Finance Mechanisms for Biodiversity:
Examining Opportunities and Challenges

CO-CHAIRS SUMMARY

of an International Workshop convened by the OECD, World Bank, GEF, and the European Commission, together with Sweden and India

12 May 2012 - Montreal, Canada

The objective of the workshop on *Finance Mechanisms for Biodiversity: Examining Opportunities and Challenges*, held on 12 May 2012, in Montreal, Canada, was to bring together governments, experts and practitioners from a wide range of countries so as to exchange insights and lessons learned from finance mechanisms for biodiversity, and to explore what are the most promising avenues for effectively scaling up finance for biodiversity. The workshop aimed to foster an informal dialogue on key opportunities and challenges associated with finance mechanisms and to examine the technical and analytical issues related to their effective design and implementation. The purpose was to support *inter alia* ongoing discussions under the Convention on Biological Diversity (CBD), building on the Dialogue Seminar on Scaling Up Finance for Biodiversity in Quito, Ecuador, and on related discussions in WGRI-4.

The workshop consisted of overview presentations of finance mechanisms, case studies, and a panel discussion to address cross-cutting issues. Participants included about 80 representatives from governments with a balanced regional representation, development agencies, UN organizations, non-governmental organizations, and other experts, all with experience of financial resources mobilization for the conservation and sustainable use of biodiversity. Participation was based on nominations received via the CBD Secretariat. The workshop was convened by the OECD, the World Bank, the GEF, and the European Commission, together with Sweden and India.

Key Messages from the Montreal Workshop

There are three important ways to scale up biodiversity outcomes through the use of finance mechanisms: (i) by raising additional revenue that is then used to achieve biodiversity outcomes; (ii) by mainstreaming biodiversity in the production and consumption landscape (e.g. green markets; offsets) and (iii) by reducing the cost of achieving biodiversity conservation and sustainable use (e.g. environmental fiscal instruments). In some cases, finance mechanisms can work across more than one avenue; for example, fiscal instruments can reduce the cost of doing conservation while also changing incentives that drive conversion rather than conservation.. In others, an IFM may not raise additional funds per se. For example, certification, under green markets, provides an opportunity to mainstream attention to biodiversity in land-use practices. Any additional revenue raised, such as through price premia, can help to cover the marginal cost of mainstreaming biodiversity in producing that certified product.

The CBD's six so-called innovative financial mechanisms (IFMs) all provide opportunities to scale up biodiversity results - but only some present an opportunity to scale up actual revenue. And in each case, there are costs associated with developing the institutional and procedural processes to establish an IFM. It takes money to make money. It also takes stakeholders who can translate the true value of biodiversity into the prices of goods and services so as to encourage more efficient conservation and sustainable use, and mechanisms to cost-effectively capture any new revenues and distribute them to increase biodiversity outcomes. Different forms of environmental and social safeguards also need to be considered, depending on the mechanisms selected as well as national circumstances, so as to avoid potential trade-offs and enhance biodiversity, ecosystem services and social outcomes. Effective monitoring, reporting and verification is key to assessing performance and ensuring that the mechanisms deliver adequately on all fronts.

Opening Session

The Chair of this session, François Wakenhut (EC), opened the workshop with welcoming remarks and outlined the aim and objectives of the workshop. Maria Schultz (Director of The Resilience and Development Programme, SwedBio – at Stockholm Resilience Centre, Sweden) and Ravi Sharma (CBD Secretariat) were invited to provide introductory presentations.

Maria Schultz presented on *Scaling up Biodiversity Finance.* The presentation summarized the Dialogue Seminar held in Quito, Ecuador (6-9 March 2012), and highlighted some of the key messages that emerged from this dialogue. These include the need for country specific financing mechanisms and policies, strong and transparent safeguards and appropriate governance structures to avoid unintended and perverse outcomes.

Ravi Sharma provided a *Background Presentation on the Policy Context and the Convention on Biological Diversity*. The presentation provided background information on the Finance Mechanism (GEF) and the Resource Mobilization Strategy. The goals, indicators and Resource Allocation Framework of the Resource Mobilization Strategy were elaborated upon. The presentation concluded with an outline of the next steps for implementing the Resource Mobilization Strategy.

Session I: Finance Mechanisms for Biodiversity: Overview and Case Studies

Environmental Fiscal Reform

The Chair of this session, Valerie Hickey (World Bank), introduced the two presenters: Carlos Munoz Piña (Lecturer at ITAM, visiting professor at Universidad Iberoamericana, Mexico) and Thiago Medeiros de Cunha Cavalcanti (Division of the Environment, Ministry of External Relations, Brazil).

