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**Social Impact Investing and  
the changing face of conservation finance**

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## Executive Summary

A consistent and significant challenge facing the conservation of natural resources is where the money will come from, and what new sources will arise as trusted sources dry up? While roughly US\$30B is spent on conservation efforts globally per annum, the annual need to maintain critical ecosystem functions in the long term is estimated to be ten times higher. In an era where public support is increasingly insufficient, **social impact investing** is one funding strategy garnering attention in the policy sphere. Social impact investing directs capital to organizations, funds, and projects that generate both social and financial returns. Banks and investment firms, along with foundations and governments, are increasingly interested in the potential for novel financial arrangements to direct more funding toward critical social challenges, including environmental and conservation issues. Existing impact funds and initiatives demonstrate how billions can be leveraged to support projects ranging from healthcare to poverty alleviation to infrastructure, and highlight the opportunity for similar models to generate financial support for conservation objectives without undermining fundamental ecological goals.

Ecological conservation has not yet been a focal point in the impact investing space, but current research and reporting suggests there is available capital as well as a substantial need for funding. While several billion dollars are currently invested as impact capital in conservation-related programs, in the next decade dramatic increases in this area are anticipated. The extent of this expansion, and the effectiveness of these funds in achieving real conservation gains, will rely upon appropriate investment vehicles being available and, importantly on the engagement of conservation community. Both will require education, coordination, and leadership on the part of conservation organizations, investors, and organizations serving intermediary roles.

Not all conservation programs are appropriate for this type of financing. Here we provide an explanation of current actors in the conservation impact arena as well as critical features and requisite data to consider feasibility. Though conservation receives a relatively small percentage of philanthropic giving as compared to health and poverty related social causes, there are challenges unique to the practice of natural resources conservation that may explain in part why conservation thus far represents a small percentage of overall impact investing as compared to other sectors. These challenges include reliable risk assessment, consistent and comparable impact measurement, and (where applicable) generating competitive economic returns.

To address these challenges, we propose the following key recommendations:

*Improve impact assessment methods* - A substantial barrier to conservation impact investing is the ability to estimate and generate accurate rates of return, known levels of risk, and standardized impact measurement. Measuring impact on financial and ecological scales is critical to the development of the impact investing field, as well as good practice in general as donors increasingly desire impact evaluation.

*Test new ideas and share data* - Pilots will help establish confidence as well as learning opportunities, and improve our ability to create risk-return profiles. Governments can support and accelerate private-sector standards while promoting open access to data.

*Operate at multiple scales-* Many of the existing examples of conservation impact projects are substantial sums operating at landscape scales. While institutional investors may be looking to operate at the level of large programs, it is not a reason that organizations could not engage with a smaller project, via funds and other groups that are better equipped to understand regional needs.

*Deeply consider knowledge gaps and enablers in the conservation community -* Increased capacity for the development of collaborations, partnerships, internal and external learning opportunities and professional development is needed. Conveners are needed to bring together cross-sector stakeholders in order to advance discussions and take action to move the impact-investing agenda forward.

*Create an Enabling Environment –* Increase capacity for the development of collaborations to grow the entire conservation impact space, and for specific projects engage in partnerships to leverage public and private funds. At the institutional level, support policy changes that provide incentives and benefits for engaging the impact investing space.

Overall, we recognize that some amount of skepticism will come with significant impact dollars available for conservation. Our aim is to provide necessary background information for those interested to enable the conservation community to engage as an equal partner in the impact investing conversation. Given existing shortfalls in funding conservation globally, understanding the potential role for impact investing, how it functions, and how it may function in the future could be enormously beneficial to conservation organizations.

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## **Introduction – Aligning financial supply and ecological demand**

The wide-ranging benefits of conserving nature are well understood, yet financially enabling ecological and biodiversity conservation programs and activities remains a global challenge (Bruner et al., 2010, Rands et al., 2010). The current estimate of annual global expenditures for conservation is in the vicinity of US\$30B (Bovarnick et al., 2010), whereas the global need is estimated to be between US\$200-300B per year (Credit Suisse et al., 2014). While these are estimates and some might quibble with the exact numbers, few would disagree with the crux—the shortfall is substantial. Climate change will likely increase the need and demand for financial support – to respond to increased pressure on natural resources alongside the need to maintain healthy ecosystems to provide resilience and facilitate adaptation.

Conservation programs and projects are generally government, foundation, and donor-supported (namely, individual donors, as well as international bilateral funders such as the GEF, USAID, World Bank, etc.). However, government and donor funded conservation has remained stagnant over the past twenty years, and in some cases declined, while conservation needs have only increased (Miller et al., 2013). Conservation organizations are increasingly looking to diversify the strategies through which they finance their programs to address the aforementioned funding gap and attract new interest in conservation-related causes, increase public understanding of the benefits we receive from nature, and induce possible cost savings associated with restoration of certain ecosystem types (e.g., wetland protection to improve flood regulation).

Social impact investing (SII) is one such diversification strategy, which leverages funding from the private sector to support social goals. The key features and applicability of SII to the conservation sector are covered in this report. SII refers to investments with the “intention to generate a measurable, beneficial social or environmental impact alongside a financial return” (GIIN, 2015). The goal is for the investor to receive “blended” returns, making SII an investment that seeks to generate both social/ecological and financial returns. Such investments may take the form of bonds, shares in an organization, direct payments, low interest loans, and other strategies discussed in this report. SII investors can be governments or foundations, as well as financial institutions and private investment firms.

Any mention of private finance associated with conservation can bring about concern regarding the commitment to conservation objectives if they come in conflict with monetary goals. The examples discussed herein are predominantly programs in which there are multiple partners and “outside” organizations such as banks that issue bonds or provide funding but are not involved in the design or implementation of projects. And naturally, not all projects are suitable for impact investment, as we will discuss in more detail. However, existing novel partnerships, applicable examples from other social sectors, and the potential scale of funding available is such that we believe impact investing will receive increased attention in the future. As a result of the potential access, and examples from other sectors, it will benefit conservation organizations to understand if, when, and how impact investments can support their goals and objectives. Existing reports from a variety of banks and foundations in partnership with consulting firms target investors to demonstrate how impact investing can address environmental issues while meeting their

investment needs (eg. Credit Suisse et al., 2014, EKO Asset Partners, 2014). Far fewer resources concerning impact investing are currently available for conservation practitioners.

The purpose of this report is to serve as broad overview of the impact investing landscape, and how it both relates to and could pertain more deeply to the conservation arena. Critically, our intention is not to advocate for impact investing as a strategy, but to advance understanding, stimulate thought, and begin a conversation about how organizations may prepare for, participate in, and potentially benefit from such arrangements as impact investing continues to evolve and grow. In Part 1 we further explore the tension between funding gaps and conservation concerns, Part 2 addresses critical features of impact investments, and Part 3 outlines the roles of key actors in the space and current types of projects they are partaking in. Parts 4 and 5 look at existing strategies to address these concerns, and how they may apply to conservation sector moving forward.

### **Part 1: Leveraging Impact: Why invest in conservation?**

Conservation organizations compete against one another for grant and donor funding, and use prioritization frameworks such as biodiversity hotspots, umbrella species, biological corridors and buffer zones among many others to optimize conservation returns with the understanding that not all needs can be met (Brooks et al., 2006, James et al., 2001). Species and ecosystem goals and objectives are set within and across nations, including through the Convention on Biological Diversity (CBD), yet are chronically underfunded (Bruner et al., 2010). Indeed, multiple parties to the CBD pointed to financial shortcomings as a reason that the global 2010 target was not achieved (CBD, 2012). A critical component to the 2020 Aichi Targets is the inclusion of a new goal associated with financing, with the understanding that all programs and organizations require funding if gains are to be made and sustained (CBD, 2010). But where will this money come from?

