
A GUIDANCE FOR SETTING UP A BUSINESS CASE

A practical guidance for business developers that shows that Building with Nature concepts may offer cost-effective alternatives to conventional solutions and can contribute significantly to regional development as well as to government strategic and the millennium goals. The guidance also provides additional arguments for deciding in favour of BwN measures. In the end, it gives some tips and tricks for financial arrangements. This document is strongly interconnected with the documents on definitions and financial architecture.

1 INTRODUCTION

Each project needs a business case. A business case is defined as ‘a presentation of arguments that outline the rationale for doing a project from the perspective of the entity or entities doing an investment’. Because BwN considers several aspects that are important for society and nature, a business case for BwN goes far beyond a traditional monetary cost benefit analysis. So, a clear procedure to come to a proper business case will help the realization of BwN solutions. That is why a business case is identified as one of the enablers¹ for Building with Nature. This document aims to guide business developers through the procedure to build a sound business case for a Building with Nature project. It is one of the six enablers; these six enablers are strongly interlinked with each other.

Projects can be formed along two ways: a reaction on a tender procedures or an action by co-creation. In the first way, via tender procedures, the customer has already defined the Terms of Reference. The choice for a BwN solution or a traditional ‘grey’ solution has been taken by the customer; he or she asks for a prescribed solution. This leaves little freedom for the bidding consortium to offer something else than requested for, although there is always some freedom to offer a better solution and this might be a Building with Nature one! For this kind of projects, actually the customer is the target audience to explain the benefits of BwN. For this audience, several white papers have been written.

The guidance in this document is especially designed for the second option; projects that arise in co-creation. So, where the problem is on the table without a fixed mindset about the solution. This guidance intends to show that Building with Nature is the best approach for infrastructure and water-related projects. Building with Nature does not only involve the typical stakeholders, but also engages non-governmental organizations and local communities to maximise the positive impact of the project.

2 CONTEXT (THE WHY)

No doubt that the world is facing troubles: nature is under pressure, biodiversity is decreasing, extreme weather events occur more frequently, poverty and even hunger occur on many parts of the world. To counteract these developments, in 2015 the general assembly of the United Nations launched the 17 Sustainable Development Goals (SDG’s) to improve live on earth. With the SDG’s in mind, BwN is the preferred approach for infrastructural projects, namely to design and construct infrastructural projects in such a way that the ecosystem will be improved and that the local economy will benefit in a sustainable way.

Recently the United Nations made one more step: they have announced the coming 10 years to be the decade of ecosystem restoration. The reasoning behind this is the following statement: “Only with

¹ The other five enablers are Technology and System Knowledge; Multi-stakeholder Approach; Adaptive Management, Maintenance and monitoring; Institutional Embedding and Capacity Building.

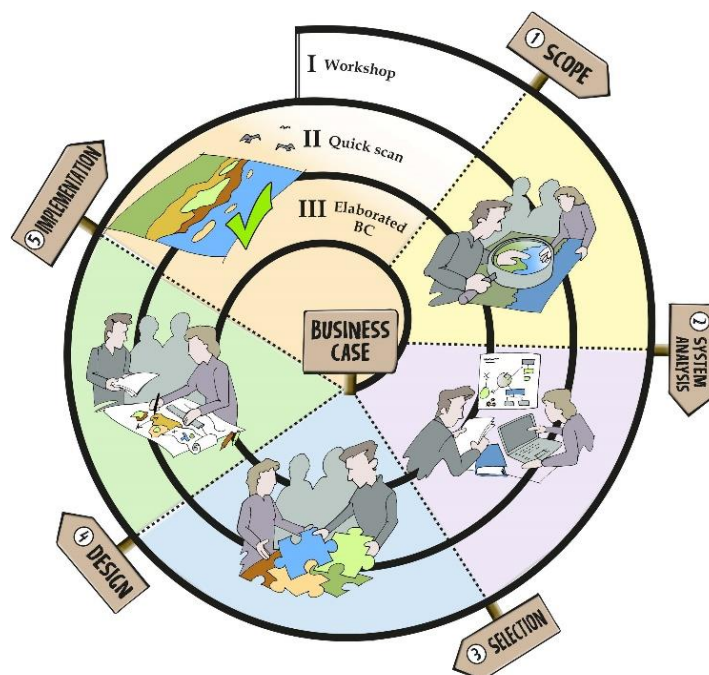
healthy ecosystems can we enhance people's livelihoods, counteract climate change, and stop the collapse of biodiversity". This basically means that, even without the occasion of an infrastructural project, the improvement of ecosystems alone is worth it to be restored. Then, *Building with Nature* turns into *Building Nature*. However, the power of Building with Nature remains the core of the method: to make use of natural processes. Of course, most of the projects will have a motive like an infrastructural work, a flood defense or a river basin project, but the announcement of the UN illustrates that a good functioning ecosystem is of utmost importance. In line with this: remind that The Marker Wadden [link] in the Netherlands is an example of Building Nature; no infrastructural motive, no flood defense project. Building the Marker Wadden was only meant to upgrade the aquatic ecosystem in the Markermeer, increasing the biodiversity and improving the water quality.

