

**SEYCHELLES PDF-B GEF PROJECT PROPOSAL:
Mainstreaming Biodiversity into Production
Landscapes and Sectors**

REPORT ON SUSTAINABLE FINANCING

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ACRONYMS

AFD	Agence Francaise pour le Developpement
EDF	European Development Fund
EIA	Environmental Impact Assessment
EMPS	Environment Management Plan of Seychelles 2000-201
EPA	Environmental Protection Act of 1994
ETF	Environmental Trust Fund of Seychelles
EU	European Union
FFEM	Fond Francais pour l'Environnement Mondial
GDP	Gross Domestic Product
GEF	Global Environment Facility
GOS	Government of Seychelles
GTZ	German Technical Cooperation Agency
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
IOC	Indian Ocean Commission
IUCN	International Union for the Conservation of Nature
KfW	German Development Bank
MENR	Ministry of Environment and Natural Resources
MPA	Marine Parks Authority
MSP	Medium Sized Project (GEF)
NGO	Non-governmental Organisation
PA	Protected Area
PDF A	Project Development Facility – Block A (GEF)
PDF B	Project Development Facility – Block B (GEF)
SFA	Seychelles Fisheries Authority
SIDS	Small Island Developing States
SIF	Seychelles Island Foundation
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
USAID	United States Agency for International Development
WIOMSA	Western Indian Ocean Marine Science Association
WWF	Worldwide Fund for Nature

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EXECUTIVE SUMMARY

This Report analyzes financial and legal mechanisms for long-term financing biodiversity conservation and sustainable use of natural resources in Seychelles, relation to the full UNDP-GEF project for “Mainstreaming Biodiversity in Product Landscapes and Sectors”.

The most important current funding sources for biodiversity conservation in Seychelles are:

- Annual government budget allocations for the MENR, MPA, SFA, and other government departments
- Protected area entry fees (for both publicly and privately-run protected areas)
- Hotel owners’ funding of ecological restoration on small islands they own
- Donations raised by national and international conservation organizations
- Grants from the GEF (UNDP, World Bank, UNEP) and the EU.

Unfortunately, two of the sustainable financing mechanisms that have been most successful in mobilizing large amounts of funding for biodiversity conservation in developing countries---Debt-for-Nature Swaps and Conservation Trust Funds---are not feasible in Seychelles, because Seychelles does not currently have an agreement in place with the International Monetary Fund (which is generally a prerequisite for debt swaps) and because Seychelles has a relatively high per capita GDP (which means that it is ineligible for grants from most bilateral donor agencies).

Instead, a variety of other sustainable financing mechanisms are examined in this report. Some of these would be relatively easy and uncontroversial to implement in the context of the project:

- Voluntary eco-certification of hotels and other businesses;
- Clearinghouse mechanisms for dissemination of information to businesses;
- Hotel guest matching contribution schemes.

Other sustainable financing mechanisms that might be somewhat more controversial and difficult to implement, but would still be feasible if there is sufficient political will, include:

- Charging tourists a conservation fee at the airport
- Allowing local communities to manage certain protected areas and collect entry fees, thus giving them a financial incentive to support conservation
- Requiring hotel operators who are building on undeveloped natural sites to pay environmental impact fees and to purchase performance bonds
- Strengthening laws and regulations relating to land use planning and permitting
- Imposing a conservation surcharge on top of the existing land transfer tax, in the case of properties valued above a specified amount

- Publicly auctioning off fishing quotas for commercially valuable species, & earmarking part of the revenue for sustainable fisheries management & marine conservation
- Requiring commercial fishing vessels to pay a fish catch levy that would be used for sustainable fisheries management and marine conservation
- Establishing a new plant and animal inspection and quarantine system that would be financed by higher inspection fees.

These last eight financing mechanisms should be the subject of further study & planning during the full project. The full project should support the implementation of those mechanisms found to be feasible and suitable for Seychelles conditions.

1. INTRODUCTION:

“Sustainable Financing” is a component of the PDF-B project which cuts across all of the major “production sectors and landscapes” targeted in the full GEF project: Tourism, Fisheries, Infrastructure / Construction, and Agriculture. The purpose of this Report is to provide:

- An overview of relevant sustainable financing mechanisms and examples including trust funds, debt for nature swaps, user fees, and incentives for the private sector;
- An analysis of relevant sustainable financing mechanisms under Seychelles conditions;
- Recommendations for sustainable financing mechanisms that could feature in the full GEF project proposal (depending on which of these recommendations the Government decides to implement);
- Areas for further study, investigation and development during full project.

This Report has been prepared by an International Sustainable Financing Consultant (Barry Spergel) and a National Financing Consultant (Kirsten Henri). It is based on a review of relevant laws, reports, studies, and a series of over twenty meetings with key stakeholders in Seychelles (from Government, NGOs, and the private sector) that were held during a two and a half-week period in October and November 2005. A full list of the people interviewed by the Sustainable Financing Consultants is appended to this Report.

An initial version of the analysis and recommendations set forth in this Report was presented and discussed at an October 20/21, 2005 Workshop on “Problem Analysis and Log-frame Development for the ‘Mainstreaming Biodiversity’ Full Project”. Participants at that Workshop included most of the PDF-B International and National Consultants, the PDF-B Project Manager, and the UNDP-GEF Regional Biodiversity Coordinator for Southern Africa.

A revised and expanded version of the analysis and recommendations set forth in this Report was presented and discussed with key stakeholders (including key Government and NGO representatives) at a meeting of the Steering Committee for the Environmental Management Plan of Seychelles (EMPS) on November 2, 2005.

Since the implementation of some of the sustainable financing mechanisms recommended by this Report may require changing laws, regulations or policies, levying new taxes or fees, or offering new tax deductions or other fiscal incentives to the private sector, the Government of Seychelles first needs to decide which of the particular financing mechanisms recommended by this Report it wants to implement, before detailed guidelines can be drafted for establishing those mechanisms.

2. GENERAL BACKGROUND: “What is Sustainable Financing?”

“Sustainable financing” for biodiversity conservation is a term that covers:

1. **Contributions** from: Government, international donors, companies, foundations and individuals for management of protected areas and for conservation activities outside protected areas;
2. **Positive economic incentives such as direct payments, subsidies, tax breaks** and the creation of new forms of property rights (e.g. rights to fishing resources) in order to change people’s behavior in ways that will reduce negative environmental impacts; and
3. **Removing “perverse” economic incentives by eliminating certain subsidies and tax breaks** that have the effect of encouraging environmentally destructive activities and business practices. Removing such perverse incentives will save Government money.

Some of the key **lessons learned** from the experiences of other countries are:

1. It is best not to depend entirely on one particular mechanism or source for financing biodiversity conservation, but to tap as many different funding sources as possible, in case one source suddenly dries up due to unforeseen economic, political or natural events.
2. The choice of which particular kind of fees, taxes or other incentives to use as a tool for financing biodiversity conservation in a particular country will depend at least as much on *political feasibility* and on people’s *willingness to pay* for a particular fee or tax (if they know that it will be earmarked for conservation), as it depends on the purely economic or scientific reasons that can be given for justifying such a fee, tax or incentive.
3. Choosing a particular kind of sustainable financing mechanism should also be based on considering the administrative costs and technical capacity that will be required to collect revenues, monitor and enforce compliance, and ensure that the money collected is used only for the intended purposes.

