

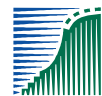


European centre for nature conservation

PUTTING COMMITMENT INTO PRACTICE

REPORT ON THE IMPLEMENTATION OF PHASE 2 OF THE
EUROPEAN BIODIVERSITY RESOURCING INITIATIVE

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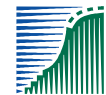


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Preface

Pursuing the common good implies a willingness to assume the costs of doing so. In the current Western economic environment, the tendency has been to attribute these costs to the public purse whenever the valuation of the public good has been difficult. Such is often the case with regard to biodiversity.

Yet biodiversity is at the foundation of a sustainable economy, and the desire to maintain biodiversity is now a well-established social priority. How to integrate biodiversity within the economy, however? This question is particularly relevant in those parts of Europe where a rich natural heritage could be imperilled by rapid economic development in a context of penury of economic resources. The concern to make appropriate support available to encourage investments having a positive relationship to biodiversity is the motivation behind the European Biodiversity Resourcing Initiative, EBRI.

EBRI has benefited from the commitment of many organisations, and thus of the people representing them. The questions that have been – and will continue to be – addressed are difficult, because an entrepreneur, financial advisor or government official cannot ignore basic economics, no matter how important the task. Perhaps the most urgent questions that have been addressed in the work described in this report, and that are only partly resolved, are the following:

- Clarifying the scope of ‘biodiversity’ products, either as a sellable item or a process / by-product related to their production.
- Demonstrating the nature of the need for non-commercial finance by biodiversity-relevant projects, which under normal conditions of profitability for an investment proposal would be satisfied by existing liquidities from local banking sources.
- Defining the investment mechanisms that would avoid either moral hazard in the finance sector or unsustainable business plans in the commercial / service / industrial sectors.

These questions are challenging, for the future of biodiversity may well depend on the response to them, if biodiversity preservation is to be integrated into the operating mechanisms of the market economy; that is, to be “mainstreamed”. The intellectual challenge is fascinating, and the social rewards are high. It is in this perspective that I wish to thank the many people involved with EBRI for their engagement in meeting this challenge ... and to acknowledge the support of their organisations for allowing all of us to take part in the effort.

The work programme for EBRI has continued with financial support from the Swiss Agency for Environment, Forests and Landscape, the Ministry of Environment and Regional Development of Hungary, the Ministry of Agriculture, Nature and Food Quality of The Netherlands, the Department for Environment Food and Rural Affairs of the United Kingdom, Rabobank Nederland and the United Nations Environment Programme/ Regional Office for Europe. The European Bank for Reconstruction and Development has been the host for all the meetings of the European Task Force on Banking, Business and Biodiversity, and is leading on the design of a European Biodiversity Financing Facility. Sir Brian Unwin, President of ECNC, has been a masterful Chair of the European Task Force. May I express the gratitude of everyone who has been involved in EBRI 2 for the contribution made by all of the above.

Peter L Nowicki
EBRI Technical Secretariat
European Centre for Nature Conservation

1 Introduction to the report on EBRI Phase 2: Putting Commitment into Practice

1.1 This report on Phase 2 of the European Biodiversity Resourcing Initiative (EBRI 2) covers the period from December 2002 through September 2004.

1.2 The European Biodiversity Resourcing Initiative (EBRI), has been initiated in the framework of the Pan-European Biological and Landscape Diversity Strategy (PEBLDS), following the request at the Fourth Ministerial "Environment for Europe" Conference in Aarhus for the financial sector to increase their involvement in sustainable development issues. EBRI is also a European response to the growing interest in CBD framework for additional financial resources, which, inter alia, has been reflected in COP6 Decision VI/16 (2002). Subsequently in COP-7 significant progress occurred towards further development of the global initiative on banking, business and biodiversity, as placed into context by the Note of the Executive Secretary (UNEP/CBD/COP/7/18) on *Financial Resources and Mechanism (Articles 20 and 21)*. In decision VII/21 (additional financial resources), paragraph 8, the Conference of the Parties: "Invites Parties and Governments to develop and encourage biodiversity-related partnership arrangements with and among funding institutions and other stakeholders, including with banking and business sectors, in order to promote, inter alia, the development and implementation of initiatives such as the Global Initiative on Banking, Business and Biodiversity, in support of the achievement of the objectives of the Convention and agreed global targets."

1.3 The purpose of Phase 1 of the European Biodiversity Resourcing Initiative (EBRI) was to establish an operational framework that would bring the needs for biodiversity resourcing in Europe together with the interests of the Banking Community and International Financial Institutions (IFI's), with the ultimate aim to increase the investments in bankable biodiversity activities in Europe. In autumn 2002, the first phase of EBRI was concluded.

1.4 In December 2002, the second phase of EBRI has been initiated. The purpose is for information, expertise and project-related experience to be made available to potential entrepreneurs in Eastern Europe, Caucasus, and Central Asia (EECCA). The means that have been worked on include the setting up of norms and criteria for the development of a biodiversity project portfolio, awareness raising, information transfer and training. In addition, a European Task Force on Banking, Business and Biodiversity has been established (a decision of the Budapest "Biodiversity in Europe" Conference, February 2002).

1.5 The leading principle of the second phase of the European Biodiversity Resourcing Initiative (EBRI) has been "putting commitment into practice". This second phase has been based on the discussions of the PEBLDS Bureau meeting that was held in Strasbourg, France, during September 2002. The Bureau considered the proposals for phase 2 (document STRA-CO (2002) 51), and determined that the follow-up on the first phase of EBRI would focus on:

- development of criteria and guidelines on bankable biodiversity relevant projects in support of the development of a European biodiversity investment fund, based on in-depth analyses;

- a banking and biodiversity clearing-house mechanism;
- establishment of a European Task Force on Banking, Business and Biodiversity;
- a stakeholder oriented input into the Kyiv Ministerial Conference and the CBD COP6 follow-up and COP7 preparation;
- mobilizing and further developing expertise and experience on bankable biodiversity relevant projects with all relevant stakeholders, with a focus on the identification of a number of pilot projects which could assist in a practical kick-off.

1.6 In order to implement this decision, work has been undertaken in the following areas, which has been made possible through the financial sponsorship of several national and international agencies¹.

1. Establishment of criteria to serve as a basis for a European portfolio of bankable biodiversity relevant projects for EECCA, which could be relevant for investment funds or biodiversity programmes (section 2).
2. Mobilisation of existing experience and expertise on bankable projects within relevant international nature conservation and environmental organisations, both governmental and non-governmental (section 3).
3. Development of a public banking and biodiversity CHM (section 4).
4. Organisation of an *ad hoc* European Task Force on Banking, Business and Biodiversity (section 5).
5. Providing a Technical Secretariat for EBRI, notably for the European Task Force on Banking, Business and Biodiversity (section 6).

1.7 During the course of executing the work programme for EBRI 2, there have been a number of developments. First, with the enlargement of the European Union, the interest for potential stakeholders in system to support bankable biodiversity projects has shifted its focus to what is now referred to as the EECCA region. Second, the European Task Force has become perennial through a second and third meeting, all of the meetings having been hosted by the European Bank for Reconstruction and Development (EBRD). Third, the contribution to CBD events and, in particular, the 5th Environment for Europe ministerial meeting in Kyiv, led to the development of a European Biodiversity Financing Action Plan in the framework of the Pan-European Biological and Landscape Diversity Strategy (PEBLDS) process.

1.8 Thus the original work programme of EBRI phase 2 has been continuously elaborated upon over the last two years, with additional tasks and corresponding support, and with European Task Force on Banking, Business and Biodiversity assuming a more perennial nature, the third phase of EBRI has been embarked upon. As of the contractual end of EBRI phase 2, the combined deliverables of EBRI 2 and 3 are:

- Preparation of, and producing minutes for, 3 meetings of the European Task Force on Banking, Business and Biodiversity (BBB) in April 2003, October 2003, and September 2004, including preparation of technical notes for the Task Force
 - BBB Partnership Agreement, introduction and draft text

¹ *The Swiss Agency for Environment, Forests and Landscape, the Ministry of Environment and Regional Development of Hungary, the Ministry of Agriculture, Nature and Food Quality of The Netherlands, the Department for Environment Food and Rural Affairs of the United Kingdom, Rabobank Nederland and the United Nations Environment Programme Regional Office for Europe.*

- Defining the Scope & Value of Biodiversity-relevant Projects
- Developing projects within a biodiversity market niche
- Preparation of, and producing minutes for, the Biodiversity Financing Facility Working Group (September 2003)
- Preparation of, and dissemination of contributions at, a NGO-Stakeholder seminar on biodiversity-related investment projects held in Budapest (November 2003)
- Background paper for the Swiss ministerial intervention at the 5th Environment for Europe conference at Kyiv, and further reference papers for the Swiss intervention at the second 'Biodiversity in Europe' governmental meeting in Madrid (January 2004)
- Preparation of the UNEP/ECNC/Swiss side event on biodiversity financing at the Kyiv ministerial conference
- Preparation of an Action Plan for Financing Biodiversity, in application of the Kyiv Resolution, submitted to the second 'Biodiversity in Europe' meeting in Madrid and discussed in two PEBLDS Bureau meetings
- Establishment of criteria to serve as a basis for a European portfolio of bankable biodiversity-relevant projects (particularly for EECCA countries)
 - Biodiversity Project Criteria
 - Pilot Project Application Form
 - Framework for Case Studies
- Start-up of a banking and biodiversity CHM
- Review of biodiversity investment support in the banking network of several EECCA countries

1.9 In addition, intangible deliverables are the

- technical support for EBRD and the PPC unit
- development of the BBB contact list (invitees to Task Force meetings)
- dissemination of technical documents to the BBB contact list

1.10 An extra deliverable has been the preparation of an article published in the Spring 2004 issue of *Sustainable Development International*: "Promoting investment in biodiversity".

