EU submission of information concerning innovative financial mechanisms, pursuant to decision X/3, A, paragraph 8(c)

29 June 2011

1. Introduction

In CBD Decision COPX/3, §8(c), COP invited Parties, relevant organizations and initiatives, such as the World People's Conference on Climate Change and the Right of Mother Earth, to submit information to the Executive Secretary concerning innovative financial mechanisms that have potential to generate new and additional financial resources as well as possible problems that could undermine achievement of the Convention's three objectives.

Given that the resources do not meet the level required to enable the full and effective implementation of the objectives of the CBD, and the estimated extent of the present financing gap, it is crucial to explore the potential of innovative financial mechanisms (IFMs) to complement existing commitments with a view to increasing funding to support the three objectives of the Convention on Biological Diversity. IFMs provide opportunities for both the donors/investors and the receivers. An ample and diverse range of innovative mechanisms is already being used in a number of countries. Based on practical examples from all over the world, there is clear evidence that such IFMs can significantly support the financing of actions to reach CBD objectives at local, national and international levels.

Innovative financing mechanisms are likely to play a far more prominent role in international financing for development in the near future. In December 2010 the UN Resolution A/RES/65/146 was adopted, which stressed that innovative mechanisms of financing can make a positive contribution in assisting developing countries to mobilize additional resources for development on a stable, predictable and voluntary basis. A more in depth analysis and debate will take place during the 66th General Assembly is in preparation. Furthermore, the World Bank, the OECD Development Assistance Committee (DAC) and other international organizations are giving more importance to IFM as a means of mobilizing additional resources both from private and public origin, involving new partners in the financing for the development agenda, and enhancing the use and efficiency of financial flows and making them more result-oriented and effective.

The effective implementation of the CBD Strategic Plan 2011-2020 will require an adequately increased mobilisation of resources from all possible public sources, as well as increased resources from private sources including innovative financial mechanisms. Therefore, the EU and its MS consider it necessary that COP 11 gives political support to one or more IFMs, identifies basic principles to judge their relevance and function, and lays out a plan for their further development.

In order to promote the realization of the potential of innovative financial mechanisms, it is important to analyse the pro's and contra's of existing and potential innovative mechanisms. However, analysis cannot remain a paper exercise, careful field testing of IFM must be encouraged, in well monitored and reviewed pilot phases. This can help develop principles and safeguards to ensure that these mechanisms fully contribute to the achievement of the CBD objectives. The European Union and its Member States therefore welcome the opportunity to look into this issue in more detail.

2. Guiding principles

The potential of innovative financial mechanisms depends on multiple factors such as their design, the institutional framework, the geographical scale, involvement of stakeholders, etc. It is therefore important to evaluate possible IFMs against some basic principles.

The EU and its Member States consider the following principles as essential when evaluating the opportunities and challenges related to the 6 categories of IFMs identified in the Strategy for Resource Mobilisation (COPIX/9, Annex, Goal 4).

- **Contribution to CBD objectives and environmental integrity**

Regardless the nature or the type of the IFM the use and delivery of additional resources, it should be in line with the CBD and contribute to its objectives, namely the conservation of biological diversity, the sustainable use of its components and the fair and equitable sharing of the benefits arising out of the utilization of genetic resources. It should neither directly nor indirectly affect biodiversity negatively. Prior to the implementation of any kind of IMF, a thorough environmental impact assessment needs to be carried out in order to evaluate and gauge the impact on biodiversity but also on the larger environment.

Safeguards, both environmental and socio-economic, may need to be established when designing and implementing IFMs. Biodiversity criteria, targets or guidelines, in particular, should be reflected in the objectives of any IFM.

IFMs will be more effective when they also influence the direct drivers and pressures (e.g. land use change, climate change) and address the root causes of biodiversity loss.

- **Generating funding**

Innovative financial mechanisms have significant potential to generate new and additional financial resources at local, national and international levels. International innovative financing mechanisms can provide financing for sustainable development, especially towards the poorest and most vulnerable countries. However, the scale and predictability of financing that can be generated varies across IFM, and this could be an important criterion when prioritising which instrument to use.

