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Comparative Advantages of Conservation Trust Fund versus a Project Financing Approach for Protected Area Systems

- PHASE 1 -



Fonds Français pour l'Environnement Mondial (FFEM)
Fondation Internationale du Banc d'Arguin (FIBA)
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Comparative advantages of Conservation Trust Funds and Project Approach to support Protected Areas systems

Final Report

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Comparative Advantages of CTF versus a Project Financing Approach for Protected Area Systems

Key Question:

“Why should significant amounts of scarce and expensive resources be committed in the capitalization of a CTF, with small returns over the long term, while more immediate and visible results could be achieved with immediate and direct investments on biodiversity conservation in the form of short-term projects?”

Issues:

Local authorities in beneficiary countries do not see the comparative advantages of CTF financing

Majority of international donor agencies prefer project-based financing

Broader debate focused on the risks with Innovative Financing Mechanisms (IFM) for biodiversity





Comparative Advantages of CTF versus a Project Financing Approach for Protected Area Systems

Objective:

to compare the advantages and disadvantages of financing through a long-term, CTF mechanism versus a project-finance approach to support Protected Areas Systems, as well as to put in evidence the conditions that determine the decision of both investment options. The focus of the study is on Africa and LAC.





Comparative Advantages of CTF versus a Project Financing Approach for Protected Area Systems

Content:

- 1/ Concepts and Good International Practices (broad review + OECD principles : PPP & UPP, Public finance, advocate increased use of PA system financing strategies)
- 2/ The Voice of PA Finance Practitioners: Web Survey.
 - Fund Managers / Project Managers / UNDP reg rep / Donors
 - 76 replies (21 Funds, 24 Projects, 10 PA, 9 UNDP, 7 Donors)
- 3/ Desk review of 10 cases of Parks & CTF (Benin, Bhutan, Chile, Ecuador, Madagascar, Mauritania, Mexico, Peru, Tanzania, Uganda)
- 4/ Conclusions and recommendations: Determining factors and elements of comparison between CTF (long-term) and donor project finance (short-term).



1 – Concepts and Good International Practices

Underlying issue:

In most countries a PA financing gap exists, i.e. the demand for finance in a national PA system is significantly higher than the supply of finance. In many countries this gap is expected to increase over time.

