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THE AVAILABILITY OF ADDITIONAL FINANCIAL RESOURCES

Note by the Executive Secretary

1. MANDATE AND SCOPE

1. Article 20, paragraph 3, states that “The developed country Parties may also provide, and developing country Parties avail themselves of, financial resources related to the implementation of this Convention through bi-lateral, regional and other multilateral channels”.

2. Article 21, paragraph 4, states that “The Contracting Parties shall consider strengthening existing financial institutions to provide financial resources for the conservation and sustainable use of biological diversity”.

3. Decision I/2 of the Conference of the Parties requested the Secretariat to present to the

COP at its second meeting a study on the availability of financial resources beyond those provided through the Global Environment Facility and on the ways and means for mobilising and channelling these resources in support of the objectives of the Convention. This report is contained in document UNEP/CBD/COP/2/10.

4. In paragraph 9 of decision II/6, the Conference of the Parties requested the Executive Secretary to:

- (a) further explore possibilities for identifying additional financial resources to support the objectives of the Convention; and
- (b) monitor the availability of additional financial resources and further identify where and how the Parties might gain access to these resources.

5. The efforts of the Executive Secretary during the course of this year, and consequently the observations made in this Note, have focused on monitoring Official Development Assistance (ODA), rather than other sources of additional financial resources such as private investments. Even though overall ODA flows are declining and unlikely to increase in the foreseeable future, the Executive Secretary decided nevertheless to concentrate the efforts of the Secretariat in this respect on monitoring and exploring ODA for several important reasons. ODA remains the most important source of financial support for the implementation of the Convention, representing the most direct manner in which developed-country Parties fulfil their commitment under Article 20, paragraph 3. ODA is also an important and direct way by which Parties can support the transfer of technology and thereby partially satisfy their commitments under the provisions of Article 20 paragraph 4, and Articles 16, 18 and 19. Focusing on ODA directly supports the Executive Secretary's study of the specific characteristics of biological diversity activities in UNEP/CBD/COP/3/7 which has been prepared in order to allow the COP to make suggestions to funding institutions on how to make their activities in the area of biological diversity more supportive of the Convention.

6. This Note is structured as follows: Section 2 reviews the various sources of funding for biological diversity, which include ODA flows as well as the activities of non-governmental organisations, charitable foundations, and the private sector. Section 3 reviews the recent trends in official development assistance for biological diversity projects and confirms the widely held impression that such aid has been declining since 1993. Section 4 looks at five possible new directions for funding biological diversity management projects: (a) strengthening existing funding institutions; (b) mainstreaming biological diversity into ODA; (c) accessing the funding institutions more effectively; (d) leveraging private sector resources with ODA; and, (v) converting debt into biological diversity programmes. Then, Section 5 discusses some of the financial information required for better monitoring and assessing the availability of additional resources for biological diversity. Section 6 proposes recommendations the Parties may wish to consider.

2. SOURCES OF FINANCIAL SUPPORT FOR THE CONVENTION

7. This section draws on the *Study on the Availability of Additional Financial Resources* presented to COP II (UNEP/CBD/COP/2/10) for reviewing the sources of financial support for the Convention. Sources of financial support fall into the following categories:

- (a) multi-lateral agencies;
- (b) bi-lateral donor agencies;
- (c) United Nations agencies;
- (d) non-governmental organisations;
- (e) charitable foundations; and
- (f) the private sector.

8. To date, developing countries have received the vast majority of their financial support for biological diversity activities from three sources: the multi-lateral development banks, the bi-lateral donor agencies, and the Global Environment Facility (GEF). Together, these sources comprise the public sources of funding, and as such represent the flow of ODA for biological diversity. Other sources, such as NGOs, the UN, and charitable contributions have also provided valuable support for the Convention's objectives. The private sector, which is now the dominant source of cross-border resource flows, has not made substantial cross-border investments in the management of biological diversity.

9. This report is focused on the trends in ODA for biological diversity, as the other sources are not subject to legal obligations under the Convention. Further, it is beyond the scope of this note to discuss in detail each of the many sources of funding. Instead, this note will review the different sources of funding, but confine the discussion of availability of funds to the trends in ODA. Further work by the COP on the availability of funds may provide an opportunity for investigating alternative strategies for attracting foreign direct investment.

2.1 Multi-lateral Agencies

10. The multi-lateral agencies include the World Bank Group, the regional development banks, and the GEF. The World Bank Group includes the International Bank for Reconstruction and Development, the International Development Association (concessional financing) and the International Finance Corporation (private-sector financing). The World Bank is the world's largest provider of development finance and advisory services for environmental programs and projects. The principal regional development banks are the African Development Bank, the Asian Development Bank, the Caribbean Development Bank, the European Bank for Reconstruction and Development and the Inter-American Development Bank. The GEF represents a multi-lateral effort to provide funds specifically for four environment related areas: biological diversity; climate change; ozone depletion; and international waters. Its activities as the interim funding mechanism under Article 21 of the Convention are reviewed in document UNEP/CBD/COP/3/5.

