

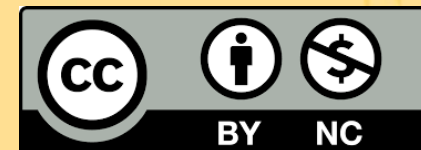
FINANCING FOR NATURE-BASED ENTERPRISES

PART I: MISSION & LEGAL SET-UP

Lecture – online / in-person

Credit: Horizon Nua

Content created in 2024



Funded by
the European Union

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Learning Outcomes for this Learning Unit

- Understand how the mission and legal structure of a business can influence financing and business models.
- Learn about some of the key financing challenges faced by nature-based enterprises and explore how to resolve them.
- Apply the knowledge learned in your own context by identifying the legal structure most relevant for your business mission and how to address challenges around financing.

How are Nature-Based Enterprises Financed?

Financing depends on many factors including:

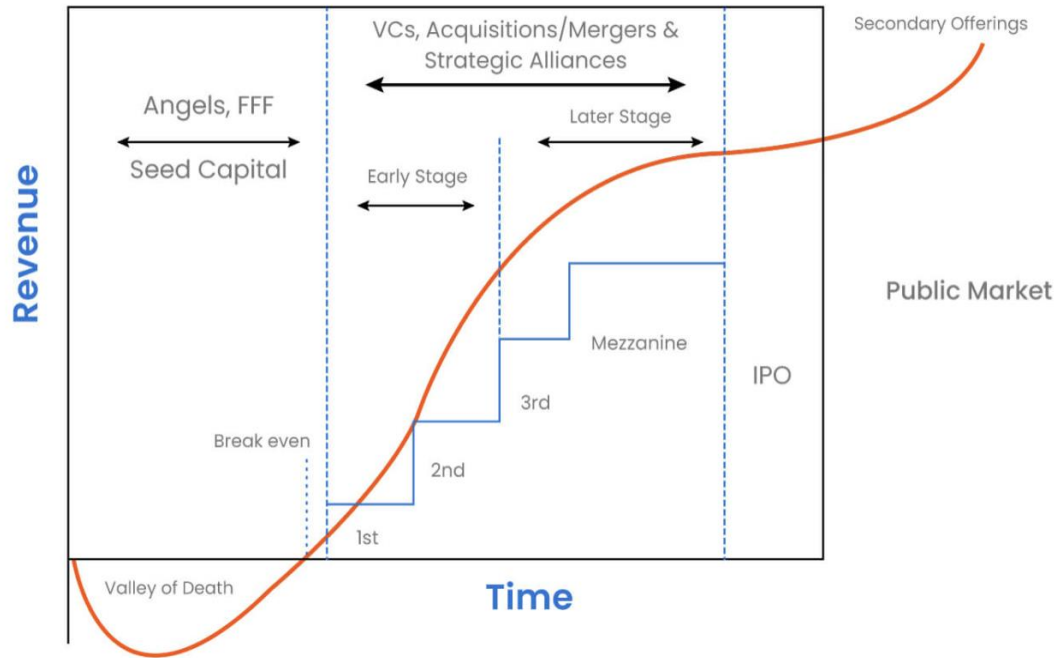
1. Type of business (legal structure)
2. Sector of business
3. Stage of business development