3 GUIDANCE (THE HOW)

In the end a Business Case is all about money. BUT ... only in the end! The most important aspect of a wider business case is a well thought plan that covers the crucial aspects and considers all stakeholders and values all ecosystem services. Only then, it will lead to successful financial close. The "smaller" business case is only about if the cash inflow is more than the cash out flow.

The 'Guidance for BwN business development', is based on the INTERREG BwN Business Case Guidance document. This policy-oriented guidance is translated here to a practical guidance for those involved in developing BwN-projects.

Building a business case is a process, not a project. A project is progressive from startup to the result and a process exists of iterations. Figure 1 shows the dedicated process of the construction of a business case. It consists of a spiral that passes 3 times 5 stages. A business case is usually called a living



document instead of a one-moment taken photo. Table 1 below presents the stages, the objectives of each stage and the steps that must be taken. Not every step has the same importance and weight. This will be different depending on the project, the location and the local culture. What the most important issues are will become clear in the first round of the process.

The first round is meant to set the scene, to get the feeling of the scope, to involve the stakeholders, to get a first overview of the possible solutions, and to get a first rough estimate of revenues, investments and financing.

In the second round, the scope is sharpened, the stakeholders are actively involved, there are a few possible solutions to be considered and the first financial arrangement is designed; that is the financial plan how to pay the costs.

If the first and second rounds are well passed through, the third round should result in a selected BwN project, committed stakeholders and a financial arrangement, meaning that there are financial resources to cover the investments of the project.

This looks easy, but it isn't. One set back and the process can be disrupted. That is why it is very important to take the steps carefully in the right sequence. It is hard, sometimes even impossible to repair a misstep afterwards. The Interreg report gives an extensive description of the whole procedure. But the focus of the Interreg report was on countries bordering the North Sea. The crucial complicated factor for a worldwide application is the various cultures around the world, each with their own do's and don'ts. The ambition to upscale BwN around the world requires a wider view on how to use this procedure in other cultures, which should be kept in mind when considering the steps in Table 1.

Stage	Objective	Steps in the iterative procedure		
1. Scope and Context	Identify key societal challenges for which BwN could pose a solution	1.I	1.II	1.III
2. System Analysis	Analyze the physical, socio-economic, financial and institutional system to identify potential BwN solutions (to address the societal challenges identified in 1)	2.I	2.II	2.III
3. Selection of preferred alternative	Select the preferred BwN alternative based on cost-effectiveness and value of the (co-)benefits	3.I	3.II	3.III
4. Optimize Design	Optimize the detailed design, to increase the expected delivery of (co-)benefits and reduce uncertainty, given the financials of the project.	4.I	4.II	4.III
5. Stakeholder arrangements	Facilitate stakeholder engagement to ensure societal support and explore financial and contractual arrangements.	5.I	5.II	5.III

Intermezzo 1; necessary preparations.

The main challenge in Building with Nature is to think global and to act local during the whole process. Assuming that the business developer looks after the global thinking, there is a strong need to safeguard the local acting. It is strongly recommended to start with the following 3 actions.

- a) *Start with finding an expert of the local ecosystem that has in depth knowledge of the functioning of the local ecosystem and is aware of the positive effects of the ecosystem (the ecosystem services). These are benefits for the local community that have to be safeguarded or sometimes need to be repaired. It is important (a need) that the local expert (ecologist, biologist, social worker or a kind of 'believer') is a native speaker.*
- b) *Find a local (native speaker) engineer that has knowledge of civil engineering and waterworks. Connect this engineer to the ecologist; make sure they meet in good atmosphere in which they can exchange physical and ecological knowledge of the ecosystem. Usually it works well to connect a local engineer with an international BwN-specialist.*
- c) *Check if they both are aware of the current global challenges (SDG, UN-decade of Ecosystem Restoration, etc...). If they do not have a clue; educate on these topics.*

The advantage of these actions is that there is a small team with local knowledge and global awareness. A good starting point!

3.1 FIRST ROUND;

The first round is characterized as the pre-feasibility phase. In this first round most effort is needed for points 1.I and 2.I. The other steps are important as well, but the first two steps will be time consuming.

