



**European  
Investment  
Bank**

*The EU bank*

# EU Biodiversity Strategy 2020 – Implementation: Innovative Financing Tools

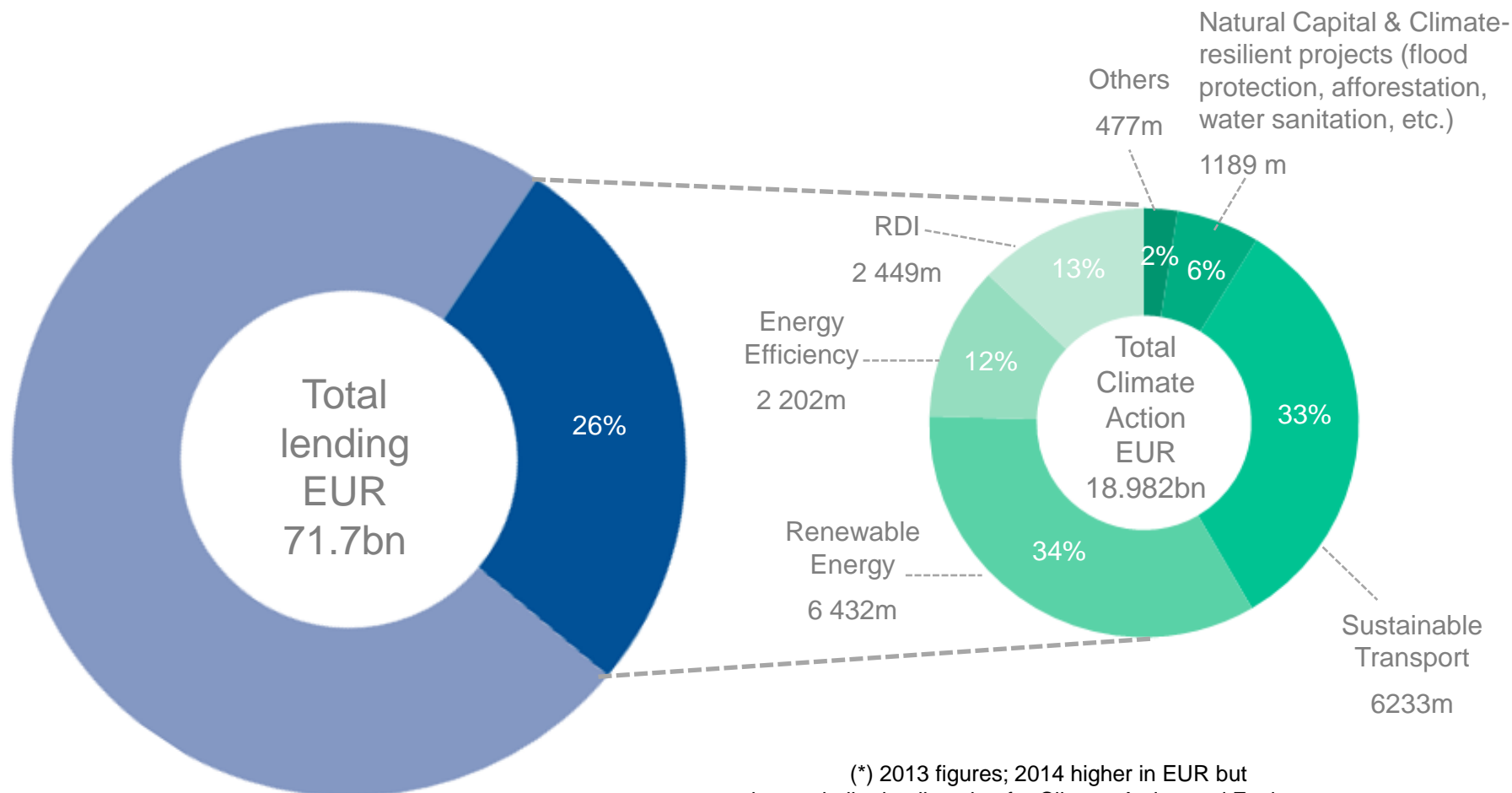
Riga, 27 May 2014

# The European Investment Bank (EIB)

- EIB is the EU's long-term lending bank set up in 1958 by the Treaty of Rome, headquartered in Luxembourg
- EIB shareholders are the 28 EU Member States
- Largest multilateral lender and borrower in the world
- Around 400 projects annually in more than 160 countries
- Around 10% of financing is for projects outside the EU
- Financing is in support for EU priority objectives: climate change, infrastructure, energy, SMEs, regional development...

