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Conservation Trust Funds and the Private Sector:

Emerging Approaches to Conservation Finance

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Title

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List of abbreviations

BIOFUND	Fundação para a Conservação da Biodiversidade
BRIDGE project	Bridging private finance and conservation towards the 2030 action targets – an FFEM-funded initiative by RedLAC and CAFÉ
CAFÉ	Consortium of African Funds for the Environment
CBF	Caribbean Biodiversity Fund
CCB	Climate, Community, and Biodiversity Alliance
CFA	Conservation Finance Alliance
Coast Funds	Coast Conservation Endowment Fund Foundation
CPIC	Coalition for Private Investment in Conservation
CSR	Corporate Social Responsibility
CTF	Conservation Trust Fund
EIA	Environmental Impact Assessment
ESG criteria	Environmental, Social, and Governance criteria
FAPBM	Fondation pour les Aires Protégées et la Biodiversité de Madagascar
FBS	Fondo de Biodiversidad Sostenible (under FUNBAM)
FFEM	Fonds Français pour l'Environnement Mondial
FMCN	Fondo Mexicano para la Conservación de la Naturaleza
FONAFIFO	Fondo Nacional de Financiamiento Forestal
Fondo Acción	Fondo para la Acción Ambiental y la Niñez
FTNS	Fondation pour le Tri-National de la Sangha
FUNBAM	Fundación Banco Ambiental
Funbio	Fundo Brasileiro para a Biodiversidade
GEF	Global Environment Facility
IDX	Indonesia Stock Exchange
KEHATI	Indonesian Biodiversity Foundation
MAR Fund	Mesoamerican Reef Fund
MMCT	Mulanje Mountain Conservation Trust
NGO	Non-Governmental Organization
PES	Payments for Ecosystem Services
REDD+	Reducing Emissions from Deforestation and Forest Degradation
RedLAC	Red de Fondos Ambientales de Latinoamérica y el Caribe
SeyCCAT	Seychelles Conservation and Climate Adaptation Trust
SMEs	Small and Medium-sized Enterprises
FPRCI	Fondation pour les Parcs et Réserves de Côte d'Ivoire
FSOA	Fondation des Savanes Ouest Africaines
BIOGUINE	Fondation BioGuinée
BACoMaB	Banc d'Arguin and Coastal and Marine Biodiversity Trust Fund
SRI	Socially Responsible Investment
TAF	Technical Assistance Facility
VCS	Verified Carbon Standard
WCS	Wildlife Conservation Society

1. Introduction

Project context

The current report presents the results of a qualitative research project on financial partnerships[1] between Conservation Trust Funds (CTFs) and private sector actors. This project was conducted in the context of Charlotte Süring's five-month academic internship with Wolfs Company, as part of her master program in Environmental Economics at Wageningen University. Its general aim was to contribute to the general knowledge development on CTFs for the Network of Latin American and Caribbean Environmental Funds (RedLAC), the Consortium of African Funds for the Environment (CAFÉ), interested CTFs, and conservation finance practitioners such as Wolfs Company's consultants.

Research objectives

The objective of this research project is two-fold:

First, it aims to provide an overview of the existing types of financial partnerships that CTFs have established with the private sector and the different financial instruments they have deployed in these partnerships. The analysis focuses only on those partnerships with private sector actors whose primary objective is to deploy or mobilize additional funds for conservation activities. The report therefore does not cover other types of collaboration such as in-kind support, technical assistance or knowledge sharing agreements between CTFs and private sector actors.

Second, the project seeks to shed light on the motivations, possible roles, enabling attributes, barriers, and needs of CTFs in implementing these partnerships.

By providing an overview of the available configurations and mechanisms of CTF-private sector collaboration, as well as the different factors that drive, facilitate, and inhibit it, this research intends to contribute to closing information gaps that currently hamper a more wide-spread implementation of such partnerships across the CTF landscape. The hope is that this information may be useful to CTFs and relevant initiatives in designing and promoting private sector engagement strategies as a means to driving conservation impact.

[1] While the term "financial partnership" might suggest that these collaboration initiatives of CTFs are limited to actors from the financial sector, we use this term to refer to partnerships between CTFs and any type of private sector actor intended to deploy or mobilize additional financial resources to drive conservation objectives.

2. Methodology

The majority of the information presented in this report is based on interview responses provided by ten CTF representatives and five experts on the topic of CTF-private sector partnerships and innovative financing instruments. The interview data were complemented by a review of documents on CTF-private sector partnerships. This included annual reports of CTFs, the 2020 Global CTF Survey, a review of private sector initiatives of CTFs conducted for the 2020 Conservation Finance Alliance (CFA) review on CTFs (Bath et al., 2020b), and relevant documentation provided by RedLAC, amongst others.

Interviewed CTF representatives were selected based on survey data about their CTFs' experience in establishing financial partnerships with the private sector, as well as recommendations by CTF network coordinators and other experts. Likewise, the interviewed experts were selected based on recommendations from CTF network coordinators and other experts. Lists of all interviewees and their affiliations are presented hereunder.

