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INTERNATIONAL WORKSHOP ON
INNOVATIVE FINANCIAL
MECHANISMS
First meeting
Bonn, 27-29 January 2010

REPORT OF THE PROCEEDINGS OF THE INTERNATIONAL WORKSHOP ON INNOVATIVE FINANCIAL MECHANISMS, BONN, GERMANY, 27-29 JANUARY 2010

I. INTRODUCTION

1. In accordance with decision IX/11, the Secretariat organized the international workshop on innovative financial mechanism in collaboration with The Economics of Ecosystems and Biodiversity (TEEB) Secretariat located at UNEP, and with generous support from the Government of Germany, to assess the status of knowledge and related use concerning innovative financial mechanisms at all levels as identified by the Conference of the Parties, and develop policy options concerning innovative financial mechanisms. In the same decision, the Conference of the Parties requested the Executive Secretary to prepare a document on policy options concerning innovative financial mechanisms, with inputs from regional centres of excellence in a geographically balanced way and forward it to the Ad Hoc Working Group on Review of Implementation of the Convention (WGRI).

2. Following the notifications by the Executive Secretary to Parties and relevant organizations for suggestions on payment for ecosystem services; biodiversity offsets; environmental fiscal reforms; market for green products, business-biodiversity partnerships and charity; new and innovative sources of international development finance; climate change funding and biodiversity, 16 experts from developing countries, including four from each region as well as one from small island developing states and one from the least developed countries, were invited to attend the international workshop on innovative financial mechanisms. The full list of participants is contained in annex IX to the present note.

3. The following information was available to facilitate the preparations by experts for the workshop: Issue Document (UNEP/CBD/WS-IFM/1/3); Rewarding Benefits through Payments and Markets (by TEEB); Reforming Subsidies (by TEEB); Addressing Losses through Regulation and Pricing (by TEEB); Making REDD+ Real (by TEEB); Executive Summary and Full Report of Exploring the Case for a GDM (by GDM). Background information from the OECD workshop on Innovative International Financing for Biodiversity Conservation and

Sustainable Use, held on July 2nd, 2009, was available at www.oecd.org/env/biodiversity/financing. Relevant documents submitted by experts were also made available at: http://www.cbd.int/financial/.

II. PROCEEDINGS OF WEDNESDAY, 27 JANUARY 2010

4. The workshop followed the proposed organizations of work as provided in document UNEP/CBD/WS-IFM/1/2, which is contained in annex IX to the present report. At its first session, the representative of the Secretariat opened the workshop. Mr. Ravi Sharma, Principal Officer for Implementation and Technical Support Division of the Secretariat, on behalf of the Executive Secretary, Mr. Ahmed Djoghlaf, welcomed participants to the workshop. He expressed appreciation to German Government for financial support, to UNEP-TEEB for substantial technical and logistical support, and to UFZ for chairing the proceedings. He recalled that the ninth meeting of the Conference of the Parties adopted the CBD strategy for resource mobilization, and identified a number of innovative financial mechanisms therein. He highlighted that the global target to reduce substantially the loss of biodiversity by 2010 would not have been met, and financial shortage had been identified as a principal impediment to the implementation of the Convention on Biological Diversity. He urged experts to be innovative in developing policy options for mobilizing new and additional financial resources.

5. On behalf of the German Presidency of the ninth meeting of the Conference of the Parties, Mr. Axel Benemann welcomed participants to Bonn. He said that the COP presidency attached high importance to addressing the lack of sufficient financial resources on a national and on a global scale. The needed increase will only be possible in a joint mobilization of various resources, from national to international and from public and private sources. The COP Presidency decided to finance this workshop with a view to providing inputs to the development of policy options on innovative financial mechanisms. He urged experts to be focused and to develop very concrete policy options that can easily facilitate political uptakes by the tenth Conference of the Parties.

6. Mr. Mark Schauer, head of the UNEP-TEEB coordination office, welcomed participants to the UN Campus. He briefed the participants of the work UNEP-TEEB had done in relation to innovative financial mechanisms before the workshop, and outlined that the UNEP-TEEB Initiative provided logistical support as well as scientific support to the workshop.

7. Ms. Heidi Wittmer, Chair of the Workshop, started with a survey of expertise, experience and professional interests of participants and clarified the purpose and programme of the workshop. The purpose of the workshop was to bring together experts from all regions of the world in order to support the Executive Secretary in proposing policy options for innovative mechanism for the consideration of Parties at the third meeting of the Working Group on Review of Implementation and the tenth meeting of the Conference of the Parties. The workshop would be conducted in both plenary and break-out sessions, and six issue chairs would lead and facilitate the break-out group discussions. The workshop would first explore policy options, and then develop selected policy options as well as next steps for implementation. It would also consider the Green Development Mechanism and the TEEN D2 process.

8. Mr. Francis Vorhies introduced the document on Exploring the Case for a Green Development Mechanism. He examined the case from biodiversity, business, political and funding perspectives, and explained that the intent of the document was designed to stimulate the discussions on the critical and urgent needs for a green development mechanism but not jump to offer options at this stage. He then outlined next steps to be taken on the road to COP-10 in

Nagoya via WGRI-3 in Nairobi. Participants in general echoed the business case brought by Mr. Vorhies, and also expressed the desire to see how the mechanism will be developed and financed.

9. At its second session, the workshop heard brief introduction to the six innovative financial mechanisms identified by the ninth meeting of the Conference of the Parties: Mr. Adam Drucker on Payment for Ecosystem Services; Ms. Kerry ten Kate on Biodiversity Offsets; Mr. Simone Quatrini on Environmental Fiscal Reform; Mr. David Hubermann on Markets for Green Products; Mr. Vorhies on Biodiversity in International Development Finance; and Ms. Katia Karousakis on Biodiversity in Climate Change Funding.

10. The third and fourth sessions were devoted to break-out group discussions for brainstorming and discussion on critical aspects of each policy option, and identifying and selecting policy options for consideration during the workshop

11. At its fifth session, the workshop heard the presentation by Mr. Drucker on the initial results of his break-out group on payment for ecosystem services, including:

(i) Development of PES "packages" in order to raise finance

- User fees (and beneficiary pays principle)
- Environmental taxes
    - Insurers
    - Agricultural subsidies (the 1% solution)
    - GMOs and many others
- Government subsidies for PES
    - EU CAP as an existing mechanism that could be adapted (saves time/effort)
- Voluntary payments

(ii) Issues:
Chicken or Egg first? Are we designing PES systems to assist in fund raising or does the existence of funds require spending through PES schemes that need to be designed?

Awareness raising regarding the potential importance of PES (amongst all types of stakeholders) is very important.

- Role of CBD Secretariat in this should be considered

Paragraph 16 of the Issue Document and tenure issues: Even under State owned land there are possibilities to assign management rights to local communities, etc.

<table>
<tr><td></td><td>Level (with implications for different types of users)</td><td>Local</td><td>Regional</td><td>Global</td></tr>
<tr><td>PES Mechanism</td><td></td><td></td><td></td><td></td></tr>
<tr><td>User fees</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Environmental taxes</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Government subsidies</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Voluntary payments (Public and private)</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">Use value…………………to…………………………… existence value continuum

Implications for whether local or international finance will be more likely</td></tr>
</table>

Possibility that local PES schemes could be seen as a "hook" to attract international funding as well

12. Mr. Quatrini presented the initial results of his break-out group on environmental fiscal reform, and stated:

This is a subject of **tremendous contemporary relevance**. It is not new, but it has recently regained centre stage, mainly thanks to the global financial and economic crisis. The crisis has revitalized an already very rich debate. One that was however confined in relatively small circles.

But what is EFR? "Environmental fiscal reform" (EFR) typically refers to the application of a range of **fiscal instruments** to raise revenues to pursue environmental goals (OECD, 2005). Basically, it is about using the fiscal system to tackle environmental issues. The fiscal revenues generated from these instruments can in turn be used to diminish the tax burden - the so-called **double dividend** (ECOSYS, 2006).

Fiscal instruments should be understood in a broad sense. They comprehend all economic instruments of fiscal nature – e.g. **taxes** and **charges** – as well as **subsidies** that provide incentives to shift from environmental harmful activities towards cleaner and more sustainable ones (EC, 2009).

In economic terms, the goal of EFR is to **internalise externalities**. Through environmental taxation, externalities are internalised either by covering their costs (charges), altering behaviour (taxes), or imposing a price tag on the environmentally harmful aspects of production or consumption (tradable permits). These are labelled "pricing instruments". Subsidies, on the other hand, encourage producers and consumers to choose the inputs and goods that have more favourable properties from the environmental perspective. In contrast with taxes, they provide incentives by decreasing the price or purchasing costs of a product. They are often labelled as "fiscal incentives".

In addition to mobilizing revenue for governments while encouraging sustainable environmental management practices, it is widely recognized that EFR can effectively contribute to **poverty reduction** (OECD, 2005).

By encouraging more sustainable use of natural resources, and reducing pollution from energy use and industrial activities, EFR can address environmental problems that threaten the livelihoods of the poor. EFR can therefore help achieve the Millennium Development Goals #1 "halving absolute poverty and hunger" and #7 "improving environmental sustainability" (WB et al., 2005).

Given all these benefits of EFR, the question is **why don't we see more of it?** For a start, designing effective EFR requires a sound understanding of environmental and fiscal policy, and good co-operation between fiscal and environmental experts. Secondly, it is necessary to work across hard political, social and institutional barriers. Thirdly, there are some caveats in both theoretical (tax distortion effects) and practical sense (valuation of the Marginal Environmental Damage), that hamper implementation.

In addition, there are other issues and opportunities to be taken into account:

1. Harnessing the momentum

It is interesting to note that despite the impacts it had on governments' and families' budgets, the crisis has brutally revealed the fragility and un-sustainability of the so-called **mainstream development paradigm**. One based on export-led growth at all costs. The heavy burden of the crisis created room for structural – and costly – reforms. What came with it is a sense of urgency, a stimulus to take action, and a renewed "Willingness to Pay" (WTP) for conservation, mitigation and restoration of damages.

2. Designing comprehensive solutions

Partial approaches are not to be confused with true long term solutions. Treating the symptoms is not the same as **treating the causes** of illnesses. We should, for example, look more closely at what, in the fiscal jargon, is called "root taxation".

