Development of a Natural Capital Investment Plan for the Turks and Caicos Islands

Accessible Framework

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The Natural Capital Investment Plan presents pathways to unlock sustainable finance for the protection and enhancement of the natural environment in the Turks and Caicos Islands (TCI). This Accessible Framework is used to assess and evaluate the risks to natural capital present in TCI as well as identify key opportunities and actions to enable sustainable investment in TCI's natural capital.

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Executive Summary

Finance Earth and Economics for the Environment (eftec) were commissioned by the Joint Nature Conservation Committee (JNCC), supported by the Resilience, Sustainable Energy and Marine Biodiversity (RESEMBID) Programme, to develop a Natural Capital Investment Plan (NCIP) for the Turks and Caicos Islands (TCI). The primary objective of the NCIP is to provide pathways to unlock sustainable finance for the protection and enhancement of the natural environment in TCI to safeguard TCI's natural capital assets for generations to come.

The NCIP has been developed through background research, structured surveys, and extensive engagement with Government Ministers, local businesses, funding institutions, Non-Governmental Organisations (NGOs) and other stakeholders. The research was used to assess and evaluate the risks to natural capital present in TCI today as well as identify priority natural capital markets, potential project pipeline , financing mechanisms and key actions to enable sustainable investment in natural capital.

The term "natural capital" refers to certain stocks of the natural assets that have value to society, such as forests, fisheries, rivers, biodiversity, land and minerals, including both the living and non-living aspects of ecosystems. It is from natural capital that people can derive a range of valuable services, often called ecosystem services, that support their lives.

It is estimated that approximately half of global GDP is directly dependent on nature, with US$44 trillion of annual GDP at risk due to nature-related pressures. Research shows that US$957 billion of annual investment is required for effective protection of the global environment. However, current spending levels are at US$133 billion per year, with most of this from public and philanthropic sources. While governments and non-profit organisations have historically been the main sources of funding for environmental conservation and sustainability initiatives, the scale and complexity of environmental challenges far exceeds the capacity of public and philanthropic grant funding alone. As such, income generation and private sector investment will play a crucial role in filling this funding gap by developing investment opportunities that protect or restore natural capital while generating a return on investment.

In TCI specifically, it is estimated that, in order to safeguard and manage natural capital assets effectively, at least US$0.9 million of additional funding is required annually. The NCIP, as detailed in this document, sets out a roadmap to address this funding gap. Crucially, it also identifies opportunities to unlock sources of finance to support economic growth, livelihoods and jobs, and implement measures to help protect the people and nature of TCI from natural hazards and extreme weather

events, such as rising sea levels and a changing climate. The overall objective of the NCIP is to help the economy of TCI to develop in line with national priorities, including sustainable development, economic diversification and resilience, social inclusion and justice, as well as good governance. Importantly, the NCIP aligns with TCI's Vision 2040 (2023) directional document for the nation.

TCI boasts a rich variety of ecosystems, including coral reefs, mangroves, seagrass beds, wetlands, dune systems, pine shrubs, and forests. These natural capital assets support a thriving tourism industry, regulate climate, provide coastal protection, and ensure food provision. Today, the economy of TCI relies heavily on tourism, constituting around 70% of annual GDP, with TCI welcoming 1.6 to 2 million tourists each year. While tourism has driven significant economic growth and improved residents' livelihoods considerably over the past 50 years, there's an urgent need to enhance its sustainability and promote wider economic diversification; this can improve the resilience of TCI's economy, ensuring its adaptability for the long-term, as well as facilitating the protection of its natural capital assets for generations to come.

Overall, the findings from this work underscore the critical importance of safeguarding these natural capital assets, given the exposure to threats from various human activities and environmental challenges, such as unsustainable development and tourism, overfishing, pollution, and climate change. As outlined above, preserving these assets is not only essential for the wellbeing of future generations but also pivotal for ensuring the long-term sustainable economic growth of TCI. In addition, because of the wealth of natural capital assets that TCI holds, TCI is uniquely positioned to lead in the development of various natural capital markets, including those in blue carbon (e.g. through mangrove restoration and preservation), biodiversity and natural coastal defence.

Specific opportunities for investment include transitioning to more sustainable tourism practices, including more sustainable infrastructure development and supporting ecotourism ventures. Additionally, there is potential to establish more environmentally responsible aquaculture and mariculture practices to meet the high local and international demand for sustainably-sourced seafood, particularly queen conch, spiny lobster, and grouper. Improving the sustainability of fisheries and enhancing local food production are further opportunities to diversify the economy and enhance the sustainability of local food production. TCI could also benefit from investing in renewable energy sources such as wind, solar, Ocean Thermal Energy Conversion (OTEC) and waste-to-energy technologies to reduce reliance on imported fossil fuels and achieve significant savings in energy costs. Furthermore, exploring payment for ecosystem services in areas such as carbon sequestration, natural coastal defence, and biodiversity payments could generate new income streams while simultaneously preserving TCI's diverse habitats. However, many of these identified

opportunities are early-stage, and require additional support before becoming 'investment ready'.

There are a number of market-wide barriers limiting the investment readiness of natural capital markets and potential project pipeline in TCI today. These barriers include unclear policy and regulatory frameworks, a need for further development of local expertise in restoration techniques and business case development, limited data on natural capital assets, challenges in coordination and communication with stakeholders due to geographical and capacity constraints, as well as uncertain demand for ecosystem services.

Addressing these barriers will require a multifaceted approach. This may include advancing supportive policies and legislative frameworks – such as ringfencing tourism user fees to be directed towards natural capital projects, enhancing technical expertise through capacity-building initiatives, conducting feasibility studies and ecological assessments, establishing mechanisms to measure and incentivise ecosystem protection, ensuring transparent governance, engaging local communities through communication hubs, and implementing pilot projects to develop proofs of concept and build investor confidence. The variety of projects, revenue streams, and market development stages emphasises the need for diverse funding options to support TCI's economic diversification, resilience and sustainability. Various financing mechanisms, guided by a unified governance strategy, will likely be necessary based on the identified needs for natural capital investment in TCI.

A number of financing models were explored during the development of the NCIP. In order to develop the revenue opportunities and attract wider forms of funding and financing, transparent and robust governance will be crucial. In TCI, an effective method to aggregate and govern different funding and revenue streams could be through an independent charitable vehicle, such as an environmental fund or trust.

A TCI Natural Capital Trust ('the Trust') or dedicated pool of natural capital funding could be established to provide robust governance, aggregate different funding sources, leverage funding and support decision making aligned to the NCIP priorities. Initial funding mechanisms may include a natural capital grant fund for direct conservation support ora development funding and capacity-building programme.

Learning from previous conservation funding mechanisms, such as the dissolved TCI Conservation Fund, the Trust or dedicated pool of funding could help fill the gap in sustainable funding for natural capital and economic development. Transparent, robust governance will be vital to ensure stringent financial management, stakeholder engagement, impact reporting and verification and enable the ongoing development of a supportive legislative framework. The proposed Trust governance

structure could include a mix of public, private, and third-sector stakeholders with expertise in developing, financing, and advising on natural capital projects. This coordinated approach to governance and aggregation of projects should attract investors and donors while allowing for the refinement and adaptation of processes supporting natural capital projects over time.

In order to facilitate the development of an investable pipeline of projects and unlock additional investment in natural capital over time, a series of recommended priorities and associated timelines are listed below:

Short term: The NCIP advocates for an initial focus on expanding the pipeline of identified project opportunities, enhancing ecological assessments, and testing market demand. Over the next year, efforts to design and develop a business case for a dedicated Trust or similar governance vehicle should commence.

Medium term: Concerted efforts will be required to establish the proposed Trust governance structure, secure initial funding, ringfence user fees, and cultivate a project pipeline that supports natural capital and generates sustainable revenues. These initiatives lay the groundwork for mobilising repayable finance in the future to support project costs.

Long-term: Over the long-term, project monitoring, evaluation and progress reporting should take place to enable iteration of the strategy and improvements over time. Opportunities to expand to new sources of repayable finance should be considered to be aggregated under the umbrella governance vehicle. Engagement with funders and investors should take place based on the needs of the project pipeline to leverage wider pools of sustainable financing.

In conclusion, the NCIP represents a roadmap to guide TCI's journey towards safeguarding its natural capital, mitigating climate risks, and fostering sustainable economic growth. By prioritising transparent governance, data-driven decision-making, and diversified funding mechanisms, TCI can chart a course towards resilience, prosperity, and a legacy of stewardship for future generations.

Introduction

The need and opportunity for natural capital investment

Global context

"Natural capital" refers to the world's stock of natural assets which include, water, air, soil and all living things. It is from natural capital that people can derive a range of services, often called ecosystem services, that make their lives possible. According to the World Economic Forum, approximately half of global GDP is moderately or highly dependent on nature – with US$44 trillion of global GDP under threat by nature loss, affecting all business either directly or through their supply chains.[1]

It is estimated that up to US$957bn of annual investment is required to adequately safeguard the natural environment globally. However, as of 2022 there is a reported annual spending of approximately US$133bn and, of this spending, 86% is from public and philanthropic sources, with the remaining 14% deriving from private sources.[2] While governments and non-profit organisations have historically been the main sources of funding for environmental conservation and sustainability initiatives, the scale and complexity of environmental challenges far exceeds the capacity of public and philanthropic grant funding alone. As such, income generation and private sector investment will play a crucial role in filling this funding gap, by developing investment opportunities that protect or restore natural capital while generating a return on investment.

The need for a Natural Capital Investment Plan in Turks and Caicos

TCI boasts a rich variety of ecosystems, including coral reefs, mangroves, seagrass beds, wetlands, dune systems, pine shrubs, and forests. Renowned for its biodiversity, TCI's natural environment plays an important role in the lives of local populations, as well as supporting a thriving tourism industry that forms the bedrock of the economy. TCI's ecosystems are central to the livelihoods and prosperity of its population, from coastline to urban areas. Through climate regulation, coastal protection, food provision and recreational activities, the natural capital assets of TCI contribute significantly to the livelihoods of local communities.

However, these natural capital assets, and therefore the livelihoods that depend on them, are under threat from various human activities and environmental challenges, such as coastal development, overfishing, pollution, rapid development, unsustainable tourism [3] and climate change. These pressures are resulting in damages to the natural habitats and ecosystems within TCI. Over time, these pressures cause negative impacts on the incomes and livelihoods of the TCI

population. By preserving and sustainably utilising natural resources, TCI can not only secure ecological, economic, and social benefits for its people but also fortify the resilience of its natural environment and economy against escalating pressures, ensuring a prosperous and sustainable future.

TCI has 35 protected areas totalling 71,714 hectares (5 terrestrial and 28 marine), which are managed by the Department of Environment and Coastal Resources (DECR). Overall, protected areas encompass c.9% of the total terrestrial and benthic habitats of TCI, which collectively amount to c.780,000 hectares.[4] In order to safeguard and manage TCI's protected areas for the long-term, it is estimated that at least an additional US$0.9 million is required annually.[5] This gap represents an essential investment towards the conservation, management and sustainable utilisation of TCI's natural assets, and does not include the required investment in infrastructure and sustainable businesses. Adequate funding in these areas is crucial for safeguarding the environment and ecological richness of TCI, providing a foundation for continued enjoyment and prosperity for generations to come.

In its Vision 2040, the government of TCI has included objectives to "[...] improve the health of the ecosystem as a measure to sustain and build natural resilience; [...] to create alternative livelihoods and to diversify economic activity."[6] This Natural Capital Investment Plan (NCIP) identifies new funding and finance opportunities to safeguard and enhance the natural capital assets of TCI, diversify the economy and create new employment opportunities.

The NCIP sets out priorities to unlock sources of finance that can support economic growth, livelihoods and jobs, and to reduce losses from natural hazards and extreme weather events, such as rising sea levels and a changing climate. The overall objective is to help develop the economy of TCI in line with national priorities, including sustainable development, social inclusion and justice and good governance. Importantly, the NCIP aligns with TCI's Vision 2040 (2023) directional document for the nation. One of the goals of this NCIP is to prioritise the resilience of islanders, independent from Foreign Direct Investment.

