



# GDM FAQs

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Recent efforts to halt or even limit the rate of biodiversity loss have, by common consent, failed. This failure is due in part to the deficiency of available financial resources, notably for developing countries. Hence, the 9<sup>th</sup> Conference of the Parties (COP9) of the Convention on Biological Diversity (CBD) called for “studies on approaches to develop markets and payment schemes for ecosystem services at local, national and international levels,” and asked Parties “to improve actions and cooperation for enhancing the engagement of the business community... in the implementation of the three objectives of the Convention,” and “to come forward with new and innovative financing mechanisms in support of the strategy for resource mobilization.”<sup>1</sup>

In the support of these decisions, the GDM 2010 Initiative<sup>2</sup> was established with the aim to achieve a significant level of support by COP10 for the idea of a **Green Development Mechanism (GDM)** and to undertake consultations on how such a mechanism might be shaped. GDM is the working title for a proposed innovative financial mechanism that would help to fill the biodiversity funding gap by mobilising private financing to mitigate biodiversity loss, much as the well-known Clean Development Mechanism (CDM) has done to mitigate climate change. It aims to create enabling conditions for increased business and private sector support for the implementation of the CBD, particularly in developing countries. Like the CDM, a GDM will likely need to establish a standard-setting and certification process to enable a market-based approach for generating new financial resources.

This document provides an updated list of Frequently Asked Questions (FAQs) based on the consultations that have taken place since COP9 in preparation for the discussions on the GDM which will take place at COP10 in October 2010 in Nagoya, Japan. It has been updated from a version prepared for WGR13 (UNEP/CBD/WG-RI/3/INF/13). These FAQs are descriptive of how a GDM might look.

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<sup>1</sup> CBD COP9 Decisions 6, 26 and 11, respectively.

<sup>2</sup> More information including previous GDM papers is available at: <http://gdm.earthmind.net>.

## **1 What is the GDM?**

The Green Development Mechanism (GDM) is the working name for an innovative financial mechanism being considered under the CBD that would mobilise private finance by linking biodiversity supply with biodiversity demand through a market mechanism. For instance, by establishing a standard and an accrediting process for certifying the management of geographically-defined areas in accordance with the CBD, and by facilitating a functional market for those areas, a GDM would enable the financing of GDM-certified areas by willing businesses, investors, consumers and other interested parties such as private foundations and NGOs.

## **2 Why is a mechanism for green development necessary?**

A GDM is necessary because there is currently a serious shortage of resources devoted to the critical challenge of reversing biodiversity loss, particularly in the context of poverty eradication and development. In the words of Ban Ki Moon, Secretary General of the United Nations:

"Our lives depend on biological diversity... We stand to lose a wide variety of environmental goods and services that we take for granted. The consequences for economies and people will be profound. Especially for the world's poorest people... We need new vision. And new efforts. Business as usual is not an option."

A GDM offers a new vision and a new effort. And it could make a substantive contribution to the proposed 2020 Biodiversity Target to increase "capacity (human resources and financing) for implementing the Convention" (UNEP/CBD/COP/10/9).

## **3 How would a GDM differ from other biodiversity funding schemes?**

A number of multilateral and bilateral instruments - notably the Global Environment Facility (GEF) - have made significant contributions, but they remain limited in scale and scope. A GDM could complement this limited public sector funding by generating additional funds from private sources. It would do so for instance by establishing a new market-based standard-setting and certification scheme to certify that geographically-defined areas are managed in compliance with the objectives of the CBD.

## **4. Would a GDM substitute for Article 20 funding commitments?**

No. A GDM would complement, not substitute for, the funding commitments by developed country Parties set out under Article 20 of the CBD. Importantly, as a voluntary, market-based mechanism, a GDM would also not constitute a new vertical fund for official development assistance.

## **5 Should a GDM relate to an International Regime on ABS?**

As the focus of a GDM would be on funding CBD-compliant management of defined areas, it will need to ensure that its funding is supportive of all three objectives of the CBD, including the fair and equitable sharing of benefits from the use of genetic resources. In this respect, if a protocol on access and benefit sharing is adopted,

then, as appropriate, a GDM would need to be fully compliant with, and fully supportive of, this legal agreement. However, it cannot replace or substitute the International Regime.

## **6 What exactly would be traded under a GDM?**

All markets allow for trade between willing buyers and willing sellers. Under the promising modality of a standard-setting and certification scheme, a GDM would facilitate the supply of biodiversity-managed areas in the form of GDM-accredited management plans available for businesses, consumers and others to fund. Importantly, the supply would not be the land or the land title, but rather a commitment to manage an area in support of the CBD. Like carbon markets, a GDM would provide for a standard-setting and certification scheme. Unlike carbon, however, biodiversity would not be traded as a commodity - e.g. tonnes of reduced emissions - but rather as units of sustainably managed land - i.e. so many hectares protected by a certified management plan. (Regarding pricing certified hectares see 3.12 below.) Unlike the carbon markets, however, a GDM would in itself not support international offsets, as biodiversity offsets normally are like-for-like, requiring localised offsets.

