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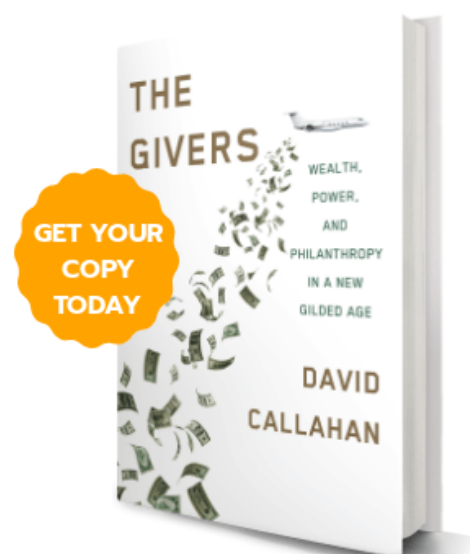
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To Protect a Critical Forest in Appalachia, a Foundation Goes Beyond Grantmaking

Julia Travers



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While the coal industry continues to decline, the communities and lands of Appalachia are in transition. The Nature Conservancy (TNC) and its funders are playing a significant role in reimagining coal country. In the spring and summer of 2019, TNC acquired 253,000 acres of land in Kentucky, Tennessee and Virginia, which it will place under sustainable forestry management as the Cumberland Forest Project. A \$20 million loan in the form of a program-related investment (PRI) from the Doris Duke Charitable Foundation (DDCF) played a big role in this land purchase. TNC designed the Cumberland Forest Project as an impact investment fund, and the concessionary capital of DDCF's PRI drew investors to the fund, which now totals \$130 million.

Sustainable forestry is a unique type of forest management—in this case, certified by the international Forest Stewardship Council (FSC), which combines “reduced-impact” logging with conservation efforts and various community partnerships. It’s an outlook that takes both the ecological and economic values of forests into account, and its forest management practices concern some conservationists.

PRI and Impact Investments for Big Environmental Projects

DDCF, which gave out about \$84 million in 2017, has long supported environmental causes and TNC—but exclusively through traditional grantmaking. Its PRI for the Cumberland Forest Project is only the second in its 23-year history and its largest single investment.

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DDCF Program Director for the Environment Sacha Spector, Ph.D., says the foundation was moved to take action by a sense of urgent opportunity.

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“These sorts of large properties in this landscape that, for generations, had been held by absentee land and mineral companies, don’t come up for sale very often.” The time sensitivity and breadth of TNC’s Cumberland Forest Project meant DDCF “needed to find alternative methods for supporting [TNC] beyond grantmaking.” He says the foundation also saw this initiative as an opportunity to “begin building a track record” with PRIs, just after its board approved the use of endowment resources for this kind of investment.

PRIs can be given to multiple types of recipients, including for-profit organizations, and still count toward a foundation’s annual grantmaking. To qualify as a [PRI](#) with the IRS, the investment must advance a foundation’s mission, cannot primarily seek to gain money or property, and cannot have legislative or candidate-endorsement goals, along with other requirements.

The PRI was approved for up to \$20 million, and TNC has now accessed most of this for the forest project.

Of the approximately 5,900 PRIs on record since 1998, only a small portion (less than 3 percent) pertain to science or engineering innovation, and even less to climate change science, according to an analysis by the nonprofit [PRIME](#). It helps funders use both grants and PRIs to support nascent carbon-reduction startups.

By accessing its endowment for a conservation- and climate-related PRI, DDCF is joining the ranks of other

environmental funders who make mission-aligned investments, such as the Kresge, MacArthur, McKnight, Packard and Rockefeller foundations. DDCF also recently set a target to direct up to 10 percent of its endowment assets into impact investments over the next 10 years.

Spector says the PRI allowed DDCF to “work at a larger scale,” and that its capital helped “attract far more [support] from market-rate investors” for the Cumberland Forest Project. TNC **states** it designed the project as a fund “that seeks competitive rates of return” for its impact investors. TNC is a co-investor in the initiative, and manages it as the fund’s general partner. While TNC won’t name names (a downside of impact investments is that they often lack transparency), its investors include foundations, family offices and individuals.

This project’s focus on sustainable forestry ties into and builds on TNC’s existing Clinch Valley Program in Virginia and multistate Working Woodlands Programs. Tom Hodgman, senior director of product development for NatureVest (the TNC conservation investing team), says that by structuring the new Cumberland Forest Project as an impact investment, TNC can “scale up our work 11 times, compared to [the] Clinch Valley Forest Program.” He thinks an undertaking of this size “would not have been possible with philanthropy alone.”

Conservation and clean energy are going to need trillions in investments if humans are to make progress on the goals of the multinational Paris climate accords, and funders who use PRIs and impact

investments to supplement their grantmaking can potentially play an important role.

How the Cumberland Forest Project Will Connect to Local Appalachian Communities

Spector says the project will demonstrate the power of a nature-based economy through “sustainable forestry, solar energy development, carbon offset credits, land restoration and recreation revenues.” Through these diverse developments, the program intends to partner with and benefit surrounding communities, which is another principle of FSC forestry.

One complexity of the project is the dual ownership of the property. As is common in the region, each parcel consists of a surface estate and a subsurface mineral estate. While the Cumberland Forest Project owns the surface, the mineral and mining rights for the land are still owned by third parties. Hodgman says TNC aims to work with “owners, operators and regulators to advocate for best practices that would minimize impacts of additional mining.” TNC will also get to choose the post-mining land uses, and he says they will “generally” pick reforestation.

