

**Feasibility Assessment of Marine Protected Areas
(MPA) Sustainable Financing Mechanisms for
the multi-national seascape of the Sulu Sulawesi
Seas Marine Ecoregion (SSME)**

**Sabah
Final Report**

PE Research

Planning & Economic Consultants

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The content of the report represents that of the authors and any errors or omissions remains the responsibility of the authors.

Acronyms

10MP	10 th Malaysia Plan
CBOs	Community-Based Organizations
CFA	Conservation Trust Funds
CGC	Guarantee Corporation Malaysia Berhad
CSO	Cost Sharing Options
CSR	Corporate Social Responsibility
CT6	Indonesia, the Philippines, Malaysia, Papua New Guinea, the Solomon Islands and Timor Leste
CTF	Conservation Trust Fund
CTI	Coral Triangle Initiative
CTMPAS	Coral Triangle MPA System
DOE	Department of Environment
DoFM	Department of Fisheries Malaysia
DVDs	Digital Video Discs
EEPSEA	Economy and Environment Program for Southeast Asia
EIA	Environmental Impact Assessment
EOF	Environmental Opportunities Fund
EPU	Economic Planning Unit
GDP	Gross Domestic Products
GEF	Global Environment Facility
HQ	Headquarter
HWW	Honorary Wildlife Wardens
ID	Identification
IDS	Institute for Development Studies (Sabah)
IFC	International Finance Corporation
IUCN	International Union for Conservation of Nature
KLCC	Kuala Lumpur City Centre
KPIs	Key Performance Indicators
M&E	Monitoring and Evaluation
MCS	Marine Conservation Society
MMEA	Malaysian Maritime Enforcement Agency
MOF	Ministry of Finance
MPA	Marine Protected Area
MRF	Marine Research Foundation
NEAC	National Economic Advisory Council
NGOs	Non-governmental Organizations

NSC	National Security Council
PA	Protected Area
PES	Payments for Ecosystem Services
PFI	Participating Financial Institutions
PPP	Public-Private Partnership
R&D	Research and Development
R&R	Rules and Regulations
REDD	Reduced Emissions from Deforestation and Forest Degradation
RM	Ringgit Malaysia
RPoA	Regional Plan of Action
SaBC	Sabah Biodiversity Centre
SDB	Sabah Development Bank
SEATRU	Sea Turtle Research Unit
SFM	Sustainable Financing Mechanisms
SGP	Small Grants Program
SIMCA	Sugud Islands Marine Conservation Area
SLUPS	Sabah Land Utilisation Planning Study
SIMs	Small and Medium-sized Industries
SRI	Strategic Reform Initiatives
SSME	Sulu Sulawesi Seas Marine Ecoregion
SWD	Sabah Wildlife Department
SWOT	Strengths, Weaknesses, Opportunities, and Threats
TOF	The Ocean Foundation
TOR	Term of Reference
UK	United Kingdom
UMT	Universiti Malaysia Terengganu
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UPEN	State Economy Planning Unit (<i>Unit Perancang Ekonomi Negeri</i>)
US	United States
USAID	United States Agency for International Development
VCDs	Video Compact Discs
WCPA	World Commission on Protected Areas
WTP	Willingness to Pay
WWF	World Wildlife Fund

Feasibility Assessment of Marine Protected Areas (MPA) Sustainable Financing Mechanisms for the multi-national seascape of the Sulu Sulawesi Seas Marine Ecoregion (SSME)

Executive Summary

The Malaysian government is a member of the CT6, a group of six nations that surround an area called the Coral Triangle, which has one of the highest marine biodiversity in the world. The CT6 have agreed to establish a *comprehensive, ecologically representative and well-managed region-wide Coral Triangle MPA System (CTMPAS) in place -- composed of prioritized individual MPAs and networks of MPAs that are connected, resilient, and **sustainably financed**.*"

Within the CTI, the SSME has been recognized as a priority seascape. During the 2009 Tri-Com meeting, they have committed to develop the financial sustainability of SSME. Malaysia participates in the CTI and Tri-Comm meetings and contributes to their process.

The Malaysian government will contribute by conducting a sustainable financing feasibility assessment of MPAs in the SSME region. This report by WWF is an input to developing financial sustainable mechanisms for meeting the projected funding needs and gaps of MPAs in the Malaysian part of the SSME.

The Sabah Ministry of Tourism, Culture and Environment set up a committee to participate in the study. The Committee met four times between January and May 2010 to discuss the procedures, findings and policy implications of the study. Various government and non-government organisations cooperated with data and information on the financing situation and the potential for introducing new financing mechanisms.

Sabah Parks and Sabah Wildlife Department are the two key organisations in-charge of five MPAs within the SSME area. Although both are government agencies, they have different accounting systems. Sabah Parks is a corporate entity with their own accounting system and can compile park level data. Sabah Wildlife is a government department within a Ministry and their accounting system is part of the overall Ministry's accounts, and therefore cannot provide park level data. The Sabah Wildlife Department has outsourced the management of islands to a private firm called Reef Guardian.

Several other government agencies also provide services that benefit the parks (e.g. regulation of the fisheries industry, tourism, policy formulation, etc) but they also cannot account for the expenditures that accrue to the parks. Hence, estimates made in this study are under-estimates of the full cost of conservation.

FINANCIAL ASSESSMENT

The UNDP Financial Sustainability Scorecard was used to analyse the financial sustainability of the SSME Parks. The results of this analysis are interesting as this is the first time such an analysis has been done.

The analysis of the five MPAs within SSME shows an annual shortfall or financing gap of RM1.0 to RM1.15 million in 2009 at the basic level, out of an annual expenditure of about RM6 million, indicating a gap of about 20% of the annual operating expenditures. At this level of financing, the parks merely operate within the budget. Their activities do not meet their conservation objectives. Critical activities that require funding include R&D, training, park management plans, and the capacity to engage with other stakeholders, e.g. private sector or local communities. To meet conservation objectives, Sabah Parks and Reef Guardian estimated that they need an additional RM6.25 million and RM0.96 million respectively over the next five years.

Sabah Parks and Reef Guardian have very different revenue profiles. **About 80% of Sabah Parks' revenue is from government allocation mainly from Sabah State, 8% are from site-level fees and charges, and 11% from international donors (public and private donors).** A Parks Fund has also been created solely for Sabah Parks' use, and the main source of income is from their income/revenue mainly from tourism. **In the case of Reef Guardian, about half the revenue is from site level fees and the other half from international donors.**

INSTITUTIONAL, LEGAL AND REGULATORY FRAMEWORK

Using the UNDP Scorecard the Sabah Committee made a self-assessment. The key findings are that the main laws and institutional basis for levying fees and charges are deemed to be in place. The financial policies are also considered to be comprehensive although there are areas for improvement. Financing allocations were acknowledged to be weakly linked to the conservation objectives (Sabah Parks).

In terms of business planning for the MPAs, some shortcomings were identified. Financial planning needs improvement. Two of the MPAs do not have a management plan. Training of MPA staff is lacking. A proper monitoring and evaluation system is absent. A fee collection system is absent in two parks. Information sharing between parks is non-existent.

SUSTAINABLE FINANCING MECHANISMS

As for tools for revenue generation, diversification of financing sources of conservation is needed even though the basic systems are in place. There is an annual process of state government budgeting and fund disbursement. Sabah Parks has the capacity to set fee rates, and collect revenue. There are concession agreements for SIMCA management (Reef Guardian) and accommodation on Turtle Islands (Crystal Quest).

A diversification strategy of funding is critical to the ability to carry out core conservation functions. Raising sufficient funds for proper management of the MPAs is the top priority as is closing the financing gaps under the basic (current) and optimal (desired) scenarios.

The main recommendations of the study can then be categorized as short term and medium term. Short term solutions require little change to the status quo but merely to put more effort to pursue current funding sources in a more efficient and cost-effective manner. Medium term solutions require changing the way "business is done", and this will

require new policies, new laws or regulations, or greater inter-agency collaboration efforts, or even reforming financial accounting system, etc. The specific action points at the national, state and park level proposed are illustrated in the report (see Figures 7 and 8 under Section 4.4).

IN THE SHORT TERM

The first group of proposals is for the government to recognise the need for MPA conservation and to achieve goals with additional federal financing support. The development planning process provides avenues and channels for financing conservation activities that would achieve long term sustainable use objectives (10MP). A specific proposal is to provide conditional funding for conservation efforts in SIMCA if they meet certain sustainability criteria. The concession model (SIMCA) should be reviewed to see how conservation efforts could be met while pursuing economic objectives in a sustainable manner. State government financial contributions to MPAs can also align conservation efforts with sustainable development goals.

The second group of proposals is to ensure more site level contributions to conservation efforts. In this regard, site level fee rates and structures should be set at par with the willingness to pay in areas where tourists go. A voluntary contribution system could also be set up. Additionally, the entry fee system and other related fees should be extended to the Tun Sakaran Marine Park and the Tun Mustapha Park.

A third set of proposals is to seek international funding on a more aggressive basis as the appetite for protecting areas of high conservation value is high, and the potential for conservation is still great. The respective agencies in-charge should put in more applications and do the necessary follow-up.

The fourth set of proposal promotes cost sharing initiatives in order to minimize environmental impacts. These include engaging the private sector through subsidized loans and communities in the form of co-management initiatives or microfinance.

The study also include recommendations for new mechanisms to be explored such as cause related marketing, and establishing partnerships for species conservation and earmarked taxes while enhancing existing mechanisms by reviewing concession agreement models.

OVER THE MEDIUM TO LONG TERM

It is important to pursue other revenue sources and instruments. The key areas include: biodiversity offset payments, payment for ecosystem services, revenues from aquaculture and wildlife trade, and fines for environmental damage as well as a conservation trust fund that targets international sources of funding. Various studies are needed to examine areas where critical changes are needed, e.g. laws, regulations, property rights, inter-agency collaboration, the framework for bio-prospecting and access and benefits sharing, etc.

A SWOT analysis of the conservation financing of MPAs reveals the strengths to be in the high conservation value of the marine resources and the high tourism potential which could be tapped as a source of financing contribution. The opportunities for improving conservation financing lie in the government's policies, particularly the 10th Malaysia Plan and the state government's recognition of the uniqueness of these areas, and also the international interest in conservation. However, weaknesses lie in funding, institutional coordination and a complete knowledge of the biodiversity in the area. And threats to the

conservation of the marine ecosystem lie in the large numbers of people living in some of the MPAs as well as in potential overharvesting of its resources.

RECOMMENDATIONS

The key policy recommendation is to seek the Sabah government's consent to adopt sustainable financing as a key policy objective for MPAs, including for the SSME area.

Two institutional recommendations are for UPEN Sabah to lead in formulating the strategies, programs and plans for achieving the sustainable financing policy objective and for a network of institutions, led by the Ministry of Tourism Culture and Environment to develop the programs to achieve the desired conservation policy goals.

Eight action plans/pilots are proposed. They include:

- Develop plans for sustainable financing of MPAs including extending the fee collection systems and enhance the present system and operations of park fees.
- Develop a case for entry fees to be retained on-site (esp. for Sipadan),
- Preparing a robust case for development funding from the federal government through the various platform such as Malaysia Plan and improving information availability on funding gaps for leveraging more funds
- Prepare basis for greater international funding,
- Examining the potential for extending the concession model (public-private partnership),
- Designing appropriate management response to development pressure and,
- Mobilizing stakeholders to contribute towards more diversified sources of SFM for MPAs
- Tabling these findings to the Tri-Com meetings of the CTI/SSME.

1. Background

The Feasibility Assessment of Marine Protected Areas (MPA) Sustainable Financing Mechanisms (SFM) for the multi-national seascape of the Sulu Sulawesi Seas Marine Ecoregion (SSME) study is part of the SSME Tri-Com commitment to strengthen MPA financial sustainability. The SSME, an extremely high biodiversity conservation area is situated within the Coral Triangle Initiative (CTI) and has been recognized as a priority seascape of the CTI (see Map 1). The CTI is a regional initiative comprising six countries: Indonesia, the Philippines, Malaysia, Papua New Guinea, the Solomon Islands and Timor Leste (CT6) to ensure the sustainable management of marine and coastal resources in the region, being one of the world's greatest wealth of marine and coastal biological resources.

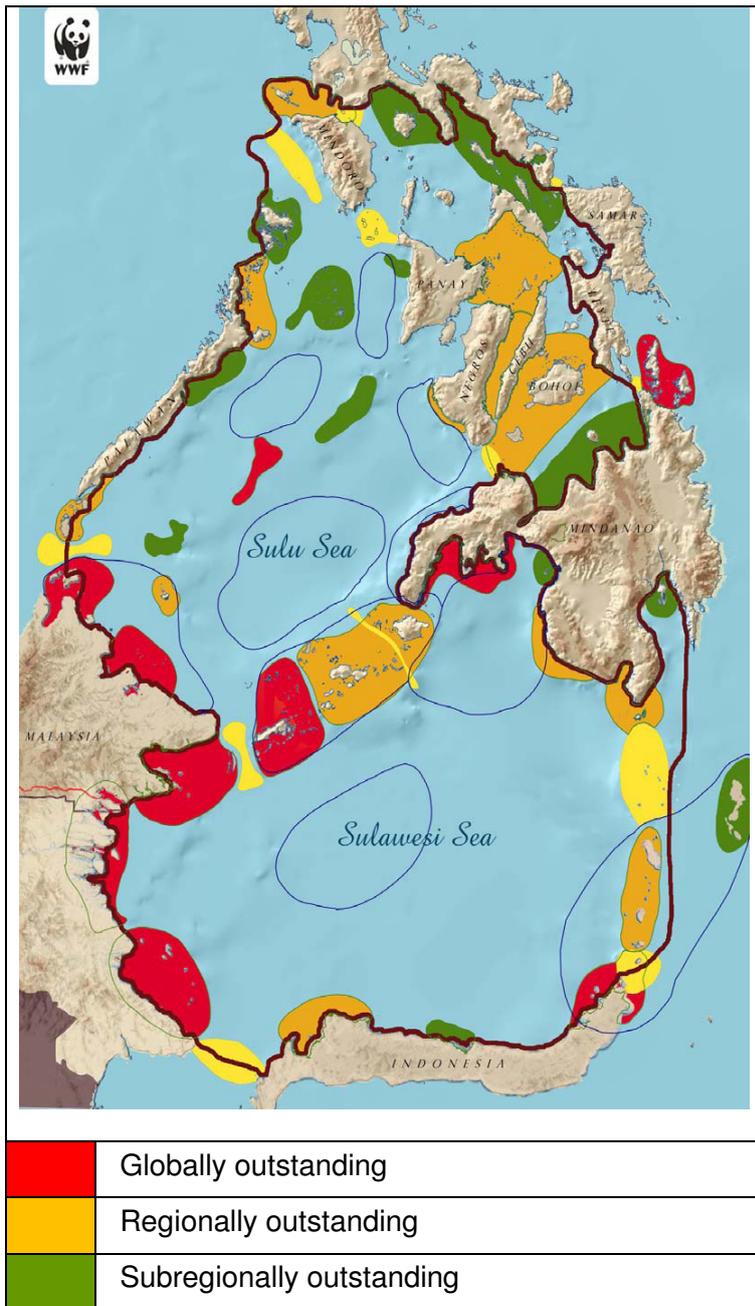
The feasibility assessment on sustainable financing mechanisms is based on the CTI Regional Plan of Action's (RPoA) and SSME goals related to MPAs (see Box 1 for Goal #3 and Principle #4). Findings from the study will be communicated at the next SSME Tri-national Committee meeting for decision to further develop some of the recommendations.

Box 1: Excerpts from the CTI Regional Plan of Action

Goal #3 (on MPAs) states that the CT6 governments are committed to achieving, by 2020, the following target: *“A comprehensive, ecologically representative and well-managed region-wide Coral Triangle MPA System (CTMPAS) in place - composed of prioritized individual MPAs and networks of MPAs that are connected, resilient, and **sustainably financed.**”*

Principle #4 in the RPoA, states that *“Relevant existing forums should be used to implement actions under the CTI. These include the tri-national commissions on the Sulu Sulawesi Seas (SSME)”*.

This first assessment, undertaken in Malaysia is aimed at defining the baseline of existing SFMs, evaluates lessons and experiences from respective SFM application and identifying potential developments and pilots of SFMs based on funding gaps. Specifically, the assessment involves i) identifying funding needs and gaps of MPAs in SSME; ii) analyzing existing financing mechanisms iii) assessing the feasibility of various mechanisms to support funding gaps (this includes expansion of existing SFMs and establishment of new SFMs if needed, and assessment of legal, regulatory and institutional reforms required to achieve financial sustainability); and iv) finally to recommend potential sustainable financing options for endorsement by SSME stakeholders.



Map 1: Map of the SSME

Source: http://assets.wwfmalaysia.inga.bluegecko.net/downloads/ssme_map.pdf

1.1 Study Objectives

The objectives of the study are outlined below.

1. Assess knowledge of financial needs for MPAs in the Malaysian part of the SSME seascape, analyze current and projected funding needs and financing gaps, and recommend steps to assess financing gaps;

2. Map out financing mechanisms (SFM) supporting MPAs and cost sharing options (CSO) that are already in place within Malaysia and analyze successes/ challenges and degree of financial sustainability;
3. Analyze the feasibility of potential sustainable financing mechanisms and cost sharing options and develop a SWOT analysis in the context of the Malaysian part of the SSME;
4. Assess institutional, legal, and regulatory framework and landscape for the development of MPA sustainable financing mechanisms;
5. Identify key stakeholders and help to raise awareness of the challenges and possible actions that could be taken in regards to MPA sustainable financing;
6. Recommend potential sustainable financing mechanisms, steps and process for addressing MPA sustainable financing needs to be endorsed by SSME stakeholders.

1.2 Definition and Rationale

Financial sustainability is defined as the ability secure sufficient, stable and long term financial resources to cover the full costs of MPAs and to ensure that MPAs are managed efficiently and effectively with respect to conservation and other objectives¹.

The International Union for Conservation of Nature (IUCN)'s definition of MPAs covers any area of intertidal or subtidal terrain, together with its overlying water and associated flora, fauna, historical and cultural features, which has been reserved by law or other effective means to protect part or all enclosed environment (Kelleher and Kenchington, 1992). The main aims of MPAs based on IUCN's guidelines are to i) maintain essential ecological and life support systems; ii) to ensure the sustainable utilization of species and ecosystems; and iii) to preserve biotic diversity.

MPAs provide important economic benefits to local communities, economic operators such as the fishing industry, tourism industry, mining, etc; as well as national and global communities due to the existence and role of biodiversity. In order to accord proper and effective management to MPAs, the reality of substantial costs and high investment requirements to sustain these MPAs are often sidelined. In order to sustain the flow of benefits of MPAs it is critical to ensure that sufficient resources are accorded towards effective management of the MPAs. Application of financing mechanisms requires the identification of users and beneficiaries of MPAs. This provides opportunity and encourages these stakeholders to contribute and participate in the maintenance of well-managed MPAs.

1.3 Approach

The Ministry of Tourism, Culture and Environment Sabah played a major role in coordinating and hosting the study workshops. In order to capture the full spectrum of MPA management and financing, a broad range of key agencies were invited to participate at the workshops. At the onset of the first workshop, it was agreed that two separate committees would be set up. The committees set up and relevant agencies that were involved are presented in Box 2.

¹ http://www.ebdf.org/ebdf_files/protected_area.html (viewed 24 February 2010)

Box 2: Steering and Technical Committee

Steering Committee	Technical Committee
<ul style="list-style-type: none"> • Ministry of Tourism, Culture and Environment, Sabah • Economic Planning Unit, Sabah • Ministry of Finance, Sabah • Sabah Parks • Sabah Wildlife Department • Sabah Fisheries Department • Sabah Forestry Department • Sabah Biodiversity Centre • Sabah Lands and Survey Department • Sabah Tourism Board 	<ul style="list-style-type: none"> • Ministry of Tourism, Culture and Environment • Sabah Parks • Sabah Wildlife Department • Sabah Fisheries Department • Sabah Forestry Department • Sabah Biodiversity Centre • Sabah Lands and Survey Department • Sabah Tourism Board

A total of four workshops and interviews of 20 people were held from the period of February to May 2010. The workshops provided the platform to assess the financial gaps and needs of different agencies based on the UNDP Scorecard while the direct interviews provided the avenue for identifying existing and potential mechanisms. The feasibility of these mechanisms and background information regarding policies and legislations of the relevant MPAs were also discussed at the interviews. Workshops and interviews conducted are listed in Table 1.

Table 1: List of Workshops and Interviews

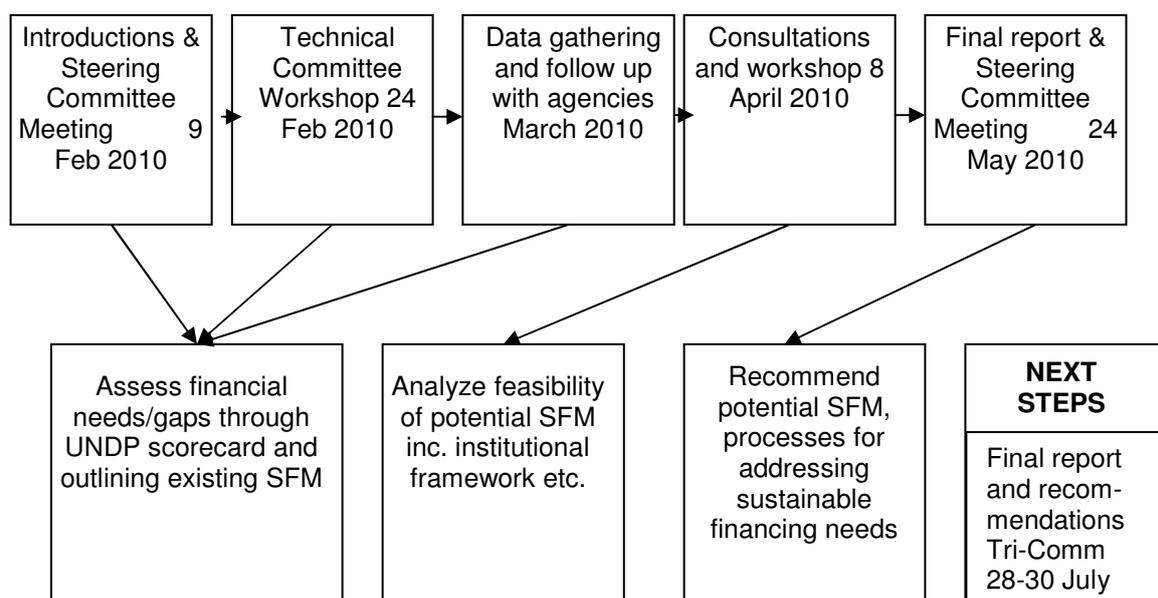
No.	Activity	Date
Workshops		
1	Introductory and Steering Committee Workshop 9 February 201	9 Feb 2010
2	Technical Committee Workshop 24 February 2010	24 Feb 2010
3	Technical Committee Workshop 8 April 2010	8 April 2010
4	Steering Committee Workshop	24 May 2010
Interviews		
1	WWF-Malaysia, Mr Kevin Hiew, Mr Ken Kassem, Marine Coordinator for Sulu-Sulawesi Marine Ecoregion & Peninsular Malaysia Seas programmes	4 April
2	Sabah Wildlife Department, Dr Laurentius Ambu, Director	5 April
3	Sabah Parks , Mr Paul Basintal, Director Mr Ludi Apin, Deputy Director Mr George Gangko, Accountant Mr Fazrullah Rizally Abdul Razak, Park Manager	5 April
3	Sabah Fisheries Department, Dr. Norasma Dacho, Head, Marine Operations	6April

No.	Activity	Date
4	Marine Conservation Society, UK, Ms Helen Brunt, Sabah Coordinator, Semporna Islands Darwin Project	6 April
5	Ministry of Finance, Ms. Janice Lim, Undersecretary, Finance and Economy Division Ms. Evina Brenda Majimbun, Officer, Finance and Economy Ms. Junie Doris Yapp, Officer, Budget Division	6 April
6	Sabah Economic Planning Unit, Ms. Teo Poh Loon, Deputy Director Pn. Shamsiah Hj. Jirat, Head of Tourism, Natural Resources and Environment.	7 April
7	WWF-Malaysia, Dr. Rahimatsah Amat, Chief Technical Officer for Borneo Programme	7 April
8	Reef Guardian, Ms. Achier Chung Fung Chen, Marine Biologist (phone interview)	20 April
9	Marine Research Foundation, Dr. Nicolas J. Pilcher, Founder & Executive Director (via email)	23 April
10	Melinda U, WWF-Malaysia, Manager of Fundraising Dept.	19 April
11	Sabah Biodiversity Centre (via email) Dr. Abdul Fatah Bin Amir, Director Mr. Syahrin Samsir, Conservation Management Division	20 May

In addition, the study undertook literature review based on sources from the internet and reports of existing financing mechanisms and profile of the SSME marine parks.

