



# Natural Capital Financing Facility

A Guide for Applicants





“To protect the diversity of our natural surroundings we need to promote the diversity of our funding sources. The **Natural Capital Financing Facility** is a new EU funding source that helps businesses to protect nature and adapt to climate change. Now these blended funds can help biodiversity blossom and truly become an engine for growth.

– **Karmenu Vella**, European Commissioner for Environment, Maritime Affairs and Fisheries

## Key facts about the NCFE set-up

### How is the NCFE set-up?

The NCFE is a financial instrument that blends EIB financing with European Commission funding under the LIFE programme (the EU's funding instrument for the environment and climate action). The EU LIFE programme will contribute € 50 million for guaranteeing investments and € 10 million for the NCFE Support Facility. The EIB executes the Facility.

### How much funding is available?

The NCFE will provide € 100 to 125 million financing with the intention to invest the funds by 2017. The size of an NCFE investment is typically between € 5 million and € 15 million.

The available funding is expected to allow financing some 9-12 projects over the three year period. The investments will be spread in a balanced way across EU Member States and the four project categories.

In order to achieve a balanced spread of funding across the EU, total support in a single Member State is limited. Depending on their size, only one or very few investments can be supported per Member State.

### Who can benefit from the NCFE?

The recipients of the NCFE must be legal entities registered in the EU. They may be:

- Private commercial organisations;
- Private non-commercial organisations, including non-governmental organisations (NGOs);
- Public authorities, and bodies overseen by them.

### Which funding mechanisms are available?

The NCFE intends to provide finance to project developers both directly as well as indirectly through financial intermediaries. The following funding mechanisms are available:

- Direct loans to individual, large projects;
- Indirect loans through financial intermediaries aimed at smaller projects;
- Indirect investments aimed at smaller projects via equity funds.

General conditions include:

- Typical term: 10 years with possibility of grace period of 3 years;
- Maximum NCFE contribution to total project costs: 75%;
- Maximum NCFE participation per private equity fund: 33%.

## Purpose of this guide

The Natural Capital Financing Facility (NCFE) is a new instrument financed by the European Investment Bank (EIB) and the European Commission.

The NCFE will provide loans and investments in funds to support projects which promote the conservation of natural capital, including adaptation to climate change, in the Member States. The NCFE will provide € 100 to 125 million financing with the intention to invest the funds by 2017.

This guide outlines why the NCFE was set up and which steps to go through to develop an eligible project and apply for NCFE financing.

### Content of the guide:

The following aspects of the NCFE will be discussed throughout this guide:

- What is the NCFE and why was it set up?
- What types of projects can be financed by the NCFE?
- What is the role of the NCFE Support Facility?
- What is the role of financial institutions?
- What are the NCFE eligibility criteria?
- How to apply to the NCFE
- More information on the NCFE

# What is the NCFF and why was it set up?

## 1 Key challenges the NCFF will address

### Halt biodiversity loss across the EU

The latest 'State of Nature in the EU' report offers a mixed picture of the state of biodiversity across the EU.<sup>1</sup> Overall, the EU status of species and habitats has not significantly improved over the last six years, with many habitats and species still in unfavorable status and a significant proportion of them continuing to deteriorate.

Conservation and restoration efforts need to be enhanced and expanded for the situation to significantly improve in the future. The EU Biodiversity Strategy to 2020 sets out the targets and actions for the EU and its Member States for halting the loss of biodiversity and the degradation of ecosystem services in the EU. This entails implementation of EU nature policy, wider use of green infrastructure, investments in sustainable agriculture and forestry, better management of fish stocks, and stronger protection for ecosystems<sup>2</sup>.

#### Six targets under the EU Biodiversity Strategy to 2020:

1. Fully implement EU nature legislation
2. Better protect and restore ecosystems and their services, and greater use of green infrastructure
3. More sustainable agriculture and forestry
4. Better management of EU fish stocks and more sustainable fisheries
5. Tighter controls on Invasive Alien Species
6. A greater EU contribution to averting global biodiversity loss

### Support ecosystem-based climate adaptation

Healthy, well-functioning ecosystems enhance natural resilience to the adverse impacts of climate change and reduce the vulnerability of people and communities. Ecosystem-based management offers a valuable, yet under-utilised approach for climate change adaptation. For example, it can complement conventional approaches to developing and managing the resilience of infrastructure.

