

# Sustainable Funding for Nature Parks in the Netherlands Antilles

## Feasibility Study of a Protected Areas Trust Fund

### SYNOPSIS

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#### Introduction

The ecosystems of the Netherlands Antilles<sup>1</sup>, with their coral reefs, humid elfin forests and semi-desert scrublands, not only contain the richest biodiversity in the Kingdom of the Netherlands, but also represent an irreplaceable tourism resource – the most important source of income for the islands. The marine ecosystems along the coasts (coral reefs, seagrass beds, mangroves) are also essential for healthy fisheries and both the marine and terrestrial ecosystems (montane forest) provide a buffer against erosion and hurricane damage. According to a recent report by the World Resources Institute the tourism and ecological value of all the coral reefs of the Antilles is estimated at US\$24–144 million per year (WRI, 2004). Unfortunately, the economic value of all terrestrial and marine biodiversity cannot yet be estimated; further research is recommended to obtain the necessary data. Nature conservation, therefore, is not a luxury, but an essential part of the sustainable economic and social development on which the current Dutch–Antillean cooperation programme is based.

Well managed nature reserves are the cornerstone of nature policy and both marine and terrestrial nature parks have been established, or are in an advanced stage of establishment, on all the islands. The Antilles, therefore, are meeting their obligations under the Convention on Biological Diversity and other international treaties. Good management requires funds for infrastructure, personnel, maintenance, education and public information, but funding for the recurrent annual operating costs of the nature parks has been plagued by instability and deficits. This is because it is highly dependent on one-time project subsidies, limited ad hoc financial assistance from local government authorities and fluctuating revenues from tourism.

#### Table 1

*Relative contributions from various financial sources and the degree to which these cover the basic requirements for two nature parks per island (one park on St Maarten)*

|              | Island government | Other grants | Self-generated revenue |      | Available budget as percentage of basic requirements |
|--------------|-------------------|--------------|------------------------|------|--|
|              | 2002-03           | 2002-03      | 2002-03                |      | 2002   |
| Saba         | 17%               | 30%          | 53%                    | 100% | 40%  |
| St Eustatius | 21%               | 51%          | 28%                    | 100% | 17%  |
| St Maarten   | 17%               | 78%          | 5%                     | 100% | 21%  |
| Bonaire      | 6%                | 4%           | 90%                    | 100% | 78%  |
| Curacao      | 26%               | 5%           | 69%                    | 100% | 59%  |

This uncertainty makes it virtually impossible for park management organisations to draw up long-term plans. It prevents the creation of a systematic park management as well as a sustainable management structure (including the recruitment and retention of qualified personnel from the local

<sup>1</sup> This study focused on the five islands of the Netherlands Antilles. However, Aruba can still join the process set in motion by this study at a later stage.

community and elsewhere) and even threatens the very survival of some organisations. Since 1998 the conservation organisations and the Antilles Environment and Nature Department have argued for the establishment of a trust fund as one of the most appropriate sustainable strategies for resolving this financial impasse. During the last 15 years experience has been gained with conservation trust funds in more than 40 developing countries.<sup>2</sup>

In 1998 the Dutch Parliament called for a feasibility study for a trust fund and the Minister of the Interior and Kingdom Relations agreed, under certain conditions, to make a financial contribution to such a fund. In 2003 the Antillean Environmental Department invited tenders for this study, which began in 2004 with funding from the Dutch Ministry of the Interior. Besides assessing the feasibility of a trust fund to cover the operational costs of one terrestrial and one marine park per island, the study also included a broader analysis of how park funding can be made more sustainable. The consultants also advised on the technical and organisational aspects of the management and administration of a trust fund and presented a fundraising and communication strategy to support the process.

