



**CONVENTION ON
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ADDITIONAL FINANCIAL RESOURCES

Report of the Executive Secretary

I. INTRODUCTION

1. Article 20 of the Convention requires the mobilization of substantial financial resources in support of implementation of the Convention. In particular, paragraph 1 of Article 20 states: "Each Contracting Party undertakes to provide, in accordance with its capabilities, financial support and incentives in respect of those national activities which are intended to achieve the objectives of this Convention, in accordance with its national plans, priorities and programmes". Paragraph 2 states: "The developed country Parties shall provide new and additional financial resources to enable developing country Parties to meet the agreed full incremental costs to them of implementing measures which fulfil the obligations of this Convention and to benefit from its provisions..." Paragraph 3 states: "The developed country Parties may also provide, and developing country Parties avail themselves of, financial resources related to the implementation of this Convention through bilateral, regional and other multilateral channels".

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2. The provisions of Article 21 are also relevant to the work under Article 20. Paragraph 4 of Article 21, states: "The Contracting Parties shall consider strengthening existing financial institutions to provide financial resources for the conservation and sustainable use of biological diversity".

3. The availability of financial resources and ways and means for mobilizing and channeling these resources in support of the objectives of the Convention have been considered by the second and third meetings of the Conference of the Parties. In decision III/6, the Conference of the Parties requested the Executive Secretary to undertake a number of specific activities to develop the extent that financial resources are applied to the purposes of the Convention. These requests included: to explore ways of collaborating with funding institutions to facilitate efforts to achieve greater support for the Convention; and to invite funding institutions to provide information to the Secretariat on ways in which their activities support the Convention; and to explore further possibilities for encouraging the involvement of the private sector in supporting the Convention's objectives. In addition, developed country Parties were urged to cooperate in the development of standardized information on their financial support for the objectives of the Convention on Biological Diversity and to submit this type of information in their national reports; and other funding institutions were invited to compile information on their financial support for the Convention and to provide the Secretariat with such information.

4. The Secretariat has forwarded decision III/6 to donor bilateral agencies and, with the Organisation for Economic Cooperation and Development (OECD), has explored the idea of including a voluntary marker in the OECD statistical reporting system. The voluntary marker will enable Development Assistance Committee (DAC) member countries and multilateral financial institutions to indicate their support and commitment to implementation of the Convention. A follow-up letter was sent to bilateral donors, and several donors indicated that they would be willing to provide necessary information on the voluntary marker. The Secretariat is grateful to the Government of the United Kingdom of Great Britain and Northern Ireland for the provision of a fellowship and to that country's Royal Society for the Protection of Birds for technical support in the study of the voluntary marker. The Secretariat has also worked with multilateral funding institutions, such as the International Bank for Reconstruction and Development (IBRD), with a view to implementing decision III/6. Possible submissions to the Conference of the Parties by the DAC Working Party on Development Assistance and Environment and by the World Bank are also under discussion. The Secretariat has further explored the possibility of links between the clearing-house mechanism located in the Secretariat and the homepages of relevant funding institutions and organizations that provide financial and technical support to implementation of the Convention.

5. This report is prepared in response to the relevant provisions of decision III/6. It is structured as follows: chapter II provides information on the flow of financial resources in a global context; chapter III proposes a guideline for intersessional reports on official financial assistance by

developed country Parties; chapter IV explores how to involve private financial resources in the implementation of the Convention. The report ends with recommendations which Parties may wish to consider.

II. FLOW OF FINANCIAL RESOURCES

6. Official development assistance (ODA) remains a primary source of external funding for developing countries, in particular for least developed countries. According to information from the fifth session of the Commission on Sustainable Development, there is a downward trend in ODA, both in real terms and as a percentage of donors' gross national product (GNP). Measured at 1994 prices and exchange rates, ODA decreased by 9 per cent between 1990 and 1995. The ODA-GNP ratio was 0.27 per cent in 1995, which was far from the Agenda 21 target of 0.7 per cent. At its special session for the purpose of an overall review and appraisal of the implementation of Agenda 21 in June 1997, the General Assembly expressed concern over the present downward trend in the ratio of ODA to GNP, and called for intensified efforts to be made to reverse this trend, taking into account the need for improving the quality and effectiveness of ODA.

