Application of Innovative Financial Instruments to Marine Conservation in Sri Lanka

An Initial Assessment and Matrix

December 2023

Natural Capital Forum

CENTRE FOR A SMART FUTURE

Background

The first Knowledge Roundtable on Innovative Financing for Marine Conservation was conducted on the 12th of October 2023 where various financial solutions and instruments were discussed

The need to compare these solutions with each other for deployment in Sri Lanka was identified

A Matrix was suggested to attempt to better understand these innovative financial solutions
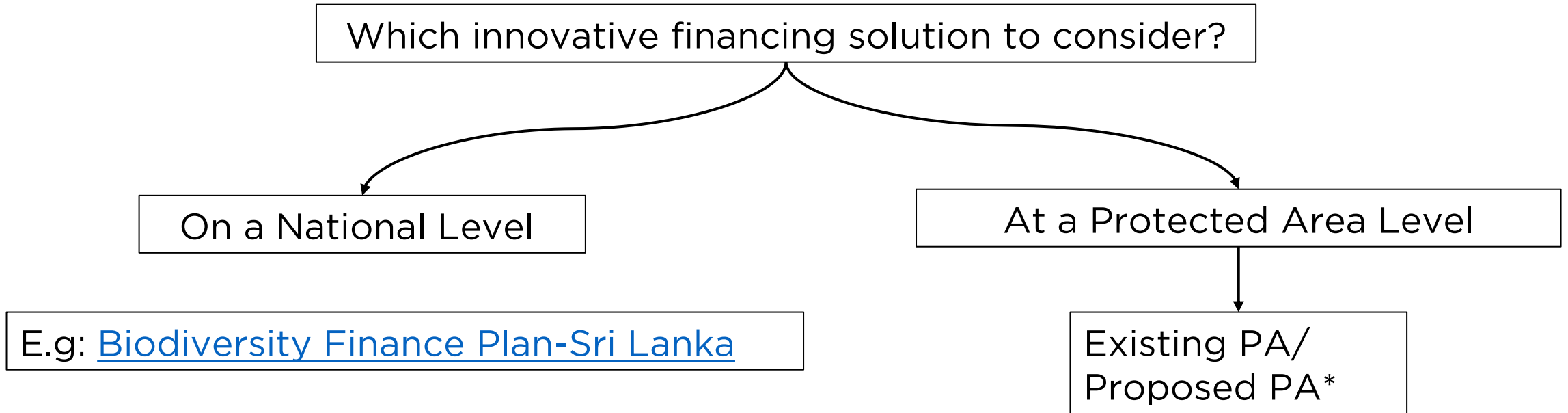
Each instrument is unique making an apples-to-apples comparison complex

Objectives

- **Compare** the various innovative financial solutions and **identify** which are the most **desirable and feasible** to implement

- Visually represent this information on a **matrix**

- Provide a **starting point** for industry players, regulators, policymakers, and other interested parties to make meaningful improvements to financing marine conservation in Sri Lanka

Logical conceptualization of problem

Which innovative financing solution to consider?

