



# **CONSERVATION FINANCING STRATEGIES: KEY LESSONS AND CASE STUDIES**

**BASED ON TRAINING SESSIONS HELD DURING  
MARCH & APRIL 2021 THROUGH THE KNOWLEDGE NETWORK**



# ACKNOWLEDGEMENT OF COUNTRY

During this project, Melinda Macleod, BHP Foundation Environmental Resilience Program Director and Ariadne Goring CEO of the Pollination Foundation were based in Melbourne, Australia.

We acknowledge the past, present and future generations of Traditional Owners from the Kulin Nations on Wurundjeri and Boonwurrung country and we celebrate the stories, culture and traditions of the Indigenous peoples across all the lands, waters and oceans in which we live, work and enjoy.

# THE KNOWLEDGE NETWORK & AMPLISEED

This Project was carried out under the auspices of The Knowledge Network in 2021. The Knowledge Network was renamed Ampliseed in 2022.

# ACKNOWLEDGEMENTS

The success of this workshop was made possible through the generous sharing of knowledge from Project members and invited guests. To that end, we would like to thank the following organisations: 10 Deserts Project, BHP, BHP Foundation, Conservation International, EcoAdvisors, El Bolso to Cantillana Initiative, Forest Conservation in the Boreal, Great Barrier Reef Foundation, LandScale, Indigenous Desert Alliance, Indigenous Land and Sea Corporation Pollination, Pollination Foundation, Rainforest Alliance and Valdivia Coastal Reserve.

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# EXECUTIVE SUMMARY

Ampliseed (formerly known as The Knowledge Network) connects seven Projects supported by the BHP Foundation's Environmental Resilience Global Program that are aiming to change the way conservation at landscape scale is achieved. The Network is co-designed by its members and facilitated by the Pollination Foundation.

The role of Ampliseed is to support the Projects to succeed by sharing knowledge, embedding learnings and weaving a connected community of practice. Network activities are organised into three main streams:

- collecting and sharing knowledge to support real time exchange of ideas
- embedding learnings and sharing lessons learned to harness and amplify the collective impact and

- weaving a connected community of practice to create a learning community that nurtures best practice outcomes.

Common to all Ampliseed Projects is the need for long term, sustainable finance. Over five weeks in March / April 2021, we convened targeted conservation finance training sessions with members from the environmental resilience Projects. The program included an introduction to conservation finance and an exploration of different approaches used to financially sustain project outcomes via case studies from the field. Details on the co-design process can be found on [page 19](#) under Methodology Co-Design.

## SESSION PRESENTERS INCLUDED:



**Conservation Finance 101**  
Eddy Niesten from EcoAdvisors



**Philanthropy**  
Bjorn Everts from Indigenous Land and Sea Corporation



**Bonds and Carbon Markets**  
Martijn Wilder co-founder of Pollination,  
Holly Buschman formerly from BHP



**Venture Capital**  
Erica Flemming &  
Jan Yoshioka from CI Ventures

The stories and experiences of presenters sparked valuable insights and reflections among participants about their application on the ground, with the main observations from the course overall including:

- **“Conservation finance”** is not only a mechanism to raise money (such as philanthropic gifts, government grants or capital loans) but also incorporates how impact and scale can be achieved and sustained (such as securing finance to establish a carbon project, engaging stakeholders more deeply in the work to leverage co-investment and/or evaluation of how to use resources more effectively and efficiently).
- There are a number of **classes of conservation finance** that vary in degrees of difficulty of implementation, from the simple (such as philanthropy and government funding), to the moderate (such as borrowing money), to the more complex (such as bonds and tax incentives).
- A well-developed **conservation financing strategy** includes a diversity of tools and mechanisms, this approach is critical to success.
- **Complex conservation finance** strategies often take significant resources (time and money) to develop but when they are successful, lead to significant leverage and impact at scale (e.g. tax incentives requiring change in or new regulation).
- **Philanthropic funding** remains a critical source of conservation finance, with giving focus deeply rooted in the donors’ interests. Receiving donations often requires establishing long-term relationships grounded in delivering tangible outcomes over time. It requires patience and access to philanthropic networks. Philanthropic intermediaries can be valuable where projects are remote and/or complex.

- **Green bonds** can be used very effectively to mobilise private sector investment into nature. The key to green bonds is the ability to repay the interest (coupon) of the bond and the bond capital (corpus) at the end of the bond period. Bonds are expensive and complex mechanisms to establish but can be enormously successful in raising capital at scale, particularly where the bond issuer (such as a government or a bank) has a high credit rating.
- Like green bonds, **impact investment funds** also require return on investment, but this can take many forms (such as hybrid solutions), use various mechanisms (such as debt instruments and equity investments), and occur over varying time periods (such as patient debt).
- **Flexibility is key for investment in early-stage enterprises, emerging markets, and projects with strong social impact.** In some cases, mentorship, hands on training and access to technical expertise are part of the impact investment offering, particularly by “impact first” investors as this approach helps de-risk the projects.
- **Conservation work needs long-term financing** ideally through a diversity of income streams, including philanthropy, government, private sector investment and enterprise revenue. Using funding sources to leverage the investment of others, such as securing funds to build a long-term financing strategy, is part of the innovation that will help unlock a growing appetite for investment in conservation at scale.

By sharing this snapshot from the training sessions, we hope to amplify key learnings that will equip Knowledge Network members, partner organisations, and others working in this space to move forward on their conservation finance journey with confidence.



Photo by Wayne Quilliam

# THE BASICS – WHAT IS CONSERVATION FINANCE?

Often when organisations talk about “conservation finance,” they are really talking in a more focussed way about topics related to the finance sector – investment, debt, equity, bonds, impact investment, blended finance, ways to de-risk activities for the financial sector, etc.

However, it is useful to broaden the scope of the term “conservation finance” to include **funding to sustain and scale projects and/or project outcomes and impacts**. Because conservation financing strategies are not only a way to raise money, but also can comprise tools that help achieve conservation objectives.

## CLASSES OF FINANCE MECHANISMS

There are numerous kinds of tools and mechanisms in the financial sector that can be applied in conservation. Tools vary in terms of implementation difficulty - more complex tools take more time, effort and money to implement but often achieve greater impact and are more sustainable over time. The table below\* outlines various types of financing mechanisms, but all these tools are typically non-exclusive and often combined. Further information on the pros and cons of each mechanism are detailed on [page 21](#)

Mechanism	Examples
<b>Grants and Other Transfers</b>	<b>Philanthropy</b> ; Public Funding / Official Development Assistance (ODA); Trust Funds
<b>Return-based Investments</b>	Microfinance; Peer-2-Peer & Crowdfunding; <b>Incubators and Venture Capital</b> ; Debt; Capital Markets; Sustainable Investment Strategies; <b>Green Bonds</b>
<b>Economic Instruments</b>	Taxes; Fees and Charges; Tradable Permits; Fines and Penalties; Compensation and Offsets; Deposit-refund Schemes; Subsidies
<b>Public Financial Management</b>	Public Fiscal Planning, Budgeting and Disbursement; Fiscal Transfers; Government Grants; Subsidy reform; Earmarking Revenues for Nature
<b>Financial Efficiency</b>	Management Effectiveness; Public Private Partnerships (PPP); Integrated Accounting; Mainstreaming Biodiversity in Development
<b>Business and Markets</b>	Supply Chain; Nature-Based Enterprise; Voluntary Offsets
<b>Risk Management</b>	Insurance Products; Pay for Success; Blended Finance

\*Adapted from the Conservation Finance Alliance Guide, <https://www.conservationfinance.info/>



# DEVELOPING A CONSERVATION FINANCING STRATEGY

A well developed and articulated conservation financing strategy that considers a diversity of tools and mechanisms is critical to success. There are four key elements in developing a conservation financing strategy, outlined in the below diagram.

## Elements in developing a conservation financing strategy





## LESSONS LEARNED:

“A financing strategy is not just about raising money, it’s also about using that money efficiently and actively. Cost management deserves attention on a regular basis over the course of a project, and this is something that especially private sector sources would expect to see receive a lot of attention. This is not just about cutting costs or being smart with money, it’s also considerations like figuring out partnerships that can be leveraged...”

“Diversified funding options are important – don’t put all your eggs in one basket”

“Developing innovative financing mechanisms can take a long time. If you are designing or experimenting with new, innovative mechanisms these can have a significant contribution, but it’s important to remember that they also require a significant investment of time and money – wetland banking, for example, took about 30 years of evolution before it started to take off, savanna burning carbon method development in Australia took 15 years. Long roads to travel but well worth the effort.”

### ***Savanna burning carbon method – time and money needed to curate innovative financing solutions.***

The savanna burning carbon method that was developed in northern Australia is a pertinent example of the significant investment of time and money it takes to create innovating financing mechanisms.

Work started on savanna burning carbon method development in the early 2000’s. Traditional Owners in western Arnhem Land identified that by reintroducing their traditional fire management back into savanna landscapes, it reduced carbon emissions. Darwin Liquefied Natural Gas, was required by the Northern Territory government to deliver an environmental offset when approval was given to build a gas facility in Darwin Harbour and they chose to invest in this initiative. Having a private sector investor really lifted the profile of the work, which then gave confidence to government and other big organisations to fund the development of the carbon accounting method. It took about 7 years to do the research to prove reduced emissions and to develop the Australian legal framework and policies to support scale up of the industry.

