Biodiversity Offsets in Mozambique inside the Protected Areas Network via a Conservation Trust Fund

Project K: RedLAC-CAFÉ Knowledge for Action Project

Fund:

BIOFUND – The Foundation for the Conservation of Biodiversity

Country:

Mozambique

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Case Study

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1. Introduction

Given the recent boom in the exploration of natural resources in Mozambique over the past decade, with a concurrent rapid increase in negative environmental and social impacts, there is an urgent need to find ways to *harmonize economic development with the conservation of biodiversity and ecosystem services*. This is particularly important as Mozambique has nationally and internationally committed to biodiversity conservation and sustainable development efforts, by adhering to the Sustainable Development Goals, Aichi targets, Convention on Biological Diversity, RAMSAR Convention, Gaborone Convention, and including natural resources and environment in its 5-year Plan. A key avenue to address this is the adoption of a policy on No Net Loss of biodiversity, including the use of biodiversity offsets.

Biodiversity offsets are "measurable conservation outcomes resulting from actions designed to compensate for significant residual adverse biodiversity impacts arising from project development after appropriate prevention and mitigation measures have been taken. The goal of biodiversity offsets is to achieve no net loss and preferably a net gain of biodiversity on the ground."[1]

This case study describes the *BIOFUND Biodiversity Offsetting Services (BBOS*) designed to create an innovative financial mechanism to support biodiversity conservation through the promotion of implementing Biodiversity Offsets in Mozambique inside the Protected Areas Network via a Conservation Trust Fund.

The BBOS aim to manage investments by companies that are required to offset negative impacts to environment, allowing them to meet their no net loss obligations while they contribute for the country´s biodiversity conservation goals. The BBOS offer a variety of financial streams that should be dedicated to protected areas and other relevant biodiversity areas in Mozambique.

In this case study, BIOFUND has supported the creation of a national enabling environment for offsets implementation in partnership with the Government of Mozambique, COMBO Project (consortium of WCS, Biotope and

[1] Business and Biodiversity Offsets Programme (BBOP). 2012. Standard on Biodiversity Offsets.

Forest Trends) and UNDP/BIOFIN Project, with co-financing from RedLAC/CAFÉ and USAID/Counterpart International (CPI). Initial conditions have been developed to pilot an offset project in a coastal protected area, in Inhambane province – with the capacity to implement biodiversity enriching activities, in accordance to National Roadmap for Biodiversity Offsets[2] .

While no specific offsets have yet been purchased by the private sector, **the 18-month seed funding from Project K (100.000 USD) and Counterpart International (200.000 USD) have permitted the BIOFUND to demonstrate the proof of concept and therefore raise a further 1.25 million USD in implementation support funding for the next five years[3].**

2.Background

2.1. Biodiversity Conservation in Mozambique

Mozambique is located in southern Africa and borders Tanzania, Malawi, Zambia, Zimbabwe, South Africa, and Swaziland. The country has an area of about 799 380 km^2 and a long Indian Ocean coastline of 2500 kilometres. About 70% of its population of 28 million (2017) live and work in rural areas. Mozambique is rich in natural resources, possessing 14 important ecological regions[4] as well as mineral resources and newly discovered of large oil and natural gas deposits in the region.

The Mozambique Protected Area (PA) network includes both publicly managed areas (parks and reserves) and privately managed ones (such as hunting reserves and games farms) and covers approximately 215000 km^2, 26% of the country's land area (Figure 1). Although, the protected area network contains a significant amount of biodiversity, they are severely underfunded to deliver adequate and effective conservation on the ground.

The national PA network is currently receiving in a sustainable manner just 19% of the funds used annually to provide a basic level of biodiversity maintenance. Additional funding from offsets into the PA network would create positive biodiversity impacts and could also serve to aggregate individual offsets.

There is however some unique biodiversity outside of protected areas; thus, the financial mechanism should be flexible and adaptable formulated to value these areas and bring them under formal protection.

2.2. Institutional Partners

There is a growing consensus in the business community as well as within key government ministries, such as the Ministry of Land, Environment and Rural Development (MITADER) and the Ministry of Mineral Resources and Energy (MIREME) that a national-level compliance framework promoting No Net Loss is a valuable tool for mitigating adverse impacts of large-scale development projects, and are attracting investors committed to best practice in biodiversity and ecosystem services management following legal procedures established in the law. MITADER has been committed to aligning its legal framework with this approach.

Various private sector companies with international funds operating in the country have expressed a clear commitment to adhere to best practice standards, including major oil and gas and mining companies such as Anadarko, ENI, Kenmare and SASOL, as well as the national electricity company EDM.

BIOFUND has two key NGO institutional partners in this effort, the Wildlife Conservation Society (WCS)/ COMBO and the United Nations Development Program (UNDP)/BIOFIN Project. The WCS-led COMBO project is a four year, four-country initiative to expand and improve the application of the mitigation hierarchy and NNL initiatives in Guinea, Madagascar, Mozambique and Uganda. UNDP´s BIOFIN Project is seeking to enhance, develop and implement financial mechanisms, including innovative financial mechanisms in Mozambique to improve financing for biodiversity conservation. The main implementing institutions of the BIOFIN process in Mozambique are the Ministry of Land, Environment and Rural Development and the Ministry of Economy and Finance, key partners for the local adoption of the mechanism.

2 A National Biodiversity Offset System : A Road Map for Mozambique https://www.cbd.int/financial/doc/wb-mozambiqueoffset2016.pdf
3 The additional funds have been sourced from the World Bank (USD 1M) and UNDP (USD 250.000).
4 Ecological regions are the habitat of a rich terrestrial fauna and flora with 5500 plant species of which 250 are endemic, a terrestrial fauna with 740 species of birds, 80 species of reptiles and amphibians (of which 28 are endemic), 3000 species of insects and iconic species of wildlife, notably elephants, buffalo, hippopotamus, lions, leopards, hyenas, wild dogs and crocodiles.

Figure 1. Mozambique Protected Area Network.

