RESEARCH ON INNOVATIVE FINANCIAL MECHANISMS: RESULTS FROM INVALUABLE

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CONTEXT: CBD COP DISCUSSIONS

- **CBD High Level Panel estimates:**
  US$ 150 billion-US$ 440 billion per year (20 Targets)
  US$ 9 billion-US$ 85 billion per year (Target 11)
  US$ 3 billion-US$ 5 billion per year (Target 12)

- **CBD COP12 adopted targets for resource mobilization:**
  - Double total biodiversity-related international financial resource flows by 2015 (…)
  - Mobilize domestic financial resources FROM ALL SOURCES

CONTEXT: CBD COP DISCUSSIONS (2)

OPERATIONALIZATION

- **SRM, goal 4** calls to "explore new and innovative financial mechanisms at all levels"

- **The Strategic Plan for Biodiversity 2011-2020** calls for "developing innovative mechanisms" (decision X/2, paragraph 23)

- **Payments for ecosystem services** and **biodiversity offset mechanisms** among 6 types of IFMs (CBD)

CONTEXT: CBD COP DISCUSSIONS (4)

RESEARCH NEEDS

- Discuss **new and innovative financial mechanisms** VERSUS/AND **collective action and non-market-based approaches**

- Respond to the need to understand the **performance of economic instruments**, as well as improved guidance and tools to develop positive incentives

CONTEXT: CBD COP DISCUSSIONS (5)

RESEARCH NEEDS 2

- Respond to the need to understand **behavioral change** when implementing IFMs

- Design of **voluntary guidelines on safeguards** (PIC, institutions, sustainability) in IFMs

INVALUABLE CONTRIBUTION

Clarify the potential of market-based instruments (MBIs) to better integrate biodiversity & ecosystem services (B&ES) into society, based on appropriate institutional arrangements for relevant public policies and an **improved utilization of relevant knowledge**

INVALUABLE CONTRIBUTION (2)

THEORY AND DISCOURSES

- Elaborate a **comprehensive theoretical framework,** to develop a typology of instruments, and **identify their scope of application**

- Analyse the role of **stakeholders' motivations** and **governance** for the management of B&ES.

INVALUABLE CONTRIBUTION (3)

PRACTICE

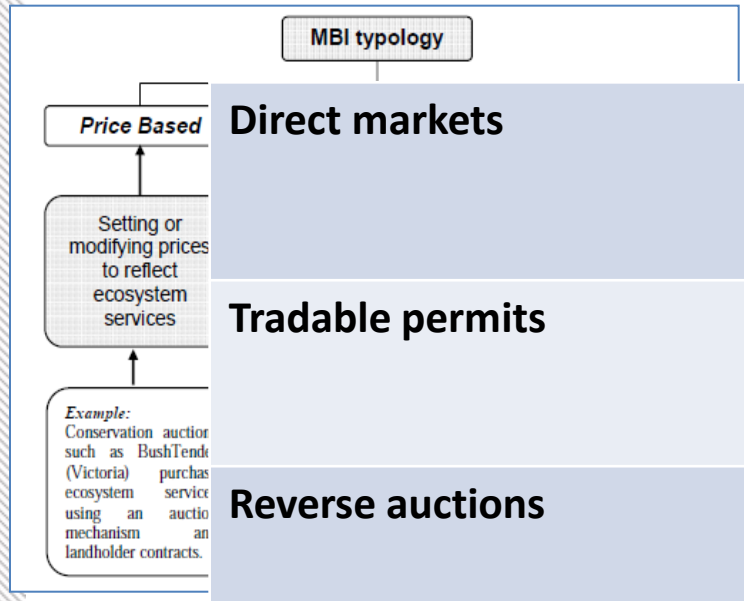
- Develop a conceptual and methodological framework for **comparative case-study research**
- Investigate the role of Biodiversity Offsets and PES in reinforcing public conservation policies, and **examine their supporting governance frameworks and outcomes** to date, drawing comparative lessons across case studies.