2.2 Bi-lateral Donor Agencies

11. The bi-lateral donor agencies are organised into the OECD's Development Assistance Committee (DAC). One of the DAC's objectives is the coordination of the financial assistance activities of its members. The primary focus of the DAC has traditionally been economic and social-development programmes. However, a focus on environmental protection, including sustainable biological diversity management, has been emerging over the past decade. As a result, the bi-lateral donors are, along with the multi-lateral development banks, the primary source of biological diversity funds for developing countries.

2.3 United Nations Agencies

12. The agencies of the United Nations represent a secondary source of assistance to developing countries. FAO, UNDP, UNEP, UNESCO and other UN bodies are mainstreaming biological diversity into their activities, but are only a minor source of funds for biological-diversity programmes. Most of the UN agencies are funded through their annual operating budgets, as opposed to the capital markets operations of the development banks. However, the UNDP implements projects are financed from managed trust funds and co-financing, some of which are directly related to biological diversity. UNEP has a relatively small Environment Fund (US\$ 120 million in capital in 1995), which is used for financing programs such as regional and global environment monitoring; assessment and data-collecting systems; environmental research; information exchange and dissemination; and studies aimed at developing forms of economic growth compatible with sound environmental management.

2.4 Non-governmental Organisations and Charitable Foundations

13. NGOs and charitable foundations provide significant technical assistance and advisory services. NGOs are more often being used as a channel for official funds, particularly for innovative projects. For example, at the Social Development Summit (March 1995), the United States announced that 40% of American official aid would be channelled through NGOs in the next five years. While US NGOs are a major source of non-official assistance, two international conservation NGOs — the IUCN and the WWF — have considerable resources dedicated to biological-diversity activities.

2.5 The Private Sector

14. Accurate conclusions about the nature and extent of financial resources from the private sector cannot be arrived at because of a lack of information. The *ad hoc* and anecdotal evidence that does exist suggests that under the right conditions considerable resources are available from the private sector. Private sector investment in biological diversity management can take two forms: the activities of the domestic private sector, and foreign direct investment (FDI). Some of the issues surrounding the mobilisation of domestic private-sector resources for conservation and sustainable use are covered in the document entitled *Sharing of Experiences on Incentive Measures for Conservation and Sustainable Use* (UNEP/CBD/COP/3/24). Some of the issues involved in the attraction of FDI were covered in UNEP/CBD/COP/2/10.

15. The ability to attract private foreign investment, whether on a stand-alone basis or through joint ventures with public entities, depends upon the creation of an attractive economic and legal environment in the target country. Most of the required measures for the attraction of FDI are a matter of domestic policy, and involve the creation of incentives for private sector participation in biological-diversity management. The development of policies to attract the enormous resources of the private sector to biological diversity management projects requires an understanding of a broad range of economic issues and their political ramifications. Because of their importance and complexity, these issues require development and exploration in a separate paper.

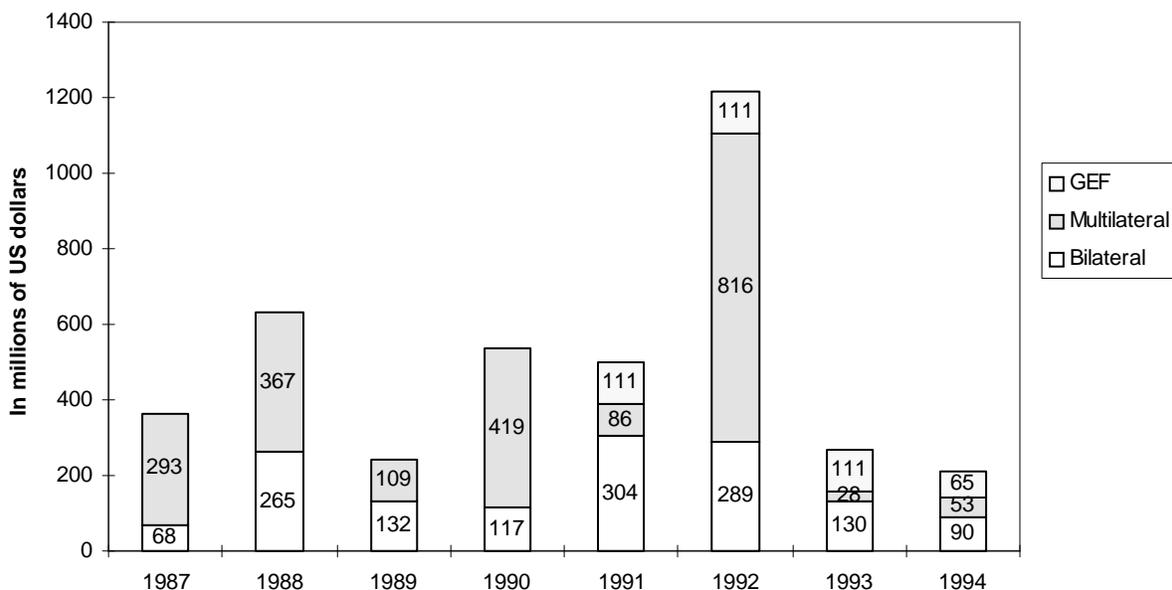
3. ODA COMMITMENTS TO BIOLOGICAL DIVERSITY

