

USFS Conservation Finance Toolkit: Frequently Asked Questions



I. THE BASICS OF PRIVATE CAPITAL

1) How do investors earn a financial return from investments in conservation?

Investors make a return by capturing a percentage of money made or money saved by stakeholders that benefit from the outcomes of funded activities.

Examples of money made include the following:

- Activities that support healthy forests also improve business operations.
(e.g. Water replenishment from forest health improvements increases the sustainability of Coca Cola's supply chain, and therefore their bottom line.)
- Sale of environmental market credits.
(e.g. Companies purchase carbon credits in the voluntary carbon market to meet internal emissions targets. These credits can come from forests where management activities are verified as sequestering carbon.)
- Diverse revenue streams from working lands increase economic viability of keeping forests forested.
(e.g. A conservation easement, timber sale, or hunting lease, among other revenue streams, can make management of working forests a compelling alternative to land use change.)
- Public benefits from conservation outcomes.
(e.g. Open space protection improves residents' quality of life, which in turn drives up property values and municipal tax revenues.)

Examples of money saved include the following:

- Reduce the risk of projected natural disturbances occurring.
(e.g. The state of Louisiana is investing in coastal land protection to reduce the likelihood of downstream flooding and associated costs in future.)
- Reduce the impacts of projected natural disturbances when they do occur.
(e.g. Water utilities in Louisiana are funding forest restoration so that when flooding occurs there is less damage to infrastructure, meaning existing infrastructure lasts longer and maintenance costs decrease.)

2) Why do investors care about environmental and social outcomes?

Investors care about environmental and social outcomes for a variety of reasons. Some investors care because these outcomes help them to save money now or in the future (see question above). Others care because of external pressures and opportunities including, but not limited to, the following:

- Concern over climate change and other environmental challenges
- Concern over shortcomings of public/philanthropic funding for the environment
- Wealth transfer to millennials interested in social change (~\$30 trillion, largest in history)

- Consumer pressure on corporations to run socially/environmentally responsible businesses
- Shifts in consumer behavior towards purchasing sustainable products (e.g. organic, fair trade, etc.)

Some investors don't care about social/environmental outcomes at all, but invest their money in conservation because these investments perform well in the market.

3) Why are investors interested in investing in forests?

Healthy forests provide social, ecological, and financial outcomes to a diversity of stakeholders. While by no means comprehensive, some of these benefits are as follows:

- Clean and plentiful drinking water. *(66 million Americans in more than 3,000 communities – including Los Angeles, Denver, and Atlanta – rely on National Forest System lands to filter their drinking water.)*
- Clean air. *(Forests improve public health by filtering the air we breath.)*
- Wildlife habitat. *(60% of America's at-risk wildlife live in forests. Regulations to protect these species create market opportunities.)*
- Rural jobs. *(Private forests support 2.4 million jobs and \$87 billion in payroll across the country.)*
- Rural economic development. *(Forest-based outdoor recreation, logging, wood products manufacturing, biomass energy, among other industries, all promote rural economic vitality.)*
- Health benefits. *(Exposure to forests boosts the immune system, lowers blood pressure and reduces stress.)*
- Carbon sequestration. *(Trees are ~50% carbon. When they burn they release carbon into the atmosphere.)*
- Opportunities for recreation. *(Forests provide opportunities for hiking, camping, cycling, hunting, kayaking, and other activities.)*

Beyond this array of ecological, social, and economic benefits, land-based investments also attract investors from a diversification and positive-yield perspective as these assets tend to function independently from macroeconomic trends like inflation.

4) How big is the market for impact and conservation investing?

Socially responsible investing (SRI), or investing that considers an investment's financial return as well as its social/environmental impact, continues to expand in the United States. Total US-domiciled assets under management using SRI strategies grew from \$8.7 trillion at the start of 2016 to \$12.0 trillion at the start of 2018, a 38 percent increase. This represents 26 percent—or 1 in 4 dollars—of total US assets under professional management.

The green bond market, a segment of the bond market that funds environmental projects, reached a highpoint of \$167 billion in 2018, up from \$37 billion just four years before in 2014. Since the first green bond was issued in 2007 bonds have been issued by multi-lateral institutions like the World Bank, corporations, states/provinces, and municipalities worldwide.

The market for conservation investing specifically is also growing. A Forest Trends report tracked a total of \$8.2 billion in committed capital going to conservation between 2004 and 2015; and found that the annual amount committed doubled in the last two years of the study. While the amount of committed capital is growing, investors are struggling to find investment-ready conservation projects. Forest Trends found that of the total capital committed, \$3.1 billion is unspent.

