Resource Mobilization Mechanisms for Environmental Funds

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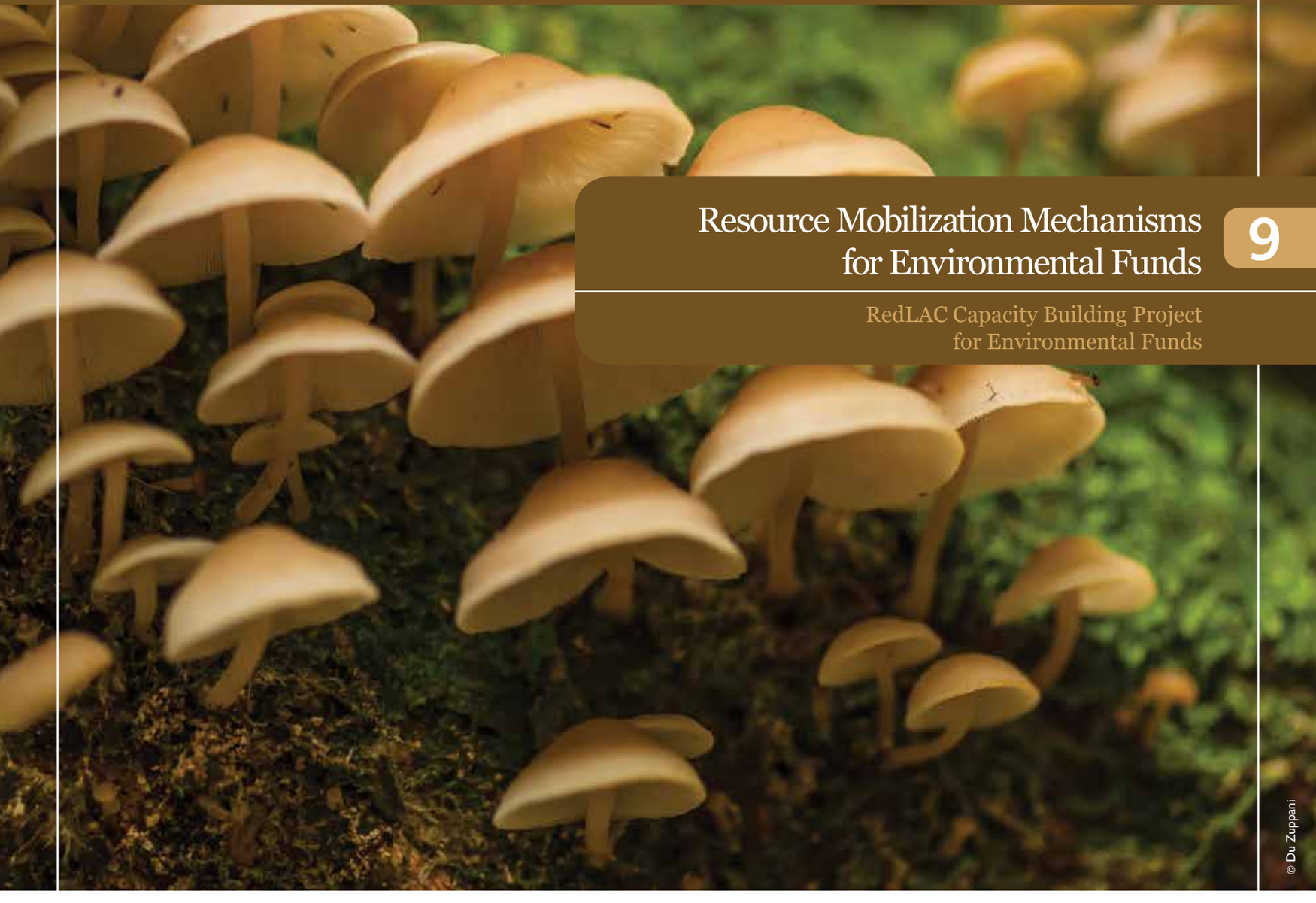
RedLAC Capacity Building Project
for Environmental Funds



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Latin American and Caribbean
Network of Environmental Funds

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RedLAC Capacity Building Project for Environmental Funds

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Resource Mobilization Mechanisms for Environmental Funds

The Latin America and Caribbean Network of Environmental Funds – RedLAC – was created in 1999 and currently includes 22 funds from 16 countries. Its mission is to set up an effective system of learning, capacity building and cooperation through a Network of Environmental Funds (EFs) aimed at contributing to the conservation and sustainable use of natural resources in the region.

RedLAC, with the support of the Gordon & Betty Moore Foundation and the French Fund for the Global Environment (FFEM, for its name in French), implements a capacity building project with the objective of strengthening the capacity of EFs to develop innovative financial mechanisms for biodiversity conservation, reducing their dependence on donations, and supporting the establishment of new EFs, by systematizing and sharing proven best practices in funds day-to-day operations.

This project, coordinated by the Brazilian Biodiversity Fund – Funbio - on behalf of the RedLAC membership, has the goal of promoting the implementation of new revenue streams for the Funds' portfolios, creating financially sustainable sources of funding for these institutions to invest in conservation. Having knowledge management as its core, the project will systematize the existing information on different topics of interest for EFs and build new content based on the collective experience of the Funds' community.

This manual was prepared to support the ninth workshop of the capacity building initiative, focusing on resources mobilization mechanisms, a core competency for Environmental Funds. This manual synthetizes all knowledge organized for the previous manuals within the RedLAC Capacity Building Project and includes additional mechanisms. Aspects such as a clear strategic plan to guide the institution work (manual 2), understanding the financial environment and having a fundraising strategy (manual 4), monitoring the fund's results and communicating skills (manual 7 and 6) and also having good governance standards in place (manual 8) must be addressed before an EF is ready to increase its resources mobilization capacity. On the other hand, EFs must also get to know market-based opportunities that represent new revenue streams, as discussed in RedLAC's manuals 1, 3 and 5 about PES, REDD+ and offsets, respectively. Funbio organized this workshop in collaboration with the Association Costa Rica Forever in the city of San José, Costa Rica, on November 1 to 3, 2013.

Organization:

FUNDO BRASILEIRO PARA A BIODIVERSIDADE FUNBIO

ASOCIACIÓN COSTA RICA POR SIEMPRE

Funded by:

GORDON AND BETTY MOORE FOUNDATION

FFEM Fonds Français pour l'Environnement Mondial

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L253r Landreau, Benjamin
Resource Mobilization Mechanisms for Environmental Funds. RedLAC capacity bulding program / Benjamin Landreau with contributions from Arantxa Guereña, Camila Monteiro and Xavier Op de Laak – Rio de Janeiro : RedLAC, 2013.

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99p.: il ; 29cm

1.Environmental funds. 2. Capacity building. 3. Financing strategies 4. Financing mechanisms. 4. Financing projects. 5. Innovative mechanisms. 6. Resource mobilization. I. Landreau, Benjamin. II. Guereña, Arantxa. III. Monteiro, Camila. IV. Op de Laak, Xavier.

CDD 332.4

Acronyms and abbreviations

Acronyms and abbreviations	Definition
CAFE	Consortium of African Funds for the Environment
CBD	Convention on Biological Diversity
CCBS	Climate, Community and Biodiversity Standards
CBO	Community Based Organization
CDM	Clean Development Mechanism
CER	Certified Emission Reduction (CDM carbon credit)
CI	Conservation International
COP	Conference of Parties
CTF	Conservation Trust Fund
DNA	Designated National Authorities
EAI	Enterprise for the Americas Initiative (USA)
EF	Environmental Fund
ETF	Environmental Trust Fund
EU	European Union
EUA	EU Emission Allowance (EU carbon credit)
EU ETS	European Union Emission Trading Scheme
FDI	Foreign Direct Investment
FFEM	French Global Environment Facility
FPIC	Free, Prior, and Informed Consent
GEF	Global Environment Facility
GRULAC	Group of Latin American and Caribbean Countries
HIPC	Heavily Indebted Poor Countries
IFI	International Finance Institution
KPI	Key Performance Indicator
LAC	Latin American and Caribbean
NGO	Non-Governmental Organization
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PA	Protected Area
PES	Payments for Environmental Services
PFP	Project Finance for Permanence
PIN	Project Idea Note
RCTF	Regional Conservation Trust Fund
RedLAC	Latin American and Caribbean Network of Environmental Funds
REDD+	Reduced Emissions from Deforestation and Forest Degradation (Avoided Deforestation)
SRI	Socially Responsible Investments
TCTF	Transboundary Conservation Trust Fund
TFCA	Tropical Forest Conservation Act (USA)
TNC	The Nature Conservancy
UN	United Nations
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
VCS	Voluntary Carbon Standard
VERs	Voluntary Emission Reductions
(V)ERPA	(Voluntary) Emission Reduction Purchase Agreement
WWF	World Wildlife Fund

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Introduction

Over the last 20 years, Conservation Trust Funds (CTFs), Environmental Trust Funds (ETFs) or Environmental Funds (EFs) – all three terms used synonymously in this handbook – have been established in more than 50 developing countries and transition economies. They generally provide sustainable financing for biodiversity conservation and often finance part of the long-term management costs of a country's protected area (PA) system. *'They can serve as an effective means for mobilizing large amounts of additional funding for biodiversity conservation from international donors, national governments and the private sector. CTFs raise and invest funds to make grants to non-governmental organizations (NGOs), community based-organizations (CBOs) and governmental agencies (such as national parks agencies). CTFs are financing mechanisms rather than implementing agencies. They can also serve as mechanisms for strengthening civil society and for making government PA management agencies more transparent, accountable and effective. CTFs can be characterized as public-private partnerships, and in most cases at least half of the members of their governing boards are from civil society. In addition to funding conservation projects, CTFs provide technical assistance and grants to strengthen the institutional capacity of grantees. CTFs have also served as catalysts for the creation of new partnerships with private businesses for the conservation and sustainable use of biological resources. Many CTFs also reduce threats to biodiversity by financing projects that improve and promote sustainable livelihoods of poor communities living near PAs'*[1].

[1] Spergel and Taïeb, 2008

In most of the countries where EFs operate (mostly in Africa and Latin America), it has been demonstrated that they can play a crucial role in improving biodiversity conservation by raising and providing additional sources of funds in a transparent manner. In fact, many sustainable financing mechanisms aimed at biodiversity conservation can only be launched if a secure and independent channeling mechanism is in place first. EFs have, in most cases, successfully met these conditions, gaining momentum and importance.

This handbook provides an opportunity to summarize the most promising long-term financing strategies available and to suggest sustainable ways in which EFs might develop going forward. This work is much needed, as it appears that, despite international calls for increased financial support, existing funding commitments remain too low to cover the identified financial needs of PA systems and biodiversity conservation projects. Current strategies to fill the funding gap have proven only partially successful, making it necessary to seek out more innovative solutions.

The first chapter of the handbook presents the current international debate around EFs and the sources of funds on which funds have traditionally relied; the second chapter covers the most stringent requirements for securing better resource mobilization at EF level; and the last chapter presents a number of existing initiatives as well as innovative mechanisms 'beyond traditional funding' that might be established in the near future.

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1. International debate on EFs and traditional funding sources

1.1 Positioning EFs in the international debate

Biological diversity conservation has been on the international agenda for the last two decades. One of the questions repeatedly under discussion at United Nations (UN) conferences has been how to mobilize and use financial resources most effectively, either for domestic or international use. Resolving this issue is essential to achieving the shared targets established by the Convention on Biological Diversity (CBD).

As defined at the Earth Summit in 1992, Agenda 21 not only provided cost estimates but also outlined potential sources of funding beyond those available from a given country's own public and private sectors, including:

- multilateral development banks and funds, such as the International Development Association
- regional and sub-regional development banks
- the Global Environment Facility (GEF)
- relevant specialized agencies
- other UN bodies and international organizations
- bilateral assistance programs
- debt relief
- private funding
- innovative financing.

If the CBD's Strategic Plan 2002–2010 has helped mobilize resources for biodiversity, it has failed to deliver on its stated target 'to achieve by 2010 a significant reduction of the current rate of biodiversity loss at the global, regional and national level'. This failure is frequently attributed to insufficient financial resources.

Extracts from the CBD

Article 20. Financial Resources

1. Each Contracting Party undertakes to provide, in accordance with its capabilities, financial support and incentives in respect of those national activities which are intended to achieve the objectives of this Convention, in accordance with its national plans, priorities and programmes.
2. The developed country Parties shall provide new and additional financial resources to enable developing country Parties to meet the agreed full incremental [...].

Article 21. Financial Mechanism

1. There shall be a mechanism for the provision of financial resources to developing country Parties for purposes of this Convention [...].

Although the Convention explicitly calls for substantial financial support from country Parties, it has struggled to bring in the resources it needs to achieve its goals. Articles 20 and 21 of the Convention (see above) were a topic of discussion at the 9th Conference Of Parties (COP) in Bonn in May 2008.The COP came up with a 'Review of implementation of Articles 20 and 21', presenting a Strategy for Resource Mobilization aimed at enabling the Convention to achieve its objectives. This strategy sought to obtain a substantial increase in international and domestic funding for biological diversity, in order to reduce the existing funding gap. The table below presents some of the Strategy's most important goals.

Extracts from the CBD Strategy for resource mobilization

Goal 1: Improve information base on funding needs, gaps and priorities

1.1. To improve the existing financial information base through enhancing accuracy, consistency and delivery of existing data and improved reporting on funding needs and shortfalls for the Convention's three objectives. Funding trends could be measured through the following indicators:
(a) OECD DAC Rio markers on biodiversity;
(b) National reports of Parties;
(c) Trends in funding to GEF;
(d) Funding flows through a selected number of the large international NGOs.

Goal 2: Strengthen national capacity for resource utilization and mobilize domestic financial resources for the Convention's three objectives

2.2. To prepare national financial plans in the context of national biodiversity strategies and action plans that can be implemented by local, national, regional and international stakeholders.

2.5 To consider the enhancement of existing, or the establishment of new, domestic funds and funding programmes through voluntary contributions, including for official development assistance, where biodiversity is identified as a priority by developing country Parties in poverty reduction strategies, national development strategies, United Nations development assistance frameworks and other development assistance strategies, that include innovative financing instruments to achieve the Convention's three objectives.

2.6. To establish enabling conditions for private sector involvement in supporting the Convention's three objectives, including the financial sector.

Goal 3: Strengthen existing financial institutions and promote replication and scaling-up of successful financial mechanisms and instruments

3.7. To continue to support, as appropriate, domestic environmental funds as essential complements to the national biodiversity resource base.

3.8. To promote biological diversity in debt relief and conversion initiatives, including debt for-nature swaps.

Goal 4: Explore new and innovative financial mechanisms at all levels with a view to increasing funding to support the three objectives of the Convention

4.1. To promote, where applicable, schemes for payment for ecosystem services, **consistent and in harmony with the Convention and other relevant international obligations**.

4.2. To consider biodiversity offset mechanisms where relevant and appropriate while ensuring that they are not used to undermine unique components of biodiversity.

4.3. To explore opportunities presented by environmental fiscal reforms including innovative taxation models and fiscal incentives for achieving the three objectives of the Convention.

4.4. To explore opportunities presented by promising innovative financial mechanisms such as markets for green products, business-biodiversity partnerships and new forms of charity.

4.5. To integrate biological diversity and its associated ecosystem services in the development of new and innovative sources of international development finance, taking into account conservation costs.

4.6. To encourage the Parties to United Nations Framework Convention on Climate Change and its Kyoto Protocol to take into account biodiversity when developing any funding mechanisms for climate change.

Goal 5: Mainstream biological diversity and its associated ecosystem services in development cooperation plans and priorities including the linkage between Convention's work programmes and Millennium Development Goals

Goal 6: Build capacity for resource mobilization and utilization and promote South-South cooperation as a complement to necessary North-South cooperation

Source: CBD, 2008

The Strategy mentions several tools (e.g. payment for ecosystem services, offset mechanisms, fiscal incentives, innovative financial mechanisms, and new and innovative sources of international development finance) that are highly technical, in relation to which EFs have already demonstrated their capabilities. Importantly for EF managers, the Strategy highlights the need to enhance existing, or establish new, domestic funds (point 2.5). Even if domestic funds are not always non-governmental and legally independent (as defined earlier in this handbook), the CBD recognizes the essential contribution made by EFs to the national biodiversity resource base. Consequently, it is very likely that EFs –domestic or international – will be asked to play a greater role in the future.

Nevertheless, EFs – as defined in this handbook – continue to work to obtain greater international recognition. The ad hoc Report of the Expert Group Meeting on Management of Environmental Funds for the Financial Sustainability of Biodiversity Conservation, produced in 2007, insisted that, 'Environmental funds are instrumental to achieve the CBD objectives. Environmental Funds (EFs) having very much the same general objectives, are implementing their own specific programs responding to the particular needs of their countries and the ecospheres where they are active. As such the activities of the EFs are all geared towards two of the main objectives of the Convention on Biological Diversity: the conservation as well as the sustainable use of biodiversity resources:

- In close cooperation with the respective government departments and civil society organizations, the Environmental Funds have been instrumental in consolidating national systems of protected areas, increasing the number and coverage of areas under formal protection, enhancing their long term financial sustainability
- Environmental funds have proven to be viable and important institutions, and essential complements to the national capacities in biodiversity conservation
- Environmental funds have developed a diversified set of complementary services to biodiversity protection, from fundraising and distribution to biodiversity management and policy development.
- Progress has been made in developing impact monitoring systems based on local participation and up-to-date information systems.'

Summary of key Aichi Targets

Target 11: By 2020, at least 17 per cent of terrestrial and inland water, and 10 per cent of coastal and marine areas, especially areas of particular importance for biodiversity and ecosystem services, are conserved through effectively and equitably managed, ecologically representative and well connected systems of protected areas and other effective area-based conservation measures, and integrated into the wider landscape and seascapes.

Target 15: By 2020, ecosystem resilience and the contribution of biodiversity to carbon stocks has been enhanced, through conservation and restoration, including restoration of at least 15 per cent of degraded ecosystems, thereby contributing to climate change mitigation and adaptation and to combating desertification.

Target 20: By 2020, at the latest, the mobilization of financial resources for effectively implementing the Strategic Plan 2011–2020 from all sources and in accordance with the consolidated and agreed process in the Strategy for Resource Mobilization should increase substantially from the current levels. This target will be subject to changes contingent to resources needs assessments to be developed and reported by Parties.

Source: CBD, 2010a

Understandably, resource mobilization was also actively discussed at the 11thCOP, held in October 2012 in Hyderabad, India. The RedLAC Secretariat prepared an official letter for all members, asking them to support a Peruvian government proposal to review the Strategy for Resource Mobilization with a view to include a paragraph specifically mentioning EFs. This paragraph was presented by Peru, in its capacity as a member of the Group of Latin American and Caribbean Countries (GRULAC), which endorsed the text. The paragraph read:

> *GRULAC also considers that national environmental trust funds have developed a strong expertise in managing and funding biodiversity programmes and projects along the last two decades. Those funds must be profited by the CBD as financial tools to complement the financial provisions and mechanism of the Convention, in order to channel the international resources assuming the role of national implementing agencies.*

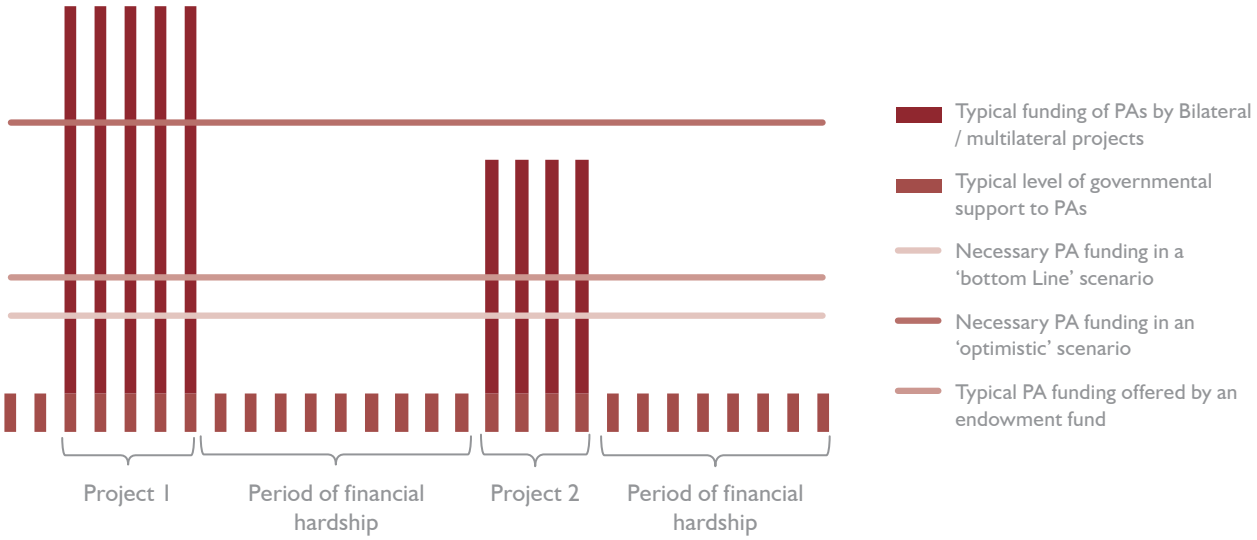
At the same COP, a group of NGOs consisting of Conservation International (CI), BirdLife International, The Nature Conservancy (TNC) and the World Wildlife Fund (WWF),also suggested that the Strategy for Resource Mobilization be amended to include: additional domestic and international funding commitments; updated reports on domestic biodiversity financing (financial gap); and, importantly, a call for member countries to 'consider all possible sources and means that can help to meet the level of resources needed (including trust funds)'.

Despite these efforts, the final document produced at COP 11 mentions neither CTFs nor EFs; discussions on securing biodiversity financing are likely to continue during the next Conferences of Parties. COP 12, which will take place in South Korea in October 2014, will initiate a mid-term review of progress towards the Aichi targets. EFs, member countries and EF networks could therefore use the coming year to demonstrate the positive role they play already and the potential they have to contribute further, and to develop additional arguments to support them in earning unanimous international recognition at the CBD.

1.2 Comparative advantages of EFs for investors: strengths and challenges

The main advantage of EFs is that they are designed to operate over a substantial period of time, whereas donor-funded projects tend to provide financial support for only a limited number of years.

Schematic representation of project-based versus EF-based financing of a PA



Advantages and disadvantages of EFs

Advantages	Disadvantages
Offer a long-term funding mechanism for PAs; a good fit for biological timescales	Subject to the vagaries of international funding and to the negative impact of any international financial crisis
Facilitate planning over the long term	Management costs can be considered high (15–20%; sometimes as high as 40%) comparing to project costs
Permit large-scale participation of multiple stakeholders, and development of civil society	Generate relatively small amounts in comparison to the proportion of funds blocked in the case of endowment funds
Offer interdependence and autonomy in relation to governments cycles	Sometimes perceived as replacing public institutions (possible conflict)
Offer micro-funding capacity by distributing international aid from large donors to multiple local funds through competitive processes	May have the risk of being used for political purposes divergent from EF objectives
Facilitate coordination between the different stakeholders (government, funding donors and civil society)	Can cause a reduction in other public sources of funding intended for conservation
Leverage effect: existence of an EF attracts new funding donors	To achieve break-even point (earnings equal to financial needs) can be difficult, as may represent large sums to mobilize
Benefit from certain privileges, such as tax breaks, which enable all the funds available to be allocated to beneficiaries	Not always suitable to finance park infrastructure or other large investments
Can be more flexible than fiscal or project budgets; can facilitate a customized service to PAs	Have difficulties in measuring and reporting about the impact in biodiversity as are not present in the field
Professionalize PA finance organization and provision, complementing traditional skills and backgrounds found in the conservation sector	
Offer an ideal means of financing operational and management costs of PAs	
Execute resources following procurement rules established by donors	
Report on the use of resources following international standards, bringing transparency and accountability to the use of resources (most EFs are annually audited by external firms)	

Source: Author, based on Conservation Finance Guide, Comparative advantages of Conservation Trust Funds and Project Approach to support PA systems

Comparative advantage(s) of EFs for donors and investors

1.	Institutional continuity	There is a need for long-term sustainable institutions to bolster the capacity for ongoing conservation. EFs are designed for the long term. Their stability and continuity through changes in government administrations is one of their biggest assets.
2.	Integrity and transparency	There is the expectation that the funds will be managed transparently. Good performance in asset management and effective grant-making processes must be demonstrated and documented.
3.	Expertise	There is a need to hire and KEEP excellent staff. Staff with excellent science credentials and local ecosystem knowledge are needed. This capacity to grow – and/or attract – high-calibre staff must be emphasized to donors as a major achievement in the establishment phase of the EF.
4.	Flexibility	The EF is in a unique situation in country: most EFs are capable of providing funding to government agencies, non-profits, academic institutions, and community-based organizations. This spread of potential partners greatly enhances the EF's ability to identify potential opportunities and invest appropriately.
5.	Alignment with donor objectives	Donors want to see conservation efforts achieve concrete results. The better an EF can clearly link activities to conservation/ sustainable livelihood outcomes, the higher its chances of securing donor support. The EF's ability to accomplish its goals, and provide evidence of successful results, need to be brought up front in its case (for support) statements.
6.	Long-term market absorption management	EFs, through the management of long-term endowments, can ensure that funding reaches parks and communities at a steady and predictable pace.
7.	Bridging policy gaps	EFs can diminish the debilitating gap that exists between macro-level policy and successful local community-based projects.
8.	Fostering improved conservation	EFs can reduce reliance on expatriate experts and sectorial thinking, allowing growth of more comprehensive, systemic programs.

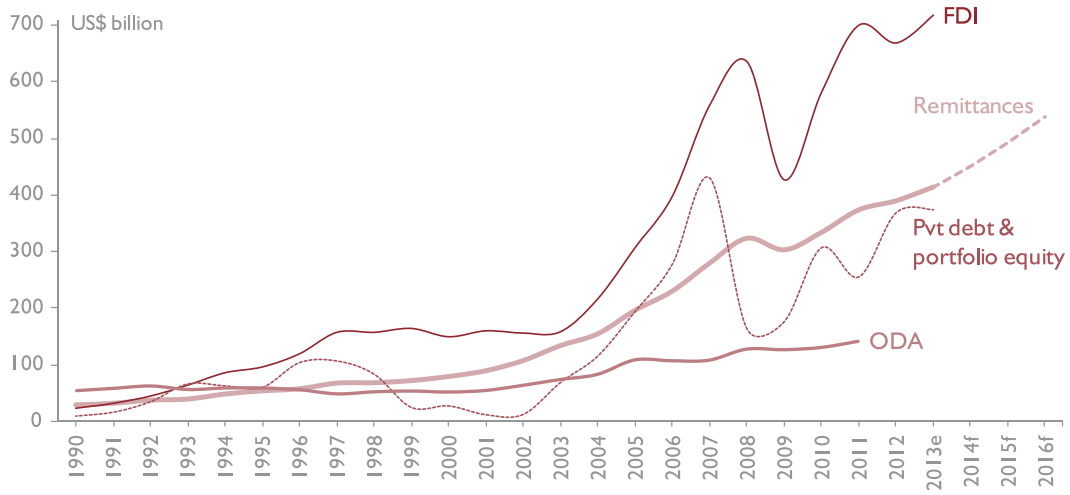
Source: Adapted from: Bath, 2011.

1.3 Summary of traditional funding sources and trends

1.3.1 Trends in multilateral and bilateral donations

Over the past two decades, Official Development Assistance (ODA) has lost its relevance in the global flow of financial resources, when compared to other sources such as Foreign Direct Investment (FDI), remittances, or private debt and equity portfolio (see chart below). Prior to 1992, ODA was more important to developing countries than FDI, whereas by 2010 ODA represented only one-fifth of FDI funding levels. Regarding remittances, ODA started to lose its significance in 1996, despite ODA levels having seen a steady increase over the past 25 years.

Resource flows to developing countries 1990–2014

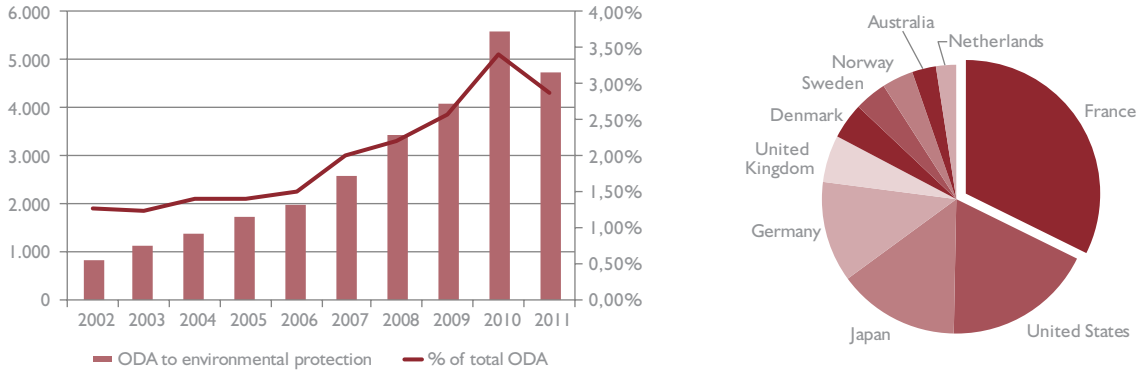


Source: World Bank, 2012c

Nevertheless, ODA still represents a highly significant funding source for developing countries, and in some of these the bulk of environmental financing comes from international donors. According to Organization for Economic Cooperation and Development (OECD) statistics[2], total ODA to environmental protection[3] increased from USD 829 million in 2002 to USD 5,611 million in 2010 (latest available data). In other words, it multiplied almost seven times in less than a decade. However, the financial crisis seems to have reversed this tendency in 2011.

In 2011, two-thirds of ODA to environmental protection came from bilateral donors (USD 3,767 million), and France ranked in first place – disbursing more than USD 1 billion – followed by the United States, Japan and Germany (see chart below). These four countries (collectively accounting for more than two-thirds of ODA to environmental protection) have not yet been joined by other bilateral donors.

Evolution of global ODA to environmental protection (millions of USD) and the top ten bilateral donors



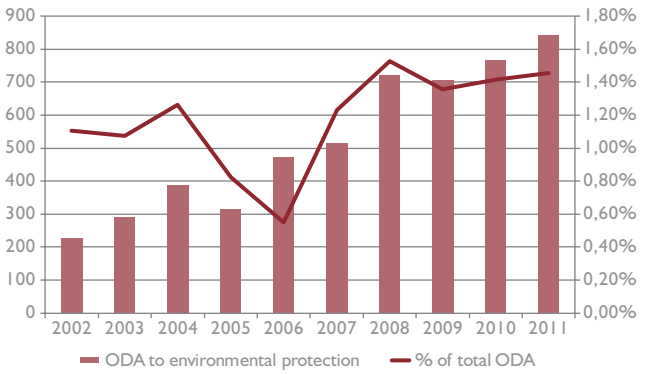
Source: Generated by the authors based on statistics at the OECD database Creditor Reporting System

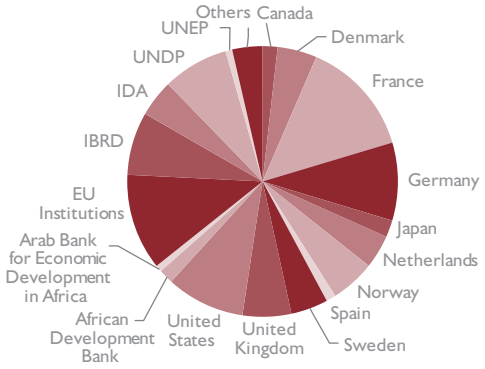
[2] Database on ODA, Creditor *Reporting System*, available online: http://stats.oecd.org
[3] Data correspond to sectorial aid to environmental protection (code sector 410 in the OECD database), which includes environmental policy, biosphere protection, biodiversity, site protection, flood prevention/control, environmental education/training and environmental research.

The charts below show the evolution of the volume of ODA for environmental protection going to Africa and Latin America over 2002–2011, and breakdown of ODA by donor in 2011. In the case of Africa, ODA to this sector quadrupled from 2002 to 2011, although the share of total ODA this represented remained below 1.5 per cent. In Latin America, ODA rose to more than USD 1 billion in 2011, accounting for more than 8 per cent of total ODA.

The main donors to Africa in 2011 were France, Germany the United States and the European institutions (in this order). In the case of Latin America France was the top contributor, accounting for almost half of ODA received by this region for environmental protection, followed by Germany and the United States. According to OECD statistics, France has increased its ODA to this sector exponentially over the last few years, from less than USD 10 million in 2009 to USD 258 million in 2010, and USD 444 million in 2011.

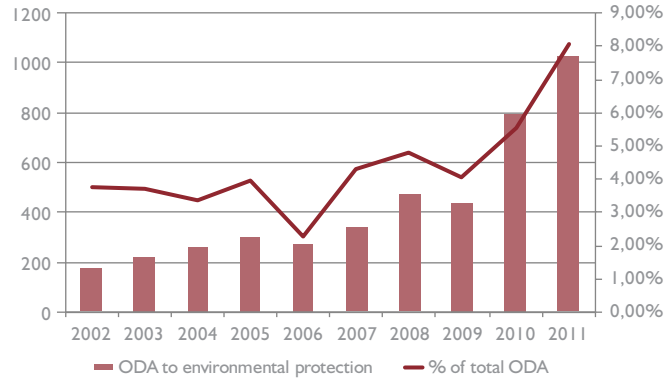
Evolution of ODA to Africa for environmental protection 2002 –2011 (millions of USD) and share by donor in 2011

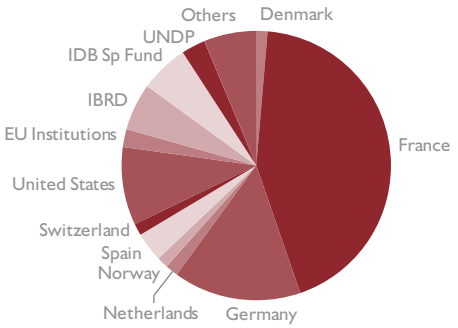




Source: Generated by the authors based on statistics at the ECD database Creditor Reporting System

Evolution of ODA to Latin America for environmental protection 2002 –2011 (millions of USD) and share by donor in 2011

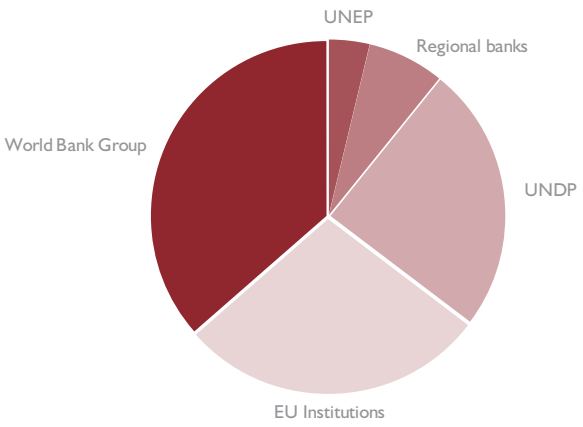




Source: Generated by the authors based on statistics at the ECD database Creditor Reporting System

Regarding multilateral ODA, in global terms the World Bank Group was the biggest donor in 2011 (with a volume of USD 325 million as ODA disbursed to environmental protection), followed by the European Union Institutions and UNDP (see figure below).

