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Sustainability

PRIVATE SECTOR FINANCING FOR EFFECTIVE AND LONG LASTING PROTECTED AREA MANAGEMENT IN THE EASTERN PLAINS LANDSCAPE, CAMBODIA

1. Introduction

Protected areas (PAs) play an important role in safeguarding our global natural capital; the stocks and flows of natural resources that supply ecosystem goods (e.g. soil, air, water) and services (e.g. fresh water provisioning, soil recycling, air purification). It is these ecosystem services upon which human life depends on, not only for our own social wellbeing (i.e. through securing livelihoods) but also through providing the foundations for our economies and business operations.

Today in Indochina, the largest intact dry forests remain in north-eastern Cambodia in an area known as the Eastern Plains Landscape (EPL). The EPL is characterized by a mosaic of different habitats that provide a diverse range of ecosystem goods and services all of which are important for a sustainable Cambodian economy. Thanks to the establishment of PAs within this landscape, there is still a healthy stock of natural capital and ecosystem services. Due to their ecological, social and economic importance, it is absolutely essential therefore that the last remaining habitats of the EPL, which are located within these PAs, are safeguarded. To do this, amongst other enabling conditions, we need to ensure that there are enough financial resources to effectively manage them. Many businesses in the EPL depend on the natural capital and ecosystem services that the PAs in this landscape provide, making it critical that these actors now engage in their financial sustainability.

This brochure aims to advise private sector actors on how they may benefit from supporting sustainable financing of protected areas within Cambodia's EPL, and how the Cambodian government can facilitate this support. As a significant force behind the investments flowing into the EPL – for instance with regard to extractives and agro-industry – private sector actors can be an agent of change for the sustainable management of natural capital, thus contributing to the long-term supply of the ecosystem services which their businesses depend upon.

2. The importance of PAs for the Private and Public sectors



Key message: Both of these examples illustrate the critical ecosystem services provided by PAs and the economic importance of these services to sustaining local and national economies. For private sector actors, these examples highlight the strong business case for investing in PA management and sustainable use of natural capital. This way, businesses can reduce Environmental and Social Governance (ESG) costs, secure their supply chains (which rely on PAs) and increase productivity and therefore profitability.

There is a growing body of evidence that demonstrates how both the private and public sectors benefit from the sustainable use of the ecosystem goods and services provided by well-managed PAs. This evidence builds the case for the effective management of PAs, and the ecosystem goods and services that they provide.

Public

In 2008, a study of Phnom Aural and Phnom Samkos wildlife sanctuaries, in Cambodia's Cardamom mountains, captured the value of managing and using forest resources sustainably. Taking into account the value of forest conversion and agriculture in community zones; sustainable forest management; non-timber forest products; and carbon storage, the study estimated that these PAs have a combined value of US\$ 3,272 million, if managed according to the proposed management plans. Conversely, if the PA were managed with fewer constraints on land-use and forest conversions, its estimated value would only be US\$ 2,560 million – more than 20% less than the sustainably managed PAs.

Private

A feasibility study of a Payment for Ecosystem Services (PES) scheme was undertaken by Fauna and Flora International in 2013, in the Stung Atay catchment in Cambodia for



The Delegation of the European Union including H.E. Mr Jean-François Cautain and WWF-Cambodia staff visit Mondulhiri Protected Forest (MPF)

forest protection and hydro-power generation within a PA. The PA provides critical ecosystem services, particularly erosion control and rainfall, for the production of electricity by the Stung Atay hydro-dam. The study showed that a 30% efficiency loss of electricity production from increased sedimentation due to loss of forest cover could lead to a revenue loss of US\$180 million over 30 years, or an average of US\$6 million per year, for the electricity utility. Investment in forest protection, which would mitigate the risk of reduced hydropower production, would cost less than US\$100,000 per year on an ongoing basis.

