Investing in Nature – A Webinar Series

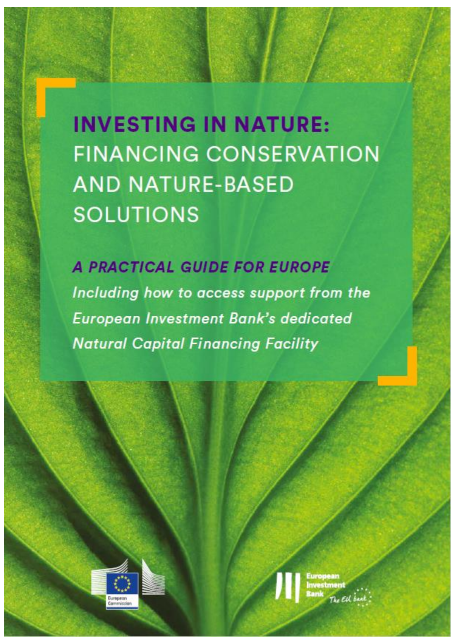
In partnership between the European Investment Bank, EU Business Biodiversity Platform and SYSTEMIQ

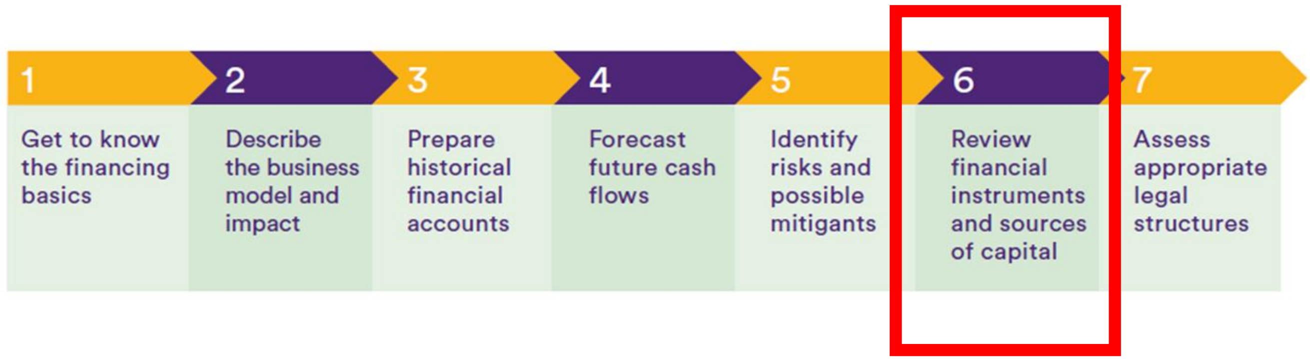
30 June 2020

Webinar Series - Overview & Outlook

- PART 1: An introduction to financing investments in natural capital
- PART 2: Business models for conservation and nature-based solutions projects
- PART 3: How to prepare financials and strengthen commercial viability of your project?
- PART 4: Understanding different types of financing
- PART 5: Variety of legal structures and their pros and cons

Investing in Nature: A Practical Guide





https://www.eib.org/attachments/pj/ncff-invest-nature-report-en.pdf

Agenda

1. Understanding different types of financing and their pros and cons

2. Practical examples: lessons from the Land Degradation Neutrality Fund

3. Panel discussion and Q&A

Our speakers

Eva Mayerhofer

Lead Environmental and Biodiversity Specialist at EIB

Daniel Farchy

Equity Investment Officer at EIB

Gautier Queru

Director of the Land Degradation Neutrality (LDN) Fund

Martin Berg

Partner at Pollination (moderator)

1. Understanding different types of financing and their pros and cons

Sources of financing

CONCESSIONAL FUNDING

Financing from

- **public** institutions
  (e.g. from EU programmes or EIB); or
- **private** institutions
  (e.g. from philanthropies, NGOs or lotteries)

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)

BLENDED FINANCE

Vehicles that combine

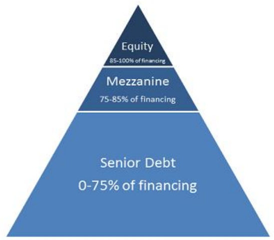
- **commercial** funding; and
- **concessional** funding

The NCFF itself is an example of a blended finance facility

Concessional finance

- Brings together financing, conservation and technical know-how
- It is catalytic capital from public or philanthropic sources
- Comes in the form of:
  - Design Stage Grants
  - Grants for Project Cost Support
  - Technical Assistance Funds
  - Concessional Capital
  - Credit Enhancement

Commercial funding: Direct



Debt Financing: raising money for capital through borrowing. In return for the financing, the lender receives a promise that the principal and interest on the debt will be repaid on a regular schedule.

