European Investment Bank

Repayable financing for nature

Lessons from Europe

Stephen Hart, 10 May

EIB AT A GLANCE

Largest multilateral lender and borrower in the world

- We raise our funds on the international capital markets
- We pass on favourable borrowing conditions to clients
- Leading provider of climate finance

Over **€1.5 trillion** invested since 1958

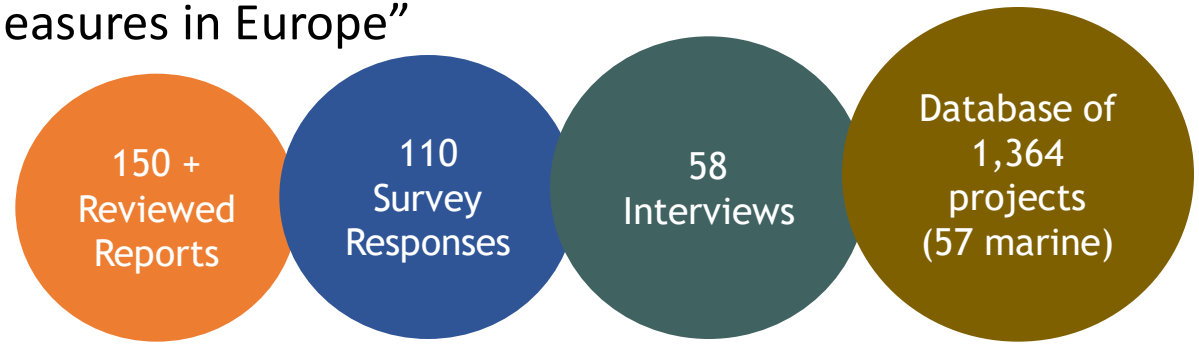
- More than **14 900 projects** in over **160 countries**
- Crowding-in bank: **€4.9 trillion** overall investment mobilised
- **€74.3bn** of EIB Group financing in 2022

Headquartered in Luxembourg

- Around **4 020 staff**: In addition to finance professionals, we have engineers, economists and socio-environmental experts
- **EIB Advisory Services** provides support to public and private sector project promoters
- **59 offices** around the world

PILOTING NATURE FINANCE

- Leading infra investor, "**The EU Climate Bank**"
- Forest-based lending EUR 15 billion in the last decade
- Cornerstone investor in natural capital equity funds, e.g.
  - Land Degradation Neutrality Fund
  - Sustainable Ocean Fund
  - BlueInvest Fund (with the Maritime and Fisheries Fund)
- **2015-2022: Natural Capital Financing Facility (EIB/EU LIFE)**
  - **EUR 82m deployed, 11 projects in a variety of sectors**
- **Study 2022-23**: "Investing in nature-based solutions, State-of-play and way forward for public and private financial measures in Europe"



Market Failures and Barriers to investing in Nature

Some **barriers** to upscaling financing of actions for nature/nature based solutions:

Information failures

- Impacts of nature interventions are difficult and expensive to measure
- Skills and expertise shortage: nature is new for many policy-makers and practitioners
- Bias towards 'grey' solutions
- Unaware of nature based solutions and their advantages

Coordination

- Multiple agencies and stakeholders involved in implementation of nature actions, and effected by the implementation of such interventions

Risk

Unfamiliar/higher risk profiles compared to other investment options

High transaction costs

- Small scale nature actions can incur high transaction costs
- The 'nascent' state of nature interventions may result in high costs to develop and implement

Long timeframe

- Often the timeframe required for financial returns is substantial due to the time for ecological equilibrium to be achieved (habitat to be restored), growth time (forest growth)

However, also important fundamental market structure features:

- NBS investments have strong '**public good' attributes** *(non-excludable and non-rivalrous)*
- NBS address environmental **externalities from other markets** *(often receiving subsidies)*

