

“Developing a Source to Sea Nature Finance Model.”

Project Reports Summary

Introduction

This document summarises the key findings from the various outputs produced from the ‘Source to Sea’ project that ran from October 2023 to March 2024. The project was supported by The Facility for Investment Ready Nature in Scotland (FIRNS), delivered by NatureScot in collaboration with The Scottish Government and in partnership with the National Lottery Heritage Fund. The project Steering Group comprised Fisheries Management Scotland who led the project, NatureScot, The Scottish Marine Environment Enhancement Fund (SMEEF)¹, Crown Estate Scotland and the Marine Directorate of Scottish Government.

The purpose of the ‘Source to Sea’ project was to conceive a nature finance model that would build on the success of SMEEF to increase nature finance investment in nature restoration action across marine, coastal, and river catchment habitats for the benefit of people and nature. The project recognised the inherent ecological connectivity and social linkages between these environments and set out to explore options for a workable nature finance and governance mechanism to support relevant restoration projects.

The core work of this project was carried out by Finance Earth, an impact fund manager and social enterprise, in partnership with Howell Marine Consulting (HMC) to determine funding governance options. A Fisheries Management Scotland (FMS) intern completed a complimentary project to understand how community engagement and local community benefit could be integrated. A key element of the project included input from stakeholders from the corporate (demand) side, project developer (supply) side and a selection of community representatives, to understand what they would most like to see from a Source to Sea fund.

For the purposes of this document, the range of possible Source to Sea funding models discussed will be variously referred to as ‘Source to Sea Fund’ or ‘fund’.

Source to Sea Reports & Key Messages

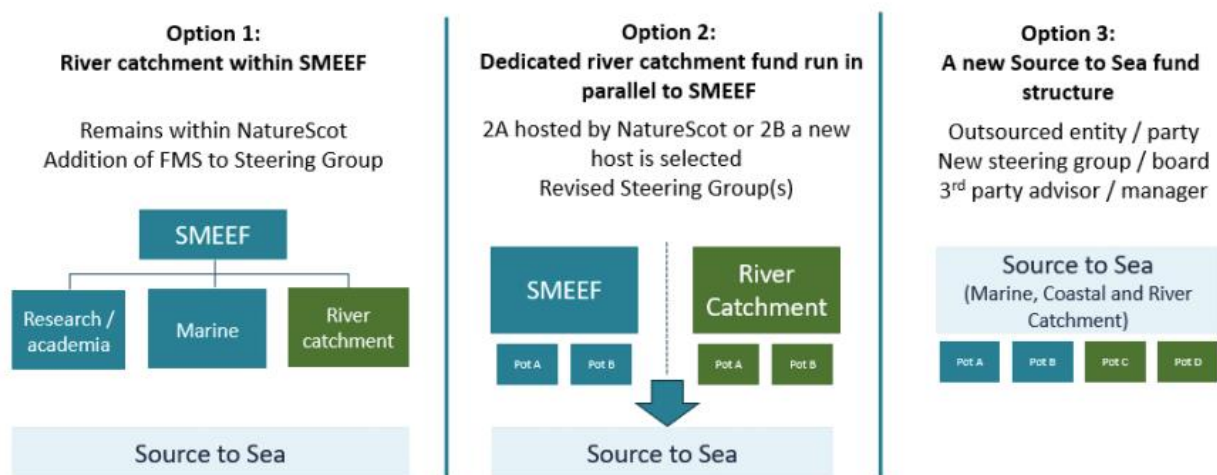
Six documents were produced as project outputs. A summary to each report is given below as a guide to what is covered in each document. Each summary includes key messages and recommendations. For further information, refer to the respective reports linked in this document and on Fisheries Management Scotland website [here](#).

¹ SMEEF is a unique funding model that takes voluntary corporate contributions and strategically distributes this money to support coastal and marine restoration across Scotland. <https://smeeef.scot/>

1. Source to Sea Final Report

This report offers the **most comprehensive overarching summary of the main outputs of the Source to Sea project**. The report covers the key themes from the stakeholder and corporate engagement interviews and key learnings from the in-person stakeholder workshop. It covers the three fund model options explored by Finance Earth with an assessment of their strengths and weaknesses, key considerations and trade-offs of each option and recommendations for next steps in developing the fund. It does not include content from the FMS community benefit report.

Three nature finance model options were explored. These comprised 1) a single unified fund from 'Source to Sea', 2) twinned or 'sister' funds, and 3) separate marine and river catchment funds. The three fund options are depicted below;



Option 1 is closest to SMEEF's current model while Options 2B and 3 would require a new more sophisticated and flexible governance structure. In summarising, the consultants recommend that the Steering Group align their thinking on the fund mission, objectives, and funding strategy before selecting an option that will best suit those.

