RAISING REVENUES for Protected Areas

May 2001

A Menu of Options

Barry Spergel

Center for Conservation Finance

Building Conservation Capital for the Future

World Wildlife Fund

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For copies of this guide, please contact

Center for Conservation Finance
World Wildlife Fund
1250 24th Street, NW
Washington, DC 20037

Tel: 202-778-9559
Fax: 202-293-9211

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Contents

Introduction 1

Government Budget Allocations 3

Grants and Donations 5

- Debt-for-Nature Swaps 5
- Conservation Trust Funds 7

User Fees, Taxes, and Other Charges That Are Earmarked for Protected Areas 13

- Entry Fees 13
- Concession Fees 14
- Recreational Activity Permit Fees 14
- Diving Fees 14
- Airport and Cruise Ship Passenger Fees 15
- Hotel Room Surcharges 15
- Taxes on Hunting, Fishing, and Camping Equipment 15
- Fees and Royalties Paid for Natural Resource Extraction: Oil, Mining, Timber, and Fishing 16
- Fees for the Right of Way to Construct Pipelines, Transmission Lines, or Telecommunications Towers 16
- Watershed Conservation Fees 16
- Carbon Sequestration Payments 17
- Fuel Taxes 18
- Property Taxes 18
- Lottery Revenues 18
- Wildlife License Plates and Postage Stamps 18
- Hunting and Fishing Fees 19
- Fines for Illegal Logging, Hunting, and Fishing 19
- Bioprospecting Fees 20
- Pollution Fines and Out-of-Court Settlements for Pollution Damage 20
- Income from Commercial Operations Run by Park Agencies 20

Conclusion 23

Appendix: Steps for Setting Up a Conservation Trust Fund 25

INTRODUCTION

This paper describes more than 25 different ways of raising revenues for protected areas. It summarizes their relative advantages and disadvantages and lists sources for obtaining further information. It is intended as a practical tool for protected-area managers, finance ministry officials, international donor agencies, and local conservation organizations.

Protected areas in developing countries receive an average of less than 30 percent of the funding that is necessary for basic conservation management (James et al., 1999). Over the past decade, many developing country governments (particularly in Africa) have cut their budgets for protected areas by more than 50 percent as a result of financial and political crises (Dublin et al., 1995). International aid for biodiversity conservation has been declining ever since the 1992 Earth Summit in Rio de Janeiro (James et al., 1999). Many protected areas in developing countries have become mere "paper parks" lacking sufficient funds to pay for staff salaries, patrol vehicles, or wildlife conservation programs.

All the various ways of financing protected areas fall under three basic categories:

1. Annual budget allocations from a government's general revenues.
2. Grants and donations from individuals, corporations, foundations, and international donor agencies. This category includes debt-for-nature swaps and conservation trust funds.
3. User fees, conservation taxes, fines, and other revenues that are earmarked for funding protected areas.

None of these ways of raising revenues is a panacea. Most protected areas in developing countries will need to rely on a combination of all these sources.

GOVERNMENT BUDGET ALLOCATIONS

Although most governments give higher priority to funding economic development and social programs than to conserving parks and wildlife, governments may be persuaded to increase their budget allocations for protected areas if it can be demonstrated that protected areas generate substantial economic benefits. For example, in Kenya, nature-based tourism is now the country's second largest source of foreign exchange earnings. In Ecuador, the Galápagos Islands National Park annually attracts around 80,000 foreign tourists who pay a park entry fee of US$100 each, and collectively spend more than US$100 million each year in Ecuador (including expenditures for guided tours, accommodations, food, and souvenirs).

Wildlife- and nature-based tourism can become an important engine of economic growth and job creation in many developing countries. But this growth can happen only if governments allocate sufficient funding to conserve wildlife; to adequately maintain roads and other tourism infrastructure inside protected areas; and to effectively enforce laws against illegal logging, hunting, fishing, and settlement inside protected areas.

Protected areas not only generate tourism revenues, they also provide valuable "ecological services" for which governments might otherwise have to allocate scarce financial resources, including

- Protection of watersheds (to ensure supplies of drinking water and hydroelectric power),
- Protection of the spawning grounds for fish that can later be commercially harvested,
- Conservation of plants and genetic resources that may become the basis for valuable new medicines, and
- Conservation of forests that can sequester and store carbon emissions from industrial countries (an ecological service for which developing countries may become able to receive financial compensation under the Climate Change Convention).

However, even demonstrating these economic benefits may not be enough to persuade governments to increase the amount they spend on protected areas, if governments are unwilling or unable to base their decisions on long-term considerations.

ADVANTAGES OF GOVERNMENT FUNDING

Government funding offers the following advantages:

- Relying on government funding may be more sustainable in the long run than relying on international donors, because donor priorities and funding levels may suddenly change, and donors usually do not fund any projects longer than 5 years.
- Increased government funding demonstrates that biodiversity conservation is an important national priority, rather than simply the concern of a few private organizations or international donor agencies.

DISADVANTAGES OF GOVERNMENT FUNDING

Government funding also has some disadvantages:

- Government funding may be vulnerable to sudden shifts in government spending priorities and to across-the-board budget cuts in times of economic crisis.
- Political patronage and political agendas may guide decisions that should be based primarily on conservation criteria.

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GRANTS AND DONATIONS

A second main source of financing for protected areas and biodiversity conservation is grants and donations from individuals, corporations, foundations, nongovernmental organizations (NGOs), and international donor agencies.

In most developing countries, contributions from private individuals and corporations constitute a relatively minor source of funding for parks and conservation. Developing countries generally provide few or no tax incentives for making charitable donations. Most developing countries also lack a tradition of "cause-related" charitable giving, other than to religious institutions.

By contrast, in developed countries such as the United States, various foundations established by wealthy individuals (such as the MacArthur, Packard, Turner, Mott, Moore, Rockefeller, and Ford foundations) contribute millions of dollars each year to support biodiversity conservation in developing countries.

International NGOs such as WWF, The Nature Conservancy, Conservation International, the Wildlife Conservation Society, and IUCN – the World Conservation Union also raise hundreds of millions of dollars each year for protected areas and conservation projects in developing countries.

Perhaps the largest funding sources for parks and conservation in the developing countries are the international donor agencies. This includes multilateral finance institutions such as the World Bank, the United Nations Development Programme (UNDP), and the Global Environment Facility (GEF). It also includes bilateral aid agencies such as the U.S. Agency for International Development (USAID), the German Technical Cooperation Agency (GTZ), the Dutch International Cooperation Agency (DGIS), the European Union (EU), the Danish and Norwegian government aid agencies (DANIDA and NORAD), the United Kingdom's Department for International Development (DFID), and the Canadian International Development Agency (CIDA).

Debt-for-nature swaps and conservation trust funds are financial mechanisms that can be used either to magnify ("leverage") donor contributions or to extend them over a long period of time.

DEBT-FOR-NATURE SWAPS

The Latin American debt crisis of the 1980s led to the invention of the debt-for-nature swap, a financial mechanism that has enabled developing countries to reduce their foreign debt while generating additional money for conservation activities. There are two main types of debt-for-nature swaps: *commercial debt-for-nature swaps*, involving debt owed by developing countries to international commercial banks; and *bilateral debt reduction programs*, involving debt owed to other governments.