Currently there is an estimated US\$60B in impact investments across a variety of social issues, including poverty reduction, housing access, and within the environmental sector (Saltuk et al., 2014). *This amount alone is double the estimated total global annual spending on conservation.* Impact investing is estimated to grow to over US\$1 Trillion in assets under management by 2020 (JP Morgan et al., 2010, New Climate Economy, 2015). Remarkably, impact investing represents a mere 0.02% of the global financial market; should it grow to a projected 1%, in the coming decade, its market share would translate to US\$3 Trillion (GIIN, 2014). Figures 1a and 1b on the following page attempt to put this into perspective.

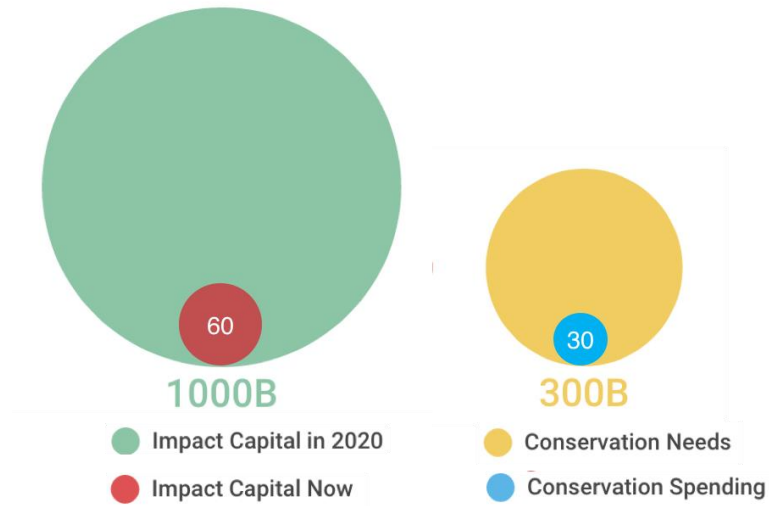


Figure 1a: Relative scale of overall impact investing and current conservation funding.

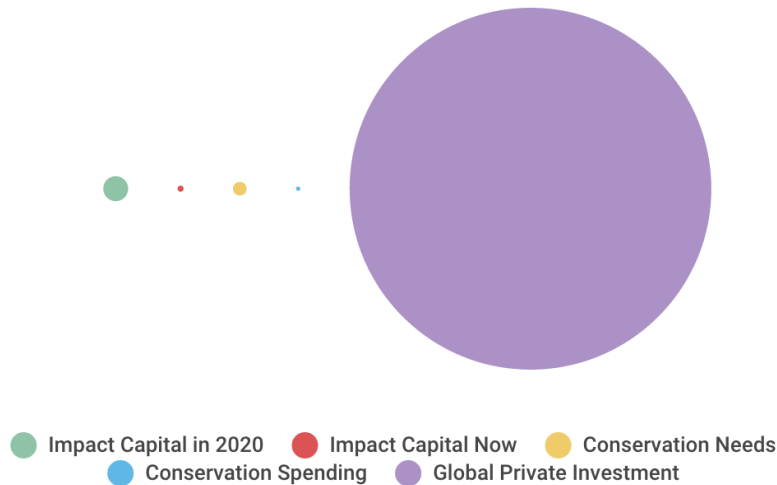


Figure 1b: Relative scale of impact investing, conservation funding, and global private investment.

The profile of today’s investors and impending wealth transfers provides evidence to support anticipating such a shift toward value-based investing. The World Wealth report in 2014 reported that deriving social impact from investments is important to 92% of high net worth individuals (RBC Wealth Management, 2014). Additionally, younger generations are more supportive of impact investing principles than older ones – 67% of millennials agreed with the statement “my investment decisions are a way to express my social, political, or environmental values” as opposed to 36% of Baby Boomers (US Trust, 2014). The wealth transfer between



these two groups in the coming decades is estimated to be US\$30 Trillion, the largest transfer of wealth in history (Accenture, 2012). And, to be sure, some contributions to conservation organizations may already be seen as a type of “investment” among donors who are motivated by the potential for healthy ecosystems to provide long-term benefits. Going beyond philanthropy and tapping into dollars reserved for different types of investment could meaningfully address the existing funding gap for many conservation organizations.

### ***Potential for Conservation and Impact Investing***

In an effort to assess the scale and potential for impact investing in the conservation realm, EKO Asset Management Partners (now Encourage Capital) partnered with NatureVest (the impact investing arm of The Nature Conservancy) to survey a range of private and institutional investors to better understand the current state in this sector. In this study, they refer to conservation broadly, and include projects focused on water and agricultural management, though improved management in these realms often results in direct or indirect biodiversity co-benefits. Survey highlights are provided here. (It is worth noting that these numbers are not modeled but real numbers based on interviews with investors and thus represent actual investments or planned investments. As a consequence, they are certainly underestimates since those surveyed represent a subset of all conservation impact investors.)

- US\$23.4B in global conservation impact investments were made from 2009 through 2013. Though there is likely overlap and different boundaries for inclusion, this is sizable in relation to existing private and public donations to conservation. Investments by development finance institutions (DFIs) such as the International Finance Corporation totaled US\$21.5B; private investments accounted for US\$1.9B.
- DFI funding primarily supported water related conservation projects (like water funds, see below), with total investments of US\$15.4B.
- Private investment is currently relatively small, but grew 26% on average between 2009 and 2013.
- Private sustainable agriculture investments grew rapidly, increasing from US\$67M in 2004-2008 to US\$472M in 2009-2013.
- Critically, from 2014 through 2018, private investors surveyed anticipate further investments of US\$1.5B of capital that is already raised, while also raising and investing an additional US\$4.1B, meaning there is US\$5.6B planned among this surveyed group alone to be invested in conservation oriented activities in the next five years.

Of the close to US\$2B of private funds invested in conservation impact from 2009-2013, 66% was in sustainable food and fiber production, 23% in habitat conservation, and 11% to water quality and quantity programs (EKO Asset Management, 2014). To compare to the impact investing sector more broadly (including housing, poverty alleviation, and other areas) these projects represent only 4% of global impact investments in this timeframe (New Climate Economy, 2015).

Around the same time as this survey, the Global Impact Investing Network (GIIN) compiled a profile of impact investing through their IMPACTBase database. The GIIN is a non-profit that

originated in 2009 to increase the scale and effectiveness of impact investing through data and knowledge sharing, and is a key intermediary organization in the impact sector. Their IMPACTbase database organizes types of investments and is a very useful tool for comparing opportunities along with existing projects seeking funding (and can be found in Resources section along with other helpful resources in the Appendix). Examining environmental content in their database, with overlap across categories, they found that 43 of the 310 funds listed investments in “food and agriculture”, 39 in “sustainable land use”, and 21 in “carbon and environmental commodities” (GIIN, 2015). The average committed capital per fund in all sectors was US\$52.5M, for a total of over US\$16B (GIIN, 2015).

### ***Conservation integrity in a world of investment***

The loose definitions of conservation projects, notably the 66% of projects associated with sustainable commodities and the classifications in IMPACTbase, may call into question for some whether the activities constitute “real conservation”. One might imagine the following criticism:

*Perhaps we could get more money into the conservation sector, but wouldn't that just dilute the enterprise of protecting biodiversity? If conservationists get involved with the financial sector, will that pervert conservation away from core objectives?*

These are very real concerns, and part of the reason why it is important for conservation organizations to understand what is currently taking place in the impact investing sphere. Some organizations actively engage in projects associated with sustainable commodities – such as bird-friendly coffee or improving grazing practices to minimize environmental impact and add value for smallholder farmers. For others, it may be of value to consider how engagement in the space may contribute to their evolution, and given the scale and growth in impact investing, as well as the interest of impact investors themselves in natural resource conservation, there is likely a need for guidance in order to achieve desired conservation impact, including and beyond sustainable commodities.

