

# Conservation Impact Investing

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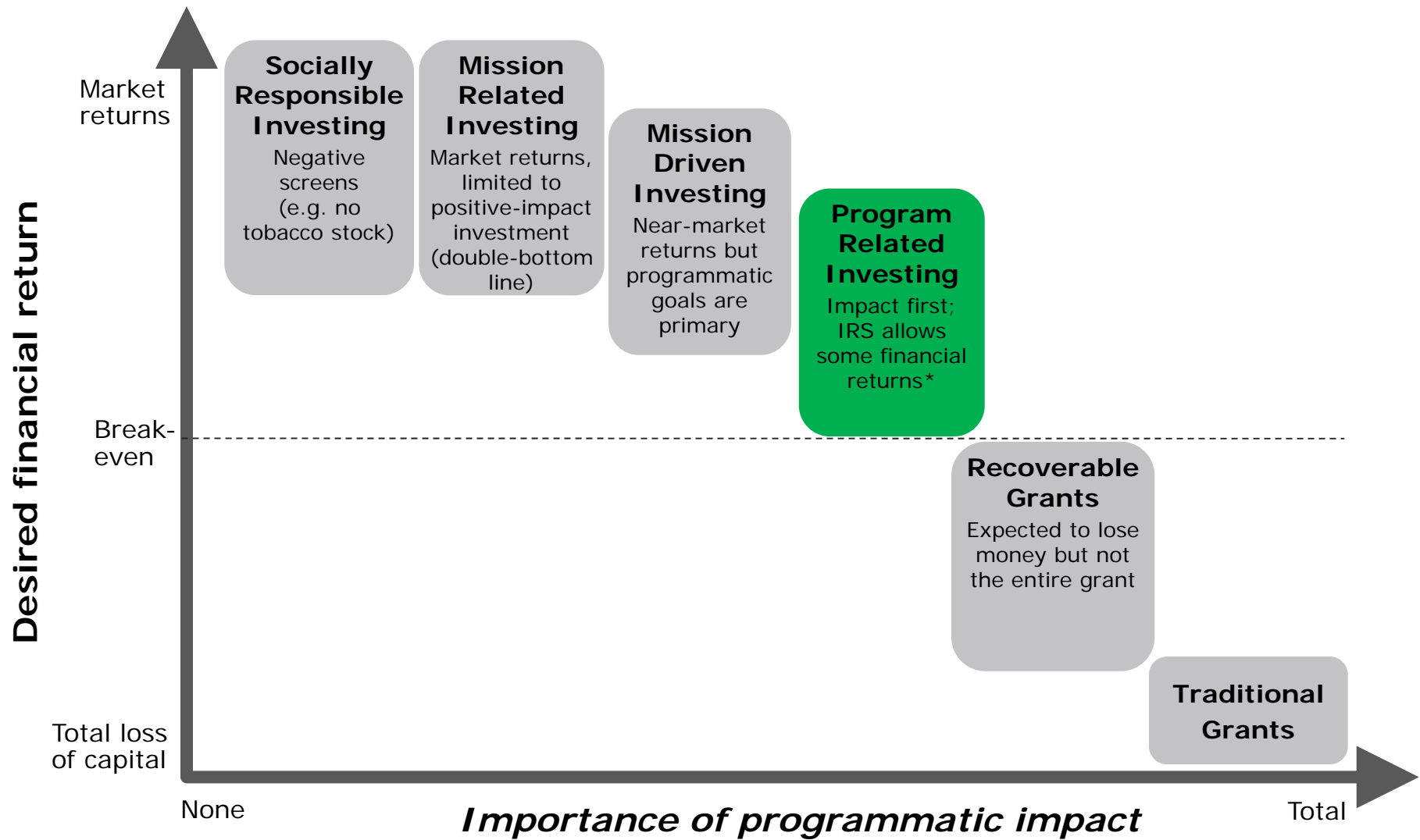
- Impact investing overview
  - What is it?
  - Why do it?
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  - Why not do it?
  - What could go wrong?
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  - What are the different areas for investment?
  - What are sample deals?
- Practical considerations and resources