3. BASELINE DATA ON CURRENT SOURCES OF FUNDING FOR BIODIVERSITY CONSERVATION

3.1 Types of Funding Sources

Potential sources of sustainable funding for biodiversity conservation in Seychelles include:

1. **Government budget** expenditures, as well as tax incentives (which also have a “cost” to the government in terms of foregone tax revenues);
2. **Grants and donations**, including:
 - a. Direct grants and donations by **international donor agencies, foundations, conservation NGOs, corporations, and individuals**;
 - b. **debt-for-nature swaps**: agreements by foreign creditors to “donate” (cancel) part of the of hard currency debt which is owed them by developing country’s government, in exchange for that government’s agreement to spend an agreed amount of local currency on conservation projects;
 - c. **conservation trust funds (endowments)**: a mechanism for spreading donor grants over a long period of time (in effect, making the funds ‘perpetual’) by investing the grants as capital, and then only spending the resulting annual interest and investment income);
3. **Earmarked Fees, Taxes and Fines**: a government can pass a law stipulating that part or all of the revenue from certain kinds of fees, taxes or fines, such as:
 - “user fees” paid by individuals (including protected area entry fees, and charges for “environmental services” such as watershed protection);
 - environmental taxes, fees and royalties levied on natural resource-based industries such as tourism, fishing, forestry, mining and petroleum; or
 - pollution fines and pollution taxes,must be deposited in a special fund or account which can only be spent on environmental conservation (rather than going into the national treasury or becoming part of the government’s general revenues).
4. **Private sector funding** of ecological restoration and conservation **in order to increase the value of the products being marketed**, such as ecotourism.

The following summary of baseline data on current sources of funding for biodiversity conservation in the Seychelles is organized by categories developed by IUCN for grouping biodiversity conservation financing mechanisms according to how funds are raised:

1. Mechanisms for attracting and administering **institutional funds**, including government and donor budgets, NGO grants, and private voluntary donations from both international and domestic sources

2. Mechanisms which employ **market-based charges** for goods and services, including resource user fees, tourism charges, and payments for ecosystem services
3. Mechanisms for **generating funding** to encourage private businesses and individuals to carry out conservation activities, including cost- and benefit-sharing, investment and enterprise funds, fiscal instruments and private management of sites

3.2. Baseline funding sources and trends in Seychelles

Institutional Funds	Market-based Fees	Generating Funds
<ul style="list-style-type: none"> ▪ Government is highly committed to biodiversity conservation, and is annually increasing budget allocations ▪ Excellent record in securing of funding from conventional donors (bi- and multilateral) ▪ Foreign aid has dropped and is increasingly difficult to access ▪ NGO presence and funding has sharply increased ▪ Private donations, corporate sponsorships, and foundation grants are all increasing ▪ An Environmental Trust Fund has been set up ▪ Conservation funding is administered and spent in a more business-like way 	<ul style="list-style-type: none"> ▪ Tourism fees are an important funding source ▪ Biodiversity value and biodiversity services are often not properly reflected in the prices of goods and services ▪ Biodiversity products have potential as funding sources ▪ Many systems of payments for ecosystems services are not applicable in Seychelles ▪ Partnerships with the business sector have great potential 	<ul style="list-style-type: none"> ▪ Diverse stakeholders are involved in biodiversity conservation ▪ Some economic instruments are being applied ▪ Economic instruments have great potential ▪ There are some outstanding examples of benefit-sharing (e.g., on small islands used for ecotourism) ▪ Numerous outstanding examples of private investments in biodiversity conservation (e.g. eradication of non native species on island used for ecotourism) ▪ Potential for cost-sharing and private management of important sites, including protected areas

The following sections of this Report give a detailed overview of the three main funding groups, i.e. Institutional Funds, Market-Based Funds and Generating Funds.

The Table below presents an overview of institutional funding sources. The text that follows presents a further, more detailed assessment.

Funding source	Current Status	Potential/Goals	Actions required
Government of Seychelles budget allocations	<ul style="list-style-type: none"> ▪ Represents a core source of biodiversity funding ▪ Has remained constant with a slight decrease over the past few years 	<ul style="list-style-type: none"> ▪ Maintenance of current government funding levels in 'real' (inflation-adjusted) terms 	<ul style="list-style-type: none"> ▪ Maintain awareness amongst decision makers of the economic importance of biodiversity conservation
Foreign Assistance	<ul style="list-style-type: none"> ▪ Represents a core source of biodiversity funding ▪ Bilateral aid is declining ▪ GEF contributions remain high 	<ul style="list-style-type: none"> ▪ Establishment of new bilateral and multilateral funding windows 	<ul style="list-style-type: none"> ▪ Reorient funding in line with future international developments
Private voluntary donations	<ul style="list-style-type: none"> ▪ NGO sector is very active ▪ Only small contributions by local and international private sector ▪ Contributions from wealthy individuals are significant 	<ul style="list-style-type: none"> ▪ Increasing NGO activity ▪ Potential for increasing corporate and foundations' sponsorship 	<ul style="list-style-type: none"> ▪ Increase public interest in conservation ▪ Increase interaction with private sector ▪ "Market" the Seychelles' conservation funding needs among wealthy individuals
Environment funds	<ul style="list-style-type: none"> ▪ ETF funding levels are stable ▪ Trust funds are now being established for specific sites ▪ No room for more Seychelles based funds 	<ul style="list-style-type: none"> ▪ Attract more substantial funding for the ETF 	<ul style="list-style-type: none"> ▪ Streamline management of the ETF ▪ Raise funds for the Aldabra Trust

3.3.1 Government budget

Department of Environment (MENR): The Nature and Conservation Section receive SR 7.8 million in 2005, which constitutes 20% of the Department of Environment's total budget.

Marine Parks Authority (MPA): The MPA manages 5 marine parks - *Curieuse Island, St. Anne, Baie Ternay, Port Launay, and Ile Coco*. All of the entry fees collected by the MPA are transferred to the Ministry of Finance. The MPA's annual operating budget of SR 2 million is entirely based on its annual budget allocation from the Government.

Seychelles Fishing Authority (SFA): The SFA's 2005 budget from the Ministry of Finance was SR 8.5 million. SFA's budget supports a number of activities for sustainable fisheries management which are directly or indirectly related to biodiversity conservation such as research, data collection, enforcement of bans or limits on catching certain highly threatened species, and enforcement of prohibitions against foreign vessels fishing within a 12-mile offshore zone reserved for Seychellois fishers.

There are a number of other government-funded institutions whose activities contribute directly or indirectly to biodiversity conservation, such as the **Department of Education** and the **Department of Local Government**.

3.3.2. International donors

Global Environment Facility (GEF) funded Projects (Current and Planned):

National Project: Medium Sized Project (MSP) on Improving Management of National and Privately Owned Reserves and High Biodiversity Islands in the Seychelles: US \$814,000 grant from GEF (implemented by the World Bank).

