



Biodiversity financing.

Identification and Analysis of Financial Sector Instruments and Initiatives for Biodiversity.

Private Business Action for Biodiversity project

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1 Executive Summary

The study “Identification and Analysis of Financial Sector Instruments and Initiatives for Biodiversity” shows that **biodiversity businesses can be important vehicles to attract private financing for conservation and help to improve local livelihoods**. The **growing market for socially responsible investments (SRI)** can provide a valuable opportunity for the financing of such businesses.

Nearly all SRI segments have seen stark growth rates in recent years and **sustainable themed investments and impact investments**, which are the SRI sectors with the highest relevance for financing biodiversity friendly businesses; **have seen particularly high growth rates**.

Private investment into biodiversity and conservation has more than doubled over the last decade, with sustainable forestry and organic agriculture investments as main drivers of growth.¹ This market growth represents a large opportunity for the financing of biodiversity.

On the basis of these findings, the study recommends that policy measures should aim to **leverage the growing market for biodiversity focused impact investments** for biodiversity by making sure that the **screening criteria for Sustainability themed investments, impact investments and responsible investments also include biodiversity indicators**.

Regarding the profiles of different investor segments the analysis showed found that most investors are only interested in projects with satisfactory risk-return profiles. However, **such investment opportunities do not yet exist at sufficient scale**.² This is mainly due to the fact that businesses who try to minimize their effect on biodiversity often have a **lower economic performance** which is not sufficient to cover the financial expectations of most private investors.

Therefore, in order to encourage investors to engage into financing biodiversity friendly business models, **public financial support is required. Public finance can provide anchor investments or leverage the available funding for hybrid funding models like the eco.business Fund, thereby** encouraging and leveraging more investments from private investors.

The **analysis of existing funds** that focus on biodiversity showed that these **cover only a small niche both in terms of investment volume and regional scope, thereby leaving market potential for additional funds that are structured in a similar mode** but that are targeted at the missing gaps in the market landscape.

¹ NatureVest/EKO (2014): Investing in Conservation.

² Credit Suisse /WWF/ McKinsey (2014), p. 16

The analysis also indicates that a **careful design and implementation of financing mechanisms** and projects is required. Key issues that need to be kept in mind – building on findings of the OECD - include **additionality** (i.e. ensuring that environmental outcomes of a project should be above a business-as-usual scenario), **leakage** (i.e. ensuring that the reduction of biodiversity loss in one location does not lead to more pressure at another location), **permanence** (i.e. making sure that the biodiversity benefits are maintained over time), **robust monitoring, reporting and verification**, and the **enforcement of sanctions** in the case of non-compliance.³

Taking the above issues in mind, policy makers should consider to:

- **Increase the available first-loss support** and set up **transparent processes** for impact investment funds to apply for first-loss support.
- **Form alliances with other development banks or foundations** to leverage the available funding.
- Promote the **existing blended funds** actively among businesses and local banks.
- Widen the **geographical focus of the existing funds**.
- Set-up a **Biodiversity Forest Fund** which could finance sustainable forest management and forest conservation. The Fund could combat biodiversity loss and climate change by protecting forest habitat, sequestering carbon, reducing emissions from deforestation and create permanent qualified employment and income for local populations.
- **Leverage market-based instruments for biodiversity** and ecosystem services such as online market places and biodiversity offsetting schemes like Agora Natura, The Business and Biodiversity Offset Program or the Livelihoods Funds.

The study also finds that biodiversity friendly businesses need support in **applying for funding** and in **receiving certification**. Policy action could therefore concentrate on:

- Helping businesses to **prepare financial documents, impact reports** and **obtain biodiversity certifications**.
- **Setting-up a seed-financing facility** which is designed like the **Seed Capital Assistance Facility for clean energy enterprises** but **especially targeted at biodiversity businesses** or redefine the mechanisms of existing facilities so that they have a special focus on biodiversity businesses.
- Organizing an **“Oscar” competition for biodiversity entrepreneurs** and identifying viable biodiversity projects and replicate them in other regions and countries.

³ OECD (2013)

Furthermore, the study shows that **investors encounter difficulties in finding matching biodiversity business opportunities while businesses have difficulties in finding investors.**

Initiatives and organizations like Impact Assets, Eurosif or Triple Funds **contribute to matching biodiversity businesses with investment capital and help to integrate the topic of biodiversity into existing investment platforms.**

Other initiatives like the **Coalition for Private Investment for Conservation and the Platform BEE that serve as a hub, connecting investors and financial institutions** with in-country partners and conservationists, who can help develop and execute investable biodiversity deals that produce an environmental and financial return.

Policy action should consider leveraging or teaming up with some of the above initiatives.

Due to the insufficient familiarity of most investors with impact investments in general and biodiversity investments in particular, there are **significant knowledge and capacity gaps that discourage investment** into this asset class. Thus, **investors need to be informed how to take into account biodiversity in their investment decisions.** The most relevant standards in this context are **GIIRS, IRIS and the B-Corp Impact Assessments.**

Possible policy action in this field can be summarized as follows:

- Develop **Key Performance Indicators (KPI) for Biodiversity** and incorporating these into **investment standards and corporate management frameworks** via partners like the IFC, UNEP FI / PRI, B4B, vfU, the B-Lab and the Natural Capital Coalition.
- Encourage **businesses** to incorporate Biodiversity KPIs into their decision making processes.
- Encourage **impact investors** to use Biodiversity metrics in **impact measurement** (e.g. GIIRS and IRIS) by teaming up with players like **ImpactAssets** and motivate them to include Biodiversity into their educational resources.
- Encourage **fund managers** to include Biodiversity into **the screening criteria of SRI funds** by teaming up with players like Eurosif or the vfU who can encourage their members to do so.
- Communicate the results of the TEEB (The Economics of Ecosystems and Biodiversity) regarding **economic costs of biodiversity loss** project among investors and make its consequences transparent to them.

Other initiatives **offer standardized frameworks to identify, measure, and value impacts and dependencies on natural capital and take business action**, such as the **vfU Biodiversity Principles for the Financial Sector and the Natural Capital Protocol.**

Policy options include:

- **Teaming-up with the existing initiatives** like the vfU Biodiversity Principles and the Natural Capital Protocol and the Born-Be Impact Assessment and leverage their outreach.
- Making sure that new impact assessment standards like the Born-Be Impact Assessment **incorporate biodiversity into their impact measurement framework** and **develop Key Performance Indicators** that can be integrated into such frameworks.
- Teaming up with institutions like the vfU to encourage investment fund managers to incorporate information regarding the Natural Capital Protocol into their screening criteria for “Sustainability themed” funds.

2 Introduction

2.1 Purpose of this study

Global biodiversity loss represents one of the major environmental challenges of our time.⁴ Healthy, biodiverse ecosystems provide a range of invaluable services to society including human health, well-being and economic growth. These comprise food, clean water, flood protection and climate regulation.⁵

Biologically diverse ecosystems provide a greater flow of such ecosystem services than non-diverse systems⁶ and they are more resilient to changing physical environments – an important aspect in the face of widespread impacts of climate change.

In financial terms, **biodiversity is the Earth's "natural capital"** - which humanity is currently over-spending. The Conservation Finance Alliance warns that under business-as-usual scenarios, only a few decades remain before mass species extinctions and wide-scale ecological collapse could exceed critical thresholds, with profound impacts on human life.⁷ What can be done to turn this alarming situation around? During the IUCN World Conservation Congress in Hawaii in September 2016 IUCN Director General Inger Andersen underlined that **public sector finance and philanthropic capital alone is not sufficient to address this challenging task:**⁸

⁴ Under a business-as-usual scenario the OECD Environmental Outlook projects a further 10% loss in biodiversity by 2050. (OECD (2013): Scaling Up Finance Mechanisms for Biodiversity. Policy Highlights; p. 3.)

⁵ OECD (2013), p. 3.

⁶ Hooper et al. (2005), Flombaum and Sala (2008)

⁷ Conservation Finance Alliance (2003)

⁸ International Union for Conservation of Nature (2016a)

“We are at a critical turning point in history, where all stakeholders are increasingly aware of the urgency of sustaining nature for the benefit of all. Public sector finance and philanthropic capital alone is not sufficient to meet these challenges. (...) (We need to) share expertise, stimulate innovation, and help scale up sustainable investment models, and raise awareness of the potential importance of private capital to conservation.”

IUCN Director General Inger Andersen, at the World Conservation Congress in Hawaii, September 2016

The revised **Strategic Plan for 2011 - 2020 for Biodiversity** which includes the **twenty Aichi Targets** underlined the **role of the private sector** in expanding the **funding sources for biodiversity**,⁹ and the **CBD’s Strategy for Resource Mobilization** urged Parties and Governments to **create an enabling environment for the mobilization of private and public sector investments** and to enhance **capital market support** for the conservation and sustainable use of biodiversity.

However, the 4th Global Biodiversity Outlook which serves as a mid-term assessment of progress towards the implementation of the Strategic Plan for Biodiversity 2011-2020 concluded, that up to now there is only **“Limited information on many funding sources, including domestic funding, innovative financial mechanisms, and the private sector.”**¹⁰ The report warns that **the Aichi targets could only be reached by 2020 if the causes of biodiversity loss are tackled more decisively.**¹¹

The project **“Private Business Action for Biodiversity”** that was commissioned by the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety and which is carried out by the GIZ aims to **evaluate mechanisms, processes and instruments which promote biodiversity friendly production processes and simplify market access for biodiversity friendly products.**

The project aims to **increase the capabilities of relevant actors from the public and private sector** and shall deliver important learning experience and recommendations for reaching Aichi-Targets 3, 4, and 20:

- Aichi Target 3 states that, by 2020, at the latest, incentives, including subsidies, harmful to biodiversity should be eliminated, phased out or reformed in order to minimize or avoid negative impacts, and **positive incentives for the conservation**

⁹ CBD (2010)

¹⁰ Secretariat of the Convention on Biological Diversity. 2014a, p.22.

¹¹ Ibid.

and sustainable use of biodiversity should be developed and applied, consistent and in harmony with the Convention and other relevant international obligations, taking into account national socio economic conditions.

- Target 4 states that governments, business and stakeholders at all levels should take steps to achieve or **implement plans for sustainable production and consumption** and keep the impacts of use of natural resources well within safe ecological limits.
- Target 20 aims to **increase the mobilization of financial resources from all sources** substantially by 2020.

During a **scoping phase**, the project evaluates existing approaches and defines the strategy to go forward. The results shall be discussed on national and international levels and will include pilot case studies in three partner countries.¹²

As a kick-off to this endeavor, the GIZ commissioned this scoping study which **aims to identify and analyze investment vehicles, mechanisms and initiatives of the financial sector** that have a positive impact on biodiversity-friendly production and marketing processes and that could help to mobilize additional private investment for biodiversity.

2.2 Main research questions and structure of the report

This study focuses on the following questions:

1. Which role play market based instruments in **closing the biodiversity financing gap**?
2. How can the **growing market for Socially Responsible Investing (SRI)** be leveraged as an additional financing source for biodiversity?
3. Who are the **key investors groups** and **what are the main investment barriers**?
4. Which **market-based instruments** can help to raise additional funding for biodiversity and how can they be improved and leveraged?
5. How can **entrepreneurs be incentivised and supported** to create biodiversity friendly businesses?
6. How can **the link between investors, businesses and conservationists** be better supported?
7. How can Biodiversity be embedded into **corporate and financial sector decision making processes**?

While the present study is mainly targeted at regulators and policy makers, it can also help to **inspire entrepreneurs as well as innovators from the financial sector** to also take the leap and contribute to the establishment of businesses and financial vehicles that support biodiversity friendly production and marketing processes. It can also help

¹² GIZ (2016)

to define which stakeholders could represent suitable partners for the project “Private Business Action for Biodiversity”.

The study is based on desk research and expert interviews between November 2016 and August 2017.

2.3 Summary of research findings to date

The present study builds on the findings of previous research projects prepared by the author together with colleagues on linked topics.¹³ The study „Private Financing for Biodiversity” from 2014 which is the most relevant for the present project **show-cased business sectors, business cases and investment vehicles** that could help to mobilize additional private investment for biodiversity and suggested **means by which these could be better financed and supported.**¹⁴

The study focused on **three business sectors** that have strong links to biodiversity, either via their impact on biodiversity or their direct dependency on biodiversity:¹⁵

- **Sustainable Forest Management**, including management of natural forests, plantations and commercial agro-forestry systems.

¹³ These include:

- The study “Sustainable Investments for Conservation - The Business Case for Biodiversity” by PwC on behalf of the WWF (PwC (2006))
- The study “Ökologisch wirtschaften: Zukunftsperspektiven ländlicher Räume” by PwC on behalf of the Federal Environment Ministry; (PwC (2009))
- The document “Biodiversity Principles. Recommendations for the Financial Sector” (vFU (2011)) and the guidelines „Leitfaden für den Finanzsektor zur Beurteilung von Biodiversitätsrisiken und –chancen“ (Jahn, Detlefsen, Beständig (2011))
- The study „Private Financing for Biodiversity“ that was prepared in 2013 on behalf of the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (Jahn, Grulke, Renner et.al. (2013) and Jahn, Grulke, Renner et.al. (2014)).

¹⁴The main research questions of the study were discussed at a side-event on the occasion of the CBD COP 11 meeting on October 14th, 2012 in Hyderabad, India with more than 80 participants from across different sectors. The feedback from these discussions was analyzed during several follow-up workshops with the GIZ and the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety and provided valuable input for the findings of the report.

¹⁵ The focus was limited to three exemplary sectors. However, the choice of sectors does not constitute a secluding definition. Other important sectors such as sustainably fishery and those parts of the agricultural sector which are not covered by the notion of “bio-trade and fair trade” also have strong links to biodiversity and merit a closer look in further analyses of this topic.

- **Sustainable Tourism**, covering a range of different models that either generate financial transfers to fund conservation (e.g. via concession fees) and/or create incentives for local communities to support conservation via employment and income generation.
- **Bio-trade**, covering the whole value chain from the production or wild harvesting via the processing to the export and fair trade of commodities such as coffee, tea or cocoa or of blossoms for the production of essential oils.

On the basis of an **analysis of existing business models** in these three sectors the study found that so called “**biodiversity businesses**” **could be important vehicles to attract private financing for conservation and could help to improve the livelihoods of local communities.**¹⁶

The study pointed out **that the growing market for socially responsible and sustainability themed investments and impact investments could provide a valuable opportunity for the financing of such biodiversity friendly businesses.**¹⁷

As a prototype for a possible investment fund the study suggested a project portfolio based on **strict investment criteria** which would ensure positive environmental and socio-economic effects.¹⁸ Based on these basic investment rules, a **score-card** model was developed in order to identify the **most promising project types** regarding their potential to successfully achieve a **triple-bottom-line with a special focus on biodiversity protection.**¹⁹

¹⁶ Biodiversity businesses are defined as businesses that “generate profits through production processes that conserve biodiversity, use biological resources sustainably and share the benefits arising out of this use equitably” (Bishop, J.; Kapila, S.; Hicks, F.; Mitchell, P.; Vorhies, F. (2008)).

¹⁷ Jahn, Grulke, Renner et.al. (2013) and Jahn, Grulke, Renner et.al. (2014).

¹⁸ The portfolio should:

- Have verifiable positive environmental and socio-economic effects, but must also produce sustainable risk adjusted returns
- Respect the needs of the local and indigenous population
- Promote sustainable land-use practices consistent with the CBD objectives
- Contribute to the protection of biodiversity by supporting protected areas in regions that have outstanding biodiversity significance as identified in the relevant priority-setting schemes
- Not compete with the primary responsibility of governments for the conservation of their natural resources and not crowd-out existing public ODA funding (Jahn, Grulke, Renner et. al. (2014)).

¹⁹ Jahn, Grulke, Renner et.al. (2013) and Jahn, Grulke, Renner et.al. (2014).

The score-card assessment that was developed by the study in 2014 was based on **four categories** underpinned with a total of eighteen criteria that can be found in the Annex of this study ((see figure below)):

- **Biodiversity/environmental benefits,**
- **Benefits for socio-economic development,**
- **Profitability and**
- **“Opportunity”**.²⁰

The full questionnaire of the score-card is provided in the Annex of this study.



Figure 1: The triple-bottom-line score-card model

Source: Jahn, Grulke, Renner et. al. (2014)

Summarizing its findings, the study in 2014 stated that one of the most effective ways to protect biodiversity is to focus on fostering and supporting biodiversity businesses such as sustainable forest management, sustainable tourism and biotrade because:

1. Their business depends on biodiversity – hence it is in their interest to protect biodiversity as much as possible;
2. Their business models are attractive not only to public, but also to the growing demand of socially responsible investment options from the private sector and
3. Their business models also help to improve the livelihood of local communities.

This study recommends policy options necessary to enhance the quantity and impact of these biodiversity businesses and showcases a list of innovative fund structures and players in the field.

²⁰ The category “opportunity” comprised the scalability of a project and the question if a project could be easily be replicated elsewhere and if biodiversity and/or socio-economic benefits could be achieved without significant trade-offs on the financial side.

Since the finalization of the above cited report, **the field of biodiversity financing has developed rapidly and has grown both in depth and breadth. New structures, technologies, and players have since entered the market** and products with considerably higher investment volumes have since been launched. This new report analyses these recent developments and expands on some of the key aspects of the previous study.

2.4 Why new instruments are needed to close the biodiversity financing gap

To date, **businesses that rely on biodiversity friendly business models** or biodiversity friendly production processes or which are willing to switch to these **still find it difficult to attract financing** for their endeavors.²¹

Especially small-scale businesses that are willing to **implement more biodiversity-friendly business models and production processes** neither have the required credit histories and stable cash flows to be granted debt or equity financing nor do they have the technical expertise to improve these parameters.²²

The situation of the individual businesses is mirrored on a global level by the **financing situation** of biodiversity related policy measures. An **analysis of the current financing situation for biodiversity-focused policy measures** reveals a **stark contrast between financing needs** on the one hand side and **available financing sources for biodiversity on the other hand.**

An analysis reveals a stark contrast between financing needs on the one hand side and available financing sources for biodiversity on the other hand.

While the **cost of attaining the twenty Aichi Biodiversity Targets** are estimated at between **USD 300 billion and USD 400 billion per year,**²³ **flows of finance for ecosystem**

²¹ Manta Consulting (2011), p. 5ff.

²² Mulder, I. (2013), Manta Consulting (2011), p. 5ff.

²³ Credit Suisse/ WWF/ McKinsey (2014). The Secretariat of the Convention on Biological Diversity estimates the financing need between 150 and 440 billion per year (The Secretariat of the Convention on Biological Diversity 2014a).

services and biodiversity were estimated in 2010 to amount to only around USD 52 billion per year.²⁴

The Global Canopy Programme (GCP) estimated in 2012 that **public sources made up 80% of existing funding**, the greatest part being domestic **government budgetary spending, funds spent on the agricultural subsidy reform and overseas development aid (ODA)**.²⁵ Of the funds generated by so called “**market-based activities**”²⁶, USD 6,6 billion were provided by ‘**green commodities**’, i.e. natural products that are **produced in an environmentally sustainable way** and often carry **associated certification such as FSC, or MSC**. A further USD 2,5 – 4,1 billion came from (largely carbon) **offset markets**.²⁷ (See figures below).

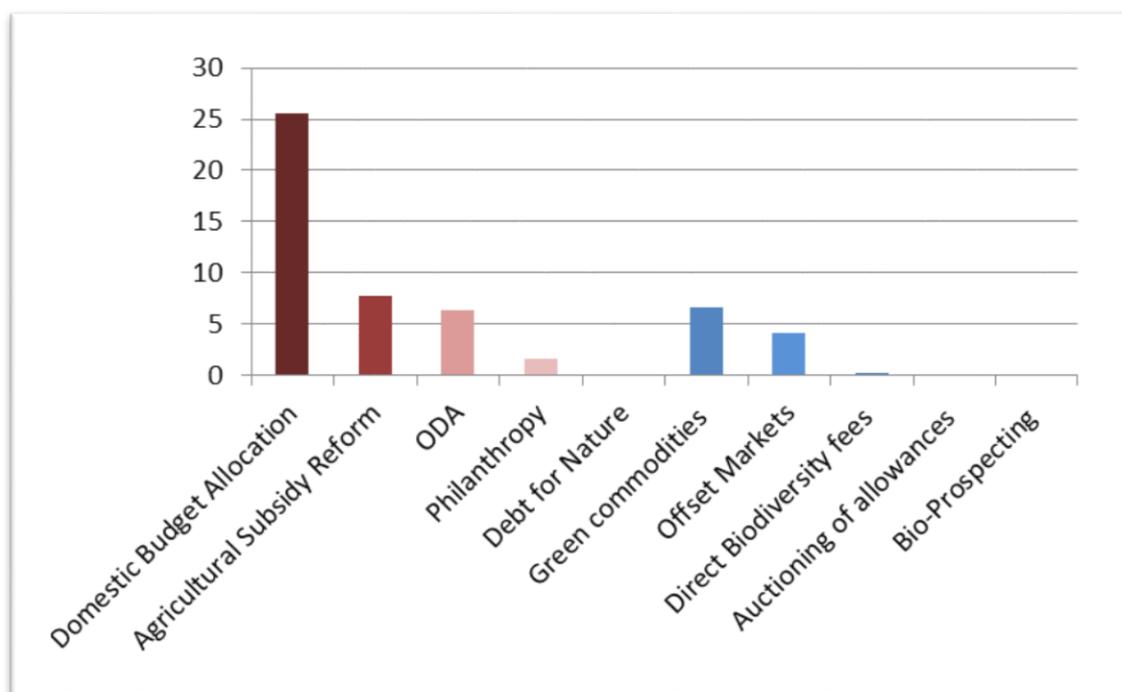


Figure 2: Current sources of finance for ecosystem services and biodiversity in developed and developing countries (in USD billion per year)

²⁴ Global Canopy Programme (2012)

²⁵ In 2013, the Secretariat of the CBD estimated that ODA with other primary purposes but still relevant to biodiversity amounted to little more than 5 billion USD in 2012 – and ODA that was officially Biodiversity marked only amounted to less than 2bn USD in 2012 (Secretariat of the Convention on Biological Diversity (2013), p. 124).

²⁶ This figure does not include funding available from ecotourism, which is likely to be significant, considering that the current market size (park fees, accommodation, etc.) is USD 115-230 billion (Ecosystem Marketplace, 2013).

²⁷ Credit Suisse/ WWF/ McKinsey (2014)

Source: Author, on the basis of data from GCP (2012)

78% of conservation finance is generated in developed countries, 59% of which is also spent there – the remainder is transferred to emerging and developing economies.²⁸ (See figures below).

²⁸ Ibid.

	Generated		Delivered		Sources/ data
	Developed	Developing	Developed	Developing	
Direct					
Direct Ecosystem Service Fees	<0,1	<0,1	<0,1	<0,1	Stanton et al., 2010
Direct Biodiversity Fees	0,1	0,2	0,1	0,2	Bovarnick et al, 2010; WDPA,2011
Offset Markets	2,1-3,7	0,4	2,0-3,6	0,5	Madsen et al, 2011; Diaz et al, 2011
Bio-prospecting	<0,1	0,0	0,0	<0,1	WWF, 2009; INBio, 2012
Subtotal	2,3-3,9	0,7	2,2-3,8	0,8	
Indirect					
Green commodities	6,4	0,2	4,0	2,6	Ecosystem Marketplace, 2012; UNECE and FAO, 2010 and 2011; FSC, 2008; FAO, 2012
Other Market					
Auctioning of allowances	<0,1	0,0	0,0	<0,1	ICI, 2012
Non-Market					
Domestic budget allocation	15,0	10,6	15,0	10,6	Walls et al, 2009; James et al, 1999; Stanton et al, 2010
Agricultural Subsidy Reform	7,8	0,0	7,8		Monke and Johnson, 2010; Cooper et al, 2009; Stanton et al, 2010
ODA	6,2	<0,1	0,0	6,3	OECD, 2012; Castro and Hammond, 2009; Strecken, 2009
Debt-for-nature	<0,1	0,0	0,0	<0,1	US State Department, 2012
Philanthropy	1,5-1,8	0,0	0,5-0,6	0,9-1,1	Gutman and Davidson, 2008; Financial Statements of various international conservation NGOs
Subtotal	30,5-30,8	10,7	23,3-23,4	17,8-18,0	
Total	39,3-41,2	11,50	29,5-31,2	21,3-21,5	

Figure 3: Current sources of finance for ecosystem services and biodiversity in developed and developing countries (in USD billion per year)

Source: GCP (2012)

The above figures make it obvious that there is a **significant funding gap for biodiversity that cannot be filled by relying on public funding alone.**

There is a significant funding gap for biodiversity and ecosystem services that cannot be filled by relying on public and philanthropic efforts alone.

In 2014, a study by Credit Suisse in cooperation with WWF and McKinsey estimated the demand for **additional funding sources at USD 250 to 350 billion** assuming that government funding can at least be doubled and depending on the extent to which government regulatory intervention could enable private sector investment (See figure below).²⁹

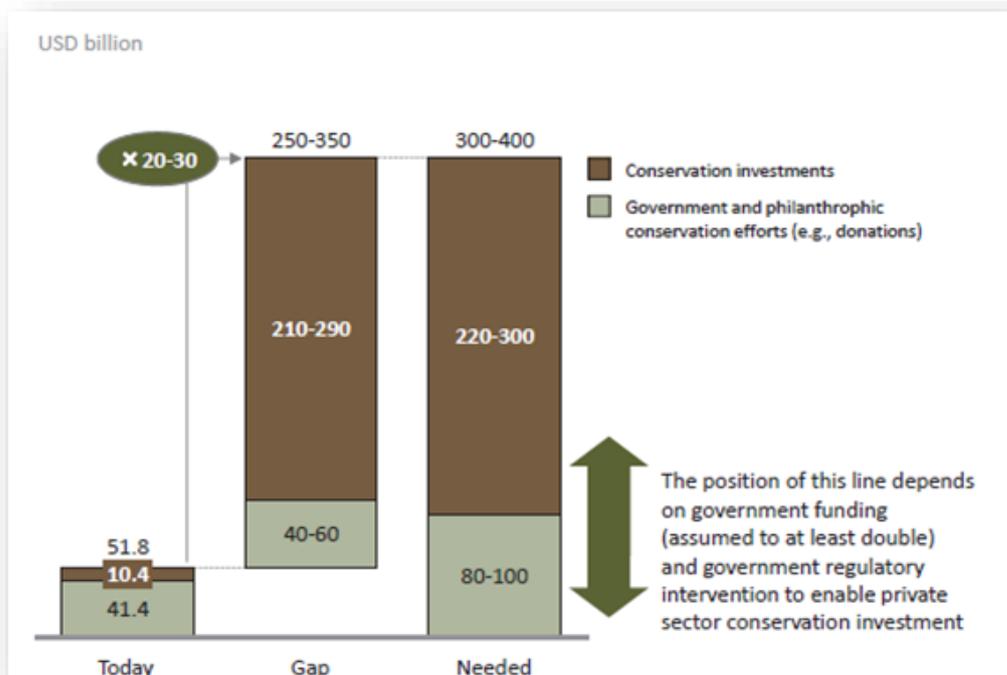


Figure 4: Demand for finance for biodiversity and ecosystem services

Source: Credit Suisse / WWF / McKinsey (2014)

²⁹ Credit Suisse/ WWF/ McKinsey (2014)

According to representatives of the “Coalition for Private Investment for Conservation, (CPIC)” which was founded on the occasion of the IUCN World Conservation Congress in Hawaii in September 2016, **Conservation finance represents “a massive, undeveloped market”**. CPIC estimated that “**private investors—wealthy individuals, pension funds, other institutional investors and even mainstream retail investors—could supply as much as the USD 200 billion to USD 300 billion per year to preserve the world’s most important ecosystems.**”³⁰

“Private investors—wealthy individuals, pension funds, other institutional investors and even mainstream retail investors—could supply as much as the USD 200 billion to USD 300 billion per year to preserve the world’s most important ecosystems.”

CPIC, September 2016

This assessment of the role that private financing could play in conservation is not new. The US based NGO “**Conservation International**” was one of the first organisations that tried to leverage its funding with additional private investment capital. In 1998 it teamed up with the coffee company Starbucks to set up one of the first investment funds targeted at biodiversity.

The fund that was called “**Verde Ventures**” provides **debt and equity-financing** to small and medium-sized businesses that contribute to healthy ecosystems and human well-being, including agroforestry, ecotourism, sustainable harvest of wild products and marine initiatives.³¹

The Verde Ventures fund’s creation was based on the following rationale which also points out **why market based instruments play a key role in financing biodiversity**:³²

1. Conservation-based **employment is essential to provide economic incentives for conservation.**
2. **The small business sector is a key partner** in the intersection between human well-being and conservation.
3. **Available and affordable capital** ensures the viability of the sector and enables these partners to participate in and benefit from sustainable conservation efforts.

³⁰ IUCN World Conservation Congress (2016). Press release of the launch of CPIC

³¹ The Nature Conservancy (2016)

³² Ibid.

4. Positive changes in the triple-bottom line results of enterprises **will build lasting business that will deliver long-term conservation and economic benefits.**

The question remains why private support for conservation efforts has stayed at such low levels up to now.

2.5and why it needs the public sector to scale them up

The main problems of conservation finance today can be summarized as follows:

- 1) Those who manage natural areas are **generally not paid for the public goods that natural areas provide** free of charge, such as clean air and water (so called ecosystem services)
- 2) Natural resource-based revenue streams often have a **high opportunity cost**: This means that preserving an area of highly biodiverse tropical rainforest is difficult when the same area can be cleared and used to generate profits from, for example, a eucalyptus or a palm oil tree plantation.³³ Thereby **preserving tropical rainforest for the owner comes at the “cost” of not enjoying the financial benefits of the alternative use.**
- 3) Even if mechanisms can be successfully designed in a way that generates enough revenues to make a conservation investment more attractive than the (over-) exploitation of natural resources, thereby creating investment incentives, these **projects are often small and not profitable enough to attract investors at scale.**³⁴
- 4) The **“free rider” problem**: If investors act responsibly and invest into businesses or investment funds that are less profitable than others because they reduce their consumption of natural resources or because they reduce their negative impact on the environment (for example by causing less emissions or by setting aside a certain part of a forest plantation as a nature reserve), they don't receive any particular reward in return. All investors in this system will benefit from their responsible action – including competitors who do not follow this good example and who only focus on maximizing their return on investment.³⁵ And at the same time, those investors who act responsibly are not protected against the negative impacts of the activities of those who take no action (E.g. climate change and the loss of biodiversity affect everybody – regardless of their own environmental footprint).

This means that in a system in which investors are trying to maximize their own financial profit, they often end up investing into businesses that are overusing shared natural

³³ Credit Suisse/ WWF/ McKinsey (2014), p. 8

³⁴ Ibid.

³⁵ Wikipedia (2016c)

resources because they can use them at no or too little cost and there is often no benefit for the business not to do so.³⁶

This situation is highly demotivating for those investors who aim to reduce their negative impact on the environment. As a result, most end up not taking any action.

As previous research showed, many of the existing official development assistance (ODA) instruments can be adapted to the specific needs of biodiversity businesses:³⁷

While technical cooperation could offer capacity building and regulatory policy development support in order to improve the investment environment in host countries, **financial cooperation** could leverage private investment through a number of financial instruments.

In addition, **Public Private Partnership (PPP) facilities** could support the private sector to scale existing biodiversity businesses. Governments and the responsible ministries could adapt the regulatory environment that biodiversity businesses operate in.³⁸

In general, **six forms of cooperation with the private sector** can be distinguished: Sponsoring and small-scale co-financing, multi-stakeholder dialogues and formal networks, development partnerships, public-private partnerships, the combination of private and public capital as well as the provision of advisory services for private investment in developing countries.³⁹

However, to date, **the capability of the existing policy framework to channel private finance into biodiversity protection has remained weak.**

To overcome the existing investment barriers and the lack of investment opportunities, supportive action needs to take into account the broad range of stakeholders (see figure below):⁴⁰

³⁶ Credit Suisse/ WWF/ McKinsey (2014), p. 8

³⁷ Jahn, Grulke, Renner et.al.(2013)

³⁸ Federal Ministry for Economic Cooperation and Development (2011).

³⁹ Ibid.

⁴⁰ Jahn, Grulke, Renner et.al. (2013)



Figure5: Overview of relevant stakeholders

Source: Jahn, Grulke, Renner et.al. (2013)

Possible supportive action should therefore take into account all relevant stakeholders and can be summarized as follows:⁴¹

- **Investors:** Policy measures can help to influence investors' decision in favour of investing in biodiversity businesses.
- **Biodiversity Businesses** (Project developers, entrepreneurs, cooperatives): Policy measures can help to assist project developers and entrepreneurs to set-up or transform their operations into biodiversity businesses that positively contribute to the CBD objectives.
- **Host countries** (National, regional and local government, local communities, NGOs and the management authorities of protected areas): Policy measures can help to influence the market environment biodiversity businesses operate in and can help to assist host countries to reduce investment barriers

⁴¹ Ibid.

- **Regulators** (International Organisations and governments, assisted by NGOs, implementing agencies, certifying organisations): Policy measures can help to change the framework conditions biodiversity businesses operate in and create a **level playing field**, for example by reinforcing the international legislative framework that reduces activities like illegal logging, poaching and illegal trade of endangered species and by strengthening payment for ecosystem services mechanisms.

The above mentioned fields of action are tackled in more detail in the analysis below.

3 Capitalize on the growing market of responsible and biodiversity focused investments

This chapter will give an overview of the **market size of Socially Responsible Investing (SRI) and biodiversity-focused investments** which could play a key role in filling the described financing gap for biodiversity friendly business models and production processes.

Over the last decade, **private investment into biodiversity and conservation has more than doubled. However, within the universe of Socially Responsible Investing (SRI), biodiversity focused investing only constitutes a niche market.** The following section gives an overview of the market for SRI to date.

3.1 Overview of market segments and investment rationales

As “**biodiversity businesses**” are **not a defined asset class**, market figures for the volume of potential investments into this market are **not easy to quantify**. Despite this fact, the following chapter describes **benchmark sectors** that can help to estimate the market potential of investments into sustainable biodiversity businesses today.

For the purpose of this analysis and building on our study from 2014, **the major investment strategies can be differentiated as follows** and as displayed in the figure hereafter.

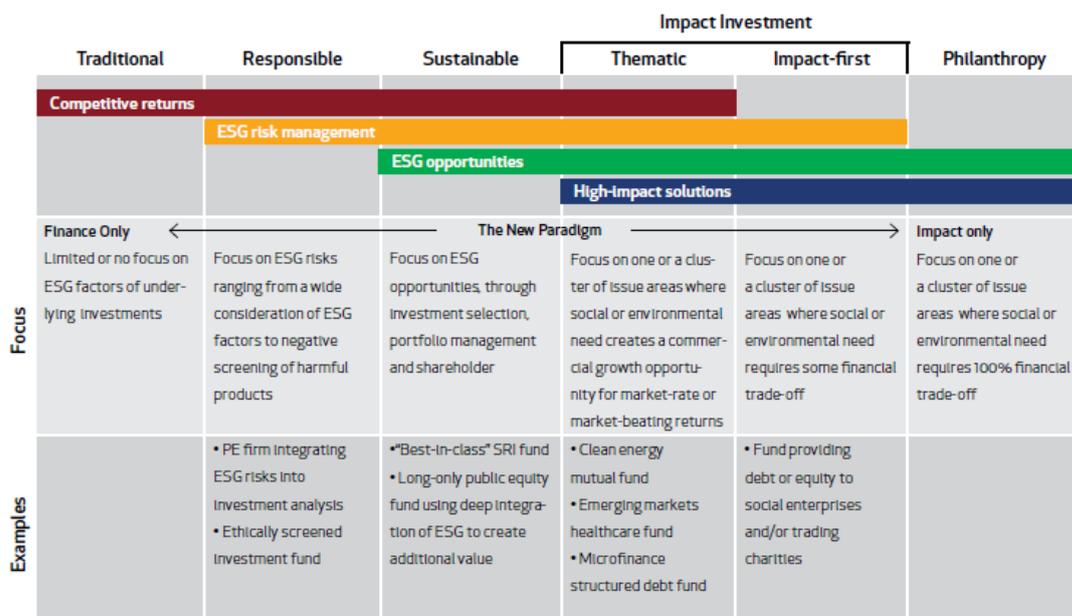


Figure 6: Illustrative Map of Capital Market Investment Strategies

Source: Bridges Ventures (2012)

3.1.1 Traditional investments

Traditional investments have limited or no focus on environmental and social governance (ESG) factors. They usually **do not invest in biodiversity business models**. However, they might be open for hybrid financing models co-financed by development banks.

Total assets under management (AuM) in Europe reached an estimated EUR 23 trillion at the end of 2016. (See figure below). This growth came on the back of **strong performances on financial markets** around the globe.

Total assets under management (AuM) in Europe reached an estimated EUR 23 trillion at the end of 2016.

This brought the ratio of AuM to aggregate European GDP to 138% of GDP at end 2014.⁴² This ratio demonstrates the important role of financial markets in European economies today.

