The Blue Natural Capital Financing Facility (BNCFF) supports the development of sound, investable Blue Natural Capital (BNC) projects with clear ecosystem service benefits, multiple income streams and appropriate risk-return profiles.

This Blue Prints Series outlines the business models and illustrates the investment structure of a selected number of Nature-based Solution (NbS) projects. See here for other Blue Prints.

NATURE BASED TOURISM-FUNDED MARINE PROTECTED AREA MANAGEMENT: USING BLENDED FINANCE TO TAP INTO THE POTENTIAL

Example: Turneffe Atoll Marine Reserve (Belize)
Problem and practice so far

The Turneffe Atoll Marine Reserve (TAMR) is one of nine marine reserves in Belize. The Atoll – located 32km east of Belize City – is approximately 48.3 km long and 16.1 km wide, covering some 132,000 hectares, of which 11,000 hectares are mangrove forests. Turneffe is considered the largest and most biologically diverse coral atoll in Belize and in the Mesoamerican Reef ecoregion at large.

For most of the reserve (88%), a multiple use policy applies, i.e., commercial (non-industrial) fishing (lobster, conch and finfish), tourism activities (sport fishing, diving, snorkeling, ecotours), education and research are permitted. 12% of the area is deemed a fully protected conservation (or “replenishment”) zone with plans in progress to increase this full protection to 20%.

The Turneffe Atoll Sustainability Association (TASA), a local not-for-profit entity, (co-) manages TAMR under a management lease agreement with the Belize government since 2012. As part of this agreement, TASA is expected to implement activities linked to community development and engagement, biodiversity conservation and science, sustainable revenues, management and infrastructure, and compliance with laws and regulations. TASA has received the exclusive mandate from the Belizean government to charge admission fees to Atoll visitors. However, the system for fee collection and management has not been fully implemented to date. Available funding (from government and international grants) has not been sufficient to cover more than core operational expenses (including salaries for a team of 24 to 26 staff). This support is expected to decrease in the near future. TASA leads regular monitoring campaigns and is responsible for the surveillance of TAMR, but it requires more vessels and other monitoring equipment to ensure continuous oversight. TAMR’s habitats are under pressure from overfishing and a growing tourism industry that has been behind most of the coastal development during the past decades.

Pre-COVID, TAMR enjoyed some 15,000 visits a year by mostly high-end tourists (data for 2019). Two-thirds of the visitors stayed overnight; 5,000 visitors were day tourists, often traveling by boat (cruises).
Blue Natural Capital solution

The Blue Natural Capital solution, developed by Blue finance and implemented jointly with TASA, of investing US$ 1.2 million to improve reserve management and implement sustainable revenue mechanisms, including through setting up a robust visitor-fee collection, innovative tourism solutions and a blue carbon credit project. Immediate investment priorities are:

- Develop and implement tourism solutions to improve visitor experience and to incentivise their financial support to the reserve (trails, digital app, citizen science, new activities, virtual reality, etc.);
- Build better infrastructure for visitors (picnic areas, toilets, observatory tower, etc.);
- Purchase additional hardware for enhanced management and monitoring (new patrol vessels, safe mooring and demarcation buoys);
- Improve the livelihoods of fishermen through direct employment in resource monitoring programmes;
- Increase the safety of fishers through GPS monitoring systems for fishing vessels;
- Update the center for science and education with lodging facilities to host national and international researchers; and
- Develop a blue carbon project on mangrove conservation (with an option to include mangrove restoration and seagrass conservation in the future) subject to feasibility.

As a result of the investment, TASA is expected to develop its own revenues and manage TAMR in a more effective way with more staff and more stable and predictable resources. At the same time, visitors to the Atoll will receive an ecologically sound experience, and local fishing communities will benefit long-term from the sustainable use of the Atoll’s blue natural capital.

BNC business model

The business model integrates a mix of statutory entrance fees and innovative services to eco-tourists as well as generation and sale of blue carbon credits. The investment will allow the solution provider – TASA – to introduce a MPA fee system progressively until 2024. This will be done in collaboration with the hotels and the tourism service providers taking into account the post-covid recovery context.

It is assumed that visits will return to pre-COVID numbers from mid-2023. The projection foresees stable numbers for the overnight visitors (consolidated market) and increases for the day visitors (nascent market). The annual number of visitors and their impact will be monitored very strictly to ensure minimum impacts on the natural habitats. Tourists will also be offered a comprehensive programme of citizen science activities to sustainably explore the marine habitat (snorkelling, diving, trekking). On these assumptions, the visitor proceeds cover part of the TASA management costs.

Finally, TASA will pursue efforts to enhance conservation through blue carbon project development.

Annual revenues are expected to cover >80% of annual management budget of TASA. Furthermore, TASA expects continued annual grant income from other sources.