3. Promoting inclusiveness

At the same time, we should improve the targeting of our campaigns. We need to **win the inertia** in nature and human institutional systems in order to change the course of action. This certainly includes reaching out to governments and the private sector, but also the civil society in its broader connotation. Paying a fair price for the use of natural resources should be acceptable by everyone. In other words, it's about expanding the "polluter-pay-principle" into a notion of "consumer-pay-principle".

4. Maximizing synergies

To engage in such a daunting task, we must combine our strengths. Take the three **Rio Conventions**, for example (Biodiversity, Climate Change, and Desertification). These Conventions are dealing with closely interlinked issues, which are densely connected in multiple causal chains as clearly illustrated in the Millennium Ecosystem Assessment. Maximizing synergies between these policy processes should not be seen as an opportunity but a must. In this connection, options to channel adaptation funds into conservation of biodiversity-rich dryland ecosystems should be considered more seriously.

5. Sustaining action

The establishment of an international fiscal framework is not an easy ride and **takes time**, as the process of negotiation is highly political. Looking at the carbon market as an example, the combination of political will and quantifiable and legally binding targets allowed for the relatively rapid development of an effective financial solution for a pressing environmental problem. Yet, it took the Kyoto Protocol a good 10 years to develop a multi-billion dollar market that is fostering large-scale investments into cleaner technologies.

But we are confronted with a **harsh reality**. The 2010 biodiversity targets are not going to be met, with only a few exceptions (protected area coverage, river water quality in EU and US). The same holds true for other MDGs.

13. Mr. Vorhies presented the initial results of his break-out group on biodiversity in international development finances. His presentation was integrated into annex V of the present report.

14. Mr. David Hubermann presented the initial results of his break-out group on markets for green products. His presentation was integrated into annex IV of the present report.

15. Ms. Katia Karousakis presented the initial results of her break-out group on biodiversity in climate change funding, including:

How to target existing climate change finance (mitigation and adaptation) in biodiversity-friendly way? Need spatial economic valuation and mapping of ecosystem services benefits – this can identify areas with high carbon and high biodiversity areas. Also, it can help to raise flag on low carbon and high biodiversity benefit areas. Any biodiversity finance that has been freed up due to incoming flux of climate change finance could be re-channelled and targeted to areas with low carbon and high biodiversity benefit.

Establish technical expert groups, e.g. on ecosystem-based adaptation, promoting biodiversity co-benefits in REDD-plus, mainstreaming biodiversity in agriculture. How can CBD raise the profile of these issues to climate change negotiators and domestic policy-makers and implementers?

Similar to the Joint Liaison Group between Rio Conventions (which is at Secretariat level), encourage climate change and biodiversity communication at other levels, including technical, subsidiary bodies, COP. Support the idea of a Joint Work Programme. Work together to identify synergies between NBSAP, NAPAs, and PRSP for example. Work with climate change people and communicate results to UNFCCC climate change negotiators more broadly.

Mechanisms also exist to co-finance climate change finance with biodiversity finance. For example, similar to Gold Standard CDM credits (extra sustainable development benefits), can have Green standard REDD-plus credits (voluntary initiatives are already underway e.g. Climate, Community and Biodiversity Alliance (CCBA), Carbonfix, etc).

Outcomes:
Two distinct issues for biodiversity in climate change finance. The first is how to maximise co-benefits, the second is how to create co-financing. 3 key priorities identified (1) spatial, economic and mapping tools; (2) enhance and strengthen communication between biodiversity and climate change communities; (3) technical expert groups (to facilitate transition from theory to implementation).

Point 3 refers to the fact that there is now much literature on linkages between biodiversity and climate change (e.g. AHTEG report on biodiversity and climate change mitigation and adaptation) which highlight inter alia, resilience. But how to put this information into practice – how to apply this on the ground? A fourth issue came up in the plenary, the issue of co-financing and how to scale this up.

16. Mr. Matthew Hatchwell presented the initial results of his break-out group on biodiversity offsets. His presentation was integrated into annex II of the present report.

III. PROCEEDINGS OF THURSDAY, 28 JANUARY 2010

19. The workshop further developed policy options at its sixth to eighth sessions.

20. At its ninth session, Mr. Drucker summarized policy options from the break-out group on payment for ecosystem services as follows:

Option 1: Use existing monies more effectively: Commitment for subsidy reform and re-directing/re-engineering funds for establishment of PES schemes (see G-20 commitment for fossil fuel subsidy reform) – link to EFR group

- Who will fund it?
- How should it be designed? What should be the money used for?
    a. Important to keep policy space for developing countries (i.e., using subsidies as a tools in development policies)
- How could it be set up?
- What should be the role of the CBD and the CBD Secretariat?
    a. Provision of technical advice on re-directing/re-engineering subsidies for the benefit of biodiversity

Option 2: Raise awareness and promote replication of local/national PES success stories by identifying and disseminating lessons learnt and good practice cases (on both voluntary and government-driven programmes), and subsequent communication and outreach activities as well as capacity building (e.g., regional workshops, including for identifying PES opportunities in the regions)

- Who will fund it?
    a. Using synergies will reduce funding needs
- How should it be designed? What should be the money used for?
    a. Use synergies among MEAs and within the CBD
    b. To be based also on information from National Reports
- How could it be set up?
    a. See above: communication & outreach, capacity building including workshops
- What should be the role of the CBD and the CBD Secretariat?
    a. Promote (CBD) and undertake (CBd Secretariat) this activity, facilitate donor funding as needed

Option 3: PES as a resource mobilization tool for addressing critical ecosystem services and underlying biodiversity of global importance, by international co-funding of national PES schemes (both voluntary and government-driven), including possible national REDD programmes

- Who will fund it?
    a. Relevant economic sectors (pharmaceutical, ag-biotech, etc)
    b. Consumers/tax-payers
- How should it be designed? What should be the money used for?
    a. General design principles
        i. Contribute to attaining CBD objectives
        ii. Generate additionality
        iii. Minimize leakage
        iv. Transparency
        v. …
    b. Specific design will be driven by the funding source, with details tba in due course:
        i. User fees
        ii. (International) voluntary payments
        iii. Environmental taxes

    iv. Levy on insurance premiums (see e.g. Sri Lankan example from Haripriya)

- How could it be set up?
    a. Clearing house for the identification of opportunities for providing co-funding to national PES schemes
    b. Further details tba in due course
- What should be the role of the CBD and the CBD Secretariat?
    a. Stronger role of CBD needed. Provide high-level advocacy and leadership on the importance of biodiversity in climate change adaptation and mitigation, in particular with regard to REDD+, but also with regard to other issues (coral reefs etc)

21. Ms. Karousakis presented the final consideration of biodiversity in climate change funding as below. The recommendation on this subject is contained in annex VI to the present report.

Option 1: Build on, scale up and develop spatial mapping toolsof ecosystem service benefits
The group recognises that it is often difficult to promote biodiversity considerations into climate change finance due to the additional costs associated or driven by *inter alia* lack of data, lack of tools, lack of capacity building. Spatial mapping tools exist and we must build on and improve these. In addition to promoting safeguards and biodiversity conservation in design of climate change finance, CBD could call upon Parties to undertake spatial mapping with economic valuation of ecosystem service benefits – e.g. set-up branch under clearing house, offer training, methodologies, guidelines for how to develop such spatial maps – examples exist, such as by CI in Madagascar, UNEP-WCMC, Invest, others. These maps could ideally include ecosystem service benefits, protected areas, and also agricultural networks.

Option 2: Communication
Encourage Joint Working Programme on biodiversity and climate change. Building on the 2nd AHTEG on Biodiversity and Climate Change Mitigation and Adaptation (i.e. literature), means to provide concrete suggestions. Look for synergies in NBSAP + NAPA + PRSP.
>> communication targeted at high level, implementation level (training, manuals), general public… and climate change negotiators.

Option 3: Establish Technical Expert Groups
The CBD could encourage the creation of technical expert groups on priority areas/sectors regarding biodiversity and climate change. The technical expert groups could also include technical assistance units, which could provide policy advice and training, best-practice guidelines, handbooks for implementers (for biodiversity in both climate change mitigation and adaptation).
Possible priority areas/sectors: Forests (savannah, grasslands, etc), agriculture, peatlands, coastal zones.

Option 4: Voluntary initiatives for biodiversity premiums in carbon markets
e.g. Green REDD-plus credits i.e. voluntary premiums for high biodiversity benefits in REDD-plus demonstration activities in the voluntary carbon market. Several initiatives underway with different standards (CCBA, Planvivo, carbonfix etc). What is the CBD role in such standards? Payments for carbon and payments for biodiversity (will need monitoring and verification of biodiversity finance to ensure additionality and to avoid double payments).

BUT: we recognise that the global biodiversity challenge will not be addressed solely via linkages to climate change finance. Encourage Parties under the CBD to start thinking formally about mechanisms, similar to REDD-plus, that go BEYOND CARBON and BEYOND FORESTS (which is aim of a Green Development Mechanism), for international transfer of money which engages the private sector, to support biodiversity conservation and sustainable use.

To conclude, the three priorities are:
- Economic and spatial mapping tools
- Communication
- Technical Expert Groups

Better monitoring and verification of biodiversity finance is also needed (where is money flowing, how much, from whom i.e. private, public, bilateral, multilateral - for what purpose). This will help to identify where the gaps are, where there are financing needs, and can therefore help to prioritise and target biodiversity finance in a more effective manner.

22. Mr. Vorhies presented the final consideration of biodiversity in international development finances. The recommendation on this subject is contained in annex V to the present report.

23. At the tenth session, the workshop considered next steps for implementing policy options in break-out groups.

24. Mr. Hubermann presented the final consideration of market for green products at the eleventh meeting. The recommendation on this subject is contained in annex IV to the present report.

25. Mr. Drucker presented the final consideration of payment for ecosystem services and suggested that the first option developed in that break-out group need to be shifted to the group on environmental fiscal reform. The recommendation on payment for ecosystem services is contained in annex I to the present report.

26. Ms. ten Kate presented the final consideration of biodiversity offsets. The recommendation on this subject is contained in annex II to the present report.

