

# CONSERVATION INVESTMENT BLUEPRINTS: A Development Guide



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# I. Glossary of common terms and concepts

## **Amortization**

Amortization is the write-off of an asset over its expected period of use, which shifts the asset from the balance sheet to the income statement. It essentially reflects the consumption of an intangible asset over its useful life.

Amortization is most commonly used for the gradual write-down of the cost of those intangible assets that have a specific useful life. Examples of intangible assets are patents, copyrights, taxi licenses, and trademarks<sup>i</sup>.

## **Angel investors**

Investors who invest in start-ups or entrepreneurs. Angel investors may provide a one-time investment to help propel the business or provide an ongoing injection of money to support the development of a business through its early stages. Also known as informal investors, angel funders, private investors, seed investors or business angels<sup>ii</sup>.

## **Asset class**

A group of securities, investments or financial instruments that have similar characteristics, behave similarly in the marketplace and are subject to the same laws and regulations.

## **Bankable**

A project, proposal or investment that institutional lenders would be willing to finance due to it having sufficient collateral, future cash flow, and a high probability of success<sup>iii</sup>.

## **Baseline**

A clearly defined starting point, position or situation from where a comparison is made. In the context of conservation, this often refers to a baseline level of habitat, ecosystem or biodiversity degradation/ destruction which is to be addressed.

## **Blended finance**

The complementary and strategic use of public or private funds, including concessional tools, to mobilise additional capital flows (public and/or private) to emerging and frontier markets.

## **Blueprints**

In the context of this guide, a Blueprint is a model financial transaction structure intended to help facilitate replicable investments in priority conservation projects. A Blueprint describes the general enabling conditions necessary to facilitate project development, the stakeholders and their roles, the project outputs

and expected conservation outcomes, the anticipated cash flows, and the types of investors and capital stacks that are required for a financial transaction that delivers both economic and conservation returns. A Blueprint standardizes an individual transaction or set of transactions that share similar attributes into a model that can be adapted to local conditions. This accelerates replication and potential aggregation of a transaction structure to drive sustainable conservation outcomes. CPIC will prioritize the elaboration of Blueprints that are based on transactions in development that have achieved significant milestones and those that have been successfully implemented.

## **Business model**

A conceptual structure which specifies the purpose and goals of a business and the ongoing plans to fulfil these<sup>vi</sup>.

## **CAPEX**

CAPEX, or capital expenditure, is the funds used by a company to acquire, maintain or update fixed assets such as physical property, vehicles, equipment or land<sup>vii</sup>.

## **Capacity building**

The systematic and purposeful development and strengthening of human and institutional resources, capabilities and competencies to facilitate better fulfilment of a specific role(s) within an organisational structure.

## **Capital markets**

The part of the financial system in which money is channelled into productive investment via equity, debt and other medium to long-term instruments<sup>viii</sup>.

## **Carbon Offsets**

A method of allowing companies and individuals to compensate for their own carbon emissions through contributing to reduced emissions of carbon dioxide of greenhouse gases elsewhere. This usually involves payment for carbon credits each representing one ton of carbon equivalent<sup>ix</sup>.

## **Cash flow analysis**

An analysis of a company's cash inflows and outflows during a certain period<sup>x</sup>.

## **Civil society**

A public space between the state, the market and society which can be understood as the aggregate of citizens and non-governmental organisations linked by common interests and collective activity<sup>xi</sup>.

# I. Glossary of common terms and concepts

## **Conservation easements**

A restriction placed on a piece of property to protect its associated resources. The easement is either voluntarily donated or sold by the landowner and constitutes a legally binding agreement that limits certain types of uses or prevents development from taking place on the land in perpetuity while the land remains in private hands<sup>xii</sup>.

## **Conservation finance**

A mechanism through which a financial investment into an ecosystem is made – directly or indirectly through an intermediary – that aims to conserve the values of the ecosystem for the long term<sup>xiii</sup>.

## **Convertible debt**

A type of debt security that can be converted into equity at a later date, usually into a predetermined number of shares of the investee company at a specified time in the security's life<sup>xiv</sup>.

## **Crowdfunding**

The practice of funding a project or business venture by raising relatively small amounts of money from a large number of people, typically via the Internet<sup>xv</sup>.

## **Foreign exchange risk**

The risk of an investment's value changing due to changes in currency exchange rates when a financial transaction is denominated in a currency other than that of the base currency of the company. Also known as currency risk<sup>xvi</sup>.

## **Debt**

Funds borrowed from a lender which the borrower promises to repay in accordance with the terms of a contract. The borrower usually has to repay the initial funds borrowed, as well as interest, namely, a regular payment of a sum calculated as a percentage of the funds borrowed (the interest rate)<sup>xvii</sup>.

## **Depreciation**

The monetary value of an asset decreases over time due to use, wear and tear or obsolescence. This decrease is measured as depreciation<sup>xviii</sup>.

## **Derivatives**

A security with a price that is dependent upon or derived from one or more underlying assets. The derivative itself is a contract between two or more parties based upon the asset or assets. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes<sup>xix</sup>.

## **Development Finance Institution (DFI)**

A financial institution which provides credit, concessional debt, equity funding and risk guarantee instruments to private sector investments in emerging markets and developing countries. DFIs tend to be backed by states with developed economies and aim to provide additionality to catalyse investment and private sector development in the target markets<sup>xx</sup>.

## **Due diligence**

The process of carrying out an investigation or appraisal of a project or business by a prospective investor to establish its commercial viability and understand its potential risks. In the context of a conservation project, this often involves conducting a due diligence of environmental and social issues that may pose risks to a project finance transaction<sup>xxi</sup>.

## **Ecoregion**

A large unit of land or water containing a geographically distinct assemblage of species, natural communities, and environmental conditions. The boundaries of an ecoregion are not fixed and sharp, but rather encompass an area within which important ecological and evolutionary processes most strongly interact<sup>xxii</sup>.

## **Ecosystem services**

Ecosystem services are the benefits people obtain from ecosystems. These include provisioning services such as food and water; regulating services such as flood and disease control; cultural services such as spiritual, recreational, and cultural benefits; and supporting services, such as nutrient cycling, that maintain the conditions for life on Earth<sup>xxiii</sup>.

## **Environmental and Social Governance (ESG)**

A set of non-financial indicators or standards for a business that investors or lenders use to evaluate corporate behaviour, screen investments and determine the sustainability, impact and investability of a business.<sup>xxiv</sup>

## **Environmental and social management system (ESMS)**

A set of policies, procedures and internal capacity put in place by a business to identify, assess and manage the exposure to environmental and social risk in a project or investment<sup>xxv</sup>.

## **Equity**

A security or stock representing an ownership interest. In the case of a private company, this is called private equity. On a business's balance sheet, equity, or shareholders equity, is the amount of funds contributed by the owners of the business plus the retained earnings or minus the losses of the business<sup>xxvi</sup>.

**Financial vehicle**

Also known as an investment vehicle, a financial vehicle is a security or product used by investors with the intention of gaining positive returns. Investment vehicles can be low risk, such as certificates of deposit (CDs) or bonds, or can carry a greater degree of risk such as with stocks, options and futures. Other types of investment vehicles include annuities; collectibles, such as art or coins; mutual funds; and exchange-traded funds (ETFs)<sup>xxvii</sup>.

**Forest Carbon Partnership Facility (FCPF)**

A global partnership of governments, businesses, civil society, and Indigenous Peoples focused on reducing emissions from deforestation and forest degradation, forest carbon stock conservation, the sustainable management of forests, and the enhancement of forest carbon stocks in developing countries (activities commonly referred to as REDD+)<sup>xxviii</sup>.

**Franchise model**

A type of business model in which a party purchases the licensing rights to have access to the proprietary knowledge, processes and trademarks of an established business, in order to sell a product or provide a service under the business's name<sup>xxix</sup>.

**Funding rounds**

When a business raises money from one or more investor. The type of funding rounds depends on the development stage of the business that is raising capital and the type of shares that are being sold in the round.

**Government land concessions**

A grant of rights to, control over, or reallocation of public rights from the government to another actor for a fixed period of time and for the conduct of specific activities in that area. This may have either positive or negative implications from a conservation standpoint dependent on the context.

**Grace period**

A provision in most loan and insurance contracts that allows for payment to be received during a period of time after the due date without any late fees<sup>xxx</sup>.

**Grant**

Non-repayable funds disbursed, often by a government or other donor organisation, for a specified purpose to an eligible recipient<sup>xxxi</sup>.

**Green bond**

A fixed income financial instrument, which, is created for the purpose of raising investment for new and existing projects with environmental benefits<sup>xxxii</sup>.

**Guarantees**

An agreement from a third party lending institution or insurer which ensures that losses will be recovered in the event that the borrower defaults<sup>xxxiii</sup>.

**Hedging**

Reducing the risk of adverse price movements of an investment, usually by diversifying the portfolio of investment or by taking an offsetting position in a related security<sup>xxxiv</sup>.

**High Carbon Stock (HCS) Forest**

A forest area which holds large stores of carbon and biodiversity, is critical for indigenous and local peoples who depend on it for their livelihoods, and is distinguished for protection from degraded lands which has low carbon and biodiversity values and may be developed<sup>xxxv</sup>.

**High Conservation Value (HCV) Area**

An area of biological, ecological, social or cultural value of outstanding significance or critical importance.

**High Net Worth Individual (HNWI)**

A term used by some in the financial services industry to designate an individual whose investible assets exceed a given amount, typically a value greater than USD 1 million<sup>xxxvi</sup>.

**Horizontal growth strategy**

A competitive strategy that involves growing a business by expanding business activities that are at the same level of the value chain in similar or different industries. For example, the acquisition and integration of a related business<sup>xxxvii</sup>.

**IFC Performance Standards**

An international benchmark for identifying and managing environmental and social risk that has been adopted by many organizations as a key component of their environmental and social risk management<sup>xxxix</sup>.

**Impact investors**

Investors that make investments "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 on investors' strategic goals"<sup>xi</sup>.

# I. Glossary of common terms and concepts

## **Institutional investors**

Organisations, including endowment funds, banks, pensions, insurance companies, real estate investment funds, mutual funds, hedge funds, and investment advisors, which invest on behalf of their members. Institutional investors pool money to purchase securities and other investment assets and trade them in large enough quantities to qualify for preferential treatment and lower commissions<sup>xli</sup>.

## **Investment model**

A conceptual structure which specifies elements and considerations relating to the financial structuring of a business in order to attract investment.

## **Joint Ventures**

A business arrangement undertaken by two or more parties who retain their distinct identities but generally share ownership, risks and returns and governance<sup>xlii</sup>.

## **Junior/subordinated debt**

Debt that, in the event of a default, has a lower priority of repayment than another debt claim on the same asset<sup>xliii</sup>.

## **Key Performance Indicators**

A measureable value that is used to evaluate how effectively an organisation or particular activity is performing<sup>xliv</sup>.

## **Landscape**

"A socio-ecological system that consists of natural and/or human-modified ecosystems, and which is influenced by distinct ecological, historical, economic and socio-cultural processes and activities"<sup>xlv</sup>.

## **Landscape approach**

The landscape approach, as it relates to conservation, agriculture and other land uses, seeks to address the increasingly complex and widespread environmental, social and political challenges that transcend traditional management boundaries<sup>xlvi</sup>.

## **Limited Liability Company (LLC)**

A legal corporate structure in which members or of the company cannot be held liable for the business's debts or liabilities<sup>xlvii</sup>.

## **Liquidation**

An event that usually occurs when a company is insolvent, meaning that it cannot pay its obligations as and when they are due. The company's operations are brought to an end and its assets are divided amongst creditors and shareholders, according to the priority of their claims<sup>xlviii</sup>.

## **Logical framework/log-frame**

A methodology for identifying, planning and monitoring and evaluating projects<sup>xlix</sup>.

## **Microfinance**

Financial services, including loans, savings and insurance, provided to unemployed or low-income individuals or to small businesses who lack access to traditional banking services<sup>i</sup>.

## **Natural capital**

The world's stocks of natural assets, which include geology, soil, air, water and all living things. Humans derive a wide range of services from natural capital, often called ecosystem services, which make human life possible<sup>ii</sup>.

## **"No net loss" regulations**

A "No net loss" policy can be defined as a principle by which counties, agencies, and governments strive to balance unavoidable habitat, environmental and resource losses with replacement of those items on a project-by-project basis so that further reductions to resources may be prevented<sup>iii</sup>.

## **OPEX**

OPEX, or operating expenditure, is the ongoing expenses a company incurs through its normal business operations such as sales, general and administrative expenses<sup>liii</sup>.

## **Ownership equity**

The owner's investment in the business minus the owner's withdrawals from the business plus the net income since the business began. Mathematically, the amount of owner's equity is the amount of assets minus the amount of liabilities<sup>liv</sup>.

## **Pipeline management**

The process of selecting and allocating funding to borrowers or investees. The process may have varying degrees of structure.

## **Preferential loans**

Loans that are extended on terms substantially more generous than market loans. This is achieved either through interest rates below those available on the market or by grace periods, or a combination of these. Also known as concessional loans<sup>lv</sup>.

## **Project finance**

The financing of long-term projects based upon a non-recourse or limited recourse financial structure, in which project debt and equity used to finance the project are paid back from the cash flow generated by the project<sup>lvi</sup>.

**Public-private partnership**

A contractual arrangement between a public agency (federal, state or local) and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public<sup>lvii</sup>.

**REDD+**

Reducing Emissions from Deforestation and Forest Degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries. First negotiated under the United Nations Framework Convention on Climate Change (UNFCCC) in 2005, with the objective of mitigating climate change through reducing net emissions of greenhouse gases through enhanced forest management in developing countries<sup>lviii</sup>.

**Refinancing capital**

The process through which a company reorganizes its debt obligations by replacing or restructuring existing debts, usually following an early-stage, capital-intensive portion of a project and after which the project is considered less risky and can hence be financed at a lower interest rate<sup>lix</sup>.

**Resilience**

The capacity of an ecosystem to respond to a perturbation or disturbance by resisting damage and recovering quickly<sup>lx</sup>.

**Return on Investment (ROI)**

A performance measure of the amount of return on an investment relative to the investment's cost. To calculate ROI, the benefit of an investment is divided by the cost of the investment, and the result is expressed as a percentage or a ratio<sup>lxi</sup>.

**Risk-return profile**

Comparison of the anticipated risk of an investment with the expected return. Low levels of uncertainty or risk are usually associated with low potential returns, whereas high levels of uncertainty or risk are often associated with high potential returns.

**Senior debt**

Borrowed money that a company must repay first if it goes out of business. Each type of financing has a different priority level for repayment if the company liquidates, and senior debt is the first priority<sup>lxii</sup>.

**Social capital**

The networks of relationships among people who live and work in a particular society, enabling that society to function effectively<sup>lxiii</sup>.

**Social enterprise**

An organization that is directly involved in the sale of goods and services to a market, but that also has specific social objectives that serve as its primary purpose. It seeks to balance activities that provide financial benefit with social goals<sup>lxiv</sup>.

**Special purpose vehicle/entity**

The creation of a subsidiary which is a distinct legal entity to help keep liabilities, taxation and regulations related to the project separate from the core business, therefore isolating risk. This opens opportunities for leveraging finance<sup>lxv</sup>.

**Sub-commercial financial instruments**

Securities in which the expected value is not realised.

**Tenor**

The length of time to maturity of a debt, contract or loan<sup>lxvi</sup>.

**Term sheet**

A nonbinding agreement that summarizes the basic elements of a financial transaction<sup>lxvii</sup>.

**Tranches**

Pieces, portions or slices of debt or structured financing. Each portion, or tranche, is one of several related securities offered at the same time but with different risks, rewards and maturities<sup>lxviii</sup>.

**Transaction costs**

The costs incurred in making an investment. These have an impact on the attractiveness of an investment, as the return expected on the investment has to outweigh the costs of making the investment<sup>lxix</sup>.

**Transboundary**

An area that straddles international borders and may be managed cooperatively for conservation purposes<sup>lxx</sup>.

**UN-REDD**

The United Nations collaborative programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries<sup>lxxi</sup>.

**Venture capital**

Financing that investors provide to small businesses that are believed to have long-term growth potential<sup>lxxii</sup>.

**Vertical growth strategy**

A competitive strategy that involves growing a business by expanding business activities into other levels of the value chain. For example, taking control of one or more stages in the production or distribution of a product<sup>lxxiii</sup>.

## II. Background and introduction

### 1. What is CPIC?

The Coalition for Private Investment in Conservation (CPIC) is a global multi-stakeholder initiative, formed of a group of 43 investors, banks, project developers, NGOs and research institutions, which is focused on the enabling conditions that support a material increase in private, return-seeking investment in conservation. CPIC believes that in order to sustain humanity's future on Earth, substantial investment in **natural capital** is urgently needed, and that private investment capital has the potential to materially contribute to narrowing the conservation financing gap.

CPIC has committed to supporting a concerted, systematic effort focused on creating investment products that provide a conservation and financial bottom line necessary to fill this financing gap. CPIC has highlighted five outputs that it believes are necessary to help coordinate this effort:

1. Measures of return and monitoring systems for natural and **social capital**, in addition to financial capital.
2. Increased availability of expertise in building finance vehicles for investment, including through de-risking, **blended finance**, **cash flow analysis** and business planning.
3. Priority '**Blueprints**' for delivering risk-adjusted returns from specific types of investment in conservation. In the context of this guide, a Blueprint is a model financial transaction structure intended to help facilitate replicable investments in priority conservation projects. A Blueprint describes the general enabling conditions necessary to facilitate project development, the stakeholders and their roles, the project outputs and expected conservation outcomes, the anticipated cash flows, and the types of investors and capital stacks that are required for a financial transaction that delivers both economic and conservation returns. A Blueprint standardizes an individual transaction or set of transactions that share similar attributes into a model that can be adapted to local conditions. This accelerates replication and potential aggregation of a transaction structure to drive sustainable conservation outcomes. CPIC will prioritize the elaboration of Blueprints that are based on transactions in development that have achieved significant milestones and those that have been successfully implemented.
4. Transparent and equitable governance of natural capital as a condition for investment.

5. Increased capacity in NGOs, small and medium-sized enterprises and governments to build and sustain investment in natural capital.

Output 3 is the focus of this guide. This is delivered via a set of working groups tasked with developing replicable conservation investment 'Blueprints' in the following thematic areas:

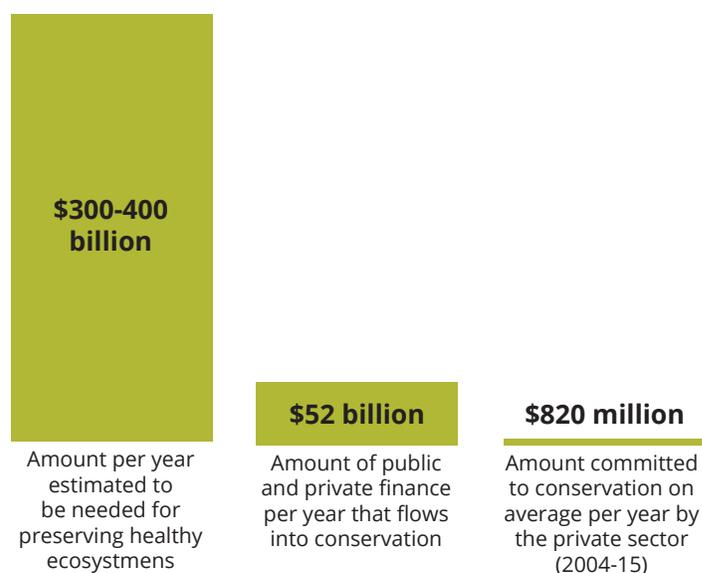
- Coastal Resilience;
- Forest Landscape Conservation and Restoration;
- Green Infrastructure for Watershed Management;
- Sustainable Agriculture Intensification; and
- Sustainable Coastal Fisheries.

These working groups meet virtually on a regular basis and occasionally in person. Each working group member operates on a voluntary basis due to their interest in scaling up conservation investment in their chosen area of interest.

### 2. The gap in private financing for conservation is vast

Ecosystem Marketplace estimated in 2013 that around USD 52 billion per year of finance flows into conservation projects. However, this largely comes from public and philanthropic sources, with just USD 8.2 billion committed by the private sector between 2004 and 2015. Figure 1 demonstrates that both of these numbers are significantly smaller than the estimated USD 300-400 billion per year needed for preserving healthy ecosystems globally<sup>xxv</sup>.

Figure 1: The private financing gap for conservation



However, this financing gap for conservation amounts to less than 1% of private sector annual investment globally<sup>lxvii</sup>. It is being increasingly recognized by private sector investors that the preservation of the Earth's ecosystems presents a wealth of unexploited opportunities. There has been an encouraging growth in investments into conservation in recent years, particularly into one-off project financing, with the bulk of existing investment capital flowing to small-scale sustainable forestry and agriculture projects<sup>lxviii</sup>.

In order to meet the conservation financing gap and engage a broader share of the investor community, there is a need not only to grow the number of bankable investments, but also to shift from individual investments to replicating these and aggregating them into larger scale **asset classes**.

### 3. What are the Guide objectives and who should use it?

The primary purpose of this Guide is to provide a reference for CPIC working groups as they develop conservation investment Blueprints within their five thematic areas. Through using this Guide, the intention is that working groups produce Blueprints, using a consistent approach, which are able to be replicated and scaled up to the desired level.

Depending on what best suits the objectives of each group, the end point may be completing a summarised Blueprint model for group members and other organisations to replicate separately, or, if there is ambition to do so, collaborating to implement and replicate the Blueprint together.

Beyond CPIC, this document can serve as an information resource for organizations seeking private finance to develop investable conservation projects. It should be of specific interest to organizations interested in scaling and aggregating individual investment opportunities up to an **asset class** level. Through assisting these organizations to attract higher volumes of private finance into their work, the Guide should contribute to CPIC's overall aim to scale up private finance in conservation.

### 4. How should the Guide be used?

The Guide suggests a step-by-step process for developing replicable conservation investments. However, it is by no means intended as a 'one-size fits all' approach, as every investment has its own unique characteristics and context. The steps contained within the Guide can be adapted as you see fit. For example, the conservation investment may be subject to the

restrictions and specified processes of a pre-identified financier or donor. Another common scenario may be that the conservation investment has already been identified, therefore the initial steps recommended below can be ignored or only briefly considered.

The step-by-step approach should serve as a checklist for your organisation or group of organisations as you develop a Blueprint and the resulting conservation investments derived from it. Each section has been written on the assumption that the reader has only basic knowledge of the concepts being introduced, and, as a result, readers who are already familiar with these concepts will likely not use these sections, or use them simply as a 'refresher'. It is only in situations where organisations are at the very start of their collaboration that following the step-by-step Guide in its full form will be appropriate. Table 1 in Section III provides an indication of which steps may be most relevant to your organisation or group of organisations according to your progress to date.

This Guide also serves as a living document, and hence is open to continual improvement according to user feedback. We would be very interested to hear your feedback to this end. Please contact [info@cpicfinance.com](mailto:info@cpicfinance.com) with your comments and suggestions.

Below we also provide information on a complementary publication targeted at conservation organisations and their partners which raises awareness of the opportunities which exist in private finance for conservation, and provides introductory information on how to pursue them.

#### **Capitalising Conservation: How conservation organizations can engage with investors to mobilise capital**

WWF and Clarmondial, a specialised investment advisory firm, have produced a report providing guidance to conservation organisations that seek to mobilise capital for conservation investments. It provides practical advice and examples for conservation organisations, and groups that seek to work with them, including on origination, implementation, structuring, monitoring and investment management. The report contains seven case studies that summarise successful innovative partnerships and investment strategies that have unlocked capital in support of conservation. These include dedicated investment funds, credit lines, bonds, conservation enterprises and other investment vehicles.

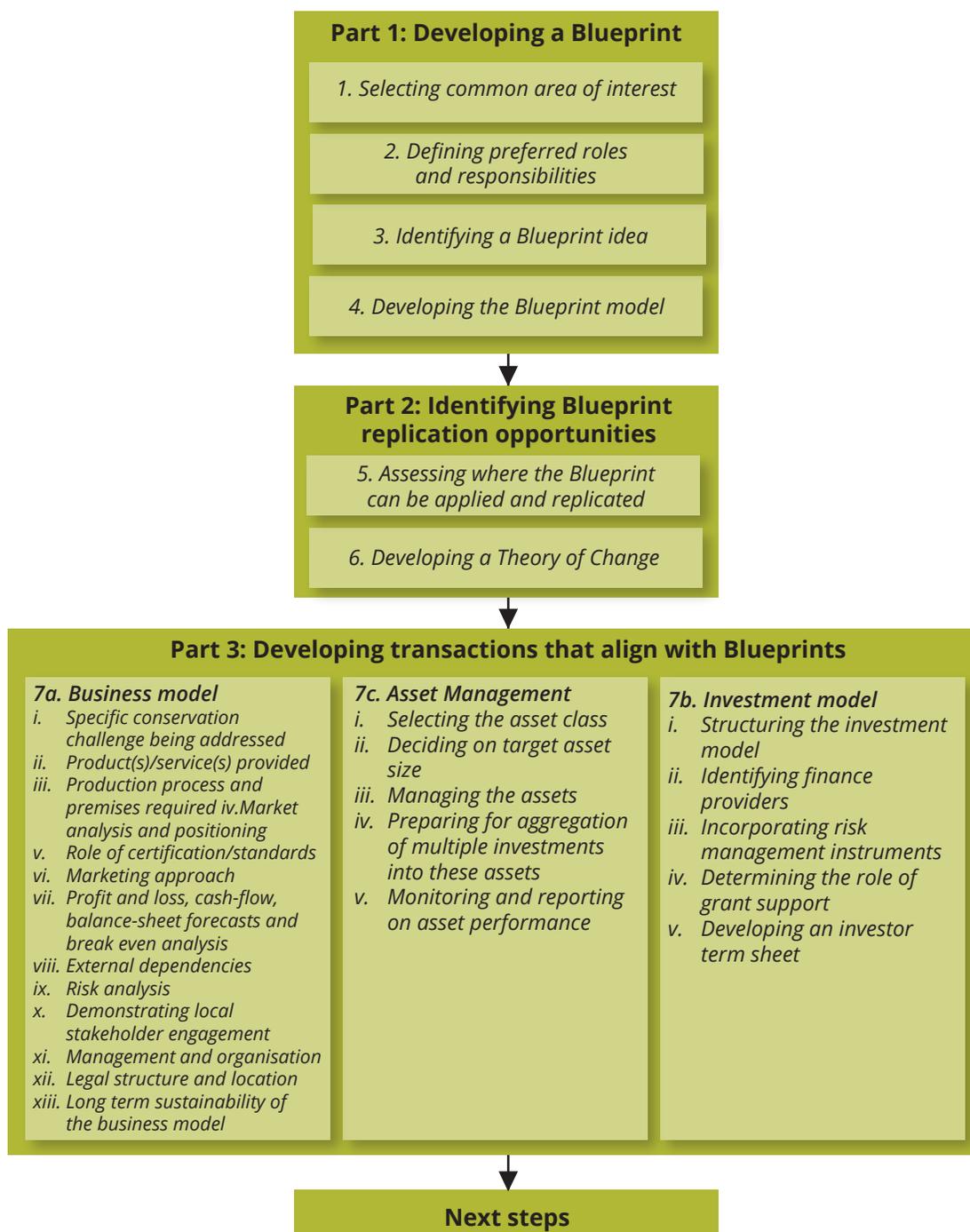
Further information on the report "Capitalising Conservation: How conservation organizations can engage with investors to mobilise capital" is available online: [www.clarmondial.com/capitalising-conservation](http://www.clarmondial.com/capitalising-conservation)

### III. A step-by-step process to developing and applying a Blueprint

This section provides a suggested step-by-step process for developing a Blueprint and then using it to progress towards an investable proposal. This was developed from the process initiated within the CPIC working groups between 2016 and 2017, but can be used by any organisation or group of organisations seeking to develop such a proposal. Figure 2 below provides an overview of the suggested process.

It is important to emphasize that this is not a definitive approach, and will be adapted according to the specific context of your conservation investment and group developing it. Table 1 in the following page indicates how different steps may be relevant according to your progress to date.

**Figure 2: Overview of the Blueprint development process**



**Table 1: Relevance of Blueprint development step(s)**

If you are just seeking to identify a replicable Blueprint model that can be taken away for sharing and further consideration, this process may finish after Step 4 (Developing the Blueprint Model).

If you wish to assess how the Blueprint can be applied in a specific context and developed into an investor- ready transaction, you should continue onwards to Steps 5-7. If you are financing the conservation investment internally, the process may finish after Step 7a. If you are seeking financing for a single investment idea you may only find up to Step 7 b) useful, but if you are looking to aggregate multiple investments up to the asset class level, Step 7c should also be of use. Sections highlighted indicate relevance according to progress made to date.

Progress to date	Relevant Steps									
	1	2	3	4	5	6	7a	7b	7c	8
a) Little or no previous work done to identify conservation investment Blueprints.										
b) A conservation investment Blueprint has been identified and the group wishes to assess how this could be implemented collaboratively.										
c) A conservation investment Blueprint has been identified and is planned for implementation, but no detailed business planning has been carried out.										
d) A detailed business plan has already been developed, but an investment model needs to be created.										
e) A detailed business plan and investment model have already been developed.										