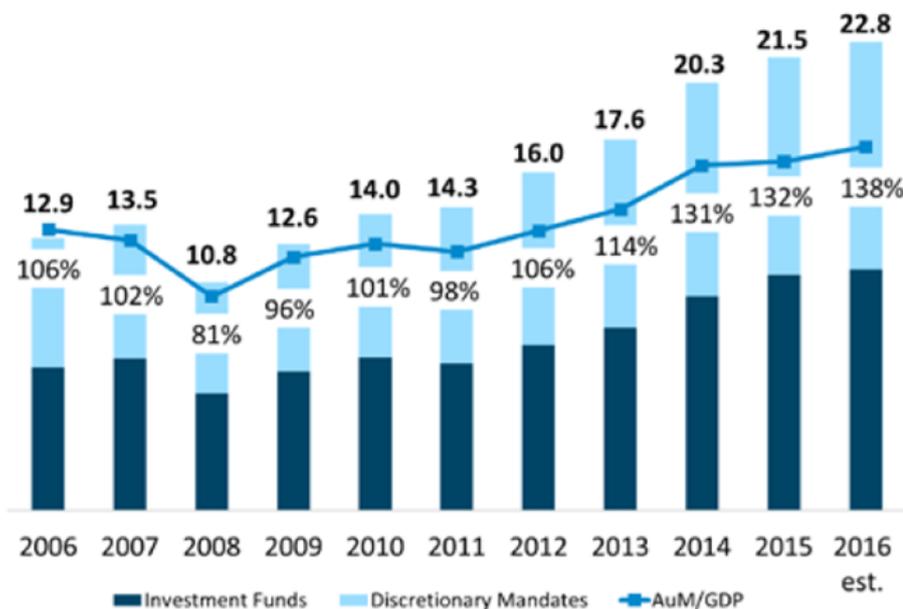


Figure 7: Total assets under management (AuM) in Europe 2006-2016 in EUR trillion

Source: European Fund and Asset Management Association (EFAMA) (2017)

⁴² European Fund and Asset Management Association (EFAMA) (2015), p. 2.

3.1.2 Responsible investments, focusing on exclusions or norms based-screenings

Responsible investments focus on environmental and social governance risks and do so via a negative screening of potential investments against a list of harmful products, services or sectors. These potential investments are then excluded from the investment universe of the portfolio (therefore called “exclusions”).⁴³

Exclusions can also be based on **norms**, i.e. the screening excludes **companies that fail to comply with certain international standards or conventions (“norms”)**.⁴⁴

In Europe, investment volume based on exclusions has shown exponentially consistent growth throughout the years.

In its latest study on the scale of “Sustainable and Responsible Investment practices and trends” in Europe and across 13 European countries Eurosif - The European Sustainable Investment Forum - estimated **responsible investments that use a negative screening (“exclusions”) at over €10 trillion of assets under management**, showing a **48% increase** and **representing two thirds** of assets covered by the survey (See figure below).⁴⁵

The most common **exclusions** by type are linked to weapons.⁴⁶ Business practices harmful to **biodiversity** are not among the top 8 exclusion topics.

Norms-based screening is – according to Eurosif - applied to over **€5 trillion** Assets under Management in Europe - and has seen a growth rate of 40% (See figure below).⁴⁷

In total, 278 asset managers and asset owners with combined assets under management (AuM) of € 15 trillion participated in the Eurosif survey, representing market coverage of 81%.⁴⁸

⁴³ Eurosif (2016), p. 17

⁴⁴ Ibid.

⁴⁵ Ibid.

⁴⁶ It is important to note that in its SRI Study Eurosif only captures assets subject to exclusions not mandated by law, therefore the exclusion of Cluster Munitions and Anti-Personnel Landmines which are required by law, are not considered SRI.

⁴⁷ Ibid.

⁴⁸ Eurosif (2016), p. 10. This estimation is based on EFAMA’s 2014 estimate of the total assets under management (AuM) in Europe (European Fund and Asset Management Association. EFAMA (2015))

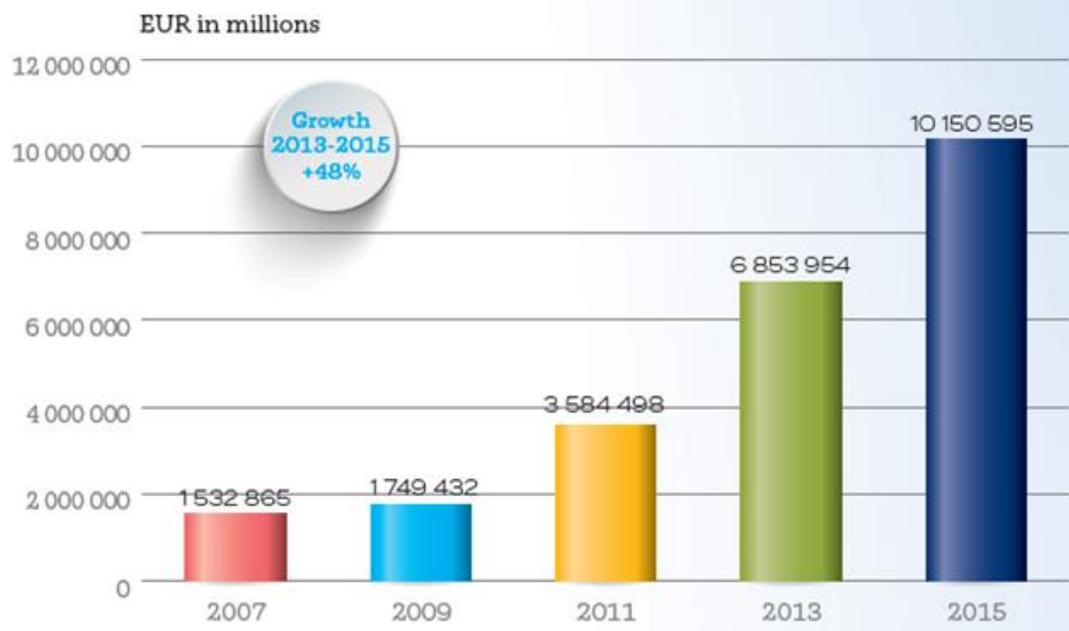


Figure 8: Growth of responsible investments based on exclusions 2007-2015

Source: Eurosif (2016)

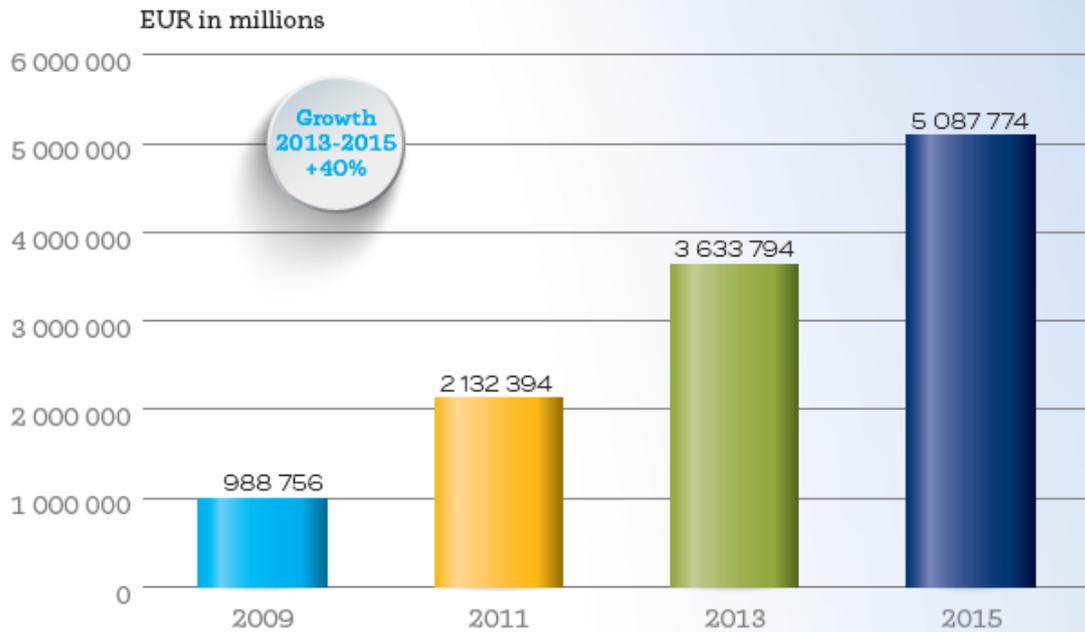


Figure 9: Growth of responsible investments based on norms-based screening 2009-2015

Source: Eurosif (2016)

3.1.3 Sustainability themed- investments

With a **market capitalization of EUR 145 billion in Europe in 2015, sustainability-themed or – “sustainable” investments** have seen exponential growth in the last five years (See figure below).⁴⁹

With a market capitalization of EUR 145 billion in Europe in 2015, sustainability-themed or – “sustainable” investments have seen exponential growth in the last five years.

Sustainability themed investments focus on **environmental and social governance opportunities** through investment selection and portfolio management. Environmental themes remain the most prevalent. Typical examples include renewable energy, clean technology, climate change, water and forestry.⁵⁰

The growth of sustainability-themed investments is mainly based on new investments made by institutional investors.⁵¹ Institutional investors include insurance companies, pension funds and investment banks as well as government-owned development banks and trust funds.

After Climate COP 21 in Paris, investors redirected capital in a way that pushed forward the transition to a low carbon economy”.⁵²

Biodiversity-related business models can profit from this growth of sustainability themed investments via certain sectors (e.g. sustainable forestry funds). Therefore, sustainability-themed investments can be seen as one of the “benchmarks” for biodiversity investments which are in the focus of this study.

⁴⁹ Eurosif (2016), p. 17

⁵⁰ Eurosif (2012)

⁵¹ Eurosif only includes sustainability themed investments that also take environmental and social governance considerations into account in their investment selection process. This can sometimes be challenging to assess, as not all funds disclose their processes. This means that not all clean-tech or water funds, to name two themes, are included in the figures above and it also means that most of the assets included are institutional as usually only institutional investors reveal their selection processes. (Eurosif (2012)).

⁵² Eurosif (2016)

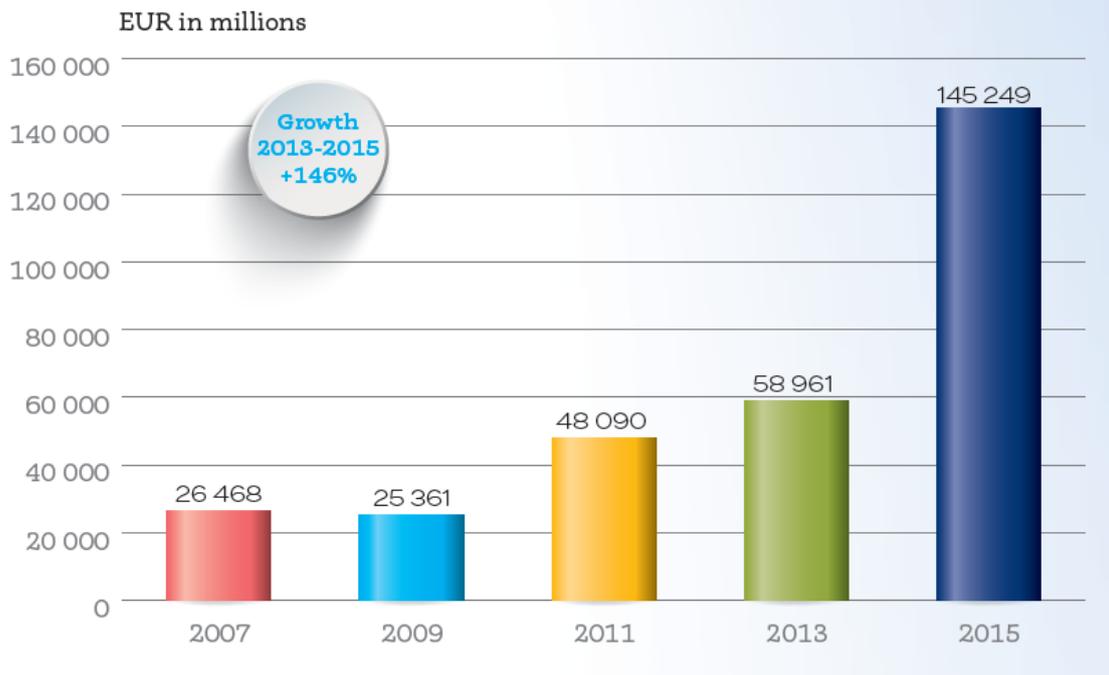


Figure 10: Growth of sustainability-themed investments in Europe

Source: Eurosif (2016)

3.1.4 Impact investments

Impact investments are defined as “investments that are made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.”⁵³

They may be structured to generate a return ranging from below market to risk-adjusted market rates⁵⁴ and can be made in both emerging and developed markets.⁵⁵

Impact investments are **closely linked to the group of sustainability themed investments**. The differentiating factor is that impact investments always **aim to assess or to track the positive impact** achieved through the investment, while sustainability themed investment may not take this additional step.

Eurosif found that **impact investing is the fastest growing SRI strategy in Europe** attaining **€98 billion** in 2015, up from EUR 8.75 billion in Europe in 2011.^{56 57}

This is of particular importance for financing biodiversity as impact investors increasingly also target **environmental conservation**.⁵⁸

In summary, biodiversity-focused investments⁵⁹ can be classified as a subsector of impact investing (if their impact is measured) or of “sustainability-themed” investments (if the focus is mainly on a certain sector – without measuring the concrete “impact”).

Impact Investing is the fastest growing SRI strategy in Europe attaining €98 billion in 2015, up from only EUR 8,75 billion in Europe in 2011. Increasingly, investors also target environmental conservation within their impact investing activities.

⁵³ Mission Markets (2016), <http://www.missionmarkets.com>. Mission Markets is a major player in the impact investing ecosystem that is offering a market place for buyers and sellers.

⁵⁴ Ibid.

⁵⁵ Global Impact Investing Network.2016, www.thegiin.org/cgi-bin/iowa/investing/index.html

⁵⁶ Eurosif (2016), retrieved from: <http://www.eurosif.org/sri-study-2016/>

⁵⁷ This figure does not include community bank deposits used for local development purposes or development finance.

⁵⁸ GIIN (2015)

⁵⁹ For the purpose of this study, and building on a definition used by NatureVest and EKO Asset Management (now Encourage Capital) of “conservation impact investments” we define “biodiversity focused investments” as “investments intended to return principal or generate profit while also driving a positive impact on natural resources and ecosystems – specifically, decreased pressure on a critical ecological resource and/or the preservation or enhancement of critical habitat. In addition, a positive impact on biodiversity must be an important motivation for making the investment. Biodiversity conservation cannot be simply a byproduct of an investment made solely for financial return.”

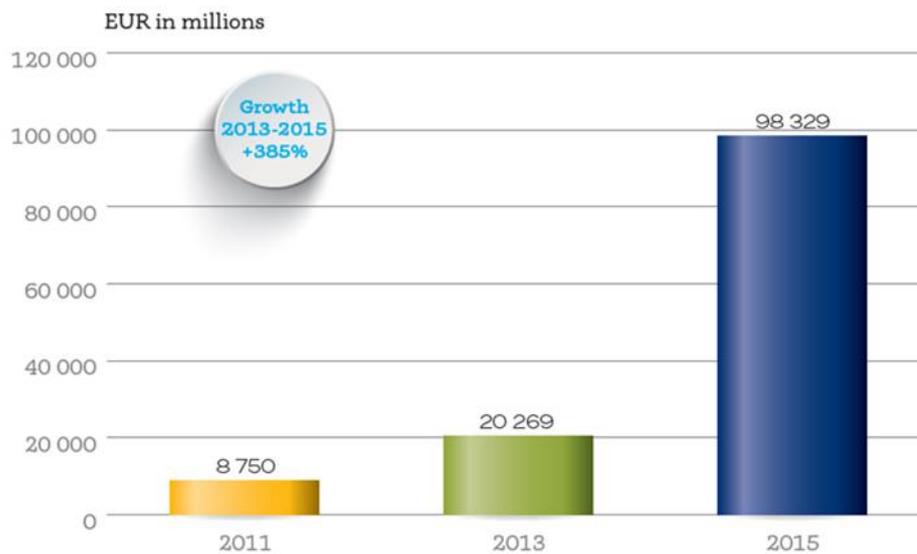


Figure 11: Growth of impact investments in Europe

Source: Eurosif (2016)

Freireich and Fulton give the following **examples of impact investments**:⁶⁰

In New York City, a low-income mother is moving into an apartment on land developed with a loan from the New York City Acquisition Fund. The Fund (...) aims to facilitate the construction of 10.000 units of affordable housing in a city with rapidly diminishing affordable housing stock. The Fund came together when private foundations made USD 32 million in low-interest, **subordinated loans** and a city-based charitable trust invested USD 8 million on similar terms, enabling commercial banks to raise and place more than USD 160 million of commercially priced debt into the fund.

Source: Freireich/Fulton (2009)

In rural Tanzania, a student is reading at home by the light of an electric light bulb powered by a solar panel her mother bought on credit from a local distributor. The distribution business could reach her village because of an equity and working capital investment made by E+Co, a nonprofit mezzanine fund focused on making debt and equity investments in businesses that develop and sell modern energy services. Source: Freireich/Fulton (2009)

⁶⁰ Freireich /Fulton (2009), p. 3

Impact Investment can be grouped into “**finance first**” (described as “thematic” impact investments in the chart above) and “**impact-first**” investments: ⁶¹

- **Finance-first impact investments** focus on investment opportunities that offer **market rate returns**, while generating a measurable positive socio-economic or environmental impact.
- **Impact-first investments** give the environmental and/ or socio-economic impacts an investment first priority, while still expecting a return on investment. However, this return can be below market rate.

⁶¹ Freireich and Fulton (2009)

3.1.5 Philanthropic investments

Philanthropic investments focus on achieving a certain benefit for society and do not expect a return on investment. They could be seen as “donations” that are focused on supporting entrepreneurial activities, rather than on traditional nature protection efforts.

No figures are available for the size of this market segment in Europe. However, compared to the above mentioned market segments it is **of negligible size**: The GCP estimated the worldwide flows of finance from philanthropy into biodiversity and ecosystem services at less than 1,8 billion USD per year.

3.2 Overview of Biodiversity focused investments

Between 2009 and 2013, private investment into biodiversity and conservation has more than doubled.⁶²

Most Biodiversity-focused investments that exist today are investments that focus on:

- Business models that are based on the **sustainable use of biodiversity** and ecosystems (e.g. ecotourism and biotrade),
- Businesses that **produce goods that have been produced with fewer impacts** on biodiversity as a result of **more efficient or lower impact production methods** (e.g. timber procured from reduced impact logging), and
- Businesses that **produce goods whose consumption will have a reduced environmental impact**, for example as a result of **decreased pollution load** (for example biodegradable detergents).⁶³

The **most relevant sectors** are commodity or service sectors, such as **ecotourism, sustainable agriculture, sustainable forestry and fisheries**.⁶⁴ The markets for certified timber and seafood products - have seen considerable growth in recent years and new markets with high growth rates are currently emerging - like sustainable soy and sugar production.⁶⁵

⁶² NatureVest/EKO (2014): Investing in Conservation A landscape assessment of an emerging market

⁶³ OECD (2013)

⁶⁴ Conservation Finance Alliance (2014), Supporting biodiversity conservation ventures: Assessing the Impact Investing sector for an investment strategy to support environmental entrepreneurship, p. 8.

⁶⁵ OECD (2013)

Between 2009 and 2013 private investment in biodiversity and conservation has more than doubled, with sustainable forestry and agriculture and fishery investments as main drivers of growth.

Two investor surveys by Credit Suisse and McKinsey in 2014 and 2016 – one in cooperation with the WWF - showed that this growth is mainly due to the fact that new vehicles with more favorable risk-return structures were able to also attract mainstream investors.⁶⁶

In 2014, NatureVest and EKO Asset Management (now Encourage Capital) published the results of a global survey on what they called “**conservation impact investments**”, and which they defined as “investments intended to

1. Return principal or **generate profit** and, at the same time
2. **Drive a positive impact on natural resources and ecosystems by**
 - a) **Decreasing pressure on a critical ecological resources** and/or
 - b) **Financing the preservation** or enhancement **of critical habitat.**
3. In addition, **conservation impact must be an important motivation for making the investment** and cannot be simply a byproduct of an investment made solely for financial return.”⁶⁷

The study examined three specific areas of conservation investing:⁶⁸

- Sustainable food and fiber production
- Habitat conservation
- Water quantity and quality conservation.

The large majority of survey respondents were based in the United States (76%) or Europe (18%), with 6% based in Latin America. U.S.-based investors accounted for 92% of

⁶⁶ Credit Suisse / McKinsey (2016) and WWF / Credit Suisse / McKinsey (2014).

⁶⁷ NatureVest/EKO (2014)

⁶⁸ The study’s focus on habitat and ecological resources dictated the exclusion of a number of investment areas that can also contribute to conservation goals, such as renewable energy, clean tech, and certain investments in water infrastructure.

private investment dollars, and 82% of private investment transactions, by value, were based in the United States or Canada.⁶⁹

The private investors surveyed by NatureVest/EKO committed **USD 583 million to conservation impact investments** in 2013. Of this total, investors committed USD 463 million (**i.e. nearly 80%**) to **sustainable food and fiber production**, USD 105 million to habitat conservation, and USD 16 million to water quantity and quality conservation.

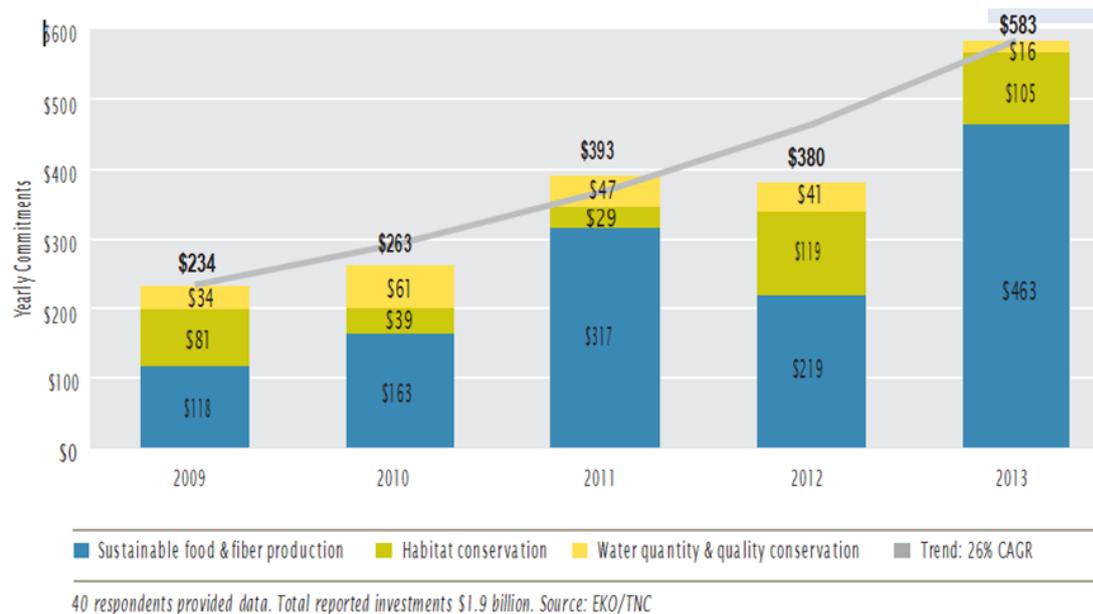


Figure 12: Private sector investment pace by category, 2009-2013 (USD millions) based on a survey of 40 private investors
 Source: EKO/TNC (2014)

With the exception of the third-largest investor, which is a private foundation, the top 10 private investors that participated in the survey were for-profit institutions. A vast majority of these investors had real-asset-based strategies, **mainly investing in land for forestry and agriculture projects.**⁷⁰

⁶⁹ This geographic bias can be considered a key limitation of the study and also makes it clear that the survey only included a small portion of private investment into conservation and biodiversity worldwide and the cited figures only account for this small part of the market.

⁷⁰ NatureVest/EKO (2014), p.13

3.2.1 Biodiversity-focused investments performed in line with investor's expectations

Across all investment types surveyed, NatureVest/ EKO found that the weighted average target Internal Rate of Return (IRR) was in the range of 5-9,9%, with private equity investments having the highest target of 10-14,9% IRR.⁷¹

The weighted average target Internal Rate of Return (IRR) of biodiversity focused impact investments was found to be in the range of 5-9.9%

NatureVest / EKO report that **of the analysed conservation investments that were made in the 2004-2008 period, over 80% have, to date, performed in-line or above the investors' expectations of financial return.**⁷²

Of the analysed conservation investments that were made in the 2004-2008 period, over 80% have, to date, performed in-line or above the investors' expectations of financial return

⁷¹ The IRR of an investment is the discount rate at which the net present value of costs (negative cash flows) of the investment equals the net present value of the benefits (positive cash flows) of the investment.

⁷² NatureVest/EKO (2014)

3.2.2 Investment into sustainable food & fiber production

According to the NatureVest/EKO survey, **investment into sustainable food & fiber production more than doubled since the period of 2004-2008.**

Within the sustainable food and fiber production sector, **private investment in sustainable agriculture grew by more than 600%** increasing from USD 67 million to USD 472 million from 2004-2008 to 2009-2013.⁷³

Sustainable forestry and timber grew as well, from USD 504 million to USD 710 million across the same periods, but lost market share due to the rapid growth of sustainable agriculture investments.

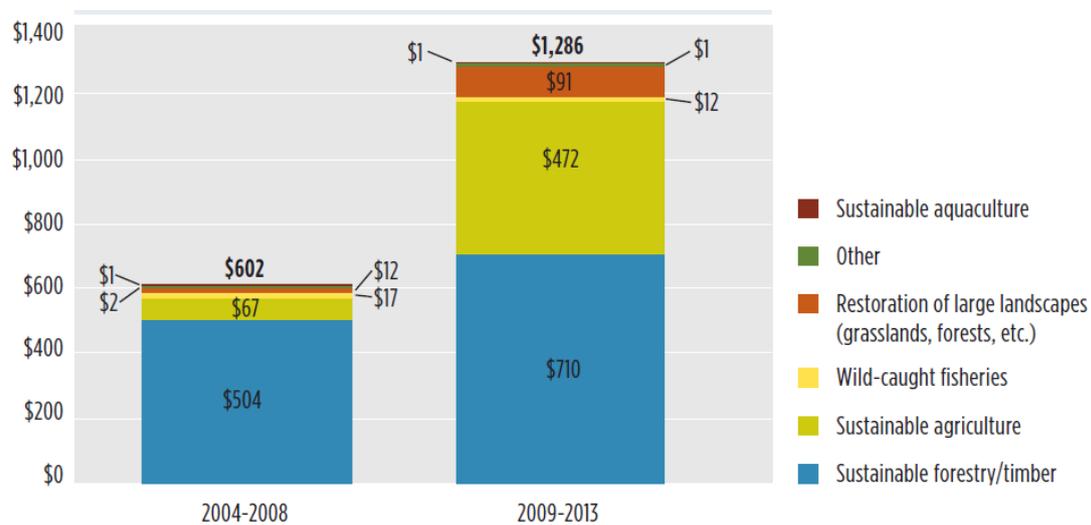


Figure 13: Private committed capital by subsector, 2004-2008 vs. 2009-2013 – Sustainable food & fiber production (USD millions)⁷⁴

Source: EKO/TNC (2014)

⁷³ NatureVest/EKO (2014)

⁷⁴ 12 respondents provided data for 2004-2008; 29 respondents provided data for 2009-2013.

3.2.3 Investment into habitat conservation

According to the NatureVest/EKO survey, investment into habitat conservation also **more than doubled since the period of 2004-2008.**

Within the segment of habitat conservation, private investment in mitigation banking quadrupled between 2004-2008 and 2009-2013, from USD 23 million to USD 100 million.⁷⁵

Investments into direct **land restoration or permanent conservation** via land ownership represent the largest sector within habitat conservation investing. They increased from USD 131 million to USD 184 million.⁷⁶

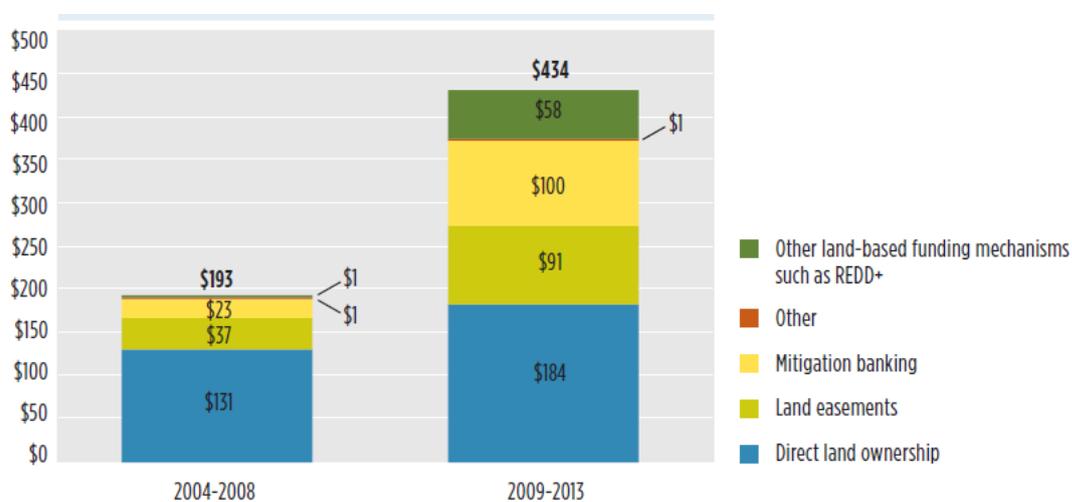


Figure 14: Private committed capital by subsector, 2004-2008 vs. 2009-2013 – Habitat conservation (USD millions)⁷⁷

Source: EKO/TNC (2014)

⁷⁵ Mitigation banking is the preservation, enhancement, restoration or creation of a wetland, stream, or habitat conservation area which offsets, or compensates for, expected adverse impacts to similar nearby ecosystems. The goal is to replace the exact function and value of specific habitats (i.e. biodiversity, or other ecosystem services that would be adversely affected by a proposed activity or project (https://en.wikipedia.org/wiki/Mitigation_banking)).

⁷⁶ Ibid.

⁷⁷ 12 respondents provided data for 2004-2008; 27 respondents provided data for 2009-2013.

3.2.4 Investment into water quantity and quality

Investment into water quantity and quality conservation more than doubled since the period of 2004-2008.

In 2009 – 2013 the development of the segment was dominated by a single large water banking transaction, with water rights trading accounting for 61% of investment activity.⁷⁸

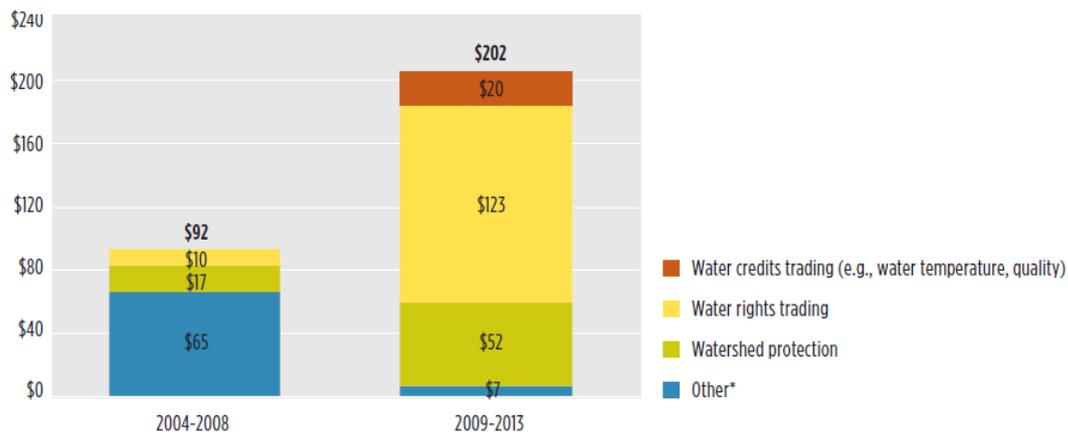


Figure 15: Private committed capital by subsector, 2004-2008 vs. 2009-2013 – Water quantity and quality conservation (USD millions)⁷⁹

Source: EKO/TNC (2014)

⁷⁸ NatureVest/EKO (2014)

⁷⁹ 5 respondents provided data for 2004-2008; 16 respondents provided data for 2009-2013. * "Other" in 2004-2008 comprises one water banking transaction

3.2.5 Outlook: Private investors expect to nearly triple capital deployment

Private investors surveyed by NatureVest/ EKO in 2013 reported that they had **USD 1,5 billion of not invested capital that could be deployed in 2014- 2018**.⁸⁰

They also said that they expected to raise an additional USD 4,1 billion of capital for deployment in the same period, yielding total projected capital deployment in 2014-2018 of USD 5,6 billion.

Both for-profit and not-for-profit investors said that **the most important condition for growth in the sector is the need for more investment opportunities that match risk-reward expectations** – and these won't necessarily emerge.

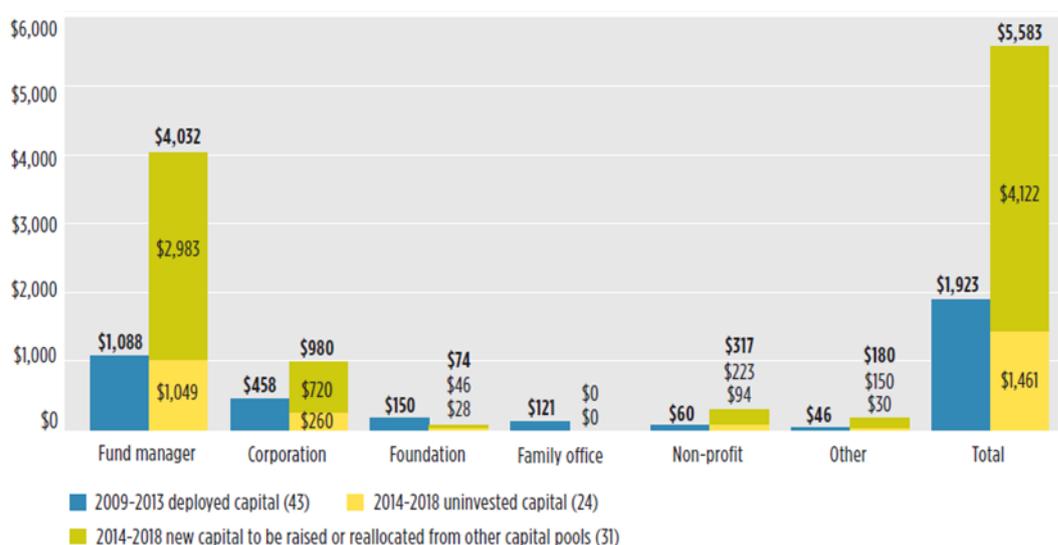


Figure 16: Private capital deployed, 2009-2013, and projected capital to be deployed, 2014-2018, by investor type (USD millions)⁸¹

Source: EKO/TNC (2014)

3.3 Policy options for seizing the growing market of socially responsible investments for biodiversity

The fast growing market for Socially Responsible Investments constitutes an important opportunity that can be used for the benefit of financing biodiversity businesses. Especially the markets for impact investments and sustainability-themed investments

⁸⁰ NatureVest/EKO (2014)

⁸¹ Number at the end of each legend label represents the number of respondents who provided data for that category.

have seen more than exponential growth in recent years. Both sectors are benchmark sectors for investments into biodiversity friendly businesses and should therefore be in the focus of attention.

Investor surveys in 2014 regarding biodiversity focused investments among mainly US based investors representing USD 583 million in invested capital suggest that, over the last decade, **private investment in biodiversity and conservation has more than doubled, with sustainable forestry, sustainable fisheries and agriculture investments as main drivers of growth.** Relevant subsectors include sustainable food & fiber production, habitat conservation and water quantity and quality. All have experienced an increase of over 100 percent in the last decade.

The weighted average **target Internal Rate of Return (IRR) of biodiversity focused impact investments was found to be in the range of 5-9.9%** Of the analyzed conservation investments that were made in the 2004-2008 period, **over 80% have, to date, performed in-line or above the investors' expectations of financial return.**

Private investors reported in 2014 that they had **USD 1,5 billion of uninvested capital that could be deployed in 2014- 2018.**⁸² They also said that they expected to **raise an additional USD 4,1 billion of capital** for deployment in the same period, yielding **total projected capital deployment in 2014-2018 of USD 5,6 billion.**

Both for-profit and not-for-profit investors stated that **the most important condition for growth in the sector is the need for more investment opportunities that match risk-reward expectations.**

Policy options:

The **growing market for socially responsible investments** represents a **valuable opportunity for the financing of biodiversity businesses** that should be seized.

Biodiversity criteria like the ones developed for the Biodiversity score card in the study "Mobilizing Private Financing for Biodiversity" **should be embedded into the screening criteria of sustainability themed investments, impact investments and responsible investments.**

For this purpose it is important to **liaise with Investment Fund or Portfolio Managers** like the Triodos Bank, for example via Eurosif, and help them to make sure that the **selection criteria of their investment funds** (e.g. the Triodos Sustainable Mixed Fund) also **take into account Biodiversity criteria.**

⁸² NatureVest/EKO (2014)

4 Identify the right investor groups and address existing investment barriers

If the main investor segments globally allocated only 1% of their new and reinvested capital to biodiversity financing and conservation, there would be sufficient financial capital available to meet biodiversity financing needs.⁸³

However, there are great differences when it comes to the willingness and ability of potential investors to do so. Investors differ regarding the investment volume they can provide and regarding their appetite for financial return, risk and impact.

Some investors want to achieve a market rate return on investment - other investors are willing to make investments that could actually be called “donations”.⁸⁴

It has to be kept in mind however, that even if an investor’s overall portfolio seeks a market rate return, percentages of it can be set aside for impact investments with a non-financial return.⁸⁵

Potential investors can be **categorized into the following broad types: Philanthropic foundations and ODA institutions, corporations (as part of their CSR strategy), high-net-worth individuals and family offices, retail investors, and institutional investors.**

The following chapter sheds a light on these different investor groups, their motivations and their investment potential and also describes some case studies how these investors invest into biodiversity.

