Milne Damn Conservation Park, Markham, ON

# **INVESTING IN THE FUTURE OF ONTARIO'S GREENBELT** A BLUEPRINT FOR ADVANCING CONSERVATION

FINANCE PROJECTS IN SOUTHERN ONTARIO



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### **About Smart Prosperity Institute**

Smart Prosperity Institute is a national research network and policy think tank based at the University of Ottawa. We deliver world-class research and work with public and private partners—all to advance practical policies and market solutions for a stronger, cleaner economy.

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# **EXECUTIVE SUMMARY**

Ontario's Greenbelt covers nearly 850,000 ha of protected countryside and produces a variety of crucial ecosystem services that are key to the continued growth and prosperity of Canada's most densely populated and industrialized region. Yet, to date, investments in the maintenance of these services are primarily drawn from public and philanthropic funds that are used to finance key conservation and restoration activities undertaken by conservation authorities, local governments, foundations, and environmental NGOs ecosystems across the region. With a growing interest in the value of these services for both the regional and provincial economies, there is a potential to design more sustainable funding streams that go beyond grants to invest in the long-term future of the Greenbelt.

In the wake of recent environmental challenges exacerbated by climate change, private landowners, municipalities, and communities are increasingly recognizing the potential cost savings of conserving and restoring key natural systems. The ability of Ontario's Greenbelt to support flood regulation, water quality management, food production, and carbon sequestration, as well as mitigate the impacts of climate change, illustrates how regional prosperity and ecological integrity are inextricably linked. Given the high value of natural assets in Ontario's Greenbelt (i.e., land and water resources), investing in the future of these resources presents an opportunity for conservation and restoration initiatives to drive regional economic growth.

Even though connecting blended finance (i.e., public and private) to the conservation and restoration of natural assets in Ontario's Greenbelt makes sense on paper, advancing these types of projects has proven challenging in practice. The main challenges continue to be:

- A lack of data, and a lack of clarity around necessary data requirements;
- How to build a business case to attract investors using various conservation finance mechanisms;
- Understanding the pertinent legal and regulatory considerations;
- Understanding the roles and responsibilities of key stakeholders;
- How to communicate changes in ecosystem service value streams to diverse stakeholders.

## Purpose

The purpose of our report is to foster greater clarity on what is needed to attract new forms of investment for conservation and restoration initiatives in Ontario's Greenbelt region. In developing a *Conservation Finance Blueprint*, a first of its kind in Canada, we have developed a practical tool that enables organizations on the ground to consider what types of financial models can incentivize greater investments in nature. Our blueprint achieves this by:

- Advancing a common understanding of conservation finance, which instruments may most readily apply, and the different roles that various regional organizations can play to advance conservation finance projects;
- 2. Identifying key opportunities and value streams in Ontario's Greenbelt to illustrate where potential exists for conservation finance mechanisms to support ongoing conservation and restoration initiatives in the region;
- 3. Highlighting areas of high conservation and restoration potential and building a consensus around hotspots of 'shovel-ready' projects

Our report emphasizes that Ontario's Greenbelt offers several low-risk, high-reward investment opportunities that can improve regional ecosystems, while supporting economic growth and building resilience to climate change. A few of these opportunities include:

- **Investing in near-urban ecosystems** that are among the most threatened, but also the most productive, contributing \$509 million annually to regional GDP.
- Investing in new large-scale parks and existing outdoor recreation areas. The Greenbelt is one of Canada's top outdoor recreation destinations, generating more than \$2.1 billion annually. By 2051, more than 32,000 hectares of high-quality parkland will be needed to meet rising demand.
- **Investing in forests and wetlands** to lessen the effects of climate change and increase the ability of local ecosystems for carbon storage, cleaner air, greater flood mitigation, and a decrease in exposure to excessive heat.
- **Investing in local farms and agro-tourism.** More than \$2.9 billion in annual revenue is generated by industries that are directly related to farms in the Greenbelt, including agriculture, agri-food, tourism, and outdoor recreation.



Figure 1: Visual representation of a conservation finance transactional model

# What are the benefits of a Conservation Finance approach?

Our Conservation Finance Blueprint advances a strategy for investing in Ontario's Greenbelt where the conservation, restoration, and sustainable management of key natural systems generate significant financial returns. The return on investments is realized by accounting for the value of benefits that result from improved ecosystem functioning and service delivery, and by ensuring any revenues or cost-savings are connected to those who benefit. While Conservation Finance models are necessarily tailored to meet different ecological and economic objectives, **Figure 1** represents a general model of how investments can support conservation and restoration projects and the different way these investments can generate financial returns.

Conservation finance mechanisms hold an advantage over traditional conservation funding models in the following ways:

- 1. **They use a more sustainable financing model.** By connecting revenue and value streams from ecosystem services to those who benefit from them, there is a clear business case for investment. By generating returns, cost savings, or cost recuperation, contributors are motivated to continue to provide financial support, rather than as a one-off grant or contribution.
- 2. They attract new or novel sources of funding. Funding models that can generate financial returns (or at a minimum no net-loss) can bring new participants to a project that would otherwise not typically engage in charitable contributions to conservation. This can enable grant funds to be allocated to projects that do not necessarily generate revenue or cost savings.

The objective of conservation finance projects is to increase the overall pool of funds available, so that when possible, accessing new funding sources for a particular project can make more funds available to projects that can only be funded through philanthropic sources. It is important to note that not all conservation and restoration activities are appropriate to adapt to conservation finance funding models.

## Who needs to be involved?

Given the complexity of natural systems, investments in conservation and restoration projects that can generate measurable outcomes and have a suitable risk profile for investors often require the development of multi-faceted partnerships. Consequently, advancing conservation finance projects necessarily involves coordinating a diverse range of stakeholders willing and able to take on a variety of roles and responsibilities around the implementation, operation, measurement, and sustainability of different conservation finance projects.

