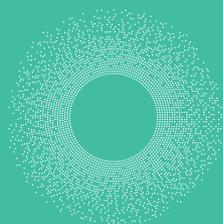




Global
Landscapes
Forum

Luxembourg 2019

White Paper



Breakthroughs in
Sustainable Finance

Financial perspectives on sustainable land use

Which business models fit and how can we scale them up?

This White Paper was produced by **European Investment Bank** (EIB)
The content of this GLF white paper is the sole responsibility of the author.



Speakers



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Natural capital is key to halting the loss of biodiversity, and adapting to climate change. It will require significantly increased investment in the years to come. Whilst a number of innovative financing solutions have been developed, a disconnect remains: many project developers struggle to access mainstream finance to scale their business. At the same time, mainstream investors struggle to find attractive sustainable land use models. During the session, innovative fund managers will offer insights into what it takes for businesses to attract investment that fits their needs. Hosted by the European Investment Bank (EIB) at the GLF Luxembourg 2019 Conference, the session will facilitate a discussion on possible ways to overcome the most important barriers for landscape and conservation finance.

Is this session relevant for me?

Nature's contribution to the global economy is estimated to be worth more than \$125 trillion annually.¹ Building conservation and nature-based solutions into projects represents a massive opportunity: from lowering operational costs, through unlocking new revenue streams, increasing customer engagement, to delivering environmental public goods. However, deciding how to finance these projects and harness nature's benefits, can be challenging.

The GLF session hosted by the EIB is particularly relevant if you are:

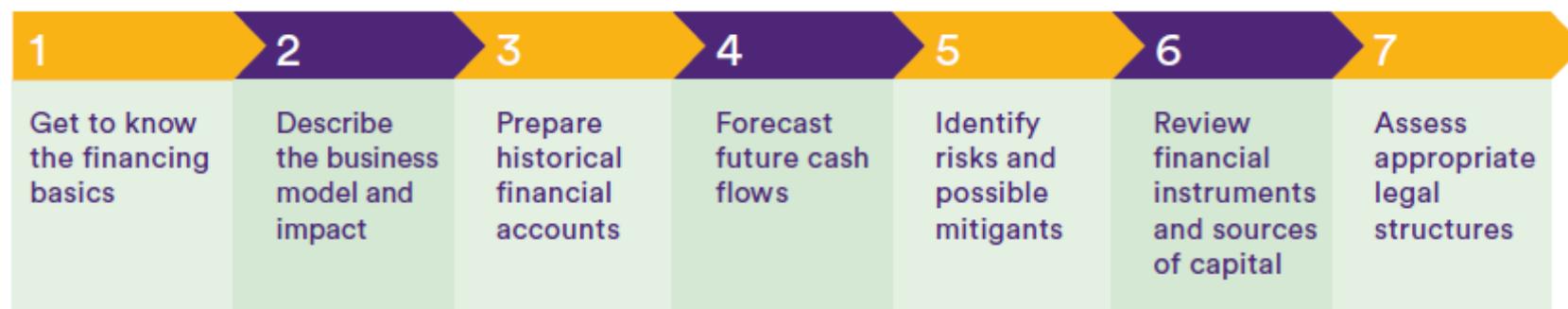
- an entrepreneur exploring nature-based solutions to improve project performance, cut costs, or create new revenue streams;
- a conservation organisation or foundation seeking to move towards a commercial business model;
- a corporation looking to offset the environmental impact of your operations;
- a financial institution looking to support conservation or nature-based climate projects;
- a fund manager considering raising capital for conservation or biodiversity projects; or
- a city or municipality seeking to become greener, more biodiversity friendly, and more resilient to climate change.

¹ WWF: Living Planet Report 2018: Aiming Higher (2018).

