The RSPB would like to thank Oliver Wyman for their role in working with us on this project.

- In 2017, as part of their Social Impact Programme, Oliver Wyman staff worked with the RSPB on a ten week project to investigate the potential of large-scale conservation finance to support the RSPB’s conservation mission.

- The concept was tested in both general terms and using four worked examples in a series of interviews that Oliver Wyman set up for us with a range of asset managers, private banks, investment consultants and government representatives. These interviews and the knowledge, experience and enthusiasm that the Oliver Wyman team brought to this project have been key to accelerating our learning and understanding in this complex area. We would like to extend our sincere thanks and appreciation to everyone involved, most especially the project team at Oliver Wyman.

- This report has been informed by the analysis, insight and expertise of Oliver Wyman. However, all opinions and any technical errors remain the responsibility of the RSPB.
Contents

Section 1: Introduction
- Setting the scene
- How we framed our research
- What our project involved

Section 2: Executive summary
- Our findings in a nutshell
- General conclusions

Section 3: The current state of play on conservation finance
- Within the conservation sector
- Within the finance sector
- Within the UK Government and devolved administrations

Section 4: What we learnt from our project
- Summary of general findings
- Key considerations for civil society and the conservation sector
- Key considerations for the finance sector
- Key considerations for the Government
Section 1

Introduction
Setting the scene

Who we are

- The RSPB is the UK’s largest conservation charity, with more than one million members. We consistently deliver successful conservation projects, forge new partnerships with other organisations and inspire people to give nature a home.

- Oliver Wyman is a global leader in management consulting, with a strong focus on banking and financial services. Oliver Wyman combines deep industry knowledge and expertise, with close partnerships and relationships.

What we did

- In 2017, we joined forces with Oliver Wyman to explore the prospects for scaling up private investment in conservation-based projects. To do this, we developed investment pitches for four different types of potential conservation projects. We then discussed these ideas with asset managers, private banks and industry experts during a series of semi-structured interviews. We also held discussions with Defra and the Environment Agency.

- In addition to specific feedback on the projects, we gained a broader understanding of the current state of investment for environmental outcomes. We also gained important insights into how conservation projects can become more appealing to private investors.

Why we did it

- From the air we breathe and the water we drink, to the woodlands we walk in and the wildlife we enjoy watching – nature provides each and every one of us with resources that are vital to our health and well-being. But nature is in trouble and we’re losing it faster than ever before. At present, there isn’t sufficient funding to halt and reverse this decline – to save nature, we need more funding for conservation projects.

The purpose of this paper

- This paper summarises our findings for those in government, civil society and the private sector who are interested in discovering new ways to finance conservation. It highlights some of the key considerations that conservationists, financiers and the UK Government and devolved administrations will need to address if we are to collectively make private investment in nature conservation a reality.

- This paper represents our current understanding of a complex issue. We intend to continue developing our learning and testing real world solutions with stakeholders across the sector. It is our firm conclusion that a coalition of conservation, government and finance interests is required to find lasting solutions. As our further explorations bear fruit, we will be keen to share our understanding and collaborate with those who share our desire to save nature.

A note on references

- References for all data and charts are included in the technical appendix for this report, which is available on the RSPB website at rspb.org.uk
How we framed our research

- The diagram below illustrates how we approached our research. We know why we need conservation, we know how to implement it and we know that investors are interested in financing it. This led us to explore three key questions.

Habitats and species are being degraded and lost at an increasing rate. At present, there isn’t enough money to halt and reverse this loss.

The RSPB has a strong track record of small scale but high impact conservation projects.

There is growth in socially responsible and impact-focused investing, but this type of investment is currently under-used in the conservation sector.

How do we find new solutions?

How can we upscale these projects?

How can we direct more money into saving nature?

Large-scale conservation finance
We need a new finance offering that meets both long-term environmental and investment goals.
What our project involved

- Over a ten week period, Oliver Wyman worked pro bono for the RSPB as part of their Social Impact Programme.

- They arranged interviews with a range of participants in the finance sector.

- Our intention was to understand the current attitude towards impact investing and whether nature conservation was currently viewed as an investable sector.

- We were also interested in more specific feedback on four possible investment ideas which could conceivably be delivered at scale. We used these examples to explore the broader issues around the distinction between a conservation project and an investment-ready proposition.