27. Mr. Carlos Muñoz Piña said that the group on environmental fiscal reforms had two concrete ideas. He elaborated on the option to develop reports on subsidies and tax exemptions as summarized below. Mr. Benemann presented the second option on the potential of an international fisheries tax in the high sea areas. The recommendation on environmental fiscal reforms is contained in annex III to the present report.

Some of the subsidies and tax exemptions currently in place in both developed and developing countries existing cause a <u>significant damage</u> on biodiversity. They do so because they alter the market signals that producers and consumers take into account when making decisions regarding the use of natural resources. More land use changes occur in order to produce more; production that would not be profitable is now worth undertaking thanks to the subsidy. Input use, both in the volume and composition, increase with the subsidies and tax exemptions, and it is of concern when some of those inputs damage biodiversity, directly if they use resources needed to sustain elements of this biodiversity or indirectly when converted into waste to which wildlife is exposed.

For public agencies, interest groups and constituencies interested just in growth in short-run production and employment there appears to be no problem with these subsidies, they produce the results they were intended to. From an economic efficiency point of view though, they are a problem. Resources used do not really generate enough value to cover their opportunity cost. The WTO estimates the total amount of distorting subsidies to be between 500 thousand million dollars and 900 thousand million dollars, but there is not yet an assessment of what percentage of them have significant negative biodiversity effects. The funds used to subsidize also have an opportunity cost, in the form of public goods not provided because the private activities privileged absorb them. Biodiversity damage adds to the reasons why this expanded uses of resources is not worth undertaking: if the net value created is negative from an economic point of view, it is even lower when the any approximation of the value of the damage to biodiversity is included.

There are three types of solutions to reduce this resource allocation problem, this damage to biodiversity:

1. **Reduce**. The simplest solution. By lowering the level of subsidy or tax exemptions or by completely eliminating some of them, the pressure on biodiversity is reduced. This strategy is attractive to Central Banks and Finance Ministries because it allows the reduction of fiscal deficits. It might also receive public support if the recipients of the subsidies are among the wealthiest citizens or firms. However, if the group receiving the subsidy is truly considered in need of support then there is a tradeoff between a social objective and a biodiversity objective. Only if the damage done to biodiversity is found to have a detrimental effect on the same or an equally support-deserving group of an equal or greater magnitude to the benefit by the subsidy would the case be made for reduction. If not, then the next two alternatives are considered preferable.
2. **Decouple**. This second alternative maintains the net support to the recipients, but neutralizes it as much as possible regarding the incentives to expand production or use resources. An example is switching from guaranteed prices, government purchases or lower price of inputs towards direct cash transfers not tied to production or levels of input use. Other formats of subsides might be more difficult to neutralize, but the largest ones are like the ones first described. Their main political problem stems precisely from its main strength. Recipients and the production-oriented agencies favoring them perceive that they are giving money for nothing. Recipients feel insecure because there is no merit, or clear reason, to support the transfers over time, and perceive they are vulnerable to cuts. The officials in agencies giving out the subsidies feel that this type of subsidies goes against their mandate, which is to support and expand production. So the main challenge here is to correctly communicate the decoupling and assure participants that they will not lose it in the future, so they would not oppose it.
3. **Re-engineer**. This third alternative is the most attractive for interest groups that want to direct or observe specific "meritory" activities undertaken when subsidies are given. By either tying support to activities that protect or enhance biodiversity, or by completely change the objective of the subsidy towards conservation, the funds are "recruited" to protect biodiversity instead of damaging them. There are examples where both the damaging and the re-directed subsidies co-exist, such as the Farm Bill in the US uses the Conservation Reserve Program, but in general the aim should be to substitute the damaging ones for neutral or re-engineered versions.

We are calling R-D-R the strategy that uses any of these three ways to protect biodiversity from damaging subsidies and tax exemptions.

Steps recommended to the CBD.
The goal is to have countries commit themselves to R-D-R their most biodiversity-damaging subsidies. While a general wording regarding reduction of these subsidies currently exists in the draft *Strategy Plan* that the COP10 will consider, this language will not be effective to produce specific commitments. The "complete elimination by 2020" asked for seems implausible and has no way to measure progress. Instead of elimination, a narrow concept, the use of a **R-D-R** strategy opens up to other more politically feasible options. So, the three most important steps to be taken by the CBD are:

1. Ask for a vote on a timetable for the R-D-R of subsidies and tax-exemptions. The expert group suggests having one that starts slow at the beginning and does not cover the entire period of concern, so as not to appear threatening but generating the need to produce the reports that would measure what are we really up against, and then moving to stronger goals. Such a timetable it is suggested could be to ask for just a R-D-R of 5% of these environmentally damaging subsidies by 2012, increasing the goal to 10% by 2016 and obtain a 20% reduction by 2020.
2. Include the obligation to produce country reports (communications) by all members, where the size, location and effect of the biodiversity damaging subsidies are measured. A first deadline of 2012 seems a feasible goal for the first communication, after which the terms of reference would be adapted to the knowledge gained regarding how best to measure them.
3. Ask for a series of pilot case studies right away after the Nagoya meeting in order to test and adapt the existing methodologies to measure distorting subsidies in general (WTO, OECD, GSI) to the case of biodiversity damaging ones.

28. Mr. Arthur Eijs reported on the break-out group discussions for a green development mechanism. In the working group on a green development mechanism (GDM), the discussion focused on three key issues:

1. What role should a GDM fulfil?
2. Should development be a core element of any form of GDM?
3. Should a GDM be market based or finance based?

The general findings were that there is:

- A strong consensus that there is a business case for an international initiative;
- A need for urgent action to raise additional international funds to close financing gap; and
- A need to complement investments in protected areas with investments in sustainable use and management in rural 'productive areas.'

Specific remarks and inputs included the following:

- A GDM should at least for the first phase not aim at a biodiversity cap and trade regime, but rather explore options for international payments for ecosystem services (IPES);

- A GDM would only guarantee permanent funding on the basis of a mandatory scheme; and in setting up such a scheme, funding provided by the private sector should not be presented as international offsets as offsets are preferably undertaken on a national or regional level;

- Since there is no common currency for biodiversity (as yet), for an initial phase a finance-based mechanism is preferred over trading or market-based mechanism;

- The International Working Group on Interim Finance for REDD, an initiative from about 40 countries, could serve as a model for the first phase of a GDM, acting under the CBD;

- The need to address the issue of institutions: what are the currently existing biodiversity-related funding institutions delivering, what are gaps, what can be improved and what are then the gaps to be filled by a new initiative such as a GDM;

- Start focusing on the modalities to raise funds; stakeholders do need to get a first idea on where a GDM would get the funds from, before entering into discussions on form and how to spend money;

- A GDM could have several windows, focussing on specific actions/ priorities as well as various modalities for sourcing funds;

- Support for starting aninternational discussion on the possibility of establishing a GDM, without pre-empting the outcome, noting that such a discussion at least is urgently needed; and

- The name ‘GDM’ raises different reactions; some find it appealing, while some are cautious that it will trigger resistance from earlier experiences with e.g. CDM.

The discussions on the three questions can be wrapped up as follows:

- **Role:** Any of the mentioned roles potential (clearing house, broker, funding mechanism) should be further explored; they may be combined, but, in any case, there needs to be clear profiling and communication, in order to take away confusion on what a GDM *could* be.

- **Development:** There is broad consensus on the need to have development outcomes as a core element of any GDM.

- **Market based:** As the current lack of agreed currency for biodiversity, a GDM should, at first, be finance based.

In this respect, the Parties to the CBD may want to further consider the possibility of establishing a GDM in support of the implementation of the Convention’s programme of work.

IV. PROCEEDINGS OF FRIDAY, 29 JANUARY 2010

29. The workshop heard the presentation on TEEB D2 report at its twelfth session.

30. At its thirteenth session, the workshop further considered a green development mechanism and TEEB D2 in break-out groups. The second session of the working group on a green development mechanism (GDM) further explored the four possible funding instruments initially highlighted at an expert meeting in early 2009. These are summarised in an annex of the Issue paper prepared for the workshop, namely:

- Biodiversity offsets with international support
- Greening commodity imports

- Biodiversity cap and trade
- Biodiversity footprint taxation

Regarding **biodiversity offsetswith international support**, the discussion clarified that a GDM could facilitate the use of biodiversity offsets at the national level through sharing information on best practice, standards and experiences. In this respect, a GDM could play a clearinghouse role and perhaps even a verification role. It could also drive price transparency by strengthening the understanding of the costs of various types of offsets.

Regarding **greening commodity imports,** there was a recognition that this approach fits well with the trend among consumers and retailers for responsible products. However, it will be important to address the concerns of some developing countries that green standards may be seen as a barrier for exports. Further, any tax or payment on commodity imports should be established at the importing country.

Regarding **biodiversity cap and trade**, there is an opportunity to base this in the context of post-2010 Biodiversity Targets. This could provide a basis for identifying a baseline and a target upon which a biodiversity trading might be developed. In this context, and in addition to a focus on conservation, a GDM could support efforts to avoid or reduce impacts and as well as to restore ecological systems and services.

Regarding **biodiversity footprint taxation**, it was noted that whilst ecological footprint indicators can be most useful for raising awareness, their use for the establishment of tax obligations may prove challenging on the part of several countries. Questions remain as to the scope of such a tax (linked to a country's national biodiversity footprint as opposed to its international biodiversity footprint); details on how it may be calculated; as well as its acceptability given that this would imply an increase in public spending.

Other issues

Regarding the **case for a GDM**, it was noted that governments may be reticent to support the establishing of a new 'vertical' international fund. Consequently, it would be important to make clear why a GDM is needed and how it would complement existing structures, such as the GEF. Its possible roles as a clearinghouse, broker and/or funding mechanism will also need to be further clarified.

Regarding the **funding approach of a GDM**, an alternative to relying on a 'polluter pays' approach may be to focus on payments for the benefits of biodiversity and ecosystem services. So as to ensure development outcomes, explicit support should be given to the sustainable use of biodiversity, including for instance organic farming, in addition to biodiversity conservation.

Regarding the **governance of a GDM,** multi-stakeholder participation should be encouraged, including from developing and developed country governments, business and NGOs, in line with the Paris agenda.

Other possible **sources of funding** were suggested by participants, such as green investment funds, a tax on GMOs, a tax on advertising in part responsible for promoting unsustainable consumption, a tax on international arms sales, and a tax on international aviation. Seed money to establish a GDM could also come from the GEF or from other sources of multilateral or bilateral ODA.