#### Adaptation means:

1. anticipating the adverse effects of climate change
2. taking appropriate action to prevent or minimise the damage these adverse effects can cause,
3. taking advantage of opportunities that may arise

Ecosystem-based management requires long-term environmental planning and should be integrated in the adaptation strategies and plans at local, national, regional and global levels. Well planned, early adaptation action saves money and lives later.

The EU Adaptation Strategy encourages EU Member States to build up adaptation capacity, with a focus on win-win, low-cost and no regret adaptation actions. Ecosystem-based management is an example of such an approach. It also promotes adaptation action at the EU level – including investments in key sectors such as agriculture, fisheries and infrastructure<sup>3</sup>.

For adaptation to climate change, the following elements would be welcomed:

- Projects that address key cross-sectoral, trans-regional and/or cross-border issues.
- Innovative adaptation technologies
- Projects in particular in vulnerable areas:
  - cross-border management of floods

- trans-boundary coastal management, with emphasis on densely populated deltas and coastal cities
- mainstreaming adaptation into urban land use planning, building layouts and natural resources management
- mountain and island areas, with emphasis on sustainable and resilient agriculture, forestry and tourism
- sustainable management of water
- combating desertification and forest fires in drought-prone areas

## 2 What is the rationale for natural capital investment?

Experience shows that traditional grant-based funding has not been sufficient to fully safeguard our natural capital. Bridging the financing gap for biodiversity and climate change adaptation requires new and innovative financing solutions that look beyond public sector grant funding.

Well-designed biodiversity conservation and climate adaptation projects can provide cost-effective solutions for a series of challenges (e.g. flood protection, water management, urban heat islands). These projects have the potential to not only safeguard biodiversity and

contribute to climate change adaptation but also to generate revenues and / or cost savings.

Natural capital investments are often considered to be high risk, e.g. due their innovative nature, or due to a lack of knowledge and understanding of the potential returns from financiers. In addition, it can take significant time for ecosystem-based investments to start generating the expected ecosystem services and associated revenues and payback periods may be relatively long. For these reasons, potential investors may find it challenging to obtain affordable finance.

## 3 What are the objectives of the NCFF?

The objective of the NCFF is to demonstrate that natural capital investments can generate revenues or save costs, helping to address the market barriers faced by these investments.

The NCFF aims to establish a pipeline of replicable operations that demonstrate the attractiveness and feasibility of natural capital investments while securing private investment into Europe's biodiversity and ecosystem services.

<sup>1</sup> EEA (2015) State of Nature in the EU – 2015  
<http://bd.eionet.europa.eu/activities/Reporting/Introduction>

<sup>2</sup> European Commission, DG Environment (2015) EU Biodiversity Strategy  
<http://ec.europa.eu/environment/nature/biodiversity/comm2006/2020.htm>

<sup>3</sup> European Commission, DG Climate Action (2015) EU Adaptation Strategy  
[http://ec.europa.eu/clima/policies/adaptation/what/index\\_en.htm](http://ec.europa.eu/clima/policies/adaptation/what/index_en.htm)



## What types of projects can be financed?

The projects supported by the NCFE fall into four broad categories:

- **Payments for ecosystem services;**
- **Green infrastructure;**
- **Biodiversity offsetting;**
- **Pro-biodiversity and climate-adaptation business.**

Each of the project categories are described in more detail below. In practice, potential projects may contain elements of more than one of the above categories. For example, green infrastructure projects are likely to earn revenues through their ability to provide, and receive payments for ecosystem services.

Project type 1:

### Payments for ecosystem services

Payments for ecosystem services (PES) are schemes where the beneficiaries of ecosystem services provide payments to the land managers who provide those services.

Payments can be made by the beneficiaries of the ecosystem services in question, for example individuals, communities, business or government acting on behalf of various parties. In a number of areas, there is a growing recognition that PES can be a cost-effective mechanism for delivering multiple public policy objectives.

For example, in the water sector, the adoption of ecosystem service-based land management practices can yield cost-effective improvements to the quality of water supplies and freshwater bodies compared to alternative solutions involving water treatment. This can result in cost savings to water utilities, industrial users and environmental authorities. At the same time, these land management practices may deliver other benefits for biodiversity, landscape quality, hunting, recreation and climate resilience (reduction in flood risk), potentially offering opportunities for additional payments from a range of private and public sector beneficiaries.