The Carbon Farming Initiative (Carbon Credits) Act was adopted in 2011 and included the right for Indigenous lands and exclusive possession native title holders to participate and register projects which enabled them to produce and sell carbon credits from reintroducing ‘right way fire’. Twenty years after starting on the initiative there are now 33 Indigenous owned and operated savanna fire projects across northern Australia that are generating over \$50 million annual income a year that flows directly into remote communities who are now able to finance their own fire work on country. And it’s created a producer led network, which is lifting the profile of cultural fire not only for reducing carbon emissions, but also as a response to climate change and adaptation and resilience. Today the industry is supported by the Indigenous Carbon Industry Network, you can learn more about their work here: [www.icin.org.au](http://www.icin.org.au)

## GROUP REFLECTIONS

### The need for long-term financing

“Conservation work ... essentially needs long-term financing...including developing carbon credits, developing ecotourism ... and government funding.”

### Funding is needed to develop complex financing solutions

“Options like carbon credits are complex and most groups have lower familiarity with them. They are often less attractive because they may involve high costs and uncertain futures. Funding is needed is to explore and develop these financing solutions further.”

### Creative thinking

“We can look at how to apply different financing options creatively when considering how to support [projects] beyond initial grant funding – providing guidance in sourcing cash flows and identifying investment opportunities [is essential]”.

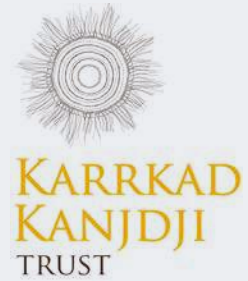
**INTERESTED IN TAKING A DEEPER DIVE INTO  
CONSERVATION FINANCING 101?**

**[CLICK HERE TO ACCESS THE MODULE ONE DETAILS.](#)**



Photo by Landon Parenteau on Unsplash, BC, Canada

# CASE STUDY SUMMARIES



## KARRKAD KANJDJI TRUST

**Example of: Grants and other transfers mechanisms - philanthropy**



### Background

The Karrkad Kanjdji Trust brings together Indigenous ranger groups, communities and philanthropists to address some of Australia's most pressing cultural, conservation and social issues.

**Location:** Australia

**Case study focus:** reflections on navigating philanthropy, how to 'ask', and exploring the when and why of setting up a trust fund

**Funding approach:** Grants and other transfers (philanthropy)

### Context

Established initially to raise an endowment of \$30-\$40 million, the Trust pivoted over time to raising funds on a project-by-project model starting with a community school so rangers could feel confident going to work knowing their kids were safe and learning on country. Over time a pipeline of projects was developed focused on the protection and restoration of the environment of West Arnhem Land through Indigenous community development and Indigenous-led land and sea management.

### Lessons learned

- Stay rooted in the community, ensure your projects are aligned with community aspirations.
- Start with something tangible to fund.
- Philanthropy is a long-term partnership.
- The ask is a small part of the process.
- Put the fundraising team where the money is.
- Be patient.
- Use philanthropic funding like venture capital funding.
- Philanthropic focused intermediaries can be critical to success.

### Group reflections

#### **The role of philanthropy**

"...The ongoing role of philanthropy is critical... Research highlights that philanthropy is a core part of the conservation financing strategy. So how do we make time and space to do this well, where is the fundraising role best housed?"

#### **Building trust**

"For philanthropists, testing first with small donations is important to building trusted relationships. The 'Ask' is such a small part of the relationship, really is only 1% of the time and discussion.

"The initial part of any of these processes requires large investment of time and effort into building trust among stakeholders and securing stakeholder commitment. ... providing early wins can be an important way to secure trust and commitment."

#### **The role of intermediaries**

"The intermediary role is invaluable, bridging the connection between people on country doing the work and engaging the donor. In the KKT example community partners were so grateful for not having to manage donors, but still maintaining connection and relationship with them."

#### **Fund-raising strategies**

"For high net-worth philanthropists, the best fund raisers are... the [leaders] of organisations who can passionately talk to the work. For bigger foundations with grant programs access to a fundraiser that can draft and submit applications, manage the grant process is important. Strategies for both funding opportunities are needed. The KKT board played a critical role in the early years, 70% to 80% of KKT funds raised came via initial introductions from board members."

***Applying the case study  
experience to other projects***

- “Using philanthropy to leverage government sources, and specialized capacity with respect to securing government funding [is a compelling feature].”
- “Interesting contrast on the pivot away from a large endowment goal in what seems a conducive context, to a context that might seem much less conducive (in terms of legal and institutional setting, public and government awareness, etc.)”
- “In some locations, government funding is not a viable proposition, so endowment is a key ingredient for stability/sustainability. This many only cover 60-70% of costs, so ongoing fundraising is necessary and is challenging.”
- “... Is there need for greater local fundraising capacity in a landscape, versus a mechanism for coordination among actors?... Many Trust Funds can over time become effective conveners and platforms for stakeholder coordination.”

**INTERESTED IN TAKING A DEEPER DIVE INTO PHILANTHROPIC  
FUND RAISING AND THE ROLE OF INTERMEDIARIES?**

**[CLICK HERE TO ACCESS MODULE TWO DETAILS.](#)**

## BHP FOREST BOND

### Example of: Return-based investment mechanisms - bonds



## Background

### Financing Nature

Traditionally, nature financing has been secured either through government taxes (e.g. raising taxes to fund national parks, or charging fees to use them) or through philanthropic support for conservation (donations and foundations that support conservation initiatives). Bonds can be used to mobilise private investors to finance natural capital and nature.

### What are green bonds?

Green bonds are a type of interest only loan used to finance investment in 'green' initiatives that have positive environmental or climate benefit, and have been predominantly used to finance wind farms, solar farms, or electric transport. Funds raised don't immediately have to be repaid. However, there has to be enough of a return in the investment to repay the interest on the bond at the relevant intervals and the ability to repay the whole of the bond at the end of the bond period.

### Context

For the \$152 million Forest bond in Kenya, the money was raised by the International Finance Corporation, and the corpus put into an investment portfolio so that the end of the five years it could easily be taken out to repay the bond. The innovation with this bond was that there was an option for investors to either be paid interest or receive carbon credits (generated by the project) in an amount equal to the interest payment. Importantly, BHP provided a price support mechanism for the five-year life of the bond which would be activated if no investors elected to receive carbon credits. This meant that the REDD+ project had certainty of revenue which was key to the impact of the bond.

## Lessons learned

- There must be an underlying revenue stream to repay the bond such as revenue from sale of carbon or electricity.
- Establishing a bond is complex and has high transaction costs so it's important to consider if a patient capital loan would be just as effective financing option.
- Bonds work best when there is scale.
- A high credit rating Bond issuer (such as an Australian Bank or Government institution) will make it easier to raise funds
- A guarantor may be required to give certainty of price or volume of the carbon credits that form part of the bond structure.
- There are four things to ask when considering a bond:
  - What is the asset that you want to finance?
  - Can that asset generate a revenue stream to repay the finance?
  - What's the timeframe over which the bond will be repaid?
  - Is a bond the most appropriate structure?

## Group reflections

### A Growing Market for Bonds

"More and more countries are using green bonds as a financing tool. For example, in Mexico there have been efforts to discuss and consider how bond mechanisms can be applied. In Chile the [Santiago Exchange](#) includes green bonds. There is a general expectation that green bonds will become increasingly mainstreamed in the conservation



finance sector, and that the market will continue to evolve quickly. We know investors are interested in providing finance, and that projects need funding to deliver outcomes that benefit communities, climate and environment – bonds are a financing tool to bridge the gap, particularly if intermediaries emerge who can aggregate numbers of smaller projects into a total deal size of interest to investors, can bring these two together.”

### ***A Size Gap between Bond Finance and Project Needs***

“The BHP-supported Forest Bond was a financial mechanism that went in search of projects. Within our network we have projects looking for financing; the mismatch is in the size of local initiatives and the need for a bond to leverage significant investment and return. The appetite from the finance sector for investing in green bonds is enormous, so bridging the gap is a worthwhile aim.”

“Madagascar’s national trust fund for protected areas provides an example of a smaller project piggy-backing on a larger bond. The fund received -US\$10 million financed from a bond issued by the European Investment Bank totalling -US\$300 million (figures may not be exact but serve as illustration). This arrangement added to the green appeal of the bond issue, with a negligible impact on the coupon rate (the interest paid to investors).”

### ***Challenges with Using Bonds for Project Finance***

“The core issue of generating revenue to repay bond investors presents the main challenge; revenue from sales of carbon credits is one possible solution. However, this raises the issue of how to finance continued protection of intact ecosystems that are not imminently threatened, such as for example blue carbon stocks (mangroves and sea grass beds) at Resilient Reefs sites that are already protected by World Heritage Listings, which limits the opportunity to generate blue carbon credits.”

### ***Possible Future Directions?***

“A platform developed by an intermediary to leverage scale and aggregate smaller projects would be ideal. There would need to be agreed accountability/standards and way to connect investors with local project developers; for a given country, this would also require supportive government policies. This would amount to something like a marketplace that convenes all stakeholders.”

