
FINANCING BIODIVERSITY CONSERVATION: Challenges and Opportunities

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CSERGE-Centre for Social & Economic Research on the Global Environment

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Overview. *This document was prepared as a contribution to a paper on alternative sources of funding for implementation of the Convention on Biological Diversity. The paper recognises insufficient investments in biodiversity conservation and over-investment in activities which threaten biodiversity as primary causes of biodiversity loss. It is therefore proposed that combating biodiversity loss requires a combined approach of improving financial mechanisms, developing new mechanisms to finance biodiversity conservation, and reviewing practices which lead to biodiversity loss. This paper looks into both 'external' and 'internal' mechanisms for financing biodiversity. External mechanisms refer to funding from outside sources for support of biodiversity conservation efforts. Internal mechanisms look at ways agencies which are responsible for biodiversity conservation can improve their internal financial situation.*

1. Introduction

At its first meeting, the Conference of the Parties of the Convention on Biological Diversity (CBD) recognised that sources of funding additional those provided by the interim financial mechanism, and ways to channel them for implementing the CBD needed to be explored. It therefore called on the Secretariat of the CBD to prepare a paper on alternative sources of funding as a basis for discussion at the second meeting of the Conference of the Parties (COPII).

As a contribution to this discussion, an international group of experts convened by IUCN and CSERGE met just outside Harare, Zimbabwe, in September 1995 to consider challenges and opportunities for financing biodiversity conservation. This report presents key views and recommendations of the expert group, who attended in their personal capacities and did not necessarily agree on all points reported here.

A major problem facing the global community is the continuing loss of biodiversity. This loss is the result of insufficient investments being made in biodiversity conservation and over-investment in activities that further the loss of biodiversity. Stopping the loss of biodiversity thus requires a combination of

improving existing financing mechanisms, developing new mechanisms to finance the conservation of biological diversity, and reviewing policies and practices that encourage the loss of biodiversity.

The range of available instruments is wide. Institutions and agencies that make use of several instruments are likely to be most effective. Voluntary instruments such as awards and accreditation programmes, financial instruments that make the costs of conserving biodiversity transparent to those whose actions threaten it, property rights instruments that provide appropriate economic incentives and opportunities, and regulatory mechanisms are some of the instruments available to develop effective strategies and programmes. The mix of instruments will vary for different regions and different countries and will change as technology changes and the mix stimulates innovation.

This report focuses primarily on the challenges and opportunities of raising new finances. The first section, External Financing Mechanisms, focuses on mechanisms for attracting external finance capital to public, NGO, and private agencies conserving biodiversity. The second section, Internal Financing Mechanisms, focuses on opportunities for the agencies responsible for conserving biodiversity to improve their internal financial situation. The last section addresses financing the implementation of national biodiversity strategies.

2. External Financing Mechanisms

Most agencies responsible for biodiversity conservation have been in the public sector or the NGO sector; the private sector has often been a beneficiary of conservation activities but has tended to be only a minor contributor to the costs of conservation. In most industrialised countries, the public sector relies primarily on taxation as a source of finance. In many developing countries, the public conservation sector may rely on donor funds, primarily classified as official development assistance. Such support is typically linked to a specific biodiversity conservation programme or project, sometimes in conjunction with NGOs. The CBD specifically calls on the developed country parties to provide new and additional funding to enable developing country parties to implement the Convention (Article 20.2).

2.1 Mechanisms for Donor Funding

The expert group reviewed several mechanisms for donor funding at the global, regional and national levels. Most of these mechanisms are designed to transfer funds to government agencies responsible for biodiversity conservation. Especially at the national level, however, many donors are also interested in supporting NGOs engaged in programmes and projects to conserve biodiversity.

As the interim funding mechanism for the Convention as well as the lead multilateral facility for donor funding to enhance the global environment, the Global Environment Facility (GEF) is perhaps the most significant global financing mechanism. Much of rationale for the GEF is based on the concept of "incremental cost" of providing global benefits. The group reaffirmed widely expressed concerns about the effectiveness of negotiating funding for biodiversity conservation on the basis of incremental cost, suggesting that the CBD needs to work with the GEF to develop a more workable approach to funding the implementation of the CBD at the national and regional levels.

