Innovative mechanisms for financing biodiversity conservation

An exchange of experiences between Europe and Mexico

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Innovative mechanisms for financing biodiversity conservation: an exchange of experiences between Europe and Mexico

While threats to biodiversity conservation are increasing due to climate change and the exploitation of land and natural resources to satisfy the needs of a growing global population of 7.4 billion, traditional sources for financing biodiversity protection - largely supported by public spending and private donations- are weakening. The widening gap between financing needs and capacities to address these needs can, at least to some extent, be addressed by a mix of innovative financing mechanisms, provided that they fully consider the social-ecological context.

This policy brief presents the preliminary findings of a European Union project, funded under the EU Partnership Instrument, aimed at reviewing and analysing innovative financing mechanisms in Europe and Mexico. While in Europe the efficiency gains derived from combining different financing instruments into a policymix to support biodiversity conservation are increasingly demonstrated (e.g. with a growing interest by business and investor sectors in providing funding for biodiversity), the benefits associated with offsetting continue to be debated both at the EU and Member State level. For Mexico, the country's decentralised model of payments for environmental services (PES), together with new partnerships between NGOs and the private sector, show a considerable adaptive capacity of bottom-up arrangements under the right enabling conditions.

Introduction

The impacts of climate change on ecosystems together with the ongoing exploitation of natural resources to satisfy the needs of a growing global population are increasing the needs for biodiversity conservation. Moreover, traditional spending on biodiversity relying largely on public budget and private donations is showing alarming signals of exhaustion due to the global macroeconomic crisis. The result is a widening gap between the needs for biodiversity conservation and the available financing to address them. Bridging this gap will need a combination of economic and financial instruments – enabled by a set of social norms– in order to deal with the complexity of local social-ecological systems. In this policy brief we present the preliminary results of a strategic analysis of innovative financing mechanisms in Europe and Mexico, funded under the Partnership Instrument of the European Union. In the following sections we discuss how new trends in Europe and Mexico of payments for environmental services (PES), offsetting and impact investment are showing possible avenues for action.

Financing mechanisms in Europe

PES are increasingly used to finance nature conservation around the world, including Europe. They remunerate land owners or managers for the provision of environmental and ecosystem services (ES) and can be financed by private companies, NGOs, foundations or similar entities, public bodies or established as a public-private partnership. Most PES schemes in the EU are financed by public bodies with key focus on agricultural water catchments and water quality. A number of PES schemes financed by private sector also exist across Europe. Even though these schemes are purely financed by private actors the role of public bodies has been a key to their success. Finally, some examples of hybrid PES schemes, establishing collaboration between public and private sector, can be found.

Agri-Environmental Measures (AEM) under the EU Common Agricultural Policy (CAP) can be formally considered as PES with Result-Based AEMs (RB-AEMs) representing the most recent innovation in AEM payments. RB-AEMs are of particular interest because of their potentially higher conditionality, linking the payment to the provision of a desired environmental outcome rather than to prescribed management

activities. Furthermore, RB–AEMs allow the farmer greater flexibility in management practices compared to traditional action-based AEMs, thereby encouraging innovation. They can also help to deliver more targeted conservation outcomes for a range of species.

As a result of the requirements under the EU legislative framework, the EU Member States are commonly compensating for residual impacts of landuse changes on the EU network of protected areas (Natura 2000 network). In addition, a number of countries including France, Germany Sweden and the UK have national or regional initiatives in place taking the offsetting approach beyond the EU level requirements. Offsetting schemes can be delivered as part of a mandatory or voluntary policy framework. Experiences both in the EU and internationally have showed that only mandatory requirements can address adequately the residual impacts on biodiversity and ensure that no net loss of biodiversity is achieved. The effective implementation of the mitigation hierarchy is considered to be one of the most crucial building blocks of any offsetting schemes. Furthermore, a key design feature of offsetting schemes is the functional and spatial relationship between the habitats and species impacted by the development and the habitats and species provided by the offset. With regards to the sectors covered, the offsetting schemes in place in the EU primarily target infrastructure (including both transport and energy) and urban developments while the impacts of the agriculture, forestry and fisheries are not covered. In general, ensuring the delivery of benefits through offsetting continues to be widely debated across the EU.

