INNOVATIVE FINANCIAL MECHANISMS

UNEP/CBD/WG-RI/3/8, 15 February 2010

INTRODUCTION

1. In paragraph 9 (a) of decision IX/11 B, the Conference of the Parties requested the Executive Secretary to prepare a document on policy options concerning innovative financial mechanisms, with inputs from regional centres of excellence in a geographically balanced way and forward it to the Ad Hoc Working Group on Review of Implementation of the Convention. The Conference of the Parties further requested the Ad Hoc Working Group on Review of Implementation of the Convention to identify a series of options and policy recommendations concerning innovative financial mechanisms, based on the above information and the submissions received from Parties in response to the invitation contained in paragraph 6 of the same decision. In addition, the Conference of the Parties also acknowledged that Germany offered to finance the operation of the Ad Hoc Technical Expert Group on Innovative Financial Mechanisms.

2. In response, the Executive Secretary transmitted to Parties and Governments the request from the Conference of the Parties, through notification SCBD/ITS/YX/64504 (2008-122) dated 24 September 2008, and requested their submissions with the initial deadline of 12 December 2008. Subsequently, the Secretariat received submissions from Egypt, Peru, and Qatar. Upon the request from Parties, the Executive Secretary circulated a notification on 17 December 2008 to extend the deadline to 31 July 2009. As a result, the Secretariat received additional submissions from the European Union, including, the Czech Republic, the European Commission, France and Germany. Further submission was also received from Brazil. The submissions received have been made available at: https://www.cbd.int/financial/ and made available as an information document (UNEP/CBD/WGRI/3/INF/4).

3. In collaboration with The Economics of Ecosystems and Biodiversity Secretariat (UNEP-TEEB), and with generous support from the Government of Germany, an International Workshop on Innovative Financial Mechanisms was organized in Bonn, from 27-29 January 2010. The workshop assessed the status of knowledge and related use concerning innovative financial mechanisms at all levels, and considered payment for ecosystem services, biodiversity offsets, environmental fiscal reforms, market for green products, business-biodiversity partnerships and charity, new and innovative sources of international development finance, climate change funding and biodiversity, as identified in decision IX/11. The report of the International Workshop on Innovative Financial Mechanisms is available as an information document (UNEP/CBD/WGRI/3/INF/5).

4. The present note has drawn on the submissions from Parties as well as on the report of the International Workshop on Innovative Financial Mechanisms. The first six sections seek to explore policy options concerning six innovative financial mechanisms identified in the strategy for resource mobilization, and the seventh section further considers global approaches to innovative financial mechanisms. Recommendations are provided in the final section. More in-depth information on the

descriptions of various innovative financial mechanisms and their current use and trends can be found in the documentation of The International Workshop on Innovative Financial Mechanisms.

I. PAYMENT FOR ECOSYSTEM SERVICES

5. Strategic objective 4.1 of the strategy for resource mobilization is to promote, where applicable, schemes for payment for ecosystem services, consistent and in harmony with the Convention and other relevant international obligations. In economic and financial terms, ecosystem services refer to the services that are embedded in the human system of production and consumption, including water services (freshwater, water regulation, water purification and waste treatment), climate services, agricultural services (erosion regulation, pollination, pest regulation), health services (disease regulation and air quality regulation), and natural-hazard regulation services. Some estimates show that the values of these ecosystem services can be as much as three times the total global gross domestic product. The present section focuses mainly on payment for water-related, forest-related and agriculture-related ecosystem services. Payment for climate services will be explored separately in section VI below.

6. National-level options include the following:

(a) Reform or remove those policies with adverse consequences on biodiversity and associated ecosystem services, in particular with regard to environmentally harmful subsidies;

(b) Provide assurance to market participants by instituting effective measures for monitoring and evaluation of ecosystem services as well as contractual enforcement to ensure delivery of the intended services and their measurement;

(c) Encourage national development banks, including export and import banks, and public funds to offer micro credit, promote and support small and medium-size enterprises, reduce market volatility, and catalyze domestic and foreign direct investments in order to support payment for ecosystem services;

(d) Provide clarity of land/water tenure related to ecosystem services through national legislation and regulations, noting that payment for ecosystem services can apply to both private and public lands and waters;

(e) Promote institutional arrangements which can incorporate agents or providers of ecosystem services into one operational legal entity at the ecosystem level.