- To help frame the discussions, we used examples of four possible investment ideas which could conceivably be delivered at scale. We used these examples to explore the broader issues around the distinction between a conservation project and an investment-ready proposition. We do not explore the four examples specifically in this paper, but rather focus on the barriers and issues that were highlighted as a result of the discussions.

- For reference, the four investment examples we used were:

  A) Investing in arable farmland, looking to diversify farm income sources and possibly enhance farm income by growing premium products.

  B) Investing in large coastal sites for flood mitigation and other benefits such as carbon, recreation and beneficial reuse of dredging material.

  C) Water catchment management proposals for improved water and biodiversity management, where land management interventions reduce the need for costlier water quality measures.

  D) Turning biomass from habitat management into energy.

- All these ideas were potentially scalable.
Section 2

Executive summary
Our findings in a nutshell

Nature is in trouble

- The natural world is undervalued and overexploited. Human progress is driving accelerating rates of biodiversity loss across the planet.

- At present, governments are primarily responsible for achieving the national and international targets nation states commit to, but public funding has never matched the financing need. Attracting just a tiny fraction of the funds available within the global financial system could reverse the plight of nature.

We must act now – for our own sake as well as nature’s

- From a human welfare perspective, the case for investing in nature conservation is compelling.

- Globally, nature provides humanity with both life-supporting and life-enhancing services recently valued at a staggering $142 trillion per year. Our future economic prospects depend on the decisions we take today to protect and enhance the natural capital that ultimately provides the foundation for future global prosperity.

The finance and willingness to help nature already exists

- Our research has found that the problem is not one of finance. There are ample funds available and investors are interested in supporting environmentally beneficial projects. Conservationists are keen to borrow money to invest in natural assets, however they struggle to develop investable, finance-ready proposals.

We must overcome the barriers preventing conservation investment

- A major barrier to conservation investment is the nature of the benefits associated with such ventures. Despite their evident value, many of the benefits are complex in nature, hard to measure and not traditionally traded in markets. Nevertheless, conservationists can do more to use their land or natural capital to generate income by providing other goods and services compatible with conservation goals, such as renewable energy, recreation or sustainably grown food.

- However, if we are to capture the full range of conservation benefits, the UK Government and devolved administrations (henceforth “Government”) have a crucial role to play. They will need to provide the framework, institutions and governance required to create the right delivery models. They must also attach guaranteed value to investments made in the delivery of public goods, such as the storage of carbon, flood mitigation and improvements to human health.

Brexit offers unprecedented opportunities

- The Government has developed ground breaking new approaches to promoting investment in low carbon and social impact investing.

- Brexit offers us an unprecedented opportunity to transform public support for nature and sustainable agriculture in a way that can “crowd in” private sector investment. This will help the Government to achieve its ambition to leave the UK’s nature in a better condition than it found it.
General conclusions

The current situation is unsustainable

- Global economic growth and markets have succeeded in creating new financial wealth for the “human” world in recent decades.
- However, in many cases this has been at the expense of the environment. As a result, the natural world and its assets are being depleted at accelerating rates that are simply unsustainable.

We can change this

- There is increasing demand from investors for “impact investing” opportunities (i.e., investing for both financial returns and social and environmental impact).
- The Government is increasingly open to innovative new delivery models for public services, as shown by its 25 Year Environment Plan (2018). Clear opportunities exist in areas such as flood defence and the maintenance and enhancement of natural capital (e.g., peatlands, woodlands, wetlands).
- The Government has been in the vanguard of new commercial opportunities in both the clean energy and social enterprise sectors. Initial support has led to many companies and technologies which are, or soon will be, competitive without government support.
- In the UK, short-term events like Brexit and the departure from the Common Agricultural Policy will create new opportunities to use direct public financing and fiscal measures to pay for the delivery of environmental public goods. This will also create opportunities to “crowd in” private sector money.

Increasing investment in conservation will take time

- Investment in conservation will almost certainly start small. While there are multi-million pound conservation project possibilities, moving from a situation of limited finance to one of large scale, mainstream investments, will take time.

New partnerships and organisational structures are inevitable

- Existing conservation delivery bodies are not geared up for investment and many of the additional benefits of conservation (such as flood mitigation) do not fall within organisational objectives. Co-delivery models, involving both public and private actors, and new legal structures for project development and delivery, will need to be explored.

Conservation needs both traditional investment to halt biodiversity loss and targeted investment to restore natural capital

- Investment is needed to change business practices, reducing the waste and environmental damage inherent in many production systems and supply chains. This will ultimately create the commercially successful businesses of the future.
- Creating investment opportunities to enhance nature directly, through habitat restoration and species recovery efforts, will require new approaches to capturing the value of nature’s benefits. Novel service delivery models and business models, which deal with systemic, complex goods and services, already exist in other sectors.

