BNCFF | BLUE PRINTS SERIES

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The Blue Natural Capital Financing Facility (BNCFF) supports the development of sound, investable Blue Natural Capital (BNC) projects with clear ecosystem service benefits, multiple income streams and appropriate risk-return profiles.

This Blue Prints Series outlines the business models and illustrates the investment structure of a selected number of Nature-based Solution (NbS) projects. See here for other Blue Prints.

# MPAS UNDER COLLABORATIVE MANAGEMENT CONTRACTS WITH NON-PROFIT/THIRD SECTOR

Blue Print builds upon the efforts of Blue finance (Philippines)

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## Problem and practice so far

Marine Protected Areas (MPAs) are an established Nature-based Solution (NbS) with multiple benefits for nature and people. Managing the MPA, however, incurs costs for activities such as community development & engagement, biodiversity conservation & science, management of tourists' flows as well as provision of infrastructure & enforcement of regulations.

Traditionally MPAs are managed by a public entity and are thus funded by the public sector and/or philanthropic means. These funding sources often do not have sufficient continuity and/or are not available at the scale needed to grow MPAs areas globally. International commitments foresee a minimum of 10% coverage with currently 30% coverage under negotiation for the CBD Post 2020 Framework.[1] The failure to meet this target as well as to enforce MPAs increases pressures on marine biodiversity and reduces their role to support both climate mitigation and adaptation actions, for nature and people.

Although funding from public and philanthropic sources need to be also scale-up in the future, new engagements with the private finance sector offer opportunities to fill the current conservation and climate finance gaps. For that, it requires the MPA to become more "bankable" and to deliver revenue models for both the upfront capital investments and the ongoing operational costs.

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1 Existing CBD Aichi target of 10% MPA coverage and least 30% protection target currently under negotiations for the CBD post 2020 framework.

## Blue Natural Capital solution

The BNCFF has been keen to explore models that engage the private sector in supporting sustainable business approaches to deliver NbS through climate resilient MPAs.

Conservation projects, particularly around marine ecosystems, are not attracting impact capital at the required pace, largely due to a shortage of attractive opportunities with track records. Collaborative management — partnerships that can create a more "bankable" structure around MPAs — offers a way forward. Some governments have addressed a lack of funding for protected areas — both individual parks and national networks — by establishing "collaborative management" arrangements with other partners (mainly social enterprises, NGOs and community groups), in the form of new co-management entities.

Jointly with its new counterparts, a viable business and investment model can be developed, ensuring that the implementation helps to protect the multiple ecosystem benefits of the MPA.

The central element of such a MPA co-management structure is a reliable and long-term co-management lease agreement between the government and the co-management entity (usually a non-profit vehicle), acting as the MPA operator. This management agreement needs to carefully align incentives to achieve a MPA's desired outcomes. The co-management entity will manage the day-to-day operations, with guidance from a multi-stakeholder co-management committee. The Government will maintain its core functions (regulation of use and zonation, validation of the annual work plans and budgets, enforcement and compliance, management of fishery resources). The co-management entity will provide staff and equipment at its own costs. The co-management entity can take some of the operational and financial risk, in particular in terms of attracting a reliable flow of tourists and tourism activities to finance the MPA overall.

This summary is based on the work implemented by Blue finance in several locations worlwide and supported by the BNCFF in the Philippines. We see this blueprint as a broader example of how this vision - to integrate MPA impacts and return-on-investment business model – can be delivered, outlining both the challenges but also the possibilities.

## BNC business model

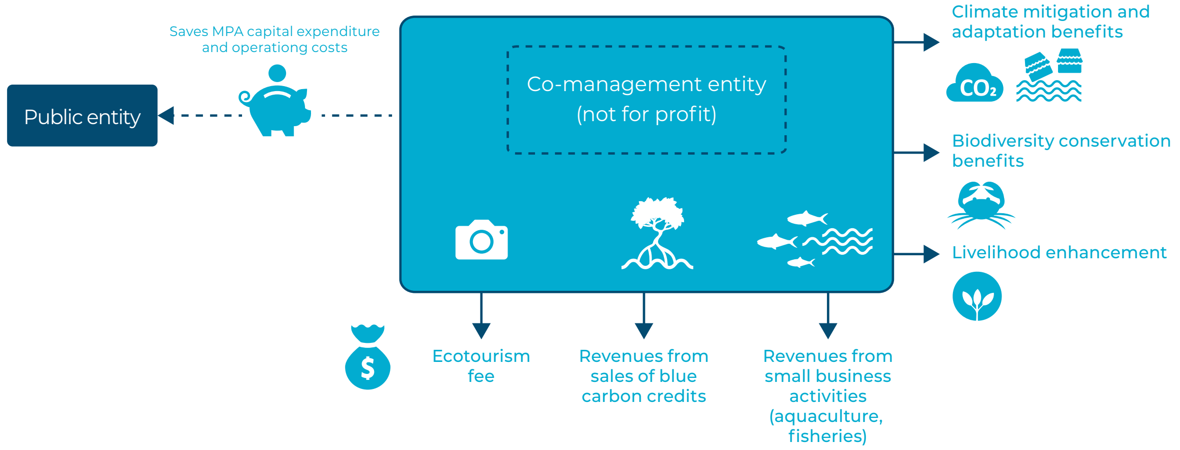
The primary revenue stream in this model is the payment of fees by visitors enjoying nature related activities and innovative experiences in the MPA. Other revenue streams can include blue carbon credits derived from mangrove conservation and restoration or from revenue sharing with small business activities around aquaculture and/or fisheries.