Economic leakages should be carefully considered, so that the additional constraints/incentives provided by new policy schemes do not lead to additional pressure elsewhere, where such policies have not been implemented. IFMs should aim at as low as possible administration costs. During the design of the IFM the economic efficiency of the generation and redistribution of funding needs to be ensured.

- **Social integrity of IFMs**

In the same way that IFMs should have positive impacts on biodiversity conservation and sustainable use, safeguards should be in place to ensure that the generation of resources does not cause adverse social impacts. An important aspect is the tenure and user rights of local peoples as recognized in Decision CP 16 on REDD safeguards provides a useful example calling for the 'respect for the knowledge and rights of indigenous peoples and members of local communities, by taking into account relevant international obligations, national circumstances and laws, and noting that the United Nations General Assembly has adopted the United Nations Declaration on the Rights of Indigenous Peoples'.

- **Governance aspects**

The efficient application of any IFM will depend on supporting the capacity and governance structure needed to make it work. This entails also the involvement of local communities as

well as the private sector.

To facilitate ownership and ensure support to the implementation of the biodiversity commitments, it will be important to determine financing needs and identify possible IFMs during the review of the NBSAPs. Furthermore, transparency and accountability are crucial elements when implementing any IFMs.

3. Examples of promising instruments

In the annex different examples of promising instruments can be found. These instruments generate public as well as private biodiversity funds at local, national and international levels.

Payment for ecosystem services can also provide funding needed for maintaining and enhancing ecosystems and their services at all levels. The examples in Annex show that PES can take many forms. Funding can stem from the private sector, but also from the public sector. Payments can be in kind as well as monetary, voluntary or compulsory. Depending on the design of the schemes, emphasis can be put more on the environmental benefits, or on the income re-distributional aspects, using social criteria.

In this context it will be important to consider efforts under the Nagoya Protocol on Access and Benefit Sharing. The potential role of access and benefit-sharing to contribute to the conservation and sustainable use of biological diversity, poverty eradication and environmental sustainability is recognized in the Protocol and Parties to the Protocol shall encourage users and providers to direct benefits arising from the utilization of genetic resources towards the conservation of biological diversity and the sustainable use of its components.

Biodiversity offsets of operations and activities provide good possibilities at local and regional levels. There is a large scope for offsetting biodiversity impacts of investment projects as well as impacts along the value chain. In any case, proper safeguards must be in place in order to ensure that the offsetting is done at the appropriate scale and safeguards are needed for the mitigation hierarchy to ensure that the use of offsets does not replace prevention and mitigation of threats to biodiversity are exploited. A number of international, voluntary standards are already available (such as the Ecuator Principles), and their use by financial institutions should be enhanced. In the EU, biodiversity offsets are taking place with demonstrated benefits (see examples from France and Germany in Annex).

Biodiversity co-benefits of climate change funding also has good potential. This applies to the protection of forests, but also to other ecosystems with high adaptation and mitigation climate benefits, e.g. wetlands and grasslands. Again safeguards may also be needed as currently discussed in the context of REDD schemes.

Fiscal reform can also on the one hand, adjust market signals to ensuring the values of biodiversity are adequately reflected and provide incentives for the conservation of biodiversity, and on the other hand generate or transfer revenues to economic actors. The example given in the Annex shows how fiscal transfers are used in the Netherlands to provide incentives to green projects, including biodiversity-related ones.
Finally, green products, for example the use of certification, can also generate additional funding for biodiversity, both at national and international level, as described in the Annex.

4. Conclusions

It will be important to evaluate each IFM on a case by case basis against established

principles to maximise the benefit for the implementation of the CBD while avoiding any possible negative impacts (environmental and social).

Based on these principles, some of these instruments reviewed are particularly promising, although some safeguards will also be needed in certain circumstances to ensure they deliver on the objectives of the CBD. Innovative financial instruments have the potential to raise additional funding, both at international level (e.g. REDD+ schemes, ABS), and at national and local level (e.g. payments for ecosystem services, biodiversity offsets), from private or public sources. As well as generating new financing, some mechanisms such as payments for ecosystem services can also be an efficient delivery mechanism for public funding, whether local, national or international. Some of the examples in Annex given clearly show that IFM are complements rather than substitutes to traditional donor funding, and in some cases are also an efficient way of delivering ODA funding.