The first round is not a hit and run action; it takes time to build a relationship with the local partners to develop the ideas. Especially for this point the iterative approach is important. The output of each step forms the inputs for the next.

1.I Sit together and define the scope of the project. Get an indication of how the solution (even though only conceptual) can contribute to positive social, economic and environmental impact? Who is the most important customer for the project? What are added values that can be achieved and for which party is that relevant? Some questions to clarify this are: What is characteristic for the ecosystem? Where are the boundaries? Define the outer regions that will be influenced and will have influence on the project. Who are the stakeholders? What do they need / dislike? Given all this information; start defining the social context; which parties must be informed, which must be involved, and which parties will benefit from the project, and which parties will be prejudiced by the project? Again: act local, but think global: To what SDG's might the project contribute to?

2.I What are the physical characteristics of the ecosystem? What are the key values of the ecosystem? What are the driving forces / processes All kind of quantitative information is needed for the first rough BwN designs. Next to this, it is important to pay attention to the licenses that will be needed. Don't forget the institutional system. What is the political climate? What is important, what is the best way to sell a project? Is there someone in local government with influence that might be act as an ambassador of the BwN philosophy? A kind of broker that has the courage and the position to support and promote the BwN solution?

3.I Deduce a program of requirements from 1.I and 1.II and sketch a first set of possible BwN solutions.

4.I In order to involve the customer in the design process and build a good acceptance among stakeholders, present the customer, and the stakeholders, a first rough overview of the scope of the project, the possible versions, the added values for society and for the ecosystem. Present this in contribution to the SDG's. Take care that the form is well cared for and attractive for a broader public. Communicate the progress and extend the group of stakeholders. Most important: get information from the meeting. Do not only transmit information but receive dedicated information on the hidden interest and resistance.

5.I Set up a scan for (extra) financial resources based on the outcome of 4.I. What are the investments needed to develop BwN, what are roughly the costs, and can we develop any revenue income? Think of items such as fish production, better crops (dike protection against the sea), tourism, etc. Get information from financial institutes on the requirements of loans. See for tips, tricks and new developments intermezzo 2. Build up a personal contact and develop a trusted relationship with funds (from the national government, but also worldwide funds), international financial institutes, development banks like the World Bank, and all kind of other relevant institutes.

Intermezzo 2; innovative financial arrangements

The process to construct a sound, solid and sustainable project with full stakeholder commitment is a necessary condition to get financial resources to cover all the project costs. Because a BwN project provides private and public benefits, most of the BwN projects do have multiple financiers and they need to know for what part of the project they pay for. This financial plan or financial arrangement is a very important dossier to come to a financial closure in the end. Here are a few points of attention:

- a) *To be successful in this part, one needs to speak the language of the financial and to be up to date with the latest developments. For instance: it is important to use internationally accepted definitions of sustainability and performance thresholds (referred to as 'technical screening criteria') for economic activities which make a substantive contribution to the environmental objectives targeted – such as defined in the EU Taxonomy for sustainable activities*

https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-taxonomy-sustainable-activities_en.

- b) *The financial market is also facing increased attention on social responsibility, sustainability and climate awareness. These topics are incorporated in their policy and their management, reflected by guidelines and checklists. For instance, the Equator Principles [<https://equator-principles.com/>] require an extended explanation that the project for which a loan is requested will contribute positively to society, ecology and sustainability. The Equator Principles are used by most of the renowned IFI's. Another example is the Task Force on Climate Related Financial Disclosures (TCFD). This task force is aimed to bring climate related financial reporting to a mainstream audience. According to the website of the TCFD: "many organizations incorrectly perceive the implications of climate change to be long term and, therefore, not necessarily relevant to decisions made today."*
- c) *Innovation is all over the world, also in the financial market. There are a few innovative financial arrangements such as Value capture and Nature Insurance value:

 - i) *"Value capture can occur because value is created by investments in infrastructure and this specific change in value can be directly assessed and validated. What value capture achieves is to shift the funding focus from the narrower 'user pays' to a broader 'beneficiary pays' approach" (Value Creation and Capture; PWC 2017). This holds for infrastructure but is also valid for ecosystem services. In the Netherlands this is not yet used.*
 - ii) *The Nature Insurance Value (<http://naiad2020.eu/>) aims at promoting and helping Nature Based Solutions by considering the (financial value of) reduced risks flooding and drought.**

3.2 SECOND ROUND;

The second round is indicated as the full feasibility phase. In this round, the emphasis lies on the optimization of the design of the BwN solution and dealing with uncertainties.