Source: Needpix.com

How start-ups are financed? The conventional wisdom

Startup Financing Cycle



Source: <https://dealroom.net/blog/startup-financing>

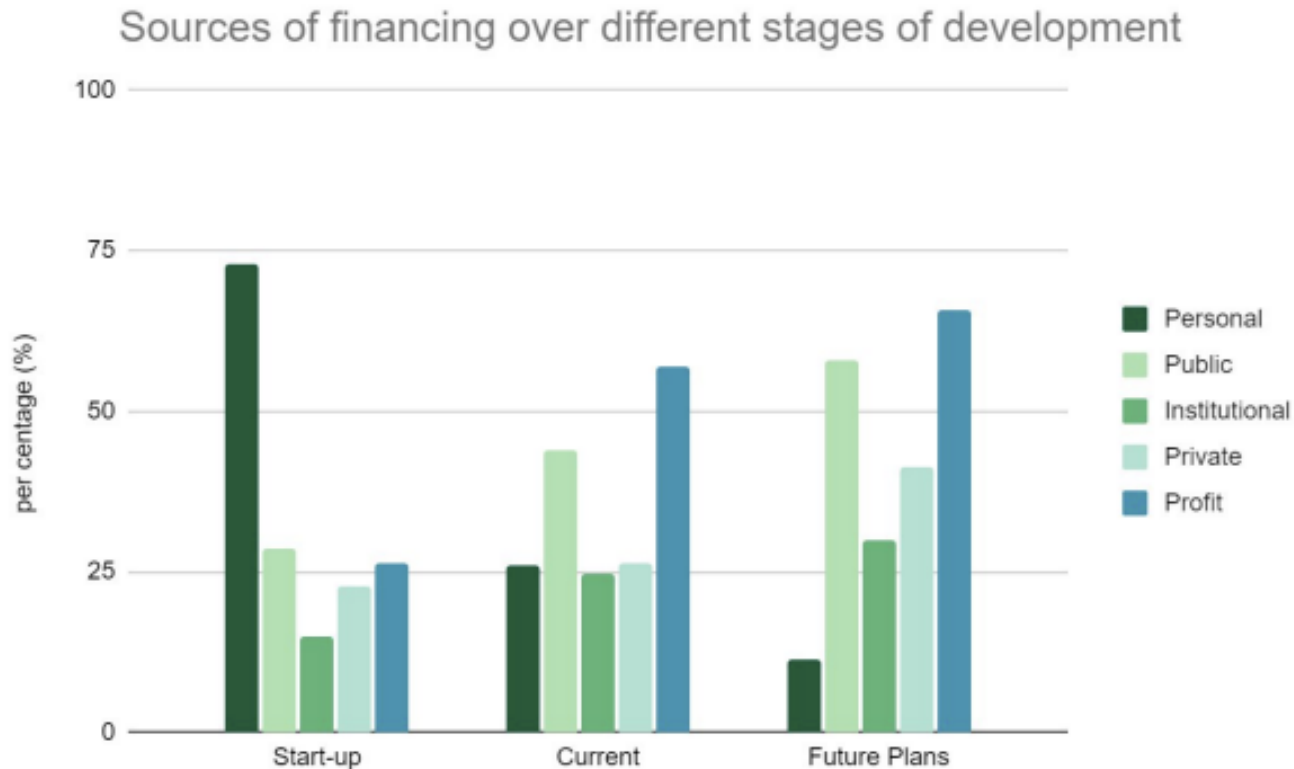
STARTUP FUNDING STAGES

A Complete Guide to Startup Venture Capital



Source: <https://www.workboxcompany.com/a-complete-guide-to-startup-venture-capital/>

How NbEs are financed: The lesser-known reality



- **Personal finance** is most important at start-up stage, decreases over time.
- **Public financing** is an increasing source of financing over time.
- **Institutional finance** e.g. bank loan – is the type of financing used least. NbEs use less institutional financing than the average SME.
- **Private investment** e.g. equity – levels of take-up are low but show increased interest over time.
- **Self-financing from profits** increases in importance over time as a business becomes more established.

How legal structure impacts financing?

One of the first decisions of a business is which legal structure to use. There are many options and these vary across countries. The choice of legal structure is important for financing.