NBS produce a **mix of public and private** benefits

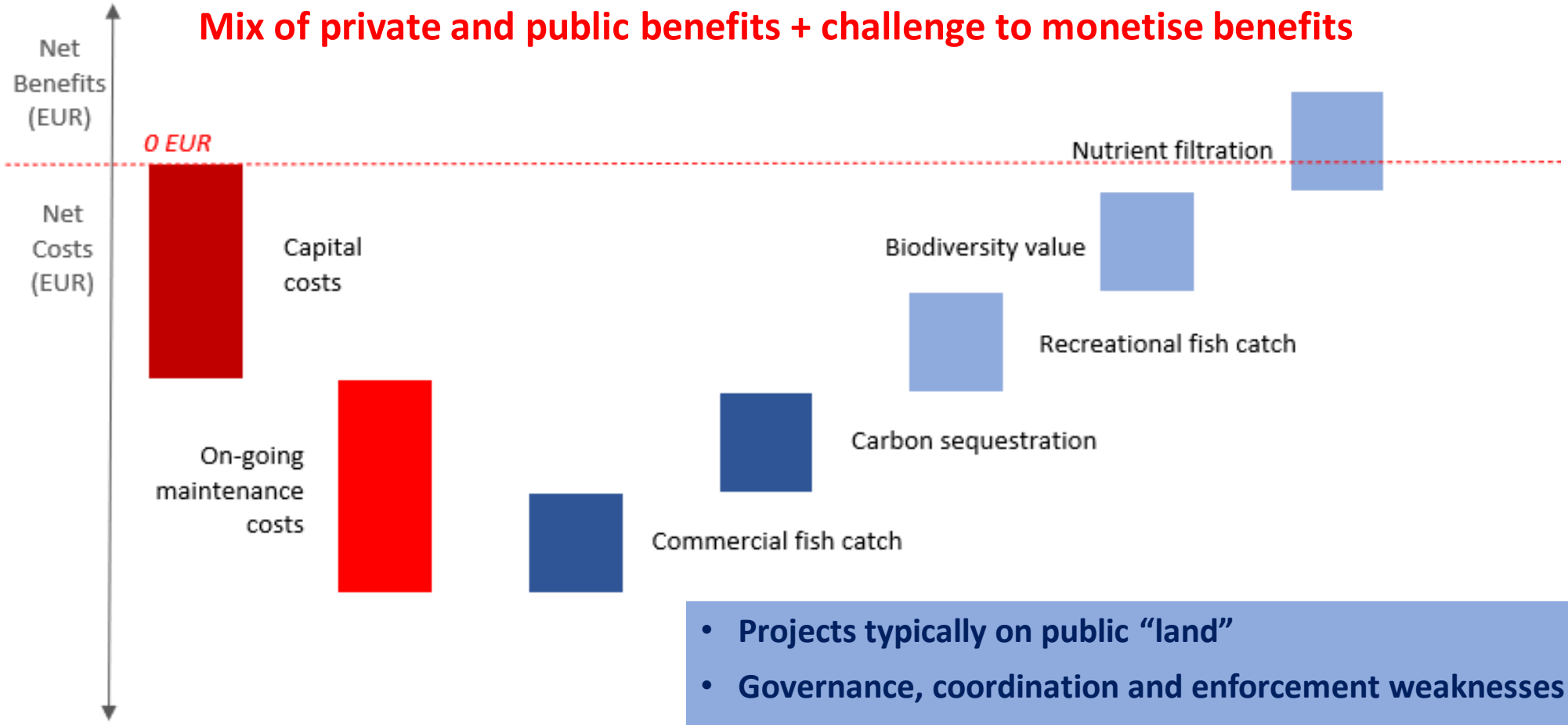
Public goods **difficult to monetize** (e.g. reducing river pollution)

Private interests will only invest in public goods **if they can directly benefit** (benefits exceed costs)

Removing the 'barriers' will not change these features -> broader fundamental reform required to create functioning MARKETS….

