



INNOVATIVE INITIATIVES FOR BIODIVERSITY FINANCING

STUDY SUMMARY

EXPERT REPORT



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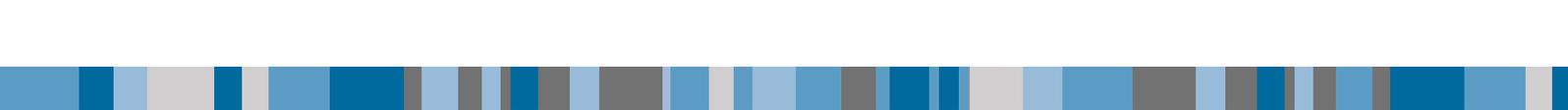
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Study summary

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Chapter 1

THE ISSUE OF BIODIVERSITY FINANCING

The issue of innovative financing for biodiversity forms part of the wider challenge of financing the struggle against the loss of diversity among living beings on the scales of species, ecosystems and genes. By adopting the Convention on Biological Diversity (CBD) at the Earth Summit in Rio de Janeiro in 1992, the international community endorsed the objectives of:

- conserving biodiversity;
- using biodiversity sustainably;
- the fair and equitable sharing of the benefits arising out of the utilization of genetic resources.

Maintaining biodiversity as a global public good justifies the establishment of international financial transfer mechanisms, on the same footing as combating climate change or desertification, which all disproportionately affect developing countries adversely.

Biodiversity performs various ecological functions, thus providing essential services to human well-being and economic growth. Although biodiversity's fundamental importance has been enshrined in the CBD, it continues to decline. In 2010, recognising the urgent need for action, the parties to the Convention adopted a Strategic Plan for Biodiversity 2011-2020, which included 20 ambitious targets (the so-called "Aichi" targets)¹, and the UN General Assembly declared the 2011-2020 period the "United Nations Decade on Biodiversity". The last Aichi target, which was devoted to financing the strategic plan, forms part of the Strategy for Resource Mobilisation adopted in 2008 with costed objectives, which should be detailed in October 2014 at the next Conference of Parties (COP 12) to the CBD in South Korea.

1.1 Biodiversity loss and its human origin as established facts

There is now a scientific consensus regarding the reality of biodiversity loss (especially as measured through the evolution of species' populations), the scope and effects of which are subjected to debate due to the partial nature of the inventories available and the difficulty in establishing critical-loss thresholds for the survival of species and the performing of ecological functions. Although the evolution of living species happens

through the phenomena of speciation and extinction, the extinction rate for species in the last century is at least one hundred times greater than previously, indicating that we may have embarked on the sixth wave of massive extinctions in the history of our planet – although this would be the first time they were of human origin.

The *Millennium Ecosystem Assessment* (2005) reflects the consensus concerning the main factors of biodiversity loss. The destruction and fragmentation of habitats linked to infrastructure development and changes in land use (agriculture, hydroelectric development projects and urbanisation), the overexploitation of renewable resources and the proliferation of invasive species are well-known causes. Pollution had hitherto been widely underestimated, while climate change is already a major cause of biodiversity loss. These factors tend to be mutually reinforcing, but their impact varies depending on the species and ecosystem, which complicates developing scenarios for biodiversity change and evaluating public policies.

Globally speaking, the phenomenon of biodiversity loss is linked to **unsustainable consumption and production patterns**. In emerging and developing countries, the prospects for demographic growth and the adoption of consumption patterns similar to those of industrialised countries pave the way for an accelerated loss of biodiversity. Some of the options for transitioning to a green economy may contribute to the phenomenon, such as the demand for first-generation biofuels, which constitute a potential factor for deforestation. Agricultural intensification, which in theory limits the conversion of natural environments, sometimes goes hand-in-hand with an expansion of agricultural land (rebound effect), thus neutralizing impact reduction at the global level.

1.2 Developing an international strategy to combat biodiversity loss

The Strategic Plan for Biodiversity 2011-2020 adopted by the parties to the CBD enshrines the transition from an approach focused on conservation projects for remarkable biodiversity within protected areas to one focused on the integration of

1 - www.cbd.int/sp/targets

conservation issues into public policies and the sustainable use of biodiversity as a whole for the benefit of the wider population. This new approach, formalised in National Biodiversity Strategies and Action Plans (NBSAPs), thereby targets all direct and indirect factors of biodiversity loss.

The 20 Aichi targets fall under five strategic goals:

- (A) address the underlying causes of biodiversity loss by integrating it into public policies;
- (B) reduce the direct pressure of economic activities on biodiversity and encourage its sustainable use;
- (C) improve the status of biodiversity by safeguarding ecosystems, species and genetic diversity;
- (D) increase the benefits to all from biodiversity, through ecosystem restoration;
- (E) strengthen implementation through participatory planning, knowledge management, capacity building and “substantially increasing the mobilisation of financial resources”².

These targets are strongly interlinked. Reducing losses upstream reduces needs downstream.

1.3 A substantial yet poorly understood funding gap

1.3.1 Financing needs to be refined

At the level of the countries eligible to the Global Environmental Fund (GEF), the CBD’s financial mechanism, the resources required to achieve the Aichi targets in developing countries alone are estimated between \$74 and 191 billion for the period 2014-2018. At the global level, the high-level panel chaired by Pavan Sukhdev holds that \$150 to 440 billion per annum would be needed over the period 2013-2020 – two thirds of which for investment expenditure and one third for recurring expenditure.

The scale of investments at world level from 2013 to 2020 ranges from a few hundred million dollars to up to \$15 billion for each of the targets relating to setting up enabling conditions (strategic goals A and E, and target 16). For direct conservation, the investments required range from tens of billions for the

targets relating to protecting species and conserving genetic diversity in agrosystems, and exceed one hundred billion to expand the network of protected areas. Achieving each of the targets contributing to the strategic goals of reducing direct pressure (by agricultural, forestry and fisheries activities) and restoring ecosystems that are critical for their services (particularly water supply) has also been costed at several hundred billion. The range of estimates is sometimes quite broad due to the diversity of the possible costs assessment methods, overlaps between targets and the possible synergies between sector-based policies.

1.3.2 Current finance is mainly government-funded, insufficient and poorly distributed

The only global map of the financing flows for biodiversity available at the time of writing is provided by the *Little Biodiversity Finance Book* published by the Global Canopy Programme, the first edition of which was presented in 2010 during COP 10 in Nagoya. In its latest edition, \$52.5 billion were accounted for in 2010 for biodiversity financing, marking an increase compared to the first edition – mainly due to improvements in data gathering on biodiversity financing.