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# IMPACT INVESTING



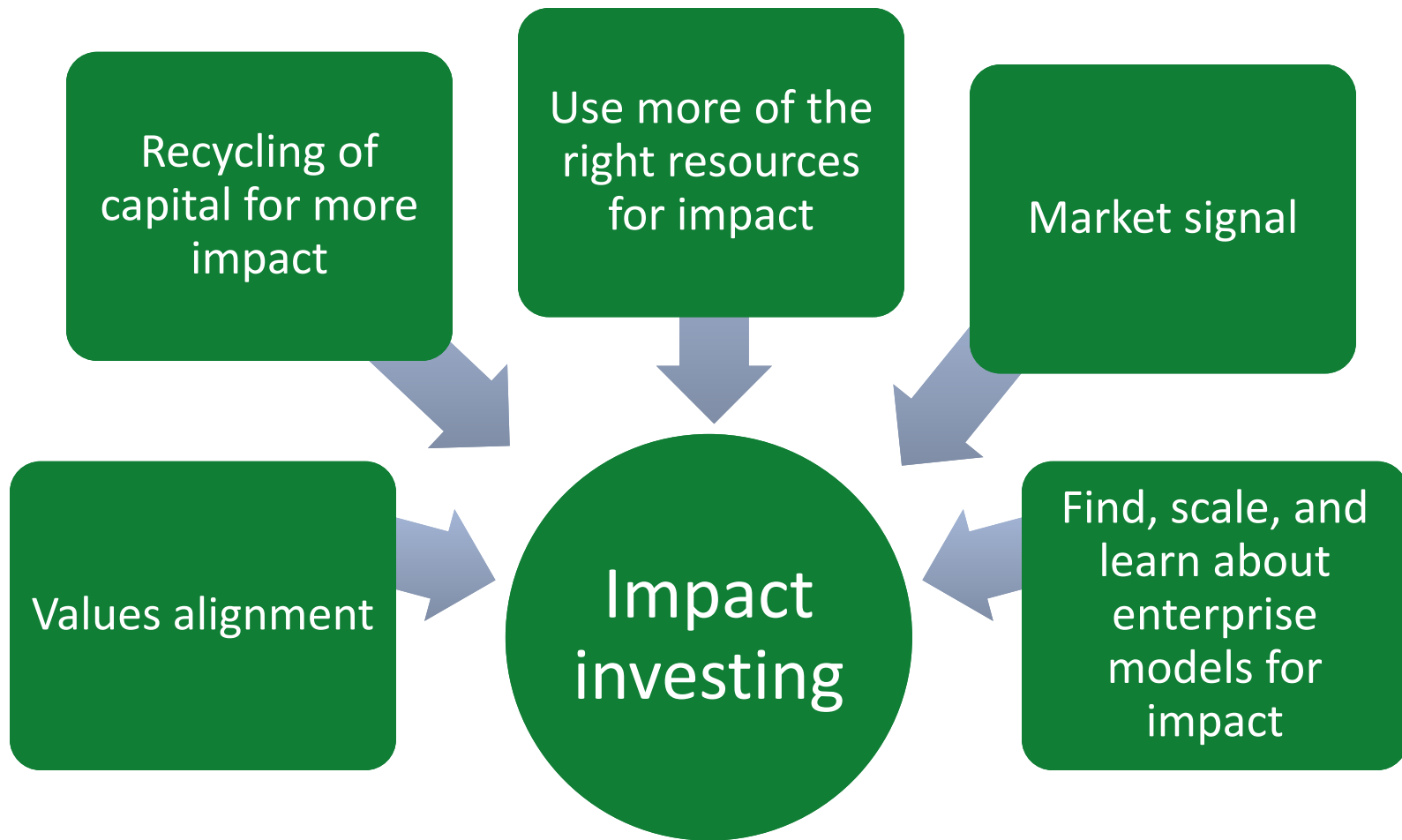
# RANGE OF IMPACT INVESTMENT CATEGORIES



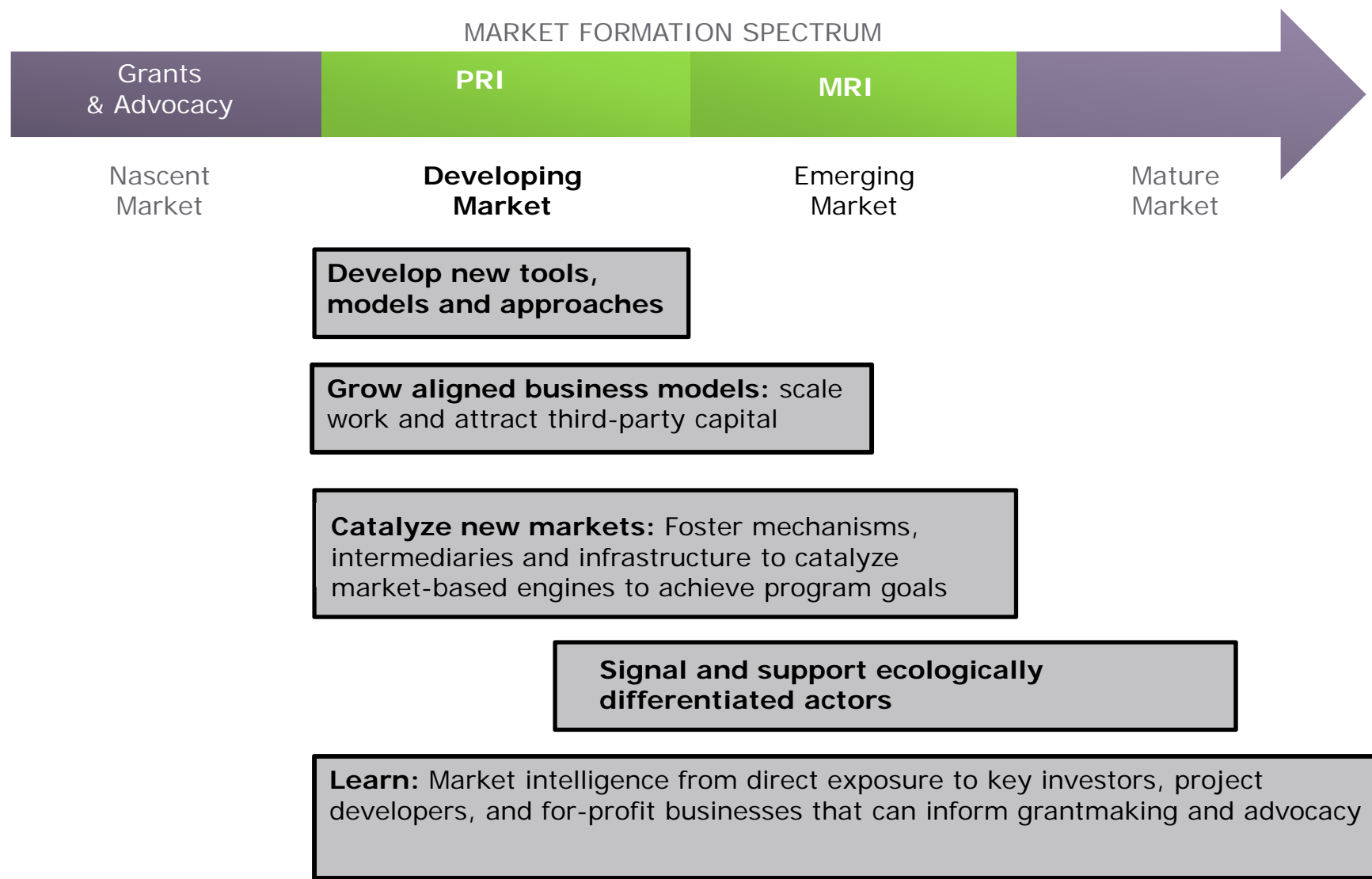
Source: Imprint Capital Advisors; IRS guidelines for charities and non-profits

\* Note: IRS guidelines state that for qualifying program related investments, the "production of income or appreciation of property is not a significant purpose"

# RATIONALES FOR IMPACT INVESTING



# DIFFERENT GOALS AND TOOLS APPROPRIATE FOR DIFFERENT MARKET STAGES



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# IMPACT INVESTING CRITICISMS AND CHALLENGES

Criticisms	Challenges
<b>Adverse selection</b>	<b>Subscale investments</b>
<ul style="list-style-type: none"><li>• “Real business plans get real investors; when the VCs turn them down, they go to impact investors”</li></ul>	<ul style="list-style-type: none"><li>• “We make impact investments out of the grant budget, so a \$1M investment is large for us”</li></ul>
<b>Green-washing and impact rationalization</b>	<b>Extreme risk aversion</b>
<ul style="list-style-type: none"><li>• “xxxx invested in Pandora. They claimed it was because they have a good internship program for disadvantage youth. We think it was to juice their performance”</li></ul>	<ul style="list-style-type: none"><li>• “We only want to do highly secure debt. But all the exciting growing companies seem to need is equity”</li></ul>
<b>Subsidy to for-profit investors</b>	<b>Slow processes</b>
<ul style="list-style-type: none"><li>• “A real investor can't make a deal's numbers work, so he convinces an impact investor to take a low return and higher risk”</li></ul>	<ul style="list-style-type: none"><li>• “By the time we got our program committee, board, and donor to approve, they'd gotten fully funded on Sand Hill Road”</li></ul>
	<b>Poor impact measures</b>
	<ul style="list-style-type: none"><li>• “Can't hurt – could help”</li><li>• “How do we compare \$5M of advocacy with a \$10M investment”</li></ul>
	<b>Segregated teams</b>
	<ul style="list-style-type: none"><li>• “We have people who make investments and people who make grants and processes that support each – how do we integrate this?”</li></ul>