# Part 1: Developing a Blueprint

## Step 1. Selecting common area of interest

The starting point is for your organisation or group of organisations to select a common area of interest. This may be geographic, such as a country, province/state, **transboundary** or habitat area, or thematic, such as a commodity or industry grouping. Where the starting point is thematic, this may mean that the Blueprint is eventually developed to incorporate multiple commodities and/or industries in alignment with the **landscape approach**<sup>lxviii</sup>. For example, if one agricultural commodity is selected, it will likely be the case that you will need to consider other commodities in the landscape, and supporting services such as water infrastructure, input provision and financing, to achieve an impact at a scale beyond individual projects.

Whichever option is taken, your aim is to eventually reach a **landscape**, group of landscapes or value-chain of shared interest to your group by Step 5 (Selection and prioritisation).

## Step 2. Defining preferred roles and responsibilities

The guidance below assumes that the Blueprint in question is being developed in a similar fashion to CPIC, whereby members are collaborating on a voluntary basis without a formalised and resourced team managing the process. If, however, this is in place, then the guidance below may not be relevant to you and can be skipped.

There may already be a leader or focal point identified in the group. A Blueprint can be co-led by multiple organisations, and, if this is the case, then it may be particularly important to have a focal point whose role it is to coordinate the group and keep track of progress going forward. Without this single coordination point, there is a risk that different work streams move in different directions.

If the group's ambition is to eventually develop a detailed investor-ready document (Step 7), it is worth requesting that group members take ownership of different work streams at this early stage to maintain consistency. This should align with the skillsets and interests of the members. Examples of these roles include:

- Business model development
- Investment model development
- Asset management development

- Conservation science
- **ESG** risk management
- Local stakeholder engagement

## Step 3. Identifying a Blueprint idea

You should start this process by reviewing existing successful conservation investments within your common area of interest. These should be based on investments that have achieved significant milestones and those that have been successfully implemented.

This information can be gathered via at least one of the following:

- Collating your group's existing knowledge through circulating a shared database or in-person meetings/teleconferences
- Interviews or surveys within the group's network of relevant contacts
- Desk-based research
- Field research – this will be more feasible if one or more of your group's members is based in the relevant geographic area and there are resources available to fund this research

You should then assess which of these deals a) has had the greatest conservation impact, and b) has the greatest potential to be successfully replicated across geographies and different value chains. If there isn't an obvious example of this in your shared area of interest, consider looking across other industry or conservation sectors and considering whether you could apply investment models used in these areas within your area of interest.

## Step 4. Developing the Blueprint model

The Blueprint model should contain four main elements, all at a summarised level:

- i. Overview of the conservation need/opportunity
- ii. The overall objectives of the Blueprint
- iii. The business model used to achieve these objectives
- iv. The investment model used to finance the business model

You can capture these together in a single short document, between 5-7 pages long. **Appendix 1 provides a template, aligned with the contents of this section which you can use to capture this**

information. Please note that the template is a suggestion of information to capture but can be adapted and abbreviated in accordance with what is appropriate for the user.

If developing business and investment models is new to you, you may wish to refer to the more detailed guidance provided in Step 7.

## i. Overview of the conservation need/opportunity

This should contain a brief overview of the conservation need or opportunity this Blueprint can help address. This can cover:

- What is the conservation need this Blueprint is seeking to address?
- What is the scale of this conservation need (e.g. hectareage of a certain ecosystem type, species numbers and populations under threat)?
- What is the significance of this conservation need i.e. why does it matter?
- What existing conservation efforts are already underway, and why they are they currently inadequate?
- What are the specific industry sectors/value chains where investment could contribute positively to nature conservation?

## ii. Describing how the Blueprint contributes to conservation goals

### Overall statement

This is a summary statement clarifying how an investment using this Blueprint would help address the conservation need or opportunity identified. At this stage, because no specific geography is targeted, this doesn't need to be detailed, although, if your group wishes to progress to implementation, Steps 5 and 7 a) will require a more detailed assessment. For example, a statement for a marine conservation Blueprint could be:

*"This Blueprint contributes to the conservation and enhancement of coastal marine biodiversity. This is achieved by investors making equity investments in under-resourced local seafood companies to modernise equipment and increase fishing efficiency, accuracy and*

*adherence to relevant sustainability certification standards. This improves company profitability and reduces negative impacts on marine biodiversity associated with existing commercial fishing practices."*

### Identifying key metrics

You may then also wish to identify a summary list of two-three key 'outcome' indicators you would use to measure progress against the conservation goal. This can help clarify your shared understanding of what this particular Blueprint model is setting out to achieve. Example indicators are shown in Step 6 of this Guide. These don't need to be organised into a Theory of Change at this stage, because a specific investment has not yet been identified.

## iii. The business model

This describes the key characteristics of the business at the heart of the Blueprint.

Key elements you should capture for each business model include the following. You can refer to Step 7a for more detailed guidance on these.

### Organisation and governance

- *What types of organisations are involved (e.g. co-operatives, small-medium sized enterprises, corporations, NGOs, civil society organisations, academic institutions, development finance institutions, national development banks, commercial banks etc.?)*
- *What are their individual roles?*

*Typical roles may include:*

- General coordination and oversight
- Financial/fund management
- Operations
- Product/service delivery
- Marketing and sales
- Management of conservation/certification activities
- Monitoring & evaluation
- Investor engagement and liaison
- External communications

### Products and services being sold

- What are the products/services being sold?
- How does this product or service result in positive conservation outcomes?
- What is your revenue model? ( see <http://www.cmu.edu/swartz-center-for-entrepreneurship/assets/revenue-models.march-2015.pdf> for more information on different revenue models)
- What scale of revenue and profit is sought?
- Is specific intellectual property integral to the business model? If so, is the IP able to be protected via a patent?

### Cash flows and commercial sustainability

- Where does the profit get distributed within the business and across the organisations involved?
- What portions of profit can be distributed back to investors or used to repay debt over what timeframe?
- Over what timeframe does the business reach maturity and reach its full scale?
- How does the distribution of these cash flows contribute to the businesses' long term sustainability?
- In what ways is the business model replicable?

### External dependencies

- What reliance does the business model place on a particular law, regulation, policy or subsidy being in place?
- How durable are these enabling conditions against political change and government budget revisions?
- Does the business model rely on the activities of other third parties, such as civil society organisations, NGOs, research organisations etc., and what role does each play?

### Risk management

- What mechanisms does the business model have in place to reduce potential commercial risks?
- What safeguards need to be in place to reduce social and environmental risks and avoid negative impacts?
- Are there any mechanisms put in place to manage political risks?
- How will social/environmental cash flows and other benefits be maintained should the transaction face commercial headwinds?

## iv. The investment model

If you are unfamiliar with finance terminology, Annex 3 provides an introduction to some useful basic terms. Key elements to identify in the investment model are:

### The financial instruments being sought to fund the business model

- What roles do **debt** and **equity** financing play in the business model? Please see 7 b)i and Table 8 to assist in this decision.
- What is the role of grant and concessionary finance?

### The relative size of these instruments and basic information on their terms

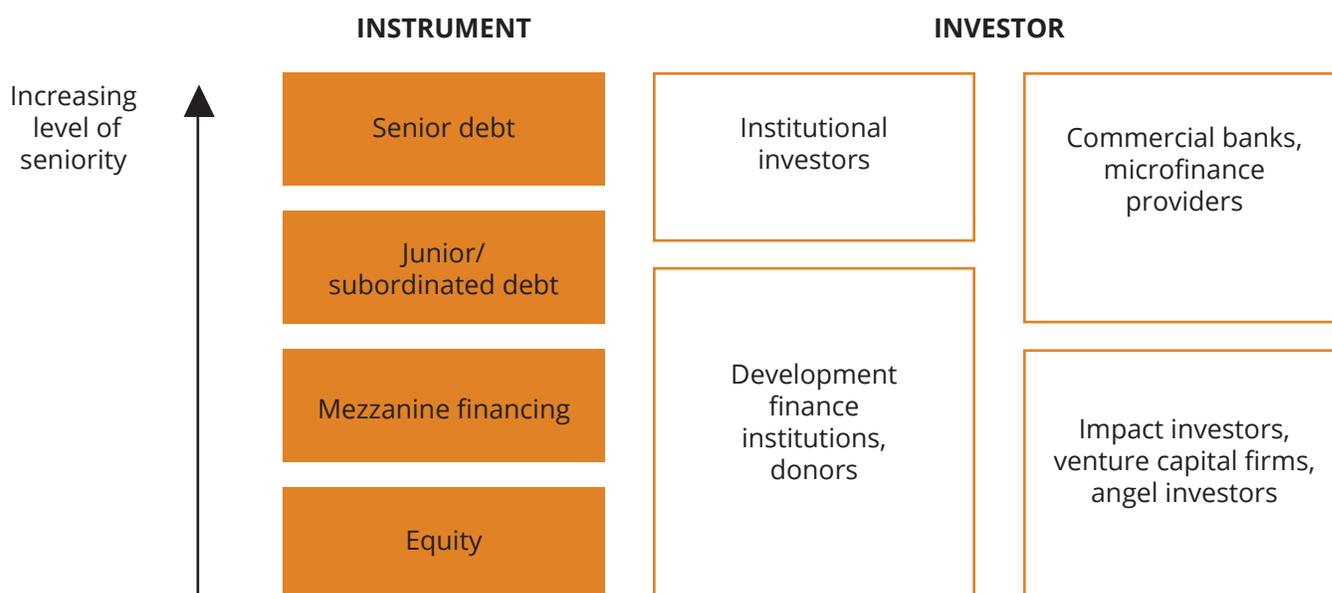
- What size range (USD) are each of these instruments deployed at?
- What range of interest rates are applied to loans, or what percentage returns are targeted for equity investors?
- What is the approximate payback period for loans or time horizon for shareholders of an equity investment?
- What liquidity, if any, may be offered to investors during the life of the investment (e.g. dividends, debt service, etc.)

### Investor types and the finance they provide at different stages of project maturity

Figure 3 below illustrates the typical financial instruments applied in a conservation investment in their order of seniority, as well as the finance providers that typically invest in each financial instrument.

- Is it possible to summarise the seniority of financial instruments provided by different investor types in a diagram similar to Figure 3?
- Can this diagram be accompanied with the terms of each financial instrument described above?

**Figure 3: Typical seniority of different financial instruments and their investors**



**Risk mitigation instruments used and how these were incorporated into the investment structure**

- What are the different financial risks each investor takes on?
- Is there any use of guarantees for loan repayments or for other forms of financial returns for investors?
- What type of collateral is used by borrowers to secure loan finance?
- Are any insurance mechanisms used and by whom?

**The exit strategy employed**

- What is the overall lifetime of the investment and what are the exit options for investors?
- How does the business and its associated conservation benefits continue following investor exit?

**Innovative features of the investment model**

- Are there any features of the model which are new for the industry/conservation sector or are innovative in other ways?

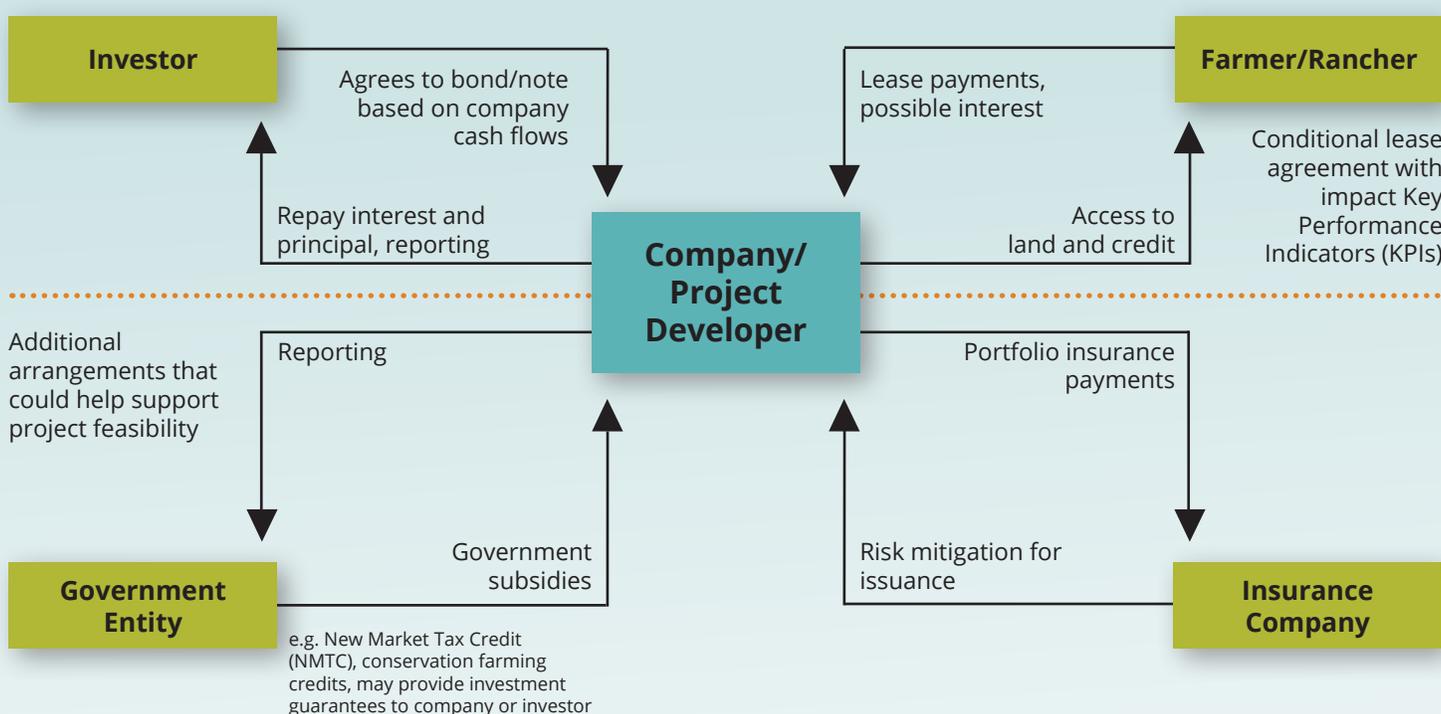
You may find it useful to summarise these elements of the investment model in a diagram, similar to that shown in Case Study 1, accompanied with 1-2 pages of narrative to describe the elements suggested above.

Case Study 1 below provides an example of an existing investment model being used to invest in sustainable agriculture in the USA, and captures some of the lessons from this model which could be incorporated into a Blueprint.

### Case Study 1: Learning lessons from a sustainable agriculture Blueprint

Credit Suisse, the Climate Bonds Initiative and Clarmondial, in their 2016 'Levering ecosystems: A business-focused perspective on how debt supports investments in ecosystem services report', assessed the investment model used by Iroquois Valley Farms (IVF) in Illinois, USA to transition land to becoming USDA certified organic.

This provides an example of a company that is deploying a strategy using privately-raised debt. IVF purchases and leases land to farming families. All farmland is transitioned to and maintained as USDA certified organic (if not already so), which can lead to a premium crop price. IVF is currently raising funds through a USD 20 million capital raise of which USD 15 million is equity and USD 5 million is a series of notes. The company recognizes the dangers of over-leveraging, especially for a business focused on primary agriculture where returns are relatively modest; it also faces the challenge that investors tend to seek larger-sized investments.



### Key points which could be included in a sustainable agriculture Blueprint model

- Debt in this example is flexible in how it is deployed. It can be used for larger issuances (through bonds) or smaller issuances (through notes), depending on the cash flow levels of the company.
- The risks are primarily linked to the company, which helps keep the cost of debt and insurance lower than it would be otherwise. This helps farmers access land and credit at a reasonable cost which they otherwise may struggle to afford.
- The model employs government subsidies, including providing investment guarantees to the company or investors, reducing the risk profile further.

- The security is based on the issuer's asset base, for example, land (title deeds) or an existing loan portfolio.
- Lease agreements with farmers or ranchers are conditional on them meeting impact key performance indicators (KPIs) to maintain the integrity of the environmental benefits provided by the business model.

#### Reference

Credit Suisse, Climate Bonds Initiative, Clarmondial (2016). Levering ecosystems: A business-focused perspective on how debt supports investments in ecosystem services. Available online: <https://www.credit-suisse.com/media/assets/corporate/docs/about-us/responsibility/banking/levering-ecosystems.pdf>



## Part 2: Identifying Blueprint replication opportunities

### Step 5. Assessing where the Blueprint can be applied and replicated

If the group has the ambition to collaborate on implementing the Blueprint, your next step is to assess where the Blueprint can be successfully applied and replicated. There are three main aspects to this assessment, identifying: where the conservation needs are greatest, where the Blueprint idea is commercially feasible and where it is socially and environmentally feasible. These steps are not intended to provide a definitive assessment of feasibility, but instead, an indication of which particular landscape(s) or value chains could be best suited for implementation.

#### i. Where are the conservation needs greatest?

**First you should review the conservation needs** within the common area of interest, in order to identify a shortlist of potential landscapes for the Blueprint.

**The identification and prioritization of conservation and restoration needs** across landscapes has a rich history. Decades of research and observation have produced global and regional analyses of landscape priorities based both on the uniqueness or irreplaceability of species and ecosystems as well as areas that are more prone to threats from unsustainable or destructive human activities. Information contained within these global or regional assessments of conservation priority can provide actionable intelligence on different taxa, ecosystems, habitats, and ecosystem services that support both conservation and functional landscapes for people. These include knowledge products like the IUCN Red List of Threatened Species (<http://www.iucnredlist.org/>) and Red List of Ecosystems (<https://iucnrle.org/>) as well as Key Biodiversity Areas (<http://www.keybiodiversityareas.org/home>), which include Ramsar Sites, Important Bird Areas, Alliance for Zero Extinction Sites, areas of recognized natural or cultural heritage, Critical Habitat under the Equator Banks safeguards criteria ([www.ifc.org/wps/wcm/connect/.../PS6\\_English\\_2012.pdf?MOD=AJPERES](http://www.ifc.org/wps/wcm/connect/.../PS6_English_2012.pdf?MOD=AJPERES)), High Conservation Value forests (<https://www.hcvnetwork.org/>), and many more relevant designations that help prioritize landscape for investment.

In addition to assessing the geographic location and priority of landscapes for conservation, it is important to assess the role these species and ecosystems play in providing the range of ecosystem services that

people both expect and depend upon. With advances in remote sensing technology and the proliferation of both biophysical and socioeconomic spatial data, there are a range of ecosystem services assessment tools developed by the natural capital community that can be applied (for example the TESSA tool <http://tessa.tools/>).

Finally, assessments of degradation have the potential to reclassify landscape priorities for investment based on a combination of social and biological criteria. A significant portion of the world's ecosystems are degraded and the identification of these areas through degradation assessments such as the Intergovernmental Panel on Biodiversity and Ecosystem Services (IPBES) Global Assessment Land Degradation and Restoration ([www.unccd.int/en/.../Item5a\\_IPBES-LDRA\\_PPT%20by%20Hien%20Ngo.pdf](http://www.unccd.int/en/.../Item5a_IPBES-LDRA_PPT%20by%20Hien%20Ngo.pdf)), along with other initiatives that seek to quantify degradation (e.g. Conservation International's Vital Signs (<http://vitalsigns.org/>), IUCN National and Subnational Forest Landscape Restoration Assessments, <https://www.iucn.org/theme/forests/our-work/forest-landscape-restoration/restoration-opportunities-assessment-methodology-roam>) will help in setting landscape priorities for investment. For marine and coastal areas the Selig et al. 2014 paper 'Global Priorities for Marine Biodiversity Conservation'<sup>lxixiv</sup> is also a useful reference.

The identification of conservation needs will ultimately depend on the sector(s) proposed within the Blueprint itself (i.e. agriculture, fisheries, forest landscape restoration, etc.) and the ambition of intended impacts of such investments with regard to biodiversity conservation and restoration in both natural and human-dominated land and seascapes. It may be that much of this assessment has already been conducted in publically available resources, particularly in forest conservation and REDD+ where these analyses have taken place at national and sub-national level via a range of different initiatives e.g. the Forest Carbon Partnership Facility (<https://www.forestcarbonpartnership.org/>), UN-REDD ([www.un-redd.org](http://www.un-redd.org)), Governors Climate Fund (<https://gcftf.org/>), Bi-Lateral donor initiatives and privately-funded projects. WWF, the Critical Ecosystem Partnership Fund (<http://www.cepf.net/>) and other organisations have conducted thorough studies for where to focus conservation efforts which may also provide a useful starting point.

Conservation value can also be high in areas that may not have been assessed as priority by conservation professionals. As landscapes and marine ecosystem quality declines, the IUCN Red List of Threatened Species has recognized and measured a decline in formerly common species (2016 Red List update:

Giraffe, 2017 Red List Update: North American Ash Trees) and two of the most high-profile extinction events in the past 100 years have been from species that numbered in the millions at the start of the century (e.g. Passenger Pigeon, Rocky Mountain Locust). The overall decline in common species indicates that conservation priority setting is both a function of the human interest in a landscape or seascape under consideration for investment as well as the ecological significance, perceived threats, and potential effectiveness of conservation efforts – especially regarding land tenure and rights.

Additionally, efforts to identify and prioritize conservation and restoration needs should consider matters of scale. Whilst generally achieving impact on a larger number of species or ecological communities is desirable, there may be unique and locally threatened species or ecological communities which are uniquely valuable in their own right and/or commercially (e.g. species containing unique properties useful for medical research).

The Biodiversity Return on Investment Metric (BRIM) provides the finance sector with a way to measure the impacts of investment on biodiversity conservation. It is based on the IUCN Red List of Species, and works by measuring the impacts of investment on changes in pressures that cause species to become at risk of extinction. The approach and methodology has been developed by an advisory committee from the conservation and finance worlds, and road-testing in a variety of field situations is underway (December 2017). Updates are available at <https://www.iucn.org/regions/washington-dc-office/our-work>.

#### **Effectiveness of existing conservation efforts**

– if there are already well-resourced and effective measures in place to conserve biodiversity and ecosystem services in a landscape, then there may not be a significant need for investment from the private sector. Alternatively there may be existing measures in place that are not adequately resourced, and have a need for substantive private investment. For example a national park buffer zone which suffers from encroachment from small-scale, low productivity agriculture may benefit from private investment to improve agricultural productivity, with associated conditions for investees/borrowers to avoid further deforestation and degradation. Useful references to assess this include:

- <https://www.cbd.int/protected-old/PAME.shtml>
- <https://www.protectedplanet.net/c/protected-areas-management-effectiveness-pame>
- <https://www.iucn.org/theme/protected-areas/our-work/iucn-green-list>

## ii. Where is it commercially feasible?

A detailed financial analysis is not necessary at this stage, however, the group should carry out a preliminary analysis of its commercial feasibility before you continue further. You can use Step 7a and Appendix 3 as reference resources for this process. Points you should consider as part of this analysis include:

- What is the product/service being offered and what evidence of market demand exists for it?
- What comparable market offerings already exist and is there clear potential for the product/service to have a unique competitive advantage over these?
- What is the approximate scale of potential revenue, given the projected market size and product pricing?
- What are the estimated costs required to achieve the projected revenue?
- Taking projected revenue and costs into account, at what point over the next five years could this business break even and produce profit?
- What basic financing needs would the business have (e.g. loans, **equity** investment or grants)?
- What impact might this have on profits and the ability to achieve the break-even point?

If the results of this basic commercial assessment indicate that the business would struggle to break-even within five years, and would struggle over the longer term to meet the high level commercial objectives set out, then you should either significantly adjust the business concept or reconsider its suitability.

## iii. Where is it socially and environmentally feasible?

If the conservation investment is deemed as commercially feasible, then there are further social and environmental feasibility factors to take into account. Wherever possible, you should seek to maximise your engagement with local stakeholders during this process. There are many examples of substantial time and resources being invested in well-developed conservation project ideas that then run into foreseeable barriers to implementation. These include, but are not limited to:

**Local implementation capacity** - a pre-requisite to successfully implementing any business model is the presence of qualified and motivated partners and team members. Key questions you should examine here

include the following:

- Are there local ‘champions’ (individuals or organisations) and implementation partners with the necessary human resource capacity and presence? Do they have a sufficient track record of implementation and can this be verified by referees? In the conservation sector, help in identifying local implementation partners may be found via the networks of organisations such as IUCN, BirdLife, WWF, TNC, Conservation International and other international organisations.
- Are there local financing partners or intermediaries available?
- Are there potential partner organisations present with the mandate and interest to support the project? For example, **civil society** or religious organisations who may be able to help with community engagement, academic partners for research and data collection, government extension services etc.?

If any of these elements are not in place or are under-developed, how effective could **capacity building** activities be in addressing them? For example, it may be possible to build capacity for research and data collection techniques with local partners. But longer term issues, such as lacking the presence of competent financing partners and local champions, will require greater resources and extended timelines to establish.

**Technical feasibility** – whilst the detailed linkages between the conservation investment and conservation outcomes don’t need to be mapped out until Step 7 a), it is important that you identify any critical issues there may be in applying the conservation methodology. For example, will the application of conservation agriculture or organic agriculture be appropriate for the farming systems used? Are the drivers of habitat destruction and species decline similar in this landscape?

**Political support** – key questions you should explore include the following:

- Who administers and controls the land and resources in the landscape?
- Is this administration effective and supportive of the overall aims of the conservation investment in question?
- Do the incentives and aims of this administration align with those of the conservation investment, and if not, how will this impact its feasibility?
- Is the administration likely to require payment or a portion of the proceeds from the investment via taxes or direct charges?
- Is corruption a significant issue and how may it affect the business?

You should consider the answers you provide here in order to form a view on how supportive the resource governance regime will be. You should also consider potential mitigating actions, such as working alongside the government, either via partners or directly, to address some of the risks raised. If it is not possible to find answers to these questions, this in itself is a concern for the feasibility of the business model in this location.

Supportive policy and legal frameworks – another important consideration is the degree to which existing local and central government’s legal and policy frameworks support or restrict the potential conservation investment. Tables 2 and 3 provide examples of supportive and restrictive policy and legislation. You may also wish to refer to the World Bank’s most recent ‘Doing Business’ report to obtain a summary level overview of the ease of doing business in the target country (see: <http://www.doingbusiness.org/reports/global-reports/doing-business-2017>).

**Table 2: Examples of supportive policy and legislation**

SUPPORTIVE
Payment incentives for ecological restoration or conservation (e.g. public payment for ecosystem service schemes)
Where <b>government land concessions</b> are used, concessions are available for conservation and restoration, and/or pathway for converting a concession into management for conservation/restoration (e.g. Indonesia’s Ecosystem Restoration Concessions (ERC))
Regulatory framework in place for <b>land easements</b> (e.g. Chile’s Environmental Conservation Rights Law No. 20930, 2016) <sup>lxxxii</sup>
Legislation outlawing destruction or damage to natural habitat and biodiversity. Legislation is actively enforced with punitive measures at an adequate level to discourage breaches of the law (e.g. US Endangered Species Act)
Tax relief available for investments in conservation (e.g. the Netherlands Green Funds Scheme) <sup>lxxxii</sup>
Regulation in place which allows for community ownership and/or management of nature resources (e.g. Philippines Community-Based Forest Management Agreements (CBFMA))

**Table 3: Examples of restrictive policy and legislation**

RESTRICTIVE
Subsidies encouraging the clearance of natural habitat (e.g. elements of the European Common Agricultural Policy which encourage bringing uncultivated land into production <sup>[xxxiv]</sup> )
Where government land concessions are used, concession terms either encourage or do not effectively put in place restrictions on natural habitat clearance (e.g. Cambodia’s Economic Land Concessions <sup>[xxxiv]</sup> )
Restrictions on Foreign Investment (e.g. Indonesia’s presidential decree 44/2016 <sup>[xxxiv]</sup> )
Financial regulations which restrict the use of innovative or <b>sub-commercial financial instruments</b> (e.g. restrictions placed by financial regulators)
Onerous legal processes for establishing, registering and managing a business
Restrictive corporate regulations and compliance requirements
Legal system is restrictive on ability to make and enforce contracts and resolve disputes
Laws that restrict the use of public-private partnership
Withholding taxes on returns flowing out of the country and risks of double taxation

### Case Study 2: Ecosystem Investment Partners II

An example of a business applying a supportive regulatory framework is asset fund Ecosystem Investment Partners II that delivers restoration and conservation by capitalizing on the “no net loss” regulations for wetlands in the United States. These regulations require negative impacts of development projects to be offset. Ecosystem Investment Partners therefore acquires and restores ecologically significant land with important conservation potential, and then sells the credits it generates to developers. The fund has received investment from several endowments, pension plans and other investors, showing that, with the right regulations in place, large scale financing can be raised for ecosystem restoration projects.

Enclude (2016). Report: the Missing Link. Connecting international capital markets with sustainable landscape investments. Available online: <http://encludesolutions.com/wp-content/uploads/2017/02/The-Missing-Link-Report-2016-Enclude.pdf>

**Land and resource tenure** – the presence of a clear and secure land and resource tenure regime is usually

fundamental to land and resource based investments. Without this, the risk of appropriation or dispute with other stakeholders in a **landscape** may be too high for an investment particularly over the medium-long term. For example, a common barrier identified for farmers to replanting aging cocoa trees in Ghana is that the ultimate land owners (e.g. chiefs or custodians) can take ownership of the land and trees by displacing tenant farmers, whose rights are often not documented or defined. This also highlights restrictions created by dual tenure regimes, where, for instance, one individual or group may lay claim to the land, whilst a different individual or group lays claim to the trees on the land.

