



**Business @
Biodiversity**

Finance Mechanisms for Biodiversity in the EU

Existing and prospective
funding mechanisms for biodiversity
Workshop summary

The European Union Business and Biodiversity Platform

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Table of contents

1. Opening remarks	3
2. Ian Dickie, Eftec presentation: main points.....	3
3. European Investment Bank, James Ranaivoson	5
4. Break-out groups	6
4.1 Non-Energy Extractive Industry and others	6
4.2 Tourism, Food supply, Agriculture and Finance sectors.....	7
5. Conclusions from the Break-out Groups.....	8
6. Closing Remarks by European Commission	9

1. Opening remarks

The global loss of biodiversity is one of the major environmental challenges of the 21st century. Given that the concern for biodiversity is integral to sustainable development, the European Commission has taken an initiative to promote the continued development of the EU Business and Biodiversity Initiative by cooperating with businesses, from SMEs to larger organizations in setting up a technical platform on Business and Biodiversity (B@B). The final workshop focused on Finance Mechanisms for Biodiversity through exploring existing and prospective financing mechanisms for biodiversity in the European context.

In line with the EU Biodiversity Strategy to 2020, this workshop explored specific instruments that can be/are used by the private sector in order to increase funding for biodiversity conservation. This workshop is of great importance as it supports the Commission's intention to work with key stakeholders in order to provide positive incentives and facilitate the capacity of the private sector to make a positive contribution to financing biodiversity actions in support of the EU Biodiversity targets and the Convention on Biological Diversity (CBD) objectives.

2. Ian Dickie, Eftec presentation: main points

The Eftec Final Summary Report¹ to the European Commission presents a number of potential policy intervention areas where innovative financing actions could be considered at the EU level, including coordinated policy developments for compliance markets (e.g. on biodiversity offsets and bio carbon credits), or backing new investment opportunities on natural capital (e.g. in Green Infrastructure). Eftec is in particular interested in approaches for restoration financed with private sector funding.

Before moving on to present the financing instruments, the presenter introduced the context including the challenges and examples of addressing the loss of biodiversity:

- Focus on specific issues relating to supporting carbon credit actions, use of biodiversity offsets and establishing green infrastructure.
- 'Capturing' the economic value means that economic values we estimate are turned into actual money. This could be through policy instruments that make the polluters pay for the environmental damage they cause, such as full cost pricing, green taxes, tradable permits and voluntary agreements. It could also be through the creation of new markets that capture the benefits (positive values) of the environment such as payments for ecosystem services (PES), biodiversity offsets and habitat banking.
- EU actions should offer greatest potential for stimulating additional biodiversity benefits through economically viable activities that can attract the involvement of private finance (to have practical bankable actions or projects).
- Challenges faced by private sector:
 - Fiscal context (fiscal squeeze in response to deficit);
 - Political context (carbon action, see national taxes, EU Emissions Trading System). Traditional separation of economic development and environmental spending;
 - Philosophical opposition to "ecosystem services".
- Financial instruments:
 - PES is increasingly being applied to tackle the loss and degradation of ecosystem services throughout the world.
 - Green infrastructure (GI) provides the resources (natural capital assets) that underpin ecosystem services from a large area (or network of natural capital).
- Public Private Partnerships (PPP) and Bonds.