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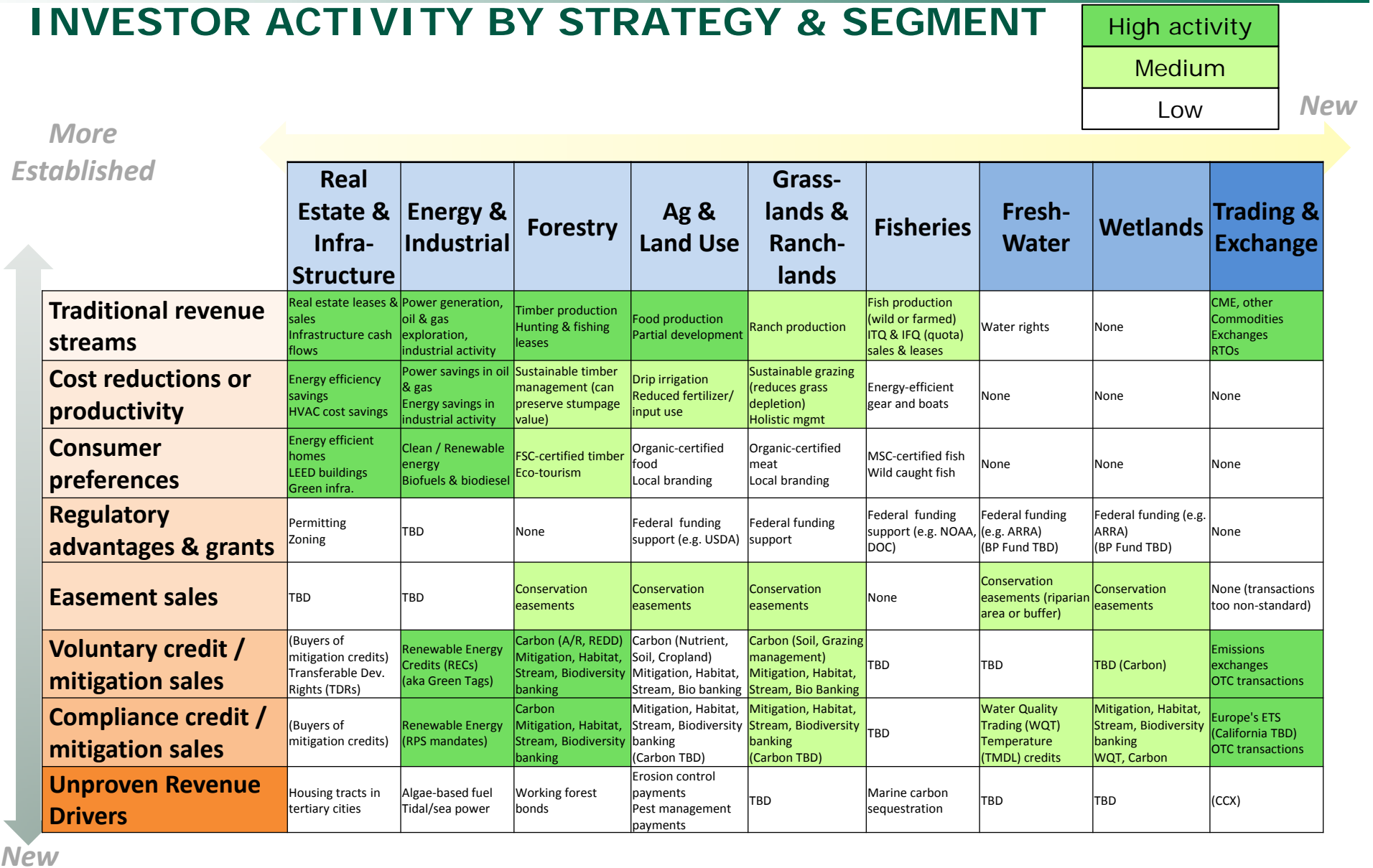
# MULTIPLE POTENTIAL AREAS FOR CONSERVATION IMPACT INVESTING



