



Handbook

for developing and implementing pro-biodiversity business projects



Note

All words and phrases in bold in this document are defined in the glossary of abbreviations, acronyms and specialist terms on page 69

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Preface

All words and phrases in bold in this document are defined in the glossary of abbreviations, acronymns and specialist terms on page 69

This handbook is an output from the Biodiversity Technical Assistance Unit (BTAU) project LOT 1 (070501/2006/451424/MAR/B2) and LOT 2 (070501/2007/485609/SER/B2), contracts.

The project was funded by the EC and aims to create instruments in selected EU member states (Bulgaria, Hungary and Poland) to:

- Facilitate the creation and operation of a new pro-biodiversity investment market for small businesses;
- Deliver a pipeline of commercially viable projects for investment loans (or credits) for the benefit of biodiversity.

The project explores the specific link between **Small and Medium Enterprises (SMEs)**, social and economic development in rural areas; and the protection of biodiversity. It highlights the opportunities available to SMEs in achieving commercial viability, whilst managing biodiversity in a sustainable way. In particular, the project will test whether SMEs can:

- Conserve **biodiversity**;
- Use biological resources in a sustainable way;
- Have positive financial returns;
- Share the benefits arising from the use of biological resources equitably.

Further information about the project can be viewed at the BTAU project website:

www.smeforbiodiversity.eu

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Executive summary

There are numerous opportunities within the **European Union (EU)**¹ to create **Pro-Biodiversity Business (PBB)** that can generate positive financial returns, as well as real and measurable biodiversity benefits. This handbook and the wider project of which it is a part², is focussed on Micro, Small and Medium Enterprises (**SMEs**) and provides guidance for developing and implementing PBB activities and projects with a particular focus (although not restricted to) on the European Union's **Natura 2000** ecological network. It is primarily aimed at national authorities of EU Member States responsible for nature conservation, rural development and SME development; at financial intermediaries; and at potential entrepreneurs.

The **BTAU** project will provide pilot experience to the development of PBBs and will inform the future development of the EU-wide **Business and Biodiversity Initiative (B@B)**. The initiative seeks (in part) to enhance the link between corporates and small businesses with operational tools for biodiversity conservation and measure their performance in meaningful ways.

The handbook is split into three sections:

- Section A is a reference guide to PBB contexts for developing pro-biodiversity businesses. The information is more theoretical and informative rather than instructive. The rationale behind the development of PBB projects is to exploit opportunities for SMEs beyond traditional public financing of nature conservation. Private financing for nature conservation has not been sufficient to date, and a new approach has to be found. The challenge is to re-orient economic incentives, which drive private investment, production and consumption, and to recognise and enhance biodiversity conservation as a viable business opportunity.
- Section B outlines specific PBB opportunities across primary, secondary and tertiary sectors
- Section C offers practical advice and step-by-step guidance on how best to develop PBB activities in (but not restricted to) Natura 2000 sites. Much of the information presented has been tried and tested by the BTAU project in Bulgaria, Hungary and Poland between 2007 and early 2009. The section outlines the role of entrepreneurs, **Finance Institutions (FI)**, and national government officials, and the types of training required for each of these different actors. The proposed structure of an assistance unit and trial concepts for different types of possible financial facilities are outlined. Finally, guidance on how to select and assess potential PBBs and how to construct a **Biodiversity Financing Facility (BFF)** is provided in the Appendices.

Based on experience gathered during the project, three separate but related functions must be fulfilled to encourage and promote the development of PBBs: the development of an appropriate enabling policy environment by the national government; the provision of technical and managerial support for the development of viable investment projects at national, regional and local levels; and access to innovative, targeted finance facilities, aimed at the realisation of a latent market of PBBs.

Over the next decade from 2010 and beyond, integrating rural development & conservation policies offers enormous potential to create growth in PBBs and economic benefits in rural areas. This public-private partnership approach represents a highly transferable and practical 'green economic stimulus' for rural areas across the EU & far beyond.

¹ Terms in bold are defined in the glossary on page 69

² The handbook is one of the outputs from a European Commission funded project to establish three Biodiversity Technical Assistance Units (BTAUs), one in each of three countries: Bulgaria, Hungary and Poland.

How to use this handbook

What is the handbook's main objective?

To raise awareness of the opportunities and provide guidance for developing and implementing PBB activities and projects which contribute to the site management of the European Union's Natura 2000 ecological network and to biodiversity protection in a wider context.

What are the handbook's functions?

This handbook serves three different functions: It provides contextual information on pro-biodiversity business (refer to Section A); potential opportunities for those SMEs who wish to obtain further knowledge in this field (refer to Section B). It also provides practical advice and specific guidance in creating a BTAU for developing Pro-Biodiversity Business (PBB) activities or projects primarily (but not exclusively) in the European Union's Natura 2000 network (refer to Section C).

Who is the handbook designed for?

It is intended primarily for national, regional and local authorities of EU Member States responsible for nature conservation, rural development and SME development. Entrepreneurs or their representative bodies, and financial sector intermediaries may also use it.

How can I use the handbook?

Section A- contexts for developing pro-biodiversity businesses

A reference guide on PBB contexts

Section 1 provides an overview of the interactions between SMEs and biodiversity; what PBB is; the rationale behind using market mechanisms for biodiversity conservation; global and EU policy frameworks; experience and lessons learnt from research and activities to date; and constraints and gaps [Please note that many terms are defined in the glossary; the first time that they appear in the text they are given in bold].

To understand the benefits of PBBs as a viable business opportunity

Section 2 outlines some specific benefits of PBB activities to society with a focus on SMEs that are operating in (although not restricted to) Natura 2000 sites. It highlights the contributions that PBB activities can make to delivering SME, rural development, and national financial planning objectives.

Section B – Pro-biodiversity business opportunities for SMEs

To understand specific opportunities for SMEs

Section 3 outlines a variety of opportunities across different by economic sectors and ecosystem types (forests; grasslands; wetlands; and marine and coastal areas). Throughout the document there are text boxes giving case studies of best practice. These concrete examples provide real cases to inspire and provide guidance to potential PBBs.

Section C- advice and guidance to develop Pro-biodiversity business activities or projects

A template of the major steps required to develop PBBs

Section 4 explains how best to carry out a specific PBB project or activity within (although not restricted to) Natura 2000 areas and the processes required to achieve a viable enterprise and a positive outcome for biodiversity. It offers practical advice and step-by-step guidance on how best to develop a specific PBB project or activity and how to set up at BTAU. The information presented has been drawn from the methods employed and the findings of the BTAU pilot project for SMEs.

A template of the major steps required to develop PBBs

Section 5 outlines the role of entrepreneurs, FIs and national government officials, and the types of training required for each actor.

Appendix 1 covers the proposed structure of an advice unit (BTAU).

Appendix 2 details how to select suitable SMEs at the national level.

Appendix 3 details how to assess potential SMEs.

Appendix 4 provides some guidelines for the structure and operation of a Biodiversity Financing Facility

Appendix 5 outlines a concept for a pro-biodiversity financing platform for SMEs

Section A

Contexts for developing pro-biodiversity businesses

1 Introduction to pro-biodiversity business development

1.1 Interaction between businesses and biodiversity

Biodiversity is the foundation of all life on Earth, but it is being degraded at an alarming rate by increasing human pressures on natural resources, thus creating a major threat to the sustainability of human society. In many regions of Europe, the depletion of natural resources poses a major threat to the state of nature and the environment, but in turn this depletion also has a negative effect on local (and regional and national) economic development and affects income generation potential and the well being of people.

Economic activity is one of the major drivers of biodiversity loss but at the same time, many business activities depend on biodiversity. Business relies on the services that biodiversity provides, for example, healthy functioning soils, clean fresh water, or the availability of pollinators for agricultural crops. In principle, all business has a direct or indirect impact on biodiversity, either through the raw materials they use through their supply chain, or through the investments they make. This impact has significant implications for the future provisioning of **ecosystem services**, (see also Bishop et al, 2006 and Bishop et al, 2008).

With this in mind, the German Federal Ministry for the Environment and the European Commission, with the support of several other partners, have jointly initiated preparatory work for a global study, which is named **The Economics of Ecosystems & Biodiversity (TEEB)**. TEEB will evaluate the costs of the loss of biodiversity and the associated decline in ecosystem services worldwide, and compare them with the costs of effective conservation and sustainable use. The final results will be presented at the Convention on Biological Diversity Conference Of the Parties (**CBD-COP**) in 2010.

Table 1, below illustrates the relationship of biodiversity to business.

Table 1. The relationship of biodiversity to business

Dimension	Biodiversity	Sustainable Business	Sustainable Finance	Sustainable Development
Environmental	Conservation	Environmental protection	Environmental valuation	Environmental protection
Economic	Sustainable use	Economic growth	Economic value	Economic development
Social	Equitable sharing	Social equity	Social value	Social development

(Source: Earthwatch, 2002)

A number of international treaties and national strategies have committed governments to halt the loss of biodiversity (see section 1.6), and public policies have been put in to support the implementation and enforcement of such strategies. However, current efforts to conserve biodiversity are still overwhelmed by growing pressure from economic activities and financing for protected areas, and high nature value areas remain insufficient. As a result, ecosystems remain under significant pressure.

Traditional sources of financing need to be supplemented by new approaches to ensure nature conservation. One solution is a realignment of market forces, classical economic theory and business processes, which are the primary drivers for the loss of our life-supporting biodiversity, towards sustainable use and other conservation goals. The challenge is to reorient the economic incentives that drive private investment, production and consumption, and to turn biodiversity conservation and its sustainable use into a viable business opportunity and business activity outcome³.

1.2 Understanding pro-biodiversity business

A Pro-Biodiversity Business (PBB) generates both positive financial and biodiversity returns. Companies active in the sectors that most impact on biodiversity in the EU are mostly Micro, Small and Medium Enterprises (SMEs).

SMEs are an integral part of the European economy and it is therefore vital that they play their part in making the European economy more sustainable. There are an estimated 23 million SMEs in the EU, representing approximately 99% of all businesses and nearly 60 percent of the total value of the economy. According to the **European Commission** (2003), within the group of SMEs, the vast majority (over 90%) are micro enterprises, employing fewer than 10 people. Almost half of these micro enterprises (nine million) have no employees at all, thus only providing employment and income to self-employed and family workers. On average, a European enterprise provides a job for seven people (three in micro-enterprises).

This handbook adopts the definition formulated by the recent EU funded “Probioprise” Project⁴ which describes a PBB as follows:

“A pro-biodiversity SME is dependent on biodiversity for its core business and contributes to biodiversity conservation through that core business,” (Dickson, et al, 2007)

Pro-Biodiversity Businesses (PBB) pursue four objectives:

- Conservation of biodiversity;
- Sustainable use of biological resources;
- Positive financial returns;
- Equitable sharing of the benefits arising from the use of biological resources.

1.3 The role of the private sector in financing biodiversity

The critical question that remains for maintaining an adequate level of biodiversity is how to finance biodiversity-relevant projects that have a component of public goods that do not enter into the private domain, and for which the rate of return is not likely to interest a commercial market. It remains very difficult to capture the economic value of some public goods. Markets for goods such as forest products, ecotourism, organic agriculture and certified timber, mark

³ See European Communities, (2008) The Economics of Ecosystems and Biodiversity, which also proposes a future policy framework

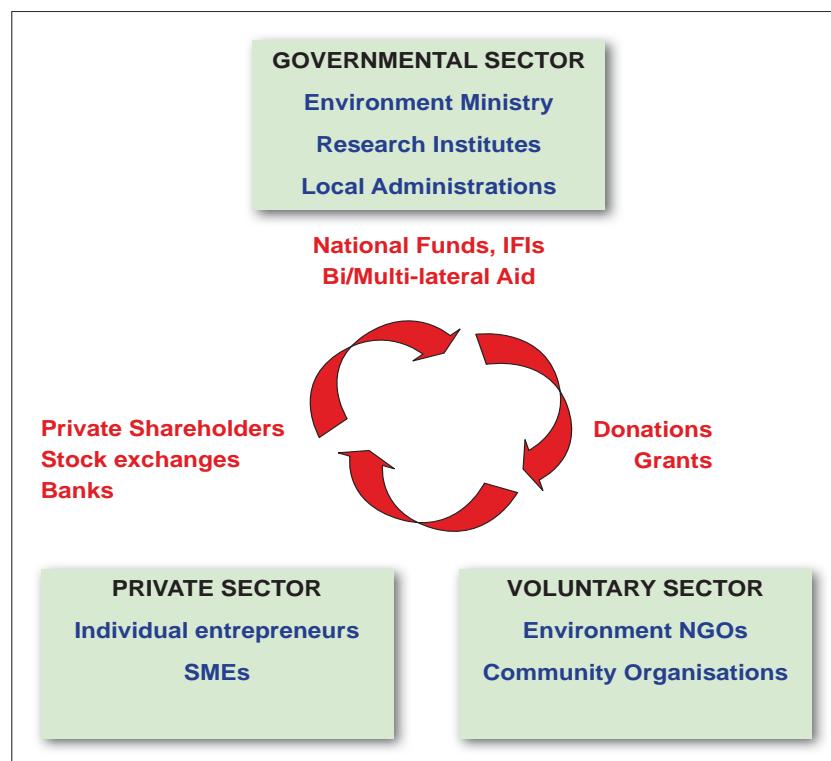
⁴ Creating a European Platform for SMEs and other stakeholders to develop a research programme for pro-biodiversity business: part of the EU FP6 Global Change and Ecosystems Project (018356)

out the conceptual boundaries here⁵. But if we ask a more limited question such as, "can we use the market to provide some incentives that will result in the conservation of biodiversity?", the answer is positive. There are aspects of biodiversity that are marketable and currently being marketed (see subsequent case studies in the text boxes throughout this handbook).

Proponents of the "eco-social market" say that markets can be used to preserve biodiversity if the right regulatory frameworks are put in place by governments. Environmental markets have already been successfully created by states through a conducive regulatory framework that was able to accelerate the efficiency of markets. The **European Emission Trading Scheme** set up by the EC is a good European example. Elsewhere, **biodiversity offset** and **wetland mitigation banking** schemes have been successfully applied.

In recent years, there has been increasing recognition among conservation practitioners from NGO and government sectors that it is vital to achieve constructive engagement with the private sector. This has resulted in a number of guidelines and tools to highlight the risks and opportunities for larger businesses using ecosystem services⁶. It is also imperative to achieve constructive engagement with SMEs, where most people work, and which provide the bulk of our goods and services within Europe in order to achieve the **EU 2010 Biodiversity Target** and its successors. In essence, this means incorporating business within a model of conservation action and finance, as demonstrated in Figure 1 below.

Figure 1: Sectoral Model for Biodiversity Conservation Finance



⁵ Also see Bishop et al (2008)

⁶ World Resources Institute Corporate Ecosystem Services Review provides corporate managers with a proactive approach to making the connection between ecosystem change and their business goals. A structured methodology is provided to help businesses develop strategies for managing risks and opportunities arising from their dependence and impact on ecosystems. Also, see The Natural Value Initiative (<http://www.naturalvalueinitiative.org/>), which is working with the finance sector to develop a toolkit to evaluate the financial risk and opportunity of companies' dependence and impact on biodiversity and ecosystem services.

1.4 Which economic sectors do pro-biodiversity businesses tend to operate in?

As with any categorisation of business activity, it is not possible to define a “PBB sector” in a discrete and tidy way: there is a continuum from businesses that support biodiversity conservation in a more or less charitable fashion to those that consider biodiversity conservation as vital and have mainstreamed it within their business activities. A typical PBB has a high degree of dependence on biodiversity for its core business and *vice versa*, contributes directly to biodiversity conservation through its core business. Accordingly, **PBBs** primarily operate within the following economic sectors:

- Agriculture;
- Forestry / wood processing;
- Fisheries / aquaculture;
- Tourism;
- Environmental services.

Many PBBs, particular those in the primary sector (for example, agriculture, forestry and fisheries), make a contribution to the conservation of biodiversity in the particular sites where they operate in, whilst others do not make a contribution at a particular site but do so more generally through educational or awareness-raising activities (for example, through ecotourism). PBBs by their very nature tend to be located within or close to sites with high biodiversity value (for example, National Parks, buffer zones of Biosphere Reserves, and increasingly in the EU as owners and users of Natura 2000 areas).

There are many companies, of varying sizes and in a range of sectors, across Europe whose activities are based in areas of ‘high’ biodiversity or whose activities directly depend on biodiversity. For example, the **BTAU** in Poland revealed that in seven pilot Natura 2000 areas, nearly 6,000 SMEs were directly dependent on biodiversity.

It is necessary to distinguish between enterprises that *are* engaged in PBB activities, and those which *could become* **PBBs**, at least to the extent that they generate an ongoing “net ecological benefit”, through modification of their business models. To encourage the development of more PBBs, such a shift requires a change in economic incentive systems, particularly financial services and tax regimes, so that they explicitly recognise the public benefits in terms of ecosystem services flowing from conducting business in a pro-biodiversity manner.

A fundamental concept of this approach is the notion of **net ecological benefit**. This represents the difference in ecological state from the present time, projected forward to some future date, which can be considered as an improvement in ecological conditions. An investment proposal for a PBB should, therefore, demonstrate the net ecological benefit of the project, and that this improvement is directly attributable to the project in which the investment is made.

1.5 Can markets work for biodiversity management?

Markets, properly regulated by public policy, remain the best mechanism we have for allocating scarce resources and improving livelihoods. Governments clearly have a role to play, as do civil society organisations, but the challenge of biodiversity conservation is too great to undertake without the active involvement of the business and financial services community.

The development of PBBs also depends on having an appropriate enabling environment, namely the framework of laws, regulations, taxes, incentives, social norms and voluntary agreements within which companies operate. For businesses to value biodiversity, it must ultimately become more profitable to conserve biodiversity than to ignore or destroy it. A combination of increased rewards for conservation, increased penalties for biodiversity loss generated and increased information on the biodiversity performance of business, will help to create a “biodiversity-friendly” economy.

Finally, it is also useful to ask the question, can biodiversity work for markets? Despite increasing evidence of the commercial benefits of conservation, for many SMEs, the case for investing in biodiversity remains unclear. Entrepreneurs are beginning to discover that biodiversity conservation can form the basis of profitable new business models, (for example, nature-based tourism where the income stream to private enterprise depends on the health of the surrounding ecosystem). These include the supply of commodities and services according to emerging standards of biodiversity-friendly production, supported by independent certification or assurance mechanisms, as well as the supply of ecosystem restoration and management services to both public and private customers, (Bishop *et al*, 2008).

