

# Scaling up Biodiversity Finance

Dialogue seminar | Quito | 6-9 March, 2012

## Co-chairs' summary



## Conveners:

The seminar was convened by the governments of Ecuador, India, Japan, Norway, Sweden, and the CBD Secretariat.

## Organizer:

The Resilience and Development Programme (SwedBio) at Stockholm Resilience Centre, Stockholm University, took initiative to the seminar and was responsible for its planning, development of agenda, methodology development, practical organizing, implementation and report.

## Funding:

Economic support for the seminar was provided by the Swedish International Development Cooperation Agency (Sida) through The Resilience and Development Programme (SwedBio), and from the Norwegian Agency for Development Cooperation (Norad) and the government of Japan.

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For presentations, background documents, biodiversity financing relevant literature and further information about the dialogue seminar, visit the seminar website:

[www.dialogueseminars.net](http://www.dialogueseminars.net)

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## Preface

The Co-chairs – Maria Schultz (Sweden) and M.F. Farooqui (India) – have prepared this summary of the dialogue seminar “Scaling up Biodiversity Finance” and take full responsibility for it. The report has been produced with the help of Niclas Hällström, What Next Forum, and the rapporteurs Thomas Hahn, Stockholm Resilience Centre, and Carolin Planitzer, IUCN-Sur, with contributions from participant rapporteurs from the Working Group sessions. The co-chairs have edited the report, together with members of the steering group of the seminar, which represented the convener countries. Participants in the steering group were: Ravi Sharma, Principal Officer, UNEP – Secretariat of the Convention on Biological Diversity; Bente Herstad, Norad, Norway; Tone Solhaug, Ministry of the Environment, Norway; Wilson Rojas and Christina Quiroga, Dirección Nacional de Biodiversidad, Ministerio del Ambiente, Ecuador; Director Naohisa Okuda, Ministry of the Environment, Japan; M.F. Farooqui, Additional Secretary, Ministry of Environment and Forests; and Maria Schultz, Director of the Resilience and Development Programme (SwedBio), representing Sweden together with Annika Markovics, Environment Ambassador of Sweden.

## Executive Summary

The purpose of the Dialogue Seminar on Scaling up Biodiversity Finance, 6-9 March 2012, in Quito, Ecuador, was to explore and contribute to understanding and seek to clarify areas of convergence and divergence regarding ways to scale up the mobilization of financial resources to support the achievement of the 2020 Aichi Biodiversity Targets<sup>1</sup>. The dialogue covered the broad area of financing for biodiversity, including the role and nature of “innovative financial mechanisms” (IFM). The seminar did not intend to draft formal recommendations, but rather sought to enhance understanding among participants with a view to facilitate discussions at WGRI-4 in Montreal in May 2012 and COP-11 in Hyderabad, India, in October 2012. The seminar included a mix of keynote presentations, case studies and small group discussions.

Participants included about 80 representatives from governments, development agencies, UN organizations, non-governmental organizations, social movements, farmer organizations, local communities and indigenous peoples organizations, scientists and the private sector, all with experience of financial resources mobilization for the protection of biodiversity. Participation was based on nominations received via the CBD Secretariat from Parties and Non-parties. The conveners were the governments of Sweden, Ecuador, Norway, India and Japan, and the CBD Secretariat.

The convener countries constituted a steering group for the seminar. Maria Schultz from Sweden and Mr MF Farooqui from India were co-chairs of the dialogue seminar.

The dialogue resulted in fruitful discussions and improved understanding. Several lessons learnt on scaling up finance for biodiversity were presented at the seminar and are outlined in this report. Associated terms were discussed, and the choice of

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<sup>1</sup> The Parties to the Convention on Biological Diversity, in 2010 in Nagoya, Japan, adopted the Strategic Plan for Biodiversity 2011-2020 with the purpose of inspiring broad-based action in support of biodiversity over the next decade by all countries and stakeholders. The Strategic Plan is comprised of a shared vision, a mission, strategic goals and 20 ambitious yet achievable targets, collectively known as the Aichi Targets.

terminology might be important for the further development of this topic. Many participants found the term “innovative financial mechanisms” inappropriate, as it covers a wide variety of mechanisms, including both public and private approaches, and both established and truly new alternatives. As a constructive suggestion to avoid misunderstandings it was proposed that a generic term such as “biodiversity financing mechanisms” (BFMs), rather than “innovative financial mechanisms”, could be used and that it would help to name specific mechanisms when possible. Likewise, many felt the expression “markets for biodiversity” should be avoided as this general concept includes a broad range of schemes (e.g. from local markets of certified products to “financialization”, see below) and that in any discussion of markets, it is important to be clear about what kind of market is being discussed.

Discussions around “values” were fruitful, although there was a span of views. The “Rights of Mother Earth”, as presented by some Latin American countries and indigenous peoples, were seriously discussed and considered, and monetary valuation became further clarified with more nuanced understandings. While some object to setting a monetary value on nature and natural processes, others think it is acceptable to do so as an input to decision-making. Others go further and find it appropriate to set prices for buying and selling “ecosystem services”.

Almost all issues discussed during the seminar concerned the institutional, political, social and cultural framework in which the biodiversity financing mechanisms operate. These frameworks determine the performance of the mechanisms. Good governance, rights-based frameworks and establishment of safeguards are thus concluded to be key prerequisites for the functioning of any biodiversity financing mechanism. There was an understanding that whether mechanisms are appropriate or not depends on institutions and governance in the specific political, social and cultural context. It is thus important to recognize that communities and countries have a right to refrain from using mechanisms they consider inappropriate, and develop mechanisms they consider appropriate for their specific context.

Initiatives regarding needs assessments for reaching the Aichi Biodiversity Targets were presented, such as the CBD’s GEF Needs Assessment, the UK/India High Level Panel Assessment on Financial Flows and the UNDP-EC Global Biodiversity Finance Project. Current global assessments indicate needs many times the size of the current commitments, thus justifying the current conversations on how to significantly scale up biodiversity financing. It was also recognized that there is a need for financial resources at the country level for such activities as capacity building, to raise awareness, to improve mainstreaming, to integrate biodiversity values into planning, national accounting, when appropriate, and in reporting systems. Bottom-up needs assessments were also explored, with reference to examples of specific country needs and success stories of sustainable use and conservation through certification and cooperatives. It was recognized that a significant part of funding needed for reaching the Aichi Biodiversity Targets is related to tackling underlying drivers of biodiversity depletion, such as unsustainable consumption and trade, unsustainable agriculture and harmful subsidies, and thus involves many sectors other than the environmental sector and ministries, and that a targeted approach towards negative drivers could, if successfully implemented, reduce the overall financial resources needed.

When discussing biodiversity finance mechanisms, it may be useful to divide the discussion about biodiversity financing into sources of revenue, appropriate delivery mechanisms and use.

A general understanding from the seminar is that for resource generation, public fiscal measures and reforms are key, including but going beyond ODA. Fiscal reforms such as taxes seem to be a cost-effective instrument to generate resources, and much can



be learned from existing cases. The shifting of taxes from, for example, labour to environmental damage and resource depletion can have multiple benefits. There also seemed to be some interest in exploring new mechanisms, not yet available, such as the establishment of an International Biodiversity Tax and financial transaction taxes (FTTs), which could generate resources for common public goods such as biodiversity. There seemed to be much agreement on the need for, and potential of, redirecting harmful subsidies to biodiversity enhancing investments.

It was widely recognized that the business sector has an important role to play both as a change agent and as a source of tax revenue. Positive development regarding the business sector can be promoted through increased transparency, corporate social responsibility and the use of tax incentives and disincentives, but is fundamentally linked to the existence of clear rules, norms and regulations. In terms of resource mobilization for biodiversity there seemed to be a general understanding that the scope for direct private investments is rather limited because the benefits are often public goods and difficult to capture by the private investor. In existing public-private partnerships (PPPs) for biodiversity, public funds provide seed money for companies to make them change or engage in new sectors. Some partnerships have, however, been seen as inappropriate subsidies to business and thus been accused of causing trade distortion.

Regarding delivery mechanisms, the seminar had a strong focus on the importance of relevant institutions. The core message from the report submitted by Norway – “Can Markets Protect Biodiversity?” by Professor Arild Vatn – seemed to have a considerable impact on the meeting. He concluded that markets for biodiversity are challenging to establish and run. Transaction costs are high and, as biodiversity is a public good, free-riding is a problem. Government actions are, hence, not only important for setting up and maintaining markets. He also showed that for most new biodiversity-related market mechanisms, governments were still the sole or primary provider of finance. In the case of “payments for ecosystem services” (PES) almost all of the buyers of the services (99% in developed countries and 97% in developing countries) have been governments.

Regarding mechanisms such as PES the seminar showed that many of the reasons for whether a mechanism is acceptable or not, are dependent on the particular institutional, rights and community participation context. Case studies demonstrated that without the appropriate institutional frameworks and compliance mechanisms, PES schemes can lead to loss of livelihoods and loss of communities’ control over their natural resources. In more institutionally appropriate contexts, communities have benefited, and multi-sectoral strategies have both enhanced community development and led to biodiversity benefits.

There was less experience of the newer biodiversity financing mechanisms such as bio-banking, tradable development rights and forest bonds.

Related to this point, some participants raised concerns that the creation of new biodiversity markets could lead to a process of “financialization” of biodiversity. Financialization is used as a term here to describe international trading in abstract and derived products related to biodiversity in contrast to regular trade in goods and products. The financialization market is defined and driven by the financial sector intermediaries such as special investment firms, hedge funds, banks and insurance companies, which have extensive experience of trading in risk management connected to derivatives and financial transactions. With the increasing complexity of the international financial markets, with multiple levels of transactions and bundling of assets, it is feared that such financing may both divert funding for biodiversity and impose restrictions on the informal user rights of local communities. In this way

financialization can have unintended negative impacts on local communities, biodiversity and the financial system at large, and thus warrants further analysis.

There was general agreement among participants that the dialogue seminar had contributed to a high degree of common understanding and convergence around many issues, as well as on the overall approaches to the challenges of scaling up biodiversity finance, that participants understood each other's viewpoints better, and that there was much to build upon in the coming negotiations.

Overall, there seems to be a need for further elaboration and understanding of the many issues and concerns raised during the dialogue seminar. One suggestion made at the meeting was to consider requesting the CBD Secretariat to compile a more comprehensive report on lessons learned and possible risks and benefits of biodiversity financing mechanisms, with clear definitions of terminology used.

The overall conclusion from the seminar is that economic incentives can play an important role for reaching the Aichi Biodiversity Targets and that governance and institutional frameworks, including safeguards, are critically important for all financing mechanisms for biodiversity.

# About the dialogue seminar

## Background

COP-10 in Nagoya was largely considered a success. A comprehensive “package” was adopted, making COP-10 one of the most successful meetings in the history of the Convention. Decisions included the Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilisation, which, after seven years of negotiations, sets out rules and procedures for implementing the Convention’s third objective. Decisions also included the CBD Strategic Plan for the period 2011-2020, including a mission as well as strategic goals and 20 targets (the Aichi Biodiversity Targets). Furthermore, a decision was achieved on activities and indicators for the implementation of the Strategy for Resource Mobilization already adopted at COP-9. The issue of innovative financial mechanisms (IFMs) for biodiversity proved more difficult and was dropped, allowing agreement on the other issues. It was consequently recognized that this issue needed further deliberation in the two years leading up to COP-11 in Hyderabad, India, in October 2012.

As one attempt to facilitate the formal negotiations towards and during COP-11, the delegations of Sweden and Norway in the final hours of COP-10 discussed the need for a dialogue seminar. The Resilience and Development Programme (SwedBio) at Stockholm Resilience Centre took the initiative to organise a dialogue seminar on Scaling up Biodiversity Finance, where the issue of IFMs could be discussed in a broader context of scaled-up biodiversity financing. Soon the Secretariat of the Convention on Biodiversity showed interest, as well as the Governments of Sweden, Ecuador, Norway, India and Japan who became the formal convenors of the seminar. Economic support was provided by the Swedish International Development Cooperation Agency (Sida) through Swedbio, and the Norwegian Agency for Development Cooperation (Norad) and the Government of Japan. The seminar was held in Quito, Ecuador, 6-9 March 2012.

The purpose of the dialogue seminar was to explore and contribute to understanding and seek to clarify areas of convergence and divergence regarding ways to scale up the mobilization of financial resources to support the achievement of the 2020 Aichi Biodiversity Targets. This included dialogue on the role and nature of “innovative financial mechanisms”.

The seminar did not intend to draft formal recommendations, but rather seek to enhance understanding among participants with a view to facilitate discussions at WGRI-4 in Montreal in May 2012 and COP-11 in Hyderabad, India, in October 2012. The seminar included a mix of formal presentations, case studies and small group discussions (see Annex 1 for programme). The 80 participants included representatives from governments, development agencies, social movements, UN organizations, non-governmental organizations, farmer organizations, local communities and indigenous peoples organizations, scientists and the private sector (see Annex 2 for list of participants). Participation was based on nominations received from Parties and Non-parties through the CBD Secretariat.



