FINANCING BIODIVERSITY NET GAIN
A short report for built environment professionals
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INTRODUCTION

Though there are growing opportunities to fund Biodiversity Net Gain (BNG), the language between the spheres of finance and the built environment has created an information barrier. This short report aims to:

■ Establish the need for finance to be directed towards nature recovery and biodiversity.

■ Clarify the link between the world of finance, and Biodiversity Net Gain: focusing specifically on the financial considerations organisations must make during the design and implementation of a BNG strategy, including the long-term maintenance of sites.

■ Provide an overview of the financing options appropriate to BNG projects as part of new developments, and how these separate mechanisms interlink projects seeking to restore and increase biodiversity, ESG financial markets and general Nature based solution (NBS) investment.
THE WORLD OF FINANCE AND BIODIVERSITY NET GAIN

THE BIG PICTURE:

- The global economy is fundamentally embedded in nature, and the built environment is no exception.
- The government has set a target to raise at least £500 million in private finance to support nature’s recovery every year by 2027 in England, and £1 billion by 2030.
- The Financing Nature Recovery Coalition predicts there is a £44 billion to £97 billion funding gap in the UK over the next decade to deliver key nature policy ambitions; statutory is funding currently only £5.6 billion (as shown in graphic below).
- Market analysis published in a Defra public consultation estimates that ‘could generate an annual demand for approximately 6,200 off-site biodiversity units per annum with a market value of £135,000,000’.

THE WIDER BIODIVERSITY MARKET AND BNG MARKET:

Public and private investment has a huge role to play in enhancing the richness and abundance of nature in Britain, both in closing the significant finance gap and boosting demand-side incentives for UK businesses and investors to grow the biodiversity and BNG market.

It is important to remember that the wider biodiversity and BNG financial markets are not the same, and therefore funding mechanisms and available capital will differ. Not all funding directed at biodiversity will be available for BNG projects specifically.
FINANCE BASICS
– THE WHAT?

The types of finance available to Biodiversity Net Gain projects depend on several factors, including the characteristics of the organisation, project size and type, and financial risk capability.

While high initial implementation costs can pose a barrier for BNG projects, finance plays a vital role in bridging the immediate gap between available capital and the upfront project costs. Exploring different funding options can help organisations overcome this challenge before their projects even begin to receive future, long-term revenue streams.

The available finance mechanisms vary between on-site and off-site BNG projects. Developers and contractors typically absorb the costs of on-site BNG projects, and the purchase of off-site biodiversity units or statutory credits (as a last resort), within project budgets.

Identifying opportunities to generate income and/or cash flow through BNG projects, mobilises more (capital) resources toward delivering enduring benefits for nature.

In the UK, investment for increasing nature in projects (additional to BNG) is often obtained through mechanisms of specialised private finance: debt funding (to be paid back in instalments) or equity funding (where investors are given a proportion of ownership of the investing entity), or grants (often one-off payments from statutory or philanthropic organisations).

FUNDING EXAMPLE:

For example, establishing a habitat banking scheme can provide a landowner with an opportunity to restore or create habitats, funded through the sale of BNG units, unlocking private funding avenues. A habitat bank is an area of land where the necessary works to create or enhance habitat have been completed in advance of the sale of the resulting environmental outcomes minimum 30 year contract. This can be achieved by the land owner, manager and/or third party habitat banking operator. Biodiversity units can be created before they are sold detailed on the Government website.

BNG FINANCING
INITIAL FINANCIAL CONSIDERATIONS FOR DEVELOPERS AND CONTRACTORS:

- Costs for implementing BNG into development on-site or creating off-site enhancements can be divided into three broad categories: project development and preparation, initial implementation (Capital Expenditure) and long-term maintenance (Operational Expenditure). Specific costs, and their timing, are dependent on the project type.
- Costs for BNG projects as part of new developments will most frequently be absorbed into the company project costs, as access to third party public, private or philanthropic finance can be challenging. Costs can be supported by the sale of on-site biodiversity units.
- External investment can be helpful for smaller organisations who are unable to fund initial upfront cost of habitat works.
- The sale of excess biodiversity units from one development can be a useful source of funding for a second BNG development in the long-term.
- Under legislation, compensation for protecting species or mitigating sites can be included in a developer’s BNG calculations to achieve a ‘no net loss’ outcome. This means that funding needs to be secured for an additional 10% of the total habitat uplift.
INITIAL FINANCIAL CONSIDERATIONS FOR LANDOWNERS, LAND MANAGERS, FARMERS, LONG-TERM LEASEHOLDERS, WILDLIFE GROUPS AND NGOS

- As a landowner, you can sell biodiversity units and nutrient credits from the same piece of land by stacking them. This involves separately selling credits or units from different nature markets from the same land activity.
- Additional biodiversity units or nutrient credits can be sold after achieving planned habitat conditions, requiring confirmation, and updated legal agreements.
- When a BNG agreement ends while a nutrient agreement is active, landowners can sell more biodiversity units whilst maintaining nutrient mitigation by further enhancing existing habitats.

