



# European Investment Bank

*The EU bank*

# Financing Nature-Based Solutions for Climate Adaptation:

## The Natural Capital Financing Facility (NCFF)

6<sup>th</sup> Workshop on Adaptation to Climate Change in Transboundary Basins

Geneva 13-14 September 2016

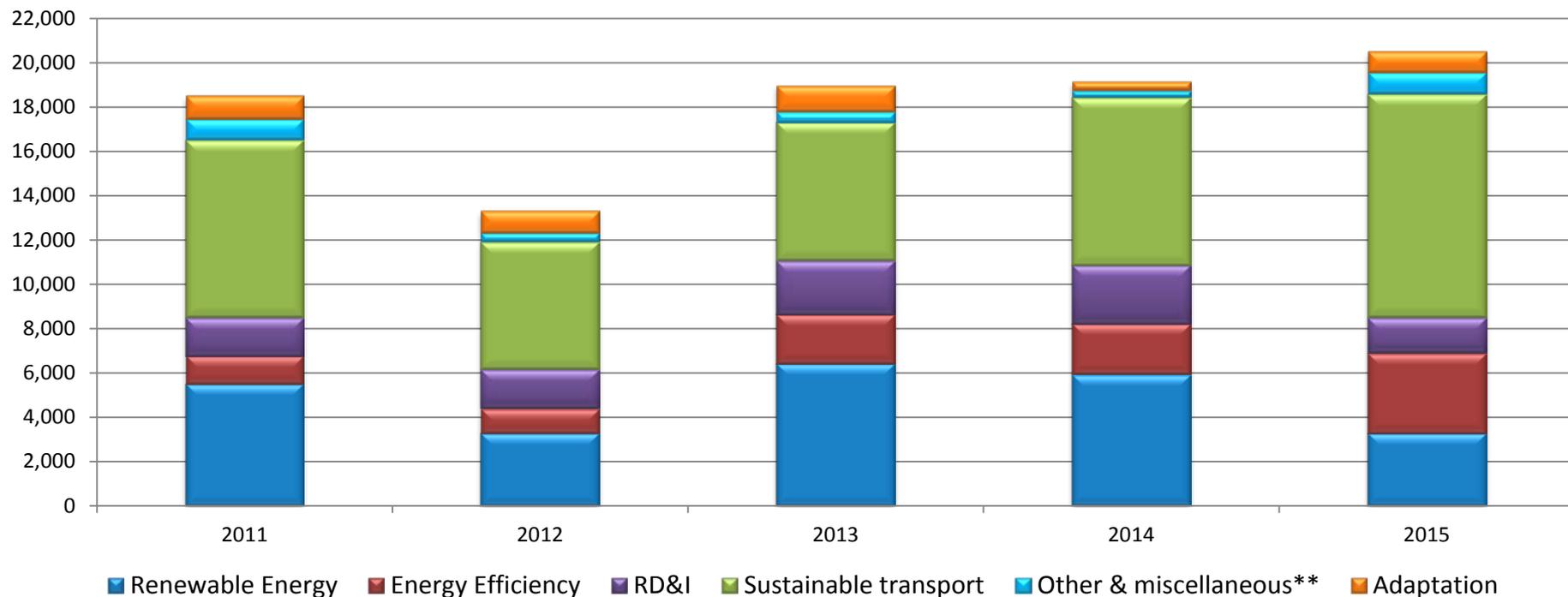
# The European Investment Bank (EIB)

- 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.