Carlos Munoz Piña presented *An Overview of Fiscal Reform.* The presentation highlighted opportunities to scale up biodiversity finance through tax reform, and by removing, reducing or decoupling ineffective or environmentally harmful subsidies. The presentation also underlined the importance of addressing distributional issues (equity) when conducting fiscal reform. A number of examples from Mexico were drawn upon, such as entrance fees to Protected Areas (PA) that have been earmarked to support more effective PA management.

Thiago Medeiros de Cunha Cavalcanti presented on *Experience from the Imposto sobre a Circulação de Mercadorias e Serviços-Ecológico (ICMS-E) in Brazil.* The presentation explained how in several Brazilian states, a portion of revenues from Merchandise Circulation and Services Tax are redistributed according to environmental criteria, thereby providing incentives for biodiversity conservation. The presentation drew upon experience from the state of Paraná, where the ICMS-E was first established.

On *Environmental Fiscal Reform*, participants noted that some of the challenges include how to engage the Ministries of Finance, and whether and how to ensure that finance mobilized from environmentally-related taxes is then re-directed back to foster biodiversity conservation and sustainable use. It was noted that perhaps the best approach to help engage Ministries of Finance is to undertake the calculations that will make their decision an informed one. Some participants highlighted the benefits of "speaking their language" – that is, to assess the social costs and benefits associated with the provision of biodiversity and ecosystem services. Though economic valuation of biodiversity can be resource-intensive, it was noted that it can be very useful in this respect and should receive more funding and should take advantage of networking to gather useful examples. Transparency and dialogue were also noted as important features. While examples to mobilize finance such as entrance fees to Protected Areas were welcomed, some participants pointed out that currently these sources are still small in comparison to the cost of the damage caused by extractive activities like mining, and thus work in the former matter should not preclude working on environmental compensations for the latter. . It was also noted that fiscal reform can remove drivers of biodiversity loss as well as increasing revenue, including damage intensive activities such as oil, gas, mining and highway construction, so that even where fiscal reform is revenue neutral, it can still deliver biodiversity benefits.

Payments for Ecosystem Services

The Chair of this session, Mark Zimsky (GEF), introduced the two presenters, Katia Karousakis (OECD) and Paola Bauche (Comisión Nacional Forestal - CONAFOR, Mexico).

Katia Karousakis presented *An Overview of Payments for Ecosystem Services.* The presentation provided a definition for Payments for Ecosystem Services (PES) and identified opportunities for scaling up this source of finance at the local, national and international level. Key design considerations including robust monitoring and reporting, and ensuring additionality were underlined. The need for other environmental and social safeguards, such as those that help reduce entry barriers to participation, were also raised.

Paola Bauche presented *Insights from the Mexican Payments for Ecosystem Services Programme.* The presentation described the development of three complementary PES schemes in Mexico: the National PES Programme, a local PES programme, and the Biodiversity Endowment Fund. It was noted that between 2003 and 2011, CONAFOR allocated over USD 480 million under the National PES Programme, covering a surface area of 2.3 million hectares. The presentation noted that Mexico is exploring different funding modalities to scale-up PES depending upon whether the ecosystem services provide local, national or global benefits. The presentation also highlighted some of the key challenges the scheme has faced, including additionality issues, and lack of coordination between the local and national programmes, in terms of setting the appropriate price.

On *Payments for Ecosystem Services*, participants raised questions on distributional implications as they pertain to the payment level and how these are determined and allocated, as well as if there are adverse impacts to society, how these should be responded to. It was noted that payments should be based on the biodiversity benefits and the risk of loss (to ensure additionality). It was also noted that monitoring, reporting and verification (MRV) of payments, biodiversity outcomes, as well as impacts on society are crucial. MRV can then help to determine what has worked and what not, and thus determine what environmental and social safeguards may be needed. In this context, the importance of adjusting the programme over time to take on board lessons learned (though not too frequently, so as to provide some certainty to communities as well) was also highlighted.

Biodiversity offsets

The Chair of this session, Katia Karousakis (OECD), introduced the two presenters: Kerry ten Kate (Director, Business and Biodiversity Offsets Programme, Forest Trends) and Soukata Vichit (Executive Director, Environment Protection Fund, Laos).

Kerry ten Kate presented *An Overview of Biodiversity Offsets and Biobanking.* The presentation defined biodiversity offsets and biobanking, and explained the concepts of "no net loss" and "net gain". It indicated to what extent biodiversity offsets and biobanking have been implemented globally, both in terms of area and market size, and illustrated the considerable potential to mobilise additional public and private finance. The presentation concluded with a list of key challenges that will need to be addressed to scale up offsets and biobanking.

Vichit Soukata presented *Lessons from the Nam Theun II Offset in Laos*. This presentation focussed on a Biodiversity Offset case study in Laos, which was developed to compensate for biodiversity impacts resulting from the development of the Nam Theun II Dam. The presentation looked at the biodiversity and social benefits of the offset as well as how the project was funded and implemented. Opportunities to mobilise more funds for the offset were also presented.

