-type: none"> Costly to operate due to additional layer of management and performance fees for fund managers Pre-determined strategy can also act negatively, as it limits flexibility and ability to adapt to changing market conditions Often short time-horizons required, which can put pressure on performance (e.g. capital gain)
	Holding company	<ul style="list-style-type: none"> A parent entity that does not have active operations itself, but which owns assets in one or more other organisations 	<ul style="list-style-type: none"> Can create diversification of revenue streams; similar to a fund, it can combine various businesses Can provide increased flexibility in comparison to a fund structure (e.g. is not necessarily bound by a pre-determined strategy and return expectations) 	<ul style="list-style-type: none"> Can be more difficult to raise finance (many investors prefer a fund structure, with pre-determined return expectations etc.) Exit strategy not always clear for investors (in general longer horizon than fund)

PART C: WHAT ARE EXAMPLES AND CASE STUDIES I CAN LOOK AT FOR INSPIRATION?



Reviewing both real and theoretical examples where conservation and nature-based solutions have been incorporated into a project or business may be useful to you.

SELECTED PROJECTS CURRENTLY BEING SUPPORTED BY THE NCFE

Project name: Rewilding Europe Capital (“REC”)

Description: REC is a microfinance institution (hence does not need a formal banking licence), belonging to the NGO Rewilding Europe. It provides loans to over 30 nature-focused businesses across Europe – from ecotourism to honey production.

Support from the NCFE: A EUR 6 million loan from the NCFE to REC.



Project name: Irish Sustainable Forest Fund (“SLM Silva Fund”)

Description: A specialised fund focusing on sustainable forestry in Ireland. The SLM Fund will carry out ‘continuous cover forestry’ – a form of management that is commercially viable, but which maximises biodiversity, soil health and landscape value.

Support from the NCFF: A EUR 12.5 million equity contribution from the NCFF to the SLM Fund.



Project name: Croatian Bank for Reconstruction and Development (“HBOR”)

Description: Loan from NCFF for on-lending to beneficiaries ranging from local authorities to SMEs in sectors such as ecotourism, sustainable agriculture and forestry. Team of experts in Croatia will support clients in developing projects.

Support from the NCFF: A EUR 15 million intermediated loan from the NCFF to HBOR



Project name: Athens – green infrastructure for urban resilience

Description: The NCFF loan will finance and support the integration of green components into the restoration of public squares and streets, create green corridors between greened areas and contribute to the natural restoration of Athens’s second landmark hill after the Acropolis, Lycabettus hill. Thus reducing urban heat islands, increasing water infiltration, increase attractiveness of project areas.

Support from the NCFF: A EUR 5 million NCFF loan to the Municipality of Athens. The EUR million loan is attached to a EUR 55 million loan for resilient urban renewal and development.



Theoretical Case Study 1

NCF Eligibility Category: Payment for Ecosystem Services

Type and structure of support: Direct debt and technical assistance

Challenge/opportunity: A hydropower company faces major costs due to upstream riverbank erosion: sediment in the water is damaging equipment and reducing operational efficiency. The company knows that planting vegetation in the river’s catchment area would stabilise the soil and prevent erosion. However, it does not know how it could undertake such activity (it does not own the land of the catchment area) or how it could pay for it.

Solution: Technical assistance from the NCF helps the hydropower company enter into an agreement with a group of farmers in the catchment area. Under the agreement, farmers will stop grazing livestock on the land directly adjacent to the river, and instead engage in replanting and forest protection activities. In return for these activities (which deliver ecosystem services such as sediment prevention and increased water quality), farmers will receive annual compensation payments.

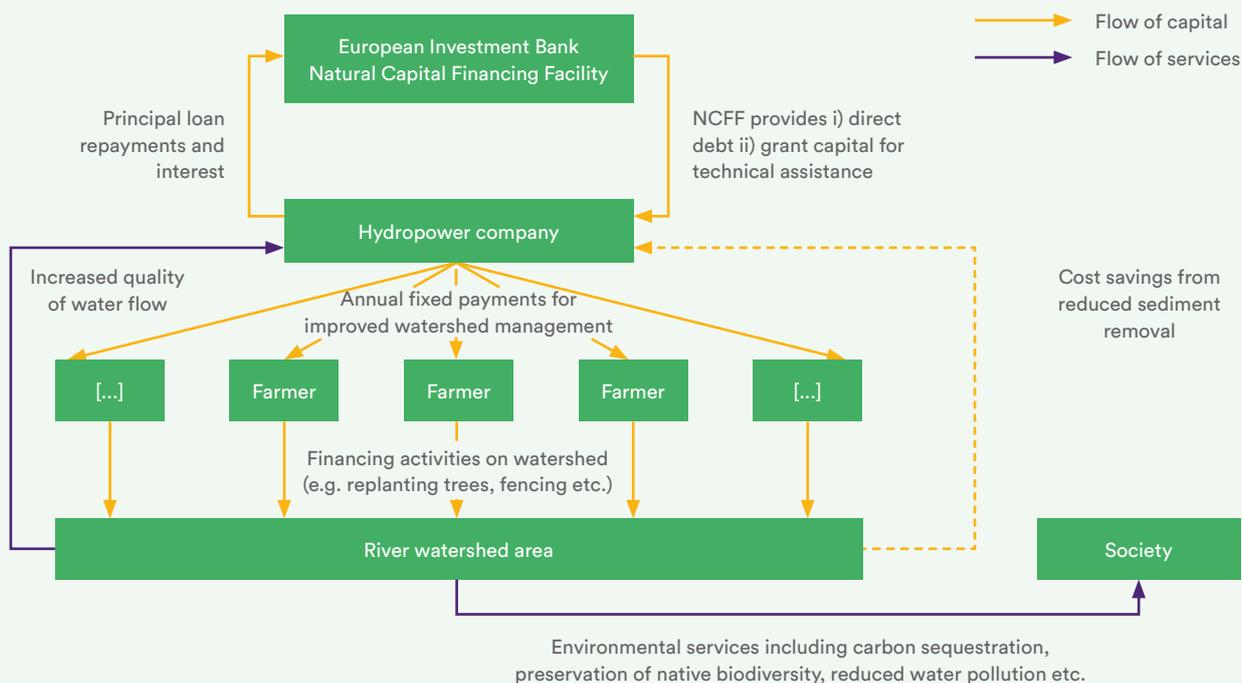
Type of finance: The hydropower company obtains a long-term loan from the EIB NCF. It plans to use the proceeds of the loan in two ways:

- To finance the initial upfront restoration costs on farmers’ land (e.g. terrestrial and hydrological surveys, purchase of trees, training etc.).
- To finance the annual compensation payments to farmers for maintaining forest cover and abstaining from grazing livestock.