1.6 International and EU policy framework for biodiversity investments

Following the increased priority with which the Conference of the Parties of the **Convention on Biological Diversity (CBD)** as well as the **Council of the Pan-European Biological and Landscape Diversity Strategy (PEBLDS)** has assigned to financing biodiversity and cooperation with the financial sector, there is currently an interest to increase investments in biodiversity. In order to make financial resources available, the **European Biodiversity Resourcing Initiative (EBRI)**, was initiated in the framework of the PEBLDS. This initiative speeded up the discussion on how to turn principles into action, and marked the start of a comprehensive dialogue between the financial sector and the biodiversity sector in Europe.

The **European Centre for Nature Conservation (ECNC)** and the **European Bank for Reconstruction and Development (EBRD)** have worked together to explore how biodiversity business can be made commercially viable at the regional level. In the framework of PEBLDS, a European Task Force on Banking, Business and Biodiversity (the Task Force) was established in order to establish a **Biodiversity Financing Facility (BFF)** for biodiversity-related investments at the national level and a European Biodiversity Investment Partnership, for involving the private sector in supporting such investments.

At its meeting at the EBRD in October 2003, the Task Force determined that a **European Biodiversity Technical Assistance Facility (BTAF)** would be required to create a pipeline of projects for funding. The **BTAF** would receive project proposals and then assess eligibility from both the biodiversity and financial perspectives, and offer advice and some technical support when necessary in order to bring promising proposals up to the required level of acceptability for consideration by a **BFF**. This ultimately led to the creation of the BTau project to help facilitate the creation of a new pro-biodiversity investment market for small businesses and to deliver a pipeline of commercially viable projects for future investment loans (or credits) for the benefit of biodiversity.

While the EU already has a global lead in some environmental spheres, it has not yet systematically explored the opportunities available for PBBs except perhaps in the farming sector. This approach could therefore offer a new line in development assistance and possibly commercial export.

The EU's Strategy for Sustainable Development (the Strategy) notes that "while public authorities have a key role in providing a clear long-term framework, it is ultimately individual citizens and businesses who will deliver the changes in consumption and investment patterns needed to achieve sustainable development". The Strategy goes on to state that: "some of the most far sighted businesses have realized that sustainable development offers new opportunities and have begun to adapt their investments accordingly. Business should be encouraged to take a proactive approach to sustainable development in their operations both within the EU and elsewhere".

Specifically in relation to biodiversity, the EU 6th Environmental Action Programme (European Commission, 2002) underlines the need for developing measures to enhance sustainable use, sustainable production and sustainable investments in relation to biodiversity (Article 6 (2)). In focussing on SMEs and biodiversity, the proposed work will contribute to address one element of the "business instrument" of the Strategy and Action Plan, in particular the commitment to "...halt the loss of biodiversity by 2010".

The main approach proposed by the EU policy to reach the 2010 biodiversity target (halting the loss of biodiversity within the EU by 2010) (European Commission, 2006), is the sustainable management of terrestrial and marine resources, including fresh-water systems. While there is a wealth of experience about the management of protected areas, some in large corporations and much in conservation NGOs, this has never been systematically transferred to small private enterprises using biodiversity. There are successful SMEs working in protected areas but the financial value they provide is perhaps unrecognised because of the lack of internalisation of the biodiversity costs into the market. The European Commission has various programmes promoting and working with SMEs, but only DG Environment⁷ and DG Research⁸ has approached the biodiversity/SME linkage question.

Experience from protected areas and rural development strategies shows that, in order to be commercially viable, enterprises using natural resources often have to diversify their services and/or products. Such diversification is often clearly linked to primary production (for example farm-tourism) and is an aspect of multi-functionality.

1.7 Experience and lessons learned in the development of commercially viable pro-biodiversity investments

Commercially viable pro-biodiversity investments are defined as investments by financial institutions and mechanisms that have a certain financial return from investment, an acceptable level of risk, and which make a positive contribution to biodiversity. Financing can take the form of equity (shareholder) participation and various forms of loans, associated when necessary and possible with technical assistance support.

A growing number of institutions are showing an active interest and are exploring possibilities for market mechanisms, which will enhance biodiversity. They can broadly be subdivided into:

- The financial sector: (International Financial Institutions (**IFI's**) and commercial banks), such as **EBRD**, **the International Finance Corporation (IFC)**, Rabobank, Co-operative bank, Deutsche Bank, Triodos Bank and **European Investment Bank (EIB)**. To support the sector, the European Investment Bank has prioritised SMEs in its

⁷ For example the BTAU project, or the development of guidance documents for certain sectors and stakeholder groups (for example, ports and estuaries and non-extractive industries)

⁸ The Probioprise project of DG Research (Dickson et al, 2007)

lending activity, and the institution is developing and expanding this area of its work through a range of activities including technical assistance, credit arrangements with local financial institutions and SME portfolio guarantees;

- Foundations, such as the DOEN foundation;
- **Non-Governmental Organisations:** such as **International Union for Conservation of Nature (IUCN); The RSPB/Birdlife partners; Fauna & Flora International (FFI) and European Centre for Nature Conservation (ECNC);**
- Investment funds: like the **IFC/GEF SME Program**, managed directly by IFC, and Verde Ventures, managed externally by Conservation International (CI), in Box 1, below.
- Multilateral agencies: such as the **United Nations Environment Programme Finance Initiative (UNEP FI)**.

Box 1: Features of the International Finance Corporation (IFC)/ Global Environment Facility (GEF) SME Program managed by IFC, and Verde Ventures, managed externally by Conservation International (CI)

- “While the IFC and CI field staff are not necessarily experts in environmental investments, they provide an invaluable local presence with insight on business and regulatory practices, assessment of potential sponsors and on-site supervision of projects. A wide range of external partnerships can offer similar benefits.
- The SME Program has exclusively made loans and Verde Ventures has relied primarily on loans, as debt avoids the exit problems associated with equity and is easier to negotiate with less sophisticated clients. Loans are also less complicated than equity transactions, helping to reduce transaction time and legal fees for documentation.
- Notwithstanding the preference for debt over equity, all investments have been treated as risk capital no matter what type of security has been pledged. The IFC and CI investment teams believe that the real work begins after disbursement, as they actively engage with the management teams of each enterprise to anticipate problems and to find opportunities to add value on financial and environmental performance.
- Both the SME Program and Verde Ventures started small, with limited expectations and an ability to shut down if the chosen investment approach was not performing well.
- Verde Ventures identifies one of its key strengths as a strong, independent investment committee. CI’s seven-member committee is larger than most private equity funds and includes only individuals with extensive private-sector background, none of whom are affiliated with donors or investors. IFC has used a much smaller investment committee for the SME Program but has benefited from advice and input from a wide range of internal colleagues who are unaffiliated with the program.”

(Source: IFC, 2004)

On-the-ground project experience has shown that some of the issues surrounding biodiversity oriented investments and SMEs are extremely complex. For example, the rationale, policy instruments and practical measures required to achieve the right financing package for both commercial success and innovation, while ensuring sustainable use of biodiversity, will call for a transition approach with risk reduction on the side of the private investor, and subsidized support on the public side. The creation of markets and access to them, and awareness of opportunities available, will be other key issues. Incorporating biodiversity assessment and monitoring (indicators) systems into SME biodiversity-business operations will require practical and flexible solutions. From the activities of previous and ongoing projects in the PBB field, a variety of lessons have been learnt regarding attempts to secure bank financing for biodiversity protection. These are outlined in Box 2 (below).

Box 2: Lessons learned in attempting to secure bank financing for biodiversity protection

From the activities of previous and ongoing projects in the PBB field, the following lessons have been learnt regarding attempts to secure bank financing for biodiversity protection:

- Political commitment from respective National Governments can significantly assist or hamper the development of pro-biodiversity projects;
- Openness and flexibility are crucial in getting any result from both the banking and biodiversity conservation sectors: these sectors are very different in approaches, negotiation manners, use and interpretation of terms;
- The learning process between the banking and biodiversity sectors should be facilitated by well-prepared, clear, and specifically targeted education materials;
- The negotiation process takes much more time than expected, therefore projects aimed at developing biodiversity financing means should take the time factor into account in planning;
- PBB needs encouragement, motivation and positive examples;
- PBB needs a lot of technical assistance in developing project ideas from the biodiversity point of view, as well as developing applications for the banks. This means after loan products are developed and exist at banks, there will still be a need for mediators that assist SMEs in the application procedure;
- Biodiversity loans require preferential banking conditions (low interest rate, flexibility in own capital, collateral, investment types, company types, etc) in order to be able to compete with other available potential borrowers;
- Market analysis is essential before the development of new loan products;
- If a loan product is developed by a major European finance institution, it is crucial to have a local partner bank in the country with extensive local and regional representation and capacity to help facilitate the process;
- Banks are interested to develop new products, but need public incentives (tax breaks, subsidised interest rates, etc.) in order to create commercially attractive products for PBB.

(Source: ECNC/Ministry of Environment and Water, Hungary, 2007)

1.8 Assessment of the current political, financial and technical context relating to the potential for new pro-biodiversity business opportunities

The main political, financial and technical context within which the development and promotion of PBB occurs is summarised in this section. Many of the current barriers and constraints to the development of PBB pose opportunities for developing and implementing new PBB projects and these are further explored in sections 2 and 3.

1.8.1 Political Assessment

At present, four Structural Funds allow the European Union to grant financial assistance to resolve structural economic and social problems: the European Regional Development Funds (ERDF); the European Social Fund (ESF); the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF). These funds may benefit biodiversity but member states ultimately control how they use EC funds through their national development plans. In each Member State, the major public policy tools for the protection of biodiversity are largely in place (particularly the **Habitats Directive** and **Birds Directive** which define the Natura 2000 network designation). However, very little has been done to enable SMEs to adapt and thrive as PBBs within the context of the Natura 2000 network.

Following the objectives of the EC Lisbon strategy on modern SME Policy for growth and employment, there is now an emphasis on a more pragmatic, comprehensive and inclusive EU policy in favour of SMEs. The Commission is working towards a strategic approach to make SMEs more competitive, based on streamlining community policy instruments, on improved synergies between policy areas, and on forging a genuine partnership between the **EU's** and the Member States' actions. There is a huge untapped potential of SMEs to create growth and employment, and in order to promote SME development, the priority actions should include a simplification of rules and regulations, the promotion of an entrepreneurial culture, and assistance to SMEs in accessing innovation, finance and training.

Many aspects of biodiversity and the services that it yields are classed as public goods. A key question is how to combine the public goods aspect with commercial investment to capture the interest of the private sector? In principle, this is no different to the regulation and financing of the protection of other public goods such as air and international financial systems. Comparable systems are not in place for biodiversity.

National governments can and should play a significant role in influencing the development of PBBs and can promote PBBs by purchasing goods and services, through its role as regulator (both directly and indirectly), and as an incubator of PBBs. The state may also act as a financier for PBBs. Governments can also provide technical assistance, advisory service, support the development of SME local and regional clusters and provide credit guarantee schemes, as further examples.

In order to strengthen the ability of the EU to meet its commitment to halt the loss of biodiversity by 2010, the Commission is developing an EU-wide **Business and Biodiversity initiative (B@B)** (see section 1.9). At the High level Conference on Business and Biodiversity held in Lisbon in November 2007, the "Message from Lisbon"⁹ confirmed the need to engage business in meeting the 2010-biodiversity

⁹

http://www.countdown2010.net/file_download/143

objectives, and showed that there was interest from the business sector to specifically address the role of SMEs. One aim of the **B@B** is to assist potential PBBs to shift into a sustainable mode of operation, (Karpowicz and Tederko, 2007).

The European Council acknowledged on 14 December 2007 the need to reinforce the link between Business and Biodiversity at the European level, and the spring Council of 2009 has re-instated the need to engage business with biodiversity.

The current status in most EU countries is that in spite of political commitments, so far there is lack of investment from the state to act as co-financier to promote PBBs. The national programmes and policies, including grant aid, are focused on general policy issues rather than on business needs, even where businesses are expected to deliver the policy goals. It can be difficult to develop preferential credit products without the initial cooperation and support from the public sector, particularly at the early stages of developing a new PBB investment market. This is a widely recognized constraint for the development of PBBs.

1.8.2 Financial assessment

A general conclusion from the EC Member States is that rural lending by commercial banks is a neglected sector and one that is marginalised within banking systems. SMEs, and especially micro-enterprises, are considered as a market segment of high risk and low liquidity (especially in the new EU Member States), and consequently, in many cases they experience highly restricted access to finance.

Key issues identified by BTAUs and national banks for this situation are:

- How large is the pipeline of projects and when does it reach a “mass market”? – scale of demand;
- What are the technical parameters of the prospective clients and how will the investment be contributing to biodiversity benefits? – SME methodology;
- What is the credit process for such PBBs?

Financial institutions need well-researched information about the existing project opportunities, and need to build up expertise and experience in developing financially viable PBB investment opportunities that would comply with a bank's investment criteria and programmes, as well as internal procedures in financial institutions.

On the commercial side, banks are setting loan conditions that do not take account of the long-term nature of some PBB development. Therefore, large unsecured loans are unavailable to PBBs. In addition, the loan negotiations are difficult, complex and prohibitively costly for many PBBs.

The BTAU project has revealed that the way forward is to create some form of **Public-Private Partnership (PPP)**. This would be in the form of private capital provided by the commercial banking sector and public capital in the form of grants or subsidies provided by means of European Union funds delivered via the national or regional governments within EU Member States. The actual financial mechanism would be decided at the national level. This might take the form of a micro-credit facility as part of the overall risk guarantee finance facility. It is evident that the delivery of the funding

mechanism could only be achieved through a local banking system but with some sort of independent monitoring and verification process working in parallel, (for more information on the current financial facility proposals from BTAUs in Poland and Bulgaria, see section 5.4) Ultimately, the agreement between financial institutions should be based on procedures that are as simple and clear as possible and that take into account the unique characteristics of **PBBs** in rural areas.

The current situation is that some form of micro-credit facility might be the most appropriate remedy for making working capital available for local rural entrepreneurs (who are also most likely to be farmers, fishers, foresters, tourist service providers, shop keepers or artisans). Once a finance facility is designed, it can then be implemented by local banks, with the support of international financial institutions.

It has been calculated by the European Commission¹⁰ that to manage the Natura 2000 network for the **EU25**, an estimated €6.1 billion per year is required¹¹ (although, some NGOs calculate double that figure). Some sites have management prescriptions (although to a great extent these are still under development) that can be used to help inform the loan conditions with which banks can provide funding to SMEs, confident that their investments are pro-biodiversity

1.8.3 Technical assessment

On the technical side, although considerable experience has been gained on the management of protected areas (mostly by government agencies, conservation NGOs and a limited number of large corporations), this has not been systematically transferred to small private enterprises using biodiversity as a raw material or primary resource. The understanding and expertise in relation to the opportunities that biodiversity investments may offer to financial institutions and businesses still needs to be built up. There is a need for information, training, and the encouragement of a market framework that facilitates PBB opportunities, particularly for micro enterprises, which are nature dependent and have a major role to play in implementing management agreements. This is one of the main reasons for the creation of the BTAU project, which seeks to fill this gap in the pilot countries of Bulgaria, Hungary and Poland.

The biodiversity sector – including NGOs – needs to be better informed about opportunities to develop a strong portfolio of bankable biodiversity projects. This shortfall in knowledge is effectively leading to one of the biggest bottlenecks to increasing investment in biodiversity. Monitoring, evaluation and assessment of the impact (positive or negative) are also a prerequisite for the biodiversity sector.

As the main barriers to PBB investments are considered to be ignorance and a lack of capacity, it seems that the most pressing need is to organise external assistance in capacity building and knowledge sharing at the pan-European, national and local levels, provided through carefully structured national programmes, targeting both entrepreneurs and financial intermediaries.

¹⁰ COM (2004) 431 final

¹¹ The RSPB, WWF and IEEP are currently collaborating on a project which began in 2007 to revise this figure and to ascertain the total financing needs of the Natura 2000 network as well as the costs of identifying, designating, managing, restoring, monitoring and showcasing of these areas.

On the financing side, the main bottlenecks are a lack of understanding of biodiversity and a lack of awareness of biodiversity financing opportunities, lack of expertise in identifying and developing bankable biodiversity projects, and lack of up-to-date and easily accessible information. In addition, many businesses in new EU Member States show certain resistance to start and expand business on the basis of commercial loans. These issues will need to be addressed with targeted training of financial staff in a series of awareness raising, training and capacity building programmes.

1.9 The EU Business and Biodiversity initiative (B@B)

The high level Conference on Business and Biodiversity, held in Lisbon on 12 and 13 November 2007, brought together more than 400 leaders from large businesses, governments, the European Union and NGOs. The Conference contributed to an improved understanding of the competitive advantages that can be gained from conserving biodiversity and using biological resources sustainably and provided substantive guidance to the European Commission's new initiative on business and biodiversity.

In terms of the development of PBB, there will be continued support from this initiative for both PBB development and the exploration of the use of market mechanisms to promote the conservation of biodiversity. The initiative seeks to raise awareness of the strong competitive advantage to be gained by conserving biodiversity; to promote the use of a wide range of market mechanisms, corporate responsibility and regulatory schemes to conserve biodiversity; to support large and small businesses with operational tools for biodiversity conservation and measuring their performance in meaningful ways; and to encourage new incentives to develop and strengthen partnerships between companies, governments at all levels, NGOs and academia.

The BTAU project, to which this handbook is an output from, will provide pilot experience to the development of PBBs and will inform the future development of the B@B.

2. Benefits of pro-biodiversity business activities to society

2.1 Delivering biodiversity objectives

This handbook is specifically designed to provide added value to the EU's biodiversity policy by identifying the opportunities for **PBB** primarily within (although not restricted to) Natura 2000 sites. This section demonstrates the need for greater involvement of the private sector in nature conservation within these areas and outlines the contribution that PBB can make. The Birds Directive (1979) and the Habitats Directive (1992) provide the base for the establishment of a representative system of legally protected areas throughout the EU known as Natura 2000. The Birds Directive seeks to protect, manage and regulate all bird species naturally living in the wild within the European territory of the Member States, including the eggs of these birds, their nests and their habitats; regulate the exploitation of these species; and conserve, maintain or restore the biotopes and habitats of these birds by creating protection zones. For the species listed in Annex 1 to the directive, **Special Protected Areas (SPAs)** are designated by Member States under the 1979 Birds Directive where areas support significant numbers of wild birds and their habitats.

This broad approach was followed by the Habitats Directive, which marked a significant step forward in biodiversity conservation because it introduced a comprehensive and legal protection regime for all fauna and flora species of European importance. The Habitats Directive was adopted in 1992 and its priorities are to create the European ecological network (of Special Areas of Conservation), together with the SPAs under the Birds Directive called Natura 2000, and to integrate nature protection requirements into other EU policies such as agriculture, regional development and transport. In the EU Member States, designated Natura 2000 sites show nearly 25,000 and their aggregate area covers more than 17% of the territory of the **EU-27**, (European Commission, 2008).