## Methodology for the meeting

The seminar was based on the Chatham House principles. This means that participants are free to use the information received, but neither the identity nor the affiliation of participants expressing a view may be revealed. For the speakers it was agreed that their presentations would be public, but not what they expressed in discussions. The rule allows people to speak as individuals and to express views that may not be those of their organizations, and therefore encourages free discussion. Speakers are free to voice their own opinions, without concern for their personal reputation or their official duties and affiliation.<sup>2</sup>

The workshop was organised in sessions with short formal presentations followed by either "buzz" discussions in small groups in roundtable seating, or breakout working groups organized with a mix of nationalities and organizational affiliations, as far as language barriers allowed. All plenary sessions were simultaneously translated into English and Spanish.

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<sup>2</sup> Additional rules for the dialogue included the following principles, based on respect: to listen actively, e.g. follow flow and focus; not to use telephone, sms or email in the meeting room; to contribute to trust; to show respect for others, e.g. to attack issues, not persons; to ask for the turn to speak; to respect time, both as panellist and as participant; and to give the facilitator permission to run the seminar according to her plan throughout each session.

# Summary of presentations and discussions<sup>3</sup>

## Introductory session

### Opening Statements

The opening statement was delivered by H.E. **Marcela Aguiñaga**, Minister of Environment, the Republic of Ecuador, followed by welcome remarks by H.E. **Annika Markovic**, Environment Ambassador of Sweden and introductory remarks by Dr **Braulio Dias**, CBD Executive Secretary. The importance of dialogue was expressed, as well as gratitude to host and convener countries, and to the Resilience and Development Programme (SwedBio) and IUCN-Sur.

### Introductions

The Facilitator, Ms **Pippa Heylings**, Executive Director, Fundación Futuro Latinoamericano, Ecuador, explained the rules and objectives of the dialogue seminar, introduced “the map” of the seminar (see Annex 3), and allowed everyone to see the great diversity of participants in the meeting. A presentation of the background and policy context of the seminar was made by **Ravi Sharma**, Principal Officer, CBD Secretariat, and included a summary of the outcomes of CBD COP-10 with a focus on the Resource Mobilization Strategy. He explained that topics that had been discussed under IFMs in CBD negotiations included issues such as payments for ecosystem services; biodiversity offset mechanisms; environmental fiscal reforms, including innovative taxation models and fiscal incentives; markets for green products; business-biodiversity partnerships and new forms of charity; integration of biological diversity and its associated ecosystem services in the development of new and innovative sources of international development finance; and the incorporation of biodiversity concerns when developing funding mechanisms for climate change.



<sup>3</sup> Powerpoint presentations as well as relevant literature including formal submissions to the CBD can be downloaded at [www.dialogueseminars.net](http://www.dialogueseminars.net)

## Session I

## Panel on Values of Biological Diversity

*Expected outcomes of the session were to clarify issues of divergence and convergence and set the basis for continued dialogue through presentations and appreciation of pluralistic views on the value of biodiversity. The session served to place issues, perspectives and worldviews on the table, rather than attempting to resolve differences.*

**Pavan Sukhdev** from UNEP-TEEB (The Economics of Ecosystems and Biodiversity) gave a presentation on “Biodiversity’s value: recognizing, demonstrating and capturing”. He began by recognizing that conservation is key to poverty reduction for the 70% of the world’s poor who live in rural areas and depend directly on biodiversity for their survival and well-being. In order to halt loss of biodiversity and contribute to poverty alleviation, promote the achievement of the Millennium Development Goals (MDGs), and sustainable economic growth and livelihoods in developing countries, TEEB had evolved to seek ways of showing the economic significance of the global loss of biological diversity. TEEB sees “valuation” as a human institution, and its approach to valuation was: 1) Recognizing value: a feature of all human societies and communities and expressed through norms, regulations, regional planning, policies and legislations; 2) Demonstrating value: for example by showing the value of Protected Areas in economic terms, as a support for decision-making; and 3) Capturing value: the introduction of mechanisms that incorporate the values of ecosystems into economic decision-making, for example through the establishment of systems for payments for ecosystem services (PES) or goods on the market. Pavan Sukhdev concluded by clarifying that TEEB is not about “selling Mother Nature” and not a simple-minded cost-benefit-based stewardship model for the whole Earth. TEEB is about preventing the economic invisibility of Nature from leading to bad policies and trade-offs and about recognizing, demonstrating, capturing and rewarding the benefits that ecosystems and biodiversity provide to society in general and to poor people in particular.

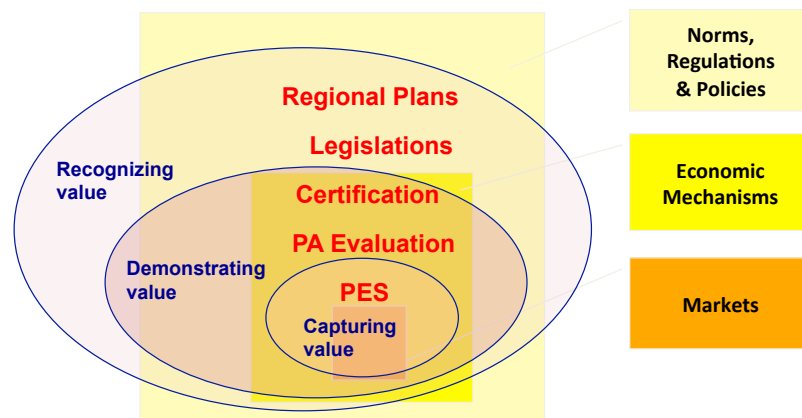


Fig 1. The TEEB approach to valuation: Recognizing, Demonstrating and Capturing value.

**Thomas Hahn**, from Stockholm Resilience Centre, gave a presentation on “Biodiversity’s ecological and resilience value”. He presented the theory of Resilience of Social-Ecological Systems (SES), which emphasizes people’s adaptive capacity to absorb shocks and reorganize after perturbations so as to retain essentially the same functions and identity. Applied to rural subsistence farming in developing countries this theory emphasizes factors crucial for adaptive capacity such as knowledge systems (including indigenous and local knowledge systems), social learning, flexibility, organization, and property rights. He argued there was a need to liberate the concept of “efficiency” from its present narrow, utilitarian meaning, and argued that consequences of various activities should be evaluated through different dimensions such as rights, freedom, monetary pay-off, equity and resilience. Such values could be explicitly recognized and need to be expressed by proper institutions, rather than by market prices. Hahn suggested that an important challenge would be to ensure that the current debates on the Green Economy should be informed by these kinds of approaches to economics and resilience.

**Gadir Lavadenz**, from Mother Earth and Water Unit, Ministry of Foreign Affairs and Cult, Estado Plurinacional de Bolivia, presented a methodological approach for the implementation of the Rights of Mother Earth and explained the concept of “Vivir Bien” (Well Living) which seeks to achieve balance, not only between individuals but between humans and nature. He referred to Bolivian Law No. 071 from year 2010 on the Rights of Mother Earth, which includes the principles of Ensuring Regeneration of Mother Earth and No Commodification of Nature as well as the Rights to Life, Rights to Diversity of Life, and Rights to Water. He elaborated on an on-going methodological approach to respond to these rights, including identification of information gaps in relation to all stakeholders, participatory development of tools to bridge these gaps, and ways to validate and make use of these tools. He recognized the need to understand whether an activity is exceeding critical parameters of ecosystem functions, and how to make possible planning for a change of development trajectory in a certain area in order to avoid reaching levels that exceed these parameters.

Lavadenz’s conclusions and recommendations were that: 1) More than assigning a value, it is important to recognize the functions and rights of the component elements of an ecosystem, of nature, for the effective protection of biodiversity; 2) These rights have moral and ethical dimensions which are the ground for methodological approaches that can be used to implement them; 3) There are already regional initiatives with this approach, such as the Adaptation and Mitigation Mechanism in Bolivia; 4) It is important to balance the approaches and with them the mechanisms that use them, so the different visions and the different contexts can be respected and taken into account; 5) It is important to build a framework that ensures this balance so the steps forward in resource mobilization do not become a threat to biodiversity; 6) Resources may come from different sources but what is important is a redistribution of existing resources in the world without the need to include biodiversity in global and unclear markets; 7) Existing resources should be directed to strengthen those living systems that are in harmony with nature, such as those of indigenous peoples.

Lavadenz emphasized the rights and integrity of Mother Nature and distinguished between tools for valuation and the theoretical framework for valuation. He expressed the view that there should be no imposition of single solutions, tools or methodologies; we have to work on respecting and using various approaches that are in line with each different context and are based on respect for our world.

The speakers and participants in the discussion that followed expressed varying opinions on the question of the extent to which it is appropriate to adopt an

instrumental/utilitarian framework and express values in monetary terms. While some participants viewed monetary valuation of biodiversity as largely inappropriate, others saw it as acceptable or desirable, but under certain conditions. Some participants saw it as desirable to express biodiversity values in monetary terms in order to make these values visible in decision-making, and stressed that biodiversity values can be demonstrated in monetary terms for policy analysis without using that value as a price. Furthermore, it was clarified that in cases where ecosystem services are actually sold, prices are determined in different ways: in many PES schemes, payments (prices) are determined by the government and are essentially a fixed subsidy, while in fully private, voluntary PES schemes, as well as in trading in various kinds of off-sets, prices are more determined by the market mechanism as such, with several buyers or sellers.

It was recognized that the provisioning of ecosystem services in the form of ecosystem goods (such as agricultural commodities, timber and fish) are already commoditized – that is, traded on the market. On the other hand, markets with public goods ecosystem services that local people often depend on for livelihoods in a broader sense are much more difficult to handle, and their consequences harder to understand. One of the reasons for this may be that rights to these commons are more difficult to determine. Assigning a monetary value to intrinsic values and other complex biodiversity values could be challenging scientifically, as well as unsuitable politically and culturally in some contexts.

The issue was raised why TEEB has not yet had much political impact. It was expressed that valuations need to be done in a national context relevant to national policies and accounting, which has only just begun in a few countries (such as Brazil and Norway). There was also the response that it is increasingly clear there are few incentives for the business sector to internalize the cost of biodiversity in voluntary ways.

The session concluded with a presentation of an open letter directed to the convener countries and participants of the dialogue seminar, signed by 170 social movement groups and CSOs worldwide, and read out by one of the signatories, Simone Lovera of the Global Forest Coalition. The letter highlighted a number of issues and concerns in relation to both values and politics of biodiversity, including: the need to focus on the drivers of biodiversity loss; the need to recognize developed country public funding as the primary focus/objective; the dangers of privatized markets and “financialization” of biodiversity; the socio-economic concerns over many PES; the importance to critically examine the many negative experiences of carbon trading and REDD to avoid a repetition of mistakes in biodiversity; and, in line with the previous point, a categorical rejection of biodiversity offset markets. The most fair as well as promising sources of biodiversity funding would be, the submission argued, fiscal reforms such as natural capital/environmental taxes, auctioning of greenhouse gas allowances, and earmarked financial transaction taxes. The signatories urged the seminar participants to act in line with models of society that are “built on the principles of community and on relationships with nature based on the protection of life”.

## Summary of working group discussion session I: Values of biological diversity

In the buzz session participants were asked to individually answer questions, each in one phrase, on paper and then share with the others in the group.

*What made the biggest impact on you during the first session?*

Several participants mentioned the recognition of the importance of biodiversity beyond monetary valuation, the relation between rights and values, and in this context, especially the consideration of the rights of Mother Nature as presented by Bolivia. Several participants also noted that economics can be used as a tool for valuation without undermining the non-monetary values, that they had gained a deeper understanding of TEEB and that they appreciated the detailed discussion of the connection between development and biodiversity.

*What was missing from the session (and would need to be discussed later in the seminar)?*

References were made to the role and perspectives of indigenous peoples, concrete working examples, pragmatic solutions and implementation guidelines, as well as elaboration on how to integrate valuation in policy-making and politics. Also highlighted were the topics of how to relate valuation to financing mechanisms and communicate effectively with Finance Ministers, the role of private actors and markets, reflections on property rights, discussions on adapting legal frameworks and the issue of possible limits to economic growth.

*“What are the convergences in what you have heard?”*

Participants recognized a common understanding regarding the importance and recognition of non-monetary values of biodiversity, the commitment to the protection of biodiversity resources, the importance of rights, and a need for well-functioning institutional frameworks and governmental regulations. In addition, economics as a tool and the context-dependence of the different financing mechanisms were recognized. A better understanding of certain terms are needed, especially the term “commodification”. Practical experiences with the implementation of ideas and tools, and the need for greater understanding of rights and their role in relation to economic tools and mechanisms were recognized. In addition, different perceptions of the role of private actors, markets and the relevance of market-based mechanisms were noted.



## Session II

# What needs to be financed - Assessing financial gaps to achieve the Aichi Biodiversity Targets

*Expected outcomes of the session were to present and understand needs regarding financial resources including related issues such as rights and institutional framework. The session asked the fundamental question “What is it that needs to be financed?” as well as reviewing what current financing looks like, and what various assessments of future needs are. The session also strove to identify critical knowledge gaps*

The session began with reflections on a number of *global assessments*.