Payback/revenue model: Financial modelling forecasts these activities will reduce annual maintenance costs at the hydro facility significantly. This is predicted to cover interest costs and principal loan repayments over the full payback period. Farmers gain revenue through annual compensation payments, which exceed their previous revenues from raising livestock.

Technical support: Provided by the NCF in two ways: (i) paying for the development of the financial model which establishes and sets the level of annual compensation payments to farmers and (ii) financing the legal costs to design, structure and draft the agreement between the hydropower company and the farmers.

Exhibit 1: Capital and service flows in a Payments for Ecosystem Services watershed agreement.



Theoretical Case Study 2

NCFF Eligibility Category: Biodiversity offsetting

Type and structure of support: Intermediate equity and grant funding

Challenge/opportunity: Many companies understand that their operations contribute towards a loss of biodiversity (directly or indirectly). For ethical and reputational reasons, corporations are increasingly willing to pay for projects which restore or enhance biodiversity beyond what they are legally required to do and with the objective to achieve net biodiversity gains – so called ‘biodiversity offsetting’. However, corporates do not always have the capacity or resources to establish such projects themselves and may therefore seek external support to do so.

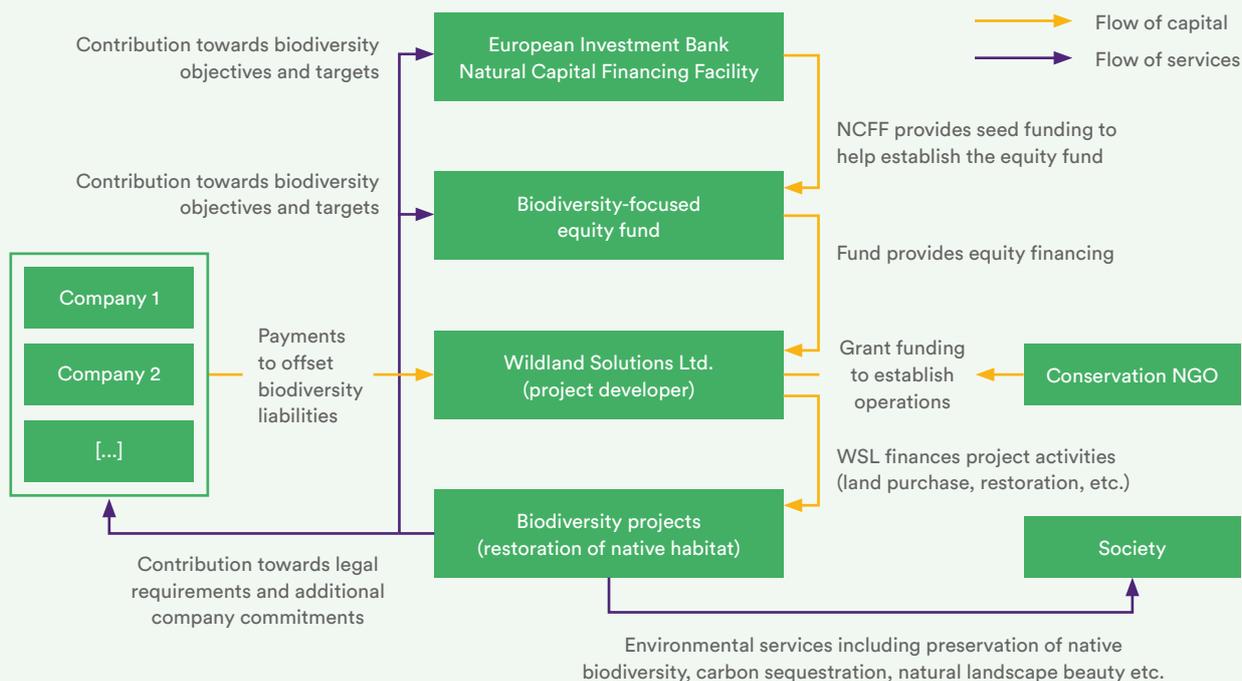
Solution: A start-up called Wildland Solutions Ltd (‘Wildland’) has been launched to implement these offset projects. Wildland will generate revenues through voluntary corporate payments. The founder has secured initial seed funding from a conservation NGO to purchase land. However, Wildland needs additional capital to implement conservation measures on this land (an abandoned quarry and surrounding areas of monoculture plantation forest) and to grow its corporate customer base (e.g.

marketing and communications). This finance will be provided by an equity fund (for which the NCFF has provided initial finance).

Type of finance and technical support: The equity fund provides the cash required to launch Wildland; in return, the fund receives an equity stake in the newly formed business. The NCFF provides technical assistance (an initial market assessment for Wildland, which revealed a growing demand from corporates for this type of biodiversity offsetting service), based on its existing experience of working with biodiversity-related equity funds.

Payback/revenue model: Wildland charges a fee for the biodiversity activities it carries out on behalf of subscribed companies. Wildland’s key investor, the equity fund, plans to sell its stake in ~5-7 years, when the company will have an established customer base, and surpassed break-even. At this point the fund will convert its original equity investment into cash (with a capital gain depending on the valuation at sale).

Exhibit 1: Capital and service flows in a biodiversity offsetting agreement.



Theoretical Case Study 3

NCFE Eligibility Category: Green infrastructure

Type and structure of support: Intermediated debt

Challenge/opportunity: A large real estate developer has identified a portfolio of residential units and retail spaces in a central area of a European city, which it plans to overhaul, repurpose and then sell and/or manage. It has also noted that these sites are located in one of the city’s newly established green growth zones. This means the local authority is requiring new projects to comply with enhanced environmental and biodiversity objectives (aligned with EU directives); projects will get compensation from the city depending on their level of ‘greenness’ and ambition.

Solution: The developer presents the city’s urban planning department with architectural drawings to i) install ‘living roofs’ ii) to create two rooftop park areas, and iii) to install state-of-the-art ‘green walls’ on the retail units. The green infrastructure and modern facilities will attract mission-aligned tenants (e.g. restaurants with organic food etc.), and, as a result, the project developer plans to charge a premium compared to the market.