Growth across the impact investing sector, and investor demand for ready-to-go investable projects, signals an opportunity for USFS to find new models that enable us to connect un-deployed investment capital with priority work on NFS lands.

II. USFS AND PRIVATE CAPITAL

Why does the Forest Service have a role in this market?

Using conservation finance tools to connect impact investing capital with ready-to-go projects on NFS lands helps USFS to achieve its priorities and provides investors with opportunities to generate financial returns as well as environmental/social outcomes. USFS is uniquely situated to provide investors with compelling investment opportunities for the following reasons:

- Our National Forest System is 193 million acres of forests and grasslands nationwide, meaning that we have the potential to generate investable projects at a scale that other partners do not
- Research & Development can provide data on baseline ecological conditions, developing replicable frameworks for measuring/monitoring project outcomes, and using mapping and analysis to identify areas that are most at risk as well as ripe for private investment
- State & Private Forestry's connections to states, tribes, NGOs, and private landowners can help mobilize large-scale cross-boundary public-private partnerships around conservation finance
- For impact investors interested in systems-level change, working with USFS provides an opportunity to be part of shifting the way a large federal agency thinks about funding its priorities

What authorities allow USFS to implement conservation finance projects?

Language in the 2019 Interior appropriations bill directed the Forest Service to, "evaluate the feasibility of innovative financing mechanisms that could leverage non-Federal investments in forest health restoration."

Authorities such as the Wyden Amendment, Stewardship Authority, and Good Neighbor Authority give us the authority to work with for-profit partners on projects that generate non-timber values on public and private lands. We can use private money on public land through the Cooperative Funds Act, and secure private investment through permitted activities on public land through the Special Use Authority. We can also work with for-profits that meet the mutual interest mutual benefit criteria through challenge cost share agreements on projects that support NFS lands.

Reference the USFS Conservation Finance Toolkit: Authorities for Conservation Finance overview for further information.

What are some challenges associated with private investment on public land?

The main challenge we face is not being able to leverage private investment on public land at the pace and scale needed to address the challenges we face. This is a challenge for the following reasons:

- USFS agreement and contract durations are much shorter than typical investor timelines, as well as the timelines required for project activities to deliver measurable social, ecological, and financial outcomes. This limits the applicability of private capital to USFS projects.
- Investors are interested in projects ~\$25 million and above, and in working with stakeholders that can make clear and dependable financial commitments over the duration of the project. U Total agency cash contributions towards conservation finance projects must be available in year one, which limits the size and scale of these projects. SFS's inability to make long-term commitments limits our ability to participate in these projects.

- The scale at which USFS undertakes planning, and thereby the size of USFS projects, does not typically meet investor demand for projects ~\$25 million and above.
- A lack of clarity in the USFS Handbook around working with for-profit primary cooperators that meet the mutual interest mutual benefit criteria, and concerns about endorsement and liability, have discouraged this work in the past. Soon-to-be published revisions to Chapter 70 of the USFS Handbook clarify the ways in which USFS can enter into agreements with for-profit entities.

To move forward with projects funded through conservation finance models USFS often works with non-profit intermediaries to avoid many of the challenges above.

Is USFS liable to investors in these projects?

No! USFS does not repay investors, and does not enter into contracts with investors. Conservation finance projects are structured so that USFS is not involved in the financial flows. Instead, we show up in other ways. USFS focuses on project planning and permitting, implementation, relationship building and network facilitation, and monitoring and evaluation, among other activities that are critical to moving priority work forward.

How do we ensure that private capital isn't guiding our decision-making?

USFS projects funded through conservation finance models are fully planned and permitted *before* project developers reach out to investors to secure the private capital required to fund project activities. Investors have no interaction with stakeholders during project development, and therefore no opportunity to influence decision-making.

What about augmentation of appropriations?

Augmentation is when a federal agency spends more than Congress appropriated for a specified purpose by either 1) collecting and retaining receipts without authority to do so, or 2) using one appropriation to pay for costs associated with an appropriation specified for another purpose. Leveraging public and private dollars to fulfill our mission to serve the American public does neither of these things. As such, augmentation is not a concern.

III. USFS AND CONSERVATION FINANCE

Is conservation finance new to the agency?

We define conservation finance broadly, as the practice of raising, managing, and deploying capital for conservation outcomes. This includes the piloting of new models that engage private capital, as well as the use of traditional public and philanthropic funding sources. Staff across the agency have been finding creative ways to fund USFS priorities since its founding, so conservation finance is not new for the agency. What is new for us is the testing, replication, and scaling of new finance models that enable us to leverage *private capital* to get work done on the ground. Models that leverage private capital open a new scale of opportunity for financial investment in the landscapes we steward.

