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BUILDING A SECURE FINANCIAL FUTURE

People around the world value protected areas. Biodiversity protection is among the most commonly mentioned reason, but protected areas also provide opportunities for tourism and recreation. They have religious, spiritual, and cultural values, and furnish important ecosystem services such as clean air and water, among other examples.

Even so, individual protected areas and national protected area systems are consistently and historically funded at levels insufficient to meet long-term management challenges in ways that would ensure their current and future integrity. As their importance is increasingly recognized, it has become apparent that renewed, vigorous efforts are needed to find sustainable forms of finance for protected areas around the world.

GEF support for protected areas globally from 1992–2002 amounted to \$1.1 billion, or about \$109 million a year. By comparison, the U.S. National Park Service budget for 2002 alone totaled \$2.38 billion. In this light, the need to expand financing for protected areas at the global scale is evident, and the leveraging power of GEF funds to secure additional co-financing is an enormous necessity.

The GEF has been a major funder of innovative financial mechanisms for protected areas. Creative

and innovative mechanisms and financial arrangements have been, and continue to be, developed and implemented. Biodiversity projects with protected area components include initiatives to develop trust funds or conservation endowment funds, implement user fees or taxes, and establish commercial partnerships with the private sector.

The GEF has also supported efforts to develop tourism as a means of generating sustainable revenue in sites where such ventures are deemed appropriate, and has provided resources for projects that employ micro-enterprise and micro-credit to assist local communities in developing sustainable livelihoods. GEF projects have helped to convince policy makers of the value of their countries' natural resource assets, facilitating institutional support at the national level.

As the GEF moves forward with the implementation of its third replenishment, sustainable financing initiatives for protected areas and protected area systems will be an important component of the portfolio. To understand the diverse nature of financial mechanisms in GEF projects in the past and to identify best practices and lessons learned, the GEF Monitoring and Evaluation Unit completed a study of financial arrangements in GEF biodiversity projects in early 2003. The study provides a comprehensive and pointed analysis of the full spectrum of options for financing biodiversity conservation.

Actors in the conservation field working with protected areas continue to explore sustainable financing options appropriate in the context of

the particular areas toward which their efforts are directed. Different financial options require varying degrees of investment capital, and provide distinct levels of risk and reward.

The GEF has provided financial support to projects for the development of numerous financial mechanisms for protected areas. These include trust funds, user or entrance fees and taxes, ecotourism, private sector initiatives, micro-enterprise and micro-credit programs, and systems for putting a price on ecosystem services.

The GEF is a particularly strong supporter of conservation trust funds, including sinking, revolving, and endowment funds. The GEF remains one of the few actors in the conservation field with the resources to capitalize trust funds at the level necessary to provide significant results. As of 2002, the GEF had supported 63 trust funds or conservation endowments in protected area-related biodiversity conservation projects, which included at least 336 protected areas. This represents nearly one-third of the protected areas in the GEF's biodiversity portfolio.

An extensive review of trust funds supported by the GEF was completed in 1999. Although the number of trust funds was limited almost exclusively to funds approved during the GEF Pilot Phase, the study was able to make some important conclusions and recommendations. Notably, the review found that "trust funds have made impressive accomplishments in the area of supporting protected areas, including enabling the creation of new national parks, promoting the

expansion of existing areas, and providing a basic ‘resource security’ for their operations.”

In Bhutan, for example, the GEF supported the creation and development of a trust fund for environmental conservation. Bhutan holds relatively pristine forests and rich biodiversity, but faces growing pressures from an expanding human population and agricultural frontier. A GEF project implemented by the World Bank is assisting the Royal Government of Bhutan in conserving its forests and species diversity. The project developed a trust fund as a way to provide long-term and sustainable support for biodiversity conservation in this financially-constrained country. The project received technical support from the World Bank, UNDP, the World Wildlife Fund, and other NGOs, as well as financial support from donors such as the World Wildlife Fund-US, Asian Development Bank, and European countries.

The GEF Outlook

- Without stable and sustainable sources of financing, protected areas will deteriorate and their ecosystems will not be maintained. Finding ways to achieve sustainable financing is critical to long-term conservation efforts.
- The GEF has been a major supporter of the development of financial mechanisms, especially trust funds and payments for environmental services, and will continue this effort in the future.

The GEF has worked to expand partnerships and identify important stakeholders in the private sector. Although as yet in a limited context, the private sector has been involved or targeted in 108 biodiversity projects which include at least 629 protected areas. There are five specific projects in which the private sector has a direct role in the financial arrangements, involving at least 57 protected areas.