In many areas of the world where conservation needs are greatest, land and resource tenure regimes can lack clarity and can have a high risk of dispute in the future. In these cases, you will need to decide whether or not the risks created by this uncertainty can be realistically mitigated, and, if not, whether this may prevent the business concept from progressing.

**Social/environmental risks and benefits** – you should conduct a rapid review on the social and environmental risks posed by a project. This process may be most effectively carried out using an existing set of safeguards (e.g. IFC Performance Standards, Climate, Community, Biodiversity Alliance Standards etc.). For each risk, identify and assess the adequacy of potential mitigating actions. As a result of this exercise, the group may either decide that the project remains feasible conditional on the implementation of these mitigating actions, or, if any of the risks remain too severe and difficult to mitigate, the concept may need to be adapted or discontinued.

**Political risk** – it is difficult to influence or control political risk, which makes it particularly important that this is included in the feasibility assessment. If this is not thoroughly considered, you may find it difficult to attract investors at a later date who consider the political risks in the target geography to be too great. You should identify potential mitigating actions and/or summary-level options for what can be done if they do transpire, though it is unlikely that many of these risks can be fully mitigated against. You can find further guidance on political risk in Clements Worldwide 2017 article ‘A Guide to Assessing Political Risk for Multinational Companies’ (see: <https://www.clements.com/sites/default/files/resources/Guide-to-Assessing-Political-Risk-Final.pdf>) and you can further assess political risk using resources such as the aforementioned World Bank ‘Doing Business’ annual reports.

**Ability to implement a landscape approach** - Project developers looking to invest in the sectors in which blueprint development is currently focused should be aware of the opportunities of aligning their interests and investments with other initiatives in the same

landscapes. There are many ways in which natural-capital investments at a landscape scale are co-dependent. For instance, agricultural investments will depend for their sustained yields on upstream watershed condition, which can be improved by the restoration of forests or reduction in erosion through agroforestry approaches. The latter will also be of value in reducing sedimentation impacts on coastal green infrastructure such as mangroves and coral reefs, for instance. There are many other examples of co-dependency at the landscape scale.

Table 4 below (adapted from the Climate Community and Biodiversity Alliance; [climate-standards.org](http://climate-standards.org)) provides information about landscape-scale tools, approaches and metrics which can help project developers ensure that their projects are most likely to benefit from other investments in the same landscape.

**Table 4: Landscape resources, tools and platforms**

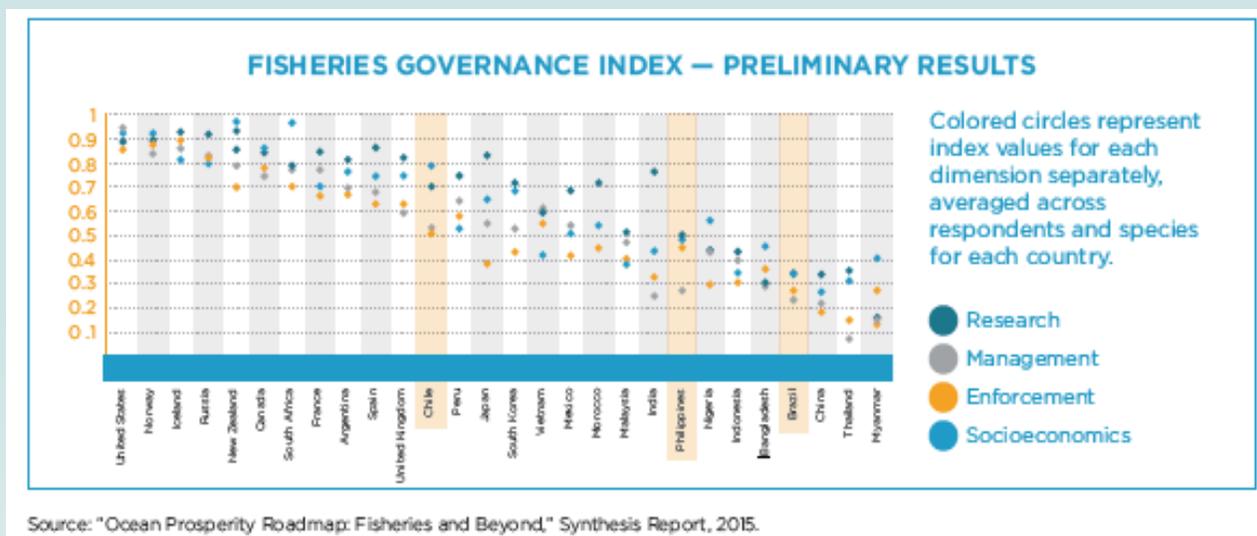
RESOURCE	DESCRIPTION
Landscapes for people nature and food <a href="http://peoplefoodandnature.org/">http://peoplefoodandnature.org/</a>	A learning network on best practices for sustainable landscape approaches
Sustainable Landscape Rating Tool <a href="http://www.climate-standards.org/sustainable-landscapes-rating-tool/">http://www.climate-standards.org/sustainable-landscapes-rating-tool/</a>	A rapid assessment of the key conditions for jurisdictional policies and governance that enable sustainable landscapes
Landscape Assessment Framework <a href="http://www.conservation.org/LAF">www.conservation.org/LAF</a>	Supports measurement, monitoring and communication of progress towards tailored landscape sustainability goals
The Landscape Standard (Verified Carbon Standard) <a href="http://www.v-c-s.org/project/landscape-standard/">http://www.v-c-s.org/project/landscape-standard/</a>	Assesses a standard set of social and environmental outcomes at a landscape scale
Produce Protect Platform (Earth Innovation Institute) <a href="http://www.produceprotectplatform.com/">http://www.produceprotectplatform.com/</a>	Identifies jurisdictions where commodities are produced sustainably
Commodities-Jurisdictions Approach and Database <a href="https://commoditiesjurisdictions.wordpress.com/">https://commoditiesjurisdictions.wordpress.com/</a>	Identifies jurisdictions making progress reducing deforestation and the commodities they produce
Forest 500 (Global Canopy Programme-GCP) <a href="https://forest500.org/">https://forest500.org/</a>	Provides a ranking of governments on policy commitments to reduce deforestation and on monitoring implementation, mostly at national level
Global Forest Watch (WRI) <a href="http://www.globalforestwatch.org/">http://www.globalforestwatch.org/</a>	Provides an online forest monitoring and alert system
Restoration Opportunities Assessment Methodology <a href="https://www.iucn.org/theme/forests/our-work/forest-landscape-restoration/restoration-opportunities-assessment-methodology-roam">https://www.iucn.org/theme/forests/our-work/forest-landscape-restoration/restoration-opportunities-assessment-methodology-roam</a>	Helps to assess opportunities for spatial planning of restoration at landscape scale
Restoration Opportunities Optimisation Tool (ROOT) <a href="https://www.iucn.org/content/root-cause-and-its-algorithmic-effects-optimise-your-forest-landscape-restoration-planning">https://www.iucn.org/content/root-cause-and-its-algorithmic-effects-optimise-your-forest-landscape-restoration-planning</a>	Helps to optimise ecosystem service benefits from landscapes

<p>The Restoration Diagnostic (World Resources Institute-WRI)  <a href="http://www.forestlandscaperestoration.org/tool/wri-restoration-diagnostic-developing-strategies-successful-flr">http://www.forestlandscaperestoration.org/tool/wri-restoration-diagnostic-developing-strategies-successful-flr</a></p>	<p>Assesses incentives, resources and enabling conditions for large-scale forest restoration</p>
<p><b>Supply chain transparency initiatives</b></p>	
<p>GMAP (International Finance Corporation)  <a href="http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/gmap">http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/company-resources/gmap</a></p>	<p>Identifies and scores risks for commodity-related investments in producer countries focusing on child/forced labor and biodiversity at national level</p>
<p>TRASE (GCP–Stockholm Environment Institute) <a href="https://trase.earth/">https://trase.earth/</a></p> <p>Global Forest Watch Commodities (WRI)  <a href="http://commodities.globalforestwatch.org/">http://commodities.globalforestwatch.org/</a></p> <p>Sustainable Palm Oil Transparency Toolkit (Zoological Society of London)  <a href="https://www.spott.org/">https://www.spott.org/</a></p> <p><a href="http://supply-change.org">Supply-change.org</a> (Forest Trends,WWF,CDP)</p>	<p>Provides information linking company supply chains with source areas</p>
<p><b>Governance tools</b></p>	
<p>Governance of Forests Indicators (WRI)  <a href="http://www.wri.org/our-work/project/governance-forests-initiative">http://www.wri.org/our-work/project/governance-forests-initiative</a></p> <p>Assessing and Monitoring Forest Governance (PROFOR) <a href="http://www.profor.info/content/assessing-and-monitoring-forest-governance">http://www.profor.info/content/assessing-and-monitoring-forest-governance</a></p> <p>The Access Initiative  <a href="http://www.wri.org/our-work/project/access-initiative-tai">http://www.wri.org/our-work/project/access-initiative-tai</a></p>	<p>Helps stakeholders to identify and assess key governance issues, including forest governance</p>



### Case Study 3: Encourage Capital – analysis of the governance environment for sustainable fisheries

The Encourage Capital report *'Investing for Sustainable Global Fisheries'* presents a detailed explanation of the impact investment landscape and potential for global sustainable fisheries investment. This includes a discussion of sustainable seafood demand, declining stock abundance, constructive price dynamics, supply chain factors and prospects for restoration. The report then focuses on the three countries selected, providing a description of how the number of global marine landings, fishery conditions, fishery governance and investment climate in these countries make them ideal host countries. The report presents the recent analysis conducted by the University of Washington (below) which ranked Chile, Brazil, and the Philippines (the project host countries) at 0.63, 0.30, and 0.42 on a scale from 0 to 1 on its fisheries governance index.



The report explains that, across these three countries, fisheries authorities lack basic estimates of current stock sizes of numerous species, do not set maximum catch limits, have insufficient rules in place to limit bycatch or the catch of juvenile fish and do not protect spawning areas.

However, the report goes on to provide further detail on how each national governance framework provides an adequate environment for impact. The report explains that, when choosing sites, Encourage would ask the following questions with regard to regulation: how robust is the current regulatory framework? Are there any regulatory tools that enable fishing companies and investors to have tenure over the fishing resource? Are fishing authorities willing to collaborate with private partners to implement management improvements?

For the Chilean example, it is explained that most international observers consider Chile to maintain a strong management regime due to its progress in the 1990s, when Chile started to utilize formal catch limits (Total Allowable Catch levels or TACs). However, despite the progressive framework, it is reported that many specific management deficiencies exist, and many of

the nation's stocks remain improperly assessed and/or managed. In particular, the use of territorial user-rights management systems (TURFs), which, while having been shown to meaningfully improve management and biomass levels in cases, have generally been poorly implemented. As a result, fishing companies tend to lack the technical understanding and data necessary to consistently manage their resources at sustainable extraction levels. The country is identified as having governance deficiencies, but also a progressive enough framework in place that could facilitate constructive improvements.

Government engagement is listed as the first stage of the hypothetical management plan for the area, to help enact these improvements. This would include a plan to share all aggregated data with local fisheries authorities, co-create product labelling with them and conduct workshops on how to integrate data into annual stock assessments and conduct trainings around management planning.

#### Reference

Encourage Capital (2016). *Investing for Sustainable Global Fisheries*. Available online: [http://encouragecapital.com/wp-content/uploads/2016/01/Executive\\_Summary\\_FINAL\\_1-11-16.pdf](http://encouragecapital.com/wp-content/uploads/2016/01/Executive_Summary_FINAL_1-11-16.pdf)

## Making a feasibility decision

For each of the factors identified above, the group should collate the key risks they have identified which would threaten the feasibility of implementing the conservation model in the selected geographic area or value chain. Once you have identified these risks, you should consider potential mitigating actions for each, and assess the extent to which these actions can satisfactorily address them. After you have considered the impact these mitigating actions could have, you can assign a simple rating to each risk. A suggested rating approach is described in Table 5 below:

**Table 5: Assigning residual risk ratings**

Residual risk after mitigating actions have been accounted for	Meaning
Higher	Poses a serious threat to the viability of the investment. If these risks transpire, the enabling conditions for the investment would be entirely undermined.
Medium	Poses a moderate threat to the viability of the investment. If these risks transpire, challenges will be faced but the business could continue if adequate actions are taken.
Lower	Poses little threat to the viability of the investment. If these risks transpire, the challenges they present could be easily overcome.

Any factor that you deem to be higher risk should give the group pause for thought regarding the feasibility of the investment. If there are multiple higher risk factors, the group should consider either adapting or abandoning the investment concept.

If you do not identify any higher risks, then the group should continue but keep a record of the necessary mitigating actions which will need to be built into the investment.

### Selection and prioritisation

The group should now have identified a final short-list which consists of a set of landscapes or value chains where the Blueprint in question can be feasibly implemented.

If your intention is to implement the Blueprint in just one or a smaller selection of these landscapes or value chains the following questions may help you make this selection:

- How pressing is the conservation need?
- What is the presence of the organisations in the group within these landscapes?
- How strong is the group's existing networks and relationships with key stakeholders in these landscapes?
- Do we already know that the business(es) identified for the Blueprint are of interest to specific investors?
- Which has the lower risk profile?

## Step 6. Developing a Theory of Change

At this stage, it is important that you define the objectives for Blueprint implementation in the chosen landscape(s) or value chains. The objectives statement should include one to three sentences which define the overarching change that the conservation investment can contribute to. The overall objective does not necessarily need to be something that can be solely attributed to the investment, and may also depend on another factors which contribute to it.

Next, the group should assess the chain of activities, outputs and outcomes necessary for the investment in order for it to make its strongest contribution towards the overall objective. This is often referred to as a 'Theory of Change'.

There are a range of methodologies available to achieve this, and one of the most common examples is a '**logical framework**' or 'log-frame'. For further information on how to develop log-frames, please refer to this guide from Tools4Dev (see: <http://www.tools4dev.org/resources/how-to-write-a-logical-framework-logframe/>).

At a simple level, the remaining levels of a log-frame include:

Outcomes - describe the desirable future behaviour of the target groups - in which way the target groups will use the potentials described in the outputs (e.g. application of knowledge, adoption of practices, use of technology, etc.).

Outputs - describe what will happen as a result of project activities.

Activities - describe major activities which need to be implemented in order to accomplish each of the outputs. (You must realistically define activities considering the resources available.)

Once you have identified this 'log-frame', define the list of indicators which you will use to assess performance against each log-frame level. Whilst you do not need to develop a full monitoring and evaluation approach at this stage (See Step 7 c) v. for further detail), the indicators you select should be:

- **Precise/well defined** – they should not be ambiguous, otherwise interpretations of indicators by different people imply different results for each.
- **Reliable** – this implies that the indicator should yield the same or very similar results on repeated trials/ attempts.

- **Valid** – the indicator should actually measure what it is intended to measure.
- **Measurable** – quantifiable indicators are particularly useful at the outputs and outcome levels of the logical-framework, with qualitative indicators becoming more relevant at the upper level. However, qualitative indicators may be more prone to ambiguity.
- **Practicable** – it must be able to utilise locally available resources, while at the same time as being cost effective.

Examples of indicators are provided below. Please note that just one industry is used as an example here, and, in reality, conservation investments are likely to include multiple industries or commodities contributing to the objective level, via multiple activity-results chains.

Log frame level	Example item	Example indicator
Objective	The Great Sea Reef is restored and exhibiting the functions of a healthy ecosystem until at least 2050.	Periodic assessments of the Great Sea Reef ecosystem health.
Outcomes	Credible eco-tourism operators use enhanced access to loan finance on preferential terms, depending on their businesses meeting defined criteria.  Eco-tourism industry grows at a faster rate than previously, leading to greater co-investment between the public and private sector in reef conservation measures.	Number of eco-tourism operators reporting enhanced access to loan finance on preferential terms.  Total amount of this loan finance accessed by eco-tourism operators.  % annual growth of the eco-tourism industry (will require a definition of eco-tourism).
Outputs	Local commercial banks begin offering loans on preferential terms (in relation to market rates) to eco-tourism operators, depending on their business meeting defined environmental and social criteria.	Number of commercial banks offering these <b>preferential loans</b> .
Activities	Technical assistance provided to local commercial banks to conduct necessary research & development to develop loans on preferential terms to eco-tourism operators meeting a set of defined criteria regarding social and environmental performance.  Agreement reached with <b>DFI</b> to on-lend finance to local commercial banks in Fiji, to be used solely for the 'Eco-Tourism Growth Loan'.  A Guarantee is provided by a donor agency providing the DFI and commercial bank intermediaries up to 50% of loan value in the event of loan default.	Man-hours of technical assistance provided to local commercial banks.  Number of training and development workshops delivered.  Number of market research studies conducted.  Agreements signed between DFI and local commercial banks in Fiji.



# Part 3: Developing transactions that align with Blueprints

## Step 7. a) Business Model

Before investing time and resources into the full development of a particular business model, you may consider performing a rapid test of the level of interest or demand for your product/service idea. You could follow an approach similar to the 'Lean Startup' methodology (see: <http://theleanstartup.com/principles>) which works on the principle that if a product/service is not destined to succeed, you should be able to fail quickly and cheaply. In order to test the product or service itself, using a 'Minimum Viable Product' (MVP) approach in your target market may also help achieve this. See this Harvard Business Review article for a useful introduction to the MVP concept (see: <https://hbr.org/2013/09/building-a-minimum-viable-prod>).

Once you have reasonable evidence or confidence that there is demand for your product or service you can proceed to full business model development. Generally speaking, you should write the business model with a 3-5 year time horizon but also include a longer term vision (see section 7. a) *xiii*. – Long term sustainability of the business model).

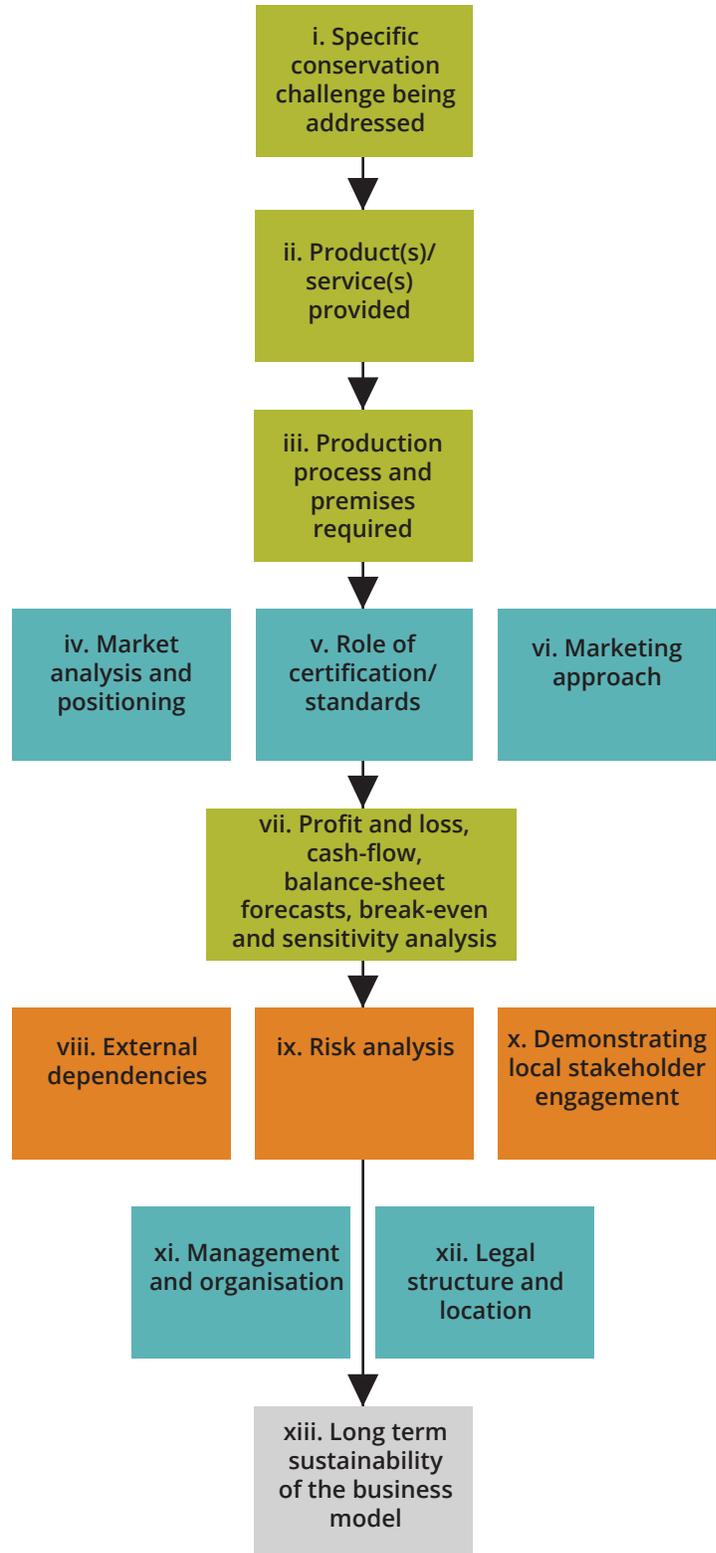
There are numerous business development guides available online to help you inform the business planning process. You may consider consulting one of the following manuals when developing the business plan for your conservation investment:

- The U.S. Small Business Administration (SBA) – How to Write a Business Plan (see: <https://www.sba.gov/starting-business/write-your-business-plan>)
- The Business Model Canvas – Strategyzer (see: <https://strategyzer.com/canvas/business-model-canvas>)
- Barclays – Your guide to a successful business plan (see: <http://www.barclays.co.uk/business-banking/business-insight/writing-a-business-plan/>)

The Conservation Leadership Program has also developed a useful guide to conservation project planning, entitled "The Conservation Project Manual" which may also be useful, given the nature of the venture (see: <http://www.conservationleadershipprogramme.org/media/2014/09/ConservationProjectManual.pdf>). The successful business models identified during Step 3. can also be a useful reference point for this process. This may range from taking on board lessons learnt, to close replication of the business model in question.

Figure 4 and the narrative below provides a suggested process for developing the business model:

Figure 4: Suggested process for developing the business model



## i. Specific conservation challenge being addressed

You can build this description from the preliminary information collected under Step 5. i. Overview of the conservation need/opportunity. Key components you should include in identifying the specific conservation challenge being addressed, include:

- **Defining the geographic area** – what are the geographic boundaries of the area affected by the conservation investment, and the environmental, social and economic characteristics of this area? How does this complement other conservation efforts in the region?
- **Identifying key drivers of habitat destruction/degradation/biodiversity loss** – can you identify which entities represent the main threats to habitat and biodiversity, and how you would categorise these threats? What has been the historic pattern of this process and what are the likely future trends? Investors may expect a robust understanding of the 'baseline' situation for the conservation challenge prior to the start of the venture, and this will be critical for the subsequent monitoring and evaluation of program impacts.
- **How these drivers will be addressed** – how does this business model seek to address the drivers identified? Will they be addressed directly or indirectly? If it is indirect, what are the assumptions or conditions required for this impact to take place?
- **Risk identification and mitigation** – is there a risk that the business outcome will not address these drivers or simply displace them? What is the risk that the business has an adverse effect on conservation efforts or its impacts are reversed? How will these risks be mitigated? Here, you may wish to revisit the social and environmental risks identified in the Step 5. ii. Where is it socially and environmentally feasible?

## ii. Product(s)/service(s) provided

Once you have a good understanding of your target market, you can start to further define how your customer will receive value from your product or service. There are a number of potential products and services you might be providing:

- **Physical products:** e.g. agricultural inputs, tree seedlings, wood products, agricultural commodities.
- **Services:** e.g. nature experiences, mobile application providing information services, agricultural extension services.

- **Environmental services:** e.g. increased mitigation of, or **resilience** to, environmental risks, improved pollination, access to clean water, reduction of hazards.
- **Social services:** e.g. improved health, improved access to markets.

An example of how the Althelia Climate Fund selected a range of products and services for a conservation investment in Guatemala is provided in Case Study 4.

### Case Study 4: Althelia Climate Fund project revenue streams

Althelia Climate Fund projects present two revenue streams to investors, usually in the form of **ecosystem services** (e.g. **carbon offsets**) alongside other sustainable commodities (e.g. deforestation free agroforestry cocoa). The fund has invested USD 11.1 million into a project on the Caribbean Coast of Guatemala to finance the long-term conservation of up to 110,000ha of natural forest interspersed with the region's protected areas which aims to avoid over 8 million tonnes of CO2 emissions through avoided deforestation. In addition to this, the project will restore over 1,000 ha of degraded land situated in buffer zones around the protected areas for use as agroforestry systems by local communities.

The forests in this region are important corridors for migratory birds and also provide local communities with numerous ecosystem services. Local communities also benefit from agricultural produce including timber, and a variety of non-timber forest products, including xate, black pepper, cardamom and cocoa. The restoration work will provide additional revenue streams to small scale farmers by increasing the production of agricultural commodities and enabling a transition towards sustainable land use in and around the protected areas in partnership with local communities who suffer the most as their natural forests are degraded.

Althelia's investment will also finance the establishment of new nature reserves and protected areas that address the needs of the local human population to safeguard the highest risk forest areas. It will provide resources to manage and scientifically monitor the existing protected areas and surrounding buffer areas, which have historically been under-resourced and vulnerable to illegal exploitation.

#### References

Althelia Ecosphere (2017). *Guatemalan Caribbean Forest Corridor - Althelia Ecosphere*. Available online: <https://althelia.com/investment/guatemalan-caribbean-forest-corridor/>

**What is your competitive advantage?** It is important you identify how your product can best meet the needs of your target customer base and how it does this better than existing products. However, it is not enough to just conduct this exercise theoretically before rolling out a large-scale program. You should consider how you can best prototype and pilot your product/service on a small scale with your target market. This is likely to reveal critical modifications and will also help to increase investors' confidence in your business model. In the case of a conservation investment, it is also important that you fully understand what implications different modifications to, or uptake of, your product/service would have on its end conservation outcome.

**Product lifecycle.** What is harder to test in the field, but just as important to establish, is your product's life cycle. The success and attractiveness of your product amongst your target market is likely to change as more customers use your product. Typically four stages are identified as part of a product life cycle:

- **Introduction to the market:** this stage is often the most expensive and least profitable for a business launching a new product, due to high start-up costs (e.g. research and development, consumer testing, and the marketing), small share of the market and low sales
- **Growth:** this stage is typically characterised by string growth in sales and profits as the business starts to experience reduced costs, increased sales and higher profit margins as it begins to benefit from economies of scale
- **Maturity:** during this stage the product is established and the business tends to maintain the market share they have built up, so it is likely that it will experience constant sales, further reductions in costs and increasing profits
- **Decline:** a product will experience the decline stage when the market for it begins to shrink and the business experiences reduced sales and profits as a result. This may be due to the market becoming saturated, or due to consumers switching to different products

**Potential to scale-up:** Historically conservation projects that incorporate business models in their implementation provide products or services on a relatively small-scale. For an investor to be interested in your product, it will you need to demonstrate how you expect your product to scale up and how your product will remain successful over time.

**Research & Development.** Finally, the expected product lifecycle may identify areas for research and development that would help your product to build and maintain market presence or expand into other markets.

### iii. Production process and premises required

The delivery model for your product or service is another key element of your business plan. This raises a different set of considerations depending on whether your model is based on a physical product or a service.

*For a physical product*, for example tree seedlings for agroforestry, the business plan needs to address:

- Where will your product be sourced from and what is the production process? If this is not based on existing infrastructure then an assessment needs to be conducted to understand the best supply locations and how that supply network can scale up over time.
- What inputs are required to that production process?
- How efficient is the process and what waste will it generate?
- Are storage facilities required?
- How will your product be transported to the end customer?
- What are the resulting total costs of production?

*For a service*, the 'supply' may be reliant on other kinds of infrastructure and suppliers, for example the IT infrastructure behind a mobile application. The business plan should address:

- What physical infrastructure (if any) or technological infrastructure is needed to support the service?
- What different skills and expertise are needed in the workforce to deliver the service?
- How will these systems cope with the level of demand expected and how can this service replicate at scale?
- At what frequency will the service infrastructure need to be updated?
- What are the total costs of these processes?

You will also need to consider any premises you may need for the day-to-day operations of the core business units, and their associated costs, along with your costs of marketing and advertising.

### iv. Market analysis and positioning

It is important that you have a thorough understanding of the characteristics and scale of the target market to inform your business strategy and sales/revenue targets.

Before beginning your market analysis, you need to carefully consider who your customers are and how their needs can be aligned with the conservation outcome you are pursuing.

## Case Study 5: How does the Northern Rangeland Trust Trading (Kenya) source its product?

An example of using an existing supply network as the basis for a conservation business is demonstrated by Northern Rangeland Trading (NRT), **social enterprise** owned by the Northern Rangelands Trust. Kenya's northern grasslands are suffering from severe overgrazing as a growing number of pastoralists have increased the number of cattle. These cattle are often underfed and increasingly severe droughts have created mass cattle starvation. Cattle herders are forced to sell these cattle at low prices in the local markets.

