# 1% Earth Profits Fund. A private-sector conservation finance initiative for the 21$^{st}$ century

**By Richard Steiner, Professor, University of Alaska (Member of the IUCN Commission on Environmental, Economic, and Social Policy, CEESP)**


----------------------

**Abstract**
The *1% Earth Profits Fund* (EPF) is a newly proposed *private-sector* finance initiative to provide increased and sustained support to biodiversity conservation and sustainable development. As envisioned, participating companies would dedicate 1% of their after-tax profits annually into a pooled Fund, which would support urgent priorities of habitat conservation, Red-List species protection and recovery programs, and other biodiversity conservation and sustainable development projects throughout the world.

Clearly, past combined financial commitments of governments, international financial institutions, corporations, and private philanthropies have been far too small to reverse environmental decline. While some estimates suggest (James et.al., 1999), for instance, that as much as $300 billion (USD) / year would be necessary to fully protect global biodiversity, global annual spending specifically on this issue is probably less than 1% of this amount ($3 billion). As well, the conservation impact of traditional *corporate giving* has been limited due to four main reasons: 1) contributions are segregated rather than pooled; 2) funding decisions are made mostly by corporate directors for public relations and/or political value rather than by conservation professionals and communities for *conservation* value; 3) combined contributions have been too small, and 4) giving has been erratic, unpredictable, and unstable. Although national governments agreed at the Rio Earth Summit in 1992 to dedicate 0.7% of GNP to sustainable development, all but a few have failed this promise. And, GEF has neither the structure nor sufficient financial resources to address the enormity of the problem.

To address this critical problem, a new financial instrument is urgently needed – one that would complement and add to other conservation and sustainable development initiatives such as GEF, NGO programs, philanthropic giving, and direct government support.
A new $5 billion - $10 billion (USD) / year fund (only .01% - .02% of annual Gross World Product, or 1% - 2% of annual world military expenditures for instance) is necessary to adequately protect the biosphere and assist local communities progress toward sustainable economies.

It is proposed here that this urgent financial challenge be issued directly to the *global business community*. As 51 of the 100 largest economies in the world are corporations (the other 49 are nation-states), the business community represents the largest under-exploited revenue source for conservation.

A pooled fund within which businesses can dedicate 1% of their annual profits would represent an enormous step forward in the urgent need to provide financing for conservation. Profits of just the "Global 500" companies (the top 500 revenue

generating companies worldwide) were reported in 2004 at about $930 billion, and 1% of this would have amounted to $9.3 billion. Just in the energy sector alone, historic profits are presently being realized but not reinvested for public purposes. For instance, of the eight most profitable corporations in the world last year, five were oil companies – Exxon Mobil, Shell, BP, Chevron, and Total. These five reported combined profits in 2004 of $84 billion, and that amount will be greatly surpassed in 2005. A 1% profit contribution from just those 5 oil companies would have amounted to $840 million in 2004. Such companies should be invited to become genuine partners in our common conservation challenge, and do so by agreeing to become members of the *1% Earth Profits Fund.*

The *1% Earth Profits Fund* would for the first time ever provide conservation professionals and local communities a substantial and stable source of capital with which to accomplish many of the critical short and mid-term goals established for conservation.

**Problem**

In the 20th century humanity witnessed remarkable advances in many criteria by which we measure progress – health, science, equality, technology, commerce, and democracy. At the same time however, we also witnessed the development of a dramatic threat that is simply unprecedented in our collective history – the rapid and cumulative degradation of the life-sustaining biosphere in which we live.

Together, the expanding human population (+ 4-fold last century), the rising rate of resource consumption (+ 6-fold in last 50 years), and the unequal distribution of resource use are overwhelming the planet's finite ecosystems. The expanding consumption by our expanding population is causing climate change, water and air pollution, deforestation, desertification, toxic contamination, food and water shortages, gross inequality between the "have's and have-nots", and perhaps most alarmingly, the 6$^{th}$ mass extinction of life on Earth.

