



Environmental Finance

APPENDIX 2

An Introduction to Social and Environmental Investment



CONTENTS

1. ABOUT US
2. SOCIAL INVESTMENT IN THE UK CONTEXT
3. EMERGING ENVIROMENTAL/ CONSERVATION INVESTMENT TECHNIQUES IN THE US
4. THE FUTURE PARKS EXAMPLE
5. SOME IDEAS TO THINK ABOUT

ABOUT ENVIRONMENTAL FINANCE

Environmental Finance creates and delivers innovative financing for projects that improve natural and built environments for local communities.

- Our mission is to be part of the movement to **redirect \$300 to \$400 billion per year of global investment into projects that protect the environment** in balance with local communities.
- \$300 to \$400 billion per year **would be enough to permanently end global species decline**, and secure habitat and the environment for future generations, as identified in the 2016 Credit Suisse and Mckinsey & Company report 'Conservation Finance, From Niche to Mainstream: The Building of an Institutional Asset Class'.
- We want to **change the conversation about nature and stop natural asset spend being seen as an expense**. Instead, it should be seen as an investment, as we receive multiple benefits that far outweigh this spend (pollination, climate regulation, clean water, health and wellbeing to name a few).
- We aim to do this by using our collective skills to **create solutions for natural and built asset projects that will tackle environmental and social challenges, whilst delivering fair financial returns**. This will enable investors to easily migrate from existing market investments to achieve equivalent returns and a triple bottom line (financial, social and environmental).

Environmental Finance was established with a vision where society invests in its natural assets, creating new valuable environmental resources and sharing them equitably within local economies to support thriving, healthy, and sustainable communities.

OUR EXPERIENCE

Environmental Finance is the UK's leading environmental impact investment adviser, offering corporate finance advisory services across conservation, natural capital and renewable energy projects

- **EF has a depth of experience in both innovative financing and natural capital asset management**, providing a range of investment, structuring, strategy and fund delivery services to some of the largest environmental organisations in the UK. EF has over 100 deals of collective corporate finance experience, across a wide range of transactions including M&A, debt structuring and impact investment. The team is actively developing projects in the conservation finance space, utilising their extensive experience to structure environmental impact investments.
- **The team has unique insight and practical experience from working in the environmental impact market.** Our team of professionals have a wide range of backgrounds, and work collaboratively to design a range of impact models across the investment lifecycle from concept through to impact measurement and reporting.
- **EF has the leading UK track record of designing combined environmental and social impact funds**, bringing together a range of market actors such as charitable trusts, lottery bodies and private capital to create blended funding solutions. We design combined environmental and social impact funds and have £50m of impact investments under management to date.
- **EF has strong active stakeholder relationships with leading environmental organisations.** These active relationships enable EF to have ready access to the latest projects and innovations in the natural capital financing space.

Key Clients



Department
for Environment
Food & Rural Affairs



Upcoming PICNIC -
Parks

We apply innovative thought and tenacity to complex environmental and social issues to create investment grade projects and products for investors and clients

OUR WORK

EF have a pedigree in creating innovative projects and finding solutions where others have failed

Conservation Finance



- Advising on the project development and financing for a multi-function wetland for community scale flood defence.
- Advising on a UK wide renewable energy portfolio to unlock long-term sustainable revenue/savings and achieve carbon reduction targets.
- Developing new practices and operating models for conservation management activities across nature reserves to generate revenues whilst achieving conservation objectives.

Marine Finance



- Developing new and innovative sustainable financing mechanisms for Marine Protected Areas.
- Identified MPA financing mechanisms and investible projects that are likely to be most feasible and beneficial and advised on the process required to pilot these successfully.

Natural Capital Assessment



- Exploring options to make investing in protecting and enhancing the natural environment more attractive for private sector investments, to supplement public funding.
- Developing natural capital thinking, tools and metrics to link beneficiaries who are willing to pay for ecosystem services.
- Stimulating a pipeline of projects and exploring a blended, impact finance model to prove the concept and develop a track record of projects that can generate revenue through improving the environment.

OUR WORK

Funding for parks



- Developed and tested a 'People's Parks Trust' model, in which parks and green spaces are transferred to a Charitable Trust and managed by a new Social Enterprise. A pilot of this model is due to be launched in Newcastle.
- EF's work on Future Parks is creating upwards of £60m of new social and environmental investment products.
- Developed a Community Parks Business Fund to open access to finance for green spaces based enterprises, such as community cafes, exercise programmes and renewable energy businesses, which will better manage and utilise the park's assets.