Equity Financing: raising capital through the sale of shares in a company. With equity financing comes an ownership interest for shareholders.

Mezzanine Capital: represents a claim on a company's assets senior only to that of the common shares. Mezzanine financing can be structured either as debt or preferred stock.

	PROs	CONs
DEBT	• **Predictable** repayment schedule • No transfer of **ownership** • **Tax** deductible	• Need for sufficient, predictable **cash-flow** • Security or third-party guarantee may be required • Operational restrictions (covenants)
EQUITY	• Improved **credit profile**, no security required • Limited cash flow requirements • Strategic input	• **Reduced control** and autonomy • Generally **takes longer** • Divergent views between management and investors
HYBRIDS	• Mezz tend not to require security • Mezz potentially treated as equity	• Mezz more costly and still requires • regular interest • Mezz means more monitoring

Commercial funding: Intermediated finance

Financial Intermediary: a ‘middleman’ that facilitates financial transactions. Common examples include **commercial banks,** and **investment funds**.

	PROs	CONs
INTERMEDIATED DEBT	• Better access to finance and support • **Smaller loans** • Lower **transaction costs**	• Potential **lack of knowledge** at local bank or intermediary (TA often needed) • No direct access to network of large financial institutions for the final beneficiaries
EQUITY FUNDS	• Diversification benefits • Provides **access to investors** • Expertise of **fund managers**	• Potential restrictions • Potential **high return expectations** • Management and performance fees • High **transaction costs**

Blended finance

Blended Finance is a structuring approach and not an investment approach, instrument or end solution. These are the most prevalent blended finance structures:

Structure

Commercial Debt/ Equity

Concessional Capital

Structure

Guarantee/ Insurance

Debt/ Equity

Structure

Debt/ Equity

TA Facility

Prep/Design grant

Structure

Debt/ Equity

Size and maturity of projects in relation to relevant funding sources

2. **Practical examples: lessons from the Land Degradation Neutrality Fund**

*LAND DEGRADATION NEUTRALITY FUND is a Luxembourg Special Limited Partnership (Société en Commandite Spéciale), open to subscription to eligible investors as defined by the fund's regulation. Mirova is the management company. The supervisory authority approval is not required for this fund.

Land Degradation Neutrality Fund – an overview

- The **Land Degradation Neutrality (LDN) Fund**, co-promoted by the United Nations Convention to Combat Desertification (UNCCD) and Mirova, is a first-of-its-kind impact investment fund investing in profit-generating sustainable land management (SLM) and land restoration projects worldwide.
- The LDN Fund provides **long-term financing (debt/equity) for sustainable land use** projects that will reduce or reverse land degradation, mostly in the field of sustainable agriculture and forestry.
- It targets positive impacts in terms of climate, biodiversity, fight against poverty and promotion of gender equality. It operates according to **robust environmental and social standards**, which are integrated into a comprehensive E&S Management System (ESMS).
- The Fund uses a layered structure (blended finance), leveraging public money **to increase private sector investment** in sustainable development.
- In addition to long term financing, **technical assistance is provided to projects** by an associated donor-funded Technical Assistance Facility managed by "IDH - The Sustainable Trade Initiative", increasing positive development impacts, reducing ESG risks, and facilitating knowledge sharing..

LDN Fund's mission:

"To be a source of transformative capital bringing together public and private investors to fund triple bottom line projects that contribute to Land Degradation Neutrality"

Source: Mirova - The information provided reflects MIROVA's opinion as of the date of this document

The LDN Fund is managed by Mirova

- Mirova is an asset manager, affiliate of Natixis Investment Managers, with €12.5bn* of assets under management 100% dedicated to sustainable development.
- Based on the successful experience of setting up a platform dedicated to renewable energy investments, Mirova has established a **platform dedicated to Natural Capital investments**
- Following the acquisition of Althelia Ecosphere (renamed Mirova Natural Capital**), it manages several funds, with teams of experts based in Paris, London, Lima and Sao Paulo.