The EU and its Member States look forward to the CBD Secretariat compiling the information contained in the submissions from Parties. This will be useful input in the discussions leading up to COP-11, to explore how innovative financial mechanisms can augment and complement traditional financing sources, and increase effectiveness of delivery, while respecting the key principles outlined above.

Annex

Examples for Innovative Financial Mechanisms

1. Payment for Ecosystem Services (PES)

The French Vittel Company's case: a voluntary and bilateral PES, involving private finance

Maybe one of the oldest cases quoted by the literature, the case of Vittel is somehow symbolic of the PES concept. At the end of 1980s, Vittel (a French company selling natural mineral water) noticed threats on water nitrates and pesticides rates while it had to remain exempt from any treatment to keep its natural mineral water qualification. The private company then launched an agricultural improvement program on the 5000 ha catchments area of the springs exploited. The objective was to reach a 10 mg / l rate of nitrates (against about 40 mg / l at this time), and 0 pesticides in the water. Within this program framework, Vittel bought the majority of farmlands and exploitation rights of lands located where mineral water is collected. Vittel then gave these lands, free of charge, to interested farmers at some good practice conditions. These condition where elaborated by the French agronomic research institute (INRA).
Beyond this, Vittel pays 228 Euros per ha and per year to each farmer for a 7-years period, via AGRIVAIR, an intermediary specially created for this. AGRIVAIR also supplies free services to farmers (technical advice on excrement composting for example). The length of farmers' commitment is of 18 or 30 years. The program has cost Vittel the equivalent of 0, 15 centime of Euro by litre, for an expense of about 15 M€. (Perrot-Maître, 2006; INRA, 1997)
Vittel is often described as an example of a cost-effective solution. It is interesting to note that it is a private and almost bilateral initiative, with direct contract-based links between the company, which buys a practice corresponding to its interests, and the farmer, who "sells" this practice.

Synergies between Climate and Biodiversity Financing

With the International Climate Initiative (ICI) the German Federal Ministry for Environment established in 2008 an innovative instrument for financing international climate protection projects including biodiversity projects. More than one third of the funds are supporting projects for the conservation of biodiversity with relevance for climate change mitigation and adaptation (e.g. protection of forests, restoration of peat lands and mangroves, protected areas, REDD, ecosystem based adaptation). The ICI is using an innovative source of funding by using part of the revenues generated from auctioning emission trading allowances (within the European Emissions Trading System ETS). In the first three years the ICI was able to fund international climate projects with over 450 Mio. Euro from which approx. 180 Mio. Euro went to biodiversity relevant projects. This new form of environmental cooperation complements the German Government's existing development cooperation.

In addition, to the example above, the EU and its Member States have learned with interest of the following examples outside the EU:

Los Negros in Bolivia: a voluntary and collective PES combining local and international payments

This scheme relies on a PES mechanism to protect the threatened watershed forest of Los Negros in Bolivia. Two different 'byers' focus on two different environmental services:

- "US fish and wildlife service", an American agency, pays for forest protection and its housing of rare species of migratory birds.

- Pampagrande, the city located downstream, contributes to the mechanism from its general budget, so that the farmers of its territory benefits from continuous flow of water in dry season, and can thus irrigate 1000 hectares of farmlands.

All property owners situated upstream to the watershed were invited to take part in the program. ES providers kept the choice of the land they wished to register and of their contract duration. Contracts forbid trees cutting, hunting and clearing forests practices. The main originality of this program is the implementation of an in kind payment aiming at maintaining sustainable practices. During the negotiation phase, it was decided to finance a bee hive during one year for 10 ha of protected forest, amounting $3 / ha / year. This payment also comes along with training in beekeeping.