Common legal structures in Europe include:

- Private limited company
- Public limited company
- Association with limited liability
- Cooperative
- Sole trader
- Partnership
- Social Enterprise / Charity / Foundation



Source (and useful reading): Luenendonk. M (2023). Types of Business Structures. How to Make the Right Choice? <https://www.founderjar.com/types-of-business-structures/>

Useful resources:

Types of legal entities in different EU countries <https://www.eu-startups.com/2022/12/compact-overview-of-the-most-common-legal-entities-for-companies-in-all-eu-member-states/> or <https://www.nordichq.com/guides/list-of-legal-entity-types-by-country-in-europe/>

More information in Ireland <https://cro.ie/Registration/Company/Company-Type-Information/>

Common legal structures and financing implications

Sole Proprietorship

- Simplest way of trading.
- Owned and operated by one person - typical of trades.
- **Unlimited liability** - the owner is liable to cover any business debts even through their own personal assets.
- Can become incorporated - better geared for raising capital and external investment.



Source: www.bidivine.com

Common legal structures and financing implications

Private Company Limited by Shares (Ltd)

- Common and popular.
- Shareholders have limited liability - they are only responsible for the debts of the company up to the amount they have invested in their shares.
- **A Limited Company can raise capital by issuing shares or raising loans and it can distribute profits back to shareholders.**



Source: www.pickpix.com

Common legal structures and financing implications

Non-profit / Charity e.g. Company Limited by Guarantee (CLG)

- For Companies Limited by Guarantee, members have limited liability - they only have to pay the amount they have guaranteed if the company is wound up.
- **Non-profit / charities can often benefit from tax exemption and reliefs. Sometimes this legal structure is required to access specific types of financing such as grants and donations.**
- **As the company does not have shares, it cannot raise financing through issuing shares, and it cannot distribute profits to members.**



Source: www.stocksnap.io

What is a B-Corp?

Certified B Corporations, or B Corps, are for-profit companies verified by B Lab to meet high standards of social and environmental performance, transparency, and accountability.

Today there are 8,000+ B Corps around the world in more than 100 countries.

B Corp are a type of legal entity in the US.

In most other countries, they are not a legal entity.

Companies can go through an assessment to be certified as a B Corp.



Source: The sustainable buyer: why choosing B Corp pays off — UK for Good (March 2024) www.ukforgood.com

Legal structure and financing

Pair and Share / Group activity:

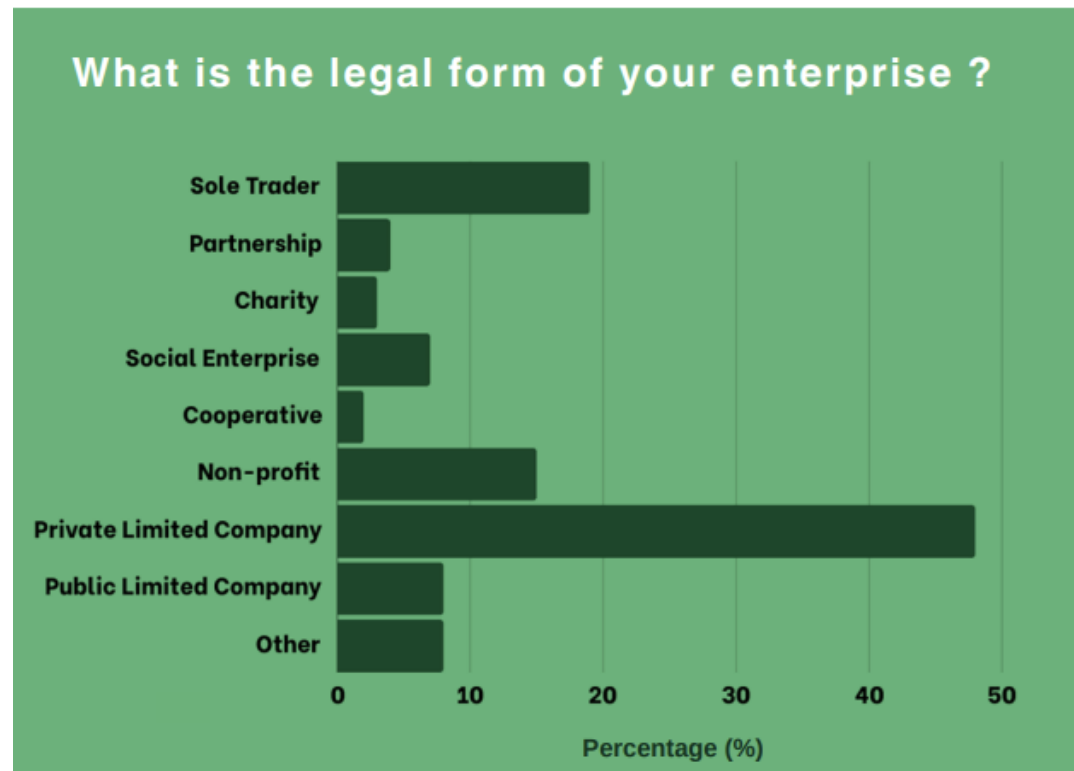
What is the legal form of your business?