Revenue remains a critical consideration for investment interest

- For conservation projects to become investable propositions, they need to generate sustainable monetary returns in addition to ecological impact. This remains a crucial hurdle to overcome because many of the benefits associated with conservation are easy to understand but very difficult to convert into monetary returns.
Section 3

The current state of play on conservation finance
Achieving conservation objectives is good value

- Governments remain centrally responsible for national and international nature commitments, but conservation is underfunded.

- Conservation organisations recognise the potential benefit of borrowing to acquire natural assets and grow.

- The RSPB and others are actively seeking to develop practical solutions to conservation challenges that could attract private investment.

- Achieving domestic biodiversity targets requires funding equivalent to just 0.2% of government spending, or just 0.1% of UK GDP.

But we are still losing biodiversity at accelerating rates

- The underlying driver of loss is an economic system than undervalues and overexploits the environment.

- Private investment is needed to help stem the tide of loss and also help to finance the restoration of damaged ecosystems.

Conservation is primarily driven by the aim of saving nature, but we know that this has many benefits for people

- However, most of these benefits cannot easily be turned into revenue because they are complex and hard to measure.

Conclusion

- Conservation organisations are actively exploring new ways to finance conservation and have tried many innovative approaches, but there has been very limited progress in deploying repayable finance or adopting debt instruments like bonds. Such approaches remain novel and atypical in nature conservation.
Saving nature is great value

- The table below illustrates the point that achieving national and global conservation or environmental targets is cheap in relative terms.
- The catch remains that, in absolute terms, the numbers remain large compared to what is currently spent.
- It is estimated that it would cost a minimum of US$150 billion to achieve the Aichi targets globally. This is greater than the annual sum of international aid flows, which was worth an estimated US$143 billion in 2016.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Cost</th>
<th>Current spend</th>
<th>Shortfall</th>
<th>Shortfall as % of government spend</th>
<th>Shortfall as % of Gross Domestic Product (GDP)</th>
<th>Shortfall as % of Assets Under Management (AuM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic biodiversity (£)</td>
<td>£2.3 bn</td>
<td>£476 mn</td>
<td>£1.8 bn</td>
<td>0.2</td>
<td>0.1</td>
<td>0.03</td>
</tr>
<tr>
<td>International biodiversity (US$)</td>
<td>$150 bn</td>
<td>$21.5 bn</td>
<td>$128.5 bn</td>
<td>–</td>
<td>0.17</td>
<td>0.15</td>
</tr>
<tr>
<td>Sustainable Development Goals (US$)</td>
<td>$6 trn</td>
<td>$3.5 trn</td>
<td>$2.5 trn</td>
<td>–</td>
<td>3.3</td>
<td>2.9</td>
</tr>
</tbody>
</table>

See annex for source references
We are losing biodiversity at an accelerating rate

Globally

- The Condition and Trends Working Group of the *Millennium Ecosystem Assessment* (2005) found that over the past 50 years, humans have changed ecosystems more rapidly and extensively than in any comparable period of time in human history, largely to meet rapidly growing demands for food, fresh water, timber, fibre and fuel. This has resulted in a substantial and largely irreversible loss of the diversity of life on Earth. Approximately 60% (15 out of 24) of the ecosystem services it examined were being degraded or used unsustainably, including fresh water, capture fisheries, air and water purification, and the regulation of regional and local climate, natural hazards and pests.

- The UN’s *Global Biodiversity Outlook* (2016) subsequently found that extrapolations for a range of indicators suggest that based on current trends, pressures on biodiversity will continue to increase at least until 2020. As a result, the status of biodiversity will inevitably continue to decline without major changes in policy.

In the UK

- Researched and written by a coalition of more than 50 leading wildlife charities and research organisations, the landmark *State of Nature* report (2016) is the most authoritative report on the status of the UK’s wildlife. It shows more clearly than ever before that nature is in serious decline across the UK. Over the last 50 years, 56% of species have declined, while 15% are at risk of disappearing from our shores altogether.

- The *UK National Ecosystem Assessment* (2011) found that habitats are constantly changing as a result of societal changes – demographic, economic, socio-political, technological and behavioural – which influence the way we manage our natural resources, and influence the demand for goods and services. It concluded that many UK ecosystem services are still far below their full potential, often as a consequence of long-term declines in habitat extent or condition. It also concluded that the continuing deterioration will have adverse impacts on human well-being in the future.

