



UK Green Finance Review

Opportunities for Growing Investment in Preserving our Natural Heritage and Supporting Nature Recovery

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Executive summary

- Nature’s protection and recovery is vastly underfunded in the UK, facing an estimated funding gap of £56 billion over the next 10 years.¹
- Public and philanthropic commitments alone will not be sufficient to deliver the UK’s nature recovery ambitions. There is an urgent need to unlock additional sources of investment to close the nature funding gap.
- As the largest dedicated grant funder of the UK’s heritage, The National Lottery Heritage Fund (the “Heritage Fund”) plays a crucial role in funding land and nature restoration. With ambitions to leverage the funding available and grow its impact, the Heritage Fund has committed to explore strategic interventions that can help champion innovation through testing and learning from new approaches and financing models.
- Finance Earth was commissioned to undertake a focused review of the UK-wide green finance sector. The review aimed to identify opportunities for the Heritage Fund, its key partners and other similar funders of land and nature (together “Environmental Funders”) to explore new investment approaches and tools to apply alongside their existing funding to protect, sustain, and conserve the UK’s natural heritage for years to come.
- The UK’s green finance market encompasses a broad scope of objectives and activities across greening the financial system and financing low carbon interventions, to the emerging nature-based solutions (NbS) market. This review focused on the NbS finance sector, which is most aligned to delivering the Heritage Fund’s priorities for natural heritage.
- Overall, the NbS finance market is in the early phases of development and far behind other parts of the UK’s green finance sector. Engagement with a wide range of sector stakeholders evidenced the need for strategic support to build the NbS sector’s capacity and expertise to develop a pipeline of projects that can catalyse investment in delivering improved outcomes for natural heritage.
- To identify key NbS financing gaps and opportunities, Finance Earth performed a desktop research and market mapping exercise, followed by a two-step stakeholder engagement process. First, one-to-one interviews were held with a range of funders and project developer stakeholders to gather detailed market insight on the green finance market barriers and development support gaps. A survey was then issued to understand which interventions key market participants saw as the most crucial to supporting project development and unlocking investment.
- The evidence gathering and market engagement process identified five overarching barriers to expanding the availability of financing for natural heritage, including:
 - A lack of tailored risk funding and seed investment;
 - Limited project developer capacity, capability and expertise;
 - Early-stage nature-based business models with limited track record;
 - A lack of ecosystem data and evidence base, and verification frameworks; and
 - Nascent policy and regulation for market creation.
- The review evidenced that a blend of interventions is needed to address these barriers and develop this fledgling market in support of nature recovery, including:
 - Financial mechanisms, to address the lack of patient capital willing to take on the risk of proving the investability of NbS projects;
 - Investment support, to address the identified challenges to business model development and project developer capacity and expertise; and
 - Market building interventions, to develop the standards, frameworks and platforms to facilitate market development and access to new sources of capital.

- A range of recommended interventions have been identified based on identified sector needs. These provide a menu of options for Environmental Funders to engage in market development and should be assessed against their own priorities and experience. The recommended interventions include:
 - Financial mechanisms
 - Provide patient, flexible financial products to meet sector financing needs and prove repayable finance models
 - Co-invest in investment funds in development through providing pipeline origination funding, first-loss capital and/or guarantees to crowd in private finance
 - Build on successful investment programmes by expanding availability of bridging finance for land purchase
 - Support the development of innovative outcomes-payments models that leverage in private finance and incentivise robust impact monitoring frameworks
 - Investment support
 - Develop and scale up capacity building, enterprise development and investment readiness funding programmes to catalyse market infrastructure and a pipeline of investable projects
 - Deliver an incubator programme to convene a cohort of stakeholders to build an investment proposition around a landscape-scale initiative
 - Expand the supply of specialist intermediaries to support the delivery of investment ready projects
 - Facilitate the development of a UK-wide knowledge sharing platform to accelerate shared learnings and market development
 - Market building
 - Collaborate with environmental funders to convene blended finance opportunities
 - Advocate for government support for a suitable governance vehicle to develop and 'house' robust ecosystem service verification standards to deliver quality impact measurement
 - Advocate for a transformational intervention to deliver supply of investment at scale, such as a nature-focused equivalent of Big Society Capital or the Green Investment Bank.
- These interventions provide a major opportunity for Environmental Funders to achieve additional and improved outcomes for nature and heritage through:
 - Protecting future investment by building revenues into projects to support longer term sustainability;
 - Reducing the sole dependency of the sector on grant funding, allowing scarce grant resources to go further and achieve greater impact for nature and heritage; and
 - Growing the sources and flow of investment into enhancing landscape and nature for wider public benefit.
- This report is intended to provide headline options for how Environmental Funders could engage in the emerging NbS financing market. As a key next step, Environmental Funders should engage with each other, sector participants and existing initiatives to understand which opportunities they are best placed to take forward and where they can collaborate in delivering these interventions to accelerate financing for nature recovery.

Introduction

Project context

Investment of approximately \$967 billion annually is required to safeguard the natural environment worldwide, but current annual spending is only around \$130 billion.² There is growing recognition of the importance of unlocking additional sources of investment from the private sector to meet this funding gap by developing investment opportunities that protect or restore nature while generating a return on investment.

The bulk of funding for nature conservation currently comes from public and philanthropic sources. As of 2019, just \$21 billion of private capital flowed to nature-positive activity and conservation investments,³ equivalent to less than 1% of the global green finance market.⁴ However, the market is rapidly growing globally – for example, the US restoration industry alone has reached \$25 billion in annual economic output and supports 220,000 jobs.⁵

In comparison, the UK's nature-based solutions (NbS) finance market remains underdeveloped. To achieve the substantial targets set under the UK government's 25 Year Environment Plan and its commitments to net zero, there is a real need to develop suitable financial products for NbS to demonstrate the key role that finance can play in driving nature recovery. Investment in NbS could also help to deliver the levelling up agenda and support the post-Covid economic recovery.

The National Lottery Heritage Fund (“the Heritage Fund”) invests across the full breadth of the UK's heritage with the aim to make a lasting difference for heritage, people and the places they support. The Heritage Fund's Strategic Funding Framework outlines land and nature as a key strategic priority area for funding, alongside a commitment to explore strategic interventions that can help champion innovation through testing and learning from new approaches and financing models.⁶

Alongside other sector partners, the Heritage Fund's co-investments in social impact funds, including the Heritage Impact Fund and Arts and Culture Impact Fund, have already played a key part in leveraging private investment through capital contributions. This has supported the development of a social investment sector in the UK that is now worth over £6 billion and delivered benefits for other parts of the heritage sector.⁷

Additional impact investment and market building support dedicated to the needs of the NbS sector will be critical to support the sector's long-term sustainability, stimulate a pipeline of investment ready projects and attract private capital at scale to address the identified funding gap for nature recovery. The Heritage Fund, its key partners and other similar funders of land and nature (“Environmental Funders”) are well-positioned to accelerate market development and deliver tailored interventions and sector collaborations to unlock greater investment in NbS, nature conservation and natural heritage.

Through supporting the development of the emerging NbS financing market, Environmental Funders could play a key role in crowding in other finance providers and growing the supply of capital to deliver nature and natural heritage outcomes. This should allow Environmental Funders to free up precious grant resources to fund impactful projects where finance cannot be used.

In August 2021, the Heritage Fund commissioned Finance Earth to explore opportunities to apply new investment approaches and tools alongside traditional grant funding to deliver the greatest impact on nature's recovery. The work aimed to provide options and recommendations for Environmental Funders to invest in optimising nature restoration and natural heritage outcomes based on collated insights and evidence from a wide range of market stakeholders.

Research objectives

The key objectives of the research were to:

- Provide an overview of the green finance market;
- Carry out a focussed review of the NbS finance sector, investment opportunities and market gaps;
- Explore key approaches and opportunities for Environmental Funders to engage in green finance; and
- Produce a set of recommendations of areas for Environmental Funders to explore in more detail where they can have the greatest impact.

The research had a specific focus on the Heritage Fund’s three priority areas of natural heritage:

1. Nature conservation and restoration, including ecosystem restoration and species recovery;
2. Nature-based solutions, particularly for climate change mitigation and adaptation; and
3. Connecting people with their natural heritage.

Research methodology

The project was conducted over three phases, as set out in Figure 1.

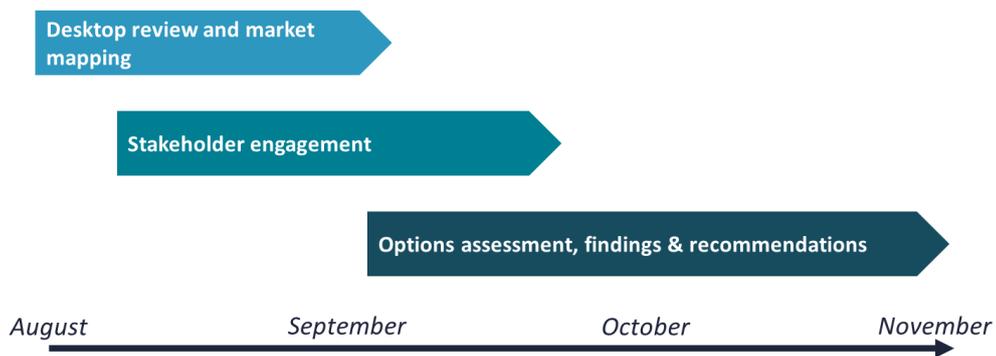


Figure 1 Green finance market scoping project overview

Phase 1 – Desktop review and market mapping

A desktop review of the UK green finance market was undertaken to identify key sector challenges and opportunities. Building on Finance Earth’s existing knowledge of the green finance and social investment markets, the review aimed to provide an overview of the state of the UK’s green finance sector, identify opportunities for intervention and prioritise stakeholders for engagement.

Phase 2 – Stakeholder engagement

Finance Earth consulted with 40 organisations across the UK-wide green finance sector to gather key information on funding gaps and opportunities for investment. Stakeholders engaged included targeted project developers, public bodies, private organisations, funders and environmental networks with existing green finance experience. Two main forms of engagement were used:

1. One-to-one calls: interviews were held with 18 funders and project developer stakeholders to gather detailed market insights into the green finance market barriers and development support gaps.
2. Survey: a survey was designed to gather a broader market view from targeted project developers seeking to establish investable nature-based projects. 22 organisations participated providing high level feedback on market needs.