Agriculture Fund



- Advised Real Farming Trust developing their £1m impact loan investment fund targeting community led innovative agricultural and food production enterprises.
- Led financial modelling and sensitivity analysis of loan portfolio development and runoff phases.
- Advised and structured loan delivery programme and resource requirements for efficient loan deployment.

Funding for Community Energy



- Designed an innovative £50m community energy investment program, CORE Partners, funded by leading social impact investors Big Society Capital and Power to Change.
- EF are leading on the acquisition and refinancing of operational solar assets, with the principal objective of transitioning these into community ownership and maximizing the financial, environmental and social benefits generated to the local area.
- To date, EF has led the acquisition of 10 MW of solar assets in the UK and are currently working with local community energy groups to enable full transition to community ownership over the next 3 years through a community investment offer.

This is simply the start. EF has concept ideas for new Environmental and Social Impact Investments across woodland, flooding, carbon abatement and conservation

SOCIAL INVESTMENT IN THE UK CONTEXT



WHAT IS 'IMPACT' IN IMPACT INVESTING

There are 4 Building Blocks of an organisation intentionally delivering Impact

WHO

Target Population: Who are the people you're here to serve expressed as a set of criteria

WHAT

Outcomes: What are the enduring benefits (impact) you are seeking to create AND the markers of progress on the way to these?

HOW & WHEN

Programme Design: Who does what, when, how often, and how long for you to achieve these outcomes?

