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BIODIVERSITY CONSERVATION: STUDIES IN ITS ECONOMICS AND MANAGEMENT, MAINLY IN YUNNAN CHINA

Working Paper No. 4

Presenting Requests for Financial Support for Protected Areas: The Environmental Economics Commonsense

by

Clem Tisdell

March 1994

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Presenting Requests for Financial Support for Protected Areas: The Environmental Economics Commonsense[1]

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Clem Tisdell[2]

March 1994

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[1] A working paper prepared (at short notice) for Workshop I.14, "Communication with Funders – Developing and Investment Portfolio for Supporting Protected Areas", IVth World Congress on National Parks and Protected Areas, Caracas, Venezuala, 10-21 February, 1992.

[2] School of Economics, The University of Queensland, St. Lucia Campus, Brisbane QLD 4072, Australia
Email: c.tisdell@economics.uq.edu.au

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Research for ACIAR project 40, *Economic impact and rural adjustments to nature conservation (biodiversity) programmes: A case study of Xishuangbanna Dai Autonomous Prefecture, Yunnan, China* is sponsored by the Australian Centre for International Agricultural Research (ACIAR), GPO Box 1571, Canberra, *ACT,* 2601, Australia. The following is a brief outline of the Project

Rural nature reserves can have negative as well as positive spillovers to the local region and policies need to be implemented to maximise the net economic benefits obtained locally. Thus an 'open' approach to the management and development of nature conservation (biodiversity) programmes is needed. The purpose of this study is to concentrate on these economic interconnections for Xishuangbanna National Nature Reserve and their implications for its management, and for rural economic development in the Xishuangbanna Dai Prefecture but with some comparative analysis for other parts of Yunnan

The Project will involve the following:

1. A relevant review relating to China and developing countries generally.
2. Cost-benefit evaluation of protection of the Reserve and/or assessment by other social evaluation techniques.
3. An examination of the growth and characteristics of tourism in and nearby the Reserve and economic opportunities generated by this will be examined.
4. The economics of pest control involving the Reserve will be considered. This involves the problem of pests straying from and into the Reserve, e.g., elephants.
5. The possibilities for limited commercial or subsistence use of the Reserve will be researched.
6. Financing the management of the Reserve will be examined. This will involve considering current sources of finance and patterns of outlays, by management of the Reserve, economic methods for increasing income from the Reserve and financial problems and issues such as degree of dependence on central funding.
7. Pressure to use the resources of the Reserve comes from nearby populations, and from villagers settled in the Reserve. Ways of coping with this problem will be considered.
8. The political economy of decision-making affecting the Reserve will be outlined.

Commissioned Organization: University of Queensland

Collaborator: Southwest Forestry College, Kunming, Yunnan, China

For more information write to Professor Clem Tisdell, School of Economics, University of Queensland, St. Lucia Campus, Brisbane 4072, Australia or email c.tisdell@economics.uq.edu.au or in China to Associate Professor Zhu Xiang, World Bank Loan Project Management Centre, Ministry of Forestry, Hepingli, Beijing 100714, People's Republic of China.

PRESENTING REQUESTS FOR FINANCIAL SUPPORT FOR PROTECTED AREAS: THE ROLE FOR ENVIRONMENTAL ECONOMICS AND COMMONSENSE

ABSTRACT

Bodies concerned with conservation need funds to carry out their conservation activities. This requires them to communicate effectively with potential donors or lenders. Economic factors can influence choices in this regard. Most donors like to see value for money or resources used so it is important to present a 'prospectus' or case well in this respect. The prospectus for "Heritage Fund of the Bahamas National Trust (1992) provides an excellent example of a well presented case for financial support. Some economic guidelines for presenting arguments to donors (or lenders) in relation to value for money are presented. Risk in relation to funding and investment portfolios for protected areas is discussed and the role of economists in providing financial advice is outlined.

1. Introduction

Ralph Cobham (1992) in his presentation pointed out the importance of sound communication with funders in developing an investment portfolio for protected areas. This communication may relate to the type of funding required as well to the benefits or value to be expected from the funds raised. Partly this is a marketing exercise. My purpose here is to suggest ways in which economists or persons with related skills can assist managers of protected areas in building up an appropriate financial and investment portfolio.