7. Within the context of the downward trend in ODA, incremental efforts by developed countries, measured by the ratio of increment in ODA to increment in GNP, show differentiated progress. ODA has increased in line with growth in GNP in some countries. Others have experienced difficulties in GNP growth, but have managed to maintain the level of their ODA as a ratio of GNP, although their ODA decreased in absolute terms. Some countries have the potential to increase their ODA, as the recent recovery in their fiscal situations may enable them to reverse the downward trend in ODA, as called for by the special session of the General Assembly.

8. The 1996 report by the Chairman of DAC (table III.1) contains information about private financial resource flows in terms of direct investment (from DAC member countries), international bank lending, total bond lending, grants by non-governmental organizations, and other private flows. Overall, both total private flows and foreign direct investment (FDI) have almost doubled between 1992 and 1995. Total private capital flows are three times greater than ODA. Of total private flows, international bank lending increased most, and direct investment followed. Grants from non-governmental organizations remained in the order of US\$6 billion. Private capital flows are concentrated in only a few developing countries, however. A World Bank study reveals that 12 countries accounted for about 80 per cent of total private flows and three quarters of FDI in developing countries during the first half of the 1990s.

9. Information about the extent to which both official and private financial resources have been utilized to support the objectives of the Convention is not available with any reasonable degree of accuracy. As stated below, national reports by developed country Parties did not contain standardized information about their financial support to the implementation of the Convention. A mechanism for submissions from funding institutions, including bilateral and multilateral donors as well as regional funding institutions, and

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non-governmental organizations as envisaged in decision III/6, paragraph 5, still needs to be established. This may become more desirable if developed country Parties begin to report on their financing activities in support of the objectives of the Convention, which will be explored in the following chapter. Some form of cooperation regarding biodiversity finance reporting needs to be entered into between the Convention and other funding institutions. As a pilot phase, such a reporting relationship may be set up between the Convention and major funding institutions, such as multilateral donors and regional funding institutions. The subjects of such reports may include the funding pattern, allocations to biodiversity activities, eligibility criteria, access policies and procedures, and any change thereof in support of the objectives of the Convention. As far as possible, the allocations to biodiversity activities may be further broken down in the light of the provisions of the Convention, in particular, from Article 6 to Article 19.

III. NATIONAL REPORTING ON FINANCIAL RESOURCES BY DEVELOPED COUNTRY PARTIES

10. Decision III/6 requires that developed country Parties should, where possible, submit standardized information on their financial support for the objectives of the Convention to the Secretariat in their national reports. The suggested guidelines for the first national reports, as adopted in decision II/17, do not, however, specifically require information on international technical cooperation, as derived from the differentiated responsibility of developed country Parties under the Convention. Only a few reports provide financial information related to the implementation of the Convention, and this financial information is not reported in a substantive manner. One national report indicates that divided responsibility among various organizations for the implementation of the Convention adds to the difficulty in the acquisition of necessary financial information for national reporting. Developing a standardized information matrix for reporting on financial support may be based on experience gained in similar exercises, such as these under the Credit Reporting System (CRS) of OECD and the United Nations Framework Convention on Climate Change.

11. CRS, sponsored jointly by OECD and the World Bank and operated by OECD, is an information system comprising data on ODA, official aid and other lending to developing countries and countries in transition. Data are collected from the members of DAC, the World Bank and the regional financial institutions. The CRS statistics focus on commitments (agreements with the aid recipients), not on disbursements (actual expenditures). In general, the coverage of CRS is high as regards loans and capital aid grants. A number of DAC members do not supply data on technical cooperation, or cover it only partially. The CRS information has been used by the Commission on Sustainable Development and some other environmental forums.

12. CRS contains information about the following activities that are directly related to biodiversity:

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(a) General environmental protection: environmental policy and administrative management; biodiversity; site preservation; environmental education/training; environmental research;

(b) Social infrastructure and services: water resources protection; water resources policies and water management that take into account environmental and socio-economic constraints, sanitation or waste management practices that bring environmental benefits;

(c) Production sectors: sustainable management of agricultural land and water resources; sustainable forest management programmes; combating land degradation and deforestation; sustainable management of sea resources; measures to suppress or reduce pollution in land, water and air; sustainable use of sensitive environmental areas for tourism.

