

Report
Investing in Biodiversity (Nov 96)
A Workshop of the 5th Global Biodiversity Forum
Buenos Aires, Argentina

1. Introduction

The workshop on Investing in Biodiversity was organised jointly by the WRI, IUCN, and the World-wide Fund for Nature (WWF). More than 40 people from governments, NGOs, intergovernmental organisations, the private business sector, and scientific research institutions participated in the workshop. It had two main purposes: to assess the amount and application of traditional sources for financing biodiversity action, including the Global Environment Facility (GEF); and to review incentive measures as well as new and additional sources for the mobilisation of resources, including private sector flows.

2. The CBD Context

In several of its Articles the CBD deals with the issue of incentives and biodiversity financing. Developed countries are obligated to provide new and additional financial resources for conservation and sustainable use of biodiversity in developing countries (see especially Articles 8, 9, 20 and 21 of the CBD). All countries, including developing countries, are also obliged to develop economic incentives to support conservation and sustainable use of biodiversity, and to increase their domestic funding commitments to implementing the CBD (see especially Articles 11 and 20).

The CBD establishes a financial mechanism to support CBD implementation in developing countries, which is currently operated on an interim basis by the Global Environment Facility (GEF). However, the CBD also stresses the importance of strengthening other existing financing mechanisms that can assist implementation, and the Parties have mandated exploration and promotion of a diversified range of other funding mechanisms.

New and Additional Resources - ODA

A recent comprehensive study by Birdlife International, analysing OECD and CSD data from the Organisation for Economic Cooperation and Development (OECD) and the Commission of Sustainable Development (CSD) on official development assistance (ODA), estimates that the financial needs for biodiversity conservation in developing countries amounts to about \$20 billion per year, compared to current global spending on conservation of only \$4.14 billion per year.

Total bilateral ODA levels have actually fallen significantly since the 1992 Rio Summit (from \$60 billion per year in 1992 to \$56 billion per year now). Even with the new funding for biodiversity provided by GEF since 1991, total ODA for biodiversity has actually fallen dramatically since 1992. ODA for biodiversity peaked at 1.7% of total aid in 1992 and fell to 0.3% in 1994. The gap between financial conservation needs and

actual spending has thus been exacerbated significantly, and GEF appears to represent a diversion of some of the remaining resources, rather than "new and additional financing". The report concluded that when individual donor countries are evaluated under the Earth Summit criteria, only Norway can be said to have fulfilled its financial obligations under the CBD.

These figures, bad as they are, may still in fact be overstating the amount of "new and additional" funding for biodiversity. The report proposed that the OECD/CSD figures suffer from fatal definitional defects and should be rejected. All "agriculture" projects, for example, are counted as "sustainable agriculture", and the clearing of a natural forest for a eucalyptus plantation is counted under "forestry" and thus as "biodiversity conservation". Donors have also not produced their own data on a standardised basis to allow the OECD figures to be checked.

Furthermore, in spite of numerous efforts at foreign debt restructuring, rescheduling and alleviation, the total debt burden of developing countries is still rising. This puts an additional financial strain on some of the poorest, but most biodiversity-rich, countries. Although foreign private investment in developing countries also has risen substantially, these flows are directed mainly to middle income countries, and to sectors that are more likely to exacerbate biodiversity loss rather than to alleviate it.

While the amount of biodiversity financing is a major problem, attention should also be given to the inefficiency use of funds and implementation of projects. Blame for the well-documented failures of many ODA biodiversity projects lies with both donors and recipient countries. Donors have pushed poorly designed and unsustainable projects to fulfill their own grant and loan goals without adequate coordination of their own efforts (e.g., fund a dam that destroys biodiversity and then fund a biodiversity project to mitigate the damage). Recipient governments for their part have often accepted large projects they cannot handle, failed to elicit local consent and participation, and tolerated growing corruption in the allocation of funds for biodiversity.

Despite the need for complementary mechanisms and sources and for significant reforms in the design, implementation and accountability of projects and programmes, it was concluded that the ODA remains a keystone for biodiversity conservation efforts.

3. The Global Environment Facility

The Global Environment Facility (GEF) has been designated by the COP on an interim basis as its financial mechanism to assist the implementation of the CBD in developing countries. Workshop participants tried to assess the status and experiences with the three year pilot phase of GEF implementation in terms of both to the efficiency and impact in the direct use of funds, and the GEF's ability to influence national policies towards biodiversity conservation.