7. International-level options include the following:

(a) Adopt agreed methodologies for economic valuation of ecosystem services and underlying biodiversity, building on existing work, including, *inter alia*, the OECD *Handbook on Biodiversity Valuation: A Guide for Policy Makers*;

(b) Develop guidelines for defining marketable ecosystem services, and develop replicable prototypes and models based on available experiences and best practices that contribute to attaining the objectives of the Convention on Biological Diversity, generate additionality, minimize leakage, ensure transparency, and address equity issues;

(c) Reduce transaction costs by recognizing the brokerage role of such intermediaries as major international organizations, or non-governmental organizations;

(d) Level the market playing-fields by enhancing negotiation skills and power of ecosystem agents/providers and building other relevant capacities;

(e) Facilitate the flow of market information both vertically and horizontally to de-fragment markets for ecosystem services;

(f) Promote counter-cyclical policy measures by providing adequate international funding in case the available level of payment is not sufficient to cover start-up costs at local or national levels;

(g) Accredit independent national or international organizations or companies to undertake monitoring and verification functions, using common standards and agreed methodologies and protocols, in order to provide adequate assurance to both payers and agents/providers of these ecosystem services;

(h) Organize an international register or clearing-house of potential ecosystem services so as to enable international donors to make best informed choices and thus achieve best values for money invested in payment for ecosystem services;

(i) Organize an auction facility to enable agents (providers) of ecosystem services to market their ecosystem services and thus achieve best returns to their efforts made in sustaining ecosystem services;

(j) Continue identifying successful case-studies and lessons learned (including through national reports) on payment for ecosystem services for dissemination through communication and outreach activities;

(k) Promote awareness and implementation capacity with regard to payment for ecosystem services including through a series of regional capacity building workshops aimed at identifying payment for ecosystem services opportunities in the regions.

8. Options at all levels include the following:

(a) Advance scientific understanding of the biophysical relationships between human actions and their ecosystem consequences;

(b) Study socio-economic motives and constraints facing agents/providers and beneficiaries of ecosystem services;

(c) Promote publicity on the values of ecosystem services and underlying biodiversity;

(d) Promote best practices in building a strong business case for payment for ecosystem services, identifying and defining beneficiaries/payers of ecosystem services, bearing in mind the need for fair sharing of burden among beneficiaries;

(e) Promote research for developing sound methodologies for selecting ecosystem service agents/providers so as to avoid poor selection of ecosystem agents, spatial pressure spill-overs, and adverse self-selection, and for determining the level of payment and payment programmes.

II. BIODIVERSITY OFFSET MECHANISMS

9. Strategic objective 4.2 of the strategy for resource mobilization is to consider biodiversity offset mechanisms where relevant and appropriate, while ensuring that they are not used to undermine unique components of biodiversity. Biodiversity offsets promote a delicate balance between development goals and biodiversity objectives by demonstrating measurable conservation outcomes that adequately compensate for significant residual adverse impacts on biodiversity arising from project development after appropriate prevention and mitigation measures have been taken. While payments for ecosystem services are based on the "beneficiary pays" principle, biodiversity offset mechanisms are derived from the "polluter pays" principle. In response to decision IX/26, The Business and Biodiversity Offsets Programme (BBOP) (http://bbop.forest-trends.org/), a partnership between companies, governments and conservation experts has developed experimental pilot projects, practical guidelines for offset design and implementation and agreed a set of ten basic principles for biodiversity offsets. The following options draw significantly from the existing work streams and work plans of BBOP.

10. National-level options include the following:

(a) Conduct analysis of existing policy (e.g. environmental impact assessments, conservation law including protected area legislation, planning regulations, sectoral policies, fiscal policies, liability regimes, land tenure, indigenous peoples' rights) to explore the extent to which these serve to require, facilitate or even present a barrier to undertaking high-quality biodiversity offsets;

(b) Develop national policies or regulations, strategies and operational approaches that require and encourage biodiversity offsets or compensatory conservation for impacts on biodiversity, for instance, by improving environmental impact assessment policies to consider how biodiversity offsets or compensatory conservation can be used to address residual impacts; promoting enabling or facilitating measures, such as policies that encourage regulators to include biodiversity offsets on a case-by-case basis as part of environmental impact assessments and planning permissions; offering guidance to supplement any existing policy that requires biodiversity offsets, so the requirements are clearer to developers; and undertaking strategic environmental assessments that integrate requirements for "no net loss" or a "net positive impact" on biodiversity;

(c) Undertake bioregional and landscape-level land-use planning to support site selection for biodiversity offsets, so they contribute to conservation priorities such as biodiversity corridors;

(d) Develop and implement pilot biodiversity offset projects, including by the public sector, State-owned enterprises and multi-national companies;

(e) Analyse optimal conditions for ensuring the long-term success of biodiversity offsets, including definition of roles, responsibilities, legal, institutional and financial arrangements;

(f) Develop and implement enforcement, monitoring and evaluation measures for biodiversity offset mechanisms;

(g) Support the development of market instruments, such as conservation banking (including habitat banking and species banking) and biodiversity credits;

(h) Encourage multilateral lending institutions, national development banks and commercial banks to make an appropriate use of biodiversity offsets as part of applying the mitigation hierarchy as espoused in Performance Standard 6 of the International Finance Corporation and the Equator Principles;

(i) Introduce fiscal and other economic incentives to reward and encourage developers which undertake biodiversity offsets;

(j) Boost the values of biodiversity and associated ecosystem services by introducing policies that support tradable offset credits offered at the ecoregional and landscape scales, thus encouraging more participants in a market designed to achieve no net loss of biodiversity.