The expert group also reviewed proposals for regional mechanisms to facilitate the transfer of donor funds to biodiversity projects. One such proposal was for a regional environmental facility for southern Africa. This facility would transfer multilateral and bilateral support to the region's national government conservation agencies in the region. Another proposal was for a regional environmental fund for the Black Sea. Though it was envisioned that this fund would eventually be internally financed by pollution charges and user fees, initially it would require external financing to become operational. The group found such regional proposals exciting and worthy of further consideration, though the governance of such regional mechanisms may be cumbersome.

The expert group also reviewed national environmental trusts or funds, focusing on the Foundation for the Philippine Environment as a case study. This fund was created by an external debt-for-nature swap to fund NGOs for biodiversity conservation activities. It operates under a memorandum of understanding between the Government of the Philippines, a bilateral development agency (the US Agency for International Development) and an international NGO (the Worldwide Fund for Nature). Building on discussions held at an IUCN-sponsored national environment fund workshop held in Bolivia in May 1994, the expert group felt that the modalities of setting up national environmental funds need to be more widely understood. Issues include the sources of capital for the fund, investment of this capital, the disbursement of revenues, and ownership and governance of the fund. Nevertheless, the group supported the creation of national environmental funds where appropriate as a mechanism for transferring external donor funds to national efforts to conserve biodiversity.

In addition, the expert group reviewed the opportunities for national and international NGOs to increase their support from the private sector, including individuals, family bequests, private foundations, and corporate foundations. Just as individuals and corporations transfer funds indirectly through their tax support for national governments, they also can transfer funds directly to agencies responsible for biodiversity conservation. In the US, for example, over 100 billion dollars are donated every year, but only a small fraction finds its way to NGOs supporting biodiversity conservation.

The group noted that for the most part private donors will not fund Governments, but rather NGOs. Some of this funding, however, ends up with the appropriate government agencies. An example is the handing over of privately-acquired land for conservation to protected area authorities. In addition, NGO programmes and projects can relieve some of the pressures on Governments to finance biodiversity conservation activities. Thus, the group supported increased efforts by the NGO community to raise financial support from the private sector for biodiversity conservation.

Finally, the expert group reviewed potential opportunities for partnerships between the private and public sectors to generate funding for biodiversity conservation. In particular, they reviewed the opportunity for joint implementation of carbon offset programmes to conserve tropical forests. Carbon emissions from new energy-generating facilities fed by fossil fuels could be offset by programmes that limit the destruction of tropical forests that serve to sequester carbon. Though such partnerships are exciting and should be studied seriously, the group was concerned about the modalities for ensuring that additional conservation actually results from the joint implementation. The broader message for the COP, however, was that the Convention should explore opportunities for establishing linkages with other global concerns, such as global warming, ozone depletion and sustainable development, as a means of raising additional funds for biodiversity conservation.

2.2 Mechanisms for Loan Capital

The search for new sources of finance requires looking at other markets for finance capital, including the markets for loan capital from both the multilateral agencies and the private banking sector.

A presentation on the World Bank emphasised their plans to "mainstream" biodiversity conservation into all their development activities. This indicates a clear commitment to including biodiversity conservation activities in its lending portfolio. The World Bank provides "soft" loans to Governments, while the International Finance Corporation provides "soft" loans to private sector

enterprises. In addition, the GEF is also considering loan financing in the current GEF phase of operations.

The expert group was concerned, however, that the World Bank intends to self-monitor their success in mainstreaming. It highlighted the temptation to "repackage" projects in biodiversity terms rather than to truly build biodiversity concerns into all World Bank activities. Outside monitoring or auditing of the efforts of multilaterals to incorporate biodiversity conservation into their lending portfolios would be a helpful step.

Emerging from a presentation on private sector banking was the realisation that government agencies responsible for biodiversity are seldom in a position to receive loan financing from private commercial banks. These agencies often lack the security of property rights and tenure as well as the independence from arbitrary political influence necessary to attract the interest of the banking community. Thus soft loans from multilaterals, such as the World Bank and the GEF, would appear most attractive. Nevertheless, serious efforts should be made to determine what institutional reforms would be necessary to attract private loan capital to investments in support of the CBD.