Other opportunities may lay in PES schemes that provide funding for carbon sequestration in natural ecosystems such as forests, peatland, wetlands or marine habitats. This recognises the key role that specific habitats play in sequestering carbon.

The NCFE can help to finance investments to establish and implement projects to restore and manage ecosystems and to develop payment mechanisms. These investments could then be repaid by PES over time.

#### Some challenges to take into account in the project design

Project design and planning typically need to address a range of issues, e.g.:

- **How to assess and communicate the value of ecosystem services to potential beneficiaries?** Monitoring and (where possible) independent verification of environmental benefits can be particularly important for voluntary schemes, in terms of communicating project benefits to the wider public and promoting transparency in the allocation of funds.
- **How will the payment scheme function in practice? Who will be the buyers and sellers of ecosystem services? Are there existing examples of payment schemes?** It is important to be realistic when considering the viability of revenue streams – for example, voluntary contributions, whilst an important funding source for many projects, can prove unreliable as a core funding stream.

Example 1:

### Restoration of coastal seagrass

Seagrass meadows support a variety of marine life, including valuable finfish and shellfish and provide a range of ecosystem services (maintenance of marine biodiversity, regulation of the quality of coastal waters, carbon sequestration and protection of coastlines against erosion and storms). These services are important to the economic development of coastal areas through safeguarding fisheries employment and recreational activities.

#### Potential beneficiaries:

Protection and ongoing management of the habitat benefits a range of stakeholders:

- ▶ Fisheries groups, anglers and local buyers of seafood have an interest in ensuring the habitat's productivity.
- ▶ Environmental authorities have responsibility for ensuring the quality of the coastal-marine environment in line with several EU Directives and national regulation.
- ▶ Local recreation and tourism operators have an interest in maintaining the diversity and vibrancy of the marine environment as a means to attract visitors. Local conservation groups have an interest in the ecosystem and its species and wildlife for their intrinsic value, in particular if (locally) threatened species are concerned.

#### Business models:

A restoration project could be repaid through to **Payment for Ecosystem Services**. Payments could also be made as part of a wider investment in coastal **Green Infrastructure**:

- ▶ Local fisheries groups could pay a levy to a conservation group to support measures to enhance the seagrass habitat and thus the productivity of the marine environment
- ▶ The environmental authority could invest directly in restoration and enhancement to cut the costs of regulatory requirements particularly costs of ensuring adequate bathing water quality.
- ▶ Local businesses and property owners could pay into a pooled fund for coastal protection

#### Contribution to LIFE / biodiversity conservation / climate adaptation objectives:

Protection of the habitat could contribute to a number of policy objectives:

- ▶ Contribution to LIFE objectives could be substantial, with benefits including climate action/carbon sequestration, habitat restoration, benefits to marine life and seabirds.
- ▶ Restoration can contribute to climate adaptation objectives by improving resilience to storms and coastal erosion.

Project type 2:

## Green infrastructure

**Green Infrastructure** (GI) is a planned network of natural and semi-natural areas, designed and managed to deliver a wide range of ecosystem services and protect biodiversity in both rural and urban settings.

Central concepts in this definition are **connectivity, critical mass, high-quality** and **multiplicity of services** - a single green roof or wall with a single species growing adds little value. In contrast, widespread application of green roofs and walls with multiple species may help achieving many objectives, in particular when strategically located in or near areas with a need for pollinators or in areas that are vulnerable to become 'heat islands' in case of heat waves.

GI can generate revenues or save costs by providing goods and services such as water management, air quality, forestry, recreation, pollination and increased resilience to the consequences of climate change. Examples are ecosystem-based water reuse systems, flood protection and erosion control.

Other benefits could include health expenditure savings; cost savings through reduced water treatment costs or energy savings as well as increases in property values. The NCFE could finance green infrastructure investments that are repaid by beneficiaries over time.