Belize

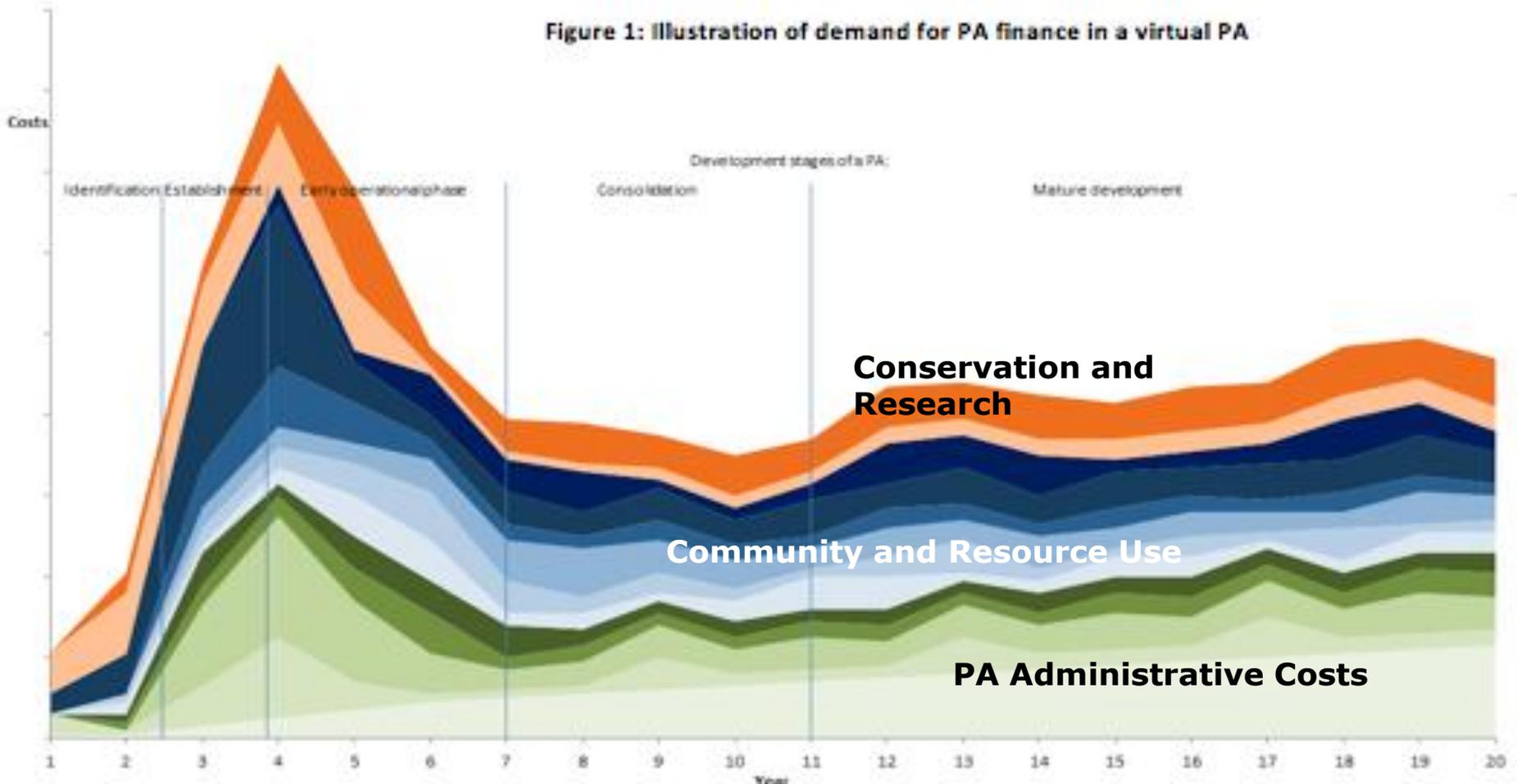
An estimated **US\$8.9 million** was spent in total on the PA system in 2010. Using the UNDP's Financial Scorecard methodology (Bovarnick, 2010) and the Threshold of Sustainability for Tourism approach (Drumm, McCool, Rieger, 2011), financing needs for a basic scenario is **US\$18.5 million**.

Funding Gap: US\$9.6 million for the basic scenario increasing to **US\$ 19.4 million** for an optimal scenario.