16. For the purposes of this analysis, Official Development Assistance is defined as grants and concessional loans from bi-lateral and multi-lateral donor agencies. Foreign development loans with a concessional component of 25% or greater are classified as ODA, consistent with the definition used by the OECD Development Assistance Committee (OECD-DAC).

17. The data for the discussion of trends in ODA for biological diversity originate from the OECD DAC Creditor Reporting System, which categorises data on the bi-lateral funding activities of its members. Some of the multi-lateral agencies report to the Creditor Reporting System, though coverage is inconsistent from year to year. In the OECD data, system projects are categorised on the basis of “purpose codes”. Four purpose codes relate to biological diversity: (a) wildlife; (b) forestry development; (c) site preservation; and (d) natural reserves. This definition of biological diversity activities was developed by the United Nations Department for Policy Coordination and Sustainable Development working in cooperation with the OECD-DAC (UNDPCSD 1996).

18. The OECD data represent the only information source for ODA flows to biological diversity that is suitable for time-series comparisons. The strength of the data is their consistency with regard to the bi-lateral donors. Their weaknesses include poor coverage of the multi-laterals and the exclusion of data from non-official sources such as NGOs, charitable foundations, and the private sector. Another disadvantage is a fairly narrow definition of biological diversity activities that excludes the conservation and sustainable-use components of projects related to biological diversity, such as in the agriculture and forestry sectors and *ex situ* conservation activities. Also left out of the data are technical cooperation and technology transfer, important elements of Article 20. Thus, the OECD data represent an underestimate of total support, although it does offer a convenient and consistent basis for year-to-year comparisons, particularly with regard to the bi-lateral donors.

Figure 1: ODA for biodiversity, 1987-1994



Note: GEF commitments for 1994 refer to the fiscal year ending June 1995
Source: Lake (1996)

19. The first point to note in the OECD data is that biological diversity activities are a small fraction of total ODA. On a cumulative basis, biological diversity activities comprised only 0.75% of total ODA flows over the period from 1987 to 1994. In only two years, 1988 and 1992, did biological diversity-related activities account for more than 1% of total ODA flows. Thus biological diversity projects are a very minor donor priority.

20. Figure 1 illustrates the trend in the overall quantity of ODA for biological diversity-related activities over the period, 1987-1994. The table shows a sharp peak in biological diversity assistance 1992, when it reached US\$ 1216 million. Since then, however, biological diversity-related ODA declined to US\$ 269 million in 1993, and US\$ 208 million in 1994. Much of the decline is due to a reduction in funds from the multi-lateral agencies, which can be attributed in part to inconsistencies in reporting.

21. The data are more reliable for the bi-lateral donors, who significantly reduced their biological diversity programmes after 1992. Bi-lateral commitments to biological diversity projects fell from US\$ 289 million in 1992 to US\$ 90 million in 1994. This is an area of considerable concern as the bi-lateral donors represent the developed-country Parties that have undertaken an obligation under the Convention to provide new and additional funds for biological diversity.

22. Over the 1987-1994 period, the average commitment of ODA from the bi-lateral agencies to biological diversity projects was US\$ 174 million. Bi-lateral commitments in 1994 were approximately half the average level. The multi-lateral donors appear to have reduced their biological diversity commitments by over 90% since 1992, though the accuracy of the data is in doubt.

23. The fall-off in commitments from the bi-lateral and multi-lateral donors was only partially compensated for by the Global Environment Facility (GEF). The GEF disbursements for biological diversity during the 1991-1993 pilot phase totalled US\$ 332 million, or an average of US\$ 111 million per year. In the fiscal year ending June 1995, GEF assistance to biological diversity had fallen to US\$ 65 million, and in the year ending June 1996, it had declined to US\$ 23 million. As a percentage of the GEF portfolio, biological diversity projects declined from 49% in the Pilot Phase to 45% in fiscal year 1995, and then fell to 7% in fiscal year 1996 (GEF 1995; GEF 1996).

24. Thus the trend in the funding of biological diversity-related activities is clearly downward. The decline in the bi-lateral and multi-lateral commitments has not been offset by the introduction of GEF funding for biological diversity. Since the aggregate contribution of the GEF falls short of fully offsetting the decline in bi-lateral and multi-lateral financing for biological diversity, the case cannot be made that donors have made available any "new and additional" funding for biological diversity activities through their ODA programmes.