# EIB Lending Volume, Climate Action, Environment (\*)

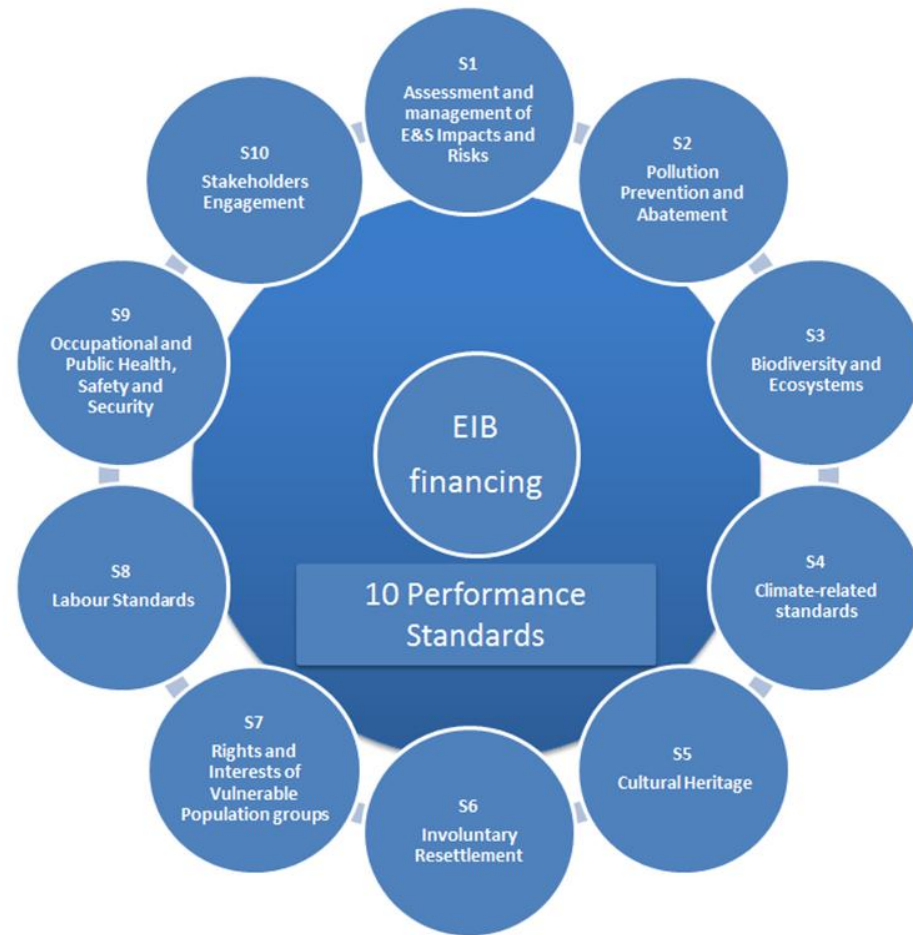
- Efforts to mitigate/adapt to climate change are a priority for EIB
- More than 25% of total EIB lending goes towards Climate Action



(\*) 2013 figures; 2014 higher in EUR but almost similar in allocation for Climate Action and Environment

# EIB Environmental and Social Standards : An integrated Approach

- Understanding operations in the context of wider global drivers: Human Rights, Climate Change, Biodiversity – these are integrated and cut across all EIB activities and practices
- The E&S Principles are operationalised by the 10 E&S Standards and complement the financial and economic criteria in the appraisal of projects
- Aligned with other IFI E&S Standards
- Standards apply to both public and private sector and to all regions



# Standard 1: Assessment and Management of E&S Impacts and Risks

## Objectives

- To **anticipate, avoid, minimize, and remedy/compensate** for impacts and risks;
- To mitigate or minimize negative impacts to **affected communities** and the **environment** including biodiversity and ecosystems;
- To promote **effective use** of environmental and social management systems
- To promote **appropriate and adequate** engagement and communication with project-affected communities.