To date, there has not been a fully integrated approach to Natura 2000 financing, although the **LIFE Nature** programme (replaced by **LIFE+** in 2007), and the Structural and Rural Development Funds have financed a variety of Natura 2000 management projects across the EU. **Agri-environmental or Forest-environmental measures** have been used to co-finance the sensitive management of outstanding sites by farmers, while the **Structural Funds**, the **Cohesion Fund** and several other Community initiatives are supporting the sustainable economic use of natural sites. The question of the particular allocation of EU funds is largely dependent on the Member States, according to their National Development Plans. The European Community's **LIFE and LIFE+ funds** are already supporting biodiversity and the Natura 2000 network by financing activities on designated sites through projects, usually up to five years duration. However, it is widely recognised that the Nature component of the available LIFE funds will not be sufficient to meet the needs of all the sites in the long term.

The costs related to Natura 2000 can be attributed to the following main categories:

- Setting up the policy framework and administrative structures (scientific studies, inventories);

- Management and maintenance of related infrastructure (administration, preparation of management prescriptions and management plans, awareness raising and education, public participation, visitors management, restoration measures, monitoring systems, compensation);
- Investment costs (purchase of land, public use of infrastructures, and acquisition of equipment).

Clearly, the many functions of the latter two categories can be – and are, undertaken by the private sector, which can provide a vast range of goods and services. In many cases, management requirements for part of the sites require human interaction in order to maintain the ecological balance (examples include grazing, fighting invasive and non-native species, water management, provision of visitor infrastructure and management). Thus, the lack of supply of services by the private sector can be a serious limiting factor for the appropriate management of a Natura 2000 site and the maintenance of natural values, which led to the designation of the site.

Given the fact that the needs for Natura 2000 financing largely exceeds available public funding, and public authorities and bodies in many cases are not in a position to provide all necessary services, the encouragement and promotion of **PBB** businesses can be a good option for the provision of required services. Developing PBBs attracts additional financial resources to improve the management practice and to cover the site management costs in Natura 2000 areas. Box 3 illustrates how a cluster of SMEs can contribute to the objectives of a National Park Directorate in a mutually beneficial way, and how public-private partnerships can work for nature conservation.

Box 3: SME CASE STUDY – The 280 enterprises and associations connected to Koli National Park

Location: East Finland, **Micro, Small or Medium:** Varies but mostly micro **Sectors:** Agriculture, forestry, tourism and environmental services **Ecosystem:** Forests,

Overview

Koli National Park lies in North Karelia, on the Western shore of Lake Pielinen. Koli was established in 1991 and is administered by the Finnish Forest Research Institute (Metla). Koli is approximately 3000 hectares in size and contains a diverse complex of habitats, from Boreal forests, to meadows, lakes and bog woodlands. The park also has several Natura 2000 sites within its borders. The ancient forest is home to birds such as the capercaillie, the wren and the endangered three-toed woodpecker. It is also known as an ancient sacrifice place, as a stronghold of swidden cultivation (slash-and-burn agriculture), which was established in the area from the mid-18th century when the first permanent settlements were established here. This case study illustrates how a National Park authority has promoted local SMEs operating both inside and outside the protected area, with the aim that they contribute to both economic development and the overall nature conservation objectives of the park.

How SMEs can contribute to delivering wider nature conservation objectives

Koli National Park acts as a central part of a complex network of private, community and public enterprises. It recognizes that clusters of SMEs may be much stronger than the same number of firms spread over a wider area and has sought to stimulate free-standing enterprises in the Park (particularly in tourism) by first demonstrating needs-and hopefully markets- on an

'experimental' basis. When proof of concept has been achieved, if it can, it will then contract the work out to independent enterprises, often 'spin-offs' from the Park activity itself.

Almost all the land within the Park is owned by the Finish government but there are some clusters of private land used for small-scale farming and forestry (if economically exploited at all) whose ownership pre-dates the establishment of the Koli. Nevertheless, the Park authority plays a significant role in fostering and encouraging local enterprises and there are about 280 enterprises and associations connected to the Park, for example hotels, hostels, product suppliers, guides, maintenance services, restaurants, transporters and conference services. Some of these enterprises undertake a range of ecological management, educational and tourism-based activities. Two major SME investments in the park are the Heritage Centre Ukko (educational) and Hotel Koli (accommodation) aiming to increase the number of overnight stays. In winter, ski trails open up to the public and swidden cultivation has been promoted as a tourist attraction.

(Source: Dickson et al, 2007)

2.2 Delivering rural development objectives

The Natura 2000 network is only a part of the whole picture for the protection of important European habitats and species. Although the Birds and the Habitats Directive promote other measures for the sustainable management of the countryside and marine environment outside designated areas, Natura 2000 sites are an intrinsic part of the rural landscape of Europe. Most of the sites have been subject to use by humans for hundreds if not thousands of years. People are farming and engaging in forestry and fishing, and many of these sites attract visitors because of their special cultural and natural heritage qualities.

The Habitats Directive further recognises the importance of the wider countryside and promotes its appropriate management for all wild species. Article 10 encourages national governments, through their land-use planning and development policies, to manage landscape features that are of major importance for wild fauna and flora, particularly with a view to improving the ecological coherence of the Natura 2000 site network. Features which are essential for the passage and dispersal of wild species in the countryside, such as river corridors, and features which act as 'stepping stones' between sites such as small woods and ponds are highlighted as particularly valuable.

According to preliminary estimates by the European Environment Agency, between 15 and 25% of the European countryside can be considered high natural value farmland, but it is unevenly distributed, with large areas in eastern and southern Europe including the twelve new Member States and the candidate countries. During the 20th century both the size and biodiversity quality of these areas have declined and these areas are still under pressure from both land-use intensification and land abandonment.

In 2001, the European Council, at its Spring Summit in Gothenburg, made a commitment to halt the decline of biodiversity in the EU by 2010. Two years later, the European Ministers of Environment recognised the importance of farmland biodiversity and the urgent need to take care of it for future generations. They declared that, "by 2008, a substantial proportion of these areas will be under biodiversity-sensitive management by using appropriate mechanisms such as rural development instruments, agri-environment programmes and organic agriculture, to inter alia support their economic and ecological viability." (Environment for Europe, Kyiv Resolution on Biodiversity, 2003)

During the **Common Agricultural Policy (CAP)** reforms of 2003, subsidies from agricultural production were decoupled and funding linked to environmental criteria (“cross compliance”). The 2008 CAP health check concluded in modulation of budget from Pillar 1 to Pillar 2 identifying five major challenges, one of which is biodiversity. However, Europe’s rural areas need more than just decoupled agricultural payments: they need a sensible, well-resourced rural policy focused on the delivery of public goods which would otherwise have no marketplace (for example, wildlife, clean water, landscapes), and to contribute to implementation of both the Natura 2000 network and the **Water Framework Directive (WFD)**.

The Structural and Cohesion Funds have great potential to assist the sustainable development of poorer and disadvantaged regions. The funds must contribute to the protection and enhancement of the natural environment, by supporting the management of the Natura 2000 network and the implementation of the WFD as well.

Since the vast majority of Natura 2000 sites are located in rural areas, the development of PBBs would also contribute to the sustainable development of rural areas, providing a source of income for local entrepreneurs and maintaining employment and reduction of rural-poverty. While employment and skills development are a normal part of every business, PBB has the added benefit that it often stimulates a flow of funds from relatively wealthy urban centres to the countryside.

2.3 Delivering national financial planning objectives

Investments in PBBs will give a positive contribution to national budgets, creating an additional stream of revenue to both the national economy and fiscal budget. The demand for dedicated funding, oriented at biodiversity investment, in turn, has the potential for opening up a new investment market for the financial sector. The opportunities for developing “green” financial services and products are currently being explored by major European public and private banks, which are looking for different and innovative ways to deliver new revenue streams.

2.4 Delivering SME development objectives

The Commission is working with Member States to improve the business environment in Europe, under the Lisbon Strategy to foster economic growth and create new and better jobs. Whilst the strategy seeks to improve conditions for all sizes and types of enterprise, the Commission recognises that specific initiatives and sustained efforts are required to enable Europe’s smallest firms to realise their true potential.

There are around 23 million SMEs in the European Union (99% of all businesses in the European Union are SMEs), providing approximately two-thirds of all private sector jobs. Micro-businesses (those with fewer than 10 employees) dominate employment in countries such as Italy (47%) and Poland (41%)¹². Micro-enterprises often face particular problems in finding the finance to get a new business going, or to grow an existing business. Administrative requirements, obligations and procedures, or “red tape”, is also a heavy burden on Europe’s micro-enterprises. In addition, finding staff with the right skills willing to work for a small firm can be a problem, as is ensuring that they have the time to update their skills and keep up with developments in the field. Whilst micro-enterprises are very often the source of innovation, they are also especially vulnerable to competition from other enterprises that introduce new products or services, or improve their production processes, lacking the resources to respond

¹² http://ec.europa.eu/enterprise/entrepreneurship/facts_figures.htm

rapidly. From the SME development perspective, investments in PBBs would contribute to the development of SME's willing to engage themselves in biodiversity protection and providing them accessible financial means for growth and expansion.

The so-called "cluster" approach that is employed in relation to SMEs in other areas of business development would be highly suitable for application here. This approach involves the identification of specific clusters of SMEs that deliver similar products and/or services, which rely on similar raw materials, processing facilities or supply chains and have similar client profiles. Alone they may suffer from a lack of business acumen, operational capacity, miss out on advice and guidance and be unable to develop or implement innovation. Together, in clusters, they can be connected to sources of relevant advice and guidance, cut costs in terms of product development, transport and sales, and share innovation. They may also be in a better position to receive and act on external sources of funding by forming partnerships and co-operatives. This system is successfully employed by many regional development organisations to increase start up rates of SMEs, decrease business failure rates and maximise returns on financial investments. An example of SME businesses successfully operating together as a cluster is provided in Box 4, below.

Box 4: SME CASE STUDY - South Downs Marketing Ltd: conserving biodiversity through the marketing of a premium product

Location: Southern England **Micro, Small or Medium:** Small **Sector:** Agriculture **Ecosystem:** Grasslands

Overview

South Downs Marketing Ltd is a small enterprise that started up in 2004. It acts as a "middleman" between farmers and butchers by selling South Downs lamb, veal and mutton from animals grazing the South Downs area, from farmers to butchers. The enterprise negotiates the price of the meat with 28 local farmers, they cut and deliver the meat, and they also regularly organize tasting panels. The farmers and butchers have succeeded by working together by producing a cluster of related products and services.

Preserving biodiversity through consumer demand for a premium product

The 28 farmers have contractual obligations to manage the chalk grassland through extensive grazing. Farmers get more money for their meat than if they had practiced conventional techniques, on the basis that they adhere to certain practices which preserve the species rich and very diverse grasslands. Through the extensive grazing programme, the chalk grassland ecosystem is conserved and a traditional breed of sheep safeguarded. The marketing enterprise only started after investigating consumer demand for the meat and after the farmers expressed their willingness to cooperate. The decision of the farmers to join in the scheme came only after an agricultural economics report showed the benefits of the scheme in the long run. In addition, a local slaughterhouse was set up in order for the animals not to be transported too far before being slaughtered. South Downs Lamb has been successfully linked with the local economy and the rural and urban community, a success in regional branding. The success factors of the overall project are: a consumer demand study, investigating the economic feasibility, extensive marketing (labelling) efforts and designing a very short chain of production. Another factor that contributed to the success is that consumers in the area have the means to spend a surcharge on top of the normal prices of lamb/veal, which might not be possible elsewhere. (Source: Lifescape partnership, 2008)

Section B

Pro-biodiversity business opportunities for SMEs

3. Pro-Biodiversity Business opportunities for SMEs

3.1 Overview

In large parts of Europe, a high proportion of rural areas are influenced by human activities and their sustained maintenance is only possible with further and ongoing human intervention. The sustainable management of grassland, wetland, forest, freshwater and marine environments in these areas can significantly contribute to the protection of biodiversity. As awareness of the business case for biodiversity increases, more companies are seeking to distinguish themselves from competitors and gain favour with the public by supporting conservation efforts and searching for new opportunities for business development.

In this section, a selection of PBB opportunities are described, primarily based on the experience gathered within the BTAU project, but also from other relevant projects such as the ProBioBusiness project of ECNC, Probioprise project of Fauna & Flora International and the LIFESCAPE – Your Landscape project.

As shown in section 1.2, PBB opportunities require that enterprises are commercially viable whilst undertaking operations that contribute directly or indirectly to conserving biodiversity, are dependent on biodiversity and are using biodiversity in a sustainable way. The expression “dependent on biodiversity” is intended to capture the many ways in which an enterprise may be based on biodiversity for its core business. It includes enterprises engaged in:

- **Primary production**, such as agriculture, fisheries and forestry. This is by far the most common sector for PBBs to operate in and this chapter focuses the most on primary sector PBBs
- **Secondary sector**, processing the outputs from primary production.
- **Tertiary sector**, such as eco-tourism firms, enterprises that offer ecological management or advisory services, banking and insurance, and enterprises involved in environmental research or education

Finally, it should be noted that PBBs operate within a variety of sectors and ecosystems as well as between sectors; for example, fishery and agricultural activities are often combined with recreation and tourism services. The examples provided therefore represent only a selection of opportunities in some key sectors. Further guidance on whether a business is already a PBB, or could adapt to become one, should be sought from the BTAU project coordinator.

3.2 Pro-biodiversity business opportunities in the primary sectors

3.2.1 Agriculture

The agricultural sector probably offers the most opportunities for PBB development. Agriculture depends on healthy ecosystems to provide services that include nutrient and waste recycling, pollination from insects, sediment control, and clean water. An enterprise that maintains or enhances biologically diverse soils will generally be more productive and will deliver the same quantity and quality of services for agriculture. Some examples of sustainable agricultural business activities generated through the BTAU project and provided by the small business sector include:

- Extensive ecological crop production on arable lands;
- Organic crop production;
- Extensive grazing/livestock production;
- Selective mowing of meadows;
- Landscape maintenance;
- Extensive orchards;
- Organic wine production;
- Bee keeping and honey production;
- Specialised seed production;
- Sustainable forestry (see section 3.2.2);
- Sustainable reed harvesting (see section 3.2.3);
- Provision of ecotourism products and services (see section 3.4.1);

The agricultural sector is one of the several natural resource-based industries that can provide biodiversity benefits through the application of modified management systems and the adoption of alternative technologies and practices. According to Bishop *et al* (2008), the promotion of biodiversity-friendly agriculture tends to involve some or all of the following practices:

- Creating biodiversity reserves or sanctuaries on farms;
- Developing habitat networks around and between farms. This can include the creation of 'biological corridors' that connect areas of significant biodiversity;
- Reducing conversion of wild habitat to agriculture by increasing farm productivity and by protecting priority areas, such as watersheds, forest fragments, rivers and wetlands;
- Taking marginal agricultural land out of production and assisting in the regeneration of natural habitats;
- Modifying farming systems to mimic natural ecosystems as much as possible;
- Low-input or less environmentally damaging agriculture practices, focusing on reduced erosion and chemical or waste 'run off', through 'zero tillage' planting techniques, contour ploughing, use of vegetation and trees as windbreaks, use of leguminous species, etc;
- Sustainable livestock practices that range from modified grazing and pasture management systems to promoting the incorporation of trees and other vegetation into livestock grazing areas.

Box 5, below demonstrates how a PBB has developed by regenerating sheep farming to maintain the open meadow landscapes, in the South of Poland.

Box 5: SME CASE STUDY - Extensive sheep farm in Ostoja Popradzka Natura 2000 site

Location: Southern Poland **Micro, Small or Medium:** Micro **Sector:** Agriculture
Ecosystem: grasslands

Overview

The Sheep farm carries out extensive sheep grazing on montane meadows. The micro-enterprise has its own herd but also lease (hire) sheep from a number of other farmers. They produce sheep milk, cheese, wool, mutton, hay and "sheep farming services", to other farmers.

Extensive sheep farming in a Natura 2000 site: good for nature and good for business

According to information provided by authorities of the Popradzki Landscape Park, increasing the population of sheep (which almost completely disappeared between 1980 and the late 1990's) and bringing back sheep farming into the region is a critically important measure to maintain the open landscapes of the region. In this area of Poland, farmers therefore have an important role to play in supporting the management of the Natura 2000 site of Ostoja Popradzka. The Sheep farm plans to expand the scale of production in the near future to enhance its income basis and thus sustainability in general along with selling regional products based on local biodiversity. An old indigenous sheep race is bred and preserved, mountain meadow and pasture biodiversity is preserved, and the environmental objectives of the Popradzki Landscape Park are supported.

(Source: Tederko, 2007b- BTAU Poland)

3.2.2. Forestry

Forests are biologically diverse systems, representing some of the richest biological areas on Earth. They offer a variety of habitats for plants, animals and micro-organisms. Apart from providing wood and other products, forests and trees outside forests play a protective role, for instance in ecosystem conservation, in maintaining clean water, and in reducing the risks of impacts of floods, avalanches, erosion and drought.

The business case for PBB development in forestry is that crop genetic diversity is a key factor in maintaining disease resistance and yields. In addition, diverse forests are prime locations in which to find novel genes and compounds for agricultural, industrial and pharmaceutical uses, important sources of food, medicines, energy and building materials.

Some examples of sustainable forestry business activities generated through the BTAU project and provided by the small business sector include:

- Sustainable timber production;
- Wood processing;
- Sustainable utilisation of **Non-Timber Forest Products (NTFPs)**;
- Seed collection;

- Ecotourism within forested areas;
- Recreation;
- Hunting;
- Advisory services;

Sustainable forestry activities should generate good financial returns, and conserve biodiversity at the same time. Certification guidelines, such as the **Forest Stewardship Council's (FSC's)** principles and criteria, offer landowners clearly defined approaches to biodiversity-friendly forest management while also emphasizing the profitability of sustainable forestry operations. In addition, the FSC label helps to communicate conservation issues to consumers, (see Box 6). When the income streams of these activities are sustainable, they may even alleviate the potential threat of deforestation.

Box 6: SME CASE STUDY – “Stoikite”- forestry cooperative

Location: South-west Bulgaria **Micro, Small or Medium:** Medium **Sector:** forestry
Ecosystem: Forests

Overview

Stoikite is a cooperative that owns 2000 hectares of forests in the Rhodope Mountains, near a number of protected areas. Business activities include the removal of trees, wood processing and timber trade. There are 60 full-time employees and another 30 seasonal workers.

A growing medium enterprise that sustainably manages forests

The Co-operative is situated in the Stoikite area in the Rhodope Mountains. All the enterprise's forests are considered to have high nature conservation value. The raw materials used and the production processes are designed so that they do not have harmful affects on biodiversity. Stoikite is the only Bulgarian Forestry Co-operative that is certified by the Forest Stewardship Council. FSC certification ensures that forest products come from forests that are managed in accordance with best international practice. The logo of the FSC is stamped on the timber.