Impact investments can help drive improved sustainable practices and permanent preservation across a variety of fields:

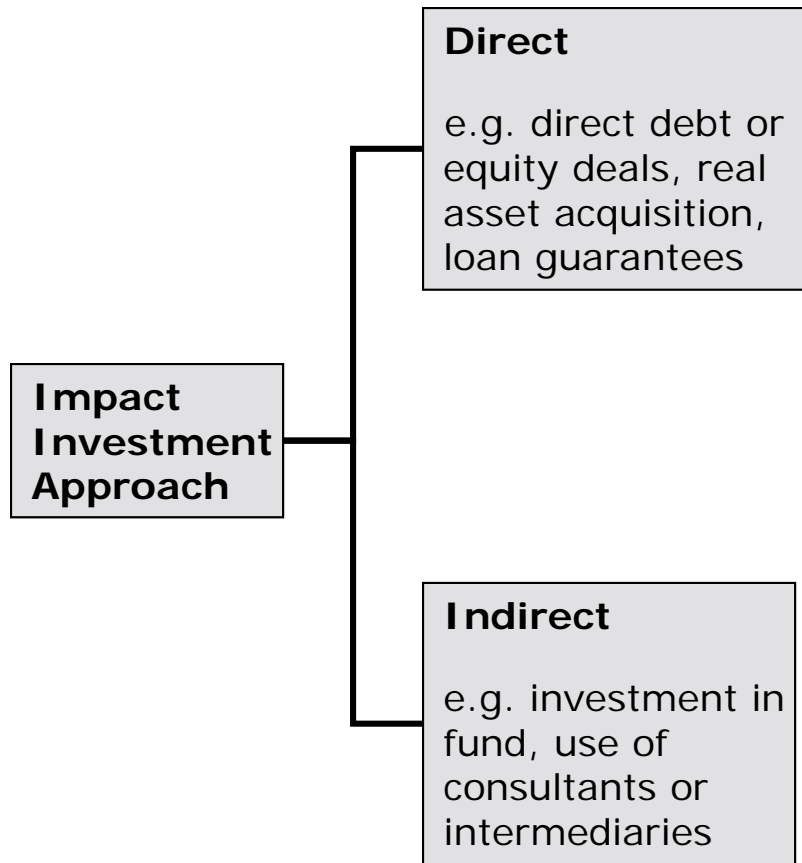
- agriculture & sustainable land use
- forestry
- carbon (land-based and trading)
- fisheries & marine conservation
- aquaculture
- wetlands
- species diversity & protection
- freshwater
- grasslands & ranchlands

# REAL ASSETS & ECOSYSTEM SERVICES INVESTOR ACTIVITY BY STRATEGY & SEGMENT



Source: Imprint Capital Advisors; Moore Foundation, Packard Foundation

# KEY QUESTION: DIRECT OR INDIRECT



Pros	Cons
<ul style="list-style-type: none"> <li>• Can fit investments to realize specific goals and strategy</li> <li>• Control</li> <li>• Receive full return</li> </ul>	<ul style="list-style-type: none"> <li>• Requires resources and expertise</li> <li>• Higher risk</li> <li>• Potentially sub-scale</li> </ul>
<ul style="list-style-type: none"> <li>• Diversification if investing in a fund</li> <li>• Easier to implement</li> <li>• Does not require expertise or significant staff time</li> </ul>	<ul style="list-style-type: none"> <li>• May not fit into specific strategy</li> <li>• Loss of control</li> <li>• Payment of fees/costs</li> </ul>

