

# Seeding the Conservation Economy <sup>in</sup> Clayoquot Sound

by Edward C. Wolf and Bill Girard

**W**ITH A MEMBER of the legislative assembly and local officials gathered by her side, British Columbia's minister of community development, co-operatives, and volunteers Jenny Kwan stood up in Tofino, B.C. last spring to announce a C\$1.1 million grant to expand a "green" enterprise loan fund to communities and businesses on northern Vancouver Island.

As she opened the provincial purse, minister Kwan mentioned the government's "commitment to this region and the importance placed on sustainable conservation-based enterprises . . . (which) play a vital role in strengthening and diversifying the economies of coastal and resource-based communities."



Photo credit: Adrian Dorst.

The main goal of the Ecotrust-Shorebank partnership has been to unleash the power of positive example, to find & support small businesses that restore the natural or social capital of their communities in their pursuit of a favorable bottom line.

This tangible commitment from the province injected resources, momentum, and visibility into a unique partnership between Ecotrust Canada, an environmental nonprofit known for its work with First Nations communities in coastal B.C., and Shorebank Enterprise Pacific, a U.S.-based revolving loan fund and business development organization with deep roots in the community development field. In Clayoquot Sound these two joined forces in a strategy to help capitalize a new economy that would move the region beyond the blockades and bitterness that shut the lid on the Sound's traditional extractive economy during the 1990s.

The strategy aims to renew both economy and landscape by extracting fewer raw materials and adding more value at each step along the production chain. A renewed economy would foster a greater diversity of enterprises and institutions capable of generating wealth while conferring stability upon communities. Cultural diversity would be greater, with First Nations in particular occupying a prominent role in the economic mainstream.

But a new economy implies a new economic infrastructure. "The infrastructure of the industrial economy simply will not do," says Ecotrust Canada president Ian Gill. "Much of the existing infrastructure on our rain forest coast is old, inefficient, and operates at a scale wholly inappropriate to the conservation economy. Much of it has simply exhausted its usefulness, or has been concentrated in a way that has destroyed the economic diversity and resilience of our coastal communities."

Out of a small shared office in Ucluelet, the partnership had begun making business loans from a revolving fund in mid-

1999, seeking opportunities in value-added timber processing, ecological tourism, and small-scale manufacturing. Staffed by a "conservation credit officer," Ecotrust Canada's Clayoquot-Alberni office provides not just credit, but other innovative financial and management support to local enterprises.

How and why has this organizational hybrid captured the attention and support of the provincial government? The answers go back almost ten years, and several hundred miles south, to an organization called Ecotrust in Portland, Oregon.

### ROOTS OF A VISION

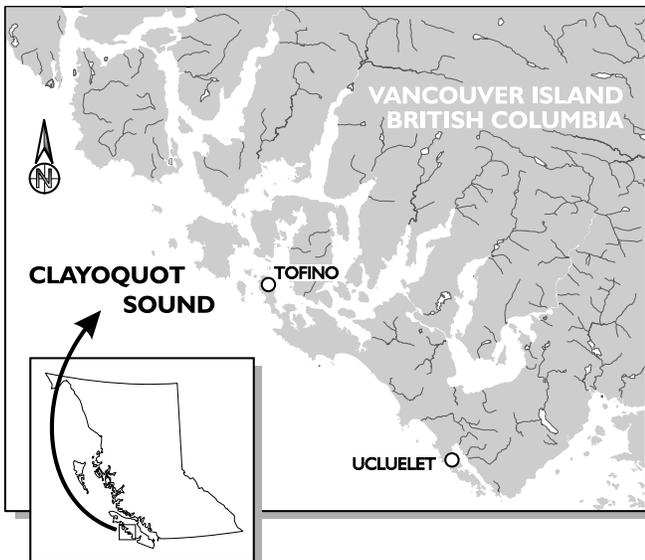
Founded in 1991 by a group of conservationists with international experience, Ecotrust sought ways to fit conservation with local economies in the coastal temperate rain forest, one of North America's most ecologically diverse and productive regions. It set out to find and support livelihoods that could restore the region's environmental integrity.