The process of the project activities is illustrated in Figure 1 below.

Figure 1: Process and Project Schedule



1.4 Background of MPAs

There are five MPAs on the Malaysian side of the SSME out of 64 MPAs in Malaysia. All are located in the State of Sabah (see map of Sabah). Table 2 presents background details of the MPAs in terms of area, agencies managing the parks and legal instrument that accord protection to the parks. Sabah Parks and The Sabah Wildlife Department are the two main agencies overseeing the management of the SSME MPAs in Malaysia.



Map 2: Map of Sabah

Source: <http://www.malaysia-maps.com>

Table 2: Summary of MPA Background Details

No.	MPA	Marine area (ha)	Land area (ha)	Agency	Legal instrument
1	Turtle Islands (1977)	1,721	18.2	Sabah Parks	<i>Parks Enactment of 1984</i>
2	Tun Sakaran Marine Park (2004)	33,732	1,268	Sabah Parks	<i>Parks Enactment of 1984</i>
3	Sipadan Island Park	16,860 (check)	13.5	Sabah Parks	Land gazetted Marine area – in the process
4	Sugud Islands Marine Park (2001)	46,300	17	Sabah Wildlife Department	<i>Wildlife Conservation Enactment of 1997.</i>
5	Tun Mustapha	~1.03mill	>50 islands	Sabah Parks	<i>In the process</i>

Sabah Parks manages the Turtle Islands, Tun Sakaran Marine Park and Sipadan Island Park will be the lead agency to manage the Tun Mustapha Park in the process of being gazetted. MPAs overseen by Sabah Parks are managed according to the Parks Enactment 1984. Tun Sakaran and Tun Mustapha Park are considered multiple use parks as communities live within the parks. Relevant agencies in Sabah such as Fisheries and Forestry Department are committee members of the committees are the Tun Sakaran Management Plan Advisory Committee and the proposed Tun Mustapha Park Interim Steering Committee, providing inputs on respective aspects of parks management.

The Sugud Islands Marine Conservation Area (SIMCA) was gazetted under the Wildlife Conservation Enactment 1997 in 2001. No communities inhabit SIMCA though fishers from the mainland fish in the area prior to the gazette. Reef Guardian a non-profit entity has been appointed to manage the SIMCA area through a concession lease. A brief profile of the both the management agencies are discussed in Section 2.

1.5 Layout of this Report

This report has five chapters. The next chapter, Chapter Two describes the institutional and financial framework for conservation with a focus on the financing aspects. Chapter Three discusses the State's performance in terms of conservation financing. Chapter Four examines the potential for other financing options for conservation, especially exploring the new and more innovative mechanisms. Chapter Five then summarises the main findings, draws some conclusions for the study, and outlines some recommendations for sustainable financing for conservation in Sabah's SSME area.

2. Institutional and Policy Framework for Conservation Financing

2.1 Introduction

This chapter describes the institutional and policy framework for conservation financing in Malaysia and Sabah. The financial structure, as in the revenues and expenditures of the government, is based on the Malaysian Constitution.

Malaysia has a federated system of government with a central (federal) government, 13 state governments and more than 150 local governments. The institutional framework is defined by the Malaysian Constitution, which sets out the powers and responsibilities for each level of government. Both the federal and state governments are sovereign entities and they can make laws with respect to the powers allocated to them, and that includes revenue generation as well as their spending policies. Annex 2 shows the list of responsibilities for the three levels of government as specified under the Constitution.

The federal government and the state government have similar institutional structures, with an Economic Planning Unit at the apex of government institutions that takes care of development strategies and funding priorities, and the Treasury managing the annual financing requirements of the government. Below this level, the ministries have their own portfolio of responsibilities, whether at the federal or state level. Ministries would have their own departments to manage or operate their respective area of responsibilities.

2.2 Institutional Framework for Conservation

As governments are sovereign entities they can create assets under their responsibility and management. In the area of conservation, the federal government has created the marine parks they manage and operate. Similarly, state governments have also created state parks for conservation. The management of these parks are assigned to a Department or Unit (at the federal or state level). Alternatively, a separate entity could be created to run the park. Hence, there can be different types of entities that run and manage parks even within each level of government. In the case of Sabah, the Sabah Wildlife Department is assigned the responsibility to manage SIMCA. Sabah Parks, an institution of the state, was created to manage various terrestrial and marine parks. Where an area of special interest has been recognized but no agency has been assigned, usually the local government will first take the responsibility to manage certain aspects under their jurisdiction.

Other stakeholders are also important in their own ways. For instance, the private sector may operate and run the parks on behalf of the government. Local people living within a park can influence how the park's resources are used or conserved. NGOs can and have assisted the government in the area of conservation: some have operated and managed parks, others have raised funds for conservation, and others provide support, for instance in park planning or building capacities of government and people, etc.

In Malaysia, it is important to distinguish whether a conservation area is gazetted under federal laws (i.e. a federal park) or under state laws (state parks) as it determines the financial framework for conservation.

2.3 Financial Framework for Conservation

To appreciate the financial framework for conservation, it is important to know something about the financial structure of government.

The federal government is empowered under the Constitution to collect taxes, both direct and indirect, on economic activities, but their sources of revenue also include non-tax revenue, other receipts and revenue from the Federal Territories.

Direct taxes include company and individual income tax, petroleum income tax, real property gains tax and stamp duty. Indirect taxes include export and import duties, excise duty, sales and service tax. Non-tax revenue includes fees and charges on permits issued, rental of government premises and interest and returns from investments, fines and penalties. Miscellaneous receipts include refunds from government agencies as well as revenue from the Federal Territories (Labuan, Putrajaya and Kuala Lumpur)².

All revenues collected by the federal government goes into a federal consolidated fund from which it is then disbursed according to national priorities as defined by the approved Malaysia Plans (development budgets) and by their operational responsibilities (the operating budgets). Funding for MPAs go through this process. A similar framework operates at the state level. In addition, due to the central planning system, the federal govt provide the states with grants for each financial year: capitation and road grants (under Article 109 of Federal Constitution). States that have oil and gas resources also get additional royalty revenues, estimated at 5% of the price of oil resources extracted.

The Constitution provides that states shall collect taxes on land and natural resources. In Sabah all revenue³ from land (direct tax), mines and forests, as well as receipts of water rates (indirect tax) will accrue directly to the state's budget, which is sovereign and not linked in any way to the federal government's consolidated fund. Sabah also has a provision that allows sales taxes originating from land-based economic activities within the state to go to its coffers (non-tax revenue). There is also a category known as non-revenue receipts which consist of mainly the federal government transfers, i.e. the federal-state transfer payments, such as the capitation grant, and other contributions or grants to implement federal projects. There is a State Consolidated Fund into which all government revenue are directed.

The following are some characteristics of the Sabah state budget⁴.

- a) Of the RM1.58 billion Sabah state revenue in 2006,
 - 8% from land-based activities (mainly land taxes and dealings);
 - 46% from natural resources sectors (eg. Petroleum, forestry, fisheries);
 - 26% from agriculture sectors (e.g. sales tax from palm oil); and
 - 20% from others (e.g. federal government contributions, indirect taxes, income from investments and interest payments and rental of government buildings).
- b) Two key observations are pertinent:

² Department of National Accounts, Ministry of Finance (2006). Federal Public Accounts 2006.

³ Sabah (2006), Estimates of Revenue and Expenditures for the Year 2006

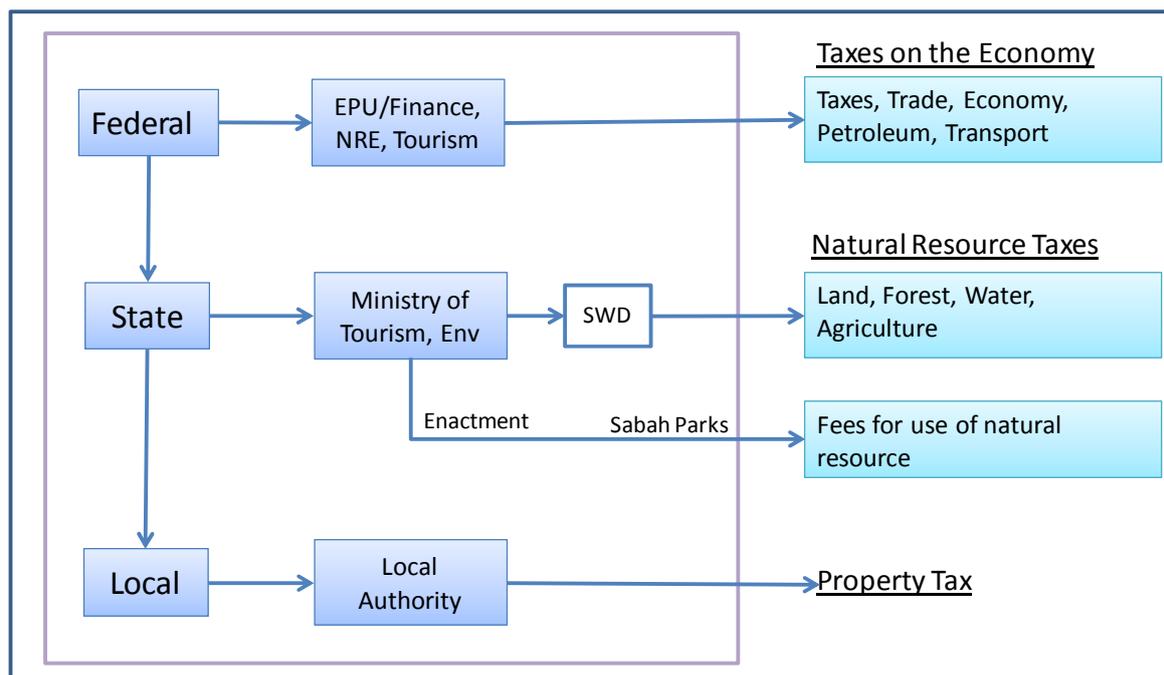
⁴ Sabah Land Utilisation Planning Study (SLUPS, 2008), economic section drafts (mimeo)

- Sabah is highly dependent on natural resources and agriculture sectors;
- It is highly dependent on indirect tax (30%) and non-tax revenue (56%) and almost minimal on direct tax sources⁵ (86% against 2%).

As for the Local Government, their main source of revenue is from property taxes, which make up about 50-70% for their annual revenue⁶.

Figure 2 shows the institutional framework for the government's sources of revenue.

Figure 2: Institutional Framework under the Federal Constitution



There are also exceptions to government revenue that does not go into their respective consolidated funds, and it applies to earmarked funds, which are called Trust Accounts or Trust Funds⁷. Most of these accounts and funds are created to handle specific activities and are defined by the Financial Procedures Act, 1957.

Malaysia practices centralised planning in so far as public sector budgets are concerned. Revenues collected by the federal government are distributed according to development planning priorities. This happens every five years with the Malaysia Planning exercise. The Ninth Malaysia Plan, 2006-2010, is concerned with development strategies at the national level, and allocates the financial resources based on those priorities.

On 10 June 2010, the 10th Malaysia Plan which was tabled to the Malaysian Parliament, gives priority to the conservation and sustainable use of marine resources in the CTI, and enhancing the management capacity to track changes in marine habitat.

⁵ Note the remaining 12% comprise of non-revenue receipts from come mainly from federal government contributions to the state (capitation grants, road contributions, etc.)

⁶ EPU-Danida (2005). Assessing the cost and revenue options for solid waste management in Sabah, a report of workshop on Solid Waste Management Financing Strategy, Kota Kinabalu, Sabah

⁷ EPU-Danida (2007). Conservation Financing in Malaysia, draft report

This system of separately accounting for the development and operating expenses is likely to be changed in future Malaysia Plans that want to consider a more holistic manner of funding, i.e. operating budgets are automatically available when the development funding is given.

2.3.2 Financing Conservation at the State Level

For state parks or parks created by the state, the state government pays for the expenses that are required for their establishment, operation, and management which is the case of SSME MPAs. The federal government could also pay for the development aspect, provided that they are approved in the usual Malaysia Planning exercise (once every five years). But the state government is responsible for the operating and maintenance of those assets. The State's Ministry of Finance disburse funds that have been approved by the State Economic Planning Unit.

There are two different "models" of financing in Sabah, consistent with their institutional make-up. Sabah Parks is a corporation under a state legislation, with their own set of financial accounts. They still get their operating funds from the state government, and interestingly cover any shortfall in allocation from the Parks Fund. Sabah Wildlife Department is a state government entity, and their financial accounts are consolidated at the state level. Even more interesting is that Sabah Wildlife Department has elected to outsource the management of their marine reserve via a concession agreement. The two systems are described below.

i) Sabah Parks

States are also allowed to set up earmarked funds, known as State Trust Accounts or Trust Funds. In Sabah's case, the "Parks Fund" was set up in 1984 via a state enactment known as the Sabah Parks Enactment 1984 (Sabah No.6 of 1984). The Fund can receive money from gifts, income from investments, fees and charges imposed on users, etc. and so far the main source of funding comes from tourism,

Sabah Parks go through a two year financial application process. Site managers at each station prepare their budget requirements (usually based on last budget) and table it to the Sabah Parks Committee. Internally Sabah Parks have the following committees - Finance, Planning and Development, Human Resource, Audit and Examination. After being revised by the Finance Committee, the budget proposal is then presented to the Sabah Parks Board before being submitted to the Ministry of Tourism, Culture and Environment and finally to the Sabah Ministry of Finance. A Budget Hearing is called to justify the basis for the expenditures. The actual allocation provided often falls short from the proposed budget. Based on the shortfall of the state allocation Sabah Parks minimize expenditures by streamlining activities and covering the rest with the Sabah Parks Fund.

ii) Sabah Wildlife Department (SWD)

For the Sabah Wildlife Department, they are empowered to collect fees via the Fees Enactment 1981. SIMCA is managed by Reef Guardian, a non-profit private entity through a concession agreement between Reef Guardian and the Wildlife Department. Almost all of the management and operational costs are undertaken by Reef Guardian. The concession between Sabah Wildlife Department and Reef Guardian can be reviewed every five years. Reef Guardian pays an annual concession fee of RM60,000. In turn, Reef Guardian received RM49,583 in sub-lease fees from Lankayan Island Dive Resort and Billean Lankayan Resort in 2007. Reef Guardian depends heavily on the RM20/tourist/night fee collected from visitors to SIMCA for park management. Usually, shortfalls for park management are supplemented by the Pulau Sipadan Resort, the company that established Reef Guardian. The Sabah Wildlife Department positions two officers at SIMCA to assist with monitoring and enforcement work. Reef Guardian is

seeking ways to diversify their funding sources and have obtained grants from Conservation International and The US National Fish and Wildlife Foundation in the last few years, including looking at ways to receive more sustainable funding and expect to develop different pilots including the increase of fees. Sabah Wildlife Department and Reef Guardian are in the process of setting up a SIMCA Management Board.

2.4 Other Sources of Conservation Financing

In addition to the development and operational budget which are allocated by the government (federal and or state), the MPAs in Sabah also have the following sources of funding:

- i. Entry fee or charge
- ii. Permits and concessions for utilising natural resources in the PA – fishing license, hunting license or for providing services; and
- iii. Fees for services/activities that are provided – boating fees, guide fees, accommodation, food & beverage, photography, etc;
- iv. Other sources – donations, grants, sponsorships
- v. Fines and compounds.

To date, Sipadan, the Turtle Islands, and SIMCA collect entrance or visitor fees but the Tun Mustapha and Tun Sakaran marine parks do not.

NGOs have also raised funds for conservation activities. NGOs, such as WWF Malaysia, have provided assistance in helping to define new parks, such as the proposed Tun Mustapha Park, and also helped in other areas, such as the Semporna project. The Marine Conservation Society has raised funds to support the management of the Tun Sakaran Marine Park.

There also have been government-to-government projects, such as Danida's assistance in sustainable financing for conservation activities that have provided resources for capacity building and institutional strengthening in the area of biodiversity conservation and environmental planning and management.

2.5 Conservation Financing Policies

As the government is the main financing source for conservation, there is no specific national or state-based conservation financing policy since the government does not formulate a policy for an activity which it carries out itself.

The unstated rule is that all agencies have to operate within the budget that they have been allocated. As such, if the state coffers were low, then the allocation would also be low, and agencies have to find a way to manage within that constraint. As such, financial estimates of needs by agencies are not a true estimate of actual need.

Conservation institutions (ministries, agencies, NGOs) have come to realize that they have many needs and requirements that are not funded, and their priorities are not properly articulated. There has been some rethinking of this situation, and the EPU has issued a document entitled "Sustainable Financing and Management of Protected Areas: Options for Decision Makers" that provided some ideas for sustainable financing

strategies. It was the product of a Danida-assisted project in EPU on environmental planning and strategy.

The EPU-Danida document⁸ covers the following options / topics:

• **Governance:**

1. Improving coordination mechanism on protected area management;
2. Establish a Master list of all protected areas in the country;
3. Conduct resource and fiscal gap analysis; and
4. Review staff recruitment policies.

• **Sustainable financing strategies:**

Level and structure of entrance fees and user fees (7 options):

5. Revise level of entrance and user fees;
6. Implement differential pricing for foreign and local visitors;
7. Formulate fee structures for different market segments;
8. Introduce 'Peak / off-peak' pricing system;
9. Adjust User fees for inflation;
10. Allow park authorities to set user fees.

Alternative financing strategies (3 options):

11. Incorporate financing strategies into park management plans;
12. Diversify funding sources for protected areas; and
13. Extend (Federal) grant mechanism for protected areas.

Conservation Trust Fund (1 option):

14. Consolidate relevant trust accounts under one umbrella fund.

Source: EPU-Danida (2009). Sustainable Financing and Management of Protected Areas in Malaysia: Options for Decision Makers, a publication of the Environmental Planning & Strategy Component

The purpose of the document is intended for the conservation agencies to take into consideration new ideas and thinking on conservation financing, especially beyond that of the traditional manner of almost total dependence on the government for such purposes. However, it should be noted that while it advocates a larger role for entrance fees, it does not mention the newer instruments, such as PES, concessions, green investments, and carbon financing. Thus, it can be taken that this publication was tailored more to ideas that could be implemented immediately.

⁸ Source: EPU-Danida (2009) Sustainable Financing Strategies for Protected Areas in Malaysia: Options for Decision Makers, EPU-Danida Environmental Planning and Strategy Component

2.6 Financing Mechanisms in Sabah

Sabah has been in the forefront of using innovative financial mechanisms for pursuing conservation objectives in addition to their use of entrance and other user fees.

The Sabah Government has embarked on creating an innovative financing mechanism with the development of biodiversity offsets. It has signed a 50-year agreement with New Forests Ltd of Australia to create these offsets in one of its forest reserves, Ulu Segama-Malua, in eastern Sabah. The deal would see funds being raised for the sustainable management of the said forests, with the proviso that Sabah will benefit financially if the offset scheme is successful.

In yet another case, the Sabah Wildlife Department has also outsourced the management of a marine protected area (SIMCA) to a private company (Reef Guardian). In the “concession” agreement, the firm pays the State RM60,000 annually for the rights to tourism, and it also requires them to invest in conservation activities and protection of the marine park.

Thus, it can be seen that Sabah has implemented several mechanisms and shows potential for using innovative financing mechanisms.

3. Findings on Financial Assessment

This chapter describes the assessment of government institutions' financing needs and gaps for fulfilling their mandate on conservation of marine protected areas. Such an exercise was done via an institutional mapping exercise. The UNDP Scorecard on sustainable financing systems was used for making the assessment of the institutional capacity to analyse their current needs, identify financing gaps, and to rank their institutional and financing system for conservation of the marine ecosystem with respect to the SSME area.

3.1 Method Used and Data Availability

The UNDP Scorecard (August 2008 version) is a tool for helping institutions and governments understand the level of financial sustainability of protected area (PA) management. It is designed to capture data at the PA system level, not at site level. Thus, the Scorecard implicitly recognizes that the costs of managing PAs could arise from outside of a park, e.g. policy reform, raising funds, providing training, and perhaps even cross-subsidisation of management costs. Similarly, on the revenue side of the accounts, not all revenue would accrue from site-based activities. The Scorecard captures data at one point in time (snapshot) and intends to set a baseline if this assessment is carried out on a regular basis, ideally every year. However, it acknowledges that cost data over a period of time is more accurate (e.g. investments or large lumpy capital works).

There are three parts to the Scorecard. Part I analyses the financial information of the PA system. Part II assesses the financial sustainability of the system by looking at three components; the legal, regulatory and institutional framework; the use of tools for business planning and finally, the tools for revenue generation and mobilization. Part III computes the scores from the information submitted in Part II.

The data for the assessment was provided by the agencies in Sabah that are currently mandated to manage the parks. In essence, the financial information is coming from Sabah Parks, Sabah Wildlife Department and its concessionaire, Reef Guardian. Some of the information is furnished by WWF Malaysia, and other international NGOs that are actively supporting the marine ecosystem conservation in the SSME area. It should be mentioned that while the Scorecard seeks PA system level data, it requires site level details in terms of actual operations and also visitations and use of their resources.

It is important to note that the financial record keeping is different between these two organizations. Sabah Parks is a corporation (body corporate) enacted under the Parks Enactment, 1984. Sabah Wildlife Department is a department of the Ministry of Culture, Tourism and Environment. Sabah Parks keeps its own accounts, and hence, they can separate out the accounts for each site. Still, their records are based on activities, and not by site. Sabah Wildlife Department's accounts are kept at the department/ministry level. As they have outsourced the management of SIMCA to a private firm (Reef Guardian), the accounts of Reef Guardian is the appropriate set to view. The cooperation and supporting efforts of all agencies that have helped to compile their accounts data are acknowledged in this study.

Another important point to be appreciated is that the present system of financial data collection under-estimates the total cost of managing MPAs. Essentially, the data provided by Sabah Parks, Sabah Wildlife Department reflect only their costs. Services provided by other agencies for the marine parks are not accounted for. The Department of Fisheries for instance carries out enforcement which prevents over-harvesting of fishery resources and could thus benefit the park. But their contribution is not recorded in this system. While attempts have been made in the study to try to get an estimate of the enforcement effort, it was not an exercise that could be accommodated within this study. Similarly, the Sabah Tourism Board promotes tourism to all natural areas in Sabah, with associated costs and potential benefits to marine areas. The military forces provide security services to this part of Malaysia, which has many incidents of piracy and other problems. But the cost of those services is not captured herein.

Another important gap is the financial resources mobilized by the international NGOs in supporting the conservation efforts in the marine areas of Sabah. Such data is not fully reported in the accounts of Sabah Parks and Sabah Wildlife Department. A separate exercise was undertaken with the NGOs such as WWF Malaysia in order to compile their financial and other contributions to the marine areas, specifically in the SSME areas. As this is the first time such an analysis has been presented, it has stimulated discussion on how to take this new information to a policy level.

3.2 Assessment of Financial Needs

To undertake an assessment of the financial needs of the MPAs, the conservation objectives for the SSME area should be clearly stated. This is fortunately available from the Conservation Plan of the Sulu Sulawesi Marine Ecoregion⁹. The key objectives of the Conservation Plan are¹⁰:

1. *Sustainable utilization of natural resource;*
2. *Development of sustainable conservation-centred livelihood systems;*
3. *Enhancement of understanding of biodiversity resources and related factors;*
4. *Promotion and implementation of an integrated and coordinated protection of important species;*
5. *Establishment of a network of priority conservation areas to ensure ecological integrity;*
6. *Establishment of management strategies and coordinated institutions for effective ecoregion conservation;*
7. *Development of communication, education and outreach program and strategies to promote conservation;*
8. *Improvement of coastal, oceanic and other type of fisheries resources condition and management by developing a framework strategy, institutions and appropriate interventions;*
9. *Building and enhancement of the capacity of stakeholders to effectively manage the conservation of SSME; and*

⁹ WWF (2004). Conservation Plan for the Sulu Sulawesi Marine Ecoregion, WWF Sulu Sulawesi Marine Ecoregion Program, 2003

¹⁰ Note that these objectives were developed at a February 2003 workshop of 40 participants representing major stakeholders such as federal and state governments, researchers, businessmen, academicians, and local NGOs.

10. *Development of a sustainable financing mechanism to support cost of conservation and resources management.*

Part I of the Scorecard assesses the financial needs and gaps of the two important marine conservation agencies. There are nine (9) sections in this Part of the Scorecard, that include the number of sites, the budgets allocated, the revenues for MPAs, the expenditures and financing needs, as well as financial gaps.

