

Finance Tools for Coral Reef Conservation: A Training Guide

Impact Bonds

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 Bonds - Overview

- Definition: a type of financial agreement where one entity (or group) pays another entity for achieving specific milestones that have been pre-determined.
- Value: This allows third-party investors to take on the risks of program innovation, through initial financing, to achieve specific outcomes (i.e. public policy) while minimizing government risk, and allows governments or donors to pay directly for results.
- Economic model: transfer of risk to private investors, efficiency, and private returns
- Other names: “pay for performance bonds”, “social impact bonds”, and “pay for success financing”

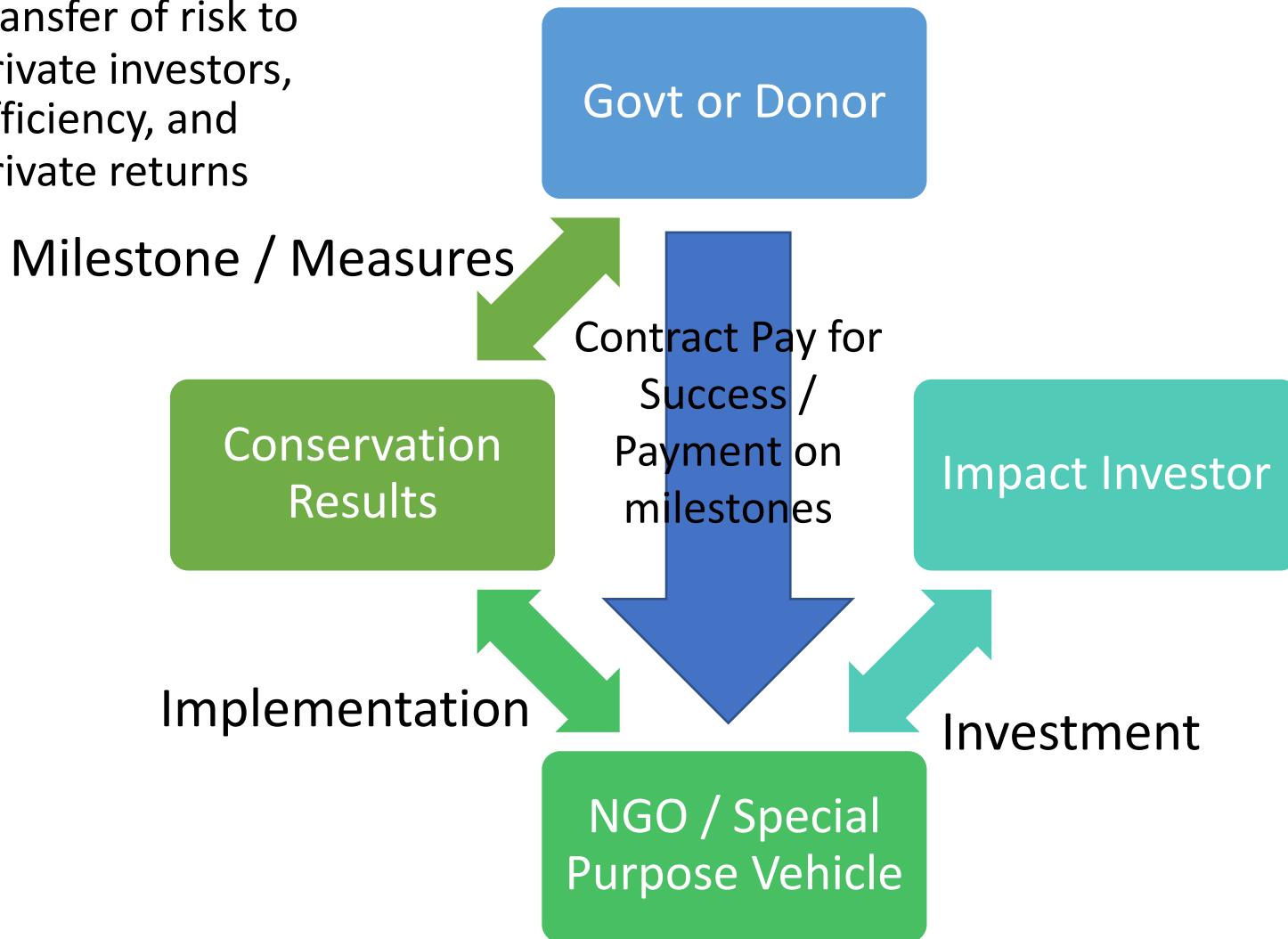


Impact Bonds - How does it work?