The stakeholder engagement approaches were designed to gather market insight across the following areas:

- Stakeholders' experience in accessing or delivering repayable finance to protect and enhance the natural environment;
- The main barriers to investment;
- The types of financial instruments, infrastructure and support that would be most beneficial in addressing market gaps, unlocking investment and supporting project development and scale up;
- The most promising investment opportunities; and
- Stakeholder views on where Environmental Funders could avoid duplication and add most value in addressing barriers and gaps within the green finance market.

Results from the engagement were used to identify what market participants see as the current financing gaps and needs that require addressing to accelerate solutions to support nature's recovery.

Phase 3 – Options assessment, findings and recommendations

Following analysis of the stakeholder engagement results, Finance Earth compiled a list of recommended options for market interventions based on the barriers identified in the green finance market. The results of the research are detailed in this report.

The UK's green finance market

Market overview

Green finance, referring to a structured financial investment created to ensure a beneficial environmental outcome,⁸ is a rapidly developing investment area with significant potential to support the UK's natural heritage.

The UK's green finance market encompasses a broad scope of objectives and activities, with an overall aim to align private sector financial flows with clean, environmentally sustainable and resilient growth. The UK government's Green Finance Strategy, which sets out how plans to accelerate the growth of green finance, distinguishes the market into two main areas:

- Greening finance, focused on mainstreaming green finance by integrating climate risks in decision making and developing robust green financial products; and
- Financing green, focused on mobilising private finance for climate / low carbon interventions and NbS.⁹

While there is overlap across these green finance market segments, this market review focuses on the NbS finance sector, where the Heritage Fund's Strategic Funding Framework is most aligned to delivering outcomes for nature recovery and natural heritage.

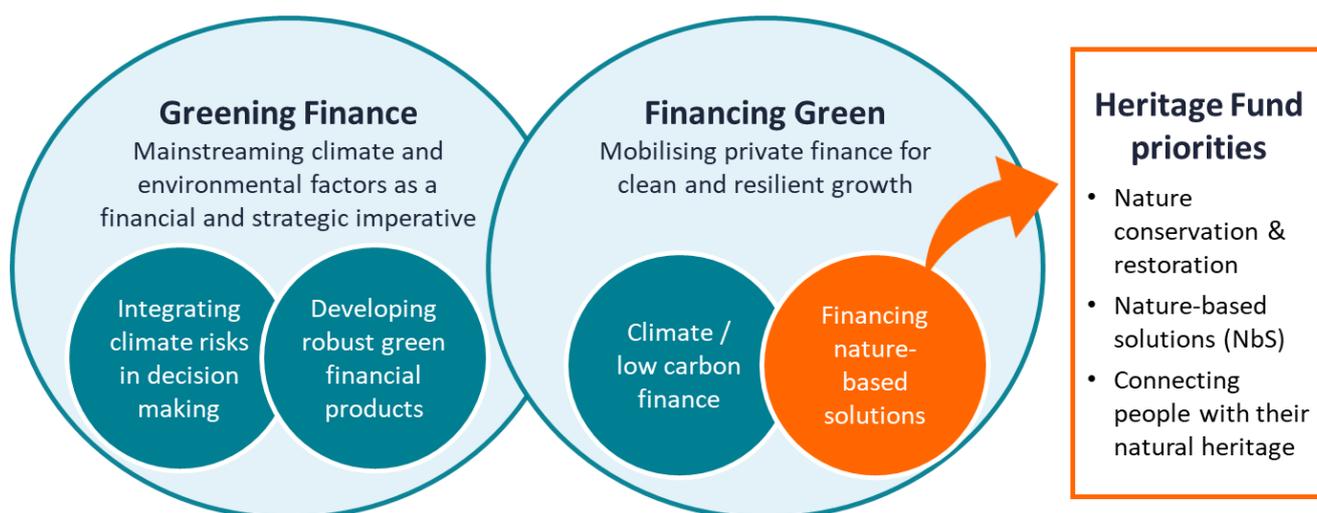


Figure 2 Green finance market overview¹⁰

Market status

Interventions within the UK green finance market have historically focused on greening finance and financing climate / low carbon interventions. The strong emphasis placed on the development of reporting frameworks and encouraging corporates to integrate climate risks to achieve the goals of the Paris Agreement has led to the establishment of influential initiatives, such as the Taskforce for Climate Related Financial Disclosures (TCFD) and Science Based Targets initiative (SBTi). Government-led low carbon financing interventions include £92 billion invested into clean energy since 2010 and the establishment of the Green Investment Bank, which has worked alongside over 100 private sector and third-party investment partners to deliver over £12 billion of investment in climate finance projects.¹¹

In comparison, the finance market for NbS and natural heritage is far behind and underdeveloped, driven by a lack of tailored financing to meet sector needs, nascent government policy to create market mechanisms, and project developers with a lack of capacity and expertise to develop investable projects. Research led by the

Green Finance Institute (GFI) estimates that the funding gap for nature in the UK over the next 10 years is £56 billion, highlighting the need for catalytic intervention.¹²



Figure 3 Illustration of the UK funding gap for nature

Within the sector, natural heritage outcomes are particularly underfunded and face significant funding gaps. The report estimates the funding gap over the next 10 years for protecting and restoring biodiversity is £19 billion, while the funding gap for improved access to and engagement with the natural environment is £7 billion.¹³

Experience from the UK's social investment sector has demonstrated the opportunity for public funders to enhance their impact on people's lives by leveraging funding commitments with four-times the level of private capital.¹⁴ This makes Environmental Funders optimally placed to use their funding strategically to catalyse significant additional investment to address the funding gap for natural heritage.

With COP26 having taken place in the UK in 2021 and increasing global awareness of the importance of biodiversity alongside decarbonisation, there is a major opportunity to unlock private investment in NbS and natural heritage as part of the rapidly growing UK green finance sector. The UK government, public sector bodies, environmental NGOs (eNGOs) and the business community are increasingly interested in collaborating with the aim of developing nature recovery projects that can generate diversified revenue streams and attract new forms of private finance.

Market status across UK geographies

Across the UK, the development status of the NbS market is widely variable, with England being the most advanced and Northern Ireland the most fledgling. Whilst there are examples of initiatives focused on developing the NbS finance market in each country, the market remains at a nascent state with few successful transactions.

England

Market development has been encouraged by the Department for Environment, Food and Rural Affairs' (DEFRA) investment in developing new markets for NbS revenue opportunities. DEFRA's payment for ecosystems services (PES) pilots delivered between 2012 and 2015 aimed to develop schemes in which the beneficiaries, or users, of the natural environment, pay for the outcomes it delivers.¹⁵ Markets are being supported through new policy in design, including Biodiversity Net Gain (BNG) policy requiring new development to deliver measurable biodiversity enhancement,¹⁶ and the replacement of the European Union's Common Agricultural Policy with the Environmental Land Management (ELM) scheme to provide payments to farmers for delivering environmental outcomes.¹⁷

In 2021, DEFRA and the Environment Agency launched the Natural Environment Investment Readiness Fund (NEIRF) to provide technical assistance funding with the aim of stimulating private investment and market-based mechanisms in England to support the goals of the government's 25 Year Environment Plan.¹⁸ In the first funding round in 2021, 27 projects were awarded funding to develop investable models over the next year.¹⁹ In the Autumn 2021 budget, the Treasury announced a target to raise at least £500 million in private finance to support nature's recovery every year by 2027 in England, rising to more than £1 billion by 2030.²⁰ This will be supported by a £30 million public investment in a Big Nature Impact Fund (BNIF), aiming to incentivise and de-risk private investment to deliver a portfolio of NbS projects.²¹

Scotland

In Scotland, policymakers are increasingly recognising the importance of investing to protect valuable natural assets and the huge potential to attract new forms of finance for NbS in Scotland. The urgent need to attract additional private capital into this space was highlighted in the £1 Billion Challenge conservation finance investment route map published in 2020, outlining a range of conceptual natural capital policy and funding options to facilitate investment at scale across landscapes, with wide-ranging input from a broad community of NGOs, public bodies and private sector entities in Scotland.²² Building on this work, the Scottish Conservation Finance Pioneers Group established an online platform for conservation finance actors in Scotland to share and network with the aim of establishing new avenues for directing investment in conservation projects.²³

Despite these initiatives, limited repayable investment has been raised to date and project developers have a lack of capacity and short-term resources in place to develop eligible propositions. NatureScot, working with the GFI and Scottish Wildlife Trust, are developing a proposal for a Facility for Investment Ready Nature in Scotland (FIRNS) to support the development of pipeline of investment ready nature-based projects.

Wales

The Nature Recovery Action Plan for Wales was refreshed in 2020 to account for the escalating nature emergency and need for a green recovery.²⁴ However, the green finance market in Wales remains in the early stages of its development. To deliver the ambitions of the Nature Recovery Plan, the Welsh Government is exploring capacity building schemes to develop the specialist expertise to accelerate a green recovery, as well as developing piloting schemes for PES, BNG and woodland creation. Support in proving business models and identifying scalable and replicable opportunities could accelerate the Welsh green finance market through attracting diverse sources of funding aligned to the needs of actors delivering nature conservation.

Northern Ireland

The green finance market is at the most nascent stage in Northern Ireland out of the four nations. A history of heavy reliance on subsistence farming has led to a multiplicity of small landowners, resulting in challenges to deliver landscape-scale conservation. Organisations are small in scale and lack funding for internal capacity to develop new NbS business models. Early-stage support is required to build the resilience of the sector through training and internal capacity to enable eNGOs to explore new income opportunities, and funding for evidence gathering and pilots that actively build partnerships and communities.

Nature-based business models

The range of outcomes delivered by NbS provide opportunities to generate income streams to support a more self-sustaining business model. Nature-based business models rely on the opportunity to identify:

1. **Revenues** created through the sale of commodities or ecosystem service, or through enterprise models;
2. **Cost-savings** shared with a financial beneficiary; or
3. **Capital gains** achieved on the appreciation of an asset.