25. To some extent, the decline in biological diversity-related assistance reflects the overall decline in ODA flows since 1992. Overall ODA reached a peak in 1992, at US\$ 61 billion, then declined to US\$ 57 billion in 1994, and is thought to have declined further since then. The decline in annual ODA disbursements of US\$ 4 billion between 1992 and 1994 represents a reduction of 6%. By contrast, annual ODA for biological diversity fell by US\$ 1 billion between 1992 and 1994, an 80% reduction.

26. As a percentage of total ODA, biological diversity activities reached their peak in 1992 at 1.73%. In 1993 and 1994, the share of funds going to biodiversity related projects fell back to 0.28% and 0.29% of the annual totals, respectively. The sharp rise in the share of biological-diversity projects in total ODA in 1992 appears to represent a short-term shifting of multi-lateral commitments to biological diversity in the year of the UN Conference on Environment and Development.

27. Performance varied considerably among the individual bi-lateral donors with regard to supplying new and additional funding to biological diversity projects. A country can be said to be contributing new and additional funds to biological diversity if their bi-lateral commitments are

maintained while they contribute new funds to the GEF. By this definition, Finland, Germany, Italy, Netherlands, Norway, and Sweden have all contributed new and additional funds to biological diversity (Lake 1996). In the case of all other donors, bi-lateral biological diversity aid seems to have fallen, or not to have risen, since the GEF was launched. These donors appear to be shifting their bi-lateral resources for environmental projects to the GEF.

28. Overall, as Figure 1 clearly illustrates, biological diversity has not received an influx of new and additional ODA since the Convention's inception in 1992. On the contrary, biological diversity-related ODA has declined, and the introduction of the GEF has neither provided the additional funds nor been sufficient to compensate for the reduction of funds. Only six bi-lateral donors have both increased their support for biological diversity activities and contributed to the GEF. The remaining donors appear to have shifted some of their commitments to biological diversity to the GEF.

29. The decline in ODA funding for biological diversity may relate to the difficulties in designing and implementing effective projects. Biological-diversity projects involve changing how humans interact with their environment and how they use natural resources. This often requires changing patterns of behaviour and traditions that have emerged over long periods of time, and have, as a result, become enshrined in law or social custom and have the support of powerful groups in society. The modification of human-environment interactions is a long-term process, which puts severe demands upon project design and implementation.

30. By contrast, donors are more familiar with conventional infrastructure projects, which are less complex than sustainable biological diversity-management projects. The benefits of infrastructure projects are known with greater certainty, are more easily estimated, can be supplied with greater predictability, and are less critical to the functioning of a country. While an infrastructure project will supply a country with, for example, improved transportation, communication, or utilities, biological diversity projects manage the underlying "life-support system" of a society in the form of its ecological functions, such as hydrological cycles, the mediation of energy flows at different trophic levels, soil and mineral content and quality.

4. IDENTIFYING ADDITIONAL FUNDS FOR BIOLOGICAL DIVERSITY

31. Despite the limited prospects for securing greater flows of ODA for biological diversity, recipient countries and donors alike can take steps to improve the value of the existing resource flows. This can be accomplished through:

- (a) **strengthening** the existing funding institutions;
- (b) **mainstreaming** biological diversity into ODA;
- (c) **accessing** the funding institutions more effectively;
- (d) **leveraging** private-sector resources with ODA; and
- (e) **converting** debt into biological diversity programmes.

32. This section will provide a broad overview of each of these opportunities. The discussion of each strategy is intended as a starting point for further analysis, and the COP may wish to select one of the proposed strategies for a more detailed review in its next meeting. A thorough analysis of each strategy could comprise a report on its own, so the following discussion is necessarily a brief overview of current conditions. Sources for further information on some of the strategies are available in related documents.

4.1 Strengthening the Existing Funding Institutions

33. The funding institutions can be strengthened through increasing the effectiveness of their biological diversity-related activities. This includes improving the effectiveness of biological diversity-specific projects and improving the coordination and integration of donor-funded activities both within recipient countries and at the international level. The first can be accomplished through the incorporation of the specific characteristics of biological diversity into the design and implementation of projects. This process is discussed in greater detail in the document entitled *Characteristics Specific to Biological Diversity and Suggestions to Funding Institutions on How to Make their Activities More Supportive of the Convention* (UNEP/CBD/COP/3/7).

34. Biological diversity has several special characteristics that differentiate it from conventional infrastructure projects, which have traditionally received the majority of donor funding. These specific characteristics include: (a) the time sensitivity of ecological dynamics; (b) heterogeneity in the structure and function of biological diversity; (c) the uncertainty as to the status, trends, and value of biological diversity; (d) the complexity of processes leading to the loss of biological diversity; and (e) the irreversibility of biological diversity losses.