The Northern Rangelands Trust supports local communities to create locally-led governance structures, or 'conservancies', to help build peace, improve lives and manage the rangelands sustainably. NRT Trading then uses grant funding to buy cattle from these conservancies at a reasonable price (including a levy that provides funding to the communities) in return for improved grazing practices. It feeds them on nutrient-rich grasses before selling them directly to markets in Nairobi at a higher price than the local herder could have obtained. It now sources from across the NRT network of 33 conservancies covering over 32,000 km<sup>2</sup> across four sub regions of Kenya: the northern, north eastern, central and east coastal regions. Each region has an NRT regional support office offering support to the clusters of conservancies. These are each connected to the NRT Trading network which uses its existing and well developed marketing and distribution systems to facilitate connections to market.

### References

Northern Rangelands Trust Website (2017). Available online: [www.nrt-kenya.org](http://www.nrt-kenya.org).

Once you have identified your customer base, a market analysis typically comprises the following steps. These are adapted and summarised from useful resources available online (such as: [https://www.thebusinessplanshop.com/blog/en/entry/market\\_analysis\\_for\\_business\\_plan](https://www.thebusinessplanshop.com/blog/en/entry/market_analysis_for_business_plan) and <https://www.sba.gov/starting-business/write-your-business-plan/market-analysis>).

Figure 5: Key market analysis steps



### 1. Identify the size of the total addressable market: There are two key elements to this.

- Number of potential customers:** you may need to carry out a combination of bottom-up and top-down approaches. Bottom-up research, whilst more resource intensive, is usually needed to verify the trends observed from your top-down analysis. Examples of bottom-up analysis include using primary market research via surveying a selection of customers themselves, interviewing trade and consumer associations and focus-group discussions (see this All Business article for further guidance:

<https://www.allbusiness.com/the-five-basic-methods-of-market-research-1287-1.html>).

Top-down approaches include using secondary market research such as market analysis reports and demographic data to identify the size of the population of the right income profile to buy your product or service. These techniques combined can help calculate a reasonable estimate of the number of potential customers (see this MIT article for further guidance: [http://gsl.mit.edu/media/programs/india-bms-summer-2013/materials/step\\_4\\_calculate\\_the\\_tam\\_---trepreneurship\\_101.pdf](http://gsl.mit.edu/media/programs/india-bms-summer-2013/materials/step_4_calculate_the_tam_---trepreneurship_101.pdf).)

## Case Study 6: Identifying customers for wetland restoration

The Environmental Defence Fund (EDF) is designing a bond to support wetland restoration and **resilience** in the Mississippi River Delta. These wetlands not only provide habitat for wildlife, birds and fisheries, they also can moderate the effects of flooding events, including possibly, storm surge on infrastructure and cities. In the absence of wetlands restoration, the area stands to lose 1,750 square miles of wetlands between now and 2060 into open water. Louisiana's Coastal Protection and Restoration Authority, the entity responsible for developing and implementing a comprehensive 50-year Coastal Master Plan to restore and protect the coast, will act as a back-end payer. It is hoped that new revenue streams will help expedite the implementation of the Master Plan and attract additional payors.

EDF is therefore mapping out potential customer bases for whom the restoration work will bring value. These might include the oil & gas industry, petrochemical companies, ports, or even water infrastructure companies that would benefit from risk reduction and lower infrastructure maintenance costs. Other large land owners in the region or those operating recreation and tourism businesses may also see value in being payors for wetland restoration.

### References

Environmental Defense Fund (2017). *Job creation through coastal restoration*. Available online: <https://www.edf.org/ecosystems/job-creation-through-coastal-restoration>

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- ii) **Value of the market:** you can estimate this based on the potential volume of transactions multiplied by the expected value of each transaction. To identify the volume of transactions over a given period of time you can take the following steps:
- Take the number of potential customers.
  - Identify the 'renewal rate', which is the number of times each customer is likely to purchase your product or service in a given period of time.
  - Calculate the volume of transactions, which is the no. of potential customers multiplied by the renewal rate.
  - Identify the average value of each transaction.
  - Multiply the volume of transactions x the average value of each transaction to give you your total addressable market value.
2. **Segment your target market:** Within your potential customer base there may be segments which have specific characteristics that will require different marketing approaches. For example, these may differ according to the age ranges of your customers. Younger customers may live alone and use more income on discretionary goods and services, whilst older customers may live in families and spend more income on essential household goods. It is important that you understand this segmentation, which segments are the priorities for your business, and whether there are different marketing approaches needed for each.
3. **Identify the needs within your target market:** undertake an assessment to understand what behaviour is driving the need for your product or service.
4. **Understand the trends:** the demographics of your target market and other trends will determine how that market changes in size and value over time.
5. **Analysis of the competitive landscape:** identify which other organisations are providing similar products/services and what your business will do to differentiate, including your pricing structure.
6. **Identify the market share that you could gain:** as a result of the preceding analysis, identify what share of the total market you can hope to gain.
7. **Barriers to entry:** identify what factors are preventing other organisations from entering the same market and competing with your business. Confirm the differentiating elements to your business that will allow it to overcome these barriers.
8. **Regulation:** identify the regulatory requirements for entering the market and how your business would meet those.

## Case Study 7: How might a large palm oil trader with zero deforestation commitments conduct a market analysis?

Many of the world's largest palm oil traders have made commitments in recent years to ensure that they do not contribute to deforestation by avoiding the conversion of High Carbon Stock (HCS) Forests or High Conservation Value (HCV) Areas. These companies are often dependent on a raw supply of palm oil from franchised or independent smallholder farmers, often in remote areas and with little regulatory oversight. These farmers may lack the resources and/or incentives to avoid this deforestation and degradation of surrounding HCV or HCS forest.

At the same time, in many cases these farmers are only achieving a third of the yields achieved by large plantations but don't have the capacity or upfront capital to improve their practices. To help address this, these palm oil traders could look to **guarantee** a loan product aimed at enabling these smallholders to invest in improving and certifying their practices. This could help to reduce deforestation whilst generating a return on the investment for both the company and farmers due to the resulting yield increase and from the premium that can then be accessed when selling certified sustainable palm oil into the market.

A market analysis for this case could include the following:

- a description of the global characteristics of the palm oil industry;
- information about the target market including the retail and consumer companies committed to certified palm oil, the current price of certified palm oil and amount of certified palm oil purchased annually;
- an assessment of the share of this market this business aims to target and forecasted growth of the market for certified palm oil; and
- an analysis of the competitive landscape of existing certified palm oil businesses, the amount they are currently selling versus demand and the predicted growth of these businesses.

### References

Balch, O. (2015). World's largest palm oil trader commits to zero deforestation. Available online: <https://www.theguardian.com/sustainable-business/2015/jan/26/palm-oil-companies-deliver-deforestation-promises>

## v. Role of certification/standards

Depending on the chosen product or service, there may also be certifications or other standards that are necessary to secure your license to operate, strengthen the conservation credentials of your product, receive sales premiums or in some cases to access your target market. Your decision may also be influenced by the conservation needs identified in Step 5 i. and the specific conservation challenge being addressed in Step 7 a) i. Certification may increase your overheads as a business, require additional human resource capacity (or outsourcing) and require the hosting (and payment for) third party auditing and verification visits. As such, you need to carefully assess the costs and benefits.

Consider the following factors:

- Does the conservation business model incorporate certification or compliance with specific sustainability standards?
- What is the standard(s) to be used?
- Why is this standard being used, and what are the advantages to the business concept?

- Is this standard system already used within the project area and how prevalent is it?
- Was the standard developed on a multi-stakeholder basis and is it considered credible by stakeholders in your business?
- Is there accompanying awareness raising or training activity required for the producers/suppliers to become certified or accredited? How long will this take and at what scale and cost?
- What is the likely impact that the certification/standard will have on business expenditure, revenue and profit?
- What are the risks presented by incorporating certification/standards into the business model?
- Are there quantitative targets and a timeline for certifying/accrediting producers/suppliers?

This guide from Business for Social Responsibility (see: <https://www.bsr.org/files/fba/sustainable-sourcing-guide.pdf>) is a useful introduction to assessing the use of sustainability standards and certifications. You may also wish to consider how the role of

certification or standards may contribute to a successful marketing approach. For example, Fairtrade and Rainforest Alliance certification has been used by a number of businesses to engage with consumers through a demonstrated commitment to environment sustainability and the humane treatment of workers and stakeholders.<sup>lxxxviii</sup><sup>lxxxix</sup>

### Case Study 8: Ibis Rice Project deriving a premium using certification

An example of using certification to differentiate a sustainable product is demonstrated by the Wildlife-friendly Ibis Rice Project launched in 2009 by the Wildlife Conservation Society (WCS). In Cambodia, a partnership between NGOs and government agencies offers farmers a premium for their rice if they abide by conservation agreements designed to protect the Ibis and other species that use the protected areas. This includes setting up Village Marketing Networks and entering into agreements on land use planning and no-hunting. Transportation, processing, packaging and sale of the rice is coordinated by Sansom Mlup Prey. The rice is labelled as 'Wildlife Friendly TM' and sold at a premium to tourist hotels and restaurants, food retailers and into international markets.

Wildlife Conservation Society (2017). Ibis Rice Project. Available online: <https://programs.wcs.org/smpcambodia/About/Ibis-Rice-Project.aspx>

## vi. Marketing approach

The marketing of your product will play a major role in your ability to meet sales and revenue targets. You should also periodically re-evaluate your marketing approach as the business develops and grows. There are a number of things that you should consider when developing a marketing approach, including the following:

- **A market penetration strategy:** how do you expect your product to spread through your customer base? Companies often look to one of the following techniques to unlock greater market penetration<sup>xci</sup>:
  - **Adjusting the price:** lowering or increasing the price to better suit your target customer base and to better differentiate your product from any competing products or services. Conducting trial periods at a low cost can also help your customers to get accustomed to using your product/service and increase its visibility amongst your target market.

- **New customer engagement channels:** one of the most effective penetration strategies is to find new ways of getting your product/service in front of your customer. For example, many products or services are finding new success in direct online marketing rather than through traditional retail channels.
- **Improve the product:** sometimes small alterations in your product/service, its design or usability can significantly increase its appeal. In other instances, it may be more effective to improve communication with your customers on how it can bring them value.
- **New products:** increasing your product/service portfolio may help to reach new segments of the market. You can also look to expand into other complementary products.
- **Educate or build purchasing capacity in the customer base:** many of your target customers may not be aware of your product/service or how it could benefit them. They may also need **capacity building** or training to make best use of it.
- **Diversification of the business model:** if the sector you are operating in becomes challenging, it can be advisable to look to other sectors to help diversify your business. This is particularly relevant for conservation businesses where there are often multiple drivers of environmental degradation and creating impact often relies on several interventions in the same landscape.
- **New strategic alliances:** building collaborations with other organisations may help your business' ability to operate in a particular market (see information on forming **joint ventures** under 7 a) xi.).
- **Distribution channels strategy:** will the business distribute directly to customers, e.g. through its own representatives, or will you rely on another company e.g. an agent or retailer? The strategy will need to carefully consider how the target market usually accesses products and services.
- **A communications and advertising strategy:** this should clearly articulate the unique selling point of your product or service and your target audiences. You should identify branding and consistent messaging to take to the market, as well as the different marketing channels to reach your consumer. It will also be key to establish a means to measure the reach and success of the marketing to allow for further adjustments and tailoring. With marketing in the context of conservation, it is also important to think about if/ how you will go about

communicating the co-benefits and features of sustainable product(s) and service(s).

The free guide on Marketing Strategy from Marketing Donut provides a number of useful insights and information on how to develop a marketing approach (see: <https://www.marketingdonut.co.uk/marketing-strategy>).

## vii. Profit and loss, cash flow, balance-sheet forecasts, break-even and sensitivity analysis

When developing a business model it is essential that you have a thorough understanding of the financial projections underpinning it. Whilst you might choose to conduct the initial financial projections without external advice, it is recommended that they are reviewed with someone with experience of the business model and/or target market. Before finalising these projections it is recommended that you subject them to review by a financial advisor or accountant.

There are a number of useful resources available online to help you develop the financial plan. For example:

- Inc. – How to Write the Financial Section of a Business Plan (see: <https://www.inc.com/guides/business-plan-financial-section.html>)
- Investopedia – Business Plan: Your Financial Plan (see: <http://www.investopedia.com/university/business-plan/business-plan7.asp>)
- Bplans – Financial Plan (see: [http://www.bplans.com/financial\\_planning\\_business\\_plan/financial\\_plan\\_fc.php](http://www.bplans.com/financial_planning_business_plan/financial_plan_fc.php))

At a summarised level the process for creating your financial plan includes:

1. **Developing a sales forecast** – using your market analysis from Step 7 a) v. (size of your addressable market) and marketing approach (most importantly your pricing), calculate what your sales will look like over the course of three years.
2. **Creating an expenses budget** – using the information from Step 7 b) *iii*. (Production process and premises required) calculate how much it will cost to supply the product/services needed for your sales forecast. This should also include what you will need to pay in taxes on sales.
3. **Develop a cash flow statement** – this is the statement showing physical cash moving in and out of the business. This is based partly on your sales forecasts, balance sheet items and other assumptions. If you are operating an existing business there should be historical documents such as profit and loss statements that can guide

this. If you are starting a new business and do not have these historical financial statements start by projecting a cash flow statements broken down into 12 months. This needs to include realistic ratios for when invoices will be paid in cash for example over 30,60,90 days and so on.

4. **Income projections** – this is effectively your profit and loss statement for the first three years of your business. Use the numbers you put in your sales forecast, expense projections and cash flow statement to arrive at your annual income for the first three years.
5. **Assets and liabilities** – this deals with assets and liabilities that aren't in the profit and loss statement and project the net worth of the business at the end of each fiscal year. This will include for example assets such as buildings and equipment owned, and liabilities (debts) from loans and supplier debt for example.
6. **Break-even analysis** – this is the point at which your businesses' expenses match your sales or service volume. Your income projection will help you identify where this break-even point lies.

Appendix 3 provides a more detailed explanation of some of the core components of a financial plan.

## viii. External dependencies

A common feature of conservation investments is that they depend on a supportive environment from other sectors – most notably government, **civil society** and NGOs. For example, some successful models for conservation and restoration in US Timberland Assets have relied upon regulation allowing for conservation easements. These are voluntary legal agreements between a landowner and a land trust or government agency that permanently limits uses of the land in order to protect its conservation values. The landowner benefits from lowered federal income tax, as the value of the easement is a tax-deductible charitable donation<sup>xv</sup>.

Key factors you should consider when identifying and assessing these dependencies include the following:

- Is your business model dependent on the presence of a specific government regulation, subsidy or other policy? This may factor into the decision you make on the location of the business, and an appropriate legal structure for the business made in Step 7 a) *xi*.
- What is the likelihood that this will remain in place, what can be done by the business to encourage this to remain in place (if desirable) and if it doesn't what is the mitigating strategy for the business?

## Case Study 9: Lyme Timber and the conservation easement model in the USA

The Lyme Timber Company LP is a private US timberland investment management organization (TIMO) that focuses on the acquisition and sustainable management of timberland with unique conservation value. The company has engaged effectively with the conservation easement model in the US and partners with public and private groups with interests in conservation.

A conservation easement is a restriction placed on a piece of property to protect its associated resources. The easement is either voluntarily donated or sold by the landowner and constitutes a legally binding agreement that limits certain types of uses or prevents development from taking place on the land in perpetuity while the land remains in private hands.

Conservation easements protect land for future generations while allowing owners to retain many private property rights and to live on and use their land, at the same time potentially providing them with tax benefits. In a conservation easement, a landowner voluntarily agrees to sell or donate certain rights associated with his or her property – often the right to subdivide or develop – and a private organization or public agency agrees to hold the right to enforce the landowner's promise not to exercise those rights. In essence, the rights are forfeited and no longer exist.

An easement selectively targets only those rights necessary to protect specific conservation values, such as water quality or migration routes, and is individually tailored to meet a landowner's needs. Because the land remains in private ownership, with the remainder of the rights intact, an easement property continues to provide economic benefits for the area in the form of jobs, economic activity and property taxes.

A conservation easement is legally binding, whether the property is sold or passed on to heirs. Because use is permanently restricted, land subject to a conservation easement may be worth less on the open market than comparable unrestricted and developable parcels. Sometimes conservation easements will enable the landowner to qualify for tax benefits in compliance with Internal Revenue Service rules.

For example, in a project with the state of Tennessee and The Nature Conservancy, 'the Cumberland Plateau project', Lyme Timber purchased forest tracts totaling 47,800 acres. As part of this, it sold a working forest conservation easement on 23,000 acres to the state. The easement required that Lyme Timber obtain FSC certification on its harvesting operations and prohibited logging from 5,000ha of special conservation zones containing rare and threatened species. Despite these protections, the company was able to achieve market rate returns on its operations. In addition to the income that Lyme Timber generates from its timber harvest, it is also involved in recreational and hunting leases that generate additional cash flow. The sale of the easement also added value to the deal for Lyme Timber, the price of which was set to compensate the company for the development value of the property. The company was able to realize a return on its investment early on in the investment cycle. Lyme Timber will likely go on to sell the parcel and the sale of the property will provide another source of revenue. In the end, the company will have likely generated a competitive internal rate of return on its investment.

### References

The Nature Conservancy (n.d.). *Conservation Easements*. Available online: <https://www.nature.org/about-us/private-lands-conservation/conservation-easements/what-are-conservation-easements.xml>

Global Impact Investing Network (2011). *Lyme Timber Company's Use of Impact Data*. Available online: <https://thegiin.org/assets/Lyme%20Timber%20IMM%20Case.pdf>

- Does your business model rely on the activities of other third parties such as civil society organisations, NGOs, research organisations etc.? If so, what is the likelihood that these activities will continue and what are they dependent on? If these discontinue, what is the mitigating strategy the business will take?

## ix. Risk analysis

This should build on some of the preliminary risk analysis carried out during Steps 5 *ii.* and *iii.* relating to feasibility assessments, taking it to a greater level of detail.

### Commercial risks

Commercial risks refer to the potential losses arising in the market from trading partners or customers.

Examples of commercial risks include:

- Inaccurate financial forecasts
- Inaccurate cost estimates
- Non-payment by a customer for goods or services
- Changes in the cost of finance, taxation or other external factors
- Fluctuations in prices up and down the supply chain
- Sales being affected by competitors entering the market

There are a number of tools that exist to pre-emptively identify and quantify commercial risks in business ventures, the simplest being a worst-case scenario analysis. You can use this exercise to estimate how much money an investor would lose in the worst possible outcome. Various potential risks associated with business activities must be identified and assessed against two criteria: likelihood of the risk occurring and impact on the organisation if the risk occurs. There are four main approaches to managing and mitigating commercial risks:

- **Risk avoidance** – choosing not to undertake the chosen activity generally in situations which the likelihood and impact of the risk is high and potentially considering alternative methods to achieve the same intended outcome.
- **Risk reduction** – reducing the likelihood and/or impact of the potential risk for example through improved quality control processes or training staff to increase capacity to respond effectively to risks. Examples of risk mitigation mechanisms include currency hedging for foreign exchange risk and for large investments, political risk guarantees such as those provided by the Multilateral Investment Guarantee Agency (MIGA). See Section 7 b) *iii.* for more information on risk management instruments.
- **Risk transfer** – transferring some or all of the responsibility for the risk to another party through insurance, outsourcing, **joint ventures** or partnerships.
- **Risk acceptance** – acknowledging that a risk cannot be avoided, reduced or transferred and accepting the consequences should it occur. In this case the level of risk could be built into cost projections and operational plans through developing an incident response or recovery plan. These can be captured in a risk register outlining the risks and mitigating options and reviewed periodically (e.g. annually).

## Social and environmental risks

In the case of a conservation investment there are a number of environmental and social risks that must be taken into consideration.

A small selection of examples of these risks are included in Table 6.

**Table 6: Examples of environmental and social risk**

Environmental	Social
<ul style="list-style-type: none"> <li>• Pollution of waterways</li> <li>• Exacerbation of water scarcity</li> <li>• Poaching and hunting of protected species</li> <li>• Degradation of natural habitats</li> <li>• Unsafe waste disposal</li> <li>• Resource depletion</li> <li>• Invasive species outbreak</li> <li>• Fuel spillage</li> <li>• Mismanagement of hazardous materials</li> <li>• Soil erosion</li> </ul>	<ul style="list-style-type: none"> <li>• Displacement of local communities</li> <li>• Unsafe labour conditions</li> <li>• Economic displacement</li> <li>• Exposure to disease</li> <li>• Violation of rights of indigenous peoples</li> <li>• Reduction of access to basic services e.g. clean water supply</li> <li>• Political unrest</li> <li>• Protest and resistance</li> <li>• Undermining food security</li> </ul>

It is advisable to identify and assess these environmental and social risks in detail at least at business planning stage (and at a higher level during Step 5 *iii.*). This will put the business in a better position to address these issues effectively at an early stage and build mitigating actions into the implementation model. It also may be a requirement for signatory financial institutions to the Equator Principles and a large number of international and national development finance institutions. There are a number of tools available to assess environmental risks, such as WWF's Water Risk Filter (<http://waterriskfilter.panda.org/>).

Across this set of financing institutions, the World Bank's Environmental and Social risk classification is used, which employs an A,B,C (High/Medium/Low) categorisation. This system focuses on a prior analysis of the potential risks and impacts of a project based on technical considerations relating to the type, location, scale, and sensitivity and the magnitude of the project. It is used to determine the type of environmental and social assessment that will be required and highlights the risk mitigation and management measures that you should consider during the project life cycle<sup>xviii</sup>.

You may find this system useful to provide guidance on the risk mitigation and management measures that you should consider when developing your business model. Table 7 below from the Green Climate Fund, which also uses this system when screening projects, provides more detail on the type of projects which would qualify for each category.

**Table 7: Categorising environmental and social risk**

Environmental and Social Risk Level	Activity types
<b>High</b>	<b>Category A</b> Activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented.
<b>Medium</b>	<b>Category B</b> Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.
<b>Low</b>	<b>Category C</b> Activities with minimal or no adverse environmental and/or social risks and/or impacts.

Examples of conservation projects which would qualify for each category are as follows:

- **Category A:** large-scale primary agriculture or forestation involving intensification or conversion of natural habitats; large scale coastal defences; installations for the intensive rearing or livestock with more than 40,000 places for poultry, 2,000 places for pigs, or 750 places for sows; project which may result in significant involuntary resettlement or economic displacement; projects which are planned to be carried out in sensitive locations such as national parks, areas of cultural significance and areas with high biodiversity value.
- **Category B:** adaptation of crop farming systems; sustainable forest management; watershed management and rehabilitation, small scale eco-tourism.
- **Category C:** plans and studies including physical assessments; monitoring programs; enhancement of existing agriculture or livestock or soil that does not involve and new land clearing or expansion; small scale reforestation.

#### Case Study 10: IFC Category A project

An example of an existing agricultural project which falls under Category A, is the IFC's project with Barry Callebaut (one of the world's leading manufacturers of high quality chocolate) and its subsidiaries in Cote d'Ivoire. The proposed investment involves a Risk Sharing Facility to provide non-cash lending with a short to medium term **tenor** by directly delivering inputs/ services (fertilizers) to a large number of smallholder/ farmer suppliers within the cooperatives. Repayment of the loan will be deducted from the payment of the cocoa delivered by each farmer and cooperative. The IFC explains that this proposed investment has the potential for significant environmental and social risks related to child labor, loss of biodiversity and traceability of products, hence the A risk categorisation.

IFC (2016). *Barry Callebaut Cote d'Ivoire RSF*. IFC Project Information Portal Available online: <https://disclosures.ifc.org/#/projectDetail/ESRS/36210>

## Describing how the risks will be mitigated

For any investment project, and particularly those concerning sustainable development and natural resource management, it is considered best practice to adhere to a set of environmental and social standards and implement an **environmental and social management system** (ESMS) to ensure this. The purpose of an ESMS is to set out the procedures for assessing the environmental and social risk of a project. You should use this assessment to decide on the level of risk mitigation and management that you should apply.

The International Finance Corporation (IFC), the private sector arm of the World Bank, has developed **Performance Standards** as part of its Sustainability Framework for managing environmental and social risk, which have been widely adopted, including by the aforementioned Equator Principles signatories and international and national finance institutions. The Performance Standards are as follows:

1. PS1 Assessment and Management of Environmental and Social Risks and Impacts (ESMS)
2. PS2 Labour and working conditions
3. PS3 Resource efficiency and pollution prevention
4. PS4 Community health, safety and security
5. PS5 Land acquisition and involuntary resettlement
6. PS6 Biodiversity conservation and sustainable management of living natural resources
7. PS7 Indigenous peoples
8. PS8 Cultural heritage

More information on Performance Standards can be found on the IFC website (see: [http://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/policies-standards/performance-standards](http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/policies-standards/performance-standards)).

Various other regional development banks, such as the Inter-American Development Bank (IDB), the Asian Development Bank (ADB), the African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD) and European Investment Bank (EIB), and national development banks, have developed their own E&S policy frameworks. When developing a policy framework you should consider what is most appropriate to the location of the conservation investment and the requirements of funders.

The majority of development agencies, which target donor funding, also have a safeguards system which

require a similar systematic screening of environmental and social risks. Many of these systems also contain guidance to support the implementation of these systems and independent mechanisms to enable stakeholders who have been or may likely be harmed by projects as a result of inadequate compliance with the systems to bring a complaint against the organisation.

The UK Government's Department for International Development has published a detailed report which presents the results of a review of existing safeguards systems (see <https://www.gov.uk/dfid-research-outputs/environmental-and-social-safeguards>).

## Political risk

It may be that you have already adequately assessed political risks associated with the business during Step 5 *iii*. Where is it socially and environmentally feasible? You should consider whether any elements of this assessment need to be revisited, or evaluated at greater depth before progressing the business model further. If there are important issues which you are unable to assess via your own networks or sources, you might consider using the services of a political risk specialist to understand these at greater depth.

Wherever possible, you should try to identify appropriate mitigating actions to address these risks. As political risk is often uncontrollable, it is unlikely that mitigating actions can be used for every risk (e.g. government takeover by force). In these cases you may wish to think through your contingency plans in the event such an event does occur, with the aim to give your business the best possible chance to maintain or recover its operations. There are a range of useful information resources available to develop business continuity plans, such as the US Department of Homeland Security's Business Continuity Planning webpage (see: <https://www.ready.gov/business/implementation/continuity>). Business continuity plans can also be applicable for broader social and environmental risks as well (e.g. natural disasters).

## x. Demonstrating local stakeholder engagement

Prior to progressing to the investment model, you will need to demonstrate how you have engaged and responded to the views and needs of local stakeholders. For example, if the group has not already engaged with local government authorities, it will be necessary to do this prior to progressing. It may be that specific government approvals are required in order to implement your Blueprint concept, which can present delays and should be dealt with prior to securing investments. The IFC has a useful handbook for businesses operating in

emerging markets – ‘Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets’ (see: [http://www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/sustainability-at-ifc/publications/publications\\_handbook\\_stakeholderengagement\\_wci\\_1319577185063](http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_handbook_stakeholderengagement_wci_1319577185063)).

If there has not been an opportunity to already conduct field consultations with communities and other stakeholders affected by the proposed business activities, this should also be carried out prior to engaging with investors. If this raises issues, then it is much preferable to have these addressed prior to getting investment in place. For example, in REDD+ project development implementing the practice of ‘Free, Prior and Informed Consent’ (FPIC) is considered good practice or necessary according to what standards the project is being assessed against. RECOFTC – The Centre for People and Forests – have a set of FPIC resources which may be useful in this regard (see: <https://www.recoftc.org/basic-page/fpic>).

## xi. Legal structure and location of the business(es) and partners involved

### Case Study 11: IDH (The Sustainable Trade Initiative) government engagement

IDH engages government stakeholders early on in a target landscape, with the aim of creating enabling private investment environments, with solid regulatory frameworks and supportive policies. It does this via setting up multi-stakeholder platforms involving representatives from across the public, private, civil society and academic sector. This has allowed for the development of **landscape** level business and investment models, and public-private collaboration in six key landscapes including Indonesia’s West Kalimantan province, Vietnam’s Central Highlands, and Kenya’s Mau Forest.

#### References

IDH (2017). *Landscapes*. Available online: <https://www.idhsustainabletrade.com/landscapes/south-sumatra/>

### Legal structure

Users of this Guide will have different starting points when preparing for a conservation investment. You may already have an established business in place, or have developed a partnership between the interested parties. Depending on this, you will need to consider if you need to create a new legal entity or structure for your project to help manage financial risk. If you choose not to create a new legal entity, proceed to Step 7 a) *xiii*.

Three key forms of legal entity are outlined in Appendix

2. These options are based on those available for US-based businesses but are broadly similar across many different countries. However, national and regional laws and regulations should always be consulted prior to identifying the best legal structure. For a more detailed guide on the legal structure of businesses resources such as “*How to Choose a Business Structure: A Decision Guide*” (see: <https://www.clf.org/publication/choose-business-structure-decision-guide/>) published by CLF Ventures and CLF, in partnership with Wholesome Wave can be useful (in a US context).