Ecotrust put traditional tools of conservation (mapping and an analysis of forest conditions) to work to identify locations where place-based engagement might result in the enduring protection of ecologically significant sites along the rain forest coast. Two areas of coastal B.C. emerged as both significant and threatened: the greater Kitlope ecosystem on the North Coast, and the unlogged and partially logged watersheds of Clayoquot Sound on western Vancouver Island.

About the same time Ecotrust completed its survey of priorities, the organization was cultivating two partnerships that would prove crucial to its strategy and accomplishments. The first was with the Haisla Nation, the First Nation whose traditional territory encompassed the 300,000-hectare Kitlope watershed. The second was with Shorebank Corporation, the Chicago-based pioneers of the community development financial institution (CDFI) movement.

Combining cultural authority with scientific credibility, the Haisla and Ecotrust entered into discussions with the provincial government and the private timber company that held logging rights to the rich timber of the remote Kitlope Valley. At one point, the company offered partial protection of the Kitlope and a guarantee of logging jobs to the Haisla community in exchange for access to timber elsewhere in the valley. The village council rejected the offer, seeking nothing less than full protection of the heart of traditional Haisla territory.

Success, when it came, was unprecedented: the voluntary relinquishment of all logging rights by the company, and a joint management agreement between the Haisla Nation and the province that ensured the integrity of the Kitlope in perpetuity.



The Kitlope, the Haisla, and Ecotrust made headlines throughout Canada and around the world.

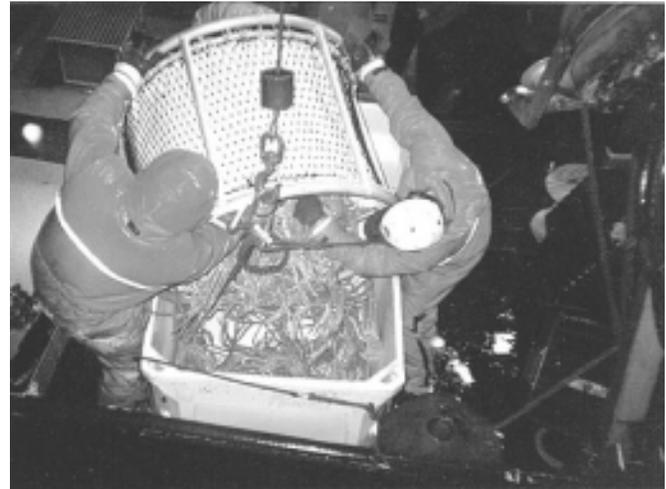
Meanwhile, in Portland, Ecotrust had been seeking credible partners for a strategy to capture the energy of economic self-interest to protect and enhance environmental quality in rural communities on the coast. Shorebank, with two decades of experience creating financial institutions to advance community development in impoverished and underinvested communities, was a logical, if unconventional, partner. Though their experience up to that time had been almost exclusively urban, Shorebank's senior executives were intrigued by Ecotrust's expansive vision of rural restoration. Initial discussions led to a joint planning process to create a "permanent development institution" modeled on Shorebank's urban banks and capable of advancing the Ecotrust vision of a conservation economy.

Nineteen ninety-five proved a pivotal year in both these partnerships. Within months of the permanent protection of the Kitlope Valley, Ecotrust founded a Canadian affiliate, Ecotrust Canada, to continue its work with the Haisla Nation and other partners with the authority of a fully Canadian organization. In the U.S., Ecotrust and Shorebank announced the incorporation of Shorebank Enterprise Pacific in Ilwaco, Washington, a nonprofit loan fund and business development group envisioned as the first stage of a bank holding company. The holding company would ultimately comprise several affiliates including a commercial bank, ShoreBank Pacific, using the tools of community development finance to realize a shared environmental vision.