Environmental and Social Integrity

- **Environmental and social assessment** and monitoring of investments, based on two pillars: (i) risk management and (ii) positive impact
- Commitment to comply with the **highest standards of sustainability** in terms of funded projects

Financial Innovation

- Technical expertise in the **structuring of financing instruments adapted to natural capital**
- **Public-private financing approach** (blended finance) with risk mitigation mechanisms (in the form of first loss facility or partial guarantees)

Operational Robustness

- Investment platform dedicated to the management of real assets which provides its **middle office, risk management, legal and compliance know-how**
- Investment practices incorporating the best standards for **project financing and equity investments**

*Source Mirova as of 31/12/2019

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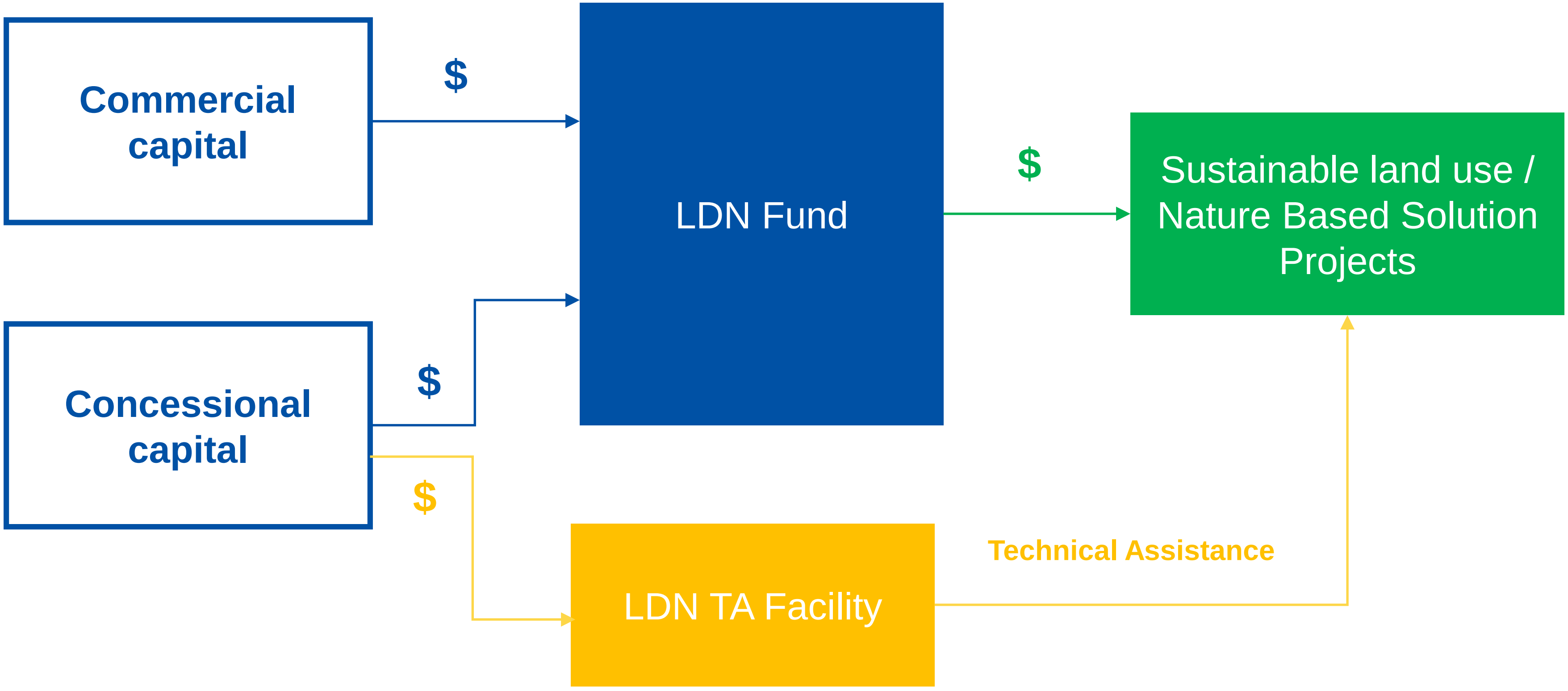
LDN Fund - Blended Finance: 3 components

