

A New Approach to Financing Protected Areas

In this short position paper, we would like we would like to expand on two principle ideas which we hope will stimulate some discussion:

1. The shortage of funding for protected areas is not caused by a lack of conservation capital. It is principally caused by a lack of capacity in the field to accommodate such capital.
2. This capacity cannot be created by impromptu partnerships between existing conservation organizations. It must be engineered by a professional, neutral, third-party management entity which assures funders the required accountability, control, flexibility and transparency.

1. Funding shortage is capacity-driven.

Protected areas, especially in the developing world, are critically under funded. For most parks, the dream of financial self-sufficiency remains elusive – revenues from fees, ecological services and tourism are unlikely to catch up to ever-rising costs. To make things worse, the direct costs of operating protected areas are often dwarfed by the real or perceived indirect costs to surrounding communities, costs which have to be compensated in some way if the park is to succeed in the long term. Funding from conventional sources such as governments, royalties, donors, multi-laterals, etc. to conventional agents such as NGOs, park authorities, and agencies is perceived as unreliable, rarely sufficient, and under heavy competition

Predictably, the conservation community has responded to this dilemma by concentrating on the search for new revenue sources. Many papers read at this congress will be about complex ecological service pricing schemes, ecosystem valuation approaches, and so on. This focus on revenue generation may be misplaced. The combined pool of capital potentially available for biodiversity conservation and protected areas is vast – consider the size of infrastructure/foreign aid deals routinely struck by multilaterals, the size of the endowments of major foundations, the new endowments which have been funded in the past five years, the ability (and need) of multi-national corporations to become major conservation funders in many countries. Instead, the problem may be rooted mainly in the inability of current conservation organizations to deliver protected area services at the scale, sophistication, and accountability required for this capital to be placed.

Take, for example, the marine national parks of Indonesia. Most of them are “paper parks”, lacking any real planning or enforcement. Our detailed cost analysis shows that for an endowment of \$75 million, park operations could be expanded to the point where resource destruction could be permanently halted in these areas. For an endowment of \$175 million, it would be possible to develop fully functioning national parks, with complete and fully enforced management plans, long-term benefits to fisheries from protected spawning areas, etc. Compared to the cost of environmental protection in the developed world, this is a

bargain – permanent protection of the most important tropical marine ecosystem in the world could be realized for \$20–\$50 per hectare.

Let's suppose, for argument's sake, that a major private philanthropist signed on to the challenge of creating permanent environmental protection of Indonesia's marine ecosystem (not a far-fetched scenario: there are several private philanthropists in California alone who could single-handedly provide this level of financing). But who would they invest in? Who could deliver an integrated set of protected area services in Indonesia in a professional, transparent, and accountable fashion? The current NGOs in the area, while doing heroic work, are not prepared for the managerial complexity of coordinating the legal, operational, financial, and community development activities for nine national marine parks. In addition, many of them are not necessarily prepared from a program standpoint to focus on protected area work. Government agencies have proven to be unreliable in their ability to convert funding into action. Private "beltway bandit" firms excel at project-related work, but are neither prepared nor entitled to become de facto managers of marine protected areas.

In addition, who could our investor rely on to manage the indirect costs of protected areas? What type of organization is prepared to identify the true costs of conservation to surrounding communities, i.e. the "conservation increment"? How can these insights be translated into a combination of investments and "conservation concessions" which provide an economically attractive proposition for surrounding communities? Who will administer such a program in the long run?

2. Third-party management entity needed.

There are many organizations that have the theoretical ability to conceive, plan, gazette and run protected areas: government agencies, local NGOs, BINGOs, agencies such as US AID, private providers, etc. Very few, however, can muster the capacity to do so at scale. Without such capacity, the capital necessary to fund protected areas at a meaningful scale is unlikely to materialize.

It can be argued that this is a "chicken or egg" question: without meaningful funding, the necessary capacity is unlikely to develop. We disagree. Our (imaginary) investor is highly unlikely to invest \$ millions in a capacity building exercise without significant guarantees of success. Few organizations have shown the managerial capacity to structure such a complex undertaking, especially in the developing world. Most organizations will have to overcome stiff internal opposition to taking such a "place-based" direct approach to conservation, and the lack of structured, systematic outside supervision would ensure that failure would be very costly indeed.

We would like to argue that what is needed is a new type of organization: a professionally-managed, conservation-focused, protected area management company. This non-profit entity would have the scale, expertise, independence, accountability and transparency to coordinate protected area investments ranging from small loans to local resource users, to conservation concession agreements, to large-scale protected area endowments, and everything in between. While it would contract with all the existing capacity in the field – international NGOs such as TNC and WWF, local groups, governmental agencies, etc. – it would provide the full range of "intermediary" services required for large-scale funding to occur.

For example, an investment in Indonesia's Wakatobi National Park could involve funding a major NGO for initial project design and a five-year advisory contract, the local park authority for ranger services and infrastructure investments, a local microfinance bank for a series of loans to local fisher folk to allow conversion from coastal to pelagic fishing, local NGOs for community organizing, etc. This could be done with the speed, pragmatism and flexibility which is far more typical of a private sector operations company than it is for government or NGO entities.

Under such a structure, a professional manager would act as general partner in the deployment of funds raised from various major conservation investors. The general partner would have day-to-day control over the administrative management of the funds, and along with other members of the fund's investment committee (comprised of financial experts, technical experts and possibly investors), would invest the fund's capital according to the mandate codified in the company's charter. The general partner would have the freedom to assess potential investments across multiple boundaries (domestic and international, private and public, small and large), and with the use of various instruments (e.g. grants, equity, debt, endowments, or micro credit). To this process, the general partner would bring operating standards that are customary across the highly competitive and rigorous venture capital industry. Conservation investors would gain much greater insight into the deployment of the fund than is currently available, and would achieve the leverage on their investment that would result from the general partner's ability to move flexibly and quickly to deploy capital.

This intermediary "management company" would, in most cases, be run by staff with significant operational experience in the target countries. For example, a manager who has experience in setting up multiple manufacturing organizations in developing countries, or in widely franchising a business context, may well be better positioned than a conservation expert with little operational experience. The manager would be assisted by a small staff of experts in the legal, operational, community development, and micro-finance areas. This model is already used by the Bill and Melinda Gates Foundation in ensuring the coordination and transparency of its substantial health care investments in Africa and Asia.

While the "returns" of this management company may be programmatic rather than financial, it would share many of the operating characteristics of a venture fund: its rigor in defining and measuring outcomes, its flexibility, its total transparency and accountability to funders/investors, its neutrality in regards to the investments, its ability to de-fund underperforming investments, its ability to perform world-class due diligence, etc. Most important of all, the management company could do something that the existing entities cannot: put together conservation/protected area service delivery networks and platforms that truly work.

Much remains to be done to structure this management company for maximum performance in the conservation context. However, we believe that an "honest broker" function such as this, directed by the best experts from both the conservation, legal and operations fields, is essential to providing the conservation donor community with meaningful investment opportunities. We will make a number of presentations at the World Parks Congress on various elements of the ideas outlined in this position paper, and we hope to generate interest from funders and practitioners alike to help us proceed to the next step: the design of a third party protected area funding mechanism. We hope to see you there.