

CAPITALISING CONSERVATION

HOW CONSERVATION ORGANISATIONS CAN
ENGAGE WITH INVESTORS TO MOBILISE CAPITAL





As the pressure on our planet's natural resources rises, ensuring the integrity of the global commons becomes both more difficult and more urgent. To be successful we must aim at a fundamental transformation of our key economic systems: cities, food, and energy, along with our production-consumption system. This cannot happen without the private sector. We need to find new avenues to protect and enhance natural capital in ways that are also profitable for investors. This requires innovative investment strategies, delivery structures and partnerships. Fortunately, there is growing appetite for such approaches among investors committed to achieving a positive environmental impact. Corporations that depend on natural resources are also increasingly embracing their roles as stewards of their supply chains, not only to secure long-term supply of raw materials but also to minimize reputational risks.

What we see is that conservation organisations can play a critical role in helping to attract private capital, but doing so requires reframing conservation from a challenge (wherein humanity threatens the environment) to an opportunity (wherein capital is deployed to yield positive financial, and environmental, returns). For this reason, the Global Environment Facility (GEF) is pleased to be a founding partner in the Coalition for Private Sector Investment in Conservation (CPIC), which works to identify barriers to greater private sector engagement and to unveil new opportunities through the development of blueprints for conservation projects and investments that are attractive to the private sector.

In order to further expand interest in this agenda and to foster needed solutions, a number of questions remain. How can conservation organisations mobilize additional private capital for projects with positive environmental outcomes? How can they identify bankable projects, and form the necessary partnerships and structures to attract private finance? What is the

right level of concessional finance to kick-start new approaches? This report introduces these issues, documents the changing investor interests and explores opportunities for conservation organisations. Throughout, it helps the wider conservation community to see through the eyes of investors. The report includes numerous case studies illustrating compelling examples where conservation and private sector are already working together.

The timing of this report could not be better. Innovations in natural resources management and public/private partnerships are developing significant momentum. For example, GEF support for the Meloy Fund has helped attract foundations and investors to support sustainable community fishing in Indonesia. A GEF project in Latin America is supporting small and medium enterprises working to implement the Nagoya Protocols for Access and Benefit Sharing; and GEF's decision to join the andgreen.fund responds to a unique opportunity to support inclusive, sustainable and deforestation-free commodity production that is commercially viable and replicable.

These are favourable circumstances in which conservation organisations can leverage their reputation, expertise and long-standing relationships with governments and local communities to promote private sector investments in conservation. This report documents the progress and challenges us to be even more ambitious. At the Global Environment Facility, we are keen to continue our engagement and to keep investing in our planet. I trust that this report will inspire others to join us on this journey.



Naoko Ishii
CEO and Chairperson,
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About Clarmondial
Clarmondial is an independent investment advisory company that focuses on practical, profitable and creative solutions for social and environmental businesses and their funders.
www.clarmondial.com

About WWF
WWF is one of the world's largest conservation organisations, with over 5 million supporters and a global network active in more than 100 countries. WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature.

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Escalating environmental threats, including those associated with climate change, demand new types of responses to preserve the integrity of the world's ecosystems. Implementing these conservation responses requires significant financial resources from both the public and the private sector. Conservation organisations have been experimenting with ways to attract private sector partners to help meet this financing demand. It is now time to consolidate our understanding of such early experiences, identify best practices, and work towards achieving impact at scale.

This report seeks to inspire investments in conservation, and sustainability more broadly, by providing a practical framework for evaluating opportunities and showcasing real world examples of conservation finance. It discusses how conservation organisations can conceptualise investment opportunities that amplify and accelerate their activities. This report also analyses the different roles these organisations can play in mobilising private capital and reviews essential considerations for effective delivery of conservation investments. Besides addressing conservation organisations, it also seeks to inform investors willing to allocate capital in ways that yield positive environmental and social impacts alongside financial returns.

Responsible investing has become a mainstream approach, capturing an increasing share of financial assets globally. Though allocations to impact investing remain modest when compared to the growth of responsible investing overall, the theme is growing rapidly due to investor demand. More recently, a focus on environmental outcomes, including conservation, has emerged. Despite this positive trend, attracting private capital to conservation-focused investments is challenging. In part, because achieving conservation goals while making a profit may require novel strategies and structures, which lack the track record and scale to entice more conventional, commercially minded investors.

To appeal to mainstream investors and mobilise funding at scale, conservation organisations and their partners need to reframe conservation opportunities through a commercial investor lens. This report points the way forward by analysing what motivates, enables and challenges relevant investor

groups that may consider investments in conservation. This includes a discussion of how governments can facilitate investments in conservation. A list of key investor characteristics is provided to facilitate the identification and engagement of relevant investor groups.

Effectively communicating both the financial and non-financial characteristics of conservation investments is paramount for attracting capital. For non-financial outcomes, this means identifying a set of impact metrics that have a scientific basis, are measurable and cost-efficient to track over time, and are materially relevant to investors. Financial characteristics include potential revenue sources and costs, which must be assessed to estimate expected returns. Risks should be mitigated where possible, which includes designing conservation investments in partnership and consultation with local stakeholders to ensure their participation and buy-in during the implementation phase.

The good news is that conservation organisations have a solid basis of existing experiences to build upon and to draw inspiration from. This report illustrates through case studies how conservation organisations have helped to develop new dedicated investment funds, incubated new companies, supported the issuance of climate-friendly bonds and even established subsidiaries to finance conservation-friendly enterprises. Although certain investment structures may receive significant media attention, it is essential that a financing instrument is chosen to best suit specific underlying conditions. The local environment, stakeholders, the required time horizon, as well as investors' needs, must be considered in structuring investments that are sustainable and scalable. Scalability remains a key challenge that will require new approaches, for example at landscape or jurisdictional levels, and track record.

The theme of conservation finance, and impact investing more generally, is met with growing investor interest. Conservation organisations and their partners are sharing their experiences and are working in innovative collaborations to direct capital to activities that have social and environmental benefits. We hope this report helps to increase the level of investment activity in this space, to address the environmental challenges that current and future generations face.



A man transporting wood for charcoal burning, out of Virunga National Park, near the provincial capital of Goma, in the Democratic Republic of Congo. © Kate Holt / WWF-UJK

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Philodendron, rubber plant, new specie from Lago Fortuna, West Panama
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CHANGING INVESTOR INTEREST – AN OPPORTUNITY FOR CONSERVATION TRENDS AND IMPLICATIONS

The interest in responsible investments has been growing in recent years. To understand how this affects the availability of capital for conservation investments, it is helpful to consider some of the wider trends influencing the behaviour of investors and corporates:

Factors influencing investor behaviour

Economic uncertainty

A global context of economic uncertainty has led many investors and asset managers to seek alternatives to long-term, illiquid investment structures, such as private equity funds.¹ To replace these exposures, investors are increasingly willing to consider innovative strategies if they offer low fees and high liquidity, i.e. regular opportunities to divest. Similarly, while some corporates are refraining from long-term investments into their supply chains in response to uncertain business outlooks, many are increasingly open to explore ways to collaborate with external funders and new ventures as a way of reducing exposure and uncertainty.

Historically low economic growth rates and low interest rates

Low interest rates and slow-growing economies, particularly in OECD countries, drive investors to seek higher returns in new geographies, such as emerging and frontier markets, as well as alternative asset classes such as private credit, to earn the returns that can meet their financial requirements. Such strategies are often hindered by lower liquidity, greater risks and higher transaction costs than investors are comfortable assuming.

In the current investment environment, corporates with a good credit rating enjoy access to capital at very low interest rates. Corporates are therefore only interested in engaging with lenders on specific projects if their financing has other favourable characteristics, such as longer maturities or concessional terms. Other benefits motivating corporates include access to new commercial opportunities, reputational

benefits, securing their social license to operate or the improved ability to attract and retain talent.

Regulation, reporting and transparency

The complexity of the regulatory environment is increasing, particularly concerning the financial sector. Banks are required to hold higher amounts of capital², leading to a reduced availability of bank loans for small- and medium-sized enterprises in some economic sectors and geographies. Complying with regulation is costly, which favours incumbent players that are large enough to absorb these expenses. However, increased regulation has also spurred increased innovation in financial technology. In addition, corporates face increasing pressure to expand non-financial reporting, driven by regulation and demands from clients. This includes reporting on food health and safety, for example, related to 'sugar taxes' and climate-related risks.³

Digital technology

In the financial services industry, technological advances bring opportunities as well as threats. Opportunities include higher efficiency and lower transaction costs resulting from the digitalisation of processes and transaction platforms. However, incumbent players are threatened by new entrants who are subject to less regulation and who can reach out to large numbers of clients at low cost. For corporates, digital technology opens possibilities to capture and analyse larger amounts of information, for example, in managing their supply chains and mitigating risks. This can help increase transparency towards consumers and investors alike and allow reporting of non-financial information, such as impact metrics, at lower cost.

Demographics

As the baby boomers give way to the millennial generation, both in institutional asset management firms and in family foundations and philanthropies the objectives of wealth management are being broadened to include sustainability considerations. Millennials understand the damage that has been done by pursuing maximum financial returns in the short run, and are demanding a more holistic definition of wealth, capital, return, and risk than previous generations of investors employed.

These high-level trends have mixed implications for innovative investment strategies and impact investment products, and for conservation investments more specifically. Investors are open to considering new strategies, but their requirements regarding high liquidity and returns, as well as low transaction costs and management fees, are difficult to accommodate given the long-term nature of many conservation investment strategies and the fact that such transactions often require customised structures and take place in emerging markets. Corporates – particularly those in the food, agriculture and natural resource sectors – can play important roles in conservation investments, but as they have access to cheap financing it is difficult to find arrangements that are attractive enough to justify the burden and extra cost of measuring and reporting additional metrics for conservation. This report demonstrates ways in which conservation organisations can help to overcome these hurdles.

The rise of responsible, impact and conservation finance

Responsible investments – wherein environmental, social and governance (ESG) aspects are considered in addition to financial returns – have become mainstream. Globally, assets of almost USD 23 trillion were allocated to responsible investment strategies as of 2016.⁴ This constitutes an increase of 25% since 2014 and is equivalent to 26% of total global financial assets. Most of the capital allocated to responsible investments comes from institutional investors (74%), such as pension funds, rather than retail investors (26%). Encouragingly, anecdotal evidence from asset managers indicates that the growth of responsible investments has been driven by client demand.

Europe and the United States still have the largest pools of responsible investment capital by volume, but interest in other regions is catching up. In the US, total domiciled assets managed using responsible investment strategies grew from USD 6.6 trillion at the start of 2014 to USD 8.7 trillion at the start of 2016, an increase of 33%.⁵ In Europe, although the total asset base remains relatively small,⁶ impact investing is the fastest growing responsible investing strategy with the largest markets in France, the Netherlands, Switzerland and the UK.⁷ Continued growth is expected in this segment as governments and companies begin formal reporting on the Sustainable Development Goals (SDGs) and as investors integrate the SDGs in their strategies and operations.

In 2016, the volume of responsible investment assets under management grew fastest in Japan, Australia, New Zealand and Canada. Responsible investments are also becoming increasingly popular in the financial hubs of Hong Kong and Singapore. Significant growth is expected in China, which has already become the world's largest issuer of climate-aligned bonds, with USD 246 billion in total issuance by mid-2016 (36% of global issuances), followed by the US (USD 136 billion, 16%), and France and UK (USD 64 billion and 62 billion respectively, 9%).⁸

Responsible finance is also gaining momentum in emerging markets, for example, through the Sustainable Stock Exchange initiative, which requires consistent disclosure on social and environmental issues by listed companies,⁹ and the development of national green protocols that promote a consistent set of green lending criteria among local financial

institutions.¹⁰ Investors aligned with Islamic principles are also increasingly expressing interest in investments with positive social and environmental impacts, for example, through responsible or green 'Sukuk' (i.e. Islamic bond) structures.¹¹

Fixed income products, particularly bonds and bond-like structures, have gained significant traction because of their underlying characteristics and well-established legal structures and because they are a relatively universal asset type within investor portfolios. The size of most bond issuances also make them attractive for professional intermediaries to proactively support, including major investment and commercial banks. Large institutional investors, banks and other intermediaries are promoting further development of a green and climate bonds sub-sector by developing guidance and standards. Leading initiatives such as the Green Bond Principles¹² and Social Bond Principles,¹³ led by the International Capital Markets Association (ICMA), and the Climate Bonds Standard, have active involvement by conservation organisations.

Impact investments – a subset of responsible investments that actively aims to achieve a measurable social or environmental impact alongside a financial return – are also growing in popularity. The respondents to a 2016 survey by the Global Impact Investing Network (GIIN) reported that more than USD 77 billion of the assets under their management were allocated to impact investments.¹⁴ The majority of asset managers focussed on impact investments are based in North America and Western Europe. It is worth noting that, while most impact investors seek risk-adjusted, market rate returns (i.e. are not willing to trade financial returns for social and environmental gains), there are certain impact investors who accept below-market returns, for example US foundations that engage in Program Related Investments (PRIs). Such capital can be used in blended finance structures to attract investors that require higher rates of return. Impact investors face a limited supply of high-quality investment opportunities and many innovative impact investment approaches, including conservation investments, lack a financial track record, further constraining effective investor engagement.¹⁵ Finally, institutional investors tend to require large size investment vehicles, as they manage large scale funds. Due diligence, transaction, and monitoring costs are prohibitive for many otherwise investable projects.

Conservation investments specifically target a measurable positive impact on the environment in addition to financial returns. This encompasses, for example, investments where returns are generated from the sale of sustainably produced natural resources or from payments for the services provided by an ecosystem. The volume of private capital allocated to conservation investments is limited. A recent survey by Ecosystem Marketplace focussing on land-based investments, but excluding renewable energy, reported an allocation of USD 8.2 billion¹⁶ to conservation investments. Most of this funding comes from public sources, dominated by a small number of Development Finance Institutions (DFIs). Of the private investors that were deploying capital to conservation, most went to food and fibre investments, followed by investments in habitat conservation and water quality and quantity. Most of this capital comes from North America and Western Europe and investors are typically return-seeking.

There is significant potential for the conservation investment market to grow. It is estimated that conservation investments

would need to grow 20 to 30x from current levels to address the estimated funding gap of USD 250 to 350 billion.¹⁷ The relatively small volumes deployed to date imply that the investor community overall is not yet familiar with conservation finance, and that few suitable opportunities exist. Conservation organisations can play an important role in leveraging their experience in conservation programs and raise the perception of conservation finance sector among investors.

In parallel to developments in the investor community, there have also been strategic shifts among conservation organisations. Over the past decade, conservation organisations have increasingly recognised the need to proactively engage

with local communities, businesses and large corporates operating in their project areas in order to facilitate the development of sustainable business models around their environmental goals.¹⁸ This creates opportunities to attract capital from companies operating in target areas (e.g. by sourcing from local companies or communities) or from investors interested in local or regional conservation outcomes. Conservation organisations can play a critical role in shaping prospective investment opportunities to create conservation impact at scale (see Box 1). To achieve this, they can either play a proactive role and build up conservation finance expertise in-house, or partner with an external, specialised financial services partner.

BOX 1: LOOKING FORWARD – SCALING CONSERVATION PROJECTS AT LANDSCAPE OR JURISDICTIONAL LEVEL

The Paris Climate Agreement and the SDGs have both triggered and been signals of a major shift in conservation finance in the last few years. Conservation projects have generally been small scale (costs of USD 1 to 10 million), short-term (typically 3 to 5 years), custom designed and paid for by philanthropic funders. Adopting a landscape level approach to conservation allows the implementation of larger scale, longer-term interventions.

REDD+ has provided a testing ground for exploring conservation interventions at scale and is dramatically changing the way that land management is being approached. The Mai Ndombe Provincial Green Development Program in the Democratic Republic of Congo provides an early indication of how this new approach may play out. Covering an area the size of Greece, this program seeks to stabilise the loss of 9 million hectares of forests, reduce greenhouse gas emissions equivalent to those of the city of Cape Town and support sustainable livelihoods through forestry, agroforestry and sustainable energy production. It is a flagship of the 'jurisdictional' approach to climate mitigation championed by the World Bank, the UN and governments such as Norway and Germany. Jurisdictional approaches, which include government entities who may enact and enforce relevant policies and regulations, can help to attract corporations who procure natural resources and investors looking to finance interventions in exchange for positive financial returns and environmental impact.

The program in Mai Ndombe illustrates several radical differences between conventional conservation projects and that landscape-level interventions that are emerging in global policy, finance and governance:

- **Scale.** These programs work at the whole landscape scale, such as basins or administrative districts. A jurisdictional approach allows integration with subnational governance arrangements and can reduce approvals and stakeholder management risks for investments.

- **Duration.** Project financing lasts for at least a decade with the likelihood of investments continuing for a generation to guarantee globally relevant outcomes. This allows for longer-term cash flow generation and strategic investments in capacity and infrastructure.

- **Integration.** Landscape level programs support mutually reinforcing activities that create synergies between actors in a landscape.¹⁹ They are also seen as priority mechanisms to implement national commitments to sustainability (SDGs) including climate and biodiversity. This increases the probability that contributions within these programs are linked to national and global reporting systems.

Several new public funds are following suit. The Land Degradation Neutrality Fund (LDNF) will focus on regenerating degraded land through improving land productivity and soil carbon content and improving ecosystem resilience. The Green Climate Fund (GCF) and the Global Environment Facility (GEF), among others, seek to enable SDG results, including on climate and adaptation. All offer blended finance options and seek to incentivise private sector involvement through loans, equity, guarantees and other mechanisms.