- The LDN Fund (1) blends commercial and concessional capital, (2) finances projects in an additional/catalytic way, and (iii) provides technical assistance via a separate facility



The information provided reflects the situation as of the date of this document

Component 1: a layered structure

- Commercial and concessional are blended in a fund vehicle (Luxembourg Limited Partnership) with 2 categories of shares / tranches, with repayment made according to a waterfall

LDN Fund

Commercial capital

Allianz · FONDACTION (Donner du sens à l'argent.) · BNP PARIBAS CARDIF · NATIXIS ASSURANCES

$ → **Senior tranche [70 – 80%]**

Concessional capital

AFD Agence Française de Développement · Le Gouvernement du Grand-Duché de Luxembourg · European Investment Bank · Department for Environment Food & Rural Affairs

$ → **Junior tranche [20-30%]**

Distribution waterfall ↓

- The layered structure is designed to accommodate different kinds of investors with different risk appetites
- **Investor in the Senior tranche**:
  - Reduced risk: they are repaid first
  - Market-level returns
- **Investors in the Junior tranche**:
  - Take first loss risk
  - Development orientated
  - Efficient use of donor money
- The role of the Junior investors is pivotal for the success of the fund:
  - endorsement of the Fund objective
  - de-risking to attract private capital

The information provided reflects the situation as of the date of this document

Component 2: long term catalytic financing

- The LDN Fund is designed:
- To scale-up what works;
- to offer financing solutions that are not readily available in the market and to provide strategic benefits which banks or other investors do not usually offer

Senior debt (loans)

- Further investment for subsequent scale-up
- Potential interest of private banks to provide senior loans

NEED FOR FURTHER / SUBSEQUENT SCALE UP

LDN Fund

Mezzanine debt / Quasi-equity

- LDN Fund provides additional financing for the scale-up phase
- Catalytic role to on-board other investors

Comment: possible *pari passu* financing with other investors / DFIs

FUNDING GAP TO SCALE-UP

Project sponsor's equity

- Initial sponsor commitment to establish the pilot phase
- Investment potentially completed by additional equity / ODA / philanthropy

The information provided reflects the situation as of the date of this document

Component 3: technical assistance

- The LDN TA Facility managed by IDH receives grants to support projects seeking investment from the LDN Fund.
- The TA Facility helps to build a strong portfolio of project by increasing positive impacts, and reducing commercial and ESG risk.

LDN TA Facility

Technical Assistance

Sustainable land use / Nature Based Solution Projects

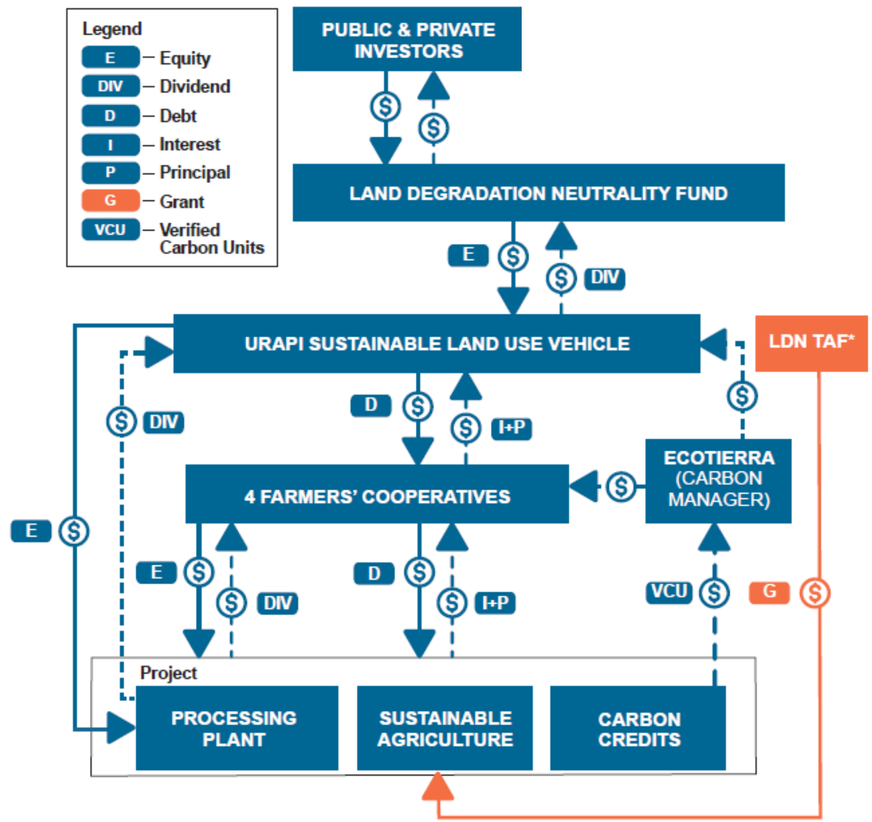
- ☑ Operational and financial structures
- ☑ ESG Compliance
- ☑ Inclusion (smallholders, communities, women & youth, land rights)
- ☑ Protect and restore (Climate, Land, water, biodiversity)
- ☑ Data-based approach (adaptative management, proof of concept)