Commercial debt-for-nature swaps are based on

- The willingness of banks or other commercial creditors to sell debt owed to them by developing country governments to third parties at a substantial discount from the debt's face value, because the creditors

do not expect the debtor government ever to fully repay its debts;
- The ability of conservation organizations to raise money from their members or donors to buy the discounted debt from creditors; and
- Agreement on the amount of local currency that the debtor government will spend on new conservation programs in exchange for the conservation organization's cancellation of the debt. This local currency amount will be only a fraction of the debt's face value in hard currency, but will be significantly more than the price at which the debt was just purchased by the conservation organization.

The example in box 1 illustrates how a commercial debt-for-nature swap works.

In contrast, bilateral debt reduction programs involve cancellation of "sovereign" debt owed by one government to another. The principle is the same: the creditor government agrees to cancel ("forgive") debt, in exchange for the debtor government's agreement to spend an amount of local currency on conservation activities that is equivalent to a fraction of the face value of the debt. The negotiation of bilateral debt swaps requires coordinated action among the two countries' ministries of finance, their ministries of foreign affairs, the debtor government's agency for parks and conservation, and the creditor government's international aid agency. International conservation organizations are not parties to the agreements, but often assist as facilitators; local conservation organizations are often the beneficiaries of such swaps.

Some bilateral debt reduction programs allow the debtor government to pay out the agreed amount of local currency over a period of 5 to 10 years, rather than paying it up front in a lump sum to create a local currency endowment fund (as in the Philippine example). The Enterprise for the Americas Initiative (EAI), enacted by the U.S. Congress in 1991, canceled US$875 million of bilateral debt owed to the U.S. government by seven Latin American governments that had taken steps to liberalize their economies and promote democracy. In exchange, these governments agreed to annually pay into an "Enterprise for the Americas Fund" an amount of local currency equivalent to a certain percentage of the annual interest that otherwise would have been due on the canceled debt. These funds make grants to local nongovernmental groups for implementing conservation projects. For example, Colombia's EAI fund has received local currency payments

BOX 1. PHILIPPINES DEBT-FOR-NATURE SWAP

In 1993, WWF was able to purchase debt owed by the Philippine government to international commercial banks that had a face value of US$19 million for a price of only US$13 million. WWF obtained the US$13 million from USAID and other sources. In exchange for WWF's cancellation of the debt, the Philippine government allocated US$17 million worth of Philippine pesos to establish a permanent endowment for the newly created Foundation for the Philippine Environment (FPE). FPE is governed by a board of directors composed of representatives of Filipino NGOs, academic and scientific institutions, and the private sector. The income earned by investing FPE's endowment has been used to make hundreds of grants to NGOs and local community groups for projects to conserve biological diversity.

Source: Resor, James P. March 1997. Debt-for-Nature Swaps: A Decade of Experience and New Directions for the Future, *Unasylva* Vol. 48, FAO.

equivalent to US$41.6 million over a multiyear period, and these have been used to finance hundreds of small conservation projects.

The U.S. government launched a broader debt-for-nature swap program under the 1998 Tropical Forest Conservation Act. This act authorized the establishment of Tropical Forest Conservation Funds in developing countries that have "globally significant" tropical forests and can satisfy other criteria such as having democratically elected governments and open-market economies. Although it was originally expected that the U.S. Congress would allocate hundreds of millions of dollars to fund this program, in fact only US$13 million a year has been appropriated.

Switzerland established a 700 million Swiss franc (equivalent to around US$400 million) debt forgiveness program to commemorate the 700th anniversary of the Swiss Confederation. Under the Swiss bilateral debt reduction program, conservation is merely one of several different purposes for which it is possible to use the resulting local currency.

The Heavily Indebted Poor Countries (HIPC) Initiative is a multilateral debt-forgiveness program that was initiated by the World Bank and International Monetary Fund, and may result in the cancellation of up to 90 percent of the "official" debt owed by more than 30 of the world's poorest countries. Under the HIPC Initiative, a qualifying debtor government must agree to spend an amount of local currency to fund "poverty alleviation" programs that is equivalent to a portion of the interest that it would otherwise have had to pay on the cancelled debt. Some bilateral creditors recently have expressed interest in adding biodiversity conservation to the types of programs for which these local currency payments can be used. However, this must be agreed to or requested by the debtor country. Germany has recently offered to cancel additional amounts of bilateral debt over and above the debt cancelled under the HIPC Initiative, if a country agrees to repay the cancelled debt in local currency and spend it on conservation programs.

ADVANTAGES OF DEBT-FOR-NATURE SWAPS

Debt-for-nature swaps have the following advantages:

- For international donor agencies and conservation organizations, debt-for-nature swaps offer a way to leverage their funds and finance a much greater number of conservation activities in the debtor country than if the donors had simply made a hard currency grant.
- For developing country governments, debt-for-nature swaps offer a way of reducing their international debt by using local currency to fund worthy projects inside the country, instead of sending scarce hard currency out of the country to repay commercial or bilateral creditors.

DISADVANTAGES OF DEBT-FOR-NATURE SWAPS

Some disadvantages should be noted:

- Such swaps may be quite complex to execute and may require the involvement of technical experts from multiple government agencies.
- The financial leverage achieved by a debt-for-nature swap may be eroded by subsequent local currency devaluation or runaway inflation. However, this problem can be mitigated if the debtor government agrees in advance to link the amount of its local currency payments (for conservation projects) to the U.S. dollar or some other external standard.

CONSERVATION TRUST FUNDS

Over the last decade, conservation trust funds have been established in more than 40 developing countries as a way of providing long-

term funding for parks and conservation. Conservation trust funds can be set up for many different purposes, such as to finance:

- A single protected area
- A country's entire protected-area system
- A transboundary protected area
- Conservation of a particular species
- Small grants to local communities and nongovernmental organizations for carrying out conservation projects.

A list of the steps that are typically required in order to set up a conservation trust fund can be found in the appendix to this paper. Three conservation trust funds are profiled in table 1 (page 10).

A trust fund can be broadly defined as money or other property that (1) can only be used for a specified purpose or purposes; (2) must be kept separate from other sources of money, such as a government agency's regular budget; and (3) is managed and controlled by an independent board of directors. *Trust funds* in the strict sense exist only in common-law countries such as the United States, the United Kingdom, and British Commonwealth countries. But almost the same results can be achieved in civil-law countries (including the French- and Spanish-speaking countries of Africa and Latin America) by setting up a *foundation* or (in Latin America) a *fideicomiso.* The term *trust fund* will be used here in its broader sense to include not just common-law trust funds, but also foundations and fideicomisos.

Conservation trust funds can take one or more of the following three forms: endowment funds, sinking funds, and revolving funds.