Impact investment for biodiversity is a financial investment that seeks an economic return – like any traditional investment – under the condition that it enhances, conserves or restores biodiversity. One of the main difficulties for the private sector to invest in projects which have a positive impact on biodiversity is the lack of experience and track-record on biodiversity conservation actions in the form of a financial investment. To bridge this gap the EU together with the European Investment Bank (EIB) has launched the Natural Capital Financing Facility (NCFF), a financial instrument blending EIB funding with grant funding from the European Commission. The aim of NCFF is to reduce the risk of private investors in biodiversity impact investment via direct lending or the setting up of funds (i.e. intermediated investments). While a promising number of projects are in the pipeline, one of the main lessons learnt during the NCFF pilot phase is that biodiversity projects still have a lot to learn in terms of developing a strong enough business case for the investment sector.

Another example of a successful impact investment in Europe is the Harmony initiative led by the food and beverage company Mondelēz International. The initiative focuses on sustainable agriculture and biodiversity protection targeting the wheat supply chain. Farmers enter a charter with voluntary quality requirements – similar to a private PES scheme – and the company uses an informal certification as a way to increase the quality of the products and therefore its sales and marketing image.

Financing mechanisms in Mexico

Beyond the extensive network of Natural Protected Areas – the main policy instrument until recently to protect biodiversity in Mexico – the first innovative mechanism to address biodiversity conservation has been the national biodiversity-focused PES program. This programme has been entirely funded by the government with an aim to protect forest areas and dry ecosystems with high biodiversity value all over the country since 2006. An additional public-private PES named “The Matching Funds Programme” was launched in 2010 as an attempt to align PES design to the local social-ecological needs while attracting non-federal sources of funding, either private or public from the state or municipal levels. PES matching funds are funded by a combination of 50% from federal budget and 50% from other sources. It is therefore a bottom-up process in which the federal government, through the National Commission of Forests (CONAFOR), agrees on the operational rules and amount to be paid with the other funding stakeholders. The lack of impact evaluation studies on matching funds does not allow concluding on whether the partial decentralization of the targeting, design and implementation has resulted in a higher efficiency compared to the national program of PES. While only few matching funds are exclusively dealing with biodiversity conservation, more recent schemes are showing innovative association among actors like the Peña Colorada matching fund where Ternium-Arcelormittal Steel Company N.V. in association with CONAFOR is investing in the protection of a local watershed.

An innovative association of actors, together with a combination of different instruments such as community based conservation and certification, is also being led by the World Wild Fund (WWF) to protect the Vaquita (Phocoena sinus) from extinction in the Gulf of California. In an effort to conserve Vaquita's coastal and marine habitats while at the same time providing local fisherman an exit strategy from their destructive fishing techniques, WWF has partnered with the sustainable business start-up (Impact Hub) to reframe their traditional conservation strategies. This has allowed WWF to present an investment plan to a Swiss investment bank that implies creating fisherman cooperatives that will operate Vaquita friendly fishing techniques. The fish captured by these cooperatives will be sold in the market under a "Vaquita Free" label with a price premium. Such an initiative is paving the way to other NGOs and private actors that are trying to understand biodiversity conservation strategies from a sustainable business angle together with a reliable financial architecture that combines equities with loans and a shared risk among funds, NGOs and local operators. Such projects are now being developed at the landscape level to include cattle production, honey and the improvement of key biodiversity services such as pollination.

Finally, impact investment channelled through the transformation of input intensive coffee production into certified shadow coffee has also been commonly taken up in Mexico. The Mexican Fund for Nature Conservation, a private fund that has attracted international and national public-private funds in order to support traditional donation-like conservation, deserves also a special attention. Likewise, the recently launched Nature Conservancy Water-Funds Program has also been able to raise a number of funds from the private and public sectors in order to trigger water basin management plans. Although these schemes have not specifically focused on biodiversity conservation they deserve a special attention as the biodiversity component is becoming a determining factor for their implementation.

