

Contents

Context	1
Request for Information – timeline and process.....	4
Request for information: Questions	5

Context

What is the Big Nature Impact Fund?

- Defra is proposing to launch a **Big Nature Impact Fund** through appointment of a Fund Manager, which will be charged with two core responsibilities: capital raising and fund deployment. More specifically, this will focus on the twin tasks of leveraging private finance into, and accelerating the development of, new ecosystem service markets.
- This Fund will be structured as a public-private, blended finance vehicle. Defra intends that public investment in the Fund will incentivise and de-risk private investment into the Fund. The Fund will invest in a portfolio of projects that generate revenue from nature-based solutions providing ecosystem services (e.g. benefits from natural services including, for example, flood mitigation and water quality improvements from tree planting or carbon sequestration from restoring peat bogs). This model is being proposed following government's successful use of public-private blended impact models in other areas, including [climate finance](#), [social finance](#) and [international biodiversity](#).
- Defra propose that the Fund should target investment into nature-based solutions with the greatest climate change mitigation potential and high potential to generate revenue from ecosystem services. We anticipate these to be primarily tree planting and peatland restoration, however, the scope of potential investments by the Fund will also include a wider range of habitats, biodiversity and nature-based solutions. Investments should support delivery of 25 Year Environment Plan targets.
- The Fund will be able to use the [Natural Environment Investment Readiness Fund \(NEIRF\)](#) as a potential project pipeline, supporting investment ready projects to attract private investment, scale up and demonstrate revenue streams from nature-based solutions.

Why is government taking this approach?

- Harnessing private investment in nature is necessary to accelerate progress towards our goals for tree planting and peatland restoration, 25 Year Environment Plan targets, and net zero emissions.

- We recognize significant appetite among charities, private investors, landowners and the natural environment sector to realize the potential of green finance to improve the financial sustainability of the sector and nature itself. We also note that investors require confidence to engage in this market in the form of government de-risking or incentives.

What is the scope of the Fund Manager? How will the Fund be managed?

- Defra will provide a concessional cornerstone public investment into the Fund, which will be managed by a commercially procured Fund Manager with government retaining a minority position within the Fund. The Fund will operate independently in the market within terms agreed with Defra through governance arrangements that ensure alignment with environmental policy objectives.
- The Fund Manager will then raise additional capital from private investors, before investing aggregated capital into nature-based projects which can generate financial returns to the Fund for investors from revenue generated from ecosystem services. The Fund Manager would be responsible for developing the portfolio of projects, deploying and subsequently managing funds, and regularly reporting to all capital sources, including Defra.
- The Fund will be a private sector entity, operating independently, with Defra as a seed investor with whom its original structure, mission and mandate will be agreed.

What will be in scope of investments by the Fund?

- We propose that the Fund's investments should be targeted at the nature-based solutions in England with the greatest potential to mitigate the effects of climate change and restore biodiversity. The current thinking is that the scope of Fund investment will be:
 - 70% tree planting and woodland creation;
 - 20% peatland restoration ;
 - 10% other habitats .
- The Fund will also encourage project developers to bring forward investment-ready projects which can support and expand England's temperate rainforests.
- The instrument (debt, equity) offered by the Fund is not fixed at this stage, as different target investments will require different instruments.

What are the anticipated returns on the Fund? What are the expectations for the debt component, the equity component, and the debt:equity ratio in the Fund's capital structure?

- The appropriate proportion of debt to equity, and other participation such as time-bound mezzanine and junior equity, will be agreed with Defra to achieve an appropriate leverage. For example, Defra investment as seed financing could be used to provide a junior position in the Fund's capital structure, offering a risk cushion.

- The terms of the different components of the Fund's capital, such as returns, will be tested through procurement and agreed with the Fund Manager by Defra during the Fund's set-up phase after the procurement of the Fund Manager.
- Examples of issues we are considering: the debt:equity ratio; relative returns to different investors for example in a waterfall structure; appropriate fees for the Fund Manager to cover overheads and incentivize performance against environmental and financial targets; mission, mandate and investment hypothesis; investment timeframe; loan tenor and exit strategies.

What are the intended outcomes and benefits of the Fund?

- To demonstrate the viability of investments at scale in ecosystem services markets, creating a legacy of investor confidence in these markets.
- To precipitate the further development and piloting of market models for ecosystem services across England.
- To increase the delivery of natural environment projects, for example by making more projects financially viable, allowing projects to expand their scope, or to increase the range of benefits they can deliver.
- To enable increased rates of new tree planting and woodland creation, peatland restoration, habitat restoration and other nature-based solution deployment, by bringing in additional finance to new and existing natural environment projects.
- To realise the benefits of nature-based solutions, including carbon sequestration, biodiversity gains, water quality improvements, natural flood management, and associated social and economic benefits.
- Performance benchmarks will include the rate of private finance crowded into the Fund and the volume of natural environment benefits enabled by Fund investments.

What is the Fund's scope of outputs?