Table 1: CTF representatives interviewed

CTF	Interviewee	Role	Region	Network
Coast Funds	Brodie Guy	Executive Director	North America	-
CBF	Karen McDonald Gayle	Conservation Finance Program Manager	Latin America and the Caribbean	RedLAC
FMCN	Lorenzo de Rosenzweig Pasquel	Former Executive Director (retired)	Latin America and the Caribbean	RedLAC
Fondo Acción	Natalia Arango Vélez	Executive Director	Latin America and the Caribbean	RedLAC
FUNBAM / FONAFIFO	Alberto García Arguedas	Director Fondo de Biodiversidad Sostenible (FBS)	Latin America and the Caribbean	RedLAC
MAR Fund	María José González	Executive Director	Latin America and the Caribbean	RedLAC
FTNS	Théophile Zognou	Executive Director	Africa	CAFÉ
FAPBM	Ranto Randriatsoa	Grants Officer	Africa	CAFÉ
BIOFUND	Sean Nazerali	Director of Innovative Finance	Africa	CAFÉ
MMCT	Carl Bruessow	Executive Director	Africa	CAFÉ

Table 2: Experts interviewed

Interviewee	Role, affiliation
Ana Colorado	Consultant (BRIDGE project)
Katy Mathias	Conservation Finance Project Manager, WCS
David Meyers	Executive Director, CFA
Camila Monteiro	Consultant (BRIDGE project)
Ray Victurine	Executive Director, WCS

The individual, semi-structured interviews were conducted by video and phone calls between May 6th and June 28th, 2021. They covered CTFs' involvement in different types of financial CTF-private sector partnerships, the underlying motivations of CTFs for establishing these partnerships, enabling attributes of CTFs, barriers encountered in their implementation, and perceived needs of CTFs in expanding their collaboration with the private sector.

The interview responses and the information from the review of relevant documents were compiled in two databases pertaining to the two above-mentioned research objectives, and systematically analyzed to create the individual sections of this report. **Section 3** introduces the background to the current state of CTF-private sector collaboration. **Section 4** presents the different motivations of CTFs for establishing partnerships with private sector entities. **Section 5.1** provides an overview of the different types and instruments of CTF-private sector partnerships that CTFs have engaged with in the past and cites practical examples of successful applications by CTFs. **Section 5.2** provides an estimation of the different financial mechanisms' technical complexity and their current use frequency by CTFs. **Section 6** presents the enabling attributes of CTFs that have facilitated the implementation of partnerships with private actors in the past. **Section 7** elaborates on the various roles that CTFs can assume in CTF-private sector partnerships, and **Section 8** describes the barriers that many CTFs still face in doing so. Finally, **Section 9** concludes and provides general recommendations to CTF networks and CTFs on key considerations to make when looking to support and set up collaboration initiatives with the private sector.

3. Background

The private sector stake in biodiversity

The global economy and the natural world are inextricably interlinked. While recent estimates suggest that more than half of the global economy is moderately or highly dependent on natural capital and the services it provides, economic activities have also had a detrimental effect on the world's ecosystems in the past decades (World Economic Forum, 2020). Due to natural capital being largely unaccounted for in today's economic and financial systems, unsustainable natural resource use practices have led to unprecedented rates of land and ocean degradation across the world (Díaz et al., 2019; Dasgupta, 2021). This poses vast risks to many economic sectors whose supply chains and operations rely on stable ecosystems and the raw materials and regulating services they provide (World Economic Forum, 2020).

Although policymakers are increasingly paying attention to the biodiversity loss crisis internationally, efforts to integrate ecological considerations into mainstream decision-making across countries and economic sectors are still nascent, and the unmet financing needs remain significant (OECD, 2021). The current biodiversity financing gap is valued at USD 598 billion to USD 824 billion per year, which is close to six times as much as is currently being invested in conservation measures (Deutz et al., 2020).

The private sector as part of the solution

The financing gap for biodiversity cannot possibly be addressed by public and philanthropic funds alone but requires tapping into private sector funding sources.

Moreover, as one of the main drivers of biodiversity loss, the private sector plays a critical role in reshaping global resource use patterns to mitigate the degradation of natural ecosystems, most notably across agricultural, forestry, and fishery sectors (Tobin-de la Puente & Mitchell, 2021).

Around 85% of global biodiversity finance is currently being provided by public and philanthropic sources (Deutz et al., 2020; OECD, 2020). However, there has been a growing interest from the private and financial sectors to engage in nature-positive business and investment practices in the past years. Sustainable investments have increased by 55% in the last four years, now constituting 35.9% of global investment assets (Global Sustainable Investment Alliance, 2021). Global stakeholder platform initiatives such as *Business for Nature*, the *Coalition for Private Investment in Conservation (CPIC)*, and the *Finance for Biodiversity Pledge* attest to the increasing commitment and cooperation among corporate and financial actors to take action against global biodiversity loss (Tobin-de la Puente & Mitchell, 2021).

Current obstacles

Despite these new opportunities, investors and other private sector actors looking to engage in nature conservation are still facing significant obstacles, as applicable financial mechanisms are still little tested in this context and often lack supportive regulatory and measurement frameworks (Credit Suisse & Responsible Investor, 2021). Moreover, many project developers in the conservation space lack the technical capabilities to create investable projects with the stable revenue generation prospects needed attract private capital (Tobin-de la Puente & Mitchell, 2021). Conservation projects are therefore frequently perceived as high-risk investments by private investors and rarely meet their scale requirements to justify the elevated transaction costs (Cooper & Trémolet, 2019). There is thus a need for intermediaries that can create investable project pipelines by offering technical assistance to project developers, monitoring and evaluating project impact, applying de-risking instruments to rebalance the projects' risk-return ratios, and bundling them into larger portfolio funds.

The state of CTF-private sector partnerships

As financial institutions specifically designed to channel funds into nature conservation, Conservation Trust Funds (CTFs) have a central role to play in countering nature loss and facilitating private sector engagement in conservation.[2] While most CTFs have traditionally managed grants from public and philanthropic donors, many of them are now considering, or on a path to, establishing new mechanisms that can unlock funds from alternative sources (Bath et al., 2020b). For some CTFs, this has implied a shift or diversification in programmatic focus. While most CTFs were originally created with the intention to provide financing for protected areas through grant-making, those that have the requisite institutional and financial flexibility are increasingly expanding their scope to include new conservation and funding approaches (Bath et al., 2020b).