Engaging the right stakeholders is a key challenge for many project proponents, especially when seeking to advance projects using complex blended finance mechanisms (i.e., public and private). Roles and responsibilities can vary depending on the type of conservation finance mechanism, the transaction model, and the desired ecological outcomes. **Figure 2** represents a simplified roadmap for organizing stakeholder support that is necessary to advance projects using a conservation finance approach.



Figure 2: General stakeholder roles and responsibilities

### What models are we considering for the **Greenbelt?**

Conservation finance mechanisms are not calibrated to be suitable in all contexts on the ground. Some models are better suited for restoration projects and natural resource management schemes, whereas others are better suited to advance long-term conservation goals. Based on the bio-geographic, economic, socio-cultural, and political features of Ontario's Greenbelt, **Figure 3** illustrates the types of conservation finance mechanisms that we have identified as the most adaptable to the region.

As a general guide, models that are more readily applicable to advance conservation goals tend to benefit from blended finance models (i.e., the use of public and private investments) and models better adapted to restoration and natural resource management schemes tend to be adapted for private investment vehicles.

In each case, the suitability of each model depends on the level and type of stakeholder participation, as well as two key factors for identifying the link between changes in ecosystem service outcomes and the scope of possible benefits:

- 1. Type and availability of data determines how changes in ecosystem services are being quantified, how the changes influence the decisions of potential investors, and how data points may differ depending on the types of ecosystem services, financial mechanisms, or project types being considered.
- 2. Who is benefiting and by how much? As a general guide, ecosystem service values for individual conservation finance projects are drawn from either their direct (e.g., cost savings from reducing flood damage) or indirect (e.g., the value of sequestered carbon) impact on target beneficiaries, the scale of which are largely determined by the following considerations:
  - the proximity of services to nearby populations; a.
  - b. the proportional impact of benefits for different population groups;
  - c. the total value of proximal economic activity; and
  - d. the scarcity of similar services in the target area.

# **Toward a blueprint for conservation** finance in the Greenbelt

Ontario's Greenbelt provides communities across the province with a range of direct and indirect ecosystem service benefits that can be measured in terms of both their monetary value and their positive impact on ecological and socio-cultural well-being. The purpose of SPI's blueprint for conservation finance in the Greenbelt is to provide local stakeholders with consistent and clear information on how to enhance these benefits using a variety of innovative financial mechanisms; and to equip



as most applicable in Ontario's Greenbelt



decision-makers with guidelines for selecting the appropriate approach and corresponding tools to integrate more private investment in ongoing conservation and restoration initiatives.

Our blueprint consists of an incremental eight-step process to address the **feasibility of various projects** using a conservation finance lens (steps 1-5), as well as **identifying the most suitable design** to advance different types of conservation finance projects (steps 5-8).

The steps in our blueprint can be adapted to different types of organizations with a diversity of goals and objectives and are suitable for any phase of project readiness – ranging from concept to completion.

# Following the conclusion of Step 8 in this section, project proponents will be able to:

- Compare the economic value of different ecosystem services and evaluate how they would relate to proposed conservation/restoration projects,
- 2. Build a business case for a proposed project and identify the parameters for a suitable conservation finance mechanism,
- 3. Implement a conservation finance pilot project.

### What is at stake?

A diversity of regional stakeholders – including private landowners, municipalities, and financial institutions – are expressing an interest in the potential revenues and cost savings that could be generated by investing in the maintenance of key Greenbelt ecosystems. As a result, local communities are facing an unprecedented opportunity to enhance climate resilience and well-being by expanding investments in nature – a process that has the potential to be accelerated using a conservation finance approach.

However, connecting investments in nature to discrete, measurable economic value streams remains a challenge at the project level, which can increase the uncertainty and risk of pursuing conservation finance investment models. Direct investing in natural assets is also a relatively new concept in the Canadian context, adding further complexity when evaluating the investment potential of various new and innovative project designs. Finally, project proponents and potential investors are still speaking different languages when exploring the potential of conservation finance projects to secure necessary investments for crucial ecosystems - the resulting higher transaction costs of project designs often lead to few projects moving beyond the concept phase. The result is a recognition of the importance of ecosystems in the Greenbelt for building ecological and economic resilience, but also a continued willingness to prioritize short-term growth over long-term prosperity.

Over the next 30 years, investments in conserving and restoring essential ecological services in Ontario's Greenbelt will affect the livelihoods of more than 15 million people. If Ontario's Greenbelt

### STEP 1 Identify key ecosystem services

STEP 2 Identify data needs and availability

STEP 3 Establish values for targeted ecosystem services

STEP 4 Evaluate policy, regulatory, and partnership context

STEP 5 Determine the appropriate financial vehicle

STEP 6 Determine the appropriate investment model

STEP 7 Perform risk assessment and set implementation objectives

**Figure 4:** Simplified structure of the proposed blueprint to advance conservation finance in the Greenbelt

is intended to continue being a driver of ecological resilience and economic opportunity, how we invest in the conservation, restoration, and sustainable management of natural key natural systems will be crucial for ensuring continued regional prosperity. Scaling a conservation finance approach across Ontario's Greenbelt presents a real opportunity to improve environmental quality, while also generating significant revenues and cost savings for landowners and municipalities and building resilience to climate change.

Our Conservation Finance Blueprint provides clear and consistent information on how innovative financial mechanisms can be used to build investor confidence and attract greater investments for conservation and restoration projects to ensure the Greenbelt can continue to deliver clean water, reduce floods risks and enhance food security for the surrounding population.



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