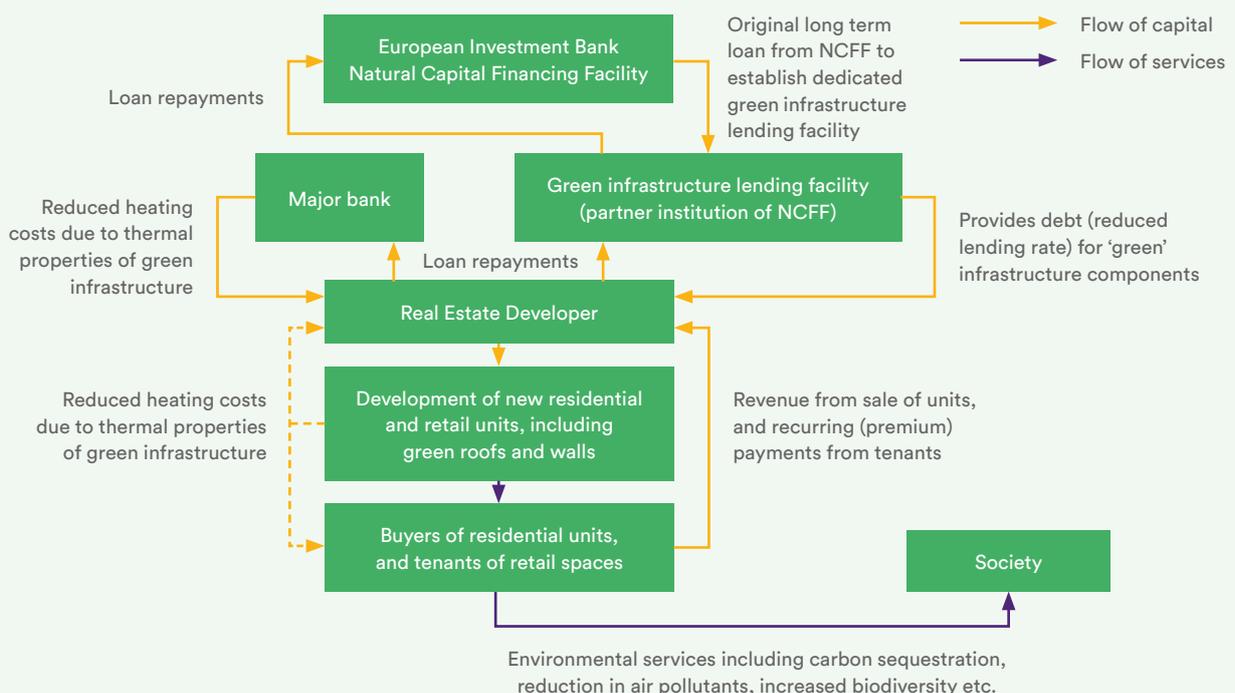
Type of finance: The real estate developer obtains a loan for the bulk of the project from a major bank (for the ‘grey’ infrastructure elements). In addition, the

developer also receives a loan from a local financial institution which has set up a dedicated lending facility for green urbanisation – this loan is to cover capital expenditure related specifically to the green roofs, green walls and park areas. As this goes ‘above and beyond’ the city’s mandatory environmental requirements, the developer could benefit from favourable financing terms under the NCFE eligible loan, recognising how the project will contribute towards the EU’s biodiversity targets and have significant visibility and demonstration effects across the region. This local financial institution originally received a significant long-term loan from the NCFE, and so the developer is a beneficiary of ‘on-lending’ from the NCFE (an intermediated loan).

Payback/revenue model: The developer will repay the loan with proceeds from sale of residential units, as well as lease payments for retail units. The green infrastructure components will furthermore:

- reduce the running costs of the building (specifically, reduced heating costs)
- increase customer footfall in retail units and allow the real estate developer to charge a premium to retail tenants

Exhibit 3: Capital and service flows in urban developments with green infrastructure components agreement.



Theoretical Case Study 4

NCFE Eligibility Category: Pro-biodiversity and adaptation businesses

Type and structure of support: Intermediated debt and technical assistance

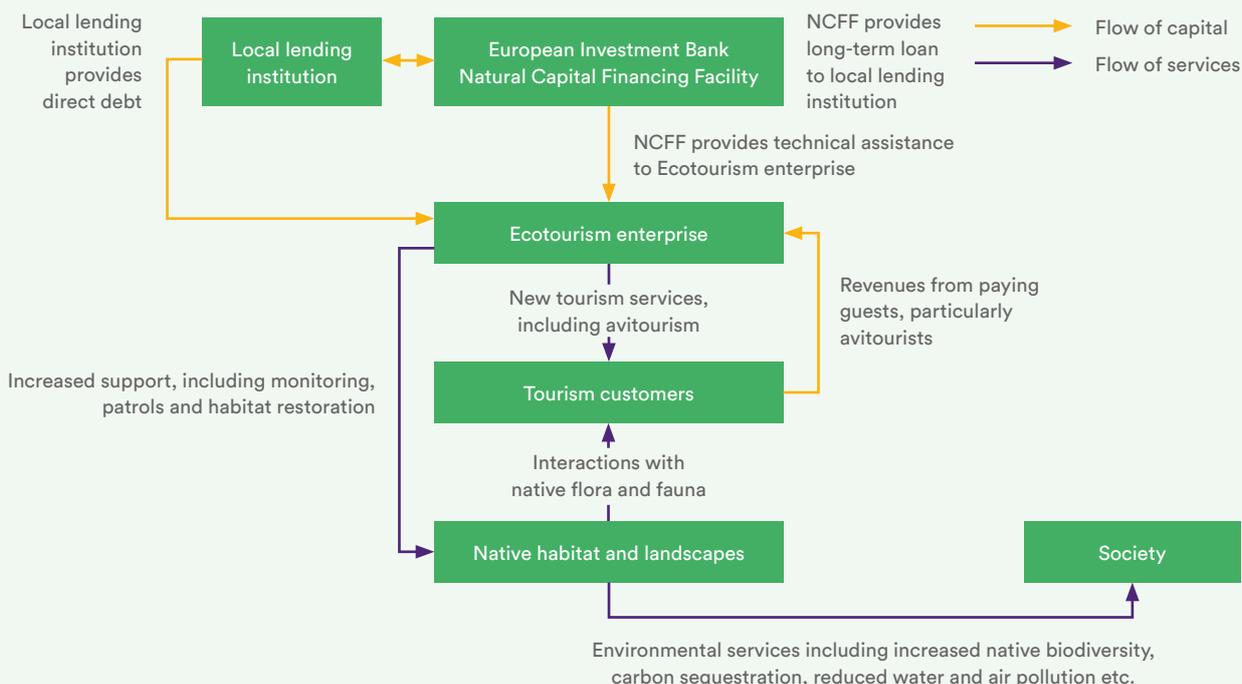
Challenge/opportunity: There is relatively little awareness in Europe on how to build a business around wildlife watching, with limited finance available for nature-based enterprises. In many rural areas there is limited understanding of the commercial opportunity presented by Europe’s native biodiversity.

Solution: An ecotourism enterprise plans to expand its wildlife and bird watching activities to a new region which currently has a limited tourism footprint, but which has high biodiversity value and hence high potential to attract tourists particularly for birdwatching (‘avitourism’). It is targeting activities in eastern Poland.

Type of finance and support: After due diligence, a local Polish bank – a beneficiary of NCFE funding - has agreed to provide a loan to the ecotourism company (e.g. ‘on-lending’ or intermediated debt). The NCFE will also provide technical support in the form of training and capacity building to senior management (specifically in relation to budgeting and forecasting).