2 Support for A European Biodiversity Portfolio

2.1 The investment cycle (proposal development – financial analysis – funding offer) has to be as short in time as possible, so that entrepreneurial energies do not lie idle and that an opportunity to capture added value does not dissipate. In order to encourage the formulation of biodiversity related investment proposals and their delivery to financial institutions capable of acting upon them, EBRI 2 has had three objectives:

1. to elaborate criteria for the selection of bankable projects,
2. to design a communication structure necessary to identify these,
3. to provide a link between a European level clearing-house mechanism and national vectors for information to “project generating stakeholders”.

2.2 At the first meeting of the Task Force, four documents related to this part of the work programme were examined: the criteria for selecting proposals to be included in a portfolio (Annex 1), an application form for pilot projects to be considered in a portfolio (Annex 2), a framework for case studies (Annex 3), and the structure for a clearing-house mechanism (further discussed in Section 4). The Task Force considered these; the first two documents were later employed in the technical organisation for a stakeholder workshop in Budapest, and the fourth document has served to guide the subsequent work in the design of a clearing-house mechanism. It will be noted later how the clearing-house mechanism is related to the technical assistance facility proposed at the second Task Force meeting.

2.3 The link between a European level clearing-house mechanism and national vectors for providing information to project generating stakeholders will ultimately be related to the banking system itself. A review of biodiversity investment capacity has been made for the national banking systems within the EECCA region, and has concluded that for the moment there are no banks that specifically offer biodiversity investment support (Annex 4), but nonetheless these institutions should be considered as potential vectors when a biodiversity finance facility will take shape at the European level. Other bodies, namely NGOs or professional bodies (such as producer groups associated with organic agriculture, certified forestry of sustainable agriculture), are also potential vectors; in addition, there are international organisations that have nationally / locally based membership or subsidiaries: IUCN, WWF, ECNC, BirdLife, PlantLife, Eurosite or Europark, to name a few.

2.4 A number of issues remain to be resolved concerning the principle of a biodiversity portfolio. The first is the nature of the portfolio itself. A portfolio makes sense if it offers a structured presentation of investment possibilities to potential funding sources and if these funding sources are actively searching for investment possibilities. This means that the examination of a potential transaction has to be immediate. Otherwise submitting a proposal to the portfolio has no benefit to the entrepreneur. Thus it has been proposed that a portfolio has to be integrated into a clearing-house mechanism that is directly linked to a technical assistance facility that screens proposals so that the funding services will be able to concentrate on the financial analysis of reasonable proposals (Section 4). ‘Reasonable’ implies both a positive value for biodiversity – which banks are not necessarily geared to determine – and the prospect a sufficient rate of return.

2.5 Other issues can be simply expressed, and have to do with establishing the specificity of biodiversity related investments as compared to other commercial activities:

- Clarifying the scope of 'biodiversity' products, either as sellable items or a process / by-product related to their production.
- Demonstrating the need for non-commercial finance for biodiversity relevant projects, which under normal conditions of profitability for an investment. proposal would be satisfied by existing liquidities from local banking sources.
- Defining the investment mechanisms that would avoid either moral hazard in the finance sector or unsustainable business plans in the commercial / service / industrial sectors.

2.6 In short, a specific and specialised system for financing biodiversity investments – for which a portfolio is a vehicle – is based on the premise that it is possible to determine (a) what part of each investment is financially viable in a normal sense (in terms of level of risk and internal rate of return) and (b) what part depends on private goodwill or public subsidy. When considering both parts, it should be possible to separate proposals into two streams: those that can be serviced by a financial mechanism that is market-based to some degree; and those that should be deferred to philanthropic or public grant-aid programmes for start-up support.

3 Mobilising existing experience and expertise on bankable biodiversity projects

3.1 Ever since the beginning of EBRI, a number of agencies and institutions have been participating with the desire to share their knowledge on biodiversity and / or setting up financial mechanisms that could support biodiversity through carefully targeted investments. In order to coordinate and enlarge upon the capacity of this network (that is both governmental and non-governmental), a part of the work programme has been devoted to identifying new contacts, bringing together 'typical' project promoters in order to benefit from their insight, and to investigating the priorities for pilot projects so as to know what types of expertise are likely to be the most in demand.

3.2 The establishment of the European Task Force on Banking, Business and Biodiversity has been of enormous benefit for the mobilisation of expertise. More than 70 persons have already contributed information, provided case studies, participated in meetings or have requested to be kept informed of the work of the Task Force. Added to this number are the entrepreneurs who have shared their pilot projects for analysis at the EBRI Budapest Seminar on Stakeholder Involvement (November 2003). In addition, there are many persons who have been associated with EBRI in the larger perspective of the meetings of the PEBLDS Council and Bureau, the workshop for launching EBRI (Geneva, December 2001), the preparation for the second intergovernmental conference "Biodiversity in Europe" (Budapest, February 2002) and the side events "Resourcing Sustainable Biodiversity" at the CBD COP6 (The Hague, April 2002) and at the Kyiv ministerial conference (May 2003). The references of the participants at these events enhance the reservoir of expertise already available through the Task Force. A final source of expertise lies within the ECNC Partner Network, currently composed of more than 40 research institutes throughout Europe having expertise either in biodiversity or in economics and finance.

3.3 A seminar entitled "Getting the Most Out of Biodiversity" in November 2003 brought together 25 persons in order to exchange information about expertise management and the development of pilot projects. A background paper, *Developing projects within a biodiversity market niche*, provided the context (Annex 5). Speakers from OECD and the World Bank spoke on the scope of what is possible in biodiversity investment, highlighting the difference between direct versus indirect investment strategies. The pilot studies from several eastern European countries provided examples where biodiversity had been intentionally integrated into the investments made. Three discussion groups further explored (a) the assistance required for designing bankable projects, (b) the criteria for investment proposals and (c) biodiversity investment strategies. The seminar also provided the occasion for further examination of three documents that had been revised after their earlier presentation to the Task Force: the criteria for selecting proposals to be included in a portfolio, an application form for pilot projects to be considered in a portfolio, and the structure for a clearing-house mechanism.

3.4 Based on the presentations at the Budapest seminar, and referring to the expertise that had assembled in Budapest for the event, a parallel study has been undertaken by Flora-Fauna International, sponsored by the DOEN Foundation of The Netherlands, and brought to

the Task Force. This provides further information on the priorities for biodiversity investments and encouraging stakeholder involvement in the EECCA. This action, although a separate initiative, is obviously attached to the EBRI Phase 2 work programme, and is an excellent example of synergy with different components of the programme (see section 5.3.3).

3.5 A further examination of investment opportunities for biodiversity-related projects has been carried out through an internet-based review of the EECCA Region. It included banks of the following countries: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. The websites of those banks were examined for the presence of biodiversity investment programmes and 'green'/environmental investment programmes in English. The findings of this desk review were cross-checked with several national World Bank offices in the region, and with other International Financial Institutions also having EECCA operations. It can be concluded that national-level banks in the EECCA do not have specific programmes to encourage biodiversity-related investment, and only one example of a GEF related project in cooperation with a local financial intermediary has been signalled. This suggests that capacity building targeting EECCA financial intermediaries is a necessary part of any effort to promote biodiversity-related investment, and should be associated with the development of a European Biodiversity Financing Facility, or a Technical Assistance facility operating in parallel to the financing facility.

4 Developing a public banking and biodiversity CHM

4.1 Communication on such a specialised matter as biodiversity investment is fragmented and largely concerns protected areas or support for large-scale initiatives under major funding instruments such as GEF. Thus EBRI from the beginning has promoted the development of a clearing-house mechanism adapted to the requirements of individual entrepreneurs, considering how to invest to use biodiversity resources in a beneficial way at the local level. In the first phase of EBRI, an analysis was made of potential demand and use. The intention of EBRI 2 has been to:

- develop a user-friendly format and structure of a thematic CHM, linked to the Strategy Guide;
- consult key stakeholders on the required information to include in a thematic CHM;
- populate the website with relevant documents and other information on banking and biodiversity, best practices, test cases, operational data base of experts, biodiversity information relevant for financial sectors, information on policies and instruments relevant for investments in biodiversity,
- provide information on investment opportunities, highlighting relevant programmes of banks; and
- establish links to other relevant websites, including CBD website and websites of leading financial institutions and mechanisms.

4.2 The future development of the model for a biodiversity financing CHM developed for EBRI Phase 2 will be associated with the development of the Biodiversity Financing and Technical Assistance Facilities (BFF and BTAF). The CHM model developed is an operational skeleton requiring continuous updating in function of the activity of BFF and BTAF, notably with regard to the specific sectors for biodiversity investment in which emphasis will be given. The illustration of successful examples is the most dynamic way to encourage project proposals, and the addition of case studies will be an ongoing responsibility for the manager of the CHM. As more persons are involved with biodiversity-related investments, expertise will broaden, and thus the need to integrate these persons into the CHM expertise database. As the IFIs and local financial intermediaries develop biodiversity investment programmes, such information will need to be made accessible. Finally, the CHM as a semi-automatic screening device for business plans behind biodiversity-related investments will become further refined with experience gained in reviewing and selecting project proposals.

4.3 The structure for the Biodiversity Financing CHM was presented to the first meeting of the European Task Force on Banking, Business and Biodiversity, and later also reviewed in the Stakeholder Workshop that took place in Budapest. The current elaboration (Annex 6) takes into account observations made, and a report was submitted as part of the preparatory documents for the third meeting of the Task Force. Now that the biodiversity financing CHM is in place, the manpower necessary to manage the CHM needs to be arranged, either within the financing for the ulterior phases of EBRI, either as part of the operation of the BTAF; a monitoring and evaluation procedure will also need to be developed.

5 Organising meetings of the European Task Force on Banking, Business and Biodiversity as well as of the Biodiversity Finance Facility Working Group

5.1 Following upon a meeting in September, 2002, organised by ECNC and EBRD for a group of interested stakeholders interested in promoting investment in biodiversity in CEE/NIS countries, the Swiss Agency for Environment, Forests and Landscape supported the proposal for a meeting of an *ad hoc* European Task Force on Banking, Business and Biodiversity, and EBRD agreed to be the host. At the conclusion of the first meeting, it became apparent that developing an appropriate institutional structure to carry forward such investment would require a strategy to be carefully worked out over time, and thus the Task Force become an advisory body that has continued to meet to guide the process.

