

Biodiversity impact offset: partnering with the extractive sector in Colombia

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Case Studies

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1. An overview of Colombia's biodiversity

Colombia is ranked internationally as one of the most mega-diverse countries, with only 0.22% of the earth's land territory being home to about 10% of the currently known species on the planet. It is the first country in species of birds (1,889 species) and amphibians (763 species) and is also rich in mammals (479 species)¹. The country also houses approximately 40,000 species of plants, accounting for 15% of global diversity.

Due to deforestation and unsustainable land transformation, biodiversity in Colombia is being lost at an alarming rate. The main causes of deforestation are land use changes for agriculture, infrastructure projects, illegal crops, internal migration, mining, legal and illegal extraction of timber and forest fires. The expansion of cattle ranching is the main driver of deforestation and land use change. Over the past fifty years the areas devoted to cattle ranching in Colombia increased dramatically from 14.6 to 39 million hectares.

According to the Fifth National Report on Colombian Biodiversity for the Convention on Biological Diversity there are other key drivers challenging the Colombian biodiversity², namely the decrease, loss or degradation of native ecosystems and agro-ecosystems, invasive species, water pollution and climate change.

¹ National Biodiversity Information System of Colombia: <http://www.sibcolombia.net/web/sib/cifras>

² http://www.co.undp.org/content/colombia/es/home/library/environment_energy/v-informe-nacional-de-biodiversidad-de-colombia-ante-el-convenio/

The Country Environmental Analysis developed by the World Bank states that environmental degradation in Colombia generates a cost equivalent to 3.5% of GDP; this includes costs associated to floods, landslides and soil degradation.

2. Overview of the partners

2.1 Fondo Acción

Fondo para la Acción Ambiental y la Niñez (Fondo Acción) is a Colombian nonprofit private foundation established in 2000. Its mission is to generate sustainable changes in Colombian society in two areas: (1) the conservation and sustainable use of biodiversity and the protection of ecosystem services; and (2) the protection and development of vulnerable children, with emphasis on early childhood.

Fondo Acción has a solid track record in financial administration, program management and conservation finance, which includes the creation and management of endowments, sinking and revolving funds and the design of innovative financial mechanisms for conservation.

Fondo Acción facilitates the implementation of projects by civil society organizations, in partnership with local environmental authorities, the private sector, international NGOs, and the national government. It acts normally as a second-tier organization that provides support on technical and administrative issues, strengthening institutional capacities. More recently Fondo Acción has begun direct implementation of projects and programs.

2.2 AngloGold Ashanti (AGA)

AngloGold Ashanti (AGA) is a world-leading gold mining company, with headquarters in Johannesburg, South Africa. Its Colombian subsidiary, AGA Colombia, has been active in the country since 2003. As of August 2014 it has a project portfolio in six sites of the country; while some projects are more advanced than others all are either in the exploration or design phase.

AGA Colombia is interested in developing programs and projects beyond the scope of mandatory Colombian legal standards on environmental matters. It intends to implement long-term initiatives that promote best practices in mining and biodiversity conservation.

3. Fondo Acción's initiative with AGA Colombia

Between 2010 and 2014 AGA Colombia and Fondo Acción have partnered to develop three initiatives:

1. The Coello River Basin fund;
2. The Responsible Mining and Regional Development Program; and
3. The Gramalote Biodiversity Offsets Strategy.

The first two follow a traditional type of interaction between an Environmental Fund (EF) and a donor where the private company provides funding under its Corporate Social Responsibility practices and the EF sets up a separate account for the donation, manages the funds, selects and finances projects by local NGOs and/or community based organizations and reports to the donor. The EF thus acts as a second-tier organization.

The third initiative is an example of a new role by an EF. In the Gramalote project Fondo Acción is in charge of providing a specific product: a strategy for the company to offset impacts on biodiversity resulting from the Gramalote gold mining project in the Antioquia region. This is more the case of a contractual relationship between the company and the EF.

3.1 The Coello River Basin fund (CRB-f)

The Coello River Basin fund (CRB-f) focuses on stepping up sound environmental management of water resources by communities in the Coello River Basin. Fondo Acción and AGA Colombia signed a memorandum of understanding whereby Fondo Acción agreed to set up and manage the Coello River Basin fund (CRB-f). This sinking fund provides funding to projects presented by local NGOs and grassroots associations of the Coello River Basin, in the Andean department of Tolima. Within this agreement, AGA Colombia made a contribution of US\$265.000.