Demand for FSC certified wood is high and Stoikite is rapidly growing. Investments into the improvement of wood processing technologies and even more sustainable forestry management activities would further develop this enterprise. An expanding market as a result of Bulgaria gaining EU membership, and an increase in the competitiveness of the sustainably harvested wood sector in general, have been factors contributing to the success of Stoikite.

(Source: ECNC, 2007)

In addition to FSC certification, the **Pan-European Forest Certification (PEFC)** works to promote sustainably managed forests. The PEFC provides an assurance mechanism to purchasers of wood and paper products that they are promoting the sustainable management of forests. PEFC develops national forest management certification standards and schemes, using multi-stakeholder processes for the protection of forests, which have been signed up to by 37 nations in Europe and other inter-governmental processes for sustainable forest management around the world.

The harvesting of NTFPs is treated in this handbook as part of the forestry sector. NTFP is a term indicating a range of products that are "selectively harvested", (see Box 7) in order to allow regeneration with minimal impact on wild forests and other ecosystems (Frentz, 2006). If a sustainable income is generated from these activities, the potential threat of deforestation may be averted as these areas are given higher value by local communities.

Box 7: SME CASE STUDY- Sustainable seed collection and promotion: Semillas Silvestres SL

Location: Southern Spain **Micro, Small or Medium:** Micro **Sector:** Agriculture, forestry, Ecosystem: Forests

Overview

Semillas Silvestres began formally trading in 1990. It sells wild seeds from forest ecosystems, which are harvested and distributed from all over Iberia (Spain, Portugal, Andorra and Gibraltar). By doing so, the micro-enterprise benefits from and contributes towards biodiversity in the Iberian Flora. Semillas Silvestres currently employs the equivalent of seven full-time people throughout the year including a botanist, a forest engineer and a legal specialist. In the seed collecting season there may be as many as 20 other temporary staff in the forests and fields collecting seeds.

This case study shows how the sustainable harvesting of Non Timber Forest Products can be combined with running an economically viable enterprise and demonstrates the potential for potential certifications to communicate the value of biodiversity conservation.

An example of a micro-enterprise promoting the sustainable collection of seeds within forests

Semillas Silvestres sells most of its products at an annual trade fair in Valencia and through a catalogue that is produced each spring. Spain is the main target market (about 80% of sales) with the balance going to other EU countries, particularly Portugal, France and Italy. Most of the customers buy the seeds to carry out restoration work, with 15% working in forests and 50% working on other landscapes, often following infrastructure developments. Nurseries take another 15% with private and landscape gardeners accounting for the balance. One particular success that the enterprise wants to expand on and follow up in other ways is that of the drought resistant dry grasses that it supplies for use along motorway verges across southern Europe.

The owner of Semillas Silvestres sees a clear role for SMEs to act as a bridge between rare wild populations—both protected and not—and cultivation, which could encourage their introduction in other places where species are at risk. The owner has also noted that it could be worth exploring seed-level equivalents to current product-level certifications such as the FSC system. Alternatively, there could be models for organically farmed products that might transfer to natural populations.

(Source: Dickson *et al*, 2007)

Box 8 below further highlights a successful SME operating as a forest certification and forestry consultancy advising on and implementing land and habitat management, in forests areas.

Box 8: SME CASE STUDY- Imobiente, Environmental consultancy and forest management enterprise: highlighting a business case for nature protection

Location: Southern Portugal **Micro, Small or Medium:** Micro **Sector:** Agriculture, forestry and environmental services **Ecosystem:** Forests

Overview

Imobiente is a forest certification and forestry consultancy that was set up in 1997. The micro-enterprise is located in the centre of Albufeira (Algarve) and consists of the founder/CEO, a technical specialist and a receptionist/administrator. Its core business is advising on and implementing land and habitat management, mainly in forests. This might include environmental services such as soil conservation, carbon sequestration and watershed protection as examples. Customers include individual landowners (80% of customers), the Portuguese public sector and NGOs. Imobiente works for the most part in an ‘artificial’ market in that, although a majority of its clients are private, almost all the work actually undertaken is ultimately paid for by either the EU or the Portuguese government, or more rarely by NGOs.

An SME that operates by highlighting the business case for forest protection

This case study demonstrates how an SME has highlighted and works towards creating a genuine business case (for landowners in particular) to pay more attention to nature protection to enhance their business activity. Imobiente operates and thrives on the basis that a biodiversity-rich mix of species is, in these circumstances, the best and most cost-effective tool for delivering the ecosystem services (disease protection, fire resistance, as examples) that the landowner wishes to buy. It is interesting to note that private landowners see the benefits of biodiversity not as a “public good” but in more concrete terms related to the incomes they can derive from their landholdings including the reduction in the incidence of disease, lower drought stress, greater resistance to forest fires, and so on.

(Source: Dickson *et al*, 2007)

3.2.3 Fisheries, coastal and marine

The business case for PBB development in the fisheries sector is that the health of an ecosystem determines the productivity and thus securing supplies of fish in the future. In addition, consumers and retailers are increasingly concerned about the impacts of fisheries on target and non-target species and seabed habitats, and are demanding assurances that these are addressed by fishing businesses, large and small. This section also considers opportunities for PBB development in marine and coastal areas.

Aquatic species can be cultivated, “using sustainable practices that, in some cases, may be used to restore wild stocks, provide employment opportunities, and generate an economic rationale for safeguarding the surrounding environment” (Frentz, 2006). The production of fish is very much dependent on water quality. If fisheries take place

in or near protected wetland areas, they may have a positive effect on the water quality in comparison to having no fish farms operating in the location (Dickson et al., 2007).

Some examples of sustainable fisheries and marine and coastal-based business activities generated through the BTAU project and provided by the small business sector include:

- Sustainable fish, crustacean and mollusc harvesting
- Sustainable fish, crustacean and mollusc farming;
- Seaweed harvesting
- Organic fish farming;
- Sport fishing
- Diversification from coastal fishing to ecotourism;
- Ecotourism such as bird watching in wetland sites or fishing trips;
- Sport diving

Box 9 provides an example of a freshwater fishery in Northern Bulgaria that has adapted its business practices to provide both a sustainable supply of fish and ecotourism activities through recreational fishing.

Box 9: SME CASE STUDY – “Riahovo” - freshwater fisheries in the Kalimok- Brushlen protected area

Location: Northern Bulgaria **Micro, Small or Medium:** Micro **Sector:** fisheries/aquaculture, tourism **Ecosystem:** wetlands

Overview

Riahovo is a micro-enterprise active in fish breeding, the provision of ecotourism services and water body management, in the Kalimok-Brushlen protected area in Bulgaria. It is managed through a partnership of three directors with locally recruited labour.

Riahovo aims to re-establish two previously drained and dry fishponds for commercial fish production, the smaller of the two being built for recreational fishing. The ponds will generate direct benefits to biodiversity by providing a habitat for birds and other aquatic wildlife, including the maintenance of native fish populations, and plants. It will also provide indirect benefits for biodiversity by helping to move the local economy away from unsustainable agriculture. The activities of this PBB fulfil the management objectives of the “Kalimok-Brushlen” protected area.

The main potential market for the fish is Bulgarian wholesalers. The market for angling is mainly local, or from customers from Sofia. The potential increase in tourism in the region provides the PBB with opportunities to develop ecotourism activities and offer information services to the visitors of the protected area. Even though the local market is the main market to which the products are sold, sufficient demand is expected for fish and angling through tourism activities which maintain an economically viable enterprise.

(Source: ECNC, 2007)

The case study in Box 10 (below) outlines the opportunities and business potential for diversification in a range of sectors at the Lille Vildmose raised peat bog in Denmark.

Box 10: SME CASE STUDY – new opportunities for small business development in the Lille Vildmose raised peat bog

Location: Northern Denmark **Micro, Small or Medium:** n/a **Sector:** Agriculture, tourism, **Ecosystem:** wetlands

Overview

Lille Vildmose is a special nature reserve and Natura 2000 site, covering an area of 75 km². The site is currently an important carbon store, given the volumes of peat, but this is under threat through peat extraction. It is also a valuable site for nature tourists, particularly bird watchers, given the spectacular number of Cormorants on the lakes.

On opportunity for diversification: from nature depletion to enhancement

The Lille Vildmose site has been recognised as having significant potential for the development of activities based on the cultural and natural history of the site which could offer an alternative source of employment and enterprise to the unsustainable peat extraction industry. Existing stakeholder discussions have highlighted a number of potential stakeholder initiatives that could benefit the region, including building on the cultural heritage of the site, nature restoration, attracting tourists, and the development of the historic peat train, the infrastructure of which is still largely in place and educational and research activities.

The Lille Vildmose Visitor Centre opened to the public the 11th April 2006, and offers modern and interactive exhibitions, an eagle simulator, a small cinema. The site currently sustains around 58 fulltime jobs but this is expected to grow significantly if the range of initiatives discussed by stakeholders are realised. A conservative estimate suggests that a proper implementation of a local development plan, building on Natura 2000, will result in 150 fulltime jobs for the area.

(Source: WWF and IEEP, 2002)

When fish are cultivated for tourism activities, the quality of the fish habitat can be maintained by the enterprise gaining an income from the activity. The management of such a site often depends on the ownership of the site and the viability of the business may be affected by the potential free-rider behaviour of other entrepreneurs in the area. The key to success is sometimes in the labelling of fish with regard to the use or employment of specific nature management activities. Use of the **FAO** code of conduct, as well as aquaculture certification are examples of established good practice. **The Marine Stewardship Council's (MSC's)** fishery certification program and seafood eco-label also recognise and reward sustainable fishing. As usual with SMEs producing fresh natural products, efficient production chain management is an important key to the success of the enterprise.

Marine and coastal areas across Europe are often threatened or destroyed by (mass) tourism and unsustainable fishing activities. The case study in Box 11, below, provides an example of the opportunities that one Polish fishing enterprise saw in diversification from coastal fishing to coastal tourism.

Box 11: SME CASE STUDY- Marine Coastal Fishing Boat in the Trzebiatowsko – Kołobrzeski Pas Nadmorski Natura 2000 site

Location: Northern Poland **Micro, Small or Medium:** Micro **Sector:** fisheries/aquaculture **Ecosystem:** marine and coastal

Overview

The micro-enterprise traditionally operated in coastal marine fishing, processing and sales. As this was increasingly seen as an unsustainable activity, the business has adapted its operations to focus on more sustainable activities in coastal tourism. BJ now runs boat and fishing trips and a small Bed and Breakfast. In the future, the enterprise plans to create facilities for processing and smoking fish.

Diversification from unsustainable fishing to a more sustainable micro-enterprise

By replacing commercial fishing with recreational marine and coastal angling, the impacts on fish populations are rapidly decreased and a model of successful diversification is available to other small businesses in this area.

(Source: Tederko, 2007c- BTAU Poland)

3.2.4 Hunting

Sustainable hunting involves the use of wild animal species and their habitats in a way and at a rate that does not lead to the long-term decline of biodiversity or hinder its restoration. When hunting is conducted in such a sustainable manner, it can positively contribute to the conservation of wild populations and their habitats and also benefit society. Most examples of sustainable hunting activities generated through the BTAU project are provided by small tourism businesses, such as sports fisheries.

3.3 Pro-biodiversity business opportunities in the secondary (processing) sectors

3.3.1 Pharmaceutical and cosmetic products

The processing of sustainably harvested plants for pharmaceutical and cosmetic products presents opportunities for PBB development. Some examples of PBB activities generated through the BTAU project and provided by the small business sector include:

- Processing and use of medicinal oils;
- Production of soaps, oils and creams;
- Production of clothes and bags from organic fibres;

The processing of sustainably harvested natural raw materials presents opportunities for PBB development. Some examples of PBB manufacturing opportunities generated through the **BTAU** project and provided by the small business sector include: wood, pulp and paper and recycling.

3.3.2 Building and construction

Building and construction of ecologically friendly buildings offer opportunities for PBB development and mass-scale landscaping, using biodiversity friendly techniques has been proven by one SME as Box 12 highlights.

Box 12: SME CASE STUDY- Opportunities for biodiversity conservation: Heylen bvba

Location: Northern Belgium **Micro, Small or Medium:** Micro **Sector:** Agriculture, forestry, and environmental services **Ecosystem:** Grasslands, wetlands

Overview

Heylen bvba was established in 1995 and is a company focused on nature conservation and development, by mowing grasslands and wetlands and by enhancing plant biodiversity through a variety of landscaping techniques. The company currently belongs to one person, employs nine people, has a turnover of approximately €1.4 million, and a healthy net profit. Its unique selling point is that it is one of the few companies that can carry out all the work required in natural/protected areas. The customers of Heylen bvba include national and regional government, private conservation organisations, and local authorities and a small (1%) number of private businesses.

Opportunities to meet a demand for biodiversity conservation through landscaping in environmentally sensitive areas

This case study illustrates how a micro-enterprise has developed by adding value to mass-scale earth-moving, cutting and landscaping businesses that are not always able to adapt their activities to the smaller-scale and more refined needs of environmentally sensitive areas. One of the key environmental criteria when working in certain sensitive grassland and wetland areas is that there is a minimal amount of soil compacting and damage. Heylen bvba has achieved this added value through the innovative design and development of the company's machinery to fit the particular needs of the environments in which the company operates. The private company possesses substantial machinery – four crawler excavators, two adapted crawler dumpers, eight tractors, and a range of adapted smaller machines and the business undertakes four main types of activity:

1. Mowing grasslands and wetlands to enhance plant biodiversity
2. Forestry of fragile ecosystems
3. Layout of ponds, marshes and swamps
4. Technical design of infrastructure in natural areas, including fencing, drainage and Boardwalks

The continued success of Heylen bvba demonstrates that financial and environmental goals can be achieved at the same time and that there is a genuine niche which adds value to (in this case) *mass-scale* earth-moving, cutting and landscaping enterprises. (Source: Dickson *et al*, 2007)

3.3.3 Other wholesale and retail trades

There are a number of other PBB opportunities that can arise from the wholesale and retail trades. It is important to double-check that PBB opportunities in the processing sectors contribute directly or indirectly to conserving biodiversity, or are using biodiversity in a sustainable way.

Some examples of PBB wholesale and retail opportunities identified through the **BTAU** project and provided by the small business sector include:

- Food processing such as the production of wild fruit jams;
- Drink production such as organic fruit wines;
- Health-food shops selling biodiversity-friendly products;
- Sustainably produced Handicrafts;
- Flowers, plants and seeds of wild origin;
- Hides, skins and leather;

3.4 Pro-biodiversity business opportunities in the tertiary (service) sectors

3.4.1 Tourism

Nature-based tourism can offer significant opportunities for PBB development and is the second most important sector in terms of opportunity after agriculture. It can often be developed as a viable alternative to enable small businesses to diversify away from intensive agricultural, forestry or fishing practices.

Ecotourism is one example where the income stream to private enterprise depends very clearly on the health of the surrounding ecosystem. The impact of the PBB on biodiversity depends on who manages the site and where the eco-tourist activities take place. Sometimes, the enterprise gains from the on-site biodiversity while it does not contribute to its conservation. At the other end of the spectrum, landowners and managers may actively enhance biodiversity in order to profit from tourism activities, and thus both activities are interlinked.

Some examples of ecotourism opportunities generated through the **BTAU** project and provided by the small business sector include:

- Nature based hotels;
- Camping facilities;
- Tours operators;
- Sporting activities such as cycling;
- Trekking and rambling;
- Organic restaurants and cafés;
- Educational courses and holidays

The example below in Box 13 shows how a private enterprise can provide direct biodiversity benefits through the development of tourism services and facilities.

Box 13: SME CASE STUDY – “Wnukowo” ecotourism in the Puszcza Piska- (Pisz Forest) Natura 2000 site

Location: North-east Poland **Micro, Small or Medium:** Micro **Sector:** Tourism
Ecosystem: Forests

Overview

Wnukowo is a micro-enterprise that offers a range of products in the tourism sector which all seek to minimise the impact of tourism on the Mazurian Landscape Park in the Puszcza Piska Natura 2000 site. The enterprise offers lakeside bed and breakfast accommodation, sells local agricultural products and foodstuffs, and charters out kayaks, canoes and motorized yachts. Camping facilities (2 hectares) are also provided at the shore of the Mazurian lake Beldan.

Biodiversity benefits from tourism in a Natura 2000 site

Wnukowo creates biodiversity benefits in its “best practice” campsite by ensuring tourists are educated to high standards of nature conservation through the products and activities that it sells. For example, the piped water, showers, WC and sewage adhere to the strict standards and requirements of the Mazurian Landscape Park. The enterprise indirectly benefits biodiversity by attracting backpackers and drawing illegal camping away from neighbouring nature reserves.

The company belongs to a former farming family who aim to sustain natural resources and reduce their environmental impact as much as possible and preferably to a neutral state. The operations and services provided by this and many such firms in the region are extremely important for the protection of water biodiversity at the lakeshore and wider ecosystem. Providing “best practice” demonstration sites certified by the Mazurian Landscape Park help to reduce the impact of the services on the lake ecosystem.

(Source: Tederko, 2007a- BTAU Poland)

3.4.2 Biodiversity management services

Biodiversity management services (BMS) include a range of professional activities and services undertaken by public and private entities that deliver benefits for biodiversity, for which the service provider receives a fee.

Some examples of BMS opportunities identified through the **BTAU** project and provided by the small business sector include:

- Advice on nature management;
- Project impact assessment work;
- Biodiversity performance monitoring.
- Certifying consultancies
- Organic production consultancies
- Environmental management consultancies

Box 14, below, illustrates an aquatic consultancy and research PBB.

**Box 14: SME CASE STUDY - Environmental services:
Ecological Consultancy Services Ltd (EcoServe)**

Location: Dublin, Republic of Ireland **Micro, Small or Medium:** Micro **Sector:** environmental services **Ecosystem:** marine and coastal

Overview

EcoServe was registered in 1996 and began operating in 1997 to provide aquatic consultancy and research services to industry, local authorities, and government agencies at national and international levels, with particular reference to the issues surrounding biodiversity. Originally, it was based around a group of researchers who were working on the “BioMar” Project, which was then making an assessment of Irish marine biodiversity, to enable selection of marine Special Areas of Interest.

EcoServe provides the combination of fisheries biology and habitat expertise necessary to conduct biological assessments of aquatic species and their habitat, including work with protected habitats and endangered species.

A micro enterprise carrying out consultancy work in marine and freshwater ecosystems

Today, Environmental Impact Assessments (EIAs) make a large part of the activities of this PBB, based on the Irish government requirement to carry out an EIA prior to a planning permission being granted. This requirement and the EIAs assignments that stem from it, contribute largely to the economic viability of this enterprise. Good networking skills and the participation in European funded research projects have been other factors of success for this enterprise.

