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ROUNDTABLE February 2022

E3G ROUNDTABLE FOR THE UK INFRASTRUCTURE BANK: CREATING RESILIENT MARKETS FOR NATURE 10TH FEBRUARY 2022

Summary

Nature will play a critical role in getting the UK to meet its commitments on net zero and resilience and generate numerous other related benefits for people and communities across the country¹ to 'sustain the UK economy'². Despite this, nature remains a growing area of concern³, and the financing gap to meet the UK's own targets on nature stands at between £44B to £97bn over the next 10 years⁴. Significant interventions will be required to address market failures and crowd in private investment to new nature-positive markets. The UK Infrastructure Bank (the Bank) could be mission-critical in scaling this sector.

As the Bank develops its first Strategic Plan, it is engaging with stakeholders to help further its strategic development. Subsequently, it produced a discussion paper: **Potential Private Sector Opportunities In Priority Sectors** and sought feedback on the possibility of the Bank exploring supporting Nature within its investment strategy⁵. The Chancellor's letter to the Bank⁶ stressed the role of the Bank in supporting nature-based solutions and private markets for ecosystem services, as part of the Treasury's Environmental Review. To support this process, the Bank and E3G coordinated a workshop exploring the possibility of the Bank supporting nature positive solutions, identifying the market failures that it is essential for the Bank to address, and the opportunities that could be unlocked across the country⁷.

¹ The Nature sector is expected to be a source of significant value creation in the UK, with £1 invested in Urban Green Infrastructure creating £27 in value - Vivid Economics, 2017, <https://www.vivideconomics.com/casestudy/natural-capital-accounts-for-public-green-space-in-london/>

² **Final Report - The Economics of Biodiversity: The Dasgupta Review - GOV.UK (www.gov.uk)**

³ The severe state of environmental degradation and biodiversity decline in the UK has been urgently criticised by the **House of Lords Science and Technology Select Committee** and the **House of Commons Environmental Audit Committee**

⁴ <https://www.greenfinanceinstitute.co.uk/news-and-insights/finance-gap-for-uk-nature-report/>

⁵ The National Infrastructure Commission's Infrastructure Assessment highlighted the decline of nature as one of the core challenges for the UK's future **National Infrastructure Assessment - NIC**

⁶ **Chancellor's letter to the UKIB, 2022**

⁸ **Chancellor: UK will be the world's first net zero financial centre - GOV.UK (www.gov.uk)**



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Participants suggested the following three overarching actions for the Bank:

- > **Clarify the role for Nature and Resilience in the Bank's objectives in the Strategic Plan** to give clear signals to market participants about the role of the Bank in these markets, in line with the Chancellor's steer to the UK Infrastructure Bank.
- > **Take a holistic approach to assessing value creation** in the Bank's investment strategy plan, with social and environmental 'returns' considered on an equal level to financial return and a range of Key Performance Indicators used in ex-ante investment screening and evaluation.
- > **Invest upfront in Nature projects to provide a clear signal of intent to the market** about the types of transformational projects the Bank will support. This could be supported by showcasing a range of innovative financing and de-risking approaches.

The Bank's Distinguishing factors

The Strategic Plan discussion paper, and the Bank's foundational documents published by the Treasury, set out the priority objectives and proposed key investment sectors for the Bank in its first strategic plan.

- > **Reflect the Chancellor's strategic steer and clarify the role of Nature in the Bank's strategic plan.** A lack of clarity risks losing market certainty about the Bank's willingness to invest, despite nature-based investments being possible under the current mandate. The Climate Change mandate should clearly set out that the Bank will tackle mitigation and adaptation.
- > **Resilience should be baked into all projects.** Nature-Based Solutions (NBS) are cheaper solutions than technological alternatives for both mitigation and adaptation goals. Therefore, having nature as an embedded priority in the assessment of the resilience of infrastructure delivered will deliver multiple benefits.
- > **Early-stage investments will set the tone for the market's expectations of the Bank.** Nature positive projects could be included within this. Delivery of NBS needs fundamental infrastructure in the supply chain support and support to skillsets, i.e., more skilled staff, more training.
- > **Send a long-term signal about the Bank's commitment to supporting pipeline development in Nature markets.** There are market failures in terms of funding to do full scoping and design work to support the pipeline. Upstream investment pre-delivery will deliver huge benefits in terms of investor certainty and return assurance, as well as in terms of the pace of delivery.
- > **Address market failures by delivering a range of financing products.** For example, market information and guarantees could help to shore up Nature-Based Markets. Investor appetite for NBS is not being matched by the aggregation of projects. Funding mechanisms that de-risk investments will be helpful while markets get established. For example, a lack of clarity about the variety of different revenue and value generation options for landowners is hampering market growth.



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- > **Create a virtuous feedback loop between the market and government to address market failures through policy mechanisms.** This includes market regulation to support finance in going 'green' such as TNFD or Transition Plan requirements⁸. The Bank could engage in these policy conversations to support its mission of addressing market failures and leveraging finance toward levelling up and climate change.
 - > **The advisory capability of the Bank will be critical** and requires deep thought on how it will be structured to support projects such as those in the nature sector in their infancy. This should be set up as soon as possible and include capacity-building support for nature.