An illustrative example presented was the case of the GEF investment in the protected area system of the Philippines. The project is being implemented by the Department of

Environment and Natural Resources (DENR), in partnership with the NIPA consortium of eighteen NGOs (NGOs for Integrated Protected Areas). It is administering two grant assignments with a total of \$20 million. Ten priority protected areas representing fifteen biogeographical zones have been selected in the first phase of operation, comprising a total of 400,000 hectares.

Half of the funds (\$10 million) have been earmarked for a Livelihood Fund that disburses loans or small grants to support local sustainable use initiatives in the socio-economic sphere. Its objectives are thus both to devise alternatives in order to reduce pressure towards protected area degradation, and to create a long-term source for financial support to maintain protected areas. An important, but complex and time-consuming issue has been the demarcation of ancestral indigenous claims within the protected areas.

The implementation partnership of government agencies and NGOs was seen to be a key to making the GEF project a success. To date, the GEF project in the Philippines shows a positive record. Not only has the implementation lived up to expectations, protected areas have also attracted additional financing from a number of bilateral donors. Indigenous peoples and NGOs have strengthened their position, and so have groups resisting environmentally detrimental projects. Given the pioneer stage of environmental awareness and management in the Philippines (natural habitat destruction has been extremely rapid and extensive), the GEF project has clearly made a positive contribution. Another example presented was the GEF regional project in East Africa, which revealed some of the potential drawbacks of mega-projects like the GEF. Regional coordination among the involved countries has proved to be extremely difficult. At the national level, GEF funding probably did not constitute a fully incremental financing; the lack of financial responsibilities on behalf of national counterparts has meant that GEF activities came to be isolated rather than integrated. Furthermore, "donor crowding effects" and the lack of coordination has been another obstacle to successful implementation. This and other examples underlined that efficiency in spending and national commitment for biodiversity are two necessary factors for success.

In general, the record of the GEF so far is mixed: it is neither a "panacea" nor "a kiss of death" to biodiversity. Where biodiversity formerly was regarded by developing countries as a luxury topic imposed by the North, GEF has generally helped to create a more pronounced sense of national ownership. Many projects funded by GEF have shown considerable success, while others have fallen prey to problems such as those noted above. Other than the GEF, however, no credible institution to operate the CBD financial mechanism is in view. It appears that either GEF will be the institutional structure operating the financial mechanism, or there will be no financial mechanism.

Innovative Funding Mechanisms

A wide range of innovative funding mechanisms for biodiversity are currently being tested or developed in many parts of the world, at both national and international levels. Only by tapping into these can the Parties to the CBD hope to significantly increase funding for biodiversity, especially in the face of declining ODA commitments.

National Environment Funds (NEFs), currently operational or under development in some 60 countries, are an important new financing mechanism for funding biodiversity conservation. A prominent, although not exclusive, source of financing for NEFs have been debt-for-nature swaps. Although there may be less scope for swaps now than in the past, this is still an important financial potential for biodiversity financing in many developing countries. At the workshop, IUCN presented a practical guide to NGOs on this topic.

NEFs normally share three common features: different sectors of society are represented on their boards of directors; they raise and manage money from a variety of sources; and they make loans or grants available to beneficiary organisations. One of the comparative advantages of NEFs is that they allow for flexible timing between the donation and the actual biodiversity-related spending. Another advantage, in particular compared to biodiversity mega-projects, is that their structure provides better opportunities to link centralised national financing with the needs of peoples' organisation at the local level. Relatively minor funds may have an important catalytic impact, which yield substantial cumulative benefits.

In South America, a regional consultation of the NEF "Ecofondos" had recently been held as a mechanism for comparing experiences on the search for and managing of financing, and on the modes and effectiveness of spending. In Thailand, a National Trust Fund has raised \$6 million, but it has been difficult to identify a sufficient number of appropriate projects to finance.