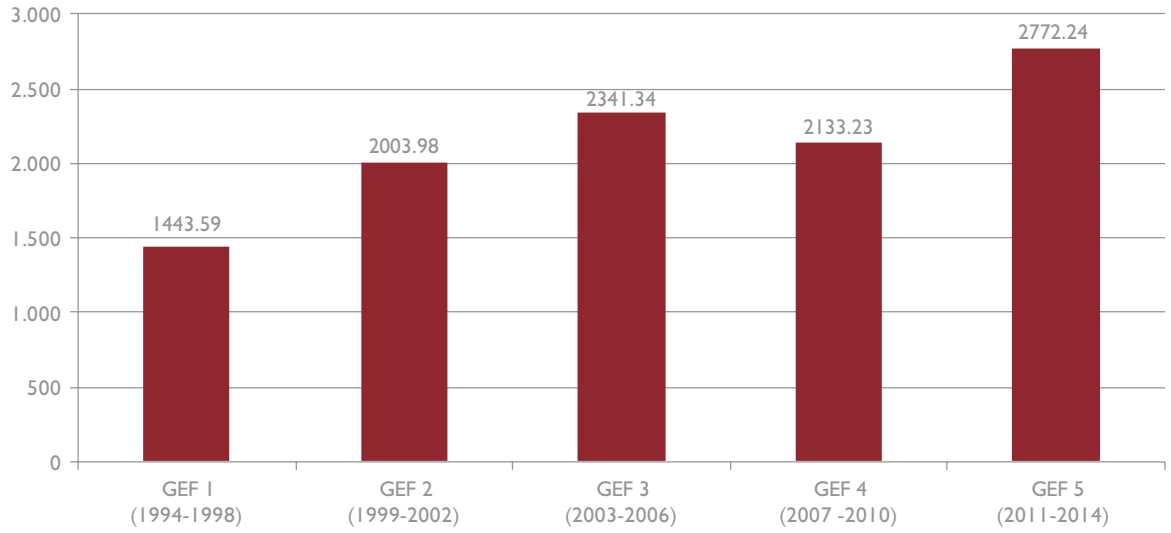
Global multilateral ODA to environmental protection in 2011 - Total: USD 964 million



Source: Generated by the authors based on statistics at the OECD database Creditor Reporting System

As the institutional structure operating the CBD's financial mechanism, the GEF is the most important multilateral body that provides financial resources to developing countries that are CBD members. One of the more common criticisms directed at the GEF is that project proposals often have to wait for up to six years to obtain funding. For this reason, in December 2012, the CBD COP called on 'the GEF to avoid additional and lengthy processes'. Furthermore, the COP invited 'developed country Parties and others to increase their financial contributions through the financial mechanism during the sixth GEF replenishment period (GEF-6) while recognizing the increase of funds under GEF-5, taking into account the substantial financial needs in order to implement the obligations of the Convention, the Strategic Plan for Biodiversity 2011-2020 and the Aichi Biodiversity Targets'[4].

Replenishment of the GEF over time (in Special Drawing Rights[5], SDR 1 = USD 1.52)



Source: CBD, 2010b

[4] Database on ODA, Creditor *Reporting System*, available online: http://stats.oecd.org
[5] Data correspond to sectorial aid to environmental protection (code sector 410 in the OECD database), which includes environmental policy, biosphere protection, biodiversity, site protection, flood prevention/control, environmental education/training and environmental research.

Getting financing from the GEF is not an easy task. The table below offers practical information aimed at supporting those who are considering seeking funds from the GEF:

Things to know before approaching the GEF

Project requirements	How to approach	Resources
It is undertaken in an eligible country, and is consistent with national priorities and programs. It addresses one or more of the GEF Focal Areas. It is consistent with the GEF operational strategy. It seeks GEF financing only for the agreed-on incremental costs on measures to achieve global environmental benefits. It involves the public in project design and implementation. It is endorsed by the government(s) of the country/ies in which it will be implemented.	Verify your country's eligibility. Contact your GEF operational focal point and verify that your proposal complies with the given criteria. If there are doubts about the eligibility of the project, seek an informal consultation with the GEF Secretariat (Country Relation Officers in the External Affairs team). Choose a GEF Agency, based on comparative advantages. Prepare a project concept following the guidelines and templates available on the GEF site (see Resources, right). Develop the project identification form in coordination with the GEF Agency and following the internal project cycle procedures.	Country eligibility: http://www.thegef.org/gef/country_eligibility List of Operational Focal Points by country: www.thegef.org/gef/focal_points_list Staff (including the External Affairs Team): www.thegef.org/gef/gef_staff Templates and guidelines: www.thegef.org/gef/guidelines Comparative advantages of GEF agencies corrigendum: www.thegef.org/gef/node/428 [all links accessed 24.08.2013]

Source: GEF website

Bilateral and multilateral donors have remained a steady source of funding for CTFs. In Africa, the GEF and bilateral donors (primarily USAID, KfW and AFD/FFEM) have contributed about 80 percent of the funds raised for CTFs over the past 15 years. Their role has also been critical in other regions, particularly in Latin America.

Suggested steps forward regarding bilateral and multilateral donors:

- Identify those potential bilateral or multilateral donors whose priorities are in line with your EF, and that focus on your region/country.
- Define objectives based on clear priorities and accurate plans, budgets and needs.
- Gather support from government, civil society and local communities.
- Contact the agency to which you would submit a concept paper for the project and explore opportunities.
- Save time: prepare a project concept paper and seek approval on that before investing substantial resources in developing a detailed proposal. Talk to other EFs that got grants approved by these donors to learn from their experience.
- Involve all stakeholders in the design process, including the potential donor.

1.3.2 Debt-for-nature swaps

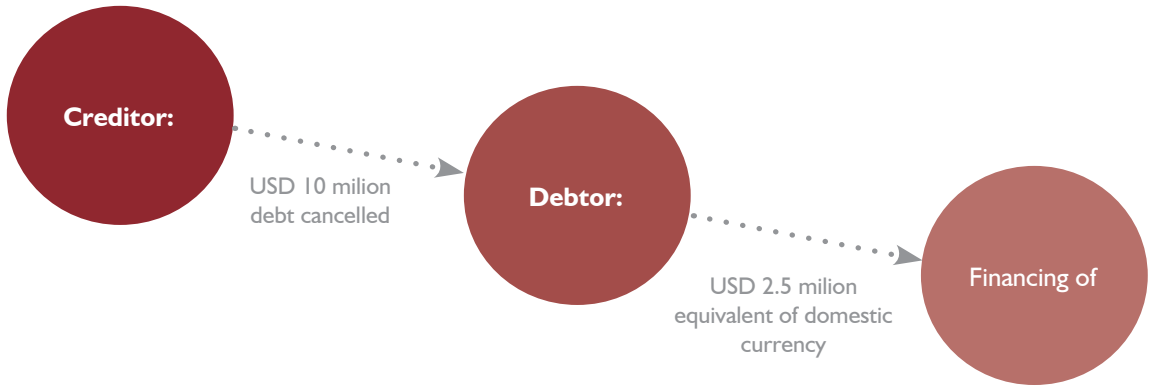
Debt-for-nature swaps have been instrumental in creating a large number of PAs since the early 1990s. Although setting up the conversion of debt is quite complex, the general principle is fairly simple. A debt-for-nature swap involves buying all or part of a country's external or commercial debt, converting it into local currency, and using the funds generated to fund conservation. The debtor country generally gladly accepts debt-for-nature swaps as they alleviate the country's debt. In addition, the swap is systematically carried out at a lower value than the nominal value of the debt. In other words, the repayment represents only a fraction of the initial debt; a proportion which is subject to negotiation between the parties concerned.

Beside the GEF's contributions, bilateral debt swaps make up a substantial proportion of the capital of existing CTFs. According to the 'Rapid Review of Conservation Trust Funds', 56 percent of the capital received by the 40 largest CTFs has come from bilateral debt reduction programs. Through the Tropical Forest Conservation Act (TFCA) and Enterprise for the Americas Initiative (EAI) programs, the USA has been the largest source of bilateral debt swaps (it accounts for around two-thirds of all such transactions), followed by Germany. The sources of funds vary by region. In the Latin American and Caribbean (LAC) region, 70 percent of 20 CTFs surveyed received some money from debt swaps, with the amount contributed by those swaps totaling 60 percent of the EF's capital. In Asia, Europe and Africa, the situation is different: only around 30 percent of the capital and start-up money collected came from debt swaps; and only 25–30 percent of CTFs received money from debt swaps.

There are certain limits to this mechanism:

- Only part of the country's debt can be a debt-for-nature swap: this is essentially bilateral public debt (country-to-country). The main debt swaps to date have been arranged with permanent members of the Paris Club, which brings together the richest economies of the world.
- Following debt reduction or cancellation arrangements, Heavily Indebted Poor Countries (HIPC) have very limited debts with members of the Paris Club, or these debts are not sufficiently old to justify a debt swap.
- Negotiations take a long time.
- Debt swaps may be carried out by intermediaries, usually international NGOs. Where a debt swap appears viable, EF managers should work with their governments or in conjunction with the intermediary in question to propose action programmes, but the second option has the risk of being influenced by NGO priorities.

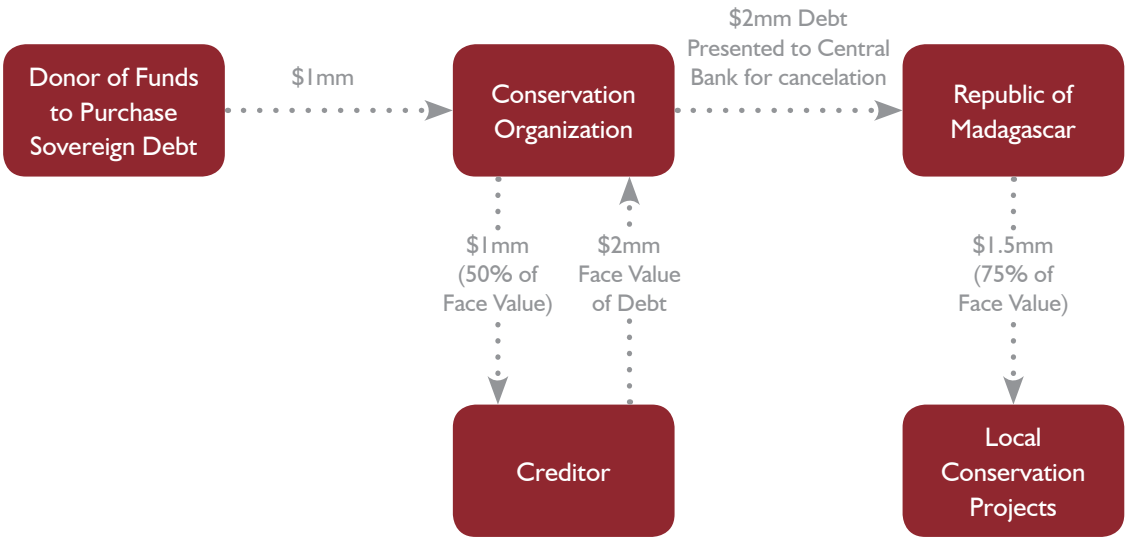
Bilateral debt-for-nature conversion



Assumptions: Counterpart fund payment 25%

Most of the debt-for-nature swaps concluded to date have been 'three-party swaps' involving external commercial debt owed by sovereign governments (public debt):

Commercial debt-for-nature swap transaction in Madagascar

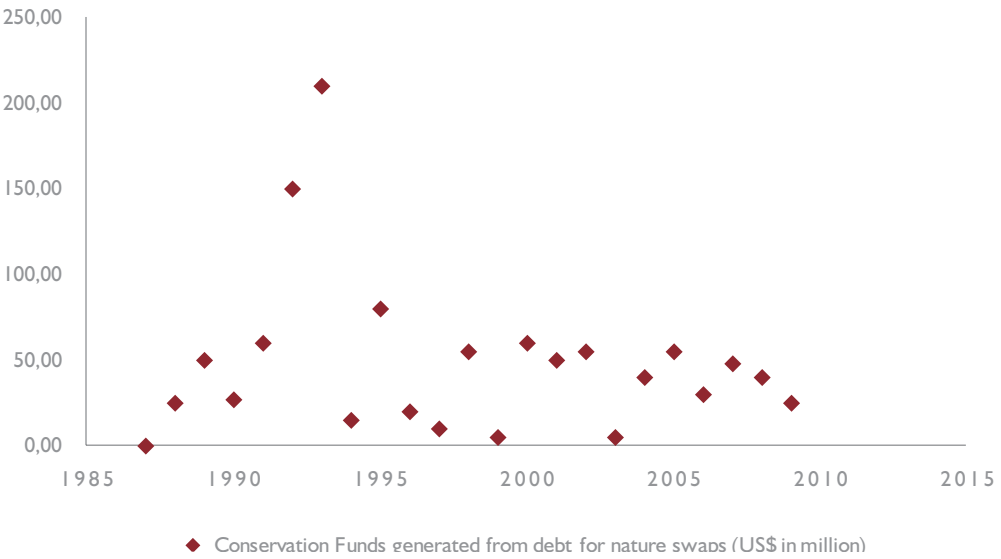


- Madagascar Commercial Debt Trading at 50% of Face Value
- Redemption Rate in local currency = 75%
- Counterpart payment made in Malagasy francs (FMG)

Result: $1mm Donation generates $1.5mm in Conservation Funding

Source: Madagascar's Experience Swapping Debt for the Environment

Historical debt-for-nature swaps



Source: CBD, 2012b

According to the CBD, 13 creditor countries and 31 debtor countries have been involved in debt-for-nature swaps. Non-governmental organizations have also collaborated with official and private creditors, including CI, TNC, WWF, the Smithsonian Institution, the Rainforest Alliance and the Missouri Botanical Garden. Conservation funds generated from debt-for-nature swaps peaked in 1992 and 1993.

Suggested steps forward on debt-for-nature swaps:

- Study the debt structure (information that can be obtained from government finance departments or from the International Monetary Fund).
- Any outstanding debts – ideally with members of the Paris Club – represent a possibility for debt-swapping.
- Contact an international NGO and advise them of your intention – this is not a pre requisite.
- Write to the Embassy concerned, giving a brief outline of the project.
- If the creditor country is interested, develop a program detailing the objectives and use of funds.
- Try to engage in South-South debt-for-nature swaps.
- At RedLAC and CAFE level, it could be useful to produce an exhaustive list of past debt-for-nature swaps, including amounts committed, parties involved, activities financed and associated conditions.
- Further reading: "Debt-for-Nature Swaps", Conservation Finance Alliance (CFA).

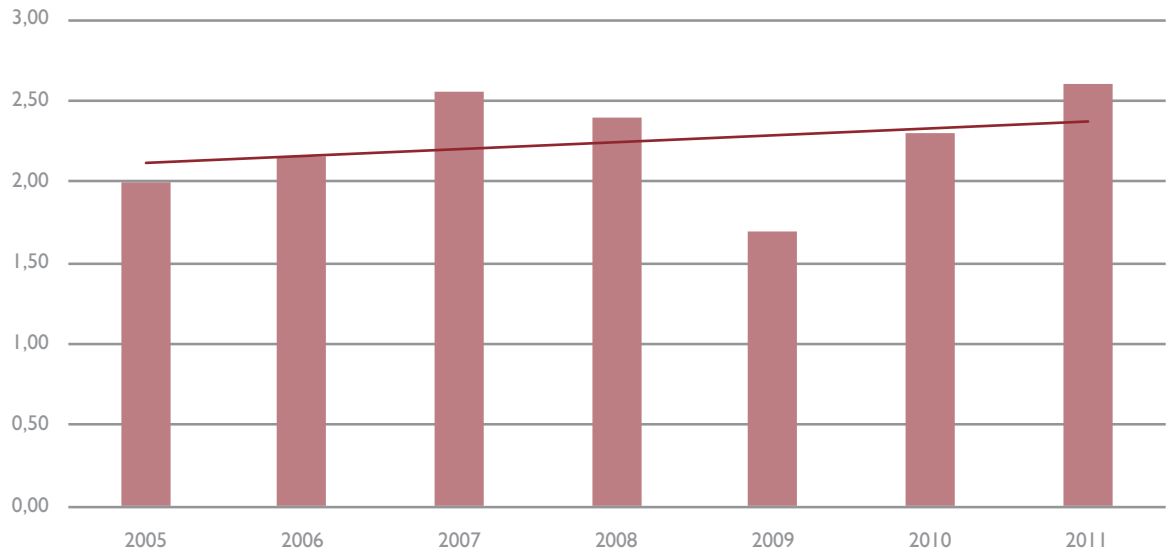
1.3.3 International NGOs and foundations

Both international NGOs and private foundations have been significant contributors to EFs, and continue to act as driving forces in mobilizing financial resources for biodiversity in the form of grants and endowments. Along with funding, they often provide capacity building in financial management and, in some cases, the legitimacy required to launch a new EF.

Conservation International (CI), The Nature Conservancy (TNC), Wildlife Conservation Society (WCS), and The World Wild Fund for Nature (WWF) are among the 'big international NGOs' known as BINGOs. They have supported EFs in benefiting from debt swaps and in leveraging funding for their sustainability. They are also influential in international negotiations such as the Conferences of the Parties for the UN Framework Convention on Climate Change (UNFCCC) and REDD+ negotiations.

However, these organizations have not escaped the global financial crisis. The total revenue of the seven biggest NGOs decreased by 31 per cent in 2009. TNC lost 51 per cent in revenue and CI 50 per cent. Consequently, grants to foundations and trusts from major NGOs decreased by 37 per cent in 2009, from over USD 2.5 billion in 2008.[6] However, in 2010 and 2011 revenue seems to have recovered to previous levels.

Total revenue of seven largest NGOs 2005–2011 (billions of USD)



Source: CBD

[6] Convention on Biological Diversity, 2010b.

Private foundations tend to invest in experimental initiatives and seek to leverage financing in order to escalate and replicate successful approaches. For instance, the Finance for Permanence model applied in Brazil, Canada and Costa Rica has been supported by the Gordon & Betty Moore Foundation and other foundations. A fair number of private foundations exist, among which some of the most relevant for environmental issues are the Avina Foundation and the Ford Foundation. The following websites may be useful when seeking to identify the most appropriate foundation for your fund:

- www.fdncenter.org – The Foundation Center provides information on US Foundations.
- www.efc.be– The European Foundation Centre provides a broader view on philanthropy in Europe.

“Both international NGOs and private foundations have been significant contributors to EFs, and continue to act as driving forces in mobilizing financial resources for biodiversity in the form of grants and endowments.”

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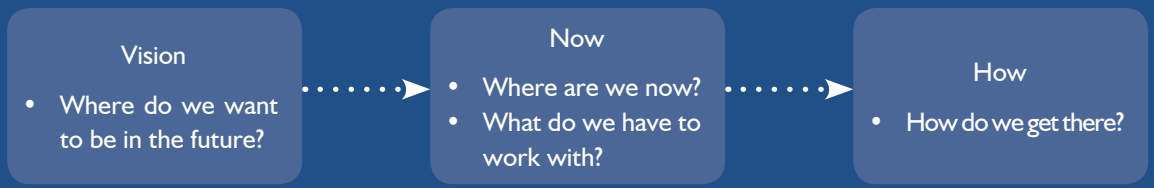
2. Requirements for resource mobilization

This chapter will focus on the elements that need to be in place to ensure that efforts to mobilize resources generate the required results. Many topics related to resource mobilization have been covered in previous manuals produced in the framework of RedLAC Capacity Building project. Therefore, this chapter provides a summary of the most relevant concepts together with practical guidelines on how to improve your chances of effective resource mobilization.

2.1 Strategic planning: why is it important for resources mobilization?

To mobilize resources effectively and maximize every opportunity, EFs need to be prepared. One of the most important steps is integrating the organization's resource mobilization plan into its strategic plan, ensuring that it aligns with the vision, mission and goals of the organization. A strategic plan is a roadmap that clearly explains where your EF wants to be and how it is going to get there (see figure below).

Simplified visualization of strategic planning



Source: Authors

Lessons Learned

From a workshop on Strategic Planning held on March 29–31, 2011 in Mombasa, Kenya, the following key lessons emerged about strategic planning for EFs:

- Strategic planning takes time and practice. None of the case studies presented were the first attempt at a strategic plan.
- Deciding how to measure performance and impact is a challenge; there is a delicate balance between the need to know whether an EF is making progress or not, and the cost – in time and money – of measuring this progress.
- There are many tools available to meet the needs of the different stages in the planning cycle. Organizations should experiment until they find a set that works for them and their context. They should also feel free to modify these tools to meet their needs.
- Successful strategic plans require the commitment of all the members of the organization, but their development must be driven by its board and executive management team. External consultants can help, but a strategic plan cannot be contracted out.

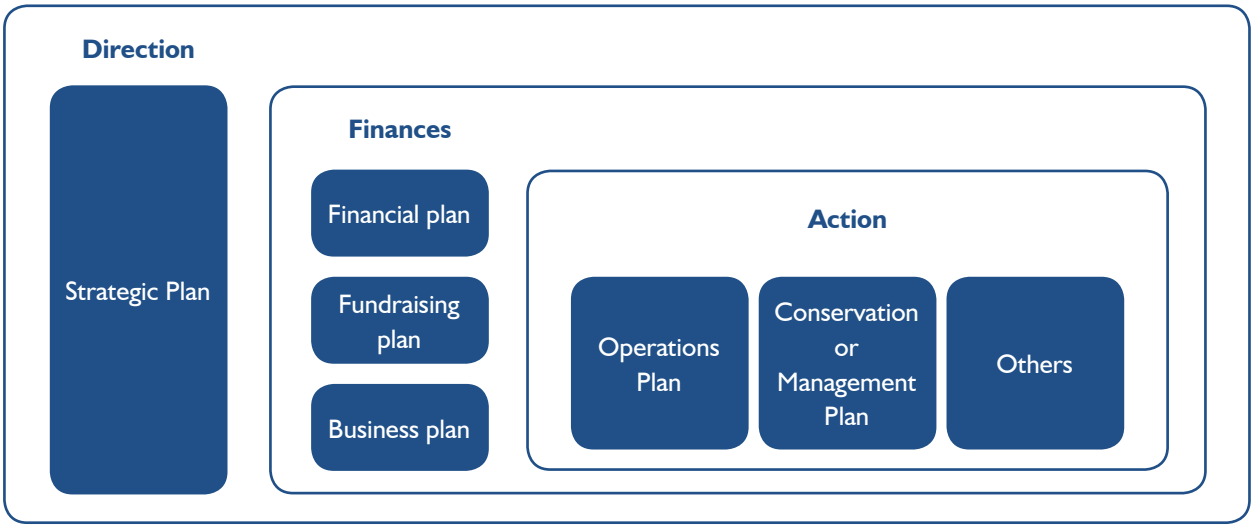
Source: Quintela and Phillips, 2011

As covered in detail in *Manual 2: Strategic Planning for Environmental Funds* (Quintela and Phillips, 2011), a good strategic plan is crucial to an EF's long-term success because it:

1. focuses staff energy towards a common purpose
2. identifies and prioritizes actions and resources needed to accomplish the desired goals
3. energizes and engages stakeholders
4. helps everyone involved with the EF to optimize their time and resources.

As illustrated in the figure below, the strategic plan provides a framework that guides all other EF plans and activities.

Strategic Plan in relation to other plans relevant to EFs



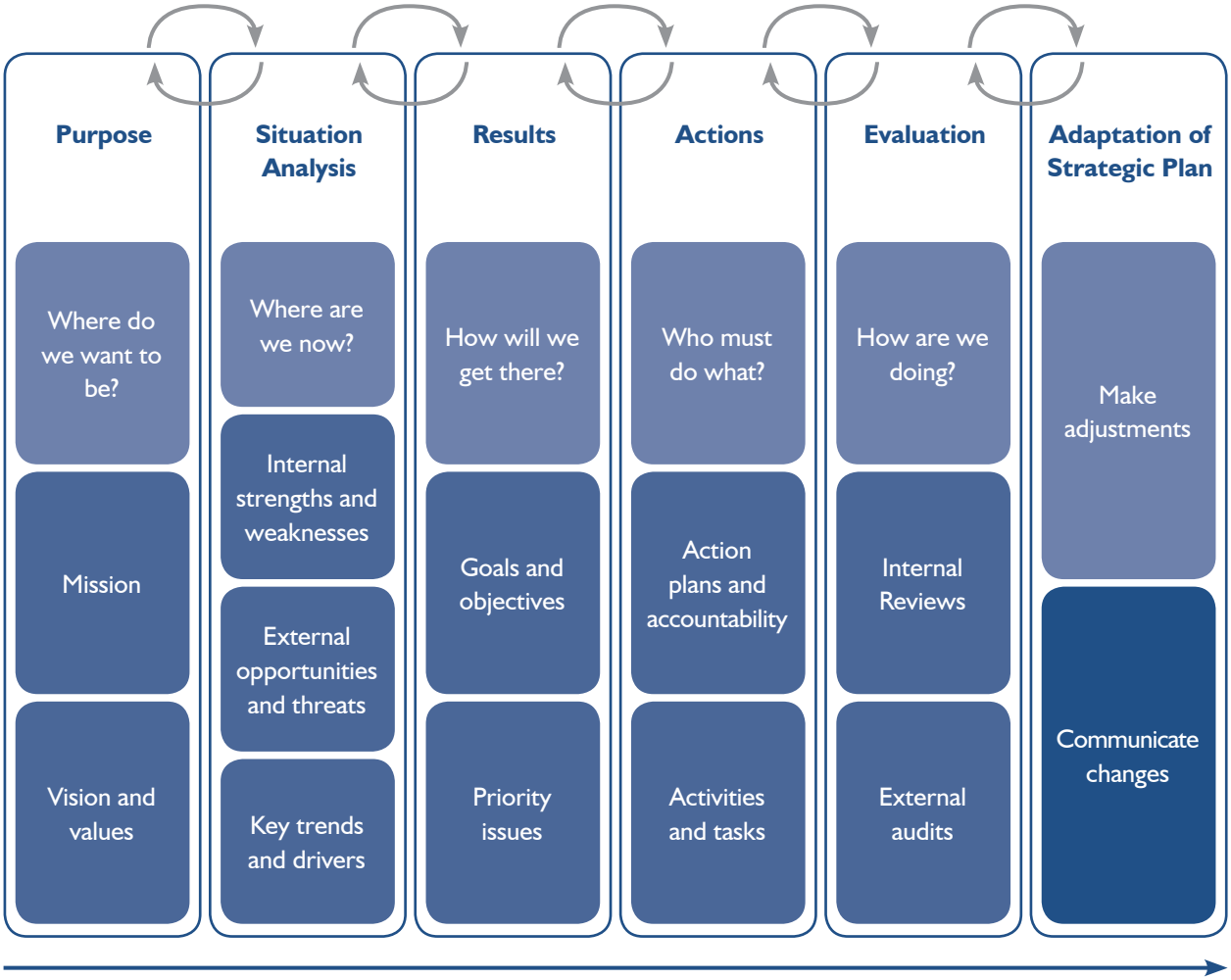
Source: Quintela and Phillips, 2011

An EF must respond to its dynamic and constantly changing environment. This implies that the strategic plan cannot be set in stone: there is no guarantee that strategies implemented successfully today will also work tomorrow. The plan must be a 'live' document, constantly updated and revised, that takes into account the EF's purpose, desired results, activity and accountability (see Figure below).

2.1.1 The strategic planning process

The strategic planning process is made up of multiple steps, each requiring significant time and effort. Each step is related to the others and the process is rarely as neat as the model depicted below. There is generally some fine-tuning involved, moving back and forth between steps until the plan matches up both with the context of the EF and with the desired results. The first two steps (Purpose and Situation Analysis) are often tackled simultaneously given their interdependence.

The strategic planning process



Source: Authors

> **"A strategic plan is a roadmap that clearly explains where your EF wants to be and how it is going to get there."**

1. **Purpose:** The first step is to articulate a mission and a vision.
   - Reach a consensus on why your EF exists (Mission)
   - Identify your values and create an image of what success will look like after a certain period of time (Vision).
2. **Situation Analysis:**[7] Gather up-to-date information to develop an understanding of the EF's operating environment and critical issues. Information gathered should include:
   - internal strengths and weaknesses of the EF
   - external opportunities and threats using benchmarking
   - market opportunities: trends and market drivers.
3. **Results:** Identify the long-term goals and objectives of the EF.
   - Identify those issues critical to solidifying the EF's competitive advantage
   - Select strategies relevant to the EF's various market segments
   - Establish SMART[8] short-term objectives and results to be achieved
   - Determine Key Performance Indicators (KPIs)
   - Agree on priorities
4. **Actions:** Make the strategic plan relevant to each member of the EF by clearly identifying what they are responsible for.
   - Break the objectives and goals down into specific actions and tasks.
   - Produce a one-page summary of your strategic plan and distribute it to all EF staff.
   - Determine Impact Indicators.
   - Measure progress (i.e. using Balanced Scorecard tool).[9]
   - Action-sheets – to record actions [to be] taken.
   - Hold everyone accountable: clearly communicate when and how each person should report on their goals (monthly or quarterly).
5. **Evaluation:** Regularly monitor, evaluate and adapt your strategic plan.
   - Begin the evaluation process straight away: reread your strategic plan once it has been drafted and check: whether it is complete; whether your activities, objectives and goals support your vision; and whether it is realistic.
   - Review the relevance of your strategic plan to the current environment at least once a year.

For assessing the environment and comparative advantages, including different methodologies, look at RedLAC manual on Strategic Planning for EFs.[10]

Evaluating your current strategy process

Guiding statements for evaluating your current strategy process:

1. Our strategy clearly describes the EF's priorities for the future.
2. Our strategy focuses the energy of the staff towards a common purpose.
3. Our EF's leaders see our strategy process as valuable and relevant.
4. All EF staff know our EF's priorities and how our work benefits our stakeholders.
5. Our strategy ensures that we retain what works well while generating new initiatives to take advantage of emerging opportunities.
6. If we stay true to our strategy, our EF will be more efficient and effective.
7. For each element of our strategic plan, it is clear who must do what.
8. We have KPIs in place to measure progress when implementing the EF's strategic plan.

[7] Quintela and Phillips, 2011, Annex 'Strategic Planning Tools'.
[8] SMART: Specific, Measurable, Attainable, Realistic, Timely
[9] See Table "Strategic planning tools"
[10] Quintela and Phillips, 2011, Annex 'Strategic Planning Tools'.

Assign a score to each of the statements above using the following scale:

1. I strongly disagree
2. I disagree somewhat
3. I agree somewhat
4. I strongly agree

Once you have assessed all eight statements, total your score. A score below 16 suggests there is considerable room for improvement in your strategy process. A score between 18 and 24 indicates value in your current process, but also room for improvement. If your total score is over 24 you probably have a well-coordinated strategy process.

Adapted from: Frost, 2000.

Suggested steps forward on the EF environment and comparative advantage

- When drafting your strategic plan, what did you do to increase your understanding of your EF's:
  - internal and external environment?
  - Comparative advantage?
- What additional steps could you take (based on the information in the sections above) to increase your understanding of the environment and your comparative advantage?

Additional Resources:

- Olson, 2007.
- Norris, 2000.

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2.2 Governance: why is it important for resources mobilization?

In general, good governance is based on a system of checks and balances among an organization's various departments. It involves regular consultation between the organization and its stakeholders, so that the organization can be held accountable and that the interests of stakeholders are served. Good governance is important in the context of resource mobilization because:

- it is an important criterion for donors/investors considering whether to start or continue working with EFs
- it helps improve performance, and improved results in turn attract donors.

Governance key principles are transparency, accountability, responsibility and relationship with stakeholders. These factors combined are essential for fundraising. Good governance is based on a clear distinction between an organization's management and governing body (e.g. board of directors) and the distribution of decision-making power between them. This arrangement helps limit the powers of control held by any one person or group, to ensure that the organization's resources are well managed and that it is accountable to its stakeholders.

Why good governance is important

'(...) a clear, transparent, effective and accountable governance structure, supported by a strong legal framework, can significantly increase the prospect for an EF to be effective in reaching its planned conservation and development outcomes, and also in reaching its fundraising, networking and advocacy objectives.'

Source: Baastel, 2013.

For more details on governance key principles and best practices for EFs, including the typical roles and responsibilities of the Board versus the Executive staff, check the RedLAC manual 8 on Governance Strategies for EFs[11].

2.2.1 The board and financial oversight

One of the most important duties of the board and one that affects resource mobilization critically, having defined the mission of the EF, is to ensure that the fund is financially sound and well managed. An EF's short-term health and long-term sustainability often depend on the board giving due attention to this critical task.

Resources: Key responsibilities of the board

- Devise a fund-raising strategy, including a case statement that justifies the need for financial support
- Cultivate board members with expertise in finance
- Approve and monitor the annual operating budget
- Review regular financial reports from staff
- Commission an annual audit from an independent accountant

Source: Authors

[11] Baastel, 2013. Governance Strategies for Environmental Funds: RedLAC Capacity Building Project, RedLAC.

Many boards focus on key financial indicators in order to judge the general financial condition of the EF. These might include:

- cash in hand (to ensure there is enough to pay salaries and operating expenses)
- cash-flow projections (to ensure financial plans are adequate and realistic)
- income and expenditure (to ensure the EF is obtaining and spending funds at a reasonable rate)
- ratio between forecast and actual budgets (to ensure anticipated income and expenditure match actuals and, if not, to understand the variance)
- balance of reserves (to ensure these do not fall below a pre-defined level).

Source: Authors

Board members will need to receive financial reports in advance of every board meeting. It is the responsibility of the executive director to provide that information. A finance committee can advise and inform the board in relation to the fund's economic health and potential investments, and can support the management team in handling financial issues.

Annual budget and the board

Approving the budget prepared by the management is one of the key board responsibilities. The board ensures that the use and allocation of resources are both in line with the strategic objectives of the EF, and contribute to achieving program objectives.

The annual budget presentation and review should leave the management and the board comfortable with what can be accomplished, how it will be accomplished, and what is needed to accomplish it. Key to this dialogue are:

- clearly presented tables of costs/expenses
- supporting explanations and analysis
- performance ratios and indicators.

Source: Authors

Suggested steps forward on governance

- Review your EF's governance practises by answering the following guiding questions:
  - Are the role and responsibilities of the board clearly defined and documented?
  - Are the role and responsibilities of the executive director clearly defined and documented?
  - Do you get the strategic support, input and direction you need? If not, why not? What steps could you take to improve the situation?
  - Is communication between the management and the board satisfactory? (Does your management team provide the board with all the information it requires, at the appropriate time, to carry out its responsibilities effectively?)
  - Are all relevant stakeholders represented on the board?
  - What improvements could be made to the quality of decision-making and to the EF governance structure?

2.3 Credibility and safeguards

Credibility can be defined as the quality of being plausible, believable, dependable, or worthy of confidence. A credible organization is perceived to be trustworthy. The credibility of an EF is paramount because it is one of the key factors affecting its sustainability. Credibility affects the way in which all stakeholders – from national parks to donors – work with an EF. Credibility is also key to successful resource mobilization, as donors and investors need to feel comfortable that their funds are managed and used in an appropriate manner.

Why credibility is important

According to the Global Environment Facility (GEF) the most successful EFs are more than just financial mechanisms: They have governance structures that involve people from different sectors, **credible and transparent operational procedures**, and sound financial management practices.

Source: GEF, 1998

One of the arguments put forward for using EFs rather than existing government institutions is that the funds will be managed independently in terms of political influences and in a more transparent way, being audited by external firms.

An EF that is unable to fully account for movements of funds will immediately lose legitimacy with donors. On the other hand, an EF that has managed its finances well, has been open to external audits and assessments, and has continued to make efforts to improve effectiveness and transparency, will attract the attention of donors and investors alike. Such EFs can provide donors and investors with the confidence they need to invest in conservation.

By putting in place certain safeguarding measures and adhering to these over the long term, an organization can develop and build a reputation for credibility. Such safeguards include checks and balances to support good governance, as well as transparent and efficient systems for disbursing funds, monitoring results, auditing financial records, and drawing up investment contracts and Memoranda of Understanding with grantees. Accurate documentation is also important, in the form of clearly written policies, principles and procedures that explicitly define the limits of acceptable action. An example relevant to an EF would be justifying cooperation with high impact industries, such as oil and mining companies. EFs might decide to accept donations from such companies on the condition that the company does not, in any way, influence the activity of the EF. In this regard, credibility and safeguards are inseparable.

