



## CONSERVATION FINANCE ALLIANCE

Working Group on Environmental Funds

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# Rapid Review of Conservation Trust Funds May 2008

Second Edition

Prepared by Barry Spergel and Philippe Taïeb

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**The CFA's Working Group on Environmental Funds** was created in 2007 to encourage promotion, knowledge transfer and exchange about environmental funds in support of the protection of global biodiversity.

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## Acronyms and Abbreviations

AFD	<i>Agence Française de Développement/</i> French Development Agency
ANGAP	<i>Association Nationale pour la Gestion des Aires Protégées/</i> Madagascar's National Protected Areas Management Agency
ARPA	Amazon Region Protected Areas Program
BMCT	Bwindi Mgahinga Conservation Trust
BTFEC	Bhutan Trust Fund for Environmental Conservation
CBD	Convention on Biological Diversity
CBO	community-based organization
CEPF	Critical Ecosystems Partnership Fund
CFA	Conservation Finance Alliance
CI	Conservation International
CITES	Convention on International Trade in Endangered Species
CPAF	Caucasus Protected Areas Fund
CSR	corporate social responsibility
CTF	conservation trust fund
EAI	Enterprise for the Americas Initiative
EAMCEF	Eastern Arc Mountains Conservation Endowment Fund, Tanzania
EC	European Commission
EU	European Union
EF	environmental fund
EFJ	Environmental Foundation of Jamaica
FAN	<i>Fondo Ambiental Nacional/</i> National Environmental Fund, Ecuador
FANP	<i>Fondo para Áreas Naturales Protegidas/</i> Natural Protected Areas Fund, Mexico
FAP	<i>Fondo de Áreas Protegidas/</i> Protected Areas Fund, Ecuador
FAPB	<i>Fondation pour les Aires Protégées et la Biodiversité de Madagascar/</i> Madagascar Foundation for Protected Areas and Biodiversity
FEDEC	<i>Fondation pour l'Environnement et le Développement au Cameroun/</i> Foundation for Environment and Development in Cameroon
FFEM	<i>Fonds Français pour l'Environnement Mondial/</i> French Global Environment Facility
FFI	Fauna and Flora International
FGV	Getulio Vargas Foundation
FIAES	<i>Fondo Iniciativa para las Américas El Salvador/</i> EIA Fund, El Salvador
FMCN	<i>Fondo Mexicano para la Conservación de la Naturaleza/</i> Mexican Nature Conservation Fund
FNMA	Fundo Nacional do Meio Ambiente, National Environmental Fund, Brazil
FONAMA	<i>Fondo Nacional para el Medio Ambiente/</i> National Environmental Fund, Bolivia
FONDAM	<i>Fondo de las Américas/</i> Americas Fund, Peru
FPAA	<i>Fondo para la Acción Ambiental y la Niñez/</i> Fund for Environmental Action and Childhood, Colombia
FPE	Foundation for the Philippine Environment
FPLA	<i>Fondo para las Américas/</i> Americas Fund, Argentina
FUNBIO	<i>Fundo Brasileiro para a Biodiversidade/</i> Brazilian Biodiversity Fund
FUNDESNA	<i>Fundación para el Desarrollo del Sistema Nacional de Áreas Protegidas/</i> Foundation for the Development of the National System of Protected Areas, Bolivia
GCF	Global Conservation Fund
GEF	Global Environment Facility
GTZ	<i>Gesellschaft für Technische Zusammenarbeit/</i> German Agency for Technical Cooperation
IBAMA	<i>Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis/</i> National Protected Areas Agency, Brazil
IUCN	International Union for Conservation of Nature
KEHATI	Indonesian Biodiversity Foundation
KfW	<i>Kreditanstalt für Wiederaufbau/</i> German Development Bank

LAC	Latin America and the Caribbean
M&E	monitoring and evaluation
MAR Fund	Mesoamerican Reef Fund
METT	Management Effectiveness Tracking Tool, World Bank/WWF
MMCT	Mulanje Mountain Conservation Trust
NACUBO	National Association of College and University Business Officers
NATURA	<i>Fundación para la Conservación de los Recursos Naturales/</i> Natural Resources Conservation Fund, Panama
NGO	non-governmental organization
PA(s)	protected area(s)
PACT	Protected Areas Conservation Trust, Belize
PES	Payment for Ecosystem (Environmental) Services
PROFONANPE	<i>Fondo Nacional para Áreas Naturales Protegidas por el Estado/</i> National Fund for Protected Areas, Peru
PUMA	<i>Fundación Protección y Uso Sostenible del Medio Ambiente /</i> Foundation for Protection and Sustainable Use of the Environment, Bolivia
RedLAC	Latin American and Caribbean Network of Environmental Funds
RfP	request for proposals
RSPB	Royal Society for the Protection of Birds
SCF	Suriname Conservation Fund
SERNAP	<i>Servicio Nacional de Áreas Protegidas/</i> National Agency for Protected Areas, Bolivia
SGP	small grants program
SINAPE	<i>Sistema Nacional de Áreas Naturales Protegidas por el Estado Peruano/</i> Peru's National Protected Area System Management Agency
SNAP	<i>Sistema Nacional de Áreas Protegidas/</i> National Protected Areas System, Bolivia, Ecuador
SRI	socially responsible investing
TFCA	Tropical Forest Conservation Act
TMF	Table Mountain Fund
TNC	The Nature Conservancy
TNS Foundation	<i>Fondation Tri-National de la Sangha/</i> Sangha Tri-National Foundation, Cameroon, Central African Republic, Republic of Congo
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WCS	Wildlife Conservation Society
WWF	World Wide Fund for Nature (also known as World Wildlife Fund)
\$	United States dollar

## EXECUTIVE SUMMARY

### Why a Rapid Review of Conservation Trust Funds?

This *Rapid Review of Conservation Trust Funds* presents an overview of experience with the creation, operation and evaluation of conservation trust funds (CTFs) and provides a rationale for further investment in CTFs. The *Review* is not intended to replicate the Global Environment Facility's (GEF's) 1999 comprehensive *Evaluation of Experience with Conservation Trust Funds*, but rather to review the current status of CTFs worldwide, focusing on those that have been in operation for at least five years. It identifies best practice standards for effective governance and administration of CTFs, and provides guidelines for monitoring and evaluating CTFs' operations and biodiversity impact.

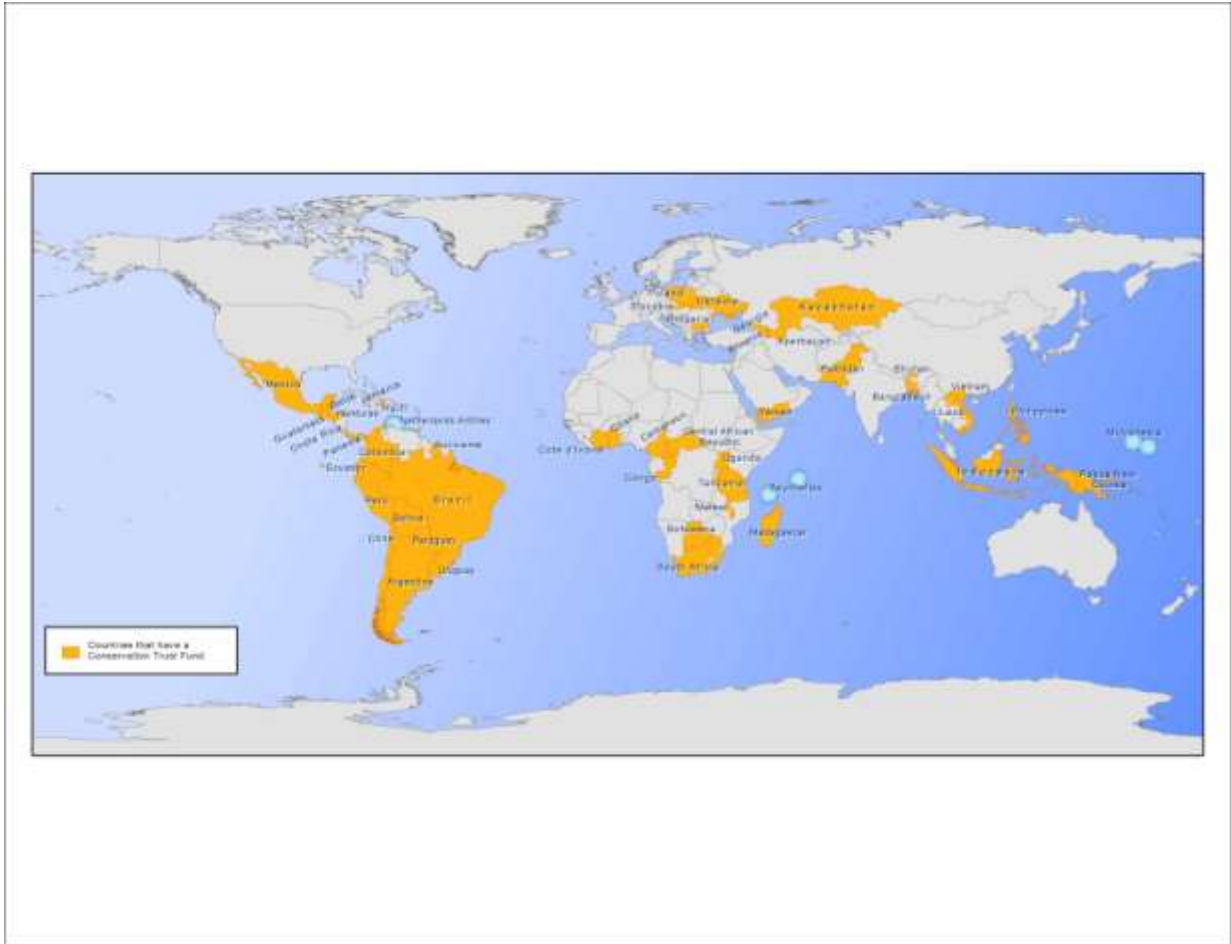
The Conservation Finance Alliance (CFA) Working Group on Environmental Funds commissioned the *Review*, with support provided by the French Development Agency (AFD), French Global Environment Facility (FFEM), German Development Bank (KfW), Conservation International (CI) and the World Wide Fund for Nature (WWF). The *Review* was prepared by a consulting team consisting of Barry Spergel and Philippe Taïeb based on extensive interviews, a CTF survey, review of CTF literature including CTF evaluations, and consultations in Paris, Washington and San Salvador. The consultants and the Working Group are grateful to the many individuals and organizations who participated in the *Review*, with special thanks to the GEF that served on the Steering Committee for the *Review*, and the Latin American and Caribbean Network of Environmental Funds (RedLAC).

## CHAPTER 1 – BACKGROUND ON CONSERVATION TRUST FUNDS

Over the last fifteen years, CTFs have been established in more than 50 developing countries and transition economies. As shown in map below, the majority of CTFs have been established in the Latin American and Caribbean region.

CTFs are private, legally independent grant-making institutions that provide sustainable financing for biodiversity conservation and often finance part of the long-term management costs of a country's protected area (PA) system. They can serve as an effective means for mobilizing large amounts of additional funding for bio - diversity conservation from international donors, national governments and the private sector.

CTFs raise and invest funds to make grants to non-governmental organizations (NGOs), community based-organizations (CBOs) and governmental agencies (such as national parks agencies). CTFs are financing mechanisms rather than implementing agencies. They also can serve as mechanisms for strengthening civil society and for making government PA manage government agencies more transparent, accountable and effective.



CTFs can be characterized as public-private partnerships, and in most cases at least half of the members of their governing boards are from civil society. In addition to funding conservation projects, CTFs provide technical assistance and grants to strengthen the institutional capacity of grantees. CTFs have also served as catalysts for the creation of new partnerships with private businesses for the conservation and sustainable use of biological resources. Many CTFs also reduce threats to biodiversity by financing projects that improve and promote sustainable livelihoods of poor communities living near PAs.



## **CHAPTER 2 – PURPOSES AND ROLES OF CONSERVATION TRUST FUNDS**

Many CTFs are hybrids of what earlier studies considered to be distinct categories of CTFs, serving as “umbrella funds” to manage separate fund accounts for different purposes, but under a single legal and institutional structure.

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### **Grants Fund**

Channels resources to target groups (typically NGOs and CBOs) for a broad range of conservation and sustainable development projects, not limited to PAs.

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### **Green Fund**

Primarily finances activities related to biodiversity conservation.

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### **Brown Fund**

Finances activities such as pollution control and waste treatment. Many brown funds allocate five to ten percent of their grants for biodiversity conservation and PAs. Most brown funds are financed by pollution charges or fines.

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### **Parks Fund**

Finances the management costs (and sometimes also the establishment costs) of specific PAs, or of a country’s entire PA system. PA management costs can also include financing for alternative livelihoods or sustainable development activities in PA buffer zone communities.

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### **Endowment Fund**

Capital is invested in perpetuity, and only the resulting investment income is used to finance grants and activities.

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### **Sinking Fund**

The entire principal and investment income is disbursed over a fairly long period (typically ten to 20 years) until it is completely spent and thus sinks to zero.

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### **Revolving Fund**

Income from taxes, fees, fines, or Payments for Ecosystem Services (PES), that are specially earmarked, regularly go into the fund to be used for specified purposes.

## **Essential Conditions**

CTFs are just one of a number of different tools for financing biodiversity conservation, and are not necessarily appropriate or feasible for all countries and in all situations. The GEF *Evaluation* concluded that CTFs require four “**essential conditions**”:

- 1** The issue to be addressed requires a commitment of at least ten to 15 years;
- 2** There is active government support for a public-private sector mechanism outside direct government control;
- 3** A critical mass of people from diverse sectors of society that can work together to achieve biodiversity conservation and sustainable development; and
- 4** There is a basic fabric of legal and financial practices and supporting institutions (including banking, auditing and contracting) in which people have confidence. These four conditions continue to be valid, with certain refinements that will be discussed in later chapters of this *Review*.

### **CTFs and the Paris Declaration on Aid Effectiveness**

Experience has demonstrated that CTFs can be an effective tool for achieving the goals of the Paris Declaration on Aid Effectiveness (2005) by:

1. Strengthening partner countries' sustainable development strategies and associated operational frameworks with respect to the management of PAs;
2. Increasing alignment of aid with partner countries' biodiversity conservation priorities, and helping to strengthen partner countries' PA systems;
3. Enhancing donors' and partner countries' respective accountability to their citizens and parliaments, because CTFs are open and transparent institutions that: (a) Make grants based on publicly declared criteria; (b) Submit detailed annual reports on their activities to donors, national governments and the public; and (c) Are subject to annual audits by independent accounting firms, which are made public; and
4. Eliminating duplication of efforts and rationalizing donor activities to make them as cost-effective as possible, because CTFs combine and coordinate funding from multiple donors, which also reduces the reporting burden on grant recipients;
5. Defining measures and standards of performance and accountability of partner country PA systems, by conditioning CTF grants on the achievement of measurable performance benchmarks and compliance with rigorous standards of financial management.

CTFs also address what the Paris Declaration refers to as “the remaining challenges” by:

6. Providing more predictable and multi-year commitments on aid flows to committed partner countries;
7. Delegating authority from international donor agencies to a partner country grant-making institution (i.e., the CTF), which can integrate global programs and initiatives (such as the Convention on Biological Diversity, or the UN Framework Convention on Climate Change) into partner countries' broader sustainable development agendas; and
8. Increasing transparency and reducing opportunities for corruption, by the public disclosure of all CTF grants, operating costs and investments, and through supervision by independent public-private governing boards.

## **CHAPTER 3 – STRATEGIC PLANNING, GRANTMAKING AND ADMINISTRATIVE COSTS**

CTFs use strategic planning to set priorities and ensure that funds and resources are effectively and efficiently applied in the execution of the CTF’s mission. Strategic plans are typically developed for three to five years in broad consultation with diverse stakeholders.

Most CTFs have a separate grant administration manual, or a section of their operations manual, that covers grant proposal review procedures, procedures for responding to applicants, grant reporting requirements, and grant monitoring and evaluation criteria and procedures.

Administrative costs for most CTFs range from ten to 20 percent of their total annual budget. To minimize administrative costs, CTFs need to keep costs below a ceiling, based on a standard definition of what constitutes administrative costs.

### **Ensuring a Long-term Focus on Biodiversity Conservation**

Some CTFs have evolved from a strict focus on conserving biodiversity to an increasing focus on improving the livelihoods of communities near PAs and promoting sustainable development. In some cases, this shift in focus has been encouraged, or even required by, international donors or national governments that have defined “poverty alleviation” as their overarching goal. Supporting such activities in communities near PAs is also viewed as an indirect way of supporting biodiversity conservation and strengthening PAs, to the extent that this contributes to reducing the level of human threats to biodiversity and PAs.

However, there can be a risk that a CTF’s grantmaking can become too broad, diluting direct impacts on biodiversity. Strategies for maintaining a focus on biodiversity conservation include:

- Provisions in a CTF’s articles of incorporation that clearly limit the purposes for which the CTF can make grants, and require the unanimous vote of the board for any changes;
- Requirements that members of the CTF’s board be chosen based on their expertise in biodiversity conservation or their affiliation with nongovernmental conservation organizations; or
- Donor grant agreements that establish separate accounts in a CTF that can only be spent for narrowly defined purposes, and are governed by a special committee that includes representatives of a particular donor(s).

## **CHAPTER 4 – FUNDING PROTECTED AREAS’ RECURRENT COSTS AND FINANCIAL GAP ANALYSIS**

Funding for PAs in developing countries has not kept up with the roughly ten-fold increase in the number of PAs in the world over the last four decades, which now cover approximately 12 percent of the world’s land surface. According to the World Conservation Monitoring Centre, less than one billion dollars annually are spent on PA management in developing countries, resulting in inadequate staff, vehicles, fuel and other basic management necessities. Insufficient investment often leads to progressive degradation of the biological resources that PAs were established to conserve.

Through their funding for long-term recurrent costs of biodiversity conservation and PAs, CTFs provide a relatively stable and secure source of funding for salaries, infrastructure maintenance, equipment and supplies. CTFs also serve as an exit strategy for international donors in countries where they plan to close down their projects or offices (for budgetary or other reasons) but would still like to have a lasting impact.

In some cases, donors have initially expressed concerns about whether they will receive sufficient public recognition if their financial contributions are combined with those of other donors and managed by a CTF. However, many international donors and national governments realize that the value of their investments in conservation can be multiplied many times when their contributions are leveraged by matching contributions from other international donors, and/or by a national government in the form of new fees and taxes specifically earmarked for the CTF. CTFs’ success in producing conservation results and raising public awareness of bio-diversity conservation and PAs has led many international donors and national governments to further increase their funding for PAs and biodiversity conservation, even above and beyond their CTF contributions.

CTFs are commonly used as a mechanism for creditor and debtor governments to channel funds generated by debt-for-nature swaps (i.e., the cancellation of debt repayment obligations in exchange for funding programs to conserve the indebted country’s biodiversity) and to spread the spending of those funds over as long as 20 years rather than spending them at once. Countries such as Peru, Ecuador, Bolivia and Madagascar have used CTFs to channel many tens of millions of dollars from bilateral debt-for-nature swaps into long-term financing for their national PA systems.

CTFs can improve the management performance of government-run PA systems, because CTFs require grant recipients to adhere to specific conditions and procedures, and often to meet specific benchmarks. The predictability and security that CTFs provide as a source of sustainable financing increases PA managers’ ability to do long-term planning, and increases stakeholder support by reassuring people that financial resources for conservation and sustainable development activities continue to be available.

CTFs are often based on (and often utilize) long-term financial and business planning tools, such as financial gap analysis and financial sustainability scorecards. This

improves the effectiveness and efficiency of PA management, which can in turn lead national governments to increase their annual budget allocations for PAs.

## **CHAPTER 5 – MONITORING AND EVALUATING IMPACTS ON BIODIVERSITY**

Most CTFs do a good job of monitoring and evaluating *project completion* indicators, but do not do an equally good job in monitoring the *biodiversity impacts* of their grants. One of the reasons for this is because they either do not have, or they do not collect, the baseline data necessary to monitor and evaluate these biodiversity impacts. Biological indicators are also challenging (and sometimes expensive) to collect and interpret, and are often not sufficiently sensitive over short time frames relevant to program managers.

Many CTFs are now devoting more resources to improving their monitoring and evaluation (M&E) of the biodiversity impacts of their grants, which should lead to improved grant selection and project design in the future.

M&E of parks funds can be done relatively easily and cheaply by using tools such as the Management Effectiveness Tracking Tool created by the World Bank and WWF. However, M&E of biodiversity impacts of grants funds is often much more difficult as these grants serve many different purposes, and are often made to NGOs and CBOs with no previous M&E experience.

### **Best Practices for Monitoring and Evaluation**

CTFs should require each grantee to: (1) Include goals and indicators for biodiversity conservation (or threat reduction) in its grant proposal; (2) Collect relevant baseline data on biodiversity (or on threats to biodiversity) before implementing the grant; and (3) Submit data several times during grant implementation, and after grant completion, to measure changes in the key indicators.

