



The Heather Trust

Sustainable, Resilient Moorland

Natural capital and funding options - an investor perspective

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Natural capital and funding options – an investor perspective

Triodos Bank – our work in this area

About Triodos

- European ethical bank
- Our purpose = tackling climate change and social inequality
- 40 years old - UK HQ is in Bristol
- Banking, investment and advisory services
- €18bn under management

Our interest in natural capital sector

- Initiated 4 x UK natural capital pilot projects funded by Defra, EA and Esmee Fairbairn Foundation.
- Test the “investability” of environmental land use change.



Natural capital and funding options

Differentiation between “Buyers” and “Investors”

Buyers of ecosystem services (create revenue streams and might include)

- Water companies – buying NFM or water quality
- Insurance industry – buying NFM
- Large corporates – buying NFM, carbon, GHG emission reduction, biodiversity
- General public – buying ecotourism facilities
- Government – EA buying NFM, Defra buying public goods through CS or ELM

Investors in natural capital

- Provide investment capital and want a return (interest) and repayment of capital
- May have an environmental impact objective – but still investors at end of the day
- Could include investment funds, banks, members of the public
- Government is not likely to be an investor in natural capital – may be a buyer or grant provider

Natural capital and funding options

Three potential transaction types...

For landowners – how to create an environmentally and commercially sustainable change in moorland land use:

1. Landowner led and self funded (i.e. no external investment)
2. Landowner led but externally funded
3. Environmental NGO led and externally funded – but landowners support it

* No.3 above is similar to the way our pilot projects are working.

Natural capital and funding options

Three potential transaction types for landowners to consider...

1. Landowner led and self funded (i.e. no external investment involved)

How to do it?

Restore peat, plant trees, increase biodiversity, implement NFM on own land and at own cost – recoup that investment through sale of ecosystem services to “buyers”.

How to get a return on that investment?

Other than CS or ELM, this requires landowners to identify and negotiate a deal with buyers. This is pretty challenging.

Investor perspective = n/a as no external investment

Natural capital and funding options

Three potential transaction types for landowners to consider...

2. Landowner led but using external funding

How to do it?

Raise external debt finance to fund peat restoration, tree planting, increase biodiversity, implementation of NFM – recoup that investment through sale of ecosystem services to “buyers”.

External investment raised a) directly by landowner core business or b) through a natural capital SPV established for the purpose.

How to get a return on that investment?

As with first example - other than CS or ELM, this requires landowners to identify and negotiate a deal with buyers. Again pretty challenging.

Investor perspective: A bank may simply lend to the core business and take security over landowner assets. An environmental investor might be prepared to lend against ecosystem services contracts and/or CS or ELM agreements either in the core business or an SPV.

Natural capital and funding options

Three potential transaction types for landowners to consider...

3. Environmental NGO or Catchment partnership led natural capital project

How to do it?

Landowner engages with an SPV established by the NGO through a long term licence arrangement to host environmental interventions – NFM, tree planting, peat restoration. SPV pays landowner an annual licence fee for hosting and maintaining these interventions.

What's in it for the landowner?

No up front investment as capital cost is funded by the SPV.

Opportunity to implement moorland land use change and get paid a hosting and maintenance fee – potential multiple of income foregone – in advance of ELM.

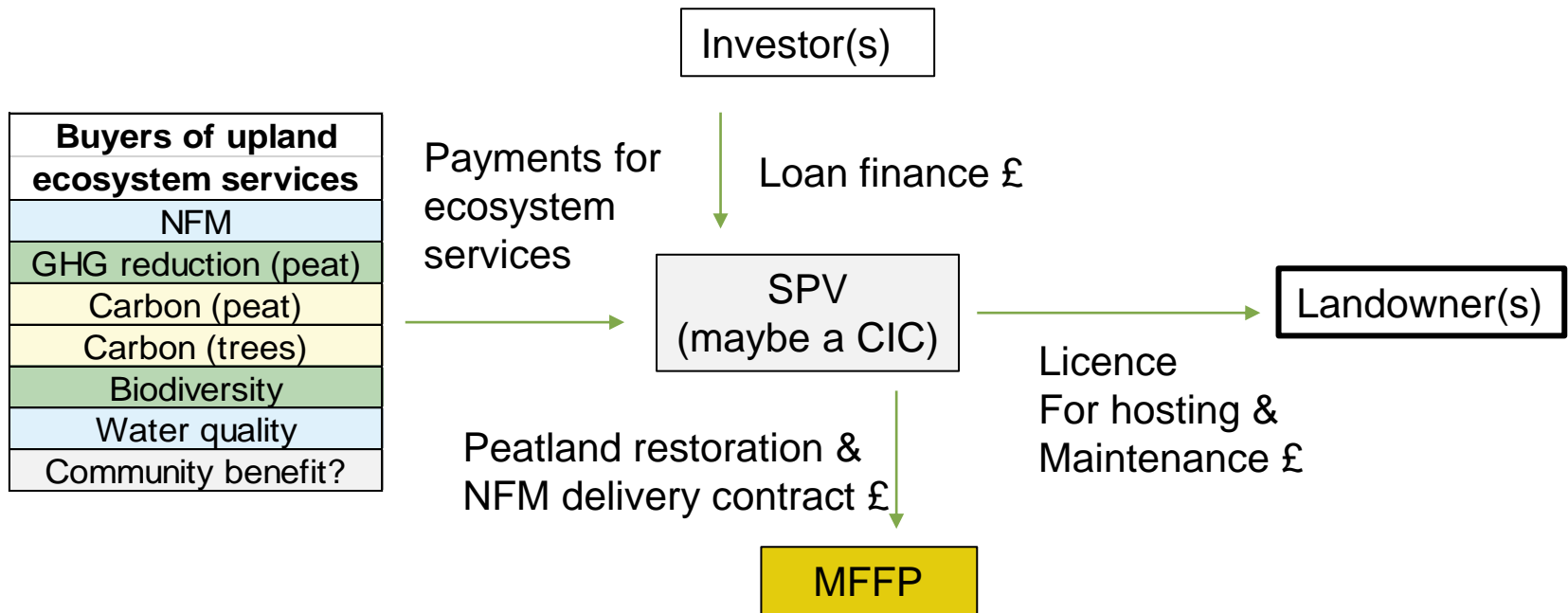
No requirement for landowner to find buyers of ecosystem services or validate outcomes against metrics etc – this work is all done by the SPV.

Landowners are required to maintain the interventions to get paid.

Contracts could be long term RPI linked – so semi permanent land use change

Natural capital and funding options

Live example – MFFP pilot project



Delivery of peat restoration through a natural capital finance method. Creating a win/win/win/win for buyers/landowners/investors and NGO