



National Experience and Perspectives in Innovative Financial Mechanisms

Contents

Overview	2
The need for innovative financial mechanisms.....	2
Status of knowledge	3
Relations with the Convention	3
Environmental consideration	3
Resourcing potential.....	4
Transaction costs	4
Predictability and stability.....	4
Role of government.....	4
Socio-economic consideration	4
Next steps	5

Overview

Submissions from Canada, Costa Rica, Ecuador, European Union, India, Japan, Mexico, Moldova, Norway, and Russian Federation have been received on innovative financial mechanism in 2012 in preparation of the eleventh meeting of the Conference of the Parties.

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

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

The need for innovative financial mechanisms

India indicated that first and foremost, any discussion on innovative financial mechanisms must be premised on the condition that these should be designed to supplement, and not substitute the new and additional financial resources committed by the developed country Parties under Article 20 of the Convention. Notwithstanding the above concern, India stated that there is indeed merit in discussing innovative financial mechanisms because of their potential in complementing the existing commitments

so as to increase funding in support of the three objectives of the Convention, considering that the effective implementation of the Aichi Biodiversity Targets under the Strategic Plan for Biodiversity for 2011-2020 would require enhanced mobilization of resources. European Union also indicated that given that the resources do not meet the level required to enable the full and effective implementation of the objectives of the Convention, and the estimated extent of the present financing gap, it is crucial to explore the potential of innovative financial mechanisms to complement existing commitments with a view to increasing funding to support the three objectives of the Convention.

Status of knowledge

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

Relations with the Convention

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

Environmental consideration

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

Resourcing potential

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

Transaction costs

Norway noted high start up and running costs of certain schemes, and indicated that more in-depth evaluation would be required to determine the value-added and net benefits of fund-raising efforts and financial solutions. The European Union indicated that innovative financial mechanisms should aim at as low as possible administration costs. During the design of the innovative financial mechanisms, the economic efficiency of the generation and redistribution of funding needs to be ensured. Economic leakages should be carefully considered, so that the additional constraints/incentives provided by new policy schemes would not lead to additional pressure elsewhere, where such policies have not been implemented.

Predictability and stability

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

Role of government

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

Socio-economic consideration

India noted that while considering any innovative financial mechanism, care needs to be taken that the benefits spread across various stakeholders. The European Union indicated that in the same way that innovative financial mechanisms should have positive impacts on biodiversity conservation and sustainable use, safeguards should be in place to ensure that the generation of resources does not cause

adverse social impacts. An important aspect is the tenure and user rights of local peoples, as recognized in UNFCCC decisions 1/CP.16 and 12/CP.17 concerning systems for providing information on how safeguards are addressed and respected and modalities relating to forest reference emission levels and forest reference levels. This provides a useful example calling for the respect for the knowledge and rights of indigenous peoples and members of local communities, by taking into account relevant international obligations, national circumstances and laws, and noting that the United Nations General Assembly has adopted the United Nations Declaration on the Rights of Indigenous Peoples'. Transparency and accountability are crucial elements when implementing any innovative financial mechanisms.

Next steps

India noted that considering the vast diversity in national circumstances at the ground level, discussions in innovative financial mechanisms in multilateral fora could only be in the form of some guidelines, possible options, and safeguards, with each country having the flexibility of considering one or more of such tools in accordance with their national circumstances. According to the European Union, the effective implementation of the Strategic Plan for Biodiversity 2011-2020 will require an adequately increased mobilization of resources from all possible public sources, as well as increased resources from private sources including innovative financial mechanisms. Therefore, the European Union and its MS consider it necessary that COP-11 gives political support to one or more innovative financial mechanisms, identifies basic principles to judge their relevance and function, and lays out a plan for their further development. In order to promote the realization of the potential of innovative financial mechanisms, it is important to analyze the pros and cons of existing and potential innovative mechanisms. However, analysis cannot remain a paper exercise, and careful field testing of innovative financial mechanisms must be encouraged, in well monitored and reviewed pilot phases. This can help develop principles and safeguards to ensure that these mechanisms fully contribute to the achievement of the objectives of the Convention on Biological Diversity. The European Union and its Member States therefore welcome the opportunity to look into this issue in more detail.

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

appropriate to ensure that biodiversity is conserved and used sustainably. In this respect, a new strategy for innovative financial mechanisms should use existing biodiversity-relevant strategies, programme plans where these are credible and seen to represent best practice in the field concerned.