Breakout 3B: Private Capital Investment Into Ecosystem Markets: Past and Future

Panelists:

- Adam Davis, Solano Partners
- David Festa, EDF
- Dan Spethmann, Working Lands Investment Partners, LLC
- David Tepper, Forest Trends
- Moderated by Pat Coady, Coady Diemar Partners

Abstract:

It is timely to take stock of the nature and objectives of private financial resources that have been mobilized to invest in ecosystem services. The panel will present an overview of various business models and what the kind of investors that have been attracted to these models. What are the issues and concerns from investors? What lessons can be learned from the wetlands mitigation sector and the carbon trading markets? What is the outlook for species, nutrient trading and other emerging markets and ecological functions? What happens next?ranching, and a suburben PES project.

1. Brief description about what each panelist covered in their respective discussions

- Dan Spethmann: Typically, it's been that public investment has gone to the private benefit. This is spinning the concept by having private investment going to the public benefit. Regulation is what is driving the demand, so there needs to be some coordination between the state and the private firm to reap benefit for one another. Because the primary competitor of the firm is non-compliance. With the state not having any driver toward efficiency, it imposes a transaction cost that "we" cannot control and can vary; therefore, regulatory markets look more like a gamble than an investment. How can private firms get together and have some consistency, and some efficiency.

- David Festa: California Fisheries Fund: revolving loan fund. Fishery regulators tried to have a certain quote for fishing and had a copious amounts of regulations to do so. An alternative is to get rid of all the rules surrounding how they get their fish, but companies have a limit. This makes the value of the company go up? Valley of death between the time of regulation to when they will see a profit. The valley of death might be a lower quota because populations are down, or new regulations on equipment, so company needs to switch over. This creates huge resistance to change because the companies lack the capital to absorb this setback. State of California put in $2 million to the fund because they found it easier than having to bear the brunt of the regulation change with subsidies, outreach, enforecement, etc. Foundations put in money, since it was an interesting alternative to a grant. People putting in money as a PRI, private return investment. $5 million total for loans to fisheries, who can take the loan and conform…or????

- David Tepper: Raising money from investors (large pension funds) who are willing to invest longer term and get a lower return. But then had a problem with supply; didn't have the infrastructure surrounding good land-use projects. They went for the low-hanging fruit, coal mines, etc, but not forest projects. We have not yet figured out how to use carbon as a tool for land-use change. Started thinking of ways to tackle large scale degraded lands.

- Adam Davis: Conducting sustainability measures based on the natural systems upon which everything relies. Mitigation banking already exists but on a "mom and pop" level, whereas Ecosystem Investment Partners is helping larger investors play a role in this market. 80% put into stocks and bonds, and 20% into alternative means of investment. Have a real estate back, because they buy land. Use money to invest in regulatory compliance credits. Credit markets gives some cash flow, because they are generated in accordance with ecological successes. As successes occur, credits are released and the money comes back. Conservation organizations typically have more land deals than they have money. So they can be a capital solution for conservation organizations because they are looking to buy land to back investments. They are particularly interested in degraded land because when the land is restored, that is where mitigation credits are accrued. The conservation organization defines conservation value, as well as having the knowledge of these ecosystems and knowing what they need to be restored.

2. Overarching themes and key takeaways

- Have to find the right business model.
- The risk of investing is on the side of the government, but because there are gaps between what's on paper and what is done in the region, there is uncertainty. There needs to be more certainty about what the rules are and what the enforcement on the ground looks like. The mundane mechanics behind the whole market is the problem; those doing the permitting, the monitoring, the data gathering. Need to get through these regulatory problems that might come down to the decentralization of states?
- Mitigation banking as an investment class. Lots of activity that needs to happen to improve mitigation markets, but that is where the money is, and it can't be skipped over.
- The economic meltdown slowed down investment, but it also weeded out those not in it for the long haul, leaving those who are willing to invest long term and wait for projects to be developed over time, which is the case for conservation projects. They also have to be prepared for lower returns, which are fine as long as you can get to scale eventually and provide a good return overall.

3. How this panel outlines (or contributes) to where we might go (as ecosystem services/markets professionals) from here

- We need to not look over mitigation banking, and also need to work on how to regulate and standardize ecosystem service market investment so that people feel more comfortable in investing.