



ASIAN CONSERVATION COMPANY AND INVESTMENT IN TEN KNOTS GROUP/EL NIDO RESORTS

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Abstract

The Asian Conservation Company may be the first investment holding company in Southeast Asia incorporated with a Triple Bottom-Line approach of investing in companies that provide an *acceptable financial return* to shareholders, provide for *environmental conservation* by creating a sustainable financing model, and support *corporate social responsibility* through real employment and educational opportunities. The company is the majority shareholder of the Ten Knots Group, owners of the “Responsible Tourism” / Ecotourism destination of El Nido Resorts in Palawan, Philippines.

Public funding for the preservation of landscapes/seascapes continues to be inadequate to properly manage and maintain protected areas. The Asian Conservation Company and Ten Knots acknowledge the importance of protecting the natural assets in their areas of operation in order to enhance their discriminating guests’ experience. Private sector entities can assist in funding the gap for environmental conservation by creating their own Payment for Environmental Services.

Payments for Environmental Services from Asian Conservation Company/Ten Knots are in the form of both external and internal payments. External payments consist of mandatory fees required to set up and operate in a protected area and also voluntary company donations and “landing” fees included in the airfare. Internal payments are embedded into the operations of El Nido Resorts and can be on-going or on a one-time/as-needed basis.

The Asian Conservation Company/Ten Knots recommends that any mandatory fees, including a payment for environmental services, be simple to collect, sensible, reasonable, and transparent. It encourages other private sector partners to incorporate internal payments for environmental conservation into their own operations. Eventually, as the general public and consumers become more educated, environmental payments may be accepted as “just another business expense.”

1. Introduction

The Asian Conservation Company (ACC) was created to address the ongoing challenge of sustainable financing for biodiversity conservation. In November 2000, a group of venture philanthropists and an investment manager, Next Century Partners, were brought together by the WWF-US Center for Conservation Finance. On a boat amidst towering limestone cliffs and pristine waters in the Marine Reserve of El Nido in Palawan, Philippines, the group brainstormed on

how best to combine business and environmental conservation for the long term. The result was the ACC, a private equity holding company, whose first achievement was a successful bid for majority share in the Ten Knots Group (TKG) — owners of El Nido Resorts (ENR).

Ten Knots has been operating resorts in the area since 1982 and currently has two properties under management, Miniloc Island Resort and Lagen Island Resort. Although generally categorized as ecotourism resorts, El Nido Resorts are considered

to be part of the “Responsible Tourism” industry where companies make a positive contribution to conservation and the economies of local communities, while minimizing the negative impacts that tourism can have. Each resort mitigates its environmental impact through the use of sewage treatment plants and desalination facilities. Waste is segregated and properly disposed. Guests are greeted with an environmental introduction. A list of Ten El Ni-”Do”s is found in each room and posted at the arrival area of Lio Airport.

ACC’s investment in TKG/ENR is a commitment to doing business in the El Nido-Taytay Managed Resource Protected Area and contributes to future biodiversity conservation financing. ACC invests with a Triple Bottom-Line mandate of *acceptable financial returns* to shareholders, *environmental conservation* through sustainable financing and *corporate social responsibility* through real employment and educational opportunities. ACC believes that investments in environmentally sensitive companies, such as the Ten Knots Group, are profitable, provide gainful employment and educational opportunities, and thus motivate the community to protect the local environment. ACC requires its portfolio companies to provide a sustainable financing source to a qualified local non-governmental organization (NGO) working on biodiversity conservation with the ultimate goal of empowering multiple-stakeholder management teams to take ownership of future conservation programs.

2. The ACC Triple Bottom-Line Approach

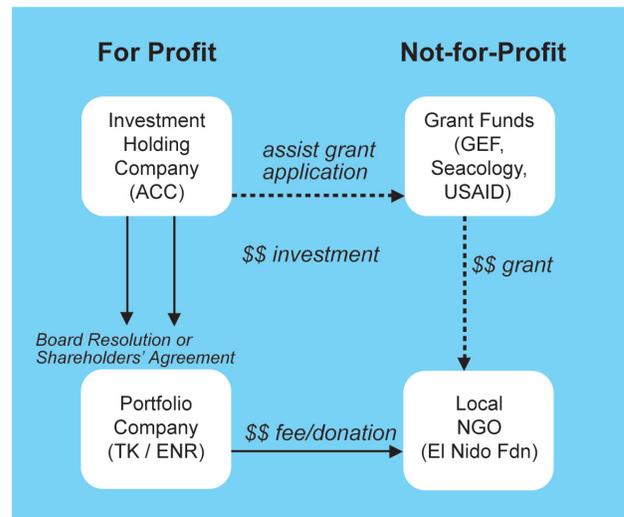
ACC may be the first investment holding company in Southeast Asia created with a Triple Bottom-Line approach, which includes:

- Acceptable Financial Returns to shareholders
- Environmental Conservation through a sustainable financing model

- Corporate Social Responsibility through real employment and educational opportunities.