13. During the intersessional period, the Secretariat identified several areas that are not specifically covered by CRS, including ex-situ conservation (e.g., seed banks, zoological gardens), sustainable wildlife management, fair and equitable sharing of benefits. The Secretariat suggested that the specific component on biodiversity could be added under some markers of the section on general environment protection. The following suggestions were made: First, "Biodiversity policy and administrative management" may be added under the marker "environmental policy and administrative management". This may include preparation of national plans, strategies or programmes (Article 6), integration of biodiversity into national decision-making (Article 10), development of incentive measures (Article 11), development of impact assessment (Article 14), development of policy and legislation on access to genetic resources (Article 15). Second, "Biodiversity education and training" may be added under the marker "environmental education/training". This mainly refers to Articles 12 and 13. And third, "Research on biodiversity" may be added under the marker "environmental research." This can address the measures taken to implement Article 12.

14. The guidelines for the preparation of national communications by Parties included in Annex I to the Framework Convention on Climate Change require relevant Parties to provide separately detailed information on financial resources for the purpose of that Convention. This information shall include, first, new and additional financial resources and an indication of how resources have been determined as being "new and additional"; and, second, detailed information on the provision of financial resources to meet the agreed incremental costs incurred by developing countries in their implementation of relevant measures covered under that Convention. A distinction must also be made between financial contributions to the financial mechanism, to regional and other multilateral institutions and programmes, and financial resources provided through bilateral channels to other Parties.

15. For the purpose of monitoring the progress made in the implementation of Article 20, paragraphs 2 and 3, information is needed regarding, first, new and additional financial resources provided through the financial mechanism; second, financial resources related to the implementation of the Convention provided

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through bilateral channels; and, third, financial resources provided through regional and other multilateral channels. Taking account of the above-mentioned experience under different circumstances, a minimum requirement for reporting by developed country Parties on financial resources for purposes of the Convention could be structured as follows:

(a) Contributions of new and additional financial resources to the financial mechanism, including how these resources have been determined as being "new and additional";

(b) Financial contributions to regional and other multilateral institutions that have biodiversity-specific and biodiversity-related funding programmes. These institutions may include IBRD, the International Development Association (IDA), the International Finance Corporation (IFC), the International Fund for Agriculture and Development (IFAD), regional development banks, the United Nations agencies and programmes, international and regional non-governmental organizations and private sector initiatives;

(c) Bilateral activities in support of the objectives of the Convention. While these activities may mainly be undertaken by a specific international cooperation agency, some other governmental agencies may also have relevant programmes. Non-governmental organizations and private sector institutions may be motivated by Governments to provide financial and technical assistance to developing countries. The information about bilateral activities may be presented in terms of funding pattern, allocations to biodiversity activities, eligibility criteria, access policies and procedures, and any change thereof in support of the objectives of the Convention. The allocations to biodiversity activities may be further broken down in the light of the provisions of the Convention, in particular, from Article 6 to Article 19.

IV. PROMOTING THE USE OF PRIVATE FINANCIAL RESOURCES

16. Although the Convention only provides for the involvement of the private sector in developing methods for sustainable use of biological resources (Article 10 (e)) and in facilitating access to, joint development and transfer of technology (Article 16, paragraph 4), and indirectly refers to the role of private funding institutions, there is an increasing consensus that the three-fold objectives of the Convention may not be fulfilled without the effective participation of the private sector. At its first meeting, the Conference of the Parties, by decision I/2, instructed the financial mechanism to support activities that provide access to other international, national and/or private sector funds and scientific and technical cooperation. At its second meeting, in decisions II/3 and II/4, the Conference of the Parties called for the involvement of the private sector in the work of the clearing-house mechanism and access to and transfer of technology. At its third meeting, the Conference of the Parties recognized that the private sector has an important role in the design and implementation of incentive measures, and encouraged Parties to promote private-sector initiatives in the implementation of incentive measures. Other documents before this meeting of the Conference of the Parties will

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further explore the possibilities of involving the private sector in the implementation of certain areas of the Convention, including the clearing-house mechanism (UNEP/CBD/COP/4/8), benefit-sharing (UNEP/CBD/COP/4/21 and UNEP/CBD/COP/4/22) and incentive measures (UNEP/CBD/COP/4/18). This chapter focuses on how to mobilize international private sector financial resources to support the objectives of the Convention.