Endowment funds are the most common type of conservation trust fund. The capital (also called the "principal") of an endowment fund is usually invested in some combination of commercial bank deposits, government treasury bonds, and corporate stocks and bonds, in order to generate a steady stream of income (usually from 5 to 10 percent annually) over a long period of time. The capital itself is never spent. Only the interest or investment income is used to support conservation activities. Some endowment funds also reinvest a small percentage of their income in their capital each year, in order to offset for inflation and maintain the same "real" value of their capital. The largest endowment-type conservation funds are listed below:

- Mexico (a US$30 million endowment and a US$16 million sinking fund)
- Bhutan (US$36 million endowment)
- Colombia (US$30 million endowment)
- Philippines (US$26 million endowment)
- Indonesia (US$25 million endowment)
- Panama (US$25 million endowment)
- Madagascar (US$12 million endowment)
- Peru (US$10 million endowment)
- South Africa's Table Mountain Fund (US$7 million endowment)
- Uganda's Bwindi and Mgahinga National Parks Fund (US$6 million endowment). [All of these figures are approximations as of March 1, 2000.]

Sinking funds not only spend the income earned by investing the fund's capital, but also spend down part of their capital each year. The capital of a sinking fund gradually "sinks" to zero over a predetermined period of time (usually between 10 and 20 years). Then the fund either ceases to exist or is replenished from other sources. Brazil's $15 million FUNBIO fund is an example of a sinking fund.

Revolving funds, instead of having a fixed amount of capital, continually receive new revenues from user fees or earmarked taxes, and continually spend all of these revenues. In some cases a small percentage of each year's revenues is put into a reserve fund that can be drawn upon if the income from fees or taxes suddenly drops due to unforeseen economic and political events. Belize's Protected Areas Conservation Trust (PACT) is an example of a revolving fund, financed by a US$3.75 "conservation fee" that each foreign tourist must pay at the airport. The fee generates more than $600,000 each year, and 5 percent of the revenues are set aside as a reserve fund.

TABLE 1. PROFILES OF THREE CONSERVATION TRUST FUNDS

	Mexican Nature Conservation Fund	**Foundation for the Philippine Environment**	**Uganda's Mgahinga and Bwindi Conservation Trust**
Size of Fund's Endowment	US$46 million	US$26 million	US$6 million
Principal Donors	Endowment funded by USAID (US$20 million) and Mexican government (US$10 million). The Global Environment Facility (GEF) has contributed an additional US$16.5 million specifically for a 5-year national parks project, which is administered by the fund.	Endowment results from debt-for-nature swaps funded by US$13 million from USAID, as well as US$200,000 debt donation by the Bank of Tokyo, and grants from the MacArthur Foundation.	Endowment funded by a US$4 million grant from GEF; USAID contributed US$1 million to cover administrative costs and small grants program for first 2 years; DGIS (Netherlands) contributed additional US$2 million cofinancing.
Principal Sources of Technical Assistance in Designing the Fund	WWF, Mexican government, USAID	WWF, USAID, Philippine government, the association Philippine Business for Social Progress, Philippine NGOs and academic institutions	World Bank/GEF, Ugandan government, Makerere University, WWF
Governance Structure	A 16-member board of directors includes the Mexican minister of environment and 15 Mexican private citizens with diverse expertise and backgrounds who are elected by a general assembly. Also a small International Advisory Committee includes the president of WWF-US and a director of the MacArthur Foundation.	An 11-member board includes 6 voting members from Philippine regional NGOs; 4 voting members from business, academia, and civil society; 1 from an international NGO (WWF served 1992–1994, then World Resources Institute); and a 12th ex-officio nonvoting member from Philippine government.	The board's 9 voting members include 2 from the Ugandan government, 1 from a Ugandan conservation NGO, 3 from local communities surrounding the parks, 1 from a research scientific institution, 1 from the tourism industry, and 1 from an international NGO (CARE); the board also has 5 nonvoting members, including USAID.
Institutional Mechanisms to Increase Grassroots Participation in Fund Governance	A general assembly composed of individuals and organizations active in Mexican nature conservation.	Three Regional Advisory Committees composed of NGOs and local community organizations. Each committee nominates candidates to the national board and screens project proposals from its region.	A local steering committee composed of field-level park staff, local communities, and NGOs working in the area screens community project proposals and makes small grants.
Legal Structure	Private nonprofit foundation established under Mexican law	Private nonprofit corporation established under Philippine law	Private trust established under Ugandan trust law
Investment Policy	A U.S.-based investment bank invests half of the fund's capital in the United States and half in Mexico.	Part of the fund's capital is invested in Philippine government bonds, and part has been reconverted into hard currency and invested overseas.	The fund's capital is kept in hard currency and invested by a U.K.-based investment firm in a diversified international portfolio.
Auditing Requirements	Two members of a well-known international accounting firm are appointed as statutory auditors with legal powers to supervise the fund's finances.	There is an annual audit of the fund as a whole and of each project by Philippine and U.S. government-accredited accounting firms.	There is an annual audit of the fund and of the outside investment managers by a well-known international accounting firm.
Number and Total Amount of Grants Made or Projects Funded	76 projects in 1996, 108 in 1997, totaling US$2 million annually	US$8 million in grants to 33 priority sites and 350 community projects	50 community projects totaling US$300,000 in the first 2 years
Principal Grant Beneficiaries	Environmental NGOs working independently or in collaboration with the Mexican government	Grassroots NGOs and "peoples organizations," national NGO networks, academic institutions	Local community groups (60%), research institutions (20%), and national parks department (20%)
Main Purpose of Grants	Natural resource protection, research and data collection, training, policy analysis, sustainable agriculture, and conservation of endangered species	Community-based conservation of biodiversity and natural resource management, research, policy development, and NGO capacity building	Sustainable development in communities near parks, scientific research, and park management
Monitoring and Evaluation (M & E)	Technical Evaluation Committee composed of 5 members assesses all projects and M & E by the staff of the fund	Regular progress reports by grantees; M & E by the fund's project officers and by independent experts	M & E by the fund's staff and board, and for the first 5 years also by GEF, USAID, and the Ugandan government

ADVANTAGES OF CONSERVATION TRUST FUNDS

Conservation trust funds offer several advantages:

- They can provide sustained, long-term funding for protected areas.
- They are a way of channeling a large international grant into many small local grants, and extending the lifetime of the grant over many decades.
- They can be used to strengthen "civil society." This occurs as a result of appointing NGO and private sector representatives to the trust fund's board and giving them the same powers as government officials, and as a result of making grants directly to NGOs and other institutions of civil society.

DISADVANTAGES OF CONSERVATION TRUST FUNDS

Potential disadvantages include the following:

- Conservation trust funds may sometimes have high administrative costs, especially if the fund's capital is relatively small or if the fund provides substantial technical assistance to grantees in the design and implementation of projects.
- They may generate low or unpredictable investment returns, especially in the short term, if they do not have a well-conceived investment strategy.[1]
- If a fund's objectives and its criteria for making grants are not clearly set forth at the outset in the trust fund's legal documents, the fund's board may end up financing many unrelated projects that lack a common focus.