On *Biodiversity offsets*, the discussion covered areas ranging from technical issues to broader political economy issues. With regard to the objective of biodiversity offsets to achieve no net loss for example, participants asked if this was indeed possible in all cases. It was noted that in some cases, no net loss may not be feasible (and indeed, when the benefits of a project development are greater than the costs of biodiversity loss, then the objective of no net loss is not appropriate). When no net loss is an appropriate objective, it is important that the mitigation hierarchy is followed and that robust monitoring and reporting systems are in place. On the quantification of gains and losses, it was noted that there are many good examples available around the world – best practice involves assessing the condition of biodiversity through benchmarking of biodiversity attributes (looking at both area and quality) and using these to measure the impact of a project (to compare before and after). The recent emergence of standards and safeguards for offsets was also raised. Participants also requested further clarification between biodiversity offsets and biobanking. It was noted that a difference between offsets and bio-banking is a timing issue – under the latter, the offsets tend to be created further in advance of the development impacts, thereby reducing the biodiversity loss associated with time lags. Biobanking also serves to transfer liability of the offset from the project developer to the offset provider.

Green Markets

The Chair of this session, Valerie Hickey (World Bank), introduced the two presenters: Shigefumi Okumura (Environment and Energy Research Division, Mitsubishi Research Institute, Japan) and Ana Paula Tavares (Executive Vice President, Rainforest Alliance).

Shigefumi Okumura presented an *Overview of Green Markets*. The presentation explained how green markets operate and identified good practices, drawing on a number of national (e.g. Fuyumizu-tambo (winter-flooded rice in Japan) and international examples (e.g. Forest Stewardship Council and Marine Stewardship Council). It provided an overview of opportunities to scale up green markets, noting the year-on-year growth of sales in certified products. The presentation also identified key challenges faced by green markets, including the high costs of acquiring certification, the lack of awareness amongst farmers, manufacturers and consumers, and the difficulty in valuing and demonstrating the effect green markets have on biodiversity. The presentation suggested ways to address these challenges and identified safeguards necessary to prevent green washing, including monitoring by NGOs and third-party certification.

Ana Paula Tavares presented *Insights from the Rainforest Alliance*. This presentation looked at how Rainforest Alliance certification can conserve biodiversity and ensure sustainable livelihoods by transforming land-use practices, business practices and consumer behaviour. The presentation described the role of different stakeholders in certification and outlined the key challenges and opportunities associated with green markets. For example, Rainforest Alliance is addressing the supply shortage of green products by increasing and improving access to finance for producers. Several new credit facilities for small and medium enterprises have been set up, such as the Arigidius Foundation-BANRURAL fund, which provides microloans to SMEs in Guatemala.

On *Green Markets*, participants raised questions on the costs and time associated with obtaining certification, and how finance can be mobilised to help cover these costs. Participants also raised questions as to whether such schemes simply certify those that are already doing the right thing, and how dynamic such schemes are i.e. in providing continuous incentives to improve production processes. There was also concern that green markets may lead to green washing and that it is therefore important to have robust monitoring and evaluation in place to verify claims and protect the credibility of green markets.

Biodiversity in Development Finance

The Chair of this session, Mark Zimsky (GEF), introduced the two presenters: Valerie Hickey (World Bank) and Chris Johnson (Director, Wild Jordan, Royal Society for Conservation of Nature).

Valerie Hickey presented *An Overview of Biodiversity in Development Finance.* The presentation looked at opportunities to scale up biodiversity in development finance by mainstreaming biodiversity into development and by mobilising additional finance flows, particularly from the private sector. It underlined the need to use public money to leverage private investment and to establish delivery mechanisms that effectively and equitably distribute development funds. It highlighted the challenges of scaling up biodiversity finance in the context of development, and emphasised the need for creative solutions as well as safeguards.

Chris Johnson presented on *Experiences and Insights from Jordan.* The presentation provided an overview of Wild Jordan, a business division of the Royal Society for Conservation of Nature (RSCN), which sets up nature-based business to develop and finance Protected Areas. RSCN receives less than 10% of its operating revenue from the government, with the remaining 90% coming from other sources. The presentation explained how donors and sponsors provide starting capital for Wild Jordan to set up sustainable businesses, such as eco-tourism, gift products, restaurants and hotels. It also discussed opportunites to scale up finance by expanding their investment portfolio, partnering with the private sector more extensively and developing business models for each protected area. The key challenges faced by Wild Jordan, such as the scale of overheads, public perception and political unrest, were highlighted, as well as lessons learned.