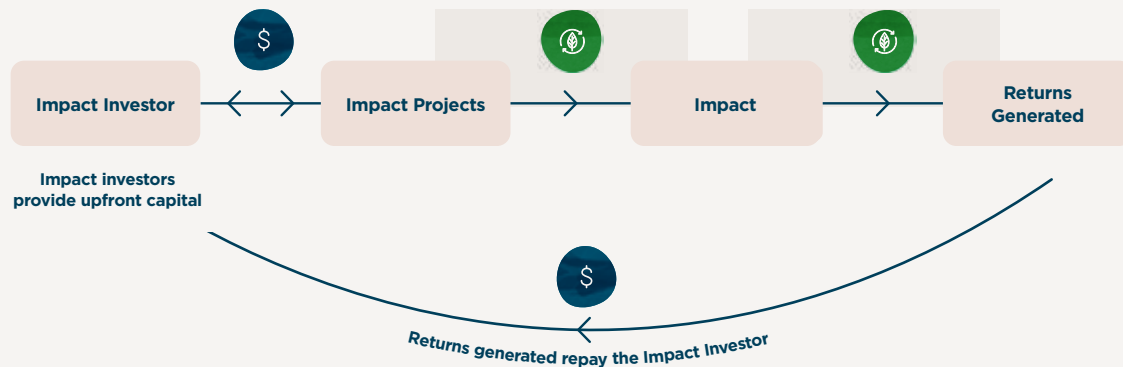
“Could green and social bond mechanisms be used to construct public-private co-financing arrangements? For example, would governments pay a community for protection of biodiversity within critical eco-systems together with financing from private sector actors who would receive carbon credits or other ecosystems services in-lieu of the interest payments from a bond?”

**INTERESTED IN TAKING A DEEPER DIVE INTO GREEN BONDS,  
CARBON MARKETS AND PROJECT AGGREGATION?**

**[CLICK HERE TO ACCESS MODULE THREE DETAILS.](#)**

## CI VENTURES

### Return based investment - environmental impact investment



### Background

CI Ventures is owned and managed by global NGO, Conservation International. It is an 'impact' first rather than finance first fund with a target size of US\$50 million (US\$ 22m raised to date). CI Ventures operates across three continents with team members in South America, and North America and Africa.

Investments are typically post-concept and early in their revenue cycle, they require a minimum viable saleable product or service that's been tested with the market. Investment principles prioritise:

- Impact first investment lens
  - Investments that maximize environmental and social impact relative to other risk factors, while meeting expectations of financial return.
- Business and impact model alignment
  - Enterprises whose business and impact models are strongly aligned – commercial performance is synonymous with positive environmental and social impact.
- Conservation impact at scale
  - Opportunities that contribute positive, quantifiable environmental impact at scale, with potential for replicability and scalability within a market or region.

### Context

CI Ventures specialises in flexible, patient debt and hybrid debt solutions including debt that can be converted into equity and repayments based on revenue.

### Lessons learned

- Flexibility is key for investment in early-stage enterprises, emerging markets and projects with strong social impact.
- CI Ventures supports the enterprises they invest in through mentorship, hands on training and access to technical expertise which helps de-risk the projects and hence CI Venture's investment.
- Techniques to align financial and impact incentives include:
  - Risk and impact-adjusted pricing
  - Repayment grace periods
  - Impact-linked interest rate reductions
  - Waiver of loan collateral requirements

## **Group discussion**

### ***Requiring collateral for loans***

“Collateral is negotiable. Loans are often issued secured, but recognizing collateral is often a barrier to financing in many of the markets we operate in, and we do offer unsecured debt. Typical loan tenure is a maximum of five years over which we expect to get repaid.”

### ***Setting interest rates***

“We start with the greater of the local prime bank lending rate or the US banking rate, and then we will add points for credit risk like most banks do. But as impact investors, before we even talk about future incentives based on performance, we adjust that interest rate based on our assessment of the impact that could be generated by the company. So theoretically for a very high impact company, we see rates that are very preferential for those markets.”

### ***Other factors for consideration***

“Conservation International has priority landscapes based on biodiversity and conservation goals, and we try as far as possible to make our investments within these landscapes to support the organisation’s mission and priorities. We consider diversity and gender inclusion on a portfolio level, but issues of diversity, equity, and inclusion can be nuanced and we take into account different cultural contexts in the different regions we invest in to determine what’s most appropriate.

## **Investment leakages**

“Every portfolio reflects both the environmental and social risks, as well as the unintended risks like leakage. But we also look at the environmental and social merits and will only invest if the merits significantly outweigh the risks. We also use international best practice standards and safeguards, like the International Finance Corporation (IFC) standards.

### ***Equity***

“CI Ventures is primarily a debt fund with the goal of recycling capital as quickly as possible. Equity investments are typically longer form investments. With convertible notes, we structure these agreements so we have the option to exit our investment at a certain point – reserving the right to liquidate our interests – or to continue to be a shareholder in the company if there is strategic alignment and our expertise could add value to the company.”

### ***Finding deals***

“Deals come to us in a lot of different ways. A lot of the most successful deals have come through our networks, such as our country programs. They also come through relationships we have built with other like-minded investors who might introduce us to work that doesn’t quite suit them in terms of size or geography. But we also put out a request for proposals, although that has had a more mixed success rate.”

**INTERESTED IN TAKING A DEEPER DIVE INTO  
NATURAL CAPITAL INVESTMENTS?**

**[CLICK HERE TO ACCESS MODULE FOUR DETAILS.](#)**



Photo by Benjamín Gremier on Unsplash, San Pedro de Atacama, Chile

# METHODOLOGY

## CO-DESIGN

Ampliseed (formerly The Knowledge Network) connects seven Projects supported by the BHP Foundation's Environmental Resilience Global Program that are aiming to change the way conservation at landscape scale is achieved. The Network is co-designed by its members and facilitated by the Pollination Foundation.

The role of Ampliseed is to support the Projects to succeed by sharing knowledge, embedding learnings and weaving a connected community of practice. Network activities are organised into three main streams: collecting and sharing knowledge to support real time exchange of ideas; embedding learnings and sharing lessons learned to harness and amplify the collective impact; and weaving a connected community of practice to create a learning community that nurtures best practice outcomes.

Common to all Ampliseed Projects is the need for long term, sustainable finance. Early in the design of the Network members identified the need to look for new and improved ways to generate finance to address gaps in their Project strategies. In 2020 a short and sharp Conservation Financing session was integrated into the Annual Partners Workshop. Survey data from the workshop and continued member feedback identified an interest in taking a deeper dive into conservation financing, with requests for examples of real life 'case studies' that drew from different contexts and countries around the world.

In response the Conservation Financing Strategies training was hosted in February to March 2021. The course was structured with sessions held over five weeks which included weekly presentations and smaller group discussion. Topics included an introduction to conservation finance and exploration of different approaches used to financially sustain project outcomes via case studies from the field. People working in the field (on external projects) that had successfully established long-term financing models were invited to share their experiences. These case studies were complemented with small group discussion sessions where participants were invited to reflect on the financing strategies from each case study and explore if or how they could be adapted for their own Project financing strategies.

The course was designed for team members working on Project financing strategies and key people from partner organisations with a keen interest in the topic. Eighteen Network members from seven different countries and nine different organisations participated in the discussions:

1. Amanda Alfonso, El Boldo to Cantillana (Chile)
2. Amy Armstrong, Resilient Reefs (USA)
3. Mariana Ayala, El Boldo to Cantillana (Chile)
4. Sarah Castine, Resilient Reefs (Australia)
5. Kirsty Galloway McLean, Pollination Foundation (Australia)
6. Ariadne Gorrington, Pollination Foundation (Australia)
7. Zane Hughes, 10 Deserts (Australia)
8. Erika Korosi, BHP Foundation (Melbourne)
9. Lindsey Langford, Indigenous Desert Alliance (Australia)
10. Sarah Lupberger, LandScale (Peru)
11. Santiago Machado, Rainforest Alliance (Mexico)
12. Melinda Macleod, BHP Foundation (Australia)
13. Eddy Niesten, EcoAdvisors (USA)
14. Tunde Ogunje, Forest Conservation in the Boreal (Canada)
15. Sophie Persey, LandScale (UK)
16. Melissa Rodgers, Great Barrier Reef Foundation (Australia)
17. Francisco Torres, Valdivia Coastal Reserve (Chile)
18. Omar Velasco, LandScale (Mexico)

To manage the complexity of time zones, case study sessions were recorded and made available to participants online. Each week after the case study participants split into two groups, selected based on their regional time zone and availability.



**Guest Presenter:**  
**Eduard Niesten, Principal Consultant, EcoAdvisors**

Eddy is focused on designing effective conservation approaches with a particular interest in direct incentives and sustainable finance. Before joining EcoAdvisors, he spent 14 years at Conservation International designing, implementing and evaluating incentive-based interventions that advanced conservation and human wellbeing throughout the Americas, Africa, Asia, and the Pacific Islands.