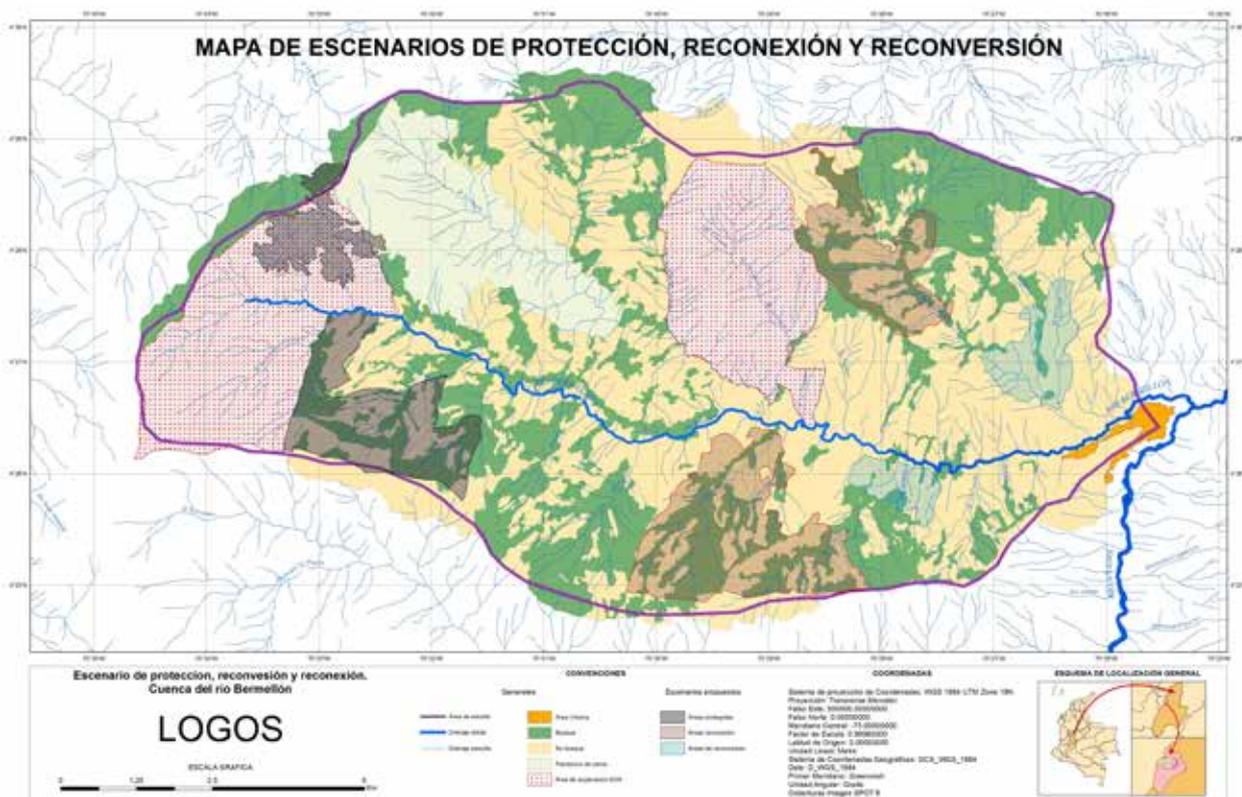


Figure 1: Department of Tolima, Coello River Basin

Fondo Acción conducted a process of stakeholder analysis and consultation and designed and implemented a competitive Request for Proposals (RFP). The consultation process revealed that water management was a key issue for the local organizations. Ten projects were then selected and funded. These initiatives reduced water pollution and improved water use efficiency in the basin. Fondo Acción provided technical and administrative backstopping to all projects, monitored and assessed implementation and presented final results to the donor, including video recordings of beneficiaries.

The main results generated by the Coello River Basin portfolio were:

- A pilot system for water recycling in aquaculture;
- Seven water reservoirs plus efficient irrigation systems in farms;
- Forty-five methane gas production plants for domestic use;
- Domestic sewage management improved with septic tanks;
- Ninety-two domestic water treatment plants;
- Reforestation with native species of areas around springs and water courses;
- Improved productive systems in five farms (including water management and biodiversity conservation); and
- Increased trust between local organizations and AGA Colombia.

