NRCS and Private Capital:

Investing in America Together

NRCS is one of the leading funders of conservation of working agricultural lands in the United States, annually spending approximately $4 billion dollars to help farmers, ranchers, and other landowners invest to keep America's air and water clean, its landscapes productive and its rural economies vibrant.

In fact, the reality is that demand for conservation funding far outstrips this supply, leaving worthy projects unfunded each year and adding to the growing backlog.

At the same time, there is a new breed of investor making itself known in global investment circles. "Impact investors" deploy private capital in ways that achieve social and environmental goals, including conservation, while also generating returns on their capital. Conservation-focused impact investors reported in 2015 having already raised $3.1 billion in private capital to deploy between 2016 to 2018, and the total capital invested will likely well exceed this amount. These impact investors are ready, willing, and able to deploy capital, however they report trouble finding investable deals.

Together, these challenges present an opportunity for NRCS to use its Federal funding to leverage impact investment capital to achieve more conservation on the ground for each dollar the government spends.

"*NRCS and Private Capital: Investing in America Together*" from Encourage Capital explores this opportunity in more detail. The report was developed through interviews with USDA staff and stakeholders that supplemented Encourage Capital's independent analysis. Four NRCS Farm Bill programs were the focus—the Environmental Quality Incentives Program (EQIP), the Agricultural Conservation Easements Program (ACEP), the Regional Conservation Partnership Program (RCPP), and Conservation Innovation Grants (CIG).

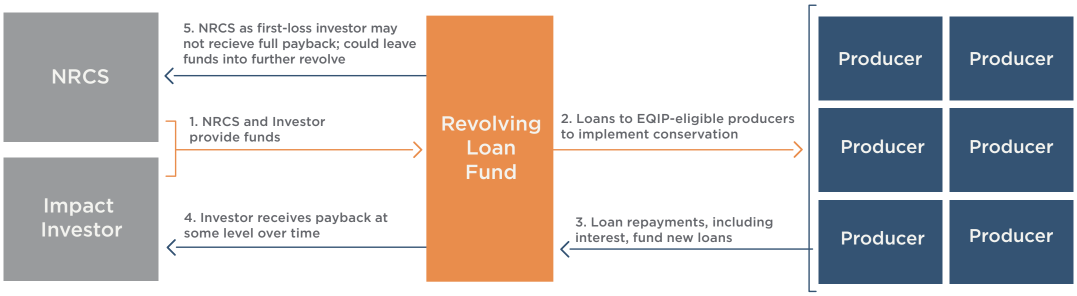
There are three general ways for NRCS to engage private investment capital:

- Allow investor participation through expanding eligibility (e.g. waivers of AGI limitation) and allowing investors to play different roles as program participants (e.g. recipients and/or providers of funds).
- Facilitate investor participation by boosting returns, decreasing risk, connecting investors with projects and/or providing access to data to inform potential investments.
- Use markets to enable monetization of environmental impacts by supporting the development of markets for ecosystem services (e.g. carbon markets, mitigation banking markets, etc.).

These three core concepts underlie, individually and collectively, all of the specific opportunities described in the report.

Highlighted Opportunities with EQIP, CIG, ACEP and RCPP

Environmental Quality Incentives Program (EQIP) Opportunity:
A subset of EQIP-eligible conservation practices has the potential to provide a financial return on investment in addition to its public conservation value. NRCS could identify and aggregate EQIP-eligible projects that provide a positive financial return on investment and use a combination of NRCS funds and impact investment capital to provide revolving loans to finance them.



Agricultural Conservation Easement Program (ACEP) Opportunities:

- Expand use of environmental credit aggregation to supplement easement payments, which together can provide sufficient financial incentives to get more land under easement, with a focus in particular on avoided conversion of grasslands.
- Replicate ACEP eligibility mapping done in Arkansas for each state and share it publicly to increase transparency and reduce uncertainty.
- Recognize qualified investors as conservation partners, allowing them to participate in NRCS programs in new ways for the benefit of mutual beneficiaries.

Regional Conservation Partnership Program (RCPP) Opportunities:

- Facilitate investment in upstream improvements by downstream beneficiaries, for example, bringing together water utilities with upstream farmers to enable the installation of grass buffers along waterways, improving water quality at reduced cost.
- Co-invest RCPP funds with private funds for infrastructure improvements on mid-stream assets, for example supporting processing and transportation of organic commodity crops.
- Engage private capital to help fund projects that benefit from the monetization of products and co-products of conservation, such as the sale of invasive species timber or biomass that would otherwise be burned.
- Engage insurers to help fund conservation that reduces their risk exposure, such as conservation practices that reduce the payouts related to flooding or wildfires.

Conservation Innovation Grants (CIG) Opportunity:
NRCS solicits for a partner entity to co-fund the CIG Accelerator Program (CAP). The CAP would provide recoverable grants to project teams poised to expand and scale a proven conservation concept, prioritizing building businesses that leverage private capital and addressing the critical mezzanine stage of development not currently targeted by any other NRCS programs. Recovered funds are returned to the foundation and re-circulated, reducing the need for additional funding over time.

Highlighted Opportunities Requiring New Authorities

- **Use direct loans to fund conservation,** e.g. through EQIP-Backed Revolving Loan Fund
- **Provide loan guarantees**, e.g. partner with FSA or RD to target loan guarantees at conservation projects
- **Issue conservation bonds**, e.g. partner with investors to issue a bond to support a landscape-scale conservation effort
- **Employ Pay for Success models,** e.g. have investors provide the capital to implement a project and the repayment level is contingent upon the actual outcomes achieved by the projects

Creating the Conditions for Engaging Investment Capital

There are five conditions which, while not strictly required, have a significant impact on the ability and willingness of investors to help complement NRCS funding. These conditions make it easier for investors and government to speak the same language, align their incentives along with those of program participants and reduce the costs and risks of engagement.

Recommendation	How it Facilitates Investment
Collect, analyze and publish essential data	Provides insight into actual economics of each conservation practice as implemented.
Focus on conservation outcomes	Enables efficient investment approaches, using the least amount of capital to achieve the desired conservation outcomes.
Allow a return on investment	Provides investors the ability (not the guarantee) to earn a return on invested capital.
Mitigate risk	Enables investors to engage where they otherwise would not due to uncertainty and unmitigated risk.
Reduce transaction costs	Minimizes the erosion of financial returns due to transaction costs, making more conservation projects investable for private capital.

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