CPIC

COALITION FOR PRIVATE INVESTMENT IN CONSERVATION

Conservation Finance 2021

An Unfolding Opportunity

A collaboration between

Cornell Atkinson Center for Sustainability

IUCN

south pole

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INVESTING IN OUR PLANET

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Conservation Finance 2021

An Unfolding Opportunity

Authors

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About the Coalition for Private Investment in Conservation

The Coalition for Private Investment in Conservation (CPIC) is a global multi-stakeholder initiative focused on enabling conditions that support a material increase in private, return-seeking investment in conservation. CPIC aims to facilitate the scaling of conservation investment by creating models (blueprints) for the successful delivery of investable priority conservation projects, connecting pipeline providers of such projects with deal structuring support, and convening conservation project delivery parties with investors to execute investable deals. CPIC's members range from institutional investors to public donors, and from private project developers to conservation NGOs.

South Pole serves as CPIC's Secretariat and Platform Coordinator.
Find out more at cpicfinance.com.

Key Findings

The conservation finance market is growing fast – but the instruments and revenue sources considered are yet to diversify.

- Return-seeking investments in conservation are increasing, driven mostly by greater **investor awareness of the opportunities of the market, and an increasing number of professionals with relevant skills** across the conservation and finance sectors.
- Yet the conservation finance market is still at an early stage – the instruments used by the respondents are **mostly private debt and equity, as well as real assets (Figure 1) –** with few using publicly traded instruments. The average deal size remains small, **with 85% of the individual deals reported being under USD 5 million**.
- **Financial flows are highly concentrated: 99.7% of all reported investments originated from seven countries alone** (Australia, Germany, the Netherlands, South Korea, Switzerland, United Kingdom, and the USA).
- The primary revenue sources for conservation investments are **sustainable commodities (55%)** and environmental markets **including carbon and biodiversity credits (31%).**

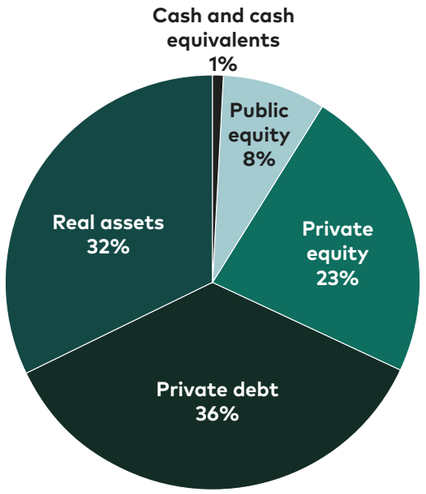


Figure 1 – Conservation investments by instrument type and revenue streams. Based on data from 21 organizations.

Unsuitable deal structures, lack of in-depth market data, and the challenge of measuring conservation impacts limit the growth of the conservation finance market.

- Current conservation finance deal structures – and more particularly **their small deal size and long investment terms –** still hinder investments in nature, according to investors and project developers alike. **Blended finance accelerators,** like the Nature+ Accelerator Fund or Convergence's Asia Natural Capital Design Funding Window, can help to stimulate the creation of investable conservation projects.
- **There is a disconnect between project developers and return-seeking investors:** project developers lack understanding of investors' needs, such as the need within the financial sector for internationally recognized and applied standards.
- **Measuring conservation impacts is also perceived as a key barrier by investors:** 70% of respondents cited the high costs of quantifying impacts as a barrier, and nearly half of respondents (48%) cited the lack of standardized measurements metrics available as an additional challenge.
- **The effectiveness of conservation impacts is sector-dependent:** respondents perceive that investments in forests and terrestrial ecosystems generated more effective environmental impacts than investments in sustainable agriculture, oceans and/or coastal areas (Figure 2). **Harmonized monitoring and verification systems**, such as those used for forests within carbon markets, can help to build confidence among investors and project developers and facilitate effective conservation impact.

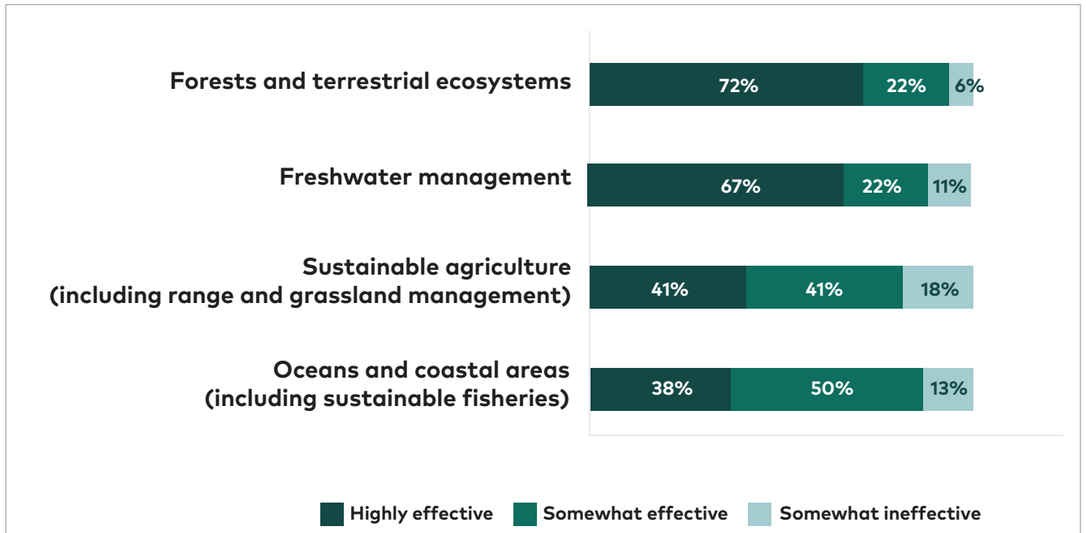


Figure 2 – Self-assessment of impact from projects invested in or developed by respondents. Note: respondents could only choose one overall performance for all their investments linked to one ecosystem. Based on data from 25 organizations.

The future of conservation finance looks promising, as new technologies and disclosure requirements become more established.

- **Supply chain-driven investments in nature are expected to increase significantly over the coming decade**, with a growing number of corporate funds for nature from companies such as Apple and L'Oréal. With bigger financial commitments, broader scopes, and the backing of company-wide biodiversity and climate targets, these funds will contribute significantly to the expected increase in the private capital available for investments in conservation.
- **Shifting from project-level to landscape-level investing** will become crucial to leverage synergies between the various sources and cycles of funding within the same landscape, and to multiply impacts on the ground.
- **New technologies are expected to play a significant role in increasing investments in conservation.** Digital innovation is giving rise to online natural capital marketplaces connecting buyers and sellers, and improving conservation impacts measurement through remote sensing and artificial intelligence.
- **Nature-related disclosure is likely to become the norm over the next few years**. Initiatives such as the Taskforce on Nature-related Financial Disclosures (TNFD) and the EU Taxonomy will require the private sector to report publicly on nature-related risks and impacts.

The conservation finance sector lacks multi-year, in-depth data on private, return-seeking investments in nature. The analysis covered in this report should be carried out on a regular basis and in collaboration with other relevant initiatives and institutions, to provide a more complete overview of the return-seeking conservation finance landscape and to unlock additional investments.

Contents

Introduction

Approximately half of the world's GDP depends on nature and its services (World Economic Forum, 2020), making the connection between thriving ecosystems and economic success abundantly clear. Earlier this year, The *Economics of Biodiversity* report showed that our unsustainable use of nature is threatening the prosperity of current and future generations, and that we need an in-depth reform of our financial system to avoid "financing ourselves into extinction" (Dasgupta, 2021).

The urgent need to act for nature has been translated by governments into global targets to safeguard biodiversity – with nearly 200 countries agreeing on official 'Aichi Biodiversity Targets' in 2010, from preventing species loss to improving the ability of habitats to sequester carbon. World leaders have come together once more under the United Nations Convention on Biological Diversity (CBD) process to negotiate a series of updated principles for managing biodiversity in the post-2020 period (the Global Biodiversity Framework).

Yet, more than a decade after the Aichi Targets were agreed, the international community has failed to achieve most of them. This is in part because public financial flows do not meet the current investment need for financing necessary conservation efforts, and continue to be dwarfed by harmful subsidies (Secretariat of the Convention on Biological Diversity, 2020). Governments have failed to redirect public financing toward investments that benefit nature, and still spend USD 274-542 billion every year in agricultural, forestry and fisheries subsidies that end up harming rather than helping nature (Deutz et al., 2020).

Redirecting public finance will go a long way toward closing the massive USD 598-824 billion annual biodiversity financing gap (Deutz et al., 2020), but public finance alone will not be sufficient for addressing the growing biodiversity crisis. Private sector finance, which today accounts for just 14% of global conservation investments, must also be mobilized at scale. To move much-needed private capital toward restoring and conserving nature, we must better understand the needs and expectations of private investors, what hinders and drives conservation investments, and which proven solutions already exist for achieving both positive biodiversity outcomes and financial returns.

Very few reports provide a deeper look at the current state of return-seeking conservation investments. The most comprehensive one to date was *State of Private Investment in Conservation (SOPIC) 2016*, authored by Forest Trends, which provided an in-depth review of approximately USD 2 billion of private investment in specific conservation-related assets (Hamrick, 2016). The landscape of conservation finance has changed considerably since then and is expected to undergo further transformations as a result of growing private sector interest, increasing nature-related impact disclosure, and technological advancements. **In this first edition of the *Conservation Finance* report, the Coalition for Private Investment in Conservation (CPIC) aims to provide an up-to-date analysis of both demand and supply in the conservation finance sector. We seek to characterize what typical return-seeking investments in conservation look like today, as well as the most promising and scalable projects and finance mechanisms for interested investors.**

We hope this report will inspire forward-thinking private sector leaders to recognize the value of investing in nature and to take CPIC's work across the finish line by channeling finance into deserving projects that will preserve natural capital for generations to come.

Objectives and approach

Objectives
This report has two objectives, in line with CPIC's mission to bridge the divide between investment and project development:

1. **On the demand/investment side:** to provide a picture of what typical private investments in conservation look like, in terms of deal size, expected returns, selected instruments and target geographies and ecosystems. Understanding what private investors are looking for in conservation projects will help project developers design deals that can fit those requirements.

2. **On the supply/project development side:** to identify and present lesser-known examples of viable and/or promising conservation projects or finance mechanisms with the potential to be scaled and replicated. Showcasing such examples can improve the confidence of investors in the strength of the market by demonstrating that such projects can yield financial returns while achieving positive conservation outcomes.

Definitions
The report uses IUCN's definition of **conservation** as the "protection, care, management and maintenance of ecosystems, habitats, wildlife species and populations, within or outside of their natural environments, in order to safeguard the natural conditions for their long-term permanence" (IUCN, 2021).

For the purpose of this report, **conservation finance** is defined **as return-seeking private and public investments that intend to generate positive and measurable conservation benefits.** Grant-based funding is not included. While the report is primarily focused on investments from private entities, it also includes data from public investors. The terms **biodiversity finance** and **conservation finance** are used interchangeably in this report.

The **biodiversity financing gap** refers to "the difference between the current total annual capital flows toward global biodiversity conservation, and the total amount of funds needed to sustainably manage biodiversity and maintain ecosystems integrity." (Deutz et al., 2020)

Data collection and analysis
The report is based on data from an in-depth survey conducted between January and June 2021. The survey targeted conservation project developers, public and private investors, and organizations that identified as both developers and investors. It gathered data from a total of 35 organizations.

