SUSTAINABLE FINANCING

PROBLEMS:
--funds are scarce
   but funding is necessary for success
--institutions are often weak
   but strong institutions necessary to attract donors

competition for funds is increasing
--past success? expansion of PAs greater than expansion of funding

--priorities have shifted:
   poverty reduction
   sustainable development
   institution building
RESULT FOR PA MANAGERS:
--reduced availability of funds
--more conditions being placed on use of funds

GEF links future funds to:
--potential for success in meeting international goals
--past performance, based on institutional development that contributes to successful implementation

IMPLICATIONS
PA managers need to become more proactive in identifying, securing, and managing funds
--lobbying and marketing efforts must increase
--greater creativity needed in packaging proposals that mesh with other funding source priorities
--linkages must be effectively demonstrated
--greater research efforts required (costly in itself)
SUSTAINABLE FINANCING

2ND PROBLEM: *weak institutions*

To attract serious donors,

need ability to deliver an integrated set of protected area services in a professional, transparent, and accountable fashion at large scale

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SUSTAINABLE FINANCING

Andreas Merkl of Conservation and Community Investment Forum:

shortage of funding not caused by lack of money;

it is principally caused by lack of capacity in the field to accommodate such capital.
SUSTAINABLE FINANCING

Andreas Merkl of Conservation and Community Investment Forum:

This capacity must be engineered by a professional, neutral, third-party management entity which assures funders the required accountability, control, flexibility and transparency.

An initial priority

the ability to identify potential funding sources

So,

FIRST REVIEW A LIST OF POTENTIAL FUNDING SOURCES/ METHODS

Then discuss some basics of creating a BUSINESS PLAN
NOTE:
--Different PAs have different objectives.
--Effectiveness of potential funding methods
  will vary with the type of PA and its objectives.

Example: some coral reef sites have potential
  for generating significant revenues from
tourism activities. Some sites, due to
location or perhaps more stringent
protection objectives, will not.

Funding sources may be:

--- external to PA
--- internal to PA
EXTERNAL SOURCES OF FUNDING

- public funds:
  local government, foreign assistance, international NGOs

- private funds:
  NGO’S, private donations, corporations

- debt for nature swaps

- environmental funds
  for-profit investment companies, non-profit trust funds

EXTERNAL SOURCES OF FUNDING
PUBLIC FUNDS

--local/national government

--foreign assistance
  (primary source of funds for SE Asia)

  --multilateral agencies

  --bilateral sources

  --NGO funds
PUBLIC FUNDS

local/national government funding
--may provide regular flow of funds
--can be problematic
    must secure a position within a budget then hold it
--PAs must compete with other worthy endeavors

Taxes/subsidies: fiscal tools to raise/re-distribute funds
--licenses and other fees may act as taxes

useful in altering behavioral incentives
--lower taxes, supply subsidies to stimulate actions that support PAs
--raise taxes, remove subsidies on actions that harm PAs
PUBLIC FUNDS
Foreign Assistance

FUNDING-SOURCE COMPOSITION IS CHANGING

- NGO and multilateral contributions are becoming more prominent
- may lead to shifts in goals/conditions/beneficiaries

PUBLIC FUNDS
Foreign Assistance

MULTI-LATERAL AGENCIES

--European Union
--World Bank
--Asian Development Bank
--Inter-American Development Bank (WB)
--GEF
--UNEP
--FAO
PUBLIC FUNDS
Foreign Assistance
MULTI-LATERAL AGENCIES
----refer to Conservation Finance Guide
for specific agency details

Example:
3.2 Asian Development Bank
  3.2.1 Policy or strategy
  3.2.2 Funding
  3.2.3 Institutions / organization
  3.2.4 Contact information

PUBLIC FUNDS
Foreign Assistance
BILATERAL SOURCES

☞ a good source for:
  --start-up funding
  --areas requiring high community involvement

Germany, Netherlands, Japan, Norway, U. S. A.
were top five contributors 1998-2000.
----refer to Conservation Finance Guide for specific
agency details
EXTERNAL SOURCES OF FUNDING

PRIVATE FUNDS

--can provide flexibility in fund use
--may not be stable sources
--may require substantial time/effort/expertise to obtain and manage
--may require trade-off of some local autonomy

EXTERNAL SOURCES OF FUNDING
PRIVATE FUNDS

≤types:

--Philanthropic foundations
--NGOs
--Corporate funding
--Personal donations
PRIVATE FUNDS
Philanthropic foundations

Typically set up by wealthy individuals

Examples:
--John D. and Catherine T. MacArthur Foundation
--Ford Foundation
--Rockefeller Foundation
--United Nations Foundation
--Gordon and Betty Moore Foundation
--Richard and Rhonda Goldman Foundation