The LDN TAF supports the LDN Fund and its impacts by:

- Investment readiness support to projects;
- Strengthening social and environmental impacts and reducing risks of investment projects;
- KPI monitoring
- Sharing learnings and knowledge with wider community

Case Study: Urapi Sustainable Land Use

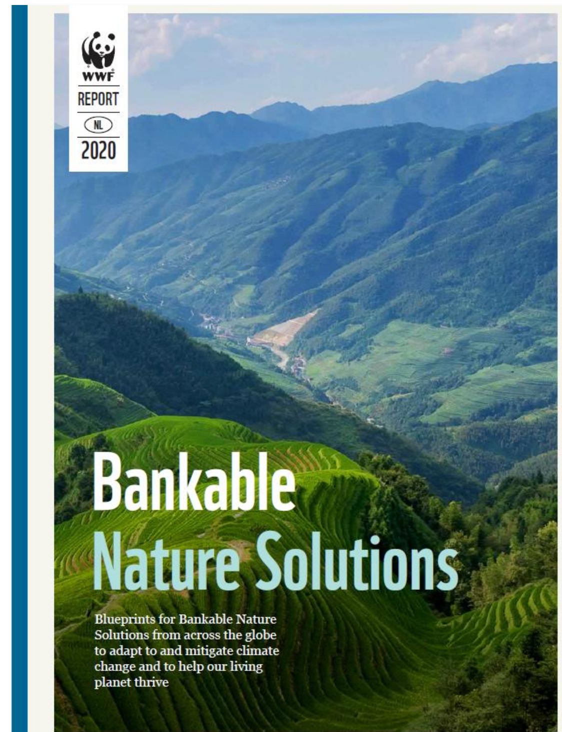
- The Urapi Sustainable Land Use programme is managed and operated by ECOTIERRA, to aggregate several sub-projects
- The Café Selva Norte is the first sub-project in Peru: it brings an innovative credit and service product in direct partnership with local cooperatives whose members, individual smallholder farmers, have secured land rights.
- The project aims to improve key areas of the coffee value chain by increasing the production, quality and commercialization of its products, thereby reducing land degradation and increasing forest cover.
- The microcredit is structured to match the cashflow needs of the producer.
- Please see further information on this [link]



Source : Mirova / WWF ("Bankable Nature Solutions")

Relevant references

Please see the link [here]



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Q&A

Annex: Natural Capital Financing Facility

European Investment Bank The EU bank

NCFF at a glance

A financial instrument blending EIB finance with funding from the EC's LIFE programme (the EU's funding programme for the environment and climate action)

- **Debt, equity & grant-based technical assistance component**
- Overall size: EUR 100-125 million
- Pilot phase: 2015 – 2021
- Target: 9 -12 or more operations

Support objectives of LIFE regulation/programme by financing projects in EU that:

1. Are likely to have a positive impact on biodiversity and/or
2. Apply nature-based solutions for adaptation to climate change

NCFF Project categories

- **Payments for Ecosystem Services (PES)**: projects involving payment or compensation for the benefits provided by ecosystems, such as cleaner water, higher soil quality or enhanced carbon sequestration
- **Green Infrastructure** (GI) projects: investments in natural capital that generate a range of goods and services, such as water quality, flood protection and climate change adaptation
- **Biodiversity offsets**: projects developing offsets through conservation measures designed to compensate for the unavoidable damage to biodiversity arising from development projects
- **Pro-biodiversity and adaptation businesses**: projects involving the supply of goods and services from conservation activities, such as sustainable forestry, agriculture, aquaculture and ecotourism

Eligibility criteria

- Projects must be exclusively located in the EU, generate revenues or save costs to repay investment.

