

Investing in Watersheds

OVERVIEW

As climate risks escalate, the need for innovative financing solutions that protect both ecosystems and economic interests has never been more urgent. Public and private sector investments require far in excess of what is currently needed to protect, rehabilitate and restore natural systems so that societies can continue to receive the vital ecosystem services they provide.

At present, there are no models or mechanisms deployed at a large enough scale to bridge this finance gap. While there is no simple “fix”, it is clear that we need new mechanisms that will routinely enable investments in the hundreds of millions of dollars, to support solutions at scale.

This document introduces an exciting initiative that will move us closer to this goal. Our proposed strategy has the potential to attract significant private sector investment in natural assets, helping to maintain critical natural infrastructure services for communities facing climate change while generating financial returns. As such, the project will interest organizations engaged in insurance, conservation finance, ESG, sustainable investment, and watershed health.

Specifically, our project combines outcome-based financing with a common asset trust model in the Grindstone Creek watershed, a region in Ontario with a demonstrated history of in-depth natural asset management. In the upcoming phase of our “*Investing in Watersheds*” project, we aim to secure funding to support a dedicated project facilitator who will work closely with a range of partners to advance this important work.

Natural assets refer to the stock of ecosystems or natural resources — such as **wetlands, forests, and riparian areas** — that contribute to the provision of one or more services required for the health, wellbeing, and long-term sustainability of a community and its residents.

UNDERSTANDING THE COMMON ASSET TRUST (CAT) MODEL

A Common Asset Trust is a special organization or group that takes care of natural resources like forests, rivers, and lakes. The main goal of this group is to ensure these natural places are protected and used in a way that benefits everyone, now and in the future. The core elements include:

- 1. Securing Funds:** The CAT secures funds from various sources, including businesses, government grants, and private donors. These funds are used to support projects that aim to protect and enhance the environment.
- 2. Investing in Projects:** The collected funds are invested in projects that restore and maintain natural areas. For example, a reforestation project, cleaning up a polluted river, or restoring habitats for wildlife.
- 3. Measuring Success:** The CAT sets specific goals for each project, like how much cleaner a river should be or how many new trees should be planted.
- 4. Giving Back to Investors:** If the projects are successful, the CAT gives some of the money back to the people and organizations that invested in them - essentially, a dividend for helping to protect the environment.

The facilitator will build on both a multi-year natural asset management project and our previous work to engage local partners, stakeholders and rightsholders to:

- design an approach that recognizes current governance and financial arrangements, and builds on the Common Asset Trust (CAT) model;
- begin implementation of the hybrid model; and
- explore options to expand this approach to other watersheds.

Within two years, there will be clear forward momentum with a functioning structure for moving forward, underpinned by consensus and buy-in from other groups.

ABOUT THE NATURAL ASSETS INITIATIVE (NAI)

NAI is at the forefront of reshaping the approach that local governments—and other watershed-level agencies—take in delivering essential services. NAI offers a conceptual and practical shift from traditional decision-making to one that enhances the quality and resilience of infrastructure while concurrently reducing costs, mitigating risks, and enhancing biodiversity.

A Canadian not-for-profit, NAI has defined and pioneered natural asset management (NAM) as a mainstream practice. This approach not only meets the immediate needs of citizens but also safeguards the natural assets that contribute to the ecological, social, and climate resilience of our communities. Grounded in scientific, economic, and municipal expertise, the NAI team supports local governments and a growing number of other entities in identifying, valuing, and integrating natural resources into their financial planning and asset management programs. Since 2018, NAI has worked successfully with over 140 local governments from British Columbia to Nova Scotia; a range of regional and watershed agencies

including various Conservation Authorities and the Port of Vancouver; and, most recently, a number of First Nations that are at the forefront of land-use changes.

We aim to ensure long-term ecological health and economic benefits for communities, creating a sustainable future for all. To this end, we seek to protect and enhance natural ecosystems through innovative financial mechanisms.