Regional Projects that include Seychelles:

- **UNDP:**
 - Towards an Ecosystem Approach to the Sustainable Use of the Resources of the Agulhas and Somali Large Marine Ecosystem: US \$10.4 million GEF grant for 8 participating countries in the Western Indian Ocean Region, excluding co-financing
- **UNEP:**
 - Atlantic and Indian Ocean SIDS Integrated Water Resource and Wastewater Management: US \$12 million GEF grant for 6 participating countries in Africa, excluding co-financing

- Addressing Land-based Activities in the Western Indian Ocean: US \$1 million GEF grant for 8 participating countries in the Western Indian Ocean Region, excluding co-financing
- Reduction of Environmental Impact from Coastal Tourism through Introduction of Policy Changes and Strengthening Public-Private Partnerships: US \$6 million GEF grant for 8 participating African countries)
- **World Bank:**
 - Western Indian Ocean Marine Highway Development and Coastal and Marine Contamination Project: US \$11.7 million
 - Southwest Indian Ocean Fisheries Project: US \$8.725 million GEF grant for 8 participating countries in the Western Indian Ocean Region, excluding co-financing

Bilateral Donor agencies: The “Fond Francais pour l’Environnement Mondial” (FFEM) has made a 5-year grant (currently in its second year) of Euro 450,000 for a habitat restoration project on 3 islands (+ counterpart contribution Euro 1,368,000), implemented by a local NGO, Island Conservation Society.

Some bilateral donor agencies no longer give grants to the Seychelles, either because of the Government’s unpaid foreign debts (e.g., in the case of the Agence Francaise pour le Developpement) or because the country’s per capita GDP is considered too high and therefore it no longer qualifies for bilateral aid (e.g., in the case of USAID).

Seychelles also received a number of small conservation grants through embassy fun- ds including funds from USA, Germany, UK, France, Norway, The Netherlands, etc.

European Union (EU): Seychelles conservation has in the past benefited and continues to benefit from EU Economic Development Funds (EDFs) and from a number of other regional environmental programs for the Indian Ocean. In addition, the EU contributes (i.e., pays) approximately SR 20 million per year for the right for EU vessels to fish in the Seychelles’ offshore 200 nautical mile Exclusive Economic Zone, and the EU earmarks approximately 5% of this sum for providing training, scholarships, technical assistance and equipment for sustainable fisheries management in Seychelles.

In addition, the EU-funded (9th EDF) and IOC-implemented “Regional Programme for the Sustainable Management of the Coastal Zones of the countries of the Indian Ocean” will provide a total of 18 million Euro for 8 participating countries starting in 2006.

3.3.3. Private voluntary donations

Seychelles Island Foundation: SIF manages the Seychelles' two World Heritage Sites: the *Aldabra* and *Vallee de Mai* National Parks-- for the Government. The Foundation Board members are appointed by the Government, and include members from civil society as well as Government. SIF receives no funding from the Government.

Local conservation NGOs include Nature Seychelles, Island Conservation Society, Marine Conservation Society of Seychelles, Nature Protection Trust of Seychelles, Plant Conservation Action Group and Wildlife Clubs of Seychelles.

WWF, IUCN, BirdLife International, WIOMSA are just some of the **international and regional NGOs** that operate in Seychelles through a local partner which is either the government or a local NGO.

The amount of corporate philanthropic giving in Seychelles is very small. A number of small contributions have been made by **Private-Sector Companies**, including Barclays Bank, Cable and Wireless, Seybrew Breweries, Hunt Deltel, TropiCars, etc. However, it is worth noting that none of the large multinationals are present in Seychelles. This funding source will therefore always be limited.

Contributions by US and other foundations are also very small. This funding mechanism has certainly very large potential. However, due to the remoteness of Seychelles, it would entail a large investment to sensitize foundations about Seychelles' conservation needs. Such trade-offs are important to consider.

3.3.4. Environmental Funds

Environmental Trust Fund: During the 10-year period from 1995 to 2004, ETF managed grants totaling 9.2 million rupees for 82 environmental projects, the largest of which were two grants totaling 2.6 million rupees for litter bins. The ETF Board consists of 6 members from Government and 5 members from civil society who are appointed by the Minister of Environment. It raises its revenue from donations by Seychellois companies; grants by international donor agencies; entry fees collected from foreign visitors to the Botanical Gardens in Mahe; and certain kinds of environmental fines.

Cadbury's International: Christopher Cadbury, the former CEO of Cadbury International and the original owner of Aride Island, established an endowment of 500,000 British Pounds when he donated the island, the investment of which generates an annual income of 20,000 pounds for the costs of conserving Aride Island's biodiversity. Cadbury International Ltd. has also established a separate endowment of 500,000 British Pounds, which generates an annual income of 20,000 pounds for the same purposes.

Aldabra Trust Fund: SIF recently signed an agreement with WWF and IUCN to try raise a US \$25 million endowment (which will be legally established as a Sw charitable foundation) to finance the long-term conservation of the Aldabra World Heritage Site.

3.4. Market based fees - detailed overview

Assessment of market-based fees

Fees	Status	Potential/Goals	Actions required
Tourism Charges	<ul style="list-style-type: none"> ▪ Core component ▪ Increasing demand 	<ul style="list-style-type: none"> ▪ Maintain contribution 	<ul style="list-style-type: none"> ▪ Valuation studies ▪ Investment to development of tourism facilities ▪ Marketing expertise
Resource extraction fees	<ul style="list-style-type: none"> ▪ Not used in Seychelles 	<ul style="list-style-type: none"> ▪ Potential to diversify funding sources 	<ul style="list-style-type: none"> ▪ Strengthen institutional capacities in setting and collecting of fees
Payments for ecosystem services	<ul style="list-style-type: none"> ▪ Not used in Seychelles 	<ul style="list-style-type: none"> ▪ Limited potential in Seychelles 	<ul style="list-style-type: none"> ▪ Monitor international developments

3.4.1. Tourism charges

Protected areas in Seychelles generate earnings, including charges for entry, sales souvenirs and other products, and land rental to enterprises such as hotels and restaurants as illustrated in the table below. It is estimated that total protected area income would have been some SR10 million in 2004.

Table: Entry fees (and other sales) of protected and natural areas (in R'000)

	1996	2000	2004
Protected Areas			
Marine National Parks (MPAs)	1,253		1,980
Botanical Gardens Mahe	10		480
Revenue from Aldabra	469		440
Vallee de Mai Praslin	1,133		4,400
Fond Ferdinand			
Cousin Island Special Reserve		1013	1,564
Aride Island Special Reserve	153		280
Natural Areas			
<i>L'Union Estate La Digue</i>			
<i>Grand Anse water fall</i>			
<i>Grande Soeur Island (this goes to whom? Who manages??)</i>		975	880
TOTAL	Estimated		10,000

Marine Parks: The MPA's 2005 Annual Report shows that it received more than 36,000 foreign visitors in 2004, who each paid an entry fee of 10 Euros or US \$10. However, 100% of the entry fees collected by the MPA are transferred to the Ministry of Finance.

World Heritage Sites: the *Aldabra* and *Vallee de Mai* National Parks – approx. US\$800,000 from the US \$18/person entry fee that is collected from foreign visitors (approx. 44,000) to the *Vallee de Mai* National Park, and approx. US \$70,000 from the 1 Euro/person landing fee that is collected from the 600 to 800 foreign tourists who visit *Aldabra* National Park each year. SIF also raises around US \$120,000/year from sales of coco-de-mer nuts and of books, souvenirs, and T-shirts.

NGO managed islands include Cousin Island (Nature Seychelles) and Aride Isle (Island Conservation Society).