Payback/revenue model: The ecotourism enterprise will repay the loan it receives from the local bank through the fees it will charge to overnight guests, as well as the revenues it will generate through providing other goods and services (e.g. charging for guided birding tours, sale of memorabilia etc.).

Exhibit 4: Capital and service flows in the establishment of a new ecotourism enterprise



PART D: TAKING THE NEXT STEP: ACCESSING FINANCE FROM THE NATURAL CAPITAL FINANCING FACILITY AND ELSEWHERE



WHAT OTHER SUPPORT CAN I GET, IN ADDITION TO FUNDING?

Innovative conservation and nature-based solutions projects often need more than formal investment to get them established or thriving. Assistance with technical and operational matters can also be extremely valuable.

The NCFE's Technical Assistance Facility

The NCFE has a dedicated amount of money to provide grants (in addition to debt and equity finance, which needs to be repaid) to projects which it intends to finance through the main Finance Facility.

The NCFE's Technical Assistance Facility is there to help you optimise the preparation, implementation and monitoring of your project – such as **helping you build a detailed business case, conduct financial analysis, identify the right legal structure** or help you to **identify suitable impact indicators**.

It is also there to pay for **training** on specific elements you may not be familiar with (e.g. conducting a feasibility study) and to **build capacity** within your wider team. A maximum amount of EUR 1 million of technical assistance can be granted per project, and this amount cannot exceed 10% of the NCFE's estimated total investment in the project. Other relevant financing sources might also have similar technical assistance facilities which you might wish to explore.

Partner institutions of the NCFE

The NCFE cooperates with several financial intermediaries, some of which offer financial products for biodiversity and climate projects in a specific region or sector.

For example, the NCFE currently partners with **HBOR Croatia** and **Rewilding Europe Capital** to deliver projects; these institutions on-lend smaller financing volumes to end beneficiaries. Further information on how the NCFE currently partners with intermediaries and other organisations can be found on the [website](#).

The NCFE also continues to look for partners to extend its outreach – if you are interested, please [contact us](#) for further information.

The NCFE in Cities

The NCFE can also finance conservation and nature-based solutions for climate change adaptation and other green infrastructure in urban areas. One example is an NCFE loan to the City of Athens, which will help the city to implement the green infrastructure components of its resilience strategy.

For more information on possible financing structures for nature-based solution projects in urban areas and on the NCFE Athens project, please visit our website with relevant guidance material.

COULD I BE ELIGIBLE FOR NCFE FINANCE?

To be eligible for NCFE funding, you will need to be **legally registered**, and be planning projects which are **exclusively located** within the **EU**.

Projects must also fit within the **four categories of eligible NCFE projects**⁵, and must demonstrate the ability to **generate revenues** or **cost savings**. Target operations will typically have a size of **EUR 5-15 million**, but a larger amount could be considered, whilst **smaller amounts can be accessed through one of the NCFE's partner institutions**.

Terms of the debt and equity fund finance will typically be between 5 and **15 years**⁶. The NCFE can finance **up to 75% of total project costs** for direct debt financing but its commitment to a single operation cannot exceed EUR 15 million. In the case of equity fund investments, the **maximum participation of the NCFE in funds is 33%**.

Project proposals will be examined on a continuous basis and will be **assessed against the following criteria**:

- Capacity, experience and resources of the counterparts (final recipient and/or financial intermediary)
- Strength and coherence of the business model
- Contribution to the EU's [LIFE](#) programme objectives
- Demonstration, replicability, transferability
- Potential leverage effect (how much commercial capital is mobilised by NCFE support)
- Employment creation or safeguard of employment

Full eligibility requirements for NCFE funding can be found online here: NCF_Instrument@eib.org.

If you believe your project, or planned project, could be eligible for support from the EIB NCFE, then get in touch! The contact form can be found online [here](#). You will need to answer a series of short questions:

- 1. Your details.** Brief information about you or your organisation (e.g. name, location and legal status).
- 2. Project description.** A short outline of the project, including the proposed business model.
- 3. Contribution to biodiversity and/or adaptation.** How this project will help deliver the climate and conservation goals of the NCFE.
- 4. Funding.** Cost of the project, how much funding is needed from the NCFE, and the volume and nature of funding from third parties.

If you would like to know more, please email: NCF_Instrument@eib.org.



5. (1) Green infrastructure. (2) Payments for Ecosystem Services.
(3) Biodiversity offsets and compensation. (4) Pro-biodiversity and adaptation businesses.
6. Debt finance can be extended to 25 years if justified by underlying asset(s).

GLOSSARY OF BIODIVERSITY-RELATED TERMS

Biodiversity	The number and types of plant and animal species that exist globally or in a particular area. Biological diversity is often understood at three levels: the diversity <i>within</i> species, the diversity <i>between</i> species and the diversity of <i>ecosystems</i> .
Biodiversity mitigation	The overall process of avoiding, minimizing, restoring/rehabilitating, and then offsetting or compensating for negative impacts to biodiversity.
Biodiversity offset	A quantified environmental benefit that is designed to compensate for any adverse impacts to habitat, environmental functions, or ecosystem services that cannot be avoided, minimised, and/or restored. Offsets can take the form of positive management interventions such as restoration of degraded habitat or preventing continued degradation. Offsets can be implemented by either the party directly responsible for adverse impacts or a third party.
Conservation	The protection of biodiversity, ecosystems and landscapes, particularly from the damaging impacts of human activity.
Ecosystem dependency	Environmental conditions required for successful corporate performance. For example, the agricultural industry is dependent on plant pollinator species such as bees.
Ecosystem impact	How a company affects the quantity or quality of ecosystem services. For example, extractive industries such as mining can have an impact on ecosystems that exist on the land occupied by their extraction sites.
Ecosystem services	The benefits that people obtain directly or indirectly from ecosystems – the goods and services provided by nature. These can be divided into <i>provisioning services</i> (food, water, wood, raw materials), <i>regulating services</i> (pollination of crops, flood and disease control, water purification, prevention of soil erosion, sequestering carbon dioxide), <i>cultural services</i> (recreational, spiritual and educational services) and <i>supporting services</i> (nutrient cycling, maintenance of genetic diversity).
Ecotourism	Providing tourism services in natural areas that both conserve the environment and improve the well-being of local people.
Green infrastructure	Strategically created natural and semi-natural areas, designed and managed to allow nature to deliver a range of valuable ecosystem services (such as clean air and water), in both rural and urban settings.
Nature-based solutions to climate adaptation	Using natural (not man-made) techniques to either prevent, mitigate or adapt to the effects of climate change. For example, taking advantage of the carbon-sequestering properties of forests to reduce atmospheric carbon dioxide concentrations, using green roofs to reduce the atmospheric heating effects of buildings or re-planting coastal areas with native plants to act as natural flood defence mechanisms.
Payments for Ecosystem Services (PES)	A financial tool for ensuring that those who maintain an ecosystem’s ability to provide services (e.g. to provide clean water) are compensated for carrying out - or refraining from - certain activities. Payees may be beneficiaries (e.g. a downstream user of clean water), or polluters offsetting their negative environmental impacts elsewhere. PES attempts to address failures current economic systems where the stewardship of ecosystems is not rewarded, often resulting in their over-use or conversion to more unsustainable land-uses.