### ***Emergence of Social Impact Investing in Conservation***

Interacting with financial markets is certainly not new in conservation practice. Some conservation programs may be wholly government implemented, but still draw on market-based principles in their design. Specific types of financial interactions, such as carbon and biodiversity offsets, may set their prices according to external economic drivers, and can be purchased by public or private organizations as well as individuals. Land trusts and conservation easements may allow certain specific resource uses while conserving other portions of the property. Income generating activities, such as park entry or user or licensing fees, or taxes and levies, may finance further conservation activities. A carbon tax on gasoline is one of the main financial sources for Costa Rica's well-known Payment for Ecosystem Services (PES) program where farmers are paid to conserve and restore forest on private lands.

Results-based finance and pay-for-service models utilize market logic to achieve ecosystem benefits. Similar to Costa Rica's PES program, the European Union applies performance payments to the agriculture sector, where farmers are rewarded for changing landscape

management practices to benefit local ecosystems. Aspects of these types of programs, including impact assessment and monitoring strategies, are being considered as impact investing deals are structured to facilitate participation from farmers (in this case), who are able to make their own decisions on the ground to meet agreed upon outcomes, and optimize biodiversity impact for the funder.

These examples are among the types of conservation activities that could be supported through an impact investment, which begs the question: what makes impact investing different? In some cases, nothing at all, it is merely harnessing a different funding channel. In others, there may be features of a project that are more likely to lend itself to impact funds. The attributes of projects and data requirements are discussed in the following sections.

## **Part 2: What are the critical features of impact investments?**

Though the long-term benefits – financial, social, and ecological – of conservation may be obvious to those who work in the field, particular features and data are required to determine if a program or fund is appropriate as an impact investment versus traditional donor funding. NatureVest estimates that while they are personally constructing large deals (US\$100 M+) there is US\$1B in capital that could be invested in the US that is not being used due to the lack of appropriate projects (EKO Asset Management & NatureVest, 2014). This highlights the lack of “absorptive capacity” (i.e. available funds or deals that meet investor requirements) that conservation organizations can work together to address. The following features are some of those considered by investors. To the extent possible the highlighted examples are from the conservation sector, otherwise they are intended as illustrative examples where there may be potential to apply similar models in the conservation realm.

### ***Cash flow***

This is an extremely important concept. Preserving a wetland may have a “value” and the value can even be quantified using a variety of different types of economic tools. However, there is a stark difference between ascribing a value for a decision-making process (e.g., cost-benefit analyses of building a hotel in a coastal region vs. conserving it for habitat and recreational opportunities) and generating a consistent and predictable financial return. For any project integrating conservation values into agricultural commodities, fisheries or any kind of value-added commodities there is usually some form of cash flow, which means incremental repayment of a loan or capital investment is possible. Investments could be made directly to the program, or to an intermediary that evaluates the program. Hence, there has been more investment in those projects which produce a return by integrating conservation values into commodities This explains why these are areas where more investment has taken place.

Capital improvement projects function this way, and can be seen in many renewable energy projects. There is an upfront cost, but a savings in the long term that can be returned to the investor over time. In Toronto, Canada, **Co-Power Energy** operates in this manner. They select projects or institutions for solar energy retrofits, investors agree to a term and rate of return, and Co-Power acts as the intermediary to implement the infrastructure improvement as well as

facilitate payments back to the original investors. Repayment of the loan is possible because of the cash flow from either selling the energy or reducing existing energy bills. In the case of agriculture improvements, **NatureVest** partnered with conservation organizations in Kenya to re-organize the value chain for livestock production and enhance economic and environmental benefits to farms across several value streams. Cash flow derived from ecotourism and higher standards for land management that added value to their livestock and helped them gain access to larger markets and price premiums. The added income contributed to expanding access to sustainable livelihoods and landscape management in the community.

### ***Time Frame***

Short term investments must not be too volatile to attract interest, whereas longer term can have lower rates of return because they typically involve less risk (Boyd et al., 2012). Given the need for sustained funding to maintain habitats and ecosystems, long term investments that do not produce as much profit are a viable possibility for environmental programs. Loans or bonds are associated with a specific time frame, and investors rely on consistent returns in that period or a guaranteed payout at the end. Green Bonds are gaining interest and traction -- in Canada, the Green Bond market went from 0 - US\$42B between 2010 and 2014; globally, the Green Bond market hit a record US\$41.8B in 2015 (Social Finance, 2015; Climate Bonds Initiative, 2015). This is not a new strategy, as government bonds are frequently issued for infrastructure development, but the difference is the focal area and can be about timing. Conservation organizations can be the beneficiaries of investments from these bonds for their efforts in promoting particular initiatives (eg., parkland conservation) to meet desired outcomes. In 2014, California raised US\$200M from a green bond issue, 98% of which was invested in air quality improvement. They are using a similar model to invest in water infrastructure.

*The true long term potential for investment in the environment and environmental infrastructure is being demonstrated in Washington DC, where a 100-year US\$350M green bond was issued by the water utility DC Water. Previously DC Water had issued 35-year bonds, but as 100 years is better suited to the lifecycle of tunnels, the costs will be spread across all those who benefit – they refer to it as “intergenerational equity and fairness” – while also locking in historically low interest rates (JP Morgan, 2013). Another important feature of this bond is that it was the first to have an independent review of the impact credentials, which is a requirement for compliance for the Climate Bonds Standard. Demonstration cases such as this one in DC will provide data that can support development of future investment opportunities.*

### ***Rate of Return***

Understanding the expected rate of return for an investor is important, but figuring out how to generate one is even more fundamental. Though cultural, biological and even economic benefits of conservation may be evident, a financial return is not necessarily quantifiable and “real” with respect to cash flow. Thus, the conservation and investment communities face the challenge of identifying how these values can be monetized through financing and investment mechanisms. That is, despite ecosystem valuations worth millions, conserving a wetland does not translate to funds being available. Calculations are possible however: one study reported that the loss of a one-mile strip of wetlands along the US Gulf coast results in an estimated US\$5.7M in average

annual increases in property damage (Paterson et al., 2010). Such studies can help provide an evidence base to rationalize investment in and reasonably estimate the return on investment for financing such efforts as wetland conservation.

When the government is a partner, the return on investment can be generated from cost savings in another sector; for example, in health, education, or other areas where there are substantial budgets and opportunities for savings and improved efficiency<sup>1</sup>. When this is not feasible, social impact bonds (SIBs) are one way to generate upfront capital for innovative programs the government does not want to take the risk to test, but will pay out when a pre-determined level of success is achieved. This is slightly different than the standard bond model, as SIBs tend to be applied to one specific intervention program. The model is a popular example of an impact investing innovation, and is fleshed out in more detail in Section 4 of this paper.

Rate of return associated with value-added products is likely why sustainable agriculture (like livestock in Kenya) and fisheries (like Chile, where investors can capture double digit returns on investment from better managing fisheries versus the money lost from poor management) have had more attention from investors, as was found in the EKO Asset Management and TNC survey. Commodities have pre-existing revenue streams based on supply chains into which additional conservation benefits can be integrated and, thus, a return over time is easier to model and manage.