1 – Concepts and Good International Practices

Figure 1: Illustration of demand for PA finance in a virtual PA



Sustainable financing steps

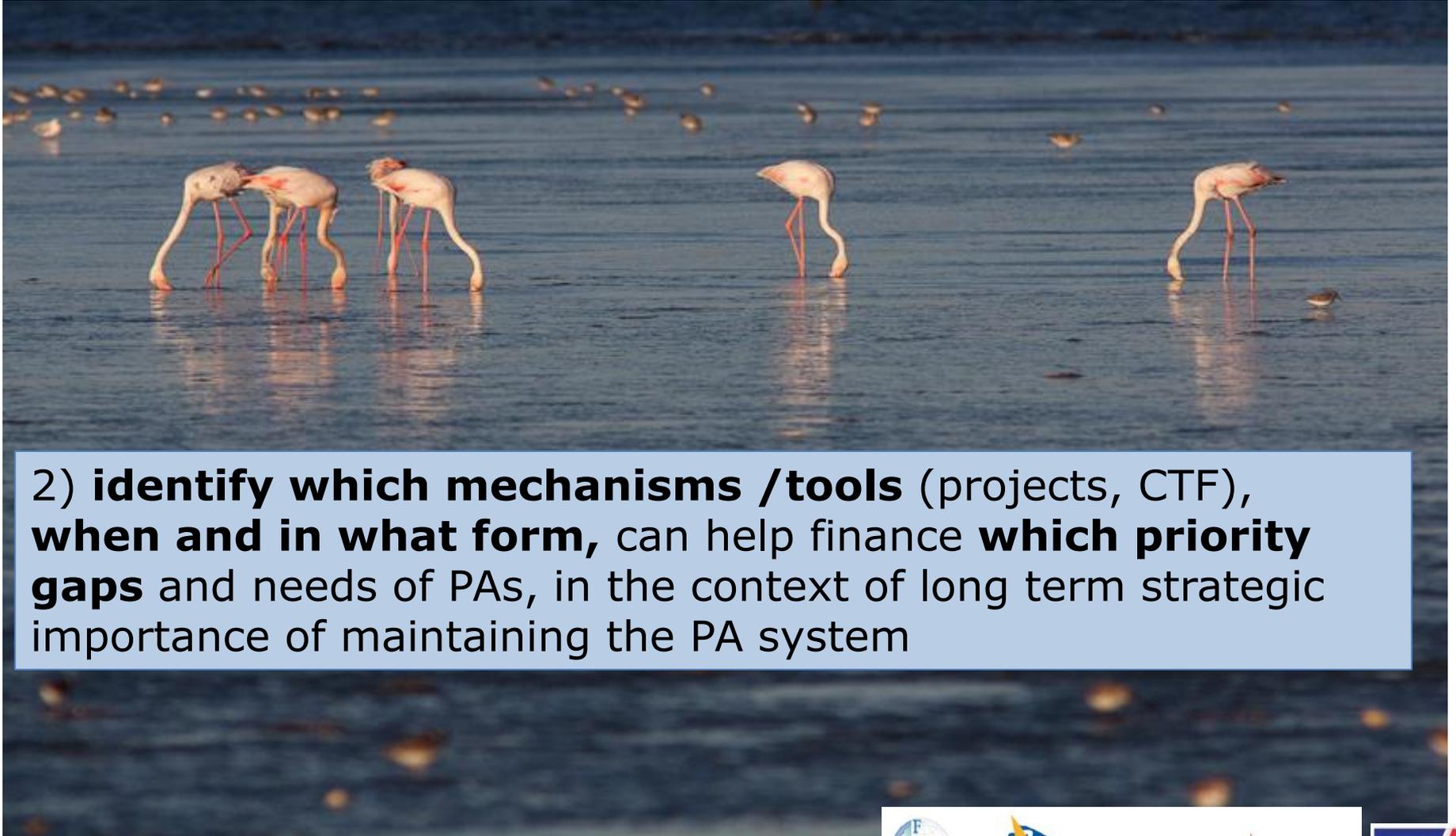
1) to elaborate an **overall PA financing strategy: identification of needs and gaps as part of a business plan**, taking into account:

- Identification
- Segmentation of needs
- Life cycle of the PA

Ref. management effectiveness tools: METT, UNDP Scorecard, etc.

