Asian Conservation Company and Ten Knots Group: Private business in El Nido-Taytay Managed Resource Protected Area, Philippines

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Abstract

Protected Areas (PA) are a country’s attempt to legally protect and manage its natural assets that are deemed important for biological diversity, ecological value, economic means, or food supply. In the Philippines, Marine Protected Areas (MPA) were first established in 1974 and have increased in number from 249 in 1995, to 439 in 1998, and 565 in 1999¹. Without adequate funding, coastal resource management (CRM) plans, or enforcement teams, these MPAs will likely remain little more than their current official declaration.

The Asian Conservation Company (ACC) was established to address the ongoing challenge of sustainable financing for biodiversity conservation. In November 2000, a group of individuals from private foundations, venture philanthropy, and an investment manager (Next Century Partners), were brought together by the World Wildlife Fund’s Center for Conservation Finance. On a boat amidst towering limestone cliffs and pristine waters in the Marine Reserve of El Nido, Palawan, Philippines, the group brainstormed about how best to combine business and environmental conservation for the long term. The result was a Private Equity Holding Company whose first achievement was a successful bid for majority share in the Ten Knots Group (TK) – owners of El Nido Resorts, a “responsible tourism” operation with properties in the El Nido-Taytay Managed Resource Protected Area.

ACC is the first investment holding company in Southeast Asia created with a Triple Bottom Line approach:
- Acceptable Financial Returns to shareholders
- Environmental Conservation through a sustainable financing model
- Corporate Social Responsibility through real employment and educational opportunities

ACC aims to build a bridge between private sector investment and biodiversity conservation. The goal is to construct a network of private sector investments that proactively conserve biodiversity while remaining profitable and competitive in the market place.

ACC believes that by investing in environmentally sensitive companies, it can generate an acceptable financial return to investors while providing gainful employment and educational opportunities. These benefits create a willingness among the local communities to protect the natural resources in the area. Profits from the operating companies provide a sustainable financing source and the Asian Conservation Foundation (ACF) or a qualified local non-government organization (NGO) will ensure that biodiversity conservation is carried out for the long-term. The goal is for local communities and their multiple-stakeholder management teams to take ownership of the conservation programs.

The ACC model addresses one of the most challenging issues in conservation – financial sustainability. It is highly innovative because it engages a private equity holding company to leverage long-term biodiversity support and conservation finance from investee companies. By combining the investment skills of professional fund managers with the biodiversity-related expertise of experienced conservation practitioners, the ACC model presents a promising and highly replicable approach for achieving sustained conservation gains affecting globally significant biodiversity.2

ACC seeks to create a replicable model for achieving sustainable use and long-term conservation of biodiversity by demonstrating that conservation makes business sense. By establishing and demonstrating the business case for biodiversity conservation, ACC will help to catalyze replication among other private sector companies.3

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3 ibid.
Most PAs are established out of a scientific study or community initiative. As an alternative, the government may prioritize the creation of a PA around an on-going business located in a high priority area. Private sector companies may donate large tracts of land for a PA and receive tax incentives. Examples of private reserves created around donated land or ongoing businesses are found in Chitwan National Park, Nepal or Dunjugan Island, Philippines. In Chitwan, the private sector business, Tiger Tops, has been an integral and stabilizing force within the PA since the time of inception.

A second alternative is to privatize government businesses operating in a PA. Viable government run businesses may be sold or leased to the private sector whose experience, focus and creativity may generate more fee income for the PA. For example, Calauit Game Preserve and Wildlife Sanctuary, Philippines, would benefit from private sector involvement to make the business profitable. The terms of any privatization should include a mandatory conservation fee arrangement to benefit the PA.

Finally, many PAs in the Philippines are located in areas that are naturally attractive for eco-tourism. Priority PAs for tourism should be designated as a TEZA (Tourism Economic Zone Authority) to encourage private sector businesses to locate in the area through tax incentives and duty free importation. Ten Knots has been encouraged to begin the TEZA qualification process.

Ten Knots (TK) is the anchor business group in the El Nido-Taytay Managed Resource Protected Area (ENTMRPA). TK is the largest taxpayer to the municipality of El Nido, providing more than 80% of tax revenues collected and 8% of the annual budget. The company has approximately 220 local employees (direct and contractual) while indirectly benefiting more than 200 individuals. In 1994, the El Nido Foundation (ENF) was established by the owners of TK to carry out social and environmental activities related to the PA. ACC believes its involvement will raise the standards and reputations of TK and ENF. ACC uses its business management skills to attract and develop desirable business activities within the PA.