Mexico City State forests hydrological services: a compulsory and bilateral PES stemming from use rights payments or ES affected taxes

In the State of Mexico City, the government set up its own system of hydrological PES, whose objective is to protect surfaces of forests. The purpose is in particular to guarantee the availability of water for inhabitant's consumption in Mexico City. Rules of implementation are published (conditions, commitments, selection procedure, etc.). According to this program, landowners receive 1500 pesos / ha / year (91 Euros) to protect their forest. To guarantee the financing of the operation, the government of the State of Mexico set up a tax on state water distribution companies, which have to give 3.5 % of their turnover to contribute to the PSE program. A similar scheme is currently under development at the national level, using money both from affected taxes (on water distribution companies) and from the general Mexican Budget

Environment as a resource for Costa Rica's economic development: a compulsory and collective PES stemming from general public budgets

The Costa Rican national law on forest mentions four environmental services, supplied by forest ecosystems, which must be exploited in a sustainable way: Climate change mitigation, biodiversity conservation, the protection of watersheds, and the conservation of the landscapes. Since 1997, the "Pagos por Servicios Ambientales" program pays compensatory payments to more than 4400 farmers and forest owners to improve afforestation, sustainable management and forests protection. This PES takes the form of multi-annual contracts (often over 20 years): new plantations, development of related activities, slaughter of wood made in a long-lasting way, etc. A specific financial institution was created to support this mechanism: the Forest National Fund (FINAFO for Fondo Nacional de Financiamiento Forestal). Its sources of funding result from a tax on the sale of fossil fuels, from receipts resulting from hydroelectric companies, from loans of the World Bank and from grants of the Global environment facility. This case was strongly mediatized by the World Bank as being the example of an innovative and successful policy of management of the biodiversity.

Finally, the EU is funding a number of projects that implement innovative financing mechanisms in developing countries, including the following example:

PES to promote forest conservation of the Columbian Amazon

The EU is funding a number of projects that finance schemes implementing innovative financing mechanisms in developing countries. For example, the European Union is supporting a new project in Columbia, 'Environmental Governance to Prevent Deforestation and Promote Forest Conservation of the Colombian Amazon', with the aim of contributing to the sustainable financing of protected areas, and the benefits they provide to people, through payments for ecosystem services. The project will help ensure the conservation of the Amazon and the well-being of its peoples, through strengthening indigenous authorities' role in the creation and governance of adequate mechanisms to ensure a fair system of payments for their contribution to the maintenance of key ecosystem services.

2. Biodiversity offsets

The Business and Biodiversity Offset Programme (BBOP)

According to the BBOP Programme biodiversity offsets are measurable conservation outcomes resulting from actions designed to compensate for significant residual adverse impacts on biodiversity arising from project development after appropriate prevention and mitigation measures have been taken. The goal of biodiversity offsets is to achieve no net loss and preferably a net gain of biodiversity.

Mitigation hierarchy in France

Under EU and French legislations, plans, programmes and projects with potential adverse impacts on the environment (including biodiversity) have to include mitigation measures in order to avoid, reduce, and, if possible, remedy their significant adverse effects on the environment (Environmental Impact Assessment and Strategic Environmental Assessment Legislations).
Biodiversity-orientated regulations require to apply the mitigation hierarchy with more specific requirements on biodiversity. For instance, the French Forest Code provides specific rules for forest clearing: the administrative authority may order the developer to plant or replant an area 1 to 5 times the size of the cleared surface, depending on its ecological and social importance. Specific rules also apply to Natura 2000 sites and to the exemption from the prohibition to the destruction of protected fauna and flora species. For the implementation of these regulations, offset measures are strictly defined, when needed, to maintain or to restore the conservation status of the sites, of the natural habitats or of the species concerned.

The mitigation hierarchy's has, as a main purpose, to ensure no net loss and preferably a net gain of biodiversity.
An explicit legal framework is a key condition to an efficient implementation of the mitigation hierarchy. France has begun enacting regulations in that field from 1976 and has broadened and strengthened it throughout the years. Most recently – in date of July 2010 - the mitigation hierarchy was extended to impacts on ecological continuity. Moreover, developers were made legally responsible for monitoring, evaluating and reporting on the mitigation and offset measures implementation and impacts. At last, the law enforcement process was also strengthened so as to ensure its proper application.
Governance is another key component. In practice, mitigation and offset measures are designed by the project developer and reviewed by multiple independent environmental authorities. Some of these authorities gather scientists and environmental NGOs. They check, on a case by case basis, that all feasible measures were adopted in order to avoid and/or mitigate impacts, to ensure that offset measures remain a last resort solution. They also verify that the offered offsets were well designed.

France is currently testing offset banking mechanisms with a view to improving the quality and sustainability of offset measures implemented.