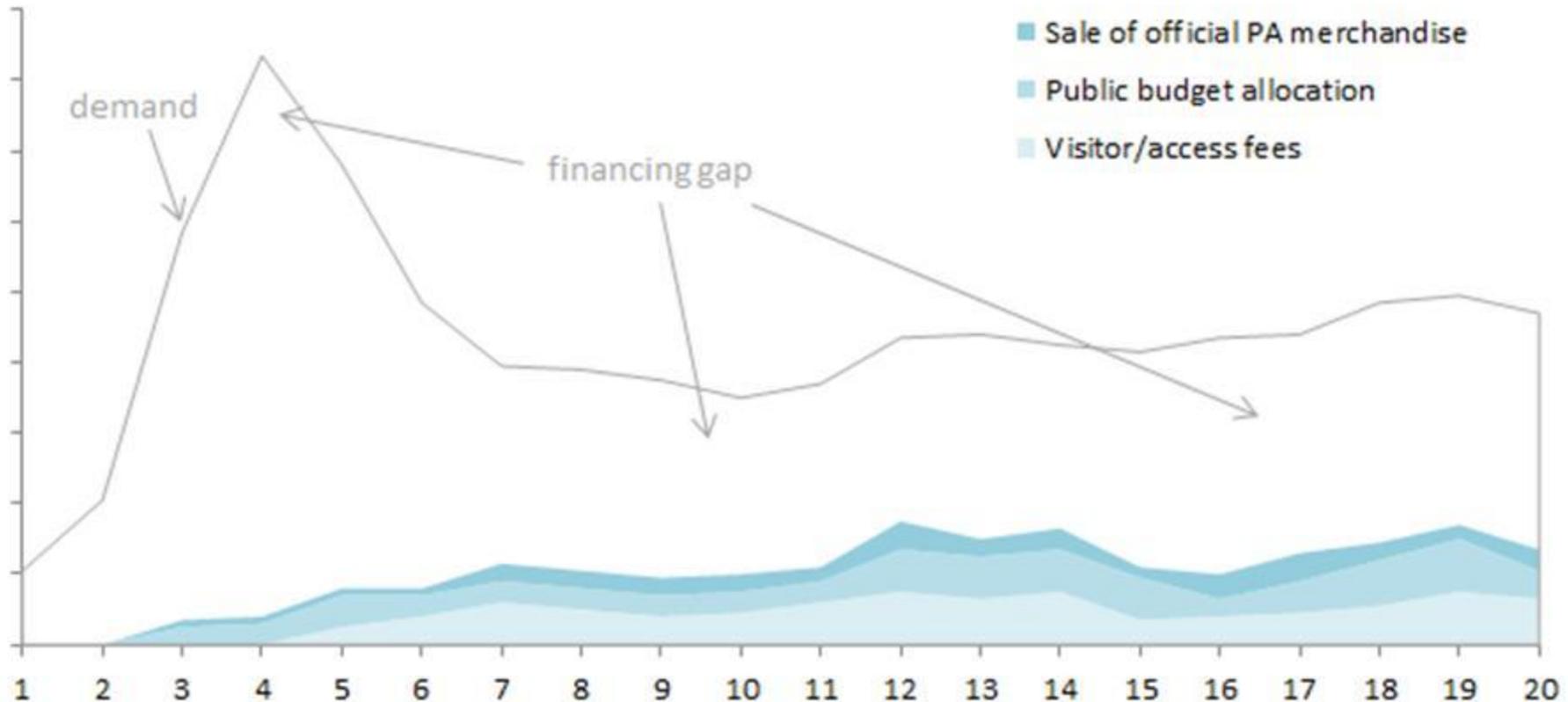


1 – Concepts and Good International Practices

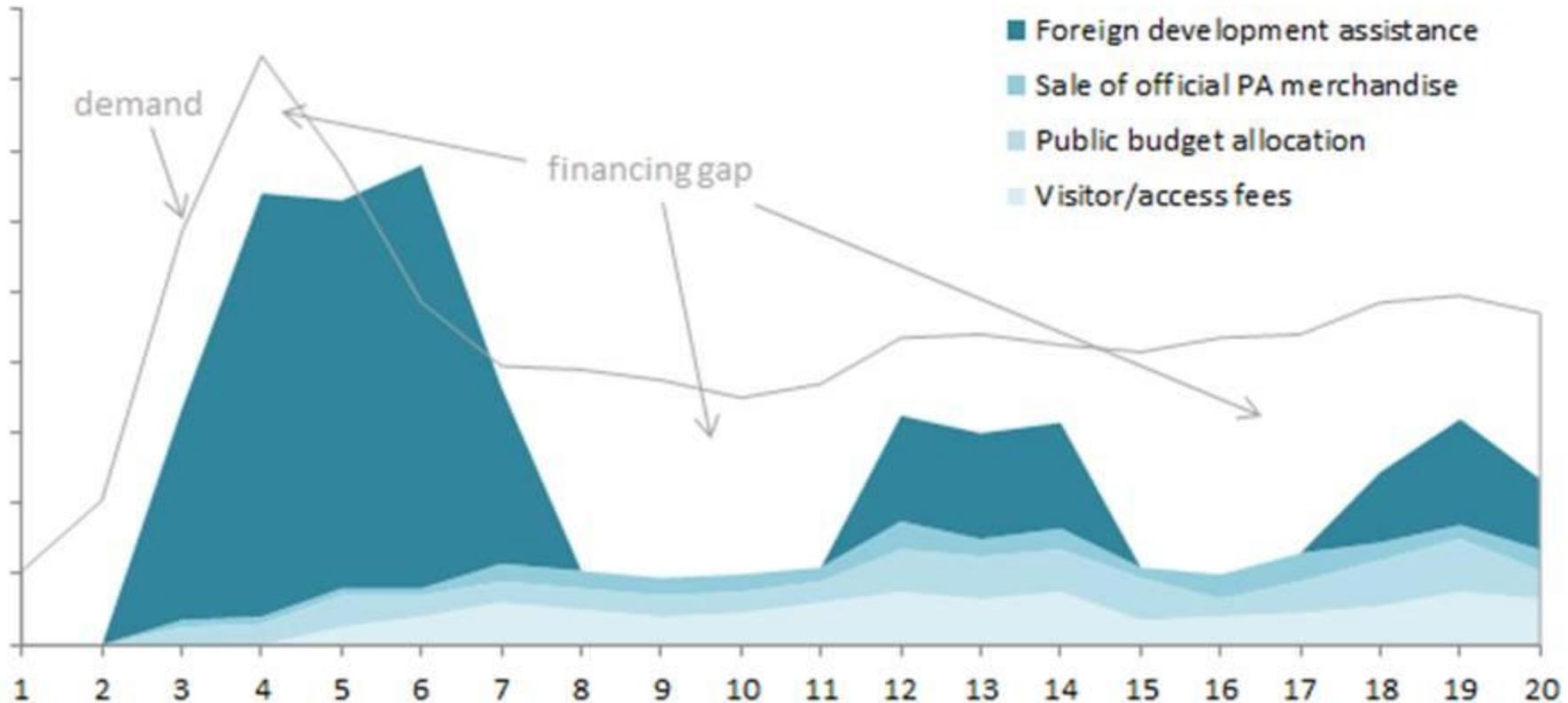


2) **identify which mechanisms /tools** (projects, CTF), **when and in what form**, can