

Innovative Finance Working Group, Friday 3rd May 2019

Summary Note

Location: Baillie Gifford Head Office, Carlton Square, Edinburgh

Agenda:

- Welcome from the Scottish Forum on Natural Capital
- Brief introductions
- Overview of the opportunity: what is the £1 Billion Challenge?
- Innovative financial models: considering a longlist for the £1 Billion Challenge
- Where are the big wins and low hanging fruit?
- Creating a shortlist of priorities
- Next steps

Attendees:

Amanda Joseph, Scottish Conservation Finance Project

Chris Jamieson, Social Investment Scotland

David Walker, Asper Investment Management

David Wood, ICAS

Edward Whitten, Baillie Gifford

Graeme Jones, Scottish Financial Enterprise

Jo Pike, Scottish Wildlife Trust

John Rowan, Inzolia (*By phone until 10:30*)

Julie Wilson, Chief Economist Directorate

Nick Lyth, Green Angel Syndicate

Punit Desai, Scottish Forum on Natural Capital

Richard Mattison, Trucost

Apologies:

Catherine Preston, SEPA

Darrin Nightingale, Social Investment Scotland

Tomas Carruthers, Project Heather

Scottish Forum on Natural Capital

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I. Overview of the opportunity: what is the £1 Billion Challenge?

- The £1 Billion Challenge is an ambitious new initiative which aims to pioneer new ways of funding nature conservation in Scotland. The project looks to develop cutting-edge investment and funding models for large-scale nature conservation activities, for example planting native woodlands, restoring oyster reefs, creating urban green spaces, saving wetlands and restoring coastal and marine ecosystems. The £1 Billion Challenge is looking for scalable nature conservation projects with credible cash-flows that improved the connectivity and resilience of our natural environment. Our network of Scottish Conservation Finance Pioneers will leverage the expertise and passion of organisations in Scotland and beyond who have a genuine interest in seeing this project succeed. We are also learning from a wide range of international partners undertaking similar work.
- The project is being supported by the Scottish Forum on Natural Capital through its Innovative Finance Working Group. This group is made up of people with financial expertise together with people with conservation expertise, as well as expertise in marketing, sales and stakeholder engagement. The purpose of this group is to develop and assess innovative finance models. Options which will be investigated range from green bonds and social impact bonds, to private equity funds, voluntary levies, environmental enterprise, sale of conservation credits and more.

II. Innovative financial models: considering a longlist for the £1 Billion Challenge

- Eight types of existing finance have been identified by the Scottish Conservation Finance Project team, including traditional philanthropy, regulatory requirements and debt financing. This information is in the process of being converted into an infographic to be used for educational purposes in the conservation community.

III. Where are the big wins and low hanging fruit?

- Existing sources of funding
 - Companies which operate in Scotland will have venture capital arms which could be potential sources of investment for preventative spend projects. It was suggested that sectors such as energy, utilities, oil & gas, and infrastructure should be approached.
 - Many companies rely on Scotland's natural capital for the long-term sustainability of their supply chains. Investment firms, such as Baillie Gifford, can help communicate the importance of nature to the finance and operations teams in large companies, connecting the £1 Billion Challenge to parts of the company other than the CSR departments.
 - Each of the large banks have sustainable finance targets, and it is possible that these banks might commit portion of these funds to the £1 Billion Challenge.
 - Companies which offset their carbon emissions may be persuaded to invest the money in Scotland, rather than internationally.
- Progressing towards new financial models
 - The Scottish Conservation Finance Project could conduct a similar mapping exercise to the European Green Investment Group, where they identified the main barriers to mobilising private capital towards investments to tackle climate change and identified ways to remove them.
 - The National Natural Capital Accounts could provide a baseline from which to identify an optimum state of natural capital in Scotland. This could then be broken down into groups such as carbon sequestration and flood mitigation, each with their own risk levels and ROI expectations. Further incentives could then be negotiated, such as ring-fencing from government or fast track planning processes.

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- A Scotland wide green bond would be at a scale large enough to be attractive to investors, with funds being raised for the whole of Scotland, but capital being allocated to certain regions depending on individual projects. The Scottish Government would be the most favourable option to issue a green bond but is not the only route. Even though a Government issued bond would add to the public debt, there are other benefits associated with the issuance. For instance, the Government of the Republic of Ireland issued a green bond in order to attract investment into Ireland and establish a green finance hub
- Chinese banks are issuing Credit Loan Options, which are clusters of green bonds being funded by foreign banks. The loans involved are quite small, but because there are so many individual loans brought together in the CLO, the ROI is steady and risk is low. The biggest challenge to a Scottish bank implementing a 'natural capital' CLO is ensuring that each project delivers appropriate 'green' returns. If a pipeline to ensure 'green' credentials was created, then the bank could choose the loans with the right risk-return profile.
- A private infrastructure fund focusing on derelict land could be an easier fund to set up due to its similarity to existing funds. A fund manager could be sought through a tender process, with some public sector seed funding to make the opportunity more attractive. The tender process would include specifications on environmental and social wealth creation to ensure that a fitting fund manager was selected.
 - In its role of representing the public interest, the Scottish National Investment Bank would be a natural choice to run the tender process and may even be persuaded to provide some initial capital.
- Communication
 - The Scottish Conservation Finance Project will be developing a story around the threats to conservation and the aims and objectives of the £1 Billion Challenge to be used as a comms tool.
 - Marketing this idea to investment managers will be key to its success. The £1 billion will need to be diverted from other projects or companies, and the project cannot assume that this idea will automatically be attractive to the managers.
 - Clients of pension funds have influence in what the fund invests in. This is often climate change, so there is a need to inform the public on the dangers of biodiversity loss and the degradation of natural capital.
 - NL offered to assist the Scottish Conservation Finance Project team in developing better communication and marketing strategies to communicate the aims and necessity of the £1 Billion Challenge.

IV. Next steps

- Richard Mattison, Julie Wilson and Gary Gillespie to discuss setting up a Scottish Government backed green bond.
- Richard Mattison to introduce Julie Wilson to the Irish green bond developers.
- Nick Lyth and Amanda Joseph to work together on developing communication and marketing strategies for the £1 Billion Challenge
- David Walker and John Rowan to speak to Hamish Trench, CEO of the Scottish Land Commission, about setting up a Vacant and Derelict Land Fund.

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