The Great Acceleration

- The Great Acceleration describes the phenomenon that the accelerating increase in a broad range of socio-economic trends over the past 50 years is correlated with accelerating loss of nature and accelerating rates of emissions and pollution. The two charts below are indicative of that pattern.
Tackling biodiversity loss

- This diagram helps explain biodiversity loss in terms of a systemic process.
- It begins with the underlying drivers of loss, which relate to the way people choose to produce the things we wish to consume.
- These choices create direct pressures on nature, such as converting natural habitats to farmland.
- The current state of nature can be described in terms of trends in species and habitats.
- Any changes in the physical or biological state of the environment will have both ecological and socio-economic impacts on the functioning of ecosystems and their ability to support life, provide food or other valuable benefits.

- Responses refer to actions that society, governments, people or businesses take as a consequence of the impacts experienced.
- Conservation financing needs to be a response option which both reduces the drivers of loss, by making business more sustainable, and channels money towards directly improving the state of nature, creating new positive impacts for nature and people.
Humans benefit from nature

Nature conservation is motivated by ecological objectives, but conservation also delivers many additional benefits to people

- Recent monumental research endeavours (including the Stern Review and UK National Ecosystem Assessment) describe the broad range and indicate the vast size of the benefits we get from nature.

- These benefits are termed ecosystem services and range from maintaining an equable climate and improving air, water and soil quality, to improving our mental and physical health.

- In 2014, Costanza et al estimated that global ecosystem services are worth US$142 trillion. Such calculations are necessarily rough, however this figure would have to be wrong by an order of magnitude for saving nature not to make compelling economic sense.

- Assuming global conservation goals can be secured for US$150 billion, the global cost benefit ratio for saving nature is 947:1.

Many estimates exist, at a variety of scales, that document the positive benefits of investing in nature

In its third report to Government in 2015, the Natural Capital Committee estimated returns for a number of potential UK-based investment opportunities:

- **Woodland planting** of up to 250,000 additional hectares. Located near towns and cities, such areas can generate net societal benefits in excess of £500 million per annum.

- **Peatland restoration** on around 140,000 hectares in upland areas. This would deliver net benefits of £570 million over 40 years in carbon values alone. Further work is needed to determine water quality, recreation and wildlife values. Including these will significantly increase the net benefits of such investments.

- **Wetland creation** on around 100,000 hectares, particularly in areas of suitable hydrology, upstream of major towns and cities, and avoiding areas of high grade agricultural land. Benefit to cost ratios of 3:1 would be typical, with ratios of 9:1 possible in some cases.
The benefits provided by the natural environment are complex and hard to market

Nature’s benefits are valuable

- Research continues to show how valuable nature’s benefits are, but we still lack the ability to find systematic methods for getting the beneficiaries of these benefits to pay for the cost of providing them. This remains a major catch in creating new revenues for nature.

- Markets work well for goods or services that are discrete and separable. Some ecosystem services are and can be marketed, like food or timber. However, many others cannot be marketed because they are hard or impossible to turn into tradeable “commodities”.

- Many benefits provided by the natural environment are inherently complex, hard to measure accurately, vary widely over temporal or geographical scales or have system properties or dependencies (like water flowing through a river catchment) which make them very hard to trade conventionally.

- Many are simply public goods which markets cannot deliver. Sequestering carbon, for example can be an important benefit of woodland management but woodland owners cannot identify all of the beneficiaries and charge them for the service. Even if the owner could identify the beneficiaries, how much should they charge for the service and how can they make them pay?

Progress on market approaches has so far been minimal

- There have been various approaches to creating new markets for benefits, such as sequestered carbon, water quality or biodiversity. Government and conservationists exploring such market approaches do so in the hope of creating new revenue streams which can help support their attempts to improve the state of nature and possibly create new “investable” assets. Progress to date has been minimal.

New service delivery models are needed

- Understanding the value creation and exchange potential of ecosystem services is a key step in understanding what delivery and business models might work and what role governments may need to play to facilitate exchange.

