

NATURE FINANCE REVIEW 2023

APPENDICES

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APPENDIX 1

SURVEY QUESTIONS

Appendix 1: Survey questions

1. Where did you hear about this survey?

Before we begin, please let us know where you heard about this survey. This will help us to direct our distribution strategy for subsequent reviews.

2. About your work

This section will help us to understand the context of the project under development.

a. Organisation type

Which of the following categories applies to your organisation?

- Local government (including National Park Authority)
- Public body (not local government)
- Private sector company
- Private landowner
- Voluntary and community organisation
- Charity
- Social enterprises and cooperatives.
- Educational establishment
- Other

b. Organisation activities

Which of the following activities is your organisation involved in?

- Food production
- Woodland and forestry
- Improvement of urban areas
- Care for peatland
- Marine management (UK territorial waters, offshore)
- Coastal management (inshore waters)
- Rivers and lakes
- Recreation, tourism and outdoor access
- Nature conservation and restoration
- Utilities, transport and built infrastructure
- Environmental consultancy
- Other

c. Relationship with project

What is your relationship with the land and/or water that may generate revenue or attract investment from private sources?

- Owner
- Tenant or licensee
- Advisor, consultant or broker
- Other

d. Project location

Where is the land and/or water under consideration located within the UK?

- England
- Northern Ireland
- Scotland
- Wales

e. Project area

What is the area of land and/or water under consideration? (100 hectares is 1 square kilometre)

- Less than 60 hectares (ha)
- Between 60 and 120 hectares (ha)
- More than 120 hectares (ha)
- More than 1000 hectares (ha)

f. Project denomination

Can the area of land and/or water under consideration be characterised as any of the following denominations?

- Private land (freehold)
- Private land (leasehold)
- Local authority district, county or metropolitan area
- Designated landscape
- Marine conservation zone or planning area
- Other

g. Project habitats

What habitats are present within the area of land and/or water under consideration? Please select from the following broad habitat types (UK Habitat Classification System).

For definitions of habitats, please see documentation available at ukhab.org

- Grassland
- Woodland
- Heathland and shrub
- Wetland
- Cropland

- Urban
- Sparsely vegetated land
- Rivers and lakes
- Marine inlets and transitional waters
- Other

3. Project plans and activities

This section is all about the successes and challenges related to undertaking a project or activity that is attracting, or is seeking to attract, revenue and/or investment from private sources.

a. Project status

*Which of the following *best* describes the status of the project or activity?*

- Initial research: Taking first steps to investigate and understand the specific opportunities available
- Stalled: Aware of the specific opportunities available but have encountered barriers that have blocked further project development
- Ongoing: Committed project development is ongoing (project in planning, development, or operational phase)

b. Project milestones

*Which of the following steps of project development** do you consider the project has been completed along the route to attracting revenue and/or investment from private sources?*

***Note: These steps of project development have been taken from the Green Finance Institute's 'Investment Readiness Toolkit', which is being developed as a resource for project developers who want to use private finance to deliver environmental outcomes. It is piloting in October and launching formally in December on the [GFI Hive website](#)*

- **Site and intervention scoping** - Has the project identified the site(s) to deliver environmental outcomes and scoped high level potential, constraints and financial feasibility?
- **Identify and work with sellers** - Has the project engaged with land owners and managers to establish the terms of their engagement in 'selling' the ecosystem services?
- **Baseline and estimate ecosystem service(s)** - Has more detailed scientific work been undertaken to

establish, in a key metric, what volume of ecosystem service the project is capable of delivering?