PRIVATE FUNDS
International NGOs

Examples:
--**WWF**: Ocean Rescue Program

--**Nature Conservancy**: Marine Initiative
  in conjunction with:
--**Conservation International**
PRIVATE FUNDS
International NGOs

Example:

--Komodo National Park in Indonesia

The Nature Conservancy, GEF, and other partners have contributed several million dollars over 15 years to plan/implement this park covering 180,000 hectares of land and sea

--over a 7 year period, TNC and GEF funding replaced by (primarily) tourist fees

PRIVATE FUNDS
Corporate funding

operate at international, national and local levels
--special funds or programs
--business advertising or sponsorship

Examples:

--Shell Foundation
--TOTAL Foundation for Biodiversity and the Sea
PRIVATE FUNDS

Personal donations:
a wide variety of possibilities:
cash or volunteerism

Examples:
--donation of funds to NGOs
--participation in special “cause-oriented”
events
    --adoption/sponsorship programs

EXTERNAL SOURCES OF FUNDING

DEBT FOR NATURE TRADES

☞ limited applicability due to need for complex
  negotiation at national/international levels
  --typically, strict conditions imposed, not
  necessarily in regard to environmental concerns
  --projects need to be of large scale to become
  worthwhile
  --agreements are typically at national level,
  so is difficult to target specific PAs
EXTERNAL SOURCES OF FUNDING
DEBT FOR NATURE TRADES

Philippines Debt-for-Nature Swaps

1988-1993: WWF negotiated four commercial debt-for-nature swaps generating $27 million

El Nido and Tubbataha have benefited from this

EXTERNAL SOURCES OF FUNDING
Philippines Debt-for-Nature Swaps

An example transaction in 1993:

1) WWF purchases $19M debt for $13M
2) WWF transfers debt to Philippine Central Bank (debt is cancelled)
3) CB pays $17M in Pesos to Foundation for the Philippine Environment
4) FPE creates endowment fund and disperses grants

(Spergel and Moye 2004)
EXTERNAL SOURCES OF FUNDING
Environmental Funds

--typically have a profit motive

--typically high risk, low return

Example:
Chumbe Island Coral Park Ltd. in Zanzibar/Tanzania
--privately funded/managed reef

Concept: Eco-tourism activities support conservation and environmental education
EXTERNAL SOURCES OF FUNDING
Environmental Funds

Example:

Asian Conservation Company

invests in marine biodiversity businesses:
-- Ten Knots Group tourism operation in El Nido-Taytay Managed Resource Protected Area
-- Stellar Fisheries, Inc., sustainable producer of pasteurized blue crabmeat

EXTERNAL SOURCES OF FUNDING
Environmental Funds (sort of)

Andreas Merkl of the Conservation and Community Investment Forum advocates:

A professionally managed, conservation-focused, protected area management company.

A non-profit entity with the scale, expertise, independence, accountability and transparency to coordinate protected area investments of all types
EXTERNAL SOURCES OF FUNDING

Environmental Funds (sort of)

Such a company would:

share many of the operating characteristics of a venture fund:
-- its rigor in defining/measuring outcomes
-- its flexibility
-- its total transparency and accountability to funders/investors
-- its neutrality in regards to the investments
-- its ability to de-fund under-performing investments
-- its ability to perform world-class due diligence

EXTERNAL SOURCES OF FUNDING

Environmental Trust Funds

distinct from “Environmental Funds”

-- a medium- to long-term approach

Provide:

-- Distinct governance structures
-- Credible and transparent operational procedures
-- Sound financial management practices
-- Flexibility for capacity building
EXTERNAL SOURCES OF FUNDING
Environmental Trust Funds

吻 distinct from “Environmental Funds”

--endowment funds

--sinking funds

--revolving funds

EXTERNAL SOURCES OF FUNDING
Environmental Trust Funds

endowment funds:

--Invest capital base in bonds, stocks, etc

--maintain/enhance capital base, spend only income
  --properly managed, should be sustainable
  --capital base can be built over time through solicitations, etc.
  --good for securing coverage of recurring costs
EXTERNAL SOURCES OF FUNDING
Environmental Trust Funds
endowment funds

Examples:
--Foundation for the Philippine Environment
--KEHATI in Indonesia
--Protected Areas Fund within the Mexican Nature Conservation Fund
--Meso-American Reef Fund?