## Key Aspects

Standard 1 establishes the importance of :

- (i) integrated assessment to identify the environmental and social impacts, risks, and opportunities of projects;
- (ii) effective community engagement through disclosure of project-related information and consultation with local communities on matters that directly affect them; and
- (iii) management of environmental and social performance throughout the life of the project.

# Standard 3: Biodiversity and Ecosystems (BES)

## Key Objectives

- Acknowledge the **intrinsic value** of BES;
- Aims to protect and conserve **all levels of BES** (terrestrial and marine) through the application of the **mitigation hierarchy** so as to ensure no net loss;
- Applies to **all habitats** whether protected or not;
- Supports the **sustainable use** of natural renewable resources and the **equitable sharing** of benefits from project's use of natural resources;
- To **maintain** the benefits from ecosystem services where there is an **impact on local livelihoods**.

## Key Aspects

- Provides guidance on the biodiversity impact assessment (approach and measures the promoter has to take to protect and conserve all levels of biodiversity) through **process**;
- Alignment and respect of **International Conventions** which guide the interpretation of the Standard;
- **Internalisation** of BES where possible **into the cost benefit analysis** and project design;
- Ecosystems and **landscape approach**;
- Stakeholder **engagement and participation** of local communities in decision-making process;
- Requirement for **adaptive management**;
- **Monitoring, reporting and tracking**.

# EIB, Innovative Financing Tools, the NCFF



# OUTPUTS, INVESTORS, INSTRUMENTS

## Nature of outputs

Private assets

Public goods

### Case of Land use asset classes

.Sustainable Forest Plantation

.Afforestation/Reforestation

.Sustainable agriculture, livestock, aquaculture

.Forest Conservation,  
.Restoration of Natural Assets  
on Private or Public Lands

.Green Infrastructure

.Agroforestry, farming conservation  
with nature-based actions

.Pro-Biodiversity Businesses inc. "Green"  
Production, Ecotourism, Research

Various Ecosystem

**Services:** Fire Prevention,  
Erosion Control, Air Control, Noise  
Regulation, Endangered Species,  
Pollination, Water Purification, Soil  
nutrients etc

## Investors

Private Investors & Funds

Banks

Private Sector Companies & VC funds

Donors

Governments

<----- DFIs , Impact Investors ----->

Philanthropists

## Available Financing Instruments

.Equity/Equity  
Funds

.Equity/VC or Seed Funds

.Normal or Layered  
Equity/Debt Funds with  
activation of revenues  
(carbon, PES, offsets...)

