




**Exploring private financing for Biodiversity:
Can private investment be leveraged for the
conservation and sustainable use of Biodiversity?**

Preliminary findings of an independent expert study

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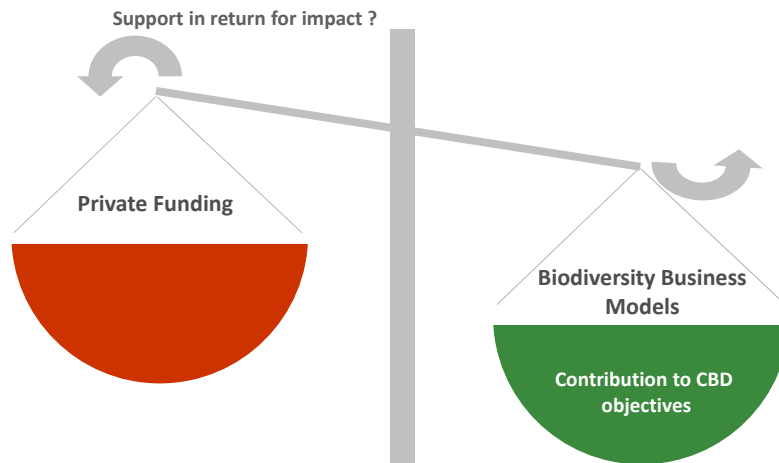
Federal Ministry for the
Environment, Nature Conservation
and Nuclear Safety

Rationale of study and main questions	Introduction
<ul style="list-style-type: none"> • Aichi Biodiversity Target 20: Substantially increase the mobilization of financial resources from all sources by 2020 • CBD Resource Mobilization Strategy: Objective to explore the potential of private financing • What is the experience with sustainable business models with a strong biodiversity impact ? • Why are private investors reluctant to invest into these business models? • Which structures and mechanisms could support such investments? 	
<p style="text-align: right;">Slide 2</p>	

Addressing the current imbalance

Introduction

How to create enabling conditions for “biodiversity businesses” which “generate profits via activities which conserve biodiversity, use biological resources sustainably, and share the benefits arising from this use equitably” ? (Source: Bishop et al. 2008)



Outline

Introduction

1. Exploring the business case
2. Developing a triple-bottom-line assessment tool
3. Exploring the investment case
4. Creating an enabling framework including the role of development cooperation
5. The road ahead

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Exploring biodiversity business models

Definition and sectoral focus	Business Case
<p>We focus initially on three business sectors that have seen significant growth in the past years and can have an important impact on biodiversity.</p>	
	<p>Sustainable Agro-/Biotrade</p> <ul style="list-style-type: none"> ▪ Commodities (coffee, cacao, tea, spices) ▪ Non-timber forest products (essential oils etc.) ▪ Bioprospecting (access and benefit sharing agreements)
	<p>Eco-Tourism</p> <ul style="list-style-type: none"> ▪ As part of a financing strategy for parks ▪ As part of livelihood strategies for communities in critical eco-systems
	<p>Sustainable Forestry</p> <ul style="list-style-type: none"> ▪ Sustainable management of natural forests ▪ Restoration of degraded forests ▪ Forest plantations

Conservation Agriculture - Cambodia

Smallholder rice farmer cooperatives that achieve a premium sales price for their “wildlife friendly Ibis rice”

Basic concept

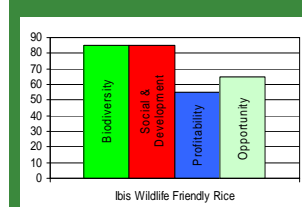
- Setting-up of local Village Marketing Networks
- Development of conservation agreements with farmers
- Products branded as “wildlife friendly Ibis rice”

Impact

- Livelihood improvement, capacity building (training in conservation agriculture)
- Agricultural expansion into biodiversity-rich wetlands stopped

Financials

- Project so far funded entirely as part of WCS’s livelihood programme
- Shortlisted for WCS’s Conservation Enterprise Development Fund (loans instead of grants)



Agro/Biotrade – Sustainable Harvest Coffee Importers

Coffee importer that managed to establish strong relationships with more than 200.000 smallholder coffee farmers



Basic concept

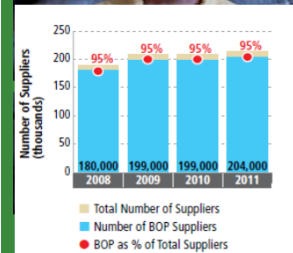
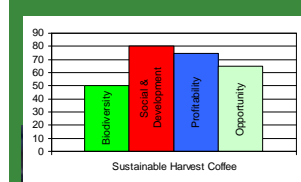
- Inclusive business (G20 challenge winner)
- Direct relationships with smallholders in Latin America and East Africa

Impact

- 95% of smallholders from base of income pyramid
- “B-Corp” certified social enterprise: full transparency of cost and pricing data with supply chain partners
- Moves the frontier to include smallholders in remote places; however; link to biodiversity remains indirect.