Nearly half of the funding (\$25.5 billion) came from national exchequers and was allocated to the management of protected areas and the restoration of watersheds. This proportion reaches three quarters if you add the greening of agricultural subsidies (\$7.8 billion) and the official development assistance (ODA) allocated directly or indirectly to biodiversity (between \$2.5 billion to \$6.3 billion). Apart from government funding, the most significant volume of finance comes from green products markets (\$6.6 billion), biodiversity offsets (\$3.2 billion), and philanthropy (\$1.6 billion).

In 2010, nearly 80% of the resources allocated to biodiversity at the global level originated in the developed economies, although nearly 20% (\$10 billion) formed the subject of North-South transfers, with developing and emerging countries ultimately accounting for over 40% of global expenditure. ODA constitutes two thirds of these North-South transfers, with the

2 - Aichi target 20: “By 2020, at the latest, the mobilisation of financial resources for effectively implementing the Strategic Plan for Biodiversity 2011-2020 from all sources, and in accordance with the consolidated and agreed process in the Strategy for Resource Mobilisation, should increase substantially from the current levels. This target will be subject to changes contingent to resource needs assessments to be developed and reported by Parties.”

remainder being from trading in green products (\$2.4 billion) and philanthropy (\$1 billion).

Three quarters of the expenditure are focused on three zones – the United States (one third), Europe and China – where over half of their amount relates to a few programmes entailing payments (subsidies) for environmental services focused on water, forests and agricultural land. Most of the expenditure is therefore made outside the tropical zone where the most biodiversity-rich environments are located and where the pressure is greatest to convert them to satisfy national and international demand.

1.3.3 A considerable lack of resources

The resources now being allocated to biodiversity (around \$50 billion per year) would, at best, cover one third of the lowest needs estimate (\$150 billion per year). Until such time as data on the resources available become more reliable and needs are refined at the national level, we must assume that the needs for implementing NBSAPs exceed the capacity of domestic tax revenues both in the North and South. Achieving the objective of doubling international financial contributions for biodiversity in developing countries by 2015, as adopted by the parties to the CBD in Hyderabad in 2011, would be insufficient. Consequently, new biodiversity financing mechanisms must be developed at both the national and international levels. Valuing biodiversity in terms of the ecosystem services it provides has become established as an innovative principle to raise resources, particularly from the private sector.

1.4 Putting a price on biodiversity and ecosystem services

Nature conservation policies – traditionally considered to form part of the management of a non-merchantable public good financed by either public-sector resources or philanthropy – now seem to be subjected to an obligation to promote biodiversity and related ecosystem services. The concept of ecosystem services is used to raise public awareness about the social cost of inaction in the field of nature conservation and the social value of ecological functions. It results from a renewed perception of biodiversity, which leads to new intervention methods for conservation policies through economic instruments for environmental management.

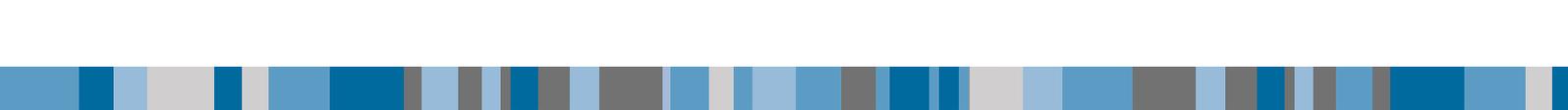
One way of highlighting the retroactive effects of biodiversity loss on human well-being is to estimate the costs related to the deterioration of ecosystem services. Defined in the *Millennium Ecosystem Assessment* as direct and indirect advantages which mankind derives from nature, they can be classified under:

- supply services (food, water, fibre and energy);
- cultural services (recreational, educational, aesthetic and spiritual) linked to heritage assets;
- regulating services (relating to the climate, floods, diseases, waste and water quality);
- support services (or self-maintenance services) required to produce all of the above services (soil formation, primary production via photosynthesis and the nutrients cycle).

Due to the lack of recognition for the value of ecosystem services, they are not being factored into the investment decisions of either public or private sector actors, and investment in maintaining and renewing them is insufficient. Economic agents thus tend to ignore both the social – or collective – cost of using natural resources and the benefits that they derive from conservation or sustainable use of ecosystems – positive externalities. Economic instruments for managing biodiversity are one way of raising a price flag to factor in biodiversity with a view to achieving behavioural change. However, this price flag is not intended to reflect the economic value of biodiversity.

Such borrowings from economics do sometimes lead to semantic shifts causing ambiguity, particularly when speaking about market instruments for green taxation (a regulatory tool) or payments for environmental services (PES), for example. PES relate only indirectly to those ecosystem services that nature provides to mankind; in fact, they compensate environmental services as services that people perform for each other (through to future generations) to maintain or increase ecosystem services, which in themselves are public or collective goods that cannot easily be commoditised. Environmental services generally relate to land and resource use through conservation commitments, campaigns for planting and restoring soil, or changes to cultivation or livestock rearing practices.

Although the concept of ecosystem services makes it possible to take into account the economically invisible value of ordinary biodiversity, reducing biodiversity to a source of, or a medium



for, ecosystem services essential to economic growth constitutes a utilitarian vision that does not cover all the rationales for its preservation. Society identifies remarkable biodiversity as such because of its intrinsic value rather than its sole value as measured through economic use.

Chapter 2

REVIEW OF INNOVATIVE INITIATIVES TO FINANCE BIODIVERSITY

2.1 The scope of innovative financing for biodiversity

2.1.1 Innovative financing for development

Observations on the limits of traditional aid flows have led to the question of innovative forms of financing in the field of international cooperation, particularly to finance global public goods. The Leading Group on Innovative Financing for Development draws a distinction between:

- innovative sources, which make new resources available for development from contributions from various economic sectors; and
- innovative mechanisms, which enable the impact of existing public resources to be optimised, particularly by combining them with private funds.

The Leading Group on Innovative Financing for Development identified \$6 billion raised from 2006 to 2012 by its members via taxes on globalised economic activities (air transport), State guarantee mechanisms, the auctioning of CO₂ emission quotas, debt-for-nature swaps, lotteries and donations (from private individuals or enterprises) via participatory financing systems.

2.1.2 Innovative financing for the CBD

The CBD's resources mobilisation strategy targets domestic resources, the up-scaling of existing levers, the integration of biodiversity into development planning, South-South cooperation as well as access and benefit-sharing (ABS) agreements on the use of genetic resources. It identifies the following as "new and innovative financing mechanisms":

- payment schemes for services provided by ecosystems;
- offset mechanisms for biological diversity;
- environmental tax reforms (innovative methods of taxation and tax incentives);
- markets for green products;
- integration of the objectives of the CBD into "new and innovative" sources of international development financing;
- integration of the objectives of the CBD into climate finance.