Being agencies of the government, the standard practice is that budgets are planned annually, and the process involves activity planning and financial estimates. The budget process has been described in Section 2.3.2. After the budget approved, any spending above the allocation would not be taken very kindly. In the unlikely event that this does happen, most agencies would defer payment to next year as they make provisions to accommodate the extra expenses.

3.2.1 Sabah Parks

- Sabah State Government Budget to Sabah Park: RM4.2 million
- NGOs (WWF and MCS): RM0.545 million
- Entrance fees collected (2009): RM2.056 million
- Total MPAs revenues raised and kept: RM5.21 million
- Total MPAs expenditure: RM5.95 million
- Finance Gap: RM0.74 million

Sabah Parks manages both terrestrial and marine parks. For the marine section, it has four (4) marine parks, 13 islands, and an estimated area of 1.082 million ha to manage. The Sabah state government provides RM4.2 million to Sabah Parks for them to manage the four marine parks. In addition, the NGOs (WWF and MCS) raised another RM0.545 million for activities in these marine parks. Entrance fees collected from some of the marine parks amounted to some RM2.056 million in 2009.

In the case of Sipadan, the fees collected (RM1.638 million) went to the National Security Council (NSC) to compensate them for the cost of security services provided to Sipadan, and the marine areas of eastern coastlines of Sabah.

In total, the four marine parks retained only about 20% of the revenues actually raised, as the bulk of the fees that is collected goes to the NSC (federal government).

Taking all these into account, the total revenues raised and kept by these MPAs is RM5.21 million. They spent about RM5.95 million, which means that they have a gap of RM0.74 million based on the difference between their revenues and their actual spending.

Subsequent discussion with Sabah Parks indicates that other needs and requirements have yet to be taken into account. In particular, they have needs for management and zoning plans, enforcement and monitoring requirements, and research or inventory studies that would help in reaching the conservation objectives of the parks. A preliminary estimate of RM6.25 million was made by the Sabah Parks for the next five years. Table 3

shows the financial needs from the various management activities that are deemed relevant and important for the planning of the four marine parks.

Table 3: Future Financing Requirements (next 5 years), Sabah Parks, RM'000

RM'000	Turtle Island	Tun Sakaran	Sipadan	Tun Mustapha	Total
Management Plan	150	0	100	700	950
Business Plan	50	50	50	50	200
Zoning		50		50	100
Feasibility study	25	50	25	150	250
Co-management		150		150	300
M&E	150	150	150	150	600
Training (5 years)	100	100	100	100	400
Research	100	100	100	100	400
Enforcement	650	700	700	1000	3,050
Total	1,225	1,350	1,225	2,450	6,250

Source: compiled from Sabah Parks estimates

Given these figures, the financial gap of Sabah Parks is RM10 million over the next five years (see Table 3).

3.2.2 Sabah Wildlife Department

- SIMCA has been privatized to Reef Guardian: RM60,000
- Total SIMCA revenue: RM0.773 million
- Total SIMCA expenditure: RM0.728 million
- Finance Gap (surplus): RM0.45 million

Sabah Wildlife Department (SWD) has one marine reserve, 3 islands, and an estimated area of 46,300 ha to manage. The Sabah state government does not provide any sum for management of these parks because they have been outsourced to a private firm. SIMCA has been privatized to Reef Guardian for a sum of RM60,000, for which they are required to pay expenses to undertake conservation activities but they keep the entrance fees from tourists to the parks and sublease revenues.

Taking all these into account, the total revenues raised and kept at SIMCA is RM0.773 million. With expenses of RM0.728 million that leaves a surplus of RM0.45 million. It should be noted that this surplus was made due to a grant of RM0.34 million in 2009. If this grant was not available, SIMCA would have a deficit of almost RM0.3 million per annum.

Since SWD have delegated the management of SIMCA to Reef Guardian, they undertook an Action Plan Study which was funded by Conservation International that indicated Reef Guardian's financing gap for 2010-2014 (see Table 4).

Table 4: SIMCA Financial Estimates 2010-2014

Focus	Activity	Total Needed	Available	Gap
1	Collaboration for improved enforcement	35,000	20,000	-15,000
2	Evaluation of fishery benefits of SIMCA and design outreach	209,600	47,000	-162,600
3	Monitoring and reporting of sea turtle mortality and foraging	115,000	50,000	-65,000
4	Conduct baseline survey of conservation awareness of environmental managers	100,000	31,000	-69,000
5	Land-based pollution monitoring and reporting	138,000	72,000	-66,000
6	Strengthening management of Reef Guardian (3 additional staff for 5 years)	332,000	0	-332,000
7	Establishment of SIMCA management board	110,000	40,000	-70,000
8	Sustainable financing (3 initiatives)	232,000	80,000	-152,000
9	Deliver environmental education to stakeholders	60,000	30,000	-30,000
	Total	1,331,600	370,000	-961,600

Source: SIMCA

3.2.3. Analysis of Financial Gap of MPA s in the SSME area

Tables 5 and 6 show the assessment of Sabah's MPAs in the SSME area.

Table 5: Annual Financial Gap Analysis of SSME Parks

Marine protected areas	Size, ha	Tourists	Finances	Expenditures	Finance Gap
- Turtle Islands	1,721	13,030	\$1,944,903	\$2,224,725	-\$279,822
- Tun Sakaran	33,732	-	\$1,589,098	\$2,079,134	-\$490,036
- Sipadan	16,860	43,553	\$392,034	\$613,828	-\$221,794
- Tun Mustapha	1,030,000	-	\$1,281,766	\$1,031,528	\$250,238
- Sugud Islands	46,300	3,297	\$433,565	\$728,340	-\$294,775
SSME	1,128,613	59,880	5,641,366	\$6,677,555	-\$1,036,189

Source: compiled from UNDP scorecard Part I (Sabah); this table assumes that Sugud Islands would no longer receive international grants over the five year period.

This is the most complete accounts that have been assembled for the parks in the SSME area. As can be seen, the SSME area gets about 60,000 tourists in 2009, and the trend is increasing. The five protected areas raised RM5.64 million but spent RM6.67 million, leaving a gap of RM1 million. In terms of revenue, both the turtle island and Tun Sakaran parks raised the most and they also spend the most. In terms of visitations, Sipadan tops the list but the revenue that they collected is miniscule, given that they are a world-class dive site. In terms of size, Tun Mustapha is the largest with more than 1 million ha. This park is not fully functioning and there is a lot of preparatory work that needs to be undertaken. The Sugud Islands (SIMCA) is the only park where a concession has been

given the right for outsourced management. The lessons learned here could be used to extend to other parks when they come up for consideration to privatize.

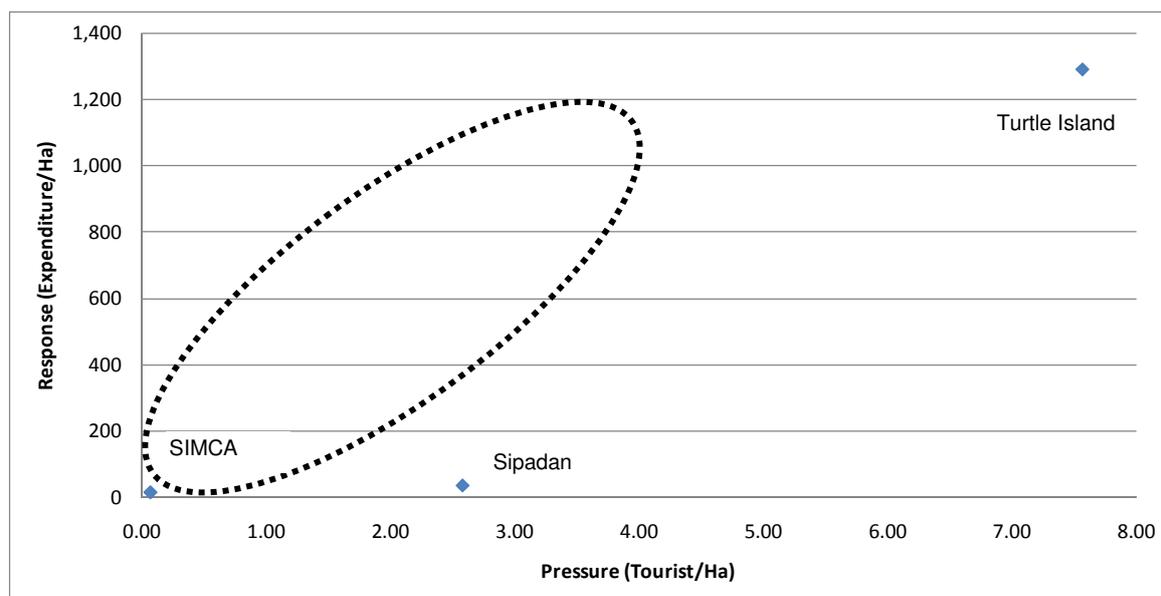
Table 6: Pressure-Response Indicators of SSME Marine Parks

Marine protected areas in SSME	response			pressure	
	Exp/ha, RM	Exp/tourist, RM	Fin. Gap/ha	Tourist/ha	% non-Govt
- Turtle Islands	\$1,293	\$171	-\$163	7.57	21%
- Tun Sakaran	\$62	-	-\$15	-	9%
- Sipadan	\$36	\$14	-\$13	2.58	0%
- Tun Mustapha	\$1	-	\$0	-	33%
- Sugud Islands	\$16	\$221	-\$6	0.07	100%
Total	\$6	\$112	-\$1	0.05	100%

Source: Compiled from UNDP Scorecard Part I (Sabah); assumes that international grants to Sugud Islands is no longer available for the five years.

Table 6 shows an analysis of the financial and background data. There does not seem to be a pattern to the management of the parks: parks with high development pressure (more tourist per ha) do not receive high allocations to manage (exp/ha). Thus, the response (exp/ha) to the pressure (tourist/ha) is not correlated based on the available information so far. There is a wide range of government contribution to the parks, ranging from zero financial inputs (Sugud) to fully dependent financially (Sipadan). It should be noted that the Sipadan figures are distorted. By right, Sipadan, being a world class dive site, should be able to generate more resources than is shown in the data. Currently, the revenue collected by the state is handed over to the federal, and hence, there could be gaps in the data, etc. Figure 4 shows the management response to pressure on the parks graphically.

Figure 4: Pressure-Response of SSME Parks



Source: computed from UNDP Scorecard data

Table 7 shows a summary of the financial status of the marine parks in the SSME area.

As can be seen, a total of RM10.7 million is required for the next five years to fund various planning and operational activities within the SSME parks. This consist of annual gaps of RM0.7 million or RM3.5 million based on the 2009 accounts, and RM7.2 million based on estimates by the two principal agencies involved.

It is important to note that any indirect financial needs by other agencies that are currently undertaking activities relevant and critical to park management, planning, operations, promotion or enforcement are not fully captured in this estimate (e.g. Sabah Fisheries Department, Sabah Tourism Board, etc). It is also important to note that the federal government did not make a contribution for conservation of the SSME parks in 2009 but instead they had received RM1.6 million in fees that were collected from Sipadan.

Table 7: Financial Status Summary of SSME Parks

	Sabah Parks	Sabah Wildlife	Total SSME
No. of sites	4	1	5
No. of islands	13	3	16
Size of Parks (Marine area, ha)	1,082,313	46,300	1,128,613

Available Finances

Allocated Government Budget	\$4,234,189	\$0	\$4,234,189
Total Budget for MPA Mgmt	\$4,789,996	\$374,932	\$5,164,928
Total site revenues	\$2,055,965	\$298,565	\$2,354,530
Annual Revenues on-site	\$6,845,961	\$673,497	\$7,519,458

Amount transferred to federal	-\$1,638,160	0	-\$1,638,160
Amount of site revenue available	\$417,805	\$398,565	\$816,370
Total finances available to MPA	\$5,207,801	\$773,497	\$5,981,298
Total annual expenditures	-\$5,949,215	-\$728,340	-\$6,677,555
Annual Balance	-\$741,414	\$45,157	-\$696,257

(Future) Planning Needs	-\$6,250,000	-\$961,600	-\$7,211,600
Financing Gap for 5 years	-\$9,957,070	-\$735,814	-\$10,692,884

% revenues retained in MPAs	20%	100%
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Source: computed from Part 1, UNDP Scorecard (Sabah)

Table 7 shows the situation in 2009, where there was a (one-off) foreign contribution of RM0.3 million to the Sugud islands. If this sum were removed, the annual financing gap would be RM1 million (not RM0.696 million) for all SSME parks, and total 5-year financing requirements would be RM12.4 million).

Thus, multi-year financing estimate provides much more information to conservation planners than just a single year estimate.

3.3 Sustainability Elements of the Financial System

The UNDP Scorecard section on assessing the elements of the financing system consists of two (2) parts and three (3) components. The first part comprise of three components:

- Legal, regulatory and institutional framework – 9 elements;
- Business planning and Tools for cost effective management – 5 elements; and
- Tools for revenue generation – 7 elements.

The second part is essentially a summation of the scores of the three components and then it gives a total score and an average achieved.

A technical committee was formed in Sabah, and they participated collectively in the scoring of the UNDP scorecard. The aim of the scorecard is to provide a platform for discussion and identifying areas for improvement. The actual scoring is used only as a guide. The general results are discussed in this section.

3.3.1 Legal, Regulatory and Institutional Framework

The assessment of the legal, regulatory and institutional framework can be summarized in the following ways:

1. Some laws are in place that facilitates MPA entry fee collection in the marine (and terrestrial) parks in Sabah, and those revenues are retained at the central (state and federal) level. None of the fees are retained at the site level;
2. There is no provision for site level revenues to be retained there or for benefit sharing with local stakeholders;
3. A conservation fund already exists in Sabah (Parks Fund) and it is formed under state laws and complies with government accounting practices. This government fund with a majority of government representatives;
4. Laws for regulating MPA concessions and services exist but, they do not allow for co-management, and they do not extend to the local governments;
5. MPA financing policies are comprehensive (as defined by the government representatives present), standardized and revenues can be levied on MPAs. Areas for improvement include MPA budgetting (5-year plans) and aligning the budgets with conservation objectives, but there are no business elements in the MPA management plans. There is also no national (or state) financing strategy for conservation at this stage;

6. On economic valuation, there is no precedent on such studies have had an influence on government decisions with respect to conservation;
7. There is “partial” link between annual budgets and financial needs of MPAs but the cost associated with management plans has not yet been included in current budget estimates;
8. The mandates of public institutions regarding MPA finances are clear and all know about it, and the accounts are audited;
9. There is sufficient authority to manage the MPA finances and a system of performance monitoring exist but is not fully used to attain the objectives of the MPA. Incentives for better improvement do not yet exist.

In terms of actual scoring, the scores given by the participants to this component was rated 58% out of a possible 100%. Details of the scoring are given in the appendix.

3.3.2 Business Planning and Use of Cost-Effective Management Tools

The assessment of the business planning and use of cost-effective management tools can be summarized in the following ways:

1. In terms of business (i.e. financial) planning at the site level, this is still in the early stages. A few of the parks have MPA management plans that need updating (e.g. Tun Sakaran and Turtle Islands) but all the parks would require business plans to help establish sustainable financing strategies in order to complement and facilitate enhanced management tools, capacities and diversified funding sources;
2. There is a transparent, fully-functioning revenue collection system in the sense that they follow the relevant orders and systems that have been set up by the government. In the case of Sabah Parks, all entry fees go to the Sabah Park Fund, and the concession fee from SIMCA go to the State Consolidated Fund;
3. In terms of the financial reporting system, it is complete and fully operational, but the adequacy of those finances to MPA objectives has not been evaluated;
4. There are fully functioning mechanisms for allocating budgets to MPA sites based on government procedures, and so far the amount of funds raised elsewhere has so far not resulted in a reduction of government allocation for marine conservation;
5. Training of the MPA staff, managers is not comprehensive enough, although there is a network for them to share information (within the government). There is no M&E system to feed into the management policy and planning.

In terms of actual scoring, the scores given by the participants to this component was rated 64% out of a possible 100%.

3.3.3 Tools for Revenue Generation

The assessment of the tools for revenue generation can be summarized in the following ways:

1. Several sources of financing for MPA exist, including user fees but the main financing source is still the government. There has not been a detailed analysis of revenue options although fee structures have been revised;
2. The capacity for setting user fee rates is satisfactory and a system wide strategy for fees exists within Sabah Parks, as they regularly review their fee structures. MPA and tourism co-exist well and share similar objectives, but each have their own role.

Independence of MPA management is crucial but consultations are required in implementing revenue generating mechanisms;

3. Entry fee collection systems and their guidelines exist at the site level, and they are monitored and evaluated. However, improvements are still needed (greater professionalism, and cost-effectiveness could be enhanced, lack of incentive to collect fees, limited retention at site level);
4. Communication and marketing strategies are functioning in MPAs, but guidelines are needed to ensure that these strategies are fully adopted;
5. No PES mechanism exist for MPAs at this point;
6. In so far as concessions are concerned, there is a system wide strategy (by the EPU¹¹) and plan, operational performance is monitored, evaluated and acted upon, but there is no scale-up of concessions across MPAs;
7. Financing options for local communities may reduce threats to marine resources; and
8. There are no specific training programmes on revenue generating mechanisms for MPAs so far.

In terms of actual scoring, the scores given by the participants to this component was rated 59% out of a possible 100%.

3.3.4 Scoring of the UNDP Scorecard

The total score achieved by the Sabah MPA and relevant state agencies is 60% out of a possible 100%, which is a self-assessment exercise by the principal agencies in Sabah in charge of SSME marine parks and reserves.

It is perhaps important to emphasize that the actual scoring is not as important as the process involved in reviewing the legal framework, the availability of business plans, and the examination of the basis for introducing tools for revenue generation in order to provide sufficient financial resources for conserving MPAs. In the process, the awareness of stakeholders is enhanced of the need to pull together the framework and the actions to raise sufficient financing for conservation.

3.4 Findings from the financial and policy assessment (UNDP Scorecard) and Other Key Observations

1. The government's own assessment is that there are adequate laws to enable government agencies to collect fees and charges at the park level but there are no benefit sharing guidelines, limits in retention at site level and no incentive for sites to better collect fees. There is a system in place to ensure accountability, but it may not be fully transparent to an outside party. Certainly, these laws apply to the situation today with the current level of activity. This is the case because the government is still the principal source of financing for conservation activities. These laws would have to change if the private sector were to operate in this area or if outside funds, whether local or foreign, were invited to partake in the overall management of the marine parks.
2. Due to the limited resources of the state government, most of the higher level management activities are centralized at the HQ level, especially with regards to strategic planning, financial and budget matters. The main activity at the site is

¹¹ See EPU (1991). Privatisation Masterplan, lays down the concept and framework for privatisation but presumably there are more detailed guidelines being in use

enforcement and management of tourists. The level of management effort may not therefore be commensurate with the issues on the ground, as priorities could change as they travel up the management hierarchy. Nonetheless, a more hands-on approach appears necessary, as there are people living in many of the marine parks that require a different kind of approach, and also resources, both human and financial, to ensure long term sustainability of marine resources. However, a key criterion is whether the management or even the state government recognizes that social issues exist and there are many layers of complexity involved in resolving them in a satisfactory manner.

3. Cooperation between agencies is cordial and common activities may be organised but seldom does it extend to the meeting of common objectives and goals of the organizations. This phenomenon which is often referred to as silo operations means in reality that appointed agencies take responsibility for actions under their purview with little or no coordination to a state-wide set of goals. And very often, they have limits to what they can do if it were based on the laws that empower their actions. There should be more cooperation, especially at a higher level, to discuss and coordinate actions to deal with ground level problems.
4. Financial statements from both the agencies are essentially cashflow statements that reflect mainly operating cost and any capital expenditures that may have been incurred for that year. If there are no capital expenditures, then the reported costs can be taken to be the annual operating costs. However, it is difficult to forecast financial needs because there is no information on the condition of the capital assets, although there is, in the case of Sabah Parks, a financial committee that reviews the application for asset funding. Depending on the proportion of the capital assets that have to be replaced, these may be many times higher than the annual operating costs.
5. One of the main problems with assessing financial sustainability is that the lack of full financial information. For instance, the full cost cannot be determined because some activities that benefit the marine parks are paid for by other agencies but the precise amount cannot be estimated. For instance, the Fisheries Department carries out enforcement activities that benefit the MPAs but they cannot estimate the cost. The Sabah Tourism Board's promotion activities also draw tourists to marine parks but cannot isolate their budget's share to the MPAs. Hence, there has to be some recognition that all costs reported is only a subset of the full cost of park management. Management plans are not always in place or up to date therefore it isn't possible to link funding with conservation results (e.g. link in tourism between pressure and response indicators and the level of funding to address carrying capacity).
6. The financial analysis undertaken for this study shows that a financing gap of about RM0.7 million in 2009 and could be as high as RM1 million in other years. In fact, as government agencies, they are supposed to spend the budgets that have been allocated to them. Even though they may have needs beyond their budgets, they will be included into the program only in the year when budgets are available for those activities. In this case, then it is difficult to estimate the different scenarios, e.g. basic, optimal scenarios.
7. Currently, some of the marine parks have management plans but financial forecasts for the next 5 years or for the next 10 years are rudimentary. This project made the first attempt at estimating the cost needed for park planning and management over a 5-year period. This study has estimated that Sabah Parks will require RM6.25 million based on a rapid assessment of four marine parks under their jurisdiction in terms of requirements for the next five years. Reef Guardian estimates that SIMCA will need RM0.96 million between 2010 and 2014. Thus, the financing requirements in areas

such as resource studies, zoning plans, and management requirements to meet conservation objectives, are estimated at RM7.2 million over a five year period.

8. Despite this exercise, the final analysis shows that there are still some unknowns but a major attempt has been made in terms of understanding what the actual situation is, and what lies ahead in terms of needs and requirements to make a better estimate of the financial status of the marine parks. For instance, the issue of local communities on the islands within the MPAs is an issue that has long been neglected because there is no policy on it.
9. The responsibility for making a full cost assessment for the parks cannot be unassigned. Indeed, an apex agency that has oversight over other state agencies is needed for undertaking such an exercise. The UPEN is interested to look at how business developments could be a new source of funding conservation activities as well. Critical activities that require funding include R&D, training, park management plans, and the capacity to engage with other stakeholders, e.g. private sector or local communities.
10. Finally, it is recommended that the scorecard be filled in several years in a row and be used as a planning tool.

4. Sustainable Financing Mechanisms

This chapter describes the current financing mechanisms of MPAs as well as potential tools for revenue generation to support MPAs. The information for this chapter is obtained from interviews as well as from our analysis of the interviews, literature review¹², and our independent assessment of the potential of these tools. Some questions used to guide the interviews are provided in Annex 3. The first part of the section will assess the existing or current financing mechanisms of the MPAs; a second part will show and discuss other mechanisms that have been tried elsewhere but not yet in Sabah and we will undertake an assessment of which instruments are viable.

This chapter will broadly cover two aspects of the study's TOR:

- Firstly, it will highlight financing mechanisms supporting MPAs that are already in place within Malaysia. Next, it will record successes or challenges of the instruments and provide a brief assessment of their degree of financial sustainability.
- Secondly, it will undertake a rapid feasibility assessment and SWOT (Strength, Weaknesses, Opportunities and Threats) of potential sustainable financing mechanisms for the MPAs.

Table 8 provides an overview of existing and potential mechanisms in MPAs. This table was an output from a workshop on 8 April 2010 organised specifically for this study. The potential applicability of each instrument, whether the respective mechanism is expected to increase, decrease or be maintained are noted.

The financing mechanisms were grouped into eight broad categories adapted to MPAs and Malaysian context (based on the WWF Conservation Finance Guide 2009, see Table 8). Brief definitions of the financing mechanisms are presented in Annex 4.

Overall, 84% of the currently available funds came from budgetary allocations especially from the state government (71%) and tourism related mechanisms (13%, mainly entrance fees, fees for facilities and concession agreement (e.g. concessions). The rest of the revenue comes from fines from illegal fishing (2%) and corporate partnerships, foundations and NGOs contributions (15%).

Table 9 provides an overview of the sources of funding, potential for sustainable financing and action recommended or observations in relation to the potential mechanisms highlighted in Table 8.