Factors that affect EF credibility	Strategies
Transparency	• External audits/evaluations • Annual reports • Policies, principles and procedures • Monitoring impact and evaluation • Use of EF standards
Consistency	• Clearly communicated mission, vision and values • Testimonials • Best practice • Stakeholder engagement (communication and active relationship management)

Source: Authors

Besides transparent administrative procedures, publishing annual progress reports (online and/or in print), which summarize achievements and impact during the reporting period, are an important means of communicating that the EF is carrying out its stated objectives and, as such, is a valuable and trustworthy partner. Most multinationals are required to publish quarterly and annual financial results. If EFs were to adopt a similar policy, systematically publishing financial results together with relevant monitoring and impact reports, they would surely gain credibility. Such a high level of transparency would encourage donors and investors to get involved. From a donor's perspective, even 'bad results' can be encouraging, provided they are published, and provided the EF can demonstrate that it is taking appropriate corrective action.

Another important factor in building credibility is **consistency** of internal and external communication. Clear, concise strategic plans that set out the EF's mission, vision and values can go a long way in ensuring your stakeholders understand what your EF stands for. Sharing experience and knowledge, for instance by sharing Best Practices, or using case studies to describe the impact of the EF's work, is another useful way to build credibility and trust.

Ultimately, credibility builds trust and confidence. This not only strengthens staff morale, but enables an EF to secure resources and so carry out its programs and projects more effectively.[12]

[12] Gonçalves and Lerda, 2012, Module 3, p. 30.

2.4 Identification of funding sources

Successfully securing resources for an EF depends largely on individual board members and/or the Executive Director and their ability to attract and influence donors. However, the board also has a responsibility to ensure that a proper framework for resource mobilization is in place (see table of responsibilities, below).

Resource mobilization and responsibilities of the board

- Ensuring that the EF has sufficient human and financial resources to serve its mission and purpose.
- Working with the executive director, who is often the chief fundraiser, in setting fundraising goals.
- Developing a fundraising strategy and approving a case statement that explains why the EF needs funds and what these will be used for.
- Working together as a group to monitor, oversee and guide fundraising activities.

Source: Adapted from: Ingram, 2003.

Every organization needs resources to operate. For EFs, however, increased competition for available funding, coupled with a gradual reduction in international aid programs, have made fundraising a more pressing issue. Designing and implementing a resource mobilization plan is fundamental to securing sustainable funding. Such a plan forms the cornerstone of a successful fundraising strategy and can also be used as part of a broader business plan that determines the given organization's priorities and any funding shortfall it faces. The following table sets out key steps involved in designing a resource mobilization plan.

Key steps for designing a resource mobilization plan

• Examine case as per the mission statement of the EF	• Why does the institution exist? • How does the EF address the country's most pressing needs in relation to biodiversity conservation? • How does the EF strategy fit within the national strategy?
• Define objectives	• Translate mission and goals into specific and measurable terms or programs. • How does the EF provide solutions to identified problems and needs?
• Prepare estimated needs statement	• Project program plans over at least five years. • Ensure in-depth financial planning accompanies program planning. • Estimate resources required for programs. • Identify endowment and sinking fund needs over a five-year period.
• Identify potential funding sources	• Bilateral sources – direct grant contributions. • Bilateral sources – debt conversion. • Multilateral sources. • Private foundations. • Private corporations and individuals. • Innovative financial mechanisms.
• Based on potential sources, define a fundraising strategy	• Select fundraising mechanisms suited to the potential sources. Determine cost-benefit ratios and testing techniques. • Establish management scheme for analysis and planning; implement resource mobilization strategy; and adjust strategy in response to practical experience and results.

Source: adapted from: Norris, 2000.

Although every EF must design its own resource mobilization plan relevant to the nature of that fund, any such plan should address certain key components.

Key components of a resource mobilization plan

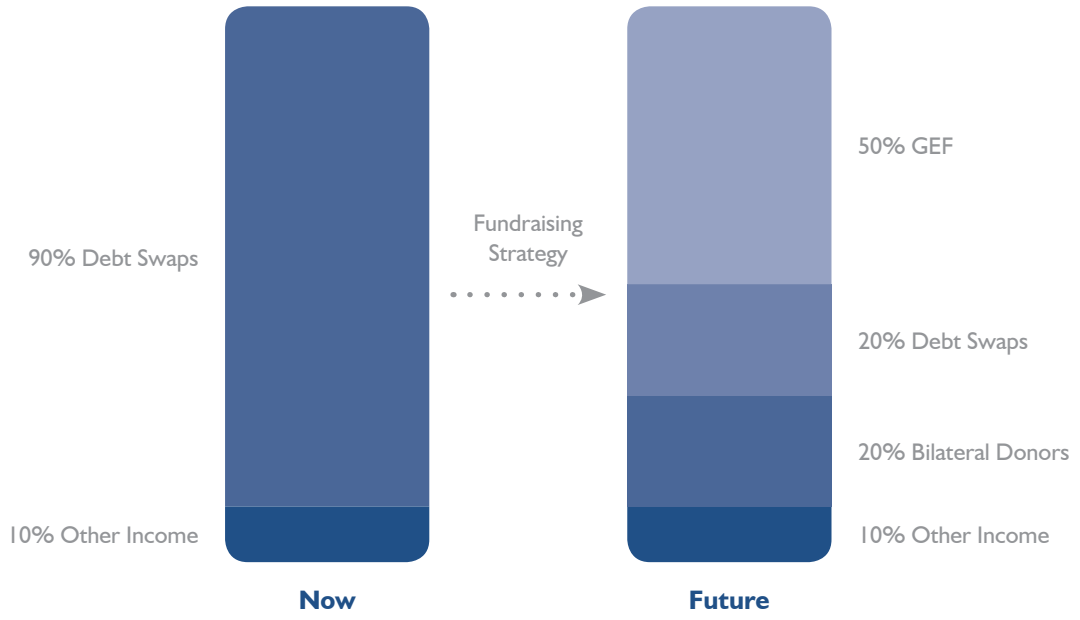
1.	Support & Time Commitments	Support and time commitments from all key groups involved, such as the board of directors, the president of the board, the national government through relevant ministries, and the grantee or beneficiary community.
2.	Clear Vision & Mission	A clear vision and a sound strategic plan for growth and improvement of the grant-making program.
3.	Clear Objectives	Objectives based on clear priorities and accurate plans, budgets and needs.
4.	Case Statement	A compelling and authentic case for support (case statement) properly documented and supported.
5.	Potential Donors	A market survey of potential national or international donors whose giving priorities match the EF's profile.

Source: adapted from: Norris, 2000.

Implementing an EF's fundraising plan (e.g. to secure sinking funds or to obtain a capital endowment), is a time-consuming and expensive process. EF's should prioritize this activity, as it is fundamental to their long-term survival.

Suggested steps forward on resource mobilization

- Link the resource mobilization plan to the strategic plan by giving resource mobilization due attention during the strategy planning process.
- Prioritize efforts to diversify your EF's funding mix, e.g.:

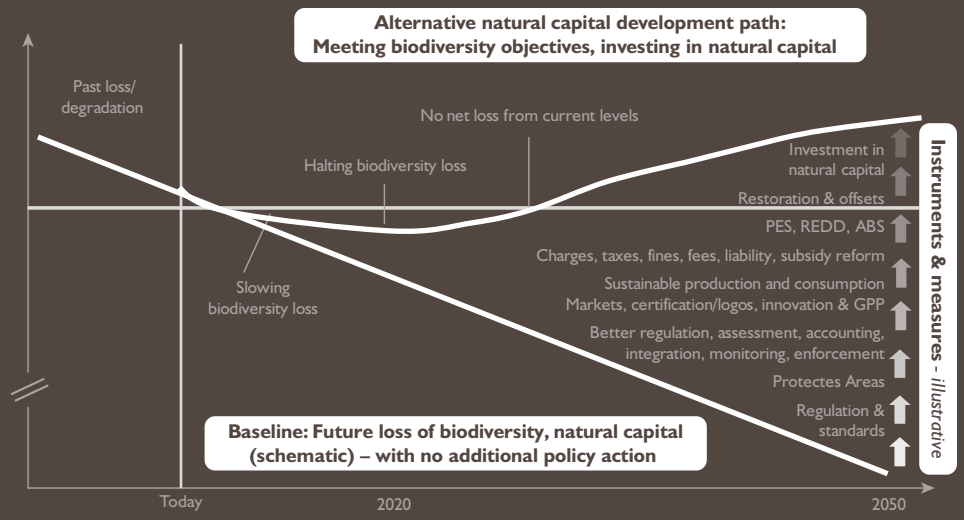


Source: Adapted from: Norton and Resource Alliance

3. Beyond traditional funding

Halting biodiversity loss will most likely require the design and implementation of a series of mechanisms, as Patrick ten Brink neatly describes via the diagram below.

Eroding natural capital base and tools for an alternative development path



Source: ten Brink, [2012].

To start with, it is important to stress that any innovative financial mechanisms should respect, preserve and maintain the knowledge, innovations and practises of indigenous and local communities, and systematically bring added benefits to indigenous and local communities.

In the field, the very concepts of REDD+ (Reducing Emission from Deforestation and Degradation), Payments for Environmental Services (PES) and Biodiversity Offsets are facing a major threat in terms of cost of opportunity, the method often used to determine the level of compensation individuals or communities should receive for reducing deforestation or maintaining ecosystems. For instance, *'incentives based on the price of carbon are only able to outcompete the lowest value uses of forest land, such as subsistence agriculture, and cannot address the increased profitability of deforestation due to the escalating value of agriculture land'*.[13] Furthermore, opportunity cost may be inappropriate in the case of illegal logging and other illegal activities that result in deforestation. In this context, EFs could play an important role in the design and implementation of local financial mechanisms aimed at bringing about tangible improvements to conservation and natural resource management.

3.1 Carbon finance

Carbon finance includes all sources of funding linked to reducing greenhouse gas emissions or adapting to climate change. In many respects, carbon finance represents one of the new and very promising opportunities available to support the long-term funding of PAs, indigenous lands and conservation projects. Carbon finance could take the form of carbon markets (*'cap-and-trade'*) or taxes on carbon emissions. Although various taxes on carbon (and other greenhouse gases) have been introduced at national level, the international community has relied mainly on setting up carbon markets to tackle climate change.

Certain areas might develop programs for afforestation and reforestation (AR); avoided deforestation (REDD+); or even renewable energy projects (wind, solar, hydro-electricity and biomass energy). These can qualify for a certain amount of funding support for the purpose of fighting against climate change. This manual will focus on afforestation, reforestation and REDD+, as these are the types of project that generally concern EFs for the link with biodiversity conservation.

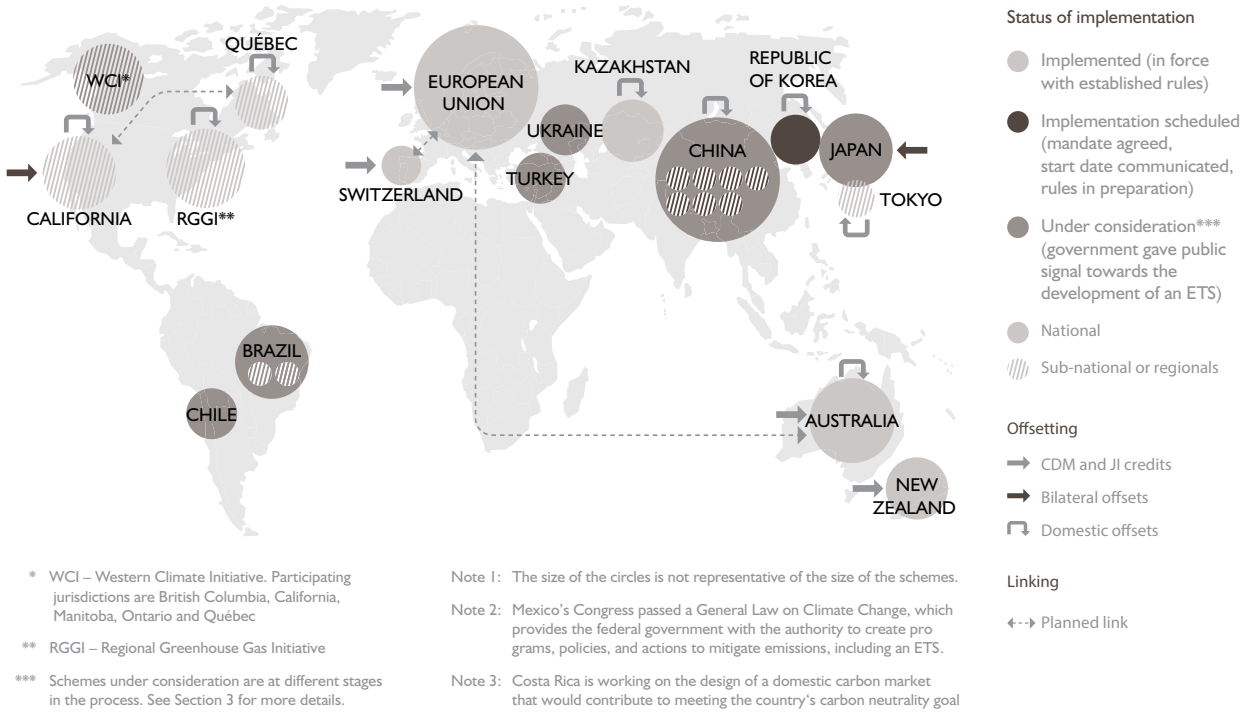
There are several carbon markets in which greenhouse gas emission reductions are traded (more commonly called 'carbon credits'). The two types of carbon market are:

- **Markets with binding commitments:** these relate primarily to the Kyoto Protocol, which has led, in Europe, to the creation of a market for emission quotas (European Union Emission Trading Scheme, or EU ETS). This European market accounts for more than 80 per cent of global carbon credit trading. For developing countries (or transition economies), the tool used to transform an activity into carbon credits is the Clean Development Mechanism (CDM), as defined by Article 12 of the Kyoto Protocol. Following rather complex procedures, it is possible to register afforestation or reforestation projects; however the CDM process is long and the basis of project registration can sometimes seem arbitrary, and up to now no PA has benefited from carbon credits through this process. It should also be noted that REDD+ is not admissible under the Kyoto Protocol.
- **Voluntary markets** assemble companies or private individuals who want to compensate for their greenhouse gas emissions, without their commitment to achieving reductions being legally binding. Companies generally do this to improve their image, and individuals for ethical reasons. Developing afforestation, reforestation or avoided deforestation (REDD+) projects in the voluntary markets is feasible. Up to now, this has been the most successful strategy for PAs.

Until the UNFCCC COP 15 in Copenhagen, it was hoped that carbon markets would consolidate into a single international entity. The aim was that emissions reduction would become a commodity (i.e. supplied without qualitative differentiation across a market), similar to copper, sugar or silver. Rather than a consolidation, however, we are currently witnessing a fragmentation of carbon markets across the world:

[13] Karsenty *et al.*, 2012.

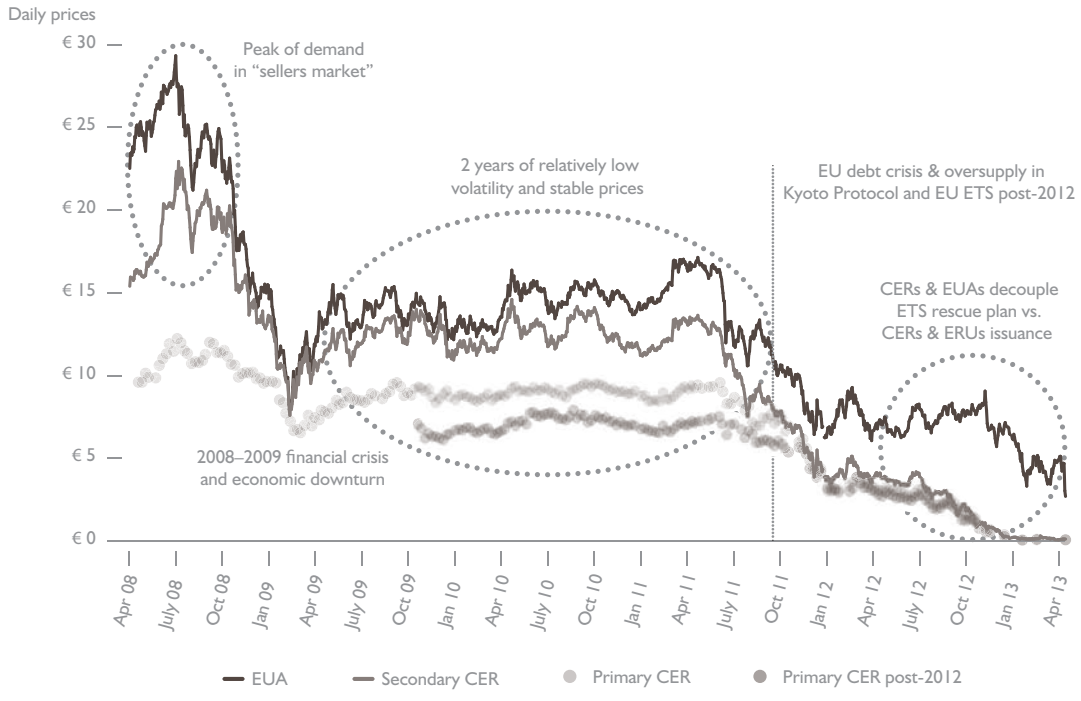
Map of existing, emerging and potential emissions trading schemes



Source: Ecofys by order of the World Bank, 2013.

The main problem with carbon markets is that they are subject to price variations that could prevent this type of mechanism from achieving its environmental goals (when carbon credits are worth close to zero, companies have no incentive to reduce carbon emissions, and project developers have no 'carbon finance' with which to develop projects). Prices of EU Emission Allowances (EUAs) and Certified Emission Reductions (CERs) in Europe have sharply decreased over the last five years.

EUA and CER prices (2008–2013)



Source: Ecofys by order of the World Bank, 2013

In 2011 and 2012, several 'land-use' carbon funds emerged and joined the first few pioneers. Although far from meeting their full capitalization targets, they are estimated to have raised, collectively, about USD 530–550 million for investment in land-use carbon offsets. The funds that have emerged incorporate a range of investment strategies, markets and investors (see table below).

Some existing carbon funds

Carbon Funds	Management	Objectives	Expected Capital (USD)
Athelia Climate Fund	Athelia Ecosphere	REDD	325 million
BioCarbon	BioCarbon Group	REDD	25 million
BioCarbon Fund	Banco Mundial	REDD	60 million
Carbon Fund for Forests	CDC Climat Asset Management	Forestry	132 million
EKO Green Carbon Fund	EKO Asset Management Partners	Forestry	5–10 million
FCPF Carbon Fund	Banco Mundial	REDD	215 million
Forest Carbon Partners	New Forests	Forestry	Undisclosed
Livelihood Fund	Livelihood Venture	Forestry	40–66 million
Moringa Fund	Compagnie Benjamin de Rothschild, ONFI	Agroforestry	132 million
Terra Bella Fund	Terra Global Investment Management	REDD, agriculture	150 million

Source: Adapted from: World Bank, 2012a

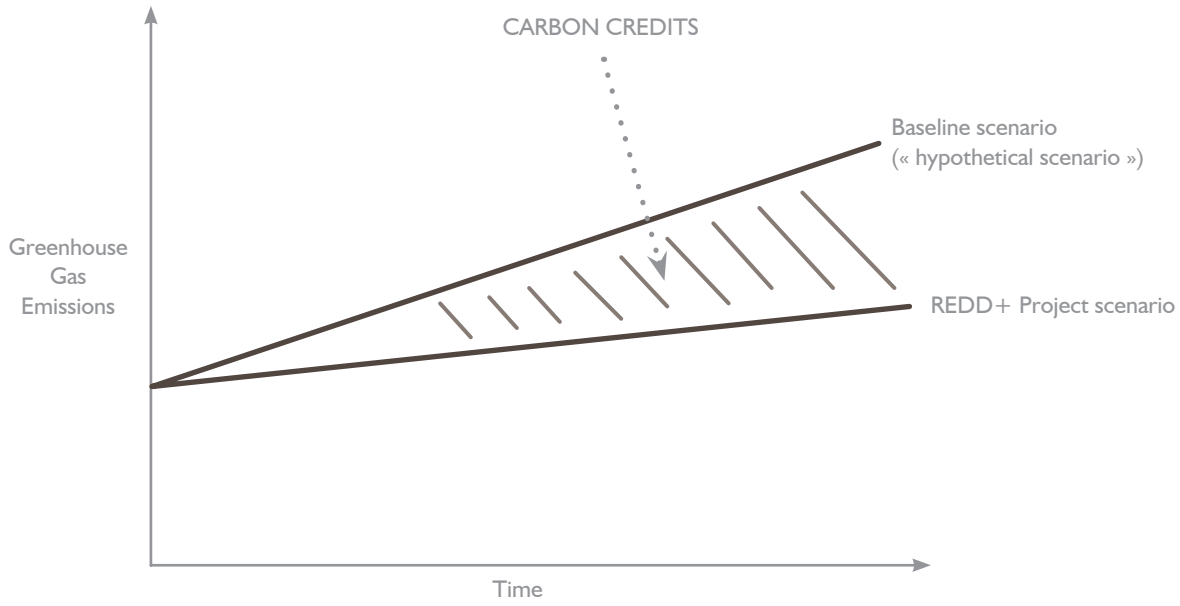
3.1.1 Local REDD+

Local REDD+ projects are not easy to develop and examples of successful initiatives are limited. Nevertheless, there is great potential to develop such projects in some National Parks, Indigenous Lands (such as the Surui Carbon Project in Brazil), communal lands (such as the Corredor Conservación Chocó Darién project in Colombia) and their buffer zones. In case of success, REDD+ income can be substantial. It is important to highlight that no REDD+ project should be developed without informing, consulting and negotiating with local communities, and any such project should be implemented only if they give their full approval.

Free, Prior and Informed Consent in REDD+ projects

Indigenous peoples and local communities have a right to give or withhold their Free, Prior, and Informed Consent (FPIC) to development affecting their resources. Through the adoption of the UN Declaration on the Rights of Indigenous Peoples (UNDRIP) in 2008, the legal status of the right to FPIC has been strengthened, and it has gained relevance in ongoing climate change negotiations through the discussions around REDD+. While unanimously accepted, FPIC is not yet common practice in most investment projects, and experience in applying FPIC in REDD+ implementation remains limited. For that reason, some organizations have developed resources to help understand and transform this concept into common practice. (see also Anderson, 2011).

The opportunity cost linked to a complete lack of deforestation can be very high, so the main goal of any local REDD+ project taking place should not necessarily be to prohibit deforestation, but rather to reduce its rate. It is important to bear in mind the differential in carbon-credit gain when comparing a REDD+ project scenario to a hypothetical scenario:



Source: Author

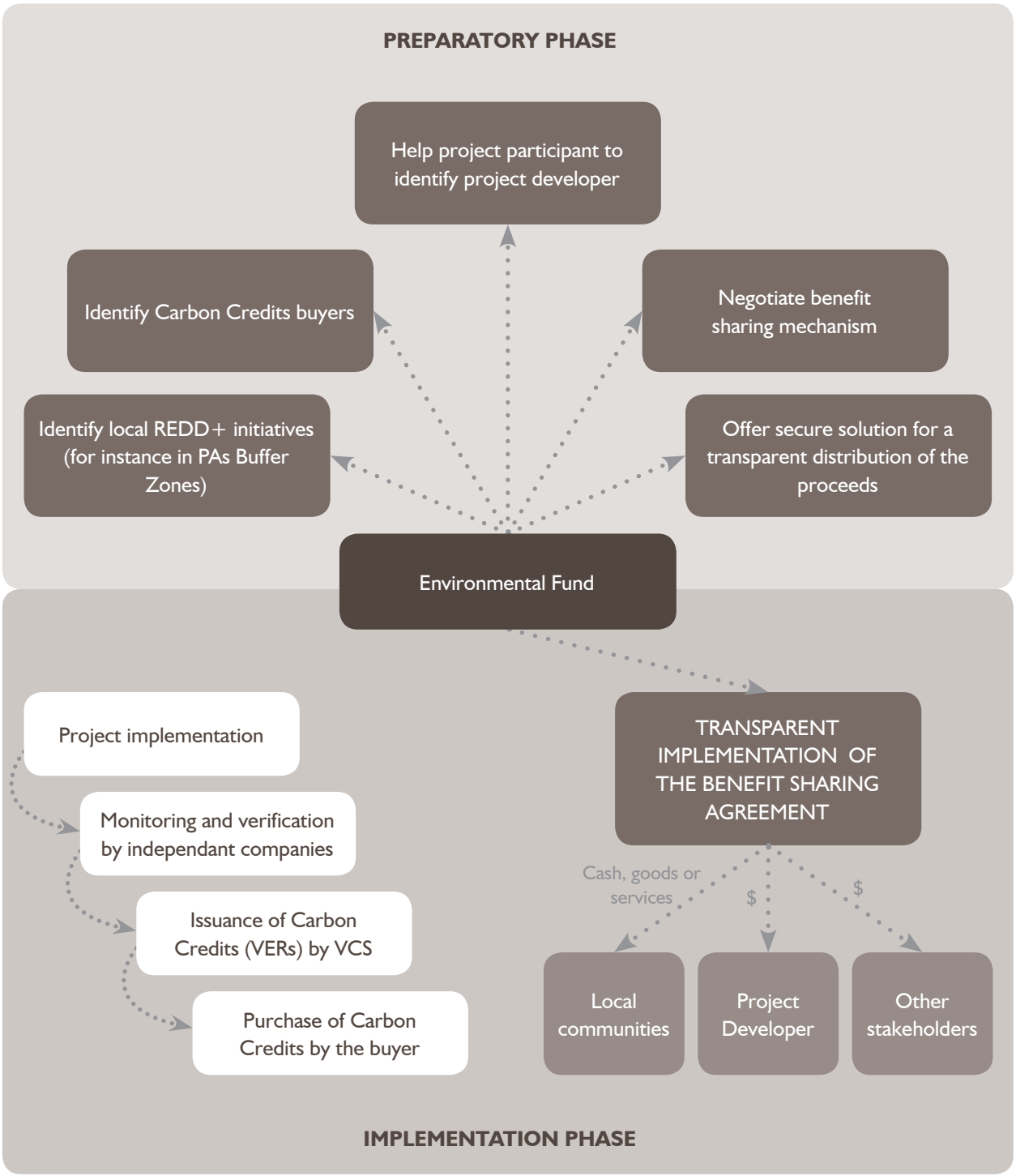
The quantification of carbon credits is made through the use of approved methodologies. Currently, the Voluntary Carbon Standard (VCS) is the most recognized standard to generate Voluntary Emission Reductions (also called Verified Emission Reductions). So far, REDD+ projects only have access to 'voluntary carbon markets', and the current state of international negotiations at the UNFCCC, together with the record low-price of carbon credits on the 'mandatory carbon markets', are signs that this situation is unlikely to change in the coming years. Voluntary Carbon Markets will remain the only way to market REDD+ projects for an indefinite period. Because participants of this market are by definition volunteers, and because of the existing economic crisis, the main downside to this market is a lack of demand when compared to the very high potential for developing the supply side. For this reason, prices remain generally low, even if some good deals can sometimes be negotiated with important buyers, for instance in the framework of Corporate Social Responsibility policies of major institutional American or European companies.

Other voluntary standards exist apart from the VCS, such as the Rainforest Standard designed with the collaboration of five RedLAC funds, but they remain relatively marginal. It is also important to note that the VCS is often bundled with 'Climate, Community and Biodiversity Standards' (CCBS) in order to demonstrate that a given project makes a substantial contribution to human rights, poverty alleviation and biodiversity conservation (i.e. not only reducing carbon emissions).

Conceptual issues around REDD+ (eligibility, additionality, permanence and leakage) are detailed in RedLAC manual 3.

"Carbon finance represents one of the new and very promising opportunities available to support the long-term funding of PAs, indigenous lands and conservation projects."

Possible role for EF in local REDD+ initiatives: Designing and implementing financial mechanisms



Source: Author

3.1.2 National REDD+

The number of countries subscribing to national REDD+ should significantly increase in the coming years. For EFs, it is essential to follow these negotiations to ensure that their fund can seek to benefit from funding generated at national level.

National authorities responsible for REDD+ do not always consider it necessary to fund PAs since, *a priori*, the rate of deforestation is lower in these areas than elsewhere. Therefore, in order to benefit from possible resources, PA networks must demonstrate the value of the contribution they make to promoting protection of the environment at national level.

Both local and national REDD+ could have a positive impact in terms of securing sustainable financing for EF activities. The objective of this section is to determine whether, and when, EFs could expect to benefit from additional funding from national REDD+.

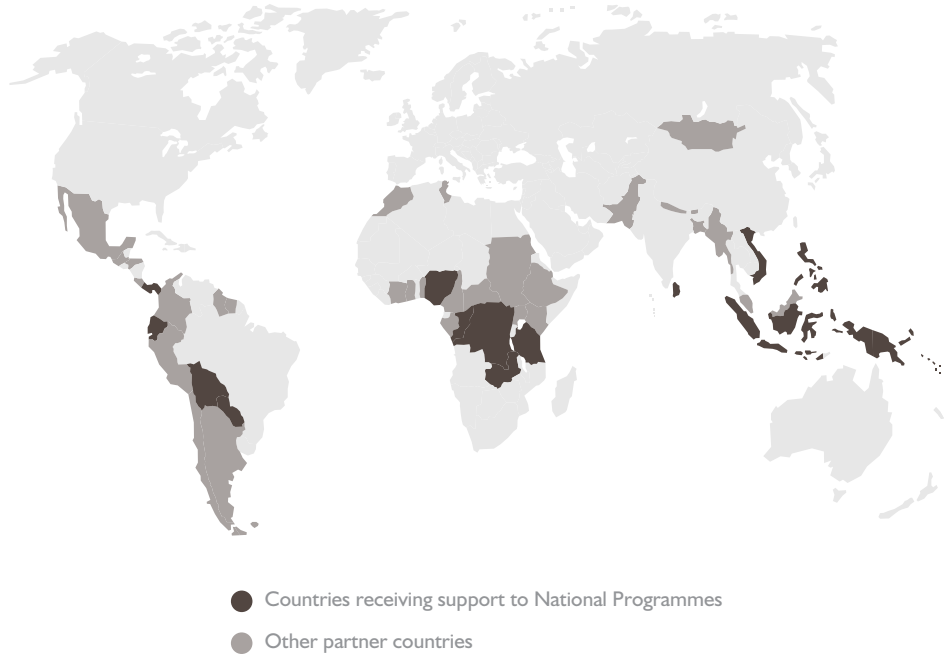
The national REDD+ process is lengthy, highly technical, and expected outcomes remain uncertain. The main factors required for the mechanism to be fully operational are, on the one hand, a willingness among the international community to put in place a convincing international scheme (international negotiations in the framework of the UNFCCC); and, on the other, the capacity of forested countries to correctly implement, measure, report on and verify efficient policies to reduce their national rate of deforestation.

The initial idea behind REDD+ was to provide "*ex-post results-based payments*"; that is, payments against a proven reduced rate of deforestation. However, this approach has been struggling with the concepts of 'baseline' (what the rate of deforestation would have been without REDD+ policies, also called the '*hypothetical scenario*'); 'leakages' (deforestation which takes place somewhere else); 'permanence' (deforestation which takes place later, even accidentally); and 'additionality' (an identified decrease in the expected rate of deforestation could have occurred without the existence of the REDD+ mechanism). For this reason, a more pragmatic approach is currently under discussion. This would consist of financing investment in sectorial policies and measures. *'Performance would then be assessed against policy implementation indicators rather than through changes in deforestation rates against a baseline.'*[14] Under this approach, no carbon credits would be generated and national REDD+ would mostly be financed through an international UN fund, most likely the Green Climate Fund (see section 3.1.3).

Most forested countries now agree that it will be impossible to implement efficient REDD+ policies without proper land tenure security, including property rights for local people and communities. Such land tenure reform is likely to be a prerequisite for national REDD+ to become fully operational, on the basis of which it would be possible to implement a convincing REDD+ benefit-sharing mechanism.

To date, 14 UN-REDD Program partner countries have presented national programs to the Policy Board (see map below).

Countries that have initiated a national REDD+ process



Countries with UN-REDD National Programs: Bolivia, Cambodia, Democratic Republic of the Congo, Ecuador, Indonesia, Nigeria, Panama, Papua New Guinea, Paraguay, the Philippines, Republic of the Congo (Brazzaville), Solomon Islands, Sri Lanka, the United Republic of Tanzania, Viet Nam and Zambia.

Other partner countries: Argentina, Bangladesh, Benin, Bhutan, Cameroon, the Central African Republic, Chile, Colombia, Costa Rica, Côte d'Ivoire, Ethiopia, Gabon, Ghana, Guatemala, Guyana, Honduras, Kenya, the Lao Peoples' Democratic Republic, Malaysia, Mexico, Mongolia, Morocco, Myanmar, Nepal, Pakistan, Peru, South Sudan, the Sudan, Suriname, Tunisia and Uganda.

Source : UN-REDD website

[14] Karsenty *et al*, 2012, p.12.

As an example, Cameroon has been engaged in the REDD+ process since the latter's emergence at the international level. A number of steps have already been taken. The first step was the validation of the country's REDD+ Readiness Plan Idea Note (R-PIN) in 2008 and the implementation of a REDD+ pilot project. Since then, REDD+ initiatives and projects have started up in Cameroon. Alongside these initiatives and projects, activities are being developed aimed at sharing information with, raising awareness among, and training all the stakeholders in the process. The Cameroonian Readiness Preparation Proposal (R-PP) is now ready. It took more than four years to come up with this document, which establishes the basis for full-scale implementation of the REDD+ process on a national scale. The next steps consist in:

1. designing a national REDD+ strategy
2. estimating the national rate of deforestation
3. setting up a national financing mechanism (probably a national REDD+ fund).

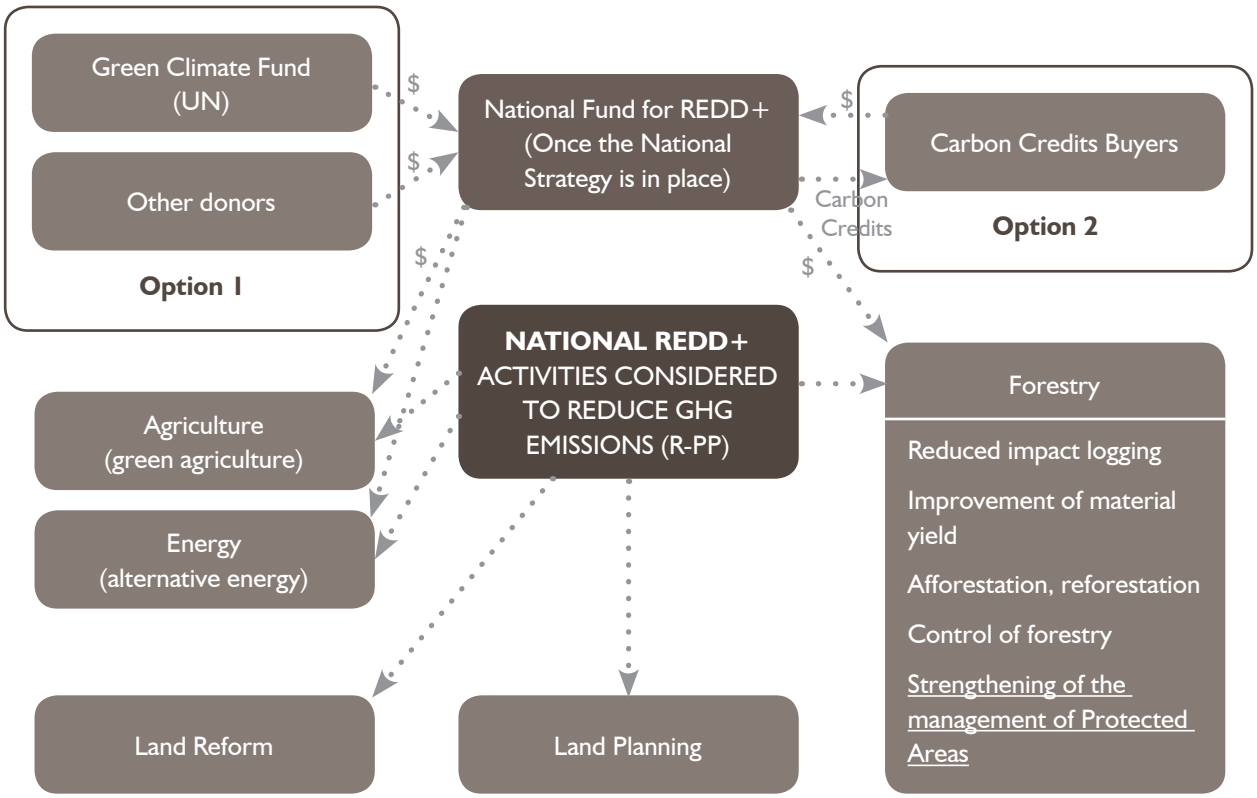
It is important to highlight that initial UN-REDD funds are generally used to set up a national administration specialized in REDD+. During the early stages of national REDD+ development, EFs cannot expect resources to be mobilized, other than in the framework of 'pilot projects'.