- **Identify and work with buyers** - Has the project engaged with beneficiaries of the ecosystem services to establish the terms of their engagement for 'buying' the ecosystem services?
- **Develop business and financial model** - Has all relevant information on the project been gathered and assessed to develop a formal business case? Has a financial model been built to assess the financial health and initial needs of the project?
- **Develop governance structure** - Does the project have a structure for decision making, accountability and control for the project? Is there a suitable legal entity that fits the goals, needs and risk appetite of the project and its key stakeholders?
- **Identify and approach investors** - If investment is required for the up-front costs of the project, have investors been engaged and the terms of investment agreed?
- **Establish legal contracts and closing** - Have legal contracts been developed that commit relevant stakeholders to the delivery of the project?
- **None of the above**

c. **Project barriers**

What are (or were) the key barriers preventing you from taking your project forward to attract revenue and new forms of private finance and investment?

Please select up to 3 of the most significant barriers for your project.

If you did not encounter any of these barriers please leave blank and move on to the next question.

- Lack of data
- Revenue uncertainty
- Revenue insufficient
- Regulatory or legal restrictions
- Discomfort with the time commitments that would be involved
- Volatility in carbon/nutrient/biodiversity/etc. markets
- Governance structures / legal entities not yet in place
- Less profitable than traditional activities of my organisation
- Private finance not yet accepted by all involved

- Concerned about losing government benefits, e.g. tax, future government subsidies or other financial benefits
- Local community objections/reservations
- Lack/scarcity of investment readiness support

d. **Investment readiness grant support**

Are you in receipt of any investment readiness support such as the Investment Ready Nature Scotland (IRNS) grant scheme?

- Yes
- No

e. **Project name**

Optional: *Please enter the project's name (or running name) here. If you would rather not say, you are welcome to leave this question blank and move on to the next question.*

4. **Project revenue**

This section is all about the costs, opportunities, relationships and processes involved in developing a project that is generating, or seeking to generate, revenue.

a. **Revenue generation**

At the time of completing this survey, is the project currently generating revenue by delivering a product or service that creates income or reduces expenditure (i.e., not from grants or public payments)?

- Yes
- No, but it is expected to generate revenue within the next 2 years
- No, but it is expected to generate revenue within the next 3-5 years
- No

b. **Revenue estimate**

Once up and running, how much do you estimate the project to generate in a typical year? Please select from the following ranges.

- Up to £100,000
- Up to £500,000
- Up to £1 million
- More than £1 million

- Don't know
- Other

c. Initial cost

How much do you estimate the initial up-front cost for delivering the project? For example, woodland planting. Please select from the following ranges:

- Up to £100,000
- Up to £500,000
- Up to £1 million
- More than £1 million
- Don't know
- Other

d. Maintenance costs

How much do you estimate the ongoing costs, per year, for maintaining the project? For example, woodland care. Please give an estimate using today's money, from the following ranges:

- Up to £100,000
- Up to £500,000
- Up to £1 million
- More than £1 million
- Don't know
- Other

e. Revenue streams

What revenue streams is the project currently generating (or expected/hoped to generate)?

- Carbon credit sales
- Biodiversity unit sales
- Water / natural flood management payments
- Nutrient mitigation payments (nitrates)
- Nutrient mitigation payments (phosphates)
- Commodity (timber, agriculture, etc.) sales
- Ecotourism
- Rental income
- None
- Other

f. Intermediaries

What intermediaries or third parties are the project engaged with to facilitate or enable the generation of revenue?

- Environmental marketplace or trading platform
- Ecological consultancy
- Technology service provider
- Delivery partner
- Financial consultancy
- Other financial service provider
- Broker
- Local Authority
- Standard Body or Certifier / Verifier
- Other landowners (aggregation of land e.g. farmer cluster)
- None
- Other

g. Environmental marketplace

Optional: What is/are the name(s) of the environmental marketplace(s) you are engaged with? Please list if there are more than one. (for example, the North Devon [Natural Capital Marketplace](#))

h. Local authority

Optional: What is/are the name(s) of the local authorities(s) you are engaged with? Please list if there are more than one.

i. Codes and standards bodies

Optional: What is/are the name(s) of the bodies(s) (e.g. Wilder Carbon, Woodland Carbon Code) that you are engaged with? Please list if there are more than one.