3.2 The “Responsible Mining and Regional Development” Program

Following the successful implementation of the CRB-f, AGA Colombia decided to renew its partnership with Fondo Acción through a second grant in 2012 (US\$880.000). This donation allowed Fondo Acción to establish a

“ This project aims to improve the social, economic and environmental performance of artisanal and small scale gold mining in Colombia ”

“ The project intends to generate impacts at a national scale through capacity building and policy transformation actions ”

sinking fund with the goal of linking responsible mining and regional development in Colombia. These resources were once again part of the company's Corporate Social Responsibility commitments. Two projects have been designed and are being implemented:

3.2.1 Project 1: Development of market incentives and formalization of artisanal small-scale mining

This project aims to improve the social, economic and environmental performance of artisanal and small scale gold mining in Colombia. In March 2013 Fondo Acción selected a proposal presented by the Alliance for Responsible Mining (ARM). ARM is a global independent initiative established in order to improve equity and well-being of artisanal small-scale mining communities. ARM intends to incorporate best environmental and social practices and to formalize Artisanal and Small-scale Mining Organizations (ASMO) in Bolivia, Colombia and Peru. The grant provided by Fondo Acción under the Responsible Mining and Regional Development Program focuses on Colombian ASMOs. The path to formalization is based on gold certification by Fairtrade and Fairmined standards. ARM's role includes:

- Strengthening the capacity of local organizations and specialized consultants who can provide support for artisanal and small scale miners;
- Assist ASMOs in the formalization and implementation of better social and environmental practices;
- Connect ASMOs to formal markets and increase demand and visibility of the Fairtrade and Fairmined certified gold standards; and
- Strengthen ARM's Network for Responsible Mining, in order to enhance knowledge management, improve coordination among relevant stakeholders, facilitate lessons learnt about the formalization of ASM in Latin America and visualize the complex situation of this industry.

Fondo Acción provides technical and administrative support to ARM, conducts technical and administrative monitoring and evaluation of the project and reports progress and results to the donor.

After the first year of operation ARM has conducted a detailed due diligence process and selected three ASMOs located in the department of Bolivar, in north-

ern Colombia. ARM has carried out a baseline characterization and begun the formalization process leading to the adoption of best mining and environmental practices in these three cases.

The project intends to generate impacts at a national scale through capacity building and policy transformation actions. The adoption of better environmental practices will take place in three small mining operations in the Andean foothills of the department of Bolivar.

3.2.2 Project 2: Water for Cajamarca

This project has been designed by Fondo Acción with the goal of promoting an integrated management approach for important micro-catchments in the Bermellón River Basin. The region is part of the area of influence of AGA Colombia's gold mining project "La Colosa". The catchments are sources of water for the people of the town of Cajamarca, in the department of Tolima. Water sources will be protected and biodiversity conservation will be enhanced through the establishment of protected areas, the restoration of natural habitats and the reconversion of traditional cattle ranching practices to low-impact environmentally-friendly schemes.

Fondo Acción will implement the project directly, based on its experience under the GEF funded project "Conversion to Sustainable Cattle Ranching in Colombia". After selecting the areas of intervention based on environmental, social and productivity criteria, Fondo Acción will launch an RFP to bring interested farmers as beneficiaries. Fondo Acción will monitor and evaluate progress of beneficiaries through the entire project life.

Fondo Acción has prepared a detailed plan for the intervention, including detailed maps of land cover and current land use. A general assessment of farmer interest was also part of the first phase and this enabled Fondo Acción to identify a target population for the intervention.

3.3 Development of a biodiversity offsets strategy for the Gramalote mining project

Fondo Acción, AngloGold Ashanti and Gramalote Colombia Limited, signed a third agreement in 2012 to produce the offsets strategy for the Gramalote gold min-

ing project. This agreement was possible thanks to the positive results of the feasibility study for an offset plan, oriented by the methodology of the “Business and Biodiversity Offsets Program” (BBOP), conducted in partnership with Forest Trends and Wildlife Conservation Society. The project is located in the department of Antioquia, in the central Andes of Colombia.

Fondo Acción administers the resources allocated by AGA and Gramalote Colombia Limited to this purpose and has signed contracts with Conservation International Colombia, the Wildlife Conservation Society and Forest Trends; these three technical partner agencies are in charge of conducting field work and designing the strategy. The amount of this agreement is US\$ 645,000.

