**POLICIES AND INSTITUTIONAL REVIEW**

**EXECUTIVE SUMMARY**

**Background**

1. This report provides the Biodiversity Finance Policy and Institutional Review (PIR) for the national Biodiversity Finance Initiative (BIOFIN), an initiative by UNDP Sri Lanka in partnership with the Ministry of Mahaweli Development and Environment and the Ministry of Finance and Media. This initiative is part of global BIOFIN which seeks to help biodiversity rich developing countries make necessary changes to bridge the finance gap between funds available for biodiversity conservation and actual expenditure (financial needs). It also seeks to help these countries integrate biodiversity into fiscal policy, financial planning, and the overall financial system in general.
2. The aim of the PIR was to analyse Sri Lanka’s fiscal, economic, legal, policy, and institutional framework to identify, improve, and scale effective biodiversity finance solutions and to provide a base for the entire national BIOFIN process. The PIR thus feeds into the Biodiversity Expenditure Review (BER), Finance Needs Assessment (FNA), and Biodiversity Finance Plan (BFP).
3. Data for the PIR were gathered from desk review of reports and publications, institutional visits for individual and group meetings, telephone interviews, a roundtable meeting, workshops and other fora that discussed biodiversity matters of relevance to BIOFIN. Laws, policies, key plans and strategies of relevance for BIOFIN were perused to determine their effectiveness and flexibility to permit biodiversity finance solutions, and to identify potential entry points to mobilize financial resources. A detailed study was made of the National Biodiversity Strategic Action Plan (NBSAP) 2016-2022 and the National Biodiversity Planning Processes (past and present) for lessons to ‘deliver better’.
4. Sri Lanka has a rich biodiversity due to varied factors that have resulted in high ecosystem, species and genetic diversity, and exceptional endemism among its wild fauna and flora. The diverse species and the ecosystems where they occur, as well as the numerous ecosystem services they provide, form the island’s natural capital which contributes considerably to the country’s economy and people’s wellbeing. Despite its importance, Sri Lanka’s biodiversity is imperilled by many threats, mainly: habitat degradation, fragmentation and loss; alien invasive species; over-exploitation and destructive extraction of bio-resources; pollution; human-wildlife conflict, and impacts of climate change. They are exacerbated by several human activities (drivers), poor law enforcement and policy implementation (catalysts).