Financials

- \$78 million revenue (2011)
- Average growth of sales: > 30% p.a. (over 5 years)
- Moderate profits (91% of revenues → farmers)



Nature Tourism - Congo

A social business designed with the aim to co-fund the running costs of a national park



Basic concept

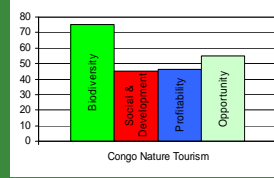
- Small-scale nature tourism in remote part of the Congo Basin
- Public-private partnership with park & government; foundation ensuring multistakeholder governance

Impact

- Financial transfers to park (fees, turnover royalty) could cover up to 30% of annual running costs
- Generation of approx. 80 jobs in marginalised region
- Local supply chains, capacity building

Financials

- Total turnover budget \$1,7 million (2013), reaching \$6 m (2020)
- High operational, market and political risks



Mixed Plantation - Madagascar

Social enterprise that pilots agro-forestry models to fight poverty while protecting a national park

Basic concept

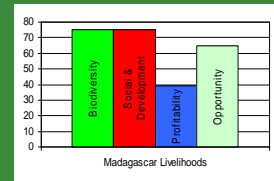
- Original aim: Reforestation of park's buffer zone with drought resistant oil bearing trees
- Strategy shift: Integrated model, including community reforestation, teak, moringa
- Participatory land use planning & teak trials (ongoing)

Impact

- Protect natural forest of National Park Ankarafantsika
- Stabilize watershed that nourishes rice pads
- Complement development aid programmes

Financials

- Social enterprise financially not sustainable
- Solution: Development of > 5,000 ha teak plantation would leverage current efforts and allow to coach and mentor local smallholder farmers.



Natural Forest Management - Paraguay

Forestería Certificada en Paraguay (FORCERPA): Maintaining biodiversity in the middle of the soya belt

Basic concept

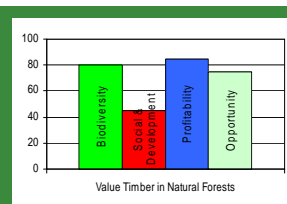
- FSC certified natural forest management on 5.650 ha (4.000 ha production, 1.650 ha protection)
- Integrated timber processing
- Joint venture between local agribusiness and forest management company

Impact

- Protection of Atlantic forest (biodiversity hotspot)
- Result of regular audits: Tree species' diversity in managed forest as high as in untouched forests
- Generation of 50 qualified jobs
- Partnership with adjacent indigenous community

Financials

- Annual turnover USD 1.000.000
- Revenues after tax: USD 70/ha (at eye level with ranching)



Preliminary conclusions

Business case

There exist business models that are in line with the CBD targets, but...

- Profitability is often low – an obstacle for investors which are mainly financially driven
- Many businesses are small and – apart from the forestry sector – there is little up-scale potential
- Often high country and project risks, long time-horizons, lack of entrepreneurs
- Synergies between development aid / conservation initiatives and private project development is often not realized
- Trade-offs between “impact” objectives and profitability exist in every single business case
- There is a great uncertainty on how many viable biodiversity business models exist or can be developed that match investors' needs.

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Triple-bottom-line assessment tool Assessing forest business models

Assessing impacts and trade-offs between ecological, social and economic objectives.

Economic performance

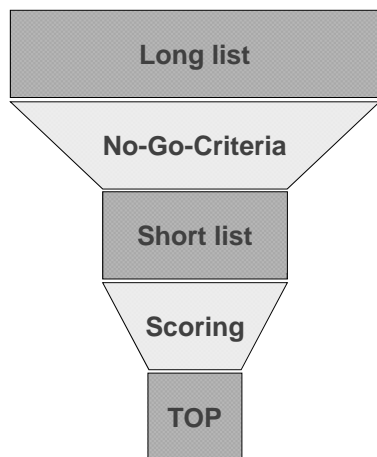
**Environmental/
Biodiversity impact** **Social impact**

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Pre-selection of forest project types

Assessing forest business models

Based on a long list of forest project types, the top scoring forest project types are identified by assessing their ecological and social impact, financial performance and scalability.



