

RedLAC-CAFÉ Knowledge for Action Project – Project K

Call for Concepts – Innovation Seed Fund (Phase I)

DEADLINE: February 7, 2016

1. Background

Project K aims at enlarging RedLAC and CAFÉ Environmental Funds’ portfolios of innovative financial mechanisms (IFM) that take up the challenges of biodiversity conservation, environmental management, and climate change.

The project is composed of 4 components:

- Component 1, the Innovation Seed Fund, will provide the RedLAC and CAFE member EFs an opportunity to test new financial mechanisms that they would otherwise be unable to test due to a lack of both resources and support for their ventures. It will finance at least ten feasibility studies of innovative financing mechanisms and five of them will be selected for implementation.
- Component 2, the EF-to-EF Mentorship and Capacity Building Programme, aims to strengthen capacities by providing support for EFs to adopt best practice standards. This component provides opportunities for EFs to exchange and learn from the experiences of other EFs.
- Component 3 aims at documenting and disseminating EFs’ experiences, lessons learnt and solutions through an online platform.
- Component 4 focuses on the networks’ consolidation and exchanges.

Project K is supported by the French Fund for the Global Environment (FFEM), the Mava Foundation and the Global Environment Facility (GEF) through the United Nations Environment Programme (UNEP). Funbio, the Brazilian Biodiversity Fund, is the Project K manager¹ on behalf of RedLAC and CAFÉ, and is serving as the secretariat for this call for concepts.

2. Call for concepts

One of the purposes of the Innovation Seed Fund is to set up conditions that permit the EFs to work on innovative financial mechanisms that will be additional to other existing sources of funding.

Innovative financial mechanisms are considered the ones that supplement conventional EFs sources of funding by attracting new revenue streams to

¹ Funbio is allowed to present proposals to this call, as its team will not participate in the selection process.

conservation through new arrangements. Some of the new conservation financing mechanisms involves PES (including local and national REDD+), biodiversity offsets, cap and trade schemes, green taxes and green bonds, allowing institutional investors to become involved in conservation financing. Types of mechanisms that are likely to be supported are described in Annex 1 (non-exhaustive list).

The Innovation Seed Fund will be executed in two phases:

1. **Phase I – Call for Concepts:** this call for concepts will support up to 10 feasibility studies of innovative concepts with grants of USD 20,000 each, without any requirement for matching resources;
2. **Phase II – Pilot Projects selection:** the second phase will support up to five innovative concepts that have presented viability after the study phase I. These five pilot projects will receive an additional grant up to USD 200,000 each for implementation, requiring 1:1 matching funds.

The present **Call for Concepts** refers to **Phase 1**. Sections 3 and 4 give details on the application process.

3. Process

Applications will be revised and selected by the Project Committee² (see Annex 2 for Committee composition).

The committee may accept more than 10 concepts to be studied, but only 10 concepts will be selected to receive the feasibility study grant of 20,000 USD. A Fund that has a concept approved in Phase I but does not receive the feasibility study grant may finance the study with its own resources and present a proposal for Phase II. To participate in Phase II, the Fund must present a proposal in Phase I and be approved by the Committee. The 5 pilot projects for Phase II will be selected by the Project Committee based on a list of criteria available in Annex 3.

Table 1: Key dates for this component:

2015	
November 17	Launching of Call for Concepts of innovative financial mechanisms (Phase I)
2016	
February 7	Funds submit their concepts of innovative financial mechanisms
March 11	Project Committee selects 10 concepts for the feasibility study grants and announces the winners. All winning concepts will be share with both networks.
June 30	Funds deliver a first partial report
August 31	Funds deliver a second partial draft
September 16	Final report of feasibility studies are delivered
October	Project Committee selects 5 feasibility studies to receive implementation grants of 200K USD (pilot projects on innovation) for Phase II and announces the winners during the RedLAC Assembly in Brazil

² Committee members could not be part of the selection in case they submit a proposal in order to avoid conflicts of interests.

2017	
September	5 pilot projects on innovation present progress at the CAFÉ Assembly in the Project Committee meeting

4. How to apply

Application process will be **online**³ and the form will be open **from November 20 to February 7**.

As an international call for concepts, **applications will only be accepted in English**, to ensure all committee members can review all proposals.

The application process will be composed of:

1. **Concept on Innovative Financial Mechanism** – this form will ask basic aspects of the innovative idea to be studied. The proposal will be limited to 3 to 4 pages and the questions will include the following aspects:
 - Brief description of the proposed innovation (especially if it is an adaptation of a mechanism implemented by others)
 - Feasibility/justification for the innovation
 - National or regional context that enables the mechanism
 - Estimated timeline for design/adaptation/implementation
 - Expected outcomes and impacts
 - Expected risks and mitigation measures
 - Team and partners involved (level of participation and agreements made have to be mentioned)
 - Replication and scale-up potential
2. **Self-assessment on the Practice Standards for EFs** – Funds are also requested to complete an online self-assessment based on the Practice Standards of CFA in order to check progress by participating in the project activities.