**Enabling Environment for Biodiversity Conservation**

1. **Legal and policy framework:** The existing legal and sectoral policy framework, comprising the Constitution, laws and policies, adequately support biodiversity conservation. Laws influencing biodiversity conservation are sufficiently flexible to implement biodiversity finance solutions, particularly as regulations can be made under them when required. However, there are very serious gaps in law enforcement and policy implementation.
2. **Institutional aspects:** Institutional mandates, visions and missions of agencies important for biodiversity conservation are well formulated and enable biodiversity conservation in natural and agricultural systems. Even agencies traditionally known as “impactors” on biodiversity are now beginning to consider biodiversity in their work programmes. However, the absence of an appropriate multi-tiered structure to monitor implementation of the NBSAP (linked to an overarching structure to monitor and coordinate environmental conservation which is also lacking) is a major gap in the institutional set-up. This has led to poor institutional coordination and collaboration for biodiversity conservation at national level, as well as between national and sub-national levels. It precludes integration of biodiversity conservation into sectoral and cross-sectoral plans and programmes of other agencies, including integration into development and fiscal policies, financial planning and the overall financial system in general.
3. **Poor perception of potential:** Another barrier is that there is poor perception of potential offered by biodiversity for national development. Hence, biodiversity receives low attention among key government policy makers, financial experts, top level administrators, bankers and business leaders. This has led to low priority for investments in biodiversity conservation and sustainable use of bio-resources. This is caused by inadequate awareness of the immense potential offered by the island’s biodiversity to contribute to economic development, mainly due to poor communication (i.e. lack of strategic communication) for biodiversity and the absence of quantifiable evidence based valuation and bio-economic modelling. There are indications that this trend may reverse in the future as various aspects are being incorporated into policy-making.
4. **Capacity for resource mobilisation:** Due to the existing finance landscape, resource mobilisation for biodiversity conservation in Sri Lanka is largely conventional. The national budgetary allocations are the main source of biodiversity related funding for all conservation agencies. Much of the additional finance needs (to bridge the finance gap) are met through projects funded by grants and/or loans, mostly from external funds. The ability to mobilise such funding from national and external sources varies between agencies from low to high, with medium ability overall. There is inadequate consideration of ‘deliver better’, ‘realign expenditure’ and ‘avoid future expenditure’ and use of novel methods for resource mobilisation as solutions to bridge the biodiversity finance gap.
5. **Existing BFS in Sri Lanka:** Revenue generation activities are permitted within the existing legal and policy framework that govern biodiversity conservation, and many are already in operation. Those falling within the ambit of BFS are fines, cess payments, levies, fees, licenses, registration, green taxes (new), permits, payment for ecosystem services, biodiversity offsets (rare), mitigation, tourism reform, sales, and payment for technical services. Details are provided as to how agencies concerned with *in-situ* or *ex-situ* conservation of biodiversity generate biodiversity related revenues. However, none of the BFS already in use (except entrance ticket sales and sale of timber) are looked upon as avenues to generate significant institutional revenue. Re-forming the fertilizer subsidy and initiatives to reduce reliance on fossil fuel powered cars are also BFS that can free-up monies for biodiversity related expenditure.
6. **Barriers in the financial landscape:** Financial centralization dominates the country’s public finance system. This has resulted in lack of connection between income generation and expenditure by agencies engaged in biodiversity conservation. These agencies depend mainly on allocations from the national budget while substantial biodiversity related revenue they generate is remitted into the Consolidated Fund wholly or in part. While many biodiversity related agencies are permitted by law to have a special fund into which varying parts of the revenue they gain (e.g. fines) can be remitted, the expenditure from these funds is defined and limited by law. A few agencies are permitted to retain all revenue generated, but these are exceptions. An example is the model adopted by the DWC. Consequently, most agencies mandated with environmental/biodiversity conservation find the national budgetary allocations insufficient to carryout their mandated conservation activities as well as other activities assigned to them in the NBSAP, *Punarudaya, Haritha Lanka*, and other commitments that come up from time to time. There is also no incentive to generate more funds to bridge the biodiversity finance gap when the funds so received cannot be retained. Zero and performance based budgeting which do not take into account the challenges of field based activities may also reduce incentives for conservation agencies to explore novel means of revenue generation.

**PIR Recommendations**

The recommendations are separated into three segments (a) General policy and institutional reform, (b) Enabling resource mobilisation, and (c) implementation of the BIOFIN methodology for the FNA and FP.

**General policy and institutional reform:**

1. There should be an efficient coordination and monitoring institutional framework (including relevant Task Forces and working groups) to facilitate and track NBSAP implementation. This should be linked to an overarching Environmental Action Plan and a functional multi-tiered mechanism/framework to monitor and coordinate environmental conservation (including biodiversity conservation), with a high level apex mechanism to monitor environmental conservation.

1. Facilitating effective coordination and mainstreaming of biodiversity concerns at the national and sub-national levels is vital. This could be assisted by:

(a)re-establishing the mid-professional level biodiversity network among stakeholder agencies important for biodiversity conservation, with representation from the central and provincial agencies. Training should be provided to members to “deliver better”, and

(b) re-vitalising or re-establishing the District Environmental Committees (DEC). These should be used as ‘vehicles’ to mainstream biodiversity conservation and promote adherence to national policies at district level.

1. Capacity should be built among staff in conservation agencies to prepare and implement policies and strategies in collaboration with other stakeholders. Central government authorities should involve provincial authorities for national policy development, planning and implementation to preclude overlapping and conflicting policy and management situations and enlist cooperation and collaboration.
2. It is necessary to strengthen the enforcement of biodiversity related laws and regulations via a multi-pronged approach through: routine training programmes for police officers and other law enforcement officers; enhancing biodiversity knowledge among members of the judiciary and non-conservation oriented agencies that impinge on biodiversity; and providing the required resources and enabling conditions (sans interference) for law enforcement.
3. Capacity should be built for communication and negotiation to assist mainstreaming and holistic integration of biodiversity concerns into other sectors, and to communicate the NBSAP recommendations and other biodiversity related policies and plans to all relevant target groups. This needs implementing a comprehensive communication strategy that follows due process and avoids common communication mistakes, supported by biodiversity valuation and clear economic incentives for behaviour change. It is also important to build capacity to negotiate effectively at CBD/COPs and other external fora through strong representation from the country.
4. It is necessary to engage the business sector via the chambers of commerce to make them viable partners for biodiversity conservation, supported by messages that communicate a business case for investing in biodiversity conservation. Likewise, capacity should be built among environmental NGOs for various aspects of biodiversity conservation, and they should be engaged to achieve desired outcomes to implement the NBSAP.

