Financing Restoration of Ecosystems in the EU

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

Ian Dickie (eftec)
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
Range of private sector motivations, play different roles in applying innovative finance:

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pure Philanthropy</td>
<td>Pilots, innovation</td>
</tr>
<tr>
<td>CSR</td>
<td>Generate public profile for funding opportunities/benefits of restoration</td>
</tr>
<tr>
<td>Market Returns</td>
<td>Scaling up</td>
</tr>
</tbody>
</table>
# Ecosystem Condition and Financing

<table>
<thead>
<tr>
<th>Ecosystem Condition</th>
<th>Financing Approaches</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Fixed payments have greater additional benefit due to higher risk of degradation</td>
<td>Higher-level agri-environment schemes</td>
</tr>
<tr>
<td></td>
<td>Better CSR returns for private sector</td>
<td>Flagship species in product labelling</td>
</tr>
<tr>
<td></td>
<td>Easier to market benefits through labelling</td>
<td></td>
</tr>
<tr>
<td></td>
<td>i. Fixed payments: simpler to administer, so lower transactions costs, but also lower additionality</td>
<td>i. Lower-level agri-environment schemes</td>
</tr>
<tr>
<td></td>
<td>ii. Payments for ecosystem change: higher transactions costs, but higher additionality</td>
<td>ii. Funding ecosystem restoration as part of socio-economic regeneration</td>
</tr>
<tr>
<td>Low</td>
<td>Greater conflicts with polluter pays principles</td>
<td>CAP agri-environment or cross-compliance?</td>
</tr>
</tbody>
</table>
Examples: Bio-carbon

<table>
<thead>
<tr>
<th>GLOBAL per yr</th>
<th>forest carbon</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>compliance</td>
<td>voluntary</td>
<td>REDD</td>
</tr>
<tr>
<td>Current</td>
<td>$26m</td>
<td>$156m</td>
<td>$252m</td>
</tr>
<tr>
<td>2020</td>
<td>$470m</td>
<td>$1-5bn</td>
<td>$3-9bn</td>
</tr>
</tbody>
</table>

- 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:
UK Watershed PES Markets:
- 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?
Financing Restoration of Ecosystems in the EU

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

Ian Dickie (eftec)