**Guenter Mitlacher**, WWF, on behalf of the Global Environment Facility (GEF) NGO Network and the CBD Expert Team on the GEF Financial Needs Assessment, gave a brief overview of current financial flows globally of the GEF and the EU. GEF’s fifth replenishment round for the period 2010-2014 (GEF-5), totalling US\$ 4.25 billion, allocated US\$ 1.20 billion (28%) to the biodiversity focal area (US\$ 0.30 billion/year). The EU’s biodiversity-related bilateral aid in 2007-2009 committed € 1.31 billion per year on average. In addition, the mandate and process of the GEF needs assessment were described. Qualitative and quantitative methods are used to collect data, target by target, of CBD’s Strategic Plan 2011-2020 in order to estimate the funding needs, taking into account GEF’s incremental reasoning. The preliminary estimates of financial needs to achieve the 20 Aichi targets by 2020 are considerable – in the range of 20 times more than the current GEF-5 spending.

**Pavan Sukhdev** introduced the current UK/India High Level Panel Assessment that will be ready in time for COP-11. A UNDP-EC Global Biodiversity Finance Project was presented by **Yves de Soye**, UNDP. This project is developing its methodologies and frameworks and will initially test these in eight pilot countries.

In the panel discussion on global assessments it was emphasised that especially Strategic Goal B – “Reduce the direct pressures on biodiversity and promote sustainable use” – shows a high need for financial support, with significant changes required in the practices and behaviour of the private sector if targets are to be achieved. Hence, the question is not only “Who will pay?” but more importantly “How will these investments be organised?” The global assessment panel agreed that the returns are high in terms of biodiversity and human well-being and that the majority of these returns are public goods, which thus motivate public investments. Still, there is a need to motivate people and mobilise funds from a variety of sources.

The *bottom-up assessments* offered insights on needs regarding financial resources but also related issues such as rights, institutional frameworks and efficiency in resource use for the achievement of the Aichi targets. The first case, presented by **André Luiz Rodrigues Gonçalves** from Centro Ecológico in Rio Grande do Sul, Brazil, illustrated successful sustainable use (including biodiversity protection) through the establishment of cooperatives and local markets with the help of a certification system (participatory guarantee system). Centro Ecológico started in 1985 and has now been scaled up to include over 6,000 organic farmers in the Ecovida Network (Rede Ecovida de Agroecologia). This project links organic farmers with the market and

hence links food sovereignty with biodiversity conservation. Incentives from the Brazilian Government in the form of regulations requiring at least 30% of the budget to be spent on acquiring locally produced food for schools has contributed to the success of the production system. The case study showed that institutional frameworks with appropriate incentives and development, based on knowledge of the local ecosystems and social context, can contribute to food security as well as biodiversity and resilience – a success in terms of social, ecological and economic development in the region.

A case from an indigenous peoples and local community organization was presented by **Taghi Farvar**, Iran, representing the Indigenous Community Conserved Areas (ICCA) Consortium and the Council of Elders of UNINOMAD (Union of Indigenous Nomadic Tribes of Iran). The important role of indigenous peoples and local communities for biodiversity conservation and sustainable use was illustrated by the estimate that around 90% of the biodiversity in Africa is found outside of government-protected areas. Taghi Farvar urged the CBD to address this by respecting and strengthening the rights of indigenous peoples to sustain customary and traditional land use and conservation in indigenous territories and community conserved areas (ICCAs) which are recognized by the CBD Programme of Work on Protected Areas (PoWPA), IUCN and the text of the decisions of COP-10 in Nagoya, rather than imposing new or top-down regulations and structures for conservation.

**Pierre du Plessis**, CRIAA SA-DC, Namibia, presented an estimate of the costs and benefits of the Nagoya Protocol, which aims to mobilise benefit-sharing as an incentive for sustainable use and conservation. He pointed out that creating benefits requires investment, which only happens if there is legal certainty about resource tenure and contractual arrangements. To attract investment the transaction costs must be proportionate (for users and providers) to protect profits and avoid creating disincentives.

A country case from India which provides input to the GEF Needs Assessment was presented by Prof. **A. Damodaran**, the Indian Institute of Management, Bangalore. The assessment compared biodiversity core funding by India's national budget (US\$ 0.44 billion) with biodiversity relevant non-core outlays made by other Ministries and Departments and found the latter 5.5 times larger. It was concluded that innovative re-design of development projects through well conceived GEF projects can leverage considerable resources with substantial positive biodiversity impact across a range of sectors. During the discussions there was a general agreement on the considerable potential of such biodiversity mainstreaming, although caution was also warranted about the political realism of scaling up non-core funding for biodiversity purposes.

The Norwegian follow-up of TEEB and Wealth Accounting and Valuation of Ecosystem Services (Waves) was presented by **Tone Solhaug**, Ministry of the Environment, Norway. In Norway's new biodiversity legislation the moral and ethical approach to biodiversity is an explicit priority, and there is a clear limitation on the monetizing of biodiversity. However, mainstreaming is emphasized and a National TEEB will be used to quantify and estimate monetary values of the loss of ecosystem services resulting from the development of other sectors. TEEB/Waves will also be used to demonstrate the values of biodiversity and ecosystem services as part of Norway's national wealth.

## Summary of working group session II: What needs to be financed? - Assessing financial gaps to achieve the Aichi Biodiversity Targets

*What do you expect from and how does one best conduct needs assessments?*

There appeared to be a common understanding among the participants that the process of conducting assessments is as important as the resulting figures themselves. The assessments should be clearly linked to the Aichi Biodiversity Targets, but it was mentioned that the assessments should also go beyond these targets in order to describe a biodiversity-oriented development path rather than a static picture. It was pointed out in several discussions that sectors and actors using and impacting on biodiversity should be included in the process. A general opinion appeared to be that both top-down and bottom-up methodologies are needed, although it was mentioned that bottom-up assessments might be more useful. It was argued that new primary data were needed and that the methodology used should be consistent, so as to enable aggregation and comparison. Questions were posed concerning the final estimate of needs, whether it resembles the sum to be transferred from international financial sources and whether it mirrors the aggregated needs in countries.



## Session III

## Principles and experiences of financing for biodiversity and the importance of governance

*The expected outcome of the session was to set the context for the following session, consisting of case studies on specific mechanisms. Three substantial sets of presentations highlighted the core issues of the role of markets, the politics and equity of financing for biodiversity, and the importance and challenges of safeguards. This framing was intended to advance the discussion into the very heart of the debate, and to provide a common platform before moving on to specific cases and examples.*

**Arild Vatn**, Professor at the Norwegian University of Life Sciences and one of the main authors of a report specifically produced for the seminar, "Can Markets Protect Biodiversity? An Evaluation of Different Financial Mechanisms"<sup>4</sup>, gave a presentation under the same title. In his analysis of the role of markets in protecting biodiversity, Arild Vatn emphasized several challenges. First, biodiversity is usually a public good, meaning non-divisibility (non-rivalry) in consumption and the difficulty of excluding users. Non-exclusion means that users who do not pay cannot be excluded from use and this creates the problem of free-riding. Therefore, governments need to create frameworks and institutions to ensure rights and responsibilities. Second, non-divisibility means that biodiversity is difficult to commoditize and trade. Therefore, proxies are needed such as land or land-use. The third challenge is what was discussed in Session I, namely that biodiversity involves different values (services, livelihoods, ethics etc.). Payments may not capture all values concerned and may even be offensive to some. Fourth, since there are many beneficiaries of biodiversity and trading is complex, the transaction costs of a market are likely to be high. Intermediary (financial) actors will be those with most to gain and can consequently consolidate much power. Fifth, perverse incentives may cause people to destroy biodiversity in order to become potential sellers of its reproduction. This calls for careful definition of rights and responsibilities.

Given all this, markets should not be regarded as juxtaposed to the state. On the contrary, the more complex the market, the more intricate are the institutions that the state needs to create and maintain. Furthermore, it is important to realize that both private actors and the state itself can be market actors. For example, in PES schemes, 99% of buyers are governments (97% in developing countries). The reasons for this bias are probably the free-rider problem and high transaction costs, which obstruct the accomplishment of gains from trade.

Markets can function according to both "provider-gets" and "polluter-pays" principles. PES programmes are often based on the "provider-gets" principle, meaning that either landowners are assumed to have the right to degrade biodiversity and to get paid for avoiding this, or they get paid for enhancing sustainable use or conservation of biodiversity beyond what is typically the present status.

<sup>4</sup> Vatn et al., Can markets protect biodiversity? An evaluation of different financial mechanisms. Norad Report 19/2011 Discussion. Also published as Noragric Report No. 60 (June 2011).

In “cap and trade” systems the cap defines a level of protection. Developers and the like are free to reduce quality down to that level. If they reduce quality beyond the cap, they need to invest in compensation either “on the spot” or by paying others to compensate. Hence, one may say that within the cap the “polluter-pays” principle applies. In Tradable Development Rights (TDR), it is the state/city/municipality that sets a cap on land for development. A developer can expand beyond his cap by paying others to develop less. Another example is biodiversity offsets/habitat banking (BO). Here, the state defines goals (usually no-loss) for biodiversity, which becomes a cap. Liable actors who reduce a proxy for biodiversity need to buy the production of this proxy from somebody else (typically looking for one with lower opportunity costs). Trade is thought to ensure that the goal/cap defined by a public authority is reached at lowest possible cost. In the case of TDR and BO, Arild Vatn stressed that it is the publicly defined cap that protects the environment, not the money exchanged in the trade.

Biodiversity offsets assume that moving the habitat in space (and time in the case of banking) is possible without important loss of biodiversity value. A challenge is ensuring equal quality in space and time – the issue of “trading down” (lower opportunity costs could be achieved through lower values). High rates of non-compliance have been observed in the scientific literature. As in carbon trading, cap-and-trade schemes are to a large degree pushed for by financial actors who can act as intermediaries and gain through trading in these new off-set assets.

Vatn finally suggested that for successful assessment of different biodiversity financing mechanisms we need to consider both “process legitimacy” and “outcome legitimacy”. The latter consists of three parts; effectiveness (what is the effect on biodiversity), efficiency (are we reaching the goal in a cost-effective way), and equity (effect on distribution).

**Chee Yoke Ling** from Third World Network gave a presentation on the “Politics and equity of financing for biodiversity”. She described the historical and political context of international financing of biodiversity and its relation to equity. Twenty years ago in Rio there were frank discussions on colonialism, historical injustices and responsibilities that should be the basis for scaling up sustainable development finance. For example:

- Rio Principle 7: “States shall cooperate in a spirit of global partnership to conserve, protect and restore the health and integrity of the Earth's ecosystem. In view of the different contributions to global environmental degradation, States have common but differentiated responsibilities. The developed countries acknowledge the responsibility that they bear in the international pursuit of sustainable development in view of the pressures their societies place on the global environment and of the technologies and financial resources they command.”
- CBD Art 20(2): “The developed country Parties shall provide new and additional financial resources to enable developing country Parties to meet the agreed full incremental costs to them of implementing measures ...”

Yoke Ling argued that internalizing external costs (e.g. carbon taxes) and benefits (e.g. PES) may be good in principle but these tools need to be in the context of equity if we are to be serious about sustainable development. Many developing countries fear that the “Green Economy”, a concept that is being negotiated for global adoption, and related policies for biodiversity, focus only on “efficiency” and technological advantage from the perspective of developed countries and may result in new trade protectionism. In particular, she expressed a concern that the currently flawed financial system will be entrenched and extended to the sustainability discourse. Yoke Ling argued that “financialization” of the economy has created instabilities in the



financial sector and worsened inequalities within and between countries. Yet, there are initiatives for the “financialization” of nature as a means to attract private capital. Many NGOs across the world and increasingly many developing country policy-makers are deeply concerned and are calling for these attempts to be prevented.

She stressed that attention should be focused on generating more financial resources for developing countries for biodiversity, climate actions and other sustainability objectives through better terms of trade, development-oriented trade policies, correcting imbalances in the multilateral trading system (including intellectual property systems), debt relief to indebted developing countries, and structural reform of the international financial system. For example, according to Christian Aid (2009), US\$ 160 billion is lost by developing countries each year in tax revenues due to the profit-shifting of multinational companies (MNCs) through “transfer pricing” and “false invoicing” due to OECD rules that are influenced by MNCs.

A financial transaction tax (FTT) can be used under the principle that global public goods should be financed globally. Yoke Ling referred to the estimate by the Austrian Institute for Economic Research that a global transactions tax of 0.05% could yield between US\$ 447 billion and US\$ 1,022 billion a year, and another by the Center for Economic and Policy Research (CEPR) that a varied tax (0.5% for stock transactions, 0.01% for bond trading, and 0.01% for swaps) would generate about US\$ 350 billion in US markets alone. The use of IMF Special Drawing Rights could also, she suggested, be an important potential source of finance for developing countries.

