Conservation Impact Bonds: Innovative Source of Funds for Biodiversity Conservation

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Africa's biodiversity is under threat from an ever growing number of challenges. Poaching for greed heads the list be it elephants for ivory, rhinos for horn, pangolins for scales or primates and antelopes for trading bush meat. Then there is illegal logging for wood and charcoal, indiscriminate fishing, the extraction of minerals, the growing need for energy and so on.

Saving the remaining biodiversity, or at least ensuring priority areas are protected, costs money and in significant amounts whether it be on a relatively small scale to improve security at an individual conservancy or on a major scale to protect whole ecosystems. New sources of finance are, and will continue to be, sort and focused -- but where from?

Conservation is not alone in seeking money and can learn from other areas. Becoming increasingly popular are Social Impact Bonds. This is where finance is acquired from providers for investment in a social enterprise against an agreed return based on measurable outcomes.

A Social Impact Bond is a public-private partnership which funds effective social services, for example projects to reduce the rate of prisoners re-offending, through a performance-based contract. All levels of governments -- local, regional, national, international -- can partner with high-performing service providers using private investment to develop, coordinate, or expand such social programmes. If, following measurement and evaluation, the programme achieves predetermined outcomes and performance metrics, then the outcomes payer

PHOTOS BY: RHINO FUND UGANDA

TOP RIGHT: A Rhino Impact Bond could bring new sources of funding to rhino conservation.

(most often government) repays the original investment. However, if the programme does not achieve its expected results, the payer does not pay for the unmet metrics and outcomes. Thus, such Bonds mean investors can earn a modest return, but also risk a complete loss of funds.

There is a spectrum of investment capital -- from philanthropic and high net worth individuals to some early examples of pension fund investment. One strategy used in New York State has involved Bank of America Merrill Lynch serving as a placement agent by distributing the opportunity to invest in a project on its wealth management platform. In the United Kingdom, private individuals have already invested in Social Impact Bonds that benefit from the Social Investment Tax Relief which was enacted in the UK in 2015 and has the effect, for such investors, of mitigating risk.

The concept behind the Social Impact Bond has been taken up by the conservation groups supporting the United for Wildlife initiative with a view to developing a Rhino Impact Bond. The cost of securing rhino conservancies from poaching has sky-rocketed since 2008 and new sources of finance are essential. The aim was to launch a $25-35 million Rhino Impact Bond by

A SOCIAL IMPACT BOND IS A PUBLIC-PRIVATE PARTNERSHIP WHICH FUNDS EFFECTIVE SOCIAL SERVICES, FOR EXAMPLE PROJECTS TO REDUCE THE RATE OF PRISONERS RE-OFFENDING, THROUGH A PERFORMANCE-BASED CONTRACT.

2018 in a regional rhino meta-population of a cluster of 5 to 7 protected areas.The first step, a three year testing phase, was started in 2015.

The success of an Impact Bond relies on being able to reliably measure outcomes from the financed interventions. It is therefore important to select interventions that will result in readily measurable outcomes. To show that progress has been made at the agreed level, it is also essential that there is sound baseline data at the start.

Increasing the number of poachers caught would be a measurable outcome of an Impact Bond.

MEASURING OUTCOMES

For rhinos, most population sizes are known and accurate as they are based on the identification of individual animals. Annual growth rates can therefore be easily calculated. Any deaths from poaching can also be recorded so that the number of rhinos poached per year can be calculated. This means that suitable measurable outcomes for a Rhino Impact Bond could be: i) a given increase in growth rate per annum, and ii) a given reduction in rhino poaching over a set period. Should the targets be met over the ten year period of the Bond, the investors would receive payback of their investment along with an Internal Rate of Return of between 5 and 10 per cent depending on the level of outcomes achieved. However, should the outcomes not be met, the investors may lose not only their hoped for interest but also their original investment.

In principle, the initial investment would come from non-traditional capital markets with the outcome payments from traditional donor agency and philanthropic sources. The Bond approach takes from the traditional sources the risk of failure of a project but adds to them the additional cost of paying a return to the investor.