It is very important that PAs are mentioned in the R-PP document, as this should ensure that they will, in the long term, benefit from REDD+ financing. Nevertheless, PAs generally feature in only one bullet point among a long list of activities, all of which could be considered as high priority for receiving a share of REDD+ income. A degree of lobbying will therefore be required to ensure that national PA networks fully benefit from national REDD+.

Five main arguments justify the full participation of the national PA network in national REDD+. If possible, each of them should be fully studied and documented:

- Existing PAs might be understaffed, and not sufficiently well managed to secure their conservation
- Encroachments might still be frequent in PAs
- Overlaps of land use exist, not only in PA buffer zones, but also in core zones
- Illegal logging is not entirely controlled in PAs
- Increasing the surface area under conservation could be a good strategy to fight deforestation.

Likely financing of national REDD+ activities 2018–2020



Source: Author

3.1.3 Green Climate Fund

While it remains in the early stages of development and is not yet operational, the Green Climate Fund (GCF) has the potential to become an important source of funds for EFs. The GCF is a newly created financial mechanism, designed under the auspices of the UNFCCC, to secure the financing of climate change adaptation and mitigation activities in lower-income countries. It was formally established by a UNFCCC decision in Durban, South Africa in December 2011, although the foundations were laid through the earlier, non-binding 'Copenhagen Accord' of 2009 (COP 15).

The objective of the GCF is to raise USD 100 billion per year in climate-related financing by 2020. This is not an official figure, however, and the question over whether the funding target will be drawn from public sources, or a mixture of public and private, remains disputed. Only a fraction of this sum has been pledged so far, mostly to cover start-up costs. The lack of pledged funds and potential reliance on the private sector is controversial and has been criticized by developing countries. Three short statements of the UNFCCC describe fund mobilization for the GCF:

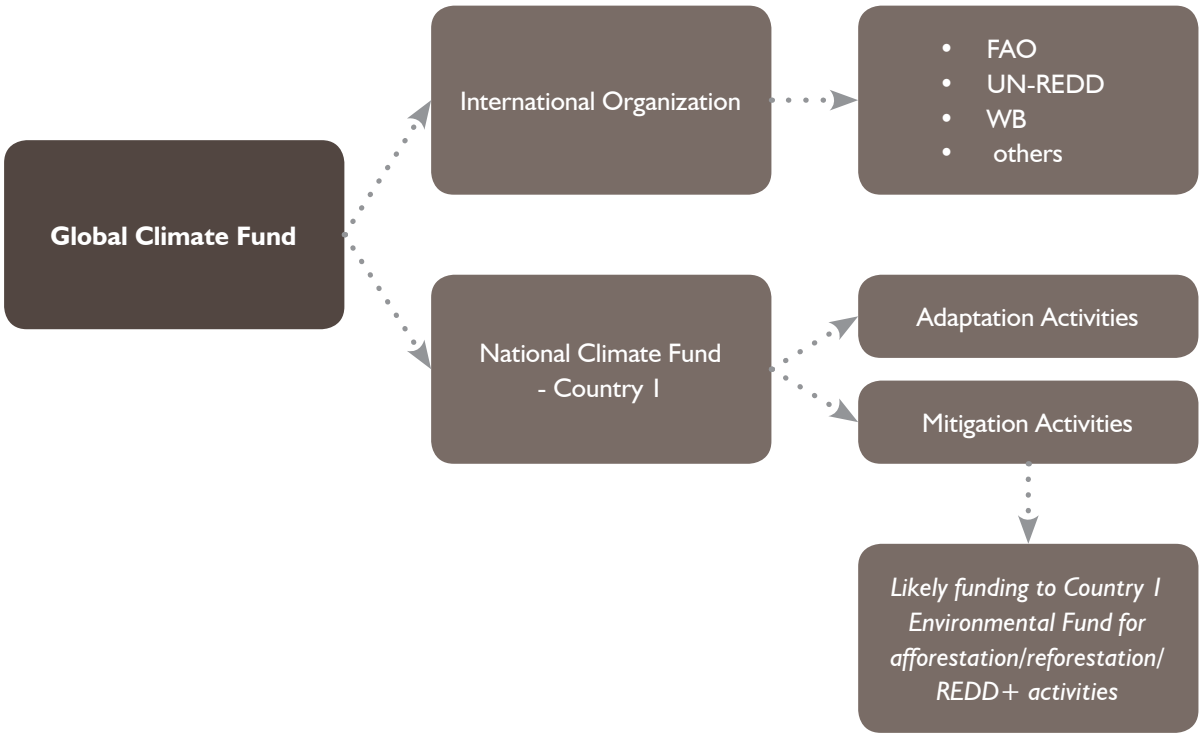
- A significant share of new multilateral funding for adaptation *should* flow through the GCF (COP 16, Cancun)
- The fund would receive financial inputs from developed country Parties to the Convention (COP 17, Durban).
- The fund may also receive financial inputs from a variety of other sources, public and private, including alternative sources (COP 17, Durban).

As of now, the GCF complements many of the existing multilateral climate change funds (e.g. the GEF, the Climate Investment Funds and the Adaptation Fund); however, as the GCF is intended to be the official financial mechanism of the UNFCCC, some Parties believe that it may eventually replace the other funds.

The GCF is overseen by a 24-strong Board, composed of equal numbers of members from developing and developed countries, and will be headquartered in South Korea. The World Bank serves as the interim trustee, meaning that it administers any funds currently raised. Although many of the GCF's rules of operation are still under discussion, it is likely that it will be operational within a few years. At the next COP of the UNFCCC in November 2013 in Poland, a decision should be made regarding the share of GCF resources to be allocated to adaptation and mitigation activities.

EFs are likely to benefit from the GCF, especially if they are able to demonstrate at both national and international level the key role they can play in contributing to conservation. If they can demonstrate their transparency, efficiency and effectiveness, they could benefit through the national Climate Funds which are likely to be created (see graph below). Some EFs could even specialize in climate change and become national Climate Funds themselves, although this may prove difficult.

Likely flow of income from the GCF to EFs



Source: Author

Further reading on biodiversity REDD+

Manual 3: The roles of Environmental Funds in REDD+: RedLAC capacity building project for environmental funds/ Paulo Moutinho, Osvaldo Stella and Simone Mazer. – Rio de Janeiro: RedLAC, 2011.

The Little REDD Book. A guide to governmental and non-governmental proposals for reducing emissions from deforestation and forest degradation. Global Canopy Foundation. Oxford, United Kingdom. 2008

3.2 Payments for Environmental Services

3.2.1 Identifying and evaluating ecosystem goods and services

Evaluating ecosystem services provides an opportunity to point out to individuals, companies, and society in general, the very fact that ecosystems offer economic goods and services. Conducting an evaluation can help in better identifying the beneficiaries of such ecosystem services, commonly provided by PAs, and can lead to the establishment of Payments for Environmental (or Ecosystem) Services schemes, or PES (see section 3.2.2).

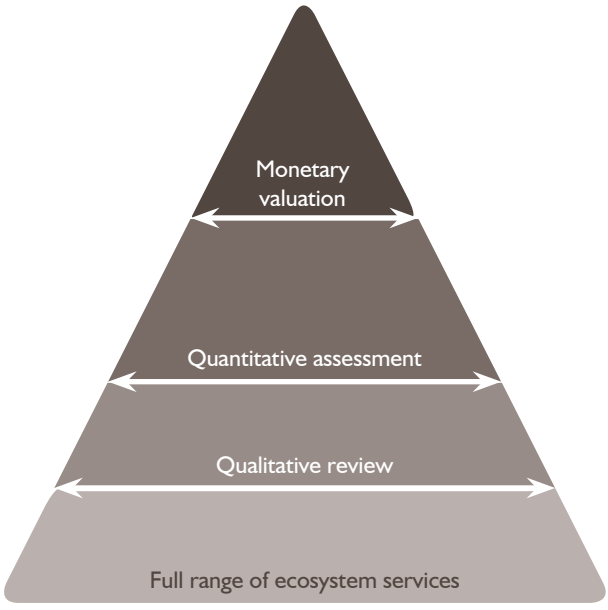
Ecosystem services are defined in the Millennium Evaluation of Ecosystems as follows: *'It is about benefits that people obtain from ecosystems. These include provisioning services such as food and water; regulating services such as flood and disease control; cultural services such as spiritual, recreational, and cultural benefits; and supporting services that maintain the conditions for life on Earth such as nutrient cycling.'*

Ecosystem goods and services can be broken down by type as follows:

- Value in use
  - **Direct value** in use represents the benefits from the environment by economic operators who make direct use of resources from the environment.
  - **Indirect value in use** (or ecological value) is the sum of benefits resulting from maintaining ecological services of an ecosystem. Most of these services have no artificial substitute and represent a crucial source of well-being for the human community.
  - **Option value** is based on the hypothesis that if an individual cannot currently benefit directly or indirectly from the resource, they might nevertheless wish to maintain the option of using this resource in the future.
- Value to people's lives such as:
  - Quality of landscape
  - Cultural heritage
  - Historical heritage.

For each ecosystem, it is possible to identify goods and services. It is advisable to illustrate these goods and services using a graph such as the one below:

Different levels of analysis for valuing ecosystem services

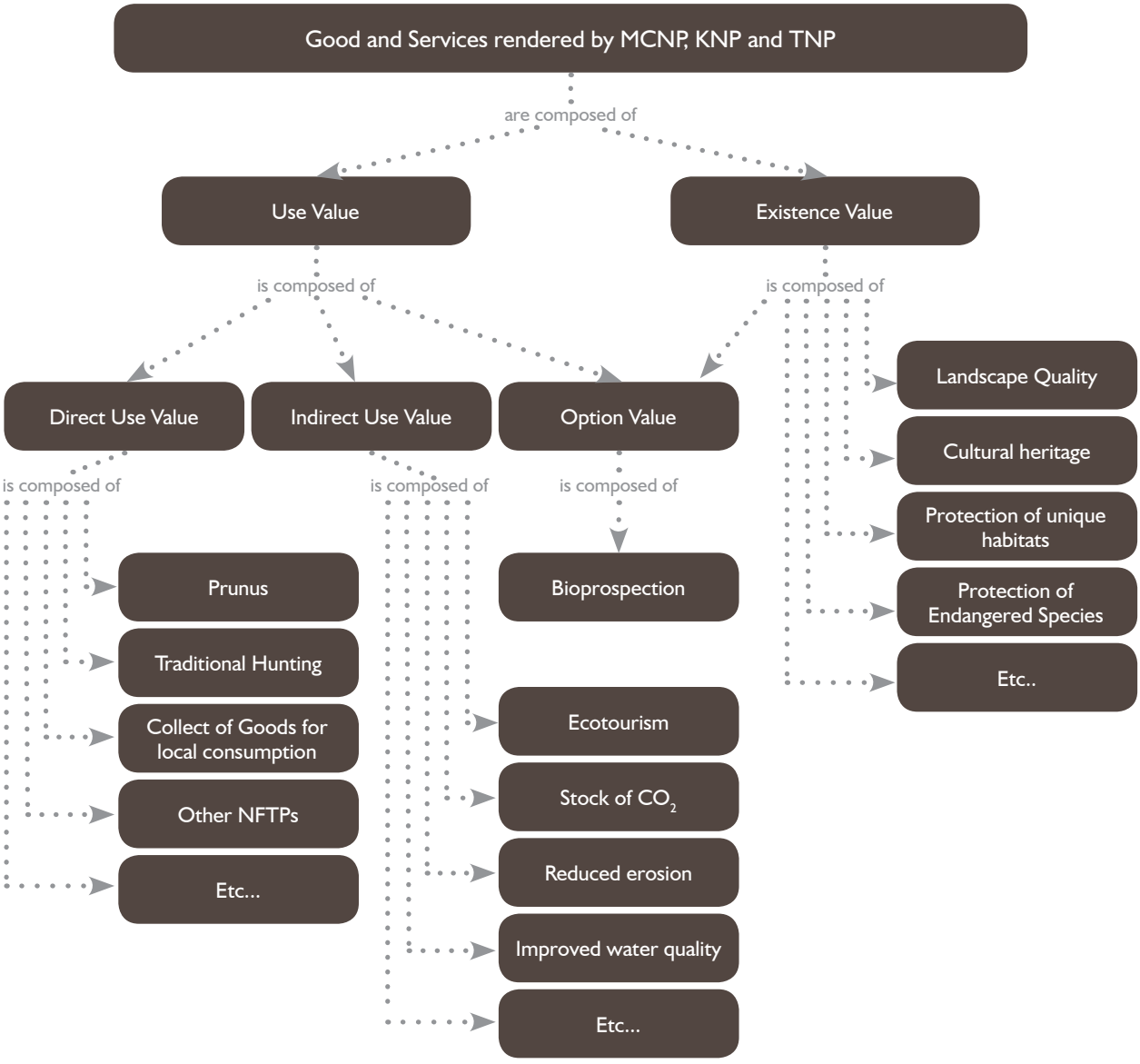


Source: Author, adapted from ten Brink

Several methods exist to assess the economic value of environmental services:

- **Qualitative evaluation**
  The objective of a qualitative evaluation is to identify and list existing goods and services offered by a PA, a PA system, or any other ecosystem. It can be helpful to map these goods, for instance using a concept mapping software (e.g. CMAP Tools). The diagram below represents the goods and services identified. This kind of mapping is just one of the techniques used to perform qualitative evaluation. Once the goods and services have been identified, it is possible (but not necessarily essential) to proceed to the stage of quantitative and even monetary evaluation.

Mapping of goods and services offered by PAs in the South-West Region of Cameroon



Source: Author, 2013

- **Quantitative evaluation.**
  The objective is to measure each of the goods and services delivered. You might, for example, list the volume of fish caught in a PA or a region, the number of visitors to a PA, and the number of endemic species found there. This quantitative evaluation allows goods and services offered to be better measured, and to track their evolution over time. In fact, they represent biological indicators (as well as economic and social indicators) through which we can study evolution, including improvements in the management of the given area.

- **Monetary evaluation.**
  The objective is to determine the economic value of goods and services offered in monetary terms. This notion of monetary value has attracted some criticism, particularly because it is of arguable accuracy (for example, what is the economic value of a tree, or the value of a landscape?); nevertheless, it can be a powerful tool when seeking to justify calculations; and an economic incentive for a country to better conserve its natural resources. However, it is important to use monetary value only where the methodology applied is sound, and where there is no risk of the results being counterproductive e.g. where the economic value is found to be lower than expected. Monetary valuation can be risky if it might be used to demonstrate that the exploitation of natural resources outweighs the value of environmental protection.

The main methods used to carry out monetary evaluation are as follows:

- Market price method (only the market price is used e.g. the price of fish per kilogram or the price wood per ton; this method is applicable to direct use values)
- Opportunity costs method (estimating the cost of an alternative which would need to be abandoned for the environmental service to be supplied; applicable to indirect use values)
- Avoided costs method (e.g. conserving a forest will avoid the costs caused by flooding; this method is applicable to indirect use values)
- Travel cost method (tourism value of a PA can be measured, in part, by the amount of money that tourists pay to reach the site)
- Hypothetical markets method (consists of carrying out a survey to establish how much people would be prepared to spend to maintain ecosystem goods or services; applicable to all goods and services)

3.2.2 Putting in place Payments for Environmental Services

Section 3.1.1 explains various ways of identifying the direct and indirect beneficiaries of goods and services produced by an ecosystem. Once evidence of goods/service provision has been confirmed and users of such goods/services have been identified, Payments for Ecosystem Services (PES) can be established. PES can be set up at several levels (international, national and local) and used to provide PAs and conservation projects with financial support:

- **International level:** some services are of international environmental concern. Among the best known examples are maintaining forests (avoided deforestation), or creating new forests to limit greenhouse gas emission concentrations in the atmosphere and so reduce the impact of climate change worldwide. Section 3.1 on carbon finance details this potential source of funding for forests.
- **National level:** It is often difficult to identify ecosystem services provided at purely national level. Indeed, ecosystems rarely stop at national borders. However, national level initiatives can be useful to allow implementation of PES by national authorities. Most public payment schemes through which private landowners maintain or enhance ecosystem services are sponsored by their government.
- **Local level:** The example most frequently used is that of the hydro dam, as the dam benefits from proper conservation of the forest above it to limit erosion and siltation from the reservoir. The beneficiary here is the hydroelectric company, which benefits from the capacity of the forest to fight erosion. The PES in this case consists of making the beneficiary pay to ensure that the anti-erosion service is preserved.

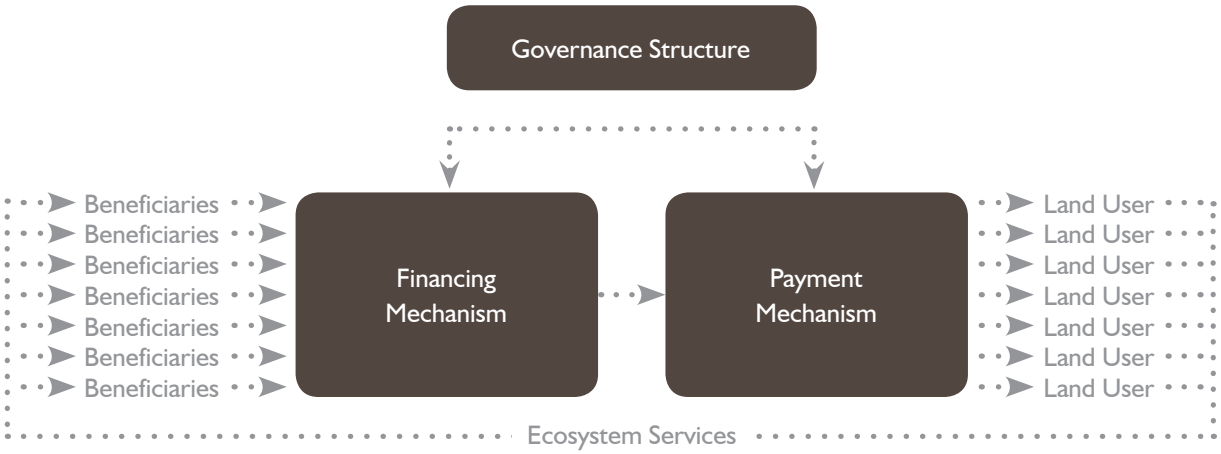
Ecosystem services markets and payments can be classified into four major groups:

- Biodiversity protection (i.e. biodiversity offsets)
- Watershed services (Payments for Watershed Services, Water Quality Trading)
- Climate regulation and carbon sequestration services
- Marine and coastal protection.

PES can bring benefits for the rural poor (increased cash income, greater experience of external business activities, increased knowledge of sustainable resource-use practises, improved resilience of local ecosystems, potential for higher productivity off the land). Nevertheless, PES are not feasible everywhere and can sometimes be counter-productive, especially where there is a risk of:

- inadequate understanding of what is being bought and sold
- ambiguities with regards to implications for local livelihoods and resource rights
- loss of rights to harvest produce or environmental services
- loss of employment
- uncertainty over the long-term financing of payments
- loss of control and flexibility over local development options and directions
- incompatibility of PES with cultural values.

Flow of compensation from beneficiaries to land users



Source: Pagiola and Platais, 2002.

PES: The role EFs could play:

1. Hold information sessions with local government
2. Identify best PES options
3. Provide solutions to cover start-up costs
4. Channel money coming from both public and private sources (**financing mechanism**). Most successful PES have managed to diversify their sources of funds. As an example, Costa Rica's National Forestry Financing Fund (FONAFIFO)'s funding includes:
   - Government sourced (Ordinary National Budget, 40% of the fossil fuel tax revenue, Forestry tax revenues)
   - Loan agreement (USD 30million) and grant agreement (USD 10 million) entered into by the Government of Costa Rica and the World Bank
   - Financial cooperation with the German Government, through the KfW Bank
   - Water protection agreements from private businesses
   - Individually purchased Environmental Services Certificates
   - Recovery of the current portfolio
5. Secure transparent and equitable payments (**payment mechanism**):
   - Direct financial payments (generally for compensation of opportunity costs)
   - Financial support for specific community goal
   - In-kind payments
   - Recognition of rights

Further reading on biodiversity PES

Manual 1: Environmental Funds and Payments for Ecosystems Services: RedLAC Capacity Building Project for Environmental Funds/ Tommie Herbert, Rebecca Vonada, Michael Jenkins, Ricardo Bayon; Juan Manuel Frausto Leyva. – Rio de Janeiro: RedLAC, 2010.

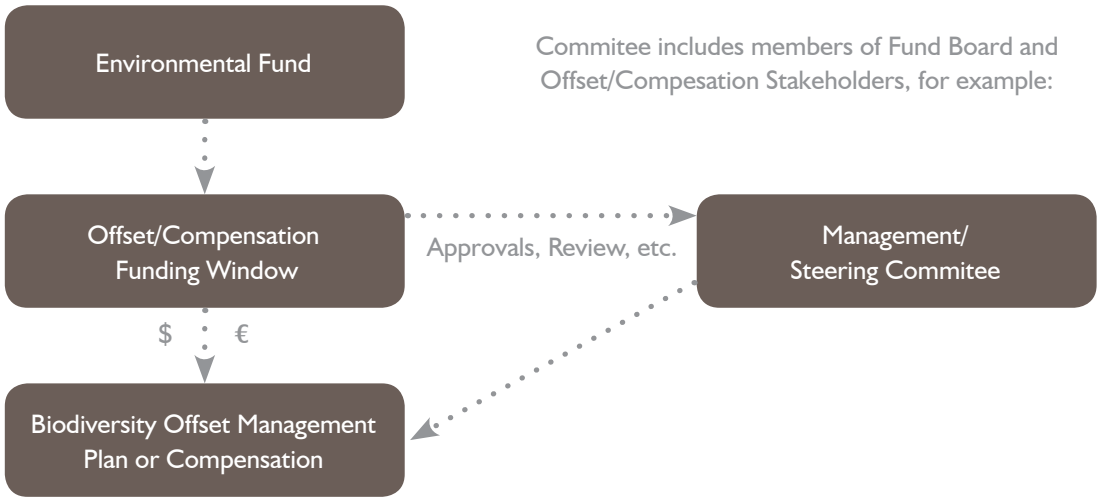
3.3 Biodiversity Offsets

Most leaders agree that there is an urgent need to develop new business models and innovative market mechanisms for biodiversity conservation. In this context, biodiversity offsets, which ensure that projects causing unavoidable damage to an ecosystem are counterbalanced elsewhere, have recently gained momentum. Under a biodiversity offset scheme, developers must compensate any non-mitigable negative impact by supporting restoration and/ or conservation equivalent activities.

According to the Aichi Targets, *'at least 15 percent of degraded ecosystem' should be restored by 2020. 'The potential for biodiversity offsets is huge and estimates are set at around USD 45 billion globally.'* It is expected that most offsets will come from extractive industries (oil and gas and mining), but also from infrastructure industries (roads, dams, etc.).

Given that EFs are independent and offer a high level of transparency, it is very likely that both international public donors and private initiatives will consider EFs as a convincing national institution to design and manage resources for biodiversity offset projects. EFs have a great role to play, first to make sure resources for Biodiversity Offsets will be properly used, and also to contribute to design offsets that are socially responsible and environmentally as sound as possible'. At EF-level, a biodiversity offset scheme could be established by creating a special ad hoc 'funding window'.

Fund management for a biodiversity offset scheme



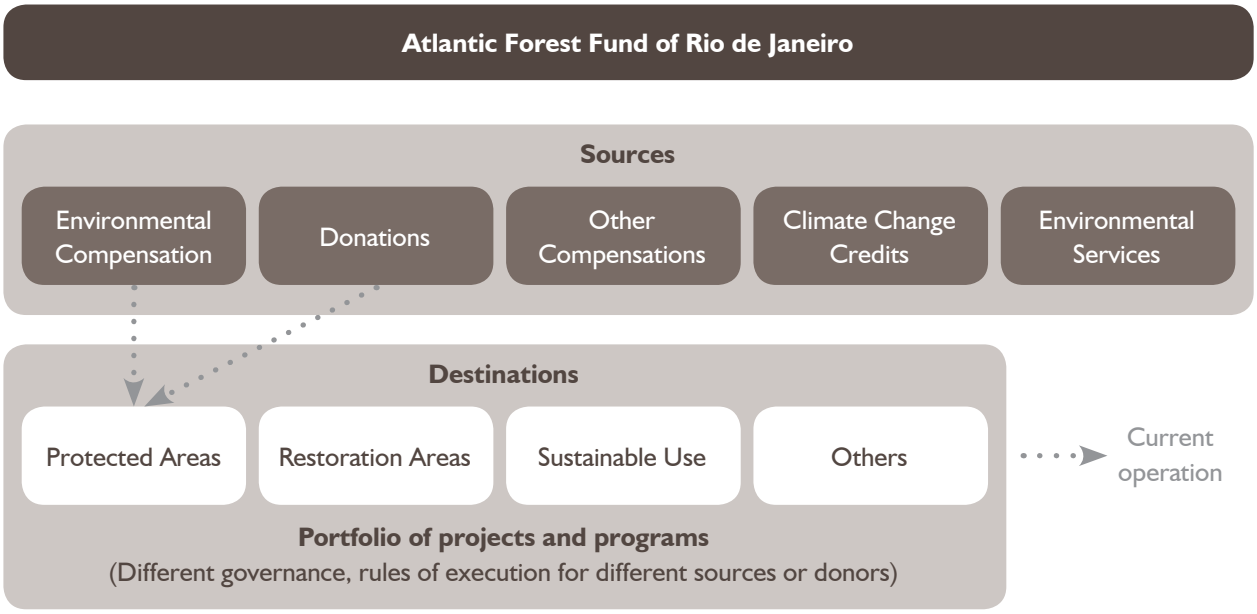
Source: ten Kate *et al.*, 2011.

The main challenges of biodiversity offsets are as follows:

- **Measurement of biodiversity.** Unlike CO2eq for measuring greenhouse gas emissions, there is no common denominator for biodiversity. As a consequence, measuring biodiversity offsets remains problematic.
- **Some biodiversity loss can be irreplaceable.** In such cases, offsets should not be considered. Defining the limit between irreplaceable and replaceable is complex and subjective.
- **Additionality issued.** It is difficult to prove that any measure taken to compensate for biodiversity loss would not have taken place without the existence of a biodiversity offset scheme.
- **Permanence.** Since the destruction of a site is immediate and generally irreversible, the conservation of another similar site should be secured for the long term. This degree of permanency can be difficult to offer, especially in politically unstable countries.
- **Location of the offset site.** When possible the offset site should be located near the development site. If the offset site is located in a remote area where there is no pressure on natural resources, the offset mechanism might not be considered to be additional. Many countries lack the capacity to identify appropriate offset sites (or appropriate sites might not exist).
- **Markets of Biodiversity offsets?** Biodiversity offsets are likely to become exchangeable on the market. However, the falling of carbon markets is not a good sign for biodiversity offsets and market options should be considered with much vigilance. Command-and-control schemes are probably preferable (conforming to national regulations).
- **Lack of standards.** To date, the Business and Biodiversity Offsets Programme (BBOP) has offered the best standard, but no global consensus has been reached yet. RedLAC manual 5 describes the standard in details.

The Biodiversity Conservation Mechanism in the state of Rio de Janeiro, Brazil, designed and managed by Funbio, is a good example of what an EF can accomplish with biodiversity offsets: it already has a portfolio of around USD 135 million and is benefitting 29 PAs. In this case, the mechanism was possible because of the specific Brazilian legislation (environmental compensation article inside the Protected Areas National System Law). See Manual 5 of RedLAC for the complete case study.

Overview of the Biodiversity Conservation Mechanism in the state of Rio de Janeiro, Brazil



Source: ten Kate *et al.*, 2011.

Further reading on biodiversity offsets

Doswald *et al.*, 2012.

RedLAC manual on Opportunities for EFs in Compensation and Offset Schemes, Ten Kate et al., 2011

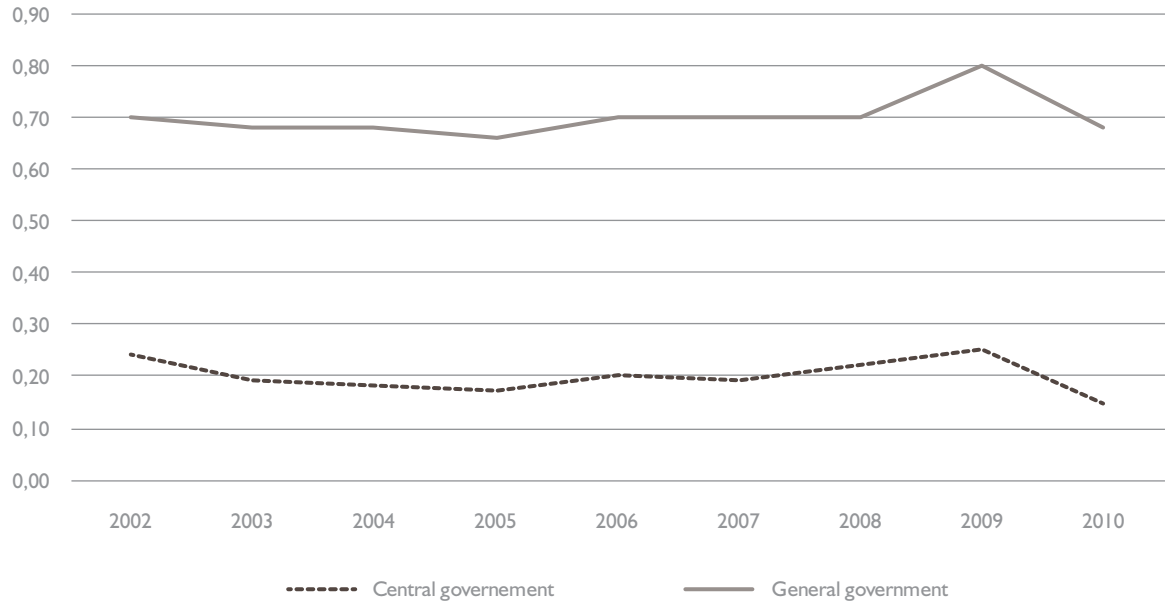
Business and Biodiversity Offsets Programme, 2013.

3.4 Green contributions and fiscal incentives

Governmental financial participation in EFs has generally been limited, however some commitments have been made by several national governments for instance in Costa Rica, Mauritania, Mexico and Panama. There is still considerable scope for introducing fiscal measures in many countries and deepening existing environmental fiscal reforms that have already proved successful. Several types of measures could be taken:

- Introduction of 'Green tax' or 'Green contributions'. Generally, government participation in EFs goes hand-in-hand with a high level of fiscal innovation.
- Use of fiscal incentives. Tax-deductible donations are a great means of motivating companies and private individuals to increase their support.

Average environmental spending as percentage of GDP2002–2010 (average of 40 countries)



Source: CBD, 2012b.

National Biodiversity Strategies and Action Plans have provided long-term perspectives for national resource mobilization, and governments have begun to incorporate biodiversity into their national budgets. As illustrated by the graph above, the average proportion of environmental expenditure among some 40 national governments in terms of gross domestic product (GDP) has hovered around 0.2 per cent between 2002 and 2010. The average proportion of 'general' government (i.e. including lower levels of government) spending has stood at around 0.7 percent, indicating that some 0.5 percent of GDP for environmental protection has come from provincial and local governments.

Using newly designed green fiscal tools, or 'eco-contributions', could increase environmental expenditures by governments. These tools could provide a new, constant and reliable source of income for conservation in many countries. Several fiscal tools have already proved very efficient in various countries around the world, and EFs can serve as a channeling mechanism. A single one of the proposals detailed below could be enough to make a significant breakthrough for conservation financing in many countries. EFs could promote and suggest solutions to implement at least one of them:

Some proposals for setting up Green Taxes for conservation

Proposal	Details	Advantages / Disadvantages	Next steps
Airport or cruises fee	Payment of a fee for flights or cruises stopping in the port (Belizean example)	• Polluter Payer Principle • does not impact lower-income population • airport fees generally already exists, easy to add an extra fee • could deter the development of tourism	• Analyze the potential of such a proposal in terms of expected income (number of trips per year) • Study the feasibility of the proposal (working with airport authorities)
Green tax on vehicles	Annual tax based on the car's engine power and year of manufacture	• Polluter Payer Principle • Tax exemption options could be incorporated to reduce impact on lower-income population • can be difficult to implement	• Analyze the potential of such proposal in terms of expected income (number of cars per year) • Study the feasibility of the proposal
Hotel tax	Environmental contribution payable per overnight stay, depending on the hotel grade	• Common practice worldwide (generally well accepted) • Might not generate substantial income	• Determine the number of overnight stays per year • Study the technical feasibility of the proposal (through the Ministry of Tourism)
Royalties from resource extraction	Royalty based on volume of resource extracted on an annual basis	• Polluter Payer Principle • Huge potential • Difficult to implement • Could be established on a 'voluntary basis'	• Contact main companies extracting resources and study how to such a scheme might be set up
Fuel Tax for Conservation	e.g. 10% tax on total fuel charge paid when refuelling vehicles (Costa Rican model)	• Polluter Payer Principle • Huge expected income • Fuel already expensive • Risk of public discontent (consider exemption for taxis and/ or only for 'super'-rated fuel)	• Study whether the Costa Rican model might be replicated/adapted

Source: Author

Advantages and disadvantages of fiscal instruments for conservation

Advantages	Disadvantages
Supplies a source of regular and reliable revenue.	Ensuring that revenue is properly allocated to conservation is a real challenge.
The existence of tax collection mechanisms makes it unnecessary to create new collection mechanisms.	It is necessary to have strong institutional and fiscal capacity. It could prove difficult to introduce new taxes – political acceptability risks require considerable effort to obtain information, which would increase costs.
Establishing fiscal instruments with a wide tax base means that managers depend less on individual donors.	Strengthening the powers of local authorities or PAs might require a modification of current legislation.
Taxes levied on economic benefits from the use of natural resources direct the economy on a more sustainable path.	Recovering all the environmental costs and profits requires a large volume of information to be collected.
Ecotaxes can lead to 'double dividends' by reducing certain existing ones (e.g. tax on revenue).	New instruments might have adverse effects. The instruments should remain sufficiently flexible to enable an iterative approach.

Source: Conservation Finance Alliance

The provision of tax privileges and incentives could be of great support to an EF. The absence of tax privileges, meanwhile, can sometimes prevent fundraising strategies from being successful. EFs should ensure their national donors will benefit from tax incentives.

