



## Convention on Biological Diversity

Distr.  
GENERAL

UNEP/CBD/RW-BF/5/5  
4 April 2011

ORIGINAL: ENGLISH

### REGIONAL WORKSHOP ON BIODIVERSITY AND FINANCE IN SUPPORT OF THE NAGOYA OUTCOMES

Fifth meeting

Cartagena, Colombia, 30 April 2011

Item 6 of the provisional agenda\*

### INNOVATIVE FINANCING FOR BIODIVERSITY AND ECOSYSTEM SERVICES

1. Strategic goal 4 of the Convention's Strategy for Resource Mobilization seeks to explore new and innovative financial mechanisms at all levels with a view to increasing funding to support the three objectives of the Convention. In decision IX/11, the Conference of the Parties identified six areas of financial innovations: schemes for payment for ecosystem services; biodiversity offset mechanisms; environmental fiscal reforms including innovative taxation models and fiscal incentives; markets for green products, business-biodiversity partnerships and new forms of charity; development of new and innovative sources of international development finance; and funding mechanisms for climate change. In decision X/3, the Conference of the Parties requested the Executive Secretary to undertake further activities on innovative financial mechanisms.

2. This brief note provides basic information on innovative financial mechanisms under international discussion, and calls for sharing of experiences and good practices and promoting consensus, building on these identified innovative financial mechanisms.

#### Participants are invited to discuss:

- (i) **General principles for exploring innovative financial mechanisms;**
- (ii) **Information, experiences and perspectives on market-based innovations: schemes for payment for ecosystem services; biodiversity offset mechanisms; markets for green products; business-biodiversity partnerships;**
- (iii) **Information, experiences and perspectives on national policy innovations: environmental fiscal reforms including innovative taxation models and fiscal incentives; new forms of charity;**
- (iv) **Information, experiences and perspectives on international innovations: new and innovative sources of international development finance; funding mechanisms for climate change.**

\* UNEP/CBD/RW-BF/5/1.

## **I. GENERAL PRINCIPLES FOR EXPLORING INNOVATIVE FINANCIAL MECHANISMS**

3. During the negotiations of the tenth meeting of the Conference of the Parties, delegates expressed the desire to develop general principles for exploring innovative financial mechanisms. Recommendation 3/9 of the Ad Hoc Open-ended Working Group on Review of Implementation of the Convention reaffirmed the commitment of Parties to meet the obligations set out in the provisions of Article 20 of the Convention and in accordance with the Rio Principles, and emphasized that any new and innovative funding mechanisms are supplementary to the financial mechanisms established under the provisions of Article 21 of the Convention.

4. More recently, the United Nations General Assembly adopted resolution A/RES/65/146 on innovative mechanisms of financing for development, which highlighted the considerable progress in innovative sources of financing for development achieved to date, and stressed the importance of scaling up present initiatives and developing new mechanisms, as appropriate, and reiterated that such voluntary mechanisms should be effective, aim to mobilize resources that are stable and predictable, should supplement and not be a substitute for traditional sources of finance and should be disbursed in accordance with the priorities of developing countries and not unduly burden them. The resolution stressed that innovative mechanisms of financing can make a positive contribution in assisting developing countries to mobilize additional resources for development on a stable, predictable and voluntary basis.

## **II. SCHEMES FOR PAYMENT FOR ECOSYSTEM SERVICES**

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

## **III. BIODIVERSITY OFFSET MECHANISMS**

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

## **IV. ENVIRONMENTAL FISCAL REFORMS INCLUDING INNOVATIVE TAXATION MODELS AND FISCAL INCENTIVES**

7. Strategic objective 4.3 of the strategy for resource mobilization is to explore opportunities presented by environmental fiscal reforms including innovative taxation models and fiscal incentives for

achieving the three objectives of the Convention. Environmental fiscal reforms normally experience five stages: (i) agenda setting stage to define problems, (ii) policy development stage to identify options, (iii) policy advocacy stage to build support, (iv) decision-making and implementation stage, as well as (v) monitoring and evaluation stage. The challenge is to achieve three-fold objectives together: fiscal objectives (revenue generation and expense reduction), development objectives (addressing environmental problems that affect development, and improved access to environmental infrastructure as well as resourcing for pro-poor investments), and environmental objectives (incentives for sustainable natural resource management and financing for environmental agencies and investments). Successful environmental fiscal reforms should have net positive fiscal, environmental and social impact.

## **V. MARKETS FOR GREEN PRODUCTS, BUSINESS-BIODIVERSITY PARTNERSHIPS AND NEW FORMS OF CHARITY**

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

## **VI. DEVELOPMENT OF NEW AND INNOVATIVE SOURCES OF INTERNATIONAL DEVELOPMENT FINANCE**

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

## **VII. FUNDING MECHANISMS FOR CLIMATE CHANGE**

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

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

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