



Latin American and Caribbean
Network of Environmental Funds

CALL FOR CONCEPT NOTES

Innovative Financial Mechanisms implemented by RedLAC Environmental Funds

An initiative of the RedLAC Capacity Building Project for Environmental Funds to scale up Conservation Finance

Deadline: July 8, 2011

Background

With the support of the Gordon & Betty Moore Foundation and the French Fund for the Global Environment (FFEM), RedLAC is carrying out its Capacity Building Project with two main objectives: strengthen EFs to develop innovative financial mechanisms for biodiversity conservation, thus attempting to reduce their dependence on grants and traditional funding sources; and support the establishment of new EFs, by systematizing and sharing proven best practices in consolidated funds' day-to-day operation.

The RedLAC Capacity Building Project is structured in three components:

- 1. Thematic workshops** to strengthen the capacity of RedLAC members and of EFs from other regions helping them to develop new sources of funding for biodiversity conservation and sustainable use, mainly through new market-based mechanisms.
 - 2. Support to RedLAC members' pilot projects** that will lead to the design, adaptation and implementation of innovative mechanisms in conservation finance. The objective of this component is to give the opportunity to RedLAC EFs to put in practice models or ideas that they may have conceptualized but did not submit to a reality test. Effective innovation requires financial and technical support in order to fund the implementation of pilot projects. The RedLAC Capacity Building Project has set up a competitive grants facility for this purpose.
 - 3. Dissemination of information and exchange of experiences** in the form of case studies about EFs' operational best practices and innovative financial mechanisms.
-

Call for concept notes

This call for concept notes is related to the **Component 2 – Competitive Grants facility to support RedLAC members' pilot projects**.

This call is exclusive to RedLAC members only, and aims at inviting proposals **to design and/or adapt and/or implement new conservation finance mechanisms** that are sustainable and do not depend exclusively on donations, preferably focusing on market-oriented initiatives.

These innovative financial mechanisms would be implemented by RedLAC members, as a way to diversify their portfolios and revenue streams, bringing in additional resources and reducing their dependence on traditional funding sources (mainly international donations and debt swaps) that limit funds' experiences to donor oriented policies.

On the other hand, markets can provide additional funding to conservation in a more significant way, if adequate mechanisms are designed to combine environmental impact while preserving, and potentially growing, capital.

For instance, ecosystem services markets, especially carbon markets, are an opportunity for funds to design, adapt and implement mechanisms to catalyze investments in projects that generate financial returns, which can be recycled into new investments. Voluntary or compliance compensation resources are another type of funding that can come from market regulations and be managed by EFs. Additional market-based resources that can feed EFs' are fees, taxes, concessions, and fine conversions, among others.

RedLAC EFs are also well positioned to apply new concepts to their traditional grant making, such as impact investment, actively placing capital in businesses that generate environmental goods and at least return nominal principal to the investor, managing microenterprise loans, providing business training, asset management and other financial services. Impact investments aim to solve social or environmental challenges while generating financial profit.

The **Competitive Grants facility** under Component 2 will provide grants to participating RedLAC EFs so that they can:

- Cover project start-up costs to design an innovative mechanism in conservation finance. These costs may include business plans and market studies, recruitment of experts, legal counseling, etc.
- Cover pilot project implementation costs to adapt and/or implement an existing best practice in innovative conservation finance.

Every participating RedLAC EF can solicit a grant from the **competitive grants facility** of up to USD 100,000, and must have matching funds of at least 50% of the requested amount (in cash). Mechanisms should result in financial income (that will be channeled towards additional resources for conservation projects) and measurable social and environmental outcomes.

Annex 01 provides a non-exhaustive list of examples that can help EFs to formulate concept notes under this call.

Concept notes will be reviewed by the RedLAC Capacity Building Project Committee (Annex 02). EFs that have presented concept notes that receive a positive assessment will be invited to prepare and present full project proposals.

The timeline proposed for this process is detailed below:

Activity	Deadline
Deadline to receive Concept Notes	July 8
Communicate selected Concept Notes by the Project Committee	August 8
Deadline to receive complete project proposal of the selected Concept Notes	October 6
Evaluate and select Innovative Financial Mechanisms projects to be financed – Project Committee meeting on November 6	November 6
Communicate selected projects in RedLAC Assembly	November 8

Concept notes desirable features

Proposed mechanisms should consider the following features:

1. Market-based innovations

Projects featuring types of mechanisms that are under-represented in the RedLAC member Funds' portfolios will be encouraged.

2. Financial sustainability

The new financial mechanism should generate income that will help fund additional biodiversity conservation causes and programs/projects in the long run.

3. Financial amount /volume/size

Amount in US\$/euros generated by the mechanism. It is likely that the positive impact of the mechanism will increase as the amount generated is higher.