⁸³ Credit Suisse /WWF/ McKinsey (2014), p. 16

⁸⁴ Trillium Asset Management (2007)

⁸⁵ Ibid.

4.1 Philanthropists

Philanthropists offer direct funding to organizations or conservation projects and **do not expect any financial profit in return**. Their funding can come in **variety of forms** and via different vehicles, with the most relevant being **grants** or **donations into trust funds and foundations**.

In the **biodiversity conservation sector**, U.S.-based foundations play a dominant role in raising money for conservation trust funds.⁸⁶ While “High-Net-Worth” Individuals (HNWI) (see Chapter on HNWI below) can donate large sums, conservation projects can also be “crowd-funded” by individuals with much smaller budgets.

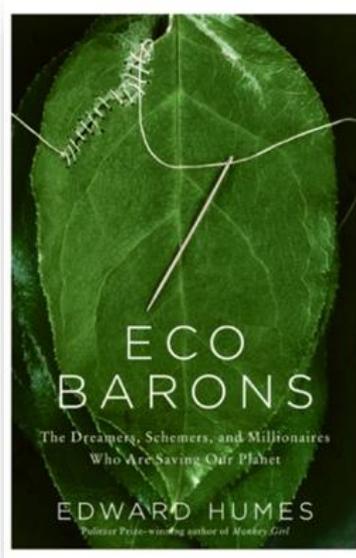


Figure 17: Book cover “Eco Barons”

Source: HarperCollins publishers

In his book “Eco Barons” that is portraying “the remarkable philanthropists and visionaries who are devoting their lives to saving the earth from overdevelopment and destruction”, Pulitzer Prize-winner Edward Humes uses **Douglas Tompkins** as an example of a philanthropist dedicated to the conservation of biodiversity. Tompkins is portrayed in the case study below.

⁸⁶ For an overview of conservation trust funds see the Annex of Jahn, Grulke, Renner (2014).

4.1.1 Case study: The Tompkins conservation land trust

Douglas Rainsford Tompkins (March 20, 1943 – December 8, 2015) was an American conservationist, philanthropist, filmmaker and businessman.⁸⁷

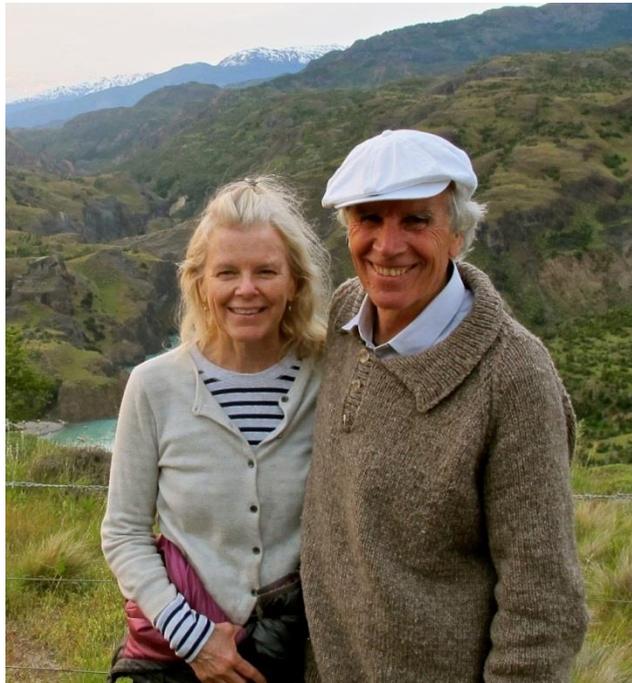


Figure 18: Douglas Tompkins with his wife Kristine

Source: Tompkins conservation

Beginning in the mid-1960s, he and Susie Tompkins Buell, his first wife, co-founded and ran two companies: the outdoor equipment and clothing company “The North Face” and the “Esprit” clothing company. Following their divorce and Tompkins' departure from the business world in 1989, he became active in the environmental and land conservation field.⁸⁸

In the 1990s Tompkins and his second wife, Kris McDivitt Tompkins a former chief executive of the Patagonia retail chain bought and conserved over 810.000 ha of wilderness in Chile and Argentina thus becoming one of the largest private land-owners in the world.⁸⁹

⁸⁷ Wikipedia. 2016b. Douglas Tompkins, https://en.wikipedia.org/wiki/Douglas_Tompkins.

⁸⁸ Ibid.

⁸⁹ “Pleistocene Park” emerges from Patagonia’s rescued grasslands, national geographic, January 23, 2010

In 1990 Tompkins established the **Foundation for Deep Ecology**, which supports environmental activism via grant making and in 1992 **The Conservation Land Trust**, which works to protect wild landscapes and biodiversity, primarily in Chile and Argentina. After purchasing large areas of land, the Tompkins **worked to create national parks**, believing that a governmental designation would be the best way to guarantee long-term conservation.⁹⁰

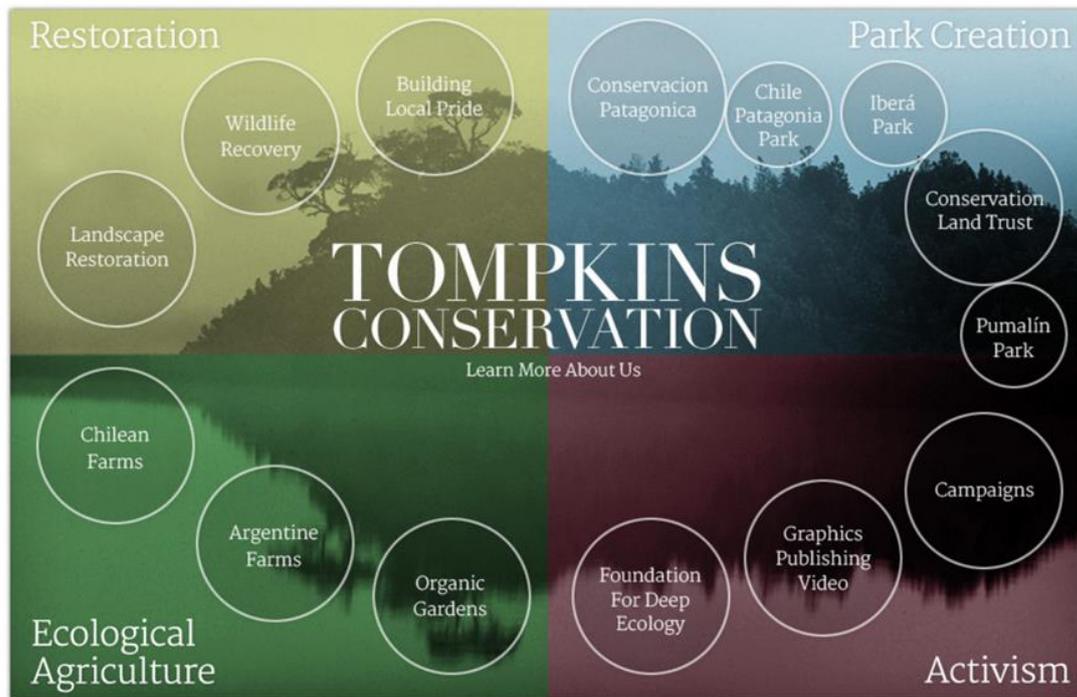


Figure 19: Portfolio of Tompkins conservation

Source: Tompkins Conservation

Today, “Tompkins conservation” encompasses Ecological Agriculture, Restoration, Park Creation and Activism (See figure above).

Through the “Foundation for Deep Ecology” Tompkins published a series of large-format, photo books on environmental issues and acted as a grant-maker in categories such as “Biodiversity & Wilderness”, “Ecological Agriculture”, and “Megatechnology & Economic Globalization”.⁹¹

⁹⁰ Wikipedia. 2016b. Douglas Tompkins, https://en.wikipedia.org/wiki/Douglas_Tompkins.

⁹¹ Ibid.

Tompkins also developed models of **sustainable organic farming**, which maintain soil health and at the same time provide for local livelihoods.⁹² In order to put these methods into practice, Tompkins invested in restoring farms in Chile and Argentina.⁹³ Each of these farms produces a variety of products, including sheep, cattle, honey, berries and vegetables.⁹⁴ At the same time, the farms were meant to serve as **buffers to protected areas**, and expand wildlife habitat into the non-productive areas of the farms. Tompkins envisioned that agriculture should further, not diminish, conservation aims, thereby making "**conservation a consequence of production.**"⁹⁵

4.1.1.1 Pumalín Park, Chile

Tompkins's first major conservation project was Pumalín Park in Chile, a 320.000 ha area of temperate rain forest⁹⁶ stretching from the Corcovado Gulf to the Andes Mountains, making it **the largest reserve in the world.**

Tompkins' US-based foundation "The Conservation Land Trust" (CLT) donated the protected lands to Fundación Pumalín (a Chilean foundation), for their administration and continual development as a type of National Park with public access under a private initiative.⁹⁷ In 2005, then-President Lagos declared the area a "Nature Sanctuary", granting it additional environmental and non-developmental protection.⁹⁸



Figure 20: Logo of the Pumalín Park in Chile

Source: Parque Pumalin (<http://www.parquepumalin.cl>)

⁹² Ibid.

⁹³ Ibid.

⁹⁴ Wikipedia. 2016b. Douglas Tompkins, https://en.wikipedia.org/wiki/Douglas_Tompkins.

⁹⁵ Tompkins Conservation (2016), http://www.tompkinsconservation.org/ecological_agriculture.htm

⁹⁶ Ibid.

⁹⁷ Ibid.

⁹⁸ Ibid.

Tompkins' foundation created trails, campgrounds and visitor centres in the hope of inspiring a deeper environmental ethic in the park's many thousands of visitors.⁹⁹



Figure 21: Dolphins at Pumalín park

Source: Parque Pumalin



Figure 22: River at Pumalín park

Source: Parque Pumalin

⁹⁹ Ibid.

4.1.1.2 Corcovado National Park, Chile

In 1994, the CLT, along with other investors **acquired 84.000 ha of native forest that was slated for logging**, next to large areas of federal land. CLT then offered to donate the land back to the Chilean state, provided that the whole area became a **national park**. In 2005, then-President Lagos accepted this proposal and the **294.000 ha Corcovado National Park** was created.¹⁰⁰



Figure 23: Corcovado National Park, Chile

Source: Tompkins Conservation

4.1.1.3 Iberá Project, Argentina

In Argentina, the CLT acquired 150.000 hectares of old cattle ranches bordering the existing Ibera Wetlands natural reserve in order to donate these lands to the Argentine government to include in the reserve and create a new, strictly conserved park called the **Great Iberá Park**. Cooperation partners include **George Soros** and the **Harvard University**.¹⁰¹

¹⁰⁰ Ibid.

¹⁰¹ Ibid.



Figure 24: Iberá Park Corrientes, Argentina

Source: Tompkins Conservation

4.1.2 Case study: The Zeitz Foundation and its Global Ecosphere Retreats®

The Zeitz Foundation was established in 2008 by the entrepreneur Jochen Zeitz with the mission to create and **support sustainable, ecologically and socially responsible projects in privately managed areas** which achieve long-lasting impact through the holistic balance of **Conservation, Community, Culture and Commerce (the 4Cs)**.¹⁰²



Figure 25: Logo of the ZEITZ foundation

Source: ZEITZ foundation

The Zeitz Foundation delivers on this vision through two programmes, the global **Long Run Initiative (LRI)** and the **Laikipia Programme** in Kenya.¹⁰³



Figure 26: Jochen Zeitz

Source: ZEITZ foundation

¹⁰² Zeitz Foundation (2016). Fact Sheet, <http://zeitzfoundation.org/About-Us/What-We-Do>

¹⁰³ Ibid.



Figure 27: Team of the ZEITZ foundation

Source: ZEITZ foundation

The Long Run Initiative (LRI):

The **Long Run Initiative (LRI) builds international support for the 4Cs** approach to sustainability. It is built Global Ecosphere Retreats® (GER) - certified Long Run Destinations, Long Run Alliance Members and Long Run Supporters.

Long Run Destinations (LRD), which are global leaders in sustainable tourism. As of 2017 there are 38 long run supporters, 27 Long Run Alliance Members and 10 Long Run Destinations. **Alliance Members are sustainable tourism destinations** on the path of continuing improvements to eventually become certified Long Run Destinations. And **supporters** are organizations from different sectors that believe in and support the Long Run Initiative mission.

The Long Run Alliance Members and Long Run Destinations together manage or significantly influence the management of approximately **2,9 million ha** and protect numerous rare or endangered species.¹⁰⁴

Examples of LRD member activities **include jaguar conservation** in the **Caiman Ecological Refuge in Brazil** in an area covering 53.000 ha and **Wolwedans (LRD)** in Namibia which aims to convince local land owners to further expand the existing 179.999 **Namib Rand Nature Reserve.**

The Zeitz Foundation **directly supports innovative projects** in Long Run Destinations. Examples include: **An artificial wetland project at Monte Azul** in Costa Rica, which involves close to 2.000 people through teaching and capacity building and a **project by Tahi on the restoration of the biodiversity of Pataua North in New Zealand** (See Case study: Tahi sanctuary and retreat).¹⁰⁵

¹⁰⁴ Ibid.

¹⁰⁵ Ibid.

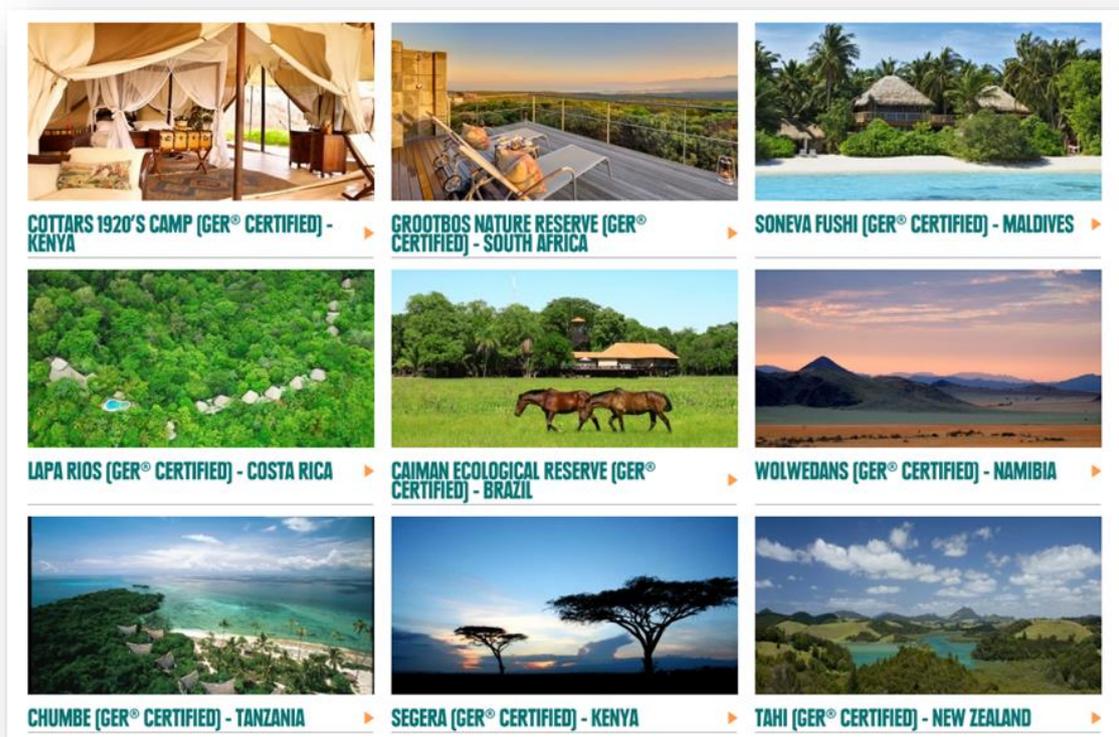


Figure 28: Nine of the 10 Global Ecosphere Retreats® (GER) - certified Long Run Destinations

Source: The Long Run initiative

The Laikipia Programme at Segera Ranch:¹⁰⁶

The Laikipia Programme, centred in the greater Segera area of Laikipia County, Kenya, is the ‘nursery’ for the Zeitz Foundation. Here innovative initiatives that represent the 4Cs approach are nurtured and the experiences are shared throughout the LRI network.

The projects are implemented in partnership with other institutions like the Nature Conservancy (TNC) and the GEF Small Grants Programme.

As part of the Laikipia Programme 20.234 ha of formerly **degraded cattle and agricultural land were restored** to wildlife habitat on **Segera Ranch**, now home to many indigenous endangered species, like lions, cheetah, patas monkey and grevys zebra.

At the ranch, a number of **small-scale income generating projects** like beekeeping, conservation agriculture, the use of Wonderbags¹⁰⁷ and briquette making are tested. The

¹⁰⁶ Ibid.

¹⁰⁷ <http://www.wonderbagfoundation.co.za/>

projects currently provide income to 500 people and are aimed at introducing sustainable water, energy and agricultural solutions to the region.

The programme also supports **local schools** for 1.500 students that are provided with new infrastructure and provides 23.000 people with access to health care throughout Laikipia.

In March 2013, **Segera Retreat** opened its doors to the visitors to share its story of wild-life preservation and community support.

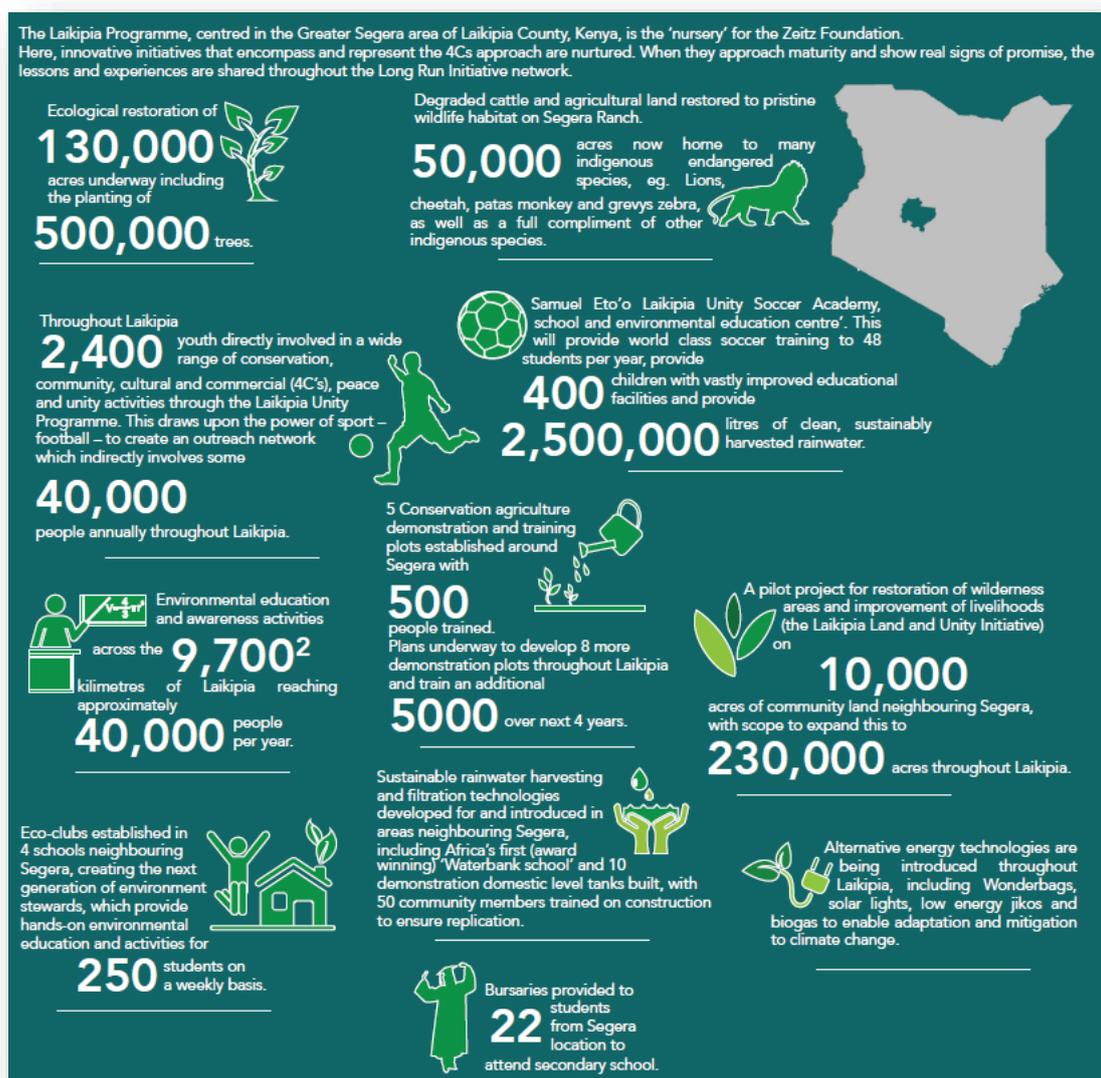


Figure 29: The Laikipia Programme at a glance

Source: Zeitz Foundation.

4.2 ODA institutions

ODA institutions and their financing institutions (like KfW or the EIB) support biodiversity friendly business models for example via so called “**blended**” **fund models**. These allow the mobilization of private investment capital for investments in businesses which - without such support - could not be mobilized. These fund models like the “eco.business Fund” are described in the chapter on hybrid fund models below.

4.3 Corporations

Another group of investors that play a role in the financing of biodiversity are **corporate entities** who set aside **funds for Socially-Responsible Investing**. Instead of a financial profit they sometimes intend to **generate carbon credits or biodiversity offset credits** in return for their investment.

Examples of funds that are mainly financed by corporations are **the Livelihoods Carbon Fund** and the **Livelihoods Fund for Family Farming (L3F)** that are portrayed below.

4.4 Retail / Individual Investors

Retail investors, - also called small or individual investors -, are natural persons who buy and sell securities for their personal account and usually invest through retail traded funds. The volume of capital invested by retail investors into biodiversity-related sectors like forestry, eco-tourism and biotrade or sustainable fisheries is not very significant.



Figure 30: Forest Finance sales pitch to retail investors

Source: Forest Finance

4.4.1 Case Study: The Forest Finance TreeSavings Plan

Forest Finance's TreeSavingsPlan offers individual investors an investment into certified and ecologically sustainable tropical reforestation. Investors invest a minimum of 396 euros or 38 euros per month for a minimum of one year.¹⁰⁸



Figure 31: Logo of Forest Finance

Source: Forest Finance

The Forest Finance plants at least twelve trees for the each investor in order to produce timber. After 25 years, the trees are harvested without clear-cutting. Investors will then receive a profit which can be used (for example) as, a "tree pension." A sustainable tropical mixed forest is left in place.¹⁰⁹



Figure 32: Tree nursery

Source: Forest Finance

¹⁰⁸ Forest Finance (2016b), <https://www2.forestfinance.de/en/safety/investment-locations/panama/>

¹⁰⁹ Ibid.

If the investment develops normally, ForestFinance forecasts a internal rate of return of approximately 6 per cent until harvest. This would mean that after 25 years the investor would receive revenue amounting to approximately 1.745 euros. However, these forecasts are subject to fluctuations as the investment is influenced by the development of timber prices and by yield volumes that are subject to natural conditions.¹¹⁰

The TreeSavingsPlan aims to:

- Finance mixed forests with a **high diversity of native tree species**, thereby preventing monocultures and creating habitats for animals and protecting rare plants
- Create **new permanent jobs in rural regions of Panama** at above average wages and with fringe benefits
- Provide **education and training to employees**.

According to Forest Finance, **benefits for the investor** include:

- An average forecast return of approximately **6 per cent (IRR)**
- Investment in an environmentally sustainable afforestation project
- The possibility to invest even on a small budget: One tree per month



Figure 33: Yield forecast per TreeSavingsPlan in per cent

Source: Forest Finance

¹¹⁰ Ibid.

The ForestFinance forests are located in the **Panamanian provinces** Chiriquí, Bocas del Toro, Veraguas and Darién (See Figure below).



Figure 34: Locations of ForestFinance Forests in Panama

Source: Forest Finance

Forest Finance appraises Panama as a location with **relatively low country risks**: “(...) For 100 years there has been no revolution, no dispossession of property, and no political turmoil that has done any long-term damage to commerce. (...)”.¹¹¹ Furthermore, a **German-Panamanian Investment Agreement** which offers an extensive international investment protection is in place. The Panamanian government is actively promoting investments into forestry and for many years the country has shown ambitious nature conservation policies.”¹¹²

Table 1: Overview of the ForestFinance TreeSavingsPlan	
Website	https://www2.forestfinance.de/en/products/treesavingsplan/
Management	ForestFinance
Objectives and business model	The TreeSavingsPlan offers individual investors an investment into certified and ecologically sustainable tropical reforestation. Investors



¹¹¹ Forest Finance (2016b), <https://www2.forestfinance.de/en/safety/investment-locations/panama/>

¹¹² Ibid.

Table 1: Overview of the ForestFinance TreeSavingsPlan

	pay a minimum of 38 euros per month for a minimum of one year or 396 euros once. Forest Finance plants at least twelve trees for the individual investor. The trees are expected to produce fine timber.
Geographic coverage	The ForestFinance forests are located in the Panamanian provinces Chiriquí, Bocas del Toro, Veraguas and Darién.
Sectoral coverage	Sustainable Forestry.
Legal Structure	Direct Investment
Domicile	
Contact	Forest Finance
Size	
Target size	
Capitalization	
Capital invested	
Investors and profitability	
Fund structure	
Public	
Private	Retail investors
Minimum Investment	38 euros per month for a minimum of one year or 396 euros at once
Targeted IRR	6 %
First loss modalities	No
Time frame	
First closure	
Fully invested volume	
Fund duration	25 years
Socio-economic and environmental	
Socio-economic Impact	The TreeSavingsPlan aims to
Environmental Impact	<ul style="list-style-type: none"> • Finance mixed forests with a high diversity of native tree species, thereby creating habitats for animals and protecting rare plants as well as preventing monocultures. • Create new permanent jobs in rural regions of Panama at above average wages and fringe benefits • Provide education and training to employees

Source: Author on the basis of information from:

<https://www2.forestfinance.de/en/products/treesavingsplan/>

4.5 High-net-worth individuals and single family offices

High-net worth individuals (HNWI) are defined as individuals with investable financial assets of more than USD 1 million. They often play a leading role in impact investing.

The investments of HNWIs are often managed by single family offices which are companies that manage investments for a single family.

HNWI and single family offices that are acting on their behalf **have greater flexibility in their investment mandates** than for example institutional investors (see the following chapter). Usually, their personal preferences determine the sectors they chose to invest in and HNWI can - if they are willing to - also accept lower profits in return for higher ecological or social impacts of their investment.¹¹³ This fact makes high-net worth individuals and (single) family offices interesting partners to talk to when it comes to raising financing for biodiversity-friendly businesses.

4.6 Institutional investors and semi-institutional investors

Institutional Investors are **legal entities devoted to holding and managing assets, either for their clients or for themselves.**¹¹⁴ Examples include **insurance companies, pension funds and investment banks** as well as government-owned **development banks and trust funds.**

They usually trade large volumes of funds and are **bound by investment policies**, and thus are limited in their ability to invest in high risk ventures which some biodiversity businesses represent. Institutional Investors typically do not invest in first-time funds, as their policies call for investments into funds and asset classes with proven track records.

At the same time, institutional investors are important for placing new issues of stocks and bonds, as they can afford to buy more of an issue than individual investors.

A study conducted by Union Investment in 2010, which surveyed 218 large-scale investors with total assets under management of more than EUR 1 trillion found that 87% of all institutional respondents regard economic criteria as the most important aspect of sustainable asset management, followed by environmental criteria (74%), socio-economic criteria (72%) and ethical criteria (65%).¹¹⁵

Semi-institutional investors include churches, foundations and multi-family offices. In Germany alone, the total assets of the Christian churches are estimated to amount to EUR 1 trillion.

¹¹³ Conservation Finance Alliance (2014)

¹¹⁴ Farlex Financial Dictionary. © 2012 Farlex, Inc. All Rights Reserved

¹¹⁵ Union Investment (2011a) German Investors embrace sustainability.

Two thirds are invested in land and real estate, while 20 % is invested in capital assets¹¹⁶. Furthermore, there are more than 20.000 foundations with assets of approx. EUR 100 billion. The administered capital assets of family offices amount to several hundred billion Euros.¹¹⁷

Foundations generally have a clearly defined mission and assets have to be maintained in the long run. In Germany, foundations are required by law to invest in low risk profile investments.

A study conducted by Union Investment in 2011 found that **charitable foundations are among the investors' groups with the highest proportion of sustainable investments** in their portfolios in Germany.¹¹⁸

¹¹⁶ Frerk, C. (2002).

¹¹⁷ Riedel, I., Ruile, S. (2008).

¹¹⁸ Union Investment (2011b).

4.7 Policy options for addressing existing investment barriers

Surveys conducted among investors identified as the **main barriers for investing into Biodiversity business models in the area of ecotourism, biotrade and sustainable forestry**:¹¹⁹

- **The lack of products with a good risk/return ratio:** The return on investment is not high enough to justify the high risks involved with investments into biodiversity business models in developing countries.
- **The insufficient sufficient investment size:** Biodiversity friendly businesses often are too small as institutional investors focus on projects that can take up bigger investment volumes in order to reduce the **transaction costs** per EUR invested.
- **The lack of products with a favorable track record:** Especially institutional investors are bound to investment guidelines that instruct them to only invest into opportunities with a good track record, e.g. a fund management that has proven to be able to generate a certain return with a certain investment approach. As the track record of commercially successful biodiversity businesses is limited investors are often reluctant to invest in this sector.
- **Not a standardized asset class:** Institutional investors invest into defined and standardized asset classes that match the risk – return profile they are looking for. Examples for asset classes are fixed income, public equity, commodities, real estate, alternative assets (e.g. private equity, hedge funds). With the exception of the forestry sector, which can be seen as a sub-group to alternative assets, investments into biodiversity businesses are not a known asset class. This alone often rules out investments by institutional investors.
- **Their lack of in-house expertise regarding impact investments**

The lack of viable products is seen as the main barrier to impact investing by many investors.

Respondents to the **NatureVest/ EKO survey in 2014** also noted the **shortage of management teams with experience in the sector** as one of the key obstacles to investing. Some respondents also noted that there are so far not enough mechanisms that use **blended financing and** combine private capital with more risk-tolerant funding such as government loans and capital from philanthropic sources and thereby reducing the risk

¹¹⁹ NatureVest/EKO (2014) and Eurosif (2016)

for the private investor (i.e. **hybrid funds with first loss guarantees**).¹²⁰ (See chapter on ODA institutions).

Some interviewees argued that more **robust impact assessment methods** should be developed and that this could also help to foster more blended financing options, as such methods could make philanthropic organizations more comfortable with the idea of partnering with private investors.¹²¹

On the other hand, several investors also expressed frustration regarding the significant administrative burden connected with documenting the impact of their investments.¹²²

The main investment **barriers** to attracting private finance for investments into **forestry** (either forest plantations or natural forest management) that were identified in a previous study in 2014 are listed in the table below.

Barrier	Investment in plantations	Investment in natural forests
Unfavorable framework conditions in target countries	++	++
Lack of track record/ lack of project pipeline / suitable project partners	0/+	++
Unfavorable risk-return profile	+	+
Exit	++	++
Reputational risks	0	++
High Transaction costs	0/+	+

Table 2: Main barriers to investments into forestry

Source: Jahn, Grulke, Renner et.al. (2014)

Country specific risks, such as the lack of legal security, corruption or missing capacities on various levels are one of the main barriers for forestry investments.

Equally important as a barrier to forestry investments are inadequate or missing **exit strategies due to the lack of a secondary market for forestry assets and standards to consistently value forestry assets**. In many cases the **production period**, from tree seedlings to mature trees of a targeted dimension, **exceeds the preferred lifetime of the**

¹²⁰ NatureVest/EKO (2014)

¹²¹ Ibid.

¹²² NatureVest/EKO (2014) and Eurosif (2016), p. 37

investment or its vehicle. Hence, new forests typically do not generate significant positive cash flows based on timber sales before an investment exit is sought. As a result, when exiting the investment it is often only the production asset that can be sold rather than any timber product.¹²³

The **missing track record** and **reputational risks** are also considered an important investment barrier, mainly for investments in natural forest management. Economic barriers like risk-return profile and transaction costs also exist but are considered secondary compared to the above main barriers.¹²⁴

Reputational risks are mainly caused by the fact that critical observers often legitimately criticize uncontrolled "timber mining" in the developing world. Sometimes, however, they fail to differentiate poor practices from credible attempts to establish more sustainable forms of natural forest management. The public perception likewise fails to appreciate nuances. Accordingly, there is risk of repercussions from negative campaigns, regardless of the actual approach. Transparent certification schemes can help to address this dilemma. ¹²⁵

Empirical research based on 30 expert interviews on **investment motivation** of different investor groups in the **forestry sector**, came to following conclusions which are also "summarized in the table below ^{126,127}: Across all investor groups the **risk adjusted returns** determine the interest of investors either to invest and not to invest in forestry. The **low risk profile of forestry investments** is considered to be **more important than the possible returns**. All investor groups consider socio-economic and environmental impacts as having a medium level of influence on their decision to invest into forests.

¹²³ Jahn, Grulke, Renner et.al. (2014).

¹²⁴ Ibid.

¹²⁵ Ibid.

¹²⁶ Walter, P. (2010)

¹²⁷ Grulke, M.; Walter, P. (2012)

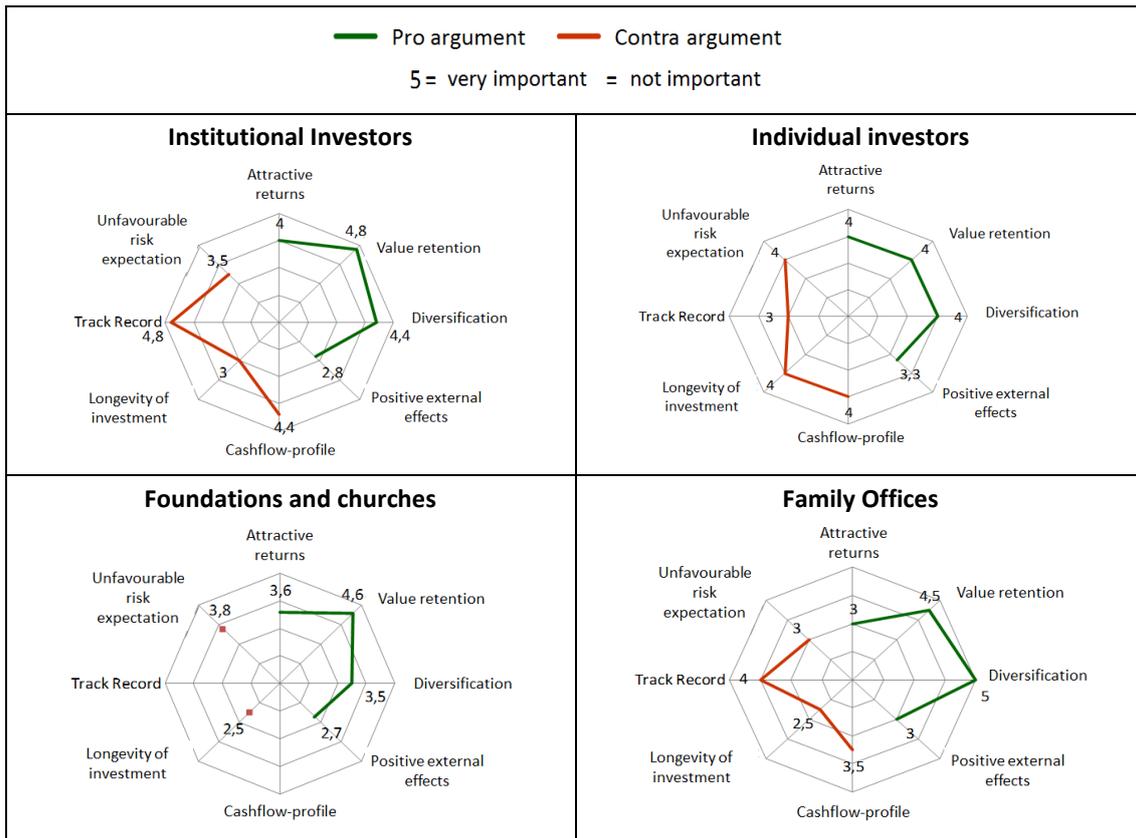


Figure 35: Weight of arguments in support of and against forestry investments

Source: Walter (2010) und Grulke & Walter (2012).

Policy recommendation

In summary, the two largest challenges that investors face in providing financing to bio-diversity friendly projects and companies are the higher transaction costs and insufficient returns offered by these small, less mature and often more risky ventures in developing countries.

Investors need:

- **Financial incentives that makes up for the high transaction costs and the fact that production periods** sometimes exceed the preferred lifetime of investments
- **Instruments that reduce country specific risks**, such as the lack of legal security, changes in currency exchange rates and corruption
- **More mechanisms that use blended financing, i.e. hybrid funds with first loss support** (The existing biodiversity enterprise funds cover only a small amount of the possible market thereby leaving potential for additional biodiversity enterprise funds)
- **An internationally recognized and locally verified impact certification system, standardized assessment methods** and a reduction of the **administrative burden** of documenting the impact of their investments

- Support in **building expertise** on impact investing standards and biodiversity KPIs

In order to address some of the above hurdles, policy makers could offer investment fund managers the following types of **support**:

- Finance **Technical Assistance** for businesses with biodiversity friendly production processes
- Provide **Seed Capital Support** for businesses with biodiversity friendly production processes
- Finance **first loss tranches** for funds that provide financing to businesses with biodiversity friendly production processes

5 Support promising new investment vehicles

In order to overcome the before mentioned investment barriers, different investment vehicles have been developed to mobilize private sector funding for biodiversity businesses.