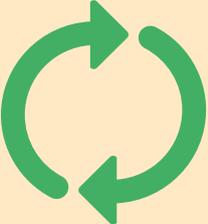
GLOSSARY OF FINANCE-RELATED TERMS

EBITDA	Earnings before interest, taxes, depreciation and amortisation. I.e. the net cash inflow from operating activities, before working capital requirements are taken into account. <i>EBITDA margin</i> is a measure of operating performance calculated by dividing EBITDA by sales.
Profit margin	A measure of a company's profitability. Calculated by dividing net profit by sales and usually expressed as a percentage.
Term loan	A loan for a fixed period of more than one year and repayable by regular instalments with interest.
Working capital	The amount of capital or current assets available for operating the business. The <i>working capital ratio</i> (current assets/current liabilities) indicates whether a company has enough short-term assets to cover its short-term debt obligations.
Assets	Anything having a commercial value that is owned by the business. Can include cash, stock, land, buildings, equipment, machinery, furniture, patents and trademarks, as well as money due from individuals or other businesses.
Capital expenditure	Refers to the amount of money that is allocated or spent on new assets (investments).
Liabilities	A company's financial debts or obligations that arise during the course of business operations. Can include loans, overdrafts and other credit used to fund the activities of the business, including the purchase of capital assets and stock, and for the payment of general business expenses.
Shareholders' equity	Money put into a business by its owners. Also called net worth or capital.
Convertible debt	Debt instrument that could be converted into equity at a later stage, subject to pre-agreed terms.
Debt financing	Loans from a bank or other financial intermediary that is repaid by the borrower over time, usually with interest. It works similarly to a mortgage or a car loan. The interest margin and potential level of security (also called collateral) required depend on factors such as the type of capital expenditure ('project riskiness'), tenor (length of loan) and the financial strength of the borrower.
Equity financing	Monetary contribution from investors (shareholders) who are looking to support the company and eventually sell their stake (ideally at a premium). The investors are exposed to more risk than debt providers (ranking 'subordinate' – e.g. lenders get their money first in case a company is liquidated).
Blended finance	Use of 'development finance' (from governments, development finance institutions or other agencies at concessional terms below market rate) to catalyse and mobilise commercial finance towards sustainable projects. Concessional financing can for example be used to mitigate risks for investors (provide first-loss in a fund or guarantee) or support project pipeline development (technical assistance facility).
Guarantees	An agreement whereby a third party agrees to 'step-in' to cover a borrower's financial obligations to repay the lender under certain scenarios. A guarantee could be provided by a third-party to enable a borrower to access a loan - or at the portfolio level (e.g. the EIB's NCF facility is backed by an EU guarantee).

Concessional loan	A loan being repaid over time but provided at a 'discounted' interest rate as the underlying project is not yet fully commercial (e.g. not yet sufficient cash flows). For example, a project may receive a concessional loan because it was deemed to have a very significant biodiversity and/or climate impact potential and was therefore eligible for a (temporarily) reduced interest rate for the biodiversity component.
Grace period	The time before the first principal repayment of a long-term loan is due to the bank or financial intermediary. Typically, this period will extend until a project is completed and the project is able to generate revenues (for example, first payment due one year after construction completed).
Pricing (interest)	The interest margin on debt financing. The amount of interest will depend on the credit profile of the borrower and underlying risks of the project. The margin is determined by the bank or financial intermediary. The interest can be fixed or variable (fluctuating with interbank rate).
Valuation	Refers to the amount of capital which equity investors (shareholders) are willing to pay for a stake in the company. The valuation is determined based on the expected value of the firm going forward. This is negotiated with potential equity investors.
Intermediated loans	When a financial institution, such as the EIB, provide loans to local banks and other intermediaries which is subsequently 'on-lent' to the final beneficiaries.
Debt/Equity ratio (leverage)	Used to measure financial leverage. Calculated by dividing a company's total liabilities (including its financial debt) on its balance sheet by its shareholder equity. Repayment of outstanding debt or increasing equity-like financing (through equity investment, shareholder loans or subordinated hybrids such as mezzanine) can help improve the ratio – and increase ability to obtain loan financing. A maximum debt-to-equity ratio is typically incorporated in loan agreements as a financial covenant.



APPENDIX 1: OUTLINE OF ELIGIBLE SECTORS FOR NCCF FINANCING

PROJECT CATEGORIES	SUB-SECTORS
<p>PRO-BIODIVERSITY AND ADAPTATION BUSINESSES</p> 	<ul style="list-style-type: none"> • Sustainable forestry (e.g. combining commercial production with safeguarding of the environmental value and services forests provide) • Regenerative agriculture (e.g. practices that increase biodiversity, enrich soils, improve watersheds, enhance ecosystem services) • Sustainable aquaculture (e.g. implementation of aquacultural practices that support or enhance biodiversity or climate adaptation) • Ecotourism (e.g. providing tourism services in natural areas that conserves the environment and improves the well-being of local people)
<p>PAYMENTS FOR ECOSYSTEM SERVICES</p> 	<ul style="list-style-type: none"> • Protecting and enhancing forestry (e.g. projects that either protect existing forest, enhance it or establish new forest) • Biodiversity protection (e.g. maintenance and enhancement of native biodiversity, including terrestrial, freshwater and marine) • Pollution reduction (e.g. reduction of artificial materials and chemicals introduced in to the environment) • Carbon dioxide mitigation (e.g. modifying / eliminating practices generating CO₂ or initiating / increasing practices which sequester CO₂)
<p>GREEN INFRASTRUCTURE</p> 	<ul style="list-style-type: none"> • Green roofs (e.g. system that uses vegetation as the surface of the roof covering instead of artificial materials) • Green walls (e.g. vertical growing medium attached or integrated into the wall of a building) • Ecosystem-based rainwater collection / water re-use systems (e.g using plants and other components of ecosystem as natural filters) • Natural flood protection (e.g restoring, modifying or using natural landscapes to reduce or mitigate the impacts of flooding) • Erosion control (e.g. creating or modifying infrastructure to reduce the effects of erosion, including from anthropogenic activities)
<p>BIODIVERSITY OFFSETS AND COMPENSATION</p> 	<ul style="list-style-type: none"> • Compensation pools (on-site) (e.g. restoration or creation of new habitat areas undertaken at the project site) • Compensation pools (off-site) (e.g restoration or creation of new habitat areas at a location geographically separated from the project site)

1A: PRO-BIODIVERSITY AND ADAPTATION BUSINESSES



Businesses and enterprises that directly or indirectly support the protection, maintenance or enhancement of biodiversity and/or climate adaptation.