Long list: Combination of forest type (natural forest, degraded natural forest, forest plantations, etc.) and main production objective (value timber, environmental services, etc.)

No-go-criteria: e.g. not compliant with international standards, biomass production in intact natural forests

Short list: 12 feasible forestry project types

Scoring: Scoring the projects using 18 criteria belonging to 4 categories (biodiversity/environment, social development, profitability, opportunity)

Top projects: Project types with highest score

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Criteria for the project assessment

Assessing forest business models

Environmental & Biodiversity impact

- Biodiversity relevance
- Minimal invasive business models
- Scale
- Conservation strategy
- Ecological safeguards

Social & Development Impact

- Employment generation
- Capacity building
- Poverty alleviation /Millennium Development Goals
- Local embeddedness
- Social safeguards (including land tenure and access to resources)

Profitability & Financial Sustainability

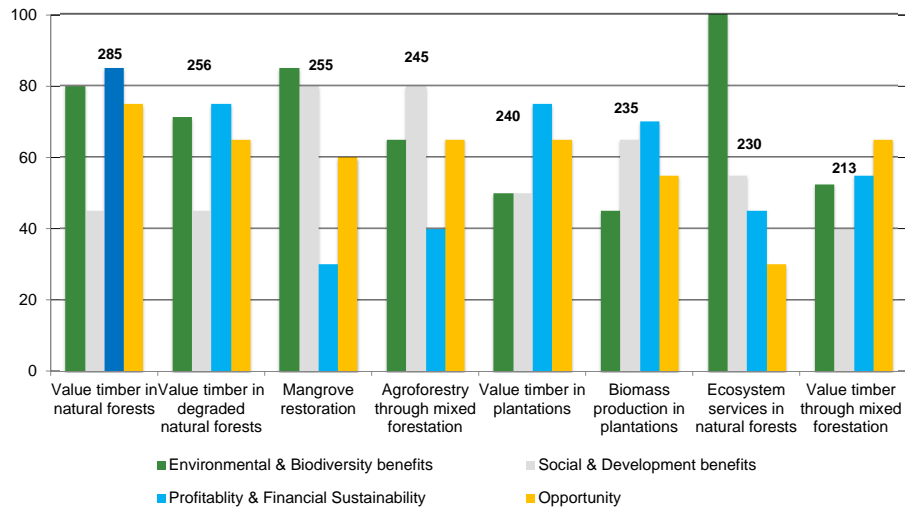
- Return on investment
- Risks and risk mitigation
- Project duration / Exit options for investors

Opportunity

- Scalability & Replicability
- Triple-Bottom-Line Potential
- "Low-hanging fruit"
- References / best practices
- Red flags

Ranking of forest projects

Assessing forest business models



Source: Own data analysis on the basis of 12 existing forestry projects

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Conclusions for the forestry sector