The following chapter gives a broad overview of the most common investment vehicles that exist today and which can be broadly structured into Debt and Equity based financing vehicles and will show **how they can be improved and supported.**

The chapter will treat the following questions:

- What can be learnt from **existing case studies** regarding fund strategy, geographical areas and sectors covered?
- What **selection criteria** for the projects that are financed are applied (Certification schemes etc.)?
- How is the **impact of the portfolio measured**?
- How are the **existing funds structured**?
- What role does **technical assistance** play?
- Which **gaps need to be filled in the “financing landscape”**?

5.1 Debt based vehicles: Green bonds and conservation bonds

In the case of green bonds or **conservation bonds**, an organisation borrows money from investors in order to pre-finance conservation efforts. This instrument can be used under the condition that reliable pay-back schemes can be offered to the investors. Usually a rating agency provides an assessment of the risk connected to the bond.

Recently, the Nature Conservancy has developed **Conservation Notes**, which are rated by a traditional rating agency (Moody’s Aa2) and offer a minimum of USD 25.000 investment over 1, 3, or 5 year terms.^{128 129} (See chapter below).

Also, a number of groups, including World Wildlife Fund for Nature and Enviromarket Ltd., have been working on **forest bonds** as a financing mechanism for REDD+ projects and other sustainable forest activities.¹³⁰

The World Bank **issues Green bonds** in order to finance projects focused on climate change mitigation and adaptation for example through **reforestation and avoided deforestation**. Since 2008, the World Bank has issued over USD 3,5 billion in Green Bonds,

¹²⁸ The Nature Conservancy 2013

¹²⁹ Conservation Finance Alliance (2014), p. 17

¹³⁰ Petley et al. (2007); Cranford et al. (2011)

with coupon rates ranging from <1-9%.¹³¹ The repayment of these triple-A rated bonds are not linked to the performance of the projects themselves, thus investors do not assume specific project risks.

While green bonds or conservation bonds are so far mostly governed by voluntary guidelines, market expectations for information are high. Issuers must be very clear on what the outcome of the project will be and how the impact will be measured.

Experts agree that in order for Green Bonds to be widely accepted by the financial markets a set of common standards and metrics is needed.¹³²

5.1.1 Case study: The Nature Conservancy's Conservation Note

The Nature Conservancy's Conservation Note is a **fixed income product** that **channels capital to conservation-critical lands and waters**, providing increased capacity to finance high-priority conservation projects around the world.¹³³ Examples of projects include **property being resold to a government agency**, institution, or conservation buyer, with easements or restrictions in place to ensure that the Conservancy's long-term conservation objectives for the project are met. ¹³⁴ Individual and institutional investors earn a fixed rate of interest, while generating environmental returns that are measured in acres protected, landscapes preserved, and habitat restored.¹³⁵

The Conservation Note is a general unsecured obligation of The Nature Conservancy and is rated Aa2 by Moody's. The Note is subject to various risks, including those described in the Prospectus.¹³⁶

The Note is intended for investors who want to expand the impact of their philanthropic goals by linking their investment portfolio to environmental outcomes. The Note also

¹³¹ World Bank (2013).

¹³² Eurosif (2016)

¹³³ See: <https://www.nature.org/about-us/conservation-note-fact-sheet-2016.pdf>

¹³⁴ Ibid.

¹³⁵ Ibid.

¹³⁶ The Nature Conservancy, a tax-exempt 501(c)(3) public charity, offers the Conservation Note. The purchase of the Conservancy's securities is subject to risks, which are described in the Prospectus. These risks include the difficulty of achieving or measuring conservation results, as described in the Prospectus. In addition, there is no assurance that the Moody's rating of the Notes will be maintained; it may be changed or downgraded. A change in rating during the term of the investment is not an event of default under the terms of the Conservation Note. The Conservancy significantly depends on donor contributions for its expenses, including the repayment of the Notes. This is not an offer to sell, nor a solicitation of an offer to buy, these securities. The offer is made solely by the Prospectus, and only in states where authorized.

serves institutional investors looking for diversification for their program related investments. Foundations can create impact that is in line with their program goals, and may be able to satisfy their required annual distribution.¹³⁷

The Conservation Note can be purchased directly from The Nature Conservancy via the internet site of The Nature Conservancy (www.nature.org/invest).

To date, the Nature Conservancy and its more than 1 million members have protected nearly 100 million acres worldwide.¹³⁸



WHAT IS THE CONSERVATION NOTE?

The Nature Conservancy’s Conservation Note is a fixed income product that channels capital to conservation-critical lands and waters, providing increased capacity to finance high-priority conservation projects around the world. Examples of projects include property being resold to a government agency, institution, or conservation buyer, with easements or restrictions in place to ensure that the Conservancy’s long-term conservation objectives for the project are met.

Private capital can therefore leverage public dollars for conservation. Individual and institutional investors earn a fixed rate of interest, while generating environmental returns that are measured in acres protected, landscapes preserved, and habitat restored.

SECURITY AND RISK

The Conservation Note is a general unsecured obligation of The Nature Conservancy and is rated Aa2 by Moody’s. The Note is subject to various risks, including those described in the Prospectus.

KEY FEATURES	
Minimum Investment	\$25,000
Terms	1, 3 and 5 years
Interest Rates	Investor can select an interest rate of between 0% and 2%, depending on term.
Environmental Return	The Conservation Note generates environmental returns that can be measured in acres protected, landscapes preserved, and habitat restored. Measurable impact reported annually.
Early Redemption	The Conservancy may honor early redemption requests at its discretion, but penalties will apply. Please see the prospectus for more details.
Optional Repurchase	The Conservancy may call and repurchase the Notes at any time.

Figure 36: Fact Sheet of the Nature Conservancy’s Conservation Note

Source: *The Nature Conservancy*

¹³⁷ <https://www.nature.org/about-us/conservation-note-fact-sheet-2016.pdf>

¹³⁸ Ibid.

5.2 Equity based vehicles: Private equity funds

Private equity funds are collective investment vehicles used for making investments in different equity securities. Private equity funds are typically legally structured as **limited partnerships** with a **fixed term of 10 years**.¹³⁹

The fund makes investments into a number of portfolio companies.¹⁴⁰ The subsequent cash flow derived from the portfolio companies is used to repay equity and debt. The investment into the private equity fund is raised by a private equity firm (the general partner, GP). Typically, the general partner also acts as an investment advisor and manager of the portfolio. Often, a single private equity firm will manage a series of distinct private equity funds and will attempt to raise a new fund every 3 to 5 years once the previous fund is fully invested.¹⁴¹ **Investors** who invest as limited partners (LPs) into the fund typically include institutional investors (such as pension plans, universities, insurance companies, foundations and endowments) and high-net-worth individuals.

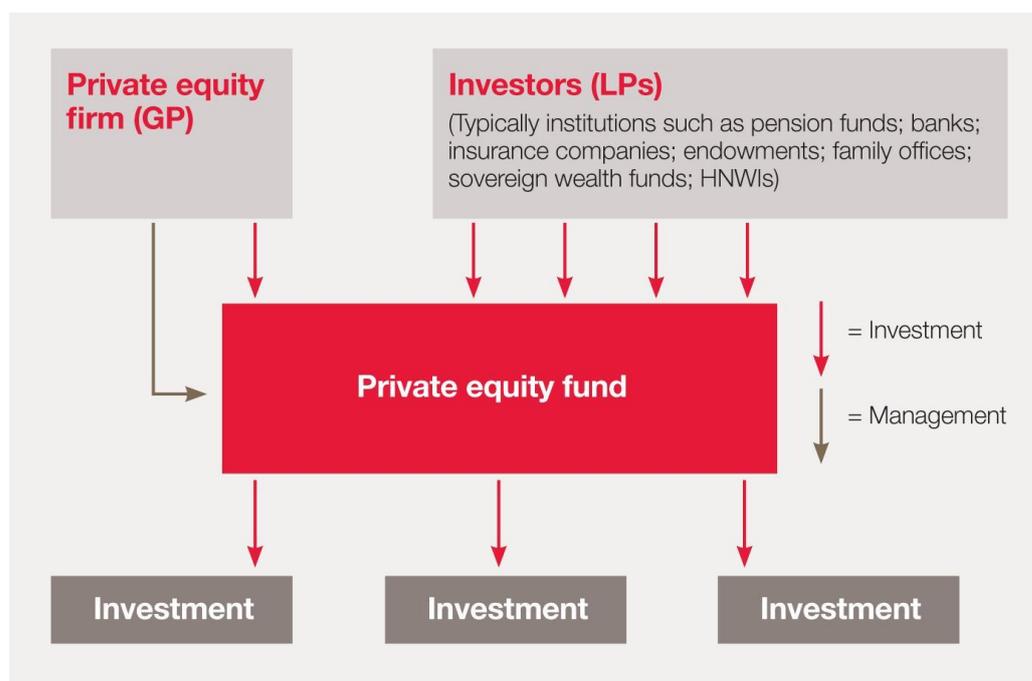


Figure 37: Structure of a Private Equity Fund

Source: SWANSON Capital Group

¹³⁹ Wikipedia. 2016d. Article on Private Equity Funds.

https://en.wikipedia.org/wiki/Private_equity_fund

¹⁴⁰ These investments can be partially or substantially financed by debt.

¹⁴¹ Metrick, A., and Ayako Y (2010): "The economics of private equity funds."

Among the terms set forth in the **limited partnership** agreement are the following:¹⁴²

- **Term of the partnership:** The partnership is usually a **fixed-life investment vehicle** that is typically 10 years plus some number of extensions.
- **Management fees:** An annual payment made by the investors in the fund to the fund's manager to pay for the private equity firm's investment operations (typically 1 to 2% of the committed capital of the fund).
- **Distribution Waterfall :** The process by which the returned capital will be distributed to the investor, and allocated between Limited Partners and General Partner. This waterfall includes the “preferred return”: a minimum rate of return (e.g. 8%) which must be achieved before the General Partner can receive any “carried interest” (= share of the profits above the preferred return (e.g. 20%)).
- **Transfer of an interest in the fund:** Private equity funds are not intended to be transferred or traded; however, they can be transferred to another investor. Typically, such a transfer must receive the consent of and is at the discretion of the fund's manager.
- **Restrictions on the General Partner:** The fund's manager has significant freedom in deciding on the investments he wants to make and in managing the affairs of the fund. However, often there are certain restrictions regarding the type, size, or geographic focus of the investments.

5.2.1 Case study: The Arbaro Fund

The Arbaro fund (The Fund) is an equity-based **fund in preparation** that aims to combat climate change by **investing into forestry and forest conservation projects** in order to sequester and reduce emissions of carbon. ¹⁴³ Once enough funding is collected to secure first closing, the fund will **invest into existing forest plantations and the establishment and management of new plantations.**



Figure 38: Logo of the Arbaro Fund – Fund in preparation

Source: Arbaro

¹⁴² Wikipedia. 2016d. Article on Private Equity Funds.

¹⁴³ European Investment Bank (2014). Fact Sheet of the Arbaro Fund.
<http://www.eib.org/infocentre/register/all/60329616.htm>.

According to the project description submitted to and published by the European Investment Bank (EIB) who plans to be **one of the fund's anchor investors**, the Arbaro Fund **will have a strong commitment to sustainability**, being planned in strict compliance with stringent ecological and social standards including **FSC certification and intending to generate returns through sale of forest-based carbon credits**.

The Arbaro Fund's **strategy** is to target **assets in emerging economies** with a focus on **Latin America and Africa**. However, the Fund's pipeline 'longlist' includes a number of prospects which may lie outside this dual region focus. The Fund aims to invest in approximately **ten projects** ranging in size from 10.000 ha to 20.000 ha.



Figure 39: Projected plantation location of the Arbaro Fund

Source: Arbaro Partners

The Fund's current **pipeline** includes a range of **project types**: Timber and biomass production, industrial timber production, plantations management, silvo-pastoral production and REDD+ (carbon credits from forest conservation).

When fully invested and implemented, the Fund Manager estimates that the Fund's investments will contribute to the creation of over **5.000 jobs** and will sequester approximately 65m t CO₂ eq. ¹⁴⁴

ESG Management System at the fund level

The Fund will put in place an **Environmental and Social Governance Policy** and Guidelines. These are **based on the FSC Standard**, and are in harmony with the **IFC Policy and Performance Standards on Social and Environmental Sustainability** and with the **EIB's Environmental and Social Standards**. They outline the **ESG Management System of the Fund**, and the Fund is committed to allocating appropriate resources to ensure the proper implementation of the system at all times. ¹⁴⁵

¹⁴⁴ Ibid.

¹⁴⁵ Ibid.

The General principles of the Fund's ESG guidelines include: ¹⁴⁶

- Finance only business **operations that comply with all applicable local and national laws, as well as international conventions** and agreements ratified by the host country.
- Operate according to the **mitigation hierarchy**, seeking to avoid, and where this is not possible, minimize adverse impacts and enhance positive effects on the environment, workers and stakeholders.
- Actively seek for senior level endorsement of, and **adherence to ESG guidelines of financed businesses**, establishing formal commitments through appropriate ESG policies and practices, targets, budgets and timetables for implementation.
- Set in place **appropriate indicators** and realize the follow-up of ESG measures throughout the investment process.
- Promote and work towards the implementation of relevant international best practice standards, particularly **FSC and PEFC**.

To ensure the implementation of ESG tools throughout the investment process, clear budget lines will be set up for: ¹⁴⁷

- A person responsible for Environmental and Social Due Diligence and the implementation and monitoring of ESG guidelines on **project level**.
- The formulation of an Environmental and Social Action Plan (ESAP) on project level.
- Ongoing and continuous **monitoring and reporting** on ESG matters.

The funds ESG guidelines are based on:¹⁴⁸

- The **International Finance Corporation (IFC) Policy and Performance Standards on Social and Environmental Sustainability**,
- the related **Environmental, Health and Safety Guidelines** (EHS Guidelines) and
- the **European Investment Bank's Environmental and Social Standards** and
- the **United Nations Principles for Responsible Investment (PRI)**.¹⁴⁹

ESG Requirements at the level of the portfolio projects

¹⁴⁶ Ibid.

¹⁴⁷ Ibid.

¹⁴⁸ Ibid.

¹⁴⁹ Ibid.

At individual investment level, the Fund will require its portfolio companies to establish an **Environmental and Social Management System**. This System must include at least the following four components: ¹⁵⁰

1. Environmental and Social Policy
2. Environmental and Social Risk and Impact Assessment process
3. Forest Management Plan
4. Monitoring and Assessment System.

According to the project proposal, the Fund Manager will also ensure that the **Portfolio projects** operate in accordance with all applicable EU and national laws and, in particular with respect to EU directives, like, e.g. Directive 2009/147/EC (Birds) and Directive 92/43/EEC (Habitats). ¹⁵¹

Key performance indicators for impact measurement and reporting requirements

The Fund will adopt a set of **environmental and social key performance indicators** in order to assess its portfolio companies, and it will undertake appropriate follow-up and monitoring of the ESG performance of companies throughout the investment process. In addition, **all companies are required to seek Forest Stewardship Council certification**. ¹⁵²

Key performance indicators will include **area under productive management, employment generation, net carbon sequestration, timber outputs, and status of acquisition or implementation of Forest Stewardship Council certification**.

The Fund will also carefully **analyse each new green field project** and its **consequences** on the **financial model** of the Fund during the investment period and **report every six months** until three years after the plantation establishment. In addition, to a clear land-ownership, a social and environmental baseline assessment has to accompany every due diligence process.

Environmental assessment¹⁵³

Even if Environmental and social impact assessment is not necessary for management of **existing plantation forestry assets, assessment is likely to be required for establishment of new plantations** where they entail land use change.

¹⁵⁰ Ibid.

¹⁵¹ Ibid.

¹⁵² Ibid.

¹⁵³ Ibid.

According to the project description, **concessions over natural forests are excluded from the scope of the Fund.**

The Fund will support sustainable forestry in several countries where levels of deforestation and forest degradation remain high, and it offers important environmental and climate action benefits, including **improved greenhouse gas sequestration**, soil protection and strengthening of supply of a range of raw materials. It is estimated that full implementation of the Fund will lead to the sequestration of approximately 65 m tCO₂.

With regard to **biodiversity**, the Policy states that the **mitigation hierarchy is applied**, and that a precautionary approach is taken to the conservation, management and sustainable use of living natural resources. In line with the EIB's aim to achieve no net loss of biodiversity, it is stated that the Fund's investments will **seek to safeguard and where feasible, enhance habitats and the biodiversity they support.**

In line with the EIB's Environmental and Social Standards, the Fund will not invest in companies which pursue commercial management or purchase of logging equipment for use in tropical natural forest and/or high conservation value forests, nor any other activities that may lead to clear cutting and/or degradation of such forests.

Where tropical timber exporting countries are concerned, the Fund seeks to **invest only in those countries which are positively engaged with the EU's Forest Law Enforcement, Governance and Trade (FLEGT) process.** The Guidelines commit the Fund to invest only in countries where a Voluntary Partnership Agreement (VPA) has been signed.

At the point of **divestment, the Fund will carry out a reputation check on the potential buyer.** Exit may not proceed if the potential buyer is involved with activities on the Fund's excluded investment list. The ESG Guidelines state that the Fund will endeavour to the extent possible to select investors that ensure continuity of high ESG standards.

Assessment of Carbon sequestration potential

Carbon sequestration is considered a Key Performance Indicator for the Fund. According to the project documentation, the carbon sequestration potential of the Fund's investments was calculated for the total project area (i.e. not prorated for Arbaro's investment share) and full project duration (complete production cycle and not the holding period). The estimates take into account a without-project baseline, corresponding to the biomass in the scenario that would occur in the absence of the project. The biomass present at the starting point of the project is estimated and changes over project duration are estimated according to the most plausible scenario.

Leakage refers to emissions that occur due to a shift of activities (mainly agriculture and livestock) from the inside to the outside of a project area as a result of project implementation. In the Fund model it is estimated as a % of the net CO₂ sequestration.

For the five most mature projects in the deal flow pipeline the sequestration is estimated to amount to 24,5 m tCO₂ eq. When fully invested (200 m USD) the projects supported

by the Fund will be expected to generate a carbon sequestration total of approximately 64,7 m tCO₂ eq. ¹⁵⁴

Social Assessment

The Fund's "**Environmental and Social Governance Policy**" states that the fund aims to identify all relevant stakeholders, respect local communities and indigenous peoples' legal and customary rights over resources, as well as culturally and socially vulnerable sites; and engage in participatory, fair and transparent decision-making processes. The ESG Policy also states that the Fund will exclude companies whose activities involve **non-resolvable land use conflicts** with local communities and/or result in **involuntary resettlement of local communities**. ¹⁵⁵

5.3 Equity based vehicles: Direct investments into equity stakes

Direct investments typically play a major role in sustainable forestry investments. The investor **buys shares of a forest management company** or a certain forestry project. He can do that either directly or through a **Timber Investment Management Organization (TIMO)**, which is a private equity investment vehicle to buy, manage, or sell forests and/or timber on behalf of institutional investors. ¹⁵⁶

For large institutional investors that do not need risk hedging within a single investment, TIMOs are the most cost effective forestry investment option. Direct Equity investments are the most basic and direct investment possible, with both the best economic performance chances and the highest risks. Therefore, before investing, the investor should conduct an in-depth due diligence of the project and its management.

Well-known examples for this type of forestry investment are the companies **Precious Woods** and **Green Resources** (See case study below).¹⁵⁷

5.3.1 Case study: Green Resources

Green Resources is **Africa's largest forestation company** and a leader in East African wood manufacturing.¹⁵⁸ The company has 41.000 ha of standing forest in Mozambique,

¹⁵⁴ Ibid.

¹⁵⁵ Ibid.

¹⁵⁶ Jahn, Grulke, Renner et. al. (2013): Mobilizing Private Financing for Biodiversity.

¹⁵⁷ Ibid.

¹⁵⁸ <http://www.greenresources.no/>

Tanzania and Uganda, established through its own planting activities. It operates East Africa’s largest sawmill in Tanzania as well as electricity pole and charcoal plants in Mozambique, Tanzania and Uganda, and is also one of the first companies globally to receive carbon revenue from its plantation forests.¹⁵⁹ It employs 2.500 people in addition to engaging numerous contractors and suppliers.



Figure 40: Projected plantation location of the Arbaro Fund

Source: Arbaro Partners

Green Resources was established in 1995 and is a private Norwegian company with 105 shareholders. It still has a core of Norwegian private, industrial and institutional investors.¹⁶⁰ The companies currently making up Green Resources have invested close to **USD 300m** of equity in its African operations.¹⁶¹

Green Resources holds land with the aim to establish **close to 130.000 ha of additional plantations** with an aim to serve the growing regional and global demand for wood products. **Probably, the company has thereby planted more new forest than any other organization in Africa since 2000.**

Green Resources holds land with the plan to establish close to 130.000 ha of additional plantations.

Green Resources aims to “follow the highest international environmental standards by conserving natural forest and other valuable habitats”.¹⁶²

159 Ibid.

160 Ibid.

161 Ibid.

162 Ibid.

The company has **more than three-quarters of its planted forests certified according to the Forest Stewardship Council™ (FSC™) standard**, a leading standard for responsible forest management and **is aiming for 100% certification**. The currently certified areas include:

- Niassa Green resources (NGR) 5,709ha licence number FSC-C107952,
- Green Resources Limited (GRL) 30,041ha with licence number FSC-C015169 and
- Busoga Forest Company (BFC) 9,134ha with licence number FSC-C106074.

Green Resources thereby owns **more than two-thirds of the FSC™-certified plantation forest in Africa** outside the Republic of South Africa (RSA) and Swaziland.

As part of its sustainability policy, the company **only harvests plantation forest which it only plants on low value grassland or degraded forestland** and is currently planting at least ten new trees for every one tree that it harvests. In the area of **carbon finance** the company implemented **four validated reforestation projects**.¹⁶³

Green Resources states that its strategy is based on the assumption that forestation is one of the most efficient ways of **improving social and economic conditions for people in rural areas**. It aims to be the preferred partner for local communities in the areas it operates in and the favoured African employer within its industry.

The following table summarizes the available information on Green Resources.

¹⁶³ Ibid.

Table 3: Overview of Green Resources

Management	
Legal structure	Green Resources AS is a Limited Company established on 26 August, 1995 and was registered on 23 November, 1995 in Norway
Objectives and business model	Since 2002, investors invest in the limited company that is managing natural forest management and reforestation under FSC certification
Website	http://www.greenreources.no/
Geographic coverage	The company owns 41.000 ha of standing forest in Mozambique, Tanzania and Uganda, established through its own planting activities.
Size	
Target size	n.a.
First closure / Capital raised	The Company has issued over 83 Million freely transferable shares of NOK 5 face value each, all of which are fully paid and issued according to Norwegian law. The shares are registered under VPS, the Norwegian electronic share register, under the International Securities Identification Number (ISIN) NO 000 3100208. In addition, there are 369.244 shares under issue which are not yet registered under VPS. Value of issued shares: 83.822.248* NOK 5 = NOK 419.111.240 and EUR 46.682.000 EUR) (As of 11/2016)
Capital invested	Capital invested into plantations: >USD 100m by end of 2010 (22.000 ha) and 536.000 ha under acquisition process
Investors and profitability	
Public	In 2010, a grant of 5 million by EU and NCF, NORAD and other organizations was approved. Today, GR's lenders include major development banks, including Finnfund, FMO, IFC and Norfund.
Private	Yes. There 105 private and public shareholders – private and public. Green Resources was started by private Norwegian investors and still has a core of Norwegian private, industrial and institutional investors. It has the widest private institutional ownership among African forestry companies (ex RSA). Three former Chairmen of CEPI, the European paper producers association are among the shareholders.
Minimum Investment	n.a.
Targeted IRR / realized results	11 % in 2010 (8.06 % between 2006 and 2010)
First loss modalities	n.a.
Socio-economic and environmental	
Socio-economic Impact	Employment generation in rural areas, FSC certification along the entire value chain and CCBA certification. Green resources aims to be the preferred partner for local communities in the areas it operates in and the favored African employer within its industry.

	
Table 3: Overview of Green Resources	
Environmental Impact	Plantation are certified to the FSC and CCBA

Source: Author on the basis of information from: <http://www.greenresources.no>

5.4 Blended vehicles: Blended fund models

Blended fund models “blend” **philanthropic and commercial investment** capital (hence the term “blended financing”) in order to leverage private financing for projects which – due to an unfavorable risk return ratio – could otherwise not be funded.

Such blended fund models **play an increasingly important role** in the financing of biodiversity. They are structured in a way to allow investments at different tranches, each tranche offering a unique risk/return profile. This mechanism is typically referred to as the **waterfall principle**, i.e. an established sequence of dividends being paid as displayed in the figure hereafter. (See example of the eco.business Fund below).¹⁶⁴

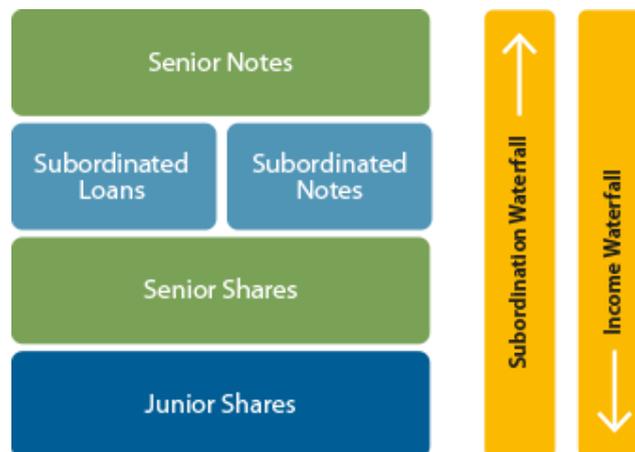


Figure 41: Ranking of different share classes in the subordination waterfall

Source: *eco.business Fund*

The **investors in the highest ranking tranche (senior notes) are the first to have their claims for payment of capital and interest satisfied**. All subordinate securities are then

¹⁶⁴ Source: <http://ecobusiness.fund/>

dealt with progressively. The payment flow resembles a waterfall in the sense that the incoming payments are distributed to the investors in descending order.¹⁶⁵

Conversely, **losses** are debited in ascending order. They are debited to the lowest ranking tranche until it is used up. Junior Shares provide the **first loss-cushion for all other tranches**, taking the first hit on any losses. **Only if they are depleted will Senior Shares be exposed to further losses** (if any), followed by subordinated notes and loans. The **Senior Notes rank senior** to all tranches. A series of limits ensures a minimum level of protection for each tranche.¹⁶⁶

Depending on their position in the waterfall, investors receive an adequate rate of return: With the degree of subordination, the rate of return increases in line with the risk taken. Investors may thus chose between different risk/return combinations.¹⁶⁷

Blending is an instrument that has become increasingly popular among ODA institutions like the BMZ or the KfW. It is also used by the European Union for its external policy objectives.¹⁶⁸

Many of the private investment funds that invest into business models that contribute to the conservation of biodiversity through sustainable use today, (so called “**Biodiversity enterprise funds**”¹⁶⁹) **make use of the blended financing concepts** described above.

By integrating some sort of philanthropic capital they reduce the pressure on the funds' financial performance, thereby leveraging private financing sources. Environmental NGOs and development finance institutions play an important role in incubating and capitalizing most of these investment vehicles.

¹⁶⁵ Ibid.

¹⁶⁶ Ibid.

¹⁶⁷ Ibid.

¹⁶⁸ The EU aims to leverage its grants for investments in EU partner countries with loans or equity from public and private financiers by offering to reduce the co-investors' exposure to risk. On a case-by-case basis, the EU contribution can take different forms to support investment projects:

- Investment grant & interest rate subsidy - reducing the initial investment and overall project cost for the investor
- Technical assistance - ensuring the quality, efficiency and sustainability of the project
- Risk capital (i.e. equity & quasi-equity) - attracting additional financing
- Guarantees - reducing risk for the investor.

(See: European Commission (2016). Portrait of Innovative Financial Instruments (blending). http://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending_en)

¹⁶⁹ Biodiversity Enterprise Funds (BEFs) are highly flexible investment funds that provide long-term capital and often also technical advice to businesses that contribute to healthy ecosystems and human well-being. Conservation Finance Alliance (2003). Conservation Finance Guide.

In recent years, **the universe of Biodiversity focused investment funds has grown considerably – both in terms of funds that are present on the market as well as regarding the investment volume that these funds were able to raise.**

In recent years, the universe of Biodiversity focused investment funds has grown considerably – both in terms of funds that are present on the market as well as regarding the investment volume that these funds were able to raise.

The few existing impact focused biodiversity enterprise funds that exist today **invest in a fairly broad range of business models, covering different sectors and stages of development and legal structures** (see table below). This allows the fund manager to choose from a greater number of investment opportunities within a fairly limited overall project cosmos.

The most important funds include **the Eco.business Fund, Verde Ventures, the EcoEnterprise Fund, the Ecoenterprise Biodiversity Fund, the Conservation Enterprise Development Fund, the ERM Low Carbon Enterprise Fund, the Natural Capital Investment Fund and the Giving Fund.**¹⁷⁰ They are portrayed in the case studies below.

Other examples of blended funds include **the Global Climate Partnership Fund**¹⁷¹ or the **Agriculture and Trade Investment Fund (AATIF).**

5.4.1 Case Study: The Eco.business Fund

One example of a blended financing concept that is cofinanced by ODA institutions is the **Eco.business Fund**. It was initiated by the BMZ and the KfW and was launched in December 2014.



Figure 42: Logo of the eco.business Fund

Source: eco.business Fund

¹⁷⁰ Other important examples of Biodiversity Investment funds include the Terra Capital Biodiversity Enterprise Fund, the Global Climate Partnership Fund as well as “Blue Ventures”.

¹⁷¹Global Climate Partnership Fund (2016). Retrieved from: <http://www.gcpf.lu>
<http://gcpf.lu/home.html>

The fund's aim is to promote **business practices that contribute to biodiversity conservation and the sustainable use of natural resources through the provision of dedicated financing and technical assistance.**

The fund offers private investors the opportunity to **support biodiversity and the sustainable use of natural resources in Latin America.** It will **supply funding** to financial institutions and direct financing to certified sustainable businesses, **combined with technical assistance** for product development, environmental and social risk management, and awareness-raising.

The concept of the fund was developed by the **KfW in cooperation with the NGO "Conservation International" and the company "Finance in Motion"**. Finance in Motion was commissioned as the Fund Manager.

On 21 November 2016 the Dutch development bank FMO announced its commitment of USD 25 million to the fund. This represents one of the largest investments into the fund to date and underlines FMO'S increasing focus on biodiversity.

Following the agreement, total investor commitments to the Eco.business Fund reached **USD 80 million**. Six investments were approved so far. The fund has an outstanding investment portfolio of 35 million.¹⁷²

In alignment with the Fund's mission and the characteristics of its target region, investment activities are focused on the **following sectors** (Also see figure below):

- Sustainable agriculture and agri-processing;
- Sustainable Forestry;
- Sustainable Fishery and aquaculture;
- Sustainable Tourism.

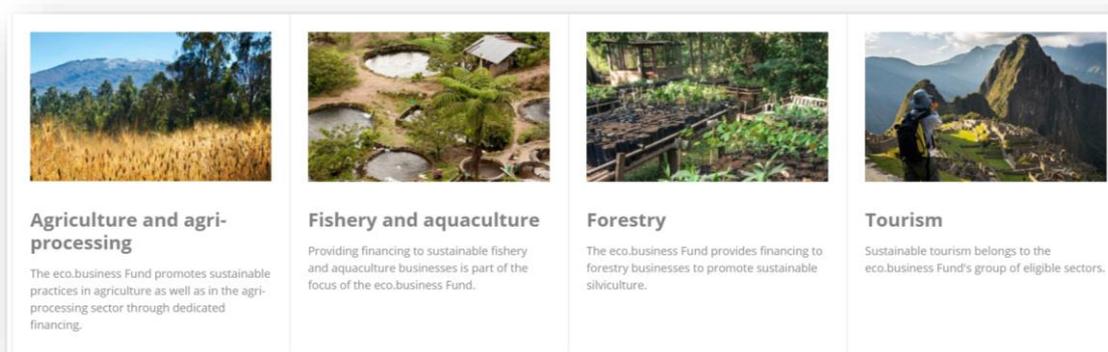


Figure 43: Sector coverage of the eco.business Fund

Source: *eco.business Fund*

¹⁷² Eco.business Fund (2016a). Eco.business Fund at a Glance, <http://www.ecobusiness.fund>.

The Fund channels dedicated financing to local producers, primarily **via selected local financial institutions** that operate according to the principles of responsible finance. In limited cases (max. 15% of the total portfolio) the Fund **will provide direct financing** for high-impact businesses and projects. Investment activities **may be complemented by the provision of Technical Assistance** both to the local financial institutions and to their clients.¹⁷³

Initial geographical focus will be on **Latin America and the Caribbean**, two of the mega-diverse regions of the world. In addition, the supported projects must be located in **countries that are eligible for official development assistance (ODA)**.



Figure 44: Geographical focus of the eco.business Fund

Source: eco.business Fund

Eligible Partners for funding and / or technical assistance are financial institutions (FIs) and non-financial institutions (Non-FIs).

Financial institutions include institutions like commercial banks, microfinance institutions (regulated/supervised as well as non-regulated/non-supervised) and other non-bank financial institutions including investment companies, leasing companies, or holding companies committed to reaching the target group.¹⁷⁴

¹⁷³ Ibid.

¹⁷⁴ Ibid.

Non-Financial institutions (Non-FIs) include businesses and projects, including producer associations and cooperatives that significantly contribute to the Fund’s mission.¹⁷⁵



Figure 45: Business model of the eco.business Fund

Source: *eco.business Fund*

Financial Instruments offered by the fund include:¹⁷⁶

- **For FIs:** Mostly senior loans and subordinated debt. In addition, promissory notes, time deposits, certificates of deposits, subscription to bonds issues, term enhancement instruments (e.g. stand-by facilities), co-investments, stand-by letters of credit and guarantees.
- **For Non-FIs:** Senior loans, subordinated debt (including mezzanine and quasi equity instruments), promissory notes, subscriptions to bond issues, co-investments and guarantees.

Investments are offered on commercial terms, with maturities of up to 10 years and denominated in USD and selected local currencies.

¹⁷⁵ Ibid.

¹⁷⁶ Ibid.

Individual loans from local financial institutions to final borrowers refinanced by the Fund **need to fulfil at least one of the following conditions:**¹⁷⁷

- The final borrower holds a **certification for organic, ecological or bio-production**, e.g. Rainforest Alliance – Agriculture, Marine Stewardship Council (MSC), Forest Stewardship Council (FSC), UTZ Certified.
- The business activity financed by the loan is covered by the Fund’s **positive list of standardized eligible measures** with a **direct positive impact on biodiversity** or an **indirect impact via reduced pollution, soil deterioration, water use**, etc.

However, the Fund will also finance additional **innovative measures** developed by partner institutions that contribute towards achieving its mission.¹⁷⁸



Figure 46: Examples of certifications that final borrowers need to hold

Source: eco.business Fund

Partner institutions must submit **regular reports** on financial standing and activities as well as the use of funds.

Technical assistance provided by the Fund’s **Development Facility** to enhance the impact of investment activities may include support in the following areas:

- Product development
- Capacity building
- Awareness campaigns.

177 Ibid.

178 Ibid.

The fund is domiciled in Luxembourg, structured as a Specialized Investment Fund (SIF) with the legal form of a “Société d’investissement à capital variable” (SICAV) - in short “SICAV-SIF”.¹⁷⁹ SICAV-SIF under Luxembourg law is a proven vehicle for development finance funds such as the European Fund for South East Europe¹⁸⁰, the Green for Growth Fund¹⁸¹ as well as the SANAD Fund for micro, small and medium enterprises in the Middle East and North Africa (MENA).¹⁸²

The **term of the fund is open ended.**

The **Board of Directors** appointed by the shareholders is the main decision-making body. Approval of **investment proposals submitted by the Advisor** is delegated to an Investment Committee appointed by the Board.

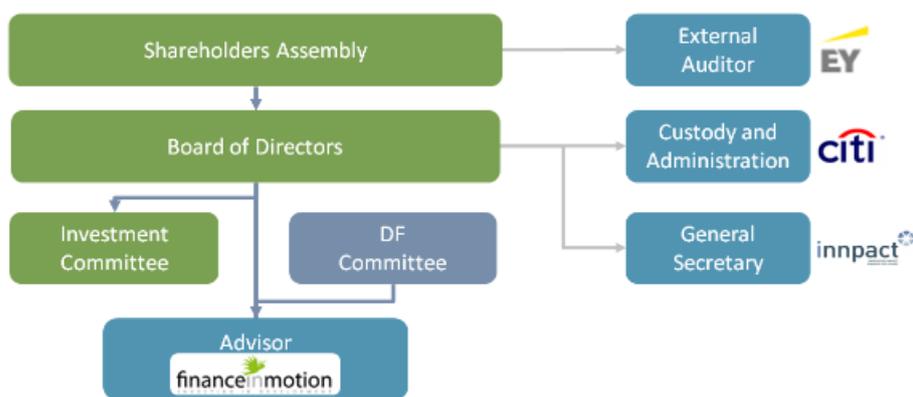


Figure 47: Corporate Governance of the eco.business Fund

Source: *eco.business Fund*

The eco.business Fund is **structured as a public-private partnership (PPP)**, offering **different capital tranches adapted to each investor profile.**

¹⁷⁹ The specialized investment fund was introduced by the Luxembourg Law of 13 February 2007 (SIF Law). The SIF regime was amended by the Law of 12 July 2013 on alternative investment fund managers (AIFM Law). As a result, the SIF Law is now divided into two parts: (i) general provisions applicable to all SIFs, and (ii) specific provisions applicable to SIFs which qualify as Alternative Investment Funds (AIFs) and which are required to be managed by an authorized Alternative Investment Fund Manager (AIFM). Due to the broad definition of SIF AIFs, most SIFs qualify as SIF AIFs. For the SIF law see: http://www.cssf.lu/fileadmin/files/Lois_reglements/Legislation/Lois/L_130207_SIF_upd_230716.pdf

¹⁸⁰ See: <https://www.efse.lu/>

¹⁸¹ See: <http://www.ggf.lu/about-green-for-growth-fund/>

¹⁸² See: <https://www.sanad.lu/about-sanad>

The Fund will issue the following types of **debt and share classes** (by ranking):

1. **Senior Notes**¹⁸³ (available to private investors, including institutional investors, NGOs, foundations, well-informed individuals)
2. Loans (IFIs/DFIs)
3. Senior Shares (private investors, IFIs/DFIs) ¹⁸⁴
4. Junior Shares (donors)

Public investors, donors and development finance institutions invest in **Junior Shares, Senior Shares and Subordinated Debt**. These contributions are **leveraged by private investors entering Senior Notes** and pursuing a dual return (financial and developmental).