How might that impact your business model / source of finance?

ACTIVITY

Nature-based enterprise survey | Intermediary Results

Characteristic of the NBEs ①



Source: <https://invest4nature.eu/results/>

Challenges to NbE Financing

Nature-based enterprise survey | Intermediary Results
Financing Barriers ③



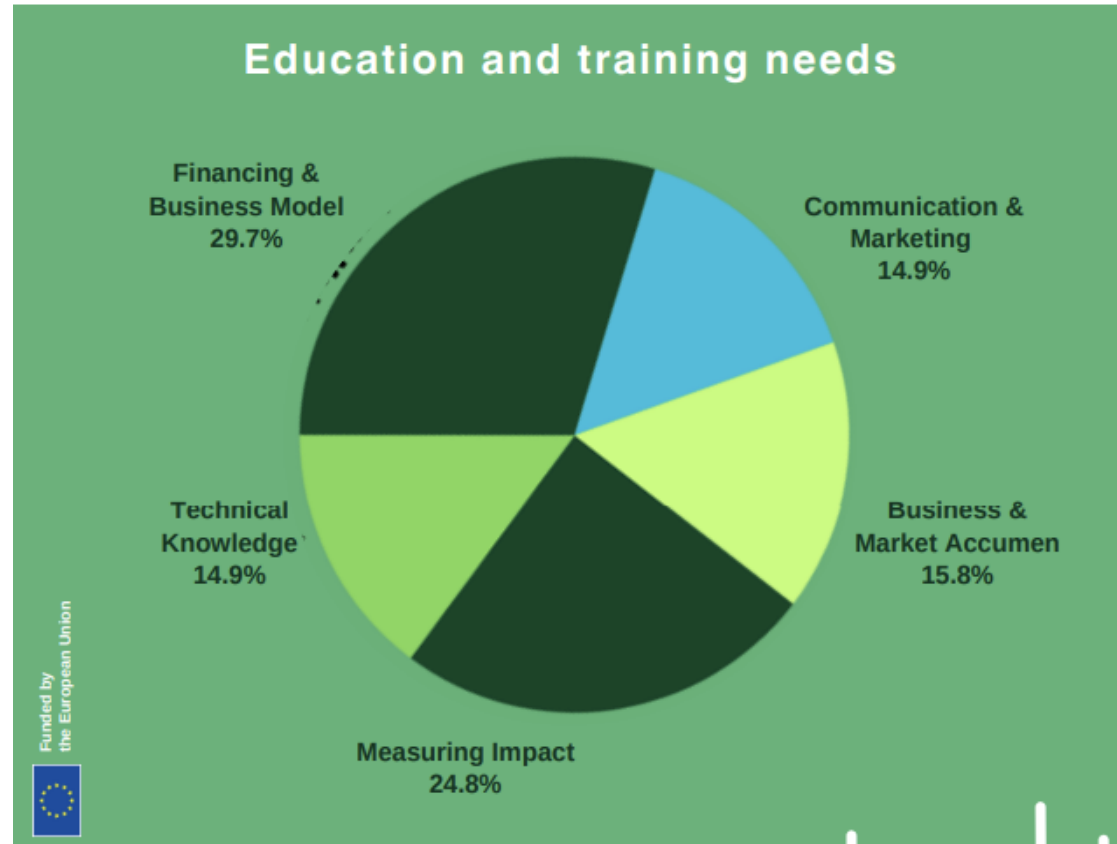
“I have had 3 business angels but it was quite a challenge. Their lack of knowledge and understanding for the field of NBS created large challenges and forced us to have too much focus on short term revenue instead of a long term sustainable strategy and a nature-positive and circular business model.”