Table 8: Application of Financing Mechanisms and Potential to Explore

No.	Mechanism	Exist? (Yes/No)	Potential to explore
1	Conditions for Allocations from Government Resources		
1.1.	Budgetary state allocations	YES	▲
1.2.	Budgetary federal allocations	YES	▲▲
1.3.	Taxes earmarked for conservation	NO	▶

¹² see Emerton et al 2005, Koteen 2004, Spergel and Moye 2004 and Cesar and van Beukering 2004

No.	Mechanism	Exist? (Yes/No)	Potential to explore
1.4.	Wildlife stamps earmarked for conservation	NO	►
2	Payments for Ecosystem Services		
2.1.	Tourism-related mechanisms		
2.1.1.	Protected areas entry fees	YES	▲
2.1.2.	Fees for facilities in the parks	YES	▲
2.1.3.	Recreational license fee	YES	▲
2.1.4.	Concession agreements	YES	►▼
2.1.5.	Voluntary tourism contributions	NO	▲▲
2.2	Natural resources trade and bio prospecting		
	Natural resources trade & bio prospecting	NO	►▼
2.3.	Watershed payment services		
2.3.	Watershed management payments	NO	▲
3	Sustainable Capital and Environmental Investment Funds		
3.1.	Environmental investment fund	NO	?
3.2.	Subsidized/discount loans tied to sustainable practice standards	NO	?
3.3.	Microfinance scheme for sustainable and community-based conservation	NO	▲
4	Compensation and Biodiversity Offsets Payments		
4.1.	Voluntary & mandated compensation payments	NO	▲
4.2.	Mitigation banking and biodiversity offsets	NO	▲
4.3.	Royalties from resource extraction earmarked to conservation	NO	▲
4.4.	Fines for environmental damages	NO	▲
5	Fishing Industry		
5.1.	Catch shares	NO	▲
5.2.	Fish levies	NO	▲
5.3.	Revenue from aquaculture	NO	▲
5.4.	Fines for illegal fishing	YES	►
6	Philanthropic and Private Contributions		
6.1.	Cause-related marketing mechanisms	NO	▲
6.2.	Corporate partnerships and Foundations	YES	▲
6.3.	NGOs	YES	▲
6.4.	Venture and new philanthropy	NO	▲
7	Revenue from the Sale and Trade of Wildlife		
7.1.	Wildlife auctions	NO	NONE
7.2.	In-situ & ex-situ species conservation partnerships ¹³	(NO)	▲
8	Marine Conservation Trust Fund		
8.1	Trust funds ¹⁴	YES	(▲)

Symbols' representation: ► steady, ▲ increasing, ▼ decreasing

¹³ In-situ and ex-situ species conservation partnerships were originally marked as the mechanism exist due to an example related to terrestrial wildlife conservation. For the purpose of this study, this assessment was modified as the mechanism does not exist in the MPAs. Changes are marked in parenthesis.

¹⁴ In-situ and ex-situ species conservation partnerships were originally marked as the mechanism exist due to an example related to terrestrial wildlife conservation. For the purpose of this study, this assessment was modified as the mechanism does not exist in the MPAs. Changes are marked in parenthesis.

Table 9: Overview of Potential Sustainable Financing Mechanisms

Financing Mechanisms	Source of Revenue	Potential for Sustainable Financing	Action Recommended or Observations
Conditions for allocations from government resources: Budgetary allocations, taxes and fees	<ul style="list-style-type: none"> Budgetary state allocations Budgetary federal allocations Taxes earmarked for conservation Wildlife stamps earmarked for conservation 	<ul style="list-style-type: none"> Government committed to fund operational activities and some development expenditures Earmarked taxes and wildlife stamps: low potential; not sustainable 	<ul style="list-style-type: none"> State government to explore ways to apply for federal funding via 10MP (rolling plan)
Tourism-related mechanisms	<ul style="list-style-type: none"> Protected areas entry fees Fees for facilities in the parks Recreational license fee Concession agreements Voluntary tourism contributions 	<ul style="list-style-type: none"> All high potential; medium level sustainability 	<ul style="list-style-type: none"> Regularise tariff review mechanism UPEN to review concession agreements
Natural resources trade and Bio prospecting	<ul style="list-style-type: none"> Companies or institutions mandated to carry out bio prospecting 	<ul style="list-style-type: none"> No immediate potential 	<ul style="list-style-type: none"> No immediate action recommended
Watershed payment services	<ul style="list-style-type: none"> Beneficiaries of services 	<ul style="list-style-type: none"> Not relevant 	<ul style="list-style-type: none"> Not relevant
Sustainable capital and Environmental Investment Funds	<ul style="list-style-type: none"> Environmental investment fund Subsidized/discount loans tied to sustainable practice standards Microfinance scheme for sustainable and community-based conservation 	<ul style="list-style-type: none"> Low potential for micro-finance scheme but needs study Investment fund: low potential locally 	<ul style="list-style-type: none"> No immediate action recommended
Compensation and biodiversity offsets payments	<ul style="list-style-type: none"> Voluntary & mandated compensation payments Mitigation banking and biodiversity offsets Royalties from resource extraction 	<ul style="list-style-type: none"> One offset fund in operation but low immediate potential Others have low potential 	<ul style="list-style-type: none"> Review the offset fund (UPEN to take lead)

Financing Mechanisms	Source of Revenue	Potential for Sustainable Financing	Action Recommended or Observations
	earmarked to conservation <ul style="list-style-type: none"> • Fines for environmental damages 		
Fishing industry	<ul style="list-style-type: none"> • Catch shares • Fish levies • Revenue from aquaculture • Fines for illegal fishing 	<ul style="list-style-type: none"> • Little to no potential 	<ul style="list-style-type: none"> • No immediate action recommended
Philanthropic and private contributions	<ul style="list-style-type: none"> • Cause-related marketing mechanisms • Corporate partnerships and Foundations • NGOs • Venture and new philanthropy 	<ul style="list-style-type: none"> • Potential needs to be explored; • High potential but variable sustainability 	<ul style="list-style-type: none"> • Invest resources to identify, and apply for funds
Revenue from the Sale and Trade of Wildlife	<ul style="list-style-type: none"> • Wildlife auctions • In-situ & ex-situ species conservation partnerships 	<ul style="list-style-type: none"> • Low potential, no sustainability 	<ul style="list-style-type: none"> • No immediate action recommended
Marine Conservation Trust Fund	<ul style="list-style-type: none"> • Trust funds 	<ul style="list-style-type: none"> • Parks Fund available for MPAs: high potential, low sustainability 	<ul style="list-style-type: none"> • Park management to apply for funds

Source: views of consultant on potential for sustainable financing and recommended actions

4.1 Existing Mechanisms Adopted in MPAs

Table 10 is an inventory of the existing mechanisms in MPAs. All MPAs under Sabah Parks receive government funding. Established MPAs such as Turtle Islands, Sipadan Island and Sugud Islands have implemented systems of collecting entry and facility fees. Although there are visitors to Tun Sakaran, a fee system has not yet been developed. Tun Mustapha Park is in the process of being gazetted, but its sheer size at 1.03 million ha of land area with over 50 islands would require substantial effort and resources for its effective management.

Table 10: Overview of Existing Mechanisms for SSME MPAs in Malaysia

MPA	Govt funds	Entry fees	Facilities fees	Co-mgmt/ concession	Corporate partnerships, foundations, NGOs	Fines from illegal fishing
Turtle Islands	✓	✓	✓	✓	✓	✓
Tun Sakaran	✓				✓	✓
Sipadan Island	✓	✓				
Tun Mustapha	✓				✓	
Sugud Islands		✓	✓	✓	✓	

Generally, PA financing mechanisms range on a spectrum from those which rely on grants to PAs from external sources to those which are based on charges for goods and services provided on-site by the PA itself (Emerton et al 2006) (see Figure 4.1). Funding may also originate from public or private sources. The framework applied here is based on Emerton et al 2006. The provision of grants through either public or private funding are motivated by broader social and personal policies, goals or principles that place a value on the conservation of PAs usually from external sources. On the other hand, revenues derived from fees and charges are linked to the use of a particular PA product or service on-site (such as entry fees, resource extraction fees or watershed management payments). In between these two categories lies another aspect of finance that relates to the incentives for activities that indirectly support the existence of a PA such as sustainable capital and environmental investment funds (e.g. microfinance or subsidized loans to promote environmentally friendly practices etc) and cost or benefit sharing measures.

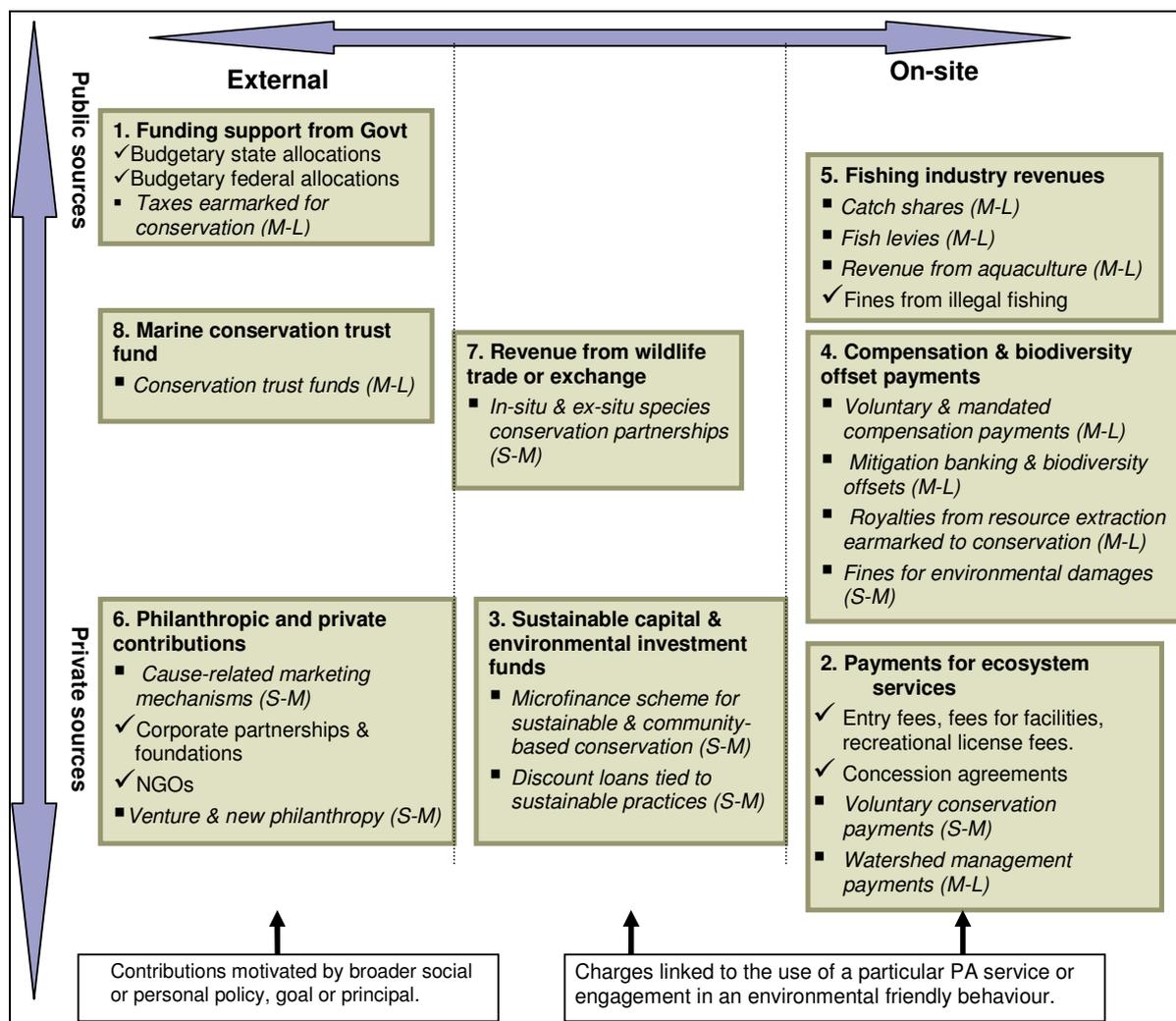
Figure 5 illustrates the financial mechanisms that exist (indicated by ✓) or those that could potentially be developed (indicated by ■) in the MPAs. The off-site sources of funds include allocations from governments, philanthropic and private contributions while revenue from on-site sources are entry fees, fees for facilities in the parks, recreational license fee, concession agreements and fines from illegal fishing. Some potential sources of funding include voluntary conservation payments, cause related marketing, venture and new philanthropy, conservation trust funds and taxes earmarked for conservation.

The financial impact and complexity of its implementation are two important criteria in the decision making and pre-selection process. **Financial impact** is defined as the capacity to generate financial resources while respecting environmental and social standards. **Complexity** includes related to variables such as duration, multi-sectoral coordination required, and the need for legal, institutional and administrative reforms among others (Flores et al 2008). Each mechanism is grouped according to their potential financial impact and complexity and whether they can be implemented in the short and medium term or medium and long term.

Short and medium term with high impact and low complexity: Requires a good level of coordination and good relations with stakeholders. Normally, they do not require exhaustive studies, although specific information to facilitate the analysis is sometimes required and concrete action plans to render them operational.

Medium and long term with high impact and high complexity: Requires detailed studies to clarify their financial viability and collateral aspects such as the need for legal reform and the identification of necessary abilities.

Figure 5: Existing and Potential Mechanisms for SSME MPAs



Key: ✓ indicates mechanism already in place. ■ indicates potential mechanism. (S-M) refers to short to medium term, (M-L) refers to medium to long term

* The application in Malaysia relate to trust accounts or park funds which are similar but have distinct features to a trust fund as described in the Rapid Review for Conservation Trust Funds (CFA 2008). This mechanism will be discussed as one of the potential mechanisms to be developed further.

4.1.1 Successes, Challenges, and Financial Sustainability

This section will detail experiences of each existing instrument especially in terms of their successes, challenges and contributions towards elements of financial sustainability. Based on these assessments recommendations at different levels including park, state and national levels will be presented in Chapter 5.

i) Funding support from Government

The State and Federal Governments are the two major sources of funding for MPAs in Malaysia, including for the SSME MPAs. The governments are likely to increase funding as more MPAs are gazetted. The State Government mainly funds operating expenses but sometimes, pays for the development expenditures.

Sabah Parks Budget

State: Operational Costs coming in majority from state

- bi-annual budget process: the manager of each park present their financial need and is followed by a review of a finance working group
- financial allocation from the previous cycle is the reference point for the request for the following year. Financial requests tailored to meet conservation goals are rare.
- shortfalls being covered by the Parks Fund or contributions from on-site revenue such as entrance fees, concession fees etc.: (e.g. a shortfall of over RM10 million for each year that needs to be covered by contributions from on-site revenue such as entrance fees, concession fees etc and the Parks Fund).

State: Development allocations of RM3.1 to RM4.8 million between 2006 and 2010.

Federal: development expenditures¹⁵ of RM0.21 and RM0.26 million in 2006 and 2007

- an average of 0.11 RM million over 4 years compared 4 RM million from State
- application for funding is through either through the State Economic Planning Unit or via the Ministry of Tourism, Culture and Environment of Sabah.
- only development projects consistent with the Five Year Malaysia Plans are funded by the federal government. The State Economic Planning Unit is the focal point for development project applications under the Five Year Malaysia Plans or its Mid-Term Review.

Table 11: Overview of State Government Financing for Operational Cost

Year	State Government (RM million)			
	Requested	Actual Allocation	Actual Expenditure	Shortfall
2006	25.5	17	34.02	-17.02
2007	37.5	19	29.19	-10.19
2008	53.5	15.75	27.03	-11.28
2009	37.5	23	34	-11
2010	41.3	25	NA	NA

Source: Sabah Parks

¹⁵ Federal development expenditures are provided for federal projects only, whereas state projects are funded by state budgets. However, in some cases, federal funding could be given if the case can be justified. In the case of Sabah Parks, it is a state entity and therefore funding almost fully by state budgets.

Table 12: Overview of Allocation for Development Costs

Year	State Government allocation (RM million)		Federal Government allocation (RM million)
	Approved allocation	Actual allocation receipts	Actual allocation
2006	5.0	4.8	0.21
2007	4.5	4.5	0.26
2008	3.2	3.1	0
2009	5.7	3.6	0
2010	3.5	3.8	NA

Note: Actual receipt from the State Government for development in 2010 is more than the approved allocation due to inclusion of funding projects approved prior to 2010.

Source: Sabah Parks

The other marine reserve in SSME, SIMCA is managed by Reef Guardian, a non-profit private entity. They undertake their own fundraising activities and do not depend on the government for financial support. The Sabah Wildlife Department occasionally provide training and enforcement services¹⁶. Their funding sources over the past few years are shown in Table 13.

As can be seen, SIMCA's revenue sources are quite diversified: 30% from entry fees, 46% from NGO donations, and 25% from other fees including concessions. It is quite remarkable that they have been able to survive without government funding for the past four years. In the past, shortfalls in funding were supplemented by Pulau Sipadan Resort the company that established Reef Guardian. In 2009, they reported a positive balance of RM45,157 due mainly to a large donation that accounted for half the revenue of the park. In 2008, SIMCA was dependent almost entirely on visitor payments (entry fees, concession fees account for 70% of total revenue) and a smaller portion on grants and donations (7% only). Hence, the revenue contributions vary significantly from year to year!

Between SIMCA and Sabah Parks, their sources of revenue are quite different, with the latter highly dependent on government financial support.

Table 13: SIMCA Revenue by Source, 2006-2009

Items	2006	2007	2008	2009	2009%
Visitor numbers		2,599	2,982	3,297	
Entrance Fee (RM)	158,360	169,340	218,830	219,900	30%
Donations (RM)		2,460	792	665	0%
Rent for concession (RM)	70,000	49,583	62,083	100,000	14%
Rent from boat (RM)	11,200	28,000	12,400	78,000	11%
Grant from Foreign NGO (RM)		43,908	20,682	339,932	46%
Total revenue	239,560	293,291	314,787	738,497	100%

Source: Reef Guardian

¹⁶ As mentioned earlier, SWD was not able to provide any estimates of the cost involved in conservation efforts.

The successes and challenges of government support are outlined in Table 14.

Table 14: Successes and Challenges of Government Funding Support

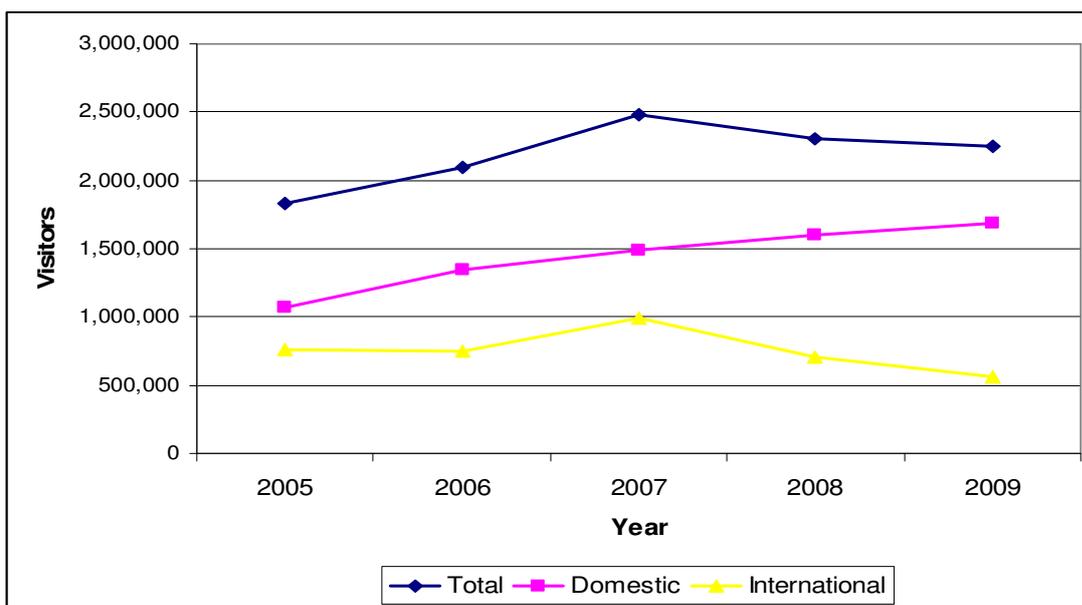
Success	Challenges
<ul style="list-style-type: none"> • Traditionally government budgets have been a core, stable component of MPA funding. This trend is likely to continue. • Public sector funding arrangements cover a broader geographic area and generate more indirect benefits. • The private sector is less likely to provide long-term funding and foreign donors are more prone to alter their funding priorities over time. • Given the long-term nature of government funding, some of the MPAs that subject to this arrangement have the funding reserves that can be drawn upon in times of need or used to support long-term investment planning • Parks Fund acting as a buffer coffer 	<ul style="list-style-type: none"> • Government funding is susceptible to changes in national spending priorities, e.g. during unfavourable economic conditions. • Government funding requests and allocations are based on previous year budget and do not reflect real and appropriate needs • Government funding often subsumed under local or national development and poverty reduction agenda. • Competition for public funding is stiff especially compared to other social needs such as health and education. Explicit focus on how MPAs can help achieve local, national and global development goals. • MPA authorities need to undertake financial planning linked to meeting conservation objectives in order to demonstrate how the funds will meet conservation goals and supporting Government efforts and commitments at the national, regional and global levels. • Parks Fund reactive with allocations based on last minute shortfalls needs. • Better allocation is needed between development and operational costs with limited Federal support. (an average of 0.11 RM 0.11 million over 4 years despite CTI importance, tourism potential to manage and investment needs)

ii) Tourism-related mechanisms

Background on tourism and its impacts

Tourism is the third largest sector of Sabah's economy after agriculture and manufacturing. It contributed around 7.4% GDP in the 8th Malaysia Plan period and expected to grow to 10% in the 9th MP period (IDS 2008). Sabah received about 2.2 million visitors in 2009. A survey of international visitors from January to May 2009 indicated that 77% were on holiday. Domestic visitors have continued to increase despite a drop in overall visitor numbers. Despite a slight drop in 2007, the tourism sector with a compounded annual growth rate of 17.2% over the last five years is expected to continue to grow (IDS 2008).

Figure 6: Visitor Arrivals in Sabah, 2005-2009



Source: Sabah Tourism Board various years.

Sabah houses some of the most diverse diving spots in the world. The Semporna District has been identified as the Marine Industry and Tourism Zone (IDS 2008) under the Sabah Development Corridor due to the uniqueness and attractive marine life especially in two MPAs, namely Tun Sakaran Marine Park and Sipadan Island Park. Semporna is the gateway to world famous dive sites such as Sipadan Island, Mabul, Kapalai and Matakking. Another unique dive site within the SSME is the Lankayan group of islands under SIMCA. Turtle Islands on the other hand attract visitors based on the abundant turtle landings on the island.

Tourism creates job opportunities but such activities must not exceed the PA's natural and physical capacity. Therefore, it is essential that adequate pricing mechanisms are established to ensure that tourism impact is kept to a minimum. A case study of tourism and their potential impact on Sipadan illustrates this point.

Prior to the ruling to vacate Sipadan Island in 2004, tourism development in Sipadan grew haphazardly with lodges springing up overnight. From one resort in the late 1980s it grew to six by 1995. There were also resorts that came up in surrounding islands for guests to dive at Sipadan. With few rules and management, chalets spread into the forest, wells were dug and sewage was not thoroughly treated (The Star 2004). In 2004 a quota of 120 dive permits per day was imposed. The closure of accommodation operations on Sipadan Island in 2004 combined with limited daily entries to Sipadan has resulted in the proliferation of dive resort accommodation in other islands such as Mabul, Kapalai, Pom Pom and Matakking (Corpuz 2008).

A study by Soo in 2006 noted that massive tourism on Mabul Island has resulted in substantial changes to land-use and degradation to marine resources. The study indicated that management planning is urgently needed in view of the rapid development and cumulative environmental issues threatening Mabul such as over-crowding of island

population, loss of marine habitats, unregulated infrastructure development, improper waste disposal, potential dislocation of islanders and uncontrolled inshore fishing. Five dive resorts and three homestay resorts operate in Mabul with varying degrees of sewerage disposal facilities down to basic or untreated sewage discharged to the sea amongst the smaller operations. Even the sewerage of the local communities is discharged directly into the sea and has resulted in environmental damage. Around 2,000 - 2,500 people live in Mabul in 400 houses (Corpuz 2008). Around 90% to 95% were recorded as settlers from the Philippines since the early 1970's, with 50% having the *IMM13* passes and the rest being illegal residents (Corpuz 2008). Though Mabul island is in the Semporna District, it is not in the local rating area, hence basic facilities such as sewerage and waste disposal do not reach these areas.

Even though Mabul Island is not an MPA, it has important links to MPA management especially to Sipadan Island. Firstly as a contiguous ecosystem, the impacts from Mabul could affect Sipadan Island and neighbouring islands. These impacts need to be addressed holistically to safeguard the integrity of Sipadan Island and the sustainability of its tourism opportunities over the long term. Financing mechanisms could be tailored to some of these conditions and play a role in providing the much needed resources to mitigate and minimize some of these threats. As the islands in Semporna are not yet in the rating area of the local government, they do not collect any property assessments from the island's tourism resorts. Even though there are EIA Guidelines for Coastal Resort Development Projects, only resort developments with more than 80 rooms or any developments within a marine park need carry out EIAs (see DOE, 1994. EIA Guidelines for Coastal Resort Development Projects).

