Conservation Finance Practitioners Roundtable

The September 2017 Conservation Finance Practitioner Roundtable, held in Washington DC, hosted 74 attendees representing NGOs, USDA, academia, municipal government, philanthropy, impact investors, and agricultural companies. Discussions from the 2-day event included:

- 2017 Conservation Finance CIG projects
- Findings from Encourage Capital's "NRCS & Private Capital" report
- Opportunities and obstacles from the 2014 Farm Bill (Title II and VIII)
- i2 Capital and Iroquois Valley Farms CIG projects
- Corporate leadership in soil carbon markets
- A proposed NRCS "Conservation Finance Partnership Fund"

Common observations, questions, and recommendations:

A need to better define the "highest and best use" role for government

1. Given that demand far outstrips availability of NRCS funds, how can NRCS create the most impact? Participants discussed next steps for CIG program in order to scale up or better demonstrate impact, the opportunity cost of continued CIG conservation finance funding versus the proposed NRCS Fund, and the critical importance of communicating CIG success given potential future funding uncertainties.
2. This conversation expanded to also include a debate on the best role for federal agencies in this space. Questions included how NRCS and other federal agencies could target investors, partner with philanthropy, and continue building public/private partnerships? Participants also considered how to identify and promote underutilized financing options?

A strong need to better engage with and involve farmers to increase impact and deal flow

Participants stressed the needs to better leverage nodes of influence for farmers, such as farm lenders, to better align and incentivize farmers on conservation practices, and to create a seat at the table for farmers. This led to a debate of how to find the most impactful farmers to work with: "gold star" farmers, farmers new to conservation, next gen farmers, or farmland in transition?

A need to better understand the goals and implications of creating new funding sources

1. Attracting new investors and socializing new markets may involve changing the culture of an investment market (i.e. "old boys network" of the west) or tapping investors interested in sustainability (social impact investors, family office networks, millennials/new wealth). Understanding what type of investors to target is also important.
2. Availability of funding can also help "surface" projects that otherwise would not be feasible. It is therefore important to ask if there enough projects for funding before pushing for it, and using funding to reduce transaction costs

A call to use metrics to measure and communicate impact

Metrics can create better narratives, turn "anecdotes into data," and define and communicate outcomes. It is important to use metrics move beyond "perceived" benefits of a project or practice to create proof of real impact.

Day 1

Session 1 – Leveraging Private Capital Through NRCS Programs

Findings from the new report, "NRCS & Private Capital: Investing in America Together"

Presenter: Ricardo Bayon, Encourage Capital

Report Overview

Bayon introduced this session on Encourage Capital's new report by discussing the need for the report: No amount of NRCS funding can fund all worthy conservation projects, leaving a growing backlog each year. Meanwhile, the field of conservation investment is growing, doubling every few years. We can't get the money out fast enough because we can't find projects. Can we align these two trends? Can we use NRCS funding to leverage private capital? If so, how? Where?

The report examined 4 NRCS programs: Environmental Quality Incentives Program (EQIP), Regional Conservation Partnerships Program (RCPP), Conservation Innovation Grants (CIG), Agricultural Conservation Easements Program (ACEP). The five overarching recommendations included:

- to help facilitate the collection of economic data on implementation of conservation practices so that investable opportunities can be quantified;
- to shift from investing in conservation practices to investing, and enabling others to invest, in conservation outcomes;
- to allow third-party investors to share in the return on investment from NRCS programs along with traditional program beneficiaries;
- to provide risk mitigation to bring the risk-adjusted returns to an investable level;
- and to reduce transaction costs, e.g. by aggregating small projects.

The report's recommendations were grouped by strategies that allow and facilitate investor participation, and that use markets to enable the monetization of environmental markets. Broad concepts and recommendations divided by what can be done tomorrow without statutory change, legislative change, etc. versus strategies that require statutory change.

Discussion

One discussion point introduced the concept of a CIG accelerator program. Although CIG is a relatively small portion of the Farm Bill, it is still vulnerable. One question that arose from the pre-Roundtable Hill visits on September 11th was that after spending millions on CIG, what is NRCS doing differently as a result? What can be described as outcomes and outputs of the program? Legislators are thinking about this, so it is important to think about how to scale this work and embed it in NRCS programs.