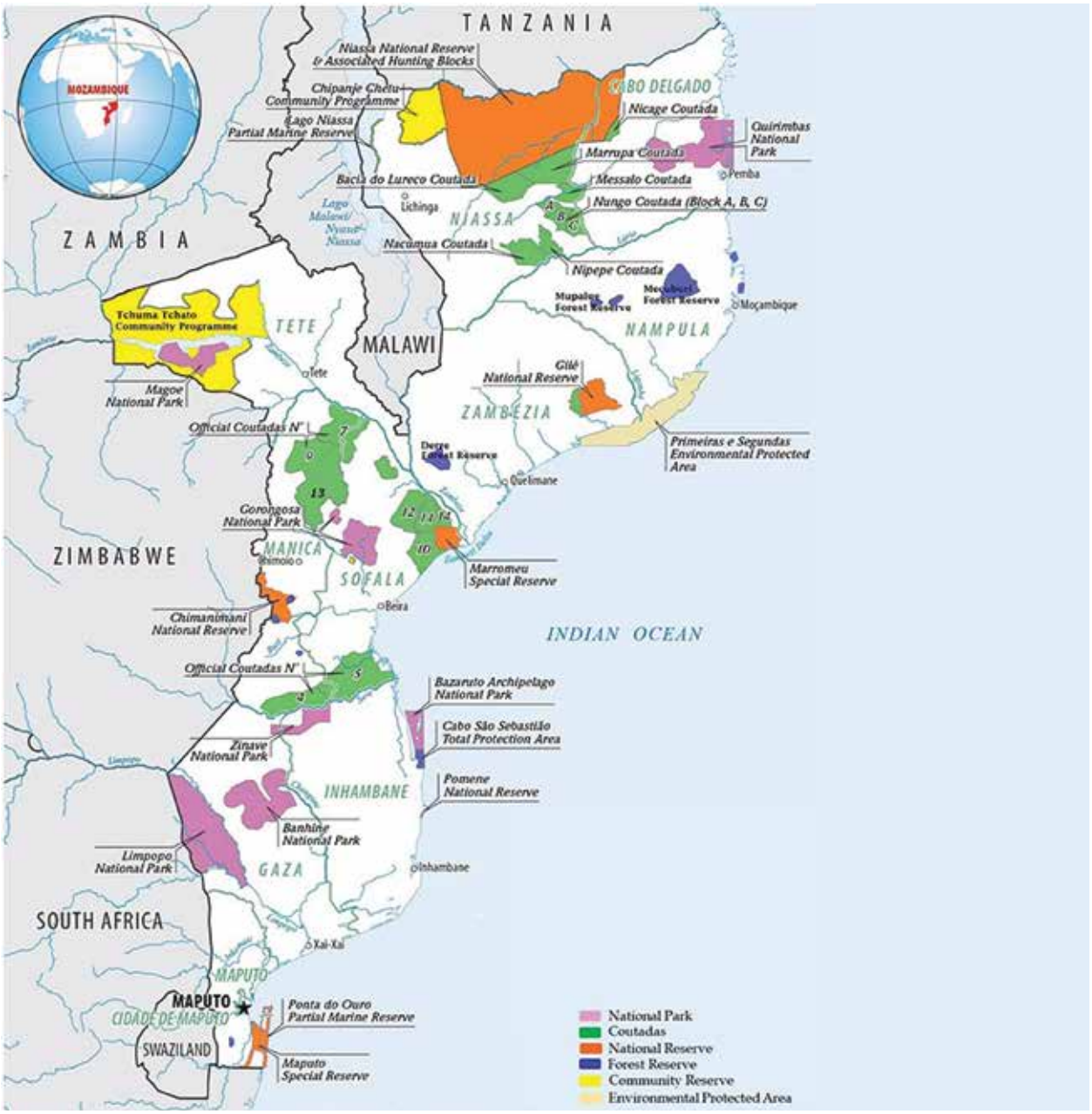
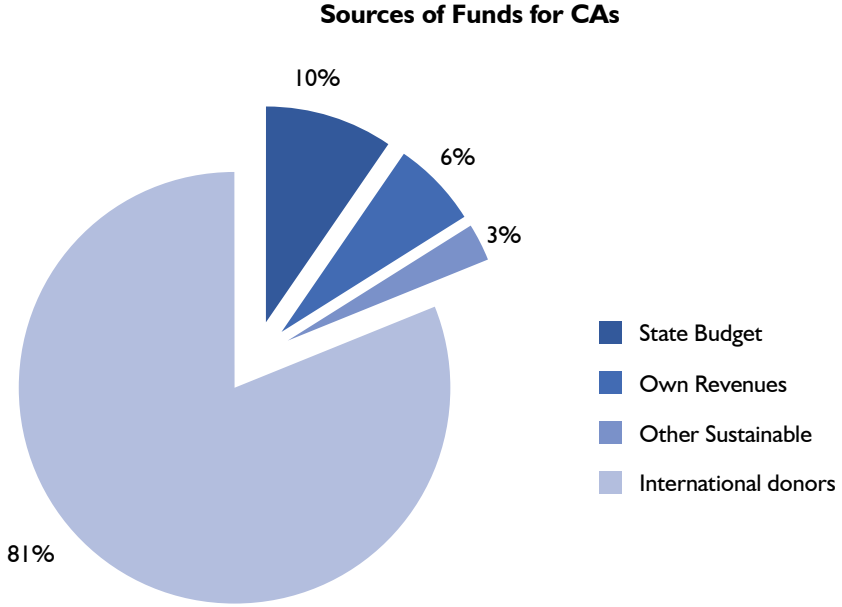


Figure 2. Mozambique Protected Area Network funding sources (2015).



2.3. BIOFUND

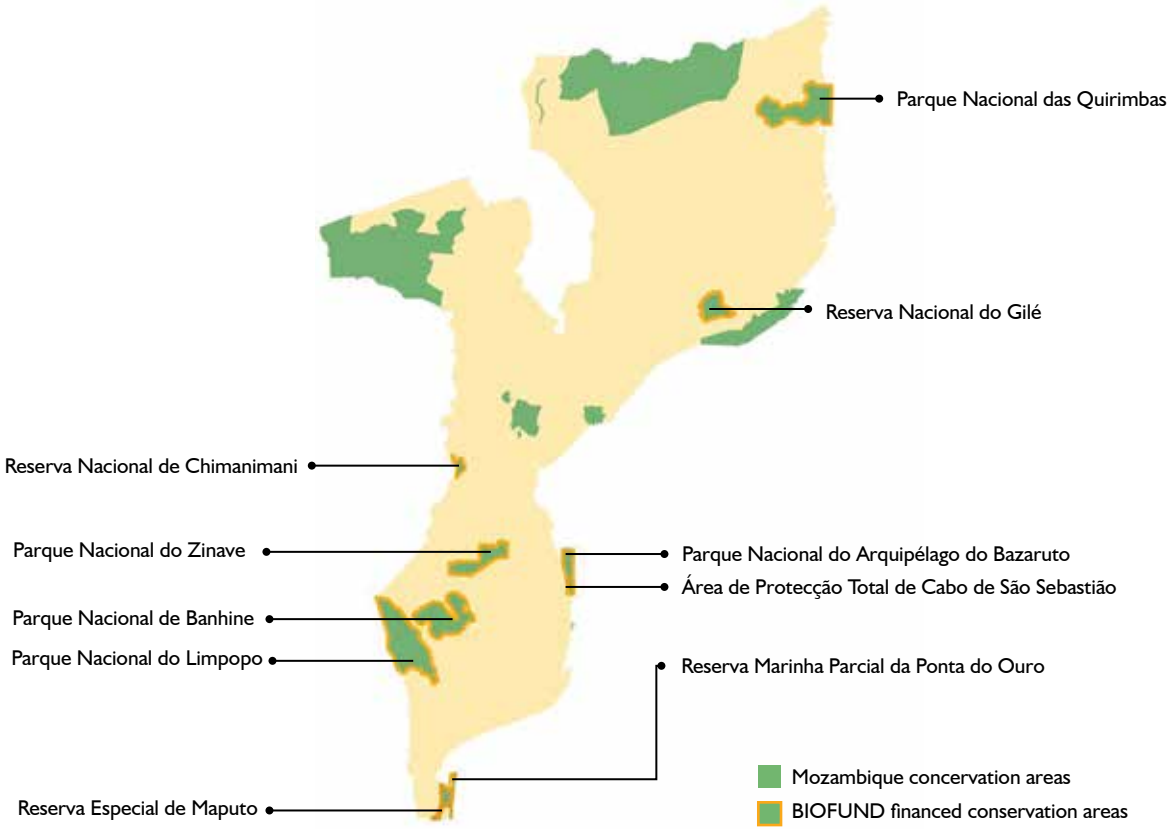
One distinct advantage in Mozambique is the existence of a conservation trust fund that meets international standards – BIOFUND - The *Foundation for the Conservation of Biodiversity.* BIOFUND is a Mozambican institution with a non-profit nature and under private law. BIOFUND´s mission is to promote "*sustainable financing of the conservation of biodiversity, with a particular focus on the national system of conservation areas, as a contribution to the balanced development of the country"*. BIOFUND has recently developed its strategic plan (2018 – 2022) covering the current strategic areas:

Figure 3. BIOFUND Strategic Pillars.