The Vision 2040 document outlines a series of priorities across 5 key outcomes, or sustainable development dimensions (SDDs):

SDD1	**High national income and wealth**
SDD2	**A socially cohesive society**
SDD3	**A healthy natural environment, heritage and cultural assets**
SDD4	**Citizen security**
SDD5	**Good governance**

As identified in Table 1: The TCI Vision 2040 Sustainable Development Framework, a number of necessary conditions (NCs), or secondary outcomes, are listed under each SDD, with each contributing to the sustainable development goals of TCI. These outcomes have been interwoven into the recommendations developed through this work. A series of short to long term enabling actions focused on the delivery of the NCIP have been identified to help achieve the long-term targets as set out in the Vision Document.

Table 1: The TCI Vision 2040 Sustainable Development Framework

Overarching Goal				
"A high quality of life enjoyed by citizens, residents and future generations"				
SUSTAINABLE DEVELOPMENT DIMENSIONS (SDD)				
SDD 1 - High National Income and Wealth	**SDD 2 -** A Socially Cohesive Society	**SDD 3 -** Healthy Natural, Environmental, Heritage and Cultural Assets	**SDD 4 -** Citizen Security and Justice	**SDD 5 -** Good Governance
NECESSARY CONDITIONS (NC)				
NC1.1 Stable macro-economic environment and resilience	**NC2.1** Equitable access to education opportunities, youth development and lifelong learning	**NC3.1** Good ecosystems, marine and aquatic resource management	**NC4.1** Minimal adverse social and economic factors that help fuel crime	**NC5.1** Good technical governance
NC1.2 Export market penetration including tourism markets	**NC2.2** Adequate access to health care and optimal health status of the population	**NC3.2** Disaster risk management and climate resilience	**NC4.2** More effective policing	**NC5.2** Good political governance
NC1.3 Appropriate levels of foreign investments	**NC2.3** Adequate social insurance	**NC3.3** Good management of heritage and cultural areas	**NC4.3** More effective administration of justice	**NC5.3** Effective Implementation of national plans
NC1.4 Optimal private sector development	**NC2.4** Adequate access to housing	**NC3.4** Adequate rural and urban planning	**NC4.4** National security	
N.C.1.4.1 Strong tourism Industry as a foundation	**NC2.5** Adequate social protection	**NC3.5** Adequate waste management and pollution control		
NC1.4.2 Business competitiveness	**NC2.6** Decent work			
NC1.4.3 Optimal economic diversification	**NC2.7** Strong national identity, culture, and future vision			
NC1.4.4 Adequate access to development finance	**NC2.8** Social inclusion			
C1.4.5 Technological adaptation and innovation, including the use of green technology				
NC1.4.6 Appropriate incentives				
NC1.5 Inclusive growth				
NC1.6 Adequate infrastructure (transportation, roads, ports, energy, water, and telecommunications)				
NC1.7 Adequate skills and capacity to facilitate economic growth, diversification and sustainable development				

Methodology

Supported by RESEMBID and commissioned by JNCC, Finance Earth and eftec delivered the project between July 2023 and May 2024 over five phases, as shown in Figure 1: NCIP Development Approach.

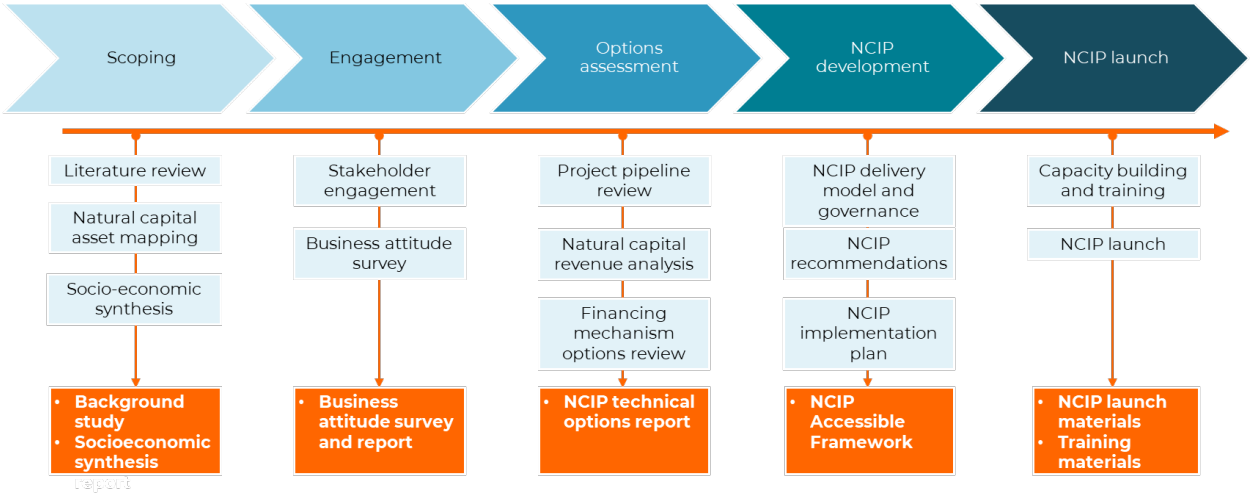

Figure 1: NCIP Development Approach

Scoping

Finance Earth and eftec conducted a desktop review of relevant literature, producing a Background Study outlining market developments to-date, an overview of TCI's natural capital assets and potential revenue opportunities.

Engagement

Between January and April 2023, a socioeconomic survey was performed by JNCC, receiving 133 responses, and providing insights into the existing socioeconomic conditions in TCI. Likewise, a Business Attitudes Survey took place between January and April 2023 to understand the attitudes of businesses to natural capital investment. The survey had 24 responses, with half of the respondents from the tourism sector; other key sectors represented include retail (13%), transportation (8%), and real estate (8%). Finance earth and eftec conducted supplementary analyses of these data to inform development of the NCIP.

Additional stakeholder interviews took place from October 2023 to February 2024 involving 40 organisations from both the public and the private sector, including in-country consultations in February 2024. These interviews were conducted to help identify natural capital project pipeline and revenue opportunities as well as any existing constraints and enabling factors for investment.

Options assessment

This phase built on findings from the literature review and stakeholder engagement to review the maturity of natural capital pipeline project opportunities, analyse revenue opportunities, and identify potential financing and governance mechanisms to enable delivery of the NCIP.

NCIP development

With insights from the options assessment, potential pathways to deliver and realise the NCIP were identified, including a recommended financing model and governance framework, as well as an implementation plan for how the NCIP could be executed.

NCIP Stakeholder Engagement

A NCIP stakeholder engagement event took place in May 2024 in TCI, providing capacity building training on sustainable financing opportunities and an opportunity for stakeholders to engage with the plan to support its implementation.

Options Overview

Natural capital revenue opportunities

Fundamentally, a natural capital project seeking to attract repayable investment must demonstrate financial viability and potential for a reasonable return on investment. The primary criteria that define whether a natural capital project is financially viable are the availability and certainty of its revenue streams and the ability for these to generate a surplus beyond the setup and operational costs of the project. Revenue streams can also serve to diversify sources of long-term funding to protect and enhance natural capital over the long-term. On the ground, a project may rely on a single revenue stream or combine multiple revenue streams in order to enable project delivery and target a minimum expected level of return.

Nature-based interventions (e.g. the protection of fisheries, mangrove planting, habitat creation or restoration) can produce a range of revenue streams through sale of commodities (e.g. seafood, aquaculture products and agricultural goods), payments for ecosystem services (e.g. carbon or biodiversity credits), and other fees, taxes and charges. The generation of revenue streams from ecosystem services creates the potential for a natural capital market, where an ecosystem services can be quantified and, equally, there are buyers and sellers of the service.

There are four main natural capital market types that serve as a framework for characterising and assessing revenue opportunities that could unlock funding opportunities:

- Payments for ecosystems services: When beneficiaries or users of ecosystem services (e.g. coastal defence, biodiversity and carbon sequestration) are willing to pay for the provision of that service, it creates a revenue stream which can support the cost of preserving or restoring ecosystems. [7] For example, coastal property owners could pay to preserve and restore coral reefs to defend the coastline, developers could pay to restore biodiversity to compensate for development impact, and corporates could purchase carbon credits to offset their unavoidable carbon emissions.
- User-based fees: A sum of money paid as a necessary condition to gain access to a particular service of facility or the ability to provide a service or facility (e.g. levies, taxes and fees).[8]
- Supply chain fees: Where there is a willingness to pay for sustainability within a supply chain (e.g. fisheries supply chain), a premium or fee can be applied on a volume or per product basis generating additional revenue which can be deployed to improve the sustainability of the marine and terrestrial environment.
- Sustainable enterprises: Entities that rely on and generate revenue based on the sustainability and health of the environment (e.g. tourism) can enable improved business practises to abate threats to natural environments and support livelihoods.[9]

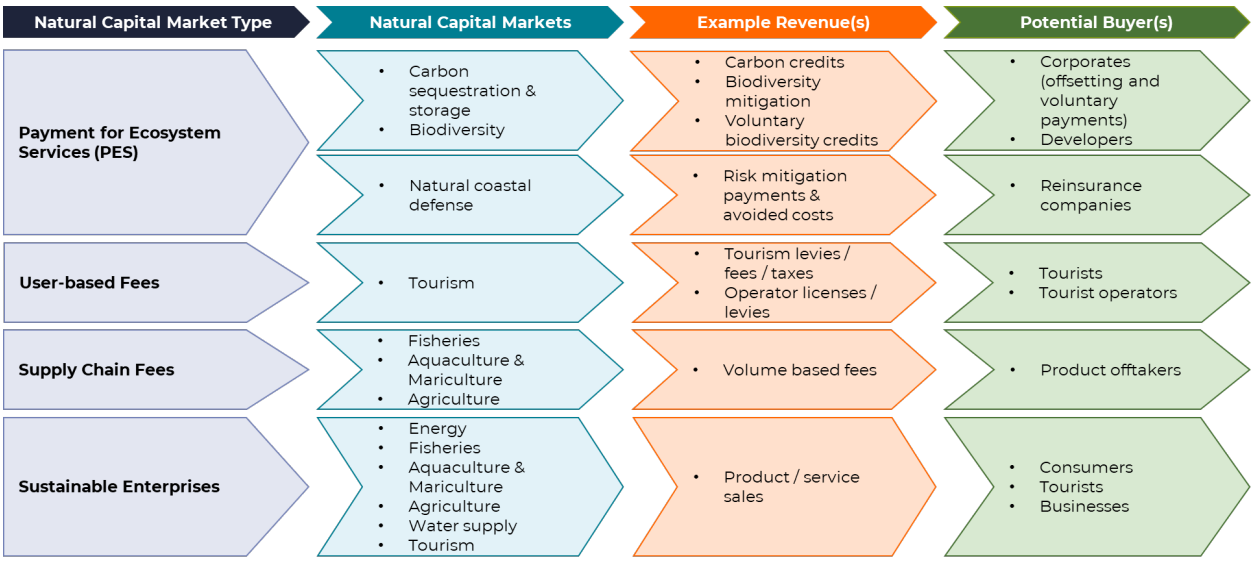

Figure 2: Natural capital market opportunities in TCI

A summary of these market types as well as example revenue streams and potential buyers is provided in Figure 2: Natural capital market opportunities in TCI.