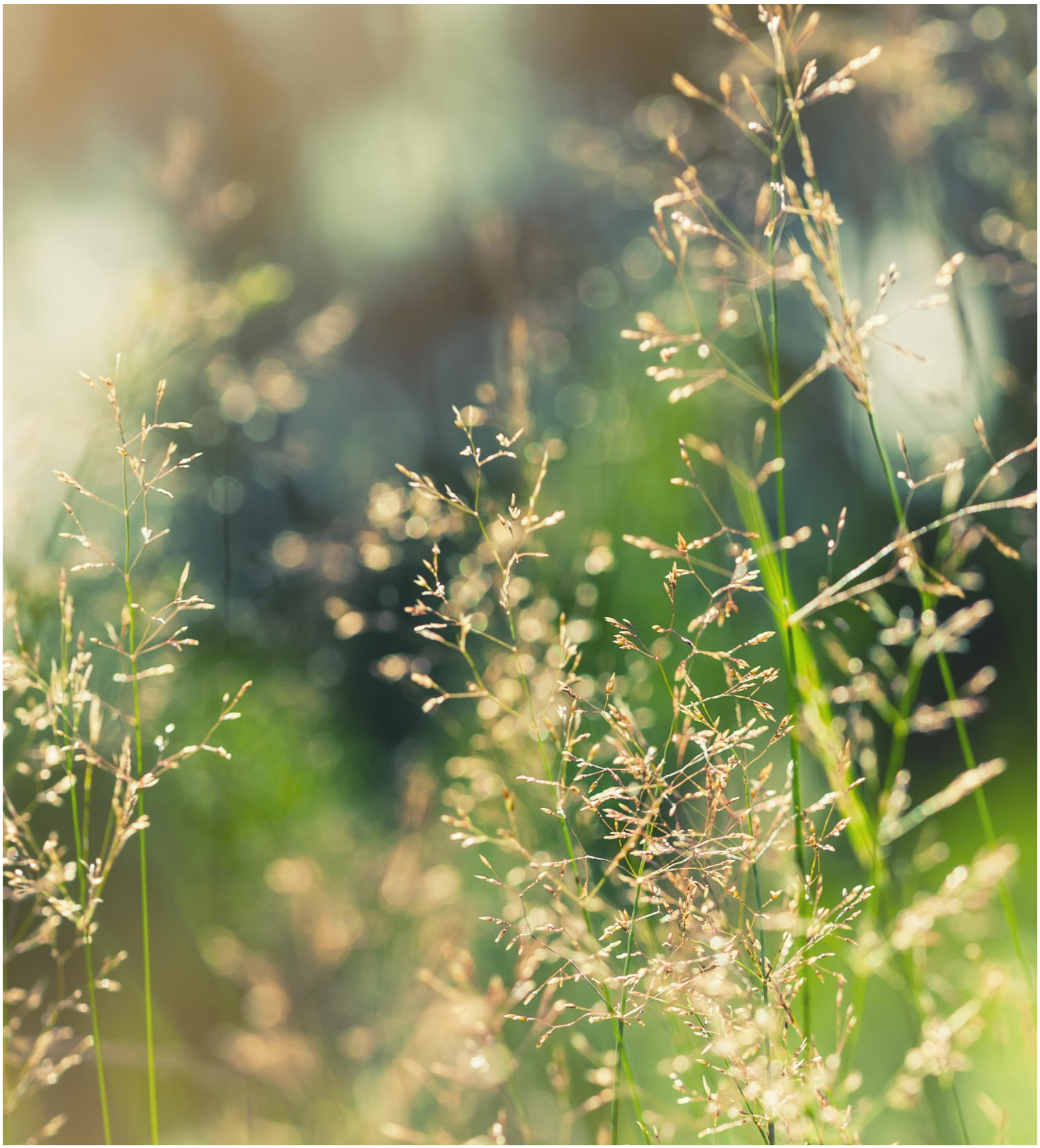
Lessons from a cross-Atlantic perspective

A shrinking world in terms of distances, resources and geographical frontiers is making economic actors to realise that for the sake of sustainability their business needs to consider alternative ways. The recent European experiences on innovative finance mechanisms highlight five main lessons to be considered by Mexican policymakers and private actors:

- Result-based agricultural PES schemes, along the lines of EU RB-AEMs, can offer a promising avenue for new pilot schemes in Mexico;
- Biodiversity offsetting is to be carefully considered to avoid the risk of becoming a license to trash if public regulation and monitoring is not rigorously enforced. Moreover, offsetting in highly heterogeneous ecological landscapes might prove challenging;
- Impact investment that combines agricultural PES and food markets can offer an innovative way to increasing profits by increasing the company's internal quality standards and public image;
- The EIB's Natural Capital Financing Facility (NCFF) is pioneering a promising initiative to attract private impact investment for biodiversity conservation by absorbing initial financial risks and losses.

Likewise, the Mexican context on biodiversity finance highlights the following main lessons that could benefit Europe:

- The decentralisation of PES targeting, design and implementation through public-private partnerships is proving effective for attracting new investments and stakeholders (in a similar fashion as the NCFF does for biodiversity investment);
- Continuous evaluation of the impact of national PES program has allowed for an improved targeting of the programme while providing evidence on the efficiency of public spending along the past 10 years;
- Creative partnerships between NGOs and sustainable business coachers are creating new investment opportunities for biodiversity conservation. Such partnerships can play a pioneering role in matching the financing capacities of investment and pension funds with the development of suitable projects.



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