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[2] In this report, the term 'private sector' refers broadly to entities that undertake a commercial economic activity, which may include any type of actor from small community-based producers to large corporations.

The 2020 CFA review on CTFs anticipates that future fund diversification efforts by CTFs will primarily build on private sector-based mechanisms, including partnerships with entities from the private and financial sectors, payments for ecosystem services (PES) schemes, carbon and biodiversity offsets, impact investing, and blended finance arrangements (Bath et al., 2020b). For instance, 44% of the CTFs that participated in the 2020 Global CTF Survey (Bath et al., 2020b) indicated that they considered developing partnerships with the private sector as a way to increase or diversify their income over the next ten years.

The private sector can be both a source of funds, as well as an implementation partner for CTFs. In the latter case, private sector entities either implement projects funded by CTFs or provide them with non-financial support. Of the CTFs that participated in the 2020 Global CTF Survey, only 8% indicated that partnerships with corporates belonged to the top five mechanisms that provided the most funding to them over the last ten years. Other private sector-based mechanisms such as PES (10%), carbon and biodiversity offsets (6%, respectively), blended finance (2%), and impact investing (2%) scored similarly low. With regard to the CTFs' beneficiaries, the private sector also still plays a subordinate role in comparison to governmental agencies, non-governmental organizations (NGOs), and community-based or indigenous organizations. Merely 18.4% and 20.4% of CTFs indicated that private landowners and private companies represented direct fund recipients, respectively.

4. Motivations for CTF-private sector collaboration

This section outlines the different motivations that CTFs cited for their collaboration initiatives with private sector actors. We identified three broad themes that are briefly elaborated on hereafter.

Mobilization of additional (long-term) funding and fund diversification:

- Many CTFs are in need of additional financial resources to fill funding gaps and the increasing private sector interest in conservation is creating new funding possibilities for CTFs. Some interviewees expect private capital to become the largest source of funding for conservation in the foreseeable future.
- Partnerships with the private sector can help CTFs diversify their financing sources in an effort to mitigate risks associated with overdependencies on other volatile funding streams.
- Many CTFs rely on short-term grants and donations to fund conservation activities. Some types of private sector-based mechanisms can allow CTFs to establish long-term sources of funding and help them ensure the sustainability of their conservation impacts.

Increased and sustainable conservation impact tailored to local needs:

- Some CTFs are making an effort to establish local funding sources by focusing on domestic donors and markets. Partnering with private actors in the CTFs' respective impact regions can be both a way to decrease the reliance on and vulnerability to global trends, as well as to tailor conservation programs to local needs rather than politically motivated donor strategies.
- Given the impact that the private sector has on the natural environment, creating opportunities and incentives for sustainable natural resource use by local private actors can be an effective long-term approach to achieving conservation objectives.
- An increasing number of CTFs are getting involved in shaping the local economic environments of their impact regions by supporting certain types of economic activities and sustainable business models. This can be a way to address local development needs while ensuring that emerging economic activities are in line with conservation objectives.

Creation of synergies for the implementation of conservation activities:

- In some contexts, private sector actors qualify as natural implementation partners due to their land ownership and expertise in managing natural areas. Rather than partnering with NGOs to implement conservation projects, CTFs can deploy funds to support private actors in conserving local lands.
- One CTF stated that its collaboration with private sector actors served as a driver for developing new ideas on potential conservation approaches and mechanisms. The knowledge exchange that ensues from these partnerships can help CTFs identify new opportunities by gaining insight into the private sector perspective on conservation.

5. Partnership types

Overview and examples of CTF-private sector partnerships

Depending on the particular objectives that CTFs seek to accomplish by collaborating with private sector actors, a variety of partnership types and financial instruments present themselves for application. This section describes and provides illustrative examples of the different types of financial partnerships that CTFs have established with private sector actors in the past.

We classify these partnerships according to the different types of financial instruments employed by CTFs. Definitions of the individual financial instruments are provided in the **Glossary**. We differentiate between impact-only mechanisms, debt and equity-based mechanisms, market-based mechanisms, and hybrid mechanisms[3]. It is worth noting that there exist different variations of the financial instruments listed, and that there is sometimes considerable overlap among them, both conceptually and in practice.

Impact-only mechanisms

CTF-private sector partnerships that build on impact-only (i.e., non-revenue generating) mechanisms commonly make use of grants or Corporate Social Responsibility (CSR) investments by private sector actors, such as donations and earmarked revenues.

Grants are generally used by CTFs to deploy funds into conservation-related activities with no or limited revenue-generation potential, which may include technical capacity building or infrastructural investments. In CTF-private sector partnerships, grants can also be used to catalyze third-party investments into conservation-positive businesses by covering initial capital investments and bridging the lead times until revenue generation, therewith reducing the financial risk faced by external investors.

Box 1: Coast Funds' grants to community-owned businesses

Coast Funds provides grants and technical advice to support indigenous communities in establishing sustainable community-owned businesses. By way of example, the CTF approved a grant in 2020 which will cover the infrastructure and start-up costs of a new grizzly bear viewing enterprise in Wuikinuxv territory. Next to providing employment and training opportunities for community members, the venture aims to contribute to building a local tourism-based economy while protecting grizzly bear populations (Coast Funds, 2020).

An increasing number of corporations engage in **CSR** initiatives, both for philanthropic and marketing-related reasons. CTFs can build partnerships with these companies to mobilize additional private funds for conservation programs, commonly provided as fixed **donations** or as **earmarked revenues**.

