Step 3.2
Conservation Finance
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Conservation Finance

What Is Conservation Finance?

Conservation Finance strategies or mechanisms are secured to help ensure long-term sustainable financing for project or programme conservation objectives beyond the project’s or programme’s lifespan. The terms “conservation finance” and “sustainable financing” are used interchangeably.

Traditional fundraising secures financial resources from government, foundation, corporate or individual sources generally in support of a project’s development and implementation. Conservation finance aims to generate sustaining financial resources over the longer term (five or more years). Conservation finance goes beyond traditional government or donor funding by introducing innovative market-based approaches such as debt-for-nature swaps, environmental funds, and payment for ecosystem services (PES). Click here for guidance to traditional fund raising: 3.2 Fund Raising: Framework, Practices, Guidelines.

There is typically no single solution to ensuring financial sustainability. Conservation finance strategies can be developed at different scales to meet different natural resource management objectives. These can range from a diving fee system for a marine protected area, a water fund to conserve an upstream watershed, or a fully endowed regional-level protected areas trust fund.

Sustainable conservation finance is growing in use around the world. Many governments have increased their commitments to ensuring sustainable financing for national and regional systems of protected areas, such as recent agreements signed at the Convention on Biological Diversity COP7. Conservation finance is also increasingly valued as a mechanism to help alleviate poverty by creating equitable approaches to sustainable financing that benefit rural populations through enhancement of sustainable livelihoods or by protecting public health.

Why is Conservation Finance Important?

Conservation Finance contributes to the sustainability of conservation projects and programs by ensuring financial resources to deliver conservation results long after the current donors or partners have exited from a project or program. The most successful conservation finance strategies produce more than just financial sustainability. For example:

- By developing markets for ecosystem services, PES arrangements provide a way for public and private beneficiaries to pay for ecosystem services that might otherwise not be valued. PES arrangements can also provide a framework for local people to improve their standard of living through stewardship of natural resources.

- Conservation finance can attract private sector capital, which has not traditionally been a significant source of funding for conservation, and may catalyze the development of partnerships with private companies and donors.
• Environmental funds often result in greater government engagement in the environmental sector as well as civil society involvement by empowering independent boards and building capacity of local NGOs.

When to Design and Implement a Conservation Finance Strategy

Because of the long period of time and significant resources required to implement conservation finance mechanisms, it is important to begin designing a sustainable financing strategy early in the project or programme planning cycle, ideally as part of your Operational Plan (Step 2.3).

In assessing your project’s capacity needs, it will be important to ensure that your team includes staff or consultants who can design and implement a sustainable financing strategy. It may also be necessary to invest further resources in building partnerships and creating an enabling institutional, legal and regulatory framework in order to ensure long-term sustainability.

The financial plans and models that you develop as part of your operational plan provide baseline information on project financing needs that may need to be met through a long-term sustainable financing strategy. For example, while a project may include up-front investment costs for an expanded protected area network, sustainable financing may be needed to ensure that recurring costs of the protected areas such as management, monitoring and enforcement are met through stable revenue streams such as protected area user fees and interest from endowment funds.

Both Fundraising (Step 3.2) and Partnerships (Step 3.4) provide building blocks for implementing your conservation finance strategy. The same donors who currently fund your project or programme may also be interested in supporting a sustainable financing strategy, perhaps as part of their exit strategy. Your project partners are also the most promising participants (as financing sources or as beneficiaries) in sustainable financing mechanisms.

How to Design a Conservation Finance Strategy

The following steps can guide development of your conservation finance strategy:

1. Create a Conservation Finance team or committee to oversee development of the strategy, consisting of key stakeholders or potential partners in your conservation finance mechanisms. It is important that relevant governmental authorities endorse (although not necessarily lead) the team in order to ensure political support for the strategy. In most cases, conservation finance mechanisms such as trust funds, debt swaps or payment schemes need to be endorsed by and/or established with the government. Stakeholder and especially key government participation on your team is critical.