Underlying causes of this environmental crisis are many, including perverse incentives and subsidies, unequal geographic distribution of resources, market failures, land-tenure patterns, land speculation and markets, poverty, illegal harvests, unsustainable agriculture and energy sectors, refugee-related problems, trade, poorly regulated investment, structural adjustment policies, external debt, corruption, political inertia, and so forth. Addressing the complex of underlying causes is essential, but this will be a difficult and long-term initiative, taking perhaps decades. A resolution of the global environment crisis simply cannot wait this long.

If we honestly assess our efforts over the past 50 years to address the global environmental crisis against the alarming realities of the continuing ecological degradation, it is evident that we are losing ground in this crisis, not gaining. Efforts by governments, industry, and NGOs have been positive and laudable, but collectively have not been sufficient to reverse the overall decline in the condition of the biosphere. With regard to environmental issues, year after year we have been taking one step forward and two steps back.

For instance, when world leaders gathered in Johannesburg for the 2002 Earth Summit, they faced the most precarious environmental situation in human history. Despite the optimism surrounding the many multilateral environmental agreements (MEAs) and financial pledges (0.7% of GNP) made 10 years earlier at the 1992 Earth Summit in Rio de Janeiro, the environmental decline over the ensuing decade continued at an astonishing rate. In just 10 years, the world lost another million square miles (about 10 percent) of tropical forest; another 100,000 or so species had gone extinct; CO2 emissions and temperatures continued to climb; another billion people walked the Earth; material and energy consumption continued to soar; thousands of square miles of arable land had turned to desert; and more marine ecosystems were overexploited, etc. Clearly, whatever governments had been doing was not working. Yet despite the obvious and critical challenge before them, governments were still unable to agree to urgent measures needed to significantly combat this ecological decline.

Metaphorically, our boat is sinking, we know it, we know the causes, we know the dire consequences, we know how to correct the problem… and yet policy-makers seem almost hypnotized by the problem and continue responding by re-arranging the deck chairs - *the band plays on as the boat goes down*.

Our 20th century approach to environmental decline has not been sufficient to reverse the perilous trend, and it is essential that we now develop a new and bold 21st century approach to this crisis.

**Solution**

While the underlying causes for this environmental decline and loss of biodiversity are complex and vary from region to region, a central facet of any solution will have to be substantial, long term financial support. In addition to debt relief from governments and banks, easily accessible hard cash will be needed to provide economic alternatives to ecologically destructive activities, help stabilize population, purchase protections on threatened ecological habitat, implement environmental laws and multilateral agreements, develop sustainable energy and food production systems, restore damaged ecosystems, reduce poverty and waste, and so forth. These issues are, after all, interconnected. Money alone may not solve all of these problems, but experience has shown that the wise use of a few hundred million dollars can accomplish far more than decades of good intentions and rhetoric of government policymakers with little capital.

It is appropriate that there is substantial development assistance being provided to ecologically rich nations through such instruments as the World Bank, UN Development Program, Global Environment Facility (GEF), and direct foreign aid. However, there is woefully insufficient money available to these struggling regions for environmental conservation *per se*. To date, the combined financial commitments of governments, international financial institutions and private philanthropies have been terribly inadequate for the job. We have to stop fooling ourselves in thinking that past levels of financial support to environmental protection and sustainability are enough - they aren't.

GEF has made a positive contribution, but has obviously not been enough. GEF has neither the structure nor sufficient financial resources to address the enormity of the problem. While it is an exciting and necessary contribution to sustainable development, collectively we must acknowledge that GEF alone is insufficient to stem the loss of natural habitat and biodiversity around the world. The GEF 2002 Overall Performance Study admitted as such:

> *…given its relatively recent origins and comparatively modest resources, it is not realistic to expect that the GEF can, by itself, turn around global environmental trends.*

And without sufficient capital flowing to ecologically rich areas specifically for environmental protection, the spiral of poverty and environmental destruction will continue unabated.

To address this critical problem a new financial instrument is urgently needed – one that can complement and add to other conservation and sustainable development initiatives such as GEF, NGO programs, business contributions, and direct government support. Such a financial instrument would also help offset some of the underlying causes of environmental decline such as the perverse incentives from governments for environmentally damaging activities - estimated at $1.5 trillion/yr. - and the inability of markets to capture true costs of environmental benefits.