help finance **which priority gaps** and needs of PAs, in the context of long term strategic importance of maintaining the PA system

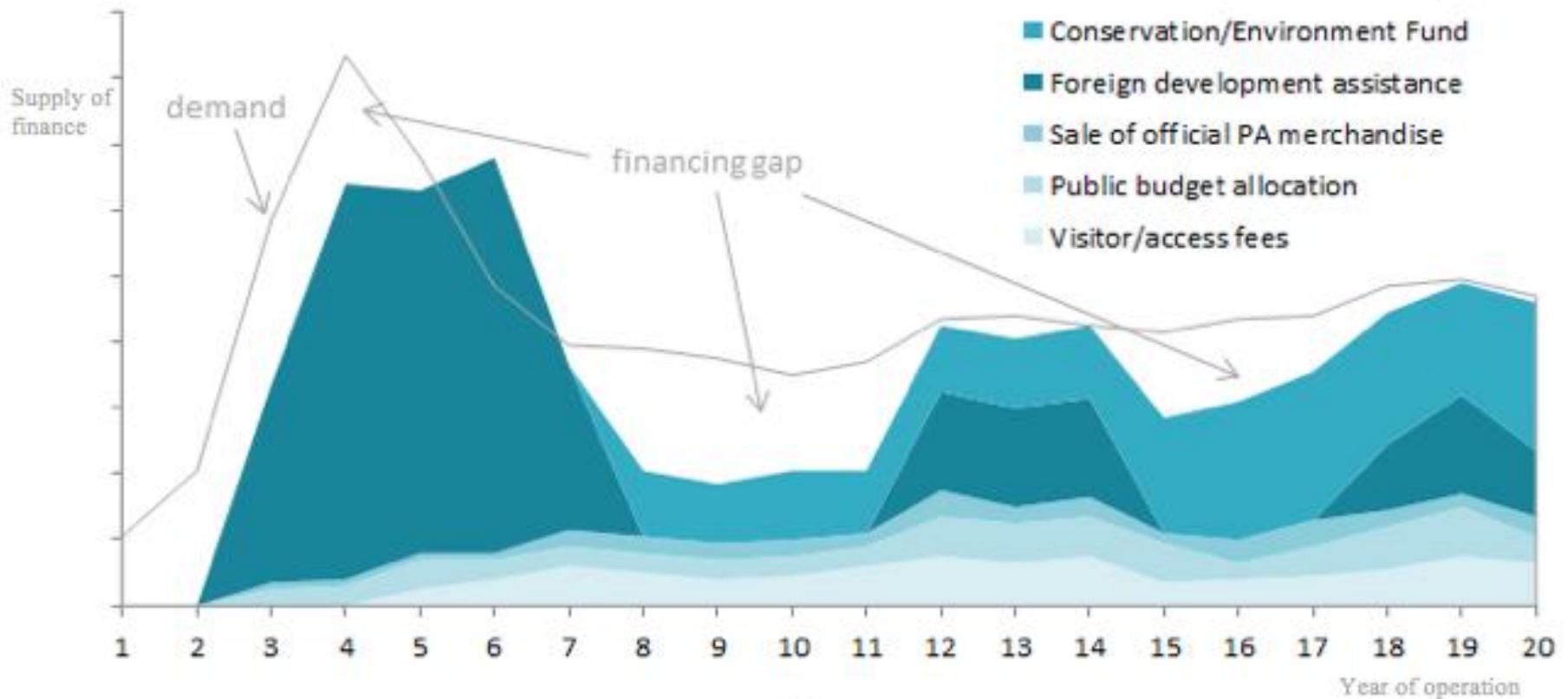
1 – Concepts and Good International Practices



