

Sustainable finance in Caribbean Islands

August 2017



Introduction

Small Island Developing States (SIDS) in the Caribbean depend heavily on their marine and terrestrial ecosystem services for economic prosperity. The biodiversity these islands contain is a rich and unique natural asset that supports Industries such as tourism, agriculture and fisheries. To effectively manage natural resources, sustainable finance streams need to be established.

What is Sustainable Finance?

The term is applied in different contexts and has varying definitions. In the context of this report, sustainable finance is defined as the ability to:

1. Secure stable, sufficient and diverse streams of financial resources.
2. Allocate these resources in a timely manner in an appropriate form.
3. Meet the full cost of sustainable management of natural assets and biodiversity conservation.
4. Ensure effective and efficient management of natural assets and biodiversity.
5. Guarantee long-term provision of ecosystem derived goods and benefits to local stakeholders.

The Finance Gap

Sustainable finance mechanisms (SFM) are a potential solution to closing finance gaps that conservation projects often face. The finance gap is the difference between finance supply and finance demand, often forcing environmental managers to make difficult choices between desired actions, thereby hampering effective management.

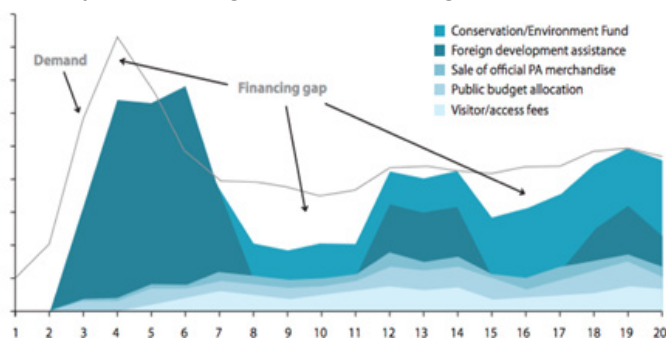


Figure 1. Theoretical supply, demand and resulting gap of financing for conservation. The finance gap can fluctuate over time and supply of funding can come from numerous sources. Figure taken from the BIOFIN Workbook, published by UNDP, 2016 available online at www.biodiversityfinance.net.

Analysing Sustainable Finance in the Caribbean Islands

To understand sustainable finance opportunities, an assessment of available literature has been conducted on SFM in the context of ecosystem management. Case studies are used in the final report to demonstrate opportunities and best practice. The sustainable finance framework Eco2Fin (see figures 2 and 3) is used to demonstrate how SFMs operate in practice.

Within the final analysis report, each SFM is comprehensively assessed and described in terms of: the type of mechanism; potential source(s) of revenue; fund management processes; types of challenges SFMs can help address; how funds are effectively used for ecosystem conservation and restoration; and common obstacles to implementation.

Defining Sustainable Finance Mechanisms

SFM are categorized in relation to the market. Non-market mechanisms are traditional, well-established forms of funding that are generally government based. Indirect market mechanisms focus on creating a link between environmental benefits and markets through product or service labelling or certification. Direct market mechanisms directly create markets for goods and services provided by the natural environment (i.e. beautiful tourist hotspots, provision of clean water), these mechanisms distinguish supply and demand sides of the market. Financial mechanisms include for-profit investments directly linked to positive impacts to ecosystem management impacts. These types of investments can flow via so-called green bonds, project specific investments or participation in nature based business ventures.

Table 1. Different categories of sustainable finance mechanisms

Category	Mechanism
Non-market	Direct allocations from government budget
	Fines and damage claims
	Grants and donations
	Debt for nature swaps
	Conservation trust funds
Indirect market	Certification
Direct market	User and nature fees
	Payments for ecosystem services
	Biodiversity offsets
	Carbon offset
Financial	For-profit investments directly linked to positive impacts to ecosystem management

Eco2Fin Sustainable Finance Framework

To achieve sustainable financing, a well-functioning system requires that:

- Beneficiaries receive the goods and services provided by the ecosystem.
- Beneficiaries pay a fair amount for the benefits they obtain.
- Payments are received by those charged with ecosystem management and stewardship.
- Managers have the capacity to address threats posed to ecosystems.
- Beneficiaries receive appropriate rewards for behavioural changes that reduce pressures that threaten ecosystems.

To analyse SFM requirements, the project uses the Eco2Fin (1), a conceptual framework that integrates the concepts of The Economics of Ecosystems and Biodiversity (TEEB) (2) initiative, the Daily loop (3) and Biodiversity Finance Initiative (BIOFIN) (4) into one framework.

