



Information concerning Innovative Financial Mechanisms
Submission by the Organisation of Economic Co-operation and Development (OECD)

Pursuant to decision X/3, A, paragraph 8(c), in which the Conference of the Parties “*Invites* Parties, relevant organizations and initiatives, such as the World People’s Conference on Climate Change and the Right of Mother Earth, to submit information concerning innovative financial mechanisms that have potential to generate new and additional financial resources as well as possible problems that could undermine achievement of the Convention’s three objectives, not later than 30 June 2011, for the Executive Secretary to compile and present a synthesis of this information”, please find the following submission, on behalf of the OECD Secretariat.

Given ongoing and projected trends in biodiversity loss and degradation, there is an urgent need for both: (1) greater levels of finance for biodiversity conservation and sustainable use, and (2) more efficient use of available finance in existing programmes.

Well-designed Innovative Financial Mechanisms (IFMs) would ideally meet the following criteria (adapted from OECD 2010¹):

1. *Remove perverse incentives:* For an IFM to produce clear and effective incentives any conflicting market distortions, such as environmentally-harmful subsidies, should be removed.
2. *Clearly define property rights:* The individual or community whose management/use decisions affect the provision of biodiversity/ecosystem services must have clearly defined and enforceable property rights over the resource in question. Otherwise, risks associated with, for example, illegal logging or land appropriation will undermine the ability of the individual or community to provide the ecosystem service, rendering the IFM ineffective.
3. *Clearly define IFM goals and objectives:* Clear IFM goals help to guide the design of the programme, enhance transparency and avoid *ad-hoc* political influence.
4. *Develop a robust monitoring and reporting framework:* Monitoring and reporting of biodiversity and ecosystem services is fundamental, enabling performance assessment of an IFM, and allowing for improvements over time.

¹ *Paying for Biodiversity: Enhancing the Cost-Effectiveness of Payments for Ecosystem Services.*

5. *Identify buyers and ensure sufficient and long-term sources of financing:* Whether the buyers of services are the beneficiaries themselves, or third Parties acting on behalf of the beneficiaries, the finance must be sufficient and sustainable to ensure that the objective of the IFM can be achieved.
6. *Identify sellers and target ecosystem service benefits:* Accounting for spatial variation in ecosystem service benefits via economic valuation, benefit scoring, and mapping tools allows payments to be prioritised to those areas that provide the highest benefits. If the total IFM budget available is limited, this can substantially increase the cost-effectiveness of the programme, in comparison to say, allocating payments on a first-come first-served basis.
7. *Establish baselines and target IFMs to biodiversity and ecosystem services that are at risk of loss, or to enhance their provision:* An IFM should only make payments for biodiversity/ecosystem services that are additional to the business-as-usual baseline (*i.e.* in the absence of the mechanism).
8. *Differentiate payments based on the opportunity costs of ecosystem service provision:* IFMs that reflect ecosystem providers' opportunity costs via differentiated payments are able to achieve greater aggregate ecosystem service provision per unit cost.
9. *Consider bundling or layering multiple ecosystem services:* Joint provision of multiple ecosystem services can provide opportunities to increase the benefits of an IFM, while reducing transaction costs, especially if finance for multiple benefits is available. The potential synergies and trade-offs involved in joint ecosystem service provision need to be identified.
10. *Address leakage:* Leakage occurs when the provision of biodiversity/ecosystem services in one location increases pressures for conversion in another. If leakage risk is expected to be high, the scope of the monitoring and accounting framework may need to be expanded to enable assessment of the potential leakage so that appropriate measures can be introduced to address it.
11. *Ensure permanence:* Events such as forest fires or illegal logging may undermine the ability of a landholder to provide an ecosystem service as stipulated in any IFM agreement. If these risks are high, this will impede the effective functioning of an IFM. Insurance mechanisms can be introduced to address this.
12. *Deliver performance-based payments and ensure adequate enforcement:* Ideally, payments should be ex-post, conditional on biodiversity/ecosystem service performance. When this is not feasible, effort-based payments (such as changes in management practices) are a second best alternative, provided that changes in ecosystem management practices will bring about the desired change in service provision. Sufficient disincentives to breaching the IFM agreement must also be provided and enforced, especially if payments are based on efforts rather than on actual biodiversity/ecosystem service delivery.

Relevant OECD Publications, Reports and Workshops on Innovative Financial Mechanisms

Payment for ecosystem services:

- OECD (2010). *Paying for Biodiversity: Enhancing the Cost-Effectiveness of Payments for Ecosystem Services*.