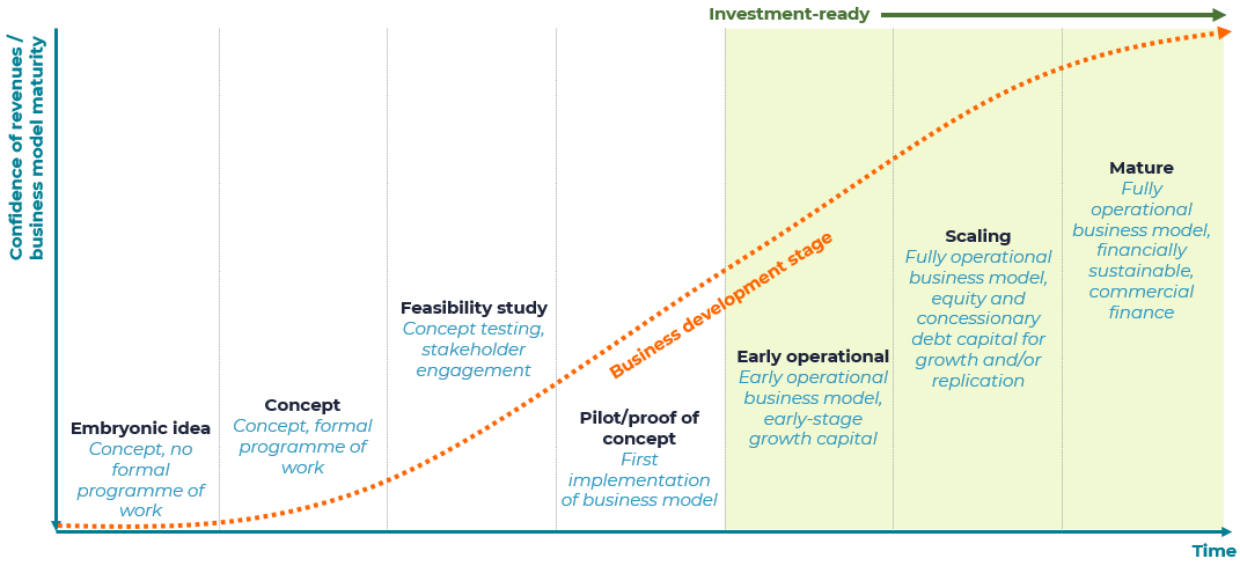

Figure 3: Natural capital market evolution J-curve

Natural capital markets tend to follow a 'J-curve' as they develop where confidence in cashflows increase over time. The pathway is illustrated in Figure 3: Natural capital market evolution J-curve, which displays the common evolution of an asset class from embryonic idea to mainstream, mature capital investment.

Pipeline project opportunities

A series of projects with the potential to generate revenue streams and support natural capital in TCI were mapped, identified through desktop research and stakeholder engagement. The business model maturity of each project opportunity was assessed to gauge confidence in revenue generation and potential to attract sustainable financing. TCI offers a range of tangible project opportunities at the intersection of environmental resilience and economic viability across responsible tourism practices; renewable energy initiatives; sustainable aquaculture, mariculture and fisheries; and natural coastal defence strategies.

A summary of the pipeline project opportunities identified is provided in Table 2: Natural capital pipeline opportunities.

Table 2: Natural capital pipeline opportunities

Natural capital market	Example pipeline project opportunities
Tourism	• Eco-tourism and nature-based experiences • Sustainable accommodation development • Eco-moorings • User/entrance fees, taxes and/or business licenses
Aquaculture and Mariculture	• Responsible farming practices • Reintroducing sustainable queen conch, spiny lobster and grouper aquaculture
Energy	• Renewable electricity sales (solar, wind, waste-to-energy, Ocean Thermal Energy Conversion (OTEC)) • Energy storage services (batteries) • Electric vehicle charging
Carbon sequestration and storage	• Mangrove and seagrass protection and restoration • Reforestation and afforestation
Fisheries	• Achieving certification across fishing practices (e.g. MSC), • Offshore pelagic fishing • Recreation/ sport fishing
Natural Coastal Defence	• Mangrove/ seagrass/ coral restoration to protect the coastline (though mechanisms such as parametric insurance)
Biodiversity payments	• Biodiversity compensation payments • Voluntary biodiversity credits
Agriculture	• Premium, locally sourced and sustainably grown produce • Hydroponics • Sustainable livestock farming (e.g. with rotational grazing, optimised feedstock, minimised fertiliser application) • Import levies
Water supply	• Solar-powered filtration and supply, generating cost savings

The pipeline was mapped on the J-curve to evaluate and prioritise each revenue opportunity and determine the financing and market development needs for the NCIP, as outlined in Table 4: Market-wide barriers and enabling actions. There are a number of market-wide barriers limiting the investment-readiness of natural capital markets and project pipeline across TCI. Various interventions across awareness raising, capacity building, and policy support can be used to overcome these barriers.

Initial analysis found that the majority of project pipeline opportunities are at an early stage and not yet investment ready and require further support and development to generate predictable revenues and access repayable investment at scale. These are

summarised in Figure 4: Project pipeline opportunities mapping by maturity of business model.

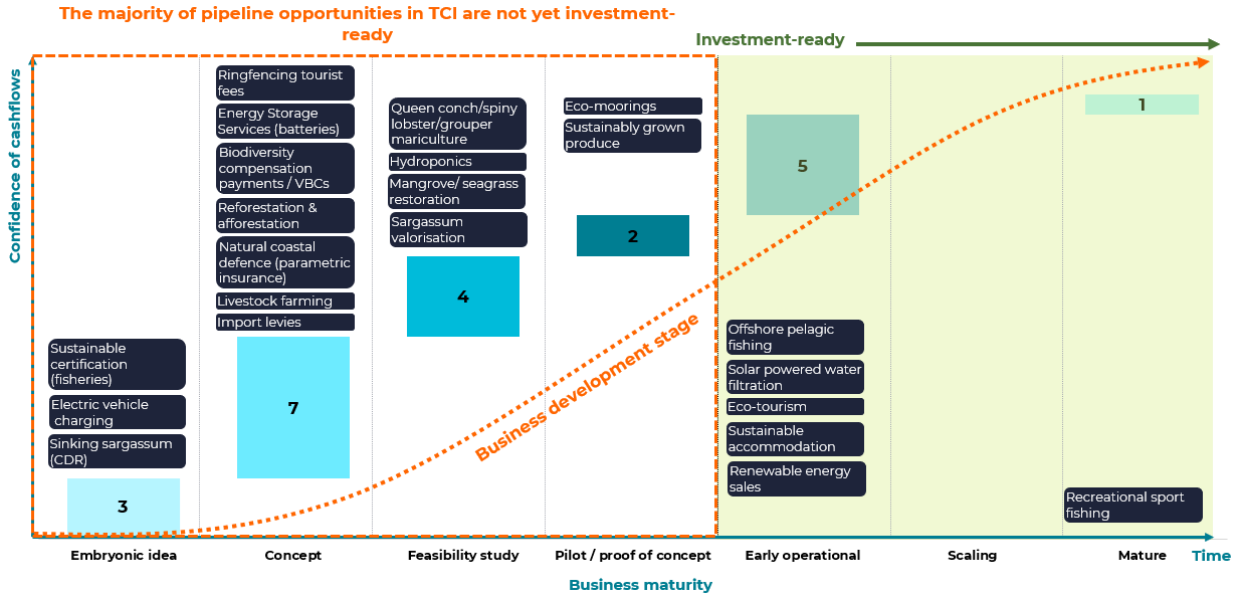

Figure 3: Project pipeline opportunities mapping by maturity of business model

Evaluative framework

The review of specific pipeline project opportunities and wider market analysis enables the assessment of the various natural capital markets in TCI as a whole.

An evaluative framework, summarised in Figure 5, was created to identify priority natural capital markets in TCI. This employs five key criteria to assess the scale of opportunity, investment readiness, and alignment of natural capital markets to TCI's strategic priorities.

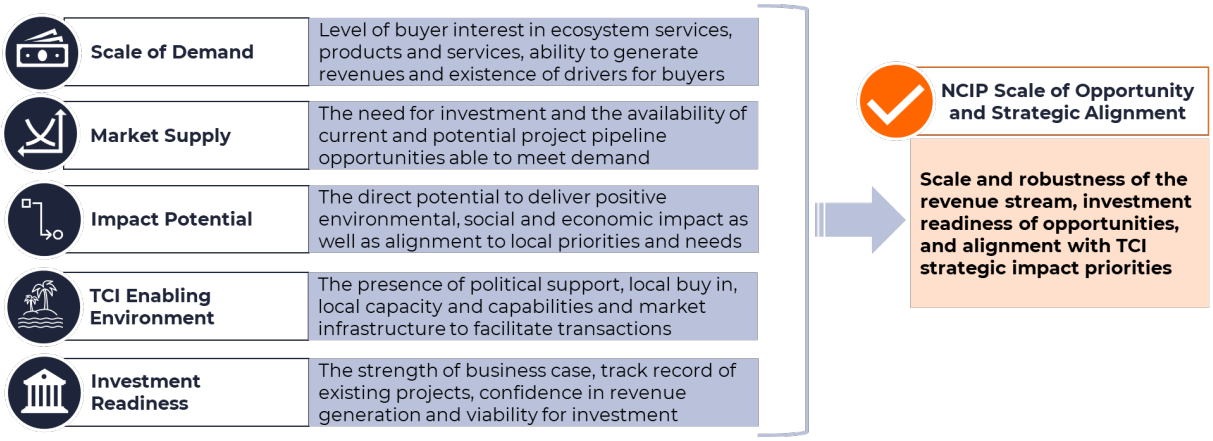

Figure 4: Evaluative Framework

Assessment of natural capital markets

The natural capital markets have been analysed according to the criteria in the above evaluative framework. This enabled an overall assessment of the scale of opportunity and alignment of each market with TCI's strategic priorities. Case studies have been provided to showcase where certain natural capital markets are operating successfully globally and to share key takeaways for TCI to consider when implementing similar approaches.

Tourism

Tourism is a vital part of the economy in TCI, with tourist activities and tourism-related developments generating the majority of its economic development and driving approximately 70% of annual GDP.[10] Tourism in TCI primarily encompasses large-scale resorts, cruise tourism, yachting and inter-island tours with developments and resorts concentrated in a few geographic areas across Providenciales. The dominant tourist economy and unsustainability of certain practices (such as expansion of resort developments) exert pressure on TCI's habitats and ecosystems. These practices contribute to habitat destruction, sedimentation, pollution, anchor damage, coral bleaching, and the introduction of invasive species, threatening the health of vital ecosystems, like mangroves and coral reefs. To safeguard these habitats, supportive regulations, marine protected areas, and sustainable tourism practices are imperative.

Positive environmental, social and economic impacts could be delivered through transitioning to more sustainable tourism practices and developing sustainable ecotourism enterprises. There are already some ecotourism initiatives in place, but there is a need for capacity and knowledge building to support the transition of the tourism sector to more sustainable practices at scale, as well as increased awareness of the importance of safeguarding natural capital.

The collection and ringfencing of tourist user fees could provide a substantial opportunity to generate income to support natural capital in TCI. For example, TCI has an existing 12% restaurant tax and recently implemented a US$10 destination management fee; the latter could generate US$16-20m/year based on an estimated 1.6m-2m visitors per annum. Consultations with local communities and businesses have suggested that there may be limited appetite among stakeholders for further levies. However,a portion of existing fees or taxes could be ringfenced to channel funding towards the protection, restoration and sustainable management of natural capital, as well as potentially supporting other sustainable business ventures. Political support is needed to progress legislation to enable this ringfencing of fees as well as to define governance and oversight over the allocation of payments, given that the

revenue generated by the fees are currently absorbed into the overall government budget.

At present, TCI's economy relies significantly on tourism but there remains a need to diversify revenue sources, given the susceptibility of the tourism industry to fluctuations in global travel patterns, economic downturns, pandemics and climate risks (e.g., storm surges and increased frequency and severity of hurricanes). Over the near-term, user fees and taxes remains a key revenue source to be channelled into safeguarding the natural capital on which tourism depends.

Key market enabling actions include:

- Establish and promote standards for implementing and scaling up sustainable practices in the tourism industry; regularly monitor impacts and benefits
- Ringfence existing fees (e.g. destination management fee, restaurant and water sports tax, mooring fees) to support natural capital protection and enhancement and consider where additional fees may be appropriate
- Support and incentivise the development and operation of eco-friendly accommodation
- Develop sustainable certification programmes for best-practice tourist operators and products
- Provide training programmes and capacity-building initiatives for tourism industry workers to enhance their knowledge and skills in sustainable practices, eco-tour guiding, waste management and environmental conservation
- Put in place stronger regulation around tourist developments e.g. enforcing and monitoring Environmental Impact Assessments, requirements for developers to align with the Mitigation Hierarchy and compensate for development impact on biodiversity on-site or if not possible, provide compensation payments to restore biodiversity elsewhere in TCI
- Conduct educational campaigns targeting tourists and locals to raise awareness about the importance of sustainable tourism, environmental conservation, and responsible travel practices
- Provide resources for monitoring and enforcement against unsustainable activities

Case study: tourist user fees

Palau PAN fund	Key project sponsors/stakeholders
Location(s): Republic of Palau, Western Pacific Ocean **Income streams:** User fees (paid by tourists)	

Description[11]	Key takeaways
• In Palau there is a Protected Areas Network (PAN) that safeguards areas of environmental significance. • A non-profit called the Palau PAN fund manages funds from the US$100 Pristine Paradise Environmental Fee (PPEF) paid by tourists. Funds are then channelled to existing and future protected sites. Palau States received US$ 15.4m from PPEF between 2018 and 2019. • State governments will continue to have governance and ownership of their PAN sites. Palau is establishing a PAN Management Committee to better consults with the Ministers of Natural Resources, Environment and Tourism.	• **Multi-stakeholder approach:** NGOs, community-based organisations and State Governments are consulted by the fund's board of directors. • **Governance**: there have been some challenges around transparency, e.g. the PAN fund has not reported since 2018. Regular reporting is paramount for maintaining trust. • **Tourism:** TCI's pristine environments support a strong tourism industry e.g. the island received ~1.6m visitors in 2019 (+50% vs. 2013). Ringfencing a conservation fee could yield significant revenues in TCI, potentially protecting and enhancing TCI's natural capital assets and helping to leverage private investment.

