

# Social safeguards and innovative financial mechanisms

From 'do no harm' to positive  
social impacts

# Background

Finance needed for biodiversity conservation is considerable

Private sector involvement is essential

- To provide new sources of finance
- To tackle drivers of biodiversity damage

New financial mechanisms can generate funds and change behaviour

But concern about their social impacts



# What are innovative financial mechanisms?



Not so new!

New sources of funds and new incentives

- for avoiding practices harmful to biodiversity
- promoting biodiversity friendly practice

Main types:

- Green markets – certification
- Payments for environmental services
- REDD+
- Biodiversity offsets/bio banking

# Markets for green products



Products that are **certified** to have been produced sustainably – best practice

- Timber (FSC, PEFC)
- Agriculture (organic, fairtrade, Rainforest Alliance)
- Commodity Roundtables, palm oil, soy, sugar, cotton

**Incentive** from price premium/market access

Market is growing rapidly but still small

Except for certified coffee (8% of demand in 2009)

Certified soy **doubled** between 2011 and 2012 but only **0.4%** of world production.

# Payments for environmental services



Definition: Land/resource managers are paid/rewarded to conserve or enhance ecosystem services by beneficiaries directly or by **government** on their behalf.

Largest schemes are run by governments

But there are varied roles for **business**:

- Run small local schemes - Philippines
- Run schemes alongside a national scheme – Costa Rica
- Contribute to a trust fund for watershed management – Fonag, Ecuador

# REDD+



What is it? Initially considered a multi-level PES scheme, then an IPES with government to government transfers for national REDD programmes, then...

Role of business:

- Buyers of REDD carbon credits – voluntary and compliance
- Drive improved practice through the supply chain – deforestation moratoria

# Biodiversity offsets

Defined by BBOP as:

measurable conservation outcomes resulting from actions designed to compensate for significant residual adverse biodiversity impacts arising from project development, and persisting after appropriate prevention and mitigation have been taken.



# Biodiversity offsets 2



## Role of business:

- Voluntary offsets undertaken by extractive industries/infrastructure
- Requirement of IFC performance standards (6)
- Meet regulatory requirement for offsets or compensation



# Why be concerned about social impact?



Ethical reasons – social justice

Conservation should not be at the expense of the poor and marginalised communities

Instrumental reasons

Biodiversity conservation is more likely to work if local communities benefit and are not harmed

# Key social risks

- Loss of access to land and resources
- Lack of participation in the IFM design
- Exclusion from the IFM because of design rules, lack of capacity, finance
- Unfavourable terms for those who do participate
- Wider effects on non-participants
  - food prices, employment



# Loss of access to land and resources



Serious risk that applies not just to IFMs but to all kinds of commercial development (land grabs) and conservation interventions e.g protected areas in areas where property rights are weak.

Implications:

- Serious IFM operators avoid areas with informal land tenure
  - who owns the rights to the ecosystem services?
  - reputation concerns

# Loss of access to land: What can be done



Ideal is to strengthen rights before the IFM but often not practical

Find other ways to recognise informal tenure – local recognition

- In PES schemes can lead to strengthened rights but still challenging and not suitable for large-scale schemes

Consultation and participation is key - uphold free prior and informed consent FPIC

# Example – PES in Uganda

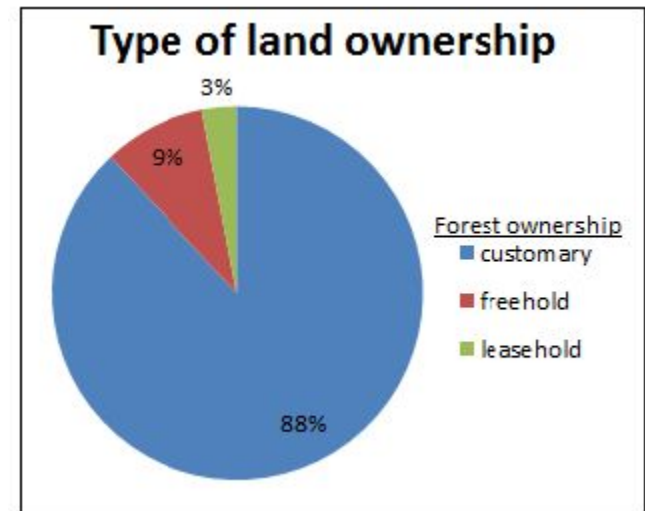


A pilot PES scheme in Hoima, Uganda pays farmers to conserve and restore forest that is important for chimpanzees

Most farmers are **customary** owners

Their forest land was mapped by a ‘community monitor’

The local parish council chairman verified that the land belonged to the farmer.



# Lack of participation in IFM design

Standards for REDD+, FSC certification, BBOP, require participation and FPIC

## BBOP principles:

**6. Stakeholder participation:** In areas affected by the project and by the biodiversity offset, the effective participation of stakeholders should be ensured in decision-making about biodiversity offsets, including their evaluation, selection, design, implementation and monitoring.