- There are two approaches that can be taken to sell biodiversity units to developers:
  1) selling the biodiversity units before habitat creation or enhancement
  2) establishing the Habitat Bank and selling the biodiversity units over time. This approach will likely require upfront financing to cover costs of establishment. The Defra metric encourages this approach by offering more units for habitat enhancements that have already taken place than for enhancements that are yet to be completed.

Landowners seeking to start BNG projects can access public or private finance in the form of Commercial Equity or Concessional Equity funding, either through national government programmes or independent biodiversity finance schemes through private organisations. Grants are primarily available for pre-development projects, project development and preparation, activities beyond BNG and buying land for additionality purposes.

USEFUL DEFINITIONS

ADDITIONALITY: The need for a compensation measure to provide a new contribution to conservation, additional to any existing values, i.e., the conservation outcomes it delivers would not have occurred without it, evidencing a clear improvement to biodiversity in line with the Defra metric.

COMMERCIAL EQUITY: Companies give money to a project, and in return, they become part owners of the project with expectation to make a profit from the investment.

CONCESSIONAL EQUITY: Organisations provide money for a project with generous terms, i.e., lower interest rates or more time to pay back the money – often done to support projects that are good for the community or the environment.
WHO NEEDS TO CONSIDER FINANCE DURING THE BNG PROCESS?

THOSE WHO ARE FACTORING COSTS INTO BNG:
- Contractors and developers
- Local Authorities
- Designers and architects
- Environmental consultancies
- Project developers

THOSE WHO CAN SEEK FINANCIAL OPPORTUNITIES FOR BNG:
- Wildlife groups and NGOs
- Landowners and farmers
- Private investment firms, institutions and insurers
- Developers (through excess BNG credit sales)
- Local Authorities (set up of HBVs [Habitat Banking Vehicle])

WHEN SHOULD FINANCE BE CONSIDERED DURING THE BNG PROCESS?
- **Strategy:** during site location selection process and when planning the intended mitigation strategy
- **Design:** the intended design interventions to create biodiversity uplift, and subsequent planning.
- **Long-term maintenance/handover:** the cost of future maintenance, monitoring and care of newly created habitats must be considered within central project plans, and long-term legal agreements.
Figure 2: Financial options for developers and contractors completing BNG projects.
**Financial options for developers and contractors completing BNG projects.**

**BNG GRAPHIC TREE**

**STAGE**
- Project timeline
- Project size
- Type of project and habitat (rewilding, wetland restoration)
- The internal risk capacity of your organisation also known as ‘risk appetite’
- The correct legal structures for your organisation.

**BNG GRAPHIC TREE**

**PROJECT SCOPING**

**BNG ON-SITE**
- Finance options available
- Costs absorbed into internal organisation project budget. Low-medium potential for external private funding equity funding. **LONG TERM**
- Excess units generated on-site can be sold through unit market. Cost of long-term management and maintenance of site (time period dependent on internal legal agreement). Adaptive management costs must also be considered.

**BNG OFF-SITE**
- Finance options available
- Are there local landowners with Habitat Banks available? This can be determined through the BNG Register, discussions with LPA, and private brokers. **Who are the current land managers?**
- Does your organisation already own land? **Who do you need to contact?**
- Will you have to purchase land? **What will be your schemes governance structure?**
- Does your organisation have the expertise or experience to create its own Habitat Bank? **Is the land secured for the reporting period of 30 years?**
- What third party financing options are available? **Will there be excess units on-site to sell to other projects?**

**KEY CONSIDERATIONS**
- Habitat supply (local and national)
- Habitat type
- Enhancement of habitat vs creation
- The options of land acquisition, leasing land or land under ownership vs the purchase of external units
- What funding options are available internally
- Cost of capital expenditure and maintenance
- Delivery of impact required based on credit quality

**FINANCE OPTIONS AVAILABLE**
- Unit purchase = repayment of initial investment to financing body of habitat bank or off-site project (landowner)
- Credit purchase repays initial government investment into biodiversity projects.

**CREATE AN INDEPENDENT HABITAT BANK SYSTEM**

**PURCHASE LAND**
- Initial investment into Biodiversity Net Gain scheme.
- Potential for long-term return on investment through sale of land, external credit sales, rent made on land.

**USE LAND UNDER EXISTING OWNERSHIP**

**PURCHASE UNITS THROUGH EXISTING EXTERNAL HABITAT BANKS OR OFF-SITE PROVIDER**

**FIGURE 3: Financial options for developers and contractors completing BNG projects.**

**LAST OPTION**
- Likely internal investment from developer’s balance sheet.
- Credit purchase repays initial government investment into biodiversity projects.