- NbE

“The desire for returns on investment is incompatible with our aims and objectives.”

- NbE

Nature-based enterprise survey | Intermediary Results
NBE Needs ①



Challenges to NbE Financing

- High Capital Expenditure - certain industries (i.e. forestry) are capital intensive.
- Volatile funding - project-by-project nature of many NbS contracts.
- Lack of trust in financial institutions & investors - perceived incompatibility between environmental mission and growth oriented funding criteria.
- Lack of public and private sector financing of NBS in general due to:
 - Lack of awareness and understanding of the cost structure and multi-functional benefits of NBS.
 - Difficulties in measuring effectiveness of NBS.
 - Perceived reluctance of public sector to commit to large scale, longer-term investments.

Source: McQuaid, S., Kooijman, E. D., Rhodes, M. L., & Cannon, S. M. (2021). Innovating with nature: factors influencing the success of nature-based enterprises. *Sustainability*, 13(22), 12488.

Funding Exemplar for NbE - Walworth Garden



Diversity of Funding - Walworth Garden

| Stakeholder | Engagement | Funding |
|---|---|---|
| Direct beneficiary - long term unemployed | Horticultural vocational training | Commercial contract from training council |
| Direct beneficiary - special needs adults | Horticultural therapy | Per diem fee rate from Social Services |
| Direct beneficiary - schoolchildren | In-school education | When available - Lottery, philanthropy, schools contributions |
| Workforce - "graduates" | Employed in Gardening Services to community and private clients | Generate income (when business model was right) |
| The Community (i.e. the neighbours) | Best method: plant sales (grown by the SNAs) | Generated trading income; Large volunteer input |
| Environment: nature and the quality of the site | Environmental mission sustained by management committee Site development | Volunteers Philanthropy and grants Political capital |