Another discussion point is that, currently, there is no way for NRCS to do things like provide guarantees, but other government agencies do have that ability and have used it successfully (for example DOE, and USAID does this with US money outside of the US). Could this be done with taxpayer dollars *in* the US?

Finally, how can USDA promote existing tools that few have used. For example, Farm Service Agency has a little known conservation loan program that very few people have ever used.

Session 2 – 2014 Farm Bill: A Critical Discussion on Titles II & VIII

Opportunities and obstacles associated with 2014 Farm Bill conservation programs

Moderator: Chris Adamo, National Wildlife Federation

Panelists: Ricardo Bayon, Encourage Capital; Tommie Herbert, USFS

Adamo introduced the session and by giving background on his experience with the Farm Bill, as well as the Bill's political context and evolution over time, primarily since 1986. Adamo highlighted how environmental groups struggle to engage during Bill negotiations and also the political forces at work. It remains to be seen how the conservation title will play out in the 2018 Farm Bill and what regional interests will be represented.

Herbert outlined Farm Bill opportunities for the Forest Service. For example, the Collaborative Forestland Restoration Program, Joint Chiefs, and the Wyden Amendment all allow cross-boundary collaboration and landscape-scale restoration. The Stewardship Authority allows the valuation of bundled services and various points in the Bill which may provide opportunities for conservation finance. Through contracts or agreements a 3rd party can come on public lands and harvest; thus, rather than paying USFS in the form of a timber receipt a 3rd party can do it as a trade. All of these lay out an intent and direction to think about how they work in a cross boundary and cross sector, and landscape scale to receive multiple benefits from healthy forest management. However, the question of how restoration work on USFS is valued (which may be key to some CF frameworks) hasn't yet been answered.

Rural Development programs was addressed, and the opportunity/need to collaborate on those programs, including models for supporting rural utilities, energy. Service First Authority was mentioned as a possible means of sharing programs and authorities (possible cross-collaboration between NRCS, FSA, Rural Development). Additional issues around the distinction between a Farm Bill subsidy and paying for a public value in conservation and the relative value of different conservation payments were discussed. Additional issues that have had an impact on the Bill include pine bark beetle, drought fire, etc. These factors tend to drive regional interests and spur negotiations.

Bayon also highlighted the cultural shift that needs to happen to get beyond "paying for practice;" potential for innovation lies in tracking metrics of outcomes (advances in/value of outcome metrics haven't been communicated as well as they could be). Herbert pointed out that the Anti-Deficiency Act makes it difficult to pay for success (PFS), mostly because of issues with timing and year-to-year commitments. Wildfire restoration presents a unique challenge in paying for risk-reducing restoration—difficult to pay for this with agreements that only span 5 to 10 years (fire risk reduction operates on a much longer timeframe). Bayon pointed out that PFS offers opportunities for relief of performance risk, especially relevant in CA Carbon Market. USFS has figured out how to use PFS—they just can't play the payer role. But, USFS can be service providers, connectors, use research arm to measure outcomes.

Other discussion points included:

- Water quality trading markets and avoiding regulation dynamic important driver for farmers. Should we be looking outside of the Farm Bill for support of these programs? Paying for outcomes may be too heavy a lift.
- Opportunities in Credit Title, specifically the need for synergy and working with lenders. We've talked about title II, Rural Dev, and VIII – but title V? absolutely—there should be overlap. Farmers/producers talk most frequently with their lender.
- The opportunity for philanthropies to play a role in "turning down the risk dial" as guarantors (example Bloomberg Foundation in NYC youth recidivism)
- Conservation Loan Program housed in Farm Service Agency as an opportunity for collaboration now that NRCS shares mission area with
- State partnerships, revolving loan funds as a way to layer with other federal funding to accomplish land protection

Session 3 – CIG Spotlight I – i2 Capital

Facilitator: Kari Cohen, NRCS

Presenters: Ashley Allen, i2 Capital; Eric Letsinger, Quantified Ventures; Richie Jones, The Nature Conservancy; Evan Branosky, Environmental Incentives

Cohen introduced the panel by giving background on the CIG program and the prioritization of PFS frameworks. Allen then introduced the Brandywine-Christina Water Fund project and its role in developing the mechanics of this kind of project, which is designed to appeal to private investors and supply a watershed-scale source of conservation value. Allen emphasized that the ultimate goal is a robust fund with a self-sustaining cycle of capital. She also gave an overview of team leaders, including Richie Jones (TNC) on the supply side, Eric Letsinger (Quantified Ventures) on the demand side, and Evan Branosky (Environmental Incentives) on the impact and metrics team.