*The amount that investors can earn on their initial investment is a critical deciding factor and useful tool to compare to other investment opportunities. In the **GIIN assessment of the IMPACTBase** participants, 42 impact funds were identified as targeting environmental issues. Within these, fund managers sought internal rates of return (IRR) of 5–10% in the conservation area. Different regions, political environments, and the success rates of implementing agencies will all play into the assessment of risk and will have significant influence on participation. Both the IMPACTBase database and the **EKO** survey show that fixed income impact investors will often be willing to accept a 5% return on debt for conservation as long as risks are managed.*

*Return on Investment (ROI) is an issue related to rate of return with respect to conservation, and has its own subset of controversies. “Rate of return” refers to the financial return to investors, whereas “return on investment” can refer more broadly to project impact, and in conservation is often discussed in relation to comparing outcomes of different projects (Boyd et al., 2012). For example, if the same monetary input conserved twice as many species in protected area A compared to protected area B, project A could be considered to have a higher return on investment. However, reality is far more complicated – rarity of a species, its role in the ecosystem, the location of the protected area and its overall habitat quality can influence how significant a factor the absolute number of protected species is (Boyd et al., 2012). These issues and recommendations for conservation ROI are discussed in much greater detail in a Resources for the Future whitepaper on the topic and listed in the Appendix.*

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<sup>1</sup> In theory this is true – some government budgeting systems do not allow accounting to behave in this manner (which is a shortcoming to more holistic solutions and contributes to silo-ing – so policy reform in this arena can also be an enabling factor worth considering.)

### ***Level of Risk***

Risk can come in a variety of forms -- commodity market risks, policy and political risks, unreliable infrastructure, macroeconomic risks, weather risks and business risks such as difficulties in finding trained staff (Credit Suisse et al., 2014). Differential risks often explain why loan rates are different to different borrowers, and conversely why some projects need to have a higher return than others to attract investors (Saltuk et al., 2014). In one assessment of impact investment, those projects that took place in Africa on average needed internal rates of return to be 5% higher than comparable conservation investments in Latin America because of this associated risk (Saltuk et al., 2014).

Risky environments or conditions may provide a venue for governments and foundations to play a supporting role. Such institutions could serve as a guarantor (i.e., agree to repay a loan to investor if the loan defaults), provide tax relief – for example, capital gains taxes could be lower for a social impact investment, or provide seed or bridge funding at the outset to attract additional private capital.

Insurance companies are experts in understanding, quantifying and pricing levels of risk, which are reflected in differentiated premiums. Quantifying risk associated with a conservation project has not been common practice, but the development of metrics and approaches to do so could provide practitioners a new way to report on impact and better communicate risk with donors or investors.

*As highlighted above, **NatureVest** is a leader in impact investing in the conservation sector, and this is largely due to the minimized risk associated with dealing with TNC. A long standing organization with well-established relationships and partnerships, most of TNC's impact projects are taking place in regions where the organization has a track record, a team of staff members that are well-versed in deal creation. Finally, critically, some of TNC's projects have a **credit rating**. This is an external evaluation of the risk, in the terms that financial institutions are used to dealing with. This enables a direct comparison to other investment opportunities.*

### ***Impact Measurement***

Monitoring and evaluation is often discussed in conservation projects, but even in programs associated with payments, such as PES, it is challenging to retrieve consistent available data to evaluate success (Naeem et al., 2015). For impact investing purposes, impact measurement is critical for confidence on all sides, not only at the outset, but as part of ensuring non-financial impact associated with the investment. According to one fund manager, given the lack of consistent existing measurements, it is currently sufficient for some investors to simply know there is impact associated with an activity or business in which they are investing (Genus Investment Partners, personal communication, 2015). As time goes on, multiple reports suggest that consistent, quantitative metrics for comparison will be required if this sector is to grow (GIIN 2014, Credit Suisse 2013, WEF, 2015).

In an effort to consolidate and standardize impact metrics, the following tools are gaining traction in terms of use and applicability:

*Global Impact Investing Rating System (GIIRS) - requires a paid membership, and applies mostly to funds and businesses. Though similar metrics could be used, they are currently not particularly applicable for conservation organizations.*

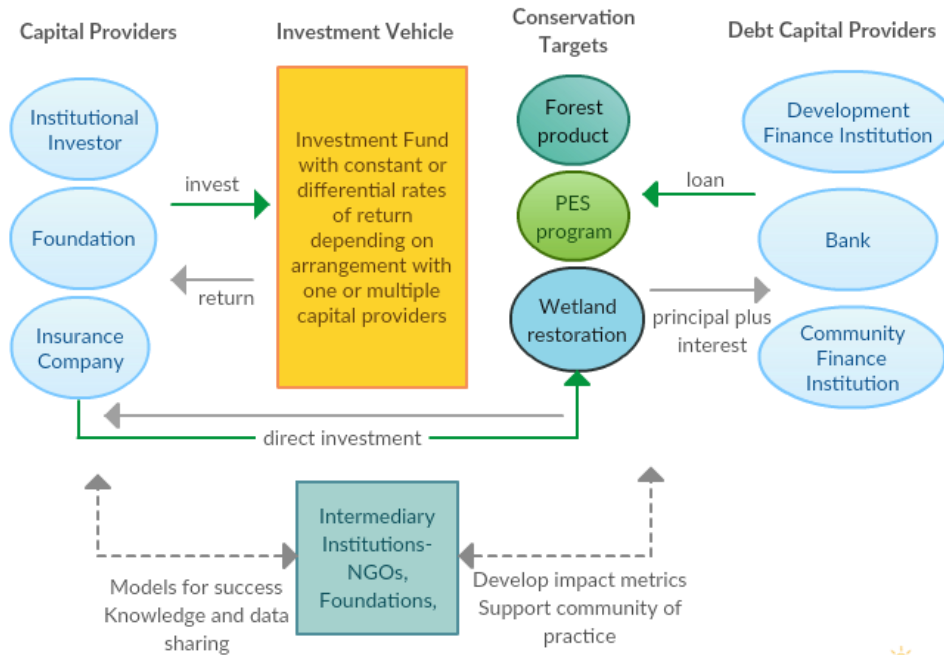
*Impact Reporting and Investment Standards (IRIS) - developed by the GIIN, is a user friendly database including guidance to perform impact assessments using established third party metrics where possible.*

*Social Return On Investment (SROI) - based on a set of principles rather than specific metrics or means of measurement, SROI is a tool to attribute monetary values to significant intended and unintended outcomes of projects as part of an impact evaluation.*

When identifying impact investment opportunities to support conservation, it is essential that an investment enhances the values of natural capital that can be monetized, captured by an investment mechanism and consistently provide financial returns to investors per the agreed upon time frame and rate of return. Currently, monetization is not always factored into program assessment, but donors (not just impact investors) are pushing for more evidence-based approaches to conservation and want to know what their return on investment is, even if that return is not a financial one. USAID and the World Bank, major funders of biodiversity and conservation globally, are both moving in this direction. For several of the above data needs, it may simply become good practice to account for these criteria to demonstrate impact for any contributor. Indeed, many leading conservation donors also comprise those interested in pursuing impact investing. In the following section we review the key actors and the current SII and SII-like activities in which they are engaged.

### **Part 3: Who are the key actors and what are their roles?**

There are a variety of actors and types of investors and investment mechanisms in this area. Some are the traditional donors to conservation efforts, such as governments, foundations, and high net worth individuals, whereas others may be new to conservation. Here we outline a few of the main actors, whose roles may differ depending on the project, and thus we use a few examples to demonstrate the range of activity and projects in the space. Figure 2 demonstrates a generalized conceptual diagram of some of the key actors and how they might interact in an impact investing arrangement.



**Figure 2:** Relationship between investors, investment targets, and the flow of capital between them and other actors. Solid lines are capital flows, dashed lines are knowledge flows.