Box 2: Corporate revenues earmarked for the Mexican Fund for Nature Conservation (FMCN) and BIOFUND

In 2010, FMCN established a CSR-based partnership with the Swiss luxury watchmaker Breitling, which released 300 special edition watches for which the CTF received USD 1,000 of earmarked revenues per watch sold[4]. Although such short-term collaborations with private sector entities are more common, there also exist examples of longer-term agreements: In 2017, BIOFUND launched a biodegradable debit card with the Commercial and Investment Bank (BCI) of Mozambique, which channels 0.04% of every transaction made by users of the card to the CTF at no additional cost[5].

[3] The proposed categories of financial mechanisms are adapted from De Vos & Hart (2020), Bath et al. (2020b), Meyers et al. (2020), Gobin & Landreau (2017), and input from Wolfs Company consultants.
[4] Source: de Rosenzweig Pasquel, personal communication, June 14th, 2021
[5] Source: https://www.biofund.org.mz/en/projects/launching-of-bio-card/

Debt-based mechanisms

As the term suggests, debt-based mechanisms involve raising or deploying various forms of debt capital to drive conservation objectives. Debt-based mechanisms available to CTFs include microcredits, loans, and different types of bonds.

Microcredits are especially suitable for CTFs that aim to practice a community-based conservation approach, as they allow local community members to establish their own conservation-positive enterprises. Due to their technical complexity, CTFs that make use of microcredits generally partner with microcredit agencies which manage the transactions while the CTFs provide guarantees for selected borrowers.

Box 3: Mount Mulanje Conservation Trust's (MMCT) use of microcredits for sustainable community development

MMCT partners with microcredit agencies in Malawi to provide microcredits for community-based (revenue-generating) initiatives with positive conservation and community development impacts, such as beekeeping and smallholder tea farming ventures. While the microcredit agencies carry out the transactions with the borrowers, MMCT facilitates the process by matching the initiatives to suitable agencies and provides guarantees to mitigate default risk[6].

CTFs can administer **loans**, via **revolving loan funds**, to selected local businesses that drive conservation impact. This can help the businesses cover initial capital investments and can generate additional funds for the CTFs in the form of interest payments.

Box 4: Fondo Acción's loans for the development of community-based REDD+ projects

Fondo Acción uses a revolving fund to issue interest-free loans for the stimulation of community-based REDD+ projects in the Chocó region of Colombia. The communities use the funds to pursue Climate, Community, and Biodiversity Alliance (CCB) and Verified Carbon Standard (VCS) verification of their projects and later pay back the loans using the returns from the sale of carbon credits[7].

Bonds come in different variations (conservation impact bonds, green/blue bonds, park bonds, project bonds, resilience bonds etc.) and are still rare in the conservation landscape, as they are technically challenging to implement and typically deal with very large amounts of funds.

Green and blue bonds are similar to traditional bonds in that they raise funds for certain types of business ventures from external investors while coupon and principal repayments are sourced from the businesses' revenue streams.

With **conservation impact bonds**, issuers can raise long-term funds for conservation from private investors while paying coupons tied to particular conservation results. As this type of bond generally raises capital for non-revenue generating activities, it requires external funds for the repayment of the principal and coupon payments.

[6] Source: Bruessow, personal communication, June 28th, 2021
[7] Source: https://fondoaccion.org/2020/10/26/community-redd-portfolio/

The concept of **park bonds** was designed to raise private funds for protected areas and assumes that the bond principal provided by external investors is re-invested in other securities. The difference between the interest obtained on these investments and the park bond's coupon payments is channeled into protected area conservation projects.

Box 5: The Seychelles Conservation and Climate Adaptation Trust's (SeyCCAT) use of blue bond proceeds for sustainable marine and fisheries projects

In 2018, the Seychelles government issued a sovereign blue bond to raise capital for sustainable marine and fisheries projects from institutional investors. The proceeds from the 10-year bond support grants managed by SeyCCAT and loans provided via the Development Bank of Seychelles. The repayment of the bond is the obligation of the Seychelles government, which may be supported by revenues generated from the supported fishery projects. The bond further benefits from a concessional loan by the Global Environment Facility (GEF) and a guarantee by the World Bank (World Bank Treasury, 2019).

Conservation impact bonds have not been issued by or in cooperation with CTFs yet. The World Bank and the GEF cooperated to launch the first species conservation bond in 2021, which raises capital from private investors and makes payouts tied to the growth of black rhino populations in Southern Africa (World Bank, 2019).

While practical examples of **park bonds** are not yet existent, four African CTFs (FPRCI, FSOA, BIOGUINE, BACoMaB) have considered the issuance of a park bond to secure long-term funding for their countries' protected areas (Gobin & Landreau, 2017).

Equity-based mechanisms

CTF-private sector partnerships building on equity-based mechanisms have included different forms of impact investing, such as seed financing or venture capital, or public equity investment.

Seed financing can allow CTFs to shape a conservation-positive local business environment by promoting businesses that meet relevant criteria. It can also serve as a source of additional funding for CTFs once the businesses generate profits and pay out dividends to investors or sell at a higher price. Seed financing can be part of a CTF's impact investing strategy.

Box 6: Mount Mulanje Conservation Trust's (MMCT) seed finance for local businesses

When MMCT identifies potential local business ventures that can create environmental and social impact but fail to attract interest from local entrepreneurs, it invests to set up the businesses itself with the intention of selling them at a later stage. Examples include its creation of a Rainforest Alliance-certified smallholder tea farming association and a local, independent power production company[8].