Regarding **private sector views of a GDM**, some support a voluntary mechanism as a way to drive biodiversity responsible corporate action whilst others encourage a regulated framework as a way to ensure a level playing field as well as clarity on expected demands on business.

31. At its fourteenth session, the workshop heard the overview of the draft report of the proceedings of the International Workshop on Innovative Financial Mechanism, and agreed that subject chairs would continue to work with their respective groups with a view to finalize the report and related recommendations by middle of February 2010.

32. Mr. Marcio Schuler further contributed the following on fiscal reform:

Thinking about national sovereign rights, what is related with biodiversity damages, and the links between those issues with a Fiscal Reform, raise the subsidies policy, specifically the "perverse subsidies" as the target of the rebuilding action. That could be held by CBD and covering all parties concerns about the subsidies and their negative role in biodiversity conservation. Subsidies are one of the clearest areas of shared interest for the parties in environment issues. All off them oppose so-called perverse subsidies—subsidies that are harmful to the environment and the economy. And there may also be scope for co-operation on allowing new measures that benefit the environment without unduly distorting economic relations.

Some of the subsidies and tax exemptions currently in place in both developed and developing countries existing cause a significant damage on biodiversity. They do so because they alter the market signals that producers and consumers take into account when making decisions regarding the use of natural resources, or reflect different politics power levels. More land use changes occur in order to produce more; production that would not be profitable is now worth undertaking thanks to the subsidy. Input use, both in the volume and composition, increase with the subsidies and tax exemptions, and it is of concern when some of those inputs damage biodiversity, directly if they use resources needed to sustain elements of this biodiversity or indirectly when converted into waste to which wildlife is exposed.

For public agencies, interest groups and constituencies interested just in growth in short-run production and employment there appears to be no problem with these subsidies, they produce the results they were intended to. From an economic efficiency point of view though, they are a problem. Resources used do not really generate enough value to cover their opportunity cost. The WTO estimates the total amount of distorting subsidies to be between 500 thousand million dollars and 1,500 thousand million dollars, but there is not yet an assessment of what percentage of them have significant negative biodiversity effects. The funds used to subsidize also have an opportunity cost, in the form of public goods not provided because the private activities privileged absorb them. Biodiversity damage adds to the reasons why this expanded uses of resources is not worth undertaking: if the net value created is negative from an economic point of view, it is even lower when the any approximation of the value of the damage to biodiversity is included.

V. CLOSURE OF THE MEETING

32. In closing the workshop, Mr. Benemann expressed his satisfaction with the outcome of the workshop and stressed the need for further advancing the agenda on innovative financial mechanisms. He thanked UFZ, UNEP-TEEB and the Secretariat for the excellent collaborative efforts to organize the workshop.

33. Mr. Sharma thanked all the workshop participants for their contribution to the successful conclusion of the Workshop. He thanked the Government of Germany for financial support to the workshop, and UNEP-TEEB for kindly hosting the reception for the workshop participants. He

also provided information on the CBD process in considering the recommendations from the Workshop.

34. Mr. Schauer said that UNEP-TEEB was happy to have the opportunity to provide service to the workshop, and was available to address any further needs of the participants.

35. The Secretariat declared the Workshop closed at 4:00 p.m. on Friday, 29 January 2010. Mr. Carlos Muñoz Piña made a presentation on Mexico's experience in payment for ecosystem services. Ms. Willeen Olivier made a presentation on South Africa's experience on innovative financial mechanisms.

Annex I. Payment for Ecosystem Services

Two complementary priorities. One that promotes identification of best practice and opportunities to implement payment for ecosystem services at national level. The other to use such national payment for ecosystem services schemes to attract international funding for widening/deepening such payment for ecosystem services schemes.

Option 1. Raise awareness and promote replication of local/national PES success stories by identifying lessons learnt and good practice cases (on both voluntary and government-driven programmes), and subsequent communication and outreach activities as well as capacity building

- *Who will fund it?*
    a. Explore PES-related synergies with other MEAs and international institutions and initiatives, in order to make efficient use of existing funding.

- *What should be the role of the CBD and the CBD Secretariat?*
    a. Promote (CBD) and undertake (CBD Secretariat) through the following activities, as well as by facilitating donor interest in supporting these activities.
    b. Continue identifying successful PES case studies and lessons (including through national reports) for dissemination through communication and outreach activities.
    c. Promote awareness and implementation capacity with regard to PES including through a series of regional workshops aimed at identifying PES opportunities in the regions (possibly in conjunction with other CBD-related workshops).

2. Implementing PES as a resource mobilization tool for the conservation and sustainable use of ecosystem services and underlying biodiversity, including by international co-funding of national PES schemes (both voluntary and government-driven).

- *Who will fund it?*
    a. Relevant stakeholders (e.g. producers/industry seeking to enhance their brand image)
    b. Consumers/tax-payers

- *How should it be designed?*
    a. General design principles, including *inter alia:*
        i. Contribute to attaining CBD objectives
        ii. Generate additionality
        iii. Minimize leakage
        iv. Ensure transparency
        v. Address equity issues
    b. Design will be driven by the specific nature of the PES scheme in question, but *inter alia* may involve:
        i. User fees
        ii. (International) voluntary payments
        iii. Environmental taxes
        iv. Public funding
        v. Levy on insurance premiums (see e.g. Sri Lankan example from Haripriya)

- *How could it be set up?*
    a. Establish a clearing house that permits the identification of opportunities which would be capable of attracting international co-funding in order to deepen or widen national PES schemes

- *What should be the role of the CBD and the CBD Secretariat?*
    a. Active management of the clearing house, including match-making with potential donors.
    b. Provide high-level advocacy and leadership on the importance of biodiversity in climate change adaptation and mitigation, in particular with regard to REDD+, but also with regard to other biomes (e.g. oceans, etc)

Annex II: Biodiversity Offsets

Summary of Proposals from the biodiversity offsets working group:

1. **Lessons Learned / Gap Analysis:** Policy recommendation to Parties to compile and share 'lessons learned' from biodiversity offset and compensatory conservation experiences (experienced Parties) and undertake policy gap analysis (all Parties)

2. **Pilot Projects:** Policy recommendation to Parties to encourage the public sector, state-owned enterprises and multi-national companies to develop and implement pilot biodiversity offset projects, making use of available technical guidance, e.g. by BBOP.

3. **Offset Requirements:** Policy recommendation to Parties to introduce unambiguous requirements for developers to apply the mitigation hierarchy and biodiversity offsets in order to achieve no net loss of biodiversity, applying the best practice principles developed by BBOP.

4. **Companies:** Policy recommendation to Parties to encourage companies to adopt board-level 'no net loss' or 'net positive impact' corporate policies

5. **Banks:** Policy recommendation to Parties to encourage banks[1] to incorporate the mitigation hierarchy, including biodiversity offsets, into their lending requirements

Context and overall approach

While a few countries have decades of experience of biodiversity offset policy, for the majority, this is a new approach. The group proposes a set of 5 main recommendations, aimed at governments, financial institutions and companies, that will allow those with experience of biodiversity offsets to review and share their lessons learned, and those who are new to the issue, to assess the feasibility of biodiversity offsets for their countries.

A natural first step is for Parties with experience of biodiversity offsets or compensatory conservation to compile and share their 'lessons learned'. All, Parties, whether experienced or new to biodiversity offsets, would benefit from a 'policy gap analysis' enabling them to determine whether the policy framework currently in place in their country requires, supports, or hinders the design and implementation of high quality biodiversity offsets.

The experience of high quality biodiversity offsets around the world is still very limited. Prior to the broad introduction of policy measures in many countries, more experience of practical, on-the-ground biodiversity offset projects would be valuable. A first place to start may be for governments to encourage state owned enterprises and other public sector developers to undertake pilot biodiversity offset pilot projects, as well as multinational companies.

In some cases, there is a strong business case for companies to design and implement biodiversity offsets on a voluntary basis. However, few developers will seek to achieve no net loss of biodiversity without a clear legal requirement to do so, and there will be a significant cumulative loss of biodiversity as a result of development projects. For that reason, we recommend that

[1] Including export credit agencies

Parties introduce unambiguous requirements for developers to apply the mitigation hierarchy and biodiversity offsets.

It will, however, take several years before a large number of governments have put in place such clear, legal requirements. In the mean-time, we recommend companies to adopt board-level ‘no net loss’ or ‘net positive impact’ corporate policies, and governments to encourage them to do so.

A powerful business motivation for companies to demonstrate no net loss of biodiversity is to be able to attract investors. Increasingly, access to credit in the form of project finance is subject to environmental conditions that refer to biodiversity offsets and no net loss. However, these conditions are often ambiguous, and are not universally applied. The final recommendation, therefore, is that Parties encourage development and commercial banks operating in their jurisdiction to incorporate the mitigation hierarchy, including biodiversity offsets, into their lending requirements.

This set of recommendations represents our advice on the current priorities on biodiversity offsets for COP10 and the lead-up to COP11. Thereafter, in the coming years, it will be helpful to develop internationally agreed standards for biodiversity offsets. BBOP has committed to support the development of such standards by 2015, and is starting preliminary work on assurance of biodiversity offsets (assessment, verification and auditing), which will be completed by 2012.

<table>
<tr><td colspan="2">1. Lessons Learned / Gap Analysis: Policy recommendation to Parties to compile and share ‘lessons learned’ from biodiversity offset experiences (experienced Parties) and undertake policy gap analysis (all Parties).</td></tr>
<tr><td>Why important?</td><td>Lessons Learned: Some Parties already have experience of biodiversity offsets and compensatory conservation. Their assessment and sharing of lessons learned would not only help them improve the effectiveness of biodiversity offsets, but also help governments that are starting to consider biodiversity offsets avoid mistakes and establish successful approaches.

Policy Gap Analysis: Biodiversity offsets are cross-sectoral and there are many possible approaches to policy on the subject, for instance:
• introducing fiscal and other economic incentives to reward and encourage developers which undertake voluntary biodiversity offsets;
• offering guidance to supplement existing policy; or
• introducing regulatory requirements for biodiversity offsets.