### Key challenges to take into account in the project design

The complexity of GI projects means that considerable care needs to be taken at the planning stage:

- Whilst GI projects lend themselves towards preventative expenditure (e.g., flood risk reduction) this can be difficult to 'sell' to investors. Nonetheless, clear evidence of cost savings within project planning can support the case for engagement.
- GI typically benefits many stakeholders even if they do not pay for it. Finding a way to secure payments to finance the investment or maintenance of a project or operation may be difficult for practical or political reasons.
- Income from hosting events and concessionary businesses delivers funding for many urban green spaces and can provide a substantial proportion of annual maintenance funding needs. Where possible, such opportunities should be 'built in' to project planning and relevant partners engaged at the earliest stage.
- Project development and planning should consider existing patterns of land ownership or tenancy and seek to engage these stakeholders early on. Links to existing projects and local priorities should be maximised wherever possible.
- Project planning should allow realistic timescales (GI can take several years to develop and grow) as well as ongoing liabilities and timescales for exiting from the investment.

Example 2:

## Regeneration of disused brownfield sites

Restoration of disused brownfield sites may provide opportunities to create new urban greenspace. Regeneration of woodland, grassland, wetland and other ecosystems can provide a range of valuable amenity benefits to surrounding communities, particularly in cities where green space is at a premium. These amenities usually result in increased local property values and tend to draw people to local businesses. Green space may provide other benefits to local businesses, including improved air quality, cooling of the urban environment and minimising damage from storm-water runoff.

### Potential beneficiaries:

Potential beneficiaries for this type of GI project would include:

- ▶ Local businesses that would benefit from an increase in visitors to the area, health and amenity benefits to staff, as well as reduced risks to their property, such as through storm and flood damage.
- ▶ Local property owners, who benefit from an uplift in the value of their property.
- ▶ The municipal authority, which would gain an additional space for recreation, relaxation and physical activity. This may result in health benefits and lower healthcare costs, while improvements in local quality of life may attract more local residents and businesses, stimulate regeneration and enhance tax revenues.

### Business models:

Development of **Green Infrastructure** would require a substantial capital investment that could be repaid by a range of potential beneficiaries:

- ▶ Local businesses and property owners (for example, as part of a Business Improvement District) could pay a levy for the restoration and ongoing management of the greenspace for its amenity benefits and associated benefits and savings to their businesses.
- ▶ A water utility could pay for some of the benefits resulting from the restoration and ongoing management of the space as part of its sustainable urban drainage infrastructure.
- ▶ The municipal authority could pay directly for the restoration and management of the space on the basis of healthcare savings from physical and mental benefits provided by the space.
- ▶ Local businesses could make payments for the restoration and management of the space as part of their corporate social responsibility activities.

### Contribution to LIFE / biodiversity conservation / climate adaptation objectives:

The site could help support urban biodiversity conservation objectives:

- ▶ Urban greenspace could provide important environmental educational and recreational opportunities in an urban setting, as well as benefiting habitats and species and contribute to climate change adaptation.

### Project type 3:

## Biodiversity offsetting

Biodiversity offsets are conservation actions intended to compensate for the residual, unavoidable harm to biodiversity caused by development projects or other damaging activities. Offsetting of impacts is based on the polluter pays principle, to demonstrate regulatory compliance or to mitigate reputational risks.

The support provided under the NCFE shall not reduce the costs of compliance with legal obligations to deliver offsets that are to be borne by entities that are under a legal obligation to deliver such offsets. Biodiversity offsetting is emerging in a number of EU countries as an extension – or complement to – existing compensation requirements for impacts arising from development.

Various pilot offset projects have been initiated by companies operating in the UK, France and Spain, including energy utilities and specialist ecological consultancies. The most mature ‘market’ for biodiversity offsetting in Europe is Germany, where offsets are generally delivered through ‘habitat banks’ – specialist institutions that acquire land for improvement and issue offset ‘credits’ to developers.

Whilst much of the discussion of regulatory frameworks relates to offsetting of impacts from large development or infrastructure projects, it is important to consider the opportunities that ‘no net loss’ strategies offer to other sectors e.g. the agro-food or aggregate industries as a means to transparently deliver on their corporate social responsibility objectives.

Establishment of habitat banks requires substantial investments in acquiring rights to land and in undertaking habitat restoration and management activities. Revenues are normally generated through the sale of conservation credits, as measurable biodiversity benefits are acquired over time. Sales typically involve negotiated transactions between buyers and sellers.