5. Project finance and investment

This section is all about understanding any funding sources and mechanisms that may be part of the project.

a. Repayable finance

Is the development of the project fully or partially reliant upon repayable finance (i.e. debt or equity)?

- Yes repayable finance has been secured
- Yes, currently seeking repayable finance
- Expect to be seeking repayable finance in the next 2 years

- Expect to be seeking repayable finance in the next 3-5 years
- No, not expecting to seek or be able to support repayable finance
- Unsure

b. Financial vehicles

What type of repayable finance are you seeking or has been secured?

- Repayable grants (funds disbursed with repayment conditional on project performance)
- Equity (funds provided in exchange for ownership interest and a share of profits based on project performance and level of risk taken)
- Revenue / profit sharing loan (funds borrowed with an expectation of repayment as revenues or profits are generated)
- 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)
- Commercial loans (funds borrowed with an expectation of capital repayment and a regular interest payment at a market rate)
- Outcomes payments (made to the upfront investor in a project dependent on the project meeting pre-agreed environmental outcomes)
- Risk reduction mechanisms (e.g. project guarantees to ensure a certain level of investor return or first loss capital to absorb losses)
- Unsure
- Other

c. Financial vehicles: Unsure

If you are seeking or have secured repayable finance, but are unsure of the specific type, please select the type of repayable finance below that is most similar:

- Repayable grants (funds disbursed with repayment conditional on project performance)
- Equity (funds provided in exchange for ownership interest and a share of profits based on project performance and level of risk taken)
- Revenue / profit sharing loan (funds borrowed with an expectation of repayment as revenues or profits are generated)

- 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)
- Commercial loans (funds borrowed with an expectation of capital repayment and a regular interest payment at a market rate)
- Outcomes payments (made to the upfront investor in a project dependent on the project meeting pre-agreed environmental outcomes)
- Risk reduction mechanisms (e.g. project guarantees to ensure a certain level of investor return or first loss capital to absorb losses)

d. Grant funding

Is the development or implementation of the project reliant upon funding from a government or charitable source?

- Yes, awaiting decision of application
- Yes, unsuccessful application made
- Yes, successful application made and/or in receipt of grant funding
- Expect to be applying for grant funding in the next 2 years
- Expect to be applying for grant funding in the next 3-5 years
- No

e. Grant funding further details

Optional: Please enter the name of the body or grant that the project is potentially reliant upon (e.g. Environment Agency, DEFRA)

6. Contact details

This section will give you the opportunity to opt-in or out of leaving us your contact details.

This will allow us to get in touch to provide insights from the survey and discuss your project in further detail.

a. Further contact

Are you happy for us to get in touch to discuss the information you have provided as part of this survey?

If you select 'No', the information you have provided in this

survey will be anonymised.

If you select, 'Yes', you will have the option to enter into a draw for free tickets to the 2023 Nature Finance Conference. You will also be given the option to be considered as a case study and join EKN's Nature Finance Learning Group.

- Yes
- No

b. Your name

Please enter your name

c. Your email

Please enter your email

d. Your organisation

Please enter the organisation you are representing in completing this survey

e. Your job title

Please enter your job title

f. Nature Finance Conference

Would you like to be entered into a draw for a free ticket to the [2023 Nature Finance Conference](#)?

This will be the sixth edition of the UK's leading event on the topic, bringing together representatives from financial services, corporates and project developers to advance financial innovation for environmental restoration.

- Yes
- No

g. Case studies

Would you be interested in featuring your project as a case study?

If you are interested, we will be in touch to arrange a call so that we may discuss the project in more detail.

The case study may then be featured within EKN's Nature Finance Learning Hub, and/or the Nature Finance Review.

- Yes
- No

h. Nature Finance Learning Group

Would you like to join EKN's [Nature Finance Learning Group](#)? As part of the Group you will receive news, information and resources relevant to nature-based finance, including future iterations of this annual survey.

