Conservation and Community Investment Forum

Financing A Network of Marine Protected Areas in Southeast Asia

Background

The World Commission on Protected Areas' (WCPA) has commissioned a Southeast Asia Marine Working Group. The group's objective for the region is to support an effective, self-sufficient, representative system of marine reserves which are managed by an empowered, responsible citizenry to sustain biodiversity and human uses and which are designed to adapt to local and global environmental changes. Given this objective, the Working Group has appointed the Sustainable Financing Task Force is to develop an innovative portfolio of financing mechanisms which support a network of Marine Protected Areas (MPAs) throughout Southeast Asia.

Effective management of individual MPAs requires that local communities benefit from improved management and market opportunities for new products and services. Management plans must include at least two essential ingredients for local communities: 1) developing a sense of ownership over their natural resources, and 2) providing product and livelihood alternatives that support marine conservation. Traditionally, these needs have been addressed through developing local alternatives such as ecotourism, user fees, mariculture, etc. which have been dependent on either government appropriations, bilateral/multilateral donors, and/or NGO support.

Much should be done to expand this portfolio of financing mechanisms in order to achieve financial sustainability and self-reliance. However, we believe that these systems by themselves will fall short of financing a healthy network of MPAs across the region. Instead, we will need to develop a plan to market the basic biodiversity characteristics of these places to an increasing number of potential investors, to test existing and new financing models, and to integrate these models into the management plans of MPAs throughout Southeast Asia.

Shortfalls in the Traditional Approach

Over the past few years there has been a collective realization of some basic facts regarding conserving marine biodiversity in SE Asia:

- **Local economic development is not a panacea.** Ecotourism and sustainably managed extractive industries such as artisinal fishing, ecologically correct forestry, pharma prospecting, local handicrafts, mariculture, etc. are unlikely to finance conservation at a meaningful scale. There are three reasons for this:
  1. Economic yields of new local enterprises are insufficient, at least in the short term, to compete with the yields of destructive practices. Building sustainable extractive industries (e.g. offshore fishing, mariculture, sustainable forestry, non-timber forest products) at a meaningful scale requires a level of capital investment and management sophistication

which is often simply not available. Ecotourism, to be sure, can help significantly in preserving local areas with good access, political stability, and sufficient infrastructure. However, the industry suffers from exploding supply serving essentially flat demand, and many operators are struggling. Small, local industries, such as handicrafts, can work, but are unlikely to generate enough income to provide a genuine alternative to destructive practices. Indeed, there have been very few examples, terrestrial or maritime, where new local industries have provided the sole, unsubsidized economic foundation for a protected area – terrestrial or maritime.

2. Transforming the practices of existing industries to sustainable standards is extremely complex, works only in certain places, and requires lots of investment capital, which is typically in short supply. An example is the aquarium fishing industry in Indonesia - it is so very difficult to provide fishermen, middlemen and exporters with the authority, capital, skill and incentive to transform their industry to a force of reef conservation.
3. There are many places of incredibly high biodiversity value where neither ecotourism nor any other industry can be applied at any meaningful scale. For example, many rainforest areas are, for a variety of reasons, off limits to tourist development, and unsuitable for extractive industries at any meaningful scale.

- **Natural assets are often relatively "cheap".** The economic yield of destructive fishing and forestry is often very low – for example, the total net income of aquarium fish collectors working with cyanide in Indonesia is about $5-8 million per year. Similarly, tropical rainforests can be bought for as little as $10-30 per acre – logging concessions are even cheaper. At these resource prices, it is often possible to purchase conservation directly for very little: A recent agreement in Fiji, for example, was reached placing 5.5 square miles of prime reef off limits for 10 years in exchange for a 25-foot patrol boat for the village. Even the price tag at Tubataha in the Philippines is not very high. A number of ground-breaking arrangement on the terrestrial side are demonstrating that conservation concessions can be highly effective – an arrangement where local authorities and/or resource users agree to protect natural ecosystems in exchange for a steady stream of structured compensation form conservationists or other investors.

- **Site-specific conservation requires a networked approach to funding.** It is often necessary to combine local revenue generation with other types of funding – in many cases, biodiversity must be purchased directly by those people and institutions who value its preservation highly. Industrial nations put significant value on coral reefs and rainforests as natural assets – but have, on the whole, been extremely frustrated in structuring a way to finance their preservation. The major conservation groups have largely failed to make it possible for these nations to invest in "high yield" conservation instruments which deliver highly effective, leveraged, measurable and auditable conservation results.

A New Focus: Financing a Network

Financing a network of MPAs requires strategies which combine local, site-specific income streams with complex international sources of conservation investment. It will not be enough to support the network by simply identifying a handful of mariculture, tourism and sustainable product models that have worked under special circumstances and expect them to accomplish the same results everywhere. Yes, communities must be empowered and encouraged to develop a sense of ownership over their natural resource assets, but even clear incentives and responsibilities will be diminished by existing negative incentives. In most places, countering these will require an increase in the amount of cash delivered through increasingly creative sources and methods.