What lessons has USFS learned from our experience with conservation finance?

USFS past experience with conservation finance has generated the following take-aways.

- NEPA needs to be out of the way. Conservation finance models address financial challenges, but cannot do so until planning and permitting challenges are taken care of.
- Models that engage private capital should only be considered when > \$3 million in funding is required; otherwise consider philanthropic sources.
- It is important to have leaders at USFS and partners organizations who champion new ideas.
- USFS must be able to devote ample staff and other resources to be a value-added partner.
- If you set the model up well the first time it will be easier to replicate and scale over time.
- Local capacity and expertise must exist to execute projects reliably and in a timely manner.
- It is critical to integrate Grants & Agreements staff early and often in project development.
- It is easier to move forward if baseline data on ecological conditions already exists.
- Local universities can add value as the partners that measure and evaluate project performance.

For mechanism-specific lessons learned please reference the USFS Conservation Finance Toolkit on Box.

How does conservation finance fit within agency priorities?

Conservation finance contributes to our Chief's priorities in the following ways.

- *Shared Stewardship.* Conservation finance models engage many stakeholders, including investors, beneficiaries, researchers, and implementation partners. This work seeds collaboration beyond specific projects, promoting shared stewardship of NFS lands.
- *Increase Pace and Scale of Restoration.* Conservation finance helps the agency to achieve goals around forest restoration and other targets by increasing and unlocking new funding. By raising capital to cover project costs upfront it also accelerates the pace of completion.
- *Improve Recreation, Sustainable Infrastructure and Access.* Conservation finance models can fund construction and maintenance of recreation infrastructure, improving recreational experiences for National Forest visitors across the country.
- *Improve Customer Service.* Informed conservation finance partners can contribute to enhancing public benefits from healthy forest ecosystems with expertise and resources.
- *Empower Employees.* Conservation finance is another tool in the toolbox that empowers district to WO-level staff in finding new collaborative approaches to achieve our mission.

What are some examples of conservation finance at USFS?

The Conservation Finance Team has been busy! Please reference the USFS Conservation Finance Toolkit to learn more about specific finance tools and projects.

Who implements conservation finance project?

It depends. USFS, a non-profit partner, a state or federal partner, or contractors can do the work. USFS can manage the contracts or they can be managed by a partner. The direction of the fund sharing, nature of the work, benefits of the work, and operational management responsibilities will guide what type of legal or partnership tool can best support the collaboration.

Does conservation finance work everywhere?

Unfortunately no, conservation finance is not a silver bullet solution that can address all problems across geographies. Instead conservation finance models add to our toolbox of solutions, providing additional options for us to consider as we work to address challenges facing the agency.

Different conservation finance tools have different conditions for readiness, and are therefore better fits for different contexts. In addition, different tools require different levels of effort to implement. How much capacity your unit or program has to put towards conservation finance will influence what kind of approach you're able to move forward with.

Please reference the USFS Conservation Finance Toolkit overviews of specific conservation finance tools for information on tool-specific readiness criteria.

I want to do conservation finance in my region/program/forest, where do I start?

We recommend you start by educating yourself on conservation finance. First, review the USFS Conservation Finance Toolkit folder on Box to educate yourself on different models, authorities, criteria for readiness, and other topics. Next, evaluate whether there are USFS projects that meet the readiness criteria for conservation finance in your area. If promising opportunities surface, you can pursue them yourself or get in touch with your regional Conservation Finance POC or a member of the National Partnership Office's Conservation Finance Team to ask for guidance.

How can I engage with conservation finance at USFS?

There are a number of ways you can get involved in conservation finance work at USFS!

- Join the conservation finance community to keep up to date on conservation finance at USFS and beyond, and to join bi-monthly webinars on conservation finance (to be added to the pdl, please email nathalie.woolworth@usda.gov).
- To expand your knowledge, browse the USFS Conservation Finance Toolkit on Box (including 2-page overviews of CF, CF at USFS, CF Authorities, CF readiness, and 8 CF models and adjoining case studies, among other materials).
- The Conservation Finance Team is offering an inaugural CF Training in Fall 2019. It's too late to join this year's cohort, but be on the lookout for future training opportunities in your region and beyond.
- Get in touch with the National Partnership Office CF Team about detailing with us.
- Start thinking about projects that might be a good fit for conservation finance and having conversations with potential partners.