- Yes
- No

i. Nature Finance Project Directory

We are currently building a platform for a UK-wide directory of nature-based enterprises.

Would you be interested in listing your project?

Read more about the upcoming directory on our [website](#).

- Yes
- No

7. Your perspective

Finally, what do you think is the biggest limiting factor, challenge, or enabler in scaling up finance and revenue for environmental regeneration in the UK? You are welcome to write as much or as little as you like.

APPENDIX 2

FOCUS GROUP QUESTIONS

Appendix 2: Focus group questions

1. What are the main barriers for developing nature-based projects or enterprises?
2. What are the most common or viable revenue streams for nature-based projects and enterprises?

Do you anticipate others being so in the future?

3. Which forms of finance/funding do you think are the most common/viable? Are you investigating the use of others in the future?
4. What are the enablers and limiting factors to scaling nature finance?

APPENDIX 3

COMMUNITY OF PRACTICE QUESTIONS

Appendix 3: Questions for the Natural Capital Investment Community of Practice

1. Which stage of the GFI steps to investment readiness is the most challenging, or most frequent blocker?
2. Which are the most common revenue streams, and what are the reasons why the others haven't been pursued?
3. How often is investment needed, why, and which forms of finance are considered to be the most appropriate/common?
4. Discuss the role of aggregators, brokers and middle-men in curating these trades, with reference to your own work
5. What do you see as the most significant factor in scaling nature finance?

APPENDIX 4

THEMES EXTRACTED FROM QUALITATIVE COMMENTS

Appendix 4: Themes extracted from qualitative comments

Theme	Number of comments
Revenue uncertainty	22
Revenue insufficient	2
Funding insufficient	13
Funding uncertainty	11
Policy uncertainty	57
Policy inappropriate	5
Lack of advice/information	13
Lack of capacity/experience/knowledge	29
Conflicting aims/policy	21
Access to technology	1
Inappropriate funding/finance	14
Stakeholder engagement	29
No barriers	1
physical infrastructure	2
Cost	6
Internal organisation/governance issue	6
External governance issue	3
Tax	5
Timescale discomfort/uncertainty	12
Outcome uncertainty	2
Communication	7
Access to land	2
Site size/aggregation	8
Lack of Trust	5
Lack of data/ data issues	25
Accreditation/compliance/regulation	30
Process issues/too complicated	15
Volatility in carbon/biodiversity/nutrient markets	7
Too many choices/options	7
Lack of feasibility funding	8
Demand uncertainty/ lack of buyers	15
Supply uncertainty/issues	0
Unable to secure finance	3
Greenwashing concerns	3
Tenancy/ownership issues	2
Market infrastructure	13

APPENDIX 5

SUPPLEMENTARY OBSERVATIONS & RECOMMENDATIONS

Appendix 5: Supplementary observations and recommendations

1. Supplementary observations on specific revenue streams

<p>Biodiversity units</p>	<p>The survey responses and focus group discussions pointed to optimism that mandatory Biodiversity Net Gain is going to be an important part of local and national nature recovery in England.</p> <p><i>“Biodiversity Net gain seems like it is going to be a real vehicle for delivering nature restoration.” Survey respondent, private estate</i></p> <p>This is important because guidance on Local Nature Recovery Strategies in England identifies biodiversity net gain as one of two mechanisms for delivery of nature recovery.¹ Despite the level of interest in biodiversity net gain, the provision of biodiversity units by place-based projects is likely to be very heterogeneous. In particular, this supply will depend on regional variations in the amount of land that is subject to built development. It will also depend on the availability of land for the provision of net gain (which is particularly tight in large cities such as London). As a result, the dominance of a compliance market for biodiversity net gain in England cannot be expected to be universal, or to remain in the long-term.</p> <p>There is increasing interest in the growth of voluntary biodiversity credit markets as a response to corporate awareness of nature dependencies and impacts. There was also optimism that a biodiversity credit market would emerge in Scotland and a number of projects are assuming opportunities for sale of biodiversity units will arise in the future (see, for example Highlands Rewilding case study, page 66).</p> <p>Based on the findings of this Review, there is no sign that this has translated into finance for habitat creation or restoration in the UK. The focus of corporates is currently on the purchase of carbon credits and funding for habitat creation based on corporate responsibility motivations.</p>
<p>Carbon credits</p>	<p>Carbon was the second most reported revenue stream being pursued by place-based projects. It was also a focus for 72% of enabler projects. Codes for carbon in saltmarsh, farm soils and hedgerow are in development.</p> <p>Whilst carbon was viewed by focus group participants as the most established credit, they expressed concern that this form of revenue involved trade-off with other traditional sources of</p>