Jones gave an overview of B-C watershed land use, conditions of the watershed, agricultural components and drinking water supply issues. He explained that the plan is to build upon existing partnerships with producers, evaluate where BMP's have greatest impact and how well they're working.

Branosky addressed the metrics side of the project, and the challenges of finding metrics and outcomes that the various players can agree upon. He outline the keys to metric development process: relevance, utility, feasibility, reliability.

Letsinger highlighted the various expertise present on the team, and discussed challenges of finding investors for the project, that this may be a "two steps forward, one step back" process. He discussed the importance of choosing a metric that works, which can often be identified by starting with a simple value chain. It can also be advantageous to identify opportunities to finance around proxies for outcomes (see DCWater Bond).

Panelists acknowledged that addressing regulatory uncertainty takes some advocacy and communication, especially working across states. Yet modeling nutrient reductions helps utilities to figure out their own cost savings. Potential to develop a model for delivering benefits to joint payers – multiple benefits provide for multiple outcomes – allows intermediaries to buy down risk and reduce uncertainty. The panel also discussed the benefits of capturing the social and economic arguments, alongside environmental outcomes. This can make funds more attractive for investors and payers interested in secondary benefits.

Finally, panelists discussed the difficulty of getting conservation practices to the scale where they "move the needle" on water quality. Jones noted that local conservation organizations and districts have a pipeline of producers ready to implement practices. Allen noted the need to get transaction costs down for future transactions (these costs are currently covered by the CIG grant and intermediaries).

Session 4 – CIG Spotlight II – Iroquois Valley Farms

Facilitator: Adam Chambers, NRCS

Presenters: Teresa Opheim and Andy Loving, Iroquois Valley Farmland REIT, PBC; David LeZaks, Delta Institute

Chambers introduced the team and gave some background on the project, expressing interest in Iroquois Valley Farm's plans for the project post-grant. Opheim then gave an overview of the project, highlighting their focus on the farmer's needs and operations, long-term, multi-generational farmers and diversity of operation. Current operations invested in include certified organic, row crops, Organic Valley dairy cooperatives, and permaculture. This covers about 7200 acres, 34 farms in total. However, Iroquois cannot own farmland in states with anti-corporate farming laws

The Notes address a core issue with farmers transitioning to organic—farmers generally take a hit during the three years transition. Issues include reduced yield (without the price premium) and a learning curve in weed management). Iroquois generally invests in farmers with some organic experience. The Note is three-year fixed security with 1.5% return annually, minimum $25,000 investment. Panelists noted that they had expected more buzz from the Notes, but have not sold them all yet. They have encountered differing opinions from investors about farm practices and exact environmental impact

Loving pointed out that farmland is a great diversifier from investment standpoint, and the Notes have helped IVF make inroads into impact investment community**.** Clients just want to be part of organic farming, and have an interest in small farms and local food systems, as well as making a transition from a tobacco economy in Kentucky. Loving usually presents this opportunity to donors who are looking for non-public markets, private debt and equity opportunity, etc. They like the "farmer friendly" aspect and are interested in a lower rate of return coupled with social/environmental impact**.** It's personal for those investors, many of whom didn't know it was possible to invest in organic agriculture. But, it's both blessing and a curse. Minimums were

$35,000 and investors had to be accredited. Their clients do about 25% private equity and debt, so they are fairly comfortable with this.