CATEGORY	DESCRIPTION	SELECTED FINANCIAL AND NON-FINANCIAL BENEFITS
SUSTAINABLE FORESTRY	Managing forests in a way that combines commercial production with safeguarding of the environmental value and services forests provide.	<ul style="list-style-type: none"> • Revenues generated from the sustainable production of timber or other forest products • Revenues from the sale of certified carbon credits, or other Payments for Ecosystem Services arrangements • Maintenance or enhancement of biodiversity
REGENERATIVE AGRICULTURE	A system of farming principles and practices that increases biodiversity, enriches soils, improves watersheds, and enhances ecosystem services.	<ul style="list-style-type: none"> • Revenue benefits from potential yield increases • Cost savings from reduced use of artificial materials or inputs (fuel, fertilisers etc.) • Revenue benefits from premium prices warranted from environmentally-supportive agricultural practices • Increased environmental service benefits in and around agricultural land, including biodiversity, soil health and water quality
SUSTAINABLE AQUACULTURE	Implementation of aquacultural practices that support or enhance biodiversity or climate adaptation.	<ul style="list-style-type: none"> • Revenue benefits from potential yield increases • Cost savings from reduced use of artificial materials or inputs (fuel, fertilisers etc.) • Revenue benefits from premium prices warranted from environmentally-supportive aquacultural practices • Reduced pressures on wild fish stocks
ECOTOURISM	Providing tourism services in natural areas that both conserve the environment and improve the well-being of local people.	<ul style="list-style-type: none"> • Revenue generated through direct tourism visitation (bed nights, use of equipment etc.) • Revenue generated through secondary activities (e.g. sale of secondary products and services) • Providing income and livelihood opportunities to rural communities • Revenue generation to fund activities that support biodiversity protection and the maintenance of habitats (e.g. management and patrols)

1B. PAYMENTS FOR ECOSYSTEM SERVICES



Transactions where the beneficiaries of services and goods provided by nature (such as watershed protection or carbon sequestration) reward those whose lands and waters provide these services.

SUB-CATEGORY	DESCRIPTION	SELECTED FINANCIAL AND NON-FINANCIAL BENEFITS
PROTECTING AND ENHANCING FORESTS	Projects that either protect existing forest, enhance it or establish new forest.	<ul style="list-style-type: none"> • Revenues from sale of certified 'carbon credits' • Enhanced biodiversity and connectivity of habitat • Preservation of important or threatened native tree species
BIODIVERSITY PROTECTION	Deliberate maintenance or enhancement of native European biodiversity, both terrestrial, freshwater and marine.	<ul style="list-style-type: none"> • Increased functioning of ecosystem services (e.g. pollination) for core revenue streams (e.g. agriculture) • Eligibility for agricultural subsidies • Payments generated through voluntary biodiversity offset mechanisms • Maintenance or enhancement of native biodiversity within Europe
POLLUTION REDUCTION (WATER, SOIL ETC.)	Reduction in the volume of artificial materials and chemicals introduced into the environment.	<ul style="list-style-type: none"> • Premium prices obtained through low-input or regenerative agricultural practices • Reducing costs through substituting artificial materials for natural or biodegradable ones • Maintenance of healthy, functioning ecosystems due to reduction of artificial substances (fertilisers, pesticides etc.)
CARBON DIOXIDE MITIGATION	Modifying or eliminating practices which generate carbon dioxide or initiating or increasing practices which sequester carbon dioxide.	<ul style="list-style-type: none"> • Cost savings generated through reduction in fossil fuel use, or switching to renewable energy sources • Revenues generated through the sale of certified carbon credits • Contribution towards Nationally Determined Contributions to addressing climate change

1C: GREEN INFRASTRUCTURE



Strategically created natural and semi-natural areas, designed and managed to allow nature to deliver a range of valuable ecosystem services (such as clean air and water), in both rural and urban settings.

SUB-CATEGORY	DESCRIPTION	SELECTED FINANCIAL AND NON-FINANCIAL BENEFITS
GREEN ROOFS	A system that uses vegetation as the surface of the roof covering instead of artificial materials.	<ul style="list-style-type: none"> • Reduces heating and / or cooling costs by improving the thermal properties of the roof • Increases the lifespan of the waterproof layers of the roof • Reduces storm-water run-off • Improves air quality • Enhances biodiversity by providing new habitat
GREEN WALLS	A vertical growing medium attached or integrated into the wall of a building, in which a variety of plants can establish and grow.	<ul style="list-style-type: none"> • Provides an extra layer of building insulation • Reduces direct erosion of walls caused by rainwater runoff • Reduces noise pollution • Improves ambient air quality
ECOSYSTEM-BASED RAINWATER COLLECTION AND WATER RE-USE SYSTEMS	Using plants and other components of ecosystems to enhance the volume and quality of rainwater collection, filtration and re-use.	<ul style="list-style-type: none"> • Reduces demand for artificially treated water, and associated costs in purchasing it • Reduces impacts of storm run-off and flooding • Reduces need for chemical inputs in to water systems
NATURAL FLOOD PROTECTION	Restoring, modifying or using natural landscape features to reduce or mitigate the risk and impacts of flooding.	<ul style="list-style-type: none"> • Reduces the cost of artificial flood defences • Reduces the costs and impacts of flooding events • Reduces sediment flows, and associated sediment removal costs • Restores natural hydrological cycles, and associated benefits for ecosystems and wildlife
EROSION CONTROL	Creating or modifying natural infrastructure to reduce the effects of erosion, including from anthropogenic activities.	<ul style="list-style-type: none"> • Reduce the cost of artificial erosion control techniques • Reduce the occurrence and severity of erosion • Reduce sediment flows, and associated sediment removal costs (roads, drainage infrastructure etc.)

1D: BIODIVERSITY OFFSETS AND COMPENSATION



Projects which seek to enhance biodiversity, or compensate for its loss, above and beyond legal requirements.