[8] Source: Bruessow, personal communication, June 28th, 2021

Similar to seed financing, **venture capital (VC)** investments can allow CTFs to drive conservation impact by promoting certain types of businesses while reaping financial returns once the latter generate profits and increase in value. VC investments aimed at creating social or environmental impact are also considered **impact investments**.

Box 7: Fondo Acción's mission-aligned impact investment fund

In 2018, Fondo Acción created an impact investment fund (*Fondo de Inversiones Misionales de Impacto*, FIMI) aimed at providing catalytic capital to business ventures that promise to generate financial, environmental and social returns in line with the CTF's mission. The fund's objective is to make up to five investments as a shareholder with no more than a 25% stake and foresees an exit horizon of six to eight years. Through this impact investment fund, Fondo Acción has so far invested in two local enterprises in the sustainable consumption and eco-tourism sectors (Bath et al., 2020b).

(Public) equity investments can be part of a CTF's investment strategy to generate financial returns using its endowment. Screening possible equity investments based on **SRI** or **ESG criteria** can be a means to ensuring that CTFs invest their assets in ways that are aligned with their missions. This practice was also proposed as a way to expand CTFs' impact in the CFA Practice Standards for CTFs (Asset Management Standard 10, Bath et al., 2020a).

Box 8: The Indonesian Biodiversity Foundation's (KEHATI) stock index of sustainable companies

In 2009, KEHATI created the SRI-KEHATI Stock Index in collaboration with the Indonesian stock exchange (IDX) to attract third-party equity investments into sustainable companies in Indonesia. This index portfolio is invested in 25 public Indonesian companies that satisfy a set of SRI and ESG criteria defined by the CTF and is traded on the national stock exchange. The composition of the index is reviewed every six months[9].

Market-based mechanisms

Market-based mechanisms that CTFs can employ to drive conservation impact in collaboration with private sector actors include **Payments for Ecosystem Services (PES)** schemes, **carbon offsets**, and **biodiversity offsets**.

Thanks to their expertise in monitoring and evaluating conservation outcomes and their role as independent and accountable fund managers, CTFs can act as intermediaries for PES and offsetting schemes, bridging the gap between landowners/protected area managers and the beneficiaries of environmental services/buyers of offsets.

[9] Source: https://www.kehati.or.id/en/index-sri-kehati-2/

Box 9: The Costa Rican National Forestry Financing Fund's (FONAFIFO) PES scheme

FONAFIFO manages a large-scale PES scheme instituted by the Costa Rican government, which remunerates landowners for four types of ecosystem services: carbon sequestration, biodiversity protection, water regulation, and scenic beauty. The funds for the program are sourced from the proceeds of a national fuel tax, as well as other earmarked government funds and third-party grants. Cash transfers are made to selected landowners via five-year contracts for different (agro-)forestry measures. FONAFIFO also sells verified carbon credits on the national carbon market and offers water and biodiversity compensation solutions to private companies looking to offset their impact on natural resources (Porras & Chacón-Cascante, 2018).

Box 10: Mandatory and voluntary biodiversity compensation managed by the Brazilian Fund for Biodiversity (Funbio) and the Fund for Protected Areas and Biodiversity of Madagascar (FAPBM)

Funbio manages the mandatory environmental compensation scheme for the State of Rio de Janeiro as established under Brazilian federal law. Industrial projects which require offsetting of their anticipated environmental impacts do so via the CTF which channels the funds into its protected areas[10].

Since 2019, FAPBM receives payments for voluntary biodiversity offsets from the mining company Rio Tinto QMM, which operates in South-Eastern Madagascar. The CTF acts as a financial intermediary between the private company and the management entity of the Agnalazaha protected area which is partly financed by the offset funds[11].

Hybrid mechanisms

CTFs can also make use of other instruments to mobilize funds from private investors, which can be considered hybrid or cross-sectional as they can combine or be used in combination with financial instruments from the different categories we defined above. Although we touched upon some of them in the previous sections, their importance and growing popularity in the conservation finance literature prompt separate mention.

De-risking instruments like **blended finance** arrangements (using grants or concessional debt) and (first-loss) **guarantees** can allow CTFs to unlock private capital for conservation by rebalancing investment opportunities' risk-return ratios, thus making them investable for more risk-averse private investors.

CTFs can create **technical assistance facilities (TAFs)** to incubate sustainable businesses, therewith creating new, conservation-aligned investment opportunities for

[10] Source: https://www.funbio.org.br/en/programas_e_projetos/atlantic-forest-fund-fma-rj/
[11] Source: Randriatsoa, personal communication, June 3rd, 2021

private investors and assisting business owners in building the capacities needed to attract private capital.

To reduce transaction costs faced by external investors, CTFs can bundle conservation projects of different sizes into **pooled funds**. This allows investors to invest at greater scales while benefitting from project quality assurance provided by CTFs. Such funds also reduce the financial risk that investors face through diversification.

Use frequency and complexity of financial mechanisms

The partnership types and financial mechanisms outlined in the previous section differ strongly in investment size and degrees of technical complexity, and have thus been employed by CTFs to varying extents. This section provides an overview of the financial mechanisms' use frequency and estimated technical complexity[12]. We acknowledge that there are other factors influencing adoption rates that we do not include in this section, which can be specific to the respective mechanisms, CTFs and the CTFs' contexts.

We distinguish between four levels of adoption and complexity, as outlined in the scale hereunder.

Concept stage: mechanisms which have never been implemented by CTFs as main executing agent. These may be highly complex or in early stages of design.	**Emerging:** mechanisms that few CTFs have experimented with. These are generally technically complex and may require additional piloting by CTFs.	**On the rise:** mechanisms implemented by a growing number of CTFs. These may require some specific expertise.	**Well-established track record:** mechanisms frequently used by CTFs. The technical complexity of these mechanisms is generally comparatively low.