Tourism user fees

Table 15 provides examples of tourism-based mechanisms in the respective MPAs. Overall, entry and other fees contribute 13% of Sabah Park's revenue, with the majority coming from entry fees. The share of entry fees is even greater if the RM1.63 million collected in 2009 from Sipadan were not channelled to the National Security Council.

Even though other fees such as recreational and facility fees may not seem significant, they do generate the much needed funds. For example, camera fees collected at the Turtle Island contributed about 10% of the on-site revenue collection while rental of boats collected by Reef Guardian in 2009 covered around 11% of their operating expenditure.

Table 15: Examples of Tourism-based Mechanisms of the SSME MPAs in Malaysia

Mechanisms	Applications
Entry fees	<ul style="list-style-type: none"> • In 2009, Sabah Parks collected approximately RM97,300 from Turtle Islands Park and RM1.63 million from Sipadan. • The Sugud Islands Marine Conservation Area collected around RM50,000 from conservation fees that accounted for 36% of its operational costs in 2007.
Fees for facilities in the parks	<ul style="list-style-type: none"> • Reef Guardian collected RM78,000 for rental of boats in 2009, covering around 11% of SIMCA's expenditure.
Recreational license fees	<ul style="list-style-type: none"> • Sabah Parks collected RM41,090 for camera fees at Turtle Islands in 2009, representing around 10% of the total on-site revenue collection. • Sabah Parks charges diving permits of RM50 for non-Malaysians and RM20 for Malaysians in addition to the existing conservation fees at Tunku Abdul Rahman Park. In 2009 RM246,770 was collected from dive fees

Mechanisms	Applications
Concession agreements (e.g. concession fees)	<ul style="list-style-type: none"> Sabah Parks received RM235,525 from concession fees at Turtle Island MPA which constitute around 57% of the total on-site collection in 2009. RM60,000 to the Sabah Wildlife Department which are channeled to state coffers.

An overview of entry fees is shown in Table 16 indicating differential pricing for domestic and international visitors. Turtle Islands and Sugud Islands are located in the SSME region and will be discussed further below.

Table 16: Overview of Entry Fees to MPAs in Malaysia

MPA	Malaysians (RM\$)		Non-Malaysians (RM\$)	
	Adult	Children	Adult	Children
Turtle Islands	3	2	10	6
Sugud Islands	No differentiation, RM20/night across the board			
Tunku Abdul Rahman	3	1	10	6
Pulau Tiga	3	1	10	6
MPAs in West Malaysia	No differentiation between locals and foreigners. Adults: RM5, Children/student/retirees: RM2			

Since its inception, a fee of RM20 per night is levied on tourists staying over at SIMCA. Conservation fees are crucial sources of funding to Reef Guardian as it covers around 31% to 42% (from 2006 to 2009) of their yearly operational costs. Tourism-based revenue (i.e. conservation fees, donations, rental from concession, rental from boats) contribute 49% to 58% of their operational costs between 2006 and 2009.

Reef Guardian believes that visitors are willing to pay more and hence sees the potential of reviewing the fees in order to make it more proportionate to the cost of conserving the environment which in turn benefits the visitors. The review of conservation fee is one of their fund-raising strategies in Reef Guardian's Five Year Action Plan (Reef Guardian 2007).

Entry fees collected from MPAs under Sabah Parks are channeled directly into the consolidated Parks Fund (at the state level). The Turtle Island Park started charging entry fees in 1982 under the Fees Enactment (State Law Number 27-1981) (Alin 2007). In 2002, Sabah Parks increased the differential rates based on the decision of the Board of Trustees in consultation with stakeholders (Alin 2007). A contingent valuation study was undertaken showing an average WTP of Malaysians to be around RM18-22 for Malaysians and RM51-60 for non-Malaysians (Alin 2007).

As part of the process of setting fees, a workshop on developing a Business Plan for Turtle Islands Park was held in May 2007 by Sabah Parks and WWF-Malaysia to engage and obtain inputs from the stakeholders. Tour operators suggested a rate of RM30 for non-Malaysians and RM10 for Malaysians (regardless of age). Based on the workshop, the government approved a rate of RM60 per international visitors from the current rate of RM10 in order to cover the financing gap of Turtle Island Park, A last minute objection by a member from the tour industry halted the introduction of the new fees (pers comm. Mr. Paul Basintal, Sabah Parks)

Basic park facilities are being developed at the Tun Sakaran Marine Park in order to have greater management presence. Currently, visitors to the Park particularly for diving are not recorded or monitored. It would be useful to monitor the number of divers while putting a fee system and structure in place.

The successes and challenges related to site-based fees, i.e. fees for entry, facilities and recreational licenses are discussed in Table 17 below:

Table 17: Successes and Challenges of Site-based Fees

Success	Challenges
<ul style="list-style-type: none"> • Tourism is a significant source of revenue for MPAs given the tourism potential of the SSME. Some MPAs are able to supplement their budgets with earnings from tourism and other resource use charges. • Tourism-based financing mechanisms are basically market-based charges for MPA goods and services which aimed at capturing some of the willingness-to-pay of MPA beneficiaries. Thus, these mechanisms address market distortions that lead to MPAs being under-valued. • Income generated from fees for facilities supplements basic MPA entry revenue and helps cover the true costs of supporting MPA visitors. Revenue from recreational license fees is used to support a range of secondary or value-added activities within MPA boundaries. • Tourism-based financing mechanisms creates a strong incentive for local governments, communities and businesses to conserve tourist-targeted marine species and habitat, especially in cases where revenues generated out of such mechanism are channelled directly back into the MPA system to cover operational needs such as staff salaries or infrastructure investment needs. • Tourism charges are proven to be effective means to regulate tourist demand and avoid congestion. • Generally, tourism charges such as entry fees and fees for facilities are relatively easy and straightforward to set up and implement. 	<ul style="list-style-type: none"> • Revenue from tourism charges can be unpredictable and unsustainable since they depend entirely on visitors' willingness to pay and the tourism industry is inherently volatile. For example, security concerns arising from piracy or armed conflicts at sea within the SSME will have immediate repercussion on the tourism revenue of MPAs. • To determine visitors' willingness to pay and optimum fee levels, complex analysis and modelling exercise are essential. Such expertises are however not widely available. The situation has led to underutilization of tourism-based financing mechanism. More often than not, entry fees and fees for facilities are either non-existent or set well below their potential. Some MPAs charge no or very low recreation fees, which are hardly enough to cover the cost of protecting the resource or providing visitor facilities. • This lack of expertise prevents MPAs from regularly identifying, developing and promoting markets for their goods and services and to improve the link between prices of these goods and services with visitors' willingness to pay. • Weak institutional capacities and often conflicting responsibilities for setting and collecting fees limit the implementation of recreational license fees and the like. • In some instances (e.g. Sipadan Island Park) earnings from entry fees or other local sources are not retained at the level of the individual MPA but are transferred to a central agency. Such practice does not provide the incentive to MPA staff to rigorously collect and account for the fees. • Local govt could potentially earn significant revenues from property taxes representing an incentive for them to intensely develop tourism in detriment of conservation. It is important that funding being allocated at the site level to maintain incentive for conservation.

Success	Challenges
	<ul style="list-style-type: none"> • EIA and M&E process need to be implemented to ensure tourism related mechanisms and growth are appropriately developed and managed. This means independent institutions and enough resources' to carry out the process. • Parks Fund is supported by tourism and could therefore be used in strategic manner to better enhance tourism revenues at the same time ensuring conservation objectives are met.

Concession and co-management agreements

Concession and co-management agreements are arrangements between the government, private companies, community groups, NGOs or not for profit enterprises to manage government or public assets. The concession agreements are part of a class of management options termed in Malaysia as privatization, which in this case transfers the management roles from the public entity to the designated private set up. The concept of privatization was introduced in 1983 (see the Privatization Master Plan of Malaysia, 1994). The Economic Planning Unit in Sabah manages all kinds of privatization exercises in Sabah.

The Sabah Chief Minister's Department in 1994 privatised the management of the accommodation facilities at the Turtle Islands MPA. Though the idea met with resistance initially, the exercise was finally carried out in 1998 (Paul Basintal pers comm.). The rest house and staff quarters of Turtle Island Park were leased to a private company called Crystal Quest for a period of 30 years. In another case, Reef Guardian, a private, non-profit entity was officially appointed as the management company responsible for conservation activities within SIMCA to be undertaken in collaboration with the Sabah Wildlife Department (Reef Guardian 2007). In 2009, Sabah Parks received RM235,000 from its Turtle Island concessions; and Sabah Wildlife received RM60,000+ in concession payments.

Nonetheless, concessions have not been regarded as the proper way to manage MPAs. Sound conservation measures need to be prioritized over profit-making functions. Stakeholders of the 2nd workshop expect that the application of concession agreements to decline in the future, a view perhaps influenced by some of the issues related to concessions described above. The SIMCA model has shown a positive way of a concession arrangement however it should be noted that the conditions that exist in SIMCA are unique (i.e. no local communities, minimum fishing pressures and one operator) and replicating the SIMCA model to other sites need careful considerations of the conditions that are applicable.

It should be noted that co-management particularly involving local communities have different characteristics from concession agreements though the basic concept of transferring part of park management responsibilities are similar. In Malaysia, co-management arrangements are limited. The 10MP stated that the government's policy was to co-opt local communities in conservation efforts. There are successful cases of co-management in Sabah such as Tagal efforts that have been implemented in freshwater river systems.

Tagal is a traditional system set up by local communities living surrounding freshwater bodies in Sabah. Tagal operates through customary laws that spell out the area and

seasonal closure of certain parts of the river and is monitored by the respective communities. The Department of Fisheries Sabah has been engaging communities to expand the tagal system (354 villages and 143 rivers as of December 2008). They have recently initiated a project engaging coastal communities (Norasma Dacho pers comm.). Experience from this initiative would provide important lessons for potential cases especially for MPAs where local communities exist such as the Tun Sakaran and Tun Mustapha Park.

A socioeconomic census carried out at Tun Sakaran Marine Park indicated that only about 17% of the households are Malaysians and over 40% are without documents and immigration papers (Wood et al 2007). The high number of non-Malaysians may make it challenging to establish co-management initiatives. Appropriate approaches are needed to address the issue and reduce impact on the natural conditions.

The successes and challenges of the concession model are summarised in Table 18.

Table 18: Successes and Challenges of the Concession Model

Success	Challenges
<ul style="list-style-type: none"> • Concession agreement provides for joint funding and managing of MPAs by governments, private sector or NGOs. It helps to meet MPA finance gaps and relieve burden on government budgets. In many instances, concession offers a practical means to co-share direct operating costs, which is a major financial burden for most MPAs. • To ensure profitability, private sector tends to adopt better cost control measures than would normally be the case in public sector or donor-funded conservation projects thus contributing to financial sustainability of MPA. • Private companies can be enterprising in marketing and promoting ecotourism potentials of MPA. Aggressive and innovating marketing strategies that aim at winning international environmental awards can rapidly boost the profile of MPA and attract the interest of international conservation community including donors who are willing to contribute to a public private scheme. • Out of necessity and/or for better corporate image, private MPA operators not only employ locals but also invest in education and capacity-building at the local level. 	<ul style="list-style-type: none"> • There is lack of rules and legislation that enable, and enforce, different types of concession and cost-sharing arrangements. A guideline and policy relating to concessions is required. • Awarding concessions to any private entity especially profit making companies should be transparent. Auctions have been used to award licenses to private companies in some countries. • There is a need to balance between the amount that the concessionaire will earn and the amount that will be returned to the PA or State. Flexibility should be incorporated into the agreement to enable the review of concession fees. • Safeguards are needed to protect the integrity of the PA ecosystems and mechanism to monitor and retain ultimate control of the concessionaire's operations under the PA authority. • There is a need to strengthen the present processes towards a transparent and independent M&E and EIA process and institutions.

iii) Fines from illegal fishing

Section 53 of the 1984 Parks Enactment prohibits fishing within the boundaries of MPAs. In 2009, Sabah Parks collected RM12,000 from compound fines due to illegal fishing. They are then channeled to the Parks Fund (pers comm. Mr. Ludi Apin, Sabah Parks 2010). Sabah Parks personnel are authorized to enforce illegal fishing activities within the park. Fines are channeled into the Parks Fund. Where illegal fishing activities are caught

beyond the park boundaries, the case is forwarded to the Malaysia Maritime Enforcement Agency (MMEA).

Parks Enactment (1984), Section 53.

- 1) Any person who-
 - a) hunts or is found in circumstances showing that it is his intention to hunt, any animal or bird or disturbs or removes the nest or eggs of any animal or bird in a Park or Nature or Nature Reserve; or
 - b) collects any vegetation or any mineral or is found in circumstances showing that it is his intention to collect vegetation or minerals in a Park or Nature Reserve; or
 - c) without reasonable excuse, fails to produce anything which he may be required to produce under the powers conferred by section 51; or
 - d) performance of their duties
 shall be guilty of an offence.

The Reef Guardian enforcement team was formed in 2005, consisting of 8 certified Honorary Wildlife Wardens (HWW), with the authority to stop, search, and inspect fishing vessels that are found within SIMCA boundaries. They conduct sea patrols both day and night while supported by a land-based team that uses a radar system to monitor boat traffic within SIMCA from 8am to 3am daily. They also record the number of boats detected. They practice a fisher interpretive program whereby first time offenders are informed about SIMCA’s boundaries and given a pamphlet about SIMCA. After the third warning, Reef Guardian will detain the boat and crew and file a police report to facilitate the process of turning over the offender to the police for the prosecution process¹⁷.

The main aim of fines is to deter future occurrences rather than to collect revenue for park management. Fines constitute less than 2% of the cost of enforcement, a poor return to effort. As an economic instrument, fines must therefore be set high enough to deter activities that are harmful to the conservation efforts of the park. Successes and challenges related to fines are highlighted in Table 19.

Table 19: Successes and Challenges related Fines from Illegal Fishing

Success	Challenges
<ul style="list-style-type: none"> • A deterrent against some activities that destroy or undermine the natural resources of the park 	<ul style="list-style-type: none"> • Enforcement powers are limited within park boundaries only, though illegal activities outside the park can still be reported to the marine police or MMEA. • Difficult to apprehend and prosecute small scale fisher offenders especially those who depend on fishing solely for their household income. • Fines from illegal fishing are miniscule compared to the cost of enforcement. However, enforcement activities will still need to go on in order to protect the resource from damage and over harvesting. • The main goal from fines is not to earn revenue but rather to deter illegal fishing. In addition fines do not provide a positive source of funding but a stick option.

¹⁷ Information on Reef Guardian’s enforcement practices were obtained from Reef Guardian 2007.

iv) Philanthropic and private contributions

In Malaysia, MPAs have benefited from corporate partnerships, and to a lesser extent cause-related marketing and venture and new philanthropy (see Section 4.3). The institutional framework of the MPA agencies allows them to receive philanthropic and private contributions; however they are usually channelled by public private or private entities.

Examples of NGOs that work on environmental issues include WWF-Malaysia, Malaysian Nature Society and Wetlands International. WWF-Malaysia implements long term projects in three priority areas of global biodiversity significance including the Kudat-Banggi, Trusan to Kinabatangan (including Turtle Islands and Sandakan Bay) and the Semporna Peninsula (including Tawau Bay and Darvel Bay) conservation areas¹⁸. These efforts are critical in supporting conservation work within and surrounding the MPAs. WWF-Malaysia spent an estimated amount of RM410,000 on Tun Mustapha Park related project activities in 2009. Darwin Initiative through the Marine Conservation Society provided around RM95,800 directly to Sabah Parks in 2009 for The Semporna Darwin Island Initiative activities at Tun Sakaran MPA. Most of these activities are undertaken in collaboration with park authorities.

Corporate partnerships to support conservation activities involve voluntary donations by companies, often to fulfill their CSR strategies. As an example, YTL Corporation Berhad raised more than RM700,000 from their YTL Climate Change Fundraising Gala in 2008 and donated the proceeds to Reef Check Malaysia (YTL 2008). In addition, YTL Corporation Berhad recently launched the “YTL Fellowship for a rare planet” on 22 June 2010 contributing US\$ 2 million (RM6.40 million) for the next four years for community-based environment conservation programmes in Asia.¹⁹ This provides readily available funds for Sabah’s SSME Marine Parks to tap into. At the launch, two WWF-Malaysia officers had been selected as YTL fellows to carry out outreach projects in the Tun Mustapha Park. Foundations are also an important source of funding. Reef Guardian received US\$41,000 from the National Fish and Wildlife Foundation for SIMCA between 2007 and 2009. The successes and challenges related to philanthropic and private contributions are presented in Table 20.

Table 20: Successes and Challenges related to Philanthropic and Private Contributions

Success	Challenges
<ul style="list-style-type: none"> • Philanthropic and private contributions for conservation are on the rise in recent years, reflecting greater concern over the well-being of the environment. • This form of funding has focused on conservation targets and goals and is critical for the survival of specific marine species or MPAs. • Funding of this nature benefits local communities if they help in the MPA conservation programme; NGOs and government play supporting roles. 	<ul style="list-style-type: none"> • Some private donors prefer one-off or short term projects. Hence, long term objectives are only partially met. Some projects may be not in the priority list of MPA managers. • In some instances, usage of funds is closely tied to individual corporate missions, locations or even species, and hence may not cover areas that are in greater need of funds. • Lack of dedicated resources and capacity on the part of MPA authorities and managers to secure individual and private sector funding as well as appropriate independent and public private funding vehicle as private sector tend to contribute to these types of entities.

¹⁸ http://www.wwf.org.my/about_wwf/what_we_do/marine_main/marine_ecoregions/ecoregions_sulu_sulawesi_marine_ecoregion/ (seen 6 June 2010).

¹⁹ http://www.btimes.com.my/Current_News/BTIMES/articles/zaiytl/Article/ (seen 30 Juen 2010).

Philanthropic and private contributions could potentially provide critical resources for enhancing conservation activities or developing capacities of MPA management.

v) Trust funds and Park Funds

CTFs have typically been set up as independent grant-making institutions through broad consultative processes, administered by a trustee, and governed by a public and private board composed of members of several relevant stakeholder groups including government and NGOs. Conservation trust funds may be set up for different purposes such as to finance:

- A single protected area
- A country's entire protected-area system
- Conservation of a particular species
- Small grants to local communities and nongovernmental organizations for carrying out conservation projects.

The different types of trust funds are provided in Annex 5. Most of the trust accounts in Malaysia are public funds, created via financial provisions of the government. Such funds have very strict rules regarding collection as well as spending, and are accessible only by government agencies. In Sabah, a parks fund was created under the Parks Enactment 1984 for channelling and retaining revenues earmarked for conservation purposes to be carried out by Sabah Parks. The accounts of the Fund are examined and reported upon annually by the Auditor-General or other auditor as appointed by the Minister of Finance.

Sabah Parks Enactment (1984), Section 46.

- (1) There shall be established a Fund to be known as the "Parks Fund" which shall consist of such contributions or gifts or bequests of moneys as may be made thereto or any money raised or received by the Board in the exercise of its powers hereunder (including moneys paid for the compounding of offences and fees) and of such money as may be provided for by the Legislative Assembly, together with –
- (a) such additions or accumulations as may be made or accrue thereto;
 - (b) any investment from time to time representing the same or any of them; and
 - (c) the interest and income derived from any such investment

The Sabah Parks board of trustees comprise of a:

- 1) Chairman,
- 2) Deputy Chairman
- 3) 3 Ex Officio Members:
 - a. Permanent Secretary of the Ministry of Tourism, Culture and Environment
 - b. Secretary of Natural Resources
 - c. Permanent Secretary of Ministry of Finance
- 4) Four other members
- 5) Director of Sabah Parks

At the federal level, the Marine Parks Trust Account was approved in 1987 with a launching grant of RM10 million. Around RM\$1.5million from conservation fees were deposited into this Account in 2008. Trust Fund regulations allow the Department to

collect donations from the public as well as from private companies. Though the Parks fund receive occasional one off private funding, this source of funding could be further enhanced due to the potential opportunities from private funding. Funds are used for implementation of management, conservation, protection, enforcement, research, monitoring, education programs within Marine Park Areas in Peninsular Malaysia only and do not extend over to Sabah and Sarawak.

Section 4.2 will discuss trust funds as one of the potential mechanisms for raising revenue for MPA management.

Table 21: Successes and challenges related to trust funds

Success	Challenges
<ul style="list-style-type: none"> • Trust funds are established with a relatively long-term funding objective in mind. This source of funding is more sustained and predictable. • Sources of MPA trust funds: launching grants allocated from Parliament; grants or contributions from private or public bodies, state government, foundations, foreign donors or institutions; contributions or sponsorship from individuals, private sector or other entities. • Multi-stakeholder mechanisms are usually established for management of the funds. • Some trust funds have broad conservation and capacity building objectives. The larger ones fund a wide range of programs/activities, from MPA infrastructure projects, upgrading of tourism related facilities, awareness building programs, professional fees, salary and allowances for temporary or contract staff, honorarium, publication expenses, traveling and transportation related expenses, etc. 	<ul style="list-style-type: none"> • Some trust funds suffer from high overheads and administrative costs given that a rather vigorous and permanent mechanism/structure is needed. The situation is more severe for funds that have relatively small capital. • Wrong or not well executed investment strategy may lead to lower than average investment returns for trust funds, and in some cases, loses. • The effectiveness and usefulness of a trust fund hinges strongly on how capable of its board members, and how cohesive they are in arriving at common decisions with regard to usage of funds. • Public trust funds may have the right to collect funds from private sector but in practice they are not significant. This means it is worth exploring ways for Sabah parks to explore public private arm dedicated to raising funds.

The private sector does not use trust funds. Instead, they use a private account that essentially receives funds and disburses them to activities that have been agreed with their funders. As a non-profit private entity, Reef Guardian retains a company account for earmarking revenues and funds for conservation activities for SIMCA (pers comm. Ms. Achier Chung Fung Chen, Reef Guardian).

4.2 SWOT Analysis

The SWOT analysis for conservation financing of MPAs can be stated as the following.

The key strengths of the marine conservation in SSME (which also applies to the rest of Sabah) are: (1) the quality of the marine resources which gives it a high conservation value as well as (1) the tourism potential and their concomitant WTP which is a source of contribution for conservation.

In terms of opportunities, several items deserve mention: (1) the 10MP has stated the federal government's commitment to conservation, stated as being able to manage environmental and natural endowments while pursuing economic potential in a

sustainable manner; (2) the state government's own recognition of the uniqueness of these resources and its willingness to fund and support the current conservation efforts, (3) the international community's interest to protect an area that has a very high level of biodiversity and provide resources for that; and finally (4) various innovative approaches to conservation financing have been demonstrated as useful in situations similar to Sabah, amongst which is Islamic financing.

However, there are weakness in the local system: (1) the capacity to manage or plan for all the MPAs across the state institutions is lacking, (2) the limited capacity of the state government to finance all the necessary MPA conservation efforts, and (3) incomplete knowledge of where all the biodiversity that exist in the SSME marine ecosystem area.

Finally, in the area of threats, there are two main issues: (1) the large influx of people to the islands of Sabah, including to the MPAs, and (2) the potential over-harvesting of marine resources or its impact on them. Both of these issues could have considerable impact on the critical natural resources in the area.

4.3 Potential Mechanisms: Feasibility and SWOT analysis

Potential mechanisms to support conservation financing are analyzed based on a rapid feasibility assessment and SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis. This study attempts to highlight broad discussion points in line with the scope of the study. Figure 5 illustrates potential mechanisms for development. They include not only external sources from public funding but also include newer mechanisms that range in between external and on-site sources such as in-situ & ex-situ species conservation partnerships and sustainable capital and investment funds from micro finance schemes and discounted loans to support sustainable practices. On-site sources such as tourism based revenues remains prioritized as potential sources of financing mechanisms.

4.3.1 Feasibility of mechanisms potential

This section discusses the potential mechanisms categorized by characteristics of their implementation in terms of short-medium term and medium-long term mechanisms. Other mechanisms that are deemed to be more appropriate to be implemented after a longer time horizon are briefly highlighted in section 4.3.

i) Tourism related mechanisms

Tourism related mechanisms include voluntary contributions from hotel surcharges, tourism volunteering programs and tourism taxes earmarked for conservation.

Some of the reasons and conditions for enhancing tourism related mechanisms include the following:

Reasons for enhancing tourism related mechanisms:

- WTP and unique landscape beauty services esp. coral reefs
- Tourism important sector for Malaysia: need to be sustainably manage if it is too last
- Existing and successful tourism related mechanisms that could be optimized

Conditions:

- Diversity of mechanisms to capture the full spectrum of WTP
- Reallocation to critical activities for sustainable tourism

- Adequate marketing and expertise like in the case of private and philanthropy contributions
- More incentive at site level: need to ensure revenues go back to site level (higher retention rate or reallocation) including to local government and communities
- Transparent and accountable process

Voluntary tourism contributions provide a viable and additional mechanism to increase funding from tourism. Willingness-to-pay studies²⁰ have reported that visitors to protected areas are prepared to contribute to conservation more than the entry fee that they pay. Voluntary tourism contributions can be straightforward and simple, as long as the mechanisms for collection and accounting for the contributions are well established.