First Meeting of the European Task Force

5.2 The first meeting of the Task Force took place on April 1st, 2003, with 36 participants coming from 6 governmental agencies, 6 pan-governmental agencies, 9 national and international financial institutions, 6 European and international NGOs, an SME specialised in biodiversity projects, 2 journals specialised in financial affairs and one research institute.

5.2.1 The meeting was opened under the chairmanship of Sir Brian Unwin, President of ECNC and former President of the European Investment Bank (EIB). An initial presentation from ECNC placed the Task Force in the double context of the immediate task to develop a financial mechanism and a mid-term policy orientation to position the financing biodiversity within the framework of the Environment for Europe process, notably through the forthcoming meeting in Kyiv (May, 2004). The presentation by the World Bank that followed gave an analysis of biodiversity financing priorities in Eastern Europe and the Caucuses. The establishment of perspective continued with a presentation by ECNC on EBRI, as a platform for sustained biodiversity investment. EBRD then exposed its initial understanding of how a European Biodiversity Finance Facility (BFF) should be structured and function (Annex 7). The last of the first series of presentations examined the issue of Debt for Nature Swaps (DNS) in NIS countries, presented by the PEBLDS Council representative from the Russian Federation; the advice of the Task Force was formulated for submission to the PEBLDS Council.

5.2.2 The presentations focusing on the European Biodiversity Financing Facility (BFF) revealed a number of issues. With regard to creating a specialised financial mechanism, biodiversity investment faces the challenge of clear prospects for financial return on investment: how much, over what time period. "Bankable" projects basically pay for themselves, through the normal financial market, or at least through a reasonable rate of return to loans made or equity capital released through a specialised fund. Associated points were (a) the lack of access to technologies for sustainable land management in EECCA, (b) the crucial importance of partnerships in projects with a biodiversity outcome (e.g., watershed management), and (c) in EECCA countries there is a lack of capital for local people to invest, and private sector management skills are sometimes less advanced than in

the private sector. Following a lengthy discussion, the Chair concluded that the priority was to seek synergies with other schemes and to start with small sums, but in a modular design. BFF would ideally be structured around a public-private partnership, with a desire to harness concessional funds (EU programmes); criteria are necessary to select projects not meeting normal market-based loan or equity requirements, in order to promote investments within a clear policy framework (CBD, PEBLDS, EU nature and biodiversity policies).

5.2.3 The Chair introduced the Debt for Nature Swap (DNS) issue by explaining the request of the PEBLDS Council to have the advice of the Task Force. From the presentation it was understood that DNS in NIS (Newly Independent States) might be a means to transform external debt into financial resources for biodiversity, although it was noted that: (a) writing off debt can be inflationary, and (b) in some countries preference is for debt-for-equity transfer rather than DNS. After discussion, the Chair concluded that DNS should be supported, with the understanding that it is not an easy option, and that its effectiveness depends on certain criteria: transparency, clear objectives, multiple benefits (complementary to biodiversity benefits), wholly credible to government and private investors, and that DNS must not prejudice the possibility for unconditional debt relief.

5.2.4 Additional technical issues concerning the EPRI Phase 2 Programme were introduced by the Hungarian Ministry of the Environment and Regional Development and ECNC concerning criteria for project selection, development of a project portfolio and a clearing-house mechanism, and the exchange of experience / expertise and training. The Task Force acknowledged these issues as structural elements concerning the BFF to be further examined in a workshop planned to take place in Budapest.

5.2.5 The Task Force then turned to the last agenda point, relative to a European partnership agreement on banking, business and biodiversity. In reference to a draft agreement, the positive aspects noted were (1) the bringing together of a diversity of institutions, (2) the benefits of a partnership principle *per se* and (3) the non-binding character of the agreement; this is in compliance with the Johannesburg appeal for operational partnerships. Potential difficulties noted were (1) such an agreement falls outside of the types of institutional arrangements normally engaged in, (2) decreasing budgets, (3) not all points of the agreement correspond exactly with the mandate of the various institutions concerned, (4) questions might be raised regarding an increase of human resources specifically required to implement the agreement, (5) the compliance to the terms of agreement by a signatory party could be contested by a third party, as an obligation to live up to, thus underlying the need to carefully review the wording. The Chair concluded that an amended draft agreement would be useful for consideration by the following meeting of the Task Force.

Meetings of a Biodiversity Finance Facility Working Group

5.3 At the first meeting of the European Task Force, it was suggested that a small working group would meet to review the key structural elements to retain in the elaboration of a European Biodiversity Financing Facility (BFF). The Working Group met at EBRD in London on 10 September 2004. The agenda was initially structured around a set of questions prepared by EBRD that would guide the working group in developing the terms of reference for the BFF. In fact, a discussion document containing a well-elaborated BFF design proposal was presented by EBRD; and the Swiss State Secretariat for Economic Affairs

[SECO] presented a critique of existing biodiversity funds in which it had been participating, with the recommendation for the use of conditional incentives, coupled to effective achievements by beneficiaries in regard to pre-selected indicators, in the funding strategy of a BFF. This led to the conviction that the groundwork for operation of a BFF needed to be prepared through a Biodiversity Technical Assistance Facility (BTAF). It was agreed that the EBRD would prepare the Terms of Reference for a study to design a BTAF in time for discussion by the European Task Force at its second meeting.

Second Meeting of the European Task Force

5.4 The second meeting of the Task Force took place on 17 October 2003, with 18 participants coming from 2 governmental agencies, 1 pan-governmental agency, 4 national and international financial institutions, 3 European and international NGOs, an SME specialised in biodiversity projects and one research institute. 21 persons associated with the Task Force had expressed apologies for their absence. The agenda was structured around three points: (a) the Biodiversity Financing Facility, (b) the Partnership Agreement for Business Banking and Biodiversity and (c) the Seminar on NGO Involvement in Promoting Pilot Projects for Biodiversity Investment.

5.4.1 The Task Force received a presentation on, and debated, the combined strategy of supporting biodiversity-related investment through the parallel, or possibly staggered, implementation of a BFF and a BTAF (Annex 8, which is a combination of elements depicted in Annex 7). The initial presentation of EBRD highlighted two points. First, the involvement of private investors in biodiversity protection means that they are giving financial support to preserving a public good. Second, on the basis of equitable sharing of the risk in an investment having a substantial public goods component, there is need for an instrument that is broader in scope than just finance: this would include technical assistance on management of a joint-product type of investment and on the development of new or revised products specifically associated with biodiversity benefit(s). The EBRD proposed to carry forward the task of a proper scoping study for a BTAF, using the possibility to recruit a PPC officer as a means to provide the necessary staff time, and this option was retained by the Task Force. Related points of discussion were private investment criteria *per se* and the investment strategies of rural entrepreneurs, the latter benefiting from a presentation on research done at the Department of Agricultural Economics at Wageningen University.

5.4.2 The Task Force considered a background paper on the proposal of a Partnership Agreement for Business Banking and Biodiversity, initially presented at the first Task Force meeting and revised by ECNC as a follow-up action to a resolution on financing biodiversity adopted at Kyiv by the Ministerial Conference on Environment for Europe and in view of the European preparation for COP-7. The Task Force decided that it is too early to propose such an agreement to business interests, but that it was important to go ahead with developing a partnership, and that any development of a formal agreement should be an open process carried out with the business community.

5.4.3 The Task Force reviewed the preparations for the Budapest Seminar on NGO Involvement in Promoting Pilot Projects for Biodiversity Investment. Following from the previous topic, it seemed important to have a larger stakeholder approach than just involving NGOs, and proposals for the invitation of business interests were made [NB: and

subsequently acted upon]. A request was made that proposals would come from the seminar as to what would be the easiest successes in bringing biodiversity into business investment strategies.

Third Meeting of the European Task Force

5.5 The third meeting of the Task Force took place on 28 September 2004, with 23 participants coming from 4 governmental agencies, the PEBLDS Joint-Secretariat, 4 national and international financial institutions, 5 European and international NGOs, an SME specialised in biodiversity projects, an investment advisory service and the financial press. The agenda was structured around four points: (a) the Biodiversity Technical Assistance Facility, (b) the Budapest Seminar on Stakeholder (especially NGO) Involvement in Promoting Pilot Projects for Biodiversity Investment, (c) three case studies related to biodiversity investment and (d) the Action Plan for Financing Biodiversity and Countdown 2010 (emanating from the Kyiv Resolution).

5.5.1 The examination of a model for a Biodiversity Finance Facility at the second Task Force resulted in an agreement that a Biodiversity Technical Assistance Facility (BTAF) should be developed as a precursor. Terms of Reference were drawn up, and the recruitment by EBRD of an additional PPC officer provided the possibility to carry forward a scoping study on the design of a BTAF. The progress report to the 3rd Task Force included a review of the driving forces, and impediments, surrounding biodiversity investment, suggesting that a BTAF would be composed of multiple modules: a project development unit, a project support and implementation unit, and a clearing-house. TACIS funding would be likely to test a TA facility to create pro-biodiversity business in the Eurasian steppes. By general agreement, the deadline of April 2005 has been set for the final design proposal of a BTAF, and it is planned that several Task Force members will meet as a working group (as for the development of the initial BFF model).

5.5.2 The presentation of the Budapest seminar on stakeholder involvement in the preparation of biodiversity investment proposals stated the difficulty for the NGO sector to be directly engaged. NGOs are accustomed to grant-aided field-based nature conservation projects, and when looking for entrepreneurial possibilities have a hard time to consider the business and financial risks of their proposals. Technical assistance in some form is necessary for capacity building, especially if NGOs are to work in an entrepreneurial environment of loan and equity acquisition and management. Stakeholders having an entrepreneurial background displayed an ability to structure biodiversity related investments according to a business plan that put forward those elements of a project that are normally acceptable by commercial financial institutions – in comparison to the biodiversity related aspects that might not yield a significant rate of return – although specific grant aid for some aspects of biodiversity support have also been part of the business plans considered. The conclusion is that entrepreneurial stakeholders are probably capable of realizing their plans without grant aid, but that to do so would take longer. A general conclusion is that at present the local commercial banks in EECCA are not yet interested in financing biodiversity-related investments, and thus there is limited private sector involvement and a lack of incentives to be involved.