¹ <http://www.eftec.co.uk/>

- Insurance sector: The insurance sector is becoming more aware of the large opportunities given by environmental risks (climate change). Environmental assets can theoretically have attractive risk profiles. For example, forestry investments are potentially ideal for long-term investors such as pension funds and insurance companies, who are responsible for managing most private sector capital. However, there are still large barriers in the structure of the market.
- Existing taxes:
 - Taxation adjustments
 - Adjust rates to favour sustainable (certified?) activities
 - Hypothecate with matched private funding condition.
- PES: Existence of very simple and very complex services.
- Green Infrastructure: Large-scale ecosystem services enhancement. Where do services lack (Health? Recreation?). NGOs are to be considered here as an intermediary.
- There is a great need for changes in the public financing system for it to become more commercially profitable.
- Pro-Biodiversity Businesses (PBB) are a growing area of interest, and have been the subject of detailed development work as they are favouring commercial businesses with positive biodiversity effects.
 - Commercial instruments (i.e. soft loans)
 - Funding platforms to reach and manage SMEs
 - Alternative to direct spending
- Products labelling/certification: Another important sector in which the private sector can invest.
 - Strong growth of markets: Marine Stewardship Council (MSC), FSC, Organic, etc.
 - Opportunities: shellfisheries and Protected Areas (PA) Networks
 - However, there are some difficulties in linking fisheries certification of PAs with Common Fisheries Policy (CFP) framework or with consumer preferences in products labelled "Natura 2000" but there are ways to solve such matters (i.e. changing name of the labelling).
- Compliance Market 1: Bio-carbon
 - Market trading units of environmental compliance
 - Carbon extension of budgets and trading, to forest carbon and other habitats (peat)
- Compliance Market 2: Biodiversity offsets
 - Biodiversity offsets and habitat banking are a relatively new environmental market.
 - Offsets are conservation activities intended to compensate for the residual, unavoidable harm to biodiversity caused by development projects.
 - Offsets can help companies find a cost-effective means of achieving a biodiversity target, and create an incentive to go beyond that target.
 - Biodiversity offsets can be driven by regulation, but are also undertaken voluntarily.
 - Often seen as a regulatory burden.
 - Environmental risks need managing.
 - Voluntary market is weak, needs to diverting in land use planning system.
 - Trading-up is more valuable.
- Risks:
 - Sharing investment structures.
 - Depends on how public money is used.
 - Requires investment (business) opportunities.
 - Target 2 financing needs suitability criteria.

Resulting from the Report, it was also shown that the processes in the public financing system are a large barrier for agri-environmental schemes to work alongside private investment. There is a great need for changes in the public financing system to become more supportive to commercially profitable activity.

3. European Investment Bank, James Ranaivoson

The second presentation of the morning was given by Mr. James Ranaivoson from the European Investment Bank (EIB) from the New Products and Special Transactions Department, more specifically in charge of non-traditional products with special guarantee such as carbon funds. He presented the work of the EIB and a broad approach of biodiversity financing.

Generally, funds are invested in projects dealing with climate change (renewable energy and energy efficiency programs for instance) and with environment protection (reforestation, land decontamination in urban area, etc.). The EIB focuses on bankable projects that ensure risk-sharing with other institutions (including public money). Indeed, due to the current economic context, shareholders are facing more budgetary constraints and aim at optimizing the use of their budget.

However, investors and institutions will be willing to support a biodiversity conservation/restoration, etc. project within a financing market if secure conditions such as policy framework, metrics and valuation measures, knowledge, time and capacity are fulfilled. The approach is a progressive evolution from “do not harm” to “do good” investments with the appropriate conditions gathered.

The EIB identified four conditions in order to develop biodiversity-related business opportunities:

- An asset properly defined (metrics both standardized across markets and locally adaptable, border, monitoring possibility) reflected with measurable, verifiable and tradable values;
- A demand from the market; all projects must achieve acceptable financial and economic rates of return;
- A risk reduction by overcoming the true opportunity cost, aligning interests between ecosystem value and sustainable practices (such as harvesting, etc.), and ensuring that associated alternative livelihood strategies are sustainable;
- Well informed supply-side project managers. Project developers must reconcile special project knowledge and financial expertise that enable them to translate their projects from grant based operations to investment opportunity in the case of biodiversity.

In brief, funding biodiversity first requires making the link between science, policy, economics, and finance. In these conditions, biodiversity value may be taken into account by investors in all key of decision-making processes, as any other stake to consider (micro to macro budgets, households to governments).

Pilot projects such as those undertaken in Latin America through the Eco Enterprise Fund or REDD+ projects are highly recommended to pave the way to structure other projects within a financial market framework.

Question from the extractive sector:

“Considering fiscal stress, new channels of financing, and the European bad economic context, where do you get financing?”

→ There is already a lot of financing in the Common Agricultural Policy which could be moved to biodiversity friendly. The fisheries policy could also switch from funding intensive fishing boats to fisheries with better practices. The principle would be not to raise more funds but to better use them.