This 'white paper' for the GLF session, as well as the panel discussion are structured around the 'Investing in Nature' Guide developed by the EIB and the European Commission,² which aims to help project developers and entrepreneurs identify the cost-saving and commercial opportunities that nature could unleash. The guide aims to support developers in setting-up the optimal financial structure for projects or businesses, and outlines practical ways to access financial support to incorporate these solutions into operations.

Engaging with potential investors and financial institutions requires a structured and rigorous approach. The 'Investing in Nature' Guide presents a 7-step approach for project developers and entrepreneurs to structuring and preparing relevant information that you need to access the right type of financing, at the right time:

During the GLF session hosted by the EIB, we will touch on the most relevant topics from the guide and ask panellists to share examples of successes and failures, and explain briefly why, to help the audience understand how to structure their ideas.



² European Commission and European Investment Bank: Investing in nature - A practical guide to financing conservation and nature-based solutions. <https://www.eib.org/attachments/pj/ncff-invest-nature-report-en.pdf> - The main text elements and infographics used for this white paper can be found inside this publication.

Description of the business model and impact

Providing clear information on business models is essential for a developer to access commercial finance. A summary of the business case will help potential lenders or investors understand the vision and potential environmental and social impact of the proposed activities. Writing

a business plan also forces a developer to ask some fundamental questions about the proposed project and future strategy. This will make financing needs much clearer and help clarify the relevant risks and opportunities.

The following questions can help prepare a presentation about the project and its expected impact:

QUESTIONS ABOUT THE PROJECT...

1. What problem are you trying to solve?
2. Will your project increase your revenue or reduce your costs?
3. How much investment is needed to make it happen?
4. Is it forming part of an on-going (mature) business or is it a stand-alone (new) initiative?
5. Are other players also seeking to address the same problem? Will it outperform other solutions?
6. Is your solution replicating a proven model or introducing new innovative features?
7. Could the proposed solution be replicated by others and scaled?
8. Is it generally hard to obtain private financing for this type of project?

QUESTIONS ABOUT THE IMPACT...

1. What social and environmental impact will the project have?
2. Are you trying to solve local, regional (European) or global issues?
3. Do you have clear goals and identifiable outcomes? Are they reasonable and measurable?
4. Is the project fighting biodiversity loss or improving climate adaption using nature based-solutions?
5. Are there any potential negative side effects? If yes, how are you taking them into account?

Historical accounts and forecast of future cash flows

When aiming to raise finance, presenting audited financial accounts is most effective. Conservation or nature-based firms or initiatives may not have these audited accounts. Instead, they must be ready to provide management accounts: covering key items that reflect the financial position or credit profile of on-going activities.

In brief, credit profile assessments typically include the evaluation of financial leverage (usually measured by debt/ equity ratio from the balance sheet), profitability (tends to be measured by EBITDA or net income margins from income statements), or cash flow generation (shown in cash flow statements). New ventures (start-ups) would not be expected to have historical accounts, as more emphasis is placed on the business model, plausibility of forecasts, shareholder support and quality of the team and its track-record.

Before deciding on the type of financing, it is important to forecast revenue, operational costs, and required investments. The purpose of this exercise is to understand how much money is needed by when – and the ability of projected revenue streams and cash flows to cover future financial obligations under various funding structures. In addition, the 'Investing in Nature' Guide contains further examples and case studies for inspiration.

Identification of key challenges, risks and possible mitigants

Conducting a well-structured SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis, compiling a list of key project risks and running calculations for 'what if this happened' scenarios

will help to decide what type of financing is appropriate. Understanding what can impact revenues and cash flows, and how to mitigate such risks, will make potential investors or lenders more comfortable and, as a result, help to reduce financing cost.

Even if developers haven't previously considered taking a loan from a bank, or

going to external investors for equity (e.g. have worked only with the support of grants so far), with the right amount of preparation and risk-mitigation projects and firms could also become eligible for commercial sources of financing. The 'Investing in Nature' Guide provides a list of various tools and actions that can be taken to strengthen the commercial viability or 'bankability' of natural solutions projects (see table). The speakers on the panel will provide further advice on these and other risk mitigants.