Subordination waterfall:

Junior Shares provide the **first loss-cushion for all other tranches**, taking the first hit on any losses. **Only if they are depleted will Senior Shares be exposed to further losses** (if any), followed by subordinated notes and loans. The **Senior Notes rank senior** to all tranches. A series of limits ensures a minimum level of protection for each tranche.

The fund's main characteristics are summarized in the table below. A video portrayal of the fund can be watched on youtube – see link in the figure below.

A video portrait of the fund can be watched on <https://youtu.be/8lkWbsCVyo8>

¹⁸³ Senior notes are debt securities, or bonds, that take precedence over other unsecured notes in the event of bankruptcy. Senior notes must be paid first if assets are available in the event of a company liquidation. A senior note pays a lower coupon rate of interest compared to junior unsecured bonds, since the senior debt has a higher level of security and a reduced risk of default. (See: <http://www.investopedia.com/terms/s/seniornote.asp#ixzz4eyZNf4I5>).

¹⁸⁴ Shares are units of ownership interest in a corporation or financial asset that provide for an equal distribution in any profits, if any are declared, in the form of dividends. (<http://www.investopedia.com/terms/s/shares.asp#ixzz4eylwBGLO>).



Figure 48: Video Portrait of the eco.business Fund

Source: *eco.business Fund*

	
Table 4: Overview of the eco.business Fund	
Website	http://www.ecobusiness.fund/
Management	Finance in Motion (FIM)
Objectives and business model	<p>The fund's aim is to promote business practices that contribute to biodiversity conservation and the sustainable use of natural resources through the provision of dedicated financing and technical assistance.</p> <p>The Fund channels dedicated financing to local producers, primarily via selected local financial institutions that operate according to the principles of responsible finance. In limited cases (max. 15% of the total portfolio) the Fund will provide direct financing for high-impact businesses and projects. Investment activities may be complemented by the provision of Technical Assistance both to the local financial institutions and to their clients.</p>
Eligible partners for funding	<p>Eligible Partners for funding and / or technical assistance are financial institutions (FIs) and non-financial institutions (Non-FIs). Financial institutions include institutions like Commercial banks, regulated/supervised and non-regulated/non-supervised micro-finance institutions and other non-bank financial institutions including investment companies, leasing companies, or holding companies committed to reaching the target group.</p> <p>Non-Financial institutions (Non-FIs) include businesses and projects, including producer associations and cooperatives that significantly contribute to the Fund's mission through its investment</p>

Table 4: Overview of the eco.business Fund

Financial Instruments offered by the fund	<p>Financial Instruments offered by the fund include:</p> <ul style="list-style-type: none"> • For FIs: Mostly senior loans and subordinated debt. In addition, promissory notes, time deposits, certificates of deposits, subscription to bonds issues, term enhancement instruments (e.g. stand-by facilities), co-investments, stand-by letters of credit and guarantees. • For Non-FIs: Senior loans, subordinated debt (including mezzanine and quasi equity instruments), promissory notes and subscriptions to bond issues, co-investments and guarantees. <p>Investments are offered on commercial terms, with maturities of up to 10 years and denominated in USD and selected local currencies.</p>
Geographic coverage	<p>Initial focus will be on Latin America and the Caribbean. In all cases: Countries that are eligible for official development assistance (ODA).</p>
Sectoral coverage	<p>In alignment with the Fund’s mission and the characteristics of its target region, investment activities are focused on sustainable</p> <ul style="list-style-type: none"> • Agriculture and agri-processing • Forestry • Fishery and aquaculture • Tourism
Requirements that the supported projects and business activities must fulfil	<p>Individual loans from local financial institutions to final borrowers refinanced by the Fund need to fulfil at least one of the following conditions:</p> <ul style="list-style-type: none"> • The final borrower holds a certification for organic, ecological or bio-production, e.g. Rainforest Alliance – Agriculture, Marine Stewardship Council (MSC), Forest Stewardship Council (FSC), UTZ Certified. • The business activity financed by the loan is covered by the Fund’s positive list of standardized eligible measures with a direct positive impact on biodiversity or an indirect impact via reduced pollution, soil deterioration, water use, etc. • The Fund will also finance innovative measures developed by partner institutions that contribute towards achieving its mission. <p>Partner institutions must submit regular reports on financial standing and activities as well as the use of funds.</p>
Technical Assistance provided by the fund	<p>Technical assistance provided by the Fund’s Development Facility to enhance the impact of investment activities may include support in the following areas:</p> <ul style="list-style-type: none"> • Product development • Capacity building • Awareness campaigns
Legal Structure	SICAV-SIF

Table 4: Overview of the eco.business Fund

Domicile	Luxemburg
Contact	Finance in Motion (Advisor), Sylvia Wisniwski, www.ecobusiness.fund
Size	
Target size	
Capitalization	Total investor commitments achieved so far amount to USD 80 million (as of November 2016)
Capital invested	19,9m
Investors and profitability	
Fund structure	The Fund's PPP (public-private partnership) structure combines donors, multilateral organizations, development finance institutions, NGOs, foundations, and private investors and it replicates the structure of other funds advised and/or managed by Finance in Motion.
Public	KfW, EIB, FMO 
Private	
Minimum Investment	
Targeted IRR	
First loss modalities	Yes (Waterfall principle) – Junior Shares are financed by donors
Capital Tranches	The Fund will issue the following types of debt and share classes (by ranking): <ol style="list-style-type: none"> 1. Senior Notes (private investors, including institutional investors, NGOs, foundations, well-informed individuals) 2. Loans (IFIs/DFIs) 3. Senior Shares (private investors, IFIs/DFIs) 4. Junior Shares (donors)
Time frame	
First closure	2014
Fully invested volume	
Fund duration	Open end
Socio-economic and environmental impact	
Socio-economic Impact	
Environmental Impact	

Table 4: Overview of the eco.business Fund

	<p>Projects are only selected if the final borrower holds a certification for organic, ecological or bio-production, e.g. Rainforest Alliance – Agriculture, Marine Stewardship Council (MSC), Forest Stewardship Council (FSC), UTZ Certified or if the business activity financed by the loan can prove a direct positive impact on biodiversity or an indirect impact via reduced pollution, soil deterioration, water use, etc.</p>
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Source: Author on the basis of information from: www.ecobusiness.fund

5.4.2 Case study: Verde Ventures

Verde Ventures (VV) is part of Conservation International's Ecosystem Finance & Markets Division, which aims to "catalyse effective conservation at a global scale by enabling nongovernmental organizations and private sector partners to engage in and benefit from biodiversity conservation."¹⁸⁵



Figure 49: Logo Conservation International

Source: Conservation International

Verde Ventures **invests in small- and medium-sized businesses that are strategically placed to contribute to conserving Earth's biologically richest and most threatened areas.**

As of the end of 2013 Verde Ventures' support enabled its partners to help protect and restore more than 515.353 ha of important lands. Verde Ventures business partners also employ more than 59.000 local people in 13 countries.¹⁸⁶

Strategy

Within the complex layers of the global and local business communities, it has become clear that **small and medium enterprises** play a vital role in conserving biological diversity and creating jobs that preserve natural resources for future generations. Often too large for Microfinance, these enterprises are too small for commercial credit. Verde Ventures serves this "**Missing Middle**".

The fund's investments aim to enable these partners to advance the important role of small business in conservation and employ local people in jobs that give them and their communities a personal stake in safeguarding their local natural resources.¹⁸⁷

Verde Ventures provides **debt and equity financing of USD 30.000 – USD 500.000** to businesses that benefit conservation and human well-being, such as **agroforestry, alter-**

¹⁸⁵ Nature Conservancy. 2016. Verde Ventures. <http://www.conservation.org/projects/Pages/Verde-Ventures.aspx>http://www.conservation.org/publications/Documents/VV_Overview_English.pdf

¹⁸⁶ Ibid.

¹⁸⁷ Ibid.

native energy, ecotourism, sustainable harvest of wild products, and sustainable fisheries, with a particular focus on supporting the development of “healthy, sustainable economies.”

Partners use the funds for business development needs, such as **working capital, infrastructure enhancements, reforestation activities and land purchases.**

Guiding principles

Underlying its activities is the following set of **guiding principles**:¹⁸⁸

- Conservation-based employment is essential to **provide economic incentives for conservation.**
- The **small business sector is a key partner** in the intersection between human welfare and conservation.
- **Available and affordable capital ensures the viability of the sector.**



Figure 50: Treehouse at the Playa Viva Eco lodge in Mexico, one of Verde Ventures’ portfolio companies

¹⁸⁸ Ibid.

Source: Playaviva

Investment strategy

The Verde Ventures **investment strategy** includes:

- Thorough due diligence and oversight.
- Use of **Conservation International’s local networks** in more than 40 countries.
- Investing in **partnership with other lenders**.
- Investing in companies with **solid business plans**.
- **Repayment terms of not more than five years**.
- Supporting **Enterprise Business Development Services**.

Verde Ventures is increasingly utilizing a “blended” capital approach of **small grants for capacity building and monitoring** alongside the loan facility to maximize conservation and human well-being impacts.¹⁸⁹

Results

The more than **515.353 hectares of lands protected** and restored with Verde Ventures support provides **critical habitat for 4.823 globally threatened species** (IUCN Red-Listed Species). This equation increases dramatically when the impact on adjacent biologically diverse lands is factored in (Indirect Hectares Impacted: 11.790.815). The fund’s support positively impacts more than **243.787 rural beneficiaries** via the more than **48 partners** it supported.¹⁹⁰

Highlights of results to date include:¹⁹¹

- **Conservation of leatherback turtle nesting sites on Mexico’s Pacific coast** and improving the number of needed conservation based employment opportunities through the financing of an expansion and working capital requirements at the **Playa Viva Eco lodge in Mexico**¹⁹²
- VV is providing **harvest finance to a range of coffee cooperatives** working with CI to provide access to markets for many small-holders in and around the **Alto Mayo conservation area in Peru**. Working in tandem with CI’s Conservation Stewards Program and the Carbon Fund, CI supported SME’s are able to draw upon a range of services – from organic practices to finance and market access – in exchange for **preventing further deforestation around this critical ecosystem**.

¹⁸⁹ Ibid.

¹⁹⁰ Ibid.

¹⁹¹ Ibid.

¹⁹² Playa Viva. (2016). Portrait of the Tourism Resort. Retrieved from: www.playaviva.com

- **Rainforest buffer zone conservation** around Mexico's **El Triunfo Biosphere Reserve** through a series of **financing rounds to sustainable coffee estates** to support working capital requirements.
- Verde Ventures investment of **USD 23,4 million as of December 2013** has enabled its business partners to **generate sales of more than USD 196 million**.



Figure 51: Turtles at the Playa Viva Eco lodge in Mexico - that is co-financed by Verde Ventures

Source: Playa Viva (2016)

Certification standards used to measure the impact

Verde Ventures has taken a leadership role in demonstrating and standardizing impact assessment, by adapting standards such as the **Impact Reporting and Investment Standards (IRIS)**, a common reporting language developed by the Global Impact Investing Network (GIIN).

Partners

Verde Ventures is **supported by** the International Finance Corporation, the Overseas Private Investment Corporation, l'Agence Française de Développement, le Fonds Français pour l'Environnement Mondial, Starbucks Coffee Company and the Gordon and Betty Moore Foundation.

Table 5: Overview of the Verde Ventures Fund	
Website	http://www.conservation.org/projects/Pages/Verde-Ventures.aspx
Management	Fund Manager (Neel Inamdar)
Launch	VV was launched in 1998.
Objectives and business model	<p>Verde Ventures is an investment fund which provides debt and equity financing to small- and medium-sized businesses that contribute healthy ecosystems and human well-being, including agroforestry, ecotourism, sustainable harvest of wild products and marine initiatives.</p> <p>The supported businesses employ local people in jobs that give them and their communities a personal and economic stake in safeguarding their local natural resources.</p> <p>Verde Ventures is based on the following underlying principles:</p> <ul style="list-style-type: none"> • Conservation-based employment is essential to provide economic incentives for conservation. • The small business sector is a key partner in the intersection between human well-being and conservation. • Available and affordable capital ensures the viability of the sector and enables these partners to participate in and benefit from sustainable conservation efforts. • Positive changes in the triple-bottom line results of enterprises will build lasting business that will deliver long-term conservation and economic benefits.
Partner NGO	Conservation International
Contact	verdeventures@conservation.org
Eligible partners for funding	SME with total business assets less than USD 5 million during the investment period
Financial Instruments offered by the fund	<p>Verde Ventures offers a variety of debt instruments of USD 30.000- USD 500.000, including</p> <ul style="list-style-type: none"> • Loans for infrastructure investments and improvements • Revolving lines of credit to finance the purchase of raw materials and harvest working capital • Flexible terms from six months to five years
Geographic coverage	<p>Worldwide. The enterprise must operate in one of CI's priority areas: biodiversity hotspots, high-biodiversity wilderness areas and key marine regions.</p> <p>Verde Ventures gives preference to projects in countries/regions which have:</p> <ul style="list-style-type: none"> • An existing CI office or strong partner presence • An established CI "conservation corridor" and baseline biodiversity data for success measurement

Table 5: Overview of the Verde Ventures Fund

	<ul style="list-style-type: none"> • Established legal frameworks which provide investors with legal protection in the event of default • Relatively stable governments and economies predicted during the investment period
Sectoral coverage	Agroforestry, ecotourism, sustainable harvest of wild products, agriculture and fisheries, alternative energy
Requirements that the supported projects and business activities must fulfil	<p>Once geographic eligibility has been established, projects must fulfill the following basic criteria:</p> <ul style="list-style-type: none"> • Make a direct contribution to VV's priorities • Have a strong management team • Demonstrate commitment to and participation of a local community • Demonstrate sufficient cash flow or growth potential to repay the investment within three to five years • Demonstrate capacity to repay the investment in US dollars, despite local currency fluctuations • Be able and committed to monitor and report changes in biodiversity during the life of the investment
Technical Assistance provided by the fund	<p>Yes, VV offers enterprise development services to eligible applicants. For this purpose it works closely with</p> <ul style="list-style-type: none"> • Rainforest Alliance • The SEED Initiative • Technoserve • World Resources Institute - New Ventures <p>Verde Ventures is increasingly utilizing a "blended" capital approach of small grants for capacity building and monitoring alongside the loan facility to maximize conservation and human well-being impacts.</p>
Legal Structure	
Domicile	2011 Crystal Drive, Suite 500, Arlington, VA 22202 USA
Size	
Target size	
Capitalization	
Capital invested	<p>Total Invested to Date: USD 23.415.704 Percent Invested of Available Funds: 77.8% Capital Currently Outstanding: USD 1.710.535 Principal Repaid to Investors: USD 7.716.227 Number of Entities Supported: 51 Number of Countries: 14 Number of Loans: 121 Repayment Rate: 92.5% (Summary Statistics (as of Dec. 31, 2013))</p>
Investors and profitability	

Table 5: Overview of the Verde Ventures Fund

Fund structure	
Public	<ol style="list-style-type: none"> 1. L'Agence Française de Développement (AFD) 2. Fonds Français pour l'Environnement Mondial (FFEM) 3. Global Environment Facility (GEF) 4. International Finance Corporation's Environmental Business Finance Program 5. Overseas Private Investment Corporation (OPIC) 
Private	Starbucks Coffee Company and the Gordon and Betty Moore Foundation. Plus In-Kind Support from the following Law-Firms: Barrera, Siqueiros y Torres Landa, S.C.; Morgan, Lewis & Bockius, Sidley Austin Brown & Wood LLP, White & Case LLP
Minimum Investment	
Targeted IRR	
First loss modalities	
Capital Tranches	
Time frame	
First closure	
Fully invested volume	
Fund duration	
Socio-economic and environmental	
Socio-economic Impact	<p>Triple bottom line results (as of Dec. 31, 2013)</p> <ul style="list-style-type: none"> • Verde Ventures business partners employ more than 59.000 local people in 14 countries. • Total Indirect Beneficiaries: 243.787 • Percentage of Female Direct Beneficiaries (of total): 21% • Financial Sales Generated by Businesses Supported: USD 196.541.129 • Leveraged Funding: USD 4.7 million • Verde Ventures support has also enabled its partners to help protect and restore more than 515.353 hectares of important lands (within project area). • Indirect Hectares Impacted: 11.790.815
Environmental Impact	

	
Table 5: Overview of the Verde Ventures Fund	
	<ul style="list-style-type: none"> IUCN Red-Listed Species Impacted: 483
Impact Measurement Standards and Certifications used	IRIS (Developed by GIIN)

Source: Author on the basis of information from: <http://www.conservation.org>



Figure 52: Swimming Turtle at the Playa Viva Eco lodge in Mexico which is co-financed by Verde Ventures

Source: Playa Viva

5.4.3 Case study: The EcoEnterprise Fund I & II

The **EcoEnterprise Fund** was set-up by the American NGO “**The Nature Conservancy**” to invest into biodiversity businesses and aimed at a positive financial performance, however, backed by investors who would be willing to accept a financial loss.



Figure 53: Logo of the EcoEnterprisesFund

Source: EcoEnterprisesFund

The Fund builds on a strong track record of two successful funds launched in 1990 and 2012 that have to date invested in 33 nature-based companies with operations in Latin America, offering flexible, otherwise unavailable growth capital, and value-added services.¹⁹³ In 2017 the third fund was launched – the “**EcoEnterprise Biodiversity Fund**”.

Main investors of the **first fund** were the **Inter-American Development Bank, The Nature Conservancy as well as selected private investors** (family offices, individuals), which made up some 10-20% of the overall fund volume.¹⁹⁴

The fund is financed by philanthropy and investment capital and supported enterprises who positively contribute to conservation and livelihood improvement. Like Verde Ventures, the **fund finances the “missing middle”** - companies who find it difficult to receive funding from microfinance institutions but are too small to be covered by institutional investors.¹⁹⁵

If fund management costs are neglected, the fund reached financial break-even. Most of the enterprises which the fund has financed can be described as for-profit social ventures. The focus on **early-stage SME-finance** resulted in a **highly diverse project portfolio**. According to the fund manager, the targeted balance of social, environmental and financial performance was achieved across the whole portfolio, not in each and every company financed.¹⁹⁶

¹⁹³ http://www.impactassets.org/ia50_new/fund.php?id=a01440000jQncqAAC

¹⁹⁴ Newmark, T.E. and Pena, M. (2012) and interview with Eugenia Villalobos Baldioceda.

¹⁹⁵ Jahn, Grulke, Renner et.al. (2013)

¹⁹⁶ Ibid.

An analysis of past investments of the EcoEnterprise fund¹⁹⁷ also showed that some of the **most successful investments of the fund were in areas that originally were not in its focus - such as organic aquaculture.**

Investing in early stage ventures in remote places leads to high operational, market and risks. Therefore, **the financial results of individual projects often remained below expectations.**¹⁹⁸

Moreover, even though the fund secured collateral¹⁹⁹ from its investee companies, **a total of 5 investments were not or only partially paid back. In 3 cases** the fund was forced to take **legal action against investee companies** to seek a payback of its initial investment.

For the next fund (EcoEnterprise Fund III) which the team is currently raising money for, the fund management team seeks to make **a smaller number of investments but with a larger deal size**, thereby making the monitoring of individual investments easier.

Investment Example²⁰⁰

In 2016, the Fund invested in KaBloom, an innovative technology company with the potential to fundamentally change the life of small flower growers across Latin America. Often the largest employer in rural areas, the flower industry has been slow to adopt socially and environmentally sound practices. As intermediaries currently capture most profits, growers tend to avoid further margin squeeze through costly certification, usually at the expense of their workers and the environment. **KaBloom's online marketplace** allows growers **to sell directly to global retailers** by automating complex export logistics and as a result to capture 30-40% higher margins. In return, suppliers are required to **re-invest part of these gains to implement best-in-class environmental and social practices and achieve relevant certification. KaBloom supports and co-finances certification processes** via a **dedicated Certification Fund**, ensuring that farms will be held to strictest standards, and benefits for thousands of farm workers, primarily women, are achieved.

5.4.4 Case Study: The EcoEnterprises Biodiversity Fund

¹⁹⁷ Ibid.

¹⁹⁸ Newmark, T.E. and Pena, M. (2012) and interview with Eugenia Villalobos Baldioceda in 2013.

¹⁹⁹ Collateral is a property or other asset that a borrower offers as a way for a lender to secure the loan. If the borrower stops making the promised loan payments, the lender can seize the collateral to recoup its losses (See: Collateral <http://www.investopedia.com/terms/c/collateral.asp#ixzz4gJ70NS6t>).

²⁰⁰ http://www.impactassets.org/ia50_new/fund.php?id=a01440000jQncqAAC

The EcoEnterprises Biodiversity fund (The EcoEnterprise Fund III), targeted to be an USD 80m investment fund, will offer tailored growth capital to compelling innovative business models whose success relies on:²⁰¹

- Creating long-term livelihoods by increasing productivity and facilitating resilience in rural communities, while encouraging sustainable use and conservation of natural resources;
- Preserving vulnerable ecosystems and biodiverse working landscapes, and
- Mitigating climate risks with special attention to fair economic benefits to local value chains.

The Fund will target biodiversity-focused companies with an initial capital requirement between USD 2 Million and USD 6 Million, established revenue streams, a market-valued product offering, and a proven business model. The Fund will help those companies scale, offering flexible growth capital tailored to their specific needs, using the following instruments: Mezzanine structures with quasi-equity upsides (royalty streams, warrants, convertible notes), equity and senior, subordinated and/or other tailored debt.²⁰²

The intended result of the project is to provide growth financing to up to 18 sustainable and biodiversity-focused companies by helping them to grow, consolidate their business, and scale their operations and impact results.

The businesses will be in countries in the region that have identified Access and Benefit Sharing (ABS) on genetic resources related to biodiversity as a national priority. The Project will help to preserve natural resources and to create the conditions necessary for sustainable and inclusive economic growth and prosperity.

The target sectors include:

- Sustainable agriculture (including apiculture, aquaculture and water),
- Agroforestry and wild-harvested products,
- Sustainable forestry,
- Ecotourism, and
- Emerging opportunities, such as those that monetize environmental benefits and/or utilize technology for impact, and/or capitalize on emerging demand for sustainable products.

²⁰¹ See: <http://www.fomin.org/en-us/Home/FOMINblog/Blogs/DetailsBlog/ArtMID/13858/ArticleID/12502.aspx>

²⁰² Ibid.

In December 2016, the Multilateral Investment Fund's Donors Committee approved an investment of an investment of USD 5 Million to EcoEnterprise Biodiversity Fund. Through this project, the MIF intends to support the Nagoya Protocol, a key element to the United Nations Convention on Biological Diversity.²⁰³

5.4.5 Case Study: The Conservation Enterprise Development Fund

The Conservation Enterprise Development Fund (Initiated by the Wildlife Conservation Society) ties its regional focus to its existing conservation activities. The fund aims to promote innovative and entrepreneurial solutions that blend biodiversity conservation and poverty alleviation.

It provides grants and affordable loans to mostly early stage, nature-based, and primarily community-run enterprises in the developing world.

The fund was launched in 2012 as a pilot. The portfolio of the fund therefore **covers all major continents**, but is it strictly **limited to selected conservation areas** with an estimated volume of invested capital of 10 and 25m USD within the next 10 years.

5.4.6 Case Study: The ERM Low Carbon Enterprise Fund

The ERM Low Carbon Enterprise Fund (LCEF) is targeted at Africa, Latin America and Asia. It was established by the company ERM in 2008 to provide financing (loans and equity) and pro-bono technical and management support for low carbon entrepreneurs in the developing world. There will be a co-investment by Stichting Doen für LCEF II.²⁰⁴ Total funds invested in low carbon ventures since 2008 amount to more than USD 1,9 million.

The fund intends to reduce dependency on kerosene, firewood and other unsustainable sources of energy and provide skills and income for those working for the portfolio businesses.

In addition, the businesses that the fund invests in provide tangible social and economic benefits to the communities, in which they operate, for example, creating sustainable

²⁰³ Ibid.

²⁰⁴ <http://www.erm.com/de/sustainabilityreport2015/home-page/progress-on-key-issues/contributing-to-society/low-carbon-enterprise-fund/>

livelihoods, improving health and reducing the need to spend time gathering firewood.²⁰⁵

The LCEF draws on the expertise of ERM's global network of consultants, who provide technical and management support to these ventures at no cost to the Fund. The majority of the Fund's management costs are covered by ERM, and all monies raised go directly to the low-carbon enterprises that the fund supports.²⁰⁶

5.4.7 Case Study: The Natural Capital Investment Fund

The Natural Capital Investment Fund (NCIF) supports locally-owned enterprises in Central **Appalachia and in the Southeast of the USA** that create lasting jobs and community wealth, while using natural resources responsibly. The fund provides debt financing and advisory services that these companies need in order to grow and expand.²⁰⁷

NCIF is certified as a Community Development Financial Institution (CDFI) by the U.S. Treasury. CDFIs are specialized financial institutions that serve borrowers in underserved communities who cannot meet the credit standards of traditional financial institutions because of perceived credit risk.

The fund measures and reports annually on the environmental, community, and economic impacts that NCIF's portfolio companies achieve. These vary from company to company and region to region, but include creating and retaining jobs; linking farm-to-table; utilizing natural resources responsibly and reducing energy and waste.²⁰⁸

Targeted Geography

The fund serves businesses located in West Virginia; North Carolina; the Appalachian regions of Maryland, Virginia, Kentucky, Tennessee, and Ohio; South Carolina; and Georgia. NCIF focuses especially on businesses located in underserved rural and urban communities.²⁰⁹

Key Sectors

²⁰⁵ Ibid.

²⁰⁶ Ibid.

²⁰⁷ <http://www.conservationfund.org/what-we-do/natural-capital-investment-fund/our-approach-and-impact>

²⁰⁸ Ibid.

²⁰⁹ Ibid

Companies in the following sectors:²¹⁰

- Value-added and sustainable agriculture,
- Renewable energy and energy efficiency,
- Sustainable forestry and forest products,
- Heritage and recreation-based tourism,
- Water conservation and treatment,
- Natural medicines and green products,
- Recycling and composting, and
- Community services (e.g. health clinic, daycare center).

SAMPLE PORTFOLIO COMPANIES



A Bright Idea for Big Energy Savings: Inter-State Hardwoods

Inter-State Hardwoods, located in Bartow, West Virginia, is a family-owned sawmill with roots dating back to 1939, when it first...



A Simply Natural Approach to Dairy

Simply Natural Creamery and Dairy Farm is a testament to Neil Moye's willingness to innovate and diversify beyond tobacco...



Bailey Mountain Bike Park

Parents today continue to search for an answer to the question: How can I get my kid to spend...

MORE PORTFOLIO COMPANIES



Annie's: Baking in Benefits in Asheville



Beef And Pork With A Local Flavor



Benefiting Land, Livestock And The Bottom Line

Figure 54: Sample Portfolio Companies of the Natural Capital Investment Fund

Source: Playa Viva

Partnerships with traditional lenders and community development organizations

NCIF partners with traditional lenders and other community development organizations to help entrepreneurs get the financing and support they need to grow their business. It welcomes referrals from lenders and the opportunity to participate in loans originated

²¹⁰ Ibid.

by them. As a non-regulated financial institution, it can be more flexible in how we structure our loans.

5.4.8 Case Study: The Giving Fund

The Giving Fund is an innovative donor advised fund (DAF) that leverages the power of impact investing to put more money to work for social and environmental benefit.²¹¹

A donor advised fund is a tax-preferred philanthropic vehicle administered by a public charity. Organizations, families or individuals establish a DAF with an initial tax-deductible contribution to a public charity. The contribution is invested and donors can recommend grants to qualified non-profit organizations over time.²¹²

Via the Giving Fund, donors can access impact funds, entrepreneurs and community investment options. They can also source and recommend impact investments.

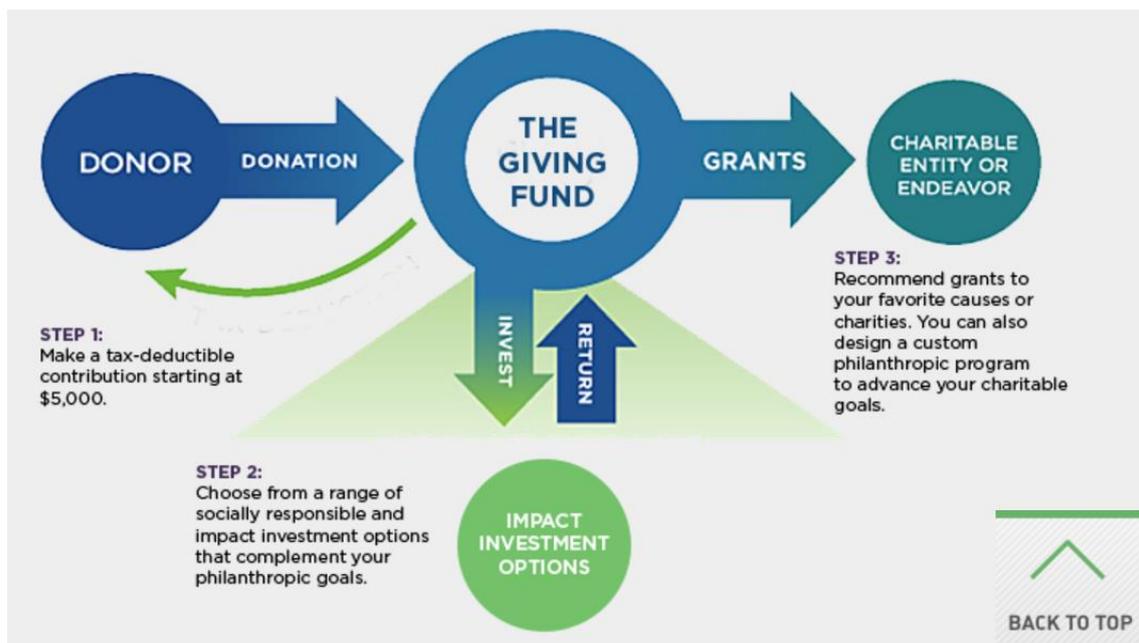


Figure 55: Functioning of the Giving Fund

Source: www.impactassets.org

²¹¹ http://www.impactassets.org/our_products/giving_fund

²¹² Ibid.

5.5 Overview of the existing landscape of blended financing vehicles

The following overview of existing financing vehicles reveals that due to the small size of the existing funds and the often narrow geographical focus **the existing blended funding models cover only a small amount of the possible market for biodiversity business models** – leaving **up-scaling potential for additional funds that focus on biodiversity friendly business models (See table below)**.

The analysis also indicated that a **careful design and implementation of financing mechanisms** and projects is required. Key issues that need to be kept in mind – building on findings of the OECD - include **additionality** (i.e. ensuring that environmental outcomes of a project should be above a business-as-usual scenario), **leakage** (i.e. when the reduction of biodiversity loss in one location leads to the displacement of pressure to another location), **permanence** (i.e. maintaining the biodiversity benefits over time), **robust monitoring, reporting and verification**, and the **enforcement of sanctions** in the case of non-compliance. ²¹³

²¹³ OECD (2013)

Table 6: Overview Biodiversity Enterprise Funds: Fund mission and main investors

Name / Launch	Mission / Main investors	Volume / expected ROI	Geographical focus	Sectors covered
<p>eco.business Fund (Initiator: KfW, Fund Manager: Finance in Motion)</p> <p>Launched in: 2014</p> 	<p>The fund promotes businesses that contribute to biodiversity conservation and the sustainable use of natural resources. The Fund channels financing to local producers, primarily via local financial institutions that operate according to the principles of responsible finance. In limited cases (max. 15% of the portfolio) the Fund will provide direct financing for businesses and projects. Investment activities may be complemented by Technical Assistance to the local financial institutions and their clients.</p> <p>Main investors: KfW (BMZ), FOM, EIB, GLS Bank, Finance in Motion</p>	<p>80m.</p> <p>Blended Financing.</p> <p>On project level positive ROI</p>	<p>Initial focus on Latin America and the Caribbean (Only countries that are eligible for official development assistance (ODA)).</p>	<ul style="list-style-type: none"> • Sustainable agriculture / agri-processing; • Forestry; • Fishery and aquaculture; • Tourism.
<p>Verde Ventures. (Initiator: Conservation International - CI).</p> <p>Launched in 1998.</p> 	<p>Verde Ventures is an investment fund which provides support for small- and medium-sized businesses that contribute to healthy ecosystems and human well-being.</p> <p>Its main investors are:</p> <ul style="list-style-type: none"> • Conservation International, • Starbucks Coffee Company, • The International Finance Corporation's Environmental Business Finance Program (EBFP), • The Overseas Private Investment Corporation, • l'Agence Française de Développement, le Fonds Français pour l'Environnement Mondial, • KfW Entwicklungsbank, • The Gordon and Betty Moore Foundation • Global Environment Facility (GEF) <p>Plus in kind support from several law firms: White & Case LLP and others</p>	<p>USD 23m.</p> <p>Blended financing</p> <p>0,1% at Fund level</p>	<p>CI's worldwide priority areas:</p> <ul style="list-style-type: none"> • Biodiversity hotspots, • High-biodiversity wilderness areas and • Key marine regions. <p>Preference for projects in locations which have:</p> <ul style="list-style-type: none"> • An existing CI office or partner presence; • A CI "conservation corridor" and baseline biodiversity data for success measurement; • Established legal frameworks; • Relatively stable governments and economies. 	<ul style="list-style-type: none"> • Agroforestry, • Ecotourism, • Sustainable harvest of wild products, • Agriculture and fisheries, • Alternative energy
<p>EcoEnterprise Fund I+II (Initiator: The Nature Conservancy - TNC)</p>	<p>The Eco Enterprise Fund (Fondo EcoEmpresas S.A.) financed innovative small- to medium-sized businesses that focused on the sustainable use of natural resources.</p>	<p>EEF I: USD 10m</p> <p>EEF II: USD 30m</p>	<p>Meso-American Region, the Northern Andes and the Amazon Basin in Latin America.</p>	<ul style="list-style-type: none"> • Sustainable Agriculture, • Agri-Forestry, • NTFPs, • Eco-Tourism

Table 6: Overview Biodiversity Enterprise Funds: Fund mission and main investors

Name / Launch	Mission / Main investors	Volume / expected ROI	Geographical focus	Sectors covered
  Launched in 2000 (EE I) and 2012 (EE II)	The Fund provides mezzanine financing to growth-stage companies . In addition, the Fund will administer non-reimbursable resources to provide targeted technical assistance to develop the pipeline of deals and strengthen portfolio companies. Main investors: <ul style="list-style-type: none"> - Multilateral Investment Fund (MIF), - Inter-American Development Bank Group, - European Investment Bank (EIB) - The Nature Conservancy, - TA Facility grant by GEF of 1m USD, - Dutch Development Bank (FMO) - Private Investors 	Blended financing EEI: 0%, excl. management costs at fund level EEI II: 7% IRR target at Fund Level		EEI I invested into 23 sustainable businesses. The portfolio included companies offering a wide range of products: from organic shrimp to organic spices, FSC-certified furniture to acai juice smoothies. All investments were successfully exited
EcoEnterprise Fund III (EcoEnterprise Biodiversity Fund) Launch planned for 2017	The fund will offer growth capital to innovative business models whose success relies on: <ul style="list-style-type: none"> - creating long-term livelihoods by increasing productivity and facilitating resilience in rural communities, while encouraging sustainable use and conservation of natural resources; - preserving vulnerable ecosystems and biodiverse landscapes, and - mitigating climate risks. It aims to provide growth financing to up to 18 sustainable and biodiversity-focused companies by helping them to grow, consolidate their business, and scale their operations and impact results. Investment size ranges from USD 500.000-3.000.000, with an average investment of USD 2.500.000. Main investors to date: Multilateral Investment Fund (MIF) (USD 5 m) and the Inter-American Development Bank Group (USD 5 m)	Target size: USD 80 m	Latin America & Caribbean (Bolivia, Brazil, Colombia, Costa Rica, Ecuador, Guatemala, Mexico, Nicaragua, Panama, Peru). Limited to countries that define Access and Benefit Sharing (ABS) of genetic resources as a national priority.	Sustainable agriculture (including apiculture, aquaculture and water), agroforestry and wild-harvested products, sustainable forestry, ecotourism, and emerging opportunities, such as those that monetize environmental benefits or utilize technology for impact.
Conservation Enterprise Development Fund (Initiator: Wildlife Conservation Society - WCS)	The fund aims to generate biodiversity, social, and economic returns by: <ul style="list-style-type: none"> - Supporting early stage, nature-based, and primarily community-run enterprises in the developing world; 	USD 10m target. Blended financing	Communities across the 74 landscapes and seascapes where WCS is working around the world	Community based Biodiversity Businesses

Table 6: Overview Biodiversity Enterprise Funds: Fund mission and main investors

Name / Launch	Mission / Main investors	Volume / expected ROI	Geographical focus	Sectors covered
<p>Launch year: 2012 (as pilot).</p> 	<ul style="list-style-type: none"> - Providing blended and patient capital in the form of grants and affordable loans in biodiversity rich areas that provide critical ecosystem services; - Promoting entrepreneurial solutions that blend biodiversity conservation and poverty alleviation. <p>Main investors: Gifts, grants and program-related investments into a charitable vehicle</p>	<p>On fund level: 0 On project level: Positive ROI</p>		
<p>ERM Low Carbon Enterprise Fund I (Initiator: ERM Foundation)</p>  <p>Launched in 2008.</p>	<p>The Low Carbon Enterprise Fund (LCEF) provides finance and pro-bono technical and management support for low carbon entrepreneurs in the developing world. It provides loans and equity.</p> <p>Main investors: In-kind support + corporate donations by ERM - Environmental Resource: Management. Co-investment by Stichting Doen für LCEF II.</p>	<p>Estimated <USD 1m (in 11 enterprises) Blended Financing On fund level: 0 On project level: Positive ROI</p>	Africa, Latin America, Asia	Low carbon businesses of any sector
<p>The Natural Capital Investment Fund (NCIF)</p> 	<p>The Natural Capital Investment Fund (NCIF) supports locally-owned enterprises in Central Appalachia and in the Southeast of the USA that create lasting jobs and community wealth, while using natural resources responsibly. The fund provides debt financing and advisory services that these companies need in order to grow and expand.</p> <p>Investors: NCIF manages \$27 million from private foundations, businesses, financial institutions, public agencies and individuals.</p>	USD 27m.	Focus on the USA: West Virginia; North Carolina; the Appalachian regions of Maryland, Virginia, Kentucky, Tennessee, and Ohio; South Carolina; and Georgia. Special focus on underserved rural and urban communities.	<ul style="list-style-type: none"> • Sustainable agriculture, • Renewable energy and energy efficiency, Sustainable forestry and forest products, • Tourism, Water conservation and treatment, • Natural medicines, • Recycling and composting, • Community services (e.g. Health clinic, Daycare Center).
<p>The Giving Fund</p> 	<p>The Giving Fund is a unique donor advised fund that multiplies the impact of donations with tailored investments that work for maximum social and environmental benefit.</p> <p>Investors: Investors and philanthropists who aim to make a tax-deductible irrevocable contribution to impact investing.</p>		Developing countries world-wide	Can be adjusted depending on the donor's focus, exemplary sectors include: sustainable agriculture, micro-credit, affordable housing, alternative energy development and healthcare in the developing world.