35. These special characteristics lead to a set of principles for biological diversity project design. The project design principles include the modification of project cycles to disburse fewer funds up front, more downstream, and over a longer period of time. The expectation of financial or social returns should be modified to reflect the greater uncertainties in biological diversity management. Projects should be evaluated on multiple criteria, reflecting the heterogeneity of biological assets and functions. Special consideration should be given to the fact that these projects represent the modification of human interactions with the natural environment, which involves a multitude of individual decisions. As a result, project success depends upon the building of local capacity for decentralised decision-making.

36. Coordinating biological diversity projects within the recipient countries and at the international level is another means of strengthening the operations of funding institutions. At present, no international coordination of biological diversity funding efforts exists. As a result, the biogeographic coverage of donor resources is uneven, and several of the biologically most diverse developing countries receive little foreign assistance (James and WCMC 1996). At the domestic level, the coordination of donor projects is usually *ad hoc*, though some management is often provided by a local UNDP representative. Despite the fact that biological diversity is usually a small subset of a recipient country's foreign assistance, support for biological diversity activities would particularly benefit from more effective national coordination, due to its cross-sectoral nature.

4.2 Mainstreaming Biological Diversity into ODA

37. Projects *related* to biological diversity attract a far greater proportion of ODA than do biological diversity-*specific* projects. The UNDP/CSD estimates that biological diversity-related projects received between 7% and 13% of ODA in the period from 1987 to 1994 (Lake 1996). This compares to less than 1% of total ODA flows to biological diversity-specific projects, as noted in Section 2. In 1994, biological diversity-related projects absorbed about US\$ 5.5 billion of donor funds, or 11% of total ODA. The CSD defines biological diversity-related projects as: (a) sustainable agriculture; (b) combating deforestation; (c) integrating environment and development into decision-making; (d) combating poverty; (e) demographic dynamics; (f) strengthening the role of NGOs; (g) promoting women's role in sustainable development; and (h) conserving biological diversity (UNDP/CSD, 1996). The CSD categories are broad, and some include biological-diversity issues only indirectly, but the US\$ 5.5 billion in project value for 1994 (compared to US\$ 208 million for biological diversity) suggests considerable scope for "mainstreaming".

38. Mainstreaming biological diversity into economic development plans involves the implementation of policy reforms in several sectors. For example, the World Bank's strategy for mainstreaming biological diversity is intended to:

- (a) help to "green" the World Bank's Country Assistance Strategies;
- (b) help countries design biological diversity-friendly sector policies and programmes;
- (c) facilitate cross-sectoral planning for biological diversity conservation;
- (d) ensure that Bank policies and practices help countries mainstream biological diversity; and
- (e) foster and expand strategic partnerships in support of biological diversity.

Thus mainstreaming involves a combination of measures to integrate biological diversity concerns into a country's economic development strategy. The implementation of the first four measures listed in the previous paragraph can be greatly assisted through the use of environmental-impact assessments (EIAs) that take specific account of biological diversity in the planning and implementation of economic-development projects, with particular attention to sectors such as agriculture, forestry, and fisheries.

39. The EIA process identifies, assesses and integrates the likely environmental effects of a project into its design and implementation. When applied most effectively, it provides an opportunity to take environmental considerations into account before decisions have been made on whether to proceed with a proposed project. In this way, EIA procedures ensure that the mainstreaming policies are actually translated into concrete action.

40. EIAs usually involve a graded system of assessment. Projects with a high likelihood of severe impacts are subject to a more thorough and detailed EIA than those that are perceived as having little or no environmental impact. The preparation of the EIA is the responsibility of the project developer (usually an agency of the recipient government) and requires the submission of a written document to the donor agency describing the potential environmental impacts of the project. Donor agencies often establish a set of guidelines for the EIA as a part of their technical support to a project.

41. EIA guidelines normally contain the following: a description of the proposed activity; a description of the potentially affected environment, including specific information necessary for identifying and assessing the environmental effects of the proposal; a description of the practical alternatives, including the option of no action; an assessment of the potential impacts of the proposal, including indirect ones; an identification and description of measures available to mitigate adverse environmental impacts; an indication of gaps in knowledge and uncertainties that may be encountered in compiling the required information.

42. However, various reviews by the World Bank, the OECD Development Assistance

Committee, and the European Union have found that, in practice, EIAs have not fulfilled their potential (World Bank 1993; OECD 1992; EU 1994). The most prevalent problems included a lack of analysis of alternatives, weak or absent mitigation measures, no monitoring and implementation components, and a lack of institutional capacity for EIA preparation. Further, EIAs tended to be employed at the end of the project-evaluation cycle, thus losing the opportunity to integrate environmental concerns into project design. Often, public involvement was insufficient; one review found that, in many of the initial EIAs, consultation with the affected populations and local NGOs “had been limited at best” (World Bank, 1993).