- To invest in markets for ecosystem services, including: precipitating, piloting and scaling up investment-ready natural environment projects which can generate revenue, such as and including those developed with support from a related government grant – the Natural Environment Investment Readiness Fund (NEIRF).
- To encourage further private investment in ecosystem services markets, public funding will de-risk private investment in the Fund, by, for example, taking first-losses where Fund investments do not generate revenue. This would reduce first-mover risks for private investors and allow the Fund to identify which investment opportunities provide market returns, and which do not.
- To generate shareable intellectual property (IP) and know-how so that 'blueprints' demonstrating the efficacy of ecosystem-service market models can be shared publicly, to aid development of a thriving pipeline of nature-based projects.

- Investments and outputs will be limited to England only.

When will the Fund launch? And how long will it operate for?

- We intend to launch the fund within this financial year, following a competitive process launched in autumn 2021
- The operating length of the fund is an element we seek advice on through this consultation, however, we do not anticipate investing for fewer than four years.

Request for Information – timeline and process

- Defra is developing plans for a Big Nature Impact Fund (BNIF) by initiating a Request for Information on 23 July 2021. Dependent on feedback to the Request for Information Defra may then issue a public call for expressions of interest. This process will be run with interested market parties, chiefly potential Fund Managers.
- Interested parties are encouraged to submit structured word-limited written submissions to the project team via Bravo. Interested parties should clarify where information is commercially sensitive. Written submissions should be provided by no later than midday (12:00) 9 August 2021. Parties should not expect individual responses to written submissions.
- The Defra project team will not be able to offer individual meetings with interested parties but will aim to respond to clarification questions which are submitted via Bravo during 26 - 30 July. All questions and responses will be publicly broadcast unless interested parties can provide a commercial in confidence qualification (these submissions will be evaluated on a case by case basis with Defra's decision on what constitutes 'commercially sensitive' as final). Defra cannot commit to answering all questions but will use best endeavours.
- Information gathered through written submissions will be reviewed by the project team, who will use this to inform a Business Case, design the outline of the Fund, and to shape the commercial approach to appointing a Fund Manager.

HOW TO RESPOND:

- You are not required to answer every question.
- Responses to each question (1-7) must be a maximum Two (2) sides of A4, font Arial, size 12
- Attachments, either physical or via hyperlinks will not be evaluated
- Clarification period will be 12:00 (noon) 26 July 2021 – 16:00 30 July 2021
- Clarification questions must be submitted via Bravo
- Clarification questions will not be accepted after the clarification period
- The authority will endeavour to respond to all clarifications raised by 17:00 2 August 2021
- Lobbying of Defra officials may lead to exclusion from any future competition

THE OPPORTUNITY TO SUBMIT RESPONSES WILL CLOSE AT 12:00 (NOON) 9 AUGUST 2021

RESPONSES AFTER THIS TIME WILL NOT BE ACCEPTED.

Questions**Achieving intended policy outcomes**Question 1

Portfolio Allocation - Based on your knowledge of investment opportunities in nature in England, can you indicate:

- a. The most financially viable mix of investments, along with a recommended percentage allocation per category?
- b. The most environmentally impactful mix of investments, along with a recommended percentage allocation per category?

Your response should be a maximum Two (2) sides of A4, font Arial, size 12

Fund OperationsQuestion 2

Fund Performance Expectations - Part of Defra's motivation for creating this Fund is to demonstrate financial viability for fund managers considering investments in nature. Please share your observations on the following sub-questions.

- a. What is a reasonable target for return on investment for the Fund as a whole, notwithstanding possible variation of returns per type of shareholder or creditor?
- b. Do you believe the scope described above would achieve its aims, enabling raising of capital and deployment into revenue-generating nature projects, thus achieving Fund aims of scaling up and increasing investor confidence in ecosystem-service markets?
- c. How could the scope be adapted to maximise the Fund's attractiveness to investors and impact on the natural environment?

- d. Are there any red-lines we should be aware of when setting the Fund's scope, issues which could dramatically affect the Fund's capacity to achieve commercial and policy outcomes?

Your response should be a maximum Two (2) sides of A4, font Arial, size 12

Question 3

Fund Timing - To ensure the most effective and efficient pilot vehicle, Defra would like to set realistic expectations of the Fund Manager. Please share your observations on the following sub-questions. How long (in months and years) do you believe it would take a Fund Manager to:

- a. Raise capital;
- b. Begin investments in projects;
- c. Fully commit all of its funding;
- d. Generate revenue from projects;
- a. Continue fund operations for, providing sufficient time to be attractive to investors and generate returns on investment.

Your response should be a maximum Two (2) sides of A4, font Arial, size 12

Quantifying and Qualifying the Market

Question 4

Fund Appetite - Based on your experience of investor demand, what are your observations on the following:

- a. How much private funding do you think could be raised and deployed for each of the following potential levels of public investment? £1m, £5m, £10m, £20m, £30m
- b. Is the timing right for the market for government to enter this space?
- c. Is there appetite in the market for government to invest like this?

Your response should be a maximum Two (2) sides of A4, font Arial, size 12

General Questions

Question 5

Would your organisation consider competing for the role of Fund Manager?

Your response should be a maximum Two (2) sides of A4, font Arial, size 12

Question 6

Is there anything proposed in the current thinking that concerns you?

Your response should be a maximum Two (2) sides of A4, font Arial, size 12

Question 7

Are there key fund design questions which you believe we should consider before undertaking procurement? If so, please specify questions below and your recommendations for answering these.

Your response should be a maximum Two (2) sides of A4, font Arial, size 12