5.5.3 Three case studies were presented to provide illustrations of the current efforts to promote biodiversity-related investments in the new EU accession states and the EECCA region, and thereby to serve as a comparative reference to the orientations and structure proposed for the European Biodiversity Financing facility and Technical Assistance Facility.

5.5.3(a) Fauna-Flora International has been examining the types of Small- and Medium-sized Enterprises (SMEs) that would benefit from a dedicated biodiversity investment support programme, concentrating on micro-enterprises in Hungary, Lithuania and Poland (SMEs represent 70% of the economic activity in these countries). FFI has identified two groups to target: the first are SMEs having a negative impact on biodiversity, but can be converted; the second are those already having a positive impact, but which can be strengthened – for the moment the examples inventoried are located in protected areas. Capital investment capacity is a key barrier to one segment of SMEs, therefore a multiplier effect can be achieved through establishing partnerships with local banks. Concerning loan conditions, such as those applying in Hungary, robust SMEs can avail themselves of existing opportunities, but this is not the case for micro-enterprises, however. The conclusion is that it has proven difficult for IFIs to identify opportunities for biodiversity-related investment, and it has also proven difficult for companies to access funding. This underlines the need for a BTAF. In order to test a Technical Assistance model, FFI has secured DOEN Foundation support for loan and possibly guarantee financing to undertake pilot projects to demonstrate biodiversity investment potential. A general conclusion is that SMEs can play a role for meeting the 2010 target to halt the loss of biodiversity, but they require financial tools and policies well adapted for encouraging them to participate in the effort to do so.

5.5.3(b) Fieldfare International Ecological Development plc has the objective to promote ecologically sustainable development and wise use of land and natural resources, especially in Eastern Europe. Fieldfare's method is to foster local employment through its own investments and also through encouraging associated business activities having positive synergies. The intention is to quickly produce economic benefits throughout the local economy, thereby encouraging broad stakeholder support in Fieldfare operations locally. Fieldfare has undertaken several investment studies specifically geared to the natural conditions in the lower Danube basin, concerning eco-tourism, bio-fuels from reeds, organic farming, angling based on local fish (and therefore on traditional water management). At present, Fieldfare concentrates on an eco-tourism strategy, and the DOEN Foundation has given equity support. The reason is that eco-tourism will attract visitors who will support local business partners, and the positive feedback in terms of shared economic benefits will raise policy awareness locally. The conclusion for BTAF development is that communication is essential at the local level, and that investments should be kept relatively small (thus a micro-enterprise approach); a complex arrangement of several interacting investments that are inter-related within the local economy is perhaps an ideal framework for biodiversity investment.

5.5.3(c) The Avalon Foundation has looked at the food chain and opportunities for investment that would provide biodiversity results; the focus has been on a few eastern European countries. Avalon identified clusters of businesses in the food chain that could jointly give benefits to biodiversity in a certain area. Cooperation among enterprises has two effects: a larger economic and marketing capacity, and more substantial benefit for biodiversity. A derived technical advantage is that biodiversity management can be boosted through

revitalisation of conservation farming practices. Having studied a variety of sectors in different locations, the proposals that Avalon has generated range in scale from small (50.000 €) to medium (1.500.000 €) sized projects. Technical assistance is critical for success in developing a viable chain of businesses. A good mix between technical assistance and financial facilities is desirable, and multiplier effects are possible with EU structural funds that are available, at least in the EU.

5.5.4 The Joint Secretariat of PEBLDS presented the part of the follow-up to the 5th Environment for Europe Ministerial Conference of direct relevance to the Task Force, namely the Kyiv Resolution, in which financing biodiversity is retained as a significant issue. In this regard, a Biodiversity Financing Action Plan, 2004-2008, has been proposed to the PEBLDS Council. It has been anticipated that the Task Force will be involved in monitoring the implementation of this Action Plan, as it includes action points with which the Task Force is already involved, namely the preparation of a European Finance Facility and Technical Assistance Facility. Also presented was the Countdown 2010 initiative inaugurated at the Malahide meeting to review the EU Biodiversity Strategy and associated Action Plans, and this initiative is an independent communications tool to profile the 2010 target to stop the loss of biodiversity. The Chair of the Task Force responded by expressing that the Task Force is ready to contribute in the support to both the Biodiversity Financing Action Plan and the Countdown 2010 initiative, but along the lines of work on BTAF: within reason and within resources.

Technical Secretariat Support Service to the European Task Force

5.6 ECNC's role has been that of a Technical Secretariat for the Task Force: to prepare the agenda of each meeting with the Chairman and host of the meetings; to draw together the preparatory documents and to send these out to Task Force participants, along with a steadily growing list of associated stakeholders; and after each meeting, to prepare and disseminate the draft minutes. In addition, the Technical Secretariat has also worked directly with EBRD on the development of BFF and BTAF, through meetings and the provision of documentation and expertise. In this regard, several small meetings of members of the Task Force have also been organised by the Technical Secretariat.

6 Putting commitment into practice: present and future

6.1 The pursuit of the European Biodiversity Resourcing Initiative in Phase 2 has brought together a solid representation of civic, entrepreneurial, financial and political stakeholders in the European Task Force on Banking, Business and Biodiversity. This representation will undoubtedly be further balanced by the demand of interested parties once the European Biodiversity Financing Facility and the associated Biodiversity Technical Assistance Facility will come into being. But a core group giving life to the Task Force as already put its commitment into practice. The work of EBRI Phase 2 has been to facilitate this, and now several parts of the necessary structural support for biodiversity investment are in place: working guidelines for pilot projects, a biodiversity financing CHM, and the Task Force itself.

Orientations for the European Task Force on banking, Business and Biodiversity: EBRI 3

6.2 The establishment of the European Task Force guarantees the oversight of EBRI. Future orientations are likely to be of a practical nature, for there is a need for technical assistance as much as for the availability of financing in making biodiversity investment a general entrepreneurial practice. Careful design of projects will integrate biodiversity concern, and the economy as a whole will become more robust if biodiversity-*sensitive* investment becomes a standard against which entrepreneurial activities are assessed, both by commercial financial institutions as well as by policy agencies creating the regulatory framework in which enterprises operate. The Task Force is also the primary agent for overseeing the Biodiversity Financing Action Plan, which has grown out of the expression of urgency by the European Environment Ministers in the Kyiv Resolution that means must be found to encourage investment in biodiversity.

6.3 The following activities are possible to be taken up in EBRI 3:

(1) The Banking and Biodiversity CHM can be further developed, to serve the needs of the Biodiversity Technical Assistance Facility, and the task here is:

- (a) information management (updating and enlarging the references to financial sources, experts and technical literature), and
- (b) developing an automatic project screening sub-routine (software programme) that will provide the initial screening of project proposals registered on-line.

(2) A more innovative strand of work is to develop a communication plan for businesses that are the origin of Foreign Direct Investment in EECCA countries, specifically bearing on the issue of investment risks related to liability for negative impacts on biodiversity. The other side of the coin is the possibility to capture added value from a positive feedback relationship between an investment and biodiversity.

(3) Another innovative strand could be a capacity building seminar, in which EECCA bankers are invited to courses on biodiversity-related investment. Much material for case studies has been brought forward in EBRI 2. This strand is related to mobilising

the local infrastructure, for without Financial Intermediaries, a Biodiversity Financing Facility will not be effective in its operations.

(4) The adoption of fiscal measures to support 'green' investments – particularly those related to biodiversity – across Europe would provide a strong signal that greening the economy is indeed serious 'business'. The Pan-European stature of the Task Force can allow it to provide the impetus for a broad study of fiscal incentives, so as to encourage measures for harmonisation. A particular example is the 'green funds' in The Netherlands.

For a number of years, private citizens in The Netherlands have been able to earn money on their savings and protect the environment at the same time. This 'win-win' combination is possible because the national fiscal policy encourages the creation of specialised intermediary 'green' funds to channel these savings as the capital required for environmentally friendly entrepreneurial activity. The government exonerates interest and dividends returning to the private investors in green funds from income tax. This allows the banks to propose a relatively lower interest rate because the net return to the private investor is still beneficial when compared to a normal savings plan or investment fund. There is also an advantage for the 'green' entrepreneur, through access to capital in the form of loans at normally 2 points below the lending rate of commercial banks. The purpose is, indeed, to facilitate the implementation of environmentally friendly activities.

What has been successfully done in The Netherlands could provide immense leverage for promoting environmentally related investments if expanded to the European scale, and targeted specifically on biodiversity. In order to build the case for a European decision concerning a uniform approach to national fiscal legislation that would support green funds, the baseline situation throughout Europe has to be determined. Harmonisation requires knowing what is the fiscal legislation in each country that regulates funds and determines the advantages accorded to revenues coming from 'green' investments. On the basis of a survey, the precise measures to be adopted at the European level could be formulated, and individual countries would know what changes to make in order to achieve convergence.

(5) The original mission of the European Task Force on Banking, Business and Biodiversity has been the development of a specialised financial mechanism to facilitate biodiversity investment. The unique mission will continue, and as the European Biodiversity Financing Facility – and the associated Biodiversity Technical Assistance Facility – comes into operation, the recourse to the Task Force for a role in the guidance of the management 'vision' is likely to expand, as does the economic and political interest in its operation.

