

Western Cape Eco-Invest Project: A PRELIMINARY ASSESSMENT OF PRIORITIES AND OPPORTUNITIES FOR MOBILISING PRIVATE SECTOR INVESTMENT IN THE WESTERN CAPE'S NATURAL CAPITAL

The provisioning, regulating and cultural services provided by ecosystems in the Western Cape have been compromised by a range of threats with the biggest losses being in water and fisheries. In total, it is calculated that degradation of the province's natural capital costs society and the economy at least R4.5 billion per annum. With significant investment, much of this value could be restored, and new business opportunities generated in the process.

Investing in natural capital entails undertaking or paying for activities that restore or secure the health of ecosystems in order to restore or secure their capacity to supply ecosystem services. Despite the importance to human wellbeing of restoring and conserving ecosystems, private sector investment in natural capital remains limited and is fragmented across a range of projects. This may be due to a number of reasons including the perceived risk of these projects, the view that the conservation and restoration of ecosystem goods and services are the responsibility of government, a lack of awareness regarding the value of ecosystem goods and services to the private sector itself and a lack of investment ready projects.

Investing in natural capital generates benefits to society and the economy in two main ways:

1. Restoring or securing the supply of services that directly and indirectly contribute to societal and economic wellbeing in a number of tangible and intangible ways; and
2. Generating business and employment opportunities to undertake the actions required.

Private sector investors that undertake these investments can benefit in two main ways:

1. Improving market advantage (e.g. BEE status, JSE ratings, marketing opportunities) through Corporate Social Responsibility spending; and
2. Generating financial returns through the production of valuable commodities, cutting costs or reducing risks.

The objective of this study was to conduct a preliminary investigation on investments in natural capital in the Western Cape, including:

- i. Identify priority ecosystem services and areas;
- ii. Review existing and emerging initiatives;
- iii. Understand private sector motivations and requirements;
- iv. Provide details on selected emerging initiatives; and
- v. Make recommendations on how the provincial government can play a role in galvanizing private sector investment in natural capital.

Key Findings

Thirty existing and emerging projects, initiatives and programmes (referred to collectively as initiatives) were identified with 24 of these being rated using 10 criteria. These criteria pertained to: i) social and environmental benefits provided; ii) financial characteristics including financial returns; and iii) levels of risk.

The scores suggest that the current initiatives are having a moderate impact on natural capital. Several are scored highly for CSR attractiveness. In many cases this is because the marketability afforded by potential links to produce is high. Very few of the initiatives, in their current form, scored well in terms of their attractiveness to provide a direct financial return.

In general, the private sector actors interviewed in this study were motivated by direct and indirect financial returns, risk reduction and market advantage. As the types of appropriate financing vehicles tend to change as an initiative progresses, the process of getting such investment opportunities to commercialisation may require different types of finance and funders through the project development phases.

With regard to natural capital investments, the insurance sector would benefit from co-operation whereas retail corporations are more likely to act in competition. Large companies are interested in investing in the provision of public goods because of the advantages of corporate social responsibility investments, but these investments need to be aligned to their core business. Smaller businesses and the finance sector are more likely to need some form of coercion through regulation and/or certification. Large scale investments by any private sector parties would require

detailed proof of concept and due diligence. Apart from costs and risks, barriers to investment mentioned included information, language (ecological versus financial), and policy and legislation (affecting the availability of financial instruments, incentives and markets).

There are several ways to mobilise funding from individuals and the private sector to pay for restoring and securing natural capital. These include: (i) mandatory payments (e.g. fees, performance bonds, offsets); (ii) creating markets for voluntary payments for ecosystem services (PES); (iii) providing vehicles for obtaining and managing donor funding (trust funds); (iv) providing vehicles for investors (environmental bonds, green asset class); (v) introducing financial and non-financial incentive measures to encourage desired investments (cost and risk sharing, tax rebates, certification), and (vi) establishing public-private partnerships.

Recommendations

Based on the findings of this study, it is recommended that the Western Cape government develops an enabling environment and catalyses private sector investments in natural capital in the following ways:

1. Develop a long-term strategy: restoration and maintenance of natural capital is a long term commitment requiring on-going investment, a strategic long term vision is necessary;
2. Focus on key “umbrella” ecosystem goods and services: carbon, energy and water are currently the global focus and thus it would be prudent to capitalise on this opportunity especially due to the extensive co-benefits that can be created;
3. Capitalise on synergies through strategic planning: investment may require an integrated and landscape-level perspective as disparate initiatives can all have effects on the same natural capital;
4. Raise awareness and capacity: capacity is required around the design and implementation of natural capital projects and awareness around promoting the recognition of businesses' dependence on ecosystems;
5. Fund research and development: championed initiatives need to be underpinned by rigours scientific analysis of biophysical and socio-economic factors so as to ensure evidence-based decision-making and adaptive management;

6. Work with the financial sector to set up financing vehicles: professionals can assist in the design of appropriate financing structures and government should consider the establishment of a natural capital trust fund to channel CSR funds towards natural capital projects;
7. Work with treasury to create tax incentives: to catalyse private sector investment in natural capital and to act as an effective incentive for landowners to protect and restore natural capital;
8. Work with national departments to assign property rights and enforce legislation: this is necessary for land and resources in order for the private sector to invest in natural capital;
9. Establish public-private partnerships: the Land User Incentives programme in DEA provides a functional model of how government can leverage private sector investment in natural capital;
10. Facilitate stakeholder collaboration: it is recommended that government plays a leading role in setting up meetings between municipalities, local government, national government, NGOs and the private sector early on in the investment continuum to ensure common understanding and to foster collaboration;
11. Position the Western Cape economy to capitalise on its biodiversity: the Western Cape has significant competitive advantage around its natural capital for example, positioning could be done around a brand which builds on the internationally renowned Cape Floral Kingdom.

Based on the recommendations of Phase I, the second phase of this project will focus on the following:

1. Pave the way: this will involve capacity building workshops and roadshows as well as confirming the selection of priority areas and projects from those outlined in Phase I;
2. Nourish emerging ideas: identify areas and link with research institutions where further research/pilots are required to advance the natural capital industry and develop project plans for priority project areas;
3. Sell initiatives: disseminate information and prime potential investors on the selected priority areas;

4. Plan ahead: leverage donor funding and initiative establishment of public-private partnerships and design/create financing vehicles to facilitate natural capital investment.

This executive summary was developed from “Western Cape Eco-Invest Project Phase I: A preliminary assessment of priorities and opportunities for mobilising private sector investment in the Western Cape’s natural capital” prepared by Anchor Environmental Consultants and C4 EcoSolutions and conceptualised and project managed by the WCG Department of Environmental Affairs and Development Planning. If you would like the full report please contact us via 110Green@westerncape.gov.za