**Enabling resource mobilisation**

1. Most agencies would benefit from training staff to prepare compelling project proposals—with strong justifications, links to development, and realistic budgets—for submission to the budget department and external donors.

**Implementation of the BIOFIN methodology for the FNA and FP**

1. The BFS selected for Sri Lanka should consider solutions to “deliver better”, “realign expenditure” and “prevent future expenditure” in addition to revenue generation. It is also important to consider that there are more serious barriers impeding biodiversity conservation in Sri Lanka than the lack of funds, such as lack of enforcement of laws, policies and plans; inadequacies in the overall enabling mechanisms to mainstream biodiversity concerns; lack of an efficient institutional framework to monitor biodiversity conservation; poor coordination that preclude integrating biodiversity concerns into sectoral and cross-sectoral plans and programmes at national and sub-national levels; weak links between the central government and provincial authorities with regard to biodiversity matters, and the overall fragmented approach to environmental conservation in general.
2. The FNA and BFP should to look at, and beyond, the recommendations of the NBSAP. This requires incorporating recommendations from other documents and for matters that are not adequately dealt with by the NBSAP. This is addressed in detail in the PIR. Other documents to be considered are: the NRIFAP, Integrated Financing Strategy for Sustainable Land Management, the National Adaptation Plan for climate change in Sri Lanka, and the National Action Plan for Capacity Self-needs Assessment (NCSA) for Global Environmental Management. Creating synergy with ongoing initiatives in the spheres of land degradation and climate change and REDD+ activities would also reduce the funding requirements for biodiversity per se.
3. It is necessary to enhance already existing resource mobilisation to fill the finance gap for biodiversity conservation. Recommended actions are:

* Enhance BFS already enabled by the legal and regulatory framework to be more productive with help from BIOFIN.
* Explore the possibility of reforming finance policies to enable agencies retain all or a greater part of their revenue from biodiversity related actions, using the DWC case as an example.
* Explore possibilities of community agreements for forest vigilance in lieu of water from forests. Likewise, explore the possibility of monitoring of EPA and EIA requirements by local communities to extend the reach of the CEA.
* Review the existing BFS and propose means of setting aside funds for conservation activities by the SLTDA in partnership with the DWC or FD.

1. Align BFS with government priorities, taking advantages of the many entry points in the fiancé landscape and development sector, such as:

* Taxes for ecosystem services provided to industry which is largely overlooked.
* Public-Private Partnership (PPPs) projects to conserve or sustainably use biodiversity as a means of reducing reliance on government expenditure.
* Use of subsidies or tax reliefs to promote greater use of solar and wind power that could free-up monies spent on coal power generation. A part of the savings could be set aside for climate change related aspects affecting biodiversity conservation.
* Cater to the government’s interest in promoting top-end ecotourism to increase revenues for the FD and DWC by helping these agencies exploit this niche market to advantage.
* Promote biodiversity valuation and bio-economic modelling to obtain quantitative figures to be presented to policy makers, budget planners and the business community to make the business case for biodiversity.

22. While identifying new BFS was outside the purview of the PIR, several emanated from the discussions held during consultations for the PRI. They are:

* **Revenue generation**: Explore use of a special lottery for biodiversity conservation fund.
* **Deliver better:** Capacity building of staff in conservation agencies as an investment by training them on technical aspects relevant to biodiversity conservation, proposal writing and budgeting, negotiation, monitoring and evaluation, and communication.
* **Explore tax exemptions** for private forests and forest analogue home gardens, green building, alternate energy sources, maintaining a high mixed species canopy cover outside and between natural forests by private individuals/companies, etc.
* **Provide incentives and tax reliefs** to promote use of solar and wind power to reduce dependency on coal power.

23. As most innovative BFS (used in other countries) are new to many people in Sri Lanka, awareness should be provided about the scope of novel Biodiversity Finance Solutions before consulting stakeholders to identify BFS for the Sri Lanka Biodiversity Finance Plan.