17. Chapter II presents the overall pattern of private capital flows to developing countries between 1992 and 1995. Numerous studies show that, under the right conditions, private capital can make significant contributions to the implementation of the Convention, possibly even more significant than ODA. Consideration of the role of private financial resources in the implementation of the Convention may focus on efforts to ensure that the existing flows of capital are directed towards development projects that minimize potential damage to biodiversity, and to direct capital specifically to conservation and sustainable use of biodiversity, as well as to benefit-sharing initiatives. The former requires the application of biodiversity impact assessment to identify, assess, and manage potential biodiversity impacts that may affect specific transactions, and this may be particularly relevant in such sectors as tourism, power plants, natural resources extraction, etc. Adaptation of the national policies of both lending and borrowing countries to the objectives of the Convention, including the formulation of incentive measures, is a precondition for mobilizing private capital to support the Convention. The introduction of innovative funding mechanism and instruments is also essential to facilitating the harnessing of private capital to the purpose of conservation and sustainable use. A new public-private partnership in biodiversity is of great importance.

18. New measures need to be designed to provide incentives for private sector investment flows to favour biodiversity. This has been discussed by previous meetings of the Conference of the Parties and further studied in the note on the design and implementation of incentive measures (UNEP/CBD/COP/4/18). Governments in both the capital-exporting country and the capital-importing country could institute special tax schemes and legal and regulatory measures to encourage investment in biodiversity. At its special session, the General Assembly noted that many developing countries have not formed a favourable policy environment for foreign private investment, even in regular development programmes. Macro-stability, open trade and investment policies and well-functioning legal and financial systems are major areas that need to be addressed. Further studies need to be undertaken, at both the national and international levels, for facilitating foreign investment, in particular FDI flows to developing countries, and enhancing its contribution to biodiversity. This may be started with some case studies in the selected largest private-resource recipient countries.

19. Recognition of ownership of biological resources, including such aspects as access to land use, access to genetic resources, intellectual property rights, and modalities for benefit-sharing, is a precondition for expanding private investment in the conservation and sustainable use of biodiversity. Some of these questions have been considered by the Conference of the Parties (see decisions III/15 on access to genetic resources and III/17 on intellectual

property rights) and are further explored in the review of national, regional and sectoral measures and guidelines on access to genetic resources (UNEP/CBD/COP/4/23) and the note on measures to promote and advance the distributions of benefits from biotechnology in accordance with Article 19 (UNEP/CBD/COP/4/21). There is evidence to suggest that, where the purchase of freehold property is permitted, private individuals and corporate bodies have invested in conservation-oriented initiatives; but where freehold land is not available, the private sector has not been attracted in the same way. Many countries have legal barriers to private sector investment in biodiversity. These barriers should be identified and their purpose reviewed.

20. All opportunities need to be explored in order for the private sector to understand the value of biodiversity and underlying investment opportunities. In this regard, public awareness campaigns, as discussed in the note on public education and awareness (UNEP/CBD/COP/4/19), are of critical importance. Business associations can become a useful channel in promoting awareness among private sector stakeholders. In 1997, the World Business Council for Sustainable Development (WBCSD), in conjunction with the World Conservation Union (IUCN), launched a publication, "Business and Biodiversity: A Guide for the Private Sector". The guide was devised to show private business how to become more engaged in implementing the Convention and to encourage business to contribute its valuable experience to this process. The International Chamber of Commerce (ICC) has developed some environmental management kits for companies and promoted biodiversity policies. Further efforts need to be made to increase the availability of information about the biodiversity performance of firms to the public and the business community, as well to improve the transparency of that information. Awards programmes could be instituted, in order to give public recognition efforts by individual firms and business groups to compare their biodiversity performance. Biodiversity literacy in the private sector could be promoted in business schools. The participation of the private sector in further negotiations under the Convention and the formulation of national biodiversity strategies and policies are also of relevance.

