

# Finance Tools for Coral Reef Conservation: A Training Guide

## Impact Investing

Developed by the Conservation Finance Alliance and Wildlife Conservation Society for the International Coral Reef Initiative

Content drawn from Finance Tools for Coral Reef Conservation: A Guide (2018)

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# Impact Investing - Overview

- Definition: “investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors’ strategic goals.” ([GIIN, 2020](#))
- Economic Model: private investing in social and environmentally responsible business produce triple bottom line returns.
- Value: successful conservation focused businesses that are profitable have built in sustainability through revenues and can support conservation for long periods.
- Other names: socially responsible investing.



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# Impact Investing - Overview

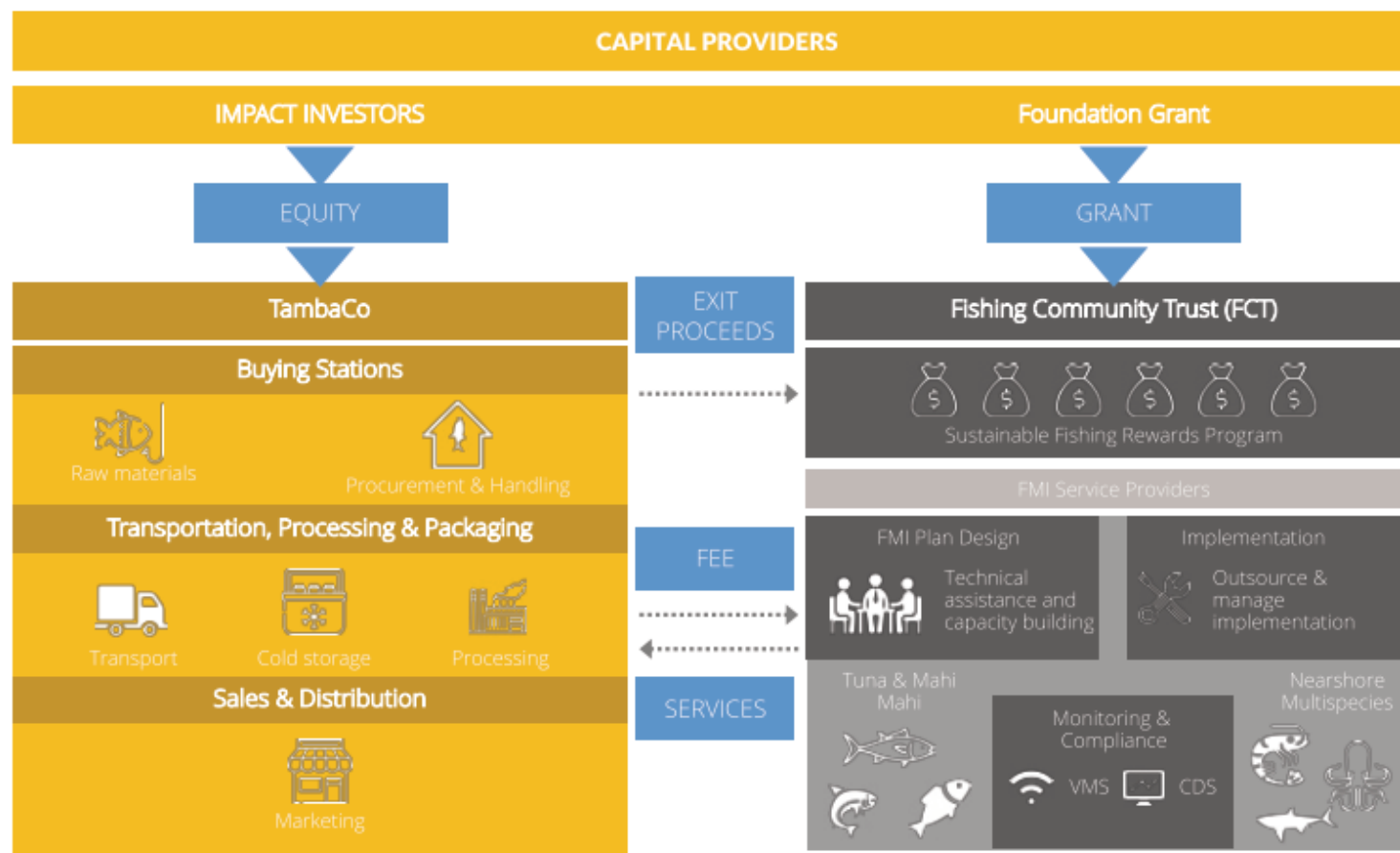
- Many models make use of public private partnerships (including co-management and blended finance) in order to reduce risk/raise returns, spread responsibilities across multiple parties, and other benefits
- Diversity of asset class and targeted returns. Public, private, and non-profit
- Conservation is one of many sectors that can be supported by impact investing
- Impact investment organizations like Althelia Ecosphere (Mirova), Encourage Capital, and Blue Finance have pioneered impact investing models for marine conservation.