THE NEED FOR NEW INVESTMENT APPROACHES

Traditional methods of funding environmental conservation often fall short of addressing the full scope of our ecological challenges. Public funding is limited, and while private sector interest in sustainable investment is growing, there remain significant, well-documented shortfalls in financing for nature. Most recently, the Nature Conservancy estimated an urgent need to close a \$722-967 USD billion annual financing gap¹.

To solve this disparity, NAI proposes a novel approach that leverages the power of collaborative community engagement and outcome-based financing, using a Common Asset Trust (CAT) model. This integrated strategy is designed to create a sustainable and scalable framework for investing in natural assets.

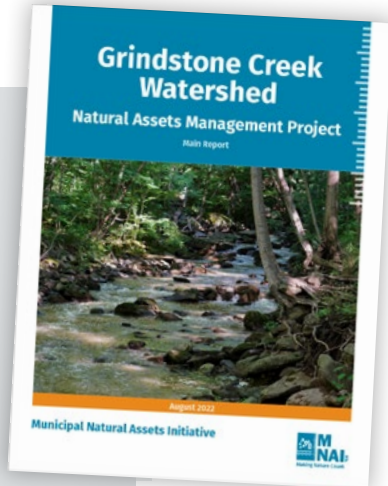


¹ www.nature.org/en-us/what-we-do/our-insights/perspectives/closing-nature-finance-gap-cbd

OVERVIEW OF THE “INVESTING IN WATERSHEDS” PROJECT



The result of several years of work, the Grindstone Creek Watershed Main Report lays the foundation for our next steps.



The Investing in Watershed project focuses initially on the Grindstone Creek region. Located in Ontario, Canada, the watershed serves as a vital natural asset providing essential ecosystem services such as water filtration, habitat for wildlife, and recreational opportunities for local communities.

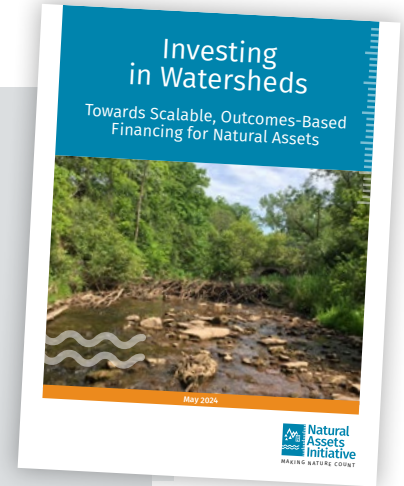
The Grindstone Creek has been the site of several years of collaboration involving key players such as NAI, Conservation Halton, the City of Hamilton, the City of Burlington, the Royal Botanical Gardens, and various other local partners to identify the key services from nature and their value; and subsequently, to increase investment in these natural services through foundational work of the *Investing in Watersheds* project.

The selection of Ontario’s Grindstone Creek watershed as the pilot site to advance the initiative is a strategic decision, leveraging prior work by local organisations, including the establishment of a funding mechanism that can serve as a core structural element for the project. The presence of multiple interested entities, including an existing non-profit foundation, with aligned governance frameworks and financial assets also contributed to this choice.

PROGRESS TO DATE - PHASE I



This proposal will mobilize the action plan outlined in the Investing in Watersheds plan.



Phase I of the “Investing in Watersheds” project laid the groundwork for this comprehensive outcomes-based investment framework, including:

- 1. Background Research:** Conducting thorough research to support the conceptual framework, ensuring a robust foundation for future activities.
- 2. Conceptual Framework:** Creation of a conceptual outcomes-based investment framework. This framework includes considerations for governance and a proposed financing structure aimed at supporting investments in the restoration, protection, and management of biodiversity, ecosystems, and ecosystem services at the watershed scale.
- 3. Base Investment Case:** Development of a foundational investment case, setting the stage for future phases.

The outcomes of Phase I are designed to support significant scaling up of funding and financing available for investing in natural assets and watersheds, both in Canada and globally.