21. International bank lending accounts for the largest share of private capital flows to developing countries. But very few examples have been found of organizations responsible for biodiversity that are in a position to receive loan financing from private commercial banks. The security of property rights and tenure as well as independence from arbitrary political influence are major factors that affect the interest of the banking community. Modalities of concessional loans, as anticipated in the GEF Instrument as a means of promoting the involvement of private sector, still need to be explored. The usefulness of establishing an International Environmental Corporation, similar to the current International Finance Corporation, could be carefully studied. International financial institutions may include biodiversity as a positive criterion for investment. In this regard, mainstreaming efforts planned by the World Bank and other bodies to integrate biodiversity conservation into regular lending activities may be encouraged and their experience may be shared with other international lending institutions. More efforts need to be made to develop a

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guideline for biodiversity impact assessment and to determine what institutional and policy reforms would be necessary to attract private loan capital to investments in support of the Convention.

22. Where the biodiversity-related activity can be structured to generate profitable returns, for instance, in sustainable tourism, or in the agricultural, pharmaceutical, forestry, fishery and biotechnology industries, etc., it may be well suited for equity investment. A South African company has succeeded in raising sizable sums in national and international capital markets for its integrated eco-tourism product, which promotes the sustainable non-consumptive use of wildlife and direct economic participation by rural communities. Environmental mutual funds could be a useful form of organizing private sector finance. But most mutual investment funds are located in the United States of America, the United Kingdom of Great Britain and Northern Ireland and Switzerland. The tapping of environmental mutual funds for biodiversity would require a country to have private sector companies with operations that support biodiversity, and have shares available for purchase by international investors. In general, attracting equity investment requires well-defined and secure property rights and a well-developed market for the biodiversity products and services to be offered. Further studies are needed in order to investigate how investor-friendly environments for biodiversity conservation ventures can be created.

23. A mechanism related to equity investment is to develop a market for transferable development rights (TDRs) in which external funds may be invested in biodiversity conservation by purchasing the development rights of landowners that would have been destructive of biodiversity. At the recently held Fifth Annual World Bank Conference on Environmentally and Socially Sustainable Development, the idea of joint biodiversity management interests, a form of TDRs, was discussed. The Colombian Protected Area Project of the Commonwealth Secretariat and the continuing evolution of the Man and Biosphere network also have a significant impact on the viability of TDR initiatives for the Convention. The appropriateness of such mechanisms for the purposes of the Convention may merit further study.

24. There is a need for new public-private partnership in biodiversity financing. It has been emphasized that technical, managerial and financial resources and expertise harboured by the private sector, including non-governmental organizations, should be mobilized to implement public-sponsored biodiversity programmes. Public-sponsored funds and joint ventures represent useful forms of such partnership, and this was discussed in the note on the study on the availability of additional financial resources (UNEP/CBD/COP/2/10) and reproduced in the note on the availability of additional financial resources (UNEP/CBD/COP/3/37). The IFC/GEF Small and Medium Enterprise Programme, the Biodiversity Enterprise Fund, and the World Bank-Brazil Biodiversity Project all attempted to explore mechanisms to ensure that private sector businesses and foundations with an interest in biodiversity protection can participate in GEF-funded project activities. The World Bank is creating a series of market transformation initiatives that bring together coalitions of private companies, non-governmental organizations, and development

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financiers to fund private sector investments for sustainable development in a number of sectors, including, inter alia, the forest and marine sectors. Export credits and investment insurance agencies can find an important role in catalysing private direct investment in developing countries. Opportunities should be also provided for the private sector to mobilize public funds to implement privately initiated biodiversity programmes consistent with the objectives of the Convention.

V. RECOMMENDATIONS

25. In decision III/6, the Conference of the Parties requested the Executive Secretary to explore ways of collaborating with funding institutions and the private sector to achieve greater support for the Convention, and invited developed country Parties and other funding institutions to provide the Secretariat with information on their financial support for the Convention. In the light of this, the Conference of the Parties is invited to request the Executive Secretary to prepare, for the consideration of the fifth meeting of the Conference of the Parties, a draft programme of work on financial resources, to include:

- (a) Monitoring financial support for the Convention;
- (b) Provision of information to Parties; and
- (c) Cooperation with relevant conventions and instruments.

26. The Conference of the Parties is invited to include relevant private foundations among the categories of funding institutions to be contacted, and to request that the draft programme of work referred to above give priority to identifying possibilities for financial support to specific elements of the longer-term programme of work to be considered under item 13 of the provisional agenda of this meeting.