### Key challenges to take into account in the project design

There are a range of considerations that need to be built into planning of offsets:

- Project developers need to provide clear evidence and measurement of conservation losses and gains, which can often be difficult in practice owing to uncertainties in the underlying ecological processes.
- There are typically long timescales (and payback periods) for delivering conservation benefits from biodiversity offsets. There may be substantial short to medium term financing needs as conservation benefits take time to materialise, and the saleability and price of credits may be dependent on evidence of benefits.
- Appropriate safeguards need to be built into the long-term management of the offset, including stable access to finance. This can be ensured, for example, through payments from the developer into a non-sinking endowment fund.
- Design of biodiversity offsets requires access to a range of technical and financial skills. Whilst developers, can sometimes undertake these activities directly, it is generally advisable to partner with a specialist habitat bank. Conservation groups can also be well-placed to support the development and ongoing management of sites for maximum ecological benefit.
- Ongoing monitoring of sites is firmly established as a key principle of best practice. Again, this needs to be undertaken by analysts with the requisite skills.

### Example 3:

## Restoration of grassland habitat

Protection and enhancement of species-rich grassland habitat is one of the key priorities for the EU Biodiversity Strategy. This habitat is of importance to biodiversity in most Member States and is a key component of traditional landscapes. Much of this habitat has been degraded by cultivation or intensification and is increasingly under pressure from development, intensification or abandonment.

### Potential beneficiaries:

Beneficiaries may include:

- ▶ Grassland habitat contributes to aesthetic and landscape values and can act as a draw to tourists and visitors.
- ▶ Species rich grassland habitat contributes to pollination and resistance against invasive species and thus provides wider benefits to agriculture and biodiversity.
- ▶ Extensive management of grasslands can help to minimise run-off, erosion and nutrient leaching, helping protect soil and water bodies and meet regulatory standards, as well as reducing flood risks.
- ▶ Society benefits from carbon storage and the habitat provided by grassland.

### Business models:

Restoration of grassland requires finance for capital investment and ongoing management expenditures. A range of **biodiversity-offsets, payments for ecosystem services** as well as **pro-biodiversity business models** could be developed:

- ▶ A project developer could pay for the benefits delivered through the restoration and management, to offset on a voluntary basis the impact of a development project elsewhere, e.g. as part of CSR commitments.
- ▶ A water utility company could make payments for the conservation management of the land as a cost-effective form of source protection.
- ▶ Carbon offset credits could be calculated on the basis of the substantial carbon storage potential of grasslands, and sold to private companies.

### Contribution to LIFE / biodiversity conservation / climate adaptation objectives:

Restoration could contribute substantially to the Natura 2000 network and the wider biodiversity objectives:

- ▶ Grassland restoration provides an opportunity for large-scale investment in targeted habitat restoration and enhancement measures, contributing to the wider resilience of species and ecological networks. The EU Biodiversity Strategy sets targets for restoration of degraded ecosystems.



Project type 4:

## Pro-biodiversity and pro-adaptation businesses

Pro-biodiversity and pro-adaptation businesses supply goods and services which aim to protect biodiversity or increase the resilience of communities and other business sectors. Many are SMEs.

Such activities may relate to innovative approaches to ecological restoration/conservation or innovative business models such as harnessing ethical investments and adding value through certification and standards schemes. Other examples could include environmental technologies, digital services, financial services, and processing of products from conservation management such as food, forest products and conservation biomass.

It should also be noted that many pro-biodiversity businesses operate *between* sectors as a means of diversifying their revenue streams: for example, fishery and agricultural activities are often combined with recreation and tourism services.

The NCFE can provide finance to support the development of such businesses, either directly, through intermediated loans or through investments in equity funds.

### Key challenges to take into account in the project design

There are a range of challenges facing pro-biodiversity businesses:

- Many pro-biodiversity business opportunities rely on innovative, and thus unproven business models or uncertain revenue streams. As such, the challenges faced by project developers in this area are common to many innovative business ventures and start-ups.
- Many businesses may be small scale and thus struggle to attract investors or meet the NCFE eligibility requirements. Applicants could explore pooling smaller initiatives on a thematic or geographical basis (see example 4). Replication of good practices and expanding partnerships across several Member States are additional options for scaling up pro-biodiversity business.
- For existing companies or businesses looking to diversify their revenue streams through pro-biodiversity activities, investment needs may be more modest but there may be a strong need for evidence of feasibility and/or market demand to help build the case for investment.