The strict regulations of a Protected Area, compounded by political and bureaucratic obstacles, may create difficulties for private sector benefits to flow to a PA. Possible mechanisms that could be implemented to ensure that private investments benefit PAs would be:

1. Require fee/lease payments or a mandatory donation by the private sector as payment for the use of the “natural” assets within the PA. The fee may be in the form of a room tax, landing fee, or license/user fee. In the ENTMRPA, Island Transvoyager Inc., a private airport operator, donates a portion of the terminal (landing) fee to the ENF for future marine conservation activities. Additionally, ACC negotiated an annual donation for the protection of the environment as part of its investment in TK. Likewise, the government should simplify the process for private companies to obtain approval for doing business in a PA.

2. Private companies operating within the PA should seek representation on multi-stakeholder conservation teams or PAMBs (Protected Area Management Boards). Only through participation will the private sector better understand the roles of the various stakeholders. Likewise, any CRM consultations or government plans should include the private sector as an integral part of the multi-stakeholder group. Inclusion should be from inception through implementation.

3. Hire the majority of staff from the local community to affirm the private sector’s commitment to the area. The challenge for any tourism related operations is to educate and train local staff to international standards. In Ten Knots’ experience, properly trained local staff become the best employees while bringing a sense of local flavor and folklore to a successful guest experience. The company benefits from satisfied clients while providing real employment and educational opportunities to the local communities.

4. Support and development of livelihood projects by the private sector assist “buy-in” by the local community to the presence of corporate entities. Small, local businesses may be encouraged and directed by the needs of the private entity. Where appropriate, micro-financing may also be arranged. For example, Ten Knots funded technical assistance to the ENF to teach a local women’s group to weave native piña cloth. The woven items are then sold in the TK gift shops. Handicraft production is
not the only livelihood project supported by TK. Residents of a nearby village are employed to perform native songs and dance as a welcome to guests upon their arrival to El Nido.

5. Focus guest activities around benefits to the PA. For instance, divers may have the option to participate in reef monitoring or clean up projects. Ten Knots encourages resort guests to mark sightings on a “Biodiversity Checklist” that becomes a memento of their stay. This activity educates guests about the biodiversity in the area at the same time it allows TK to monitor and track the presence of a wide range of animals, fish, and plants in the ENTMRPA.

6. Daily business operations may support the operations of the PA. Due to the severe shortage of funds available for enforcement activities in many PAs, the private sector may use its own resources to patrol and make arrests. In the ENTMRPA, the resort’s private security team and marine guides actively patrol the waters for illegal fishermen and suspicious activity. Staff from El Nido Resorts often act as firefighters and animal rescuers within the PA.

ACC goes above and beyond what is required by law and has adopted its own set of Environmental Management and Biodiversity Conservation Principles. Any ACC investment (including Ten Knots) complies with the following fundamental biodiversity conservation principles:

a. Investments should mitigate their environmental impacts;
b. Investments should proactively develop means by which their activities enhance the conservation of biodiversity and become an integral part of every business and operational decision;
c. Investments will encourage and support social programs and opportunities for local communities that result in the conservation of biodiversity;
d. Investments will seek the best available technical advice on environmental management and biodiversity conservation considerations; and
e. Investments will employ measurable indicators of conservation success.

ACC is recognized as a leader in corporate social and environmental responsibility. It has been claimed that “by these examples set by ACC . . ., leaders in world business are the first true global citizens. They have worldwide capability and responsibility. Their domains transcend national boundaries. Their decisions affect not just economies but societies; they affect not just the direct concerns of business, but world problems of poverty and environment.”

The private sector may use business skills, contacts, and creativity to bring in additional funds for conservation activities within the PA. ACC successfully leveraged its private equity investment in TK to attract grants for the ENTMRPA. ACC’s standards, local NGO relationships, and business acumen were recognized by the International Finance Corporation (IFC) which recommended, and received, a grant for ACC from the Global Environment Facility (GEF). Along with a participation in a grant from the SCOTIA (Sustainable Coastal Tourism Initiative in Asia) project of USAID and a Seacology grant, the GEF monies will help jump start conservation activities in the PA while the funding mechanisms committed by ACC are implemented. ACC pursued opportunities that historically were relegated to NGOs to explore.

Private business can benefit PAs only if laws are applied properly and efficiently. Government approvals for licenses, ECCs (Environmental Clearance Certificates), and registrations need to be made in a timely manner. For example, early this year, a squid fisherman applied for a license to operate within the ENTMRPA. Approval was granted only after the squid season ended. These bureaucratic delays create a disincentive for private operators to comply with the PA laws. As a result, some squid fishermen choose to fish without a license and just pay the fine instead of miss the season.

