



### Sustainable Finance Example for a Countrywide Protected Area

## The Case of the Palau Protected Area Network

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The idea of a **Palau Protected Area Network (PAN)** started in 2000 by identifying conservation sites in each province that would be part of the future Palau PAN. The work was completed in 2003 and from 2004 to mid-2005, a group of professionals, together with government and local NGO representatives, started a back-of-envelope costing process to determine the total cost to sustainably finance (SF) the long-term recurrent cost of conservation work in the area. They did this by assessing the real cost of all organizations currently working and managing protected areas in Palau. Based on this figure, they were able to develop a balance sheet for the PAN.

### Systematic costing process

The group estimated that the total annual cost to finance the PAN was roughly US\$2.5 million per year. But since the current revenues in 2005 from all sources to support conservation work only amounted to about US\$900,000, they had to cover a shortfall of US\$1.5 million yearly.

To address this, the government formed a working group to discuss potentially new revenue sources. It was made up of representatives from the President's Office, the Ministry of Finance, the Ministry of Planning, as well as international and local NGOs. Members agreed that their best option would be to collect "Green fees" from all visitors to Palau.

### Green fees get government support

They conducted a willingness to pay study that asked visitors how much they would be willing to pay to help protect the country's natural resources. Results showed that visitors were willing to pay between US\$15-30 each. However, the government was initially reluctant to charge the green fees because they feared that the number of tourists will fall. They eventually agreed that the government will

collect, as part of the departure fees, an Environmental Protection Fee of US\$15 from all visitors leaving Palau.

The government endorsed the sustainable financing plan and initiated the legislative process to formalize the collection of the environmental protection fee and the creation of an independent financial mechanism (Palau PAN Fund). This Fund would receive and disburse the collected environmental protection fees to sustainably finance the operation and maintenance of the Palau PAN. In 2006, the PAN Act was developed, reviewed and approved by the legislative chambers and the law was passed in mid-2008.

### The Micronesia Challenge Initiative

At around the same time, a parallel process took place in the Micronesia region (Federated States of Micronesia, Republic of Marshall Islands, Guam, and the Commonwealth of the Northern Marianas), which was called the "Micronesia Challenge Initiative." Its goal was to agree to sustainably conserve 30% of the inshore marine area and 20% of the forest area in each country in

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**Table 1. Palau PAN Sustainable Finance Balance Sheet**

PAN total cost	Estimated from current work cost in PA	2,500,000
Current revenues		910,000
Shortfall	PAN costs minus existing revenue	-1,560,000
New revenue		
Tourism departure fee	Based on \$15 Green fees for 80,000 visitors p.a.	110,000
Fund management	Independent non-profit corporation	-130,000
Gap		460,000
International assistance	A \$12m endowment from bilateral and multilateral grants/donations returning @ 5%p.a - MCT	600,000
<b>Subtotal</b>		<b>1,570,000</b>

# Challenges in developing sustainable finance

Money is not necessarily the problem to have sustainable financing in place. There are other problems in creating sustainable finance schemes. The list below briefly describes some of the issues:

- **Effective management and proven conservation track records are hard to find.** Money flows when trust and trustworthy institutions/organizations or protected areas provide for sustained, tangible, and outstanding results.
- **Financial estimates are inaccurate.** Projects are often not grounded in real cost. There is addiction to budget programming that are bases on available money instead of what is really needed to achieve tangible results.
- **Each country faces different constraints in implementing SF.** This includes corruption, mismanagement, embezzlement, conflict of interest, and lack or non-enforcement of regulations.
- **Benefits to key stakeholders are not equitably shared.** More time and funds are often spent in the bureaucratic process and technical assistance than providing on-the-ground help to local communities.
- **Everyone wants to control the money/funds without having the credentials to do so.** There is often a power struggle on who gets to be in charge of the decision-making body that will direct the funding to special interest. Many parties forget about the needed independence of the financial system in their country to allow for its transparent and reliable operation.

- **Most of the decisions are made for the short term, the NOW.** This is true not only for government politicians who care about their re-election, but also to donors who want to show short-term results.
- **There is a lack of champions who advocate long-term needs.** Many people and institutions have given lip service to conservation efforts just to receive funding.
- **There is not enough political will to sustain efforts.** Political will is not created by good politicians who do the right things. It is grounded and generated by the people. Communities should give the marching orders to their politicians when it comes to protecting the environment for the communities' survival and for future generations.  
*(Image: Village leader from Tarobi locally managed marine area, Kimbe Bay, PNG. Credit: Mark Godfrey/TNC)*

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the Micronesia region. All jurisdictions agreed to the Challenge in 2006 and each started a sustainable finance planning process. They identified and tapped new internal revenue sources as counterpart to a pledge by the international community to assist capitalizing the first phase of a Micronesia Challenge Endowment of US\$18 million. This amount was estimated to cover the funding gap from current and new internal revenue sources. Two other international NGOs also committed a matching 2-to-1 pledge of US\$6 million to increase the Endowment.

Donors and the governments of all Jurisdictions agreed that the regional Micronesia Conservation Trust will manage the Endowment in December 2006. The first tranche of the pledged donation was given to the Palau portion of the Micronesia Challenge Endowment as well as Palau's matching contribution totaling US\$1.5 million in October 2008.

## Palau confident it would achieve targets based on SF plan

By November 2009, the government started collecting the environmental protection departure fees of US\$15 from visitors leaving the country. They collected \$1.3 million within nine months which covered more than half of the identified shortfall to sustainably finance the Palau PAN yearly. The international community was also willing to help fill the gap since two-thirds of the total recurrent cost already came from Palau's internal revenue sources.

As of October 2010, US\$3.4 million has been raised for the Palau portion of the first phase of the Micronesia Challenge endowment of US\$9 million. Palau is confident that it will achieve the targeted endowment amount by December 2011. The completion of the described sustainable finance plan would be a significant achievement since it would make Palau the first nation in the Pacific, if not in the world, to have a fully sustainably financed Protected Areas Network.