ACC believes that by investing in environmentally sensitive companies, it can generate acceptable financial returns to investors while providing communities with gainful employment and educational opportunities. These benefits motivate local communities to protect their own natural resources. The portfolio companies will provide a qualified NGO with sustainable financial support to help ensure that biodiversity conservation is carried out in the long term. Since their inception, operating companies under ACC have made substantial contributions, held in conservation trust accounts, toward future environmental activities. The goal is for local communities and their multiple-stakeholder management teams to take ownership of the conservation programs.

The ACC model addresses one of the most challenging issues in conservation: financial sustainability.



- ACC will initiate a Board Resolution to be passed or a Shareholders’ Agreement to mandate the portfolio company to direct a particular amount of funding for conservation programs in the area. ACC will require this as part of its equity investment.

- b. Depending on the business, the conservation funds will be generated by charging a bed, landing, or diving fee (tourism related) — a user fee (charge per unit of product sold) — or through an annual donation.
- c. An acceptable and qualified local NGO will be involved in implementing biodiversity conservation programs where the ACC portfolio company operates.

Following the Triple Bottom-Line mandate, **ACC's top priority is profitability**. ACC's investment in Ten Knots must be profitable to give local communities long-term employment opportunities and to assist in environmental conservation activities in the area. Proper financial management and controls will help ensure sustainable funding.

3. Payments for Environmental Services

3.1 Specification of the Environmental Service

As a private-sector partner, ACC/TKG has devised a payment scheme for the landscape/seascape of El Nido, which includes land and marine waters with extensive coral reefs, lagoons, mangroves, seagrass beds, seaweed beds, beach forest, limestone forest, semi-deciduous forest, and lowland evergreen rainforest.

An increasingly competitive leisure and hospitality industry demands an environmental service that meets the discriminating tastes of guests looking for clean and beautiful resorts, seas, and beaches. To meet the demands of their discerning guests, TKG/ENR sets high standards of service and gives priority to environmental protection by being proactive in coastal and marine cleanups.

3.2 The Payment Mechanism

Payments in the form of annual donations are earmarked for the protected area office tasked with overseeing the protection of the marine life and such

species as dugongs, cetaceans, and marine turtles that are at risk due to illegal fishing, an increasing number of fish pens, and unsustainable levels of extraction of forest resources. There are park rangers who are continuously monitoring illegal fishing and illegal logging activities within the 90,000ha park. The rangers are likewise referred to as service providers whose performance is measured by the amount these threats are managed or mitigated.

Internal payments are made to fund ENR-initiated environmental activities, especially in what the ENR operationally refers to as the “core zone”. The objective is to maintain or enhance visitors' experience through their interaction with nature. This means that the zone must be kept secure, safe, clean and devoid of activities harmful to the interaction. To achieve this, the resort conducts clean-up activities, marine research, radio campaigns, etc.

ACC employs two payment mechanisms. The first is an external payment, with an example shown in the model above; the second is internal payments for services, i.e. payments that are imbedded in the operational costs of Ten Knots/El Nido Resorts.

The external payments are both mandatory and voluntary. Mandatory payments include the following:

- a. Ecotourism Maintenance Fund (EMF). Set up under an MOA with the Department of Environment and Natural Resources (DENR), Department of Tourism (DOT), Palawan Council for Sustainable Development (PCSD), and Ten Knots for specific islands. The current fee is Php25/guest. The EMF is managed by a multipartite committee and the funds can be used for actual implementation of environmental programs and projects initially on the specified islands but if the committee agrees, also outside the islands but within Bacuit Bay. The EMF has yet to be tapped.

- b. Environmental Guarantee Fund (EGF). Set up under the same MOA as the EMF and managed by the same committee. The EGF can be used for rehabilitation or restoration measures in case of damage caused by the project (e.g. oil spill, forest fire). Withdrawals from the EGF must be replenished. The EGF has yet to be tapped.
- c. Integrated Protected Area Fund (IPAF). Ten Knots actively collects and submits fees (PhP20/guest/night) on a regular and consistent basis. IPAF was set up under the NIPAS law that dictates fees to be collected in a protected area (PA) for a wide range of business activities.