¹ Grieg-Gran, M., D. de la Harpe, J. McGinley, J. MacGregor, I. Bond (2008), *Sustainable financing of protected areas in Cambodia: Phnom Aural and Phnom Samkos Wildlife Sanctuaries*, Environmental Economics Programme Discussion Paper 08-01, IIED, London

3. Examples of sustainable financing mechanisms from around the world

Mexico: Local Payment for Ecosystem Services

Mexico's PES schemes, administered by CONAFOR, Mexico's National Forestry Commission, has protected more than 3.2 million hectares of forests that are managed by over 5000 landowners. A PES scheme works on the basis that incentives are offered to landowners in exchange for managing their land to maintain the provision of relevant and selected ecosystem service(s) in that specific geographic area. The landowners in these schemes are undertaking activities, such as maintaining forest cover and performing surveillance activities in order to prevent illegal logging and hunting, to maintain critical ecosystem services.

The Mexican "Local PES Mechanisms through Matching Funds" scheme, allows users of an ecosystem service to pay at least 50% of the required amount of money to maintain that service. CONAFOR, through the Mexican Forest Fund (the national conservation trust fund), pays the remaining quantity. Landowners are then paid to undertake the necessary activities to maintain that ecosystem service. This PES scheme has enabled water utilities, the National

Water Commission, the Federal Electricity Commission, state and local governments, businesses (including agriculture) and civil society organization to support the protection of ecosystem services.

Malaysia: Public-private partnership and Biodiversity credits

The Heart of Borneo (HoB) is a 2007 conservation agreement between the Malaysia, Indonesia, and Brunei governments to conserve the biodiversity of the area for the benefit of the people who rely upon it through a network of protected areas, sustainable management of forests and other sustainable land uses. One of the main sources of PA financing within the HoB is from the private sector. One such funding source has been the Malua BioBank, a public-private partnership

between Eco Products Fund (EPF) and the Malaysian Sabah State Government. The Malua BioBank sells Biodiversity Conservation Certificates (BCC) for US\$10 each, each one representing 100m² of a 34,000 ha area of protected rainforest. Any individual or business can purchase a BCC and is driven solely by voluntary interest. The buyer, most commonly those who use palm oil in their products, buy these credits to improve the environmental footprint of direct operations and across supply chains, and to strengthen their brand value. 20% of revenue from the sale of these BCCs contributes to an endowment fund (Malua Trust), which has been set up to manage the Malua Forest Reserve. The remaining 80% of the sales revenue is transferred to EPF. EPF's investors are likely to see a \$US17.2 million profit from their initial US\$10 million investment within 6 years³.



Bornean Orangutan in the Heart of Borneo © Alain Compost/MWFR

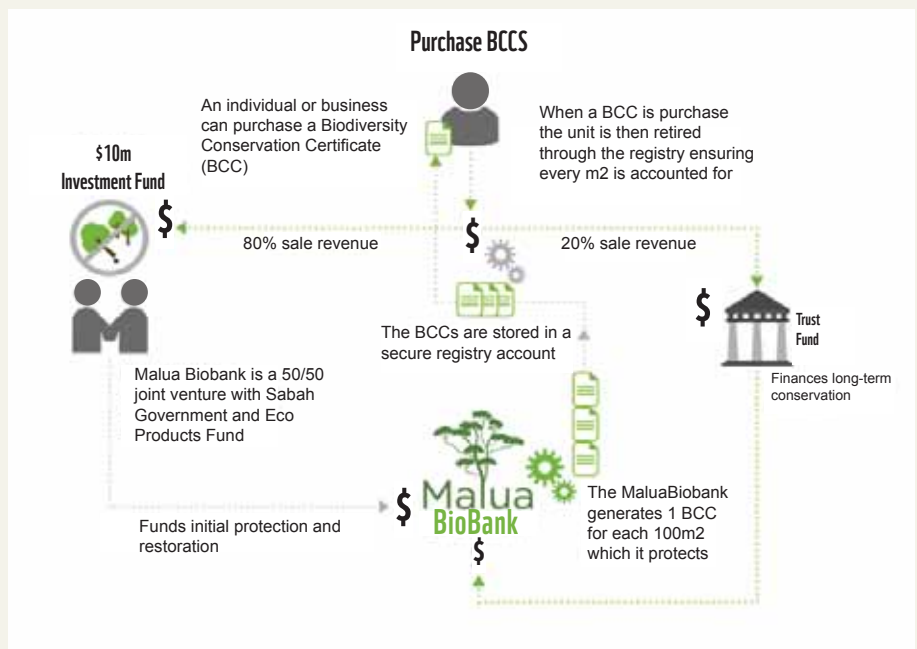
² For further information see: http://www.fao.org/fileadmin/user_upload/pes-project/docs/FAO_RPE-PES_PSAHMexico.pdf