TERMINOLOGY ISSUES WITH IFMs

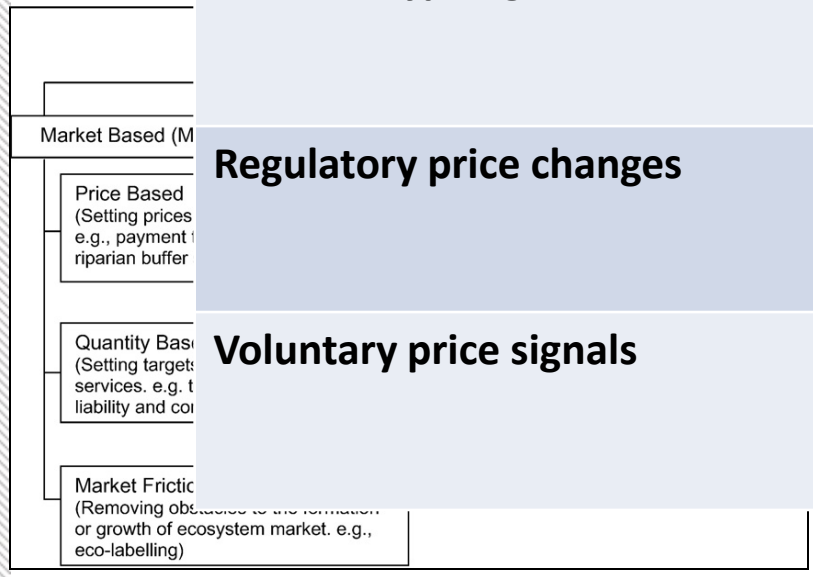
- **Confusion about IFMs** and their economic characteristics (market):
  - More than 25% of scientific articles cite MBIs in general
  - 50 different names to designate MBIs

- **Unfounded fears and over-expectations**

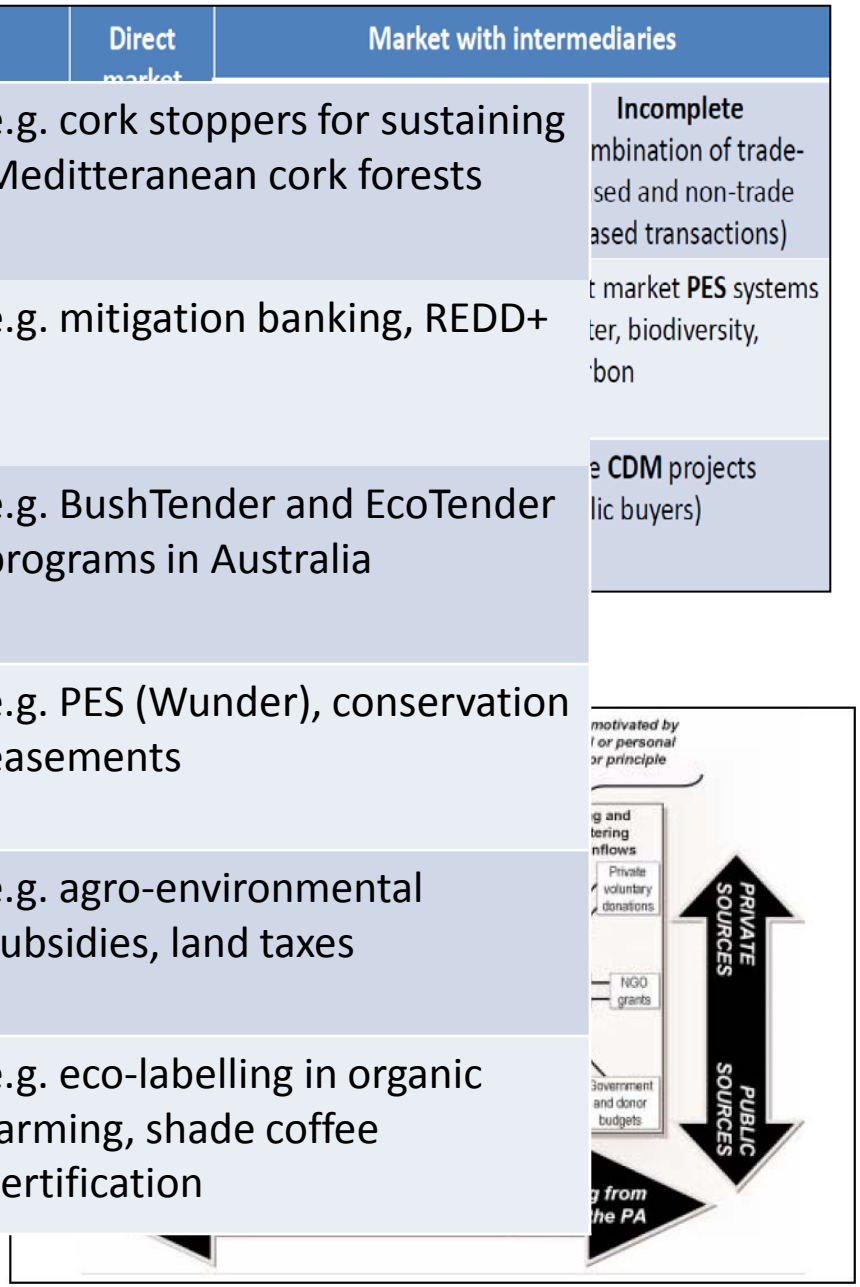
- **Advantages & Risks are different for each category of IFMs**



