



Closing the financing gap – financing nature restoration



A LARGE ENVIRONMENT INVESTMENT GAP

EU



€320 billion
needed by 2025



€329 billion
needed by 2030

Globally



\$536-711 billion
needed annually

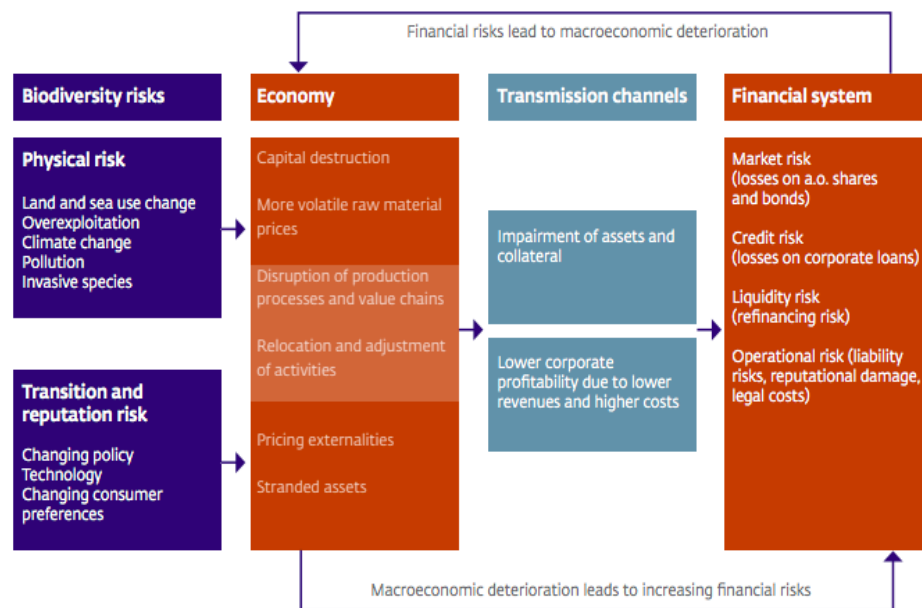
Low- & middle- income countries



\$328-439 billion
needed annually

BIODIVERSITY LOSS – A THREAT TO FINANCIAL STABILITY

Figure 2 From biodiversity risks to financial risks



Source: DeNederlandscheBank

Financial institutions are materially exposed to

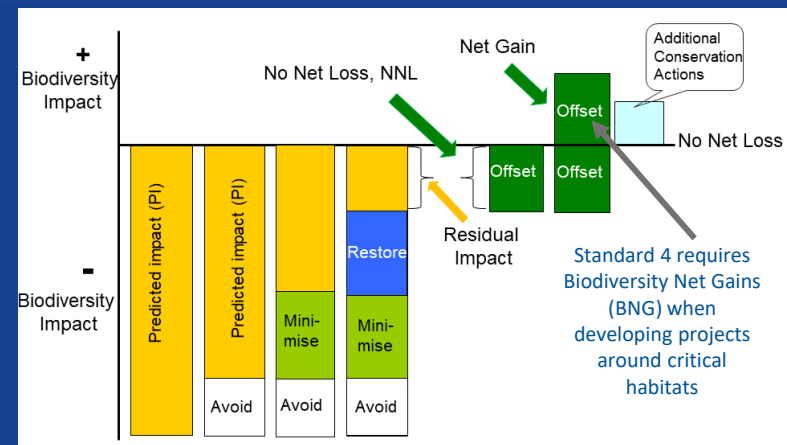
- Companies (at least partly) dependent on ecosystem services
- Companies with adverse impact on biodiversity

From Protection to Investment

Nature safeguards: the implementation and monitoring of the **E&S Standards** ensures that the EIB projects are **nature neutral** through the application of Standard 4 (Biodiversity and Ecosystems) and other Standards including Standard 5 (Climate Change). They ensure that the ecological integrity and the buffering capacity of the ecosystems are maintained and that projects are Paris Aligned-

The EIB ECS Standards Performance Requirements are **often more robust than national standards even in the EU**, thus effectively avoiding harm and driving non-financial additionality.