BIOFUND raises two separate types of funds: funds for investment (Endowment), and funds for direct application (Sinking funds). Its current endowment capital[5] is evaluated in 34 million USD mainly funded by German Cooperation via KfW (86%), World Bank/GEF (11%) and Conservation International/Global Conservation Trust (3%).

Currently, BIOFUND is also managing a contribution of sinking funds from MOZBIO/World Bank Project and from AFD, that together with gains resulting from the financial application of its endowment funds, totals about USD 5 million channelled by BIOFUND to increasingly finance protected areas in Mozambique. Through this support BIOFUND has supported so far 10 national parks and reserves (53% of the total protected areas) in the country.

Figure 4. National Parks and Reserves financially supported by BIOFUND. Source: BIOFUND.



[5] Including a 3rd donation from KfW in 2018, still to be transferred to the endowment.

One important role of BIOFUND is the fundraising and contribution to financing the protected areas system. With the vision to be the *preferential mechanism for financing the conservation of biodiversity in Mozambique*, BIOFUND have been strengthening its capacity to pursue innovative finance mechanisms to foster conservation, environmental management and sustainable development.

One of these mechanisms, identified in both the BIOFUND's own Business plan as well as in the national *Road Map for a No Net Loss Aggregated System* is that of biodiversity offsets in Mozambique.

Previously to the onset of this project, BIOFUND had been active in promoting the concept in Mozambique, including a rough scale mapping of the country's habitat types within a geo-referenced online database, including critical habitats to help guide investment and conservation decisions. It also collaborated in the elaboration of Project COMBO, where one of the outputs was to strengthen the Trust Fund mechanism in Mozambique.

However, no comprehensive program of its own existed to promote the particular interests of the Foundation in the development of this financing mechanism.

3. Pilot Goals

The main goal of the pilot project was to position the BIOFUND as the provider of choice as neutral, non-governmental manager of funds for offsets projects in Mozambique.

The expected specific outcomes of the current pilot exercise were to ensure that by the end of 2018:

- BIOFUND's technical and institutional capacity is strengthened to effectively conduct advocacy and engage with government and private sector;
- the participation of civil society and local communities in the process of identifying mechanisms for offsetting biodiversity at national and local levels is strengthened; and
- the correct incorporation of the concepts of biodiversity offsetting in the legal regulations has been ensured.

Eventually, BIOFUND Biodiversity Offsets Services (BBOS) objective is to offer a core set of services on secure management of offsets funds, which would provide a package that will enable corporate and public sector clients to fulfil their requirements for no net loss of biodiversity as prescribed by financial institutions and the Government of Mozambique, even while clients are freed up to focus on their core businesses.

4. The Process and Approach

The first action of BIOFUND was to use the seed funding from Project K and Project USAID/CPI to transform its hitherto sporadic interventions into a specific and concrete Program for Biodiversity Offsets for BIOFUND. A program team was established, and that was critical to support project implementation and assure a long-term engagement of the institution on offsets. The team was composed by a full-time coordinator for the program, as well as a part time technical advisor with a large experience on biodiversity offsets.

Using this team, key collaborative efforts were made with the major stakeholders, and significant advances were made in developing both the technical and financial mechanisms for the implementation of biodiversity offsets in Mozambique (see section 7 below). Project K has started in a critical phase with an overall increasing of interest for offsets in country and BIOFUND have been proactive taking advantage of this opportunity to build a coordinated institutional development effort. In particular, this involves the USAID/CPI Project, WCS/COMBO project, World Bank (MozBio) and UNDP/BIOFIN Project.

The team has managed to make significant advances also in helping MITADER in creating an adequate legal basis for no net loss and biodiversity offsetting in the country and offsetting obligations have now been legally established in Mozambique through the Regulation for Environmental Impact Assessment (Decree 54/2015) and the Regulation for the Protection, Conservation and Sustainable Use of Biological Diversity (Decree 89/2017).

Accompanying the technical inputs has been a series of training efforts for government, civil society, and the private sector to ensure a complementary level of knowledge on the concepts and their correct implementation. A learning network platform to share knowledge about the concept across the region was successfully established between BIOFUND and partners.

> **“Accompanying the technical inputs has been a series of training efforts for government, civil society, and the private sector to ensure a complementary level of knowledge on the concepts and their correct implementation.”**

At an institutional level, BIOFUND has been developing operational procedures for offsets projects selection, execution and auditing. BIOFUND have invested in communication outreach strategies and trainings, as well as monitoring and evaluation procedures. This has resulted in significant additional financing being gained to further develop the concept and advance to a stage of piloting field level implementation.

5. Major Challenges

The major challenges in implementing the current pilot program have been as follows:

1. Misunderstandings of some governmental agencies of the concepts and their usefulness. This has particularly been an issue with ANAC, the body responsible for the protected areas in Mozambique. Seen as too complex, ANAC decided to replace part of the No Net Loss legislative framework with a simple table for compensation payments *for exploitation of natural resources in protected areas and buffer zones including activities that have an impact on natural resources, which may include extractive, productive or infrastructure-related activities* as stated in the law[6]. Unfortunately, this table creates a number of challenges for its implementation, including perverse financial incentives for both the state and the private companies. For the *state*, the fact that they will receive high fees creates an incentive to authorize more concessions in PAs and buffer zones than is ecologically sustainable. For *private companies*, since they will pay on a per hectare basis, they will have little reason to actually avoid, minimize or restore their original footprint. The result is likely to be a higher overall loss of biodiversity. An additional factor is that the current financial mechanism to channel and utilize these funds is still unclear and it requires an urgent action from the state side in order to make it a sustainable mechanism that actually avoids impacts on environment rather than promoting development in protected areas.
2. While this is unfortunate, the main driver of the offsets agenda from the governmental side is the Department for Environmental Impact, which is very supportive of the framework being proposed by the project.
3. Private sector commitment. As expected, until clear legislative guidelines are issued, offsets will only be done by private sector entities who have either financiers’ or shareholder pressure to do so. Several of these companies do exist in Mozambique but have yet to make the formal financial commitment to advance with a specific offset. However, these has been a definite proof of interest in the concept and as a result significantly more financing is being made available to continue developing the framework as well as implementing some pilot field work.

6. Remaining Challenges

One of the major challenges for the offsets scheme in Mozambique is to design and implement an operational structure with the legal, technical and financial robustness that will effectively contribute to harmonize economic development and biodiversity conservation in Mozambique, connecting offsets opportunities to broader actions for biodiversity conservation in the country. We need to, strategically, integrate the concept into landscape and collective conservation ongoing actions where stakeholders are all involved and contributing for a common vision.

As a conservation trust fund, BIOFUND already has established legal procedures and systems for offsets implementation. However, there is still a need to develop BIOFUND’s capacity to manage invested funds; to adapt existing fund management policies, procedures and templates to also be appropriate for offsets projects; to develop new offsets chapter for BIOFUND’s Operations Manual; to refine auditing, M&E, reporting standards and procedures, to be able to adapt from global best practice for offsets (learning from Inhambane’s pilot case).