11. International-level options include the following:

(a) Develop an international standard on biodiversity offsets, encapsulating best-practice principles and providing clear, auditable requirements for offset design and implementation;

(b) Provide tools for site selection and bioregional planning to support land-use planning and landscape-level conservation priorities such as biodiversity corridors;

(c) Develop a broader portfolio of biodiversity offset experiences in a broad range of countries and industry sectors;

(d) Reduce transaction costs and project risks by developing agreed protocols for verification and auditing of biodiversity offsets as part of internationally agreed and certifiable standards for biodiversity offsets;

(e) Invite the case of multilateral lending institutions, national development banks and commercial banks to make an appropriate use of biodiversity offsets as part of applying the mitigation hierarchy as espoused in Performance Standard 6 of the International Finance Corporation and the Equator Principles;

(f) Encourage companies to adopt "no net loss" or "net positive impact" corporate policies;

(g) Provide a global forum to make the case that development projects should result in no net loss of biodiversity by following the mitigation hierarchy and applying biodiversity offsets, and to share

and disseminate collective learning and experience with biodiversity offsets, including market-based and community-oriented approaches;

(h) Foster a pool of professional services by training a cadre of professionals worldwide to support companies and Governments in the design and implementation of biodiversity offsets and associated regulation and policy;

(i) Encourage the establishment of training programmes on biodiversity offsets and conservation banking to address a lack of capacity on the part of government, business, finance and civil society to address the common issues of biodiversity offsets and work together to develop acceptable policies;

(j) Establish a clearing-house function to share and exchange policies, methodologies, case-studies, experience and lessons learned among countries with respect to biodiversity offsets and compensatory conservation;

(k) Provide technical support and policy advice on biodiversity offsets, landscape-level and regional planning to Governments, through general reports and specific advice.

12. Options at all levels include the following:

(a) Clarify the cases in which biodiversity offset mechanisms should not be applied, for instance, with respect to irreplaceable and highly vulnerable components of biodiversity;

(b) Develop criteria and indicators to apply the best-practice principles for biodiversity offsets as a sound basis for ensuring high-quality biodiversity offsets;

(c) Synthesize existing information and advance methodologies for determining the nature and scale of biodiversity offsets or compensatory conservation, the thresholds for which impacts on biodiversity are capable of being offset, and the steps in the mitigation hierarchy (avoid, minimize and restore) prior to offsetting the residual impact;

(d) Apply and further develop metrics that can assess ecological function and process, and quantify loss and gain of biological communities, assemblages and ecosystems as well as species, and that take into consideration socio-economic and cultural aspects of biodiversity;

(e) Identify ways to integrate biodiversity offsets with measures to manage impacts on carbon, water, particular ecosystem services and broader socioeconomic issues;

(f) Develop capacity to design and implement biodiversity offset mechanisms, and for adequate monitoring, evaluation and enforcement at the regional level;

(g) Further develop the active role of non-governmental organizations and civil society groups in encouraging developers to undertake biodiversity offsets.

III. ENVIRONMENTAL FISCAL REFORM

13. Strategic objective 4.3 of the strategy for resource mobilization is to explore opportunities presented by environmental fiscal reforms including innovative taxation models and fiscal incentives for achieving the three objectives of the Convention. Environmental fiscal reforms normally experience five stages: agenda setting stage to define problems, policy development stage to identify options, policy advocacy stage to building support, decision-making and implementation stage, as well as monitoring and evaluation stage. The challenge is to achieve three-folded objectives together: fiscal objectives (revenue generation and expense reduction), development objectives (addressing environmental problems that affect development, and improved access to environmental infrastructure as well as resourcing for pro-poor investments), and environmental objectives (incentives for sustainable natural resource management and financing for environmental agencies and investments). Successful environmental fiscal reforms should have net positive fiscal, environmental and social impact.