Annex G to this *Review* represents a model template for evaluating: (1) The performance of CTFs as institutions and (2) The programmatic impacts of their grants.

## **CHAPTER 6 – BOARD AND GOVERNANCE ISSUES**

The single most important condition (i.e., best practice) for good governance is for a majority of the members of a CTF's governing board to come from outside of government. Experience shows that CTFs with greater independence from government are more transparent and effective in achieving biodiversity conservation goals, less influenced by short-term political considerations, and more successful in attracting contributions from international donors and from the private sector than government-controlled funds. Other important factors ensuring a CTF's independent status include: (1) The Chairman of the board should not be a government official; (2) The CTF's

offices should not be physically located inside a government ministry; and (3) Non-governmental members of the board should not be chosen or appointed by a government.

### **Board Composition**

Non-governmental members of the board should be elected by other board members, or be chosen by widely recognized and independent groups and associations. However, it is highly advised to have at least one high-level government representative on the board, to ensure that a CTF's activities are linked to national biodiversity conservation action plans and policies, and to ensure government support for a CTF.

Board members should have diverse backgrounds and be chosen on the basis of their personal competencies, based on how they can contribute to achieving the goals of the CTF.

Board members' terms of office should be staggered (rather than all ending at the same time) to provide greater institutional continuity and their responsibilities should be clearly specified in a CTF's bylaws or its operations manual.

### **The Role of Expert Committees**

CTF boards often function more efficiently if they delegate certain topics to expert committees (i.e., finance or technical committees) to discuss and then make recommendations to the full board. Larger boards benefit from having members with different kinds of technical expertise and geographical backgrounds. However, a larger board can make it harder to reach decisions, and can raise a CTF's administrative costs. One option is to have a smaller executive committee that meets more frequently and handles many short-term and urgent decisions, while the full board meets only once or twice each year and focuses on larger and more strategic decisions.

## **CHAPTER 7 – LEGAL AND TAX ISSUES**

All common law countries and most civil law countries have laws that permit the creation of CTFs as trust funds or foundations. In the absence of an appropriate legal framework, CTFs may also be established by: 1) Enacting a special law solely to establish a particular CTF and grant it tax exemptions and other privileges; 2) Establishing an offshore CTF in a country with a flexible and well-respected legal system; and 3) Establishing a CTF through a bilateral or other international agreement, rather than under national legislation. The Netherlands, the United Kingdom and the United States have the most unrestricted legal frameworks for establishing CTFs and foundations.

CTFs need to ensure that interest and investment income (including capital gains) earned by investment of endowment funds is exempt from taxation at the source (i.e., in the country where the money is invested) or in the destination country (i.e., the country where the CTF is legally registered or operate

Conflict of interest rules should be clearly defined in a CTF's articles of incorporation, bylaws and operations manual to prohibit CTF board members, staff or their family members from receiving any grants from the CTF, or receiving any kind of economic benefits from the CTF's grants.

## **CHAPTER 8 - FUNDRAISING**

New fundraising opportunities for CTFs are emerging. While the GEF and bilateral aid agencies remain the major sources of funding (almost 75 percent) for CTFs, partnerships with corporations, other nonprofit organizations and foundations also play an increasing role. In most cases, money raised through those partnerships is used to finance individual projects and programs rather than to capitalize endowments.

Some natural resource extractive industry companies have provided funds to help capitalize new CTFs or new accounts within existing CTFs (mostly in the form of sinking funds). However, partnering with such companies can also be potentially risky for a CTF's image. A CTF's board and executive director need to make sure that a partner company's values significantly overlap with the CTF's values, and that the CTF retains the capacity to walk away if the company's policies or activities put the CTF's reputation at risk.

Other new types of funding mechanisms (such as PES, PA entrance fees, or various taxes and levies) have continued to emerge in the past few years to finance conservation in PAs and other biologically rich areas. This additional funding for conservation, whether or not it is channeled through CTFs, can relieve pressure on CTFs to raise money from other sources.

CTFs can also tap into "new philanthropy"—donations by socially conscientious wealthy individuals—both in developed countries and in emerging market countries, but CTFs will have to learn to position themselves to capitalize upon these new opportunities.

Best fundraising practices for CTFs include building up the necessary fundraising, marketing and strategic skills of boards and senior management, and designing a realistic and well thought-out marketing and fundraising strategy.

## **CHAPTER 9 – INVESTMENT MANAGEMENT**

*The Conservation Trust Investment Survey Analysis* (2008) shows that the investment performance of CTFs is comparable to that of US colleges and universities: the weighted average return for 19 CTFs responding to the survey was 10.19 percent for all years, and 10.57 percent for 2003 through 2006. This is a sign of growing sophistication in CTFs' investment policies. Many CTFs have also hired investment advisors to oversee their investment managers, and most CTFs now have clear and specific investment guidelines.



Best investment management practices include having a diversified asset base and a flexible spending policy, both of which should be regularly reevaluated and modified as necessary, based on a CTF's long-term investment strategy and changes in global financial markets. Around 80 percent of CTFs rebalance the allocation of investments in their portfolio at least once per year, with some CTFs doing either monthly or bimonthly rebalancing.

Environmental screening has become standard with CTFs, whereas the use of socially responsible investing (SRI) practices is not as widespread. SRI practices can be time consuming and expensive and require significant background research and dialogue with various companies to influence their operational practices.

### Summary Table

The following key data presents aggregate numbers for CTFs around the world. The data is based on information provided by roughly 20 CTFs in response to a questionnaire sent to more than 50 CTFs, as well as most recently available information from other sources, including CTF websites, annual reports and personal interviews.

**Number of CTFs** ~55

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#### Capital Raised Worldwide

An estimated \$810 million\*  
(74% in LAC, 10% in Asia, 9%  
in Africa, and 7% in Europe).

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#### Capital Raised

US: 45%; GEF: 19%  
Breakdown by (with 31% in Africa);  
Donor Worldwide Germany: 7%;  
National Governments: 6%;  
Other Donors: 23%.

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#### Investment Performance

Weighted average annual return of  
19 CTFs is 10.19% for all years,  
and 10.57% for 2003 through 2006.

\* In the case of the Polish EcoFund, only the \$45.5 million generated at the inception of the Fund has been taken into account.

## **CHAPTER 10 – CONSERVATION TRUST FUNDS IN AFRICA**

Most CTFs in Africa before 2002 focused on supporting just one or two PAs, and were in anglophone countries. However, most of the newer CTFs in Africa are in francophone countries and were created to help finance a country's entire PA system. This change in focus also reflects the shift by the GEF (which is the largest donor to CTFs in Africa) from supporting conservation projects at individual site levels to supporting system-level management of PAs.

### **Identified Challenges**

Most African CTFs in existence for at least five years have had positive impacts on the individual projects that they have funded on the ground.

African CTFs' own institutional weaknesses remain the biggest issue, along with their need to increase their capital to levels that will enable them to have a more significant biodiversity conservation impact.

The lack of system-wide PA financial gap analysis in most African countries (with a few notable exceptions like Madagascar) makes it difficult to design and establish CTFs to support entire national PA systems. However, even designing a CTF based on a “no frills” scenario that provides only the minimum amount necessary to protect biodiversity can be expensive.

Successes in raising initial capital for the Madagascar Foundation for Protected Areas and Biodiversity and Central Africa's Sangha Tri-national Foundation contrast with the challenges faced by East African CTFs in raising additional capital, or the difficulties faced by emerging CTFs in Benin or Mauritania in finding initial capital. Therefore, it is hard to predict the extent to which the international community will be willing and able to contribute the money needed for creating CTFs across the region.

### **Requirements for Establishing Successful Conservation Trust Funds in Africa**

After 15 years of experience in Africa, and even longer experience in Latin America and the Caribbean, we know that key factors for establishing successful CTFs include: 1) A country-wide conservation strategy that presents a quantified biodiversity conservation needs assessment both within and outside PAs; 2) Political support at the highest levels in a country, with limited government involvement in a CTF's day-to-day management; 3) Fundraising and technical support from international organizations; 4) Consultative processes that include all major stakeholders and reflect those inputs in a CTF's design, including support for sustainable livelihoods; and 5) Top-notch human resources that provide the breadth of skills needed to lead a CTF, both at the senior management staff level and board level.

## **CHAPTER 11 – ADVANTAGES AND DISADVANTAGES OF CONSERVATION TRUST FUNDS**

The *Review* has found that the following list of advantages and disadvantages of CTFs from the 1999 GEF *Evaluation* remains valid, with certain qualifications that are discussed in detail in the *Review*.

### **ADVANTAGES**

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1. Can finance recurrent costs;
2. Can facilitate long-term planning;
3. Broad stakeholder participation leads to transparent decision-making and strengthens civil society;
4. Can react flexibly to new challenges;
5. Can plan for the long-term because independent of changes in government and shifts in political priorities;
6. More capable than donor organizations of working flexibly and with attention to small-scale details;
7. Create better coordination between donors, government and civil society;
8. Allow donors to comply with international recommendations for aid effectiveness; and
9. A vehicle to collect and secure greater private contributions for biodiversity conservation

### **DISADVANTAGES**

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1. Can tie up large amounts of capital; modest income; high administrative costs;
2. Exposed to market volatility and possible loss of capital;
3. Can create pressure to spend too much on grants instead of building up capital;
4. Secure financing can breed complacency if there are no performance incentives;
5. Making grants reflects a project-based approach, and risks neglecting the legal and economic framework; and
6. Donor agencies are not able to follow up on such long-term investments and ensure accountability for the use of public funds.

## **FUTURE ROLES OF CONSERVATION TRUST FUNDS**

In the future, CTFs will continue to play a role in ensuring sustainable financing and providing recurrent funding for the management of PA systems. CTFs may also increasingly come to rely on recurrent sources of in-country funding, such as:

**Payment for Ecosystem Services**, including payments for carbon sequestration and watershed conservation;

**Business biodiversity offsets**, which involve environmental compensation for major mining and resource extraction projects;

**Tourism taxes and fees** which are allocated by law for nature conservation; and

**Pollution taxes and environmental fines.**

Another emerging role for some CTFs is serving as a grants administrator for international donor funded small grants programs (SGPs) in fields that are not necessarily related to biodiversity conservation. CTFs are an attractive vehicle because CTFs often represent the only nongovernmental in-country based grant-making institution, and many CTFs are widely respected by the public for their honest and efficient administration of small grants programs. The advantage to CTFs of playing such a role allows CTFs to earn extra income to cover part of their fixed operating costs, and thereby subsidize the costs of carrying out their primary mission of biodiversity conservation.

In the future, CTFs may also be able to use their expertise and experience in administering SGPs as the basis for serving as a financial intermediary between buyers and sellers of environmental services. CTFs can also use their expertise as grant making institutions and financial intermediaries to serve as efficient and effective mechanisms for channeling long-term subsidies, financial incentives and compensation to rural communities for shifting away from ecologically unsustainable practices to more sustainable forms of natural resource use.

## CHAPTER 1: BACKGROUND AND METHODOLOGY

### Background on Conservation Trust Funds

More than 50 conservation trust funds (CTFs) have been created since 1991, with the aim of providing a long-term sustainable source of funding for biodiversity conservation and sustainable development in developing countries and transition economies (see Annex F for a list of CTFs). The total amount contributed by donors to CTFs probably exceeds \$1.2 billion, of which around \$800 million has already been given out as grants for biodiversity conservation, environmental protection and sustainable development. The majority of CTFs have been established in the Latin American and Caribbean (LAC) region.

CTFs are private, legally independent grant-making institutions that provide sustainable financing for biodiversity conservation and often finance part of the long-term management costs of a country's protected area (PA) system. They can serve as an effective means for mobilizing large amounts of additional funding for biodiversity conservation from international donors, national governments and the private sector.

CTFs raise and invest funds to make grants to non-governmental organizations (NGOs), community based organizations (CBOs) and governmental agencies (such as national parks agencies). CTFs are financing mechanisms rather than implementing agencies. They also can serve as mechanisms for strengthening civil society and for making government PA management agencies more transparent, accountable and effective.

CTFs can be characterized as public-private partnerships, and in most cases at least half of the members of their governing boards are from civil society. In addition to funding conservation projects, CTFs provide technical assistance and grants to strengthen the institutional capacity of grantees. CTFs have also served as catalysts for the creation of new partnerships with private businesses for the conservation and sustainable use of biological resources. Many CTFs also reduce threats to biodiversity by financing projects that improve and promote sustainable livelihoods of poor communities living near PAs.

### Background on *Rapid Review of Conservation Trust Funds*

In 2007, the Conservation Finance Alliance (CFA) Working Group on Environmental Funds identified the need to conduct a rapid review of experience with the creation, operation and evaluation of CTFs. The objective of this *Rapid Review of Conservation Trust Funds* is to assess the current status of CTFs worldwide, focusing on those that have been in operation for at least five years, and to provide a rationale for further investment in CTFs. The *Review* identifies best practice standards for effective governance and administration of CTFs, and provides guidelines for monitoring and evaluating CTFs' operations and biodiversity impact.

The CFA Working Group on Environmental Funds commissioned the *Review*, with support provided by the French Global Environment Facility (FFEM), French

Development Agency (AFD), German Development Bank (KfW), Conservation International (CI) and the World Wide Fund for Nature (WWF). The *Review* was prepared by a consulting team consisting of Barry Spergel (lead consultant) and Philippe Taïeb based on interviews, a CTF survey, review of CTF literature and extensive consultations. The consultants and the Working Group are grateful to the many individuals and organizations who participated in the *Review*, with special thanks to the Global Environment Facility (GEF) that served on the Steering Committee for the *Review*, and the Latin American and Caribbean Network of Environmental Funds (RedLAC).

In parallel, the FFEM's Steering Committee asked its Secretariat to assess the pertinence of funds as models for financing biodiversity conservation to guide their decision to continue supporting funds. Since francophone Africa represents the core geographical priority of the FFEM, the FFEM requested that this *Review* include analysis of the state of development and future prospects for funds in francophone Africa.

The CFA Working Group on Environmental Funds and RedLAC also recently sponsored the first annual *Conservation Trust Fund Investment Survey Analysis* (coordinated by Wildlife Conservation Society (WCS) and CI, with support from the Acacia Fund) which provides a comparative analysis of investment strategies and financial performance of CTFs. Chapter 6 of the *Review* on Investment Management draws on findings from the *Investment Survey*.

### **Evaluations of CTF Experience**

The *Review* is not intended to replicate the GEF's 1999 comprehensive evaluation of *Experience with Conservation Trust Funds*.<sup>1</sup> Almost ten years later, the recommendations from this evaluation continue to guide the development of funds around the world. The GEF evaluation focused on the performance of the funds, but not on their biodiversity impacts, since most of the funds were too recently established to allow for a reliable assessment of these impacts.

CTFs are now increasingly carrying out evaluations of their own operations, and participating in independent evaluations in response to donor evaluation requirements. For example, the United Nations Development Programme (UNDP) and the World Bank have prepared project evaluation reports on more than a dozen GEF-financed projects that involve CTFs. The United States Agency for International Development (USAID) has commissioned more than 20 independent evaluations of CTFs that were financed with the proceeds generated by US bilateral debt reduction agreements under the Enterprise for the Americas Initiative (EAI) and the Tropical Forest Conservation Act

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<sup>1</sup> Global Environment Facility. 1999. *Experience with Conservation Trust Funds*, Evaluation Report N°1-99. Washington, DC.

(TFCA). In 2003, RedLAC sponsored an assessment of the experiences of its 19 member funds.<sup>2</sup>

## Methodology

The *Review* was conducted in 2007-2008 based on:

- Interviews with representatives of CTFs, donors and NGOs, including the executive directors of more than 15 CTFs at the 2007 RedLAC General Assembly and more than 20 telephone interviews with executive directors of CTFs in Africa and Asia (see Annex B for a list of persons interviewed by the consultants);
- Review of over 200 reports, publications and legal documents that are listed in the Bibliography (Annex C), including evaluations of individual CTFs that were commissioned or carried out by donor agencies such as the GEF, World Bank and US Government;
- Survey of CTF executive directors (results summarized in Annex D);
- CTF case studies (Annex E) provided by RedLAC member funds and other participating funds;
- Feedback from public presentations and discussions of the *Review* at various stages of development, including at the following venues: (1) RedLAC General Assembly in El Salvador in November 2007; (2) GEF Secretariat in Washington in November 2007; (3) Environmental Funds Working Group meeting in Washington in January 2008; and (4) French government hosted meeting in Paris in February 2008; and,
- Comments on the draft report from more than 40 technical experts, CTF executive directors, and donor agency representatives.

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<sup>2</sup> Oleas, Reyna and Barragain, Lourdes. 2003. *Environmental Funds as a Mechanism for Conservation and Sustainable Development in Latin America and the Caribbean*. Report prepared for RedLAC ([www.redlac.org](http://www.redlac.org)).

## CHAPTER 2: PURPOSES AND ROLES OF CONSERVATION TRUST FUNDS

### Main Characteristics of CTFs:

- CTFs are intended to provide long-term financing (usually for at least ten to 15 years) for purposes defined in the CTFs' legal documents and that cannot be easily changed.
- Biodiversity conservation is one of a CTF's main purposes, and a significant proportion of a CTF's grants are awarded for purposes related to biodiversity conservation.
- CTFs are legally independent entities governed by a board of directors (or an equivalent such as a governing council or oversight committee) that includes members from outside of government, who usually constitute a majority of the governing board or council.
- CTFs award grants are based on:
  - An open and competitive process of soliciting and evaluating proposals based on transparent criteria (in the case of a "grants fund"); or
  - An assessment of whether PAs have met specific eligibility criteria or performance benchmarks (in the case of a "parks fund").

In either case, there is a clear separation between the organization that is responsible for raising, managing and awarding funds (i.e., the CTF), and the organizations that spend these funds to carry out conservation-related activities and projects.

### Evolving Roles of CTFs

Some CTFs are primarily dedicated to conserving biodiversity, whereas others also focus on strengthening civil society as one of their main roles. For example, the Foundation for the Philippine Environment (FPE) was set up during the 1980s at a time of democratic transition in the Philippines. FPE was established to support growth of NGOs while supporting the environmental sector.

Some EAI funds spend only around 25 percent of their annual grants budgets on projects that focus on biodiversity conservation. For example, Colombia's Fund for Environmental Actions and Childhood (FPAA) administers Colombia's EAI fund which provides grants for environmental management and child development. The biodiversity impact of a CTF can be challenging to assess if only part of its mission is to conserve biodiversity.



Some CTFs have evolved from being primarily grant-making institutions to being facilitators and policy advocates. An independent evaluation of the Indonesian Biodiversity Foundation (KEHATI)<sup>3</sup> identified an initial four-year period in which its overall strategic objective was *biodiversity conservation at the level of species conservation*, and during this period, KEHATI’s role was that of a purely grant-making organization. In the second five-year period, the focus on biodiversity conservation shifted from species conservation to community-based biodiversity conservation efforts, in which KEHATI played a role as a facilitator (i.e., providing financial assistance, technical assistance, education and consultancies for local partners). KEHATI continued to execute its objective in the third five-year period, but with the additional role of public advocacy (i.e., lobbying) for new laws and policies that promote community-based biodiversity conservation, such as the provisions that were included in a new environmental law that KEHATI helped the parliament to draft. The independent evaluation thus comments: “The danger here is that KEHATI will drift away from being a conservation-based organization toward being an NGO focused primarily on development issues.”

**Characteristics of CTFs: Discipline, Flexibility and Transparency**

A 2008 report commissioned by the World Bank<sup>4</sup> found that:

“Small grants associated with trust fund projects are rated as more successful than small grants programs (SGPs) which are one of several components on a given project. Taken together, the factors listed below likely account for a more robust portfolio of subprojects, leading to stronger implementation performance of trust fund-based SGPs:

- a. trust funds tend to place greater emphasis on governance and decision-making processes;
- b. trust fund boards and associated technical committees are often comprised of professionals from both the public and private sectors and tend to have at least some

“The advantage of an endowment is that what you lose in terms of immediate cash flow, you gain in permanence, i.e. the discipline that an endowment implies forces you to spend money wisely. Otherwise, it’s too easy to end up wasting money on ‘white elephant’ infrastructure projects (buildings, roads and vehicles) that will take a lot of money to maintain. Nevertheless, there are some cases where you may need to spend large sums of money on a one-time basis, i.e., for emergencies like massive forest fires or for land acquisition for PAs. However, having the CTF’s basic operational costs covered by an endowment [or, one might add, by an assured stream of income from a revolving fund or a long-term sinking fund] serves as an anchor, and allows the CTF to focus its efforts on other fundraising efforts for different programs and projects.”

*Lorenzo Rosenzweig, FMCN*

<sup>3</sup> Paget, R. et al., 2005. *Evaluation of the Indonesian Biodiversity Foundation Project*, USAID.