LeZaks spoke about the need to create an impact narrative behind the Notes, to be able to do some back-end calculations of benefits and go beyond the *perceived* benefits. Much focus in organic farmland is associated with perceived benefits, but it is important to understand what the practices are, have an understanding of the impact, who or what the beneficiaries are, etc. There is going to be a need and a request not only to know you're getting good food and helping communities, but what the impact of the practices are. They are looking at what happened on the farm pre-ownership/mortgage with Iroquois, what's happening now, and what could happen in the future, using COMET Farm to model GHG emissions**.** There are challenges in a lack of historical data, as well as in fitting non-traditional operations into a modelling platform

Panelists discussed scenarios where a significant portion of donors want an out—in this case returns would be coming out of the company, or a line of credit**.** Loving noted that investors in Notes are "slow money investors," and not likely to seek an out**.** Panelists also discussed millennial investors (potentially brought in as non-accredited), PRIs (the company isn't big enough), and other resources for new investors**.** These included Mission Investors Exchange, CREO Syndicate, Sustainable Ag and Food System Funders, tech world millennials, small family foundations. Finally, panelists discussed metrics further, emphasizing the need to build upon organic standard as an outcome, as organic "may not be the gold standard forever."

Session 5 – 2017 CIG Project Introductions

Panel 1: Strengthening the Case for Investors

Trout Unlimited, Delta Institute, and The Climate Trust

Moderator: Leigh Whelpton, Conservation Finance Network

Trout Unlimited CIG Project
Liquid Assets Project: Mobilizing Impact Investment Capital for Agriculture Water Sustainability
One goal of this project is to use traditional financing in a different way to drive changes. Market interventions may include buying a distribution facility or a marketing facility (if that disruption drives change, then it is a good use of investment). It also seeks to change the politics of the region; as the west is an old boy network, how can you bring in investors who care about sustainability? Finally, there was an emphasis on taking data and turning it into anecdotes when possible, and then creating models.

The Climate Trust CIG Project
Environmental Price Assurance Facility
This project uses a model that the World Bank piloted (Pilot Auction Facility concept) to distribute put options to the market. A put option gives the owner the right (not obligation) to sell assets at agreed strike price. The innovation of this project is that in order to set the strike price, there has to be an auction (to efficiently find the most cost-effective projects). In early/pilot states, credit enhancements are the key. Credit enhancement dials down the fear of investment, to move market development into mature stage. Finally, the execution risk for the project remains with the project,

as in order to participate you pay a premium. Ultimately, public capital is still a pay for performance mechanism.

Panel 2: Bridging the Finance Gap

Texas Parks & Wildlife Foundation and The Conservation Fund

Moderator: Kari Cohen, NRCS

Texas Parks & Wildlife Foundation CIG Project
The Gulf Coast Conservation Loan Fund: Leveraging Private Philanthropy to Achieve Transformative Land Conservation on the Texas Gulf Coast
One issue with using Deepwater Horizon funding were interest rates on the funding, which were being put out over multi-year time frames. There was thus a need to raise money to cover interest rates. The CIG is helping to cover internal administrative costs of programs, so they don't have to pass off these costs onto lendee. It's goal is to create a gulf-wide fund that can attract national-level donors.

The Conservation Fund CIG Project
Agriculture Conservation Fund
An important national issue is an aging farmer population, coupled with uncertainty of who the next generation of farmers will be and how they will get their farms. This project focuses on the metro-centric farmer gap in Atlanta. As there is a lot of development pressure coming out from the city, a lot of historically agriculture lands; how can we realign development land values with a truly agricultural use value? Further, how do you create a seat at the table for next generation farmers? Atlanta is also a potential target because of the partners there who have already started the work on the ground.

Panel 3: New Consumer and Financing Products

Maine Organic Farmers and Gardeners Association, National Audubon, and Chesapeake Bay Foundation

Moderator: Lindsay White, NRCS

Maine Organic Farms and Gardeners Association CIG Project
Integrated Investment Incentives for Conservation Programs
This project is designed to promote environmental protection through the development of specialized loan products which stimulate and reward conservation practices. The creation of a specialized short-term loan product, which will act as a grant anticipation loan, bridges the gap between construction of conservation projects and the receipt of NRCS cost share funds.