The Netherlands' fiscal green funds

In order to stimulate environmentally friendly investments in the Netherlands, the Dutch ministries of VROM (Housing, Spatial Planning and the Environment), LNV (Agriculture, Nature and Food Quality) and Finance, in collaboration with the Dutch banking sector, initiated a green fiscal policy in 1995 to make investment in green funds attractive for private investors. Banks and specialized green funds provide low interest loans to entrepreneurs who engage in activities such as biological agriculture, nature development, sustainable/green housing and renewable energy technologies. Some of these investments have a positive contribution on local biodiversity. While the return on investment is generally lower with green funds, the government has provided a fiscal advantage for those who invest in these green funds (such as the RaboGroenbank – by Rabobank) to make it financially attractive. The initiative has been a success in the Netherlands and various major banks, such as ABN AMRO, ING bank, Fortis, ASN Bank and the Triodos bank, are now offering green bonds or other green products. As of December 2005, the total invested capital amounted to EUR 1.5 billion, of which EUR 282 million has been allocated to the project category "nature, forests and landscapes".

Source:Mulder, 2007.

3.5 Individual philanthropy platforms

Revolutionary changes in information and communications – especially the Internet – have transformed the world of philanthropy, turning traditional money boxes into websites. From the 'Adopt an acre' TNC campaign to the practise of leaving legacy gifts to NGOs in wills (currently one of the major sources of funding to NGOs in the USA), individual philanthropy platforms represent a new window of opportunity for resource mobilization. A recent report by the CBD estimates philanthropic giving at over USD 600 billion per year, of which half hails from the USA and one quarter from Europe. Nevertheless, only a small proportion of these funds are directed to biodiversity conservation and ecosystem services.[15]

An increasing number of organizations are launching their own individual fundraising campaigns. For example, the project 'Adopt a Golden Eagle' is raising funds to preserve the habitat of Mexico's national symbol (see http://www.aguilarealmexico.org). The money raised goes to the Fund for the Conservation of the Golden Eagle (Fondo para la Conservación del Águila Real), managed by the Mexican Fund for Nature Conservation (Fondo Mexicano para la Conservación de la Naturaleza). Individuals and companies can contribute to this cause by not only donating funds but also field equipment or fuel. The site also keeps stakeholders informed about the field monitoring of the species through a blog.

One of the most popular ways of raising funds from philanthropic individuals is 'crowdfunding'. This is a collective fundraising effort, through which individuals pool their resources to support activities launched by other people or organizations. Fondo Acción in Colombia launched its own crowdfunding website – www.donaccion.org – with the support of the RedLAC Capacity Building Project.

Useful websites for green crowdfunding

If you do not have the time or resources to create your own platform for managing donations, the following websites offer the opportunity to launch your fundraising campaign at low cost and risk. The most effective way to promote your campaign is probably through social networks. The sites offering these services also serve as a publicity platform because they usually promote the proposals submitted most recently.

Greenfundraising.org: Launched in November 2012 (some parts are still under development, and no projects are listed as yet), this is an online platform run by Green VC that helps entrepreneurs and non-profits to crowdfund projects focused on environmental or social responsibility. You can launch a campaign easily by submitting the following information by email: organization name, project summary, amount of funding sought, type of rewards/benefits on offer to contributors; and campaign start date.

Greenfunder.com: Located in the USA, this is a global fundraising site for socially responsible projects and businesses. Individuals and organizations can test, market, fund and sell their projects through the site. Projects are featured as campaigns, each with a funding goal and a deadline. Each campaign offers rewards to its funders (e.g. products, experiences and/or recognition) according to the level of funds donated. Green funder receives 5 per cent of the funding won by fully-funded projects, plus third-party processing fees (approx. 3–5 per cent) if a project reaches its goal. If the goal is not reached, then Green Funder takes 9 per cent of the total amount raised, plus third-party processing fees (approx. 3–5 per cent).

Thegreencrowd.com: A crowdfunding site that exclusively supports environmentally-friendly projects, not specifically for conservation. No active projects had been listed at the time of writing.

Although individual funding is not a reliable source of funds over the long term, it has the advantage of being very flexible and unrestricted. Internet platforms directly connect the person willing to contribute with the organization managing the program, no matter how far this person is from the conservation site. The internet also offers an effective means of communicating conservation targets and progress achieved, which increases transparency and accountability. Furthermore, a large base of individual donors provides not only much needed funds, but also broad social support, which is a powerful advantage when launching campaigns or public awareness programs.

[15] CBD, 2012c.

However, crowd funding is not only done through the Internet. Pioneros de la Conservacion project, from the Colombian fund Patrimonio Natural and also supported by the RedLAC Capacity Building Project, is an example of an offline platform. Although the causes are communicated through the web, the individual donations are collected through partnerships with hotels from guests in their check-out.

It is important to carry out a business analysis of your project's fundraising potential before starting to create a platform, as you will need considerable resources to do it well. Individual contributions can be volatile and retaining the support of individual donors requires serious dedication and time. Making them feel fully informed, without overloading them with excessive detail, is essential to maintaining their interest and support. See also RedLAC manual 4 on Fundraising Strategies for Environmental Funds, as well as tips and best practices in online communication provided in Module 4 of manual 6, on Communication and Marketing for Environmental Funds.

Find ways of rewarding the people who are supporting your fund. You might offer different categories of gift depending on the amount donated; this is an incentive to donate more. Rewards can range from the classic T-shirts, postcards and coffee-table books to experiences such as a private guided tour of a PA. Be creative and offer something different and exciting that does not represent a high cost that can be a burden to the financial sustainability of the mechanism.

The LifeWeb Initiative: a window to showcase your needs

The LifeWeb is a CBD initiative, managed by the CBD Secretariat (Montreal, Canada) since May 2009. Its goal is to support the implementation of the Strategic Plan for Biodiversity 2011–2020 and the CBD Programme of Work on Protected Areas, by providing access to financing opportunities.

The LifeWeb serves as a platform from which countries can share their financial needs and develop partnerships through an online clearing-house. Projects are posted on the website aimed at attracting financial support from donors. To facilitate approaches to funding prospects, the LifeWeb also arranges financing round-table meetings, which have proved to be an effective way of strengthening and coordinating funding among multiple donors. The next round-table is scheduled to take place in Mexico, see: http://lifeweb.cbd.int/event/?id=23835

Developing countries, or countries with economies in transition, can submit an Expression of Interest to The LifeWeb. This should providing an overview of financing priorities for either a national conservation system; or a project scale for one or more PAs, or areas where connectivity, restoration or other activities are planned to help the country reach national conservation targets. The template for expressing interest is available here: http://lifeweb.cbd.int/share#/download. The eligibility criteria, posted on the website, are: political will of the host country; clearly defined vision of priorities based on action plans; potential donor interest; and collaboration with other sub-regional or national processes.

Submissions should be made by a CBD focal point. If the proposed activities relate strongly to PAs, the Focal Point for the CBD Programme of Work on Protected Areas may also make the submission. Submissions can also be made by indigenous or local community groups, accompanied by an endorsement letter from a Focal Point. A list of Focal Points for the Programme of Work on Protected Areas is available at: www.cbd.int/protected/focalpoints. A downloadable list of CBD National Focal Points is available at: www.cbd.int/doc/lists/nfp-cbd.pdf.

Remember the key factors that will secure donor support:

- **Alignment:** The Expression of Interest is aligned with a national biodiversity strategy and/or action plan consistent with the 2011–2020 Strategic Plan for Biodiversity. Evidence of alignment might be that the Expression of Interest is included, in part or in whole, as a priority item within the national strategy.
- **Consistency:** The priorities profiled in the Expression of Interest are consistently conveyed to multiple donors, including through ongoing development cooperation channels, and at high levels.
- **Leverage:** Some aspects of the Expression of Interest are supported by another partner(s), creating opportunities for counterpart funding and a higher profile.
- **Coordination:** When you are approaching a donor partner, let The LifeWeb know, and the Coordination Unit will be able to help by sending reinforcing messages in support of your efforts.

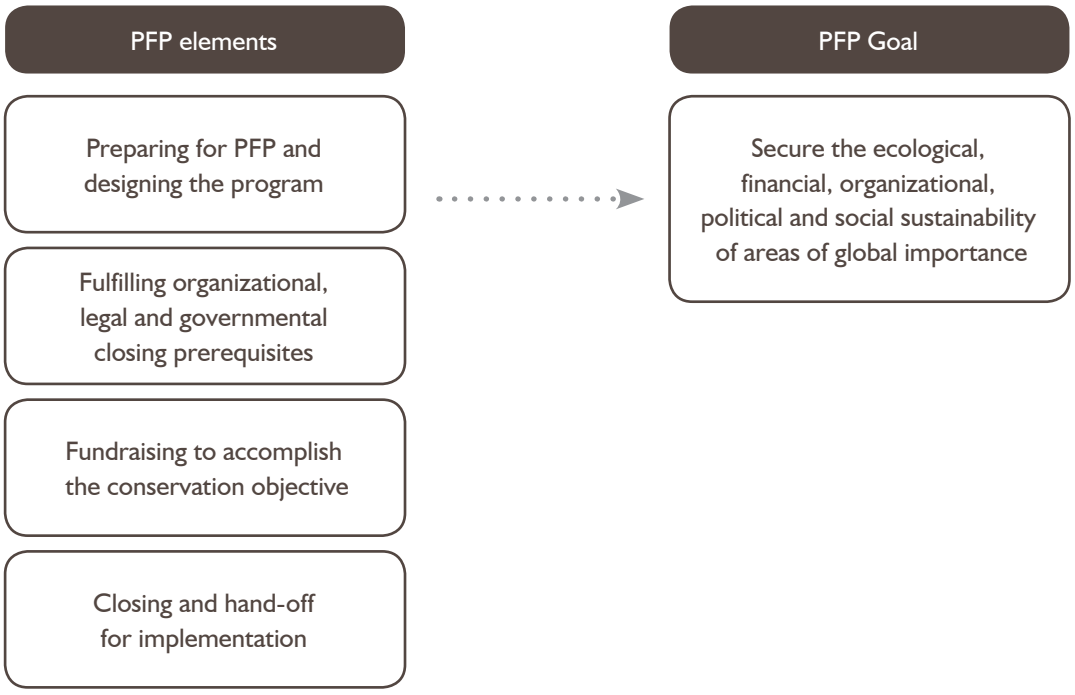
3.6 Project Finance for Permanence

'All or nothing' deals for long-term protection

Traditional sources of funding for conservation are limited, often unpredictable, and highly subject to macroeconomic fluctuations. This makes it very difficult to plan for the long-run, let alone face unforeseen events. In order to preserve complex ecosystems permanently, conservation practitioners have started to consider new funding and organizational models inspired by business-based approaches. Project Finance for Permanence (PFP) draws on for-profit sector practices of 'project finance' commonly used for organizing and financing complex projects – such as electric power plants or airports – where it makes no sense to embark on implementation without having secured the conditions needed to complete the project. What makes PFP different from other approaches is that it is basically an 'all or nothing' deal. Nothing starts until all resources and conditions have been secured, including a business plan, institutional arrangements and sufficient funding commitments to cover the full cost of the program. Five aspects of sustainability are taken into account:

1. **Ecological:** it must ensure the long-term health of an entire ecosystem. This means that the geographical areas must be sufficiently large and well protected to maintain biodiversity, to provide migration corridors for wide-ranging species, to counter external threats and to adapt to climate change.
2. **Financial:** there must be sufficient funds, financial management and control processes to eliminate the need to seek substantial external funding in the future.
3. **Organizational:** stakeholders must have the capacity to design and implement the project as well as to pursue the conservation strategy in the future.
4. **Political:** strong commitment and leadership at the very highest level – sustained across administrations – are necessary to support the deal.
5. **Social:** the PAs created or funded by PFP projects must be supported by those living in or near them, who should perceive societal benefits from them.

Simplified PFP model



Source: Based on Redstone Strategy Group *et al.*,2011b

10 steps to develop a PFP

1. **Setting a single, charismatic and measurable conservation goal.** It helps to unite efforts by clarifying what is needed, allowing everyone to maintain focus and so prevent diversion to tangential efforts.
2. **Agreeing on a deal** where all stakeholders meet their objectives, contribute to and receive something from the project.
3. **Selecting a high-capacity NGO** to handle and secure a public-private partnership.
4. **Setting core partners** to share fundraising responsibilities, including a lead governmental participant, a lead NGO and lead foundations.
5. **Developing a comprehensive financial plan** estimating the full costs of ensuring long-term conservation, including: initial costs; ongoing funding; transaction costs of the PFP project itself; implementation costs for NGO partners, fundraisers, and lawyers during the deal process; and the technical support and advocacy needed in the years immediately after the closing.
6. **Securing commitments to cover all the financial estimates** for program costs in perpetuity. A board resolution by the lead NGO or the lead foundation specifying the conditions for the release of their funds can be relied on by other funders and thus serve this purpose.
7. **Leading stakeholder engagement and driving the process.** A 'deal broker' (i.e. a facilitator of the process) may help to ensure that all necessary stakeholders come to the table, that each stakeholder's interests are taken into account, and that the project remains focused on its goals. Although it is not necessary that only one type of individual or organization plays this role, it is useful if there is one clear manager or a single institution that holds the confidence of all parties.
8. **Setting formal closing conditions** to ensure completeness and mechanisms to formalize government intentions to fulfil funding agreements. At the closing, the negotiated terms become formally binding. This step is based on the project meeting certain conditions, for example, that all prescribed initial government actions have taken place.
9. **Setting formal disbursement milestones** to ensure that the distribution of funds is conditional on the implementation of post-closing activities necessary for success. The milestones could include the measures required from the government by the program design, such as regulatory changes.
10. **Verifying closing conditions are met**, so that the actual delivery of the pledged funds can occur.

Who does what?

- **Lead governmental participant:** Ensures that the program meets national needs and is fully owned by national stakeholders. Commits public resources (both financial and technical) and guarantees that all the legal and institutional conditions are met.
- **Lead NGO:** leads on fundraising, provides scientific expertise, mediates partner relationships and supports post-closing implementation with technical assistance and ongoing advocacy. The lead NGO must have sophisticated skills and influential relationships, as well as sufficiently strong social standing to coordinate efforts locally (TNC in the case of Costa Rica Forever).
- **Private anchor funder:** gives the PFP effort early credibility and important connections across the philanthropy community.
- **'Deal broker':** leads stakeholder engagement and drives the process. Ensures that all necessary stakeholders come to the table, that each stakeholder's interests are taken into account, and that the project stays focused on its goals. In complex for-profit deals, this role is usually played by a project team from an investment bank (Linden Trust for Conservation in the case of Forever Costa Rica).

PFP represents an opportunity to secure not only financial resources, but also the political, organizational and social environment to enable long-term protection. The greatest advantage of the PFP model lies in its ability to bring together all the resources and conditions necessary for permanent conservation of globally important, intact habitats. Other advantages include:

- **Financial leverage** that magnifies the effect of each funder's contribution through the closing.
- **Transactional influence** that uses the promise of large-scale philanthropic investment to encourage constructive activity on the part of governments, non-governmental organizations (NGOs) and others.
- **Simultaneous attention to ecological, economic and social concerns,** made possible through the multi-stakeholder process, which reduces the tension between ecological and social goals.
- **Conditions for post-closing implementation and adaptive management** that are established through the program design and, if successful, set the stage for successful implementation.

Closing a PFP usually requires many years of intensive work. Establishing the preconditions needed to begin implementation can take years or even decades, and it is not possible in all cases.

PFP itself entails substantial costs (of the kind not usually factored into financial plans for pure landscape conservation), such as the cost of employing NGO partner(s), lawyers and consultants during the deal process and for the years immediately after the closing. As a result, project teams may struggle to obtain the funds for the program design phase. When planning for PFP, teams should acknowledge these costs, and be sure to include a mini-fundraising plan for pre-closing activities.

Organizational sustainability is critical because the trust management entity could collapse or experience 'mission drift', leaving its original goals unfulfilled. Political sustainability is needed because insufficient political support within government may hamper program implementation through ineffective policy and enforcement.

For a PFP approach to be successful, certain conditions must be met:

Key factors for a successful PFP

Source: Based on Redstone Strategy Group et al. (2011a)

PFP has the potential to contribute permanent funding to projects through EFs, providing them with the stability required to secure the maintenance of conservation activities in the long term.

Lessons from experience

Based on three cases of PFP – the Amazon Region Protected Areas (ARPA) in Brazil, the Great Bear Rainforest in British Columbia, and Forever Costa Rica (FCR) – the Gordon and Betty Moore Foundation, the Linden Trust for Conservation and the Redstone Strategy Group analyzed the evolution of the PFP concept and shared some important lessons and recommendations for future implementation:

- **Diversify the funding sources**, including internal funding (such as general governmental funds, dedicated revenue funds and non-governmental funding) and external funds (such as REDD+, or debt-for-nature swaps)
- Increase **emphasis on political and social sustainability**. Past projects tended to focus on ecological, financial and organizational sustainability, but very often failed to address other aspects of sustainability. Political, economic and development challenges may also undermine the project's capacity to achieve its goals, so they must be fully considered and, when possible, integrated.
- Avoid **compromising on conservation goals**. While an existing PA network is a great basis for starting a PFP, it may not cover the entire area relevant to the program goals, in which case it might be necessary to go beyond PA boundaries. Ideally, project teams should develop conservation plans that: achieve strict biodiversity objectives; include representative ecosystems; cover the habitat of threatened or endangered species; and cover an area large enough to support biological diversity and protect migration corridors.
- Set clear **expectations for each major stakeholder**. Project teams should manage expectations by establishing the extent of the project early in the process, incorporating monitoring and evaluation responsibilities into the implementation handover and revisiting expectations once the program design phase is complete.

Further reading on Project Finance for Permanence

Redstone Strategy Group, 2011a.

Redstone Strategy Group, 2011b.

Linden *et al.*, 2012.

3.7 What else is out there?

The international community agrees that the public sector alone is unlikely to raise enough funds to preserve the environment. There is therefore a consensus nowadays that engagement with the private sector is necessary. The world as a whole is not short of funds, despite the current recession in many countries. What is lacking is the motivation to increase private investment in biodiversity. What might also be lacking, are convincing investment solutions for individual or private institutions willing to support biodiversity. As Simon Stuart, Chair of IUCN's Species Survival Commission puts it: *'As long as we continue to suffer from a monumental lack of ambition in the conservation movement, we shall have, at best, isolated local successes against a backdrop of continuing deterioration. We have to break out of our traditional mindset if we are to succeed.'*

Creating 'responsible financial products' in favour of Biodiversity protection is an achievable goal. This section intends to present the most successful or promising innovative financial instruments that are currently in development, and which could provide a source of inspiration for individual EFs and the RedLAC and CAFE EF networks.

3.7.1 Impact investment

Impact investment is a new and growing financial sector, which is emerging as an alternative asset class. 'With increasing numbers of investors rejecting the notion that they face a binary choice between investing for maximum risk-adjusted returns or donating for social purpose, the impact investment market is now at a significant turning point as it enters the mainstream.'[16] Impact investment is thus at the frontier between philanthropy and financial investment. It is an investment strategy where investors seek social and environmental benefits on top of financial returns. We must distinguish between:

- **Socially Responsible Investments (SRI)**, also known as sustainable, socially conscious, 'green' or ethical investments. SRI could be any investment strategy that seeks to consider both financial return and social good. SRI tries to minimize negative impact rather than proactively create positive social or environmental benefits. For instance, some EF asset managers have to follow SRI Investment Policies to make sure that returns on endowment funds will not derive from investments that harm the environment.
- **Impact investment**, which proactively creates social or environmental benefits alongside a financial return.

The impact investment market should grow sharply in the coming years. According to J.P. Morgan, this market offers the potential to bring in invested capital of USD 400 billion –1 trillion over the next 10 years.

- EFs could potentially use impact investment as a revolving self-sustainable mechanism for financing projects. EFs can become an intermediary between international impact investors and national environmental needs. In other words, EFs can identify and suggest a number of convincing impact investments that could be made locally. The challenge is to find projects that combine biodiversity conservation results and financial returns on a scale of interest to impact investors. Nevertheless, some projects might be promising, such as renewable energy investments in PA buffer zones.

[16] O'Donohoe *et al.*, 2010.

EF managers should keep an eye on, and develop an interest in, impact finance. Even if impact investment is not strictly adapted to EF needs in its current form, it is close to becoming a convincing model. The main conclusion to take on board is that 'using profit-seeking investment to generate social and environmental good is moving from a periphery of activist investors to the core of mainstream financial institutions' (Monitor Institute, 2009).

Further reading on Impact Investment

- Monitor Institute, 2009.
- Mulder, 2007.
- O'Donohoe *et al.*, 2010.

Besides impact finance, bridges between financial markets and biodiversity could be established through the issuance of bonds. The global bond markets are worth nearly USD 100 trillion, and there is scope to offer new financial instruments, ones that are sufficiently secure and profitable to attract a wide range of investors.

Green Development Initiative

The green development mechanism (GDM) is a proposal from the CBD that addresses critical environmental challenges, helping to fill the biodiversity funding gap by mobilizing private sector financing to mitigate biodiversity loss; much as the well-known CDM has done to mitigate climate change. It aims to create enabling conditions for increased private-sector support for the implementation of the CBD, particularly in developing countries. The main idea is to 'link biodiversity supply with biodiversity demand through a market mechanism, for instance by establishing a standard and an accrediting process for certifying the management of geographically defined areas in accordance with the CBD, and by facilitating a functional market for those areas, a GDM would enable the financing of GDM-certified areas by willing businesses, investors, consumers and other interested parties such as private foundations and NGOs'. [17]

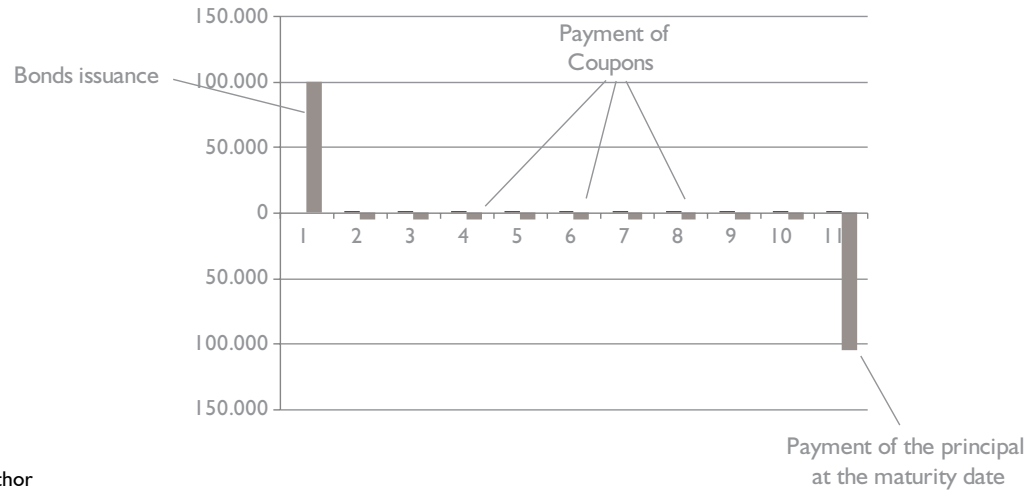
During COP10 in October 2010, held in Nagoya, Japan, the GDM 2010 Initiative held two side events to brief Parties and delegates on the proposal to launch a global discussion on a GDM in the context of their negotiations on innovative financial mechanisms. In the end, the Parties were unable to complete their negotiations on this topic and no decision was reached. As a consequence, the GDM and the Green Development Initiative have so far demonstrated limited success and long gestation periods before benefits are realized. Nevertheless, they are interesting attempts to mobilize new funds in favour of biodiversity. Should they become more successful, similar initiatives could definitely obtain local support from the existing network of EFs.

[17] CBD, 2010c.

3.7.2 Forest bonds

A bond is a financial instrument that allows the bond issuer to borrow finance from the private capital markets. It is a debt security, under which the issuer owes the holders a debt and, depending on the terms of the bond, is obliged to pay them interest (the coupon) and/or to repay the **principal** at a later date, termed the maturity. Interest is usually payable at fixed intervals (e.g. semi-annual, annual). A bond is a form of loan: the holder of the bond is the lender (creditor), the issuer of the bond is the borrower (debtor), and the coupon is the interest. Bonds provide the borrower with external funds to finance long-term investments.

Example of 10-year bonds, with coupons of 5%



Source: Author

Bonds have two main characteristics:

- **Bond issuer:** this can be a government; a commercial or development bank; or a corporation
- **Coupon rate** (similar to interest rate): zero coupon; fixed-rate; floating rate; index-linked (for instance to Standard &Poor's 500); or even linked to environmental performance.

Forest bonds, which are of potential interest to impact or institutional investors, were recently designed by the Global Canopy Programme. The scope of these bonds is to conserve or sustainably manage the forest. In order to pay the forest bond coupons, the issuer is likely to generate revenue from forest-based activities. However, revenue could also be generated from non-forest based activities.

Mechanisms that could be used to pay back a forest bond (based on Parker and Cranford, 2011)

Proposal	Details	Advantages / Disadvantages
Forest-based	Direct markets	Forest carbon market Biodiversity offsets Watershed payments
	Indirect markets	Certified timber Green commodities User fees (e.g. ecotourism)
Non-forest-based	Other markets	Aviation or maritime levy Financial transaction tax Levy on insurance premiums
	Non-market	General budget allocation ODA Debt-for-nature swaps

Source: Global Canopy Programme, 2011

Finally, the issuance of the bonds, and the form of revenue generation used to pay back the coupons and the principal, can either be held by the issuing institution ('on balance sheet') or in another institution ('off balance sheet').

So far, forest bonds have seen limited success, owing to the following key problems:

- Natural hazard risk
- Political risk
- Market risk
- Default risk.

These risks generally being high in tropical-forested countries, investors' interest in forest bonds has remained very low. The use of non-forest-based mechanisms to pay the coupons is not yet sufficiently secure to attract investors. Similarly, forest-based revenue is rarely sufficient to cover the required coupon level, which is generally high in forested countries (see table below).

Government Bond 10-year – Country list

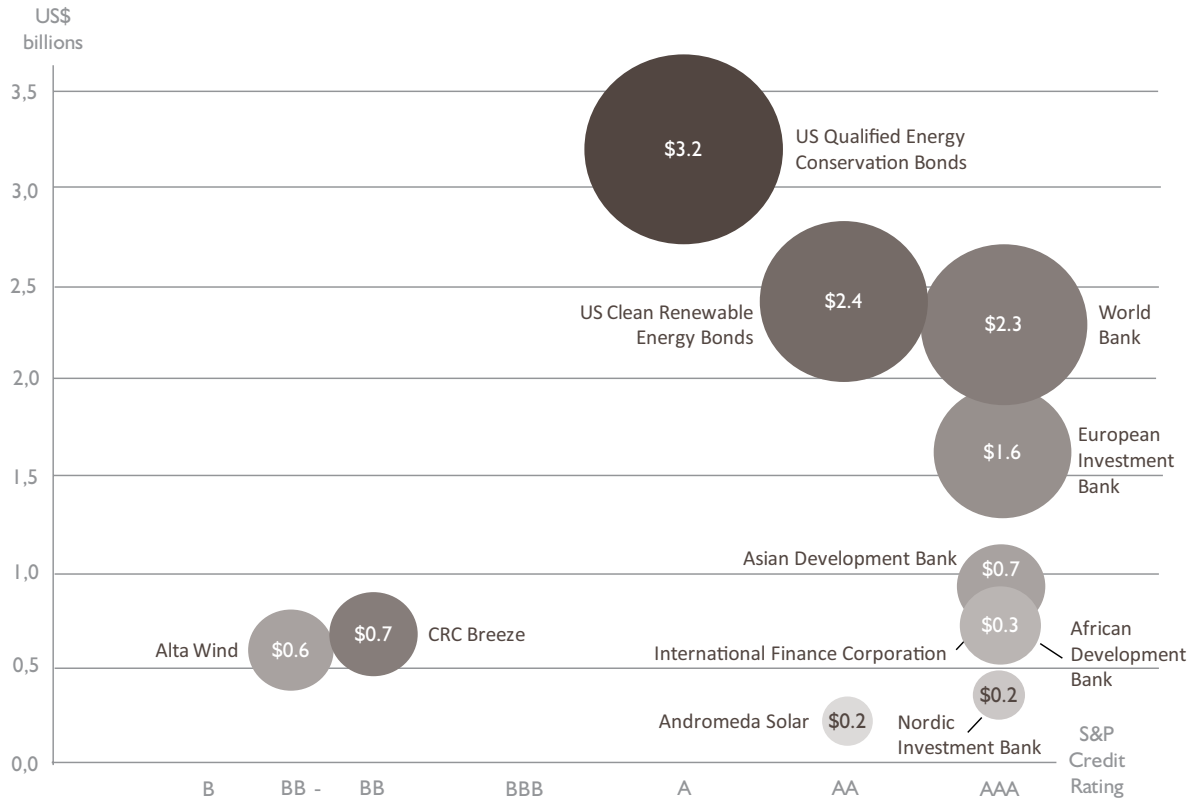
	CURRENT	LAST WEEK	LAST MONTH	LAST YEAR
Nigeria	13.16	13.6280	13.89	16.39
Kenya	12.21	12.2110	12.21	12.36
Pakistan	11.50	11.5000	11.60	12.71
Brazil	11.20	11.1100	11.19	9.50
Venezuela	10.05	10.0540	10.05	12.24
Greece	9.95	10.0116	10.93	24.36
Vietnam	8.83	8.8690	8.88	10.03
Turkey	8.79	8.7700	8.77	8.34
India	8.14	8.0840	7.55	8.14
South Africa	7.87	7.8200	7.64	6.72
Indonesia	7.65	7.6990	7.76	5.72
Russia	7.37	7.4100	7.39	7.83
Colombia	6.80	6.9550	6.93	6.64
Peru	6.76	6.7600	6.76	6.76
Portugal	6.58	6.4320	6.72	10.07
Mexico	5.74	5.8800	5.89	5.37
Chile	5.25	5.2800	5.29	5.30
Spain	4.57	4.6345	4.72	6.88
New Zealand	4.27	4.2250	4.37	3.54
Italy	4.26	4.3730	4.41	5.89
Thailand	3.96	4.0000	3.71	3.25
Malaysia	3.94	4.1430	3.67	3.41
China	3.80	3.8850	3.49	3.40
South Korea	3.59	3.4900	3.59	3.00
United Kingdom	2.68	2.5720	2.62	1.73
United States	2.60	2.7220	2.63	1.64
Belgium	2.57	2.5179	2.54	2.55
Canada	2.50	2.5480	2.47	1.84
Singapore	2.35	2.4750	2.57	1.41
Hong Kong	2.30	2.3380	2.52	0.74
France	2.25	2.2210	2.24	2.12
Germany	1.69	1.6470	1.67	1.43
Taiwan	1.56	1.5100	1.53	1.18
Euro Area	1.44	1.4467	1.37	1.71
Switzerland	1.02	1.0251	1.07	0.59
Japan	0.76	0.7900	0.86	0.80

Source: Trading economics, August 2013

According to the Global Canopy Programme, 'a forest bond issued by a forest nation or backed by commitments from one or more forest nations could be successful in Latin America, particularly in the Amazon region. In contrast, Africa would likely get the most use out of a bond issued by a relevant multilateral development bank or backed by commitments from donor countries'. [18]

The model of the much more successful Green Bonds (presented below) proves that, even in Latin America, international financial institutions capable of offering a Triple-A credit rating (and thus a low coupon rate), are likely to represent the best means of making this type of environmental bond sufficiently attractive. It would appear that a Triple-A credit rating is a prerequisite to ensure the success of this type of environmental bond and attract major institutional investors.

Selected large green bonds issuances according to their credit rating:



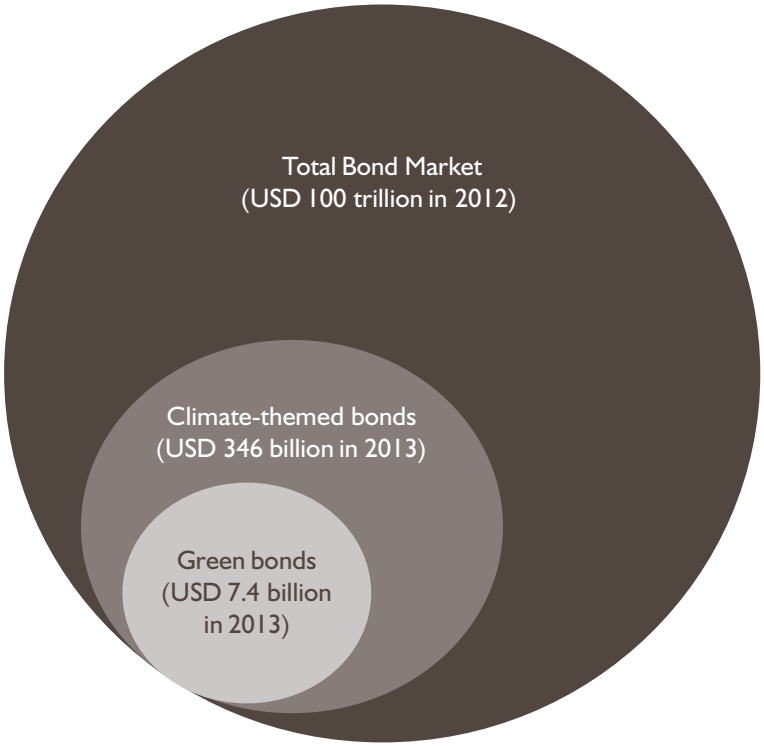
Source: Climate Bonds Initiative / OECD 2011

[18] Global Canopy Programme, [2011].

3.7.3 Green bonds / climate bonds

There are several definitions of a climate bonds. If understood as any bond covering any climate change mitigation activity, the market is already big. According to HSBC, 'the universe of **climate-themed bonds** outstanding in 2013 totals USD 346 billion, a significant expansion on the 2012 estimate of USD 174 billion. It remains dominated by Transport (USD263 billion), Energy (USD41 billion) and Finance (USD32 billion)'. 'Climate-themed bonds' were defined by HSBC under seven climate themes of Transport, Energy, Climate Finance, Buildings & Industry, Agriculture & Forestry, Waste & Pollution Control, and Water; according to HSBC, these correspond to the emergence of a low-carbon, climate-resilient economy.

'Green bonds' represent a fraction of climate-themed bonds:



Source: Author, based on Sustainable Prosperity, 2012 (figure not to scale)

As defined by Heike Reichelt, '**Green bonds** are a "plain vanilla" fixed income product that offers investors the opportunity to participate in the financing of "green" projects that help mitigate climate change and help countries adapt to the effects of climate change. The bonds have similar features to regular bonds by the issuing entity, including credit risk and size. Because of the standard financial features and the dedication to climate change, they are of interest to a broad range of investors – from retail and high-net-worth, to institutional investors with large allocations to fixed income. They are especially attractive to investors who incorporate Environmental, Social and Government issues into their analysis, pursue specific environmental strategies and/or have a separate asset class for climate-focused investments. A key feature of these bonds valued by many investors is the due diligence process that the issuer of green bonds conducts to identify and monitor "green" projects.'[19]

Green bonds were first offered by the World Bank in 2008. They are another interesting financial instrument which could help EFs to achieve their goals. The World Bank's green bond program is the most important of its kind in the world, although other supranational development agencies, including the European Investment Bank (EIB), the Asian Development Bank (ADB), the Nordic Investment Bank, and the African Development Bank are now offering similar financial instruments.

The value of green bonds issued to date is approximately USD 7.4 billion.

Green bonds could also serve as an interesting model to study with a view to capitalizing EFs.

[19] Reichelt, 2010.

Since 2008, the World Bank has issued approximately USD 3.5billion in green bonds. The projects financed through these bonds are located in 'middle-income' countries such as Mexico (solar energy and transportation), Brazil or Colombia (waste management).