The economics of a “type” marine restoration project

Mix of private and public benefits + challenge to monetise benefits



- **Projects typically on public “land”**
- **Governance, coordination and enforcement weaknesses**
- **Multiple externalities from multiple sectors**
- **Most actions not centrally reported/inadequate indicators**

Sectors with strategic or regulatory links to nature

- **Spatial footprint + Long time horizon,** able to factor in avoided costs/risks and opportunities
- **Regulation/**first mover advantage on **future regulation**
- **Owner / customer preferences**, risk appetite and strategy

❑**Water and energy utilities, water resource managers**

resource/catchment management, compliance/cost of compliance

❑**Greening of Cities + Nature-Based Solutions to Climate Adaptation and Mitigation**

water and heat management, liveability, emerging carbon market

❑**Corporate pledges/investor pressure or long-term supply chains**

robust sourcing, future regulation/cost of compliance, license to operate

❑**Infrastructure promoters under mitigation/nature net positive obligations**

e.g. energy and adaptation infrastructure

❑**Land based sectors: forestry / agriculture / bioeconomy**

resilience and continued access, high-end/value/labelled products

❑**Nature project developers**/land banks + **tech/solutions providers**

increasing demand for these capabilities from a variety of markets

Diversity of projects and contexts

Rewilding Europe Capital - EU
- EUR 1.4m for nature microlender

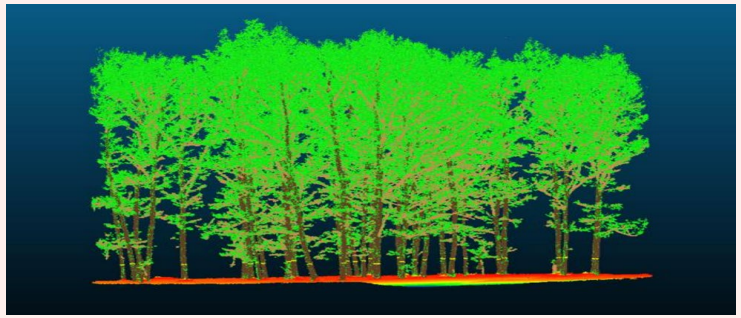
Opportunity in rural abandoned areas

Athens Resilient City&Natural Capital –
EUR 5m for municipality

Green urban adaptation solutions

SLB Forestry - Romania
- EUR 9.5m for forestry developer

Close-to-nature forestry

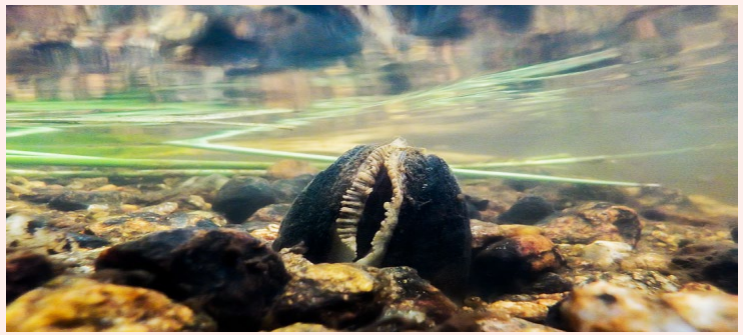


Ginko Fund III - EU
- EUR 15m for private equity fund

Urban brownfield development NBS

SPGE Wastewater - Belgum
- EUR 4.5m loan to a water company

Beyond compliance… Pearl Mussel



Emscher Renaturiering - Germany
- EUR **1.8bn(!)** for Emschergenossenschaft

Ruhr vision and 150km riverscapes

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Some practical challenge from banking nature in Europe

- **Competition for land (and water) - cost and fragmentation -** is the core challenge next to **monetisation of benefits**
- ….. land acquisition the preferred strategy by developers & NGOs for capturing value / security / permanency
- ….. limited use of easements with positive obligations (hectare based subsidies dominate, with little permanency)
- **High input costs** / outside EU investment often more attractive from an impact point of view

- **Intervention/additionality-bias over preservation**
- Ineligibility of land acquisition despite being main cost

- **Small CAPEX** (typically < EUR 2m per project) -> **challenge for financiers** looking for scale to engage
- **Grant environment not conducive to alternative finance**, generally not deployed catalytically to forge partnerships
- **No financing ecosystem** similar to infrastructure, innovation, SMEs – greatest **need for early stage support**

- Market(s) not functional (nor an architect of nature), market instruments more suited to reducing pressures
- **Inadequate regulation/standards to drive investment** similar to other sectors
- **Free money for unsustainable competition** (agri only sector with major nature funding - effectiveness questionable)
- **Lack of skills, promoters** with track records/creditworthiness