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# Impact Investing – How does it work?

## Example from ISDA



Source: (Bloomberg, 2016)

# Impact Investing – Pros & Cons

## Pros

- Potential to unlock large quantities of finance from the private sector for conservation.
- Includes “patient” capital willing to wait for returns or accept below market rate returns.

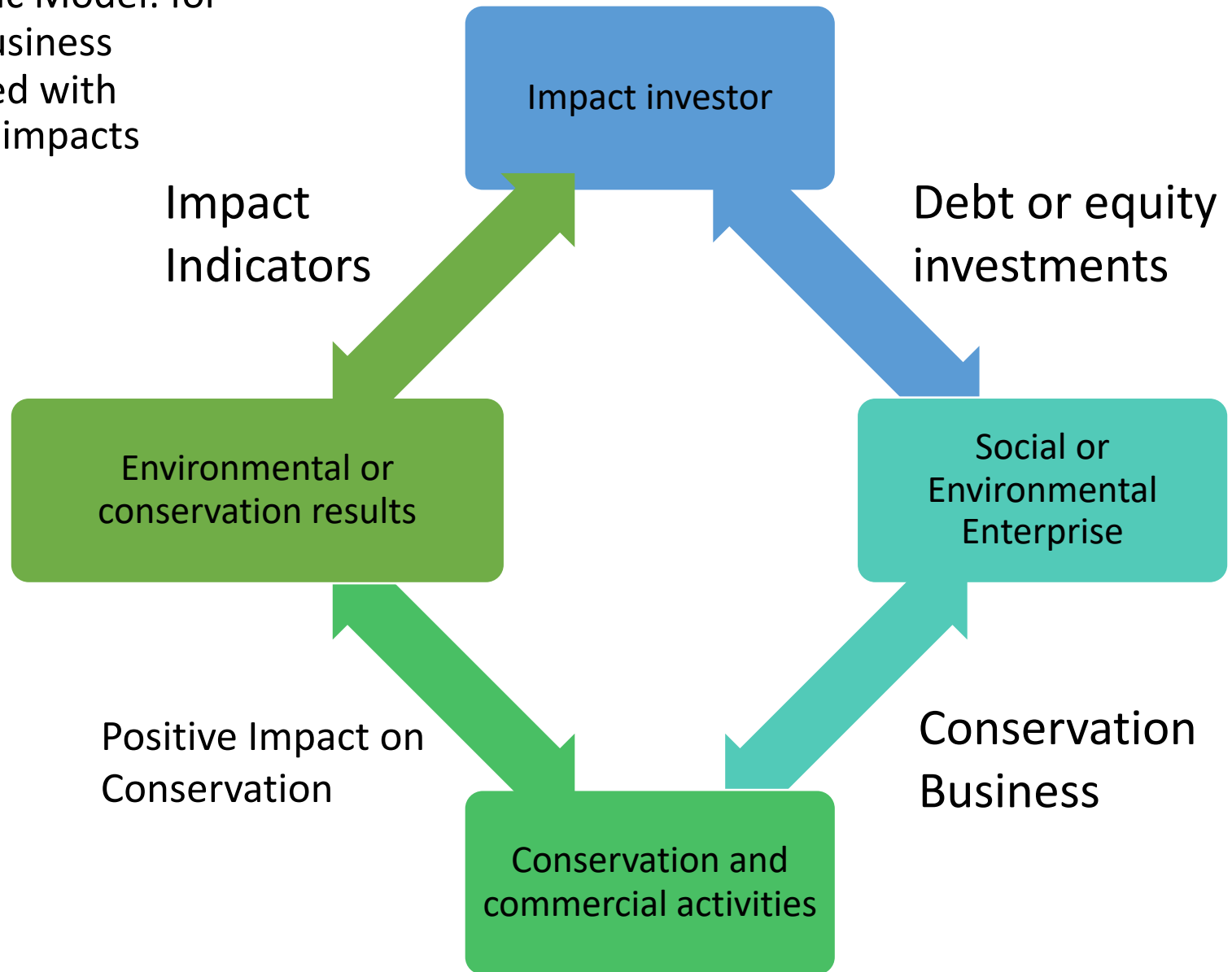
## Cons

- Shortage of eligible projects and investment opportunities
- Many investment opportunities are too small to justify the high transaction costs.
- Conservation enterprises often have lower returns than many investors seek.



# Impact Investing

Economic Model: for  
profit business  
combined with  
positive impacts



# Impact Investing – Conservation Activity Relevance

- Can be used to support coral reef conservation efforts:
  - Sustainable fisheries
  - Restoration of coral ecosystems
  - Suppression of external pressure factors
  - Sustainable tourism
  - Sustainable aquaculture



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# Impact Investing - Stakeholders

- Impact investor(s) – provide capital and seek positive impact
- Investees – the enterprises and ventures seeking investment and offering social/environmental return on investment.
- Intermediaries – provide advisory services during investment process (e.g. investment banks, brokers, incubators, etc.)
- Enablers – parties including government that supports regulations that encourage impact investment
- Beneficiaries – all stakeholders that benefit from the positive impacts including sustainable goods and services.



