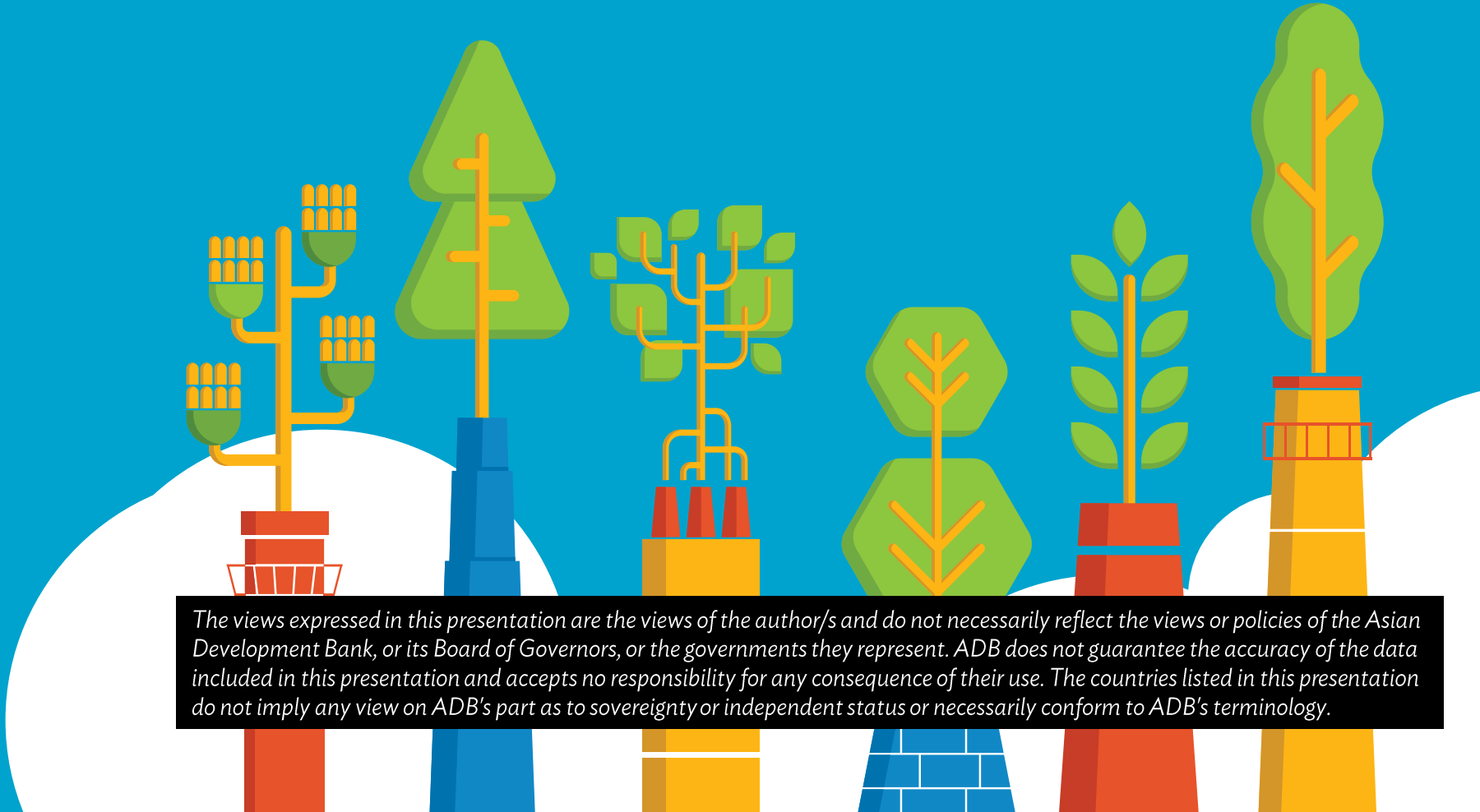


# Innovative financing instruments

## Eco-compensation in PRC



Sustainable Financing for Nature Positive Investments: Tools for Integrating Economic and Market-Based Instruments into Projects

*The views expressed in this presentation are the views of the author/s and do not necessarily reflect the views or policies of the Asian Development Bank, or its Board of Governors, or the governments they represent. ADB does not guarantee the accuracy of the data included in this presentation and accepts no responsibility for any consequence of their use. The countries listed in this presentation do not imply any view on ADB's part as to sovereignty or independent status or necessarily conform to ADB's terminology.*

## Institutional barriers

- Rivers typically represent provincial boundaries in many areas
- Ecological protection requires cross-provincial coordination and cooperation
- Multiple agencies and lack of role clarity
- Financing gaps
- Lack of incentives!