In moving on to the issue of Safeguards, this slot was shared by two different actors: the World Bank and the International Indigenous Forum on Biodiversity.

**Valerie Hickey** from the World Bank explained that the World Bank has operational policies, known as safeguards, that provide a platform for the free, prior and informed negotiation of trade-offs arising from development investments; these safeguards include a mix of risk management, due diligence and quality enhancement. She explained that the World Bank’s safeguards aim at ensuring that projects proposed for Bank financing are environmentally and socially sound and sustainable, and thus improve decision-making. As a part of risk management, safeguards strive to identify trade-offs of investment decisions and strategic alternatives and to prevent negative impacts on communities and public goods. In addition, they are focused on ensuring that all voices are heard and that information asymmetries are reorganized. In general, the World Bank’s safeguard policies favour avoidance over mitigation and compensation. In addition to a broad Environmental Assessment safeguard, the World Bank also has safeguards to protect critical natural habitats, ensure broad community support from indigenous peoples when investments may affect them, and minimize physical resettlement or loss of access to resources in formally protected areas. However, it was recognized that the practical implementation of safeguards comes with a variety of challenges, such as policy gaps and inconsistencies, pressure of time and lack of resources to conduct studies, conflicting aims and values among the stakeholders and a lack of monitoring and enforcement of safeguards.

**Yolanda Teran** from the International Indigenous Forum on Biodiversity added indigenous peoples’ views to the discussion on biodiversity financing mechanisms and safeguards. She explained that indigenous peoples have a holistic view of Mother Nature and the human relationship with the environment. In addition, indigenous peoples have a universe with different worlds and life and agriculture cycles from what is conceptualized in the economy and most policies for life and well-being. On the topic of biodiversity financing and rights she gave the examples of Chapters 4 and 7 in the Ecuadorian Constitution (Collective rights of communities, and Rights of Mother Nature, Pacha Mama). She advocated the use of the precautionary principle in



decision-making on biodiversity financing instruments, since the risks and challenges of several mechanisms are not yet clearly known or predictable. Moreover, Yolanda Teran underlined the importance of the design, implementation and monitoring of safeguards to ensure the collective rights of indigenous peoples to ownership of and sovereignty over the land and natural resources they use and depend on, as well as equal benefits derived from them. She also urged that access for indigenous peoples to their sacred places be ensured, along with protection of these places, and called for respect for indigenous peoples living in voluntary isolation. In addition, she stated that indigenous women are "cultural pillars", the primary educators and custodians of biodiversity and that their participation in the whole process of establishing financing mechanisms should therefore be ensured. With special regard to safeguards, the presenter underlined the need for consultation and free, prior and informed consent of indigenous peoples concerning the development of projects on their lands, territories and waters, and respect for their right to say no. Sovereignty, self-determination, and full and effective participation underlie the principle of free prior informed consent, according to the speaker.



## Summary of working group session III: Principles and experiences of financing for biodiversity and the importance of governance

*What are key stumbling blocks for moving forward on scaling up biodiversity financing?*

Examples of key obstacles as discussed in the working groups included the fact that biodiversity financing has to a large extent been associated with the creation of protected areas with limitations on development. It was stated that there were gaps in the assessments and a lack of political will in general for biodiversity funding. In addition, it was noted that opportunities and risks are not evenly distributed, that transaction costs are high, that intermediaries sometimes reap most of the payments and that the global financial crisis in general might not allow up-scaling. Finally, a concern was expressed that smaller countries might lack the capacity to conduct needs assessments as well as developing larger-scale financing schemes.

*What ideas do you have for approaching these stumbling blocks?*

It was underlined that biodiversity mainstreaming and integration (with other ministries and sectors) is important. It was suggested that the drivers of biodiversity loss should be identified, the transition into a more biodiversity-rich society should be negotiated politically, based on legal instruments and rights-based approaches, and associated sectors and institutions should be involved and informed.

Furthermore, it was mentioned that transaction costs need to be reduced and that disclosure and transparency must be ensured. It was suggested that a prerequisite for any type of financing mechanism is that it is adapted to the local context and regulated, including that safeguards are in place and implemented. It was also mentioned that safeguards could be difficult to implement in countries with weak legal enforcement.

It was also noted that there is a learning potential from business processes regarding financial needs assessments and efficient resource allocation. It was considered useful to engage the private sector. It was noted that the polluter-pays principle should be enforced. Likewise it was recognized that prices can be important to change consumer preferences.

In addition, it was underlined that fiscal solutions such as tax reforms and the elimination of perverse subsidies would contribute to the objective of moving forward.

A general opinion appeared to be that successful cases of efficient financing mechanisms and up-scaling schemes should be identified and compiled in publications of practical guidelines and lessons learned. This would also contribute to enhancing local planning capacities.

## Field Trip organized by the Ministry of Environment of Ecuador to a Socio Bosque project in Oyacachi

The dialogue seminar spent one day on a field trip, visiting Oyacachi where Ecuador's Socio Bosque programme was presented. The day also served as an opportunity for informal conversation among the participants during walks and more than six hours of bus rides.

The Socio Bosque programme (SB) of the Ecuadorian Ministry of Environment (MAE) is a governmental initiative started in September 2008 that aims to preserve native forest ecosystems in Ecuador, reduce the high rate of deforestation in the country and increase the well-being of the forest-dependent population. The goal is to promote the voluntary conservation and protection of forests, native species and páramo (highland grass and shrub savannas) through the disbursement of annual economic incentives up to US\$ 30 and 60 (based on a sliding scale), on a per hectare basis, allotted to rural individuals and communities, both indigenous and non-indigenous, for a period of 20 years. From its inception until the close of 2011, Socio Bosque has signed 1 563 contracts with individuals and communities, conserving 883 223 hectares of forests and native vegetation, and involving more than 90 000 people in the country.

The contracts established with the Ministry of Environment are contingent upon the conservation of the area selected for the Socio Bosque programme, allowing for the use of the forests in a traditional sustainable way, including hunting and fishing for personal consumption and prohibiting these activities for commercial purposes. Additionally, there is strict prohibition of logging and burning in these areas. Participants are prioritized on the basis of the type of area they live in: 1) areas with high deforestation threats; 2) areas with important ecosystem services (biodiversity, water and carbon); and 3) areas with high poverty levels. Although only 6% of the contracts are with collective organizations (mostly indigenous communities), these contracts cover 87% of the areas conserved. Communities in the programme invest the monetary incentives they receive in health, education, conservation, housing infrastructure, economic development projects, and capacity-building. Critics say that these services should be provided by other governmental resources and not be financed through conservation incentives.

Socio Bosque's 2012 budget is approximately US\$ 9.5 million, taking up 9.65% of the annual budget of the Ministry of Environment. Until February 2012, the Socio Bosque programme was financed 100% by government funds. However, in March 2012, a donation from the KFW was made effective. This € 21

million donation destined for the Ministry of Environment allotted € 8 million specifically towards the Socio Bosque programme. Additionally, the Socio Bosque Programme has begun implementing its financial sustainability strategy, which will incorporate the revenues from a portion of a newly implemented green tax on plastic bottles in the country; compensation schemes from mining, fossil fuels and hydroelectric companies; Socio Bosque certificates for contributions to conservation; international cooperation opportunities through a trust fund; and, finally funds received through REDD+.

Although Socio Bosque considers REDD+ an option that can contribute to its financial sustainability, REDD+ is still in its preparation stage in Ecuador and thus is still too uncertain to count on for income. While Socio Bosque and REDD+ have convergences in some aspects, they are not equivalent to each other and Socio Bosque states it will not force any of its beneficiaries to be a part of REDD+ without prior consent. This precaution is due to expressed criticism from indigenous communities who have objected to REDD+ in writing.

### The Oyacachi Community

The Oyacachi community is an ancestral Kichwa community located in the Andes mountains, 40 kilometers outside of Quito, and consisting of 630 people (135 families). It joined Socio Bosque in 2010, conserving a total of 10,830 hectares of páramo and forest, thus receiving US\$ 69,395 annually. This community has a high level of organization and works towards participation of all of its members, men and women of all ages. Oyacachi works with livestock and fishing projects, craftwork and tourism. Because the Oyacachi community is located in a protected area, they work with the National Park in order to develop their land management plans. In the past couple of years, the Oyacachi community has invested in the Socio Bosque incentive to help strengthen these projects and provide employment opportunities for its community members. Oyacachi's main objective in the past years has been to improve the community's socio-economic and environmental conditions through alternative and sustainable activities that provide an income. Among some of the aims are the following:

- 1) Continue to conserve the designated areas by hiring two community members as forest rangers;
- 2) Promote and increase tourism by printing promotional material and improve the administration of the project by hiring a person to handle the logistics and finances of the project; and
- 3) Invest in the financial capital of the community by providing micro loans to support entrepreneur families in the community.

## Session IV

## Case studies and options for financing

*This substantial session sought to provide concrete examples and cases of different biodiversity financing mechanisms. The idea was to stimulate discussions – triggered by short case study presentations and building on the previous sessions – that could move beyond the initial presentations. The session was divided into five different sub-sessions: a) Payments for ecosystem services, b) Fiscal reform, c) Official development assistance (ODA), d) Private funding and markets, and e) Other financing options.*

### a) Payments for ecosystem services (PES)

*The concept of payments for ecosystem services has caused confusion as it carries a range of meanings. As was already pointed out by Arild Vatn, PES are in the majority of cases funded by governments, who also set the price for the payment of "services". In some cases, however, PES schemes are fully private and voluntary, with full market exchange between "buyers" and "sellers".*

The sub-session on PES compared two experiences of public funded PES. In an example from Costa Rica, presented by **Carlos Manuel Rodriguez**, Vice President for Conservation Policy, Conservation International, the government provided the necessary prerequisites by focusing on enabling conditions by changing the institutional and legal framework and by providing financial incentives in order to promote the restoration and conservation of the national forests (national parks, private forests, indigenous reserves, corridors, conservation gaps, mangroves). The 1996 Forest Law banned land conversion, which offered an incentive to the PES schemes. The Environmental Services Payment Programme (ESPP) is financed through fees on carbon, taxes on fossil fuels, revenues from water concessions, funds from the World Bank and grants from GEF and KWF. Initially landowners were paid around US\$ 42/ha, which is a reflection not of the value of biodiversity but of the opportunity cost of conservation (forgone net income from forestry). Today beneficiaries are paid US\$ 78 per hectare per year and this money is paid, on the one hand, for the provision of the environmental service of carbon sequestration and, on the other, for restoration and good uses of land for water conservation and for biodiversity conservation in corridor and conservation gaps. The presenter emphasized that it took quite some time to build trust before landowners overcame their suspicion that the ESPP would be a cheap way for the government to take ownership from them. It also took a long time to address and reduce perverse incentives – another example of government action that has proven very important.

To justify government spending on the PES scheme, a calculation was made of the monetary benefits of national parks. These numbers showed a contribution of 5.5% to the national GDP in 2002. Seven years later the benefits were estimated to be around US\$ 1.3 billion. In 2005 the ESPP covered around 650,000 ha, of which around 75,000 ha is indigenous territory. The programme has a special emphasis on indigenous communities and rural farmers, thereby not only achieving an ecological outcome but also an improvement in social well-being. The PES programme has become the most important revenue for several indigenous communities. An advantage of the Costa Rican example of PES is that property rights are defined in the process. Of Costa Rica's land area 11% is under PES and the plan is to increase forest cover to 65% from 21%

in 1987. The speaker closed with the observation that during the last 25 years GDP per capita has tripled while the forest cover has doubled, which could prove that there does not have to be a trade-off between economic growth and biodiversity conservation.

As a contrast, **Álvaro Salgado** from Mexico shared his experiences from a PES case for the Lachiguiri in Oaxaca, in Southern Mexico. For these indigenous communities the economy is only a sub-system of the political system, which in turn is a sub-system of the cultural and social system and finally of Mother Earth. The community has practised sustainable agroforestry for centuries, planting corn and organic coffee within the forest. Many have rejected PES schemes because these were perceived as privatization of the water cycle and as imposing conditions on land use which would be unsustainable and lead to displacement. Communities that have now entered into contracts with local government have understood too late that they can no longer use the land as they have done before, for example with agroforestry systems, and they have lost livelihood possibilities – in the Lachiguiri case over 200 families have lost their livelihood possibilities. For them the land is not just related to the economy, but also to the social and cultural context of their lives. Corn forms a central part of their culture. The Lachiguiri communities need money, but the conditions for the PES payments may pervert the local dynamics. Furthermore, as the funding that was offered did not cover the actual cost of conservation based on people's work, the communities are now subsidizing the real cost of conservation. Rather than regulating indigenous communities, Álvaro Salgado argued that the government should focus its efforts on tackling drivers such as destructive commercial logging, cattle production, mining and extensive privatization of dams.