### ***Foundations***

Foundations are acting as both funders and intermediaries, as they have been instrumental in setting the agenda for growth among investors and investees in the conservation community and impact investing at large. In the United States, large foundations like the Rockefeller Foundation and the Gordon and Betty Moore Foundation are using their considerable convening power to bring together relevant groups across all of the following categories to chart a path forward for impact investing in conservation.

Within the foundation world there is already a trend toward impact investing, though often organizations are not sure where to find best impact (Social Finance, 2014). This is a trend in the impact investing space and conservation in particular – there is interest and capital, but not enough available and appropriate projects (EKO Asset Partners & NatureVest, 2014). Within a foundation’s own investment portfolios, there are different impact strategies. For example, like many foundations, the JW McConnell Foundation in Canada divides their impact investments into Mission-Related Investments (MRIs) and Program-Related Investments (PRIs). MRIs are made in either for-profit or non-profit enterprises with the intent of earning market-rate financial returns. PRIs are investments made to charities as well as for-profit and non-profit enterprises to further the foundation’s program objectives, but – unlike grants, which are another category of foundation fund allocation all together– they also aim to generate financial returns, with a tolerance for below-market returns. PRIs or other long term investments where market-level returns are not required can be particularly helpful as bridge funding or seed funding, for higher



risk investments to encourage other investors to participate in cases where a project may take some time to generate returns.

*The Rockefeller Foundation has participated in, financed or coordinated a number of efforts to support the development of conservation impact investing. They hosted the meeting in 2007 that is credited with coining the term “impact investing”, and were a partner in the creation of NatureVest, the impact investing arm of The Nature Conservancy, that has since initiated and facilitated several major conservation impact projects. Since 2007 Rockefeller has invested US\$50 M in the development of infrastructure and knowledge generation around impact investing.*

### **Large Financial institutions (Banks)**

Like foundations, banks are in a position to participate as investors or debt equity providers in impact projects or funds, but also have the capacity to take actions that enhance the scale and reach of the sector. TD Bank and RBC (the Royal Bank of Canada) are expanding green bond offerings, engaging in social impact bonds, and responding to retail consumer demand for funds that meet their impact needs. There is not a consensus among various banks as to how this may influence acceptable risks and ROIs but like governments, due to their sizable holdings and staying power, they are able to create new financial instruments and to invest over the long term. This may mean they are in a position to take on more risk, though they are generally less likely to pursue below market returns in the way that is more feasible for foundations.

Early innovators in this space in the United States are Goldman Sachs and JP Morgan, who have not only committed funds to impact investments, but also have played roles in fundamental research and data development. JP Morgan is a founding partner in the Global Impact Investing Network (GIIN), which provides basic information about impact investing, as well as a database of funds and projects to facilitate investment for others. Goldman Sachs has been an early adopter and participant in novel funding mechanisms, including social impact bonds (discussed below). As more organizations engage in pilots to test and demonstrate the feasibility of such projects, more data, confidence, and ultimately capital will follow.

*JP Morgan participates in the [EcoEnterprises Fund](#). This fund is a Latin America-based collection of enterprises – including organic agriculture and ecotourism enterprises – that help investors offset biodiversity loss through habitat conservation, reforestation efforts, and sustainable use of natural resources. The Fund’s first portfolio created over 3,500 jobs, benefited 293 communities and conservation groups, generated US\$281M in sales, leveraged an additional US\$102M in additional financing, and conserved 860,773 hectares of land (EcoEnterprises, 2014). The rate of return target and result to date are competitive with market returns, and they have expansive monitoring and evaluation that includes the use of the external auditing of variety of certification schemes for individual fund participants, as well as their own monitoring and evaluation tool and the Fund’s Social and Environmental Guidelines (ImpactAssets.org, 2015).*

*In addition to being participants, banks can create their own funds with specific objectives, such as the US\$15M **Eye Fund** created by **Deutsche Bank** to provide access to health care and eye*

*care in particular, or in the case of Credit Suisse, a US\$500M fund of funds for agricultural opportunities in Africa (World Economic Forum, 2015).*

### ***Community (Development) Finance Institutions (CDFIs)***

CDFIs provide credit or loans to underserved communities, and in the US, specific legislation facilitated their creation by providing tax and credit incentives to those who lend and provide capital to such organizations. While CDFIs receive government funding or can be supported by larger funders (including foundations and large banks), projects are more easily tailored and suited to local needs. They are often more eager to invest in local and smaller scale projects. Microfinance (or small scale loans) was born out of community level finance institutions, and serves as a useful growth model for impact investing. Though it took time and substantial investment to establish appropriate criteria and metrics to measure the impact associated with microfinance, once the infrastructure was in place, traditional finance industry players helped expand the market to rural poor, small business owners, and individuals around the world. As more sophisticated measurements for performance and impact emerged, there was an increased emphasis on standardization (Oleksiak et al., 2015). In 2008, Standard and Poor's announced their plan to establish global risk ratings for micro-lending institutions. This is the type of standardization that could dramatically influence access to capital for all scales of conservation projects.

*The **Resilient Capital Program** is a unique, high-impact investment program that makes up to US\$15M available for qualifying social enterprises and ventures to help build resilient communities, with the mission of the investee to be centered around social and environmental resilience. In Canada, this program is made possible by a partnership between **Vancity** (a community finance institution) and the **Vancouver Foundation** and funded by bank patrons through a deposit program. Term deposit investors received “reasonable” returns that were insured by deposit insurance and thus had a very low risk (Social Finance, 2013). Community and social enterprise impacts and financial metrics are reported on quarterly.*

***Kiva** is an online micro-lending platform that brought microfinance to the mainstream and enabled individuals to participate as direct contributors to impact capital. The local lending institutions were in place, but Kiva provided an online platform for investment enabling anyone to provide a zero interest loan. Crowdfunding as a means to leverage capital from individuals has become grown significantly and is expected to move into the investment space. The potential for crowdfunded conservation through low or no-interest loans is currently being investigated by a team of researchers at the University of British Columbia, and may provide another means of participation for low net worth individuals to participate in the impact space. One of the first real-world examples recently took place in New Zealand, where local people used crowdfunding to purchase a private beach for public access and recreation near Abel Tasman National Park (BBC, 2016).*

### ***Government – municipal, state/provincial, and federal***

There is a huge role for all scales of government to participate in impact investing, both in terms of policies and programming. For example, the UK Government provides a 30 percent tax relief

for social investments, which is anticipated to stimulate as much as GBP 500 million in additional investment over the next five years (JP Morgan, 2013). The law does not state how these impacts will be measured (UK.gov, 2016) – this could be a lost opportunity to evaluate success beyond the scale of investment.

In the US, the Community Development Finance Institution Fund positions twenty dollars of private capital for every one dollar of federal funds invested (WEF, 2013). These policies may increase agency expenditures, but they often repay their costs over time or attract considerable private funding. Policy measures can be instrumental in unlocking funds toward important social and environmental causes. As with microfinance, regulatory changes were instrumental in the growth of venture capital in the 1980s. High risk/high reward ventures have led to considerable innovation, with clean tech representing 10% of all venture capital investment in the 2000s (Forbes, 2015).

*In Canada, **Coast Funds**, endowed by the federal and provincial governments as well as philanthropic groups, support long-term activities to maintain or improve the Great Bear Rainforest or to support sustainable enterprises in first nation communities. Coast Funds operates in a similar fashion to a community development finance institution, but the majority of its funding at the outset was provided jointly by the federal and provincial government. It has since leveraged CDN\$168M of private capital.*

### ***Pension Funds***

Like banks and foundations, the large sums that pension funds manage present significant potential for impact. Client demand is a driving force, and while currently a survey indicated that only 6% of pension funds currently participate in impact investing, that number is expected to grow to 64% in the near term (GIIN, 2013). An issue holding back institutional investors, businesses, and pension funds from impact investment is the concept that fiduciary responsibility to shareholders means that financial returns should be the first priority. However, regulatory changes in the 1980s clarified the ability of pension funds to engage in venture capital, and similar regulations permit the consideration of social and environmental factors insofar as they influence the long-term financial performance of investments (Forbes, 2015).