The parties to the CBD regard as innovative those initiatives that enable conservation to be financed outside protected areas, entailing either economic instruments for environmental management applied to biodiversity (which put a cost on the destruction or conservation of biodiversity depending on the cases), or the introduction of an eco-conditionality principle into policies and projects (improvement of existing forms of financing). The consensus concerning the need to integrate innovative sources of financing, which was achieved in Hyderabad in October 2012, was attained through preliminary calibration of the mechanisms in light of their political acceptability linked to the perceived risk of commoditisation of nature and privatisation of its governance (Quito Seminar, March 2012).

2.1.3 The adopted scope for innovative financing for biodiversity

As the fundamental objective of resorting to innovative forms of financing is to reduce the gap between financing needs and available resources, this study regards as innovative those initiatives that:

- enable the mobilisation of new sources of direct or indirect financing for the conservation and restoration of biodiversity;
- contribute to reducing financing needs by reducing the direct or indirect pressures on biodiversity in economic activities (and therefore the overall cost of conservation and restoration).

Depending on the cases in question, these initiatives play a part in the financing of biodiversity perceived as a public good, or in the more or less explicit promotion of biodiversity through the value derived from the use of related ecosystem services (with a view to self-financing biodiversity conservation).

2.2 Map of innovative initiatives and assessment of their potential

Based on a literature review and interviews with key informants, the study listed 20 financing initiatives that are potentially innovative for biodiversity. Upon completion of the analysis, it seems that these mechanisms can be grouped according to five major principles for biodiversity financing.

2.2.1 The tax lever and the reform of harmful subsidies

Taxation is now the main instrument for biodiversity financing. The allocation of additional tax resources to biodiversity, however, is a matter of political will, particularly at the international level.

- The potential of **environmental taxation** may be envisioned in two ways: either as an instrument for generating revenues (a broad base and a low rate), some or all of which are allocated to conserving biodiversity (often via a specific fund), or as an incentive instrument (environmental taxation with a theoretically decreasing yield). The current energy transition context and calls for reform of subsidies harmful to biodiversity is thereby opening up prospects for green taxation based on eliminating tax expenditures linked to fossil fuels.
- Financing for a number of **national subsidies programmes** that fund environmental services (agri-environmental measures under the greening of subsidies, PES) and, in certain cases, for conservation in protected areas, is based both in the North and the South on the specific taxation of sectors that are linked, to a greater or lesser extent, to the use of biodiversity or the pressure exerted on it (water, tourism, wood, hydrocarbons, telecommunications and the sale of emission quotas) at a rate that is sufficiently low so as not to affect its yield adversely.
- **Taxing financial transactions** (\$15 to 74 billion per annum) and **CO₂ emissions** (\$250 billion per annum in developed countries at the rate of \$25 per tonne) could become the two main pillars of prospective international taxation, with a relatively stable, predictable base to finance development and combat climate change. Estimates about its fundraising potential and the technical conditions for its implementation already exist, but their activation and the choice of allocating part of the revenues to international financing for biodiversity are subjected to political negotiations.
- **A border tax adjustment mechanism** – a principle defended by numerous economists, the feasibility of which was assessed by the WTO and the UNEP (2009) – for the implementation of a carbon tax and for the European quotas trading system could be accompanied by a full redistribution of the revenue from such carbon adjustment to finance the management of biodiversity in the most vulnerable countries in the South. This would respond to demands for international fairness in combating biodiversity loss, e.g. through financing efforts to curb deforestation and adaptation to climate change where biodiversity plays an important role.

2.2.2 Responsible investment mechanisms and the debt lever

In the absence of quick returns on investment, the debt lever is only suited to biodiversity in terms of its large-scale financing as a public good.

- **Green bonds** almost exclusively concern renewable forms of energy and energy efficiency (with a very indirect impact on biodiversity). The difficulty in attaining a tangible return on investment over a limited time span makes issuing bonds to finance biodiversity directly and risk-reduction leveraging mechanisms (purchase guarantee, pre-financing) largely unattractive for the private sector.
- Although the **socially responsible investment market** is seeking longer maturity periods at the time of writing, it uses few criteria explicitly linked to biodiversity. For their part, attempts to **have financial assets backed by biodiversity**, such as “environmental mortgages” or “biodiversity derivatives”, imply aligning the interests of financiers, people working to protect biodiversity and premium payers, and pay little heed to the social reality underpinning the management of biodiversity.
- **Trust funds** initially established for the long-term financing of protected areas are innovative mechanisms to manage biodiversity financing thanks to their capacity to pool various kinds of resources and to finance a wide range of activities. However, the fact that most of the funds are mainly funded by public resources raises doubts about their capacity to generate significant forms of additional financing. Moreover, it is difficult to know in which business sectors trust funds should invest their capital to generate interest, which also raises the question of the security of investment outlays.
- To finance massive investments on a large scale, the option of a **major loan** from central banks, international institutions (such as the International Monetary Fund’s “special drawing rights”) or international markets (funds raised by issuing bonds guaranteed through binding commitments by donors, States or private foundations) seems to go against the trend in light of the debt crisis in developed countries. Should it continue, however, the current context of low interest rates could enable real negative rates to be anticipated in the long term, limiting the burden of the loan for future generations. Such loans would, for example, make it possible to begin an agro-ecological transition of the various forms of agriculture (ecological intensification) in developing countries, with a view to preserving natural forests subjected to pressure from agricultural expansion and livestock rearing.

- At the end of the debt reduction cycle experienced by developing countries and in light of the profile of their new debts contracted with China (raw materials in exchange for infrastructures), the potential of **debt-for-nature swaps** to finance investment in their network of protected areas through trust funds now seems diminished.

2.2.3 Direct economic valuation of biodiversity

In spite of a few remarkable successes, the results from twenty years of attempts at self-financing conservation via revenues from the commercial exploitation of goods and services derived from biodiversity are mixed.

- **Ecotourism** focused on the remarkable biodiversity in protected areas is developing too slowly and only in certain privileged countries (due to the major scale of investment outlays in terms of infrastructures, transport and accommodation facilities).
- Projects to develop **non-timber forest products** (biotrade) with local communities often come up against the difficulty of gaining access to markets.
- The **development of genetic resources** under the framework of bioprospecting contracts has been disappointing so far and its potential is still very difficult to assess with regards to the future implementation of the Nagoya Protocol concerning access to genetic resources and fair, equitable sharing of the benefits stemming from their use.

2.2.4 Applying the principle of responsibility (“polluter pays”)

Although taxation aiming to internalise the cost of biodiversity loss has undergone little development, compensation for damage to biodiversity as part of reducing the environmental impacts of projects is generally being implemented.