(Source: Dickson *et al*, 2007)

3.4.3 Banking, insurance and investment

The market for ecologically sustainable investments grows consistently. Through financial engagement of sustainability-orientated investors it is possible to raise additional money for the financing of conservation.

Box 15, below, illustrates a PBB that seeks to direct private investment to support ecological sustainable development. It harnesses the resources of the ethical investment movement in Western Europe for promoting ecologically sustainable development and the wise use of natural resources, especially in Eastern Europe.

Box 15: SME CASE STUDY - Environmental services: FIELDFARE International Ecological Development (FIED)

Location: Southern UK and South western Ukraine **Micro, Small or Medium:** Small
Sector: Environmental services **Ecosystem:** Grasslands and wetlands

Overview

FIED was established as a private company in 1996 and became a public limited company, registered in England, in September 1999. The overall aim of FIED is to bring private investment to support ecologically sustainable development, but not only to become a biodiversity-oriented company whose shares are freely traded, but a beacon to others. At present, the enterprise has 16 shareholders including the World Wide Fund for Nature. It harnesses the resources of the ethical investment movement in Western Europe for promoting ecologically sustainable development and the wise use of natural resources, especially in Eastern Europe. It has two employees in the UK but also operates in Ukraine through a 94%-owned subsidiary, Salix Ltd (which concentrates mainly on ecotourism). Salix is registered in the Odessa oblast and has five full-time employees and up to six seasonal workers.

A small enterprise that helps to create further biodiversity oriented enterprises through the provision of private investment. The basic business concept for FIED focuses on four main areas of investment activity:

1. Management of land retired from agricultural or other uses aimed at restoring or creating biodiversity value combined with sustainable use of the resources (e.g. grazing by local breeds of livestock, fuel wood lots, harvesting reeds, wild fish angling)
2. Reducing the impact of intensive arable crop production by encouraging organic farming, and introducing alternative low-input crops (e.g. hemp and flax; medicinal plants)
3. Establishing centres for retailing ecologically friendly products and providing office space to local environmental NGOs (which help to identify reliable investment opportunities)
4. Fostering local businesses that use natural resources on a sustainable basis, or depend on such resources (e.g. low-intensity tourism) through forming joint ventures in which FIED will always maintain ecological control by owning a “green share” that prevents the venture from adopting unsustainable operations.

Operating mainly in the Lower Danube region of Ukraine, FIED has also been involved in pre-investment studies for several potential ecological business projects such as organic vegetable production, biofuel from reeds, sustainable fisheries and ecotourism. This has been successful to the extent that FIED's investment studies have so far been developed largely without recourse to its own share capital.

(Sources: Dickson *et al*, 2007)

3.4.4 Delivery services and transport agencies

An example of a delivery and transport agency opportunity generated through the BTAU project and provided by the small business sector involves the collection of

farmers' products in remote mountainous areas for sale in larger markets, illustrated by the BTAU in Bulgaria.

3.4.5 Community and social service activities

Some examples of delivery and transport type opportunities identified through the BTAU project include: collection and treatment of sewage and other waste in a biodiversity friendly manner and biodiversity education and awareness raising.

3.5 Overview of pro-biodiversity businesses opportunities and success criteria

The examples in Sections 3.2 to 3.4 show that several success factors contribute to sustainable enterprise development in combination with biodiversity conservation. Some of the main areas that the BTAU project has investigated and concluded to be important for PBB development include:

- **Demand led:** opportunities should be generated based on the needs of the market and on consumer demand. Individual consumers as well as public and private green procurement policies should be considered.
- **Marketing and labelling:** implementation of effective marketing activities such as labelling of products; as well as assistance to gain market access, such as through the creation of farmers' markets.
- **Certification:** or eco-labeling, is potentially a useful tool to stimulate the growth of ecosystem service markets. Certification guidelines offer landowners clearly defined approaches to biodiversity-friendly management. Adhering to recognised standards and obtaining sustainable certification and verification such as adopting Marine Stewardship Council¹³ or Forest Stewardship Council¹⁴ criteria, can be strongly advantageous to PBB development.
- **Distribution:** designing and implementing efficient distribution chains;
- **Training staff:** ensuring sufficiently trained and skilled staff. Business skills training and technical advice for PBBs such as new product development, quality control, and accessing new markets;
- **Clustering**
Networking with SMEs with similar goals or with SMEs in the same chain of production to ensure cooperation and transfer of knowledge. This approach involves the identification of specific clusters of SMEs that deliver similar products and/or services, which rely on similar raw materials, shared processing facilities or supply chains and have similar client profiles. Alone they may suffer from a lack of business acumen, operational capacity, miss out on advice and guidance and be unable to develop or implement innovation. Together, in clusters, they can be connected to sources of relevant advice and guidance, cut costs in terms of product development, transport and sales, and share innovation.

¹³ [http://www\(msc.org](http://www(msc.org)/

¹⁴ <http://www.fsc.org/>

Section C

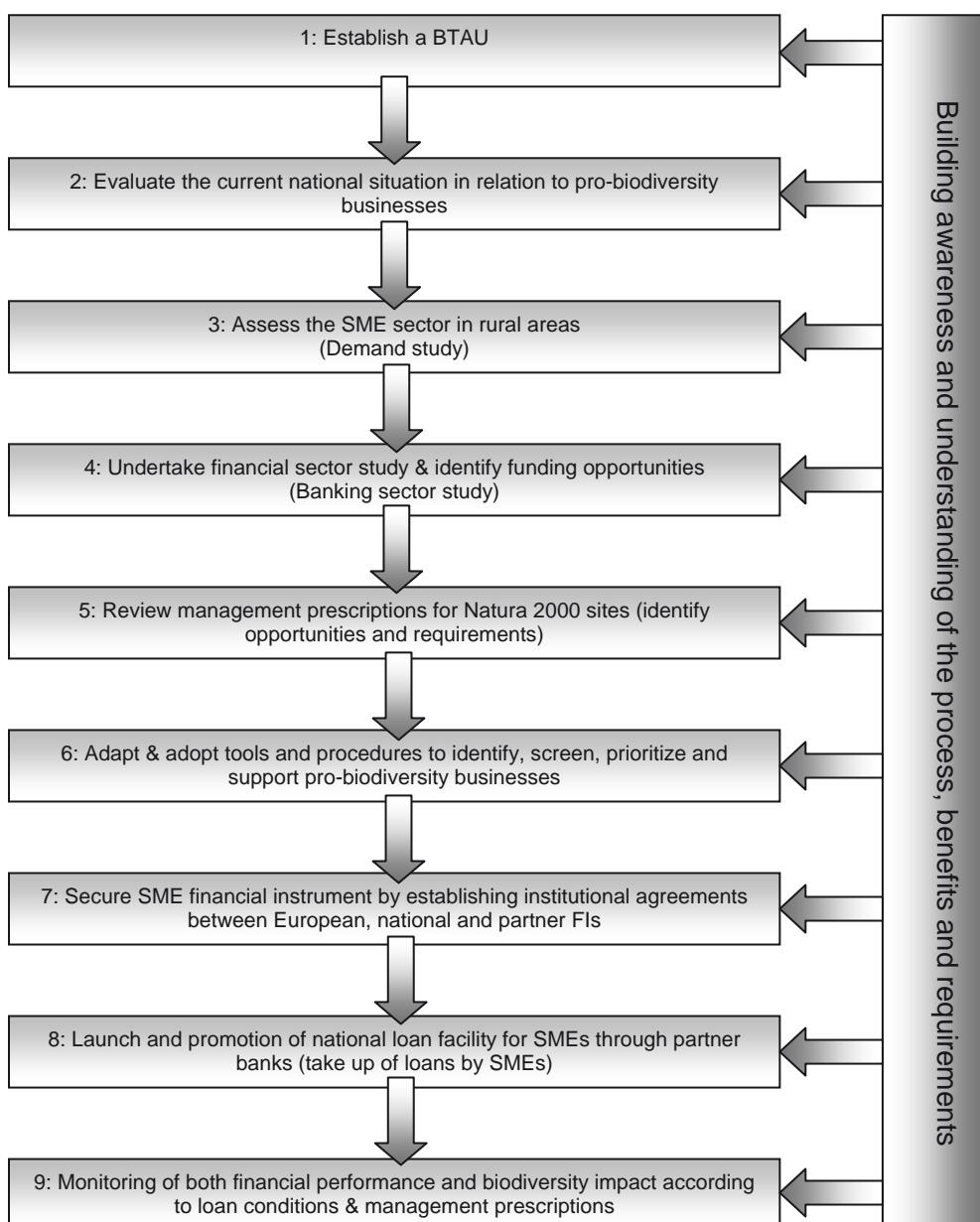
Advice and guidance to develop pro- biodiversity business activities

4. Template for the development of a Biodiversity Technical Assistance Unit and a national pro-biodiversity business market

4.1 General approach

This BTAU project has shown that the provision of technical advice and the formation of a group of specialists in PBB development are necessary for the initial establishment of a PBB market. Figure 2 shows a series of progressive tasks that need to be carried out by a BTAU in order to achieve this. It is based on the development of PBBs in (but not restricted to) Natura 2000 areas. These nine elements are further elaborated from page 47, whilst the following sections of this chapter outline the roles that must to be played by the various stakeholders for whom this handbook has been designed.

Figure 2- The requirements of a BTAU in the process of development of PBB projects.



In addition to the 9 consecutive steps outlined in Figure 2, there is a need to build up broad-scale awareness and understanding of the processes, benefits and requirements amongst all stakeholders, who come from different backgrounds and to enhance cooperation between them. Conservationists traditionally have a different orientation than the private sector and often do not possess strong business planning and management skills. Most entrepreneurs lack the understanding of how their companies' operations affect and are affected by biodiversity and ecosystem services, or how to manage biodiversity in their operations.

Therefore, it is of vital importance for a BTAU to also ensure adequate training, information flow and effective communication between stakeholders throughout the process. Box 16, below, details a basic training package that a BTAU could deliver for different target groups.

Box 16: Suggested modules for training and capacity building for entrepreneurs, financial institutions and national government officials

I. Training of entrepreneurs: "Biodiversity – from threat to opportunity"

- Entrepreneurship within Natura 2000 sites – what does it mean for a business?
- Opportunities for PBB (by sector and by ecosystem)
- Case studies
- Role of BTAUs (gateway to information and opportunities)
- Available and potential sources of funding for PBB
- Stimulating innovation in the preparation of project proposals
- Business plan preparation

II. Training of Financial institution personnel – "Biodiversity and Financial Institutions"

- Biodiversity – a new challenge for financial institutions
- PBB – potential market segment
- Case studies
- Biodiversity related risks relevant for project implementation
- Biodiversity related opportunities for banks (corporate social responsibility)
- Role of BTAUs (gateway to information and opportunities)

III. Training of national government officials – "Biodiversity and business – the need for innovative partnerships"

- Relevance of PBBs in Natura 2000 areas – seeing the opportunities
Case studies – benefits of biodiversity from business
- Role of BTAUs (gateway to information and opportunities)
- Role of governments/officials in the development of PBB – creating an enabling Environment
- Inclusion of pro-biodiversity business measures in national policy instruments, such as energy, agriculture and water
- Methods to identify and develop business opportunities from management prescriptions

The nine consecutive elements for a BTAU in the process for development of pro-biodiversity projects are further elaborated below.

(1) Establish the Biodiversity Technical Assistance Unit (BTAU)

The first essential step is to create a dedicated BTAU. This is a unit consisting of a specialised group of experts whose prime purpose is to pro-actively enable and accelerate the market towards the uptake of pro-biodiversity businesses. It may have its grounding in biodiversity/natural resource organisations augmented with business and finance skills, which are able to coordinate the identification of potential PBBs, prioritize their selection, and help arrange the financing needed for their sustainable development. They are expected to have a life span of 3-5 years of pro-active involvement, after which they retain a role as independent evaluators and monitors of the loan and investment packages within the emerging and maturing PBB market.

Given the individuality of biodiversity and business conditions, it is recommended that a BTAU is created at the national level. A BTAU should include staff with technical experience in business planning and development, finance and economics, biodiversity evaluation and monitoring, and training and awareness (for more details, see Appendix 1). A roster of additional experts should also be developed so that they can be available as needed, depending on the requirements of the loan requests.

The Bulgarian BTAU set up under the BTAU project is located within the Bulgarian Society for Protection of Birds (BSPB) and is locally named as the Business and Nature Advisory Service (BNAS). The BNAS consists of a coordinator and a socio-economist, with short-term support from economics, public relations and biodiversity consultants used as required.

The Hungarian BTAU set up under the BTAU project is located within the Hungarian Ornithological & Nature Conservation Society (MME). The BTAU team is made up of a Project Manager, a Project Coordinator and a Project Assistant. The Ministry of Environment & Water has become a strategic partner to bridge the gap between policy, regulation and practice.

The Polish BTAU set up under the BTAU project is located within the Polish Society for Protection of Birds (OTOP). The BTAU consists of a full time coordinator. A Natura 2000 expert as well as external economics and public relations consultants provide advice when needed.

(2) Evaluate the current national situation in relation to pro-biodiversity businesses

The first task for a BTAU to perform is a national (or regional) survey of existing or potential PBBs, with the aim of establishing a database of potential clients, their operations, products and requirements, linked always to the biodiversity-related aspects of their business and operations. This process is achieved through a number of methods ranging from national statistical analysis, reviews of Chambers of Commerce databases, interviews with regional enterprise development agencies, advice provided by national and regional nature conservation bodies to gather all pertinent information. Appendix 2 lists the variety of sources for this information. The result is a long-list of potential PBBs arranged and classified by both selected and targeted ecosystems and commercial sectors.

In Bulgaria, the recognition of SMEs as the backbone of economic stability is demonstrated clearly in the The National Strategy for Encouragement of the SMEs Development 2002-2006, adopted by the Government of the Republic of Bulgaria, which puts as its main priority to support small and medium sized enterprises. It considers the following: that small and medium sized enterprises are generators of new working places and help to increase the competitiveness of the market and achieve high and sustainable economic growth; the lack of loan guarantee funds system, venture capital schemes, and the need for the development of

new financial instruments to make access to funding easier for small and medium sized enterprises; as well as the need for the co-ordination of the processes of information and consultancy services provision to the SME sector. In light of this, the Government accepts the strategy objective to create a favourable environment and conditions for development for a competitive SME sector, which will accelerate the economic growth of the country through preservation of macro-economic stability. This objective is to be achieved through: the simplification of the administrative and legislative environment for SMEs; financial environment improvement; innovations and technological development support; SME "europeisation" and internationalization; improvement of the access to information and services. Thus the national political environment is favourable to the successful creation of a highly specialized PBB market and the achievement of the BTAU objective of stimulating biodiversity preservation through business stimulation.

(3) Assess the SME sector in rural areas (demand study)

Once a long-list of candidate PBBs is obtained, an assessment should be performed to assess the level of interest in existing or potential PBBs for external financial support and the terms on which they would be willing to enter the financial services market.

The BTAU in Hungary has revealed that there are approximately 1.2 million SMEs. In the agricultural sector (including forestry, hunting and fishing) and tourism sector, there are approximately 55,000 SMEs. According to an estimate carried out by the BTAU in early 2008, 44,000 SMEs could be potential beneficiaries of a future "pro-biodiversity" loan just in the sectors of agriculture and tourism. There is a payment scheme that has recently come into effect in Natura 2000 grasslands and payment schemes of other habitat types that will assist SMEs to develop beneficial activities in such areas.

The BTAU in Poland has shown that SMEs compose 99.8 % of all national enterprises. Nearly 10% of them or about 120,000 enterprises are biodiversity dependent and relevant SMEs as potential so called "Pro-Biodiversity Businesses" (PBBs). Statistical figures show that there is a serious market niche and potential demand for the BFF and the BTAU to function.

The BTAU project has revealed that the main demands from existing business for finance revolve around short-term loans (or overdrafts) to stabilise seasonal cash flows, and long-term loans for capital purchases and property. Few existing businesses are seeking finance for product development or marketing which suggests a lack of understanding for these aspects of business growth. Some new businesses were more willing to consider equity participation and the formation of joint ventures. Not surprisingly, all PBBs are seeking for the most competitive terms possible for obtaining finance.

(4) Undertake financial sector study and identify funding opportunities

Having identified the existing and potential PBB base within the country (or region), the BTAU should investigate current opportunities for sustainable finance, whether through EU/government schemes, banks or other financial intermediaries. In the start-up period of creating a PBB market the application of Public-Private Partnerships (PPPs) in financing is considered the best approach. However, the research into commercial sources of finance should not be confined only to the range of products currently on offer, but also involve making direct contact with appropriate institutions (especially banks with a wide network of rural branches) to investigate their experience of supporting SMEs, and their interest and willingness for developing products aimed at PBBs.

(5) Review management prescriptions (identify opportunities)

The BTAU project was constructed to identify opportunities for PBB, in Natura 2000 sites although the lessons learnt and the overall development of the concept applies to all rural areas. Within Natura 2000 sites, and under the EU Birds Directive and Habitats Directive, Member States must take the necessary measures to implement minimum conservation measures for habitats and species of Community interest with the objective of maintaining or restoring their favourable conservation status. The establishment of management provisions are also required for the allocation of Natura 2000 payments under the EAFRD. It is left entirely up to Member States (in accordance with the principles of subsidiarity) to decide upon which measures are appropriate, and although not mandatory, Member States are increasingly turning to formal management plans as a means for defining minimum conservation measures in Natura 2000 sites. Management plans comprise integrated management prescriptions with accompanying indicators.

Such plans will often require, according to the circumstances, ongoing management regimes where human activities are essential, including: grazing, cutting of undesired vegetation (invasive plants, reeds, scrub etc), water level management, or reseeding of native species. Moreover, many sites require infrastructure ranging from visitor centres and nature trails, to fire protection systems and campsites. Many of these activities lend themselves as opportunities for PBB development in terms of either products or services. Indeed, in the absence of PBBs, many management measures might not be undertaken at all, putting the status of a Natura 2000 site in jeopardy and the Member State thus liable to legal action from the EC.

The BTAU should therefore undertake a review of Natura 2000 site boundaries and management plans, and draw up a schedule of the PBB opportunities, along the lines suggested below.

Table 2: Examples of opportunities arising from a review of Natura 2000 site management plans in Poland

Management aim	Management measure	PBB opportunity
Maintain short grass sward	Grazing with cattle	Rearing indigenous breeds to produce specific brands of cheese, yoghurt and meat.
Maintain open water	Cut reeds and other encroaching vegetation	Sale of reed for thatching, use of reed waste and other biomass for fuel
Restore herb-rich meadows	Reduce soil nutrients; sow locally sourced seeds	Growing native plant varieties and harvesting seeds from existing wild flower meadows
Raise public awareness	Build visitor centre with public information facilities	Design and construction of ecologically friendly buildings; design and installation of interpretive materials

In other rural areas outside the designated Natura 2000 system, business opportunity plans can be created by identifying existing business activities that are already compatible with site

management or by identifying existing business activities that could become compatible by reducing the environmental impact.