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[1] Over the long term (20 to 50 years), investments in the U.S. and European stock markets have generated average returns of more than 11 percent per year. However, this percentage can vary considerably from year to year, from country to country, and from industry to industry. U.S. and European government treasury bonds offer lower, but "guaranteed," rates of return (typically between 3 percent and 6 percent annually). However, even these "guaranteed" returns may turn out to be negative in "real" terms if the rate of inflation rises or if the currencies in which investments are made lose value. A trust fund's annual cash requirements may also vary from year to year, and this, too, will affect the investment strategy. Because of these complexities, a conservation trust fund's board of directors should not attempt to pick and choose individual investments but should leave this to a reputable international financial institution, based on clearly agreed-upon guidelines subject to periodic reassessment. Most large nonprofit institutions in the United States and Europe (such as foundations, private universities, museums, and pension funds) have adopted this approach and hire specialized financial institutions to manage their investments. These institutions usually charge an annual fee of 0.3 percent to 1.0 percent of the assets being invested, depending on the size and complexity of the portfolio.

Resor, James P. March 1997. Debt-for-Nature Swaps: A Decade of Experience and New Directions for the Future. *Unasylva* 48, FAO. Reprinted by WWF-US.

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THE FOLLOWING WEB SITES HAVE INFORMATION ABOUT INDIVIDUAL CONSERVATION TRUST FUNDS

Belize: <www.pactbelize.org>
Mexico: <www.fmcn.org>
Philippines: <www.fpe.ph>

In addition, the WWF offices in Bhutan, Bolivia, Brazil, Cameroon, Colombia, Côte d'Ivoire, Gabon, Indonesia, Madagascar, Namibia, Nepal, Philippines, and South Africa are good sources of current information about the conservation funds that have been established (or are being planned) in those countries.

USER FEES, TAXES, AND OTHER CHARGES THAT ARE EARMARKED FOR PROTECTED AREAS

In addition to government budget allocations and grants and donations, a third major way of raising revenues for protected areas is through earmarked user fees, environmental taxes, and other charges.

ENTRY FEES

Entry fees are the most common kind of protected-area user fees. In some cases they generate enough revenue to pay for a large portion of a park's operating costs, especially in parks where visitor numbers are high and the entry fees are also relatively high. For example, Ecuador's Galápagos National Park charges foreign visitors a US$100 entry fee (Ecuadoreans pay only US$6 per person), and yet the number of foreign visitors has continued to rise each year and is currently approaching 80,000. National parks in Kenya, Tanzania, Uganda, and Botswana (see box 2) charge foreign tourists a *daily* visitor fee of US$20 to US$30 per person. Many parks in developing countries charge entry fees that are far lower than what international visitors would be willing to pay. Many parks also do a very poor job of actually collecting entry fees. But the extent to which it is possible to raise visitor fees may be much more limited in parks that are not so internationally well-known or that do not have large numbers of "charismatic" wildlife species such as lions, elephants, and gorillas.

Revenues from visitor fees will eventually decline unless a large part of the revenues are invested back into maintaining the protected areas where the fees are collected. This is why some countries now let individual protected areas keep a significant part of these fees. For example, Ecuador's new

BOX 2. HIGH PARK ENTRY FEES: THE CASE OF BOTSWANA

In 1989, Botswana raised its national park entry fees for foreigners by 900 percent. This led to such a dramatic increase in total revenues that it effectively eliminated the subsidy being provided by the central government to game reserves and national parks. The number of foreign visitors actually rose by 49 percent in the first two years after fees were raised. The rise in park entry fees was part of a deliberate government policy of promoting high-cost, luxury tourism. Surveys showed that a vast majority of international visitors from the United States and Europe approved of the new higher fees, and most of these visitors were even willing to donate additional amounts to help conserve Botswana's wildlife. Unfortunately, however, only a fraction of the increased revenues has been invested back into maintaining Botswana's parks.

Source: Barnes, J. I. 1998. *Wildlife economics: A study of direct use values in Botswana's wildlife sector*. Ph.D. thesis. London: University College.

"Special Law for the Galápagos" requires that 90 percent of the US$100 park entry fee must be used to protect and maintain the Galápagos' natural environment. Nepal allows individual protected areas to keep 50 percent or more of the entry fees that they collect. The Kwazulu-Natal provincial park system in South Africa (formerly known as the Natal Parks Board) has operated for 50 years as a quasi-autonomous organization that finances itself largely from visitor fees and the operation of visitor facilities. Some U.S. parks are also moving toward a system of greater financial self-reliance. In 1997, a new Recreational Fee Demonstration Program was initiated in four of the most famous U.S. national parks (Yellowstone, Grand Teton, Yosemite, and Grand Canyon). Entry fees were raised from US$10 to US$20 and each park was allowed to keep 80 percent of the fees to spend on much-needed repairs and maintenance. This pilot program has been widely supported by visitors–almost 90 percent of those surveyed said that they were satisfied with the new fees because they could see tangible improvements in the parks.

However, relatively few protected areas around the world will ever be able to pay all of their operating costs through entry fees. Entry fees and other kinds of user fees should be viewed as a way of supplementing, rather than replacing, government budget allocations and donor grants.

CONCESSION FEES

Protected areas may be able to earn substantial revenues by charging concession fees for the right to operate visitor lodges, stores, restaurants, tour companies, or other commercial facilities inside park boundaries. However, many concession fees are too low, either because they were set many years ago and were never adjusted for inflation, or because park concessions are awarded to politically well-connected people for only a fraction of true market value. Some countries therefore have adopted a system of awarding park concessions to the highest bidder at public auctions in order to maximize revenues. Auction systems generally work quite well, provided that bidders are required to demonstrate their ability to meet environmental standards, and are required to pay fines and penalties for failure to meet those standards.

RECREATIONAL ACTIVITY PERMIT FEES

Protected areas can generate additional revenue by charging visitors separate fees for permits to engage in particular recreational activities such as mountain climbing, camping, hiking, river rafting, and scuba diving. For example, Nepal earns more than US$2 million annually by charging climbing fees of US$50,000 per expedition to Mount Everest and other Himalayan peaks. New Zealand charges hiking fees of up to US$50 per person (and requires advance reservations because of limited "carrying capacity") on certain famous hiking trails, as does South Africa. Hikers staying overnight in U.S. national parks must pay an "impact fee" of US$5 per night plus a US$10 permit fee. Tanzania requires foreign visitors to its national parks to pay separate camping fees, firewood fees, and photography fees, in addition to a US$25 per day entry fee.

DIVING FEES

Fees for diving permits can generate large amounts of money for marine protected areas. The Caribbean islands of Bonaire and Saba (in the Netherlands Antilles) rely on diving fees to pay 100 percent of the operating costs of their marine protected areas. Divers in Bonaire must pay a flat annual fee of US$10, and divers in Saba pay a fee of US$3 per dive (DeMeyer, 1997). The Pacific island republic of Palau requires each of the 80,000 foreign divers who go there each year to pay a US$15 fee, which generates around US$1 million a year for conserving Palau's marine protected areas. In the Philippines, the Tubbataha Reefs National Park (a World Heritage site) charges a reef conservation fee of US$50 per person for foreign divers and US$25 for Filipino divers.