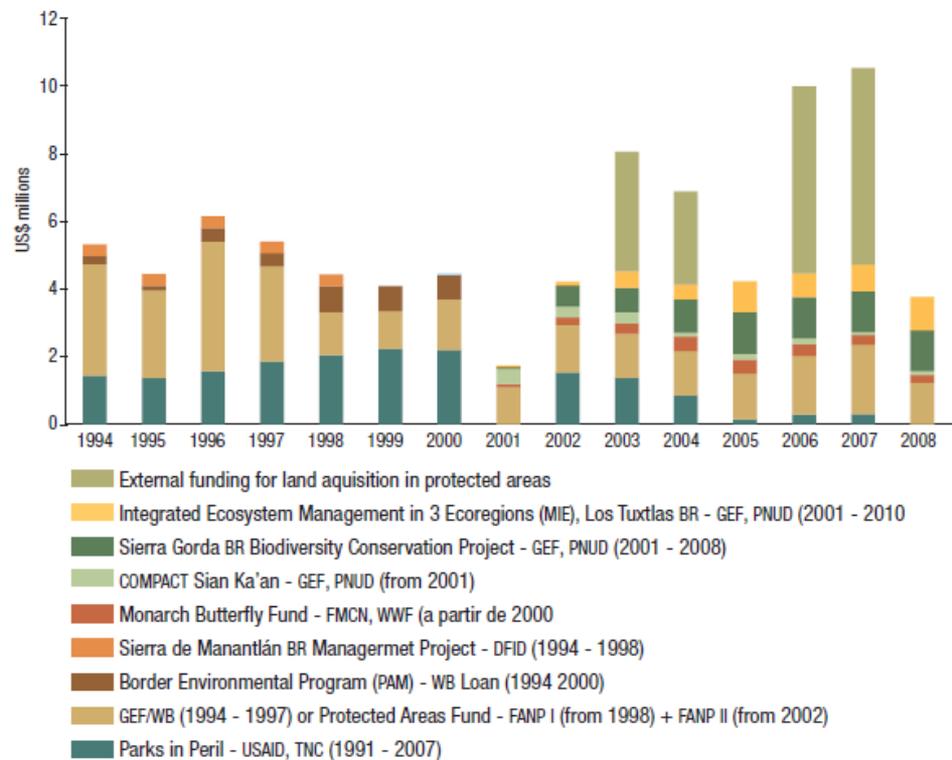
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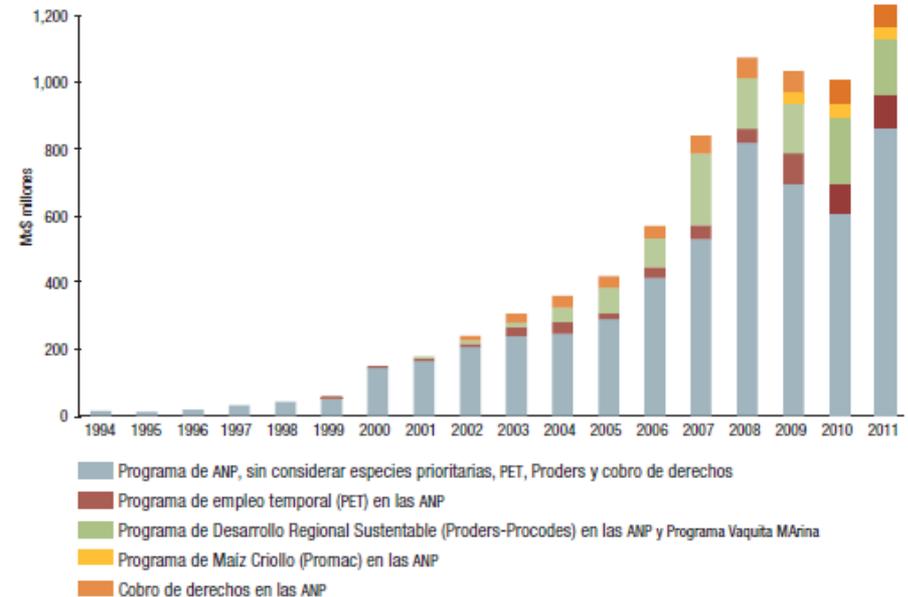
1 – Concepts and Good International Practices