3.5. Generating Funds - detailed overview

Assessment of funds generation

	Status	Potential	Actions required
Economic instruments	<ul style="list-style-type: none"> ▪ Very few examples and rarely applied 	<ul style="list-style-type: none"> ▪ Substantial potential ▪ Increase use as funding and motivational tool 	<ul style="list-style-type: none"> ▪ Enhance awareness of decisions maker about trade-offs
Benefit-sharing and revenue sharing	<ul style="list-style-type: none"> ▪ Excellent examples – Special Reserves management 	<ul style="list-style-type: none"> ▪ Income generation from tourism products 	<ul style="list-style-type: none"> ▪ Streamline income generation potential of site: ▪ Develop capacity to share benefits and revenues
Cost-sharing	<ul style="list-style-type: none"> ▪ Excellent examples – Special Reserves management 	<ul style="list-style-type: none"> ▪ Privatization of protected areas management ▪ Large potential of mobilize private capital for conservation 	<ul style="list-style-type: none"> ▪ Develop role and regulations ▪ Define rights and responsibilities
Investment, credit and enterprise funds	<ul style="list-style-type: none"> ▪ Not used in Seychelles 	<ul style="list-style-type: none"> ▪ Source of capital and technical assistance to tourism related products ▪ Wider application of business principles to conservation 	<ul style="list-style-type: none"> ▪ Awareness raising amongst decision makers ▪ Legislation ▪ Marketing

3.5.1. Economic instruments

The table below is an overview of economic instruments and existing examples in Seychelles.

Instrument	Existing examples in Seychelles
Pollution charges, taxes and fees	<ul style="list-style-type: none"> ▪ Sewerage charges ▪ Solid waste charges ▪ Water charges
Input or output charges, taxes, fees	<ul style="list-style-type: none"> ▪ Lead gas tax ▪ Fertilizer tax ▪ Lower tax on smaller cars ▪ Reduced tax on gas cookers, liquid cooking gas gas bottles
Subsidies to environmentally friendly activities	<ul style="list-style-type: none"> ▪ No existing examples in Seychelles
Removal of environmentally harmful subsidies	<ul style="list-style-type: none"> ▪ No existing examples in Seychelles
Deposit – refunds	<ul style="list-style-type: none"> ▪ Beverage containers (glass bottles; PET bottles)
Performance bonds	<ul style="list-style-type: none"> ▪ No existing examples in Seychelles
Tradable permits	<ul style="list-style-type: none"> ▪ No existing examples in Seychelles
Liabilities	<ul style="list-style-type: none"> ▪ Criminal and civil sanctions (Environmental Protection Act)
Information provision	<ul style="list-style-type: none"> ▪ Environmental audit of Banyan tree hotel ▪ Product labeling (fish export)
Voluntary mechanisms	<ul style="list-style-type: none"> ▪ Phase out of CFCs (agreement between government and industries) ▪ ‘Industrial park’ (STAR uses waste from sewer treatment plant for production of compost)

3.5.2. Cost sharing - benefit-sharing - revenue sharing

Nature Seychelles – Cousin Island: Nature Seychelles is a fully independent NGO which collects around US \$200,000 annually from entry fees to the private nature reserve that it manages on *Cousin* Island. This revenue pays for management of Cousin Island (whose total management costs are approximately 500,000 rupees/year), but also other biodiversity related projects such as eradication of invasive species and re-introduction native species on several different islands, scientific research, and public awareness activities.

Tourism Operators

Seychelles offers unique examples for private businesses investing heavily in biodiversity conservation. A number of small privately owned islands have high class small ecotourism facilities. As part of the tourism product, the island owners opted to restore and rehabilitation of their islands to their original stage. They have funded eradication of alien species programs and the translocation of endemic wildlife back to their islands. The conservation work was undertaken in partnership with local NGOs and government departments. These islands include Cousine Island, North Island, Fregate Island, Denis Island, Bird Island and D'Arros Island.

Banyan Tree Resort, a hotel on the main island of Mahe sponsors a 1:1 match program for contributions by its guests for nature conservation. The funds are donated to local NGOs in support of their conservation projects, as well as used for joint site projects.

4. SUSTAINABLE FINANCING MECHANISMS WHICH ARE CURRENTLY NOT FEASIBLE IN SEYCHELLES, BUT COULD BE EXPLORED AT A LATER STAGE

4.1. DEBT-FOR-NATURE SWAPS

A debt-for-nature swap would involve the cancellation of particular debts owed by the Seychelles government to a foreign government (for example, debts owed to international development agencies of countries such as Germany or France---KfW and AFD) in exchange for the Seychelles government's agreement to spend an amount of local currency on nature conservation projects which is equal to a percentage of the hard currency debt that is being cancelled. The exact percentage would depend on multiple factors. For example, poorer and more highly indebted countries are usually given a bigger 'discount', i.e. the amount of local currency which they have to spend on nature conservation projects is usually a smaller percentage of the hard currency debt which is being cancelled.

Debt-for-nature swaps involve complex negotiations between the Finance Ministries of both the debtor country and creditor country, as well as the international development agency of the creditor country and the Ministry of Environment of the debtor country. Sometimes the creditor country will specify that the beneficiaries of a debt-for-nature swap (i.e., the organizations that receive local currency funding from the debtor government to implement various nature conservation projects) must be local NGOs rather than government agencies. If the debtor country later fails to fulfill its obligation to provide local currency budget allocations for conservation projects, the full amount of the original debt (and accumulated interest on the debt) becomes immediately due and owing.

Obstacles:

- Creditor countries usually require that the debtor country must currently have agreement in place with the IMF.
- The Government of Seychelles would have to allocate a substantial amount of local currency from its budget to spend on nature conservation projects (in addition to its current budget for the Ministry of Environment). However, the Government's allocation of local currency would not have to be made all at once, but could be stretched out over a period of 10 to 15 years.
- Multilateral debt (i.e., debt that the Government owes to multilateral institutions such as the World Bank, the African Development Bank, or the IMF) is not eligible for cancellation through debt-for-nature swaps, nor is the debt owed to bilateral creditors which have indicated they are not interested in doing debt-for-nature swaps (such as the UK, Japan, China, Kuwait, etc.).

4.2. CONSERVATION TRUST FUNDS

Over the past 15 years, conservation trust funds have been established in more than 100 developing countries in order to provide **sustained, long-term funding** for biodiversity conservation, separate from (and in addition to) the Government's budget for environment and protected areas. Conservation trust funds are legally independent charitable organizations that are managed by a Board of Directors, a majority of whose members usually come from outside of government--either from NGOs, scientific institutions, or the private sector. This has the effect of substantially insulating the boards of directors from day-to-day politics, and providing institutional continuity in cases where the political party in power is replaced by another. Conservation trust funds do not duplicate the essential functions of a national parks agency or department of wildlife and conservation, because trust funds have no legal authority to manage a protected area or to enforce any laws and regulations. Instead, conservation trust funds function as locally-based grant-making institutions (similar to charitable foundations) that support projects and activities for which government agencies lack the necessary financial resources.

Most conservation trust funds are set up as **endowments** whose capital comes from contributions by international donor agencies. This capital is usually invested in a combination of commercial bank deposits, government treasury bonds, and corporate stocks and bonds, in order to generate a steady stream of income (generally between 5% and 10% per annum). Only the income (and not the capital) is ever spent. The largest endowment-type environmental funds are the ones established in Mexico (US\$100 million); Bhutan (US\$36 million); Philippines (US\$26 million); Indonesia (US\$20 million); Panama (US\$25 million); and Madagascar's "Fondation Tany Meva" (US\$20 million equivalent).