Source: Author, building on: Jahn, Grulke, Renner et. al. (2013)

5.6 Policy options for supporting blended fund models for biodiversity

In Germany, the BMZ set up a budget for first-loss investments (**BMZ budget line “FZ mit Regionen”**), which could also be a powerful tool for leveraging private investment capital for biodiversity. Based on this budget line, KfW provides first loss equity to a number of hybrid fund models. However, for now only the Eco.business Fund is specifically targeted at biodiversity and for now it only covers certain countries in Latin America and the Caribbean, but it is planned to widen its focus to also include Africa.

Policy options²¹⁴:

- **Form alliances with other development banks or foundations** to leverage the available funding.
- Increase first-loss support and set up **transparent processes** for impact investment funds to apply for first-loss support and promote the existence of the budget line among fund managers.
- Promote the existing blended funds more actively among businesses and local banks.
- Widen the **geographical focus** of the existing funds.
- Setting-up a **Biodiversity Forest Fund** which could finance sustainable forest management and forest conservation. The Fund could combat biodiversity loss and climate change by protecting forest habitat, sequestering carbon, reducing emissions from deforestation and create permanent qualified employment and income for local populations.

Our analysis in 2013 showed that sustainable **natural forest management can create synergies between economic performance, biodiversity conservation, carbon sequestration and socio-economic development**: Compared to conventional logging, reduced impact logging (RIL) reduces carbon losses by up to 50% and provides habitat for significantly more forest species than planted forests or regenerated forests on cleared land.²¹⁵ Sustainable natural forest management can also attract financing from institu-

²¹⁴ Jahn, Grulke, Renner et.al.(2013).

²¹⁵ Ibid.

tional investors – assuming the multitude of risks which are connected with such investments can be reduced. Governments could focus on leveraging this opportunity and the respective project pipelines.²¹⁶

A Biodiversity Forest Fund could finance sustainable forestry and forest conservation in areas offering optimal growing conditions (often sub-tropical or tropical countries). The Fund could combat biodiversity loss and climate change by protecting forest habitat, sequestering carbon, reducing emissions from deforestation and create permanent qualified employment and income for local populations.²¹⁷

It would **focus on institutional investors and finance the establishment of forest plantations** (value timber and biomass), the **restoration and management of mixed natural forest** and **commercial agroforestry projects**. Its predominant **source of revenue** would be the sale of timber and derived forestry products. In addition, the evolution of land and timber prices and the commercialization of certified environmental services (CO₂ reduction, biodiversity conservation) would contribute to the Fund's yield. Investments would be planned and made in strict compliance with stringent ecological and social standards (e.g. FSC and IFC Safeguards) and the Fund would report regularly on compliance with these guidelines.²¹⁸

The fund would offer an investment opportunity which generates significant **ecological and social value and an inflation-linked yield** that is **weakly correlated with other asset classes**. The investment risk can be mitigated by **project diversification** regarding regions, products and target markets **and public first-loss guarantees**.²¹⁹

A hybrid funding model would allow for investments at three different levels, with a first loss tranche underwritten by, for example, development banks. Soft capital can be constituted by first loss investment (equity tranche) or first loss guarantees (for loan financing). Profits for institutional investors are capped depending on the level of public risk insurance they receive.²²⁰

Shareholder structure, voting rights, exit options and investment criteria would be specially tailored to **balance biodiversity and social benefits with the profit expectations**. This also includes the interests of local forest rights holders and indigenous people associations. The Board **would include an NGO representative**, e.g. the FSC. The fund's

²¹⁶ Ibid.

²¹⁷ Ibid.

²¹⁸ Ibid.

²¹⁹ Ibid.

²²⁰ Ibid.

investment criteria would be regularly reviewed. In addition to the pure Fund management, the fund would also have a **technical assistance support facility** providing assistance to companies so that they can meet certain safeguard requirements.²²¹

Geographically, the fund could initially have a **global reach** given the relatively small amount of investable projects. However, the fund would focus on regional clusters, in order to cost-effectively sustain local project management and infrastructure. Projects would be secured by the establishment and continuous development of strong local partnerships. For the implementation of the projects, the Fund would rely on local subsidiaries and locally-present well-trained experts.²²²

The **fund pipeline would be dynamic** and subject to changes with incoming and outgoing projects. Single investments would likely range between 5 and 20 million Euros. The fund could have a size of 150 – 250 million Euros with the aim to execute 10 – 20 investments. Not more than 20 % of the Fund should be invested in a single project and the fund portfolio should be also diversified in terms of project types, timber species, products, markets and regions to hedge production, political and reputation related risk. Main target groups are institutional investors. Fund lifetime would range between 12 and 15 years, including a five year investment period. The target return could be up to 6-10 % p.a. after fund-related costs and taxes, depending on the investment criteria.²²³ Projects would be sourced from local forest management entities with clear land rights or concession titles that may team up with experienced international forest management companies.²²⁴

The fund portfolio could be split into three **forest management types**:²²⁵

- **Management of existing natural forests:** Existing forests would be acquired for close to nature forest management - maintaining the species richness of the forest, taking advantage of natural dynamics with a potential REDD+ project certification.
- **Forest establishment, management and harvesting / reforestation:** New forests would be planted and managed.
- **Restoration of heavily degraded natural forests by enrichment planting.**

221 Ibid.

222 Ibid.

223 Ibid.

224 Ibid.

225 Ibid.

6 Leverage new instruments based on carbon- or biodiversity offsets

Another group of investment vehicles that can play a key role in the financing of biodiversity are funds that intend to **generate carbon credits or biodiversity offset** credits for their investors. Examples of funds that are mainly financed by corporations are **the Livelihoods Carbon Fund** and the **Livelihoods Fund for Family Farming (L3F)** portrayed below.

These funds were developed to tackle one of the overriding problems in biodiversity conservation: The fact that those who manage natural areas are generally not paid for the public goods they provide, such as clean air and water.

To address this issue, in recent years, voluntary market-based instruments for the remuneration of environmental services have been gaining significance.

A private, voluntary and online based ecosystem service and biodiversity market could provide additional resources for conservation and increase efficiency as compared to governmental instruments.

Instruments that are based on the concept of carbon- or biodiversity offsets are described in the case studies below.

6.1 Case Study: The Business and Biodiversity Offsets Program

The Business and Biodiversity Offsets Program (BBOP) is promoting the idea of offsetting and is helping companies to conserve biodiversity and develop best practice in following the **mitigation hierarchy** (avoid, minimize, restore, offset) to achieve no net loss or a net gain of biodiversity.



Figure 56: Logo of BBOP

Source: BBOP

Biodiversity offsetting can **help to finance the restoration of degraded habitat and protect areas where there is imminent or projected loss of biodiversity.**

Companies finance these projects by buying conservation credits in order to compensate for the biodiversity loss that they cause. It is important that the financed projects re-create the same amount, type and quality of habitat that is damaged via the specific business activity. And only after all possible efforts have been taken to avoid, minimize or restore biodiversity loss.

BBOP members include companies, financial institutions, government agencies and civil society organizations. ²²⁶

6.2 Case Study: The Livelihoods Carbon Fund

The **Livelihoods Carbon Fund** is sponsored by Danone, Voyageurs du Monde CDC Climat, Schneider Electric, SAP, Michelin, La poste, Hermès, Firmenich, Crédit Agricole and Caisse des Depots. ²²⁷

It aims to leverage the carbon economy **to finance ecosystem restoration, agroforestry and rural energy projects** to improve food security for rural communities and increase farmers' revenues (See figure and table below).

The Livelihoods Carbon Fund provides upfront financing to project developers for large-scale project implementation and maintenance over periods of 10 to 20 years. The fund receives results-based payments for the risks it bears in the form of carbon credits.

This investment model is only possible thanks to long-term commitments from the investors. These receive in return carbon credits with a high social co-benefit that they can use to offset the emissions they cause.²²⁸

226

227 The Livelihoods Carbon Fund (2016a). Retrieved from: http://www.livelihoods.eu/lcf/#investors_lcf

228 Ibid.

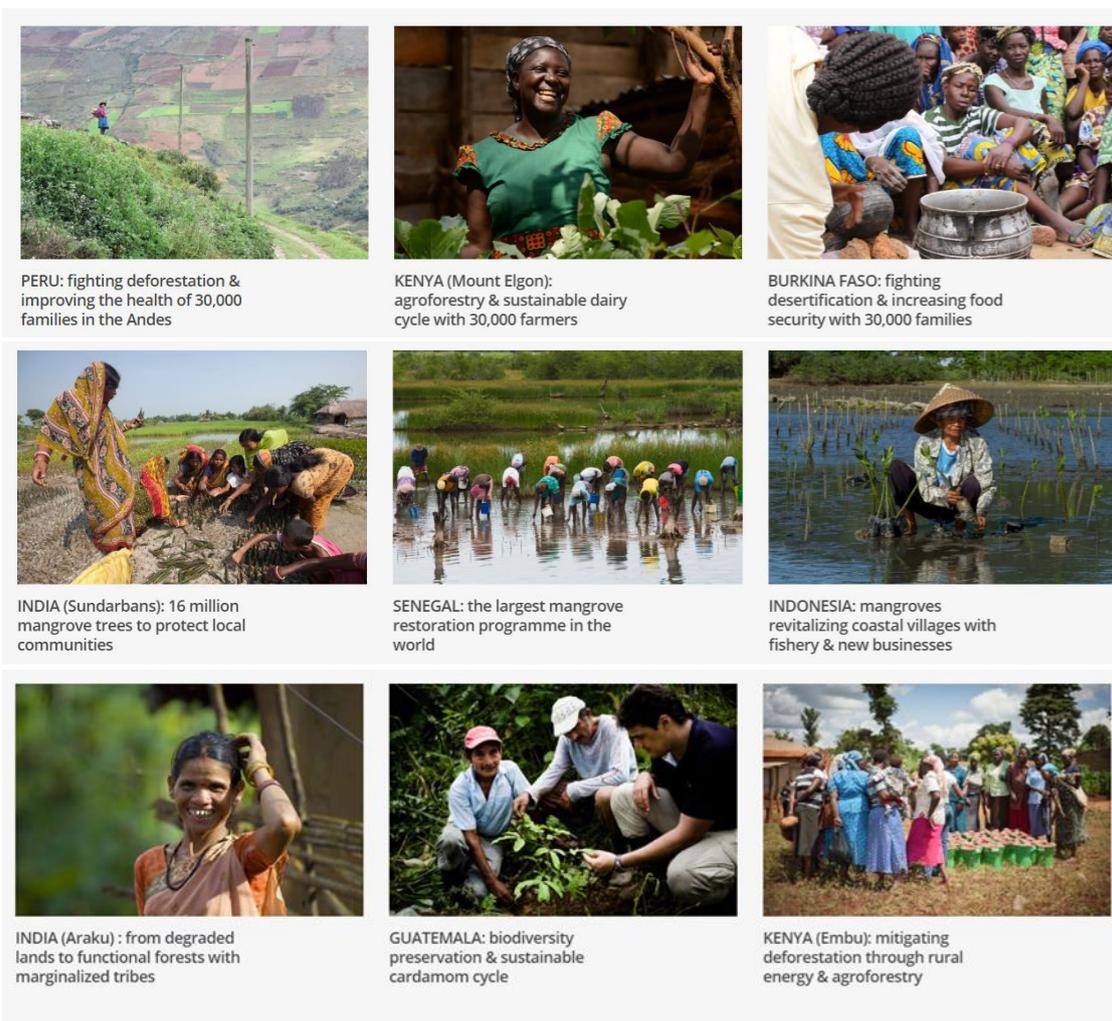


Figure 57: Portfolio of the Livelihoods Carbon Fund

Source: LCF

	
Table 7: Livelihoods Carbon Fund	
Logo	
Website	http://www.livelihoods.eu/lcf/#investors_lcf
Management	Livelihoods Ventures
Objectives and business model	The Livelihoods Fund is an investment Fund which provides its investors with a return, albeit not a financial return per se, under the form of high quality carbon offsets . The Fund invests in mangrove, agroforestry and small-scale renewable energy projects during an investment period of 3 to 4 years, and then co-manages the projects with its local partners.
Geographic coverage	Worldwide, as of today: India, Indonesia, Senegal, D.R. of Congo
Size	

Table 7: Livelihoods Carbon Fund

Target size	EUR 30-40m
Capitalization	
Capital invested	40m
Investors and profitability	
Public	None
Private	<p>Danone, Voyageurs du Monde, Schneider Electric, SAP, Michelin, La poste, Hermès, Firmenich, Crédit Agricole and Caisse des Depots</p> 
Minimum Investment	
Targeted IRR	The Fund returns carbon credits to the investor at a cost of EUR 5 /tCO ₂ e
First loss modalities	No
Time frame	
First closure	2012
Fully invested volume	40m
Fund duration	20 years
Socio-economic and environmental	
Socio-economic Impact	<p>Projects are only selected if they are locally managed, target smallholder farmer and fisherman and have exceptional socio-economic and environmental benefits. Investors in addition have the opportunity to co-invest in individual projects and activities.</p> <p>The fund summarizes its impact as follows:</p> <ul style="list-style-type: none"> • 1 million project beneficiaries • 130 million trees being planted • 120 households being equipped with efficient cook stoves • 10 million tons of CO₂ to be sequestered over 20 years • 9 active projects (Africa, Asia & Latin America)
Environmental Impact	

Source: Author on the basis of data from: <http://www.livelihoods.eu>

6.3 Case study: The Livelihoods Fund for Family Farming (L3F)

After the successful launch of the Livelihoods Carbon Fund, the companies Danone and Mars decided to launch a second fund, **the Livelihoods Fund for Family Farming (L3F)** in 2015. They were later joined by Firmenich and Veolia.²²⁹

The Livelihoods Fund for Family Farming (L3F) proposes a new approach to supply chains in order to address the challenges faced by smallholder farmers, whose livelihoods are threatened by low yields, degraded natural resources and inefficient access to markets. 230



Figure 39: Stakes and Solutions of the Livelihoods Fund for Family Farming

Source: L3F

The fund invests in large-scale projects enabling farmers to produce greater yields of higher quality through sustainable agricultural practices. The fund aims to strengthen the connection between groups of family farmers and business supply chains. The investors of the fund **commit to purchasing the carbon credits and commodities originating from these projects over a 10-year period**. The supported projects also create benefits for society through biodiversity preservation, water resources management, and CO₂ sequestration. ²³¹ (See figure below).

²²⁹ The Livelihoods Fund for Family Farming. (2016b). Retrieved from: <http://www.livelihoods.eu/l3f/>

²³⁰ Ibid.

²³¹ Ibid.

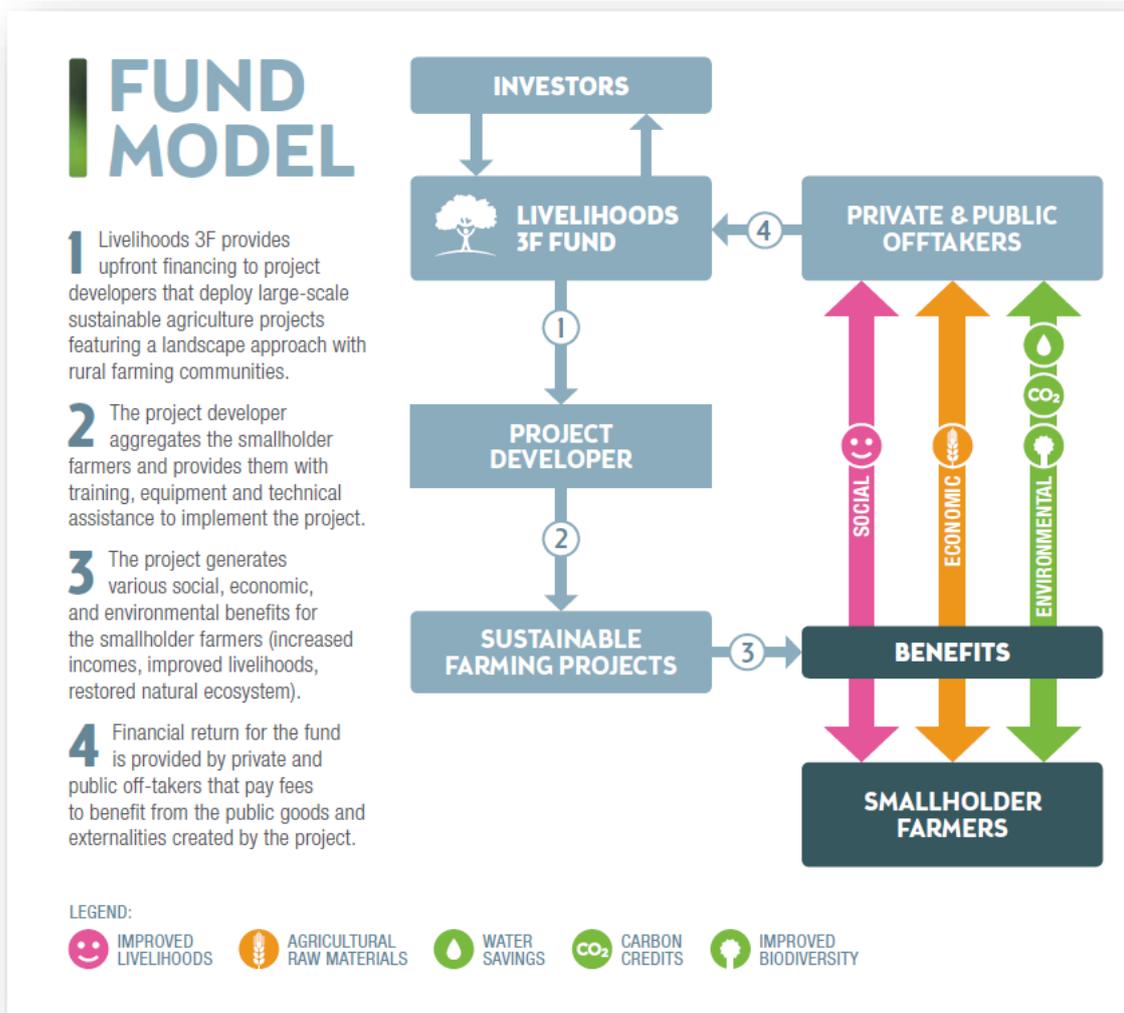


Figure 58: Structure of the Livelihoods Fund for Family Farming

Source: L3F

L3F receives **results-based payments** in order to guarantee tangible social, economic and environmental impacts (see figure below).

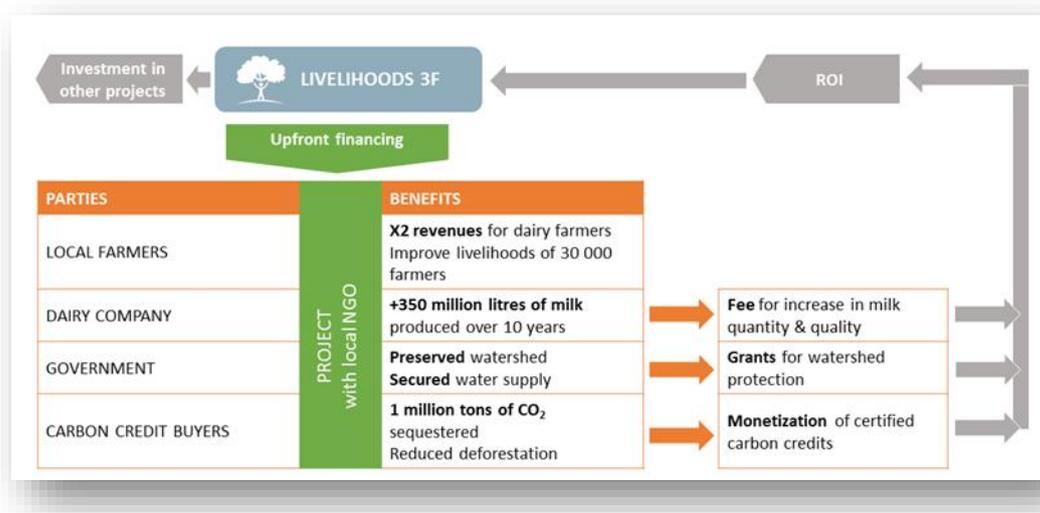


Figure 59: Mutual value creation of the Livelihoods Fund for Family Farming

Source: L3F

The table below gives an overview of the funds' main aspects.

Table 8: Livelihoods Fund for Family Farming (Fund Overview)	
Logo	
Website	http://www.livelihoods.eu/l3f/
Management	Livelihoods Ventures, a social business based in Paris, France.
Objectives and business model	<p>The fund proposes a new approach to supply chains in order to address the challenges faced by smallholder farmers, whose livelihoods are threatened by low yields, degraded natural resources and inefficient access to markets.</p> <p>The fund invests in large-scale projects enabling farmers to produce greater yields of higher quality through sustainable agricultural practices. The fund aims to strengthen the connection between groups of family farmers and business supply chains. The investors of the fund commit to purchasing the commodities originating from these projects over a 10-year period. The supported projects also strengthen biodiversity preservation, water resources management, and CO₂ sequestration.</p> <p>L3F receives results-based payments in order to guarantee tangible social, economic and environmental impacts.</p>
Geographic coverage	Africa, Asia and Latin America
Size	
Target size	
Capitalization	

Table 8: Livelihoods Fund for Family Farming (Fund Overview)	
Capital invested	120 m
Investors and profitability	
Public	None
Private	
Min. Investment	
Targeted IRR	Financial return for the fund is provided by private and public off-takers that pay fees to benefit from the public goods and externalities created by the project.
First loss modalities	No
Time frame	
First closure	2015
Fully invested volume	
Fund duration	10 years
Socio-economic and environmental	
Socio-economic Impact	Secure livelihoods for over 200.000 smallholder farmers and their communities. Increase farmers' yields and productivity through sustainable agricultural practices and connect them to buyers sourcing raw materials. 2 million people are positively impacted.
Environmental Impact	Widespread adoption of sustainable agriculture on over 200.000 hectares of land.

Source: Author, on the basis of information from: <http://www.livelihoods.eu/l3f/>

6.4 Case study: Tahi Nature Sanctuary - Piloting Biodiversity Offsetting



Figure 60: Logo of Tahi Nature Sanctuary

Source: Tahi

Tahi Nature Sanctuary and Retreat is recognized as a New Zealand **model for biodiversity conservation and sustainable environmental management** and has received a number of awards for its efforts in these areas.²³²

Profits from honey sales and guest accommodation are used to help fund its planting programme, pest control and wetland rejuvenation work.²³³



Figure 61: Tahi Nature Sanctuary Retreat – Member of the International Business and Biodiversity Offsets Programme

Source: Tahi Nature Sanctuary Retreat

²³² The Long Run Global Ecosphere Retreats (2016), <http://www.thelongrun.com/members/view/destination/tahi-beach-resort-ger-certified>

²³³ Tahi Nature Sanctuary (2016). <http://tahinz.com/>

Tahi aims to demonstrate that it is possible to run a thriving business and care for nature and that it doesn't have to be a choice between the two. The retreat intends to breathe life back into the land, at the same time, running an ecologically conscious business and creating jobs. This means offering **guardianship of the land rather than ownership**, using the principles of sustainable management to guide its decisions.²³⁴

Tahi is a **founding member of the Long Run**, an **international initiative that develops innovative approaches to sustainable ecosystem management**. As a **Global Ecosphere Retreats®** certified **Long Run Destination**, Tahi strives for the **highest sustainability standards through community development, cultural stewardship and biodiversity conservation**.²³⁵ Under the Long Run philosophy, members strive to achieve a balance of **conservation, community, culture and commerce – the 4Cs**.

As a result of Tahi's restoration efforts and being "biodiversity and carbon positive" Tahi is also a member of the **International Business and Biodiversity Offsets Programme**.²³⁶

Working closely with the New Zealand government as a **pilot project** in order to **monitor, develop and share best practises in biodiversity offset design and implementation**. This will involve an intensive yearlong monitoring of biodiversity levels, to be run in conjunction with already established systems at Tahi.²³⁷

This means that Tahi aims to improve the land, creating positive benefits for biodiversity, bringing back native plant and animal species that were long absent. It also means that efforts are taken to banish invasive species.

Tahi began its **restoration project** 11 years ago when Tahi was a run-down cattle farm. Now 14 wetlands have been restored, over 280.000 indigenous trees have been planted, almost 70 bird species including the endangered Australasian brown bittern are in residence and numerous native fish species are returning.²³⁸

To put this into perspective, New Zealand has 10% of the world's endangered birds on 0.2% of the land and Tahi now has more species than many of New Zealand's most important nature reserves.²³⁹

234 Ibid.

235 Ibid.

236 The Long Run Global Ecosphere Retreats (2016).

237 Ibid.

238 Tahi Nature Sanctuary (2016).

239 Ibid.

Wetlands had nearly disappeared from the lands around Tahī, drained to make way for agriculture. Following a wetland restoration project, there are 14 lakes again, including the second largest coastal wetland in North Island.²⁴⁰

These wetlands range in size from small ponds to lakes spanning five hectares. A large coastal dune lake has been refilled and an estuarine saltmarsh, home to a population of rare fernbirds, has also been restored.²⁴¹

The only native land mammals in New Zealand are two small species of bat. But with human occupation came a host of mammalian pests including rats, possums and rabbits which decimated the native flora and fauna. Tahī strives to humanely control these pests at Tahī so that the native wildlife can recover is an ongoing mission that extends to neighbouring properties to reduce the risk of reinvasion. In addition to this, Tahī also **aims to control a range of invasive plant species** together with a wide variety of agricultural weeds.²⁴²

As part of its **reforestation project**, Tahī plants up to **20.000 manuka trees a year**, as well as another 10.000 plants of other species, many of which produce nectar for birds and bees.²⁴³

6.5 Case study: Agora Natura – A market place for biodiversity

Within the research and implementation project AgoraNatura a team from science, environmental protection and landscape conservation organisations collaborate to develop an **internet-based marketplace for ecosystem services and biodiversity**.²⁴⁴

Offers for the provision of ecosystem services and biodiversity **may come from agriculture and forest management, landscape conservation and nature conservation associations, municipalities and foundations as well as other land owners**.

On the demand side the project addresses **companies as well as private individuals**. The project aims to close the financial gap between governmental nature conservation programmes, private donations as well as obligatory compensations of environmental impacts, using a market-oriented mechanism.

²⁴⁰ Ibid.

²⁴¹ Ibid.

²⁴² Ibid.

²⁴³ Ibid.

²⁴⁴ Agora Natura (2016). Project Website.

<http://project2.zalf.de/AgoraNatura/index.php/objectives/http://project2.zalf.de/AgoraNatura/index.php/objectives/>



Figure 62: Logo of agora natura

Source: agora natura

The project seeks to **raise awareness for nature's services** as well as their relevance for human wellbeing and the economy.

The market place is supposed to be a non-bureaucratic instrument for improved nature conservation that generates additional, non-governmental funds, needed for the preservation of ecosystems and biodiversity.²⁴⁵

The marketplace will offer nature conservation measures that are distinguished by a science-based quantification of their impacts on ecosystem services and biodiversity. As a result, the offers will be comparable, revisable and transparent.

AgoraNatura focuses on **agricultural landscapes**, as there is great need for immediate action: Whereas on the one hand, society increasingly demands intact cultural landscapes, biological diversity and the provision of ecosystem services, agricultural policies, on the other hand, tend to support intensive agriculture, jeopardizing the efficiency of ecosystems and biodiversity.

The project aims to strengthen the awareness for ecosystem services and biodiversity, particularly in cultural landscapes, and contributes to the protection and increased provision of ecosystem services and biodiversity.

The start of the online marketplace is **planned for 2018**. In the long-term, after the project end in 2021, the marketplace is anticipated to continue as an independent marketplace, supporting the goal of nature conservation in Germany.

The team is currently investigating the following questions:²⁴⁶

- Under which circumstances businesses and private individuals are willing to invest in the conservation of ecosystems,
- Which measures for the provision of ecosystem services are advisable,

²⁴⁵ Ibid.

²⁴⁶ Ibid.

- Which methods and procedures are suitable to measure the services provided,
- How an online marketplace for nature's services can be designed to be both attractive and functional,
- How can the ideas be disseminated and how can a broad base of supporters be built?
- How can the marketplace be made sustainable?



Figure 63: Ecosystem services provided by a forest

Source: Agora Natura

Project Partners include the „ZALF“, the „Ernst Moritz Arndt Universität Greifswald“, the „Deutsche Umwelthilfe“ and the „Deutscher Verband für Landschaftspflege“. Interested parties are invited to join.



Figure 64: Project Partners of the Agora Natura Project

Source: Agora Natura

6.6 Policy options for leveraging instruments based on offsets

Policy options:

Leverage market-based instruments for biodiversity and ecosystem services such as online market places and biodiversity offsetting schemes.

Team up with initiatives like Agora Natura, the Business and Biodiversity Offsetting Program and The Livelihoods Funds.

Provide **technical and financial assistance to project developers, entrepreneurs and businesses** who consider participating in biodiversity offsetting schemes (e.g. via a seed financing assistance facility).

7 Support the transformation to biodiversity friendly business models

Our analysis revealed that one of the major obstacles to biodiversity finance is the lack of investible biodiversity businesses (See chapter on investment motivations and barriers). The relevant investor surveys and interviews revealed unanimously that **many impact investors would be able and willing to channel more money into biodiversity businesses if there were more investible projects on the market and if it was easier to identify** these.

On the other hand, we found that project **developers and entrepreneurs hesitate to engage in biodiversity business opportunities** because of the uncertainty regarding the question whether a project will be able to raise sufficient capital.²⁴⁷ In addition, we found that many existing biodiversity businesses **lack the technical knowledge to write business plans and implement the relevant certification schemes** in order to apply for and be investible for private financing.

The following chapter gives an overview of existing programs that support entrepreneurs via technical assistance and coaching as well as via seed financing.

7.1 Support entrepreneurs via technical assistance and coaching

New in the Technical Assistance Landscape and a promising instrument to support the creation of port biodiversity friendly business models is the **Eco.business Fund Development Facility** which is portrayed in the case study below. Other examples include the **New Ventures Program**, which was incubated by the World Resources Institute and the German "**business.develops.globally**" programme. The latter is a **business coaching scheme** that is supporting the implementation of biodiversity businesses opportunities. It offers help to SMEs to gain entry to the markets of emerging and developing countries by providing specialist knowledge regarding these markets and by offering financial support. One special focus of this model is on development partnerships with the private sector. Special envoys known as "development cooperation scouts" are sent out to chambers of industry and commerce in order to act as contacts for businesses and to

²⁴⁷ Jahn, Grulke, Renner et.al. (2013)

actively promote their collaboration with the German Federal Ministry of Economic Cooperation and Development. The “scouts” provide information and advice on the available instruments and investment opportunities.²⁴⁸

Other programmes include The **World Bank’s** project development facility and the **DEG project development facility**. **The World Bank’s project development facility however**, is not targeted at private sector investment, as it primarily prepares the implementation of the banks’ own projects and the DEG project development facility is tied to the investment focus of the DEG which has limited flexibility to include biodiversity businesses.²⁴⁹

7.1.1 Case Study: The eco.business Fund Development Facility



The eco.business Fund Development Facility (Eco DF) was established to provide targeted **technical assistance (TA)** that enhances the Eco.business Fund's mission: To promote business practices that contribute to biodiversity conservation and the sustainable use of natural resources through the provision of dedicated financing and technical assistance.²⁵⁰

The Development Facility is funded mainly through donor grants. Legally, the Development Facility takes the form of a fiduciary account (replicating the structure of other PPP funds).²⁵¹

The Eco DF **operates independently from the Eco.business Fund**. It supports partner institutions as well as local businesses, the Fund’s ultimate target group. In addition, it performs sector-level activities such as studies, workshops and events on behalf of the Fund.²⁵²

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http://www.bmz.de/en/press/aktuelleMeldungen/2011/February/20110208_pm_19_mittelstand_neu/index.html

249 Ibid.

250 Eco.business Fund (2016b). Eco.business Fund Development Facility at a Glance, <http://www.ecobusiness.fund>.

251 Fiduciary accounts are savings which are owned by one party but are managed by another (such as an agent, bank, or trustee) for the owner's, or a beneficiary's, benefit.

252 Eco.business Fund (2016b)

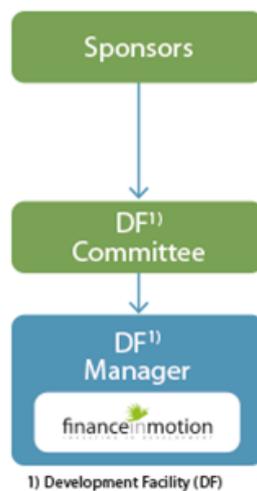


Figure 65: Corporate Governance of the eco.business Fund Development Facility

Source: *eco.business Fund*

Support areas of the Eco.business Fund Development Facility include:²⁵³

- Capacity building and training projects tailored to the needs of financial and non-financial partner institutions
- Dedicated TA for direct investees and sub-borrowers (local businesses receiving support via partner institutions)
- Sector TA projects to support the Fund in its market-enabling function
- Research and development projects of strategic importance for the Fund
- Impact assessment activities

Activities of the facility include:²⁵⁴

- Support in product development and implementation at partner institutions
- Portfolio screening of potential investees
- Optimization of environmental & social management systems at partner institutions
- Assistance in obtaining certification for local businesses (direct investees and sub-borrowers)
- Capacity building support for technical improvements in local businesses (direct investees and sub-borrowers)
- Country and sector studies
- Broadening the outreach of the Fund in Latin America through publications and awareness-raising activities

²⁵³ Ibid.

²⁵⁴ Eco.business Fund (2016). Eco.business Fund Development Facility at a Glance, <http://www.ecobusiness.fund>.

- Continuous screening and reviewing of eligible label and certification standards
- Development of measures eligible for refinancing by the Fund
- Development of a conceptual and methodological framework for impact assessments

The technical assistance is coordinated by Finance in Motion and **delivered by independent experts selected in a tender process.**

7.2 Support entrepreneurs via seed capital assistance

In our previous study in 2013 we found that there is a strong need to **provide financial assistance** to entrepreneurs - **especially during the costly project development phase and throughout business up-scaling cycles.**²⁵⁵

For example, a forestry investment of € 10-20m requires an upfront investment of between € 0.8m (€ 0.1m times eight) and € 4.8 million before project implementation.²⁵⁶

Financial project development support via a seed capital assistance facility with a specific focus on biodiversity could reduce such entry barriers faced by investors. It could also speed up the process of implementing promising new business ideas, thereby enabling businesses to jump at new business opportunities before they are gone.²⁵⁷

The newly created **Seed Capital Assistance Facility for early stage clean energy enterprises and projects** could act as a blueprint for a Seed Capital Assistance Facility for Biodiversity. It is portrayed in the case study below.