	<p>income, such as the production of food and that their future revenue potential may be limited.</p> <p><i>“Lack of income generating products or services - only BNG & nutrient neutrality really generate returns at the moment, with carbon a bit less certain” – Survey participant, anonymous</i></p> <p>There is also an expectation among land managers that they may need to reserve capacity for carbon sequestration in order to meet their own net zero targets. This may be holding back their willingness to sell carbon, even if they don't yet have a baseline carbon budget for their land and business.</p>
<p>Nutrient credits and natural flood management payments</p>	<p>The sale of nutrient credits is highly dependent on local needs and regulation. This may explain why it appeared to be a less popular revenue stream among place-based projects.</p> <p>43% of place-based projects reported that they are generating or pursuing revenue from payments for natural flood management. This significant proportion may be explained by the fact that flooding is an issue that a wide range of businesses, local authorities and water companies all need to address. The Wyre Natural Flood Management Project in Lancashire provides a working example of how a project of this type can be structured and attract repayable finance.</p> <p>There were varying views on the delivery of water-related nature-finance projects. Some have found water utilities much easier to work with than government. In other cases, risk averse attitudes and business regulation limited the potential for new projects.</p>

The boundary between ecotourism that finances tangible environmental improvement benefits and that which merely depends on a good quality environment is not well defined and so we will not engage in lengthy discussion.

2. Supplementary observations and recommendations

Collaboration

Between project developers on one side and purchasers or investors on the other, those projects in the pipeline achieving most success have almost invariably taken a proactive and co-design approach.

Specifically on the supply side too, meaningful collaboration at a landscape scale amongst land managers or other partners is also important. Forming partnerships allows the constituent members to pool resources and skills, access economies of scale and increase their purchasing power. Projects at scale, for instance a farmer clusters or a partnership formed around a river catchment, are attracting more investment, and achieving more success.

Advisors, intermediaries and knowledge sharing

The review reports the importance of trusted advisors and intermediaries in developing projects. As well as advisors experienced in offering ecological advice and advice around land or water management, projects also commented on the importance of advisors with commercial, financial and legal skills. One idea which was raised in a number of fora, was for the secondment of individuals between partners (e.g. secondment of a finance professional to a conservation project or vice versa) to address knowledge gaps, provide specific skill sets or carry out specific pieces of work.

As part of encouraging co-production, the sector needs to develop common areas of understanding and a common language. To underpin this, there is a need for places to find resources, tools easily understandable information and case study examples.

Our analysis suggested that market infrastructure and communities of peers were all important to driving forward this emergent sector. The majority of projects included in the review are situated in England and Scotland, where the NIERF and IRNS (soon to be followed up with FIRNS) programmes provide early-stage feasibility support to pilot projects. In these two regions there are also more developed communities of practise – for instance the ‘Nature Finance Pioneers’ in Scotland and the Natural Capital Finance and Investment Community of practise in England. This work is beginning in Wales and EKN was lucky enough to participate in initial discussions across Wales about forming a community of practise. We hope to see similar progress in Northern Ireland in the coming years.