Sinking funds, in contrast to endowments, spend not only the income earned from investing the fund's capital, but also spend down part of their capital each year. The capital of a sinking fund gradually "sinks" to zero over a predetermined period of time.

(usually between 10 and 20 years). Then the fund either ceases to exist or is replenished from other sources. Brazil's \$15 million biodiversity conservation fund "FUNBIO" is an example of a sinking fund.

Revolving funds are a third main type of conservation fund. Instead of starting with a fixed amount of capital, a revolving fund continually receives new revenues either from specially earmarked "user fees", environmental taxes, pollution fines or tourism tax. Most of these revenues are spent on financing environmental protection activities within less than a year after they are received. In some cases a small percentage of each year's revenues will be deposited in a "reserve fund" that can be drawn down if the income from fees or taxes suddenly drops due to unforeseen economic and political events. Examples of revolving funds include Belize's Protected Areas Conservation Trust, which is financed by a US\$4 "conservation fee" paid at the airport by each foreign tourist; the Turks and Caicos Islands Protected Areas Trust, which is financed by an extra 1% **hotel tax**; Costa Rica's Forest Conservation Fund, which is financed by earmarking 3.5% of the **tax on gasoline**; marine park trust funds in the Netherlands Antilles, Palau, and the Philippines, which are financed by **diving fees** or **marine park entry fees**; and the US Land and Water Conservation Fund, which has been financed by billions of dollars from **offshore oil revenues**. Protected area trust funds in some US states are partly financed by a percentage of the revenues from government-run **lotteries** (e.g. in Oregon and Colorado) or a percentage of the land transfer tax (e.g., in New Jersey and Florida).

Obstacles to the establishment of a conservation trust fund in Seychelles:

- Seychelles will find it hard to qualify for contributions from most international donor agencies, either because Seychelles' per capita income is too high, and because many donors (such as AFD) are unwilling to give any further grants until Seychelles clears up its unpaid debts to that particular donor country. The Government now has a policy of only contributing to conservation trust funds in cases where other donors or the government can provide at least a 2 to 1 match to Government contributions.
- WWF and IUCN have recently agreed to collaborate with the Seychelles Islands Foundation to fundraise for a proposed US \$25 million trust fund exclusively for Aldabra. This will compete with (and probably preempt) any other efforts to raise money from international donors for a second conservation trust fund for Seychelles.

However, the current unlikelihood of being able to establish an endowment-type of trust fund in the Seychelles that would be financed by international donors does not exclude the possibility of establishing some kind of revolving fund for biodiversity conservation that is based on specially earmarked taxes, fees or fines. But in order for this to be possible, the Government would have to enact **new legislation to authorize the establishment of domestic Trust Funds**, since existing legislation only covers offshore investment trusts. New legislation would also be required to authorize domestic trusts or foundations to receive revenues from fees and taxes collected by government.

5. FINANCIAL SUSTAINABILITY OF BIODIVERSITY CONSERVATION IN SEYCHELLES

The Seychelles government as well as local NGOs and some private businesses are committed to fund biodiversity conservation. Changing national and international development priorities make it more and more challenging for all to keep up with securing adequate funding.

It seems clear that national government budgets, as well as bilateral and multilateral donor grants, are the main source of financing for long-term biodiversity trust funds, but are not alone sufficient to meet the core biodiversity conservation objectives? The clear answer to this question is No.

Many commendable efforts have been made in Seychelles. A range of financial mechanisms have been developed and implemented. Seychelles is probably amongst world leaders in raising funds from conventional donors (on a per capita basis) and setting aside government budget allocations (on a per capita basis) for conservation has also developed some unique cost and benefit-sharing mechanisms such as on small private ecotourism islands which are referred to worldwide as successful and replicable examples.

Despite the above, the question of financial sustainability is still high on the Seychelles conservation agenda. Further analysis requires that the term first be defined (see the table below).

Financial sustainability is “the ability to secure stable and sufficient long-term financial resources, and to allocate them in a timely manner and appropriate form, to cover the full costs of biodiversity conservation (direct and indirect) and to ensure that involved institutions are managed effectively and efficiently with respect to conservation and other objectives”. (adapted from IUCN “Sustainable Financing of Protected Areas”)

As the definition at left shows, **financial sustainability is closely linked to institutions**. Institutions are the ones delivering biodiversity conservation, be it government, NGOs, private business, etc. It is therefore necessary to take a quick look at Seychelles’ biodiversity-related institutions.

The institutional constraints on biodiversity conservation are dominated by the lack of a strategic well-defined framework addressing priority issues associated with the identification and management of species and habitats at risk, and the management of invasive species. Uncertainty about the operational strategy for biodiversity conservation at the national level, and weaknesses in how land and resource management processes integrate biodiversity conservation into their operations are the main constraints. Institutional reform, therefore, is an essential part of the biodiversity mainstreaming challenge (From: “Institutional and Policy Review for UNDP-GEF PDF-B Project Mainstreaming Biodiversity in Seychelles”, Ferguson & Carolus, 2005).

From a financial sustainability point of view, a **general revision and reinforcement Seychelles conservation institutions capacity** will be required to:

- Become more responsive to changing opportunities and external demands
- Strengthen institutional capacity to use financial and business planning tools
- Establish more supportive economic policy and market conditions

The right institutional settings with associated capacity development will be key.

There are existing examples in Seychelles, from which lessons can be learned and replicated nationally. In doing this, changes in the way that funding is conceptualized, captured and used will be made.

Some of the key **lessons learned** from the experiences of other countries are:

1. One should not depend on one particular mechanism or source for financing biodiversity conservation, but instead try to tap as many different funding sources possible, in case one source suddenly dries up due to unforeseen economic, political or natural events.
2. The choice of which particular kind of fees, taxes or other incentives to use as a tool for financing biodiversity conservation will depend at least as much on *political feasibility* and on people's *willingness to pay* a particular fee or tax (if they know that it will be earmarked for conservation), as it depends on the purely economic scientific reasons that can be given for justifying such a fee, tax or incentive.
3. Choosing a particular kind of sustainable financing mechanism should also be based on considering the administrative costs and technical capacity that will be required to collect revenues, monitor and enforce compliance, and ensure that the money collected is used only for the intended purposes.

It is also apparent that all stakeholders involved in conservation have to continue looking for **innovative financing mechanisms**. Examples should include:

- Raising funds from new markets (debt-for-nature swaps, ecosystems services)
- Finding new donors (large corporations, private philanthropists)
- Sharing costs and benefits with local stakeholders (private island and land-own)
- Employing new financial tools (business planning)
- Improving wider policy and market conditions (positive incentive – economic instruments);
- Develop new partnerships in funding and management responsibilities between government, NGOs and private sector.

6. Sustainable Financing Options considered for Implementation during the Full Project

Most of the following options are analyzed below, in order to facilitate the choice which options to pursue, if at all. However, a large element of this choice should depend on which of these options the Government is prepared to “buy into”, and give its structural political support to implementing these.