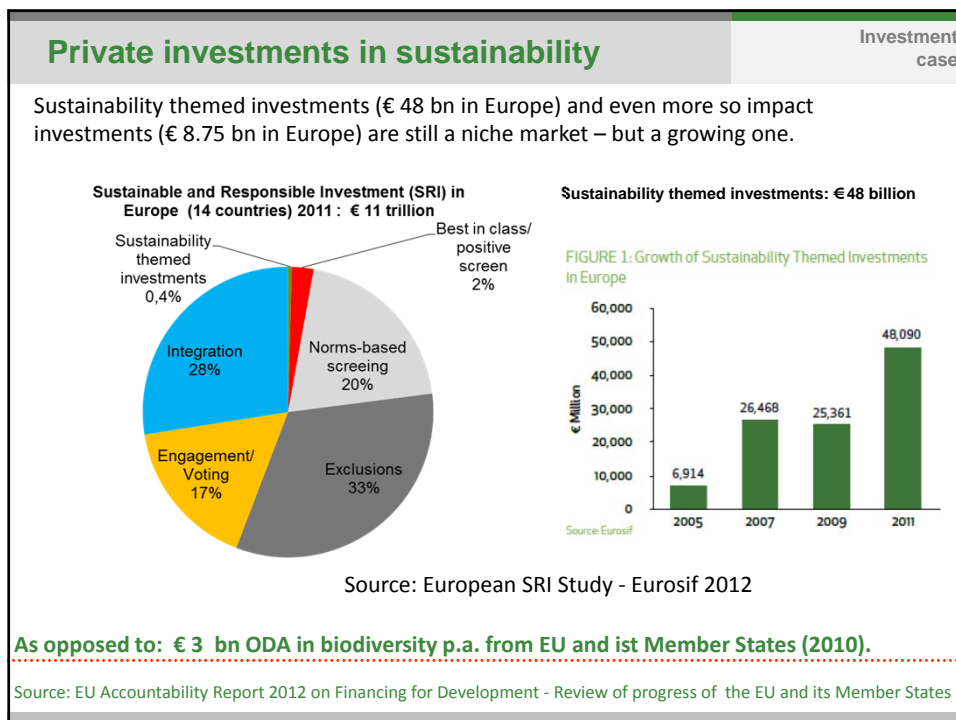
Assessing forest business models

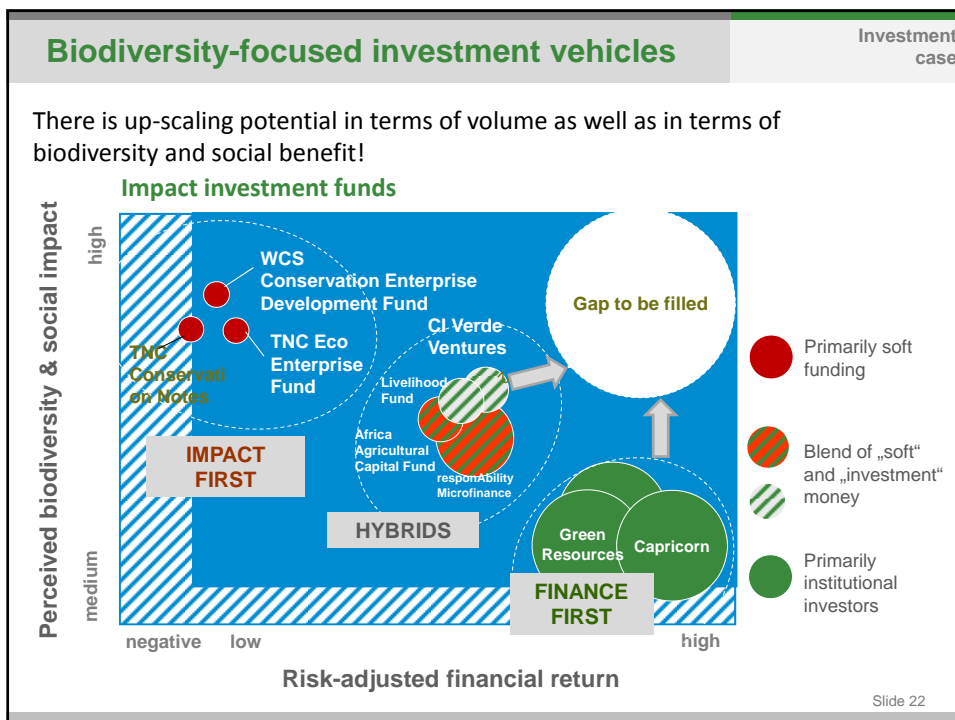
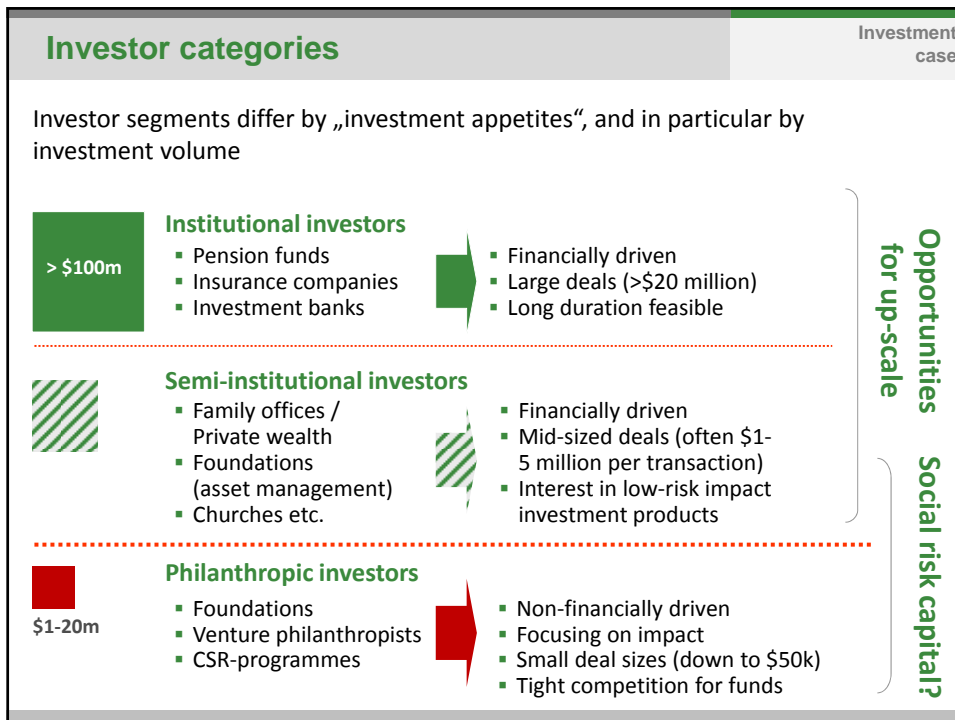
- The assessment revealed that in the forest sector there are significant opportunities to mobilize private investment that can contribute to the CBD objectives
- Up-scaling potential is high due to
 - track record of forestry as an established business case
 - access to institutional capital
- Trade-offs between optimized biodiversity impact, social impact and economic performance exist and can be monitored and assessed
- Possible mechanisms to strengthen biodiversity impacts: Standards, capacity development, financial risk reduction mechanisms such as guarantees and soft loans

