Exploring the case for a green development mechanism

- Executive summary -

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In this discussion paper, the possibility of establishing an international 'green development' financial mechanism in support of the Convention on Biodiversity is explored. The paper is divided into two parts. Part 1 discusses current challenges facing the biodiversity agenda and existing efforts to address these issues in support of making the case for a green development mechanism. Part 2 examines the scope, nature, and modalities for a green development mechanism to enhance international efforts to reverse biodiversity loss and protect ecosystem services. Finally, the paper postulate critical questions for consideration at the January 2010 Bonn workshop in order to build a basis for further development.

Part 1 on the need for a gdm

Biodiversity represents the variety, and variability, of living organisms. It includes diversity between species, within species, and between ecosystems. Biodiversity is vital to human life and prosperity. Ecosystems– a key element of biodiversity – provides essential sevices such as the supply of food, safe water, fuel and protection against natural disaster. Ecosystem services also contribute to the mitigation of climate change. Loss of biodiversity undermines the ability of ecosystems to provide such functions, and invariably impacts on the poorest in society.

The evidence of biodiversity loss is alarming: the current rate of species loss is up to 1000 times higher than that experienced throughout history. While current efforts to conserve biodiversity are slowing such loss, they are not reversing it. The consequential impact of this loss is also disproportionate since the richest biodiversity is concentrated in developing countries, particularly those around the Equator.

Biodiversity loss arises from destruction of or damage to natural habitats and ecosystems, primarily to satisfy human needs. Pollution and the impact of climate change are other important contributing factors. The fundamental problem is that the full societal cost of degrading biodiversity stocks is rarely captured in equilibrium market pricing systems. Biodiversity and ecosystem services are **public goods** whose true value is not reflected because of the failure of markets to deal with **externalities**: thus the private returns accruing from reducing biodiversity may be heavily outweighed by the public benefits lost. But the opportunity costs of preserving biodiversity invariably fall to societies least able to bear the burden. Recognition of this dynamic was a major driver towards the creation of the **Convention on Biological Diversity** in 1993.

There are very strong **economic**, **political**, and **development** reasons to conserve biodiversity. On the **economic** front, while estimation is problematic, there is a huge body of empirical evidence which suggests that the true value of local ecosystem services is well in excess of that recorded in local incomes, perhaps up to 10 times as much. The difference lies in the unrecorded value of the functionality of ecosystems such as the provision of

safe water; avoidance of productivity losses associated with soil erosion; and coastal protection. There is also evidence that the true value of such ecosystem services is considerably higher than the perceived value of benefits accruing from alternative exploitation for directly productive or consumption purposes.

The **political** case for addressing biodiversity loss rests on both rational and moral grounds. It has long been widely accepted, that the State, either acting alone, or with others on an international basis, is best placed to take action to protect the common good, particularly that imperilled by market failure. Current efforts to combat global warming are a classic example of such rational behaviour. Governments, particularly those of a liberal democratic nature, have also generally accepted that the needs and aspirations of future generations are an important moral consideration in policy formulation.

Nevertheless, the fact that governments have a responsibility to act in this way does not lead to the conclusion that public funds alone should be mobilised to finance the necessary policy response to the biodiversity challenge. Indeed since consumers, and the private corporate sector, are currently benefitting from the present under-pricing of biodiversity resources, it is right that these groups should also bear the responsibility to contribute to solutions.

The **development** case for addressing biodiversity loss is also compelling. Many of the poorest, often most marginalised, sections of society depend, critically, on biodiversity and ecosystem services for their basic livelihood needs: fisheries is the most striking example. And there is no doubt that biodiversity conservation is a key enabler to the achievement of almost all of the **Millennium Development Goals (MDGs)**, whether it is poverty alleviation (MDG1), or those related to health (MDGs 4, 5 and 6). This fundamental nexus between biodiversity and poverty alleviation is recognised in MDG7 which calls on the need to "ensure environmental sustainability".