Information regarding the legal structure of the business and ownership will be required in your business plan by investors and lenders. The SBA’s page on organization and management contains useful advice on appropriate ownership information to include in the business plan (see: <https://www.sba.gov/starting-business/write-your-business-plan/organization-management>).

As an existing organisation, you may consider using your core business structure or you may choose to create a subsidiary (a distinct legal entity which can be formed using one of the structures in Appendix 2) to help keep the liabilities, taxation and regulations related to the business separate from your core business. This is sometimes referred to as a ‘**special purpose vehicle/entity**’ and may open up further opportunities for leveraging finance.

**As a group of organisations**, you may opt for a Joint Venture (JV). This is often used for landscape-level conservation activities, particularly between public and private entities. This enables organisations to bring different skills, capacity, geographic coverage and sources of finance to a conservation business. Typically, a new entity is formed for a JV using one of the legal structures in Appendix 2. Usually this will be an entity with limited liability to help protect the fate of the JV from its parent organisations and vice-versa.

Given the formation of a JV relies on a Joint Venture Agreement between the partners, which sets out each of the partners’ rights and responsibilities, it is important that you agree upon the following:

- Structure
- Objectives
- Financial contributions of each partner
- Management and control
- Sharing of risks, profits and losses
- Ownership of intellectual property
- Dispute resolution strategy
- Exit strategy

The Info Entrepreneurs report, *Joint Ventures and Partnering* provides a useful source of further information on **Joint Ventures** (see: <http://www.infoentrepreneurs.org/en/guides/joint-ventures-and-partnering/>).

### Case Study 12: Public-private partnership in the Mara Triangle

An example of a conservation focused Joint Venture is the **public-private partnership** between the Trans Mara County Council and Mara Conservancy. The Mara Conservancy is a not-for-profit management company that was established to manage the protected Mara Triangle in Kenya. Its Board of Directors includes members for central and local government, as well as from the local Maasai community. The Management Agreement signed in 2001 between the Conservancy and the Council sets out the basis for distributing revenues from visitor park fees and established a joint approval committee comprised of members of the both organisations for any new projects.

#### References

Mara Conservancy (2017). Available online: <https://www.maratriangle.org/>

### Location

In addition to choosing the legal structure, it is important that you consider the physical location(s) for where to base the business. Some considerations for this include:

- *Practical considerations:* the proposed location(s) of your program(s); any partner organisations or key stakeholders; the resources needed for your product or service delivery; the physical transport links; and the qualified human capital resources needed to run the organisation.
- *Regulatory considerations:* consider the ease of registering a business; reporting requirements; and hiring quotas. Also what are the requirements for your governance and public accountability?
- *Financial and tax considerations:* where you choose to register your organisation and operate from has important implications, for example in terms of property leases, taxes, licensing and visas. Not only will this impact the cost of your day-to-day operations but it will also affect your ability to attract finance.
- *Political and security considerations:* is there a risk of political unrest which could disrupt your business? Does the government have a track record of seizing assets? What are the security issues in the country and could this threaten your business? You may also wish to cross reference this with the risks and mitigating actions identified during Step 4 Feasibility Assessment.

## xii. Management and organisation

The management structure of the business will define how your business is governed and will have a critical role in influencing its success.

### Organizational structures

There are four key management structures to be aware of:

- **Flatarchy:** new businesses often choose to have a flat hierarchy that allows for considerable individual autonomy and fast implementation.
- **Functional:** to aid specialisation and efficiency, small-to-medium sized businesses often organize into key functions e.g. finance & marketing.
- **Divisional:** larger businesses that are operating across different products or geographies often organize into separate divisions. This allows for differentiation, decentralised decision making and specialist knowledge in each division.
- **Matrix:** this is the most complex structure, whereby employees are mapped across different divisions and functions and may report to multiple people. This structure can be less efficient but may be more appropriate in complex organizations.

It is useful to create an organizational structure chart and associated job descriptions which clearly outline the roles and responsibilities and reporting lines in the business. Specifically, it is important that you document at what level different decisions can be made within the organization. An investor will require that risky decisions are considered by people with appropriate levels of expertise.

### Leadership

A typical senior leadership team, depending on the business type, might be constituted of the following roles<sup>c11</sup>:

- *Chief Executive Officer (CEO):* sets the strategy; hires and builds the management team; makes final decisions on resources; and acts as a figurehead for the organization.
- *Chief Operating Officer (COO):* manages the day-to-day operations of the business.
- *Chief Financial Officer (CFO):* manages the budgets and financing strategy.
- *Chief Marketing Officer (CMO):* manages the marketing strategy for the business.
- *Chief Technology Officer (CTO):* helps the business respond to the latest trends in technology (this may be less relevant for some conservation business models).

To provide oversight and accountability for major business decisions and to establish governance policies, you may consider having a Board of Directors, and this can be a legal requirement in some circumstances. A Board of Directors is a group of individuals that are elected to represent the shareholders to make sure the business is fulfilling its fiduciary duty. Its responsibilities include the hiring of executives, the compensation of executives, dividend policies, supporting the development of business strategy and targets, as well as overseeing the raising of finance and that the business is capable of managing those resources<sup>ciii</sup>. A board is helpful for settling disputes and may even be required by a company's creditors if it has a substantial amount of debt or if there are **venture capital** or **angel investors** involved.

There is no one approach to the number or roles of the directors on a board, although some jurisdictions specify a minimum and/or maximum number. The board is comprised of executive directors (employees of the company usually in a senior capacity) and non-executive directors (non-employees of the company). Whilst the UK, US, Australia and South Africa have a single, unified board, other jurisdictions require a two-tiered structure, separating out the executive from the non-executive board. It is considered best practice for public companies to have more non-executive directors than executive and for the majority of non-executive directors to be independent. Key positions on the board include:

- **Chairman:** responsible for the efficient and effective operation of the Board, including setting the agenda for board meetings. In most companies the chairman is a non-executive director.
- **CEO:** as the head of the business, the CEO is typically included in the board. The CFO is also often a Board member.
- **Secretary:** the chief administrative officer of the company. Responsibilities include providing the supporting papers for board meetings, taking minutes and advising on procedure. This may or may not be a director.

Usually standing committees (permanent management committees) are formed by members of board, for example a remuneration committee of non-executive directors is typically formed in order to agree executive pay.

The formation of a formal Board of Directors may or may not be necessary or appropriate for your business. In the absence of a board (or even in addition to, in some circumstances), you may find it valuable to consider appointing an advisory board. An advisory board does not have the same fiduciary responsibility but can play a mentorship role by bringing in external views and expertise to help challenge the business.

This may be particularly valuable for new or growing businesses. There are some useful resources online for appointing an advisory board, for example, How To Set Up An Advisory Board from Forbes (see: [https://www.forbes.com/2007/05/02/advisory-board-nfib-ent-mange-cx\\_mc\\_0503nextleveladvisory.html](https://www.forbes.com/2007/05/02/advisory-board-nfib-ent-mange-cx_mc_0503nextleveladvisory.html)).

### xiii. Long term sustainability of the business model

Conservation efforts normally need to survive over the long term (10+ years) in order to achieve their desired impact. Whilst the business model you put together initially may help to get the business functioning, it is important that you consider early on how this model might be adapted and sustained in the medium and long-term.

Key considerations should include:

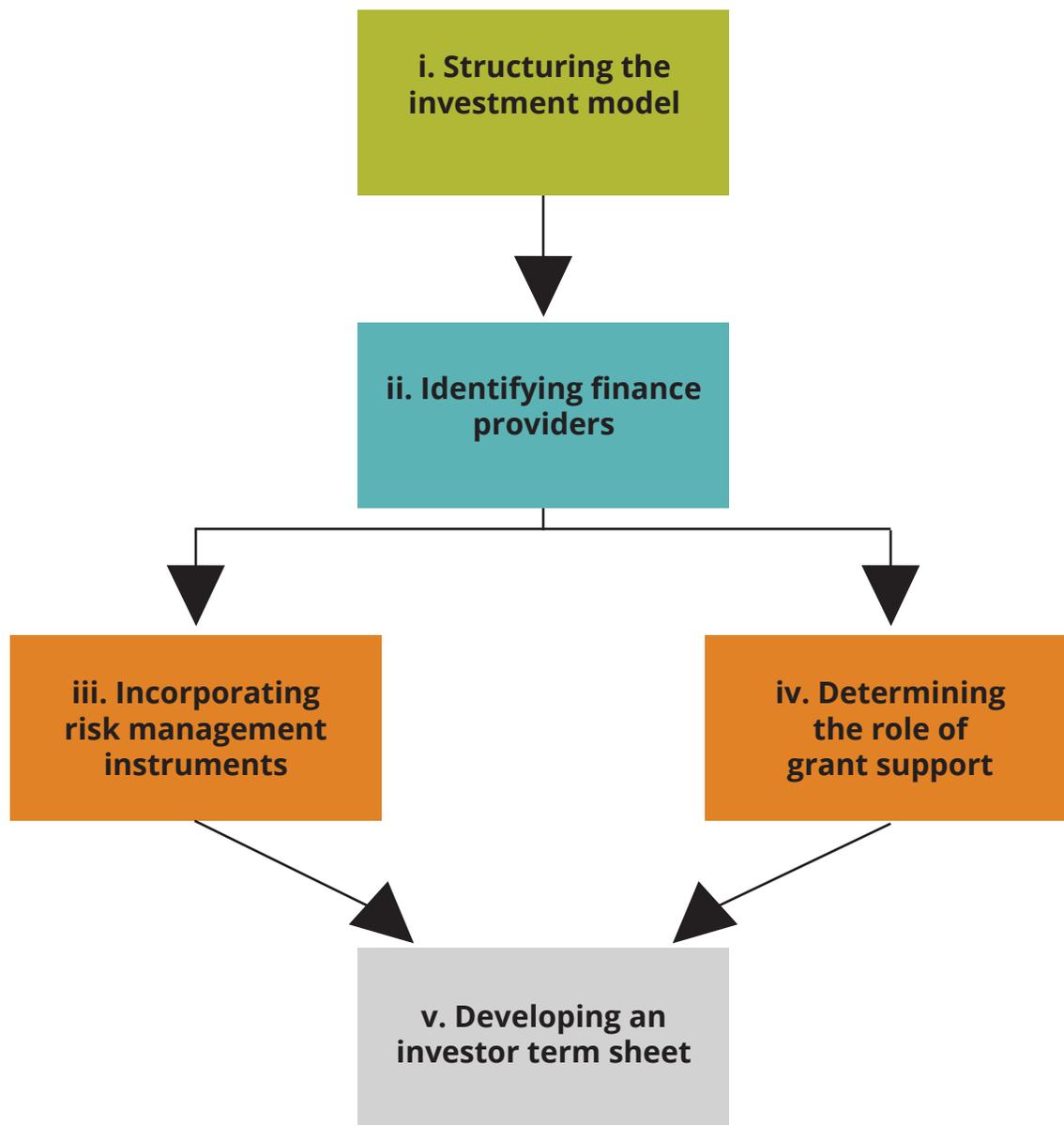
- **External megatrends:** which of the biggest global trends, e.g. urbanisation, may impact the needs of your target market, the viability of your delivery model or your marketing approach over the long-term?
- **Growth strategy:** The strategy for the growth of your business may take a number of different forms. You may look to build up your own human capital to scale the project; acquire other businesses (or be acquired); or expand using a **franchise model**. The fundamental approach may be **'vertical'** and rely on further market penetration or **'horizontal'** and rely on the expansion into different new geographies.
- **Sources of finance:** will you continue to rely on a model that needs consistent input of loans/grants or will the model become self-sufficient? Will the sources of finance you require change over time? See Section 7 b) for more information on matching financing needs with business maturity.

## Step 7. b) Investment Model

If your business model requires a significant amount of external financing, you will likely need to develop a basic investment model. This section provides an introduction to the types of finance providers and risk mitigation approaches which you need to understand in order to prepare this model. Appendix 4 also provides an introduction to preliminary finance concepts and examples of financial instruments for readers without a finance background.

Figure 6 summarises this process.

**Figure 6: Suggested process for developing the investment model**



## i. Structuring the investment model

### Debt or equity-based financing?

Based on the financing needs of your business model (identified in Step 7a), the next question to ask yourself is whether the investment model should incorporate debt-based or equity finance, or potentially mezzanine financing (described in Appendix 4). Table 8 below provides a basic comparison of some of the advantages and disadvantages associated with debt and **equity** financing, adapted from the Business News Daily article '*Debt vs. Equity Financing: What's the Best Choice for Your Business?*<sup>20</sup>'.

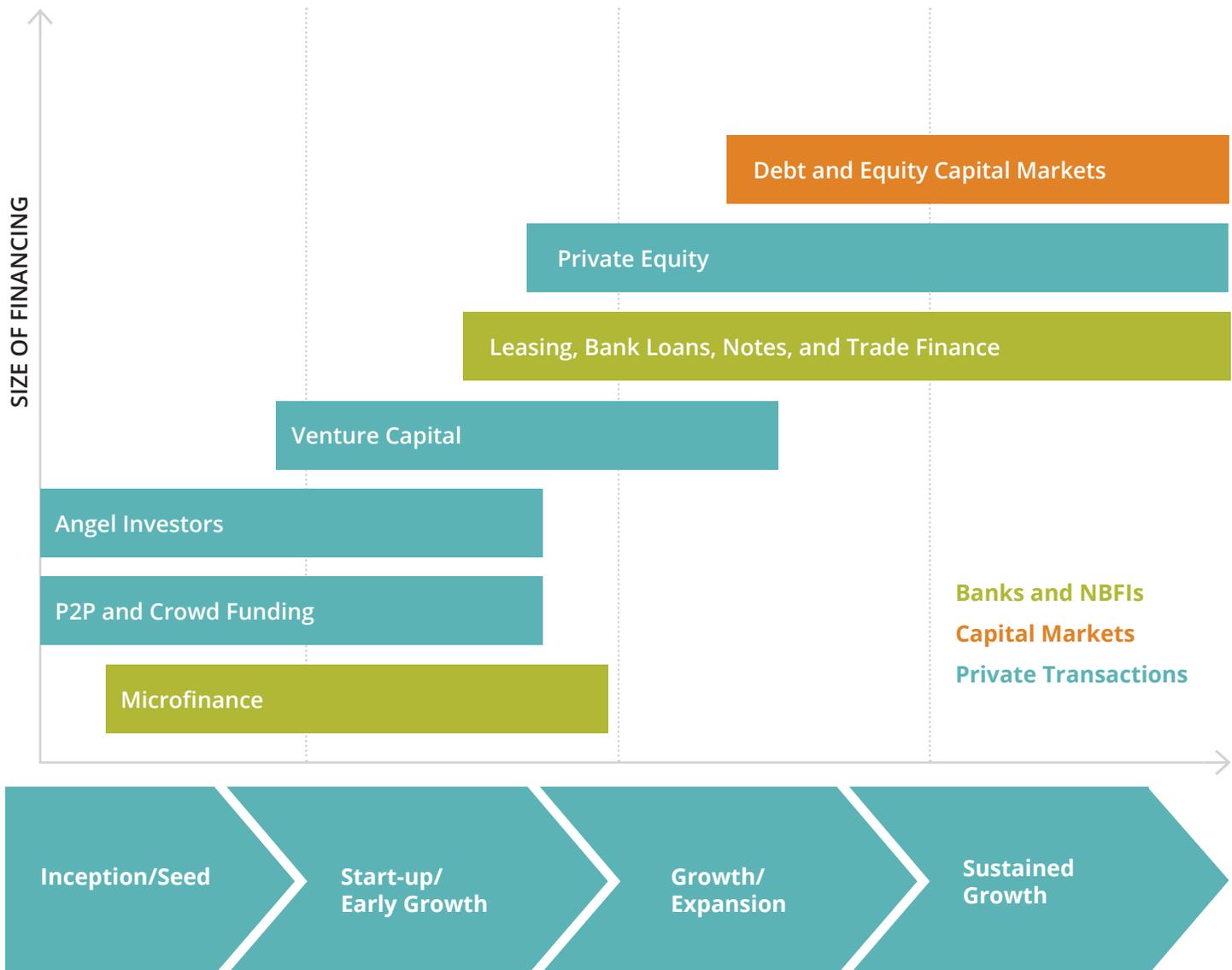
**Table 8: Advantages and Disadvantages of Debt and Equity Financing**

	Debt Financing	Equity Financing
<b>Advantages</b>	<ul style="list-style-type: none"> <li>• Loan size is flexible and can range from micro (USD '00's or '000's) to large scale (USD '00's of millions to '000's of millions)</li> <li>• Lenders usually have little or no governance role in the business, relationship with lender ends as soon as debt has been repaid</li> </ul>	<ul style="list-style-type: none"> <li>• Does not divert capital from the business in order to repay debt</li> <li>• Investor shares in the business risk along with the business owner</li> <li>• If the business fails, there may be no need to repay investors</li> <li>• The business may also benefit from guidance and access to the networks of its investors, or in some cases more hands on business management from experienced operators (e.g. private equity houses).</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>• Businesses with limited cash flow may need to spend a sizable portion of their monthly revenues repaying the money they borrowed</li> <li>• Debt has to be repaid as per the repayment schedule, regardless of revenue, or how well a business is doing</li> <li>• There are significant risks associated with guaranteeing a loan with collateral</li> </ul>	<ul style="list-style-type: none"> <li>• Investors own a portion of the business, and will be due a corresponding portion of the profits</li> <li>• An equity partner may expect a governance role associated with their equity (such as a Board role). This can be an advantage or disadvantage depending on the value of their experience, effectiveness and alignment with the objectives of the existing management</li> <li>• It can become difficult to secure additional debt financing as lenders often require any entity with at least 20% ownership to sign for the loan, equity investors will usually not do this</li> <li>• Business owners also have little control of when an investor decides to exit a business</li> </ul>

## Identifying appropriate financial instruments

Once you have a clear idea of whether debt or equity financing is more appropriate, you can then select specific instruments. According to Credit Suisse, the Climate Bonds Initiative and Clarmondial the appropriate financing instrument(s) used by conservation businesses is also dependent upon a combination of the maturity of the business and the size of financing required. Figure 7 from their 'Levering Ecosystems' report below illustrates the suitability of different types of financing based on the stage of the firm and amounts needed:

**Figure 7: Suitability of different financial products according to business maturity** ("P2P" refers to "Peer-to-Peer" lending and "NBFIs" refers to "Non-Bank Financial Institutions".)



Consider the seniority of financial instruments and their potential providers

Once this has been considered you should select a suitable financial instrument or combination of instruments for the investment model. At this point you should also consider whether you wish to incorporate grant finance.

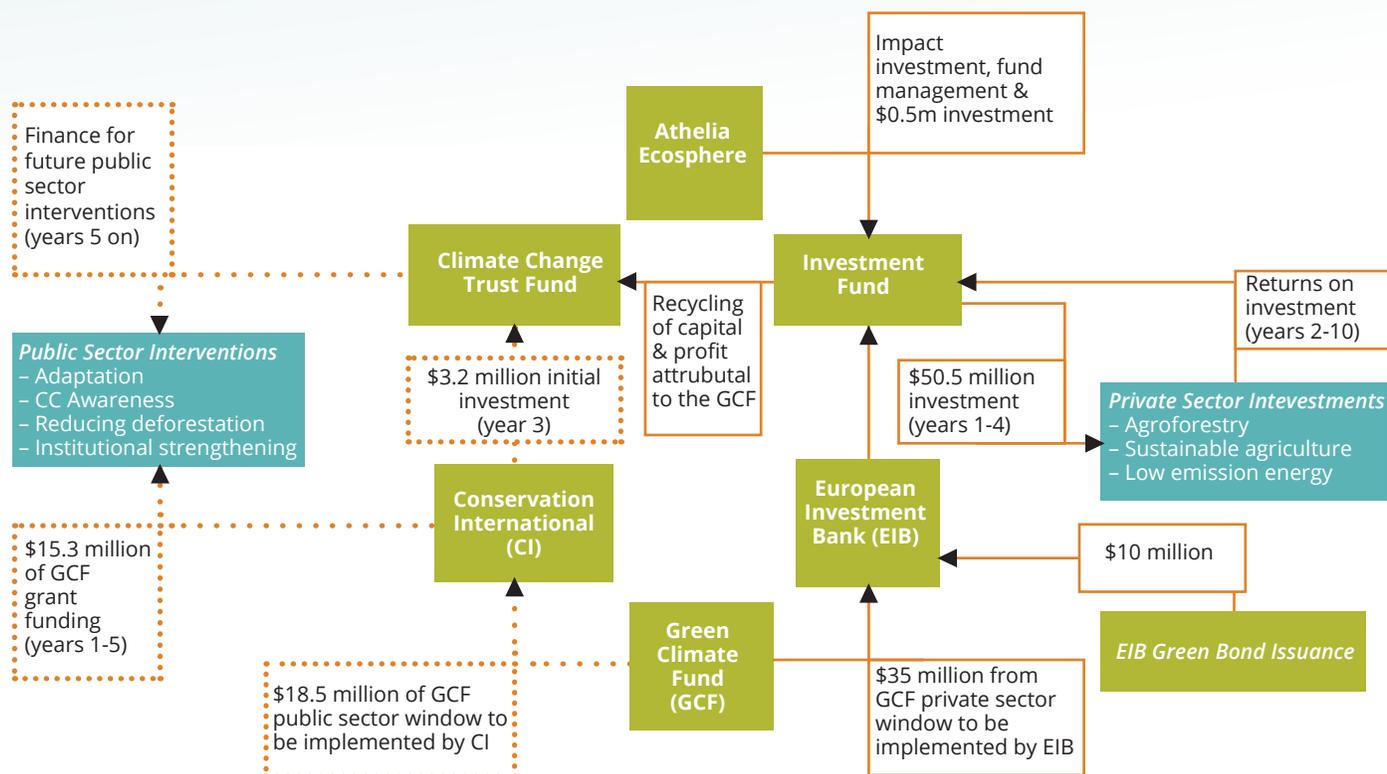
### Case Study 13: Using multiple financial instruments to finance a conservation investment

The Madagascar Sustainable Landscapes Project aims to finance climate-smart agriculture, nature conservation and access to sustainable energy in the country. The project is led by Conservation International Foundation (CI) and the European Investment Bank (EIB) together, and their co-executing partners the Government of Madagascar through its Climate Change Office (Bureau National de Coordination des Changements Climatiques/BNCCC) and Althelia Ecosphere. The Project aims to deliver 10,000,000 tonnes of avoided CO2 emissions, develop 25,000 hectares of sustainable agriculture projects, install more than 30MW of renewable energy and improve over 500,000 people's livelihoods over the next 10 years.

The Project has proposed a financing structure involving both public and private sector finance. This will be made up of three financing sources which are as follows:

- An Investment Fund for private sector investments including: a USD 35 million equity investment by the Green Climate Fund (the first ever equity investment it has made into landscape finance); a USD 10 million green bond issued by the European Investment Bank; and USD 5.5 million from additional private sector sources.
- Grant-funded public sector climate reliance interventions implemented by Conservation International funded by USD 15.3 million of Green climate Fund grant funding.
- A Climate Change Trust Fund that will be established as an independent foundation with initial capital of USD 3.2 million of Green Climate Fund grant funding and will be further capitalized with the Green Climate Fund return on investments made by the Investment Fund.

The diagram below shows how the different financial instruments will be brought together to implement the project.



#### References

Althelia Ecosphere (2016). *Madagascar Sustainable Landscapes Fund*. Available online from: <https://althelia.com/2016/10/14/press-release-madagascar-sustainable-landscapes-fund/>

Green Climate Fund (2016). *Consideration of funding proposals – Addendum IX Funding proposal package for FP026*

You should next consider what the proposed seniority of these financial instruments could be. In reality this will be defined through discussion with potential investors and lenders, but you should have identified potential viable models to bring into these conversations.

The seniority of instruments is important as it has an impact on the risk that each of the finance provider takes. Finance within a project is often organised in **tranches**, i.e. portions of finance that have specific rights, and levels of preferential treatment in case of bankruptcy. **Senior debt** has the highest level of priority, followed by **subordinated debt** (also called "**junior debt**"), mezzanine financing and finally by equity.

The structure of the different instruments within the project may have an impact on each other. For example, the bigger the debt component of a project, the better the return expectations of the equity providers may be. It is hence important for Blueprint developers to consider how the finance sources that they seek interact.

### Exit Strategy

Exit strategies are particularly relevant to **equity** investors, as equity does not have a pre-stated time to maturity. In contrast, debt providers generally know from the start when their loan will be repaid. Whilst some may look to sell the debt prior to maturity, they will only provide the debt in the first place if they know that it is "liquid", namely that they will easily find a buyer for the debt.

An exit strategy is the strategy envisaged by an investor for selling its investment, limiting losses of the funds it has invested and gaining a profit if possible. An investor will determine its exit strategy prior to making an investment. Whilst it may need to adapt its strategy along the way, it will be reluctant to make an investment if there is no clear viable exit strategy.

There are many different exit options for investors. The most common strategies are:

- **Acquisition:** This is when the company is sold to another larger company, rather than the shares of the company being sold to new investors. In this instance, the company acquired effectively becomes part of the buying company.
- **Merger:** This is when two companies are combined into one. This can help companies reach a size where they can access additional types of financing, expand in new geographies and increase their reach in a specific market.
- **Buyout:** In the case of a buyout, the project developers or company owners find financing and use the company's profits to buy the existing

investors' shares and consequently have deeper control over the company.

- **Initial public offering (IPO):** This is when a private company sells shares of the company to the public for the first time. As companies have to generate tens of millions of dollars in revenue and be able to cover very high IPO preparation costs before they can consider an IPO, this is an option for only a very limited number of companies.

Which exit to choose depends on how much control and decision-making power you want to retain over business. In the case of conservation projects, it will be key to add terms to exit documents to ensure that the business retains its conservation purpose.

### Case Study 14: Global Environment Facility's (GEF) Junior Equity Investments

Global Environment Facility (GEF) report that they find using **blended finance** a 'potent instrument' due to the risk assurances provided which stimulates the private sector to invest in projects at a much higher rate. GEF invests in the Moringa Agro-forestry Fund for Africa which promotes sustainable land management in production landscapes across central Africa by investing in 5-6 agroforestry projects that combine plantation forestry and agricultural production. They explain that they took a junior equity position in the fund with an expected return of 6%. This junior positioning helps lower risks for private sector investors who may be reluctant to consider land management projects on purely commercial terms due to long payback periods, lack of track record and price uncertainty. GEF also cite their **blended finance** success cases in junior equity roles in securing finance for renewable energy projects (Global Environment Facility, 2017).

#### References

Global Environment Facility (2017). *GEF Innovations in Blended Finance: A Summary*. Available online: <https://www.thegef.org/publications/gef-innovations-blended-finance-summary>

## ii. Identifying potential finance providers

Finance providers differ regarding their risk and return expectations, as well as their preferred transaction size and **tenor**. They also have varying requirements in order to enter into a transaction or deal. Here we provide a basic introduction to the finance providers whom may be relevant to the investment model:

### Impact investors

According to the Global Impact Investing Network (GIIN), the core characteristics of impact investing are the investors' intention to deliver environmental

or social impact through their investments, the expectation to generate a **return on investment** and the commitment of the investor to measure and report the social and environmental performance and progress of its investments. **Impact investors** may have market rate or below market rate return expectations. They can invest in different types of financial instruments including debt and **equity**<sup>cvi</sup>.

They may be able to provide longer term finance and invest in smaller-sized deals than their more traditional counterparts.

Their non-financial impact reporting requirements may be higher than other private investors. Whilst impact investors are classified as a stand-alone source of finance here, many types of institutions including some of which are described below can perform impact investing, including institutional investors, foundations and development finance institutions. Impact investors may invest directly or through impact investing funds and the GIIN maintains an online database of impact investing funds called ImpactBase (see: [www.impactbase.org](http://www.impactbase.org)).

Environmental impact investors' targeted internal rate of return (IRR) on investments involving real assets (such as land) was reported by ImpactBase to be 15%, although known cases of below-market rates of 5.5% in environmental impact investing were acknowledged. Fund managers sought IRRs of 5–10% in the conservation area<sup>cix</sup>.

### Companies

Companies may be attracted by conservation projects if these have a clear link with the long-term viability of their business and supply chain. For example, they may see an opportunity to develop a strategic partnership, increase the visibility of their brand, obtain a competitive advantage in a market or mitigate regulatory, operational or reputational risks. In certain jurisdictions fiscal and other policy incentives may also attract the private sector to invest in conservation projects. Companies and business developers may raise finance from investors or lenders for projects, or fund projects themselves using their own company funds (referred to as “balance-sheet financing”).

### Development finance institutions (DFIs)

**DFIs** mostly offer market-rate and concessional loans, but may offer **grants** as well. They generally expect compliance with their own environmental and social safeguards and a results monitoring framework to evidence the development impact of their investments. Many are responsible for bringing projects for consideration to international environmental funds, and can provide a good pathway for accessing multi-lateral climate or environmental finance. DFIs can provide early-stage capital before other investors are

willing to participate, and risk mitigation instruments (discussed in Step 7 b) *iii*.) to incentivise others investors' participation. They typically have a minimum transaction size threshold in the range of US 5 to 10 million<sup>cx</sup>.