[6] Regulation for the Protection, Conservation and Sustainable Use of Biological Diversity (Decree 89/2017).

There is also the need to guarantee that each offset financed has management oversight systems (steering committees) to ensure that companies have compliance with no net loss or net gain requirements and that government obtains desired results.

Major challenge is to have donors support during the designing and consolidation process, as well as have private sector interest to make upfront investment on offsets piloting initiatives.

7. Results Achieved

7.1. The environmental impact assessment and mitigation hierarchy legal framework in Mozambique: brief overview

Mozambique has an Environmental Impact Assessment (EIA) legal framework that assists the Government of Mozambique in the decision-making processes relating to the issuance of environmental licenses for development projects. The issuance of an environmental license must precede any other necessary legal licenses. The Ministry for Land, Environment and Rural Development (MITADER), through the National Environment Directorate (DINAB) is the authority responsible for EIA and environmental licensing of activities. The National Agency for Environmental Quality Control (AQUA) is responsible for environmental auditing and control and environmental monitoring.

The Regulation on the Environmental Impact Assessment Process (Decree No. 54/2015 of 31 December) establishes the rules for the environmental assessment process, namely the categorization process of activities, the level and content of environmental studies required for the different categories, public participation process, review process, environmental licensing stages (Interim, Installation and Operation), responsibilities, inspections, fees and penalties.

The Environmental Impact Assessment process is an instrument that aims to contribute to the environmental and social sustainability of activities. It begins with the Pre-Evaluation of the activity, by the Environmental Impact Assessment Authority (central or provincial level), based on information about the proposed activity and the proposed area of implementation. This information is provided by the proponent, in the designated 'Process Instruction', to be submitted to the Provincial Directorate of Land, Environment and Rural Development (DPTADER) with jurisdiction for the area proposed for implementation. Following the Pre-Evaluation stage, the proposed activity is categorized or rejected. Table 1 presents the EIA categories defined in the Regulations.

Table 1 : Environmental Assessment Categories as per the EIA Regulations (Decree no. 54/2015)

Category A+	Activities which due to their complexity, location and / or irreversibility and magnitude of impacts deserve not only a high level of social and environmental surveillance, but also the involvement of specialists in the EIA processes.
Category A	Activities which may significantly affect living organisms and environmentally sensitive areas and their impacts are of longer duration, intensity, magnitude and significance.
Category B	Activities which do not significantly affect living organisms or environmentally sensitive areas compared with those activities listed under Category A.
Category C	Activities which have negligible, insignificant or minimal negative impacts.

Figure 5 summarizes the EIA process, indicating the studies required by category of activity, the deadlines for delivery of documents to the Environmental Assessment Authority and the deadlines the Authority has for the communication of decisions.

As shown in the figure, activities classified as A + and A require an Environmental Impact Assessment (EIA), preceded by an Environmental Impact Assessment and Scoping Study (EPDA). The EPDA comprises a preliminary assessment that aims to identify potential impacts, to identify aspects that should be studied in more detail (in specialized studies) and to verify whether a fatal flaw that could jeopardizes the environmental and / or social viability of the project exists. The EPDA includes the Terms of Reference to be

followed in the preparation of the Environmental Impact Study. Both the EPDA Report and the EIA are the subject of a public participation process which is documented in a Public Participation Process Report (PPP) to be submitted to the Environmental Authority together with the EPDA and EIA reports respectively. The approval of the EPDA allows the issuance of a Provisional Environmental License, while the approval of the EIA leads to the Environmental Installation License (provided that the Resettlement Plan is also presented, in those cases where it is required). The Environmental Installation License allows the construction of the proposed activity to be carried out, but the beginning of the operation is conditional on the issuance of the Operating License, after verification of the full compliance with the EIA and full implementation of the Resettlement Plan and the Biodiversity Offsets Plan.

For Category B activities, a Simplified Environmental Study is required to be prepared in accordance with Terms of Reference previously approved by the provincial level EIA authority. The Simplified Environmental Study (EAS) Report shall undergo a public participation process, before being submitted to the EIA Authority. As in category A activities, the PPP Report is attached to the EAS Report, when submitted to the Environmental Authority for review. The EAS approval allows the issuance of the Environmental License for the activity, issued after payment of the environmental licensing fee.

Activities classified as Category C are only subject to the presentation of Good Environmental Practices Procedures to be prepared by the proponent and approved by the AIA authority (DPTADER).

Article 9 of the EIA Regulations states that the pre-assessment (screening) conducted by the EIA authority shall include a review of the procedural steps defined in the EIA Regulations in addition to a review of the Regulation's annexures on the categorization activities. Knowledge of the intended project location and alignment of the proposed project with district plans and land use and zoning plans shall also be considered during the pre-assessment phase.

Projects that would otherwise be category A/A+ with potentially severe impacts in sensitive areas have to be submitted for a peer review, which will now be obligatory for A+ projects (EIA Regulation 54/2015). Guidance documentation has been elaborated by government to ensure compliance with best practices.

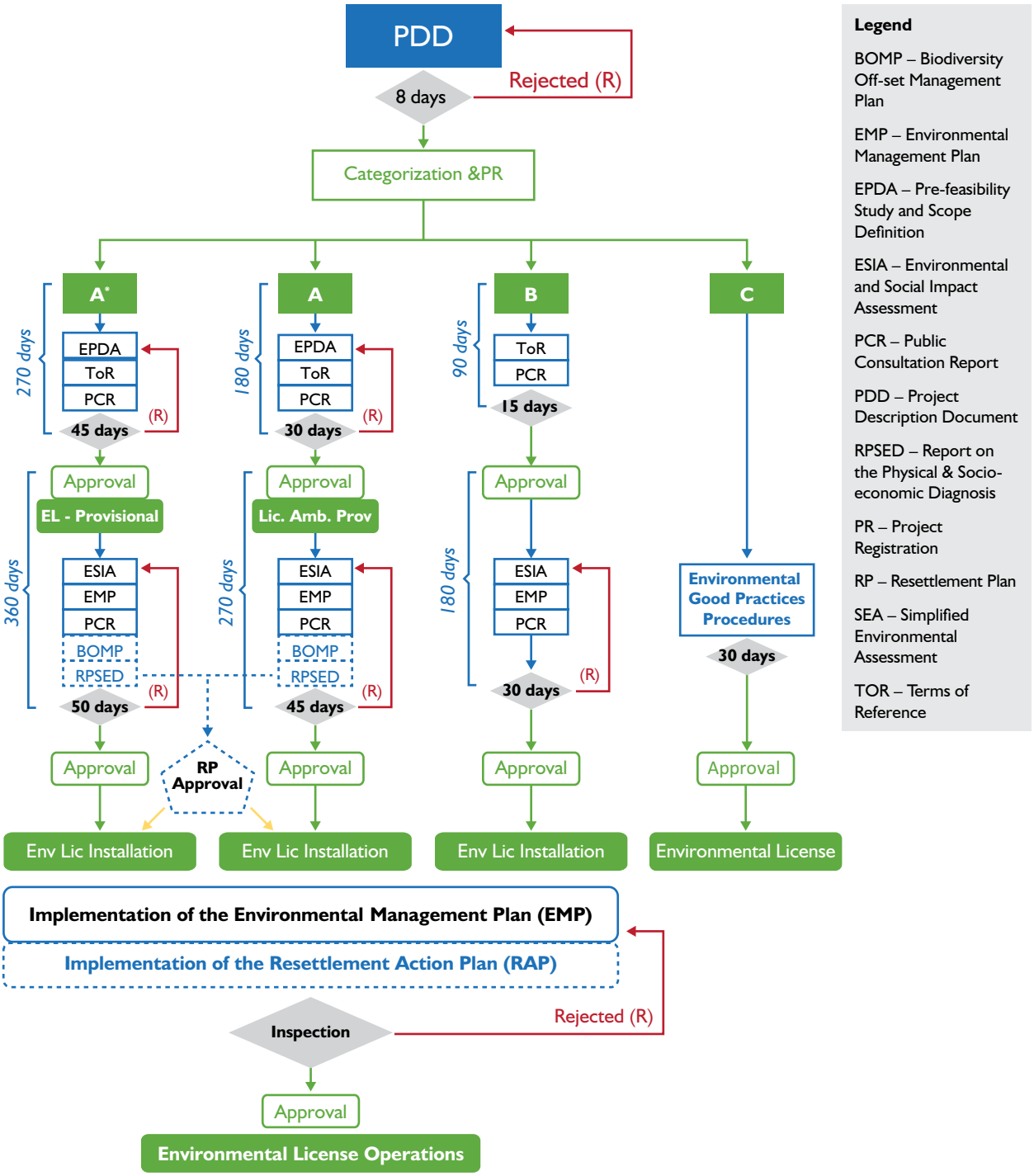
As presented in the Figure 5, since 2015, Mozambique has a legal statement for offsets or no net loss implementation. According to the Decree 54/2015 of 31 December, Environmental Impact Studies (EIA) and Simplified Environmental Studies (ESS), requires application of the mitigation hierarchy. The concept is detailed in the glossary of the decree, which explains that the impacts of development projects should be avoided and minimized, affected areas should be restored, and if significant residual impacts persist, biodiversity counterbalances should be applied. Decree 54/2015 states that whenever necessary the Biodiversity Offsets Management Plan (BOMP) will be developed as an integral part of the EIA and, in the case of A + projects, the renewal of the may be subject to the presentation of the BOMP.