# LAND CONSERVATION MARKET MAP

	Sustainable Forestry	Sustainable Working Lands	Natural Restoration	Preservation	Water Management
Owner	<ul style="list-style-type: none"> <li>Ecotrust Forests</li> <li>Lyme Timber</li> <li>Conservation Forestry</li> <li>The Forestland Group</li> </ul>	<ul style="list-style-type: none"> <li>Beartooth Capital</li> <li>Carrus Land Systems</li> </ul>		<ul style="list-style-type: none"> <li>TNC Conservation Notes</li> </ul>	<ul style="list-style-type: none"> <li>Renewable Resources Group</li> </ul>
Operator	<ul style="list-style-type: none"> <li>New Forests Tropical Asia</li> <li>The Conservation Fund – New Forests Fund</li> </ul>	<ul style="list-style-type: none"> <li>Grasslands LLC</li> </ul>	<ul style="list-style-type: none"> <li>Ecosystem Investment Partners</li> <li>Timbervest</li> <li>EcoProducts</li> <li>Permian</li> </ul>	<ul style="list-style-type: none"> <li>Terra Bella</li> <li>Althelia</li> <li>BioCarbon Fund (Macquarie &amp; Fauna and Flora Intl.)</li> </ul>	<ul style="list-style-type: none"> <li>Summit Water</li> <li>Water Asset Management</li> </ul>
Service Provider	<ul style="list-style-type: none"> <li>New Forests – California Carbon Fund</li> <li>EKO Green Carbon Fund</li> </ul>		<ul style="list-style-type: none"> <li>Freshwater Trust</li> <li>Restore Capital</li> </ul>		
Market Makers				<ul style="list-style-type: none"> <li>Climate Focus</li> <li>IFC Palm Oil</li> </ul>	

## Sustainable forest manager seeking to prove new revenue streams for conservation impacts

- Geography: *Pacific Northwest*
- Forestry practices mimic natural forests succession
- Revenue Streams: timber, new market tax credits, easements, biomass, carbon, water and other ecosystem services
- Completed carbon transaction on 3,275 acres, capturing 40,000+ tons of carbon over five years
- Fundraising for Fund II (*\$50-75M – PRI/MRI*)







## Financing for global sustainable land use and ecosystem service projects

- Provides financial resources and technical assistance to projects participating in emissions reduction and environmental certification in the land use sector (CER, REDD, and other innovations).
- Projects must generate monitored, reported and verified reductions while delivering social performance, scale and replication
- Strong partnership with environmental NGOs including Conservation International – which provided bridge financing for the development of the fund manager



*Althelia's Kasigau Corridor Project located in South East Kenya was the first REDD project to achieve credit validation and issuance under the Verified Carbon Standard (VCS). The project avoids emissions of almost 48 million tons of CO<sub>2</sub> over a 30-year period.*