The Environmental and Social Due Diligence and the **mitigation hierarchy** set the minimum requirements and provide a basis to further improve our current approach, explore best practice and go beyond compliance



Nature finance (investment and policy dialogue) contributes to achieving the goals and targets of the GBF by:

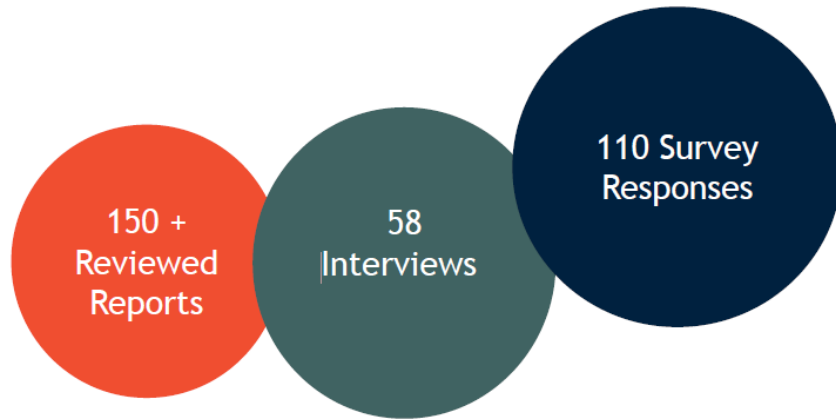
- 1. reducing drivers of biodiversity loss*** compared to the "business as usual" scenario, or minimising impacts beyond ESDD requirements.
 - e.g. wastewater treatment, plastic use reduction and recovery, solid waste management, sustainable agriculture, forestry, and fisheries, use and circular reuse of sustainable materials.
- 2. restoring or regenerating nature**
 - e.g. urban greening, dedicated environmental remediation projects, use of nature-based solutions, a/reforestation, ecotourism or other natural enhancement for property development.

Projects which have measurable and monitored positive outcomes for nature may be considered **nature positive finance**.

*The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), identifies five main direct drivers of biodiversity loss: land use change, overexploitation of natural resources, climate change, pollution and invasive species.

State of NBS Market and Market Trends

Market Testing Analysis



Key findings

- Private sector entities invest only marginal amounts into NBS (<5%)
- Grants, public funding and philanthropic capital are the main financing tool for NBS, followed by market-based loans
- No one-size-fits-all approach to instruments
- Utilities and corporations are among the largest capital deployers in NBS

NBS Market Failures, Barriers and Solutions

Key **barriers** to NBS upscaling are **fundamental market features**:



Information failures

- Impacts of NBS are difficult and expensive to measure
- Skills and expertise shortage: NBS is new for many policy-makers and practitioners
- Conflict with previous/bias towards 'grey' solutions
- Public unaware of NBS and its advantages



Coordination

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



Risk

Unfamiliar/higher risk profiles compared to other investment options



High transaction costs

- Small scale NBS can incur high transaction costs
- The 'nascent' state of NBS 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)

Important fundamental market structural problems:

- 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)

Simply removing the 'barriers' will not change these features -> broader fundamental market reform required

Action is needed to further conserve and restore ecosystems, but the EIB faces challenges



Market failures

The degradation of Nature and biodiversity provide **textbook examples of market failure**.

The ecosystem services provided by nature generate value for business and society, but **only a small share** of the value nature provides and the cost that ecosystem damage entails **is priced**.

This can make 'bankable' nature finance challenging because there are **limited revenue streams** for nature conservation and restoration activities.



High evidentiary standards

Businesses also face challenges in navigating the high standards on nature and biodiversity.

Many businesses are now facing pressure to demonstrate action on nature, and may require support in **developing robust approaches** to net gains, nature-positive business models and robust **monitoring, reporting and verification (MRV)** systems.