On a National Level

At a Protected Area Level

E.g: Biodiversity Finance Plan-Sri Lanka
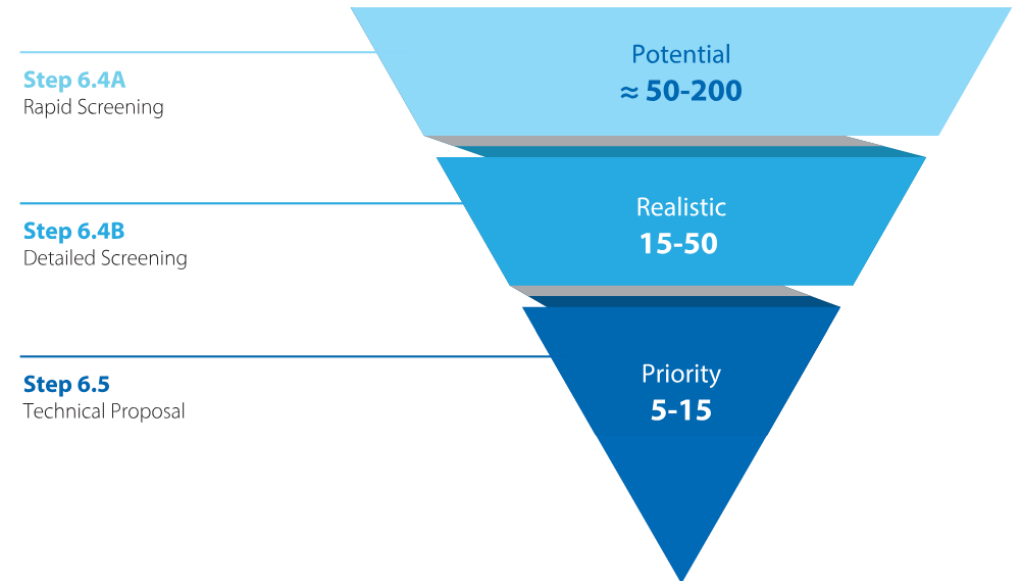
Existing PA/ Proposed PA*

Assumptions:

- The PA should have an existing management plan with clearly stated activities and objectives
- The management plan has the relevant conservation authorities backing
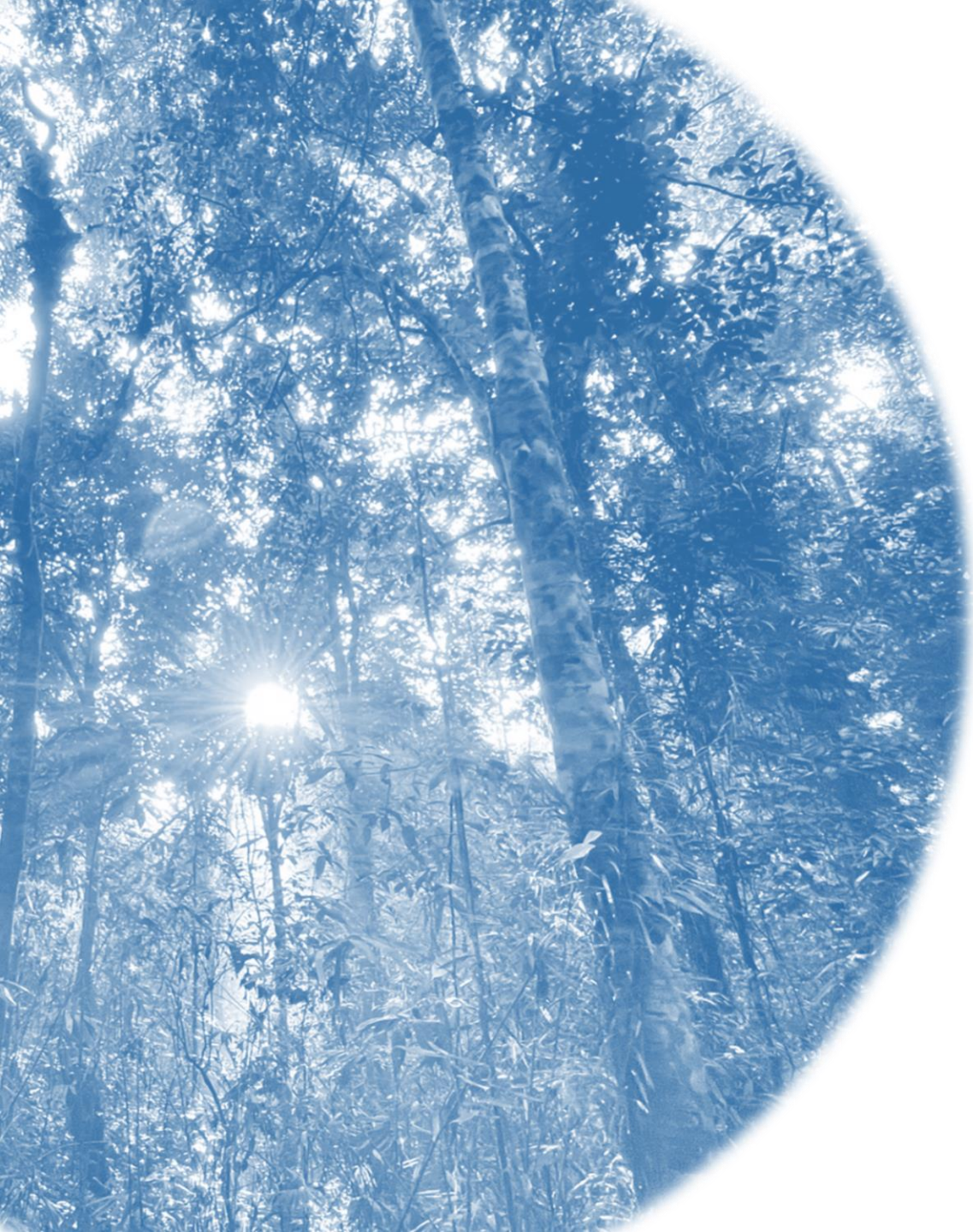- The management plan is proposed for a period of at least one year