- As building infrastructure and the loss of natural habitats are two of the main causes of biodiversity loss, the implementation of compensation for damage to biodiversity or **biodiversity offset mechanisms** by project developers in fifty or so industrialised and emerging countries is presented as the application of the “destroyer pays” principle. To avoid this being transformed into a mere licence to destroy, compensation must relate only to the residual impacts linked to the zero net

loss objective in the prevent/reduce/offset sequence. With a view to improving the cost/efficiency ratio of compensation as well as ecological consistency, habitats or species compensation banks sharing an upstream compensation portfolio can sell credits linked to the impact to be compensated.

- For all that, this compensation offer in the form of environmental asset banks does not provide the basis for a **rights market** with a ceiling imposed by government, as is for instance the case with **transferrable development rights**, the ultimate purpose of which is not to generate additional financing for biodiversity but rather to optimise the social cost of compliance with standards (e.g. fishing catch quotas, pollutants emission quotas or trading rights to change land use under a zoning plan). The lack of a measuring system enabling a comprehensive comparison of the ecological value of ecosystems on a world scale through fungible biodiversity units (similar to carbon credits) makes the establishment of an international compensation market for damage to biodiversity hard to envision.

2.2.5 Application of the eco-conditionality principle (“beneficiary pays”)

The “beneficiary pays” principle falls under a strategy of putting a price on environmental services. The private sector may be involved as a service provider or as a beneficiary under a contractual framework, i.e. as part of voluntary compliance with a set of specifications (due care obligation) or performance measurement (performance obligation):

- voluntary commitments by producers in relation to the consumer (remuneration in the form of market share or premium linked to **eco-certification**) or to government (**green subsidies**) to limit their impact on biodiversity on existing markets for goods and services or to provide a contractually-defined environmental service (**agri-environmental measures, environmental easements**);
- contracts covering **payments for environmental services** between users of the resource (service providers) and direct beneficiaries of an ecosystem service that remunerates the *de facto* or *de jure* managers of the environment or resources in the form of compensation or salaries aimed at suspending certain user rights or any other form of active contribution to maintaining, restoring or improving an ecosystem service. Even in the case of payments for watershed services, where payments may be negotiated between private actors as the service can

be clearly defined and monitored at a lower cost (unlike carbon or biodiversity), the intermediation of public actors is called for insofar as the multiplication of users and beneficiaries increases transaction costs. All things said and done, PES resulting from private contracts are actually few in number and, ultimately, PES generate few additional resources compared to public resources. On the other hand, PES are worthwhile allocation mechanisms in terms of the effectiveness of the incentives aimed at private-sector actors and local populations. Although they only target biodiversity as part of a bundle of ecosystem services and only develop it as a public good, checking performance under an explicit contractual framework creates a direct incentive (conditionality) which is lacking in integrated conservation and development projects as it is in goods and services markets linked to biodiversity;

- in light of the difficulty in proving the additionality of forest carbon emission reductions under the framework of **REDD+** projects (an unverifiable reference scenario, leakage risks and a possible divergence between local and national results), the expected co-benefits for biodiversity from combating deforestation assessed as carbon performance may not materialise, even though voluntary market financing may contribute new financial resources to reinforce certain protected areas strategic to the conservation of endemic species (e.g. lemurs in Madagascar).

2.2.6 Innovative initiatives with great potential for biodiversity

By combining criteria of technical, social and (international) political feasibility with those of impact on biodiversity and potential for leveraging resources, this study selected three groups of initiatives worthy of particular interest for the international community: the development of green markets based on eco-labelling, the reform (conversion) of the subsidies that are most harmful to biodiversity and the establishment of superoffsetting mechanisms for developments that significantly affect biodiversity.

2.2.6.1 The development of green markets

The potential for direct financing of biodiversity by the private sector beyond its regulatory obligations is limited. Presently, private-sector actors voluntarily make significant investments in conservation and the sustainable use of biodiversity only as a co-benefit of sustainable production with a quality label on those markets that are sensitive to such labels. This labelling generally takes the form of certification of sites or production processes

by a third party, but it can also form part of a regional development dynamic promoting the goods and services that result from biodiversity. As it targets global value chains to reduce direct pressures on biodiversity, eco-certification may play a part in the transition towards sustainable consumption and production patterns, even in countries with low governance standards. However, the green market share it is still relatively undeveloped in both the North and the South.

2.2.6.2 The conversion of subsidies harmful to biodiversity

Because it contributes to making public policies more consistent, which is a condition for the successful deployment of economic instruments to manage biodiversity, the reform of harmful subsidies is also essential in achieving a transition toward sustainable consumption and production patterns. If conditions for its implementation are created, this reform can not only reduce pressure on biodiversity, but also free up the resources required for a redeployment of incentives in favour of biodiversity in the form of eco-conditionality of subsidies or remuneration for environmental services. Above and beyond the requisite compensation for the redistributive effects of subsidies reform, its effect in favour of more sustainable practices may allow for the re-allocation of part of the freed-up resources to biodiversity – a double dividend.

2.2.6.3 Superoffsetting for damage to biodiversity

The other field that receives significant private-sector financing is that of compensation for damage to biodiversity under the management of its environmental impacts. It also concerns public-sector developers. This financing stems mainly from a legal obligation, increasingly from a standard imposed by an investor and, more infrequently, from a voluntary approach. In the absence of systematic ecological additionality of strict compensation for impacts (which is difficult to carry out) and as a result of its limited geographical scale, only the generalised application of an superoffsetting principle could turn it into an international financing instrument for biodiversity.

Chapter 3

GREEN MARKETS

As it occurs at the level of global value chains, where traders and industrial operators are direct parties to it, eco-certification now constitutes the main market mechanism serving the financing of biodiversity outside protected areas in both the North and the South. The direct and indirect costs of certification to producers are considered to be financing biodiversity. Those costs are assumed to be covered by the market premium paid by consumers when they purchase a certified product – which varies greatly from sector to sector. According to the *Little Biodiversity Finance Book's* estimates based on a 5% market premium, this constitutes the leading lever to mobilise private resources and offers a potential of \$10 to 30 billion per annum by 2020 depending on its penetration rate. Even when the premium is not realised, the producer's interest in this market segmentation instrument may lie in acquiring or maintaining its position on markets sensitive to environmental stakes.