- **Typical size of operation: EUR 5-15m**
  - Loan (direct or intermediated)
  - Fund (participation)
- Operations either stand-alone/dedicated interventions or as integrated part of broader infrastructure/environmental programmes
- Tenor normally 15 years, can be longer, subject to economic life
- **Up to 75% of project costs** (as opposed to normal EIB limit of 50%)
- Private (commercial, NGO) or public entities (cities, municipal companies, etc.)
- **Technical Assistance: envelope of EUR 10 million, up to EUR 1 million per project**

NCFF Project examples (I):
EUR 6m for Rewilding Europe Capital

Rewilding Europe Capital

On-lending in support of rewilding

Amount: EUR 6m

Country: Netherlands-based, investing in several EU countries

Signed: April 2017

Investment rationale:

- The loan to Rewilding Europe Capital will be invested in nature-related businesses in selected areas around Europe, showing how commercial finance can contribute to nature conservation and rewilding.

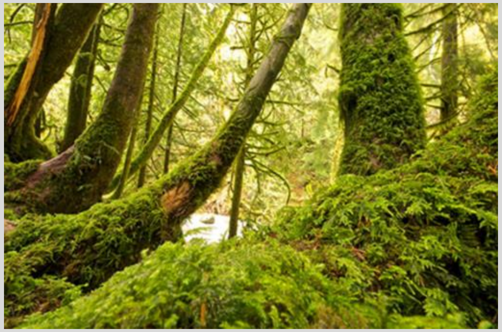
- Businesses benefiting from this financing will include tourism, water management and sustainable fisheries.

- Rewilding Europe Capital was established to positively stimulate and mature enterprise economies connected to natural landscapes in Europe, and to directly support businesses fostering conservation and rewilding impact. REC achieves this by providing commercial funding to businesses that can:
  1. Positively address negative socioeconomic impacts caused by rural land abandonment that is happening in many areas in Europe;
  2. Directly and indirectly support rewilding processes and activities in Europe;
  3. Deliver economic returns from nature and wildlife-related sectors that create incentives to conserve natural landscapes and rural cultures and heritage connected to them.

- The rewilding areas which may benefit from the NCFF loan comprise 38 different sites located in the following rewilding areas: Western Iberia (Portugal), Velebit Mountains (Croatia), Central Apennines (Italy), Southern Carpathians (Romania), Danube Delta (Romania), Rhodope Mountains (Bulgaria), Oder Delta (Germany/Poland) and Lapland (Sweden).

NCFF projects examples (II):
EUR 12.5m equity commitment to SLM Silva Fund

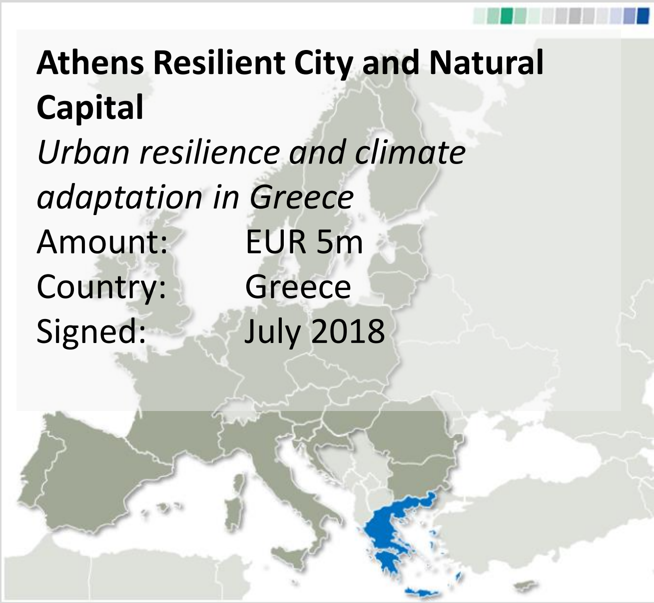
SLM Silva Fund
Sustainable Forestry in Ireland
Amount: EUR 12.5m
Countries: Ireland
Signed: March 2018