43. With regard to biological diversity-related projects, EIAs have been hampered by a lack of objective criteria for assessing the potential impacts on biological diversity and its components. This is partly due to the fact that the response of biological and ecological processes to external impacts are not well understood (a point discussed in more detail in UNEP/CBD/COP/3/7). As a result, such impacts are usually assessed on a highly subjective basis; more objective methods, such as cost-benefit analysis, are rarely used.

44. In addition to requiring EIAs for specific projects, funding agencies could carry out EIAs on their own strategic policies and objectives. Such strategic reviews could take into consideration the extent to which the agency's policies further the conservation of biological diversity. So far, the agencies that have carried out such a review have not identified any concrete or specific measures that might have a direct affect on the nature and extent to which ODA is used to further the conservation of biological diversity.

4.3 Accessing the Funding Institutions More Effectively

45. Financial support for biological diversity is available from a variety of multi-lateral and bi-lateral sources, making it difficult to form generalisations about ways in which access to those resources could be improved. Increasing both the awareness among relevant stakeholders of the availability of funds and their understanding of the required eligibility criteria and application procedures should be an immediate goal for the Convention's Parties.

46. Each bi-lateral funding institution has its own set of eligibility criteria and application procedures, shaped, in part, by the environmental priorities and foreign policy objectives of each donor country. Multi-lateral funding institutions differ in their eligibility criteria and policy objectives as well. Some harmonisation is taking place through the participation of the major multi-lateral donors and lenders as Implementing and Executing Agencies under the GEF. The OECD-DAC is also reviewing the possibility of a greater harmonisation of procedures with regard to environmental projects.

47. A donor agency's local representative in the recipient country can provide critical assistance in the area of "outreach". Outreach activities include ensuring that potential applicants are aware of donor interest in funding biological diversity projects, and that they are familiar with the eligibility criteria and application procedures for receiving assistance. More efforts could be made by donor agencies to instruct their local representatives to increase outreach activities in the area of biological diversity. Donor agencies could share information and endeavour to better coordinate their outreach activities in recipient countries. Some lessons could be learned from efforts under way in the GEF to improve the quality and quantity of GEF projects. The GEF Council has recently included within its work programme a project designed to build and enhance capacity among a wide range of stakeholders in participating countries to develop GEF-eligible projects.

4.4 Leveraging Private Sector Resources with ODA

48. ODA can be used to attract foreign direct investment (FDI), although this source of funds for biological diversity management has not been substantial. ODA can be used to attract FDI to biological diversity directly through joint ventures with donor agencies, or indirectly through improving the domestic conditions for foreign direct investment. Charitable contributions made by the private sector are excluded from this analysis. This analysis focuses on methods for attracting private sector investment to biological diversity on commercial rather than on charitable terms.

49. Joint ventures use public funds to leverage private-sector investment into projects that have a biological diversity component. Publicly sponsored joint-venture funds offer private sector investors financial incentives (grants, co-financing, lower interest payments) for investments in sectors, primarily tourism and natural resources, that have a conservation or sustainable-use element. Joint ventures with foreign firms are a means of facilitating technology transfer, and publicly funded partners can target suitable firms and industries for such transfers. Concessional and grant resources can be used to fund the additional impact assessments required to verify the social and ecological integrity of pioneering ventures. By providing grant resources for preliminary investigations and extended feasibility studies, the public funds can reduce the often prohibitive entry barriers to private investment in biological diversity-sustaining enterprises.

50. Several venture-capital funds for biological diversity have recently been initiated. The GEF and IFC have developed a Small- and Medium-scale Enterprise project, and USAID has funded the Biodiversity Conservation Network. Other notable publicly sponsored venture-capital funds for biological diversity include: the Global Environment Emerging Markets Fund (US government sponsored), the Nordic Environmental Finance Corporation (sponsored by Nordic countries) and the North American Environmental Fund (partly sponsored by the Japanese Overseas Economic Cooperation Fund).

51. ODA can be used to attract FDI indirectly through the provision of certain public goods. Local capacity building, infrastructure, and training in the biological diversity-related sectors that have potential for private-sector investment can provide an incentive for FDI. The availability of trained labour, transportation and communication infrastructure, and other services are often prerequisites for private-sector investment. ODA can be directed to public-good provisions in the sectors where biological diversity-related private investment might be a possibility, such as eco-tourism or collaborative genetic research.