***PGB** is a Dutch pension fund that is actively participating in impact investing. PGB contributed 20 Million Euros from their 18 Billion Euro pension fund toward a microfinance fund in the Netherlands. It is worth noting that while they were motivated to participate for social returns, the 5% return on investment was comparable to non-impact investments. In other words, within the financial sector, competitive rates of return are likely required to attract interest.*

### ***Insurance companies***

This is another area where there is stated interest by would-be investors, and substantial growth is possible (WEF, 2015). Insurance and re-insurance companies have significant assets, as well as a financial stake, in mitigating impacts of floods, storm surges, crop failures, and other issues associated with natural resource management. Consequently, insurance companies are increasingly cognizant of capturing the value of nature, and investing into projects that alleviate

their risk. Municipalities and other jurisdictions often offer bonds to raise capital for infrastructure improvements. Increasing the recognition of the value of investing in green infrastructure and considering natural capital as an asset class could greatly enhance engagement and participation from the insurance industry. This is an avenue for organizations who focus on restoration of coastal wetlands and other ecosystems that provide regulating and risk reduction services.

*Zurich (Insurance) is actively working to support the development of the green bond market. At the same time, Zurich is currently looking into possible approaches in the credit and private equity space, taking a “cross-asset class view” of impact investing (World Economic Forum, 2014). LeapFrog Investing makes private equity investments, and is a partner in an emerging program in Indonesia to support sustainable palm oil production. They will be designing and financially backing a program for crop insurance with the idea, that reducing risk for farmers will reduce the need to encroach upon (i.e. burn) new territory for planting (LeapFrog and personal communication, 2015).*

### ***Development Finance Institutions (DFIs)***

Organizations like the World Bank, InterAmerican Development Bank and the Asian Development Bank are relatively few in number, but make large scale investments that can involve infrastructure and other major capital expenditures that have significant environmental impact. A recent JP Morgan survey included 6% of respondents indicating DFI affiliation, but DFI investors made up 42% of impact investment assets under management (JP Morgan, 2013). Development banks have a stated motivation to support economic development. They also engage in projects that can have negative ecological consequences – and as in other financial arenas, there is increased pressure to minimize these consequences through direct changes, or to attempt to offset negative impact through investment opportunities. Many of their current strategies that are deemed “impact investing” are not new or novel financing mechanisms, but may have improved levels sophistication in the impact measurements, and how impacts are quantified and reported.

*The International Finance Corporation model is to mobilize capital and support companies and other private sector partners in areas where there are currently funding gaps. The overall impact focal point has been poverty alleviation through economic development, particularly in emerging markets (i.e., developing countries). Though this approach has generated controversy in the past with developing countries paying large costs to finance debt, one strategy to address the debt servicing problem is through **debt-for-nature swaps**. Pioneered in the 1980s in Latin America to address deforestation, debt swaps have recently been implemented (and brokered by TNC) to allow debt payments to be applied to climate change adaptation efforts. In a recent debt swap in the Seychelles coordinated by the Nature Conservancy, 400,000 km<sup>2</sup> will be managed as marine protected areas within the next five years (TNC, 2015). Multiple partners and cash flows make this a complicated arrangement, but by raising US\$23M in impact capital loans as well as US\$5M in grants, they facilitated the purchase of US\$29.6M of Seychelles debt at 5.4% (TNC, 2015). The restructured debt provides a cash flow payable to and managed by a private-public trust fund, the Seychelles Conservation and Climate Adaptation Trust. For more information, see the NatureVest website, which provides a detailed explanation of the arrangement.*

### ***Intermediary institutions***

As highlighted in figure 2, there are a number of intermediary institutions who are essential to this process, though certainly making it a bit more complicated than receiving a grant or donation. The capital -> fund -> investment target flow is not unlike a traditional investment model, with advisors or banks receiving fees along the way. The financial and other intermediaries are of particular importance for impact investing, since it is they (and they could be foundations, government agencies or regulators, or NGOs) who facilitate and jumpstart the process. While NGOs can be the target for investment, they can also be critical facilitators, particularly in the realm of knowledge and data sharing.

*NatureVest, the impact investing arm of TNC, is a leader and innovator in this space. They are engaging with capital providers and structuring multimillion dollar deals to suit their investment needs. TNC is in a relatively unique position, as most conservation NGOs do not have the capacity and expertise to deal directly with banks or support a staff that focuses exclusively on the development of such transactions. Fortunately, by providing examples and developing data to support the concept of impact investing, other groups can benefit from TNC's experience and expertise.*

The term “deal” is used to describe the arrangement to which the relevant parties have agreed. In a specific “deal” there are likely participants from several of the above sectors as partners and multiple funding sources have led to collaboration and leveraging of funds. Social impact investing is growing rapidly and representing substantial amount of capital, but appears thus far to not be harnessed broadly by the conservation community. In the following sections we discuss first an assessment of the existing status of conservation in impact investing, followed by an explanation of the type of mechanisms that are and can be implemented, and finally the critical components of impact investments that must be considered and integrated into any potentially investable project.

The question becomes how do conservation organizations, government agencies, and other entities in the space harness this interest, enthusiasm, and growing capital. As suggested above, barriers do exist, with a primary one being that many conservation projects are not well-suited for impact capital because they may lack one or more of the following features.

### **Part 4: How do we engage? Advances and Strategic Opportunities for Conservation Organizations**

Impact investment capital is not currently flowing directly to conservation without concerted effort and multi-institutional partnerships. Here, we provide more detail for a few of the strategies that have been highlighted in some of the examples featured above.

### ***Capital Stacking or “Mezzanine” Investing***

Capital stacking is the technical term for bringing in multiple financial partners at different stages and with different requirements to alleviate risk. For example, in the production of sustainable agricultural products, public finance provides funds until natural resource restoration is far enough along to provide adequate market return on its own to compensate for investment costs. Those investing in the rural areas of developing countries tend to face all the usual risks of investment, but also additional concerns about capacity, and thus bridge funding at the outset can alleviate these concerns and provide time to attract other investors.

### ***Revolving funds – Community finance and Microfinance***

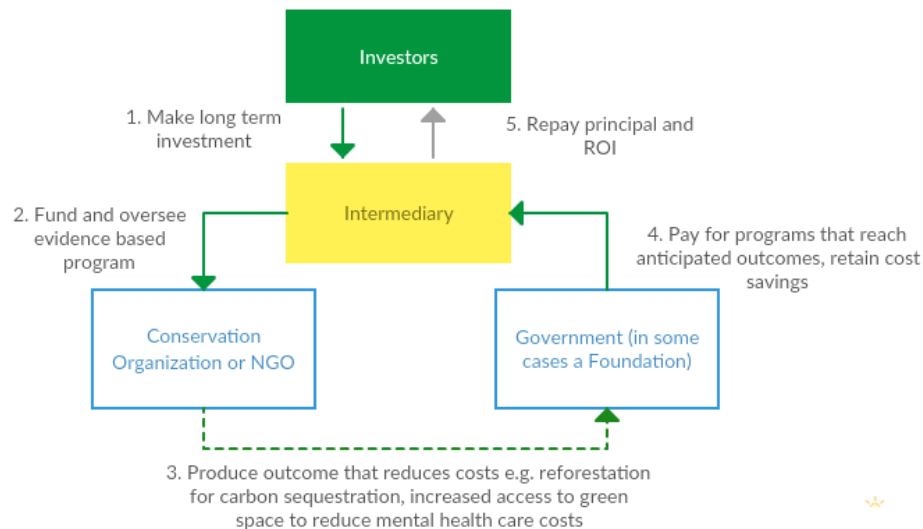
Community finance and loans can be used to produce environmental gains. In Washington State, Craft3 invested close to \$20M in conservation impact investments between 2009 and 2013 (JP Morgan, 2014). Five million of the total was loaned to 280 households who committed to repairing and replacing failing septic systems on sensitive waterways such as shellfish harvesting zones and marine recovery areas. The loans were paid back and the ecological impact was over 32 million gallons of wastewater treated and over 2,000 linear feet of sensitive riparian areas protected (Craft3, 2015). These revolving funds enable loans to be made, paid back, and made again from the same source over time – like a credit card. Microlending operates in a similar fashion, often with loans going directly to individuals. With specific goals in mind, it is feasible for conservation organizations to partner with finance institutions to achieve these kinds of very measurable and impactful results, with the possible knock-on benefit of creating more environmental stewards who may not have otherwise appreciated the ecological benefits and/or cost savings associated with a conservation activity (Anderson et al., in prep).