Biodiversity offset policy is not prepared in a vacuum. Existing law and policy on a variety of topics may:
• require biodiversity offsets (= mandatory); or
• generally facilitate or encourage biodiversity offsets, without specifically requiring them in all cases (e.g. biodiversity offsets can be included in environmental impact assessments and planning permissions); or it may
• hinder or prevent biodiversity offsets being effectively implemented.

Before governments can establish whether and how to use biodiversity offsets, it helps for them to undertake a policy analysis to establish what measures relevant to biodiversity offsets are already in place within the</td></tr>
</table>

	country and what is their effect.
What?	**Lessons Learned:** Parties, with support from relevant organizations, are requested to write up, include in the next national country report to CBD, and share their experience of biodiversity offsets and compensatory conservation: successes and failures and their underlying causes, the effectiveness of biodiversity offsets and compensatory conservation policy in terms of additional conservation outcomes; pre-requisites for biodiversity offsets to work; ways to improve biodiversity offset design (methodologies) and implementation. **Policy Gap Analysis:** Parties are recommended to analyse existing national or state-level policy (e.g. EIA, conservation law including protected area legislation, planning regulations, sectoral policies, fiscal policies, liability regimes, land tenure, property rights over biodiversity, indigenous peoples' rights) to explore the extent to which these serve to require, facilitate or even present a barrier to undertaking high quality biodiversity offsets. Analysis should include examination of institutional structures to see whether mechanisms are in place to facilitate collaboration between government departments and with civil society.
How?	**Lessons Learned and Policy Gap Analysis:** Parties to undertake the above analysis, with support from appropriate organizations where necessary, and to share the results with the CBD Secretariat (and BBOP).
Where do financial resources come from?	**Lessons Learned and Policy Gap Analysis:** Parties (Such an assessment is not a major exercise and most 'experienced' Parties are presently developed countries.) Developing country Parties could seek donor and/or technical support. BBOP has some funding to assist Parties (but just a handful: not all 194!)
Role of CBD	**Lessons Learned and Policy Gap Analysis:** Collate and exchange the lessons learned among Parties.
Role of private sector	**Lessons Learned:** Could contribute its perspective to the national review of biodiversity offset experience. Could contribute financially to support the national lessons learned reviews (but this financial support should not be considered as an offset in itself).
Business case for private sector	**Lessons Learned:** It is in the interests of business to have its experience of complying with regulation understood, and to influence future policy to be workable for business. **Policy Gap Analysis:** It is in the interests of business for any policy that is developed to be informed by existing policy, and to be consistent and well-integrated with it.
How should it be designed?	**Lessons Learned and Policy Gap Analysis:** Standardized questionnaire developed for parties; questions should capture regional experience where relevant (e.g. recent EU study).
How could it be set up?	**Lessons Learned and Policy Gap Analysis:** Studies should be conducted on a party by party basis, with option for coordination between focal points and support from relevant organizations (e.g. BBOP).

2. Pilot Projects: Policy recommendation to Parties to encourage the public sector, state-owned enterprises and multi-national companies to develop and implement pilot biodiversity offset projects, making use of available technical guidance, e.g. by BBOP.

Why important?	Prior to broad introduction of policy, more experience of practical, on-the-ground biodiversity offset projects would be valuable.
What?	Parties to encourage developers operating in their country (including state-owned enterprises and multi-national companies) to design and implement biodiversity offset projects as the basis for trialling and further developing the offset concept.
How?	Developers with assistance from appropriate organizations, such as BBOP
Where do financial resources come from?	Developers with assistance from appropriate organizations.
Role of CBD	Make policy recommendation to Parties and disseminate lessons learned
Role of private sector	Identify, design, fund and undertake pilot projects.
Business case for private sector	Early adopters shape subsequent policy and enjoy first-mover advantage
How should it be designed?	Developers with assistance from appropriate organizations, such as BBOP
How should it be set up?	Developers with assistance from appropriate organizations.

3. Offset Requirements: Policy recommendation to Parties to introduce unambiguous requirements for developers to apply the mitigation hierarchy and biodiversity offsets in order to achieve no net loss of biodiversity, applying the best practice principles developed by BBOP.	
Why important?	Without mandatory application of the mitigation hierarchy including biodiversity offsets, developers will not seek to achieve no net loss of biodiversity and there will be a significant cumulative loss of biodiversity as a result of development projects.
What?	Following national-level policy gap analysis, Parties to draft and introduce clear legal requirements for developers to apply the mitigation hierarchy, including biodiversity offsets.
How?	Parties to formulate and introduce new and/or consolidate existing policy measures (at the national and/or state-level) and develop guidance on implementation
Where do financial resources come from?	Parties. Developing country Parties could seek donor and/or technical support.
Role of CBD	Sharing best practice; networking and capacity building function with relevant organizations.
Role of private sector	Consulted in policy development process; development of new markets/jobs (e.g. conservation banking, habitat restoration…).
Business case for private sector	Legal certainty and clarity; level playing field; new market opportunities.

How should it be designed?	National- and/or state-level policy formulation, applying the best practice principles developed by BBOP.
How should it be set up?	National- and/or state-level processes, including implementation, monitoring and enforcement

4. Companies: Policy recommendation to Parties to encourage companies to adopt board-level 'no net loss' or 'net positive impact' corporate policies	
Why important?	If all developers were voluntarily to commit to plan their operations so as to result in no net loss or a net positive impact on biodiversity, it wouldn't be necessary for Parties to introduce regulatory requirements. Given their capacity constraints, some developing country Parties will struggle to find the resources to introduce biodiversity offset policies in the short term. Voluntary commitments by companies' boards to corporate policies for no net loss or net positive impact on biodiversity will help ensure consistent good practice internationally and deliver risk management benefits to companies.
What?	Corporate commitments, in policy statements approved by company boards, to strive to achieve no net loss of biodiversity or a net positive impact on biodiversity.
How?	Companies to develop, approve and implement policies on no net loss/net positive impact.
Where do financial resources come from?	Companies. Possibility of fiscal incentives / price premiums associated with offsetting.
Role of CBD	COP to request Parties to do this; information-sharing.
Role of private sector	Companies to develop, approve and implement policies on no net loss/net positive impact.
Business case for private sector	Improved risk management (e.g. reputational benefits, management of risks of liabilities, and risks of escalating permitting and operating costs; access to capital); possibility of competitive advantage; CSR;
How should it be designed?	Company by company applying the best practice principle developed by BBOP with technical input if required; best practice examples could be shared through CBD.
How should it be set up?	Company internal processes; industry groups where appropriate.

5. Banks: Policy recommendation to Parties to encourage banks2 to incorporate the mitigation hierarchy, including biodiversity offsets, into their lending requirements	
Why important?	The loan and investment conditions of development and commercial financial institutions affect the environmental and social performance of the projects to which they are extending finance. These investments are considerably larger than all development assistance globally and thus offer a significant opportunity to mainstream biodiversity into economic decision-making.

2 Including export credit agencies

	IFC Performance Standard 6 (on Biodiversity Conservation and Sustainable Natural Resource Management) makes reference to the mitigation hierarchy, including biodiversity offsets, and is presently under review. The IFC Performance Standards have been adopted by over 70 banks which have espoused the 'Equator Principles', so that over 80% of all project finance over US$10m is, by some estimates, now covered by the Equator Principles. Despite the language in PS6, the offset requirements are ambiguous and unclear, and a recent BBOP/UNEP-FI study (by PriceWaterhouseCoopers) has shown that very few of these banks are familiar with or use biodiversity offsets. Parties have direct policy influence over development banks and can also encourage good performance on biodiversity on the part of commercial banks headquartered in their countries.
What?	Parties are requested to encourage national and development banks, as well as commercial banks headquartered in their countries, to make an appropriate use of biodiversity offsets, as part of applying the mitigation hierarchy. One way to do this is by espousing the Equator Principles, which adopt the IFC Performance Standards, including PS6, which refers to biodiversity offsets. In addition, the International Finance Corporation is encouraged to make the reference to biodiversity offsets in PS6 clearer and more specific. Parties could also encourage the IFC to do so.
How?	Parties requested to engage banks and auditing bodies. Parties to engage the IFC.
Where do financial resources come from?	Parties: modest sums only needed for this engagement exercise. Banks: integrated into lending practices.
Role of CBD	COP to request Parties and IFC to do this.
Role of private sector	Banks: using biodiversity offsets as part of the mitigation hierarchy, instance, by adopting the Equator Principles. IFC: Clarify and make Performance Standard 6 more specific on biodiversity offsets.
Business case for private sector	Improved risk management (e.g. reputational benefits, management of risks of liabilities, and risks of escalating permitting and operating costs)
How should it be designed?	Banks adopt and implement Equator Principles, including application of the mitigation hierarchy and biodiversity offsetting, and train their staff to do so
How should it be set up?	Party by party and bank by bank, as appropriate. IFC to complete review of PS6, with external input as part of consultation process.

Annex III. Environmental Fiscal Reform

<u>Policy option 1: National Reports on tax exemptions and subsidies that damage biodiversity</u>

<u>Recommendations:</u>

- Select those subsidies and tax exemptions believed to have greater environmental impact to start with.
- Some would have already been covered by a similar report asked by G-20 (seek synergies)
- A voluntary report would not work. Make it **obligatory** with:
  - Report done by a 3rd party taskforce (TEEB2?)
  - Report done by countries following a set of common standards.

<u>Once reports are in…</u>

- CBD negotiates quantitative goals for its members, regarding **R-D-R**:
  - **R**educe
  - **D**ecouple
  - **R**e-engineer
  - If goals difficult to negotiate, keep global track of them is already useful.
- Goals divided by impact, level, responsibility?

<u>Proposed Steps</u>

1. Create, adapt, **standards** for reports (work with partners: TEEB, G-20, WTO, OECD, EC, WB, IMF).
2. Obtain endorsement of standards at CBD.
3. Pilot applications by 3rd party taskforce.\
4. Negotiate goals
5. Maintain tracking (even if 4 doesn't happen)

<u>New funds would come from:</u>

- **Decouple**: none significant
- **Reduce and covering tax gaps/exemptions**: Liberation of funds. Some would go to conservation.
- **Re-engineer**: recruit existing funds for conservation

  All reduce the need for funds because they reduce pressure on biodiversity.

<u>Additional considerations</u>

1. Biodiversity impact is not only in the subsidizing country. Must look at international effects through trade and investment.
2. Monetary measures useful, but not necessary.
3. Data on subsidies easy to get. Environmental impact bit more difficult but not impossible.