4. Break-out groups

4.1 Non-Energy Extractive Industry and others

Main points during the 1st session of the working group on biodiversity finance:

- There are several examples where private sector financing works for biodiversity programs. Some really good projects have been carried out that can work as pilots, but still we need more examples and ideas to find out which models work
- There are several questions that need to be answered when dealing with finance mechanisms for biodiversity such as: how are we sure that we achieve restoration and when do we know that we have done enough and there is no need for further improvement? How to move to a bigger scale?
- Restoration is part of the operation permit of companies. Restoration of biodiversity is expensive but communities have high expectations from NGOs and Governments to identify their needs and proceed to the appropriate actions. Costs are sometimes paid by bank loans, LIFE+ funds, but are increasingly difficult to cover with the financial crisis. For a quarry one can estimate restoration costs at €50,000 - €300,000.
- Up to now considerable funding has been allocated for biodiversity conservation but there are no mechanisms to ensure a good management after the completion of each project. There is need for a better valuation of the projects related to biodiversity in order to achieve better fund allocation.
- Valuation is also needed in order to identify the actual necessity of an action. Negotiating with public and communities about their priorities is urgent. Sometimes for example, it is better not to restore to previous status of the area and let natural processes support the preservation of species and habitats of an area. However the communities do not always agree.
- There is a continuing debate about whether to have markets for biodiversity. If we place biodiversity on the market there is the danger that people without morals will take advantage of the situation and act irresponsibly. Without an economic value, nature is destroyed. On the other hand we don't talk about biodiversity exchange but about deriving the whole economic value of biodiversity. Private models have shown they can work more efficiently than public. No free riders and everybody pay the full price of the resources.
- Most of the actions for biodiversity do not capture the total value of it and we have no indicators to measure biodiversity.
- How to invest requires local landscape planning, taking into account who benefits

Main points during the 2nd session of the working group on biodiversity finance:

- Decision making for biodiversity action differs between sectors. Sometimes the cost of restoration is higher than the benefits and this confuses decision makers.
- In order not to lose the total value of biodiversity we have to identify it as a commodity and include it in the market. This will only be achieved by bringing economics into the 'game'. The ecosystem approach is important, looking at the landscape beyond your fence and looking for more collaboration and collective financing. It is important to reconcile the individual agenda of companies.
- Credibility of labels is an issue, so are standards for biodiversity friendly investment and adherence to the Global Reporting Initiative reporting standards for biodiversity and ecosystem services. Biodiversity friendly products can be rewarded by the market, but in general there is a low willingness to pay more.
- Legislation for biodiversity might be needed at a local level hence best practice and examples should be promoted.
- Supply chain affects biodiversity to a great extent. Life Cycle Analysis (LCA) information should be interpreted correctly to better understand that cheap supplies from outside of Europe will lead to unfair competition and cause Europe to lose its leadership.
- There are some plans such as the Sustainable Leaving Plan of Unilever which gives incentives to suppliers to do something good for biodiversity, energy etc.

- The conclusion for all life cycle products is that the value of biodiversity for the consumer is low. It is not totally understood who certifies which product is better for biodiversity than another.
- The most important thing is to convince local people about the significance of the projects related to biodiversity and this will persuade them to get involved and be more active and make the whole procedure of restoration move faster and more efficient. You can do more things for biodiversity if you work directly with local communities.
- Deals must be achieved between industry and governments for biodiversity: reduction of harmful taxes, sharing good experiences for biodiversity restoration actions and financing industry.

4.2 Tourism, Food supply, Agriculture and Finance sectors

The discussion was based on two guiding questions:

1. How does biodiversity “fit in”? In particular, how can biodiversity management be integrated within the broader sustainability agenda to secure additional financing for biodiversity?
2. Are there policy frameworks that can help to “fit in” biodiversity especially within the European context, are there key institutional or technical barriers and policy gaps and what can the EC do?

