



**European  
Investment  
Bank**

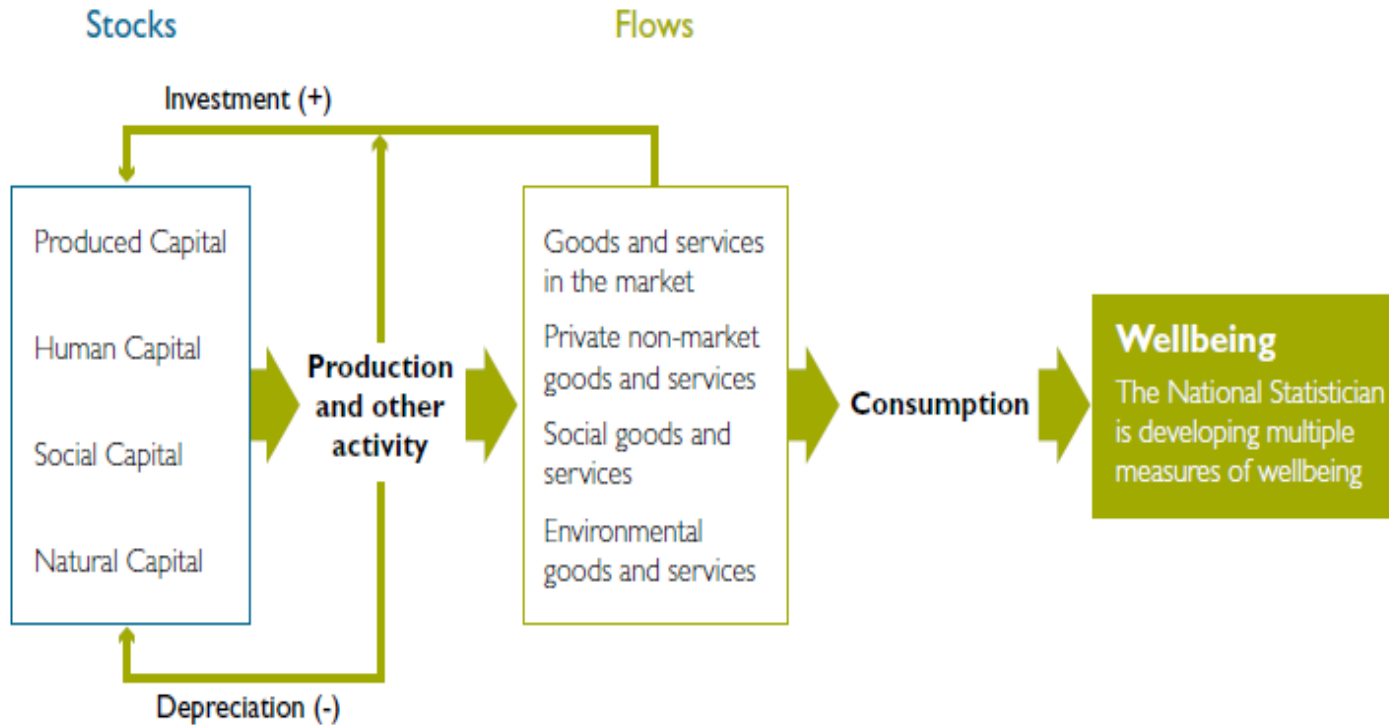


# **Financing and Investing in Natural Capital**

November 2014



# Inter-linkages between Community Capitals



Harper and Price (2011)