.Loans to Public Sector

.Senior or Mezz  
Loans

.Secured Loans

.Layered Equity/Debt Funds

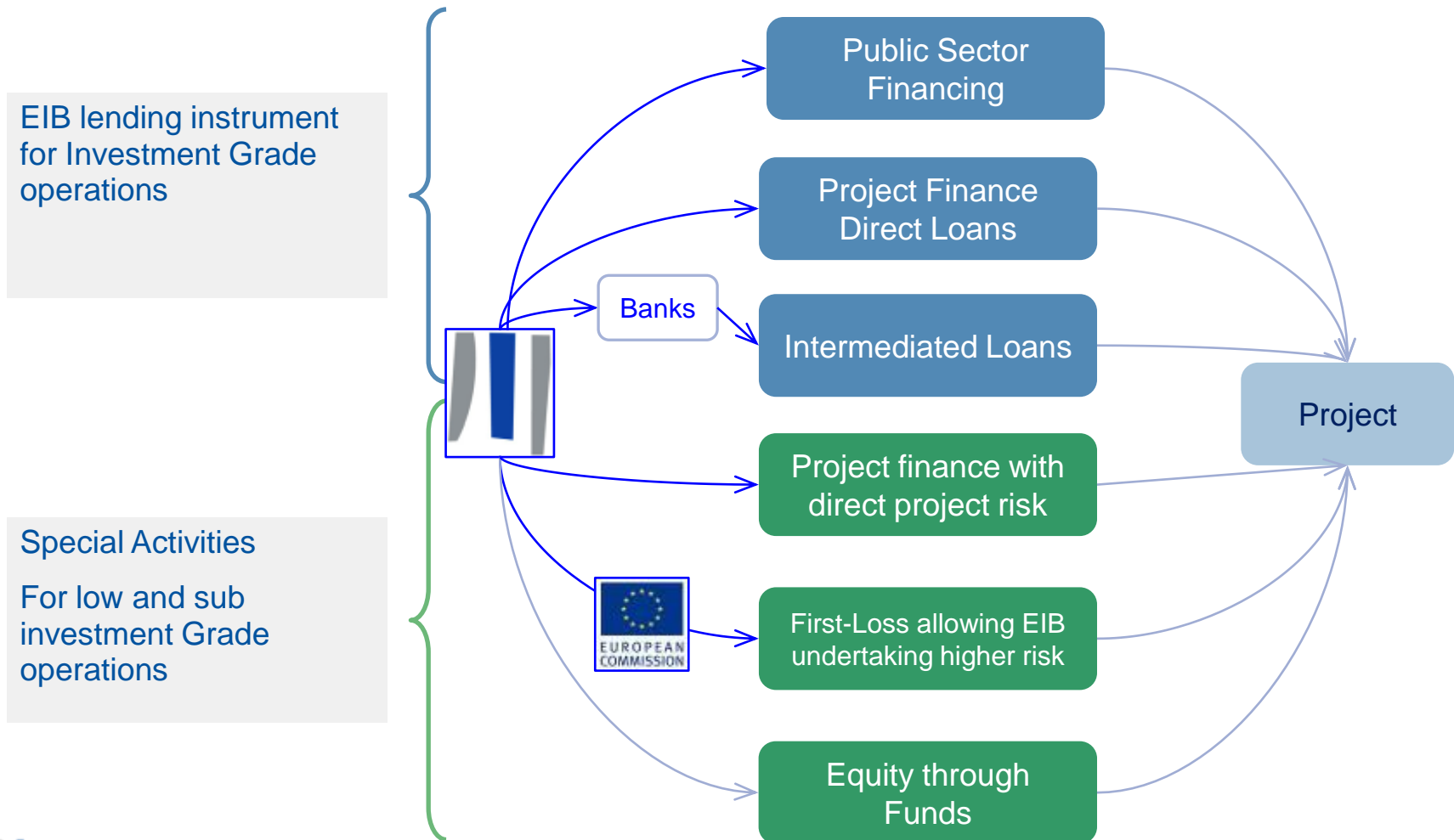
.Blending

.Grants

<----- Green Bonds? ----->

# EIB Financing Instruments

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



# What is Natural Capital?

**Natural Capital** is the value of nature. It can be defined as the world's **stocks of natural assets** providing a flow of goods and services that we benefit from. Natural assets include air, water, soil, land, biodiversity, forests, ...

In the EU, most of these types of projects are currently financed by public grants. **There is a lack of market-based instruments** because of market failures, untested business models, novelty of the projects, long payback periods, perceived high risks.

However, there are examples of bankable **green infrastructure projects**, deals based on contractual **payments for ecosystem services**, projects designed for biodiversity **compensation / offsetting**, and **pro-biodiversity businesses**.

# The Natural Capital Financing Facility

The NCFF is a new initiative to **stimulate financing for conservation, restoration, management and enhancement of natural capital.**

The NCFF will focus on financing **proof of concept / pilot projects** for ecosystem services and climate adaptation benefits, especially challenges related to biodiversity, land use, forestry, soil, water, agriculture and waste.

The facility will focus on **market-based instruments** (particularly to sustain upfront investment) in green infrastructure, biodiversity offsetting initiatives, projects based on payment for ecosystem services (PES), as well as pro-biodiversity businesses/corporates, or a combination.