1. How does biodiversity “fit in” to business?

The key discussion points were:

- In the food supply sector it can be a criterion for the producers and the whole production process to focus on biodiversity, because it is good for the environment; good for health and good for socio-economic development on a local or regional level. It therefore provides a ‘niche’ for SMEs to exploit and we are seeing an increase in such enterprises (although there is a good deal of volatility in their business sustainability). In this way the market ‘looks after itself’.
- Also for the food supply sector, all the three aspects of sustainability (environmental, social, and economic) should be evaluated in relation to the producers. There is a key role for education of the consumers and promotion in the whole process.
- The interest of the producers in including biodiversity in their operation has always been a long-term perspective of protecting their land and future productions. Besides this, pressure can come from two directions: through regulations (top-down) and through clients (bottom-up).
- Climate change is a big worry for producers, leading to more pests and potentially more pesticide use, which raises food safety questions and the sustainable use of pesticides.
- In relation to certification, branding and acceptability of market prices (some consumers are ready to pay more for organic products – see also in relation to food supply above); thus a recent study in France showed that consumers have more trust in local products which are not labelled, rather than a labelled eco-product which comes e.g. from Brazil.
- Local product is often understood as it is sustainable and it protects biodiversity. Consumers prefer knowing the place where the product comes from, rather than the labels. Shortening the supply chain is a key issue while having a fair price for both the producer and the consumer.
- Because of market volatility, fluctuation in markets, the focus on the protection of biodiversity is higher in good economic times. Using innovative financial instruments can be the solution. (The European Investment Bank is currently focusing some research on small or micro projects and investments).
- The question was raised about whether there is a difference between the feasibility and willingness of SMEs to protect biodiversity (because of market-driven reasons; selling premium products at premium price), as opposed to large businesses to which additional regulation/incentives/instruments (e.g. certification) can help or will help to incorporate biodiversity related issues into their operation?

- The group agreed that regardless of the size of the business, only long-term thinking can help and the market should have a response to that.
- Improving ecosystem services is not always beneficial for biodiversity. What is the real cost of an area if we include the ecosystem services which are free in most of cases? How can we evaluate the services that ecosystems provide? TEEB work and SEBI indicators are big steps in the process of examining how intrinsic value can be justified economically.
- If the size of the business gets larger, is it more likely that more intervention (regulation) is needed in order to secure that biodiversity is recognized/valued by businesses? Is it more obvious and fundamental for SMEs to take biodiversity into consideration? Is it rather depending on the type of sector whether businesses are able to respond to biodiversity related issues or on the size of the business itself?

2. Are there policy frameworks that can help to “fit in” biodiversity? What are the barriers and the solutions?

- Tradition and history, limited information (box thinking) can be barriers; they can be solved through sharing experience, networking, exchanging best practices, consumer education, awareness raising.
- Reverse subsidies are one of the biggest barriers from the policy point of view, where better use of the funds, e.g. unified definitions, better targeted funding in agriculture, can be the solution.
- Lack of data and information about the current state (how do we measure low/ high biodiversity or judge the company on a number of factors) is a bottleneck, where benchmarking can be the solution. A tool or common standard is needed, which relates to the company, because the certification/branding/labelling relates to the product.
- Biodiversity is produced locally, even if producers are operating on an international level, e.g. Grüne Punkt green certificate in Germany is a good example for supermarkets.
- Public-private cooperation works well with ecosystem services. For example, Ile de France; (Marseille PACA is working on that).
- Valuable information is needed on various levels (local, regional, national and European) about the state of ecosystems while moving forward with natural capital accounting. Strong and healthy ecosystems can deliver the services that we need. Coherence is the keyword. We need a coherent approach (biodiversity, ecosystems and ecosystem services) to set the standards.
- Conservation easement can also be a solution, which is a tool for long-term action, a change in property right, on a voluntary basis, based on the decision of the landowner in order to secure that the certain piece of land will never be built in, but will be dedicated to nature. Management contracts will be then needed for specific conservation objectives to be reached.
- Performance-related incentives and visible indicators have key importance. We need wake-up calls, emblematic species, etc. to make us understand the problem.