National Audubon Society CIG Project
Development of Self-Sustaining Markets for Bird-Friendly Beef to Incentivize Grassland Conservation on Private Lands Across the Great Plains
By certifying and linking bird-friendly grassland management to consumers whose values include healthy bird populations and thriving rural communities, this program will create the first scalable self-sustaining model for a linked network of producers and consumers in seven states. This

program may serve as a model for the creation of market-based conservation delivery that can be applied to commodities other than beef.

Chesapeake Bay Foundation CIG Project
Pennsylvania "Offset Partnerships": Bringing Pay for Success Models to Agricultural Conservation and Stormwater Compliance
The goal of this project is to install cost-effective conservation practices on farms while municipalities meet stormwater obligations at a reduced cost. Profits are then returned to capital investors. This will be the first project to use a PFS model to integrate agricultural conservation and stormwater compliance, as it will demonstrate a cost-effective approach for meeting stormwater requirements while transferring the risks of effective implementation from local governments to impact investors.

Day 2

Session 1 – Using Financial Leverage to Get More Conservation on the Ground

Facilitator: Kari Cohen and Adam Chambers, NRCS

Introduction of Fund Concept

Cohen opened this session by describing NRCS's proposed "Conservation Finance Partnership Fund," in which NRCS will potentially go out for a single award funding opportunity of $10 million. Cohen gave background for the proposed Fund, emphasizing the need to use current Farm Bill/CIG authorities, and the general interest in CIG taking beyond the pilots and demonstration projects that have been funded over the last three years. Cohen also went over some of the constraints, including that the amount CIG receives annually is set by the Chief, a 1:1 match is required, and NRCS's inability to take back returns from investment by the Fund

The project would also need to span three years, with the possibility of extension (though the fund could extend beyond this point, without NRCS involvement). NRCS will look for a partner, potentially a philanthropy or investment firm, who's willing to put up at least 10M of their own, and pool into the fund. The fund would disperse the money into projects that are investable conservation projects on farms, ranches, and forestland. The projects would be selected on their ability to provide returns to the fund.

Cohen explained that the reason why NRCS needs a partner is because NRCS can't take returns—they can't take money back in. A partner has this ability, and could revolve the fund many times over. At a certain point, NRCS would leave the fund, which would hopefully continue into the future. All reporting requirements would go away at the end of the project, but the funds would live on.

Participants were then invited to discuss in small groups, and report out comments and questions.

Discussion Report Out

Participants reported out a broad range of responses from their small group discussions.

Comments:

- First loss capital could offer a 10-15% risk buffer with low interest rate. In thinking about proposals to private foundations, some risk support would help them to look/evaluate elsewhere where there is farmland in transition.
- Programmatic dollars to develop the projects are very valuable dollars by providing for early analysis and staff time that ultimately differ/reduce transaction time.
- Money to find deals is crucial. Having a pot that could leverage other money and reduce the interest rate that a private investor could provide. 0% interest mixed with 3% interest leaves 1.5% interest, so then you can go to the farmer. Typically, you're able to get loans at 4-6%, we can do it at 2% if you do the conservation practices. That could surface projects.
- The matter of putting "sideboards" on the fund and focusing specifically on an issue such as water quality or soil carbon was broached—but participants cautioned that being too specific might limit the project and its "revolvability"
- There was consensus in the ability to deploy $20-30 million with 1:1 or 2:1 match. Participants raised concern over transaction costs, public engagement/messaging, and the timeline (three years is a tight timeline, but doable).
- There was a recognition of the need to emphasize the fund benefits to rural economies, working lands and forests, and potentially focusing on activities that have an opportunity to prove some success before the next Farm Bill. As this is a performance based return, it is important to keep the focus on rural economies/communities.
- Participants also noted that there are very few foundations who are willing to take on these kinds of projects, the fund could lower risk and partner with a foundation to show how government and philanthropic can come together
- Important to take lessons learned from state revolving funds

Questions:

- Understanding the demand for such a fund—are there projects out there that would benefit from such a fund? Are there partners who would be interested in implementing it? Is this a solution in search of a problem, or is there demand?
- Attendees also discussed the legality of the fund, and the need for NRCS oversight without bogging things down in process. On the political side, how can NRCS sell this idea within USDA and navigate political minefields?
- The opportunity cost of this kind of fund was also brought up, as there is consensus that the existing CIG program is incredibly valuable as it is. Participants urged NRCS to consider the lost opportunity cost compared to the outcomes NRCS would want to achieve from the fund?
- What practices would have a reasonable expectation that could generate a return? Are there enough to populate the fund's portfolio? It may be better to focus on what we know how to do today – for example, those practices NRCS funds that we know could provide a return.