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Exploring the investment case





Conclusion

Investment
case

Key findings are:

- The comparatively low risk-adjusted financial return, the missing track-record and the high transaction costs of many projects are the main barriers for investors.
- Innovative financing models for the private sector need to address these barriers (hybrid models, structured investments).



Mechanisms that help to mitigate risks for investors as well as early-stage project development support would help to fund viable biodiversity businesses

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Summary of results and policy options

Encouraging conservation enterprise funds

Enabling
framework

Conservation enterprise funds are impact-first funds that are financed by development banks, ODA and philanthropic investors. They play an important role to help environmental organizations to align livelihood strategies with conservation targets, but are typically not suited to leverage private investment capital.

„Impact first funds“

Development
banks

ODA /
philanthropy
▪ Grants
▪ First loss
guarantees

Recommendation

Increase financial and technical support for business planning, capacity building and mentoring of local initiatives.

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Enhancing hybrid models

Enabling
framework

Hybrid models are co-financed by institutional investors and play an important role to support medium-sized biodiversity projects in the field of eco-tourism, bio-trade and sustainable forestry management. But: private investments can only be leveraged if complemented by soft funding from development agencies or charitable giving.

„Hybrid“

Institutional
Investors
(low risk appetite)

Development
banks / private
impact investors
(medium risk appetite)

ODA /
Philanthropy

Hybrid models bridge the two worlds of philanthropic and commercial investing, thereby enabling the funding of scalable biodiversity business models which cannot attract enough funding today

Recommendation

Project developers, development cooperation, investment banks and environmental organizations should cooperate in order to **design new hybrid fund models**

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...and risk-mitigation for forestry funds

Enabling
framework

Sustainable forestry funds can be designed in a way which attracts institutional investors who put „finance first“ in their investment decisions but who are – to a certain extent – ready to accept a lower profitability or higher risks in return for stricter sustainability criteria.

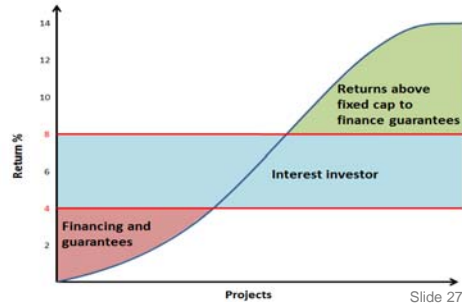
„Finance first“

Institutional
Investors
(low risk appetite)

Development
Banks

Recommendation

Investigate avenues to **set up structured risk-mitigation schemes which** encourage private investors by limiting their potential losses. This could possibly be financed (partially) by a cap on profits (upside).



Thank you for your attention – we are looking forward to an open discussion of our findings and possible options for the road ahead



The road ahead