One of the NEFs, the Foundation for the Philippines Environment (FPE) is a private, non-profit foundation with an endowment of \$22.9 million, that since 1992 has financed 278 projects with grants totaling about \$5.5 million. The typical project cost is \$40,000-60,000. The FPE was initially financed by debt-for-nature swaps in cooperation with WWF/USAID, and later supplemented by additional swaps. Many sectors of society participate in the Board of Trustees that consists of 11 members, and the presence of a member from the Department of Finance/Central Bank has helped to secure high-level government support. The experience of the FPE has generally been positive, although it is too early to draw conclusions on the long term conservation impacts of projects. An initial difficulty had been the numerous and competing demands for funding for different purposes within the environmental sphere. Clear and transparent rules, regulations and priority-setting have helped to overcome this problem.

The discussion identified various critical factors that deserve special attention in the design and operation of NEFs:

- establish clear priorities and guidelines in the distribution of funds;
- avoid an exclusive focus on individual projects by taking a programmatic approach;
- take a pro-active project management approach which already assists local communities in the project formulation stage;
- secure additional financing after initial debt-swaps; and

- focus financial portfolio management on profitable but secure assets, while avoiding investment in environmentally destructive activities.

User fees are another potential source of biodiversity financing, which imply local rather than external financing, and can thus be an important complementary source for securing financial sustainability. This is particularly important for protected areas. Nevertheless, the application of user fees is not only a financing instrument, but it also helps to "get prices right", i.e., to integrate the "user/benefactor pays" and "cost recovery" principles in the incentive structure, so that additional objectives such as fair cost sharing and equity may be met. Examples from Canada illustrated the great potential of user fees. To what degree the experiences could be transferred to developing countries was also discussed. In several protected areas, an initial "over-shooting" of entrance fees had occurred, so that fixing the appropriate level of fees had proved to be a trial-and-error process.

Access to genetic resources and bioprospecting as an income-generating activity have traditionally been controversial topics (see also the perspectives from the Workshop on Biodiversity and Indigenous People). Workshop participants elaborated on the possibilities of and requirements for making a positive contribution from the commercialisation of genetic resources to local resource users and biodiversity conservation.

The UNCTAD Biotrade Initiative is an attempt to work along these lines. Its goal is to provide support to developing countries in order to attach monetary values to their biodiversity resources, transfer the appropriate technologies, reduce transaction costs and create export capacity. This also implies the identification, development and marketing of a set of products and services that draws upon country-specific biological resources, allowing individual countries to achieve a successful specialisation and gain a "niche" in the market for biological material.

Discussion at the workshop also identified the dangers of increased competition among genetic resource-providing countries in the face of the current regime of free access. This means that, in the absence of an effective multilateral agreement or a cartel protecting resource access, the resource rents for genetic resources that are shared by different supplier countries can be eliminated by competition. In this way, the prospects of income generation from genetic diversity become limited to services of local value added, as seems to be the case of INBio in Costa Rica and other countries -- royalties paid by pharmaceutical firms have been limited to the range of 1-2%.

An Inter-American Development Bank (IDB) project from Ecuador was presented which develops an alternative and replicable scheme of patenting and benefit-sharing between different indigenous communities. By gathering traditional ethnobotanic knowledge in a data base and exploring the options for patenting, monetary income could be generated and shared among local resource users, thus serving as an incentive for conservation. Participants discussed the feasibility and the pros and cons of a cartel scenario. It was concluded that responsibility and legal action in the industrialised countries is a necessary condition for making the CBD work in the area of genetic resources.

"Joint implementation" of the Framework Convention on Climate Change implies carbon dioxide (CO₂) storage and fixation in developing countries. Carbon offset forestry projects have been developed mainly in Latin America, but also in other developing countries and in Eastern Europe. Critics of joint implementation noted the emphasis on exotic but biodiversity-poor plantations which consume land that otherwise could be more productively employed. However, to the extent that natural forests under threat are storing CO₂ that would be released by deforestation, there is an argument for compensation that makes their conservation an economically feasible land-use option, rendering joint implementation a potential ally for biodiversity conservation.

4. Incentives for Investing in Biodiversity

Frank Vorhies reported on the Incentives for Biodiversity workshop which took place at the 3rd session of the Global Biodiversity Forum in August/September 1996. At this workshop, the role of incentives in a framework for biodiversity loss assessment was presented. Also, quite a number of case studies of incentives measures were presented and discussed. The lessons learned from these cases included an understanding of the importance of the institutional environment, which is also crucial for creating an incentives to invest in biodiversity. Thus incentives for investing in biodiversity must be considered if we are to increase the flow of money to the conservation and sustainable use of biological resources.