## **b) Official development assistance (ODA)**

*In the second sub-session, the role of official development assistance (ODA) was discussed. Over the last few years, ODA has changed in several ways, something that was also highlighted in the brief presentations. For example, ODA has gone from a period of budget support to becoming more directed again. There has also been a shift towards seeing ODA as a potential mechanism for attracting private sector investments and the formation of so-called public-private partnerships (PPP).*

**Bente Herstad**, from Norad, talked about the experiences and the changing role of official development assistance (ODA) in financing biodiversity and ecosystem services and argued for a shift in focus from aid efficiency to development efficiency and that aid has to be used more strategically to release other and larger streams of capital for development. ODA is small (US\$ 106 billion from OECD countries) in relation to other financial flows, especially compared to flows such as the illegal capital flows of US\$ 750 billion per year from developing countries to developed countries. Support to reduce illicit capital flows related to natural resources may be more efficient than supporting biodiversity programmes, as it may contribute both directly to biodiversity conservation and to increased domestic financing for biodiversity. The four common principles for ODA adopted at the fourth High Level Forum on Aid Effectiveness in Busan 2011 are 1) Ownership, 2) Results based, 3) Inclusive partnerships, and 4) Transparency and responsibility. Bente Herstad pointed out that country ownership is ensured through the donor dialogues with the Ministries of Finance and Planning. To increase ODA for biodiversity it has to be presented as a country priority in these dialogues.

**Laure Ledoux** from the European Commission talked about ODA and recent EU initiatives on biodiversity financing from the public and private sectors. She indicated



that the possible role of ODA to leverage other financing sources should be further explored. The challenge of ensuring that biodiversity features amongst recipient countries' priorities also needs to be addressed. Recent EC communications related to biodiversity financing stress the importance of mainstreaming biodiversity throughout the EU budget, including through external action instruments. Co-benefits from various funding sources, such as climate change, should be maximised. There is a need to diversify sources of funding, including through a range of possible innovative financing instruments, such as PES, private-public partnerships for green infrastructure, and no net loss initiatives (biodiversity offsets). An EU study on the potential to attract financing from the private sector concluded that, in order to scale up to the full potential, there is a need for strong policy signals and regulatory frameworks. Laure Ledoux also stressed that monitoring impacts on biodiversity and the need for safeguards are other important challenges. Recent EU financing initiatives cover a wide range of Aichi targets. Regarding Target 20 on resource mobilization, this includes the support of a workshop organised by OECD, the World Bank and GEF after WGRI-4 in Montreal on 12 May, 2012 on the potential of IFMs to scale up biodiversity finance, which could provide a useful forum to continue and further elaborate the Quito discussions.

**Gustavo Fonseca** from GEF explained the GEF replenishment procedures. GEF has invested US\$ 3.1 billion in biodiversity and US\$ 8.3 billion in co-financing to support more than 1,000 projects in 155 countries. Focus has been on the creation and management of protected areas. Forty conservation trust funds have also been supported with US\$ 300 million. Gustavo Fonseca showed how the funding has increased since the pilot phase in 1991-1994. Funding for GEF-5 (2010-2014) is US\$ 4.34 billion. GEF's mandate within CBD is to provide the institutional structure for operating the financial mechanism of the Convention. GEF funds the "incremental" or additional costs associated with transforming a project with national benefits into one with global environmental benefits. To be successful in increasing the budget for GEF-6, Fonseca concluded that the current needs assessments estimates would need to be brought into the complex and sequentially structured replenishment process of GEF.

### c) Fiscal reforms

*In the third sub-session, the role of fiscal reform was discussed. This sub-session highlighted the role of taxes and green tax reform at the national level, the imperative to remove and redirect harmful subsidies, and the promises of new international taxation such as financial transaction taxes.*

**Thomas Hahn** from Stockholm Resilience Centre presented a Nordic model of taxation and other national and international fiscal instruments and explained that these reforms have played an important role in Sweden. He took the example of the Swedish carbon tax. Between 1991 and 2010 this carbon tax has been increased in steps to a level of now € 4 billion/year (almost € 500 per capita). This is part of a green tax reform (tax shifting) in which labour taxes have been decreased even more. Although generally seen as a success, since 2008 most of the green taxes have been replaced by emission trading under the EU Emission Trading System (ETS). The ETS prices have on the other hand fluctuated dramatically in the last few years, from 30 Euros per ton to near zero in 2007 due to the recession. Like many other economists, Thomas Hahn argued that what business needs is a predictable cost of carbon that motivates green investments in the longer term, and that taxes provide a more reliable price signal than ETS.



Hahn suggested that a financial transaction tax (FTT) or a "Tobin tax" on currency exchange might be one alternative means of financing global public goods. There is strong civil society mobilization around the concept, some influential governments are promoting the idea, and it is increasingly referred to in academic circles (which he illustrated by referring to an article in *Nature*, "Tax Society's Ills" by Ed Barbier, published only a few days before the seminar). A Global Biodiversity Tax may be a way to "tap" the revenue from an FTT/Tobin tax.

At the national level Hahn suggested that green tax reforms and removal of perverse incentives should be the first steps to finance biodiversity conservation. The private sector is also very important and for biodiversity the most important private sector stakeholder are usually the landowners. Appropriately executed PES schemes may be seen as public investment "feed-in tariffs" for biodiversity; the landowners are offered a fixed, predictable price to maintain or enhance biodiversity. Criteria for success would be the four legitimacy criteria suggested by Arild Vatn.

However, landowners will produce but not finance biodiversity conservation. Private sector stakeholders, Hahn concluded, have in general little incentive to finance biodiversity, because it is mostly a public good. However, because some businesses depend on ecosystem services and and/or are serious about corporate social responsibility, conservation trust funds and similar mechanisms could have a good potential to finance biodiversity conservation.

The Ecuadorian experience with environmental taxes was presented by **Fabián Espinoza**, Manager of the National Programme of Integrated Management of Solid Waste from the Ministry of Environment, Ecuador. In his presentation on the Ecuadorian example of green taxes, Espinoza explained the background and the design of the new national tax programme on plastic bottles. With this programme the Ecuadorian government intends to achieve an increase in the number of returned and recycled plastic bottles. By imposing a refundable tax of two cents per plastic bottle levied on the bottling companies, the programme aims at incentivizing the devolution and recycling of plastic bottles, thereby internalizing environmental costs and alleviating the problem of environmental pollution by plastic waste, changing consumer behaviour and supporting the recycling industry. The programme has supported the establishment of ten waste collection and recycling centres by PET exporters and waste pickers countrywide as well as the implementation of 70 waste-returning entities by the bottling companies and will continue to promote the installation of more entities. The two cents refundable tax is imposed on bottles that are not recycled, so it is a tax that does not affect the price of PET, but influences positively the activity of recycling. It was underlined that the income conditions of thousands of families whose income depends on waste collection has also improved significantly. To date about 6 million bottles have been returned and recycled. The bottle tax was only one example of Ecuadorian initiatives on environmental taxes.

## **Summary of working group session IV: ODA, public-private partnership, and fiscal reforms**

There appeared to be broad agreement on the need for ODA as a predictable financial resource for conservation and sustainable use of biodiversity and benefit-sharing related to genetic resources. It was noted that direct support to reach the Aichi biodiversity targets constitutes only a rather small part of the total ODA. Mainstreaming into other sectors and routines for impact assessments are needed to ensure environmental and biodiversity benefits. ODA was also considered to be important in leveraging other resources.

It was noted that, since the recipient country ownership is a fundamental principle of ODA, the capacity and knowledge of the importance of biodiversity for development has to be present at the national level to be given priority. Shaping of instruments such as fiscal reforms and biodiversity mainstreaming has to be country driven. On the other hand, it was stated that there is a challenge of convincing Ministries of Finance of the need to give priority to biodiversity to reach development priorities in both developed and developing countries. Fragmented and contradictory aid programmes outside proper control of local governments as well as limited coherence of policies in development, environment and trade is also a challenge for conservation and sustainable use of biodiversity. It was further noted that more dialogue on spending purposes should be allowed in ODA as more directed funds are gradually taking over from general budgetary support.

The role of public-private partnerships, PPPs, was discussed intensively in all groups. There seemed to be agreement that PPPs could have a potential to generate funding for conservation and sustainable use of biodiversity and that it was in fact a responsibility of the private sector to contribute. It was however also recognized that it is the responsibility of governments to regulate private sector activities and set up the institutions, norms and regulations to ensure appropriate behaviour, internalize externalities, avoid green washing and protect public interests. Concerns were raised that some states may lack the capacity to effectively regulate, monitor and evaluate private business activities.

It was stated that experiences proved PPPs often are difficult in practice and that they can end up subsidizing the private sector rather than generating additional revenue for biodiversity conservation. In order to move forward with the involvement of the private sector, some suggestions were made that lessons learnt from PPP experiences should be compiled, that the private sector should be involved early in the planning process, and that regulations for impact compensations should be set up as a complement to voluntary funding through corporate social responsibility. In terms of revenue generation, corporations were considered important, but primarily as objects for taxation.

Regarding the view on specific steps that could be taken for fiscal reform, participants highlighted the importance of removing perverse subsidies. Opinions were voiced that tax shifting would be an interesting option and

and that taxing "bads" would not only generate revenues but also have a positive "policy effect". The idea of generating revenues for conservation and sustainable use of biodiversity from financial transaction taxes was generally seen as a positive idea, but was regarded by some as a rather long-term and unrealistic option. There was also concern that biodiversity would have difficulties in ensuring a substantial budget allocation among other global public goods that would claim access to such a tax, once implemented.

#### **d) Private funding and markets**

*The fourth sub-session focused on private funding and markets. In this broad categorization of different biodiversity financing mechanisms, both private sources (business investments, Corporate Social Responsibility activities, philanthropy and remittances) and various schemes relying on markets mechanisms (which could also include governments) were included.*

**Katia Karousakis**, from the OECD Secretariat, gave an overview of market-based options for biodiversity. Karousakis described economic instruments (or "market-based" options) as tools to provide correct price signals to producers and consumers, that is to bridge the divide between private and social costs and benefits. The overall policy objective were how to get highest biodiversity benefits at minimum cost, and to create the most appropriate and feasible policy mix to achieve the intended goal. Economic/market-based options for biodiversity include, in her view: environmental taxes, charges, user fees, subsidies, PES, biodiversity offsets and bio-banking, individually transferable quotas (for fisheries), and certification schemes. Like other policy instruments for biodiversity, economic instruments would need to be adapted according to drivers of loss as well as the institutional and governance capacity. Karousakis stressed that economic instruments are no panacea and that to be effective, they need to be well designed and implemented. But overall, economic instruments can be cost-effective, and in many cases are also able to generate revenue for biodiversity, and should be used as part of a policy-mix (including, for example, regulatory command-and-control approaches) for effective conservation and sustainable use.

**Naohisa Okuda** Director, Global Biodiversity Strategy Office, at the Ministry of Environment in Japan, gave a presentation of Japan's best practices and future perspectives on scaling up biodiversity finance. He explained for example that Shiga Bank introduced Biodiversity rating as a basis for an interest rate discount system. Corporate consideration for biodiversity were graded on a scale from 1 to 100 points based on criteria such as policies, strategies, implementation, cooperation with scientists, internal education, actions to reduce or avoid environmental risks, activities to preserve traditional cultures, and other outcomes. The "Guidelines for Private Sector Engagement in Biodiversity" aim to provide information and policies to business entities for voluntary conservation and sustainable use of biodiversity. The "Japan Business and Biodiversity Partnership" is a framework that includes corporations and NGOs, but also local governments and the Ministry of Environment, all in all around 500 members. The main activities include sharing information about best practices, events, reference material through website and newsletters as well as

consciousness and activity surveys of members. Certification of organic rise has also been successful.

At local level, 29 prefectures in Japan have introduced a Local Forest Conservation Tax paid by both citizens and corporations. At least 14 cities (waterworks departments) in Japan (Toyota City, Fukuoka City etc.) have established funds to support watershed conservation activities in cities upstream. Based on water use, the city downstream contributes money from their budget to the fund, which is used for supporting conservation measures in upstream areas.

One approach to biodiversity off-sets was presented by **Marta Echavarria**, from the Business and Biodiversity Offsets Programme (BBOP). Echavarria defined the BBOP view of biodiversity offsets as measurable conservation outcomes resulting from actions designed to compensate for significant residual adverse biodiversity impacts arising from project development after appropriate prevention and mitigation measures have been taken. The goal of biodiversity offsets is to achieve no net loss of biodiversity, and preferably, a net gain of biodiversity on the ground with respect to species composition, habitat structure, ecosystem function and people's use and cultural values associated with biodiversity. Therefore, Echavarria expressed that these are site-specific measures that can provide local environmental and social benefits. The drivers for their application have been policy requirements in more than 40 countries; project finance and voluntary measures by companies. Echavarria was of the opinion that biodiversity offsets – if done well – can contribute to national conservation strategies through new and additional investments in conservation, help with land-use planning, support sustainable livelihoods for local people and help companies secure social license to operate and manage their risks. Echavarria said that the standard for biodiversity offsets presented by BBOP gives importance to the social and cultural dimensions and can only be applied after companies prevent, mitigate and compensate for their impacts, which must be measured.

