

eftec

Economics for the
Environment
Consultancy

CEEweb Academy on
Preserving Europe's
Ecosystems and
Natural Capital – Tools
and Processes in
Theory and Practice
Hungary, 7th – 8th October,
2013

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Financing Restoration of Ecosystems in the EU



- Financial principles
- Interactions between principles
- Examples
- Summary

Funding Requirement

- EU biodiversity strategy Target 2 on restoration of 15% of degraded ecosystems
- Annual costs predicted by IEEP et al generally between €5 and €10.9 billion per year
 - Some costs lower (<€1bn), is actions focuses on ecosystems with lowest unit cost for restoration
 - Highest costs based on the 15% restoration within each ecosystem (with largest proportion is arable)
 - Targeting restoration to maximise biodiversity benefits and/or ecosystem services increases costs

Public Funding or...

- Public good nature of the outcomes require some public funding
- Public budgets are fixed and have limited flexibility such that they cannot meet objectives
- Already a funding and policy gap to deliver NNL of biodiversity and ecosystem services
- Further funding required to achieve restoration target
- Ecosystem restoration will require some innovative uses of public & private funding

Innovative Instruments

Direct:

- Payments for ecosystem services
- Product labelling and certification
- Bio-carbon credits
- Biodiversity offsets/habitat banking
- Insurance sector

Indirect:

- Philanthropy
- Tax relief
- Private finance initiative
- Hypothecated taxes
- Risk-sharing investments
- Pro-biodiversity business models

Innovative Financial Principles

- Each country has different circumstances, so financing needs to adapt to them.
- Can identify principles that influence funding.
- Principles are interdependent.
- Examples/pilots exist.
- Must be able to scale up to meet biodiversity and ecosystem restoration goals

Public Funding an alternative/complement

Private Funding and their Motivations

Scale of action

Restoration/maintenance

Direct/enabling mechanisms

Habitat-specific/generic instruments

Financing for fixed-level/changing ecosystem services

...Private Funding Motivations

- Range of private sector motivations, play different roles in applying innovative finance:

Motivation	Role
Pure Philanthropy	Pilots, innovation
CSR	Generate public profile for funding opportunities/benefits of restoration
Market Returns	Scaling up

Ecosystem Condition and Financing

Ecosystem Condition	Financing Approaches	Examples
High	Fixed payments have greater additional benefit due to higher risk of degradation	Higher-level agri-environment schemes
	Better CSR returns for private sector Easier to market benefits through labelling	Flagship species in product labelling
	<ul style="list-style-type: none"> i. Fixed payments: simpler to administer, so lower transactions costs, but also lower additionality ii. Payments for ecosystem change: higher transactions costs, but higher additionality 	<ul style="list-style-type: none"> i. Lower-level agri-environment schemes ii. Funding ecosystem restoration as part of socio-economic regeneration
Low	Greater conflicts with polluter pays principles	CAP agri-environment or cross-compliance?

Examples: Bio-carbon

GLOBAL per yr	forest carbon		
	compliance	voluntary	REDD
Current	\$26m	\$156m	\$252m
2020	\$470m	\$1-5bn	\$3-9bn

➤ REDD: \$252m disbursed, but \$7bn+ pledged

Labelling

- Proliferation of labels – risk of saturation?
- Successes: Organic, Rainforest Alliance coffee, MSC fish and FSC timber
- Current global market : \$118bn/yr
- Predicted global market: \$418bn/yr
- Niche for products from restored ecosystems?

Source: Ecosystem Marketplace:

http://www.ecosystemmarketplace.com/documents/acrobat/the_matrix.pdf

PES

UK Watershed PES Markets:

- United Utilities 'SCaMP' started in 2005

(<http://corporate.unitedutilities.com/scamp-index.aspx>)

- In 2009 OFWAT approved >£60 million of management schemes in 100 catchments
- In 2013? ...



Nature-based Tourism

- Key route for local socio-economic benefits from restoration and conservation
- Enormous market:
 - Natura sites estimated to support tourism expenditure of €50-€85 bn/yr = 0.8m to 2 m FTE jobs.
 - USA birdwatchers spending: estimated >\$40bn/yr

Summary

- Restoration targets will not be met through traditional public expenditure
- Innovative financing (with public and/or private sources) brings new possibilities
- Exist markets (e.g. labelled products, nature-tourism,) and new markets (e.g. bio-carbon, PES) can fund restoration
- Can they be combined to deliver 15% target?

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