Table 3: Use frequency and complexity of financial mechanisms

Impact-only mechanisms	Grants
	CSR investments: donations, earmarked revenues
Debt-based mechanisms	Loans (revolving loan funds)
	Microcredits
	Bonds
Equity-based mechanisms	Seed financing
	Venture capital (VC)
	(Public) equity investment
Market-based mechanisms	PES schemes, incl. carbon offsets
	Biodiversity offsets

[12] We exclude the mechanisms listed under the category "hybrid mechanisms" in the previous section as they generally build on financial instruments included in other categories.

6. Enabling attributes of CTFs

The current section specifies the CTF characteristics that interviewees deemed to be critical or helpful in establishing CTF-private sector partnerships. While CTFs' external environments have a decisive influence on the ease and success of implementing these partnerships, we focus our analysis on the factors that are specific to CTFs as institutions. We distinguish between those factors that can be considered general attributes of CTFs and those that are more unique to CTFs with successful private sector collaboration initiatives.

As entities that are specifically designed to channel funds into conservation activities, CTFs have a set of unique characteristics which give them a comparative advantage on governmental actors and NGOs in implementing partnerships with private sector actors. The following general attributes apply to most CTFs and can be strategically leveraged to develop and expand engagement with the private sector.

- Legal independence and transparent procedures approved by investment entities
- Established investment structures and expertise in grant-making and channeling funds
- Ability to work with different sizes of projects and grantees and to aggregate them
- Ability to absorb risk by providing grants
- Financial know-how, as opposed to other conservation non-profits
- Higher client-orientation, accountability, practical orientation, and lower bureaucracy than governmental institutions
- Ability to work with actors from different spheres and levels, e.g., government, civil society, NGOs, private sector
- Ability to attract high-level partnerships with large international organizations

CTFs which have been successfully exploring different private sector engagement strategies and mechanisms have benefited from certain favorable internal conditions which are specific to their case. While some of these conditions are a result of idiosyncratic circumstances, others are strategic choices made to facilitate the collaboration with private actors. Specific attributes of frontrunner CTFs include:

- By-laws with independent, purpose-specific governance bodies
- Available connections with the local private sector, e.g., through board members with private sector backgrounds
- Track record that supports CTFs' reputations with other actors from different spheres
- Operations at the local level that build on close ties and trust with locals
- Know-how in investment and business development thanks to CTF director's background
- Board supportive of initiatives outside the traditional conservation space

7. CTF roles in CTF-private sector partnerships

Given their unique characteristics and positioning in the conservation arena, CTFs can assume various roles in their partnerships with the private sector. Each of these roles addresses particular barriers that the private sector currently faces in its endeavors to contribute to conservation.

We classify CTFs' roles in their private sector partnerships into six broad categories, which are based on the different types of partnerships we identified and the potential roles that interviewees considered CTFs to be suited for. In many cases, CTFs assume several of these roles simultaneously.

While some of the roles have been traditionally assumed by CTFs (in a related form, at least), others are in the process of being shaped and adopted by CTFs as new approaches to conservation finance emerge.

Traditional roles of CTFs include acting as 'matchmakers' and 'policy influencers', while **emerging** roles include functions as 'incubators', 'risk mitigators', 'aggregators', and 'investors'.

Matchmaker:

CTFs' unique position enables them to connect actors from different scales and contexts. They have a bridging role between international and local contexts, as well as between donors, conservation practitioners, policymakers, civil society, and increasingly also private investors and commercial actors. For instance, CTFs can ensure that international private investors are connected with local conservation projects which meet specific investment criteria. Multiple CTFs are also providing solutions to private companies by acting as intermediaries in voluntary and compliance markets for carbon and biodiversity offsets, or by managing tailor-made CSR projects.

Policy influencer:

Thanks to their relations with local governments, CTFs can play an important role in co-shaping the legal frameworks and standards needed to mainstream private sector engagement in conservation. Moreover, they can contribute to this transition by communicating the dependence of businesses on natural capital, both vis-à-vis governmental actors and their private sector partners.

Incubator:

Given their financial expertise and their capabilities in monitoring and evaluating conservation projects, CTFs can support the private sector in driving conservation impact. They can do this by providing advice and technical assistance to local conservation-positive businesses and providing catalytic capital to build the capacity required to attract funds from external investors.

Risk mitigator:

As private investors generally consider investments in conservation projects to be high-risk, CTFs can help unlock such private capital through co-investment and guarantees that de-risk such investment opportunities. Next to using financial instruments such as grants, concessional loans, and first-loss guarantees, CTFs can also assure project quality and mitigate risk by conducting due diligence assessments for investors, ensuring that projects follow best practices, and monitoring conservation impact.

Aggregator:

Many conservation projects are too small to attract private investment, since transaction costs associated with their identification and screening may exceed their expected financial returns. As CTFs generally manage larger portfolios of conservation projects, they can bundle projects of different sizes into investment products that meet the size requirements of private investors, thereby making them investable.

Investor:

Some CTFs are beginning to take on a role as impact investors on a small scale, as this allows them to generate financial returns while driving environmental and social impact by supporting conservation-positive ventures.

8. Barriers to CTF-private sector partnerships

This section presents the factors that interviewees cited to be obstructive in the establishment of partnerships with the private sector. The barriers listed hereunder refer both to general challenges that CTFs face in this process, as well as challenges that are specific to some of the financing instruments outlined in **Section 5.1**.

