Investing in Nature – A Webinar Series

In partnership between the European Investment Bank, Business Biodiversity Platform, We Value Nature, SYSTEMIQ, and the Natural Capital Coalition
Webinar Series - Overview & Outlook

Webinar 1: Challenges in setting up a project & How to get started (June 2019)

Webinar 2: Conservation/ NBS business models (Sep 2019)

Webinar 3: Project financials & Risks and Mitigants (Oct 2019)

Webinar 4: Understanding different types of financing & pros and cons (Nov 2019)

Webinar 5: Assessing legal structures for conservation/NBS projects (Dec 2019)
1. About us, the EIB and the Natural Capital Financing Facility
2. Objective of Webinar & Relevance
3. Main challenges to setting up a conservation/NBS project
4. Getting started – Developing the business case
   o Steps to develop a business case
   o Different funding sources – different audiences
   o Preliminary questions
   o Business idea and model
   o Market and Demand analysis
   o The team
1. About us, the EIB and the Natural Capital Financing Facility

- The Natural Capital Financing Facility is one of the first financial instruments targeting investments for biodiversity and conservation
- Joint initiative by the European Investment Bank and the European Commission
- Pilot phase: 2015-2021
- Repayable debt/equity financing & technical assistance
- Finances projects >= EUR 5 m investment volume. Maximum NCFF financing EUR 15 m and 75% of the project cost
- Technical assistance up to EUR 1 m
- Terms and conditions depend on project
- More information on the NCFF pls click here
2. Objective & Relevance

- The webinar series – Understanding of “bankability”

- Today’s webinar – How to get started & Aspects to consider
2. Objective & Relevance

Are the webinars 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?

...then, yes!
3. Main challenges to setting up a bankable project in conservation
/Adaptation Natured-Based Solution

For the investor/funding provider

- Lack of project promoters with capacity on both conservation + to monetize conservation benefits
- Projects generating a stable revenue stream
- Typically small size of investments/ high transaction costs/limited scalability
- Often counterparties with week credit profiles and small operational infrastructure
- Lack of regulatory incentives in supporting growth of ‘bankable’ conservation market

For the Investee

- Lacking knowledge about investor’s needs.
- Difficulty to create a stable revenue stream or monetize cost savings/conservation benefits
- High costs going through due diligence of sophisticated funding providers
- Lack of collateral/guarantees/de-risking instruments
- Reliance on grants/reduced incentives to create ‘bankable’ conservation projects
4. The business case - steps

- Engaging with potential investors and financial institutions requires a structured and rigorous approach.

- Understand who is your audience, your possible funding providers and get informed of their own due diligence requirements (often available on their websites).

- Typically, developing and presenting a business case in Natural Capital requires the promoter to go through following 7 steps:
### 4. The business case - different funding sources - different audiences

#### COMMERCIAL FUNDING
- Financing from:
  - public development banks (e.g. from KFW or EIB); or
  - private financial institutions (e.g. from local banks or equity funds)

#### DESCRIPTION
- **INDIRECT DEBT**
  - "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)

#### INTERMEDIATED EQUITY FUNDS
- 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

#### DIRECT FINANCING EQUITY
- Loans from a bank or other financial institution (similar to a mortgage or car loan)
- Repayments consist 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)

#### CONCESSIONAL FUNDING
- Financing from:
  - public institutions (e.g. from EU programmes or EIB); or
  - private institutions (e.g. from philanthropies, NGOs or lotteries)

#### BLENDED FINANCE
- Vehicles that combine:
  - commercial funding, and
  - concessional funding
- The NCPF itself is an example of a blended finance facility

- What is my target audience?
- What are my funding provider needs?
4. The business case – preliminary questions

**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?
4. The business case- developing a business idea and model

...requires a **business plan** which generally includes:

- **Executive summary** *(highlighting the essential points and designed to grab attention)*
- **Project description** *(including an explanation of how the investment figure was calculated)*
- **Mission/Expected impact**
- **Market analysis** *(of products/services and its competitors)*
- **Demand analysis** *(details of current and intended client base and marketing plan)*
- **Information on the management team** *(details of key personnel, their responsibilities, skills and experience)*
- **Review of risks and opportunities** *(potential downsides and upsides)*
- **Financial analysis** *(both historical and forecasted, including assumptions)*

...and is presented to funding providers in a short, direct and elevated pitch, **including the key terms of the business model**.

The funding providers typically perform a 1st evaluation of the project before engaging into a detailed due diligence.

A detailed business plan, including third party documents, where available, to back up business assumptions, is typical required during the due diligence phase.
4. The business case - Demand/market analysis- main questions

- What is the service or product you are trying to sell (e.g. organic produce, ecosystem service provision, ecological credits)?
- Is there sufficient demand or willingness to pay to justify the project or business?
- Are there other market actors providing something similar in the same market? What is the market size and customer diversification of the sector?
- What is the profitability and growth prospectus of the sector?
- Are there similar models in other contexts or geographies that could serve as a template?
- Does the regulatory environment provide incentives to the project?
- How would the project be positioned in the sector and what would be my competitive advantage?

Perform a SWOT analysis, explain the strengths and opportunities of the project, identify the risk and possible mitigants.
6. The Management Team

• Natural capital business models tend to be multi-disciplinary and multi-actor (in particular, it requires linking finance and conservation world).

• Environmentally focused projects are often innovative but without a track-record. In such circumstance the strength of the management team is even more important.

• Highlights:
  • the core team track record, competences, complementarity, experience in working together, stability, networks/partnerships, operation support, or future staff planning.
  • The organizational structure, corporate governance envisaged.
4. The business case - Engaging stakeholders

- Nature is a public good and a sustainable business model must engage all stakeholders to secure its success.

- Consider how any of the following groups can collaborate with a new business model:
  - Local governance institutions
  - Public bodies
  - Service providers
  - Infrastructure developers
  - General public
  - Private businesses
  - NGOs, charities and non-profits
7. END
An introduction to financing investments in natural capital

Investing in Nature Webinar

20 June 2019
Annex:
For further information, including submitting any projects proposals, please email the NCFF team at NCF_Instrument@eib.org.
To access the guide, pls click here

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