



Published on *mydigitalfc.com* (<http://www.mydigitalfc.com>)

Win-win situation

By :Kumar Kakumanu

Jan 06 2014

The inequitable distribution of risks to biodiversity because of development projects in emerging economies such as India is a serious issue. For instance, existing irrigation dams in forest areas cause continuous damage to biodiversity in terms of habitat fragmentation and altering the natural flow of river waters with ecological effects on fish population. Likewise, many existing pilgrimage tourism, power projects and mining exert considerable but unaccounted for risks on the ecosystem. Citing these risks as the reason, a complete closure of these development projects is neither practical nor desirable as people have gotten used to their economic benefits. However, in the light of the continuous and ongoing ecological damages, there needs to be a way to mitigate some of the major risks. Monetisation of risks and financing of those risks in the capital markets to fund the local conservation causes is one way of incorporating the much needed sustainability elements into the existing development projects. In the process, equitable risk distribution is achieved when the entities bearing the risks of development projects are compensated by the beneficiaries of such projects.

Consider the specific issues related to the highways in the forest areas. Across the country there are a number of national and state highways that cut through ecologically sensitive and fragile areas. Though the highways are a benefit to the society at large, there are, however, many major risks that they cause to the ecosystem and biodiversity. Some of damages are road kills, injuries, adverse health and ecological effects on local wildlife due to air and noise pollution, litter and trash along the forest highways and ecological effects due to habitat fragmentation.

Not just the big animals such as tiger and elephant, but numerous frogs, snakes and other reptiles and countless insects get killed on the forest roads every day. Wildlife road kills far exceed the poaching related kills in the country. There are numerous studies on adverse effects of air and noise pollution on humans, but limited on wildlife. However, there is no reason to consider wildlife as being any less impacted by pollution. Wildlife is more sensitive to ecological effects of noise and air pollution as it directly affects their natural abilities to hunt prey or avoid predators, and a possible cause for declining populations. Most of these damages extend beyond the physical surface area of the road to considerable distances on either side. The present distribution of risk is skewed with the cost of risk entirely borne by the ecosystem and local biodiversity in terms of increased exposure to ill effects of due to the vehicular traffic on the forest roads.

An eco-tax or a biodiversity cess on the forest highway traffic to pay for local conservation causes is one way to make the risk distribution more equitable. Using the above arguments a proposal has been made to impose a biodiversity cess on the highway that cuts through about 100 km inside the critical tiger habitat of the NSTR tiger reserve in south India. The proposed plan includes using the fees thus collected for providing livelihoods to local communities, promoting local conservation activities, taking measures to prevent and mitigate the negative

impacts on wildlife due to traffic and establishing wildlife rehab centres.

Given the lack of suitable policy instruments, building a proposal for such a 'biodiversity cess' has been a challenge. Support had to be sought from a hodge podge of existing laws (WLPA, EPA, Air/Noise Pollution Acts, RTA) with reliance on emerging concepts such as 'polluter pays' and on the increasing trend of the courts to interpret laws in their spirit and not in letter on environmental issues. However, considering the practical ground level implementation issues, the 'biodiversity cess' charges had to be limited to a smaller subset of the real damages, specifically only the ones that are tangible and covered by present laws. Needless to say, this severely limited the potential benefits of the proposal.

With these handicaps, and a charge of mere Rs 10/ per vehicle, and with employment generation potential of only about 100 local people, the plan appears like a small step. However, if viewed in the broader context of sustainable financing of conservation causes, it is a huge leap. The local livelihoods and biodiversity conservation will not be funded by the government or charity money but instead by vehicular traffic, which is a relatively more unbiased and stable source. By identifying the hitherto unaccounted for sources of risks to ecosystem and pricing them, a new sustainable source of funds is created while also making the forest highway project more equitable.

The implications of sustainable finance become more important if one looks at the Convention of Biodiversity's (CBD) estimate arrived at during the COP-11 in Hyderabad. It is estimated that about \$500 billion are needed every year to fund the biodiversity conservation causes across the world. In the present deficit situations of the world economy, it is unrealistic to expect governments or charities to fund conservation causes at such high levels. Hence alternate approaches such as relying on private capital in a win-win mode are essential.

In that context, establishing linkages with the broader capital markets is the only way to achieve the level and scale of the finances required. The 'toll charge on forest highways' if viewed in the national scale to cover the highways that cut through every tiger reserve and protected area of the country, has the scope to raise about Rs 3,000 crore (\$500 million) of conservation funds if linked with the capital markets. The fact that it is about the same as the annual budget for the entire country's environment, forests and wildlife makes the exercise of accounting of developmental risks on biodiversity a not so trivial one.

More research needs to be done on the ecological impacts of the development projects on wildlife and associated economic valuation, so as to bridge the information gaps in communicating the conservation causes to policy makers. This is a difficult task, as impacts are varied.

From the legal perspective as well, there are number of gaps that need to be addressed. Neither the present compensatory afforestation (CAMPA) nor even the newer market based instruments such as 'biodiversity offsets' address the ongoing negative externalities of existing development projects at local and site specific levels. Even otherwise, in most cases, both are simply licenses to trash the local ecology with vague and unrealistic promises to compensate elsewhere in the future. How it is possible to accept the proposition that biodiversity, which includes a complex variety of life forms and their inter connections, can exactly be replicated elsewhere? Worse yet, how are that 'biodiversity offsets' meaningful when we don't know exactly what the damages to biodiversity are, as is often the case in most situations?

Though there are existing mechanisms such an environmental impact assessment (EIA) and environmental clearance (EC) for new projects, there is little support for the ongoing ecological risks of existing projects. There is a need to amend the existing environmental laws to enable the accountability of the ongoing ecological damages with provisions to deal even with the intangible ones. After all, our present inability to provide an economic value or a number should

not be an excuse to let the damages continue.

In the same legal context, it is worth noting that the country's biodiversity act is a bold and well thought out step for conservation of biodiversity. One of its focus areas, referred to as 'access and benefit sharing' or ABS, is to incentivise the local communities towards conservation causes by more equitable distribution and sharing the benefits of commercial extraction of bio resources. The success of ABS as a legal policy instrument is justification enough for creating similar instruments that address risks faced by biodiversity and ecosystems. Innovation is the need of the hour in conservation finance, and unless we develop newer models in sustainable financing of conservation causes, the cause itself will not be sustainable.

In that innovation spirit, a new policy instrument, similar to ABS, with 'risk and benefit sharing' or RBS as the theme, is conceived to deal with the inequitable distribution of risks due to ongoing destruction of biodiversity because of human development projects. After all, if extracting bio-resources and getting away without paying is not acceptable, why should it be any different in the case of destroying biodiversity and getting away without paying? In the biodiversity context, if ABS is about making the benefit sharing more equitable, then RBS is about making the risk sharing more equitable. A policy instrument such as RBS, besides fixing the gaps in the country's legal system, also makes the biodiversity laws more in line with the CBD mandate of conservation of biodiversity by addressing both sides of the ecosystem coin.

A proactive engagement of investment banking industry with policy support for debt financing from finance ministry, and with instruments such as RBS from environment ministry, when coupled with other incentives such as the ones offered for tax free bonds by NTPC and HUDCO makes it possible to meet the large scale funding requirements of conservation causes. This not only makes biodiversity conservation causes more financially sustainable, but also addresses the inequities in the risk distribution between the society and ecosystem. zz

(The writer is director of
Tiger First, Hyderabad)

© 2011 Financial Chronicle, All rights reserved

Source URL: <http://www.mydigitalfc.com/knowledge/win-win-situation-954>