2.3 Mechanisms for Equity Investment

Still another opportunity for new financing for biodiversity conservation is through the national and international markets for equity investment. These markets provide opportunities for investment in biodiversity activities through direct share ownership. While donor funds and soft loans are based on the "public good" aspects of biodiversity conservation, equity investment and "hard" loans are based on the "private good" aspects of biodiversity conservation. Where the biodiversity-related activity can be structured to generate profitable returns, it may be well suited for equity investment.

As the expert group was meeting in southern Africa, it reviewed two regional cases of equity investment in the conservation of wildlife and savannah ecosystems. The South African case focused on a company offering an integrated ecotourism product that promotes sustainable non-consumptive use of wildlife and direct economic participation by rural communities. This company has succeeded in raising sizeable sums in national and international capital markets. The Zimbabwean case looked at a new venture to develop a multi-use wildlife conservancy that would use equity financing to restock a dry savannah and bush ecosystem. With investor support it will also provide for equity participation in the venture by neighbouring communities, who would then have a real share in the biodiversity conservation enterprise. In addition to selling ecotourism

services, the venture plans to enter the markets for trophy and sport hunting and live sales of wildlife.

The expert group recognised that such equity financing schemes may not be appropriate for all biodiversity conservation scenarios. Where appropriate, however, they should be considered. Again, as in the case of loan financing from private banks, attracting equity investment requires well-defined and secure property rights and a well-developed markets for the biodiversity products and services to be offered. Governments need to investigate how they can create investor-friendly environments for biodiversity conservation ventures.

An innovative variant of the market for equity investment was the proposal to develop a market for transferable development rights. In such a market, external funds would be invested in biodiversity conservation by purchasing the development rights of landowners that would have been destructive of biodiversity. For example, the communal owners of a group ranch in the wildlife dispersal area around Kenya's Masai Mara Reserve could sell their right to plant wheat, maize and beans. This would maintain the savannahs for traditional pastoral cattle ranching that is compatible with keeping wildlife on the ranch. The expert group was concerned about the feasibility of this approach where property rights were insecure and ill-defined, and about the equity considerations of a community selling its right to develop its land. Nevertheless, developing a market for tradable development rights would enable those interested in conservation to invest directly in the efforts of landowners to conserve the biodiversity on their land.

3. Internal Financing Mechanisms

Biological resources have both public good aspects and private good aspects. The private good aspects can be packaged into products and services that can be sold. If the supply of these products and services is sustainable, then the revenue earned from their sale can be used to finance biodiversity conservation. Thus, the expert group also reviewed opportunities for internal financing of biodiversity conservation, as called for in Articles 11 and 20(i) of the CBD.

3.1 Using Revenue as a Source of Finance

Because biodiversity conservation generates global, national, and local benefits, it seems reasonable to search for a revenue base from all these levels to fund biodiversity conservation. The group reviewed various options for a global funding base, including taxes or charges on ecotourism, tropical timber exports or imports, airline travel, postage stamps, and visits to protected areas, zoos, and botanical gardens. Because of the complexity of administering and enforcing such

a global revenue base, the group was sceptical of this approach. Furthermore, raising revenues in a manner not directly associated with biodiversity conservation breaks an important link. The expert group felt that revenues raised for conservation should be closely related to activities directly affecting biodiversity.

Several examples of financing biodiversity conservation through retained earnings were discussed. Protected area authorities in some countries are now charging sizeable entrance fees to parks and reserves and structuring lucrative lease agreements with hotels and tour operators. In some cases, primarily in Africa, they have set up auction markets for live sales of wildlife. In other cases, they offer hunting concessions and harvesting contracts.

The ability of biodiversity conservation agencies to generate and retain revenue depends on the institutional structure of the agencies and the policies established by Governments. The expert group supported the establishment of structures that generate incentives to conserve through retaining revenues from the sustainable use of biodiversity resources. The group, however, was also concerned about the lack of mechanisms to distribute such revenues to relevant stakeholders, such as local communities that may absorb many of the opportunity costs associated with biodiversity conservation.