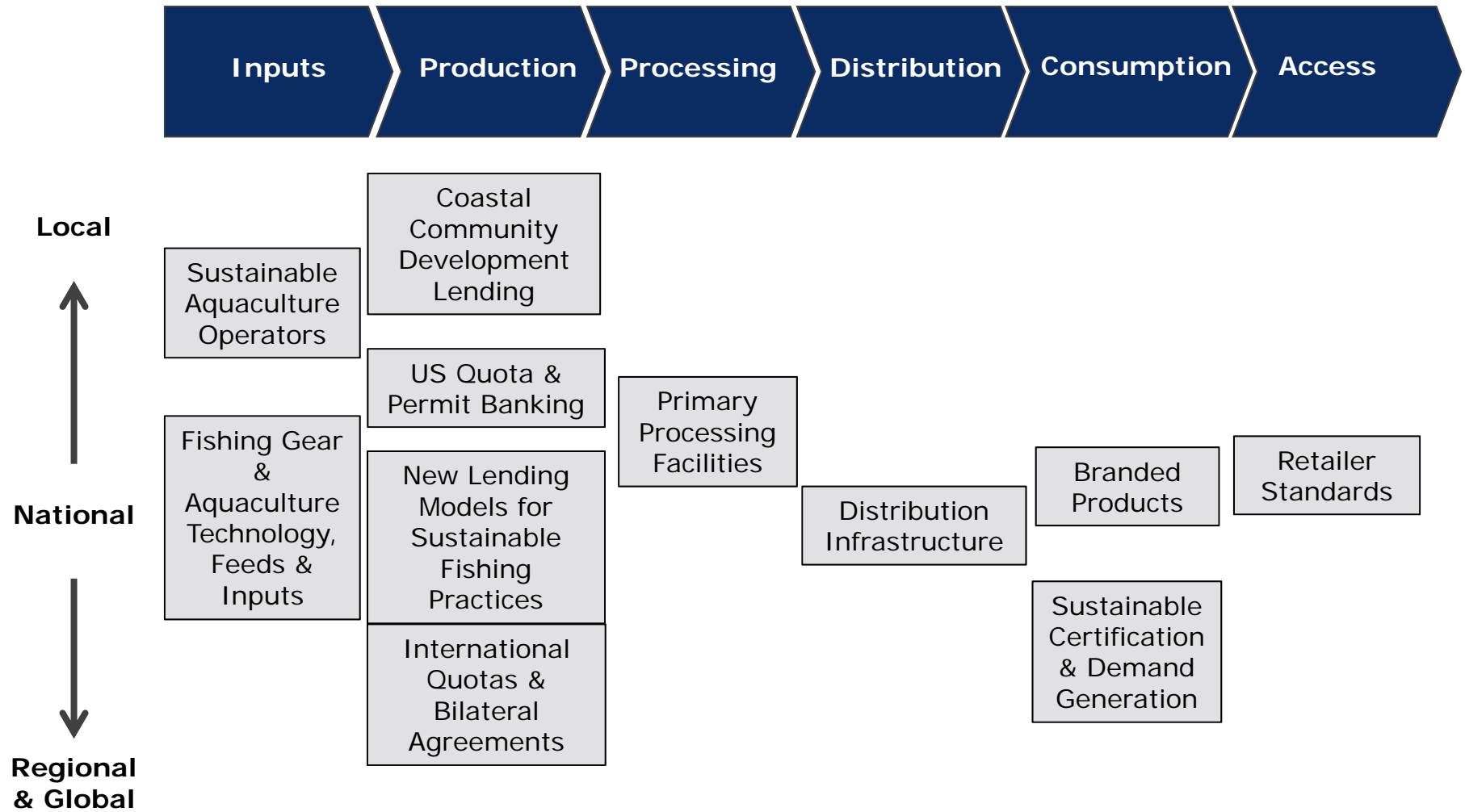


## Temperature credit sales generated through stream-bank restoration

- Projects entail planting trees upstream to shade stream and provide cooling – cheaper than building large chilling towers
- Restoration projects generate “temperature reduction credits” that can be purchased as offsets by regulated entities
- Projects are of high restoration quality and are monitored and maintained for 20 years or more
- The Trust has secured agreements with U.S. Forest Service and Oregon Watershed Enhancement Board to purchase temperature credits that will be retired for conservation purposes



# SEAFOOD VALUE CHAIN



## Reinforcing sustainable fishing policy at the local level with access to capital

- Geography: *US Pacific Coast*
- \$4M nonprofit revolving loan fund spun out from Environmental Defense Fund
- Financing for: gear purchase or modification, fishing permit or quota purchase, processing capacity and transportation, working capital for business growth
- Reinforces fishery council catch share models by actively tying financing to enforcement of ecosystem protection
- Some difficulty/delay in disbursing funds





## Designs, markets, and installs innovative screening technology for water diversions

- Patented technology that allows water to be safely diverted – for agriculture, hydropower or other uses – without harming fish
- Off-channel, horizontal system reduces impact to habitat
- Self-cleaning screen lowers maintenance costs, improves irrigation efficiency, and enhances performance of small scale hydropower
- Regulatory approval from NMFS; costly, 8-year approval process left company in debt

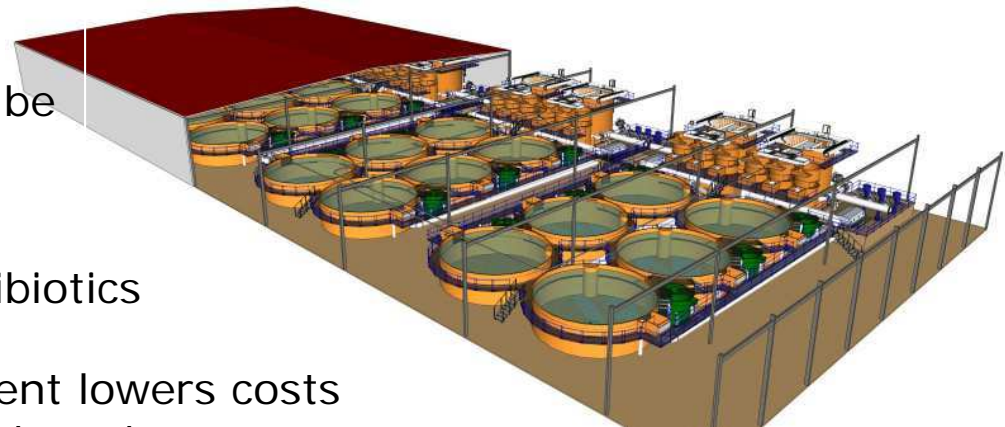




# CLOSED CONTAINMENT AQUACULTURE

**Closed-containment, recirculating aquaculture systems (RAS) present business opportunity and significant environmental benefits**