**KEY CONSIDERATIONS**
- Development demand and location
- Type of habitats impacted
- Potential for on-site mitigation vs offset
- The potential unit demand over time which requires speaking to Local Planning Authorities.

**KEY CONSIDERATIONS**
- Who are the current land managers?
- Who do you need to contact?
- What will be your schemes governance structure?
- Is the land secured for the reporting period of 30 years?
- Will there be excess units on-site to sell to other projects?

**FINANCE OPTIONS AVAILABLE**
- Internal investment from developer’s balance sheet
- External investment
- Delivery of habitat restoration at the point of sale/purchase

External investment can then be in the form of debt, equity or non-repayable grants (but these are unlikely due to additionality requirements).
Where on-site BNG is not possible, one option for off-site BNG are units provided through local landowners. These can help deliver Biodiversity Net Gain off-site through biodiversity unit sales on land which has either already been enhanced (known as habitat banks) or has existing plans for future restoration (pre-enhancement/offset sites). The unit value is based on the application of the Biodiversity Metric 4.0.

For developers, these units can be purchased from a third party, or a habitat banking scheme can be created using existing and/or purchased land.

Landowners, land managers and farmers can take two approaches to sell biodiversity units to developers.

1) By selling biodiversity units prior to habitat creation or enhancement.
2) By establishing the Habitat Bank and selling the units over time. This would result in more units being sold in total, because the habitats are established and so receive higher scores in the metric. This approach typically includes working with wildlife groups, ecologists and NGOs, and may require accessing finance.

To drive future BNG, private sector actors can identify opportunities to bring together smaller Biodiversity Net Gain projects run by Local Authorities, wildlife groups, NGOs and landowners; providing access to larger scale sources of capital. The types of capital (funding) available for such projects depends on the scale, type and locality of BNG project.

The table below sets out the different finance options available for various stakeholders interested in forming a Habitat Bank. The type of finance chosen should reflect the project timescales and risk factors associated with the creation of the site (i.e. what degree of certainty the scheme holds long-term financial returns), Habitat Bank or project. Stakeholders should consider what the long-term liability of maintaining the site is, and how might BNG schemes compare to other finance streams (such as agriculture, carbon credits or eco-tourism).

### Who is Habitat Bank Creation Appropriate To?

- A landowner, interested in BNG projects.
- Local Authorities and Local Planning Authorities.
- Habitat Bank operators, both establishing and established.
- Facilities, property or estate managers.
- A land agent or land advisor.
- Wildlife groups involved in large scale projects and environmental NGO organisations involved in habitat banking and/or land bank schemes.
UNDERSTANDING DIFFERENT FUNDING TYPES FOR NATURE RESTORATION PROJECTS:

<table>
<thead>
<tr>
<th>THIRD PARTY FUNDING TYPES</th>
<th>WHAT AND WHO?</th>
<th>UK EXAMPLES</th>
<th>ADVANTAGES</th>
<th>DIS-ADVANTAGES</th>
<th>LEVEL OF RISK TO BORROWER OR GRANTEE</th>
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<tr>
<td>COMMERCIAL FUNDING (EQUITY FINANCE)</td>
<td>Multiple funding options including: ■ Private financial institutions ■ Local or large banks Commercial funding for biodiversity related projects is likely to take the form of equity funding – this means investors will directly inject money into a project, conditional to receiving a form of part-ownership. Return is dependent on the performance of the asset (project site). Equity finance is suitable for BNG projects that can demonstrate commercial level returns on investment.</td>
<td>Aviva Investors</td>
<td>■ Larger investment sizes ■ Management administration can be transferred. ■ Can be staggered payments over 30-year periods dependant on original agreement ■ Sufficient capital in private capital markets to ‘bridge’ the financing gap ■ Suitable for models which over time can generate revenue – helping to reduce uncertainty and allows projects to be financially sustainable ■ Access to financial manager expertise ■ If obtained through local banks (intermediary) – they may have better geographically specific knowledge of the market</td>
<td>■ Such projects generating returns on investment are in early stages which can make it challenging to obtain this form of funding due to perceived risk ■ There is currently a lack of private sector buyers (though this may be subject to change as market establishes and matures) ■ A proportion of generated future proceeds, will go to the original lender</td>
<td>Medium – High (subject to commercial market type)</td>
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### UNDERSTANDING DIFFERENT FUNDING TYPES FOR NATURE RESTORATION PROJECTS CONTINUED:

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<tr>
<td>COMMERCIAL FUNDING (DEBT FINANCE)</td>
<td>Private financial institutions (banks)</td>
<td>Large commercial lenders and investors</td>
<td>Larger investment sizes</td>
<td>Larger debt-based investing is likely inappropriate for BNG projects where long-term future financial return is not guaranteed</td>
<td>Dependent on the dependent on the BNG project planned: Higher in complex projects aiming for high biodiversity unit sales, lower risk for ‘easier’ enhancements over a 30-year period aiming for lower biodiversity units.</td>
</tr>
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<td></td>
<td>Debt funding means investors will provide loans at market/commercial rates, requiring regular interest payments over an agreed period. Finance can exist in the form of loans or green bonds. Lack of certainty around future asset values and/or insufficient assets or finance to support loan applications means this form of finance is less likely – but may be available through ‘blended finance’ mechanisms (using more than one finance approach).</td>
<td></td>
<td>Use of established market models</td>
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<td>Can be staggered payments</td>
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<td>Suitable for models which over time can generate its own revenue – helping to reduce uncertainty</td>
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<td>CONCESSIONAL FUNDING: GRANTS</td>
<td>Public Institutions (large governmental institutions)</td>
<td>Esmée Fairbairn Foundation (EFF)</td>
<td>Lower risk</td>
<td>Some applications can be time consuming</td>
<td>Low</td>
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<td>(NGO/philanthropic organisations)</td>
<td>National Lottery</td>
<td>Zero repayment required (if terms and conditions of the grant are met)</td>
<td>Limited in scope and size</td>
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<td>Grants are often provided on a one-time basis. Suitable for projects that don’t have a proven finance model/revenue generation strategy.</td>
<td>Non-conditionality of corporate organisation standards: no need to meet shareholder standards/criteria allow’s greater decision-making powers</td>
<td>Linked to very specific (often short) funding cycles</td>
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<td></td>
<td></td>
<td>Highly competitive</td>
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UNDERSTANDING DIFFERENT FUNDING TYPES FOR NATURE RESTORATION PROJECTS CONTINUED:

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| CONCESSIONAL FUNDING: LOANS AND FLEXIBLE LOANS | ▪ Charitable trusts  
▪ Development banks  
▪ NGO/philanthropic organisations |  | ▪ Repayment is often flexible, or with low liability costs (i.e. interest)  
▪ Concessional funding can help crowd in private finance by de-risking the overall investment and bring down the overall cost of capital for the project developer |  | Low |

| SALE OF BIODIVERSITY UNITS IN ADVANCE OF DELIVERY | Biodiversity units can be sold in advance of habitat creation or enhancement by a developer, in partnership with Local Authorities, a broker or on a trading platform, or working directly with the developer (without a third party). The land must be secured through a legal agreement (for 30 years), and the price or cost is determined by multiple factors including, including costs of delivery/monitoring/management, risk over 30 years, price of other land use options etc. |  | ▪ Rapid solution to raise capital in the short term  
▪ Larger proportion of the income made by the units will remain with the landowner | ▪ More volatile, or carries higher risk  
▪ Higher complexity  
▪ Likely to generate less income from the same habitat uplift, as it will produce fewer units in the metric than habitat uplifts created in advance. | Medium |
### UNDERSTANDING DIFFERENT FUNDING TYPES FOR NATURE RESTORATION PROJECTS CONTINUED:

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<tr>
<td><strong>BLENDED FINANCE</strong></td>
<td>Blended finance is a strategic combination of different funding sources, such as public and private funds, grants, loans, and investments, to support and enhance initiatives aimed at improving biodiversity. Leveraging various financial resources is an increasingly popular choice for nature projects.</td>
<td>The UK Nature Impact Fund launched by Finance Earth and Federated Hermes, which includes the ‘Big Nature Impact Fund’ Likely a combination of cited organisations above</td>
<td>Diversification of revenue streams for funding; providing greater options; reduces risk.</td>
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<td></td>
<td>Potential opportunity to access greater funding</td>
<td></td>
<td>Low – Medium (dependant on type of funding sourced)</td>
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<td></td>
<td>(Specific to the Big Nature Impact Fund) By combining public and private investment, and structuring the fund so that the public capital takes greater risk, the Fund aims to incentivise more private investment into nature-based projects</td>
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- Diversification of revenue streams for funding; providing greater options; reduces risk.
- Potential opportunity to access greater funding.
- Greater logistical complexity in project planning and management.
CONCLUSION

This report seeks to promote understanding of the connection between the world of finance and Biodiversity Net Gain (BNG). Unlocking public and private finance mechanisms, both independently and in tandem, presents opportunities to direct resources towards biodiversity projects, including BNG. Chosen funding mechanisms are required to align with the project type; with consideration given to project size, organisation characteristics, and risk tolerance. From site selection and mitigation strategy planning to design interventions and long-term maintenance, finance can play a pivotal role in driving successful and impactful outcomes stemming from Biodiversity Net Gain legislation.

Learn more about Biodiversity and Environmental Net Gain on **UKGBC’s website**.
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