Surveys conducted before imposing the fee demonstrated the willingness of most divers to pay these high fees, provided that the money goes into protecting the park's coral reefs, rather than into the government's general budgetary accounts.

AIRPORT AND CRUISE SHIP PASSENGER FEES

Belize enacted a law in 1996 requiring all foreign tourists to pay a US$3.75 conservation fee, which is collected at the same time as the country's US$11.25 airport departure tax. Tourists are given a separate receipt for paying the conservation fee, together with a short brochure explaining how the fees go directly into the Protected Area Conservation Trust (PACT) rather than into the government treasury. PACT's board of directors includes three voting members from Belize government ministries and four voting members from outside of government (including one from the Belize Tourism Industry Association). PACT is legally required to spend all of its funds on conservation projects in or adjacent to the country's protected areas. The fee is also collected from cruise ship passengers.

The Republic of the Cook Islands (in the South Pacific) charges an airport departure tax of US$10 per person, 20 percent of which goes into a special earmarked account known as the Environmental Protection Fund. The fund's stated purposes are the "protection and conservation of the reef and foreshore, any species of flora and fauna …[and] protection from pollution." Several years ago when the Ministry of Finance tried to use the fund for purposes unrelated to conservation, the Environment Council (which is the trustee of the fund) sued the ministry in court. The fees are now deposited directly into the Environment Council's bank account at a local commercial bank, instead of going to the Ministry of Finance (Tiraa, 2000).

In 1999, the Republic of the Seychelles (in the Indian Ocean) announced that it would require all foreign tourists to pay a US$100 fee at the airport for the Seychelles Gold Card, "the world's first environmental tourism visa," which would grant lifetime free admission to all protected areas in the Seychelles (*National Geographic Traveler*, April 1999). Although this widely announced fee was never implemented due to last-minute pressure from the Seychelles' tourism industry, it is a concept that could be tried elsewhere.

In 1998, six small island states in the eastern Caribbean (Antigua, Dominica, Grenada, St. Kitts, St. Lucia, and St. Vincent) announced a new cruise ship waste disposal fee of US$1.50 per cruise ship passenger. The fee is earmarked to pay for the construction of new waste treatment facilities in the harbors in order to protect nearby beaches and coral reefs from pollution caused by cruise ships.

HOTEL ROOM SURCHARGES

In the Turks and Caicos Islands (in the eastern Caribbean), hotel room taxes were recently increased from 8 percent to 9 percent. The increase is used finance a protected-area conservation trust fund that is modeled after the one in Belize. A number of hotels around the world have voluntarily entered into agreements with local conservation organizations to add a small "nature conservation surcharge" (usually US$1 or US$2) to each guest's hotel bill. A statement at the bottom of the bill explains that the surcharge will be used to support conservation projects in protected areas, and offers to delete the charge if a guest so requests (which rarely happens).

TAXES ON HUNTING, FISHING, AND CAMPING EQUIPMENT

The U.S. federal government imposes an 11 percent excise tax on sales of hunting weapons and ammunition. This tax generates more than US$300 million each year, half of which goes to support the U.S. Wildlife Restoration Fund. A similar 10 percent excise tax on sales of sport-

fishing equipment and motorboat fuel is used to finance the U.S. Aquatic Resources Trust Fund. Recently there have been proposals to impose a similar tax on sales of camping and hiking equipment to support parks and conservation.

FEES AND ROYALTIES PAID FOR NATURAL RESOURCE EXTRACTION: OIL, MINING, TIMBER, AND FISHING

Using natural resource "rent" to finance protected areas has a powerful logic: It compensates for the extraction of one type of natural resource by conserving another. For example, the U.S. Land and Water Conservation Fund draws its revenues from the fees paid by oil companies to the U.S. government for offshore oil and gas leases. Since 1964, this fund has provided almost US$9 billion for the purchase of more than 3.4 million acres of additional land for national parks and reserves and has financed more than 37,000 grants to state and local governments for conservation projects.
The state of Michigan has established a Natural Resources Trust Fund that is financed by royalties paid on minerals, oil, and gas extracted from state land. This fund has provided more than US$300 million in grants to state parks over the past 15 years.

Logging is another extractive industry that can justifiably be required to pay back something to conserve natural habitats. Some countries, such as Norway and the Philippines, require that a percentage of the money that is paid to the government as timber royalties or logging concession fees be earmarked for conservation of protected areas. This money is in addition to fees that logging companies are required to pay for reforestation of areas that they have logged.

Based on a similar logic, the fishing industry can also be required to pay for marine conservation. Namibia imposes a "catch levy" on fishing vessels based on the number of tons of fish caught per species. This revenue is used to finance scientific management of fishing stocks, including the enforcement of "no catch" protected areas.

FEES FOR THE RIGHT-OF-WAY TO CONSTRUCT PIPELINES, TRANSMISSION LINES, OR TELECOMMUNICATIONS TOWERS

Some countries require utility companies, telecommunications companies, and energy companies to pay millions of dollars for the right-of-way to construct and maintain electric power transmission lines, telephone lines, broadcasting towers, or natural gas pipelines inside protected areas. For example, the companies that own the telecommunications towers near the summit of Mount Kitanglad pay the Philippine national park in which Mount Kitanglad stands an annual fee that is based on the companies' revenues. In Bolivia, a large international energy company paid US$20 million to establish a conservation trust fund for a relatively pristine area where it plans to construct a multibillion-dollar natural gas pipeline. The company was required to do this as one of the conditions for obtaining a US$200 million low-interest loan from the U.S. government's Overseas Private Investment Corporation.

Brazil's new National Protected Areas System Law (abbreviated as SNUC in Portuguese) authorizes the country's environmental agency to collect an environmental compensation fee equal to one-half of 1 percent of the construction costs or annual maintenance costs of any pipeline, electric power transmission line, or broadcasting tower that is located in a national park. The fee must be used to pay for conservation of the protected area in which the construction or maintenance activity occurs.

WATERSHED CONSERVATION FEES

One of the most valuable ecological services that protected areas provide is the conservation of forested watersheds that supply downstream communities with water for drinking, irrigation,

and hydroelectricity. In most cases, this is basically provided as a free service. But some countries now require water users to pay for this. In Quito, Ecuador, water consumers may soon be required to pay a small surcharge on their monthly water bills to maintain the forest cover of the watershed that supplies the city with drinking water.

Colombia's 1993 Environment Law requires hydroelectric plants to transfer 3 percent of their revenues to regional governments, and an additional 3 percent to municipal governments, to carry out watershed conservation projects and sanitation projects. The law also requires any entity that invests in water projects to use 1 percent of the amount invested to pay for watershed protection. In addition, provincial and municipal governments are required to spend 1 percent of their total budgets to purchase lands that protect municipal water sources.

In Laos, the developers of a proposed US$1.3 billion hydroelectric dam agreed to make payments of US$1 million per year for 30 years into a watershed conservation fund. The proposed fund would be used to protect the pristine forests and endangered wildlife on the steep mountain slopes above the dam. Conserving these forests would also prevent the dam from silting up and thereby would extend the dam's useful economic life by more than 50 percent.