The Regulation of the Law on Protection, Conservation and Sustainable Use of Biological Diversity (Decree 89/2017 of 29 December) states that public or private entity, which exploits natural resources in the conservation area or its buffer zone, must compensate for its impacts to ensure that there is no net loss of biodiversity. The regulation considers monetary compensations as well incorporates the concept of No Net Loss of Biodiversity following international best practices.

Analysing the current legal context, it is assumed that, with the exception of licensed impacts within Protected Areas and their buffer zones the Decree 54/2015 and the Decree 89/2017 are aligned for an effective implementation of the mitigation hierarchy and no net loss of biodiversity. The mechanism for the implementation of biodiversity offsets follows international best practices, however, the monetary fee system is not considered appropriate.

However, it is important to have clarity on the application of the legal instruments regarding the mitigation hierarchy, no net loss and biodiversity offsets, technical and financial mechanisms including guidelines for its application are necessary. To this end, the BIOFUND with the support of project K and USAID/CPI project and WCS/COMBO are supporting Government of Mozambique to clarify the application of each of the legal namely Decree no. 54/2015 of EIA process; Decree no. 16/2014 amended by Decree no. 5/2017 of the Law on the Protection, Conservation and Sustainable Use of Biological Diversity; and Decree no. 89/2017 of the Regulation of the Law on the Protection, Conservation and Sustainable Use of Biological Diversity.

Figure 5. Environmental Impact Assessment Process as per the EIA Regulations (Decree no. 54/2015).



7.2. The Biodiversity offsets mechanism in Mozambique

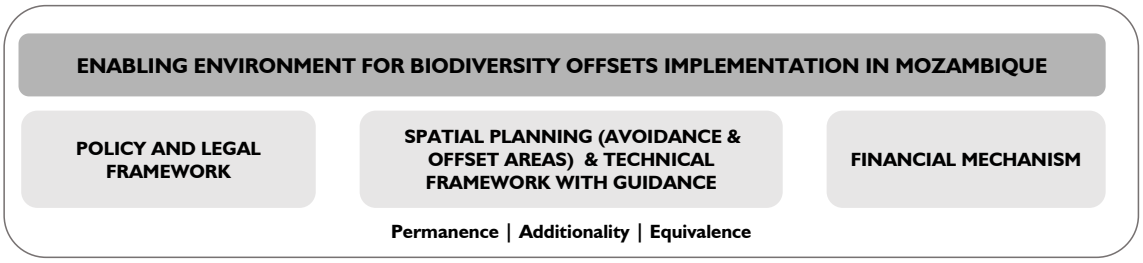
The Ministry of Land, Environment and Rural Development (MITADER), with the support of BIOFUND, COMBO and BIOFIN is currently working towards the creation of an enabling environment for the application of an aggregate system for biodiversity offsets following international standards for NNL and offsets.

The process includes the establishment of a policy and legal framework, spatial planning and technical framework with guidance as well as an operational financial mechanism to receive and manage offsets funds ensuring permanence, additionality and equivalence of the offset (Figure 6). The mechanism has been supported by other governmental sectors, civil society, academia and private sector through the biodiversity offsets technical working group[7]. Since 2017,

[7] The Biodiversity Offsets Technical Working Group was created at the launch of the Road Map for the Application of an Aggregate System of Biodiversity Offsets in Mozambique developed by the World Bank in 2015 as a platform for communication and sharing of information related to this theme.

BIOFUND have been developing the mechanism, as described in the diagram below with the financial support of both Project K and USAID/CPI, with the technical support of MITADER in partnership with COMBO and BIOFIN projects.

Figure 6. Key elements of the biodiversity offsets mechanism in Mozambique. Source: BIOFUND and WCS/COMBO Project.



As referred above, this mechanism has been developed to operationalise the Roadmap Biodiversity Offsets for Mozambique financed by the World Bank in 2014-2016, the Regulation for Environmental Impact Assessment (Decree 54/2015) and the Regulation for the Protection, Conservation and Sustainable Use of Biological Diversity (Decree 89/2017) which recommends that, in the coming years, offsets actions should be aggregated to Protected Areas (PAs) that are clearly under-funded as a way to support them to implement effective management and achieve the conservation objectives for which they have been created, by properly protecting biodiversity.

Project K has supported the development of the Regulation for the Protection, Conservation and Sustainable Use of Biological Diversity (Decree 89/2017) and it was a long process that has started early in 2017, when Government of Mozambique embarked in the revision of the Conservation Law Regulation that has resulted in the first legal incorporation of the concept of No Net Loss and Biodiversity Offsets in Mozambique. The Act provides legal basis for protection, restoration and compensation of residual impacts on biodiversity caused by development initiatives in Mozambique.

It was a long revision process led by ANAC. While originally there was only minimal involvement of civil society, after repeated requests and concerted efforts of many members of the conservation community, including BIOFUND, the process was transformed into a much more participative one. BIOFUND through the Biodiversity Offsets Program then played a key role mobilizing local and international civil society actors such as the WCS/COMBO Project team to provide technical inputs to the Regulation including the inclusion of No Net Loss and Biodiversity Offsets concept.

BIOFUND and its partner WCS/COMBO have worked hard consolidating information and leading two of the four technical working groups to ensure the proper incorporation of NNL principles in the draft legislation, BIOFUND held several advocacy meetings with the civil society including representatives from MITADER.