- It should be noted that many economic services with complex features already acquire value through government regulation (water) or rationing (radio spectrum auctions).
Within the investment world, there is a broad socially responsible investing landscape, of which impact investing is a growing but very small part

- According to the Government’s advisory group on social impact investing, the rise in popularity of Environmental Social and Governance (ESG) investing has been accelerated by a number of broader trends. These include an increasing focus on climate issues, which has been supported by international agreements such as the Paris Climate Accord.
- There is also a rising public appetite for, and expectation of, good corporate governance for large companies to report on ESG factors. This has led to some better data and methodologies for analysing investments. Impact investing is seen as a further evolution of ESG investing.
- The UK impact investing market, including both social and environmental impact, is currently worth £150 billion. This is based on a definition specifying that investments are made with the intention of creating a positive outcome.
- Impact investing includes investments in renewable infrastructure, social housing, social businesses and green bonds. It is a significant but relatively small part of private investment in the UK. It has grown as the social enterprise sector itself has grown. It now comprises 70,000 enterprises employing over two million people and contributing more than £24 billion to the UK economy.

Divestment campaigning has created new reasons to find new investable activities

- Campaigning to encourage institutional investors and others to divest in carbon based or other unsustainable activities has had some effect on investment trends. This has led to a greater focus on new opportunities that support sustainable activities or contribute to the achievement of the SDGs.
- Sustainability factors are no longer just the prerogative of specialty funds. They form an increasingly central part of mainstream investment analysis.

Some investors already see growing opportunities for environmental impact

“JPMorgan Chase is committed to building a strong market for conservation finance, because we understand the critical role the natural environment plays in our economy and our communities. As ecosystems come under greater stress, the urgency of creating innovative and scalable investment vehicles to channel capital to the environment becomes all the more important. We also believe that effective market building and investment necessitate a structured understanding of the target market.”

Doug Petno
CEO, Commercial Banking, JPMorgan Chase & Co. (2016)
The UK investor market

- Different segments of the financial sector will have different interest, motivations and requirements for supporting environmentally based investments.

The UK investor market is comprised of ~£5.7 trillion, spread across various investor types.

1. The pension fund category continues to be the largest client type. It includes both defined benefit (DB) and defined contribution (DC) schemes.

2. Insurance assets are managed mainly in-house by insurers.

3. Endowments and foundations are often the most open to impact investing, but represent a small part of the overall pie.

4. Retail and High Net Worth investors investing in mutual funds and other products.

Assets managed in the UK by client type (%)

- Pensions: 40%
- Insurance: 18%
- Endowments and foundations: 2%
- Other institutional: 20%
- Retail and High Net Worth: 20%

Source: Investment Association
1. Includes “public sector”, “corporate”, “sub-advisory” and other institutions.
Impact investing: a small part of a broad, socially responsible investing landscape

Definitions of key segments:

- **Impact investing** is broadly defined as investments made in organisations to generate both social and environmental impact alongside a financial return. It is seen as a refinement of the broader, more familiar Environmental, Social and Governance (ESG) approach.

- A narrower definition is investment that specifically targets companies and organisations that intentionally create a positive social benefit.

Source: City of London, Specialist Sources of Capital
Impact investing taxonomy

- The graphic below illustrates the characteristics of different types of investment. Philanthropy is an important source of non-repayable funding for conservation, whereas impact investing requires financial returns.

Source: Adapted from Wermurth Asset Management, BridgesVentures/The Parthenon Group.
Summary of feedback from investor interviews

- Investors were positive in general, providing common areas of feedback that will shape any investment propositions that the RSPB develops.

<table>
<thead>
<tr>
<th>Impact awareness</th>
<th>Concerns and issues</th>
<th>Client demand</th>
<th>Product design</th>
<th>Geographic reach</th>
<th>Desire for impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is increasing awareness and demand for impact investing.</td>
<td>Lack of investable propositions</td>
<td>Investors with flexibility most likely to be primary initial investors (e.g., HNW, Family Office)</td>
<td>Partnership model likely to be attractive to investors</td>
<td>Some investors prefer a global focus for propositions to diversify risk</td>
<td>Visible and measurable impact on conservation highlighted as important to a few investors</td>
</tr>
<tr>
<td>Regulatory pressure is growing for responsible investing</td>
<td>Investors require: - Clear and stable revenues - Close to market returns - Track record</td>
<td>Environmental NGOs could pursue separate funds, a “bundled” fund, or issue a “green” bond</td>
<td>Institutional investors constrained by fiduciary duty and scale</td>
<td>Others prefer focus on local (UK) impact</td>
<td></td>
</tr>
<tr>
<td>Social investment is currently more attractive than environmental investment.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Key:
- Common feedback across most or all interviews
- Some differing feedback between interviews
- Specific feedback from one or two interviews
Specific feedback from investors

Opportunities exist
- “There’s plenty of demand these days, the problem is finding investable propositions.”
- “The problem we have is there’s a lack of great projects.”
- “Only one out of 700 client groups has spoken to me about environmental impact investing. This client is interested in such projects generally, but also in the environment because of their family background.”