Examples of his work include arrangements between downstream water users and upstream managers of forested watersheds and initiatives that avoid carbon emissions from deforestation by local resource owners. Eddy holds a PhD in Applied Economics, an MA in International Development Policy, and BAs in Quantitative Economics and International Relations from Stanford University.

**Presentation link:** <https://vimeo.com/534300218/f4d03027a2>

### **What is conservation finance?**

Essentially, when we talk about conservation finance, we want to know ‘how do we raise funds to do the conservation work that we are doing?’.

*“...the practice of raising and managing capital to support land, water, and resource conservation.”*  
- *Field Guide to Conservation Finance (2007)*

However, more recently, the Conservation Finance Alliance has done a big push to systematise the thinking around conservation finance, expanding that understanding of what it involves to also include incentives.

*“...mechanisms and strategies that generate, manage, and deploy financial resources and align incentives to achieve nature conservation outcomes.”*  
- *Conservation Finance: A Framework (2020)*

The main point of the evolution between these definitions is to look at financing strategies not only as a way to raise money, but also as a way of seeing how the financing strategy itself can help you achieve your conservation objectives.

Looking through conservation finance resources, we see that when a number of sources and organisations talk about “conservation finance”, they are really talking in a more narrow, focussed way about topics related the finance sector – investment, debt, equity, bonds, impact investment, blended finance, ways to de-risk activities for the financial sector, etc. In terms of a working definition, we are here broadly considering conservation finance to include funding mechanisms that sustain and scale projects and/or project outcomes and impacts.

### **Classes of Finance Mechanisms**

There are numerous kinds of tools and mechanisms in the financial sector that can be applied in conservation. Tools vary in terms of implementation difficulty - more difficult tools are more complex and take more time, effort and money to implement but often achieve greater impact in proportion to the time, effort and money spent. The table below outlines various types of mechanisms, but conservation financing tools are typically non-exclusive and can be combined.

<b>Mechanism</b>	<b>Examples</b>	<b>Pros</b>	<b>Cons</b>
<b>Grants and Other Transfers</b>	Philanthropy, Public Funding / Official Development Assistance (ODA); Trust Funds	Unlike other investments, this finance is provided with either no expectation of financial return to the finance source or below-market concessional rates of financing.	Achievement of desired long-term outcomes can be challenging to ensure. Restricted by charitability of financiers.
<b>Return-based Investments</b>	Microfinance; Peer-2-Peer & Crowdfunding; Incubators and Venture Capital; Debt; Capital Markets; Sustainable Investment Strategies; Green Bonds	These strategies support the mobilization of private pools of capital. Many investors use a combination of debt and equity instruments to achieve their investment goals.	Many return-based investments are still focused on financial returns above conservation outcomes. A systemic change will have to occur to attract more investment firms to consider more sustainable investment strategies.
<b>Economic Instruments</b>	Taxes; Fees and Charges; Tradable Permits; Fines and Penalties; Compensation and Offsets; Deposit-refund Schemes; Subsidies	Provides a continuing incentive for organizations and individuals to respond to market forces and meet environmental management objectives at the least cost.	Effects on environmental quality are not predictable because organizations can independently decide how to respond to incentives. Usually, sophisticated institutions are required to implement and enforce.
<b>Public Financial Management</b>	Public Fiscal Planning, Budgeting and Disbursement; Fiscal Transfers; Government Grants; Subsidy reform; Earmarking Revenues for Nature	National government budgetary allocations are the largest stable source of finance for nature globally and in most countries.	Assuring adequate allocations to conservation in national budgets can be challenging given competing demands on these budgets.
<b>Financial Efficiency</b>	Management Effectiveness; Public Private Partnerships (PPP); Integrated Accounting; Mainstreaming Biodiversity in Development	Management Effectiveness; Public Private Partnerships (PPP); Integrated Accounting; Mainstreaming Biodiversity in Development	Offers a series of mechanisms that can be applied in many organizations, projects, and programs. Many of these mechanisms can be applied internally increasing their ease of implementation.
<b>Business and Markets</b>	Supply Chain; Nature-Based Enterprise; Voluntary Offsets	Supply Chain; Nature-Based Enterprise; Voluntary Offsets	Companies can undertake a wide range of actions to improve sustainability and decrease the negative impact of the production of goods and services. There is growing consumer demand for ecologically conscious companies.
<b>Risk Management</b>	Insurance Products; Pay for Success; Blended Finance	Combining mechanisms that are designed for managing financial risks with investments can mobilise new sources of capital and facilitate transactions that would not have been previously possible.	Managing risks is a challenging task for individuals, localities, and businesses. Strong coordination between public and private sector stakeholders is required to facilitate risk management instruments.

\*Adapted from the Conservation Finance Alliance Guide, <https://www.conservationfinance.info/>

## Developing a conservation financing strategy

A well developed and articulated conservation financing strategy that considers a diversity of tools and mechanisms is critical to success.

### Elements in developing a conservation financing strategy

#### *Element 1: Consider the key questions:*

The key questions that we look to answer through a financing strategy are:

- What needs to be funded (i.e. purpose, costs)?
- Where can that funding come from (i.e. sources/revenues)?
- How will the funds be deployed (i.e. mechanism and disbursement)?

#### *Element 2: Determine costs:*

To understand the costs we need to finance, we must understand:

- Current and desired situations (commonly captured in a Project's Theory of Change)
- Activity-based budgeting (what is needed to get from the current to the desired situation)
- Budget scenarios (different time horizons: near-term and long-term and varied resources: minimum, intermediate, ideal)

Types of costs to consider:

- Operational (meetings, travel, incentives, etc)
- Staff (recruitment, salaries & benefits, consultancies, etc)
- Core (office expenses, administration, etc)





- Capital (vehicles, computers, furniture, etc)
- Assumptions (for long-term strategies these may include inflation and exchange rates; anticipated changes in opportunity cost, etc)

**Note: Consider cost management**

Another thing to consider is that a financing strategy is not just about raising money, it's also about using that money efficiently and actively. Cost management deserves attention on a regular basis over the course of a project, and this is something that especially private sector sources would expect to see receive a lot of attention. This is not just about cutting costs or being smart with money, it's also considerations like figuring out partnerships that can be leveraged to cover various aspects of activity delivery.

**Note: Consider the investment needed to develop innovative financing mechanisms**

Finally, the ideal financing strategy covers all costs in perpetuity and makes the intervention somehow self-financing forever. But that's a rare scenario and ongoing fundraising is a fact of life for most projects. It makes sense to be explicit about that and plan accordingly, which means making sure that you've got resources devoted to having fundraising capacity in place.

If you are designing or experimenting with new, innovative mechanisms these can have a significant contribution, but it's important to remember that they also require a significant investment of time and money – wetland banking<sup>1</sup>, for example, took about 30 years of evolution before it started to take off.

<sup>1</sup>Wetland mitigation banking is the restoration, creation or enhancement of wetlands for the purpose of compensating for unavoidable impacts to wetlands at another location.



### **Step 3: Identify and prioritise funding sources:**

- List revenue possibilities
- Identify gaps and opportunities
- Prioritise based on contextual criteria (size, complexity, likelihood, timing).

#### **Note: Consider diversified funding**

Diversified funding options are important - you don't put all your eggs in one basket. In some geographies where we work, there are other actors with mandates and obligations that contribute to the conservation outcomes that you're trying to achieve. Working with and engaging those other actors to contribute can be very helpful to your financing strategy - in a way, that's another form of cost management.

Especially for people in the NGO community, a lot of standard ways of talking about financing elements have evolved from donors and needs from the philanthropic sector, but these formats may be less well suited to the private and financial sectors. Such elements may require revisiting in terms of expectations for language, structures and presentation of the costs that you are trying to cover if looking to attract investors from different sectors.

### **Step 4: Defining the business case**

**The business case:** justification for the project based on benefit, cost and risk of alternative options, and rationale for the selected solution.

Defining a business case essentially boils down to a marketing pitch. There are generally frameworks and pitch styles that donors prefer, although for most investors it's likely to need an emphasis on return on investment (ROI) rather than simply focussing on environmental or livelihood impacts.

Information can usually be grouped into four buckets of information.

- Strategic context
  - The case for intervention
  - Theory of change, key assumptions, etc
- Impact analysis
  - ROI - both financial and economic returns
    - o Social and environmental impacts
    - o Also important to compare with other alternative solutions - 'why is this solution better?'
- Comparative advantage
  - o Why you? Having a good idea isn't enough - need to articulate why you are best placed to execute it
- Management approach
  - Roles, governance mechanisms, etc.
  - Risk analysis, especially with respect to the investors getting their return on investment

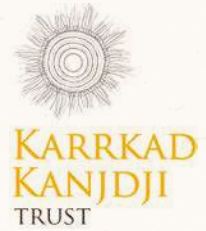
### **Additional resources**

- Conservation Finance Alliance. Conservation Finance: A Framework. <https://www.conservationfinancealliance.org/cfa-white-paper>
- The Guardian. Conservation could be worth more left to nature than when farmed. <https://www.theguardian.com/environment/2021/mar/08/land-could-be-worth-more-left-to-nature-than-when-farmed-study-finds-aoe>



Photo by Wayne Quilliam

# MODULE 2: CASE STUDY – KARRKAD KANJDJI TRUST



## Guest presenter: Bjorn Everts – Partnerships Manager, Indigenous Land and Sea Corporation

Bjorn is currently Partnerships Manager at the Indigenous Land and Sea Corporation where he works with Aboriginal organisations and landowners to identify and develop large-scale investment opportunities that benefit Aboriginal people, their culture and the environment. Prior to this, Bjorn spent five years as the CEO of the Karrkad Kanjdji Trust. Here, he grew a struggling

Indigenous conservation organisation with almost no income into a multi award winning Not for Profit supporting Indigenous led conservation, education, carbon abatement, cultural heritage management and community development across an area roughly the size of Switzerland. Bjorn holds a Masters degree in Sustainable Development from the University of London, a Bachelors degree in Psychology and is a qualified teacher. He is the cofounder of several social enterprises and has worked with the United Nations and a range of not for profit and philanthropic organisations in education, community development and conservation in Africa, Europe and Australia.