# Financial innovation for ecosystem services protection

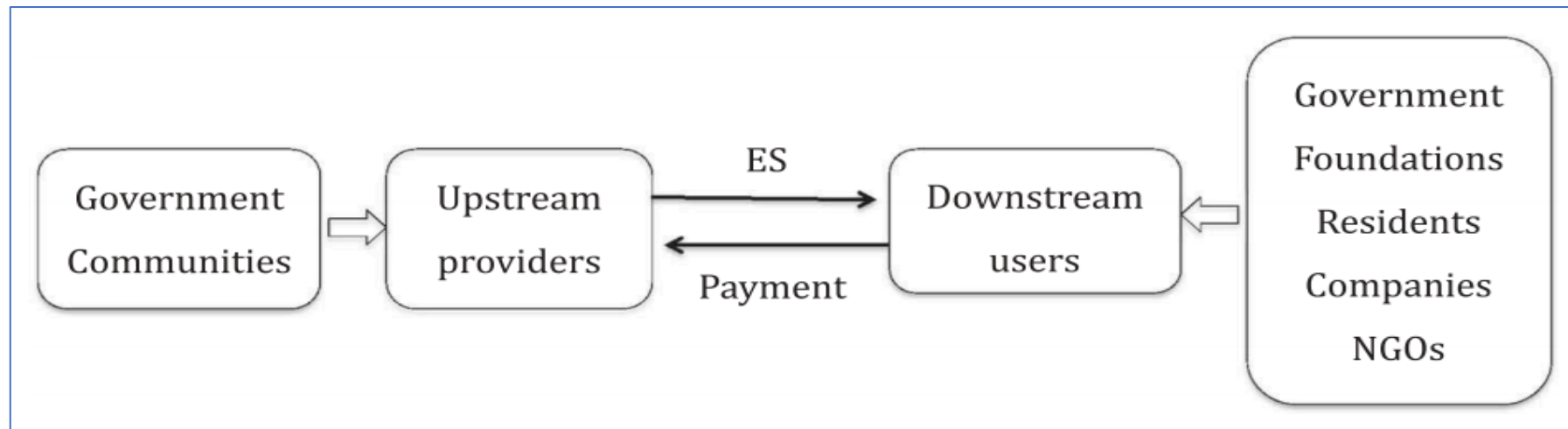
- **Eco-compensation mechanism -**
  - Covers range of mechanisms including transfer payments, subsidies etc
  - Sharing co-benefits from natural capital investments between upstream and downstream provinces and townships
  - Demonstration component under ADB's Yangtze River Economic Belt (YREB) program (\$2.9 billion) from 2015 to 2023 and Yellow River Ecological Corridor program (\$2.3 billion) from 2018-2023
  - Addressing environmental externalities and capturing returns on investments