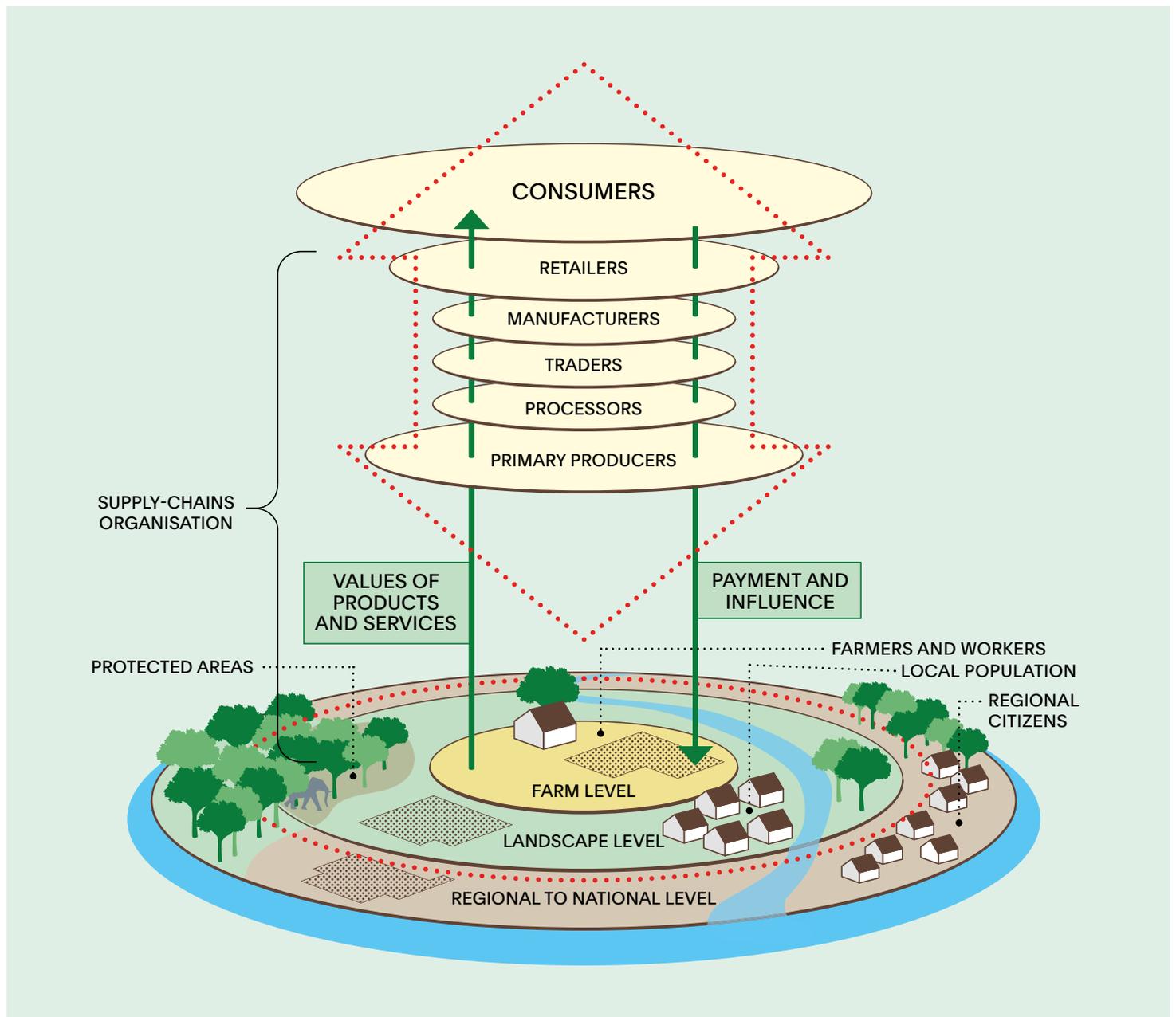
In parallel to the emergence of new public finance instruments, there is much larger growth of green fixed income finance in the private sector. The Green Bond universe is the most visible, and over the past decade Green Bonds have totalled USD 694 billion – almost a hundred times the public sector investment.²⁰ Yet less than 1% of Green Bonds have been invested into the land sector and 2% has gone to water infrastructure. Most investment has been in low-carbon transport and renewable energy infrastructure projects, which can easily reach the minimum USD 100-200 million scale required to interest bond investors. The challenge for conservation in the land and water sectors is to generate projects of sufficient size through bundling activities, integrating across sectors, blending public and private finance and linking landscape programs to large sectoral supply chain initiatives.

At the UN in 2014, the New York Declaration on Forests witnessed major commitments to 'deforestation-free' supply chains. Unilever and Marks & Spencer, for instance, have committed to securing commodities preferentially from jurisdictions that are implementing climate commitments and maintaining deforestation below baseline levels.²¹ The Roundtable for Sustainable Palm Oil (RSPO) is teaming with jurisdictions in Malaysia, Indonesia and Ecuador to implement jurisdictional certifications for palm oil that may eventually be expanded to a multi-commodity certification. New WWF partnerships with the Swedish garment manufacturer, H&M, are testing systematic approaches to landscape sourcing across whole supply chains in pilot landscapes. Despite these examples, clear conservation results from such activities has been limited to date. If outcomes from front-runner projects continue to improve and landscape sourcing

becomes more widely adopted, it will create opportunities for green investment at scale that also builds local and regional economies.

A range of initiatives are now tackling the challenge of linking public and private financing sources in favour of landscape-level conservation initiatives. The Althelia Climate Fund, for example, finances sustainable cattle ranching practise in the Brazilian state of Mato Grosso to combat land degradation and deforestation. Other prominent initiatives include WWF's Landscape Finance Lab, Rare's Meloy Fund, Aquaspark, the IDH andgreen.fund, and the Commonland Foundation. Solutions at scale are critical to achieving sustainability across millions of hectares of forest and millions of tonnes of traded goods as well as greenhouse gas emissions reductions that can reverse the trajectory of climate change and biodiversity loss.

FIGURE 1: GENERATING INVESTMENT OPPORTUNITIES ACROSS LANDSCAPES OR IN TRADE CHAINS





CONCLUSION

- The increasing popularity of responsible and impact investing should generally facilitate attracting capital to conservation, but important trends influencing the conditions under which investors and corporations would consider engaging in conservation finance must be recognised.

- In partnership with relevant stakeholders in their target areas, conservation organisations are increasingly developing sustainable business models that can serve as a basis for attracting investors.

- There is a large unmet demand for investment opportunities in conservation, but the characteristics of most investment strategies and vehicles, including limited proof of concept and track record, are a hurdle for potential investors.

The following section analyses the characteristics of different investor groups vis-à-vis conservation investment opportunities. It also explores the features of investment opportunity that conservation organisations should be aware of when approaching investors.

Natural capital such as soils, water and air are cornerstones of healthy ecosystems upon which food security depends for present and future generations. As a food industry, we have a responsibility to develop our business and operations in a way that safeguards natural capital, and in particular biodiversity and ecosystem services. To do so, it is key that we work with stakeholders including farmers, suppliers, governmental agencies, communities and conservation organizations to develop collaborative approaches to the stewardship of natural capital. Together, we can help create a future where people, planet and sustainable business solutions act in harmony to nourish people.

Hans Jöhr,
Head Corporate Agriculture, Nestlé

As Vice Chairman in the Executive Office of Credit Suisse, I am proud of our role in mobilizing capital for conservation. Credit Suisse has developed and successfully launched several innovative transactions, including our Nature Conservation Note, working in partnership with major conservation organisations and development finance institutions.

Wilson Ervin,
Vice Chairman, Credit Suisse

This report adds the transactional reality and 'how-to' to the concepts of environment finance.

Dave Chen,
Chairman, Equilibrium

Conservation finance has the potential to broaden the engagement of the financial services industry from the reactive, risk-management approach of CSR to a more proactive, revenue-generating approach – and, in doing so, greatly strengthen the business case for corporate sustainability. If conservation organizations and financial institutions manage to speak the same language, they may be able jointly to unlock capital at a scale that makes a real difference for global ecosystems.

John Tobin-de la Puente,
Professor of Practice of Corporate Sustainability, Cornell University



Rice farmer in a rice paddy, Hubei Province, China. © Claire Doolle / WWF



Rice plantation, Cibodas, Jawa Barat Province, Java, Indonesia. © Tom Moss / WWF

UNDERSTANDING POTENTIAL INVESTORS IN CONSERVATION RELEVANT GROUPS AND THEIR CHARACTERISTICS

There are different groups of investors that may support investments yielding conservation outcomes in addition to financial returns. To approach the most relevant investors and engage with them effectively, it is important to consider their different characteristics. This will enable conservation organisations to:

Understand how the profile of an investment opportunity – inherent or by design – determines which investor groups may be interested
Guide the identification of the most appropriate investment structures, advisors and service providers

While there are important differences among individual investors, they can be grouped according to characteristics, such as their organisational nature and their strategy concerning responsible investments.²² Table 1 provides a high-level description of the four investor groups most relevant to conservation investments: financial investors, corporates, foundations, and donors (including their investment arms, DFIs). Box 3 and Box 4 present interviews with representatives of two of these groups, a financial investor and a corporate, to highlight why they invest in conservation.

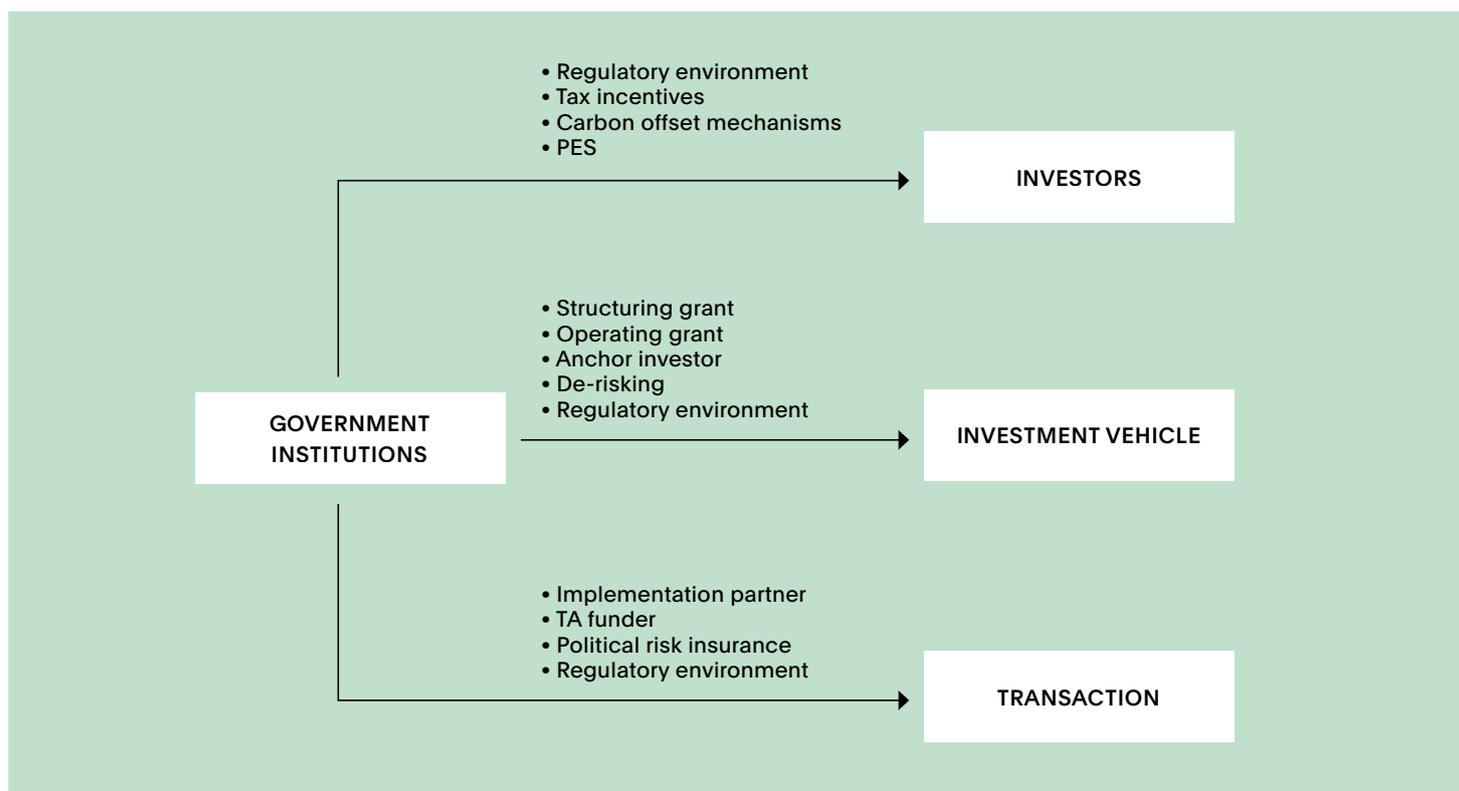
The four major investor groups described here have different motivations, capacities and challenges when engaging in conservation investments. Foundations and donors are better positioned to enable transactions through de-risking approaches or guarantees, but may seek very particular types of outcomes. They are also likely to have the capacity to understand or even execute conservation projects and possibly assess varying risk profiles across different geographies and projects. Financial investors and corporates, on the other hand, can bring scale, but may have higher return expectations, a shorter-term horizon driven by budgeting and reporting periods, differing ESG priorities and capacities to understand conservation opportunities.

Financial investors comprise institutional investors (e.g. pension funds, insurance companies), wealthy individuals (family offices, high net worth individuals) and retail investors. These subgroups have different advantages and challenges, and a specific investment opportunity or vehicle designed to fit the requirements of one subgroup may not be investable for another. Individuals actors within these subgroups also differ widely in their risk-return expectations, investment horizon and interest in non-financial performance.

Financial investors follow different responsible investment strategies. Within the classification of the Global Sustainability Impact Alliance (GSIA), presented in Table 2, two approaches are particularly relevant with regard to conservation investments: (i) sustainability themed investing, where the focus is on a specific theme such as clean energy or sustainable agriculture, and (ii) impact investing (also referred to as community investing), which aims at solving social or environmental problems through business-based approaches.

Although they rarely participate directly in investment opportunities, government institutions often play a critical role in mobilising funding given the significant public good linkages of conservation investments.²³ Central and local government agencies can, for example, enact, legislate on and enforce relevant policies. They may also help to attract private investment by providing concessionary or risk-absorbing capital, or by supporting the development or application of financial instruments.²⁴ Governments can create incentives that promote environmental performance from carbon offset mechanisms to tax incentives. In addition, governments also have a role to play in ensuring robust baselines and rules for environmental impact and implementing monitoring systems. Figure 2 illustrates some of the roles that governments may have and emphasises their potential influence at all levels of an investment, from investor engagement to structuring (investment vehicle) and transactions. Understanding the relevant governmental entity and its agencies is critical to designing and delivering conservation investments. It is important to note that while governments can benefit conservation and related investments they can be an obstacle in many ways, for example by misappropriating funding for conservation projects or taxing illegal activity instead of policing it.²⁵

FIGURE 2: POSSIBLE ROLES OF GOVERNMENTS IN MOBILISING INVESTMENT



In response to increasing investor interest, several fora have been established in which conservation organisations are collaborating with major investor groups. These include the annual Conservation Finance Investor Conference organised by Credit Suisse, the public-private partnership TFA2020 and the Coalition for Private Investment in Conservation (CPIC), which is described in Box 2.

In practice, conservation organisations will find that there is often a 'chicken and egg' dilemma in designing conservation

investment opportunities: investors typically want to see detailed information on a transaction before committing, including examples of similar executed (and successful) deals, yet the transaction is typically only secured and finalised when an investor is on board. In other words, a transaction must be structured with both the needs of the transaction and investors in mind. Yet, it is important to gain clarity on the key characteristics of a specific transaction before deciding which investors should be approached.

BOX 2: THE COALITION FOR PRIVATE INVESTMENT IN CONSERVATION (CPIC)

The Coalition for Private Investment in Conservation (CPIC), is a global multi-stakeholder initiative formed of a group of 28 investors, banks, project developers and research institutions, focused on enabling conditions that support a material increase in private, return-seeking investment in conservation. CPIC is in the process of developing 'blueprints' that are models for the successful delivery of investable conservation projects. They describe the structures of cash flows, enabling conditions on the ground to facilitate project development and roles of participants and outputs, for a specific investment sector in a particular economic and ecological context.

The thematic areas for these blueprints are currently:

- forest landscape restoration;
- sustainable agricultural intensification;
- sustainable coastal fisheries;
- coastal resilience; and
- watershed management.

CPIC has developed a guide to developing these blueprints. This may be a useful further information resource for conservation organisations looking to attract or scale-up private finance in their projects.