4. **Management of Transition** is key, some countries would need support.

Key areas

- Fuel subsidies
- Agricultural subsidies
- Water
- Fisheries
- Mining
- Land taxes
- Some types of forestry
- **New tax bases**: High seas activities

  Policy Global commitment CDB

  Not parties but sectors

  Developing countries

  Reduces poverty- which farmers it covers

  How is going to be fund

  Pilot study

CBD should:

- 1. Time table adopted – clearly goals Draft strategy plan
- 2. Obligation to hand in National Communications with reports on status and progress on Environmental Subsidy Reports ask for
- 3. Pilot reports (standards) analysis (OECD and WTO)

Policy option 2: GEF Marine Fund

Rationale:

Marine protected areas are severely under-represented in the global system of protected areas, and the loss of biodiversity in marine ecosystems has accelerated in the past two decades. Severely threatened fishery resources in the high sea region are global common goods. Appropriate incentive arrangement can generate additional resources to conserve and sustainably use global common fishery resources, and promote sustainability of marine biodiversity for the benefit of all countries, in particular for the benefit of fleeting countries.

Source of funding:

1% global assessment of market values of catches on the high seas

Estimated size of funding:

Around US$100 million per year (according to FAO data – still would need to be gathered – so far only estimates exist)

Mode of collection:

The assessment can be paid by Governments of fleeting countries.

Use of funds:

The revenues can be channelled through a special fund at the Global Environment Facility for purposes of marine ecosystems.

Policy option 3:

Earmarking revenues of (innovative) climate financing resources for climate relevant biodiversity conservation, restoration and sustainable use (both mitigation and adaptation)

Reasoning

Biodiversity is (should be) a core element both in mitigation and (ecosystem based) adaptation to climate change. It is a solution with many additional benefits (ecological, social, economic), often very cost effective and tackling one of the main sources of emissions (20% emissions from deforestation). Despite of this biodiversity is often not sufficiently recognized by climate policy makers as it doesn't fit one- to-one into the measurements and methodologies of the existing climate instruments (focused on the one measurement – $CO2$). Biodiversity is more complex and still there remain challenges in making the two areas fully compatible. To develop this compatibility it is important to set aside a part of existing or upcoming climate funds for climate relevant activities and pilot projects.

Who will fund?

-> Depending on source of financing (e.g. auctioning of emission allowances = governments)

How will it be designed?

Governments can decide to create a special window in their climate funding instruments especially for climate relevant biodiversity projects.

Example

The German Ministry for Environment (BMU) is using an innovative source of financing for generating revenues for national and international climate mitigation and adaptation projects by auctioning part of the emission allowances of the European emission trading system and by this way obtaining revenues from the private sector. BMU has decided to at least earmark 1/3 of the revenues which will be invested in international projects (International Climate Initiative ICI) into conservation and sustainable use of climate relevant biodiversity (mitigation and adaptation).

Policy option 4:

International tax on perverse subsidies that are harmful to biodiversity objectives

Rationale

Although Governments agreed to their legal obligations to implement the Convention on Biological Diversity, their fiscal policies have often not been realigned with the biodiversity objectives. According to the TEEB reports, there are enormous amounts of perverse subsidies from Governments that act counter to the biodiversity objectives and conducive to the accelerated loss of biodiversity. An international tax on perverse subsidies may be designed as an incentive to facilitate the phase-out of perverse subsidies and the introduction of positive incentives. The less the national perverse subsidies, the less a country needs to pay. A country will pay zero international tax if it has phased out all perverse subsidies, and may even receive international subsidies for smoothing the transition toward zero perverse subsidies.

Source of funding:

Certain percentage of global perverse subsidies to be contributed by national Governments

Estimated size of funding:

Depending on the agreed level of assessment percentage, ranging from billions to tens billions

Mode of collection:

The assessment can be paid by Governments based on the level of national perverse subsidies.

Use of funds:

The revenues can be channelled to promote subsidy reform and cover transition costs of reducing and eliminating perverse subsidies.

<u>Policy option 5:</u>

<u>International tax on total carbon emissions to finance biodiversity adaptation</u>

Rationale

Climate change has emerged as a major threat to biodiversity and ecosystem services. Given the accumulative effects of past carbon emissions, certain climate change will occur even with the enhanced global efforts to reduce carbon emissions. Ways and means must be found to reduce the adverse impacts of climate change on biodiversity and ecosystem services through adaptation. Current level of international funding has not been designed to address the need for biodiversity and ecosystem services to adapt to climate change. A new and fair scheme may be designed to generate additional resources for this purpose.

Source of funding:

An international assessment based on the level of total carbon emissions, to be contributed by national Governments

Estimated size of funding:

Depending on the agreed level of assessment percentage, ranging from billions to tens billions

Mode of collection:

The assessment can be paid by Governments based on the level of national carbon emissions.

Use of funds:

The revenues can be channelled to address climate threats to biodiversity and ecosystem services, and ecosystem adaptation to climate change.

Annex IV. Market for Green Products

Recommendations concerning market for green products:

1. Establish an incubator fund for supporting the development of markets for green products. This funding mechanism should be flexible and draw from a variety of sources, including voluntary contributions and public finance. Its main objective is to help increase market access for small enterprises and to support the establishment of new biodiversity-friendly enterprises.

2. Strengthen and compile the scientific analysis on the scope and meaning of green products. It is suggested to build on existing efforts to achieve a comprehensive approach towards the application of green (or biodiversity-friendly) criteria to products. This task should contribute directly to the development of basic principles and requirements that can be included in the post 2010 strategy for biodiversity conservation and applied to the assessment of the sustainability of products in a variety of industry sectors It is suggested that the proposed Intergovernmental Panel on Biodiversity and Ecosystem Services (IPBES).

3. The implementation of robust green standards should be encouraged first and foremost through public procurement policies, from municipal to national levels. Such efforts should be carried out in close coordination with relevant policy processes, such as those related to fiscal reform. It is also suggested to provide national reports on the establishment and implementation of such policies.

4. Encourage and support, including through the use of incentives, the establishment and implementation of green procurement and investment policies in private sector companies.

5. Encourage the integration of broader landscape considerations into the criteria and principles for green standards and certification schemes in order to ensure that regional biodiversity is being effectively conserved and that local-level and small-scale enterprises are more effectively supported.

6. Achieve a more effective coordination between biodiversity and trade policies in order to ensure that the elaboration of biodiversity standards for green products are informed by trade considerations and that trade negotiations are adequately integrating biodiversity standards into consideration.

Annex V. Biodiversity in International Development Finances

The working group on Biodiversity in International Development Finance explored options for identifying financial innovations for biodiversity and ecosystem services within the international flows of funds for development. The outcomes of the discussions can be clustered into three focal areas regarding biodiversity finance in a development context – i.e. financing 'green development':

1. Innovative approaches to the use of funds;

2. Innovative approaches to the sources of funds; and

3. Innovative international finance mechanisms.

In addition, the Yasuni-ITT proposal was also suggested.

1. Innovative approaches to the use of funds

In a development context, it is critical to understand how the financing of green development projects will ensure both biodiversity outcomes (e.g. conservation, sustainable use and benefit sharing) and development outcomes (e.g. job creation, sustainable livelihoods and resource security).

With respect to **biodiversity as a public good**, such funding could support the maintenance of 'eco-infrastructure' and ecosystems services as well as the restoration of ecosystems and the sustainable management of rural landscapes. Such funding – as highlighted by the TEEB reports – would secure the 'natural capital' upon which development, particularly of rural poor communities, depends.

With respect to **biodiversity as a private good**, such funding could invest in biodiversity businesses in sectors such as agriculture, fisheries, forestry and tourism. In so doing, these investments would promote sustainable green economic development in rural landscapes.

2. Innovative approaches to sources of funds

The working group explored a wide range of international financial flows which support development. For each of these potential sources of funds, an important first step could be to explore where existing financial processes and modalities undermine biodiversity conservation and thus should be reformed or restructured. With the removal of biodiversity-perverse financial flows, a second step could be to explore opportunities for 'mainstreaming' or 'internalising' biodiversity considerations into development financing which address critical issues such as economic growth, job creation, trade promotion, health, and education. Such a two-step approach to greening development finance is broadly applicable but not limited to the following four types of development finance:

- **Official development assistance (ODA)** – for example by integrating biodiversity more strategically into existing and new ODA modalities in line with the Paris Declaration such as decentralised cooperation;

- **Public finance**– for example, by removal of biodiversity-perverse subsidies and by co-financing of green development opportunities at all levels of government;

- **Foreign direct investment (FDI)** – by integration of biodiversity responsibility schemes such as assessing FDI impacts on biodiversity and exploring options for addressing these impacts such biodiversity offsets at a national level and green payments for commodity exports; and

- **Migrant worker remittances** – though innovative schemes to support or co-finance remittances so as to encourage green development in the use of these funds when they are remitted back to villages and rural landscapes.

3. Innovative international financial mechanisms

Under the CBD, there are clear opportunities to develop innovative mechanisms to scale up more funding for biodiversity through the various sources of international development finance. In turn, this would result in increased support for biodiversity as a public good through, for example, ecosystem restoration projects as well as increased support for biodiversity as a private good through for example investing in the ecotourism sector in and around protected areas. With a mandate from the CBD, such mechanisms could provide three types of services:

- **Mainstreaming** – to integrate biodiversity into development finance flows resulting in integrated financing for green development;

- **Clearinghouse/brokering** – to identify, facilitate and promote green development opportunities to various sources of development finance; and

- **Funding** – such as a green development mechanism to directly secure international development funds, notably from FDI and private sector value chains, and to invest these funds in public and private green development projects.

4. The Yasuni-ITT proposal – Cross-cutting issue concerning biodiversity in development and climate change finance

The document “Cost analysis of the environmental externalities from Yasuni-ITT oilfield development” provided by TEEB was handed out to the participants and was discussed within the group “Biodiversity in International Development Finance”.

In 2007 the government of Ecuador announced a proposal to not extract some 20% of its oil reserves with the condition that the government is compensated by developed countries for the foregone revenues. As most of the oil reserves are within the forest rich Yasuni National Park this initiative has the potential to contribute to climate change mitigation and biodiversity conservation. Therefore, it was identified as an example for innovative finance which is cross-cutting the themes development and climate change.