Conservation can be complex and risky
- “The majority of these deals are very high on the risk curve.”
- “These projects are not standard market risks. These are complex projects that require explanation.”

Scale is a challenge
- “We wouldn’t be interested in propositions below £100 million “

The dependence on the Government is an issue
- “Investors are wary of projects subsidised by the Government.”
- “There is so much uncertainty about government support, tied to Brexit.”

Revenue is a critical consideration
- “Return expectations for some social impact investments can be high – we’ve seen +10% in some cases.”
Governments are responsible for national environmental outcomes and are the major financiers of conservation

- As signatories to the Convention on Biological Diversity, the Government adopted the Aichi biodiversity targets in 2010.

- The main support for biodiversity in the UK comes via agri-environment payments made to landowners as part of the Common Agricultural Policy.

- According to recent estimates, we spend around a quarter of what is required to achieve our biodiversity targets.

- Brexit introduces new opportunities to redirect the current £3.1 billion of annual agriculture subsidy payments towards the delivery of public goods biodiversity and the achievement of nature ambitions.

The Government has trialled new ways to get more private finance into conservation

- The Natural Environment White Paper (2011) promoted the ambition of developing new sources of support for nature.

- It led to explorations of biodiversity offsetting and supported a series of Payments for Ecosystem Services pilot projects.

- Neither approach led to dynamic new markets.

Green finance is a prominent feature of several new government strategies

- The 25 Year Environment Plan (2018) is framed around the concept of natural capital. It expresses the ambition to use public funds to leverage greater private financial contributions. It also launched a Green Business Council, to explore new “natural capital markets”.

- The Clean Growth Plan (2017) focusses on low carbon financing and resource efficiency, but it does emphasise the importance of natural capital. It also created a new Green Finance Taskforce, which is due to release its first report in spring 2018.

- The Industrial Strategy (2017) has the ambition not just to improve natural capital but to enhance it. Such ambition requires financing.

There are strong synergies with the Government’s promotion of clean growth and social impact investing

- The Government has been a leader in the field of promoting social impact investing and in using new delivery approaches to solve social challenges through the use of impact bonds. It also accelerated the development of the renewable energy market through legislation, fiscal instruments and direct support.

- There is much learning of value to guide successful approaches to environmental impact investing.
Public goods: the challenge of capturing their value

- This graphic illustrates the two dimensions of public goods – excludability and rivalry. Most ecosystem services have elements of one or both of these characteristics.

- Private goods are tradeable. Open access goods can be traded, but their is no restriction on accessing them. Club goods, like a football ground, can exclude people but everyone inside “consumes” the same experience.

- The arrows suggest that quasi-markets or other interventions can be used to turn public goods into marketable ones. Carbon, for example can be made more “excludable” by introducing caps on emissions, attaching a value to those who can “save” carbon, such as owners of peatlands and forests.

- For pure public goods, like the existence value of biodiversity and the systemic properties of ecosystems, government support is fundamental.

<table>
<thead>
<tr>
<th>Private</th>
<th>Open access</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Excludable</strong></td>
<td><strong>Non-excludable</strong></td>
</tr>
<tr>
<td>Rival</td>
<td>Non-rival</td>
</tr>
<tr>
<td>Organic food</td>
<td>High seas</td>
</tr>
<tr>
<td>Biomass</td>
<td>Common land</td>
</tr>
<tr>
<td>Health provision</td>
<td></td>
</tr>
</tbody>
</table>

Water catchment (water quality)  
Flood mitigation  
Nature reserves (can be turned into club goods)  
Biodiversity existence
How the Government can catalyse service delivery models

Attaching value to public goods

- Business models are vast and varied, demonstrating that value can be created and exchanged in any number of ways. The natural world fortuitously creates value, through purifying water or sequestering carbon, but as public goods, it is very hard to capture the benefits in markets.

- The Government can simply attach value to public goods by paying for them directly (as it does via current agri-environment schemes under the Common Agricultural Policy).