14. National-level options include the following:

(a) Identify possible compensation measures for those who might bear the costs of the reform process;

(b) Produce national reports on subsidies and their impacts on ecosystem services and underlying biodiversity, first by 2012, based on clear terms of reference or common standards;

(c) Review relevance/efficacy of existing taxation (incl. fiscal pressure), and distortion effects of taxes in different sectors, including forestry and other natural resource sectors;

(d) Assess the effectiveness and efficiency of the reform measures in meeting stated objectives, and provide feedback to reinforce or improve the introduced reform measures;

(e) Identify most suitable fiscal instruments based on evidence from comprehensive valuation of ecosystem services and underlying biodiversity, bearing in mind the need for being inclusive on multiple ecosystem benefits;

(f) Reform national budgetary procedures to allow for full reflection of the values of biodiversity and associated ecosystem services in national accounts, including through medium-term expenditure frameworks and medium-term expenditure reviews;

(g) Review national biodiversity governance in order to optimize national expenditure on ecosystem services and underlying biodiversity;

(h) Optimize taxes on natural resource exploitation to sustain future revenues, reduce illegal unsustainable activities, and generate revenue to strengthen environmental monitoring and enforcement, while avoiding proliferation of taxation instruments;

(i) Promote full cost recovery pricing policies and encourage cost-recovery use charges or fees to remain with the service providers;

(j) Reduce tax assessments or provide full tax exemption to encourage activities to promote biodiversity objectives;

(k) Increase national budgetary allocations to ecosystem services and underlying biodiversity;

(l) Encourage innovative approaches to subsidy reform, such as the Reduce, Decouple and Re-engineer (R-D-R) strategy;

(m) Consider biodiversity and ecosystem-related indicators in intergovernmental fiscal transfer arrangement to encourage lower governmental initiatives on ecosystem services and underlying biodiversity;

(n) Integrate the value of ecosystem services and underlying biodiversity in national policies, budgets and accounting;

(o) Conduct broad-based consultation with affected stakeholders to increase willingness to pay;

(p) Pilot the application of the new international system of economic environmental accounting;

(q) Undertake environmental fiscal reforms in a phased manner, considering that adaptation to these reforms can be a lengthy and difficult process;

(r) Introduce proposed reforms through some form of public announcement, preferably well in advance to give affected people the time to effectively prepare and adapt to the proposed changes;

(s) Provide assistance or compensation for undesirable distributional impacts to smooth the transition period.

15. International-level options include the following:

(a) Develop methodologies specific to biodiversity, building on the existing methodologies to measure distorting subsidies in general, and including fuel subsidies, agricultural subsidies, water, fisheries, mining, land taxes;

(b) Undertake a review of fiscal subsidies, with particular attention to those subsidies, such as in agriculture, fishing and water sectors, that may have outlived their purpose, are not targeted towards their stated objectives, or do not reach their objectives in a cost-effective manner;

(c) Facilitate international financial and technical support in contributing to the improvement of public expenditure management, environmental fiscal reforms, technical assistance and poverty reduction strategies;

(d) Facilitate international financial and technical support for developing the capacity of governmental agencies to monitor, enforce and evaluate fiscal reform measures;

(e) Facilitate international financial and technical support for enhancing the capacity of developing countries to undertake necessary analysis of proposed reforms, and identify win-win options;

(f) Promote development of an international framework on environmental fiscal reforms that sets out international norms, principles, and standards;

(g) Adopt a timetable for the reduction, decoupling and reengineering (R-D-R) of environmentally damaging subsidies and tax-exemptions;

(h) Undertake third party reviews of obligatory reports on environmentally harmful subsidies;

(i) Facilitate international financial and technical support to finance the transition costs of environmental fiscal reform, and sustain action both at national and international levels;

(j) Support studies on international taxes, such as international footprint tax.

16. Options at all levels include the following:

(a) Explore a system of national accounting that integrates ecosystem services and underlying biodiversity;

(b) Conduct quantitative analyses of the expected fiscal, environmental and social benefits relative to the impacts of existing policies and their beneficiaries, including the extent of the potential gains and losses from the reform process;

(c) Establish robust data for challenging adverse perceptions and overcoming resistance from vested interests, including the evidence basis for environmental fiscal reform, including information on the success or failure of environmental fiscal reform in specific contexts in various countries;

(d) Consider potential impacts of environmental fiscal reforms on other development goals, including poverty reduction goals, and consider how to avoid or minimize undesirable distributional impacts;

(e) Develop easy-to-understand materials on proposed environmental fiscal reforms, including the potential to mobilize substantial resources, examples and success stories;

(f) Communicate strong messages to tackle low political will and unsustainable consumption and production;

(g) Undertake public awareness campaigns to build public and political support to recognize the values of ecosystem services and underlying biodiversity.