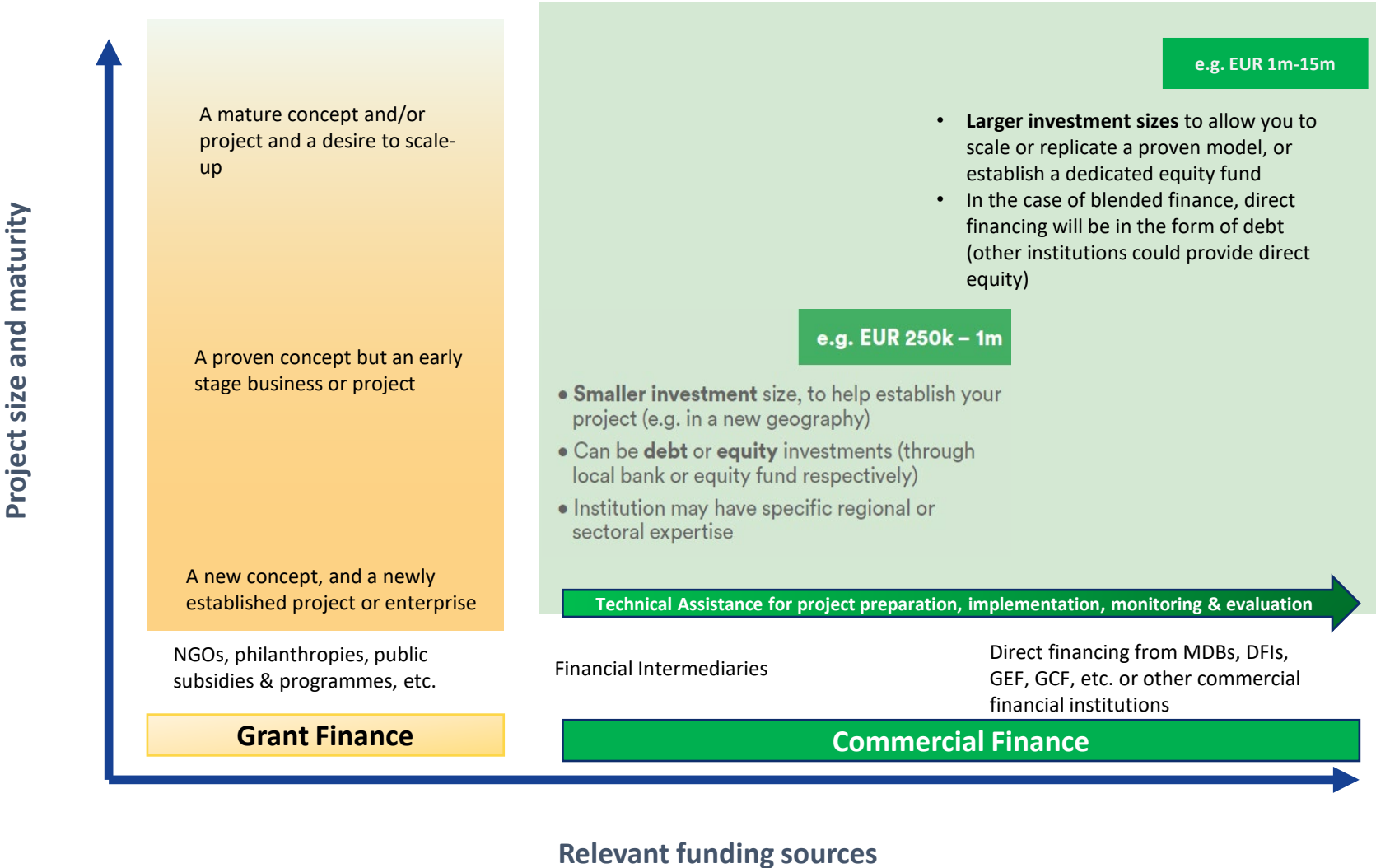
Public orientation

Wildlife conservation areas, forests, marine reserves and other large natural habitats, together with most infrastructure, **fall under the public sector** so public investment is central.

However, working with **the private sector also has the potential** to achieve significant benefits for nature:

- **to reduce impacts on natural resources** (e.g., pollution reduction), and
- **to take regenerative action** (e.g., net gains, nature-based solutions and sustainable land management).

Size and maturity of projects in relation to relevant funding sources



Funding Nature Conservation and Restoration Projects



Relevant funding sources

EIB investment activities have focussed on three areas

Through both direct and intermediated finance, TCs and policy dialogue

Key entry points:

1. Environmental due diligence, maximising biodiversity opportunities
2. Green and resilient cities
3. Corporate Climate/Nature Governance
4. Results-based finance: sustainability-linked bonds and loans, debt conversion
5. Green Technology Sector

Blue-green infrastructure/nature-based solution

Actively recover ecosystems by investing in natural capital assets as physical infrastructure to provide ecosystem services.
E.g. using sustainable urban drainage to reduce flood risk and drainage infrastructure cost, or green surfaces for passive cooling



GBF Target 2: Restoration of nature
GBF Target 11: Provision of ecosystem services
GBF Target 12: Improve nature in cities

Pollution prevention and circular economy



Reduce pressures on ecosystems by decreasing pollution and reducing the resource-intensity of the economy
E.g. wastewater treatment, plastic waste reduction and management

GBF Target 7: Reduce pollution

Financing the transition

Work with clients to reduce drivers for biodiversity loss resulting from agriculture, forestry, and fishery activities, within their supply chains
E.g. supporting clients in improving practices to meet international sustainability certification standards, or review of nature-related impacts and dependences in their supply chains

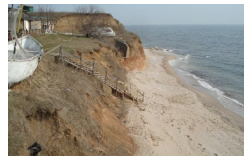
GBF Target 7: Reduce pollution
GBF Target 10: Manage agriculture sustainably
GBF Target 15: Enable disclosure and transition planning



PROJECT EXAMPLES



SUSTAINABILITY AND PROTECTION OF WATER AND MARINE SOURCES



Romania

Coastal erosion protection

- Protection against of coastal erosion and flooding
- Protection of coastal and marine ecosystems.