In some sectors, a significant portion of green markets is already located in the South. They have yet to make major inroads in numerous fields and the development of domestic markets in emerging countries offers new prospective outlets for eco-certified products. Progress is nevertheless expected in the sharing of the value added by certification between the North and the South as well the assessment of the impacts of certification on biodiversity. Certification is a market instrument *par excellence*, as it is based on a voluntary standard, yet it is not necessarily part of an exclusively private governance of resources. Government authorities may support it, for example through public procurement policy, differentiated taxation favourable to certified sites or products, a change in regulations, or even by pooling certification costs among actors.

3.1 Certifying products or sectors

Eco-labels do not necessarily target biodiversity specifically and their influence varies from one to the next. Moreover, few monitoring and evaluation data are available about the impact of such labels' implementation on biodiversity. Certification systems seek either to segment the market by giving priority to a high level of requirements – a niche market with a potentially high premium, e.g. in the cases of the FSC for wood or organic agriculture – or to be as inclusive as possible based on a low level of requirements and premiums (round tables on sustainable

palm oil, responsible soy or biofuels). In the first case, the strategy is one of differentiation in relation to potential competitors; in the second case, the idea is to exert leverage on the greatest possible number. The two systems may converge: a knock-on effect in the case of the FSC and the large-scale implementation of certification for organic agriculture; a gradual increase in the portion of segregated products in the palm oil sector, i.e. products that are separated from the conventional supply chain, leading to a tipping point in the sector where demand for certified products gains dominance.

Although 10% of the world's forests or one third of timber production forests are under "good management" certification two decades after the launch of FSC certification, less than 2% of tropical forests are certified. Likewise, although 30% of the industrial roundwood produced globally is certified, less than 2% of tropical timber is. Depending on the rate of growth in the certification of tropical forests, the potential resources allocated to biodiversity for timber are estimated to be \$5 to 20 billion per annum by 2020. The timber industry is increasingly committed to certification in Central Africa, following in the footsteps of forest management plans, while those governments which initially saw it as constituting interference and competition are now putting the spotlight on certified areas on their territories to improve their reputations. While companies are seeking to retain their access to the European market, governments are seeking a more favourable position in the negotiation of voluntary partnership agreements with the European Commission to certify the legality of their timber exports. Some Asian markets including China are also moving towards certification.

Against the backdrop of calls for boycotts and the imposition of moratoria in Brazil and Indonesia, multi-stakeholders round-table meetings were set up around palm oil and soya processing and trading multinationals, whose expanding crops constitute a major driver of deforestation. The demands for vegetable proteins for animal feed and for biofuels are two major factors in their expansion. The essential biodiversity criterion in those forms of certification is to avoid contributing to deforestation by targeting the protection of forests offering high conservation value or intact forested landscapes. In the case of palm oil, the RSPO label now covers a substantial share of production, but only a small portion of that share is fully traceable.

For sectors or sector segments where family agriculture dominates, the issue of certification often forms part of the framework of contractual agriculture. Certified coffee (organic, grown under shade and/or fair-trade) is a fast-growing segment of the world market (+20-25% per annum as opposed to 2% per annum for conventional production). It has expanded beyond a niche market and is now a mass consumer product in developed countries, where it still has the potential to achieve major penetration. It is also now emerging as a niche market in emerging countries. Certified coffee accounted for 8% of world coffee exports in 2009 and could reach 20 to 25% by 2015, generating a premium of \$50 to 100 million by 2020. Other products such as cocoa, tea and cotton are following the same trend. The potential to leverage resources through certification in the agriculture sector - including fisheries - could reach \$5 to 10 billion in 2020.

Support funds set up by the State with a fairness objective or by certification systems to gain market share can help correct the certification bias that favours large plantations rather than small operations through economies of scale. The private governance of certification systems, with independent third parties selected and paid by the companies they audit, however, leads to adverse selection mechanisms that could undermine the credibility of certification. While the premium that consumers agree to pay is already a form of socialisation of the costs involved in certification and changes in practices, systems could be set up to pool some or all of these costs through contributions by all producers.

The impact of various eco-certification systems on biodiversity varies depending on whether they target practices that are respectful of biodiversity more or less explicitly, avoid leakage risks and succeed in breaking out of a niche strategy to lift entire sectors with them. Yet their greatest impact is certainly in bringing about changes in production standards in a given sector, then facilitating the adoption of stricter government standards both at national and international level. Certification may thus be considered as a stimulus and as a catalyst to speed up the transition towards a greener global economy.

3.2 Labelling landscapes

Remarkable, biodiversity-rich landscapes constitute regional or national heritage assets that may potentially generate revenues and local development, particularly through tourism and recreation

activities, but also through their attractiveness for certain categories of population and economic activities. Yet they are often threatened by inappropriate investment, uncontrolled urban development or the creation of artificial environments.

Labelling such remarkable landscapes (mostly productive rural landscapes with rich culture and history as well as rich biodiversity) may encourage local governments and communities and provide them with a catalyst to take protective measures for this collective heritage, through agreeing local charters containing shared objectives for integrated resource management, following the example of the Regional Nature Parks in France (Category V protected areas according to the criteria of the International Union for Conservation of Nature).

Those types of instruments enable consistency between public policies and the initiatives of local actors. Such local labels, which offer a potential advantage to the regions concerned in terms of their public profile and recognition, may be combined with various geographical origin certification tools to facilitate the promotion of local goods and services. They can thus offer complementary solutions to PES or product certification arrangements, which may entail high costs for each producer.

Chapter 4

CONVERTING HARMFUL SUBSIDIES

Reforming those subsidies that are harmful to biodiversity could make potentially substantial amounts available for allocation to biodiversity (tens of billions of dollars out of the hundreds of billions of dollars worth of subsidies in the natural resources sector), but implementing such reform constitutes a political challenge.

In the current context of major budget constraints in developed countries – which are the main sources of funding for subsidies – and of increasing large-scale use of those instruments by emerging countries, this is a useful lever for redeploying incentives to encourage the transition towards a green economy.

Experience does show, however, that eliminating subsidies identified as harmful in a given sector is not enough to achieve significant gains in terms of conservation and sustainable use of biodiversity. Monitoring and evaluation tools are important to assess the impact of the proposed reforms and to ensure they form part of a consistent set of public policies.

In OECD countries alone, reorienting one quarter of the potentially harmful subsidies in sectors exerting direct pressure on biodiversity could leverage potential resources amounting to \$40 billion for agriculture and \$185 billion for the energy sector.

4.1 Identifying subsidies that are harmful to biodiversity

The following are generally included within the definition of harmful subsidies:

- direct transfers of funds and guarantees;
- tax expenditures (abandonment of taxable public-sector revenues);
- the provision by public authorities of goods and services other than general infrastructure (which form part of regional development);
- price support.