Challenges to Financing

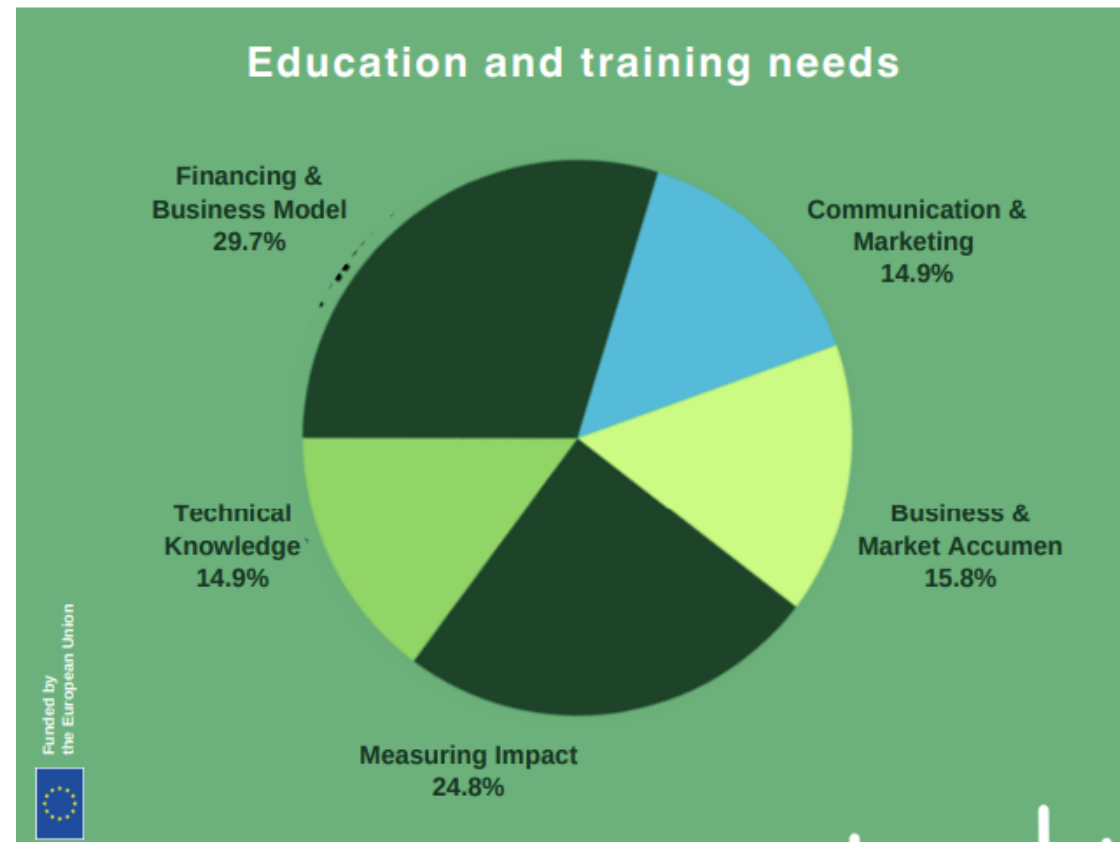
Pair and Share / Group activity:

What are the biggest challenges to financing you have encountered?

Exchange with each other different approaches to address challenges.

ACTIVITY

Nature-based enterprise survey | Intermediary Results
NBE Needs ①



Source: <https://invest4nature.eu/results/>



Final Reflection: Financing for Nature-based Enterprises

Reflect on your learning:

- What is your key takeaway from this lesson?
- What new information will you share with others?

Sources of Further Reading

- [Useful website on NbS financing https://invest4nature.eu/](https://invest4nature.eu/) (last accessed 20/11/2024)
- [Invest4Nature \(2024\). *The Economics of Nature Based Solutions. Markets, financing and incentives for NbS.* Accessed from: https://invest4nature.eu/wp-content/uploads/2024/08/I4N_D3.3_Markets-financing-and-incentives-for-NBS.pdf](https://invest4nature.eu/wp-content/uploads/2024/08/I4N_D3.3_Markets-financing-and-incentives-for-NBS.pdf)
- [Luenendonk. M \(2023\). Types of Business Structures. How to Make the Right Choice? https://www.founderjar.com/types-of-business-structures/](https://www.founderjar.com/types-of-business-structures/)
- [Ohr \(2022\). *Compact overview of the most common legal entities for companies in all EU member states.* Accessed from: https://www.eu-startups.com/2022/12/compact-overview-of-the-most-common-legal-entities-for-companies-in-all-eu-member-states/](https://www.eu-startups.com/2022/12/compact-overview-of-the-most-common-legal-entities-for-companies-in-all-eu-member-states/)
- [More information in Ireland https://cro.ie/Registration/Company/Company-Type-Information/](https://cro.ie/Registration/Company/Company-Type-Information/)
- [UKforGood \(2024\). *The sustainable buyer: why choosing B corp pays off.* https://ukforgood.com/insights/why-choosing-b-corp-pays-off/](https://ukforgood.com/insights/why-choosing-b-corp-pays-off/)
- [Invest4Nature \(n.d.\). *Nature-based enterprise survey | Intermediary Results.* Accessed from: https://invest4nature.eu/wp-content/uploads/2024/03/I4N-Survey-Intermediary-Results_.pdf](https://invest4nature.eu/wp-content/uploads/2024/03/I4N-Survey-Intermediary-Results_.pdf)



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