- The Government can also:
  - Create markets to encourage good behaviour and penalise bad behaviour (e.g., carbon “cap and trade” schemes)
  - Limit exploitation through trading (e.g., water trading)
  - Attach value to biodiversity through compensation schemes for those who damage it (e.g., biodiversity offsetting).

- In addition to attempts to create markets for single services, natural capital thinking offers the prospect of blended approaches to delivering multiple benefits from single sites. A single river catchment, for example, has the potential to deliver a whole array of public and private benefits, including clean water provision, food, flood protection, recreation, and biodiversity.

- A possible integrated delivery model could involve public funding being channelled via a regional Commissioning Authority to tender for the delivery of valued ecosystem services. Different delivery bodies could bid for contracts, with payment made on the basis of defined outcomes based on natural capital metrics.

In addition, the Government can create value for private business though paying for avoided damage costs, or for delivering public services at a lower cost than currently provided by the public purse. The latter is the basis for Social Impact Bonds, where private providers of social services are paid on the basis of outcomes achieved. Such impact-based models could potentially be adapted for the socially valuable outcomes related to the measurable benefits of conservation, such as flood mitigation, carbon, and health or biodiversity benefits.
Section 4

What we learnt from our project
Summary of general findings

- **Money is not the problem.** There are plenty of asset managers, pension funds and foundations looking for innovative investments. However, there is a perceived lack of finance-ready, investable proposals.

- For impact investing, **demonstrating and measuring impact is a key concern.** Metrics are required.

- **Conservation introduces uncertainties** (ecological) that affect service delivery and are not common in more straightforward productive activities.

- Conservation organisations have little track record in debt financing. **Partnering** with others is likely to be necessary. Working though different legal structures may also be desirable.

- **Many conservation projects are smaller in scale** than the types of investment attractive to institutional investors. Smaller scale, bespoke investments may be more attractive to more active, or mission-led investors.

- Turning conservation projects into finance-ready investments still requires a degree of **financial expertise** and experience not common in most conservation organisations.

- **Government support is vital.** Overcoming the barriers of creating revenue requires government facilitation, but some institutions are wary of investing in enterprises where revenue streams are overly dependent on government policy.
Key considerations for civil society and the conservation sector

Turning conservation projects into finance-ready investments requires secure revenue streams

- While philanthropists will invest for impact alone, fiduciary duty means many investors generally need to target market rates of return as a minimum.

Conservation that delivers ecosystem services and revenue can be delivered at different scales

- Small nature reserves can deliver health and recreation benefits, but many services, such as flood mitigation, carbon storage or water quality improvements are more suitable for larger reserves and for landscape scale interventions.

Working with the Government is key

- The Government needs to attach value to ecosystem services, such as pollination by invertebrates and carbon storage by peat bogs, which are valuable but currently unremunerated.

In addition to ecosystem services, nature can deliver more traditional, investable goods and services

- Conservationists can pro-actively develop a suite of nature-friendly activities at a range of scales. This could include growing sustainable food or generating sustainable electricity. Doing so will reduce the pressures on nature and create viable revenue streams which will ultimately outcompete damaging alternatives on purely commercial grounds – something that is occurring with clean energy generation.

Ecological uncertainty can be reduced to improve risk profiles

- The concept of risk is the same for the conservation and finance sectors alike, but conservation interventions involve a degree of uncertainty, particularly around measuring and delivering benefits to people. Such uncertainty makes it more complicated to assess impact, but this difficulty can be reduced through better monitoring of how complex ecological processes, such as carbon sequestration, deliver things that people value, such as an equitable climate.

Blended finance approaches should be explored

- Habitats, or natural capital, which deliver multiple benefits, may be attractive to different investors or donors. For example, the Government, high net worth individuals, local communities, carbon neutral companies and the NHS may all conceivably be interested in investing in a woodland site that enhances biodiversity, sequesters carbon, improves air quality, offers recreation opportunities and provides mental health benefits.

New partnerships are key, new legal structures inevitable

- Conservation enterprises often lack the resources to make their conservation interventions sufficiently “investment ready” and very few have experience with repayable finance. There are many business models and legal structures that would allow practitioners to partner with others – in both the private and public sectors – who have complimentary financial and transactional expertise or aligned objectives.
Key considerations for the finance sector

Many investors already have a desire to invest to create positive impact

- Moral duty, a chance to prove green credentials, or the chance to repair trust in financial services following the financial crisis and demonstrate corporate social responsibility are all motivations for environmental support.
- Many long-term investors recognise their own “stewardship” role as part of civil society and their duty to support sustainable outcomes.
- Investors are increasingly aware of the risks that environmental damage and climate change pose to their investments in the long term. In future, regulations that address environmental damage may ultimately reduce the viability of traditional carbon-based and waste generating sectors.
- The increasing prominence of the United Nations’ Sustainable Development Goals (SDGs) has found resonance in the finance sector.