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# Impact Investing – Feasibility Assessment

- Are revenues adequate for a viable business or investment vehicle?
- Are the investment proponents and entrepreneurs skilled in the specific area of investment and business?
- Are local regulations and markets conducive to a supportive environment for investment?
- Does the amount of investment required align with investment criteria of impact funds?
- Are stakeholders, including government and local communities, supportive of the specific investment?

# Impact Investing - Revenue potential

- Minimum scale – hundreds of thousands of dollars
- Ideal scale of each investment usually in the millions (USD).
- Microloans and other microfinance could address smaller businesses
- Impact investors provided \$8 billion in investments for conservation around the world from 2004-2016
- Annual rates are increasing at an accelerating pace.

# Impact Investing – Case Studies:

## Encourage Capital - Chile

- Goal to invest \$17.5 million in Chilean fisheries over 10 years
- Hake fishery
- Funds spent on
  - Improved management (e.g. sustainability focused technology upgrades)
  - Purchase of fishing quotas (36%) to reduce effort on fishery
  - Establishment of new seafood company to process and distribute catch, with exclusive purchase agreement from local fishers.



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# Impact Investing – Case Studies:

## Encourage Capital – Chile

- Projected Environmental Returns
  - Increase stock biomass between 177-269%, thereby also increasing future landings
- Projected Social Returns
  - Fishers sell catch at 50% premium, receive \$104 million in additional revenue (10 years, 1,800 fishers)
  - 136 million additional meals after 10 years
- Financial returns
  - 16.4% base case IRR, up to 35% equity return

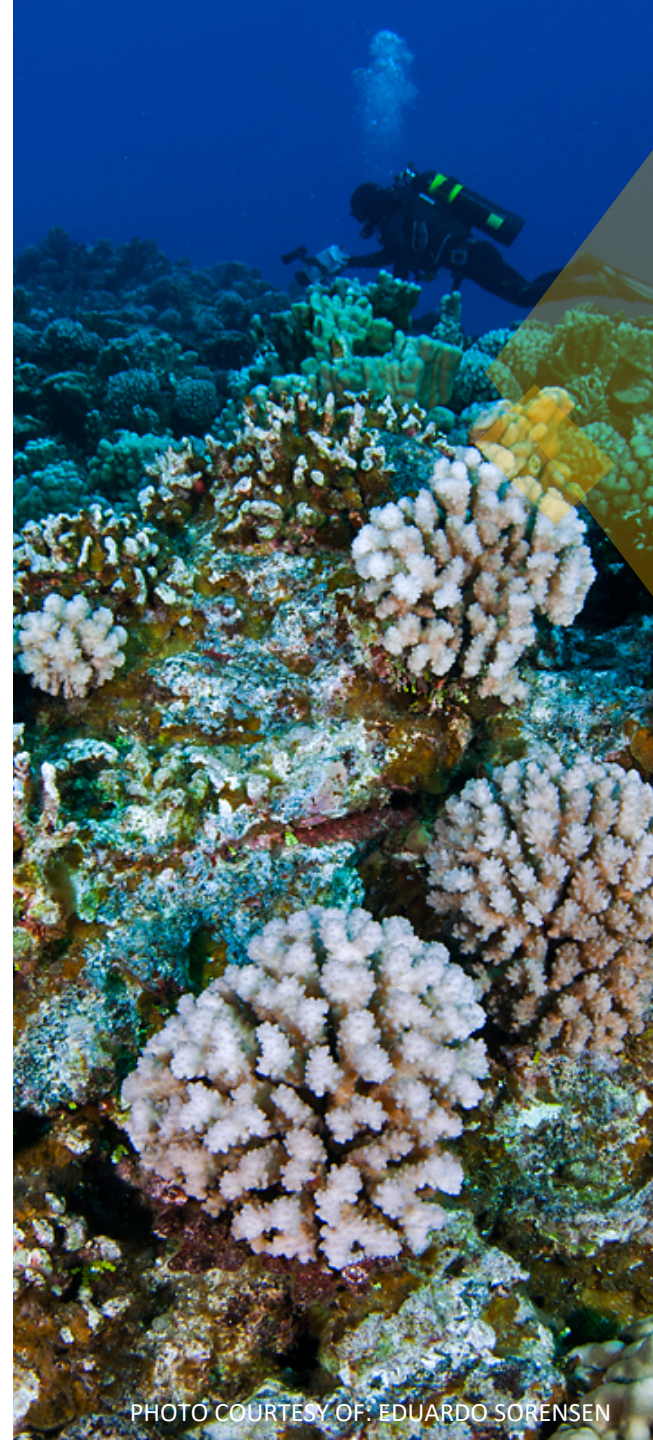


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