Component 5

Resource Mobilization
- Innovative Sources of Funding

Innovative Sources of Funding - Cases and Mechanisms

PRACTICAL GUIDE TO
DESIGNING INTEGRATED
FINANCING STRATEGIES

presentation

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	Reforestation	Sustainable agriculture	Protected Areas	Poverty alleviation
MoEW + local auth.	MoE/MoA + local auth.	MoA + private sector	MoE + local auth.	MoSA + NGOs

Internal Sources

External Sources

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

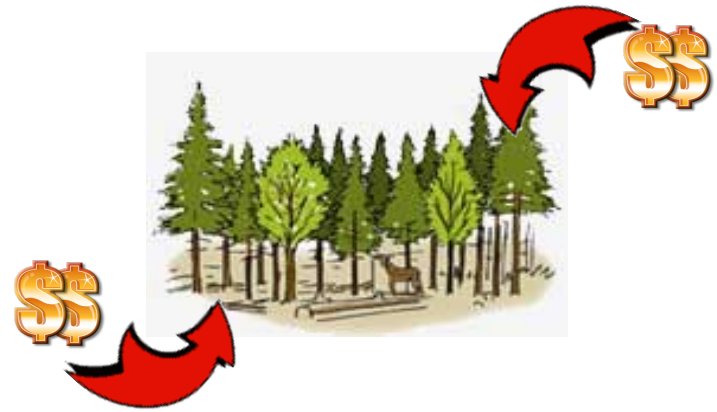
Innovative Sources

Mobilize Financial Resources from Innovative Sources based on program requirements

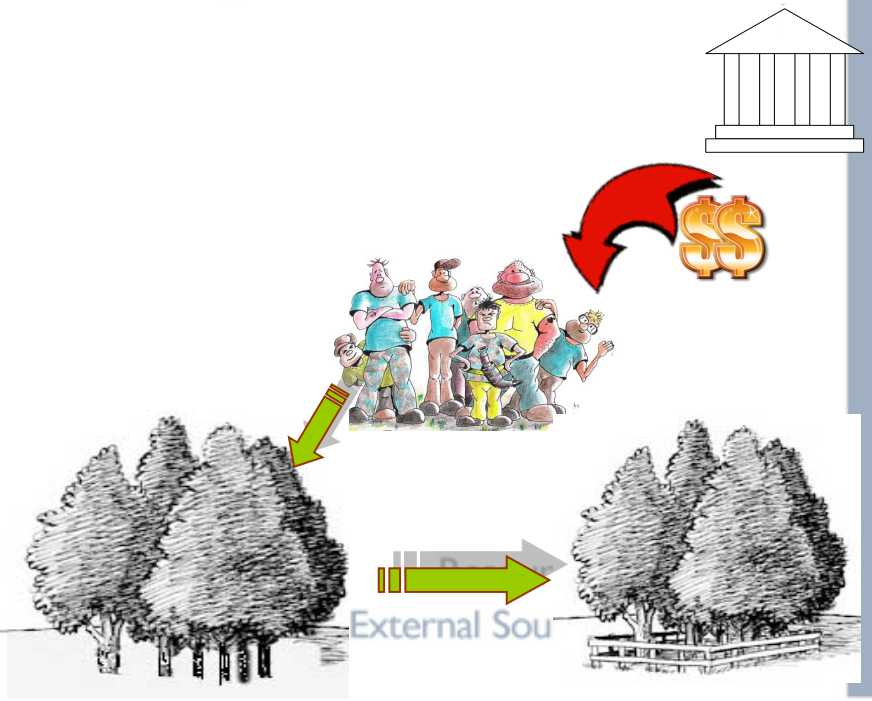
Protected areas, forest and rangeland management, soil conservation

1. Financial Assistance

- Small targeted grants transfer payments usually from non-commercial private or public sources



- Conservation leasing payment by a government agency or private organization to landowners who voluntarily conserve natural assets on their land

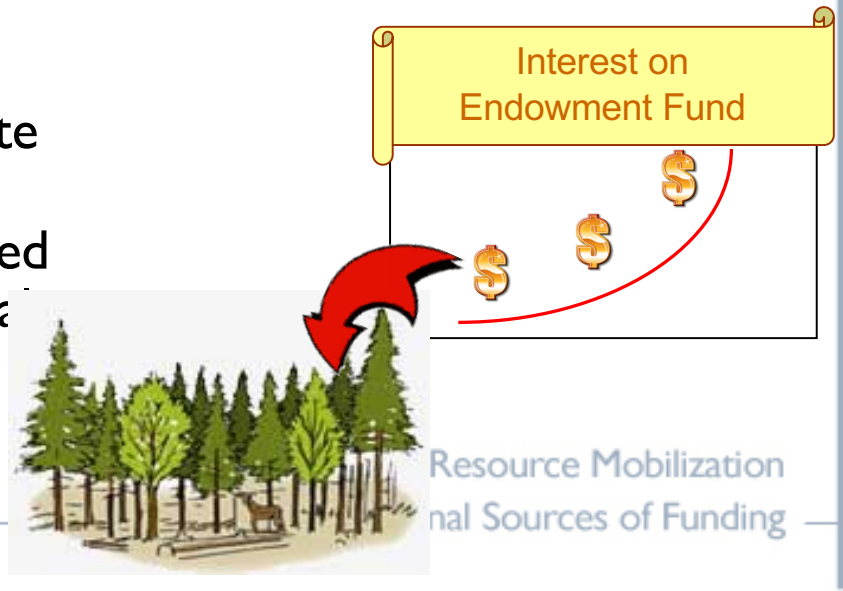


Protected areas, forest and rangeland management, soil conservation

1. Financial Assistance - continued

- Soft credits loans with flexible forms of payment or low interest aimed at financing activities with conservation value and economic benefits – e.g. organic farming, sustainable extraction of forest products…