Support for preparing a proposal

With the objective of providing technical assistance for all member EFs to apply to the Innovation Seed Fund, the Project K hired a consultant who will be available for the whole application period (November 20 to February 7) to work with the EFs that choose to use this support. The hired consultant is Camila Monteiro, who is a former member of Funbio staff, and served as RedLAC Executive Secretary from 2008 to 2011. She coordinated the implementation of the RedLAC Capacity Building Program (2010-2014), participated in the elaboration and fundraising for Project K, and has deep knowledge of the Innovative Seed Fund requirements and processes, as well as good knowledge of all RedLAC and CAFÉ members.

³ If any Fund has any Internet connection limitation to complete the application, the project team in Funbio may accept an offline form only as an exception and by request.

The support service includes a limited number of hours to work with each EF of about one day per fund, but this limit will depend on the demand for support from the Funds. The consultant will not elaborate the concepts, but revise the ideas and answers to the application form, so that all concepts are clear and sufficiently explained to the committee.

To request this support or in case of any doubts, send an email to projectk@funbio.org.br. All answers to the questions raised will be shared with all members in order that all can benefit from the information provided.

5. Rules

All RedLAC and CAFÉ member Funds, who have paid their 2015 networks' annual membership fee, can apply to the Innovation Seed Fund.

More than one Fund can apply together (a consortium of EFs) with a joint concept that may be implemented together. Each Fund can present more than one concept but only one concept can be selected per Fund.

The 20,000 USD grant may be used to cover expenses related to the feasibility study, such as:

- Consultancies
- Field visits
- Surveys
- Travel expenses
- Meeting expenses
- Hours of the Fund's staff involved in the study

In the Phase I the EFs will receive the 20K USD grant as a donation and the financial reporting of this grant will only require a simple expense report. Feasibility studies will be monitored during its development according to the timeline proposed as presented in **Table 1** (section 3 – page 2). Funbio will also provide an expense report template.

In the second phase, project contracts will be signed with Funbio and a more detailed financial reporting will be required, with financial documentation required for all expenses.

Feasibility studies format – proposals to Phase II:

A template for presenting the feasibility study will be provided by Funbio for the EFs with selected concepts. This feasibility study final report will serve as the proposal for the second phase selection, in which the five pilot projects will be selected.

Annex 1 - Types of mechanisms to be supported by the Innovative Seed Fund

- Mechanisms to create investment instruments to support green economy enterprise.** A great majority of the finance sector has yet to show interest in biodiversity conservation. However, corporate impact investing is an emerging type of investment. The Seed Fund will co-finance the creation of investment instruments to support the creation of enterprise with positive effects on biodiversity and at least some return on investment. The development of an investment tool to support biodiversity conservation enterprise requires a full spectrum of skills and expertise that is new for EF managers. It can also call for specific structures within the EFs that can be difficult to set up especially if the EF is small. In fact, the EFs could also decide to partner existing impact investment funds in order to offer them services to identify local enterprise that deserves support. This kind of approach can be seen as a first step towards impact investing. The levels of risk will need to be properly assessed but it is important to note that the EFs already finance ground initiative without expecting any financial returns. For some EFs therefore, investing on conservation-related green economy initiatives would not be an additional risk, but it would be a promise of potentially significant returns. EFs are in a good position to support new businesses whose concern is to promote conservation.
- Mechanisms based on complementary economic instruments providing incentive for investment on conservation or the adoption of sustainable practices.** These economic instruments are already widely used in the health and education sectors of development. In the biodiversity conservation sector, they can be defined as mechanisms that aim to change the behavior of economic agents by internalizing the cost of using natural resources. The Innovation Seed Fund could co-finance the development of economic instruments that are likely to generate additional resources for biodiversity that would be managed by the EFs. Fiscal exoneration or incentive, tax on pollution, royalties, and conservation easements are a few examples.
- Mechanisms to render already existing but currently unused conservation finance resources operational.** Most countries have a legal framework for protecting the environment with rules and penalties designed to achieve true protection of natural resources. Such legislation tends to be under-enforced (lack of control structures, corruption or lack of capacities to use the possibilities provided by the legal instruments). The Innovation Seed Fund will be able to co-finance mechanisms to collect and re-distribute money so that existing financial resources become operational, namely fines and legally imposed penalties for specific purposes paid to an EF in agreement with the governmental agencies in charge of enforcing the law. It will also be able to manage flows of government royalties (e.g. on oil, national and regional green taxes intended for environmental funding purposes, managed and executed by an EF). The allocation and management of funds arising from legal measures imposing the compensation of adverse effects on the environment (e.g. Brazilian law on protected areas) fall into this category of mechanisms.
- Other innovative financing mechanisms.** Financial mechanism not applicable at continental or national scales such as green lotteries part or all of which are for conservation, actions of regional scope (regional funds), philanthropic actions,