Annex 1

TOWARDS THE DEVELOPMENT OF BIODIVERSITY PROJECT CRITERIA AND THE EBRI PORTFOLIO

Basic requirements

1. Assessment of the applying organisation

- financial capacity of the applicant to carry out retained project(s) (credibility, no public dues, liquidity, a few years of stable operation, profitability)
- human, organisational capacity and experiences of the applicant to develop successful projects (organisational structure with main responsibilities, qualities of the project members and their capacity to work on the project, other running projects, references)

2. Assessment of the project

- financial and economic valuation (NPV or IRR, risk rate, extended CBA in which positive and negative externalities are calculated as well)
- possible effects on biodiversity (related to international and national biodiversity strategies, measured by specific biodiversity indicators)

Possible project categories

1. pure nature/biodiversity conservation projects

- species conservation
- habitat conservation/rehabilitation
- landscape conservation/rehabilitation
- establishment of ecological networks

2. sustainable/wise use of biodiversity

- sustainable agriculture
- sustainable forestry
- sustainable fisheries
- sustainable hunting
- sustainable collection of forest plants and fruits
- ecotourism

3. integration of nature conservation projects into rural and urban projects

- water management
- construction of infrastructure (highways, electricity wires)
- development of waste-water treatment facilities
- mining
- industrial development

4. other

- institutional building
- research and development
- education and training
- awareness raising
- establishment of a national CHM

Eligible project costs

1. *general criteria*

- directly linked and necessary for carrying out the project
- reasonable and comply with the principles of sound financial management (good value for money and cost effectiveness)
- actually incurred during the lifetime of the project

2. *types of costs*

(as relevant, depending on the project.)

- personnel
- purchasing land or right
- purchasing durable goods
- purchasing consumable goods (fuel, stationary)
- travel and transportation costs
- purchasing services
- external assistance (contracting external experts)
- overheads (electricity, heating, phone, fax etc.)

Categories of acceptable biodiversity related activities

(as relevant, depending on the project.)

- purchasing land or right
- rehabilitation of the area
- management of the area
- establishment of production chain for biodiversity products and services
- market creation for biodiversity products and services
- training
- PR and awareness raising

Possible ways of funding

1. *commercial*

- loans
- equities
- other

2. *non-refundable*

- grants
- in-kind contribution
- donations

Possible project sizes

- technical cooperation agreements under 50.000 Euro
- small projects 50.000 to 500.000 Euro
- medium projects 500.000 to 1.500.000 Euro
- large projects over 1.500.000 Euro

Categories of applicants

- private person
- private business (ltd, shareholding company)
- public company
- governmental organisation (state, regional, municipal administration)
- non profit, non governmental organisation (foundation, association)
- other

Maximum support (aid intensity):

- 100%
- 75%
- 50%
- 25%

PILOT PROJECT APPLICATION FORM

DESCRIPTION OF THE APPLICANT

Name of the applicant:

Place of operation:

Name of the project leader and its phone number, fax number and email address:

Type of organisation:

Partners and their contribution:

Financial data of the operation for the last 3 years (sales, EBIT, public dues, permanent assets, operational assets, internal capital, long-term loan, short-term loan, subsidies received)

Organisational data (number of employees, number of contracted persons, description of the project team):

DETAILS OF THE PROJECT

Main goals of the project:

Short description of the project including the list of the main activities by year:

Duration of the project:

How does the project meet the objectives of EU biodiversity strategy, national nature conservation strategy (protection status of the area, potential NATURA 2000 site?, affected species listed in the Annexes of Bern and Bonn Convention)?

Main expected achievements in relation to biodiversity (indicators: e.g. affected protected land, endangered species and ecosystems):

Main expected social effects:

FINANCIAL AND ECONOMIC INFORMATION ON THE PROJECT

Costs of the project (by activity, by types of costs, by year):

Expected benefits of the project:

Profitability of the project (NPV, IRR):

Risks related to the project:

Sources of funding (contribution of the applicant, government subsidies, contribution of the bank, other) indicating the form of funding as well (refundable, non refundable)

Requested form of funding:

Requested amount of funding (division per year)

REQUESTED APPENDICES

1. CV of the project leader
2. References (description of biodiversity related projects with duration and co-operation partners for each project)

Annex 3

Framework for case studies

on biodiversity related projects with the contribution of the financial/banking sector

Suggested length: 10-15 pages

1. **Introduction** (Location of the study site with its main characteristics, introduction to the project, the main objective of the case study)
2. **Description of the study area** (main ecological, economic and social characteristics, with a focus on characteristics that served as a basis to carry out the project: the positive features to be built on or the main threats to the ecosystem that needed to be eliminated)
3. **Description of the project**
 - 3.1 main goal of the project (e.g. conservation, habitat reconstruction, sustainable use of nature (e.g. sustainable agriculture, forestry, fisheries, hunting, eco-tourism), market creation for biodiversity products, development of rural or urban project with nature conservation components (e.g. construction, wastewater treatment, regional development)
 - 3.2 key steps (listing and describing the main activities, their duration)
 - 3.3 organisational matters (description of the main organiser, its capacity to carry out the project, partners)
 - 3.4 local, national, international stakeholders affected by the project or involved (local community, local governments, NGOs, business organisations, scientific organisations, authorities, media)
 - 3.5 financing (main costs (types and sum) for the whole project period, main sources of funding and their division (public, private), economic valuation methods used)
4. **Involvement of the financial institutes/banks in the project** (way to find the institution, requirements set by the bank to be met, form of financial support (loans, bank guarantee, interest subsidies, grants, in-kind contribution, donations), conditions of financing, accepted risk rate)
5. **Main achievements**
 - 5.1 Effectiveness of the project (have it reached its original goal, how has the ecosystem been affected by the project, how have the main stakeholders been affected by the project (e.g. awareness raising or developing new markets))
 - 5.2 Using financial resources efficiently (actual costs compared to the planned costs, CBA, rate of returns: short run, long run, NPV)

6. Lessons learned

6.1 lessons learned (both positive and to be further developed) on the side of the project developer (e.g. institutional development, management skills from writing project proposals to carrying out the project, innovative funding, involving partners, conflict resolution)

6.2 lessons learned (both positive and to be further developed) on the side of the financial institution (e.g. institutional development, establishment of special conditions for biodiversity related projects, criteria to evaluate such projects, assistance to the project developer)

Maps and photos about the study site are welcome

**Report prepared for the
United Nations Environment Programme
Regional Office for Europe**

**Biodiversity Investment Opportunities in
Eastern Europe, Caucasus and Central Asia**

Introduction

This report presents the outcome of a small research project performed by the European Centre for Nature Conservation, as part of the European Biodiversity Resourcing Initiative - Phase 2 (EBRI-2), and was funded by the United Nations Environment Programme, Regional Office for Europe.

In order to make financial resources available for innovative biodiversity investments, EBRI was initiated in the framework of the Pan-European Biological and Landscape diversity Strategy (PEBLDS), following the request at the fourth Ministerial “Environment for Europe” Conference in Aarhus for the financial sector to increase their involvement in sustainable development issues. EBRI was also a European response to the growing interest in CBD framework for additional financial resources, which, inter alia, reflected in COP6 Decision VI/16 (2002).

In order to provide this process and the possible Biodiversity Investing Clearing-House Mechanism with background information, UNEP-ROfE asked ECNC to perform a desk study investigating biodiversity investment programmes in the EECCA region, highlighting relevant programmes of banks.

Methodology

An internet-based biodiversity investment review was performed in the EECCA Region. It included banks of the following countries: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

The websites of those banks were examined for the presence of biodiversity investment programmes and ‘green’/environmental investment programmes in English. The findings of this desk review were cross-checked with several national World Bank offices in the region.

Results

Countries	Biodiversity programme	Green/environmental programme
Armenia		
Agricultural Cooperative Bank of Armenia - Agricultural Cooperative Bank of Armenia -	N	N
Armeconombank - Armeconombank -	N	N
Armenian Development Bank - Armenian Development Bank -	N	N
Azerbaijan		
International Bank of Azerbaijan, Baku (state bank)	N	N
Unibank	N	N
Belarus		
Djem Bank	N	N
Technobank	N	N
Georgia		
Transcaucasus Development Bank	N	N
Bank Republic	N	N
Kazakhstan		
Citibank, Alma-ata	N	N
Demir Kazakhstan Bank, Alma-ata	N	N
HSBC Bank, Alma-ata	N	N
Kyrgyzstan		
Demir International Bank, Bishkek	N	N
Kairat Bank, (ex Maksat Bank), Bishkek	N	N
The Settlement and Savings Company, Bishkek	N	N
Moldova		
EximBank	N	N
FinComBank	N	N
National Bank of Moldova	N	N
Petrol Bank - Petrol Bank -	N	N
Trans-Dniester Republican Bank	N	N
Universalbank Moldova	N	N

Russian Federation		
Ak Bars Bank	N	N
Aka Bank	N	N
Akkobank	N	N
Aljba Alliance	N	N
Avangard Bank	N	N
Avto Bank	N	N
BALTICA.RU	N	N
Baltiyskiy Bank - Baltiyskiy Bank- International Bank Hrama Hrista Spasitelia	N	N
Moscow Business World Bank	N	N
Tajikistan		
No banks with webpage identified		
Turkmenistan		
No banks with webpage identified		
Ukraine		
All-Ukrainian Joint-Stock Bank (VaBank)	N	N
First Ukrainian International Bank	N	N
Grant Bank - Eastern Ukrainian Exchange Bank	N	N
Policombank		
TransBank	N	N
Uzbekistan		
Uzjilsberbank, Tashkent	N	N
XIF Bank, Tashkent	N	N

Further Investigation

In order to verify the results from the review, a further and wider consultation was undertaken. Financial institutions such as World Bank national offices in the EECCA region, the International Finance Corporation and the Global Environment Facility were investigated through their websites and by email. It was concurred that activities related to biodiversity investment in the EECCA region are all funded through international finance and development organisations such as the World Bank Group, the Asian Development Bank, the European Bank for Reconstruction and Development and the Global Environmental Facility (and their implementing and executing agencies, including UNEP and UNDP). It was confirmed that commercial banks that are active on the national level do not play a role in biodiversity investment.