## **7 How would the price of a certified area be determined?**

As in all markets, price would be determined by exchanges between buyer and seller. Importantly, as every area is unique with respect to its biological resources as well as their conservation status, and as every GDM-certified area would have a unique management plan with its own targets, milestones and indicators, each GDM-certified area would generate a different price to reflect this. In this respect, trades and pricing decisions would be similar to those which take place in property markets for office space, housing and farmlands, or even in art markets. This is different than the commodity markets for crude oil, rice, soybeans or carbon, which all operate on the basis of trading an homogeneous product. Further, GDM trades and pricing decisions could take place through various property market structures, such as auctions, online clearinghouses or brokers.<sup>3</sup>

## **8 Do we need new a GDM standard? Why not use existing standards?**

There are, indeed, existing standards which relate at least somewhat to CBD objectives. Most of these standards focus on the production of specific goods and services such as organic foods, sustainable timber and ecotourism, and do not directly focus on the natural areas affected by their provision. Thus a GDM standard could encompass existing standards and certifications for social and environmental responsibility, as appropriate, such as those offered by the Climate, Community and Biodiversity Alliance (CCBA) and the members of the ISEAL Alliance. In this respect, a GDM should use existing biodiversity and development-relevant standards where these are reputable and seen to represent good practice in the field concerned.

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<sup>3</sup> For an example of a landscape auction, see: <http://www.tripleee.nl/landscapeauction.htm>. For an example of an online clearinghouse, see: <http://www.cbd.int/lifeweb/>. For an example of a brokering service interested in GDM-like trades, see: <http://www.tfsgreen.com/>.

## **9 How could developing countries benefit from a GDM standard?**

A GDM's aim is to stem biodiversity loss by linking conservation to development. Hence, a GDM would promote, not inhibit, developing country development aspirations. While 'business as usual' is not sustainable, a GDM, through developing a new market-based process, would enable 'biodiversity exporters' from developing countries to secure new international funding for their projects. As appropriate, the WTO principle of 'special and differential' treatment for some developing countries could be applied to allow for longer implementation periods of any new standard. In this respect, a GDM would support the CBD's recognition that "substantial investments are required to conserve biological diversity and that there is the expectation of a broad range of environmental, economic and social benefits from those investments."

## **10 Would a GDM address economic development on the ground?**

A central feature of a GDM would be the certification of management plans that both conserve biodiversity and promote development. In this respect, a GDM standard would include an explicit development objective addressing the CBD's recognition that "economic and social development and poverty eradication are the first and overriding priorities of developing countries." It would also recognise that biodiversity conservation is best promoted when local communities are incentivised to recognise the benefits of such conservation. Hence, a GDM would aim to provide these incentives through strategies that improve living standards by increasing employment opportunities, expanding trade and providing essential services such as education, health and basic services.

## **11 Could a GDM encourage 'land grabbing'?**

As a mechanism for biodiversity and development, a GDM would not countenance land grabbing in any form whatsoever. Rather a GDM would certify the management plan for a geographically defined area according to the objectives of the CBD. The rights and responsibilities to deliver such a management plan, however, could rest with an indigenous or local community, a local government agency, a protected area authority, or a private landowner. By entering a GDM market, the relevant actor is offering a management plan and would not cede a land title per se. Further, as appropriate, a GDM-certified plan would need to address CBD Article 8(j) to "respect, preserve and maintain knowledge, innovations and practices of indigenous and local communities embodying traditional lifestyles relevant for the conservation and sustainable use of biological diversity." This would include respect for national legislation regarding public, communal and private land rights and titles.

## **12 Could a GDM be a mechanism for financing protected areas?**

Possibly yes, in the case of a protected area that provides more than conservation; a GDM could certify the management plan of a protected area - defined by the CBD as a "geographically defined area which is designated or regulated and managed to achieve specific conservation objectives." In addition to conservation objectives, however, a GDM certification process would also need to address the CBD objectives of sustainable use and benefit sharing. Further, for developing countries, there is the overriding priority of poverty eradication and development. Thus, a GDM-certified area could, in a sense, be considered a 'Protected Areas Plus' (PA+). Generally

speaking, a GDM-certified area could be a traditional protected area (with the provisos above), or it could be a so-called 'productive area' that is managed sustainably and responsibly to deliver various goods and services, within a primary objective of conservation and sustainable use.