See the full [Source to Sea Final Report](#)

2. Source to Sea Workshop Learnings Presentation

This presentation provides a summary of the **fund options assessment and workshop learnings**. This was an in-person workshop held towards the end of the project and included government, environmental NGOs, renewable energy, nature finance, investment banking, and community wealth building stakeholders. The workshop explored policy and regulatory considerations around the 'Source to Sea' narrative, the presentation of stakeholder engagement findings from HMC & Finance Earth, a presentation on community benefits by FMS, and the presentation and small group discussion of the three fund options.

The discussion of the options at the workshop indicated a **preference for Option 1 & Option 2A** (see graphic on page 2), with limited interest in Option 3 owing to its additional complexity, likely increased cost, resourcing requirements and uncertainty around the development of markets to justify the process to set up the structure. Attendees acknowledged that Option 2B could provide the potential to navigate financial constraints imposed on NatureScot by the Scottish Public Finance Manual (SPMF), but uncertainty over the appointment of a new host organisation, and the potential negative impact on SMEEFs brand and identity.

The graphic below offers a summary of the key workshop outcomes.

Key Learnings & recommendations

Workshop attendees were supportive of the opportunities presented for the evolution of SMEEF and/or the Source to Sea funding model. The following key points emerged during the workshop.



A fund requires a clear **strategy and purpose** from which subsequent considerations can develop (governance, structure, engagement in ecosystem services, private markets and repayable finance)



Multiple funding approaches and support mechanisms may be required to deliver projects of varied sizes, as well as funding project development, capacity building and assisting with monitoring and maintenance costs



Monitoring and reporting requirements at both fund and project level can be significant to align with partner (or investor needs), a standardised approach could reduce the burden for the fund and projects



Clarity over fund positioning and communications are expected to be key to future success, both for the evolution of SMEEF and a Source to Sea funding model, building on SMEEFs existing brand and position



Integrating river catchment opportunities into SMEEF would be the most cost effective approach but requires an assessment of SMEEF's **resourcing, capacity** and knowledge. A new fund is likely to be more expensive but may allow greater scope for expertise

Next steps: establish which fund option is most appropriate for a river catchment fund and develop a **roadmap** to delivery.

See the full [Source to Sea Workshop Learnings Presentation](#)

3. Corporate Engagement Report

This report includes a **summary of corporate engagement meetings** conducted by Finance Earth including those with offshore renewable energy companies, insurance companies, and financial institutions representing the demand side. Engagement with corporate bodies already contributing to SMEEF, highlighted that SMEEF has developed a strong brand, and that they will continue to have interest in SMEEF. However, there is also **interest in a river catchment and/or 'Source to Sea' fund**. This level of interest is subject to a clear articulation of the fund's definition, focus and strategy to align with corporate strategic objectives, and monitoring and reporting requirements. Institutional investors interviewed stated that a fund would need to provide a positive financial return if it was to attract repayable investor capital. In conclusion, to develop an enhanced fund along the lines of SMEEF, further engagement with corporate bodies on a 'Source to Sea'

model would be more appropriate from an **Environmental Social Governance (ESG) perspective** if financial return was not an objective.

See the full [Corporate Engagement Report](#)

4. Stakeholder Engagement Report

This report **synthesises nineteen stakeholder engagement interviews** conducted by Howell Marine Consulting (HMC) with potential project developers to understand funding priorities, capacity to deliver projects, monitor progress and to satisfy reporting requirements. The engagement highlights interest in building on the successes of SMEEF and **developing a new ‘Source to Sea’ fund that includes river catchment scale restoration**. However, while there is interest in developing a new fund, concerns were raised over the capacity to deliver environmental restoration at a meaningful and impactful scale and meet what might become increasingly demanding reporting requirements of contributors to the Fund. Therefore, the need for the Fund to **prioritise capacity building and covering the full cost of restoration projects** (from conception through to post-activity monitoring) was emphasised by many interviewees. Examples of key opportunities with a Source to Sea fund included:

- ❖ Integration of river catchment restoration into SMEEF would represent an opportunity for a more joined-up approach to land and sea restoration.
- ❖ Support for partnership working and encourage larger projects to partner with smaller groups.
- ❖ Provide the potential to build social impact into project design through targeted project activities, data collection, and monitoring.

Some key risks / challenges with a ‘Source to Sea’ fund included:

- ❖ A risk of weakening the SMEEF brand and reputation through the broader scope of source to sea projects.
- ❖ A risk of overcomplicating through diversifying the Fund model where SMEEF has benefited from a simple design and straightforward approach.
- ❖ The limited capacity within project delivery groups may not be sufficient to deliver restoration at the scale needed.

While a simple fund structure is the logical starting point, there was also recognition that the design and scope of the Fund could develop over time. This could mean building in more complexity in response to potential contributors wanting to target certain types of intervention or project delivery groups, but also to respond to the evolving environmental policy and nature finance landscape.