	2011	2012	2013	2014	2015
Total*	18,494	13,313	18,982	19,145	20,492



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

\*\* Including Afforestation, Forest Management, Waste and Wastewater

**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)**

# 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 – over 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

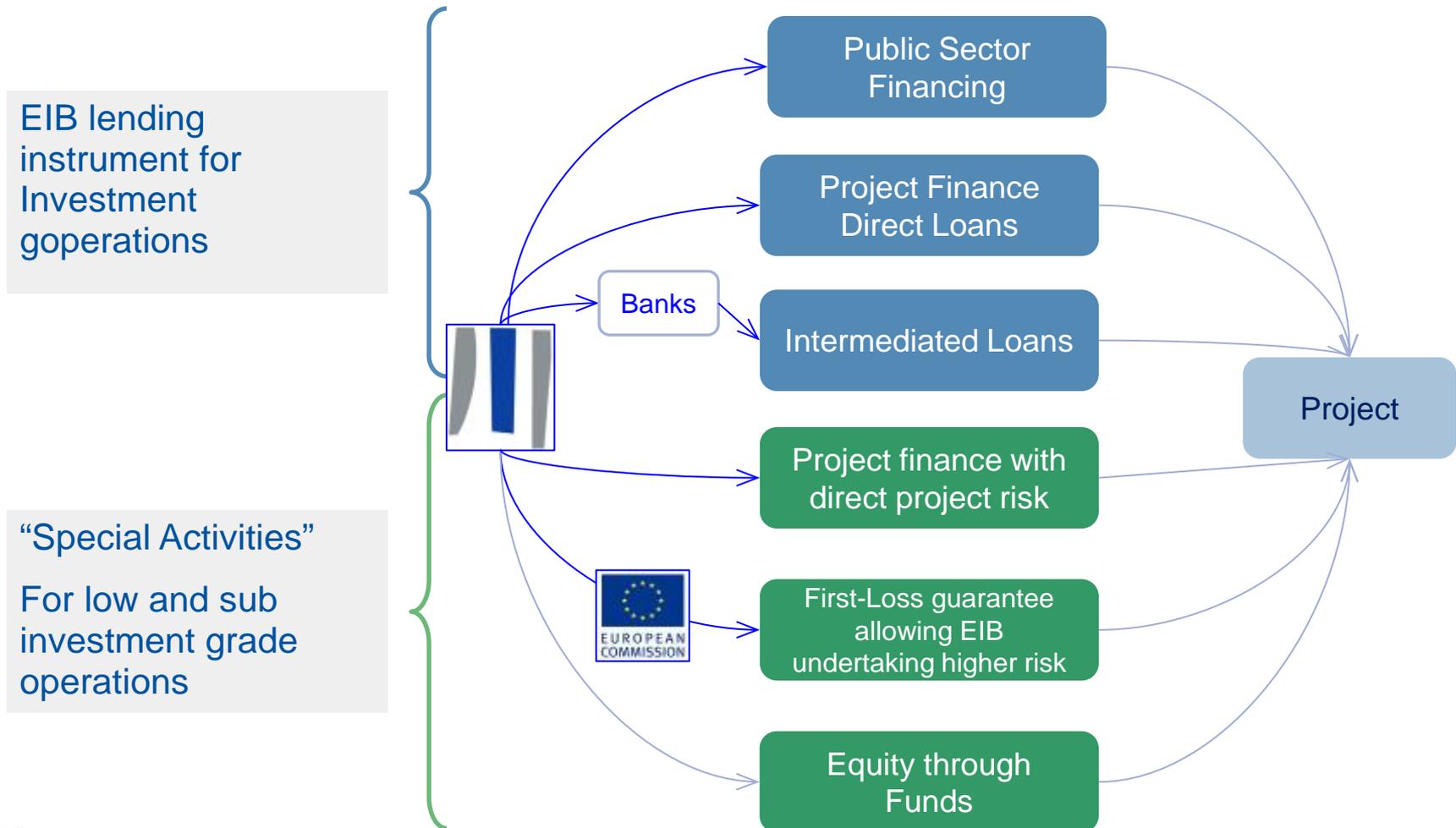
- Make optimal use of **scarce public funds**, i.e. identify ways of increasing leverage;
- Testing new instruments to mobilise or "**crowd in**" private finance;
- Address specific market barriers by **investing in projects that are not considered commercially viable today but have the potential to 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.