TABLE 1: OVERVIEW OF INVESTOR GROUPS RELEVANT FOR CONSERVATION INVESTMENTS

INVESTOR GROUP	FUNDING SOURCE	MOTIVATIONS	ADVANTAGES / STRENGTHS	CHALLENGES / RESTRICTIONS	POSSIBLE ROLES
Financial Investors	Individuals, directly and through asset managers (banks, pension funds, insurance companies, family offices)	<ul style="list-style-type: none"> • Financial returns • Uncorrelated assets (risk diversification) • Interest in responsible investments 	<ul style="list-style-type: none"> • Large and growing pool of capital allocated to responsible investments • For some: relatively quick decision making 	<ul style="list-style-type: none"> • Financial return expectations • Fiduciary duty may limit risk appetite • Typically low familiarity with conservation objectives and methods 	Investor
Corporates	Revenue from operations, channelled through strategic funds, corporate sustainability budgets, etc.	<ul style="list-style-type: none"> • Securing / improving supply chain, including ensuring high-quality / high-margin products • Maintaining social license to operate • Marketing, public relations 	<ul style="list-style-type: none"> • Commercial interest • Association with well-respected conservation organisations brings visibility / credibility • Operational & technical know-how • Can de-risk projects, e.g. through off-take agreements • Incentive to transform 'unprofitable' corporate engagement into 'profitable' business case 	<ul style="list-style-type: none"> • Depending on size and structure: decision making may be complex • Low margins • Budgets subject to satisfactory performance of overall business, internal capital allocation strategies • Variable degree / depth of engagement in supply chains • Competitors / industry profile 	Investor, implementation partner, off-taker
Foundations	Private or corporate sponsors	<ul style="list-style-type: none"> • Mission-related investments • Program-related investments 	<ul style="list-style-type: none"> • May be flexible in the type of funding that can be provided • Can support financial de-risking mechanisms 	<ul style="list-style-type: none"> • Demand performance and reporting on non-financial metrics • Scope might be thematically or geographically limited, reducing ability to support broader approaches 	Investor, grant provider, support de-risking mechanism, guarantor
Donors / Development Finance Institutions	Taxes, levies, grants, etc., from the public through donor governments	<ul style="list-style-type: none"> • Mandate from donor government 	<ul style="list-style-type: none"> • May provide concessional funding alongside private investment capital, or support technical assistance • Can support financial de-risking mechanisms 	<ul style="list-style-type: none"> • Demand performance and reporting on non-financial metrics • May have complex approval processes and reporting requirements • Scope might be thematically or geographically limited 	Investor, grant provider, support de-risking mechanism, guarantor

TABLE 2: CLASSIFICATION OF RESPONSIBLE INVESTMENT STRATEGIES AND RELEVANCE FOR CONSERVATION INVESTMENTS

GSIA CLASSIFICATION ²⁶	EXPLANATION	SIZE, GROWTH (%) ²⁷	RELEVANCE FOR CONSERVATION INVESTMENTS
Negative / exclusionary screening	The exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria.	USD 15'023bn 11.7%	LOW Potentially influence screening criteria, e.g. through awareness campaigns
Positive / best-in-class screening	Investment in sectors, companies or projects selected for positive ESG performance relative to industry peers.	USD 1'030bn 7.6%	LOW-MEDIUM Potentially influence screening criteria, e.g. through standards and indexes
Norms-based screening	Screening of investments against minimum standards of business practice based on international norms.	USD 6'210bn 19.0%	LOW-MEDIUM Potentially influence screening criteria, e.g. through standards and indexes
ESG integration	The systemic and explicit inclusion by investment managers of environmental, social and governance factors into financial analysis.	USD 10'379bn 17.4%	MEDIUM Influence ESG metrics and selection criteria
Sustainability themed investing ²⁸	Investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture), e.g. those accredited by the ISEAL Alliance. ²⁹	USD 331bn 55.1%	MEDIUM-HIGH Help develop new product; support the execution of sustainable investing strategies
Impact / community investing	Targeted investments, typically made in private markets, aimed at solving social or environmental problems, and including community investing, where capital is specifically directed to traditionally underserved communities, as well as financing that is provided to businesses with a clear social or environmental purpose.	USD 248bn 56.8%	HIGH Support origination and delivery of impact investing opportunities, including monitoring and on-the-ground technical assistance / capacity building
Corporate engagement and shareholder action	The use of shareholder power to influence corporate behaviour, including through direct corporate engagement (i.e. communicating with senior management and / or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.	USD 8'365bn 18.9%	LOW-MEDIUM Inform and support investors on critical environmental issues, support shareholder campaigns, e.g. to prevent mining in conservation areas

CHECK LIST: KEY CHARACTERISTICS OF A POTENTIAL INVESTOR

When considering potential investors for a specific investment opportunity, conservation organisations must carry out an initial due diligence. The characteristics listed below can help to profile investors and determine their suitability. In addition, an investor's track record and reputation in the conservation community is worth considering. A similar list, but one taking the perspective of an investor, is included at the end of the next section (see page 39).

Funding source

Who is the ultimate asset owner? And who is the investment decision maker? Understanding to whom the investor is accountable facilitates the understanding of other characteristics, including risk appetite and capital allocation strategy.

Asset class

Which asset types is the investor allowed or willing to hold? If an investment product cannot be allocated to a specific existing standard asset class, investors may find it difficult to allocate human and financial resources to assess the opportunity and strategic fit. More exotic investments might be classified as alternative investments, a category that allows the asset manager more leeway, but where higher returns may be expected. Responsible investments, environmental investments or conservation investments are typically not considered as a standalone asset class. Rather, the structural features of the investment vehicles are the basis for asset classification, e.g. if the underlying assets are equities or fixed income securities, or if the securities are listed on an exchange or not.

Return expectations

Does the investor require risk-adjusted market rate returns? Is the investor willing to accept lower return to achieve measurable non-financial impacts? Can concessional or grant funding be attracted in parallel to support return-seeking capital?

Volume

Which minimum and maximum investment amounts can an investor allocate to a specific transaction or asset class? Does the investor have maximum exposure limits to a specific product (e.g. can only hold 10% of a particular fund or needs another investor matching the investment amount)? Is the investor able to increase allocations over time, and under what conditions?

Investment horizon

How long can the investor be invested in a project? What is the cash flow pattern required by the investor (e.g. are returns required after a certain number of years)? Is liquidity – the possibility to sell the investment during the holding period – a requirement?

Currency

Can investments be made in any currency or are there restrictions, e.g. to USD? Who takes the risk of currency fluctuations? Is the investor allowed to use derivatives and other methods to hedge currency risk?

Governance

What is the investment decision process and timeline? Will the investor demand a role in the governance of the investment structure in which it participates? Investor participation in governance structures may be useful where there is a strategic investor that can add value beyond capital, e.g. market access, business connections and relevant in-depth experience.

Impact metrics

To what extent does the investor require measurement and reporting of non-financial metrics? Which non-financial metrics does the investor want to track and how frequently? What is the cost of doing so?

Other restrictions

These can include requirements to invest according to certain religious principles, a focus on certain geographical regions or countries, or the exclusion of certain domiciles. Some investors also have policies limiting the level of management fees they can accept in a financial product and might not be able to pay performance fees. Investors in certain jurisdictions may be restricted from investing in some countries, for example investment funds domiciled in Europe rarely accept US investors for regulatory reasons, and it is challenging for Indian companies to accept loans from foreign investors.



Nancy Rono, Farmer, Bomet County, Mara River Upper Catchment, Kenya. She is part of a scheme run by WWF Kenya to reduce the impacts farming has on the Mara River. © Jonathan Caramanus / Green Renaissance / WWF-UK

BOX 3: INVESTOR PERSPECTIVE - INTERVIEW WITH FINANCE IN MOTION

ABOUT FINANCE IN MOTION

Finance in Motion is an impact asset manager exclusively focused on green finance, and micro, small and medium enterprise finance (MSME finance). With more than EUR 1.7 billion in assets under management, the company develops and advises impact investment funds with the primary goal of achieving significant economic, social and environmental impact in low and middle income countries.

Finance in Motion has become a leader in structuring investment funds in multi-layered public-private partnership (PPP) models where public monies serve as a risk cushion for private impact investors. Backed by 15 local offices spread through the more than 20 countries it serves, Finance in Motion currently advises four impact funds: the European Fund for Southeast Europe (EFSE), the SANAD Fund for MSME, the Green for Growth Fund (GGF), and the eco.business Fund.

Most funding reaches the final beneficiary via local financial institutions to reach scale and maximize systemic changes. Finance in Motion is also increasing the number of direct investments in renewable energy projects, greenfield institutions and other companies. Investees are supported with capacity building to leverage the impact of the investment.

Why does Finance in Motion have an interest in environmental conservation?

Finance in Motion is an impact asset manager, which means that in addition to generating financial returns for investors, we seek to generate a positive impact on society and the environment. Providing green finance is an essential component of promoting a green economy, which in our view is essential for sustainable development. Hence, environmental considerations are a central element of our investment process. In this context, we do not only avoid getting involved in endeavours that are detrimental for the environment but – more importantly – we actively seek to achieve a positive environmental impact through our investments and technical assistance. Furthermore, we operate in emerging markets where the effects of climate change are already observable. Particularly in the agriculture sector, climate change has become an important dimension for financial institutions when designing their products or making credit decisions. This is a transition we support through our eco.business Fund.

How does the eco.business Fund address environmental challenges through its investments?

The eco.business Fund, launched in December 2014 in collaboration with KfW Development Bank and Conservation

International, makes loans to financial institutions which in turn use these funds to finance businesses contributing to biodiversity conservation and the sustainable use of natural resources. In selected cases the fund can also invest directly in the real economy. Eligible end borrowers operate in areas such as agricultural production, forestry, aquaculture or eco-tourism. Where applicable, they must either hold a certification for organic or ecological production or implement individual improvements with a considerable positive effect on the environment.

The financial sector is central to making economies resilient to climate change and in general to promote more sustainable production practices. Particularly in countries where agriculture is an important part of the economy, there is a mutual dependency between banks and companies operating in the agriculture sector. The eco.business Fund promotes that financial institutions incorporate sustainability measures into their credit considerations. We believe that by showing financial institutions that the financing of environmentally friendly companies is a viable business model, the eco.business Fund can leverage its means and create a positive impact in the long-term that goes well beyond the size of our own investments. For this purpose, it is essential to identify scalable and replicable investment strategies that are commercially viable. We see significant demand for this type of financing and we expect to grow the eco.business Fund to EUR 300m by the end of 2018.

What synergies do you see in working with conservation organisations to unlock investment capital?

The eco.business Fund was developed in close collaboration with Conservation International and reflects their experience from the Verde Ventures Fund. Conservation International was instrumental in defining the list of borrower activities which have a positive impact on biodiversity and are therefore eligible for financing by the eco.business Fund. By playing an active role in the fund's Development Facility committee, Conservation International continues to contribute its expertise. The Development Facility is a separate arm of the fund that seeks to enhance its development impact, for example, by providing technical assistance.

In our experience, synergies arise where conservation organisations act as technical advisors to investors by contributing their sector-specific knowledge. For example, conservation organisations can convey the latest research, define relevant non-financial performance indicators, and help investors assess the relative environmental impact of different financing opportunities. To ensure a successful cooperation it is important that both sides share a common understanding that investments include both impact and return-seeking capital. We have made particularly good experiences in interactions with conservation organisations that have a dedicated point of contact for investors.

BOX 4: CORPORATE PERSPECTIVE – INTERVIEW WITH NESPRESSO

ABOUT NESTLÉ NESPRESSO SA

Nestlé Nespresso SA is the pioneer and reference for highest-quality portioned coffee. Headquartered in Lausanne, Switzerland, Nespresso operates in over 60 countries and has more than 13'000 employees. In 2016, it operated a global retail network of more than 600 boutiques. For 30 years, the company has been continuously learning how to integrate sustainability into its activities, seeking to improve its performance and contributing to societal progress. "The Positive Cup" is the company's strategy, embodying the belief that every cup of coffee can have a positive impact.³⁰

Why does Nespresso have an interest in environmental conservation?

Because our promise to consumers depends on healthy ecosystems and suitable climatic conditions. It is therefore a business imperative to contribute to environmental conservation in our sourcing areas. Our approach to coffee farming is to find an equilibrium in which nature and agriculture can thrive together and exist in harmony. Nespresso's supply chain is anchored in several geographies that produce high quality coffee, the raw material which is at the core of our products. We currently source from 12 countries of origin globally and 34 specific regions. Important sourcing countries include Brazil, Colombia, Costa Rica, Ethiopia, Kenya and India. To support our actions, over the past decade or so, we have partnered with range of institutions such as Sustainable Agriculture Network, Rainforest Alliance and Internal Union for Conservation of Nature.

What are the environmental challenges in Nespresso's sourcing regions, and what measures are taken to address these?

Environmental challenges are related to two key aspects. First, what are the current natural conditions of the ecosystem and second, how coffee production is and will impact those conditions in the medium- to long-term? For example, overly intensive agricultural practices can affect soil quality and stress water resources, with adverse impacts on production volumes and quality.

We also realise the impact of climate change on the coffee farmers around the world, with adverse weather patterns and

high incidence of disease resulting in a decrease in quality and productivity. Our role is to work with our partners and farming communities to strengthen the resilience of the ecosystem and maintain quality and productivity despite these adverse effects. Since 2003, Nespresso has been investing at the farm level and providing technical assistance, paying premiums and delivering socio-environmental projects to generate better and more sustainable quality coffee. Nespresso's AAA Sustainable Quality™ Program now reaches over 70'000 farmers across 12 coffee growing origins. More than 300 local agronomists and technicians are providing technical assistance to the farmers.

In our agroforestry projects, we have made investments towards planting of 1.4 million trees (2014-16). Agroforestry models are known to create positive impacts at farm and landscape levels, including carbon sequestration, water replenishment and soil management and hold opportunities to provide additional income streams to coffee farmers. We have recently published the 2016 Creating Shared Value report that summarises our actions across the coffee value chain.

What synergies do you see in working with conservation organisations to unlock investment capital?

Nespresso's sourcing regions often coincide with valuable and biodiverse natural habitats. Our commitment to protecting these habitats aligns well with conservation organisations promoting sustainable land use. Over the past few years we have been investing around CHF 35 million per year in technical assistance and premiums for the coffee farmers. Nespresso is actively collaborating with partners on innovative approaches benefitting coffee farmers and the natural environment they work in. We have committed to a carbon inseting principle which means that on top of the carbon reduction we achieve, we invest in our value chain to generate carbon credits and other ecosystems services via agroforestry. Previously, we have also facilitated investments into water treatment facilities in Colombia in collaboration with Dutch and Colombian government and climate-smart projects in Ethiopia and Colombia with the IFC-BioCarbon fund and IDH respectively. However, one significant challenge in attracting investments to conservation is identifying revenue streams that adequately compensate investors. As a committed buyer bringing important economic resources to coffee producing communities, Nespresso's involvement can constitute an important piece to this puzzle.



CONCLUSION

- To identify suitable investors for a specific opportunity, it is important to understand the different investor groups including their drivers, challenges and restrictions.
- Apart from providing donor funding or investing through DFIs, governments have the potential to influence – favourably or not – all levels of a transaction to finance conservation; their policies can affect investors, structure (investment vehicle) or individual transactions.

- When interacting with potential investors, conservation organisations should carry out some level of due diligence to screen for most relevant groups and interact with those in an effective manner.

The next section provides a framework to guide identification, structuring, funding and delivery of investment opportunities in support of conservation objectives.

As a leading lender to agriculture and food value chains worldwide, Rabobank helps to make safe, healthy and affordable food available for everyone. Sustainable food systems rely on healthy and vital ecosystems, which is why we believe that responsible agricultural practices and the protection of the environment surrounding food production sites are of foremost importance. Rabobank is actively involved in a number industry-wide sustainability roundtables and has partnered with WWF in Brazil, Chile and India to test innovative sustainable agricultural methods, and to include biodiversity and ecosystem considerations in our credit analysis.

Richard Piechocki,
Manager Business Development, Rabobank

Our impact investments target climate change abatement and increased resource efficiency and investments in real sustainable assets play an important role in our strategy. Conservation projects can therefore be relevant if they aim at restoring degraded land e.g. in the form of reforestation. When sourcing investments, we look for market rate financial returns and a clear environmental impact. We prefer investments packaged in fund structures to ensure diversification across projects, project owners and geographies and we avoid emerging markets only products.

Anders Kristoffersen,
Head of Impact Investments, THE VELUX FOUNDATIONS

ACTIAM manages 56 billion euro of client assets, including insurance and pension capital, for the long term with a distinctive integrated ESG approach. We consider environmental protection and conservation as key, because while we strive to deliver competitive market-level returns on investment, we believe it is no less important that the planet is still healthy and liveable for future generations. We continuously work on new and innovative investment solutions and look for partners to address pressing global needs while offering attractive risk and return profiles to our investors.

Hans van Houwelingen,
CEO, ACTIAM N.V.