Methodology

- To answer this question "Which innovative financing solution to consider?" we assumed the POV of deliberation and execution is on a **National Level**

- Based on the UNDP and the Global Biodiversity Finance Initiative BIOFIN Workbook, a screening criteria was developed (refer to Annexure 1: Screening Criteria) where a **subjective ranking** was used to assign a score to each instrument to gauge the components:

1. Likelihood of success
2. Impact on biodiversity
3. Financial impact
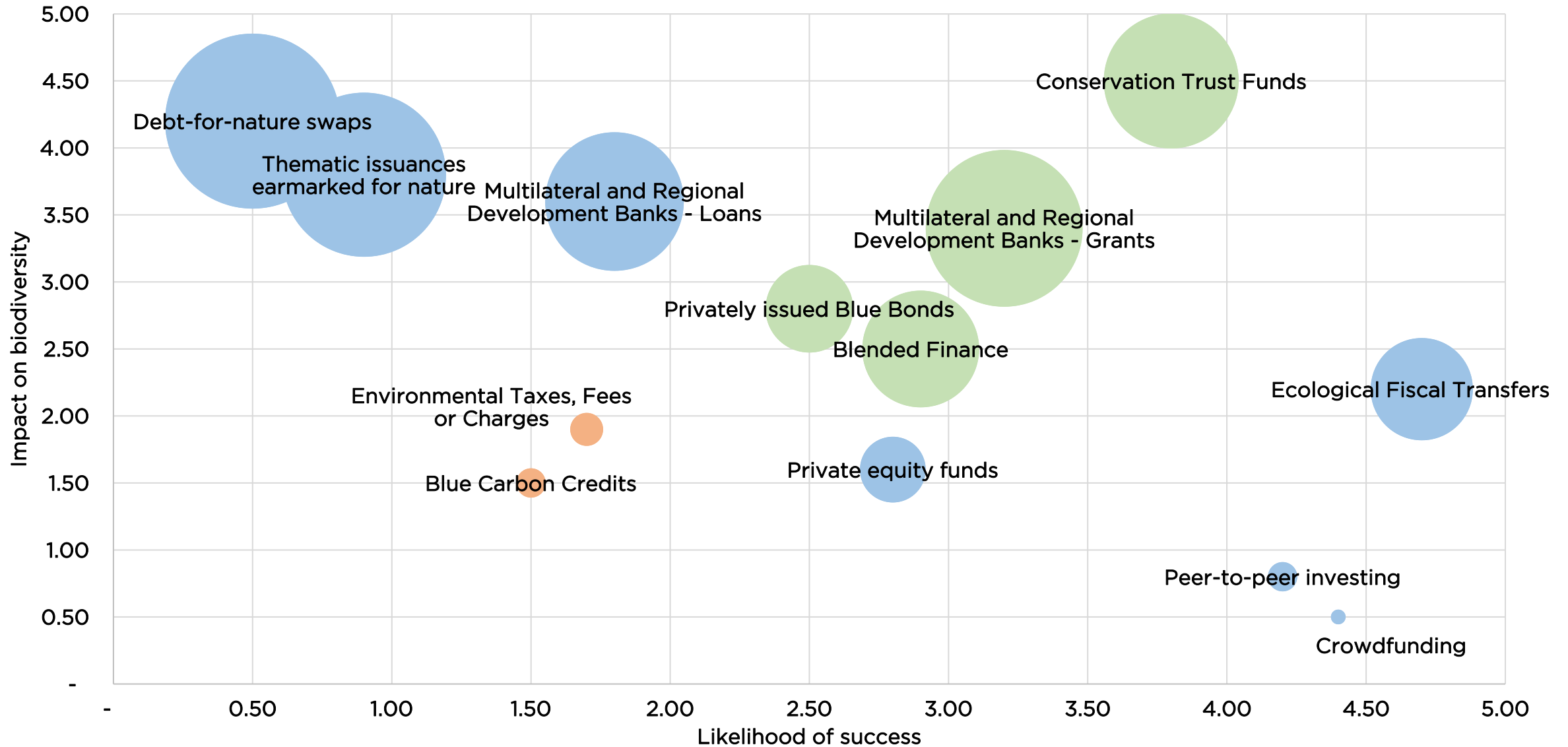
Methodology (continued...)