**Roberto Ugas**, Vice President of IFOAM gave a presentation on traditional green markets with the help of certification. Ugas explained that half of the global hungry population consists of smallholder farmers. He cited reports that only 30% of the world's (human) food comes from the industrial food chain. The rest is produced by smallholder farmers/peasants (50%), city-dwelling peasants (7.5%) and hunting/gathering (12.5%). There are 80 million organic certified hectares globally, half cropland and half non-agricultural land (wild collection, bee-keeping, aquaculture, permanent pastures, and forests). Between 2000 and 2010 the global market for certified organic farming grew from US\$ 18 billion to US\$ 59 billion. It was emphasised that about 2 million smallholders worldwide are promoting and investing in biodiversity conservation through the practice of organic agriculture. Ugas discussed some misconceptions about organic agriculture, for example that it is a niche market for the wealthy and that certification is expensive and bureaucratic. Export-oriented smallholder agriculture is the most regulated agricultural sector, with compulsory and voluntary certifications. By allowing third-party certification (based on ISO 65) or participatory guarantee systems (PGS), such as the earlier example from Rio Grande do Sul, or exceptions for smallholder groups or public supervision of smallholder groups, the costs are lowered and various alternatives of guarantee systems are offered to different farming systems and social structures. Local markets are also growing. Ugas argued that the challenge is to increase the number of farmers that are well integrated with improved value chains at the local, regional, national and international levels. The lower the level, the higher the potential impact on biodiversity and food security.

## Summary of working group session IV: Private funding and markets

In responding to the question on the convergences on the role of the private sector and markets, there were different opinions among the participants about the definition of the very terms “private sector”, “commercialization”, “commodification” and “markets”, leading to the conclusion that clarifications of terms are needed. It was also suggested to make a clear distinction between different kinds of funding from the private sector, which is ranging from philanthropy to business investments. The idea that the private sector should contribute to biodiversity was commonplace. Care should be taken to ensure that financial mechanisms for biodiversity do not turn into a license to pollute. A good governance system is needed with a clear legal framework and institutional capacity to guide and verify private sector commitments in biodiversity. Regulations need to be transparent and predictable, both to create a level playing field that is necessary for the investors, as well as to the benefit of affected communities. In this respect it is necessary to understand and take into consideration power relations and control of markets. Taxes, fiscal reforms and public funding were perceived as the main source of biodiversity funding. The potential of voluntary financial contributions from private schemes seems still quite limited. Agrobiodiversity and ecotourism were pointed out as the most important areas for private sector investments in conservation and sustainable use of biodiversity.

Mechanisms to “biodiversity-proof” products and commodities, to generate benefits from greening supply chains, were suggested as an alternative source of revenue for biodiversity.

Biodiversity offsets were a disputed issue. One of the points discussed was the importance of the “mitigation hierarchy”, meaning that any compensation through offsets should only happen after all efforts towards avoidance and minimization of damage as well as maximum rehabilitation and restoration have occurred. Arguments were made that biodiversity offsets are not biodiversity financing mechanisms that generate new financial resources, but rather compensation mechanisms resulting from a legal obligation on the part of companies and other actors to internalize environmental damage. Consequently, biodiversity offsets could not have a big role in scaling up resources for biodiversity. Others argued that offsets can be linked to restoration of degraded lands and thus contribute directly to the most costly of the Aichi targets. In some cases government regulations are imposing substantial overcompensation, ten or a hundred times the size of the damaged area. If such regulations became commonplace, it was argued that offsets could contribute significantly to biodiversity financing.

Concern was raised that if appropriate measurements are not adhered to, biodiversity offsets can have negative impacts on local peoples livelihoods and that off-sets can create conflicts within and between communities. The point was also made that there is a fundamental difference between offset compensation schemes that are particular, place-bound, on a local level, and possible offsets on a global level, since biodiversity relates to local peoples

livelihoods that are place-bound. No one argued for establishing a global offset mechanism with tradable offsets.

Participants also raised the issue that offset schemes could allow for the creation of cap-and-trade markets and tradable credits, for example through bio-banking. The participants had differing views, and some expressed worry and that they had limited knowledge of tradable market schemes such as bio-banking, species banking and tradable development rights. It was expressed that strong legal frameworks and proper assessment of merits and risks with new markets are needed to ensure minimal negative impact..

Certification was also extensively discussed. Again, a clarification regarding what kind of certification, that is considered, is important to make. Certification through, for example, participatory guarantee systems, as in the example of the case from Rio Grande do Sul, is different from certification of for example specific organizations and companies. The transaction costs of verification and control through third parties are, in general, high and may take a large share of the added value of the purchase, depending on the certification scheme. Participants questioned whether it should be considered as an instrument for changing market demand and educating the consumers rather than a tool for generating funds for biodiversity. However, a change in consumer demands towards certified products will contribute directly to conservation and sustainable use of biodiversity if the certification is real and valid. With organic agriculture it is basically groups of smallholders that are actually investing in biodiversity through their practice.

Levies and taxes were perceived as the most cost-effective and efficient means to generate biodiversity finance from the private sector.

## e) Other financing options

*In the last sub-session two additional biodiversity financing mechanisms were presented.*

**Daniel Ortega**, Director of Environment and Climate Change, Ministry of Foreign Affairs, Ecuador, presented the Yasuni-ITT Initiative and the Net Avoided Emissions (NAE) mechanism as flagships for Ecuadorian environmental policy in the context of sustainable development. The goal of Yasuni-ITT is to leave oil underground (846 million barrels) at the Yasuni National Park, a UNESCO Biosphere Reserve and home to two indigenous communities in voluntary isolation, in order to deliver a net avoided emission of 407 million metric tons of CO<sub>2</sub>. The Ecuadorian Government is asking the international community to contribute US\$ 3 600 million over 13 years, equivalent to the economic value of the avoided CO<sub>2</sub> emissions, as compensation for climate change mitigation and biodiversity protection. The capital fund window will be used to co-finance the country's energy matrix conversion towards renewable energies and the revenue fund window will be used for sustainable development programmes. The NAE mechanism, for which Yasuni-ITT is an operational example, has been included in the proposals for new mechanisms for mitigation at the United Nations Framework Convention on Climate Change and can be introduced to CBD as a mechanism for synergies in the context of sustainable development.



**Pedro Leitão**, Brazil, presented the Brazilian Biodiversity Fund (FUNBIO), an environmental fund (EF) that invests in conservation and has as one of its major initiatives the Amazon Protected Areas Programme (ARPA). ARPA has helped to protect 33 million hectares of the Amazon forest. FUNBIO raises national and international funds and acts as an intermediary between donors and local communities and organizations. These receive support in compensation either for protecting forests or for productive activities associated with sustainable use of natural resources. FUNBIO receives contributions from the Government of Brazil, GEF, WWF, GTZ, World Bank, KFW, and many other public and private sources. Altogether, FUNBIO has managed more than US\$ 280 million in 15 years. It is one of 25 EFs in Latin American countries. Together these compose the Latin American and Caribbean Network of Environmental Funds (RedLAC) The RedLAC funds operate a US\$ 800 million yearly budget in different conservation initiatives. Leitão argued that FUNBIO is reliable and efficient because it is transparent and, as importantly, it is creative in leveraging international, national and local resources. He also argued that as most environmental funds, it should be taken as an important innovative financial mechanism, strategic for the implementation of the CBD in Brazil, and, in particular, of the Aichi Biodiversity Targets.

## Open Space working groups on topics raised by participants

*Throughout the seminar, participants had the opportunity to propose topics and issues they thought were missing in the seminar or wanted to deepen discussions on. On the last day, working groups were formed around six such topics.*

One group discussed the role of **indigenous peoples' and local communities' rights** and appropriate financing. The group concluded that indigenous communities need legal and political respect for the territories, rights, governance systems, and their autonomy and community protocols. It was stated that the different cosmologies of indigenous peoples should be respected and it was stressed that full and effective participation throughout the process of developing, implementing and monitoring conservation projects and mechanisms as well as the right to free prior informed consent need to be ensured.

A second group was formed around the topic of **international needs assessments**. There are various assessments planned or conducted at the moment, among others by UK/India, the CBD needs assessment for GEF-6, IUCN and Conservation International. The assessments have no common standards or objectives. The group suggested that the CBD Secretariat should play a role in coordinating the different assessments to avoid duplication and overburdening of countries that have too limited a capacity to comply with every request. There was agreement that both top-down and bottom-up assessments are required and that all Aichi Biodiversity Targets should be covered. Only then should finance constraints be considered, through prioritization of the full list. The group agreed only very rough global top-down finance needs figures will be available for COP-11 and that there is a risk of incorrect figures being used. More elaborate results could only be expected for COP-12. The group stated that one-off snapshot assessments are of good but still limited value, and that dynamic assessments were a better solution.

A third group worked on the topic of *innovative financing mechanisms*, including the terminology and the potentials and limitations of IFMs. The group stated that IFMs are ultimately about scaling up biodiversity finance to serve CBD's Resource Mobilization Strategy and that the term "innovative" in this context was not particularly clear. The use of this term might lead to a misperception and misunderstanding, especially if "innovative" is seen as only describing "market-based" options that involve trading, like selling certified products, tradable permits etc (which, it was pointed out, never was the intention, since IFMs all along the way in the CBD decisions have also included fiscal reforms and other options).<sup>5</sup> Hence, a different, but clearer terminology was discussed in that regard. The group suggested the term "Biodiversity Financing Options/Mechanisms" and "economic instruments" to encompass the broad variety of mechanisms that are already applied for biodiversity financing and could be scaled up. According to the group, the potential and limitations of the different Biodiversity Financing Mechanisms depend on case and country specific conditions. It was suggested that a comprehensive report should be compiled on best practices, as well as case studies on successes and failures and criteria of success to better inform Parties. In order to generate additional financing on a global scale two pathways were suggested: to look at already elaborated instruments such as the Financial Transaction Tax, of which a part of future revenues should be claimed for biodiversity to achieve the Aichi Biodiversity Targets; and to investigate a "global biodiversity tax" as some kind of green tax similar to carbon taxes.

One group discussed how to engage *Ministries of Finance in biodiversity-supporting efforts*. Some key problems were identified: there are differences in language use (biophysical vocabulary versus financial terminology), so that money values have to be used to communicate with Ministries of Finance. In order to demonstrate that biodiversity is a source of income for Ministries of Finance, quantified approaches and economic methods are needed. The group suggested using powerful development narratives with biodiversity values at their core to change ways of thinking and to mainstream sustainable use and conservation of biodiversity. The right persons and profiles within and outside of the Ministries of Finance should be found to talk about biodiversity. Capacities regarding biodiversity conservation within Ministries of Finance should be enhanced. The group underlined the need for more steady, sustained and target-oriented dialogue with the Ministries of Finance and enforcement of inter-ministerial dialogues, and encouraged the invitation of Ministers of Finance to biodiversity finance discussions.

A fifth group was looking into the *nexus between population growth, agricultural expansion and biodiversity*. The group considered land conversion for agricultural purposes as the main driver of biodiversity loss worldwide and underlined the urgent need to increase the profile of this issue in policy discussions. Agricultural expansion is often funded or subsidized by states – an example of subsidies working against biodiversity. The group underlined the urgent need to change current concepts in agriculture and food production to more sustainable and permanent systems. Many of the potential solutions, such as agroforestry, food forestry, and permaculture were already well known and could be implemented quickly, given political will and supportive policies. An urgent change is needed from excessive use of subsidized fertilizers, pesticides and other agrochemicals to more organic production that would

<sup>5</sup> The concept "innovative financing" may have been used even before the Earth Summit in 1992, but is clearly mentioned in Agenda 21, Ch. 33, p.16, where it covers mechanisms such as: debt relief, economic and fiscal incentives, tradable permits, new schemes for fund-raising and voluntary contributions through private channels, including non-governmental organizations, and reallocation of resources presently committed to military purposes. See [http://www.un.org/esa/dsd/agenda21/res\\_agenda21\\_33.shtml](http://www.un.org/esa/dsd/agenda21/res_agenda21_33.shtml)  
Information on how "innovative financing" has been discussed and are discussed in CBD can be found at <http://www.cbd.int/financial/innovative/> and <http://www.cbd.int/financial/innovative.shtml>

be less harmful to the environment. In any transition to more sustainable food production systems the group considered it important to bear in mind rural livelihoods and the development of pluralistic, diversified markets. In addition, perennial and diversified crops could aid climate change adaptation by increasing the resilience of food production systems. In general, capacity building, the involvement of other institutional stakeholders and building political will were considered crucial for the way forward.