Direct markets	e.g. cork stoppers for sustaining Mediterranean cork forests
Tradable permits	e.g. mitigation banking, REDD+
Reverse auctions	e.g. BushTender and EcoTender programs in Australia
Coasean-type agreements	e.g. PES (Wunder), conservation easements
Regulatory price changes	e.g. agro-environmental subsidies, land taxes
Voluntary price signals	e.g. eco-labelling in organic farming, shade coffee certification



Source : Sarker et al. (2008, p.464)



Source: Emerton et al., 2006 (IUCN)

TERMINOLOGY ISSUES WITH IFMs (2)

- **Most significant confusion**:

  Payments for ES *versus* **Markets for ES**

- Actually, **PES are not MBI/MES**, i.e. a place where buyer(s) and seller(s) exchange a well-defined (homogenous) good/service and where the price is defined through the confrontation of demand and supply

- **Bilateral governance** *versus* **market governance**

- **PES**: **no commodification** of nature,

  no real marketization

PRACTICAL ISSUES WITH IFMs: PES

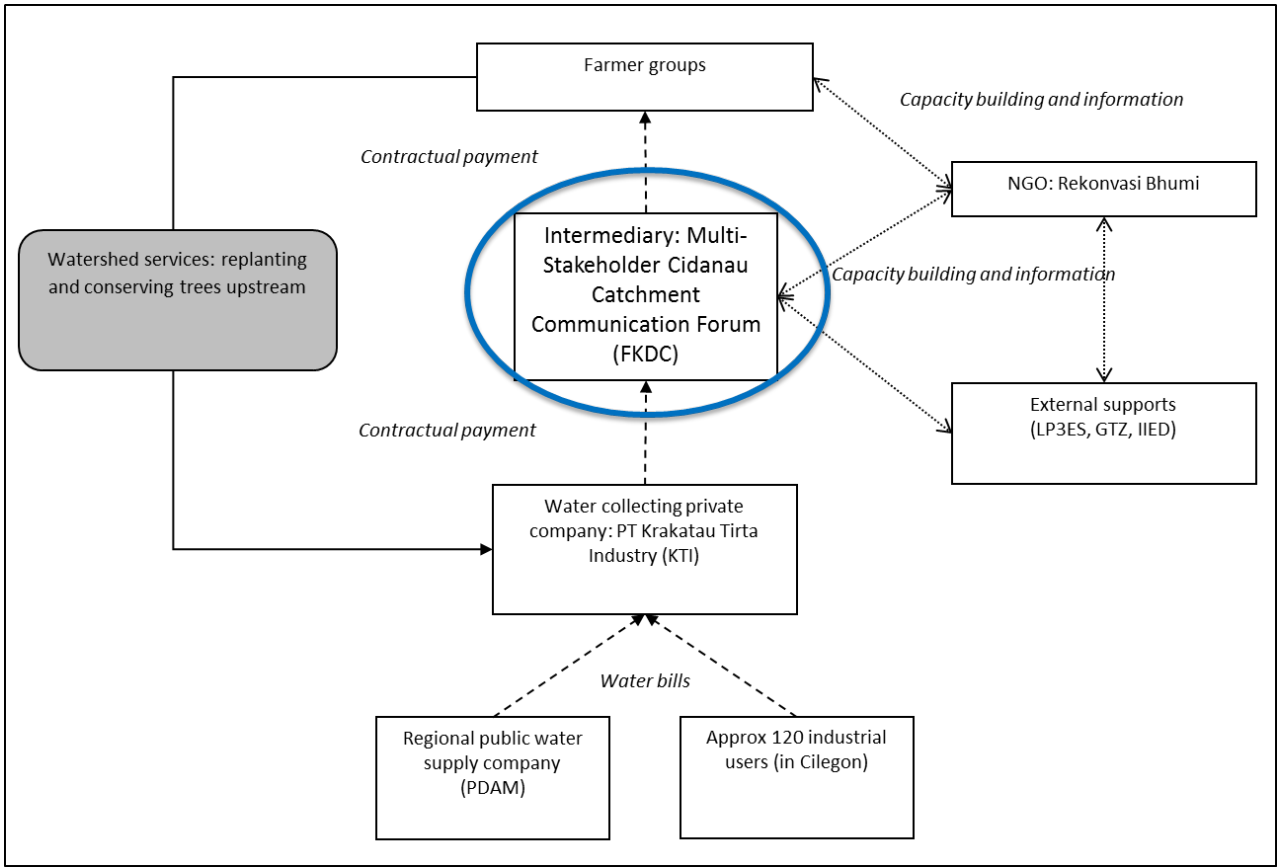
- **Performance of PES:**

  Counterfactual analysis of the **Mexican PES reveal 4% additional impact on reduced deforestation**