2. Communicating with Potential Donors, Lenders, etc

An important factor to take into account in making financial requests is the audience to be addressed. Is it the general public or a sub-group of this, is it a research granting body, an existing N.G.O., a government body or an international

organisation? One has to consider to whom to address requests for financial support. Usually there are limited resources or funds for preparing requests for financial support (for marketing of proposals, if you wish). One should try to be cost effective in making requests. The aim from an economics point of view should be to generate the maximum amount of funds from the available funding sources or for a particular amount of funds, to minimise the, conservation body's cost of obtaining these. Thus, some information will need to be collected about returns to be expected in terms of funds likely to be obtained by marketing conservation projects to different potential donors. In theory, an economically optimal allocation of marketing effort could be determined.

In some cases, however, the sole goal of marketing conservation projects is not purely a fund raising one. For example, school children may be approached for donations to provide finance to help· save a particular species, as was done by the NSW National Parks and Wildlife Service to help save the Lord Howe Island woodhen which in particular was endangered by introduced feral animals and rats. The children obtained satisfaction from participating and indirectly learnt something about conservation problems. So did their parents. However, in any case, appropriate selection of audience is important to maximise the benefits from fund raising. It should also be borne in mind that an audience may be of indirect assistance in ensuring supply of funds. For example, members of the general public may be approached to put pressure on politicians to ensure greater funding from government sources for particular conservation projects or a change in the type of funding given.

The type of audience to be addressed will also affect the type of information be provided. This pertains to both economic and other information. It may be important to take into account the following:

(1) The values of the targeted audience·

(2) The time available to them to consider proposals

(3) The concepts which they understand and do not understand

Proposals appealing to values not shared by the targeted audience, presented in great detail and requiring much time to grasp and introducing concepts not understood

by the audience are not likely to be successful.

Often there are variations in the ability of the audience to understand material or spend time on it. This can be overcome by the use of a summary general proposal with more detailed material on the proposal being available to those who want to delve further into it.

To some extent, the detail should also be tailored to the circumstance. In relation to some funds only broad information is required initially. Detailed information is called for once the proposal is being 'seriously considered.

But no matter what the values of the audience are, most like to see value for money. So in any proposal, it is important to indicate what value is being given in relation to the funds requested.

3. Value for Money or for Resources Used

Most donors in giving funds like to believe that they are getting value for money. Whether or not they feel this is the Case, is going to depend upon the nature of the presentation of the proposal and other factors.

First of all, donors may wonder if the conservation body has the ability to deliver what is promised. To a large extent, this will be judged by the calibre and past performance of those in charge of the proposed projects or financial schemes. It is important to establish credentials in this regard in any proposal.

For example, the Bahamas National Trust. (1992) in issuing a 'prospectus' for "The Heritage Fund", spends time in establishing its credentials. There is a foreword by Prince Philip, one by the Governor General and another by the President of the Trust. Then the origins of the Trust are given and what it has achieved. Then follows the Trust's request for support for the Heritage Fund, in which they state their financial position and need, projects on -which the funds will be spent and the composition of their Governing Council.

In relation to value for money, there are basically two ways in which one can

proceed from an economics point of view:

(1) To show that the objectives for which the funds are sought will be achieved at minimum cost, that is, without waste, eg. that biological diversity will be maintained at a low cost, or that the method proposed is a low cost method of saving an endangered species.

(2) That there are positive economic benefits from the project(s) proposed, at least some of which can be quantified. It may be possible to show that these will exceed costs or if not, that they are substantial and that together with the non-economic advantages of the proposal, make the proposal attractive.

In the latter case, one may wish to distinguish between on-site and off-site economic advantages (De Groot, 1992, Tisdell, 1991; McNeely, 1988) For example, on-site advantages may be greater generation of income from visitors and off-site advantages may include protection of agriculture or fisheries or off-site tourism as in the case of tourism dependent on corals, eg. logging may lead to sedimentation which kills corals. An economic study for Palawan in the Philippines showed that conservation provided a net economic advantage compared to logging when account was taken of such factors.