<sup>4</sup> Alderman, C. *The Role of Small Grants Programs in Biodiversity Conservation: An Evaluation of World Bank-GEF Experience*.

individuals recruited on the basis of recognized technical and professional expertise;

- c. trust funds have greater inherent flexibility allowing them to adapt and change their priorities and strategies as field conditions change; ...”

Many CTF executive directors say that CTFs are more efficient, flexible, effective and transparent institutional mechanisms for delivering financial and technical assistance to PAs than many government agencies because CTFs are not as politicized or rigidly constrained by civil service procurement rules and employment rules.

For example, in one country, park managers used to have to wait for six to 12 months to obtain all of the necessary approvals and authorizations from officials in the capital city to buy pencils, but now routinely ask the CTF in that country to buy them things like binoculars or radios. The CTF has efficient computer programs and accounting systems for processing such requests and can quickly disburse the funds needed to the park manager to purchase equipment if their requests meet specific criteria. In another country, park staff often experienced delayed salary payments of up to nine months, which left everyone demoralized. After a CTF began supporting a large part of the operating costs of the PAs the delays ceased and it was finally possible to recruit talented and dedicated staff for the parks.

### **CTFs’ Relationship to Government Policies**

Many CTFs describe their mission as providing financing to implement government policies. For example, the Mexican Nature Conservation Fund (FMCN) uses the following criteria for project selection:

- (1) Conservation of biodiversity;
- (2) Relationship to national environmental priorities;
- (3) Compliance with national programs for natural resource management, such as terrestrial priority areas, hydrological priority areas, areas important for bird conservation and the Convention on International Trade in Endangered Species (CITES), and national norms for conservation and sustainable use of biodiversity;
- (4) Technical quality and structure and design of the project; and
- (5) Direct involvement of communities living in the area of the project in project operations.

According to FMCN’s Executive Director, FMCN has:

- Played a fundamental role in consolidating and improving the Mexican Government’s PA System;
- Held a very low profile in affecting broader government environmental policy; and
- Provided a sense of continuity for the Mexican Government because FMCN has lasted through three different presidential administrations.

In two Latin American countries, recently elected populist governments discussed the possibility of nationalizing very successful CTFs, and merging them into government ministries. This points to the need for legally enforceable grant agreements between the donors and the host country government that give donors the legal right to retrieve or reprogram their funding contribution if a CTF is taken over by the host country government. CTFs can play an important role in helping to implement government policies, but CTFs lose their effectiveness and their *raison d'être* if they simply become merged into government.

Some CTFs were designed based on the assumption, or promises from the host country, that certain legal or policy changes, would occur to create the necessary enabling environment for the CTF's conservation strategy to succeed. Without follow-through on government commitment the CTF risks stagnation and the inability to achieve its objectives.

If a CTF's core mission depends on certain key political or legal commitments, then the best practice may be for donors to delay contributing to the CTF until the necessary legal or regulatory changes are in place. This type of donor conditionality has been welcomed by local conservation NGOs and even by government PA management agencies. Potential international donor contributions to a CTF can be a powerful incentive to convince national legislatures or executive bodies to make needed reforms. Conversely, CTFs may be unable to fulfill their chosen role in a weak enabling environment.

### **Role of CTFs in Capacity Building and Institutional Strengthening**

#### **The PUMA Foundation's Project School**

Bolivia's PUMA Foundation provides one of the best examples of how a CTF can provide capacity building and institutional strengthening for NGOs and CBOs that implement projects for biodiversity conservation and sustainable natural resource use. PUMA requires potential grantees whose concept papers have passed an initial screening to attend a Project School, which is a two-week course that teaches grantees about financial planning, reporting and other components that need to be incorporated into the design and implementation of their projects, as well as business planning for their proposed revenue generating ventures. The Project School has proved to be very effective. Whether this represents a best practice for other CTFs to emulate depends on a CTF's mission statement, strategic plan and grant eligibility criteria to encompass this kind of capacity building activity.

A central part of the mission and strategic plans of many CTFs is to support capacity building and institutional strengthening for PA management agencies, NGOs and CBOs. CTF boards need to determine: How much and what kinds of technical assistance are appropriate for the CTF to provide? How much does (or should) this cost? Will it substantially raise administrative costs? Should these additional costs be passed

on to grantees? Should the technical assistance be out-sourced as a grant, cooperative agreement or contract with an NGO or for-profit consulting firm that specializes in providing this type of technical assistance and training?

Many TFCA and EAI funds in LAC have been very successful in strengthening local environmental NGOs and building the capacity of CBOs to carry out sustainable

development projects that can reduce threats to biodiversity. Sometimes funds make grants explicitly for this purpose; sometimes a CTF's own staff provides such assistance to grantees without any charge; and sometimes funds charge or deduct fees (usually equal to around ten percent of the amount of a grant) for providing such assistance. Charging grantees fees can be controversial, and there is no consensus among CTFs and international donors about what constitutes best practice in this regard.

### **Payments for Ecosystem Services and other Market-based Mechanisms: New Roles and Revenue Sources for CTFs**

CTFs are in a good position to use their expertise and experience in administering SGPs for serving as the financial intermediary between buyers and sellers of ecosystem (environmental) services. CTFs can also use their expertise as grant making institutions and financial intermediaries to serve as efficient and effective mechanisms for channeling long-term subsidies, financial incentives and compensation to rural communities for shifting away from ecologically unsustainable practices to more sustainable forms of natural resource use.

For example, Guatemala's Sierra de las Minas Water Fund proposes to receive user fees from watershed services (i.e., commercial and individual water consumers), and then channel these fee revenues to pay suppliers of watershed services (i.e., small farmers and landowners) for conserving the forests that help to maintain water flow and water quality. Costa Rica's FONAFIFO channels revenues from 3 different sources (i.e., 3.5 percent of the national gasoline tax; carbon sequestration payments by foreign electric utility companies; and watershed conservation payments by Costa Rican hydroelectric power companies and commercial water users) in order to pay small landowners for signing five-year renewable contracts not to cut down the trees on their lands (thereby sequestering carbon emissions and conserving watersheds).

Scott Lampman, the head of USAID's EAI and TFCA Secretariat, has suggested the following possible future roles for CTFs as intermediaries in Payments for Ecosystem Services (PES) transactions, which can thereby also serve to reduce transactions costs:<sup>5</sup>

1. *Be the fund administrator for the PES revenues generated.*
2. *Serve as the trustee for the PES scheme (i.e., manage the investment portfolio – including foreign currency deposits).*
3. *Bundle ecosystem services and/or buyers and sellers to achieve economies of scale: The bottom-line is ensuring payment for performance, regardless of the revenue source. Sellers need not know or care who the buyers are.*
4. *Strengthen the institutions engaged in the PES transactions.*

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<sup>5</sup> Scott Lampman. 2007. Possible Roles for Environmental Funds in Payment for Ecosystem Services Schemes. This unpublished paper is partly based on USAID PES Briefs, by Rohit, Jindal and John Kerr.

5. *Monitor, evaluate and potentially enforce compliance with PES contracts.*
6. *Broker negotiations* (particularly by representing small disparate sellers).
7. *Support government decentralization* (by outsourcing what might otherwise be treated as a national government function).
8. *Serve as a fair and transparent distributor of the benefit streams* (i.e., grant making).
9. *Assist in the valuation of the payments* (i.e., pricing the services).
10. *Lobby governments to simplify the policy framework under which specific PES programs operate* (i.e., design, registration, validation and monitoring of PES programs).

“Engagement in PES schemes is *not necessarily appropriate* for all Environmental Funds (EFs). Some EFs do not have the “scale” to participate and have limited capabilities (i.e., they don’t have the resources to engage on the issue). Other EFs simply lack the incentive to engage in PES schemes because their strategic orientations are not well served by doing so. In other words, they do not have a comparative advantage for engaging in PES and desire to avoid “mission creep”.”

*Scott Lampman*

CTF governing boards will need to carefully weigh the costs and benefits of engaging in PES related activities, relative to their own capabilities and strategic focus.

## CHAPTER 3: STRATEGIC PLANNING, GRANTMAKING AND ADMINISTRATIVE COSTS

### Main Conclusions:

- CTFs can use strategic planning to set priorities and redefine their policies and grant programs over time.
- Best practices for grant-making generally include:
  - Follow consistent procedures that are well-publicized;
  - Specifically define the areas for which proposals will be accepted;
  - At first request only short concept notes for preliminary screening;
  - Use different criteria depending on the amount and type of the grant being sought;
  - Instead of disbursing the entire grant all at once, disburse the amount based on the grantees' meeting performance benchmarks.
- Administrative costs need to be clearly and uniformly defined, and should exclude costs for providing training and technical assistance to grant applicants and grantees, which are really program costs. Many donors and CTFs limit CTF administrative costs to no more than 15 percent of a CTF's annual budget after its first two years of operation. The GEF now tries to limit such costs to ten percent. This is often easier for larger CTFs to achieve, because of economies of scale.

### Strategic Planning

CTFs use strategic planning to focus their grant-making programs. Most experts agree that including all key stakeholders (the CTFs board and staff as well as international donors, national government officials, partner organizations and potential partner organizations) constitutes the best practice for the strategic planning process. Strategic plans translate a CTF's broad vision and mission statements into specific goals, objectives and activities. Strategic plans need to be periodically reviewed and adjusted, and most CTFs do this at least once every three to five years.

### Grant-making

Most CTFs have a separate grant administration manual, or a section of their operations manual, that covers grant proposal review procedures, procedures for responding to applicants, grant reporting requirements, and grant monitoring and evaluation criteria and procedures. Such manuals provide a valuable guide for existing and also incoming staff.

Most CTFs only request and accept grant proposals at pre-established dates, rather than throughout the year. The former practice makes it easier for a CTF to plan, budget and carry out administrative functions. Grant applicants should be notified within a relatively short period after the deadline for submitting proposals, whether or not their proposals have been received and have passed a basic screening by the CTF's technical or program

staff. Some CTFs allow grant applicants to modify shortcomings in their proposals and resubmit them, whereas other CTFs require grant applicants to submit new proposals after the CTF's next public call for proposals. A CTF's approach may depend on staff capacity, the number of proposals received, and the degree of technical assistance that the CTF is able or willing to provide to grant applicants.

In many countries, the Request for Proposals (RfP) process is likely to generate an avalanche of proposals from a wide spectrum of applicants and result in considerable demand for technical assistance and capacity building in project development and implementation, which is why CTFs need to be specific about the kinds of projects for which they will accept proposals.

Many CTF's provide grants for a combination of PA operating costs, local community projects, scientific research, and work at the policy level. These elements need to be carefully coordinated to achieve maximum impact. In some cases, a CTF grantee serves as a pass-through organization for funding specific PAs, local communities, etc. In other cases, a grantee provides technical assistance within PAs or in surrounding buffer zones, or provides training and capacity building for PA staff, NGOs and/or local communities.

One way to streamline part of the project cycle is to first invite all interested potential applicants to submit a simple concept paper or profile of their proposed projects. The CTF can review and pre-select the projects of interest, and invite the selected applicants to submit detailed proposals.

**FUNBIO's Management of the Proposal Request Process**

In the absence of a national biodiversity strategy in Brazil, FUNBIO originally identified five priority areas in its first call for proposals: (1) sustainable management of natural forests; (2) agriculture and biodiversity; (3) sustainable fisheries; (4) management of conservation units; and (5) conservation of ecosystems on private property. However, the breadth and variety of themes brought an avalanche of responses totaling 1,083 proposals. Of these, FUNBIO selected and supported only 10 proposals (i.e., less than 1percent), for a total of US \$2.1 million. This experience led FUNBIO to redefine its programs to better focus its priorities and niche, and make more effective use of its resources.

CTFs often apply different procedures or criteria for the eligibility depending on the amount requested in the grant proposal. For example, some CTFs, such as FPE or KEHATI, make it possible for regional fund committees to approve small grants based on small grants criteria without getting the approval of the full board. Uganda's Bwindi Mgahinga Conservation Trust (BMCT) allows its local community steering committees to approve small grants of up to \$1,000 pursuant to pre-established criteria, without first getting the approval of the Trust Management Board. Other CTFs lower some of their usual requirements in the case of small grants, such as requirements for co-financing or scientific monitoring and data collection. Some CTFs (including many of the EAI and TFCA funds) require their largest grants (over \$100,000) to be approved by a higher majority of the CTF's board (by a "supermajority" of 75 percent of the board members), or by board members who represent the national government and the major international donor(s) to the CTF. Other CTFs require higher amounts of co-financing, and/or more rigorous forms of scientific monitoring, in the case of larger grants.

Making grants for a relatively long period of time (more than three years) can lead to lack of accountability, or spending funds on approaches that fail to produce intended results (in addition to the fact that issuing a grant for several years, or making very large grants can strain the financial resources of a CTF). The best ways of addressing these issues include disbursing a grant in tranches based on achievement of specified performance benchmarks, and requiring increasingly larger amounts of co-financing from the grantee or other sources for grant renewal.

### **Administrative Costs**

A CTF should always try to minimize its administrative costs and maximize the net funds to achieve the objectives which the CTF was originally established to support. The CTF is simply a means to an end, not an end in itself.

CTFs differ in using the term “administrative costs” to include the costs of reporting, monitoring and evaluation (M&E), and assisting grant applicants with proposal writing or grantees with project planning and implementation. A standardized definition of what constitutes administrative costs is needed. Staff salaries, rent, vehicles and travel should generally be considered administrative costs. Most experts in designing CTFs and CTF executive directors feel that a CTF’s costs for providing technical assistance to grantees should be considered program costs (i.e., costs of conservation projects) rather than administrative costs. In response to donors’ desires to limit CTF administrative costs, CTFs generally seek to minimize costs for staff, office space, vehicles and foreign travel for CTF staff.

The administrative costs of most CTFs range from ten to 20 percent of total annual budget, at least after the second or third year of operation. A number of donors, such as the US Government and GEF, include provisions in their grant agreements with CTFs that establish a ceiling or a maximum percentage (commonly 15 percent, but as low as ten percent or as high as 25 percent) of a CTF’s budget that can be spent on administrative expenses. A CTF’s start-up costs are likely to make its administrative costs far exceed ten to 20 percent in its first year or two. A CTF’s initially high administrative costs may also result from the fact that endowments take time to start producing investment income, and therefore the total budget of a CTF’s may be very small in its first year. Many donors give CTFs a separate grant to cover start-up administrative costs and/or to cover a first year of grant making. This is usually a good practice, although in some cases this has led CTFs to “live beyond their means” and spend more in their early years when their costs are initially subsidized with less to spend later on when the initial subsidy expires), leading to painful readjustments and retrenchment processes.

To keep within donor-imposed ceilings on administrative expenses, many Latin American CTFs collect a fee from their grantees of between five and 15 percent of the total grant amount. This is used to pay for the CTF’s supervision, monitoring, program support costs and capacity building activities. However, the US Government now includes a provision in newer TFCA agreements, which specifically prohibits this



practice, because it can indirectly have the effect of permitting CTFs to spend too much on administrative costs.

However, in some cases (depending on a particular CTF's mission, purpose and strategic plan) it may be possible to reach an agreement on how to allocate part of administrative costs for specific projects (i.e., for monitoring and evaluating individual grants, or for providing technical assistance to individual grantees). Detailed rules about whether and how such costs should be allocated between program costs and administrative costs can sometimes be specifically included in grant agreements between donor agencies and CTFs, or in CTF bylaws or operations manuals.

## CHAPTER 4: FUNDING PROTECTED AREAS' RECURRENT COSTS AND FINANCIAL GAP ANALYSIS

### Main Conclusions:

- The percentage of the recurrent operating costs of national PA systems provided by CTFs varies between zero and 95 percent. There is no typical or recommended percentage.
- CTFs should not be regarded as a silver bullet for covering all recurrent operating costs of PAs, but rather as one among various financing sources, which can also include national government budget allocations, visitor fees, PES and donor contributions made directly to PA management agencies for specific projects and programs.
- There is no consensus on whether CTFs should pay for the salaries of PA staff, which is one of the largest recurrent costs of many PA systems. In principle, this should be a government responsibility (or even a required form of government co-financing); but in practice, some governments may lack sufficient resources to pay salaries, or to pay them consistently and on time, and CTFs may feel the need to fill this gap.
- In a number of countries such as Mexico and Peru, CTFs have served to catalyze greatly increased government spending for PAs (more than 300 percent). In other countries such as Ecuador, there have been no significant changes in government spending on PAs after a CTF was established to help co-finance PAs. There do not seem to be any cases in which the establishment of CTFs has led to an overall decrease in government spending on PAs. In some cases where CTFs were established to support only certain particular PAs, or only PAs in certain regions of a country (i.e., Brazil's Amazon region), governments have transferred their past support for those PAs to spend the same overall national budget for PAs on different PAs in other parts of the country.
- The Convention on Biological Diversity (CBD) calls on each country to conduct a comprehensive financial gap analysis for its PA system. This can be an extremely useful tool for defining the role of a proposed new CTF and for persuading donors to contribute to it. Financial gap analysis can also be a very useful tool for redefining and refocusing the role of an already existing CTF.

### The Role of CTF's in Financing Recurrent Costs of PAs

CTFs that provide financing for individual PAs or national PA systems typically finance a portion of core park operating costs - sometimes 50 percent (as in the case of the Caucasus Protected Areas Foundation), or sometimes either a higher or lower percentage. The remainder of the operating costs must be provided as co-financing by national governments, international donor agencies, or by entry fees and other types of user fees. This approach limits dependency upon the CTF and encourages diversification of revenue sources.

In Mexico, Peru and Jamaica, parks funds typically agree to finance PA costs such as core staff (the park director, conservation chief, administrator and guards), and basic operational costs (electricity, water supply, gas and vehicle maintenance). Funding agreements are usually multi-year. The CTF typically agrees to a three to four-year PA management plan budget. The CTF provides funds to PAs each quarter as agreed in the plan. The PA manager and staff can expect the funds to arrive on schedule and they can plan program expenditures more rationally.

Most CTFs are not sufficiently large to provide operating costs for all of the individual PAs in their country's PA system. Therefore CTFs (or the PA management agency) must prioritize which PAs should receive CTF support and which PAs will be financed from other revenue sources. For example, the bylaws of the Caucasus Protected Areas Foundation specify the following five criteria for prioritizing which PAs to support: irreplaceability, representativity, urgency, feasibility and ecoregional importance.

Some CTFs, like FMCN, try over time to "graduate" specific PAs from their support. In other words, FMCN tries to build the capacity of individual PAs to fundraise for themselves and develop alternative funding sources; or, in some cases, FMCN has created separate new endowments of around two million dollars for individual PAs. Those PAs are then no longer eligible to receive grants from FMCN, which gives FMCN the flexibility to use its limited resources to prioritize those PAs with less access to alternative funding sources.

The following five cases illustrate ways in which CTFs have financed PA operating costs in their respective countries.

**Percentage of Annual PA Operating Costs Covered by CTFs**

*Mexico's FMCN:* 14 percent of total costs of the national PA system

*Bolivia's FUNDESNA:* 50 percent of total costs of national PA system

*Ecuador's FAN:* 20 percent of costs of national PA system

*Peru's PROFONANPE:* 75 percent of costs of national PA system

*Madagascar Foundation for Protected Areas and Biodiversity (FAPB):* goal of 30 percent of costs of national PA system

*Suriname Conservation Foundation:* 100 percent of costs of Central Suriname Nature Reserve, lesser percentages of other PAs

**Mexico**

FMCN's mission is to conserve Mexico's biodiversity and ensure the sustainable use of natural resources. During its first five years, FMCN operated exclusively as a grants fund, for conservation-related projects to Mexican NGOs, scientific research institutions and local communities. FMCN's support for Mexico's PAs began in 1997, when the National Council on Protected Areas decided to transfer its remaining resources (\$16.48 million) from a GEF project to FMCN. These resources were used to create an endowment fund, the Natural Protected Areas Fund (FANP).

Since 1998, the returns generated by FANP have been channeled to ten PAs, covering basic personnel and programs of conservation, enforcement, community participation and

training. It also catalyzed a tripling of the Mexican Government's budgetary support for those ten PAs within just a five-year period, where support grew from a 14 percent contribution to the total budget in 1998 to 45 percent in 2002. Consequently, FANP's contributions decreased from 24 percent in 1998 to 14 percent in 2002.

Although it is hard to clearly demonstrate a cause and effect relationship, CTFs seem to have a significant effect in raising the level of government spending for PAs in some countries by: 1) Raising public awareness on biodiversity conservation; 2) Producing success stories in the case of individual PAs which capture people's attention; and 3) Through direct or indirect lobbying (which can be facilitated if a CTF has prominent politicians and business leaders on its board, as has always been true in the case of FMCN).

In 2001, the GEF approved a second grant to FANP of \$22.5 million, which increased the total number of PAs included in the program to 22. Today, 72 of the 149 PAs in Mexico's PA system have their core staff and basic operations budgets paid by the Mexican government, and 27 PAs have a published management program. By way of contrast, as recently as 1990, no PAs in Mexico had permanent official staff.

