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Diversifying funding for biodiversity conservation

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Funding biodiversity conservation is no longer a government-subsidy and grant-giving game only. However, a financing shortfall of USD 598-824 billion per year remains. To fill this void, the private sector is mobilising with innovative initiatives, tools and mechanisms. Trailblazing financiers are exploring new investment opportunities, which are as vibrant and colourful as the ecosystems they are built to serve.

Conservation finance is moving from niche to mainstream, from philanthropy to investment. However, a financing shortfall of USD 598-824 billion per year remains, representing 80-85% of the required funding (McKinsey and Credit Suisse, 2020). Currently, approximately 80% of the resources invested in conservation are public. While the private sector is rising to the challenge with investments in ecotourism, regenerative agriculture, agroforestry, sustainable aquaculture, and reforestation, more is needed.

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With limited ownership and use rights for wild resources, and finite incentives to support conservation, it is often difficult to develop financially sustainable biodiversity models. Governments have limited resources, non-profits are reliant on grant funders, and entrepreneurs struggle to develop bankable, scalable business models. Therefore, private sector investors keen to support biodiversity conservation are often not met with sustainable investment opportunities.

Diversification of the economy beyond ecotourism and public support are needed to promote biodiversity and secure livelihoods. Innovative finance solves this by creating solutions that generate positive social and environmental impacts alongside financial returns.

SUPPORTING EARLY STAGE CONSERVATION ENTERPRISES

Investing in conservation enterprises, especially in emerging markets, is pivotal. Unfortunately, these initiatives are often considered too small or too early-stage by traditional financiers. An example of a non-traditional player is the venture fund affiliated with Conservation International (CI Ventures) that invests in SMEs operating in forests, oceans and grasslands. The fund is committed to building an investment case for conservation and demonstrating the interconnectedness between environmental and social impacts. When appropriate, it even links the cost of capital to the impact created, and the cost of capital may be adjusted to reflect the importance of the impacts. Such funds need access to concessionary capital, or a mix of grant and market-rate capital that offsets the risks and costs associated with early-stage investments.

BONDING' WITH CONSERVATION

Requiring a much lower risk appetite, one of the most significant innovative finance mechanisms recently has been green bonds. To date, just 5-10% of green bond proceeds have been earmarked for biodiversity (Climate Bonds Initiative, 2019).

Conservation bonds can generate predictable, steady cash flows, through long-term contracts that monetize the sale of sustainably produced commodities, and payments for ecosystem services. Capital is invested to protect natural assets, which in turn generates benefits, allowing a financial return to the investor. For instance, African Wildlife Capital (AWC) pioneered a conservation bond using an interest rebate linked to quantifiable conservation targets.

Several factors have hindered the development of the conservation bond market. The biggest challenge for investors, issuers, and underwriters is articulating and agreeing upon the revenues that can be generated through sustainable land use and conservation projects, and translating the value of ecosystem services into financial terms. The lack of investment-ready conservation projects also results in a mismatch between the projects' limited size and the minimum amount of bond issuance, making it difficult to justify the costs of due diligence. The average size of a green bond issue is USD 150 million (CBI report 2019; Global Landscapes Forum, 2020), and in general, land use and biodiversity projects are unlikely to reach this scale, unless they are bundled into larger investment opportunities. However, if organisations could articulate the financial benefits of sustainable land use and conservation projects, this may attract new types of investors and new sources of capital, and develop the conservation bond market.

Resilience bonds link insurance premiums to resilience projects to monetize avoided losses. This is a source of funding for risk reduction. In 2019, the European Bank for Reconstruction and Development (EBRD) launched a climate resilience bond; in the US, the Forest Resilience Bond (FRB) is aimed at accelerating forest restoration (Blue Forest Conservation, 2020).

CONSERVATION FINANCE RE-ENERGIZED

Recent initiatives are catalysing change and accelerating financial flows in established markets; additional funds are enhancing the pool of resources available for conservation.

The debt-for-nature swap (DfNS) has proven successful in protecting key reservoirs of nature around the world. A DfNS can mobilize resources for protecting nature, while reducing the debt burden of developing countries. It is an agreement among the funder, the national government of the debtor country, and the conservation organization using the funds: the funder cancels the debt of a developing country's government; the debt-servicing savings are invested in conservation. The Tropical Forest Conservation Reauthorization Act (TFCA) is one such program that relieves certain

U.S. Government debt to generate funds for tropical forest and coral reef conservation.

Recently several organizations have developed approaches for accelerating financing to catalyse change in carbon markets. One, Emergent Forest Finance Accelerator, has created an approach to jumpstarting markets for forest carbon. Dedicated to accelerating tropical forest protection at scale, Emergent connects tropical forest countries to carbon markets to fund the protection for their forests. It buys carbon credits issued by Architecture for REDD+ Transactions (ART) from forest countries and sells them to private buyers.

BLENDED FINANCE FOR BETTER OUTCOMES

Blended finance combines concessionary loans and grants with private investment. It de-risks investments and directs private capital towards projects and geographies that might otherwise be deemed less attractive. Blended finance is particularly relevant in sectors where cash flows and revenue models are difficult to identify.

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BLENDED FINANCE IS BEING APPLIED TO CONSERVATION IN A VARIETY OF WAYS:

Donor-funded guarantees: In 2014, Althelia Ecosphere joined Credit Suisse to launch the The Nature Conservation Notes to accelerate private sector finance for preserving ecosystems (Althelia, 2015). It supports the conservation and economic development of local communities in about a dozen countries. The Fund generates returns for its investors through sales of sustainable-certified commodities and revenues from ecosystem services. Social and environmental impacts are achieved by financing community-based organizations, biodiversity, and water conservation, as well as climate change mitigation. With a partial guarantee from the US Agency for International Development, risk is halved, and capital is directed to sustainable land-use programmes. Payment is made on performance (Environmental Finance, 2020).

Blended Impact Investment Funds: The Land Degradation Neutrality (LDN) Fund is an impact investment fund for sustainable land use, with a linked technical assistance (TA) facility. By leveraging long-term, non-grant financing, the Fund invests in viable private projects for land rehabilitation and sustainable land management – including sustainable agriculture, livestock management, agroforestry and forestry – worldwide.

Outcomes-based finance: United for Wildlife (a partnership between seven of the world’s leading wildlife charities), together with investment banks and law firms, designed and launched the world’s first pay-for-results financial instrument for species conservation. After more than three years of development and testing, the Rhino Impact Bond (RIB) has received praise for its innovative design. The RIB has a five-year term and is based on “outcome payments”. It transfers the risk of funding conservation from donors to impact investors, by linking conservation and financial performance (Conservation Capital, 2019).

Similarly, the Green Outcomes Fund (GOF) provides outcomes-based incentives to South African fund managers to increase investment in green enterprises. The Fund – designed by the World Bank Climate Technology Program, UCT GSB’s Bertha Centre, GreenCape and WWF-SA – aims to achieve clear green outcomes, encourage capital allocation to green businesses by fund managers, and catalyse consistent high-quality reporting of green impacts.

LOOKING AHEAD

There is considerable interest in conservation-related investments from the private sector. These offer financial, environmental, and social returns, as well as portfolio diversification.

All of these initiatives are unlocking funding for biodiversity, thus helping to address the financing gap. None of the sectors – public, private and others – can do this alone: a collaborative approach by investors, funders, philanthropists, and governments is essential, in addition to the promising tools and mechanisms presented.