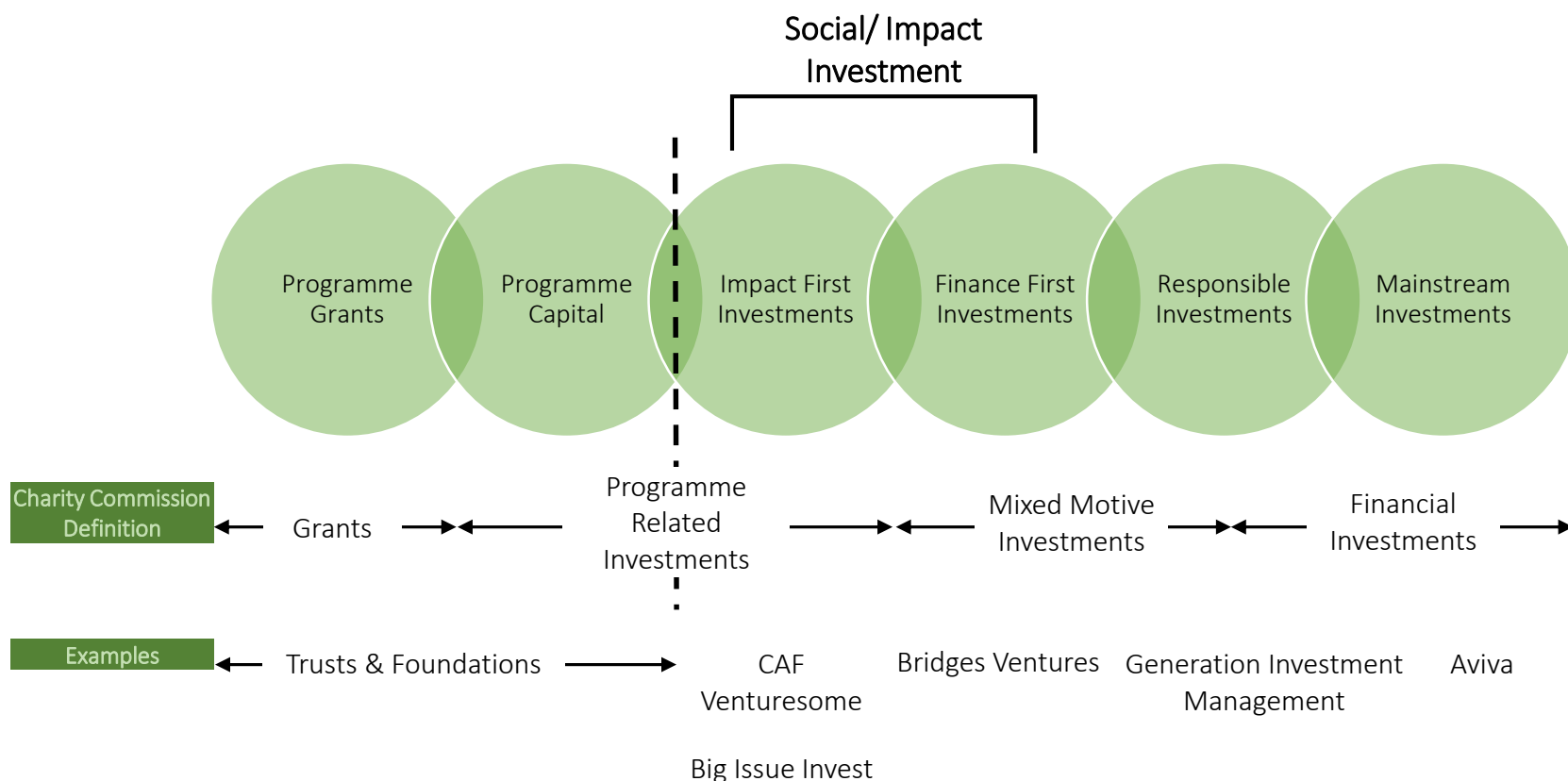
DOES IT WORK

Performance Management: How do you manage the above to ensure you're on track for impact?

This is usually documented through a 'Theory of Change' and embedded in the organisations Vision, Mission and Strategy

WHAT IS SOCIAL IMPACT INVESTMENT?

Investment where, at the time of the investment decision, the social purpose of the enterprise is a principal motive for the investment AND at least the expectation of a return of capital



SOCIAL INVESTMENT: WHAT DO WE MEAN?

Social/ Impact Investment:

Investment that delivers a social and financial return

e.g.

- Social sector **grants** –repayable models (e.g. BLF, Power to Change)
- Social sector **loans** (e.g. Sporting Capital, Charity Bank)
- Social sector **equity** (e.g. Community Shares, Big Issue Invest)
- Social sector **bonds** (Triodos)
- Social **Impact bonds**

TYPES OF ELIGIBLE ORGANISATIONS

Social or Impact Investment typically invests into Charities and Social Enterprises. The term Social Enterprise covers a wide range including For Profit Organisations, B Corps, CICs, Community Organisations etc

Since 2007/8 there has been a positive switch to Social Enterprise:

- >15% of SMEs are social enterprises – ie “not-for-private-profit” companies, charities, CICs, Coops, etc
- That is: ?200,000 Social Enterprise employers
- >2 Million employees, Income >£200bn pa; contributing >£55bn Gross Value Added (GVA) to the UK economy pa.

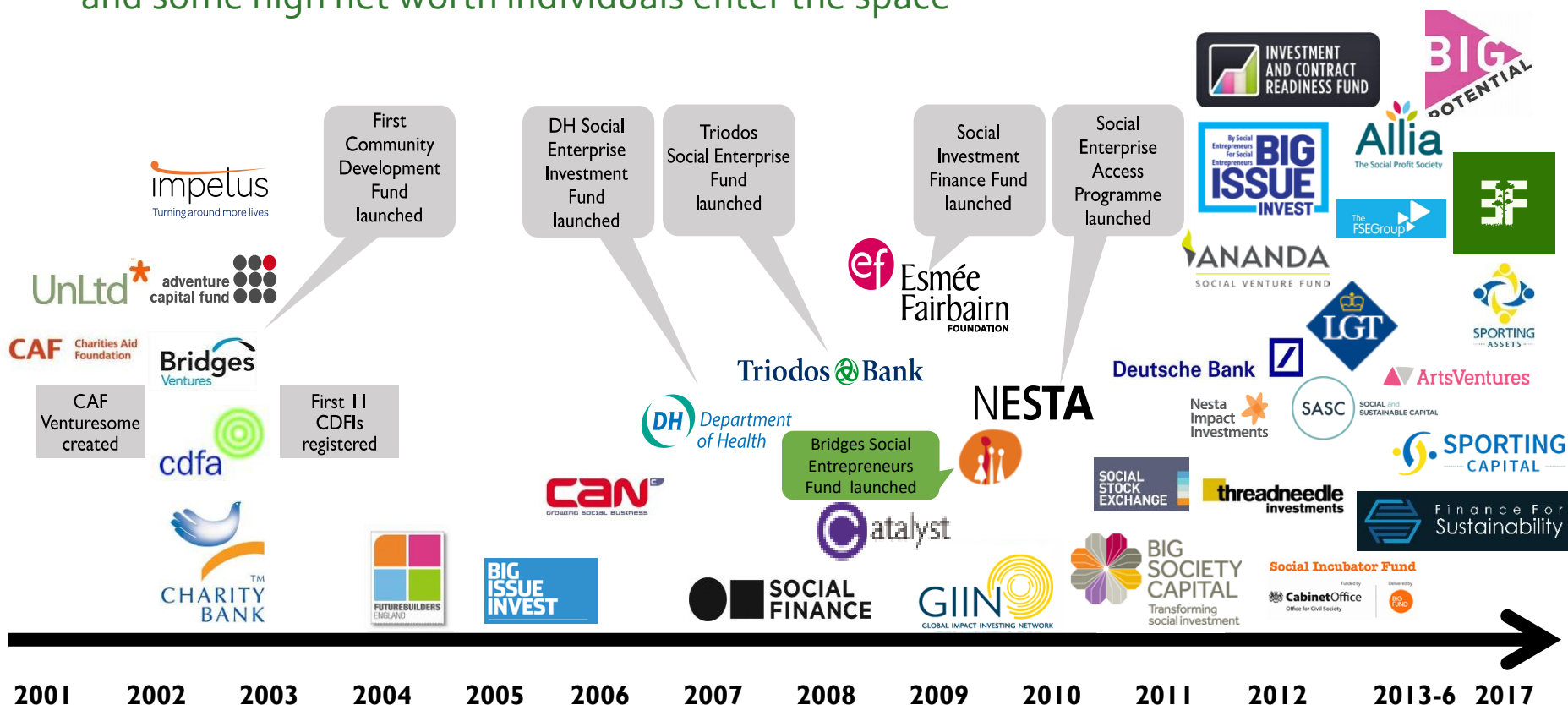
But.....