# Innovative financing: Eco-compensation



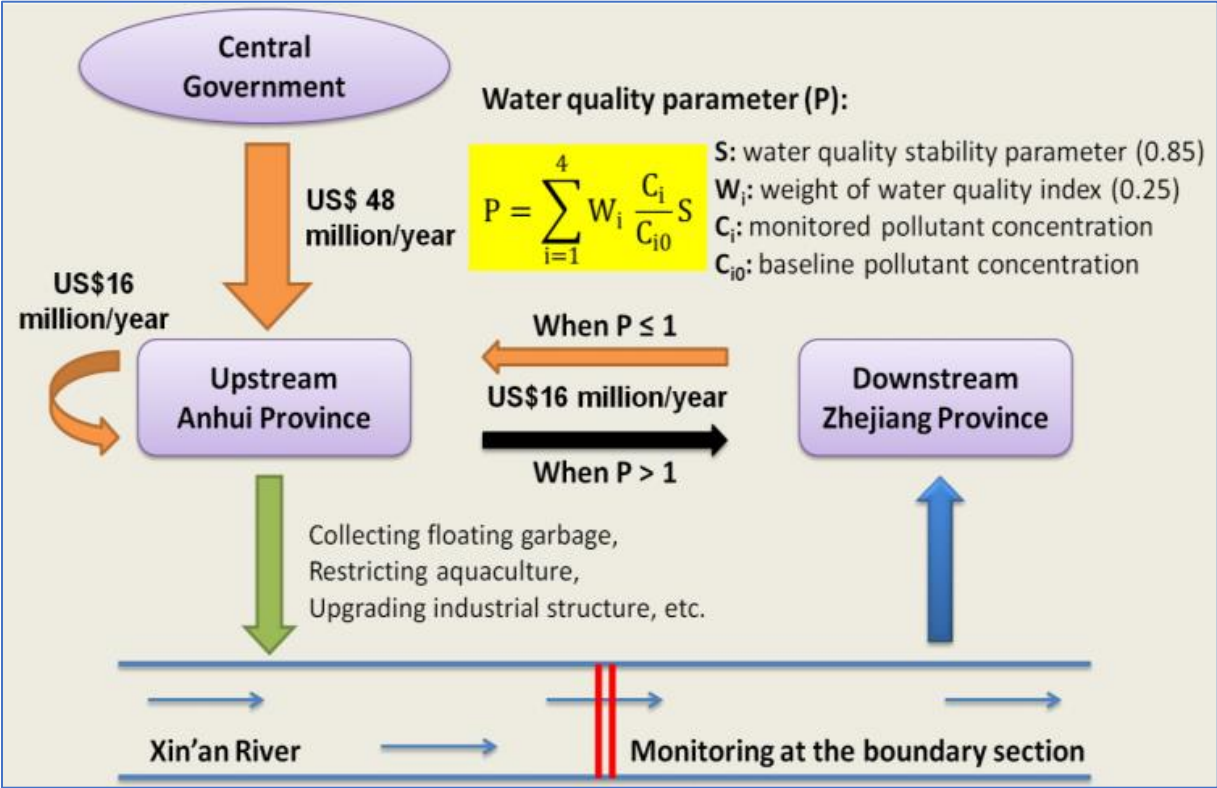
- Downstream area pays upstream area for reduced development opportunities and ecosystem services
- Balances the development interests of upstream and downstream areas
- High-level commitment and support from central government



Source: Wunder (2005)

# Eco-compensation in practice

- Establishing incentives to achieve basin-level outcomes
- Negotiations for agreed metrics (the agreed ‘market’ price)
- Central government as facilitator
- First eco-compensation scheme piloted in 2011 - Xin’an River scheme (Anhui-Zhejiang Provinces)



# Project Case Study: Anhui Huangshan Xin'an River Ecological Protection and Green Development Project



## **Outcome:**

Economic and environmental conditions in the upstream of Xin'an River improved

## **Outputs:**

1. Urban and rural point source pollution management installed
2. Non-point source pollution control enhanced
3. Green finance mechanism piloted
4. Capacity for ecological system and project management strengthened

## **Innovations**

- Establish a “Green Incentive Fund” to provide grants as financial incentives to farmers who have achieved the pollution control targets through adoption of sustainable farming practice
- Establish a “Green Investment Fund” to provide equity investment on small and medium sized enterprises in green business, particularly for development of ecological agriculture, eco-tourism, and pollution control