(6) Adopt and adapt tools and procedures to identify, screen, prioritise and support pro-biodiversity businesses

In order to determine whether an existing SME can be classified and developed as a PBB and whether or not it needs support from the BTAU, there is a need to conduct a due diligence exercise. Practical biodiversity screening criteria must be utilised that can be consistently applied to potential PBB investments. The toolkit presented in Appendix 3 is essentially a questionnaire / checklist, developed from previous experience in the BTAU project in Hungary, Poland and Bulgaria. It aims to facilitate screening, selection, and the development of pro-biodiversity oriented investment projects. It is expected that national BTAUs will need to develop and enhance this type of assessment framework according to their needs. In this version, the toolkit is intended for use by national-level BTAUs in order to:

- Evaluate the biodiversity impact and commercial viability of an enterprise and a proposed investment;
- Facilitate the development of commercially pro-biodiversity investments in various economic sectors;
- Encourage and enable partnerships to assist with technical development of projects;
- Identify indicators to monitor PBB investments.

Those SMEs that successfully pass the screening process can be offered technical assistance from the BTAU for developing bankable pro-biodiversity business proposals eligible for funding from the appropriate source.

(7) Support the establishment of new innovative financial instruments for SMEs in a public-private partnership approach

Incentivised loans to change environmental aspects of private sector behaviour have already been applied successfully in areas such as improving energy efficiency, reducing carbon emissions, reducing air and water pollution, increasing recycling, adopting certification schemes, and creating micro-enterprises with a thematic, geographic and demographic focus

The EBRD in the first instance and in its countries of operation has shown an interest to establish new financial instruments called Biodiversity Financing Facilities (BFFs), where demand studies have shown such a facility would be justified, and a pipeline of bankable PBB projects can be created. Appendix 4 offers some guidelines for the structure and operation of a BFF. Appendix 5 goes one step further to offer a concept for a pro-biodiversity financing platform for SMEs, taken from a related project on PBB development in Moldova, Russia and Ukraine.

Accordingly, once the BTAU has conducted the demand study and developed an initial project pipeline using the PBB assessment toolkit, a main investment bank would be able to enter into negotiations with its partner banks in the host country in order to set up a BFF. The BTAU

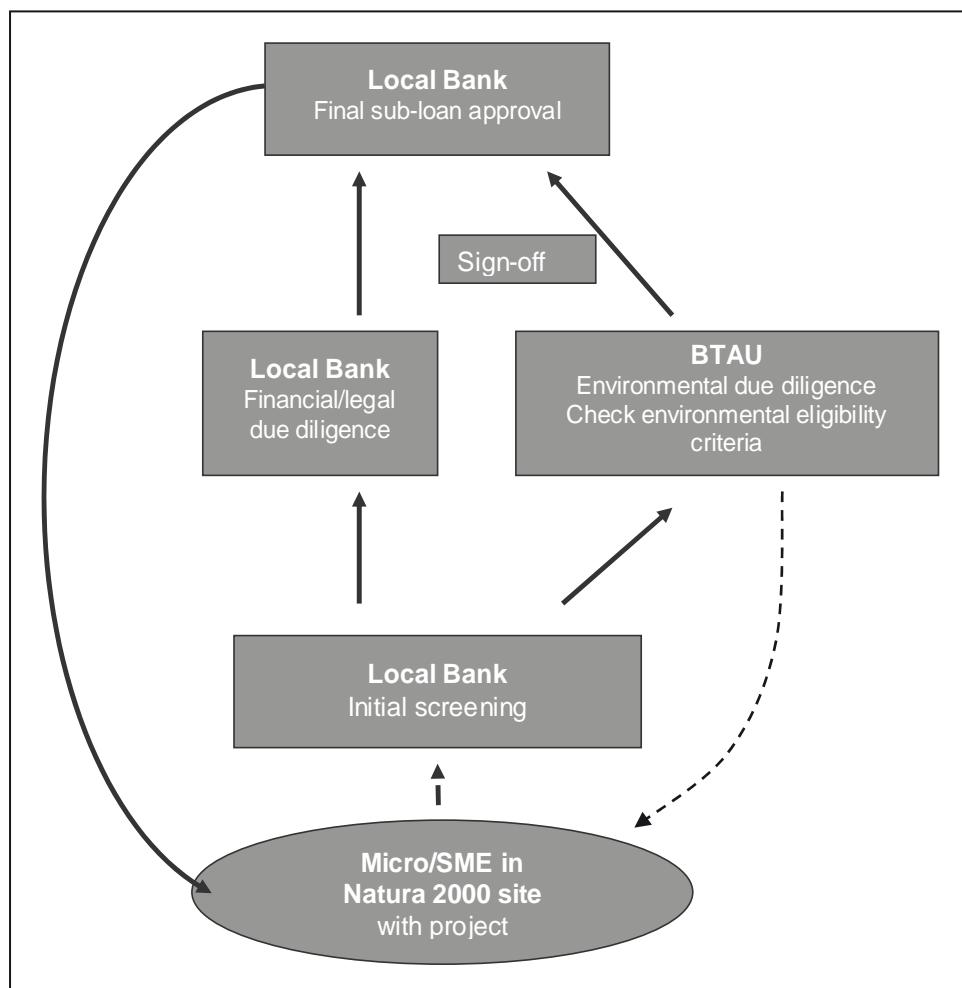
project has revealed that the most effective investment package involves a mix of preferential loans with grants that enable existing SMEs to grow, with specific pro-biodiversity conditions

The BFF would operate as shown in Figure 3 (below), with the local banks subsidized for a start up period such as offering reduced interest rates, loan guarantees or start up grants. The BTAU would continue to assist the whole process of development by providing technical help to SMEs, site managers, and financial institutions, to help identify new business opportunities.

(8) Launch and promote a national loan facility for PBBs in Natura 2000 sites through partner banks

One of the findings from previous studies (for example, Frentz, 2006, Dickson *et al*, 2007) was the lack of knowledge about existing funding sources available to SMEs. Therefore the national loan facility for PBBs (BFF) should be energetically promoted. The partner banks, through their branch network can arrange local advertising in papers and radio, while the BTAU can promote the BFF on its web site and through printed materials. Enhancing cooperation with partner banks is an essential role for BTAUs. Further information on the types of loan facility identified by the national BTAUs in Bulgaria, Hungary and Poland can be seen in Section 5.4.

Figure 3: BFF operation at national level



(9) Monitoring of both financial performance and biodiversity impact according to loan conditions

The monitoring of financial performance is carried out through the examination of audited profit and loss accounts, balance sheets and cash flow forecasts against various ratios and past performance. The partner banks, using their own 'risk assessment and repayment methods', can carry out this work

Satisfactory monitoring of the performance of a PBB in terms of the benefits for biodiversity (let alone ecosystem services) is the crux of the PBB scheme, as the loan acts as dedicated preferential financing assistance to obtain nature benefits and commercial success. Unfortunately, there are no biodiversity monitoring standards comparable with GAAP or the International Accounting Standards. However, much effort is going in this direction, using the indicator approach in which broader, more easily measurable and stable parameters are used as a surrogate for highly variable and/or specific components of biodiversity. Thus, setting areas of particular habitats to be created and/or maintained, or certified for organic production, or quotas for harvesting are generally more practical than counting particular species or setting water or air quality standards that might be affected by extraneous factors.

The monitoring of the benefits to biodiversity from a targeted loan must be elaborated and here the presence or absence of Natura 2000 management plan (if applicable) becomes crucial to the function of the PBB investment market. Where a Natura 2000 management plan exists, loan conditions and risk factors can be easily applied. Where site management plans do not exist, the BTAs will be well placed to develop simplified so-called "Bio-Investment Criteria".

Other obstacles to overcome in the monitoring of biodiversity are the concerns of who is to do it and how it is paid for. These questions can be answered by analogy with financial accounting: certified independent experts (accountants) prepare the reports, based on agreed standards, and they are paid by the company as a cost to the business. Thus, independent certified ecological experts should be hired by the PBB to perform the monitoring and reporting to the financial institution, and the cost should be included in the business plan. The need for minimising costs in this regard is another argument in favour of simple parameters that can be assessed rapidly in a single site visit (though the time needed might vary from site to site). The main drawback here is the general lack of professional ecologists, especially in the newer Member States of the EU. Nevertheless, there is a growing network of such ecologists who can be accessed through the European Network of Environmental Professionals¹⁵. Increasing the demand for ecological monitoring services would result in an expansion of their numbers and more competitive fee rates, in accordance with market forces.

The next chapter outlines the roles that have to be played by the various actors, namely entrepreneurs, national and EU authorities, as well as financial sector in order to achieve a thriving PBB sector.

¹⁵ www.environmentalprofessionals.eu

5. Role of entrepreneurs, public sector, and financial sector

5.1 Role of European Commission, national government, regional and local authorities

The previous sections of this Handbook have clearly demonstrated that the establishment of a PBB sector requires governmental support (at least until the market is self-sustaining) because the operations of PBBs involve the delivery of public goods (as ecosystem services) that are not reflected in any company's cash flow or balance sheet. Furthermore, the vast majority of PBBs are micro or small enterprises (rather than medium), and thus suffer the twin disadvantages of scale: high relative costs of compliance with regulations (and also certifications), and high transaction costs for accessing finance for their operations and growth.

Although, given the right conditions, PBBs can in principle operate throughout the economies of EU Member States, the most realistic approach at present is to focus attention on rural areas, especially those where Natura 2000 sites are located. This is because there are already significant policy measures in place for Natura 2000 sites, linked to funding from various EU and national programmes. The current available funding against particular activity in Member States can be checked via an interactive web tool¹⁶.

Many of the local enterprises within or adjacent to Natura 2000 sites are already conducting their businesses in ways that are close to the criteria for a PBB. However, the situation of Natura 2000 site designation and management, rural development programmes, EU funding programmes and SME circumstances vary greatly from country to country, and especially between older and newer Member States. In addition, the development of a PBB sector may involve a number of different ministries and local authorities that are country specific. It is suggested that the Ministry of Environment should convene a working group of the principal entities concerned (from agriculture, rural development, and financial sectors) in order to review the national situation and identify the appropriate form, structure and operation of the BTAU.

In some countries, it might prove helpful to identify one or more pilot areas (such as suitable Natura 2000 sites) where the BTAU and PBB approach can be tested before being rolled out over a larger area. The pilot site(s) might perhaps be designated as "Biodiversity Enterprise Zones", where certain incentives could be offered to both PBBs and financial institutions that will motivate the development of a PBB sector. Such incentives could include grants for product development, tax holidays, loan insurance and other measures that are already available in other innovative business sectors.

Furthermore, the successful "cluster" approach, referred to in the sections above, which is employed in relation to SMEs in other areas of business development, would be highly suitable for application here (see chapter 2.4).

¹⁶ <http://financing-natura2000.moccu.com/pub/index.html>

5.2 Role of SMEs

The development of a PBB sector depends to a great extent on the willing participation of entrepreneurs, whether as individuals, families or company managers. This in turn depends on the success of the BTAU in raising the awareness and interest of entrepreneurs, the government in providing a favourable business environment, and the financial sector in making available suitable products. Any business person interested in engaging with PBB activities will need to follow the following procedure:

- (1) Self-assessment using the PBB Assessment Toolkit to determine if the existing business or proposed project meets the criteria for a PBB;
- (2) If the assessment is negative, the entrepreneur could consult with the BTAU on how to address any deficiencies;
- (3) Having found a PBB compliant activity, the preparation of a business plan follows; many business plan models exist and the entrepreneur should obtain the model used by the financial institution from which support will be sought and or seek advice from the BTAU.

A business plan will be greatly improved if the following aspects are borne in mind:

- Research: gather as much information as possible – the information should be full and reliable for the business – resources are frequently not as abundant or as cheap as may be thought. Consult libraries and web sites, colleagues or friends that are experienced in the business you are planning to develop, as well as specialized institutions, trade associations and chambers of commerce. Representative bodies of SMEs could also commission research on existing markets as well as potential markets, including consumer preferences and mechanisms of mainstreaming these preferences in a way that they benefit from the creation of PBB markets.
- Assumptions: with enough information gathered, business models can be tested – the more is known about the business the more precise and reliable will be the forecasting for production, trade and potential cash flows.
- Capital: for all activities, the financial resources are invariably higher than the sums planned. To avoid incorrect estimates and planning, allow for more working capital in the business plan with a contingency reserve.
- Competition: study in detail the competitors already working in the selected market niche. Be aware that competitors probably discovered everything they need to know to do their business.
- Location: a business should be as close as possible to both future clients and suppliers, in order to reduce transport costs.
- Image: creating a good public and business image is extremely important, and is ultimately dependent on the behavior of the entrepreneur and the staff.
- Documentation: to develop a business plan and convince a financial institution to support it, accurate and reliable information is needed, including existing accounting information.

- Professional help: seek professional help when special advice is needed. Using lawyers, accountants, and business consultants can save a lot of money in the long run.
 - Purchases: it is necessary to know what to buy, where from, and when. A well thought out cash flow can reduce the outflow of resources, and improve the competitive position of the enterprise.
 - Revenue: the business plan must clearly set out the expected income, allowing for all possible losses, unexpected expenditures, and expenses for maintenance of the business (including the financial and biodiversity audits). If the result is negative, the business model has to be revised.
 - Risk management
It is essential to identify as many potential risks for the PBB as possible. Results from a SWOT (strengths, weaknesses, opportunities and threats) analysis, in particular the weaknesses and the threats, will provide an initial overview of the risks facing a business. The results of conducting PEST (political, economic, social and technological) analysis may well highlight political and financial risks. The tactics and strategies for managing and mitigating the identified business risks will be specific to the PBB, its ecosystem and sector and would be considered in the initial investment appraisal.
- (4) Carefully investigate all the potential sustainable funding sources for the business plan and the associated terms. Consideration can also be given to the possible aggregation of funding requirements, as well as functions such as processing and marketing, through the formation of a partnership for cooperative. Furthermore, in some circumstances, the establishment of a privately funded credit union may be a more appropriate means of generating funding for PBBs than through the commercial financial market.

5.3 Role of the financial sector

As has been explained elsewhere, the importance of ecological sustainability in project lending is increasingly recognized by commercial banks. Banks increasingly encounter social and environmental issues that are both complex and challenging. Accordingly, a number of large international banks have adopted the “Equator Principles¹⁷” of sustainability in order to ensure that the projects they finance are developed in a manner that is socially responsible and reflect sound environmental management practices. By doing so, negative impacts on project-affected ecosystems and communities should be avoided where possible, and if these impacts are unavoidable, they should be reduced, mitigated and/or compensated for appropriately¹⁸.

The Equator Principles commit banks to ensuring that borrowers have adequately addressed the protection of biodiversity, including endangered species and sensitive ecosystems. The adopting bank recognises that the reputation of the bank and the borrower are inextricably linked. The risk for companies’ not managing biodiversity exposure adequately is that capital will be harder to access or increase in cost. Companies in certain sectors will need to demonstrate that they are operating to acceptable biodiversity standards in order to borrow from “Equator” banks. Amongst the institutions, which have adopted the Equator principles, are the following major European banks:

¹⁷ <http://www.equator-principles.com/index.shtml>

¹⁸ See: Habitat Directive –Art. 6 and the Environmental Liability Directive

- ABN AMRO;
- Barclays;
- Credit Suisse Group;
- Dresdner Bank;
- HypoVereinsbank;
- ING Group;
- Nordea;
- Rabobank Group;
- SEB;
- The Royal Bank of Scotland.

Concerning the provision of special funding products tailored to the needs of PBBs, the leading role of the EBRD in looking at setting up a BFF has already been described above. Leading banks in Bulgaria, Poland and Hungary, among others, have already expressed interest in investigating the option of taking the role of national BFF partners based on their existing experience of conventional SME financing. If the BFF proves successful in these countries, it is likely that the model can be replicated elsewhere. However, the BFF should be seen as an instrument of transition where it would be ultimately replaced by private sector banking interests (Frentz et al, 2008).

5.4 Financial facility options through the BTAU project: the case of Bulgaria

In the first year of the project (2007), the BTAU team in Bulgaria carried out a banking sector study that provided insights as to the types of credits have been successful with SMEs. The interviews revealed the issues and problems that SMEs have encountered when trying to obtain credit from commercial banks in Bulgaria. As a result, the features of the desirable credit have emerged. These are:

- Longer repayment period;
- Relatively low interest rate (5-8%);
- Support element (at least technical assistance);
- Grant element;
- More flexible collateral requirements;
- Simple accessible documentation

A demand study was formally prepared which aimed to demonstrate that sufficient demand for targeted pro-biodiversity financing for SMEs existed. The study revealed that a quarter of SMEs selected and interviewed during the pilot project phase showed clear interest in a preferential loan, the size of which in on average, €25,000 (although this ranged from €5,000 to €1m). The potential size of the demand market is clearly above €2,000,000 per annum, based on an initial pipeline of about 80 SMEs (6-7 new client SMEs per month).

Based on the interviews with SMEs and the overall assessment of the banking sector and the demand for targeted loans, the Bulgarian BTAU concluded that the Financial Instrument (FI) should aim to include a reasonable interest rate on the loan component, due to the reduced risk of the investment from the guarantee scheme and the pre-selection mechanism, and sufficient maturity period (that depends on the amount of the credit and the return schedule of the investment).

In the case of the Bulgarian BTAU, the theoretical financial package is as follows:

- **Loan capital**
- **Grant component** to be given to successful SMEs at the end of the project for delivering public good benefits (such as biodiversity conservation, habitat restoration, etc.)
- **Credit guarantee scheme** to eliminate the need for collateral in order to stimulate the market expansion and stability, **the BTAU** will need to focus on the development of appropriate PBB evaluation standards, as well as product diversification and market placement Technical Assistance (TA) strategies.

The Bulgarian BTAU also proposes that investments are evaluated on two criteria – economic and biodiversity sustainability; the BTAU should be in charge of the second criteria, and will have follow up responsibilities relating to fulfilling biodiversity obligations by the SMEs. The release of the grant component will depend on biodiversity outcomes.

Appendix 1. Typical staffing structure of a national BTAU

The structure outlined below is intended to provide an example of the types of human resource required to operate a national **BTAU** successfully and the skills required. The actual structure of a BTAU depends on the size of a country and the number of **PBBs** that it services. A BTAU is best located in a capital city with easy access to financial and public sector stakeholders. However, BTAUs can also be organized on two levels – as a central (national) unit with 'copy' structures set up at the provincial level, relying on a network of regional/local experts, as well as cooperating organizations.