The group discussing *“financialization”* discussed the risks and implications when biodiversity market mechanisms are integrated with international financial markets. Financialization in general is the trend towards trading of money, risk and associated derivative products, rather than trading of goods and services. The group underlined that turning ecosystem services and biodiversity into some kind of asset that can then be further traded and financialised comes with considerable risks for equity (e.g. land grabbing), biodiversity and the stability of the economic system. The group considered tradable, markets-based mechanisms such as species banking, various off-set schemes and ideas such as Forest Bonds as potentially risky with regards to financialization. All group participants seemed to agree that the issue of financialization is ultimately about control, ownership and power. It would move power away from the particular location and local communities. The group expressed strong concern about the issue of financialization and suggested that actors and Parties should further their understanding of the issue, in particular in relation to ecosystem services and biodiversity. It was considered useful to compile examples and literature to enhance the understanding of the issue.



## Session V

## Outstanding issues, synthesis and way forward

*The expected outcome of this session was to provide a better understanding of ways (potential solutions and possible obstacles) to scale up mobilization of financial resources and the role and nature of “innovative financial mechanisms.” This included clarification, respect for, and understanding of areas of convergence and divergence, outstanding issues, synthesis and ways forward.*

### Synthesis panel

*For the concluding synthesis panel, eight participants from diverse backgrounds were asked to share some of their thoughts on the seminar and to reflect on especially promising options and ways forward for financing, as well as how the results from the dialogue seminar could contribute to WGRI-4 and COP-11 and beyond. The participants who took part in the synthesis panel were José Gadir Lavadenz (Bolivia), Benjamin Simmons (TEEB), Bente Herstad (Norway), Thiago Medeiros da Cunha Cavalcanti (Brazil), Chee Yoke Ling (Third World Network), Christian Prip (Denmark and EU Presidency), Paul Matiku (Kenya), and Onel Masardule (International Indigenous Forum on Biodiversity).*

All panellists expressed their appreciation of the dialogue seminar and the opportunity it provided for informal dialogue, in-depth conversations and reflection. There was a shared sense of a surprising degree of convergence on many of the issues, and the panellists were generally of the view that the seminar had genuinely helped move the discussions forward. There was a sense of there being much better understanding of different views.

One common reflection was the need to clarify and revise the use of certain terms and concepts, such as “innovative financial mechanisms” and “markets” since these have accommodated different interpretations and made the negotiations unnecessarily difficult. Rather than talking about markets in abstraction, one would need to specify whether one was referring to, for example, local markets with local certified products as had been exemplified in the seminar or, for example, markets relating to “financialization” – the process of turning “biodiversity assets” in new ecosystem services markets into financial products in the financial markets. Concern was expressed by several panellists in relation to the latter kind of speculative markets, with the suggestion that possible risk and implications be further investigated through commissioned studies. It was also suggested by one panellist that the CBD secretariat could convey the outcome of the workshop to the UNFCCC secretariat through their coordination mechanism as similar discussions are taking place in the UNFCCC track, especially with regard to REDD+.

The need for well-functioning institutions as a prerequisite for the success of any biodiversity financing mechanism was emphasised. The point was made that biodiversity financing mechanisms are just tools applied in particular institutional, rights and governance contexts. What may work in one situation may not be applicable or appropriate in another context. One panellist pointed out that there is

currently no framework guiding the applications of different kinds of biodiversity financing mechanisms.

The importance of safeguards and understanding their limitations was underlined. Timely implementation, full participation of local and indigenous communities, especially regarding free and prior informed consent, are vital. It was also argued that there was a potential danger that the application of safeguards could justify any kind of biodiversity financing mechanism, while there may be ethical and political reasons not to allow certain mechanisms.

A representative from an indigenous peoples group pointed out that indigenous and local people might be considered “poor” by others but these communities themselves might consider themselves rich – rich in biodiversity and knowledge related to biodiversity.

Several panellists reflected on the importance of values, and in particular the intrinsic, non-monetary values of biodiversity. Showing the value of biodiversity in monetary terms can obviously not capture all of the multiple values of functioning ecosystems and biodiversity, but was for some of the panellists an important tool for mainstreaming and for reflecting values prior to decision-making. It was argued that financing for biodiversity should be framed as long-term investments, and that there was a need to use more positive language (such as “biodiversity as a primary driver of development”), which could also gain more acceptance within Ministries of Finance.

Some felt the most exciting and “innovative” ideas were related to public financing, such as fiscal reforms.

It was further pointed out that poverty and lack of resources were an obstacle to implementing the CBD and reaching the Aichi Biodiversity Targets. It was also pointed out that providing of finance for biodiversity by developed countries benefits all as a common good, but is also an existing commitment under the CBD that has not yet been fulfilled. The principle of common but differentiated responsibilities was highlighted in this regard. The importance of progressing with indicators for biodiversity financing was emphasised. It was argued that it is important to provide means of implementation, which involved not only financing but also transfer of technology and capacity building. The point was also made that the money already made available should be efficiently used.

The role of the private, business sector was seen as very important for biodiversity, but in differing ways. Some expressed concern that the potential for new and additional revenue from voluntary investments might be limited. It was also expressed that private sector involvement would need to be accompanied with clear rules, regulations and norms, including addressing some of the business-related drivers of biodiversity loss. Others saw potential for business to contribute to biodiversity, partly from corporate social responsibility interests and partly from real profit-driven motives. It was also expressed that market-based instruments had a role to play, but that expectations of these instruments might have been too high.

It was observed that much of the discussion around financing for biodiversity centred on choice of “instruments” or “mechanisms”, and that there was less discussion of the implementation of these measures. This important dimension should not be ignored, and it was suggested that more attention be devoted to the examination of real cases and experiences of, for example, the implementation of new taxes and removals of harmful subsidies.

The importance of better coherence between different policy areas was highlighted and exemplified with multilateral and bilateral trade treaties' impacts on biodiversity.

In conclusion, the panellists seemed to agree that the atmosphere and dialogue environment had been very good, and that the seminar had paved the way for better discussions and negotiations in the future. There was also an observation that there is a constructive atmosphere within the biodiversity negotiation sphere. Everyone seemed to appreciate the genuine and shared interest in, and concern for, the ultimate objectives of the biodiversity convention, as well as the common understanding that the status quo is not an option.

### **Synthesis of working group session V: Outstanding issues, synthesis and way forward**

In the concluding working group session the different groups discussed outcomes, outstanding issues and the way forward.

Concerning needs assessments, participants thought that they should be updated regularly to be of use and something that national politics can be based on. This would also be the case for National Biodiversity Strategies and Action Plans (NBSAPs), which should include the national needs for financing the Aichi Biodiversity Targets.

Participants stressed repeatedly the need to define and clarify the terms used during the discussions. A clear and common language is needed in order to understand the different discourses and approaches as well as their congruencies and to avoid misunderstandings. The term "Biodiversity Financing Mechanisms" and "economic instruments" were suggested as more appropriate terminology than "Innovative Financial Mechanisms". The term "market" was clarified as a mechanism to bring together more than two suppliers and demanders, and it was pointed out that the buyer can be a representative of both the public and the private sector.

It was noted that different economic instruments should be chosen and used to generate biodiversity financing for different countries, appropriate to their respective specific national contexts.

The need to go beyond ODA to finance biodiversity was pointed out. A comment was made that the topic of ODA and its use for biodiversity might not have been sufficiently discussed in the dialogue seminar.

A thorough, study of different economic instruments and biodiversity financing mechanisms, building upon the discussions and topics raised during the dialogue seminar was called for. The importance of using a precautionary approach when examining biodiversity financing mechanism possibilities was highlighted. One suggestion was to elaborate a matrix for the different mechanisms, which clearly presents and discusses their risks and benefits.



Concerning the way forward, it was mentioned that there were still significant challenges ahead, not the least as only a subset of the relevant negotiators had been present during the workshop. Therefore it was considered necessary that the messages compiled in the co-chairs' summary should reach all those who would take an active part in the negotiations. This could be made possible by the CBD secretariat in preparation of the coming negotiation meetings, WGRI4 and COP11, and by presentation of the outcome of the dialogue and the co-chairs' summary by the co-chairs themselves at WGRI. Subsequently the co-chairs' summary of the dialogue could be presented as an information document for WGRI4 and COP11. Furthermore, the dialogue attendees themselves were asked to ensure that the lessons learnt were disseminated to negotiators and actors to influence upcoming discussions under the Convention. The seminar report could be used as an effective educational and outreach tool for further discussion.



## Closing session

### Concluding remarks by the organiser

**Maria Schultz**, Director of the Resilience and Development Programme (SwedBio), Stockholm Resilience Centre, Sweden, admitted that the seminar had been quite a scary experiment, an attempt to create good conditions for dialogue – a dialogue she had seen a clear need for in the negotiations. She hoped the seminar had contributed to some clarifications of convergences and divergences and maybe even reached some consensus on some topics, thanks to real, genuine dialogue. She hoped that participants had found the presentations and discussions helpful. She also expressed gratitude to the other conveners – Ecuador’s Wilson Rojas and Cristina Quiroga, India’s M.F. Farooqui, Norway’s Bente Herstad and Tone Solhaug, Japan’s Naohisa Okuda and colleagues, and the CBD secretariat especially Ravi Sharma – for the very good cooperation including many Skype and telephone hours. She particularly thanked the host country, Ecuador, for opening up their country and showing various options for financing biodiversity. She also thanked Pippa Heylings from Fundación Futuro Latinoamericano for excellent, effective and professional facilitation involving heart, brain and voice. She expressed special gratitude to the very dedicated team, Arturo Mora and Carolin Planitzer at IUCN-Sur, and the other support staff, Pamela Cordero, Natalia Bellén, and Carolina Rosero. She also expressed warm gratitude to the translators for their professional work and flexibility. Special thanks were also given to Niclas Hällström from What Next Forum who had contributed to the seminar throughout the nearly one and a half years of planning, as the “Swedish facilitator”, collaborating closely with her on the design of the programme, the map and the final report. She also thanked all participants for their extraordinarily good spirit, creative solutions and constructive and respectful dialogue. Finally she thanked her co-chair, Mr Farooqui from India, for deep, thoughtful and wise leadership throughout the seminar.

### Concluding statements

Concluding statements were made by Japan as the COP-10 Presidency on WGRI-4, by Director **Naohisa Okuda**, Ministry of the Environment; India as the COP-11 hosts, by Mr **M.F. Farooqui**, Additional Secretary, Ministry of Environment and Forests; and **Braulio Diaz** as CBD Executive Secretary. Closing remarks were made by Mrs **Tania Villegas**, Subsecretaria de Patrimonio Natural del Ministerio del Ambiente, on behalf of Ecuador as the host.

It was concluded that it had been a useful seminar, as a result of which participants now understood each other’s viewpoints better, and that there was much to build upon further. It was clear that there did not need to be a contradiction between conservation and development. ODA has an important role to play, but there was also a certain degree of convergence regarding other mechanisms for mobilizing resources. Whatever mechanism used, however, requires safeguards and clear, appropriate governance structures to avoid unintended and perverse outcomes. It was also highlighted that mainstreaming of biodiversity is critically important. And, as a concluding message from the host country, the importance of demonstrating that biodiversity is important for *bien vivir* – human wellbeing in conjunction with nature – was highlighted.

There is a need to continue to discuss and disseminate information on the topic: governments and NGOs were encouraged to take the outcomes of the seminar to other fora. The seminar was considered an important step towards WGRI-4; the seminar that OECD, the EU, GEF and World Bank are arranging after WGRI-4; and towards COP-11.

# Annex 1: Seminar agenda

## Tuesday 6 March

### 9.00 a.m. – 10.00 a.m. Opening session

- Opening statement by HE Marcela Aguiñaga Minister of Environment, Republic of Ecuador
- Welcome remarks by HE Annika Markovic, Environment Ambassador of Sweden
- Introductory remarks by Dr. Braulio Dias, CBD Executive Secretary

10.00 a.m. – 10.30 a.m. Break

### 10.30 a.m. – 11.30 a.m. Introductory session

- Explanation of the rules and objectives and “the map” of the dialogue-seminar by the Facilitator Ms Pippa Heylings, Executive Director, Fundación Futuro Latinoamericano, Ecuador
- Who are we? Introduction of participants and expectations of the workshop
- Presentation of the background and policy context to the seminar including CBD decisions by Ravi Sharma, Principal Officer, CBD Secretariat

### 11.30 a.m. – 1.00 p.m.

#### **SESSION I: Panel on values of biological diversity**

*Expected outcomes:* To clarify issues of divergence and convergence; to set the basis for continued dialogue through presentations and appreciation of pluralistic views on the value of biodiversity. The session would serve to place issues, perspectives and worldviews on the table, rather than attempting to resolve differences.

- Biodiversity’s ecological and resilience value – Thomas Hahn, Stockholm Resilience Centre
- A methodological approach to the implementation of the Rights of Mother Earth – José Gadir Lavadenz, Mother Earth and Water Unit, Ministry of Foreign Affairs and Cult, Estado Plurinacional de Bolivia
- Biodiversity's value: recognizing, demonstrating and capturing – Pavan Sukhdev UNEP-TEEB
- Q & A + Buzz in groups and discussion in large group

1.00 p.m. – 2.30 p.m.

