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SYNTHESIS ON INNOVATIVE FINANCIAL MECHANISMS

Note by the Executive Secretary

1. The present synthesis on innovative financial mechanisms has been prepared in pursuance of paragraph 8 (c) of decision X/3 A, as well as paragraph 5 (f) of recommendation 4/2 of the Ad Hoc Open ended Working Group on Review of Implementation of the Convention. It focuses on the submissions from Parties and organizations received under paragraph 8 (c) of decision X/3 A.

I. INTRODUCTION

2. In paragraph 6 (e) of decision X/3 A, the Conference of the Parties requested the Executive Secretary, within available resources, to undertake further activities on new and innovative financial mechanisms. Under paragraph 8 (c) of the same decision, the Conference of the Parties invites Parties, relevant organizations and initiatives, such as the World People's Conference on Climate Change and the Right of Mother Earth, to submit information concerning innovative financial mechanisms that have potential to generate new and additional financial resources as well as possible problems that could undermine achievement of the Convention's three objectives, not later than 30 June 2011, for the Executive Secretary to compile and present a synthesis of this information.

3. In paragraph 5 (f) of recommendation 4/2, the Ad Hoc Open ended Working Group on Review of Implementation of the Convention further requested the Executive Secretary to prepare a synthesis report, taking into account the submissions in response to paragraph 8 (c) of decision X/3 as well as other sources of information as appropriate, such as the informal seminar dialogue on Scaling-up Biodiversity Finance held in Quito from 6 to 9 March 2012 and the workshop on Financing Mechanisms for Biodiversity held in Montreal, Canada on 12 May 2012, for the consideration of the eleventh meeting of the Conference of the Parties.

4. In response to paragraph 8 (c) of decision X/3 A, a total of 19 submissions were received from the following Parties and organizations: Canada, Costa Rica, Ecuador, European Union, India, Japan, Mexico, Moldova, Norway, Russian Federation; OECD, GDI, IUCN, UNCCD/GM, BBOP, TNC, CEEweb, EcoNexus, Global Forest.

5. Section II provides a synthesis of the submissions from Parties grouped by topics. Section III provides a synthesis of submissions from organizations and other sources. A brief concluding remark is provided in section IV.

II. SUBMISSIONS FROM PARTIES ON INNOVATIVE FINANCIAL MECHANISMS

6. The submissions have demonstrated an ample and diverse range of examples of innovative financial mechanisms that have been already used in a number of countries. Based on practical examples from all over the world, according to the EU submission, there is clear evidence that such innovative financial mechanisms can significantly support the financing of actions to reach CBD objectives at local, national and international levels.

Country	Examples
Bolivia	Los Negros in Bolivia: a voluntary and collective payment for ecosystem services combining local and international payments
Canada	Environment Damages Fund, Ecological Gifts Program, Ontario’s Managed Forest Tax Incentive Programme, the Nova Scotia Habitat Conservation Fund, British Columbia’s Habitat Conservation Trust Foundation, Ontario Provincial Parks User Fees, Darkwoods Forest Carbon Pilot project
Colombia	Payment for ecosystem services to promote forest conservation of the Columbian Amazon
Costa Rica	Programme for payment for environmental services, eco-market projects, water fee, Costa Rica Forever Programme, Environment as a resource for Costa Rica‘s economic development: a compulsory and collective payment for ecosystem services stemming from general public budgets
Ecuador	The Yasuni ITT
France	The French Vittel Company’s voluntary payment for ecosystem services, Mitigation hierarchy in France
Germany	The International Climate Initiative (ICI), German Eingriffsregelung (impact mitigation regulation), The CBD LifeWeb Initiative – A clearing-house for protected areas financing
India	Experimenting with some tools of innovative financial mechanisms such as positive incentives for forest conservation, protected areas etc. Launched Green India Mission with a budget of 10 billion US$ over 10 year period, under its National Action Plan on Climate Change. The objectives *inter alia* include to improve biodiversity, ecosystem services, hydrological services and carbon sequestration in 10 m ha and increase forest-based livelihood income for 3 m forest dependent households
Japan	Market for flooding rice paddies during winter in the Kabukuri-numa wetland, forest environmental tax in Kochi Prefecture, business conservation of water by recharging groundwater in Kumamoto Prefecture
Mexico	Mexico City State forests hydrological services: a compulsory and bilateral payment for ecosystem services stemming from use rights payments or ecosystem services affected taxes
Netherlands	Green Funds Scheme
Others	Save Our Species Initiative, the Wetland Carbon Partnership (the Danone Group), Green Development Initiative (GDI), Round Table on Responsible Soy Association (RTRS)