IV. MARKETS FOR GREEN PRODUCTS

17. Strategic objective 4.4 of the Strategy for Resource Mobilization is to explore opportunities presented by promising innovative financial mechanisms such as markets for green products, business-biodiversity partnerships and new forms of charity. Green products refer to ecosystem goods, such as natural products and nature-based products, which are provided on a sustainable basis. Natural products include wild plant and animal products used as food sources or used for biochemicals, new pharmaceuticals, cosmetics, personal care, bioremediation, biomonitoring, and ecological restoration. Nature-based products involve many industries, such as agriculture, fisheries, forestry, biotechnology based on genetic resources, recreation and ecotourism.

18. National-level options include the following:

(a) Make better use of traditional knowledge of plant (and animal) species to develop new products that could reduce the costs of complying with chemical safety legislation and make global markets work better for the poor by helping to provide non-timber forest products and other products suitable for green marketing;

(b) Include broader landscape considerations into the criteria and principles for green standards and certification schemes in order to ensure that regional biodiversity is being effectively conserved and that local-level and small-scale enterprises are more effectively supported;

(c) Monitor the status and trends in markets for green products;

(d) Promote a broad ecosystem approach and include all values of biodiversity to all groups of people in certification systems for green products;

(e) Provide transitional subsidies to end-users for certified green products, and increase consumer awareness by streamlining standardized labeling schemes;

(f) Encourage green public procurement policy and implementation, and as the first step, set up national goals for committing to green public procurement in a transparent, clear and harmonizing manner;

(g) Integrate such opportunities as government green procurements with markets for green products and ecosystem services;

(h) Create incentive and recognition programmes for companies that are committed to purchasing green products or establishing and implementing green investment policies.

19. International-level options include the following:

(a) Develop internationally agreed parameters that define green products, which can be adapted to ecosystem-specific circumstances;

(b) Advance internationally agreed standards on green products, based on sound assessment of the sustainability of selected commodities and services;

(c) Develop a formal process of independent certification and assurance mechanisms, with decentralized verification and audit services to be provided by accredited non-governmental organizations and businesses;

(d) Establish an incubator fund for supporting the development of markets for green products. This funding mechanism should be flexible and draw from a variety of sources, including voluntary contributions and public finance. Its main objective is to help increase market access for small enterprises and to support the establishment of new biodiversity-friendly enterprises;

(e) Explore options in bilateral and multilateral trade agreements to achieve formal, mutual recognition of consumer preference for more sustainable production and processing methods, supported by third-party certification;

(f) Achieve a more effective coordination between biodiversity and trade policies in order to ensure that the elaboration of biodiversity standards for green products are informed by trade considerations and that trade negotiations are adequately integrating biodiversity standards into consideration. Develop policies to promote healthy competition between various certification schemes;

(g) Examine the idea of greening commodities imports;

(h) Organize capacity-building activities for market participants in the developing countries.

20. Options at all levels include the following:

(a) Strengthen and compile the scientific analysis on the scope and meaning of green products, building on existing efforts to achieve a comprehensive approach towards the application of green (or biodiversity-friendly) criteria to products;

(b) Encourage investment in companies that sustainably produce and market green products;

(c) Encourage creation of eco-investment funds to support companies that are certified and/or have shown innovative ways of creating sustainable business models;

(d) Encourage production activities through sustainable use of human-influenced natural environment;

(e) Provide technical assistance to help develop more profitable businesses and ensure sustainable management practices and access to markets;

(f) Review and strengthen the biodiversity element of existing and new certification systems to ensure they monitor biodiversity use and impacts systematically and consistently;

(g) Support the implementation of robust green standards through appropriate public and private procurement policies, at all levels;

(h) Support the adoption of certification standards in developing countries, particularly in regions where they are currently non-existent or embryonic and help small-to-medium sized businesses for whom the initial investment of certification is prohibitive;

(i) Nurture sustainable production patterns in biodiversity-sensitive ecosystems by guaranteeing the price of green products once they have been developed, thus creating a viable future market;

(j) Foster certification organizations for those green products where formal certification processes have been relatively less developed, for instance, in tourism sector.