Agostine, a sustainable fruit farmer, harvesting fruit from the Agave tree (*Mauritia flexuosa*), Pacaya Samiria National Reserve, Peru. © Brent Stirton / Getty Images / WWF



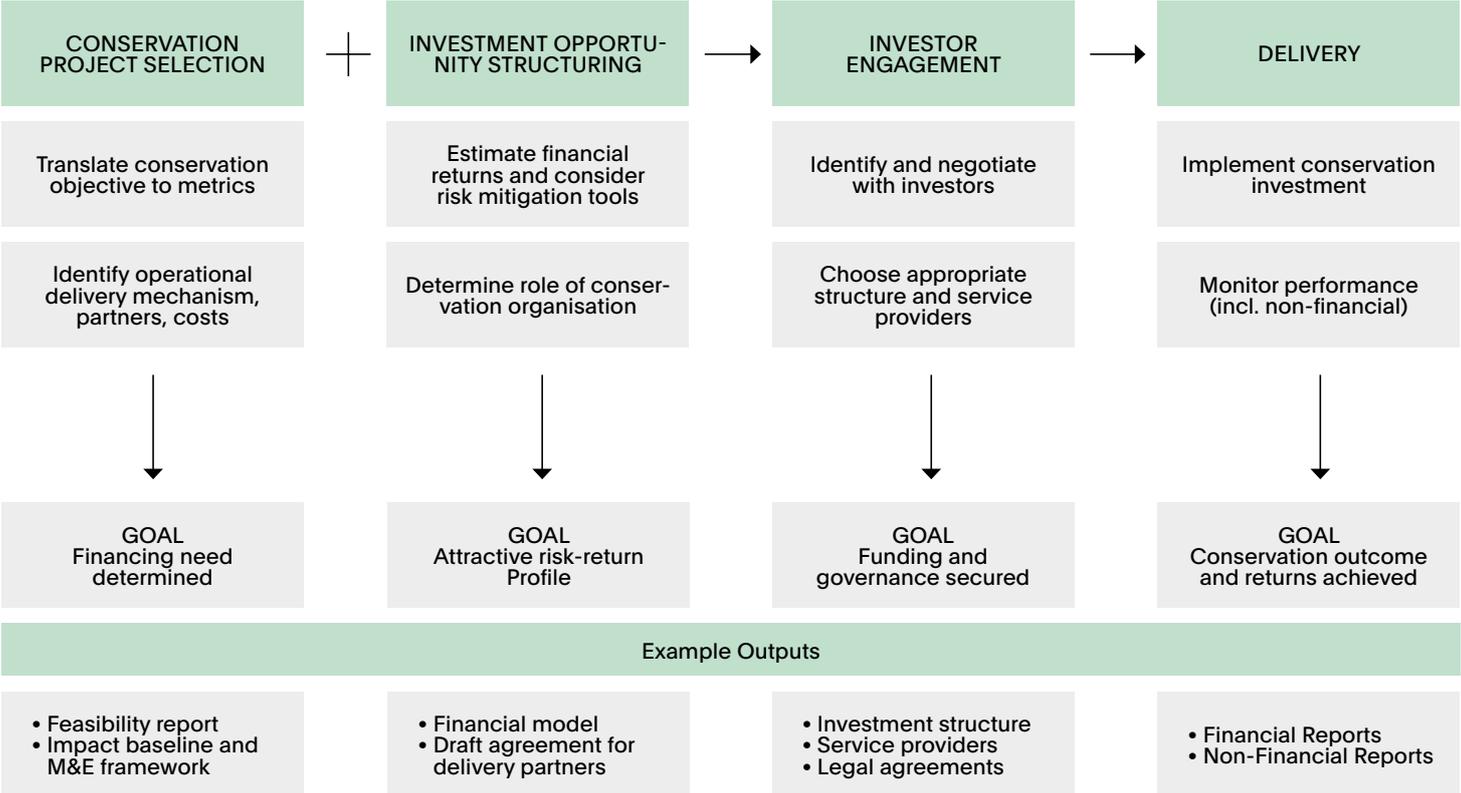
OPPORTUNITIES FOR CONSERVATION ORGANISATIONS FRAMEWORK AND GUIDANCE

Developing investment opportunities in support of conservation outcomes requires collaboration among a range of partners. While each potential investment has unique characteristics, financing requirements and stakeholders, it is useful to consider common elements in the design process. The framework presented in Figure 3 illustrates these elements and serves as a guide to a more detailed description in the following sections.

It is worth keeping in mind that conservation finance approaches and structures, especially those that are 'innovative,'

are necessarily based upon assumptions, e.g. regarding the targeted impact metrics or expected returns. Where possible such assumption should be tested early on through, for example, a pilot project, dedicated project development or early-stage investment vehicles, and by inviting preliminary feedback from potential investors and partners. This can help to avoid wasted resources by increasing the likelihood that the investment opportunity is successfully funded and performs in line with expectations. A staged approach to investment design allows testing of hypothesis before full investment.

FIGURE 3: FRAMEWORK TO STRUCTURE INVESTMENT OPPORTUNITIES BASED ON CONSERVATION PROJECTS



A. CONSERVATION PROJECT SELECTION

As the basis of an investment opportunity, conservation organisations must identify conservation projects from which investable assets can be derived. These may be identified through an evaluation of the existing activities, projects or program portfolio, although it might prove challenging to develop an investment case 'on top' of an initiative that is already in operation and was not designed to attract investment capital. Conservation organisations may benefit from consultation with existing and potential new partners to identify suitable opportunities. In this process, the following aspects should be considered:

What, in qualitative terms, are the non-financial outcomes, including the conservation objective?

Which financial and non-financial data exist on the project, activity or program?

Which data could serve as, or contribute to, verifiable impact metrics that are relevant to responsible investors?

To make conservation objectives tangible for investors, they need to be translated into quantifiable metrics, examples of

which are illustrated in Table 3. This list is by no means comprehensive and does not include social or governance-related metrics, which may indirectly affect the conservation objectives and may also be relevant to investors. Aligning around relevant goals, principles and standards such as the SDGs may be practical, especially when communicating with partners. In principle, metrics related to conservation objectives are useful if they fulfil the SMART criteria:

- Specific – to the activity and backed by scientific insights where possible
- Measurable – in an efficient and reliable manner, to be applicable at scale
- Actionable – so they can be impacted by the conservation project
- Relevant – to users, including investors and other stakeholders
- Timely – to allow regular reporting to investors and other stakeholders

Measuring and analysing impact metrics can incur a significant cost which may reduce the financial attractiveness of an investment proposition. It is therefore crucial to identify the right set and level of granularity of impact metrics sought after by target investors. Reducing the number of non-core metrics, the frequency of measurement, or automating measurement through sensors and similar technology are approaches that can reduce these costs.

TABLE 3: EXAMPLES OF METRICS TO MONITOR THE NON-FINANCIAL PERFORMANCE OF CONSERVATION PROJECTS

EXAMPLES OF CONSERVATION OBJECTIVES	POSSIBLE METRICS	INFORMATION SOURCES
Sustainable management of a wildlife reserve or forest	<ul style="list-style-type: none"> • # hectares under management • % change in indicator species 	<ul style="list-style-type: none"> • Remote sensing data • Field surveys
Sustainable management of species habitat within a production landscape	<ul style="list-style-type: none"> • # hectares of habitat protected • % change in population of key species • threat levels (changes over time) 	<ul style="list-style-type: none"> • Remote sensing data • Field surveys
Climate mitigation	<ul style="list-style-type: none"> • Reduced greenhouse gas emissions as a result of improved land management practices (in tons of CO₂-equivalent, CO₂e) • CO₂e from growth of new biomass 	<ul style="list-style-type: none"> • Localised data to assess CO₂-e from intervention (e.g. soils, above- and below-ground biomass, tree growth rates) • Historical data on land use patterns (e.g. from satellite imagery)

EXAMPLES OF CONSERVATION OBJECTIVES	POSSIBLE METRICS	INFORMATION SOURCES
Sustainable fisheries	<ul style="list-style-type: none"> • Stock Rebuilding Status • Incidence of IUU³¹ • By-catch of endangered species • Managed Access Schemes • Right Based Management • Primary Landing Value • Community Leadership 	<ul style="list-style-type: none"> • Stock assessment data • Enforcement surveys • Fishery logbook data • Fishery management data • Vessel monitoring data • Fish port landing data • Commercial auction data • Fishery organisation data
Soil rehabilitation in a municipality	<ul style="list-style-type: none"> • Soil Organic Matter (SOM) • Soil pH, soil nitrate • Soil structure, bulk density, infiltration • Soil biodiversity and microfauna, soil enzymes, soil respiration 	<ul style="list-style-type: none"> • Field surveys (soils and plants) • Soil databases
Improvement in water quality	<ul style="list-style-type: none"> • Concentration of relevant organic or chemical compounds • Incidence of relevant organism / species 	<ul style="list-style-type: none"> • Experimental measurements, possibly through sensors • Field surveys
Sustainable local livelihoods	<ul style="list-style-type: none"> • # people engaged in sustainable livelihoods / jobs created • # sustainable enterprises created • value / amount of sustainably produced goods and services brought to market (e.g. # tons of sustainable charcoal, eco-tourism revenue) • Extent of Indigenous and Community Conserved Areas • Changes in knowledge, attitudes and practices relevant to conservation objectives 	<ul style="list-style-type: none"> • Field surveys • Market data • Participatory mapping

Structuring a conservation activity into an investable (or bankable) form is a challenge because conservation objectives must be linked to or translated into a viable business model. In addition to dedication, time and expertise, this requires financial resources. Conservation organisations may use their own funding to make projects 'investment ready'. There are also an increasing number of foundations and venture philanthropic organisations who have funds dedicated to supporting the development of conservation-focused business models. Local conservation organisations, civil society groups or companies, whose activities affect conservation goals, are among the groups who may require business development and strategic support to become or contribute to vehicles that allow investors to deploy their funds.

Working towards conservation outcomes requires collaboration among different stakeholders. To structure an investment opportunity around a conservation project, activity or program, it is critical to understand which stakeholders require financial compensation for their role as this likely constitutes a large component of the overall financing requirement:

Who has a role in or influence over the delivery of the conservation outcomes? Who are the relevant partners?

Are there stakeholders that require compensation for their contribution to the project (e.g. in the form of time, equipment or land)?

Are there parties that require compensation because their revenues are reduced by the project, program or activity associated with the investment?

Appropriate delivery mechanisms for conservation projects can be designed when there is a comprehensive understanding of the stakeholders, including those who 'win' or 'lose' as a result of the conservation initiative. Relevant parties include local communities and cooperatives, companies and government. Table 4 shows how they may contribute to a conservation outcome and the financial implications of doing so. The financing raised from investors for a conservation investment may be paid to one or several of these stakeholders, or to a separately established entity.

Properly engaging, involving and incentivising local communities is critical to the success of a conservation project. It is outside the scope of this report to do justice to the

importance and complexity of doing this properly. For example, it is critical to consider socio-economic diversity, and that different groups of the population may hold varying legal rights or entitlements to land and natural resources. It may be the case that local communities must first be granted official titles to their ancestral lands in order for them to

become effective stakeholders in a conservation project. Irrespective of formal titles, the local population is the gatekeeper for a company's or project's 'license to operate.' Social issues are critically interlinked with environmental issues, which implies that progress on social metrics are also relevant to achieving conservation targets.

TABLE 4: POSSIBLE STAKEHOLDERS IN CONSERVATION PROJECTS, THEIR CONTRIBUTION AND FINANCIAL IMPLICATIONS

STAKEHOLDERS	CONTRIBUTION TO CONSERVATION OUTCOME	COSTS (OR REDUCED REVENUES) TO STAKEHOLDER
Local population (incl. their representatives)	<ul style="list-style-type: none"> • Consume and influence local resources, e.g. energy, water, wood, or bush meat • Human resources (labour, skills, entrepreneurship) • Community engagement / buy-in 	<ul style="list-style-type: none"> • Additional costs to replace natural resource with different resource / technology • Opportunity costs, including of labour (employment) and land
Local farmers and fishermen (incl. their associations)	<ul style="list-style-type: none"> • Adopt new land-based production practices, e.g. conservation agriculture, inter-cropping, planting of trees • Adopt new capture gear for fishing, e.g. less by-catch, higher fuel efficiency 	<ul style="list-style-type: none"> • Costs to learn and implement new practices (training, equipment, tree seedlings) • Lower / higher revenues from farming with new practices
Companies producing or procuring natural resources	<ul style="list-style-type: none"> • Adopt new production practices, e.g. field margins • Change procurement policies or suppliers • Role in co-enforcement of new regulatory policies • Incentivise primary producer in adoption process 	<ul style="list-style-type: none"> • Implementation or opportunity costs of different production practices • Altered cash flow patterns (both regarding costs and returns) • Risk of failure of new production practices
Local government or traditional authorities	<ul style="list-style-type: none"> • Regulatory changes e.g. tax incentives for investment • Establish and enforce wildlife protection • Enforce new regulatory frameworks 	<ul style="list-style-type: none"> • Revenues through taxes, e.g. on non-forest-timber products, eco-tourism, higher fishery landings through stock improvement • Costs to implement / police, e.g. rangers in wildlife reserve, fishery enforcement patrol

The explicit and implicit costs – or foregone revenues – of the stakeholders represent an important part of the financing requirement of a conservation project. Another important component is the cost of implementation. This may be estimated based on similar past activities or through projections.

The following questions should be considered in the process:

How can the various interventions (which are required to achieve conservation outcomes) be designed in a functional way, e.g. to make sure the interventions effectively lead to conservation outcome?

Is it possible to do a pilot to test cost assumptions? Or can the investment be executed in stages to reduce uncertainty?

What is the cost of overseeing and coordinating implementation, once investment capital has been attracted?

Is the establishment of a new local entity required for implementation? If so, what are the associated costs? What is the volume, timing and type of financing required for the different cost elements?

Determining the financing need clarifies what is required from investors in a particular project, but not the level of compensation they can expect in return (see *overview of investor types* in Table 1). In a next step, potential revenues – as well as their timing and certainty – should be assessed.



Palm in the forest Kavan Mentarang National Park, Kalimantan (Borneo), Indonesia. © Alain Compost / WWF

B. INVESTMENT OPPORTUNITY STRUCTURING

To enable meaningful discussions with potential investors, expected financial returns must be estimated. It is worth noting that despite the rising popularity of impact investments, few investors are willing to accept lower financial returns in exchange for performance on impactful, non-financial metrics. It is challenging for investors to assess if the risk-return-profile of an investment opportunity is adequate if the strategy or vehicle concerned has no or limited track record. Conservation investment opportunities may require long investment periods which is a further hurdle for investors to overcome – reforestation projects take 10 to 20 years to yield returns, for example.

Financial returns on conservation investments may be derived from increased revenues or reduced costs (cost savings³²) achieved by stakeholders, as illustrated in Table 5. Sources of return include the sale of goods or services, carbon credits or value of quota and access rights (fisheries). Sources of cost savings include reduced impacts from extreme weather and lower input costs for sustainable agriculture. Improved practices along the supply and value chain, such as better post-harvest handling and lower losses, may also reduce costs. The return potential of an investment opportunity must be viewed in conjunction with the volume, timing, risks and other characteristics of financing to gauge the attractiveness of the proposition to investors.

Some conservation activities yield outputs that are relatively easy to monetise, such as agricultural produce, fish catch or timber. Other activities yield conservation outcomes that are challenging to monetise. Examples include enhanced biodiversity, increased resilience of ecosystems and improved ecosystem services that accrue to multiple beneficiaries or lack 'paying customers'.³³ Payments for ecosystem services (PES) schemes can provide a source of revenue to reward investors who finance conservation projects that cannot be monetised directly. Given their familiarity with local stakeholders, it is critical that conservation organisations, rural economic development organisations and experienced consultants collaborate to identify groups that are willing to pay for improved ecosystem services and to help develop and implement appropriate governance structures.

Note that, for a conservation investment opportunity to be viable, the underlying revenues need to be competitive with alternative uses of the natural resources concerned as well as the opportunity costs of the stakeholders involved. Otherwise, actors without conservation interests may outcompete investors. For example, landowners that sell carbon credits from a sustainably managed forest might still be tempted to replace trees with cash crops if doing so is financially more attractive, in particular in the short-term.

TABLE 5: EXAMPLES OF SOURCES OF RETURNS AND COST / RISK REDUCTIONS

REVENUE / COST ESTIMATE	CURRENCY	TIMING: START AND FREQUENCY OF CASH FLOWS	RISK FACTORS
EXAMPLES OF REVENUE SOURCES			
Sale of sustainable timber products	Hard currency	Immediately after certification is obtained (which takes 1-3 years)	Weather risks, pests, variable market prices
Sale of sustainably produced commodities	Local or hard currency	Agriculture and aquaculture: Typically 1-2 harvests per year. Start of cash flow depends on crop. Fisheries: Continuous or seasonal harvesting and landings, depending on species and fishery. Cash flow patterns strongly depend on fishery type and exploitation patterns. Revenue can also come from trading catch quota, whose value increases with stock rebuilding and increased productivity of stock.	Weather risks, pests, diseases, seed quality, variable market prices, migratory patterns and dynamics (fisheries), biological dynamics in stock biomass (fisheries)
Carbon credit sales	USD	Depending on project, revenues may start in year 5, with additional payments every 2 years	Weather / climate including fire, management practices, changes to methodology, demand and price
Other revenue streams	Local or hard currency	Depends on project, examples include: <ul style="list-style-type: none"> • Diversification of agricultural production, e.g. from agroforestry • Eco-tourism • Payment for ecosystem services 	Depends on project
EXAMPLES OF REDUCED COST OR RISK			
Stability of supply (landscape level productivity, fishery stock biomass and license to operate)	Local or hard currency	Depends on product and supply chain structure	Production risk, regulatory risk, reputation risk
Reduced use of agrochemicals	Local currency	Depends on crop and production conditions	Weather risks, pests, diseases
Reduced post-harvest losses (agriculture and fisheries)	Local currency	Depends on crop and species	Weather risks, pests, diseases
Increased catch per unit effort (fisheries) and improved cost efficiencies	Local currency	Depends on type of fishery and species	Weather risks, pests, diseases
Weather and crop insurance	Local or hard currency	Depends on type of crop and structure of insurance contract	Quality of historical information and policy
Reduced local taxes	Local currency	Depends on regulation, likely impacts annual cash flows	Regulatory changes

The quantification of the revenues or cost savings achieved by the conservation activity, together with the financing requirement identified previously, allow an estimation of the returns available to investors. But the fact that conservation finance activities are often novel and require some form of innovation can make it a challenge to put these return projections into perspective. There are seldom comparable projects or relevant track records that could help potential investors to estimate how certain and realistic the projected returns are. To increase the chances of successfully attracting investors, it is useful to consider the following questions:

What assumptions underpin and drive the expected returns?