For eco-tourism, the approach is very strict on implementing low volume numbers of visitation, well under carrying capacity of the ecosystems with regular monitoring to control the impacts of visitors on ecosystems. At the same time, tourist numbers can be very volatile and thus the business model needs to be robust so that variations can be absorbed. The fee collection method also needs to be carefully designed and can range from online payment to payment at services provider level.

Depending on the regulatory environment and the agreement with the government, the MPA co-manager may be able to get additional revenues from payment for ecosystem services, for instance by calculating the carbon mitigation benefits of the MPA and by finding ways, such as through the promotion of the sale of voluntary carbon offsets certificates, to generate additional income streams from visitors or carbon offset certificates buyers. For blue carbon credits, the revenue model is based on certified credits from the conservation and restoration of key ecosystems such as mangroves and seagrass, as part of the MPA.

Key benefits of this new model for the traditional public sector entity in charge of the MPA are the immediate cost savings that arise from services for MPA enforcement and maintenance that are outsourced to the private sector. Furthermore, as the new co-management entity, takes the risk on visitor numbers, this cost saving is secured for the public entity over the duration of the co-management contract. The MPA operator can over time add additional revenue strea ms coming from sustainable, small business activities in agreement with the public entity in charge of the MPA.

As the number of operational projects in this space are very limited and have generally focused on high-end tourist sites, such as coral reef destinations, it is important to move other locations through the project development and preparation phase into the financing phase. The BNCFF has focused on this key transition point and is helping to strengthen the project development to facilitate the move to financing. This is of particular importance in those sites that are potentially attractive to a broader audience of tourists, with the risk that development pressures will lead to a trade-off between marine protection and tourism. By helping to strengthen privately co-managed MPA related projects in those locations, solid MPA enforcement can be achieved and these MPAs are not perceived as a burden to development but rather as the key drivers to a sustainable and climate resilient development path.




## Blue impacts and safeguards

In this public-private co-management model, the interests of all parties in a healthy, diverse MPA are fully aligned as long as such a MPA will be attractive to tourists over time. However, interests sometimes can diverge when it comes to biodiversity protection. For example, the need to protect a rare endemic species requires strict limitations to visitor numbers. Therefore, it is important that biodiversity issues are fully and independently assessed by the public MPA regulator and agreed on by all parties.

The goal of such a co-managed MPA would be to protect, sustainably manage and restore coastal ecosystems, such as mangroves and coral reefs, to create climate adaptation and mitigation benefits, food security and livelihood incomes, while conserving biodiversity. This can be achieved through active measures such as restoration and rehabilitation of the ecosystems or the reduction of indirect pressures, such as from pollution and from unsustainable fishing. Improved enforcement of the MPA can deliver multiple NbS benefits.

The success of the project will depend on it is ability to maintain the quality of the MPA ecosystem services, both in terms of handling the pressures from the visitors themselves but also, more broadly, from other stressors such as pollution, climate change and damaging fishing practices, all of which could combine to seriously affect the quality of the MPA, and thus reduce its attraction to visitors.

A MPA also delivers a variety of fish biodiversity benefits for instance around coral reefs, which offer great recreation and nature experiences to tourism from snorkeling or diving. By protecting fish biomass in the MPA the measures also deliver positive spillover effects to enrich fish populations beyond the MPA, for both local and tourist consumption. MPAs create opportunities for livelihood improvement. The development of new income generating activities for local communities around nature protection, ecosystem restoration and eco-tourism far exceed short-term loss of closed fishing sites and allow for new opportunities aimed at not depleting coastal resources. New potential jobs include:

i. Resource monitoring
ii. Turtle/fish safari activities
iii. Coral gardening
iv. Tour guides/sale of local products.

The training of local communities to engage in new activities needs to be an integral part of the new co-management structure.