Lunch

### 2.30 p.m. – 4.00 p.m.

#### **SESSION II: What needs to be financed - Assessing financial gaps to achieve the Aichi Biodiversity Targets**

*Expected outcome:* Presentation and understanding of the needs regarding financial resources including related issues such as rights, institutional framework and efficiency in resource use for the achievement of the Aichi targets. This session would ask the fundamental question: “What is it that needs to be financed?” as well as review what current financing looks like, and what the various assessments of future needs are. The session would also strive to identify critical knowledge gaps.

2.30 p.m. – 4.00 p.m.

**Global assessments**

- Brief overview of current financial flows globally and draft GEF needs assessment – Guenter Mitlacher, WWF and member of the CBD Expert Team on GEF Needs Assessment
- The approach for the high level panel assessment on financial flows – Pavan Sukhdev
- UNDP-EC Global Biodiversity Finance Project – Yves de Soye UNDP

Q & A

**Bottom-up assessments**

- Case illustrating successful sustainable use (including biodiversity protection) through the establishment of cooperatives and local markets – and implications on financing needs – André Luiz Rodrigues Gonçalves, Centro Ecológico, Rio Grande do Sul, Brazil.
- Case from indigenous and local peoples organization – Taghi Farvar, Indigenous Community Conserved Areas (ICCA) consortium, Iran
- Estimations of the costs and benefits of the Nagoya protocol – Pierre du Plessis, SADC, Namibia
- Assessment of costs for implementation of Aichi targets to the GEF Needs Assessment by India – Prof. A. Damodaran, the Indian Institute of Management, Bangalore, India
- Norwegian follow-up of TEEB and Waves – Tone Solhaug, Ministry of the Environment, Norway

Q & A + Buzz in groups

4.00 p.m. – 4.30 p.m.

Break

4.30 p.m. – 5.30 p.m.

**SESSION III: Principles and experiences of financing for biodiversity and importance of governance.**

*Expected outcomes:* Presentation and understanding of experiences in financing of biodiversity, including governance, safeguards and results, and effectiveness of different options. This session would move into the focus of the seminar. This framing would hopefully allow clarity and a more nuanced overall understanding for the participants as the programme moves on to specific cases and examples.

- Can markets protect biodiversity? An evaluation of different financial mechanisms – Arild Vatn, Norway
- Politics and equity of financing for biodiversity – Chee Yoke Ling representing the South Centre and Third World Network
- Safeguards – Valerie Hickey, The World Bank, and Estebancio Castro Diaz and Maria Yolanda Teran Maigua, International Indigenous Forum on Biodiversity

Q & A

5.30 p.m. – 6.45 p.m.

**Working groups** on Principles and experiences of financing for biodiversity

7.00 p.m. – 8.30 p.m.

Reception

**Wednesday 7 March**

**6.30 a.m. – 18.30 p.m. Field Trip** organized by the Ministry of Environment of Ecuador, Socio Bosque Initiative, to Oyacachi

## Thursday 8 March

<b>8.00 a.m. – 8.40 a.m.</b>	<p><b>SESSION IV: Case studies and options for financing</b></p> <p><b>Payments for ecosystem services (PES)</b></p> <ul style="list-style-type: none"> <li>• Introductory remark on PES; Cost Rican example of public-funded PES – Carlos Manuel Rodríguez, Vice President for Conservation Policy, Conservation International</li> <li>• Mexican example of public-funded PES – Álvaro Salgado, Mexico case Lachiguiri</li> </ul> <p>Buzz + large group discussion</p>
<b>8.40 a.m. – 9.10 a.m.</b>	<p><b>Feed-back and discussion:</b> Principles and experiences of financing for biodiversity (working groups and field trip)</p>
<b>9.10 a.m. – 9.50 a.m.</b>	<p><b>ODA</b></p> <ul style="list-style-type: none"> <li>• Role of ODA in financing biodiversity and ecosystem services – Bente Herstad, NORAD</li> <li>• ODA and recent EU initiatives on biodiversity financing from the public and private sectors – Laure Ledoux, EC</li> </ul> <p>Buzz + large group discussion</p>
<i>9.50 a.m. – 10.20 a.m.</i>	<i>Break</i>
<b>10.20 a.m. – 10.50 p.m.</b>	<p><b>Fiscal reforms</b></p> <ul style="list-style-type: none"> <li>• Introductory remarks on national and international fiscal instruments. Nordic model of taxation and delivery of public services/financial transaction tax (Tobin tax) – Thomas Hahn, Sweden</li> <li>• Ecuadorian experiences of environmental taxes – Fabián Espinoza, Ministerio del Ambiente en Ecuador, Programa Nacional del Manejo Integral de Desechos Sólidos</li> </ul> <p>Buzz + large group discussion</p>
<b>10.50 a.m. – 12.20 p.m.</b>	<b>Working groups</b>
<i>12.20 p.m. – 1.20 p.m.</i>	<i>Lunch</i>
<b>1.20 p.m. – 2.20 p.m.</b>	<p><b>Private funding and markets</b></p> <p>Overview of market-based options for biodiversity – Katia Karousakis, OECD Secretariat</p> <ul style="list-style-type: none"> <li>• Japan's best practices and future perspectives on scaling up biodiversity finance – Naohisa Okuda Director, Global Biodiversity Strategy Office, Ministry of Environment, Japan</li> <li>• Biodiversity off-sets – Marta Echavarria, Biodiversity Offsets Programme</li> <li>• Traditional green markets with help of certification – Roberto Ugas, Vice President of IFOAM</li> </ul> <p>Buzz + large group discussion</p>
<b>2.20 p.m. – 2.50 p.m.</b>	<p><b>Other financing options</b></p> <ul style="list-style-type: none"> <li>• Keeping oil in the ground, the example of Yasuni – Daniel Ortega, Director of Environment and Climate Change, Ministry of Foreign Affairs, Ecuador</li> <li>• Trust funds/environmental funds, and the case of Amazon Protected Areas Programme – Pedro Leitão, Brazil</li> </ul> <p>Buzz + large group discussion</p>
<i>2.50 p.m. – 3.00 p.m.</i>	<i>Break</i>
<b>3.00 p.m. – 6.45 p.m.</b>	<b>Session IV continues – Open Space and Working Groups</b>
<i>7.00 p.m. – 9.30 p.m.</i>	<i>Dinner and cultural event by participants</i>

## Friday 9 March

- 8.40 a.m. – 10.50 a.m.**      **Explanation of Co-Chairs' Summary, Open Space Working Group, reporting back by Working Groups**
- 10.50 a.m. – 11.50 a.m.**      **SESSION V: Outstanding issues, synthesis and way forward**  
*Expected outcome:* A better understanding of ways (potential solutions and possible obstacles) to scale up mobilization of financial resources and the role and nature of “innovative financial mechanisms”. This is to include clarification of, respect for and understanding of areas of convergence and divergence, outstanding issues, synthesis and ways forward.
- Synthesis panel**
- Introductory remarks
  - José Gadir Lavadenz (Bolivia), Benjamin Simmons (TEEB), Bente Herstad (Norway), Thiago Medeiros da Cunha Cavalcanti (Brazil), Chee Yoke Ling (Third World Network), and Christian Prip (Denmark and EU-Presidency), Paul Matiku (Kenya) and Onel Masardule (IIFB)
- 11.50 a.m. – 12.00 p.m.*      *Break*
- 12.00 p.m. – 1.00 p.m.**      **Working Groups** on outstanding issues, synthesis and way forward
- 1.00 p.m. – 1.50 p.m.**      **Reporting by Working Groups** on outstanding issues, synthesis and way forward
- 1.50 p.m. – 2.30 p.m.**      **Synthesis** of the discussions by facilitator and discussion in full group
- CONCLUDING SESSION: Way forward**
- Closing remarks by Ecuador on behalf of the hosts
  - Statement from the COP10 Presidency on WGR14 (Japan)
  - Statement from the COP11 hosts on the COP (India)
  - Remarks by the CBD Executive Secretary
- 2.30 p.m. – 3.30 p.m.*      *Lunch*



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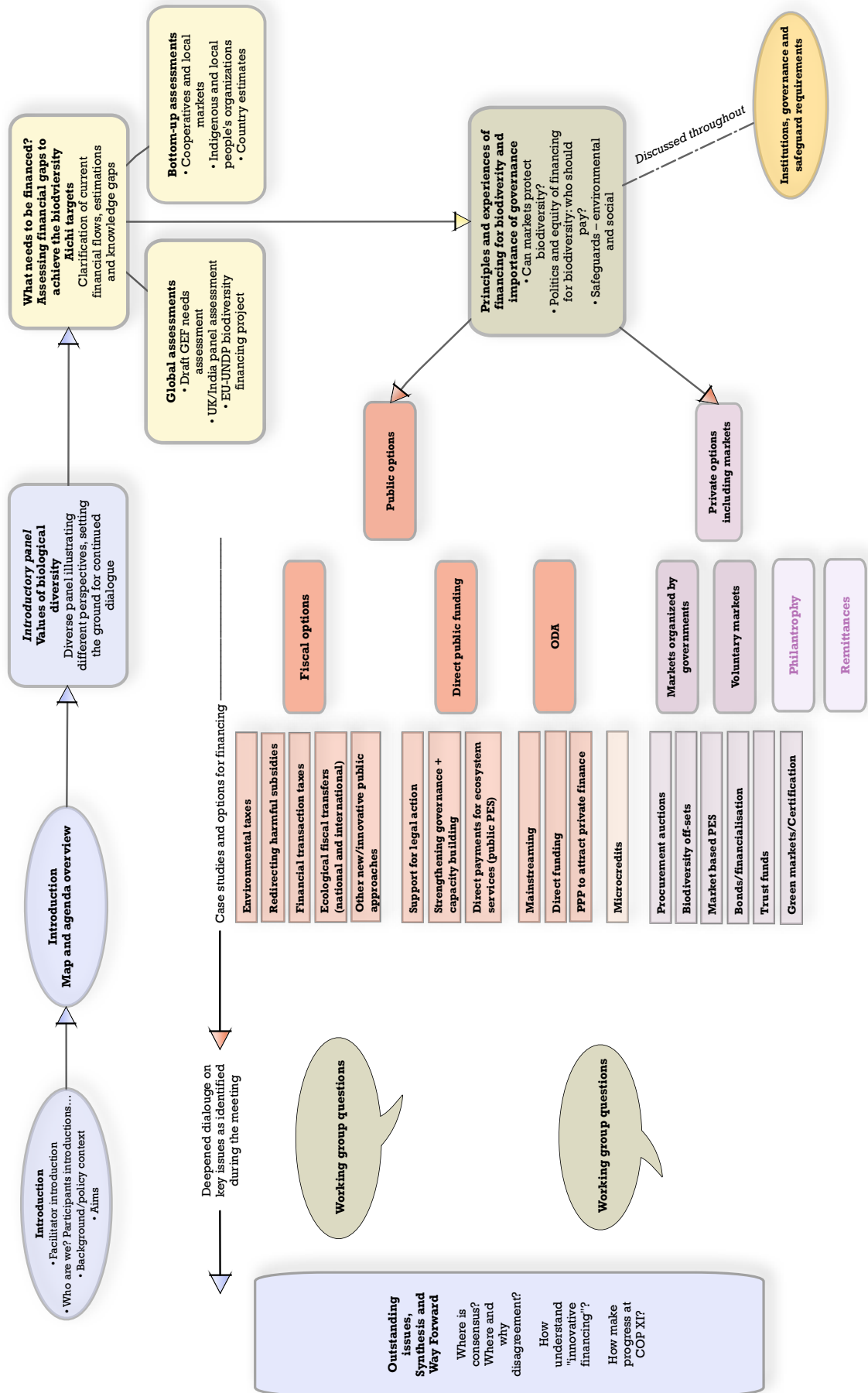
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# Annex 3: Seminar "road map"

## Dialogue seminar: Scaling up Biodiversity Finance Quito, 6-9 March 2012 Programme "road map"





## Annex 4: Evaluation of the dialogue by the participants

### Summary

24 participants filled in the evaluation sheet.

*Responses on “What was positive with this dialogue?”*

- Overall it seems that the participants that responded were very satisfied with the organization and implementation of the seminar, the mix of participants, from governmental and non-governmental organizations, the discussions and working groups, and the facilitator was also much appreciated. Overall, there were very positive comments about the seminar, as one participant expressed it “it was one of the best implemented seminars of its kind”. Examples of what two other participants wrote on the positive side: “The dialogue! A very good composition of people, an open atmosphere created a very creative forum”; “A richness and diversity of perspectives, controversies were put on the table; complex issues of financing were elaborated and to a large extent clarified in presentations and group discussions. Thanks to this, I feel that trust was built among participants with divergent opinions/interests.”

*Responses on “What could we have done better?”*

- On the negative side the field trip seems to have been demanding for some people, especially the participants who arrived the day before the field trip, due to the many hours on the road. The many presentations seemed to be an issue for some participants who would have preferred fewer presentations and more time for Q & A, and discussion in plenum. Examples from participants regarding what could have been better: “Field trip was input heavy – long trip (though I had very interesting discussions with my different seat neighbours)”; “Too compact agenda”; “Visa issues may need consideration in future”.