52. The private-sector opportunities that are emerging in collaborative genetic research provide an example of the opportunities for ODA to indirectly attract FDI. Collaborative genetic research involves the collection, identification, and processing of genetic samples from wild specimens in the host country for sale to foreign companies. The development of a capacity for genetic research with ODA is also means for improving the local conditions for the transfer of technology. ODA could encourage private-sector participation in this sector through:

- (a) producing information on the genetic resources that exist within the recipient countries through the funding and publication of taxonomic studies;
- (b) developing basic genetic laboratory capabilities for microbiological isolation, biological assay, and chemical fractionations; and
- (c) training local people in field and laboratory techniques relevant to collaborative genetic research.

The creation of these conditions would provide private-sector firms, both foreign and domestic, with an incentive to embark on collaborative genetic research projects. This strategy of providing infrastructure and training in a target area of biological-diversity management could be extended to other opportunities, such as eco-tourism.

4.5 Converting Debt into Biological Diversity Programmes

53. In their October meetings, the Paris Club of bi-lateral creditors discussed a joint World Bank/IMF plan to reduce the official debt burdens of the severely indebted low income countries. This plan will reduce the debt burdens of eligible countries by a proposed 80%. A major issue to be resolved is the relative contributions of the bi-lateral and multi-lateral creditors to the plan. The Paris Club has referred final decision to the Group of Seven industrial nations, who are owed the majority of the bi-lateral debt. In the discussions, there remains considerable scope for negotiating the final conditions, which may provide an opportunity for some countries to deepen the terms of debt relief in exchange for environmental commitments.

54. In a debt-conversion agreement, a debtor country typically agrees to undertake a domestic environmental commitment, such as the management of a protected area, in exchange for a reduction in debt. The face value of debt forgiven far exceeds the cost of the environmental commitment to the recipient country. Both commercial debt (usually issued originally by commercial banks) and bi-lateral debt can be converted for biological-diversity management purposes.

55. Since 1987, commercial debt has been swapped for conservation commitments in sixteen countries, generating US\$ 129 million in local funds for biological-diversity management. In these transactions, the recipient country has typically agreed to a commitment of local funds to a biological diversity project in exchange for a reduction in the face value of the foreign currency denominated debt. Most of these transactions have involved a nature conservation NGO's purchase of the debt at a discount on the secondary market, and subsequent negotiation with the country on the terms of its retirement. However, these transactions have become much less frequent because the secondary market value of debt has risen following a series of commercial debt restructurings under the Brady plan.

56. The reduction of bi-lateral debt in exchange for biological diversity commitments is also possible. An example is the Enterprise for the Americas Initiative. In these transactions, the beneficiary country enters into an environmental framework agreement with the US in exchange for a reduction in bi-lateral debt. Under the environmental framework agreement, the beneficiary country makes interest payments in local currency into a domestically based environmental trust fund. The trust fund then makes investments into biological-diversity management or other environmental activities, as decided by its board of governors, which are jointly appointed by the beneficiary country and the US.

57. Thirty-two countries have national environmental trust funds (NEFs), which could provide the vehicle for further debt conversions into biological diversity commitments. While NEFs have a variety of structures and endowments, their basic purpose is to provide domestic environmental projects with a secure, long-term funding source. Since 1990, at least US\$ 850 million has been committed to NEFs in developing countries, most of which has come from bi-lateral and multi-lateral grants, though debt reduction has contributed in a number of cases. NEFs are an excellent vehicle for debt conversions because the new capital contributes to an endowment that can fund environmental-protection activities into perpetuity without annual contributions from the central government. In addition, since the NEFs are domestically managed, they contribute to capacity-building and create an incentive for the local origination of project proposals.

58. In the current discussions on debt relief for the severely indebted low-income countries, further reductions could be considered in exchange for commitments of domestic resources to an environmental trust fund. As discussed, the bi-lateral and multi-lateral donors are negotiating a plan for relief of up to 80% of “eligible debt” for the severely indebted low-income countries. The plan is subject to an agreement on the relative contributions of the bi-lateral creditors and the multi-lateral creditors to the plan, and a decision on how each of the two major multi-lateral creditors will fund their contribution. Other issues still under negotiation are the proportion of debt relief offered (some bi-lateral creditors have suggested 90% relief), the definition of eligible debt, and the definition of the category of eligible debtors.

59. With many of the issues still to be resolved, highly indebted countries may regard the current negotiations as an opportunity for negotiating deeper or broader debt-reduction in exchange for environmental commitments. The NEFs may be a convenient vehicle for the debtor countries to vest their environmental commitments in exchange for further debt-reduction. For example, a country could propose a governmental contribution of capital to the endowment of its national environmental trust fund in exchange for an increase in the proportion of debt relief from 80% to 90% of the eligible total, or for an expansion of the definition of eligible debt.