# EIB Financing Instruments

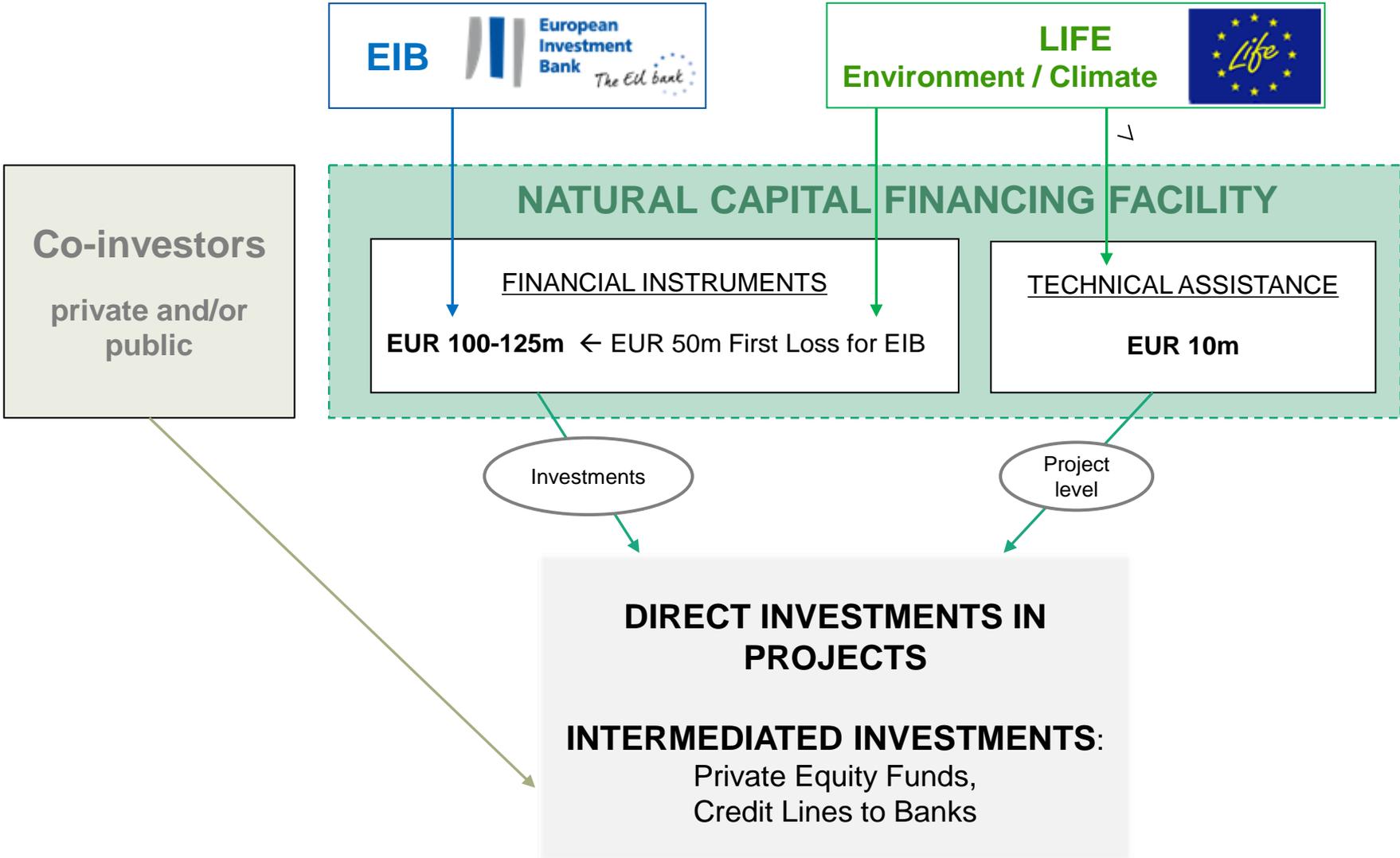
The EIB can count on an extensive range of instruments to finance public and private sector activities at both investment and sub-investment grade (fin. risk)



# 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.

# NCCFF Structure



# 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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[For more information on the NCFE](#)

**Webpage:** <http://www.eib.org/products/blending/ncff/index.htm>