While these barriers can be divided into those that are internal to CTFs and those which are attributable to external factors, we also distinguish between four categories of barrier types: financial and administrative, perceptual and informational, legal and political, and socioeconomic and environmental.

Financial and administrative barriers

Internal	External
- Lack of capacity and technical capabilities to engage with the private sector - Lack of financial flexibility needed to experiment with novel mechanisms - Lack of experience in engaging with the private sector - Closed CTF environment with a focus on donor relations - Need for additional risk management and safeguards - Funding needed to finance non-revenue generating activities - Difficulties in measuring impact	- Strict company requirements for donations - Lack of business knowledge and skills of locals - Difficulty of finding partners, limited pipeline of investable projects that generate stable returns - Investment opportunities are too small for investors and not worth the high transaction costs - Limited revenue-generating and growth potential of conservation activities - High costs of incubating businesses and long lead times until profit-generation - Difficulty of ensuring the sustainability of projects after (CSR-) engagement with companies ends - Return-based mechanisms are difficult to implement as they require specialized expertise - Offsets: difficulty of pricing protected areas due to a lack of data

Perceptual and informational barriers

Internal	External
- Diverging perceptual frameworks between CTFs and the private sector (granting logic vs investment logic) - Limited understanding of private sector needs - Limited ability to communicate in terms that are meaningful to the private sector	- Reputational risks for CTFs in working with the private sector - Novelty of CTFs in some countries - Private sector's limited understanding of its reliance on natural capital - Private sector organizations wanting to drive impact themselves by creating their own foundations - Private sector's lack of awareness of CTFs and their added value - Lack of track record/guidelines for the use of return-based mechanisms in conservation

Legal and political barriers

Internal	External
- Conservative institutional dynamics within some CTFs that limit innovation, e.g., risk-averse boards - Need for alignment with CTFs' missions - Discrepancy between stringent confidentiality requirements of companies and CTFs' transparency objectives - Discrepancy between short-term focus of companies and long-term expectations of CTFs	- Legal provisions prohibiting some CTFs to make specific types of financial transactions, e.g., issue loans/charge interest - Informally operating local business environments - Lack of legal requirements for companies to offset their negative impacts (reliance on voluntary contributions/shareholder pressure) - Limited replicability of initiatives across countries due to differences in legal frameworks - Lack of supportive regulatory frameworks for some mechanisms - Competition for private sector contributions with local governments which collect environmental taxes and fees - Lack of political momentum for fiscal/legal reforms that incentivize environmental action

Socioeconomic and environmental barriers

External
- Competing areas of focus in the impact regions (other issues such as healthcare) - Limited number of private sector entities in some countries - Lack of market for biodiversity offsets in remote regions - Limited replicability across countries and regions due to differences in business environments - Lack of environmental consciousness by (local) consumers - Exposure to systemic risks caused by climate change, unstable economic and political environments, and the Covid-19 pandemic

9. Conclusion and recommendations

While financial partnerships between CTFs and the private sector are on the rise, such initiatives are not yet commonplace in the conservation context. In fact, successful initiatives of sustained private sector engagement and the use of private sector-based financing instruments other than donations are still confined to a limited set of pioneering CTFs.

Choosing the right type of partnership

The myriad of possible private sector engagement strategies and instruments, combined with the lack of reliable track records thereof, present a challenge to CTFs looking to expand their collaboration with private sector actors. Although cooperating with the private sector promises to unlock critical benefits in their mission to drive conservation impact, CTFs need to be clear on the objectives they aim to pursue with their partnerships, as these determine which roles and financial instruments are most appropriate.

The choice of partnership type and instrument should be tailored to the CTF's general mission and context, as well as its available capabilities and degree of risk tolerance. While mature CTFs tend to be more financially flexible to allow for experimentation with less established and more complex financial mechanisms, even smaller CTFs are presented with options that generally require fewer technical capabilities.

This report attempted to provide an overview of the most commonly used and promising CTF-private sector partnership types and mechanisms for CTFs to consider. While the individual mechanisms each cover a range of application possibilities, their respective features have led CTFs to employ them as means to reaching specific partnership objectives, often in particular impact contexts:

- CSR-based mechanisms like donations and earmarked revenues from corporates offer ways to raise short-term capital, usually for specific conservation programs that often do not generate (direct) financial returns.
- Grants and loans to small and medium-sized enterprises (SMEs), seed financing, and venture capital enable CTFs to shape their local business environment in ways that align with conservation objectives.
- Microcredits, seed financing, PES, and (voluntary) carbon offsets are generally suited for community-based conservation approaches, as they allow CTFs to drive development and conservation on a community level by supporting individuals, small business owners, and landowners in deriving benefits from conservation work.
- Biodiversity offsets (and theoretically park bonds) are particularly suited to mobilize funds for protected areas.

- Public equity investments according to SRI and ESG criteria allow CTFs to maximize impact by ensuring that their assets are invested in conservation-positive companies.
- Larger financial vehicles like pooled impact investment funds, stock indices, and green and blue bonds can be used to mobilize private capital for conservation-positive businesses from external sources.

Building foundations

We identified sets of enabling attributes and barriers that impact CTFs' abilities to assume the various roles needed to mainstream CTF-private sector collaboration. While some of these factors are specific to certain CTFs, many of them apply to multiple of the interviewed CTFs, suggesting that they are potentially systemic to CTFs as institutions. Both CTFs themselves, as well as CTF networks as supporting structures, have roles to play in building and mainstreaming these enabling attributes and alleviating the barriers.