The data collected are primarily related to 1) investments in conservation deployed in 2020, and 2) investments secured for conservation projects in 2020. Some additional data were collected on investments made and projects developed between 2015 and 2019, and on predicted investments for 2021.

Not all organizations responded to all questions in the survey. The number of respondents is specified for each of the figures used throughout the report.

- **Scope:** with 35 organizations responding, the sample used for this report is relatively small, and represents a small share of the overall investments in conservation (both from private and public sources). Nevertheless, the survey used for this report includes insights from a wide range of investors – from institutional investors or asset managers with institutional clients, to family offices and foundations – hence providing a diverse overview of the different types of return-seeking conservation investments. The main points of difference with the SOPIC 2016 report are that no corporations took part in the survey, while they represented 25% of the investors surveyed by Forest Trends, and that over half of respondents are based in Europe, while most SOPIC respondents were based in North America (Hamrick, 2016).
- **Outlier:** although most respondents disclosed investments on a similar scale, one large public investor reported significantly higher investments than others. Some of the data have been analyzed without this outlier to avoid skewing. Each graph specifies when this outlier has been excluded.
- **Double-counting investment flows:** respondents were asked to disclose whether they invested in projects directly or indirectly, through funds and intermediaries. 88% of all investments reported were done directly, and 12% indirectly. Based on this and an assessment of the nature of the respondents, the risk of double counting has been minimized, but it cannot be totally excluded.

Literature review
We conducted a literature review of recent reports on conservation finance to identify data linked to the total size of conservation investments, common barriers and enabling conditions, as well as sector-specific trends.

To illustrate our findings, we identified relevant case studies based on a series of criteria, including deal size, innovation, conservation impacts generated or anticipated, and the amount of publicity the examples had already received. In addition, we sought to provide a diverse overview of conservation finance solutions – including by showcasing different instrument types, targeted geographies, and ecosystems.

Overview of survey data

Out of the 35 organizations surveyed, 28% of respondents were investors, 25% project developers, and 46% reported activities linked to both investing and project development (Figure 3).

Together, the respondents reported USD 1.33 billion invested in conservation in 2020 and USD 1.13 million of additional investment, either private investments mobilized by the public investors responding to the survey, or return-seeking investments raised for projects developed by the respondents (Figure 3). Some respondents chose not to disclose the amounts they invested but provided non-financial data, so the overall investment volume represented by the respondents is arguably higher.

To avoid double counting, the report only analyzes in detail the USD 1.33 billion directly invested by respondents.

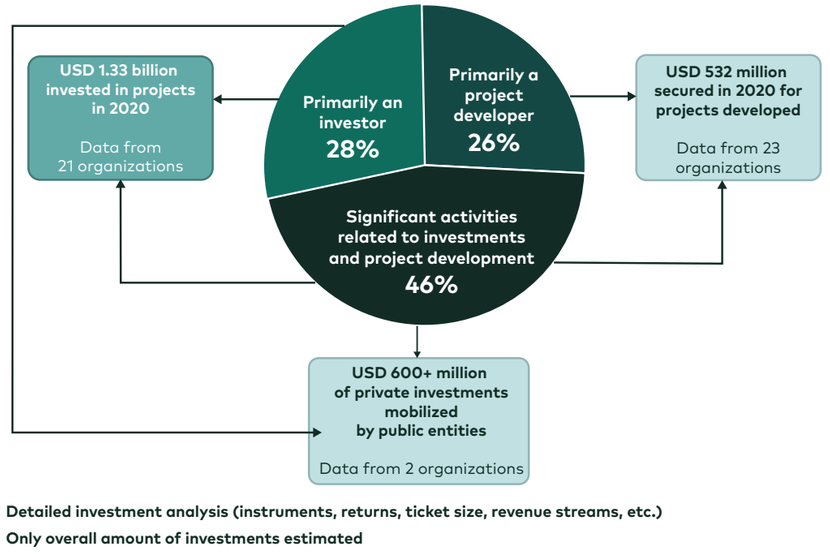


Figure 3 – Type of survey respondents and corresponding investments reported. Based on data from 35 organizations

Current state of the conservation finance market

Conservation-related projects are starting to draw larger amounts of public, philanthropic, and private finance – but in-depth market data focusing on return-seeking investments into nature is still lacking.

The recent literature provides a comprehensive overview of the overall volume of conservation finance: the most recent figures vary between **USD 133 billion** (United Nations Environment Programme, 2021) and **USD 124–143 billion provided annually by both public and private sectors** (Deutz et al., 2020). A large majority of those investments (80%-86%) come from the public sector.

These investments have been growing steadily in the past decade, with the third edition of *The Little Biodiversity Finance Book* estimating a total of USD 52 billion of investments in nature in 2010 (Parker et al., 2012). Despite this significant increase, the biodiversity financing gap is currently estimated to be USD 598-824 billion per year (Deutz et al., 2020). The financing gap itself has doubled compared to the 2014 estimate of USD 300-400 billion per year (Huwyler et al., 2016).

The volume of **private funding** is approximately **USD 18 billion per year** – with only a proportion of it representing return-seeking investments, though this share cannot be accurately estimated due to data limitations. Funding from NGOs and philanthropies, which traditionally is primarily grant-based, represents USD 2.3 billion. The remaining USD 15.7 billion include supply chain investments, biodiversity offsets, private equity investments, carbon markets, and payments for ecosystem services (United Nations Environment Programme, 2021).

Beyond the figures on the overall scale of the funding, finding detailed data on private, return-seeking investments in nature is more challenging. The SOPIC 2016 report gave an in-depth review of USD 2 billion of private investments in its latest report, which included data up until 2015 (Hamrick, 2016). Since then, there has been little publicly available data on how these investments have grown and if any additional trends can be identified.

Who is investing in nature

Out of the respondents who invest in projects (considering both investors and organizations that invest in and develop projects), **institutional investors or asset managers with institutional clients** represent the largest category of investors, or 23% (Figure 4). This share jumps to 60% when only the organizations that focus on investments are considered.

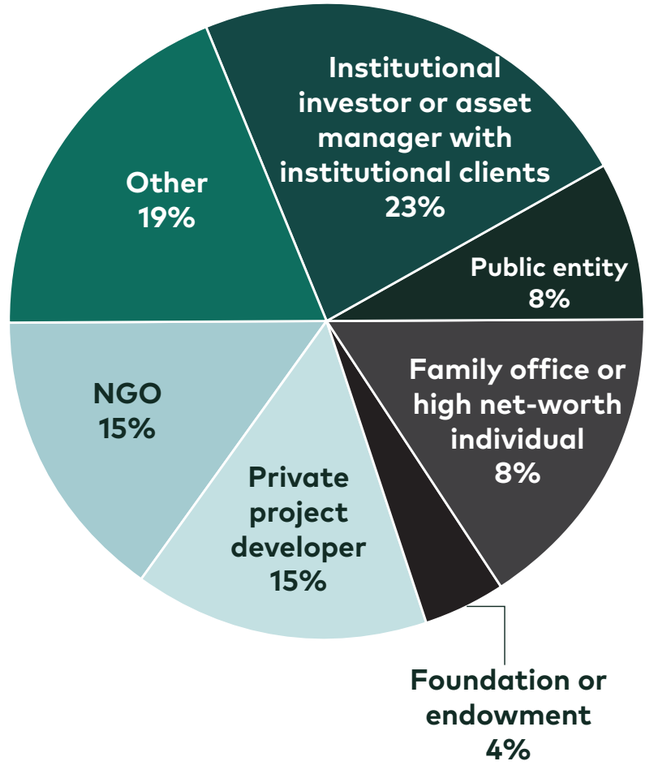


Figure 4 – Type of investors among survey respondents. Other organizations include consulting firms and impact funds. Based on data from 26 organizations.

2020 saw an increase in the number of major institutional players and asset managers entering the market, demonstrating a growing interest in conservation finance. Notable examples include the **HSBC Pollination Climate Asset Management** announcement of a USD 1 billion asset management venture focused on natural capital, with HSBC as a cornerstone investor, and the launch of **Lombard Odier's Natural Capital strategy** in November 2020 (Lombard Odier, 2020).

Beyond individual commitments, the financial sector has also formed coalitions and networks showcasing ambitions of more nature-positive investments. These include the **Sustainable Markets Initiative's Natural Capital Investment Alliance**, with HSBC Pollination Climate Asset Management, Lombard Odier and Mirova Natural Capital as founding partners. Similarly, the **Finance for Biodiversity Pledge** was launched in September 2020 and now represents EUR 9 trillion of assets under management. The Pledge brings together 55 private banks, insurers, asset managers, and pension funds. The signatories are committed to 1) collaboration and knowledge sharing, including on biodiversity metrics, 2) engaging with companies through ESG policies, 3) assessing the impact of the activities they finance, 4) setting targets and 5) reporting publicly and annually on how their portfolios contribute to global biodiversity goals (Finance for Biodiversity Pledge, 2021).

How they are investing in nature

Instruments and ticket sizes

Respondents reported utilizing a diverse mix of instruments for conservation investments, with a focus on private debt (36% of investments disclosed), real assets, such as infrastructure and land (32%), and private equity (23%). Representing only 8% of reported investments, public equity is rarely utilized – likely because of the lack of data on the conservation footprint of public companies. Public debt is even more underrepresented, and is only reported by one large public investor, showing an underdevelopment of the market

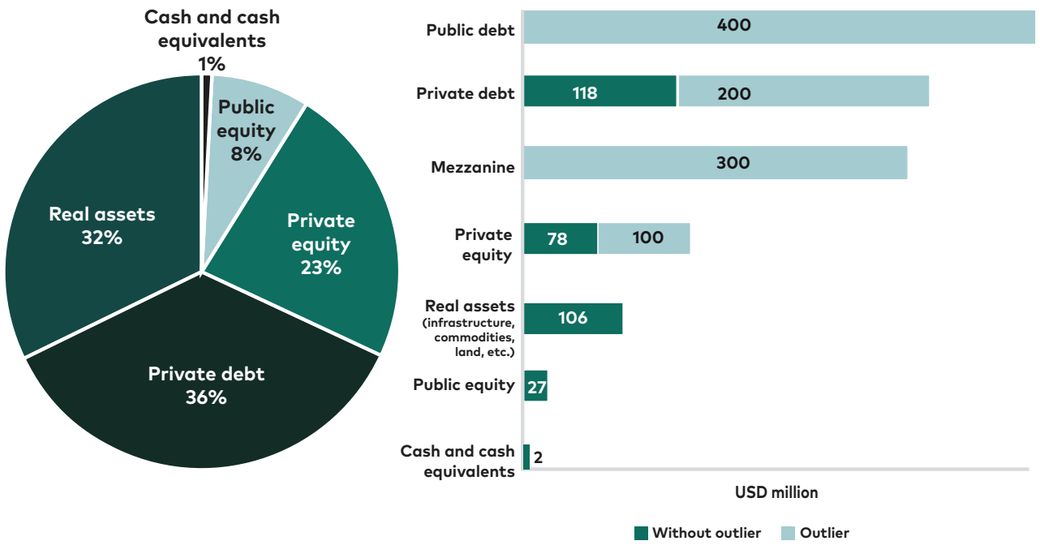


Figure 5 – 2020 conservation investments by instrument type. Based on data from 21 organizations. Without outlier (left hand side, pie chart) and with outlier (right hand side, bar chart).

The ticket size of conservation investments remains small, with 70% of all deals (or 237 individual deals) closed by respondents in 2020 below USD 1 million and 85% below USD 5 million (Figure 6). Only 26 deals were above USD 21 million – nine of which were above USD 51 million.