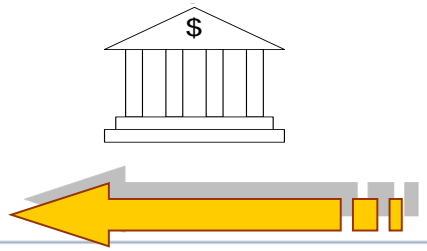
- Endowment funds established by private or public resources where interest earned on an endowment fund is applied to conservation purposes, while origina capital remains invested – therefore a substantial amount is required

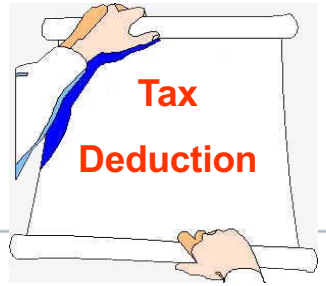


Protected areas, forest and rangeland management, soil conservation

2. Defining Property Rights

- Conservation easements: voluntary legal agreements that allow landowners to permanently restrict the type and amount of development on their property, made in partnership with land trusts (that monitor and enforce land use restrictions on current and subsequent owners) while in return fiscal instruments such as tax deductions or exemptions are given.





Protected areas, forest and rangeland management, soil conservation

2. Defining Property Rights - continued

- Communal property rights are a form of land right that limits access to public land and establish governance rules for community users. Communal property rights operate as common property inside and as private property to outside the group, and have the potential to promote local community participation in biodiversity conservation

Market Creation: TDRs

Tradable development rights (TDR)

- marketable rights awarded to landowners in areas reserved for conservation.
- these rights can be sold to the owners of land in development areas
- TDRs can potentially enhance **economic equality** relative to the typical system of zoning for conservation

Market Creation: TDRs

Nature reserve → no development allowed

Reserve value = 850 TDR

200 TDR

Land in development area

Land value = 500 TDR
Requires 700 TDR to commence development

- **TDRs can be sold to owners of land in development areas**
- **TDRs can be sold to organizations with conservation interests**

Charges, Taxes, and Tax Exemptions

- Fiscal instruments – such as charges, taxes and tax exemptions – may be applied by governments with the aim of promoting sustainable production and consumption practices and raising revenues
- In protected areas
  - entrance fees
  - concession payments for tourism
  - hunting and fishing fees
- When protecting agricultural biodiversity
  - pesticide charges
  - fertilizer charges

Debt-for-Nature Swaps - example

Steps

1. NGO purchases US$ 1 million of debt at discount for US$ 200,000 (20% of face value) from creditor
2. Debtor government purchases the US$ 1million of debt at discount for US$ 300,000 equivalent of domestic currency (30% of face value)
3. NGO invests the US$ 300,000 equivalent in a government-approved development project in the country