CATEGORY	DESCRIPTION	SELECTED FINANCIAL AND NON-FINANCIAL BENEFITS
COMPENSATION POOLS (ON-SITE)	Combining biodiversity liabilities from project development in to a consolidated set of compensatory activities (e.g. re-planting, creation of new habitat areas etc.), undertaken at the project site itself.	<ul style="list-style-type: none"> • Fees charged by project developers for the provision of these services • Contributes towards the European Union’s commitment of no net loss of biodiversity, with the potential to contribute to an enhancement of biodiversity • Increases in onsite ecosystem services (e.g. soil stability, hydrological flows, air quality etc.)
COMPENSATION POOLS (OFF-SITE)	Combining biodiversity liabilities from project development in to a consolidated set of compensatory activities (e.g. re-planting, creation of new habitat areas etc.), undertaken at a location geographically separated from the project site itself.	<ul style="list-style-type: none"> • Fees charged by project developers for the provision of these services • Contributing towards the European Union’s commitment of no net loss of biodiversity, with the potential to contribute to an enhancement of biodiversity • Increase in net ecosystem services (e.g. biodiversity, carbon sequestration, hydrological flows, air quality etc.)



‘DEEP DIVE’ ON DIRECT DEBT FINANCE

Debt, in its simplest terms, is an arrangement between borrower and lender. A capital sum is borrowed from the lender on the condition that the amount borrowed is paid back in full either over a period of time (e.g. amortising) or at a later date (e.g. bullet repayment).

Interest is accrued on the debt and the repayment usually combines an element of capital repayment and interest. The interest rate is either fixed or variable - that is, it will either stay the same over the term of the loan, or it will change with depending on the interbank rate (e.g. EURIBOR).

Loans have a number of distinct advantages. If you have a fixed-rate loan you will know exactly how much you need to repay each month, and on what date. You will know when the loan will be repaid and, in many cases, you might be able to extend it if your requirements change.

Debt can be used for longer-term investments (capital expenditure such as for land and machinery) and/or to fund daily operations (working capital). For the former, a bank loan can be more appropriate (typically secured with collateral). For the latter some form of overdraft (more flexible and only used upon need) or other short-term debt financing is more normal.

At any stage of its development a business is likely to use a blend of different debt products from a range of providers. What is most appropriate, and the financing cost, depends on the purpose and amount of the capital being borrowed and the credit profile of the borrower.

You will normally be required to submit a comprehensive business plan to prove that your business is viable and has a strategy for repayment and growth.

To obtain debt financing, management must demonstrate to the lender that the business will generate the income and cash to both repay the facility according to the terms of the loan, and service the loan by meeting interest payments.

It is likely that the business will need to provide collateral for any money borrowed against other personal or business assets. A lender may also require access to a guarantee from a third party.

Main advantages of debt:

- Terms can be tailored to suit the precise needs of the business
- Repayments are straightforward, so are easy to schedule and budget for the cash-flow impact
- Unlike equity, debt does not involve relinquishing any share in ownership or control of a business.

However, a lender is far less likely to help a business with execution of its strategy

- Tax relief on interest payments

Other considerations:

- Lenders will always take into account a potential borrower's credit profile when deciding whether or how much to lend
- Long-term loans can be less flexible than overdrafts or short-term loans – charges could be payable on funds committed but not used and there may be penalties for early repayment
- Being locked into a rigid repayment schedule can prove problematic if cash flow is seasonal or erratic
- For larger amounts, collateral against the loan will almost always be required, as will guarantees from third parties

‘DEEP DIVE’ ON DIRECT EQUITY FINANCE

Equity finance involves raising of capital through selling a stake in your business. The investor who buys that stake will take on a portion of the profits or losses that your business makes. In addition, depending on the terms of the investment, you might have to consult with them before you make certain decisions.

However, there are some significant advantages to equity finance. First and foremost, you will not have to make repayments in the same way that you would if you took out a loan. Equity finance is an investment, and does not need to be repaid. If things do not go to plan and your business ultimately fails, the investors share the risk.

Just as importantly, equity finance is often not just about the cash. Instead, equity investors frequently have extensive business experience which they can bring. Many equity investors end up playing a key role in the development of a business, and this is one of the most important advantages to this method of

funding. Whether starting out or experiencing a high-growth phase, equity is an important part of finance arrangements for businesses and usually brings broader expertise with it.

Unlike debt providers, equity investors do not have rights to interest or to have their capital repaid by a certain date. Shareholders' return is usually paid in **dividends** (typically an annual reward, in the form of cash or shares, from the entity's earnings) or realised through capital growth at sale. Both are dependent on the business's growth in profitability, and its ability to generate cash. Because of the risk to their returns, equity investors will expect a higher return than debt providers.

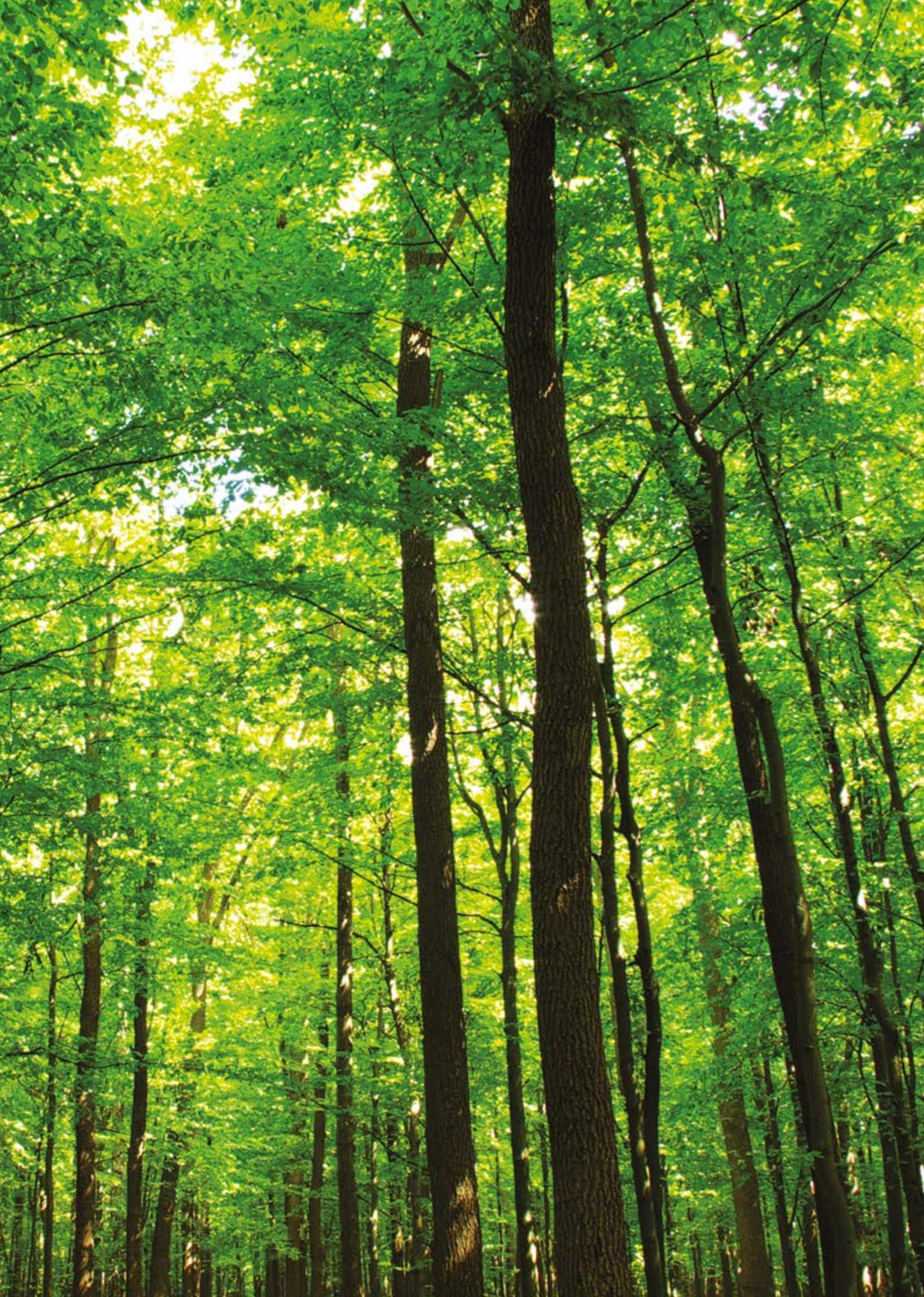
Equity is typically appropriate for a company in its start-up phase (without a track-record, it can be challenging to obtain loans), a company experiencing strong growth or where a project requires longer term investment than conventional debt offers.