Located in Ilwaco, a small fishing port on the Lower Columbia River, Shorebank Enterprise works with local enterprises to access and position themselves in the most appropriate marketplace for their products and services. The group provides credit and technical assistance that help its entrepreneur clients add value and identify market niches where concern for environment, social equity, and economic opportunity come together.

The Shorebank Enterprise loan fund is backed primarily by philanthropic investors, although it also attracted US \$500,000 in support from the US Treasury Department in 1998. The group has loaned US\$7 million since inception, serving over 70 borrowers in some eight sectors, with a special emphasis in seafood, wood and wood products, community development and real estate, and community services. Roughly two-thirds of its loans have financed expansion of existing businesses, with the remaining third split nearly evenly between start-ups and debt restructuring. The business activity supported by these loans has created or retained approximately 400 jobs in a rural area facing economic transition due to resource overharvest, fishing cutbacks, and the mechanization of logging. Despite a high level of risk given the portfolio's emphasis on natural resources and on businesses that conventional banks cannot help, careful oversight and face-to-face involvement with clients have kept Shorebank Enterprise's loan losses below one percent.

Shorebank Enterprise also offers clients a variety of services including business planning, product development, market-



A loan from Ecotrust and Shorebank will help to determine if a harvest of tanner crabs off the west coast is ecologically, commercially, and culturally feasible. Photo courtesy of: Ecotrust Canada.

ing, and conservation assessment. The sectoral profile of development services has varied somewhat from the sectoral pattern of the loan portfolio, with more emphasis on tourism-related businesses and community development clients.

Bringing its credit and services to bear primarily in watersheds and communities within a 2-hour driving radius of Ilwaco, Shorebank Enterprise has been creative in building conservation components into its business development activities. Sometimes conservation impact has been a direct outcome of lending relationships: financing that catalyzed the clean-up of a contaminated brownfield site in Astoria, Oregon; helping to create a "wetland mitigation bank" that concentrates protected wetlands in an ecologically significant location; or expanding the market for fish from an environmentally sensitive salmon fishery in the lower Columbia River. In other cases environmental value has been achieved by other means: helping clients undertake conservation assessments, for example, and sharing information about environmentally responsible practice in the hospitality industry. The organization has demonstrated the potential of a place-based development strategy by steadily building the knowledge, expertise, and community commitment needed to inspire confidence in its potential and actual clients.

With a more expansive geography and a more avowedly environmental mission, Ecotrust Canada works from a different, but complementary, core competence. With First Nations, Ecotrust Canada enjoys a degree of legitimacy unusual among nongovernmental groups in the province. The organization provides training, technical assistance, and computer mapping support to a number of First Nations including the Heiltsuk Nation on the mid-coast and the Tsleil-Waututh in the Vancouver area. With partners from the Gitksan and Ahousaht Nations, it helped to create the Aboriginal Mapping Network, the first

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Native computer mapping users group in North America. Its mapping support has proved a powerful adjunct to First Nations in the treaty process.

This work is only part of Ecotrust Canada's broader vision of a new economy in B.C.: an economy in which First Nations control a larger piece of the economic "pie" and the traditional resource extraction that has damaged whole watersheds and salmon-bearing rivers is substantially curtailed.

The vision arose naturally from Ecotrust Canada's policy analysis activities. Several publications produced with the support of Ecotrust Canada have offered a telling critique of the status quo. In *More Than the Sum of Our Parks*, Ecotrust Canada examined B.C.'s protected areas system, especially in relation to First Nations rights, in order to trigger a re-thinking of the role of protected areas in the province. In *Falldown: Forest Policy in British Columbia* (produced in association with the David Suzuki Foundation), Ecotrust Canada examined the history and consequences of provincial forest policy and proposed reforms to protect the forest ecosystem and create a sustainable forest industry.