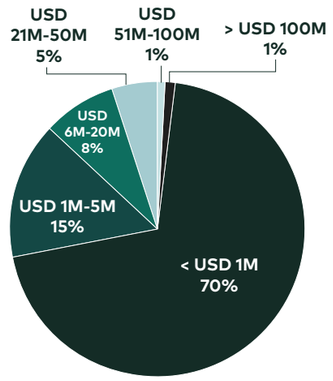


Figure 6 – Percentage of the number of deals closed in 2020 per deal size. Based on data from 21 organizations.

For comparison, of the USD 47 billion of return-seeking impact investments analyzed in the 2020 Impact Investor Report developed by the Global Impact Investing Network (GIIN) – which includes transactions across sectors such as healthcare, energy, and food and agriculture – the average deal size was USD 5 million across all asset classes, ranging from USD 3 million for private debt to USD 28 million for real assets (Hand et al., 2020). These impact investment deal sizes hint at how conservation deal sizes will likely increase as the conservation finance market matures in the next few years.

Financial returns

Survey respondents are mostly expecting market-rate returns from their conservation investments. 92% of investments reported were linked to market-rate return expectations, and only 8% to concessionary returns (Figure 7). However, when taking into account the single respondent outlier (a large public investor), this shifted to 76% of investments expecting concessionary returns.

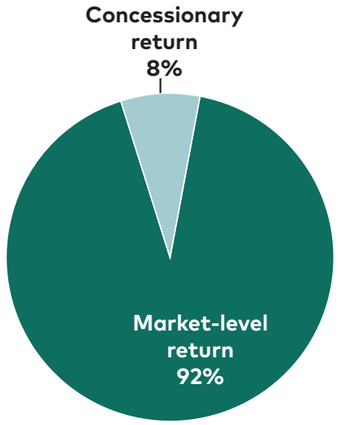


Figure 7 – Investments by type of returns expected. This chart does not include one outlier. Based on data from 20 organizations.

While conservation investments are often expected by private investors to deliver market returns, return-seeking public and philanthropic capital tends to be provided at concessionary rates (Figure 8). Over 99% of investments from NGOs, 97% of investments from public sector entities, and 80% of investments from foundations or endowments were linked to concessionary returns.

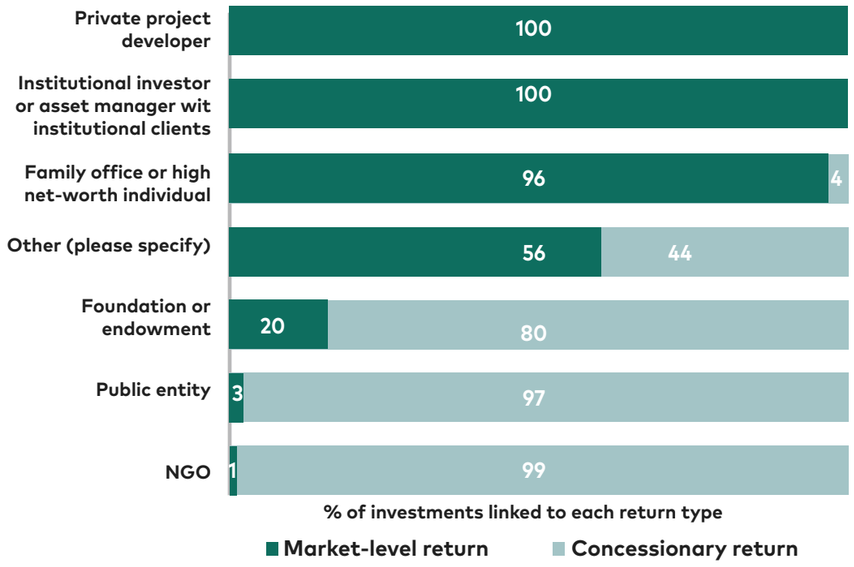


Figure 8 – Percentage of investments disclosed linked to market rate and concessionary returns, per investor types. Based on data from 21 organizations.

However, even if public and philanthropic donors tend to consider conservation finance under concessionary terms, they are **increasingly shifting from grant funding to return-seeking impact** investing (see more in Box 1).

Box 1: How conservation NGOs are moving toward impact investing

American Bird Conservancy, a non-profit organization working on bird conservation in the Americas, has recently developed an impact investing strategy, focusing on the development and implementation of projects that continue to deliver maximum benefits for birds and their habitats, while generating profit for local landowners and investors. These range from agroforestry for cacao and the production of spices, to sustainable timber production and cattle ranching. Similarly, The Nature Conservancy (TNC) launched NatureVest in 2014 as an in-house impact investing team, sourcing and structuring projects to support TNC's mission at scale.

Where we are today: mapping investment flows

Most investments disclosed by respondents originated in Asia (skewed by the large public investor), Europe and North America. Only 1% of investments are from organizations based in Latin America and Oceania, and no investors based in Africa answered the survey. Most investments are directed toward Africa (26%) (see also case study on Komaza's Smallholder Forestry Vehicle), Asia (24%), Oceania (17%), and Latin America, and only 11% of investments target Europe and the U.S. and Canada (Figure 9).

However, without a large public outlier, the target geographies of the investments reported are much more focused on the Global North, with 53% directed to Europe, the US and Canada, and Oceania. Only 14% of investments target Africa, and 5% of investments target Asia.

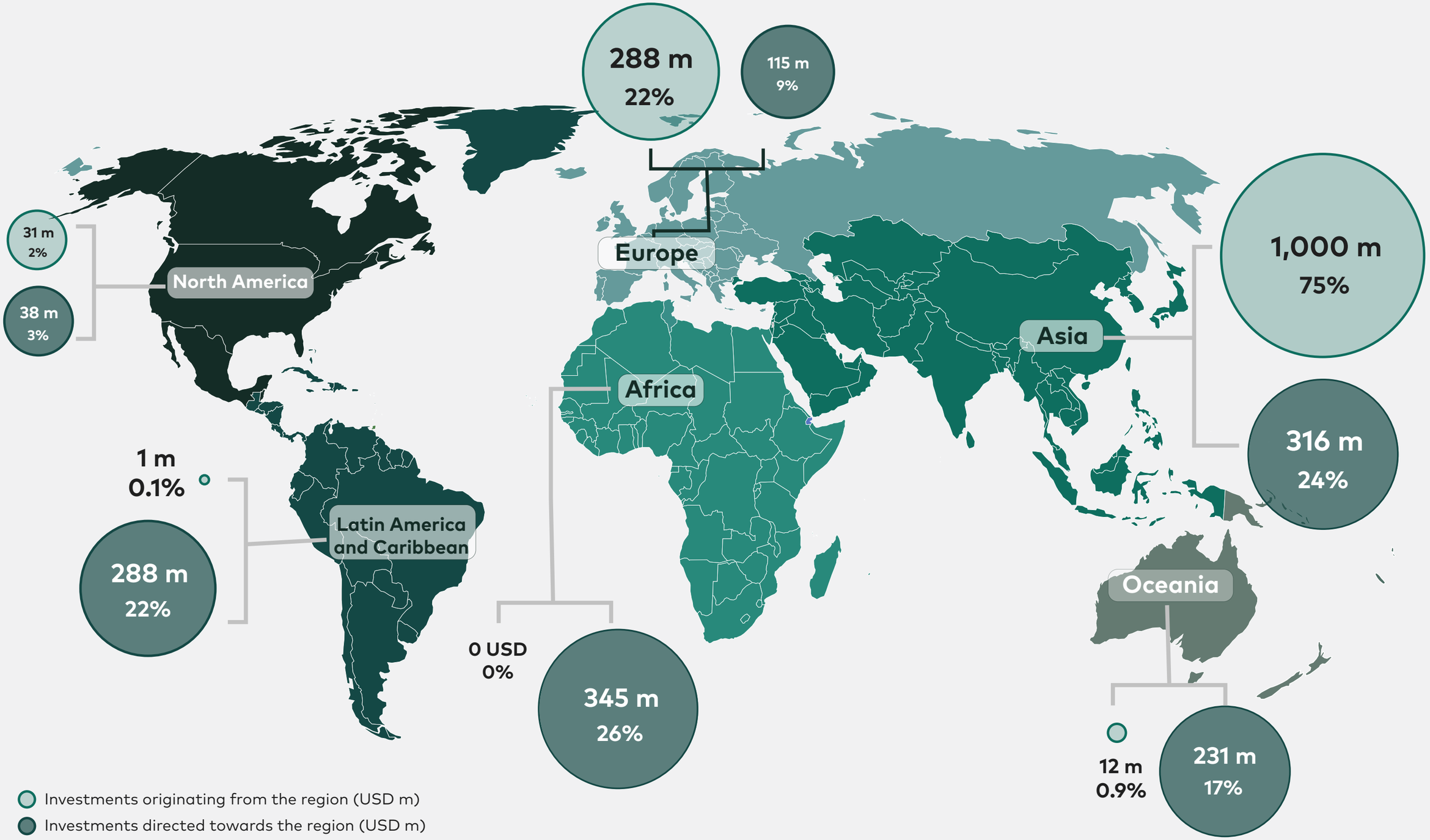


Figure 9 – Map of investments made by respondents in 2020. Based on data from 35 organizations.

Case study: Komaza's Smallholder Forestry Vehicle

© Photo by Komaza

Target country: Kenya

Target ecosystem(s):

Forests and terrestrial ecosystems

Instrument type:
- Private equity
- Private debt

Revenue streams:
- Commodities: timber

Launched in: 2008 – 2017 – 2022
Komaza started planting trees in Coastal Kenya in 2008 as an NGO and it has been scaling its planting activities since 2017, when it turned into a business venture. The first Smallholder Forestry Vehicle (SFV), a special purpose vehicle that ring-fences tree assets from Komaza's venture business to finance them separately, is expected to be launched in 2022.

Investment:

USD 28 Million	USD 33 Million
Investment raised	Target investment

Description:

There is a huge wood supply crisis in Africa - expected to hit USD 30 billion by 2030 - and thus an urgent need for greater commercial forestry activity across the continent. Smallholder forestry is the optimum approach to rapidly increase commercial forestry production, as large-scale plantations are not effective in scaling due to the lack of available land and complex land title issues.

Komaza is a smallholder forestry business that partners with smallholder farmers to produce sustainable timber from smallholder plantations developed on a portion of their land. Under the partnership, farmers contribute land and labor (nil cash cost) and Komaza contributes all inputs (e.g., seedlings, fertilizers), tree management expertise and access to high-value timber markets. When trees are mature, Komaza harvests, processes and sells the timber, and shares a pre-agreed portion of the value of the timber with farmers, enabling them to realize a meaningful and climate resilient income.

The **Smallholder Forestry Vehicle** is a special purpose vehicle that Komaza is developing to unlock the capital it needs to scale. By allowing Komaza to ring-fence tree assets through the long-term (9+ years) and predictable growth phase of the forestry lifecycle and finance them separately to the rest of the business, the Smallholder Forestry Vehicle will enable traditional forestry and climate funds to participate in smallholder forestry, providing the kind of tailored patient capital that this project needs to realize its full potential.

In July 2020, Komaza secured a first closing of USD 28 million of the planned USD 33 million Series B equity financing. The company was recently announced as a partner of the USD 200 million Apple Restore Fund, implemented in partnership with Conservation International. Komaza aims to plant one billion trees, benefitting more than two million farmers in sub-Saharan Africa.