### Commercial banks

Commercial banks may be willing to fund conservation projects if they have comfort over the ability of the borrower to repay its loan.

Local commercial banks often play the role of intermediaries when there are a large group of dispersed ultimate borrowers. As they tend to better understand local context and barriers to finance and already have operations on the ground, they can help tailor the financial instrument to targeted borrowers and reduce overall transaction costs. For example, DFIs can provide finance to these banks which, blended with the local bank's funds, can enable the local bank to offer longer tenors and lower interest rates than it would have been able to otherwise.

International commercial banks would typically get involved in direct financing once the proof of concept for a project has been made and the initiative needs finance to scale. Some international banks have divisions which are mandated to finance projects with explicit positive social and environmental outcomes at concessional rates and/or in higher risk brackets, though this is not widespread within the sector.

### Donors

Donors can be private (e.g. **high net worth individuals**, philanthropists, foundations and endowments) or from the public sector (e.g. charities, multilateral environmental funds, aid agencies). Typically they are motivated by their mandate to deliver positive environmental and social outcomes to a greater extent than financial returns. They typically provide finance in the form of grants, though some have development finance institutions which provide investment or loan finance such as the UK government's CDC group or USAID's Credit Development Authority. They tend to have a higher risk tolerance, longer term horizon, and ability to finance smaller deals than private and institutional investors. Donors may be a direct source of finance, or may channel funds through multilateral environmental funds, impact investors or other organisations.

Public sector donors in particular tend to have structured and formalised processes for project approval. They typically have specific funding application requirements and standardised formats for submission which require becoming familiar with.

### Venture capital firms

**Venture capital** firms provide private equity to small,

early-stage, emerging firms that are considered to have high growth<sup>cxv</sup> potential, or have already demonstrated high growth. These firms tend to have a higher risk tolerance and generally expect higher returns. They may take an active role in the companies they fund and actively ensure that the companies meet milestones before they agree on providing them with more funds. They typically exit the company 4 to 6 years after the initial investment, through a merger, acquisition or initial public offering (IPO)<sup>cxvii</sup>.

### Microfinance institutions

**Microfinance** institutions provide loans to poor people, using methodologies such as group lending and liability, pre-loan savings requirements, and gradually increasing loan sizes<sup>cxviii</sup>. Interest rates on microfinance loans can be higher than in traditional banking due to the high **transaction costs** associated with processing a large volume of small loans.

### Angel investors

**Angel investors** use their own money to invest in a company, usually at its very start. They may provide a one-time investment to help the business set in motion, or an ongoing injection of money to carry a company through difficult early stages. The instruments used by **angel investors** tend to be **ownership equity** or **convertible debt**. **Angel investors** provide more favourable terms compared to other lenders, since they usually invest in the entrepreneur starting the business rather than the viability of the business<sup>cxix</sup>.

### Institutional investors

**Institutional investors** invest on behalf of asset owners and include pension funds, insurance companies and sovereign wealth funds. Their key concern is to invest their funds in assets whose **risk-return profile** and tenor matches their liabilities. Their interest in conservation greatly varies and typically cannot be prioritised ahead of a market rate of return on their investments. However, institutional investors are showing recognition of the typically low correlation that conservation investments have with macroeconomic cycles and the lower risk associated with this, especially during periods of market volatility. Their return expectations for conservation projects average between 5 and 10%, although this may differ across project types - for example, large **landscape** restoration projects are expected to have a return between 10 and 15%<sup>cxv</sup>.

Institutional investors usually invest indirectly in projects through funds, as individual projects tend to have high transactions costs and require specialist expertise. This means businesses may wish to approach asset management funds or dedicated green funds as part of their strategy to attract institutional investment to their project. Institutional investors have to invest

in large funds, as they have a minimum investment size (often in the range of 25 to 50 US million) and a maximum contribution in relation to the total size of a fund (for example, they may be required to provide no more than 20% of the total funding for a fund)<sup>cxvi</sup>.

To attract this type of investment, you should as much as possible make clear how your projects and their components align to sectors and **asset classes**, and offer standardized investment opportunities. Institutional investors also typically require rigorous feasibility studies, a project or fund management team with a solid track record and well-developed environmental and social risk management plans before they consider an investment. For all the reasons above, institutional investors are usually not the investors that a new conservation business should approach first, as they should wait until they have a track record and proof of concept under their belt and are able to replicate their initial concept.

### Retail investors

**Crowdfunding** is the use of small amounts of capital from a large number of individuals to finance a new company or business. It harnesses the easy accessibility of large networks of people through social media and crowdfunding websites to link entrepreneurs to retail investors<sup>cxvii</sup>. There is limited track record of retail investors providing finance at scale for conservation businesses.

### Case Study 15: Institutional Investment into BHP Billiton's Forests Bond

Multinational company BHP Billiton is supporting an innovative bond designed to reduce deforestation and stimulate investment in low-carbon development via institutional investors. The Forests Bond, issued by IFC, raised USD 152 million from institutional investors including US teachers' pension fund CalSTRS and TIAA-CREF, QBE Insurance and emerging markets investor Treehouse Investments. The Forests Bond provides a choice for investors to receive coupons in the form of carbon credits generated from avoided deforestation and issued under the Verified Carbon Standard, instead of cash coupons. BHP Billiton provides a price support arrangement to assure that the project will sell a predefined minimum quantity of verified carbon units every year until the IFC Forests Bond matures. The Forests Bond will support the Kasigau Corridor REDD Project in East Kenya. The project, implemented by Wildlife Works Carbon LLC, aims to achieve emission reductions through both forest protection and community development.

#### References

IFC (2016). *Forests Bond*. Available online: <https://www.ifc.org/wps/wcm/connect/90a302d4-b968-4261-90df-4740ad478389/FINAL+Forests+Bond+Factsheet+10-5.pdf?MOD=AJPERES>

## Case Study 16: Key actors in land use finance

The Climate Policy Initiative's table below 'Key actors in land use finance, their roles and examples' is an illustration of the identification of different targeted investors, in this case for land-use finance. It shows the aggregation of different investors, the most suitable roles they may play and the most appropriate types of support they would likely provide. This may be useful for the development of Blueprints specifically for forestry or agricultural projects.

Table 1: Key actors in land use finance, their roles and examples

	ACTOR	ROLE	EXAMPLE INVESTMENT/SUPPORT
PUBLIC	Domestic government agencies, Bilateral donors, Development financial institutions (DFIs)	Governance and enabling environment	R&D, agricultural extension services, clarifying land tenure, spatial planning and mapping systems
		Invest equity and debt in strategic enterprises and infrastructure	Investments in state-owned enterprises and parastatal companies
		Provide incentives and penalties to drive green private investments	Grants, revenue support subsidies, tax incentives, and the purchase of offsets
	State owned enterprises	Invest own resources or access finance from above actors	Balance sheet financing
PRIVATE	Banks, Private equity, Venture capital, High net worth individuals (HNWI), Households and Institutional Investors	Provide finance to businesses	Market rate debt and equity
	Impact investors	Invest in companies and projects with social and environmental objectives	Longer term capital with possible concessional terms
	Businesses and project developers	Invest own resources or access finance from above actors	Balance sheet or debt / equity finance from investors

### References

Climate Policy Initiative (2015). *Three Tools to Unlock Finance for Land-Use Mitigation and Adaptation*. Available online: <https://climatepolicyinitiative.org/wp-content/uploads/2015/07/Three-Tools-to-Unlock-Finance-for-Land-Use-Mitigation-and-Adaptation-Full-Report.pdf>

### iii. Incorporating risk management instruments

This section focuses on financial risk mitigation instruments for the investment model, whilst business model level risks are covered under Step 7 a) ix.

The lack of deals with the **risk-return profile** considered appropriate by investors is one of the biggest reasons for the lack of capital availability in conservation. As such, it is extremely important that you consider how you can reduce and manage investment risks as soon as you start developing the investment model. Risk mitigation instruments can have a positive impact on debt and **equity** financing costs, available loan **tenors** and the size of the debt portion within a project. Learning from similar initiatives and speaking with potential investors will help you tailor the risk mitigation strategy to the project to effectively attract capital.

### Guarantees

**Guarantees** are agreements by which the guarantor promises that it will take the first "hit" (up to a predefined limit) should an investment not perform as expected, typically in exchange for a fee. This means investors are ensured to have a percentage of their principal investment returned in the case of project financial underperformance. Guarantees can be an effective way to give finance providers the comfort to make an investment, especially where the project manager does not have a proven track record yet. They are typically provided by donors and/or **DFIs** and have an average tenor of 10 to 15 years which can often be renewed.

There are two main types of guarantees. The first is a guarantee which covers an entire project or investment – this is particularly effective in young markets where the track record for a type of investment is low and the perceived risk is very high. The second is a guarantee which may cover only specific types of risk. For example, political, regulatory or offtaker risks which the public sector has more power to influence. In this case, a project can be substantially enhanced by obtaining a guarantee from public sector institutions for these

types of risks. Speaking to potential finance providers will help you determine what their key risk concerns are, and therefore what the most effective guarantee to lower the cost of capital for a given project might be.

### Case Study 17: USAID guarantee for Althelia Ecosphere

In October 2016, U.S. Agency for International Development (USAID) and Althelia Ecosphere signed a new risk sharing guarantee worth USD 50m to scale up financing for Sustainable Ocean Investments. The Althelia Sustainable Ocean Fund is a **public-private partnership** dedicated to implementing sustainable wild-caught fisheries, aquaculture and other projects in developing countries and small island states, whilst also applying social and environmental governance and impact reporting.

The Fund aims to catalyze investments in sound and responsible fishing and ocean practices, which have been shown to reverse the decline in wild fish populations, restore their natural productivity and increase profitability, and thus provide livelihood and food security benefits to local fishing communities. The USAID Direct Credit Authority Facility will allow private capital to flow, at scale, towards financing these sustainable business models in the ocean economy by providing loan guarantees directly to portfolio investments in Althelia's Sustainable Ocean Fund (Althelia Ecosphere, 2016). The fund aims to deliver both strong investor returns but also improved ecosystem health, marine conservation and associated livelihood benefits such as food security and economic empowerment for coastal communities.

#### References

Althelia Ecosphere (2016). *U.S. Agency for International Development and Althelia Ecosphere Announce a \$50m Facility to scale up financing for Sustainable Ocean Investment*. Available online: <https://althelia.com/wp-content/uploads/2016/10/SOF-USAID-Press-Release-V4.pdf>

## Insurance

Insurance contracts are agreements by which an insurer promises to compensate the insured in the event of a loss caused by unexpected events, in exchange for an agreed regular payment. Insurance can be tailored or standardised depending on the type of risk and the needs of the transaction. It is particularly suited to projects that are vulnerable to likely, unpredictable risks that may prevent the project from taking place or scaling up. An example of insurance used for conservation projects is weather insurance in the case of sustainable commodities projects. Appropriate insurance may be more difficult to access if

projects don't have a track record and their sector does not have an established risk modelling methodology.

## Derivatives

**Derivatives** are instruments whose prices are linked to other instruments or factors, for example, company shares, bonds, interest rates, currencies or commodity prices. They are used for "**hedging**", which means reducing the risks associated with fluctuations in the price or value of these instruments or factors. In the case of conservation projects, derivative instruments called "futures" or "forwards" are particularly useful to hedge the price of sustainable commodities or interest rates. Other risks may be hedged such as a change in exchange rate or in input costs. As with other risk mitigation instruments, derivatives must be attractively priced to justify their use.

### Case Study 18: Risk mitigation by Silverlands Fund

The Silverlands Fund, which invests in agriculture in Southern Africa, has its investments insured by the Multilateral Insurance Guarantee Agency (MIGA) of the World Bank Group in conjunction with the US Overseas Private Investment Corp. This covers political risk, currency inconvertibility and transferability, expropriation, war and terrorism, and non-honoring of sovereign rights (OPIC 2016). The Silverlands Fund plans to reach 500,000 small farmers over the next 10 years, leading to an estimated increase in total food production of over 1 million tons per year. The fund aims to accomplish this by investing across the agricultural value chain in sub-Saharan Africa in a variety of segments including fruit, grains, soya, sugar, poultry, and livestock. According to Enclude (2016) this has helped attract capital from a number of large European pension funds.

#### References

Enclude (2016). *Report: the Missing Link. Connecting international capital markets with sustainable landscape investments*. Available online: <http://encludesolutions.com/wp-content/uploads/2017/02/The-Missing-Link-Report-2016-Enclude.pdf>

Table 9 from Credit Suisse and the McKinsey Center for Business and Environment below explains which risk mitigation strategy is most relevant to each type of conservation business<sup>cxix</sup>.

**Table 9: Risk mitigation strategies for different conservation focus areas**

✓ Strategy typically available    ~ Strategy sometimes available

		Risk mitigation strategy					
		①	②	③	④	⑤	⑥
Category	Conservation focus	Operational assistance	Collateral	Stable cash flows	Private insurance	Futures/forward trades	Guarantees
Food and fiber	Sustainable forestry/timber	~	✓	✓	✓	✓	~
	Sustainable agriculture	✓	✓	✓	✓	✓	~
	Restoration of large landscapes	~	~	~			✓
	Wild-caught fisheries	~	~	~		✓	✓
	Sustainable aquaculture	✓	~	~	✓	✓	✓
Habitat	Ecotourism	✓	~	✓			~
	Direct land ownership		✓				~
	Land easements		✓	~			✓
	Mitigation banking		✓	✓			~
	Other land-based funding mechanisms	~		~			~
Water	Watershed protection	~		~			✓
	Water rights trading			✓			✓
	Water credits trading			~			✓

Whilst financial instruments are the focus of this section, Table 10 covers three additional risk mitigation strategies which are not financial instruments:

- *Operational assistance.* This refers to support provided by specialists to improve the quality of the business. The assistance can cover various elements such as technical, legal or financial structuring assistance. It is typically provided by development finance institutions, donors or foundations.
- *Collateral.* This is a risk mitigation strategy used for debt. It refers to assets, for example property or machinery, which can be seized in the event that the borrower defaults on its repayments to recoup debt.
- *Stable cash flows.* In the case of businesses looking for equity, demonstrating that the business will be able to receive cash regularly and evenly will influence how risky the investors perceive the business to be. Some sectors have a history of predictable cash flows which can work in their favour. In other instances, agreeing payments with a buyer of the business's product or service in advance can be a way of making the business's cash flows more predictable.

#### iv. Determining the role of grant support

The majority of existing funding for nature conservation comes in the form of **grants**. As the focus of this Guide is on attracting finance at scale, the focus is on how grants can be specifically used in conjunction with non-grant finance to achieve this aim, rather than covering more traditional forms of grant funding.

Before pursuing grant finance it is also worth noting that the timeframe to access grants may not be aligned with the timeframes for other forms of private finance. Competitive grant procedures and formalised procurement processes may mean that the timeframe from initial engagement to receiving grants can be lengthy and uncertain. They also may have additional technical reporting requirements and eligibility criteria to non-grant finance.

We have identified the following key areas where grant financing can contribute to helping you attracting private finance:

- **Project development:** particularly in lower resourced areas you may not have the means to pay for the required level of technical and market research needed to form a well-developed business model. These upfront investments may be justifiably covered by grants to enable a high potential conservation business idea to progress.

- **Enabling environment interventions:** there are many cases where a promising conservation business idea is held back by the lack of a supportive enabling environment. For example, a loan programme for a group of smallholders may require them to provide evidence of their tenure over the land, but the existing land registry is not up-to-date and accurate. In this case, if the counterpart government body is willing, a grant could be used to update and improve this registry, so that farmer land tenure can be demonstrated.
- **Additional incentives for results:** In some areas of **conservation finance**, such as **REDD+** a 'payment for results' approach is used if you can demonstrate the conservation impact of an investment. For example, if a conservation business can demonstrate results in terms of GHG emissions reductions, a REDD+ government donor may be willing to provide grant payments to further incentivise and allow for further investment in these activities.
- **Loan affordability:** grants may also be used where it is not possible to reach a loan agreement between a finance provider and a conservation business due to the minimum interest rate being above the affordability of the borrower. In these cases you can use grant funding to subsidise the loan, allowing the finance provider to offer it at a lower interest rate which you can afford. This approach should only be used selectively to demonstrate new and innovative business models, as it may create an unsustainable dependency on lower interest rates if applied too broadly.

## v. Developing an investor term sheet

### Approaching potential finance providers

At this stage you may consider initial engagement with potential finance providers. It is important that you have all the information regarding the business model prepared, along with a well-developed hypothesis regarding how the investment model might work (incorporating the steps outlined above in this section).

This early engagement may also be useful to have at this stage as it can identify potential partner organisations for asset management under Step 7c).

You should first approach organisations that are already financing activities similar to the opportunity at hand and that are interested in environmental and social impact. Whilst for certain types of "green" projects (e.g. renewable energy), where most of the financing is obtained from finance sources within the country of the project's operations, this is not currently the case for land use projects. This is due

to the fact that viable conservation business models are considered to still be in their infancy, and very few organisations have experience of investing in them. It is advisable therefore that conservation business developers first seek finance providers with experience of the sector at hand, rather than organisations present in the region but without experience of the sector.

Below is a simple checklist of the basic information you should gather before approaching a finance provider. The work you have done during Step 7 a) in developing the business model is likely to be important here. This is only an indicative list, as different finance providers will have varying expectations of the format and depth of the information they will initially receive on a project. Most financing organisations have information on their website explaining their investment criteria and how they expect to be contacted regarding potential investment opportunities.

- ✓ The name of the organisation(s) developing the project and relevant background information. Show up front how you have already invested in the business.
- ✓ An overview of the project and its key activities.
- ✓ A demonstration of where this business model has been successfully implemented elsewhere.
- ✓ An overview of the management team members and their experience. A particular focus on the track record of staff operating similar businesses successfully in the past is useful.
- ✓ A '100 day plan' demonstrating your detailed grasp of what needs to happen in this critical starting period.
- ✓ A clearly articulated strategy for the business and pathway to scaling up.
- ✓ Detailed and transparent financial projections, for at least the tenor of funding being sought, showing that debt can be serviced and investment returns delivered with sufficient headroom.
- ✓ The intended environmental and social benefits of the project.
- ✓ The results of your risk assessments and mitigating strategies. Being realistic and upfront regarding the risks still present.
- ✓ An overview of the exit strategy and options available.

General principles you should bear in mind when approaching a finance provider include the following, paraphrased from an interview with Patricia Dineen in July 2017<sup>cxiii</sup>:

- **Focus on practical and clear information**, and avoid vague marketing terminology. For example,

if an ‘innovative’ approach is being taken, be specific about what makes it innovative.

- **Be bold** – an investor will need confidence that your business model can scale-up and that the management team is committed to doing so. A common mistake made by investees/borrowers is not requesting sufficient funding, which can lead to cash flow challenges further down the line.
- **Show awareness of local context and presence of locally qualified staff.** For example, very different marketing approaches may be needed in different geographies, and finance providers will want to see this level of awareness in your team.
- **Be honest about risks and if you have learnt from failures in the past talk about these.** Finance providers want to see the learning process that an investee has already gone through.
- **Place priority on how you intend to generate financial returns** and don’t use environmental and social benefits as excuses for sub-market returns. Show how better **environmental, social and governance** (ESG) and risk management can lead to better than market returns in the geography and sector in question.

## Developing the term sheet

Once you have had feedback from your initial conversations with finance providers, you should consider thinking through what an investor **term sheet** would look like. Again, in reality you will develop the term sheet through negotiation with finance providers, but you should be prepared with an idea of what you would want included.

Typically you will need to agree a term sheet or similar document with finance providers for the conservation business. A term sheet is a nonbinding agreement that summarizes the basic elements of a financial transaction between the investee/borrower and the investor/lender. This may include a summary of the transaction, key parties involved, types of instruments (including any risk management instruments) used and their amounts, **tenors**, and interest rates, key terms and conditions which need to be fulfilled prior to the close of the transaction, required documentation for financial close and the law which governs the transaction. Table 10 below summarizes some of the key information you may expect to find in a typical term sheet.

**Table 10: Key information to include in a term sheet**

Information item	Description
<b>Transaction summary</b>	A summary of the project, its key activities and stakeholders and its intended results
<b>Investor(s)/lender(s)</b>	The name of the organisation(s) investing or lending
<b>Investee(s)/borrower(s)</b>	The name of the organisation receiving the investment or loan
<b>Amount</b>	The amount being invested or lent
<b>Instruments</b>	The nature of the financial instruments used
<b>Investment mechanism</b>	The legal vehicle(s) if any that are created to channel the investment from the investor(s)/lender(s) to the project, and the returns from the project to the investor(s)/lender(s)
<b>Use of proceeds</b>	A summary of the what the amount invested by the investor(s)/lender(s) will be used for
<b>Currency</b>	The currency in which the transaction is being made

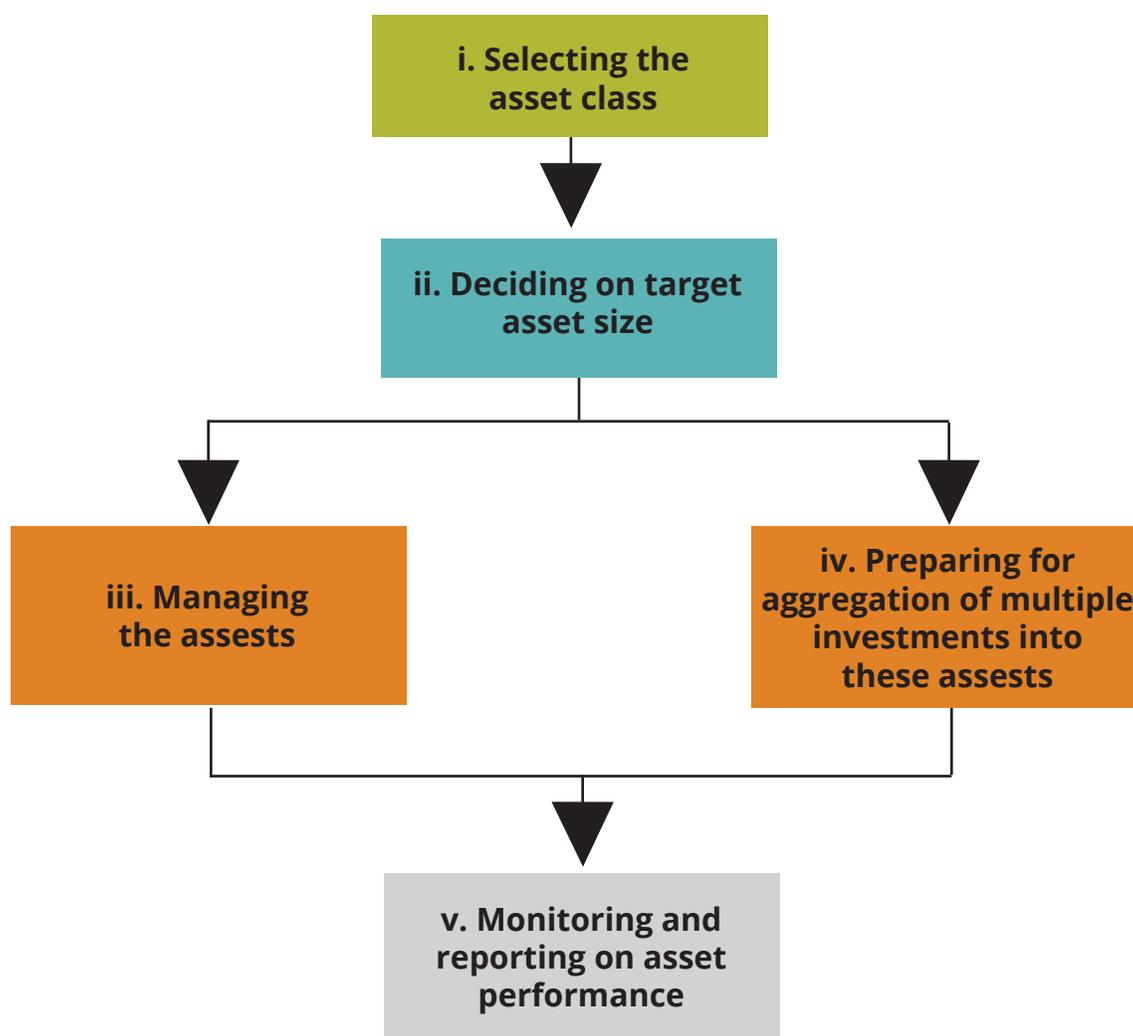
<b>Terms</b>	A description of the key terms under which the financial instruments are being sold. For example, for debt this would be the interest rate and the tenor.
<b>Hedging arrangements</b>	The risk mitigation instruments if any which are used to manage risks of the transaction, for example currency or <b>derivatives</b> , and the terms under which they are agreed.
<b>Fees and expenses</b>	A summary of the expected fees and expenses that are to be incurred to finalise the transaction.
<b>Liquidation terms</b>	The terms that determine what investors will get in the event that the company or project is sold.
<b>Closing Date</b>	The date at which the transfer of the financial instrument will be finalised.
<b>Conditions precedent to closing</b>	The activities that have to be carried out, and the results that must be obtained from these activities, for the transaction to be finalised. For example, this can include <b>due diligence</b> procedures, whereby the investor undertakes a comprehensive appraisal of the company or project to confirm the legality and commercial potential of the transaction.
<b>Exclusivity</b>	The length of time and conditions under which an investor has priority to invest in the company or project before other investors are approached.
<b>Board of Directors</b>	The names, roles and qualifications of the individuals that will sit on the company's Board of Directors.
<b>Investor rights</b>	The rights that investors will have over the lifetime of their investments. For example, this includes rights to participate in votes about important decisions in the company or project, and right to request and obtain information on the company or project.
<b>Governing Law</b>	The law under which the transaction will take place, as well as any potential lawsuits related to the transaction.
<b>Documentation</b>	The list of the documentation that will form part of the transaction. For example this can include the agreements for specific financial and risk mitigation instruments under the transaction.

## Step 7. c) Asset Management Model

This section is intended for organisations with the ambition to scale up their concept beyond an individual investment, and into an aggregated portfolio of investments. This may be achieved via partnering with an existing asset manager, or setting up an asset management organisation specifically to invest in the thematic or geographic area in question.

This process includes considering the relevant financial **asset classes** to deploy, the scale at which the asset(s) are deployed, management of the assets, the aggregation process (for multiple investments) and the monitoring of asset performance. Figure 8 and the narrative below provides a suggested process for achieving this:

Figure 8: Suggested process for developing the asset management model



### i. Selecting the asset class

You can select the **asset classes** to be deployed across the portfolio according to the financial instruments and the investment model identified for each investment (along with finance provider feedback) during Step 7 b).

You may find it useful to combine multiple asset classes depending on what the investment needs are across your portfolio. For example, a Blueprint may involve a **DFI** investing in a real asset such as timberland in a given landscape, complemented with private debt for eco-tourism companies in the same forest landscape.

### ii. Deciding on target asset size

Your starting point for this process should be the investment needs you identified during Step 7 b). There could also be the ambition to scale-up further in the future, for example by replicating the investment model approach in other landscapes or financing further business models within the same landscape.

You should then consider this together with the demonstrated track record, credit rating and financial management capacity of the entity which will manage the asset(s) in question. Depending on the policies of the targeted lenders/investors, you may find this to be a critical limiting factor in the scale of the asset that can be accessed.

If this is insufficient for the minimum targeted funding amount, the group may wish to bring in a partner with this track record and capacity. Ideally this should be an organization which a group member has experience in working with and satisfies **due diligence** requirements.

Another point you should consider is the group's level of risk appetite, and the potential financial liability members would be taking on with different scales and forms of funding. The significance of this issue may vary greatly depending on the structure of your investment model.

At the other end of the scale, the minimum funding size range within the **asset class** (see Table 11) is crucial. Historically it has been challenging for conservation investment opportunities to reach the size

requirements of **institutional investors** in particular. If the funding scale does not reach this size range, you may wish to reconsider the target asset class and targeted funder/lender.

Enclude on behalf of Platform BEE analysed 87 investment opportunities in conservation investment, focusing on investment opportunities that are operating at scale (> USD 100 million). The chart below summarizes expectations related to each asset class, based on the opportunities identified in this study. The full list of investment opportunities can be found in Annex 1 of the report *“The Missing Link: Connecting international capital markets with sustainable landscape investments<sup>cxiv</sup>”*. Public equity is not included as the report states that currently there aren’t any public equity investment opportunities that adhere to the **landscape approach**.

**Note that because Table 11 focuses on investment opportunities above USD 100 million, there will also be investment opportunities at a much smaller scale, particularly in private debt and equity in emerging markets.**

**Table 11: The Universe of Investment Opportunities at >USD 100m**

Asset class	Scale			Investment Size	Performance	Duration
	Average size (USD)	Min. size (USD)	Max. size (USD)	Investment size range (USD)	IRR range	Term range (yrs)
Public debt <sup>22</sup>	5.0 bn.	1.1 bn.	14.6 bn.			
Private debt	89.4 mm.	16.0 mm.	146.0 mm.	40 k. - 30 mm.	< 3%	1 – 20
Private equity	291.0 mm.	10.0 mm.	3.0 bn.	200k – 265 mm.	8.3% - 20%	7.5 – 15
Real assets	563.0 mm.	50.0 mm.	3.0 bn.	20mm. – 60mm.	9% - 15%	10 – 30

### iii. Managing the assets

A vital point you should consider is the entity or group of entities who will manage the financial assets in question. A determining factor in this decision will be the track record and financial management capacity of the potential candidate organisations within the **asset class** and at the desired scale. If such an organisation is not already present within your group, you should assess the potential to partner with an organisation which has this track record and capacity. It will also be important that you review any regulatory restrictions associated with managing investor money in the country in which the organisation is registered and where the money will be deployed.