International Financial Institution	Biodiversity programme	Green/environmental programme
World Bank	Y	Y
European Bank for Reconstruction and Development	N	Y
Asian Development Bank	N	Y
Global Environmental Facility	Y	Y

Conclusions

It can be concluded that in the EECCA region commercial banks do not play any important role in the financing of biodiversity, as no relevant programmes to that end were identified in this review. These conclusions were strengthened by a further consultation of the International Financial Institutions that are active in the EECCA region.

Annex 5

Developing projects within a biodiversity market niche

In a working paper dated 1995, Geoffrey Heal asked the question whether it is possible to rely on the market to preserve biodiversity². His overall reply was negative: preserving biodiversity does not fit into the 'market logic', basically for three reasons. First, biodiversity is a public good, and as such the benefit to be derived cannot be captured by an individual as a private property right. Second, biodiversity value cannot be realised in the short term, and a normal market situation discounts future value. Third, the risk involved is often not well known. The combined result is that the risk-return ratio is likely to be weighted in such a way as to dissuade the private investor: high risk, low returns, and an uncertain product to position within a nascent – or sometimes an inexistent – market.

However, all is not bleak in his analysis, for Heal asserts that it is possible to use the market, in a precisely focused and limited way, as a vehicle to provide a set of incentives to preserve biodiversity. Since 1995, the discussion has not been to contest Heal's original affirmation, but to explicitly define this set of incentives in function of those "aspects of biodiversity that are marketable and are being marketed" (1995: 9).

This situation of having to both create a product and a market for it is extremely challenging, and requires true entrepreneurial spirit and capability as well as biodiversity conservation knowledge. But experience also offers some guidance, and this is what is being presented in the following.

Identify and match benefits

It is necessary to identify the benefits accrued from biodiversity and match these with the beneficiaries. Eco-tourism depends on natural features in good condition, so the beneficiaries are both the tourists and the providers of installations and activities for these tourists. Clean water depends upon replenishing water sources, in particular groundwater reservoirs. In both cases the biodiversity product can be defined in landscape terms: a particular array of natural features – mineral and vegetal – in the former case; a vegetation cover adapted to local soil and geology in the second. The management of human land use determines the character of the landscape, and the types of land use may be multiple: agrarian practice, forestry, hunting, and natural resource extraction. Multiple actors are concerned, management expenditures are undoubtedly recurring costs, and small-scale natural resource users are often individuals very focused on cash flow, in order to survive! The 'product' – as a landscape – is tangible, but the market aspects are diffuse. It is necessary to construct a matrix of benefits and beneficiaries.

For the sake of simplification, consider three persons, who will represent generic classes of beneficiaries. A tourist benefits from the landscape in a general way, and will already be paying for the provision of infrastructure and activities through fees for services: hotel, guides, equipment rental. In terms of paying for biodiversity preservation, indirect charges can be made through a dedicated percentile of sales taxes to be credited towards recurring management expenses for maintaining trails, and direct charges would exist if there were an entrance fee, such as into a cave with karstic features or mural decorations ... the control of human access having the biodiversity benefit to avoid disturbance of resident bats! What is

² Geoffrey Heal (1995) "Markets and Biodiversity", Columbia Business school Working Paper Series, PW-95-17

common in both cases that there is some management function being done in the general interest, perhaps undertaken by a public authority and delegated to a private operator.

The intermediary between the tourist and the natural attraction or activity is the second individual, a tour guide for the sake of example. His product is a certain experience of biodiversity, and therefore his economic relationship to biodiversity is as a public good that he cannot control privately. He cannot protect his 'market', for any number of persons could offer their services as a guide. The exception would be if a certification process would restrict the number of authorised guides, and (hopefully!) insure some minimal standard in the service provided (ecological knowledge, safety skills). The guide may pay for the certification, and the standards for qualification may be set by a public authority or a professional body.

The person who maintains biodiversity is the third actor, and has the most critical role. Let us assume that this person is a forester, and the trees he takes care of and harvests are a component in the species mix giving character to the vegetation structure, are also a capital resource with a long maturity, and finally are a physical agent in the process of arresting groundwater runoff and – through retention – encouraging water accretion in the aquifer. His individually small impacts on biodiversity may collectively create enormous damage if the general tendency of foresters is to harvest early in the growth cycle, and to encourage quick growing species through thinning during the growth cycle. For a forester, there is a negative cash flow to maintain a forest until its maturity. Therefore there is a difference between a forester's concern for generating income as quickly as possible and the naturalist's concern for diversified age structure and species variety in a woodland. This incremental value in terms of biodiversity cannot be rewarded through the market value of the timber, so a covenant of some sort is required to pay for this differential in exchange for respect of a management regime. There is of course the possibility for a premium on the value of the wood by certification that takes into account the ecological value imputed to the woodland from which the timber comes, because of following the specification of the management regime, but this supposes that the ultimate customer is willing to pay a surcharge, or that public regulations impose the management regime on all foresters.

These three examples demonstrate that much of the biodiversity market is a result of control and command functions from the public sector that structure the economy, and also that the payment for biodiversity is more through indirect than direct means. This is characteristic for the provision and care of a public good. In the case of forestry management for insuring a water supply by maintaining a biodiversity-rich forest, the user fees for the water, per cubic meter, can be credited towards the incremental and recurrent costs of managing a sustainable, biodiversity rich woodland through a periodic grant to the forester. Returning to the principle of assigning responsibility for the costs of biodiversity to the beneficiaries, it is the indirect means of payment that is the most equitable and efficient for biodiversity as a public good. Because this assumes a public role, it is also a way to guarantee that the local actors receive their reward, as they are implicated into the conservation activity and it brings them added value for their effort.

Privatisation of biodiversity

'Grazing the commons' is not a new activity, and biodiversity harvesting raises a number of issues about the sustainable use of biodiversity. It is possible to examine the economic potential of many attributes of biodiversity that can be harvested on a regular basis, from seed to leaf to fruit, or over a natural cycle of propagation of flora and fauna. Whether for food or fibre, or as industrial or pharmaceutical molecules, living matter is a naturally renewing resource. Harvesting or culling privatises a common resource. The genetic structure can also be privatised, by virtue of a patent.

The development of a market depends on offering a produce, or a substance, for which there is a buyer. The difficulty is the aggregation of the offer into a quantity sufficient to meet a demand and to deliver a shipment within the prescribed delay. Trade associations (taking as an example PhytoTrade in Africa) are able to organise supply chains and offer a collective service to prospect for customers. Working with a diffuse group of suppliers does pose a risk for the control of local harvesting, and the 'tragedy of the commons' is a well-known phenomenon. In social terms, a risk is that a market collapses, and there is no longer a demand for suppliers to satisfy; this often happens through substitution, when the customer can advantageously change from one supplier to another, sometimes as a result of technical innovation ... an oil initially coming from a seed could be produced synthetically in a laboratory. New technology can on the contrary provide a use for a natural product, particularly through a transformation that allows for an innovative use, with bio-fuel as an example. Molecules, oils and fibres are all, as mentioned before, primary commodities for manufacturing processes.

Bio-prospecting is another dimension of harvesting, tied in with the issue of national sovereignty, itself an expression of property rights. Harvesting can give rise to a payment for the right to harvest in the form of royalties. The transfer of property rights occurs when genetic structure is patented, for which there is an incentive when the genetic structure is replicable outside of natural propagation in a confined geographic area. Such use of biodiversity is in itself not necessarily harmful for biodiversity, but poses a question of social equity.

Incentives for wise use

The CBD extols wise use of biodiversity. Markets are a vehicle, but not a motor, for wise use. The motor is the regulatory framework, including legislative provisions for compensation of incremental costs associated with wise use. Incentives can be provided *ex ante* or *ex post*, and the difference is to encourage or to reward, respectively, wise use. It is possible to postulate that an incentive has to be equal or greater to an incremental cost in order to be effective, but some research with agri-environmental measures argues that individual behaviour can be encouraged with even a partial compensation of real costs incurred, and has a social role as a recognition of motivation rather than a stimulant of it. The *relative value* of an incentive with regard to incremental costs is probably, however, of lesser material importance than *how* it is used.

If the objective is to promote a market-orientation for biodiversity projects, then the most important objective is to encourage sound business plans, those that in fact are sustainable even in the absence of incentives. The role of an incentive has to be catalytic, to 'prime the pump'. *The role of an incentive should not be to encourage unsustainable business plans.* To the extent that biodiversity is a public good, incentives can be justified to encourage a market response to an opportunity associated with biodiversity more quickly than would otherwise be the case, given the inertia of investments when the risk-return ratio is uncertain or only slightly favourable. In such situations where the potential return on investment is limited and, in the absence of property rights, the prime mover may have little competitive advantage with regard to the secondary free rider. Thus the argument that incentives should be based on achieving targets, specifically related to wise use. This is the logic of Environmental Performance Payments (otherwise referred to as 'payment for environmental services'), which are associated with environmental performance standards. The project has to meet the standards in order to be eligible for a base payment, and may receive a bonus proportional to exceeding them. The incentive would logically be partial repayment of principal to the financial intermediary(ies) on behalf of the investor. The agreement with the investor to be a

beneficiary of such an incentive would also be a signal of creditworthiness to the local lending institutions, having a favourable effect on the rate of interest on the principal.

Incentives can effectively be used in demonstration cases for scaling-up new activities and technologies that have already been proven on a pilot basis. There is no point in using *ex post* incentives in the development stage of a new activity or technology, where a grant is a more appropriate means to take the place of venture capital. A grant is therefore the preferred instrument when technical assistance is required, for the objective is development of know-how, and capacity building in its application. A business plan can be tested through a pilot project, but not expected to necessarily be successful. The point is to reduce market barriers for further uptake by SMEs and FIs by the lessons learned.