On *Biodiversity in Development Finance,* participants raised questions as to whether biodiversity finance should be delivered in the form of loans or grants. It was noted that while biodiversity finance has tended to be delivered in the form of grants, debt instruments such as loans are more appropriate where there is a return on biodiversity investments. Participants also raised questions on the the legal arrangements between Wild Jordan and the government with regard to Protected Area management and ownership, as well as the government's role in monitoring Wild Jordan's activities in Protected Areas. It was noted that PAs in Jordan are strictly owned by the government but that the NGO has the right to manage them in perpetuity. The government has an important role to play in monitoring the NGO, and may take back the land if the NGO is not performing. There was also discussion around the role of NGOs, and the potential conflict of interests between conservation and business/financing.

Session II: Looking across the finance mechanisms: the potential to mobilize and scale-up finance and the enabling conditions and safeguards needed to support this.

The chair of this session, Katia Karousakis (OECD), welcomed the five panellists: Gilles Kleitz (Agence Française de Developpement, France); Ignatius Makumba (Vice-Chairperson, Chief Natural Resources Management Officer, Department of Enviroment and Natural Resources, Zambia); Nik Sekhran (Principal Technical Advisor, Ecosystems and Biodiversity, UNDP); Guenter Mittlacher (Director of Biological Diversity, CBD Focal Point WWF Germany); M. F. Farooqui (Special Secretary, Ministry of Environment and Forests, India).

Gilles Kleitz discussed the need to consider the local and national context when selecting and designing finance mechanisms for biodiversity. He noted that funding gaps for biodiversity conservation are politically and institutionally engrained and result largely from stakeholders with conflicting interests and strong lobbies. As such, mobilising civil society and private sector support through local and national level dialogue is fundamental. He concluded that scaling-up finance is more than a technical challenge: it will require good political processes, pilot projects and safeguards.

Ignatius Makumba highlighted that public sector funding for biodiversity is limited and called for better dialogue with the Ministry of Finance. He emphasised the need to mobilise the private sector as well as local communities in the financing and management of biodiversity, and the importance of nuanced institutional and legal arrangements to support new finance mechanisms. Another key issue he raised was the need to build trust. It was noted that it is particularly important to build trust among local communities, who can be suspicious of private sector involvement in conservation practices.

Nik Sekhran addressed the need to mainstream biodiversity across different sectors by, *inter alia*, promoting win-win opportunities, better negotiating trade-offs, and improving dialogue with Ministries of Finance. He emphasised the need to better underwrite conservation and sustainable use costs and establish a better understanding of cost profiles (e.g. who bears the costs? Are these one-off or ongoing costs?). It was noted that while some instruments change economic incentives others bring in new revenue. There is no silver bullet, and scaling up will require a strong institutional and policy framework to unlock the potential of the finance instruments. Scarce public sector finance will need to be used to leverage private sector money (e.g. by reducing uncertainty and risk).

Guenter Mittlacher emphasised the importance of cataloguing the numerous examples of best practices to help develop country-specific finance mechanisms. The importance of establishing a strong policy framework and clear and appropriate policy priorities was also underlined. He noted the importance of addressing the drivers of biodiversity loss by removing environmentally harmful subsidies and changing consumer choices. He also asserted the need to optimise the effectiveness of biodiversity finance mechanisms by matching funding sources to funding needs.

Farooqui noted that for many developing countries, national and sub-national budgets are the most important source for finance, yet these flows are small. This is because, first, costs are immediate while benefits are long term, and politicians tend to focus on the immediate future; second, there are opportunity costs involved and lobbies can create significant challenges. Farooqui stressed the need to reframe the biodiversity discourse, projecting biodiversity as an opportunity to solve global challenges such as poverty, promoting co-benefits between sectoral development and biodiversity, and emphasising that biodiversity has local and global costs and benefits. He stressed that it is not just about raising resources, but about changing behaviours (government and private sector alike). To conclude, he stressed that action is needed at the domestic level to address the global biodiversity challenge.

In the final discussion, participants highlighted the need to focus on the drivers of biodiversity loss and to better engage consumers, and civil society in general. This could be done through better communication (e.g. of the health, social and environmental implications of biodiversity loss) and integration of biodiversity into growth strategies.

Closing Session

Laure Ledoux (EC) closed the workshop with summary remarks on the days proceedings. She highlighted that it had been useful to take some distance from discussions on the terminology around innovative financial mechanisms, and to focus instead on specific instruments and discuss concrete implementation issues. It was noted that a common finding across mechanisms was that the potential to scale up often depends on government intervention. The development of safeguards, both social and environmental, was also highlighted as important to ensure objectives are reached. These may take different forms for different mechanisms. In addition, it is important to focus not only on direct revenue raising instruments, but also indirect resource mobilization instruments such as fiscal reform which reduce negative impacts on biodiversity and help bridge the financing gap by reducing financing needs.