In some circumstances you may find it appropriate to establish an investment/lending vehicle specifically for the business. For example, a private debt fund or impact investment fund could be established for this purpose. If the group is seeking to establish a new vehicle, it is important to seek advice or involve individuals or organisations with experience of establishing similar vehicles. The World Economic Forum, in its *‘Impact Investing – From Ideas to Practice, Pilots to Strategy<sup>cxv</sup>’* series contains some useful high level advice on establishing new funding vehicles.

## Case Study 19: Management of the Madagascar Climate Investment Fund

As described in Case Study 13, Conservation International, the European Investment Bank (EIB) and Althelia successfully received a commitment from the Green Climate fund for a USD 53.5m investment in their project 'Sustainable Landscapes in Eastern Madagascar'. This included a USD 35m equity investment into the Madagascar Sustainable Landscapes Fund (which will leverage additional funds to meet its target USD 50m, including via an EIB green bond). This investment fund will be combined with public sector, not-for-profit interventions lead by Conservation International to help build the resilience of smallholders, reduce GHG emissions and finance climate smart investments in agriculture and renewable energy.

The investment fund will be incorporated in Luxembourg (as a Luxembourg SICAV-SIF), with its General Partner, Althelia Climate Fund GP Sarl, managing the fund (in exchange for a 2% management fee). Althelia has considerable experience in managing private debt funds, with its first Climate Fund launched in 2012 (raising 100m EUROS).

A dedicated entity (Ecosphere Madagascar) with 5-7 full time employees will be established, likely as a 'Société a Responsabilité Limitée' (SARL). This entity will act as co-advisors to the Fund, together with Ecosphere Capital Partners (based in London). Ecosphere Madagascar will also oversee the investments over their lifetime, from due diligence to reporting.

The European Investment Bank will oversee Althelia's technical and financial management of the Fund, given its role as a GCF accredited entity. The fund's annual reports will be audited in accordance with EIBs policies and procedures for audits. If the fund manager underperforms, the EIB will have the right to remove the manager.

The Governance of the Investment Fund is comprised of three main bodies:

- *The Advisory Board*: a forum comprised of three members, including Conservation International and the European Investment Bank. The role of this forum is for the General Partner to discuss potential or actual conflicts of interest; assess compliance with the Investment Principles, Objective and Strategy; and to approve any changes to staff or the project documentation.
- *The Expert Board*: this is appointed by the General partner and approved by the Advisory Board. It will be comprised of one representative from Conservation International, alongside 2-3 other experts on conservation. At least one of these experts will have credit-management experience and one will have relevant social experience on the IFC Performance Standards. The Expert Board will provide technical insights to assist with decision making on proposed transactions under the investment fund.
- *The Investment Committee*: it is the exclusive responsibility of the investment committee to make final decisions on investments. It will be comprised of 2-3 members appointed by the Investment Fund Manager and approved by the Advisory Board.

This represents a useful example of a governance approach for managing conservation finance assets across the public and private sector.

### References

Althelia Ecosphere (2016). *Madagascar Sustainable Landscapes Fund*. Available online: <https://althelia.com/2016/10/14/press-release-madagascar-sustainable-landscapes-fund/>

Some examples of the different management options (non-exhaustive) are set out in Table 12 below:

**Table 12: Asset management options**

Asset Class	Management Options
<b>Public debt</b>	<ul style="list-style-type: none"> <li>Bond issuers (Governments, Commercial or Development Banks, other supra-national agencies – underwritten by a company or other entity that administers public issuance)</li> </ul>
<b>Private debt</b>	<ul style="list-style-type: none"> <li>Private debt fund manager</li> <li>Microcredit financial institution (if operating at micro-credit scale)</li> <li>Commercial or development Banks</li> <li>Corporates</li> </ul>
<b>Private equity</b>	<ul style="list-style-type: none"> <li>Private equity firm</li> <li>Impact investment fund</li> </ul>
<b>Real assets</b>	<ul style="list-style-type: none"> <li>Asset management company</li> <li>Corporates</li> </ul>

#### iv. Preparing for aggregation of multiple investments into these assets

##### Why aggregate?

One of the key reasons to aggregate projects is to reach a scale that is attractive to large investors. The average conservation deal between 2009 and 2015 was between USD 1 and 100 million whilst a minimum transaction size for a typical institutional investor being estimated to be in the range of USD 25 to 50 million. Bearing in mind that **institutional investors** typically only expect their portion of the financing to represent a limited percentage of the overall deal amount, this highlights the need for larger conservation financing options. Aggregating different projects in a single **financial vehicle** can reduce the overall **transaction costs** for investors and increases the attractiveness of the investment as long as the reduced costs are not outweighed by the additional layer of management incurred. This explains why debt and **equity** funds are currently the most common vehicles used in **conservation finance**<sup>cxviii</sup>. You can do this aggregation geographically or by business type, with the intention of replicating lessons learnt and gaining economies of scale across investments. It is important that you consider the business case for aggregating, and the influence this will have on financial performance and returns to investors.

#### Setting up the structures for central management of the portfolio

Whatever type of organisation, or combination of organisations are selected, you should establish a central management structure. This can be hosted within a 'lead' or 'coordinating' organisation, or when a group of organisations are involved, you may prefer to establish a 'stand-alone' management organisation. This is particularly the case where the partnership structures are complex, and allocating decision-making power to one member of the partnership is problematic for governance reasons.

The management or equivalent organisation may be responsible for carrying out the following functions:

##### Basic functions

- Day-to-day administration
- Progress reporting & communications
- Financial management
- Organising meetings & events
- (If applicable) Facilitating a governance and/or advisory board

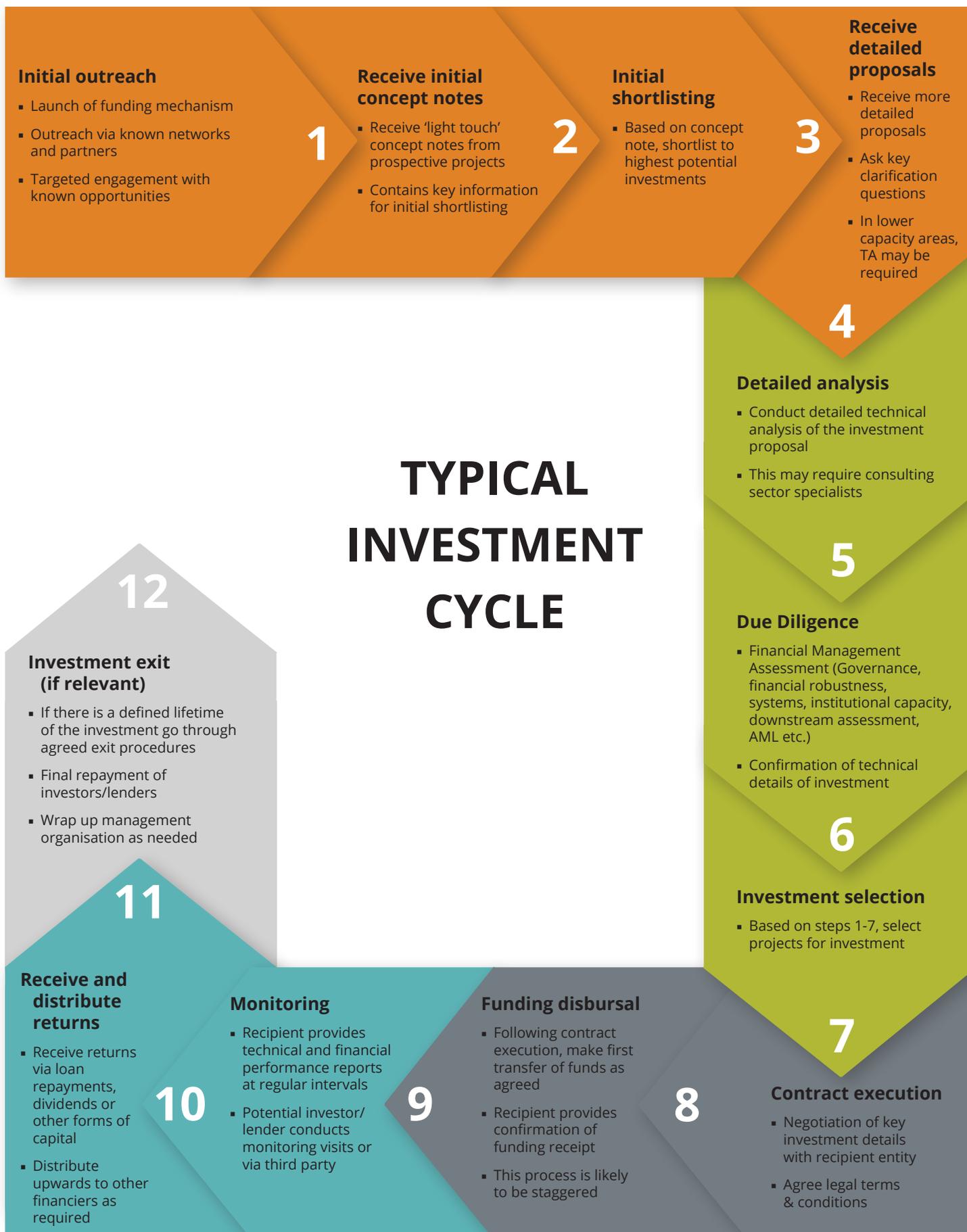
##### Specialized Functions

- Portfolio analysis & management
- **Due diligence** of potential investments and borrowers/investees
- Fundraising
- Monitoring & evaluation
- Investor relations
- Technical advisory to the governance board
- Provision of technical assistance to lower capacity applicants for financing

##### Standardizing processes and metrics across investments

Across the portfolio of investments you may find it be beneficial to standardize the investment life-cycle process and the metrics used. This can allow for an efficient and accurate synthesis of data across investments, allowing for informed portfolio management and decision-making. Key elements of the investment life-cycle you should consider are broken down into Phases in Figure 9 below. Note that this process and the requirements at each stage may vary according to the financial instrument being deployed, e.g. due diligence requirements may differ according to **grants**, loans and equity investments.

Figure 9: Summary of a typical investment life-cycle



You should derive the metrics used during the monitoring process from the indicators identified during Step 6 of the broader Blueprint implementation process (Theory of Change). The monitoring process should be managed by either a dedicated monitoring officer, or someone with an equivalent role in the management organisation.

### Pipeline management and prioritisation

Depending on the investment or lending approach you have employed, the process of selecting and allocating funding to borrowers or investees will have varying degrees of structure. This may be influenced by some of the following conditions:

**Table 13: Conditions favouring more and less structured approaches to pipeline management**

Conditions favouring more structured approaches	Conditions favouring less structured approaches
<ul style="list-style-type: none"> <li>• There are sufficient human and financial resources in place to manage structured funding rounds</li> <li>• Requirements from funding organisations to apply specific <b>pipeline management</b> processes</li> <li>• The desired outcomes of the conservation investments require a more structured allocation of funds</li> <li>• There is not a sufficiently developed existing network of investment opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• Insufficient human and financial resources in place to manage structured funding rounds</li> <li>• An existing network of target investment opportunities is already identified</li> <li>• There is more flexibility in the desired outcomes of the conservation investments</li> </ul>

### More structured pipeline management

Where more structured approaches are used there may be singular or multiple regular calls for proposals, which are administered in a similar way to Phases 1-7 of Figure 9.

In these processes the total funding you have established in the Blueprint can be divided and allocated through **funding rounds** according to the desired scale of impact and returns the asset management organisation is seeking to achieve. This can correspond to the desired number and scale range of investments you are seeking to make over a given period. Whilst the volume and quality of project applicants received in each round may vary, this more structured approach allows for easier control and predictability of the pipeline over time. For example, funding rounds could be structured in the following way:

**Table 14: Basic example of structured pipeline management**

Funding Round	Timing	Total Funding Allocation (USD)	Target No. of Investments	Targeted average size of investments (USD)
1	Year 1	50m	5	10m
2	Year 4	100m	5	20m
3	Year 8	200m	5	40m

Examples of other factors that you can also include when determining funding rounds are the thematic focus, geography, business type and desired risk profile, or others according to the specific context of the investment.

#### *Less structured pipeline management*

**Landscape** level conservation investments don't necessarily require the level of structure set out above. In instances where there is a pre-identified network of opportunities, or there is the willingness to be more proactive in seeking out opportunities, you may prefer a less structured approach. This avoids spending time and resources on administering a structured 'funding call' process, which instead can be invested in building relationships and trust with identified investment opportunities. However, it is important in these instances that you have a clear idea of what you are looking for and what the parameters are of desired investment size, risk profile and the desired outcomes.

#### *Technical assistance*

In both cases you may be a need to allocate resources to providing technical assistance to potential investees prior to project concepts becoming 'investment ready', particularly in more remote areas with lower levels of economic development.

## v. Monitoring and reporting on asset performance

The monitoring process for your conservation Blueprints will need to take into account both technical performance against the metrics identified in Step 6 (Theory of Change) and the financial performance of the asset as a whole.

### **Technical performance**

The *'Measuring the "impact" in impact investing report'* published by the Harvard Business School suggests dividing the monitoring and measurement process for impact investing into four stages as set out in Figure 10 below, to achieve the benefits of a continuous cycle of monitoring and measurement across investments.

**Figure 10: A continuous cycle of measurement objectives**



The first stage is to estimate the impact of the investment during the initial screening and **due diligence** process which helps set out the targets that will be monitored and measured against. The second stage is to plan out the metrics and data collection methods which will be used to monitor impact. This is followed by the monitoring process to measure and analyse outcomes to assess mission alignment and performance. The final stage is the evaluation of the impact of an investment, which informs the estimation of impact for future investments in a continuous cycle.

You should cover stage 1 of this cycle during Phases 4 and 5 of the investment lifecycle as described in Figure 9. During stage 2 of the cycle you will use the metrics you set out in Step 6 (Theory of Change) of the overall Blueprint development process to design a monitoring and measurement process for the investments within the portfolio.

Below we focus on Stages 3 and 4, summarising potential options for the monitoring and evaluation process for the asset overall and the projects it invests or loans into.

#### *Stage 3: Monitoring impact*

If the asset management model incorporates multiple investments this will entail synthesizing reported technical data from each borrower/investee. The approach below is based on the assumption that these borrower/investee organisations have their own monitoring capability. If they do not, you may require

technical assistance or the assistance of a monitoring specialist organisation to help with the monitoring process.

You need to balance the selection of key impact metrics that provide meaningful, quantifiable and regularly measurable data that investors and deal managers value with the cost and resources required to gather, analyze and report on that data.

Depending on the requirements of your investors it is worth considering whether widely used metrics such as the Sustainable Development Goals<sup>cxix</sup> indicators could be used, as these can help communicate monitoring data to a broad range of stakeholders including government, NGOs and donors.

You can also decide the extent of monitoring activity that you wish to dedicate to each project based on their relative risk rating. For example, higher risk projects may require monthly check-ins with the borrower/ investee, whilst lower risk projects may only require quarterly reporting with limited communication requirements in-between.

The technical monitoring process across the portfolio may include the following:

- Setting out standardised monitoring guidelines and tools for borrowers/investees. You may accompany this with training activities.
- Receiving and analysing regular (e.g. quarterly) project reports.
- Reviewing project performance, monitoring and reporting on whether grantees are delivering their project against agreed milestones, reported results, agreed work plan, logframe etc.
- Tracking how conservation outcomes are being achieved, gathering evidence for this and clarifying any challenges that the project is facing.
- Undertaking ad hoc on-site reviews of the quarterly/ annual reports and other technical documents Submitted by the borrower/investee; and
- Identifying where implementing organisations require additional support.

Depending on the nature of the investments, you may also desire independent verification. This will likely be a requirement if sustainability standards are being employed in the business model, though this will be limited to metrics specifically related to the standard in question. Key considerations when deciding on whether to use independent verification in your monitoring process include the following:

- **Existing monitoring coverage and confidence** – to what degree would independent verification add credibility to your results? For example, if your investment relies on a change in practices from thousands of dispersed farmers but you only have a single monitoring officer in place, the likelihood of you being able to accurately observe and record this process is low. In this instance sample-based third party verification could provide additional assurances to your monitoring process. Alternatively if your investment targets a small group of actors in an easily observed area with well-resourced monitoring efforts (e.g. forest restoration managed by an experienced company within a timberland concession) independent verification, whilst useful, may provide a lower return in terms of enhancing the credibility of your monitoring efforts.
- **Investor and stakeholder interests** – incorporating independent verification may help attract and secure the interest of investors and donors whom place a high priority on the credibility of monitoring results. Some may even require that this occurs.

For your broader stakeholders, independent verification can increase the credibility of your reported outcomes and the quality of your ongoing engagement with them. This may range for international observers such as NGOs, research organisations and think-tanks who analyse and comment on your conservation investment in the public sphere, to local civil society groups looking for assurances that the investment is achieving positive outcomes for the community.

- **Cost vs investment size** – independent verification will add an additional layer of cost to the investment and overall management costs. In some cases verification may be prohibitively expensive, particularly for smaller investments, as it drives up these costs. It may be that during the growth phase of investments the costs for independent verification can be supported by grant funding, though this may not be sustainable in the longer term.
- **Ability to demonstrate independence** – just because a third party verifier is nominally independent does not necessarily mean that they will bring a truly independent viewpoint to the verification process. This can be a significant risk where the organisation paying their fees is the one having its monitoring results verified. Consider whether it is appropriate for an investor or donor to be the client for the verification services, to reduce the risk of actual or perceived bias towards the conservation investment developer. This risk

may also be reduced if the verification organisation has substantial experience in the process and have adopted their own publically stated policies regarding independence in the verification process.

*Stage 4: Evaluating impact*

Over time you may find that an impact evaluation assessment is relevant for either individual investments or the asset overall. In a similar manner to the monitoring process, the use and frequency of impact evaluations can be correlated with the risk profile of individual projects or portfolios.

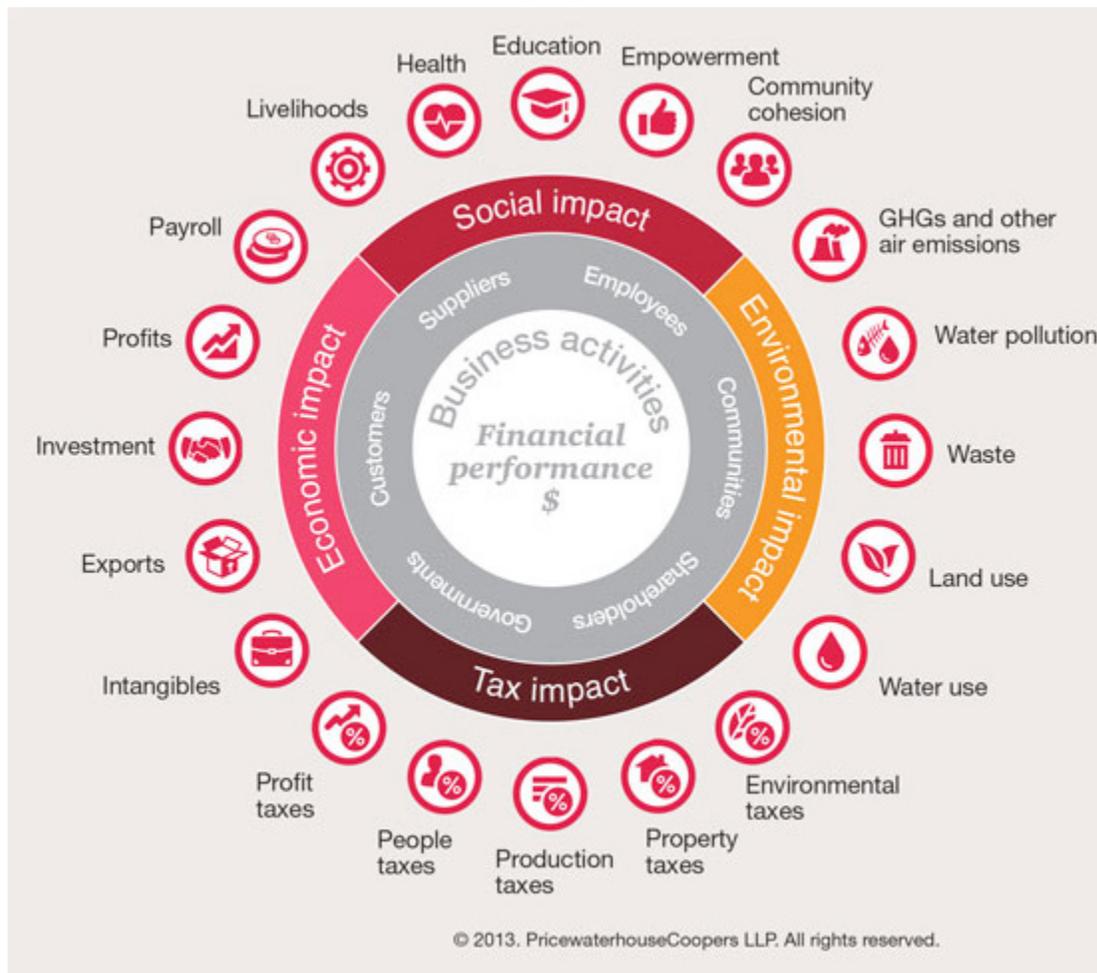
Independent evaluation may be a requirement of donor or DFIs engaged in the investments. If it is not a requirement, independent evaluation can help demonstrate the credibility of the conservation investment externally and also offer a third party perspective and recommendations for improvement in the future. Whilst they serve different purposes, you should take similar considerations regarding cost vs investment size and maintaining the independence of the evaluation body into account.

For general guidance on the use of impact evaluations see the Overseas Development Institute (ODI)'s Methods Lab "Evaluability Assessment for Impact Evaluation" report (see: <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9802.pdf>).

For conducting conservation-specific impact evaluation, Rachel Golden Kroner's article 'Impact Evaluation in Conservation Science' (see: <http://rachelegolden.com/2015/09/12/impact-evaluation-in-conservation-science/>), tackles some of the conservation-specific challenges in impact evaluation and CIFOR's analysis 'Towards Conservation Impact Evaluation 2.0' (see: <https://forestsnews.cifor.org/50603/towards-conservation-impact-evaluation-2-0?fnl=en>) is a useful update on recent trends.

For broader socio-economic impact evaluation, PwC's Total Impact Measurement and Management (TIMM) framework (see: <https://www.pwc.co.uk/who-we-are/corporate-sustainability/total-impact-measurement-management.html>) shown in Figure 11 may be useful.

**Figure 11: Total Impact Measurement and Management (TIMM) Framework**



## Financial Performance

Your assessment of the financial performance of an investment should focus on measures such as profit, cash flow and balance sheet strength. This process may also involve tracking financial ratios including net assets, liquidity and asset quality. The focus of this monitoring should be on the borrower/investee's ability to repay the loan or pay returns on an investment as per the terms agreed<sup>xxxix</sup>.

Within the investment terms there may be covenants or financial and programmatic performance conditions, which require or prohibit the borrower or investee from doing certain things. Covenants usually cover financial targets or allowable uses of the investment proceeds. Therefore part of the monitoring process will

include determining compliance with these covenants. You should clearly define the frequency and interval of monitoring each covenant in the loan/investment agreement. Ideally this should also be aligned with the technical monitoring process outlined above so that borrowers/investees have a streamlined reporting process to the asset management organisation.

If the asset management model incorporates a portfolio of multiple investments, you will need this financial information to be aggregated accordingly, with the operational costs of the asset management organisation incorporated. Depending on your legal reporting requirements this may form the basis for annual financial reporting (public or private), which is shared with your investors/lenders.

## Next Steps

### i. Roles and responsibilities for taking the investment forward

Once you have developed the investor ready document, the group should ask itself whether the roles and responsibilities defined in Step 2 need to be reviewed. There may be additional roles required during the transition into resource mobilization and implementation, such as having an investor/donor engagement lead.

### ii. Peer or external review processes

Submitting the draft investor document to a peer or external review process is recommended, as this can enhance its technical quality, improve its credibility and serve as a useful external engagement tool. You should select reviewers according to the objectives of the review.

For example, if the objective is to improve the technical quality of the document a pool of technical specialists could be selected in the areas of business model, investment model, asset management development along with conservation science and **ESG** risk management. Within CPIC, 'financial structuring' workshops are being held with finance experts, examining and improving the investment and asset management models.

If the review is intended to serve as an external engagement tool, select key local and international stakeholders to provide feedback on the ideas presented in the document. It will be important that you accompany this review with clear guidance for reviewers, in order to manage expectations and receive useful input.

In both cases an in-person or virtual meeting or workshop may aid the review process. This allows for a higher quality and more nuanced dialogue between the document developers and the reviewers, possibly leading to more efficient and ultimately useful outcomes.

### iii. What are the further data collection needs?

It may be that during the document development process you could not collect all of the necessary data required to fully implement the Blueprint, for example, if there is a need for substantial field-based surveying. This is likely to be the case if you developed the document on a voluntary basis, as such exercises require significant resources.

As a result the group should ask itself whether it has the data required to begin making financing agreements with investors, and if not what your strategy should be for collecting this data via your existing networks and field capacity. It may be that you need to identify 'pre-funding' for this data collection step (along with other tasks such as more extensive stakeholder engagement).

### iv. Is there a need for further capacity building?

**Capacity building** is a common requirement for implementing large-scale conservation and business investments. It may be the case that the business model incorporates capacity building activities into its cost base, and the intention is that capacity building only starts once the conservation investment is funded and begins operations.

Alternatively there may be 'pre-project' capacity building required as a prerequisite for implementing the investment. If this is at a significant scale, you may need to fund this upfront. You should raise this during the risk assessment and mitigating action assessment during the development of the business model.

If there has not been time to conduct a capacity building needs assessment amongst the implementation partners, this may also be worth conducting before you seek investment. If sufficient capacity is in place this can provide both the implementation partners and prospective donors with more confidence that the business, investment and asset management models can be implemented effectively from the start. If this assessment brings up significant capacity gaps it is important that you identify these and assess how to address them before seeking investment. IUCN's capacity building needs assessment guide '*Strengthening Voices for Better Choices*' may be a useful reference for this process (see: [https://cmsdata.iucn.org/downloads/capacity\\_needs\\_assessment.pdf](https://cmsdata.iucn.org/downloads/capacity_needs_assessment.pdf)).

## Appendix 1: Template for Blueprint models

This provides a template to capture your answers to Step 4 'Developing the Blueprint model'. Whilst it is important to provide content within each section, not all 'prompt' sub-questions require responses if they are irrelevant or not possible to answer for the Blueprint model in question.

### i. Overview of the conservation need/opportunity

*This should contain a brief overview of the conservation need or opportunity this Blueprint can help address. This can cover:*

- *What is the conservation need this Blueprint is seeking to address?*
- *What is the scale of this conservation need (e.g. hectareage of a certain ecosystem type, species numbers and populations under threat)?*
- *What is the significance of this conservation need i.e. why does it matter?*
- *What existing conservation efforts are already underway, and why they are they currently inadequate?*
- *What are the specific industry sectors/value chains where investment could contribute positively to nature conservation?*

### ii. Describing how the Blueprint contributes to conservation goals

#### **Overall statement**

*This is a summary statement clarifying how an investment using this Blueprint would help address the conservation need or opportunity identified. At this stage, because no specific geography is targeted, this doesn't need to be detailed, although, if your group wishes to progress to implementation, Steps 5 and 7 a) will require a more detailed assessment. For example, a statement for a marine conservation Blueprint could be:*

*"This Blueprint contributes to the conservation and enhancement of coastal marine biodiversity. This is achieved by investors making equity investments in under-resourced local seafood companies to modernise equipment and increase fishing efficiency, accuracy and adherence to relevant sustainability certification standards. This improves company profitability and reduces negative impacts on marine biodiversity associated with existing commercial fishing practices."*

#### **Identifying key metrics**

*You may then also wish to identify a summary list of two-three key 'outcome' indicators you would use to measure progress against the conservation goal. This can help clarify your shared understanding of what this particular Blueprint model is setting out to achieve. Example indicators are shown in Step 6 of this Guide. These don't need to be organised into a Theory of Change at this stage, because a specific investment has not yet been identified.*

### iii. The business model

This describes the key characteristics of the business at the heart of the Blueprint.

You can refer to Step 7a for more detailed guidance on these. Please note this template is a suggestion of information to capture but can be adapted and abbreviated in accordance with what is appropriate for the user.