4. Intended allocation of new revenue

Whatever the type of the financial innovation, the EF should explain the intended allocation of the new revenue in as much detail as possible. For example, the EF should identify the conservation causes or programs/projects where the new resources would be invested. Please note that conservation causes or programs/projects with direct social impacts will be more attractive.

5. Leverage effect

Funds provided by the EF and Component 2 to design, adapt and implement the proposed innovation could leverage funds from other investors (private, public).

Concept Note Format

Concept notes should be submitted in a 5-8 pages format that clearly state the following:

- Brief description of the proposed innovation (If it has been designed and/or is being implemented by another organization, please identify the source.)
- Feasibility/justification for the innovation
- National or regional context that enables the mechanism
- Estimated timeline for design/adaptation/implementation
- Expected outcomes and impact
- Partners involved
- Indicative budget

Important notices

- This call is open to local, national and regional initiatives, and one or more EFs from each country are welcome to present a proposal.
- A group of RedLAC members can also present a joint proposal.
- Projects should feature innovative financial mechanisms that have not yet been tested by the candidate EF.
- Each EF can present more than one Concept Note, although only one project per fund will be selected to be financed.

Concept notes should be emailed to the RedLAC Capacity Building Project Coordination at camila.monteiro@funbio.org.br

Deadline: July 8, 2011

Annex 01 - Examples of mechanisms that are likely to be supported:

1. **Payment for Ecosystem Services (PES):** regular payments made for beneficiaries to maintain/or increase the provision of certain ecosystem services, such as:
 - a. Carbon: includes payments for avoided carbon emissions that may come from the use of new technologies and reforestation (Clean Development Mechanisms defined by the Kyoto protocol) or may be the result of forest carbon projects (REDD - Reducing Emissions from Deforestation and Degradation);
 - b. Water: payments made by users to providers (communities, protected areas, companies, etc.) that maintain water flow with adequate volume and quality or that refrain from degrading watersheds.
2. **Offsets schemes:** offer private landowners or companies a means to meet obligatory or voluntary compensation for their impacts on natural areas, such as by “renting” preserved areas.
3. **Species/ Biodiversity, wetlands banking:** creating a clearing house and a registry of species conservation projects or preserved lands to be “traded”, as a tool for compensation schemes.
4. **Sustainable/ Impact businesses and Markets for green products:** new businesses that offer products and services with the aim of producing an environmental impact and/or that have an added value because of an environmental friendly production process, or that use natural resources as an asset (such as the examples created within New Ventures Mexico).
5. **Revenues from tourism and other user fees:** charge users visitation fees or for ecosystem services and use resources to conserve these areas.
6. **Mortgage-backed securities, derivatives and bonds:** use such financial sector instruments for environmental purpose, making hedge payments for future use.
7. **Pollinators rental facility:** promote renting schemes for species with agricultural benefits such as pollinators.
8. **Fines and penalties conversion:** direct resources from court decisions to a fund with a specific purpose in agreement with government agencies that apply penalties.
9. **Royalties conversion:** direct resources received by governments from royalties (e.g. oil exploitation) to a fund with environmental purposes.
10. **Green lottery:** create a lottery that dedicates part of the revenues for environmental projects through a specific fund.
11. **Fiscal incentives:** reduce taxes in proportion to donations made to an environmental fund or facilitate loans for activities that are environmentally friendly.
12. **Biodiversity/ conservation auctions:** leverage individual donations for conservation projects through environmental auctions, which conserve natural areas.
13. **Pollution taxation scheme:** direct resources from taxation on polluting sectors towards the conservation of natural areas.
14. **Bioprospecting payments:** receive revenue payments for the access and use of natural resources.

Annex 02 – RedLAC Capacity Building Project Committee

RedLAC Capacity Building Project Committee is a monitoring and selection committee composed of 2 RedLAC representatives, 2 representatives indicated by the donor agencies, and 2 independent specialists invited by RedLAC Executive Committee.

Currently, this committee's composition is the following:

2 RedLAC representatives:

- **María José Gonzalez**
Executive Director of MAR Fund

- **José Luis Gómez**
Executive Director of Fondo para la Acción Ambiental y la Niñez

2 representatives indicated by the donor agencies:

- **Carl Bruessow**, FFEM representative
Executive Director of the Mulanje Mountain Conservation Trust; Co-chair of the African Environmental Funds Committee of the CFA.

- **Heather Wright**, Gordon & Betty Moore Foundation
Program Officer of the project.

2 independent specialists invited by RedLAC Executive Committee:

- **Rafael González Franco**
Consultant, project evaluator - DEFINE Diagnósticos y Estrategias para el Fortalecimiento de Instituciones, Iniciativas y Proyectos.

- **Reyna Oleas**
Consultant – Design of Finance and Economics solutions for Sustainable Development.