- A third-party investor provides upfront capital to an entity (often an NGO) for the implementation of a new program to deliver a social good, such as reducing poverty or improving health outcomes. When (if) the program achieves measurable pre-determined milestones, the government then pays the entity for the service and the entity reimburses the investors with interest (success fee).
- The broad benefits of an “impact bond” include:
 - Risk Transfer
 - Innovation
 - Results based performance management
 - Collaboration among private, non-profit and public sectors

Elements of an Impact Bond

Economic Model:
Transfer of risk to
private investors,
efficiency, and
private returns



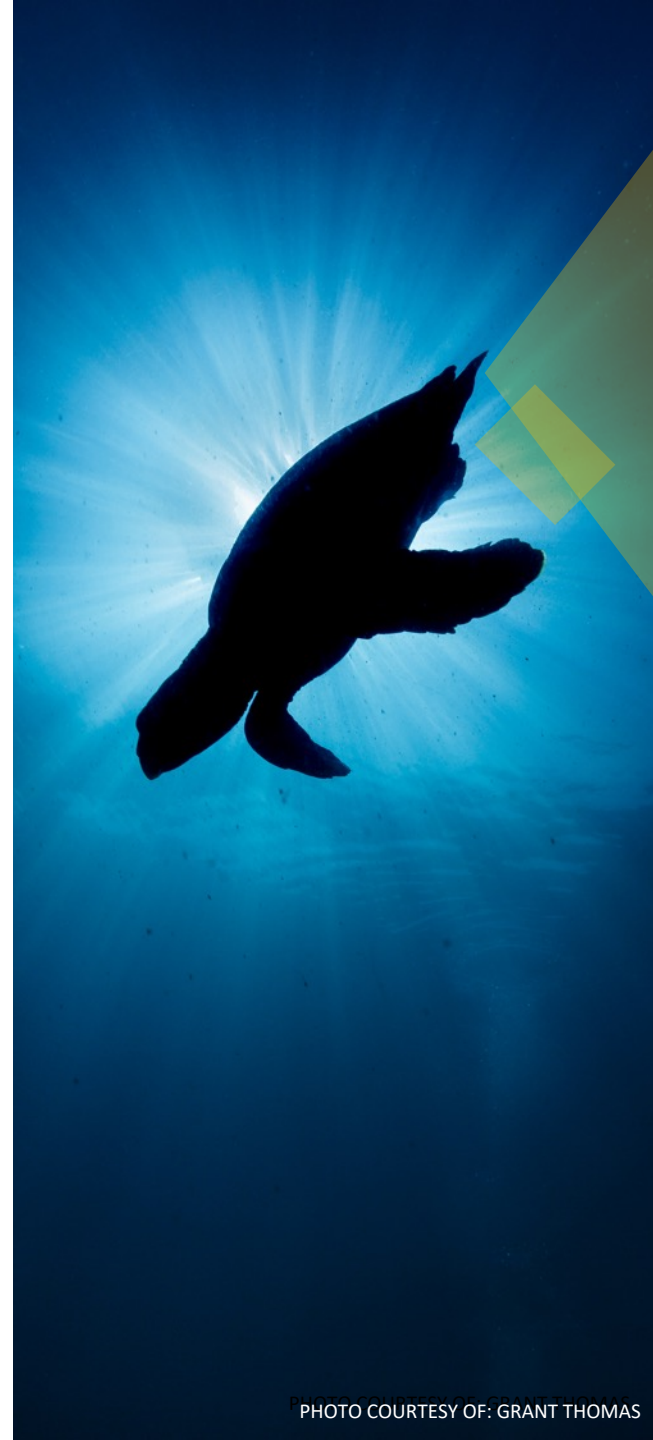


Impact Bonds - Conservation Activity Relevance

- Impact Bonds can be a powerful, emerging, tool to provide financing for coral reef management and conservation
- Must be based on government or donor measurable objectives:
 - Increase coastal resilience
 - Develop ecotourism, which could then help finance the reef in the future
 - Improve utilities and infrastructure that has an impact on the reef itself
- Private risk and reward - if the milestones of the bond are not met, the government/donor will not pay for the service
- As many investors are trying to find new instruments that can be used for conservation, Impact Bonds offer an emerging market in which to invest