V. BIODIVERSITY IN INTERNATIONAL DEVELOPMENT FINANCE

21. Strategic objective 4.5 of the strategy for resource mobilization is to integrate biological diversity and its associated ecosystem services in the development of new and innovative sources of international development finance, taking into account conservation costs. This source innovation—the development of new sources of input supply, irrespective of whether this source already exists or whether it has first to be created—can have the potential of generating billions of dollars annually, which are perceived to be additional to the contributions currently available. For instance, several proposals on new and innovative sources of international development finances have been made by the Leading Group on innovative financing for development and already yielded about $2.5 billion in additional funding, though not for biodiversity objectives, since 2006, including International Airline Solidarity Contributions, International Financial Facility, Advance Market Commitment, and Debt2Health. The concept of innovations now extends to such diverse forms as currency transaction tax, carbon taxes, annual issue of special drawing rights, remittances, global lottery and global premium bond, thematic global trust funds, public guarantees and insurance mechanisms, cooperative international fiscal mechanisms, equity investments, growth-indexed bonds, counter-cyclical loans, distribution systems for global environmental services, microfinance and mesofinance, and so on.

22. National-level options include the following:

(a) Integrate biodiversity responsibility schemes in assessing impacts of foreign direct investment on biodiversity;

(b) Develop innovative schemes to support or co-finance remittances so as to encourage green development in the use of these funds when they are remitted back to villages and rural landscapes;

(c) Prepare the biodiversity community to offer a sustainable solution to global debt problems, through debt to nature swaps.

23. International-level options include the following:

(a) Integrate biodiversity more strategically into existing and new official development assistance system in line with the Paris Declaration;

(b) Issue bonds in the international financial market, based on legally binding 10-to-20-year donor commitments;

(c) Integrate the consideration of ecosystem services and underlying biodiversity in the international debate on new and innovative sources of development finances;

(d) Mobilize the Leading Group on Innovative Financing for Development, consisting of 55 member and four observer countries, to consider ecosystem services and underlying biodiversity;

(e) Provide rapid institutional response to emerging opportunities through the various sources of international development finance.

24. Options at all levels include the following:

(a) Explore where existing financial processes and modalities undermine biodiversity conservation and thus should be reformed or restructured;

(b) Explore opportunities for mainstreaming or internalizing biodiversity considerations into development financing which addresses critical issues such as economic growth, job creation, trade promotion, health, and education;

(c) Assess, and explore options for addressing impacts of foreign direct investments, such as biodiversity offsets at a national level;

(d) Explore advance market commitment for promoting the use of traditional knowledge of indigenous peoples and local communities;

(e) Remove biodiversity-perverse subsidies and co-finance green development opportunities at all levels of Government;

(f) Develop new schemes based on the principles of beneficiary pay and polluter pay;

(g) Identify, facilitate and promote green development opportunities to various sources of development finance.

VI. BIODIVERSITY IN CLIMATE-CHANGE FUNDING

25. Strategic objective 4.6 of the strategy for resource mobilization is to encourage the Parties to United Nations Framework Convention on Climate Change and its Kyoto Protocol to take into account biodiversity when developing any funding mechanisms for climate change. Climate change and biodiversity are intricately linked in that climate change will have significant impacts on biological diversity (e.g., shifting the distributional location of some ecosystems as well as altering their composition, including via impacts on invasive species) and thus also the value and services that ecosystems provide. Well functioning biodiversity and associated ecosystem services also have positive impacts on their ability to provide adaptive functions for climate change, and can contribute to carbon storage and sequestration, such as through forests. There are opportunities where synergies can be

harnessed to maximize biodiversity and ecosystem service co-benefits into existing or new sources of finance for climate change mitigation and adaptation, as well as to bundle or layer biodiversity finance with climate-change finance—if designed properly, this can help to achieve multiple ecosystem benefits at a lower total economic cost.

26. National-level options include the following:

(a) Encourage the identification of areas with high carbon and high biodiversity benefits including economic consideration so as to facilitate the channeling of climate change finance for mitigation and adaptation to areas that provide biodiversity co-benefits (e.g. in REDD-plus and ecosystem-based adaptation);

(b) Re-channel and target any biodiversity finance that has been freed up due to incoming flux of climate change finance, in areas with low carbon and high biodiversity benefits;

(c) Foster communication, identify synergies and enhance coherence between national biodiversity strategies and action plans, nationally appropriate plans of action, and development strategies including poverty reduction strategies;

(d) Develop new proposals to help target funds for climate change adaptation from the Special Climate Change Fund (SCCF), the Least Developed Countries Fund (LDCF) and the Adaptation Fund (AF), to forestry, agriculture or other land areas with high biodiversity and associated ecosystem service co-benefits (including investments in ecological infrastructure, improvements in agricultural productivity, freshwater supply, and natural hazard management in projects that can be funded from a climate adaptation fund).