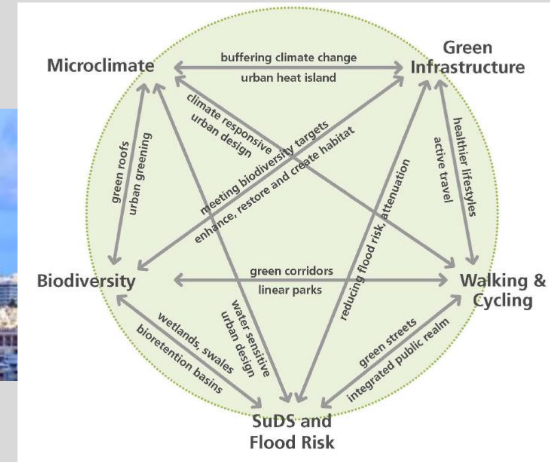
Investment rationale:
- Ireland offers excellent natural conditions for a productive forest sector, and growth rates are the highest in Europe.
- Continuous Cover is associated with important cost-savings and more even cash flow compared to the clearfell model.

- The second investment to be signed by the NCFF is a EUR 12.5m investment in the SLM Silva Fund, a specialised fund focusing on sustainable forestry in Ireland. The strategy of the Fund is to acquire semi-mature plantations and to transition these forests to 'Continuous Cover Forestry' or 'Close to Nature' management, an alternative to the widely-used single-species clearfell-replant system.
- Continuous Cover Forestry maintains permanent forest cover and promotes a mixed forest structure. It is a commercially viable management model which safeguards biodiversity, soil health and landscape value. The Fund has now reached its first close and is initiating its investment period.
- Half of Ireland's young forest estate is privately owned. Many private forest owners have small plantations, and do not have the know-how to manage their holdings as they approach maturity. There is interest in market options to sell or lease their holdings.

NCFF projects examples (III):
EUR 5m for Athens Resilient City and Natural Capital



Athens Resilient City and Natural Capital
Urban resilience and climate adaptation in Greece
Amount: EUR 5m
Country: Greece
Signed: July 2018



Investment rationale:
- The facility, structured as a framework loan, will support the City of Athens in its implementation of components of its 2030 Resilience Strategy.
- Investments enhancing the city's green and blue infrastructure will be supported.
- Athens is the first city in Greece to have developed an integrated Climate Action Plan for adaptation and mitigation.

- In July 2018 the EIB signed a EUR 5m loan to the City of Athens to support the implementation of its 2030 Resilience Strategy.
- This Strategy has been developed in close cooperation between the city and the 100 Resilient Cities (100RC) initiative of the Rockefeller Foundation, making this a pragmatic and highly relevant collaboration between the 100RC, the City of Athens and the EIB.
- Examples of what the loan can support include regeneration and greening of public and abandoned spaces; unsealing of surfaces to improve water infiltration; sustainable urban drainage systems to mitigate flash floods; creation of green corridors between greened areas; and natural restoration of Lycabettus hill.
- The development of the work will be supported by a tailored package of Technical Assistance from the NCFF.

NCFF projects examples (IV):
EUR 15m for HBOR Natural Capital MBIL

HBOR Natural Capital MBIL

A dedicated credit line for nature conservation and green infrastructure

Amount: EUR 15m
Country: Croatia
Signed: March 2018

Investment rationale:

- The operation offers to HBOR the possibility of developing a new area of business which, although modest in size, is strategically interesting
- The loan will be accompanied by a Technical Assistance package to help build the client base and the pipeline of eligible projects.

- The facility's third signature is a EUR 15m MBIL with the Croatian national promotional bank HBOR, designed to foster a potentially new area of business for HBOR in pro-nature areas such as eco-tourism, sustainable agriculture and forestry, and development of nature-based solutions to support climate adaptation.
- The operation will run in parallel with two EUR 400m MBIL facilities which target SMEs, MidCaps, public sector and other beneficiaries, and it is designed to complement them.
- This approach offers strong potential replicability to other commercial and promotional banks around the EU.

Additional information

- EIB website: https://www.eib.org/en/products/blending/ncff/index.htm

- For further information, including submitting any projects proposals, please email the NCFF team at NCF_Instrument@eib.org.