**Presentation link:** <https://vimeo.com/527132284/9cd9d8e86c>

## Background

*This case study explores an example of creating a conservation trust fund, essentially a legal entity that can grant money to conservation organisations. In countries such as Australia, these entities are also able to apply for tax deductible (DGR) status so they can both raise money and grant money.*

The 'big problem' that the Karrkad Kanjdji Trust (KKT) was trying to solve was to support two Indigenous protected areas in West Arnhem Land – the Wardekken and Djelk Indigenous Protected Areas. The communities were conducting fantastic Caring for Country and ranger work, as well as cultural heritage work, that was all being funded by the government. However, the Traditional Owners were worried that because of the vicissitudes of government funding, that that work would one day come under threat. So in 2010, they approached the Nature Conservancy and the Pew Charitable Trust to help seed fund a conservation trust fund.

The Karrkad Kanjdji Trust brings together Indigenous ranger groups, communities and philanthropists to address some of our nation's most pressing issues. However, the trust wasn't initially set up this way. It started out with the idea that the managers of the trust would go out and raise a \$30-40 million endowment, and that endowment would form a corpus from which the earnings could be granted out to these ranger groups. So at the time, they estimated that about a million dollars a year would be granted to ranger groups based on the earnings of this large endowment.

However, the fundraising for the endowment wasn't a success. It was extremely difficult to raise that kind of money with an unrecognised brand. And at the time, Indigenous-led conservation and land management was relatively unknown in the philanthropic sector, in the end it cost rather a lot of money to raise only about \$50,000.

## Approach

### *Initial pivot from endowment to project-based model*

So over time, the organisation pivoted. It realised that raising money for an endowment wasn't going to work, and it moved to a project-based model where it instead started out with a school for Rangers. That was really needed in one of these remote communities where they identified that the top Rangers were leaving the community to make sure that their kids could go to school. By creating a school, not only would they help educate the kids in this community, they would also create stability for the environmental work and the cultural work that needed to be done.

This provided the pivot to a clear, transparent project with measurable results and clear and transparent budget that people can understand and invest in. And this focused the Conservation Trust Fund to start fundraising for individual projects. It then grew from that one project to over seven projects across biodiversity conservation, women's empowerment, education, carbon abatement and sequestration, and various cultural projects which together formed a model for Indigenous community

development and Indigenous-led land management which was a unique offering for the trust.

The shift in project focus was therefore really important, and if we were ever to advise a new conservation trust fund in Australia, we would say start this way rather than with the endowment. The idea of raising a large endowment is very attractive, and it might work in America where philanthropy has been around a lot longer, the philanthropic community is more advanced, and there's a lot more money looking for a home compared to the Australian context. Similarly in other countries where the philanthropic community and the quantum of philanthropic money available is not as advanced as in the US, it's helpful to start with something highly tangible and grow out from there.

### ***Building a project 'ecosystem'***

That first project - building a school - grew from a small tent with five students to having enrolments of 25 students. This was followed by opening two more campuses in two other remote communities - and the fantastic success of these schools helped to build the identity of the trust. So, developing this one 'star' project meant that within the philanthropic community of Australia, we started to get a name for ourselves, and we were able to pitch some of the more conservation-focussed projects that we actually were set up to fund in the first place.

We also moved into directly funding Women's Ranger projects which were essential to the conservation work that was being conducted in in this part of Arnhem Land. And what made this so unique was that the Women's Ranger project dovetailed with the school. Because the school was there, mothers were able to leave their children in a safe place while they went out to engage in work. And this created a narrative which we were able to explain to the philanthropists, and they understood that conservation work in a remote context like this was not just about saving species, it was about empowering the entire community and working with a tapestry of different elements that had to all come together in order for meaningful conservation work to happen.

So, in the end the biodiversity conservation work happened last - we had to build up a whole ecosystem of other projects to finally be able to focus on the reason that the conservation trust was set up in the first place, which was to help protect and restore the natural environment of West Arnhem Land. But we realised along the way that is achieved in a very holistic way, particularly

in an Indigenous context. And it was a real process to not only educate ourselves, but to educate the philanthropists who were supporting this work - that you have to invest in the entire piece in order to get the conservation work done.

### ***Using your Board***

The biodiversity work then led to an even more sophisticated understanding of how you manage a conservation trust fund in this context for the purposes of raising money. It's important to structure your Board in a way that facilitates fundraising, so it's equally important to make sure that there is the right kind of representation of the stakeholders that you're there to serve. What really helped us was having two well-resourced and experienced high net-worth individuals on the Board. They basically became the best fundraisers we could possibly ask for, because they rolled up their sleeves and helped the organisation to get off the ground and were intimately involved with the projects themselves. They then became project champions that would go out there into the philanthropic community and advocate on our behalf. Whenever I, as the CEO, would go to pitch something or would have an initial meeting I would often bring one of the directors along with me because they were able to have conversations I (as an employee) wasn't able to have - they were able to say, "Well, look, we're putting in \$50,000 or \$100,000 into this, and I think you should, too".

As geographical scope changed, so too did our Board. We started out with a very small Board and then slowly, as we became effective at representing and supporting one Indigenous Protected Area, other Indigenous Protected Areas requested us to fundraise on their behalf. And we had to make sure that we had adequate representation of their Traditional Owner groups on our Board. So basically, our Board grew, which also grew the complexity of the governance of the organisation. The governance we started out with was not the governance we ended up with, but it was a really careful process of ensuring that we had the right balance between indigenous representation and the ability to raise funds.

## **Lessons learned**

### ***Stay rooted in the community***

We learnt very early on that all the projects that we brought to philanthropists needed to have their genesis in the communities that we supported. Very early on, a top-down project was

trialled where basically the Board decided that it would be a good idea to set up a certain project. And it was an abject failure. It was a huge waste of people's time and quite destructive to our relationship with a certain Aboriginal group that we were working with, and we learnt a lot from it. We created processes and policies that made sure that our role was to work with Traditional Owners to identify the top priorities that they had in their communities in relation to land management. We would then work up and incubate these projects that we would bring to philanthropists in Sydney, Melbourne and Western Australia.

### ***Start with something tangible to fund***

Another thing we learnt when we pivoted away from the endowment fundraising to a project-based model was that it was really important to start with a highly tangible project that people could understand. And then slowly, as you build trust, work towards more complex regional projects that were multifaceted and more difficult to get your head around. You have to build the track record and the trust first. Philanthropists will often test out a relationship with a small grant. They might have the capacity to grant your organisation \$100,000 or even a million dollars a year, but they might start out with \$5,000 or \$15,000 to see what kind of impact you're able to generate with that grant.

### ***Philanthropy is a long-term partnership***

Understanding the long-term nature of philanthropic relationships as a process was important because we found that philanthropy is really not a quick fix to funding needs. It's a long-term partnership process, and that's where the conservation trust fund really comes into its own, because as an intermediary your responsibility is to take care of that relationship building process. It's very hard for land managers and CEOs of conservation organisations to invest the kind of time and energy and particularly the travel that they need to do to develop relationships with philanthropists.

### ***Put your fundraising team where the money is***

Something else we learnt was to locate your team where the money is. The work that was being conducted on the ground was based in a very remote part of northern Australia, in the Northern Territory, in Arnhem Land. It was almost impossible to get people out of there on a regular basis to Sydney and Melbourne, where the majority of our funds came from. So, we had to have people on

the ground in Sydney and Melbourne advocating on their behalf - doing the 15 different coffees and meetings and presentations and pitches. Then - in a targeted and careful way - we brought out Aboriginal leaders and Board members for special events so that they could have a high impact when they were together in person.

### ***Be patient***

Another general thing we learnt was that philanthropy takes time, and it may take two to three years of work to get the multi-million-dollar transformational donation out of a large organisation. Often you have to start with smaller grants, \$5,000 to \$50,000, to build out projects and get them off the ground. And then only once you've demonstrated that you've got them off the ground and you've built the trust and you've demonstrated that you can create and measure impact, are you able to get focus on large, multi-year multi-million dollar transformational donations, you have to be prepared to bootstrap it in the meantime.