Impact

Impacts achieved by Komaza to date

- **6 million trees planted** across Coastal and Central Kenya including areas around the Arabuko Sokoke Forest, the largest remaining of the Coastal Forests of Eastern Africa, one of 36 priority biodiversity hotspots for conservation[1]
- **1,700 ha of trees planted** annually, accounting for over 40% of commercial tree plantation in Kenya
- **30,000 farmers involved in tree planting activities** through partnerships with Komaza. A half-acre plot can return USD 1,000 to a family at harvest, equivalent to six years' cash income for a farmer in the Coastal region.

Impacts targeted through the SFV

- Afforestation: **over 20,000 ha of sustainable smallholder plantations** within five years after the launch of the SFV
- Carbon sequestration: removal of **2.7 million tCO2e** through sustainable plantations
- Farmer income creation: **forestry income opportunities for 68,000 farmers** in Kilifi, Kwale and Nyandarua counties
- The SFV allows long-term investors (such as climate and forestry funds) to finance tree assets in the low-risk, growth phases over the duration of approximately 15 years. Typical financial returns for commercial investors would be about **8-10% p.a.**

Environmental impacts | Social impacts | Financial impacts

More information at komaza.com
Read the CPIC Blueprint on Komaza

[1] According to the Critical Ecosystem Partnership Fund (CEPF). More information available at: https://www.cepf.net/our-work/biodiversity-hotspots

Investments per ecosystem and revenue stream

The investments disclosed are largely focused on sustainable agriculture (49%), forests and terrestrial ecosystems (19%), and oceans and coastal areas (17%). Those proportions are significantly affected when including the outlier, with a more even spread between sustainable agriculture (35%), freshwater management (23%) and forests and terrestrial ecosystems (23%) (Figure 10).

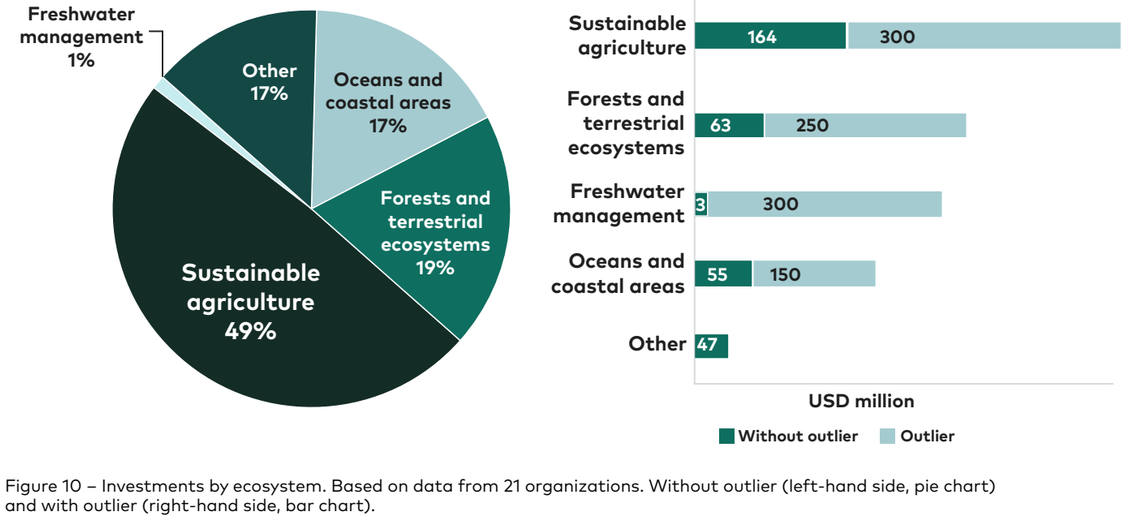


Figure 10 – Investments by ecosystem. Based on data from 21 organizations. Without outlier (left-hand side, pie chart) and with outlier (right-hand side, bar chart).

The Sustainable Water Impact Fund (see the following case study) illustrates how conservation goals can be achieved through investments in the **sustainable agriculture and freshwater management sectors**.

Case study: The Sustainable Water Impact Fund (SWIF)

(Locks of Dunlin in flooded rice fields in Colusa, California. Copyright: Drew Kelly)

Implemented by: RRG Capital Management (Fund's Investment Manager), The Nature Conservancy (Technical Advisor)

Target countries: Australia, USA, Chile, Peru

Target ecosystems:

Sustainable agriculture

Freshwater management

Instrument type:
- Real assets
- Private equity

Revenue streams:
- Carbon (voluntary or compliance)
- Other environmental markets (biodiversity, water, etc.)
- Commodities (timber, agriculture, etc.)

Fund close: April 2020

Investment raised: USD 927 million equity

Description:

The Sustainable Water Investment Fund (SWIF) invests in arid and semi-arid regions where trends like climate change, tightening environmental regulations, and rising demand for food are likely to have material impacts on the resiliency of agricultural production, water availability, and the natural environment. SWIF aims to address those challenges by acquiring land and improving surface water, groundwater, and agricultural management to more sustainably meet the water supply needs of people and nature. Examples of direct conservation outcomes that SWIF aims to achieve include terrestrial and wetland habitat restoration, land protection, securing water in rivers, sustainable groundwater management, and increased water supply for the local communities. An important goal of SWIF is to demonstrate how capital can enhance sustainability of land, water, and agriculture as well as provide competitive financial returns.

As of the end of 2020, SWIF had invested in six projects across Australia, California, and Chile. I**n California**, the Fund is primarily repurposing land from row crop and dairy cultivation for groundwater recharge facilities, seasonal wetlands, restored natural habitat, and other potentially higher value uses for a water-scarce region. Groundwater facilities capture surface water during periods of abundance and percolate it into aquifers. Water can be extracted from those aquifers later when it is needed, while the recharge basins themselves provide important wetland habitat for migratory birds. **In Chile**, the Fund has acquired avocado- and walnut-producing farms with the goal of improving their water management, and the potential to secure one of Chile's first conservation easements in the upper watershed of the same basin. The conservation easement would help protect critical groundwater and surface water supplies, and in conjunction with the farming operation, aims to demonstrate improved long-term resiliency of agricultural production.[1]

The innovative practices supported by SWIF have a high potential for replication across water-scarce regions globally because they aim to demonstrate business models that enhance co-benefits between environmental outcomes and revenue generation. Over the next several years, the Fund will continue growing its portfolio of projects and assess properties for acquisition, while evaluating the long-term environmental and social impacts of its recent investments.

Impacts achieved as of end of 2020

California:
- 3,194 ha of land acquired
- 57 ha of groundwater recharge basins built to assess potential for water banking
- Temporary wetlands providing habitat to 23 species of conservation importance

Chile:
2,080 ha acquired in one of 34 global hotspots for biodiversity, which will demonstrate the feasibility of conservation easements in Chile, as well as sustainable agriculture practices for permanent crops, and renewable energy installations.

More information is available in the SWIF 2020 Impact Report.

[1]Conservation easements grant a right to a public authority or a qualified conservation organization (often called land trust) to restrict land use on property not in their ownership in order to protect the property's conservation values (Source: www.landtrustalliance.org).

Over half of all investments made in conservation in 2020 were expected to generate revenues through **sustainable commodities** (e.g., timber, sustainable agricultural products, fish and fish food). 31% of investments were expected to generate revenues from **environmental markets**, including through the monetization of carbon, biodiversity, and water credits. While the carbon market is well established, it is particularly encouraging to see the importance of relatively recent environmental markets (water and biodiversity) among the revenue streams expected. Other revenue sources disclosed include plastics/waste recycling, while ecotourism represented 2% of all expected revenues (Figure 11).

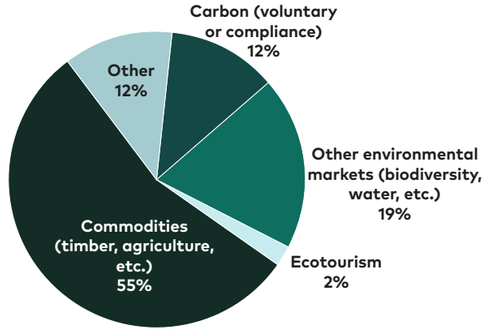


Figure 11 – Investments by revenue streams. Revenue streams are estimated as a percentage of total revenues expected from 2020 investments. Based on data from 21 organizations.

Combining revenue sources is an effective strategy for lowering risk and improving the investment-readiness of conservation projects. Blue finance's blended finance facilities for marine protected areas (see the following case study) combine revenues from commodities, ecotourism, and environmental markets to attract private capital.

Case study: Blended finance solutions for marine conservation and vulnerable coastal fishery communities

Implemented by: Blue finance

Target countries: Philippines, Indonesia, Belize, Dominican Republic, Bahamas, Cabo Verde, Mozambique, Zanzibar

Target ecosystem:

Oceans and coastal areas (including sustainable fisheries)

Instrument type:
- Private debt

Revenue streams:
- Carbon (voluntary or compliance)
- Ecotourism
- Other: aquaculture and fishery

Investment:

USD 3 Million
Investment raised

USD 50 Million
Target investment

First investment: 2020

Investments disbursed (as of end of 2020): USD 1.2 million

Description:

With more than 60% of coral reefs globally under threat and 500 million people depending on them for food and income, mobilizing finance at scale to protect those vulnerable ecosystems is crucial.

Blue finance (Bf) develops blended finance solutions for marine conservation, livelihood improvements and climate change resilience. Bf works with different governments and marine protected area (MPA) co-management entities to strengthen the implementation and financing of revenue mechanisms for MPAs. As part of the solution, Bf structures blended finance facilities that bring together grants and debt to fund the early-stage investments of the MPAs. Revenues generated from a range of sustainable sources, such as visitor fees, ecotourism and sustainable fisheries, can create tangible returns for investors while ensuring the financial sustainability of the MPAs.

In Belize, Bf partnered with the Turneffe Atoll Sustainability Association, Mirova Natural Capital and IUCN to structure a USD 1.2 million facility to enhance the protection of 132,000 ha of coral reef ecosystems. The blended finance facility is the result of an innovative collaboration between public sector, private sector, NGOs and communities to make the MPA financially sustainable and attract additional investments.

In the Philippines, Bf, local community partners, Mirova Natural Capital, Global Fund for Coral Reefs and IUCN are structuring a USD 2.4 million blended finance facility to enhance the protection of 5,000 ha of coral reef ecosystems and benefit more than 12,000 fisher households.

The solution is being replicated in six other MPAs in the **Caribbean, Southeast Asia and sub-Saharan Africa** – aiming to protect over 1,000,000 ha of marine areas while providing additional income to 120,000 local fishers globally. The project will also generate verified carbon credits from mangrove conservation and restoration as an additional income source.

Bf is the architect of a new investment facility that aggregates a pipeline of investment-ready, high-impact MPA projects and provides an opportunity for investors to commit concessionary capital to support ecological resilience while empowering local communities.

Bf is directly involved in "on the ground" MPA activities, working with local communities and in partnership with more than 30 conservation partners and financial institutions.

Impacts achieved

900,000 ha coral reef ecosystems on the way to being effectively managed, **20 endangered species** on the way to being effectively protected in Belize and the Philippines

200 vulnerable coastal households benefitting from project livelihood enhancements in Belize and the Philippines

Financial returns: **USD 0.2 million in 2020; USD 0.4 million** in 2021 (as of July)

Environmental impacts | Social impacts | Financial impacts

More information available at blue-finance.org
Read the CPIC Blueprint on the MPA blended finance model

Overcoming barriers to private investment

The growth of the conservation finance market is being limited by inadequate deal structuring and the lack of harmonization between metrics to measure conservation impacts. However, the increasing number of professionals with the relevant skills, and a mainstreamed awareness amongst investors, signal positive developments for the market in the past five years.