### **13 What types of biodiversity supply would qualify under a GDM?**

A GDM would develop a CBD-compliant standard and a certification system that recognises various existing environmental and social standards which are acceptable approaches to meeting the objectives of the CBD. Thus, there could be a diverse array of certified hectares supplied that reflect both different ecological systems and different management approaches. Examples range from organic and sustainable cattle ranching in South Africa, tropical reforestation and sustainable-harvesting of timber in Brazil, community-based aquarium fish harvesting in Indonesia, to marine protection at a coastal gas facility in Yemen.

### **14 What could be the timeframe of a GDM certificate or contract?**

A GDM-certified management plan would need to be valid for an explicit period of time, and the contract to deliver this plan should as well be for this time period. In consultations on a GDM, the possibility of a 10-year time period has been discussed, and generally supported. However, a longer timeframe of 20 years may also be appropriate. Such a 10-20 year timeframe would allow for longer-term planning and commitments than is common under most of today's donor-funded biodiversity projects. It would also enable the management plan to be adapted as needed over time based on unexpected developments to ensure more sustainable outcomes. However, it should not be so long as to unduly increase uncertainty from the perspective of investors in GDM contracts.

### **15 How would GDM compliance be monitored and verified?**

Like other certification schemes, verification would be executed by independent third parties. The need for an arbitration procedure to address disputes will also need to be considered. In this respect, it will be important to learn lessons from the experiences of other environmental and social certification schemes, including the CDM, voluntary carbon markets, and schemes for certified forestry, marine and fair trade products. A key issue for further consideration will be the transaction costs of monitoring and verification, especially for suppliers from developing countries.

### **16 Why would the private sector be interested in a GDM?**

A business or investor who finances a GDM project requires clarity on what he or she is paying for. Hence, a GDM would provide an independent certification of the management plan of a specifically defined geographical area according to internationally recognised standards. It would provide clarity and transparency regarding what area would be managed and by whom, as well as the biodiversity and development outcomes of the plan, and how these are to be monitored and evaluated. Consultations with businesses, investors and business organisations suggest that financing a GDM-certified area would be of interest to the private sector for multiple reasons, including compliance with national regulations, support to national biodiversity strategies and action plans, compliance with social and

environmental requirements of lenders, and demonstration of corporate social and environmental responsibility and leadership.

### **17 Would a GDM require a mandatory compliance regime?**

Not necessarily. The market for CDM-certified carbon credits has clearly benefited from the mandatory cap and trade regime established by the Kyoto Protocol. At some point, policy makers may decide to establish an analogous obligation to reduce the loss of biodiversity. However, a voluntary, market-based GDM should generate significant new funding for biodiversity and development. For example, if the world's top 500 companies were to commit just 1/10<sup>th</sup> of 1% of their annual revenues to financing GDM-certified plans, this alone would generate roughly \$23 billion of voluntary funding annually, and make a major contribution to the proposed 2020 Target to increase financing for the CBD. A GDM pilot phase could help us to understand how to stimulate voluntary demand.

### **18 How could a GDM be governed and administered?**

Detailed governance arrangements would depend on the agreed modalities of a GDM. Any arrangement would need to demonstrate legitimacy and transparency. This suggests a multi-stakeholder structure in which all major players are represented. In particular, by establishing a GDM in support of the CBD, and indeed in support of all the biodiversity-related multilateral conventions, there will be a real opportunity to ensure that governments - both developing and developed - as well the private sector and NGOs have a voice in its governance. Regarding the administration of a GDM, this would also depend on the agreed modalities. Clearly, a GDM should benefit from the experiences of other international financial mechanisms such as the GEF, the CDM and the Global Mechanism.

### **19 What is the GDM 2010 Initiative?**

The aim of the GDM 2010 Initiative is to achieve a sufficiently significant level of support for a decision by COP10 to further consider this proposed innovative financial mechanism. It is supported by the Dutch Environment Ministry (VROM), Earthmind, IUCN, OECD and UNEP, in close cooperation with the CBD Secretariat and with financial support from the Government of the Netherlands. It has been guided by an informal Steering Committee of biodiversity finance experts from the aforementioned organizations. For more information on the Initiative, see: [gdm.earthmind.net](http://gdm.earthmind.net).

### **20 What could the Parties do about the GDM at COP10?**

At COP10 in October in Nagoya, the Parties have the opportunity to invite interested Parties and stakeholders to consider the need for, and modalities of, a Green Development Mechanism, which, in its pilot phase, would develop a standard-setting and certification process for validating the supply of CBD-complaint management plans for geographically-defined areas, and a voluntary market-based institutional framework for enabling financing of these plans by businesses, investors, NGOs, consumers and others. The Parties will also have an opportunity to decide how to best take this process forward in terms of future actions.