6.1. Sustainable Financing Options related to the Tourism Sector

6.1.1 Voluntary Eco-certification

Promote the adoption of **voluntary eco-certification** schemes for tourist hotels (and other types of businesses), and promote awareness and publicity about such certification schemes. This would constitute a financial incentive for “greener” business practices which would directly or indirectly contribute to conserving the Seychelles’ globally significant biodiversity. Since any eco-certification scheme would (at least initially) be purely voluntary, there seems to be no reason why anyone would object to promoting and implementing this.

Potential Obstacles: The tourism industry representatives whom the International Sustainable Financing Consultant met all expressed reservations about the viability of trying to create a Seychelles-specific system of certification, because they thought that it would be too confusing for tourists, and therefore would not provide any added business value (in terms of attracting more tourists to the hotels that are certified under a locally based system); although a Report on Sustainable Tourism by Uli Schneider says that Tourism operators DO favour locally-based forms of eco-certification. Some people from the tourism sector favor the adoption of “Green Globe”, which is the most internationally well-known eco-certification scheme, whereas other people said that Green Globe requirements for its basic level of certification (of which there are several) are so low that almost any hotel could qualify, without having to change its current practices, and therefore the lowest level seems to be quite meaningless. Some of these critics of “Green Globe” favor adopting more stringent international eco-certification schemes that are used in some of the German-speaking countries.

Recommendation: One of the activities could be to further investigate the effectiveness and the costs of promoting (or even requiring) the adoption of “Green Globe” and other eco-certification schemes in the Seychelles. Among the issues that would need to be considered are:

- What is the business value to hotels of obtaining eco-certification and advertising this fact? One way to measure this would be to compare and analyze data about occupancy rates and room prices at selected hotels in other travel markets before

and after those hotels have obtained eco-certification; and to compare occupancies and room prices at such hotels with comparable non-eco-certified hotels at the same or similar travel destinations. This could be investigated through meetings (probably in Europe) and/or telephone interviews with representatives of the eco-certification agencies, and by meetings or telephone interviews with some of the large tour operators in Germany and the UK (such as TUI and Thompson) that either require hotels to be eco-certified, or advertise eco-certified hotels as one of the options available to their customers. (Germany and the UK constitute the two biggest markets for tourism to the Seychelles, and are also the two European countries with the largest demand for an eco-certified tourism product, particularly when compared to other countries supplying large numbers of tourists to the Seychelles such as France, Italy, and Russia).

- Does the added business value of obtaining eco-certification differ significantly in the case of different types of hotels or different market segments (e.g., budget hotels versus luxury hotels)?
- What would be the typical costs to Seychelles hotel operators for implementing the various kinds of changes and improvements in a hotel's infrastructure and operating procedures, and for implementing the kind of monitoring, which would be required in order for them to qualify under the various eco-certification schemes?
- Would there be any cost savings to hotels as a result of adopting any of the measures required for eco-certification (e.g., because of improved energy efficiency, lower landscaping costs, etc.)?
- How can the environmental (or biodiversity conservation) benefits of eco-certification be measured in the Seychelles context? Even if the direct economic benefits of eco-certification (in terms of enabling a hotel to attract more or higher paying tourists) can be demonstrated, the environmental benefits should also be demonstrated to be significant in order for this to be worth promoting as part of the GEF project. It should be possible to demonstrate some of the specific ways in which eco-certification would reduce threats to biodiversity; otherwise, eco-certification might be no more than a kind of 'tokenism' or public relations.

If the results to the above questions are mostly positive, then the next steps will be to disseminate information and raise awareness among Seychelles hotel operators about the options and modalities for obtaining eco-certification.

6.1.2 Clearinghouse Mechanism

Develop a **clearinghouse mechanism** within the Ministry of Tourism for disseminating information about specific green technologies and business practices by which hotel operators can lower their costs and reduce their spending of foreign exchange (e.g., saving energy, reducing unnecessary water consumption, etc). This is closely related (and could even be made an adjunct to) eco-certification.

Potential Obstacles: This would be a very non-controversial and relatively simple activity for the full project to support. The only potential issues or obstacles

implementing this kind of clearing-house mechanism are whether a sufficient amount of money and staff time could continue to be made available (both during and after the G project) for gathering, selecting, organizing, updating and disseminating such information effectively. There is a risk that if sufficient funds and personnel are not available, that whatever information is collected through the clearinghouse mechanism might just end up gathering dust on the shelves of a library or an office, rather than being widely used.

Recommendation: This option could be implemented during the full project.

6.1.3 Hotel Matching Contribution Schemes

Promote more widespread adoption of “**matching contribution**” schemes (i.e., hotel guests agree to match contributions by guests for nature conservation projects, up to a certain maximum amount, such as the scheme currently in use by the Banyan Tree Resort). In the case of the Seychelles Banyan Tree Resort, this is part of an international fund set up by the Singapore-based Banyan Tree hotel chain, for which donations are solicited from hotel guests at all of the Banyan Tree Resorts.

Potential Obstacles: Like the two preceding options, this is also something purely voluntary, and therefore would not be expected to generate much opposition or require any new laws, regulations, capacity building, or public expenditure. The main issue is whether any other hotels would be sufficiently motivated to adopt the Banyan Tree Resort’s approach. One of the specific activities that could be carried out during the full project would be to investigate the costs and benefits of the Banyan Tree Resort’s matching contribution scheme, and of similar matching contribution schemes in other parts of the world, and disseminate the results (but not the raw financial data, which might be confidential) to other hotel owners in the Seychelles. This could require answering the same sorts of questions that were highlighted by bullet points under the topic of “eco-certification” which was discussed above.

Recommendation: This option could be implemented during the full project.

6.1.4 Entry Fees for Local Community-managed Protected Areas

Authorize local communities to collect and retain **entry fees for local community-managed protected areas** (e.g., a local waterfall, or local reefs), if the community agrees to allocate part (e.g., 50%) of the money collected to be used for specified conservation activities (e.g., maintaining buoys, cleaning up waste, anti-poaching, etc.). This has worked very successfully in a number of islands in the Pacific (including Fiji, Samoa and Vanuatu), and several places in the Caribbean (including St. Lucia and Belize).

Potential Obstacles: The main obstacle to this Option is that unlike many other developing countries, there is no communally-owned land in the Seychelles. The majority of land is owned by the Government, and the rest is owned by private individuals and businesses. The same is also true of coastal resources: local communities have customary rights or other legally recognized rights to exclusively use (or collect rents on)

entry fees for) adjacent lands.¹ For example, local fishing communities have no right to exclude other non-local Seychellois from catching fish near the community. Such right would first have to be granted or devolved to local communities, in order for them to be able to charge entry fees or other kinds of user fees to non-residents. However, this might be too major a step for the Government to take at a time when it is facing so many fishery challenges.

One option to consider would be to grant local communities the right to try out doing this in one or two pilot sites where there has, in fact, recently been conflict between the Government and local people about rights to resources, such as in *Curieuse National Marine Park*. During the time that the International Consultant was in the Seychelles, local fishers from communities near *Praslin* vandalized marine mooring buoys, and express their opposition to the ban on fishing within the marine park boundaries where they had traditionally fished before. A pilot project could be launched to test whether local fishers might be won over to support restrictions on fishing inside marine park boundaries if they are given a share of the entry fees paid by divers and other tourists visiting the marine park. This would serve to give them an economic benefit or stake in conservation.