- For the screening process (refer to Annexure 1: Screening Criteria) basis of three straightforward criteria were used and rating scale ranges from 0 to 5 to gauge the components:

(a) (Potential) Likelihood of success
(b) (Potential) Impact on biodiversity
(c) (Potential) Financial impact

- **Tool: A matrix assessment tool with criteria informed by the BIOFIN considerations**

- The solutions are listed on the [BIOFIN Catalogue of Finance Solutions](#) which is a searchable catalog providing an open-source listing of all solutions profiled

- A similar process has been followed by The Biodiversity Finance Plan (BFP) of Sri Lanka; without a prioritization of the recommendations

- Based on the BIOFIN [Screening Criteria](#)

Step 6.4A
Rapid Screening

Potential
≈ 50-200

Step 6.4B
Detailed Screening

Realistic
15-50

Step 6.5
Technical Proposal

Priority
5-15

Matrix and next
steps

Matrix

Key: Size of the bubble - Financial impact

Refer Annexure 2: Summary Subjective Rankings

Bubble chart labels:
- Debt-for-nature swaps
- Thematic issuances earmarked for nature
- Multilateral and Regional Development Banks - Loans
- Conservation Trust Funds
- Multilateral and Regional Development Banks - Grants
- Privately issued Blue Bonds
- Blended Finance
- Environmental Taxes, Fees or Charges
- Blue Carbon Credits
- Ecological Fiscal Transfers
- Private equity funds
- Peer-to-peer investing
- Crowdfunding

Axes:
- X-axis: Likelihood of success (- , 0.50, 1.00, 1.50, 2.00, 2.50, 3.00, 3.50, 4.00, 4.50, 5.00)
- Y-axis: Impact on biodiversity (-, 0.50, 1.00, 1.50, 2.00, 2.50, 3.00, 3.50, 4.00, 4.50, 5.00)

Next Steps in our project

- Apply the process at a Protected Area Level to the (Vidathalthivu Nature Reserve), given site-specific considerations

- Expand the matrix logic to take community considerations and tradeoffs as a factor