Finally, they ensure that potential adverse socio-economic impacts (e.g. on agricultural activities) have been minimized or mitigated. The analysis and recommendations from these authorities are then made public, and serve as a ground to the following official decision.

German Eingriffsregelung (impact mitigation regulation)

In Germany, the Federal Nature Conservation Act (BNatSchG) establishes the general framework for the Eingriffsregelung, while implementation is regulated through the nature conservation law of the federal states. According to Article 19 BNatSchG, impacts on nature and landscape have to be avoided. These are defined as *"changes to the shape and appearance or utilisation of land or changes to the groundwater table with its close correlations to inhabited soil compartments, that may significantly impair the ecosystem, or the national scenery"*. The BNatSchG indicates the broad field of application of the Eingriffsregelung, which not only includes selected natural resources (e.g. particularly valuable

animal and plant species or conservation areas), but the entire ecosystem and its capacity and natural scenery (Article 18 BNatSchGNeuregG). This should broadly ensure the status quo of nature and landscape in perpetuity.

However, in the case of unavoidable impacts, the project developer has to implement appropriate measures of nature conservation and landscape management to compensate. The Eingriffsregelung quires the application of a mitigation hierarchy, following different steps for the evaluation of impacts and the elaboration of counterbalancing measures, resembling a cascade (see figure 5). These range from avoidance to mitigation and compensation and possibly a compensation payment. Thus, the Eingriffsregelung covers two focal points, one being the obligation to conserve the status quo via avoidance (preventive approach), and the other being compensation for unavoidable impacts (corrective approach).

As laid down in Article 18 of the Federal Conservation Act, the application of the Eingriffsregelung begins with the identification and evaluation (in terms of significance) of the impacts of a project, plan or action on nature and the landscape. Due to the very broad meaning and scope of "ecosystem and landscape scenery" and a comprehensive spatial approach, most action that are subject to authorisation are obliged to carry out an assessment based on that shown in Figure 5, regardless of the size of the action and whether a particularly valuable area is affected or not.

According to Article 19 (1) of the Federal Conservation Act the "intervening party shall be obligated to refrain from any avoidable impairment of nature and landscape".

The avoidance requirement protects not only the current state of the environment, but also takes into consideration future developments, as far as their occurrence can be predicted. In this respect, the Eingriffsregelung also secures nature and the landscape for the future.

As noted above, unavoidable impairment has to be compensated through nature conservation and landscape management measures. The extent of the compensation measures under law is determined by the principle of full compensation. This principle stipulates that significant or lasting impairment caused by an impact on nature and/or the landscape has to be compensated entirely by appropriate measures and, in the case of remaining adverse impacts, by a compensation payment.

3. Fiscal transfers

Green Funds Scheme

The Green Funds Scheme in the Netherlands is an example of fiscal transfer, in which green projects are stimulated by tax exemption for investors (private and institutional). Green projects with lower interest rates can thus be funded; investor's returns are normal through the fiscal compensation. Green projects need recognition from government that can thus assess the environmental gains. Banks are the executing body and lenders. The scheme in its existence has raised more than 7 billion euro for 5000 green projects (1995 – 2007).
Examples of green projects are nature- and landscape conservation, sustainable aquaculture, sustainable energy generation and spatial restructuring of business parks.

4. Markets for green products

Round Table on Responsible Soy Association

The Round Table on Responsible Soy Association (RTRS) is one of an increasing number of commodity-based initiatives promoting responsibility and sustainability and in so doing enabling new markets for green products. Established in 2006 as a Swiss not-for-profit association and managed by an Executive Secretariat based in Buenos Aires, RTRS "promotes the use and growth of responsible production of soy, through the commitment of the main stakeholders of the soy value chain and through a global standard for responsible production."

The standard aims for no conversion of High Conservation Value Areas for soy cultivation and also for

maintaining on-farm biodiversity. Regarding labour relations, the standard does not allow for child labour, forced labour, discrimination or harassment. Regarding community relations, the standard requires that in areas with traditional land users, conflicting land uses need to be avoided or resolved, and that local people have a fair opportunity for employment and for providing goods and services.