## Summary of the findings

### *Sustainable funding: feasibility and constraints*

1. *The non-governmental organisations (NGOs) that manage the nature parks on the Netherlands Antilles need at least €2.25 million each year to cover the costs of adequately managing at least one terrestrial park and one marine park per island.* In ‘normal’ years it is considered feasible that the islands generate about half of this amount themselves, although this varies considerably between individual islands: Curaçao, Bonaire and Saba are in a much better position than St Eustatius and St Maarten. In years when a disaster occurs (such as major hurricanes and the 9/11 attacks) the revenues of the larger islands will also come under pressure, and the financial impacts of such disasters will still be felt in the subsequent years of reconstruction. Taking all this into account, the conclusion is that part of the operational costs of the conservation management organisations can indeed be covered by regular sources of income, but that these sources are highly unstable, which has considerable consequences for park management.
2. *External funding sources are therefore necessary to achieve a sustainable financial situation.* To obtain additional funding it is advisable to pursue four parallel tracks involving the public sector, the business community, private individuals and NGOs (see Figure 1). The consultants propose a financial strategy with a Trust Fund as the stable core component, complemented by the other three parallel tracks.<sup>3</sup> The strategy acknowledges that the Antilles cannot do it alone and can count on external help, while recognising that efforts will also be expected from the Antillean island governments and communities.

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<sup>2</sup> There are **three types of Trust Funds**:

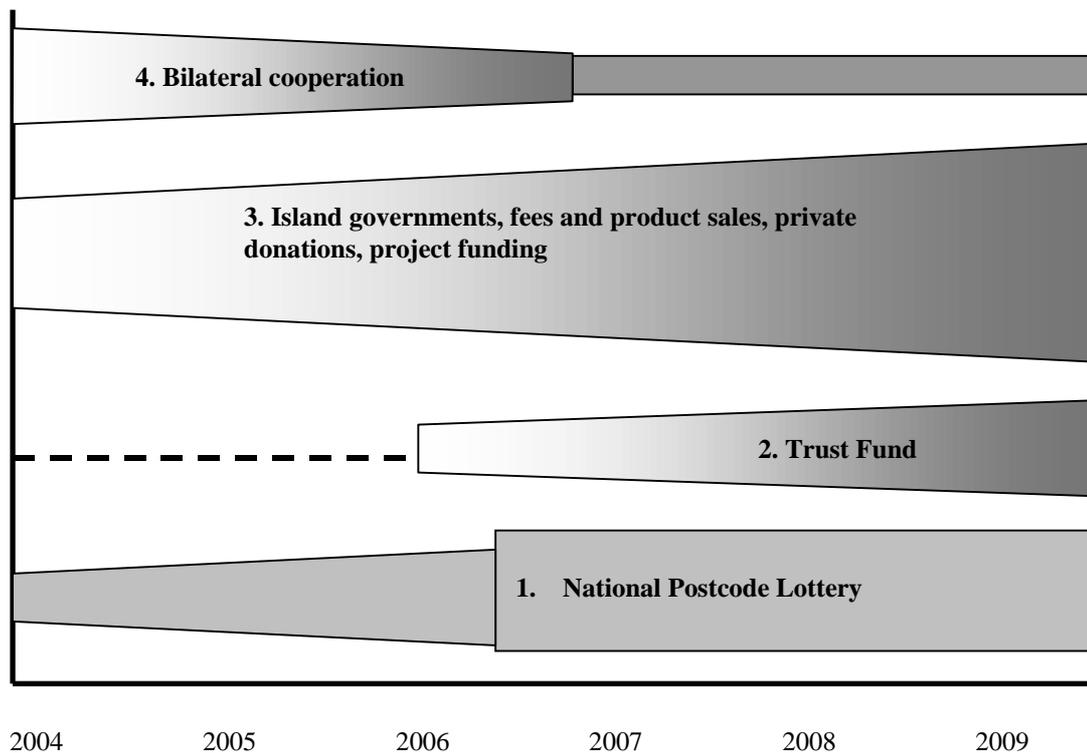
- *endowment funds*, in which only the interest or returns on the invested capital may be used, not the capital itself;
- *sinking funds*, in which both the investment income as well as the capital itself can be used over a previously determined fixed period.
- *revolving funds*, which are replenished by regular revenue sources, such as taxes and fees, and from which funds can be withdrawn according to the financial rules of the fund.

<sup>3</sup> Establishing a Trust Fund should be combined with other funding mechanisms because:

- not making use of existing additional options will be interpreted by donors as a lack of interest and commitment from other parties, which will affect their willingness to make a contribution;
- if a Trust Fund is the only option, an unrealistically high capital investment will be required to generate sufficient income to cover all the management costs;
- dependence on a single funding mechanism will make the parks particularly vulnerable if, for one reason or another, this mechanism does not function properly.