7.2.1 Case study: The Seed Capital Assistance Facility

The **Seed Capital Assistance Facility (SCAF)** is a new initiative **targeted at most developing countries in Asia and Africa.**

The facility is aimed at **helping energy investment funds provide seed financing to early stage clean energy enterprises and projects.** The Facility is implemented through the **United Nations Environment Programme, the Asian Development Bank and the African Development Bank.**²⁵⁸

²⁵⁵ Ibid.

²⁵⁶ IWC, the most successful forestry investment fund in Europe is assessing about 8 investment opportunities per invested project (IWC, 2012). According to our experience, the related costs are in the range of 1-3% of the total investment.

²⁵⁷ Jahn, Grulke, Renner et.al. (2013)

²⁵⁸ <http://fs-unep-centre.org/projects/seed-capital-assistance-facility>

For new business ventures in many developing countries, particularly in the energy sector there is a lack of available enterprise development support services and **seed financing is hard to secure**, with most investors reluctant to engage too early.

The two largest challenges that investors have in providing seed capital financing to early stage projects and companies are **the higher transaction costs and insufficient returns offered by these small, less mature and more risky ventures**.

The SCAF facility is designed to address these two hurdles, **offering investment fund managers two types of cost-sharing support for those willing to include a seed investment window** within their overall investment strategy: Enterprise Development Support and Seed Capital Support.²⁵⁹

SCAF Support Line 1 - Enterprise Development Support²⁶⁰

The first SCAF support line can be used to **cost-share some of the elevated costs associated with deal sourcing, providing enterprise development services to and transacting seed scale investments**. As part of this arrangement, the cooperating fund manager **commits to providing enterprise development services to qualified local entrepreneurs as a means of identifying and developing a pipeline of early stage clean energy investment opportunities**. Each cooperating fund manager decides the services they will offer, based on the local context, however the common elements of these services generally involve:

- **Identification and training of new 'pre-commercial' clean energy entrepreneurs and project developers,**
- Targeted **coaching or incubator services** for specific promising investment opportunities, and
- Co-financing of **pre-investment feasibility studies**.

SCAF Support Line 2 - Seed Capital Support²⁶¹

The second SCAF support line is designed to help offset the hurdle of higher perceived risks and lower expected returns when dealing with early stage clean energy project and enterprise developments. The level of support provided is negotiated with each cooperating fund manager and then paid on a standard basis with each project. Typically the **support is in the range of 10% to 20% of each seed capital investment**, paid at the time of investment disbursement.

²⁵⁹ Ibid.

²⁶⁰ Ibid.

²⁶¹ Ibid.

This support is used for covering some of the elevated project development costs that normally are charged to or financed by the developer, for example technical assessments; contract negotiations for fuel-supply or off-take agreements; environmental impact analysis; and other aspects of the permitting process.

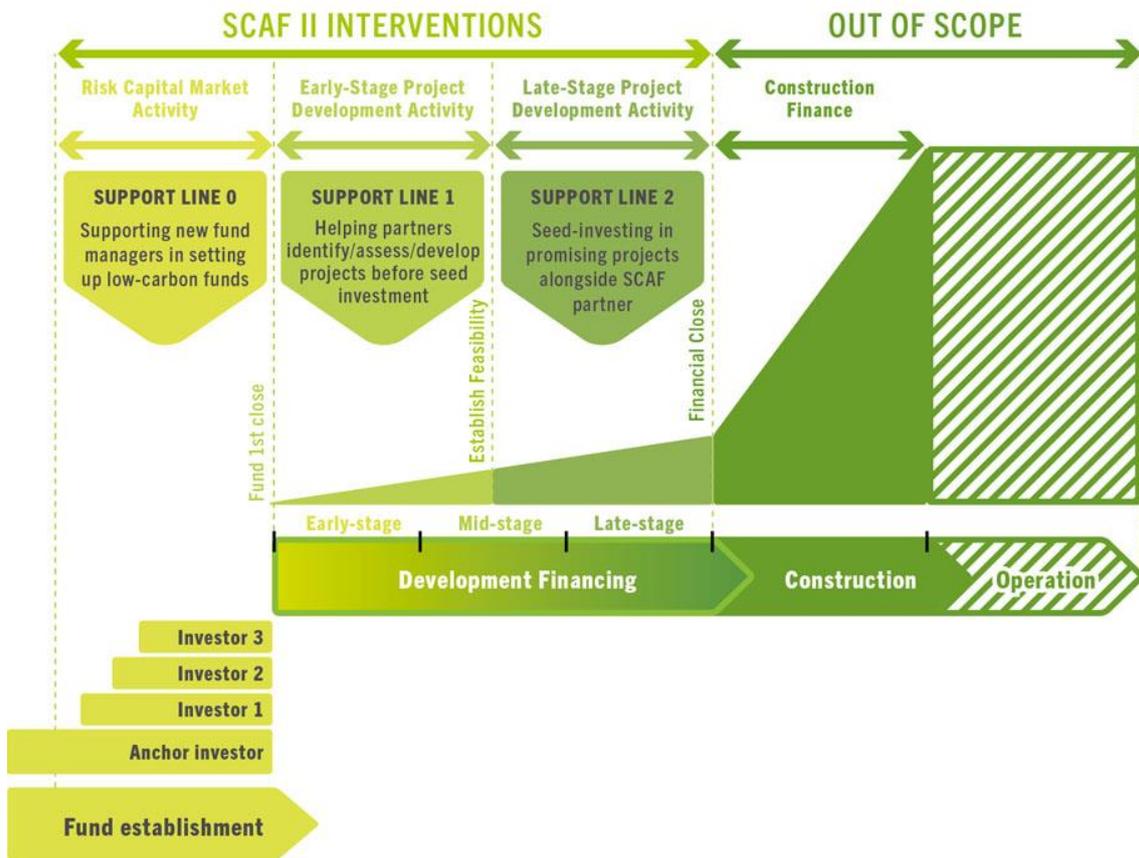


Figure 66: Interventions of the Seed Capital Assistance Facility

Source: SCAF

By sharing transaction costs and **bridging the gap between returns offered by local Sustainable Energy entrepreneurs and those required by the investment community**, SCAF aims to:

- Provide **entrepreneurs with the enterprise development services and early stage risk capital they need** to develop Sustainable Energy businesses and projects;
- Increase the **scale and scope of clean energy investment opportunities** available to commercial financiers; and
- Increase **capital mobilisation into the clean energy seed finance sector**.

7.3 Policy options for supporting biodiversity friendly business models

Policy options:

- Set-up or co-finance **coaching programmes which support** talented project developers and entrepreneurs in the crucial **project development phase**
- Redefine the mechanisms of **existing facilities** so that they have a special focus on biodiversity businesses
- Leverage existing Development Facilities that provide **capacity building and training projects tailored to the needs of financial and non-financial institutions** (e.g. provide support in product development and implementation at financial institutions)
- Screen and review **eligible label and certification standards**
- Provide **assistance to local businesses in obtaining certification**
- Leverage **capacity building support for technical improvements** in local businesses
- Assist local businesses in providing sufficient **financial documents** to become investable by impact funds
- Assist local companies in their **impact assessment activities**
- Create a **seed capital assistance facility for biodiversity** that is designed like the Seed Capital Assistance Facility for clean energy enterprises. This Assistance Facility could **provide financing of project development costs** and **provide loans for transformational change and support sustainability certification**

8 Facilitate the link between investors, fund managers and businesses

In order to address the estimated USD 200-300 billion annual funding gap in conservation, civil society organisations, private and public sector financial institutions and academia need to join forces and build new coalitions.

Financial investors typically are located far away from the respective biodiversity business investment opportunities. Investing in biodiversity businesses therefore typically comes along with **significant research and execution costs**. The same applies for biodiversity businesses that are in search of technical support or finance; they face equally high search costs.

Policy measures that **help to link the right investors with the right projects** are important in order to build the market for biodiversity business investments.²⁶²

²⁶² Jahn, Grulke, Renner et.al. (2013)

There is a broad community of organizations and networks that assist **social impact businesses** by **matching businesses with investment capital**. Some of these initiatives are presented below.

8.1 Case Study: Triple Funds

TripleFunds is an online fundraising platform that helps development NGOs and social entrepreneurs to raise funds for their projects and business models. It was developed by TripleMinds, a development consultancy network based in Austria.²⁶³

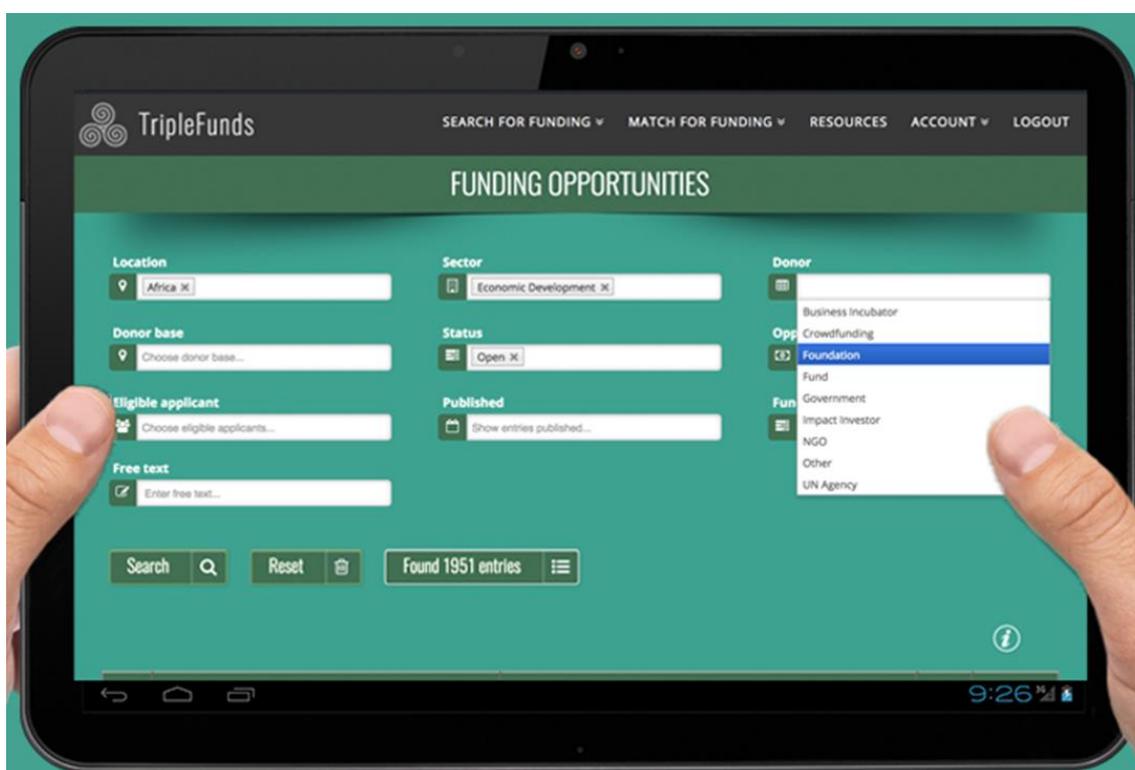


Figure 67: Triple Funds' Internet Site

Source: Triple Funds

8.2 Case study: The European Sustainable Investment Forum (Eurosif)

²⁶³ <https://triple-funds.com/about/>

Eurosif – The European Sustainable Investment Forum - is the leading European sustainable and responsible investment (SRI) membership organisation whose mission is to promote sustainability through European financial markets.²⁶⁴



Figure 68: Eurosif Logo

Source: Eurosif

The main activities of Eurosif include public policy, research and creating platforms for nurturing sustainable investing best practices.

A partnership of national Sustainable Investment Fora (SIFs) across Europe, Eurosif draws from a pool of over **400 organisations** and some of the main stakeholders within the sustainable investment industry.

These organisations include **institutional investors, asset managers, financial services, index providers and ESG research and analysis firms** totalling over **€8 trillion** in assets. Eurosif is also a founding member of the **Global Sustainable Investment Alliance**, the alliance of the largest SIFs around the world. ²⁶⁵

²⁶⁴ Forum Nachhaltige Geldanlagen (2016) Eurosif. Retrieved from: <http://www.forum-ng.org/en/fng-the/eurosif.html>

²⁶⁵ Ibid.

8.3 Case Study: ImpactAssets

ImpactAssets is a nonprofit financial services firm that aims to increase the flow of capital into investments that deliver financial, social and environmental returns.

ImpactAssets aims to enable philanthropist and individual investors to engage in impact investing by providing: impact investment products, including a donor advised fund and impact investing notes and educational resources to support individuals and advisors looking to engage in impact investing and to help build the field of impact investing.

Figure 69: Impact Assets Logo



Source: Impact Assets

Its mission is to catalyse the impact investing ecosystem by providing products and thought leadership that enable philanthropists, other asset owners and their wealth advisors to make investments with positive social, environmental and financial returns.²⁶⁶

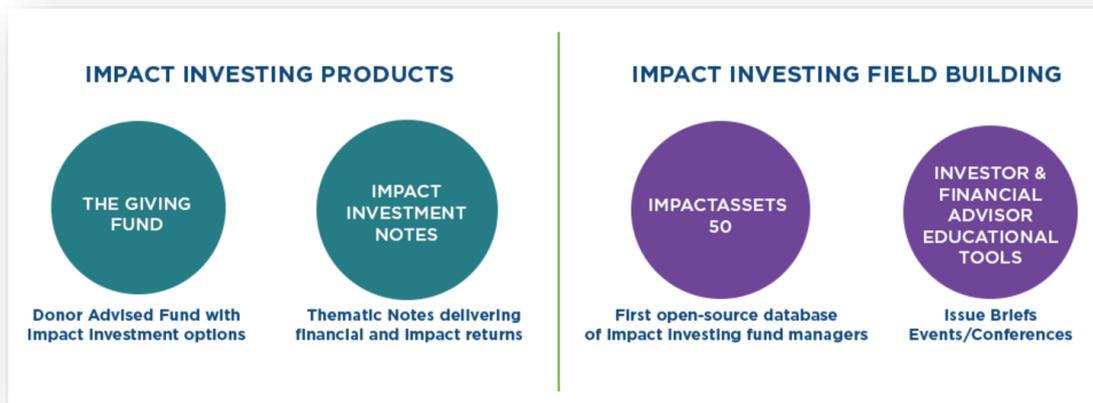


Figure 70: ImpactAssets service offering

Source: Impact Assets

²⁶⁶ Impact Assets. 2016. http://www.impactassets.org/about_us/what_we_do

ImpactAssets publishes a list that is called the “**ImpactAssets 50**”. This annually updated list aims to be “the gateway into the world of impact investing” for investors and their financial advisors, offering **an easy way to identify experienced impact investment fund managers** and explore the landscape of potential investment options.

The ImpactAssets 50 is intended to illustrate the **breadth of impact investment fund managers operating today**, though it is not a comprehensive list. The 50 firms are selected to demonstrate – according to ImpactAssets “a wide range of impact investing activities across geographies, sectors and asset classes.”²⁶⁷

8.4 Case study: The Coalition for Private Investment for Conservation

During the IUCN World Conservation Congress that took place in Hawai‘i in September 2016, **Credit Suisse, The Nature Conservancy (TNC), International Union for Conservation of Nature (IUCN) and Cornell University** launched the “Coalition for Private Investment in Conservation (CPIC).”²⁶⁸

The Coalition’s goal is to **help preserve the world’s most important ecosystems by creating new opportunities for return-seeking private investment in conservation.**

The Coalition plans to **develop new investment models and funding pipelines** that will help **close the current conservation funding gap** and contribute to the global goals for biodiversity conservation and sustainable development.

Building on the expertise and experience of the various founding members, CPIC will **serve as a hub, connecting investors and financial institutions with in-country partners, who can help develop and execute investable deals that eventually produce an environmental and financial return.**²⁶⁹

Initially, the Coalition plans to focus on several **priority investment sectors:**²⁷⁰

- Forest and landscape restoration;
- Sustainable agriculture;
- Sustainable coastal fisheries; and
- Watershed management.

“We are at a critical turning point in history, where all stakeholders are increasingly aware of the urgency of sustaining nature for the benefit of all,” says IUCN Director General Inger Andersen. “Public sector finance and philanthropic capital alone is not sufficient to meet these challenges. This new Coalition will serve as a critical platform to

²⁶⁷ Ibid.

²⁶⁸ IUCN World Conservation Congress (2016). Press release of the launch of CPIC

²⁶⁹ Ibid.

²⁷⁰ Ibid.

share expertise, stimulate innovation, and help scale up sustainable investment models, and raise awareness of the potential importance of private capital to conservation.”²⁷¹

The coalition aims to shift the field from small, donor-driven projects to large-scale conservation markets.²⁷²

The coalition has established a work plan and a path forward. By the end of 2016, it aims to **establish working groups** and **priority areas for individual blueprints**; identify background research and white papers to be developed by partners; secure additional commitments of financial and non-financial resources; develop a resourcing strategy and a communication plan; and agree on a governance model.²⁷³

In five years, CPIC aims to arrive at the next IUCN World Conservation Congress with concrete and effective standards and metrics on how to scale up private finance towards conservation. CPIC **encourages interested parties to join the group.**

8.5 Case study: The Platform Biodiversity, Ecosystems & Economy

The **Platform Biodiversity, Ecosystems & Economy (Platform BEE)** is committed to preserving and restoring biodiversity and ecosystems as a precondition for a strong economy and a healthy environment.²⁷⁴

The Platform is an initiative of VNO-NCW (**the Confederation of Netherlands Industry and Employers**) and environmental organisation IUCN NL (**the International Union for Conservation of Nature in the Netherlands**). Business representatives, nature organizations and the knowledge community are part of the Platform.²⁷⁵

Platform BEE wishes to make businesses aware of the importance of biodiversity and ecosystems for their operations, and encourage them to integrate care for natural capital in corporate activities.

²⁷¹ Ibid.

²⁷² Ibid.

²⁷³ Ibid. and International Union for Conservation of Nature. 2016a. Coalition for Private Investment in Conservation (CPIC). Coalition Road Map for 2016.

²⁷⁴ Platform Biodiversity Ecosystems and Economy (2016) Portrait of Platform BEE. <http://www.conference-naturalcapital.nl/about-us/>

²⁷⁵ Ibid.

Good management, protection and **restoration of ecosystems and biodiversity** are decisive for a sustainable transition to a biodiversity friendly economy. The platform encourages ambitions of companies to **avoid, reduce or compensate their impact on natural capital** and to benefit from opportunities.²⁷⁶

Member companies contribute to the greening of production, trade and consumption chains.²⁷⁷ The leading principle of Platform BEE is **'No Net Loss' of biodiversity**. This means that the activities of companies are not detrimental to biodiversity or ecosystems, but instead aim to contribute to restoring and maintaining natural capital.



Figure 71: Den Haag Business Accord on Natural Capital

Source: Platform BEE

Together with Platform BEE, more than fifty Dutch companies have initiated natural capital projects: around company buildings, through their supply chains and by investing in natural landscapes. In 2016 Platform BEE launched the **Den Haag Business Accord on Natural Capital that was signed by 75 companies and organizations** so far.

²⁷⁶ Ibid.

²⁷⁷ Ibid.

8.6 Policy options to facilitate the link between investors, businesses and conservationists

We showed that there are a number of organizations and networks that assist **social impact businesses** by **matching businesses and conservation projects with investment capital**. However, often in most of these networks, there is only little or even no engagement from ODA entities.

Policy options:

- **Team- up with and leverage the existing platforms that match businesses with investment capital and financial intermediaries**
- Facilitate the development of **new investment platforms that are focused on biodiversity business opportunities**
- **Mainstream the topic of biodiversity in existing investment platforms** (e.g. via a mentorship for biodiversity entrepreneurs to encourage them to speak at “mainstream” investment conferences).
- **Team up with and or leverage existing initiatives** like the Coalition for Private Investment for Conservation and the Platform BEE that serve as a hub, connecting investors and financial institutions with in-country partners, who can help develop and execute investable biodiversity deals that eventually produce an environmental and financial return.
- **Raise awareness** among investors, businesses and financial intermediaries regarding the existence of the relevant coalitions.

9 Integrate Biodiversity into corporate and financial sector decision making

Until now, biodiversity and natural capital has for the most part been excluded from business and financial decision making. The growth of the impact investing sector might be able to change this for the better. It is driving capital to investments that actively create positive social and environmental impact – some of these investments also target biodiversity.²⁷⁸

However in order to compare alternative investment opportunities based on both financial and biodiversity-related criteria **investors need reliable rating and certification standards.**²⁷⁹

Standardized metrics are necessary if companies want to evaluate their impact internally and convey social and environmental returns to investors.

While there are many national level accounting initiatives such as the UN System of Environmental Economic Accounting (SEEA) implemented by governments, through for example, the World Bank led Wealth Accounting and Valuation of Ecosystem Services (WAVES) global partnership, only few initiatives are focused on business decision making.

However, a number of initiatives have been created in recent years. The initiatives that are emerging as the most relevant for this study are **IRIS (Impact Reporting and Investment Standards)** and **GIIRS (Global Impact Investing Rating System)**, the **B-Corp Standard**,²⁸⁰ the **vfU Biodiversity Principles for the Financial Sector**, the **Natural Capital Protocol** as well as the **Born Be Impact Assessment** for start-ups.

Certifications like the Marine Stewardship Council, Forest Stewardship Council, or the Rainforest Alliance are important tools to evaluate endeavors on the project level – but not on the level of the investment fund and are therefore not portrayed here.

²⁷⁸ Global Impact Investing Rating System. 2016. Sample Rating. http://giirs.org/assets/pdf/GIIRS-Sample_Rating2010_Complete.pdf

²⁷⁹ Impact Reporting and Investment Standard (2016). About IRIS. <https://iris.thegiin.org/about-iris>

²⁸⁰ Conservation Finance Alliance (2014)

9.1 Case Study: The Global Impact Investing Rating System (GIIRS)

The **Global Impact Investing Rating System (“GIIRS”)** is a project of the non-profit organisation B Lab. Developed 2010 and launched in 2011, it assesses the social and environmental **impact** (but not the financial performance) **of companies and funds using a ratings methodology analogous to Morningstar investment ratings or S&P credit risk ratings** (E.g. **GIIRS 4-Star Company Impact Rating** or **GIIRS 4-Star Fund Impact Rating**).
281



Figure 72: Logo of the Global Impact Investing Rating System

Source: GIIRS

GIIRS’ focus is to **rate the impact** of sustainability and mission focused **private equity and debt investments; it will not compete with existing systems that rate large public corporations on their corporate social responsibility.**

GIIRS aims to reduce due diligence costs for impact investors and the communication burden for companies by **creating a universal social and environmental performance standard**. It assesses companies and funds on four performance areas: Governance, workers, community, and environment. The assessments and ratings are intended to be comprehensive, comparable, and complementary across sectors, regions and organizational sizes.²⁸²

The Conservation Finance Alliance estimated that in 2012 - one year after the standard was introduced – already USD 2 billion in invested capital was participating in the GIIRS in over 30 countries.²⁸³

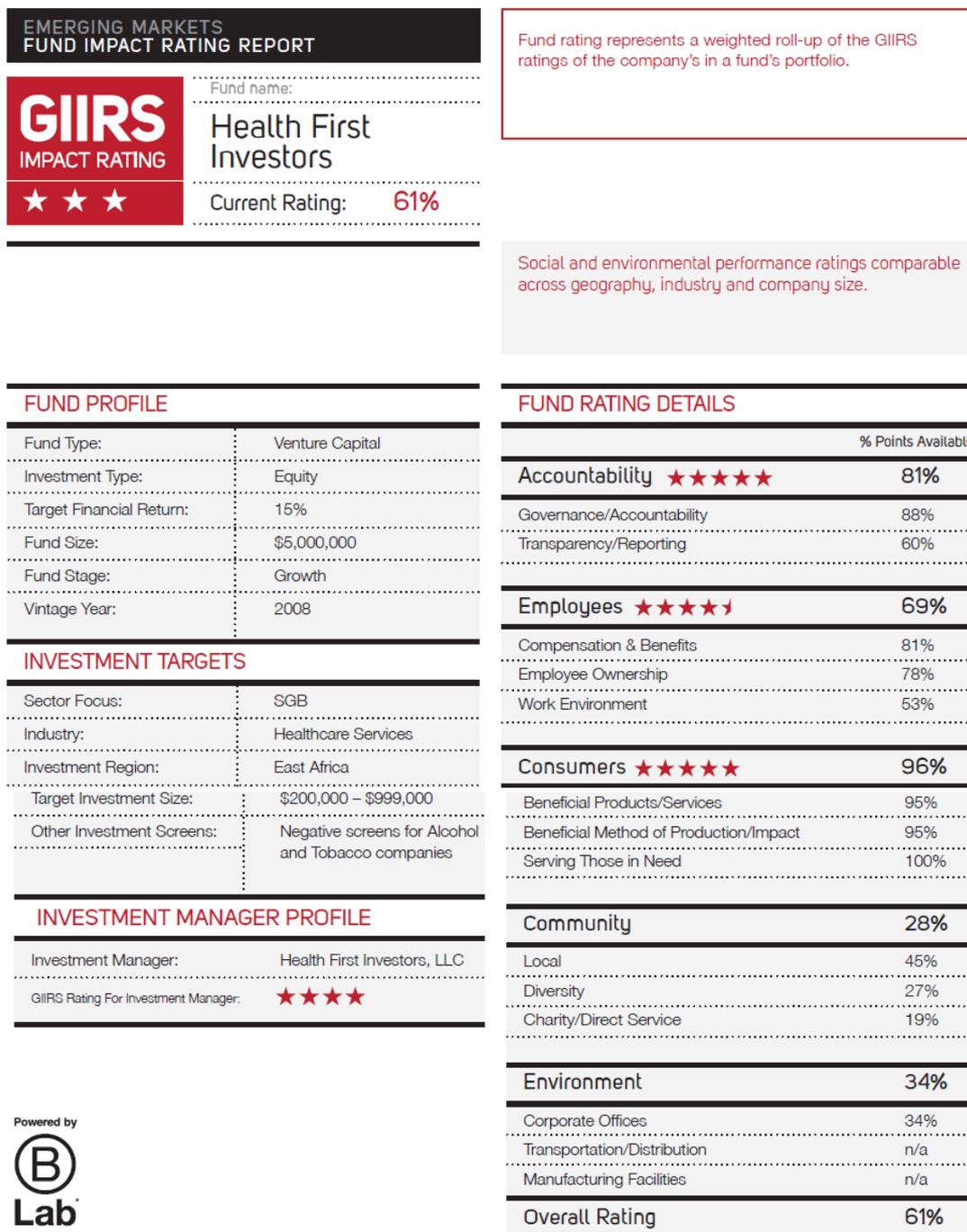
GIIRS provides both company and fund impact ratings, each with current and historical analyses of impact performance for comparative use. GIIRS Ratings are driven by IRIS,

²⁸¹ Global Impact Investing Rating System (2016) Sample Rating. Retrieved from: http://giirs.org/assets/pdf/GIIRS-Sample_Rating2010_Complete.pdf

²⁸² Conservation Finance Alliance (2014)

²⁸³ Jackson and Harji (2012)

an industry-recognized taxonomy and reporting standard. The Ratings methodology is developed and overseen by an independent Standards Advisory Council and **ratings are subject to an assurance and audit process.**



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4

Figure 73: Example of a GIIRS impact rating for an investment fund

Source: GIIRS

GIIRS Ratings will be transparent and broadly **available to investors for free**. Underlying data and analytics tools are available via subscription. **The ratings can be used by both institutional investors and investment intermediaries to evaluate, screen, manage, and communicate the social impact of their investments**, as well as other financial instruments.

The ratings allow for comparable measurement of impact across businesses and investment products in the developing and advanced economies, in different industries, of different sizes, and with different areas of impact focus.

According to its own assessment GIIRS can provide value to different actors:²⁸⁴

- **“Fund managers and companies** can raise capital from (...) investors based on the social and environmental impact of their underlying businesses or portfolio companies;
- (...) **Investors** can conduct better due diligence, make better investment decisions, track and improve social and environmental performance throughout the investment lifecycle, and report absolute and relative impact; and
- **Consultants, investment bankers, and other intermediaries** can use data and analytical tools to improve their own (...) products or (...) services”.

Examples of use of GIIRS ratings include the following: ²⁸⁵

- A **company raising growth-stage capital** can include a GIIRS 4-Star Company Impact Rating in its offering memorandum.
- A **fund manager can provide investor reporting** showing that its recent Developing World Impact Fund I, LP achieved a GIIRS 3-Star Fund Impact Rating, including transparent pre-investment Company Impact Ratings for each of the companies in its portfolio;
- An **institutional investor can purchase detailed KPI data** for each of its direct and fund investments;
- A **trading platform can license the GIIRS as a listing requirement** for all companies and funds listed on its system.

²⁸⁴ Global Impact Investing Rating System (2016) Sample Rating.

²⁸⁵ Ibid.

9.2 Case study: The Impact Reporting and Investment Standard (IRIS)

IRIS is an initiative of the Global Impact Investing Network (GIIN), a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing.²⁸⁶



Figure 74: IRIS Logo

Source: IRIS

IRIS is an all-encompassing, comprehensive catalog of generally accepted performance metrics that leading impact investors use to measure social, environmental, and financial success, evaluate deals, and grow the sector's credibility. **Metrics can be filtered based on investment priorities and focus areas.**²⁸⁷

Impact measurement is a core characteristic of impact investing and offers **IRIS as a free public good to support transparency**, credibility, and accountability in impact measurement practices across the impact investment industry.

Initial standards were launched in 2009, with a revised version released in 2010. Currently, the IRIS initiative continues to refine its standards and is building a database on performance data.

IRIS describes the benefits of the IRIS metrics catalogue in the following way:²⁸⁸

1. One-stop Shop

By **cataloging the most useful metrics from across the industry** in one place, IRIS takes the guesswork out of which performance metrics to use.

2. Aggregate & Compare

By **providing a standard common language to talk about results**, IRIS **makes it easier to compare investments** and aggregate information across a portfolio.

3. Increase Credibility

²⁸⁶ Impact Reporting and Investment Standard (2016). About IRIS. <https://iris.thegiin.org/about-iris>

²⁸⁷ IRIS has been an initiative of the GIIN since 2009. Prior to that, IRIS was jointly managed by The Rockefeller Foundation, Acumen, and B Lab, which began development of IRIS in early 2008 with technical support from Hitachi, Deloitte, and PricewaterhouseCoopers

²⁸⁸ Ibid.

Over 5,000 organizations are using IRIS to evaluate, communicate and manage their social and environmental performance.

4. Reduce Reporting Burden

IRIS doesn't reinvent the wheel and **incorporates and aligns with widely accepted 3rd party standards wherever possible**. Organizations can use IRIS as the anchor for their diverse reporting requirements.

Iris regularly features **companies and investment funds that use IRIS metrics**. One example is **New Ventures**²⁸⁹ which provides business development services to environmentally-focused small and medium enterprises (SMEs) in emerging markets.

New Ventures uses IRIS for its business accelerator in order to track and manage program performance and in order to communicate with impact investors. Some of the IRIS metrics that New Ventures uses are displayed in the figure below.

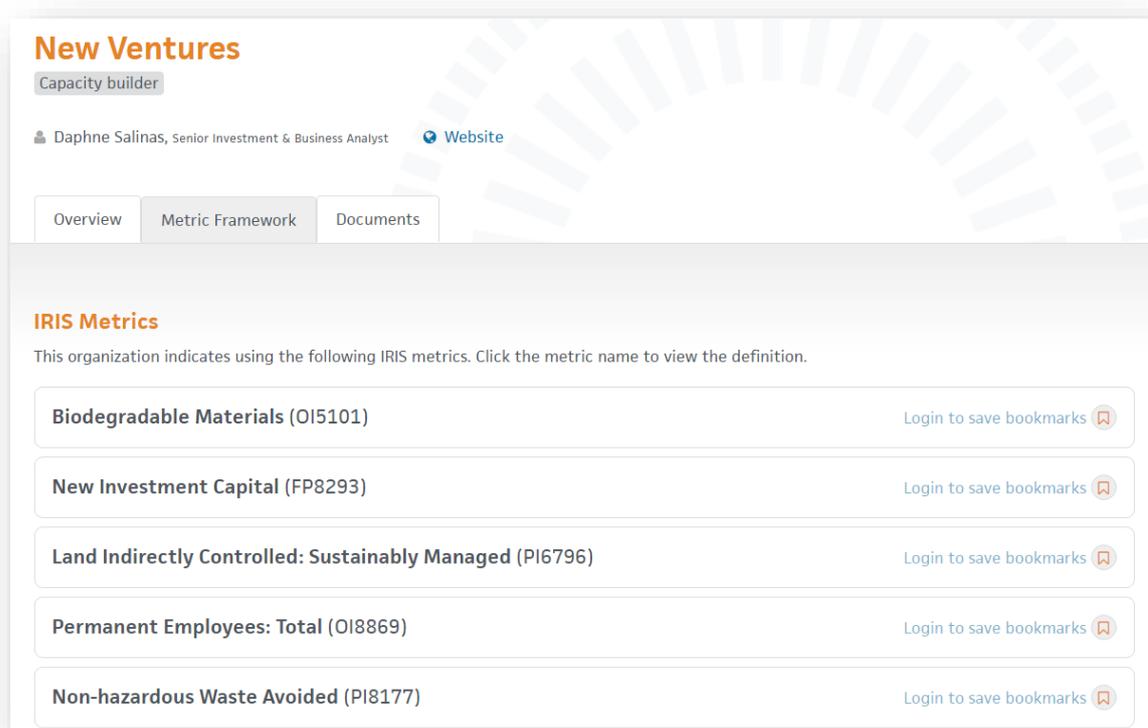


Figure 75: Example of IRIS metrics used by the Capacity Builder New Ventures

Source: <https://iris.theqiin.org>

²⁸⁹ The mission of New Ventures is to empower environmental entrepreneurs in emerging markets to develop market-based solutions that protect Earth's environment and its capacity to provide for current and future generations. For this purpose it builds in-country support networks for environmental enterprises and increases their access to finance.

In 2014, the Conservation Finance Alliance compared the standards IRIS and GIIRS.²⁹⁰ The results are summarized in the table below:

	IRIS (Impact Reporting and Investment Standards)	GIIRS (Global Impact Investing Ratings System)
Type	Environmental and Social Standard	Environmental and Social Rating
Organization	Non-profit that provides a set of standardized metrics that can be used to describe an organization's social, environmental, and financial performance.	Non-profit, third-party rating organization, uses IRIS standards and definitions.
Sector(s)	Developed and emerging market companies; small to medium sized funds	Developed and emerging market companies; small to medium sized funds
Qualitative-Quantitative Impact	Both	Both
Users	Investors in funds, direct investors, companies, and member organizations	46 Funds, 350 Companies
Risk Measurement	Minimal, partially accounted for in financial metrics	No
Background Metrics	Varies (and selected) by project or venture	IRIS
Pre-assessment	Not applicable	Self-reported data is reviewed by a third-party to produce rating.
Post-assessment	Not applicable	10% of companies are audited annually.
Reporting Framework	Organization description; product description; financial performance; operational impact; product impact; glossary	Simple rating; detailed rating; key performance indicators; intra-sector fund/company comparison

Figure 76: Comparison of IRIS and GIIRS

Source: Adapted from: Conservation Finance Alliance (2014)

²⁹⁰ Conservation Finance Alliance (2014)

9.3 Case Study: B-Corp Impact Assessment

The B-Corp Certification²⁹¹ is a third party standard developed by the American not-for-profit organization B-Lab. The standard is gaining in importance at fast pace and there are now 1.974 certified B Corporations in 50 Countries and 130 Industries. ²⁹²



Figure 77: Logo of the B Impact Assessment

Source: B Lab

To be granted and to preserve certification, companies must **receive a minimum score** on an **online impact assessment** for "social and environmental performance", meet certain legal requirements, integrate their stakeholder commitments into the company governing documents, sign the B Corp Declaration of Interdependence and pay an annual fee ranging from USD 500 to USD 50,000.

B-Lab certification applies to the whole company across all product lines and issue areas. For-profits of all legal business structures are eligible for certification.

In order to be B-corp certified, entities have to make an amendment of the company **by-laws or governing documents**. These include:

- The establishment of clear wording to "consider stakeholder interests" in the company's articles of incorporation or company by-laws.
- Define "stakeholders" as the employees, the community, the environment, suppliers, customers, and shareholders
- Make no prioritization of one stakeholder over another.
- Allow for the company's values to exist under new management, investors, or ownership.

B-Lab certification allows the company bylaws to remain secret. However, companies need to be transparent to the public regarding the score they received on the assessment.

²⁹¹ B Lab (2016a). B Corp Impact Assessment. <http://www.bcorporation.net/www.bcorporation.net/>

²⁹² Ibid.

How to Become a B Corp

It's as Easy as 1-2-3:

Step 1: Meet Performance Requirement

Complete the B Impact Assessment and earn a reviewed minimum score of 80 out of 200 points.

[Get Started](#) [More Details>>](#)

Step 2: Meet Legal Requirement

Determine the path for your corporate structure and state of incorporation.

[Learn Why this Matters](#)

Step 3: Make it Official

Sign the B Corp Declaration of Interdependence and Term Sheet.

[View Docs and Certification Fees](#)



Calling all Start-Ups!

Learn the path to certification (and some helpful tips) for new businesses.

[Click Here](#)

Multinationals and Public Companies

Figure 78: How to become a B Corp

Source: B Lab 2016

The score achieved in the [online impact assessment tool](#) can be helpful for Impact Investors when they compare different possible investment options regarding a business' ability to not only generate returns, but also to create value for its customers, employees, community, and the environment.