27. International-level options include the following:

(a) Develop how-to toolkits for economic valuation and spatial mapping and best practice guidelines to support policy-makers in promoting biodiversity and ecosystem service co-benefits in climate change mitigation and adaptation at implementation level, and involving: (i) identifying areas with high ecosystem service benefits (e.g., carbon and biodiversity); (ii) identifying areas with high risk of ecosystem service loss; (iii) evaluating opportunity costs; and (iv) designing and implementing policies and incentives to capture and market these benefits;

(b) Elaborate methodologies and guidelines for implementing the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Degradation in Developing Countries (UN-REDD), launched by the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP) and the Food and Agriculture Organization of the United Nations (FAO), and the new World Bank climate funds as opportunities to support activities that pay communities for maintaining ecosystem services and diversifying livelihoods;

(c) Encourage, support and build on voluntary standards incorporating biodiversity and associated ecosystem services in REDD-plus finance, drawing on the existing voluntary initiatives;

(d) Encourage a joint work programme on biodiversity and climate change to, *inter alia*, raise the profile of biodiversity issues to climate change negotiators and domestic policy-makers and implementers;

(e) Encourage joint technical expert groups on, *inter alia*, promoting REDD-plus Biodiversity Co-benefits to establish best-practice guidelines and principles, including indicators for biodiversity, as well as other priority areas, such as agriculture, peatlands, coastal zones (for both mitigation and adaptation);

(f) Develop technical assistance units to provide policy advice, training, and other capacity-building workshops for policy-makers at local, regional and national level, including on, *inter alia*, spatial mapping of ecosystem service benefits, as well as protected areas and agricultural networks and more generally on integrating consideration of biodiversity and associated ecosystem services in climate change projects, activities and actions, and promote the sharing of national experiences at regional and

subregional levels, including on REDD-plus demonstration activities that promote biodiversity co-benefits;

(g) Provide a clearing-house on case-studies, success stories and lessons learned in integrating biodiversity and climate change.

28. Options at all levels include the following:

(a) Further advance scientific understanding of synergistic natures of climate change and biodiversity loss;

(b) Encourage and support the identification of areas with high carbon and biodiversity benefits and their economic valuation and mapping tools to assess where these occur geographically and where they are spatially correlated (including protected areas networks and sustainable agricultural landscapes). This will help to lower transaction costs associated with searching for biodiversity co-benefits in climate change finance;

(c) Identify opportunities for biodiversity co-benefits in the Copenhagen Accord, in which "A significant portion of such funding should flow through the Copenhagen Green Climate Fund" to "support projects, programmes, policies and other activities in developing countries related to mitigation including REDD-plus, adaptation, capacity-building, technology development and transfer";

(d) Explore opportunities in the area of ecosystem-based adaptation, through the existing climate change funds under the UNFCCC process that focus on adaptation such as the Special Climate Change Fund, the Least Developed Countries Fund and the Adaptation Fund;

(e) Integrate biodiversity considerations in project proposals for the World Bank BioCarbon Fund and the Forest Carbon Partnership Facility;

(f) Raise awareness, at high level, of concrete suggestions for implementation on addressing climate change through biodiversity interventions;

(g) Promote joint national planning on biodiversity, climate change and poverty reduction to UNFCCC climate change negotiators more broadly;

(h) Promote joint messaging on biodiversity and climate change to general public;

(i) Pilot new and innovative approaches to maximize biodiversity and associated ecosystem service co-benefits and to bundle/layer biodiversity and associated ecosystem services with climate change mitigation funding;

(j) Encourage biodiversity co-financing in REDD-plus demonstration activities for biodiversity monitoring, reporting and verification to enable biodiversity performance assessment over time and lessons learned.

VII. GLOBAL CONSIDERATION OF INNOVATIVE FINANCIAL MECHANISMS

29. Goal 4 of the strategy for resource mobilization is to explore new and innovative financial mechanisms at all levels with a view to increasing funding to support the three objectives of the Convention. A proposed concrete target, as suggested in the note by the Executive Secretary on concrete activities and initiatives including measurable targets and/or indicators to achieve the strategic goals contained in the strategy for resource mobilization and on indicators to monitor the implementation of the strategy (UNEP/CBD/WGRI/3/7) is that at least 10 per cent of financial resources in support of ecosystem services and underlying biodiversity will have been generated through new and innovative financial mechanisms by 2015. For instance, an indicative sum of US$ 1 billion could be worked out by collecting global assessments based on various assessable bases and contributed to by Governments of respective countries:

(a) A global assessment, made on market values of catches on the high seas and contributed by Governments of fleeting countries, can help promote sustainable fisheries in the global common area;

(b) A global assessment, based on total acreages of lost forest cover during the agreed period of time and contributed by Governments of forest diminishing countries, can help sustain forest biodiversity and ecosystem services;

(c) A global assessment, based on the values of mining-related foreign direct investment and contributed by Governments of mining-related capital exporting countries, can help support development and implementation of biodiversity offsets;