NbS revenues are derived through the sale of one or a combination of:

- **Commodity sales**, for example timber or agricultural goods.
- **Payments for ecosystem services** including:
 - Carbon credits sales generated from restored habitats, such as woodland, peatland and coastal ecosystems, through voluntary carbon markets;
 - Other credit sales, including biodiversity credits sold to developers and nutrient credits sold to nutrient emitters through regulated mitigation markets; and
 - Other payments for outcomes, including water quality, natural flood management and social / health outcomes.
- **Services**, such as:
 - Ecotourism; and
 - Rental income to landowners or property owners.

Typically, a project has significant initial set-up costs it needs to pay before it starts receiving any income. Finance is a tool that can be used to bridge the time gap in project funding needs before it is able to generate cashflows. Once the project has started generating cash, it can start providing repayment and returns to the investors.

For an NbS project to be suitable for investment, it must have the ability to repay the initial investment over time, plus pay a financial return (for example, in the form of interest or dividend payments). By identifying opportunities for developing revenues and cash flows, the opportunity to apply finance to deliver benefits for natural heritage can be assessed.

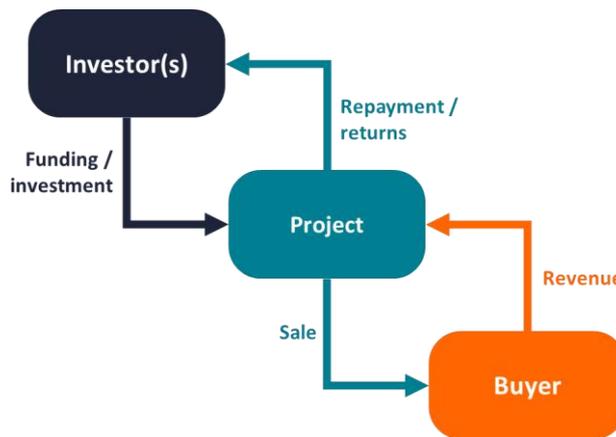


Figure 4 The relationship between finance and project cashflows

Pathway to investment

Nature-based projects typically follow a common process on the pathway to ‘investment readiness’ before they are capable of attracting investment. Investment opportunities in the NbS sector are at a range of business model development stages over this pathway to investment. The investment readiness journey and nascent status of NbS business models is illustrated in Figure 5 below, highlighting the gaps in business model development.

Technical proving – The first phase is proving the environmental outcomes that conserving and restoring ecosystems will deliver, mapping these opportunities and developing a project pipeline. Blue carbon provides an example of such early-stage models in development, with a lack of common standards and methodologies to standardise the measurement of the impact needed to put a financial value on the blue carbon benefit.

Monetisation – The next phase is to find potential buyers for the environmental outcomes and establish the level of demand. An investable project requires demand from buyers willing to pay over a sufficient timeframe. For example, BNG policy laid out in the Environment Bill requires property developers to achieve a minimum 10% BNG on a habitat secured for 30 years from 2023 onwards, creating the demand base for projects delivering biodiversity enhancement through habitat restoration.²⁵

Investment readiness – Investment readiness typically occurs as the project’s cashflows become well-evidenced and predictable, providing potential investors with the required confidence that their investment will be repaid and returns generated. Upland peatland projects are currently at this stage of the process, with the IUCN Peatland Code providing assurance of the projects’ cashflows for investors.²⁶

Pathfinder funding – Once considered investment ready, suitable investors need to be identified and engaged. A track record of demonstration projects is needed to provide investors with the assurance and evidence base to price their investment. Broadleaf woodland carbon is an example of an established revenue stream that can attract investment enabled by the well-established Woodland Carbon Code.²⁷

Capital investment – The final stage is capital investment, where projects can generate revenue at a scale which enables them to attract and support mainstream private investment. Rental income from property assets is an example of a mature income stream.

NbS business models are generally at an early stage in their development, with a need for further evidence, feasibility testing and piloting to progress them to a stage where they can become commercially viable and be considered investment ready.

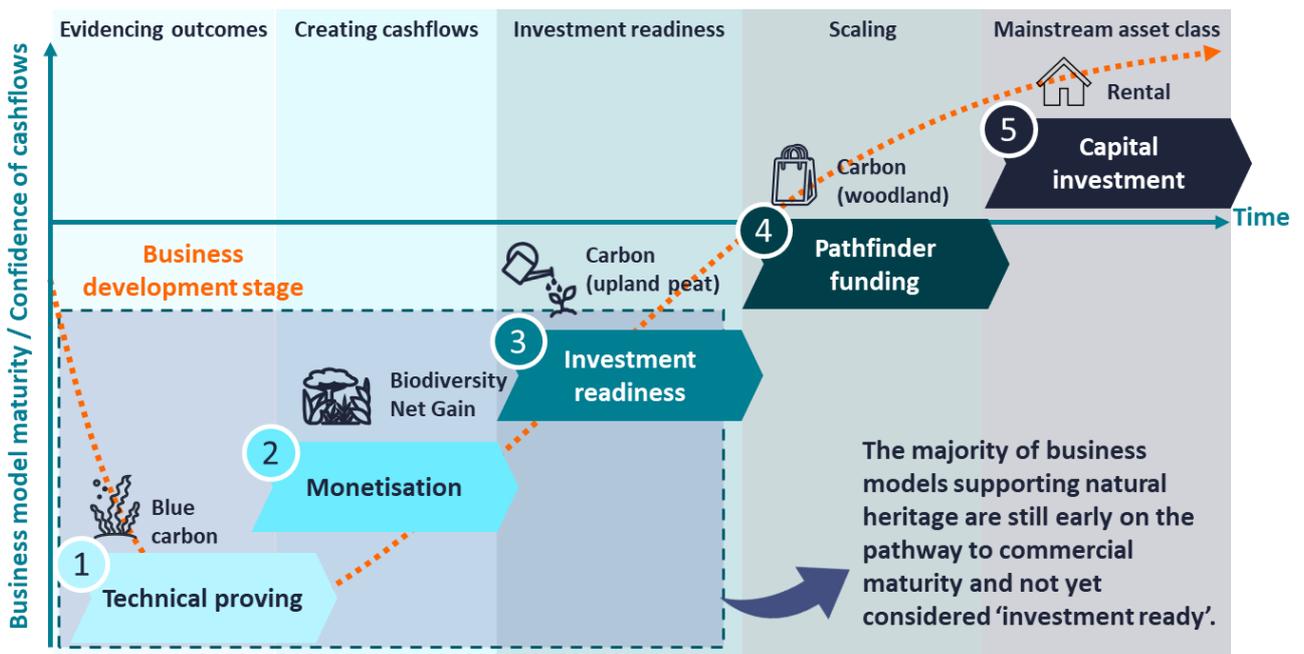


Figure 5 Pathway to investment readiness

Market actors

A range of key actors are involved in the development and implementation of NbS projects. An awareness of the key roles and functions supports an understanding of the range of intervention options that could be deployed across different sub-sectors of the market.

The key actors involved in the delivery of NbS projects include:

- **Project developers and delivery organisations**, responsible for designing and delivering NbS projects, and can include eNGOs, landowners, corporates, public sector or cross-sectoral partnerships;
- **Funders and investors**, providing capital for creating and delivering NbS projects. Funders of NbS have predominantly included public sector and philanthropic capital. Private sector investors are increasingly interested in deploying capital to pursue environmental and financial returns and have a key role to play in addressing the nature funding gap. Private sector investor involvement relies on revenues generated through sales of environmental outcomes to beneficiaries or other buyers;
- **Intermediaries**, playing a vital role in connecting the funders to the service delivery organisations and supporting the development of the market ecosystem. Intermediaries include financial product managers, specialist advisors (providing financial and other specialist skills), outcome verifiers and evaluators of ecosystem benefits.

These market actors must also be supported by a facilitating environment, including suitable policy and regulations and other market infrastructure, such as information sharing platforms, to enable appropriate sources of funding including private sector investment to enter NbS markets.

The various actors and how they interact in the market is outlined in Figure 6.

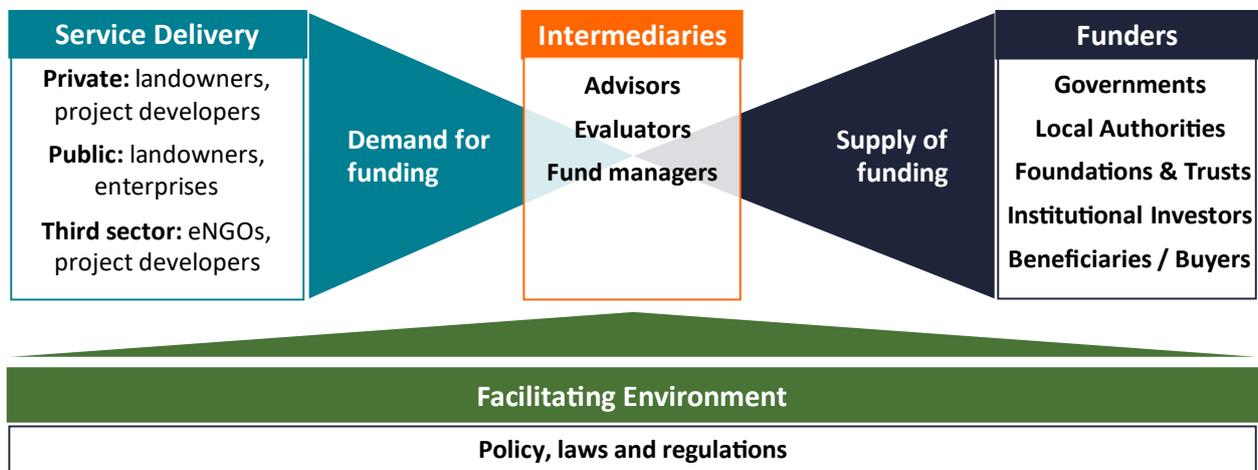


Figure 6 Key actors involved in the delivery of NbS²⁸

Learnings from social investment market

A review of the interventions used to develop the UK's social investment market, where the UK arguably remains the leading international player, can be used to inform the acceleration of the NbS finance sector.