Projects, timing, and the Bank's role

There are projects in the pipeline today for Nature-Based Solutions and significant market interest for Natural Infrastructure, but these will never scale without active intervention by the Bank. This nascent market requires a triage of solutions to address market failures and scaling issues - concessional finance, technical assistance, and grant-based financing/guarantees. This will require the bank to be flexible in its finance delivery to support nature.

Key takeaways from the participants included:

- > **Reflect Nature-positivity within the Bank's Key Performance Indicators (KPIs)⁹.** Getting the metrics right is critical. However, establishing the right metrics is a universal challenge, so it will be helpful to learn lessons from existing best practices and guidance, e.g., TNFD¹⁰ Every investment will include natural capital considerations, so the Bank should recognize this in its investment strategy. It is essential that NBS are not just seen as means to an end to addressing climate change. NBS and investing in nature recovery are part of economic recovery
- > **To maximise value, the Bank could learn from best practices and take a holistic approach to investment and value creation which is cross-sectoral.** It is important that the Bank considers its objectives holistically and in relation to one another. This includes employing a DNSH principle to ensure no investments are actively harmful, and considering the interrelated benefits of nature, climate and levelling up in investment screening. An example of this green-grey relationship in action is smart surfaces
- > **The Bank could pick some emblematic projects early on to signal to the market that there are investible propositions in Nature.** The tone and direction set by the Bank in its early investments will influence the market's expectations, so it is critical Nature is included in the early stages. Participants had an expansive view on Nature-Based Solutions and what the Bank might look to fund in the initial stages, suggesting:
 - Green Infrastructure for urban environments

⁸ Chancellor: UK will be the world's first net zero financial centre - GOV.UK (www.gov.uk)

⁹ Suggested KPIs for the UK Infrastructure Bank can be found in E3G's Joint letter to the UKIB: 'Joint letter to UKIB, 1st March 2022, Key Performance Indicators for success' and in a past joint briefing on **Investment Principles**

¹⁰ <https://tnfd.global/>



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- Rural/coastal carbon sequestration projects e.g., seaweed/livestock
 - Supporting innovation in the Water sector. The new strategic mandate from Ofwat in water companies is an opportunity for the Water sector to support innovation. The Bank could play a strategic role in working with Ofwat to demonstrate key projects and combine derisking capital with some of their water capital to support this sector.
 - Green to Grey infrastructure e.g., smart surfaces¹¹, water companies
 - Establishing best practices for stacked and blended finance e.g., Sustainable Drainage Systems (SuDs)¹², biodiversity, blue carbon

> **Opportunities for the Bank to further encourage crowding-in include:**

- Supporting the development of market mechanisms around sustainability. This could include 'corporate requirements' to move the market e.g., SDR, Transition Plans, TNFD. This could also include improving risk management in the Nature sector e.g., by working with insurance companies on Natural flood management (NFM).¹³ Finally, the Bank could support the standardization of codes and investment approaches in nature-based investment e.g., GFI Hive¹⁴
- The Bank could act as a link between different institutions to create a joined-up approach to supporting the sector e.g., BBB, Environment Agency, DEFRA funding
- The Bank could also invest in innovation e.g., sustainable construction materials, and standards.¹⁵
- Addressing key challenges like aggregation and granularity of the financing approach. Nature projects often need arrays of multiple small interventions delivered by numerous actors. There is an opportunity for distributed economic benefits.
- Supporting farming and agriculture in delivering NBS. Post the Common Agriculture Policy (CAP) there is an opportunity to transform this sector using a variety of financing mechanisms e.g., environment-neutrality guarantees to reduce the risk for individual farmers and guarantee returns. Providing training and skills development support will also be necessary to support rural communities in participating in these new markets.
- The Bank can showcase best practices in using blending and stacking to support NBS this is not currently easy from a private investment perspective. An example is Salt Marshes providing flood risk protection. The Bank could

¹¹ **Specify Smart Surfaces for all infra funding to reduce heat, Env injustice, CO2e and flooding**

¹² See **STWater's Green Recovery SuDs / CSO work in Mansfield**

¹³ **Natural Flood Management (NFM) | The Flood Hub**

¹⁴ **GFI Hive (greenfinanceinstitute.co.uk)**

¹⁵ Such as **CarbonStar standard to measure and specify CO2 intensity of Concrete (including net sequestration)**



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support the combination of carbon and flood risk benefits to make these more financially viable projects.

- The Bank should learn from existing best practice. Supportive resources and examples can be found below:
 - > **WEF, 2022, New Nature Economy Report II: The Future of Nature and Business**
 - > **EIB, Investing in Nature: Financing Conservation and Nature-Based Solutions. A Practical Guide for Europe**
 - > **International guidelines for nature-based solutions for flood risk management and other useful resources co-created by the US Army Corps of Engineers on engineering with nature**
 - > **Accelerating Job Growth and an Equitable Low-Carbon Energy Transition: The Role of the Clean Energy Accelerator [Analysis Group] — Smart Surfaces Coalition**

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About E3G

E3G is an independent climate change think tank accelerating the transition to a climate-safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

More information is available at www.e3g.org

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