...then need to aggregate this at the level of a PA system (below example not in the study)



External funding sources series



Gráfica 8. Composición de la inversión de las fuentes fiscales de financiamiento para las áreas naturales protegidas

	+ Donors	Project Managers	Fund Managers	UNDP Regional Advisors	All replies
Long term financial sustainability of PAs	+	□	◇	×	
Operating PAs which have been established more than 5 years ago	+	□	×	×	
Financing operation and maintenance costs of existing PA infrastructure	+	×	□	×	
Ensuring local ownership in PA management		○	◇	+	×
Decreasing transaction costs		+	×	◇	○
Ensuring more sustainable resource use in PAs		□	×	◇	○
Leveraging additional investment from private companies	+	+	□	◇	×
Leveraging additional investment from commercial banks		+	□	◇	○
Strengthening the role of the State in PA management & administration	+	○	◇	□	×
Reducing threats to and pressures of PAs		□	+	◇	○
Implementing management and business plans of PA authorities	+	+	□	◇	×
Leveraging additional financial resources from governmental budgets	+	+	□	◇	○
Implementing national policy and law related to PA management		+	□	◇	×
Strengthening the application of the Polluter Pays Principle	+	+	◇	○	×
Applying national procurement standards in project selection		+	◇	+	×
Advancing public education and awareness on PA related issues		□	○	◇	+
Capacity to respond to emergencies such as fires, earthquakes, etc.		□	+	◇	○
Strengthening the application of the User Pays Principle		+	□	◇	○
Introducing new revenue sources for the PAs		□	+	◇	○
Widening the range of suppliers to PA projects		+	◇	○	×
Consolidating PAs that have been newly established		+	□	◇	×
Selecting projects which have a high cost efficiency	+	+	□	◇	○
Reducing pollution in PAs		+	+	◇	○
Realizing transparency in project selection & resource allocation	+	□	+	◇	○
Selecting projects which produce high quality results/impacts		□	+	◇	○
Facilitating land tenure and resource ownership rights issues		□	○	◇	+
Managing endangered species		□	+	◇	○
Restoring degraded ecosystems		□	+	◇	○
Developing capacities and know how on PA management		□	+	◇	○
Leveraging additional finance from development assistance agencies		□	+	◇	○
Realizing new or better infrastructure in PAs		+	□	◇	○
Realizing projects which allow for new sources of economic growth		□	+	◇	○
Realizing new, innovative sustainable livelihood projects		□	+	◇	○
Planning and designating new PAs		+	□	◇	○
Advancing applied research on PA related issues		+	□	◇	○
Increasing project preparation capacity of project proponents		+	□	◇	○
Mainstreaming new solutions and technologies		□	+	◇	○
Implementing demonstration projects		□	+	◇	○
Realizing technology transfer from abroad		+	□	◇	○
	Fund finance much better	Fund finance preferable	Project finance preferable	Project finance much better	

“Based on your personal experience and opinion, which type of finance is better for the financial sustainability of Protected Areas (PAs)?”