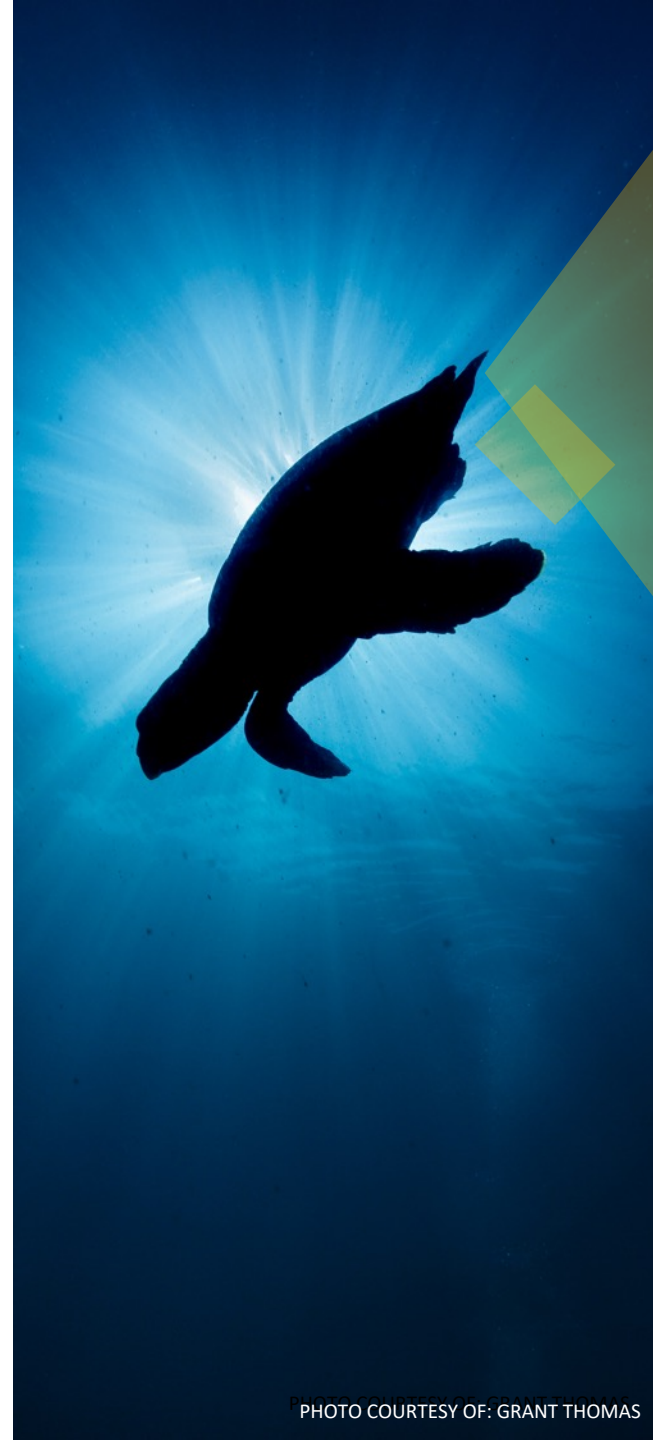
Impact Bonds - Stakeholders

- **Bond issuer(s)**
- **Bond Investor(s)**
- **Intermediaries**
- **Government agency / Donor**
- **Beneficiaries**



Impact Bonds – Feasibility Assessment

- It is essential to identify a government or donor willing to pay for the achievement of the conservation outcomes.
- There must be a clear avenue to success, with attainable, measurable conservation goals
- The investors must understand the risk involved and must be prepared to lose their initial investment.
- The mechanism must have a well-designed monitoring system and both investors and the paying party can agree on the progress towards the outcomes.



Impact Bonds – Revenue Potential

- While Social Impact or Pay for Performance Bonds have been in existence for almost 10 years, they have only mobilized USD 441 million in total financing.
- About 138 Impact Bonds have been issued.
- There are very few examples for conservation and none for coral reefs
- It is difficult to determine whether or not Impact Bonds are broadly successful.
- The revenue potential of an individual Impact Bond ultimately depends on the terms of the bond, how achievable the goals are, and the interest rate(success fee) set by the issuer.



Impact Bonds – Case Study

Rhino Impact Bond

- The goal of providing upfront capital to improve site-based conservation of endangered rhinos
- Conceived by United for Wildlife (UfW)
- USD 40-50 million impact bond with a 8-10 year term
- Aimed at growing African black rhinos across 5 sites in Kenya and South Africa
- Goal of the bond is to boost global population of Black Rhinos by 10%
- Project is currently in the process of securing both investors and outcome buyers