Recently the Ecuadorian government signalled to back out of this deal. Nevertheless, it should be investigated whether compensation-payments for non-use of natural resources can be a possible source of finance for biodiversity conservation. In particular the issue of permanence has been raised as a major obstacle that needs to be addressed: How can it be assured that the oil will not be extracted after the compensation payments have been transferred?

Other forest conservation projects and schemes like REDD can offer possible approaches for managing the risk of permanence such as: integrating compensation payments for non-use into broader national approaches for low-carbon development, biodiversity conservation and poverty reduction; include compulsory insurance schemes (e.g. like a reserve pool of carbon certificates within REDD); provide positive incentives for alternative development paths.

Annex VI. Biodiversity in Climate Change Finance

This working group aimed to identify priorities to encourage the Parties of the United Nations Framework Convention on Climate Change (UNFCCC) and its Kyoto Protocol to take biodiversity into account in any climate change finance. Priorities are:

- Encourage and support economic valuation and spatial mapping tools of ecosystem services benefits (including protected areas and agricultural networks).
- Encourage joint working programme between climate change and biodiversity across both policy and implementation.
- Establish technical expert groups to develop how-to toolkits, best practice guidelines to support policy-makers at implementation level.
- Use the financing of ES to leverage climate finance.

Develop and encourage TOOLS to map ecosystem service benefits

Large overlaps exist in climate change finance with areas that are high in biodiversity and provide valuable ecosystem services (ES). It is often difficult, however, to incorporate biodiversity and ES co-benefits into climate change finance due to a lack of data, tools, and the appropriate capacity to assess areas of potential synergy between these compatible goals. Tools that spatially map ES benefits have already started to be developed and the CBD should encourage Parties and stakeholders to build on these.

In addition to promoting safeguards and biodiversity co-benefits in the design of climate change finance, CBD could call upon Parties to undertake spatial mapping and economic valuation exercises of ecosystem services – e.g. could set-up a branch under their clearing house, offer training, methodologies, guidelines and funding for how to develop such maps – examples exist, such as by CI in Madagascar, UNEP-WCMC, Invest, others.

Strengthen COMMUNICATION

Encourage Joint Working Programme on biodiversity and climate change. Building on the 2nd AHTEG on Biodiversity and Climate Change Mitigation and Adaptation (i.e. literature), and develop means to provide concrete suggestions for implementation. Enhanced communication should be encouraged at the high level, implementation level (e.g. training, manuals), the general public as well as the climate change negotiators. For example, communication could be fostered between those developing NBSAP + NAPA + PRSP to help identify synergies.

Establish TECHNICAL EXPERT GROUPS

CBD to encourage the development of technical expert groups (TEG) on priority areas/sectors re: biodiversity and climate change. TEGs could also play functions of technical assistance units, providing policy advice and training, best-practice guidelines, handbooks to policy-makers at local and national level, involved in implementation. Possible priorities: Forests (savannah, grasslands, etc), agriculture, peatlands, coastal zones (for both mitigation and adaptation).

LEVERAGE climate finance

The use of biodiversity finance can stimulate additional finance from the UNFCCC for both mitigation and adaptation finance. The use of biodiversity finance can help to reduce the incremental cost of mitigation and adaptation activities in developing countries in areas that high marginal costs. Biodiversity finance could therefore be used in areas that have high synergies (identified using the TOOLS described above) to leverage additional finance from the climate change regime. Equally, where climate finance is sufficient to cover the incremental costs of conservation in for example forest ecosystems, biodiversity finance can be ‘freed-up’ to target areas with increased threats and that might not offer direct or indirect climate benefits. Moreover,

voluntary initiatives for biodiversity premiums in carbon markets should be encouraged and built upon e.g. *green* REDD-plus credits. Several initiatives are already underway (CCBA standards, Planvivo, Carbonfix etc) and the CBD role in such standards should be explored.

BUT: we recognise that the global biodiversity challenge will not be addressed solely via linkages to climate change finance. Parties under the CBD could be encouraged to start thinking formally about mechanisms for international transfer of money which engages the private sector, to support biodiversity conservation and sustainable use (i.e. similar to the REDD-plus mechanism being developed under the UNFCCC, but that focuses on biodiversity values and goes beyond just forests – ultimately, this is the aim of a Green Development Mechanism).

Better monitoring and verification of biodiversity finance is also needed (where is money flowing, how much, from whom i.e. private, public, bilateral, multilateral – and for what purpose). This would help to identify where the gaps are, where there are financing needs, and can therefore help to prioritise and target biodiversity finance in a more effective manner.

Annex VII. Green Development Mechanism

The proposal of a ‘green development mechanism’ was also discussed. It was agreed that there is clear need for mobilising additional resources to address the biodiversity challenge in the context of development. Despite many existing sources and funding mechanisms a significant financing gap remains which needs to be filled. The group supported the proposal to consider the need and viability of a new international mechanism (a ‘green development’ mechanism) and to undertake further discussions and analytical and conceptual work. A potential mechanism could serve both as a means of generating additional resources; and as a means of providing further coherence to ongoing and new efforts, as well as enabling a efficient and equitable distribution of new and additional resorces. It is recommended that this matter be given fuller consideration at the upcoming WGRI-3 meeting in May in Nairobi.

Annex VIII. Proposed Organization of Work

Wednesday, 27 January 2010

9:30 a.m. – 11:00 a.m.	**1. Opening of the workshop (Y. Xiang)** ▪ Opening statement: CBD Secretariat (R. Sharma) ▪ Opening statement: German Government (A. Benemann) ▪ Opening statement: UNEP TEEB (M. Schauer) **Overview of the workshop (H. Wittmer)** ▪ Introduction of participants ▪ Purpose and Programme (H. Wittmer) ▪ Context of CBD Process (Y. Xiang) **Two key initiatives** ▪ Green Development Mechanism (GDM) (F. Vorhies) ▪ TEEB (H. Wittmer)
11 a.m.- 11:30 a.m.	*Coffee break*
11:30 a.m. – 12:15 p.m.	**2. Introduction to topics 1-6 (H. Wittmer)** 1. Payment for Ecosystem Services (A. Drucker) 2. Biodiversity Offsets (K. ten Kate) 3. Environmental Fiscal Reform (S. Quatrini) 4. Markets for Green Products (J. Bishop) 5. Biodiversity in International Development Finance (F. Vorhies) 6. Biodiversity in Climate Change Funding (K. Karousakis)
12:15 p.m. – 1:30 p.m.	*Lunch break*
1:30 p.m. – 3 p.m.	**3. Working Groups: Exploring policy options in topics 1, 3, 5** ▪ Input presentation on policy options by subject chairs ▪ Brainstorming & discussion on critical aspects of each policy option ▪ In each topic, identify and select policy options for consideration during the workshop
3 p.m.– 3:30 p.m.	*Tea break*
3:30 p.m. – 5 p.m.	**4. Working Groups: Exploring policy options in topics 2, 4, 6** ▪ Input presentation on policy options by subject chair ▪ Brainstorming & discussion on critical aspects of each policy option ▪ In each topic, identify and select policy options for consideration during the workshop
5 p.m. – 6 p.m.	**5. Plenary: Reporting on critical issues in selected policy options (H. Wittmer)** ▪ Summaries by subject chairs
6:30 p.m. – 8:30 p.m.	*Reception hosted by UNEP TEEB*

Thursday, 28 January 2010

9 a.m. – 9:45 a.m.	**6. Plenary: Defining emphases & tasks** for further developing policy options during the workshop **(H. Wittmer)**
9:45 a.m. – 11 a.m.	**7. Working Groups: Developing selected policy options in each topic**
11 a.m. – 11:30 a.m.	*Coffee break*
11:30 a.m. – 12:45 p.m.	**8. Working Groups: Developing selected policy options in each topic (continued)**
12:45 p.m. – 2 p.m.	*Lunch break*
2 p.m. – 3:30 p.m.	**9. Plenary: Reporting on ideas for selected policy options (H. Wittmer)** ▪ Summaries by subject chairs
3:30 p.m. – 4 p.m.	*Tea break*
4 p.m. – 5:15 p.m.	**10. 6 or more Working Groups: Next steps for implementing policy options**
5:15 p.m. – 6:15 p.m.	**11. Plenary: Reporting on next steps for selected policy options of topics 1, 3, 5 (H. Wittmer)** ▪ Summaries per policy option by subject chairs ▪ Short discussion

Friday, 29 January 2010

9 a.m. – 10 a.m.	**12. Plenary: Reporting on next steps for selected policy options of topics 2, 4, 6 (H. Wittmer)** ▪ Summaries per policy option by subject chairs ▪ Short discussion
10:00 a.m. – 10:30 a.m.	*Coffee break*
10:30 a.m. – 12:45 a.m.	**13. Parallel sessions:** **a) Writing teams for each topic, producing texts for policy recommendation document (SCBD)** **b) TEEB for Local Governments: Discussion and Review (UFZ)** **c) Green Development Mechanism: Discussion (F. Vorhies)**
12:45 p.m. – 2	*Lunch break*

p.m.	
2 p.m. – 3:30 p.m.	**14. Plenary: Review and Discussion of Workshop Outcome Document (H. Wittmer)**
3:30 p.m. – 4 p.m.	*Tea break*
4 p.m. – 4:30 p.m.	**15. Plenary: Closure of the workshop (Y. Xiang)** ▪ Final remarks: German Government (A. Benemann) ▪ Final Remarks: CBD Secretariat (R. Sharma)