# Natural Capital in Finance

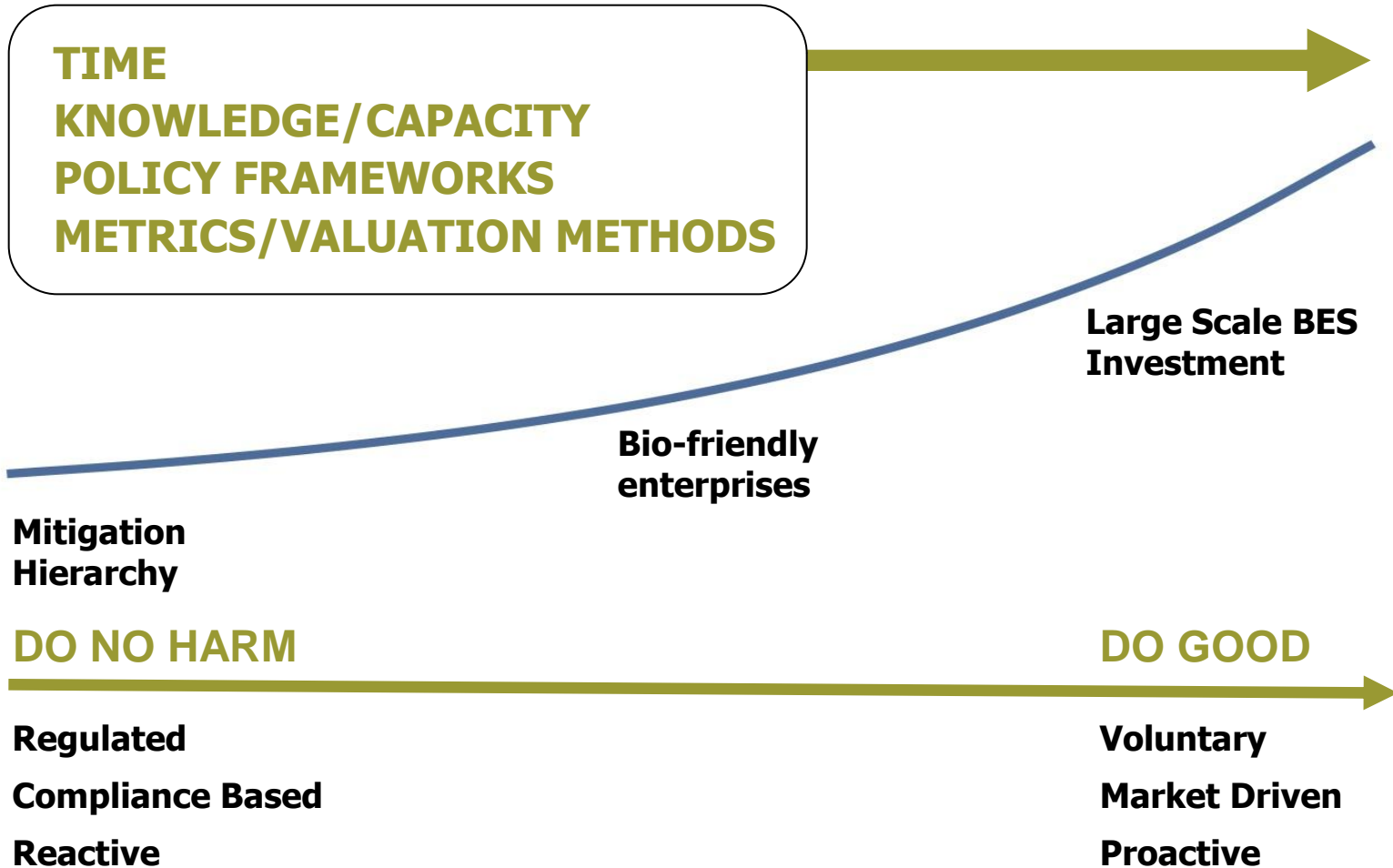
- Source of Finance  
national budget, private capital flows, international/EU support flows
- Scale up flows to natural capital compared to other flows  
increase our slice of the pie by mainstreaming biodiversity into other sectors and into national budgets and engineering new flows
- Require necessary enabling conditions  
cash, delivery mechanism, safeguards



# FINANCING AND INVESTING IN NATURAL CAPITAL PROJECTS (1)



Moving up the curve...