Sectors where subsidies are likely to have a major impact on biodiversity may be defined based on national assessments of the various forms of human pressure. In a given sector, not all subsidies are necessarily national and depend on the level of

devolution to local government. In Europe, a major portion of the subsidies comes from the European Union.

Among the various examples of commonly identified harmful subsidies, we can cite subsidies to modernise fishing fleets and expand fishing capacities – using techniques that are harmful to seabeds – which contribute to overfishing the resource, in turn threatening revenues and jobs. In the agricultural sector, subsidies linked to production volumes may encourage the conversion of biodiversity-rich land (e.g. forests and wetlands). This also applies to support for input-intensive production methods, which are a factor of biodiversity loss in crops, fields and soil, as well as in waters polluted by nutrients.

The impact of energy subsidies on biodiversity, though more indirect, is also significant. By encouraging greater consumption of fossil fuels, they may contribute to climate change, which itself is a driver of biodiversity loss. Moreover, subsidising fossil fuels encourages the overexploitation of certain resources (for example, in the case of fisheries) or makes them commercially accessible. For example, reducing transport costs makes it profitable to exploit remote forested zones, which are rich in biodiversity.

Regarding the conversion of natural habitats into artificial environments – mostly driven by urban sprawling and urbanisation, along with transport and industrial infrastructure development – identified harmful incentives include the lack of adjustment in housing assistance between rural and urban areas, tax breaks on property developments and all subsidies contributing to lowering transportation costs.

4.1.1 Conducting a global assessment of subsidies

Subsidies should be classified depending on whether they are beneficial, neutral or harmful to biodiversity. Various factors play a part in biodiversity loss depending on complex causality chains with cross-over and feedback effects, which are often difficult to model and anticipate. Impact is not always straightforward and may vary over time and scale. It is not always proportional to the amounts involved. Assessment must not stop at environmental impacts. Exhausting resources or

destroying environmental services entails a direct cost to both the economy and the community.

Putting together scenarios to eliminate, reduce or reform those subsidies deemed to be the most harmful calls for assessing their impact not only in environmental terms (is their elimination sufficient to dispel the harmful effects?), but also in economic terms (their impact on the market) and in social terms (distributive effects), all the while anticipating stakeholders' behavioural patterns. Such assessments make it possible to identify all the stakeholders in a reform involving multiple and contradictory interests, which makes it complicated to implement. Establishing the political acceptability of the reform assumes participatory examination of the various possible scenarios.

4.2 Making the reform of harmful subsidies an operational reality

Unless there is a window of opportunity (a budget crisis, pressure from bilateral or multilateral trade negotiations or a revision of the regulatory framework), immediately eliminating a subsidy without compensation comes at a very high political cost, particularly when that subsidy contributes to supporting the income of major groups of producers or consumers. Moreover, Aichi target 3 specifies that the elimination of harmful subsidies must not adversely affect the reduction of poverty³. Unless the reform is limited to eliminating a few direct transfers or tax loopholes, the process must be negotiated and cannot be undertaken hastily. Conversely, the reform must form part of a gradual transition logic (in terms of energy, ecology, towards sustainable consumption and production, a green economy, etc.).

Reforming harmful subsidies comes down to making a commitment to a long-winded, repetitive process. Cautious experiments accompanied by regular evaluation would enable the reform to be steered appropriately. In the absence of appropriate investment in support for change in practices, the policies of eliminating input subsidies recommended by donors in the South have often proven disastrous – farmers became impoverished and agricultural surface areas expanded into forested areas to compensate for the drop in fertility.

Regardless of the scenario (elimination, reduction or reform), the support measures required to compensate for the loss of subsidies offer a lever to reorient the incentives regime in the sector concerned with a view to a double dividend. Firstly, what is expected from ending or reducing the harmful subsidy is a reduction in the sector's impact on biodiversity. Secondly, the resources freed up may not only be reoriented in order to support producers' revenues (rather than prices or production), but also to encourage practices that restore lost biodiversity and technical pathways to regain productivity.

In the mid-1980s, Indonesia supported the elimination of subsidies for the pesticides used on rice by setting up an integrated plan for combating pests. Integrated techniques to manage soil fertility make it possible to envision linking the reduction of fertiliser subsidies to support for ramping up agroforestry. Pilot programmes supported by the International Centre for Research in Agroforestry in several African countries demonstrated the possibility of an ecological intensification, making family agriculture viable without mineral inputs.

4.2.1 Reinforcing the consistency, monitoring and evaluation of public policies

The reform of harmful subsidies is only one element in broader public policies which also include tax and regulatory incentive measures. A lack of overall consistency among those incentives may hinder the reform process. For example, legislative provisions that encourage land clearing as a way of securing land rights contradict the objective of protecting biodiversity. Reorientation of fishing subsidies towards aquaculture, which, on the face of it, is favourable to re-establishing fisheries stocks and marine biodiversity, may in turn have negative impacts (pollution as well as the intensification of industrial fishing or the expansion of soya crops to feed livestock). The systematisation of strategic environmental assessments in the design and monitoring of public policies should improve knowledge of the direct and indirect effects of legislation and sector-based policies in relation to natural resources. This type of approach has, for example, revealed the risk of indirect change in the allocation of land associated with agro-biofuels, which are broadly subsidised by several countries as part of energy transition policies.

3- "By 2020, at the latest, incentives, including subsidies, harmful to biodiversity are eliminated, phased out or reformed (...) and positive incentives for the conservation and sustainable use of biodiversity are developed and applied (...) taking into account national socio-economic conditions." (Our underlining)

Chapter 5

SUPEROFFSETTING DAMAGE TO BIODIVERSITY

The principle of superoffsetting damage to biodiversity, which is an expression of the “polluter pays” principle, is presented as a way of reconciling development and conservation by imposing limits on the biodiversity impacts of public-and private-sector development projects whilst at the same time mobilising resources to finance conservation.

Around 50 countries, most of them industrialised or emerging nations, have introduced biodiversity offsets as a legal obligation or as an option laid down by regulations and implemented them in various forms. Compensation is also part of voluntary initiatives that are increasingly managed under the framework of international financing for development projects. With the exception of this last segment, with quite modest volumes found mostly in the mineral extraction industry, offsets largely remain a biodiversity financing mechanism overseen at the national level. International transfers in favour of biodiversity may nevertheless be envisioned upon the introduction of a principle of superoffsetting damage to biodiversity as part of development projects in both the North and the South. In light of the level of maturity of offsetting policies worldwide, these financial flows would initially mainly form part of North-South transfers.