### ***Use philanthropic funding like venture capital funding***

We used philanthropic funding like venture capital funding. We would listen to Traditional Owners and identify what was most important to them. And that didn't always align with what government thought was most important. So sometimes, particularly in the example of the school that we helped to get off the ground, we were funding things that were radical and so different to the status quo that getting funding for them would be very difficult in the early days. So in the schools case, we started with a crowd fund because no philanthropists would fund it - it sounded too risky. The school in the tent in the middle of nowhere was too much to sink hundreds of thousands of dollars into. We started with the crowd fund, raised \$25,000 to get the basics off the ground, and employed someone to raise more. We cobbled funds together with grants from \$5,000 to \$25,000, then we finally got our first foundation on board, and that was transformational because that sent the message out to other philanthropists that a cornerstone foundation was willing to take the risk. Because they had done due diligence, the other foundations felt more confidence and were willing to invest. This made it a lot easier for us to get donations from others, and from there in year two and three, it was almost as if the money raised itself. We had people coming to us saying

we'd really like to invest in this project and how can we do so? And that was all because of that early-stage work that we did to get it off the ground.

The ideal scenario is that you combine philanthropic funding with some of your own funds to get a project up and running to prove the case to government. And then the government steps in for the long-term with ongoing funding. It's a trend now for government to fund longer-term deeper commitments, founded on ground work that initially catalysed by philanthropic investment. The way we worked was to identify and find philanthropic funds for priorities that were identified by Traditional Owners or land managers that were currently not supported by the government, but had the potential to be funded by the government in the future. As we matured we started focusing our fundraising on a blended finance model: we would combine philanthropic funding, with small portion of the earnings from carbon sequestration or carbon abatement, together with a government grant to get projects off the ground and unlock further philanthropic and/or government funds.

### ***Philanthropic intermediaries***

So that's a basic snapshot of a conservation trust fund as it was developed in West Arnhem Land. It's currently the only philanthropic intermediary organisation in Australia that works with Indigenous communities in the conservation and management space. But there is work being done to share our learnings with other organisations who are representing Indigenous land managers across Australia to move into towards becoming a philanthropic intermediary. The big take home message is that philanthropy is absolutely a viable source of income for conservation, and it's a really important source and the role of an intermediary is important. It's one that should be looked at in the context of conservation finance because it takes away the onus of the managers who should be focussing on the conservation work and places it in the hands of people whose sole role it is to raise the money. Sustaining relationships on strong foundation of trust is needed to unlock long term flows of philanthropic funding to community led conservation.

### **Additional resources**

- Karrkad Kandji Trust website: <https://www.kkt.org.au/>

# MODULE 3: BHP FOREST BOND CASE STUDY



## Guest Presenter: Martijn Wilder, Founding Partner, Pollination

Martijn Wilder - With a background in economics and law, Martijn is focused on developing innovative policies, ideas and investments that enable our economies to rapidly transition to net zero, while at the same time preserving our natural ecosystems. Martijn has retained over many years the accolade of the world's leading climate change lawyer and the Star Individual by Chambers

Global Law Guide. Martijn was head of Baker & McKenzie's global climate law and finance practice for 20 years and continues to play a key role with Australia's clean energy finance institutions. He was Chair of the Australian Renewable Energy Agency (ARENA), a former founding Director of the Clean Energy Finance Corporation and a former Director of the Climate Council. He helped establish and later Chair the Federal Government's Low Carbon Australia finance body. He is currently President of WWF-Australia and Chair of NSW Climate Change Council. He is Adjunct Professor of International Climate Change Law at Australian National University, and a Member of the Wentworth Group of Concerned Scientists. Martijn was a Cambridge Commonwealth Trust Scholar and awarded an Australian Honour (AM) for his contribution to climate change law and the environment, and was winner of the 2018 Financial Times Asia Pacific Legal Innovator of the Year.



## Guest Presenter: Holly Buschman, Principal Sustainability, BHP

Holly Buschman - Holly previously worked in BHP's Sustainability and Climate Change team in the role of Principal Sustainability. In this role she had accountability for providing strategic insight into sustainability risk management and disclosure. Holly's accountabilities also included design of the Company's carbon offsets strategy and natural climate solutions strategy, as well as management of BHP's

Forum on Corporate Responsibility. Over her 11-year tenure with BHP in Australia, Holly worked in the HSE and Corporate Affairs Functions, in operational and Corporate roles. Prior to joining BHP, Holly worked in various engineering and environmental roles in the manufacturing and consulting sectors in the US and Australia. Holly has a Bachelor of Science in Civil Engineering from Purdue University.

**Presentation link:** <https://vimeo.com/533107805/0bca412bd3>

## Background

### Financing Nature

***This case study explores an example of using a green bond to mobilise private funders to fund natural capital and nature.***

We have been talking about finance and nature for a long time, and in recent months there has been a lot of momentum in this space – the Task Force on Climate-related Financial Disclosures has spun off a new movement called the Task Force for Nature-related Financial Disclosures (TNFD); banking and financial institutions have released reports about the need to protect and finance biodiversity; and there is increasing interest in funding nature and biodiversity through the UNFCCC COP meetings. However, despite all of that, we keep returning to the same questions.

Traditionally, nature financing has been secured either through government taxes (e.g. raising taxes to fund national parks, or charging fees to use them) or through philanthropic support for conservation (donations and foundations that support conservation initiatives). Thus, people are constantly interested in how we get private funders to fund natural capital and nature.

The challenge has always been finding out what is the economic return from a commercial point of view. The intrinsic biodiversity and other values of, say, a rainforest, have been unable to compete with a more hard, cold economic return – such as chopping down a rainforest and growing palm oil, or overfishing on a reef system – because that's where the revenue comes from. And the other benefits are not really valued compared to revenue. Although we talk about climate



resilience and mitigation benefits, and carbon benefits, and the value of biodiversity, the only things that we have really been able to monetize in the last couple of years are carbon and debt.

### **What are green bonds?**

On the carbon side, the challenge to finance projects commercially is that you need a revenue stream to basically repay any debt secured for project establishment. Early in the carbon market development, people started to sell carbon from the projects and that provided an economic return which was reinvested into the projects. But in the last three or four years, there has been a significant escalation in this concept of green or nature bonds.

Green bonds have been used to finance investment in new 'green' initiatives that have positive environmental or climate benefit, which have predominantly been wind farms, solar farms, or transitioning, say, a fleet of vehicles, to electric transport. The bonds finance the initiative or project, and at its heart a bond is a similar process to going to the bank and borrowing money. Essentially you put together a document and you go into the marketplace, you issue a bond note, and you say to investors, we're going to raise say, a million dollars to finance three solar farms. And then what happens is that bond might be a five-year bond, so at the end of the five years, you repay the amount you borrowed. And every year you pay interest on that bond. The attractiveness of a bond is that it's basically like an interest-only loan for a period of time.

A key reason green bonds have started to get a lot of traction is because they are a good way for investors to allocate finance in a fairly safe, low risk way that supports sustainability practices. However, although there has been a massive escalation in green bonds over the last couple of years, it's still only a tiny amount in the context of overall funds flowing to investments. There has been a lot of criticism about the level of greenwashing around bonds - i.e. issuing green bonds for things that are not very green. There has also been criticism of a category of bonds called transition bonds as solutions that are not really 'green,' because they are just moving from one fossil fuel to another. Therefore, there is a focus on legitimate green bonds, and how to use them to genuinely fund nature.

## **Approach**

### **The BHP Forest Bond**

The Forest Bond, issued by IFC, a member of the World Bank Group, raised US\$152 million from institutional investors. The Bond is listed on the London Stock Exchange. The Forests Bond provides a choice for investors to receive coupons in the form of carbon credits generated from avoided deforestation and issued under the Verified Carbon Standard, instead of cash coupons. It supports a project in Kenya run under the United Nations' climate change mitigation mechanism REDD.

### **Setting up the bond**

When setting up the original BHP Forest bond, the question was really 'how can we finance nature using some more traditional but innovative finance tools?'. One way could have been to set up a trust fund, another could have been to design an investment platform, but a bond was seen as a really good way to raise money that did not have to be immediately repaid. However, the challenge is that if you raise the money to invest it in a reef or rainforest, you have to have a return not only to repay the interest every year, but also to repay the bond at the end of the period. For example, if you're issuing a bond to finance five or six wind farms, the money would be used to build or buy the wind farms. And then the repayment of that bond interest would be made through selling the electricity every year. And then at the end of that period, you might sell the wind farms, and repay the bond.

For the BHP Forest bond, the money was raised, and the core money was put into an investment portfolio so that at the end of the five years it could easily be taken out and repaid. And one of the innovative things we were doing with this bond was that the interest would be repaid in carbon - repaying the interest every year came from carbon credits which were generated by the project. The carbon could be sold, and the money from the sale of the carbon could be repaid. Importantly, BHP provided a price support mechanism which would be activated if no investors elected to receive carbon credits. This meant that the REDD+ project had certainty of revenue.

In the last couple of years we have seen similar green bonds emerge, such as one in the Seychelles around a reef system, and Pollination has worked on a proposed bond in Indonesia to finance rainforest conservation. There is a view amongst a number of governments that they have these incredible natural capital assets - whether it's a rainforest, wetlands,

or peatlands – where they can issue a bond to raise money, that money can be put into protecting the forests or restoring peat lands or rehabilitating mangroves, those landscapes will then store more carbon, and they sell that carbon on the market. The money from selling credits can be used to repay the bond and interest in addition to using surplus money to do more domestic carbon projects. But the trick in all of these instruments is that there has to be an underlying revenue stream. In the case of the Seychelles bond, there was an investment there that was really repaid by a tax on tourism – the idea was that by repairing the reef and getting more tourists, that would allow them to add a higher tax to generate the income to repay the bond.