What is the sensitivity to these?

What are the timing and risks associated with the expected returns?

Are there ways to mitigate downside risks or enhance returns?

What role can conservation organisations play to make the investment proposition more attractive for investors?

There are different ways in which the risk-return profile of an investment opportunity can be improved. For example, a long-term off-take agreement with a corporate sourcing sustainably produced raw materials from a project area could improve the likelihood that planned revenues are achieved. Alternatively, downside risk for investors can be reduced through 'blended finance' mechanisms, whereby concessionary funding is used to protect private capital.³⁴ De-risking mechanisms can, for example, take the form of a guarantee from a DFI, a first-loss layer within the capital structure (e.g. as a junior tranche) from a foundation, concessional (below market) debt, junior equity (where higher risk is accepted for lower financial returns), grants or technical assistance (TA) facilities.

In structuring blended finance transactions, it is critical that there is a clear link to impact and that the concessionary capital is used to catalyse an important conservation transaction or even a new conservation asset class, otherwise investor expectations may get distorted in the long-term. The concessionary element should be considered with respect to the term of the transaction as well as the timing and scale of the underlying activity and market. For instance, providing a full guarantee for a transaction or a financial structure may not help to build investor confidence and may instead raise expectations that such investments should remain risk-free for investors in future. Providers of concessionary capital, including conservation organisations, need to think carefully about how this funding is applied and may consider de-risking the 'conservation' parts of the transaction, rather than the whole transaction.

There are different roles conservation organisations can play, in collaboration with other stakeholders, to help attract investment capital in support of conservation outcomes. These roles (exemplified by case studies towards the end of this report in section 4) span the entire life cycle of an opportunity, before and after capital has been mobilised:

Support the development of business models that benefit conservation goals

This can be done directly through a conservation organisation's staff or by financing or collaborating with an external advisor or partner. In the latter case, the conservation organisation may also support a third party by publicly endorsing and supporting its initiative. Early-stage support, such as dedicated start-up incubators, may be established to use resources, including expert advice, more efficiently. Business models can either be developed from the ground up or spun out of an existing project or program operated by a conservation organisation. It is critical that these be developed with the buy-in of local stakeholders, in particular local communities who may be impacted.

Act as advisors to other stakeholders, investors or investment vehicles

Conservation organisations possess an in-depth understanding of relevant research and data as well as on-the-ground experience in implementing conservation activities. They are therefore well positioned to advise different stakeholders, such as corporates or investors, on their policies regarding conservation-related investments. For example, a conservation organisation might provide input to the investment policy of a fund or participate in its governance bodies. As conservation organisations deal with a broad range of stakeholders, they are well positioned to act as matchmakers.

Improve financial attractiveness of investment opportunity

Conservation organisations could provide guarantees or contribute to de-risking mechanisms. De-risking can occur, for example, by investing into a 'junior' tranche of a loan, which is repaid only once investors in 'senior' tranches have been repaid. Conservation organisations can also provide a conduit to attract concessional financing, for example from the GCF, GEF or bilateral DFIs such as the German KfW Development Bank. Such concessional funding may help to catalyse additional investment.

Support the establishment of appropriate investment structures

Different investment structures (or vehicles) may be used to channel investors' funds (for more detailed discussion, see section 3 C *Investor engagement*). Significant costs can be involved in choosing a suitable jurisdiction and in obtaining regulatory approval. These costs can be prohibitive and block innovative investment strategies from being launched and tested. Conservation organisations can help to address this dilemma by funding the development cost of financial products and supporting the early stages of testing innovative concepts. Conservation organisations may also act as anchor investors to support the launch of new investment vehicles.

Monitor non-financial performance metrics

Given their expertise, conservation organisations may be able to advise on relevant non-financial impact metrics, e.g. on environmental, conservation and social aspects. Facilitated by their local teams and partners, they can further help to measure and communicate impacts on a regular basis. By backing these non-financial indicators, conservation organisations can make an investment opportunity more credible to investors.

Participate directly in conservation investments

Many investors are encouraged to participate in an investment opportunity if they see that the promoter invests their

own financial resources. A financial alignment, referred to as having 'skin in the game,' is one way for conservation organisations to demonstrate to investors that they are convinced by the financial merits of an opportunity. When considering an investment, conservation organisations should assess this benefit against reputational and legal considerations. For example, investors may enforce the terms of a defaulted loan by seizing collateral, an action which conservation organisations may not be comfortable with.

Support a conducive regulatory environment

The legal, regulatory and political environment can be a critical factor in either deterring or attracting investment capital. Conservation organisations can help to promote regulation, which encourages investments particularly into conservation, or reduces barriers for such investments. This may include support for regulation and corporate disclosure and action on climate change or for PES. Beyond this, by cultivating long-term relationships with governments and other local stakeholders, conservation organisations can help secure the support that may be required from those groups to develop an investment opportunity.

Help define standards and certifications

Given their expertise concerning ecosystems and biodiversity, conservation organisations are ideally positioned to

contribute of standards or certifications that support sustainable business and conservation. WWF has been very active in this by supporting the development of the Forest Stewardship Council (FSC) and the Marine Stewardship Council (MSC), for example. Standards and certifications can be useful tools for investors to filter suitable investment opportunities from a wider pool of options. The caveat of this approach is that investors may overlook smaller companies for whom obtaining a certification is too costly.

Execute conservation activity

Some conservation organisations have 'last-mile' execution capacity, i.e. the resources to directly implement conservation activities. The Northern Rangelands Trust in Kenya is an example of a conservation organisation directly engaged in the management of natural resources and sustainable businesses linked to conservation.

The goal in developing an attractive investment opportunity is to match its return potential and risk profile to investors' expectations. Where financial track record and reference values are missing, conservation organisations or concessional funders may help to overcome these challenges, through blended finance approaches if appropriate. On this basis, investors can be approached to secure financial commitments.

C. INVESTOR ENGAGEMENT

To identify suitable investors, the investment opportunity should be considered in the context of the different investor group parameters (see section 2 *Understanding potential investors in conservation*). Before approaching potential investors, it is important to have clarity not only about the characteristics of the funding that is sought, but also to what extent there is flexibility to respond to investors' appetite and concerns. Most likely, an iterative process will be required whereby feedback from potential investors is incorporated into the transaction structure.³⁵ It is important to note that marketing investment opportunities to potential investors is subject to legal restrictions, particularly for investment funds. Specialised investment advisory companies can support conservation organisations in filtering and approaching suitable investors and act as translators between conservation and investment professionals.

If investors confirm sufficient interest in an opportunity, an appropriate instrument or vehicle to channel the investment can be identified. Options include operating companies in which investors participate directly, fixed income structures like bonds or notes, investment funds or special purpose vehicles customised to the opportunity (see Table 6). The structure through which the investment is made should be a function of need and then investor requirements, not the other way around. In the selection process, the following points must be considered:

Does the structure allow maximisation of financial and non-financial impacts?

Does it fit expected cash flow patterns, as well as investors' requirements in terms of domicile, regulatory structure, etc.?

What is the timeline for establishing the structure and obtaining any regulatory approvals that may be required?

Which service providers are required to establish, manage and administer the structure?

What are the costs associated with the structure?

Does the structure align the interests of investors and other stakeholders?

Besides identifying the legal nature and domicile of the investment vehicle, its governance structure must be defined. In addition to ensuring that investors' funds are deployed in line with the agreed strategy, governance bodies must monitor the implementation of the conservation actions and performance against targeted non-financial impact metrics. In addition, processes should be established to enforce compliance of stakeholders of the investment vehicle, particularly concerning the conservation activity.

BOX 5: EARLY STAGE FUNDING FOR CONSERVATION INVESTMENTS

Recognising that investor appetite far exceeds investment opportunities in businesses that create social and environmental impacts, several not-for-profits are trying to grow the impact investment universe by providing support to early stage projects and businesses. This support is provided in various ways, described below, including business incubators, accelerator programs, seed and venture funds and platforms, as well as angel networks. For example, TNC, CI, IUCN and WWF operate programs focused on businesses supporting conservation.

Incubators

Support very early-stage companies, i.e. from inception. In many cases, incubators are clustered around a specific sector, theme, or are sponsored by a specific investor. Incubators do not usually take equity in the businesses they support, but are rather funded by grants or membership fees (e.g. for co-working space, access to virtual support facilities). Some incubators provide proof-of-concept grants. Examples include Idealab, Lightbank, the Climate Innovation Centers, Sandbox Industries, iHub, CTIC Dakar, 1776, BiD Network, Founder Institute and Villgro.

Accelerators

Support more mature, yet still early-stage, growth-driven companies through training, mentorship and financing in a time-bound, cohort-based setting.³⁶ Companies may be given a small seed investment, and access to a large mentor network. In exchange, accelerators often demand a small amount of equity in the businesses they support.³⁷ Well-known accelerators include Y Combinator, Techstars and the Brandery. Others focused on development and conservation, include WWF Impact Ventures, TNC's Conservation Investment Accelerator, Conservation x Labs, Village Capital and Endeavor. Additionally, certain impact-driven investors like the Mulago Foundation support early stage for-profit conservation organisations.

Angel investors and networks

Angel investors support very early stage companies and are typically friends, family or those with a special interest in the entrepreneur or topic. They tend to act as the bridge between the self-funded stage of the business to the point where it needs venture capital.³⁸ Angel investors may offer personal expertise, experience and contacts in exchange for an equity participation. These investors are sometimes organised in networks, where they can collaborate on the sourcing and financing of potential opportunities. Several impact-focused angel investment networks exist including Toniic, PYMWYMIC, the RENEW Impact Angel Network and the Africa-focused VC4A.

Venture capital funds

Venture capital is a source of financing for early-stage, high-risk businesses in exchange for equity. Venture capital funds focus on different levels of business maturity, but generally fund the transition of companies from seed to growth stage. In addition to the initial cash injection, venture capital investors often support their investees with mentorship, networks and follow-on investments. Examples of venture capital

funds include S2G Ventures, Breakthrough Energy Ventures, Capricorn Venture Partners, Chrysalix, Cleantech Invest, DBL Partners, and Generation Investment Management. Other funders exist, such as the DOEN Foundation, that take a venture approach to philanthropy.

Deal platforms

These are platforms that aggregate investment opportunities, thereby helping investors to source and collaborate on deals. Such platforms may target specific types of investors focused, for example, on a specific geography or sector. Examples include the AVPN Deal Share Platform, Ground_Up Project, Convergence and Gust. The Coalition for Private Investment in Conservation (CPIC) is dedicated to both developing new models for conservation investments and a pipeline of respective investment opportunities.

There are different ways in which conservation organisations can contribute to these early stage funding initiatives, including establishing their own incubator or accelerator programs. Alternatively, they may contribute funding or expert advice to any of the formats described above.

The increasing focus of the non-profit, government and corporate sector on early-stage businesses creates significant opportunities to grow new businesses that can promote conservation. Nevertheless, bringing conservation-related businesses to financial sustainability is a challenge. Recent studies, including from the Global Entrepreneurship Research Network and ANDE³⁹ and the Kaufmann Foundation,⁴⁰ note that it is important to give due consideration to design, objectives and resourcing of support programs and to encourage the sector to be open about sharing both successes and failures.

Challenges for early-stage business support programs:

- It is critical that businesses graduating from early stage support programs have access to follow-on financing. The existing finance ecosystem needs to be considered in the design of an early-stage support program to understand the availability and requirements of potential follow-on investors. Transitioning from development-oriented support programs to professional investors may be a particular challenge for conservation-related businesses, where pathways to scale and the expected financial rewards may be less obvious.
- To be effective in supporting young businesses, support programs must be staffed to include individuals with relevant experiences, skill sets, reputations and networks. Specifically, the team must be able to support businesses in identifying and connecting to the most suitable investors and supporting the negotiation of appropriate investment terms.
- To ensure that high quality businesses graduate from support programs, staff incentives must be linked to the continued success of these businesses (e.g. attracting follow-on funding or achieving growth milestones), rather than on through-put. One of the main lessons from Y Combinator, arguably the most successful accelerator, is the need to ensure that incentives are aligned between the business and the accelerator team.

TABLE 6: OVERVIEW OF COMMON INVESTMENT INSTRUMENTS

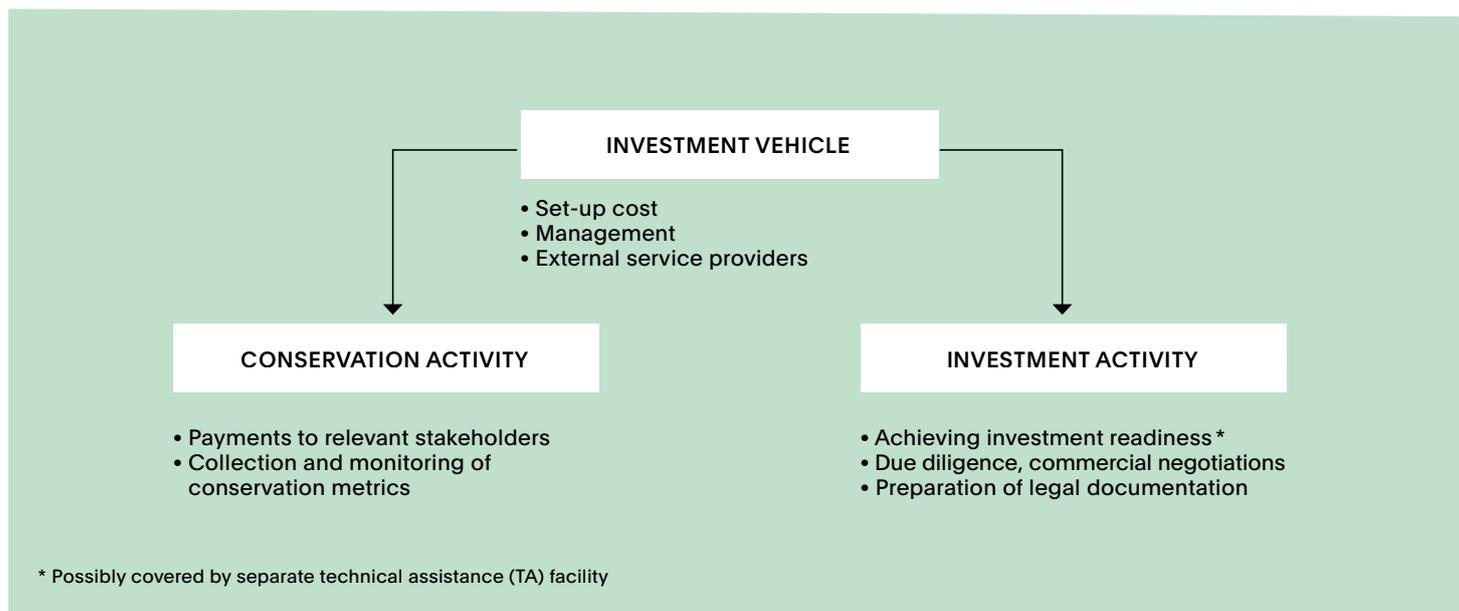
INSTRUMENT	TYPE OF FINANCING	ADVANTAGES	DISADVANTAGES
Shares in operating company	Equity	<ul style="list-style-type: none"> • Investor may take active role in governance • Relatively high flexibility to respond to evolving requirements of the project that is financed • If the company is publicly listed, investors can easily buy and sell shares 	<ul style="list-style-type: none"> • Institutional investors are typically not able to invest directly in the private equity of a company (rather they buy listed shares or invest into funds) • Limited options for de-risking mechanisms • Transaction costs to buy/sell shares in privately held companies can be relatively high
Shares in investment fund	Equity ⁴¹	<ul style="list-style-type: none"> • Depending on jurisdiction funds are subject to regulatory supervision, which helps to attract institutional investors • Fund structure can be used to make different types of investments; debt, equity, or a combination 	<ul style="list-style-type: none"> • Limited flexibility, investment strategy and objectives defined in legal documents • Strict marketing regulations • Running costs (various service providers required)
Preferred shares, participative loans	Equity / mezzanine / quasi equity	<ul style="list-style-type: none"> • Favourable terms allowing for greater return and / or reduced risk 	<ul style="list-style-type: none"> • Transaction costs due to additional complexity and customised structure • Potential impact on other funders
Bond or note	Debt	<ul style="list-style-type: none"> • Relatively easy to structure • Bonds are easily tradeable, potentially providing liquidity • Third-party certification or rating can be obtained, which may give assurance to some investors 	<ul style="list-style-type: none"> • Limited flexibility, use of proceeds clearly defined in legal documents • Bonds are more relevant for larger issuances, e.g. USD 100m+ though smaller private placements are possible (e.g. USD 10m) • May require a credit rating (expensive)
Loan agreement	Debt	<ul style="list-style-type: none"> • Very flexible – private contract between investor and legal entity receiving investment 	<ul style="list-style-type: none"> • Not easily tradeable (limited liquidity for investor) • Institutional investors are typically not able to invest directly in private loans, rather they invest in rated corporate / sovereign bonds • Some countries prohibit companies from accepting debt from foreign investors
Contractual-right to cash flow or non-financial outcome	Various	<ul style="list-style-type: none"> • Very flexible – private contract between investor and legal entity receiving investment 	<ul style="list-style-type: none"> • Usually not tradeable or assignable • Transaction costs • Limited number of funders

The vehicle or structure that is used to channel investors' funds implies setup and running costs. Investment funds in particular require a range of service providers, such as fund management companies, custodian banks and administrators, among others. Costs associated with the structure need to be factored into the net returns to investors. Financial technology and distributed ledger technology (DLT) may reduce the cost of structuring and fundraising for conservation-oriented investment vehicles (see Box 6). Loan agreements, on the other hand, are cheaper to implement, but require the investor to directly interact with any service providers and deal with issues that may arise after the investment has been

made. This level of involvement may discourage certain investors from investing through loan agreements.