Fiduciary duty means that investors generally still need to target market rates of return as a minimum

- Most current conservation initiatives struggle to achieve market returns. This remains a critical barrier for private investors.

New delivery models will be needed to create investment

- For example – creating new coastal habitat that is funded by investors initially and paid back by local and central government over time would create new habitat for wildlife, increase biodiversity, improve well-being for local residents, attract tourism and improve flood defences.
- Providing public benefits, at efficient prices, for defined outcomes, is already the basis for Social Impact Bonds.

Natural capital methodology can provide metrics to assess environmental impact

- Market-based approaches are designed to make the most efficient use of capital, deploying it where it is most useful. However, the lack of formal and widely accepted “measures” for the natural environment mean that it is not incorporated into the investment decision-making process.
- Natural capital cannot account for all the environmental impacts of all business sectors, but it does provide metrics and can support benchmarking and inform standard setting in the same way that SDGs can for social impact investing.

Finance has the expertise to help conservation organisations to bridge the gap from conservation project to a finance-ready proposition

- In addition to money, financial intermediaries have the financial expertise lacking in most conservation organisations.

We need traditional investment to halt biodiversity loss and novel approaches to maintain and enhance the nature we have left

- To avoid further biodiversity loss, we need investment in environmentally benign, sustainable production methods. Many of these investments may require initial support, but will eventually become successful, self-sustaining commercial prospects as they outcompete environmentally damaging alternatives.
- Investment in the maintenance and restoration of the natural environment will almost certainly require government support or new ways of creating value to secure revenue streams.
Key considerations for the UK Government and devolved administrations

The Government needs to adopt an overarching framework, institutional structures and governance arrangements to guide conservation finance towards its priorities

- For public goods delivery, the Government needs to identify the natural assets and environmental outcomes it wants to achieve. These exist in part for England in its 25 Year Environment Plan and other strategic frameworks. Legislative backing will help to create the policy certainty required to incentivise longer term investment.

- In addition, the Government should consider strategic policies which promote broadly beneficial investment in initiatives which transform land- and marine-based activities from unsustainable and capital depleting, to sustainable, capital enhancing and ultimately commercially viable. The Government should also consider extending the principles of Enterprise Zones to Ecological Enterprise Zones, which could be established around landscape scale interventions that deliver sustainable products, services and employment.

Specific interventions will be required to remove barriers or create new markets

- **Strategy**
  The Government should develop an overarching strategy for the development of conservation financing. It did this to "crowd in" investment in the clean energy and social enterprise sectors. Traditional and new tools can then be deployed to facilitate progress.

- **Regulation**
  The Government can adjust the rules of the market. For example, it could adjust the regulations governing the regulated water industry to incentivise innovation and environmentally beneficial solutions. It could do the same with flood protection, coastal erosion and farming.

- **Fiscal incentives**
  The Government can also adjust the incentives in the market by offering subsidies or imposing taxes, for example a carbon tax. Feed In Tariffs have been successful at catalysing the growth of renewable technologies in the UK and tax incentives have been used to promote impact investing. The huge success of plastic bag charges in the UK emphasise the environmental benefits, and public acceptability, of behavioural taxes.

- **Direct investment – grants or co-investment models**
  Through the commitment of relatively modest sums of capital, combined with the use of regulation or other fiscal stimulus, the Government can look to “crowd in” private investment.

- **Market creation**
  The Government can deploy new approaches, for example mandatory compensation schemes for biodiversity lost to development; auctioning approaches to biodiversity gains; or extended “cap and trade” schemes to restrict emissions, pollution or resource use.

More innovation will be needed to create new delivery models for ecosystem services

- **Strategy**
  The Government will need to recognise the singularities and complexities inherent with some environmental benefits. Those with network or systems properties will require regulated frameworks to incentivise supply, much in the same way that economic network services (water, energy, telecommunications) require regulation.

- **Fiscal incentives**
  The Government accounting is a new methodology that can help quantify environmental benefits and catalyse their capture. If the Government adopts and promotes natural capital accounting it could help investors measure positive impacts and help justify potential trade-offs against financial returns.