See the full [Stakeholder Engagement Report](#)

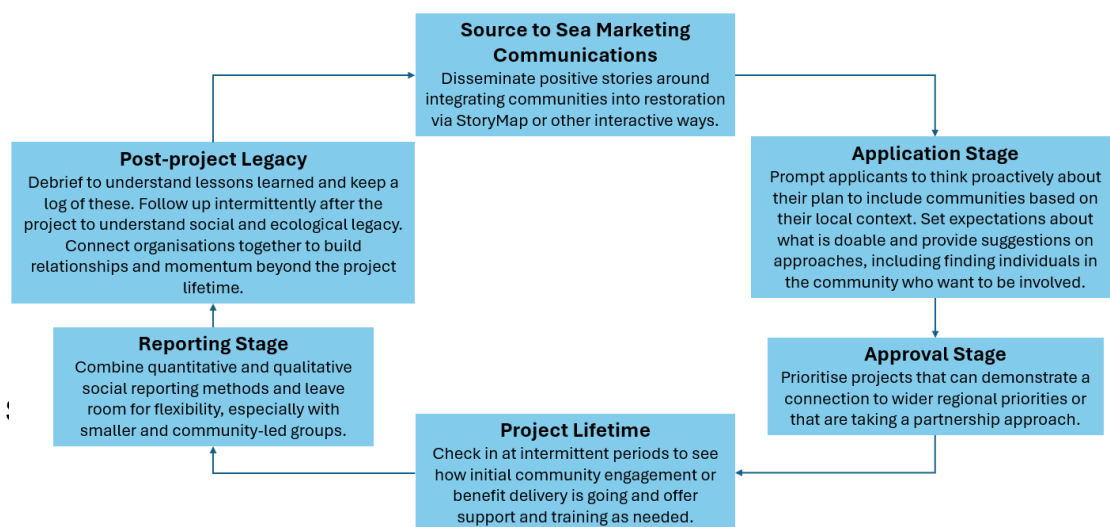
5. Community Benefits and Engagement Report

This report explores how a ‘Source to Sea’ Fund could integrate community benefits and inclusion into its funding mechanism. The key idea behind this project is the understanding that ecosystem restoration work does not occur in isolation, but rather within our landscapes and seascapes. These are places people inhabit, interact within, and attach multi-faceted importance to, making them complex socio-ecological spaces. Therefore, considering communities and what matters to them as integral elements in the design and delivery of ecosystem restoration projects is crucial to facilitating a Just Transition and long-term project success.

This report combines a literature review and semi-structured interviews with individuals involved in marine and river catchment restoration to understand how a Source to Sea fund could support meaningful community engagement and benefit generation within the projects it funds. The following were interview key thematic insights:

- ❖ Projects should have proportionate requirements and reporting with regards to community benefits.
- ❖ A ‘Source to Sea’ Fund could facilitate connections and partnerships and provide a support hub.
- ❖ Long-term funding may be needed to support a legacy of community benefits beyond the project timeline.
- ❖ Nature finance should be pursued but with a need to understand contributor motivations and its implications for restoration work and community benefit.

Finally, the report provided recommendations on how to integrate community benefits and inclusion into its funding mechanism, no matter what fund model was chosen. The graphic below includes examples of how communities can be integrated at each funding stage.



6. Source to Sea Roadmap and Next Steps

This output by Finance Earth as a slide pack offers a **summary of the funding model opportunities explored, key recommendations and next steps, and anticipated timescales to develop a Source to Sea Fund**. Finance Earth recommends that the Steering Group first determine the appropriate funding structure from those or a variation of those proposed, then develop a clear mission and objectives, and then understand the ‘market’ of projects that can potentially deliver on such objectives. The outline continuation plan suggested by Finance Earth is shown below. FMS will use this as a guide to continue to work with the Steering Group to progress the most mutually beneficial way forward for the resultant funding mechanism.

Step	Action	<3 months	3- 6 months	6 - 12 months
1	Define the funding mission, objective and strategy			
2	Monitor policy to align funding mechanism			
3	Understand project pipeline			
4	Engage with funders (corporates & investors)			
5	Agree financing mechanism structure			
6	Define and formalise funding strategy			
7	Confirm fund reporting requirements			
8	Assess resourcing requirements and team capacity			
9	Conduct risk assessment and maintain a risk register			
10	Agree and implement a governance framework (including the selection of a host (Option 2B / 3)			
11	Marketing, engagement, branding and communications			
12	Launch financing mechanism			

FMS is addressing steps 3,4 and 8 for freshwater through a new project called “Developing a portfolio of river restoration projects and delivery support measures for a river catchment restoration fund”. During this phase FMS will critically assess the delivery readiness of FMS’ members’ river catchment restoration projects based on the actions in the Fishery Management Plans to develop a project pipeline.

See the full [Source to Sea Roadmap and Next Steps](#)

For any questions on this project, please contact paul@fms.scot or leah@fms.scot.