Final beneficiaries would include both **private and public entities.**

# Eligible Projects: Green Infrastructure

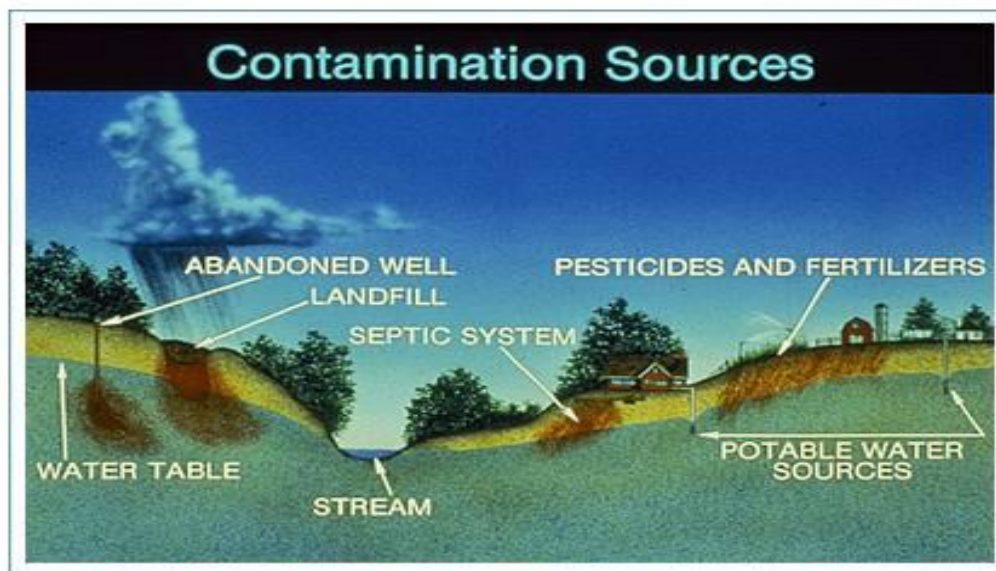


**Green infrastructure** will include projects targeting the provision and maintenance of ecosystems and ecosystem services:

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



# Eligible Projects: Payment for Ecosystem Services



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

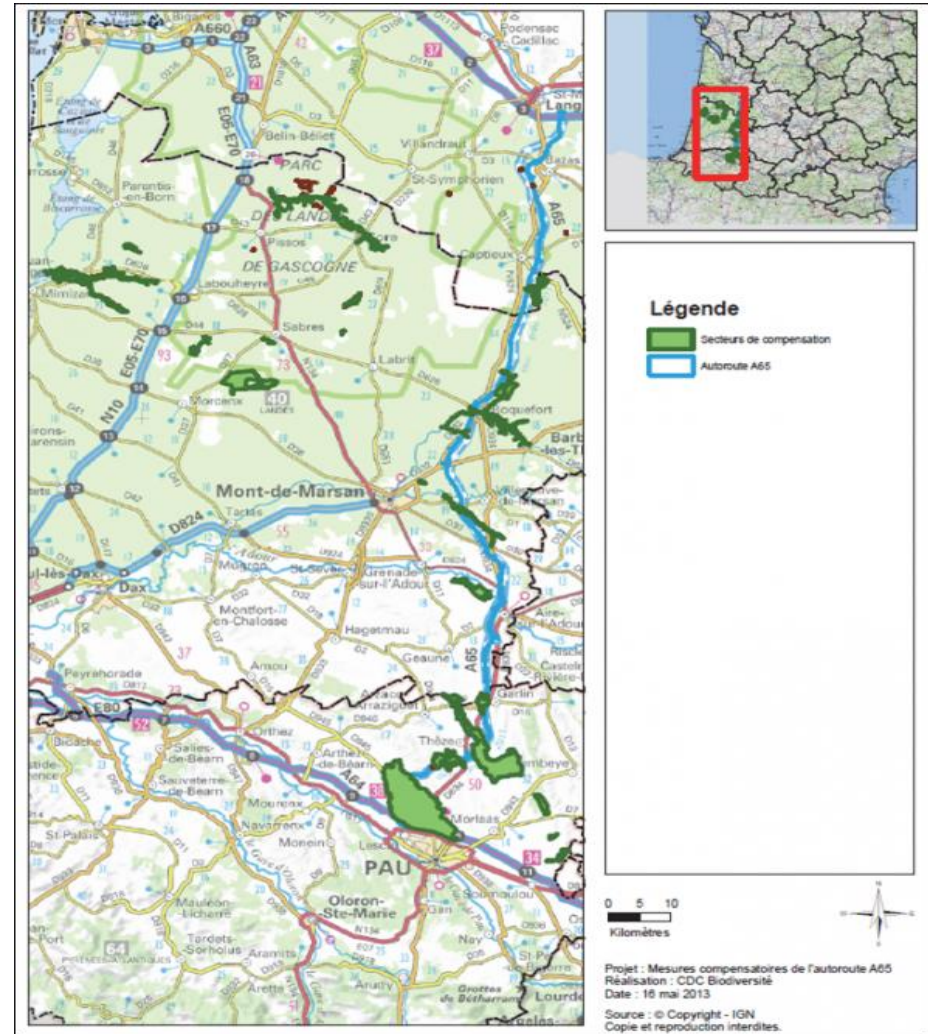
- Protection of water resources
- Protection of forest
- Protection of biodiversity