A new $5 billion - $10 billion (USD) / year fund (only .01% - .02% of annual Gross World Product, or 1% - 2% of annual world military expenditures for instance) would go a long way toward protecting the biosphere and assisting local societies progress toward sustainable economies. This is the minimum scale of additional, dedicated investment that is necessary if we are serious about stemming environmental decline worldwide. This suggested investment should be compared to the following estimates that:

1) Earth's ecosystems provide services valued at $33 trillion / yr. (Costanza, 1997);
2) environmentally damaging government subsidies amount to approximately $1.5 trillion / year (Myers, 1998);
3) as much as $300 billion a year would be necessary to fully protect global biodiversity (James, et.al., 1999); and
4) over the past decade, worldwide NGO spending to protect biodiversity hotspots has amounted to only about $40 million / yr. (Myers, et.al. 2000).

## ***<u>1% Earth Profits Fund</u>***

Various efforts have been proposed over the past decade to assess global taxes to help resolve environmental and sustainable development problems – on financial transactions, hydrocarbon extraction, airline miles, etc. But these have all met the same barriers, and
to date none have moved past the conceptual stage. Similarly, efforts to increase direct government appropriation have failed to substantially increase conservation financing. Governments operate in a political context that makes it extremely difficult to assign proper priority to the conservation finance challenge facing us. Clearly, governments and intergovernmental institutions must remain fully engaged in this issue, but at the same time we must look to other near-term options.

As governments have been unable to meet the critical challenge of conservation finance, it is proposed here that <u>a new fund be established to pool dedicated contributions from the global *business* community</u>. Many businesses have environmental and social policies and already contribute to worthy environmental causes, but again, collectively such contributions and efforts have been insufficient with which to reverse environmental decline. To date, conservation financing by the private sector has been largely ineffective for several reasons: contributions have collectively been far short of what is needed; contributions have been segregated rather than pooled; and conservation funding decisions have been made largely by corporate directors for public relations value rather than by conservation professionals and local people based upon conservation value.

National governments agreed at the Rio Earth Summit in 1992 to dedicate 0.7% of GNP to foreign sustainable development, and all but a few have failed this promise. Thus a similar challenge should be issued to the global business community. As 51 of the 100 largest economies in the world are corporations (the other 49 are nation-states), the business community represents the largest under-exploited revenue source for conservation. A pooled fund within which businesses can dedicate 1% of their profits would represent an enormous step forward in the urgent need to provide financing for conservation. The *1% Earth Profits Fund* would for the first time ever provide conservation professionals and local communities a substantial and stable source of capital with which to accomplish many of the short and mid-term goals established for conservation. Another potential revenue model for the Earth Profits Fund would be an assessment on company *revenues* rather than *profits*, but it is suspected that profitable companies would be more amenable to the concept of profit sharing.

## ***Global 500* Companies**

Every year, Fortune Magazine publishes its "Global 500" list of the companies around the world with greatest revenue (in addition to their Fortune 500 and Fortune 1000 list of U.S. companies). For instance, the top ten in revenues on the 2005 "Global 500" were as follows:

| *Rank* | *Company* | *Revenue* ($ millions) | *Profits* ($ millions) |
|---|---|---|---|
| 1. | Wal-Mart | 287,989 | 10,267 |
| 2. | BP | 285,059 | 15,371 |
| 3. | Exxon Mobil | 270,772 | 25,330 |
| 4. | Shell | 268,690 | 18,183 |
| 5. | General Motors | 193,517 | 2,805 |
| 6. | DaimlerChrysler | 176,687 | 3,067 |
| 7. | Toyota Motor | 172,616 | 10,898 |
| 8. | Ford | 172,233 | 3,487 |
| 9. | General Electric | 152,866 | 16,819 |
| 10. | Total | 152,609 | 11,955 |

Thus, just these 10 companies earned over $118 billion in after-tax profits in 2004 (up from the top 10's $91 billion in 2003) - 1% of which would amount to $1.18 billion.