### **When to use a bond**

A bond is not going to be relevant for all sorts of activities. As a comparison, how can we finance the restoration of mangroves in Fiji? In this case, we have a very large area, with mangroves all over the country in small, very disparate pockets. You have to move across the landscape to do the replanting, so it's quite expensive. In this instance, if you look at the figures, the minimum cost needed per ton of carbon is too high to make financing through a bond viable. Interestingly, what Fiji did in this case as an alternative was adding a 10% tax to high end tourism that goes into a fund, and then that fund is used to reinvest in nature.

With any sort of bond structures, the first thing you need to work out is what is the asset that you want to finance? Secondly, can that asset generate a revenue stream to repay the funds? Thirdly, what's the timeframe over which you will do it? And fourthly, what's your instrument? BHP often issues bonds to raise money, and corporates do it all the time – to raise money generally or tied to a specific activity.

Essentially green bonds are a way to take a traditional finance instrument, and apply it to an innovative enterprise – in the BHP Forest Bond case this was a forest – in order to get institutional investors and private investors interested in financing nature in a way they ordinarily wouldn't.

The interesting thing is that because there's so much demand for green bonds, that once you've got a product, and it works, and it's backed by reputable institution, then the fundraising is easy. A fixed income bond issued by a good bank with

a high credit rating will always generate funds. And the risk is then on the bank, who's issuing that bond to repay not on the project. However, the bank will want to make sure that the underlying project can deliver the revenue stream and will have stringent due diligence requirements.

### **BHP Support for the bond**

Back in 2016, when BHP was thinking about supporting this bond, the predominant idea was how can we channel more funding into nature? BHP had a long-term strategy for financing conservation, and had an established partnership with Conservation International. There was an acknowledgement that some of the minerals that BHP mines are essential for the low carbon transition, like copper and nickel, but there is a large destructive footprint associated with extracting these resources. At the time BHP invested in the bond, there was an idea that it could support a net zero 2050 target through producing offsets aligned with a longer-term decarbonisation pathway.

Looking at the carbon markets globally at that time there was a lot less voluntary activity, so the bond was an attempt to stimulate new markets for carbon credits that had significant community and environmental co-benefits. Investing in the forest bond not only helped channel finance into local conservation, but also helped shore up supply of high-quality carbon credits for BHP over the longer term, as well as, to stimulate markets.

Since this bond was established, the global landscape and particularly the private sector have been under pressure to improve in this space and the investment community lends itself well to having these conversations now, far better than it did when the bond was established five years ago.

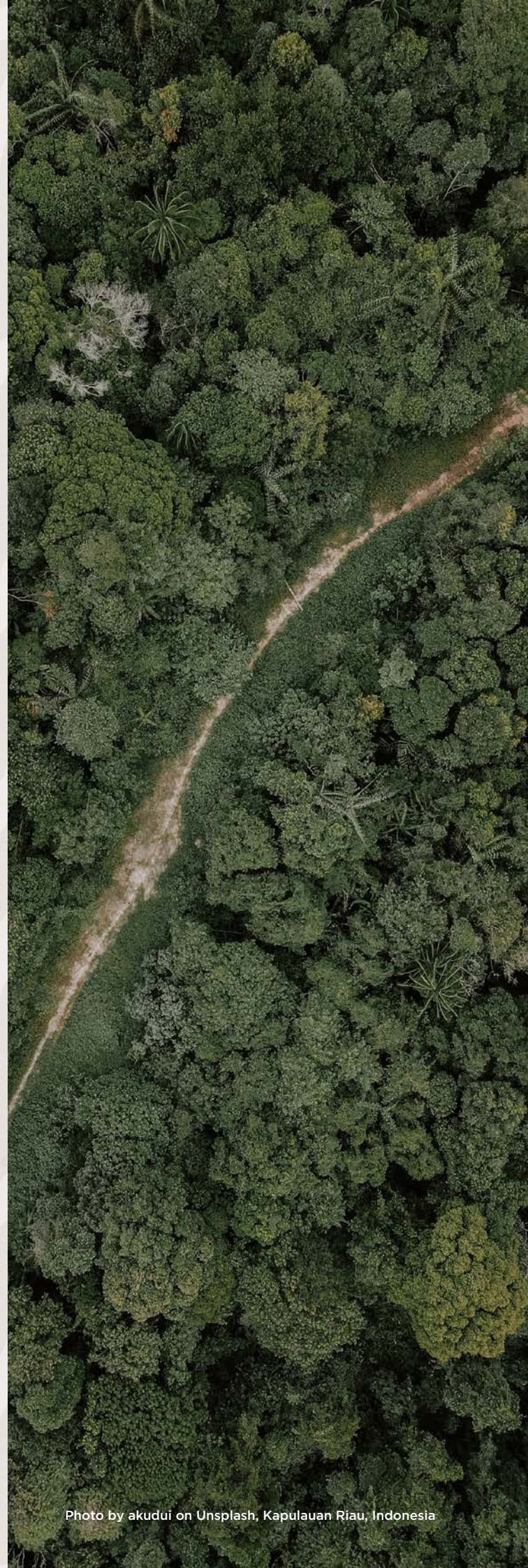
### **Lessons learned**

1. There must be an underlying revenue stream to repay the bond such as carbon or electricity.
2. Establishing a bond is complex and has high transaction costs so important to consider if a patient capital loan would be just as effective financing option.
3. Bonds work best when there is scale.
4. A high credit rating Bond issuer (such as an Australian Bank or Government institution) will make it easier to raise funds

5. There are four things to ask when considering a bond:
- a. What is the asset that you want to finance?
  - b. Can that asset generate a revenue stream to repay the finance?
  - c. What's the timeframe over which the bond will be repaid?
  - d. Is a bond the most appropriate structure?

### **Additional resources**

- [Forests Bond Fact Sheet](#)
- [Forest Bonds Q&A Document](#)
- [Finance for Forests Fact Sheet](#)
- [IFC's Investor Presentation on the Forests Bond](#)
- [Financing the Earth's Assets](#)
- [Bloomberg article on bogus green bonds](#)



# MODULE 4: CI VENTURES CASE STUDY

## Return based investment - environmental impact investment

**Guest Presenters: Erica Flemming, Director: Conservation Finance, CI Ventures at Conservation International and Jan Yoshioka, Senior Director, Blue Economy Investments, Conservation International Ventures**



### Erica Flemming

Director: Conservation Finance; Investment Officer:  
CI Ventures at Conservation International

Erica leads the African investment process for Conservation International Ventures LLC and contributes to CI's other conservation finance programs in Africa.



### Jan Yoshioka

Sr. Director, Blue Economy Investments | Conservation International Ventures LLC

Jan leads global blue economy investments for Conservation International Ventures LLC and oversees broader ocean-based conservation financing strategies for Conservation International. Following a career in corporate finance in the energy sector, Jan worked on agriculture and food systems startup and small business acceleration and development in Hawaii with an emphasis on Indigenous led enterprises and impact investment.

**Presentation link:** <https://vimeo.com/534300218/f4d03027a2>

## Background

*This case study explores an example of an impact investment fund that provides loans to small- and medium-sized enterprises that benefit ecosystems and human well-being.*

### CI Ventures

CI Ventures' capital supports enterprises that will generate profit, which helps to pay off the loans — returning principal and interest to the fund that can be used to make future investments. CI Ventures is an 'impact' first fund as opposed to a 'finance' first fund. This means that while the financial returns are important for ourselves and for our funders, the environmental and social impacts generated by the investment are paramount.

CI Ventures is owned and controlled by the global NGO Conservation International. We are an environmentally focused fund, but also track social impacts. Our team has a diverse range of backgrounds, both in terms of previous roles, but also countries of origin. We're currently spread across three continents with team members in South America, and North America and Africa. The fund has an initial target size of USD \$30 million

(of which ~USD 22m has been secured to date). What's a little bit unusual about our fund structure is that it's philanthropic-funded, which gives us quite a lot of flexibility in the types of investments we make. This allows us to invest in early-stage enterprises and emerging markets. But it also allows us to invest in enterprises that have strong environmental and social potential, rather than focusing purely on financial returns.

### Key partners

We have three kinds of key partners:

- Incubators and accelerators
  - These generate a pipeline of prospective investment opportunities for us. We develop relationships with them over several years, and they help to identify businesses that suit our strategy.
- Investment funds
  - We co-invest with thematically aligned and similar-minded investment funds, which help us with larger scale projects, or projects that need a complementary set of skills.

- Service providers
  - Another set of key partners are service provider partners who complement our in-house capacity, such as pro-bono legal services to support country and transaction level due diligence.