# Participation in practice: Bolsa Floresta, Brazil



# Problems of exclusion – PES



Additionality: penalises communities who look after forest

Minimum size limit excludes small farmers

High transaction costs for applicants

Standardised land management rules

Pay for stocks as well as flows

Set very small e.g Uganda no minimum

Cross-subsidy between large and small landholders

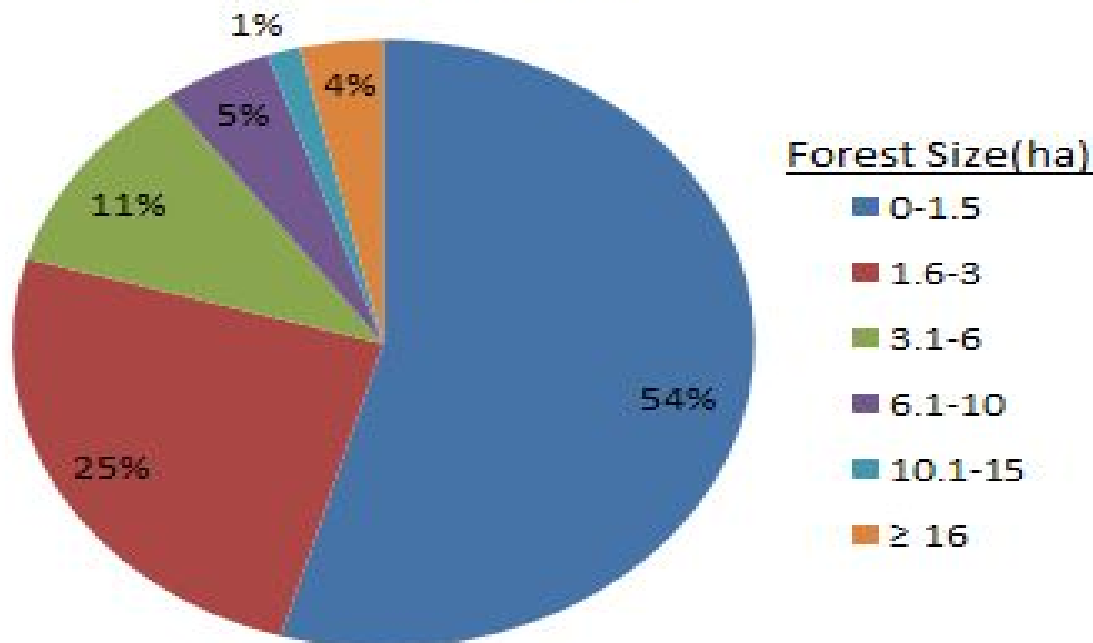
Adapt to farming systems of poor farmers e.g Agroforestry



# Problems of land size- PES, Hoima, Uganda



**Number of PFOs according to forest size (ha)**



# Fair deals in the IFM



Challenge to demonstrate fairness in IFM contracts

Different criteria:

- How payments compare to opportunity costs
- How payments compare to income
- How participants perceive them

Much PES research indicates that payments are low compared to opportunity costs

But even so people want to join the schemes

Comparison is complicated by variation in land quality, legal restrictions on land use.

# Fair deals in the IFM



## BBOP Principles uphold equity but how to demonstrate?

**7. Equity:** A biodiversity offset should be designed and implemented in an **equitable manner, which means the sharing among stakeholders of the rights and responsibilities, risks and rewards associated with a project and offset in a fair and balanced way**, respecting legal and customary arrangements. Special consideration should be given to respecting both internationally and nationally recognised rights of indigenous peoples and local communities.

# Fair deals - examine costs and benefits

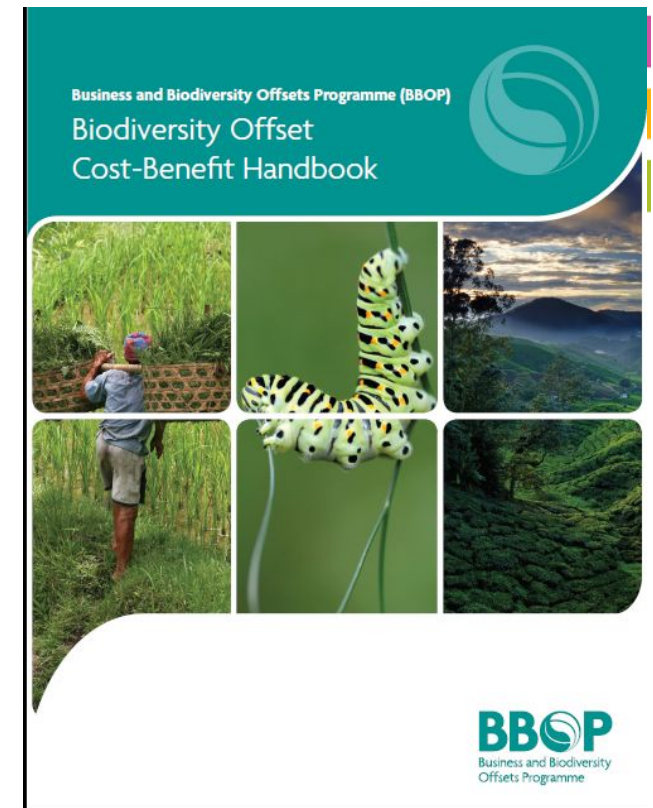
BBOP guidance on examining costs and benefits to local stakeholders recognises that offsets could lead to costs for communities in the offset area

$$Bo \geq Cp + Co$$

Bo = benefits of the biodiversity offset to the local stakeholders

Cp = costs to local stakeholders of the residual biodiversity related impacts of the project

Co = costs to local stakeholders of the biodiversity offset



# Understand community preferences

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**What and why** - Focus group discussions on what type of payment formats people want



**Preferred options**

Choice experiments to examine preferences when tradeoffs have to be made



# Conclusions



## **Biggest challenge is land tenure**

- small schemes can work round it with positive effects, but not large ones

Prior consultation and participation in IFM design is essential

Safeguards need to be more than one-off

- periodic review throughout operation of the IFM – M&E

Standards are an important safeguard for IFMs but can raise issues of interpretation

We need to understand people's own perspectives on fairness of IFMs as well as using our own criteria



# Thank you!

For more information see [www.iied.org](http://www.iied.org)

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