RISK MITIGANT TOOLS	DESCRIPTION	TYPICAL BARRIERS OR RISKS IT CAN ADDRESS
ADDITIONAL EQUITY	Raising more capital from new and/or existing shareholders	Lack of equity overall or high financial leverage (e.g. relatively high debt compared to balance sheet size, potential risk that cash flows will not be sufficient to service debt)
GUARANTEES	Third-party that can step in to cover financial obligations in adverse scenarios	Can help to improve access to financing (and potentially reduce pricing / interest margin), overcome lack of credit history , novelty of concept or other risks (including lack of financial experience)
COLLATERAL	Pledging security for the payment of loans (e.g. property or land)	Same as above (guarantees). However, land tenure challenges can be a common reason that prevents land being used as collateral
OFF-TAKE AGREEMENTS OR SALES CONTRACTS	Entering into contractual arrangements with future buyers of products	Can help to improve credit profile and reduce demand risk (increase visibility and predictability of sales and cash flows)
TECHNICAL ASSISTANCE	Support programmes for capacity building and pipeline development (typically grants)	Support from external professionals (including mentoring, board advisors, consultants) or strengthening internal skills and capability to overcome lack of financial or project development experience
FIRST-LOSS OR SUBORDINATE CAPITAL	Subordinate capital layer in a fund acting as "buffer" for a portfolio	Having layers in a fund structure (with differentiated risk and return expectations instead of on equal terms) can help to increase access to risk-adverse investors
INSURANCE AND HEDGING	Standard or bespoke finance solutions to protect against specific risks or fluctuations in commodity prices	Can act to improve access to financing and potentially improve pricing / interest margin as certain risks are transferred to other parties. Adds complexity and costs. Standard "business as usual" insurance tends to be a requirement by lenders
RESULTS-BASED INCENTIVES	Contractual arrangement offering financial reward based on achievement of performance criteria	Additional (conditional) revenue stream by identifying partners willing to pay for impact or performance, which can strengthen credit profile and improve predictability of cash flows . Incentive mechanism which acts to compensate for the opportunity cost of alternative revenue options

Identification of most suitable financial instruments and sources of capital

The panel will review the pros and cons of various funding sources in relation to growth objectives, key risks and different stages of stage of development. For example, is the business a **start-up**, which an experienced investor could help grow? Is there available collateral (e.g. property or equipment) that can be used as security for a loan? Are there any third parties (e.g. a parent company) that could offer a guarantee?

Choice of legal structure

Establishing the right legal structure from the outset is important. For example, would a 'special purpose vehicle' be beneficial (which can separate the project from other operations to isolate project risk)? Would a 'holding company', combining a variety of projects with different revenue streams, be right? Would a conventional equity fund (with pre-determined term and return expectations) be more suitable? Review implications of each legal structure and have an initial idea of the legal structure you prefer, but always obtain formal legal advice before committing (technical assistance could help with this).





Photo by Anis Sanyal/CIFOR

Speakers' background and questions to the audience

The speakers will present and share experiences from the set-up and achievements of the financial instruments that they offer for financing nature-based solutions and sustainable land use:

- Althelia Ecosphere: <https://althelia.com/>
- CDC Biodiversité: <https://www.cdc-biodiversite.fr/>
- Livelihoods Carbon Fund: <http://www.livelihoods.eu/lcf/>

During the session at the Global Landscape Forum (GLF) Luxembourg 2019 Conference, the EIB would like to ask online and offline participants for their views, e.g. on:

- Why have you joined this session and what is your main area of interest?

- What do you think is the biggest barrier to access finance for nature-based solutions and sustainable land use?
- What do mainstream investors currently prevent from stepping up their engagement in conservation and landscape finance projects?
- Which type of new business models have been most successful in attracting private capital?
- How can innovative financial instruments and fund structures bridge between the needs of project developers and mainstream investors?

Contacts for this GLF session

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