Developing the Financial Strategy for an Indo-Pacific MPA Network

Project Introduction – Andreas Merkl, Executive Director

Conservation and Community Investment Forum

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Contents

– Introduction/Objectives

– Traditional approach to conservation funding unlikely to succeed in financing complex network of Marine Protected Areas (MPAs).

– Comprehensive business planning effort required to establish new financial support model

– Governing organization for MPA network will require significant planning and collaboration by WCPA members
Meeting expectations

- Agree on the need for an intensive, comprehensive financial planning effort for the planned integrated MPA network in Indonesia/Indo-Pacific

- Agree on an analytical approach to the financial planning effort

- Discuss funding and management of the financial planning effort

- Define concrete work steps over the next four months
Introduction: WCPA Structure

TO COME
Introduction: WCPA Marine Working Group Mandate

**Marine Working Group**
Support an effective, self-sufficient, representative system of marine reserves which:
- is managed by an empowered, responsible citizenry to sustain biodiversity and human uses
- is designed to adapt to local and global environmental changes.
- provides product/livelihood resources to local communities that support marine conservation
- Furthers local ownership of natural resources

**Sustainable Finance Task Force**
Develop an innovative portfolio of financing mechanisms which support a network of Marine Protected Areas (MPAs) throughout Southeast Asia.
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Local economic development not a panacea....

**Natural assets are inexpensive**

- Total yearly income of Indonesia aquarium fishers: $5-6 million
- Total cost of 10-yr. protection of 5.5 sq.mile reef in Fiji: $30,000 patrol boat
- Logging concessions are radically underpriced

**Low resource costs rarely translate into local wealth**

- New sustainable enterprise rarely source of major conservation funding
  - Capital and management resources often unavailable
  - Short-term profits not competitive with destructive practices
  - Small local industries and ecotourism usually below scale
- Existing resource industry practices very difficult to transform
  - Transformation of practices extremely complex
  - Requires lots of investment capital
  - Conservation funding very rare
- In many highly remote/unstable areas, local business development not an option at all

BUT...
...but conservation concessions offer complementary approach

**What it is**

Local communities agree to protect natural ecosystems in exchange of a steady stream of structured compensation of from conservationists or other investors

**How it works**

Negotiated community/investor agreement:

- Amount of compensatory payments
- Duration of agreement
- Distribution mechanism
- Monitoring and enforcement norms

Provides financing source/mechanism for government-driven national strategy:

Benefits include:

- Stable source of funds for economic development
- Direct, transparent conservation investment (outcome-based investment)
- Market mechanism for investment
An integrated MPA network requires an integrated finance network

Local economic development

Investors

Donors

MPA Investment Structure

Conservation Concession

MPA endowment

MPA Trust

Joint Venture

Limited Liability Corporation

Government grant

Local natural resource industries

Local business

Traditional international (multilaterals)

New international (conservation investors, major corporations, philanthropists)

Traditional (foundations)

New (corporations, venture philanthropists)

MPA NETWORK

Local value added industries
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Major issues to be addressed

MPA network business plan for Indonesia

- What does it cost to finance this network?
- How can these costs be funded?
- What are the major structural implications for WCPA?
MPA “network” proposed for initial analysis

<table>
<thead>
<tr>
<th>Selection criteria</th>
<th>Proposal MPAs</th>
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<tbody>
<tr>
<td>• Proven wealth of biodiversity</td>
<td>Indonesia:</td>
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<tr>
<td>• Proven donor interest</td>
<td>• Komodo National Park</td>
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<tr>
<td>• Maximum combined interest of WCPA members</td>
<td>• Bunaken National Park</td>
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<td></td>
<td>• Wakatobi National Park</td>
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<tr>
<td></td>
<td>• Raja Ampat</td>
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<td>Malaysia:</td>
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<td>• TBD</td>
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<td>Philippines:</td>
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<td>• TBD</td>
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</tbody>
</table>
What does it cost to finance this network?

“TOP-DOWN ANALYSIS”

Coordinating and service function

• Planning, design, science, legal support
• Best practices
• Resource center
• Start-up management
• Administration, accounting
• Public relations

“BOTTOM-UP ANALYSIS”

MPA 1
• Planning, design costs
• Regulatory affairs and permit costs
• Ownership and capital costs
• Operational costs
• Finance cost

MPA 2

MPA 3

MPA 4

TOP-DOWN ANALYSIS

BOTTOM-UP ANALYSIS
What does it cost? Doing the numbers….

“Bottom up” cost analysis

- Systematically assess individual MPA costs
  - 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.

“Top-down” cost analysis

- Define scope, structure and cost for MPA headquarters function, including:
  - Support services
  - Resource center and information services
  - “Start-up” management for new MPAs
  - Public relations
  - Extrapolate to total expected MPA costs
  - Develop overall financial model

Synthesis

- Determine growth strategy, timing, cost ramp-up schedule for entire MPA network
- Prepare final financial projections for total anticipated MPA network costs

Timing

- 8 weeks

Work Steps

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- Finance cost, including interest, currency hedges, opportunity costs, etc.
How can these costs be funded?

Local economic development

Investors

Local natural resource industries

Local business

Traditional international (multilaterals)

New international (conservation investors)

Donors

Traditional (foundations)

New (corporations, venture philanthropists)

MPA Network Support and Coordination

Komodo

Bunaken

Raja Ampat

Wakatobi

Malaysia

Philippines

MPA XYZ

MPA XYZ
Who will pay? Finding the money...

Assess local business development opportunities

- Assess “traditional” funding sources
- Address innovative funding sources

Timing

8 weeks

Work Steps

- Evaluate potential business dynamics:
  - Type of business
  - Capital requirements
  - Sources of capital
  - Local management capacity
  - Scale
  - Profitability
- Assess potential contribution to MPAs
  - Direct (Cash)
  - Indirect (Alternative employment, elimination of destructive practices)
- Quantify current MPA funding commitments to WCPA members
- Review MPA network cost projections with “traditional” funders (foundations, multi-lateral organizations)
  - Concept verification
  - Interest
  - Funding priorities
  - PRI funding opportunities
  - Conditions of funding
- Forecast overall level of probable funding support
- Identify new potential funding sources
  - Multi-national corporations
  - Philanthropists
  - Public/private partnerships
- Assess “product” and “service” features/benefits/packaging required for funding
- Determine required investment structure
- Determine operational requirements
- Forecast overall level of probable support
Introduction/Objectives

Traditional approach to conservation funding unlikely to succeed in financing complex network of Marine Protected Areas (MPAs).

Comprehensive business planning effort required to establish new financial support model.

Governing organization for MPA network will require significant planning and collaboration by WCPA members.
WCPA organizational design options

- WCPA complexity
  - High
    - Design, funding and functional support
    - Design and funding
    - Design of MPA network
    - Loose coordination of efforts, best practice exchange
  - Low
- Degree of cooperation
  - Low
  - High
Structural issues for MPA investments

• Which legal entity will be entrusted with the management of the MPAs?

• How will these entities partner with WCPA members?

• How will 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?

• Etc…. 