# Eligible Projects: Compensation/Offsetting



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

- On-site offset
- On-demand markets





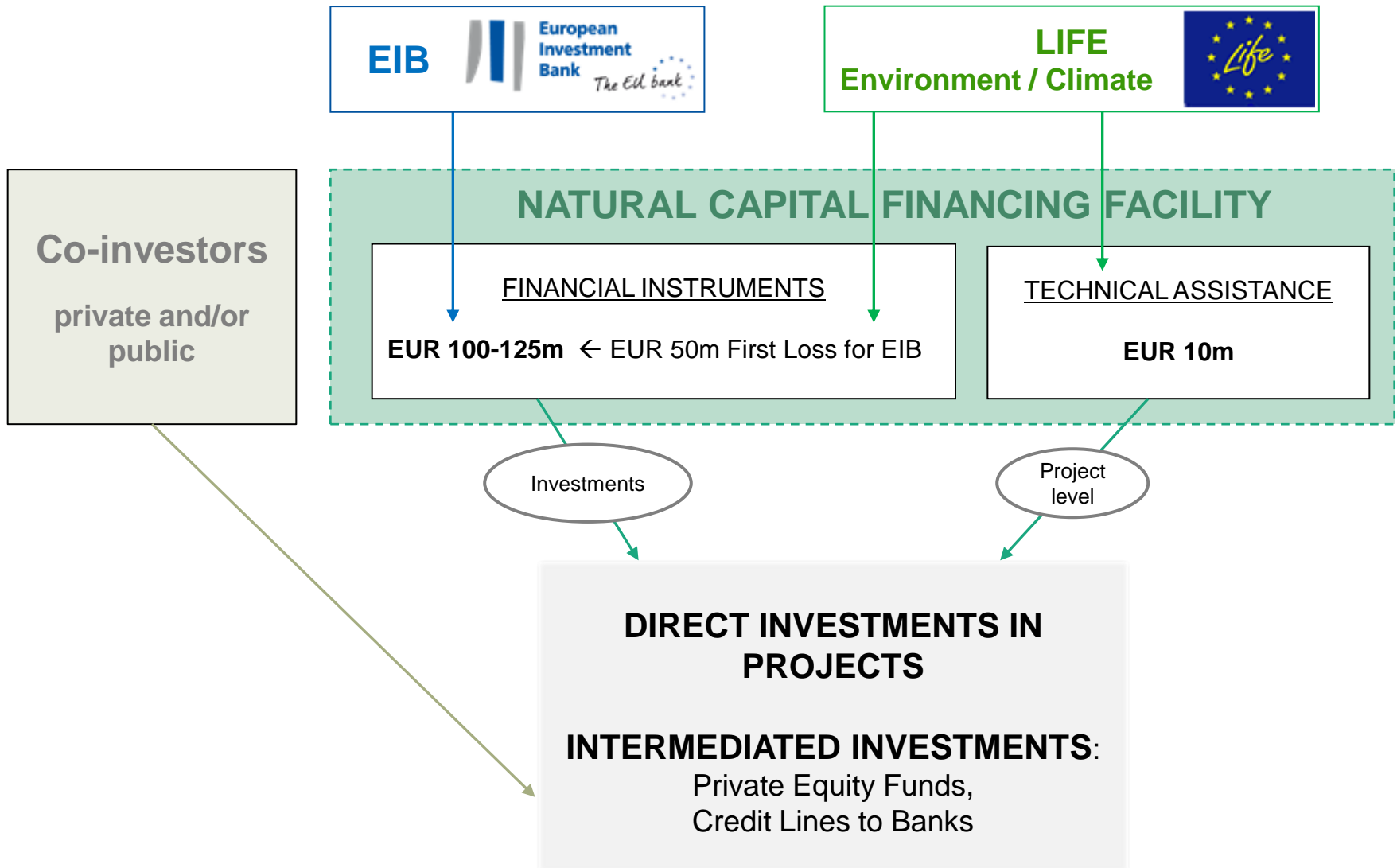
# Eligible Projects: Pro-Biodiversity Businesses



