

# Investment Readiness Fund

This fund is currently in the design phase and this information is intended to provide an overview of fund and gain an understanding of your interest. Please note at this stage we do not have further details of how the fund will work, we are currently asking you to register your interest and will be consulting on the design of the fund in the autumn.

## What is the Investment Readiness Fund?

The Government are introducing a natural environment Investment Readiness Fund (IRF) to support the development of natural environment projects that can generate revenue from ecosystem services and attract repayable investment.

This is part of HMG's 25 Year Environment Plan and Green Finance Strategy commitments to explore the potential for a natural environment impact fund and work with a range of partners on stimulating innovation in designing and implementing projects that can directly protect/enhance the domestic natural environment and generate revenue.

The natural environment Investment Readiness Fund will build on work Defra commissioned from Vivid Economics and Environmental Finance<sup>1</sup>; and a partnership between Defra, Environment Agency, The Esmée Fairbairn Foundation and Triodos Corporate Finance, which has provided funding and advice to four such projects.

## Aims of the fund

We want to:

- Support the development of a credible track-record of private sector investment in natural environment projects that will boost market confidence.
- Broaden the funding-base for domestic natural environment projects, responding to the needs of the sector by helping organisations become more financially resilient and increase the overall level of funding.
- Help meet demand from increasing numbers of investors and businesses seeking opportunities to invest their capital in a way that generates both a financial return and a positive environmental impact.
- Stimulate a pipeline of natural environment projects that can attract and repay private sector investment.



<sup>1</sup> Natural Environment Impact Fund - Vivid Economics and Environmental Finance - <http://sciencesearch.defra.gov.uk/Default.aspx?Module=More&Location=None&ProjectID=20096>

Pockets of innovation are already springing up around the country where projects are linking the ecosystem services they provide to beneficiaries willing to pay for them. For example:

- Housing developers are paying for habitat creation projects, to offset their water quality and biodiversity impacts – this demand will increase with the introduction of a system of mandatory Biodiversity Net Gain.
- Businesses are paying for tree planting and peatland restoration projects – to offset their residual carbon emissions. This demand will increase as more businesses step-up to help deliver the 2050 net zero target.
- Water companies and other businesses are paying for nature-based solutions to achieve water quality and natural flood management benefits.

## How the fund can support you and your projects

From 2021, **this three-year £10 million programme will provide grants** which project developers can use to build capacity and procure the specialist support and advice they need to develop their natural environment project to an investable level.

Crucially, we want projects to test how different forms of public-private investment can be blended to pay for upfront capital works and project costs; and how different ecosystem service revenue streams can be bundled within a project to repay investment.

The **primary focus will be on supporting projects that directly protect/enhance the domestic natural environment**, but wider enabling activities that will help the development of natural capital markets will also be considered.

We will work closely with other funders and investors, project developers and specialist advisors as we develop and deliver the natural environment Investment Readiness Fund - to align efforts to develop the domestic natural capital investment sector.



## How will the fund work?

The Environment Agency will deliver the IRF on behalf of the Defra group. **From early 2021, project developers will be**

**invited to submit an expression of interest or a full bid for funding.** IRF grants will be allocated on a competitive basis and bids will be assessed against a set of criteria which will take account of the projects' potential to generate revenue and provide environmental impact.

We want projects to be scalable and replicable. As far as possible, information on the projects will be made publicly available to increase the knowledge-base for other project developers, investors and advisors - with the aim of accelerating the development of the domestic natural capital investment sector.

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## What activities can be funded?

Examples of eligible activities for IRF support could include capacity needs, for example, project manager costs and specialist advice such as:

- commercial appraisal, business and financial modelling
- investment structuring and capital raising
- legal and governance advice
- investor due diligence requirements
- impact measurement and management
- considerations for ongoing management of a project.

## How can I be involved?

We are keen to work with project developers, investors and advisors as we develop the fund over the coming months to ensure the approach meets your needs.

To be involved and inform us of your preferred level of engagement please complete the short survey which should not take more than 5 minutes.

<https://www.smartsurvey.co.uk/s/HQ3ZFQ/>