**Figure 1**

Diagram of the expected global time schedules and trends in funding volumes of the four tracks



3. *Certain developments in 2004 and early 2005 have considerably increased the chances of creating a sustainable funding strategy involving these four tracks:*
  - The establishment of the Dutch Caribbean Nature Alliance (DCNA) as the **umbrella organisation for the park management NGOs** on all the islands; DCNA also provides the organisational framework for the future Trust Fund.
  - Representation by the Netherlands Committee for IUCN (NC-IUCN) and successful lobbying of the Dutch Parliament and ministries. NC-IUCN has established a group to support the DCNA, consisting of De Landschappen (the Dutch provincial landscape associations), Natuurmonumenten (Society for the Preservation of Nature in the Netherlands), Staatsbosbeheer (National Forest Service), WWF and the representative of Conservation International in the Netherlands.
  - The National Postcode Lottery (NPL) has made two earmarked grants of €0.5 million in January 2004 and almost €2 million in January 2005, to be spent over a three-year period.
4. *In future years the **National Postcode Lottery (NPL)** will play a key role in providing longer-term funding to cover the running costs of the parks (**track 1**).* For the time being, the NC-IUCN is acting as the required intermediary NPL-beneficiary for DCNA; in the longer term this role may be taken over by De Landschappen if it agrees to the status of the Antillean parks as the thirteenth landscape within the Kingdom. An alternative option is that NC-IUCN helps the DCNA to achieve independent beneficiary status. An annual contribution by the NPL in the order of €1 million seems realistic. The intention is that the NPL contribution will be divided between the park management NGOs and their umbrella organisation, the DCNA, according to their needs. This would be based on the costs incurred by the DCNA umbrella organisation and the annual individual deficits in the standardised basic budgets of the park management NGOs.
5. *An essential element in the strategy for achieving sustainable funding for conservation management is the establishment of a **Trust Fund (track 2)**.* The Trust Fund should be managed conservatively to guarantee stability over the long term. Once the fund has reached a sufficient size an adequate level of management can be guaranteed on all the islands under normal

conditions; 'bare minimum' management standards can be maintained during difficult years. Experience with conservation trust funds elsewhere in the world shows that the Antilles meet virtually all the legal, institutional and social criteria considered necessary for establishing a secure trust fund (GEF, 1998).

The decisive factor in creating a successful Conservation Trust Fund for the Antilles will be the willingness of donors to make capital contributions (see point 7). The first donor to make a commitment will put the Trust Fund in a position to demonstrate its effectiveness, reliability and transparency, and inspire other potential donors. In this respect, the NPL can play a key role in leveraging direct or indirect contributions from other parties; it could also contribute directly to the Trust Fund itself. The goal of sustainable funding for the nature parks on the Antilles would be brought that much closer if NPL and the Netherlands Ministry of the Interior agreed to combine their contributions, taking account of the constraints associated with government contributions to the Trust Fund. This would allow the Trust Fund to begin with an injection of capital.

6. *The Antillean governments should take their own share of the responsibility by ensuring the required legislative framework is in place and making a long-term financial commitment.* The legislative framework should provide the legal basis for establishing one terrestrial and one marine nature park on each island and for collecting user fees. However, regional competition and competing claims from other sectors (health care, poverty alleviation, public safety, etc.) mean that collecting tourist fees for conservation management purposes will inevitably meet with resistance. This should not be ignored. Nevertheless, it is important that the local authorities agree to make a structural commitment to funding conservation management, however modest. While the absence of a legislative framework and local co-financing will be interpreted by outsiders as a lack of support, the recent increase in diving fees in Bonaire, from US\$10 to US\$25 per year, and the interest in supporting the Trust Fund expressed by the Bank of the Netherlands Antilles are important positive signals. The chances of a structural contribution from the islands may be expected to increase when the governments see that their contribution is part of a wider strategy which based on a collective effort and also geared towards sustainable economic development. A realistic target is to cover about half of the required funds (approx. €1.2 million per year) from structural contributions from the island governments, fees and non-earmarked local donations (**track 3**). It should be noted that the financial capacity of the island governments and the opportunities for generating income on each island differ widely.
7. *The main capital donors to the most successful trust funds elsewhere in the world are **bilateral and multilateral agencies** (such as GEF and the World Bank) as well as **international nature conservation organisations** such as WWF and Conservation International. It is therefore highly important to obtain contributions from one or more of these parties in addition to the anticipated contribution from the National Postcode Lottery.* In the case of the Antilles, the bilateral and multilateral agencies and international nature conservation organisations are less willing to contribute in view of the prosperity of the Kingdom of the Netherlands as a whole. These organisations, therefore, cannot be expected to make a contribution to the Trust Fund in the short term, but in the longer term contributions from international foundations are conceivable if the Antillean nature parks participate in regional 'Hotspot' programmes or obtain the status of World Heritage Site.<sup>4</sup>