Recommendation: This option should be further investigated during the full project.

6.1.5 Conservation Fee at the Airport

Require all foreign tourists to pay a “conservation fee” at the airport.

Potential Obstacles: This option was proposed five years ago by the Government in the form of the “Seychelles Gold Card”, which all foreign tourists would have been required to purchase for a one-time fee of US \$100 at the airport. In return, they would be entitled to free admission to all protected areas in the Seychelles. The proposal was eventually rejected and discredited, partly because of concerns by the tourism industry that such a high fee could deter tourists from coming to the Seychelles, and partly because of concerns that the revenues might not be administered and spent in a transparent way. However, some tourism industry representatives said that re-introducing a modified version of this idea might be feasible, if:

- the fee is reduced to something like US \$10 or \$20,
- all of the revenues go to a legally independent trust fund governed by a board with a non-government majority (as in the case of Belize’s Protected Area Conservation Trust, which is financed by a conservation fee collected from tourists at the airport), and

¹ Coastal property ownership is controlled by several regulations and laws already in place, including the Town and Country Planning Ordinance (Chap.160), which requires Planning permission for all forms of terrestrial development including those on the coastal areas under the Town and Country Planning Act.

- the fund is operated in a very transparent way, including making all financial records easily available to the public, promulgating rules about avoiding conflicts of interest, and clearly stating in the trust fund's bylaws what are the criteria determining the kinds of activities that are eligible to receive funds.

Recommendation: This option should be further investigated during the full project.

6.1.6 Dive Fees

Require all recreational divers to pay a “reef conservation fee” which would be earmarked for marine and coastal conservation. This has proved to be a successful way of financing marine protected areas in various places in the Philippines, Indonesia, Palau and Bonaire.

Potential Obstacles: Seychelles dive tour operators say they would strongly oppose such a proposal, because their costs for imported equipment and supplies are so high that their businesses are just barely profitable, and such a fee would reduce the already small percentage of tourists who go diving during their visit to the Seychelles. The total number of dive operators and of dive tourists in the Seychelles is relatively small, e.g. compared to countries like the Maldives, where an estimated one fourth of the 400,000 tourists who visit each year go diving.

Recommendation: This option is probably not worth pursuing further.

6.2. Sustainable Financing Options related to Land Development and Infrastructure

6.2.1 Environmental Impact Fees and Performance Bonds

Require new hotel developments to pay an **environmental impact fee**, and/or to be required to post **environmental performance bonds** (i.e., insurance) against the risk of future pollution, erosion, introduction of invasive species, or other damage to biodiversity.

Potential Obstacles: This option has the potential of being quite effective but also being quite controversial, because the costs that it would impose on hotel operators might be quite substantial. Since environmental impact fees or performance bonds would be mandatory rather than voluntary, they would have to be authorized by new legislation. It could (and should) be argued that such costs are in fact now being borne by the general public (in the form of environmental damages and the resulting loss of potential future tourism revenue (as a result of a more polluted environment, or coral reefs that have been damaged or killed by sediment from construction sites), and that according to the “polluter pays principle” it is the hotels and other land developers who should pay such costs. However, it can be predicted that hotel operators will protest and oppose this

claiming that they are already in a precarious financial situation and would lose money or go bankrupt if they have to pay such costs, and that furthermore they should not 'penalized' by being required to pay environmental impact fees or environmental performance bonds before they have actually been proven to have done anything wrong or caused environmental damage. Another issue was mentioned to the International Consultant by certain hotel operators and other people from the private sector, who said that due to the Government's current difficult financial situation, they lack confidence that the Government would in fact use earmarked fees only for their intended purposes but might instead be unable to resist the temptation to spend such funds on other priorities. Although it might conceivably be possible to avoid this risk by requiring that such fees be held in trust or in escrow by an independent financial institution such as a commercial bank or insurance company, it is not clear whether it would be politically or even legally feasible to do this.

Recommendation: This option could be further investigated during the full project, analyzing other countries' experiences of charging environmental impact fees and requiring environmental performance bonds, including an analysis of the associated costs, benefits and administrative requirements, and whether the latter might be too complex to implement in a country like the Seychelles that has only 80,000 people.

6.2.2 Conservation Offsets

Require new hotels and other land developers to do "conservation offsets" as a condition for allowing any new land development to take place on a previously undeveloped tract of land (i.e., require large developers to conserve an equivalent amount of land with high biodiversity that is located somewhere else, similar to the U.S. Government's policy of "no net loss" of coastal wetlands. That policy requires that if wetlands are drained for construction or agriculture in one place, then an equivalent type and number of acres of wetlands must be created or restored somewhere else nearby. "Conservation offsets" are also similar to various programmes in other countries based on "tradable development rights".

Potential Obstacles: Like the preceding option, this option might potentially be quite effective in achieving conservation (or at least in reducing biodiversity loss). However, it could be quite controversial, because of the extra costs that would have to be borne by land developers, and also because of the difficulty of measuring exactly what type and amount of ecological restoration or conservation would constitute an equivalent or offset to the natural habitat that is destroyed. This would all have to be set forth in new legislation and new regulations, since there is no basis in current laws for doing this.

Recommendation: The suitability of implementing this kind of option in the Seychelles could be further investigated, including an investigation and analysis of the advantages and disadvantages of such offset programmes in countries like the U.S., and the development of guidelines and recommendations for such a programme in the Seychelles.

6.2.3 Strengthen Land Use Planning and Permitting

Enact legislation to strengthen land use planning and permitting by establishing transparent criteria for decision-making, including criteria based on biodiversity impacts. Abolish the practice of granting exemptions and variances *after* construction and development have already occurred. Require all plans and permits to be based on an open and transparent process that includes public hearings and prior publication of written information about all proposed new developments and their environmental impact assessments. Finance the new system through charging higher permit application fees on developers, and an additional surcharge on all new developments above a certain minimum amount (e.g., US \$1 million).

Potential Obstacles: This might conflict with the Government's current policy of waiving many taxes and other legal obligations in the case of new five-star hotel and resort developments, since this is seen as the quickest and best way of rapidly increasing foreign investment and foreign currency generation, at a time when the country is experiencing a severe shortage of foreign exchange.

Recommendation: This option could be further investigated during the full project by assessing potential costs, benefits and modalities, and comparison of practices and experiences of other countries. However, this should only be undertaken if there appears to be sufficient political will to implement the kinds of actions that might be recommended by such an investigation, which could include modifying or revoking some of the privileges and incentives now granted to new 5-star hotels.

6.2.4 Surcharge on the Land Transfer Tax

Impose a **surcharge on top of the current land transfer tax** (for example, an additional 0.5% of the sale price) for all property sales that are above a relatively high amount (one that most people would not be affected by the tax surcharge), and then earmark the revenue from the surcharge to pay for biodiversity conservation and ecological restoration (e.g., through removal of invasive species) in the surrounding area. Certain areas in the US and in France levy this kind of a surcharge on real estate transfer (inheritance and sales) taxes, to pay for nature conservation.

Potential Obstacles: It is unclear whether it would be politically or legally feasible to implement something like this in the Seychelles, and it is also unclear how much revenue this could actually raise for biodiversity conservation. The Ministry of Environment could propose this to the Ministry of Finance, and see whether they would support this.

