Exploring options to make biodiversity offsets work for companies in Mozambique

Session 5: Project Financing in Gas & LNG Projects in Mozambique

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The mitigation hierarchy involves a sequence of four key actions – ‘avoid’, ‘minimise’, ‘restore’ and ‘offset’ – a best practice approach to reducing the negative impacts of development projects on biodiversity and ecosystems services.
What are biodiversity offsets?

Biodiversity offsets are measurable conservation outcomes resulting from actions designed to compensate for significant residual adverse biodiversity impacts due to project development after appropriate avoidance, minimisation and restoration measures have been taken.

The goal of biodiversity offsets is to achieve no net loss or a net gain of biodiversity on the ground with respect to species composition, habitat structure, ecosystem function and people’s use and cultural values associated with biodiversity.

http://bbop.forest-trends.org/
Offsets can protect, enhance, restore habitats (sites) and/or protect and manage species.

Offsets can finance conservation-related investments in managing ecosystem services, including benefiting communities and their livelihoods.

Offsets can create new protected areas or strengthen existing important protected areas.
Policy developments:

• Legal framework enables offsets: compensation & ‘polluter pays principle’ in various laws and policies

• Conservation Law: NNL requirement for impacts on Protected Areas

• 2015 EIA regs mention biodiversity offset mgmt plan, if needed

Bio Offsets Roadmap (World Bank-supported):

• Discusses building blocks and sets out steps to establish an effective, useful NNL system (e.g. additional legal reforms, clear guidance, developing implementation mechanisms, incl. financing)

• Focus is on an ‘aggregate offset system’

COMBO project (donors: AFD, FFEM, MAVA)
A system of third party offset supply

Developers

“BUYERS”

Credit Register

Create credits through:
• Landowner agreements
• Land surrender
• Upgrade protected areas

• Record of ownership
• Provides transparency & accountability
• Provides market confidence that the credits meet the standards
• Single place recording info on credits
• Ensures credits are only ‘used’ once

Government

“SELLERS”

Landowners

• Brokers
• Conservation Banks
• ‘Over the counter’
Aggregated biodiversity offsets = Areas designated for conservation where offsets for several development projects can be implemented.

- Normally grouped spatially through a national (or sub-national) planning system in a region where impacts are occurring and mitigation is needed.

- Can evolve to act as a credit system akin to a habitat bank.

Reactive project by project approach

Proactive, aggregated approach builds synergies with other conservation & restoration actions
Advantages of aggregated offsets

- **Increase efficiency and reduce transactions costs** (mechanisms for management and M&E already enabled and some offset design already completed)
- **Mobilize conservation funding from all** the relevant projects (not just the “environmental leaders”).
- **Address cumulative impacts** of multiple projects with habitat loss.
- **Optimize conservation area selection** (prioritized at a national level, not *ad hoc* project-by-project) and conforms to national priorities.
- **Increase governmental participation** and ownership, thus enhancing sustainability.
Key Ingredients for Aggregated Offsets

- **Legal Framework:** Facilitating or requiring offsets for certain project categories. Explore use of existing guidance (e.g. IFC PS6) and engage private sector, government agencies and civil society in the process.

- **Identification of potential offset areas:** Must be suitable (from conservation and feasibility standpoint).

- **Implementation mechanisms:** Management, M&E, etc.

- **Funding Mechanism:** Secure, efficient, transparent transfer of funds from project investors to conservation (offset) project.

- **Address issue of transfer of liability:** Once offsets financed (or credits purchased) would companies no longer be liable for delivering outcomes?
MZ Offsets Roadmap: Conservation Areas

- Existing Conservation Areas (26% of MZ) cover most terrestrial and aquatic ecosystems.
- Severely underfunded (9% of min needs).
- Roadmap: Many offset sites would be in existing Conservation Areas or in proximity.
- Offsets would provide additional resources to selected Conservation Areas, enabling improved on-the-ground protection and management.
- Additionality would need to be determined.
- Offsets can also support conservation activities outside of the PA network, e.g. biodiversity and ecosystem services management in communities.
Options for financing the offset

**Priority:** Finance the offset *prior to impacts occurring* or as early as possible to avoid continued losses

- Build the cost of offsets into CAPEX.
- Create a long-term endowment where funds are directed to conservation outcomes
- Have endowment managed through a third-party independent institution such as a Conservation Trust Fund (that oversees implementation)

**Secondary Option:** Finance the offset through annual payments from operations

- Make annual financial commitment to offset
- Payments should be guaranteed in some way and covered through OPEX
- Ideally create payment plan that results in an endowment at end of project life to maintain offset in perpetuity (through annual payments or a lumps sum at end of project life)
Financing Aggregated Offsets in Mozambique

Key steps required:

1. **Establish the unit of exchange (biodiversity ‘credit’)**
   This needs to be scientifically robust and practical.

2. **Determine the cost of the credits/units of exchange**
   Companies can then build the cost of mitigation into their project development planning.

3. **Set up mechanisms for third party payments**
   Payments can go to a private, third-party institution to ensure accountability and transparency (e.g. BIOFUND, Mozambican Conservation Trust Fund, which has potential to play key role).
Summary

• Development of an effective legal framework for NNL creates an opportunity to develop a system of aggregated offsets (credits or units of exchange). Mitigation requirements create demand for offsets and lead to development of supply (e.g. mitigation banks).

• Aggregation of offsets will significantly reduce the transaction costs for companies to implement their mitigation and also remove companies from the direct responsibility for implementing offset programs.

• In Mozambique the early potential for developing such aggregated offsets may be in existing Protected Areas that today are seriously underfunded. Systems will be needed to ensure that such payments do not result in loss of existing government funding and therefore additionality is maintained.

• Successful implementation of a national NNL systems creates an opportunity to meet economic development and conservation objectives.
Thank You

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Drivers for better mitigation: recent advances

Laws

39 countries with laws or policies on NNL/NG, biodiversity offsets or compensation.

22 countries developing them.

Loan conditions and Standards

NNL natural habitat
NG critical habitat

Corporate commitments, projects, and case studies

40 companies with NNL or related commitments.

50 companies with Zero Net Deforestation commitments.

Methodologies

Regulated systems

Voluntary approaches
Natural Habitat:  No net loss, where feasible

Critical Habitat:  Net gains

PS 6 on Biodiversity Offsets:

- **Measurable conservation outcomes** reasonably expected to result in **no net loss** and preferably a **net gain** of biodiversity. **Net gain** is required in critical habitats.

- The design of a biodiversity offset must adhere to the “**like-for-like or better**” principle.

- Must be carried out in alignment with **best available information and current practices**.

- **External experts** with knowledge in offset design and implementation must be involved.

- Guidance Note 6 references the **BBOP Principles** as an internationally recognized standard.
World Bank E&S Framework

- ESF recently approved and published (Aug 2016)
- Applies to Investment Project Financing
- 10 standards set out expectations of borrowers’ E&S performance
- Close alignment with IFC’s Performance Standards
- ESS6 most relevant to biodiversity
- The mitigation hierarchy is central.
- Key requirements:
  - **Natural Habitat: No Net Loss of biodiversity**, or preferably, where feasible, a Net Gain
  - **Net Gain in Critical Habitat**
Voluntary System - Motivated by Company Commitments to NNL or Compliance with Lender Requirements

Semi-Regulated System - Government encourages Companies and provides guidance for implementation of Mitigation Hierarchy and Offsets

Regulated System - Government explicitly requires that development projects with BES impacts follow Mitigation Hierarchy and Implement Offsets to achieve NNL/NG