CARBON SEQUESTRATION PAYMENTS

"Carbon sequestration" is the absorption and storage by trees and other plants of carbon that has been emitted into the atmosphere by burning fossil fuels and other activities – and it is one of the most important ecological services provided by forests. The Climate Change Convention (the Kyoto Protocol) obligates developed countries to reduce their carbon emissions by significant percentages below their 1990 levels. The parties to the Climate Change Convention are now debating whether to approve rules that would allow developed countries to achieve part of their required reductions by paying developing countries to conserve (or to plant) forests that can store or sequester such emissions.

This Clean Development Mechanism could result in the payment of billions of dollars by industrial countries to developing countries in exchange for the latter's agreement to conserve or plant large areas of forests. However, WWF is concerned that the freedom to make carbon sequestration payments elsewhere might lead developed countries to slacken their efforts to reduce carbon emissions at home, and might also lead to the destruction of native forests and consequent loss in biodiversity (see box 3).

BOX 3. A CARBON SEQUESTRATION SCAM IN UGANDA

A group of Norwegian corporate investors recently acquired a 50-year lease on 5,000 hectares (about 12,000 acres) of protected forest in Uganda for a nominal payment of less than US$100,000 and a promise to create jobs. They proceeded to cut down the natural forests in order to plant faster growing nonnative species, such as eucalyptus and pine, and expelled several thousand people who lived in the concession area. The investors now employ only 43 people to manage these plantation forests, which will periodically be cut and replanted. Besides earning profits from selling the timber, the investors hope to earn more than US$100 million from selling carbon offset credits for carbon sequestered by the trees.

Source: Eraker, Harald (NorWatch). 2000. *CO2lonialism: Norwegian tree plantations, carbon credits and land conflicts in Uganda*. Norway: The Future in Our Hands.

FUEL TAXES

Costa Rica allocates 50 percent of its tax on gasoline and other fossil fuels to finance an environmental fund called FONAFIFO, which makes payments to small landowners who agree not to cut the trees on their land for periods of five years. The landowners receive further payments if they extend their agreement for additional five-year periods. Although the tax is not earmarked for protected areas, it represents another way of linking carbon emissions and conservation.

The money raised through fuel taxes could, however, very justifiably be earmarked for protected areas, since forests do sequester carbon emissions from motor vehicles. In Canada, one gasoline retailer has increased its market share by offering motorists an opportunity to offset the carbon emissions from their vehicles by paying a small extra amount for each gallon of gas they purchase. This extra amount is used to plant trees that will sequester the vehicle's carbon emissions. However, there is no reason why such a voluntary surcharge on gasoline could not be used to pay for maintaining existing protected areas that sequester vehicle emissions.

PROPERTY TAXES

More than 40 U.S. states impose a surcharge on property taxes to generate money for acquiring privately owned land as parks and permanent open spaces. New Jersey alone has raised more than US$1.2 billion this way since 1961. Florida has raised more than US$1 billion through earmarking a percentage of real estate transfer taxes, and oil and minerals severance taxes, for acquisition of private land to be used as parks and open spaces. In France, local governments are authorized to impose a surcharge on real estate transfer taxes in order to acquire privately owned land or land development rights in specially protected scenic areas.

LOTTERY REVENUES

Lotteries have been used in some countries to raise large amounts of money for conservation. The Colorado State Lottery raises more than US$60 million each year for the Great Outdoors Colorado Fund. This fund acquires and manages "conservation lands" ranging from state parks to historic sites to wetlands. In Oregon, 15 percent of the proceeds from the state lottery are used to fund the Oregon Plan for Salmon and Watersheds. WWF-Netherlands has received the equivalent of tens of millions of dollars from the Dutch national lottery for the purpose of financing protected areas and biodiversity conservation in developing countries. Britain's National Trust uses money from the national lottery to fund nature reserves, the arts, and the preservation of historic buildings.

However, lotteries cannot be considered a potential source of funding for protected areas in countries where lotteries are considered objectionable on social and moral grounds. Even in countries where lotteries are permitted, there are often many other public causes, such as health and education, competing for the use of lottery revenues.

WILDLIFE LICENSE PLATES AND POSTAGE STAMPS

California has issued US$900 million in state bonds to purchase habitat for the conservation of mountain lions and other endangered native species. The repayment of these bonds is financed by charging car owners a special fee for personalized (vanity) automobile license plates and by imposing a higher tax on tobacco products. Many U.S. states raise millions of dollars for parks and conservation by selling special license plates that cost between US$10 and US$20 more than standard plates and display pictures of the state's native flora and fauna. Germany and other European countries sell wildlife postage stamps that cost more than ordinary stamps and serve as a way of financing

wildlife conservation projects in developing countries.

The U.S. Fish and Wildlife Agency requires all duck hunters to buy a US$15 "duck stamp" each year, which raises more than US$20 million annually. This is in addition to the annual hunting license fees that individual states require duck hunters to pay. Revenues from the Duck Stamp Program are deposited directly into the federal government's Migratory Bird Conservation Fund and are used to purchase wetlands and other wildlife habitat for inclusion in the National Wildlife Refuge System. The design of the duck stamp is changed each year on the basis of a national competition, which also encourages people to collect these stamps as a hobby.

HUNTING AND FISHING FEES

Fees from trophy hunting and sport fishing can function as an incentive for owners of private and communal lands to let their economically marginal land remain in (or revert to) its natural state as wildlife habitat, rather than use the land for ranching or agriculture. Many African governments receive significant revenues from trophy hunting. In 1992-93, Tanzania took in US$3.6 million in trophy fees, and the safari industry generated almost US$14 million in gross revenues. In 1990 in Zimbabwe, trophy fees generated almost US$4 million (Leader-Williams et al., 1996) (see box 4). Namibia took in US$2.8 million in trophy fees in 1993 (Ashley et al., 1994).

However, hunting fees and sport fishing fees can only serve as conservation tools if (1) the hunting or fishing involves nonendangered species of wildlife for which there are scientifically based (and strictly enforced) limits on the annual allowable catch; (2) hunters or fishermen are willing to pay substantial amounts of money; and (3) the fees are used to protect the wildlife resource that generates the revenues.

FINES FOR ILLEGAL LOGGING, HUNTING, AND FISHING

In some countries, fines for illegal logging, hunting, and fishing are earmarked for the budgets of government conservation agencies. In other countries, the proceeds from sales of confiscated timber, fish, and wildlife that were illegally taken from protected areas are used to finance the management of protected areas. However, since the laws of most countries require that money from fines and forfeiture must be paid into the national treasury, special new legislation is usually needed in order to earmark these revenues for conservation.

BOX 4. THE CAMPFIRE PROJECT IN ZIMBABWE

The CAMPFIRE Project in Zimbabwe finances conservation on communally owned lands through trophy hunting fees. In an area of Zimbabwe that has an overpopulation of elephants, a limited number of permits to hunt elephants are offered for sale each year based on scientific estimates of how many elephants the land can "carry" without destroying habitat for other wildlife and for local people. The permits are sold to foreign hunters for up to US$10,000 each, and this money is distributed to local communities for purposes such as building schools and health clinics. This program creates an economic incentive for those communities to allow herds of elephants to continue living on their lands and has led to a dramatic decline in the number of elephants that are killed by outside poachers.