5.1 Offsetting principles and methods

The principle of offsetting damage to biodiversity obliges or encourages the developer of a project that causes the degradation or destruction of habitats to assume responsibility for that significant biodiversity loss by financing actions preserving or restoring biodiversity. Such “gains” must be equivalent to the losses for it to be possible to refer to “offsets” strictly speaking – no net loss. Few forms of legislation nowadays make a commitment to setting a more ambitious objective of achieving a net gain.

Offsets, which appeared under the regulatory framework of environmental impact assessment studies, only become meaningful as an option of last resort within a hierarchical structure of mitigation measures: in other words, they should only involve

compensation for inevitable and intractable impact. The high cost of offsets is itself an incentive to avoid and reduce impacts on biodiversity upstream, and even to call into question the profitability of a development project by increasing its overall cost.

In the twenty or so countries where compensation is mandatory, **compensation in kind** by the project leader is the most frequent scenario. As a last resort alternative and/or as a fully fledged method of compensation, ten or so countries in both the North and the South authorise financial transfers to funds. Some authorise the purchase of credits from specialised third parties as part of the implementation of an offset scheme that anticipates and pools compensation needs (mitigation bank), which, in addition to economies of scale, may facilitate the ecological consistency of offset operations.

Voluntary offsets, which are still marginal by volume, have been developed over the last decade around mining projects in the South to facilitate their access to land and resources, manage their reputational risk in relation to stakeholders and access credit from financial institutions that apply performance standard No. 6 of the International Finance Corporation⁴, such as banks adhering to the “Equator Principles”. Certification by an independent third party is required in implementation contexts where governance is weak. The Business and Biodiversity Offsets Programme (BBOP) standard drawn up by the promoters of a compensation form targeting a net gain objective may become the benchmark certification for those initiatives.

Monetary compensation is authorised in some countries for residual impacts, which are impossible to compensate in kind or in off-budget resourcing for protected areas. Trust funds then occupy the position of offset operators. This option offers the advantage of leveraging upstream financing. It may facilitate the prioritisation (trading-up) of conservation and achieve net gains in terms of biodiversity. It is not directly focused on seeking ecological equivalence – although such equivalence is highlighted, it generally remains partial as the metric considered is primarily heritage species rather than ecosystem functions. Such distancing from the ecological standard, however, is a double-edged

4 - www.ifc.org/wps/wcm/connect/bff0a28049a790d6b835faa8c6a8312a/PS6_English_2012.pdf?MOD=AJPERES

sword because it poses a high risk of shielding project developers from responsibility by disconnecting biodiversity gains and losses. Its use should therefore remain limited.

5.2 Safeguard and guarantee clauses

Experience from carbon compensation shows that any significant change in scale depends on the establishment of a compliance system. Proposals establishing a relation between supply and demand for compensation at international level come up against various difficulties, the main one being the impossibility to establish a common metric for biodiversity gains and losses, as exists for carbon compensation. It also runs the risk of facilitating the monopolising of lands in the South for ecological purposes (so-called green grabbing), following the example of developments in international agricultural investments.

Implementation of compensation requires a number of safeguards to prevent it from being transformed into a licence to destroy biodiversity – by relieving project leaders of responsibility for their real impacts – and from worsening poverty in the South. Indeed, compensation may also relate to user rights and related income loss at the project level as well as at the compensation site level. Upstream, it is crucial for the regulatory framework to set out explicitly what may or may not be offset for and the various cases where equivalent compensation in kind is called for. Downstream, it is important to make offsets part of a logic of land use planning and to mobilize enough resources to monitor and evaluate losses and gains. Ultimately, offsetting is meaningful only if governments do not subject nature protection requirements to economic growth objectives.

5.3 Offsetting in kind, the principle of superoffsetting and the establishment of an international fund

To reinforce the contribution made by biodiversity offsets to international biodiversity financing, the following may be envisioned:

- general application of the principle of regulatory ecological compensation in kind in the North and facilitation for its implementation in the South, at least in relation to those ecosystems recognised as being of major ecological value, and in a way that is adapted to the issues of local governance (mandatory certification);
- concrete fulfilment of net gain objectives for biodiversity at the global level via monetary compensation through mandatory financial transfers intended to finance priority conservation zones at the international level as offsets for the deterioration of a global public good.

Such contributions would supply a new or existing **international fund for the conservation of biodiversity**, possibly within the financial mechanism of the Convention on Biological Diversity (the Global Environmental Fund – GEF) or in the form of a biodiversity component of the Green Climate Fund. This mechanism would constitute the means of ensuring, firstly, that the objective of achieving a biodiversity-neutral impact for development is attained and, secondly, that international financing flows in favour of biodiversity are generated that do not form part of North-South offsets for damage to biodiversity. Project developers could thus assert fulfilment of their commitments without this taking the form of environmental sponsorship, a green grab or placing regions in competition with each other, as could be the case when resorting to an international clearing house.

Although the approach may be envisioned on a pilot basis at national level, this proposal's technical and political aspects (assessment of the compensation amount, the scope of activities subjected to the offsetting obligation, methods for allocating resources to a multilateral fund, etc.) could be discussed as part of the current debate within the European Union (the EU No Net Loss Initiative).

According to the estimates in the *Little Biodiversity Finance Book* (2012), establishing a European compliance market with a size probably equivalent to that of the US market could yield \$10 billion per annum by 2020 in potential resources from the compliance markets of developed countries (as opposed to just \$70 million for voluntary compensation). Superoffsetting amounting to 10% of the total cost of compensation operations would therefore generate \$1 billion per annum by 2020.

Chapter 6

CONCLUSIONS

First of all, the study of innovative initiatives leads to three transversal conclusions.