Payment for ecosystem services

There are a range of emerging opportunities to generate income through payments for ecosystem services, such as carbon sequestration, natural coastal defence and biodiversity, where there is availability of buyers and beneficiaries to pay for these benefits. Ecosystem service markets could provide income for direct natural capital protection and enhancement, as well as enable the sustainable use of natural capital assets in TCI.

The development of ecosystem service markets is reliant on data and evidence on the extent, condition and threats to natural capital assets such as coral reefs, mangroves as well as other blue and terrestrial habitats. Natural capital valuation and detailed spatial mapping also help to ensure that ecosystem services are considered as part of future decision making.

Three examples of potential ecosystem service markets in TCI are detailed below.

Carbon sequestration

There is an increasing focus on climate change mitigation globally and a growing awareness of the potential of natural capital interventions to help capture and compensate for carbon emissions globally. The Taskforce on Scaling Voluntary Carbon Markets (TSVCM) estimates that demand for carbon credits could increase by a factor of 15 or more by 2030 and by a factor of up to 100 by 2050, with the market for carbon credits projected to be worth upward of US$50 billion in 2030.[12]

TCI benefits from an extensive coverage of tropical-subtropical dry forests, mangroves and seagrass meadows across the islands, which offer capacity to sequester and store carbon. There is a potential opportunity to generate income to protect and restore these habitats through the sale of verified carbon credits to organisations seeking to mitigate for their carbon emissions.

However, significant data gaps remain on carbon stocks, habitat condition and evidenced threats, all of which are necessary for the development of carbon projects. Eligible carbon projects must demonstrate 'additionality' beyond standard practices, whereby the carbon sequestration or avoided emissions would not have occurred without the carbon finance. The potentially high baseline of TCI's natural environment could pose challenges in meeting this requirement.

Key market enabling actions include:

- Support data collection to assess baseline habitat extent and condition, identify losses over time and key threats, opportunities for restoration, and quantify carbon sequestration/avoidance potential
- Strengthen monitoring and reporting systems so that outcomes may be verified with confidence over time
- Engage networks and Accelerator programmes e.g. Blue Carbon Accelerator Fund or Blue Natural Capital Finance Facility to explore potential funding opportunities for carbon project feasibility assessments and business case development
- Carry out ongoing market engagement (e.g. with local corporates) to test and build demand for carbon credits
- Deliver pilot/proof of concept projects to build expertise and capture learnings on how to deliver and scale high quality carbon projects

Case study: carbon credits

Mikoko Pamoja Mangrove Carbon	Key project sponsors/stakeholders
Location(s): Kenya, East Africa **Income streams:** Carbon credit sales to academic institutions, government agencies, NGOs, private entities	Ministry of Blue Economy & Civil Aviation; mirova Investing in sustainability; Turneffe Atoll Sustainability Association; BNCFF Blue Natural Capital Financing Facility; Blue finance
Description	**Key takeaways**[13]
• Mikoko Pamoja is a community-led mangrove conservation and restoration project, and the world's first blue carbon project. Its aim is to provide long-term incentives for mangrove protection and restoration through community involvement and benefit. • The project generates revenue of US$24,000/annum through the sale of carbon credits, which is used to support local development projects. • The project is managed by the Mikoko Pamoja Community Organization (MPCO), the Mikoko Pamoja Steering Group (MPSG) which provides technical support to the MPCO; and is coordinated by The Association for Coastal Ecosystem Services (ACES).	• **Community engagement and involvement:** establishing community organisations like the MPCO can foster a sense of ownership and responsibility. • **Benefit sharing:** carbon revenues are reinvested in the community, benefiting 5,400 residents. Ecotourism provides a further source of income for this initiative. • **Clear governance and roles:** MPCO meets four times a year, has a public dispute procedure, and consults the community on spending priorities yearly. • **Long-term incentives:** partnership agreement between MPCO and ACES lasts 20 years and is overseen by a government representative.

Natural Coastal Defence

The protection and restoration of TCI's coastal habitats, such as mangroves and coral reefs, may offer a more cost effective and nature-based approach to mitigate against storm damage and flood risk. Parametric insurance mechanisms (a type of insurance that provides pre-agreed payouts based on the occurrence of specific predefined events or parameters, such as natural disasters, without the need for a loss assessment) have been used to maintain and restore natural ecosystems, for example coral reefs, in response to hurricanes or storms, enabling rapid payouts and resource allocation at the occurrence of an extreme event. For example, in Quintana Roo, Mexico, coastal property and business owners pay for coral reef insurance to protect their infrastructure and buildings and carry out ongoing maintenance of the reef and beaches. The insurance is triggered if wind speeds are in excess of 100 knots, and the pay-out is released within three weeks to restore the coral reef.[14]

TCI is highly vulnerable to sea level rise as well as other natural disasters such as hurricanes, making it essential to safeguard its coastal reef to serve as a natural barrier against weather events. There is potential appetite for coral reef parametric insurance; however, it is perceived as expensive and there is uncertainty over the value that insurance companies and other coastal businesses (e.g. hotels, restaurants and other local businesses) place on key coastal habitats and willingness to pay for these benefits. Further data and evidence on the environmental and economic benefits of natural coastal protection are needed to identify potential cost savings in the long run.

Key market enabling actions include:

- Build on previous research to baseline, evidence and quantify the coastal protection benefits and cost savings of high-quality habitats (e.g. coral reefs, mangroves, seagrass, sand dunes)
- Engage with reinsurance market actors and other corporates with significant coastal infrastructure assets to test appetite to pool funding for natural capital to deliver coastal protection

Case study: Parametric Insurance[15,16]

Quintana Roo Reef Protection	**Key project sponsors/stakeholders**
Location(s): Mexico, Central America **Income streams:** Insurance premiums (paid by local businesses e.g. hotels and property owners)	Swiss Re The Nature Conservancy CANCÚN Asociación de Hoteles de Cancún, Puerto Morelos & Isla Mujeres Comisión Nacional de Áreas Naturales Protegidas
Description	**Key takeaways**
• Coral reef parametric insurance guarantees funding to rapidly repair coral reefs after a major storm. The insurance is triggered if wind speeds are in excess of 100 knots. The maximum pay-out over a 12-month period, or the Annual Aggregate Limit, is set at US$ 3.8 million. • A trust is created to collect funds from coastal property owners and disburse them for coastal management. It then acts as the single purchaser of the insurance product and also invests in reef restoration and maintenance. • In 2020, the policy was triggered by Hurricane Delta, leading to a pay-out of almost US$ 800,000 to repair insured reefs.	• **Multi-stakeholder approach:** The Nature Conservancy (TNC) worked with the scientific community to build support with the state government, the hotel and tourism industry, and financial and insurance experts. • **Clear governance and roles:** the trust is governed by a technical committee; a scientific committee oversees spending on conservation projects. • **Use of various funding mechanisms:** the trust receives property owner fees, in addition to government and philanthropic grants. • **Quick pay-out:** insurance pay-out is paid within three weeks of being triggered, which allows for restoration works to be undertaken quickly.

Biodiversity Payments

Both voluntary and compliance-based models can enable revenues for biodiversity protection and enhancement, including:

- Voluntary biodiversity credits (VBCs) or commitments purchased by companies, philanthropists or individuals seeking to contribute to nature-positive outcomes;
- Biodiversity compensation payments, based on mandatory legislation requiring developers to deliver 'conservation gains' to compensate for loss of biodiversity as a result of development.

A market for VBCs and biodiversity commitment models is emerging as companies gain interest in voluntarily investing in nature restoration to reverse biodiversity loss. This demand is being driven by international biodiversity frameworks such as the UN's Global Biodiversity Framework (GBF), 2022, which mandates its 196 state signatories to mobilise at least US$200 billion annually by 2030 while also encouraging the use of VBCs.[17]

Despite this growing momentum, the VBC market faces challenges in its development, notably in reliably quantifying biodiversity uplift and associated VBCs, ascertaining potential demand and identifying appropriate buyer claims. Biodiversity credits require that projects demonstrate additionality: their use must generate an outcome that would not have occurred without the sale of credits and must result in a net improvement in biodiversity compared to the baseline. For VBCs to be applicable in TCI, clear opportunities for habitat enhancement or protection against evidenced threats will be needed.

Biodiversity commitment models are a more simplified approach to support long-term stewardship of marine areas; their value is not directly tied to the exact quantity of biodiversity uplift measured, making them more suitable in marine environments where there is potentially a relatively high/pristine existing biodiversity baseline. For example, the Niue's Ocean Wide NOW Trust model, where one Ocean Conservation Commitment (OCC) represents the cost of protecting 1km^2 of MPA over 20 years, rewards existing marine conservation efforts. [18]

There is an opportunity to enact more robust legislation to safeguard biodiversity in response to the rapid pace and scale of development activity. This would mandate developers to pay to compensate for biodiversity loss from developments. Biodiversity offsetting schemes are active in more than 100 countries at present, with England being the first country to mandate Biodiversity Net Gain (BNG) payments, whereby major building projects must deliver at least a 10% increase in biodiversity. [19] However, there is not currently a policy or legislative framework in place in TCI to support biodiversity compensation payments from developers to deliver strategic natural capital projects.

Key market enabling actions include:

- Strengthen development regulations, such as mandatory Environmental Impact Assessments and alignment with Mitigation Hierarchy, and provide resources for monitoring and enforcement
- Encourage the development of policies that mandate compensation of development impact on marine and coastal environments (ideally implementing policies that require a net gain in biodiversity vs. commitment to no net loss)
- Support the development of metrics and frameworks to measure biodiversity to support biodiversity compensation payments
- Develop pilot projects to test the feasibility, measurement approach and buyer demand for VBC schemes

Case study: Biodiversity Stewardship

Ocean Conservation Commitments (OCCs)	Key project sponsors/stakeholders
Location(s): Niue, South Pacific Ocean **Income streams:** Sale of biodiversity commitments to philanthropic funders and members of the public	
Description	**Key takeaways**
• OCCs represent the cost of conservation across 1km^2 of the Moana Mahu MPA for a period of 20 years. • OCCs can be sold to the public, and proceeds will be managed by a trust and used to fund a range of conservation efforts. The trust is a Public-Private Partnership between the Government of Niue and a local nonprofit. Allocation of funds will be governed by a Board of Trustees. • The mechanism has been launched in 2023 and the mechanism aims to bring-US$18m to the trust.	• **Community engagement and involvement:** The Trust works with local village leaders, schools, businesses and organisations to develop education programmes and ensure activities support community values. • **Multi-stakeholder approach:** The Trust will be overseen by members across local government, nonprofit and private institutions. • **Long-term incentives:** The Trust aims to make conservation more durable in the long term by ensuring that ocean protection benefits Niue workers directly. For example, the trust will facilitate concessional financing towards sustainable tourism businesses by working with the Niue Development Bank and hiring a sustainable tourism and accreditation officer.