The social investment market has developed from a relatively small market in the early 2000s to be worth £6.4 billion in 2020 and growing at a rate of over 21% per annum.²⁹ This market growth was championed by the UK Government predominantly via Cabinet Office through the launch of the Social Investment Taskforce and included a wide variety of interventions, including:

- A £145 million loan and grant fund, Futurebuilders, providing socially focused loans and aligned grant support to charities and social enterprises;
- The creation of the market building wholesale investor, Big Society Capital (“BSC”), with £600 million available to invest in fund managers and their financial products to leverage further private investment;³⁰
- The launch of several technical assistance funds, including the Investment and Contract Readiness Fund, the Big Potential Programme and the Reach Fund, to provide project developers with specialist financial expertise to prepare projects delivering social impact for investment;³¹ and
- Policy initiatives encouraging market-mechanisms, such as the Community Investment Tax Relief, the Social Investment Tax Relief,³² and the Social Value Act.³³

This combined range of market interventions has contributed to the creation of over 100 specialist social investment funds, 25 interested or specialist social investment intermediaries providing advice and services, and over 5,400 social investment deals.³⁴

As the timeline in Figure 7 below shows, a range of market interventions are needed to address the various barriers of creating an impact investment market. While the results from early initiatives were not immediate, the interventions have significantly contributed to the acceleration of the social investment market and delivery of a range of social outcomes including for the wider heritage sector.

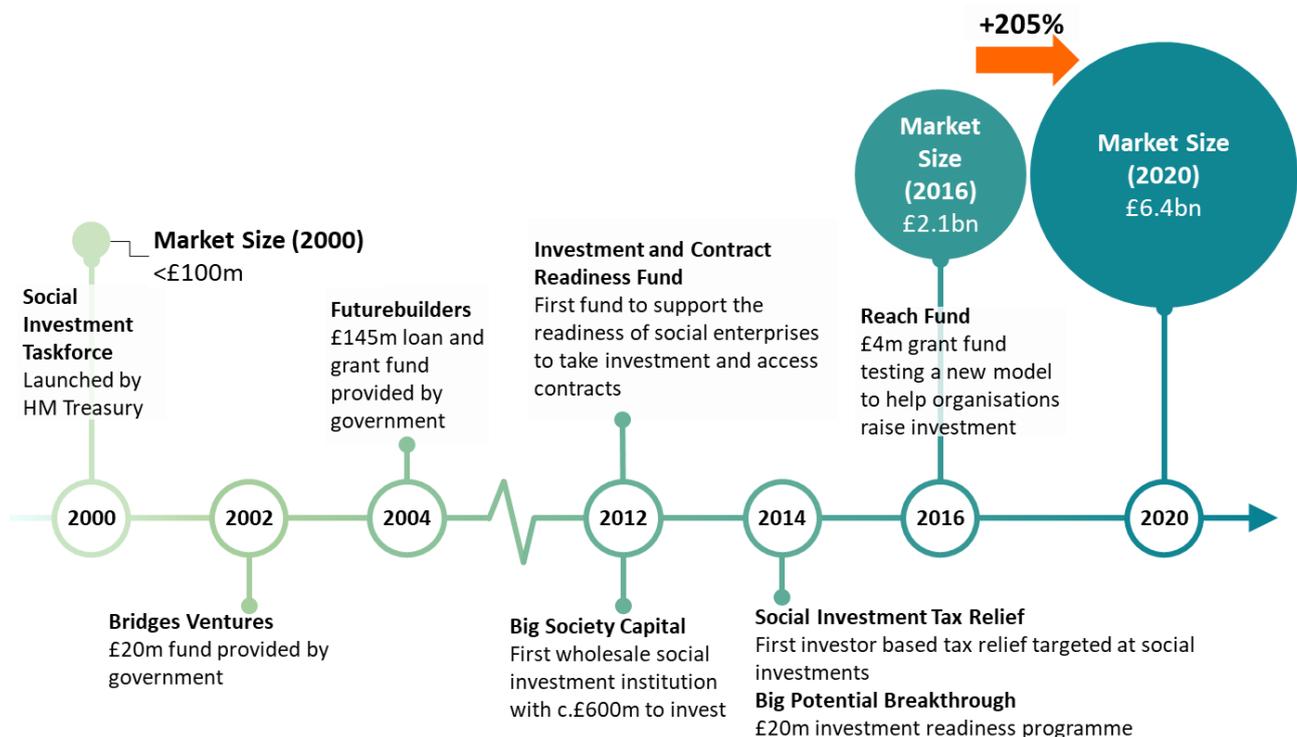


Figure 7 Social investment market development timeline³⁵

Spectrum of Interventions

To deliver priority natural heritage outcomes, a spectrum of interventions is available that vary in complexity and innovation, as well as their impact on NbS projects, the NbS financing market and delivery of the Heritage Fund's priorities. A spectrum of potential interventions is outlined in Figure 8, with a wide range of other interventions available between these options.

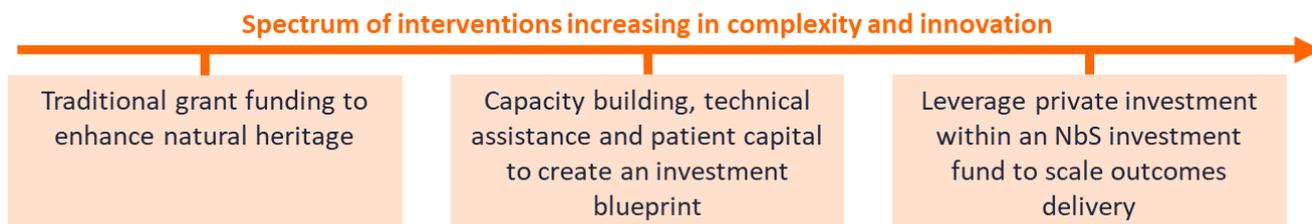


Figure 8 Spectrum of interventions

Example of the intervention impact

RSPB's approach to delivering habitat restoration for safeguarding and recovering populations of threatened, protected bird species provides an example of the range of financing approaches that could be used to deliver priority outcomes for nature.

1. Traditional grant funding

RSPB used a donative and agri-environment grant funding approach to work with the farming community to reverse the decline in the ciril bunting population, a species identified for priority action under the UK Biodiversity Action Plan, that by then was restricted to South Devon. This successfully delivered an increase in population from 118 pairs in 1989 to 1,000 pairs in 2016.³⁶ However, with increasing pressure from housing development, the RSPB recognised that this funding approach alone would not meet the scale of intervention and associated financing needed to safeguard and restore natural heritage.³⁷

2. Capacity building, technical assistance and patient capital to create an investment blueprint

Since 2017, RSPB has invested in its own internal conservation finance team and procured specialist investment advice to develop new models for conservation.

To complement species recovery efforts, RSPB worked with Finance Earth to raise commercial finance to acquire a farm to deliver compensatory habitat for ciril bunting prior to loss from local development impact – in effect creating a 'habitat bank'. The local council agreed to fund the purchase using future projected mitigation income received under its local plan policies for safeguarding protected species, including ciril bunting, under a delivery contract with RSPB. The loan capital will be repaid over a 5-year period as mitigation income is received. This structure creates a self-funding habitat for ciril buntings into the future, alongside benefits for bats, harvest mice and rare arable plants.³⁸

3. Leverage private investment within an NbS investment fund to scale outcomes delivery

To achieve wider conservation impact and multiple biodiversity benefits, the RSPB secured funding from the NEIRF to develop a detailed proposal for a privately financed aggregation vehicle to deliver multiple habitat restoration and creation projects across England to be repaid from income from the sale of BNG units.³⁹

Key barriers to the growth of the NbS market

The research and market engagement process found five overarching barriers to the growth of the NbS market, highlighting key areas where intervention is needed.



Risk funding and seed investment

Stakeholders cited a lack of patient funding to test new NbS business models and scale successful approaches as a key barrier. The majority of NbS projects are still early on the path to commercial maturity, where there is a large degree of uncertainty around potential revenues and the ability to generate investment returns. This means access to finance requiring market rates of return is not yet possible, but patient capital is needed for feasibility testing and to deliver demonstrator projects.

There is also insufficient availability of public and philanthropic funds to mitigate project risk through blended finance. Blended finance is a tool used to unlock capital from the private sector to scale up NbS projects, by providing lower cost finance or grant funding to ensure a certain level of investor return or absorb investor losses. Globally, blended finance has mobilised to date approximately \$161 billion in capital towards sustainable development in developing countries, demonstrating its power to mobilise private capital for social and environmental outcomes.⁴⁰



Capacity, capability and expertise

A number of stakeholders pointed to insufficient project developer capacity, a lack of in-house expertise and incomplete skillsets to develop investment ready projects. This is reinforced by the limited availability of capacity building funding from philanthropic and public funders. This means that organisations such as eNGOs, with the greatest understanding of interventions needed for nature, lack resources and experience to develop and deliver outcomes using a sustainable business model.

Resistance to change in adopting new financing approaches for NbS among project developers was also cited as a barrier, reinforcing the need for capacity building support to increase understanding of the long-term benefits that new investment models could provide for nature.



Business model development

Research revealed that challenges were encountered based on the early stage of NbS business models, including uncertainty around the timing and scale of revenues, and the small-scale of NbS projects in relation to the transaction costs for potential investors. These business model characteristics prevent projects from accessing mainstream investment. Unproven project investment track records and limited demonstration projects and investment blueprints for project developers to follow and replicate, and to build investor assurance, are significant barriers to delivering both the supply and demand for investment.

This is reinforced by low investor awareness of NbS sector investment opportunities and investor hesitance towards NbS sector complexities. This in turn is exacerbated by limited interface between projects and investors, including a lack of advisors and intermediaries with specialist investment and other relevant skillsets to bridge these gaps.



Data evidence and verification

Another key barrier identified is a lack of data and a comprehensive common evidence base on the benefits of ecosystem services and proving of interventions. Data and evidence are needed so that benefits can be consistently measured and valued by beneficiaries, who may then be incentivised to pay for these outcomes. There is also a lack of available metrics and standards to create consistent baselines to then measure and verify the additional impact NbS projects have achieved.



Policy and regulation

Stakeholders frequently cited inadequate government policies and regulation for the creation of NbS markets as a significant barrier. Clear policy and regulation are needed to build transparent and credible NbS markets in which investors have enough confidence to engage.