The top 20 companies in profits in 2004 were as follows:

| *Rank* | *Company* | *2004 Profits ($ millions)* |
|---|---|---|
| 1. | Exxon Mobil | 25,330 |
| 2. | Royal Dutch Shell | 18,183 |
| 3. | Citigroup | 17,046 |
| 4. | General Electric | 16,819 |

| | | |
|---|---|---|
| 5. | BP | 15,371 |
| 6. | Bank of America | 14,143 |
| 7. | Chevron | 13,328 |
| 8. | Total | 11,955 |
| 9. | HSBC Holdings | 11,940 |
| 10. | Pfizer | 11,361 |
| 11. | Toyota Motor | 10,898 |
| 12. | Wal-Mart Stores | 10,267 |
| 13. | American International Group | 9,731 |
| 14. | Samsung Electronics | 9,419 |
| 15. | Altria Group | 9,416 |
| 16. | Petronas | 9,357 |
| 17. | Eni | 9,047 |
| 18. | China National Petroleum | 8,757 |
| 19. | Johnson & Johnson | 8,509 |
| 20. | International Business Machines (IBM) | 8,430 |

Combined top 20 profits for 2004 $ 245 billion

If just the top ten in *profits* are added, the total comes to $151 billion. While the top ten list is dominated by oil and automotive companies, other companies on the Global 500 list include electronics, communications, airlines, banks, insurance, pharmaceuticals, food, merchandise, chemical, health care, defense contractors, power, clothing, entertainment, paper, heavy equipment, soft drinks, office equipment, and so on. Thus, when thinking about conservation finance opportunities, all such companies should be considered.

Collectively, the Global 500 companies earned roughly $930 billion in profits last year – up 27% from 2003. If all such companies contributed just 1% of profits into the *Earth Profits Fund* (EPF), then the fund would have accrued $9.3 billion that year. And just for U.S. companies, the Fortune 500 shows that in 2004 they earned $8.2 trillion in revenues and $513 billion in profit. And when one considers the thousands of companies not on the Global 500 list, the pool of profits from which the 1% EPF could draw is enormous. Again, the other possible model is to base EPF contributions on a percentage of revenue (say 0.1%), but a profit-sharing model may be most acceptable as those companies not showing a profit in a year would not need to contribute.

The public relations value of a company contributing 1% of after tax profits into the *Earth Profits Fund* would be enormous. It would satisfy their corporate social and environmental responsibility policies, and divest control over funding decisions to conservation professionals around the world who should have a better grasp on funding priorities. And, it would clearly demonstrate the company's genuine commitment to the common cause of conservation.

Joining the EPF would go far beyond the traditional corporate environmental profile, in that it would put real money into action, not just talk. And it would remove spending decisions from corporate control, thereby muting any potential conflict between company policy and conservation. Above all, a sustainable world is good for business, and those businesses that understand this fundamental concept can demonstrate their understanding and commitment by joining the *1% Earth Profits Fund*.

And, EPF contributions should be tax deductible, thus giving a measure of government support for this critical initiative as well. Conversely, those companies not signing on to the EPF could be seen to be less than genuine in their professed environmental commitment.

In addition, revenues to the *Earth Profits Fund* that are not expended annually could accrue as the corpus of an endowment or trust, building a large investment fund to be available for future use. Thus, not only would critical ecological resources be preserved in the near-term, but also a substantial fund would be available in perpetuity for various environmental and sustainable development purposes. The world environment deserves such a fund.

**Fund Structure**

There are a number of administrative models that could be employed for the EPF. For discussion purposes, it is proposed initially that a Secretariat be established at IUCN HQ in Gland, and a Board of Directors representing each geographic region of the world be constituted. Funding priorities could flow up to the Board from newly established *Regional Citizens Conservation Councils* (RCCCs) in each of the high-priority regions. The RCCCs should be representative of all regional stakeholders in conservation – indigenous peoples, NGOs, resource harvesters, tourism, etc. - democratically appointed, have sufficient funding from the EPF, and sufficient administrative support. The many lessons of GEF should be applied in the structure and effective administration of the EPF.