Example 4:

## River restoration for pro-biodiversity businesses

Large river systems provide a diverse range of ecosystem services. As well as providing a habitat for local fish species and supporting local bird populations (thereby contributing to local biodiversity), water quality within river systems contributes directly to the productivity of the habitat. The health of the bankside environment contributes directly to the quality of the water, as well as providing opportunities for recreational activities such as angling. Sedimentary processes on the riverbed also provide valuable natural resources for extraction.

### Potential beneficiaries:

A range of public and private stakeholders benefit from a healthy river ecosystem:

- ▶ Water companies benefit from the natural water treatment processes provided by the bankside habitat through reduced water treatment costs.
- ▶ Visitors and tourists coming to the river benefit from a range of recreational opportunities and landscape value, including opportunities to view wildlife.
- ▶ Property owners nearby may benefit from reduced flood risks, enhanced water quality and amenity values, resulting in a value uplift in their property.
- ▶ Local communities benefit from the maintenance of a healthy river environment through appropriate management of the river system.

### Business models:

A range of **pro-biodiversity business** activities could be linked to river restoration. Wider benefits could also yield opportunities for Payments for Ecosystem Services and Green Infrastructure:

- ▶ Suppliers of environmental technologies and consulting/engineering services will benefit from investments in river restoration.
- ▶ Ecotourism operators could develop recreational boating/cruises based around the enhanced wildlife along the river.
- ▶ An extractive company could restore and enhance bankside ecosystems through revenue from sustainable extraction of gravel from the river system.
- ▶ A water utility could pay towards large-scale ecological restoration of the bankside habitat to lower downstream water treatment costs.
- ▶ A local authority could pay towards the restoration of the river environment as a means to stimulate local economic development and attract visitors to the area.

### Contribution to LIFE / biodiversity conservation / climate adaptation objectives:

Restoration could yield a broad range of benefits to biodiversity and people:

- ▶ River restoration presents a range of opportunities for environmental education and recreation, and can help contribute to restoration and management of important terrestrial and aquatic ecosystems, and enhance habitat provision for a range of bird and fish species.
- ▶ Restoration can also contribute to climate adaptation measures by provision of new floodplains and other flood risk management benefits.

## What is the role of the NCFE Support Facility?

The new and innovative aspects of the projects described above will often require expertise and in-depth knowledge to help address certain challenges that any potential project developers might face while setting-up his project. To address such challenges, the NCFE includes a Support Facility of € 10 million for financing capacity building measures aimed at reinforcing the capabilities of the private sector in developing or engaging in biodiversity and adaptation projects.

The Support Facility will be used to pay for the specialist support in the development of technical and financial capacity of potential NCFE projects. Support and capacity-building will be provided only to projects that are likely to meet the NCFE eligibility criteria. Operations can receive support for a maximum amount of 1 million €.

The Support Facility will consist of external advice and consultancy services to potential NCFE recipients. External experts will be selected by the EIB based on needs assessment developed in cooperation with project developers. Depending on this assessment, this service may cover technical, business and financial advice, training, assessment of social, economic and environmental aspects of individual projects or monitoring and reporting impacts on environment and ecosystems.

Financial intermediaries (including funds) may benefit from the Support Facility for the identification, screening and assessment of innovative projects in line with the project eligibility criteria set for the NCFE. This support should not, however, substitute normal operating costs.



### Eligibility criteria for the Support Facility

The support and capacity building to be financed under the support facility will be defined for each of the selected operation with the following objectives:

- Ascertaining the **feasibility of the operation** considered for financing under the NCFE;
- **Developing the capacity of the final recipient** to develop projects that are technically, commercially and financially sustainable;
- Guaranteeing the correct **reporting and monitoring** of the impacts on biodiversity, ecosystems and climate change adaptation of the underlying investments.

The scale and timing of support facility financing will depend on each project.



## What is the role of financial institutions within the NCFE?

The NCFE seeks to support new ways of harnessing investments in natural capital, by focusing on the financial opportunities this offers. In that prospect, financial institutions across the EU, working with businesses and environmental organisations, have an important role to play.

