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The Biodiversity Finance Initiative

*A Proposed Initiative for
Innovative Financing Mechanisms for Economically Sustainable Use
and Conservation of Biodiversity*

This Initiative was developed by the Biodiversity Technology Group in collaboration with and as part of the submission by the Inter-American Commission On Biodiversity and Sustainable Development to the Summit Technical Advisory Committee. The Inter-American Commission was co-sponsored by the Directorate of Biodiversity Conservation in the Ministry of Sustainable Development and Environment of the Government of Bolivia, the IUCN South America Regional Office, the Comision Centro Americana para Ambiente y Desarrollo, the Fundacion Pro-Sierra Nevada de Santa Marta and the Biodiversity Support Program.

The Biodiversity Finance Initiative has since been incorporated (with some editing) into the Summit Preamble and Plan of Action as one of five key initiatives on Biodiversity for consideration by the Heads of State at the America's Summit on Sustainable Development, Santa Cruz, Bolivia, in December 1996.

◦ *The Biodiversity Technology Group is an international consultancy dedicated to support implementation of the 1992 UN Convention on Biodiversity through initiatives in sustainable biodiversity.* ◦ *The Biodiversity Support Program is a USAID-funded consortium of the World Wildlife Fund, The Nature Conservancy, and the World Resources Institute.* ◦

Summary

Biodiversity is a source of national pride and potential comparative advantage. A nation's use of biodiversity can only be sustainable and promote conservation if sufficient economic incentives are present to use it in non-destructive ways. Promising examples may be: (i) alternative and organic agriculture, (ii) timber from sustainable forest management, (iii) non-timber products from forests and wildlands (nuts, fruits, oils from forest lands), (iv) ecotourism, and (v) responsible bioprospecting for pharmaceutical and agro-chemical products.

Responsible uses of biodiversity require implementation of creative business approaches, which are often pursued by smaller private enterprises. They involve higher risks (both perceived and real), and their initiation requires special financing incentives, support from NGOs and government, and innovative financing mechanisms. Sources of capital need to be readily available to do feasibility studies and facilitate technology transfer, so that local capacity can be built. Since the market frequently undervalues biodiversity-based products, there should be ample funds to protect and preserve biodiversity until we better know how to use it sustainably. Moreover, public awareness of deteriorating biodiversity is creating increased demand for responsibly produced goods and services. This "demand-pull" will improve the long term feasibility of innovative projects. It represents a strong mandate for decision makers around the world to create the long-term financing mechanisms which can spawn the development of an entrepreneurial sector focused on sustainable biodiversity use. This sector should be held to the principles established by the 1992 Convention on Biological Diversity ("the Convention").

This Biodiversity Finance Initiative proposes five innovative financing mechanisms for promoting economically sustainable use and conservation of biodiversity across the Americas. They are: (i) Biodiversity Venture Capital Funds, (ii) Biodiversity Trusts and Endowments, (iii) Biodiversity Technology Transfer Funds, (iv) Biodiversity & Watershed Protection Funds, and (v) a Banking Institution dedicated to biodiversity. Together, they address the need for incubating entrepreneurial biodiversity-based enterprises while reserving the option to sustainably develop biodiversity at a later date through financing mechanisms designed to preserve and protect.

The Importance of Biodiversity Finance

- The Convention's Roadmap and Beyond

The parties to the Convention are required to provide financial resources for its implementation. Developed countries are to provide *new* and *additional* financial resources to enable country parties to meet the full incremental costs of implementing the Convention by means of appropriate funding mechanisms. These funds need to be appropriately used to promote benefit sharing arrangements and technology transfer. Recently signed Andean Pact legislation calls for the establishment of a Fondo Andino to fund conservation efforts. To date, few if any innovative funding mechanisms dedicated to biodiversity, small businesses and the private sector have been established.

- The Link between Finance, Biodiversity and Small Business

Self-sufficiency and profitability are medium to long-term goals that, however difficult, must be realized to sustain biodiversity-based business initiatives. Leaving this task initially to the private sector will result in the start-up of few business initiatives. In the short-to-medium term such businesses need an "incubation period" allowing them to build capacity, acquire appropriate technology and know how, and engage in activities that support the Convention. The link between innovative financing mechanisms and sustainable use of biodiversity is likely to be the strongest, if incubation is facilitated through various insitutional, public and private financing mechanisms which serve the role of *financial catalyst*. Following certain unifying principles, this approach necessitates collaborative efforts amongst the various stakeholders in biodiversity, including but not limited to the private sector, government, NGOs,

international development organizations and local or indigenous peoples. A commitment both to the principles of the Convention and the development of the private sector is required.

- Empowering Small Business, NGOs and other Stakeholders

To date, little has been done to stimulate the creative efforts and energies of small biodiversity-based businesses. Despite the fairly recent interest in micro enterprise development, the main focus of most national and international development organizations is on large-scale projects. Yet, small and medium sized enterprises, much like the biotechnology industry in the United States, may very well spawn the business innovations that will create the local infrastructure and expertise capable of adding substantial value to biodiversity. NGOs and other stakeholders, including governments, can piggyback on and catalyse these entrepreneurial efforts. This will facilitate private sector development of enterprises dedicated to sustainable use and conservation of biodiversity.