The not-for-profit MPA operator may have no role in the original designation, scale and design of the MPA area but as co-manager it can help to ensure that whatever coastal habitats are included will not be harmed but rather maintained and/or restored.

## Blue stakeholder roles and needs

- **Project developer**: A private sector entity (e.g. social enterprise) or NGO with sufficient expertise and access to funds to provide technical and scientific assistance to increase positive impacts and reduce commercial and ESG risk in a specific MPA site. The developer will also ensure a management focus on conservation and revenue strategy execution.

- **The not-for-profit co-management entity:** usually formed by a coalition of local NGOs, scientific institutions, and community associations in charge of activities such as community development & engagement, biodiversity conservation & science, management of tourists' flows as well as provision of infrastructure & enforcement of regulations.

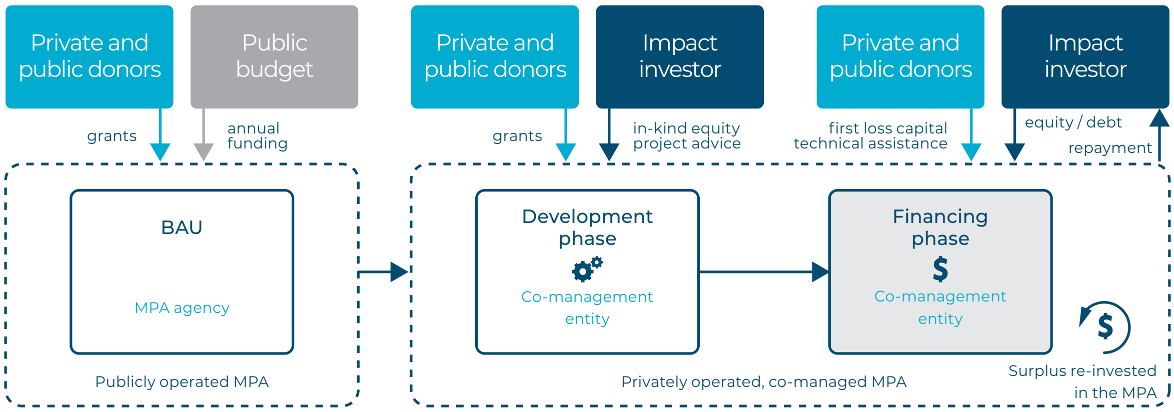
- **Public entity**: a state, regional or local body that has the legal authority to supervise a MPA and is willing to outsource specific operational activities to a third party, but that maintains the legal responsibility to monitor the MPA and enforce regulations.

- **Interested investor(s):** impact investors, public bodies and philanthropic partners may all be interested in investing in the project company, given the potential attractiveness of an improved visitor site that also supports SDG goals, fulfils IUCN standards on MPAs and NbS, and could be scalable to other locations.

- **Other stakeholders:** Local communities will be interested in the potential benefits (jobs, ancillary income) but also in making sure that such a project does not encroach on traditional rights and opportunities and is managed transparently and taking into account local interest; Global partners and NGOs will be keen to ensure that cost-effective MPA models with multiple environmental and social benefits can be developed, making the 30% MPA goal by 2030 easier to achieve.

## Blue investment structure

Given the complexity of negotiating the long-term MPA co-management agreement, the upfront investment costs in capital expenditure and the uncertainty around visitor income requires dedicated, knowledgeable financial partners. It also requires a significant amount of blended finance, both through the addition of grants and donations, in particular in the project development stage, and through risk mitigation, for instance through the support of development finance institutions. Whilst the total investment amount per site is not too capital intensive (US$1.5M in average) and thus could be largely financed through equity, the higher hurdle rates for private equity capital suggest that a debt component at a lower cost would be desirable, but will most likely only be forthcoming if, for instance, there is a track record of visitor numbers.




## Blue scalability and replicability

An advantage of the model is that it can be replicated well in different sites across the globe. A successful and credible operator will not only be able to show its track record but should be able to leverage its experience with tourism operators and others into offering attractive terms to MPA holders in other countries. A key roadblock will however be legal constraints and the attitude towards the private sector operators of core public sector infrastructure such as a MPA, meaning that certain potentially attractive opportunities are unlikely to be available for this model. With the help of the BNCFF, work on a pilot site in Philippines is progressing.

To learn more about this BNCFF supported project in the Philippines:
**https://bluenaturalcapital.org/campaigns/marine-protected-areas-mpa/**
**http://blue-finance.org/**

Blue finance

Since its launch in 2018, the BNCFF has become a global brand name in Ocean Impact Finance. After screening over a hundred proposals, it is presently supporting 8 blue Nature-based Solutions pioneer projects with grant funding.

**https://bluenaturalcapital.org/supported-projects/**

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