5. Conclusions from the Break-out Groups

- The interest of the producers in including biodiversity in their operations has always been a long-term perspective of preserving their land for future productions. Besides this, pressure can come from two directions: through regulations (top-down) and through clients (bottom-up).
- LOCAL is the keyword which is equivalent for good for biodiversity, good for local economy and good for people. Pro-biodiversity actions must respond to local needs and demands.

- Regardless of the size of the business, only long-term thinking can help to incorporate biodiversity-related issues into business operation.
- It depends on the type of sector as to whether businesses are able to respond to biodiversity-related issues rather than on the size of the business itself.
- Some sectors, such as non-energy extractives industries, have the potential for biodiversity responsibility built into their business models, in this case through the requirement to rehabilitate areas.
- Reverse subsidies should be stopped. The better use of funds is important.
- At times, the business drivers for biodiversity may increase sales or market share or access to investment capital. For some sectors, such as extractives, it is not so much about sales or financing, but mostly related to securing the license – both the legal and the social licences – to operate.
- Benchmarking is a good tool. A common standard is needed, which relates to the company, because the certification/branding/labelling relates to the product.
- Valuable information is needed on various levels (local, regional, national and European) about the state of ecosystems while moving forward with natural capital accounting.
- Performance-related incentives and visible indicators have key importance.
- It is not so much about 'commoditising' biodiversity within the market as it is about integrating biodiversity responsibility into corporate strategies and operations.
- Sharing of best practices within sectors and across sectors is also critical for promoting effective and cost-efficient pro-biodiversity management.

6. Closing Remarks by European Commission

The European Commission expressed thanks to Shulamit Alony for implementing and coordinating the activities of the EU Business and Biodiversity Platform and to the partners working with IUCN namely ECNC, PWC and ELO.

To meet the EU Biodiversity Strategy objectives for restoration by 2020, tens of billions of Euros will be needed and this level of support cannot be provided through public funds alone. The challenge is therefore on how to mobilize alternative funding sources, in particular from the private sector in order to support an ambitious biodiversity strategy. To encourage investment we need a foundation of good, coherent and reliable data on the status of biodiversity, ecosystem services and their values.

The contribution of biodiversity can give a positive message on the agenda for sustainable growth in the EU. Businesses have a lot to offer in this respect. Rethinking the character of the Business and Biodiversity Platform going forward requires taking into account the national programmes and platforms as well as international initiatives such as TEEB for Business and the EU work on no-net-loss and resource efficiency in order to ensure the added value of dedicated EU action. The European Commission, many of the Member States and stakeholders have also expressed support. An EU level action can help to promote exchange as well as profiling national initiatives.

The European Union Business and Biodiversity Platform

The EU Business and Biodiversity Platform is a unique facility within the European Commission's Initiative where businesses can come together to share their experiences and best practices, learn from their peers, and voice their needs and concerns to the European Commission. The Platform aims to strengthen the link between the business sector and biodiversity conservation. The IUCN Regional Office for Europe, in partnership with PwC, ECNC and ELO, implements the B@B Platform which is funded by the European Commission. More information at <http://ec.europa.eu/environment/biodiversity/business>.



IUCN Regional Office for Europe

IUCN, International Union for Conservation of Nature, helps the world find pragmatic solutions to our most pressing environment and development challenges. IUCN Regional Office for Europe covers the European continent, Russia, Central Asia and includes the overseas entities of European Union countries. Representing one third of the global membership, this is IUCN's largest programmatic region.

www.iucn.org/europe

PwC

The French SBS practice (www.pwc.fr/dd), member of PricewaterhouseCoopers Advisory France and a part of PricewaterhouseCoopers Sustainable Business Solutions (SBS) network (www.pwc.com/sustainability) is dedicated to providing clients with environmental/sustainability advisory services.



ECNC

The ECNC, European Centre for Nature Conservation, works for the conservation and sustainable use of Europe's nature, biodiversity and landscapes, developing partnerships with organizations, institutes and businesses.

www.ecnc.org



ELO

ELO, European Landowners' Organization, is committed to promoting a sustainable and prosperous countryside and to increasing awareness relating to environmental and agricultural issues.

www.europeanlandowners.org

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