- Apply the Detailed screening Test to the instruments

- Develop the matrix to be configurable on a site-to-site basis
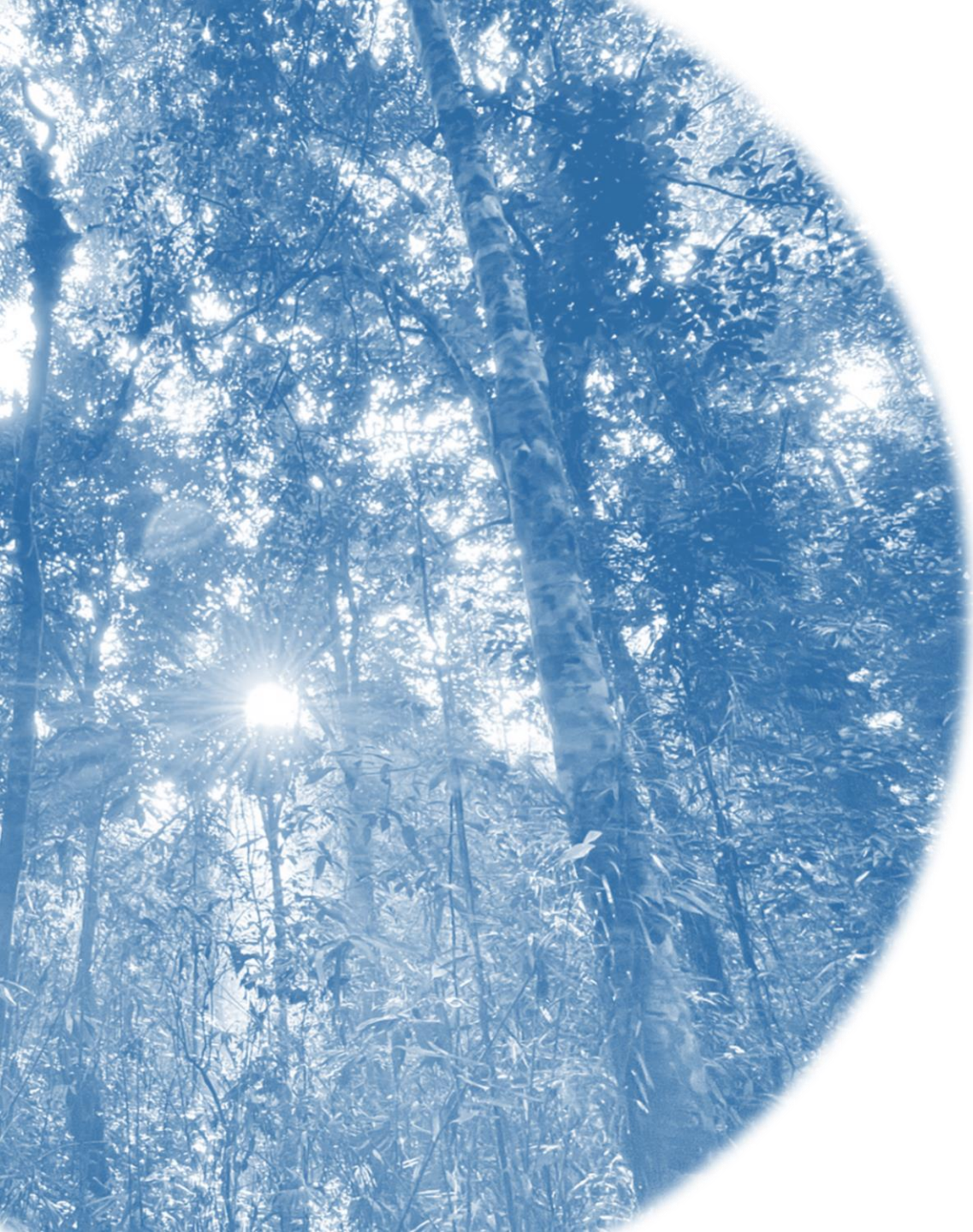
Recommendations and Limitations