The BTAU should consist of 5-6 full-time staff members as listed below:

1. BTAU coordinator	
Main responsibilities	<ul style="list-style-type: none">• BTAU management and coordination of BTAU team work;• Backstopping support for thematic experts;• Staff management;• Representing BTAU towards international/national stakeholders;• PR experience;
Preferred background	<ul style="list-style-type: none">• Business/economics and nature conservation
Required experience	More than 5 years' experience in: <ul style="list-style-type: none">• Unit management;• Business planning/management;• Financial management;• Marketing and project management experience;
2. SME finance and economics expert	
Main responsibilities	<ul style="list-style-type: none">• Assessment of investment proposals• Assistance with preparation of business plans
Preferred background	<ul style="list-style-type: none">• Economics/finance• Enterprise management
Required experience	More than 5 years' experience in: <ul style="list-style-type: none">• Business planning (developing business plans)• SME economics and financial management• Enterprise management and evaluation• Project management and evaluation

3. Biodiversity evaluation/monitoring expert	
Main responsibilities	<ul style="list-style-type: none"> • Identification of biodiversity benefits for investment projects • Monitoring of project implementation • Providing biodiversity-related information to all stakeholders (SMEs, financial institutions, etc.) • Assessment of pro-biodiversity components of SME business plans
Preferred background	Natural sciences (such as biology or ecology)
Required experience	<p>Proven experience in:</p> <ul style="list-style-type: none"> • Natura 2000 planning and management • Carrying out biodiversity assessments at a local level • Enterprise assessments, environmental audits • Project evaluation, EIA reporting • Biodiversity-oriented project monitoring
4. PR expert- training/awareness raising expert	
Main responsibilities	<ul style="list-style-type: none"> • General PR of BTAU • Training and capacity building of entrepreneurs • Training of financial institutions staff on biodiversity relevance • Awareness raising on PBB relevance amongst national officials and general public
Preferred background	<ul style="list-style-type: none"> • Natural/social sciences • Education and communication
Required experience	<p>Proven experience in:</p> <ul style="list-style-type: none"> • Carrying out training activities for specialized audiences • Communication and awareness campaigns for the general public
5. Technical assistant – BTAU	
Main responsibilities	Daily management of the office, ensuring smooth communication, transfer of documentation, budgeting, financial arrangements and reporting, progress reporting, technical arrangements, meetings, workshop, minute-taking, etc.
Preferred background	Administration and management

Required experience	<ul style="list-style-type: none">• Office management• Communication• Arrangement of meetings• Organization of workshops and events• Technical and financial reporting
6. Short-term experts	
	<p>In addition, based on needs and depending on the BTAU organization model, it is advised to employ short-term specialized experts. The necessary expertise might include (but is not limited to):</p> <ul style="list-style-type: none">• Marketing and demand studies• Accountants• Lawyer/legislation expert• Project preparation assistance• Auditor• Financial engineering solutions• Species or habitat specific management or monitoring• Business planning and development expert

Appendix 2. How to select pro-biodiversity businesses at the national level

In order to select potential **PBBs** within a given country, it is advised to carry out the following:

1. Identify all operational **SMEs**¹⁹ from statistical offices or from any other relevant commercial register in country (such as Chamber of Commerce or Department of Industry/Trade)
2. Identify enterprises operating in an economic sector that is directly dependent on biodiversity.
3. Refine the list to contain only **PBBs**. These do not just need to be in primary resource sectors, but can also include secondary and tertiary sectors, as illustrated below.

Enterprises belonging to the following **primary** sectors could be considered:

- Agriculture;
- Fishing;
- Hunting;
- Forestry;
- Mining and quarrying (based in rural areas);

Enterprises belonging to the following **secondary (mainly processors)** sectors could be considered:

- Food and drink processing
- Pharmaceutical and cosmetic products (such as the use of medicinal oils);
- Manufacturing (for example of wood, pulp, paper, chemicals, recycling);
- Building and construction (which can be carried out in rural areas);
- Other wholesale and retail trades (such as the maintenance and repair of motor vehicles, retail sale of automotive fuel, wholesale of 'grain, seeds and animal feeds', 'flowers and plants', 'live animals', 'hides, skins and leather' and other wholesale, including waste and scrap)

Enterprises belonging to the following **tertiary (service industry)** sectors could be considered:

- Ecotourism (for example, nature based hotels, camping facilities or tours);
- Nature based restaurants
- Banking;
- Insurance;
- Delivery services and activities of transport agencies;
- Health services;
- Relevant parts of other community, social and personal service activities (such as the collection and treatment of sewage and other waste, sanitation, remediation and similar activities).

Based on the above criteria, the following information should be retrieved:

- Name
- Brief outline of type of business, sector and ecosystem
- Address of headquarters
- Postal address (if different from the above)
- Legal form of the enterprise
- Number of employees
- Annual turnover.

¹⁹ SMEs (according to the EU definition), contain fewer than 50 persons and have an annual turnover and/or annual balance sheet total that does not exceed € 10 million; micro enterprises contain fewer than 10 persons and have an annual turnover and/or annual balance sheet that does not exceed € 2 million)

Appendix 3. An example “toolkit” to identify companies suitable for investment

The toolkit presented below is essentially a checklist that aims to facilitate screening, selection, and the development of pro-biodiversity oriented investment projects. National **BTAUs** will need to develop and enhance this type of assessment framework according to their specific needs.

Parameter	Score No = 0 Yes = 1	Required supporting materials	Hyperlinks to background information
1. Size and type of enterprise:			
1.1 Sole trader	0	Name and contact details of proprietor	
1.2 Family business	0	Names of director and others engaged; contact details	
1.3 Enterprise meets EC definition of SME	0	Information on number of employees and turnover	EC definition
Total	0	If > 0, go to 2. If = 0, cease assessment	
2. Biodiversity-related sector(s) in which the enterprise operates and eligible products			
2.1 Agriculture	0	Provide details of product(s) and/or services	Examples of PBB-type products
2.2 Forestry/wood processing	0	Provide details of product(s) and/or services	Examples of PBB-type products
2.3 Fisheries/aquaculture	0	Provide details of product(s) and/or services	Examples of PBB-type products
2.4 Pharmaceutical and cosmetic products	0	Provide details of product(s) and/or services	Examples of PBB-type products
2.5 Tourism	0	Provide details of product(s) and/or services	Examples of PBB-type products
2.6 Hunting	0	Provide details of product(s) and/or services	Examples of PBB-type products
2.7 Other (specify)	0	Provide details of product(s) and/or services	Examples of PBB-type products
Total	0	If > 0, go to 3. If = 0, cease assessment	
3. Location of enterprise			
3.1 The enterprise activity is principally located in or adjacent to a Natura 2000 site or other rural area of ecological interest	0	Provide details and property map	Map of national PA system and Natura 2000 sites
Total	0	If > 0, go to 4. If = 0, cease assessment	
4. Due diligence tests			
4.1 The enterprise is properly registered with statutory authorities	0	Provide documentation	
4.2 The enterprise is not subject to any legal action concerning its business practices	0	Provide extract from judicial register	
4.3 The enterprise is certified as solvent and a going concern	0	Provide audit certificate	
4.4 The enterprise is insured against liabilities	0	Provide copies of insurance certificate(s)	
4.5 Other conditions required by national legislation satisfied	0	Provide necessary documents	

Parameter	Score No = 0 Yes = 1	Required supporting materials	Hyperlinks to background information
	Total 0	If = 5, go to 5. If < 5, cease assessment	
5. Ecological certification			
5.1 The products produced by the enterprise are certified for ecological sustainability	0	Provide details and copy of certificate	Details from certification bodies such as FSC, PAN Parks or MSC
Total 0 If > 0, go to 6. If = 0, go to 8			
6. Biodiversity safeguard			
6.1 Does the ecological certification include safeguards for biodiversity	0	Provide details	
Total 0 If > 0, go to 7. If = 0, go to 8			
7. Business expansion intent			
7.1 The enterprise has an existing investment proposal	0	Provide copy of business plan	Checklist of required information
7.2 The enterprise wishes to develop an investment proposal	0	Provide details of proposed investment	Checklist of required information
Total 0 If > 0, go to 9. If = 0, cease assessment			
8. Biodiversity conservation potential			
8.1 The enterprise activity depends on maintenance and/or enhancement of biodiversity	0	Provide details of the species / habitats / resources used or relied upon	National Natura 2000 species / habitats information
8.2 The enterprise management (and owners if different) is willing to adopt practices that reduce loss of, maintain or enhance biodiversity values in their business activities	0	Provide evidence, e.g. discussions with management, consultation with key stakeholders	
8.3 The enterprise will seek ecological certification appropriate to its sector if available	0	Provide written statement	Details from certification bodies such as FSC, PAN Parks or MSC
Total 0 If = 3, go to 7. If < 3, cease assessment			
9. Capacity to deliver biodiversity conservation			
9.1 The enterprise has suitably qualified and/or experienced staff to ensure that biodiversity conservation is delivered	0	Provide evidence, e.g. CVs of relevant staff	CV format
9.2 The enterprise is willing to undertake training and necessary capacity building to ensure that biodiversity conservation is delivered	0	Provide written statement concerning the capacity building envisaged	Training available from BTAU
Total 0 If > 0, go to 10. If = 0, cease assessment			
10. Capacity to develop and deliver investment business plan			

Parameter	Score No = 0 Yes = 1	Required supporting materials	Hyperlinks to background information
10.1 The enterprise has suitably qualified and/or experienced staff to prepare an investment business plan, incorporating biodiversity conservation, in accordance with the requirements of the Biodiversity Financing Facility	0	Provide evidence, for example, CVs of relevant staff	Details of relevant funding opportunities, BFF loan conditions
	Total	0	If > 0, go to 10.2. If = 0, go to 10.2
10.2 The enterprise is willing to undertake training and necessary capacity building to ensure it can prepare an investment business plan, incorporating biodiversity conservation, in accordance with the requirements of the BFF	0	Provide written statement concerning the capacity building envisaged	Training available from BTAU
	Total	0	If > 0, go to 11. If = 0, cease assessment
11. Participation in BTAU			
11.1 The enterprise is willing to participate in the BTAU project according to the terms laid out in the letter of intent	0	Provide letter of intent to participate in BTAU	Model letter
	Total	0	If > 0, enter in BTAU short list. If = 0, cease assessment

Appendix 4. Guidelines for the structure and operation of a Biodiversity Financing Facility

A Biodiversity Financing Facility (BFF) consists of a fund (with stakeholders who have inputted financially) to be used for financing PBB development, with pre-designed terms and conditions for release of the funds. It can take many years to develop a credit instrument or a biodiversity financing facility. To be eligible for financing, a company must meet both financial and biodiversity criteria. Whereas the financial eligibility would be established by a financing institution, the biodiversity eligibility would be assessed by a third party, for example, a BTAU, to ensure than a SME has the capacity to run successfully investment projects in line with the standards and criteria of the facility. The structure and operation of a BFF could be as follows:

Objective of a BFF	To support PBB activities by providing a preferential credit line for micro, small and medium-sized enterprises and farmers who are engaged in business which involves a direct or indirect use of natural resources in high nature-value areas, especially Natura 2000 sites.
BFF mechanism Partners	<ol style="list-style-type: none"> 1. Investment Fund Provider(s): deliver the funds for creating the BFF. 2. Financial Partner: administers funds 3. Partner Banks: evaluates business worthiness and credit histories of applicants 4. Environmental Partner (BTAU): verifies and approves projects for which a credit is being sought, to ensure that they comply with biodiversity requirements.
Contracts required for BFF partners	<ul style="list-style-type: none"> • Between the Investment Fund Provider(s) and Financial Partner to administer the money earmarked for credits. • Between the Financial Partner and the Partner Banks to grant a credit under the friendly credit line (Credit Agreement).
Terms and conditions of a contract between the Investment Fund Provider(s) and Financial Partner	<ul style="list-style-type: none"> • The Fund Provider shall pay into the BFF's account sufficient funds with which to realize the line of credit and to cover the Financial Partner's expenses in administering and monitoring the credit line. • The Financial Partner shall present the Fund Provider with reports on the use of the funds at six-monthly intervals. The reports shall take into account the quantity, amount and designation of the credits granted, the amount of repayments made by banks, and administrative costs. • The repayments affected by Partner banks shall increase the pool of funds available for the line of credit (or, depending on agreements, they may be used to cover the Financial Partner's expenses). • At the end of the project, the Financial Partner shall perform a financial settlement and shall pay to the Fund Provider any monies that remain unused in his possession and which were earmarked for the BFF.

Terms and conditions of a contract between a Financial Partner and a Bank	<ul style="list-style-type: none"> • The Financial Partner does not grant credits directly. Its task is to refinance credits granted by a Partner Bank in accordance with a loan agreement concluded with the Borrowers (SMEs). Refinancing shall occur out of funds provided by the Fund Provider. • The terms of the credit and the duties of the Parties are set forth in detail in the Credit Agreement. • Agreement between the Financial Partner and Partner Bank shall include a clause whereby the Partner Bank shall bear the full risk of a failure by the Borrower to repay the credit. This means that if a Borrower fails to repay, the Partner Bank shall repay the Financial Partner on his behalf.
Procedure for providing and repaying credits for SMEs	<ol style="list-style-type: none"> 1. Having received information on the possibility of obtaining a credit for a pro-biodiversity investment project, a business owner (entrepreneur) shall provide the bank with a preliminary plan of the investment in order to obtain from the Partner Bank a preliminary opinion (evaluation) from the point of view of commercial viability, a preliminary assessment of his credit rating, and other formal requirements which the Partner Bank may have. 2. The Partner Bank employees who have been trained by the Environmental Partner shall perform a preliminary assessment of the project concept from the point of view of environmental requirements and of the Borrower's credit rating. In the event of a positive assessment of the Borrower's credit rating and a positive preliminary environmental assessment, the Borrower shall be referred to the Environmental Partner in order to produce the complete environmental documentation and obtain final approval of the project's compliance with BFF requirements. 3. The Borrower shall submit the application for a credit to the Partner Bank, together with the investment project that has been approved by the Environmental Partner, using the application form provided by the Partner Bank and agreed upon with the Financial Partner and the Environmental Partner. Attached to the application shall be all the documents required by the Partner Bank and set forth in its internal regulations, which constitute an appendix to the Credit Agreement. 4. The project approved by the Environmental Partner is considered by the Partner Bank, which assesses the economic-financial feasibility of the undertaking in compliance with the conclusions of the Borrower's preliminary credit rating. 5. The Partner Bank decides whether or not to grant a credit in compliance with its internal credit regulations, concludes a Credit Agreement with the Borrower, and determines the Partner Bank collateral. 6. The Partner Bank submits to the Financial Partner an application to provide the funds with which to refinance the credit, together with a positive opinion of the environmental requirements and the documents specified in the Credit Agreement.

	<p>7. The Financial Partner may ask for additional documentation and information in accordance with the Credit Agreement that is concluded with the Partner Bank (i.e. information on the Borrower, his legal and financial status, the planned schedule for implementing the undertaking, the form of collateral, and other facts important for the type of credit and nature of the project). Additional information is required for credits in excess of the established pool. In such a case, the Partner Bank attaches to the application a business plan of the project and an analysis of the application.</p> <p>8. The Financial Partner assesses the application to ensure that it satisfies the formal criteria and, having accepted it, transfers the amount of the credit to the account specified by the Partner Bank.</p> <p>9. In the event of a negative assessment, the application is returned to the Bank with a note that it does not satisfy the formal criteria and cannot be financed out of the BFF funds, with a request for additional information/correction.</p> <p>10. The Partner Bank repays the credit into the Financial Partner's account specified in the Credit Agreement, in accordance with the repayment schedule set forth in the credit agreement.</p> <p>11. An alteration to the repayment schedule is possible during the maximum credit period, and requires a written request from the Partner Bank and approval from the Financial Partner.</p>
Monitoring	<ul style="list-style-type: none"> The Financial Partner performs financial monitoring of the Partner Bank, which involves ongoing control of the repayment of the loan that finances a given credit, coordinating information and obtaining confirmation of settlements. The Financial Partner performs a monitoring of the Borrower, involving a control of documentation. The Environmental Partner monitors the Borrower from the point of view of the biodiversity objectives and aspects of the project, involving visits agreed upon with the Partner Bank and the Borrower.
Reports	<ul style="list-style-type: none"> The Partner Bank shall provide the Financial Partner with reports on the use of the line of credit at quarterly intervals. The Financial Partner shall provide the Fund Provider (creator) with reports on the use of the line of credit and incurred costs at six-monthly intervals. In order to introduce and implement the financial mechanism efficiently, the Fund Provider(s) (creators) and other eventual co-funding institutions shall provide sufficient funds for tuition for the Partner Banks engaged in realizing the BFF. A training programme should also be provided to cover environmental conditions for biodiversity projects in high nature value areas, the application of procedures in compliance with the Environmental Impact Assessment and the Birds and Habitats Directive, procedures for assessing SMEs and the assessment of pro-biodiversity investment projects, as well as credit procedures and the circulation of documents.

Glossary of Abbreviations, Acronyms and specialist terms

Agri-environmental measures

Agri-environment measures under the EAFRD are designed to encourage farmers to protect and enhance the environment on their farmland. It provides for payments to farmers in return for a service – that of carrying out agri-environmental commitments that involve more than the application of usual good farming practice. Farmers sign a contract with the administration and are paid for the additional cost of implementing such commitments and for any losses of income (e.g. due to reduced production), which the commitments entail. Agri-environment payments are co-financed by the EU and the Member States.

BMS

Biodiversity management services

BMS' include a range of professional activities and services undertaken by public and private entities that deliver benefits for biodiversity, for which the service provider receives a fee.

BBI/B@B

Business and Biodiversity initiative

The Portuguese Presidency of the EU during 2007 identified the link between business and biodiversity protection as one of their priorities, and worked with the European Commission on the development of an initiative in this regard, entitled, "Building Better Partnerships: linking Business to Biodiversity" (the EU B@B initiative). After a series of stakeholder consultations with Member States, business and non-governmental organisations about the principles, objectives, added value, and possible elements for any EU-level action, a high-level conference on Business and Biodiversity was held in Lisbon on 12-13 November 2007. The "Message from Lisbon" confirmed the need to engage business in meeting the 2010-biodiversity objectives, and showed that there was interest from the business sector. Specifically, the message welcomed the launch of an EU Business and Biodiversity Initiative and called on the European Commission to follow up from the conference by providing financial and technical support for further developing the EU initiative. The initiative seeks to raise awareness of the strong competitive advantage to be gained by conserving biodiversity within Europe; to promote the use of a wide range of market mechanisms, corporate responsibility and regulatory schemes to conserve biodiversity; to support large and small businesses with operational tools for biodiversity conservation and measuring their performance in meaningful ways; and to encourage new incentives to develop and strengthen partnerships between companies and governments at all levels, from NGOs and academia. The EC will set up a technical facility (platform) to engage businesses and to provide an opportunity for sharing experience and best practices. The EC aims to develop an award scheme under the B@B initiative to reward outstanding performance.