Energy

Historically, TCI has imported petroleum-based fuels to power its economy and, as a result, has some of the highest energy costs in the world. As its population and economy expands, the demand for energy will continue to rise, requiring larger volumes of imported fossil fuels. As articulated in TCI's Vision 2040, investing in renewables is a key priority for the TCI Government, facilitating improvements in energy security, competitiveness, and economic diversification, as well as cleaner air and surrounding environments. In particular, the TCI Government is targeting a US$115.2 million reduction in system costs, a 12.3% cut in diesel usage, and for 33% of energy to be derived from renewable sources by 2040.[20]

Emerging green technologies and implementation of supportive policies to enable their scaling should be a focus for TCI. TCI has the potential for the development of wind, solar and waste-to-energy sources as well as other emergent technologies. However, these remain underdeveloped to date. The potential to generate energy from wind needs to be evaluated and solar energy is an additional, scalable option when provided alongside supportive legislative frameworks and public access and

education programmes. These programmes can enhance understanding and acceptance of renewable energy initiatives while fostering community engagement and participation in sustainable energy development efforts. Waste-to-energy or biomass (organic materials derived from plants and animals) utilisation could be used for the production of biofuels (ethanol), provided the end market is substantial enough to warrant production. Additionally, Ocean Thermal Energy Conversion (OTEC) technology has the potential to generate energy and water to support fish farming activities. Energy storage services (batteries) and electric vehicle (EV) charging facilities will also be an important component of a cohesive energy proposition.

Capacity building work is underway in TCI, with a portion of RESEMBID programme focused on supporting sustainable energy[21]; however, further legislative support and incentives are needed to develop the market. The current energy market is dominated by one public provider, Fortis TCI, which lacks incentives to invest in renewables at scale. Implementing feed-in tariffs (FiTs) and tax incentives can serve as effective mechanisms for incentivizing the adoption of renewable energy in TCI. FiTs provide a guaranteed price for renewable electricity generation, stimulating investment in projects such as wind and solar by ensuring a stable return on investment. Overall, investment in renewables could support natural capital indirectly through a reduction in pollutants, impacts on emission savings as well as community wellbeing through cost savings and cleaner air.

While current renewable infrastructure in TCI is underdeveloped, there is significant potential for the generation of energy from solar, wind and waste-to-energy sources, which could deliver notable long-term cost savings as well as providing income opportunities to households if they sell energy back to the grid.

Key market enabling actions include:

- Establish clear and supportive policies that incentivise investment in renewable energy, including FiTs, tax incentives, net metering, renewable energy targets, and streamlined permitting processes
- Provide funding and incentives to scale implementation of privately installed solar photovoltaic (PV) systems
- Promote public awareness campaigns to drive significant adoption of renewable energy, specifically solar power
- Carry out mapping of opportunity areas to deliver renewables, understand costs and revenue potential

Aquaculture & Mariculture

TCI benefits from high local and international demand for sustainably produced seafood, with demand for local fish from the thriving tourism industry exceeding supply.[1] There is an opportunity to establish responsible farming practices to produce queen conch, spiny lobster and grouper to meet this demand.

Marine animal poaching in TCI, particularly the illegal fishing of conch in protected areas like the Bight and Northwest Point Marine National Parks, has led to the depletion of once-thriving populations.[22] The adoption of responsible farming practices and implementation of robust monitoring practices can help alleviate pressure on these stocks; however, there remains a risk that poorly managed aquaculture could have damaging impacts on the marine environment.

Mariculture has been identified as an attractive area for investment to support the return of traditional conch farming practices and to increase sustainable lobster and grouper production. However, the opportunities are relatively nascent and small-scale in TCI. For example, there are feasibility studies underway for sustainable queen conch, but production is at early stages, and cultural barriers need to be overcome (such as perceptions that farmed conch is less healthy than wild conch). Regulations and the promotion of sustainable approaches are needed to ensure that activities are sustainable and that they protect habitats.[23] TCI would also need to build skills and capacity in new approaches (such as knowledge of breeding, feeding, disease management, water quality monitoring, and harvesting techniques) and mitigate risks of potential damage from hurricanes in order to enable the delivery of sustainable mariculture and aquaculture projects.

Key market enabling actions include:

- Support and incentivise the development of pilot projects in aquaculture and mariculture to help establish investor confidence
- Provide training programmes and capacity-building initiatives for aquaculture and mariculture industry workers to enhance their knowledge and skills in sustainable practices and environmental conservation
- Implement regular monitoring programmes and surveillance measures to monitor aquaculture and mariculture activities, including patrols and inspections
- Collect and analyse data on stock levels, stock and ecosystem health to inform decision-making processes, adaptive management, and policy adjustments
- Encourage and fund value addition (e.g., premium prices for sustainable products) through processing, certification and effective marketing of local, sustainable products

Fisheries

Fisheries generate 10% of TCI's overall GDP and represent the primary income source for 10% of the population.[24] Nearshore fishing practices are relatively mature in TCI and wild catch fisheries can be challenging to monetise. However, there is an opportunity to improve the sustainability of fisheries (e.g. through certification), develop sustainable offshore pelagic fishing, and expand sustainable sports and recreational fishing experiences to generate income for conservation.

There is growing demand from fisheries offtakers or buyers for certified products that evidence sustainable sourcing and provide increased resilience in the supply chain.[25] For example, Finance Earth has designed a Fisheries Improvement Fund which has unlocked private and philanthropic funding and volume-based fee payments from a range of seafood buyers. These in turn are based on volumes purchased from Fisheries Improvement Projects (FIPs), a proven global model for transitioning fisheries towards improved fishing practices and management.[26] The application of a similar model in TCI would be dependent on the availability of offtakers willing to pay a premium for sustainable fisheries produce, which is currently uncertain. In addition there is limited workforce capacity and capabilities to deliver sustainably sourced fish, including monitoring and mitigating illegal fishing practices.

Key market enabling actions include:

- Implement regular monitoring programmes and surveillance measures to monitor fishing activities, including patrols, vessel monitoring systems, and inspections
- Collect and analyse data on fish stocks, fishing effort, and ecosystem health to inform decision-making processes, adaptive management, and policy adjustments
- Encourage and fund value addition (e.g., premium prices for sustainable products) through processing, certification and effective marketing of local sustainable seafood products
- Capture a portion of fishing fees/licenses (e.g. sports fishing license) to support conservation and infrastructure investments

Agriculture

Agriculture operates at a small scale across TCI (currently c.20 farmers) due to low soil depth and quality. However, there is high demand for locally grown produce and potential to charge tourists staying at luxury resorts premium prices. There is an interest and potential opportunity to increase local food production levels, adopt new farming approaches (e.g. hydroponics) and support food security in TCI. However, the opportunity to scale agricultural production and associated revenue potential without investment in new approaches is likely to be limited, given the extent of topsoil and high competition for land use on the islands.

Key market enabling actions include:

- Establish stronger legislative frameworks supporting sustainable farming (e.g. land use planning, supportive regulations that encourage investment)
- Invest in comprehensive training programmes for agricultural workers to enhance skills in adopting advanced techniques
- Foster collaborations and provide financial incentives to encourage wider adoption of sustainable practices (e.g. hydroponics, water conservation, the use of drought-resistant crops) ensuring a more resilient and sustainable agricultural sector

Water supply

Much of the current water supply is provided through reverse osmosis, powered by local diesel generators. There is potential for climate impact mitigation through reductions in diesel power use and cost savings by adopting solar devices for water desalination and other technologies such as wastewater-to-energy pellets.

There is a strategic priority in TCI to meet escalating demands for water arising from population and economic growth driven by tourism; however, there are limited opportunities for payments for water supply benefits. The use of solar powered pumps or filtration devices would support climate impact mitigation and generate cost savings, however the benefits are likely to be small-scale.

Water infrastructure in TCI is diverse, combining private ownership on Providenciales with government-owned systems on neighbouring islands. This diversity may pose potential difficulties in coordinating & aggregating investments and scaling natural capital initiatives due to the differing ownership structures, operational models, and regulatory frameworks at play.

Key market enabling actions include:

- Establish a regulatory framework that incentivises and supports the adoption of solar devices for water desalination and wastewater-to-energy pellets (e.g. through providing subsidies or tax incentives for businesses and households that invest in renewable energy-based water solutions)
- Encourage partnerships between the government and private sector entities involved in water infrastructure development to help overcome the challenges posed by diverse ownership structures. For example, public-private partnerships (PPPs) can facilitate the coordination of efforts as well as the pooling of resources and expertise

Natural capital market options assessment

The assessment of natural capital markets against the criteria in the evaluative framework are summarised below:

Table 3: NCIP scale of opportunity and strategic alignment

Market	Market Demand	Market Supply	Impact Potential	TCI Enabling Environment	Investment Readiness	NCIP Scale of Opportunity and Strategic Alignment
Tourism	Medium-High	High	Medium-High	Low-Medium	Medium	**High**
Carbon Sequestration and Storage	High	Medium	Medium	Low-Medium	Low-Medium	**Medium-High**
Energy	Medium-High	Medium-High	Medium	Low-Medium	Medium	**Medium-High**
Biodiversity Payments	Low-Medium	Medium-High	Medium-High	Low-Medium	Low-Medium	**Medium**
Natural Coastal Defence	Low-Medium	Medium	Medium-High	Medium	Low-Medium	**Medium**
Aquaculture & Mariculture	High	Low-Medium	Medium	Medium	Low-Medium	**Medium**
Fisheries	Medium	Medium	Low-Medium	Medium	Low-Medium	**Medium**
Agriculture	Medium	Low-Medium	Low-Medium	Low-Medium	Low-Medium	**Low-Medium**
Water Supply	Medium	Low-Medium	Medium	Low-Medium	Low-Medium	**Low-Medium**

Barriers and enabling actions

In summary, there are a number of market-wide barriers limiting the investment readiness of natural capital markets and project pipeline across TCI. Various interventions across awareness raising, capacity building, and policy support can be used to overcome these barriers.

Table 4: Market-wide barriers and enabling actions

Barrier	Description	Enabling Actions
Lack of Policy Support & Political Uncertainties	Uncertainty around policy frameworks (e.g. Renewable Energy and Resource Planning Bill, Environmental Impact Assessments for developments, tourism regulations), limitations on resources for monitoring and enforcement and past financial management and transparency challenges in TCI could create investor uncertainty. This in turn could limit demand for investing in natural capital, discouraging engagement in projects spanning political cycles	**Develop policy, strengthen legislation and robust governance to drive forward investment in natural capital:** ✓ Progress with supportive policies and legislative frameworks in pipeline (e.g. Agricultural Bill, Renewable Energy, Resource Planning Bill) ✓ Support new policies (e.g. ringfencing tourism levies/taxes, mandatory biodiversity compensation payments for development) ✓ Develop transparent multi-stakeholder governance structures e.g. charitable trust to leverage funding and support decision-making aligned to local priorities
Awareness of natural capital and availability of skills and experience	There is a need for additional technical expertise in restoration techniques and experience in developing new revenue models, so too capacity building for businesses in sustainable ventures. Clear natural capital champions and convenors on-island are needed to engage local people and businesses, helping to build awareness of the importance of natural capital	**Build capacity and expertise to protect and enhance natural capital and develop sustainable business models:** ✓ Deliver training initiatives and capacity building focused on habitat protection/restoration techniques ✓ Build project developers' capacity to develop revenue models and foster local entrepreneurial capacity by providing support programmes e.g. innovation/ development funding ✓ Identify natural capital champions on-island to take forward the NCIP and maintain ongoing stakeholder engagement to inform delivery
Lack of Data & Evidence	Lack of baseline data and scientific evidence to quantify and monitor ecosystem services and enable revenue generation	**Support additional research efforts to gather data and evidence, develop metrics and establish baseline assessments for natural capital assets:** ✓ Support feasibility studies and ecological assessments to ascertain extent, condition, extent of loss and threats to natural capital assets and ecological values

Barrier	Description	Enabling Actions
		✓ Develop metrics and establish baseline assessments for natural capital assets and the generation of ecosystem services
Challenges with Communication and Coordination	Challenging to engage and coordinate with local populations directly due to geographical constraints	✓ Identify local convenors on the ground to act as a key information transmission and communications hub
Uncertainty of Revenues	Uncertain or limited demand for natural capital services and products generated and unproven revenue potential	**Deliver pilot projects to demonstrate natural capital revenue generation** ✓ Develop pilot projects to demonstrate ecosystem services and prove business models ✓ Support market development, legislation and regulation to create demand side pressure for natural capital protection and enhancement

NCIP Requirements

To address the barriers identified and support natural capital market development in TCI, there are a range of key needs that could be supported by the NCIP in enabling and scaling investments in natural capital.