1.II If 1.I is carefully passed, this step (1.II) will at most deal with small amendments on the scope. Although most of this step will exist of a rehearsal of the first round, it is important for the process to mark the reconfirmation of the stakeholders. Without this, it might be more difficult to get the commitment in the last round.

2.II Where 2.I apparently has dealt with a qualitative analysis, in this step it is important to quantify the physical, socio economic, legal, financial and institutional system. On what numbers and amounts are we talking? Which sand volumes, what water volumes are we talking about? What kind of licenses are needed? What is the best estimate of total costs? What might be showstoppers, which parts or parties do have real influence? Who is the ambassador in the local government.

3.II This step might be the most important one in the second round. In this step, the contribution to the public values is designed and elucidated. It is important to identify the additional services and benefits for society as clear as possible; less disasters due to flooding, less periods of droughts, better access to economic regions, increased employment, fish abundance, improved food production, fertility of arable land, availability of fresh water, resources for sustainable energy, etc. All these additional services can boost the well-being and even the prosperity of the region. A clear and solid description of the additional services can attract more funds from government or International Financial Institutions. Think of the SDG's and of the UN decade of ecosystem restoration. International Financial Institutes are increasingly including sustainability targets in their lending policies and sometimes this also includes ecosystem restoration.

4.II Nature is variable and flexible and so Building with Nature might be associated with uncertainties, less predictability and higher costs. This makes financing more complicated. Bankers like predictability. So special attention needs to be given to reduce the uncertainty. Given the prospects of 3.II, the design is optimized in this step by a two-way approach: first is to adjust the design in such a way that as much added value will be realized. The second is to reduce the uncertainties in the design. Reducing the uncertainties will directly results in less risks for the customer. It might help to not only focus on the building period, but compare the whole live cycle of the BwN solution with the life cycle

of a traditional project. Keep for example in mind that decommissioning costs can change a financial balance. EcoShape's Book of Concepts helps to illustrate concrete projects with clear cost indications. These exercises all focus on the project costs; so, for what amount will a contractor do the job.

5.II Discuss with the client and with the ambassadors how to present the results of this round. Preferably present this to a broad public and be alert on financial opportunities. Visit IFI's, Funds, governments and all kind of parties who can contribute directly by financial resources or indirectly by building up a positive hearsay. Be aware that IFI's increasingly include sustainability targets in their lending policies and sometimes this also includes ecosystem restoration. (that is why "*think global, act local*" is important; It has direct influence on the eligibility of the project.) While presenting the business case to financial institutions it is important to sketch the various anticipated cost and revenue streams that will be created by the realization and operations of the project. Design a financial arrangement. (See Intermezzo 2)

3.3 THIRD ROUND;

The third round is the finishing touch of the whole process. It is called the transaction phase of the iteration procedure. It comes down to be concrete as possible, to pinpoint the commitment of stakeholders, to acquire the licenses, to set up contracts with customers and to make appointments for the start and construction. The emphasize in this third round is on reducing the risks, to get a positive press and to get a financial closure of the whole project.

1.III Present the preferred solution and be transparent about the selection procedure. Emphasize the appropriateness and the quality of the preferred BwN solution. Propagate the added values for society, for ecology and emphasize the advantages for climate resiliency.

2.III Take care for the correctness of all licenses and legal procedures.

3.III Quantify as much as possible the co-benefits (the benefits for society, for the ecosystem, etc). Pay attention to a sound underpinning of the effectiveness of the costs for this solution.

4.III In order to narrow down the range of uncertainties, optimize the building process. So, not only the design can be optimized (4.II) but in this stage it is important to think on the effective start and realization of the project. Is it possible to combine earth moving works? Is there an opportunity to exchange soil with an adjoining project?

5.III Merge everything together to a sound, solid and glossy project portfolio. Involve the customer from the beginning in this document and co-operate with the customer in the negotiations with the financial institutes, the development banks, the charity funds and all other parties who are going to contribute financially to the project. If appropriate (in dialogue with the client); take action to attract attention of press (local, national and international).

4 EPILOGUE

This guidance leads business developers through a process of constructing a business case. It deals with much more than money. It is crucial to emphasize the added values for society in order to persuade mainly public but sometimes even private partners to invest € in the project. Focusing only on the €, the power of Building with Nature will never pay off. Regrettably it is not a guarantee for success. There are always possible factors and unpredictable forces that can jeopardize the process. This iterative procedure is based upon experiences all over the world and is a good representation of the complexity of setting up a BwN project. The EcoShape community is strongly interested in your experiences with this guidance. So please; if you have comments, adjustments or other feed-back, don't hesitate and reach out to EcoShape.