Main advantages of equity:

- Investors are committed to the business and its intended projects, even if plans change
- Equity investors take a risk acquiring shares. In exchange they can see uplift in the value of their stake if the business performs well, as a result of the deployment of that additional capital
- Investors have aligned interests with the business; they have an incentive to drive the growth and profitability of the business as this will increase the value of the business and therefore the investor's shareholding
- As well as taking a stake in the business, the right investors can bring valuable resources to the business. Their skills, experience and contacts can help with the development of the business strategy
- If it is a private company, the business owner can sell their stake privately to a willing private buyer, or if the business is to be listed they can eventually sell their shares on the stock market
- Investors are often prepared to provide follow-up funding as the business grows

Other considerations:

- Raising equity finance can be costly. It demands management time, which may be diverted from the day-to-day running of the business
- Potential investors will scrutinise past results and forecasts of future performance, and will investigate background information, including that of the management team
- The owner's share in the business will be diluted (reduced to reflect the stakes of the new shareholders). Once the new shareholders invest, management will face varying degrees of influence when making major strategic decisions (though this will depend on the nature of the shareholding and the stake acquired)
- Management time will need to be invested in producing regular information for the investor to monitor (typically more scrutiny than for debt financing)
- There can be legal and regulatory requirements to comply with when raising equity finance
- Dividend payments are not deductible for tax purposes



RECOMMENDED FURTHER READING

- 1. Credit Suisse, McKinsey, Moore Foundation and Rockefeller Foundation, ‘Conservation Finance From Niche to Mainstream: The Building of an Institutional Asset Class’ (2016)**

Provides an overview of the theory and structures behind conservation finance, and how financial product structures have the potential to establish conservation finance in the mainstream investment markets.
<https://www.credit-suisse.com/media/assets/corporate/docs/about-us/responsibility/banking/conservation-finance-en.pdf>
- 2. WWF, ‘Living Planet Report 2018: Aiming Higher’ (2018)**

The twelfth edition of WWF’s study of trends in global biodiversity and the health of the planet.
https://wwf.panda.org/knowledge_hub/all_publications/living_planet_report_2018/
- 3. WWF and Clarmondial, ‘Capitalising Conservation: How conservation organisations can engage with investors to mobilise capital’ (2017)**

Highlights the opportunity that conservation finance presents, and aims to raise the level of investment activity occurring in the field.
<https://www.sdphilanthropy.org/Capitalizing-Conservation>
- 4. GCP, EcoAgriculture Partners, IDH, TNC and WWF, ‘The Little Sustainable Landscapes Book: Achieving sustainable development through integrated landscape management’ (2015)**

Aims to facilitate and advance thinking on how natural landscapes can be supported to become financially and ecologically sustainable.
https://www.globalcanopy.org/sites/default/files/documents/resources/GCP_LSLB_English.pdf
- 5. Forest Trends and JP Morgan, ‘State of Private Investment in Conservation 2016: A Landscape Assessment of an Emerging Market’ (2016)**

Provides an assessment of the status of the global conservation finance market, as well as trends, barriers and future development.
<https://www.jpmorganchase.com/corporate/Corporate-Responsibility/document/cr-es-investment-in-conservation-report-2016.pdf>
- 6. WBCSD, ‘Business Ecosystems Training course’ (2012)**

A freely-available capacity building program to increase the knowledge and understanding of the links between ecosystems and business.
<https://www.wbcds.org/Programs/Redefining-Value/Business-Decision-Making/Measurement-Valuation/BET/Business-Ecosystems-Training>
- 7. TEEB, ‘The Economics of Ecosystems and Biodiversity in Business and Enterprise’ (2012)**

Provides important evidence of growing corporate concern about biodiversity loss and offers examples of how leading companies are taking action to conserve biodiversity and to restore ecosystems.
<http://www.teebweb.org/our-publications/teeb-study-reports/business-and-enterprise/#.Ujr2Ln9mOG8>

- 8. Forest Trends, ‘State of European Markets 2017: Biodiversity Offsets and Compensation’ (2017)**

This report tracks progress on biodiversity offsets and compensation within Europe as of June 2017.
<https://www.ecostarhub.com/wp-content/uploads/2017/06/State-of-European-Markets-2017-Biodiversity-Offsets-and-Compensation.pdf>
- 9. Blended Finance Taskforce and Kois Invest, ‘Financing Sustainable Land Use, Unlocking Business Opportunities in sustainable land use with blended finance’ (2018)**

Explores financial mechanisms for sustainable land use. According to the report, there needs to be a paradigm shift in the way in which private sector investors view investment opportunities and how public and philanthropic investors engage to catalyse private capital for sustainable land use.
<https://www.blendedfinance.earth/working-papers/>
- 10. United Nations Convention to Combat Desertification and the Food and Agriculture Organisation of the United, ‘Sustainable financing for forest and landscape restoration. Opportunities, challenges and the way forward.’ (2015)**

Provides an overview of funding sources, at the national, regional and global level, which are relevant for forest and landscape restoration activities, and identifies innovative financing mechanisms and solutions.
<http://www.fao.org/3/a-i5174e.pdf>

European Investment Bank

98-100, boulevard Konrad Adenauer

L-2950 Luxembourg

☎ +352 4379-1

www.eib.org – ✉ NCF_Instrument@eib.org

🐦 twitter.com/EIB

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