BUT

- Low additionnality in Indonesia: **Governance structure with an intermediate is not enabling**

PRACTICAL ISSUES WITH IFMs: PES (2)



PRACTICAL ISSUES WITH IFMs: PES (3)

- Low additionnality in Indonesia: **Governance structure with an intermediate is not enabling**
  - ✓ No information sharing: the **issue of procedural equity**
  - ✓ **Economic signal (payment) is not well interpreted** (90% of farmers do not know level and date of payment)
  - ✓ **Inefficient targeting of farmers**: social connections (political process) are important for choosing groups and farmers (leader, neighbours): 75% of farmers did/will not change their forest strategies

PRACTICAL ISSUES WITH IFMs: PES (4)

- **Risks of PES: the Cambodian example**

Scheme	Directness of transfer	Link between conditions and level of payment: commodification	Importance of the economic incentive vs. other interventions	Significance at individual and landscape levels
1. Conservation agreements (2006 -)	+ CI → commune → individual farmers (Non-voluntary)	+ Compliance with land-use, non-logging & non-hunting rules (livelihood, law) → Level of payment do not depend on level of ES / effort	+ Mix of communal in-kind and individual in-cash payments Community-based institutions Strong law enforcement	++ 17 out of 23 villages around CCPF (920 HH) Between 8000 to 21000USD/commune

Method

- Survey (N= 205 + 120)
- Reveal motivations & create a typology: utilitarian, monetary, intrinsic
- Matching and with-without impact assessment

Impact on motivations

CAs emphasized monetary motives over preexisting utilitarian motives and, to some extent, intrinsic motives

Link with env. Effectiveness

The substitution of utilitarian and intrinsic motives might have effectiveness implications in the long run, if payments stop

After

ency analysis

Explanatory variable	Mean Non-monetary	Mean Monetary	ol %	Treated total %
Benefits / Y (USD)	154	261		27
impact_norm (scale 1-5)	2.14	2.56		62
land_tenure (% secure)	54.39	30.23		11

Underlying mechanisms

- Changes in motivations directly induced by the scheme are mainly driven by the level benefits people receive at the individual level.
- Links with CI's land sparing and forest-based income generation strategy
- The CAs is not the only institution influencing this switch: the level of exposure to other external institutions also matter.

PRACTICAL ISSUES WITH IFMs: Offsets

Biodiversity offsets in Europe: 2 cases (France, Germany)

- Can be imposed as a **permitting requirement by competent authorities: increase since 1976**

- **Various legal regimes on compensation** (Natura 2000, Endangered Species, etc.)

PRACTICAL ISSUES WITH IFMs: Offsets (2)

Mitigation hierarchy recognized in both cases:

- Avoid > Reduce > Compensate
- **Compensation must be subsidiary and exceptional: last resort solution**

Criteria for compensation according to the "Doctrine ERC":

- **Equivalence**, like-for-like (geographical closeness)
- **Additionnality** (versus reference scenario)
- **Sustainability** (time of residual impact)

PRACTICAL ISSUES WITH IFMs: Offsets (3)

Developers can **(1) compensate themselves** or **(2) execution of such obligation can be transferred** to service providers, farmers, NGOs, municipalities, etc.

TWO APPROACHES FOR OUTSOURCING

- **On demand**: compensation is **tailored ex-post** to comply with permitting requirements
- **On supply**: habitat banking type of compensation, where compensation measures are defined on an **ex-ante basis in anticipation** of impacts that may be generated and mutualized on certain types of habitats & species

PRACTICAL ISSUES WITH IFMs: Offsets (4)

Offset banks as IFMs in **Plaine de la Crau** and **Baden Wurttemberg** ?

PRACTICAL ISSUES WITH IFMs: Offsets (5)

- **Advantages**
  - ✓ Safeguarded by equivalence criteria: **limited marketization**
  - ✓ Increase **transparency and visibility** for developers (TCs)
  - ✓ Larger **pooling of mutualized compensation** measures (ecological networks and optimal scale)

- **Risks**
  - ✓ **Administrative lack of expertise, no standardized methodology, low cost of compensation**: licence to trash?
  - ✓ **Long-term maintenance** is unclear: issue of permanence beyond time of development
  - ✓ **Monitoring measures**: administrative weakness

THANK YOU!

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invaluable
Valuations, Markets and Policies for Biodiversity & Ecosystem Services