700 M EUR



Germany

The Emscher projects (4 loans)

- River restoration
- Flood protection, storm water and wastewater collection and treatment



5.3 bn EUR



POLAND RURAL DEVELOPMENT CO-FINANCING II

- Support to selected measures of the Polish Rural Development Programme 2020-23
- Improvement of water and wastewater management
- Reduction of surface and groundwater nitrate pollution
- Reduction of soil erosion



3,7 Bn EUR

PROJECT EXAMPLES



PROTECTION AND RESTORATION OF BIODIVERSITY AND ECOSYSTEMS



Romania

ROMANIA FOREST REGENERATION-SLB (NCF)

- Investments in about 2,200 ha of forests
- Enhancing the forest management regime: closer to nature practices, natural regeneration, enhanced ecologic and biodiversity conditions
- Improving the resilience of forest ecosystems, soil protection/reduction of soil erosion risk, improved water soil retention capacity and flood control.



13 M
EUR



LAC

EcoEnterprise Fund III

- Invests in women-owned and led afforestation, reforestation, sustainable agriculture and forest management businesses in LAC
- Investments actively contribute to the creation of sustainable livelihood, conservation and preservation of critical natural resources and ecosystems



20 M EUR



Poland

POLAND RURAL DEVELOPMENT CO-FINANCING II

- Support to selected measures of the Polish Rural Development Programme 2020-23
- Improvement of water and wastewater management
- Reduction of surface and groundwater nitrate pollution
- Reduction of soil erosion



3,7 Bn
EUR

Examples of nature-positive projects using different financing instruments

Equity

EcoEnterprise Fund - LatAm (USD 20M)

Tailored growth capital to innovative business models, whose success relies on: (i) creating sustainable and resilient livelihoods while encouraging sustainable use and conservation of natural resources; (ii) preserving vulnerable ecosystems and biodiverse working landscapes.



Blended Finance

Land Degradation Neutrality Fund – Global (USD 17.8M)

Financing of sustainable land use projects that will reduce or reverse land degradation, mostly in the field of sustainable agriculture and forestry.



Credit lines

HBOR Natural Capital MBIL - Croatia (EUR 15M)

Credit line to the Croatian national promotional bank designed to foster natural capital investments such as sustainable agriculture and forestry, ecosystem restoration, Nature-Based Solutions for adaptation.



Public Finance

Emscher Renaturation project - Germany (EUR 5.3Bn)

Restructuring of the wastewater system of the Emscher River with the re-naturalization of more than 320km of river banks and landscapes.



Riga Forests Peatland and Solar PV

- SIA Rigas Mezi, the municipal forest management company of Riga City (LV), is developing a project to transform degraded peatlands in the proximity of Riga.
- Would combine the renaturalisation of these areas with the installation of large-scale solar PV parks (approximately 200MW).
- Degraded peatlands are prevalent in the Baltics, where prolonged peat extraction for fuel has left behind barren landscapes. Restoring these habitats would reestablish their ecosystem, enabling them to function as CO2 sinks and attracting biodiversity.
- The proposed project would thus establish principles and an example of planning the landscape for restoration giving room to part utilisation for renewable energy generation, optimising for biodiversity and CO2 in a sustainable development framework.



Advisory would:

- Support SIA Rigas Mezi to address the challenges associated with this integrated approach.
 - Aim for effective and lasting renaturalisation of the peatlands
 - Provide a technically feasible solution for PV installation, in an economically and financially viable project monetizing diverse revenue streams, **including carbon credits**, complying with strict environmental standards.
- SIA Rigas Mezi owns over 60000 ha of forest, much of which on drained peatland, the assignment will provide an example to explore principles for management of this larger territory, spread throughout the country.