The NCFE is a flexible mechanism, allowing for the provision of direct and/or intermediated debt financing and equity financing depending on project types and conditions. Financial institutions can engage with the NCFE in three different ways:

### 1 Co-financier of a project

The NCFE can only partly finance projects. Financial institutions will therefore have a crucial role to play in co-financing investments to help ensure the viability of NCFE projects.

### 2 Intermediate debt financier

A financial institution can apply for a loan from the EIB in order to lend funds borrowed to final beneficiaries implementing projects eligible under the NCFE. For this pilot phase, target operations will typically have a size of € 5 - 15 million, but smaller amounts could also be considered.

For each direct investment, the EIB will assess the requisite and appropriate share in the investment, which will not exceed 75%. Direct financing will last up to 15 years, including potential extensions.

### 3 Equity fund manager

The NCFE can also invest in private equity funds. A fund manager investing in – or proposing to invest in – projects eligible under the NCFE can submit a proposal for the NCFE to participate in their fund.

If the EIB decides to go ahead with the investment, NCFE's participation will be proportionate to other contributions and limited to a maximum of 33%. 60% of the underlying investments made by the investment fund will need to fully meet the NCFE eligibility criteria.

Funds shall be established as a regulated investment entity and registered with the competent authorities. The fund manager must be duly authorised and registered with the competent authorities to execute its role.

# What are the NCFE eligibility criteria?

## General eligibility criteria

To be eligible for the NCFE financing, a project must meet the following criteria:

- Promote one or both of the following objectives of the EU's LIFE programme:
  - The conservation, restoration, management and enhancement of ecosystems, including through ecosystem-based solutions applied to the sectors of land, soil, forestry, agriculture, aquaculture, water and waste; and/or
  - Ecosystem-based approaches that enable businesses and communities to address identified risks associated with current and projected impacts of climate change, including through urban, rural, and coastal green infrastructure projects.
- Demonstrate financial and economic benefits, including the ability to generate revenues or save costs, with overall benefits exceeding costs;
- Meet the [standard criteria](#) set by the EIB for its investments<sup>1</sup>.
- Projects must be exclusively located in the EU-28.

## Eligibility of the recipients for the NCFE

The recipients of the NCFE must be legal entities registered in the EU. They may be: public bodies, private commercial organisations and private non-commercial organisations (including NGOs);

Recipients and/or financial intermediaries will need to demonstrate that they have the necessary technical, operational, and financial competence and skills to implement the proposed operation. They need to demonstrate an adequate experience in the relevant sector and geography and to demonstrate that they have the appropriate systems and staff sufficiently qualified to carry out the operation.

<sup>1</sup> <http://www.eib.org/projects/cycle/appraisal/index.htm>



# Assessment criteria

Once the eligibility of a project has been established, the EIB will carry out a due diligence appraisal in order to decide on a NCFE contribution to the project. The following criteria will be used to appraise potential investments:

## 1. Capacity, experience and resources of the counterparts:

- Do staff have the necessary skills and experience?
- Are adequate infrastructure and systems in place to deliver the project?

## 2. Strength and coherence of the business model:

- Is there a market and sector opportunity?
- Is the project based on a clear and sound business model?
- Is cost-effectiveness maximised?
- Is the regulatory environment clear and transparent?

## 3. Structure of the investments:

- What is the quality, financial standing and integrity of other co-investors (if any)?
- What is the quality of responsible governance bodies, policies and procedures?
- Are the reporting policies and procedures adequate?

## 4. Contribution to the LIFE objectives (NCFE projects would typically contribute to more than one of these objectives):

- For the **nature objectives**, projects should contribute to the protection, conservation or restoration of species and habitats listed in the annex I to the Birds Directive or annex I or II to the Habitats Directive. Other threatened species, such as those on the IUCN Red List, would also be relevant<sup>1</sup>.
- The **biodiversity objectives** are laid down in the EU Biodiversity Strategy to 2020<sup>2</sup>. The overall objective is "halting the loss of biodiversity and the degradation of ecosystem services in the EU by 2020 and restoring them in so far as feasible, while stepping up the EU contribution to averting global biodiversity loss".
- The **climate change adaptation objective** is to enhance preparedness and capacity to respond to the impacts of climate change: "climate resilience". This can be done through innovative climate change adaptation technologies, systems, methods and instruments and through policy or management approaches, best practices and solutions for climate change adaptation. Integrated and coordinated approaches are encouraged.