³ For further information see: http://www.ecosystemmarketplace.com/pages/dynamic/article.page.php?page_id=6041

Vietnam: Corporate funding

Aside from market mechanisms for the sustainable PA financing, there are also voluntary corporate funding sources for investment in PAs and the protection of the ecosystem services they provide. For example, Holcim Ltd., a global company specialising in the manufacture and distribution of cement and other cement products, committed US\$1 million to preserve and restore the ecological system of Kien Giang province.

Holcim's Hon Chong plant is located within the Kien Giang province and they source limestone from two nearby karst formations⁴. As part of an agreement to offset the impacts of quarrying, such as the destruction of habitat, the Kien Luong Karst Nature Reserve (KLKNR) was established. The agreement also prescribes quarrying in ways that avoids negative environmental impacts, particularly on the plants and invertebrates. Additionally, training programmes have been developed to raise awareness of the importance of environmental protection among the local community and Holcim staff. Holcim and its local partners are also determining the feasibility of eco-tourism in the Mo So caves area as a means for protecting biodiversity and supporting local livelihoods⁵.



Regional examples of financial mechanisms - Heart of Borneo: Public-private partnership and Biodiversity credits

Cambodia: Conservation Trust Fund

A Conservation Trust Fund is a long-term financing mechanism for managing funds, rather than fundraising, that operates by generating interest from an initial capital investment and uses only the interest generated, not the initial capital, for conservation activities. Conservation Trust funds are of interest to the private sector because they are an effective mechanism to channel funds directly to an individual PA that a business is benefiting from. The Royal Government of Cambodia (RGC) and Conservation International have jointly collaborated in the establishment of a Conservation

Trust Fund to support the management and protection of the Central Cardamom Protected Forest (CCPF). The annual costs of managing the CCPF, that are not covered by the RGC, and the management costs of the Trust Fund, are estimated at US\$325,000 per annum. Funds are to be used for enforcement, community livelihoods development activities, and research benefitting the Cardamom mountains and the CCPF. The Trust Fund has been created to also potentially direct funds to the management of other Cambodian PAs.

⁴Which are sinkholes, caves, hills, and underground drainage systems created by the dissolution of limestone, dolomite and gypsum.

⁵For further information see: <http://www.ifc.org/wps/wcm/connect/95c5fe0048855c758be4db6a6515bb18/Holcim.pdf?MOD=AJPERES>

Key message: *These four examples highlight the diverse range of financing options that are available for the private sector to engage in to ensure the protection and management of vital ecosystem services provided by PAs. Benefits of engagement into PA financing schemes for the private sector include:*

- Reducing ESG costs, lowering risk of supply chain scarcity that would impact on price inflation and therefore maintain or increase profitability;
- Strengthening brand value - Communities, NGOs, customers, consumers and shareholders are demanding that these issues are addressed, reported and accounted for as they become increasingly conscious of the interrelationship between business operations and the state of ecosystems;
- Potentially attracting new investors and lenders, such as the 80 banks that are signatories to the Equator Principles, who favour environmental performance; and
- Encouraging early engagement and active collaboration with governments on natural capital impacts on a business may result in reduced risk and also help advocate for more favourable government policies.

In light of these many benefits, it makes sense for the private sector to take the next step and invest in the management of EPL’s protected areas.