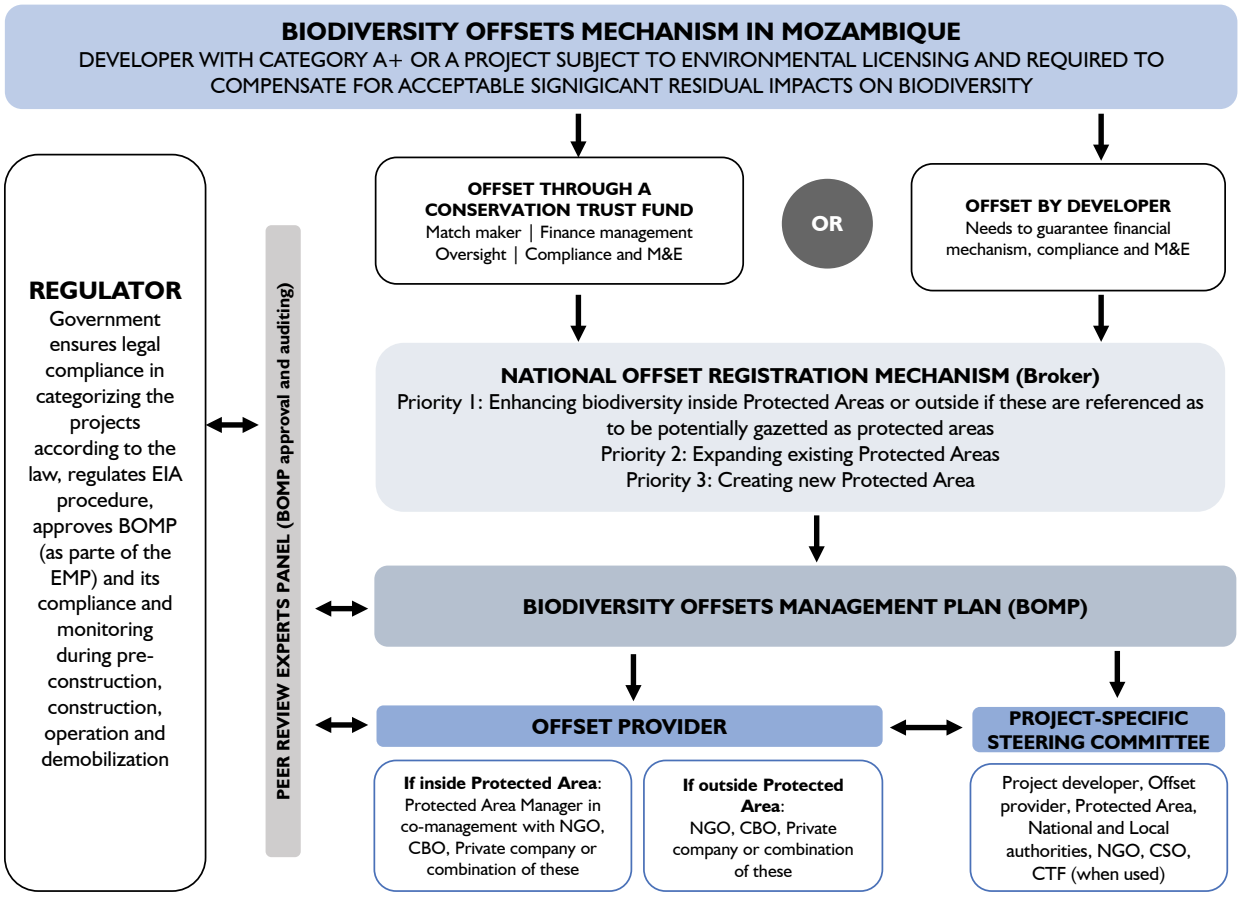
The final version submitted to ANAC has included the rationale of the concept importance and stakeholder's contributions and statements. During the process, BIOFUND developed a position paper highlighting NNL principle and the urgent need to regulate the concept as an emerging opportunity for biodiversity conservation.

The intense advocacy work conducted by BIOFUND and a number of other civil society organizations has resulted in the new Conservation Act approved in November 21st 2017, thus providing the first legal framework for the implementation of No Net Loss and Biodiversity Offsets in Mozambique.

This collaborative effort is helping to build a national community of practice for offsets in Mozambique to take discussions forward and tackle opportunities and challenges for conservation and development in Mozambique.

"The intense advocacy work conducted by BIOFUND and a number of other civil society organizations has resulted in the new Conservation Act approved in November 21st 2017, thus providing the first legal framework for the implementation of No Net Loss and Biodiversity Offsets in Mozambique."

Figure 7. The biodiversity offsets mechanism in Mozambique (under development). Source: BIOFUND and WCS/COMBO Project.



Description of the mechanism developed

The **biodiversity offsets mechanism in Mozambique** is applicable for all A/A+ projects that have been subject to environmental licensing and required to compensate for acceptable significant residual impacts on biodiversity. Developers can implement the **offset through (1) the Conservation Trust Fund** that can play the role of match maker, financing oversight and management, compliance and M&E; or either (2) **conduct the offset it by itself**, however with the responsibility to guarantee the financial mechanism, compliance and M&E. Both mechanisms will have to be validated by a **National offset registration mechanism** that identifies the geographic location and the best technical implementation option to offset residual impacts of the project, aligning results to National Biodiversity Action Plan (NBSAP).

The final environmental license should be conditioned to the presentation of a Biodiversity offsets management plan (BOMP) whenever significant residual impacts persist, but only acceptable after the application of the mitigation hierarchy. The **biodiversity offsets management plan (BOMP)** will then be registered. Both EIAs and their EMPs, including the BOMPs, should be evaluated by an independent **peer review experts panel** (BOMP approval and auditing), who will advise the **regulator, DINAB - the National Directorate for Environment**, responsible to ensure legal compliance in projects categorization process according to the law, regulates EIA procedures, approves BOMP (as part of the EMP) and its compliance and monitoring during pre-construction, construction, operation and demobilization, to issue the license. The mechanism registry is proposed to be supervised by a government institution, proposing a process similar to REDD +. For its part, the environmental operating license may only be issued all the institutional arrangements established, including contract with the offset provider and the financial mechanism ensured.

The offset implementation will then be conducted by an **offset provider** based on two main decision options, namely: **If inside a Protected Area** - the offset should be implemented by the Protected Area Manager in co-management with an NGO, CBO, Private company or combination of these; **If outside a Protected Area** – the offset should be implemented by an NGO, CBO, private company or combination of these. The BOMP implementation should be supervised by a **Project-specific steering committee** constituted by a project developer, offset provider, protected area, national and local authorities, NGO, CSO, CTF (when used).

