



The Natural Capital Financing Facility (NCFF)

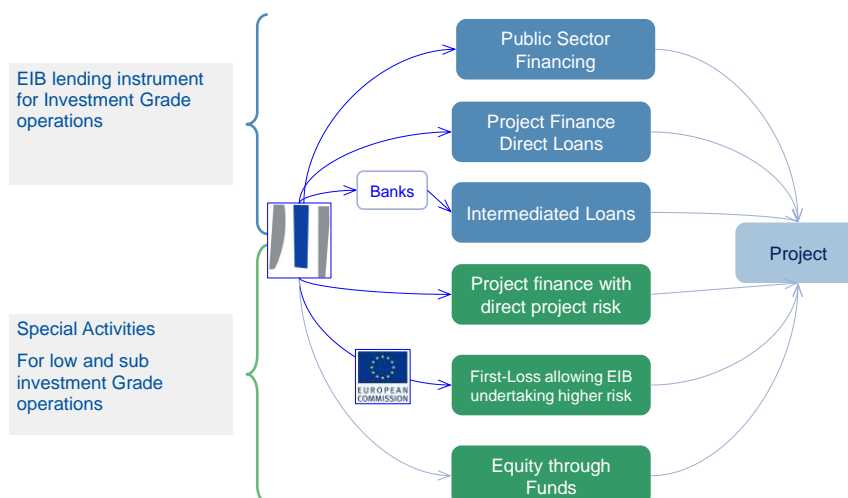
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The European Investment Bank (EIB)

- EIB is the EU's long-term lending bank set up in 1958 by the Treaty of Rome, headquartered 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
- Financing is in support for EU priority objectives: climate change, sustainable infrastructure, energy, environment, SMEs, regional development...

EIB Financing Instruments

- The EIB has, to its disposal, an extensive range of instruments to finance public and private sectors at investment and sub-investment grades of risk



The Rationale and Policy Context for the NCF

- Financing gap for biodiversity and adaptation – insufficient financial resources to support biodiversity conservation and promote climate resilience;
- Market failures and barriers
 - long project payback periods
 - perceived high risks
 - uncertainty related to future regulatory environment or to climate projections
 - lack of affordable finance
- 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 and benefits 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;
- Innovative financing mechanisms foreseen in EU **Climate Adaptation Strategy**, **Biodiversity Strategy**, and the **Green Infrastructure Strategy**;
- Investment in ecosystems provide benefits for a number of challenges, including climate adaptation;
- Emerging market opportunities for investments in natural capital, but there are barriers that need to be addressed.

Why Use Financial Instruments?

- 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.

NCFF Objectives

- 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, bankable 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 use of EU Funds.

NCFF Set-Up (1)

- EIB executes the Facility
- € 100-125 million Investment facility during 2015-2017
- 9- 12 operations, typically between €5 million and €15 million:
 - Direct loans to individual, larger projects
 - Indirect loans through financial intermediaries aimed at smaller projects
 - Indirect investment aimed at smaller projects via equity funds

Target term: 10 year with possibility of grace period of 3 year

Maximum NCFF contribution to total project costs: 75%

Maximum NCFF participation per private equity fund : 33%

Final beneficiaries include both public and private entities

NCFF Set-Up (2)

- EU contribution to the EIB of € 60 million:
 - € 50 million for guaranteeing investments
 - € 10 million for the Support Facility.
 - Budget comes from the LIFE programme, which is the EU's funding instrument for the environment and climate action.
- NCFF Support Facility
 - For operations expected to be supported by the NCFF
 - Maximum contribution per (potential) project: € 1 million
 - Support consists in external advice and consultancy services contracted by the EIB

Some challenges

- Why are most project initiatives located in the Western and Northern MS? Lack of capacity?
- How to shift from the concept of grant funded projects to projects generating a cash flow?
- Do the promoters present credible business plans that would pass the credit risk tests? If not, what are the missing elements?
- Which kind of borrowers / final recipients of NCFF have been most active? Public? Private? NGOs? Size? Challenge of credit profile.
- Challenges for monitoring impact (long-term), reporting etc?
- How many projects clearly support or are meant for climate adaptation?
- How do you value a public good?
- Are social impacts presented in the proposal – do they really generate employment?
- Are the projects rather local, regional, national or trans-boundaries? How to take a landscape approach?
- Do the promoters present methodologies incl. good baselines to measure the impacts, the environmental benefits provided by their projects?
- Are there marine / coastal projects?

Thank You

[For more information on the NCFF](#)

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

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