Deficiencies in capacity, technical capabilities, and understanding of private sector needs were cited as some of the most important barriers to CTF-private sector collaboration. The FFEM-funded BRIDGE project of RedLAC and CAFÉ intends to address some of these knowledge and capacity gaps via three project components: (1) an innovation facility for established and novel financing mechanisms to be deployed in partnerships with the private sector, (2) a knowledge exchange and capacity building component to build communities of practice on private sector collaboration among CTFs, and (3) a component focused on systematizing knowledge storage and learning about private sector engagement mechanisms in the long term.

These components will undoubtedly be critical in helping CTFs overcome information gaps that currently obscure the possibilities and implications of building partnerships with the private sector, and in building the technical capabilities needed to implement these partnerships.

Gaining a better understanding of the private sector's objectives and needs will likely also require a more in-depth exchange between CTFs and private sector actors. The CTFs' current lack of visibility in business circles, combined with private sector actors' lack of awareness about their reliance on natural capital, is allegedly part of the reason that knowledge exchanges and financial partnerships between CTFs and private sector actors are still comparatively rare. Moreover, some CTFs face institutional barriers that hamper engagement with private sector actors, which can include conservative boards and a lack of connections to the private sector.

To address these barriers, CTFs are presented with a variety of complementary options which we summarize below:

- Diversify the CTF's board and strategic plans by bringing in private sector representatives and/or staff with a private sector background.
- Build awareness and connections with the private sector, e.g., by participating in CSR-focused business conferences.
- Organize exchanges with local, national, and regional private sector actors to identify their objectives and needs.

- Propagate information about the reliance of businesses on natural capital and the economic benefits of investing in conservation.
- Invest in building financial and business capabilities to be able to frame conservation opportunities in ways that are meaningful to the private sector.
- Partner with external institutions that can bring in the required technical capabilities needed to implement partnerships with the private sector.
- Create purpose-specific roles and governance bodies for private sector-based programs.
- Cooperate with governments to shape the legal frameworks needed to mainstream private investments in natural capital.

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Glossary of financial instruments

Biodiversity offsets are payments for measurable conservation outcomes made by planning authorities and project developers to compensate for the adverse and unavoidable impacts of their economic activities. Biodiversity compensation can be either mandated by national law or motivated by companies' CSR-objectives. However, such compensation must occur in geographical proximity to the negative impact that it countervails, since it aims to restore a similar type of ecosystem.

Blended finance describes the use of public or philanthropic funds to catalyze private investment for sustainable development objectives. Concessional capital such as grants or low-interest debt is used to rebalance the risk-return ratios of relevant investment opportunities, thus making them investable for private investors.

Bonds are financing instruments issued by corporates, international institutions or public entities to raise capital in the form of debt provided by investors. As opposed to loans, bonds are tradable in the financial markets and typically involve many lenders.

Carbon offsets are verified carbon dioxide emissions reductions which can be purchased by an emitter, often in the form of tradable carbon credits, to compensate the emissions it generates elsewhere. In the conservation context, these emission reductions are produced through REDD+ or blue carbon projects and their purchase can hence be considered a PES. While there are both mandatory and voluntary carbon markets, companies are often not required to offset their emissions by law but do so for reputational, non-financial risk mitigation and CSR-related reasons.

Corporate social responsibility (CSR) describes the practice of corporations voluntarily investing non-return-seeking capital for social and/or environmental purposes.

Donations refer to unrestricted (monetary) gifts from one entity to another.

Earmarked revenues refer to a predefined percentage of income that is set aside for a specific purpose. Here, it designates revenues donated by companies to achieve specific conservation objectives.

(Public) **equity investment** refers to a purchase of a company's shares in the stock market. An increasing number of equity investors are incorporating **ESG criteria** in their investment decisions, which are environmental, social and governance factors that have an influence on the securities' risk profiles and value growth potential. **Socially responsible investment (SRI)** is a related investment strategy that involves positive and negative screening of investments according to specific ethical guidelines. Although ESG and SRI-based investment strategies are not exclusive to public equity investments, we include them here as they are often applied in a public financial market context.

First-loss guarantees are a common type of credit enhancement tool whereby a third party agrees to bear the first loss of an investment by compensating lenders in the case of default.

Grants are non-return-seeking capital provided by one entity to another for a specific purpose and under specified terms and conditions.

Impact investing generally refers to investments that are made with the intention to generate social and environmental impact alongside a financial return. Although equity is a common feature, impact investment models are often blended and can include debt and multiple capital providers. Equity-based impact investing typically focuses on private equity investments (as opposed to investments in the public capital markets).

Loans are a type of credit vehicle that involves the lending of an agreed amount of money between two parties in exchange for the future repayment of the loan principal and interest payments.

Microcredits involve the provision of very small loans to unbankable individuals to assist them in becoming self-employed or establishing a small business.

Payments for ecosystem services (PES) are transactions wherein landowners are financially remunerated for the provision of environmental services on their land, such as watershed protection or carbon sequestration, by the beneficiaries of these services.

Revolving loan funds are self-replenishing pools of money used to issue loans to small businesses who often cannot otherwise access funds. Interest and principal repayments on old loans are used to issue new ones.

Seed financing refers to the provision of capital to a start-up in its earliest stage, in exchange for an equity stake or convertible note stake in the company.

Technical assistance facilities (TAFs) are arrangements aimed at providing grants, training and advice to project developers and early-stage business ventures to strengthen their operational and financial capacity to deliver impact and decrease risks faced by external investors.

Venture capital (VC) refers to private equity or convertible debt provided to start-ups and small businesses that have high growth potential. It differs from seed financing in that it is provided at later stages of the business financing cycle and often involves larger amounts of funding. Although this type of financing is generally provided by specialized venture capital firms with an objective to reap high financial returns, we expand the definition to include CTFs as investors which generally pursue impact-driven investment strategies.

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