Forest Research In Brief

Green Finance in the context of trees, woods, and forests

The concept of green finance has been growing in importance in recent years. Recent research shows that to meet UK targets on woodland creation and management, a financing gap of £1.8 billion needs to be closed between 2022 - 2032. It is crucial to leverage private funding to close this gap as public funding is necessary but insufficient. This research examines the applications of green finance to trees, woods, and forests (TWF) in the UK, focusing on innovative financing mechanisms. It investigates how green finance is defined and identifies financial mechanisms that have the potential to increase private investment into the country's TWF. It also outlines factors that contribute to the success and failure of these mechanisms.

What is green finance?

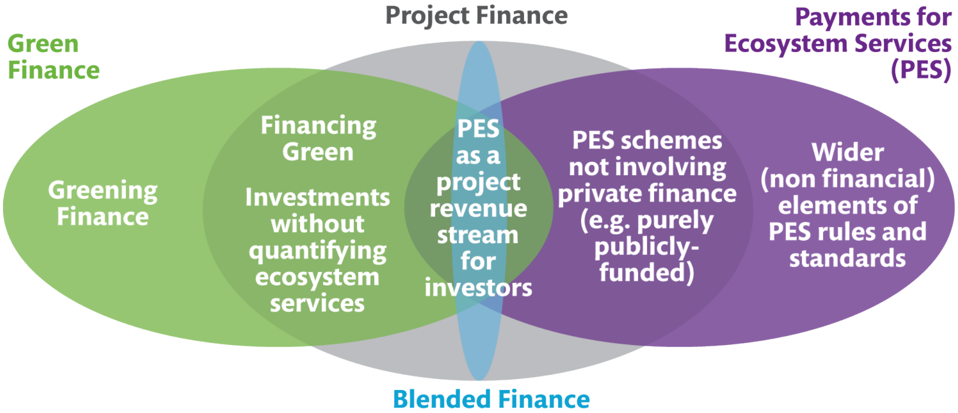
Situated within the broader landscape of 'sustainable finance', 'green finance' can broadly be thought of as environmentally focused sustainable finance. It includes 'greening finance' initiatives to ensure climate and environmental-related financial risks and opportunities are integrated into mainstream financial decision making, and that green financial products and markets are robust. It also includes 'financing green' initiatives to accelerate delivery of the UK's carbon targets and clean growth.

'Blended finance' has been identified as pivotal in channelling more private investment into TWF. It involves using public and/or philanthropic funding to help de-risk new green projects and increase their attractiveness to investors.

For an example, see the Defra Natural Environment Investment Readiness Fund (NEIRF).

Examples of green finance mechanisms

- **Timberland Investment Management Organisations (TIMOs):** Groups designed to help institutional investors manage large-scale investment in woodland assets while generating revenue from timber and potentially other ecosystem services.
- **Environmental Impact Bonds (EIBs):** Investors provide upfront capital and earn returns from projects which aim to generate positive environmental impacts.
- **Community-funded Forestry:** Communities who own and manage woodlands generate financial investments in forest assets through legal structures that enable equity financing (i.e., raising capital through share ownership).



An illustration of the relationships between the concepts of Green Finance and Payments for Ecosystem Services (PES), and how 'project finance' and 'blended finance' fit into this landscape.

Green finance projects in action

Though currently limited, TWF-related green finance projects in the UK are on the rise. These case studies outline two green finance projects that are in process.

Wyre Natural Flood Management (NFM) Project

- This project involves a partnership between multiple charities and private organisations including the Wyre Rivers Trust, Triodos Bank, and United Utilities.
- It aims to reduce risks of flooding faced by local communities by implementing targeted NFM measures, including planting 39 ha of woodland.
- A blended finance approach has been adopted, with £628k of grants from the Woodland Trust and £850k in private investment in the form of a commercial loan to be repaid based upon payments for ecosystem services.
- The project operates using a Community Interest Company, a mechanism which transfers project risks from landowners to investors.

The Mersey Forest

- The Mersey Forest is a registered Community Forest that has raised approximately £85 million in external funding since its inception, planting over nine million trees and creating 3,192 ha of woodland since 1994.
- It is exploring the development of a bond repayable through biodiversity, carbon credits and catchment services (Merseyside Project).

Green infrastructure in the Mersey Forest.

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Barriers to the success of green finance mechanisms

The results of this research identify a number of barriers to green finance mechanisms being effective.

Lack of a pipeline of investment ready projects
Having a pipeline of investment ready projects which demonstrate profitability and potential to deliver environmental outcomes is important for securing private investment in TWF. Low numbers of such projects can be due to uncertainty of revenue streams and difficulties in achieving project scales that are viable for institutional investors. It can also be due to insufficiency of patient capital to test new business models, as investors tend to favour maximising short-term returns rather than the longer-term returns generally associated with nature-related projects.

Lack of appropriate governance and regulation
Having regulations and guidelines in place is crucial for the effective operation of green finance mechanisms. This entails establishing consistent and clear targets and baselines, as well as robust measuring, reporting, and verification of project outcomes.

Lack of consultation with stakeholders when creating new financial mechanisms
Ongoing consultation with stakeholders helps to foster trust, engagement, and support from local communities. It also helps to raise awareness of green finance investment opportunities among potential investors.

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To find out more about this and related research, go to: forestresearch.gov.uk/research/green-finance-in-the-context-of-uks-trees-woods-and-forests

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