Financing Nature-Based Solutions for Climate Adaptation:

The Natural Capital Financing Facility (NCFF)

6th Workshop on Adaptation to Climate Change in Transboundary Basins

Geneva 13-14 September 2016
The European Investment Bank (EIB)

- EIB is the EU’s long-term lending bank set up in 1958 by the Treaty of Rome, HQ 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
- EIB priority objectives for financing: Infrastructure, SMEs, Knowledge Economy and Environment
- Efforts to mitigate/adapt to climate change are a core priority for the EIB
- 25% of total EIB lending goes towards climate action
**EIB Climate Action Signed Operations**

Climate action is a key priority for the EIB → a minimum 25% of total lending per year.

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total*</td>
<td>18,494</td>
<td>13,313</td>
<td>18,982</td>
<td>19,145</td>
<td>20,492</td>
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</tbody>
</table>

- **2011**
  - Renewable Energy
  - Energy Efficiency
  - RD&I
  - Sustainable transport
  - Other & miscellaneous**
  - Adaptation

- **2012**
  - Renewable Energy
  - Energy Efficiency
  - RD&I
  - Sustainable transport
  - Other & miscellaneous**
  - Adaptation

- **2013**
  - Renewable Energy
  - Energy Efficiency
  - RD&I
  - Sustainable transport
  - Other & miscellaneous**
  - Adaptation

- **2014**
  - Renewable Energy
  - Energy Efficiency
  - RD&I
  - Sustainable transport
  - Other & miscellaneous**
  - Adaptation

- **2015**
  - Renewable Energy
  - Energy Efficiency
  - RD&I
  - Sustainable transport
  - Other & miscellaneous**
  - Adaptation

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**Note:** these figures only include CA components of EIB lending to **sustainable agriculture project** (env. EUR 1 bn per annum) and **water projects** (env. EUR 4 bn per annum)

*EURm; 2011 EIB + other funds - from 2012 only EIB resources

**Including Afforestation, Forest Management, Waste and Wastewater**
The evolving context & mounting conservation challenge

- Rapid economic growth
- Gains in extreme poverty reduction

But ..

- Inequalities have increased and poverty reduction is slowing
- Unmet needs yet society living above the “environmental means exceeding the environmental carrying capacity”
- Economic uncertainty, high and volatile prices, inflation (food, fuel, commodities)
- Population growth → need to increase food production by 70%
- Threats of climate change – ove to low-carbon and resilient path
- Rates of species extinction are increasing by a 1000x & targets to halt the loss of biodiversity will not be met by 2020
- Need to shift development orientation to an approach of sustainable green growth.
We Need to go for a System Change

- An incremental change, e.g. limited to green technologies, agro-forestry, etc., will not meet the challenge

- Greening whole economy i.e. *mainstreaming*

- Creating an economy where investing in natural capital can provide cost-effective solutions to a range of challenges and opportunities
  - water quality provision, coastal and riparian flood risk reduction,
  - natural environment management, biodiversity conservation,
  - increased and more sustainable food production and secure socio-economic benefits (such as rural livelihoods).
NCFF: Using Transformational Financial Instruments to Address the Challenges

- Make optimal use of **scarce public funds**, i.e. identify ways of increasing leverage;
- Testing new instruments to mobilise or **"crowd in" private finance**;
- Address specific market barriers by **investing in projects that are not considered commercially viable today but have the potential to be so in the future**;
- ‘Fill the gap’ in the financial market and **demonstrate the business case for ‘higher-risk’ projects**;
- **Facilitate market uptake** of climate and environment friendly actions and greening of financial intermediaries via financial instruments;
- **Complement traditional action grants** as private sector finance is not the panacea and public sector and grant financing will have to remain for certain projects (e.g. highly sensitive/fragile ecosystems, no-go areas).
Why a NCFF in the EU?