5. INFORMATION REQUIREMENTS

60. The apparent decline in ODA for biological diversity since 1993 highlights the importance of improving the information and monitoring of the availability of financial resources. As noted in Section 2, consistent data is available for the bi-lateral donor agencies, but reporting by the multi-lateral agencies is incomplete and inconsistent. Thus a year-to-year analysis of trends in funds for biological diversity is not reliable, and the extent to which Parties are meeting their obligations under Article 20 of the Convention is obscure. In addition to reporting deficiencies, the current definition of project activities, or “project codes”, in the OECD Creditor Reporting System does not adequately capture biological diversity-specific and biological diversity-related activities.

61. An adequate information system would also allow for the monitoring of the extent to which the alternative funding sources, as discussed in Section 3, have been accessed by the Parties. For example, leveraging in resources from the private sector has the potential for providing considerable funds to biological diversity, but at present information of this type is scant. Measuring the extent to which foreign donors are able to mainstream biological diversity concerns into sectoral development projects requires improved financial reporting and better definitions of conservation and sustainable-use activities. In sum, information on the use of alternative financial mechanisms to fund biological diversity management would be a valuable resource for the Parties.

5.1 Methodological Difficulties

62. Successfully monitoring financial flows across the different bi-lateral and multi-lateral donor institutions requires that those institutions use common methodologies for producing meaningful and comparable data, and that the data are regularly communicated to a single source.

63. At present, bi-lateral and multi-lateral donors and other international institutions employ different methodologies for calculating the changing levels in biological diversity funding. These methodologies differ both in terms of establishing the baseline against which additionality is measured, and in defining which categories of project funding can be characterised as supporting the Convention's objectives.

64. With regard to baselines, some analyses measure additionality against historical levels of ODA existing at the time the Convention was opened for signature. Others measure additionality on the basis of the minimum targets for ODA provided for in UN General Assembly Resolutions. Still others characterise any new or innovative financial mechanisms that are established as generating new and additional resources, without reference to overall levels.

65. With regard to definitions, there is as yet no universally agreed-upon standard definition of what constitutes a biological diversity-related project. Two major efforts thus far at categorising ODA, one by the OECD and the other by UNDP/CSD, have followed different methodologies. As they stand, neither of these appears to be sufficiently tailored to provide a sound basis for monitoring the implementation of the Convention (Lake 1996).

5.2 Reporting Difficulties

66. Sound conclusions on trends in financial flows must be based on a complete set of data. While the efforts of the OECD DAC, through its Creditor Reporting System, have generated consistent data on its members' bi-lateral-assistance programs, the collection of information from multi-lateral donors and lenders has proved more difficult.

67. Non-ODA flows, from non-governmental and other private entities, have become an increasingly important source of funding for biological-diversity conservation. While such flows have not been contemplated as part of the fulfilment of Parties' commitments under the Convention, data on non-governmental efforts would be useful in monitoring the implementation of the Convention.

5.3 Working towards Solutions

68. Efforts are currently under way in a variety of fora that promise to help improve methodologies for the reporting of financial resources for environmental protection. The OECD Secretariat is in the process of preparing more precise guidelines for its members that should allow for a more robust calculation of biological diversity-related expenditure across different sectors. The current revisions to the Creditor Reporting System may provide an opportunity for the COP to initiate a dialogue with the OECD Secretariat on reporting guidelines for biological diversity projects.

69. Parties may wish to note that the Parties to the Framework Convention on Climate Change (FCCC) have undertaken financial-resource commitments similar to those under the Convention. At their second session, the Conference of Parties to the FCCC decided to include in the reporting guidelines a requirement that the relevant parties indicate clearly the amount of financial resources they have contributed to the implementation of the Convention, and how they have determined that these resources are new and additional. The COP might wish to consider including a similar item in the national reporting requirements of the Convention.

6. RECOMMENDATIONS

70. The Conference of the Parties may wish to request the Secretariat to:
- (a) compile annual data on the activities of funding institutions related to biological-diversity projects, incorporating the activities of the bi-lateral, multi-lateral, and non-governmental donors, on a consistent reporting basis;
 - (b) develop a programme to assess the overall adequacy and trends in these financial resources, and to identify priority areas for further support;
 - (c) seek to cooperate with the OECD Secretariat in the refining of methodologies for the reporting by their members of biological diversity-related funding; and
 - (d) make a report to the COP on a regular basis detailing trends in the availability of financial resources to biological diversity, including the activities of the bi-lateral and multi-lateral donor agencies, and to the extent possible, other sources; a discussion of special areas of remaining needs; and a review of the implementation of COP decisions regarding financial resources.
71. The COP may wish to:
- (a) call upon multilateral funding agencies, non-governmental organisations and private sector donors to regularly provide the Secretariat with data on their biological diversity-related funding activities;
 - (b) include in the guidelines for the national reports of developed-country parties, information indicating the amount of financial resources they have contributed to the implementation of the Convention, and to what extent these resources are new and additional; and
 - (c) consider selecting one of the strategies for attracting additional financial resources for a detailed review at its next meeting, such as leveraging the private sector or converting debt for biological diversity.

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