Progress in the market

To put the recent increase in the overall volume of conservation investments into perspective, the survey tracked the evolution of indicators of market progress. Those indicators were based on those tracked by the Annual GIIN Impact Investor Report, and adapted to the conservation finance market.

The respondents indicated that two out of the nine indicators included have significantly progressed in the past five years, including awareness from investors, and the demand for conservation impacts from clients and/or the public (Figure 12). This **increasing awareness from investors** – and particularly private investors – of the opportunities and risks related to nature investments was also demonstrated in a recent Credit Suisse/Responsible Investor study, which showed that 84% of 327 surveyed asset owners and managers were very concerned about biodiversity loss, and 67% were already addressing biodiversity issues to some extent in their portfolio (Responsible Investor Research, Credit Suisse, 2021).

Two other indicators, namely **professionals with relevant skill sets** and standards to measure impacts, were perceived as having somewhat improved. On the other hand, indicators related to **how conservation deals are structured**, such as steady or high returns and suitable exit options or securitization, were seen as not having improved in the past five years.

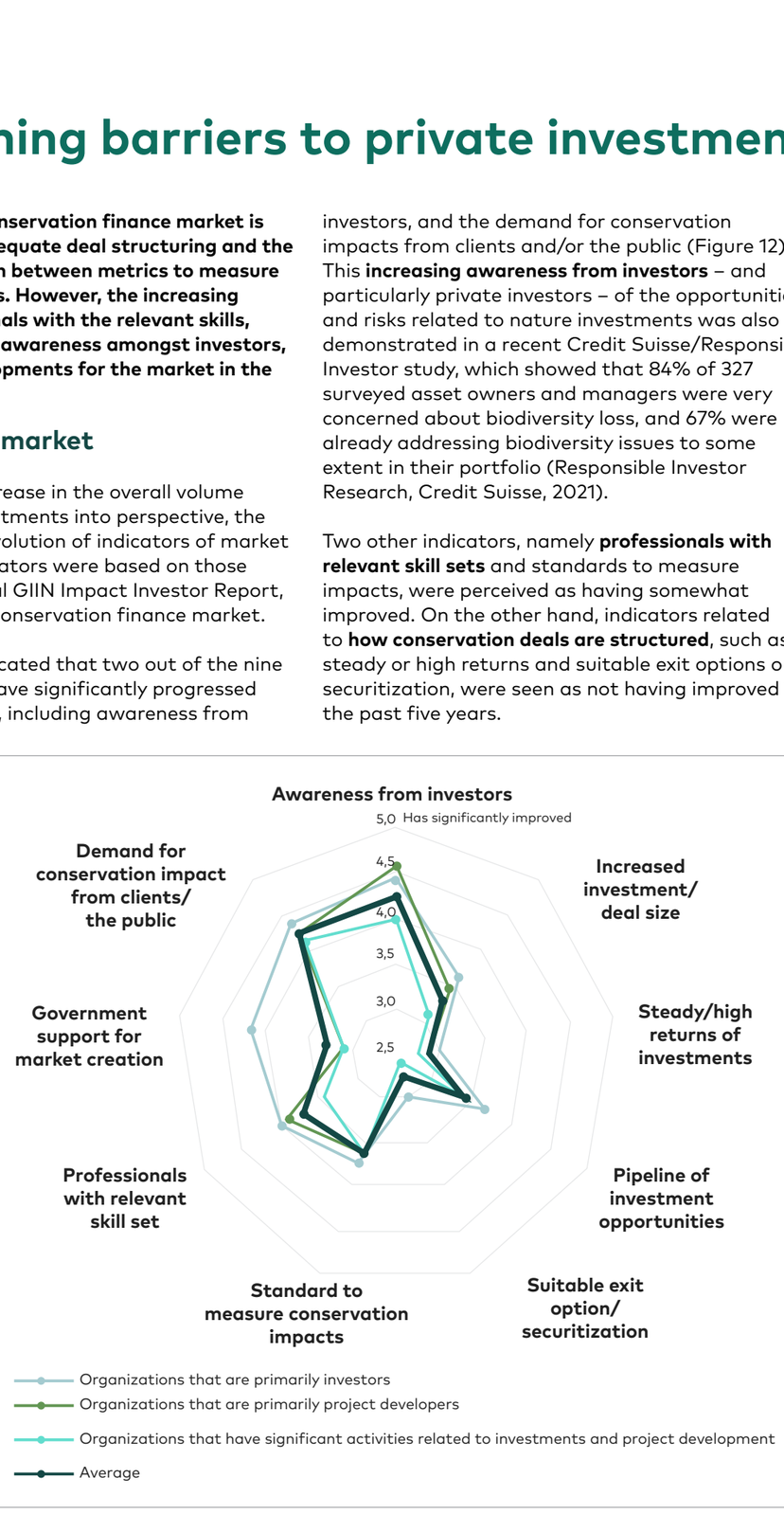


Figure 12 – Main indicators of market growth for conservation finance, scored between 1 (has significantly worsened over the past five years) and 5 (has significantly improved over the past five years). A score of 3 represents no significant change. Based on data from 35 organizations.

From awareness to implementation: remaining barriers

The main barrier reported by the respondents is **the lack of investable deals**, as the restricted deal pipeline continues to delay the flow of capital into conservation. The way the limited number of existing deals are structured, and more specifically their **small deal size, long investment term**, and **high associated risks**, is an additional problem perceived by respondents as not having progressed in the past five years. **Low returns** are perceived by project developers as less of a barrier, while investors saw this as more important. This illustrates that some developers may lack a thorough understanding of investors' needs, and underestimate how important it is to provide high project returns to attract investors, particularly when risks are high. A similar trend is visible regarding the lack of standards to measure conservation impacts – this is perceived as more of a barrier by investors than it is by organizations that develop projects.

Other potential barriers, such as investors' awareness, were not considered as important to respondents, in line with their perception that such awareness has progressed significantly in the past five years (Figure 13).

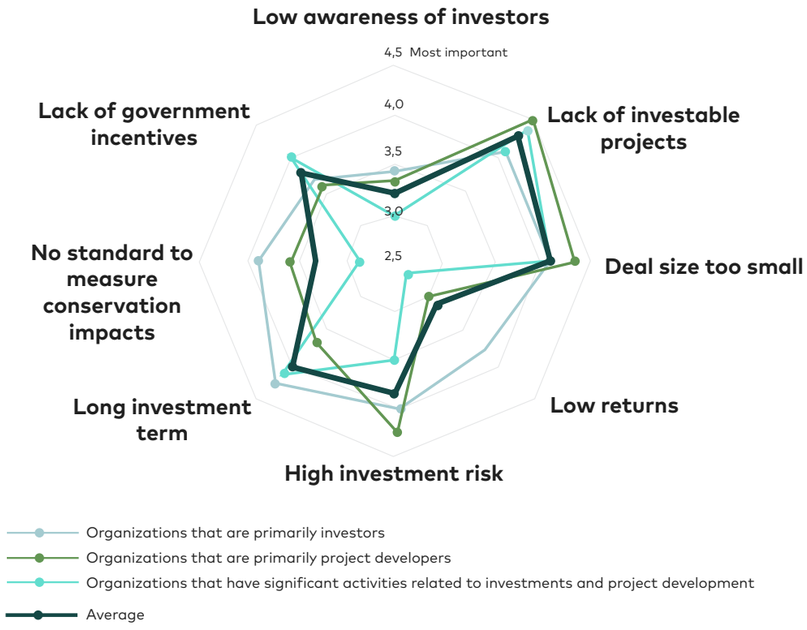


Figure 13 – Main barriers to investments in conservation, ranked from 1 (not important at all) to 5 (most important). Based on data from 35 organizations.

Unlocking private investment in conservation

The factors with the biggest potential to unlock private investment in conservation vary depending on the type of respondents: project developers perceived **risk mitigation through blended finance** and **technical assistance for project preparation** as key enabling conditions, while investors and organizations identifying as both investors and project developers favored **enabling policies and frameworks**, such as incentives and standards (Figure 14).

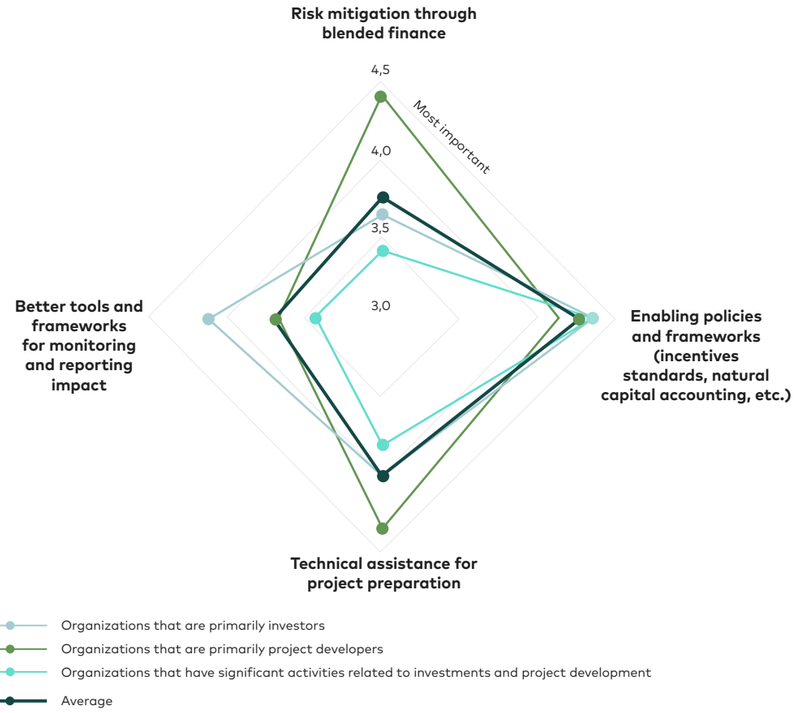


Figure 14 – Factors with the biggest potential to unlock private investment in conservation, ranked from 1 (not important at all) to 5 (most important). Based on data from 35 organizations.

1. Enabling policies and frameworks

Effective, ambitious, and long-term policies and regulations are key to improving the attractiveness of investing in conservation. There have been a number of encouraging policy developments in 2020 to support the scale up of investments in nature, including the EU 2030 Biodiversity Strategy, with binding targets for nature restoration expected to be announced before the end of 2021 (European Commission, 2020).

More changes are planned at the next CBD COP, with the adoption by its 196 parties of the post-2020 Global Biodiversity Framework. The first official draft released by the CBD COP Secretariat in July 2021 sets out 21 ambitious targets for 2030, including:

- **Redirecting, repurposing, reforming or eliminating incentives harmful for biodiversity**, in a just and equitable way, reducing them by at least USD 500 billion per year. Harmful subsidies in the agricultural, forestry and fishing sectors are currently two to four times higher than the annual investments in conservation and represent a major opportunity for increasing nature-positive financial flows (Deutz et al., 2020).
- **A USD 200 billion increase per year in international financial flows from all sources to developing countries.**

In addition, the fourth main goal of the Framework is to close "the gap between available financial and other means of implementation, and those necessary to achieve the 2050 Vision" (CBD COP Secretariat, 2021).

While the draft text seems ambitious on paper, organizations such as WWF have suggested otherwise, and claim that the amount of finance highlighted in the text is a "significant underestimation" (WWF, 2021). In addition, concrete and smart national policies and subnational regulations need to underpin the Framework for it to achieve the targeted changes. Therefore, a key focus will be engaging the policymakers of all CBD parties and building capacity at the national and subnational level.