Eco2Fin covers ecological, socio-economic and governance factors of sustainable financing of ecosystem management and follows 10 steps over two project phases (contextual scoping and funds flow analysis).

Phase 1 - Contextual Scoping

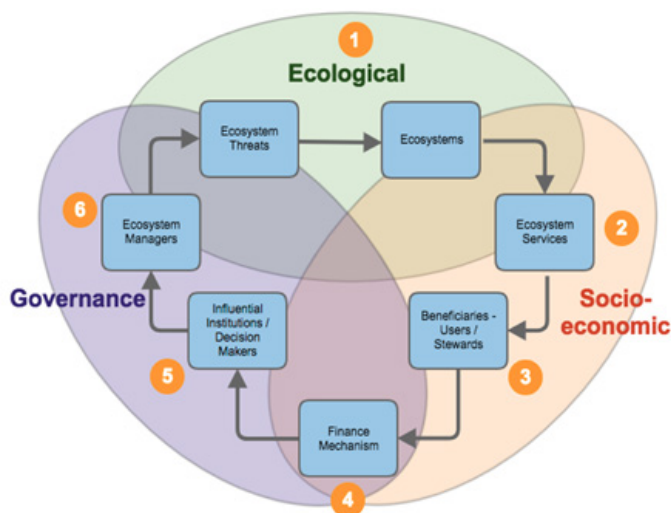


Figure 2. Phase 1 of the Eco2Fin framework: contextual scoping.

Phase 1 involves gathering contextual ecological, socioeconomic and governance data for the system being assessed. The stepwise approach helps simplify complex processes into manageable steps and enables the identification of finance streams, obstacles to implementation, and suitable interventions.

Phase 1 steps include:

1. Identify focal ecosystem.
2. Assess the goods and services delivered by the ecosystem.
3. Identify the beneficiaries of ecosystem goods and services.
4. Evaluate the existing and potential finance streams.
5. Identify influential people and relevant decision makers.
6. Identify managers of the ecosystem.

Phase 2 - Funds Flow Analysis

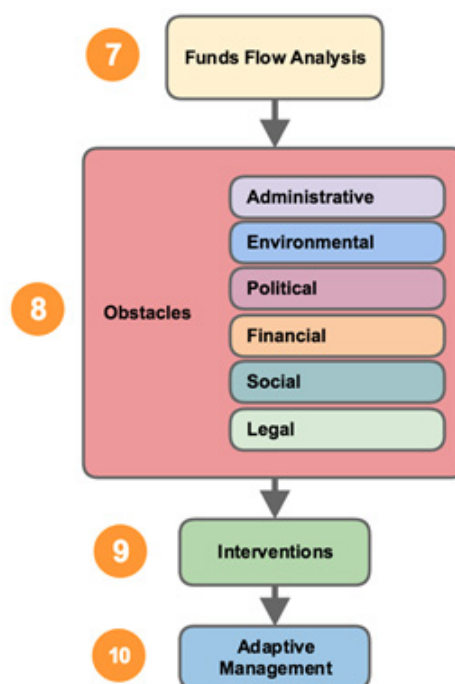


Figure 3. Phase 2 of the Eco2Fin framework: funds flow analysis.

The funds flow analysis phase of Eco2Fin involves a detailed assessment of the functioning of the socio-economic and governance factors, identified through the first contextual scoping phase. This analysis focuses on priority finance streams.

Phase 2 steps include:

7. Determine finance flows from beneficiaries to support management of threats to ecosystem.
8. Identify potential obstacles to implementation (see Table 2 over).
9. Analyse possible interventions to address obstacles.
10. Identify next steps to implementing adaptive management.

Table 2. Obstacles to sustainable finance

Obstacles	Description
Administrative	The ease and cost of implementation and enforcement can contribute to administrative barriers, including complexities of coordinating and monitoring activities.
Environmental	The environment may present challenges, such as spatial and geographical characteristics. This also includes instances where sustainable finance can lead inadvertently to negative environmental outcomes.
Political	The degree and consistency of government support and the transparency in governance decision making and public trust in governance systems.
Financial	A lack of finance can be a barrier to the initial implementation of an SFM, or maintaining its functioning
Social	Social impacts of ecosystem conservation can lead to social barriers if there is unwillingness, or inability to engage with implementation.
Legal	SFM operations and outcomes must must comply with national laws and regulation.