However, some funders – those for example making loans – will be most interested in the extra net income which the protected area can generate and be appropriated by the protection body. In such cases attention needs to be given to specifying economic benefits appropriated by the protection body.

For some purposes, it may be sufficient to state the projects which are intended to support and their basic purpose and to give a realistic estimate of cost. This approach has been taken by the Bahamas National Trust in presenting its Prospectus.

It may also be important to group projects together in appropriate ways to catch the eyes of potential sponsors.

4. Type of Funding Requested

In building up an investment portfolio, attention should be given to the nature of the funding. It is always risky to embark on projects requiring funding over a long period of time when these are to be funded from funds only available on a short-term basis. If short term finance is used, a series of short-term grants or loans must be obtained and failure to obtain sufficient funds at any point in time may jeopardise the whole project.

It may be possible to increase security of available funds by diversifying sources and/or attempting to build up a trust fund using only the interest or returns from the funds to finance activities.

The Bahamas Heritage Trust aims for sustainable funding. Funds are to be invested and the Trust expected to obtain 10% on its investment, eg. in Government Bonds, shares, etc. So the target which it has set itself is to collect sufficient funds to finance each conservation project from the interest or other returns ·received. For example, for a project costing an average $10,000 per· year, say, land acquisition, its target is a capital of $100,000. The fund will allow long- term planning.

But as an economist one might point out that rates of interest and returns on funds vary over time and an **appropriate** financial investment portfolio needs to be established. Also no allowance has been made in the Trust's estimate for inflation. If say returns on funds are 10% per annum[3] and inflation proceeds at 5% per annum, half the money return will need to be reinvested to ·keep the real value of the funds constant. So twice the amount of initial funds for each project would need to be requested. For the one above, capital of $200,000 not $100,000 would be needed. Economists can point out such little aspects.

Not all funders will be prepared to donate to a trust fund since many funders place considerable emphasis on accountability which they can achieve most easily by funding according to progress, that is by the use of recurrent funds. Furthermore, many funders want to become actively involved in supervision of the project. This can become a problem for project managers, e.g. if funders have definite ideas but little

[3] Actually the returns on the Fund have exceeded 10% and have been sufficient to cover the inflation factor.

experience in the field.

In democratic countries, governments are reluctant to fund conservation bodies except on a recurrent basis. Presumably, this is to better retain control and accountability but it can have a price in economic efficiency terms.

Regarding funding for protected areas by way of loans to a country, eg by the World Bank, it is important from the country's point of view· to be sure that the returns appropriated by it (as distinct from gains to foreigners) more than exceed the loan plus interest. It may also be important to consider how the project affects the taxable base of the country because funds have to be raised to repay the loan. Even if loans are made available at concessional rates of interest, may still have to be repaid so there is still a need to exercise financial caution.

5. Conclusions

The presentation of requests for financial support requires attention to be given to several factors. The main ones are: (1) the audience to be addressed and (2) the benefits to be achieved, including the economic benefits. Economics is always at least an implicit consideration since those providing finance like to see value for money - that is they desire to see their objectives achieved at minimum cost or would like to see high benefit in relation to the funding provided. Economic statements seem to be important in relation to all conservation proposals, but might be extremely important when funding is sought from bodies such as The World Bank. Economists can help in determining economic benefits to be expected. They may· also be able to give advice about marketing of proposals for financial support and about the economic wisdom of different types of funding. But the whole subject is complex and it clear that not only economics has a role, e.g. in relation to marketing, but other disciplines such as psychology may be important. Also appropriate institutional arrangements may be made to encourage support, e.g. The Bahamas National Trust has set up a non-profit body in the U.S.A. to receive donations to its Heritage Trust. This is to ensure that such donations are tax deductible in the U.S.A. It intends to do likewise for Canada.

Economists may be able to give appropriate advice on levels of entrance fees and sale of concessions in protected areas so as to maximise or at least, increase income from the protected areas. This can add to funds available for protected areas. The adoption· of economic measures which improve the financial performance of a conservation body can improve its standing as a potential borrower.

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