Source: www.cbd.int/financial

7. *The need for innovative financial mechanisms*. India indicated that first and foremost, any discussion on innovative financial mechanisms must be premised on the condition that these should be designed to supplement, and not substitute the new and additional financial resources committed by the developed country Parties under Article 20 of the Convention. Notwithstanding the above concern, India stated that there is indeed merit in discussing innovative financial mechanisms because of their potential in complementing the existing commitments so as to increase funding in support of the three objectives of the Convention, considering that the effective implementation of the Aichi Biodiversity Targets under the Strategic Plan for Biodiversity for 2011-2020 would require enhanced mobilization of resources. European

Union also indicated that given that the resources do not meet the level required to enable the full and effective implementation of the objectives of the Convention, and the estimated extent of the present financing gap, it is crucial to explore the potential of innovative financial mechanisms to complement existing commitments with a view to increasing funding to support the three objectives of the Convention.

8. *Status of knowledge*. India noted that about 10-15 innovative financial mechanism instruments are being discussed in various international fora including CBD and GEF, and many of these concepts (e.g. Business and Biodiversity offsets Programme, Green Development Mechanism etc.) are not adequately fleshed out, and therefore lack clarity and details. The European Union indicated that these instruments generate public as well as private biodiversity funds at local, national and international levels, and provided more detailed reasons for each instrument. Japan analysed the challenges of payment for ecosystem services and certification system and shared their experiences in how to address the identified challenges. According to Norway, the question is as much about whether this is a legitimate way to treat environmental values, as it is about whether the markets may work well from a purely functional perspective. Republic of Moldova identified several strategic issues in order to address the problems of insufficient investment and low efficiency. Mexico indicated that resources generated from ecosystem services would have to be new and additional funding for a financial mechanism of the Convention. Ecuador proposed a net emission avoided mechanism (ENE) for financing the achievement of both biodiversity and climate change objectives, and cited the Yasuni ITT as an example of such a mechanism. In the context of discussing ecosystem goods and services, the submission from the Russian Federation proposed a protocol on sustainable use of biodiversity based on market instruments, e.g. trade in ecosystem goods and services, assimilating capacity, biomass for money, technologies, debt.

9. *Relations with the Convention*. Mexico submitted that some proposed financial mechanisms are beyond the conventions such as green taxes because developed countries should provide developing countries with funds for biodiversity conservation under the Convention. European Union stated that regardless of the nature or the type of the innovative financial mechanism, the use and delivery of additional resources should be in line with the Convention and contribute to its objectives.

10. *Environmental consideration*. The European Union indicated that safeguards, both environmental and socio-economic, may need to be established when designing and implementing innovative financial mechanisms, and biodiversity criteria, targets or guidelines, in particular, should be reflected in the objectives of any innovative financial mechanism. It should neither directly nor indirectly affect biodiversity negatively. Prior to the implementation of any kind of innovative financial mechanism, a thorough environmental impact assessment needs to be carried out in order to evaluate and gauge the impact on biodiversity but also on the larger environment. India noted as an important issue to be addressed through IFM that not undertaking developmental activities in biodiversity rich areas with the aim of protecting biodiversity would entail substantial opportunity costs. It is crucial to evaluate and meet these opportunity costs.

11. *Resourcing potential*. Norway cited the TEEB for Business Report on the emerging markets for biodiversity and ecosystem services that can add up to US$ 480 billion a year by 2020, arguing that biodiversity finances could be left to the market alone, and observed that the market opportunities outlined in the TEEB report are not yet fully developed. According to the European Union, the potential of innovative financial mechanisms depends on multiple factors such as their design, the institutional framework, the geographical scale, the involvement of stakeholders, etc. Innovative financial mechanisms have significant potential to generate new and additional financial resources at local, national and international levels. International innovative financing mechanisms can provide financing for sustainable development, especially towards the poorest and most vulnerable countries.