Annex IX List of participants

Name	Country/Organisation	Contact
Adachi, Naoki	Japan	C.E.O. Response Ability, Inc. Executive Director, JBIB Email: adachi@responseability.jp
Aquoi, James Z.	EPA	Resource Mobilization Focal Point Environmental Protection Agency (EPA) Liberia Tel/Fax: +205 407 126; +205 407 127 Mobile: +231 6580 113 Email: jameszaquoi@yahoo.com
Awanos, Mikako	WWF	CBD Senior Officer Conservation Department WWf Japan Email: mikakoa@wwf.or.jp
Benemann, Axel	BMU	Email: Axel.Benemann@bmu.bund.de
Berghoefer, Augustin	UFZ	augustin.berghoefer@ufz.de, teeb@ufz.de
Bertrand, Nicolas	UNEP	Division of Technology, Industry and Economics, Economics and Trade Branch Tel: 41 (0) 22 917 86 09 Email: nicolas.bertrand@unep.org
Dhewanthi, Laksmi	Ministry of Environment Indonesia	Assistant Deputy Minister for Incentive and Environmental Fund State Ministry of Environment Indonesia Tel/Fax; +62218517161 Email: ldhewanthi@gmail.com
Drucker, Adam G.	CGIAR	Senior (Ecological) Economist Bioversity International Tel : (39) 06 6118391 (office) Tel: 39 345 334 9273 (mobile) Fax : (39) 06 611979661 Email: a.drucker@cgiar.org Skype: adrucker1
Echeverria B., Jaime	Tropical Science Center	Environmental Economist Tropical Science Center Tel: 506 22 71 34 79 Cel: 506 88 43 38 19. Email: jaimeecheverria@gmail.com
Eek, Liina	Ministry of Environment Estonia	Ministry of Environment Nature Conservation Department Fax: +372 626 2901. Email: liina.eek@envir.ee

Eijs, Arthur	VROM	Ministry for the Environment (VROM) Tel.: +31703394696 Email: Arthur.Eijs@minvrom.nl
Fang, Zhulan	Renmin University	Professor at School of Economics Renmin University Tel.: (8610) 68731729 Cel.: (8610) 139 1152 9030 Fax: (8610) 8226 0106 Email: fangzhulan66@hotmail.com
Foerster, Johannes	UFZ	Email: Johannes.foerster@ufz.de, teeb@ufz.de
Gatzweiler, Franz	ZEF	Centre for Development Research (ZEF), Bonn Email: gatzweiler@gmail.com
Gené, Enrique Ibarra	Institute for Global Environmental Strategies (IGES)	Institute for Global Environmental Strategies Forest Conservation, Livelihoods and Rights Project 2108-11 Kamiyamaguchi, Hayama, Kanagawa 240-0115, Japan Phone (wk): 81 46 855 3833 fax: (wk) 81 46 855 3809 Web site: http://www.iges.or.jp
Goba, Vineta	ECNC	Programme Manager Business and Biodiversity ECNC-European Centre for Nature Conservation Email: goba@ecnc.org
Gundimeda, Haripriya	IIT	Associate Professor (Economics) Department of Humanities and Social Sciences Indian Institute of Technology Bombay Tel: +91-22-2576-7382 (o) /+91-22-2576-8863 (R) Fax: +91-22-2576-4350 Email: haripriya.gundimeda@iitb.ac.in
Hatchwell, Matthew	WCS	Director for Europe Wildlife Conservation Society (WCS) E-mail: mhatchwell@wcs.org Tel/fax: +44-(0)1795-830051 Mob: +44-(0)7976-605770 Skype: wcs.org_mhatchwell
Hayashi, Kiichiro	Nagoya University	Professor Nagoya University Eco Topia Science Institute Email: maruhaya@esi.nagoya-u.ac.jp
Herodote, Paule	Global mechanism UNCCD	Email: p.herodote@global-mechanism.org

Herstad, Bente	NUMI	Director Dept. of Private Sector Development and the Environment (NUMI) + 47 22 24 22 76/+ 47 415 36 616 E-Mail: Bente.Herstad@norad.no
Hollebosch, Patrick	DGOS	FPS Foreign Affairs, Foreign Trade and Development Cooperation D4.3 International Environmental Affairs Tel.: ++3225014411 Email: Patrick.Hollebosch@diplobel.fed.be
Hubermann, David	IUCN	Coordinator, IUCN Email: david.huberman@iucn.org CC: joshua.bishop@iucn.org CC: sue.both@iucn.org
Jordan, Robert	IFOAM	Advocacy manager International Federation of Organic Agriculture Movements (IFOAM) e.V. Tel +49 228 92650 10 Fax +49 228 92650 99 Email: r.jordan@ifoam.org
Karousakis, Katia	OECD	Climate Change, Biodiversity and Development Division Environment Directorate OECD Tel: +33 (0) 1 45 24 98 83 Email: Katia.KAROUSAKIS@oecd.org Internet: www.oecd.org/env/biodiversity
Kretzschmar, Thomas	UFZ	Email: Thomas.kretzschmar@ufz.de, teeb@ufz.de
Lehmann, Markus	SCBD	Email: Markus.Lehmann@cbd.int
Luchetti, Damiano	FAO	Consultant, Secretariat, Commission on Genetic Resources for Food and Agriculture, FAO Email: Damiano.Luchetti@fao.org
Malogioglio, Maurizio	FAO	Senior Programme Officer, Policy Assistance and Resources Mobilization Division, FAO Email: Maurizio.Malogioglio@fao.org
Meignien, Pierre	Ministry of Ecology France	French Ministry of Ecology Email: pierre.meignien@developpement-durable.gouv.fr
Metcalfe, Julian	GDM	Email: jmetcalfe@earthmind.net

Metia, Solomona	Ministry of Natural Resources & Environment Tuvalu	Biodiversity Officer Department of Environment Ministry of Natural Resources & Environment Government of Tuvalu. Email: smetia@gov.tv
Mitlacher, Günter	WWF	WWF CBD Focal Point Grundsätze und Programmfinanzierung - CBD Politik Government Agencies Cooperation - CBD Policy Officer WWF Deutschland - WWF Germany Tel: +49 69 791 44-225 Fax: +49 69 791 44-231 Mobil +49 162 29 103 00 Email: guenter.mitlacher@wwf.de
Morandeau, Delphine	Ministry of Ecology France	Chargée de mission Biodiversité - Secteur privé Ministère de l'écologie, de l'énergie, du développement durable et de la mer Tél : 01 40 81 71 17 Email: Delphine.Morandeau@developpement-durable.gouv.fr
Morling, Paul	Birdlife International	Royal Society for the Protection of Birds (RSPB)- UK to represent the BirdLife International Partnership Email: paul.morling@rspb.org.uk
Muñoz Piña, Carlos	Instituto Nacional de Ecología Mexico	Director General de Investigación en Política y Economía Ambiental Instituto Nacional de Ecología Distrito Federal Mexico Tel.: +52 55 5424 6411 – 13111 Email: carmunoz@ine.gob.mx
Nauber, Jürgen	UNWTO	Coordinator World Tourism Organization (UNWTO) Consulting Unit for Tourism and Biodiversity Tel: +49 228 815-0550 Fax: +49 228 815-0554 Email: nauber@unwto.de
Nordheim-Larsen, Camilla	Global mechanism UNCCD	Financial Strategy Officer CCD Global Mechanism Email: c.nordheim-larsen@ifad.org
Novikova, Tatiana	National Biodiversity and Biosafety Center Tajikistan	Deputy Head National Biodiversity and Biosafety

		Center Tel.: +992 919 010 836 Fax: +992 372 21 89 78. Email: biodiv@biodiv.tojikiston.com
Oldfield, Sara	Botanic Gardens Conservation International (BGCI)	Secretary General Tel: +44 (0)208 332 5953 Fax: +44 (0)208 332 5956 Email: sara.oldfield@bgci.org Internet: www.bgci.org
Olivier, Willeen	Department of Environmental Affairs South Africa	Assistant Director: Biodiversity Planning Department of Environmental Affairs Republic of South Africa Tel: (+27) 012 310 3595, Cell: (+27) 084 548 1607 Fax: (+27) 012 320 7026/086 579 1189 Email: wolivier@deat.gov.za Website: www.deat.gov.za
Parker, Charlie	Global Canopy Programme	Policy Analyst Global Canopy Programme John Krebs Field Station Tel: +44 (0) 203 286 8621 Fax: +44 (0)1865 724 555 Skype: davidcharlesparker Email: c.parker@globalcanopy.org Web: http://www.globalcanopy.org
Quatrini, Simone	Global mechanism UNCCD	Coordinator, Policy and Investment Analysis The Global Mechanism of the UNCCD c/o the International Fund for Agricultural Development (IFAD) E-mail: s.quatrini@ifad.org Tel: +39 06 5459 2154 Fax: +39 06 5459 3154
Schuler, Marcio Edgar	Ministry of Environment Brazil	Director of Genetic Heritage Department Office for Biodiversity and Forests Ministry of Environment Email: marcio.schuler@mma.gov.br
Schultz, Maria	SwedBio	Director SwedBio Mob.: +46-73-4025412 www.swedbio.org Email: Maria.Schultz@cbm.slu.se
Sharma, Ravi	SCBD	Principal Officer Implementation, Technical Support & Outreach Tel.: 1-514-287-7018 (Canada) Email: Ravi.Sharma@cbd.int

Takehiro, Katsushi	METI	CC: Yoshito ASANO Bio-industry Division Ministry of Economy,Trade and Industry (METI) TEL:+81-3-3501-8625 FAX:+81-3-3501-0197 E-mail: takehiro-katsushi@meti.go.jp
ten Kate, Kerry	BBOP	Director Business & Biodiversity Offsets Programme Forest Trends Mob.: +447909866218 Email: kerrytenkate@hotmail.com
Urama, Kevin	ATPS	Executive Director African Technology Policy Studies Network (ATPS) Tel: +254 20 2714092, Direct Line: +254 20 2723875 Cell: +254 728 607703, Fax: +254 20 2714028 Email: kurama@atpsnet.org, executivedirectore@atpsnet.org URL: http://www.atpsnet.org
Vakrou, Alexandra	European Commission	European Commission Directorate General Environment F.1 Chief Economist, Instruments & Impact Assessment Tel. +32-2-2996133 Fax. +32-2-2969559 Email: alexandra.vakrou@ec.europa.eu
Vorhies, Francis	Earthmind	Email: fvorhies@earthmind.net
Wafa, Nermin	LAS	League of Arab States (Secretariat) Head of Programmes and Activity Section Environment, Housing and Sustainable Development Email: Envsusdev@las.int
Wittmer, Heidi	UFZ	Email: heidi.wittmer@ufz.de, teeb@ufz.de
Xiang, Yibin	SCBD	Email: Yibin.Xiang@cbd.int
Zwick, Steve	Ecosystem Marketplace	Managing Editor, Ecosystem Marketplace Email: SZwick@ecosystemmarketplace.com

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