### ***Bonds – Green and Social Impact***

Green bonds are growing, and have been used in several of the above examples, including funding water infrastructure in Washington DC at the municipal level to the recently announced \$1.5B bond issue by Apple Inc. to support green initiatives (in that case, renewable energy and energy innovation). The musician David Bowie was an unexpected innovator in bond space. In the mid-1990s, he offered a bond to investors, who then received a revenue stream as a portion of the royalties associated with the music (Chu, 1998). Rather than bonds associated with intellectual property, a lot of attention and enthusiasm currently surrounds social impact bonds (SIBs).

Though impact investing tends to be associated with private capital, in reality much of the innovation comes with how to leverage partnerships in an effort to address some of the above areas of concern. SIBs highlight these interacting relationships nicely. SIBs are an emerging concept to address financing shortages for many social sectors (Langford 2011, Draiman et al., 2010, RBC 2013). A contract is developed to coordinate the action and participation of three primary parties: a) the government entity that would normally administer a program or provide grants to agencies related to a particular social issue, e.g., Homelessness, b) an agency or NGO would commit to a specific improvement within the sector that can be measured, e.g., a percentage decrease of people sleeping outside in a particular area, with the metrics agreed upon by the group, and c) a bank or foundation who would provide the funds to administer the

intervention program (Draiman et al., 2010). If the goals are met within the agreed timeframe, the government reimburses the investor with a premium (though the gross amount spent is still less than the government would have incurred to provide the service), to supply a return on investment at somewhat competitive rates, though the exact percentage would be contingent on the exact arrangement (RBC 2013). The relationship between the parties may look something like this:



**Figure 3:** Typical SIB arrangement. Adapted from: Finance for Good

A similar SIB was implemented in New York state, where the program was reduction in recidivism in Riker’s prison. SIBs tend to be oriented around prevention programs, which are historically difficult to fund, but can have long-term savings (Langford, 2011). In this case the original investment by Goldman Sachs was guaranteed by Bloomberg Foundation. This reduced the risk for Goldman Sachs, ensuring that even if the program does not reach desired targets they will still receive some money back. From the perspective of the Bloomberg Foundation, the project gets off the ground and even if the overall target is missed some gains are still likely achieved, learning takes place for future program support, and results are achieved for less than if they had supported the project themselves from the outset (Warner 2013). Of course, if the program is successful they do not pay out and all of the above is also achieved.

### ***Capital investment***

Environmental improvements or adoption of more sustainable practices may be desired in certain sectors, but people and organizations lack the upfront capital costs to address the problem. In some cases, the incentive to invest is not present unless an entire or sector participates.

*For example, to address fishery declines in Atlantic Canada, the WWF has proposed a program called **FIRME** to improve the gear to only catch the more mature and valuable fish. Leaving juveniles to grow helps sustain the population over the long term, while increasing profits for fisherman so they may pay back the capital investment in their gear. Had a single fisher invested, the benefit to the fish population would not have been felt, nor would the financial*

*benefit if other fishers continued to harvest more juveniles that sell at a lower rate (Rangeley and Davies, 2012).*

*As with sustainable agricultural practices, sustainable fisheries practices are a way to reduce impact, while also generating a cash flow for returns to investors. **Encourage Capital** spent two years working with fishers in Chile to develop their “Investment blueprint” that considers how to transition to a more sustainable product with reduced environmental impact and also yielding digit returns for fishers and investors.*

### ***Specifically designed project-based deals***

Working directly with investors, organizations with a broad portfolio of activities or existing relationships in regions where an investor seeks impact may be able to work directly together. ImpactBASE and other databases such as the forth coming Convergence database are intended to match investor needs with existing projects, though this likely requires higher transaction costs at the outset. There are likely different partnerships and strategies that are appropriate to source funding for different stages of a project, and that will change depending on the type of project.

Overall despite challenges, we believe there are sufficient existing examples and ample opportunity for conservation organizations to become more involved and proactive in the impact investing space.

## **Part 5: How do we move forward? Key Opportunities and Recommendations for Increasing Impact Investment for Conservation**

There are several reasons why the conservation sector is relatively small in the impact investing world, although conservation is a significant global social challenge. The first is that, unlike some other outcomes such as building levies or investing in renewable technologies, *connecting a specific activity to a biophysical outcome in complex ecosystems is not straightforward or easily measurable or quantifiable*. This is why, in payment for ecosystem services programs, payments are often for an action (planting trees to create a riverine buffer) rather than an outcome (water quality). With so many other possible contributing factors to erosion and other inputs upstream, the impact on water quality of a few hectares of planted trees is hard to measure with precision. This also explains why sustainable agriculture and forestry investments are currently among the most popular for conservation impact investors – in such situations it is far easier to monetize results in order to generate either a cost savings or financial return.

Interacting with private sector firms has historically brought about *concerns regarding profit motive, transparency, and how financial returns are prioritized vis a vis social (or environmental) returns*. As evidenced in critiques of market-based mechanisms for conservation, there is potential for perverse incentives or undesirable results (McAfee, 2012). Consequently, it is reasonable to understand why healthy skepticism exists on both sides. Investors, rather than being mission driven, tend to be far more cognizant of risk, return on investment, political and/or policy obstacles and barriers.



Perhaps not surprisingly, when asked about motivations for investing in conservation in the EKO study, the for-profit investors selected expected financial returns as their top consideration, followed by the investment's potential to help advance their organization's conservation objectives and the potential to advance other (non-conservation) objectives (EKO Asset Partners, 2014). Other considerations, such as diversification or corporate social responsibility reasons, ranked much lower. Conversely, not-for-profit investors overwhelmingly ranked non-financial considerations as the most important. Advancing an organization's conservation objectives scored highest by a large margin, followed by advancing other organizational goals. Financial returns ranked a distant third. When responses from all investors – for-profit and not-for-profit – were combined advancing an organization's conservation objectives was the highest ranked choice by a large margin, followed by expected financial returns. The goals are aligned to a degree, but to facilitate growth and increase the magnitude of investment in the conservation sector to promote what would qualify as real conservation, there are several actions and areas for improvement.

### ***Connecting markets for conservation***

*The onus is on conservation organizations to present appropriate possibilities that match interest, time scale, and desired impact type to potential investors.* One investor survey by the GIIN noted that 25% of deals considered (across all sectors, not just conservation) did not pass initial screens (GIIN, 2013). This means there were critical factors – whether risk, rate of return, or confidence associated with impact measurement – that were not met and the project was not pursued from that point. Additionally, large capital providers generally prefer large sums to invest (on the order of tens or hundreds of millions of dollars) which is not common for a single project. This is why *conservation funds* might be a preferable model, though they require the work and coordination of fund managers with specialized knowledge and interest in pursuing a fund of this nature. Currently, for an average bank or financial institution developing a fund, so long as there are other opportunities for growth that may have easier impact tracking, one can see why a conservation fund is not a high priority and not yet a common investment.