Prognostic for biodiversity financing and market evolution

The possibility to preserve biodiversity through market measures should not be exaggerated. Sound business plans giving a place to wise use and management of biodiversity, however, are a possibility to be encouraged. A rapid evolution in business ventures where biodiversity is a component will depend upon sufficient investment in technical assistance projects to stimulate innovation and to establish risk-return ratios that are reliable. Public investment will have a predominant place for years to come, and will be at least 20% of potential private investment for grant financing of preliminary technical assistance programmes. Further public money will be required for any Environmental Performance Payments that will be used to reward successful business plans as part of a strategy to 'prime the pump' for SME and FI entry into the biodiversity market. Certification will be a structural support for the nascent biodiversity sector³, as will its counterpart of regulation and legislation necessary to guarantee market integrity. The biodiversity market may, in any case, remain a niche market.

Even in the absence of a market in which biodiversity is a specific focus, however, biodiversity is increasingly an important consideration in business strategies. The 'triple bottom line' concept increasingly becomes an integral part of entrepreneurial understanding of the 'license to operate'. The economic, social and environmental objectives of business are becoming transparent, as the Socially Responsible Investment principal obliges that there is accountability in these domains, figuring not least in corporate annual reporting. Businesses adapt sector strategies, such as the Sustainable Agricultural Initiative pioneered by Danone, Unilever and Nestlé. Industry agreements are worked out in collaboration with the non-governmental sector, and the consumer is also invited to endorse these actions through preferential purchasing of labelled products that signal these agreements, and to share the burden in the incremental cost. In the event of generalised environmental management objectives, the absence of a large-scale market specifically devoted to biodiversity is not necessary. Certainly biodiversity is a useful focus in order to stimulate a generalised integration of biodiversity accountability in business practice, and targeted investment is welcome now as a catalyst of a state-of-the-art that is to be widely embraced over time.

P.L. Nowicki
Seminar on Stakeholder Involvement
Budapest, 29 November 2003

³ Certification in the forestry sector is rapidly becoming a criterion for market entry, but by the same token has a lessening association with added value in a market that is becoming saturated on the supply side generally.

**A European Banking & Biodiversity Clearing-House Mechanism
(B&B-CHM)**

presented at the
3rd Meeting of the European Task Force on
Business, Banking and Biodiversity
28/09/2004 – EBRD, London

Contents

1. Introduction and background
2. Objectives
3. Target groups
4. Functions of B&B-CHM
5. Structure of the website
6. Coordination Team
7. Management structure
8. Monitoring and evaluation
9. Marketing and publicity

Annex I Possible lay out

Annex II Acronyms and abbreviations

1. Introduction and background

Introduction

This paper lays out the structure of a European Banking & Biodiversity 'Clearing-House Mechanism' (B&B-CHM) in accordance with 'the European Biodiversity Resourcing Initiative Phase 2: turning commitment into practice'. It incorporates the latest concepts within the EBRI process as developed through the European Task Force on Banking, Business and Biodiversity.

The most well known Clearing-House Mechanism (CHM) is the Convention on Biological Diversity's CHM. This CHM has been studied and reviewed several times⁴. The 'lessons learned' of those studies and reviews have been transposed into this proposal as much as possible.

European Biodiversity Resourcing Initiative

EBRI was initiated in the framework of the Pan-European Biological and Landscape Diversity Strategy, and found broad support among governments and international finance institutions, organisations and NGOs.

The Kyiv Biodiversity Declaration of the Ministerial Conference 'Environment for Europe' includes the following key target on Financing Biodiversity:

"By 2008, there will be substantially increased public and private financial investments in integrated biodiversity activities in Europe, via partnerships with the finance and business sectors, that have resulted in new investment opportunities and facilities as outlined by the European Biodiversity Resourcing Initiative, taking into account the special needs of the countries of Central and Eastern Europe, Caucasus and Central Asia."

EBRI is the implementation of that specific target. Currently, EBRI phase 2 is in progress, with a European Task Force on Banking, Business and Biodiversity providing overall guidance to the implementation of EBRI.

2. Objectives

Clearing-House Mechanism

The term "clearing-house" originally referred to a financial establishment where checks and bills are exchanged among member banks so that only the net balances need to be settled in cash. Today, its meaning has been extended to include any agency that brings together seekers and providers of goods, services or information, thus matching demand with supply.

⁴ See for example:

UNEP, 1999, *Report of the independent review of the pilot phase of the clearing -house mechanism*, UNEP/CBD/COP/5/INF/2, Nairobi;

UNEP, 2003, *Clearing-house mechanism activities during the inter-sessional period*, UNEP/CBD/COP/7/17/Add.1, Nairobi;

UNEP, 2003, *Results of the independent review of the clearing-house mechanism of the Convention on Biological Diversity*, UNEP/CBD/COP/7/INF/12, Nairobi

In the conception phase of the B&B-CHM the following description was used:

Development of a public banking-biodiversity CHM, where possible as part of the PEBLDS Strategy Guide on which relevant information on banking and biodiversity, including on best and worst case practices and pilot cases, will be published and which could include an operational database of experts.

This thematic CHM will assist banks, recipient countries and the conservation community in their efforts to further increase biodiversity relevant investments. Agreements will be put in place to share information and news to put on the website(s).

Synthesizing the objectives stated above, the decisions made by the European Task Force on Banking, Business and Biodiversity, that oversees EBRI phase 2 within the context of the EBRI process, have attributed the following aims to the B&B-CHM:

- Aim 1** Provide access to information relating to Banking and Biodiversity and the EBRI/BFF/BTAF processes to all actors in those processes, individuals and organizations looking for funding and the general public (in accordance to the Aarhus Declaration).
- Aim 2** Support the further development of EBRI and the incubation process of BFF and BTAF by promoting and facilitating technical, scientific and managerial cooperation between policy makers, public and private financial institutions and NGOs.
- Aim 3** Function as a gateway into the Biodiversity Financing Facility, and streamline applications to the facility by developing various self-assessment tools.

3. Target groups

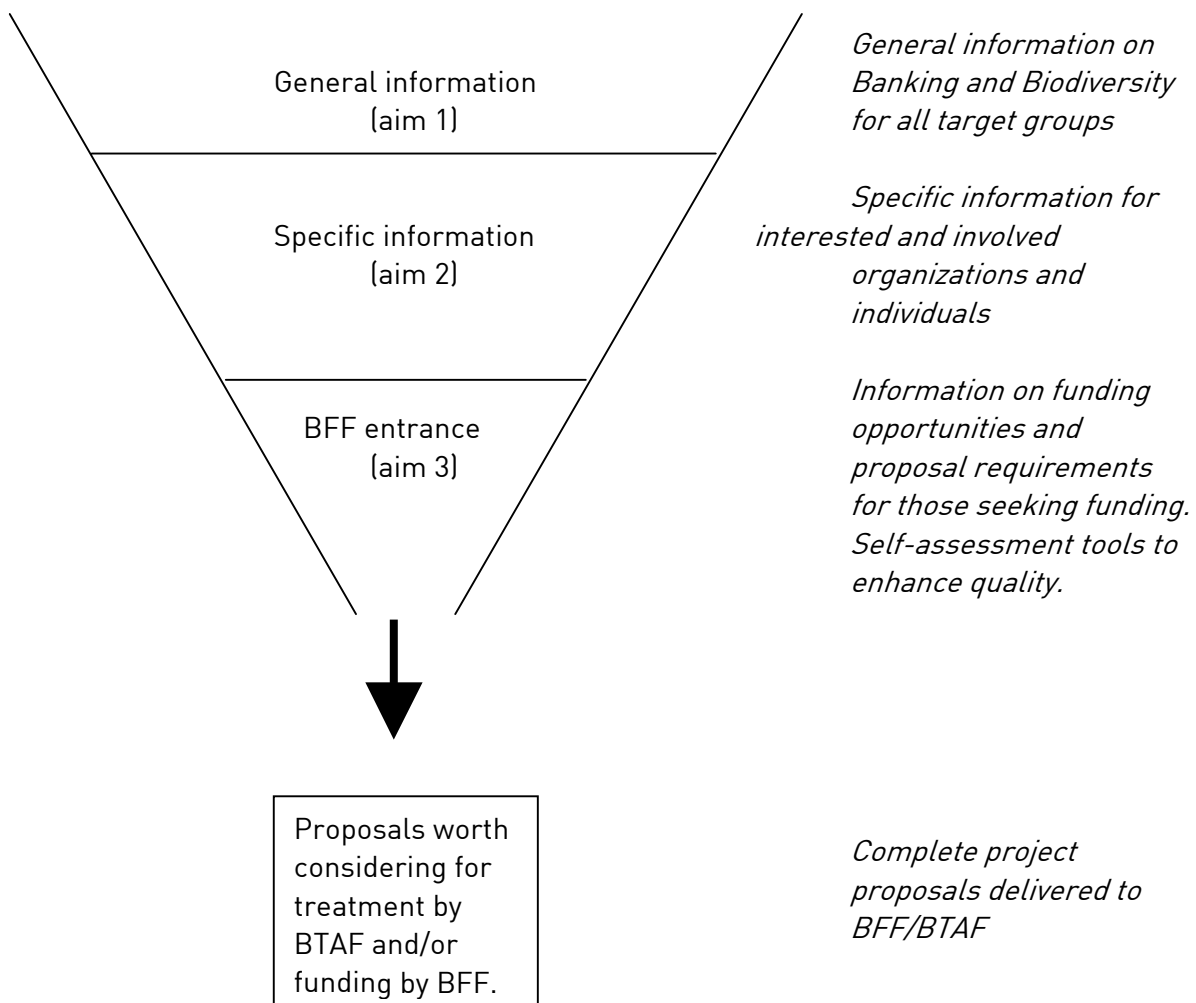
Four main target groups have been identified for the European B&B-CHM:

1. The financial sector, comprising of International Financial Institutions (IFIs) and private financial institutions.
2. The biodiversity sector, comprising of NGOs, IGOs, National Authorities and Nature conservation experts
3. Governments and their policy makers
4. Individuals, organizations and businesses looking for funding.

4. Functions of a European B&B-CHM

The European B&B-CHM consists of several parts and services. Its main feature is a website providing information on Banking and Biodiversity. The aim of the website is to provide information on biodiversity and investing on different levels to attract a wide audience and to present the information in such a manner that the knowledge level of those interested can develop gradually. Ultimately, the purpose of the website is to ensure that proposals sent to the BFF/BTAF are of high quality and that all parties involved have a full understanding of both the financial and the biodiversity concepts needed in order to produce effective proposals.