Through support from FANP, the national PA system is developing schemes for long-term planning and monitoring of field activities. In addition, significant external contributions to the endowment from bilateral, corporate and non-profit donors have increased the size of the endowment from an original \$15.5 million in 1997 to over \$50 million today. While in 1997 the endowment was capitalized by just a single donor (GEF) and supported ten PAs, 12 donors have now contributed to an endowment that supports a total of 16 PAs.

## **Bolivia**

The vast majority of funding for the Bolivian national PA system (SNAP) comes from international donors. The national treasury contributes only about three percent of the PA system's funding. Historically, most support for the system was from donor-funded projects. While this helped to create and strengthen the SNAP, a short-term project approach did not secure long-term recurrent costs and a sustainable PA system. Bolivia's National Protected Areas Fund (FUNDESNAP) was created by a \$15 million grant from the GEF to help fill this gap.

In addition to its initial role in managing investment funds, FUNDESNAP has expanded its activities to also include the management of project funds, such as the KfW-financed Biodiversity in Protected Areas project. FUNDESNAP never intended to fund all of the national PA system's recurrent costs as two other sources were planned to also cover part of these costs, including PA entry fees, and contributions from municipalities and prefectures resulting from new decentralization policies. However, until the new financial strategy and other sources of income are in place, the main sources of financing of the PA system will continue to be revenues from FUNDESNAP. But since this is only enough to cover about 30 percent of the recurrent costs of half of the PAs included in the SNAP, the

SNAP will be operated on the most basic level. Although the Government of Bolivia originally committed to contribute \$3.3 million over five years, because of fiscal crises it was only able to provide 27 percent of the planned amount.

## **Ecuador**

Ecuador's National Environmental Fund (FAN) provides 20 percent of the total budget of Ecuador's PA system, which amounts to about \$55,000 per year for each PA. The Government of Ecuador has also requested that FAN provide guidance on the most effective disbursement of funds, including guidance on PA management policies. In addition, FAN has raised money for Ecuador's PA system from foundations such as Moore and MacArthur, and has worked together with national NGOs to secure contributions from oil companies to support conservation projects. FAN has also created a special account for receiving individual donations for citizens who want to contribute towards protecting the environment without donating directly to the government. Government spending on PAs has been relatively flat during the lifetime of FAN, because of economic and political crises in Ecuador.

## **Peru**

Peru's National Fund for Protected Areas (PROFONANPE) - through an \$18 million endowment and various sinking funds from debt swaps - provides 75 percent of the financial resources for Peru's entire national PA system. From 1997 to 2005, the Government's budget for PAs increased by roughly 600 percent, from \$300,000 per year to \$1.7 million per year. In addition, the amount of money generated by PA entry fees went from \$100,000 in 1997 to \$1.8 million in 2005. The Peru-US Free Trade Agreement requires Peru to increase the number of park guards, thus requiring the Government's budget for PAs to increase substantially more in the future. Peru has 60 PAs, representing 15 percent of its national territory (compared to 13 percent in 1997).

PROFONANPE provides a unique type of long-term sustainable financing for PAs, because only private, and not public, institutions in Peru are legally allowed to have endowment funds. PROFONANPE's resources enabled the national PA agency to staff and manage six PAs that previously had no such resources. The total number of staff across the PA system grew from 60 in 1991 to 278 in 1999, of which 40 percent employed with budget support from PROFONANPE.

As a result of PROFONANPE funding, PA staff received their salary promptly and on a monthly basis for the first time in many years. This had a highly positive impact on staff morale. Because of the budgetary stability provided by PROFONANPE, INRENA was able to develop and implement improved management policies including: (1) A reduction in staff turn-over; (2) Increased training opportunities; (3) More efficient budgetary disbursements to the field offices; and (4) Implementation of entrance fees programs which now make up more than half of its operating budget. The participatory process built into the preparation of PROFONANPE's annual work plans also allowed for small

but important input of non-governmental actors to participate in the decision-making process for PAs.

## **Suriname**

The Suriname Conservation Foundation (SCF) contributes \$800,000 per year to finance 100 percent of the costs of the Central Suriname Nature Reserve. Although SCF has not made a legal commitment because of the risk of unstable investment income, the level of support is expected to continue in perpetuity. The Suriname Government has classified its \$3.6 million contribution to SCF's endowment (which was a condition for obtaining Dutch Government and UNDP-GEF contributions), as payment in advance for future years' government budgetary support for the reserve.

### **Payment of Salaries of PA Staff**

One subject that continues to be debated is whether CTFs should pay for salaries of PA staff. Since such staff are government employees, paying their salaries is often considered to be exclusively a government responsibility. Paying the salaries of PA staff is also considered to be an appropriate way for governments to provide a matching contribution or co-financing. Some international donors even require a country's government to make a legally binding commitment to continue paying for PA staff salaries in perpetuity, as a precondition for the international donor's agreement to contribute to a PA CTF. On the other hand, the harsh reality is that in some countries, PA staff are often not paid their salaries on time, or in full, and the salaries are sometimes far below the cost of living and can be as low as ten dollars per month.

Some independent evaluations have found that the greatest impact a CTF can have on biodiversity is its effect in improving the morale and efficiency of PA staff by assuring regular salary payments, and allowing PAs to hire qualified and dedicated managers by paying higher (although still not very high) salaries.

The "pros" and "cons" of whether CTFs should pay for salaries of PA staff, and at what level, must be weighed carefully relative to the circumstances of each particular case. There does not seem to be one single best practice or general answer to the widespread problem in some developing countries of government salaries which are below the poverty level or are inadequate to attract qualified people, and which can sometimes lead to widespread petty corruption. This is a broader macroeconomic and governance issue, which the limited sphere of PA management may not be able to address in isolation from more systematic national civil service reforms.

### **Financial Gap Analysis**

The CBD's Program of Work on Protected Areas required that by 2006, all countries should have completed PA system gap analyses, of which one important sub-component is financial gap analysis. The purpose of financial gap analysis is to analyze and compare the *actual* total expenditures on a national PA system with the total expenditures *required*

to cover the minimum and optimal management costs of a national PA system that meets the CBD's requirements for a system of PAs that adequately conserves terrestrial, marine and inland water biodiversity and ecosystems. Financial gap analysis therefore goes much further than simply analyzing the percentages of the current costs of existing PAs that are provided by CTFs, as presented in the preceding pages.

An important part of financial gap analysis includes *business planning*, to determine how to improve efficiency and thereby reduce expenditures, particularly those that are not strictly necessary for achieving desired biodiversity conservation objectives. In many cases, budgets and staff may need to be reallocated among different PAs and functions to most effectively address the most important threats to biodiversity.

TNC lists the following steps for conducting a financial gap analysis:

- Assess PA management and capacity needs;
- Screen and assess existing and new funding mechanisms;
- Formulate financial plans;
- Implement the action plans; and
- Measure progress and adapt the sustainable finance plan regularly.

Although many countries are now in the process of conducting a comprehensive financial gap analysis of their PA system (which usually takes at least one or two years to complete, because data on the management costs of individual PAs is often not collected or not centralized in one single place), so far only five countries that have a CTF have completed a financial gap analysis of their PA system: Ecuador, Peru, Brazil, Colombia and Madagascar. Of these countries, only Ecuador has done a financial gap analysis that specifically analyzes a CTF's role in financing the national PA system. Ecuador's FAN currently provides between ten to 20 percent of the annual budget of Ecuador's national PA system.

The gap analyses for the other four countries listed in the preceding paragraph make only a passing reference to the role of their CTFs in financing their national PA systems. For example, there are only two references to a CTF in the 200-page financial gap analysis for Colombia's national PA system dated 2005,<sup>6</sup> because at that time the GEF had not yet approved its \$15 million grant to capitalize Colombia's new National Protected Areas Trust Fund.

The financial gap analysis for Peru's PA system states that the total amount needed to finance the country's PA system under a "minimum scenario" is \$24,138,069, and under an "optimal scenario" almost double (\$41,842,414). Thus, there is a financing gap of \$16,544,201 per year under the minimum scenario, and a gap of \$35,348,546 per year under the optimal scenario, based on Peru's National Protected Area System

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<sup>6</sup> *Implementación de la estrategia financiera para el Sistema de Parques Nacionales Naturales de Colombia. 2002-2005.* Pp. 187 and 199.

Management Agency's (SINAPE's) 2004 budget of \$7,483,868.<sup>7</sup> The report does not analyze PROFONANPE's role in financing SINAPE.

Brazil's PA financial gap analysis revealed that Brazil's Federal Government currently invests a total of \$108 million per year in the federal PA system, but that the system requires \$170 million per year to cover needed capital investments, and \$180 million per year to cover recurrent costs, which leaves an annual financial gap of \$242 million per year for the system as a whole.

The Brazilian Biodiversity Fund (FUNBIO) has estimated that it costs an average of around five dollars per hectare per year to cover the recurrent costs of PA management in Brazil. PROFONANPE has calculated that PA management costs in Peru are \$1.54 per hectare for a "minimum" scenario, and \$2.68 per hectare for a "maximum" (i.e., full protection/management) scenario. FAN has estimated that average per hectare PA management costs in Ecuador are around \$4.20 per hectare for a "bare minimum scenario" that only includes basic enforcement activities, administration and planning, but more than ten dollars per hectare in an "integrated scenario" that also includes research and environmental monitoring, and activities to assist local communities in developing alternative livelihoods. However, even the costs for a "bare minimum" scenario in Ecuador range from an average of \$0.83 per hectare for large PAs in sparsely populated regions, to an average of \$26.84 per hectare for smaller PAs near heavily populated areas (where human pressures and threats to biodiversity are much greater).

It is difficult to estimate a standard per hectare management cost that applies to all PA systems. Management costs will probably be much higher in countries with smaller PAs, such as small island countries, and in densely populated countries with more human pressures and threats. Furthermore, there is no single uniformly accepted definition of "per hectare" PA management costs. For example, in the case of Ecuador, the PA management costs cited above includes the costs of the headquarters of the national PA agency, but other countries only include costs incurred in the field, or include some costs but not others.

Costs per hectare can also vary greatly depending on factors such as a country's cost of living; the extent to which supplies and equipment have to be transported to reach remote or inaccessible PAs; the extent to which fences are (or are not) required to protect an area; the extent to which the military and local law enforcement authorities are available to help protect a PA, or conduct aerial surveillance; and the costs for constructing and maintaining trails and visitor facilities. In sum, costs per hectare have to be interpreted carefully and in context. Costs per hectare cannot simply be applied like a mechanical formula to determine how efficiently PAs are being managed, or how much funding they require.

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<sup>7</sup> *Proceso de Construcción del Plan Financiero a largo plazo para el SINAPE: Primera fase.* 2005. Lima, Peru 2005. p. 10.



## **UNDP Financial Sustainability Scorecard for Protected Areas**

In 2007, UNDP published the first *Financial Sustainability Scorecard for Protected Areas*, which is designed for the PA system level rather than the individual PA level. Part I of the *Scorecard* requires financial data to determine the costs, revenues and financing gaps of the PA system both in the current year and as forecast for the future. Part II of the *Scorecard* has three components:

- Component 1: Governance frameworks that enable sustainable PA financing
- Component 2: Business planning and other tools for cost-effective management
- Component 3: Tools and systems for revenue generalization and mobilization

Component 1 (Governance frameworks that enable sustainable PA financing) has nine elements, of which element number 3 is: “Legal and regulatory conditions for establishing endowment or trust funds.” This element is based on assigning a score of high, medium, low or not all, in response to each of the following:

- (i) A CTF has been established and capitalized to finance the PA system
- (ii) CTFs have been created to finance specific PAs
- (iii) CTFs are integrated into the national PA financing systems

However, UNDP’s Financial Sustainability Scorecard was never intended for monitoring and evaluating the performance of individual CTFs.

## CHAPTER 5: MONITORING AND EVALUATING IMPACTS ON BIODIVERSITY

### Main Conclusions:

- Most CTFs do a good job of monitoring *project completion* indicators (i.e., process indicators) for their grants, but many CTFs do a relatively poor job of monitoring the *biodiversity impacts* of their grants.<sup>8</sup>
- M&E of CTF grants is necessary for CTFs to avoid spending money on activities that have little biodiversity impact.
- M&E can be done relatively easily and cheaply in the case of parks fund, by using recently developed tools such as the Management Effectiveness Tracking Tool (METT) created by the World Bank and WWF.
- M&E is often much more challenging in the case of grants funds, because the grants which they make to NGOs, CBOs and environmentally sustainable businesses often have diverse purposes, and such grantees often have no previous experience with doing M&E.
- The best way for CTFs to monitor and evaluate the biodiversity impacts of their grants is to require each grant applicant to: (1) Include goals and indicators for biodiversity conservation (or threat reduction) in its grant proposal; (2) Collect relevant baseline data on biodiversity (or on threats to biodiversity) before implementing a grant; and (3) Submit data several times during the period of grant implementation, and after grant completion, in order to measure changes of key indicators.
- Most CTFs are not able to show the aggregated results of their grants, and therefore do not have clear indicators and targets with which to evaluate their own impact as mechanisms for financing biodiversity conservation.
- Annex G to this *Review* represents an attempt to create a model template for evaluating: (1) The performance of CTFs as institutions; and (2) The programmatic impacts of their grants.

It is relatively simple, straightforward and non-controversial to do *process monitoring*, i.e., to check whether a grant recipient carried out all of the activities that it agreed to do, and did this on time, and within the agreed budget.

It can be much more difficult, time-consuming and challenging to conceptualize and to carry out biodiversity (and social) *impact monitoring*, and it is therefore harder to motivate grant recipients to do biodiversity impact monitoring. As the executive director of FPAA (Columbia) stated in an interview: “People on the ground have a different view about indicators than the donors do. Local implementing agencies are more interested in project completion indicators and process indicators, whereas donors are more interested in overall biological and social indicators.” These indicators include those where threats to biodiversity have been reduced.

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<sup>8</sup> This is also true of many international donor agencies, although there are many current efforts to try to improve monitoring of biodiversity impacts.

Many CTFs consider M&E to be a secondary priority that can be put off until they have been successfully operating for a number of years. For example, the 2003 profile of Bolivia's FUNDESNAF that was prepared for RedLAC states: "Since FUNDESNAF is a new institution, it has not yet applied monitoring and evaluation methods. It has identified an impact evaluation method *as a need for the medium term.*"[italics added]

Similarly, the 2003 profile for RedLAC of Ecuador's FAN states: "The first resources were disbursed to the PAs at the beginning of 2002. Monitoring and evaluation methods have not yet been applied, so it is not yet possible to discuss impacts. FAN has identified impact monitoring as something to be addressed in the medium term."

However, the 2007 USAID-commissioned independent evaluation of Panama's TFCA fund drew the following lesson: "It is important to systematize project information from the beginning in order to enable learning and have *an accessible institutional memory* that will facilitate evaluation of impacts."

Two of the leading independent experts on M&E for conservation projects have listed the following major challenges for using biological indicators to measure the success of conservation projects:

- Biological indicators are not sufficiently sensitive over the short time frames relevant to project managers;
- The data required for biological indicator approaches are relatively difficult and expensive to collect;
- Biological indicator approaches are hard to implement as a part of everyday project activities;
- Results are difficult to interpret;
- Results are difficult to link to project activities;
- Biologically based approaches require the presence of baseline data against which to compare changes in various parameters. As a result, it is difficult or impossible to use these methods in projects where baseline data have not been collected; and
- Results are hard to use to make meaningful comparisons among sites.<sup>9</sup>

However, M&E of biodiversity impacts is necessary for a CTF to avoid dispersing its limited resources into a multitude of activities with little overall impact on biodiversity. The report from which this list of major challenges is cited recommends that instead of trying to monitor and evaluate biodiversity impact, in many cases it may be more practical to monitor and evaluate threat reduction (i.e., decreases in the number and extent of threats such as poaching, dynamite fishing, illegal logging, encroachment of agricultural settlements into PAs, etc.) rather than trying to count the numbers of endangered species, or other direct measures of biodiversity.

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<sup>9</sup> Margoluis, Richard and Salafsky, Nick. 2001. *Is Our Project Succeeding? A Guide to Threat Reduction Assessment for Conservation*. Biodiversity Support Program, Washington DC.

In the case of parks funds (i.e., CTFs whose primary purpose is to support the recurrent costs of PAs), it is possible to apply relatively inexpensive and simple tools for measuring progress in PA management effectiveness, such as the METT, recently developed jointly by WWF and the World Bank.<sup>10</sup>

**PA Management Effectiveness Tracking Tool:**

The METT consists of a list of 30 questions that can be easily answered [on a scale from 0 (poor) to 3 (excellent)] by those managing the PA without any additional research, including:

- Are systems in place to control access/ resource use in the PA?
- Is equipment sufficient for management needs and equipment adequately maintained?
- Is the PA providing economic benefits to local communities?
- If fees (i.e., entry fees or fines) are applied, do they help PA management?

This type of M&E should, in any case, already be a part of the management plans for individual PAs and for PA systems as a whole. The METT does not attempt to directly measure biodiversity indicators, such as the population numbers of a threatened species, or the percentage of forest cover or of coral reef cover in a particular area. The METT states that it “is too limited to allow a detailed evaluation of outcomes and is really aimed at providing a quick overview of the management steps identified in the WCPA [World Council on Protected Areas] Framework up to and including outputs.” The METT is based on the assumption that “PA management effectiveness is a good proxy for positive biodiversity outcomes.”

In the case of grants funds, the collection and monitoring of biological indicators may be technically difficult, time-consuming and relatively expensive for small NGOs and CBOs that receive grants from CTFs but that have never before focused on monitoring and evaluating the biodiversity impacts of their activities.

Grants funds rarely set specific goals to measure the extent of biodiversity conservation or threats reduction. It may be particularly difficult to quantify the total biodiversity impact of grants funds, because of diverse goals, at diverse levels, in diverse ecosystems. For example, trying to weigh and compare the relative biodiversity impacts of a grant for conserving coral reefs with the biodiversity impacts of a grant for restoring degraded forests, or the biodiversity impacts of a grant for promoting ecotourism as a sustainable livelihood source, is like comparing apples and oranges. Biodiversity cannot simply be measured in terms of a single uniform unit in the same way, for example, that greenhouse gas emissions can (i.e., tons of carbon emitted), irrespective of particular sources or locations. There is also a great deal of dispute and uncertainty about issues of causation, such as the extent to which projects designed to provide greater economic benefits to poor local communities in areas of high biodiversity actually result in reducing human threats to biodiversity.<sup>11</sup>

<sup>10</sup> The METT is available online at:

[www.panda.org/about\\_wwf/what\\_we\\_do/forests/our\\_solutions/protection/tools/tracking\\_tool/index.cfm](http://www.panda.org/about_wwf/what_we_do/forests/our_solutions/protection/tools/tracking_tool/index.cfm)

<sup>11</sup> Cf. the paper by Alderman that is cited earlier in footnote 15 above.

Nonetheless, unless an early, deliberate and sustained effort is made to install and implement systems for monitoring and evaluating grants, M&E may take a back seat to a grantee's (and a CTF's) immediate operational needs, particularly in the case of grants funds. Many independent evaluations of CTFs have concluded that the best practice is for CTFs to allocate sufficient funds and staff for M&E early on. For example, Bolivia's PUMA Foundation (which is purely a grants fund) allocates ten percent of the amount of each grant for project design and M&E. PUMA works with grant recipients to refine the criteria for M&E during the process of actually doing M&E, thus treating it as an evolving process.

A recent comprehensive independent assessment of the M&E system used by TNC's Parks in Peril Program (which has made grants to multiple sites in many different Latin American countries over a ten-year period) came up with the following concluding recommendations, which can also be applied to CTFs:

- Hire or designate a staff member to facilitate retrospective and prospective learning across sites. This person should be devoted 100 percent to this role.
- Develop a formal written action plan for prospective cross-site learning, define priority problems or issues around which learning should be focused, and define structures and processes for learning.<sup>12</sup>

Grants funds may need to hire full-time staff specifically to carry out M&E and facilitate learning across sites and projects, whereas parks funds may find it less necessary to do this, since many PA systems already incorporate M&E as part of their management plans. Furthermore, individual PAs within a national PA system are usually more similar to each other (and hence can more easily learn from each others' experiences) than the often very diverse grant recipients of a typical grants fund. In the case of hybrid funds that combine parks funds and grants funds (or multiple separate accounts) under the umbrella of a single legal and management entity, different M&E systems and approaches may be more appropriate for different accounts.

In conclusion, most CTFs are now trying to devote more resources to improving their M&E of the biodiversity impacts of their grants, which should lead to improved grant selection and project design in the future.