Drawing on the literature concerning effective PES and on more than 30 case studies from both developed and developing countries, this book aims to identify good practice in the design and implementation of PES programmes to enhance their environmental and cost effectiveness. It addresses the following questions: Why are PES useful and how do they work? How can they be made most effective environmentally and how can their cost-effectiveness be maximised? What are the different potential sources of finance for PES programmes, and how can they be secured? What are the lessons learned from existing PES programmes and insights for future programmes, including international PES?

- OECD [Workshop on Enhancing the Cost-Effectiveness of Payments for Ecosystem Services \(PES\)](#) March 2010

Biodiversity offset mechanisms:

- OECD Workshop on [Mobilising Private Sector Finance for Biodiversity Conservation and Sustainable Use](#), March 2011
- OECD [Workshop on Innovative International Financing for Biodiversity Conservation and Sustainable Use](#) July 2009

Environmental fiscal reforms:

- OECD (2003). “Perverse Incentives in Biodiversity Loss” [ENV/EPOC/GSP(2003)2/FINAL]

Markets for green products:

- OECD (2011). *Greening Household Behaviour: The Role of Public Policy*.

Household consumption patterns and behaviour have an impact on stocks of natural resources, environmental quality and climate change. This is expected to increase significantly in the future. In response, governments have introduced a variety of measures to encourage people to take into consideration the environmental impact of their purchases and practices. These may include environmentally related taxes, energy performance standards for homes, carbon dioxide emission labels for cars, and financial support to purchase solar panels, among others. Nevertheless, understanding and influencing household behaviour remains a challenge for policy makers. This publication presents the main results and policy implications of an OECD survey of more than 10 000 households in 10 countries: Australia, Canada, the Czech Republic, France, Italy, Korea, Mexico, the Netherlands, Norway and Sweden. It offers new insight into what policy measures really work, looking at what factors affect people’s behaviour towards the environment in five areas: water use, energy use, personal transport choices, organic food consumption, and waste generation and recycling.

Biodiversity in international development finance:

- OECD (2010) Policy Statement on Integrating Biodiversity and Associated Ecosystem Services into Development Co-operation.
- OECD (2009) *Natural Resources and Pro-Poor Growth: The Economics and Politics*.

Natural capital constitutes a quarter of total wealth in low-income countries. For the poorest in these countries - notably those living in rural areas - soil, water, fisheries, forests and minerals are the principal sources of income. Thus, to achieve pro-poor economic growth, low-income countries should build on the natural resource assets of the poor. This publication demonstrates that natural resources can contribute to growth, employment, exports and fiscal revenues. It highlights the importance of policies encouraging the sustainable management of these resources. Moreover, it emphasises the need to address the political challenges of natural resource management for long-term pro-poor economic growth.

Biodiversity in climate change funding:

- OECD (2008). “Promoting Biodiversity Co-Benefits in REDD”. ENV Working Paper No. 11.
- OECD [Workshop on Incentives to Capture the Biodiversity and Carbon Benefits for Reducing Deforestation](#) March 2008

Further information on OECD work on biodiversity is available at www.oecd.org/env/biodiversity

OECD Databases of Relevance to Biodiversity Finance

On *innovative finance mechanisms for biodiversity*:

The OECD/EEA has a database on instruments used for environmental policy and natural resources management: www.oecd.org/env/policies/database

This database contains information on:

- Environmentally related taxes, fees, and charges
- Tradable permits
- Deposit-refund schemes
- Environmentally motivated subsidies
- Voluntary approaches

Each instrument is linked to one or more categories of environmental issues (e.g. water pollution, climate change, natural resource management). The category “Natural Resource Management” covers issues relevant to biodiversity.

On *biodiversity-related aid*:

Since 1998 the Development Assistance Committee (DAC) has monitored aid targeting the objectives of the Rio Conventions through its Creditor Reporting System (CRS) using the so-called “Rio markers”. The Rio marker on biodiversity was established by the DAC in close collaboration with the Secretariat of the United Nations Convention on Biodiversity (UNCBD) to track aid flows in support of developing countries’ efforts to implement the Convention.

Biodiversity-related aid is defined as activities that promote at least one of the three objectives of the Convention: the conservation of biodiversity, sustainable use of its components (ecosystems, species or genetic resources), or fair and equitable sharing of the benefits of the utilisation of genetic resources.

The full definition for the biodiversity marker, data on biodiversity-related aid (ODA aggregates by donor and list of underlying activities) and statistical briefs are available at:
www.oecd.org/dac/stats/rioconventions