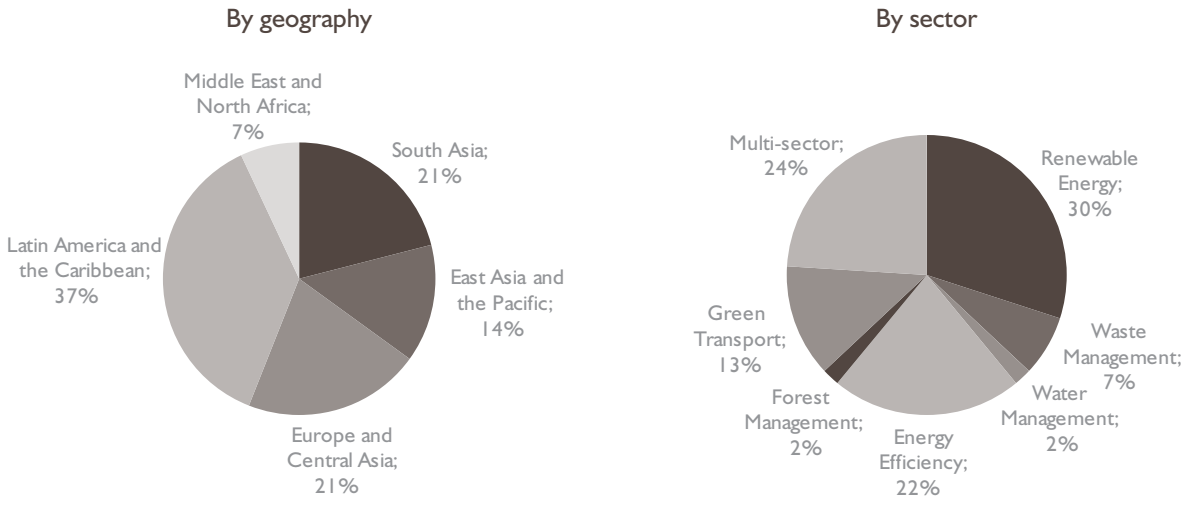
World Bank green bonds help support eligible projects in member countries that:

- seek to mitigate climate change (through energy efficiency, renewable energy, transport etc.)
- are supporting climate change adaptation (Climate change adaptation includes sustainable forest management and re-forestation, along with measures to prevent flooding and improve agricultural methods).

Eligible projects are selected by World Bank environment specialists and meet specific criteria for low-carbon development. Examples of eligible projects are the following:

- Solar and wind installations
- Funding for new technologies that permit significant reductions in greenhouse gas emissions
- Rehabilitation of power plants and transmission facilities to reduce greenhouse gas emissions
- Greater efficiency in transportation, including fuel switching and mass transport
- Waste management (methane emissions) and construction of energy-efficient buildings
- Carbon reduction through reforestation and avoided deforestation
- Protection against flooding (including reforestation and watershed management)
- Food security improvement and implementation of stress-resilient agricultural systems (which slow deforestation)
- Sustainable forest management and avoided deforestation.

World Bank Green Project Portfolio Breakdown (Fiscal year 2012)



Source: The World Bank, 2012b

Benefits for investors:

- World Bank Triple-A credits (meaning that the risk of default is very low and that it is a very secure investment)
- The bonds are not linked to project performance, so investors do not take on any project or country risk
- Choice of currency, size, coupon and maturity.

Notable existing green bonds and related issuances

Issuer	Year(s)	Type	Amount (USD) millions	Notes
World Bank	2008–2010	Green Bond	1,897	For climate change projects of2-10 year terms. World Bank green bonds have been structured to have simple and standard financial features, including equivalent credit quality and yield levels to other World Bank AAA-rated bonds. The World Bank (IBRD) has issued the equivalent of over USD2.5 billion of green bonds in 15 currencies.
European Investment Bank (EIB)	2007–2010	Climate Awareness bond	1,630	For investment in renewable energy and energy efficiency projects. 3–8 year term. Has issued one structured note: 2007 issue due 2012: At maturity, holder receives an additional amount linked to the change in the level of the FTSE4Good Environmental Leaders Europe 40 Index over the lifetime of the bonds, subject to a minimum of 5% of the nominal amount of the bonds.
Topaz Solar Farms LLC	2012	Wind project bond	850	The Topaz bonds were the largest for a renewable-energy project without a US government guarantee, and the first to be rated by the three top ratings companies. Issued USD 850 million of 5.75%, unsecured debt due in September 2039 that priced to yield 379.7 basis points, or 3.797 percentage points, more than similar-maturity Treasuries, according to data compiled by Bloomberg. Baa3 / BBB-
African Development Bank (AfDB)	2010	Clean energy bond	705	For investment in renewable energy sources and infrastructure. 3.5–7 year terms.
CRC Breeze Finance (Breeze II)	2006	Wind	676	EUR 470m USD676m where EUR=USD 1.44) .Twenty-year bonds issued through Special Purpose Vehicle against a combined portfolio of wind farms in Germany and France, tranches rated BBB and BB+ (downgraded in 2010 to BB and B due to insufficient wind)
US Government agencies and utilities	2009–2012	Qualified Energy Conservation Bonds (QECB) program and Clean Renewable Energy Bonds (CREB) program	646	May be used by state, local and tribal governments to finance 'qualified energy conservation projects'. A cap of USD3.2bn has been allocated to states under the US 2009 stimulus package, although only USD646m has been utilized to date according to reports by Bloomberg New Energy Finance.
Asian Development Bank(ADB)	2010	Water bond	645	For improving water quality, management and irrigation. 2–3 year terms.
Alta Wind Energy Center	2010	Wind project bond	580	Twenty-five year bond to fund the construction of 3GW of wind farms. Rated Ba3 by Moodys.
Shepherds Flat Wind Farm	2010	Wind project bond	525	845MW wind farm in Oregon. 420million guaranteed by DOE. Twenty-two-year maturity.
International Finance Corporation (IFC)	2012	Green Bond	500	May 15 2015, 0.5% Coupon; Price 99.865% First IFC Green Bond in the US market. Some of the investors are BlackRock, TIAA-CREF, California State Teachers' Retirement System (CalSTRS) and United Nations Joint Staff Pension Fund.
Sunpower / Andromeda Finance	2010	Solar project bond	260	Secured on a 44MW solar park, partially guaranteed by Italian export credit agency SACE. 2 tranches at 18 year terms. The bond was structured as an asset-backed issuance, with half placed to institutional investors. The institutionally placed bonds were fully guaranteed by SACE. The second, non-guaranteed, trance was sold exclusively via the EIB.
Asian Development Bank (ADB)	2010	Clean energy bond	243	4–7 year term tranches for RE and EE investment.
Nordic Investment Bank (NIB)	2010	Environmental support bond	200	For financing its CLEERE lending facility on climate change, EE and RE investments. Three-year maturity.
European Investment Bank (EIB)	2012	Climate Awareness Bond	148	April 2019, SEK 1 bn. Issue Price 99.379.
European Bank for Reconstruction and Development (EBRD)	2010–2011	Environmental Sustainability Bond	48	For a portfolio of green projects aimed at promoting sustainable development. Four-year term.

Source: Sustainable Prosperity, 2012

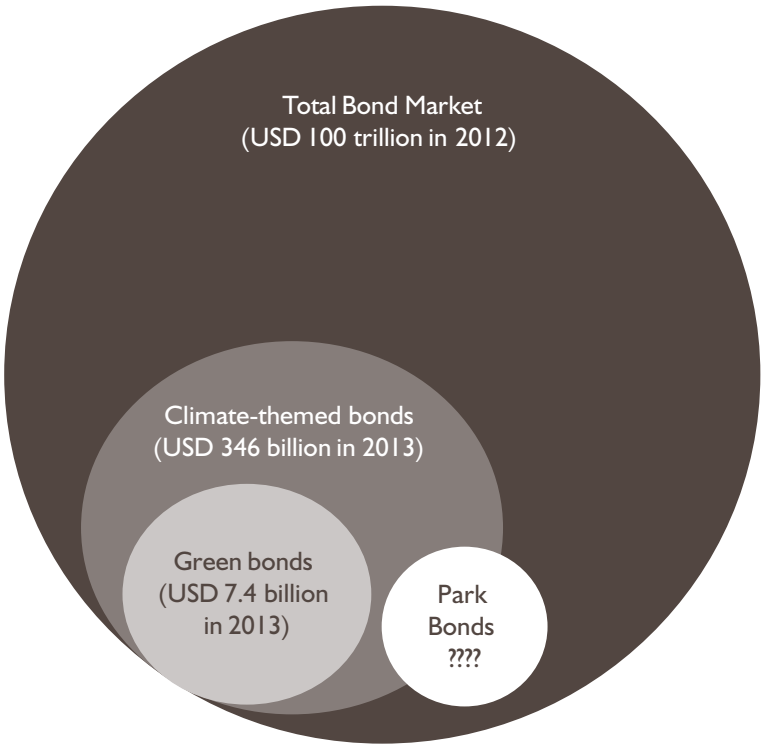
It is clear that green bonds have proved to be a convincing mechanism through which to mobilize private capital. So, how could EFs benefit from green bonds?

- If located in middle-income countries, EFs could identify and possibly manage some investments in the sector of the Green Economy.
- Proceeds of some green bonds could focus on PAs covered by the existing network of EFs (Afforestation, Reforestation, REDD+).
- A reasonable number of green bonds could be incorporated into each EF's investment strategy.
- Green bonds and forest bonds offer a model on which the international network of EFs can draw. A similar ad hoc mechanism could be established to support the international network of EFs.

Further reading on forest bonds and green bonds

- Cranford et al., 2011.
- Reichelt, 2010
- Sustainable Prosperity, 2012

3.7.4 What about 'biodiversity bonds' or 'park bonds'?



Source: Author

Green bonds have worked better than forest bonds because they have mostly been issued by International Financial Institutions (IFI) offering a Triple-A rating, which makes it a very safe investment. Similarly safe financial instruments for PAs could be created and promoted internationally.

On the condition that a convincing model can be proposed, pension funds, sovereign wealth funds, private banking, and even retail banking could be interested in investing in a new type of financial product dedicated to biodiversity. The demand for secure green investments is very high, so there is momentum. As discussed earlier, ethical financing is growing fast, and there is clearly scope for biodiversity initiatives to take advantage of this trend.

These green instruments, which we could call **biodiversity bonds** or **park bonds**, could be issued by an IFI or by an ad hoc organization. The objective should be to manage to offer a Triple-A credit rating to investors, in order to keep interest rates low (possibly under 1 per cent). Payment of coupons would not be 'biodiversity-based' but paid by an endowment fund proven to promote ethical financing (the raised capital could, for instance, be invested in SRI and Impact Finance). The remaining interest (after payment of coupons) would be distributed to EFs for PA financing and other agreed activities of international relevance.

The positive aspects of this new proposal are that:

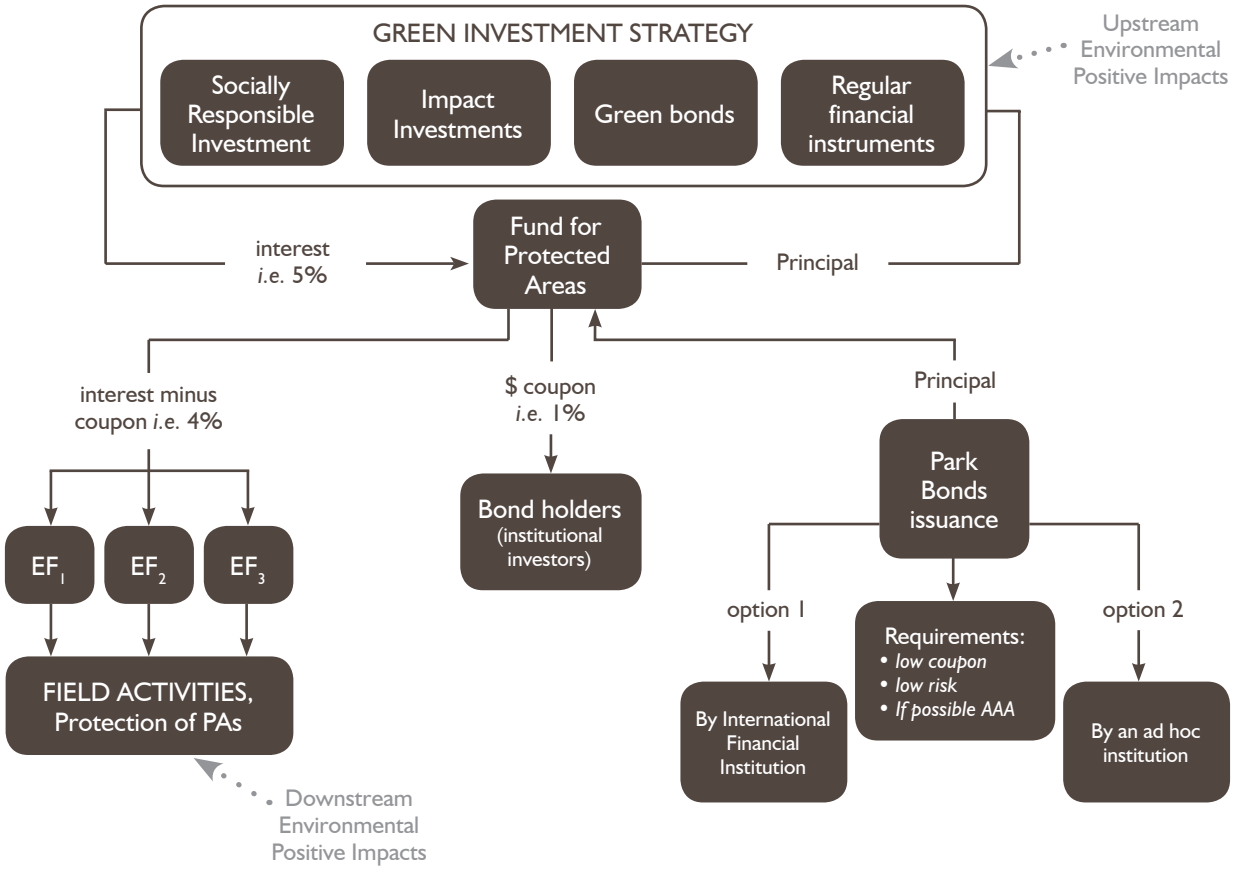
- it would allow networks of EFs to raise funds collectively, targeting big international investors
- if successful, it offers huge potential
- by favouring SRIs, impact investments and other ethically responsible financial products, such a proposal could serve to convince member countries of the CBD that currently criticize EFs for investing in financial markets
- it is likely to satisfy investors given its double positive impact (upstream with SRI and Impact Finance; downstream with the distribution of remaining interests to individual EFs).

Switzerland is currently pushing to develop the impact investment sector and might therefore be willing to support this process. In any case, biodiversity bonds will only materialize if the idea wins the backing of important stakeholders (e.g. World Bank, CBD, key governments).

Safeguard: by no means should the buyer of the bond have any influence on those activities run by EFs in the field by agreement with national governments. Reciprocally, EFs should be absolutely transparent regarding the way interest is used, so that potential bond buyers are clear as to the impact of their investment.

For biodiversity bonds to be issued, it is likely that a small, ad hoc organization would need to be established to distribute funds to EFs (on the condition, for example, that such EFs meet certain key governance, transparency and financial planning standards). The alternative would be to issue bonds at EF level, but this option is more likely to fail because, as with forest bonds, it carries too much risk for investors.

Ethical Finance in Favor of Biodiversity Protection



Source: Author

The success of the above model depends on several points:

- International acknowledgement of the positive role played by EFs (preferably including recognition from the CBD). The huge potential impact offered by 'park bonds', and the fact that at least a reasonable part of the raised capital would be invested in SRI, should add weight to the argument.
- An official letter of approval should be obtained from each country where EFs operate, to provide bond holders (likely to be institutional investors) with a guarantee that there are no sovereignty issues at stake.
- Investors should not be allowed to influence, or interfere in, the way interest will be used. Each EF should be able to use interest either to increase its endowment fund or to cover urgent needs in PAs (e.g. through a sinking fund).
- The board of each EF should officially approve this new type of financing.
- Investors should be given the complete picture of results obtained by the mechanism:
  - Full financial transparency (publication of financial audits, not only from the Fund for PAs, but also from each individual beneficiary EF)
  - Full environmental transparency (publication of periodic environmental assessments)
  - As necessary, other reports to satisfy compliance with international standards for the good governance and management of EFs.
- Ability to offer a guarantee that interests and principal payments will be made, should the issuer default due to reasons such as insolvency. Certain government could be willing to offer such guarantee, in exchange for hosting the Fund for PAs. (Countries that are both financial hubs and environmentally friendly, such as Switzerland, could be interested in studying this type of proposal further.)

Diversifying the services available could further enhance the potential of these types of bonds; for example, several types of park bond could be offered to the financial markets, covering:

- the entire network of participating EFs
- Latin American EFs
- African EFs
- Marine Protected Areas

The idea of Park Bonds as described in this manual is only at a very early stage of development. Nevertheless, there is a real possibility that EFs could help establish links between major players in the international financial markets and PAs.

Summary of the main Pros and Cons of the funding proposals identified in this handbook

Source of funds	Pros	Cons
Multi and bilateral donations	Provide steady flows of funds to EFs Biodiversity is one of the priorities for most donors Historic relations may facilitate getting funds	Have been affected by cuts due to financial crisis Donor's geographical focus may not match world conservation priorities Some (such as the GEF) take years to approve projects
Debt-for-nature swaps	Alleviate the country's debt Provide large sums for biodiversity	Negotiations can take a long time Can only be applied to bilateral public debt (country–to-country)
International NGOs and foundations	Also provide capacity building and legitimacy Facilitate access to debt-swap and leverage funding	Have fewer resources since the financial crisis Their agendas may not coincide with a country's priorities
Carbon finance	Can secure long-term funding EFs are well suited to managing CDM or REDD+ projects and distributing revenue among local beneficiaries	CDM/REDD+ have very complex and lengthy procedures Projects may face social resistance where local communities are not consulted and/or do not benefit Carbon prices are currently low
Green Climate Fund	Has the potential to become a significant source of long-term financing	Not yet operational Has not met its funding target
Payment for Environmental Services	Helps justify the existence of PAs and conservation projects from an economic standpoint EFs can develop a variety of PES projects (related to forests and renewable energies)	Difficult to implement owing to poor recognition of the value of many environmental services Outcomes are uncertain over the long term
Biodiversity offsets	Huge potential, especially in mining and oil sectors EFs can play a key role designing and managing resources for biodiversity offset projects	Could be used to legitimate environmental damage caused by industry or governments Quantification is not standardized, unlike CO_2eq Some biodiversity losses cannot be compensated for Marked-based options are increasingly regarded with caution
Fiscal incentives	Tax incentives can attract private and philanthropic funding Potential to become new, constant and reliable funding sources Put the Polluter Payer Principle in practise Do not impact populations on lower incomes	Biodiversity is not a priority in national budgets and can be the first line to be cut Can be difficult to implement Risk of public discontent Ensuring proper allocation to conservation is a challenge Require strong institutional and fiscal capacity
Individual Philanthropy Platforms	Provide flexible and unrestricted funds Build social support for the PAs	Volatile; are unreliable over the long term Creating a new platform is complex
Impact Investments	Offer increasing potential in the coming years, being at the heart of mainstream financial institutions	Biodiversity conservation would be a new concept for this form of investment Implementation challenges
Forest and Green Bonds	Offer increasing potential, as ethical financing is growing fast Offer very safe investments	Very limited success to date, due to: natural hazards and political, market and default risks
Biodiversity Bonds	Would allow collective fundraising, targeting international investors Huge potential	Are at a very early stage of development

Source: Authors

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4. Case Studies

Flexible resource mobilization in Ecuador: the Socio Bosque Fund

The Special Donations Fund under the *Programa de Protección de Bosques* (*Socio Bosque* Fund) is part of a financial sustainability strategy headed by the national environmental authority in Ecuador with support from international cooperation agencies, and is managed under the National Environmental Fund (*Fondo Ambiental Nacional*). Below is an overview, analysis and the lessons learned in the process of designing and operating this fund.

I) Overview

The *Programa Socio Bosque* (PSB)

The Forest Protection Program of the Ecuadorian Ministry of the Environment, an initiative designed to conserve native forests, paramos and other plant formations, contributes to enhancing the living conditions of families and local communities. It began working in December 2008 with a contractual agreement to provide economic incentives to family and community owners of natural forests and paramos in exchange for their contractual undertaking to conserve them.

At December 2012, the *Programa Socio Bosque* (PSB) had invested over 17 million dollars and formalized 2,002 agreements covering 1,116,215 conserved hectares representing a total of USD 7,701,340 and benefiting 123,431 persons, particularly communes, communities, indigenous nationalities, and Afro-Ecuadorian groups. By 2012, 100% of all PSB costs had been financed by the State.

The *Programa Socio Bosque* (PSB) has three purposes:

- To achieve coverage of protected forests, paramos, native vegetation, and their ecological, economic and cultural values (some four million hectares, equal to 66% of Ecuador's unprotected forests).
- To conserve native forest areas, paramos and other native plant formations in the country, reducing deforest rates (to 50% and associated greenhouse gas emissions (generating Certified Emission Reductions (CERs) due to avoided deforestation).
- Contribute to enhancing the people's living conditions (approximately one million participants).

In less than four years of implementation, the PSB has been able to bring over a million hectares of forests and paramos under its "conservation incentive" mechanism, 86.4% of which are tropical moist forests, 5.9% are montane forests, 4.4% are paramos, and 3.3% are dry forests. The lands that have benefited are spread throughout all 23 of Ecuador's continental provinces.

On a socioeconomic level, the PSB benefits 39,256 families or 123,431 persons, who receive a descending-curve annual payment of USD 30 per hectare per year that is delivered over two periods after monitoring the investment plans created by the beneficiaries themselves (May and October)

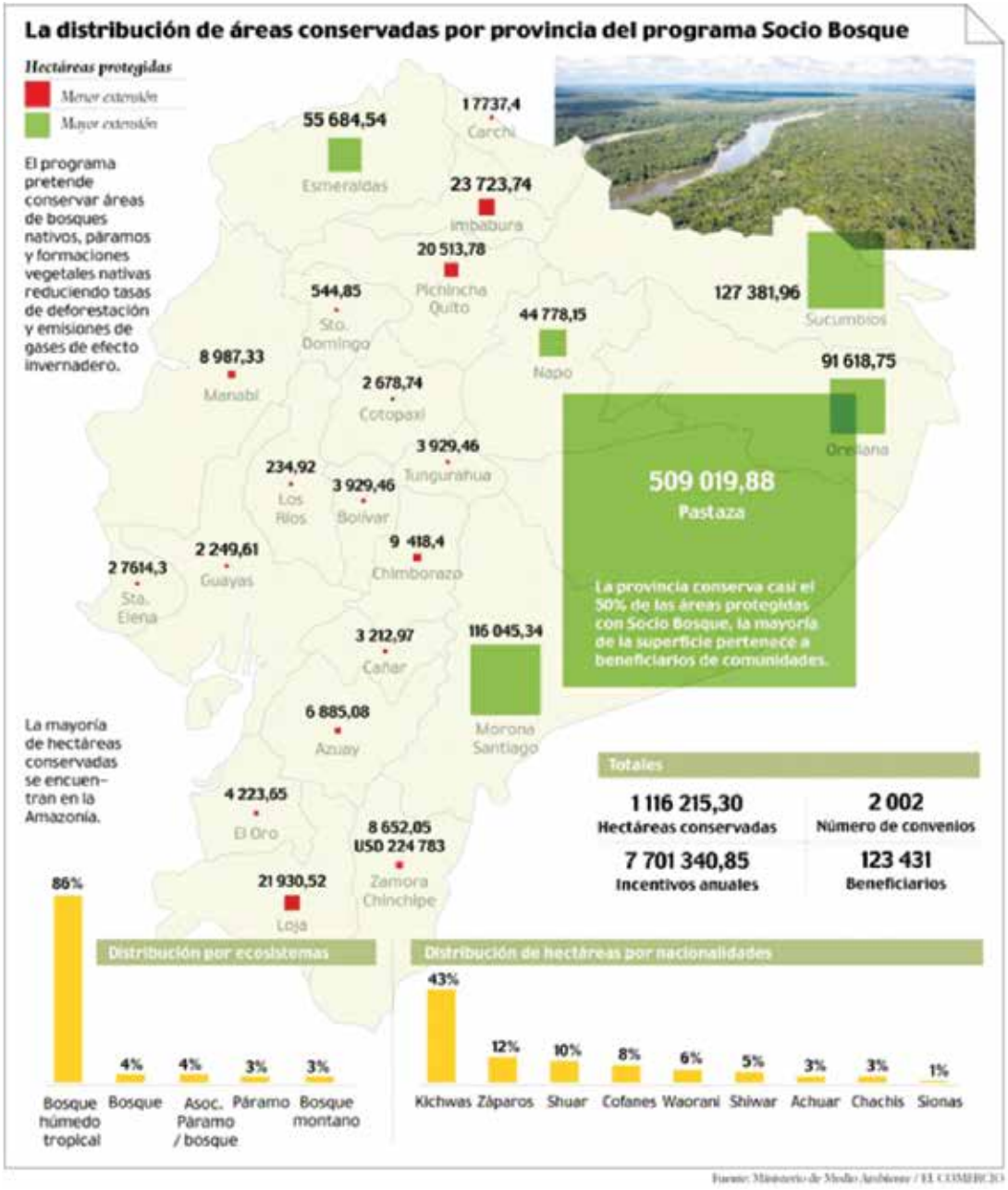
Tiered incentive payments vary depending on forest type, contract type (individual or community) and size of the area under conservation. The average cost per individual conservation area is USD 20.2 per hectare, while for community conservation areas it is USD 4.9 per hectare, as they tend to protect larger extensions.

PSB Status at June 2012 (absolute values)

INDICATORS	Individual	Community	TOTAL
Agreements	1,870	132	**2,002**
Hectares under conservation	123,843	992,372.28	**1,116,215.28**
Number of beneficiaries	8,591	114,840	**123,431**
Number of families	6,206	33,050	**39,256**
Yearly incentive amounts (USD)	$ 2,648,471.76	$ 4,906,213.28	**$ 7,554,685.04**
Average cost per ha (USD)	**$ 20.2**	**$ 4.9**	**$ 6.7**

Source: PSB, 2012

By 2012, the Ecuadorian State secured 100% of all PSB costs, but since its creation, the program has taken various steps to diversify its funding sources and mechanisms. In 2012, it was clear that PSB would have budget issues because of how successful the program was. Among other things, the program had uncertainties regarding incentive payments in October 2012 (around 3.5 million dollars).



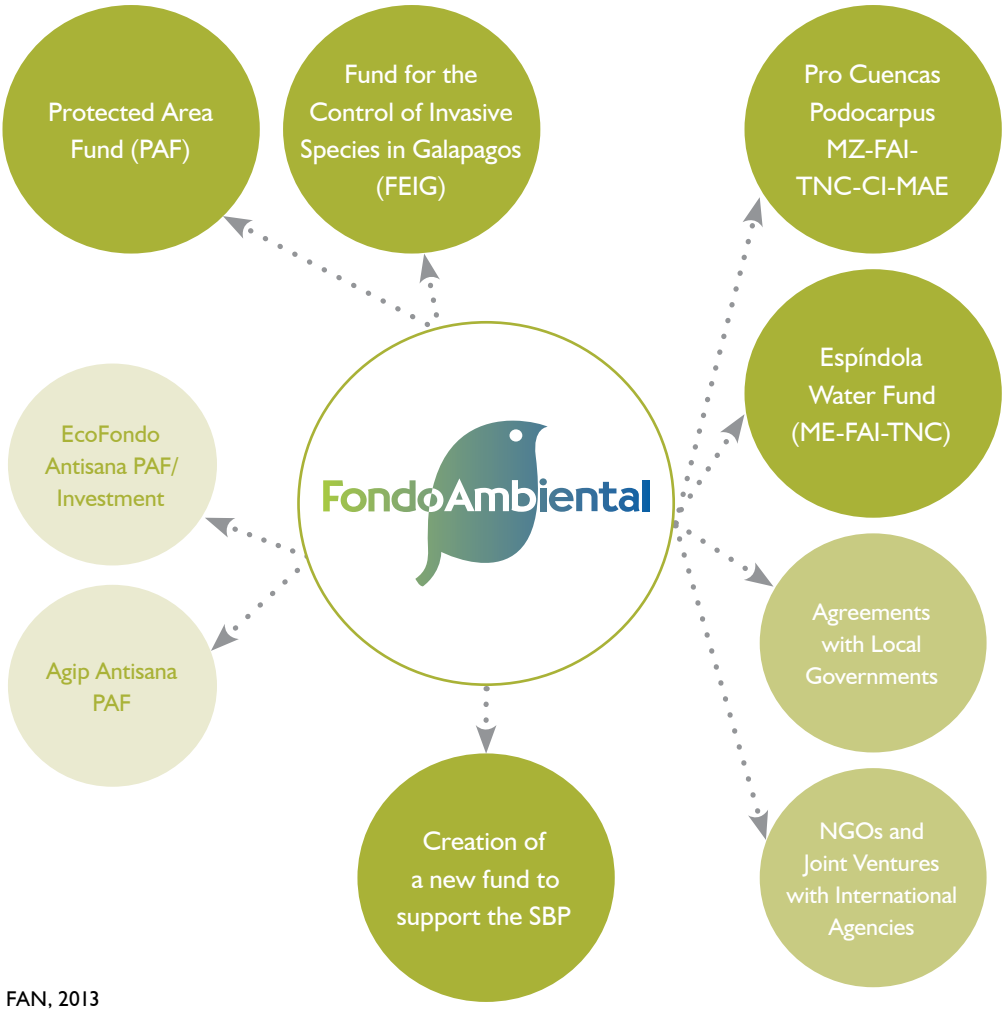
Source: PSB, 2013. Prepared by: El Comercio, 2013.

The National Environment Fund (FAN)

The FAN is a private-law, not-for-profit entity created in 1996 under the provisions of the Ecuadorian Civil Code and based in Quito. Its primary purpose is *"to finance plans, programs, projects, and any activity designed to protect, conserve and enhance natural resources and the environment."*[1] Up until 2012, the FAN portfolio included several sub-accounts with an environmental focus, primarily the Protected Areas Fund (Fondo de Áreas Protegidas - FAP), the Fund for the Control of Invasive Species in Galapagos (Fondo para el Control de Especies Invasoras de Galápagos - FEIG), and water funds, in addition to some short-term projects.

[1] FAN Bylaws, p. 1

Portfolio of FAN Programs and Projects



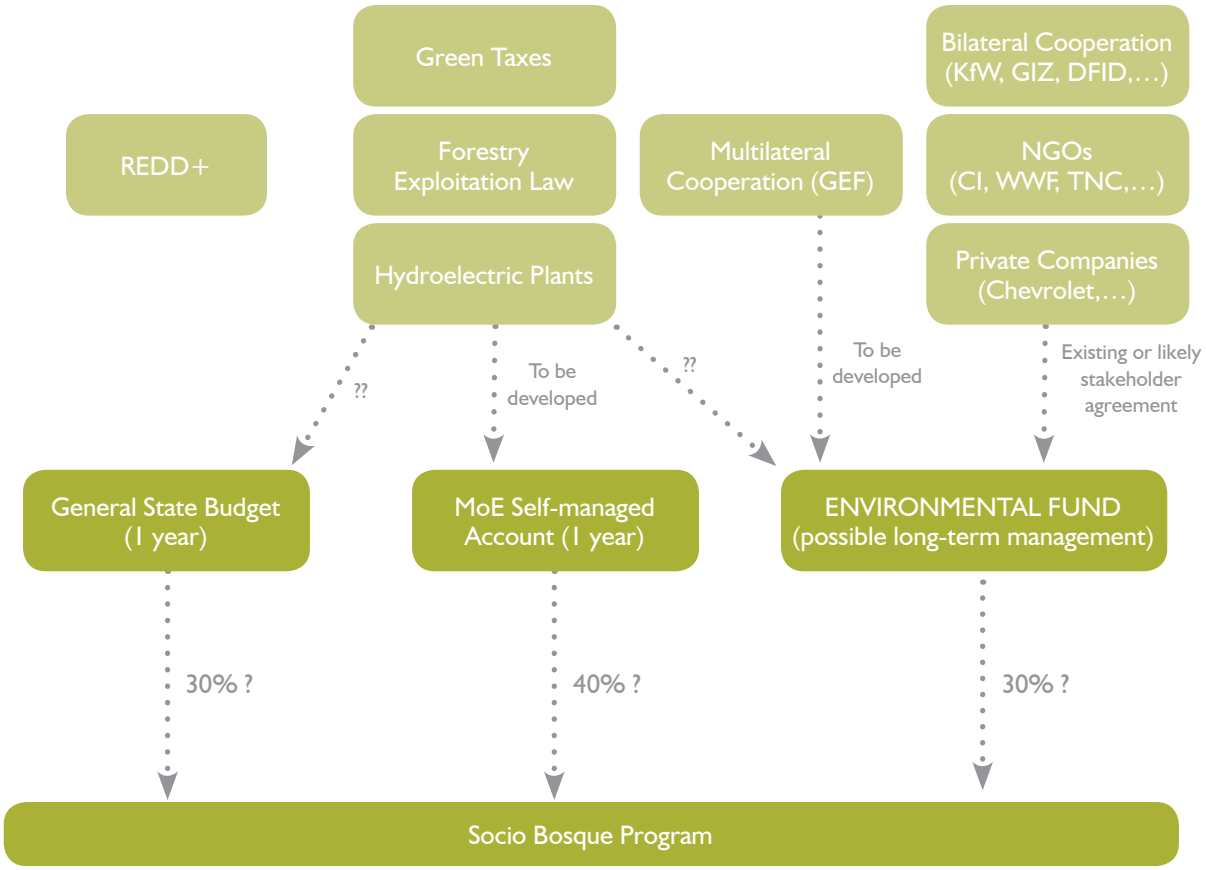
Source: FAN, 2013

FAN's strategic horizon for 2016 states:

1. To contribute to consolidating the National System of Protected Areas (*Sistema Nacional de Áreas Protegidas* - SNAP) in Ecuador.
2. To encourage sustainable production initiatives in the buffer zones of protected areas, in order to maintain and enhance ecosystem functions.
3. To help local and regional organizations, autonomous governments, indigenous nationalities, communities of African descent, and other local stakeholders with the environmental management of their territories. To offer support for organized civil society (NGOs).
4. To develop financing instruments and mechanisms for ecosystem services and human wellbeing designed to support biodiversity conservation, climate change mitigation and adaptation, and sustainable development.
5. To strengthen organizations in fulfilling their missions and implementing the 2016 Strategic Plan.

The Ministry of the Environment (MAE) has had the support of the German Cooperation as one of its key partners in co-financing the priorities of the national environmental authority. Accordingly, an overall strategy for the *Programa Socio Bosque* was developed jointly in 2012, and the National Environmental Fund was entrusted with managing new and additional resources. This decision was made taking into account consistency between institutional objectives, experience and credibility, and other sources.