(d) A global assessment, based on the values of global perverse subsidies and contributed by Governments of providing perverse subsidies, can act as an incentive to facilitate the phase-out of biodiversity-harmful perverse subsidies;

(e) A global assessment, based on the values of non-green government procurement and contributed by Governments that continue to have biodiversity-harmful procurement practice, can encourage all Governments to fully implement green government procurement policies and boost green markets;

(f) A global assessment, based on the values of export products containing genetically modified organisms and contributed by Governments of exporting countries, can help support markets for green products;

(g) A global assessment, based on the level of consumption of products that have adverse impacts on biodiversity and associated ecosystem services, and contributed by Governments of consuming countries, can act as an incentive to facilitate the phase-out of unsustainable consumption;

(h) A global assessment, based on the level of accumulated total greenhouse gas emissions and contributed by Governments of emitting countries, can support biodiversity adaptation to climate change;

(i) Other assessments can be also explored, such as "footprint taxation" or "greening of commodity imports".

30. While the level of funding needs and scale of assessments are a matter of negotiation, these international mechanisms share some common features:

(a) *Innovativeness*. The suggested global assessments try to capture international dimensions of the innovative financial mechanisms identified by the ninth meeting of the Conference of the Parties, but based on the same rationales of "beneficiary pays" or "polluter pays";

(b) *Resourcing potential*. The Conference of the Parties can decide on the level of funding needed;

(c) *Additionality and complementarities*. Resources generated from the new mechanisms are additional to the existing resources and thus should complement the existing resources available from development cooperation system, including from the financial mechanism under the Convention;

(d) *Fairness and equity*. An executive body on innovative financial mechanisms under the direct authority of the Conference of the Parties can ensure that the international mechanisms are designed and implemented in a fair and equitable manner, in terms of both burdens-sharing and benefits-sharing;

(e) *Methodological soundness*. While relevant data for undertaking the global assessments are generally available, a financial and economic panel as a technical advisory body for the executive body on innovative financial mechanisms can assess policy relevance, accuracy and timeliness of relevant statistical data for proposed global assessments, develop simulation scenarios on the level of potential funding needs and distributional patterns, prepare proposals on implementation details, and monitor and evaluate the performance and outcomes;

(f) *Matter of sovereignty*. The suggested global assessments will be contributed by national Governments, not by business entities in their countries. National Governments will decide how to use

global assessments to build the case for introducing sustainability into their economic systems within their national jurisdictions;

(g) *Ambit of the Convention*. The suggested global assessments are targeted at the socio-economic dimensions of biodiversity and associated ecosystem services and their losses. In other words, the global assessments are limited to the dimension of biodiversity and associated ecosystem services in the range of subjects that are dealt with by other relevant international treaties. The resultant resources will also only be used to deal with the challenges from these areas to biodiversity and associated ecosystem services;

(h) *Triple bottom-lines*. The suggested global assessments and their subsequent redistributions can contribute to the achievements of biodiversity objectives and social and development goals, including the Millennium Development Goals;

(i) *Trade rules*. The suggested global assessments can help remove distortionary elements in the trading system;

(j) *Transitional nature*. The suggested global assessments are not designed as a permanent way of collecting resources and will automatically be wiped out when all countries have succeeded in pursuing biodiversity objectives and sustainable development goals;

(k) *Cost-effectiveness*. Additional expenses can be incurred in establishing and operating an executive body on innovative financial mechanisms and essential technical advices, but these can be substantially low in comparison with potential amount of funding to be generated or a full-fledged new mechanism;

(l) *Ease of implementation*. The suggested global assessments can be conducted within the existing organizational arrangements under the Convention, at all levels.

31. The suggestions from the Green Development Mechanism Initiative may also be considered. According to the Initiative, there is clear need for mobilizing additional resources to address the biodiversity challenge in the context of development, considering a significant financing gap remains which needs to be filled. A potential mechanism could serve both as a means of generating additional resources and as a means of providing further coherence to ongoing and new efforts, as well as enabling an efficient and equitable distribution of new and additional resources. At the International Workshop on Innovative Financial Mechanisms, there was a general consensus on the business-case for an international initiative, the need for urgent action to raise additional international funds to close financing gap and the need to complement investments in protected areas with investments in sustainable use and management in rural “productive areas”. The International Workshop supported the proposal to consider the need and viability of a new international mechanism (a “green development” mechanism) and to undertake further discussions and analytical and conceptual work, and suggested that the International Working Group on Interim Finance for REDD, an initiative from about 40 countries, could serve as a model for the first phase of a green development mechanism, acting under the Convention, and in support of any follow-up process on innovative financial mechanisms.