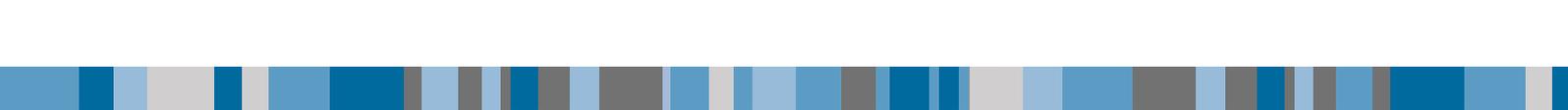
- **Innovative financing must be adapted to biodiversity's nature as a public good.** Biodiversity is assessed through a number as yet limited of factors and is generally overlooked in a number of economic instruments for environmental management. The direct economic potential of biodiversity valuation (particularly through markets, for example those of ecosystem services) is relatively limited because the public good or collective good characteristics of the biodiversity factors at stake dominate the majority of situations.
- **It is crucial to assess the incentive dimension of innovative initiatives.** The mobilisation of resources must not become an end unto itself. As part of the implementation of environmental taxation, seeking a financial yield often gains sway over the incentives dimension. Compensation for damage to biodiversity does not directly finance protected areas or restorative management of the sites impacted, even though it may contribute to them. Nor is the ultimate purpose of reforming the most harmful subsidies for biodiversity to reduce public deficits. Whilst seeking the double dividend expected from the implementation of incentivising instruments, it is important not to reverse their terms: reducing impact (and therefore future financing needs) continues to be their primary *raison d'être*.
- **The potential of environmental taxation must be exploited.** To cover a conservative estimate of needs amounting to \$150 billion per annum at the global level, we will probably not be able to take shortcuts when it comes to directing at least 10% of the revenue from so-called international taxation towards biodiversity – once the levers of such taxation are clearly identified – or resorting to mechanisms such as the IMF's special "green" drawing rights. A tax on carbon emissions or financial transactions would enable direct conservation to be financed (for which alternative sources to public funds are limited) as well as changes to large-scale agricultural technical pathways in the South. At the national level, above and beyond environmental taxes on tourism, water, energy and transport, resistance in the North must be overcome to tap the potential of a tax on pollution by nutrients and on the transformation of natural environments into artificial ones. In the South, consideration must be devoted to allocating part of the revenues from taxes on natural resources towards biodiversity to restore critical ecosystems.

Despite certain very optimistic expectations regarding the growing portion that private forms of biodiversity financing could take on, it seems that the main contribution to be sought from the private sector today is in global value chains and in the management of its environmental impacts – transitioning towards sustainable consumption and production patterns. Political, regulatory and social impetus (often from civil society) would enable ecological compensation and certification to reach significant levels and push private actors to reinforce their standards.

Viewed from the perspective of their potential to mobilise resources and their technical, political and social feasibility, three groups of initiatives offer interesting potential and may be actionable in the relative short term subject to certain conditions (although no conditions or combination of conditions would be sufficient to cover all of the needs listed).

6.1 Green products markets

Because it occurs at the level of global value chains by setting more demanding standards than the law, eco-certification is an essential lever to work towards sustainable consumption and production patterns, particularly in the tourism and agricultural sectors, which bring in foreign currency for the economies of the South – subject to the proviso that the repartition of added value and the real impact on biodiversity be better factored in. Government authorities may seize this market segmentation instrument to orient a shift in sectors through public procurement policies, tax incentives, and even by sharing the certification costs in order to maintain the competitiveness of those operators who have the least capital resources. On agricultural markets, the certified products segment is often the fastest growing, given impetus by both strengthening regulations and consumer demand, with the middle class of emerging countries being added to consumers in the North. At the level of rural productive landscapes, labelling outstanding landscapes rich in culture and history as well as in biodiversity, possibly in the form of a protected area, is an additional way of developing local initiatives relating to the conservation and sustainable use of biodiversity.



6.2 The conversion of harmful subsidies

Through the redeployment of incentives and the general implementation of strategic environmental assessments, this long-winded process plays a part in achieving consistency among public policies, legal frameworks and the objectives of biodiversity conservation and sustainable management. In each sector exerting pressure on biodiversity (agriculture, fishing, energy, transport, etc.), a global assessment of subsidies is required to identify the most harmful ones and to put together reform scenarios adopting a participatory approach. This type of reform depends largely on its political and social acceptability. Its objective is not only to eliminate incentives that are harmful to biodiversity, but also to convert part of those subsidies into green subsidies through the eco-conditionality of the grants to producers and of payments for environmental services – the double dividend. Opportunities should be explored to link public forms of aid to resource managers' fulfilment of conservation objectives in emerging countries, as well as to orient changes in technical pathways in developing countries.

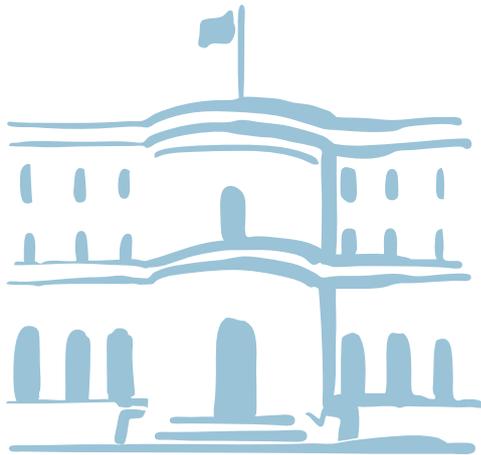
6.3 Superoffsetting damage to biodiversity

Although it has been criticised in terms of its principle and feasibility, compensation in kind for residual impact targeting the objective of achieving no net loss of biodiversity is one upstream incentive to limit the impact of development projects on biodiversity. The mechanism, however, must be applied under good governance conditions and a clear legal framework that is socially accepted, defining what cannot be compensated for. Voluntary offsetting, which is still marginal, is being developed in the South, particularly as an obligation imposed through the international financing of development projects. Although the ecological standard must remain the basis for measuring the equivalence between losses and gains, monetary compensation mechanisms may help prioritise the preservation of biodiversity above and beyond case-by-case offsets – thus becoming, in certain cases, a source of extra-budgetary financing for protected areas. While the principle of an international compensation market cannot be envisioned, offsetting may become an international tool for biodiversity financing by imposing a net increase in biodiversity in the South through contributions made on offset operations carried out in the North and channelled towards an international fund.



List of acronyms

BBOP	Business and Biodiversity Offsets Programme
CBD	Convention on Biological Diversity
COP	Conference of Parties
EU	European Union
GEF	Global Environmental Fund
ODA	Official development assistance
PES	Payment for environmental services
RSPO	Round Table on Sustainable Palm Oil



INNOVATIVE INITIATIVES FOR BIODIVERSITY FINANCING

The need to end biodiversity loss has now made the challenge of preserving biodiversity a leading environmental concern at the international level. France is one of the countries committed to this collective movement. Yet as the financial means required to succeed far exceed currently available resources, we need to find innovative financing initiatives.

This study was commissioned by the Ministry of Foreign Affairs and International Development and identifies twenty types of initiatives that could both leverage new sources of funding for conservation and restoration of ecosystems and contribute to reducing financing needs by reducing pressure on biodiversity.

By combining criteria linked to technical, social and political feasibility as well as positive impact on biodiversity and fundraising potential, the study has selected three groups of initiatives worthy of particular interest:

- green markets and making biodiversity central to global value chains can be a catalyst in the transition towards sustainable patterns of production and consumption;
- converting subsidies that harm biodiversity has a significant fundraising potential and contributes to the requirement of making sustainable development public policies coherent;
- promoting a form of superoffsets is a way of strengthening the financial contribution of biodiversity offsetting at the international level through compulsory financial transfers aimed at funding priority conservation areas internationally.