Natural capital protection and enhancement

As highlighted, TCI's natural capital assets are at risk due to climate change, overfishing and growing development on the island, among other threats. Many conservation activities, such as protected area management and environmental monitoring are currently reliant on grant funding and have not been able to generate income streams as of yet. The availability of additional sources of grant funding would support TCI to scale up direct conservation initiatives and deliver wider community engagement programmes supporting local awareness of the importance of natural capital.

Additional data and evidence

Revenue generation to support TCI's natural capital can be hindered by a lack of data detailing its ecological condition. Additional baselining and evidence gathering is needed to understand the extent and condition of natural capital assets, historic losses, drivers of degradation and ongoing threats. Extensive baselining and data

capture would provide the basis for development of ecosystem service markets, to generate payments for biodiversity, carbon and coastal defence.

Awareness, capacity and expertise

Specialist technical skills and expertise are needed to develop and deliver natural capital projects. However, further skills and knowledge around natural capital restoration and business model development are needed for the establishment of businesses supporting natural capital protection and delivery at scale. The provision of innovation/development funding would support project developers' capacity to develop revenue models and foster local entrepreneurial capacity to build the project pipeline for investment. There is a need for clear natural capital champions on island to maintain engagement with key stakeholders and raise awareness of the importance of safeguarding natural capital.

Policy, regulation and governance

A supportive legislative and policy environment with strong governance in place is needed to support transparent decision making, monitoring and evaluation of outcomes, in alignment with the Vision 2040 documentation. Further detail on the requirements of strong governance practices are provided below. The implementation of policies supporting natural capital (e.g. ringfenced tourism levies/taxes and mandatory biodiversity compensation payments) would create additional income sources and provide opportunities to attract wider sources of private finance. As detailed below, the development of transparent multi-stakeholder governance structures could leverage funding and support decision-making aligned to local priorities.

Pilot projects, revenue generation and repayable finance

There remains a need to identify a pipeline of pilot projects showcasing the opportunity to protect and restore natural capital, whilst demonstrating technical and financial feasibility. Development of detailed business plans for the project pipeline should take place to understand costs and potential revenues in more detail. Additional technical assistance could be provided by organisations such as Invest TCI to facilitate a greater level of involvement of islanders in business planning and entrepreneurial activities. Overtime, this can enable the potential for repayable finance (funding provided with the expectation that the borrower will return the principal amount along with any agreed-upon interest or fees within a specified period) to be deployed to scale up a portfolio of aggregated, investment-ready environmental projects, such as renewables and ecotourism.

Financing and Governance Options

Financing options assessment

The observed range of potential project pipeline, revenue streams and stages of market development highlight the need for a variety of funding and financing options to enable the diversification and sustainable development of TCI's economy. A spectrum of financing mechanisms with a unifying governance strategy are likely to be required based on the identified needs for natural capital investment in TCI. Based on a review of a range of options, the priority mechanisms are outlined below.

Non-repayable grant funding

Non-repayable grant funding refers to financial support provided by governments, organisations, or institutions that does not need to be paid back by the recipient. This type of funding is often given to support specific projects, activities, and is typically awarded based on a set of criteria or an application process.

Non-repayable grant funding sources can contribute to the protection and restoration of TCI's habitats and ecosystem where there may not be a business model or revenue streams available. These sources are required to address funding gaps for conservation, build capacity and expertise, and develop a pipeline of investment ready projects. This could take the form of different funding programmes including:

- Natural capital grant fund - a fund to attract philanthropic grant contribution to support restoration and protection of natural capital assets with no existing business model;
- Development funding and capacity building programme – a programme providing grants and technical assistance aimed at supporting early-stage market and project development.

Grant funding can be obtained from various sources, including government, corporates, NGO partners, and trusts and foundations. However, grants are often competitive to secure. Further, UK Overseas Territories (UKOTs) often do not qualify for a large proportion of grant funding programmes offered through international development assistance (including Overseas Development Assistance and Small Island Developing States). Government commitments and robust governance structures with transparent financial management processes are likely to be required to leverage other sources of grant funding.

Repayable finance

Repayable finance refers to financial support that must be paid back according to agreed-upon terms and conditions; it is provided with the expectation of a financial return alongside clear social and environment impact. This can be available at a much larger scale and can be used to meet significant upfront project costs before revenues can be generated. Repayable financing mechanisms can be developed over time as the natural capital markets and project pipeline develop and mature in TCI. The potential repayable finance options that could be available for TCI could include:

- Blue and green bonds, types of debt instruments issued to finance marine and terrestrial projects with positive environmental and economic impacts;
- Concessionary finance facilities, which employ a range of financing tools such as grants, finance at a cheaper rate and guarantees, to enable projects to become investment ready, crowd-in commercial capital, deliver finance at a lower rate and achieve socio-environmental impacts;
- Impact bonds, a type of outcomes-based contract between an investor, an outcomes payer, and a service provider, that tackle a social or environmental challenge.

Repayable financing mechanisms can be used where there is evidence of predictable, recurring revenue streams to generate a return. The main practical and scalable way to leverage repayable finance in TCI would be through ringfencing user-based fees, which could then provide a predictable long-term cashflow which would enable debt repayments, and thus issuance of blue/green bonds. However, due to TCI's connection with the UK Government, they may not possess the complete sovereign capabilities of a nation-state. Establishing a third-party, non-profit special purpose vehicle, such as a Charitable Trust, could help overcome these challenges.

The implementation of blended or concessionary financing facilities is reliant on further development of the project pipeline evidencing natural capital benefits and certainty of revenue generation to meet the risk-return requirements of prospective investors.

The successful issuance of an impact bond is dependent on the availability of an outcomes payer willing to pay based on performance to compensate the investor for the risk taken. In TCI, there could be an opportunity to structure philanthropic funding to be received based on outcomes delivered. This enables philanthropy to be 'de-risked' and could provide new funding opportunities, e.g., corporates providing funding in return for 'contribution claims' based on outcomes delivered. However, impact bonds are typically expensive and complex to develop.

A summary of the priority financing and governance mechanisms and alignment to the NCIP needs is provided in Table 5: Financing and Governance Mechanism Options Assessment.

Table 5: Financing and Governance Mechanism Options Assessment

Financing mechanism	Type	Applicability to identified NCIP needs				
		Natural capital protection	Data and evidence	Capacity/ technical assistance	Govern-ance	Repayable finance
Natural capital grant fund	Non-repayable grant fund	✓				
Development funding & capacity building programme	Non-repayable grant fund		✓	✓		
Blue & green bond	Repayable financing mechanism					✓
Blended / concessionary finance facility	Repayable financing mechanism					✓
Impact bond	Repayable financing mechanism	✓	✓			✓
Governance mechanism	**Type**	**Applicability to identified NCIP needs**				
Place-based trust – "TCI Natural Capital Trust"	Governance structure				✓	

Examples of potential providers of funding and finance are listed below in Figure 6: Example providers of funding and financing; please note that this list is illustrative and non-exhaustive:

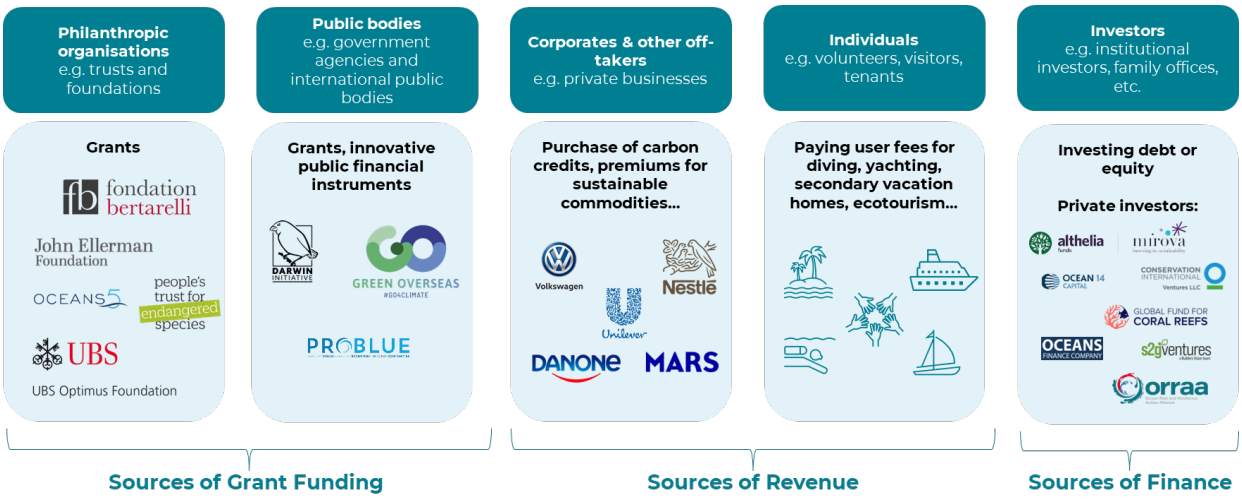

Figure 5: Example providers of funding and financing

Proposed NCIP financing model structure

In order to aggregate the revenue opportunities and attract wider forms of funding and financing, transparent and robust governance is required. An effective method to aggregate and govern different funding and revenue streams is through an independent charitable vehicle, such as an environmental fund or trust.

A TCI Natural Capital Trust ('the Trust') could be established to provide robust governance, aggregate different funding structures, leverage funding and support decision-making aligned to the NCIP priorities. This could be established as an independent entity, or a dedicated fund could be managed by an existing organisation such as the TCI National Trust. Initially, non-repayable funds could be established. For example, natural capital grant funding could be provided initially to support direct conservation and monitoring activities, alongside a development funding & capacity building programme to help build investment-ready natural capital projects. A blue/green bond could also be raised, secured against a long-term income such as ringfenced user fees, providing stable cash flows for debt servicing and upfront finance for project delivery. Over time, a blended finance facility could provide patient capital (investment provided with expectation of longer timeframes for repayment) into investment-ready projects which deliver social and environmental benefits. Finally, impact bonds could be established if there is appetite for philanthropic funders to pay based on outcomes delivered.

The design of the Trust could build on learnings from the TCI National Conservation Fund, which was established in 2000 and funded by a 1% tax on tourism-related services and accommodation. As a result of economic crises, the Conservation Fund was dissolved by the British Foreign Office in 2008 to address accumulated national debts. Since then, no substitute mechanism has been implemented, leaving a gap in sustainable conservation funding.[27]

Implementation of a dedicated Trust or Fund could enable an aligned approach to aggregation and management of funding and support the spectrum of natural capital investment and governance needs in TCI.

The overarching structure of the NCIP financing model is provided in Figure 7: Proposed NCIP Financing Model Structure below:

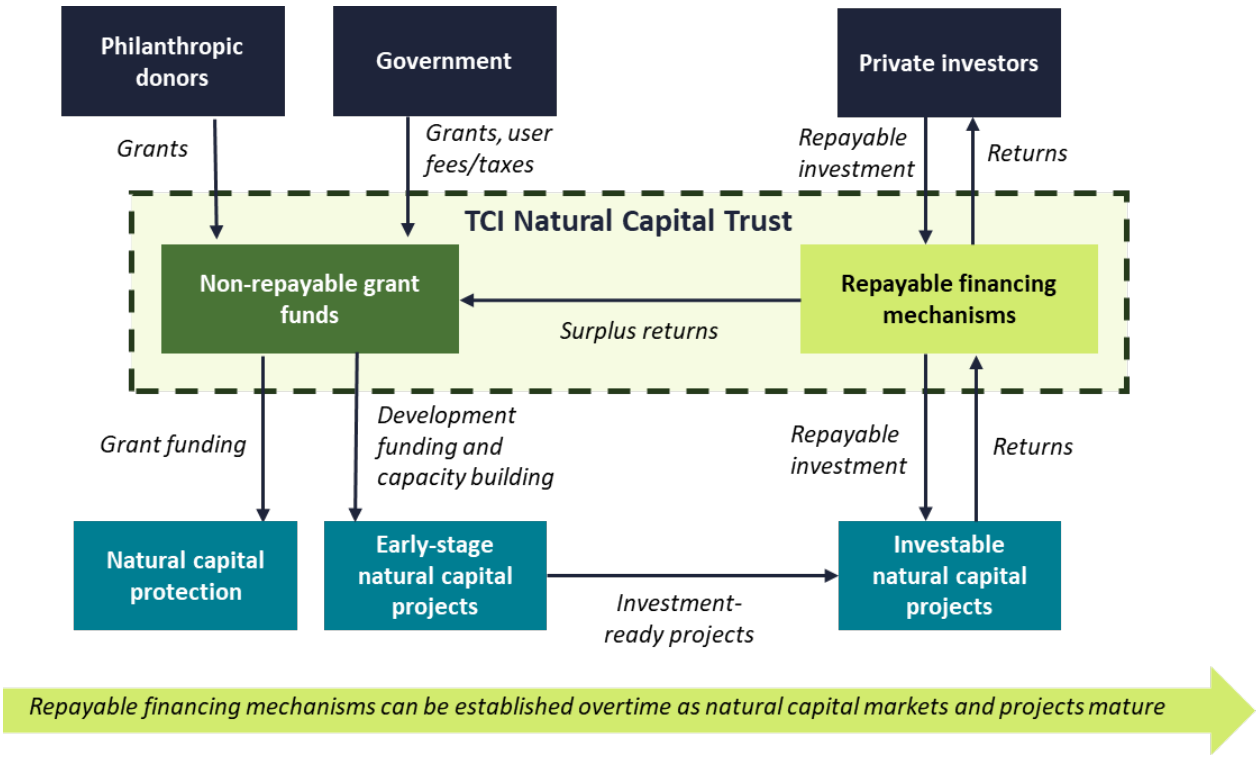

Figure 6: Proposed NCIP Financing Model Structure

Case study: Blended Finance

Turneffe Atoll/Oriental Mindoro	Key project sponsors/stakeholders
Location(s): Belize, Central America / Philippines, Southeast Asia **Income streams:** User fees (paid by tourists); blue carbon and sustainable fisheries and aquaculture	Ministry of Blue Economy & Civil Aviation; mirova Investing in sustainability; TASA; BNCFF Blue Natural Capital Financing Facility; Blue finance
Description[28]	**Key takeaway**
• The **Turneffe Atoll** MPA is operated by Turneffe Atoll Sustainability Association (TASA) and the government. It covers ~132,000 ha of coral reef. In 2021, the MPA received US$ 1.2m from investment manager Mirova, alongside grant finance from the Blue Natural Capital Financing Facility (BNCFF). • Blue Finance manages 9 MPAs in **Oriental Mindoro**, where the aim is to boost eco-tourism and kickstart blue carbon certification. The MPAs have received US$ 350k grant funding from the Global Fund for Coral Reefs, plus US$ 700k from Mirova.[29]	• **Turneffe Atoll:** Mirova's investment was enabled by Belize's existing legal framework and previous advocacy work. However, the small ticket size (US$ 1.2 million) is below Mirova's usual threshold. TCI would need to assess suitability of legal framework and ability to reach a suitable scale for investment. • **Oriental Mindoro:** the model aggregates several revenue streams from (i) user fees, (ii) blue carbon, and (iii) sustainable fisheries and aquaculture, all of which are applicable in TCI. The model could be applicable to TCI as Blue Finance is developing an aggregation facility to facilitate investment in MPAs across the Caribbean and others.

Governance requirements

In alignment with Vision 2040, governance should form an important cornerstone of the Trust and delivery of the NCIP. Key governance considerations to ensure effective use and management of any funds allocated include:

- Transparent financial management - Stringent financial management practices should be implemented, including regular audits, transparent reporting mechanisms, as well as independent oversight of fund allocation and expenditure to ensure accountability.
- Strategic resource allocation – Natural capital projects and initiatives should be prioritised based on scientific assessments, conservation value and urgency, ensuring that resources are allocated efficiently.
- Stakeholder engagement and collaboration – Collaboration among government agencies, local communities, NGOs, and international partners should be fostered to leverage resources, share expertise and ensure a holistic approach to conservation. Various stakeholders, including local communities,

should be involved in decision-making processes to enhance transparency and gain diverse perspectives.

- Establishing a supportive legal framework and robust compliance measures - A robust legal framework should be established that defines the mandate, objectives, and operational guidelines of the Trust. The Trust should then ensure compliance with relevant laws, regulations, and international standards to maintain integrity and credibility.
- Impact reporting and verification - Public reporting of outcomes with third party verification should take place to ensure transparency and credibility of operations, enabling refinement over time to maximise impact.

To deliver these needs, the Trust could act as an effective mechanism to deliver locally based multi-stakeholder governance and coordinate delivery of ringfenced funding and technical assistance to priority natural capital projects. As illustrated in Figure 8: Trust governance structure, the proposed structure could include a mix of public, private and third sector stakeholders with skills and expertise in developing, financing and advising on projects in the target natural capital markets identified in TCI.

Under the Trust structure, the range of different non-repayable and repayable funding mechanisms would have aligned governance to co-ordinate the investment and funding strategy across the project portfolio aligned to the NCIP priorities, facilitating synergies and a more efficient use of resources. This coordinated approach to governance and aggregation of projects should help to attract investors and donors, as well as providing a platform to refine and improve processes supporting natural capital projects over time.

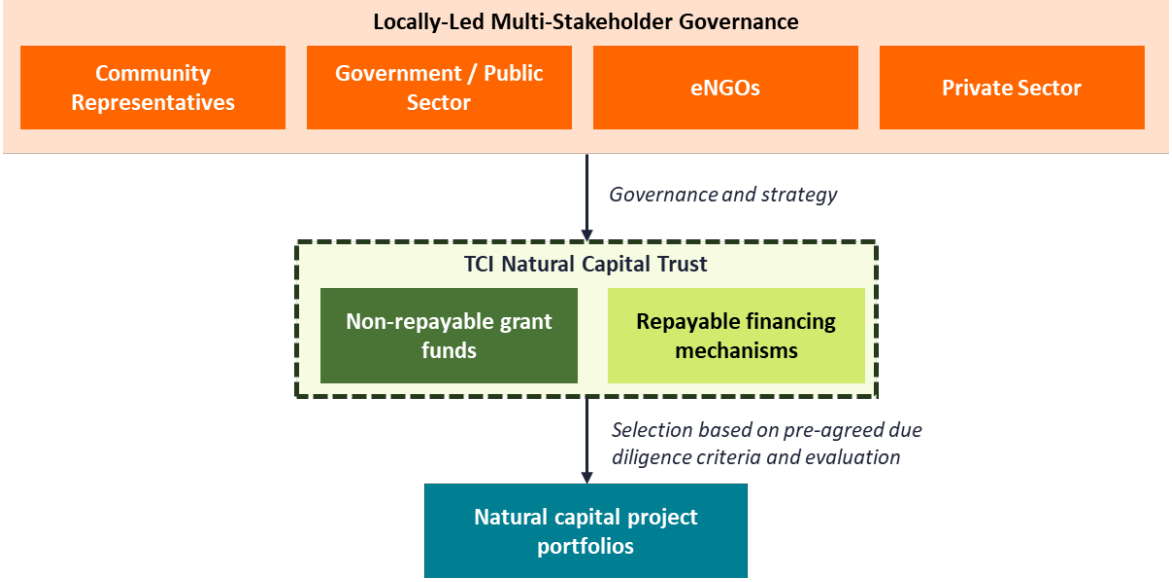

Figure 7: Trust governance structure

Case study: Natural Capital Trust Fund

Caribbean Biodiversity Fund (CBF)	Key project sponsors/stakeholders
Location(s): Antigua and Barbuda, Bahamas, Belize, Cuba, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Montserrat, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname	KFW, The Nature Conservancy, gef, AFD, USAID, WORLD BANK GROUP, Canada, BLUE NATURE ALLIANCE

Description[30]	Key takeaways[31,32,33]
• The CBF is an environmental fund that aims to mobilise resources in the Caribbean. Activities financed by the fund include Protected Areas management and establishment, environmental education, and environmental policy. • The CBF then disburses financial resources through the various trusts at the national level, that lead the grant-making process locally. The CBF is funded by 9 donors, totalling US$97m in the endowment fund. • The initiative was sponsored and supported by a wide range of organisations including the German government, the Nature Conservancy, the Global Environment Facility.	• **Clear governance:** the CBF is now implementing a self-assessment governance tool for the national trusts. An Environmental and Social Management System governs grant making procedures. • **Stakeholder and national trusts involvement**: the CBF advances dialogue with national trusts on common issues; works to improve the financial architecture's efficiency; and raises awareness of the importance of conserving the Caribbean's natural resources.

Conclusions and Recommendations

Conclusions

With the majority of TCI's businesses located on the coast or dependent on natural capital, the islands are at high risk from negative climate change impacts. Safeguarding natural capital assets for future generations is crucial for preserving future livelihoods and contributing to TCI's long-term sustainable economic growth. TCI is well placed to play an exemplary role in developing its natural capital markets and to enable the transition to sustainable growth.

The NCIP aims to showcase opportunities to leverage resources to safeguard and enhance the natural capital assets of TCI, diversify the economy, and create new employment opportunities. This includes the identification of a pipeline of potential natural capital projects and the design of a natural capital financing and governance model that could mobilise the financing required to drive the development of natural capital markets and sustainable growth in TCI. Through this work, several key conclusions and recommendations were identified:

Priority revenue opportunities and need for economic diversification – With approximately 70% of annual GDP comprising of tourism and tourism-related developments, ringfencing a percentage of tourism-associated taxes, fees, incomes and levies provides the most near-term opportunity to generate meaningful revenues for natural capital and leverage other sources of funding. However, the economy of TCI is highly susceptible to fluctuations in global travel patterns, economic downturns as well as other shocks such as the COVID-19 pandemic and climate risks. Whilst tourism fees could provide a major source of foundational revenue to protect and manage TCI's natural capital over the near-term, efforts to diversify and strengthen the economy and to develop other natural capital markets should be a key focus in order to improve resilience in income and sustainable growth of the economy.

The need for additional data – Efforts to ascertain complete ecological assessments of the natural capital assets in TCI should continue to be a focus, in order to facilitate an informed view on the potential to develop certain ecosystem service markets, such as carbon sequestration, biodiversity and natural coastal defences. Once established, the consideration of the value of ecosystem services (which could be facilitated through the undertaking of Environmental Impact Assessments, for example) should be mandatory in any development planning and wider decision making.

Pipeline analysis and due diligence – The identified pipeline is based on stakeholder engagement, desktop review and market scoping performed at a snapshot in time. The pipeline described in this document should not be seen as an exhaustive list, and

further detailed due diligence is required to assess investment viability and requirements. Additional research and project pipeline identification would support the development of the Trust by highlighting more projects eligible for funding and investment.

Need for independent governance – A significant need for multi-stakeholder independent governance was identified to enable transparent financial management to protect and enhance natural capital in TCI. A Trust or a dedicated natural capital fund could be established (managed by an existing entity such as TCI National Trust) to provide robust governance, aggregate different funding structures, leverage funding and support decision making aligned to the NCIP priorities. The Trust could be governed by a mix of public, private and third sector stakeholders with a range of skills and expertise in developing, financing and advising on projects in the target natural capital markets identified. This governance structure would provide transparency, enable consistent monitoring and showcase a coordinated approach to help to attract investors and donors.

Importance of catalytic funding – The grant and development funding programme is expected to be an important part of the initial strategy of the Trust. A funding allocation from government into the Trust and initial funding programmes would help to showcase commitment and leverage funding from other philanthropic sources to accelerate venture development and enable the development of a more robust, mature project pipeline for future repayable investment. Assistance should be provided on the basis of a competitive selection process based on predefined criteria, considering parameters such as job creation, environmental implications, and revenue generation potential. Such funding would aim to support entrepreneurs and enterprises until the viability of new business propositions is well-evidenced, enabling the required confidence to attract private investors.

Enabling legislative environment – Additional legislative support is recommended to support NCIP implementation including the ringfencing of tourism levies as well as biodiversity mitigation payments. Progression with developing supportive legislative frameworks is underway, with supportive policies such as the Agricultural Bill, Renewable Energy, and Resource Planning Bill. The implementation of the NCIP will also require adequate resources for enforcing legislation to sufficiently protect nature on both land and sea, as well as enabling robust monitoring for natural capital projects to help instil investor confidence. Further consultation is needed to assess the funding gap for enforcement and sustainable financing for monitoring activities affecting nature.

Longer-term repayable financing – The majority of the natural capital project pipeline identified are not yet able to support repayable investment and would benefit from technical assistance and capacity building support. This would include the

development of detailed business plans to understand costs and potential revenues in more detail. Repayable financing mechanisms, such as green or blue bond issuance, or direct project finance, could be explored over the medium-long term if recurring and predictable revenue streams can be identified and as the pipeline of investment opportunities develops and matures.