One innovative method of earning revenue from biological resources discussed by the group was the market for bio-prospecting. Countries may be able to sell bio-prospecting rights to international companies, in sectors such as pharmaceuticals, cosmetics, and agriculture. The expert group was concerned, however, about the divergence of interests between Governments, who would like to sell prospecting rights for immediate revenue, and companies, who would like to buy them in exchange for a high risk, but potentially high return of future revenue. Thus the expert group discussed the need for a secondary market to allow Governments to earn immediate revenue by trading their long-term bio-prospecting contracts to others willing to wait and take the risk.

The search for new sources of revenue for the sustainable use of biological resources implies the commercialisation of biodiversity conservation. Though the expert group was keen to support efforts to raise more revenue through the sale of the products and services resulting from biodiversity, they were nevertheless concerned that the process of commercialisation may not always be compatible with the objectives of biodiversity conservation.

3.2 Efficient Use of Funds

Ensuring that the existing flows of funds are used effectively and efficiently will give Governments a strong basis for raising additional funding. Substantial sums of money are currently being invested in conservation, but these are often not subject to the standards of accounting, financial appraisal and economic assessment required for commercial enterprises and development projects. The expert group believed that a significant amount of revenue could be generated by improving the management, governance and accountability aspects of biodiversity conservation agencies.

Most biodiversity conservation is currently the responsibility of government agencies, such as environment divisions, forestry departments and national park services. Because government agencies lack basic economic incentives such as the profit motive, they tend to operate less efficiently than private sector agencies. Thus, in some cases, it may be appropriate to restructure these agencies into parastatal agencies. In other cases, some of the responsibilities can be devolved to NGOs, to communal and private landowners, and maybe even to private enterprises. In those cases where the Government must retain direct control over biological resources, of which there are likely to be many, there is still scope for improving the management and accountability of the conservation agency.

NGOs supporting biodiversity conservation also could be operated more efficiently. They need to incorporate the management skills common in the private sector, including strategic planning, marketing, cost control, and financial management. The large role that NGOs would like to play in support of biodiversity conservation may depend critically on the NGOs improving their management effectiveness.

3.3 Reducing Loss-Creating Distortions

In addition to promoting the efficient use of funds, Governments can improve the financial situation by removing distortions which cause a loss of biodiversity. These distortions range from incorrectly-valued foreign exchange rates to subsidies for the agricultural, water and energy sectors. The scope for correcting these distortions is large and the benefits to biodiversity almost certainly substantial. Many distortions, however, are well-meaning attempts to support certain income groups or economic sectors or to stimulate economic growth. Thus, though the scope is enormous, progress on this front will be politically sensitive.

Nonetheless, the gains for society as a whole are likely to be huge. Subsidies to energy alone total over \$200 billion per year. Subsidy reduction releases central government revenues for more efficient use, including financing biodiversity

conservation. Thus the expert group recommended that the Parties to the Convention press for the removal of economic distortions, while seeking to explore positive and creative mechanisms for increased financing of biodiversity conservation.

4. Financing National Biodiversity Strategies

At the time of the expert group meeting in Zimbabwe, the Secretariat of the CBD was finalising its study for the COPII on the availability of additional financial resources. This study supports Item 5 on the agenda on financial resources and mechanisms. A major focus of Item 5, of course, is the role of the GEF as the interim funding mechanism. In light of the discussions in Zimbabwe as well as the work of the Secretariat on additional sources of finance, the expert group encourages COPII to review the role of the GEF in a broader context that looks at a variety of sources and mechanisms for funding biodiversity conservation.

Furthermore, the expert group strongly recommends that each Party to the Convention draw up a strategic financial plan indicating how the implementation of its national biodiversity strategy is to be financed. To this end various documents are available that provide Governments with an array of potential instruments for raising new and additional finance. It is for each Government to adapt the instruments to its own specific conditions and the develop a strategy for introducing new instruments. Such a strategic financial plan will of necessity need to be reviewed regularly and amended in light of experience. In short, conserving biological diversity requires strategic diversity in sources of financing.