Hotels and tour operators can facilitate the making of voluntary contributions via an add-on to hotel or tour bills, etc. The voluntary room tax or conservation surcharge mechanism has been implemented in various hotels around the world such as at Crown Hotels in Hong Kong that collect donations for WWF (Sherman 2003) or similar programs in Turks and Caicos Islands that earmark a percentage of their mandatory hotel and restaurant taxes to support conservation (Davis 2001)²¹.

Voluntary hotel surcharges require an understanding of fair market value of the fee, marketing the idea to hotels and an action plan to implement them. These programs need commitment from MPA management or work in collaboration with an NGO. Full support from hotel operators is crucial. An example of the mechanism would be to automatically set a small donation (e.g. RM3) as part of the room bill and guests are asked if that should be excluded from the bill. Hotel staff need to be given the necessary information and easily interpreted materials to explain how the funds will be used. MPA managers need to be mindful that the administrative costs of the program do not exceed the revenue collected. Though voluntary hotel surcharges have not been implemented in MPAs, WWF-Malaysia is working with tourism operators at the Kinabatangan Floodplain in Sabah on a pilot project called the Voluntary Conservation Levy (VCL) to encourage tourists to make voluntary contributions towards nature conservation work in that area and to promote sustainable tourism. Some tourism operators (e.g. Nature Lodge Kinabatangan) match guest contributions during peak months²².

Tourism volunteering programs are a form of cost sharing mechanism that is simple to implement that requires an action plan. However, they need great commitment to coordinate and at the same time MPA needs should be flexible as assistance may be sporadic and subjected to the time when volunteers are available. Quite a number of companies and organizations (both local and international) have organized volunteer trips for visitors in Borneo including:

- Campsinternational.com (Mantanani island)
- Global Vision International (www.gviusa.com)

²⁰ Yeo Bee Hong (2002) and Chong (2008) both found WTP higher than current marine park fees but these were for work in Langkawi and Tioman, not in Sabah

²¹ Extracted from Drumm and Terborgh 2005.

²² <http://www.naturelodgekinabatangan.com/conservation.php?cpuid=1>

- Way Out Experience Sdn. Bhd. (www.w-o-x.com). A Malaysian based social enterprise promoting responsible volunteering programs.
- Gap year for grown ups. (www.gapyearforgrownups.co.uk)
- Wild Asia provides information and links to voluntary needs ([http://www.wildasia.org/main.cfm/support/Voluntary Work in Malaysia](http://www.wildasia.org/main.cfm/support/Voluntary_Work_in_Malaysia))

It is important that the objectives of the voluntary programs are well defined, particularly areas where volunteers are able to help. Research targets need to be flexible as availability of volunteers may fluctuate and it is important to communicate to volunteers how the costs that they incur will be used.

In Malaysia, environmental related taxes had been applied to the forestry sector (royalty on related timber products) and oil palm industry (as effluent charges to control pollution levels by oil palm mills). However, funds collected are not earmarked and channeled back into conservation activities. Presently there are no examples in Malaysia where taxes are earmarked for environmental or conservation activities.

A conservation financing study in Malaysia by Laplante et al. 2006 examined the potential for various tourism taxes, specifically departure or arrival tax and hotel surcharges. Various scenarios were envisioned in terms of tourist growth rates as well as fee rates. If such revenues were earmarked to an Environment Fund, a significant increase of environmental revenues in Sabah could be expected. Assuming a 10% discount rate, the present value of these revenues would range from RM 130.7 to RM 732.1 million under scenario 1, and from RM 200.7 to RM 1,124.3 million. Despite the attractiveness of the revenue, implementation has met with resistance from the agencies that promote tourism.

Environmental taxes are intended to influence behavioral changes in favour of sustainable practices by targeting specific groups or products. They are justifiable due to the costs needed to maintain and minimize the impacts of tourism. In addition, visitors cause tremendous strain to the existing infrastructures such as water and electricity in Sabah. Large investments are needed to ensure that the tourism industry is fully provided for while not neglecting the local populace. Earmarking for conservation is controversial. A policy decision is needed on this matter.

In any case, any taxation proposal must ensure that the cost of implementation and enforcement do not exceed the expected revenues. Studies should be undertaken to assess the acceptability of these taxes and their appropriate fee structure from tourist exit or entry surveys.

Besides the arrival or departure taxes or hotel surcharges, taxes from the sale of environmental services or non-environmental related products could also be earmarked for conservation activities. Similarly, tax relief programs could be another opportunity for generating revenues, such as donations to approved institutions including charitable organizations such as WWF-Malaysia. Strong political will is needed to review tax reforms towards environmental purposes. In addition certain systems require changes in the legislative or institutional framework to support the suggested fiscal (taxes and subsidies) systems.

ii) Philanthropic and private contributions

Cause-related marketing mechanisms and venture and new philanthropy are two mechanisms under philanthropic and private contributions that have been identified as potential mechanisms with short to medium term applicability. This section provides some existing application in order to relate the feasibility of their adoption. The rationale and conditions for these mechanisms include the following:

The rationale for developing:

- High visibility and importance of marine and coral reefs
- Malaysia and other countries: middle income country and region with wealthy individuals and companies
- Sabah State and Federal commitment to CTI/SSME

For these mechanisms to be implemented, the following conditions need to be met:

- Return on investment plan: based on existing experiences, need to value the investment to develop such mechanisms and the expected return taking into consideration
- Appropriate financing mechanisms: transparency and accountability
- Public private partnership: Collaboration
- Specific expertise and stakeholders role

An example of a **cause-related marketing mechanism** is the sale of merchandise that is related to a particular cause, e.g. conservation of marine resources.

For example, the Turtle Conservation Centre set up their turtle merchandise program mainly to raise awareness about turtle conservation²³. The program relied on the internet and also resort operators for the sale of their products.

Sabah Parks has adopted various forms of small scale cause-related marketing activities including the sale of merchandise in terms of books, VCDs and souvenirs bearing pictures in relation to the parks. The Reef Guardian has identified the sale of merchandise as one of their fundraising activities for SIMCA to start in 2010 with items such as T-shirts, underwater DVDs, posters, stickers and simple fish ID booklets (Reef Guardian 2009). The initial cost for establishing the program was approximately RM10,000 a year with the expectation that it would generate around 30% - 50% of Reef Guardian's revenue in the future. However, there is no information on how much it cost.

In addition, various adopt-a-turtle programs have been implemented by:

- Ma'Daerah turtle sanctuary (a collaboration between Department of Fisheries, WWF-Malaysia and BP Petronas Acetyls Sdn Bhd),
- Sarawak Forestry Corporation invites the public to adopt turtles in their Turtle Adoption Program from May to September each year. Adoption of a turtle is RM200 and RM100 to adopt a nest²⁴,
- Aquaria KLCC launched a one-off program in 2007 with the target 1,500 turtles for adoption at RM150 per turtle. 913 turtles were adopted whereby micro chips were tagged at various turtle and terrapin sanctuaries around Malaysia. The funds raised were specifically channeled into a research activity in tagging turtles. The project was developed in collaboration with the Department of Fisheries Malaysia (DoFM), Universiti Malaysia Terengganu (UMT), The Body Shop and Media Prima²⁵.

²³ <http://www.turtleconservationcentre.org/blog/check-out-our-turtle-themed-merchandise/>

²⁴ <http://www.sarawakforestry.com/htm/news-mediarelease-detail1ff6.html?id=281>

²⁵ http://www.aquariaklcc.com/Adopt_A_Turtle/adopt_main_content.html

- The Sea Turtle Research Unit (SEATRU) of UMT runs turtle nest adoption programs at their natural site in Chagar Hutang, Pulau Redang, Terengganu. Adoptions made in Malaysia cost RM100 while overseas adoption cost US\$40²⁶.

These programs demonstrate the importance of collaborating with NGOs or the private sector to enhance their success and impacts. Also sufficient information on how funds would be used must be provided, e.g. the Aquaria KLCC provided detailed information of how the funds were being used on line.

Opportunities for the SSME MPAs include turtle adoption programs for Turtle Islands, 'friends of park programs for Tun Sakaran and Tun Mustapha Marine, and merchandise programs especially for the more established sites such as SIMCA, Turtle Islands and Sipadan Island Park.

Cause-related marketing mechanisms require some experimentation and fairly in-depth knowledge of marketing and understanding of what will work. There are many ways of raising funds including special events, sales, adoption schemes such as 'friends of a park' through diving groups or adopt a turtle and collection schemes. It is important to note that considerable knowledge, time and resources are required to pull these mechanisms through.

Venture and new philanthropy are fairly new mechanisms that are evolving especially to tackle poverty issues. Online giving seems fairly straightforward but it is the name of the organisations that must inspire confidence for donation. For instance, traditional environmental organizations such as WWF, IUCN, Conservation International or endorsement by high profile celebrities and individuals have used this method. Intermediary sites such as Global Giving (see their options for funding environmental projects from the link below²⁷), DonorsChoose etc. provide the direct means for channelling funds directly to the conservation activities on the ground. A Malaysian web portal <http://www.hati.org.my/> has provided information on Malaysian charities since 2001. They do not collect donations on behalf of the organizations but they highlight the mandate, contact information and needs of various organizations.

As for **philanthropic and private contributions**, WWF-Malaysia received around 39% of their income from donations or legacies from individuals in 2008 and 43% in 2009. Substantial portions of this originate from WWF's Direct Debit Donor Programme where donors sign up to allow a monthly deduction via their credit card (pers comm. Tan Hui Shim WWF-Malaysia, 2010).

Another avenue is the Travelers' Philanthropy²⁸ project by the Center for Responsible Travel, which connects donors, travellers, and leading responsible travel companies and allows them to donate funds. Information on projects, travel company directory, conferences related to best practices and examples of the program in action are available online.

Venture and new philanthropy allow parks to increase their revenue portfolios. One drawback of this initiative may be the possibility of it being a donor driven activity.

Another source of funding which is not related to philanthropic and private contributions but provide important potentials are international funding. Some examples include funding from multilateral (e.g. GEF, ADB, UNDP, UNEP) and bilateral agencies (e.g.

²⁶ <http://seatru.wordpress.com/activities/conservation/>

²⁷ <http://www.globalgiving.org/dy/v2/content/themes.html?themeName=Environment>

²⁸ <http://www.travelersphilanthropy.org/>

JICA, GTZ, USAID, DANIDA); foundations (e.g. Ford Foundation) and NGO (e.g. Conservation International and WWF) funds have contributed significant funding for protected area management and development. Some funds are research based such as the Economics and Environment Program for Southeast Asia (EEPSEA - <http://www.idrc.ca/eepsea/>) that funds environmental economics studies such as willingness to pay and economic valuation analysis.

Some funds are research based such as the Economics and Environment Program for Southeast Asia (EEPSEA - <http://www.idrc.ca/eepsea/>) that funds environmental economics studies such as willingness to pay and economic valuation analysis.

iii) Sustainable capital and investment funds

The mechanisms related to sustainable capital and investment funds include subsidized loans tied to sustainable practices, micro finance schemes and investment funds

Subsidized loans tied to sustainable practices

The cost to switch to sustainable practices could be prohibitive unless an incentive or attractive option is given. Subsidized or discounted credit facility tied to sustainable practice standards could provide loans to enterprises (e.g. tourism or forestry).

For example, The International Finance Corporation (IFC), a private sector arm of the World Bank Group adopted a set of performance standards that specifically acknowledge the importance of sustainable development and biodiversity conservation that companies must adhere to for project loans (WWF 2009).

In the New Economic Model (National Economic Advisory Council 2010), the Government of Malaysia has identified the need to ensure the sustainability of growth as one of the Government's Strategic Reform Initiatives (SRI). One of the instruments for implementation is the financing of green investments by:

- developing banking capacity to assess credit approvals for green investment using non-collateral based criteria
- liberalising entry of foreign experts specialising in financial analysis of viability of green technology projects
- supporting green technology investment with greater emphasis on venture capital funds

However, a business case for green investment must be made if small and medium set ups (SMIs) are to be enticed. Some opportunities for applying to subsidized loans in Malaysia include:

- The RM1.5 billion Malaysian Green Technology Financing Scheme for investing in green technology established on 1 January 2010. The Government bears 2% of the total interest/profit rate, and guarantees 60% on the financing amount via Credit Guarantee Corporation Malaysia Berhad (CGC), with the remaining 40% financing risk to be borne by participating financial institutions (PFIs) (see <http://gtfs.my/>).
- The Sabah Development Bank (SDB) a Sabah-owned Development Financial Institution (<http://www.sabahdevbank.com/>), provides project finance and fixed assets

finance. The SDB focuses on three thrust sectors, namely agriculture, tourism and manufacturing (<http://www.sabah.gov.my/cm/halatuju.php>).

Such programs needs coordination and facilitation by a third party such as an NGO to establish the linkages and promote the benefits in adopting green technology through discounted loans.

Rationale:

- Various industry players, especially private operators needs support adopting sustainable practices.
- Opportunities exist in terms of technological advancement and also best practices.

Conditions:

- Existing sustainable investment defined by straightforward criteria and indicators to be met by operators to reduce their impacts on MPAs and marine ecosystem and existing independent monitoring entities
- Existing needs for capital from private operators in the sector of tourism and aquaculture and significant market size and appetite (level of capital needs, # of operators, risk assessment...)
- Interest from the different banks and programs to pursue these opportunities and carry out due diligence to assess feasibility above.

Micro-finance schemes

Microfinance schemes offer poor people access to basic financial services such as loans, savings, money transfer services and micro insurance. The most famous is the Grameen Bank model. In addition to the funds, the businesses are supported with business skills training and environmental technical advice to enhance their success. Micro-financing exists in Malaysia by institutions such as Amanah Ikhtiar Malaysia, Agro Bank and commercial banking microfinance arms such as CIMB express, providing small loans not exceeding RM50,000 to lower income groups. The amount of lending has increased at an annual rate of 35% from a few hundred million to RM\$1.2 billion²⁹. However these schemes are not directly related to sustainable practices. Nevertheless, there are examples of microfinance programs that acknowledge a triple bottom-line approach (people, planet, profit) that have positive impacts on biodiversity conservation.

Microfinance schemes provide the opportunity for community based activities and livelihood practices that would reduce stress on the marine environment and in effect, promote cost sharing. Some existing initiatives include:

- Amanah Ikhtiar Malaysia was established in September 1987 as a Private Trust Corporation based on the famed Grameen Bank concept. The organization provides financing support for poor households to conduct income generating activities. http://www.aim.gov.my/~cms/englishversion/index_eng.html
- The Small Grants Program (SGP) of the UNDP supports community based initiatives related to environmental concerns. <http://sgp.undp.org/>

The high numbers of indeterminate people especially on the East Coast of Sabah makes it complex to apply this instrument as most of them are not Malaysians. Thus the official

²⁹http://www.theedgemaalaysia.com/index.php?option=com_content&task=view&id=13567&Itemid=79

programs do not have the mandate to engage them. In addition, the property rights of the indeterminate people are non-existent. Thus, the micro-finance options may not be suitable for such people, but may be good for local Malaysians.

Investment funds

There are very few **environmental investment funds** in Malaysia. The Hwang DBS Environmental Opportunities Fund (EOF) is the only known equity fund in the Malaysian market. It was launched in 2007 to achieve capital appreciation over medium to long-term by investing globally in companies involved in environmental markets. The Fund invests in environmental markets that are relevant to four sub-sectors, i.e. energy (renewable energy and energy efficiency), water (e.g. water treatment and pollution control); waste (e.g. technologies and resource management) and other environmental markets (e.g. environmental consultancy and multi-utilities)³⁰. Links could be established to see how the existing investment funds related to energy, waste and water could improve MPA sustainability.

An internet search shows several fund management companies investing in an array of environmental markets. Funds that are linked to biodiversity are usually supported and promoted by multilateral donors or NGOs. Many funds are still in its infancy and the financial returns of some biodiversity investment funds have been lower than initially projected, at times below conventional investment funds. Two large funds Terra Capital Investors supported by the Global Environment Fund and the Environmental Assistance Enterprise Fund a fully owned subsidiary in Costa Rica set up in 1990 are no longer operational. The lessons learned from earlier funds help in operations of future funds.

Another form of financing in recent years has been **Islamic finance** which is now recognised as a growing area in this region. It is becoming more of a mainstream product, especially in financing of homes and businesses. The ability to create Islamic financial products is still depends on returns to investment, which must pass through rigorous assessment. It can be applied in say seaweed farming by local people, but that runs on a small scale level. However, at this level of investment, Islamic finance instruments would not likely be interested due to the scale. Micro-finance (Grameen Bank model) might be more suitable.

iv) Revenue from the sale and trade of wildlife

In-situ and ex-situ species conservation partnerships are usually adopted by governments and zoos. However, there are no cases of ex-situ zoo exchanges of endangered species in Malaysia especially for marine species. Research exchanges have taken place for example on orang utan and rhinos between Sime Darby and United Kingdom and European Research centers. The results from the group consultation showed that in-situ and ex-situ species conservation partnerships can be a potential tool for further development (Table 8).

In-situ and ex-situ conservation partnerships facilitate scientific exchange in terms of research or education and at the same time raise revenue for protected area management. However, the logistical challenges in transporting marine species may create stress for them as they are transported to their new environments. Nevertheless research exchanges especially with universities or research institutions could provide tremendous benefits in terms of new methodologies or capacity to carry out certain research area to benefit both parties. The process for applying the necessary approvals

³⁰ Source: <http://www.hdbsim.com.my/products/view/23>

by researchers outside Sabah or affiliated institutions makes it a great barrier for this type of partnership.

v) Fishing industry revenues

The Government of Malaysia provides various subsidies to the commercial fisheries sector and it is not imaginable that the situation can be easily turned to one where the fishing industry generates revenues for the government. Currently, a nominal annual fee (license) is collected but that is not sufficient to pay for the cost of regulation.

However, licensing recreational fishing has great potential as it was estimated that there is 1 million recreational fishermen in Malaysia. Recreational fishing is presently not regulated though processes are being developed to initiate the monitoring of the industry. Appropriate license fees can be charged to reflect the actual value of fishes supporting recreational fishing and its conservation costs.

Studies are underway to investigate the role of SIMCA in supporting fish breeding nursery. Information from this study could facilitate discussions with the fishing industry on the potential of fisheries agreements which could initiate transfer of funds to support conservation of the fish breeding grounds in SIMCA.

vi) Compensation and biodiversity offset payments

Biodiversity offsets are conservation actions designed to compensate for the unavoidable impact on biodiversity to ensure “no net loss” and, preferably, a net gain of biodiversity. These mechanisms are gaining ground especially in developed countries where the enforcement of environmental impacts is closely monitored. Some countries practice mandatory offsets whereby impacts on the environment on one site need to be compensated at another site. In Sabah the Malua Bank has started a biodiversity offset program that provides companies an opportunity to purchase biodiversity credits. However, they are still voluntary credits at this point. As the Sabah Malua Biodiversity banking fund has just started, it may be wise to wait a while to see how it performs before taking a firm decision to try out this option.

In addition to offsets, fines for damages to the environment are another mechanism. The Straits of Malacca Oil Spill Revolving Fund provides the contingency resources for rapid response should any oil spill occur along the straits. The fund is managed by the three states (Indonesia, Malaysia, and Singapore) on a rotational basis for five years based on a Memorandum of Understanding signed in 1981. The Nippon Foundation and Petroleum Association of Japan contributed about US\$5 million as the principal sum of the revolving fund. Following an oil spill, the company or individual deemed responsible for the damage must reimburse the revolving fund for any cleanup expenses incurred.

A similar system to the Malacca Fund could be explored for the vicinity of MPAs due to their ecological sensitiveness to work towards reducing petrol leakages and impacts on the marine environment. The necessary legal framework exist for prosecuting or issuing penalties for environmental damage within parks (based on Parks Enactment, Part VIII, Section 48) and beyond parks (<http://www.doe.gov.my/en/sabah>). Mechanisms for funds collection and disbursement must be developed and this is usually managed by the government (in Malaysia) or an independent trust fund or an NGO dedicated to conserving the environment.

vii) Payment for watershed services

Watersheds are important natural catchment areas that regulate water flows to rivers and streams and in turn water supply for consumption, electricity generation or sustaining

biodiversity or fish resources. Payments for watershed services involve creating markets for transactions to take place between those who benefit from watershed protection to those who forgo certain benefits or incur costs to conserve the watershed areas.

Payments for watershed services will require extensive studies based on modeling to show the benefits of watershed functions. Such opportunities could be explored in Tun Mustapha Park. This mechanism needs a high degree of coordination of all the relevant stakeholders and well established agreements prior to the start of the scheme. In addition, proponents need to be mindful of the administrative and transaction costs involved in implementing the scheme.

However, it is not easy to see how the five SSME marine parks in Malaysia can avail themselves of this instrument and hence it will not be discussed further.

viii) Natural resources trade and bio prospecting

Bio prospecting usually takes decades for a product to be developed and it deters development of bio prospecting agreements. However, bio prospecting research can benefit host countries when host country institutions and scientists are maximized. Involving host countries in the collection, screening of biological materials, and in the characterization of the active components, creates opportunities for employment, technology transfer, the training of students and the strengthening of local research programs.

The Sabah Biodiversity Council and the Sabah Biodiversity Centre (SaBC) were established to provide the institutional framework to ensure the sustainable management of biodiversity in Malaysia under the Sabah Biodiversity Enactment 2000³¹. The SaBC is mandated to regulate the access to biological resources in Sabah and is preparing the Rules and Regulations (R&R) to cover guidelines on bioprospecting or transformations of natural resources for Sabah which is scheduled to be enforced this year.

Presently there are a few potential bioprospectors for example Nimura Genetic from Japan and another European pharmaceutical company looking at marine resources (pers comm. Sabah Biodiversity Centre, 2010). A form of bio prospecting project was carried out the Sabah based Marine Research Foundation (MRF) in collaboration with the US National Cancer Institute to survey resources around the southern end of Sabah and around Kota Kinabalu, and as far offshore as Layang Layang (pers comm. Nicolas Pilcher, Marine Research Foundation, 2010).

The widespread exploitation of indigenous knowledge has made people wary of bio-prospecting interests.

ix) Blue carbon

In theory, modified versions of the forest-based REDD schemes (reduced emissions from deforestation and forest degradation) have been suggested that they are easily applied and extended to coastal carbon sinks such as mangroves and sea grass beds. Mangroves are especially suited for carbon capture because they accumulate large amounts of carbon in their soil, while terrestrial forests amass them in trees and branches. The role of coastal ecosystems in carbon sequestration has been recasted as opportunities like 'gold in blue carbon'. However, the general conclusion is that more studies are needed before payment schemes could materialise, particularly relating to the scientific aspects of net carbon storage (Ecosystem Marketplace Insights 2010).

³¹ <http://www.sabah.gov.my/sabc/>

x) Wildlife stamps

Stamps or relevant products depicting pictures of wildlife or nature have been used to raise funds for conservation. Stamps also help to raise awareness on environmental issues. Some wildlife stamp initiatives earmarks revenue for conservation, such as the German Bundespost conservation stamps that raise funds for both domestic conservation activities in Germany and international projects.

In the context of Malaysia, wildlife themes have been applied to stamps but revenues not earmarked for conservation (e.g. protected animal series in 2005, marine life in 2004 etc.³²). However, the assessment in Malaysia indicate that the returns may not be attractive enough to develop the mechanism further as the small customer base that collects stamp may not be large enough to raise significant funds compared to the potential effort needed to organize the mechanism. The implementation of wildlife stamps may not be applicable in Malaysia, however, they may be complemented with other mechanisms such as private and philanthropy contributions.

xi) Conservation trust funds

A conservation trust fund (CTF) for Sabah could provide an important framework for receiving and disbursing funds for conservation purposes. A Trust Fund could complement and support existing park funds in terms of annual year to year financing gaps. A detailed study is proposed to identify the benefits and costs of setting up a conservation trust fund³³. Setting up of trust funds requires intense coordination and engagement of various sectors. Spergel and Taïeb (2008) suggest that CTFs are just one of a number of different tools for financing biodiversity conservation and are not necessarily appropriate or feasible for all countries and in all situations. The GEF *Evaluation* concluded that CTFs require four essential conditions (extracted from Spergel and Taïeb 2008):

- a. CTFs require a commitment of 10 to 15 years;
- b. Active government support for a public-private sector mechanism outside direct government control is required;
- c. A critical mass of people from diverse sectors of society that can work together to achieve biodiversity conservation and sustainable development; and
- d. There is a basic fabric of legal and financial practices and supporting institutions (including banking, auditing and contracting) in which people have confidence.