Current government policy frameworks contain many incentives that perversely threaten to destroy biodiversity and few enabling incentives to conserve it. Many policy changes could both save money and conserve biodiversity. Political will to overcome vested interests with a stake in biodiversity-depleting economic activities is needed to realise this potential.

Over 95% of ODA flows are not directly related to biodiversity. However, much of this aid affects biodiversity, often negatively. This is also true for many development projects financed by multilateral agencies. Further, ODA currently represents only 25% of total investment flows to developing countries; the remaining 75% is private sector flows. In many cases, the sustainable use of biodiversity and an increasing effort of commercialisation can provide additional incentives for conservation. However, care has to be taken that commercial use does not produce an "over-shooting" by over-exploiting resources that are currently under-utilised. It is also necessary to ensure the compatibility of incentives and sustainable use with existing international agreements such as CITES.

5. Workshop Recommendations

The discussions of workshop participants resulted in specific recommendations in the following four thematic areas:

5.1 The CBD Framework on Incentives Measures and Financial Resources

- a) Under the CBD, developed countries are obligated to provide new and additional resources for conservation and sustainable use of biodiversity in developing countries (see especially Articles 20 and 21).
- b) All countries, including developing countries, are also obliged to develop incentive measures and to increase their domestic funding commitments to implementing the CBD (see especially Articles 11 and 20).
- c) The CBD establishes a financial mechanism to support CBD implementation in developing countries, currently operated on an interim basis by the Global Environment Facility (GEF).
- d) The CBD also stresses the importance of strengthening other existing financing mechanisms that can assist implementation, and the Parties have mandated exploration and promotion of a diversified range of other funding mechanisms.
- e) The CBD also requires countries to utilise incentive measures to support conservation and sustainable use of biodiversity.

5.2 New and Additional Resources

- a) A recent comprehensive study by Birdlife International analysing OECD and CSD data on official development assistance (ODA) shows that total ODA levels have actually fallen significantly since the 1992 Rio Summit, and are unlikely to rise again.
- b) Even with the new funding for biodiversity provided by GEF since 1991, total ODA for biodiversity has actually fallen dramatically since 1992. ODA for biodiversity peaked at 1.7% of total aid in 1992 and fell to 0.3% in 1994.
- c) When individual donor countries are evaluated, only Norway can be said to have fulfilled its financial obligations under the CBD.
- d) These figures, bad as they are, may in fact overstate the amount of "new and additional" funding for biodiversity. The OECD/CSD figures suffer from fatal defects in definition and should be rejected. All "agriculture" projects, for example, are counted as "sustainable agriculture", while the clearing of a natural forest for a eucalyptus plantation is counted under "forestry" and thus as "biodiversity conservation". Donors have also not produced their own data on a standardised basis to allow the OECD figures to be checked.
- e) Blame for the well-documented failures of many ODA biodiversity projects lies with both donors and recipient countries. Donors have pushed poorly designed and unsustainable projects to fulfill their own grant and loan goals without adequate coordination of their own efforts (fund a dam that destroys biodiversity and then fund a biodiversity project to mitigate the damage). Recipient governments for their part have often accepted large projects they cannot handle, failed to elicit local consent and participation, and tolerated growing corruption in the allocation of funds for biodiversity.

ODA remains a keystone for biodiversity conservation efforts, despite the need for complementary mechanisms and sources and significant reforms in the design, implementation and accountability systems. Donors should increase their commitments, and not do so at the expense of other sectors of ODA, but recipient countries must honestly face their own weaknesses and deal with them.

f) The COP should direct the CBD Secretariat to work with OECD and donors to devise an honest, transparent system for determining real levels of funding that support biodiversity conservation and sustainable use (as recommended in paper UNEP/COP/3/37), excluding activities such as plantation forestry, intensive aquaculture, monoculture agriculture, and other activities that reduce rather than protect biodiversity.