Overall, engagement with stakeholders identified that the most critical investment barrier is uncertainty around revenues and the ability to prove returns generated by NbS projects. In turn, this uncertainty is exacerbated by the lack of capacity, business models, data, evidence and policies. The interrelated nature of the barriers reinforces the need for multiple interventions, as demonstrated in the social investment sector.

Interventions to address regulatory barriers have been excluded from further analysis due to reliance on government decision making, whilst recognising that public funders could seek to influence policy and regulation through advocacy and influence.

Market intervention options

Based on analysis of results from the desktop review, stakeholder interviews and survey process, Finance Earth reviewed the NbS sector need for a range of interventions against availability in the market, including:

- **Financial mechanisms**, to address the lack of patient capital willing to take on the risk of proving the investability of NbS projects;
- **Investment support**, to address the identified challenges to business model development, and project developer capacity and expertise; and
- **Market building interventions**, to develop the standards, frameworks and platforms to facilitate market development and access to new sources of capital.

A summary of the interventions reviewed and an assessment of their suitability is provided in the Appendix.

Summary of market need

Based on the intervention options identified, Finance Earth designed a survey to understand which options key market participants saw as the most crucial to supporting project development and unlocking investment.

Financial mechanisms

Survey respondents were asked to identify which three financial instruments would be the most beneficial in supporting project development and scale up. Risk reduction mechanisms, including guarantees to ensure a certain level of investor return or first loss capital to protect private capital, and outcomes payments made based on a project meeting pre-agreed environmental outcomes were most frequently identified (both 20%) by stakeholders. Revenue sharing loans (16%), which are only repaid as revenues or profits are generated, and repayable grants (14%), paid back subject to project performance, were also commonly identified. Equity provided in exchange for an ownership interest, and loans with commercial interest rates were less often seen as beneficial for project implementation, highlighting the need for patient funding that is not typically available in the private sector.

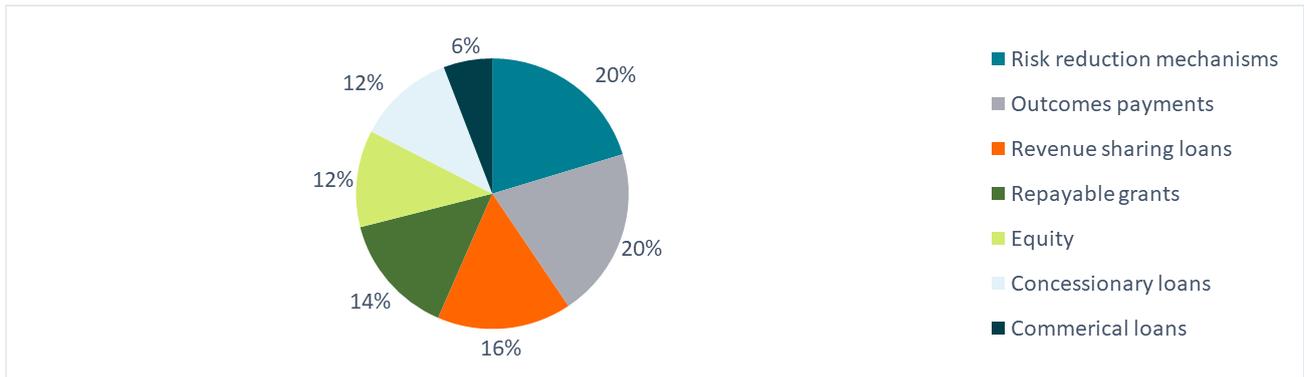


Figure 9 Survey results: financial instruments

Investment support

When asked to consider which forms of support would have the greatest potential to unlock investment, survey respondents most frequently identified technical assistance and investment readiness funding (20%). Project developer capacity funding (19%) and incubators and accelerators (18%), which are programmes aimed at providing investment and technical support for projects with potential to take on investment, were also frequently highlighted. This points to the nascent state of the NbS market and that the most needed market interventions are those that support project developers to produce a pipeline of investable projects.

This is reinforced by the lower demand for later-stage interventions such as a supply of expert intermediaries (13%) to facilitate connections between investors and project developers, and project aggregators (13%) to bundle together a portfolio of aligned small-scale projects to increase the size of a transaction to a level that meets investor expectations. Both these interventions require a project pipeline and are therefore more suited when the market is more developed.

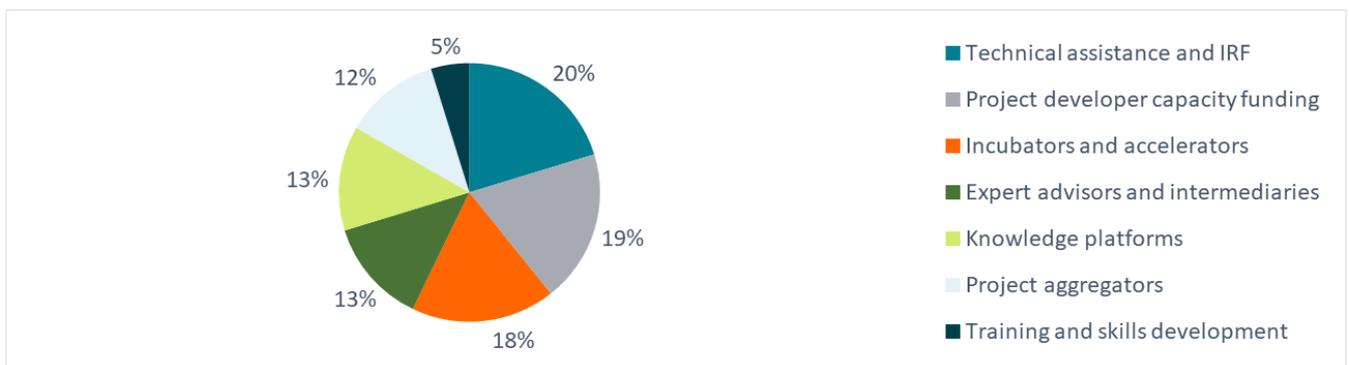


Figure 10 Survey results: investment support

Market building interventions

When reviewing market building interventions, survey respondents clearly identified the need for verification standards and codes as critical in building NbS markets which received 50% of the votes in this category. The development of ecosystem service trading platforms was identified by 19% of participants in this category as an opportunity to better connect buyers and sellers of ecosystem services and expand NbS revenue stream potential. Stakeholders also recognised the importance of tools for standardised monitoring and reporting to provide greater transparency and assurance to investors that environmental outcomes are being achieved (19%).

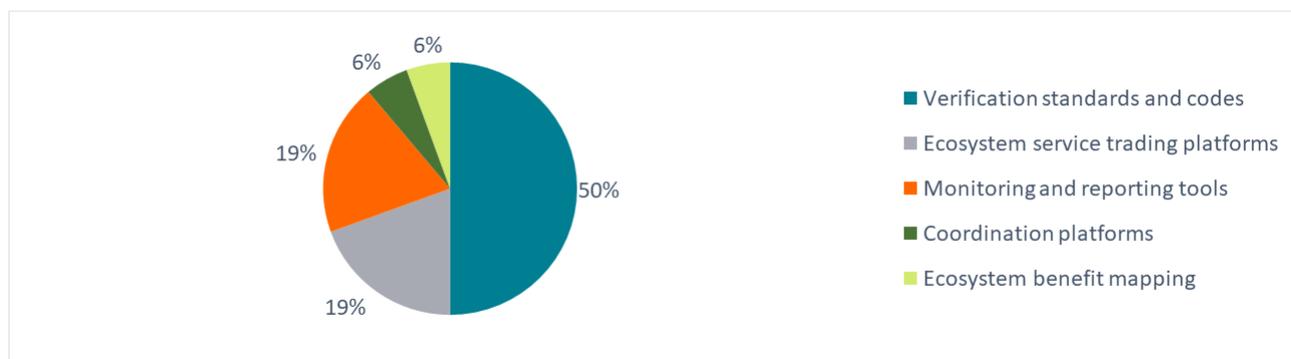


Figure 11 Survey results: market building interventions

Availability of existing market interventions

Information collected from desktop research and stakeholder engagement was used to assess the availability of financial instruments and other support mechanisms to address key market barriers. Overall, this assessment concluded that there is limited availability of tailored financial support, investment support and market building interventions to develop the NbS financing market. The sector remains heavily reliant on traditional grant funding predominantly supporting capital expenditure to deliver environmental outcomes.

The majority of funding focused on the development of financing NbS opportunities is provided by government and public sector bodies, a small number of large foundations and lottery bodies and internal funding resources committed by large eNGOs. The main focus of activity to date to address the key barriers has been:

- **Risk funding and seed investment** – A limited supply of patient and flexible repayable financing is available for NbS projects outside of sources provided by the Esmée Fairbairn Foundation (EFF), Peoples Postcode Lottery (PPL) and HSBC. Payments for certain ecosystem services are provided from corporates, for example payments for verified carbon credits and water quality benefits, delivering NbS revenue streams.
- **Capacity, capabilities and expertise** – Funding has been allocated towards training programmes to build project developer investment capabilities and skillsets. Examples of programmes delivered by Finance Earth to date include the Wildlife Trust investable landscapes webinar programme and the Welsh Government’s innovative financing training programme, both aiming to increase internal understanding of investment concepts and opportunities to develop new business models for conservation. Certain larger NGOs, such as the RSPB, have invested directly in their internal skillsets through the development of a dedicated conservation investment team.
- **Business model development** – Several technical assistance funding programmes aimed at developing a pipeline of investment ready projects are available, for example DEFRA’s NEIRF programme,⁴¹ the Heritage Fund’s Future Parks Accelerator⁴² and the collaboration between EFF, Triodos Bank, the Environment Agency and DEFRA to fund and develop four NbS pilots to investment readiness.⁴³ A small number of financial advisors and intermediaries, such as Triodos, Finance Earth,

The Nature Conservancy and Palladium, are operating in the market to support the development of investable projects.