Its respected policy analysis and place-based experience with First Nations and other partners put Ecotrust Canada in a unique position to substantiate its positive vision in a specific location - to help a place re-invent itself by the rules, and with the tools, of a conservation economy. In no place in British Columbia, perhaps no place in North America, are conditions as conducive to the test as in Clayoquot Sound.



A carver at work on cedar for Sarita Furniture of Port Alberni, B.C. A loan from Ecotrust and Shorebank has helped cover Sarita's costs of certification under the strict standards of the SmartWood program. Photo courtesy of Sarita Furniture.

#### WHY CLAYOQUOT?

Clayoquot Sound, a region of mountain-skirted coastal bays whose communities are home to some 33,000 residents, captured provincial and international attention in the early 1990s with logging blockades and mass arrests during its "war in the woods." The battles are not entirely over, but residents of the small communities around the Sound have settled down to the quieter but equally important task of building an economy that works for them and their children.

In 1997, Ecotrust Canada published *Seeing the Ocean Through the Trees: A Conservation-based Development Strategy for Clayoquot Sound*. Combining a map-based analysis of forest practices in the Sound with a rigorous discussion of alternative livelihoods, the organization outlined steps needed to move Clayoquot Sound's economy away from its historic dependence on forest products towards a truly sustainable economy. Its recommendations included establishing a permanent development institution to offer marketing, managerial and technical support, and non-bank credit to local businesses, in order to promote responsible business practices and to help grow a green market for sustainably produced goods - an institution very much like Shorebank Enterprise.

The two organizations began to explore the possibility of a staffed presence in Clayoquot Sound that would combine Shorebank Enterprise's experience and rigour as an enterprise lender with Ecotrust Canada's commitment to a viable economy for the Sound's communities. A unique and promising linkage of capacities was possible.

Clayoquot has always tended to attract eclectic individuals with entrepreneurial tendencies and skills. Drawn by the extraordinary natural beauty of the Sound, many local business people have proven more environmentally oriented and more familiar with non-traditional resource management opportunities than their counterparts found in Shorebank Enterprise's target areas along the U.S. coast. Designation of Clayoquot Sound as a "biosphere reserve" by UNESCO last year further anchored the region's commitment to an economic development strategy compatible with ecological integrity. Tired of environmental conflict and brimming with entrepreneurial energy, the local business community proved receptive to a "green" financing strategy.

Ecotrust Canada and Shorebank Enterprise began to explore lending opportunities around the Sound, and to raise philanthropic support to take this business development strategy into an active phase. In May 1999, the two organizations jointly hired a "conservation credit officer" to staff the strategy from a new office established in Ucluelet. Victoria native Bill

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Girard brought a unique blend of experience to the position, including 18 years of corporate banking and business experience in the Canadian private sector and six years of “integrated conservation and development” project management in Papua New Guinea.

### A SPECTRUM OF DEALS

Three loans made from the Ucluelet office in the past year illustrate the diversity of entrepreneurship emerging in the Sound and the breadth of lending expertise that Ecotrust Canada and Shorebank Enterprise seek to build.

Sarita Furniture Ltd. of Port Alberni is a manufacturer of high-quality garden furniture built from western red cedar and other species native to the coastal rain forest. Family-owned since 1987 and employing 5-10 people depending on the season, Sarita has distinguished itself in the marketplace by craftsmanship and dedication to elegant use of local wood. A loan from Ecotrust Canada and Shorebank Enterprise was applied to the company’s costs of participation in the SmartWood Forest Certification Program, an independent confirmation that Sarita’s products come from forests managed to strict ecological and socioeconomic standards.

Sarita’s SmartWood certification, the first awarded to a B.C. manufacturer of wood products, covers the whole “chain of custody” from harvest through drying, milling, and manufacturing.

Susan Jones and Mike Rothe of Write On! put a loan from Ecotrust Canada and Shorebank towards establishing an e-business for environmentally-friendly office supplies. Photo credit: Diane Morrison Communications.