12. *Transaction costs*. Norway noted high start up and running costs of certain schemes, and indicated that more in-depth evaluation would be required to determine the value-added and net benefits of fund-raising efforts and financial solutions. The European Union indicated that innovative financial mechanisms should aim at as low as possible administration costs. During the design of the innovative financial

mechanisms, the economic efficiency of the generation and redistribution of funding needs to be ensured. Economic leakages should be carefully considered, so that the additional constraints/incentives provided by new policy schemes would not lead to additional pressure elsewhere, where such policies have not been implemented.

13. *Predictability and stability*. Mexico observed that at a time when all traditional donor countries are going through a severe crisis of public resources as a result of the 2008-2009 financial and macroeconomic crises, any proposal that requires more spending of public funds, especially to other countries, will find bottlenecks in their application. The European Union noted that innovative financing mechanisms are likely to play a far more prominent role in international financing for development in the near future.

14. *Role of government*. Republic of Moldova noted that an important precondition for financing mechanisms is a well-functioning governance regime in place, such as a set of rules on how ecosystems goods and services are managed, and on how user rights and responsibilities are distributed, including incentives, safeguards, dispute resolution processes and enforcement mechanisms used to control and co-ordinate the actions of various self-interested stakeholders, interacting in a bilateral and multilateral exchange relationship. Norway indicated that success depends on robust regulatory regimes and clear agreement of roles and responsibilities, and emphasized that establishing markets requires government actions and interventions. To realize the full economic potential of innovative financing for biodiversity, public and private investments to improve the knowledge base and management of biodiversity are needed. According to Norway, the issue is not only about "how much market", but also about the role of governments in forming and regulating markets. The European Union stated that the efficient application of any innovative financial mechanism will depend on supporting the capacity and governance structure needed to make it work, and this entails also the involvement of local communities as well as the private sector. India noted that while considering any innovative financial mechanism, care needs to be taken that requisite enabling frameworks are put in place to effectively implement such processes.

15. *Socio-economic consideration*. India noted that while considering any innovative financial mechanism, care needs to be taken that the benefits spread across various stakeholders. The European Union indicated that in the same way that innovative financial mechanisms should have positive impacts on biodiversity conservation and sustainable use, safeguards should be in place to ensure that the generation of resources does not cause adverse social impacts. An important aspect is the tenure and user rights of local peoples, as recognized in UNFCCC decisions 1/CP.16 and 12/CP.17 concerning systems for providing information on how safeguards are addressed and respected and modalities relating to forest reference emission levels and forest reference levels. This provides a useful example calling for the respect for the knowledge and rights of indigenous peoples and members of local communities, by taking into account relevant international obligations, national circumstances and laws, and noting that the United Nations General Assembly has adopted the United Nations Declaration on the Rights of Indigenous Peoples'. Transparency and accountability are crucial elements when implementing any innovative financial mechanisms.

16. *Next steps*. India noted that considering the vast diversity in national circumstances at the ground level, discussions in innovative financial mechanisms in multilateral fora could only be in the form of some guidelines, possible options, and safeguards, with each country having the flexibility of considering one or more of such tools in accordance with their national circumstances. According to the European Union, the effective implementation of the Strategic Plan for Biodiversity 2011-2020 will require an adequately increased mobilization of resources from all possible public sources, as well as increased resources from private sources including innovative financial mechanisms. Therefore, the European Union and its MS consider it necessary that COP-11 gives political support to one or more innovative financial mechanisms, identifies basic principles to judge their relevance and function, and lays out a plan for their further development. In order to promote the realization of the potential of innovative financial mechanisms, it is important to analyze the pros and cons of existing and potential innovative mechanisms. However, analysis cannot remain a paper exercise, and careful field testing of innovative financial mechanisms must be

encouraged, in well monitored and reviewed pilot phases. This can help develop principles and safeguards to ensure that these mechanisms fully contribute to the achievement of the objectives of the Convention on Biological Diversity. The European Union and its Member States therefore welcome the opportunity to look into this issue in more detail.