The development case is reinforced by the fact that extreme poverty is, in itself, a barrier to sustainable habitat management and ecosystem protection. Thus there is a strong need for development strategies which promote biodiversity protection through supporting alternative economic activities. Such strategies probably need to be community-based, and, as appropriate, sensitive to socio-economic, cultural, and gender issues.

There is a very wide biodiversity funding gap at present, though its quantification varies widely. This is true, despite the steady growth in the range of both national and international instruments designed to slow, or reverse, biodiversity loss. This paper provides a survey of a number of these initiatives, and analyses their potential interface with the establishment of a **green development mechanism (gdm).** The range of instruments considered is not exhaustive, but includes: the Global Environment Facility (GEF), LifeWeb, the Clean Development Mechanism (CDM), and REDD-plus.

This survey suggests that there is considerable scope for potential synergies between many of these schemes and a gdm, and that the setting up of a gdm could, itself, benefit from the experience that has already occurred. But it is also clear that the specific mandates of some of these schemes would inhibit their ability to address the waterfront of biodiversity challenges that exist today. In addition, it is suggested that a gdm could mobilise private sector resources in an innovative manner so far not yet fully explored.

Part 2 on setting up a gdm

In considering the role, and nature, of a gdm, it would be helpful to have a common understanding on a set of overarching principles. These emphasise the need for a new mechanism to support the aims of the CBD; to be development oriented, and operate in a flexible manner, subject to proper verification and supervision.

The paper is not prescriptive in terms of the exact financing mechanism (of which there is a rich menu of options). However it draws attention to the difficulties of replicating carbon 'cap and trade' models given the heterogeneity of biodiversity and ecosystem resources, and suggests a pragmatic solution, based on existing standards and best practice to the challenge of measurement. It also suggests that early consideration is desirable on whether a new mechanism should be publically-funded, private-sector financed, or some combination of both. It highlights the fact that the private sector is deeply divided on whether any private-sector oriented mechanism should be voluntary or compulsory. Some private sector stakeholders strongly favour the voluntary route on the basis that companies should retain the freedom to determine their own strategies; others prefer a compulsory approach because they believe this best provides for a stable regulatory framework, under which all can compete on an equal footing.

The paper develops criteria that would guide the eligibility of activities for gdm funding and describes the range of programmes and projects that might benefit. It is suggested that both non-profit and commercial projects would qualify albeit, of course, on differing support terms. The paper also provides a brief survey of some of the existing tools which might be used to judge eligibility.

It is also argued that the potential to exploit further private sector engagement is substantial, especially given the growing evidence that some parts of the corporate sector already see it as in their long term commercial (and reputational) interests to invest in biodiversity conservation. At present private sector initiatives are uncoordinated, and possibly sub-optimal: a gdm offers the possibility, through verifying the myriad of extant standards, to recognise existing best practice behaviour by individual companies, and thus incentivise an increased mobilisation of private sector finance for the biodiversity cause.

In discussing the institutional aspects of a gdm, it is suggested that any arrangement will play an important verification role. The mechanism itself could be based in an existing international organisation; a private bank; or, alternatively, in an internationally recognised NGO or some possible combination of institutions. Irrespective of its location, or the status of the institution, the governance structure will need to be multi-stakeholder in nature, reflecting the private sector, biodiversity, development, and political dimensions of the initiative.

The paper concludes that there is a real opportunity now to establish a new gdm, under the CBD, which would both complement existing financial arrangements, and enable the private sector to play a more dynamic role in filling the biodiversity funding gap. But, in order to realise this ambition, there are a number of key questions that need now to be addressed.

In 2010, there is a real opportunity to move forward from the January Bonn meeting on innovative financial mechanisms to the CBD COP10 in Nagoya in October, to secure endorsement by the COP of the case for a gdm, and to agree on some key elements, and a timetable for its development. In this respect, the Bonn meeting may want to provide guidance on a gdm to the Third Meeting of the Working Group on the Review of the Implementation of the Convention which will take place in May in Nairobi.