- Commercial Lenders do not understand, and therefore few lend!
- Gap in the market: Thus Social Lenders and Investors required

EVOLVING UK SOCIAL INVESTMENT MARKET

Trusts and Foundations led from 2001, but since 2011 BSC has seeded a number of specialist social investment funds.

Recently we have seen local authorities, community foundations, housing associations and some high net worth individuals enter the space



CURRENT SOCIAL INVESTMENT UNIVERSE



TOP UK IMPACT INVESTMENT FUNDS

Over £350m but none have much exposure to heritage and the environment

SIFI	Fund	FuM (£m)	Invest (£m)	Recent Notable Investments, News and Announcements
Barrow Cadbury	Barrow Cadbury Fund	4	3.5	St. Basils FCF SIB; almost fully invested
Big Issue Invest	Social Enterprise Investment Fund	9.2	9.2	Threadneedle hitting £100m; fund raising for 2 nd fund (~£30m)
Bridges	Social Entrepreneurs Fund	12	9	CASA (Care and Share Associates)
	Social Impact Bond Fund	25	5	Ways to Wellness SIB, T&T YEF SIBs; FCF SIBs
CAF	Venturesome	36	36	St. Basils FCF SIB; Aspire FCF SIB
	Community Land Trust Fund	2	2	Bournemouth 2016 Trust;; Beer Community Land Trust
FSE CIC	Community Generation	1.2	1	Awel Aman Tawe; Roseland Community Wind Farm
	Social Impact Accelerator	10	1	4 Children; Building Lives
The Key Fund	Several	30	25	Sheffield YEF SIB Have invested c. £35m to date
LGT	Impact Ventures UK	36	7	K10; Buddy Enterprises Ltd, Homes for Good
NESTA	NESTA Impact Invest. LP 1	18	9	Ai-Media UK, CogBooks (both education/tech), Ffreess; Digital Assess; Movellas; Oomph!; FutureGov
Resonance	Real Lettings Property Fund	57	50	Final close at £57m; pipeline appears robust
	Bristol Sitr Fund	5	-	Fund raising regional Sitr Funds; Manchester next
	Affordable Homes Rental Fund	3	-	Broadhempston Community Land Trust; Homes for Wells (HFW)
	Community Shares Fund	4	-	Resilient Energy Alvington Court Renewables; Low Carbon Hub
Social Finance	Care and Wellbeing Fund	12	-	Investment for health and social care providers
	Bright Futures Fund	3	-	UK's first National Sitr Fund for children, youth and vulnerable people
SASC	Community Investment	20	5	Unsecured loans for community enterprises
	Third Sector Loan Fund	30	5	Unsecured loans for charities and SEs; offering 15 year maturity
Esmée Fairbairn	Finance Fund	35	26	T&T YEF SIB; Arts Impact Fund
Total		~350	~200	