### **US Government's TFCA Fund Scorecard**

The US Government has created a Fund Scorecard for tracking the progress of the more than a dozen TFCA funds established worldwide. The Scorecard is divided into four sections. The first section titled "Governance" contains questions for determining whether all of the provisions of TFCA grant agreements have been complied with, including each CTF's submission of all required reports. This section includes a number of questions relating to process indicators (such as whether the minimum annual number of board meetings has been held with a proper quorum, and whether the fund has done an

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<sup>12</sup> Foundations of Success. 2004. *External Evaluation of the TNC/USAID Parks in Peril Program*, p. 78.

annual institutional self-evaluation and staff performance evaluations). However, the governance section also includes several key questions that are related to conservation impact, such as:

- Does the CTF have a written strategic plan that includes conservation and funding priorities? Does the governing board annually evaluate progress toward the key objectives specified in the strategic plan, and implement any changes judged necessary?
- Do the CTF's goals and objectives complement the plans/programs of others (i.e., national environmental plans, other donors, and debt swap partners such as international NGOs)?
- Has the CTF established and implemented an M&E plan for determining the conservation impact of projects it funds?

Sections 3 and 4 of the TFCA Fund Scorecard address grant management and financial management, and include questions that mostly focus on whether proper procedures have been followed.

Several independent consultants who were asked by USAID to use the Scorecard for evaluating TFCA funds commented that

“The [TFCA] Scorecard is an excellent tool for assessing the "input" side of a Fund's activities, but is weak in assessing "outputs" and "impacts". To achieve the latter, the Evaluators believe that additional criteria would need to be developed on effectiveness, efficiency, relevance, sustainability, learning and impact. It is entirely appropriate for the OC [the particular Oversight Committee for each TFCA fund] to develop more highly refined assessment criteria not addressed by the USG [US Government] Scorecard.”

A model template for monitoring and evaluating CTFs is attached as Annex G to this *Review*.

## CHAPTER 6: BOARD AND GOVERNANCE ISSUES

### Main Conclusions:

- The most critical factor for good governance is for a CTF to have a non-governmental majority on its board of directors.
- Having a non-governmental majority on the board helps CTFs to attract donations from the private sector and from international donors.
- Non-governmental board members should be chosen based on their personal competencies rather than as official representatives of a particular constituency. Their terms should be staggered (rather than all ending at the same time) to provide greater institutional continuity.
- A large board (with 15 or more members) may be able to draw on more technical expertise and geographical background from its members, but a large board can also make it harder to reach decisions, and raise administrative costs. One option used by many CTFs is to have a smaller executive committee that meets more frequently and handles many short-term and urgent decisions, while the full board focuses on larger and more strategic decisions, as well as approving the annual budget, work plan and grants program.
- CTF boards often function more efficiently if they delegate certain topics to committees that make recommendations to the full board. Common examples include finance and investment committee, and a scientific and technical committee. These committees can also co-opt non-board members to assist them.
- Board members' responsibilities should be clearly specified in a CTF's bylaws or its operations manual, and they should be given short (one or two-day) training and orientation when they join the board.
- CTFs commonly employ between four and 25 staff, depending on the size and type of grants they administer. One CTF employs 60 staff, but provides most of the financing for almost 70 PAs, as well as administering almost a dozen special accounts for different donors and different purposes.

### Board Composition

Based on the experience of CTFs over the past 15 years, the most critical factor for good governance is for a CTF to have a non-governmental majority on its board of directors. The least successful CTFs are generally those CTFs whose boards are composed mostly of government officials, or CTFs that are housed within a government ministry (physically or institutionally), or have a board that is always chaired by a government official.

The reason why it is important for a majority of the board members to come from outside the government is that then the board's, decisions will have to be negotiated between the

different board members, and justified by appealing to the CTF’s purposes and mission, its strategic plan, and its grant making criteria, rather than being based on government political criteria or cronyism. Non-government controlled boards are more transparent and much more likely to publicize their finances, grants, policies and priorities, especially after a CTF is no longer under supervision by its initial donors.<sup>13</sup>

A complaint commonly voiced about CTFs is that board members who represent the host country or donor country governments tend to change frequently, and their replacements take time to get “up to speed”. This happens especially in countries with frequent changes

**Bolivia’s National Environmental Fund (FONAMA)** was originally created as a national environmental fund that was independent of any particular government ministry. It attracted tens of millions of dollars of funds from multiple international donors because it had become a model for integrity and professionalism in a country with a long history of government corruption. However, when a new political party came to power, FONAMA was restructured from having four out of nine board members from the Government, to having two out of four government representatives; and instead of FONAMA being an independent organization responsible directly (and only) to the Presidency of the Republic, it was transformed into a line organization located inside the Ministry of Sustainable Development. According to a 2003 profile of FONAMA prepared for RedLAC, the restructuring of FONAMA led to “(1) the loss of autonomy and assimilation into the state hierarchy; (2) constant turnover in executive and technical staff; (3) delays in processing applications for funding; and (4) ineffective fund management.” As a result, donors such as the US Government and the GEF withdrew the money which they had contributed to FONAMA and transferred this money to two newly created Bolivian CTFs.

in ruling parties, or where ministers and other senior officials shift between different ministries.

Board members from outside of government who are appointed in their individual capacities, or as representatives of NGOs, academic institutions, or the private business sector, are likely to serve on the board for a longer time (often for renewable terms of several years each) than board members who are appointed by government, and they are much more likely to attend board meetings themselves rather than sending an alternate or a deputy. For example, a profile of El Salvador’s EIA Fund (FIAES) that was prepared for RedLAC in 2003 states that one of the main “obstacles to its work” is “the lack of continuity in the Administrative Council due to the government representatives constantly changing, and the fact that observers are present who can accompany or replace the government representatives, and who in spite of having neither voice nor vote, can become involved in the operation of the Fund.” Similarly, the GEF’s *Evaluation* of Peru’s PROFONANPE fund states that “its operation was adversely

affected by the presence of Government reps as active members of the Board.”

Even the fact of housing a CTF inside of a government ministry can lead to “the perception within some parts of civil society, and in particular within the NGO

<sup>13</sup> After such a supervision period, a CTF often no longer has any legal obligation to report to donors about its activities and finances, and donors no longer have any right to have access to the CTF’s internal records or project sites, or to demand the return of their contributions to a CTF if the money is not being spent on the agreed purposes.



community, that the [fund] is a ‘captured’ institution,” as the 2006 independent evaluation of Argentina’s Americas Fund (FPLA) notes. The “popular perception that FPLA is an arm of the Government of Argentina” was strengthened by the fact that the affirmative vote of the Government of Argentina’s representative on the Board was required for any decision by the Board.<sup>14</sup>

The best practice for selecting board members from government is to choose high-level policy-making officials (such as a minister of environment) rather than operational level or line agency officials such as the head of a PAs agency. For example, the profile of Ecuador’s FAN that was prepared in 2003 for RedLAC states: “The inclusion of the Minister of Environment among the Board members has facilitated processes of negotiation of support from the government and assures that activities financed by the fund are consistent with national environmental policies.” Originally, the Minister automatically served as Chairman of the Board, but over time the Government voluntarily relinquished this privilege, and the Minister of Environment now serves only as an *ex-officio* voting member of the Board. Having a single government official on a CTF governing board can suffice to ensure government support and coordination with government policies and priorities, which in FAN’s case is also supported by formal working agreements with the government.

Similarly, Mexico’s FMCN has a 19-member board that includes only one member from government, the Minister of Environment, and yet FMCN is universally regarded as being extremely successful in coordinating its activities with government agencies and national priorities. On the other hand, some CTF executive directors complain that when the head of a PAs agency is a member of the board, that person often feels that their agency is automatically entitled to receive grants from the CTF with minimum of conditions attached, and is often unwilling to listen to other board members’ recommendations.

A CTF independent of government and with a board with a majority of non-governmental members, will find it easier to raise donations from private sector companies, from individuals and from international donors. Some donors have explicit regulations or policies that restrict them from making donations to CTFs with government-controlled boards. Private donors are often concerned that if they donate money directly to government to support PAs and biodiversity conservation, the money may end up being used for other purposes. FUNBIO’s executive director said that the reason why it has been able to attract several one million dollar unrestricted donations from Brazilian corporations is due to its independence from government and its well-respected board. Ecuador’s FAN established a special sub-account for Ecuadorian citizens who want to support Ecuador’s national parks but do not feel confident about simply donating money to the government for this purpose.

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<sup>14</sup> This is a standard feature of most EAI funds, along with the similar requirement that the US Government representative on an EAI Board must also approve any decision, even though the Boards of EAI funds are required to have an NGO majority, and all decisions are made by majority vote. This is not a feature of TFCA funds.

## **Donor Representation on CTF Boards**

In addition to having at least one board member from the national government, many funds also include a representative of an international donor agency on their board. Many CTFs have one or more international donors on their board. The best practice is to try to limit this to one or two donors, since having too many donors can lead to loss of the sense of national ownership of the CTF. Donors and international NGOs can provide new CTFs with hands-on technical assistance and advice. Sometimes however, a donor's or international NGO's involvement can lead people to mistakenly perceive the CTF as a dependent entity of the donor agency or of the international NGO.

In the case of the EAI and TFCA funds, US law requires that the US Government (as well as the host country government) must have a representative on the board until all US Government contributions have been spent, and that the US (and the host country) Government's approval is required for decisions to amend the bilateral agreements for establishing a TFCA or EAI fund. US Government approval is thus required for any change in the purpose of the fund or the composition of its board (since both of these are usually defined in the bilateral agreements). Sometimes CTFs request donors to be on the board to give the CTF more credibility with other potential donors, and to benefit from international donors' experience, broader perspectives and potential fundraising connections.

Some international donor agencies, such as the World Bank and GEF, choose not to serve on the board of directors of a CTF, because they consider it to be a conflict of interest to be involved in managing an organization which they are also responsible for supervising and evaluating. Some donors simply dislike the long-term and labor-intensive obligation of serving as a board member of a CTF.

Bilateral donors sometimes require CTFs to establish special committees to administer a separate sub-account which they have financed (often through debt-for-nature swaps). Such committees commonly include a representative of the bilateral donor agency to ensure that the CTF is complying with the donor's conditions and regulations for the management and disbursement of its contributions. The powers of such committees may vary from merely advising the CTF's board, to having the right to approve all expenditures from the sub-account that was set up with the donor's funds. In theory this would seem to set the stage for serious conflicts between the board of directors of the larger institution and the special committee(s). However, it does not seem to have caused problems anywhere.

## **Selection of Non-Governmental Board Members**

Procedures for selecting non-governmental board members vary. In the case of the Americas Fund in Chile, NGO representatives are chosen by their peers through a membership-base maintained by the Fund of Organizations. Around 400 NGOs are part of this registry.

In some cases, NGO representatives on a CTF's board who are appointed by government ministers have been criticized by other NGOs as being too closely linked to the government. Many CTFs specify in their articles of association that NGO board members should be nominated by a national association or network of conservation NGOs, or that the board itself should elect its NGO board members. Similarly, CTFs often stipulate that private sector board members should be nominated by business associations (such as a chamber of commerce), and scientific or academic board members by scientific or academic associations.

Most CTF executive directors who were interviewed for this report feel that non-governmental board members should be chosen based on their personal competencies, and not represent the interests of any particular outside organization. Most importantly, each board member should have broad knowledge of the CTF and its strategic plan, and an ability to contribute meaningfully to the CTF's overall mission and responsibilities. It is also important to choose board members who have the ability to fundraise and increase the size of the CTF's endowment. Another important consideration is for a board to be large enough to adequately represent the various constituencies that require a voice, and to have board members with local knowledge of the parts of a country where projects financed by the CTF's grants are located.

To maintain continuity, the terms of elected board members should be staggered. For example, a board with nine members should have three-year terms, for no more than one third of members leaving at any one time. Training of board members is also important, particularly in the stewardship of investments.

To avoid losing the contributions of board members once they complete their terms, several CTFs, such as FUNBIO, created a council of former board members to serve in an advisory capacity. Board members often feel a strong sense of ownership and commitment to the work they are helping to move forward, and consequently find it difficult to leave the CTF board.

In many countries without a strong previous history of partnership between government ministries and non-governmental organizations, CTF board members have expressed satisfaction about the unique level of empowerment and responsibility they experienced as CTF board members. The significant degree of social representation and control expressed by the diverse composition of many CTF boards has added to the legitimacy of the decisions made. For example, an independent evaluation of FUNBIO noted that "FUNBIO's Board brings together shoulder-to-shoulder representatives from small local environmental grass root organizations to leading large-scale entrepreneurs. While this might be taken as a usual and expected best practice elsewhere, in Brazil this is a quite unique experience."

Local community representatives may be easier to include on a CTF's board and committees where CTFs have been established for just one or two PAs, such as Uganda's BMCT or South Africa's Table Mountain Fund. Local community representation is more difficult for a national-level CTF in a large country like Mexico. Nevertheless, Mexico's

FMCN has managed to achieve representation of local community perspectives on its board by inviting experts with known track records of working with communities in different regions to serve on its 19-member board.

Having a large board whose members have diverse skills and backgrounds has allowed a CTF like FMCN to establish effective specialized technical committees linked directly to day-to-day operations. However, large boards can also make it more difficult to convene meetings, make decisions and efficiently conduct business transactions. Despite these challenges, several CTF directors and board members complained in interviews and in CTF evaluation reports that their boards are too small and could benefit from adding members with different kinds of expertise, such as investment bankers or foresters.

Board members from the private sector can benefit the CTF by bringing in additional skills and resources in areas such as financial administration, credit management and marketing. Business leaders can also help to build collaboration and partnerships with the business sector, by providing a wealth of personal contacts and networks and new opportunities for fundraising, as well as building private sector trust and confidence in the CTF. Recognized business associations, such as a national chamber of commerce, can be asked to elect a short list of new board member nominees for any designated private sector seats on the board of a CTF. This adds transparency and openness, and represents a form of outreach to civil society, which is likely to lead such groups to become more actively involved in the CTF.

### **Board Committees**

To use the board members' time most effectively, most CTF boards recognize the advantage of specialized committees composed of board members with expertise and experience in particular subject areas, such as finance and investment, science or fundraising. Committees can co-opt additional experts from outside the board to assist when needed. For example, many CTFs co-opt prominent local bankers and other financial experts who are not board members to serve as non-voting advisory members of a CTF's finance and investment committee, or prominent scientists to serve as non-voting advisory members of a CTF's scientific and technical committee.

A number of CTFs, such as the Philippines' FPE, Indonesia's KEHATI, and Colombia's Ecofondo, have established regional committees, or have reserved seats on their boards for representatives of different regions of the country. However, in some cases this has led regional representatives to feel that their regions should automatically receive a certain percentage of the CTF's grants regardless of the quality of the proposals submitted from the region, or higher conservation priorities of other regions. Board members' primary responsibility is to promote what is good for the CTF rather than what is good for their regions or sectors.

Many boards or councils (especially those with a large number of members) have created an executive committee composed of a smaller number of board or council members that

meets more regularly (i.e., monthly) and functions as the body responsible for general oversight of the CTF's management.

### Defining the Roles and Responsibilities of Board Members

Board members' responsibilities should be clearly specified in a CTF's bylaws or its operations manual. Such responsibilities commonly include strategic planning, approval of budgets and financial reports, fundraising, review of grant proposals and completed grant evaluations, review of the performance of the executive director and the performance of the CTF's investment managers. Based on the experience of many CTFs, it is recommended that there should be clear standards of performance for new board members so that expectations are clear from the beginning.

The board should delegate the responsibility of fund operations to the executive director, and provide the resources to exercise it, within the context of a strategic plan. This plan should clearly lay out the vision, mission, goals and objectives of the organization, and the actions required to attain these. Once these are clear, it will then be possible to specify staff requirements, responsibilities and profiles for each of the staff positions, and open all technical positions to a competitive selection process.

Smaller CTFs with very small staff such, as the Americas Fund in Argentina, give board members responsibility for proposal evaluation and project monitoring. However, experience shows that it is more effective to hire professional project staff for proposal monitoring and project evaluation, or even to outsource these functions, to reserve board members' time and effort for planning and decision-making.

#### Argentina's Americas Fund

Argentina's Americas Fund, whose assets came from a bilateral debt swap worth approximately three million dollars, never had technical project staff and seldom an executive director. Instead, all day-to-day operations were handled by an administrative secretary, sometimes assisted by a part-time accountant. With no executive director, the Board handled institutional management and grant making. Board meetings usually consumed the entire day. Since board members had limited free time to contribute (without any financial compensation) to visiting project sites, project monitoring was sometimes delegated to other staff in a board member's own organization. This created unevenness in the way grantees and projects were treated, and impeded the normal enrichment that comes from a project officer gaining experience across a number of projects in a number of different sectors or regions of the country. On the other hand, board members all spoke very positively of the personal enjoyment they got from the experience of visiting the projects, and how this contributed to raising their morale. None of them volunteered to leave the Board when their terms came to an end.

### Training of Board Members

CTFs often provide formal orientation for new board members to meet the staff and learn about the operations of the CTF, review its founding legal documents and policies, and meet other board members. Orientation materials can include current documentation on the CTF and past board meetings that can be organized as a training manual, stressing the rights, duties and responsibilities of board members, as well as the limits of their powers (i.e., with respect to getting involved in day-to-day management activities).

It is also a best practice for CTFs to provide opportunities, such as workshops and retreats, for board members and staff to unify visions and approaches, and create common understanding, by working together on the organization's program strategy, program reviews and annual work plans. Board members also appreciate the opportunity to participate in a one-day training module on investment issues given by the CTF's investment advisor or investment manager, especially if the board members are people with a non-financial background who might otherwise feel uncomfortable or intimidated when asked to discuss and vote on such issues as part of their duties during regular board meetings.

Individual CTFs' link to regional or global associations of CTFs, such as RedLAC, should be taken advantage of to establish contacts with CTFs in other countries to exchange ideas and best practices.

### **Operations Manuals**

An operations manual is necessary to assure systematization and consistency of a CTF's procedures, which also makes the CTF less vulnerable to staff turnover. An operations manual consists of a set of procedures for human resources management, procurement, accounting, investment management, grant-making, etc. The manuals should be produced in loose-leaf form, so that modifications can be submitted regularly to the board, and substitute pages inserted accordingly. Pages should have their creation date written at the bottom of the page, so that readers can track the evolution of the document. Copies of all the prior versions of the text should be kept for the record. CTFs should find ways to simplify their operations manuals wherever possible, by requiring reports from grantees every six months instead of every three months, or by dropping evaluation (but not monitoring) requirements for small projects, keeping in mind costs (those of the M&E and the grantee) and benefits (impacts on conservation).

One of the most important functions of a CTF's operations manual is to define staff positions, responsibilities and remuneration. Many funds have reported that one of their most difficult issues (at least initially) was to design a general or uniform set of standards by which to evaluate, remunerate and promote staff whose functions and technical expertise often vary greatly.

### **Staff**

Perhaps no single prerogative of a board of directors of a CTF is more important than the selection of the CTF's executive director. It is a good practice for a CTF board to establish a formal process for hiring a new executive director, by first identifying a pool of highly qualified applicants and refining a short-list to make a selection. The list of duties of an executive director should be outlined in a CTF's articles of incorporation, bylaws and/or operations manual. In most cases, an executive director is responsible for carrying out the decisions and policies of the board; overseeing (including hiring, firing and promoting) all other staff; representing the CTF in dealings with government officials, donors and local NGOs; signing contracts and opening bank accounts for the

CTF; dealing with investment managers; overseeing the preparation of annual reports and budgets; and raising additional funds for the CTF. Some CTFs, such as the Caucasus Protected Areas Foundation, even specify that the last of these duties listed (i.e., fundraising) should be given first priority in the CTF's initial years.

A weakness of some CTFs is their dependency upon the personal charisma of the executive director. A strong executive director is essential, but at a step just below, one or two senior management positions are usually advisable. The great strength of many CTFs has been their organizational integrity and highly respected staff at all levels.

Once the executive director of a CTF has been retained, boards usually turn over the recruitment of other staff to that person. Although the board remains involved in broader staffing issues (such as policies and budgets and issues relating to the growth of the organization), boards seldom take a role in the process of recruiting staff other than the CTF's executive director.

Some CTFs have experienced conflicts and power struggles between their executive director and board. This rarely lasts longer than a year or two, because it usually results in the hiring of a new executive director. In the meantime, however, this can lead to functional paralysis of the CTF. To avoid such problems the board should: (1) Clearly specify the respective roles of the board and the executive director in the CTF's founding legal documents and its operations manual; (2) Devote sufficient time and effort to hiring the right executive director; and (3) Make sure not to sign an employment contract that will make it too difficult or costly to fire the executive director if that becomes necessary. It may be a good practice to include specific performance targets in the executive director's employment contract or terms of reference. It is also a good practice for boards not to try to "micromanage" the day-to-day operations of the CTF, which should be supervised by the executive director.

The number of staff and the specific roles and titles of the staff of CTFs vary significantly, depending on their financial resources, their geographical scope, their mission, their conservation strategies and their relationship to government agencies and non-government grantees. However, the total number of paid staff ranges from around four as a minimum, to around 25 at large CTFs (FMCN, PROFONAMPE, FPE and KEHATI), to around 60 in the case of FUNBIO (most of whom have been recently hired to manage Amazon Region Protected Areas Program, ARPA).

