BLUE SOLUTIONS

An Introduction to Conservation Finance

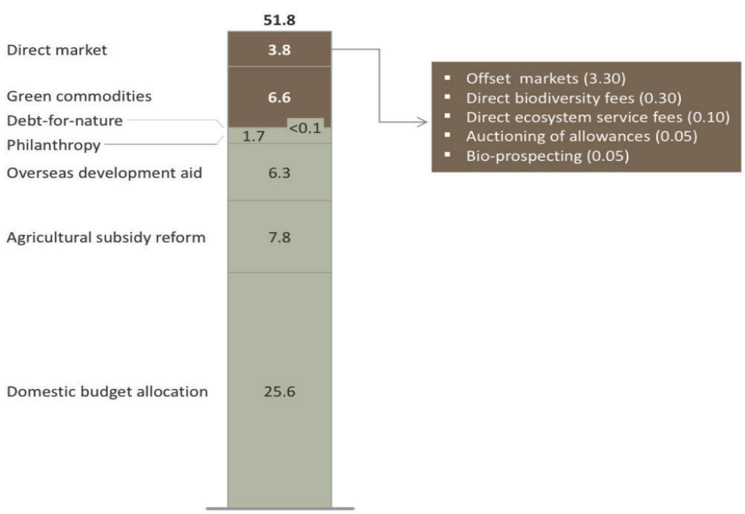
Through a series of explanatory notes exploring several different sustainable financing mechanisms, as well as the relevant Blue Solutions to help highlight success stories that have used those mechanisms, Blue Solutions hopes to help build capacity and awareness on the different financial pathways forward to enable conservation practitioners to feel more at ease integrating these concepts into their projects.

WHAT IS CONSERVATION FINANCE?

Conservation finance is "a mechanism through which a financial investment into an ecosystem is made – directly or indirectly through an intermediary that aims to conserve the values of the ecosystem for the long term"(Credit Suisse, 2014). There are a number of mechanisms that fit into this definition. Some include direct conservation strategies like payment for ecosystem services, permit trading and offsets, while others include linked approaches that incentivize private investment through public finance such as the climate fund. To that effect, conservation finance would require that projects produce long-term cash flows to support the conservation strategy as well as the return to investors.

Today, only US$52 billion per year flow to conservation projects (Stanford Social Innovation Review, 2014) where 80% come from non-market sources (the largest part coming from domestic government spending) and only 20% come from market-based activities (13% from green commodities like timber, fisheries, etc. and 7% from direct market payments like carbon offsets) (GCP, 2012).

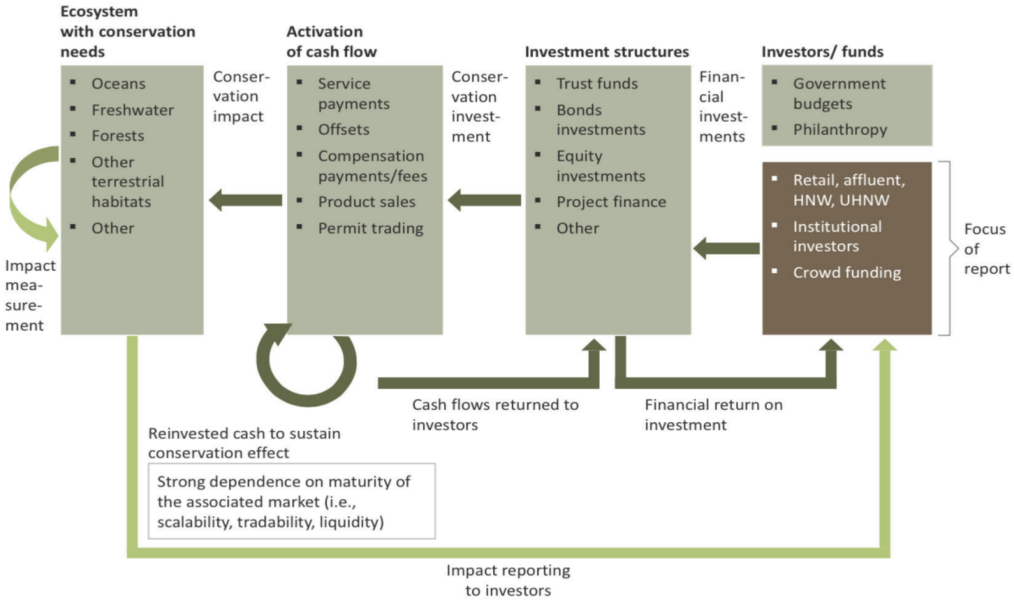
Figure 1: Current conservation Finance (GCP, 2012).