**Pro-biodiversity businesses (especially for SMEs) and corporate projects** dedicated to natural capital



# NCFF Structure



# Recent developments & expressed interests for the NCFF

- NCFE Delegation Agreement signed 19 December 2014 and officially launched 16 February 2015
- EIB and EC are fine-tuning the criteria.
- Roughly 20 expressed interests are under consideration with 6 seen “potentially serious” for which EIB is requesting more information from the promoters.
- However, none is documented enough today to allow discussing “eligibility criteria” with the EC and qualifying as “project opportunity” for EIB
  - The 4 categories (GI, PES, BO, PBB) are covered and more than half have Climate Adaptation (CA) components.
  - There are interests from 1 private equity and 1 financial intermediary, the rest being for direct loans to project or public body or company/vehicle.
  - Countries covered: CY/MT, ES, FI, FR, IE, NL, PL, PT, RO, UK.

- Half of the interests are to undertaking a GI project often linked with CA components
- Almost all proposals comprise at least 2 categories; those with PBB features are more “readable”
- There is no proposal led primarily by PES features today ; PES are underneath GI and/or PBB and/or CA; BO proposals are the less elaborated to date.
- Most of the business models are not yet clear yet about the “practical” activation of cash flows and above all on the identity of the recipients / counterparts of NCFE loans or investments.
- Promoters are regional authorities, public entities, conservation NGOs, financial intermediaries (FI), public or private utilities, private corporations
- Apart from the promoters, special vehicles grouping various stakeholders and SMEs/small legal entities funded by FIs are evoked as final recipients

# NCFF Eligibility Criteria

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

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

**In order to achieve 9-12 operations for 2015-2017 ( 3-4 projects per year), we should also keep in mind the parameters set-up for the NCFF portfolio and presented earlier:**

- Target NCFF investments / loans per project: EUR 5-15m – Maximum EUR 15m
- Maximum support facility per project : EUR 1m
- Maximum per MS : 20% (limited to 15% for a single direct and 15% for total intermediated operations)
- No more than 35% in any one of the 4 categories
- Target term: 10 year with possibility of grace period of 3 year
- Maximum NCFF contribution to total project costs: 75%
- Maximum NCFF participation per private equity fund : 33%

# Eligibility & Assessment of the Recipients



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

They may be:

- (i) **public bodies** – referring to national public authorities, regardless of their form of organisation whether central, regional or local structure, or the various bodies under their control, provided they operate on behalf of and under the responsibility of the national public authority concerned,
  - (ii) **private commercial organisations**, and
  - (iii) **private non-commercial organisations** (including NGOs);
- **Quality of the Counterparts:** Capacity ? Experience ? Allocated resources?
  - **Operating structure:** Governance ? Co-investors ? Transparency ? Reporting ?

No special formalities but start with promoters posting relevant and sufficient information to [NCF\\_Instrument@eib.org](mailto:NCF_Instrument@eib.org) in order to allow EIB assessing whether the project adheres to NCF objectives, eligibility criteria and alignment with various allocation constraints. Then:

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



# Eligibility Criteria for the Support Facility

- The support and capacity building to be financed under the support facility will be defined for each of the selected operation with the following objectives:
  - Ascertaining the **feasibility of the operation** considered for financing under the NCFF;
  - **Developing the capacity of the final recipient** to develop projects that are technically, commercially and financially sustainable;
  - Guaranteeing the correct **reporting and monitoring** of the impacts on biodiversity, ecosystems and climate change adaptation of the underlying investments.
  
- Stage of considering to adjoin and determine the purposes of a support facility financing will depend on each project.

# Thank You

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