Most CTFs have filled the following positions:

- Executive director;
- Program staff (who bring a variety of skills including familiarity with the geographical areas where the CTF works and professional knowledge of the thematic areas of concern to the CTF, such as biology, forestry, micro-enterprise development, etc.);
- Financial staff (often including an accountant);
- Administrative staff, such as secretaries, and a receptionist;

- Other support staff, such as a messenger, a driver, a building caretaker or guard and an office janitor. In middle income developing countries it is usually more cost effective to source such services from outside contractors as needed, but in many of the least developed countries it may be more cost-effective and more customary to hire full-time employees due to low and prevailing wages;
- As funds grow larger (i.e., more than a ten person staff), it is also common to hire communications and fundraising staff, although sometimes program staff perform these functions.

It is not uncommon for grants funds to hire specialists to conduct M&E, capacity building and training of grantees and grant applicants, but this depends on a CTF's mission, strategic plan and financial resources.



## CHAPTER 7: LEGAL AND TAX ISSUES

### Main Conclusions:

- CTFs can be legally established either as:
  - o In-country trust funds (in common law countries);
  - o In-country foundations (in both civil law and common law countries);
  - o Offshore foundations or trust funds (i.e., in Europe or the US);
  - o Created by special legislation; or
  - o Created by international agreement between donor and beneficiary country governments.
- It is extremely important that a CTF be exempt from paying taxes on the income and gains from its investments. If this is not possible, it is recommended to legally establish the CTF in an offshore location where charitable organizations are tax exempt.

### Trust Funds and Foundations in Common Law and Civil Law Countries

CTFs have been established in various different legal forms: as a foundation, a non-profit corporation, a trust fund established under statutory law, or a “common law” trust. The choice among these legal forms depends on which ones are available and are most advantageous under local laws and regulations, including tax regulations.

The concept of a “trust” originated in the English common law, and refers to a legal relationship in which assets that are given by a donor are “held in trust” by a trustee (or by a board of trustees, or a board of directors) for the benefit of another person, or for a purpose specified by the donor (such as “promotion of the arts” or “conservation of globally significant biodiversity”). A “trust fund” refers either to the money that is held in trust, or to the legal entity that is created for the purpose of holding the money in trust. Under the common law, a trustee is obligated to make all decisions about the assets with the beneficiary’s interests in mind.

In most civil law countries (which include all of the countries of continental Europe, and all of the French-, Spanish- and Portuguese-speaking countries of Africa, Oceania, Latin America and the Caribbean), it is possible to create a legal entity that is very similar to a trust fund by establishing a foundation. Virtually all common law countries (i.e., countries whose laws are based on British or American models) also have laws that authorize the creation of foundations, and there is a very large degree of overlap between the legal definitions of “trust,” “charitable trust,” “foundation,” “non-profit corporation” and “charitable organization.”

All Latin American countries have laws relating to the establishment and operation of foundations, and some Latin American countries also have laws authorizing the creation of “*fideicomisos*,” which are a uniquely Latin American type of legal entity based on

concepts of Roman law and yet very similar to the concept of a trust fund in common law countries. A few Latin American countries, such as Guatemala and Panama, have laws authorizing common law trust funds (mostly intended for commercial purposes).

### **Law on Associations**

Most francophone African countries do not have laws authorizing the creation of foundations, but only the creation of “civil associations.” This is because most francophone African countries inherited and adopted the French “Law of Associations” (*Loi des Associations*) of 1901 when they achieved their independence from France in the 1950s and early 1960s, but they have not adopted later French legislation (post-1965) that specifically authorizes the creation of public benefit foundations (*Fondations reconnues d’utilité publique*). Under the 1901 Law of Associations, “civil associations” are defined as voluntary associations of two or more people who unite for a common purpose which does not involve the enrichment of the association’s members (in contrast to a business partnership or corporation). This is a very broad definition that includes sports clubs, civic associations and professional organizations, such as a Bar Association.

The main disadvantage of a civil association in comparison to a foundation is that a civil association is required to have a general assembly of all of its members, which is the highest governing body of the civil association (rather than a board of directors), and the general assembly usually consists of dues-paying members who each have one vote. The Law of Associations also does not include any specific provisions about the management of property (such as an endowment) that is owned by a civil association, and thus does not state that the members of the association (or their elected representatives) have any fiduciary duties that are comparable to those of a common law trustee, or the statutory duties of the members of the board of directors of a corporation or a foundation.

During the last decade, two francophone African countries (Madagascar and Senegal) have enacted new laws for the creation of “public benefit foundations,” which are in some ways more similar to the laws for foundations of Anglophone countries than to recent French law governing foundations. This is because in the case of Madagascar (and perhaps also in the case of Senegal), such laws were adopted to satisfy the requirements of international donor agencies that were prepared to make very large donations to newly established foundations in those countries, on condition that the countries enact laws governing foundations that satisfied the concerns of the donors.

### **CTFs Created by Legislation or Decree**

One way of getting around an unsatisfactory national legal framework for establishing foundations and CTFs is for a country to enact a special law solely to establish a particular CTF, and grant it tax exemptions and other privileges, rather than trying to enact a new general law on foundations and trust funds, which could take years to pass in parliament.

There are several examples of CTFs that have been established by special legislative acts, such as Belize's Protected Areas Conservation Trust (PACT), and current attempts being made to create national PAs funds in Gabon and in Guyana through special legislation.

### **Offshore Trust Funds and Foundations**

Offshore trust funds can be used in order to legally establish a CTF for a particular country under the laws of a third country that has a flexible but well-respected legal system (such as the US, UK, Netherlands or Switzerland) that permits registered tax-exempt foundations or trust funds to carry out all of their charitable activities and hold all of their board meetings in another country, and to have all of their board members (or all except one of their board members) consist of non-citizens.

Establishing a CTF offshore can serve as an additional way of ensuring the security of a CTF's capital, especially in politically unstable countries. CTFs can also be initially established offshore, with the expectation that after a country passes new laws dealing with non-profit foundations (including exemptions from tax on their investment income), the offshore foundation can transfer all of its assets to a new in-country foundation whose structure has been approved by all of the donors.

All of the four existing multi-country CTFs have been legally established offshore in a country different from the countries for which those CTF make grants. The Eastern Carpathians Biodiversity Conservation Foundation, whose mission is to fund conservation activities in a biosphere reserve covering parts of Poland, Slovakia and Ukraine, is legally registered as a Swiss charitable foundation. The Caucasus Protected Areas Foundation, whose mission is to fund up to 50 percent of the costs of priority PAs in Armenia, Azerbaijan and Georgia, is legally registered as a German charitable foundation. The Sangha Tri-National (TNS) Foundation, whose mission is to fund three adjoining PAs in Cameroon, Central African Republic and Republic of Congo, is registered as a UK public charity. The Mesoamerican Reef (MAR) Fund, whose mission is "to inspire innovative, transnational solutions to critical Mesoamerican reef issues" in Mexico, Belize, Guatemala and Honduras, is established as a US tax-exempt charitable foundation.

In the case of the first three multi-country funds mentioned above, the countries for whose benefit the CTFs were established did not (at the time that the CTFs were established) have legal systems in which most people had confidence. Those countries' laws would not have exempted the CTF's investment income from taxation, and would have imposed legal barriers to the CTF's effective operation. There was also a concern in the case of each of these multi-country CTFs that if the CTF were legally established in one of the several countries for whose benefit the CTF was being legally established, then that country might come to dominate the CTF, and that this could be avoided by legally establishing the CTF in a "neutral" and mutually acceptable foreign country like Switzerland, Germany, the UK or the US.

## CTFs Established under International Agreements

CTFs have been legally established through bilateral or other international agreements, rather than under any kind of national legislation. Some of the EAI and TFCA funds were created through an international agreement between the US Government and the host country's government. In a few cases, the legal status of those CTFs has not been entirely clear, although this has not affected their ability to operate, open bank accounts, enter into binding contracts, etc.

## Basic Legal Issues of CTFs

The GEF's *Evaluation* of CTFs states that in order to establish a CTF, there should be "a legal framework in the country that permits establishing a trust fund or foundation, and provides tax exemption for its earnings from investments." Elsewhere in the GEF's *Evaluation* this is described as "a basic fabric of legal and financial practices and institutions in the country that people have confidence in." However, the *Evaluation* does not include any kind of detailed definition or discussion of what constitutes an adequate legal framework, or a basic fabric of legal institutions, in which people have confidence.

In most cases, it is useful to begin by analyzing whether a country's laws impose any burdensome legal requirements or restrictions on trust funds and foundations with respect to:

- The minimum or maximum number of directors on their governing boards;
- The citizenship of members of their board of directors;
- The country where board meetings must be held;
- Voting requirements;
- Powers, duties and qualifications of the organization's board members and officers;
- The need to obtain government approvals for decisions by the board (other than for the organization's dissolution and liquidation);
- Restrictions on the permissible objectives and activities of charitable organizations (except for certain restrictions on political and commercial activities of non-profit organizations);
- The permissible sources of funds for the organization;
- The ability to transfer the organization's funds into or out of the country;
- Maintaining the organization's accounts in foreign currencies; or
- The types of investments of the organization's endowment which are permissible or impermissible (other than the general requirement that such investments must be "prudent").

The laws on foundations and trust funds in countries such as the US, the UK or Netherlands impose almost no restrictions on any of the above-listed subjects. In other words, foundations established in these three countries can have any possible number of directors; the directors are not required to be citizens of the country where the foundation is incorporated; board meetings can be held anywhere in the world, and not just in the

country of incorporation; there is no need to obtain government approval for any decisions of the board, including amending the articles of incorporation, or dissolving or merging the foundation; there are no specific restrictions on what types of investments are permissible, etc. However, the laws governing foundations in most other countries impose one or more of the above types of restrictions, and some countries impose restrictions on almost all of the subjects listed above.<sup>15</sup> It is very important to clarify all of these kinds of issues with a competent local lawyer very early in the process of designing a CTF, to avoid surprises down the line and discover that some of the options being considered for the design of a CTF may not be legally possible in a particular country.

Certain legal issues should be analyzed specifically for the purpose of designing a CTF, such as:

- Is the national government legally allowed to contribute public funds to the endowment of a non-governmental foundation or trust fund (which was an issue for FUNBIO in Brazil)?
- Is the national government legally allowed to earmark certain taxes and fees to be deposited in a non-governmental trust fund or foundation (which was an issue for the PACT in Belize, and required passing a special new law to authorize this)?
- Conversely, is an independent non-governmental foundation or trust fund legally allowed to pay part of the budget and expenses of a government PAs agency?
- Could a CTF make grants directly to a particular government agency, or would it have to give the money to the Ministry of Finance? Is there a possibility that the Ministry of Finance might decide to use the money for other purposes (which actually happened in the case of a CTF financed by an airport tax in the Cook Islands, and led the CTF to sue the Minister of Finance in the Supreme Court)?
- Are individual PAs authorized to accept funds directly from a CTF, or could the CTF only transfer funds to the national government agency responsible for managing PAs? Could the PAs agency legally decide to reallocate part of the CTF's grant to cover the agency's headquarters expenses?
- Are individual PAs legally allowed to keep any part of the entry fees that they collect, or any other income that they might generate (for example, from operating a guesthouse, or selling souvenirs) to use the money to help finance their operations? Or is an individual PA required to transfer 100 percent of the revenue it collects to the ministry responsible for forests or to the Ministry of Finance?
- What kinds of dispute resolution mechanisms could be utilized in the case of a future dispute between the CTF and the national government? For example, is there any precedent for using arbitration in a neutral third country in such a case?

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<sup>15</sup> For example, some countries have financial regulations that effectively prohibit US, UK or European firms from managing investments for CTFs located in the country. On the other hand, certain countries (such as Russia and Colombia) are on a restricted list for US and European banks and investment managers which can make it much more difficult for them to do business with CTFs established in such countries. These considerations can be very important at the very outset in consideration of how to structure funding for a CTF.

How easy would it be to enforce an arbitral decision in the country where the CTF is headquartered?

Many issues or potential risks of potential concern to international donors when contributing money to a CTF should be addressed in a grant agreement, or another type of official bilateral agreement, between the donor country's government and the recipient (i.e., beneficiary) country's government, rather than addressing these in the CTF legal documents.

Some CTFs established under the EAI are financed by the proceeds of bilateral debt reduction agreements with the US Government. Provisions in the debt reduction agreements state that if the beneficiary country's government violates agreed commitments relating to the use of the proceeds of the debt swaps, the US Government is legally entitled to declare the entire original amount of the debt as reinstated and immediately due. Most other bilateral and multilateral donor agencies also have various provisions in their grant agreements relating to penalties and sanctions in the event that donated funds are not used for agreed purposes.

A legal issue that at one time was of concern to lawyers at the World Bank, and which is specifically mentioned in the World Bank's 1995 report on *Issues and Options in the Design of GEF-supported Conservation Trust Funds* (by K. Mikitin) and the GEF's 1999 *Evaluation*, is whether unpaid foreign creditors of a country that has defaulted on its foreign debts might have the legal right to seize the assets of a CTF that was established to help finance that country's government-owned PAs, provided that those funds are deposited in (and invested by) a financial institution in a third country, such as the US or the UK. This concern was raised in the case of the GEF's grant to Peru's PROFONANPE, in the 1990s when the Government of Peru had defaulted on repayment of its debt owed to foreign commercial creditors. Some of those foreign creditors had successfully sued in US courts to seize airplanes landing in the US that were owned by Peru. Part of the advice given by the World Bank's lawyers was that PROFONANPE's assets should only be invested in Peru, and not in foreign financial markets for as long as the Peruvian Government remained legally in default on its foreign commercial debts. Another way of avoiding the possible seizure of a CTF's offshore financial assets would be to establish a clear legal and factual separation between the CTF and the government, in order to demonstrate that the CTF is not controlled by the government. This not only protects the CTF's assets from seizure by the government's foreign creditors, but also protects them from being seized by the government, and protects the CTF from being later merged into a government entity.

### **Tax Issues**

One of the most critical issues in establishing a CTF is to make sure that the interest and investment income (and the capital gains) earned on funds being invested are not taxed either at the source (by the country where the money is invested in stocks, bonds, bank deposits, etc.) or in the destination country (where the CTF is legally registered or operating). If a CTF's income and investment income (and capital gains) taxed at a

country's standard rates for taxing business and individual profits and income, this could result in the CTF's losing one-third or more of its annual budget (assuming that the budget derives entirely from the income earned by investing an endowment). Most developed countries do not tax the income, profits or gains that non-profit charitable organizations earn through passive investments (in contrast to any profits that they earn from actively operating a business that competes with regular for-profit businesses). However, many developing countries and countries in transition do tax the bank interest and the investment income (as well as capital gains) earned by non-profit foundations. It is extremely important to consult with local tax accountants or lawyers to clarify this before establishing a CTF in a country.

If a country imposes taxes on a CTF's investment gains, then the donors and other founders of a CTF should either try to secure the enactment of a special new law that will exempt the CTF from paying such taxes, or include a provision in donor agency grant agreements (i.e., legal agreements between a bilateral or multilateral donor and the beneficiary country's government, not with the CTF), which specifically exempts the CTF from having to pay such taxes. A last option is to legally establish the CTF offshore under the laws of a country that does not tax the interest or investment income of a non-profit charitable entity such as a CTF. Each year, the offshore-registered CTF could simply transfer the income or gains that it earns from investing the endowment through a series of direct payments to grantees in the beneficiary country, or to a locally incorporated CTF counterpart organization or committee whose only function is to decide how to allocate grants out of the money it receives each year from the offshore entity. Since the in-country organization would not itself own or invest the endowment's capital, it would be tax exempt on the income or gains from investing the endowment.

For fundraising purposes, CTFs should also seek favorable tax treatment for donations given to the CTF. In some cases, they have also created alliances with "friends of" organizations in other countries that can channel donations to them while providing tax exemption for donors in their home countries.

### **Rules against Conflicts of Interest**

Every CTF should have clear and comprehensive provisions in its articles of incorporation, bylaws and operations manual that forbid CTF board members, staff or their family members from receiving any grants or economic benefits from the CTF or its grantees. Board members and staff should also be required to disclose to other board members and supervisory staff any interest or association that they or their family members may have with an organization that is applying for a grant from the CTF or that is proposing to enter into a contract to sell or purchase goods or services to or from the CTF. Most CTFs require their board members not only to disclose all potential conflicts of interest, but also to abstain from voting on, or sometimes even from being present at board discussions of any such proposed grants or contracts. Clear and strictly enforced rules against potential conflicts of interest are essential to maintaining a CTF's good reputation with members of the public, donors, grantees, and the national government.

## CHAPTER 8: FUNDRAISING

### Main Conclusions:

- The GEF and USAID together account for around two-thirds of all funding for CTFs. While their contributions to CTFs have recently decreased, European bilateral donors (such as Germany, whose laws previously made it impossible for the German Government to contribute to endowments) are now major donors to CTFs.
- National governments in countries such as Mexico, Brazil, Panama, Ecuador and Mauritania have allocated substantial sums from their national budgets as capital contributions to CTFs.
- International conservation NGOs have contributed amounts ranging from \$500,000 to five million dollars to individual CTFs, but international NGOs' most significant role has been convincing multilateral and bilateral aid donors to support CTFs (i.e., lobbying aid donors), and providing technical assistance in the design and start-up phases of CTFs.
- Most of the direct contributions to CTFs by corporations and foundations have been for one million dollars or less, and usually been for co-financing specific projects rather than for building up the CTF's endowment capital.
- The most successful CTFs in raising additional capital are those which have managed to start a "virtuous cycle," by attracting initial contributions from at least one or two key international donors, and demonstrating a high level of accountability and results during their start-up phase (i.e., their first one to five years of grantmaking).
- Newer types of funding sources, such as PES, earmarked user fees or taxes, and business biodiversity offsets, are becoming increasingly important for many CTFs.
- The potential of the so-called "new philanthropy" remains largely untapped today, but could be a promising new source of funds.
- Best practices include building the necessary fundraising, marketing and strategic skill sets of management team and board, and designing a realistic and well thought-out outreach strategy.

The last comprehensive assessment of RedLAC's member funds (Reyna Oleas and Lourdes Barragán, 2003) found that 11 of the 21 CTFs studied had two or more sources of funding. Almost 75 percent of the funds came from GEF grants and debt-for-nature swap proceeds (mostly with the US, German and Dutch governments) and most of the rest originated from national governments and bilateral and multilateral institutions. However, half of all LAC CTFs (ten out of 21) only had a single donor. The picture has changed little since 2003; national and foreign governments still account for the lion's share of CTF funding in LAC. In a few cases, international NGOs have played a bigger role in mobilizing resources. For example, in Brazil, WWF donated \$5.25 million (which includes one million dollars from the Italian Government) to fund the ARPA trust fund



which is managed as a separate account by FUNBIO. Other donors have pledged or already given \$24 million to the ARPA trust fund, including two Brazilian private sector companies.

### **Major Developments**

The biggest development since 2003 seems to be the increasing leverage effect that CTFs have had. For example, FUNBIO has been very successful at implementing its Partnership Funds Program whereby sponsors (who are not the project implementers) are asked to contribute at least 50 percent to the cost of the given project. The \$3.5 million amount raised to date from the Terra Institute, CSN Foundation, Klabin Parana Forest Products and The Minas Gerais Power Company, has covered over 65 percent of total project costs. Partners engage in what they see as a win-win collaboration with an established institution like FUNBIO that will serve their external communication objectives and possible goals to integrate sustainable development into their operating practices. FUNBIO and other CTFs have attracted new money that would likely not have gone to conservation otherwise.

A 2007 survey of EAI/ TFCA funds found that seven funds (FPAA, PROFONANPE, Peru's America Fund (FONDAM), Environmental Foundation of Jamaica (EFJ), FIAES and PUMA) had engaged in a total of 72 private sector partnerships that raised \$40 million. Almost 60 percent of partnership funds were contributed by the co-funders (who were expected to participate in the projects' implementation)

Another other major development for CTFs in the past few years is that the bigger CTFs, such as FMCN and PROFONANPE have continued to do very well in their fundraising; showing results and being accountable to their donors. The two funds' capital now nears or has exceeded \$100 million and both funds have bold fundraising goals. During an interview at the 2007 RedLAC Meeting, FMCN's Lorenzo Rosenzweig said that his Board's goal was to raise the FMCN's assets from \$100 million to \$200 million by the end of 2008.

Several of the medium-sized CTFs, such as Panama's Natural Resources Conservation Fund (NATURA), FPAA (Colombia), EFJ (Jamaica) and PUMA (Bolivia) have started implementing formal fundraising strategies. For example, PUMA was successful in raising about three million dollars from new partners between 2005-06. It secured \$500,000 from the Critical Ecosystem Partnership Fund (CEPF)<sup>16</sup> to create a one-to-one matching fund to co-finance sustainable natural resource use projects in the Vilcabamba-Amboro Conservation Corridor. It also received about \$460,000 (as part of a three-year \$1.32 million grant) from the McKnight Foundation to become the Foundation's Administrator of the Collaborative Crop Research Program in the Andean region. It further received \$1.44 million from the Amazon Basin Conservation Initiative to support community projects related to conservation and sustainable use of natural resources.