Recommendations:

- Participants recommended the fund should be structured to mitigate risk in an innovative way, providing mezzanine finance, bridging the gap between innovative and bankable projects.
- It was noted that some market analysis would be needed, especially looking at past CIG awardees. What is the point of differentiation for the capital – where would it fall in marketplace? Could the capital be concessionary? Participants recommended looking at other funds for lessons learned, that NRCS needs to be careful with project selection, as a revolving fund could become a sinking fund
- Use the fund as a first-loss position for gold star standard farmers – low interest financing to increase the amount of land they have under management. The best most innovative producers become community champions and leaders.

As the discussion concluded, Cohen agreed that NRCS staff would report back on his team's progress on the fund at next roundtable.

Session 2 – Corporate Leadership in Soil Carbon Markets

Moderator: Adam Chambers, NRCS

Panelists: Bill Buckner, Noble Research Institute; Betsy Taylor, Breakthrough Strategies and Solutions; Sean Penrith, The Climate Trust

Chambers started off the panel with a graph tracing historical carbon levels through cultivation and depletion, and discussed offsetting the carbon footprint of US agriculture. Chambers reviewed GHG emission reduction removal rates (different management/restoration regimes) and currently available soil carbon protocols.

Taylor then gave background on her company Breakthrough Strategies and Solutions, interest in carbon, soil, restorative agriculture. Taylor helped to represent the Marshall Islands at COP21, and also focused on negative emissions strategies, particularly with soil, honing in on these key issues: Finance, Practices, Policies, Science, and Unintended Consequences. Taylor discussed various strategies for keeping carbon sequestered in soil, emphasizing the need to scale up and provide a portfolio of opportunities to attract interested investors.

Buckner gave background on Noble's research, emphasizing cross-sector, farmer-focused collaboration on soil science. Buckner noted that industry, scientists must stop working in silos, start sharing a mechanism of measurement that shows who's being successful. Also need to bring farmers into this conservation

Penrith discussed soil carbon through the investment lens, specifically in the context of his work at the Climate Trust. He addressed the need to create and quantify demand, then align the appropriate finance mechanisms to meet that demand. Penrith discussed environmental impact bonds, as well as carbon clubs, international buying carbon instruments in anticipation of Paris Agreement Article 6.2, which enables the trading of carbon throughout world.

The panel then introduced the concept of a soil carbon club for corporations that have made commitment to reducing their carbon footprint. The program would provide a suite of carbon credit, develop performance measures, draw upon Noble's Land Stewardship program (built in early adopters), and be third party verified. A service Provider/Fund manager would facilitate upfront payment for credit development and provide technical assistance, helping farmers see yield increase and generate a suite of ecosystem services. Producers would get paid when they delivered on credits

Closing Remarks

Presenter: Matthew McKenna, Georgetown University McDonough School of Business' Global Social Enterprise Initiative

To wrap up the Roundtable, McKenna gave background on his work, including Georgetown Rural Opportunity Initiative and his past work on economic development loans in Rural Development. McKenna also gave his thoughts on current conservation finance markets, noting that interest rates are low, and so hurdles for financial transactions are also low. From his perspective, political players are recognizing the importance of public-private partnership.

McKenna then discussed his work in Georgetown, and the importance of drawing upon different tools to spur rural development. He expressed the sense that investment lags in rural America, and noted the importance of CIG program as continuing to build a body of work to be captured and shared in classrooms, Wall Street, and Silicon Valley. McKenna felt that industry is underselling conservation finance in general, we must keep up enthusiasm and intention. Finally, McKenna emphasized that models can and will get simpler, and if we keep up the effort there is a ready audience to adopt these models.