Biodiversity

'Biological diversity' means the variability among living organisms from all sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems. (Article 2, Convention on Biological Diversity).

BFF

Biodiversity Finance Facility

The principle of a Biodiversity Financing Facility (BFF) has the double aspect of focusing on the private sector impact on biodiversity *and* involving private financiers in biodiversity protection. A BFF needs to be part of a larger system of support, for providing finance is not enough: technical assistance on biodiversity management and new or revised product development is required.

Biodiversity Offset

Biodiversity offsets are conservation activities intended to compensate for the residual, unavoidable harm to biodiversity caused by economic development projects. The basic idea of biodiversity offsets is to extend the traditional mitigation hierarchy of avoid, reduce, rescue and repair in an effort to achieve no net loss or a net positive impact on biodiversity.

Birds Directive

The Birds Directive (79/409/EEC) is the EU's oldest piece of nature legislation and one of the most important, creating a comprehensive scheme of protection for all wild bird species naturally occurring in the Union. Member States adopted it in 1979 as a response to increasing concern about the declines in Europe's wild bird populations resulting from pollution, loss of habitats as well as unsustainable use. It was also in recognition that wild birds, many of which are migratory, are a shared heritage of the Member States and that their effective conservation required international co-operation. The EC require Member States to classify as **Special Protection Areas (SPAs)** the most suitable territories for species listed on Annex I of the Directive and migratory species

BSPB

Bulgarian Society for the Protection of Birds (Birdlife Bulgaria)

The BTAU partner from Bulgaria, the BSPB seeks to work for the protection of birds, their habitats and sites and thus contribute to the conservation of biological diversity and the well being of people. See www.bspb.org/index.php.

BTAF

Biodiversity Technical Assistance Facility

A BTAF creates and applies a public-private partnership approach to exploring profitable business opportunities that also safeguard biodiversity by linking commercial loan funding with public subsidies to produce long-term, site and region-specific economic and biodiversity benefits

BTAU

Biodiversity Technical Assistance Unit

A BTAU is a resource/unit which seeks to identify in a pro-active manner, a pipeline of financially viable pro-biodiversity-related business projects; to harmonize concepts and procedures for the valuation of biodiversity resources; to strengthen formal and informal networks; to establish operational networks of expertise; and to develop bio-tools kits and operational guidelines to develop pro-biodiversity business. This handbook is an output from the BTAU project (contract number 070501/2007/485609/SER/B2), which aims to create instruments in selected EU member states (Bulgaria, Hungary and Poland) to: facilitate the creation and operation of a new pro-biodiversity investment market for small businesses and deliver a pipeline of commercially viable projects for investment loans (or credits) for the benefit of biodiversity.

CAP

Common Agricultural Policy

The Common Agricultural Policy is a system of European Union agricultural subsidies and programmes that guarantees a minimum price to producers, imposes import tariffs and quotas on certain goods from outside the EU and provides direct subsidy payment for cultivated land. Reforms of the system are currently underway, including a phased transfer of subsidy to land stewardship rather than a specific crop production from 2005 to 2012.

CBD

Convention on Biological Diversity

The Convention on Biological Diversity is an international treaty to sustain the diversity of life on Earth. See www.biodiv.org

CBD 2010 Biodiversity Target

In April 2002, the Parties to the CBD committed themselves to achieve by 2010 a significant reduction of the current rate of biodiversity loss at the global, regional and national level as a contribution to poverty alleviation and to the benefit of all life on Earth.

CI**Conservation International**

A Washington DC based International Environmental NGO that applies innovations in science, economics, policy and community participation to protect the Earth's biodiversity around the world.

Cohesion Fund

The Cohesion Fund is a structural instrument that helps Member States to reduce economic and social disparities and to stabilise their economies since 1994. The Cohesion Fund finances up to 85 % of eligible expenditure of major projects involving the environment and transport infrastructure.

EAFRD**European Agricultural Fund for Rural Development**

A European agricultural fund which was set up for the financing of rural development programmes by European Union Council Regulation (EC) № 1290/2005 of the 21st day of June in 2005 on the financing of the common agricultural policy. Also see **Structural Funds**

EBRD**European Bank for Reconstruction and Development**

The EBRD uses the tools of investment to help build market economies and democracies in countries from central Europe to central and Eastern Asia. It provides project financing for banks, industries and businesses, both new ventures and investments in existing companies. The mandate of the EBRD stipulates that it must only work in countries that are committed to democratic principles. Respect for the environment is part of the strong corporate governance attached to all EBRD investments.

EBRI**European Biodiversity Resourcing Initiative**

Managed by ECNC, EBRI – under PEGLDS – strives to increase the involvement of the financial sector in sustainable development issues. It has promoted the development of a clearing-house mechanism adapted to the requirements of individual entrepreneurs that considers the most appropriate mechanisms for investing in biodiversity resources.

ECNC**European Centre for Nature Conservation**

The European Centre for Nature Conservation is an independent organization working for the conservation and sustainable use of Europe's nature, biodiversity and landscapes. ECNC stimulates cooperation between science, policy and economy for the sake of biodiversity and people in Europe. See www.ecnc.org.

EC**European Commission**

The European Commission (formally the Commission of the European Communities) is the executive branch of the European Union. The body is responsible for proposing legislation, implementing decisions, upholding the Union's treaties and the general day-to-day running of the Union. There is one Commissioner per member state, though Commissioners are bound to represent the interests of the EU as a whole rather than their home state.

Ecosystem Services

Humankind benefits from a multitude of resources and processes that are supplied by natural ecosystems. Collectively, these benefits are known as ecosystem services and include products like clean drinking water and processes like the decomposition of wastes. Ecosystem services are distinct from other ecosystem products and functions because there is human demand for these natural assets. Services can be subdivided into five categories: provisioning such as the production of food and water; regulating, such as the control of climate and disease; supporting, such as nutrient cycles and crop pollination; cultural, such as spiritual and recreational benefits; and preserving, which includes guarding against uncertainty through the maintenance of diversity.

EECCA**Eastern Europe, Caucasus and Central Asia countries**

The twelve New Independent States of Eastern Europe (Belarus, Moldova, Russia and Ukraine), the Caucasus (Armenia, Azerbaijan and Georgia) and Central Asia (Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan), which up until 1991, were part of the Soviet Union.

EF**Environmental Funds**

An Environmental Fund is a legal institution established to provide long-term financing for conservation and environmental management activities. A typical EF would consist of a board of directors, an executive director and program staff to supervise the grants, and a source of funds for a program of grants and technical assistance.

EFF**European Fisheries Fund**

The main objective of the EFF is to grant financial support to the European fishing industry, during the period 2007-2013, with a view to helping it adapt to changing needs, whilst securing economic, environmental and social sustainability. Also see **Structural Funds**

EIB**European Investment Bank**

Their mission is to further the objectives of the European Union by making long-term finance available for sound investment.

ERDF**European Regional Development Fund**

As part of its task to promote regional development, the European Regional Development Fund contributes towards financing productive investment to create and safeguard sustainable jobs; development, structural adjustment and creation and maintenance of sustainable jobs, or, in all eligible regions, to diversification, revitalisation, improved access and regeneration of economic sites and industrial areas suffering from decline, depressed urban areas, rural areas and areas dependent on fisheries. Also see **Structural Funds**

ESF**European Social Fund**

The European Social Fund is the European Union's main financial instrument for supporting employment in the Member States as well as promoting economic and social cohesion. ESF spending amounts to around 10% of the EU's total budget Also see Structural Funds

EU**European Union**

The European Union currently has 27 independent sovereign countries which are collectively known as Member States: Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.

EU 25**European Union 25**

The members of the EU listed above before Bulgaria and Romania joined the EU.

EU 27**European Union 27**

The members of the EU listed above

FAO**Food and Agriculture Organisation of the United Nations**

The FAO leads international efforts to defeat hunger. Serving both developed and developing countries, FAO acts as a neutral forum where all nations meet as equals to negotiate agreements and debate policy. FAO is also a source of knowledge and information. They help developing countries and countries in transition modernize and improve agriculture, forestry and fisheries

practices and ensure good nutrition for all. Since their founding in 1945, they have focused special attention on developing rural areas, home to 70 percent of the world's poor and hungry people.

FI **Finance Institutions**
An institution that provides financial services for its clients or members.

FSC **Forest Stewardship Council**
FSC is an international not-for-profit membership-based organization that brings people together to find solutions to the problems created by bad forestry practices and to reward good forest management. Members of FSC are obliged to follow strict management measures to ensure sustainable management of forests and timber production. See www.fsc.org.

GAAP **Generally Accepted Accounting Principles**
Generally Accepted Accounting Principles is the standard framework of guidelines for financial accounting. It includes the standards, conventions, and rules accountants follow in recording and summarizing transactions, and in the preparation of financial statements.

GEF **Global Environment Facility**
The Global Environment Facility (GEF), established in 1991, helps developing countries fund projects and programs that protect the global environment. GEF grants support projects related to biodiversity, climate change, international waters, land degradation, the ozone layer, and persistent organic pollutants.

Habitats Directive
The Habitats Directive (92/43/EEC) (together with the **Birds Directive**) forms the cornerstone of Europe's nature conservation policy. It is built around two pillars: the **Natura 2000 network** of protected sites and the strict system of species protection. All in all, the directive protects over 1,000 animals and plant species and over 200 so called "habitat types" (for example, special types of forests, meadows, wetlands, etc.), which are of European importance. Each Member State is required to prepare and propose a national list of sites for evaluation in order to form a European network of Sites of Community Importance (SCIs). Once adopted, these are designated by Member States as Special Areas of Conservation (SACs)

IFC **International Finance Corporation**
The IFC is the private sector arm of the World Bank Group. Their purpose is to promote open and competitive markets in developing countries; support companies and other private sector partners; generate productive jobs and deliver basic services and create opportunities for people to escape poverty and improve their lives

IFI **International Finance Institutions**
International financial institutions, or IFIs, refers to financial institutions that have been established (or chartered) by more than one country, and hence are subjects of international law. Their owners or shareholders are generally national governments, although other international institutions and other organisations occasionally figure as shareholders. The most prominent IFIs are creations of multiple nations, although some bilateral financial institutions (created by two countries) exist and are technically IFIs. Many of these are multilateral development banks.

IUCN **The International Union for Conservation of Nature**
IUCN helps the world find pragmatic solutions to our most pressing environment and development challenges. It supports scientific research, manages field projects all over the world and brings governments, non-government organizations, United Nations agencies, companies and local communities together to develop and implement policy, laws and best practice. See www.iucn.org.

LIFE	<u>LIFE Fund/LIFE Nature/LIFE+</u> LIFE is the EU's financial instrument supporting environmental and nature conservation projects throughout the EU, as well as in some candidate, acceding and neighbouring countries. Since 1992, LIFE has co-financed some 2,750 projects, contributing approximately €1.35 billion to the protection of the environment. Life + is the revised instrument for 2007-2013.
MME	<u>Hungarian Ornithological and Nature Conservation Society (Birdlife Hungary)</u> The BTAU partner from Hungary, the MME aims to protect wild birds, and help to preserve biological diversity. See www.mme.hu .
MSC	<u>Marine Stewardship Council</u> The MSC is the world's leading certification and ecolabelling program for sustainable seafood. The MSC aim to promote sustainable fishing practices and have produced standards for sustainable fishing and seafood traceability to increase the availability of certified sustainable seafood. See www.msc.org .
	<u>Net Ecological Benefit</u> Net Ecological (or environmental) benefits are the gains in environmental services or other ecological properties attained by actions, minus the environmental injuries caused by those actions. A net ecological benefit analysis (NEBA) is a methodology for comparing and ranking the net environmental benefit associated with multiple management alternatives. NEBAs can be conducted for a variety of stressors and management options, including pollution mitigation, deforestation mitigation, global climate change mitigation (e.g., carbon sequestration), as examples.
N2000	<u>Natura 2000 network</u> The Natura 2000 network is an EU-wide ecological network of nature protection areas established under the Habitats (1992) and Birds (1979) Directives and forms a core of the European Union's nature and biodiversity policy. The aim of the network is to assure the long-term survival of Europe's most valuable and threatened species and habitats. Natura 2000 also applies to the marine environment.
NGO	<u>Non-Governmental Organisation</u>
NTFPs	<u>Non Timber Forest Products</u> NTFPs are a collection of biological resources derived from both natural and managed forests and other wooded areas. Examples include a variety of fruits, nuts, seeds, fungi, oils, spices, resins, gums and medicinal plants.
OTOP	<u>The Polish Society for the Protection of Birds (Birdlife Poland)</u> The BTAU partner from Poland, (OTOP), seeks to help to: protect birds and their habitats; establish and manage new bird reserves; lobby local authorities for the promotion and protection of Important Bird Areas; promote knowledge of birds and their life; prevent human activities which harm nature; support nature-friendly land-use; to support research for bird protection and to support the bird-watching movement. See www.otop.org.pl .
PBB	<u>Pro-Biodiversity Business</u> “A Pro-Biodiversity SME is dependent on biodiversity for its core business and contributes to biodiversity conservation through that core business”, (Dickson <i>et al</i> , 2007). PBBs cover three axis of engagement: conservation of biodiversity through the long-term sustainable use of biological resources, positive commercial returns on investments, and social, employment and cohesion benefits arising from the use of biological resources. Basically, a PBB strives to generate positive

financial and biodiversity returns. Companies active in the sectors that most impact on biodiversity are mostly micro, small and medium-sized enterprises. The latter constitute over 99% of all economic activity in the EU27.

PEFC**Pan-European Forest Certification**

The PEFC Council is an independent, non-profit, non-governmental organisation, founded in 1999 that promotes sustainably managed forests through independent third party certification. The PEFC provides an assurance mechanism to purchasers of wood and paper products that they are promoting the sustainable management of forests. PEFC develops national forest management certification standards and schemes, using multi-stakeholder processes for the protection of forests, which have been signed up to by 37 nations in Europe and other inter-governmental processes for sustainable forest management around the world. Recognised accreditation and certification processes are used to ensure independence of control, standard setting and delivery of sustainable forest management.

PEBLDS**Pan-European Biological and Landscape Diversity Strategy**

Presents an innovative and proactive approach to stop and reverse the degradation of biological and landscape diversity values in Europe. It is innovative, because it addresses all biological and landscape initiatives under one European approach. It is proactive, because it promotes the integration of biological and landscape diversity considerations into social and economic sectors. The Strategy reinforces the implementation of existing measures and identifies additional actions that need to be taken over the next two decades. The Strategy also provides a framework to promote a consistent approach and common objectives for national and regional action to implement the Convention on Biological Diversity.

PPP**Public-Private Partnership**

A PPP is a government service or private business venture, which is funded or operated through a partnership of government and one or more private sector companies.

Probio-prise**Pro-Biodiversity-Enterprise project**

The EU DG research funded project entitled, “Creating a European Platform for SMEs and other stakeholders to develop a research programme for pro-biodiversity business: part of the EU FP6 Global Change and Ecosystems Project (018356)”, that ran from October 2005 until August 2007 and that had two main aims: to identify the specific business opportunities and constraints for sustainable use of terrestrial, freshwater and marine biodiversity by SMEs especially in ecologically sensitive areas, and secondly to propose a research programme on opportunities and constraints for sustainable use of biodiversity by SMEs through a platform of practitioners and researchers.

Structural Funds

At present, four Structural Funds allow the European Union to grant financial assistance to resolve structural economic and social problems: the European Regional Development Funds (ERDF); the European Social Fund (ESF); the European Agricultural Fund for Rural Development (EAFRD); European Fisheries Fund (EFF).

RSPB**The Royal Society for Protection of Birds**

The RSPB is the UK charity working to secure a healthy environment for birds and wildlife, helping to create a better world for us all. The RSPB's work is driven by a passionate belief that: birds and other wildlife enrich people's lives; the health of bird populations reflects the health of the planet, on which our future depends; we all have a responsibility to protect biodiversity. See www.rspb.org.uk.

SME(s) Small and Medium Enterprise(s)

The European Commission (2003) defines an SME in two parts, the first part dealing with the term 'Enterprise', the second with the terms 'Small and Medium' "An enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity", and then.... "micro, small and medium-sized enterprises employ fewer than 250 persons and have an annual turnover not exceeding €50 million, and/or an annual balance sheet total not exceeding €43 million. It is worth noting that within the SME definition, 'micro' and 'small' enterprises all have separate definitions. So, a 'small' enterprise employs fewer than 50 persons and has an annual turnover and/or balance sheet total that does not exceed €10 million. A 'micro' enterprise employs fewer than 10 people and has an annual turnover and/or balance sheet total that does not exceed €10 million.

SPAs Special Protection Areas

SPAs are designated by Member States under the 1979 Birds Directive where areas support significant numbers of wild birds and their habitats

TEEB The Economics of Ecosystems & Biodiversity

In March 2007, the G8+5 environment ministers met in Potsdam. Inspired by the momentum for early action and policy change created by the *Stern Review of the Economics of Climate Change*, they expressed the need to explore a similar project on the economics of the loss of ecosystems and biodiversity. The Minister for the Environment in Germany, Sigmar Gabriel, with the support of the European Commissioner for the Environment, Stavros Dimas, took the lead and accepted the challenge of organizing the study entitled, "The Economics of Ecosystems & Biodiversity". The study will evaluate the costs of the loss of biodiversity and the associated decline in ecosystem services worldwide, and compare them with the costs of effective conservation and sustainable use. It is intended that it will sharpen awareness of the value of biodiversity and ecosystem services and facilitate the development of cost-effective policy responses, notably by preparing a 'valuation toolkit'. TEEB is being conducted in two phases. The second, more substantial, phase of the study is currently underway and is due to finish in 2010.

UNEP FI United Nations Environment Program Finance Initiative

UNEP FI is a global partnership between UNEP and the financial sector. Over 170 institutions, including banks, insurers and fund managers, work with UNEP to understand the impacts of environmental and social considerations on financial performance.

Wetland mitigation banking

Wetland mitigation banking typically involves the consolidation of many small wetland mitigation projects into a larger, potentially more ecologically valuable site. They require the up-front compensation prior to affecting a wetland at another site. This ensures the success of the mitigation before unavoidable damage occurs at another site. With proper implementation and guidelines, mitigation banking has the potential to increase ecological benefits and save money for project applicants. Bank projects are put in place prior to allowing unavoidable impacts by a project. Credits are generated by this up-front activity. Those credits can then be used by the bank sponsor or sold to another party to offset impacts to wetlands that occur in other locations. Again, only impacts that cannot be avoided or minimized are available for compensation through credits from a mitigation bank, and improve efficiencies in application and permitting processes.

WFD Water Framework Directive

The EU wide Water Framework Directive (2000/60/EC) rationalises and updates existing water legislations and provides for water management on the basis of River Basin Districts (RBD's) and aims to improve the quality of both ground and underground water bodies.

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