Diversifying sources of PSB financing (indicative percentages)

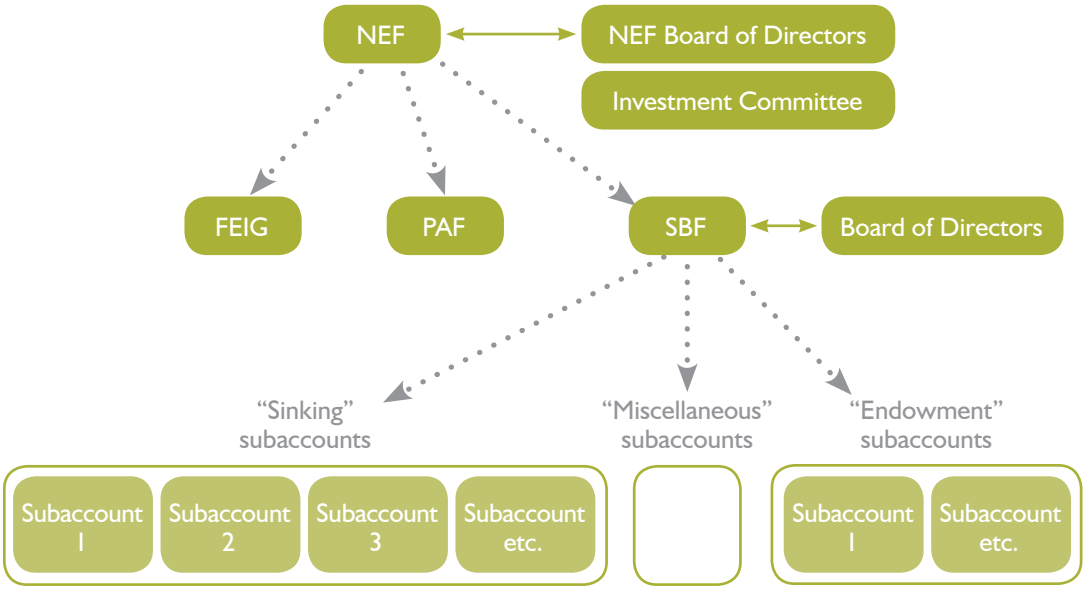


Source: Landreau, 2012 for KfW-PSB

In this way, the National Environmental Fund works as an authorized third party on the fund-raising cycle and is empowered to house the Socio Bosque Fund (FSB). Accordingly, this sub-account was designed with the basic characteristic of having its own Board of Directors. It was also stipulated that all FSB resources would be invested in the domestic economy following the criteria established by the FAN Investment Committee.

In turn, the FSB is made up of several sub-accounts—sinking funds (where capital itself is used), endowment funds (where only interest from invested capital is used) and miscellaneous funds, essentially to receive small contributions and ensure that current expenditures are paid—so the FAN will have no time to make investments in the domestic economy.

Overall Structure of the *Socio Bosque* Fund



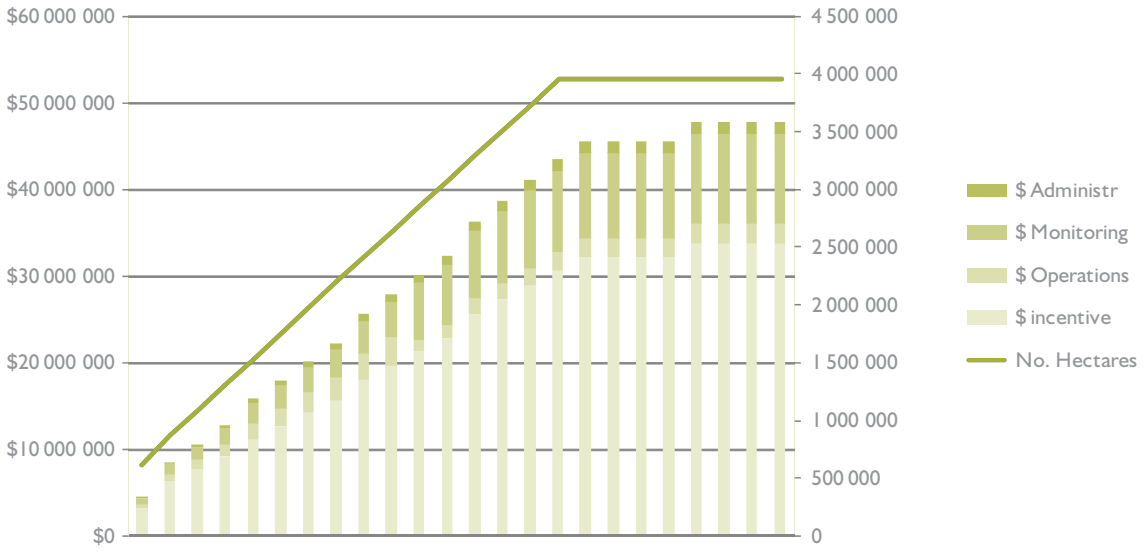
Source: Landreau, 2012 for KfW-PSB

The German Cooperation made an initial investment of USD 6.4 million through the KfW in 2012, and an additional USD 20 million are projected for the 2013-2015 period.

II) Analysis

Importance of Financial Projections

Long-Term Projections of PSB Financial Needs



Source: Landreau 2012, based on a work meeting with the PSB management of MAE

When Germany proposed to support the PSB, it already had one million hectares under conservation and had met 25% of its coverage target, which was to cover four million hectares. Future financing needs will depend primarily on how quickly the PSB expands, the ratio of individual partners to collective partners, and the anticipated raise in incentives. During a work meeting, the following hypotheses were established:

Hypotheses Used to Develop Projections

Number of additional hectares per year	220,000
Individual partners area / total area as of 2012:	10%
Individual incentive growth rate every 4 years as of 2014	5%
Group incentive growth rate every 4 years as of 2014	5%
Working expenditures / total budget until 2019:	12%
Working expenditures / total budget from 2020:	5%
Overhead / total budget	3%
Monitoring expenses / total budget until 2020:	15%
Monitoring expenses / total budget from 2020:	22%

Source: Landreau 2012, based on a work meeting with the PSB management of MAE

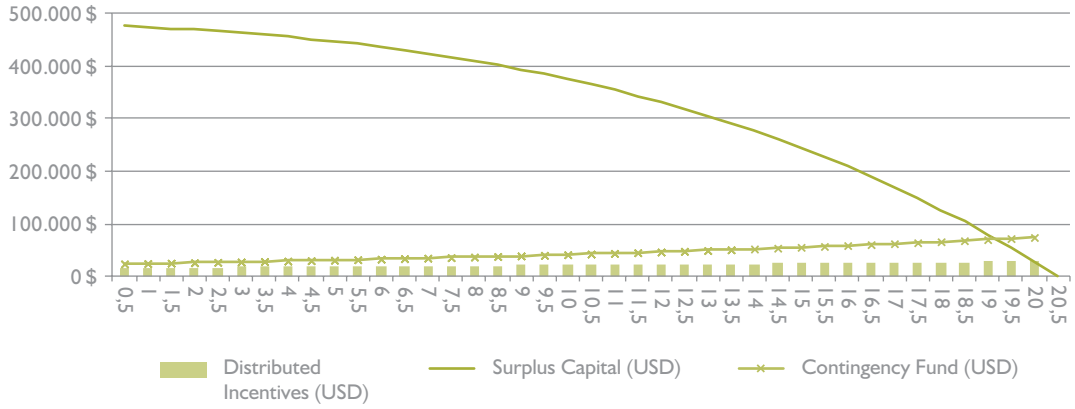
In addition to a solid financial analysis, the MAE and KfW wished to have a technical solution to cover incentive payments on the long term (i.e., the 20 years of the signed agreements). Therefore, a financial model was also developed and made available to the FAN. This model enables determining more dynamically the resources available at year 1 to pay incentives to PSB partners, based on the following parameters:

- Yearly average raise in incentives
- Net annual yields of the FAN
- EUR / USD exchange rate
- Contingency fund

This tool is important for FAN and the FSB Board of Directors to decide whether a donor's proposal is feasible or not. A graphic representation of the tool is as follows:

Graphic Representation of the Financial Model Available to FSB

(Yearly incentives distributed over 20 years with an initial capital of 1 million dollars, a contingency fund of 5%, a yearly incentive raise of 3%, and interests from FAN of 6%)



Source: Landreau, 2012 for KfW - PSB of MAE

Importance of a Clear Institutional Framework

The *Socio Bosque* Fund (FSB) is integrated in the financial management structure of the National Environmental Fund and has its own Board of Directors. Its operationality is stipulated in the:

- MAE-FAN Agreement: The agreement defines the obligations of the parties, with a focus on transparency and financial control. It also defines the makeup of the FSB Board of Directors, and is made concrete through the Work Manual.
- The FSB Procedural Manual: the manual regulates FSB implementation management.

> **"The Socio Bosque Fund made its first transfers to its collective partners for USD 190,759 in 2012 and USD 2,268,134 in 2013."**

III) Lessons Learned

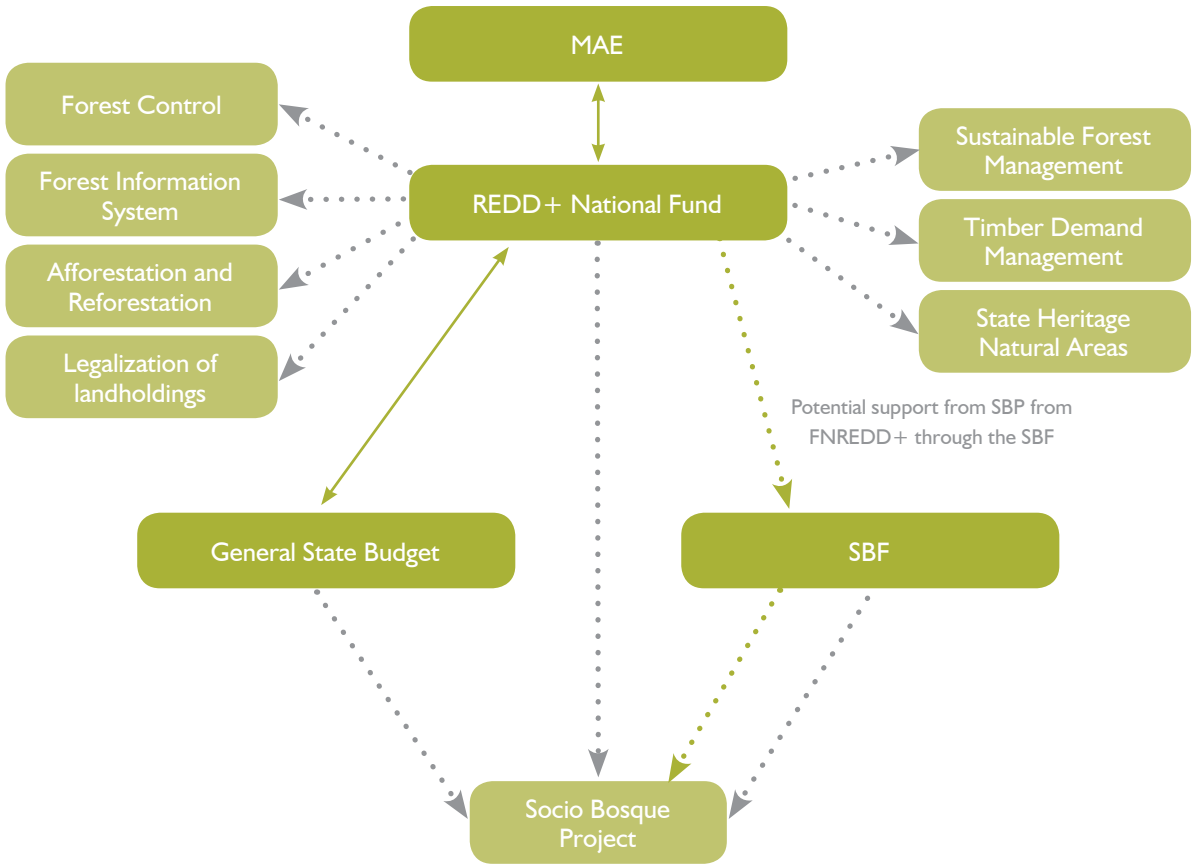
Having a long-term strategy is important to achieve positive outcomes. The managers of both the PSB and the FAN have worked with a long-term strategic vision.

The FAN has shown a great degree of flexibility in order to meet the requirements of both the Ministry of the Environment and the German Cooperation (KfW).

A KfW grant was used to create a financial mechanism that is adaptable and usable by other parties. Aside from the German Cooperation, other donors have been able to support the PSB through the FSB (the Global Conservation Fund – Conservation International transferred USD 1.1 million at the end of the second semester of 2012).

In the future, funding sources for the FSB is expected to diversify even more. It is likely that the FSB will benefit from funds from the REDD+ mitigation mechanism, provided it solves matters of permanence, leakage and additionality. Below are potential interactions among such mechanisms:

Possible FSB / FN REDD+ Interactions



Source: Landreau, 2012 for KfW – PSB of MAE

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Página Web PSB en *sociobosque.ambiente.gob.ec*

Página Web FAN-FSB en *www.fan.org.ec/*

I) Overview

About the BioCultura Program

Bolivia is an enormously rich country in terms of cultural heritage and biological diversity, but it has one of the highest levels of poverty and inequality in Latin America. There are over 30 cultural groups, each of which maintains a particular way of relating to nature. Small-scale farmers and indigenous communities—especially those inhabiting the Andean region—depend heavily on biodiversity and so are careful to protect it and use it sustainably. The main environmental threats are from economic activities such as extracting precious timber and mineral resources, and farming in poorly suited areas.

In support implementation of the Biological Diversity Convention in Bolivia, in 2007 the Ministry of the Environment and Water and Swiss Cooperation Agency (COSUDE) started jointly to develop the National BioCultura Program in the framework of bilateral cooperation between Switzerland and Bolivia. This program was awarded in a contest organized by COSUDE, and received financing for approximately USD 6,700,000 to be executed from 2010 to 2014. Two highly experienced foundations were selected to implement the program:

- *The Fundación para el Desarrollo del Sistema Nacional de Áreas Protegidas* (FUNDESNAP), which since the year 2000 has been helping to strengthen national, departmental and municipal protected areas and the different stakeholders associated with them, and
- the *Asociación Boliviana para el Desarrollo Rural* (Pro-Rural), a private entity that since 2000 has also been supporting economic initiatives of grass-roots rural producers, their economic organizations and micro, small and medium-size enterprises, to enhance their incomes sustainably and position them profitably in domestic and foreign markets.

The central purpose of BioCultura is "to encourage sustainable use and conservation of Andean ecosystems for good living *(suma qamaña – sumaq kawsay)*". This paradigm of *good living* proposes social and economic development in harmony with nature and in community with other human beings.[1] BioCultura seeks to establish a **funding system** that combines specific financial mechanisms as the foundations upon which to build sustainability.

To meet its proposed purpose, the program promotes:

i. public policy making based on local norms and practices relating to biodiversity management;
ii. developing inclusive, sustainable, feasible economic alternatives;
iii. preserving the critical functions of ecosystems; and
iv. revaluing the cultural identity of the communities.

One of the key aspects is capacity building for national, departmental and municipal authorities responsible for implementing policies relating to biodiversity use and conservation. Among other things, it transfers know-how on developing proposals and mobilizing financial resources.

To strengthen program management, the *Unidad de Seguimiento y Monitoreo y Gestión Financiera* (USEF) was created. It manages all resources contributed by COSUDE and plays a key role in mobilizing and raising complementary funds. The USEF has four people (from FUNDESNAP) for administrative and financial management, and three follow-up technicians (from ProRural) who monitor the progress made on what is decided in each Endogenous Biocultural System (EBS).

[1] *Plan Nacional de Desarrollo 2006 – 2011; Plan Rector 2009 – 2013.*

Endogenous Bio-cultural Systems

The central element of BioCultura is what is known as an *Endogenous Bio-cultural System* (EBS). These are projects based on local capacities, that arise from popular demand, are developed with the engagement of all local stakeholders, and are approved by municipal authorities and social or territorial organizations. EBS startup is grounded in co-management and shared responsibility among implementing partners (normally NGOs or foundations selected from a short list proposed locally by municipalities and the communities themselves), local social and farmer organizations, and municipal governments.

Goals set and joint responsibilities undertaken by the various stakeholders are formalized with a *Co-Management Agreement* signed through the USEF. These contracts include financial commitments by all parties—municipal counterparts, implementing partners and beneficiary communities—and are countersigned by local mayors and key authorities of the participating communities. In addition, USEF provides technical, organizational and financial assistance for project startup.

For the two-year duration of these initiatives, an EBS addresses matters such as cultural identity and revaluing local wisdom, raising family incomes, conserving natural resources and biodiversity, and food security. As cross-cutting issues, they also cover gender and generational equality and territorial governance, the latter addressed by forming a local council made up of all local institutions and stakeholders.

Their initiatives include a diverse array of activities. A few examples include revaluing local knowledge on the use of medicinal plants, ritual practices relating to farm production, strengthening local organizations for risk management, capacity building for project development, encouraging and bolstering the involvement of women, youth and the elderly in decision making, strengthening rules on the use of and access to forests and green areas according to uses and customs, helping to market prioritized farm produce, collecting and cultivating Andean crops such as cahihua, quinoa and tubers, supporting local craft production initiatives (prioritizing women's participation), farm management of pests and diseases, promoting fairs for the exchange of farm products, reforesting with native species, diversified production for food security, and others.

Beginning in August 2010, EBS were started up in 18 municipalities in the departments of La Paz, Cochabamba, Oruro, Chuquisaca, Tarija, and Potosi, each with approximately USD 200,000 in COSUDE funding for two years. To date, some 10,413 family units have been benefited in 296 communities.

Ensuring Long-Term Financing by Leveraging Funds

At July 2013, the BioCultura Program had executed 66% of the funds contributed by COSUDE. One of this agency's key aspects when financing a project is to ensure its long-term sustainability and the ability to replicate the initiative under the same model. To this end, the target was set to mobilize two million dollars in addition to the COSUDE contribution. USEF is the unit in charge of mobilizing and channeling additional financial resources from a wide diversity sources. In order to guide this resource mobilization and the program's financial management, the *Plan de Apalancamiento de Recursos Financieros* (Financial resource leveraging plan) was designed to support the EBS and scale up the program.

Thanks to this plan and the efforts of the USEF through its *Mecanismo de Cofinanciamiento de Programas y Proyectos* (Co-financing mechanism for programs and projects), significant funds were raised from both domestic participants (local governments, implementing partners and communities) and foreign donors (both public and private). Between 2012 and 2013, a total of USD 1.6 million has been raised from the Indigenous Fund[2], the European Union (EU), the Swedish International Development Agency (SIDA), the United Nations Development Program (UNDP), and the Danish International Development Agency (DANIDA). This figure is sure to grow, as decisions are pending on several proposals presented to the Indigenous Fund, the EU, the Inter-American Development Bank (IDB), the Japan Fund, and the World Bank for a total of at least five million dollars.

[2] The *Fund for the Development of the Indigenous Peoples of Latin America and the Caribbean*—known as the Indigenous Fund—is the only international organization for multilateral cooperation that specializes in promoting self-development and recognition of the rights of indigenous peoples. It was established in 1992 at the Second Summit of the Ibero-American States in Madrid, Spain.

Through co-management agreements, another USD 1.5 million has been committed to by local implementing partners, municipal governments and communities participating in the EBS. This represents an increase of about 73 percent over what was committed to initially. Approximately 60 percent of these resources have already been executed (see Table 1).

In total, from the beginning of the program to July 2013, the **internal and external funds raised amount to a total of USD 2.49 million** and are expected to will grow further (see Tables 1 and 2). With these figures, the leveraging target agreed upon with COSUDE should be surpassed by two million dollars by the end of 2013.

Table 1. Meeting Financial Leveraging Commitments: 2012 - 2013 Period
(Stated in millions of US dollars)

PROCESS/SOURCE	TOTAL TARGET	DETAILED TARGETS AND ACHIEVEMENTS (IN USD MILLIONS)			
		2011	ACHIEVED IN 2012	ACHIEVED IN 2013	TOTAL ACHIEVED
Municipal counterparts (EBS co-management agreements)	0.43	Management process, mechanism design and formal agreements	0.17	0.07	0.24
Additional local counterparts (contracts: implementing partners and communities)	0.29		0.45	0.22	0.68
Fondo Municipal Biocultural	0.50		-	-	-
Fondo Canasta Biocultural	0.14		-	-	-
Fondo Financiero Biocultural (microfinance)	0.36		-	-	-
Co-financing and technical assistance programs and projects	0.29		0.39	1.19	1.58
TOTAL (in USD millions)	**2**		**1.01**	**1.48**	**2.49**

Source: USEF, July 2013

Table 2. Executed by Local Counterparts
(Accrued at June 30, 2013)

DETAIL	COMMITTED (Bs.)	EXECUTED (Bs.)	PERCENTAGE (%)
Municipal Governments	528,132	240,760	46%
Beneficiary Communities	497,755	323,570	65%
Implementing Partners	506,087	353,572	70%
TOTAL:	1,531,974	917,902	**60%**

Source: Implementing Partners, July 2013

BioCultura has been launched in 25 municipalities selected according to criteria such as the presence of Andean ecosystems prioritized for conservation, cultural homogeneity, low human development indices, and high rates of poverty and inequality. Several of these municipalities overlap with protected areas of national interest such as Apolobamba, Sama Biosphere Reserve, *Serranía de Iñao*, *El Palmar*, and Sajama. These sites pose an opportunity to showcase the environmental, cultural, economic, and social functions of protected areas, as set forth in the Constitution of the Plurinational State of Bolivia.

Although the program as a specific duration (2010 to 2014), the hope is that it will extend to all of the municipalities in the country. BioCultura has already presented proposals for extension to other regions, including a proposal to work in the lowlands.

II) Analysis

A broadly conceived Environmental Fund

Financial support for Bolivia's protected areas (PAs) is one of the key activities of FUNDESNAP. From 2002 to 2011, it mobilized and raised over USD 40 million in trust funds to support recurring costs in the PAs, donations for specific projects and programs from public and civil-society actors, and common funds managed with municipal governments.

For FUNDESNAP, the idea of an environmental fund goes beyond the function of a financial mechanism that manages funds efficiently. Resource mobilization is perceived as everything from the most complex mechanisms such as debt swaps or trust funds to negotiating with a municipality to co-finance a specific activity. And resources do not necessarily have to be channeled through their accounts. Diverse stakeholders united around a common agenda can be part of this mobilization, which contributes to financing the same goals.

Uniting stakeholders around common agendas

Based on the concepts described above, local cooperation platforms are seen as suitable financial instruments for sustaining the conservation of protected areas, biological corridors, and projects for the sustainable use of natural resources. Therefore, one of BioCultura's main objectives is to support the creation of these platforms by uniting diverse stakeholders who share the responsibility to meet common goals. In other words, it is about coordinating local consensus processes and venues in which activities are jointly prioritized and agreements are reached regarding the goals to pursue and the internal and external resources to mobilize, be they financial, political or social.

III) Lessons Learned

For BioCultura, building sustainability requires developing and strengthening processes of shared responsibility among different stakeholders. Consensus building through local platforms made it possible to address in an integrated fashion all aspects of biodiversity resource conservation and sustainable use in protected areas by uniting visions and coordinating efforts in the pursuit of common goals. Developing this co-responsibility should be one of the basic tasks of an environmental fund.

Local development processes should seek to transfer capacities, especially to municipal governments and central actors. Their commitment with the program and its inclusion in their own action programs and budgets ensures the sustainability of these processes by including them in public policies.

The commitment of implementing partners to achieving leverage has been key to the continuity of these initiatives. This has been possible due to the long-term vision that was part of the program from the beginning of its intervention and was translated into co-management agreements and leverage commitments.

The role played by FUNDESNAP throughout this process has been key in three primary ways: its broad expertise in managing project funds and donations, its experience mobilizing financial resources to achieve agreed leverages, and the concept of financial sustainability at all levels, including the local level of leveraging.

In the view of BioCultura, the idea of sustainability should be broadened to include not only fund raising, but also activities that make it possible to move towards a more integrated vision of co-responsibility, especially at the local level. In this way, co-financing, leveraging and especially the roles and responsibilities of each stakeholder are essential to avoid loading a single program or project with an entire protected area or preserve, so that each stakeholder will have a role to play and a responsibility to bear in achieving financial support. One essential aspect is the idea of working together with the central government, taking advantage of the capacities of specialized institutions, and making good use of the experience environmental funds have raising and managing funds to support the sustainability of an initiative.

I) General Description

Banc d'Arguin National Park (PNBA)

The Banc d'Arguin National Park (abbreviated to PNBA in French), located in the Islamic Republic of Mauritania, was created in 1976. Thanks to its size (12,000 km2) and remarkable biodiversity, it is the most important Marine Protected Area in western Africa.

The PNBA ecosystem is exceptionally rich in nutrients owing to a vast expanse of marshland covered with sea-grass beds, a significant volume of windblown sediment from the continent, and the results of permanent **upwelling**[1] around the Cap Blanc. This wealth ensures that the local marine and coastal environment remains sufficiently rich and diverse to support important communities of fish, birds and marine mammals.

The Banc d'Arguin is one of the most important zones in the world for nesting birds and Palearctic migratory waders. Stretching along the Atlantic coast, this Park is formed of sand dunes, coastal swamps, small islands and shallow coastal waters. The austerity of the desert and the biodiversity of the marine area results in a land-and sea-scape of exceptional contrasts and natural value.

The region's mild climate and an absence of human interference make the park one of the most important sites in the world for observing the particular species that live here. However, the PNBA is confronted by serious threats:

- the newly constructed Trans-Sahara road, which runs close to the park
- the discovery of petrol near the park boundaries (new oil platforms)
- over-fishing (despite strict regulations governing fishing within park boundaries, and the fact that only traditional fishing techniques, without motors, may be used)
- global warming (the area is particularly at risk from any increase in sea level).

Thanks to its international renown, the PNBA has always benefited from substantial – if irregular – international support from bilateral and multilateral donors and international NGOs. Together with the Park managers, all donors agreed that a sustainable financial mechanism had to be put in place. In the early 2000s, they concluded that an En-

[1] Upwelling is an oceanographic phenomenon that describes the wind-driven motion of dense, cooler, and usually nutrient-rich water towards the ocean surface, replacing the warmer, usually nutrient-depleted surface water. The nutrient-rich upwelled water stimulates the growth and reproduction of primary producers such as phytoplankton. Upwelling results in high levels of primary productivity and thus fishery production. Approximately 25 per cent of total global marine fish catches come from five upwellings that occupy only 5 per cent of the total ocean area. Upwellings that are driven by coastal currents or diverging open ocean have the greatest impact on nutrient-enriched waters and global fishery yields.

vironmental Fund would be the most appropriate tool to secure the long-term financing of the PNBA and, possibly, other PAs in Mauritania. Contributors were convinced that an EF represented an interesting exit strategy: a way in which international cooperation might gradually withdraw while ensuring the PNBA had sufficient funds in hand to ensure the sustainability of institutional support and conservation activities for years to come.

Establishing the BaCoMaB

The Banc d'Arguin and Coastal and Marine Biodiversity Trust Fund (BaCoMaB) was formally established on January 2009, almost 10 years after the drafting of the first feasibility study for the initiative. One of the reasons for this long timeframe, besides the usual institutional issues around EF establishment, was that donors wished to see the Mauritanian government contribute to the capitalization of the Fund. Like many trust funds for conservation in Francophone Africa, the BaCoMaB is a Foundation registered in London under English law. The offshore location, chosen by the Fund's Steering Committee, has many advantages, including tax exemptions for European and American donors.

The BACoMaB is supported by Mauritanian technical and political authorities at the highest level. It was officially recognized by the Council of Ministers in December 2010, which gave the EF the authority to receive donations and bequests, and manage public funds. This was a powerful act, through which the Mauritanian government demonstrated its commitment to the conservation of coastal and marine biodiversity and legitimized the activities of the Foundation for that purpose.

The objectives of the BACoMaB are:

1. to promote the conservation, protection and improvement of the physical and natural environment of PNBA and other coastal and marine PAs in Mauritania
2. to promote, in the public interest, the sustainable development of 'beneficiary sites' by:
   a. conserving, protecting and improving the environment and the sustainable use of natural resources
   b. reducing poverty and improving living conditions for the resident populations
   c. promoting sustainable means of economic growth and regeneration
3. to promote public education on biodiversity, conservation and sustainable management of beneficiary sites.

The BACoMaB's endowment fund now stands at EUR 17.3 million and, interestingly, the Mauritanian authorities are one of the largest contributors:

Donor	State	Amount (EUR)
Mauritanian Government / EU	Ongoing	2.8 million
MAVA (Foundation)	Ongoing	6 million
BMZ (German Cooperation)	Ongoing	5 million
AFD	Accepted	2.5 million
FFEM	Likely	1 million
Extractive industries	Likely	n/a
GEF	Likey	n/a
Spanish Cooperation	Quite likely	n/a
Total (2014)		17.3 million

The average gross return of the fund has been 4.08 per cent per annum, which is lower than the international average of EFs. With the annualized inflation of the Euro at 1.94 per cent, the historical net return of the fund equates to 2.14 per cent.

Governmental participation key to ensure the capitalization of the BaCoMaB by donors

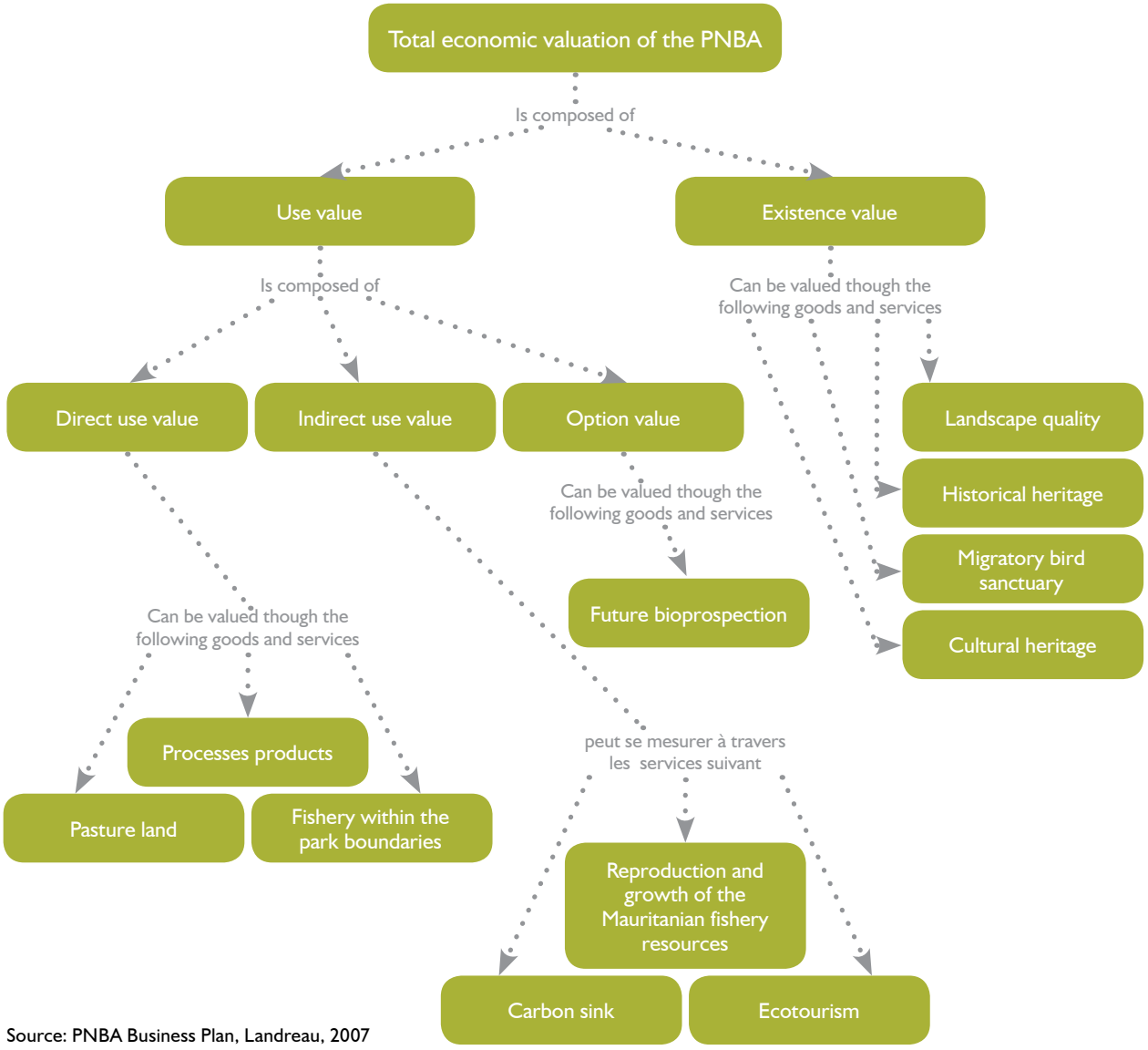
To ensure the security of the mechanism, it was felt that national commitment was key; this would underpin the success of the EF's creation and continued operation. Indeed, a commitment from the Mauritanian government served as a catalyst for action and helped build stakeholders' confidence. The main options available to the Mauritanian government to fund the EF were analyzed in detail:

- Introducing new financial instruments, such as airport tax, which would supply the fund (revolving).
- Using some of the revenue from oil exploitation (offshore exploitation having recently started in Mauritania).
- Using the Fisheries Agreement between the EU and Mauritania to support the PNBA.

Economic valuation, key to determining and justifying a resource mobilization strategy

The PNBA came up with its first business plan in 2007. This has been a key document that has helped the PNBA define its financial needs over the long term, determine the scale of funding gap it faced, and come up with a list of solutions to fill this gap.

Mapping of PNBA's environmental services



Source: PNBA Business Plan, Landreau, 2007

The mapping of environmental services provided by the park was supplemented by a quantitative economic valuation of the park and a first attempt at monetary evaluation. It emerged clearly that the most valuable service provided by the PNBA was its role in securing the reproduction of fish stocks. The PNBA is a nursery and breeding area for several key fish species of interest to international industrial fleets. Although it is difficult to guarantee the accuracy of the calculation of indirect use value, there is evidence that the reproduction of fish that takes place within the park boundaries, where many fish reach maturity, accounts for a substantial proportion of Mauritanian fish stocks. The most likely hypothesis is that 60 per cent of the total fish stocks in Mauritania's Exclusive Economic Zones (EEZ) benefit directly from the existence of the PNBA.

At the national level, revenue from fisheries represents about 30 per cent of the national budget. Fisheries account for half of foreign exchange earnings in Mauritania and generate more than one-third of the country's jobs (being the top employer). An initial monetary evaluation of the PNBA's ecological functions indicated that they generate between EUR 300 and 350 million per year (Fernandez, 2009). This is likely to be an underestimate, because it does not take into account the value of biodiversity, landscapes and heritage of archaeological and historical character.[2] In any case, the evaluation put into perspective the huge economic importance of the PNBA as a breeding and nursery area for several fish species regarded as key by the international industrial fleet. Mauritanian authorities and the local EU Delegation took this on board and agreed to give additional support to the PNBA.

National capitalization of the BaCoMab through fishing agreements

The first fishing agreement concluded between the EU and Mauritania dates back to 1987.[3] The EU has a special interest in maintaining access to Mauritanian resources because the country offers particularly rich and diverse fishing grounds in close proximity to Europe. Furthermore, Mauritania's fishing fleet does not allow its grounds to be fished to their full potential (the fishing limits are a frequent subject of international debate).

The fisheries agreement between the EU and Mauritania that came into force on 1 August 2006, for a period of six years, covered a total of EUR 305 million for the period 2008–2012. Of these funds, EUR 65 million were allocated to the definition and implementation of a sectoral fisheries policy. Of this EUR 65 million, the PNBA receives EUR 1 million per year, of which 50 per cent is allocated to the BACoMaB as payment for ecosystem services rendered. As explained above, this agreement was the result of a strategy to secure the long-term financing of the PNBA and other MPAs. The Mauritanian Government and the BaCoMab formally agreed the following arrangements, under a signed Convention:

- Article 1: The contributor grants a stake of up to EUR 2.8 million for the capitalization of the endowment of the beneficiary under long-term financing in the form of a gift in perpetuity for the sustainable management of coastal and marine protected areas in Mauritania.
- Article 3: The beneficiary undertakes to set up an executive unit in Mauritania and to develop management tools, transparent procurement rules and a system of monitoring and evaluation to ensure traceability and measurement of impact of activities relating to the objectives of the recipient.
- Article 5: The beneficiary undertakes to provide to the contributor (i) an annual report of activity on March 31 of each year for the activities of the previous year, (ii) quarterly reports on asset management, (iii) an audit of the financial statements of the Foundation report.