A large portion of resources needed must come from a portfolio of well-designed and effective investment vehicles, private endowments, trusts and donations. This requires marketing the basic biodiversity characteristics of these places to an increasing number of potential investors, testing existing and new financing models, and giving MPA managers the information they need to understand which methods, models, etc. work best in their given situation. How to accomplish all of this? Or, more appropriately, how to design a strategy within the current WCPA SEA Marine Network for ultimately accomplishing this? The approach must be two-fold: site-specific revenue generation (user fees, mariculture, products) and sustainable MPA network financing. The following outlines immediate next steps for accomplishing both.

Designing a Business Plan Solution

The Nature Conservancy's SEACMPA and the Conservation and Community Investment Forum (CCIF) believe that the first step towards developing a network of financially sustainable MPAs is to create a business plan which lays out a complete vision for how a healthy network of MPAs is to be funded. This does not preclude the need to refine and implement the proposals developed by the WCPA working groups in Bangkok regarding best, specific local revenue generating mechanisms (i.e. feasibility studies on ecotourism and trust funds, MPA manager training, etc.). These proposals should be refined, funded and implemented as soon as possible. What is critical, however, is that the WCPA sustainable financing task force develop a comprehensive business plan which defines the needs and potential solutions for financing an entire network of MPAs in a given region.

This business plan systematically addresses the financing of a set of planned or existing MPAs which combine high biodiversity value, high donor interest, and the greatest possible overlap among the interest of WCPA members. In Indonesia, we propose the following MPAs:

- Komodo National Park
- Bunaken National Park
- Wakatobi National Park
- Raja Ampat

Additional area(s) in the Philippines and in Malaysia should be chosen, as well, after consultations with local WCPA members.

For these areas, the business plan will have to answer the following questions:

1. <u>What will it cost to finance this portfolio of MPAs?</u>

The cost structure of MPAs will be have to be evaluated in considerable detail. This will be done both from the perspective of the individual MPAs – "bottom up" – and from the perspective of the entire network – "top down".

<u>Bottom-up analysis</u>. It is critically important that the full economic costs of individual MPAs are fully understood. These costs will include:

- Planning and design costs, including use plans, zoning, etc.
- Regulatory affairs costs, such as permits, lobbying, legal, etc.
- "Ownership"-related costs, such as concession purchases, land purchases, leases, options, etc.
- Capital costs, including park infrastructure, buildings, boats, etc.
- On-going operational costs, such as salaries, maintenance, communications, travel, etc.
- Finance cost, including interest, currency hedges, opportunity costs, etc.

<u>Top-down costs analysis</u>. After we understand the detailed costs of the chosen MPAs, we can combine their financial statements to get an indication of the total network cost. It will now also be possible to extrapolate the costs of additional MPAs which are to be added to the network

In addition, it will be necessary to develop the cost structure required to support a central support and coordination function which provides:

- Planning, design, science and legal support services
- Systematic development and dissemination of best practices in MPA identification, design, establishment and management/operation
- Resource center and information services
- "Start-up" management for new MPAs
- Public relations for MPA in their respective nations

It is unclear at this point how this central support function will be structured, which organization will manage it, and precisely which role(s) it will fulfill in serving its "member" MPAs. As part of the business plan process, these questions will have to be answered in close consultation with all WCPA members. The costs of the resulting organization will be explored in detail and included in the top-down cost analysis.

Lastly, it will be necessary to develop a realistic ramp-up schedule for the MPA network and its supporting organization: how fast can/should it grow? This, obviously, has major implications on the overall cost modeling effort. Again, the business plan will explicitly address this question after extensive consultations with all WCPA members.

2. <u>How can the overall MPA network costs be funded</u>?

There are three types of basic funding sources for the proposed MPA network:

A. Local business development (i.e. ecotourism, extractive industries, user fees, etc.)
B. Traditional donors (i.e. multilaterals, aid organizations, NGOs, foundation, etc.)
C. Entirely new biodiversity investors

The business plan will evaluate all three types in considerable detail.

A. Local business development. The business plan will explore in detail which portion of the MPA costs can reasonably be expected to be covered by local business development (i.e. ecotourism, fishing, artisinal products, user fees, etc.)? This is a complex question which will require detailed case studies of the representative MPAs. Questions to be answered include:

- How much capital will be required?
- What are the realistic sources for this capital?
- How quickly will these revenue streams ramp up?
- Which organizations are going to be the stewards of the capital, i.e. managers and coordinators of these new businesses? Do these organizations exist/can they be built?
- How stable will these revenue sources be – what is the level of risk involved?
- What is their projected probable and reasonable net contribution to the MPA cost burden?