- **Data, evidence and verification** – A range of initiatives are focused on data gathering and mapping to build the evidence base for outcomes delivery and the development of aligned verification frameworks and monitoring tools, such as the Woodland Carbon Code,⁴⁴ IUCN Peatland Code⁴⁵ and DEFRA’s Biodiversity Metric.⁴⁶

Given the limited availability of dedicated funding and support within the NbS sector of the green finance market, there is minimal risk of additional funding duplicating existing efforts or crowding out other funders in the market. There are, therefore, a wide range of opportunities for Environmental Funders to play a role in stimulating market development and attracting a wider pool of investment.

New interventions

There are a range of initiatives that have either been recently launched or are in development with the aim of supporting market growth for financing NbS, including:

- **BNIF** – DEFRA is in the process of designing the BNIF, structured as a blended finance vehicle with a £30 million tranche of public funding committed in the Autumn 2021 budget to de-risk private finance. The fund is expected to be managed by a third-party fund manager with the aim of leveraging private finance into accelerating the development of ecosystem service markets in England.⁴⁷
- **NEIRFs for Wales and Scotland, and a second NEIRF round in England** – NatureScot and the Welsh Government are devising similar funding programmes to DEFRA’s NEIRF to develop a pipeline of investment ready NbS projects. A second round of NEIRF grant applications was launched in November 2021 to provide additional funding for project developers to procure technical advice to develop investable projects.
- **Scottish Carbon Fund** – NatureScot have recently published a report that recommends the creation of a £50 million Scottish Carbon Fund, where a price floor mechanism could be used to attract private investment for large-scale peatland restoration.⁴⁸
- **UK National Parks and Palladium’s joint vehicle ‘Revere’** – A collaboration between the UK National Parks and Palladium are developing a vehicle to incubate and deliver investable NbS projects, which includes designing projects, raising private capital and generating revenue through ecosystem services.⁴⁹
- **EFF and Environmental Funder’s Network (“EFN”) Environmental Finance and Learning Fund** – EFF has recently set up a funding pot and peer learning programme to secure match funding contributions from a range of philanthropic funders within the EFN and facilitate funder collaboration and share learnings on environmental investing.⁵⁰
- **GFI Hive** – GFI have set up a knowledge sharing hub to help unlock private investment into nature, where the finance sector, business, government and environmental stakeholders can collaborate to identify barriers to private investment and design solutions.⁵¹
- **Nature-Based Finance Learning Hub** – With support from EFF, and in alignment to GFI’s Hive, the Ecosystems Knowledge Network (EKN) is in the early stages of designing an information hub to synthesise NbS project information to facilitate market development.⁵²
- **New ecosystem verification frameworks** – Funded by the NEIRF, partnerships between eNGOs and the scientific community are developing new verification codes for carbon sequestered through soil, salt marsh and kelp restoration.⁵³
- **Policy developments to encourage market-based mechanisms** – A range of new policies and frameworks are in development with the aim of facilitating new capital flows, including:
 - DEFRA’s Biodiversity Metric 3.0, which provides a standardised way of measuring nature losses and gains resulting from development and changes in land management;⁵⁴

- The replacement of the Basic Payment Scheme for farmers with ELM schemes, which will provide payments for delivering environmental outcomes including thriving plants and wildlife, beauty and heritage, and engagement with the environment;⁵⁵
- The Task Force on Nature-related Financial Disclosures (TNFD), which is being established to deliver a framework for organisations to report on nature-related risks so that they can act to mitigate them;⁵⁶ and
- The Broadway Initiative financing nature recovery coalition led by GFI delivering a framework that sets out key elements required for high-integrity markets for Nbs.⁵⁷

A summary of the availability of the available interventions and key players described above is provided in Figure 12.

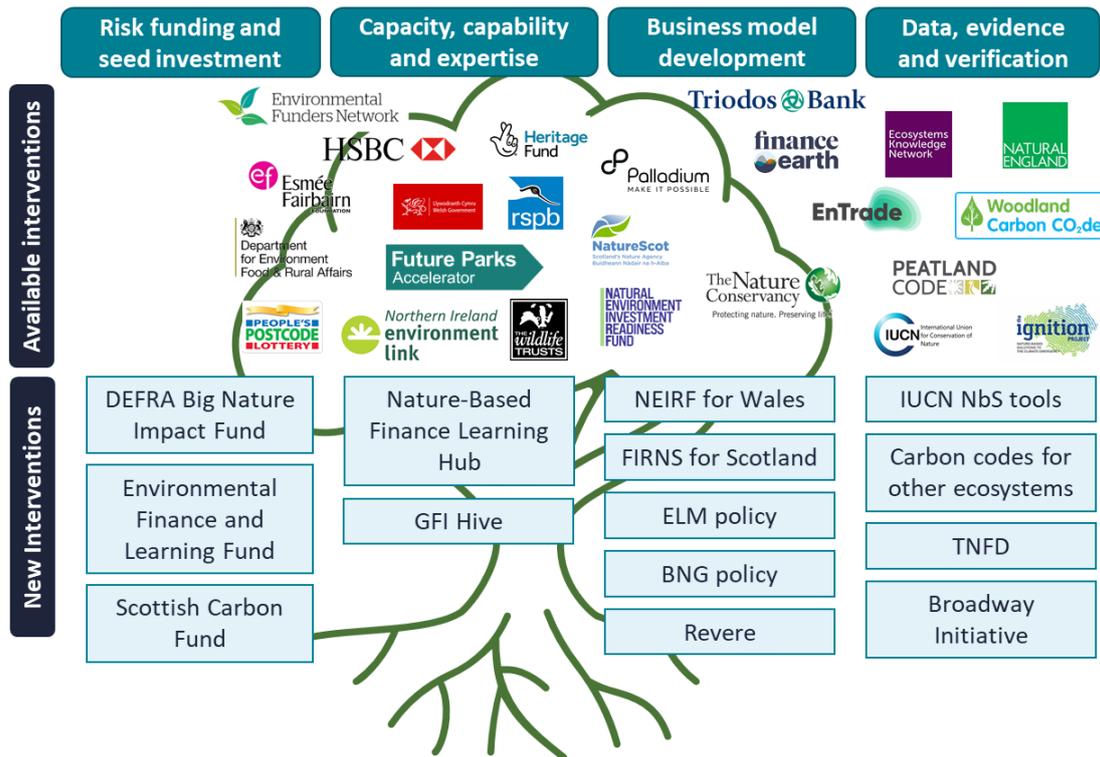


Figure 12 Market status: interventions and key players

Recommended interventions

The market engagement and subsequent analysis of interventions revealed a series of opportunities for Environmental Funders to:

- Play a role in further stimulating market development, given the existing underdeveloped state of the market;
- Grow the overall flow of investment into nature and natural heritage for wider public benefit; and
- Free up grant funding to focus on deeply impactful projects which do not have the potential to generate revenues and secure repayable financing.

The current state of the market and stakeholder feedback evidence that a blend of interventions is required to address the multiple and varied identified barriers and accelerate market development from its current nascent condition. This presents an opportunity for Environmental Funders to each play different roles in a wider collaboration, intervening where their priorities, strengths and experience best place them to contribute to the blended interventions needed to channel funding into nature.

The full spectrum of recommended interventions is outlined below to provide a menu of options for Environmental Funders, recognising that priorities may vary depending on existing funding initiatives as well as funder experience and objectives. The options are split across financial mechanisms, investment support and market building interventions.

Financial mechanism interventions

Provide patient, flexible financial products to meet sector financing needs and prove repayable finance models

Given the early-stage nature of the NbS investment market, there is significant need for patient, flexible finance to implement the first tranche, and accelerate subsequent pipelines of investment ready projects, build the evidence base for ecosystem outcomes, and provide blueprints that can be replicated and scaled up. A review of NbS funder activity and social investment market experience highlights the current lack and immediate need for patient risk bearing capital that does not insist on underlying assets for security and fixed returns over the short-term.

Environmental Funders are ideally placed to provide flexible financing tools aligned to sector needs, such as repayable grants and revenue or surplus sharing 'patient' loans, to help fund projects, evolve business models, and demonstrate their capacity for financial performance alongside natural heritage impact.

Co-invest in investment funds in development through providing pipeline origination funding, first-loss capital and / or guarantees to crowd in private finance

The market review identified investment funds that are in development, such as BNIF and the Scottish Carbon Fund, which have the aim of leveraging private finance to deliver NbS. The concept of such blended funds use grant funding within a NbS-focused investment fund to reduce investor risk and encourage greater private sector participation to deliver and scale NbS outcomes. This grant element can be delivered through a number of routes including a subsidy to lower the required level of project financial return, guarantees to assure investors that their financial requirements will be covered, or coverage of project pipeline origination and due diligence costs.

Whilst there are already some public sector subsidy providers in the funds in development, there is an identified need for further subsidy in these funds and a broader array of such funds across the UK. Participation in the development of these models could rapidly increase the availability of capital to NbS projects across all the devolved nations.

Build on successful investment programmes by expanding availability of bridging finance for land purchase

Stakeholder feedback highlighted the success of EFF's Land Purchase Facility in addressing the need for patient finance for eNGOs seeking to purchase land for protection and restoration. This also highlighted that the facility is limited in size versus the demand and is restricted to a limited group of larger and well-established eNGOs.

A collaboration with EFF and other Environmental Funders could enable the expansion of the Land Purchase Facility to offer bridging finance to a wider range of organisations and on a larger scale. Alternatively, a guarantee could be offered for eNGOs to commercial banks or institutional investors to encourage them to provide immediate finance when land becomes available on the market which could be captured for improved long term environmental management.

Support the development of innovative outcomes-payment models that leverage in private finance and incentivise robust impact monitoring frameworks

Emerging opportunities to participate in and catalyse innovative forms of finance, such as Environmental Impact Bonds (EIBs), provide significant scope to leverage in private finance to support high-impact NbS project development.

Environmental Funders could play an active role in sponsoring the creation of EIBs and acting as a cornerstone outcomes payer to encourage the development of a market for ecosystem outcomes aligned to its priorities (as the Community Fund successfully carried out to support social investment market development). This could also drive the development of consistent approaches to data gathering and outcomes measurement, addressing another critical barrier to market development and scaling up investment in NbS.

