Nature Investment Hub

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Why Do We Need to Think About Nature Differently When It Comes to Private Investment?

Despite its tremendous potential to provide economic returns alongside environmental, cultural, and social benefits, investors have shied away from investing in nature.

Increasing Investments in Nature

Conservation, restoration, and stewardship activities across Canada — including in agriculture and forestry — have long been supported by public and philanthropic funding. Investing in nature is in the public interest, but there is increasing attention on encouraging private investment in nature for three reasons:

- The scale of investment required to meet biodiversity objectives and climate targets — billions more per year than current expenditures — will not be fulfilled by public contributions alone.
- Involving the private sector allows for reduction of their own negative environmental impacts such as habitat loss, land use change, agricultural expansion, unsustainable land use practices, while simultaneously narrowing the financing gap.
- Corporate commitments for climate and biodiversity objectives, and increasing demands for disclosure on these issues is prompting private organizations to rethink how they measure, manage, and mitigate their environmental impact, leading to increased interest in investing in nature-positive activities.

Aligning Costs and Benefits

Attracting investment to nature has proven challenging to scale due to **indirect revenue streams**. For example, the financial benefits of maintaining wetlands to alleviate damage and costs associated with flooding can be calculated as avoided costs to homeowners, insurance companies, and municipalities. But these savings are not accounted for when assessing the economic benefit of converting wetlands for other economic gains. Similarly, the activities of a factory located on a river upstream from a community can negatively impact water quality and fish habitat. Without additional incentives — beyond meeting regulatory compliance— the factory owner may not be motivated to invest in restoration or rehabilitation efforts even though the costs of neglecting to make these efforts are paid by communities and ecosystems downstream.

Financial instruments are needed to align those who benefit environmentally to those who benefit financially from nature investments. Yet even in situations where the impact and potential value of investing in nature is well established, and there are relevant financial instruments to align the interests of a range of stakeholders, or there is a regulatory environment that attaches value to natural assets, there are further challenges that stem from the lack of maturity of the nature investment space. They include:

- **Scale mismatch** between project sizes and desired capital investment. The high cost of due diligence for relatively small projects can limit investor interest. Bundling projects is possible but requires further coordination and cost.

- Lack of **early-stage funding** to lower risk and barriers to entry for project developers.

- **Lack of agreed upon impact measurement methods** to quantify and account for financial and/or ecological value derived from such projects. Carbon offset standards and protocols are more established (e.g. the Voluntary Carbon Standard (VCS)), biodiversity and water benefits tend to be context-dependent and impact measures more nuanced. New nature measures are emerging, but due to the variety of considerations that are far less fungible than a ton of carbon (e.g. species at risk, habitat quality, habitat scarcity, comparing credits from different biomes, etc.) it will likely take time for leading measures to emerge.

- **Risk of reversals.** Fires, floods, and other natural- or human-induced land use changes can affect the integrity of a conserved or restored environment even if all of the appropriate precautions are taken. This can render projects less attractive to more risk-averse investors.

- **Relevant investor data.** The typical measures that investors seek to evaluate an investment opportunity (e.g. bond ratings, internal rates of return) are not often tracked or communicated in the same way when discussing impact on natural systems. This limits comparison to other investment opportunities, while also deterring mainstream investors.

- **Lack of "investment ready" nature-based projects**. There are relatively few projects that are ready to accept capital and have appropriate baselines established to manage and monitor for specific quantifiable ecosystem outcomes.

- Nature-based projects often **require large tracts of connected land** and **managing jurisdictional issues** across large areas often requires additional groundwork and legal compliance.

- **Blended finance.** The multiple and indirect benefits from investing in nature can result in the need for more complex financial arrangements involving multiple partners and varied rates of return. While this can be an effective strategy to leverage private capital, as they are more complicated and time consuming to develop, they appeal to fewer niche investors.

All of these factors contribute to **high transaction costs**, limiting activity, increasing perceived risk, and reducing economies of scale that would come with a more active market.

What Makes a Project Investment Ready?

By "investment ready" we mean a project that meets the needs of investors and that can be evaluated by them. It has a defined scope and scale, the necessary partners are in place, jurisdictional issues are resolved, the necessary ecosystem service data/modeling is available to demonstrate impact over a specific timeframe, the financial impact can be measured and articulated, and a financial instrument to collect and allocate funding is in place.

The conservation finance investments that most closely mimic traditional investments and are therefore the "easiest" to set up are in **sustainable resource management**, such as forestry or agriculture. There are established revenue streams from product sales, and are well-understood from a project and business development perspective. For example, direct investment in a sustainable forestry company or an ESG (Environmental, Social and Governance) fund with a number of businesses has clear funding flows, and can be evaluated in the same way as a non-nature business or fund.

Activities related to **ecological restoration** tend to be tied to cost savings, and are thus slightly more complex to measure in terms of ecosystem and financial flows. For example, how wetland restoration activities reduce the costs associated with flooding. However, since assessing the impact of an investment is often critical to attract funding, the improvement above a baseline for a site requiring restoration is usually easier to measure.

Since **conservation** often involves doing less activity on a landscape, it is most often monetized through adjacent or related businesses like tourism, or by generating revenue from ecosystem services it provides, such as carbon or biodiversity credits or offsets. The challenges associated with generating a range of revenue streams also makes these projects more time consuming to develop, which in turn requires more external support. An example of this is Nature Conservancy Canada's Darkwoods project which includes conservation, carbon offset generation, and revenue from selective logging and recreation.

How Can These Barriers Be Overcome?

Nature forms the life support system of the planet, and one would think that investing in maintaining such a critical system would be obvious. In considering how to address the data and knowledge gaps that support funding flows, part of the solution is to create investable projects that align more closely to mainstream investments. In doing so, investors and project developers must likewise be mindful that commodification of nature is not the goal, but a by-product of operating in the investment space, requiring consideration of issues surrounding access, equity, and justice. This is why participation, coordinated action, capacity building, and commitment from Indigenous partners, local communities, as well as a suite of public and private sector actors are needed to collaborate on effective solutions.

The Nature Investment Hub is catalyzing partnerships and knowledge sharing to increase investment in nature in Canada. By encouraging action on many of the key issues outlined above, the Hub seeks to support broader understanding of the conservation finance landscape, highlight hurdles in the Canadian context, and identify opportunities to overcome challenges and expand the Canadian conservation finance market.