The partnerships work under the following logic:

- Conservation International Colombia is responsible for preparing the component that meets requisites set by the Handbook for Environmental Offsets, a policy framework adopted by the Colombian Ministry of the Environment in order to guide the development of these strategies by the corporate sector; and
- The Wildlife Conservation Society and Forest Trends are responsible for designing the strategy following the Business and Biodiversity Offsets Program Standard (BBOP Standard). Compliance with the BBOP Standard and with Performance Standard 6 (PS6) is required by the International Finance Corporation (IFC), where the companies expect to apply for financing.

The offset strategy following the Colombian Handbook has been finished, including a valuation of ecosystem services. The offset strategy under BBOP and PS6 will be available by September 2014. The Strategy for Gramalote has been chosen by the National Agency for Environmental Licensing (ANLA) as a pilot case study for the Handbook.

4. History of the partnership and future scenarios

4.1 The backstory

In 2009 the company’s gold mining operation at La Colosa, in the Andean region of Tolima, was at the exploration stage. Despite this incipient development the project was being strongly criticised by local environmental NGOs and other groups. AGA Colombia was thus exploring the possibility of partnering with national environmental NGOs and other organizations in order to deal with this public opinion crisis; the company was also interested in approaching local stakeholders to gain social licence in order to operate in the area.

AGA conducted an assessment of several environmental NGOs operating in Colombia and in late 2009 company officials contacted Fondo Acción. They were attracted by the Fund’s network of NGOs and CBOs and by its experience in allocating resources to local projects through competitive and transparent procedures. The company also valued Fondo Acción’s Quality Control System, developed under the ISO 9001 Quality Standard.

This initial approach generated new meetings and a due diligence process where Fondo Acción learned more about AGA. Due diligence included consultations with a private company specialized in corporate reputation, strategic communications and crisis management in Colombia.

The process revealed several aspects that later paved the way for the partnership:

- AGA was certified under ISO 14001;
- The company had certified Environmental Management Systems;
- AGA was part of the Global Reporting Initiative; and
- The company was a member of the International Council on Mining and Metals (ICMM, 2001), created to improve sustainable development performance in the mining and metals industry. ICMM members included

“The initial approach generated new meetings and a due diligence process where Fondo Acción learned more about the company”

21 mining and metals companies and 33 national and regional mining associations and global commodity associations.

In November 2009, the Vice President of Sustainable Development and Regulatory Affairs met with Fondo Acción's Board and proposed the creation of an independent fund or account to be managed by Fondo Acción and funded with company resources under its Corporate Social Responsibility Strategy.

This proposal triggered a discussion on reputational risks associated with a formal interaction with a mining company. The Board recommended a site visit to the project area and to other AGA operations in other Latin American countries as well as consultations with other Colombian environmental NGOs. These recommendations were followed by the Fondo Acción team and resulted in a better understanding of the reputational risks by the Board.

The initial partnership was finally approved by the Board in December 2009. Board approval hinged on the following key factors:

- The nature of the proposed independent fund would be aligned with Fondo Acción's mission and would benefit civil society organizations and their initiatives;
- The fund would be entirely funded by AGA and its size would be manageable. A relatively small financial commitment (under US \$300.000) would be adequate for a trial phase and would enable the creation of trust between the parties;
- The company's contribution would be part of its Corporate Social and Environmental strategy and budget and would be completely independent of its legal obligations regarding the mining project in the region;
- Governance of the independent fund would be in charge of a technical committee, controlled by Fondo Acción representatives;
- The new fund would operate as an independent account under the procedures established in Fondo Acción's Quality Control System;
- The legal contract between AGA and Fondo Acción would include exit clauses in order to allow the latter to leave in any case of non-compliance by the company; and
- The agreement should enable Fondo Acción to design and implement a careful communications strategy.

The positive evaluation of the results of this first interaction led to two additional collaborations between AGA and Fondo Acción.

4.2 Challenges and future expectations

Fondo Acción has gained valuable lessons and skills through the initiatives conducted in partnership with AngloGold Ashanti. The partnership will continue at least during the life of the two initiatives that are currently under implementation: the Responsible Mining Program and the Strategy for Biodiversity Offsets. New opportunities, particularly in biodiversity offsetting and social development programs, could stem if and when the La Colosa and Gramalote projects are approved and begin implementation.