Once obstacles to SFM implementation are identified, targeted interventions can be incorporated into SFM design. Interventions vary and can include, *inter alia*: collecting revenues from beneficiaries, increasing efficiency, removing legislative barriers (or creating new legislation), compensating local users of ecosystem services for changes in access to services, and building awareness and capacity.

SFMs are cyclical and iterative (i.e. there is no 'end-point'). Continuous, iterative and adaptive management is required, as opposed to a one-time intervention. Adaptive management involves repeated monitoring, learning, changing and improving upon the system. The Eco2Fin framework can be applied to different environmental challenges by a multitude of different stakeholders, to optimise financing strategies.

Conclusion

For Caribbean islands, assessing the state of sustainable finance has shown that there are many innovative and successful SFMs implemented, however there are some untapped resources and regional opportunities not fully realized.

Trends

This research analysed over 40 SFMs in the Caribbean, ranging from traditional government revenue allocation to more innovative certification and offsetting schemes. Figure 4 provides an overview of the most common SFMs operating in the Caribbean, based upon the findings of this research.

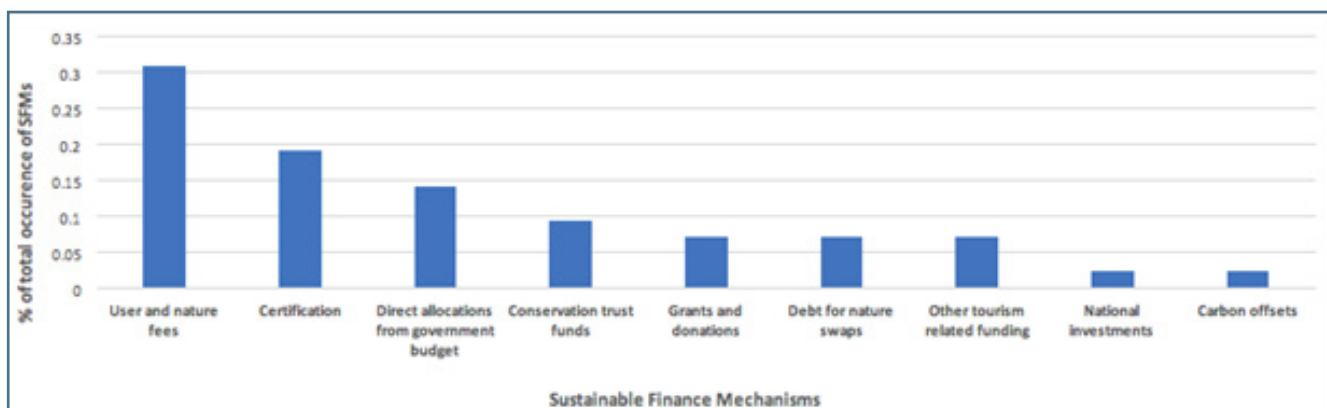


Figure 4. Relative frequency of SFMs operating in the Caribbean. Percentage is relative to the number of case studies revealed by the review process. Note: there are SFMs that may be relevant in a Caribbean context, for which no information was found during the project.

Regional Opportunities for Sustainable Finance Implementation

- Island states should seek to collaborate as a regional unit. Creating an operational network can increase the size and scope of interventions supported by SFMs, which can attract larger global funding streams, improve economies of scale, reduce collective operation costs, and reduce potential market distortions between islands. Networks can (and should) share information and learn from each other's successes and failures in establishing SFMs and implementing adaptive management of their natural capital.
- Initiate SFMs from both the bottom-up and top-down, to ensure all stakeholder requirements are captured in the design phase. Effective community involvement can galvanise support and improve stakeholder buy-in. This process can go hand in hand with capacity building at the local level, raise awareness of the benefits ecosystems bring, create incentives that help protect the local environment and develop sustainable livelihoods.
- Develop standards to monitor, measure and communicate impacts provided by natural capital and biodiversity management. Improvements can be challenging to quantify, but science-based decision making and communication is essential to ensure transparency and accountability, a prerequisite to attracting investment. Standardised protocols can be implemented to determine performance of SFMs across the region.
- Engage with a variety of traditional and innovative funding sources. There is no 'one size fits all' or standard blueprint for optimal implementation of SFMs, strategies must adjust to fit with specific local requirements. A diverse set of funding sources also increases resilience and flexibility of the SFM.

Full Report and Analysis

[JNCC Report No. 606](#): Sustainable Finance in EU Overseas Territories - An assessment of sustainable finance mechanisms in the Caribbean region.

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