Only the Netherlands Ministry of the Interior and the EU are likely candidates for government support, but in both cases there are reservations on the grounds of budgetary policy. Nevertheless, it can be assumed that a contribution from the **Dutch Government**, possibly as part of a debt settlement with the Antilles Government, will be of great significance for the viability of the Trust Fund. A promising political signal was given in November 2004 when the Dutch Parliament adopted a motion calling upon the Government to make a substantial contribution to a conservation trust fund for the Antilles. A direct contribution to the Trust Fund will be the most effective option, but a combined contribution (with the NPL) as mentioned in point 5 is also

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<sup>4</sup> Conservation International has only recently started to examine the Caribbean islands in relation to its policy on Biodiversity Hotspots and has identified priority areas around the Netherlands Antilles. WWF is prepared to provide project support and has in the past made considerable contributions. Designation by UNESCO as a World Heritage Site could give access to support from the UN Foundation.

conceivable. This could be supplemented by support for multi-year projects and programmes (**track 4**) through governmental funding channels (SONA and EDF) as well as NGO channels (AMFO and EU budget lines). For this to happen, the integration of conservation management within sustainable economic development will have to move higher up the political agenda and receive wider attention within the multi-year development programmes.

8. The **private sector** (business community, individuals and investment funds) is a potentially good source of funds in various tracks, particularly in the form of earmarked or non-earmarked donations, sponsorships and contributions to a Trust Fund (tracks 2 and 3). Considerable time and effort will be needed to capitalise on the opportunities in the private sector, but this effort will be rewarded in the long term.

### **Trust Fund design and size**

9. Assuming a combined income of €1.17 million, an annual grant from NPL of €0.45 million and a return on investment of 6%, the Trust Fund would require a capital of €18.9 million to guarantee basic levels of park management on the islands.

Box 1 summarises the relevant calculations.

Trust Fund revenues will be divided between the participating park management NGOs according to a distribution key agreed by DCNA members (in the same proportions used to determine the basic financial requirements). Together with their own revenues and the contribution from the anticipated grant from NPL, these funds will more or less cover basic budget requirements. If there is sufficient support, the members of the DCNA could decide at a later stage to adopt a more detailed distribution key for the Trust Fund revenues that takes account of the differences in management costs and revenue-generating capacities of the individual islands, thus ironing out any major differences in the ability of the different islands to meet their basic financial requirements for park management.

### **Box 1 Financial scenario for calculating the annual target capital for a Trust Fund for the five islands of the Netherlands Antilles (excluding Aruba)**

|  | NAF               | €                 |
|--|-------------------|-------------------|
| <b><u>REQUIRED BUDGET</u></b>  |                   |                   |
| Annual 'basic' budget for 2 parks per island, plus basic operational costs of the DCNA   | 5,000,000         | 2,250,000         |
| <b><u>INCOME</u></b>   |                   |                   |
| Total island government contributions  | 360,000           | 162,000           |
| Total self-generated revenues  | 2,120,000         | 954,000           |
| Non-earmarked donations  | <u>20,000+</u>    | <u>54,000+</u>    |
|  | 2,600,000         | 1,170,000         |
| ANTICIPATED ANNUAL NPL CONTRIBUTION  | 1,000,000         |                   |
| TRUST FUND REVENUES  | 1,400,000         | 450,000           |
|  |                   | 630,000           |
| <b>Required Trust Fund (TF) target capital to achieve the desired return on investment</b>   | <b>42,000,000</b> | <b>18,900,000</b> |
| Assumptions: 6% rate of return on investment from TF capital, 0.5% TF asset management costs, TF administrative costs of NAF 150,000, and 1.8% reinvestment in the TF to compensate for inflation.<br>Assumed exchange rate: NAF1 = EUR 0.45 |                   |                   |

The target capital for the Trust Fund could be considerably lower if the NPL agreed to double its annual grant to €0.9 million. On the other hand, this would not improve the long-term funding situation. Even slightly higher rates of return on investments will also considerably reduce the amount of capital required. Table 2 shows the impacts of these changes.