Green Development Initiative (GDI)

The GDI aims to significantly increase financial resources for biodiversity conservation and sustainable use by stimulation of voluntary private funding of sustainable land management practices. The GDI proposes to set up a certification scheme to certify land management plans and practices that deliver measurable, tangible biodiversity and social development outcomes above a business as usual scenario. The revenues will compensate or reward land users for their activities leading to sustainable use or conservation of biodiversity. The GDI is not proposing to sell land or land rights.

Currently, GDI-pilots are being designed, e.g. with development NGO Solidaridad in production areas of different commodities and with WWF in other economic sectors. By identifying and implementing pilot projects the GDI process creates an effective 'learning by doing' environment. Pilot projects are planned to provide insights in relevant issues, solutions and approaches to these issues, as well to demonstrate the potential in terms of effectively showing biodiversity and development outcomes. Furthermore they need to show the business case by attracting willing buyers. The aim is to start elaboration of selected management plans by October 2011. Progress will be reported at Rio+ 20 and CBD CoP11 in 2012.

5. Business-biodiversity partnerships

The Wetland Carbon Partnership

In 2008, the Danone Group, the International Union for Conservation of Nature (IUCN), and the Secretariat of the Ramsar Convention on Wetlands established a three-year partnership "to provide a means for Groupe Danone to offset the carbon emissions of some of its brands, primarily Evian, by preserving and restoring wetlands [and to] enable the Ramsar Convention to promote the environmental contribution made by wetlands in the fight against climate change, whilst allowing the IUCN to help preserve and increase biodiversity."

The Wetland Carbon Partnership published a standard and guidance for developing wetland carbon projects which have positive impacts on climate change, biodiversity and communities. As well, the Partnership drafted a new methodology for carbon offsets through restoration of mangrove ecosystems and identified a pipeline of potential mangrove restoration pilot projects. The new methodology has been submitted to the UNFCCC for use under its Clean Development Mechanism.
Building on these efforts, Danone has invested in two pilot projects in Senegal and India and is exploring opportunities for new wetland carbon investments in Indonesia, Mexico and elsewhere. A key element of the pilot projects is that they "benefit local populations, who will be offered the opportunity to become involved with conservation, sustainable management and ecosystem rebuilding operations."

6. New forms of charity

Save Our Species Initiative

Launched at CBD COP10 in October 2010, the Save Our Species (SOS) Initiative is a partnership between the Global Environment Facility (GEF), the International Union for Conservation of Nature (IUCN) and the World Bank "to build the biggest species conservation fund, supporting on-the-ground field conservation projects all over the world. …SOS-funded projects will focus on conservation of threatened species and their habitats."
The unique feature of SOS is its focus on species: "Focusing on threatened species is a successfully-proven approach in nature conservation. Species are the visible building blocks of biodiversity and are

the most useful and recognizable indicators of ecosystem health. They have been widely studied and identified, are measurable and are covered by environmental legislation and conventions." SOS is providing two types of grants: (a) species conservation grants ranging from $25,000 to $800,000 in response to project proposals, and (b) rapid action grants to support conservation actions in emergency situations.
Importantly, SOS-funded projects are subject to the conditions of the SOS Environmental and Social Management Framework (ESMF) which is based on IUCN and World Bank safeguard policies and addresses such issues as environmental assessment, natural habitats, indigenous peoples and involuntary resettlements. For example, SOS will not support projects that involve the significant conversion or degradation of critical natural habitats, the use of pesticides or agrochemicals; land acquisition or relocation of local communities; or affect indigenous peoples without having obtained their consent.

7. Others

The CBD LifeWeb Initiative – A clearing-house for protected areas financing

The CBD LifeWeb Initiative was launched during the 9th Conference of the Parties to the CBD in 2008 in Bonn, Germany. LifeWeb is not an Innovative Financing Mechanism as such as it is not generating funding itself. However, LifeWeb is an innovative mechanism to enhance coordination and cooperation regarding protected areas financing. CBD LifeWeb assists development cooperation partners by: 1) helping recipient countries to convey their financing priorities to multiple donor partners through an internet-based clearing-house and through the realization of financing roundtables 2) helping (public and private) donors to gain information about recipient countries' financial priorities and coordinate counterpart funding opportunities with others. Since the beginning of the initiative LifeWeb has been able to facilitate more than 200 Mio. USD funding. For more information: http://www.cbd.int/lifeweb/