- **Large, yet unclear needs:**
  - Total annual investment costs for natural capital management projects are estimated to be between €73 million and €288 million by 2020;
  - No precise estimates of overall costs of adaptation. EU costs of adapting to flood risks and sea-level rise estimated to be between EUR1.7 bn in 2020s and EUR4.9 bn in 2050s;

- **Financing gap however is clear:** insufficient financial resources to support biodiversity conservation and promote climate resilience;

- **Market failures and barriers**
  - Difficulty in evaluating and monetizing benefits and identify beneficiaries
  - May have long project payback periods
  - Perceived high risks
  - Uncertainty related to future regulatory environment or to climate projections
  - Lack of affordable finance

- **Call for innovative financing mechanisms in EU** Climate Adaptation Strategy, Biodiversity Strategy and the Green Infrastructure Strategy;

- **Investment in ecosystems provide multiple benefits** for, incl. for adaptation;

- **Market opportunities** for investments in natural capital are emerging but barriers remain.
The EIB can count on an extensive range of instruments to finance public and private sector activities at both investment and sub-investment grade (fin. risk)
The Objectives of the NCFF

➢ Address market gaps and barriers for revenue-generating or cost-saving projects promoting the conservation of natural capital to meet biodiversity/adaptation objectives;

➢ Test different financing options; identify most suitable approaches to stimulate financing for conservation, restoration, management and enhancement of natural capital;

➢ Three more specific objectives

➢ Establish a pipeline of replicable, commercially and financially viable operations, serving as a 'proof of concept' for ecosystems services and climate adaptation benefits, especially challenges related to land use, forestry, biodiversity, soil, water (marine and fresh), agriculture and waste.

➢ Demonstrate to private investors the attractiveness of natural capital projects in the areas of green infrastructure, payment for ecosystems services, compensation and pro-biodiversity and adaptation businesses; develop a sustainable flow of private capital and achieve scale.

➢ Leverage funding from private investors for this pipeline through the blending of EU Funds with EIB own resources.
NCFF Structure

**Co-investors**
- private and/or public

**EIB**

**LIFE Environment / Climate**

**NATURAL CAPITAL FINANCING FACILITY**
- **FINANCIAL INSTRUMENTS**
  - EUR 100-125m ➔ EUR 50m First Loss for EIB

**TECHNICAL ASSISTANCE**
- EUR 10m

**INVESTMENTS**
- Private Equity Funds, Credit Lines to Banks

**Project level**

**DIRECT INVESTMENTS IN PROJECTS**

**INTERMEDIATED INVESTMENTS**
Challenges in Scaling up Nature-Based Investments for Climate Adaptation

- Natural capital deal flow is quasi absent – high search costs
- Too small – issues with scalability/replicability/lack of sustainable cash flow
- Too risky – lack of track record of developers and projects – issues of collateral – risk parameters of credit risk dpt of financial institutions not adapted to these new investments
- Too unproven – monitoring, indicators, capacity issues

Two key questions that need to be urgently answered

- Who owns the asset and who owns the returns on that natural capital asset?
- How do you measure and value the economic and non-financial return?
The Way Forward – Policy Level

- Focus needs to be on reciprocal mainstreaming;
- Support development of strong scientific & economic evidence base;
- Mainstreaming adaptation/biodiversity requires sustained support for 10-15 years - building resilience through investments in natural infrastructure across landscapes;
- Partnerships, building trust and stakeholder engagement is key to successful mainstreaming and to ensure ownership of mainstreaming process, including by local municipalities and communities;
- Reform of harmful subsidies to biodiversity and complementary packages to address any possible regressive distributional impacts;
- Important to engage the private sector both directly and through support for enabling policies, incentives…
- Enhance environmental governance and public sector capacity;
- Performance assessment and adaptive management over time.
The Way Forward – Financing Aspects

- Facilitate a greater role for **philanthropic investments** in project development (incubator phase);
- More **systematised, standardised** and strategic approach to scaling and replication projects amongst financiers and investors;
- Tackle investor priority of **risk mitigation**;
- **Minimise transaction costs** through standardised processes for investments;
- Public sector to **mobilise private actors** and coordinate their actions in order to start an overall momentum;
- Move from niche/boutique investment to **mainstream**;
- Build on what **already works**.
Thank You

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European Investment Bank

For more information on the NCFF