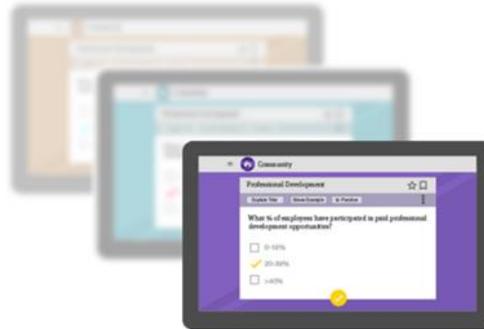
STEP 1. Assess

This Assessment will walk you through a series of questions to help you learn what it takes to build a better business - better for your workers, community, and the environment.

Takes ~30 mins to get a quick snapshot

Takes ~2-3 hrs for a full impact report

[See Sample Questions](#)



STEP 2. Compare

Compare your answers to thousands of other businesses and see how you stack up.

You will receive two types of feedback:

Quick Snapshot

A simple look at which questions your company already excels at and which practices it could improve on

B Impact Report

A more holistic look at how your company scores across multiple questions related to the same impact topic

[See a Sample Report](#)



STEP 3. Improve

Create a customized improvement plan for your business and use our free best practice guides to help you implement.

[See Improvement Tools and Case Studies](#)

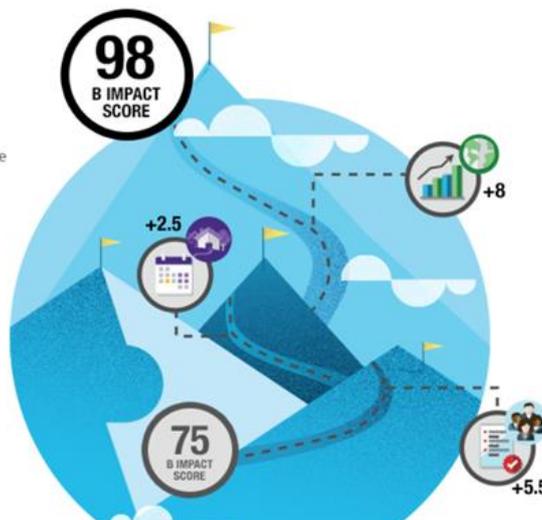


Figure 79: The Born B online Impact Assessment on a company's impact on people and planet

Source: B Lab



2011 Patagonia, Inc. B Impact Report

See how they compare

107
B IMPACT
SCORE

Impact Area	Average score of other businesses	Company score
Governance	20	32
Accountability	12	6
Transparency	3	3
Workers	25	22
Compensation, Benefits & Training	17	15
Worker Ownership	2	2
Work Environment	6	4
Community	20	32
Community Products & Services	0	15
Community Practices	20	15
Suppliers & Distributors	9	4
Local	1	5
Diversity	N/A	2
Job Creation	1	2
Civic Engagement & Giving	N/A	4
Environment	9	47
Environmental Products & Services	4	4
Environmental Practices	6	43
Land, Office, Plant	4	6
Energy, Water, Materials	2	11
Emissions, Water, Waste	1	2
Suppliers & Transportation	N/A	7
Overall B Impact Score	80	107

Figure 80: Example of a B-Corp Impact Report

Source: B Lab 2016

9.4 Case study: The “Born Be” Initiative for start-ups

The B-corp Impact Assessments are supported by the B Team - a **global nonprofit initiative co-founded by Sir Richard Branson and Jochen Zeitz in 2013** that brings together a group of global leaders from business, civil society and government to catalyse a “better way of doing business that prioritizes the wellbeing of people and the planet.”²⁹³



Figure 81: Logo of the B TEAM

Source: bteam.org

Inspired by the work of the B Corp movement they labeled their vision for a better way of doing business 'Plan B' and 'The B Team' emerged.

The B Team intends to achieve this vision by starting at home, working to advance Challenges in their own companies that get right to the heart of the issues that cause companies to remain rooted in 'Plan A' - business as usual, and to empower business leaders around the world to join them.²⁹⁴

The B Team was incubated by Virgin Unite, the charitable arm of the Virgin Group, which had previously incubated such organizations the Elders and the Carbon War Room. In October, 2012, Branson and Zeitz announced the formation of The B Team and it has since grown to include 23 leaders, among them Guilherme Leal, Founder and Co-Chairman of Natura, Paul Polman, CEO of Unilever, Ratan Tata, Chairman Emeritus of the Tata Group, Zhang Yue, Chairman and Founder of Broad Group China, Professor Muhammad Yunus, Chairman of Yunus Centre and Marc Benioff, Founder, Chairman and CEO of Salesforce.com, Oliver Bäte, CEO of Allianz Group and Andrew Liveris, Chairman and CEO of Dow Chemical Company.²⁹⁵

Working as part of the Natural Capital Coalition The B Team supported the development of the global, standard **Natural Capital Protocol** - a set of tools for companies to measure their impacts and dependencies on nature (See Chapter on The Natural Capital Coalition).

²⁹³ Wikipedia.2016. The B Team. Retrieved from: https://en.wikipedia.org/wiki/The_B_Team

²⁹⁴ Ibid.

²⁹⁵ Ibid.

In 2016, as part of their work for The B Team Sir Richard Branson and Marc Benioff launched a **movement of entrepreneurs and business leaders building their companies with people and planet alongside profit as part of their DNA from the outset**, called "Born B".

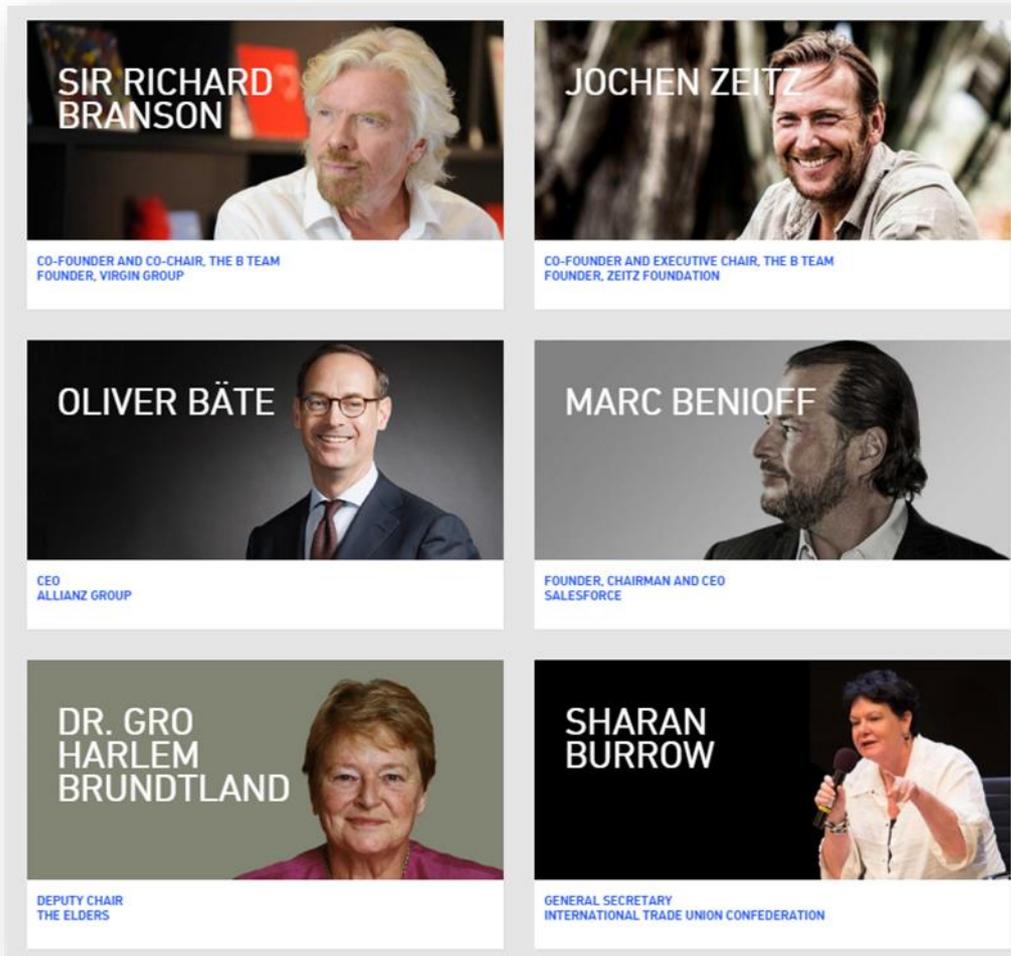


Figure 82: Members of the B-Team

Source: B Lab

The **Born B community** will be led by “B innovators, industry disruptors committed to working on The B Team Challenges,” (which include transparency, diversity, collaboration, nature, and more).

During 2016, the community will be supported through events, online resources, and Born B’s partnership with B Corp. Born B also **plans to engage with the venture capital and legal communities to encourage the flow of investment capital into ventures that “want to have positive profitable business success and significant social impact.”**

Interested entrepreneurs are encouraged to get started by:²⁹⁶

- Taking the **Born B Quick Impact Assessment**²⁹⁷ to start measuring their company's impacts on people and planet and gauge their progress against that of other companies at the same stage of growth; (See figure below).
- **Pledging 1 percent of their personal equity, company equity, employee time, product and/or profit to support non-profits in their community;** and
- Aligning their governance model with their mission, by **becoming a benefit corporation** or building their mission into their LLC's operating agreement.

Born B companies are then encouraged to set goals – whether tailored to becoming B Corp-certified (See Chapter on B-Corp) or more long-term, such as to reach net-zero greenhouse gas (GHG) emissions by 2050.²⁹⁸



Figure 83: The Born B Impact Assessment on a company's impact on people and planet

Source: B Lab

²⁹⁶ Sustainable Brands (2016). The B Team Launches 'Born B' to Support Purpose-Driven Entrepreneurs.

²⁹⁷ B Lab (2016b).

²⁹⁸ Sustainable Brands (2016).

9.5 Case study: The vfu Biodiversity Principles for the Financial Sector

Starting in 1994 the “Association for Environmental Management and Sustainability in Financial Institutions” (German: Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V. (VfU)) has encouraged German-speaking financial institutions to exchange their thoughts and expertise on topics of sustainability. Its aim is to develop strategies and tools that promote sustainable development within the financial sector.

Since 2008, the VfU has been particularly concerned with the issue of biological diversity and its relevance within the financial sector.

In 2011, the “VfU Forum Biodiversity“ task force in cooperation with the author of this study as well as the Centre for Sustainability Management (CSM) at the Leuphana Universität Lüneburg (Germany) developed a set of **Biodiversity Principles for the Financial Sector**. The development of the principles was facilitated by the German Federal Agency for Nature Conservation (BfN, Bundesamt für Naturschutz).

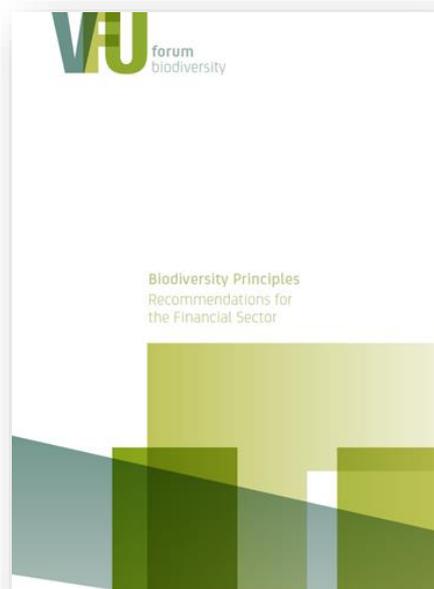


Figure 84: Biodiversity Principles – Recommendations for the Financial Sector

Source: vfu

The principles serve as a guide for businesses within the financial services and insurance sector, helping them develop individual strategies and integrate the conservation of biodiversity into their business practices. The principles thereby offer a recommended

course of action and help individual companies further specify and implement specific biodiversity management strategies.

The principles offer a methodology how financial institutions can integrate biodiversity into their management system as well as the different business areas, such as: Research activities, Asset Management, Retail Banking, Insurance and Reinsurance, Corporate Banking, Investment Banking and Global Markets as well as Project Finance.



The Biodiversity Principles for the Financial Sector	
Incorporation into the Management System	
Incorporation into Business Areas	
Research Activities	
Asset Management	
Retail Banking	
Insurance and Reinsurance	
Corporate Banking	
Investment Banking & Global Markets	
Project Finance	

Figure 85: Biodiversity Principles – Business Areas Covered by the study

Source: vfu

The guidelines are cited below: ²⁹⁹

Incorporation of Biodiversity into the Management System

Integrating the aim to “conserve biodiversity” into strategic business operations leads to its long-term incorporation, and consequently, to the continuous alleviation of negative effects on biodiversity caused by business activities. In this way, companies can serve as role models.

1. A biodiversity strategy, corresponding sustainability policy, or guideline that includes biodiversity-related aims, supports the aim – “to preserve biodiversity” – within strategic and operational decision processes.
2. The biodiversity strategy, corresponding sustainability policy, or guideline should include clearly defined objectives.
3. It is vital that the management board, or the senior management, clearly commits itself to the aim of “conserving biodiversity” by means of a voluntary agreement or

²⁹⁹ vfu (2011): Biodiversity Principles. Recommendations for the Financial Sector.

as an element of the sustainability policy. Moreover, the management board or senior management should designate one of their members as responsible for the implementation and realization of the biodiversity strategy, sustainability policy, or guideline that includes biodiversity-related aims, and any ensuing goals.

4. The implementation of the biodiversity strategy, sustainability policy, or guideline should be regularly reported on, both within the company and to the public.
5. Whenever possible, operational processes should exclude the use of products and services that have clear and recognizable negative impacts on biodiversity.
6. Staff members must be informed about the issue of biodiversity and must be offered support in their attempts to implement the biodiversity strategy, sustainability policy, or guideline into their everyday business activities.

Incorporation of Biodiversity into Business Areas

Research Activities

Integrating aspects of biodiversity into company research activities encourages new product- and service-related insights. The results are beneficial for both the clients and the environment.

Asset Management

1. There are different risks and opportunities when it comes to aspects of biodiversity. Asset managers should therefore be capable of including possible biodiversity impacts into their analysis and investment decisions.
2. Clients should be informed if investments involve considerable biodiversity related opportunities or risks.
3. Products and services must be designed so that risks emerging in the context of biodiversity can be managed and business opportunities can be acted upon.
4. Institutional investors should act according to the best long-term interest of their beneficiaries. This fiduciary responsibility also includes the acknowledgement of biodiversity.

Retail Banking

1. Ensuring client readiness and commitment to the preservation and sustainable use of biodiversity is highly recommended.
2. Suitable communication methods help raise awareness among clients.
3. By means of offering the corresponding products, support should be given to client contributions to preserving biodiversity.

Insurance and Reinsurance

1. When consulting, supporting and insuring clients, it is imperative to acknowledge their potential liability for direct and indirect damage to biodiversity, and In order to prevent illegitimate claims in the event of a loss, comprehensive consultancy services for the customers should be ensured via active and passive legal protection.
2. Whenever possible, clients should be provided with information on ecological risks and alternative courses of action, and enjoy support when attempting to avoid or alleviate negative impacts on biodiversity.
3. Product development should be based on current and future client demands, as well as on the protection of natural resources. In this way, product development can reduce the clients' economic and financial risks, and make an important contribution to a society's economic growth.

Corporate Banking

1. Day-to-day business demands the development of functional methods for better quality management of biodiversity risks and opportunities.
2. Financial solutions that support investments compatible with and beneficial to biodiversity should be developed and offered.
3. Clients should be encouraged to deliberately think about their specific biodiversity risks and opportunities, as well as about the preservation of biodiversity.
4. Provided that client business activities have a negative impact on biodiversity, they should be presented with suggested biodiversity offset schemes.
5. Staff members must be provided with training and information in order to help them assess biodiversity-related client risks and opportunities.

Investment Banking & Global Markets

1. It is imperative to compile schemes and tools that reveal biodiversity risks and opportunities to clients regarding their planned business activities.
2. In the Structured Lending & Venture Capital business divisions, investments in biodiversity-friendly technologies and environmentally friendly projects should be supported by functional financial solutions.
3. In trade, biodiversity expertise should be indirectly incorporated in the fields of weather derivatives, renewable energies or other environmentally relevant commodities.

Project Finance

In the context of projects with high impact on biodiversity (for example, in mining and mineral extraction, agriculture and forestry, tourism and hydropower), clients should be encouraged to:

1. Incorporate the conservation of biodiversity into their project design and follow the criteria defined in the IFC Biodiversity Performance Standards
2. Evaluate technical and financial options in order to avoid, minimize, replace or offset negative impacts on biodiversity to a sufficient degree
3. Include biodiversity into project progress reports in order to monitor the success of biodiversity preservation schemes The IFC Performance Standards 6 – Biodiversity Conservation and Sustainable Natural Resource Management (www.ifc.org) provide guidance for project finance. This helps support the preservation of areas that are particularly in need of protection, such as tropical rainforest, swamps and wetlands, and other old-growth forests.

9.6 Case study: The Natural Capital Protocol for corporations

The Natural Capital Protocol (NCP) is a new framework to help businesses measure and value the natural resources which are the foundation of economic activity.

All business decision making relies on financial information. But traditional accounting mostly fails to consider a company's impacts and dependencies on nature. The NCP will help businesses systematically **integrate their relationships with nature into their core strategy and operation**, and producing positive environmental benefits.³⁰⁰



Figure 86: Logo of the Natural Capital Coalition

Source: The Natural Capital Coalition

The NCP was developed by a coalition ("The Natural Capital Coalition) of 38 organizations, including, WBCSD, IUCN and The B Team, with hundreds of others consulted. The protocol has been piloted and feed into by more than 80 companies, representing 15 industry sectors and seven geographical regions.³⁰¹

The aim of the Natural Capital Coalition is:³⁰²

- To **bring together the many approaches to natural capital** under one vision, sharing and promoting best practice
- To clearly **explain why** we need to integrate natural capital into decision making
- To develop, test and encourage the use of a **standardized Natural Capital Protocol** and sector guides
- To support a **shift in corporate behavior** to enhance rather than deplete natural capital

³⁰⁰ The B Team (2016). The Natural Capital Protocol, <http://bteam.org/announcements/world-first-natural-capital-protocol-to-help-business-value-natural-resources>.

³⁰¹ Ibid.

³⁰² Ibid.

- To support the evolution of an **enabling policy environment** and access to reliable data.

The protocol aims to generate, trusted, credible and actionable information around natural capital impacts and dependencies associated with business operations and is freely available to all business leaders.³⁰³

Protocol Stages are broken down into nine Steps, which contain specific questions to be answered when carrying out a natural capital assessment. The Protocol is applicable to any business sector, operating in any geography, at any organizational level. It allows companies to measure, value and integrate natural capital into all existing business processes.

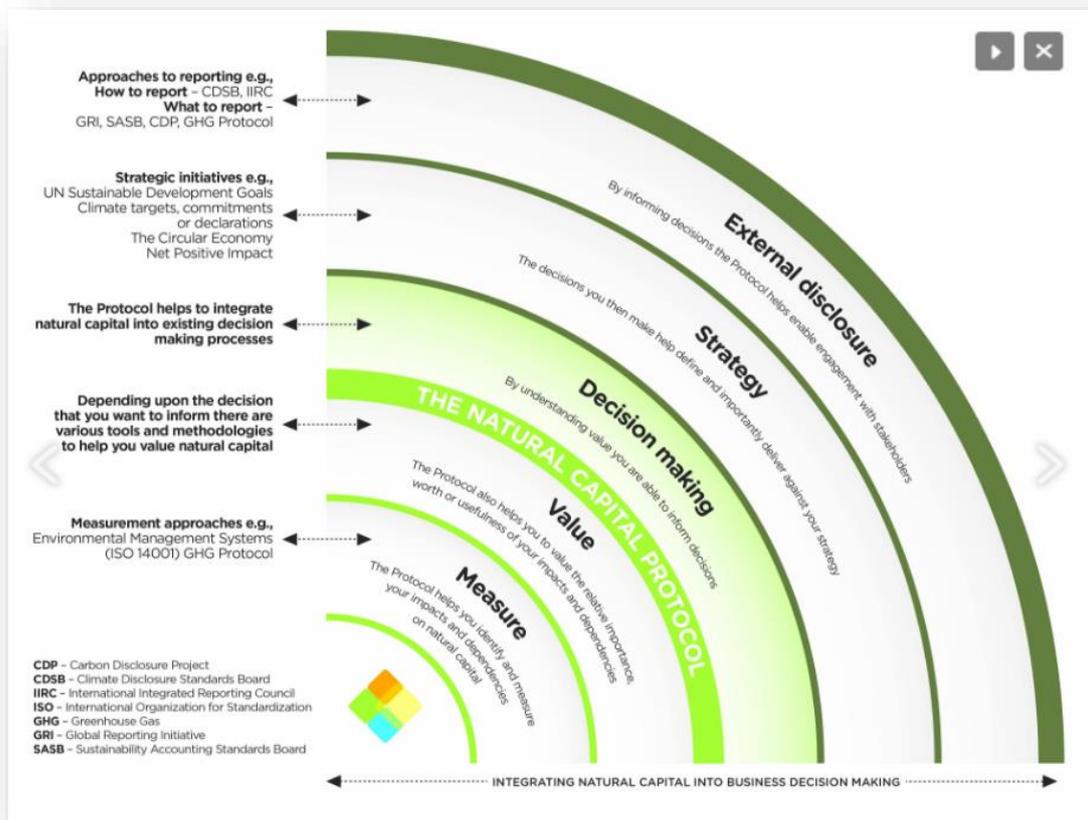


Figure 87: Steps of Business Decision Making that the NCP has an influence on
 Source: Natural Capital Coalition

³⁰³ Ibid.

9.7 Policy options to incorporate biodiversity into corporate and financial decision making

We presented a few new initiatives that offer standardized frameworks to identify, measure, and value impacts and dependencies on natural capital and take business action.

Our analysis revealed that the most common impact measurement and corporate metrics do not put a specific focus on biodiversity yet.

While for example the vfU Biodiversity Principles and the Natural Capital Protocol explicitly focus on Biodiversity and Ecosystem Services, the Born-Be Impact Assessment has to date no specific focus on biodiversity.

Policy options:

- **Team-up with the existing initiatives** like the **vfU Biodiversity Principles and the Natural Capital Protocol and the Born-Be Impact Assessment** and leverage their outreach.
- **Embed biodiversity criteria into the most commonly used metrics** for impact measurement of investments for example by cooperating with the founders of GIIRS, IRIS and the B-Corp Impact Assessments.
- **Develop Key Performance Indicators that can be integrated into such frameworks.**
- **Team up with institutions like the vfU in order to encourage investment fund managers to incorporate information regarding the Natural Capital Protocol into their screening criteria for “Sustainability themed” funds.**

10 Conclusion and summary of recommendations

The study finds that the **growing market for socially responsible investments (SRI)** represents an important opportunity for the financing of biodiversity friendly businesses. However, up to now, only few SRI funds focus on biodiversity.

It is therefore necessary to **encourage fund managers** and intermediaries to **take into account biodiversity criteria in their selection processes for SRI**.

The study also points out that investors need additional **financial incentives to invest into** biodiversity friendly businesses in order to make up for the high transaction costs, and often **unattractive risk/return ratios** connected with these business models.

This can be done by leveraging **blended fund models like the Eco.business Fund, online market places for biodiversity** like Agora Natura and **offsetting** schemes like BBOP or the Livelihoods funds and by supporting businesses who want to **participate in such schemes**. **In addition, policy action could support the creation of a seed-financing facility especially targeted at biodiversity businesses**.

Furthermore, Biodiversity friendly businesses **need help in fulfilling certification standards and apply for funding**. For this aim, organizations like the **Eco.business Fund's Development facility** and **New Ventures** should be supported in their efforts.

At the same time, **initiatives that match businesses with investment capital** like Triple-Funds or the Coalition for Private Investment in Conservation (CPIC) should be leveraged.

In order to **integrate Biodiversity into corporate and financial sector decision making**, action should be taken to integrate biodiversity criteria into impact measurement tools such as the Global Impact Investing Rating System as well as corporate decision making tools developed by the vfu, the Natural Capital Coalition or the B Lab and leverage their outreach.

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12 Glossary and abbreviations

Table 9: Glossary and abbreviations	
Term	Explanation
Asset manager	Organization or individual managing investments on behalf of a client.
Asset owner	Owner of investments managed by asset manager.
Biodiversity Businesses	Businesses that generate profits through production processes that conserve biodiversity, use biological resources sustainably and share the benefits arising out of this use equitably. ³⁰⁴
Biodiversity impact investments	Biodiversity impact investments are defined as investments intended to return principal or generate profit while also driving a positive impact on natural resources and ecosystems – specifically, decreased pressure on a critical ecological resource and/or the preservation or enhancement of critical habitat. In addition, conservation impact must be an important motivation for making the investment. Conservation impact cannot be simply a by-product of an investment made solely for financial return. ³⁰⁵
Best-in-Class	Approach where leading or best-performing investments within a universe, category, or class are selected or weighted based on ESG criteria.
BMZ	Federal Ministry for Economic Cooperation and Development
BOOT	Build-own-operate-transfer (PPP model)
BoP	Base of the pyramid
BOT	Build-operate-transfer (a PPP model)
CAGR	Compound Annual Growth Rate
Community investing	Investments into local communities, either directly or through channels such as local community minorities.
CSR	Corporate Social Responsibility
DBO	Design-build-operate (a PPP model)
DC	Development cooperation
DEO	Former German Development Service (now GIZ)

³⁰⁴ Bishop *et al.*, 2008

³⁰⁵ Nature Vest/ EKO (2014), p. 9

Table 9: Glossary and abbreviations

Term	Explanation
Engagement and voting	Engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process, seeking to influence behaviour or increase disclosure.
ESG	Environmental, Social and Governance
Exclusions	An approach that excludes specific investments or classes of investment from the investible universe such as companies, sectors, or countries.
FC	Financial cooperation
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
High Net Worth Individuals	Individual with more than USD 1 million in liquid financial assets.
Impact investing	Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending upon the circumstances
Institutional investor	Large professional investors such as pension funds for instance. In this Study, Institutional investors may comprise asset managers and asset owners, to the extent the latter manage internally a part of their invested assets.
Integration	The explicit inclusion by asset managers of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources.
KfW	Kreditanstalt für Wiederaufbau
MFI	Microfinancing institution
Microfinance	Microfinance generates a social value by improving access to financial services mostly in emerging and developing economies. Commonly investments into microfinance are channelled through microfinance investment vehicles, which are independent investment funds that allow private and public capital to flow to microfinance institutions.
NGO	Non-governmental organisation

Table 9: Glossary and abbreviations

Term	Explanation
Norms-based screening	Screening of investments according to their compliance with international standards and norms.
OEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH
PiF	Partnerships in finance
Pooled fund	Collectively managed investment vehicle, pulling monies from multiple investors.
PPI	Private participation in infrastructure
PPP	Public-private partnership
PR	Public Relations
PSP	Private sector participation
Retail fund	Pooled fund primarily targeting the retail market (see above).
Retail investor	Non-professional investor.
Social business	Investments made directly or through a fund into social businesses, which have the intention to generate a social and environmental impact alongside a financial return.
SPV	Special purpose vehicle
SRI	Sustainable and Responsible Investment
Sustainability themed	Investment in themes or assets linked to the promotion of sustainability. Thematic funds focus on specific or multiple issues related to ESG.
TC	Technical cooperation
Waterfall Principle	A type of payment scheme in which higher-tiered creditors receive interest and principal payments, while the lower-tiered creditors receive only interest payments. When the higher tiered creditors have received all interest and principal payments in full, the next tier of creditors begins to receive interest and principal payments.

13 Annex

13.1 Biodiversity score-card assessment³⁰⁶

Table 10: Project scoring assessment framework		
Criterion	Description of criterion	Max Points
Environmental & Biodiversity impact		
Biodiversity Relevance ...	<p>Project is located in or around a biodiversity- rich or critical ecosystem</p> <ul style="list-style-type: none"> • Key biodiversity areas = 25 (one or more globally threatened species, one or more endemic species which are globally restricted to the site or surrounding region; significant concentration of a species (e.g. important migratory stops, nesting sites, nurseries or breeding areas), globally significant examples of unique habitat types and species assemblages); definition by IUCN. • Key biodiversity area criteria partially fulfilled = 20 • Important / biodiversity-rich eco-system (such as tropical rainforests, mangroves etc.) = 15 • Restoration of eco-systems, with long-term positive effect on biodiversity (e.g. mixed forestry on degraded land not linked to any critical eco-system) = 10 	20 (at a multiplier factor of 1)
... to be multiplied by Impact Factor	<p>Business activity can be attributed clear conservation / biodiversity benefits as opposed to baseline scenario (“what would happen otherwise”)</p> <ul style="list-style-type: none"> • Major contribution to conservation of eco-system, clear logical framework that links inputs -> activities -> outputs -> outcomes -> impact = Factor 1 • Significant contribution to conservation of eco-system, with fairly clear logical framework = Factor 0,75 • Indirect impact, through protective belt around protected area / taking pressure away from adjacent eco-system / pure financial support of protected area, with fairly clear logical framework = Factor 0,5 • Business activity counter-productive in comparison to baseline scenario = Factor zero or minus 1 (depending on degree of negative impact) • Factor to be multiplied with score “Biodiversity Relevance” (see above); e.g. significant contribution to conservation of a key biodiversity area = Factor 1 x 25pts = 25 pts. 	20
Towards “minimal invasive”	<ul style="list-style-type: none"> • No intervention in critical / biodiversity-rich eco-system = 20 	20

³⁰⁶ Jahn, Grulke, Renner et al. (2013)

Table 10: Project scoring assessment framework		
Criterion	Description of criterion	Max Points
business models ...	<ul style="list-style-type: none"> • Soft interventions in biodiversity-rich eco-systems (eco-tourism, NTFP including cocoa, vanilla embedded in natural forest landscape), FSC + CCBA certified natural forest management = 15 • Reforestation with significant ecological compensation areas / locally embedded agro-forestry schemes / Conservation agriculture that stabilizes eco-systems (watershed, soil erosion etc) = 10 • Business model poses risk of detrimental effects (e.g. through improved accessibility -> population pressure etc) = minus 10 • Businesses model poses severe environmental risks = minus 20 • All other = 0 	
Scale	<p>Size of concession / project area:</p> <ul style="list-style-type: none"> • > 100.000 – 1.000.000 ha = 20 • 10.000 – 100.000 = 15 • 1.000 – 10.000 = 10 • < 1.000 = 5 <p>Financial transfers to national parks to be calculated as acreage x estimated percentage of annual budget of park sponsored by project</p>	20
... that are embedded in Conservation Strategy or Landscape Approach	<p>5 points for each of the following:</p> <ul style="list-style-type: none"> • Project forms part of a broader landscape / sustainable local economic development strategy (e.g. partnership with national park) • Project provides financial or governance/management support to a protected area and or is designed as a protective buffer for a protected area • Project provides significant additional environmental benefits (e.g. soil erosion control/watershed management; carbon sequestration) • The project has a positive impact on sustainable land use outside project area (-> indirect land use change) 	20
Safeguards	<p>For each aspect 10 points:</p> <ul style="list-style-type: none"> • Collaboration with / endorsement by recognized environmental institution and/or cooperation with research partners (on nature conservation issues) • Compliance with best-in-class standards 	20
Subtotal		100
Social & Development Impact		
Employment generation	<p>The company / project employs (full time equivalents)</p> <ul style="list-style-type: none"> • > 20 people / 1mEUR investment (15 pts) • 5- 20 people / 1mEUR investment (10 pts) • < 5 people / 1mEUR investment (5 pts) 	30

Table 10: Project scoring assessment framework		
Criterion	Description of criterion	Max Points
	<p>... and creates jobs / supply chain relations (e.g. service providers, out-growers) with</p> <ul style="list-style-type: none"> • > 50 people / 1mEUR investment (15 pts) • 10-50 people / 1mEUR investment (10 pts) • < 10 people / 1mEUR investment (5 pts) 	
Poverty Alleviation /MDGs	<p>The project plays a vital role in helping the local communities to improve their livelihoods. For each aspect 5 – 10 points:</p> <ul style="list-style-type: none"> • Income increase beyond poverty line for a significant proportion (5 pts) of the population / for > 50% of the population in the project area (10pts) • Improved access to basic goods and services for a significant proportion (5 pts) / > 50% of the population in the project area (10 pts) • Improved health & education for a significant proportion (5 pts) / > 50% of the population in the project area (10 pts) 	30
Safeguards	<p>For each aspect 10 points:</p> <ul style="list-style-type: none"> • Existence of worker associations (syndicates) and grievance mechanism for local population (“community health and safety”) • Compliance with social safeguards (e.g. ILO-Standard, IFC performance standard) 	20
Capacity Building & Employment	<p>The project has a significant capacity building component for the local population.</p> <ul style="list-style-type: none"> • Significant education & training of staff and / or high level of locals in middle or also senior management positions • Capacity building measures for suppliers (or off takers) (5pts) 	10
Local Embedded-ness	<p>Creation of associations, cooperatives, strategic alliances (e.g. out grower schemes):</p> <ul style="list-style-type: none"> • Significant increase of the social and/or environmental impact with limited financial performance loss • Applies to a (very) high extent = 10 • Applies = 5 • Does not apply or applies only to a very limited extent = 0 	10
Subtotal		100
Profitability & Financial Sustainability		

Table 10: Project scoring assessment framework										
Criterion	Description of criterion	Max Points								
Return on Invest	<p>Project IRR (independent of question if profits will be allocated to investor)</p> <table border="0"> <tr> <td>> 14% = 40</td> <td>6-8% = 20</td> </tr> <tr> <td>12-14% = 35</td> <td>4-6% = 15</td> </tr> <tr> <td>10-12% = 30</td> <td>2-4% = 10</td> </tr> <tr> <td>8-10% = 25</td> <td>0-2% = 5</td> </tr> </table>	> 14% = 40	6-8% = 20	12-14% = 35	4-6% = 15	10-12% = 30	2-4% = 10	8-10% = 25	0-2% = 5	40
> 14% = 40	6-8% = 20									
12-14% = 35	4-6% = 15									
10-12% = 30	2-4% = 10									
8-10% = 25	0-2% = 5									
Risks and risk mitigation	<p>Existing risks (to be weighed from zero (“no risk”) to 10 (“very high risk”))</p> <ul style="list-style-type: none"> • Production risks = -10 • Market risks = -10 • Social risks = -10 • Political risks = -10 <p>a) Minimal risk: 40 / Total risk: 40 -40 = 0</p> <p>b) Existing risk Mitigation strategy</p> <ul style="list-style-type: none"> • Production risks = +10 • Market risks = +5 • Social risks = +5 • Political risks = +5 <p>With risk mitigation strategy: 0 + 20 = 20</p>	40								
Duration / Exit options for investors	<p>When and how does a investor get his investment back?</p> <ul style="list-style-type: none"> • Short term (5-10 years), established secondary market exists = 20 • Short to medium term (5-15 years); secondary market exists = 15 • Short to medium term (5-15 years); (small) difficult secondary market = 10 • Long term (15-20 years); difficult secondary market = 5 • Very long term (> 20 years); no secondary market = 0 	20								
Subtotal		100								
Opportunity										
Scalability & Replicability	<p>The project can be further scaled with no major ecological, social or economic performance loss or replicated in different regional contexts:</p> <ul style="list-style-type: none"> • Applies to a great extent = 20 	20								

Table 10: Project scoring assessment framework		
Criterion	Description of criterion	Max Points
	<ul style="list-style-type: none"> • Applies significantly= 15 • Applies = 10 • Applies to a low extent = 5 • Does not apply = 0 	
Triple Bottom Line Potential („Adjustability“)	<p>The ecological / social dimension of the project can be strengthened with no significant economic performance loss. [and vice versa: the financial performance of a socio-/ecological driven project can be improved with no major impact performance deficit]</p> <ul style="list-style-type: none"> • Applies to a great extent = 20 • Applies significantly= 15 • Applies = 10 • Applies to a low extent = 5 • Does not apply = 0 	20
“Low-hanging fruit” (Independence of third party support)	<p>The project implementation depends on third party support, such as financial or technical support (from foundations, development aid, governments etc)</p> <ul style="list-style-type: none"> • not at all (20 pts) • to a marginal extent (15 pts) • to a certain extent (10 pts) • to a significant extent (5 pts) • to a great extent or almost entirely (0 pts) 	20
References („Best practices“)	<p>Successful reference projects exist:</p> <ul style="list-style-type: none"> • > 6 similar, successful projects = 20 • 4-6 similar, successful projects = 15 • 2-3 similar, successful projects = 10 • 1 similar, successful projects = 5 • No or no successful similar project known = 0 	20
Red flags („media“)	<p>There are no negative perceptions of the sector / business model due to negative media coverage or existence of bad practices of third parties</p> <ul style="list-style-type: none"> • Applies to a great extent = 20 • Applies significantly= 15 	20

Table 10: Project scoring assessment framework		
Criterion	Description of criterion	Max Points
	<ul style="list-style-type: none"> • Applies = 10 • Applies to a low extent = 5 • Does not apply = 0 	
Subtotal		100
Total		400

Source: Jahn, Grulke, Renner et. al. (2013): Mobilizing Private Financing for Biodiversity

13.2 Useful links

Global Impact Investing Rating System: www.giirs.org

B Lab: www.bcorporation.net

Convention on Biological Biodiversity: www.cbd.int

United Nations Conference on Trade and Development: Biotrade: www.biotrade.org

TransFair – Verein zur Förderung des Fairen Handels in der Einen Welt: www.fairtrade-deutschland.de

Kfw DEG: www.deginvest.de

AuslandsGeschäftsAbsicherung der Bundesrepublik Deutschland: www.agaportal.de

Africa Agriculture and Trade Investment Fund: www.aatif.lu

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European Investment Fund. Supporting entrepreneurship and innovation in Europe. www.eif.org

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13.3 Selected further reading

13.3.1 Impact Investing

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