*Intermediary organizations can build capacity*, by matching the supply side (investors) to investment-ready projects. A variety of the above actors can play an intermediary role – foundations have substantial convening power as mentioned above, as they are already an intermediary between large scale donors and NGOs for implementation of projects on the ground. However, for cash-strapped conservation organizations, the search and transaction costs that are necessary to develop a deal, connect with appropriate partners, and implement are still high. This will improve as demand and supply become less fragmented, and networks develop further.

### ***Creating an Enabling Environment***

Overall this means more support for understanding how and where impact investing can apply to the conservation sector, identifying and framing projects in a way that investors can accept. There is room for support on both the investor and investee side to help here, including the regulatory environment. From a regulatory standpoint, creating tax incentives and other

mechanisms to enable non-profits to have revenue generating arms was one recommendation of the Royal Bank of Canada in their 2014 report on the state of impact investing (RBC, 2014). A new initiative by the World Economic Forum will be an accelerator of blended deals in an effort to reduce search costs and broaden networks. It has a specific aim to connect investors and investees in an online searchable database. In a similar vein, the GIIN and its associated databases for impact measurement are intended to be the hubs and clearing houses for all kinds of information.

### ***Alleviating Risk***

The different objectives of investors (i.e. finance first or impact first) provide an opportunity to improve risk–return profiles that match the investor’s needs, boosting the overall pool of resources available for conservation. Public or philanthropic institutional investors may be most concerned with impact, but worry that their potential funding is too small to meet needs. They may take bigger risks to leverage higher levels of good investment by others. Some impact investors may wish to get the chance for higher returns by taking an equity stake, and may be willing to take on the risk of equity, but not a large share of it. Others, such as pension funds, may be content to have a lower but predictable long-term return that is well protected from loss. *Bridge and mezzanine funding can provide either lower returns or financing in early stages before project is proven or a product is commercialized. This can be considered the “kickstarter” funding.* For some organizations (especially foundations or governments), the impact of moving a large program forward or leveraging additional funds may be sufficient and no net gains are required and the investment can act as a zero interest loan.

### ***Governance***

*Political will is required to develop policies that address market and regulatory issues.* Public sector funding will likely be necessary for credibility, capacity building, and bridge funding for startup costs. Public and philanthropic institutional investors are likely to play an important role as limited partners of private impact funds. This will impose much greater demands for transparency and community consultation in decision-making, which, ultimately, will result in better data and more confidence.

Convergence, one of the online platforms mentioned above, is funded in part by the World Economic Forum and the Government of Canada, and recognizes the capacity of public capital to attract significant private investment through public-private investment combinations. Provinces and states issue their own bonds, and in a more minor capacity, have acted as sponsors for events and conferences that bring together key actors in social finance space to foster networking and capacity building (e.g., Social Finance 2015 in San Francisco).

### ***Monitoring and evaluation***

This is already familiar territory for conservation organizations and a critical piece for progress towards harnessing social impact financing (Credit Suisse, 2014). Though of great value to any conservation project, it is particularly essential to be able to measure impact with credibility and confidence. The development of more robust impact assessment methods would likely foster more capital stacking, by helping to make private investors more comfortable partnering with philanthropic organizations. Tracking non-financial impacts are a key element here, not just for an individual project, but for investors to be able to compare the relative impact of different

investment opportunities. *Ultimately investors and advisors require tools and data for impact investing that is equivalent to conventional investing. These data align with existing demands from funders for impact measurement.*

### ***Transparency***

Associated with monitoring and evaluation are concerns about greenwashing and weak standards that achieve the lowest common denominator. Something could be called impact capital but not necessarily guarantee a positive conservation outcome. As institutions respond to calls for more opportunities to allocate impact capital, this could serve as an incentive to take an easier assessment route, which may be less rigorous. To maintain the trust and integrity that should be associated with conservation impact investment, there must be reason to believe the impact is real. Risk assessment and deeper understanding of global social ecological systems are necessary – while all risk cannot be alleviated, there are examples of adverse consequences to good intentions. For example, the boom in interest and investment in corn-based biofuel, which was initially intended to reduce petroleum-based fuel content in gasoline resulted in higher global food expenses for poor (Monitor Group, 2009).

### ***Knowledge translation and Value shifting***

Conservation organizations and financial institutions are typically not speaking the same language. Many potential projects and impact investing innovations are taking place at the small and medium scales, whereas large financial institutions are not well-equipped to manage at this level, and certainly not all conservation projects are appropriate to scale up. Small Enterprise Assistance Funds, a subsidiary of international development agency CARE, supports sustainable development by investing in small scale businesses in developing countries, and has built substantial capacity by support entrepreneurs before and after investment with basic business training and strategic advice. Though capacity building efforts can be slow, by helping individuals and organizations (at any scale) see the value in conservation through the impact of their financial investment, it may possible to attract more people to understand the value and import of conservation writ large.

## **Concluding Thoughts**

An IUCN guidebook on sustainable financing for conservation produced in 2003 highlighted five significant contributors to the problem of funding gaps: current investments are inadequate, project-based funding often limits long term investments, private financing degrades ecosystems (i.e. through resource development such as mining and logging), new environmental business opportunities are being missed, and Earth's natural capital is undervalued (IUCN, 2003).

In the ensuing 13 years since the IUCN guidebook was issued, these problems persist, though we are beginning to be more strategic in several of the above areas, not least of which is the recognition that private financing does not have to degrade ecosystems, and indeed can be harnessed to do good. A secondary benefit may occur if an impact investment directs dollars away from investments that otherwise would have contributed in more harmful environmental impacts. Impact investing has the potential to address three other concerns, including the inadequate scale of funding, potential for longer term investments, as well as business

opportunities. Impact investing is a tool that will require further research, thoughtful discussion, and field evidence to support the development of standards and capacity for conservation organizations to effectively engage. Public demand paired with stricter regulation will continue to foster innovation, and the more we can do to prepare and equip conservation organizations to work with and alongside those who seek to make sincere and impactful investments, to experiment with novel finance structures to conserve, limit externalities, and sustain critical ecosystems, the better chance we have to share these resources with generations to come.

## **Appendix: Resources**

### ***Planning and assessment impact***

Purpose Capital

<http://purposecap.com/wp-content/uploads/Purpose-Capital-Guidebook-for-Impact-Investors-Impact-Measurement.pdf>

### ***Conservation Financing***

WWF Conservation Finance Guide (2007) – How to develop your own financing strategy for long term sustainability of project. From WWF perspective

[http://www.panda.org/standards/3\\_2\\_conservation\\_finance](http://www.panda.org/standards/3_2_conservation_finance)

### ***Conservation Return on Investment***

Resources for the Future Report (2012)

<http://www.rff.org/files/sharepoint/WorkImages/Download/RFF-DP-12-01.pdf>

**Global Impact Investing Network (GIIN)** is a non-profit organization dedicated to increasing the effectiveness of impact investing, currently sponsored by Rockefeller Philanthropy Advisers.

<http://www.thegiin.org/>

### **NatureVest**

Website: [www.naturevestnc.org](http://www.naturevestnc.org)

[Report of status of conservation impact investing](#)

**Rockefeller Foundation** Key innovator and convener in social impact investing space

[www.rockefeller.org](http://www.rockefeller.org)

**UN Principles for Responsible Investing (UNPRI)** recognizes that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems.

[www.unpri.org](http://www.unpri.org)

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