## **Approach**

### ***Investment Principles***

CI Ventures invests in start-up and growth-stage enterprises. We typically expect our investments to be post-concept and early in their revenue cycle, and they need to have a minimum viable saleable product or service that's been tested with the market. We primarily work with enterprise accelerators, which are looking for companies that are ready to do their first external fundraising, versus incubators, which are for earlier stage concepts and entrepreneurs who are really trying to refine what it is that they're going to do. The real value add from our perspective as investors, is that the companies get fantastic mentorship, hands on training, access to a network of technical expertise, and other types of support that help to de-risk the enterprise, even though they're still at a very risky stage in their life cycle.

Our investment principles prioritise:

- An Impact First investment lens
  - We employ an “impact first” approach to investing and prioritize investments that maximise environmental and social impact relative to other investment risk factors, while meeting internal financial return expectations.
- Business and impact model alignment
  - We invest in enterprises whose business and impact models are strongly aligned
    - whose commercial performance is synonymous with positive environmental and social impact performance.
- Conservation impact at scale
  - We prioritize opportunities that contribute positive, quantifiable environmental impact at scale. We invest in solutions that have high potential for industry-wide replicability and transferability.

### ***Investment Focus***

The investments we focus on are forestry products and alternatives, which includes blue carbon systems like mangroves. These include forestry systems, regenerative agroforestry systems, non-timber forest products that help to reinforce

the value of standing forests, and other high conservation value ecosystems. We also invest in sustainable and regenerative production systems, mostly focused on food. Our third arm focuses on data and analytics platforms that help resource managers and communities better manage these resources, like remote sensing technologies.

CI Ventures specialises in flexible, patient debt and hybrid debt solutions. The debt piece is straightforward - we do loans of up to \$500,000 for companies with established teams and validated models that are seeking to expand, or enterprises that are looking to scale up. For our earlier stage companies, we tend to offer more flexible hybrid debt products that include revenue-based financing loans - where the repayments are based on the revenue of the company, rather than being fixed over a period of time. The company repays us as a percentage of the revenues - as they scale, the payments scale up. We also offer convertible debt - for example, with start-up companies where we may elect to convert our loans into equity ownership.

#### **Investment Process**

- **Deal sourcing and screening:** At the sourcing and screening stage, in addition to really figuring out what the right financing approach is, we have a coarse 'screening tool' that we use to ensure that the opportunity aligns with our strategic priorities. This may include geographic priorities if that's relevant, as well as an overall review of the company's impact objectives.
- **First investment committee meeting:** The next step in our process is a meeting with our investment committee. Investment officers will work with prospective investees to compile relevant information about the company and its commercial and impact potential. From there, we'll start to construct a theory of change around the investment, and put that together with some of our analysis around the company - its management, its finances - which are presented to our investment committee along with a request to proceed to formal due diligence. At this point, we try to work with companies to quantify or estimate as best as we can the projected impact. If we give you money today, what will you use the money for to result in repayment of those funds at some point in time, but also to generate social environmental impact.
- **Due diligence:** During formal due diligence, we undertake customary legal, corporate, commercial and financial due diligence and evaluate company environmental, social and governance policies and practices, and work with companies to formulate key performance indicators for impact. We try to embed environmental social action plans or environmental, social and governance (ESG) targets so that the company is clear on how we're going to be managing the ESG performance alongside commercial and financial performance.
- **Second investment committee meeting:** Following due diligence, we proceed through a second committee review. This is where the investment committee makes its final decision to make the investment. The investment committee will typically look at the semi-final ESG Action Plan and approach that the company will take to manage their impact indicators or performance targets.
- **Contracting and disbursement:** We embed the ESG policy, action plan and KPIs into the legal documentation. Therefore, compliance with our ESG policies, as well as those targets, do become part of our loan agreements or other investment documents.
- **Portfolio management:** Portfolio management activities focus both on financial and environmental and social impact performance aspects. Portfolio companies report on commercial and financial performance on a quarterly, semi-annually or other mutually agreed basis and provide reporting on environmental and social performance against targets at least annually. Annual environmental and social performance is monitored through surveys which include data on prior period baselines and actual performance against agreed upon impact targets. Performance indicators include portfolio level indicators which are common across all portfolio companies, and company specific indicators which are developed with portfolio companies. Portfolio indicators include spatial targets such as the amount of land and sea under sustainable management, financial impact through the amount of follow-on and co-financing catalysed, the number of jobs created and sustained through our investments, and the number of livelihoods supported.

#### **Aligning impact and economic incentives**

We will conclude with two company case studies - Jala, which is based in Indonesia, and Meat Naturally in South Africa - in order to consider the impact of integration within our investment process, i.e. how we align impact and economic incentives.

## Deal Profile: JALA

**Location:** Indonesia

**Sector:** Aquaculture technology

**Stage:** Early stage

**Transaction type:** Revenue-based financing

**Conservation incentives:** Impact

**KPI-linked pricing reductions**

JALA is an early stage company that provides IoT (Internet of Things) technology products for small holder farmers in the shrimp aquaculture sector. These tools are used to measure water quality with the expectation that when you provide more visibility to water quality performance for shrimp farmers, they can proactively and adaptively manage those ponds for environmental benefits, and to improve the productivity of yields from these farms.

We provided a 5-year, US\$ 150,000 loan to enable commercial production of water-quality monitoring hardware and software solutions that address the unique needs of smallholder aquaculture farms. This was one of our first revenue-based financing transactions, and we decided that for the interest rate component of this loan, we would make reductions in that financing rate to impact targets that were negotiated.

Overall, for this venture jobs and employment were important to us - looking both at the jobs created internally, but also the livelihoods being impacted through farms who are using these technologies and are able to grow. Another objective was to get the technology in many farms so that they were improving the management of water quality over a large footprint, which gave us spatial targets. And lastly, unique to JALA, we set some environmental impact targets - because it's great that they're using the tools, but how many of these farms are seeing improved water quality because of better decision-making?

As part of our impact thesis, we considered:

- Indonesia is among the world's leading shrimp aquaculture producers and exporters. Shrimp aquaculture accounts for a significant proportion of Indonesian agricultural exports by value and is an important source of rural employment and livelihoods.
- Shrimp aquaculture production is dominated by smallholder producers, the majority of which lack access to the tools and technical insights needed to effectively manage the productivity and ecological performance of shrimp aquaculture operations.
- Investment in JALA will provide smallholder another farmers with access to real time data, analytics, and actionable insights that improve management of farm water quality conditions that are critical to farm health, productivity and environmental performance, and provide data needed to qualify for sector focused insurance and financing programmes.

With the impact KPIs, interest rate reductions (-25 bps) for achievement of mutually agreed key performance indicators are assessed on a quarterly basis:

- Jobs and employment, measured by the number of internal FTE positions created and retained.
- Livelihood support, measured by the number of monthly recurring farmers farms and farm associations actively using the JALA platform.
- Spatial impact, measured by the area of shrimp production under improved management.
- Ecological impact measured by the improvements in farm water quality management.

## Deal Profile: Meat Naturally

**Location:** South Africa

**Sector:** Livestock production

**Stage:** Growth

**Transaction type:** Loan to finance working capital for livestock auctions

**Conservation incentives:** Market access

Meat Naturally is a for-profit social enterprise that is restoring African rangeland ecosystems by working with partners to provide livestock production and market access incentives for communal stock farmers who agree to applying sustainable grazing and wildlife-friendly management practices.

Historically, these rural-based stock herders would have had to walk or drive long distances to get their cattle to market. Providing capital for rural mobile auctions has enabled them to access markets much more easily. To access the mobile markets, the company enters into conservation agreements with community stockholders around sustainable grazing practices. The rangelands get restored when sustainable practices are followed, and the farmers produce much better results – with the cattle growing faster as well as not losing weight on the journey to market.

To achieve significant impact, we will sometimes go well below the prime rates of interest. For example, in South Africa, the kind of rate of interest you could get from a bank is about 10%. We offered the loan at 8% because they started with high impact credentials. But for every KPI that they hit, the interest rate goes down, to as low as 3.5%- 4%.

As part of our impact thesis, we considered:

- Rangelands make up 62% of Sub-Saharan Africa's landmass and are largely degraded due to overgrazing, resulting in poor production outcomes for communal stock farmers.
- Meat Naturally provides economic incentives for communal stock farmers who employ sustainable grazing and improved livestock management.
- Results are restoration of rangeland ecosystems, including increased carbon sequestration potential, and increased prosperity and resilience for communal livestock farmers

### Impact KPIs include:

- Jobs and employment, measured by the number of internal FTE positions created and retained.
- Livelihood support, measured by the number of communal livestock farmers supported by Meat Naturally programmes.
- Revenue earned by communal farmers through selling livestock and associated products through Meat Naturally platforms.
- Spatial impact measured by the area under sustainable grazing and land management by communal livestock farmers.

## Lessons learned

- Flexibility is key for investment in early-stage enterprises, emerging markets and projects with strong social impact.
- CI Ventures supports the projects they invest in through mentorship, hands on training and access to technical expertise which helps de-risk the projects and hence CI Venture's investment.

- Techniques to align financial and impact incentives include:
  - Risk and impact-adjusted pricing
  - Repayment grace periods
  - Impact-linked interest rate reductions
  - Waiver of loan collateral requirements

## Additional resources

- [CIV Investment blueprint](#)





Photo by Wayne Quilliam



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