Source: Child, B., S. Ward and T. Tavengwa. *Zimbabwe's CAMPFIRE Program*, World Conservation Union (IUCN)-ROSA Environmental Issues Series No. 2, 1997.

BIOPROSPECTING FEES

Pharmaceutical companies have earned many hundreds of millions of dollars in profits from sales of medicines that are derived from plants found in tropical rain forests. Some of these plants are extremely rare and are found only in protected areas. Some countries such as the Philippines and Fiji have recently passed laws requiring that scientists and companies pay for a permit to engage in "bioprospecting" (the collection of native plants for possible medicinal uses) and pay royalties based on the sales of resulting commercial products.

Bioprospecting fees can be used to help finance the costs of managing protected areas. For example, the U.S. National Park Service granted a biotechnology company the right to collect samples of microbes found in the hot springs of Yellowstone National Park, in exchange for the company's payment of US$100,000 plus a percentage of any future profits from commercial use of the microbes. In Costa Rica, Merck and Co. Inc. paid US$2 million to INBIO (the national scientific research agency) in exchange for the right to test and use Costa Rica's native plants to develop new pharmaceutical products. However, in most cases around the world, the fees and royalties from bioprospecting have amounted to only a few tens or hundreds of thousands of dollars, rather than the millions that were originally anticipated.

POLLUTION FINES AND OUT-OF-COURT SETTLEMENTS FOR POLLUTION DAMAGE

Some Eastern European countries (including Bulgaria, the Czech Republic, Hungary, and Poland) have established national environmental funds that are financed through pollution fines or "pollution charges" (that is, payments by industries for permission to continue emitting particular pollutants). Although most of this money (which can amount to hundreds of millions of dollars each year) is used to finance pollution control, the Polish "Ecofund" allocates 5 percent of its money to finance protected areas, since forest reserves help to sequester many kinds of pollutants.

U.S. courts have sometimes required industrial polluters, in lieu of paying a fine, to finance long-term efforts to conserve the rivers, lakes, or shorelines that were polluted. Companies found guilty of violating pollution laws have been ordered to pay millions of dollars to conservation funds for areas such as New York's Hudson River Valley and Virginia's James River. Part of Exxon Corporation's multibillion-dollar settlement of damage claims arising from the *Valdez* oil spill in Alaska was used to buy pristine forests on nearby Kodiak Island and turn the land into a wildlife reserve for the endangered Kodiak bear. The land was owned by native Alaskan tribes who otherwise would have sold it to logging companies as their only way of raising cash. In another recent Alaska case, a court ordered a cruise ship company that was found guilty of illegally discharging used fuel oil into coastal waters to pay US$1 million for the protection of national park marine ecosystems in Alaska.

INCOME FROM COMMERCIAL OPERATIONS RUN BY PARK AGENCIES

Sometimes protected-area management agencies themselves directly own and operate visitor concessions such as lodges, restaurants, and stores inside protected areas. But more often than not, these park agencies have ended up losing money and draining away scarce budgetary resources from conservation activities. Most park managers are civil servants or scientists rather than business people, and their decisions are often constrained by politics. They often face political pressures not to raise prices for lodging and other visitor services, even when costs go up.

However, the parks agencies that have adopted private sector management practices (including performance-based pay) have sometimes been very successful in raising new revenue. This is

especially true in certain U.S. state parks that are located near large and affluent urban population centers. In Ohio, state parks make money by renting out camping equipment and even recreational vehicles, and park-generated funds now account for 41 percent of the Ohio agency's US$21 million annual budget. The Texas state park system earns revenues by selling souvenir items, clothing, and other merchandise through a mail order catalog. The New York state park system raises millions of dollars through corporate sponsorships that are similar to those of the Olympic Games. Coca Cola paid $2 million to be named the "official" soft drink of the New York state parks, and only Coca Cola soft drink products can be sold at visitor concessions in the parks.[2]

However, when governments try to reduce a park agency's budget for every dollar that the agency succeeds in generating from new sources, they destroy the incentive for a park agency to try to increase its revenues. Texas has therefore established an "entrepreneurial budget system" that allows state parks to keep 35 percent of the revenue they generate over and above a targeted amount which is set at the beginning of each year.

Some protected areas are able to earn revenues by renting out park buildings or other facilities, and by renting out equipment that is not currently being used. For example, some parks in South Africa rent out park-owned helicopters and vehicles when they are not being used by the parks. But in such cases, it is very important to ensure that the rental fees charged by the parks fully cover all costs (including maintenance, repair, cleanup, and administrative costs) and also generate a significant profit for the agency. If park facilities and equipment are rented out at less than their fair market value, opportunities for kickbacks or other forms of corruption may arise.

In some cases, protected-area management agencies can save money (and therefore, in effect, "make" money) by leasing equipment instead of purchasing, and by hiring outside contractors instead of using park agency staff to perform certain services. South Africa's successful Kwazulu Natal Conservation Agency regularly does detailed comparisons of the long-term costs of renting vehicles and other equipment versus purchasing them, and also compares the costs of hiring outside contractors to perform particular services versus the costs of using park personnel. Some protected areas in South Africa now hire outside contractors to perform services such as maintaining roads, building fences, clearing nonnative vegetation, collecting entry fees, developing environmental education programs, and even performing scientific research and monitoring (which in some cases may be contracted out to universities or NGOs).

ADVANTAGES OF USER FEES, EARMARKED TAXES, AND PARK-GENERATED REVENUES

User fees and other kinds of earmarked revenues have the following advantages:

- They can generate large amounts of money from previously untapped sources.
- The "user pays" principle and the "polluter pays" principle are widely recognized as fair ways of apportioning costs for protecting the environment.

[2] Several years ago the U.S. Congress rejected a proposal to allow national parks to raise additional funds by selling the right to be the "official sponsor" of a particular park out of concern that this sponsorship could lead to excessive commercialization and unaesthetic forms of advertising inside parks. But in South Africa, some park agency officials have proposed that corporations should be allowed to advertise their sponsorship association with a particular park outside the park only (for example, on television, in newspaper advertisements, or on highway billboards), but not inside the park itself.

DISADVANTAGES OF USER FEES, EARMARKED TAXES, AND PARK-GENERATED REVENUES

There are also certain disadvantages:

- It may be politically difficult to charge fees for use of what was previously treated as a free public resource.
- The income from many kinds of user fees and earmarked revenues can suddenly decline. Tourist numbers may suddenly drop as a result of domestic or international political or economic crises. Fees for natural resource extraction and payments for environmental services may decline if the resource itself dries up or if natural resource prices suddenly drop.
- User fees are an effective conservation tool only if they are specifically earmarked for protected areas. Otherwise, governments may be tempted to spend the revenue from user fees and tourism taxes for other purposes.

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OTHER RESOURCES

Information on bioprospecting can be found on the Web site of the Royal Botanical Gardens at <www.rbgkew.org.uk/peopleplants/handbook/handbook2/international.htm>.