**Table 2**  
*Trust Fund target capitals for different rates of return on investment and NPL grant sizes*

| Rate of return on invested capital | No NPL grant<br>(annual funding gap: €1.08 million) | Annual NPL grant of €0.45 million<br>(annual funding gap: €0.63 million) | Annual NPL grant of €0.90 million<br>(annual funding gap: €0.18 million) |
|------------------------------------|---|--|--|
| 6%                                 | 31 million  | <b>18.9 million</b>  | 6.1 million  |
| 8%                                 | 20 million  | 11.9 million   | 4 million  |
| 10%                                | 14,6 million  | 9 million  | 2,9 million  |

The scenarios presented in the report are based on an endowment trust fund option; in other words, only the returns on investment may be used. If a sinking fund or a mix of trust fund types is used, the target capital used to bridge the annual deficit may be considerably lower, but their annual contribution to the park budgets could not be sustained indefinitely without new capital injections in the medium to long term.

- The study provides a detailed design of the **institutional set-up** and a **legal and financial framework** for the Trust Fund. Instead of being a separate legal entity, the proposed Trust Fund will be established within the structure of the DCNA, since the advantages of this option outweigh the disadvantages. The disadvantages will be addressed by a number of specific checks and balances incorporated into the statutes of the DCNA. The most important of these are that not more than 50% of the DCNA Board (with between 10 and 14 members)<sup>5</sup> may be representatives of the park management organisations and that special voting procedures will be introduced for allocating financial resources. In addition, the specific grant agreement between the DCNA and a donor may be subject to additional provisions.

Although the aim is to establish a single Trust Fund for all the islands, it is more realistic to expect that some donors will want to earmark their support for certain islands or purposes. For this reason, the proposed umbrella structure for the Trust Fund includes a core Endowment Fund for all the islands, with the option of setting up special sub-accounts as endowments, sinking funds or revolving funds.

To gain and maintain the confidence of donors and to ensure the Trust Fund performs adequately, international standards for asset management will be applied (diversification, low-risk profiles) and professional international asset managers will be contracted. A Manual of Operations will contain detailed rules and procedures for the day-to-day operation of the DCNA and the Trust Fund, and donors will receive detailed technical and financial reports.

<sup>5</sup> The remaining 50% consists of independent experts from the private and public financial sector and representatives from international conservation organisations and from the Antillean Nature Forum.

### *The next steps*

11. The DCNA and the park management NGOs are advised to take the following **specific next steps**:
  - Prepare multi-year business plans for the nature parks, per island and for all islands together.
  - Elaborate and implement the proposed fundraising and communication strategy, including the production of attractive information materials.
  - Build a network of authoritative and influential people from the Dutch and Antillean political and business communities who are willing to act as ambassadors for Antillean conservation. They will help influence policies, broaden support and raise funds. A start has already been made with building this network and DCNA and NL-IUCN will continue to expand the network.
  - Prepare a project portfolio for fundraising purposes, including research into the economic valuation of Antillean biodiversity.
  - Link Antillean nature parks to regional Caribbean cooperation initiatives for Biodiversity Hotspots.
  - Strengthen staff capacity in fundraising, communication and management through training initiatives involving partner organisations in the Netherlands and the U.S.
  - Continue lobbying the local governments to complete the legal process for establishing at least ten nature parks and an adequate policy framework for user fees on those islands where they do not yet exist or are not yet operational.
  
12. The following factors are crucially important for the fundraising activities:
  - Building professional capacity within the DCNA for fundraising and financial management. The WWF and some banks are willing to give specific assistance to the DCNA to achieve this.
  - A convincing communication strategy and disseminating attractive information materials that not only clearly present the problems confronting the nature parks, but also the successes that have been achieved so far.

The design of the Trust Fund, the overall financial strategy and scenarios presented in the report and the proposed fundraising and communication strategy provide a firm basis for a sustainable financial future for park management on the Netherlands Antilles.

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