[2] It is worth noting that the recent discovery of oil in Mauritanian EEZ could make this monetary evaluation counterproductive.
[3] For a full legal history of fishing agreements between the EU and Mauritania: http://ec.europa.eu/fisheries/cfp/international/agreements/mauritania/index_en.htm [accessed 03.09.2013]

Schedule of payments to the BaCoMaB

Payments	Amount (EUR)	Date
1	505,915.00	26/08/2010
2	546,797.90	26/01/2011
3	391,003.01	14/12/2011
4	455,927.05	25/04/2013
5	450,178.52	31/08/2013
6	450,178.52	31/03/2014
Total	**2,800,000**	

III) Lessons Learned

Importance of the governmental participation to the capitalization of the BaCoMaB (through Fishing Agreements) to secure the establishment of the fund and the full involvement of donor agencies.

The valuation of the PNBA provided a better understanding of services rendered by the Park, which in turn encouraged the EU to finance the Park, and initiated a debate on how to secure such resources over the long term.

The economic valuation of the PNBA was considered to be very useful and the FFEM is considering making a contribution to the BACoMaB's capital by funding a scientific assessment of the Banc d'Arguin's economic worth. The results of this study should strengthen the BACoMaB's case for adopting an ambitious funding diversification policy (to include e.g. PES, 'blue carbon').

Economic valuation can be a powerful tool (in this case fishery resources were key), even if there is a risk of concluding that uses other than conservation (such as oil or mineral extraction) might return greater profits in the short term.

The BaCoMaB has now set new objectives: the EF wishes to have at least EUR 35 million by 2017, and EUR 55 million in 2020; this will be invested in perpetuity in 'ethical or socially responsible' offshore financial markets, according to an investment policy to be established by the EF's Board.

The BaCoMaB funding strategy takes into account ongoing governmental support through EU fishing agreements, as well as additional donations from existing and new donors, and EUR 15 million from extractive industries (offshore petroleum sites near the park boundaries).

To a certain extent, the strategy adopted by the PNBA could be replicated in other MPAs where local fishery production is high.

> **"The PNBA receives EUR 1 million per year, of which 50 per cent is allocated to the BACoMaB as payment for ecosystem services rendered."**

Long-term resource mobilization at Costa Rica Forever: the case of a single closing deal

I) Overview

Twenty-six percent of the land in Costa Rica is under some category of protection. Despite the enormous efforts made, the national protected area system still has conservation voids that need to be addressed to achieve adequate ecological representation. The primary gap is in the marine area. The jurisdictional waters of Costa Rica, covering 567,928 square kilometers between the Caribbean Sea and the Pacific Ocean, are estimated to hold 3.5 percent of all marine species in the world, 90 of which are endemic. However, only 1 percent of this area is protected. Overfishing, habitat destruction, unregulated development of the coastal plains, invasive species, and climate change place this important marine biodiversity at risk.

Furthermore, those managing marine protected areas lack the tools needed to do so more effectively. Unlike protected terrestrial areas, marine areas do not have evaluation and follow-up strategies, with indicators defined for each conservation goal. Only 12 of the 21 marine protected areas have management plans, and many need updating to address new challenges such as climate change.

What is Forever Costa Rica

The Forever Costa Rica (FCR) Program is a public-private partnership whose mission is to make Costa Rica one of the first developing countries to meet the goals of the Programme of Work on Protected Areas of the Convention on Biological Diversity (CBD), thereby consolidating an ecologically representative, effectively managed system of protected areas that are adapted to the effects of climate change and have sustainable sources of funding.

The *Peace for Nature* initiative, developed while Oscar Arias was in office, gave way to the idea of setting up a trust fund that would make all efforts to sustain Costa Rica's biodiversity sustainable. The Linden Trust for Conservation, the Moore Foundation and The Nature Conservancy (TNC) joined hands to review the lessons learned from the experience of environmental funds around the world and to launch a global fundraising campaign to build the trust fund.

Conservation Goals

The conservation priorities for the Forever Costa Rica Program were based on the findings of Costa Rica's Conservation Gap Analysis (GRUAS II) conducted by the *Sistema Nacional de Áreas de Conservación* (SINAC) in 2007.[1] Based on the obligations acquired under the Convention on Biological Diversity (CBD), the *Sistema Nacional de Áreas de Conservación* (SINAC) developed a technical proposal that identified conservation goals for the entire country within the framework of the Programme of Work on Protected Areas, including commitments for both terrestrial and marine areas (see map with representativeness goals in Figure 1).

The FCR seeks to ensure that Costa Rica fulfills all the standards in the United Nations Convention on Biological Diversity (CBD) for protected areas, including the following:

- **Ecological Representativeness:** To ensure that all major marine/coastal and terrestrial ecosystems are protected, by including them in the national system of protected areas and through participatory management categories.
  - **Goal for 2015:** To extend the *Sistema Nacional de Áreas Silvestres Protegidas* by doubling marine protected areas from 1% to 2% and expanding terrestrial areas from 26% to 26.5%, thereby covering the conservation gaps identified in the GRUAS II study.
- **Effective Protected Area Management:** To provide protected areas the technical inputs and resources they need to implement activities that will ensure long-term biodiversity conservation.
  - **Goal for 2015:** To design management plans for 33 protected areas (24 in terrestrial PAs and 9 in marine PAs)
- **Climate Change:** To identify the biodiversity that is most vulnerable to the effects of climate change and extreme weather events, in order to make management decisions that will ensure their adaptability and resilience over time.
  - **Goal for 2015:** To develop a PA adaptation strategy and implement it in a pilot area.

[1] See *Sistema Nacional de Áreas de Conservación* (2007), *GRUAS II: Propuesta de Ordenamiento Territorial para la conservación de la biodiversidad de Costa Rica. Volume 1: Análisis de Vacíos en la Representatividad e Integridad de la Biodiversidad Terrestre*. SINAC-MINAE. San Jose, Costa Rica.

How Financial Resources are Mobilized

Based on the above conservation goals, the consultant firm Redstone Strategy Group conducted a review of financial needs and available resources (funded by the Linden Trust for Conservation), and estimated the funding shortfall at USD 70 million. The SINAC then adjusted these needs to the lines of action and concluded that an external funding goal of an additional **USD 50 million** would be adequate to meet Costa Rica's primary commitments under the CBD.[2]

Through an agreement formalized between private stakeholders – the Linden Trust for Conservation, the Gordon & Betty Moore Foundation, the Walton Family Foundation, and TNC – and the Costa Rican Government, the former undertook to mobilize USD 36 million in (mostly private) funds through a global campaign, while the Government agreed to raise the rest. Being a 'closing deal', the condition was that the agreement would not be closed and no donor would make any disbursements until all funds were raised.

The government took on another series of commitments included in the agreement closing conditions, whose fulfillment is verified on a yearly basis as a condition to continue with disbursements:

1. Not to cut the 2008 state conservation budget.
2. To allocate an additional one million dollars in the ordinary budget for marine area conservation.
3. To improve budget execution (currently at approximately 90% compared to the previous 70%).
4. To create an office within SINAC and a department with personnel in charge of managing marine area conservation.
5. To create an in-house procurement office to expedite contracting of goods and services for protected areas.

Three groups were formed to implement the fundraising plan, and over three years (2008 to 2010) they were able to raise USD 56 million:

1. The **private donors**, headed by TNC (one of the largest international non-governmental organizations), the Moore Foundation and the Linden Trust for Conservation, organized a campaign to raise private funds.
2. A **technical conservation group** was entrusted with developing a five-year Implementation and Monitoring Plan (2010 to 2015) that specifies all activities required to meet the CBD goals and is funded through the program.
3. A **legal work group** designed the implementation structure.

In a record time of eight months, a USD 27-million debt swap was negotiated between Costa Rica and the United States, which since 2010 has helped to fund tropical ecosystem conservation in Costa Rica for a 15-year period. These funds are also subject to meeting Program goals, and have contributed to the terrestrial component of the conservation plan.

The Forever Costa Rica Association manages two trust funds that jointly amount to USD 56 million (see detail in Table 1):

- the **Forever Costa Rica Irrevocable Trust** to which several private donors have contributed for a total of over USD 25 million; and
- the trust fund formed from the **Second Debt-for-Nature Swap** between Costa Rica and the United States for USD 27 million.

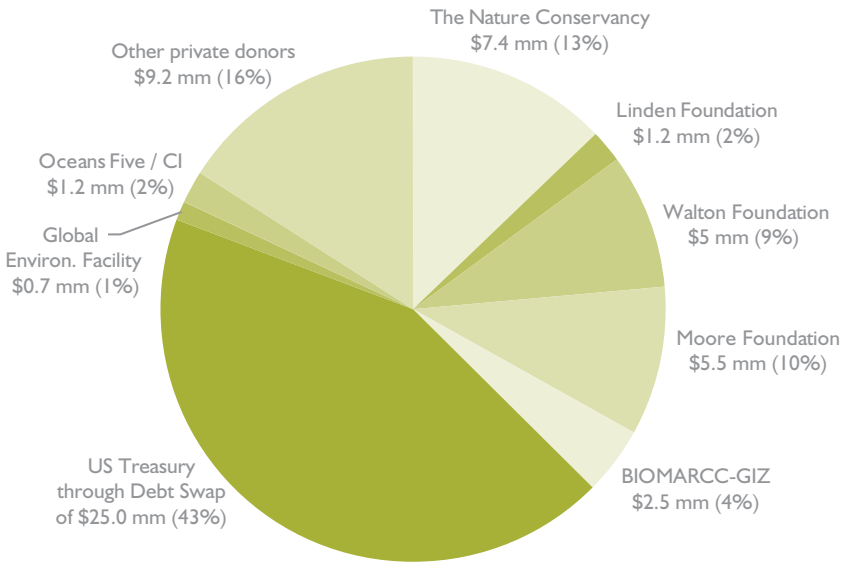
[2] This goal was additional to the existing external funding (USD 10 million) and the government's yearly commitment to finance protected areas (USD 360 million), plus a new financial commitment to marine protected areas for USD 20 million.

Table 1. Donor contributions to FCR funds

Donor	Funds Contributed (in dollars)	%
The Nature Conservancy	7,400,000	13
The Linden Trust for Conservation	1,200,000	2
The Walton Family Foundation	5,000,000	9
The Gordon and Betty Moore Foundation	5,500,000	10
Germany (*Proyecto Biodiversidad Marina y Cambio Climático — BIOMARCC*)	2,500,000	4
United States (Debt-for-Nature Swap)	25,000,000	43
GEF (Consolidating Costa Rica's Marine Protected Areas)	700,000	1
Oceans Five / CI	1,200,000	2
Other Private Donors	9,200,000	16
Total	**57,700,000**	**100**

Source: Forever Costa Rica Association

Figure 1. Distribution of funds donated to FCR



Source: Forever Costa Rica Association

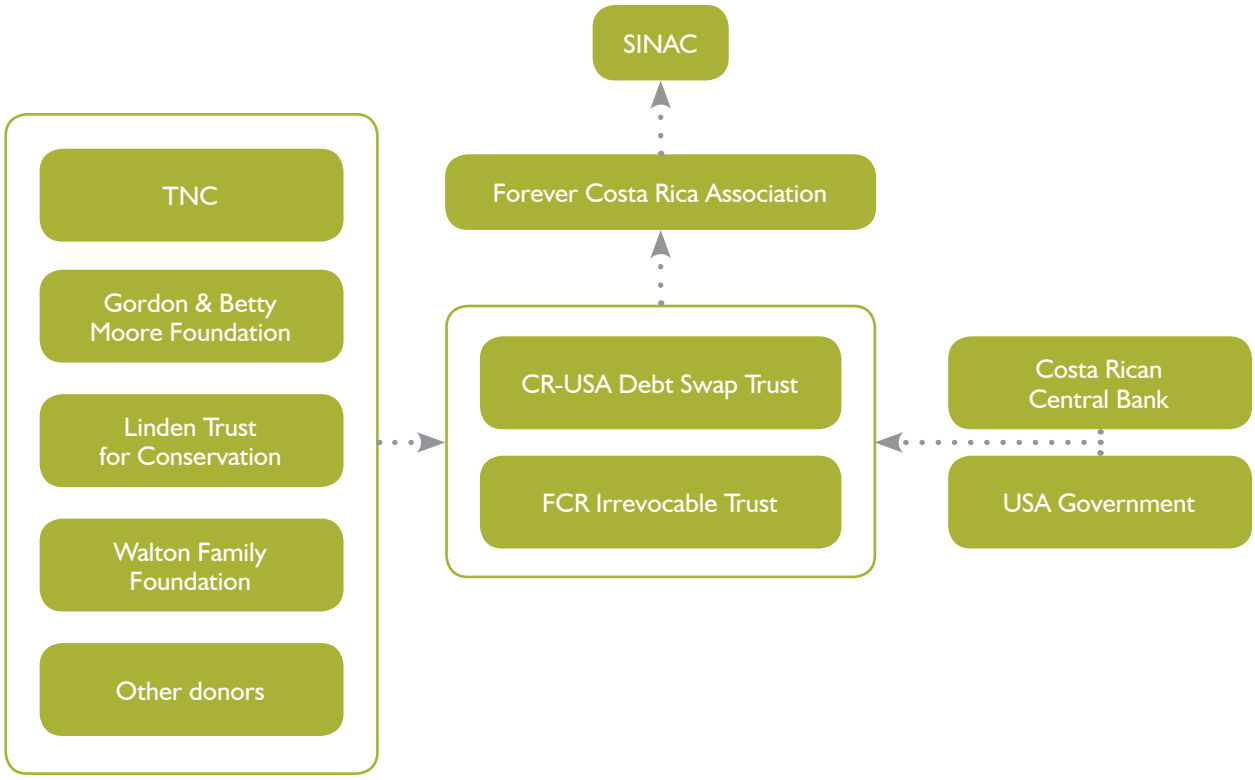
II) Analysis

How Forever Costa Rica Works

Donors who contributed funds to the program stated their preference for creating a new organization to manage them instead of using an existing one. This gave rise to the Forever Costa Rica Association, entrusted with managing external funds pledged to the trust and monitoring project progress and goals met under the Implementation Plan. An association was chosen over a foundation so that control over the use of private funds could be discretionary, and to enable verification of the government's compliance with the conditions it should meet to ensure sustainability of investments in protected area conservation efforts. In this way, should the government default on any of its undertakings for two consecutive years, the association could seek alternative routes such as civil society organizations until the government is able to make up for its unfulfilled commitments.

With part of the funds raised (42 of the 50 million dollars) a private trust was created with TNC as the primary agent, the FCR Association as the administrator or trustee, and the beneficiary stated as "the public protected areas of Costa Rica", not the SINAC. To implement the plan, a cooperation agreement was formalized with the Costa Rican Government by which the association undertakes to meet the goals and carry out the activities envisioned in the plan (see the stakeholder map in Figure 2). A joint steering committee was created for program followup, decision making and biannual implementation reporting.

Figure 2. Stakeholder Map of Forever Costa Rica.



Source: Developed in-house

Half of the funds from the CR-USA Debt Swap are allocated to the trust endowment fund, and the rest are sinking funds to be spent over the 15-year period. The endowment fund helps to capitalize the trust and accrues interest used to cover the project's recurring costs. Added to this are resources from bilateral and multilateral donors.

Trust funds are not transferred to the State. To ensure that support comes in a flexible, effective manner, the association provides the goods or services required for the activities and goals envisioned in the Implementation and Monitoring Plan signed by both agencies (at the request of SINAC), and contracting is done directly. This sidesteps complicated public bidding procedures and other possible governmental inefficiencies.

What has been Achieved to Date

Expanding the Size and Representativeness of the Protected Area System: The most significant progress has been made in the marine area, where the size of protected areas has already doubled due to the creation of the Seamounts Marine Management Area, and administrative process have already began to address 9 of the 11 conservation gaps prioritized in the Forever Costa Rica Program, aiming to triple ecosystem representativeness.

Studies on the Status of Biodiversity: In partnership with the SINAC, the program has conducted important studies on the vulnerability and services of marine/coastal and terrestrial ecosystems, in order to develop biodiversity adaptation strategies, and on the conservation status of the country's most sensitive marine and freshwater ecosystems. These studies will help to address the 11 conservation gaps that were identified as goals, 9 of which have already been developed and 7 of which are in the strategy design phase for consultation with stakeholders.

Management Plans: Management plans have been developed for 31 protected areas included in the goal of 33 plans by 2015 (24 in terrestrial PAs and 9 in marine PAs), and the tools for monitoring the management of terrestrial and marine protected areas have been updated and improved, including ecological integrity indicators.

Protecting Marine Biodiversity: In partnership with Conservation International (CI) and the Costa Rican Government, the FCR Association has made a great effort to enhance marine biodiversity protection against the threat of overfishing, through its Marine Control and Surveillance Strategy. Thanks to the support of the FCR and CI, the Costa Rican Government was able to design, fund and implement a National Marine Control and Surveillance Strategy, which includes a high-tech system with day and night cameras, radars, and VMS and AIS devices, thereby reducing the very high cost of traditional control and surveillance activities (patrolling). Also under this effort, it was possible to put together a **National Environmental Security Executive Committee** in coordination with the INTERPOL.

The *Salvemos Palo Verde* Campaign: The *Palo Verde* National Park is threatened by the spread of an invasive species known as '*tifa*'. The FCR program has supplied this protected area with the machinery needed to control this species, and the Forever Costa Rica Association manages the funds received from donations to cover the cost of preventative and corrective maintenance.

III) Lessons Learned

A global fundraising campaign should have a **very concrete success target**, which in the Costa Rican case was to make it the first developing country to fulfill the Programme of Work for Protected Areas established by the CBD. The appeal of this target and its national impact were factors that made it possible to raise USD 56 million despite the adverse context of a serious global financial crisis.

The ***single closing deal*** guaranteed the political will and commitment through a number of closing conditions undertaken by the government in areas such as raising additional resources, contributing public funds and enhancing protected area management.

This **all or nothing** agreement was very attractive to donors, as they were able to leverage much more than they contributed. Although it is strange to risk not receiving the funds if the target is not reached, this is what ensured that all proposed conservation goals were met.

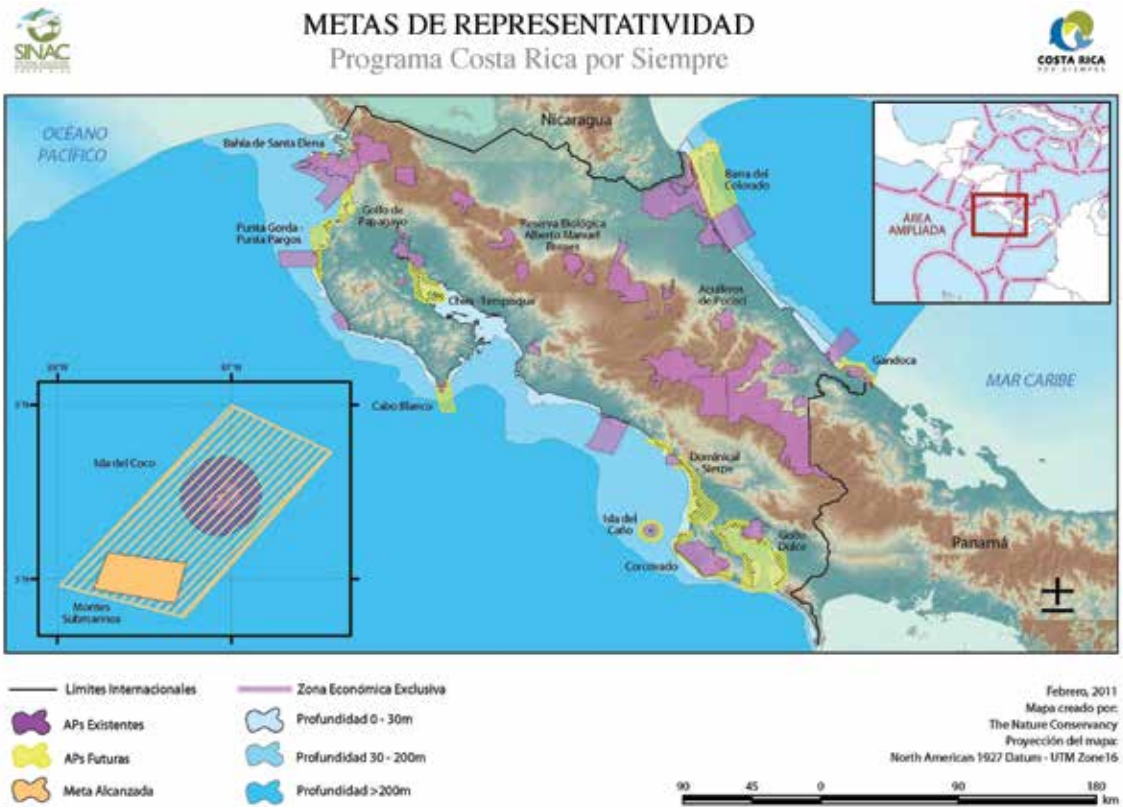
However, this type of initiative **cannot be developed everywhere**. They require a number of conditions that are not always met, such as proposing highly attractive goals for donors, ensuring political commitment at the highest levels, or having a Big International NGO (BINGO) to head the international fundraising campaign.

It was important to have a **scientific knowledge base** on the environmental sustainability of the ecosystems to be protected and the need to act, which in this case was the provided by the GRUAS II assessment.

> **“A global fundraising campaign should have a very concrete success target.”**

Having a **BINGO** (in this case, TNC) to head the fundraising campaign was another success factors, as this made it a world-class campaign and provided a 'match' (another dollar for every dollar raised).

Having an **Implementation and Monitoring Plan** specifying the activities to be financed with the fund's private resources—which reflect the CBD targets—as well as a baseline prevents program funds from being diverted and makes it easier to show donors the impacts.



5. Conclusions

With the aim of discussing what are the resource mobilization best practices and lessons learned for Environmental Funds, and to contribute to maximising their resource mobilization effectiveness and efficiencies within their particular context, RedLAC organized a workshop with the participation of 35 funds representatives from the 5 continents, from November 1 to 3 in San José, Costa Rica. The list of participants is presented in Annex. Basic principles and background concepts were summarized in a handbook, which was distributed to the participants prior to the workshop. The agenda of this 3-day workshop is presented in Annex.

Conclusions of the Working groups on challenges faced by EFs with regards to resource mobilization and expectations

The first part of the workshop consisted in Working Groups to determine the expectations and priorities of participants. The main conclusions of the discussions are detailed under:

LIST OF THE MAJOR REMARKS:

- Expectations: New sources of funding are required!
- Strategies for integrating/merging environmental and financial discussions
- Budget for fundraising
- Resources Mobilization X fundraising: Thinking beyond Money

- Few donors, many EF's.
- Finding the "right fit" funding (or other sources).
- How to convince the private sector to invest in EFs?
- Implementation of compensations + offsets
- The idea of creative thinking is important when it comes to Mobilizing Resources
- Level of innovation of Resource Mobilization
- Composition/skills of the board/ Resource Mobilization Strategy

GROUPS' EXPECTATIONS:

- Identifying new sources of funding
- Learning what other funds are doing for fundraising
- Listening to success stories and learning about practices/things to avoid
- Validating current processes
- Using different strategies for various types of funds
- Learning about strategies for integrating/merging environmental and financial discussions
- Learning new methodologies

MAJOR CHALLENGES IDENTIFIED:

- Combining multilateral/governmental strategies
- Long term negotiations
- Engaging the private sector

Discussion in plenary: how EFs should position in 2014 (CDB COP 12, World Park Congress)?

After a presentation of international debates on Environmental Funds and their positioning in former international CBD COP (detailed in a previous chapter of this guidebook), participants were asked to express their opinion on how EFs should position themselves in future international events. It was a fruitful discussion which led to several innovative ideas, including the possibility to mobilize resources not only at an EF level, but also at regional or even international levels. Main ideas discussed were as follow:

- Funds as neutral actors which gather many different actors
- National Funds should work together with Environmental Funds
- Regional/local governments should be included in the discussions also. Not only should the federal ones be considered.
- Extracts from the CBD Strategy for resource mobilization must be observed
- Comparative advantages for Efs were discussed
- EFs provide fiduciary services that can be used for climate change projects as well as biodiversity conservation.
- EFs can integrate climate change aspects to the projects they support
- EFs provide a good governance base and long term funding, which can address permanence issues within climate change projects.
- EFs are neutral actors that can act as a network node, linking different actors for a common objective
- EFs are used to design and implement pilot projects and test innovative approaches
- EFs can match funds with national, regional and local resources to be jointly managed
- EFs can serve as a transition funding mechanism for the governments to assume gradually the funding of conservation projects
- EFs have the potential to mobilize resources regionally or internationally

Linking the Strategic Plan and Governance to Resource Mobilization

After the presentation on how to link strategic planning to resource mobilization, the participants had the chance to stress which were the most important points of the presentation. According to them, the following topics deserve a special attention:

- The Strategic Planning should cover everything (From Financing to Action plans).
- Resources Mobilization Plan has to be linked with the Strategic Plan in order to be efficient and effective
- Transparency is **KEY** in Good Governance (presentation and the audience feedback reinforces this idea).
- EF Credibility is the result of Consistency and Transparency
- Good Strategic Plan + Good Governance = Improvement of the Resources Mobilization efforts!

Peer Assist Exercise

Following the Peer Assist methodology as presented in a video[1], 3 participants were assisted by peers:

- Group 1 – Exit Strategy for projects: financial sustainability of grantees (Indonesia)
- Group 2 – Specific Resource Mobilization Strategy for EFJ (Jamaica)
- Group 3 – How to structure a Resource Mobilization Strategy (El Salvador)

As highlighted by the final evaluation of the workshop, this group exercise appeared to be very successful and well-appreciated by participants.

Beyond traditional sources - Presentation on Carbon Finance, Payment for Environmental Services and Biodiversity Offsets

Before presenting some of the main innovative financing mechanisms for EFs, this session started with a survey aiming at answering the following question: out of the 23 EFs participating to this workshop, which ones do implement the following mechanisms?

	Local Level		National Level	
	ALREADY DOING IT	STILL THINKING	ALREADY DOING IT	STILL THINKING
REDD+	10	5	4	5
Payments for Environmental Services	6	5	3	1
Biodiversity Offsets	2	11	1	2

This quick overview was well-appreciated by participants since it allowed them to have a clear picture on the main strategies followed by different EFs. Since it resulted very useful for EF managers, it is recommended to pursue this type of comparative work in specific papers.

Discussion in plenary on opinion and progress made by EFs on Carbon Finance, Payment for Environmental Services and Biodiversity Offsets:

Time was short to discuss several promising (and sometimes controversial) financial instruments. In any case, participants had time to express their impressions for each of the 3 main instruments detailed in the guidebook (Carbon Finance, PES and Biodiversity Offsets):

General remarks

- EF's role is to be a transparent channel, which means it should position itself among the donors and the communities
- It is necessary to have a clear regulation from the government (legal framework)
- Standards should be promoted, as long as they are accepted all relevant stakeholders
- Capacity strengthening – Environmental Funds should be mediators/moderators

[1] www.youtube.com/watch?v=ObmQyW3EiiE

Carbon Finance

- International protocols are not working at least until 2020. Good transactions can still be done "Over The Counter".
- High Costs of Project development
- Need of clear regulation from government
- EF Roles:
  - Identifying buyers
  - Help demonstrate additionally in PA's
  - Help financing project development (long term returns – 5 years)
  - EFs provide transparent platform for central/regional governments and communities
  - Capacity Building for communities
  - Benefit sharing mechanism design and operation
  - Ensure REDD+ standards are really implemented

Payment for Environmental Services (PES)

- EFs can be key to set up the benefit sharing mechanism
- Monitoring results are key to avoiding reputational risks
- EF can negotiate with the private sector
- When it comes to PES, how to guarantee the Resources in the long term (for around 20-30 years) is an important issue to consider

Biodiversity Offsets

- High costs of M&E and implementation
- Voluntary versus regulatory schemes: the need to assess best options
- Legal basis for the relation with impacting companies
- Law enforcement is key for compliance offsets
- Voluntary offsets are less effective than regulatory ones
- BBOP methodology → difficult to convince companies and governments about overlapping with obligation

The Green Mountain National Park funding scheme – role playing game

The objective of the role playing game which took place at the beginning of the third day of the workshop was to invite participants to put in practice some of their new theoretical knowledge. Negotiating PES or biodiversity offsets at a local level is not an easy task; for this reason, this exercise was much appreciated by the participants. According to a scenario involving a fictitious National Park and different types of local stakeholders, 4 groups negotiated different solutions and were confronted to different types of problems, as briefly summed up here under:

Main conclusions of the role playing game

Group 1	Group 2
→ EF should lead the fundraising → Role of the government on the medium term → Several mechanisms studied during the workshop could be set up in this example → REDD options proved not to be very realistic (small area of the forest). → Leverage with the government was an option. → Creative mechanisms were used to achieve the goal of enlarging the long term in order to create the Fund. → Social Impacts MUST BE considered (community leader point of view) → The community must be involved and fully committed; otherwise the projects won't be successful. → The Fund should pay attention to the sustainable development goal, which included the social and environmental aspects. → Sustainability goes beyond conservation (preserving the environment)	→ The discussion was structured this way: thinking first about the short term mechanisms and then long term ones. → In a short term, the park protection must improve and the community must be involved in order to achieve this goal. → NGOs have the role to stimulate/sponsor the launching of campaigns for conservation causes. → The possibilities of PES and Tourism must be explored. → SELF-FINANCING: Tea production and Tourism – The community has to be engaged! → The company would contribute with a small amount of its profits to invest in the fund. → The need to provide the incentive to motivate the community to engage! →Incentive in the form of compensation. → Foster Local ownership so the community is able to engage and the donors also realize the commitment of the people! → Sinking fund in the short term and then endowment fund in the long term. Suggested activities: Short term (3 years) • Company – Environmental assessment • Company & NGO – Improve livelihood • Mobilizing Sinking Fund Long term • Capitalize endowment fund • Debt swap • Worldwide campaign (promoting the cause) • Tourism Fees
Group 3	**Group 4**
→ Tourists would pay a fee to help preserving the area. → Creation of a committee to gather all the actors involved. → The community may manage a small percentage of the fund's Resources. → More sustainable alternatives for the transportation systems. → Socially and Environmentally responsible companies to maintain a sustainable production. → Considering the community's perspective is really important. The EF would finance this initiative.	→ Ecotourism Project is interesting from a financial perspective and also benefits all the actors involved. → It's important to communicate the situation to all the actors in order to establish a strategic alliance between them. This will bring the necessary commitment and engagement. → The company has to commit to act in a way that will cause less damage to the environment. → The community will formalize an organization and work with touristic guides in order to create small businesses (so they're able to exercise their leadership in the community). → The government (Environmental authority) will regulate the touristic activities in the park and will also monitor if the impact is being negative or not. → International and local NGOs will present a proposal to the government.

Presentation on Impact Investment concept
Success stories on impact investment - Verde Ventures

Impact Investment was presented by a representative of Conservation International currently developing this concept with a fund called Verde Ventures. It allowed participants to have a practical description of what Impact Investment is and how EFs could either interact with existing Impact Investors or become Impact Investors themselves.

CI's fund: VERDE VENTURES

- Fund with a financial return which was created 10 years ago
- Provides loans to small and medium enterprises
- Impact investments need metrics, numbers and accurate data
- Provide technical assistance + access to the Market
- Mostly public money is being invested in the fund Verde Ventures
- There are not enough deals (difficult to identify investments), but there are Money/resources

Audience's Feedback:

- Guarantees: How do they work? Impact Investment is something risky. Working with established entities is the best option to negotiate safer contracts.
- Independency: Verde Ventures is independent from Conservation International (CI) as an institution.
- Profits: 5 – 12 % interest.
- Details of Verde Ventures: The average for closing a deal is about 6 months. The geographical cover is pretty much everywhere in the tropics. 70% in Latin America, 25% in Africa and 5% in Asia. CI coordinates and raises the money (financial resources in general). CI takes the risks and CI manages the fund. Communities often do not feel very familiar with the concept of loans. Verde Ventures is within CI, but most of its financing is repaid back to the investors. As an institution, CI thinks Verde Ventures is a complicated initiative. "But we better do it now, so we're not left behind". It's very important to have a solid legal framework.
- Impact investments and environmental funds: How to connect impact investments to environmental funds? You have to look at the mandate of your fund first. It depends of the fund's mission, vision, structure. There are always two sides →Supplier of initiatives to support or impact investor.
- Social Impacts: The social impact exists and cannot be ignored.
- Development Banks: Development banks are a great option for bigger projects.

Forest Bonds and Green Bonds

The following presentation was about bonds which are becoming a major instrument for the financing of Climate Change Mitigation policies. They are an important demonstration that it is possible to link international finance to environmental issues.

Bond = Financial instrument that allow the bond issuer to borrow finance from the private capital Market.

Green bonds = climate bonds

- Attractive to investors who incorporate environmental and social issues into their analysis.
- The rating issue (Triple A institutions are better to engage when it comes to forest bonds).
- How could EF's benefit from green bonds?
- Middle income countries: EFs could identify some investments in the sector of the Green Economy.
- Green bonds were established for climate change issues.
- Returns: Climate + Social + environmental returns
- Flexibility, minimal risks, a way for investors to link their investment portfolio to their environmental goals and outcomes
- Relevance to CTFs!
- CTFs are: Buyer, issuer, Project supplier, Trust funds set up to pay for impact.
- The funding has to be more related to the performance on the ground

Audience feedback:

Risks: Can small EFs manage green bonds? It would be expensive. The World Bank is an important actor in this. International investors buy the green bonds because of the World Bank's guarantee. It's safe and stable, almost zero risk for international investors.

The issuance: Who issues the bond: the company or the government? The issuance depends of the institution and the projects. The World Bank issues the bonds related to its projects. It can also be the governments, but there is, of course, the costs for the government to do this. Everything is possible. Even private companies are able to issue the Forest or Green Bonds. The bonds can be issued in any place and in any currency.

SRI & Green Bonds: How can we integrate SRI (try to choose assets that will not harm the environment) and the green bonds? How to include this in your fund's portfolio? In the portfolio you have to diversify your assets and look for low risks assets. You can ask your asset manager to prioritize SRI initiatives and also green bonds investments.

What about 'biodiversity bonds' or 'park bonds'?

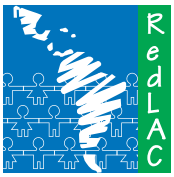
The final presentation and following discussion of the workshop was about "park bonds" (that could also be called "biodiversity bonds"). This is a new proposal which has not yet been put into practice. The objective was to obtain the opinion of the participants on this new instrument which could, similarly to Green Bonds, create promising links between international finance and environmental protection.

Positive aspects of this new proposal:

- It would allow networks of EFs to raise funds collectively, targeting big international investors.
- Park Bonds would need international acknowledgment of the positive role played by EFs (CBD recognition) and also an official letter of approval from national authorities. Full transparency to the investors (they have to know and understand the whole picture).
- Operations: Several types of park bonds could be offered to the financial markets, covering:
  - the entire network of participating EF's
  - Latin American EF's/ Parks
  - African EFs
  - Marine Protected Areas

Audience Feedback:

- Complex but promising proposal: several EFs mentioned their interest to initiate a pilot project
- How to deal with the relationship between: Triple A Government – Transparency and EFs – Local Government.
- Funds are very different among themselves in many ways. It is necessary to have a certain common ground for these funds' interaction. Thus the need for International Standards for EFs.
- The issue of dependency on global markets if we start using Park Bonds. Wouldn't that be a problem? Environmental management will depend on global markets now?



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