#### Organisation and governance

- *What types of organisations are involved (e.g. co-operatives, small-medium sized enterprises, corporations, NGOs, civil society organisations, academic institutions, development finance institutions, national development banks, commercial banks etc.?)*
- *What are their individual roles?*

*Typical roles may include:*

- o *General coordination and oversight*
- o *Financial/fund management*
- o *Operations*
- o *Product/service delivery*
- o *Marketing and sales*
- o *Management of conservation/certification activities*
- o *Monitoring & evaluation*
- o *Investor engagement and liaison*
- o *External communications*

#### Products and services being sold

- *What are the products/services being sold?*
- *How does this product or service result in positive conservation outcomes?*
- *What is your revenue model? ( see <http://www.cmu.edu/swartz-center-for-entrepreneurship/assets/revenue-models.march-2015.pdf> for more information on different revenue models)*
- *What scale of revenue and profit is sought?*
- *Is specific intellectual property integral to the business model? If so, is the IP able to be protected via a patent?*

#### Cash flows and commercial sustainability

- *How are cash flows generated and by which entities? How are cash flows sustained over time?*
- *Where does the profit get distributed within the business and across the organisations involved?*
- *What portions of profit can be distributed back to investors or used to repay debt over what timeframe?*
- *Over what timeframe does the business reach maturity and reach its full scale?*
- *How does the distribution of these cash flows contribute to the businesses' long term sustainability?*
- *In what ways is the business model replicable?*

#### External dependencies

- *What reliance does the business model place on a particular law, regulation, policy or subsidy being in place?*
- *How durable are these enabling conditions against political change and government budget revisions?*
- *Does the business model rely on the activities of other third parties, such as civil society organisations, NGOs, research organisations etc., and what role does each play?*

#### Risk management

- *What mechanisms does the business model have in place to reduce potential commercial risks?*
- *What safeguards need to be in place to reduce social and environmental risks and avoid negative impacts?*
- *Are there any mechanisms put in place to manage political risks?*
- *How will social/environmental cash flows and other benefits be maintained should the transaction face commercial headwinds?*

#### iv. The investment model

If you are unfamiliar with finance terminology, Annex 3 provides an introduction to some useful basic terms. You may find it useful to summarise these elements of the investment model in a diagram, similar to that shown in Case Study 1, accompanied with 1-2 pages of narrative to describe the elements suggested below.

Case Study 1 provides an example of an existing investment model being used to invest in sustainable agriculture in the USA, and captures some of the lessons from this model which could be incorporated into a Blueprint.

Please note this template is a suggestion of information to capture but can be adapted and abbreviated in accordance with what is appropriate for the user.

##### **The financial instruments being sought to fund the business model**

- *What roles do **debt** and **equity** financing play in the business model?*
- *What are the roles of grants, guarantees or concessionary finance?*

##### **The relative size of these instruments and basic information on their terms**

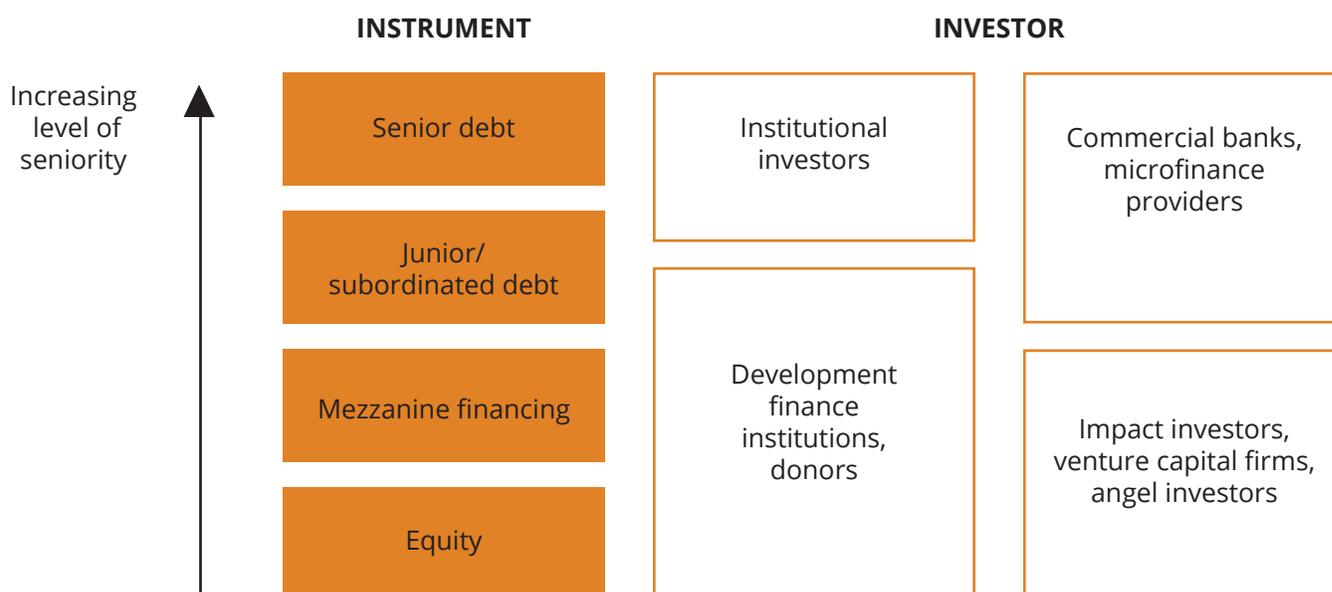
- *What size range (USD) are each of these instruments deployed at?*
- *What range of interest rates are applied to loans, or what percentage returns are targeted for equity investors?*
- *What is the approximate payback period for loans or time horizon for shareholders of an equity investment?*
- *What liquidity, if any, may be offered to investors during the life of the investment (e.g. dividends, debt service, etc.)*

##### **Investor types and the finance they provide at different stages of project maturity**

Figure 3 below illustrates the typical financial instruments applied in a conservation investment in their order of seniority, as well as the finance providers that typically invest in each financial instrument.

- *Is it possible to summarise the seniority of financial instruments provided by different investor types in a diagram similar to Figure 3?*
- *Can this diagram be accompanied with the terms of each financial instrument described above?*

**Figure 3: Typical seniority of different financial instruments and their investors**



**Risk mitigation instruments used and how these were incorporated into the investment structure**

- *What are the different financial risks each investor takes on?*
- *Is there any use of guarantees for loan repayments or for other forms of financial returns for investors?*
- *What type of collateral is used by borrowers to secure loan finance?*
- *Are any insurance mechanisms used and by whom?*

**The exit strategy employed**

- *What is the overall lifetime of the investment and what are the exit options for investors?*
- *How does the business and its associated conservation benefits continue following investor exit?*

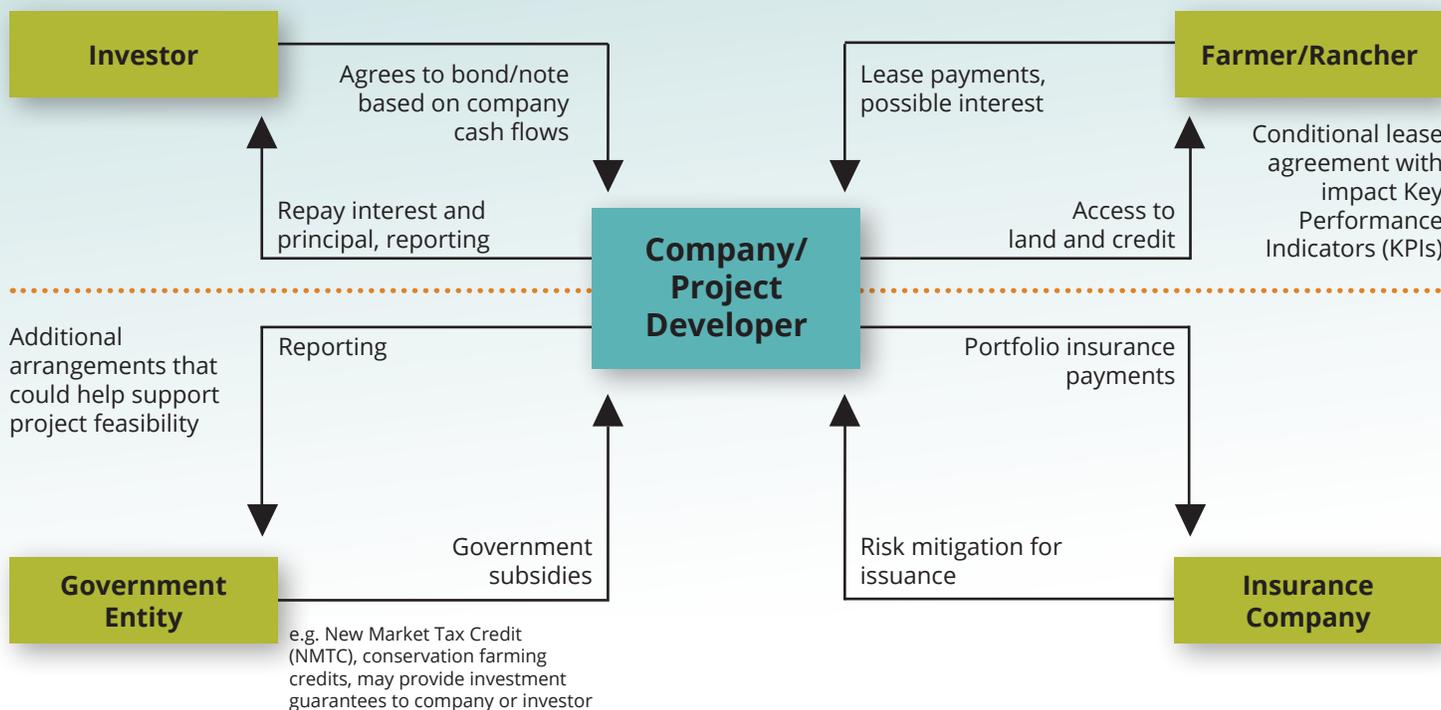
**Innovative features of the investment model**

- *Are there any features of the model which are new for the industry/conservation sector or are innovative in other ways?*

## Case Study 1: Learning lessons from a sustainable agriculture Blueprint

Credit Suisse, the Climate Bonds Initiative and Clarmondial, in their 2016 'Levering ecosystems: A business-focused perspective on how debt supports investments in ecosystem services report', assessed the investment model used by Iroquois Valley Farms (IVF) in Illinois, USA to transition land to becoming USDA certified organic.

This provides an example of a company that is deploying a strategy using privately-raised debt. IVF purchases and leases land to farming families. All farmland is transitioned to and maintained as USDA certified organic (if not already so), which can lead to a premium crop price. IVF is currently raising funds through a USD 20 million capital raise of which USD 15 million is equity and USD 5 million is a series of notes. The company recognizes the dangers of over-leveraging, especially for a business focused on primary agriculture where returns are relatively modest; it also faces the challenge that investors tend to seek larger-sized investments.



### Key points which could be included in a sustainable agriculture Blueprint model

- Debt in this example is flexible in how it is deployed. It can be used for larger issuances (through bonds) or smaller issuances (through notes), depending on the cash flow levels of the company.
- The risks are primarily linked to the company, which helps keep the cost of debt and insurance lower than it would be otherwise. This helps farmers access land and credit at a reasonable cost which they otherwise may struggle to afford.
- The model employs government subsidies, including providing investment guarantees to the company or investors, reducing the risk profile further.
- The security is based on the issuer's asset base, for example, land (title deeds) or an existing loan portfolio.
- Lease agreements with farmers or ranchers are conditional on them meeting impact key performance indicators (KPIs) to maintain the integrity of the environmental benefits provided by the business model.

### References

Credit Suisse, Climate Bonds Initiative, Clarmondial (2016). *Levering ecosystems: A business-focused perspective on how debt supports investments in ecosystem services*. Available online: <https://www.credit-suisse.com/media/assets/corporate/docs/about-us/responsibility/banking/levering-ecosystems.pdf>

## Appendix 2: Illustrative comparison of three common business structures in the United States

The summary presented below is provided as an illustration only in the context of the United States – these factors are likely to vary according to the country you intend to operate, in which case refer to guidance tailored to that country and accompanying tax and legal advice.

	Partnership	Corporation/LLC	Non-profit
<b>Formation</b>	<i>Simple to form</i> – General Partnership formed by association and Limited Partnership by association and filing with the state. Both require drafting a partnership agreement. The latter tends to be more costly.	<i>More complicated to form</i> Formed by filling with the state. Corporations require drafting articles of incorporation and bylaws. <b>LLCs</b> require drafting an operation agreement.	<i>Most complicated to form</i> Formed by filling with the state and require drafting bylaws. Must be recognised by the national revenue service to qualify. Must also elect directors.
<b>Governance</b>	<i>Greater control by founders</i> – Equal relationship among owners/partners under a General Partnership. The General partner has ultimate control in a Limited Partnership, while the limited partners have no direct control. Share profits in both.	<i>Less control by founders</i> – Corporations tend to have much less control than partnerships as the board of directors are in control. Profits are distributed through dividends and salaries. LLCs often have more flexible governance with equal relationships among owners/partners and equal distribution of profits.	<i>Least control by founders</i> – Non-profits are controlled by the board and have a number of policies regulating governance. There is no distribution of profits, only compensation to employees.
<b>Funding</b>	<i>Less access to capital</i> – Funding limited to partner capital. No liquidity under a general partnership, but liquidity for Limited Partnerships for limited partners.	<i>Most access to capital</i> – Corporations may have greater access to capital through debt and <b>equity</b> options and more liquidity. LLC have access to capital through member capital and debt and equity options, but no liquidity.	<i>More access to capital</i> – Limitations on profits and no liquidity, but generally more access to funding from <b>grant</b> providers.
<b>Risk and Liability</b>	<i>Variable Risk and Liability Protection</i> – Unlimited personal liability for partners in general partnerships and limited liability for partners in a limited partnership.	<i>Most Risk and Liability Protection</i> – Limited liability for owners/ directors.	<i>Most Risk and Liability Protection</i> – Limited liability for owners/ directors.

<b>Taxation</b>	<i>Greater tax benefits</i> – Pass through taxation. The net income of the partnership as a whole is calculated and divided among the partners according to their distributive share. Partner income is then taxed personally. No double (personal plus corporation) tax.	<i>Variable tax benefits</i> – LLCs pass through taxation like partnerships. Corporations have double taxation – both the individual and the entity are taxed.	<i>Greatest tax benefits</i> – Non-profits receive tax exemption, property tax exemption and a number of special rates for particular services.
<b>Life Cycle</b>	<i>Less durable</i> – Life span of business limited by partners’ life span and change in partners requires unanimous decision.	<i>Variable durability</i> – Corporations enjoy perpetual existence. LLCs life cycle is determined by the operating agreement. Change in the life cycle of both requires majority decision.	<i>Most durable</i> – Non-profits enjoy perpetual existence. Change in the life cycle of a non-profit requires majority decision.
<b>Most Relevant For</b>	Conservation programs that require a pool of different resources and skills but which are operating at a small scale and don’t need to access considerable funding.	Large-scale conservation programs that require protection against personal liability and which need considerable funding.	When the founders do not need to extract value from the entity.
<b>Example</b>	The Lyme Timber Company is a Limited Partnership which has organised four forest funds since 2002 with a combined capital of USD 665.5 million. As a private timberland investment management organisation (TIMO), it acquires timberland and rural real estate and negotiates and sells conservation easements. These restrict development but allow income generation from sustainable timber harvesting, <b>carbon offsets</b> , recreational leasing and alternative energy supply agreements. It has been successful in conserving around 750,000 acres of forest land <sup>cxxxii</sup> .	Northern Rangelands Trust (NRT) - Trading is a Limited Company that helps connect cattle products from Kenyan grasslands to markets in Nairobi. <i>This Case Study is detailed in full under Step 7 a).</i>	The Mara Conservancy is a not-for-profit management company that was established to manage the protected Mara Triangle in Kenya. <i>This Case Study is detailed in full under Step 7 a).</i>

## Additional note on Social Enterprises

**Social enterprises** can be understood as organisations which drive social innovation and transformation to address global issues in areas such as health, education, poverty and the environment through business methods and entrepreneurship. A social enterprise is not in itself a legal form of business identity and businesses may be set up as any of the legal forms above. Instead social enterprises are distinguished by the social and/or environmental mission set out in their governing documents.

A novel legal form is the B Corp (Benefit Corporation), which “are for-profit companies certified by the non-profit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency”. B Corps have the legal responsibility to meet such standards written into the bylaws, and must incorporate the interests of all stakeholders, such as their employees, the local community, and the environment, into the fiduciary duties of directors and officers.

## Appendix 3: Some key components of a financial plan

- *Profit and Loss*: refers to the net income or profitability of a business. The profit and loss statement or income statement is a key financial report which summarises the revenues, costs and expenses incurred by a business during a specific period of time. This statement, which is usually produced quarterly and/or annually shows changes in profits and losses over a set period of time and provides information about a business’s ability to generate profits. Comparing profit and loss statements from different periods of time can give you an important insight into changes in revenues and costs and net earnings over time. The profit and loss statement can be simplified into the following calculation:

- Revenues - costs = profits<sup>cxxxiv</sup>

- *Balance Sheet Forecasts*: like the profit and loss statement and the cash flow statement, the balance sheet is a statement which provides financial information about a business. Unlike the other two financial statements, the balance sheet gives this information for a snapshot in time, rather than over a period of time. A balance sheet forecast is a projection of how you expect these values to change over time and would take into account any new loans that the business plans take out or outstanding invoices from customers it plans to cash in. The balance sheet can be summarised in the following formula:

- Assets = liabilities + shareholder’s equity<sup>cxxxv</sup>

- *Break Even Analysis*: involves calculating revenues and costs to determine what level of sales are needed to cover total fixed costs. For instance, if you have USD 5,000 of product sales, this will not cover USD 5,000 in monthly overhead expenses. The cost of selling USD 5,000 in retail goods could easily be USD 3,000 at the wholesale price, so the USD 5,000 in sales revenue only provides USD 2,000 in gross profit. The breakeven point is reached when revenue equals all business costs.

To calculate your breakeven point, you will need to identify your fixed and variable costs. Fixed costs are expenses that do not vary with sales volume, such as rent and administrative salaries. These expenses must be paid regardless of sales, and are often referred to as overhead costs. Variable costs fluctuate directly with sales volume, such as purchasing inventory, shipping, and manufacturing a product. To determine your breakeven point, use the equation below:

- Breakeven point = fixed costs/ (unit selling price – variable costs)<sup>cxxxvi</sup>

- *Sensitivity analysis*: Potential investors in your business will likely want to see what the sensitivities are around your financial projections. Identify the key assumptions you have made regarding sales volumes, pricing and your cost base in the analysis above and then calculate what the tolerance of the business model would be to variation in these assumptions. For example if you have assumed a particular pricing for your product, how low could that pricing go before the business struggles to break-even within the target period.

Then also examine the interdependency between these factors – for example how low can your pricing go if your production costs went up by 10%?

- *Cash flow*: refers to the total amount of money, including cash and cash-equivalents flowing in and out of a business over a set period of time. Cash flow is used to assess the quality and liquidity of a business's income and whether it is in a sustainable situation in the long term. This is usually carried out by analysing the cash flow statement along with the business's balance sheet and income statement. This is particularly important for conservation projects, as they typically require considerable upfront investment, for example, in agreeing a common approach to **landscape** management with local communities, identifying partners to work with and building local capacity on sustainability issues. The cash flow statement for a specific operating period is calculated as follows:
  - Operating cash flow = net income + net **depreciation** & **amortization** + non-cash income - net working capital<sup>cxxxvii</sup>

## Appendix 4: Basic finance concepts and examples of financial instruments

### Basic finance concepts

Some basic finance concepts are important to understand prior to developing the investment model. We provide brief summaries of these below:

1. **Return expectations.** Investors and lenders generally invest in the hope that they will get their money back and more. However, they differ in how much profit they expect to make on an investment. Their expectations can depend on various factors, including their legal structure, how risky their investments/loans are, whether it is associated with other form of desirable non-financial impact and how long they are willing to wait until they obtain a profit.

Return expectations are usually quoted as a percentage of the initial investment the investor had made and represent the additional gain the investor expects to make on top of its initial investment, or in the case of a loan interest rate payments over a certain time period. They tend to be expressed in reference to the "market rate", namely the typical rate expected for a similar good or service with a similar level of risk. If the return expectations are higher than the market rate, they are said to be "above market-rate". If they are lower than the market rate, they are said to be "below market-rate" or "concessional". Note here that whilst we are talking about returns for the investor/lender, this also represents what you must pay to the investor in order to receive the investor's/lender's funds. As such, the return to the investor is also a cost to the Blueprint developer and is referred to as its "cost of capital".

2. **Risk tolerance.** This is the degree of variability in investment/loan returns that an investor is willing to withstand. The more risk an investor is willing to bear, the higher its return expectations are likely to be. There are many different types of risks that define the risk profile of a project, including but not limited to political risk, regulatory risk, default risk and **currency risk**. The length of time of the investment/loan and the investor's/lender's familiarity with the sector also influences this risk assessment. The risk tolerance of an investor in particular determines what kind of financial instruments, businesses and projects it invests in, as these all have different risk profiles.
3. **Time horizon.** This is the length of time over which an investor/lender expects to hold an investment or provide a loan. The length of time until a specific investment/loan comes to maturity/is repaid is referred to as its **tenor**. Here again investors/lenders differ in their time horizons which are typically determined by their organisation's goals. For example, private equity funds usually have clients who commit their money for a period of up to seven years, and will hence look for investment opportunities that are expected to make a profit within this timeframe. Banks on the other hand tend to have a preference for shorter tenors, particularly in higher risk transactions, so may only offer loans of 1-3 years at the outset, although they are typically willing to extend repayment dates if the project is meeting its financial projections.

The tenor of an investment in particular has an impact on an investor's return expectations. Generally speaking the longer an investor invests for, the higher its return expectations will be. This is because organisations tend to value the ability to spend their money now rather than later, and hence expect to be compensated for having to wait longer before their money is returned to them.

4. **Transaction costs.** These are the costs incurred in making an investment or loan. These have an impact on its attractiveness, as the return expected on the investment/loan has to outweigh the costs of making it in the first place. As some activities have to be carried out to finalise an investment or loan regardless of its size, for example making checks to ensure that the project sponsor is credible, small projects are negatively affected by transaction costs. Therefore, an investment or loan is often required to be of a minimum size before some investors/lenders can justify its transaction costs.
5. **Seniority.** This refers to the order of repayment on a loan to a group of issuers and/or the order of payments of dividends on equity to shareholders. Holders of the senior-most debt/equity will be repaid or paid before subordinated (or junior) debt/equity is repaid<sup>cxix</sup>. Debt is nearly always considered senior to equity. In terms of debt, secured debt (backed by collateral thus reducing the risk of non-repayment) is considered senior to unsecured debt (not backed by collateral and higher risk) and in terms of equity preferred securities (shares which have no voting rights but generally have a dividend that must be paid out before dividends to common shareholders) are considered more senior than common stock. Generally the more senior a security is, the lower the yield or return on investment due to the lower degree of risk.
6. **Debt coverage.** This refers to the concept by which an organisation needs to ensure that it can repay its debt. This means the cash flows from its operations should be higher than the amount of its debt repayments. Typically in project finance these are 1.5-3.0 times based on cash flow relative to debt service (interest plus 12 months repayments). To give comfort to lenders that they will be in a position to repay their debt, project developers can have a debt service reserve account, in which funds are earmarked for debt repayment and cannot be released for any other use until the debt has been repaid in full.

## Financial instruments

A financial instrument is a monetary contract between two or more parties. Below we provide a summary of some of the key instruments to be aware of when you are developing the investment model. However you will have to give consideration to what the most appropriate financial instrument is for the particular investment being evaluated.

### Debt

Debt refers to funds borrowed from a lender which the borrower promises to repay in accordance with the terms of a contract. The borrower usually has to repay the initial funds borrowed, as well as interest, namely a regular payment of a sum calculated as a percentage of the funds borrowed (the interest rate). It can take many forms:

- **Public debt.** Public debt is issued on **capital markets** and can be traded. This has not been a commonly used instrument for conservation to date. It is generally only possible for large investments or portfolios of investments, as public debt instruments such as bonds tend to have high transaction costs.
- **Bonds** (also referred to as “fixed-income securities”) are debt instruments through which investors provide a loan to an organisation (the “issuer”) for a defined period of time and with interest. As issuing a bond typically requires the issuer to have a credit rating, you can look to approach bond issuers (which may be a corporate, **DFI** or public sector body) to partner with. These then may be packaged as part of a broader project portfolio for **green bond** issuance. Bonds can be a useful source of **refinancing capital** i.e. finance that is raised following the early-stage, capital-intensive portion of a project and after which the project is considered less risky and can hence be financed at a lower interest rate.
- **Private debt.** In the case of private debt, the funds are borrowed from a private entity. Return expectations are quite low (with estimates for sustainable landscape investments which can be as low as 3%) and **tenors** flexible (varying from 1 to 20 years). Private debt can come in many forms:
  - **Notes.** This is a form of debt which is very similar to bonds but is usually used for smaller deals with shorter tenors, for example 1 to 5 years. An example of these are The Nature Conservancy’s Conservation Notes. Since they launched in 2012 the Conservation Notes have deployed more than USD 42 million to conservation projects<sup>cxli</sup>.

- *Loans*. A loan is a sum of money borrowed and that is expected to be paid back with interest. Loans are usually provided by banks and underwritten against collateral (assets, for example property or machinery, which can be seized in the event that the borrower defaults on its repayments). This means that in order to obtain loans at an affordable rate, businesses need to identify adequate and sufficient collateral. When this is challenging, for example, because borrowers don't have ownership rights, you should look for lenders who may be willing to lend solely based on cash flow evidence, or look for a cost-effective **guarantee** (a type of risk mitigation instrument covered in Step 7 b) *iii*. to counterweight the absence of collateral.
- *Credit lines*. This refers to the situation where loans are not provided directly to borrowers but rather through **financial intermediaries**, often local commercial banks. Project and borrower criteria are agreed between the lender and the intermediary and the credit lines can only be used in instances where the predefined criteria are met. This is especially relevant for business ideas that are small-scale and with a high number of small borrowers and for which local lending presence, networks and knowledge are key.

When obtaining debt for a business you should aim to negotiate an interest rate as low as possible, and if possible flexible timelines by which to repay it. The interest rates available from finance providers in a country or region depend on the interest rates set by its central bank. Finance providers typically use this central interest rate as a base and add a 'risk premium', often known as a margin, depending on the risks specific to the transaction at hand. This rate will also be influenced by the opportunity cost that the provider will bear by lending this capital, and the presence of alternative, lower risk borrowers it could lend to. For large transactions, multiple lenders can provide debt to the same business. In this case, the debt is divided into portions called "tranches" with varying levels of seniority, namely different levels of risk. The more senior a debt tranche is, the less risky it is considered to be and the lower the interest rate will be.

Depending on the types of risk driving the interest rate you should look for the most appropriate risk management instrument (covered in section 7 b) *iii*.). You can also look to obtain debt on concessional terms from a Development Finance Institution (DFI), multilateral fund or impact investor, although this is relatively limited and not a long term financing solution in most cases. The concessionality of the terms may take the form of an interest rate lower than the market rate, a longer tenor or the award of a "**grace period**" before you have to start repaying the debt.

## Equity

**Equity** refers to funds obtained through the sale of shares in a company (except in the case of project finance, a type of financing for very large projects where a "special purpose vehicle" for the project is created and shares are sold against the project). From an investor's perspective equity is generally considered a riskier financial instrument than debt. It is best suited to businesses that require flexible funds to grow and replicate, and may be easier to access for businesses with a defined business model and within a sector with an established track record. Businesses involving the sale of sustainable commodities have been most successful so far in attracting equity providers to invest in conservation<sup>cxlii</sup>. See Step 7 b) *i*. for information relating to the exit process for equity investments.

Equity may be held privately or be publicly traded on capital markets although as with public debt, public equity has not been a commonly used financial instrument in conservation due to the historical lack of scale in conservation projects. Private equity is much more common, as specialist funds are more likely to invest in small-scale projects. An average private equity deal size for landscape-focused sectors is at US 290 million, whilst the return expectations of private equity investors for conservation investments are between 5 and 10%<sup>cxliii</sup>.

## Mezzanine financing

This is a hybrid type of finance that usually has a mix of debt and equity characteristics and is provided between early-stage finance and growth finance. It gives the investor the rights to convert the debt it has provided to the project to equity if the company defaults. Mezzanine financing is treated like equity on a company's balance sheet. It is a high-risk form of financing, and investors have high return expectations around 12 to 20%. To obtain mezzanine financing, you would be expected to already have an established product or service in the marketplace, a track record of profitability and a sound growth plan<sup>cxliii</sup>.

## Case Study 20: Africa Agriculture Trade and Investment Fund

Notably, one of the few private debt funds active in sustainable land-use finance in emerging markets is the Africa Agriculture Trade and Investment Fund. It has been able to attract private institutional capital for landscape initiatives in Africa through a **blended finance** structure, where BMZ (Germany's Federal Ministry for Economic Cooperation and Development) invested in the first-loss tranche, KfW (Germany's Development Bank) and Deutsche Bank invested in the mezzanine tranche, and private investors entered at the most senior tranche. Deutsche Asset Management manages the investments of the fund. According to Enclude's report for the IUCN 'The Missing Link', the combination of the reputation of the fund manager and the **blended finance** structure makes the fund an attractive proposition for investors.

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