Opportunities

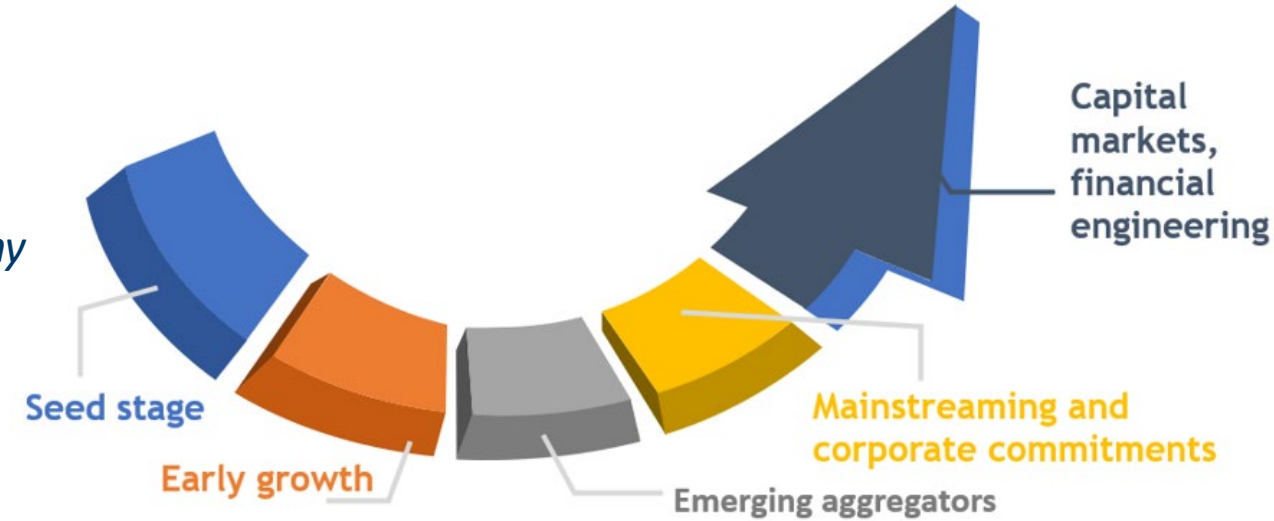
- **Willingness to pay + ability to pay** generally present in Europe, and a **diversity of motivations** to build on
- **Increased awareness of climate and natural hazards** and need for new approaches

- **Nature inside larger strategies and programmes**
- Significant additional **benefits for marginal extra cost**
- **Stakeholders can choose higher ambition and share burden -** engagement is an **investment**

- **Emerging regulatory agenda** (Nature Restoration Law, Carbon Farming etc.), but situation urgent
- **Carbon (and nature) markets**, if used properly and in synergy with communities
- **Financial regulation** (taxonomy, reporting), corporate and capital markets awareness

Strategies

- Partnerships with sectors with linkages to nature
- Landscape level synergies:
  adaptation, mitigation, circular economy, bioeconomy
- Community centered
- Support emerging aggregators of smaller projects
- Promoting a continuum of policy based instruments



• **Building on existing planning, implementation and financial capacity and revenue models** • **Biodiversity in decision-making, reporting** • **Landscape paradigms for synergies**	• **Support streamlined with addressing of integrated financing needs** • **Timely engagement and flexibility** • **Visibility and demonstrating co-benefits to stakeholders**	• **Technical Assistance** • **Coordination with grants if possible**

Perspectives on the Marine

- Marine restoration outcomes influenced by multiple pressures and sectoral policies
- Pressures on marine and coasts from priority energy and coastal adaptation infrastructure
- …. including material/carbon footprint, extraction from seafloor
    - Active restoration approaches still emergent, especially in the deep sea; mapping and matching to sites crucial
    - Varying growth rates/recovery periods: years to decades/centuries
    - High technical costs and practicality issues - priority to refine design, techniques
    - Cost/sustainable sourcing/logistics of materials
    - Opportunities for nature positive approaches if action is coordinated and ecosystems understood
    - First mover developers and contractors on biodiversity, contracting authorities lagging
- Opportunities for engagement for NBS on coasts, support to nature positive strategies
- New carbon and biodiversity credit models considering management for preservation
- Concession-like models for MPAs / coastal community mobilisation
- Horizon Europe Mission on oceans - flagship projects

Get in touch!

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