Figure 4 provides an overview of the different cost levels relevant for a conservation investment. Besides the costs of the investment vehicle, some of which benefit from economies of scale as those vehicles grow, it is important to have realistic expectations regarding the costs of investment activity. Transaction costs for conservation-related investments can be significant, as deals are often relatively small, in remote areas, and not easily replicable, which implies significant expenses and high legal fees.

FIGURE 4: COST LEVELS FOR DELIVERING CONSERVATION INVESTMENTS



If an investment opportunity is relevant to them, potential investors typically carry out a detailed due diligence, which normally includes the review of detailed information package or data room (page 39 lists the main aspects investors will likely review). Due diligence may also involve travelling to the location where the conservation project is implemented and meeting with relevant stakeholders. The investment

opportunity is then processed through the investor's approval and governance bodies. This process may take several months and conservation organisations should gain an understanding of the requirements in advance to avoid frustration. Once investors have committed to the opportunity and the investment vehicle has been established, delivery can begin.

BOX 6: FINTECH IN SUPPORT OF RESPONSIBLE FINANCE AND CONSERVATION?

Financial technology (FinTech) is disrupting the financial services industry by reducing transaction costs, increasing accountability and facilitating outreach to investors. Distributed ledger technology (DLT) has prompted the development of 'smart contracts' and cryptocurrencies, such as Bitcoin and Ethereum. DLT allows storing and updating of records in a decentralised manner across a network, thereby reducing the risk of fraudulent mutations to which centralised records are prone.

Smart contracts allow the automatic execution of clauses, including payments. If connected to external data sources, such as sensors, they can be used to track impactful developments in real time. For example, the investors in a water treatment facility could automatically be remunerated by an actor interested in good water quality for a municipality, when sensors record a drop of pollution levels below a pre-agreed threshold. Smart contracts also allow the creation of 'coloured coins', which are tokens linked to a project or asset that function like a cryptocurrency.

SolarCoins, for example, can be claimed by the owners of photovoltaic systems for each megawatt hour of electricity they produce.⁴² These coins are accepted as currency in some places and are intended to promote renewable energy production by reducing the payback period on solar systems. Coloured coins may also be used to promote restoration and conservation. For example, investors could pay for the planting of a certain number of trees in exchange for a coloured coin, the value of which is linked to the carbon credits issued against the carbon dioxide sequestered by those trees.

It remains to be seen if FinTech-based investment vehicles can attract significant funding to conservation investments, but the technology may open new avenues through which investors can be reached, possibly including retail investors. When considering FinTech solutions, a strong technical knowledge is required to assess the risks associated with such technologies. It is probable that technologies like cryptocurrencies will be regulated in the future to ensure that fiduciary responsibilities are safeguarded. While this is comforting for investors, it may reduce the cost-saving potential of FinTech.

D. DELIVERY

It is critical to look beyond fund raising to the delivery of a conservation investment. While it may be tempting to consider an investment as a success once it is funded, it is the delivery phase that will ultimately create the impact.

During the delivery phase, the conservation activity is executed by the relevant stakeholders. Governing bodies, including those of the investment structure, are responsible for ensuring that proceeds from investors are utilised according to the agreed plan and that the conservation activities are duly implemented.

Appropriate, timely and consistent reporting to investors helps to build confidence and influences access to additional capital. It is crucial that both financial and non-financial performance is monitored regularly to allow for on-going assessment of the following questions:

Does the financial performance match projections or is there a risk that targeted returns to investors cannot be achieved?

Does the non-financial performance, captured by environmental or social metrics, correspond to expectations?

Does the implementation, as well as the collaboration with stakeholders

and service providers, develop as planned?

Are potential reputational risks arising that need to be mitigated?

The originator, sponsor and developer should strive to execute the investment according to plan, and to communicate deviations to stakeholders in a timely and transparent manner. This is particularly relevant for investors given their fiduciary duties towards the providers of their capital (which are presented in Table 1). They depend on accurate and timely reporting concerning their investment that allows them, for example, to value their holding. Finally, such reporting will allow the stakeholders to hold each other accountable and gain insights, which may be applied to future investments.

As the investment unfolds, there will be a need to periodically review the financing strategy to ensure that it adequately supports the underlying objectives. For instance, if an investment is executed through an operating company, there may be future opportunities for taking on new equity investors or for refinancing debt at more favourable rates. The long-term implications of decisions concerning investors should be considered. For instance, accepting equity investors at too high a valuation may make it difficult to finance subsequent rounds. Proper financial management improves the likelihood that refinancing at more favourable interest rate or collateral terms can be achieved as debt matures. In summary, it is critical to ensure that competent operational staff are in place to deliver, beyond securing the investment.

CHECK LIST: KEY CHARACTERISTICS OF A CONSERVATION INVESTMENT OPPORTUNITY

The scope of the due diligence done on an investment opportunity will depend on the individual investor, but some aspects are relevant for all groups. The list below sets out the type of information which should be prepared for investors. Additional information may be required as the due diligence process advances.

Investment case and strategy

Summary of the conservation target and business case underlying the investment opportunity. Description of i) the non-financial goal, including conservation and social goals, ii) the way investment capital will be used to achieve it, and iii) the source and timing of financial returns for investors. Describe the insights or experience that are the basis of the proposed strategy. Are there comparable investments with a financial track record, pilot projects or scientific insights supporting the suggested approach?

Expected conservation impact

Describe the direct and indirect conservation impact that will be achieved with the investment. Which non-financial metrics will be used to measure performance? Who will

measure, collect and report these non-financial metrics? What goal or progress, in terms of these impact metrics, will the proposed investment help to achieve? How does this conservation impact relate to local stakeholders?

Other relevant stakeholders and partners

Which other stakeholders play a role in the implementation of the investment strategy and the delivery of the targeted conservation impact? How are those stakeholders affected by the conservation intervention, either positively or negatively, and how are they incentivised to participate?

Asset

What is the asset that the investors will acquire? Assets could be shares in companies and the right to dividend payments, rights to cash flows (from interest payments on debt instruments), royalties or the rights to success-based payments.

Financing requirement

What is the amount of financing that is needed and where will the funds raised from investors be directed? Is an equity or debt investment required from the investor? This should include a clarification on the investment currency and the investment period. Is there liquidity, i.e. opportunities for the investor to exit their position during the investment period?

Expected financial returns

What is the projected financial return to investors? Is this return paid in regular instalments (e.g. in the form of interest payments on a loan) or will the investor receive one large payment at the end? A description of any risk mitigation measures should be included, i.e. if there are guarantees or different share classes with different risk-return-profiles.

Structure and governance

What is the structure through which investors' funds will be channelled? Note that there might be several options and a final selection can be done in collaboration with interested investors. If relevant, a description of the service provider

helping to manage and administer the investment vehicle should be provided. Which bodies will govern the investment structure? How is it ensured that financial as well as conservation-related expertise are considered in investment decisions? This should include a description of how investors can participate in the governance.

Role of conservation organisation

What role does the conservation organisation play in implementation of the investment opportunity? How will it support investors by sharing its expertise? Describe the work that the conservation organisation has done in the development of the investment opportunity and how this experience is reflected in the proposed strategy and structure.

Reporting and administration

What is the frequency and content of financial and non-financial reporting to investors? Include a description of proposed accounting standard and valuation method. If the investment is subject to regulatory approvals, this should be pointed out.

CONCLUSION

The framework proposed herein guides the process of attracting investment to conservation

A. CONSERVATION PROJECT SELECTION

When identifying a conservation project based on which an investment opportunity should be structured, conservation organisations should look at their existing portfolio, but also consider new projects. The conservation target must be translated into impact metrics that are SMART: specific, measurable, actionable, relevant and timely. A thorough understanding of how the conservation intervention affects local stakeholder needs to be developed. This includes an assessment of which groups may require compensation for increased costs or reduced revenues.

B. INVESTMENT OPPORTUNITY STRUCTURING

Financial returns to investors in a conservation project can be derived from revenues – or reduced costs – resulting from the conservation activity. These are often tied to the sustainable use of natural resources, but investors may also be remunerated for their contribution to preserving an ecosystem's services, such as clean water or air. Conservation organisations may play many roles to help realise conservation investments, or improve the risk-return characteristics to potential investors. Specifically, they may:

- Support the development of business models that benefit conservation goals
- Act as advisors to other stakeholders, investors or investment vehicles
- Improve financial attractiveness of an investment opportunity
- Support the establishment of appropriate investment structures

- Monitor non-financial performance metrics
- Participate directly in conservation investments
- Support a conducive regulatory environment
- Help define standards and certifications
- Execute conservation activity

C. INVESTOR ENGAGEMENT

Once the financing needs and return potential of a conservation investment opportunity are defined, potential investors can be approached. Appropriate investment vehicles or structures can then be identified so that they i) suit the underlying conservation activity and returns arising from it, and ii) suit investors requirements and preferences. It is important to consider the costs of establishing and managing the investment structure so that these can be factored into the expected financial returns to investors.

D. DELIVERY

Success is not determined by a conservation investment attracting funding, but by whether it achieves the expected financial and non-financial goals. The governance bodies of the investment structure or vehicle are responsible for supervising performance against the agreed plan and intervening with the relevant stakeholders if issues arise. Regular, consistent and transparent reporting on financial and non-financial impact metrics is crucial to monitoring the progress of the investment and to building financial track record, which is critical for future investments.

The following section illustrates the different roles conservation organisations may have in conservation investments through several case studies.

Mobilizing more financing for biodiversity conservation and restoration is one of the greatest challenges in meeting the Sustainable Development Goals. In particular, we need to understand how to mobilize private finance at scale. The careful analysis in this timely report provides practical lessons for how policymakers, conservation organizations, and investors can leverage more private finance to preserve biodiversity.

Guido Schmidt-Traub,
Executive Director, Sustainable Development Solutions Network

The need to channel investment capital to conservation finance, and landscape finance in particular, is undeniable. The sequencing and blending of financial instruments described herein are critical tools to accomplish the regeneration of distressed socio-ecological systems. This report provides a clear and concise description of emerging practices, as well as a delightful source of inspiration for all who are working on the frontiers of landscape finance. Another world is not only possible – we are building it, in no small part with the tools and techniques described herein.

Robert W. Parenteau (CFA), Adjunct Professor,
Capital Markets, Presidio Graduate School

Mulago recently invested in four for-profit conservation organizations led by irrepressible entrepreneurs who make us optimistic about the future of climate and conservation. Harnessing the power of the private sector to achieve impact at scale has great potential, but philanthropy alone can't realize it. We need to unlock capital to invest in the promise of people and ideas that could deliver bigger, better, faster conservation outcomes.

Kristin Gilliss Moyer,
Senior Investment Partner, Mulago Foundation



Bwindi Impenetrable Forest National Park Local people at tree nursery. Part of CARE/WWF DTC project Uganda © Frederick J. Weyerhaeuser / WWF



Hawksbill turtle (*Eretmochelys imbricata*) Grand Cayman, Caribbean, Atlantic Ocean © naturepl.com / Doug Perrine / WWF



Bazaruto Marine National Park, sand and water making a mosaic pattern, Mozambique. © Meg Gawler / WWF

Given the critical role of the natural environment to our economy and our communities, conservation can no longer be the exclusive affair of states, environmentalists and conservation organisations. The United Nations' Agenda 2030 for Sustainable Development calls for a systemic shift of our economy towards more sustainability, and conservation investors are crucial pioneers in this transformation. They create demand for investment opportunities that yield conservation impact alongside financial returns. This report shows how conservation organisations contribute to the corresponding supply.

Simon Zbinden,
Co-Head Global Programme Food Security,
Swiss Agency for Development and Cooperation (SDC)

Finnfund has prioritized investments in sustainable forestry to contribute to the fight against climate change and deforestation, while reducing poverty in rural areas of emerging markets. Helping to protect natural resources is at the core of our activity and we welcome collaborations with conservation organisations to explore new partnerships and investment strategies.

Ilkka Norjamäki,
Investment Manager, Finnfund

As a Wealth Manager, we at Indosuez are convinced that money matters. We also believe in the importance of creating a positive impact on society and the environment. While committed individuals can make a difference, pooled resources and regular efforts over the long-term create real change and pay the greatest dividends, just like in our core business. As a leader among the world's financial institutions, we are proud to partner with WWF as a leader in the field of conservation – what better way to leverage the investment, and ensure that, in conservation matters, our money matters?

Frédéric Lamotte,
Chief Investment Officer, Indosuez Wealth Management

CASE STUDIES

STRATEGIES AND STRUCTURES

Although useful to guide discussions, a theoretical framework is an insufficient basis on which to develop conservation investment opportunities. The complexities of the local ecosystem and socio-economic context mean that specific conservation investments will have different characteristics. Likewise, investors' preferences, restrictions and the regulations that affect them need to be considered on a case by case basis. Rather than trying to describe these modalities in detail, this report illustrates the general guidance it provides with case studies that are presented on the following pages. The structures presented in these examples may seem relatively complex due, in part, to the fact that achieving

financial returns alongside a positive impact on the environment often requires engagement of more stakeholders than is the case in traditional investments.

The conservation organisations and asset managers involved in the case studies presented herein have generously shared their insights for the purpose of this report. Other conservation organisations, investors and donors interested in conservation investments should feel encouraged to reach out to the parties presented below to learn directly from their experiences.

ECOENTERPRISES FUND

A VENTURE FUND FOR NATURE

SINCE 1998

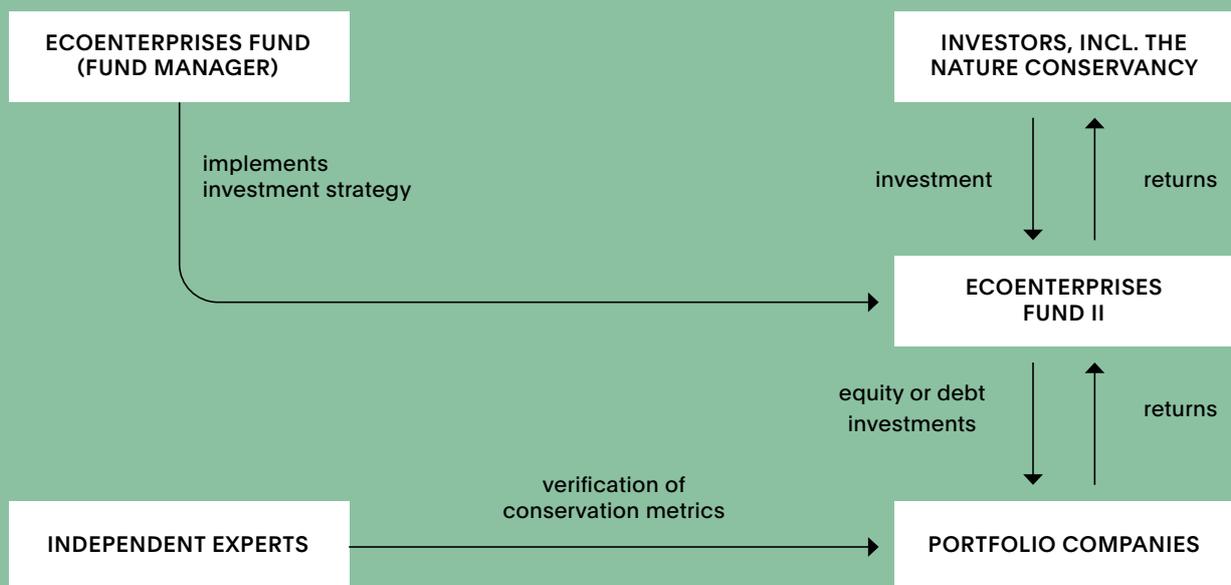
While exploring innovative ways to finance conservation, The Nature Conservancy (TNC) identified an opportunity to provide venture and growth capital to companies in Latin America that practice sustainable natural resource management and have an inherent interest in conservation. In 2000, TNC and a number of partners launched a proof of concept fund investing in small businesses across agriculture, agroforestry, aquaculture, eco-tourism and wild-harvested products. This fund built a diverse portfolio of 23 investments across 10 countries. Based on this success, EcoEnterprises Fund was established as an independent fund management company and raised second fund with a 5x larger capitalisation from a range of investors including development finance institutions, banks, impact funds and high-net worth individuals. To assess and monitor the impact of its investees on the environment, EcoEnterprises Fund has developed a detailed set of metrics which are verified by independent experts during the investment process. The fund provides growth capital to portfolio companies, which are actively supported in a partnership-oriented

investment management approach. To date, the investee companies have created more than 4'000 jobs constituting an important revenue source for local communities and contributed to the conservation over three million hectares of forest.