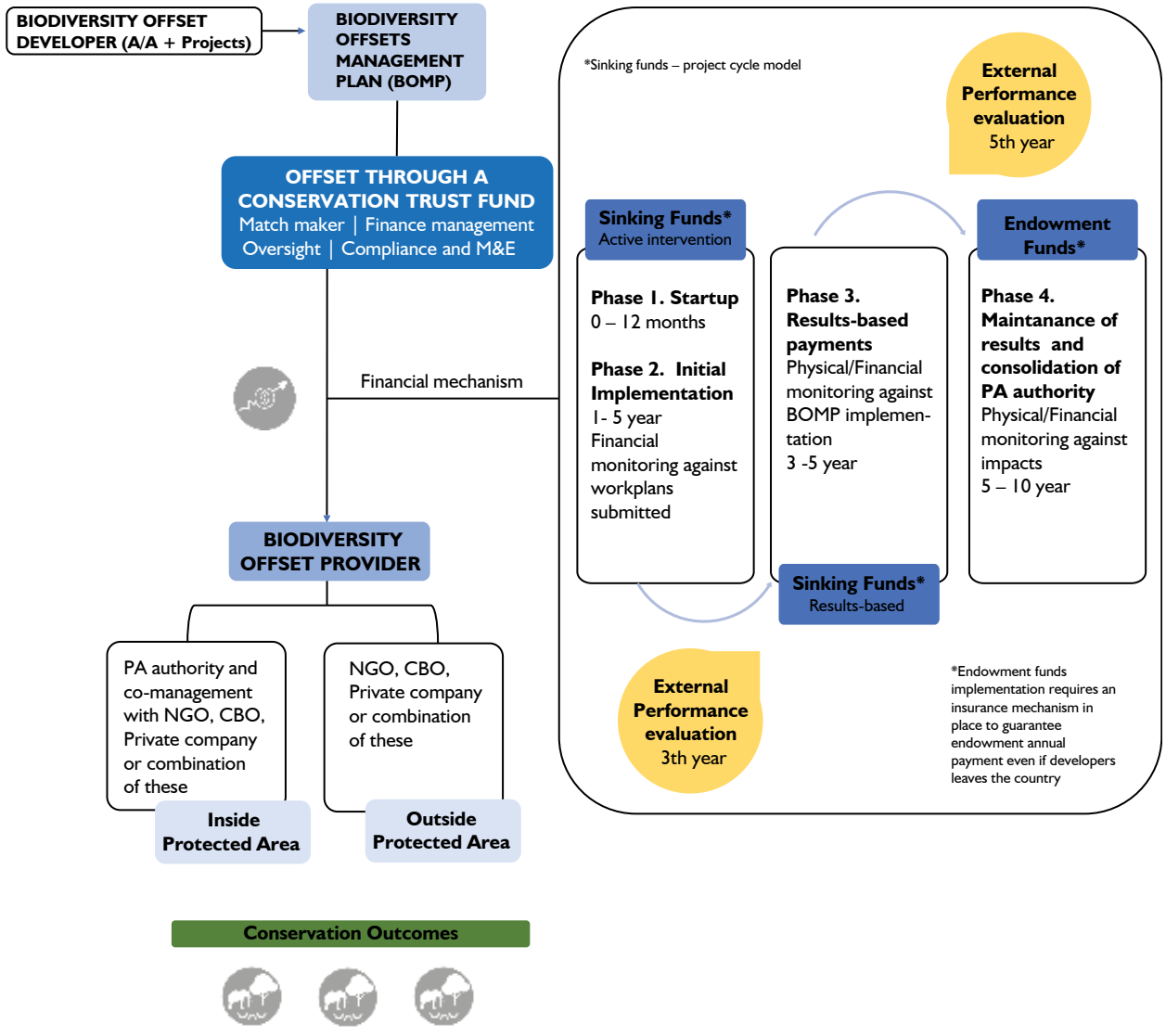
The **financial part of the mechanism** is critical for the offset implementation, maintenance and permanence. In the case of the implementation through a CTF, in this case through BIOFUND, we have to set the financial mechanism to be used as a service for developers.

7.3.The financial mechanism and the role of BIOFUND

A long-term financial mechanism will secure the management of biodiversity offsetting funds invested by companies/offset proponents required to offset as described in the biodiversity offsets mechanism chapter. As a Conservation Trust Fund, BIOFUND will ensure sustainable financial flows for the life of each managed offset, according to the flow detailed in Figure 9. All project developers that have to meet their offsetting obligations can implement their BOMP through the CTF that will provide support as match-maker, finance management, oversight, compliance and M&E.

The CTF will channel offsetting funds to technical offset providers that will be responsible to deliver biodiversity offsets results inside or outside a protected area. The CTF work will involve match-making and project management, allocating funds to offset projects, and auditing/reporting. Costs for all these services are included in the BOMP management fees. Progress on offsets implementation will depend on the phase of implementation, type of activities to take place, implementation structures, supervision, M&E indicators, contractual relationships, payment guarantees and liability for the offset outcomes.

Figure 8. BBOS Financial mechanism (under development). Source: BIOFUND.



CTF will establish an internal financial mechanism that will evolve over the various phases of the offset implementation program, as described in the table:

Table 2. BBOS Financial mechanism (under development).

Phase	Timeframe	Activities taking Place	Who Implements	Who supervises	M/E Focus	Payments based on	Contractual Relationships	Liability for the BO Outcomes
Design	1yr	Design of BOMP (along with EIA) including results to be achieved, implementation arrangements, financing structure, metrics for success	EIA Company	Developer	Quality of written deliverables	Delivery of written outputs	Developer hires EIA Company	Developer
Initial Start-up Implementation	1st 6-12months	Project mobilization and start up, contracting personnel, acquiring material and equipment, detailed implementation planning.	NGO/PA Authority	BIOFUND	Budget execution	Financial monitoring against plans submitted	Developer has 5-year contract with BIOFUND	Developer
							BIOFUND has implementation agreement with NGO/ PA authority	
				Developer			Developer has implementation agreement with NGO/ PA authority	
			Company	BIOFUND	Deliverables - none in this phase	Annual budget submitted and agreed on, submission of progress reports	Developer has 5-year contract with BIOFUND	
							has contract with Company and company has agreement with ANAC	
				Developer			Developer has contract with Company	
							Company has agreement with ANAC	
Implementation	1st 3-5yrs	BOMP implementation of planned activities, adapted as needed and approved	NGO/PA Authority	BIOFUND	Output based (process indicators such as: Trees planted; hectares of invasive cleared; rangers hired; km of patrols carried out; etc.	Physical/Financial monitoring against BOMP	Developer has 5-year contract with BIOFUND	Developer, shared with BIOFUND and Steering Committee
							BIOFUND has implementation agreement with NGO/ PA authority	
				Developer			Developer has implementation agreement with NGO/ PA authority	Developer
			Company	BIOFUND			Developer has 5-year contract with BIOFUND	Developer, shared with BIOFUND and Steering Committee
							BIOFUND has contract with Company	
							has agreement with ANAC	
				Developer			Developer has contract with Company	Developer
							Company has agreement with ANAC	
Achievement of Results	External Evaluation done after 3 years, and before license renewal (5y)	Evaluation of performance of both the project implementer and Supervisor	NGO/PA Authority	BIOFUND	Impact Indicators as defined in BOMP, such as: biomass; species counts; diversity indexes; habitat extent; etc.	Weighted formula based on biodiversity enhancement results achieved. This formula determines payments to be made over the following time period	Evaluation is costed and paid for through the original BOMP. TORs and report should go to the SC, as well as to DINAIA. In the event a Peer Review Panel is need for license renewal, this report also goes to them	
				Developer				
			Company	BIOFUND				
				Developer				
Stabilization and Maintenance	post 5/10 yrs	After results have been achieved (fully or partially), these must be maintained through a consolidation of PA capacity	NGO/PA Authority	BIOFUND	Impact and Output indicators	Results based plus Physical/ Financial Monitoring	Company makes an endowment contribution to BIOFUND	BIOFUND/SC
							BIOFUND has long-term agreement with PA	
				Developer			Company has long-term agreementt with PA	Developer

8. Benefits Observed

The key benefits of the project are grouped here according to the specific objectives of the pilot project for ease of comprehension:

Objective 1: By the end of 2018, BIOFUND's technical and institutional capacity is strengthened to effectively conduct advocacy and engage with government and private sector.