Finally, in order to provide evidence on the status, progress and barriers of the project pipeline, this review should be carried out annually.

Risk and reward

The review reports on fears that individual projects, for example small farm businesses, may end up shouldering the majority of the up-front (and often unknown) risks inherent in a natural capital project. A number of projects were also stalled because of the uncertainty of future revenue levels or a 'fear of missing out' from expected future uplifts in value of natural capital revenues. These are resulting in barriers to these projects entering the market and contributing to nature's recovery.

We propose the development of mechanisms by which risk and rewards can be shared fairly between parties. This could take the form of staged selling of credits (some upfront, some profiled across the length of a particular intervention), or agreements to share any uplifts in value. In the social finance sector, equity or 'quasi-equity' products have been used effectively to limit the debt burden on individual projects and provide a fair distribution of profits between investor and investee and this could equally be explored for natural capital investment projects.

Similarly, as previously noted, only a very small proportion of projects in the review were run by tenants. Our consultations brought up many barriers specific to tenants and we suggest that mechanisms and contracts are also developed to allow tenants to participate in these markets and be paid a fair share of profits created.

We suggest that the production of standardised templates, contracts and other legal agreements would support this outcome. This would give project developers additional assurance as well as reducing costs developing agreements from scratch.

Public policy

Respondents and consultees in the review highlighted specific areas of policy uncertainty which are creating barriers for projects. These are listed below, to inform and shape future policy design:

- Clarity is required on the extent to which supply chain emissions need to be accounted for ('inset') on farms themselves and how this fits with environmental markets.
- The Dasgupta Review noted that restoration is costlier than conservation. With this in mind, mechanisms need to be created to allow for previous good stewardship of the environment to be rewarded and funding made available for already good quality habitats. Currently, rules around additionality which are focused on restoring degradation often preclude high functioning ecosystems from these markets.

- Specific support, or simple mechanisms, are needed in order that the diversity of smaller projects are able to engage with environmental markets and contribute to nature's recovery.
- Clarity is needed over the way land is taxed. Echoing recommendations from the Financing UK Nature Recovery report, land used to provide habitat for nature and deliver environmental services should be treated in the same way as land use for agriculture and forestry.
- Further clarity or evidence on how environmental markets will affect land valuations is also needed. We suggest that revenue streams from land uses that deliver environmental services should be able to be taken into account in land valuation.
- Future measures and standards which are developed should:
 - Be standardised for clarity and cross-project comparison
 - Measure multiple outcomes – since natural capital projects will usually produce a variety of outcomes (sometimes sold to a number of different buyers).
 - Incorporate flexibility, to meet the needs of different stakeholders and to be appropriate for different types of project, at different scales, and incorporating the views of the local community.
 - Be simple and appropriate – measurement should enable progress and decisions about resource allocation, not add to much complexity and cost.
- Clarity is required on the rules for whether, or under which conditions, private finance can be stacked with SFS payments (the Sustainable Finance Scheme) in Wales

Funding

Our analysis suggests that investment readiness support is a key driver of success in trading, generating revenue and taking on repayable investment. The NEIRF and IRNS programmes have been instrumental in driving forward nature finance projects in England and Scotland. We suggest that further rounds of funding in these two jurisdictions and the initiation of such funds in Wales and Northern Ireland would help to catalyse a further cohort of nature finance projects.

Collaboration and advisors, intermediaries and knowledge sharing (above) are also correlated with project success. We suggest that, whilst our analysis shows that the direct provision of investment readiness funding of projects correlates with greater expectation of generating revenue in the future, the funding of intermediaries, advisors and market infrastructure is almost equally important. This could take a range of forms – for example, the provision of additional advice and or amalgamation and dissemination of easily accessible information or funding to facilitate regional peer networks such as farmer clusters.

The importance of funding for advisors and intermediaries is particularly important for projects with few resources, enabling them to collaborate with others and participate in environmental markets.