Underfunded biodiversity and ecosystem conservation is not uncommon around the world. One vehicle for financing conservation involves the creation of conservation trust funds (CTF), which are private, legally independent grant-making institutions that provide sustainable financing for biodiversity conservation and natural resource management. CTFs raise and manage capital to make grants to organizations

Removing invasive plants to increase the carrying capacity of a conservancy, a measurable outcome.

and projects that support the mission of the CTF. The beneficiaries of CTFs include non-governmental organizations (NGOs), community based-organizations (CBOs), governmental agencies (such as national parks agencies) and research institutions.

CTFs can be an effective means for mobilizing additional funding for biodiversity conservation and natural resource management from international donors, national governments and especially the private sector.

The CTF approach is being taken in Uganda where there are a multitude of donor organisations and philanthropists whose support of conservation is valued but is not necessarily focused on priority areas and whose impact is reduced by "a little going to a lot" rather than "a lot going to a little". To overcome this and give guidance to donors as to where funding is best placed, a route for investors in conservation has been created by the Uganda Biodiversity Fund (UBF) managed by a Trust.

UBF is set up to manage a diverse array of funding, including endowments, long-term sinking funds, short-term funds and compensation funds to offset the impact of their business on the environment (for example, mining industries). To provide a stable source of funding for conservation annually, UBF has set a target for the endowment of $80 million in the next 5 to 10 years. For all funds and investors, UBF can provide an effective and efficient mechanism for management and oversight of projects.

Uganda was planned to be a beneficiary of an initiative of the African Wildlife Foundation who, in conjunction with Conservation Capital, have established African Wildlife Capital (AWC). Finance is obtained from impact investors (with Hong Kong and China of particular interest), from high net worth individuals and foundations and from governments such as the European Union, United States and Norway.

CONSERVATION BOND FOR KENYA, UGANDA, TANZANIA

AWC provides financing to small and medium sized enterprises primarily in agriculture and conservation tourism with the aim of benefiting local people through employment, revenue

PHOTOS BY: RHINO FUND UGANDA

INSERT: Clearing bush by burning to give quality grass after the rains encourages a measurable increase in biodiversity.

sharing, improved supply chains, and out-grower arrangements. Investments are based on sound conservation logic such as a direct link to protecting habitat and/or wildlife populations. To receive AWC capital, investees must agree to a set of 'conservation covenants' that hold the investee to conservation-friendly behaviours.

Following a first successful round of fund raising and investment, AWC targeted Uganda, Kenya and Tanzania for a second investment in the form of a Conservation Bond which closed at a value of $4 million. The Conservation Bond is a distinct legal company with a limited number of note holders and a specified life span of 7-10 years. The bond comprises of individual loans from investors of $250,000 and above that are collected over a 24 month draw-down period.

With a minimum investment level of $500,000, the maximum number of enterprises that could receive AWC support was eight. However, depending on the enterprise in question, and in particular the prospective economic, social, and conservation benefits to be realized from an investment, the $4 million available through Conservation Bond 2 could be directed to fewer enterprises.

The first approved investment was in a high-end, nature travel business, Asilia currently operating 13 camps and lodges. The $1.5 million investment was to advance Asilia's four-year expansion goals to help them scale up their operation from 13 to 23 lodges by 2018.

The second approved investment was a $1.2 million loan to African Forest Lodges. In a first-of-its-kind partnership with the Kenya Forest Service, Africa Forest Lodges has been awarded a tourism development concession to construct two new lodges (130 beds) in Kenya's national forests and build a Forest Experience Park with adventure tourism activities. The three facilities would create 130 jobs, and generate annual revenue of $128,000 in conservation fees for the Kenya Forest Service. They would also include a revenue sharing mechanism with local conservation trust funds anticipated to generate $132,000 annually. These revenue sharing mechanisms would provide a sustainable funding source for conservation efforts in these critically important national forests.

New innovative sources of funds are vital to meet the challenge that a growing population puts on the available natural resources which in turn provides the foundation for many African economies from biodiversity-related products and services in the agriculture, fisheries, forestry, tourism and energy sectors.

The government of Uganda, for one, estimates that the financing gap for biodiversity conservation in the country stands at $455 million per year. Only by attracting new sources of finance will such gaps be filled.