KEY MARKET PARTICIPANTS

How can FPA/ Heritage Lottery use, and enhance, the social investment sector for the progression of the environmental and heritage sectors to fulfil a new strategy



- £600m wholesale investment
- Co-investor in Social Impact Funds –equity and debt
- Provides the loan element of Access's £40m Growth Fund



- £40m Growth Fund for £150k grants + loan to investees
- £60m Capacity Building Fund seeking new ideas (open Jan 2018)



- £150m endowment focussed on Community Enterprise
- Up to £500k capital grants for Projects
- Runs strategic programmes around certain sectors e.g. Pubs

EMERGING ENVIROMENTAL/ CONSERVATION INVESTMENT TECHNIQUES IN THE US



THE NATURE CONSERVANCY & NATUREVEST

TNC and Naturevest are working to bring private and institutional capital to the environment sector. They have pioneered a number of interesting financial structures combining philanthropic money and investment capital.



A Water Impact Bond

- A Collaboration Using Impact Investment Funds to Leverage Stormwater Solutions. In an effort to reduce the polluting effects of stormwater in the area, Prudential Financial invested \$1.7 million in District Stormwater LLC (DS).
- The pilot project spearheads new strategies to support the country's first Stormwater Retention Credit (SRC) trading launched by the District in 2013 that created the market to trade stormwater credits.
- The new enterprise will help finance the development of green infrastructure projects on properties across the city that measurably reduce stormwater run-off through proven distributed nature-based solutions. These investments will create credits to boost the SRC trading market.
- The SRC market enables developers, who are required to manage stormwater runoff on projects, to meet their mandated requirements by purchasing credits from offsite designs that reduce stormwater runoff, like rain gardens, green roofs, permeable pavement and other green infrastructure practices. This approach combines science, financing expertise and local relationship building to tailor solutions that will help make the SRC market function.

Promotion of Conservation Investment

- Conservation investing experienced dramatic growth after 2013, as total committed private capital climbed 62% in just two years from \$5.1B to \$8.2B.
- Investments in sustainable food and fibre led the way, accounting for \$6.5B in private capital committed during the decade covered by the report. Another \$1.3B went to habitat conservation, while investments in improving water quality or quantity totalled \$400 million.
- Over \$3B in additional private capital remained on the table in 2015 as investors continued to seek out deals that met criteria for both environmental and financial returns
- Private capital is beginning to reach emerging markets. While the vast majority of investments in habitat and water conservation remained concentrated in North America, private finance for sustainable food and fiber production was more evenly dispersed between North America (33%), Latin America (29%), Oceania (19%), and Africa and Asia (about 9% each).

THE CONSERVATION FUND



The CF invests in conservation to achieve environmental and economic outcomes. Every Fund program places conservation at its centre, creating and implementing innovative, practical ways to benefit the natural world and the well-being of disadvantaged Americans.

Resourceful Communities

- Resourceful Communities has awarded more than \$4.2 million in small grants, supporting more than 1,000 jobs and a \$12 to \$1 return on investments in community solutions.
- Many of America's most important natural areas are frequently home to our most economically and socially distressed communities. Resourceful Communities creates opportunities that preserve the rural landscape, lift people out of poverty and celebrate our partner communities' unique cultures.
- Working with a network of 500 grassroots and community organizations, we take a balanced 'triple bottom-line' approach that generates economic, environmental and social justice benefits.
- By bringing together communities and conservation, people and places, we have created or retained over 1,000 jobs, and advanced a \$12 to \$1 return on investments in community solutions.
- The triple bottom line network engages more than 500 community and resource partners, creating environmental, economic and social justice benefits for communities that need it most.

Natural Capital Investment Fund

- Natural Capital Investment Fund finances and advises small to mid-sized enterprises, primarily in rural and underserved communities across a nine-state region. We help innovative entrepreneurs build locally-owned enterprises that create lasting jobs and community wealth, while using natural resources responsibly.

For example, NCIF borrowers build local food systems; conserve energy and water; support eco-tourism; find creative outlets for recycled materials; and provide essential community services.

- The Natural Capital Investment Fund's 183 portfolio companies have created or retained 3,000 jobs since 2001. NCIF has provided 14,700 hours of technical assistance to 1,232 companies since 2001.

CASE STUDIES



LEEDS URBAN BIKE PARK





“The Sporting Capital loan has given us breath space to get the business model up and running and start to generate revenues that will support fantastic community facility into the future”

Jeremy Hayes, Director

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