## 5. EU added value. This encompasses:

- The demonstration effect of the project, the extent to which the projects or parts thereof can be replicated elsewhere and/or transferred to other areas;
- The extent to which the NCFE contribution would leverage funding from other sources, including funding from the project owner;
- Creation of employment.

## Various aspects play a role in this assessment:

- Share of concrete conservation actions, i.e. actions that directly improve/slow/halt/reverse the decline of the conservation status / ecological condition of the species, habitats, ecosystems or ecosystem services targeted. A high share may indicate a strong contribution to the nature/biodiversity objectives, though the NCFE objectives may also be reached in other ways.
- Synergies with integrated projects under the LIFE Programme, or parts thereof, are encouraged. More broadly: ecosystems typically provide a variety of services: the more objectives can be achieved, the better.
- Long-term sustainability and, where applicable, low 'carbon footprint' and 'green procurement' are assessed positively.

## Some further remarks:

- The NCFE would not fund a project or part of a project that is also eligible under another funding instrument if it could reasonably expect to be awarded funding from such instrument.
- The NCFE would not fund projects when the implementation (of the relevant part) has already been started. In such cases, there would not be a need for the NCFE contribution.
- The NCFE focuses on ecosystems and ecosystem-based approaches. This concerns in the first place wild flora and fauna, rather than cultivated species. However, agricultural, horticultural or forestry ecosystems may play a role, where they contribute to the nature/biodiversity and climate adaptation objectives. Similarly, 'non-natural' landscapes/elements may play a role in green infrastructure, in particular in urban areas.

<sup>1</sup> IUCN 'Red List of Threatened Species' <http://www.iucnredlist.org/>

<sup>2</sup> EU Biodiversity Strategy to 2020 <http://ec.europa.eu/environment/nature/biodiversity/comm2006/2020.htm>

# How do I apply to the NCFF?

## Set up a project and contact the EIB

Once a project developer believes their project could be eligible for NCFF funding, he or she can contact the EIB at any time to express an interest. This can be done by sending an e-mail to [NCF\\_instrument@eib.org](mailto:NCF_instrument@eib.org). There are no predefined application forms, no deadlines, and applications are assessed as they are received.

After a first preliminary assessment of the expressions of interest received, the EIB submits an eligibility check list to the European Commission. If the project is considered eligible, the EIB invites the project developer to prepare a funding application. In many cases, the development of the funding application is an iterative process of communication between the EIB and a project developer.

## Approval

Funding applications are considered for approval by the EIB through a full due diligence process. The due diligence process will include: a full due diligence questionnaire, desk researches and possibly a site visit.

If the due diligence is positively concluded, the project will be submitted to the EIB Management Committee and to the EIB

Board for final approvals. Following approval, information on the project will be listed on the EIB website to ensure transparency. The contract's negotiations will then kick off.

More detailed information about the EIB project cycle is available at: <http://www.eib.org/projects/cycle/index.htm>.

It is important to note that approval through the due diligence procedure does not automatically qualify a project for funding. Rather, the selection will be further guided by the perceived advantages of the investment in accordance with the wider objectives of the NCFF.

## The criteria for selecting projects include, inter alia:

- The capacity, experience and resources of the candidate;
- The strength and coherence of the business model;
- The structure of the investment;
- The contribution to the biodiversity and climate adaptation objectives;
- The potential for demonstration effect, replicability and transferability;
- The ability of the project to leverage additional project funding; and
- The creation and safeguarding of employment.



More information about the NCFF is available at:

- The NCFF webpage on the European Commission website:  
[http://ec.europa.eu/environment/life/funding/financial\\_instruments/ncff.htm](http://ec.europa.eu/environment/life/funding/financial_instruments/ncff.htm)
- The NCFF webpage on the EIB website:  
<http://www.eib.org/products/blending/ncff/index.htm>
- The EIB NCFF email address for all your questions:  
[NCF\\_instrument@eib.org](mailto:NCF_instrument@eib.org)