biodiversity auctions (environmental project financing auctions where the highest bidder wins), etc. Less innovative but also possible, the creation of funds associated with fisheries agreements (such as BACOMAB) or debt-for-nature swaps, which are still new in certain countries but represent less innovative value at continental scale. However, a first South-South debt swap would be acceptable. Crowd funding has certain disadvantages pointed out during the first project, therefore care will be taken in transposing it for the purposes of the present project.

Annex 2 – Project Committee composition

one RedLAC representative: a member fund Executive Director appointed by RedLAC members	<ul style="list-style-type: none"> • Rosa Montañez (CEO of Fundación Natura and RedLAC President)
one CAFÉ representative: a member fund Executive Director appointed by CAFÉ members	<ul style="list-style-type: none"> • Fanny N’golo (CEO of FPRCI and CAFÉ President)
one representative of each of the project donors, appointed as soon as the contracts are signed with Funbio (optional)	<ul style="list-style-type: none"> • GEF/UNEP • FFEM • Mava Foundation
two conservation finance specialists: one invited by RedLAC and one invited by CAFÉ	<ul style="list-style-type: none"> • Invited by RedLAC: Pedro Leitão (independente) • Invited by CAFÉ: Carl Bruessow (member of CAFÉ)
one private sector expert specializing in venture capital, impact investment and/or business development – invited by RedLAC and CAFE	<ul style="list-style-type: none"> • Hector Gomez (independent)
one biodiversity expert with experience of both marine and terrestrial areas – invited by RedLAC & CAFE	<ul style="list-style-type: none"> • Nestor Windevoxhel (independent)

Committee members could not be part of the selection in case they submit a proposal.

Annex 3 – Criteria for the selection of pilot projects (phase II)

These are potential aspects to be evaluated in the feasibility studies to be selected for implementation as pilot projects in Phase II.

- i. Coherence of the project and the feasibility study: the quality of the study will demonstrate the reliability of the proposed mechanism.
- ii. Ratio between innovation and viability: this will be drawn from the pre-viability study, the aim being to maintain innovative character while asserting a framework for the activities and confirming the adequacy of the resources implemented to achieve the goals set.
- iii. Objectiveness of a simple Business Plan (budget, spending, joint financing, ...) for the two years and beyond, showing the IFM's capacity to support the leadership of the process well after the financing period has expired;
- iv. Institutional integration at regional, national or local scales, confirmation of partner commitments including the authorities (whenever possible), project governance, composition and running of national / regional monitoring committees.
- v. Additionality evidenced as a proof that the expected returns on investment would not have been possible without the project.
- vi. Fund raising capacity and leverage effect (financial amount): Amount in USD / Euros generated by the mechanism. It is likely that the higher the amount generated, the greater the positive impact of the mechanism comparisons with other mechanisms will be appreciated;
- vii. Financial sustainability of the mechanism: the resilience of the IFM over time. Its capacity to earn income that will help finance future projects of a similar nature.
- viii. Amount invested and rapidity in return on investment (costs-benefits analyses): assessment will be based on the ratio between the amount invested to set up and run the mechanism and the revenues it is capable of generating. Comparisons with other mechanisms will be appreciated;
- ix. Application and evaluation mechanisms that ensure transparency and accountability, and compliance with the appropriate guarantees and other elements as mentioned in the guidelines of the CBD COP12.
- x. Geographic scale and replicability of the innovation: the priority will be given to environment / conservation targeting IFMs at world scale (mechanisms that have never been tested or that are inadequately represented), then at continental then national scale. Cases must be properly argued.
- xi. Social acceptability and adequacy, considering gender equality, traditional peoples and the culture of the country concerned.
- xii. Initiative with acknowledged positive impacts on biodiversity (or the degree of direct incentive for biodiversity conservation): the proposed IFMs must show that their investments will have positive impacts on biodiversity. For

protected area projects, the RedLAC impact monitoring system should ideally be used but other proposals may also be utilized. The IFM pilot projects must bear synergies between biodiversity and climate change adaptation / mitigation.

- xiii. Balance between initiatives concerning the marine realm and the terrestrial realm. The growing number of marine environment initiatives means that special attention needs to be paid to EF proposed innovation in this area.
- xiv. As far as possible, balanced representation of both the RedLAC and CAFE networks in the projects selected in order to have regional diversity, even though geographic origin of the proposal is not a formal criteria. Quality will be more important than geographic location.