Web survey results

- For 2/3 of aspects covered : preference for a CTF approach
- Preferences for CTF :
 - long term sustainability of operations,
 - local ownership in PA management,
 - leveraging additional financial sources and lowering transaction costs
- Preference for project-finance approach:
 - realizing new PAs,
 - demonstrating and mainstreaming new innovative solutions and technologies,
 - realizing technology transfer
 - implementing demonstration projects

Determining factors and elements of comparison between CTF (long-term) and donor project finance (short-term)

Analysis of when CTF and/or donor projects contribute to, among other things:
building capacity, building institutions, encouraging enabling policies, delivering conservation, enhancing the effectiveness of overall PA management



Conservation Trust Fund	Project-Specific Finance
A steady flow of smaller funding amounts towards financial sustainability of PAs - reduces funding gaps	Time limited – normally larger amounts over a shorter time – not a steady financial flow - sustainability not built in
Finances smaller amounts for management activities	Needs to spend large sums of money quickly
Potential for harmonization and alignment of donor funding	Projects raise issues of harmonization and alignment of donor funding
Less restrictive, more flexible allocations and rapid response	More restrictive use of funds – need to focus on project log frame. Harder to respond to emergencies
Market risk is a structural element	Risk that project design may not take into account absorptive capacity
Predictability of funding for long-term expenditure planning - can create local supplier capacity	Ability to procure best international expertise and execute larger contracts for goods and services
Potential to leverage additional funding from multiple sources over time	Project has co-financing scheme up-front and less ability to leverage additional resources
Local institution with programs run by local experts – long term capacity built – benefits from local understanding	Project reliance on external experts with less knowledge of local conditions

3 – Case studies and conclusions

CTF as advocacy organization and as a key actor of public policy lobbying : multi-donor and multi-stakeholder structure of a CTF makes it a very effective instrument to lobby for policy.

- **Madagascar Biodiveristy Fund**: success in attracting, bundling and coordinating the allocation of endowment capital and sinking funds of a multitude of donors.
- Development of specific operational guidelines and procedures for PA's e.g.: earmarking, eligible recurrent costs, the eligibility and priority criteria to choose protected areas that are suitable for financing, as well as requirements for contracting protected area management, fiduciary management, safeguard aspects and monitoring



3 – Case studies and conclusions

CTFs generally have a business/PA finance strategy attached that is in line with government and PA policy. That strategy provides a clear pathway to systematically address financial and capacity barriers over time.



In Uganda the **Bwindi Mgahinga Trust** has supported key PA management plan components of two important PAs with endangered mountain gorillas since 1995.

Earnings from the Eco-tourism in those parks today subsidizes the operations of the national park system with the Trust supporting community programs, research and targeted management – making more funds available for other PAs

Some Lessons

CTFs are a very useful vehicle to provide long-term financing for PA's and implementation of PA policy- but there are limitations

CTF funding is often limited in amount and scale – larger investments such as project financing is necessary to meet infrastructure and other investment needs

CTFs play an important regional and national institutional role – a private or public-private venture dedicated to providing public goods

We have a framework of criteria for comparing CTF and project financing but more feedback and information required

4 - Next step : PHASE 2

Examples from the field & synthesis

Objective : complement & illustrate with concrete examples some of the main conclusions from 1st PHASE + Synthesis

- Field work in 4 Protected Areas sites:
 - a PA site having benefitted from an 'old' African CTF (Uganda or Tanzania);
 - a PA in Mexico, benefit from a RedLAC member;
 - a PA with many projects but without any benefit from a CTF (Benin);
 - a PA in Madagascar, having benefitted from Project and a new CTF.
- Review of each PA sites' financing model
- Synthesis report (1st PHASE + illustration from the field + general conclusions and recommendations)

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