The cost profile expects operating costs above US$600k per year. TASA expects to break even in Year 3 and generate extra net revenues that will be used for activities with communities from then onwards (even in the absence of blue carbon project proceeds).
Blue impacts and safeguards

The impact in terms of conservation of coastal habitats and enhancing livelihoods of local communities is positive and long-term sustainable. Through the investment, TASA will be able to successfully manage the largest MPA in Belize, located at one of the region’s foremost biodiversity hotspots, the Meso-American Reef. The work of TASA will directly support the conservation of high value habitat (coral reef, mangroves, seagrass beds) sustaining high biodiversity, including a range of threatened species (manatees, American crocodiles, sea turtles, fish, including the critically endangered Nassau grouper) and endangered coral species (acropora palmata, cervicornis).

Intervention activities will directly drive (outputs):

- Fisheries surveillance activities (patrols, controls of fishers, “control” of illegal fishermen in partnership with Coast Guards);
- Support to ecotourism development (infrastructure to limit impact on habitat, training and education, monitoring and control of tourism activities);
- Ecological monitoring of important species (such as lobsters and conch, central for local artisanal fisherfolks) and spawning aggregation sites (including of the critically endangered Nassau grouper);
- Mangroves conservation and piloting blue carbon project development;
- Development of alternative livelihoods for coastal communities (including seaweed farming); and
- Development of income generating activities for TASA to finance their conservation activities, reducing their reliance on short-term grants.

The risk that the intervention yields a negative impact is small and manageable. The intervention anticipates and accommodates an increase in tourism visits. However, the negative impact is not considered to reach any worrying magnitude, especially since the intervention targets the build-out of a habitat-sensitive visitor infrastructure to deal with unwanted spill-over (trash collection, off-trail movement, noise).
Stakeholder roles and needs

Stakeholder involvement is built into TASA’s models and approach: government, research, local communities and businesses using TAMR are represented in TASA’s board of directors and are involved in the key decisions making processes. TASA is also consulting and involving stakeholders extensively in the implementation of the day to day activities. A Finance Committee of the TASA Board of Directors, comprised of the Sustainable Ocean Fund as Chair, TASA and Blue Finance as the Project Management Office, will be established to support the roll-out of the investment, involving impact investors. All measures rely on robust outreach to communities (including with respect to land tenure and user rights). On the government side, the Fisheries Department is responsible for the supervision of TAMR and will be given an active role through a seat in the advisory committee. TASA has also entered into a long term partnership with the NGO Blue Finance to design and implement the business models and revenue strategies around nature-based tourism and blue carbon together.

Blue investment structure

The investment structure blends private commercial capital, catalytic capital and public funding. It is built on several (non-reimbursable) grant components (from between US$ 50,000 to US$ 250,000) from various public or publicly funded actors and a debt finance component provided by a private impact investor (US$ 750,000). BNCFF supports the investment with the purchase of sustainability monitoring equipment and blue carbon expertise.

The loan will be disbursed in two tranches, one in Year 1; another in Year 2. It is guaranteed partially by an international public development agency. TASA is offered a 2-year repayment holiday, and interest payments stand at below market levels for the unsecured part of the loan. The ‘blended’ grant components – meant to mirror the payment sequence of the loan - are conditions precedent for the impact investor to extend the loan.

The impact investor will also have the right to purchase part of the carbon credits from a future carbon project. In a tentative calculation from the impact investor, the internal rate of return from a combination of loan and carbon revenues (revenues calculated Y4-Y10) stands at 7%.
Blue scalability and replicability

For the global impact investment and blended finance world, while high on impact, the project is small in size. Transaction costs for structuring the investment have been quite high and were possible because of technical assistance grants received to structure the facility. Scale and replicability will require aggregating several projects together. A constructive way to do this is through a facility recently created by Blue finance that allows to aggregate a pipeline of “bankable” high-impact MPA projects across the region. Such facility would simplify the investment process for investors – streamlining the due diligence and structuring processes and provide access to a portfolio of different projects with aligned impact metrics and goals. It will improve the quality of the project design and execution, create efficiency and economy of scale, reduce the investment risk through diversification across revenue models and countries/regions and increase liquidity for investors through potential transfer of some debt to another investor.

Practical tips

Both MPA managing organizations and impact investors need to be aware that they will often be acting in a tightly prescribed regulatory environment. Charging mandatory fees from visitors, offering ecotourism services and engaging in carbon asset generation may not always be permitted (or information on permission not transparently available). The use of a third party special purpose vehicle to take care of financial services may also not be in line with the law. Close coordination with the MPA supervising authorities from the start is essential for the success of the new investment model.

The role of the project developer and manager is a key aspect of the deal as a way to increase positive impacts and reduce commercial and ESG risk. The project manager also ensures a management focus on revenue as well as science execution.

To learn more about this project in Belize visit here:
https://bluenaturalcapital.org/campaigns/tourism-and-mpa/
http://www.turneffeatollmarinereserve.org/
http://blue-finance.org/
Since its launch in 2018, the BNCFF has become a global brand name in Ocean Impact Finance. After screening over a hundred proposals, it is presently supporting 8 blue Nature-based Solutions pioneer projects with grant funding.

https://bluenaturalcapital.org/supported-projects/

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