In conclusion, the underlying importance of linking funds to conservation needs to be emphasized. Financing mechanisms should support the long term goals of sustainable management of marine ecosystem resources. The tools for enhancing conservation financing go beyond financial mechanisms alone – careful adoption of incentive systems and removal of perverse incentives that impact on the environment should also be considered for a complete picture. Appendix 6 describes the important factors in establishing a trust fund that targets private or international funding source.

4.4 Strategies for Implementing Sustainable Financing Mechanisms

This section provides an overview of key financing mechanisms towards covering the estimated shortfall of about RM6.5 million for Sabah Parks and RM0.96 million for Reef

³² Source: <http://www.pos.com.my/V1/main2.asp?C=/V1/Philately/StampGallery.htm>

³³ Transparency and accountability are very important issues when external private funds are sought for their contribution.

Guardian. The mechanisms can be divided into those that could increase revenue (see Figure 7) and also those that could minimize the impact provide cost sharing opportunities (see Figure 8). The action points are organized respectively for action at the park, state and national levels.

In terms of raising revenue to cover the financing gaps, three priority strategies are proposed (see Figure 7):

- **Enhance government funding**

At the state level, institutionalizing financial planning will provide clear direction to achieve conservation goals in order to provide critical information to leverage funds from government and outside sources. There is a need to raise the profile of such wealth at the state and national levels particularly on the economic values of the MPAs and their relevance to the country's policy aspirations. At the national level, the Malaysia CTI national committee provides another platform to explore how the SSME MPAs could benefit from Malaysia's pledge to CTI activities. The Five Year Malaysia Plan or Mid-Term Review provides an avenue for development funding from the Federal Government.

- **Increase more site level contributions**

Site level contributions could be enhanced by improving entry fees in relation to tourists' willingness to pay. Due to the challenges of social and political acceptance it is not possible to charge the full amount as guided by WTP studies as these estimates are comprised of a range of willingness to pay from low to high values. Hence voluntary tourist contributions provide the avenue for those who are willing to contribute more than the entry fees charged.

- **Tap into international, private and philanthropic funding opportunities:**

International, private and philanthropic funding provides vast opportunities especially in light of the significance of the SSME MPAs in Sabah as a global marine biodiversity hotspot. Investing time and resources into submitting applications for funding would increase the chances for funding.

- **Enhance cost sharing strategies:**

Cost sharing strategies that particularly would minimize environmental impacts are also important considerations. The study have identified the need for engaging the private sector that have potential impacts on the marine environment (such as resorts, hotels, mariculture farmers) through potential discounted loans in order for them to adopt sustainable practices. In addition engaging the community is also critical and the two means for this include opportunities for co-management and micro finance loans.

The specific action points for the two proposals are indicated in Figure 8.

The study has also identified the need to assess opportunities from concession agreements and earmarked taxes (e.g. airport entry or exit taxes) through further studies.

Other mechanisms not highlighted in the diagram such as fishing industry revenues, compensation payments and watershed management payments are identified as medium term to long term strategies where institutional review and studies are required to further understand better the risks and potential for implementation.

Figure 7: Strategies for increasing revenue

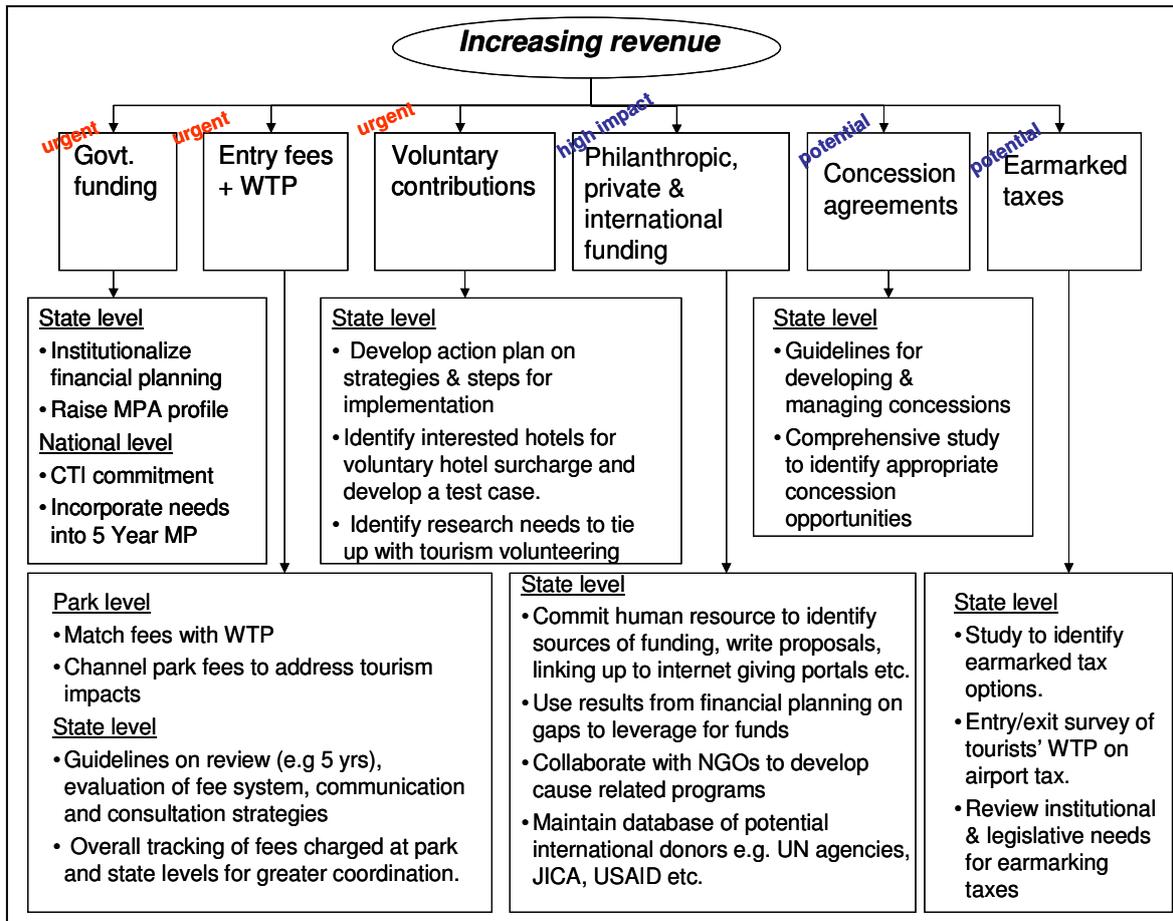
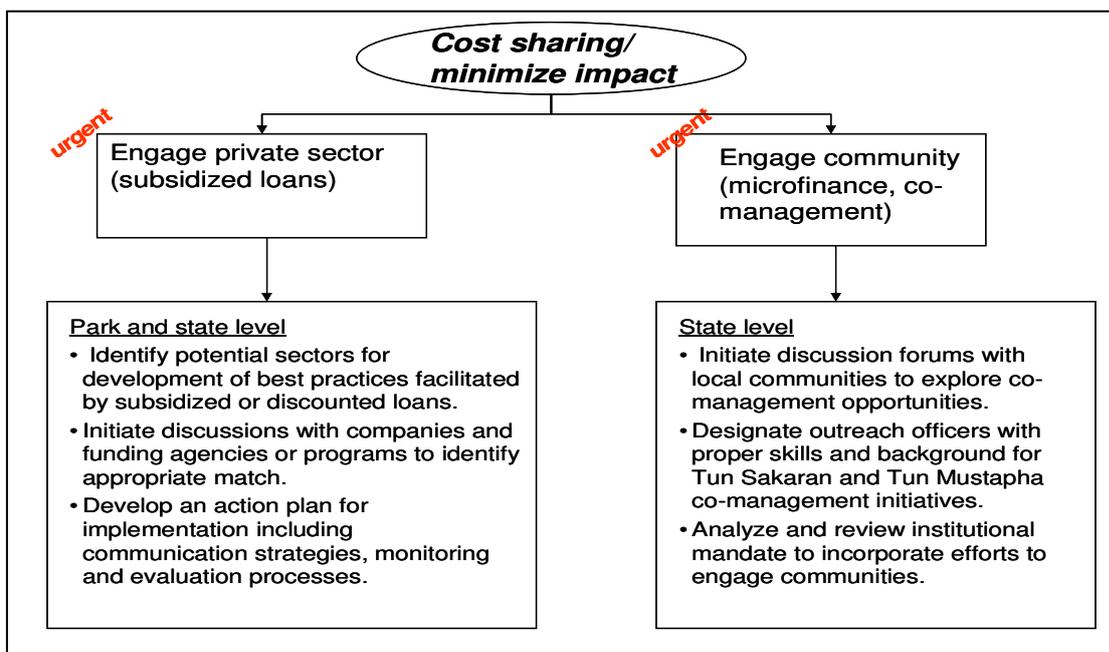


Figure 8: Strategies for cost sharing and minimizing environmental impacts



5. Key Findings and Recommendations

5.1 Key Findings

This section will finalize the key findings from the various assessments carried out in the study particularly on financial assessment, institutional, legal and regulatory framework, sustainable financing mechanisms.

The key findings of the study are as follows:

The two organisations in-charge of SSME MPAs, i.e. Sabah Parks and Sabah Wildlife Department have different levels of understanding of their financial needs vis-à-vis conservation financing due to their institutional setup. Sabah Parks, being a body corporate, is an independent financial accounting entity, keeping its own set of accounts. They were able to compile their revenue and expenditures for all their MPAs in 2009 and thus estimate their financial gaps. With additional effort, they disaggregated the financial accounts to the park level.

In the case of Sabah Wildlife Department, their financial accounts are integrated at the ministry level, making it difficult to separate out park level information. To do so, the Department's financial accounts for park management would require a major effort, perhaps to the extent of going through each and every bill, and then deciding how much of that belongs to the park, etc. Just following normal rules of the government, one could not disaggregate the financial data to the park level. Furthermore, SWD outsourced the management of SIMCA to Reef Guardian Sdn Bhd. Thus, it is the latter's financial needs that should be taken into account. As Reef Guardian is a private entity, they understand their financial accounts very well and gave their cooperation for this study.

Being part of the government, these agencies follow the unwritten rule that they spend only what is approved. Thus, the approved budget sets the spending limit, and in practice they comply to these limits so that the government can control its overall budget line. How then could one estimate needs from spending and financial gap? The study team used the UNDP scorecard approach that sought to disaggregate the expenditure data into "basic" from "optimal" spending. Basic spending is defined in this study as current spending, and optimal spending is that which meets the conservation objective of the agency. Thus, in this way, a financial gap can be estimated.

FINANCIAL ASSESSMENT

A financial analysis of the four MPAs of Sabah Parks within SSME shows an annual shortfall or financing gap of RM0.8 to RM1 million at the basic level. For Reef Guardian, the 2009 data shows a surplus of RM0.45 million but the average over the past 4 years (including 2009) shows RM0.146 million in deficit annually. Taking that into account, the basic level annual financing gap for all parks in the SSME area is between RM1 and 1.15 million.

It is important to note that other government agencies provide various services to marine parks and reserves but cannot estimate their cost of those services for the same reasons that apply to SWD. The key institutions are the Fisheries Department, Tourism Board, Biodiversity Centre, Land and District Offices, Land and Survey Department, state EPU, and also the state Ministry of Finance. The federal government, particularly the military and navy have a big presence in order to ensure security and well-being of this region.

To meet their conservation objectives, both Sabah Parks and Reef Guardian estimated that they would need additional RM6.25 million and RM0.96 million respectively over a five year period. Thus the optimal expenditure that enabled them to meet the conservation objectives, would include: studies of the natural resources, the planning and management of the MPAs (e.g. zoning plan), understanding the social impact on the marine resources, particularly risks in achieving its conservation objective, estimating the value of marine resources and showing how they benefit society and the people.

Examining their sources of revenue, Sabah Parks and Reef Guardian have very different characteristics. About 80% of Sabah Parks' revenue is from government allocation, 8% are from site-level fees and charges, and 11% from international donors. A Parks Fund has also been created solely for Sabah Parks' use, and the main source of income is from their income/revenue. In the case of Reef Guardian, about half the revenue is from site level fees and the other half from international donors.

With regards to financial sustainability, Sabah Parks has the full support of government funding and there is also a trust fund which they have access to. Sabah Parks collects RM1.6 million from fees collected from Sipadan but hands that over to the federal government as their contribution to the cost of security provided to the region. If these fees were included into Sabah Park's revenue, it would not have any deficit at all.

Reef Guardian's financial situation is more precarious as they have almost no government support. In fact, they pay a concession fee to the government for the rights to charge tourists who visit the park. Without financial support from international donors, they would be in deficit. Reef Guardian's efforts at conservation would be greatly enhanced with government support.

INSTITUTIONAL AND REGULATORY FRAMEWORK

In examining the legal, institutional and regulatory framework for conservation financing, the main stakeholders (i.e. government) made a self-assessment based on the UNDP Scorecard. The key findings are as follows. The key laws and institutional basis for levying fees and charges are deemed to be in place. The financial policies are considered to be comprehensive although there are areas for improvement. It was acknowledged that the financing allocations are weakly linked to the conservation objectives of Sabah Parks.

A separate analysis of the financial data at park level shows no correlation between tourist pressure and the management response in financial terms. In the area of transparency, it seems obvious that all these processes are clear to those in government, but it may not be clear to those outside. Greater transparency is required if external and outside funding is to be pursued. Another key issue is the capacity to work across institutions and to achieve the conservation objectives of the government.

In terms of business planning for the MPAs, some shortcomings were identified. Financial planning needs to be improved. Only two MPAs have management plans. Training of MPA staff can be improved and there is no proper monitoring and evaluation system in place to feed into the planning process. Only two parks have a fully functioning fee collection system so far. It can be extended to other parks but that is subject to approval by the government.

As for tools for revenue generation, the stakeholders indicated a need to diversify the sources of conservation financing even though there is a basic system in place. For instance, there is an annual process of government budgeting and fund disbursement. Sabah Parks has the capacity to set fee rates, collect fees. There is also a concession model for conservation that has been rolled out for SIMCA park management (Reef

Guardian) and accommodation on Turtle Islands (Crystal Quest). Looking at the revenue structure of the two main institutions in charge of SSME parks, a diversification strategy of funding is critical to the ability to carry out their core conservation functions. But the main issue is the ability to raise sufficient funds for proper management of the MPAs, while being more efficient in terms of the utilization of available resources.

Thus, the key question is how to reduce the financing gaps under the basic (current) and optimal (desired) scenarios. The main recommendations of the study can then be categorized as short term and medium term. Short term solutions require little or no change to the status quo but merely to put more effort to pursue current funding sources in a more efficient and cost-effective manner. Medium term solutions require changing the way “business is done”, and this will require new policies, new laws or regulations, or greater inter-agency collaboration efforts, or even reforming financial accounting system, etc.

SUSTAINABLE FINANCING MECHANISMS

It is important to link funds to conservation needs in order to support the long term goals for the sustainable management of marine network areas. The present basic systems can be enhanced with further diversification of funding sources. Proposed short, medium and long term strategies are highlighted below. The specific proposals for raising funds and cost sharing initiatives and their associated action points are provided to support these short, medium and long term strategies (see Figures 7 and 8).

IN THE SHORT TERM

In the short term, the first group of proposals is for the government to cover the financial gaps through enhanced government funding especially federal financing support. The development planning process provides avenues and channels for financing conservation activities that would achieve long term sustainable use objectives (10MP). A specific proposal is to provide conditional funding for conservation efforts in SIMCA if they met certain sustainability criteria, e.g. whether conservation objectives are met while pursuing economic objectives in a sustainable manner. It seems the 10MP would provide financial resources if such criteria were met. State government financial contributions to MPAs can also be reviewed, particularly in line more effective use of state finances for conservation.

The second group of short term proposals is to ensure more site level contributions to conservation efforts. In this regard, site level fee rates and structures should be set at par with the willingness to pay in areas where tourists go, which means regular reviews and revisions. A voluntary contribution system could also be set up. Additionally, the entry fee system and other related fees should be extended to the Tun Sakaran Marine Park and the Tun Mustapha Park.

A third set of proposals is to seek international funding on a more aggressive basis as the appetite for protecting areas of high conservation value is high, and the potential for conservation is still great. The respective agencies in-charge should put in more applications and do the necessary follow-up.

The fourth set of proposal requires medium term framework especially to promote cost sharing initiatives in order to minimize environmental impacts. These include engaging the private sector through subsidized loans and communities in the form of co-management initiatives or microfinance.

The vision for the medium term is greater transparency and accountability for MPAs. The government will have to agree to ensure that MPAs are given a high level of protection. It

is recommended some new mechanisms be explored, e.g. cause related marketing, and establishing partnerships for species conservation and earmarked taxes while enhancing existing mechanisms by reviewing concession agreement models.

OVER THE MEDIUM TO LONG TERM

Over the medium to long term, it is important to pursue other revenue sources and instruments. The key areas include: biodiversity offset payments, payment for ecosystem services, revenues from aquaculture and wildlife trade, and fines for environmental damage as well as a conservation trust fund that targets international sources of funding. To do this, various studies will have to be commissioned to examine areas where critical changes are needed, e.g. laws, regulations, property rights, inter-agency collaboration, the framework for bio-prospecting and access and benefits sharing, etc.

The SWOT analysis for conservation financing of MPAs can be stated as the following.

The key strengths of the marine conservation in SSME (which also applies to the rest of Sabah) are: (1) the quality of the marine resources which gives it a high conservation value as well as (1) the tourism potential and their concomitant WTP which is a source of contribution for conservation.

In terms of opportunities, several items deserve mention: (1) the 10MP has stated the federal government's commitment to conservation, stated as being able to manage environmental and natural endowments while pursuing economic potential in a sustainable manner; (2) the state government's own recognition of the uniqueness of these resources and its willingness to fund and support the current conservation efforts, (3) the international community's interest to protect an area that has a very high level of biodiversity and provide resources for that; and finally (4) various innovative approaches to conservation financing have been demonstrated as useful in situations similar to Sabah.

However, there are weakness in the local system: (1) the capacity to manage or plan for all the MPAs across the state institutions is lacking, (2) the limited capacity of the state government to finance all necessary conservation efforts for MPAs, and (3) incomplete knowledge of where all the biodiversity that exist in the marine ecosystem within the SSME area.

Finally, in the area of threats, there are two main issues: (1) the large influx of people to the islands of Sabah, including to the MPAs, and (2) the potential over-harvesting of marine resources or its impact on them. Both of these issues could have considerable impact on the critical natural resources in the area.

5.2 Recommendations

The key recommendations of the study are provided at different levels including overarching policy and institutional recommendations and specific action plans:

Policy Recommendations

Policy No.1: Ministry to initiate Sustainable Financing Policy

It is recommended that the Sabah Ministry of Culture, Tourism and Environment affirm that sustainable financing is a fundamental objective for all its MPAs. In this regard, the

Ministry will table a sustainable financing policy for the adoption by the State government that will provide modalities and strategies for achieving this goal.

Institutional Recommendations

Institutional Recommendation No.1: A sustainable financing objective for MPAs in Sabah

It is recommended that the Sabah Economic Planning Unit (UPEN Sabah) is an ideal institution to take up this responsibility for making a full cost assessment for the marine parks and to implement the sustainable financing policy. The rationale is that the UPEN Sabah is an apex agency with oversight over other state agencies. Hence, the UPEN Sabah can coordinate the collection of data from state agencies, estimate financing gaps, and generate a comprehensive picture of the financial status of conservation and financing needs. With this new information, UPEN Sabah together with state agencies could better examine strategies, procedures and actions to close those gaps. UPEN Sabah is in a much better position to advise other agencies on federal, regional and international opportunities to attain the policy goals. In this regard, the UPEN Sabah can assist all state agencies and ministries to move towards a more outcome based approach for their investments in the marine parks. The terms of reference for this work principally focussed on the area of financing strategies and modalities.

Institutional Recommendation No.2: Key agencies to develop sustainable financing strategies for all MPAs via a network of agencies

It is recommended that a comprehensive institutional network of agencies be set up by the Ministry of Culture, Tourism and Environment. UPEN Sabah and the state Ministry of Finance, along with agencies of the Ministry such as Sabah Parks, Sabah Wildlife Department, Sabah Tourism Board, and Biodiversity Centre, shall be core members of the network. Other state ministries that shall form the network include: the Fisheries Department, Forestry Department, Lands and Survey Department, Sabah Tourism Board, Environment Department, Town and Country Planning, National Security Council (and agencies under them), and also the respective District Offices. It is recommended that other key stakeholders, e.g. NGOs and possible local village leaders be invited into the network. A committee (about 10+ agencies) would be ideal to help formulate a long-term financing plan of action for the parks. Consideration should also be given to reviewing the work done and setting targets for park management. Apart from the main objective of formulating a sustainable financing plan, the other terms of reference shall include at overall coordination of park fees, working with NGOs on cause-related marketing programs, identifying and formulating proposals for research programs in marine ecosystem and fitting those with international funding interests, conducting studies that are important for MPAs (e.g. co-management), examining earmarked taxes as potential financing options, and undertaking monitoring and evaluation programs for the sustainable financing action plans. The network will form an important platform to discuss common issues for MPAs, either on technical, social or policy aspects.

Action Plan Recommendations

Action Plan No.1: Develop plans for sustainable financing of MPAs

First, extend the fee collection system in Sipadan and Turtle Islands to the TMP and TSMP. A study may be needed to determine the fee collection points, the system to minimize leakages or non-payment of fees, the fee rate to be set, and also the cost for collecting fees, and to ensure that the expected revenue is greater than the cost.

Second, improve the system of review of park entry fees. Currently, Sabah Parks has set up a system to review park fee structure. The same system should apply to all MPAs regardless of institutional jurisdiction. The purpose is to try to raise funds for conservation purposes from tourist and visitation activities within the limits of willingness to pay (WTP).

The fee could also be an instrument for park management. If certain areas are overused, the fee could be raised to ensure that the limits of acceptable change are not exceeded.

Action Plan No.2: Paper to NSC on entry fees from Sipadan (promote initiatives to retain fees on-site)

It is recommended that the Sabah government prepare a paper to the National Security Council (NSC) to request for all future entry fees from Sipadan to be kept on-site for conservation purposes. Sipadan is the crown jewel of Sabah's diving assets, and all entry fees are collected and then handed over to the NSC. Certainly, security is a national issue and should be paid for by general taxes and not by the earmarking of funds from Sipadan.

Action Plan No.3: Prepare for Malaysia Plan funding

The 10MP has just been launched and it states that a National Action Plan on the Coral Triangle Initiative (CTI) would develop a more effective management capacity to track changes in the marine ecosystem in order to ensure the conservation and sustainable use of marine resources. In line with this clear statement in the 10MP, it is incumbent upon the state (best led by UPEN) to determine the kinds of needs and requirements for capacity development so that the national objective is fulfilled.

In addition, the 10MP recognizes that unleashing economic forces onto protected areas requires careful and prudent management of environmental endowments. In this regard, resources must be properly valued as to their opportunity costs and impacts. In this regard, the 10MP recognizes the challenge that park agencies have with regard to managing the economic potential of parks, while also trying to conserve their natural assets. In this regard, it is important to build a case for building the capacity of all relevant park management agencies to fulfill that important role.

Action Plan No.4: Prepare basis for greater international funding

The SSME area has a wealth of biological diversity in its marine ecosystem. It is important to ensure that these resources are given the highest level of protection so that they will become useful to Malaysians as well as the international community. In this regard, it is important to bear in mind that the core resources of the protection programme would be borne by the Malaysian government (see Action Plan No.3). There is still the programmatic elements of conservation that would require funding and support. In this regard, the recommendation is for the state agencies to prepare the case for various programmes and activities that are required to achieve the conservation objectives.

The state and federal government could seek help from international agencies in this regard. They could include the UN agencies (UNEP or UNDP), also from conservation organizations such as WWF (or their local branches), IUCN, etc.

Action Plan No.5: Review the concession model

It is recommended that the concession model that is operating in the SIMCA area is an example whereby there is a good degree of public-private partnership (PPP) which is highly regarded by the federal government. The current model needs to be further

supported in terms of financing in order that the conservation elements and objectives are fully met and not constrained by the financial resources of the private entity. The general principle is that conservation activities and concerns are governmental responsibility, and the PPP enables the private sector to help the government achieve its goals in a more efficient manner. Hence, it is proposed that the model be reviewed in order to set KPIs for the private entity to receive public funding which would be used for undertaking conservation activities. If this is a working model for conservation, it is important that the government provide it with the necessary resources in particular developing a state policy or law to guide the development of concession agreements.