National policies have proven effective at driving investments in conservation. An example is **Colombia's biodiversity offset regulations**, under which every organization implementing an infrastructure project (such as mining, oil, or gas) is obligated to offset any detrimental environmental impacts by financing restoration and protection projects. Introduced in 2013, the regulation has since supported the emergence of a national biodiversity offsets market, with 486 projects developed to date. An additional regulation requires projects that use water resources to invest 1% of the total project costs in water conservation strategies. 380 related projects have been developed as a result (ANLA (National Authority of Environmental Licenses), 2020).

2. Technical assistance for project preparation and risk mitigation through blended finance

Given that the lack of investable deals is the main barrier pointed out by respondents, it is no surprise that **technical assistance for project preparation** comes high on the list of enabling conditions for investments. Often, technical assistance requires convening multiple stakeholders – funders with different expectations, such as philanthropies and impact investors, as well as technical experts – thereby rendering such deals more complex. Technical assistance can be integrated into blended finance schemes that improve the risk/return profile of investments and thereby crowd in private capital to finance sustainable development.

Blended finance is essential to making transactions investment-ready through design-stage and technical assistance grants. These can, for example, help develop proofs of concept, baseline and monitoring, reporting and verification systems – particularly crucial for projects that must demonstrate environmental impacts. Other types of blended finance, including guarantees and risk insurance and concessional finance, aim to reduce risks for commercial investors by covering losses, or aim to reduce the interest rates of financing and facilitate access to cheaper capital (Earth Security, 2021).

For an example of how blended finance can support project preparation and mitigate risk, see **Box 2** below.

Box 2: Nature+ Accelerator Fund: project preparation and risk mitigation through blended finance

Blended finance vehicles and funds bring together mixed public and private expertise to attract private capital. Launched in November 2020, the **Nature+ Accelerator Fund** is a collaborative effort by IUCN, Mirova Natural Capital and the GEF that supports the development of investable projects. It was inspired by CPIC and benefits from its extensive network of project developers and advisory firms to identify new investment opportunities.

The Accelerator aims to leverage a USD 8 million anchor investment from the GEF to develop a portfolio of USD 200 million in transformative, scalable and financially viable nature-based solution projects. To address the barriers linked to project preparation, the Accelerator offers three financing windows, taking projects from seed financing (convertible notes or repayable grants up to USD 100,000, and simplified and shorter screening and investment processes) to venture phase (tailored financial instruments, up to USD 10 million per project, following a typical two-step investment and due diligence processes). By supporting projects from their early, feasibility stages to commercial stage, and providing small-scale investments, the Accelerator can fill an important gap in project preparation (IUCN, 2020).

Measuring and reporting conservation impacts

Measuring the conservation outcomes of projects, both before and during the life of the investment, is accompanied by a host of challenges. However, new metrics and standards are helping to standardize reporting and create a shared language between return-seeking investors and project developers.

How investors and project developers measure impacts

Beyond generating financial returns, conservation investments must also demonstrate positive, durable and substantial biodiversity outcomes. **While approximately half of respondents reported a lack of standardized metrics for impact measurement as a key barrier**, all but one said that they do measure conservation impacts, both before investments and during the lifetime of the investments – or in the case of project developers, for the projects that they develop.

However, the tools respondents utilized to measure conservation investment impacts varied substantially and lacked a consistent approach: when considering a project for investment, 50% of respondents use external criteria, while the other half use internal criteria. The most commonly used external metrics and frameworks include well established standards, such as **the Sustainable Development Goals (SDGs), voluntary carbon standards**, and **sectoral certifications such as the Forest Stewardship Council (FSC)**. Other tools include standards developed by specific national agencies (e.g., US Fish and Wildlife Services, Australian Biodiversity Standards), Operating Principles for Impact Management, and the Biodiversity Footprint Financial Institutions (BFFI), a methodology launched by ASN Bank in 2016. Organizations that favor internal criteria usually base those on existing international standards – such as the IFC Performance Standards – but adapt them to specific projects and investments, to mitigate the lack of granularity often associated with higher-level standards. Newly launched metrics, such as the Species Threat Abatement and Restoration (STAR) metric, are also used by several respondents (see Box 3).

Box 3 – New tool: Species Threat Abatement and Restoration (STAR) metric

Developed by a consortium of 54 institutions led by Newcastle University, IUCN, the Biodiversity Consultancy and BirdLife International, the STAR metric quantifies the contribution of investments to reducing species extinction risk. STAR is based on the IUCN Red List of Species and considers both threat abatement in existing habitats and the restoration of lost habitat. It is applicable to sites, corporate footprints, commodity sourcing areas, and administrative units such as provinces and countries. It enables a comparison between these geographical units, for instance in portfolios.

By using STAR for ex-ante impact measurements, investors, companies and governments can target and adapt their projects and investments to avoid or reduce negative impacts on biodiversity, and maximize benefits. Ex-post impacts can also be assessed once the intervention has been delivered.

The diversity of external standards (Figure 15) shows a lack of harmonization – highlighted as a key barrier by respondents (Figure 17). While standards must be adapted to specific projects, there is a risk that using different metrics leads to an inability to compare different investment opportunities, particularly pre-investments.

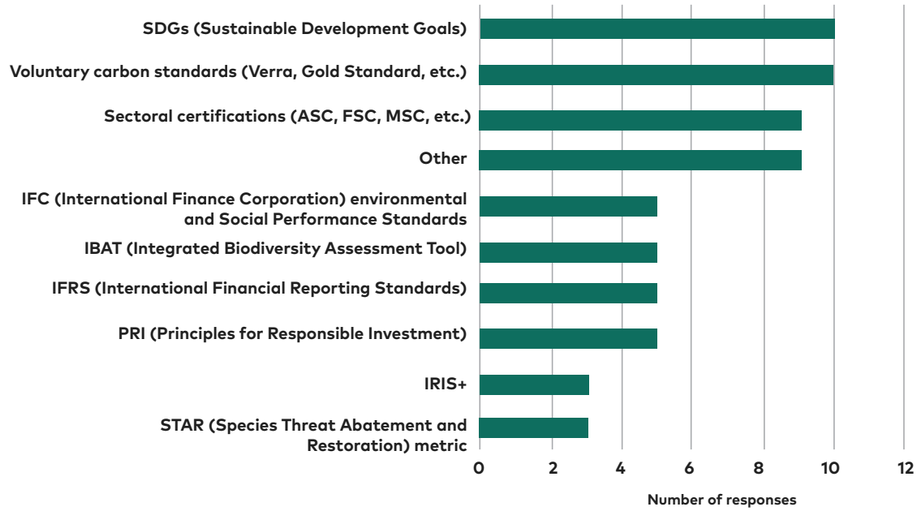


Figure 15 – External standards used by respondents when considering a project for investment or to monitor the performance of their own projects. Some organizations can select several standards. Based on data from 29 organizations.

Effectiveness of conservation investments

Respondents were asked to assess the overall impacts of their investments and/or projects depending on whether their investment or project was somewhat ineffective (targets not met), somewhat effective (targets partially met), or highly effective (targets fully met or exceeded). Respondents believe that 67% of all investments made were highly effective, while 10% were somewhat effective – with the remaining 23% corresponding to investments that had not been made during the period 2015-2019, or for which impacts were not/could not be measured.

However, when asking respondents to rate the effectiveness of their investments and projects across conservation sectors, we found that **it varied depending on the targeted ecosystems** (Figure 16).

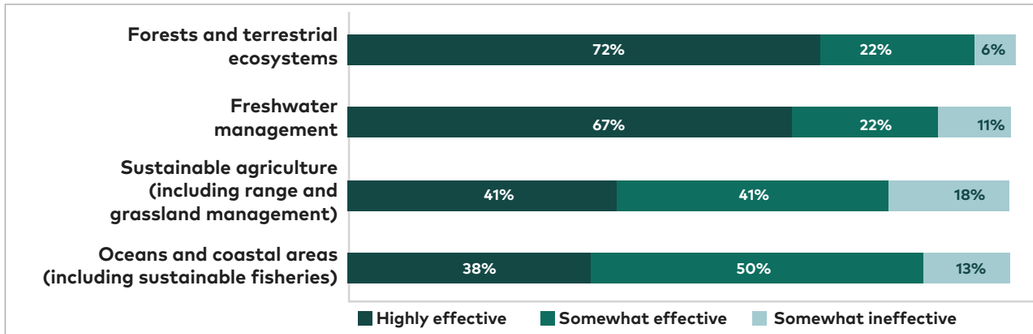


Figure 16 – Self-assessment of impact from projects invested in or developed by respondents. Note: respondents could only choose one overall performance for all their investments linked to one ecosystem. Based on responses from 25 organizations.

Out of 16 respondents who invested in oceans and coastal areas in the period 2015-2019, 38% found that their investments or projects in this sector were overall very effective (targets fully met or exceeded), while half found them somewhat effective, and 13% somewhat ineffective (targets not met). A similar distribution can be seen with investments in sustainable agriculture, with 41% of respondents rating their investments or projects as highly effective, 41% as somewhat effective, and 18% as somewhat ineffective. By comparison, **the forests and terrestrial ecosystems sector saw 72% of respondents finding investments and projects highly effective,** 22% somewhat effective, and only 6% somewhat ineffective.

While the perception of effectiveness was overall positive for freshwater management investments (67% of respondents rated their investments as highly effective), the number of respondents who invested in freshwater management between 2015-2019 is relatively small, and it is difficult to treat the result as representative of this sector. It is also important to note that the response process was simplified, insofar as organizations were asked to assess the overall effectiveness of all their investments into one sector, which may not accurately reflect the variations between projects.

Several factors may explain why investments in forests and terrestrial ecosystems are overall assessed as more likely to be highly effective than those in sustainable agriculture, and oceans and coastal areas.

- **Long-term experience.** Verified investments in forests have been around for several decades, with the oldest certified tree-planting projects registered as far back as 1990[1], and the first REDD+ project dating back to 2011 (UN-REDD Programme, 2020). Between 2016 and 2018, the volume of carbon offsets from nature-based solutions projects nearly tripled (Forest Trend's Ecosystem Marketplace, 2019). On the other hand, investments in oceans remain low – according to the Ocean Finance Handbook, SDG 14 – Life Below Water has received the least investment out of all the Sustainable Development Goals (Friends of Ocean Action, 2020).
- **Measurable and tradable natural assets with strong monitoring,** reporting and verification standards. Forestry projects can generate carbon credits as a widely recognized and traded environmental commodity. Those projects are also backed by an array of robust and internationally recognized standards, such as carbon credit standards (e.g., Verra, Gold Standard, CDM) and sectoral certification (e.g., FSC). These enable an easy assessment of projects performance when they lead to carbon credit generation and/or sustainable timber production. Beyond a few exceptions (e.g., MSC), such standards are more limited for oceans and fisheries related data.
- **Availability of data**. Data related to global fisheries is often incomplete, with data-poor fisheries representing over 80% of the global catch (Costello et al., 2012). The lack of funding and limited capacities of governmental agencies to process ocean-related data (Trice et al., 2021) limits the availability of reliable baseline data, which complicates the impact assessment of conservation projects targeting oceans and coastal areas.

Barriers to measuring conservation impacts

Most respondents reported that measuring the conservation impacts of projects, both before and during the life of the investment, was fraught with challenges (Figure 17). 69% of all respondents found that **high monitoring costs** were a key barrier to measuring the positive outcomes of conservation investments and projects. The **lack of harmonization between metrics and standards** – such as those explored in the previous section – was the second most important barrier reported, with 47% of respondents agreeing that it is a main challenge to monitoring biodiversity outcomes. Different standards emphasize different aspects of conservation, and the same project may receive different ratings depending on the standard used. Different metrics could also be used to evaluate the same conservation aspect (e.g., the impact on habitat restoration), yielding different results for the same project. Therefore, harmonizing the way conservation investments are verified is crucial to improving the reliability of impact measurement and thereby the confidence of investors in the sector. **The limited capacities of some project developers with regards to impact measurement** were perceived as an issue by 41% of all respondents.