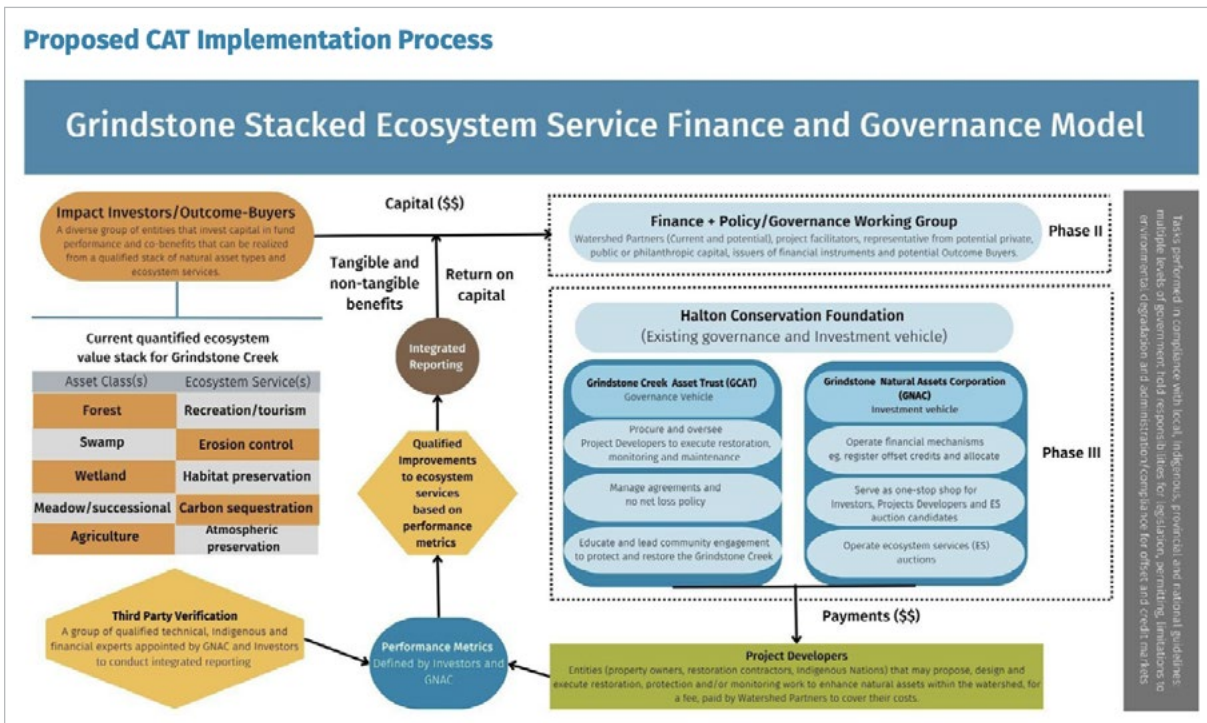
NEXT STEPS - PHASE II

The goals of Phase II of the “Investing in Watersheds” project include:

- **Elaboration and Engagement:** Engage with current and potential watershed partners to elaborate on and refine the proposed governance and financing model.
- **Fundraising for Investment Structure Development:** Secure funds from early-stage impact investors to cover the costs associated with developing the investment structure.

Specifically, the next steps involved in Phase II include:

1. **Establishing Governance and Finance Working Groups:** These groups will work on designing the CAT model and mobilizing resources for Phase II activities.
2. **Fundraising from Impact Investors:** We will seek early-stage investments to support the development of the investment structure.



The conceptual model created in Phase 1, now ready for implementation.

- **Preparation for Benefit Sharing and Co-Management Agreements:** Prepare to execute benefit-sharing and co-management/governance agreements in the subsequent phases of the project.

INVESTING IN A NEW APPROACH TO CONSERVATION

We now seek financial support to cover the costs of our dedicated team member and associated project activities over the next 2-3 years. This support is crucial for ensuring the success of Phase II and achieving our long-term vision of a thriving, sustainably managed Grindstone Creek watershed.