This spring, Sarita received a shipment of Forest Stewardship Council certified wood from a 130-hectare woodlot near Courtenay, B.C., the first logging operation on Vancouver Island to achieve this green seal of approval. Sarita plans to manufacture benches from this timber later in the year.

The value to Sarita is access to new markets with a preference for certified wood, a small but rapidly growing percentage of the global demand for wood products. Uncertain about that market’s willingness to pay a premium to cover the costs of certification and more expensive lumber, Sarita is considering direct sale of a limited edition of its new products. As more sources of certified lumber become available, Sarita expects to increase production to offer its “eco-furniture” line through dealers.

In the fisheries sector, Ecotrust Canada and Shorebank Enterprise have been involved with the Regional Aquatic Management Society (RAMS), an organization created in 1997 by Native and non-Native partners to establish regional management of aquatic resources in Nuu-chah-nulth Territory, which encompasses most of Clayoquot Sound. Seeking to diversify fishing opportunities by developing new and underutilized species, RAMS helped launch the Tanner Crab Joint Venture last winter. Fishers, processors, community organizations, and government agencies collaborated in a coastal survey to determine the feasibility of a Tanner Crab trap fishery.

A loan to one of the RAMS partners by Ecotrust Canada and Shorebank Enterprise enabled the survey to be conducted in conjunction with a limited exploratory commercial harvest to foster the development of processing and marketing. Such a hybrid of science and business is not typically appealing to lenders. However, the application of some innovative underwriting and cash management practices made the deal work for both borrower and lender.

The Tanner Crab fishery would be the first along the coast developed according to ecological, socio-economic, and cultural principles. Ultimately, the fishery could be responsible for 50-125 new and seasonally extended jobs on the coast. The goal is to develop local value-added and special products for local resale by retailers and restaurants. If successful, this would keep Tanner crab out of the traditional commodity marketplace that has in the past fostered the overharvest of other coastal fisheries.

Ecotrust Canada and Shorebank Enterprise have also worked to help more conventional entrepreneurs move in a green direction, finding new ways to operate profitably while reducing their ecological “footprint.” One such client is Write On!, a Tofino office supply business that uses the web to enhance its service delivery and is poised to launch a new green e-business.

A working capital loan to Write On! helped the company achieve its e-commerce objective, retaining four jobs and creating two new positions.

Write One's green business Website ([green-office.com](http://green-office.com)) sells environmentally friendly paper and other business supplies with a promise of 1-day order fulfillment from a network of North American suppliers.

Entrepreneurs Susan Jones and Mike Rothe have now opened a distribution center for Write On! in Port Alberni. They see the office supply business and its green expansion as an example of local enterprise compatible with the aims and values of Clayoquot Sound's biosphere reserve designation - a profitable job creator that uses the medium of the Web to serve customers in an energy- and materials-efficient way.

#### IMPLICATIONS FOR COMMUNITY ECONOMIC DEVELOPMENT

A loan fund and a small stable of clients are modest levers indeed compared with the task of changing an economy, even in a limited location like the Clayoquot-Alberni district. The main goal of the Ecotrust-Shorebank partnership has been to unleash the power of positive example, to find and support small businesses that restore the natural or social capital of their communities in their pursuit of a favorable bottom line.

Historically, economic development has focussed on industry classes or sectors. By contrast, conservation and community development are inherently place-based pursuits. Ecotrust Canada and Shorebank Enterprise have come to agree that the vision of the conservation economy can be achieved only if it is rooted in place and in strategies fine-tuned to the opportunities and circumstances of specific watersheds and communities.

The challenge of this work lies in combining the place-based clarity of community development with the growth potential offered by skilled entrepreneurs backed by sector-specific expertise. On the rural coast, this means devoting a lot of effort to working with entrepreneurs to enhance the chances of their success, while strengthening the connections between their businesses and community and environmental values.