The fund management company is financially sustainable and independent from TNC, which remains involved as an investor in the fund. EcoEnterprises Fund is in the process of further expanding its investor group in the third fund, which is expected to reach at least double the capitalisation of EcoEnterprises Fund II.

We act as a venture fund for nature that invests in and builds hands-on partnerships with companies that strengthen local communities, preserve biodiverse landscapes and promote the conservation of natural resources.

Tammy E. Newmark,
President, EcoEnterprises Fund



IBIS RICE

A CONSERVATION ENTERPRISE INCENTIVISING RICE FARMERS TO PROTECT THE FOREST AND ITS WILDLIFE

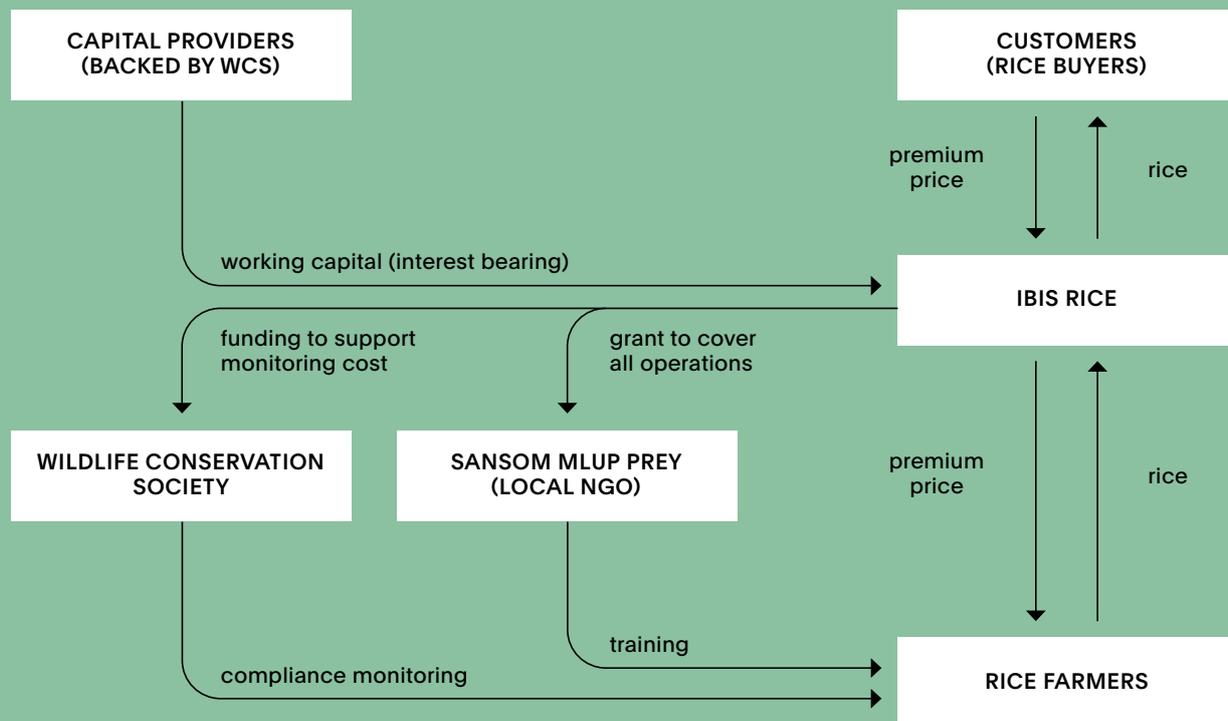
In Cambodia, the Wildlife Conservation Society (WCS) has worked with communities in protected forest areas to improve their compliance participatory land-use plans and protected area law of Cambodia. Rice farmers in those remote areas are far from markets and have limited economic opportunities. Their practices, including forest clearing for rice paddies, can threaten local wildlife such as the Giant Ibis, Cambodia's national bird. To address this, WCS founded a local non-governmental organisation (NGO), Sansom Mlup Prey (SMP), in 2009 to enable farmers to achieve a premium price for their rice in exchange for complying with conservation-friendly practices. These practices include the maintenance of land-use boundaries, a zero-wildlife hunting policy and uptake of organic farming practices. SMP trains farmers, and facilitates procurement, processing and marketing of the rice under the label "Ibis Rice". Around 800 households are participating in the program which is expected to produce 1'400 metric tons of rice in 2017. Ibis Rice is certified as organic according to European Union and US Department of Agriculture (USDA) standards and labelled by the Wildlife Friendly Enterprise Network. Farmer compliance is verified

by professional certification businesses as well as by WCS in collaboration with rangers, the use of satellite data and self-reporting village-level entities.

SMP was initially supported by grants, but now is sustainable on rice revenues using grants only for expansion or diversification. Ibis Rice uses an interest-bearing working capital facility from a fund backed by WCS. SMP plans to convert Ibis Rice into a limited company which is expected to seek working capital from external investors. Furthermore, it may offer equity investment opportunities in joint ventures to finance assets such as processing facilities.

A conservation enterprise is viable when the value it adds to its stakeholders exceeds their cost of compliance with conservation-friendly practices. The advantage of a viable conservation enterprise is that it can remain in business to deliver its conservation objective beyond the tenure of donors.

Nicholas Spencer,
CEO of Ibis Rice



ERSTE WWF STOCK ENVIRONMENT

A GREEN EQUITY FUND IN SUPPORT OF NATURE CONSERVATION

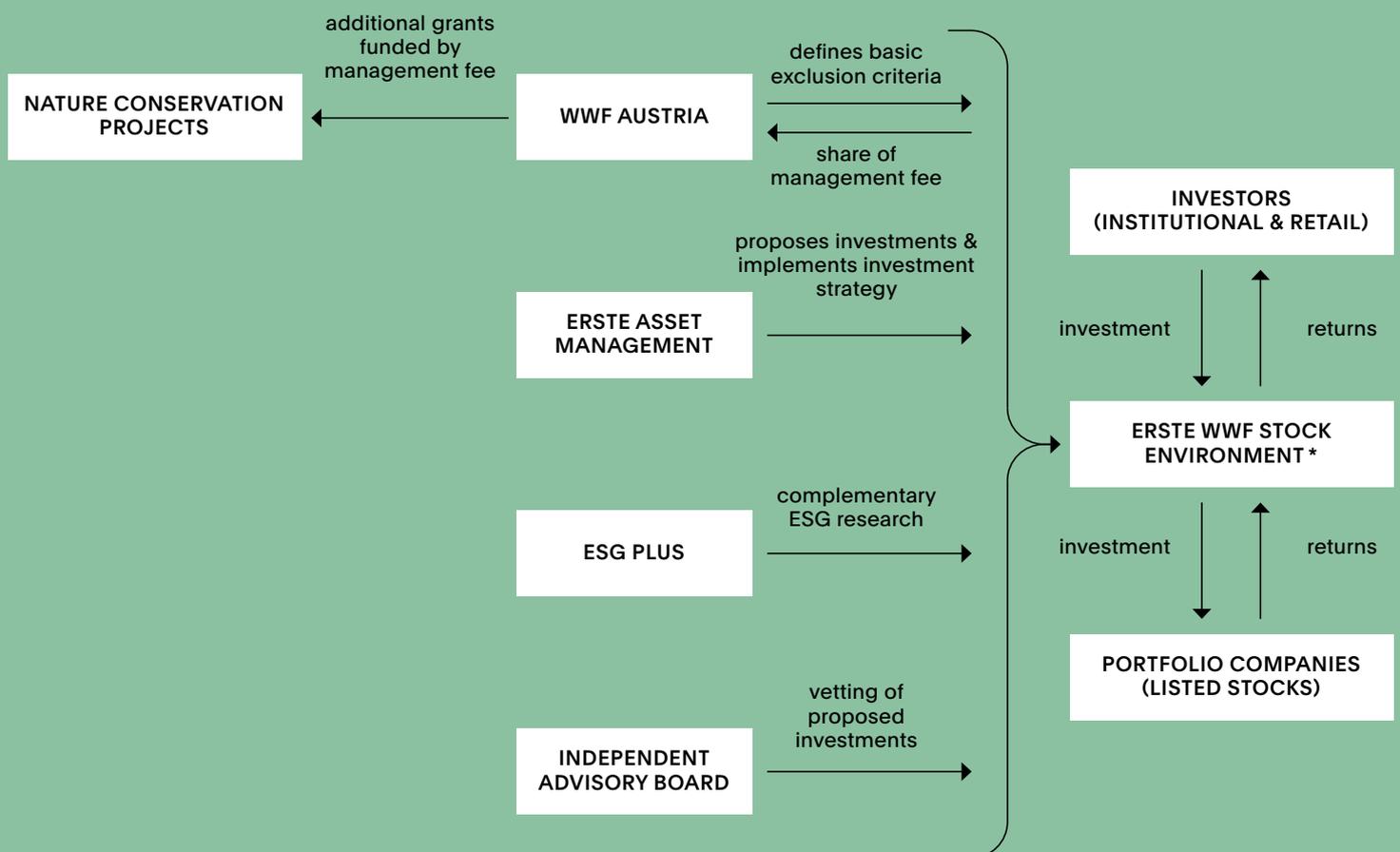
WWF Austria developed the ERSTE WWF STOCK ENVIRONMENT fund in 2006 in collaboration with Erste Asset Management (Erste AM). The fund invests in stocks that have been identified as having a benefit to the environment based on a pre-defined selection process and set of exclusion criteria. It is focused on topics such as renewable energy, energy efficiency, mobility, water and air purification, recycling and others. WWF Austria works closely with a specialised ESG consultant (ESG Plus), that spun out of WWF Austria, with the Responsible Investment team of Erste AM and an external, independent advisory board in order to define an investment universe, from which the fund manager selects its positions for the fund. As of 31 July 2017, the fund had EUR 112 million of assets under management and is invested in approximately 90 positions, out of an identified universe of more than 300 eligible stocks.

WWF Austria participates in the stock selection process through criteria-setting, discussing the eligibility of companies and lending brand recognition to the fund. WWF Austria

receives a proportion of the management fee (0.38%, the total management fee is up to 1.8%). The partnership with WWF Austria has helped the product attract more capital, in particular from retail rather than institutional investors. Since inception, the fund has resulted in additional grants of more than EUR 2 million to nature conservation, split between the freshwater conservation programme in Austria (about 75%) and rainforest conservation in the Amazon and Mekong-Delta areas (about 25%). It is believed that this particular product and this model have significant opportunity to scale and provide additional capital to nature conservation while driving investments in green companies in accordance with a 2-degree aligned low carbon economy.

The ERSTE WWF STOCK ENVIRONMENT fund is a best-practice product with a strong track record since 2006, that shows: strict environmental and social criteria in an impactful and good performing financial product do not contradict.

Thomas Kaissl,
Head of Sustainable Business Engagement, WWF Austria



* The investment universe is defined jointly by WWF Austria, Erste Asset Management, ESG Plus and the independent advisory board.

IFC FORESTS BOND

A DEDICATED BOND HELPING TO CONSERVE FORESTS WHILE GENERATING CARBON CREDITS

In 2016, IFC issued an innovative Forests Bond to finance the protection of forests in return for voluntary carbon credits. It raised USD 152m from institutional investors to finance projects approved under the Verified Carbon Standards (VCS) REDD framework. Investors were given the option to receive their coupon payments in cash or voluntary carbon units (VCU) – a 'green coupon' – for subsequent sale on the voluntary carbon market or retirement to offset emissions. Conservation International, contributed to the successful issuance by identifying a partner with the capacity and need to purchase carbon credits that are not taken up by the investors. BHP Billiton, advised by Conservation International on its forest and REDD engagement, committed to purchasing unused carbon credits at a pre-agreed price.

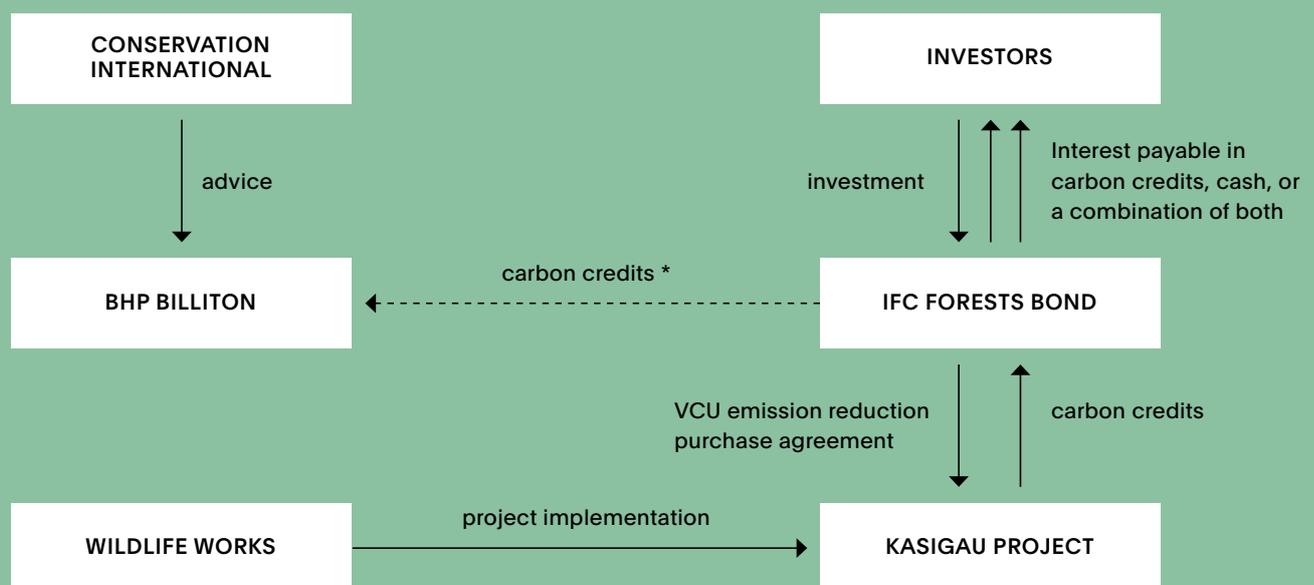
The proceeds of the issuance were used to finance a conservation project in East Kenya's Kasigau wildlife corridor between East and West Tsavo National Parks, where the forest had been decimated due to pressure from cattle herding and unsustainable firewood harvesting. In 1998, Wildlife Works established the Rukinga Wildlife Sanctuary to protect 30'000 hectares of land in Kasigau by providing residents with alternative livelihoods and income sources. The initiative has since become a REDD project, was awarded Gold

level status by the Climate, Community and Biodiversity Alliance and has been expanded to 200'000 hectares by bringing in other landowners in addition to the original concession owned by Wildlife Works. Wildlife Works and its affiliates are the implementers of the conservation activities. Among others these include forest and wildlife protection, support for eco-tourism activities, and the establishment of an eco-friendly charcoal production.

The IFC Forests Bond is expected to have an important demonstration effect, helping to catalyse capital for forest protection at scale. The hurdles that need to be overcome for such structures include the legal and structuring costs for first time products, as well as (integrity) due diligence associated with land-use projects given the issues with land ownership, transfer and registries in developing countries.

The IFC Forests Bond is a replicable, scalable and innovative instrument to attract financing to forest protection and related conservation projects. We are confident that this will serve as a viable model allowing others to replicate similar investments.

Vikram Widge, Head Climate Finance & Policy, Climate Business Department, IFC



* BHP Billiton purchases those carbon credits which are not taken up as green coupon, i.e. interest payment in the form of carbon credits, by investors.

REWILDING EUROPE

FINANCING BUSINESSES IN SUPPORT OF WILD NATURE IN EUROPE

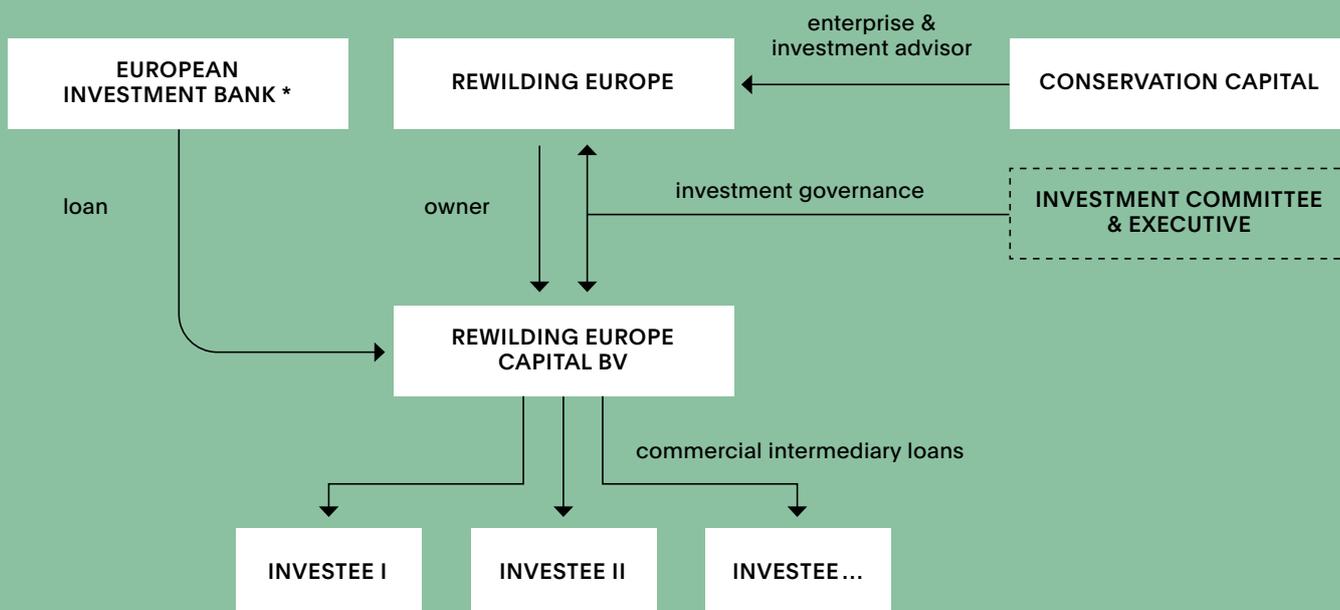
Rewilding Europe aims to create more space for wild nature in Europe, by allowing natural processes to shape our landscapes, promoting wildlife comeback and developing nature-based local economies. The organisation takes an entrepreneurial approach to conservation by helping to develop business models that support, reinvigorate and conserve natural capital and contribute positively to the socio-economic environment of rural areas affected by land abandonment and rural depopulation. Rewilding Europe identified an opportunity to back nature-based businesses that have the potential to leverage such impacts, and founded Rewilding Europe Capital (REC) in 2013 to address this need by providing commercial business loans, alongside technical and promotional support of such businesses. With the initial support of the Adessium Foundation and the Dutch Postcode Lottery, Rewilding Europe pioneered this loan facility in 2015-2016 and successfully built a portfolio of loans to 19 companies that together contribute to the rewilding of over 20'000 hectares of natural landscapes.