2. Define the scope of the conservation finance strategy – the geographic scope (site, national, regional) as well as the types of environmental activities to be financed. Large-scale or multi-country programs may require sustainable financing mechanisms that are implemented at different levels.
3. Conduct baseline research, including:
   o Estimate long-term financing needs based on project or programme financial plan
     (carried out in step 2.3);
   o Map economic flows and values of ecosystem services in order to identify potential
     markets and payment mechanisms for ecosystem services; and,
   o Assess institutional, legal and regulatory frameworks for potential conservation
     finance mechanisms.

4. Analyze the baseline research in order to identify the most promising package of sustainable
   financing mechanisms based on the amount of funding that they will generate for the project
   and the feasibility of implementing them. At this stage, you may also wish to prioritize
   conservation financing needs so you channel new funds to where they are needed most.

5. Develop a workplan for technical work for the most promising financing mechanisms. The
   Conservation Finance Alliance (CFA) publishes an in-depth Conservation Finance Guide
   (see link in last section) that may help your planning and development of conservation
   finance mechanisms by providing ideas, resources, guidance, checklists and sample terms of
   reference for various types of conservation finance mechanisms.

6. Raise awareness about and build support for developing conservation finance mechanisms for
   your programme based on your long term needs and on the enhanced appreciation of your
   programme’s provision of ecosystem services and its contribution to national economic
   growth and poverty alleviation. Some of these mechanisms -- such as user fees, green taxes,
   or other payment fees for tourists or resource users -- can take many years to establish due to
   government resistance or lack of appropriate infrastructure or capacity.

A Menu of Options: Types of Conservation Finance Mechanisms
One of the keys to financial sustainability is to develop a range of conservation finance mechanisms
in order to diversify funding sources. This section provides information about some of the main
conservation finance mechanisms and recommends that you consult the general reference guides
listed below for additional information. More specialized information on each of the following
mechanisms can be found in these guides or through the web links provided in the next section.

Environmental Funds
Environmental funds (also called conservation trust funds) have been legally established in over fifty
countries, typically as trust funds or foundations, as a way to manage long-term financing for
protected areas, biodiversity conservation or other environmental purposes. These funds are usually
independent of government agency control, and are typically set up as grant-making institutions that
are governed by an independent board of directors which is charged with ensuring that funds are used
for the specific purposes defined in the fund’s legal statutes.

Environmental funds are often established to anchor other sustainable financing mechanisms by
providing a transparent and efficient way to manage funding for conservation purposes. These funds
can be set up as endowments (e.g., only interest revenue is spent), sinking funds (e.g., both capital
and interest is disbursed) or revolving funds (e.g., pass-through sources of revenue are disbursed), or
a combination of any of these. Most environmental funds established to date have been capitalized by grants from governments and donors and the proceeds of debt-for-nature swaps. A new generation of funds is now being established that manages fees and taxes captured through PES and other sustainable financing mechanisms such as water funds.

**For-Profit Investment Funds**
By tapping into the substantial financial resources of the private sector, for-profit investments can be structured to provide financial returns for investors while promoting corporate social responsibility and environmental conservation. These investment funds channel capital – debt or equity – into environmentally-sustainable enterprises or ventures. In this way, these funds can provide both a direct financial benefit through a sustainable financing model and can also promote adherence to environmental standards for use of resources. In effect, if done well, such funds provide a triple bottom line benefit to their investors and to conservation.

**Debt-for-Nature Swaps**
Debt-for-nature swaps involve the cancellation of external debt of a developing country in exchange for local currency funding for nature conservation or environmental protection in that country. First introduced in the 1980s for swaps of private (commercial) debt, most debt-for-nature swaps these days involve bilateral debt owed to countries such as Germany and the USA.

With the advent of the Heavily Indebted Poor Countries (HIPC) debt relief initiative and changes in the market for private debt, there are currently only a limited number of countries where debt swaps are feasible. In the case of HIPC countries, there may be potential for earmarking government budget funding for environmental activities through a country’s Poverty Reduction Strategy Paper (PRSP) or through additional debt relief provided by a bilateral creditor such as France, which has introduced the Debt-Development Contract (C2D). There are also a limited number of debt reduction initiatives under the Tropical Forests Conservation Act (TFCA) for tropical countries holding significant US debt.