The website will honour the credo 'the best selection is self-selection'. This means that self-assessment tools will be developed and made available for individuals and organizations to enhance their understanding and application of biodiversity and financial concepts to their own proposals. Combined with case studies, information on funded projects and proposal examples, this would enable the applicants to create the best possible proposals.



5. Structure of the website

PEBLDS Strategy Guide
-> Funding & Resources
▪ Biodiversity Financing CHM

Biodiversity Financing CHM

- **About EBRI**
 - EBRI Overview
 - European Task Force on BBB
- **Biodiversity Investment**
 - Conservation Financing
 - Review of conservation financing initiatives
 - Types of financial support (loans, equity, grants)
 - Overview BFF / BTAF
 - Catalogue of funded projects
 - Priority Biodiversity Objectives by Zone in EECCA
 - World Bank Regional Biodiversity Strategy (PDF)
 - Case studies
 - Framework for Case Studies
 - Case Studies
 - Funding sources
 - ECNC list of funding sources (web link)
 - Expertise database (including web links when possible)
 - Organisations*
 - Discussion area (bulletin board)
 - Frequently Asked Questions
- **BFF / BTAF Portal**
 - Introduction
 - Gateway to BFF / BTAF (access password by registration)
 - Biodiversity Project Proposal Portfolio
 - Criteria for Project Selection
 - Pilot Project Application Form
 - Proposal processing information
 - Registered experts
 - Self-assessment tool(s) for proposals
- **Biodiversity Financing Reference Centre**
 - Biodiversity initiatives (web links)
 - CBD
 - Biodiversity Service
 - EC CHM
 - ...
 - Biodiversity Financing Resource Library
 - PDF files
- **Web site administration**
 - Administration of mailing lists and archive

* ECNC Network (esp. WCMC & NHM), IUCN, WWF, FFI, BirdLife, PlantLife, Eurosite, Europark, EUCC, Euronature, NatureBureau, EFI, EEA, ETC/NPB, CoE (nature unit and landscape convention)

6. Coordination team

A small coordination team should be set up in order to perform day-to-day management. The European B&B-CHM coordination team shall operate under the supervision of the Task Force on Banking and Biodiversity. In the future it could be possible to include the European B&B-CHM coordination team as a part of the BTAF, as it is a logical first element of Technical Assistance.

7. Management Structure

Managing the technical aspects of the CHM is relatively straightforward if sufficient resources can be allocated (or provided in kind). Managing the knowledge in the CHM is a task that should not be underestimated, and that moves considerably beyond technical issues. An active and constant input from the body responsible for maintaining the CHM is critical for the success of any CHM.

8. Monitoring and evaluation

Monitoring and evaluating the European B&B-CHM is of great importance to maintaining its relevance. Do users find what they are looking for? Do users return to the site?

One tool to get an answer to these questions is the use of user statistics. These reveal what pages are consulted most, how many 'hits' the site has, who is accessing the site (to a certain extent), and from what country the most accesses originate. Comparison by month can show whether users come back or not. A regular questionnaire could be used to continuously measure 'user satisfaction', and provide a basis for adjustments.

The ability to adapt and evolve sensibly over time is a key characteristic of effective CHMs. The role of the coordination team is vital in the monitoring and evaluation process. The coordination team will be able to report effectively to the Task Force and possibly to the BTAF.

9. Marketing and publicity

The coordination team plays an essential role in promoting the European B&B-CHM. Once the site is published there are various ways to ensure that users do find the site. The most relevant ones include:

- notify search engines: most web-wide search engines provide free services to add new sites to their indexing databases;
- register with directories: send announcements to owners of topic-specific directories of web sources;
- issuing a press releases on important events;
- participate in chats, newsgroups, discussions, listserv: selected topic-specific discussion groups provide good for a;
- support the site with marketing: brochures, posters, etc,

Annex I: Pilot Lay out

European Biodiversity Resourcing Initiative

[About EBRI](#) [Banking & Biodiversity](#) [Finance](#) [Conservation](#) [Reference Centre](#) [BFF](#)

You are here:
-Home
-About EBRI
-**Welcome**
EBRI
Contact
-Banking & Biodiversity
-Finance
-Conservation
-Reference Centre
-BFF

Welcome to the Banking and Biodiversity Clearing-House Mechanism



Welcome to the Banking & Biodiversity Clearing-House Mechanism. This Clearing-House was set-up through the European Biodiversity Resourcing Initiative (EBRI). Its aims are threefold:

- To inform the general public about Banking and Biodiversity
- To support the further development of Banking and Biodiversity
- To serve as a gateway into the Biodiversity Financing Facility


Last updated: 17-09-2004 - [Comments](#)

European Biodiversity Resourcing Initiative

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-Reference Centre
-BFF

Investing in Europe's Biodiversity



The growing desire of financial community to take on an increased role in the conservation of biodiversity presents a timely opportunity to bring the relevant parties together and to strike innovative financial mechanisms needed for progress in the field of biodiversity conservation.

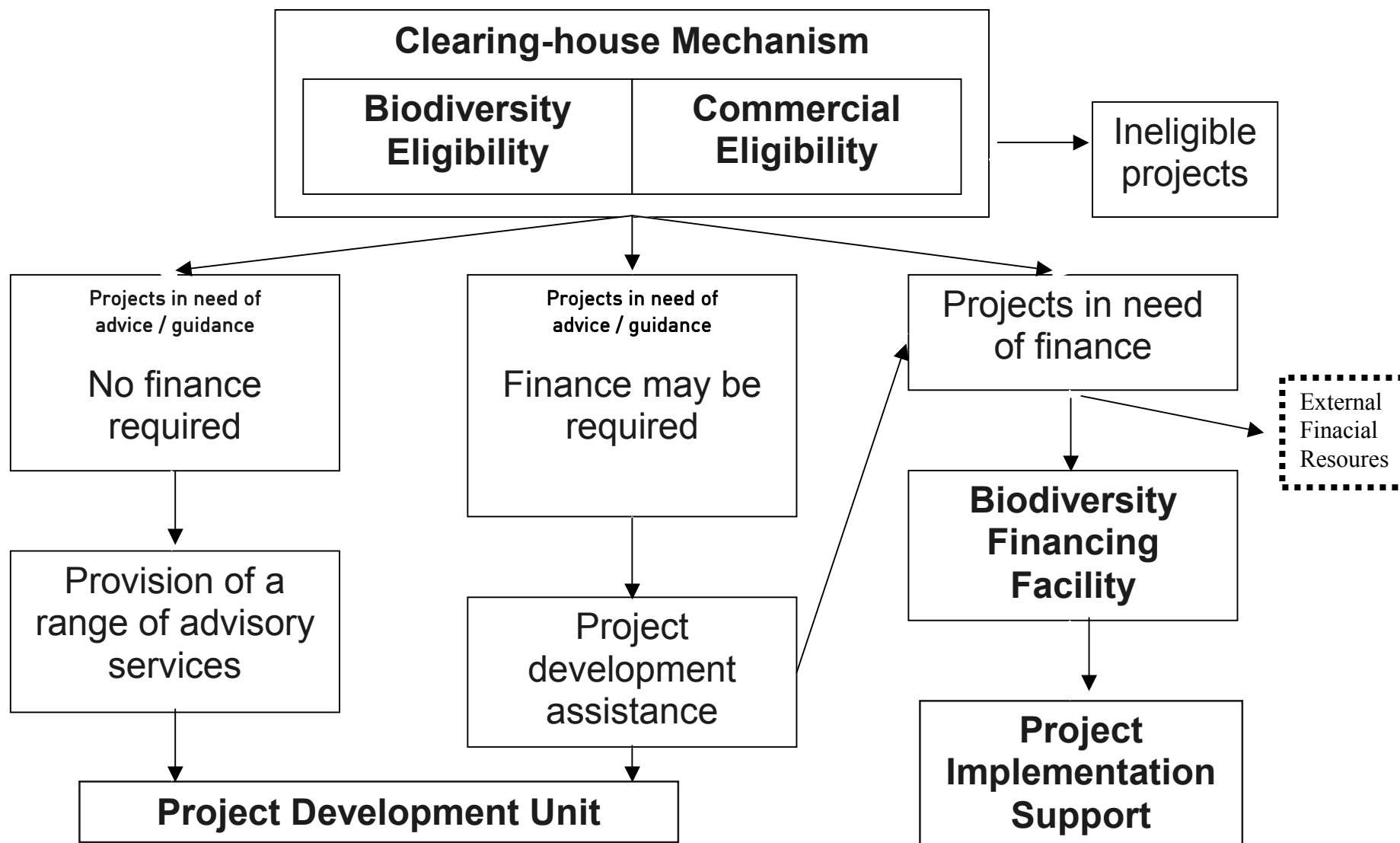
This desire is gaining expression in recent developments involving corporate sponsorship for biodiversity conservation through foundations and debt-for-nature swaps. An example is the World Bank's Prototype Carbon Fund in support of projects designed to reduce harmful emissions in the atmosphere. Within a European context, social and economic driving forces impacting on the conservation and sustainable use of biological diversity have not so far taken into full account the economic value of biodiversity itself.

Last updated: 17-09-2004 - [Comments](#)

Annex II: Acronyms and abbreviations

B&B-CHM	Banking and Biodiversity Clearing-House Mechanism
BFF	Biodiversity Financial Facility
BTAF	Biodiversity Technical Assistance Facility
CBD	Convention on Biological Diversity
CHM	Clearing-House Mechanism
ECNC	European Centre for Nature Conservation
IFI	International Financial Organization
IGO	Inter-Governmental Organization
NGO	Non Governmental Organization

Annex 7: Biodiversity Support Facility (source: Mark Hughes, EBRD)



Annex 8: Biodiversity Financing Facility Model, Integrating Technical Assistance
(*source: Jean-Marie Frentz, EBRD/PPC*)