There can be no analytical short cuts taken in this analysis. Using the extensive data already available (e.g. existing business plans, feasibility analyses, pilot project reports, expert interviews), we will assess the economic potential of, at minimum, the following potential opportunities:

- Mariculture, including grouper (full cycle), lobster, seaweed, ornamentals (clams and corals), pearls
- Ecotourism, including user fees, concession income
- Artisinal Fishing, including off-shore, and in-shore

This will have to be done for each of the selected MPAs. Past performance of these business opportunities will be taken into account but will not be used as the driving predictor of future success: in the past, too many promising efforts have failed not because of structural problems but because they were underfunded and/or badly managed.

B. Traditional donor funding. Of the MPA costs NOT covered by these local revenue streams, how much can be funded by traditional donors (i.e. multilaterals, aid organizations, NGOs, foundation, etc.)? What overarching strategy should be used to optimize this funding stream? Because the business plan will, for the first time, provide a complete and detailed estimate for the cost of an MPA network, it will now be possible to enter a highly productive round of discussion with the donor community:

- Do they agree with the MPA network strategy, its scope, structure and ramp-up schedule?
- How does support of the MPA network rank vs. their other funding priorities in the region?
- What is the range of potential support that WCPA can expect, and how should that support be structured?

- Is there any potential for PRI or IRP investments in local sustainable business opportunities? How could that be structured?
- Would they be of help in contacting and coordinating with non-traditional funding sources (such as MNCs)?

This issue will require a series of frank and thoughtful conversations with the major traditional donors. Collectively, the WPCA has unparalleled access to the decisions makers at these institutions. A systematic, structured series of interviews will be used to predict donor interest and support of the MPA network over the next ten years.

C. Non-traditional sources of funding. We believe is probable that even the combination of local business opportunities and traditional donor funding will not suffice to finance the total required cost of an MPA network. New sources may very well have to be found. Fortunately, the WPCA's "product" is incredibly attractive, a marketer's dream: the coral reefs of the Indo-Pacific. Considerable creative effort will have to be focused on developing entirely new sources of funding. This involves the following major issues:

- What types of non-traditional biodiversity investors can be attracted to the fund biodiversity conservation, such as:
  - Multi-national corporations doing business in Indonesia (e.g. Chevron, BP, ABN AMRO, Freeport, etc.)
  - Individual donors/"venture philantrophists" who are interested in direct investment in biodiversity conservation, but who have not found an ownership model to their liking
  - Private/non-profit partnerships such as the Asian Conservation Corporation, who combine equity investing in eco-tourism and sustainable fishing with a $5 million GEF-funded grant pool for biodiversity conservation
- How can biodiversity be marketed to this new class of investors
  - What types of direct benefits can be offered ("ownership" of specific locales, use rights, license rights, promotional benefits, regulatory concessions, VIP tours, etc.)?
  - How do these benefits need to be packaged?
  - What are the operational requirements of delivering these benefits?
- How should these investment models be structured?
- What are biodiversity investors going to require in terms of pricing, documentation, concept verification, services, etc.?

3. How will the funding be applied to the financing of MPAs?

A legal model has to be developed which allows the distribution of MPA capital to the appropriate stakeholders. Much of this has yet to be thought through. For example, which legal entity will be entrusted with the management of the MPAs? How will they partner with WCPA members? How WCPA funding be allocated to these partnerships? If actual ownership of land or leases is involved, who will own these leases? Will separate legal business entities be set up in advance for each MPA? Who will distribute conservation concession funding to local stakeholders? We believe that it is important to develop this model at a relatively early stage. The required legal structure for MPA as a business entity might very well influence the modus of fund development.

4. <u>What are the organizational and financial implications for WCPA and its member organizations?</u>

The business plan will raise a number issues regarding the governance of WCPA and its "member" MPAs. Should MPA funding be pursued by a single WCPA entity, by its members, or both? How should the coordinating function (if any) be organized and funded? How can economies of scale in the marketing of MPAs be used optimally, while at the same time preserving the programmatic independence of WCPA members? How should money raised by and for the MPA be distributed to its members? Who will pay for administration expenses?

These and many other organizational issues will have to be raised throughout the business plan development process. We do believe that the earlier these issues are tackled, the better prepared WCPA will be to position itself for significant funding.

Sustainable Financing Task Force Workshop

TNC and CCIF will convene a 1-day task force workshop in July 26 in Bali. This task force will be comprised of WCPA experts and other leading practitioners, donors and investors. The objective of the task force will be to design and develop a comprehensive sustainable financing work plan that includes the full development of this business plan for assessing and testing the most potentially viable revenue generating mechanisms for specific MPAs.