**Payment for Ecosystem Services (PES)**
The recent Millennium Ecosystem Assessment raised awareness regarding the value of critical “services” that humans obtain from nature, including climate stabilization, provision of drinking water, fish and shellfish production, hunting, other food products, bioprospecting, crop pollination and landscape beauty. Payment for Ecosystem (Environmental) Services mechanisms are based on the principle that those who provide ecosystem services should be compensated by those who receive ecosystem services. A variety of PES mechanisms have been developed (e.g., carbon offset payments, water funds, tourism-based fees), but significant challenges remain to scale up PES arrangements so that substantial resources are raised for conservation and sustainable development.

To meet this challenge, WWF has launched pilot initiatives that are pioneering the development of PES mechanisms. The web links below will provide you with additional information about the CARE-IIED-WWF partnership on payments for watershed services, the “Natural Capital” partnership with The Nature Conservancy and Stanford University, and the WWF Macroeconomic Programme Office’s “Promoting Payments for Environmental Services (PES) and Sustainable Financing for Rural Development” initiatives.
Tourism-Based Revenues
As the largest industry in the world, tourism has the potential to generate substantial funding for conservation through PES and other revenue raising mechanisms. Protected areas are often a major source of attraction for tourists, but may lack the supporting infrastructure to receive tourists and generate revenues. Several different types of revenue can be collected at the site, national and even international levels through visitor entrance and user fees, concession fees, licenses and permits, tourism-based taxes, airport or country entry fees, airplane or cruise boat passenger assessments, and voluntary contributions of tourism operators and tourists.

Resource Extraction Fees
Financing conservation through revenues from fines, fees or royalties collected from forestry, energy or mining companies is a way of holding companies accountable for damage or disturbance that result directly from their operations near fragile or high biodiversity ecosystems. Resource extraction fees (sometimes called “biodiversity offsets”) are usually paid as compensation to mitigate direct impacts. In considering potential resource extraction fees, it is important to consult WWF experts regarding current policies and standards for particular industries such as mining or oil and gas producers, and to check on reputations of specific extractive companies with whom we might be negotiating.

Real Estate and Development Rights
Many tools have been developed to protect private lands including land purchases, conservation easements and conservation concessions. Tradable development rights permit environmentally destructive development in some areas in exchange for the restoration or protection of natural resources in other areas.

Earmarked Taxes and Other Charges
Government budget allocations constitute the largest traditional source of funding for conservation in many countries, but they often fall short of needs and are unstable sources of funding over the long term. Earmarking sources of revenue allows governments to guarantee financial resources for environmental programs through public financing tools such as taxes assessed on certain goods and services (typically, but not always, linked to recreation or resource use) or to other mechanisms such as bonds, lotteries, special purpose postage stamps and license plates. These funds are then “earmarked” for specific uses by the government, such as offsetting environmental degradation. For example, in Cameroon, a forestry fund was set up to capture forest concession lease rents with at least a portion of the taxes invested in conservation and community forestry management.
General Reference Guides


Links to Conservation Finance References

Biodiversity Economics website, with library of documents on conservation finance, sponsored by IUCN and WWF: http://biodiversityeconomics.org

Conservation Finance Alliance: http://www.conservationfinance.org

Ecosystem Marketplace: http://ecosystemmarketplace.com

Katoomba Group: http://www.katoombagroup.org

Natural Capital Project: http://www.naturalcapitalproject.org

WWF Macroeconomics for Sustainable Development Programme Office, Payment for Ecosystem Services Programme: http://www.panda.org/about_wwf/what_we_do/policy/macro_economics/index.cfm


WWF Connect:
WWF Forest Programme, Folder 4. Finance and Forests, Payment for Environmental Services GAA folder on Sustainable Financing