5.3 The Global Environment Facility

a) The record of the GEF so far is mixed. Many projects funded by GEF have shown considerable success, while others have fallen prey to the problems noted above.

b) Other than the GEF, however, no credible institution to operate the CBD financial mechanism is in view. Either GEF will be the institutional structure operating the financial mechanism, or there will be no financial mechanism.

c) The "guidance" given to the GEF by the COP is so imprecise as to amount to no operational guidance at all. The COP should attempt, perhaps through a technical experts panel or group, to formulate some clearer, more concise policy guidance to the GEF. As a political body, however, any attempt by COP to micro-manage GEF operations will surely create more problems, and should be avoided.

d) The COP should specifically request the GEF to further explore and develop linkages with a broad range of complementary financial mechanisms, such as national environmental funds and private sector financial intermediaries.

e) GEF and the COP should acknowledge that it is very difficult to have truly "country-driven" projects. Rather projects are driven by specific constituencies within countries. Project success, however, comes from a process of project identification and implementation which includes a broad range of such constituencies, within government but also within the NGO and scientific communities.

f) Also, the COP should request that the GEF monitor the use of GEF funds to ensure that they are not used to leverage ODA investments which threaten or destroy biodiversity.

g) GEF (and other donors) must pay far more attention to not only building capacity but to maintaining capacity over the long-term. Capacity-building efforts, including efforts for biotechnology and biosafety, within a GEF project can soon wither away after the project is over, unless a long-term commitment is made by government and donors to maintain the capacities (human and infrastructural) that are developed.

5.4 Innovative Funding Mechanisms

- a) A wide range of innovative funding mechanisms for biodiversity are currently being tested or developed in many parts of the world, at both national and international levels. Only by tapping into these can the Parties to the CBD hope to significantly increase funding for biodiversity, especially in the face of declining ODA commitments.
- b) National Environment Funds (NEFs), currently operational or under development in some 60 countries, are an important new financing mechanism for funding biodiversity conservation. The COP should direct the GEF to intensify its support for and cooperation with NEFs in a systematic way, particularly in the implementation of the new "medium grants window". The COP should also direct the Secretariat of the CBD to prepare a paper on how NEFs could best be utilised to achieve the objectives of the Convention, drawing on the work of the Interagency Planning Group on NEFs and NEFs themselves.
- c) User fees and other comparable measures of revenue generation at the ground level should be used more widely in order to reduce the net costs of conservation programmes, ensure that the cost burden is more equitably shared by those who benefit from use, and contribute to the sustainable financing of protected areas and biospheres.
- d) Mobilisation of the commercial value of genetic resources presents an opportunity for new biodiversity financing and biotechnology transfer, if handled carefully. Countries must rapidly put legislation in place to regulate access to genetic resources in accordance with the CBD. Countries must then move to add value to their genetic resources through innovative collaborations among government, the private sector, and technical specialists from NGOs and the scientific community. The UNCTAD Biotrade Initiative is developing integrated programmes which can potentially support this move, and the COP should express its support for the Initiative and similar efforts.
- e) The Parties are asked to support new initiatives, such as the Biodiversity Finance Initiative, in their efforts to raise complementary sources of funding for small and medium sized entrepreneurial businesses complying with the objectives of the Convention.
- f) The "joint implementation" efforts being pioneered under the Climate Change convention offer a great opportunity to generate additional financing for biodiversity conservation efforts in developing countries. The COP should direct the CBD Secretariat to enlist the support of relevant centres of expertise to assess the potentials and mechanisms for synergy between joint implementation and biodiversity conservation financing, and then make recommendations to COP4 on how best to benefit from this potential.

5.5 Biodiversity Incentives

- a) Current government policy frameworks contain many perverse incentives to destroy biodiversity, and few enabling incentives to conserve it. Many policy changes could both

save money and conserve biodiversity. Political will to overcome vested interests with a stake in biodiversity-depleting economic activities is needed to realise this potential.

b) Over 95% of ODA flows are not directly related to biodiversity. However, much of this aid impacts, often negatively, on biodiversity. The COP should develop biodiversity impact assessment procedures (as recommended in paper UNEP/CBD/COP/3/24) for all ODA flows to identify and mitigate potentially negative impacts on biodiversity.

c) Further, ODA currently represents only 25% of total investment flows to developing countries; the remaining 75% is private sector flows. With less than 0.5% of total investment flows targeted directly on biodiversity, the COP should consider developing a medium term work programme to influence the remaining 95.5%. In particular, new measures need to be designed to provide incentives for private sector investment flows to favour biodiversity.