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<sup>16</sup> CEPF is a joint initiative between CI, AFD, GEF, Government of Japan, MacArthur Foundation and the World Bank.

Finally, the Tarija Prefecture contributed a little over \$535,000 to support the financing of sustainable environmental enterprises and initiatives in the region.<sup>17</sup>

Furthermore, major foundations such as MacArthur, Ford and Packard, have funded more than one CTF (largely in the LAC region). However, their grants tend to focus on projects or programs or on institutional aspects of the funds' work (i.e., capacity building). The Moore Foundation appears to be an exception. Its \$100 million gift to CI enabled the creation of the Global Conservation Fund (GCF). The GCF has contributed to the capital of many different CTFs, including \$1 million to the Madagascar Foundation for Protected Areas and Biodiversity (FAPB) and over one million to FMCN that is earmarked for Mexico's Baja California region. In fact, the vast majority of GCF's remaining \$60 million will be invested as capital in CTFs.

Bilateral and multilateral donors have remained a very steady source of funding for CTFs around the world. In Africa, the GEF and bilateral donors (primarily USAID, KfW and AFD/ FFEM) have contributed about 80 percent of the funds raised in the past 15 years for CTFs. Their role has also been critical in other regions, particularly in Latin America. For example, Peru's PROFONANPE managed to attract money from the Dutch, German, Finnish and Canadian international cooperation agencies between 1995 and 2000. Bolivia's FONAMA secured all its capital from bilateral and multilateral sources (the GEF, the US, Germany and the Netherlands were the main contributors. In Asia, Bhutan's Bwindi Mgahinga Conservation Trust (BTSEC) raised around \$18 million from the GEF, Finland, Norway, Switzerland, the Netherlands and WWF.

Aside from the GEF's contributions, proceeds generated by bilateral debt swaps make up a significant share of the capital of existing CTFs. The largest 40 CTFs have received an estimated \$800 million in capital and co-funding (paying mainly for start-up costs) received to date; 56 percent has come from some bilateral debt reduction programs. Through debt-for-nature swaps and the TFCA and EAI programs, the US has been the largest source of bilateral debt swaps (it accounts for about two-thirds of all such transactions), followed by Germany.

The sources of funds vary by region. In the LAC region, 70 percent of 20 CTFs surveyed received some money from debt swaps. The amount contributed by those swaps totaled 60 percent. In Asia, Europe and Africa, the situation is very different since only around 30 percent of the capital and start-up money collected came from debt swaps, and only 25-30 percent of CTFs received money from debt swaps.

Not all CTFs have been successful in their fundraising efforts. A 2005 USAID evaluation of KEHATI showed that their fundraising strategy was unsuccessful for the most part. The first component of their strategy was to target the Indonesian domestic private sector for donations which would be pooled into a single purpose investment instrument, called the "Green Fund." Unfortunately, the inability to deduct charitable donations from taxable income in Indonesia made the Green Fund an unattractive sponsoring mechanism

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<sup>17</sup> EAI/ TFCA Secretariat. 2006. Report to the US Congress.

for corporate donors. The second component of the strategy was a mass mailing campaign throughout Indonesia, however, an inadequate infrastructure made the mail delivery unsuccessful.

Two lessons can be drawn from the experience: 1) It is imperative to conduct an assessment of the context and enabling environment before designing any fundraising strategy. The absence of a supportive tax code and reliable postal service did not provide the enabling context for KEHATI's fundraising efforts to succeed; 2) CTFs' executive staff and boards must possess the necessary skills (strategic, marketing and fundraising) and relationships to be successful in fundraising over the long run. Boards should anchor a fundraising campaign, either by board members making contributions themselves or by using their networks to attract donors, whether these are institutions or individuals.

### **Innovative Corporate Partnerships**

An increasing number of CTFs have formed innovative partnerships with corporations. Some CTFs like Peru's FONDAM have expanded their role to include consulting services. FONDAM is now advising mining companies in particular on a fee-for-service basis on how they can offset the impacts of their activities by supporting environmental and social projects and SGPs. By the same token, Suriname's SCF is approaching mining companies about managing their corporate foundations on an outsourcing basis. Eventually, those mining companies' foundations will solely rely on SCF's staff. Another example is that of EFJ (Jamaica) that manages a small donor's development project in return for a management fee.

CTFs can offer valued services to companies, by connecting them to government or NGO leaders, and identifying opportunities for companies to showcase their philanthropy.<sup>18</sup> Corporations can be powerful allies and bring substantial funding when the partnership between the CTF and the company brings benefits to both actors and makes sense in the eyes of the public. For example, the German brewery Krombacher ran a marketing campaign for "rainforest" beer that raised over three million Euros for tropical forest conservation in Central Africa. The Rainforest Foundation in Germany manages the proceeds of that campaign and serves on the Board of the Sangha Tri-National Foundation, which will be the beneficiary of campaign funds.

Extractive industry companies have formed a number of partnerships with CTFs, in the LAC region in particular, actually contributing to their capital in a few cases. Examples include FAN-managed EcoFondo in Ecuador, a sizable sinking fund provided by the OCP Pipeline Company. PROFONANPE is also managing funds from the Camisea Project Pipeline, while the Fondo Pro Bosque Chiquitano in Bolivia secured funding from a gas pipeline project connecting Bolivia and Brazil. A similar example in Africa is the Foundation for Environment and Development in Cameroon (FEDEC) that was created with funding from the Cameroon Oil Transport Company (including Exxon) with the purpose of offering compensatory mechanisms for potential damage caused by the

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<sup>18</sup> Synergos Institute. 2000. *Foundation Building Sourcebook*.

Chad-Cameroon pipeline. However, extractive industry partnerships are not without risk, and CTF executive directors seem to be aware of the sensitivity of those partnerships and the potential risk that their CTFs may incur in terms of public relations and reputation.

### **Other Financing Sources**

PA authorities are increasingly attempting to generate income themselves or channel revenues by either tapping into users' or tourists' willingness to pay or by taxing users and other key stakeholders that have a negative impact on biodiversity. Income-generating activities can include trophy hunting or safari, "sponsor an animal" and "adopt an acre" programs, entrance fees or concession revenues. Generally, CTFs do not benefit from those revenues directly though there are exceptions, such as PROFONANPE that manages the funds so raised, even if it does not have the sole control of how these are spent. These new sources of funding contribute to the sustainable financing of PA systems and thus help reduce the burden on CTFs.

Taxes, fines and other levies are gaining wider use as way to channel money towards CTFs. In 2006, FUNBIO launched the Fauna Brazil Portfolio, a special account for protecting endangered species which is financed largely by environmental fines and judicial awards, under an agreement between FUNBIO and the Brazilian Federal Government Prosecutor's Office and the National PA Management Agency.

Another potentially very large source of future funding that CTFs could manage is payments for "reduced emissions from deforestation and forest degradation" (REDD). Currently around a fifth of all global greenhouse gas emissions come from deforestation and forest degradation. At the Conference of the Parties to the UN Framework Convention on Climate Change in Bali Indonesia in December 2007, agreement was reached to develop a mechanism to compensate countries for REDD. Although the details remain to be worked out and will doubtless be subject to intense negotiation, some experts have suggested that up to \$50 billion per year could become available through the REDD mechanism. CTFs can offer the following advantages as institutional mechanisms for channeling REDD payments to beneficiaries such as PA management agencies, Forest Departments, and local communities or individual landowners in PA buffer zones: transparency and accountability; equitable benefit-sharing; grant-making based on whether grantees meet prescribed benchmarks; and the possibility of "pooling" REDD payments for a large number of beneficiaries to ensure that agreed upon targets for REDD can still be met even if accidental forest loss (i.e., through fire) occurs in a particular area.

### **New Philanthropy**

One of the potential sources of funding that CTFs have not fully tapped is the so-called "new philanthropy." The world of philanthropy has changed in the past few years with the emergence of donors who come from the corporate world and have amassed extraordinary wealth in a short period of time (according to Merrill Lynch and Cap Gemini in their annual World Wealth Report, there were 9.5 million millionaires world-

wide in 2006). New philanthropy is characterized by an increasing number of wealthy individuals and families who want to “give back” and intend to do so using business principles that they are accustomed to.

Newly created funds, such as MesoAmerican Reef (MAR) Fund in Central America, have had some success accessing new philanthropy by receiving standard grants from innovative foundations such as Summit, Avina, Oak and Ocean Foundations. It is important to note that MAR got off the ground thanks to the support of already strong national CTFs and could count on senior leadership and a board with established personal networks in LAC, North America and Europe.

CTFs seem to be well-positioned for new philanthropy provided they have had high levels of accountability for a long time, which meets new donors’ demands for effectiveness and efficiency. CTFs’ area of focus at the nexus of biodiversity conservation and finance is inherently attractive to many donors in this new world of philanthropy where finance-related professions, namely hedge fund and private equity professionals, are disproportionately represented.

However, new philanthropy remains a potential rather than an actual source of funding for CTFs for the time being. Thus far, most CTFs have focused on traditional donor organizations where opportunities for funding are more visible. However, growing concern over climate change among the general public may provide new opportunities for CTFs, especially if they are able to link their activities to the carbon markets or promote the value of protecting species-rich ecosystems as an effective adaptation mechanism to climate change.

Less impressive in dollar amounts, but more compelling in numbers of donors is the movement called “citizen philanthropy,” whereby ordinary people from around the world with an internet connection can easily support the cause of their choice. A number of intermediaries (like DonorsChoose, GiveWell or GlobalGiving in the US) have emerged in the past few years and provide information to potential donors about how effective specific charities are, or serve as a channel for them to fund their favorite causes. Online giving has been growing exponentially each year in the US, from \$250 million in 2000 to more than \$4.5 billion in 2005.<sup>19</sup>

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<sup>19</sup> DonorsChoose, 'The Future of Philanthropy,' Provides More Than Half a Million Dollars Worth of Supplies to Los Angeles Classrooms. March 2007 - <http://www.prnewswire.com/cgi-bin/stories.pl?ACCT=104&STORY=/www/story/03-20-2007/0004549403&EDATE=>

## CHAPTER 9: INVESTMENT MANAGEMENT

### Main Conclusions:

- Based on a sample of 19 CTFs, investment performance for the period 2002-2006 was roughly in line with that of US colleges and universities, averaging around ten percent year for that period.
- There is a growing sophistication in CTFs' investment policies: most have hired investment advisors and have clear investment guidelines.
- CTFs should be encouraged to tap into top-quality investment advisors: they can pool funds with other CTFs, or contact financial intermediaries' senior management directly, in order to get increased attention from top managers.
- Asset allocation varies greatly from one fund to the next. Asset allocation and spending policy should evolve according to a CTF's shifting strategies and priorities. Diversification is the key to hedging against risk. This includes diversifying the currencies in which investments are held, and not keeping more than 50 percent of total investments in any one currency such as the US dollar, unless donors require otherwise.
- Most CTFs now apply environmental screening to their investments, but screening for socially responsible investing (SRI) is not as widespread.

### Performance: Average Rates of Return on Investments

The 2008 *Conservation Trust Fund Investment Survey Analysis (Investment Survey)* conducted for the CFA and RedLAC found that the investment performance of CTFs is broadly comparable to that of US colleges and universities: the weighted average return on investments for 19 CTFs responding to the survey was 10.19 percent for all years, and 10.57 percent for 2003 through 2006.<sup>20</sup>

The 12 responding CTFs from LAC have total investments of \$268 million, with the average amount invested by each CTF being \$22 million. The largest CTF (FMCN) manages \$89 million, and the smallest CTF has assets of \$1.4 million. These CTFs have a 9.94 percent weighted average rate of return on their investments across all reported years (which goes back to 2000 for four responding CTFs) and 10.24 percent for the years 2003-2006. The best performing fund (Brazil's FUNBIO) had a 14.08 percent weighted

<sup>20</sup> Saccardi, Daniel. 2008. *Conservation Trust Fund Investment Survey Analysis*. Prepared for CFA and RedLAC.

average rate of return (measured in US dollars) during both periods, while the poorest performer had a return of 4.73 and 1.66 percent for the two time periods, respectively.

Five African CTFs have a total of \$42 million invested, with the average amount invested by each CTF being \$8.5 million. The largest African CTF has \$13.4 million invested, and the smallest CTF manages \$2.9 million. These five CTFs have a weighted average rate of return of 12.06 percent across all years (two funds provided data going back to 2000) and 12.99 percent from 2003 to 2006. The best performing African CTF achieved returns of 22.6 percent for both time periods while the lowest performer had returns of 7.2 percent across all years and 3.05 percent from 2003 through 2006.

The 18 CTFs responding to *Investment Survey* have a combined total of \$315 million invested, with the average investment of each CTF being \$17.5 million. The weighted average annual rate of return on investments for all 18 respondents was 10.19 percent for all years, and 10.57 percent for the years 2003 through 2006.

By comparison, a study of the investment performance of the endowments of more than 700 US colleges and universities published by the National Association of College and University Business Officers (NACUBO) shows that US college and university endowment funds with a capital of less than \$100 million had the following average annual rates of return on investment: 1990's: 13.08 percent; 2000-2002: minus 1.57 percent; 2003-2005: 11.14 percent; 2006: 9.03 percent.<sup>21</sup>

#### Other Findings:

- A number of CTFs had no particular investment strategy early on, which is reflected in the two CTFs that barely averaged a return equal to that of fixed rate investment products in the 1990s. Some CTFs (particularly the three or four largest CTFs in LAC) continue to invest most of their capital in relatively low yielding but risk-free (or low-risk) fixed rate investments such as US Treasury bonds.
- In both 2005 and 2006, mid-sized CTFs (with assets of between \$10 and \$20 million) outperformed their smaller and larger peers (fewer than \$10 million and more than \$20 million, respectively), largely because they invested a higher percentage of their assets in equities.
- The highest returns in the past 15 years often come from investments in local (emerging) markets, because high yield products could be found at the time (as was the case in Jamaica in the 1990s when the Government issued those products) or because those markets have been performing particularly well (Peru's Stock Exchange was one of the highest performing stock markets in the world in 2006, and Brazil's has been the best performing market in the world over the period of the last five years, while at the same time Brazil's currency appreciated in value by over 200

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<sup>21</sup> NACUBO Endowment Study: <http://www.nacubo.org/x2376.xml>

percent against the US dollar). However, those numbers have to be considered bearing in mind that local currencies may also lose value against stronger currencies, and local inflation might be much higher than in Europe and in the US and thus, adjusted returns may be less impressive. Furthermore, local emerging markets are typically riskier than those in North America, Japan or Europe, which explains why emerging markets offer higher rates of return on fixed income products, for example.

- Investments in local currency often reflect the source of a CTF's funds. If most of a CTF's assets come from a debt-for-nature swap, the money channeled through the swap is in local currency. In a few cases, governments have granted authorization to re-convert part of the local currency debt swap proceeds into hard currency and invest it overseas, in order to achieve diversification and reduce the risk of investing all of the assets in just one country (i.e., the host country).

CTFs' solid performance likely reflects their growing sophistication with respect to investment strategies. Most CTFs now have diversified investment strategies and policies developed by an investment committee in collaboration with an investment advisor/consultant that in turn manages several investment managers on behalf of the CTF. A few specialized investment firms have developed expertise in the management of CTF capital. In addition to their specific knowledge surrounding CTF management, the investment firms serve as intermediaries and oversee the investments on behalf of CTFs' boards which helps relieve the day-to-day workload of the boards.

It is also standard for CTFs to measure their performances against benchmarks. Almost all of the seven CTFs use world market benchmarks such as the Standard and Poor (S&P) 500 or Lehman Bros Aggregate Bond Index. Only Peru's PROFONANPE uses a different benchmark, i.e. Peruvian private pension funds' performance.

### **Asset Allocation by Geography & Investment Type**

CTFs allocate the assets in their investment portfolios by type: fixed income (i.e., bonds and bank deposits), equity (i.e., stocks), cash, and other (i.e., real estate investment trusts, commodity funds, hedge funds, etc.); by geography: US, non-US international (i.e., Europe, Japan, emerging markets), and in-country investments (i.e., domestic); and by currency (US dollars, Euro, other international currencies, and the local currency of the country where the CTF operates).

Approximately half of all CTFs have investment restrictions imposed by outside funders (international donors and national governments) or CTF boards. These restrictions pertain to asset management – mandates on asset and/or currency allocations, risk versus return limitations, etc.

CTFs in LAC show a clear preference for investing in fixed income (78 percent) over equities (16 percent) and cash (six percent) (there was no substantial allocation to other forms of investment). Allocation by geography is more evenly divided, with a near even

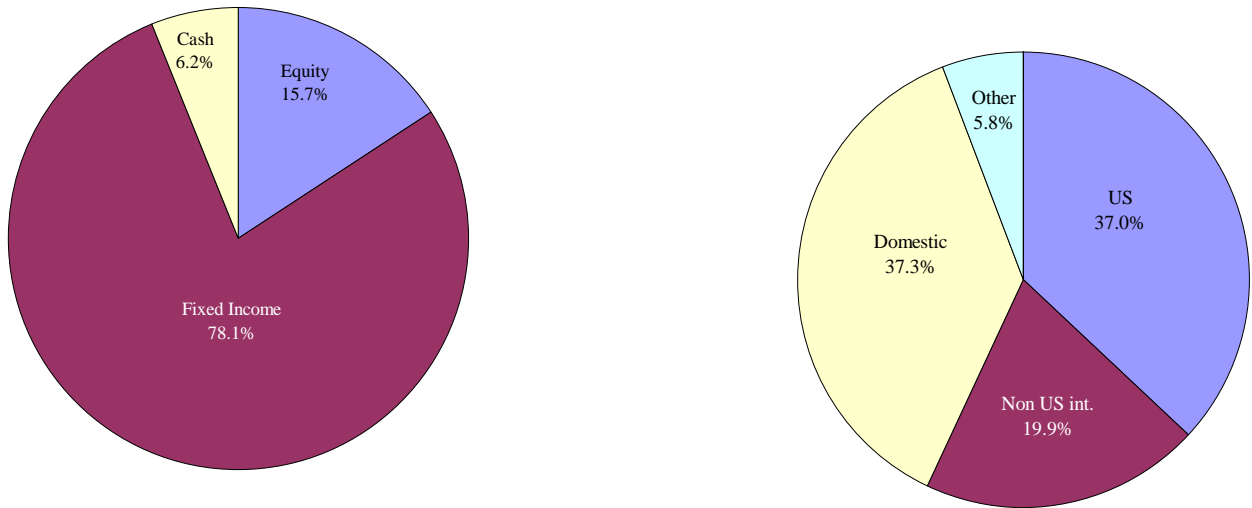


split between domestic investments (37.3 percent) and US investments (37 percent), with almost 20 percent in non-US international stocks (see Figures 1 and 2).<sup>22</sup>

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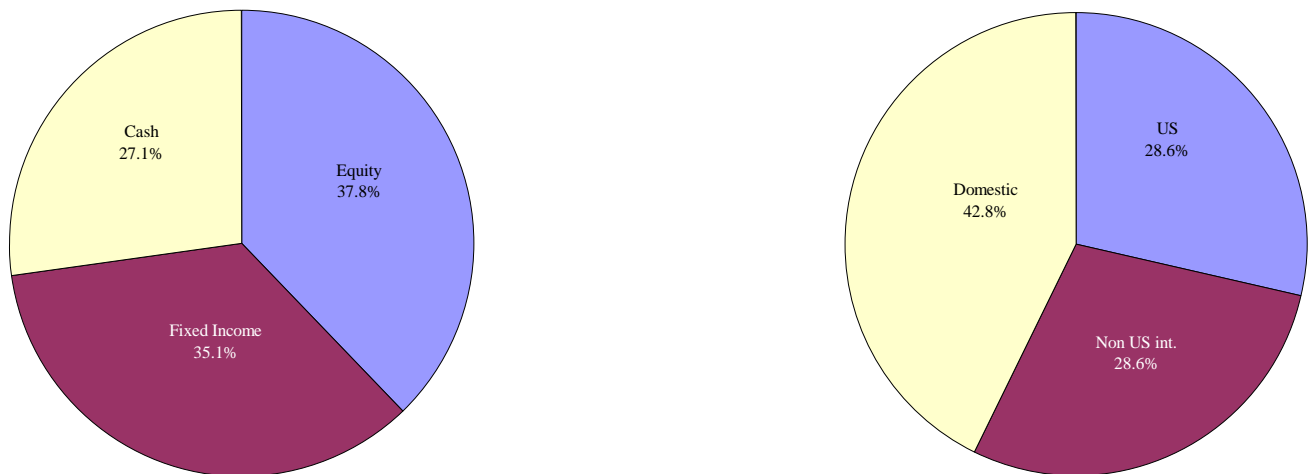
<sup>22</sup> Figures 1 through 4 are all taken from the *Conservation Trust Fund Investment Survey Analysis* referred to in footnote 37 above.