Private sector involvement in GEF projects has been steadily increasing. In the first five years of the GEF’s existence, the private sector was involved in roughly one quarter of biodiversity conservation projects. During the second five years, from 1997–2002, the private sector was involved in some capacity in more than two-thirds of biodiversity projects. Although these figures demonstrate the extensive existing involvement of the private sector in GEF biodiversity projects, the Second Overall Performance Study of the GEF, completed in early 2002, identified private sector involvement in biodiversity conservation as an area in which there remain many unexploited opportunities. Taking this observation to heart, the GEF plans to aggressively engage private sector actors as the biodiversity portfolio expands with the third replenishment.

An innovative example can be found in the project implemented by the World Bank and International Finance Corporation (IFC) in the Philippines in collaboration with the Asian Conservation Company. The project will support the incremental costs of a new approach to mobilizing private capital and grant funding to help conserve new and existing marine protected areas at six key sites. It features

a unique partnership between a private equity investment holding company and local NGOs. Over a six year period, the project will provide GEF grant funding to local NGOs in order to carry out conservation activities in these biologically rich, threatened marine areas.

The NGOs will support conservation management, marine enforcement, information and education, sustainable livelihoods, biodiversity research and monitoring, and development of institutional and financial sustainability mechanisms. The investment company will become a long-term (up to 50 years) shareholder in local companies, such as an ecotourism resort and blue crab processor, which operate in or near the marine areas. The holding company will allocate a portion of revenues from its investments to establish an endowment. After the GEF funds are fully utilized, the investment company will sustain the conservation activities through the endowment and ongoing contributions from portfolio companies.

GEF projects have repeatedly shown that properly planned and supported ecotourism can be a powerful catalyst for conservation and generate sustainable livelihood prospects for community members. Among GEF biodiversity projects are 76 projects with ecotourism components in protected areas. These projects encompass at least 542 protected areas, and are supported by over \$500 million in GEF financing.

The range of possible ecotourism activities provides flexibility to develop ventures most appropriate to a particular circumstance. Investments in

ecotourism-related services, including restaurants, lodging, guide services and gear suppliers, leisure activities, and entertainment can provide direct income from the conservation and management of biodiversity. The ability of communities and businesses to capture income from a non-consumptive resource use, such as tourism and related activities, helps create a commitment to and responsibility for biodiversity conservation.

The Eg-Uur Watershed Area (EUWA) in north-western Mongolia boasts one of the most pristine and biodiverse ecosystems in Eurasia. It consists of a uniquely self-contained hydrological network from source to confluence, and is naturally protected by rugged mountain ranges in all directions. The region supports a unique earning asset: a healthy population of taimen, a highly sought-after game fish. The recently approved GEF Eg-Uur Watershed Conservation project, implemented by the World Bank, aims to establish a partnership between the local communities, government institutions and agencies, and tourist companies to collaboratively and proactively establish a natural resource management regime for the watershed area.

The financial sustainability and biodiversity conservation vehicle for the project is “high end,” low

impact catch and release fly-fishing ecotourism. An American fly-fishing company and its Mongolian partner have been operating a successful fly-fishing ecotourism business on the Eg and Uur rivers for some years, and these businesses have formed an NGO, the Taimen Conservation Fund, to help facilitate the establishment of a sustainable natural resource management system. The IFC and the World Wildlife Fund have been active partners in the execution of the project’s planning by holding stakeholder meetings to develop project objectives.

The incorporation of the non-monetary economic value that protected areas can provide is an important step in ensuring that protected areas are maintained in perpetuity. One way to achieve this outcome is by developing systems for payments of ecosystem services, such as carbon sequestration, hydrological services, and soil maintenance. The possibility of payments for carbon sequestration has become especially attractive as multilateral efforts to reduce greenhouse gas emissions and combat climate change have progressed in recent years. The GEF has supported three biodiversity projects involving 19 protected areas that attempt to take advantage of the services ecosystems provide and encourage payment for

those services. This is a new and dynamic method to promote biodiversity conservation, and while the potential for positive results is great, the mechanisms and formulations through which the most effective approaches will be found remain to be fully understood.

One of the pioneering efforts in this realm is a GEF project in Costa Rica implemented by the World Bank. The Ecomarkets project supports Costa Rica’s progressive forestry laws by providing market-based incentives to landowners in buffer zones and interconnecting biological corridors contiguous to national parks and biological reserves. The objective is to provide environmental services relating to carbon sequestration and reduction of carbon emissions, biodiversity conservation, scenic beauty, and hydrological services. The project will support implementation of environmental policies in the forest and energy sectors, and contribute to sustainable human development. It will also assist in developing markets, attracting financing and investment, and consolidating an institutional framework.