Results

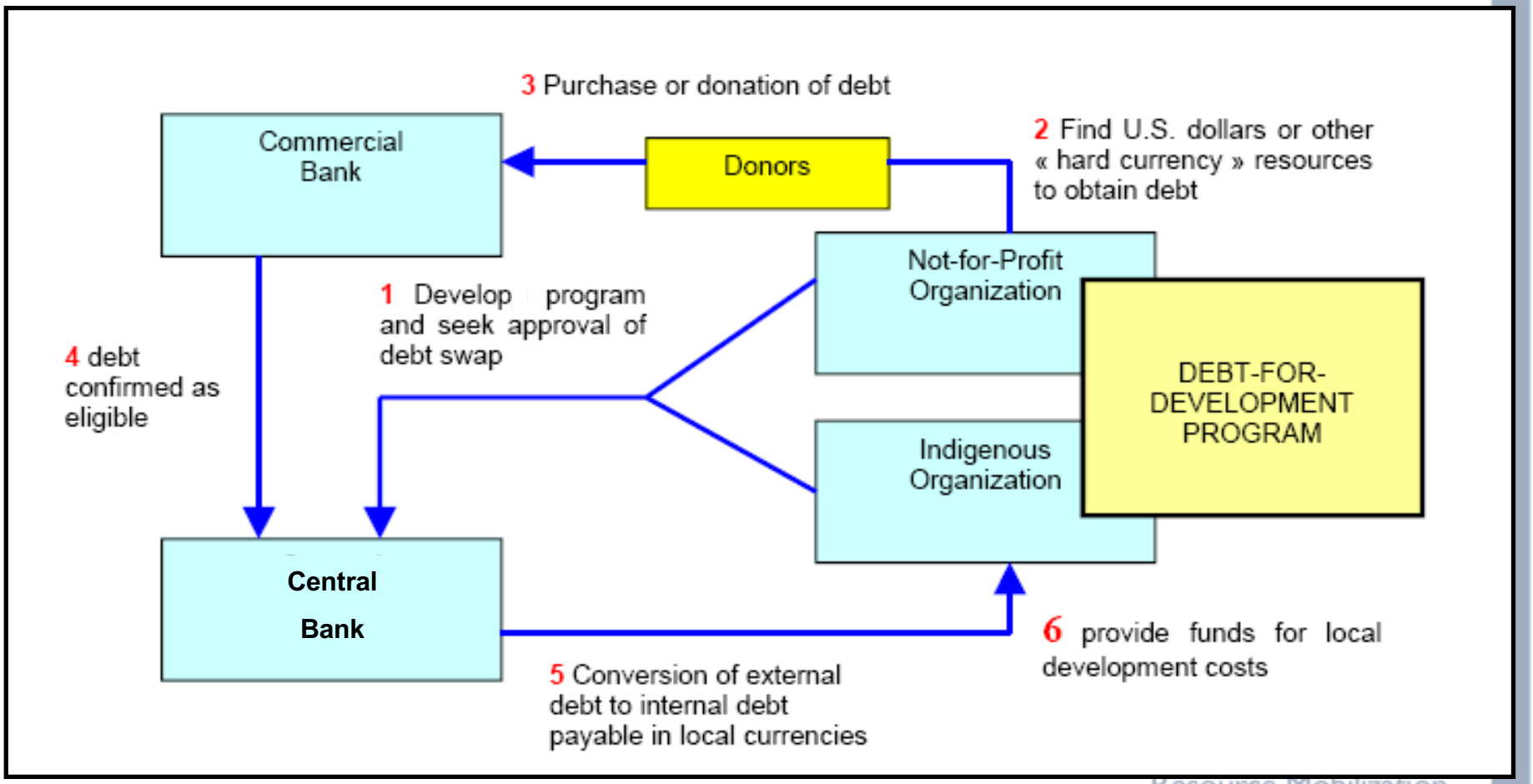
Debtor country retired US$1 million of external debt for US$ 300,000 equivalent of domestic currency (30% of face value).

Creditor received market price for US$ 1 million of debt (US$ 200,000).

NGO receives US$ 300,000 equivalent for US$ 200,000 investment

US$ 300'000 equivalent of domestic currency is invested in a domestic development project.

Debt-for-Nature Swaps – General Steps



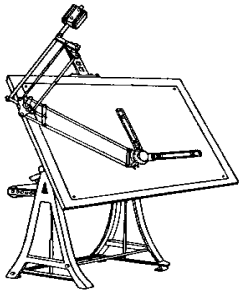
Mechanisms under the UNFCCC & Kyoto Protocol

- Clean Development mechanism (CDM)
  - allows Annex I Parties to implement projects that reduce greenhouse gas emissions in non-Annex I Parties
  - assisting non-Annex I Parties in achieving sustainable development and contributing to the ultimate objective of the Convention
  - Land use, land-use change, and forestry could be considered in CDM transfers

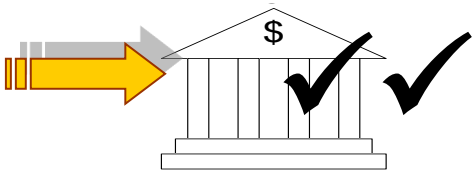
CDM

- The parties involved in the CDM process are as follows:
  - project participants (e.g. project dealers and investors),
  - CDM executive board (within the UNFCCC),
  - Designated National Authority – DNA,
  - Designated Operational Entity (DOE) and others such as the Conference of Parties (COP) and buyers of carbon credits.

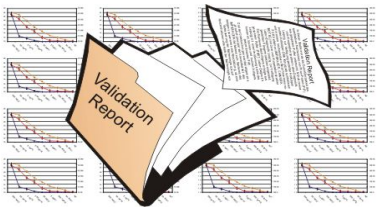
CDM Process



Project design & formulation



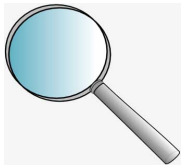
National Approval

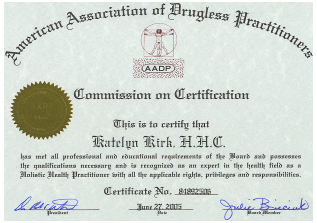


Validation & registration

Project implementation

Monitoring





Verification & Certification

Issuance of CER

"Greening" the Taxation System

- Water /electricity use charges
- Decrease business tax and in return enforce a pigovian tax
- Built property tax ➔ increase taxes on buildings that reduce environmental quality and decrease taxes on "green" buildings
- Property registration tax ➔ increase on properties that rank high in water and energy consumption
- VAT ➔ increase VAT on less environment-friendly products
- Excise taxes levied on non-essential goods ➔ increase on hazardous items / chemical products such as pesticides