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CONCLUSION

None of the options presented here for funding protected areas is a panacea; many may not be feasible in a particular country or a particular protected area. Furthermore, it is rather unlikely that any one of these options will be enough to fully finance the management of a protected area. But combining a number of these different options (if creatively adapted to fit local circumstances) can often succeed in raising substantial additional revenues for protected areas.

Appendix

STEPS FOR SETTING UP A CONSERVATION TRUST FUND

STEP 1 Introduce and explain the concept of a conservation trust fund to key government officials, nongovernmental organization (NGO) representatives, and other interested parties:

- Describe examples of conservation trust funds in other countries.
- Discuss possible uses of a conservation trust fund for supporting national environmental strategies and other goals.
- Assess whether there is sufficient interest and support to proceed further.

STEP 2 Discuss and decide what the principal objectives of the fund should be, such as the following:

- To support a particular park or protected area
- To support a country's entire system of national parks or protected areas
- To provide funding for multicountry projects such as transboundary parks and protected areas
- To conserve biodiversity outside of parks and protected areas
- To strengthen the technical and organizational capacity of government agencies or local NGOs working to conserve biodiversity
- To conserve biodiversity while also addressing broader issues of sustainable development and poverty alleviation.

STEP 3 Establish an interim organizing committee composed of stakeholders, such as the following:

- Ministries or departments of environment, forestry, tourism, finance and planning; the office of the country's president or prime minister; and provincial or local governments
- Local, national, and international NGOs involved in environmental conservation
- Interested donors
- Representatives of local communities or groups in the areas concerned.

Choose the individuals or organizations who will take lead responsibility for convening meetings and coordinating activities. The leadership position often calls for one or more individuals who can commit one-quarter or more of their time over a period of several years to moving the process forward.

STEP 4 Hold meetings to determine the following:

- What types of activities and projects the fund will support
- Which nongovernmental organizations or government agencies should be represented on the fund's governing board
- Whether a scientific experts committee should be established in order to advise the fund's board and to screen proposals for their conservation merit
- Whether regional-level or local-level advisory councils should be established to screen proposals from particular regions of the country
- What the relationship of the fund to existing government agencies, such as a ministry of environment or national parks department, will be
- How the fund will be related to national environmental action plans and other national strategies and goals
- How the fund will be related to existing donor-funded or government-funded conservation projects and programs
- What potential in-country revenue sources could be tapped to support the fund, such as user charges, entrance and license fees, special earmarked taxes, fines, onetime or annual appropriations from the national budget, and donations by corporations, individuals, or the public at large
- Whether the fund should be set up in the form of an endowment that is intended to last in perpetuity, as a sinking fund that will be completely used up after a certain number of years, or as a revolving fund that will be continually replenished with new revenues.

STEP 5 Meet with donor agencies:

- Explain the proposal for establishing this particular conservation fund.
- Discuss the experiences of other conservation funds.
- Invite donor agencies to participate in designing the fund.
- Identify any constraints or conditions that potential donors might have and discuss how best to address them.
- Discuss the different ways that donors can financially support the conservation fund, such as

  - Debt-for-nature swaps using commercial debt
  - Debt conversions involving government-to-government debt
  - Grants by donors directly to the fund
  - Cofinancing particular activities or projects of the fund
  - Giving technical assistance and in-kind donations.

- Ask donors for a preliminary commitment to financial support of the fund.

STEP 6 Discuss with legal experts whether to legally establish the fund in the developing country or in an "offshore" location, and compare the pros and cons of setting up the fund in the following legal forms:

- Common-law trust or statutory trust
- Not-for-profit corporation
- Foundation

- Part of an existing government agency
- New NGO
- Part of an existing NGO
- Independent institution created by a special legislative act or executive decree
- Autonomous fund within an existing international institution such as the United Nations Development Programme or the World Bank
- Private foundation legally established in another country (such as Switzerland or the Netherlands) that offers favorable tax treatment of investment earnings and that has a reliable legal system to protect against possible misuse of the trust fund's assets.

Once the legal form of the trust fund has been determined, begin drafting legal documents.

STEP 7 Discuss with financial experts whether to keep the fund's assets in local currency or foreign currency, and whether to keep hard currency assets inside the country, outside the country, or both, based on such factors as the following:

- Inflation and currency risk
- Comparative risks and returns of different types of possible investments (interest-bearing bank accounts, government bonds, stocks, mutual funds), both in-country and outside the country
- Legal restrictions and tax implications of investing the assets outside the country
- Political implications of investing the assets outside the country
- Likelihood of the country's foreign creditors seizing the fund's assets if the assets are located outside the country
- Likelihood of the country's government appropriating the fund's assets for other purposes if the assets are kept in the country.

STEP 8 Review, discuss, and modify the results of the previous steps by holding a series of meetings involving as many as possible of the following groups, either separately or together:

- Officials and staff of relevant government agencies and departments
- Local and international conservation organizations
- Representatives of donor agencies that are seriously considering giving significant financial support to the trust fund
- Relevant provincial and local government officials and local environmental organizations
- Relevant sectors of civil society, such as communities living near protected areas, educational and research institutions involved in studying and conserving biodiversity, the tourism industry, a chamber of commerce or other interested business associations.

STEP 9 Finalize and register all necessary legal documents including the following:

- A charter, deed of trust, or articles of incorporation
- Bylaws and other internal rules and guidelines for the fund
- Any parliamentary legislation or administrative rulings required to establish the fund or to grant the fund tax-exempt status.

STEP 10 After the fund is legally established, choose the first members of the fund's governing board and convene a meeting of the board to discuss and decide upon the following:

- Election of the chair and other officers
- Establishment of any committees of the board
- Hiring of an executive director and other staff
- Procurement of office space and equipment
- Selection of an investment manager
- Establishment of a first-year (as well as longer-term) work plan with specific goals and timetables
- Setting up of auditing and accounting systems and hiring of an outside auditing firm
- Discussion of the best ways to publicly disseminate information about the fund.

STEP 11 Design and implement a fund-raising strategy:

- Take whatever steps are necessary to obtain funds from donors who have made commitments or expressed strong interest in supporting the fund.
- Initiate discussions with the in-country offices of other donor agencies.
- Conduct fund-raising trips outside the country to visit the head offices of donor agencies.
- Raise money from private foundations, corporations, and individuals, both in the country and abroad.
- Seek in-kind donations of goods and services, including technical assistance.

STEP 12 Set up a grants program by establishing the following:

- Criteria for what kinds of organizations will be eligible to apply for grants from the fund
- Criteria for activities and projects eligible for funding
- Processes and procedures to be used for review and selection of grant proposals
- Reporting requirements and criteria for monitoring and evaluation
- The role and responsibilities of the fund's board and staff during the course of project implementation by grantees.

STEP 13 Publicly issue a call for grant proposals and commence operations of the fund.

Center for Conservation Finance
World Wildlife Fund

1250 24th Street, NW
Washington, DC 20037

202.293.4800
www.worldwildlife.org/conservationfinance

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