Only about 3 percent of the total acreage has active mining permits. Hodgman says TNC assessed the likelihood of future mining, and doesn’t believe it poses “a substantial risk to our long-term conservation goals.” And TNC will receive royalties from the mining, 100 percent of which will be directed to local nonprofits to support economic development. Hodgman says TNC believes “there is a moral and ethical responsibility to help support the transition Appalachian communities [face].”

Appalachia is a huge, multifaceted area spanning 420 counties in 13 states. Forty-two percent of its more than 25 million people live in a rural area. Its economy runs on mining, agriculture, forestry, chemical and heavy industry, tourism, manufacturing and professional services. The Appalachian [poverty](#) rate has been on the decline, but as of 2017, it was still 16.3 percent, above the U.S. average of 14.6 percent. As the reign of coal ends, this region continues to face challenges relating to employment, healthcare coverage, substance use disorder and higher education rates. Since the 2016 election, private funders have been paying new attention to a region where voters largely supported Trump, albeit through low turnout at the polls. Some of the backers of Appalachian groups and causes are the Calvert Foundation, Ford Foundation, Rockefeller Family Fund, Appalachian Community Fund and Mary Reynolds Babcock Foundation. The [Appalachia Funders Network](#) is an important hub for philanthropy focused on the region.

Is Investing in Sustainable Forestry Good for Forests?

Central Appalachia includes a network of vital watersheds, and is a major North American migratory corridor and globally significant biodiversity hotspot, home to many species that are found nowhere else. While sustainable forestry aims to carry out the most eco-friendly and sustainable logging possible, some tree experts emphasize that this is fundamentally different from conservation.

“[TNC] has shifted over the decades. They used to [raise] funds to buy the last best places and then preserve them. TNC is no longer that organization,”

says Joan Maloof, Ph.D., professor emeritus of Salisbury University in Maryland. She is a conservationist who questions sustainable forestry. She is also the founder and director of the [Old-Growth Forest Network](#), a nonprofit creating a web of forests across the U.S. that are closed to logging and open to the public.

A 2017 [report](#) from the Dogwood Alliance, an environmental nonprofit, states sustainable forestry often has a negative impact on older forests and undisturbed soil, which sequester more carbon and support unfragmented native biodiversity. The report takes a particularly critical look at tree plantations, which do, at times, fall within FSC standards.

Hodgman says, “We are protecting and restoring second-growth temperate hardwood forest, which is some of the most endangered forest types in the country. We are not managing plantations.” He says that given the 150-year history of forest management and resource extraction on the Cumberland Forest property, no old-growth forests remain, though some secondary forests now show “characteristics of old growth.”

The FSC requires the managers of its certified forests to limit harvest unit size, work to preserve water quality, and protect selected samples of ecosystems and “high-conservation-value” forestland, among other standards. And Hodgman says, “Generally, we plan to harvest less than annual growth each year to continually increase carbon stocking.”

He says when TNC logs the forest or “conducts harvests,” it seeks to copy “[natural disturbances like

windthrow and storms that] create patches of downed trees, and subsequently, young forests. The forests regenerate naturally with native species from the seed source of the trees around our harvest units.”

But Maloof says, “Sustainable forestry usually means that the trees being logged out will be replaced by other trees in time, but meanwhile, other life forms that depend on an older forest [like birds, fungi or salamanders] may be in decline.” She hopes TNC “will not view all the acreage as something to be managed, even sustainably. I hope they will allow some areas of the forest to recover from the former extractive logging, [not] just for a few decades while they get carbon credit dollars for the growing timber—I mean true recovery, where the forest can support the organisms found only in older, native forests,” she says.

Spector of DDCF says the land in the Cumberland Forest Project holds “some of the most climate-resilient forests in the country.” Within this vital territory, TNC and backers like DDCF are attempting to walk a line between helping local communities and investors embrace the financial boons of reduced-impact logging, carbon stocking and nature-based recreation, while also keeping the forests stable as climate change mitigators, essential habitats, and filters for local air and water. It’s clearly not a simple balancing act.

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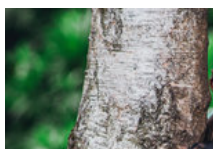




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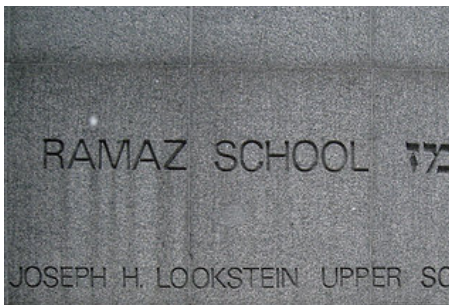
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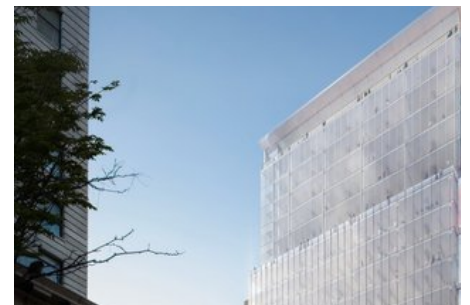
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