Castilla la Mancha, evolving partnership on forest ecosystem services

“Alianza por los Servicios de los Ecosistemas de Castilla-La Mancha”

- Formalised by regional decree in March 2023
- Regulates voluntary contribution by cities and corporates to sustainable forest management in small communities
- Initial level of funding: 1 EUR/inh/annum, 7 cities signed up

Challenges

- Political in terms of cities taking part
- Regional administrative capacity to drive and manage partnership

Solution (expected in 2024)

- Revised partnership, incorporating existing framework, independent entity
- Region, Diputaciones, city of Cuenca, CIM University core partners
- Version 1.0 of platform for forest owners to register for certification, application for funding for ecosystem services “uplift”
- Initially standard agnostic (FSC Ecosystem Standard, Verra etc.)



Development of new ecosystem funding streams

Bioeconomy cluster for new forest products

Forest business plans to ensure management and justify funding gap

- ♥ Timber revenues not enough to make management viable, funding gap
- ♥ Many small public/private forest owners

Potential to support partnership and build pilot forest investment vehicle (e.g. with layered financing)

Regions have key competences biodiversity, CIM is front-runner, MITECO learning from legislation and implementation

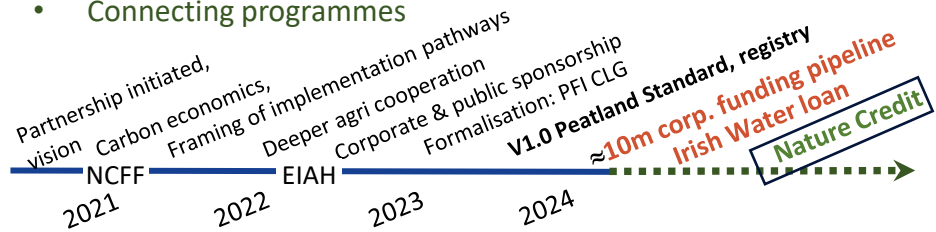
From Theory to Practice

Paradigm	Key issues	Policy instrument
AGREGGATION <ul style="list-style-type: none"> • Portfolios • Intermediaries 	<ul style="list-style-type: none"> • Complexity in sectors and diversity of products • “Granularity”, diversification/type of risks • Lead times vs investor horizons • Delegation and alignment of interests • Instrument economics (cost coverage) - in the face of <u>low (eligible) capex, small project sizes</u> 	<ul style="list-style-type: none"> • Portfolio derisking/risk sharing • Subsidised operations • Technical Assistance • Coordination with grants
MAINSTREAMING <ul style="list-style-type: none"> • Enhancing biodiversity inside larger investments • Building on existing planning capacity, implementation capacity and revenue models • Biodiversity incorporated in decision-making 	<ul style="list-style-type: none"> • Relationships with promoters and addressing overall financing need (together with other investments) • Timely engagement and flexibility • Tailored terms for specific components if necessary, streamlined within overall financing • Visibility and demonstrating co-benefits to other stakeholders • Landscape paradigms for coherence and unlocking new cooperation with other entities active in the same locations 	<ul style="list-style-type: none"> • Concessional element/other financial incentive • Technical Assistance • Coordination with grants

Peatland Finance Ireland – Nature Credit

Blended funding for mainstreamed restoration

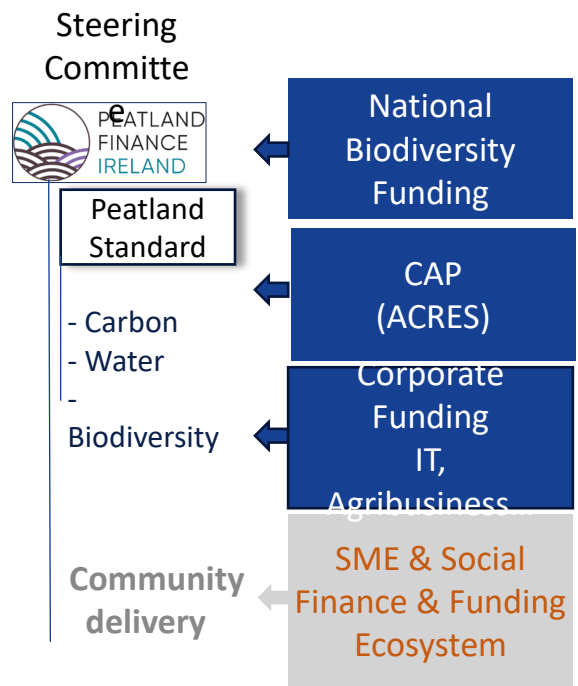
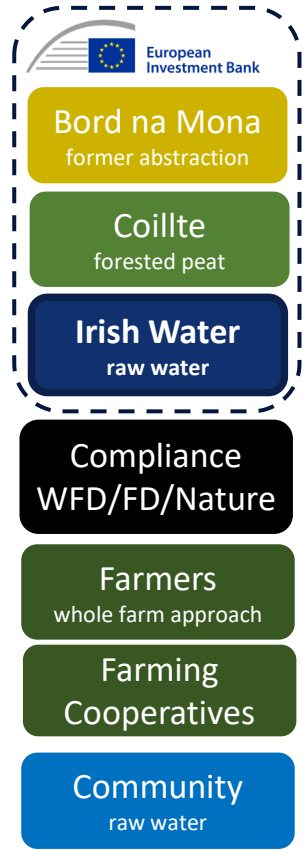
- Building a **partnership** among key interests & government
- Market outreach to corporates and financial players
- Connecting programmes