Government agencies should coordinate in implementing regulations within a PA. In practice, conflicting regulations arise in many PAs. The Bureau of Fisheries and Aquatic Resources (BFAR) under the Department of Agriculture (DA) often issues fishing licenses (including building fish pens) without considering the impact that may affect the PAO (Protected Areas Office) of the Department of Environment and Natural Resources (DENR).

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In establishing a PA, the government should structure a fee system that ensures that the majority of any fee collections cover the operational costs of that PA. Current Philippine law dictates fees “to be collected in protected areas, including entrance fees, facilities user fees…the fees will be imposed on such uses like recreational use, extractive use and commercial use as well as…use of fish pens and fish cages…revenues generated will accrue to the Integrated Protected Area Fund (IPAF).” All fees are sent to the National Treasury with 75% eventually being returned to the PA, albeit very slowly. The IPAF system should be revised to allow PAs to recover their operating costs. Total IPAF fees generated from the ENTMRPA and forward to Treasury for the period Dec 1999-June 2003 was P482,341 (P220,000 from the TK group). The P74,327 (appx. US$1400) collected in 2002 covered less than 1% of annual operational costs of the PA. The ENTMRPA received its only disbursement (in May 2002) 18 months after the request papers were submitted and almost 3 years after the first IPAF fees were collected.6 Such delays create a financial strain on the operations of a PA as well as a disincentive to pay. Perhaps a more successful example of collection and distribution of park fees is the Bunaken National Marine Park in North Sulawesi, Indonesia.

To attract private sector investments in PAs, the government must pass adequate budgets for infrastructure. Many PAs are located in remote locations. Private enterprises must have access via roads, airports and seaports to operate profitably. Currently in the ENTMRPA, the limited access (both land and air) has served as a natural protection for the area. Unless a municipal airport is built, it is difficult to transport a critical mass of visitors. Without visitors, demand is limited for more businesses or services that could contribute to the financial support of the PA. In all cases, the carrying capacity of the PA should be considered.

Local NGOs should be empowered to carry out conservation, education, health, and livelihood projects within the PA to compliment and attract private investment. NGOs should be registered to ensure compliance with fiscal regulations and validate their capacity to administer donor funds properly. ACC has committed to working with the El Nido Foundation for executing the GEF grant. ACC also works with World Wildlife Fund-Philippines for additional technical advice within the PA.

Multilateral institutions with equity investing capabilities should be instrumental in attracting private sector participation in PAs. The majority of multilateral funds are in the form of loans or grants. The small allocation remaining for private equity investments generally have restrictions, high hurdle rates, and unreasonable “due diligence” fees. The “cost” of having a multilateral investor becomes prohibitive for the majority of private sector projects within the PA. Multilaterals should re-evaluate their private equity mandates in order to support sustainable conservation investments. ACC was an unacceptable investment for two multilaterals. Structured as a “Holding Company” versus a “Fund,” ACC does not guarantee a return of capital in the required 5 to 7 years. ACC understands that conservation-oriented investments are much longer term, i.e. it takes 15 years for a tree farming operation to be sustainably profitable. The time frame for viable and sustainable conservation, by its nature, is longer than 7 years.

If multilateral organizations decide to actively support private sector investment in PAs and commit to attract such businesses to high priority, biologically diverse areas, they could:

a. Allocate a certain percentage of their funds to be used for longer term private sector equity investments that are benefitting the PAs;
b. Absorb their own due diligence expenses for investments located within PAs. Common practice for most private investors is to absorb their own due diligence expenses associated with any potential investment; or
c. Support the private entity in leveraging its investment to attract further grant funds to be used to help jump start conservation activities in the PA.

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5 Overseas The Online Magazine for Sustainable Seas; August, 2000 Vol. 3 No.8.
6 Protected Area Supervisor report dated June 16, 2003
Conclusion

Private sector equity investment is not the ultimate solution to Sustainable Financing for Protected Areas, but it is an important component. Fee revenues, employment, education, livelihood projects, and conservation activities all benefit PAs as a direct result of private sector involvement, but only with the support of other stakeholders. The government must simplify the bureaucratic processes for doing business in order to encourage private entities to operate within a PA. Multilaterals should reassess their support to sustainable financing for PAs by taking a longer term approach to private equity investments. Private entities operating within PAs need to be self-regulating and uphold best practices. Finally, private companies operating within PAs should seek a Triple Bottom Line approach: acceptable financial returns to shareholders; environmental conservation through a sustainable financing model; and Corporate Social Responsibility through real employment and educational opportunities.