# FINANCING & INVESTING IN NATURAL CAPITAL PROJECTS (2)



## **NEED = Asset or Commodity (Measureable, Verifiable and Tradable Value)**

- metrics that are locally appropriate but standardized across markets
  - . an issue of scale, geography and system complexity
- an asset which can overcome risks associated with permanence in a natural system

## **NEED = Demand (A Market)**

- all projects must achieve acceptable financial and economic rates of return
- challenge of converting a 'free' asset to a cost (incentive, regulation or consumer pressure)
- challenge in identifying demand-side participants

## **NEED = Risk Reduction (Particularly Permanence of Asset in this Case)**

- ensuring the true opportunity cost is overcome
- alignment of interests – pure ecosystem assets vs. sustainable harvesting
- ensuring associated alternative livelihood strategies are sustainable

## **NEED = Informed Supply-Side Project Managers**

- project developers must have specialist project knowledge (common)
  - but also financial expertise to allow them to translate their projects from grant based operations to investment opportunities....

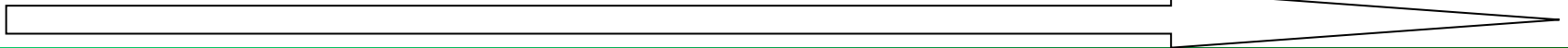


# FINANCING & INVESTING IN NATURAL CAPITAL PROJECTS (3)

## NATURE OF GOODS

Private

Public



## ASSET CLASS

**Sustainable Forest Management & Plantations**  
(Pulp and Paper, Timber, Biomass)  
**Afforestation/Reforestation**

**Non-Timber Forest Products** (Coffee, Tea, Nuts, Herbs, Mushrooms)  
**Pro-Biodiversity Businesses** (Ecotourism, Research)

**Forest Carbon & Biodiversity Offsets** (REDD+...)

**Other Ecosystem Services** (Fire Prevention, Erosion Control, Water Cycle...)

## RELEVANT FINANCING INSTRUMENTS

Loans to Private or Public Sector  
Equity Funds

Equity/Debt Funds  
Structured Tools

Equity/Debt Funds  
Structured Tools  
PPP

PPP  
Loans to Public Sector  
Grants

<==== Green Bonds ??? =====>



# The Natural Capital Financing Facility

- **Why?** Financing gap for biodiversity and climate adaptation; emerging market opportunities for investments in natural capital
- **Market failures:** perceived high risks, lack of track record, long pay-back periods
- **Objectives:**
  - To encourage investments in revenue-generating or cost-saving projects promoting the conservation of natural capital to meet biodiversity/adaptation objectives and support green growth;
  - To demonstrate to private investors the attractiveness of natural capital projects; build project pipeline



# Project Example

- **What is the project?**
  - GI +PES - Fund green investments in business improvement districts for which local businesses would be willing to pay, because of improvements in the business environment and delivery of ecosystem services – installation of green roofs, walls, rainwater harvesting etc...
- **Who are the actors involved?**
  - Business Development Districts in large city
  - Public-private regeneration partnership comprising of local authorities city statutory bodies, local businesses and partner organisations.
- **How does it generate revenues/cost savings?**
  - The main opportunities for revenue generation lie in the financing of ambitious GI and pro-biodiversity schemes. Cost savings can also be attributed to GI installations.
- **Relevancy to the NCFE**
  - While small scale GI installations are being delivered within traditional financing mechanisms, it is impossible to attract that same financing to larger scale, public realm interventions. Despite evidence of revenues and cost savings, there are also barriers to securing commercial finance due to the novel and innovative nature of the approach, and perceived risks among potential financiers. NCFE investment will address these barriers and demonstrate new financial models of urban green infrastructure.
- **Benefits**
  - Potential for increasing the stock of natural assets within an intensively-used sub-region at the centre of the city. The city is rapidly growing with plans to continue this rapid growth. A strategic intervention from the NCFE will support this growth to be pro-biodiversity and sustainable. Clean air, protection against surface water flooding, pollination of plants and provision of “green lungs” in the form of GI with dense urban areas – all of these are vital natural capital assets with associated positive multiplier effects on quality of life and economic productivity.





# Thank You

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