- Project K has acted as a catalytic opportunity for BIOFUND to explore innovative financial schemes. The project allowed BIOFUND to have a full-time technical advisor with a large experience on biodiversity offsets, *institutional capacity have been strengthened* along the project implementation, and a *program team* was established that was critical to support project implementation and assure a long-term engagement of the institution on offsets.
- A learning network platform to share knowledge about the concept across the region was successfully established by BIOFUND and its partners.
- BIOFUND have developed *operational procedures for offsets projects selection, execution and auditing*.
- BIOFUND have invested in *communication outreach strategies*, *materials and trainings* for its own staff and for media, as well as *monitoring and evaluation procedures* to improve advocacy and communication with beneficiaries.

Figure 9. BIOFUND participation in the COMBO Project Mid-term Review Meeting in Uganda in March 2018. Credits: COMBO.

- While no specific offsets have yet been purchased by the private sector, the 18-month seed funding from Project K (100.000 USD) and Counterpart International (200.000 USD) have permitted the BIOFUND to demonstrate the proof of concept and therefore raise a further 1.25 million USD in implementation support funding for the next five years,[8] which will allow for further development of the concept and advance to a stage of piloting field level implementation. This next implementation phase will allow BIOFUND to continue supporting Government in the development of the mechanism including critical inputs into the legislative instruments, via the development of administrative guidelines for the correct application of the legislation, including the decision criteria for their application, oversight, and regulation; provide support developing technical guidelines for determining and quantifying biodiversity loss and gain in the variety of national habitats. The metrics developed must be codified and adopted by MITADER as technical guidelines, and their monitoring and verification protocols developed and approved; strengthen government, civil society

[8] This value is composed of US 250.000 from UNDP, and approximately US 1.000.000 from the World Bank MozBio 2 Project. Both of these projects are starting in Q4 of 2018.

> **BIOFUND has revitalized the Offsets Technical Working Group and has established an active communication with relevant sectors including government, civil society, private sector, local communities, conservation projects, bilateral agencies and other relevant actors to maximize contributions for the mechanism.**

and private sector participation in the mechanism development; develop financial mechanisms to guarantee the long term (or preferably permanent) implementation of the offset as designed; and finally implement an offsetting project in a protected area in Mozambique. BIOFUND will become a service provider working as a broker to the national system, as well as the channelling mechanism to the offset implementing partners.

Objective 2: By the end of 2018, BIOFUND has strengthened the participation of civil society and local communities in the process of identifying mechanisms for offsetting biodiversity at national and local levels.

- BIOFUND has established collaboration with the University Eduardo Mondlane (UEM) and COMBO Project (national and international team of experts) for the design of the pilot project in Pomene National Reserve including provision training classes for 30 master's students on "The Mitigation Hierarchy and Biodiversity Offsets".
- BIOFUND has revitalized the Offsets Technical Working Group and has established an active communication with relevant sectors including government, civil society, private sector, local communities, conservation projects, bilateral agencies and other relevant actors to maximize contributions for the mechanism.
- BIOFUND has formalized a partnership with WCS/COMBO project and UNDP/BIOFIN project as a joint effort to upscale project results and influence government decision on conservation financial mechanisms.
- BIOFUND has conducted during 2018, a National Campaign on biodiversity offsets: harnessing innovative financing solutions for biodiversity conservation in Mozambique in partnership with WCS/COMBO Project and UNDP/BIOFIN and over 300 people from different sectors throughout the country were trained and had access to information related to NNL and Biodiversity Offsets.
- Over 300 representatives from different sector, including public, civil society, private sector, community organizations, academia and media people were trained throughout the year on the concept of Mitigation Hierarchy, No Net Loss and Biodiversity Offsets at both national (Maputo city) and provincial levels (Inhambane province).
- BIOFUND have participated in a number of meetings, workshops, capacity building sessions, webinars, and technical workshops to present the mechanism and articulated with partners the concept and the application in the field. Using as a pilot place the marine protected areas in Inhambane.

Figure 10. BIOFUND Forum and training events on biodiversity offsets in Inhambane in 2018. Credits: BIOFUND.

Objective 3: By the end of 2018, BIOFUND has ensured the correct incorporation of the concepts of biodiversity offsets into legal provisions.

- BIOFUND has led technical working groups discussions during the designing of the Regulation for the Protection, Conservation and Sustainable Use of Biological Diversity (Decree 89/2017). BIOFUND and its partners has provided particular insights for the No Net Loss and Biodiversity Offsets chapter.
- BIOFUND have actively advocated for the legal incorporation of offsets concept into other legal instruments including, National Mangrove Strategy, Forestry Law, Oil and Gas and Mining Environmental Guidelines, National land use planning process, identification of key biodiversity areas, REDD+ registry process, mapping of protected areas and others.
- The mechanism has been developed to ensure the practical grounds of biodiversity offsets in marine protected areas, specifically using the case of Inhambane province, in order to test and verify the mechanism viability in the field.

Figure 11. Technical discussions and the Regulation for the Protection, Conservation and Sustainable Use of Biological Diversity (Decree 89/2017). Credits: BIOFUND.

9. Lessons Learned

"The extractive industry has been a threat to biodiversity in Mozambique." Jorge Ferrão - Rector of the Pedagogic University of Mozambique.

The rapid economic development related to the exploration of natural resources with negative impacts on environment and communities in the last decade have forced the Government of Mozambique to pursue national policies and regulations to mitigate and compensate these impacts. Thus, offsets have rapidly gained the momentum over the past years.

Biodiversity offsets scheme have a variety of learning experiences across the world, BIOFUND and partners have been building up on these experiences to develop the offsets mechanism. If well implemented, offsets can benefit biodiversity, however key elements must be in place.

Throughout the year, BIOFUND and partners have adapted the global concept into a national viable offset's mechanism (under development), starting from legal incorporation of the concept, assessment of habitats ecological conditions, promoting spatial planning, conducting offsets campaigns and promoting continuous training and learning experience events that allows Mozambique to build a collective learning process to share knowledge with other countries but also allowed to build and consolidate the country process and stakeholder engagement.

Offsets have been largely implemented to compensate project impacts, turning project results into localized conservation outcomes. One major adaptive management action taken in Mozambique was to attach the concept into the ongoing conservation strategies (NBSAP and others) and elevate the protected areas value as a potential receptor of an offset.

"Strategic environmental planning engaging all stakeholders is critical to avoid impacts to environment." Hugo Rainey - Wildlife Conservation Society / COMBO Project Coordinator

Continuous learning and experience exchange practices and actively engagement of all relevant actors have been critical to move the offsets discussions forward in Mozambique.

As previously mentioned, the BBOS is a mechanism that is still under development. The final lesson therefore of this program is that developing innovative financing mechanisms takes time, concerted effort, and good will from governments and partners. Seed funding such as Project K is critical in getting the initial steps in place, and can prove catalytic in proving the value and relevance of a concept and raising additional funds to continue with implementation. However, if these innovative concepts are to be really implemented and brought to fruition, longer-term funding must be made available.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