Action Plan No.6: Design appropriate management response to threats in MPAs

The 10MP recognizes specifically the role of local communities in conservation efforts. As such, it is recommended that the various park management agencies undertake an assessment of the potential of involving local communities in the conservation of MPAs.

Recognising the diversity and location of the local communities in the SSME area, it is proposed that a study be undertaken to prepare a plan and roadmap for this desired policy to operate.

Action Plan No.7: Mobilize stakeholders to contribute toward more diversified sources of SFM for MPAs

It is recommended that Sabah agencies, with support of the federal government, launch various economic-environmental studies to examine the feasibility of various innovative financing mechanisms that could be an alternative source of financing for MPAs. These include: payment for ecosystem services, biodiversity offset payments, revenues from aquaculture and wildlife trade, micro-financing and Islamic financing. It is proposed that the UPEN Sabah be the lead agency to undertake this responsibility in line with the earlier institutional recommendations.

Action Plan No.8: Sabah to table key findings to Tri-Com CTI sub-com Meeting

It is proposed that Sabah table the key findings of this study to the Tri-Com meeting in fulfilment of the commitment made at the last meeting.

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Annex 1: Terms of Reference

Feasibility Assessment of Marine Protected Areas (MPA) Sustainable Financing Mechanisms for the multi-national seascape of the Sulu Sulawesi Seas Marine Ecoregion (SSME)

(updated December 16, 2009)

1. Context

The Coral Triangle Initiative (CTI) is an experiment in to ensure the sustainable management of marine and coastal resources on a grand scale. At the recent CTI Summit, leaders of the six Coral Triangle nations formally adopted a bold and ambitious Regional Plan of Action (RPoA), covering: seascapes, ecosystem approach to fisheries, marine protected areas (MPAs), climate adaptation, and threatened species. The RPoA and the CTI more generally represents not only the promise of sustaining the world's greatest wealth of marine and coastal biological resources for future generations, but also the potential for designing a new collaborative paradigm for management of marine resources, which could provide a beacon of light for how marine resources are managed in other regions of the world.

Throughout the Regional Plan of Action, and particularly in the section containing the MPA goal, CT6 governments made strong commitments to sustainable financing needed to ensure the achievement of the RPoA and National Plans of Action. More specifically, under Goal #3 (on MPAs) in the RPoA, CT6 governments committed to achieving, by 2020, the following target: *“A comprehensive, ecologically representative and well-managed region-wide Coral Triangle MPA System (CTMPAS) in place -- composed of prioritized individual MPAs and networks of MPAs that are connected, resilient, and **sustainably financed.**”* Furthermore, Principle #4 in the RPoA, states that *“Relevant existing forums should be used to implement actions under the CTI. These include the tri-national commissions on the Sulu Sulawesi Seas (SSME)”*. Furthermore, SSME has been recognized as a priority seascape at the latest CTI SOM 4. In July 29, 2009, the Tri-com meeting participants agreed in principle to conduct a sustainable financing feasibility assessment and assigned Sub-committee leaders to review the relevant terms of reference.

The Region has a long history of developing sustainable financing mechanisms (SFM) and financial plans. Existing mechanisms include different taxes, entry fees and levies to conservation areas and conservation trust funds – some of which operate at the sub-regional, national and local levels. This assessment seeks to set a baseline and evaluate the lessons and experiences coming from SFM already in place within the multi-national seascape of the Sulu Sulawesi Seas (SSME). This assessment is designed to identify funding needs and gaps of MPAs in SSME, to analyze existing financing mechanisms, to assess the feasibility of various mechanisms for filling funding gaps – including through expansion of existing SFMs and establishment of new SFMs if needed and assessment of legal, regulatory and institutional reforms needed to achieve financial sustainability and finally to recommend potential sustainable financing options to be endorsed by SSME stakeholders.

The CTI Plan of Action is very broad in scope, covering five major themes. To get started, it is important to take some practical and realistic steps that will generate early results and lay the groundwork for future progress. With this in mind, a logical strategy is to focus initial efforts around a *pilot assessment on the theme of MPAs*, for the following reasons:

- (i) networks and systems of MPAs are already well established in all three countries, and a Working Group on MPAs is already established within the tri-com framework;
- (ii) extensive costing data for MPAs is readily available;
- (iii) proven methodologies and tools exist for quantifying, extrapolating and projecting MPA costs and funding gaps;
- (iv) MPA trust funds and tourism-related fees have proven to be some of the most successful sustainable finance mechanisms; and
- (v) MPA networks can link to and incorporate the other RPoA themes: seascapes, ecosystem approach to fisheries, climate adaptation, and threatened species.

2. Objectives (focus on MPAs)

- Assess knowledge of financial needs for MPAs in the Malaysian part of the SSME seascape, analyze current and projected funding needs and financing gaps, and recommend steps to assess financing gaps;
- Map out sustainable financing mechanisms (SFM) supporting MPAs and cost sharing options (CSO) that are already in place within Malaysia and analyze successes/ challenges and degree of financial sustainability;
- Analyze the feasibility of potential sustainable financing mechanisms and cost sharing options and develop a SWOT analysis in the context of the Malaysian part of the SSME;
- Assess institutional, legal, and regulatory framework and landscape for the development of MPA sustainable financing mechanisms;
- Identify key stakeholders and help to raise awareness of the challenges and possible actions that could be taken in regards to MPA sustainable financing;
- Recommend potential sustainable financing mechanisms, steps and process for addressing MPA sustainable financing needs to be endorsed by SSME stakeholders.

3. Scope and approach of the study

The study will cover the Malaysian part of the SSME, Malaysia being a signatory of the Coral Triangle Initiative and part of the Sulu Sulawesi Marine Eco region Tri-national committee – along with Indonesia and Malaysia.

4. Expected output and deliverables (focus on MPAs) per objective (see detailed work plan in annex 1)

Comprehensive assessment report covering:

- Recommendations to strengthen existing mechanisms and develop new and innovative financing mechanisms at different level and scales;
- Evaluation of constraints and opportunities linked to the recommended options; and

- Proposal for an action plan identifying a sequence of steps to implement recommended options for sustainable financing.

In addition and more specifically, the following deliverables will be required:

1. Objective: Assess knowledge of financial needs for MPAs included in the Malaysian part of the SSME seascape, analyze current and projected funding needs and financing gaps, and recommend steps to assess financing gaps;
 - 1.1. Collection of Malaysian MPAs in the SSME available financial data (phase 1)
 - 1.2. Assessment of existing projects to develop MPAs financial plans (phase 2)
 - 1.3. Adaptation of UNDP financial scorecard to SSME MPAs context (phase 2)
 - 1.4. Analysis of current and projected funding needs and financing gaps based on UNDP scorecard (phase 2)
 - 1.5. Recommendations on options and steps to further assess financing needs and gaps (phase 3)
2. Objective (restricted to in Indonesia and Malaysia) : Map out sustainable financing mechanisms (SFM) and cost sharing options (CSO) supporting MPAs that are already in place and analyze successes/ challenges and degree of financial sustainability
 - 2.1. Mapping of existing and in creation SFM and CSO in current support of SSME MPAs, but also environmental related issues at national level (phase 2)
 - 2.2. Analysis of success/challenges of each SFM and CSO (phase 2)
 - 2.3. Overall assessment of MPAs financial sustainability (phase 3)
3. Objective: Analyze the feasibility of potential sustainable financing mechanisms and develop a SWOT analysis of each mechanism in the context of Malaysia
 - 3.1. List of SFM and CSO over the world to be assessed in the SSME context (phase 1)
 - 3.2. Drafts of feasibility questionnaire for each SFM and CSO and list of people to interview (phase 1)
 - 3.3. Assessment of SFM potential in each country based on interviews and desk research (phase 2)
 - 3.4. SWOT analysis of promising SFM and CSO in the context of SSME and assessment of replicability at the regional level (phase 3)
4. Objective: Assess institutional, legal, and regulatory framework and landscape for the development of MPA sustainable financing mechanisms
 - 4.1. Draft of institutional, legal and regulatory questionnaire in relation to identified SFM and CSO (phase 1)
 - 4.2. Analysis of institutional, legal and regulatory possibilities and gaps (phase 2)
 - 4.3. Recommendations on institutional, legal and regulatory reforms to carry out
5. Objective: Identify key stakeholders and help to raise awareness of the challenges and possible actions that could be taken in regards to MPA sustainable financing mechanisms

- 5.1. List of key stakeholders and roles in financial sustainability (phase 2)
- 5.2. Interview notes (phase 2)
- 5.3. Powerpoint presentation and summary to build the case for achieving SSME financial sustainability (phase 3)
6. Objective: Recommend potential sustainable financing mechanisms, cost sharing options and steps and process for addressing MPA sustainable financing needs to be endorsed by SSME stakeholders
 - 6.1. Findings and recommendations of potential SFM and CSO based on assumptions and SWOT analysis (phase 3)
 - 6.2. Proposed process and governance recommendations to move forward (phase 3)
 - 6.3. Powerpoint presentation of findings and recommendations (phase 3).

5. Supervision team

The study will be overseen by WWF staff including Lida Pet Soede and Marie de Longcamp with the support of Kevin Hiew.

6. Timeline and schedule of deliverables

Approximately 5 months in total divided in three phases with a final report due in May 31, 10. For each phase, it is required that

Phase 1: Project Preparation including the following deliverables

- Collection of SSME MPAs available financial data
- List of SFM and CSO over the world to be assessed in the Malaysian SSME context
- Drafts of feasibility questionnaire for each SFM and CSO and list of people to interview
- Draft of institutional, legal and regulatory questionnaire in relation to identified SFM and CSO

The following deliverables will be presented and discussed with the team by February 15, 2010 with a provision of two weeks for comments and final deliverables available for March 8, 2010.

Phase 2: Consultations, review and analyses including the following deliverables

- Assessment of existing projects to develop MPAs financial plans
- Adaptation of UNDP financial scorecard to SSME MPAs context
- Analysis of current and projected funding needs and financing gaps based on UNDP scorecard
- Mapping of existing and in creation SFM and CSO in current support of MPAs, but also environmental related issues
- Analysis of success/challenges of each SFM and CSO
- Analysis of institutional, legal and regulatory possibilities and gaps
- Assessment of SFM potential in each country based on interviews and desk research
- Interview notes
- List of key stakeholders and roles in financial sustainability

It is expected that consultations will take place in April 2010. An outline of the report should be submit to the supervision team by April 20, 2010.

Phase 3: Final report development including the following deliverables

- Recommendations on options and steps to further assess financing needs and gaps
- Overall assessment of MPAs financial sustainability
- SWOT analysis of promising SFM and CSO in the context of Malaysia and assessment of replicability at the regional level
- Powerpoint presentation and summary to build the case for achieving SSME financial sustainability in Malaysia
- Findings and recommendations of potential SFM and CSO based on assumptions and SWOT analysis
- Proposed process and governance recommendations to move forward
- Powerpoint presentation of findings and recommendations

A draft final report will be submitted in May 7, 2010 with a provision of two weeks for comments and the final deliverables of phase 3 due by May 31, 2010.

Annex 2: Constitutional Powers and Jurisdiction of the Government

Federal Constitution - Ninth Schedule

List I - Federal list

1. External affairs
2. Defence of the Federation or any part thereof
3. Internal security
4. Civil and criminal law and procedure and the administration of justice
5. Federal citizenship and naturalisation; aliens
6. The machinery of government, subject to the State List
7. Finance
8. Trade, commerce and industry
9. Shipping, navigation and fisheries
10. Communications and transport
11. Federal works and power
12. Surveys, inquiries and research
13. Education
14. Medicine and health including sanitation in the federal capital (...)
15. Labour and social security
16. Welfare of the aborigines
17. Professional occupations other than those specifically enumerated
18. Holidays other than State holidays; standard of time
19. Unincorporated societies
20. Control of agricultural pests; protection against such pests; prevention of plant diseases
21. Newspaper, publications, publishers, printing and printing presses
22. Censorship
23. Subject to item 5(f) of the State List, theatres; cinemas; cinematograph films; places of public amusement
24. (Repealed)
25. Co-operative societies
- 25A Tourism
26. Subject to item 9A of the Concurrent List, prevention and extinguishment of fire, including fire services and fire brigades
27. All matters relating to the Federal Territory, including the matters enumerated in items 2,3,4 and 5 of the State List and in the Cast of the Federal Territory of Labuan, the matter enumerated in items 15,16 and 17 of the Supplement to State List for States of Sabah and Sarawak

List II - State list

Except with respect to the Federal Territories of Kuala Lumpur, Labuan and Putrajaya

1. Islamic law and personal and family law of persons professing the religion of Islam (...)
2. Land including:
 - (a) Land tenure, relation of landlord and tenant, registration of titles and deeds relating to land; colonization, land improvement and soil conservation; rent restriction;
 - (b) Malay reservation or, in the States of Sabah and Sarawak, native reservations;
 - (c) Permits and licences for prospecting of mines; mining leases and certificates
 - (d) Compulsory acquisition of land
 - (e) Transfer of land, mortgages, leases and charges in respect of land; easements; and
 - (f) Escheat, treasure trove excluding antiquities.
3. Agriculture and forestry, including:
 - (a) Agriculture and agriculture loans; and
 - (b) Forests.
4. Local government including –
 - (a) Local administration; municipal corporations; local, town and rural board and other local authorities; local government services, local rates, local government elections;
 - (b) Obnoxious trades and public nuisances in local authority areas; and
 - (c) (Repealed)
5. Other services of a local character, that is to say:
 - (a) (Repealed)
 - (b) Boarding houses and lodging houses;
 - (c) Burial and cremation grounds;
 - (d) Pounds and cattle trespass;
 - (e) Markets and fairs; and
 - (f) Licensing of theatres, cinemas and places of public amusement.

All states

6. State works and water
7. Machinery of the State Government, subject to the Federal List
8. State holidays
9. Creation of offences in respect of any of the matters included in the State List or dealt with by State law, proof of State law and of thing done thereunder, and proof of any matter for purposes of State law
10. Inquiries for State purposes, including commissions of inquiry and collection of statistics with respect to any of the matters included in the State List of dealt with by State law
11. Indemnity in respect of any of the matters in the State List or dealt with by State law
12. Turtles and riverine fishing

List IIA - Supplement to State List for the State of Sabah and Sarawak

13. Native law and custom
14. Incorporation of authorities and other bodies set up by State law, if incorporated

directly by State law, and regulation and winding up of corporations so created.

15. Ports and harbours, other than those declared to be federal by or under federal law; regulation of traffic by water in ports and harbours or on rivers wholly within the State, except traffic in federal ports or harbours; foreshores
16. Cadastral land surveys
17. (Repealed)
18. In Sabah, the Sabah Railway
19. (Repealed)

List III Concurrent list

1. Social welfare; social services subject to Lists I and II; protection of women, children and your persons
2. Scholarships
3. Protection of wild animals and wild birds; National Parks
4. Animal husbandry, prevention of cruelty to animals; veterinary services; animal quarantine
5. Town and country planning, except in the federal capital
6. Vagrancy and itinerant hawkers
7. Public health, sanitation (excluding sanitation in the federal capital) and the prevention of diseases
8. Drainage and irrigation
9. Rehabilitation of mining land and land which has suffered soil erosion
- 9A. Fire safety measures and fire precautions in the construction and maintenance of building
- 9B. Culture and sports
- 9C. Housing and provisions for housing, accommodation; improvement trusts

List IIIA - Supplement to Concurrent List for State of Sabah and Sarawak

10. Personal law relating to marriage, divorce, guardianship, maintenance, adoption, legitimacy, family law, gifts or succession testate and intestate
11. Adulteration of foodstuffs and other goods
12. Shipping under fifteen registered tons, including the carriage of passengers and goods by such shipping, maritime and estuarine fishing and fisheries
13. The production, distribution and supply of water power and of electricity generated by water power
14. Agricultural and forestry research, control of agricultural pests, and protection against such pests, prevention of plant diseases
15. Charities and charitable trusts and institutions in the State (that is to say, operating wholly within, or created and operating in, the State) and their trustees, including the incorporation thereof and the regulation and winding-up of incorporated charities and charitable institutions in the State
16. Theatres; cinemas; cinematograph films; places of public amusements
17. Elections to the State Assembly held during the period of indirect elections
18. In Sabah until the end of the year 1970 (but not in Sarawak), medicine and health, including the matters specified in items 14 (a) to (d) of the Federal List

Source: Federal Constitution incorporating all amendments up to 31 January 2002

Annex 3: Proposed Feasibility Questions for Each Mechanism

Proposed feasibility questions
<p>1. Conditions for allocations from government resources: <i>Budgetary allocations, taxes and fees</i></p> <ul style="list-style-type: none"> • Is there a political will at the government level to support marine parks and ecosystem sustainability? • What is the policy of Treasury (EPU/MOF) towards budgeting for MPAs and how does it provide for increased medium to long-term financial resources in accordance with demonstrated needs? • What are the existing taxes and fees allocated to MPAs? to other environmental issues? • Are there new taxes and fees that could generate additional revenues? • Are the ministries supportive of the introduction of new taxes and fees to be allocated to MPAs?
<p>2. Payments for Ecosystem Services 2.1 Tourism-related mechanisms</p> <ul style="list-style-type: none"> • How is the tourism demand and market in relation to services provided by marine ecosystems (coral reefs, beaches, pristine places...)? • What are the main attractions for tourists? How attractive are the MPAs? How easy is to access the MPAs? • Are there existing studies and tools supporting the evidence of services provided by marine ecosystems to tourism sector: willingness to pay surveys for conservation, marine ecosystem economic valuation, visitor expenditure motivation survey... • What is the carrying capacity of the sites and what costs are associated to tourism with respect to MPA management? <p>2.2 Natural resources trade and Bio prospecting</p> <ul style="list-style-type: none"> • Are there a lot of endemic species in MPAs? Are there species that have been discovered and exploited? • Are there companies potentially interested in the transformations and marketing of marine substances (e.g. cosmetic, pharmaceutical, agro...)? • Is there a regulatory framework for natural resources use and intellectual property rights pertaining to any resulting innovations? <p>2.3 Watershed payment services</p> <ul style="list-style-type: none"> • What are the impacts on marine ecosystems coming from upstream watershed management? • Are there existing taxes and fees relating to water provision? • Is there a perception of water scarcity among users and how these relate to services that MPAs can provide?
<p>3. Sustainable capital and Environmental Investment Funds</p> <ul style="list-style-type: none"> • Are there corporations that could reduce their impacts on marine ecosystems in implementing sustainable practice standards? Which sectors? • Is access to credit an obstacle to implement these sustainable practice standards? • Are there existing subsidized economic program likely to adopt this approach? • What are the alternative livelihoods that require access to credit?
<p>4. Compensation and biodiversity offsets payments</p> <ul style="list-style-type: none"> • Are there natural resources companies that have projects with environmental impacts on marine ecosystems? • What is the level of taxation of natural resources companies and how is calculated their tax base? • What are the potential for marine parks to get royalties from extractive concessions or negotiate biodiversity offsets?

Proposed feasibility questions
<p>5. Fishing industry</p> <ul style="list-style-type: none"> • Are there existing mechanisms or legislation related to the fishing industry that supports MPAs?
<p>6. Philanthropic and private contributions</p> <ul style="list-style-type: none"> • Are there existing partnerships and philanthropic mechanisms in support of MPA program? • Among the foundations, individuals, corporations, and major donors, who are the ones with the most potential? What are their motivations to support MPAs? • Is there capacity in place to channel and manage these types of funds?
<p>7. Revenue from the Sale and Trade of Wildlife</p> <ul style="list-style-type: none"> • Are there endemic and high value species that attract market interests? • Are there existing partnerships with zoos, academic and research institutions?
<p>8. Marine Conservation Trust Fund</p> <ul style="list-style-type: none"> • Is there a critical mass of people with common vision for biodiversity objectives and willingness to participate in trust fund governance? • Is there active, broad-based and financially significant government support of a fund outside government control that involves both the public and private sectors? • Is the national government legally allowed to contribute public funds to the endowment of a non-governmental foundation or trust fund? • Are there existing evaluations of willingness to pay for conservation and support of MP? Economic valuation? Visitor expenditure motivation survey? Other studies?

Annex 4: Description of Sustainable Financing Mechanisms

No.	Mechanism	Description
1	Funding support from the Government	Governments commonly allocate funds from national budgets to national protected area agencies. Funding is often regular but it can be inadequate to the needs of the protected area, and additional funds are often not available.
2	Payments for ecosystem services	Those who receive ecosystem services should pay to protect the services they use (global or local). The related mechanisms include tourism related mechanisms, natural resources trade and bio prospecting and watershed management payments.
3	Sustainable capital and Environmental Investment Funds	Sustainable capital is an area of public and private financing that utilizes access to favorable equity, credit, and microfinance as an incentive to promote environmental sustainability and responsible business practices.
4	Compensation & biodiversity offsets payments	Biodiversity offsets are conservation actions designed to compensate for the unavoidable impact on biodiversity to ensure “no net loss” and, preferably, a net gain of biodiversity.
5	Fishing industry revenues	By implementing mechanisms such as tradable fishing quotas, levies, and product certification, fisheries managers can provide economic incentive for sustainable fishing practices.
6	Philanthropic & private contributions	Cause-related marketing mechanisms, innovative corporate partnerships, venture philanthropy, NGOs and research institutions relationships are among the unlimited existing mechanisms to reach out new audiences and private donors. Whether they fill the passion for a cause, respond to a Corporate Social Responsibility (CSR) strategy or meet the priorities of a foundation’s strategy, these mechanisms usually involve three types of categories: individuals, foundations and corporations.
7	Revenue from the sale & trade of wildlife	Revenues generated from both legal and illegal sale and trade of plants and wildlife products can generate millions of dollars for conservation activities.
8	Marine conservation trust funds	CTFs have typically been set up as independent grant-making institutions through broad consultative processes, administered by a trustee, and governed by a public and private board composed of members of several relevant stakeholder groups including government and NGOs.

Annex 5: Types and Description of Funds

Type of fund	Description
Grants Fund	Channels resources to target groups (typically NGOs and CBOs) for a broad range of conservation and sustainable development projects, not limited to PAs.
Green Fund	Primarily finances activities related to biodiversity conservation.
Brown Fund	Finances activities such as pollution control and waste treatment. Many brown funds allocate five to ten percent of their grants for biodiversity conservation and PAs. Most brown funds are financed by pollution charges or fines.
Parks Fund	Finances the management costs (and sometimes also the establishment costs) of specific PAs, or of a country's entire PA system. PA management costs can also include financing for alternative livelihoods or sustainable development activities in PA buffer zone communities.
Endowment Fund	Capital is invested in perpetuity, and only the resulting investment income is used to finance grants and activities.
Sinking Fund	The entire principal and investment income is disbursed over a fairly long period (typically ten to 20 years) until it is completely spent and thus sinks to zero.
Revolving Fund	Income from taxes, fees, fines, or Payments for Ecosystem Services (PES), that are specially earmarked, regularly go into the fund to be used for specified purposes.

Annex 6: Important Factors for Establishing a Trust Fund

IMPORTANT FACTORS FOR ESTABLISHING A TRUST FUND
Existence of a valuable, globally significant biodiversity resource whose conservation is politically, technically, economically, and socially feasible.
Absence of major, urgent threats requiring mobilization of large amounts of resources in a short time period (i.e. the conservation action required is long term and addressable with the flows a trust fund could produce).
Government support of the concept of a fund outside government control that bridges the public and private sectors. The support should be active and broad-based, from the President to regional and local bodies, extending beyond environmental ministries and departments to include ministries of finance and planning. A reasonable financial contribution from the government, if not directly to the fund, then to co-financing of project activities.
A legal framework that permits establishing a trust fund, foundation, or similar organization. Tax laws allowing such a fund to be tax exempt, and providing incentives for donations from private contributors.
A critical mass of people with a common vision. People from NGOs, the academic and private sector, and donor agencies -- the environment community" -- who can work together despite their different approaches to biodiversity conservation. The support and involvement of business leaders is crucial to bring in private sector management skills, especially skills in financial management. Mechanisms to involve a broad set of stakeholders during the design process, and willingness of stakeholders to use these mechanisms.
A basic fabric of legal and financial practices and supporting institutions (including banking, auditing and contracting) in which people have confidence.
Availability of one or more mentors – a donor agency with good program support, a partnership with an international NGO, “twinning” with another, more experienced trust fund – who can provide both moral and technical support to the fund during the startup and program implementation phases.
Realistic prospects for attracting a level of capital adequate for the fund to support a significant program while keeping administrative costs to a reasonable percentage.
An effective demand for the fund’s product, i.e. a client community interested in and capable of carrying out biodiversity conservation activities on the scale envisioned, and sufficient to achieve significant impact.

Source: Extract from the GEF Evaluation of Experience with Conservation Trust Funds.