EXTENSIVE SOURCES OF FUNDING
Environmental Trust Funds

sinking funds:
--initial capital base earns income,
  but spend both income and capital base over time
--lifetime depends on rate of depletion of capital base

good for medium-term “bridging support”
EXTERNAL SOURCES OF FUNDING
Environmental Trust Funds

revolving funds:

--faster depletion of capital base, but designed to replace capital base with new cash infusions over time
--lifetime depends on ability to replenish funds

Examples:
Belize Protected Areas Conservation Trust (PACT)
Seychelles Island Foundation
EXTERNAL SOURCES OF FUNDING
Environmental Trust Funds

Initial source of funds typically large external grant

Example:
Protected Areas Fund within the Mexican Nature Conservation Fund

Initial success attracted further monies
Alternative funding sources developed

EXTERNAL SOURCES OF FUNDING
Environmental Trust Funds

--fund replenishment often from internal sources

Examples:
Tubbataha Reefs, Philippines:
Foreign divers pay $50 to conservation trust fund
Local divers pay $25

Belize PACT:
Revenues derived from:
20% commission on cruise passenger fees
20% commission on recreational licenses
conservation fee of $3.75 / visitor
INTERNAL SOURCES OF FUNDING
Market-based Fees

generate revenues:
--for cost recovery
--for excess revenues to finance extra activity
(on-site or off-site)

control visitation
re-align incentives to favor conservation and sustainable use

Common instruments

tourism charges
resource extraction/bioprospecting fees
ecosystem service payments
potential for each is site specific
Market-based Fees
Tourism charges

- direct entry or use charges
- indirect taxes on tourists
  --airport tax
  --hotel tax
- concession fees

Tourism charges
direct entry or use charges

--not always applicable
--sometimes prohibited by law
--subject to industry fluctuations
Tourism charges
direct entry or use charges

local support is important

- incentives should encourage local support
  - evidence of local benefits must be clear
  - local revenue sharing needed

---

Tourism charges
direct entry or use charges

- fees must balance:
  - need for revenue (*relatively* low fee)
  - need for protection (higher fee)
  - equity considerations
    - differential fee systems

**Example:** Bunaken National Marine Park

Foreign guests: Rp 150,000/year or Rp 50,000/day (US$17)

Indonesian guests: Rp 2500/trip (US$0.25)
Tourism charges
indirect taxes on tourists

--airport/other transportation tax
Example:
Republic of the Cook Islands:
20% of $10 airport tax ⇝ Environmental Protection Fund

--hotel/meal tax

Tourism charges
concession fees

• legal agreement allows an organization to market goods/services related to PA in exchange for fees

• Providers of tourism amenities
• Agents engaged in sustainable harvesting
Market-based Fees
Resource Extraction Fees

--royalties, concession fees
--permits, licenses
--revenue generation, access control, incentive re-alignment

Potential for each is site-specific

Market-based Fees
Bio-prospecting Fees

--fees for the right to collect biological material to test for commercial use
--up-front payments
--royalties
--profit-sharing
Bio-prospecting Fees

--some successful cases, but losing its early appeal
--a great deal of uncertainty is involved
--discovering/developing successful products can be expensive
--smaller scale PAs may not qualify, as large areas typically needed
--negotiation can be complex

Market-based Fees
Payment for Ecosystem Services

--revenue generation
--receive payments from those who use/benefit
--includes on-site and off-site beneficiaries

--incentive re-alignment
--compensate those who can supply/protect
--financial incentives to encourage sustainable use
FUND GENERATION
considerations

--current sources? Reliability?
--current and potential services:
  likelihood of generating revenues?
--current beneficiaries?
  how can they help?
--organizations with related interests?
--similar programs in other locations?
  types of donors?
  lessons to learn?

--how to build local support?

What to do with revenues

PA funds must:

  --cover operating expenses
  --help offset opportunity costs
  --reward supportive behavior
  --be re-invested to generate new revenues
Business Plans

Part of a broader Management Plan

Goal is to identify:
--financial requirements of Management Plan
--potential revenue sources
  --assess PA resources
  --plan to “market” resources to satisfy financial goals

Identify financial needs
--based on overall management plan

identify/classify activities to be carried out
(by time and type)

rank according to need

assign costs to activities
Financial Planning Worksheets

Process summary:

- start with management plan and threats/activities matrices to determine specific program/sub-program activities
- prepare detail worksheets: personnel, operating expenses, land costs
- consider funding mechanisms that may best cover costs

Financial Planning Worksheets

Steps

AN ITERATIVE PROCESS

- use threats matrix to summarize/prioritize threats identified in management plan
- threats matrix also used to summarize potential actions to address threats
Financial Planning Worksheets
Steps

飐 use activities matrix to place management actions within appropriate “programs”

飐 notice that 3 general “programs” have been identified:

--PROTECTION AND MANAGEMENT PROGRAM
--COMPATIBLE USE PROGRAM
--ADMINISTRATION PROGRAM

Financial Planning Worksheets
Steps

within each program are several sub-programs:

PROTECTION AND MANAGEMENT PROGRAM
Protection Subprogram
Conservation Land Subprogram
Natural Resource Management Subprogram
Research Subprogram
Financial Planning Worksheets