- Stacking of multiple ecosystem services
- Science-based, water catchment and community framing
- Integration of agri **Results Based Payment Schemes**

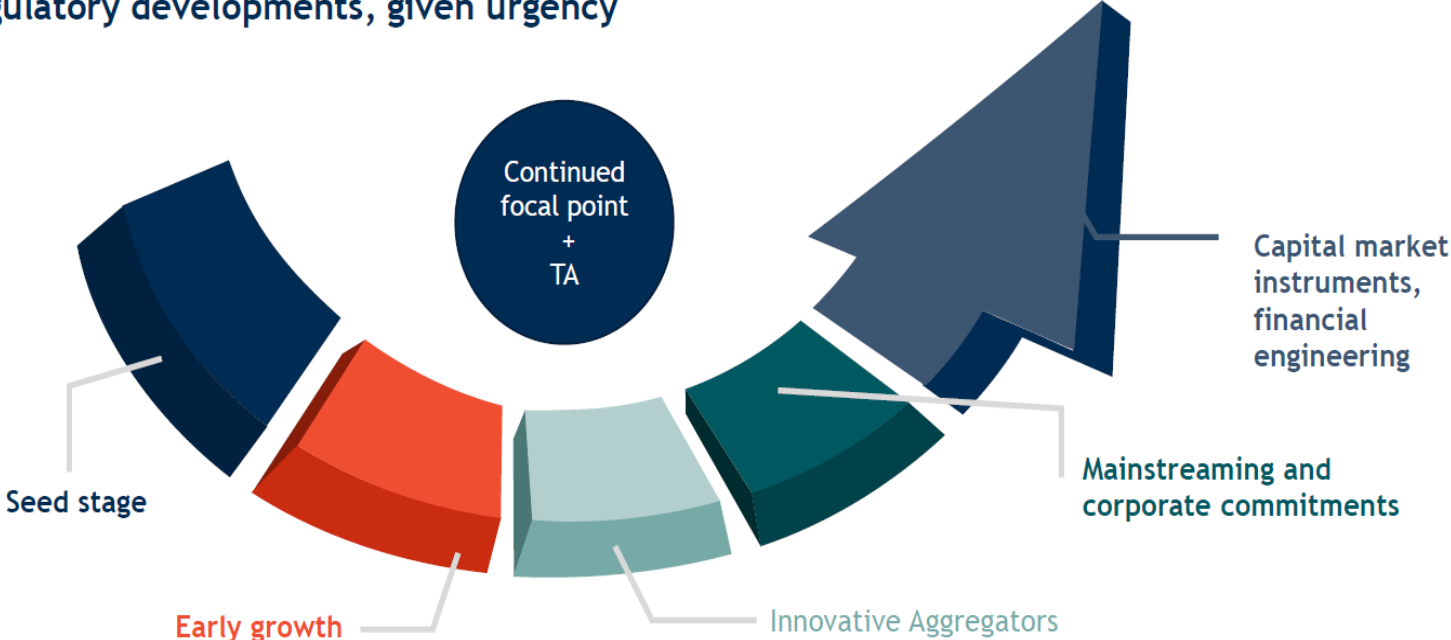
- ### Proposed scope of assignment for fully establishing Nature Credit
- Strengthening the biodiversity and water metrics and methods
 - Extending to organic soils -> agriculture
 - Stacking economics and additionality principles for blending
 - Broader market testing and corporate engagement
 - Business plan for the PFI Structure and operations

Key beneficiaries: National Parks and Wildlife Service / PFI CLG



Recommendations

Need for a continuum of policy-based financial instruments, anticipating demand and regulatory developments, given urgency



Streamlined coordination with national grants and subsidies throughout

Thank you
Eva Mayerhofer