Investment support interventions

Develop and scale up capacity building, enterprise development and investment readiness funding programmes to catalyse market infrastructure and a pipeline of investable projects

Project developers reported a lack of skills, capacity and expertise to assess demand for ecosystem services, develop investment cases and create new financing structures. DEFRA launched the NEIRF in early 2021 as an investment readiness programme aiming to fund technical assistance for NbS project development in England. Similar programmes are being explored in Wales and Scotland, however no initiatives in Northern Ireland or that cross borders were identified. The need for coordination and shared learning across these programmes will be difficult to deliver from a government-led approach across each devolved nation. There is also a clear gap in the availability of funding to develop business skills and provide delivery capacity within project developers.

In response to the high level of demand for funding compared to amounts available, Environmental Funders could expand the NEIRF by providing additional organisational capacity building funding to eligible NEIRF projects over longer timescales, support the development and delivery of technical assistance programmes across the rest of the UK, and provide a coordination role to share learnings and develop UK-wide capabilities.

Deliver an incubator programme to convene a cohort of stakeholders to build an investment proposition around a landscape-scale initiative

The market review highlighted a clear funding gap for projects that are not yet developed enough to apply for investment readiness programme funding. With England's NEIRF and similar programmes in Wales and Scotland under development, there is a need to facilitate the development of quality projects to be at a stage of maturity to access this funding and create a project pipeline for the investment readiness programmes. Funding could be targeted to provide early-stage funding and support to stakeholder partnerships developing landscape scale initiatives, increasing the opportunity for shared learning across different stakeholder groups.

Expand the supply of specialist intermediaries to support the delivery of investment ready projects

A limited supply of funding intermediaries (fund and financial product managers) and specialist advisors (providing financial and other specialist skills) exists to provide support to project developers seeking to develop and diversify income sources and create new investable projects and investment vehicles. Targeted funding to build a larger, more diverse, and robust market of mission-aligned intermediaries would encourage the development of more accessible and affordable specialist skill sets, whilst also providing more resource to build in-house capabilities within project developers. This would enable larger developers to access a wider range of support and build capacity and help smaller scale project developers access the support they need to operate in the market.

Social sector approaches, for example taken by BSC and the Community Fund, have supported the development of market infrastructure and social sector intermediaries by channelling the provision of finance to organisations managed for social purpose. A similar approach could encourage the development of intermediaries with specialist skills aligned to delivery of targeted NbS outcomes.

Facilitate the development of a UK-wide knowledge sharing platform to accelerate shared learnings and market development

A centralised knowledge sharing platform providing information on successful transactions and blueprints would provide shared learnings across investors and project developers. Internationally, a range of Conservation Finance initiatives have evidenced that collaboration between funders, developers and intermediaries can accelerate market growth (for example, the Coalition for Private Investment in Conservation, the Conservation Finance Alliance, Natural Capital Finance Alliance etc).

An existing collaboration between EFF and EKN is in the initial stages of developing a Nature-Based Finance Learning Hub for project development.⁵⁸ This initiative is aligned to GFI Hive, a new knowledge hub to unlock private investment into nature projects.⁵⁹ Together they are in consortium with the Scottish Finance Pioneers and devolved governments to develop UK wide knowledge sharing. Support for the development of this aligned knowledge sharing platform with information provided from Environmental Funder's initiatives would encourage better collaboration between project developers and investors to facilitate market development.

Market building interventions

Collaborate with environmental funders to convene blended finance opportunities

The market review evidenced the limited availability of existing funders in the market providing both financial mechanisms and market infrastructure and investment support to develop the green finance market. There is an opportunity for Environmental Funders to collaborate to stimulate the development of an investable project pipeline and share repayable finance opportunities. This could build on the existing collaboration between EFF and EFN, in which EFF are managing a grant match fund and peer learning programme to align grant funding contributions from a range of philanthropic funders within the EFN and share learnings of successful financing approaches for environmental initiatives.

Advocate for government support for a suitable governance vehicle to develop and 'house' robust ecosystem service verification standards to deliver quality impact measurement

The complexity of measuring and verifying NbS impacts and lack of independent standards to verify outcomes provides a barrier to generating revenues and attracting investment. The market review evidenced the need for the development of an independent governance framework to house ecosystem verification codes to ensure consistency of standards and recognition across NbS project developers and investors. Government would be aligned to providing this support due to its role in supporting natural capital market regulation.

Environmental Funders would be well-placed to advocate for dedicated government funding and support to create important market infrastructure and verification codes for existing and emerging ecosystem services, such as natural flood management and blue carbon; which in turn would help support some of the other initiatives outlined in this report.

Advocate for a transformational intervention to deliver supply of investment at scale

The development of the social investment sector was catalysed by £400 million of dormant account money government committed to the creation of BSC in 2011.⁶⁰ Since BSC's creation, the social impact investment market has grown eight-fold in nine years, reaching a size of £6.4 billion in 2020 (compared to £830 million in 2011).⁶¹ Recognising the pivotal role that fund managers and other intermediaries play in connecting capital to social impact organisations, BSC invests in these players and their financial products to attract further investment. In doing so, BSC has supported the development of structures, blueprints and organisations to grow a nascent market and provide the private sector with confidence to invest.

Environmental Funders could use their position to accelerate market development by advocating the need for a UK-wide investment institution, similar to BSC or the Green Investment Bank, to build the market for financing NbS and natural heritage.

Conclusion

This report aimed to provide a focused review of the UK-wide Green Finance market, specifically the NbS finance sector, where there are significant opportunities to deliver outcomes for nature and natural heritage. Through research and engagement with key stakeholders, the main NbS financing market barriers and gaps in supporting market development were identified. Engagement with key sector participants revealed a range of interventions that were identified as most crucial to overcoming these barriers and where there are new or existing initiatives looking to address challenges. This in turn helped identify the major opportunities for Environmental Funders to intervene, either through collaborating with existing initiatives to rapidly scale activity or where there are critical barriers in which intervention could lead to rapid market growth.

The results have evidenced that a blend of interventions is needed. This presents an opportunity for Environmental Funders to each play different roles, intervening where they are best placed to, and collaborating with other funders to support the coordinated development of a UK-wide investment market for nature recovery. By outlining intervention options, existing initiatives and sector participants, this report aims to provide the starting point. The key next step is for Environmental Funders to engage with each other, sector participants and existing initiatives to take these interventions forward.

Appendix

Market intervention options assessment

Based on analysis of results from the desktop review, stakeholder interviews and survey process, the options for intervention have been assessed qualitatively against the market need.

Financial mechanisms

Repayable grants / revenue sharing loans

Example interventions:

- PPL revenue sharing loans: (not currently available for NbS sector but likely to be made available in future) (*In development*)

Market need:

- ▲ High: Very limited patient, flexible capital available to meet sector needs. No examples of existing repayable grants / revenue sharing loans available for the NbS sector
 - ▲ High: Patient funding is needed to test pilot projects in development across all NbS sectors which are unlikely to be suitable for commercial finance e.g., pilot projects developed through the NEIRF
 - ▲ High: Evidence of strong demand in the social investment market (e.g., PPL) which could be replicated for the NbS sector
-

Risk reduction mechanisms e.g., guarantees / first loss capital

Example interventions:

- Woodland Carbon Guarantee in England
- DEFRA BNIF (*In development*)
- NatureScot Scottish Carbon Fund and aligned price floor guarantee (*In development*)

Market need:

- ▲ High: Stakeholders surveyed identified risk reduction mechanisms as one of the most sought-after financial instrument
 - ▲ High: Limited availability of risk funding such as first loss capital to stimulate private investment
 - ▲ High: By reducing investment risk, this could stimulate increased investment from a wider pool of investors
-

Outcomes payments

Example interventions:

- Corporate (e.g., water companies, retailers etc) payments for water quality outcomes
- Corporate and individual payments for verified carbon credits in the voluntary market

Market need:

- ▲ High: Lack of data and evidence on outcomes (beyond carbon) and cost savings from interventions
 - ▲ High: Creates a revenue stream for NbS to leverage upfront private investment
 - ▲ High: Addresses a major barrier facing NbS projects by building the evidence base for a solution and supports development of blueprints for consistent metrics
 - ▲ High: Robust payments for outcomes will support the creation of a replicable framework for this approach
-

Bridging finance

Example interventions:

- EFF Land Purchase Facility
- EFN philanthropists offering land purchase bridging loans

Market need:

- ▲ High: Proven model of land purchase with high rates of success
 - ▲ High: EFF Land Purchase Facility limited in scale and restricted to large conservation organisations and specific types of land
 - ◀ Medium: Existing availability in the market although insufficient to meet market needs
-

Concessionary loans

Example interventions:

- People's Postcode Lottery
- Esmée Fairbairn offers loans of £100,000 - £2 million⁶²

Market need:

- ▲ High: Opportunity to recycle capital and generate returns for future investment
 - ◀ Medium: Existing availability in the market from a range of providers, although a lack of providers in the market with an interest in nature recovery – predominantly focused on social investment
 - ▼ Low: Lower demand from market participants in comparison to profit sharing loans
 - ▼ Low: Limited availability of projects ready to take on repayable finance even with concessionary returns
 - ▼ Low: Early stage NbS market may not be ready to take on finance with fixed repayment – requires predictable recurring cash flows
-

Venture Philanthropy

Example interventions:

- Spacehive: local fundraising platform
- Crowdfunder UK: fundraising platform

Market need:

- ▲ High: Limited venture funding for nature, sector heavily dependent on traditional grant funding
-

Equity – venture / growth

Example interventions:

- Triodos Bank: institutional equity
- Pollination: institutional equity

Market need:

- ▲ High: Suitable for sector needs for projects with uncertain and unproven income streams
 - ▲ High: Potential for high returns to mitigate against project risk
 - ▼ Low: Limited appetite of project developer NGOs to issue shares – equity style instruments are required e.g., profit sharing instruments
 - ▼ Low: Lack of investment ready projects at appropriate scale to meet institutional investor requirements limiting demand for institutional equity
-

Investment support

Accelerators: late-stage capacity building funding

Example interventions:

- Future Parks Accelerator: local authority capacity funding and support to develop new funding and operating models for urban parks

Market need:

- ▲ High: Current focus on specific sectors e.g., urban parks, with a lack of capacity building support for the wider NbS market
 - ▲ High: Very limited capacity building funding available from public and philanthropic funders
 - ▲ High: Lack of NGO capacity to develop new business models
 - ▲ High: Local authority budgets are based on capital programmes with very little internal capacity and training to deliver NbS finance models
 - ▲ High: Limited training for ecologists for assessing and verifying NbS outcomes
-