**Funding Priorities -- habitat / biodiversity conservation**

An obvious priority for *1% Earth Profits Fund* support would be to more aggressively implement protection and recovery plans for the IUCN Red List of Threatened Species. Today, over 15,500 species are on this list, and all could benefit from substantially increased funding.

Another example of how the *1% Earth Profits Fund* can be used is providing funding for the protection of ecologically rich habitats and associated biodiversity around the world. In this regard, although the habitat conservation task before us is indeed immense, various comprehensive analyses have identified strategic conservation priorities. For instance, one recent analysis (Myers, et.al., 2000) concluded that 44% of all plant species and 35% of all vertebrate species are confined to just 2.1 million km2, or 1.4% of the land surface of Earth, (having formerly occupied some 17.4 million km2, or 11.8%). These have been called *biodiversity hotspots* – biologically rich areas (extraordinary concentration of species and high endemism) under greatest threat of destruction. The eight "hottest of the hotspots" identified by Myers, et.al. 2000, are Madagascar, Philippines, Sundaland, Brazil's Atlantic Forest, Caribbean, Indo-Burma, Western Ghats/Sri Lanka, and the Eastern Arc and Coastal Forests of Tanzania/Kenya. All have only 1% - 9% of their primary vegetation remaining. Clearly, these and other hotpots must receive priority consideration in a *triage* approach for the EPF. Likewise, extensive areas around the biodiversity hotspots should be protected and allowed to gradually recover to their natural ecological condition in order to provide additional buffer from disturbance and restoration benefit.

Beyond the highly threatened biodiversity hotspots, other extensive habitat areas need immediate protection. One comprehensive analysis (WWF, 1998) identified some 233 *representative and outstanding* terrestrial, freshwater, and marine ecoregions in need of protection – *the Global 200*. Selection criteria included species richness, endemism, higher taxonomic uniqueness, unusual ecological or evolutionary phenomena, and global rarity.   The identified ecoregions include tropical forests, temperate forests, taiga, arctic tundra, grasslands and savannas, desserts, Mediterranean shrublands, coastal rivers, large deltas, coral reefs, estuarine ecosystems, polar and subpolar marine ecosystems.

Examples include Australia's Great Barrier Reef, the Florida Everglades, the Ganges Delta, the African Rift Lakes, the Yangtze River, South Africa's Fynbos shrubland, Namib-Karoo Desert, Maoke Range of New Guinea,  Zambezian savanna, Chukotka tundra, coastal mangroves of Southeast Asia, boreal forests of Canada and Russia, dry tropical forests of Bolivia, the Choco-Darien region of northwestern South America, and so forth.

Another analysis of the world's primary forest cover (WRI, 1997) found that 70% of the world's remaining *frontier forests* (large, intact, undisturbed natural forest ecosystems) were found in just three countries – Brazil, Russia, and Canada. Further, although most countries have already lost all of their frontier forest or were on the edge of doing so, several countries offer great opportunity to conserve remaining forest cover – Brazil, Venezuela, Russia, Colombia, Canada, Guyana, Suriname, and French Guiana.

That there is substantial overlap in these identified habitat conservation priorities should give policymakers confidence in directing funds from the *1% Earth Profits Fund*.
As well, it is imperative that sufficient monies be allocated from the Fund for local communities to transition to sustainable economies, and to become true partners in conservation.

**Recommendation:**
The concept of the *1% Earth Profits Fund* should be vetted among the conservation community thoroughly and expeditiously, and perhaps the newly constituted *Conservation Finance Alliance* (CFA) could be utilized as an initial vetting mechanism. As soon as basic conceptual agreement can be reached, a letter should be sent (from IUCN and/or the CFA) to all Global 500 companies announcing the concept and asking for their consideration for participation.

An initial meeting of potentially interested corporate officers / directors should be hosted as soon as possible to discuss a framework for approaching the establishment and operation of the Fund.

A sustainable world is good for business, and business must become a more active partner in this urgent challenge – in action, not just word.  Becoming members of the *1% Earth Profits Fund* would represent a substantive means for global businesses to join this effort.