USFS Conservation Finance Toolkit: Conservation Finance Project Development Phases

Conservation finance is the practice of raising, managing, and deploying capital for conservation outcomes. Investments in conservation fall into two buckets: those that *do* and *do not* generate a financial return/profit. Current innovation in conservation finance is focused on the engagement of private capital in investment opportunities that generate financial returns through the alignment of environmental, social, and financial outcomes.

The project development framework below lays out guidance for USFS staff interested in the process of vetting, developing, and implementing conservation finance projects. We developed this framework to be generally applicable to conservation finance, but the phases/steps laid out below may differ slightly depending on the financing tool in question.

PHASE 1: SCOPING NEED AND OPPORTUNITY

- Define ecological/social risks or resource impacts that require action.
  (e.g. recent disturbances, declines in water quality, rising populations, failing infrastructure, etc.)
- Clarify the drivers of these risks.
- Identify initial stakeholders that are a) contributors to these drivers, b) impacted by opportunities/ risks, c) care about the opportunities/risks, d) could benefit from activities that address risks.
- Assess whether socio-political and ecological conditions will allow for effective collaboration.
  (e.g. existing natural resource collaboratives in place, favorable political landscape, etc.)

PHASE 2: IDENTIFYING PROJECT ACTIVITIES

- Identify project activities that address risks/needs and determine cost of planning/implementing.
  Note: If total project cost is <$3M it’s best to use traditional funding (e.g. appropriations or philanthropy), as high project development costs only make these projects cost effective at >$3M scale.
- Identify social, ecological, and economic outcomes these activities deliver.
  (Outcomes are ideally measurable, predictable, and attributable to activities; sometimes proxies work best)
- Identify specific stakeholders that benefit from project outcomes, and how/how much they benefit.
- Determine whether project activities are scalable across similar geographies within Unit/region.
- Determine whether implementation of activities requires further planning, and likely timelines for projects to be “shovel ready.”
  Note: If timeline for initiating work exceeds 2 years, the opportunity for conservation finance is not yet ripe.
- Identify whether there are financial flows (i.e. enhanced revenues or avoided costs) associated with the outcomes, and who benefits from those flows.

PHASE 3: EVALUATING POTENTIAL FOR CONSERVATION FINANCE

- Analyze the business case (e.g. avoided costs, increased revenues) for all potential project activities by conducting a cost benefit analysis, economic analysis, and/or feasibility study.
  Note: The Total cost of activities should be less than the financial flows from project outcomes.
- Understand potential beneficiaries' willingness/ability to dedicate resources to project over time.
- Decide whether to employ a funding or financing approach based on criteria in green box to the right.
  (i.e investment without a financial return (funding) vs. investment with a return (financing))
- If the project does not meet criteria for financing (see green box to right), pursue a funding approach instead.
  (i.e philanthropy, CSR, public appropriations)

Criteria for financing approach:

- Require >$3 million to plan/implement project activities
- Adequate funding not available through traditional sources
- Funding is barrier to timely project completion (not planning, policy, capacity, etc.)
- NEPA decision complete, project planned and 'shovel ready'
- Potential for social/envir. outcomes *and* financial flows
- Multiple beneficiaries willing/able to pay
- Capacity for scaled/accelerated implementation exists
- Collaborative capacity/socio-political support exists
- Ability to predict/monitor project outcomes

PHASE 4: ESTABLISHING THE PARTNERSHIP

Phase 4 activities will depend on the specific project and partners engaged. In most cases the Unit will take part in the following activities, but will not be responsible for leading them. Units can work with project developers like Blue Forest Conservation or Quantified Ventures, or receive support from the USFS National Partnership Office or National Forest Foundation.

- Decide on/articulate a joint vision and goals with partners.
- Conduct due diligence on potential funding/financing tool(s) and select best options.
- Assess potential for philanthropic/public funding to cover project development costs.
- Create plan for project administration, staffing, and governance.
- Develop implementation plan that verifies collaborative capacity for up-front activities.
- Develop plan for monitoring outcomes/success.
- If applicable, project developer negotiates contracts with payors, investors, and implementers.

PHASE 5: IMPLEMENTING THE PROJECT

- Implement project guided by administration and implementation plans.
- Monitor project outcomes and document success/lessons learned.
- Adapt project management and implementation based on results of monitoring.
- Convene regularly with partners to discuss challenges/opportunities and next steps.
- Share successes/lessons learned with other units, ROs, WO, and the public.
- Leverage communications and marketing to mobilize additional beneficiaries/scale up.