## **Financing**

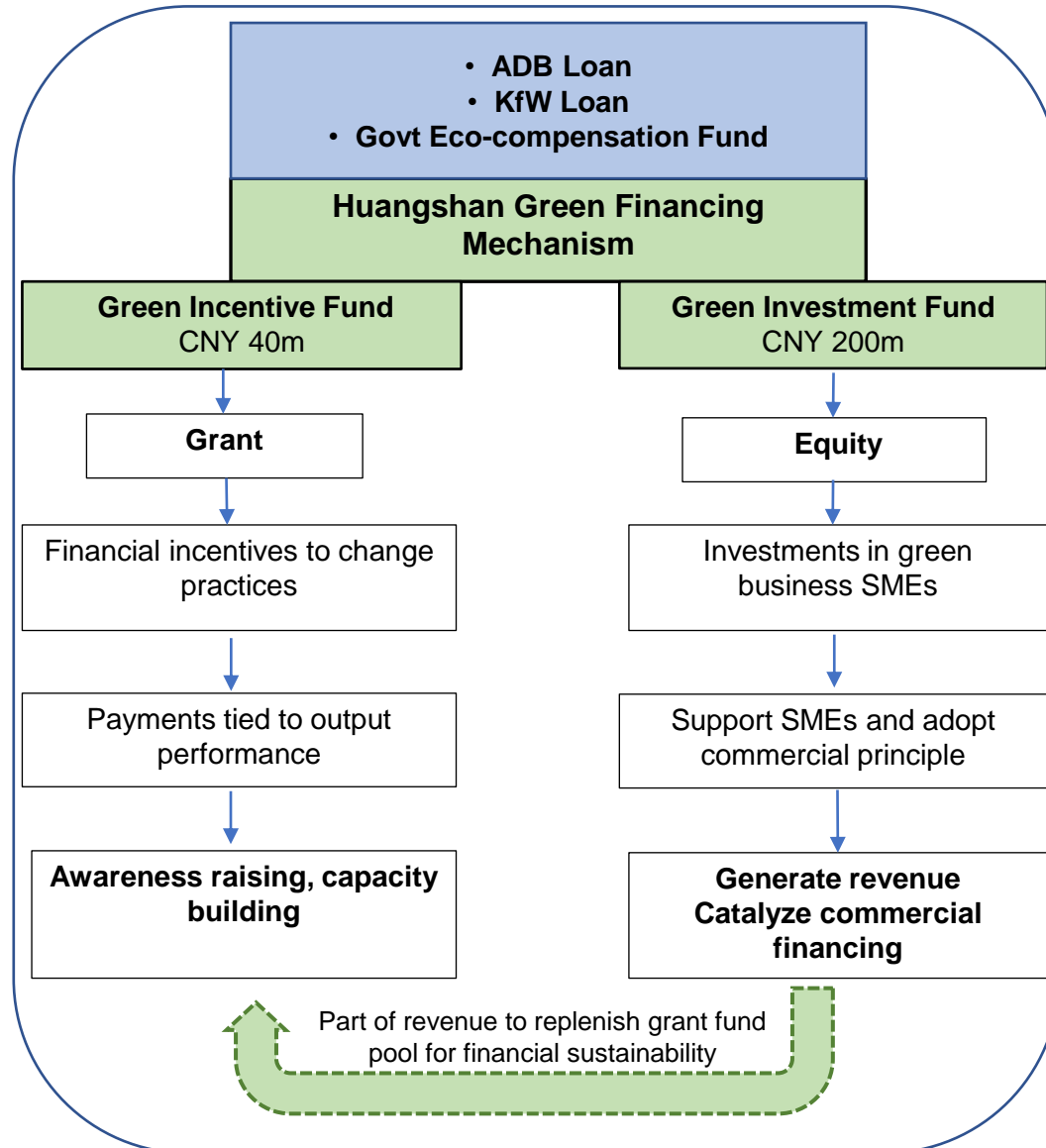
ADB loan: \$100 million (50%)  
Govt./Counterpart: \$100 million

## **Implementation**

01/2020-12/2025



# Green Financing Mechanism



- Dual pooled fund arrangement: Green Investment Fund and Green Incentive Fund
- Green Investment Fund: equity financing to SMEs for green development
- Green Incentive Fund: to provide grant as financial incentive
- The dual fund structure creates self-financing system for long term sustainability





## Summary

- Enabling institutional environment is critical
- Complex cross-provincial challenges
- Eco-compensation has mainly targeted water quality improvement in rivers
- ADB is supporting piloting of innovative financing models including eco-compensation
- Potential for scaling up but needs to be context specific and fit for purpose