17. Republic of Moldova indicated that general steps involved for the creation of innovative financial mechanisms could include: the feasibility of establishing markets for ecosystem services, including consideration of the transaction costs associated with creating such markets; the degree of complexity involved in bundling various ecosystem services in an integrated manner so that markets for composite services can be created; the issue of determining the true value of specific ecosystem services; the possible use of current institutional structures within the multilateral environmental agreements to operationalize or support the creation of markets for ecosystem services; the modalities to ensure that access to markets for ecosystem services is equitable and that proceeds from these markets are distributed in a fair manner among the social groups directly affected by these ecosystem services; the ways and means to integrate these initiatives within national poverty reduction strategies and national budgets; and the level and type of trading platform that is optimal for each ecosystem service (e.g. a global trading platform for carbon credits etc.). The Republic of Moldova noted that there are many extant strategies, programme plans related to some important key of biodiversity objectives – conservation of biodiversity, sustainable use of biological resources and the equitable sharing of benefits. However, most of these strategies, programme plans focus on specific goods such as organic foods or sustainable timber, or specific services such as ecotourism, and do not directly focus on the natural areas affected by the provision of these goods and services. Thus a 'biodiversity standard' could include existing strategies, programme plans for social and environmental responsibility plus additional commitments as appropriate to ensure that biodiversity is conserved and used sustainably. In this respect, a new strategy for innovative financial mechanisms should use existing biodiversity-relevant strategies, programme plans where these are credible and seen to represent best practice in the field concerned.

III. SUBMISSIONS FROM ORGANIZATIONS AND OTHER SOURCES ON INNOVATIVE FINANCIAL MECHANISMS

18. The Global Mechanism (GM) of the United Nations Convention to Combat Desertification submitted its approach paper on innovative financing sources and financing mechanisms, and outlined its programmes and initiatives on innovative finance. Three categories of services were mentioned in its submission:

(a) Knowledge management. The GM generates analytical and methodological tools to identify innovative financing sources and mechanisms for sustainable land management, and shares the knowledge, including through capacity-development workshops;

(b) Advisory and brokering services. The GM provides advisory services to countries on exploring and mobilizing innovative financing mechanisms and sources under the integrated financing strategies process. The GM also assists affected countries in mobilizing additional resources and investments for sustainable land management by brokering partnerships between stakeholders as part of the development and implementation of the integrated investment frameworks;

(c) Networking and partnership building. The GM supports the establishment of an enabling environment for the mobilization of innovative resources by strengthening its network of international and regional institutions and facilitating partnerships.

19. The submission by the International Union for Conservation of Nature (IUCN) noted the growing trends in applying innovative financial mechanisms, and emphasized that the quest to broaden and diversify the funding sources for biodiversity conservation should not mean that conservationists 'sell out on nature', and the use of innovative financial mechanisms should not result in any type of 'commodification' of

nature. According to the submission, although markets can be used to encourage more sustainable behaviors by setting prices, they will never be able to capture the full value of nature. A payment for an ecosystem service, for instance, is aimed at influencing the behavior of a land owner or land steward, and is not intended to capture the value of an ecosystem. In fact, transactions for such schemes (e.g. payments for forest-based carbon projects) are often based on the opportunity costs of the foregone activity (e.g. agriculture or forestry) rather than on any estimation of the economic value of a given ecosystem or ecosystem service. IUCN strongly encouraged the Parties to the Convention to support the further development of innovative financial mechanisms as a means of meeting the Strategic Plan for Biodiversity 2011-2020 and also expressed its interest in supporting ongoing efforts to ensure that innovative financial mechanisms realize their potential, including through further analysis and on-the-ground testing.

20. The submission by the Organisation of Economic Co-operation and Development (OECD) highlighted the urgent need for greater levels of finance for biodiversity conservation and sustainable use, and more efficient use of available finance in existing programmes. It stated that well-designed innovative financial mechanisms would ideally meet the following criteria: remove perverse incentives; clearly define property rights, clearly define goals and objectives, develop a robust monitoring and reporting framework, identify buyers and ensure sufficient and long-term sources of financing, identify sellers and target ecosystem service benefits, establish baselines and target for biodiversity and ecosystem services that are at risk of loss, or to enhance their provision, differentiate payments based on the opportunity costs of ecosystem service provision, consider bundling or layering multiple ecosystem services, address leakage, ensure permanence, deliver performance-based payments and ensure adequate enforcement. The submission made further reference to relevant OECD research reports, including:

Payment for ecosystem services	OECD (2010). *Paying for Biodiversity: Enhancing the Cost-Effectiveness of Payments for Ecosystem Services.* OECD Workshop on Enhancing the Cost-Effectiveness of Payments for Ecosystem Services (PES) March 2010
Biodiversity offset mechanisms	OECD Workshop on Mobilizing Private Sector Finance for Biodiversity Conservation and Sustainable Use, March 2011 OECD Workshop on Innovative International Financing for Biodiversity Conservation and Sustainable Use July 2009
Environmental fiscal reforms	OECD (2003). “Perverse Incentives in Biodiversity Loss” [ENV/EPOC/GSP(2003)2/FINAL]
Markets for green products	OECD (2011). *Greening Household Behaviour: The Role of Public Policy*
Biodiversity in international development finance	OECD (2010) Policy Statement on Integrating Biodiversity and Associated Ecosystem Services into Development Co-operation. OECD (2009) *Natural Resources and Pro-Poor Growth: The Economics and Politics*
Biodiversity in climate change funding	OECD (2008). “Promoting Biodiversity Co-Benefits in REDD”. ENV Working Paper No. 11. OECD Workshop on Incentives to Capture the Biodiversity and Carbon Benefits for Reducing Deforestation March 2008

21. The Nature Conservancy (TNC) submitted the example of Latin American Water Funds Partnership that pays for nature’s services and reinvest the money in conservation. The funds attract voluntary contributions from large water users downstream, like water utilities, hydroelectric companies or industries, and revenues from these investments is directed to preserve key lands upstream that filter and regulate the water supply, as well as create incentives for sustainable economic opportunities that have a positive impact on local communities. Another case is the Berau Forest Carbon Program (BFCP), located in East Kalimantan, Indonesia, which has been developed through partnership as a pilot programme for reducing carbon emissions from deforestation and degradation of forest and increasing carbon stocks

through sustainable forest management, forest conservation and forest rehabilitation. In addition, TNC submitted the following research reports:

Author(s)	Article
Green, A., Lokani, P., Sheppard, S., Almany, J., Keu, S., Aitsi, J., Warku Karvon, J., Hamilton, R and G. Lipsett-Moore (2007)	Scientific Design of a Resilient Network of Marine Protected Areas, Kimbe Bay, West New Britain, Papua New Guinea, TNC Pacific Island Countries Report No. 2/07
Saenz M., Shirley (2011)	Compensation for loss of biodiversity and its application in the pilot case of coal mining in Cesar (in Spanish)
McKenney, Bruce A. and Joseph M. Kiesecker (2010)	Policy Development for Biodiversity Offsets: A Review of Offset Frameworks, Environmental Management (2010) 45:165–176
Kiesecker, Joseph M., Holly Copeland, Amy Pocewicz, and Bruce McKenney (2009)	Frontiers in Ecology and the Environment: Development by design: blending landscape level planning with the mitigation hierarchy, Front Ecol Environ 2009
Kiesecker, Joseph M., Holly Copeland, Amy Pocewicz, Nate Nibbelink, Bruce Mckenney, John Dahlke, Matt Holloran, and Dan Stroud (2009)	A Framework for Implementing Biodiversity Offsets: Selecting Sites and Determining Scale, BioScience Vol. 59 No. 1, January 2009

22. The submission by the Business and Biodiversity Offsets Program aimed to present a very basic introduction to the consideration of biodiversity offset policy options by governments and their advisors. The paper discussed:

(a) Fundamentals of biodiversity offsets and biodiversity offset policy, including the principles for best practice biodiversity offsets, the different approaches available to governments when considering an offset scheme and the different policy options for biodiversity offsets, and various ways of implementing offset policies, including through markets and existing permitting or consent use systems tied to environmental impact assessment;

(b) Possible roles for governments in developing and implementing policies on biodiversity offsetting, including those of policy maker, regulator, market maker, broker and monitoring and compliance agency;

(c) Ways in which biodiversity offsetting policy can be integrated with other policy areas including environmental impact assessment, strategic environmental assessment, industry policy and whether offsets can be designed to offer multiple benefits (for instance, carbon and water);

(d) Capacity issues, such as requisite skills and resources a government may require to establish a biodiversity offsetting scheme, cost recovery for situations where government services are provided;

(e) Experiences in a range of situations around the world where biodiversity offsetting has been attempted, and key lessons for success.