The voluntary external payment mechanism is carried out by two separate companies:

- a. Ten Knots Group through an annual donation
- b. Island Transvovoyager Inc. (ITI), the aviation company servicing El Nido, through a corporate donation directly related to landed passengers in the PA, effectively a pass-thru landing fee included in the price of the airfare.

As part of the grant agreement with the Global Environment Facility (GEF) of the World Bank, the funds collected from TKG and ITI will be set aside in a conservation trust account during the life of the GEF grant. At the end of the GEF project, the trust fund will be used to fund the conservation activities in the protected area. The GEF project has completed year one of six and the conservation trust funds generated by TKG and ITI have reached more than 50 per cent of the co-financing targets.

3.3 Basis of Payments

None of the fees/payments were set as a result of willingness-to-pay surveys. The level of payments is set by the company and not by the guests. When

setting donations/fees, the companies considered the impact on profitability and on the aviation passengers, in the case of airfare. The private sector payments were used to protect natural assets and enhance guests' pleasant experience. These payments reflect the companies' understanding that the shareholders, employees, and the resort guests are stewards, partners, and "buyers" of environmental services.

3.4 Utilization of Proceeds from Payments

If the external payments generated annually by TKG/ITI were used to pay for services to maintain/manage the PA, then the amounts would equate to less than 50 per cent of the current PA requirements for basic level of maintenance. As directed by the GEF grant, these "payments" generated by TKG/ITI are being set aside in a conservation endowment that will be the foundation for sustainable financing of the PA in the future and these funds are still not enough.

If the El Nido PA were compared to a similar PA, such as the Bunaken National Marine Park in North Sulawesi, Indonesia, then the estimate for a proper conservation endowment fund for the El Nido PA would be between US\$7-10M. If the PA were properly managed with adequate numbers of rangers, equipment, etc, then the annual funding requirements would be around US\$100,000. Currently the IPAF collections, which are to cover the maintenance of the El Nido PA, are less than US\$2,000, i.e. less than 2 per cent of the proper maintenance requirements. The local government unit (LGU), individual barangays/towns, and other NGOs contribute additional funding but the needs far exceed the available funds; thereby requiring TKG/ENR to use internal payments to fund areas of particular importance to guests.

Historically, Ten Knots has actively supported or spearheaded scientific studies in such areas as dugong research, coral reef and dive-site mapping, turtle research, and terrestrial fauna surveys. In line with Ten Knot's Corporate Social Responsibility,

numerous projects and programs have been undertaken in areas including, but not limited to, environmental education; coastal cleanups; setting up the Bebeladan community water system; purchasing and installing mooring buoys; cross-visit training sessions; and tree planting. TKG actively supports the health and social welfare programs of the El Nido Foundation (ENF), which was established by the owners of TKG in 1994. For the past four years, Ten Knots has been operating DWEN community radio with the El Nido Media Organization (EMO). TKG pays for three hours of weekly airtime and supports a program focusing on responsible tourism and environmental education. Additionally, a mangrove reforestation program for Barangay Manlag is currently being planned in partnership with the Protected Areas Office (PAO).

More specifically, the internal payment mechanism is embedded in the operations of ENR and TKG. Environmental support/services often benefit both the community and the company. The internal activities can be identified as ongoing or as one-time/as-needed. Annually, approximately PhP800,000 is donated as cost of environmental services.

Ongoing activities include the following:

- a. Monthly coastal cleanups ensure waste is properly collected and disposed. Estimated annual costs: PhP75,000
- b. Support for patrol enforcement to discourage illegal fishing, particularly in the area of resort operations. Estimated annual costs: PhP375,000
- c. IEC (information, education and communication) activities, including: environmental education for staff, guests, and community; representation and participation in stakeholder meetings; arranging for DENR and legal council to educate fishermen about foreshore regulations; and buying radio airtime for environmental programs. Estimated annual costs: PhP350,000

- d. Solid Waste Management, including proper segregation, monitoring, and disposal of solid wastes and clean-up of previous landfills. Garbage handling used to be expensive for resort operators since garbage had to be shipped to Manila. This past expense has now become a new source of revenue from a new business opportunity given to a former employee who started her own business of waste pickup and trading. The resorts sell her the bulk of her waste collection. Estimated annual costs: Previously, PhP300,000; currently, PhP0.0

Total Estimated Annual costs for Environmental Services/Support: PhP800,000

One-time/As-needed activities include the following:

- a. Purchase and installation of mooring buoys. Estimated costs: PhP100,000
- b. Expert assessment of Coral Reef Restoration project. Estimated costs: PhP30,000
- c. Transformation of El Nido airline waiting lounge in Manila into a biodiversity experience showcasing Palawan flora and fauna, and local handicrafts to promote educational awareness to guests. Estimated costs: PhP100,000
- d. Sea scout training involving resort staff and community members. Estimated costs: PhP250,000
- e. Expert assessment and programmatic clean up of Crown of Thorns. Estimated costs: PhP150,000

4. Perceptions of the Company on PES

ACC has learned that when there is a will, there is a way. Private sector entities not only bring in direct investments to help raise the socioeconomic level of a community through real employment, but they also use business skills, contacts, and creativity to bring in additional funds for conservation activities. ACC leveraged its private equity investments to

attract grants for biodiversity conservation. ACC successfully pursued opportunities that historically were relegated to NGOs to explore.

ACC is committed to making the Triple Bottom-Line approach work by providing real employment in poor communities and contributing sustainable financing to carry out long-term conservation programs on environmental protection for future generations. ACC's shareholders understand that the company must pay for environmental services as part of this commitment.

5. Challenges, Recommendations and Lessons Learned

Private companies, such as Ten Knots, operating in a protected area are required to abide by additional laws that may need to be revised. The current NIPAS law dictates fees to be collected for a wide range of business activities, including entrance fees, user fees, filming fees, fish farming and pens. The Protected Area Management Board (PAMB) of each PA sets the fee amount and the activities to be included. Fees are set at varying levels throughout the country and may not be collected consistently. The revenues generated are to be credited to the IPAF. All fees are sent to the National Treasury with 75% eventually being returned to the PA, albeit very slowly. In theory, the law may be meaningful, but in practice and implementation it is quite difficult. The El Nido IPAF process is deemed successful primarily because TKG is recognized as a special collecting agent for the Conservation Fee (PhP20/guest/night). TKG actively collects and submits fees on regular and consistent basis.

The IPAF system should be revised to allow PAs to recover their operating costs and possibly allow all collected funds to remain in the PA. For example, the total IPAF fees generated from the El Nido PA and forwarded to Treasury for the period December 1999-June 2003 was PhP482,341 (PhP220,000 from the TKG group). The PhP74,327 (appx. US\$1,400) collected in 2002 covered less than 1

per cent of estimated annual operational costs of the PA for that year. There were times when the PA Office received its disbursements 18 months after the requests papers were submitted. Such delays create a financial strain on the operations of a PA as well as a disincentive to pay. A very successful model of collection and distribution of park fees is the Bunaken National Marine Park where all fees remain with the Marine Park and accounts are transparent and monitored by a multipartite management board.

ACC recommends a simple fee collection (preferably a "one-shot" fee) for any protected area to help pay for the use of the "natural assets" within the PA. For the private sector entities that are not legally required to support the environment, a fee may be collected in the form of a room tax, license/user fee, or donation. Any fee should be simple to collect, sensible, and reasonable.

ACC has encountered challenges in the parameters set by private equity investors and multilateral institutions with equity investment capabilities. Any investment in the environment takes time to realize returns, both financially and in conservation measurements. For this reason, ACC was structured as a "holding company" versus a "fund." ACC does not guarantee a return of capital in five to seven years, as many funds do. ACC understands that conservation-oriented investments may require a much longer time horizon, i.e. it takes 15 years for a tree farming operation to be sustainable and potentially profitable. The time frame for a viable and sustainable conservation investment, by its nature, is longer than seven years. Because of the lack of willingness to invest in a longer term commitment, ACC has only attracted "Venture Philanthropists" — those enlightened investors/donors that want to see their philanthropy donations invested for the long term. The ACC model does not appeal to the normal financial investor, but it does appeal to private philanthropists who understand how real businesses can generate conservation funding and employment opportunities (poverty alleviation) for the long term.

As more shareholders of public corporations begin to demand responsibility and reporting for environmental protection, the trend of corporate social responsibility focusing on environmental programs will continue. More pressure is being put on companies to spend on environmental protection activities. In some of the most progressive companies, environmental auditing reports are being incorporated into financial reporting. Management and shareholders are beginning to accept that environmental payments are part of the necessary “cost of doing business” and not just a philanthropic activity. As the public, particularly in developed countries, becomes educated on the needs to protect the environment for future generations, then it may become more commonplace to incorporate environmental payments as “just another business expense.”

More information on ACC is available at www.asianconserve.com and on El Nido Resorts at www.elnidoresorts.com.