Steps

within each program are several sub-programs:

COMPATIBLE USE PROGRAM
- Environmental Education Subprogram
- Eco-Tourism Subprogram
- Forest Resources Subprogram
- Agricultural Uses Subprogram
- Community Outreach Subprogram

ADMINISTRATION PROGRAM
- Management & Finance Subprogram
- Operations & Maintenance Subprogram
- Training Subprogram
Financial Planning Worksheets
Steps

Detailing expenses

- Tabs D and E details by sub-program:
  - Personnel
  - Operating Expenses
  - Land Acquisition

OR

- Tab G gives Expense Details by Program

Enter detailed expenses into Expense Summary (Tab H)
Financial Planning Worksheets
Steps

Revenue Considerations
Where will the money come from?

--must identify/screen potential funding sources

Financial Planning Worksheets
Steps—Revenue Sourcing

ID/screen potential funding sources

1. screen for potential services to be “marketed”
2. link potential services to one or more potential funding mechanisms
3. screen funding mechanisms for viability
4. rank viable mechanisms
5. perform deeper assessment of viable mechanisms
Financial Planning Worksheets
ID/screen potential funding sources

- screening potential goods/services:
  - which have potential to be serviced by some financing mechanism?

consider (score) 3 criteria:
- relative supply
- relative demand
- identifiable “consumer base”

rank each good according to average score of the 3 criteria

Financial Planning Worksheets
ID/screen potential funding sources

Ranking criteria

examples:

relative supply: snorkel/diving attractions
  nursery functions
relative demand: tourism levels (current and projected)
  fishery activity
identifiable consumer base?:
  local, regional, or foreign visitors
  large scale or municipal fisheries
2. link services to potential funding sources
   --type of service/type of consumer may determine most appropriate funding source

3. screen funding mechanisms for viability
   --financial viability
     --capacity/willingness to pay
     --consider profitability of firms
     --incomes of target consumers
Financial Planning Worksheets
ID/screen potential funding sources

3. screen funding mechanisms for viability

--legal viability
--political
--social

(screen “consumers” on basis of compatibility:
--will activities conflict with goals of PA?
--distributional concerns:
--may wish to favor locals
to avoid resentment)

4. rank viable mechanisms

--correlate difficulty in implementation with degree of benefits
Financial Planning Worksheets
ID/screen potential funding sources

element:
from Edwards:
Belize Business Plans
Laughing Bird Caye National Park

Recommended Strategies
1. User Fees
2. Adopt An Acre
3. Voluntary adds on to hotel and restaurant bills
4. Host Interpretation Programs
5. Collect spare currency
6. Friends of Friends of Nature
7. Merchandising / Gift Shops
8. Volunteers
Business Plans

In summary:
business plan should identify
(a) Current and long term financial needs
(b) the benefits derived from the PA
(c) economic value of those benefits
(d) Beneficiaries of the PA

Decisions then made how to best allocate resources

Special considerations

- diversity in funding
- Local participation
- networking
diversity in funding

Why build diverse funding portfolios?

• No single source of financing sufficient
• Some mechanisms appropriate for certain costs but not others
• Buffer against unforeseen events
• Need portfolio of different mechanisms

Example of diversity in funding

Bunaken National Park  Indonesia:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central govt support to park office</td>
<td>$100,000</td>
</tr>
<tr>
<td>Decentralized entrance fee system</td>
<td>$120,000</td>
</tr>
<tr>
<td>In-kind support from private sector</td>
<td>$30,000</td>
</tr>
<tr>
<td>Diversified local govt budgetary support</td>
<td>$30,000</td>
</tr>
<tr>
<td>International volunteers system</td>
<td>$30,000</td>
</tr>
<tr>
<td>National and international grants</td>
<td>$120,000</td>
</tr>
</tbody>
</table>
Local Participation

Why important?
Creation of PAs imposes a loss of production and consumption opportunities on local communities

Examples:
- Congestion
- Loss of fishing and other resource uses
- Damaging exploitation techniques
- Loss of access
- Alternative investments

Local Participation

Examples of local participation/inclusion

- Hire locals as captains, dive guides, cooks, etc
- Support of local handicrafts/other PA-related products
- Support local education programs:
  - Scholarship programs for local youths
  - Donation of educational materials to schools
  - Transport local school groups to visitors center
- Sponsor beach/reef cleanups
Examples of local participation/inclusion

--Free SCUBA certification for park rangers

--Diving/boat support for fish/coral monitoring programs, enforcement and reef rehabilitation work

--Support local infrastructure projects:
   --sanitation
   --roads
   --local clinics

--Local job training

PA networking

networks may be preferred to individual programs

--not all PAs can be self-supporting

--tourism requires supporting infrastructure

--some PA goals conflict with revenue generation