23. The submission by Global Forest Coalition presented its findings, based on five case-studies on different market-based mechanisms in Colombia, Costa Rica, Paraguay, South Africa and India, that market mechanisms can have a wide-ranging negative impact on community governance, even for those communities wishing to participate. Its main messages were:

(a) Those who own land and resources are most likely to benefit;

(b) Market mechanisms lead to the privatization of vast tracts of land;

(c) Market mechanisms can lead to the illegal appropriation of resources;

(d) Market mechanisms are throwing land reform programmes into reverse;

(e) Speculators are buying up land to profit from biodiversity-related market mechanisms;

(f) Even those communities with legal land tenure may not benefit;

(g) Local communities can find themselves saddled with unexpected liabilities;

(h) The losses experienced by communities may outweigh any losses;

(i) Market mechanisms undermine legislation on local self-determination;

(j) Engaging in market mechanisms can alter community governance and create conflict;

(k) Market mechanisms have a significant impact on food sovereignty and water security;

(l) An increased commercial presence can create additional burdens for local government and rate payers;

(m) Economically powerful actors dominating conservation policies and priority-setting.

24. The submission by Forest Peoples Programme examined payment for ecosystem services, biodiversity offsets, REDD+ and avoided deforestation finance, and provided eight conclusions:

(a) Given the unproven sustainability of different innovative finance mechanisms, Parties should apply a precautionary approach and avoid decisions and commitments on this topic until reliable evidence is available to demonstrate the usefulness of different funding mechanisms in helping to achieve the objectives of the Convention;

(b) To assist further work of the Convention on this important topic, the Conference of the Parties, at its eleventh meeting should consider inviting submission of up-to-date and detailed case-studies of the impact and effectiveness of innovative finance initiatives;

(c) Measures need to be put in place by Parties and by finance agencies to ensure that all "innovative financial mechanisms" for conservation and sustainable use fully uphold CBD standards and other relevant international norms, including human rights standards;

(d) Ongoing CBD consultations on REDD+ biodiversity safeguards in 2011-12 should enumerate relevant CBD and other applicable international standards to be adhered to by global, regional, national and other finance mechanisms in order to further the objectives of the Convention and enable countries to fulfil their commitments under the CBD;

(e) At a minimum, standards relating to indigenous peoples should be consistent with the United Nations Declaration on the Rights of Indigenous Peoples, including requirements for free, prior and informed consent for all finance decisions and investments that may affect indigenous peoples" lands, territories and natural resources;

(f) CBD development of biodiversity safeguards for REDD+ finance should make direct reference to agreed CBD principles and approaches such as the Ecosystem Approach as well as existing innovative CBD tools such as the *Akwe:kon* guidelines on environmental, social and cultural impact assessment;

(g) Work by governments and major groups within the UNFCCC to establish a system of information for REDD+ safeguards should include information on compliance with CBD standards relating to indigenous peoples and local communities;

(h) GEF safeguard principles on indigenous peoples under development in 2011 must ensure close alignment with CBD objectives, norms, principles and work programmes (including Articles 8(j) and 10(c) as well as relevant elements of the work programmes);

(i) CBD working and expert groups should be tasked with assessing how strategic *targeting* and *sequencing* of existing and innovative international financial flows for environmental conservation and sustainable use can help promote effective implementation of CBD objectives and work programmes (including targeted support for indigenous peoples and local communities);

(j) Upcoming public participatory consultations on the revision and updating of NBSAPs should include open public debate on different finance options for implementation of the Convention on Biological Diversity at the local and national levels. Such debates should cover a range of innovative options and measures as well as existing tools, including reform of existing tax and subsidies that may be harmful to biodiversity (such as subsidies to fossil fuels) and the creation of tax and subsidies that promote the conservation and sustainable use of biological resources biological resources.

25. The submission by the Green Development Initiative (GDI) provided an update on establishing a biodiversity standard and certification scheme for land management, not land ownership transfer. Through independent third-party certification, according to the submission, land managers can be recognized for their efforts to conserve biodiversity and to use biological resources sustainably and equitably.