Training and skills development

Example interventions:

- UK-wide public bodies and large foundations / lottery bodies provide R&D grant funding to support new business model development
- Wildlife Trusts, Welsh Government and Northern Ireland Environment Link: investment training and skills development programme

Market need:

- ▲ High: Limited awareness of investment concepts and ability to develop new business models across NGOs and the public sector
 - ◀ Medium: Generic training programmes have delivered limited on-the-ground impact – need for tailored capacity and skills development to aligned groups to deliver specific projects or secondment opportunities to develop new skillsets
-

Knowledge platforms and networks for sharing learnings

Example interventions:

- EKN: sharing project examples, tools and guidance
- Basecamp: investment knowledge sharing website
- Broadway Initiative: coalition to encourage the development of high integrity nature-based markets
- GFI Hive: knowledge sharing hub to address barriers to private investment
- Nature-based Finance Learning Hub: platform to synthesise NbS project information (*In development*)

Market need:

- ▲ High: Lack of blueprints for investment
 - ▲ High: Lack of capacity and resources within existing platforms to develop and share up-to-date information and knowledge
 - ▼ Low: Market not yet ready for sharing learnings with limited investable blueprints available
-

Incubators: early-stage capacity building funding

Example interventions:

- Example not identified

Market need:

- ▲ High: Similar benefits to an accelerator programme with a focus on early-stage conceptual ideas and smaller scale projects and organisations
 - ▲ High: Addresses needs in geographies with less developed green finance market and smaller scale earlier stage projects e.g., Northern Ireland
-

Market building interventions

Technical assistance / enterprise readiness funding

Example interventions:

- NEIRF: funding to allow project developers to procure third party investment advice

Market need:

- ▲ High: Limited early-stage funding to develop investable concepts
 - ▼ Low: Project developer capacity likely to be required alongside technical assistance
-

Access to and increase in the volume of expert advisors and intermediaries

Example interventions:

- Investment readiness advice and investment vehicle creation. Provided by: Palladium, Finance Earth, Triodos Bank, 3Keel, Environment Bank etc

Market need:

- ▲ High: Addresses the current lack of specialist advisors in the market
 - ▲ High: Supports project development without project developers needing in-house capacity
 - ▲ High: Addresses the existing lack of awareness of the role of advisors in supporting and creating repayable finance projects
 - ▼ Low: Risk of duplicating efforts as growth of intermediaries likely to be driven by top-down and bottom-up interventions
-

Coordination platforms

Example interventions:

- Crowdfunder: a platform to match investors and projects
- Abundance: a platform for individuals to invest in green projects
- EFN: knowledge sharing and partnerships for environmental philanthropy
- Environmental Finance and Learning Fund: a EFN and EFF collaborative fund for nature recovery

Market need:

- ▲ High: Cost effective way for project developers to find repayable finance options
 - ▼ Low: Lack of investors and investable projects in the existing market – need a greater supply of projects and funders before platforms are developed
-

Project aggregators

Example interventions:

- Example not identified

Market need:

- ▲ High: Projects are too small scale and high risk to attract private investment – bundling of projects would meet the scale required for commercial investment
 - ▼ Low: Low volume of projects in the market to be packaged together
-

Development of standard tools and contracts

Example interventions:

- Woodland Carbon Code: woodland carbon calculators for landowners
- DEFRA Biodiversity Metric 3.0: for measuring BNG

Market need:

- ▲ High: Templates / guidance would facilitate project developers to sell ecosystem services e.g., Conservation Covenants and biodiversity credit sales contracts
 - ▲ High: Delivers cost efficiencies and consistency of approaches in a new market to develop best practice agreements
 - ▼ Low: Bespoke agreements may be required
-

Development or expansion of ecosystem service trading platforms

Example interventions:

- Entrade: trading platform for NbS
- Natural England and DEFRA's 'nitrate trading' auction platform pilot⁶³

Market need:

- ▲ High: Expands revenue stream potential for ecosystem services
 - ▲ High: Provides a consistent approach to regulating and measuring benefits of ecosystem improvement in an area
 - ▼ Low: Potential reputational damage of allowing polluting if not carefully regulated
 - ▼ Low: Need for sufficient regulation first to give trading platforms verifiability
-

Verification standards and codes

Example interventions:

- Woodland Carbon Code for verifying woodland carbon credits
- Peatland Carbon Code for peatland carbon credits

Market need:

- ▲ High: Lack of verification codes for habitats beyond woodland and upland peat – standards for other habitats are needed
 - ▲ High: Need for an umbrella framework for verification codes to ensure consistency, increase market recognition and provide economies of scale
 - ▼ Low: Requires appropriate data and evidence base
-

Ecosystem benefit mapping

Example interventions:

- Multiple scientific and eNGO partners

Market need:

- ▲ High: Lack of capacity to record and monitor benefits over long timeframes
 - ▲ High: Complexity of partner collaboration to align results based on the range of evidence gathered
 - ▼ Low: Low demand identified through stakeholder engagement process
 - ▼ Low: Ensure suitable evidence is gathered for investor requirements – provisions of outcomes payments would better support gathering of appropriate data and development of new financing frameworks
-

Development of standardised monitoring and reporting frameworks and technologies

Example interventions:

- TNFD (In development)
- IUCN Global Standard for NbS (In development)

Market need:

- ▲ High: Lack of consistent approach for monitoring and reporting impact – need for standardisation of reporting outcomes in the market
- ▲ High: Would increase investor interest and understanding of NbS investment opportunities

Glossary

Term	Definition
Accelerator	A programme that provides investment and technical support for projects that have the potential to take on investment and to scale
Aggregator	A vehicle that packages together multiple similar investments to increase the transaction size and deliver cost efficiencies
Biodiversity Net Gain	An approach to development that requires developers to pay for biodiversity improvements at one site in order to mitigate biodiversity loss due to development, such that an overall increase in natural habitat and ecological features is achieved
Blended finance	Use of catalytic capital from public or philanthropic sources to increase private sector investment in sustainable development.
Bridging finance	Funds borrowed for a short period of time to cover immediate costs before long-term funds can be secured
Blue carbon	Verification of carbon credits from the storage and sequestration or avoided emissions from protecting and restoring marine and freshwater habitats
Concessionary loans	Funds borrowed with an expectation of capital repayment and an interest payment at a reduced rate or with preferential terms such as a grace period
Ecosystem services	The benefits that can be obtained from ecosystems, including provisioning, regulating, cultural and supporting services
Environmental Impact Bond	An innovative financing model using a pay-for-success approach and a risk transferring mechanism to enable private investment for environmental projects, with repayment linked to agreed outcomes
Equity	Funds provided in exchange for an ownership interest and a share of profits based on project performance and the level of risk take
First loss capital	Socially and environmentally driven credit enhancement provided by an investor or grant-maker who agrees to bear first losses in an investment to catalyse the participation of co-investors that otherwise would not have entered the deal
Green finance	A structured financial investment created to ensure a beneficial environmental outcome
Guarantees	An agreement that guarantees a debt will be repaid to a lender by another party if the borrower defaults
Habitat bank	An area of land where habitat restoration or creation is delivered in advance of development impact to provide biodiversity units for sale to developers
Incubator	A programme that provides early-stage investment and technical support for projects that have the potential to develop and become investable over time
Impact / social investment	The act of investing capital in projects or activities to generate financial returns whilst also creating a positive social or environmental impact

Term	Definition
Investment ready	Capable of raising and supporting repayable investment
Knowledge platforms and networks	Platforms that provide knowledge sharing materials such as investment blueprints and contract templates
Outcomes payments	Payments made to the upfront investor in a project dependent on the project meeting pre-agreed environmental outcomes
Payments for ecosystem services	Incentive payments from a beneficiary/user of an ecosystem service to the provider of that service (in particular, those who preserve or maintain the ecosystem)
Project developer capacity funding	Funding to provide internal organisational resources to develop and deliver investment ready projects
Repayable grants	Funds disbursed with the expectation of repayment subject to project performance
Revenue sharing loans	Funds borrowed with an expectation of repayment as revenues or profits are generated
Risk reduction mechanisms	Mechanisms to ensure a certain level of investor return or first loss capital to absorb losses
Technical assistance	Specialist technical, legal and financial advice to support project developers to access investment
Venture Philanthropy	Funds and assistance provided in exchange for social/environmental impact. Funds can be on an equity or loan basis, or a donation aggregator.

About the Project Partners

National Lottery Heritage Fund



The National Lottery Heritage Fund is the largest dedicated grant funder of the UK's heritage. Locally connected and with national expertise, we are a change-maker working to enhance and champion the value of heritage for all.

- As The National Lottery Heritage Fund, we distribute National Lottery grants from £3,000 to £5million and over, funding projects that sustain and transform the UK's heritage.
- As The Heritage Fund, we distribute non-Lottery funding, including government funding and loans, to heritage organisations.
- We provide leadership and support across the heritage sector, and advocate for the value of heritage.

We are a non-departmental public body accountable to Parliament via the Department for Digital, Culture, Media and Sport (DCMS).

Our decisions about individual applications and policies are entirely independent of the government. The Trustees of the National Heritage Memorial Fund is our legal body for the administration and supervision of all funds vested in us. It was set up by the National Heritage Act to administer the National Heritage Memorial Fund.

Finance Earth



Finance Earth is the UK's leading environmental impact investment boutique, providing financial advisory and fund management services across the natural and built environment. Finance Earth helps to create projects – and the investment vehicles to fund them – that balance positive outcomes for nature, communities and investors.

Finance Earth works in partnership with a broad range of clients including NGOs, government, social enterprises, foundations and aligned corporates to create investable environmental and social projects. At the same time, Finance Earth works with a range of investors to structure financial products that can accelerate the protection and restoration of nature. The team currently manages over £50 million of blended social and environmental impact funds and has designed over £500 million of impact investment structures.

Finance Earth is a wholly employee-owned social enterprise, with 51% of profits recycled into on-mission activities and investments.

Finance Earth is a trading name of Environmental Finance Limited, which is authorised and regulated by the Financial Conduct Authority (registration number: 831569).



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End Notes

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