Among the "other" barriers mentioned by respondents in their responses are **the different timeframes** linked to conservation impacts and financial impacts: while substantial biodiversity outcomes usually take years to decades to be achieved – and to become measurable and reportable – investment timeframes are typically shorter. Similarly, it is often difficult to assess the durability of impacts – as project outcomes are often not measured over long periods of time, and project monitoring ends when the investment does.

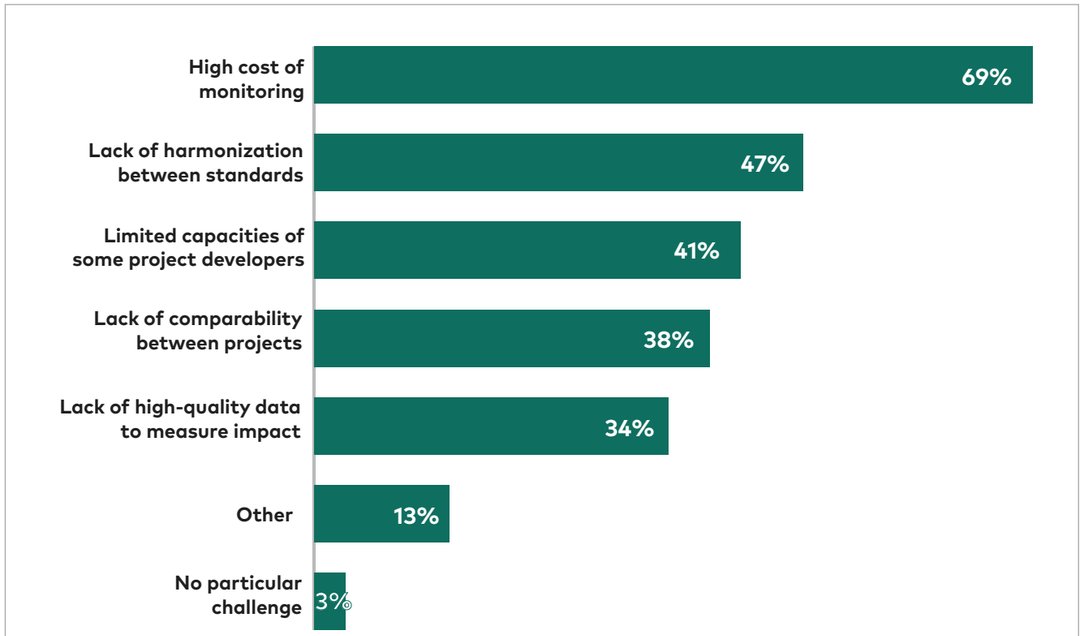


Figure 17 – Main barriers to conservation impact measurement. Respondents could pick several barriers. Based on data from 32 organizations.

Solutions for improving impact measuring could include:

- **addressing high costs** by building monitoring and evaluation into investment deals and ensuring there are dedicated resources and a budget for impact measurement. Technologies explored in the 'Looking Forward' section below – such as remote-sensing data and statistical modeling – can also help lower monitoring costs – while improving the reliability and availability of conservation data.
- **harmonizing metrics and standards** for impact measurement. Several initiatives are working on this, such as the Align project: Aligning Accounting Approaches for Nature, launched by the EU Commission in March 2021. It will aim to develop a standardized approach to biodiversity measurement, focusing on businesses (EU Business @Biodiversity, 2021).
- **building capacities and pooling expertise** by enabling strategic partnerships with organizations that have experience and expertise in assessing impacts, such as local NGOs and research institutes.

[1] http://www.fao.org/3/AC132E/ac132e05.htm

Looking ahead

The conservation finance market is rapidly growing and evolving. Return-seeking corporate funds, new technologies and disclosure requirements are expected to drive more investments in conservation in the coming years.

Beyond the expected increase in investments from private and public sources alike, the report identifies four promising trends that will likely play a significant role in shaping the market in the next two to five years, explored in more details below.

These include:

- the **growing number of corporate funds for nature** – which are also becoming larger in size and broader in the scope of the conservation (and social) impacts that they target
- a greater focus on **landscape-level planning and financing** to align multiple sources of funding within a landscape, to support investment priorities
- **new technologies to facilitate deals** – through online marketplaces and spatial data – and to measure conservation impacts more reliably and cost-effectively
- **mandatory and voluntary public disclosure** of investors' and companies' nature-related risks and impacts

A growing market

The growth of the conservation finance market observed in the past five years is expected to continue in 2021, with 40% of respondents planning substantially higher investments in 2021 (over 50% increase on 2020 investments) and 30% planning higher investments (10%-50% increase) (Figure 18).

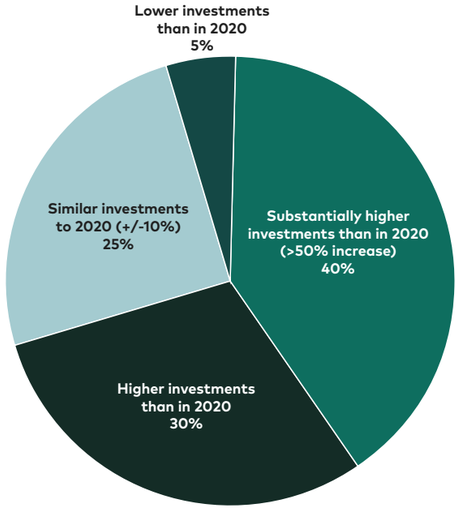


Figure 18 – Planned investments for 2021 (already raised capital). Based on data from 20 organizations.

The pipeline of conservation projects is also growing: survey respondents raised USD 1,042 billion in investments for projects they developed between 2015 and 2019 (an average of USD 208 million a year), and USD 532 million for projects developed in 2020. At the time of disclosure, they were planning to secure USD 986 million of investments in 2021 – a target which, if met, would represent an 85% increase from the previous year (Figure 19).

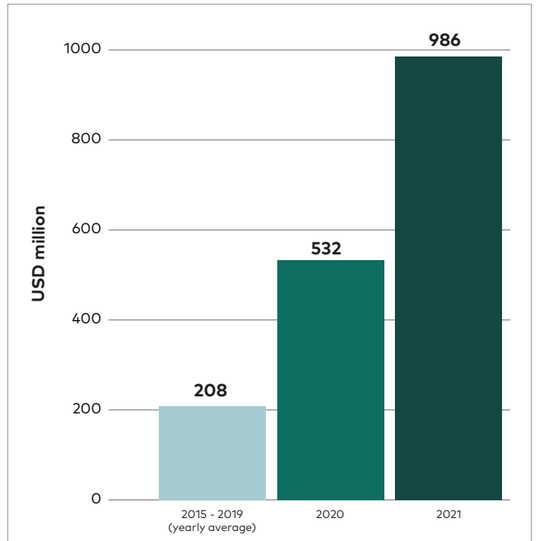


Figure 19 – Return-seeking investments secured and planned for conservation projects. Value for 2015-2019 is yearly average based on overall amount reported. Based on data from 23 organizations.

As the volume of investments continues to increase, there are specific trends to watch out for:

Corporate funds for nature

Large corporations, especially those with extensive supply chains and a strong reliance and impact on vulnerable ecosystems, are dedicating significant amounts of funding to nature-based solutions, often linked to their climate and biodiversity commitments. While investments into sustainable supply chains are not new – they represented USD 7 billion of annual investment, or almost 40% of all private investments in 2020 (United Nations Environment Programme, 2021) – their scale and the way these investments are being carried out is evolving. By leveraging external co-funding and expertise, dedicated investment vehicles such as funds can be a much more efficient way of achieving the large-scale impacts that their global footprints require.
Figure 20 summarizes some of the biggest corporate-led, nature-focused funds launched in the past two years.

