Introduction to Mobilizing Innovative Sources of Funding
Innovative Sources of Funding

- Innovative sources of funding represent potential and non-traditional modes of financing
- Constitute a new supplementary approach aimed at increasing the amount of resources available and ensuring better predictability of financial flows
- In recent years, innovative financing mechanisms are increasingly being seen as a stable and sustainable funding source that is not interrupted by changes in political dynamics or donor modalities.
Mobilizing Financial Resources

**Bankable Program**

- **Water**
  - MoEW + local auth.

- **Reforestation**
  - MoE/MoA + local auth.

- **Sustainable agriculture**
  - MoA + private sector

- **Protected Areas**
  - MoE + local auth.

- **Poverty alleviation**
  - MoSA + NGOs

**Internal Sources**

**External Sources**

- Mobilize Financial Resources from External Sources such as bilateral and multilateral donors

**Innovative Sources**

- Mobilize Financial Resources from Innovative Sources based on program requirements
Potential Financing Mechanisms

- Debt-for-nature swaps
- Compensation for ecosystem service schemes
- Compensation for conservation scheme
- Clean Development Mechanism
Financing Instruments That May Be Adapted

- **Product charges**
  - Aim: to discourage use of a product and/or build in its price the indirect environmental costs associated with its use
  - Proceeds: the revenue collected goes to the general budget
  - Example: non-returnable containers, batteries, chemicals

- **User charges**
  - Aim: cover the cost of services associated with the treatment / disposal of the pollution resulting from product use or the management of a natural asset
  - Proceeds: to the establishment managing the service
  - Example: energy or water services, natural park entrance fees
Financing Instruments That May Be Adapted

- Taxes for natural resource management
  - Aim: collect economic rents from the extraction of non-renewable resources.
  - Proceeds: the revenue collected goes to the general budget
  - Example: Royalties for extraction of non-renewables

- Liability payments
  - Aim: compensate for damage caused by a polluting activity
  - Proceeds: government (or to victims)
  - Examples: industries polluting water stream
Examples of Innovative Schemes

- Conservation easements ➔ tax reduction for landowner for conserving the land
- Small targeted grants ➔ secure a grant from a private organization for conservation of an important natural asset
- Debt-for-nature swaps ➔ a form of debt relief in return for conserving a natural asset
- Communal property rights ➔ regulate harvesting in sensitive areas by providing a form of license
Fiscal Instruments Adapted to Innovative Funding Schemes

- Differential land use taxation
  - Applying different tax rates to land activities for which the environmental impact differs
- Deforestation taxes
  - Applying a high(er) tax rate to certain logging activities
- Differential vehicle taxes
  - Vehicles are charged a yearly fee directly in relation to the engine size
- Pigovian tax
  - Levied on polluters to deter them from polluting; revenues are used to counteract the negative effects
Incentives for Actors to Become Involved in Innovative Schemes

- Benefits for public sector
  - If well established, these finance mechanisms can provide a cost-effective solution to further internalize the value of nature into the market by seeing it as a good or services that can be traded between suppliers and users.

- Direct benefits for private sector:
  - Business opportunity ➔ increase revenues, reduce risk
  - Secure, sustain or reduce costs of key natural resource inputs required for business operations ➔ watershed conservation.
  - Securing license to operate ➔ better relations with local communities, avoiding disruption from protests.
Incentives for Actors to Become Involved in Innovative Schemes

- Indirect business benefits:
  - “Green" branding of the company
  - Improved staff pride and morale

- Not business related
  - Charity / philanthropy
New Regulation That May be Required

- New legislation should recognize the ecosystem approach
- National legislation should regulate economic activities so that they do not adversely affect ecosystems
- Legislation should regulate and secure property rights
- Legislation should formalize debt-for-nature swap process
- Legislation to provide tax breaks for “green” businesses