4. Protected Area funding needs and opportunities in Cambodia and the EPL

Despite PA funding being mandated in legislation (Law on Protected Areas, 2008), Cambodia’s protected areas face a severe funding gap. For example, current estimates suggest that the funding gap for managing the Central Cardamoms Protected Area is US\$275,000 annually. This funding gap highlights the need for a diverse funding portfolio, in which the private sector will play a critical role. Given this critical role, the following analysis outlines the key industries in the EPL and their potential to participate in sustainable PA financing.

Table 1 Possible sustainable protected area financing mechanisms for Cambodia's Eastern Plain Landscape (EPL), and their potential for implementation.

Funding mechanism	Potential for implementation in the EPL
Conservation trust fund	Given the diversity of different industries in the region, this may be the most suitable funding mechanism.
Payment for Ecosystem Services scheme	Could be funded through taxes or fees for companies that capitalize on the ecosystem services of the EPL (e.g. nutrients, water supply and regulation) for business operations.
Biodiversity offsetting	Suitable for most business impacts except for those within core zones in the EPL PAs.
Tourism based revenues	Raise a tourism tax from all hotels and touristic spots and implement a PA entrance fee and direct funds to a conservation fund. A non-for-profit tourism expansion business that would be able to bring a professional eye, robust management tools and fresh investment in tourism would be needed.
Non-timber forest products (NTFP) venture funds	Business could support and invest in the Mondulhiri Venture Fund to invest into the sustainable use of NTFP.

Businesses and funding mechanisms in the EPL

A 2014 study by WWF found that mining, rubber and ecotourism are the main private and they are also key to Cambodia’s economic growth (which is approximately 7% per annum). This study also found that there is the potential for several of these sector businesses to engage in PA management, which would ensure that the ecosystem services that they rely on would be protected and managed sustainably. The study outlined five possible financing mechanisms for the EPL that could support investment from the private sector in PA management (Table 1). A strategy is being developed by WWF on the feasibility of the mechanisms for individual businesses in the EPL.

5. Recommended Actions

Recommendations for the national and provincial governments of Cambodia:

Recommendations for private sector:

Businesses operating within the EPL and its catchments can support a more sustainable future for the region by:

- minimizing their impact on the ecosystem services they depend upon;
- supporting innovative ways to finance and capitalise on conservation such as:
 - Offsetting impacts, after appropriate prevention and mitigation measures have been taken, to protect areas of high conservation value.
 - financially contributing to a conservation trust fund (if and when it has been established for the EPL region)
 - Supporting local sustainable non-timber forest product businesses (e.g. honey) in developing the capacity to access and operate in regional and international markets, through the Mondulkiri Venture Fund;
- observing and implementing industry best practices and standards in mining, rubber and ecotourism;
- becoming actively involved in Cambodian green business networks to share experiences with other businesses.

Private sector investment and involvement in the effective management of PAs would benefit from the appropriate economic incentives and enabling conditions. These include, for example, a range of taxation and pricing measures, and framework and guidelines on sustainable land management. Greater private sector investment in the protected areas of the EPL could also be achieved by:

- undertaking comprehensive natural capital mapping and valuation across the three main catchments in the EPL, with special attention to mining, as a tool to advocate for sustainable financing mechanisms;
- building the capacity of PA staff for more effective management and marketing of PA values including skills in business and financial management, and in administering sustainable extractive regimes;
- lowering the high transaction costs, providing economic incentives and improving market conditions for establishing commercially-viable biodiversity enterprises in PAs;
- proper and accessible land tenure and property rights;
- establishing legislative mechanisms to channel funds directly to an individual protected area (e.g. district/EPL Trust Fund), considering lessons learnt from the ongoing development of the Central Cardamoms Conservation Trust Fund; and
- Strengthening inter-ministerial coordination for decision-making in the EPL, such as continuing and promoting the role of the Technical Working Group of Forest Resources (TWG-FR), and specifically leveraging the important role of the sub-group on Forest Financing. Development partners should also be engaged for active collaboration in decision-making.



Why we are here

To stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature.

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