In early 2017, REC obtained a EUR 6.0 million loan from the European Investment Bank's (EIB) Natural Capital Financing

Facility (NCFF), which allows REC to expand its activities to include a minimum of 10 additional portfolio companies. The funding is focussed on the European Union's member countries, and the maturity of the loans will be 6-8 years. REC will provide the portfolio companies with business and marketing support in addition to financing. REC will finance businesses that have a rewilding impact on the land use space (such as water management, forestry, hunting) and nature-based tourism. Loans are subject to 'rewilding covenants', which among other components ensure that the proceeds are used to improve the borrowers' contribution to the rewilding and conservation of the landscapes in which they operate.

Rewilding Europe Capital was established to stimulate enterprise activities connected to wilder, natural landscapes and their wildlife in Europe, and to revitalise rural economies and communities.

Frans Schepers,
Managing Director of Rewilding Europe



* through its Natural Capital Financing Facility (NCFF)

NATUREVEST

A DEDICATED CONSERVATION INVESTING UNIT

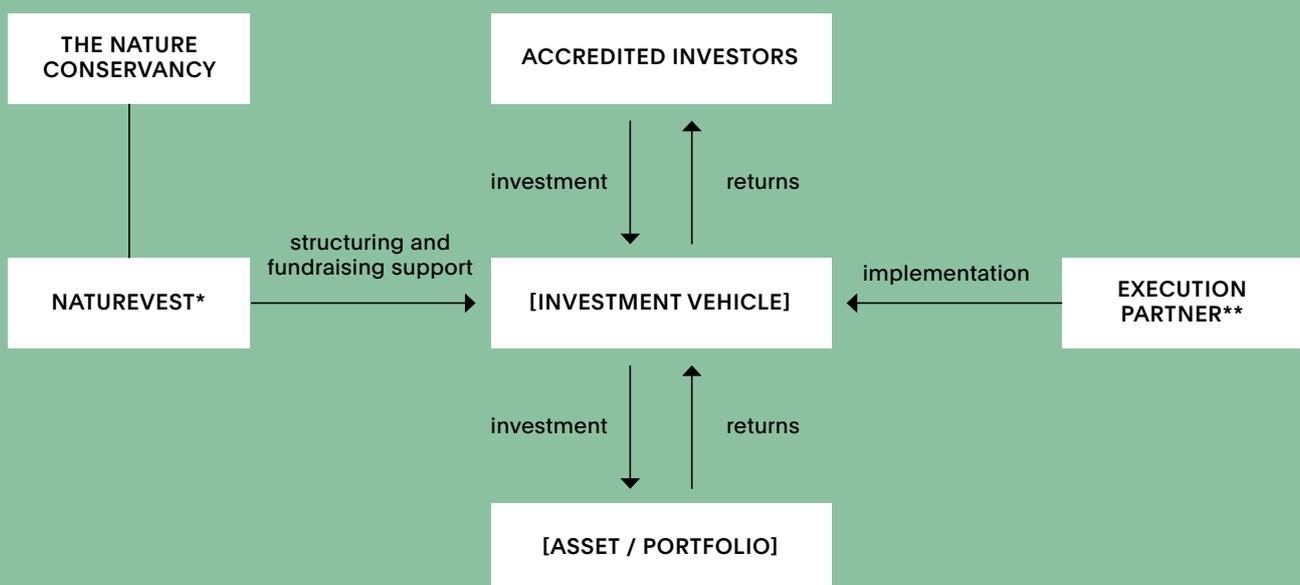
The Nature Conservancy (TNC) has pioneered a transactional approach to conservation, initially using land acquisition as a tool to protect landscapes in its early history in the 1950s and 60s. In later years, TNC was a leader in innovative financing mechanisms such as debt-for-nature swaps, new markets tax credits to support conservation, and investing in water rights. In 2014, responding to growing appetite for impact investments, TNC launched NatureVest, a team dedicated to structuring transactions that leverage investment capital in support of conservation goals.

NatureVest is an operating unit of TNC with around 20 employees, and is specialised on identifying, structuring and marketing investments that generate conservation outcomes as well as cash flows for investors. The team develops transactions aligned with TNC's conservation priorities, which include the marine environment, forests, sustainable agriculture, renewable energy and green infrastructure. Transactions are executed in collaboration with experienced external implementing and funding partners.

Building on deep financial expertise in its management and board, as well as TNC's global presence, NatureVest has successfully attracted investment capital to several initiatives including a sovereign debt restructuring program in support of marine conservation in the Seychelles, a green infrastructure company to reduce the negative impact of storm water runoff in Washington D.C. and a fund to protect wetland ecosystems in Australia's Murray-Darling Basin. Through the deals it structures, NatureVest aims to achieve a sustainable and scalable transformation in natural resource management; it targets to leverage USD 1 billion in impact investments by 2020.

NatureVest identifies financial solutions to conservation problems, and structures transactions that transform how natural resources are managed.

Charlotte Kaiser, Deputy Managing Director, NatureVest at The Nature Conservancy



* NatureVest is an operating unit of The Nature Conservancy. In a specific investment vehicle or transaction, NatureVest may be a general partner or a limited partner, i.e. provide management services or act as an investor

** E.g. investment advisor or owner of investment vehicle

TERMINOLOGY & ACRONYMS

Alternative investment

An asset class that is not one of the conventional investment types (stocks, bonds, cash). Alternative investments include private equity, hedge funds, managed futures, real estate, timber, agriculture, infrastructure, commodities and derivative contracts. These investments are typically held by institutional, professional, or qualified investors because of their complex nature.⁴³

Asset class

A group of investment securities that have similar characteristics, behave in a similar manner and, within a given jurisdiction, are subject to the similar laws and regulations. The three main asset classes are equities (or stocks), fixed income (or bonds), and cash equivalents (or money market instruments).⁴⁴

Asset manager

For the purposes of this report, an asset manager is a financial services organisation responsible for making decisions (discretionary mandate) on investments on behalf of its clients or members. Asset managers include fund managers, wealth managers and banks, for example.

Blended finance

The strategic use of public or private funds, including concessional funding, to mobilise additional capital flows (public and/or private) to investment opportunities. This approach bundles various financial instruments together to finance a project.⁴⁵

Concessional funding

Funding with terms that are substantially more favourable to the recipient than typically found on average in the open market – for example interest rates lower than those that would usually be charged on a loan with a similar risk profile.

Conservation finance, conservation investments

Intentional investments in companies, organisations, and investment vehicles with the goal of generating both a financial return and a measurable environmental result. For the purposes of this report, these are considered a sub-set of impact investments.

Fiduciary duty, fiduciary responsibility

This refers to the highest standard of care that is expected in the relationship between two parties. For example, it obligates an asset manager (fiduciary agent) to act solely in the interest of its client. In most cases, this means maximising financial performance based on a set of pre-defined parameters, and that no profit is made from the relationship unless explicit consent is provided in advance.

FinTech

New technology and innovation that aims to improve upon or compete with traditional systems, processes and business models in the delivery of financial services.⁴⁶

Green Bonds

Bonds whose proceeds are used specifically for projects that contribute to environmental sustainability.⁴⁷

Impact investments

Investments made in companies, organisations, and investment vehicles with the intention to generate social and/or environmental impact alongside a financial return.⁴⁸ For the purposes of this report, these are considered as a sub-set of responsible investments.

Institutional investor

Organisation undertaking financial investments on behalf of its members or clients, such as a pension fund, insurance company, university endowment, or a sovereign wealth fund.

Payment for ecosystem (or environmental) services

Direct or indirect payments from a beneficiary of an ecosystem or environmental service to the provider of that service. These include payments to farmers or landowners who have agreed to take certain actions to manage their land to provide an ecological service, such as carbon sequestration. These payments provide incentives to achieve sustainability goals.⁴⁹

REDD / REDD+

Reducing Emissions from Deforestation and Forest Degradation (and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries). This refers, in particular, to programs and projects created in the context of climate change mitigation. It encompasses a wide range of activities, including those that avoid deforestation and promote sustainable landscape management.

Responsible investments, Sustainable investments

Responsible (or sustainable) investment is an approach to investing that incorporates non-financial factors into investment decisions.⁵⁰ This typically includes the following categories: negative/exclusionary screening, positive/best-in-class screening, norms-based screening, integration of Environmental, Social and Governance (ESG) factors, sustainability-themed investing, impact/community investing, and corporate engagement and shareholder action.⁵¹

Retail investors

These are individual investor who buy and sell securities for their personal account, and not for another company or organisation. Also known as an "individual investor" or "small investor".⁵²

Social Impact Bond

A Social Impact Bond is a financial mechanism in which investors pay for a set of interventions to improve a social outcome that is of social and/or financial interest to a government commissioner.⁵³

Sukuk (Islamic bonds)

Bonds that are structured to generate returns to investors without infringing Islamic law, which prohibits charging interest on debt. Sukuk represents undivided shares in the ownership of tangible assets relating to projects or a special investment activity.⁵⁴

Technical Assistance

In the context of investments, technical assistance refers to funding provided to a project or company to train staff or upgrade systems and processes. Technical assistance can help to make an opportunity 'investment ready' or to increase the performance where an investment has already been made. Technical assistance is typically provided in the form of grants.

CHF	Swiss Francs
CPIC	Coalition for Private Investment in Conservation
DFI	Development Finance Institution
DLT	Distributed Ledger Technology
ESG	Environmental, Social and Governance
ISEAL	Alliance International Social and Environmental Accreditation and Labelling Alliance
IUCN	International Union for Conservation of Nature
OECD	Organisation for Economic Co-operation and Development
PES	Payments for ecosystem services
REDD/REDD+	Reducing Emissions from Deforestation and Forest Degradation (plus)
SDGs	Sustainable Development Goals
TA	Technical Assistance
UN	The United Nations
US	United States of America
USD	United States Dollar



END NOTES

- "Illiquid" refers to investments that cannot readily be sold. Note that pension funds are well positioned to hold long-term financial assets even in the current circumstances, given the long-term nature of their liabilities.
- Specifically, higher ratios of equity capital to their risk-weighted assets.
- For example, as promoted by the Task Force on Climate-related Financial Disclosures.
- Global Sustainable Investment Alliance, "Global Sustainable Investment Review 2016", http://www.gsialliance.org/wp-content/uploads/2017/03/GSIR_Review2016.F.pdf, accessed 20 September 2017.
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- Table 2 provides an overview and description of the different responsible investing strategies. This report considers impact investments as a subset of responsible investments. Conservation investments are considered as a subset of impact investments.
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- Blue & Green Tomorrow, "In The Climate-Aligned Bond Universe China Is The Largest Country of Issuance", <http://blueandgreentomorrow.com/environment/climate-aligned-bond-universe-china-largest-country-issuance/>, accessed on 20 September 2017.
- More information is available on <http://www.sseinitiative.org>.
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- Hamrick, Kelley, "State of Private Investment in Conservation 2016. A Landscape Assessment of an Emerging Market", Ecosystems Marketplace, December 2016, http://www.foresttrends.org/documents/files/doc_5474.pdf#, accessed on 5 September 2017.
- Huwlyer, F., et al. "Conservation Finance. Moving beyond donor funding toward an investor-driven approach", 2014, <https://www.cbd.int/financial/privatesector/g-private-wwf.pdf>, accessed on 12 September 2017.
- Partnerships with large corporates are often entered at a global level (i.e. through head offices) to work on initiatives that are relevant to the corporation as a whole, to some of its business lines, or to certain countries in which it operates.
- For example, savanna regeneration allows the production of sustainable charcoal which addresses energy needs in the capital Kinshasa, while reinforcing national policies against overexploitation of native forests.
- Climate Bonds Initiative, "Bonds and Climate Change: State of the Market 2016", July 2016, <https://www.climatebonds.net/files/files/CBI%20State%20of%20the%20Market%202016%20A4.pdf>, accessed on 14 August 2017.
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- The characterisations presented here are necessarily simplified and do not do justice to important differences among the individual actors within these groups.
- Governments may, of course, act as donors and invest through their development banks and development finance institutions (DFIs), which are covered as an investor group in this report (see Table 1).
- The European Union, for example, supports financial instruments (e.g. revolving funds, guarantees, loans) as a way of leveraging its budget. As part of this effort, the European Commission and the EIB have created the Natural Capital Financing Facility (NCFF) which supports investments that benefit biodiversity and climate adaptation.
- Milne, S., "Global ideas, local realities: The political ecology of payments for biodiversity conservation services in Cambodia", 2009, PhD Thesis, Darwin College, University of Cambridge.
- This table is adapted from the 2016 Global Sustainable Investment Review published by the Global Sustainable Investment Alliance (GSIA). The column on 'relevance for conservation investments' was added by the authors of this report.
- bn = billion. Growth presented as compound annual growth rate (CAGR).
- Sustainable themed investments include green property funds, low carbon strategies, Green Bonds, etc.
- International Social and Environmental Accreditation and Labelling Alliance.
- More information is available on www.nestle-nespresso.com.
- IUU: Illegal, unreported and unregulated fishing
- Cost reductions are not always trivial to monetise, and respective approaches are more common in energy efficiency related investments (which reduce energy and fuel costs) than land-use based investments.
- Note that (enhanced) biodiversity may be monetised through eco-tourism.
- For an overview of blended finance, please refer to: World Economic Forum, "Blended Finance Vol.1: A Primer for Development Finance and Philanthropic Funders", 2015, http://www3.weforum.org/docs/WEF_Blended_Finance_A_Primer_Development_Finance_Philanthropic_Funders_report_2015.pdf, accessed 20 September 2017.
- Investors can be incentivised to participate in such iterative processes, for example through rights-offirst-refusal on transactions once they are ready to be financed.
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- 40 Fetsch, E., "Are Incubators Beneficial to Emerging Businesses?", Ewing Marion Kauffman Foundation, 2 March 2015, <http://www.kauffman.org/blogs/growthology/2015/03/are-incubators-beneficial-to-emerging-businesses>
- 41 Such funds may also be leveraged, i.e. take on debt.
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- 43 Adapted from the definition provided by Investopedia, "Alternative Investment", http://www.investopedia.com/terms/a/alternative_investment.asp, accessed 20 September 2017.
- 44 Adapted from the definition provided by Investopedia, "Asset Class", <http://www.investopedia.com/terms/a/assetclasses.asp>, accessed 20 September 2017.
- 45 Adapted from the definition provided by the Organisation for Economic Co-operation and Development (OECD), "Blended Finance", <http://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/blended-finance.htm>, accessed 20 September 2017.
- 46 Adapted from the definition provided by Wikipedia, "Financial technology", https://en.wikipedia.org/wiki/Financial_technology, accessed 20 September 2017.
- 47 Adapted from International Capital Market Association, "The Green Bond Principles 2017", 2 June 2017, <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GreenBondsBrochure-JUNE2017.pdf>, accessed 20 September 2017.
- 48 Adapted from the definition provided by the Global Impact Investing Network (GIIN), "What is impact investing?", <https://thegiin.org/impact-investing/need-to-know/#s1>, accessed 20 September 2017.
- 49 Adapted from the definition provided by United Nations Development Programme (UNDP), "Payment for Ecosystem Services", <http://www.undp.org/content/sdfinance/en/home/solutions/payments-forecosystem-services.html>, accessed 20 September 2017.
- 50 Adapted from the definition provided by the Principles for Responsible Investment (PRI), "What is responsible investment?", <https://www.unpri.org/about/what-is-responsible-investment>, accessed 20 September 2017.
- 51 Based on Global Sustainable Investment Alliance, "Global Sustainable Investment Review 2016", http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR_Review2016.F.pdf, accessed 20 September 2017.
- 52 Adapted from the definition provided by Investopedia, "Retail Investors" www.investopedia.com/terms/r/retailinvestor.asp, accessed 25 September 2017.
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Farmers heading home from rice fields at sunset. Dongting Lake, Hunan Province, China © Michel Gunther / WWF

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www.clarmondial.com

The WWF Landscape Finance Lab was established in 2016 to incubate sustainable landscapes in the world's most biodiverse locations.
www.landscapefinancelab.org



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