Implementation plan

To build an investable pipeline of projects and leverage additional investment in natural capital over time, a set of priorities has been delineated below, comprising short, medium and long-term actions.

Short term (1-2 years)

Following the publication of the NCIP, the initial focus should be around expanding the project pipeline, building the ecological evidence base, and testing market demand. Work to design and develop a business case for a dedicated Trust or similar vehicle should take place to provide a governance mechanism to leverage and deliver funding. Ringfenced user fees could provide foundational revenues to attract wider sources of funding. TCI Government could announce specific policy and regulatory commitments to enable revenue generation and drive forward investment.

Description	Stakeholders
Develop policy, strengthen regulation and governance	
Launch NCIP and publish recommendations	Turks and Caicos Islands Government (TCIG)
Commit to policy and regulatory actions to drive revenue generation and investment e.g. • Development policy: strengthen regulations such as mandatory Environmental Impact Assessments, alignment with Mitigation Hierarchy, potential requirements for compensation payments • Ringfencing user fees: identify opportunities to ringfence a portion of user fees / taxes (e.g. destination management fee, restaurant and water sports tax, mooring fee etc) for natural capital	TCIG

Description	Stakeholders
• Renewable energy: implement supportive policies e.g., Feed in Tariffs, tax incentives, streamlined permitting • Agriculture: progress Agricultural Bill and legislative frameworks to support sustainable and scaled agriculture (e.g. import levies, hydroponics)	
Develop sustainable certification programmes for best-practice operators and products across tourism, fisheries, aquaculture	TCIG; Blue Belt; local stakeholders
Design and develop the business case for multi-stakeholder natural capital funding and governance vehicle e.g., TCI Natural Capital Trust • Create working group, including local stakeholders and potential consultants, to inform business case development • Consult stakeholders to agree governance structure and roles • Assess legal / statutory opportunity to create a special purpose vehicle (e.g. fund/trust) • Identify internal public funding allocations (e.g. ringfenced user fees) that could support natural capital vehicles and projects • Design and implement initial funding programmes e.g. natural capital grant fund and development funding programme • Design monitoring and verification procedures	TCIG; local project manager; financial advisor
Build awareness, capacity and expertise	
Identify clear champions on-island and develop working groups to support delivery of NCIP recommendations and maintain engagement with stakeholders	TCIG, local stakeholders
Conduct educational campaigns to raise awareness of the value of natural capital and benefits of responsible practices (across tourism, fisheries, property development etc)	TCIG, local stakeholders
Support training and capacity building on natural capital protection / restoration techniques; ecotourism; waste management, sustainable farming, aquaculture, fisheries etc	TCIG

Description	Stakeholders
Provide innovation funding programmes to foster local entrepreneurial capacity in sustainable business development e.g. mariculture, ecotourism	TCIG, Invest TCI
Gather data and evidence	
Gather additional data and information on habitat extent, condition, threats, historic loss, drivers of degradation / loss	Ecologist
Carry out mapping of target opportunity areas for natural capital restoration and protection	Ecologist
Identify metrics to support baselining and monitoring of ecosystems overtime	Ecologist
Deliver pilot projects and demonstrate revenue generation	
Expand identification of project pipeline that supports biodiversity protection and enhancement – assess delivery partners, implementation costs, revenues and investment potential, and performance metrics	Project developers, ecologist, financial advisor
Carry out ongoing market engagement (e.g. with local corporates) to test and build demand for payments to protect natural capital e.g. for coastal protection payments, biodiversity credits, blue carbon credits	Financial advisor; project developers
Map and engage funders and networks to build networks & knowledge sharing and leverage additional funding sources	TCIG; Blue Belt
Develop a financial plan for protected area management over the long term: understand management costs, committed funds and needs for further sustainable funding	TCIG; financial advisor, Blue Belt

Medium term (3-4 years)

Further work is required to design and establish the proposed Trust governance structure, to secure the initial funding, ringfence fees, and develop a pipeline of blue carbon and biodiversity projects. Over time, stable and predictable revenue streams could enable mobilisation of repayable finance to support project capital costs.

Description	Stakeholders
Trust establishment	
Legally mandate or adapt existing legislation to enable the creation of the Trust Special Purpose Vehicle (SPV)	TCIG
Implement governance structure with the selected stakeholders	Governance stakeholders e.g., NGOs, corporates, government, academia
Establish monitoring and verification process to ensure alignment of strategy and funds allocation decisions	Appointed fund manager/administrator
Secure cornerstone philanthropic funding to launch initiatives	Financial advisor; philanthropic funders
Commit to public funding allocations and secure ringfenced tourism fees within structure	TCIG
Assess appetite and feasibility for repayable finance e.g. green/blue bond based on secured revenues	TCIG; financial advisor
Project delivery	
Provide funding to support market development and build investment-ready projects across priority markets	The Trust; Invest TCI
Implement identified projects to directly protect and enhance natural capital	The Trust; project developers
Government policy and regulation	
Implement policy and regulatory drivers for revenue generation and investment	TCIG
Strengthen standards, regulation and monitoring to support sustainable enterprises e.g. sustainable tourism, fisheries, agriculture	TCIG

Long term (>5 years)

Over the long-term, project monitoring, evaluation and progress reporting should take place to enable iteration of the strategy and improvements over time. Opportunities to expand to new sources of repayable finance should be considered to be aggregated under the umbrella governance vehicle. Engagement with funders

and investors should take place based on the needs of the project pipeline to leverage wider pools of sustainable financing.

Description	Stakeholders
Project monitoring	
Expand project pipeline for delivery	Financial advisor; local project manager
Management and oversee projects on an ongoing basis	Project manager
Monitor projects' impact and performance against metrics and standards	Financial advisor; local project manager
Report on progress to build knowledge and awareness	Fund manager; project developers
Repayable financing mechanisms	
Develop pipeline of investment-ready projects	Project developers; financial advisor
Create prospectus, engage investors and negotiate terms	Financial advisor
Establish repayable finance vehicles to deliver and scale investment opportunities	Financial advisor
Distribute returns to investors	Fund manager
Capture a portion of returns to provide further development funding	Fund manager
Learnings and refinement	
Gather learnings to iterate/improve processes	Fund manager; governance board
Refine delivery model and strategy	Fund manager; governance board

Glossary

Term	Definition
Aquaculture	Breeding, raising, and harvesting fish, shellfish, and aquatic plants.
Biodiversity	The variability among living organisms from all sources including, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems.
Blended finance	Blended finance is a financing approach that involves the strategic use of public or philanthropic funds to attract private investment for development projects or initiatives. In blended finance, different types of investors pool their resources together to fund a project, including commercial investors, development finance institutions, and donor organisations. Blended finance can take many different forms, such as concessional loans, revenue guarantees, or equity investments. The goal is to create a mix of financing that balances risk and return for all parties involved, while also achieving positive social and environmental outcomes.
Concessional finance	Concessional financing provides companies with access to capital at favourable terms.
Desktop review	A limited-scope evaluation that does not include a physical visit.
Development compensation payments	Development compensation, also referred to as biodiversity offsetting, is specifically linked to development projects that will cause unavoidable damage or a loss of biodiversity, such as the degradation of an area of natural habitat or the population of a species being reduced. Developers can provide compensation payments to fully compensate for any damages through measurable, long-term conservation actions.
Ecosystem	The complex of living organisms, their physical environment, and all their interrelationships within a particular geographic area.
Ecosystem services	The benefits that are obtained from ecosystems, including provisioning, regulating, cultural and supporting services.
Financial viability	Ability to generate the required cash flow to fulfil ongoing operational costs and debt repayments.
Funding gap	The difference between finance supply and finance demand, also called funding gap.
Grant	A sum of money given by a government or other organization for a particular purpose.

Term	Definition
Guarantees	An agreement that guarantees a debt will be repaid to a lender by another party if the borrower defaults.
Impact	The outcomes for nature and societies created by undertaking target activities (such as delivery of natural capital protection or enhancement). Impact can be positive (for example, mitigating climate change) or negative (for example, displacing local communities).
Investment	The act of providing capital in return for repayment and profit. Investment utilises repayable capital, unlike non-repayable capital typically provided by grant and philanthropic funders.
Marine Protected Areas (MPAs)	Marine Protected Areas (MPAs) are designated areas in the ocean or coastal waters that are managed and protected to conserve and sustainably manage marine ecosystems, biodiversity, and resources. These areas are established to achieve specific conservation goals, such as protecting sensitive habitats, preserving marine biodiversity, restoring degraded ecosystems, and supporting sustainable fisheries.
Mariculture	Farming of fish, plants and other animals in salt water for human consumption.
Mitigation Hierachy	The mitigation hierarchy is a widely used tool that guides users towards limiting as far as possible the negative impacts on biodiversity from development projects. It emphasises best-practice of avoiding and minimising any negative impacts, and then restoring sites no longer used by a project, before finally considering offsetting residual impacts. Following the hierarchy is crucial for all development projects aiming to achieve no overall negative impact on biodiversity or on balance, a net gain – also referred to as no net loss and the net positive approach, respectively.
Natural capital	The environmental resources (e.g. plants, animals, air, water, soils) that combine to yield a flow of benefits to people.
Natural capital market	Transactions between separate buyers and sellers, in which the transacted good or service specifically reflects a stock of ecosystem assets or a flow of ecosystem services from terrestrial or aquatic ecosystems
Offtaker	Party who buys the product being produced by the project or uses the services being sold by the project.
Overseas Territories (OTs)	Overseas territories (OTs), also known as dependent territories or dependent areas, refer to regions or areas that are governed and administered by a sovereign state but are located geographically outside its mainland or core territory. These territories are considered an integral part of the governing state but are distinct in terms of

Term	Definition
	their location, legal status, and often unique historical, cultural, or geographical characteristics.
Payment for Ecosystem Services (PES)	Monetary compensation for securing delivery of certain ecosystem services, where suppliers who manage the flow of services are paid by beneficiaries.
Parametric insurance	Non-traditional insurance product that offers pre-specified payouts based upon a trigger event.
Patient capital	Patient capital is a term used to describe long-term investment, in the form of debt or equity, where sustainable growth is prioritised alongside financial returns.
Project pipeline	A series of projects with potential to protect, enhance or sustainably use natural capital. An investable natural capital project pipeline has the potential to generate revenue streams and attract sustainable financing.
Project developers	The individuals, organisations, or businesses involved in designing and implementing natural capital projects
Return on investment	A measure of how much money is earned relative to the amount of money spent on an investment.
Ringfencing	Putting an amount of money aside for a specific purpose.
Stakeholder	An individual, group or organization that's impacted by the outcome of a project or a business venture.

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About the Consultants

finance earth

Finance Earth is the UK's leading environmental impact investment boutique, providing financial advisory and fund management services across the natural and built environment. Finance Earth helps to create projects – and the investment vehicles to fund them – that balance positive outcomes for nature, communities and investors.

Finance Earth works in partnership with a broad range of clients including NGOs, government, social enterprises, foundations and aligned corporates to create investable environmental and social projects. At the same time, Finance Earth works with a range of investors to structure financial products that can accelerate the protection and restoration of nature.

The team currently manages over £50million of blended social and environmental impact funds and has designed over £500 million of impact investment structures.

Finance Earth is a wholly employee-owned social enterprise, with 51% of profits recycled into on mission activities and investments. Finance Earth is a trading name of Environmental Finance Limited, which is authorised and regulated by the Financial Conduct Authority (registration number: 831569).

eftec economics for the environment

Since its foundation in 1992, eftec has specialised in research on the economic value of natural capital assets and ecosystem services; selecting the appropriate economic evidence from the literature, and using such evidence in economic appraisal, evaluation, and natural capital accounts. eftec has a long track record of delivering natural capital evaluation, including identifying opportunities for enhancing natural capital, informing investment plans and aiding policy-making.

eftec's history on natural capital includes being one of the authors of the Natural Capital Protocol, producing the UK's Natural Capital Risk assessment with the Natural Capital Committee, and chairing the BSI panel that published the 8632 standard (Natural Capital Accounting for Organisations) in 2022. We have applied this technical knowledge in projects across many sectors, ecosystems and countries, including the Caribbean countries since 2017.

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