Flexibility of service is one key. Another is attending to relationships in a very personal way. This requires going beyond the services normally associated with a business's banker. As well as providing funds, a conservation credit officer assists clients with such tasks as developing cash budgets, preparing press releases, and building links with other entrepreneurs operating outside their region. Bill Girard, for example, accompanied a local oyster farmer and client to a shellfish conference in Oregon last spring. The client was "ecstatic" about meeting so many like-minded people, seeing evidence of success in his industry, and hearing ideas that will make a difference in his business. There is no formula for the effort to add value to a customer or client's business, no alternative to the mutual learning made possible by trust.

#### RATING MISSION RISK: A NEW APPROACH TO FINANCING

Environmental degradation is a form of poverty. And though the connections are not always obvious, environmental poverty does lead to social poverty. Mindful of these connections, at Ecotrust Canada we concern ourselves with three kinds of capital:

- Financial capital, created through economic activity.
- Natural capital, built up over millions of years.
- Social capital, the local well being expressed through meaningful work, health, and opportunities.

These three "e's" - economics, environment, and social equity - coexist within what we refer to as a conservation economy, one sustained by activities that don't deplete one type of capital to produce another. It's easy to understand how financial capital is depleted. If we are intent on spending more than the interest our bank account earns each year, we have to cut into the principal to do so. Eventually our capital is depleted and we have no income. Less obvious, perhaps, are the ways we deplete natural capital - the environment made productive by processes we don't control. Examples include cutting forests faster than they can regenerate and overfishing valued fish stocks. These, too, are ways we fail to "live off the interest." We deplete social capital when we marginalize certain members of our community, when we pursue short-term gains at the cost of quality of life, and when people are denied access to the education, training, and financial resources they need to participate meaningfully in the economy.

When Ecotrust Canada does the underwriting analysis associated with a loan application, we look at all three "e's" to determine if we can provide financing and to set the terms of that financing.

We prepare what we call a "Mission Risk Rating Summary" in addition to the conventional credit risk analysis used by most lending institutions. A credit risk analysis typically has a direct bearing on interest rate: the higher the risk, the higher the rate. We reward Ecotrust Canada's creditworthy clients with improved terms and conditions (sometimes including a lower rate) when our analysis indicates a favorable Mission Risk Rating.

Ecotrust Canada and Shorebank Enterprise plan to lend C\$6 million to some 50 small businesses over the next four years. It is a small amount of money going to work in a place unknown to most North Americans. Nevertheless, Clayoquot Sound is the only large, intact, and easily-accessible rain forest ecosystem in North America. It is blessed with the experience of five Nuu-chah-nulth First Nations, and of non-native residents whose tenacity and commitment to place have survived the hard test of a changing reality. It combines the advantage of proximity to metropolitan centers with sufficient distance and isolation to retain its distinctive character. It has to be one of the richest combinations of a productive ecosystem and diversity of people anywhere in the world.

It is the kind of place where the work of Ecotrust Canada and Shorebank Enterprise Pacific might legitimately earn from the Sound's oldest residents the term *Ha-shilth-sa* - a Nuu-chah-nulth term that translates as "interesting news." 

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*Ecotrust:* [www.ecotrust.org](http://www.ecotrust.org)

*Ecotrust Canada:* [www.ecotrustcan.org](http://www.ecotrustcan.org)

*Shorebank Enterprise Pacific:* [www.spbac.com](http://www.spbac.com)

*ShoreBank Pacific:* [www.eco-bank.com](http://www.eco-bank.com)

*Shorebank Corporation:* [www.shorebankcorp.com](http://www.shorebankcorp.com)

*Sarita Furniture Ltd.:* [www.sarita.net](http://www.sarita.net)

*Regional Aquatic Management Society:* [www.rams-wcvi.org](http://www.rams-wcvi.org)

*Greenoffice.com:* [www.green-office.com](http://www.green-office.com)