- Aquaculture is fastest growing area of food production
- Recirculating systems require little water and produce no pollution
- Land-based systems separate farmed from wild fish and can be located anywhere
- Efficient feed conversion and reduced/eliminated use of antibiotics
- Rapid technological improvement lowers costs and could produce viable investments



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# ORGANIZATIONS SHOULD CONSIDER FIT ALONG SEVERAL DIMENSIONS – NOT RIGHT FOR EVERYONE

## Fit with program

- Can impact investments (e.g. below market loans, guarantees, asset acquisitions) advance your specific strategies and goals?
- Is there a pipeline of investable opportunities in your area without substantial technical assistance?
- Is capital the key constraint for these social entrepreneurs?

## Fit with portfolio

- What are your return expectations and risk tolerance?
- How would impact investments fit into your portfolio – out of program funds or endowment funds?
- How attractive are the specific opportunities in your area?
- What scale are you seeking?

## Fit with organization

- What is your capacity to source, conduct due diligence, and monitor impact investments?
- Do you have staff with both the requisite financial and environmental expertise?
- How do you integrate with your investment policy and manager?

## RESOURCES – INDUSTRY ASSOCIATIONS

**Mission Investors Exchange** includes over 200 members, primarily foundations. Offers a 3-day Mission Investing Institute, a biennial national conference, white papers, briefings, workshops, and a variety of networking events. <http://www.missioninvestors.org>

**Global Impact Investing Network** (the GIIN) is an affinity group of impact investors seeking to “generate measurable social and environmental impact alongside a financial return.” Hosts an Investors Council (which is limited to larger impact investors), the IRIS impact metrics system, the Impactbase database of impact investments, and a variety of webinars, working groups, and regional events. <http://www.thegiin.org>

**Confluence Philanthropy** provides services to a range of mission investors, including smaller foundations, family offices, and wealthy individuals. Offers a variety of informational forums and services. <http://www.confluencephilanthropy.org>



# SUPPLEMENTAL SLIDES

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### Financing for Sustainability-Focused SMEs in Latin America

Provides mezzanine financing to SMEs in sustainable ag, forestry, ecotourism, sustainable aquaculture and non-timber forest products, among others.

First fund launched jointly with The Nature Conservancy and the IDB, investing \$6.3m into 23 companies

Portfolio included companies producing organic shrimp, spices, FSC-certified furniture, and pesticide-free biodynamic flowers

Seeking to raise \$30M with 11% target return





## Global Land-based Carbon

Terra Global Capital (TGC) was formed in 2006 to provide governments, NGOs and private companies with carbon finance and advisory services in environmental land use

Seek to facilitate the market for land-based carbon and other environmental credits

Project types: Afforestation, reforestation, agroforestry, changes in ag practices and REDD, globally

Terra Bella Investment Fund – currently raising \$150M; received capital from OPIC

Through the fund, provide technical expertise for measurement and monetization of carbon credits and carbon finance

Supports capacity building and development of REDD+ programs in emerging carbon markets



[www.terraglobalcapital.com](http://www.terraglobalcapital.com)  
San Francisco, CA

## Land-based Carbon

EKO is an investment and advisory firm focused on the ecosystem services markets, working with landowners to identify and monetize environmental assets

Focuses on carbon, water and biodiversity

Utilizes the capital markets to allocate resources to their highest and best ecological use while preserving natural ecosystems

Raising EKO Green Carbon Fund to invest in land-based carbon projects in North America

Forestry, agriculture and other land-use projects that sequester carbon and generate carbon offsets

Focused on generating offsets for California compliance market as well as voluntary markets



## Financing for Agricultural Businesses in the Developing World

Root Capital provides capital and technical assistance to rural farmers in the developing world

Provides credit to “missing middle” enterprises in 30 countries with a 99% repayment rate; \$2m avg. loan

Offers both short-term trade credit loans and long term fixed asset loans, secured with future sales contracts with global buyers

Creates thematic portfolios around topics like women, post-conflict countries, food security & nutrition, etc.

Somewhat active in reforestations, fisheries & aquaculture and eco-tourism