Recommendation: If the Ministry of Finance seems receptive to discussing this option, it would be worth further investigating during the full project, leading to the drafting of a specific proposal.

6.2.5 Increase minimum and maximum environmental fines

Increase the relatively low existing fines for violating environmental regulations both protected areas and on privately owned land. The revenues from such fines should be earmarked for pollution prevention and biodiversity conservation, as well as pollution clean-up and ecological restoration.

Potential Obstacles: Businesses may resist stronger enforcement of environmental regulations and larger fines, and the Ministry of Finance may resist changing the current laws under which it receives all fines that are collected, rather than those fines going to other ministries or being earmarked for particular purposes. Another obstacle pointed out by some people is that due to the country's current difficult financial situation, businesses often do not pay the fines or taxes which they owe to the Government, and the Government is reluctant to try to force them to pay these by closing down the businesses (and thus throwing their employees out of work). Furthermore, during the workshop held on November 2, 2005, several people questioned whether there was any need to strengthen environmental laws or increase fines, saying that the current laws and fines were already adequate. There was insufficient time and opportunity for the International Consultant to obtain copies of all the current laws and regulations having to do with liability and fines for environmental damages, since these are scattered among many different Acts and different Ministries' regulations.

Recommendation: This could be a subject for further investigation by a lawyer and economist during the full project, which should result in a list identifying the environmental laws and regulations under which fines and penalties should be increased in order to more effectively prevent pollution and other forms of damage to the environment.

6.2.6 Earmark part of any offshore oil revenues for conservation

The most successful example of this is the US Land and Water Conservation Fund, which has raised more than \$9 billion during the last 40 years from the US Government's sale of offshore oil drilling rights to oil companies, and used this money for national and state parks. Brazil requires that one percent of the cost of any oil or gas pipeline that crosses a protected area must be given to the protected area to pay for its operating costs. In Bolivia and Cameroon, oil companies building pipelines that cross through protected areas were required by international lending agencies to 'donate' millions of dollars to conservation trust funds.

Potential Obstacles: It is not clear yet whether the Seychelles in fact possesses commercially viable quantities of offshore oil in its Exclusive Economic Zone (although oil companies are currently exploring for it), and whether the Government would agree to allocate part of future oil or gas revenues for financing conservation, rather than using it to pay off international creditors or to finance social programs. The terms of future oil exploration contracts would have to be changed from the terms currently used, which

require oil companies to pay the Government a base royalty of 5% of the value of any they discover, supplemented by a 3-tiered profits tax. Furthermore, this financial mechanism would also require new legislation to be passed.

Recommendation: The full project could include provisions allowing this option to be investigated further, and even allow the preparation of draft legislation, in the event that significant discoveries of offshore oil are made during the 5-year term of the project. If no such discoveries are made, then it would be pointless to pursue this option any further.

6.3. Sustainable Financing Options related to the Fishing Sector

6.3.1 Public Auctions for Commercial Fishing Quotas

Establish a system of **public auctions for commercial fishing quotas** (i.e., auctions for particular geographical areas and particular species), and then earmark a percentage of the money for sustainable fisheries management and marine biodiversity conservation.

Potential Obstacles: The Director General of the Seychelles Fishing Authority expressed interest in investigating this option further. However, this option might encounter political opposition since it would probably have the effect (and in fact, it is intended to have the effect) of raising the “resource rents” paid by the commercial fishing industry (particularly the foreign fishing vessels that catch most of the tuna). It might also be opposed by the Ministry of Finance and possibly even by the Ministry of Foreign Affairs since it would require changing the current system of negotiating separate bilateral fishing agreements with the EU, Japan, Korea, China, etc., based on their past catch, and channeling all of the payments under those agreements directly to the Ministry of Fisheries. Under current law, the Seychelles Fishing Authority is not entitled to keep any of the revenues which it collects, but instead transfers all revenues to the Ministry of Finance and receives back an annual budget allocation from the Ministry of Finance which has no relation to the amount of revenue that is actually generated by the fishing sector.

Recommendation: This should be further investigated during the full project.

6.3.2 Fish Catch Levy

Collect a **fish catch levy** based on the number of tons of particular fish species that are caught by commercial fishing vessels (both foreign and Seychellois), and earmark the fees for a sustainable fisheries research and management fund, similar to the fisheries management funds that are financed by fish catch levies in Namibia, New Zealand and other countries.

Potential Obstacles: same as for the preceding option.

Recommendation: This issue should be further investigated during the full project.

6.4. Sustainable Financing Options related to Control of Alien Invasive Species

6.4.1 New Plant and Animal Inspection and Quarantine System

Introduce a new plant and animal inspection and quarantine system to prevent spread of new invasive alien species to the country as a whole as well as to particular islands, and finance this new system by charging higher inspection and permit fees to importers.

Potential Obstacles: There is bound to be protest if the already expensive price of imported food and other goods is raised significantly because of higher inspection fees. It may also be politically very difficult to restrict or prevent Seychellois from bringing exotic ornamental plants into the country, since the President's national beautification campaign actively encourages people to do just that, and many Seychellois now compete with each other to have the most colorful garden. Changing this mindset will require a major education and awareness-raising effort.

Recommendation: The costs and benefits of this option, and the political willingness to implement the necessary actions, should be more precisely assessed before deciding whether to include this in the full project.

List of Persons Met

Seychelles Government

1. Rolph Payet, Principal Secretary, Environment, **Ministry of Environment and Natural Resources**
2. Ronald Cadrine, Director General, Policy and Strategy Division, **Ministry of Finance**
3. K.J. Joseph, Director, Project Planning and Public Debt, **Ministry of Finance**
4. Frauke Fleischer-Dogley, Director, International Cooperation, **Ministry of Tourism and Transport**
5. Veronique LaPorte, Manager, **Seychelles Investment Board**
6. Jude Bijoux, Manager, SCMRT, **Marine Park Authority**
7. Clifford Toussaint, Director General, **Seychelles Fishing Authority**
8. Joe Faure, Secretary to the Board, **Environmental Trust Fund**

Seychelles NGOs

1. Nirmal Jivan Shah, CEO, **Nature Seychelles**, and Chairman, **LUNGOS**
2. James Hardcastle, Technical Advisor, **Nature Seychelles**
3. Ronny Renaud, Executive Officer, **Seychelles Island Foundation**
4. David Rowat, Founding Director, **Marine Conservation Society of Seychelles** and Manager, **Underwater Centre Seychelles** (private sector dive operator)
5. John Neville, Founding Director, **Marine Conservation Society of Seychelles**
6. Herve Barois, Coordinator, **Island Conservation Society**
7. Sarah Valerie Price, FFEM Project Coordinator, Rehabilitation of Island Ecosystems Project, **Island Conservation Society**

Seychelles Private Sector

1. Sheila Gonzalez Fernandez, Manager, Service and Recognition/Community Affairs, **Barclay's Bank** (Seychelles) Ltd.
2. Malika Jivan, Chartered Public Accountant, **Victoria Corporate Agents** (P) Ltd.
3. Selwyn Gendron, Director, **Cousine Island Resort**, and CEO, **Gondwa Enterprises Ltd.**
4. Jock Henwood, Island Manager, **Cousine Island**
5. Philippe Boule, Attorney-at-Law and Offshore Investment Consultant, **Victo Chambers**; also President, Seychelles Bar Association
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