- Financing Criteria for Biodiversity-based Projects

It is critical to ensure that if financing is made available to sponsor biodiversity related projects, funds are disbursed to promote sustainable biodiversity use based on certain investment and financing criteria. A general criterium would be that such projects have good profit potential and comply in letter and spirit with the Convention, including any forthcoming regional or national legislation. Additional criteria for eligibility would be to screen projects on the basis of: (i) the proposed level of technology transfer, (ii) the proposed level of local capacity building, (iii) the mechanisms for fair and equitable distribution of benefits, and (iv) compliance with existing or self-imposed product certification procedures.

Proposed Financing Mechanisms

- The Biodiversity Finance Initiative

The Biodiversity Finance Initiative advocates the design and establishment of an independent, but complementary set of funding mechanisms across the Americas. Taken together, these mechanisms offer a harmonious and synergistic blend of sources of capital for the development of a biodiversity-based business sector. To promote synergy amongst the funding mechanisms, the proposed mechanisms would have the common objective of screening projects according to the Financing Criteria for Biodiversity-based Projects outlined above. Fund/mechanism managers should communicate and share experiences regarding the development of this nascent sector via a Web-based Biodiversity Finance Intranet.

The proposed funds could start on a regional and/or national basis. Depending on the success of the actual Biodiversity Finance Initiative, phased expansion and specialization could take place. The targeted project size would be less than \$ 10M. Any independently existing or forthcoming funding mechanisms could collaborate with (or be integrated into) the Biodiversity Finance Initiative to avoid duplication of efforts.

- Matrix of the Proposed Initiative

Financing Mechanism	Project Type	Equity	Debt	Grant	Investment Criteria
Biodiversity Venture Capital Funds	agriculture, timber, non-timber, ecotourism & bioprospecting	Yes	Yes	No	long term risk capital for innovative biopreneurial enterprises
Biodiversity Trusts and Endowments	as above + biodiversity acquisitions and feasibility studies	No	Yes	Yes	conserve and protect via long term soft loans and grants to biopreneurial enterprises
Biodiversity Tech-Transfer Funds	market feasibility studies, agriculture techniques & processes, and biotechnology	No	Yes	Yes	market feasibility studies and tech transfer & training with focus on biodiversity value adding

Biodiversity & Watershed Protection	water usage & management, oil exploration, forestry, biodiversity acquisitions	No	Yes	Yes	reinvestment of user fees to conserve and protect biodiversity, watersheds and aquifers
Banking Institution	agriculture, timber, non-timber, ecotourism & bioprospecting, biotechnology, biodiversity and biotechnology acquisitions	Yes	Yes	No	socially responsible banking for biodiversity based businesses, design and implementation of innovative financing mechanisms, fund participation and management

• **Matrix of Funding Sources**

Financing Mechanism	Fund Size/Number	Management	Sponsors/ Investors
Biodiversity Venture Capital Funds	\$ 5-10 M each in at least 3 countries	(environmental) venture capitalists and financiers	GEF, MIF, IBD, WB/IFC, UNCTAD, UNDP, Donor Countries, Private & Corporate Investors (Local and Foreign)
Biodiversity Trusts and Endowments	\$ 10-100 M in each country	environmental NGOs, foundations	GEF, MIF, IBD, WB/IFC, UNCTAD, UNDP, Donor Countries, Debt for Nature Swaps
Biodiversity Tech-Transfer Funds	\$ 10-50 M in at least 3 countries	Biodiversity Institutes, Science Foundations and NGOs	GEF, MIF, IBD, WB/IFC, UNCTAD, UNDP, Donor Countries, Corporations, International Research Institutes
Biodiversity & Watershed Protection	1-2% of revenues each country	national, regional and local government	% of revenues of water, oil, timber, etc. companies
Banking Institution	\$ 50-100 M asset base	local (investment) bank(ers)	Local and foreign tax-exempt Green Savings & Investment Deposits

• **Brief Discussion**

The proposed Biodiversity Finance Initiative is an attempt at a comprehensive approach to stimulate private sector biodiversity business initiatives and investment. Sources of funding should, whenever possible, include concepts such as "revenue-based user fees" and "green tax-exempt savings and investments" in addition to the more traditional sources of funding as suggested in the matrix of funding sources above. Overall capitalization should be at such level that meaningful biodiversity-based private sector development is being catalysed over a period of five to ten years. Once the sector is up and running and enterprises can be expected to succeed in the market place without special support, grants and soft financing mechanisms would be discontinued. Management of the funds would be predominantly local with the support of international advisors, including from the private sector.

Recommended Summit Action Plan

It is recommended that the Biodiversity Finance Initiative be given firm support by resolutions to:

- support the broad principals of the Biodiversity Finance Initiative.
- obtain broad governmental support for the Initiative, including from the Ministries of Finance, Environment, and Science & Technology .
- fund studies on the exact scope of the Initiative and to create an implementation plan .

For more information, comments, or suggestions:

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