To meet the global needs for conservation funding, cash flows from conservation projects need to be at least 20-30 times greater than they are today. If HNW/ UHNW individuals, retail and institutional investors globally allocated 1% of their new and reinvested capital, we could meet the conservation needs (Credit Suisse, 2014). Today, more and more stakeholders, including the private sector, are starting to realize the importance of our ecosystems and the role they play in fighting poverty. The Stanford Social Innovation Review (2014) suggests that private investors could supply as much as US$200 to US$300 billion per year to preserve important ecosystems, which could close the current financial gap.

A number of challenges still remain in order for conservation finance to be scaled up. One remains the ability to leverage public and philanthropic capital to activate and scale up financing through traditional capital markets. The Credit Suisse Report presents a diagram that represents this mechanism.

Figure 2: Conservation Finance Framework (Credit Suisse Report 2014).



Here are some of the conclusions from the Credit Suisse Report:

1. The primary reasons why conservation projects are underinvested in include:
(i) The monetary and conservation benefits of conservation programs are not sufficiently well identified or standardized
(ii) The environmental benefits are, without regulatory intervention, often externalities for the investors involved
(iii) Conservation projects are not set up with the same focus on return/impact maximization and replication as are traditional business models.

2. To establish conservation as an asset class, the report proposes a simple structuring into investable modules:
(i) Investments into the underlying ecosystems with the objective of capital protection
(ii) Investments into establishing and maintaining infrastructure and business models of sustainable management of these ecosystems to achieve a financial return
(iii) Investments into additional mechanisms centered on environmental markets or regulatory arbitrage for return enhancement.

MARINE CONSERVATION FINANCE

As with other areas of conservation, the field of marine conservation lacks sufficient financial resources to achieve long-term conservation goals. A recent report by Bos et al. (2015) highlights some of the challenges of innovative financing in the marine conservation field and outlines potential recommendations as to how these challenges might be addressed (Table 1).

Table 1: Challenges and Recommendations for marine conservation finance (Bos et al. 2015).

CHALLENGES	RECOMMENDATIONS
Funding for marine conservation is inadequate in terms of the size, duration, and diversity of revenue streams.	Marine conservation initiatives need financial strategies.
Finance mechanisms for marine conservation are under-developed and under-utilised.	Increased research on and development of finance mechanisms for marine conservation are needed.
Finance is often disconnected from conservation planning.	Financial planning should be integrated into conservation planning, and involve key stakeholders.
The environmental side effects of economic activity increase the gap in clobal conversation funding.	Businesses need to be engaged to reduced the gap in conservation funding for marine ecosystems, with different approaches taken for different types of business.
While there are numerous interdisciplinary fields of practice and reserach that can contribute to marine to marine conservation,, few individuals and programme specialise in this area.	The emering field of marine conservation finance needs defintion, focus and specialists.

FURTHER READINGS

Investing in Conservation: A landscape assessment of an emerging market (2014). This report is the first study of the market for conservation-related impact investments. It provides a more comprehensive understanding of a growing investment sector that has the potential to be a significant source of funding to help meet conservation needs globally.

The International Guidebook of Environmental Finance Tools (2012). This report from UNDP provides guidance to countries in developing and implementing the most commonly used, widely applicable, and potentially high- impact environmental finance tools.

WWF Guide to Conservation Finance (2009). This report provides an overview of conservation financing mechanisms that have been implemented throughout the world.

REFERENCES

Bos et al. (2015). Marine conservation finance: The need for and scope of an emerging field.

Credit Suisse AG, World Wildlife Fund, Inc. & McKinsey & Company (2014). Conservation Finance: Moving beyond donor funding toward an investor-driven approach.

Global Canopy Programme (GCP) (2012). The Little Biodiversity Finance Book 3rd Edition.

Stanford Social Innovation Review (2014). Making Conservation The Making Conservation Finance Investable. Report for Debate.