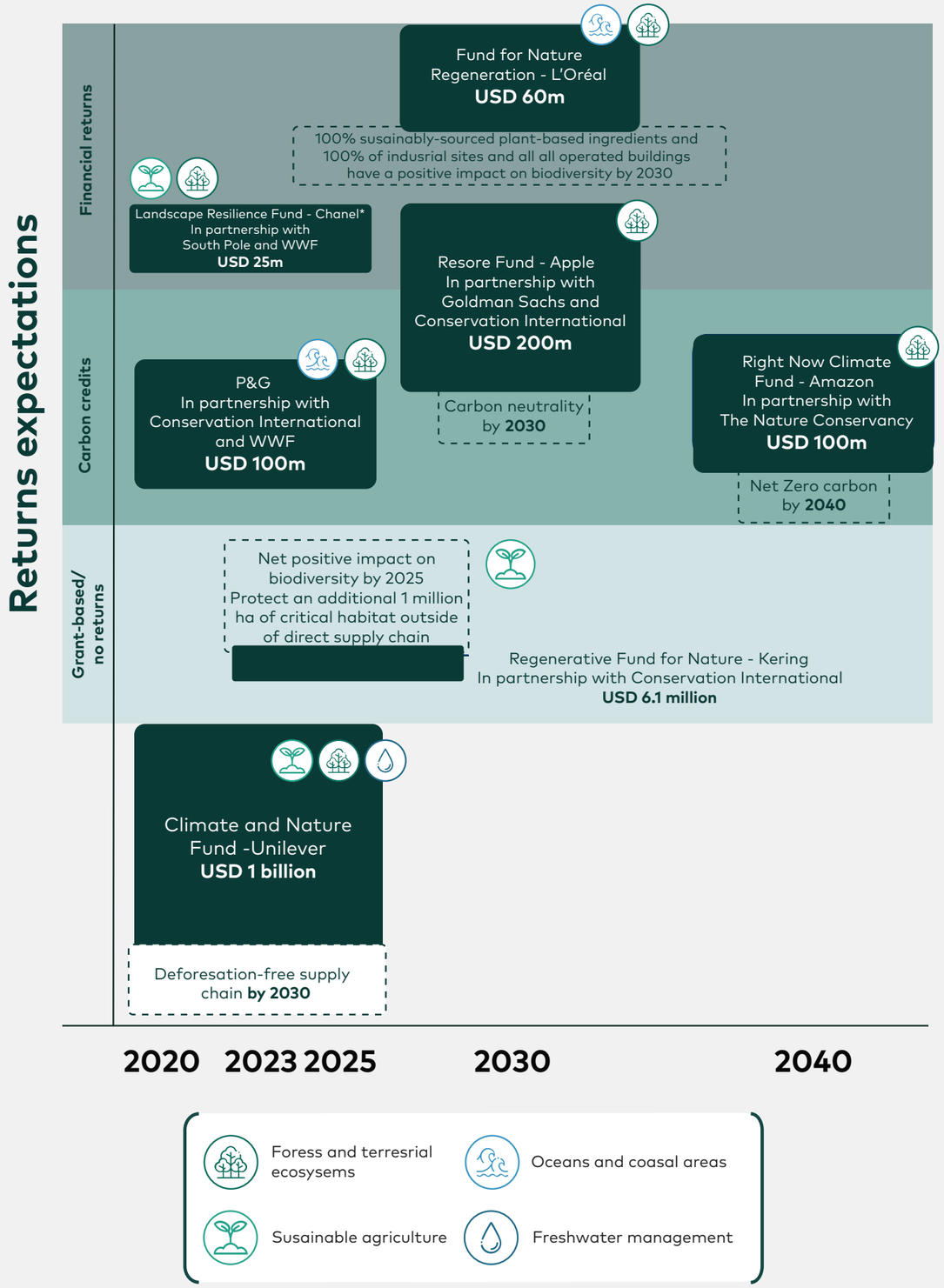


Figure 20 – Overview of corporate nature funds launched between 2019-2021

* Concessional returns from soft loans are reinvested in the fund

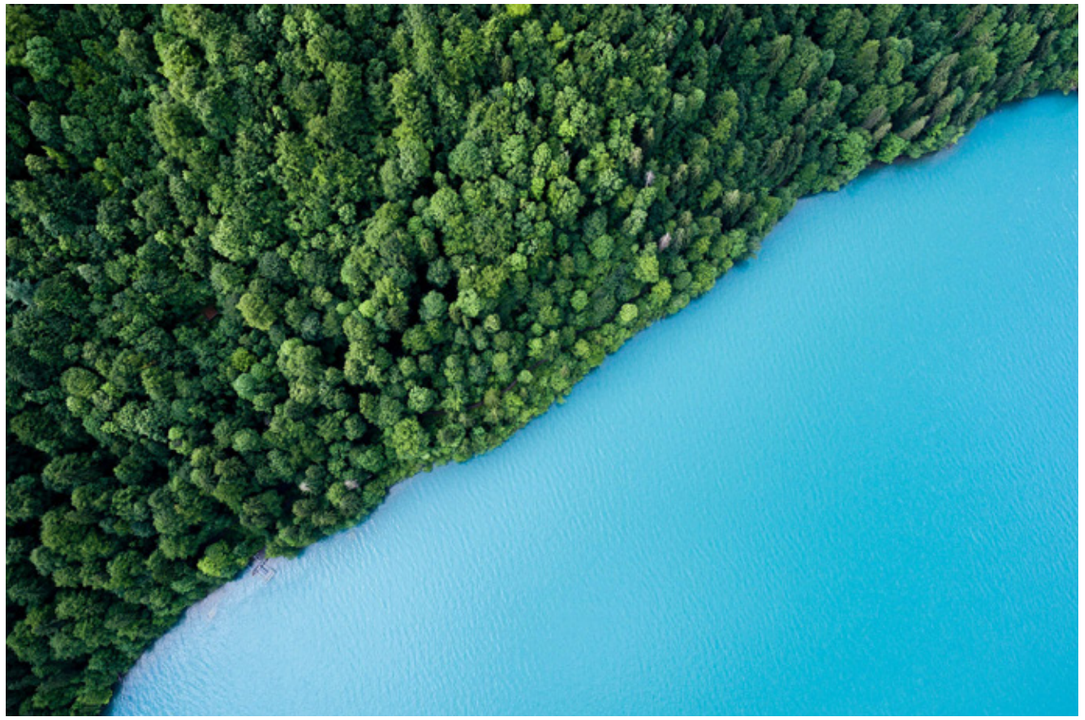
These funds are showing the increasing ambition of companies with global supply chains, with investments ranging from USD 25 million to USD 1 billion, to be disbursed in the next 20 years.

They are often, if not systematically, underpinned by company-wide commitments related to net zero carbon emissions and/or biodiversity or nature-positive goals. For instance, Kering aims to have a net-positive impact on biodiversity by 2025, while L'Oréal has a similar objective for all its industrial sites and operated buildings by 2030.

Many of these funds are also implemented in partnership with global conservation NGOs: Amazon, Apple, Chanel, Kering and P&G are receiving support from organizations including Conservation International, The Nature Conservancy, and WWF. Those NGOs bring decades of expertise in assessing and implementing conservation projects as well as measuring environmental impacts, and those partnerships can ensure that the commitments made deliver tangible and measurable benefits for nature.

While some of the funds are grant-based, with returns focusing either on impact achieved or on carbon credit generation, several funds – such as Apple's Restore Fund and L'Oréal Fund for Nature Regeneration – also seek cash financial returns for investors. In addition, some funds aim to align with return-seeking capital. For example, the Landscape Resilience Fund provides concessional loans to small and medium enterprises and reinvests all profits into its activities – but it also enables project-level co-investment from return-seeking investors. Such approaches demonstrate how different sources of capital are increasingly coming together to realize positive impact at scale.

While such commitments are commendable, it remains to be seen whether the currently restricted project pipeline will allow for those disbursements to happen on time.



From deals to landscape-level finance

"Landscapes" refers to interconnected socio-ecological systems that are shaped by their local contexts and histories — typically within the boundaries defined by culture, bioregion, or jurisdiction (Denier et al. 2015).

While conservation investments to date have been very much focused on specific deals, projects, or businesses, addressing the biodiversity crisis at scale will require coordinated planning, collaboration and financing. Landscape approaches can help reduce investment risks, improve the efficiency of investments, and maximize impacts and co-benefits. However, the lack of established and functioning landscape governance and partnership systems, and the limited alignment between the various sources and cycles of funding, have hindered the development of landscape-level finance strategies (Shames & Scherr, 2020).

Box 4 – 1000 Landscapes for 1 Billion People initiative

The 1000 Landscapes for 1 Billion People initiative is a partnership convened by EcoAgriculture Partners which works to accelerate landscape and seascape efforts to sustain and restore ecosystems, build rural prosperity, and confront climate change. The strategy includes the provision of four interconnected services: a digital tools platform, capacity development for landscape partnerships, a global network to facilitate learning, and landscape finance solutions.

Through a Design Team dedicated to finance, the initiative aims to improve the business case for integrated landscape investment, build tools to attract landscape-scale finance, and develop innovative, scalable finance models, such as landscape-specific investment funds and landscape bonds.

The Design Team will begin its place-based work in 2021 to support three to five landscapes, where it will test new tools and strategies and learn from the landscapes' experiences. The first landscape will be Alto Mayo, covering 780,500 hectares of rainforest in Peru, which is creating a platform to facilitate collaboration between private investors, companies, communities, academia and governments to align funding opportunities, and local and regional development priorities.

Despite some early progress and increasing interest from large conservation organizations, the high transaction costs associated with setting-up and implementing landscape-based financing approaches pose a large challenge to the implementation of such initiatives, and significant public and philanthropic funding will likely be required to mobilize private investments at scale. While the potential impacts of such initiatives are enormous, so are the associated risks, and these developments will need to be followed in the next few years.

Emerging technology for conservation impacts

A flurry of firms are developing their own software to improve the availability and reliability of conservation monitoring data while reducing costs. This is an especially crucial development as missing geospatial data is one of the key issues reported by respondents.

Box 5 – Artificial intelligence and remote sensing for impact measurement

Tech company Natural Capital Exchange (NCX), formerly known as SilviaTerra, has developed an AI-powered Basemap, which provides acre-by-acre data on the diameter and species of trees across the United States, delivering precise assessments of the timber and carbon potential of every acre across the country through a combination of remote-sensing data, field measurements and statistical modelling. Not only is this level of granular detail crucial for landowners so they can accurately assess the market value of their forests, but it also enables reporting on habitat's quality and suitability for vulnerable species.

By combining Basemap data with economics, timber-harvest pricing, and regional information, NCX determines carbon prices that incentivize forest management change. NCX recently raised USD 20 million in Series A financing led by TIME Ventures and received an additional investment from the Microsoft Climate Innovation Fund.

Another example is Open Forests' Forest Manager, a web-based, customizable forest information management software that project managers can use to visualize project progress against key performance indicators.

Beyond impact measurement, other innovative companies are using technology to facilitate environmental commodities trading – from creating online matchmaking platforms to link project developers and investors and buyers, to using blockchain to trade tokenized natural capital assets (Ekofolio, 2021).

Nature-related disclosure as the new norm

Mainstreaming nature-related reporting among publicly listed companies will be crucial to mobilizing conservation investment via public equity and debt – asset classes that are rarely used by the survey respondents, likely as a result of financial data scarcity. The disclosure of nature-related risks and impacts, whether voluntary or mandatory, is likely to increase significantly in the next five years.

Among the promising initiatives that will support this shift is the **Taskforce on Nature-related Financial Disclosures (TNFD)**, launched in June 2021. Following in the footsteps of the successful Taskforce on Climate-related Financial Disclosures, the TNFD aims to build and test a framework to report and act on nature-related risks and shift financial flows towards nature-positive outcomes.

Beyond risk-related disclosure, the 55 signatories of the **Finance for Biodiversity Pledge** have committed to publicly report "the significant positive and negative contribution to global biodiversity goals" linked to their investments.

Disclosure is also one of the targets **set out in the draft Post-2020 Biodiversity Framework**, which states that "all businesses (public and private, large, medium and small) assess and report on their dependencies and impacts on biodiversity, from local to global, and progressively reduce negative impacts, by at least half." (CBD COP Secretariat, 2021).

Mandatory disclosure will also drive this trend. The EU Taxonomy – a new classification system to establish a list of sustainable economic activities – includes criteria linked to the "sustainable use and protection of water and marine resources" as well as the "protection and restoration of biodiversity and ecosystems" (European Commission, n.d.). From 2022, financial market participants and companies will be required to disclose information – although disclosure on all six environmental objectives, including the biodiversity-related ones, will only be mandatory from 2023 onward.

Conclusion and recommendations

More and more investments generate both financial returns and measurable conservation benefits, indicating that the divisions between conservation, philanthropy, and for-profit finance may be diminishing.

Not only has the total volume of public and private investments increased significantly – and it is projected to continue growing – but several additional market indicators, including investors' awareness and the capacities of finance professionals, have progressed markedly in the past five years. This is a welcome trend, as public funds alone will be insufficient to address the growing biodiversity crisis.

But while investments are increasing, this is not happening fast enough. Small deal sizes, long investment terms, high investment risks, low transparency on conservation impact and lack of investable deals still hinder the scale-up of return-seeking investments. Overcoming these issues will be key to ensuring that growing financial flows translate into tangible benefits for our ecosystems.

Substantially increasing return-seeking investments in conservation will require concerted efforts across sectors:

- The **public sector and philanthropies** have a key role to play in creating enabling conditions for private sector involvement, by, among others:
  - designing effective public policies at national and international levels (including financial incentives and regulations)
  - providing capital for project design, technical assistance, and impact measurement
  - providing finance to improve investments risk/return ratio and crowd in private capital

- **Conservation organizations** and research institutions should support by:
  - lending their expertise to harmonize existing impact metrics and standards
  - partnering with project developers and investors to support impact measurement pre- and post-investments, ensuring substantial and durable benefits for biodiversity

- **Private investors** should:
  - continue developing internal personnel capacity to assess conservation investments
  - innovate through new financial instruments, business models, and revenue streams
  - set biodiversity targets as the basis for public reporting on their impact on nature

- **Coalition and networks** must also play their part in:
  - raising awareness of the opportunities that lie within the conservation finance sector – including by showcasing successful and promising models for private investments
  - bringing together project developers and investors to improve the mutual understanding of their respective expectations, interests, and capacities, as well as to facilitate collaboration.

The conservation finance sector lacks multi-year, in-depth data on return-seeking investments in conservation. The analysis covered in this report should be carried out on a regular basis and in collaboration with other relevant initiatives and institutions to provide a better overview of the return-seeking conservation finance market, and to unlock additional investments.

We hope that this report has emboldened pioneering investors to **align financial capital flows with activities that allow our nature, commerce, and communities to flourish,** and has inspired them to engage with impactful conservation projects that will preserve our natural capital and economic resilience for generations to come.

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