Limitations

- Given the nature of these instruments an expectation of an apples-to-apples comparison is too simplistic and crude
- The solutions are not tailored to Marine Conservation Finance or MPAs. Just general Biodiversity and nature conservation targeting financial solutions
- The BIOFIN workbook focuses on regulator and public-sector-led solutions
- The ability to locally deploy these instruments is not evidence-backed
- The ability to engage meaningfully with communities is not factored

Recommendations

- Carefully select experts and participants invited to scoring and validation workshops
- Conduct one-to-one detailed interviews with experts
- Make explanatory information available to experts when asked to rate and rank the finance solutions (a clear definition and scope for each finance solution is a prerequisite)
- Cross-check the scoring made by experts with international literature and comparable countries

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Annexure 1: Screening Criteria

Impact on biodiversity	No or insignificant impact	0.0 – 0.9
	Low impact or high uncertainty about the same	1.0 – 1.9
	Moderate impact on biodiversity and ecosystem services	2.0 – 2.9
	High impact on biodiversity and ecosystem services	3.0 – 3.9
	Very high impact on threatened/endangered species and habitats (biodiversity) and critical ecosystem services	4.0 – 4.9
Financial impact	Minimal scale of resources mobilized or saved (compared to current expenditures or needs)	0.0 – 0.9
	Potential to mobilize or save a low amount of resources (Approximately under 10 percent of current expenditure or needs)	1.0 – 1.9
	Potential to mobilize or save a moderate amount of resources (Approximately between 10-25 percent of current expenditure or needs)	2.0 – 2.9
	Potential to mobilize or save a high amount of resources (Approximately about 25-40 percent of current expenditure or financing needs)	3.0 – 3.9
	Potential to broadly mobilize or save a very high amount of resources (A significant impact on the biodiversity finance agenda)	4.0 – 4.9
Likelihood of success	Virtually no chance of success under current conditions. Commercially unviable (if relevant).	0.0 – 0.9
	Low likelihood of success due to high political and social resistance or major operational or technical barriers. Limited commercial viability (if relevant).	1.0 – 1.9
	Moderate likelihood of success due to limited political and social support or known operational or technical barriers. Limited commercial viability (if relevant). Limited record of success, replicability or scalability in comparable contexts	2.0 – 2.9
	High likelihood of success. Sufficient political and social support. Commercially viable (if relevant). Operational challenges are manageable. Relevant record of success, replicability or scalability in comparable contexts	3.0 – 3.9
	Very high likelihood of success. Broad political and social support and sound commercial viability (if relevant). No operational challenges known. Strong record or expectation of success, replicability or scalability in comparable contexts	4.0 – 4.9

Annexure 2: Summary Subjective Rankings

	INSTRUMENT	SUBJECTIVE RANKINGS		
		Potential Likelihood of success	Potential Financial impact	Potential Impact on biodiversity
1	Blue Carbon Credits	1.50	1.50	0.80
2	Ecological Fiscal Transfers	4.70	2.20	2.80
3	Environmental Taxes, Fees or Charges	1.70	1.90	0.90
4	Thematic issuances earmarked for nature	0.90	3.80	4.50
5	Privately issued Blue Bonds	2.50	2.80	2.40
6	Debt-for-nature swaps	0.50	4.20	4.80
7	Multilateral and Regional Development Banks - Grants	3.20	3.40	4.30
8	Multilateral and Regional Development Banks - Loans	1.80	3.60	3.80
9	Blended Finance	2.90	2.50	3.20
10	Peer-to-peer investing	4.20	0.80	0.80
11	Crowdfunding	4.40	0.50	0.40
12	Private equity funds	2.80	1.60	1.80
13	Conservation Trust Funds	3.80	4.50	3.70