26. The submission by the CEEweb for Biodiversity provided some thoughts and ideas that may contribute to the extremely important discussion and development of innovative financial mechanisms:

(a) The nature or the type of innovative financial mechanisms must be consistent with the Convention on Biological Diversity and the delivery of its objectives. An innovative financial mechanism may not have any direct or indirect negative effect on biodiversity;

(b) In order to safeguard this principle “sustainability check” should be carried out for each innovative financial mechanism in question. Such assessment will include consideration of: how the finances are generated (having negative impact elsewhere); whether use of the finances contribute directly or indirectly to nature distraction? (Increased exploitation, movement of goods and people, etc.); how long is the mobilized resource available - what does the availability in time depend on – and how does it relate to the biological cycles it is supposed to have a positive impact on? How may innovative financial mechanisms be vulnerable to market forces?

(c) The needs for new and additional resources must be scrutinized – primarily assessing the new and/or revised national biodiversity strategies and action plans. It should be avoided that while a country/region is directly or indirectly increasing the pressure on biodiversity on the one hand, it would indicate and spend ever increasing resources for the protection of biodiversity on the other hand. This spiral needs to be broken down;

(d) Safeguards needs to be in place prior to the implementation of any innovative financial mechanism – and this should include social, economic but governance measures as well;

(e) The trend of increasing environmental pressure is increasing, thus it is predictable that in order to compensate it increasing resources will be needed. In order to move ahead with the effective and predictable implementation of the CBD’s objectives an early phasing-out strategy of resources (instead of ever increasing demand) would need to be in place as a guarantee for sustainability;

(f) Donor countries and communities must have the assurance from the recipient constituency when considering the implementation of various innovative financial mechanism schemes, regarding the sustainability assessment that has been carried out, appropriate governance structure, and last but not least the absorption capacity that is in place;

(g) The existing examples of innovative financial mechanisms and the ones which are being developed need to be scrutinized both by the national and international community in order to understand its functioning in different environments and to develop appropriate safeguards prior to its eventual implementation;

(h) Parties should assess how various innovative financial mechanisms have been implemented and how they have contributed to the CBD objectives and request the CBD Secretariat to prepare implementation guidelines for the consideration and decision of the Parties;

(i) The various innovative financial mechanisms should be treated systemically – they should not only address specific problems but also overarching issues which lead to biodiversity decline. Thus they should eventually regulate the resource use and in effect decrease the pressure on ecosystem services. The innovative financial mechanisms should also pre-empt eventual and arising problems;

(j) The resources created and mobilized through innovative financial mechanisms should be generated from unsustainable use of resources and lead towards sustainable use;

(k) Financial resources always – directly or indirectly – lead to utilization of resources and energy – which are contributing to environmental pressures. Thus, when designing the innovative financial mechanisms, they should be only active until the objectives are reached and the balance between positive contribution to biodiversity and negative environmental pressures is not shifting towards more pressures and less environmental benefits.

27. The submission by EcoNexus examined the experience related to carbon offsets, wetland banking, business and biodiversity offsets programme, and noted corruption, human rights violation, failure of regulation and a broad range of unintended negative social and environmental impacts in the carbon market while emissions have increased. It thus took the position that biodiversity markets will fail to stem biodiversity loss and will be a major distraction from the real priorities. Also included in the submission are the following articles:

Author(s)	Article/research report
Bayon, Ricardo (2008)	Chapter 9: Banking on Biodiversity, in State of the World: Innovations for a Sustainable Economy, 25th Anniversary Edition, the Worldwatch Institute
Clare, Shari, Naomi Krogman, Lee Foote and Nathan Lemphers (2011)	Where is the avoidance in the implementation of wetland law and policy? Wetlands Ecol Manage (2011) 19:165-182
Lohmann, Larry (2006)	Carbon Trading: a critical conversation on climate change, privatization and power, development dialogue no. 48, September 2006
Paul, Helena (2011)	Carbon – the New Cash Crop? Submission from the NGO Eco-Nexus, July 2011

The Informal Seminar Dialogue on Scaling-up Biodiversity Finance, Quito, Ecuador (6-9 March 2012)

28. The informal seminar dialogue on Scaling-up Biodiversity Finance held in Quito, Ecuador from 6 to 9 March 2012, explored and contributed to understanding ways to scale up the mobilization of financial

resources. The overall conclusion from the seminar is that economic incentives can play an important role for reaching the Aichi Biodiversity Targets and that governance and institutional frameworks, including safeguards, are critically important for all financing mechanisms for biodiversity. The workshop suggested requesting the CBD Secretariat to compile a more comprehensive report on lessons learned and possible risks and benefits of innovative financial mechanisms. Some highlights from the workshop are as follows:

(a) The term "innovative financial mechanisms" appears to be inappropriate, as it covers a wide variety of mechanisms, including both public and private approaches, and both established and truly new alternatives. To avoid misunderstandings, it was proposed that a generic term such as "biodiversity financing mechanisms", rather than "innovative financial mechanisms", could be used. Likewise, the expression "markets for biodiversity" should be avoided;

(b) There was a span of views on values. While some object to setting a monetary value on nature and natural processes, others think it is acceptable to do so as an input to decision-making. Others go further and find it appropriate to set prices for buying and selling "ecosystem services";

(c) Good governance, rights-based frameworks and establishment of safeguards are concluded to be key prerequisites for the functioning of any innovative financial mechanism, and communities and countries should decide whether mechanisms are appropriate or not to their specific political, social and cultural context, and develop mechanisms they consider appropriate for their specific context;

(d) Some participants raised concerns that the creation of new biodiversity markets could lead to a process of "financialization" of biodiversity. Financialization is used as a term here to describe international trading in abstract and derived products related to biodiversity in contrast to regular trade in goods and products. The financialization market is defined and driven by the financial sector intermediaries such as special investment firms, hedge funds, banks and insurance companies, which have extensive experience of trading in risk management connected to derivatives and financial transactions. With the increasing complexity of the international financial markets, with multiple levels of transactions and bundling of assets, it is feared that such financing may both divert funding for biodiversity and impose restrictions on the informal user rights of local communities. In this way financialization can have unintended negative impacts on local communities, biodiversity and the financial system at large, and thus warrants further analysis.

Workshop on Financing Mechanisms for Biodiversity, Montreal, Canada (12 May 2012)

29. The workshop on Financing Mechanisms for Biodiversity held in Montreal, Canada on 12 May 2012, observed that the CBD's six so-called innovative financial mechanisms all provide opportunities to scale up biodiversity results - but only some present an opportunity to scale up actual revenue. In each case, there are costs associated with developing the institutional and procedural processes to establish an innovative financial mechanism. It takes stakeholders who can translate the true value of biodiversity into the prices of goods and services so as to encourage more efficient conservation and sustainable use, and mechanisms to cost-effectively capture any new revenues and distribute them to increase biodiversity outcomes. Different forms of environmental and social safeguards also need to be considered, depending on the mechanisms selected as well as national circumstances, so as to avoid potential trade-offs and enhance biodiversity, ecosystem services and social outcomes. Effective monitoring, reporting and verification are key to assessing performance and ensuring that the mechanisms deliver adequately on all fronts.

IV. CONCLUDING REMARKS

30. The present synthesis on innovative financial mechanisms provides evidence of the wide range of views/perspectives on innovative financial mechanisms, particularly within the organizations and other sources. This ranges widely from innovative financial mechanisms as problem solvers to highlighting the potential problems that may be caused by innovative financial mechanisms. Deeper understanding of

innovative financial mechanisms by all relevant stakeholders may contribute to consensus building, including through development of appropriate environmental and socio-economic safeguards that are called in several submissions.

31. There also appears to be some gaps in knowledge on innovative financial mechanisms: concepts not sufficiently elaborated, and experience and lessons not thoroughly documented. Certain divergent perspectives appear to be related to generic debates towards market economy versus centralized planned economy, and not necessarily related to practical evidence. The causal relationship between some identified problems and concepts of innovative financial mechanisms *per se* has not been examined in any depth in the submissions. Enhanced knowledge and know-how seems to be key to the development and replication of innovative financial mechanisms that have proved to be effective in mobilizing resources and achieving the three objectives of the Convention.

32. Specific national and local circumstances are mentioned in several submissions, and a one-size-fits-all approach is not recommended in the case of innovative financial mechanisms. Countries and communities thus need capacity to make choice from the menu of options offered under innovative financial mechanisms, test and adapt them to their national and local context, also taking into account the rights of local and indigenous communities.

33. There is a fair level of consensus on the need for a proactive role of government in exploring innovative financial mechanisms. In addition to appropriate safeguards, most submissions called for governments to lead and regulate markets. The submissions providing practical experiences also suggested that financial and regulatory support is critical in harnessing market and other innovative mechanisms to achieve the objectives of the Convention.