**Figure 1 & 2: LAC CTFs Asset Allocation by Type and Geography (n=12)**



By contrast, African funds allocate assets more evenly across asset types, by investing a slightly higher percentage of their total assets in equities (37.8 percent) than in fixed income (35.1 percent), followed by investing 27.1 percent of their funds in cash equivalents (such as “money market” funds, which currently pay around two to three percent in the US, with no risk, and no limitations on when funds can be withdrawn). There is also a fairly equal distribution across regions with domestic investments (42.8 percent) outpacing non-US international and those in the US (28.6 percent for each).

**Figures 3 & 4: Africa Asset Allocation by Type and Geography (n=5)**



The total weighted asset allocation of 19 CTFs reflects the large share of total dominance of the total assets under management in the LAC CTFs. Consequently, just over two-thirds of all assets are invested in fixed income (67.6 percent), followed by equity (18.3 percent), and then cash and other instruments (mostly hedge funds). Similarly, assets are almost evenly split between Domestic (38.1 percent) and US (35.7 percent) sources, followed by non-US international (21 percent). As stated in the *Investment Survey* “it is worth noting that funds with substantial equity allocations represent the top performing funds. However, those with greater equity allocations were also represented among the bottom performers. This is consistent with the higher risk and returns associated with equity investments.”

### **Diversifying the Currencies of a CTF’s Investments**

In addition the geographic allocation by asset type it is instructive to look at the cumulative currency allocation of stocks, fixed income, and cash. Among the 13 LAC CTFs surveyed, the percentage of assets in domestic currencies and domestic markets are roughly equal (34.4 percent compared to 37.3 percent, respectively). However, all but a fraction of a percent of a CTF’s non-Domestic assets are dollar-denominated (65 percent) whereas there is more of a mix of the geographical regions where non-Domestic CTF assets are invested (19.9 percent non-US international, 37 percent US).

The five African CTFs surveyed mirror their LAC counterparts in that there is a near equal allocation of assets invested in domestic currencies and domestic markets (40 and 42.8 percent respectively, mostly accounted for by the Table Mountain Fund’s local investments in South Africa’s domestic currency and domestic market). African CTFs’ remaining assets are predominantly dollar-denominated (41 percent versus 12 percent in Euros and seven percent in other currencies), but there are more spread out among different geographical regions, with 28.6 percent of their total assets in non-US international investments.

Some CTFs whose national currencies have appreciated very sharply against the dollar in recent years (such as Brazil’s currency, which has appreciated more than 200 percent against the dollar over the last 6 years) might be considered to have lost significant purchasing power (at least on paper) by keeping so much of their assets in US dollars. Since many leading world economists are now forecasting that the US dollar may continue to decline in relative value (after having already lost over 40 percent in value against the Euro during the last six years), and since the total value of all stocks denominated in Euros exceeds the total value of all stocks denominated in US dollars, CTFs should consider (as a best practice) keeping no more than 50 percent of their total investments in US dollars, and increasing the percent of their assets that are denominated in Euros or other hard currencies such as Japanese yen, British pounds, Swiss francs, or Australian and Canadian dollars.

### **The Need to Reduce Risk through Diversification**

A diversified portfolio is designed to maintain a revenue balance in market fluctuations and avoids over-investments in any particular category, currency or geography. The 2006 NACUBO Endowment Study demonstrates that point in a table presenting the 2005 and 2006 returns of various investment assets of US colleges and universities. While some remained relatively stable,

others swung quite widely in the span of one short year. For example, the returns of US equities, real estate funds, and natural resource funds varied little between 2005 and 2006, whereas US fixed income went down from 6.7 percent to less than one percent, while non-US equities jumped from 15.7 to 24.8 percent, and real estate (public) decreased from 27.9 to 19 percent.

The 755 US colleges and universities surveyed by NACUBO invested their endowments among the following asset classes: for those endowments less than \$100 million in size, investments in equities accounted for 59-60 percent of total invested assets, while fixed income represented 21-29 percent of the total, real estate represented 2.5-3.5 percent, hedge funds 2.6-7.8 percent, and cash 3.6- 5.3 percent (all other categories were below two percent).

It is recommended for CTFs’ boards to review their investment strategies periodically and revise their asset allocation to maximize their returns.

**Matching a CTF’s Investment Policy with its Spending Policy: the case of Tanzania’s EAMCEF**

Tanzania’s Eastern Arc Mountain Conservation Endowment Fund (EAMCEF) provides an interesting example of an investment policy that matches the Fund’s broader objective. Indeed, EAMCEF is currently in an “accrual” period during which its objective is to build its endowment until the end of 2008. In 2009, it will enter an “income” phase during which its focus will shift to its grant-making activities. As such, its investment portfolio reflects its strategy with initial heavier weight in stocks with a higher risk/reward profile (70 percent in equities under the preferred scenario - minimum of 25 percent and maximum of 75 percent) with a declining equity portion that will decline to 55 percent under the same scenario, and as low as ten percent, starting in 2009. The goal will be to reduce the likelihood of under-performance and strive to achieve as steady a stream of income as possible. Similarly, EAMCEF’s spending policy reflects its evolution. EAMCEF’s board decided that during its “accrual” period, spending could add up to five percent of the portfolio value at the end of each fiscal year (minus gifts received during the year). From 2009 on, trustees would regard spending as constant in dollar terms.

In addition to having an investment policy, many CTFs also have a spending policy that sets the maximum percent of the CTF’s capital which can be spent each year. In a sample of CTF investment guidelines, spending limits ranged from an aggressive 6.5 percent of capital per year in the case of KEHATI (up from five percent following a USAID mid-term review in 2000) to a more conservative three percent for Uganda’s BMCT and Madagascar’s FAPB. BMCT uses earnings to supplement its substantial grant revenue to meet regular annual budget needs but averages only about three percent in draws per year. Mulanje Mountain

Conservation Trust (MMCT) uses a five percent spending limit, but has also taken supplemental draws from its capital to pay for special needs including seed project funding and construction of the MMCT offices. The NACUBO sample’s spending policy (of those institutions with less than \$100 million endowment) is in the same range as that of the CTFs surveyed. In the past ten years, the NACUBO sample’s spending rate has varied from 4.5- 5.5 percent. Generally, CTF investment guidelines also specify a minimum percentage of the portfolio value that must be reinvested each year in order to offset for inflation.

The need to provide predictable incomes for conservation programs and avoid potential shortfalls is precisely the reason why large CTFs like FMCN and PROFONANPE have kept a more conservative investment portfolio. Conventional finance theory would argue that by under-investing in stocks (which have been shown to be the highest performing investment product over the long run), one would incur a major opportunity cost (a dollar invested in the US in 1926 in a big company stock – “large cap” – would have yielded \$7,432 in 2001, while the same dollar

invested in an average bond would have yielded only \$50). Moreover, considering three-year periods instead of focusing on single-year, performances do even out one-year swings. For example, in the 55 years between 1945 and 2000, US Stock Exchange S&P Index had 43 years of positive returns and 13 of negative returns. If that period had been broken into five-year tranches, the number of negative returns would go down to three. Looking at those 55 years in ten-year periods, one would not find any with a negative return.<sup>23</sup>

### **Periodic Asset Reallocation**

The *Investment Survey* found that nearly 70 percent of LAC CTFs change their allocations among different types of assets at least once per year (six CTFs reallocated on a quarterly basis and three did so every one or two months). Not surprisingly, the four funds that do not annually reallocate (rebalance) their investment portfolios are the ones that have 95-100 percent of their assets in fixed income – there is little to be reallocated. All LAC CTFs that have a mix of stocks and bonds reallocate this mix at least annually. In Africa, all but one CTF changes its asset allocation at least once per year, and the one CTF that did not rebalance has only 14 percent of its assets in equities. Therefore, there is a similar tendency for African CTFs with a significant mix of assets to rebalance their investments.

### **Professional Investment Advice**

Whatever the asset allocation bias that a CTF manager or board might have, it is nevertheless critical to manage one’s capital as professionally as possible. As stated above, it is important to seek professional advice (typically from an investment advisor who oversees individual investment managers under CTF board supervision). Another requirement is for the CTF’s executive staff and board to have the necessary skills to manage the investment advisor or investment managers effectively. This can be done both by securing the volunteer or full-time support of financial professionals and by giving finance committees’ members continuous training.

Interestingly, the CTFs with the highest return in 2006 and second highest return in 2005 paid the lowest fees to their investment advisors. The investment advisors used by different CTFs offer an equally wide range of services. Interestingly, every CTF responding to the *Investment Survey* indicated that it was satisfied with its investment consultant’s performance, although there is a range of both fees and performance.

CTF managers were asked to explain how they had handled market downturns.<sup>24</sup> The answers were mixed, but two major trends emerged:

- A majority of CTFs made fewer or no grants during years investment earnings were substantially lower than expected (64 percent) and used unspent grant money or income from previous years (58 percent) to fund their current year’s operations; and,

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<sup>23</sup> Ibid.

<sup>24</sup> See Responses to Questionnaire in Annex.

- Most CTFs (82 percent) did not dismiss staff, and 64 percent chose not to spend part of the CTF’s capital or raise emergency contributions to continue making grants.

Hence, CTFs that were surveyed managed to “weather the storm” and go through a challenging period without making significant changes to their operations.

One potential difficulty that CTFs have had to resolve is how to access competent professional advice. First, CTFs have to use a comprehensive, transparent, and competitive selection process when engaging an advisor and investment manager. Nowadays, CTF leadership can easily obtain – generally from specialized investment firms - comprehensive and precise guidelines on how to search for and identify a good investment manager. Secondly – and more importantly –CTFs have to make sure that they are granted access to the best fund managers.

An obstacle to getting first-rate counsel is the relatively small size of many CTFs, especially those that fall under the average \$20 million threshold that major financial institutions use for assigning their top managers to clients.

To access the best advice available, CTF boards should contact financial institutions’ senior leadership teams directly. Some of the reasons why CTFs (even if their assets are relatively small) may still be attractive for major financial institutions to have as clients include:

- Their funds will grow in the next few years and are likely to exceed the minimum size (CTFs may already be able to present a growth plan substantiating a future increase based on donors’ commitments and pledges); and,
- Giving CTFs access to the best managers could align with the financial institution’s Corporate Social Responsibility (CSR) policy. Many financial institutions (mostly American and European) incorporate CSR into their corporate objectives, but they may not have considered yet that helping clients to finance biodiversity conservation can be regarded as a form of achieving CSR. CTF management teams and boards should put together material that underscores the often widespread social and environmental impacts that their funds intend to have at a country or regional level.

Many CTF managers and experts agree that while good financial advice may be more costly upfront, the costs will likely be significantly offset by additional returns resulting from the expert advice.

### **Social and Environmental Screening**

Environmental screens have become standard components of CTFs’ investment policies. Social and environmental screening is routinely done by the best investment consulting groups or advisors. It requires the investment consultant to purchase and utilize environmental and social governance screening software. SRI can be implemented by screening and selecting to invest in the most responsible companies, or by directly working with companies on reducing their

environmental footprint. One practical reason for why CTFs are less engaged in SRI practices is that they are very time-consuming and expensive as they require extensive in-depth research about, and dialogue with, potential corporate partners.

A broader application of environmental and social screening is possible if CTF boards specify screening requirements in their investment policy statements and require their consultants to do the routine work of keeping their investments compliant with CTF investment policies.

All CTFs with developed investment guidelines have provisions regarding compliance with international anti-money laundering regulations and with donors' anti-terrorism screening activities. Compliance with these directives has had no impact on investment policy or selection of asset categories. However, finding the right investment manager can be challenging. A number of large investment management firms have declined to do business in certain areas, especially in Africa, no matter the level of transparency or compliance. The reluctance comes from firms' unwillingness to engage in the complex legal reviews required to ensure they are not contravening local country laws, and the due diligence process required for the firms to have confidence that they are in compliance with all anti-money laundering requirements for the specific client.

This should not prevent most firms from accepting CTFs as clients. Investment advisors need, nonetheless, to be very clear about these new requirements and to make sure that everyone in the investment management firm, including the legal and compliance department, is aware of and agrees to them.

## CHAPTER 10: CONSERVATION TRUST FUNDS IN AFRICA

### Main Conclusions:

- Most CTFs created before 2002 are located in anglophone Africa and cover specific PAs versus entire PA systems. Recent trend has been a shift towards financing an entire PA system and creation of more CTFs in francophone Africa.
- Positive results of CTFs mainly include satisfactory on-the-ground project achievements and higher level of support by local stakeholders.
- International donor agencies remain the main source of funding for CTFs in Africa.
- CTFs should be part of a broader national or regional strategy to conserve biodiversity effectively long-term. They must be designed according to the local context.
- Prospects for new CTFs across Africa are mixed - main obstacles could be lack of national biodiversity strategies and difficulty of raising money.
- Success factors are well-known and based on prior experience in Africa and LAC.

### Current Situation

Africa has 13 existing CTFs, six CTFs in the process of being established, and at least four others that have been the subject of feasibility studies. African countries that have already established CTFs include Botswana, Cameroon (2), Côte d'Ivoire, Ghana, Madagascar (2), Cameroon (2), Malawi, South Africa, Tanzania and a multi-country CTF that covers three adjoining national parks in the Central Africa Republic, Cameroon and the Republic of Congo (i.e., Sangha Tri-National Foundation). CTFs in the design phase include ones in Benin, Gabon, Guinea Bissau, Democratic Republic of Congo, Mauritania and Sierra Leone. Additional CTFs are being considered for Liberia, Mozambique, Senegal and Tanzania's Serengeti National Park, Senegal.

Of the 13 existing African CTFs, five were set up in the early part of the 1990s, and seven more have been established since 2000. The size of African CTFs' capital varies, but most of the ones created to date do not exceed ten million dollars. Among those that have been in existence the longest (pre-2002), only Madagascar's Tany Meva Foundation raised over ten million dollars. By contrast, most of the African CTFs created in the past few years have a capital exceeding ten million dollars.

The higher capital amounts of recently established African CTFs can also be explained by the fact that not until the creation of Côte d'Ivoire's CTF were there any national funds focusing on a country's entire PA system and other areas of biodiversity significance. Since then, Madagascar's FAPB has also been created with a national focus, and the Benin CTF that is in the design stage is expected to support the country's entire national park system.

The relatively small size of most African CTFs makes it more difficult to assess their actual biodiversity impact on the ground. However, experience has shown that the smaller CTFs have



positively influenced surrounding communities' perceptions of PAs through the implementation of integrated conservation and development projects. As such, these CTFs have tried to serve the local PAs' needs and reduce human threats to biodiversity. In essence, those CTFs have tried to win over local communities' acceptance and support for PAs.

All African CTFs, with only two exceptions, have relied exclusively on bilateral and multilateral donor contributions for their capitalization (either as sinking funds or as endowments). The biggest single contributor has been the GEF, which has contributed to almost one-third of all African CTFs. Since 2003, the GEF has decided to focus on supporting entire PA systems rather than individual parks. The US Government is the second largest donor, having contributed to 28 percent of African CTFs. The German and French governments have contributed to several CTFs, although these two donors together barely account for 20 percent of the capital and co-financing raised for African CTFs to date. However, they have played a very significant role in setting up most of the new African CTFs of the past few years, namely those in Côte d'Ivoire, Central Africa (TNS), and Madagascar (FAPB).

International NGOs have also played an important part in funding African CTFs, representing about ten percent of all contributions (including co-financing). However the most important contribution of NGOs like WWF, CI and WCS has been in helping to develop most of the proposals for the creation of new CTFs and providing technical assistance and advice to the various actors during the often lengthy design processes. It should also be noted that CI's GCF has earmarked \$8.3 million for direct CTF investments supporting African PAs over the next five years.

The estimated total amount of all projects funded by CTFs in Africa to date is \$24 million. South Africa's Table Mountain Fund, Madagascar's Tany Meva Foundation, Uganda's BMCT, and Malawi's MMCT have each disbursed between \$2.5 million and seven million dollars of grants.<sup>25</sup>

While the LAC region is further ahead than other regions in terms of the number and size of CTFs (since there are now CTFs functioning in most of the two dozen countries of the region), Africa seems to be considerably further along than Asia in establishing CTFs. Whereas 20 CTFs are in existence or in the design stage in Africa, only eight CTFs exist in Asia and the Pacific, and there appear to be very few new ones being considered.

Most African CTFs cover areas of high biodiversity value and global significance, and most of CI's Biodiversity Hotspots in Africa are covered by CTFs: Madagascar is covered by Tany Meva and FAPB; the Cape Region/ Succulent Karoo/ Maputoland–Pondoland–Albany areas in South Africa are covered by the Table Mountain Fund; West African Guinean Forests are covered by the CTFs in Côte d'Ivoire, Ghana and Cameroon, and the ones planned for Benin and Sierra Leone; and the Eastern Afrotropical region is partly covered by Tanzania's EAMCEF. Only what CI designates as the "Horn of Africa Biodiversity Hotspot" (including Ethiopia, Eritrea, Somalia and southern Sudan) does not yet have any existing CTFs, although UNDP and the Frankfurt Zoological Society have each recently discussed the possibility of establishing a

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<sup>25</sup> See detail in Annex 6.

CTF in Ethiopia, Central Africa and the Congo Basin, which are widely considered to be of very high biodiversity significance but are not classified by CI as Biodiversity Hotspots, are home to the TNS and the national-level CTFs now being planned for Gabon and DRC.

## Findings

There do not seem to be reliable data in *most* African countries about what resources it would take to conserve PAs and other biologically valuable areas efficiently and effectively. Best practice is to have a countrywide conservation strategy that includes a needs assessment as the first step towards preserving a nation's biodiversity. Comprehensive biodiversity data does exist for Madagascar, for the Sangha Trinational region, and for Benin's two national parks, but this is not the case in most of the rest of the continent. In the absence of such information, it is more difficult to make a convincing case for why a CTF should be established and how it should be designed (i.e., the amount of capital needed).

Even an estimated budget for a "no frills" park management scenario that would guarantee a bare minimum protection for biodiversity is not available in many African countries. Establishing a "no frills" baseline makes sense because many African PA systems are in poor shape and with great basic needs. Thus, establishing a CTF that can provide an acceptable level of conservation at the lowest cost possible is the most reasonable option. In the absence of a "no frills" budget scenario, a financial gap analysis for PAs and other biologically valuable areas cannot be completed.

Furthermore, some experts agree that it is not in everyone's best interest to operate under a "no frills" scenario, since it may imply operating under reduced administrative costs and cutting other non-essential expenses if necessary. Governments and PA agencies might be reluctant to implement a "no frills" scenario. Moreover, donor agencies that have funded conservation projects in the past have done so on the basis of cost scenarios that did not necessarily use the lowest "no frills" hypotheses in most cases. As long as some donor agencies are willing to pay for projects based on higher cost scenarios, African governments and park authorities have little incentive to actively endorse "no frills" scenarios for CTFs.

Moreover, conservation is rarely among African governments' top priorities (Madagascar being a rare exception). In some countries the situation is even more complicated, with PAs so neglected and in such a poor shape that even thinking about assessing the country's conservation needs seems daunting. Furthermore, some countries generally do not attract the attention of donor agencies or international NGOs because of their relatively low biodiversity value, or their extremely uncertain political situation (such as Somalia or Sudan, notwithstanding their high biodiversity).

Madagascar has managed to mobilize the highest dollar amount per capita for conservation in the African region in recent years from its own Government and from the international community. The newly formed FAPB has committed to pay for 30 percent of Madagascar's PAs' recurrent costs (i.e., for the 46 PAs managed by Madagascar's National Protected Areas Agency, ANGAP). FAPB's current capital is \$11 million with a total of over \$50 million pledged. FAPB's goal is to raise \$75 to \$100 million eventually. However, FAPB's executive director

already knows that even a fully capitalized CTF is unlikely to pay for everything needed to effectively conserve the existing PA system as well as newly declared PAs.<sup>26</sup>

Given the existing challenges in securing necessary funding, even in the case of small-scale, “no frills” scenario conservation in Africa, the question remains how likely it is that African governments, Africa’s civil society and the international community will raise the money needed to systematically set up CTFs across the continent? Those interviewed for the *Review* with extensive experience in establishing new CTFs, including those in Benin and Mauritania, were only cautiously optimistic that their fundraising targets (of Euro 15 million for Benin, and Euro 20 million for Mauritania) will be met. In both countries, the national governments strongly support the proposed CTFs, and many details of their design have already been developed and agreed on. Thus, whether or not the next ten years will see the emergence of CTFs in most of Africa’s more than 50 countries remains to be seen.

The funding challenge may also be as much a question of resource allocation and donor coordination as it is the result of lacking sufficient funds. For instance, Benin’s PA program that funded the country’s two national parks and its park authority between 1999 and 2005 has invested a total of around Euro 20 million. However, it is estimated that the additional funding needs for Benin’s entire PA system over the long run could be met by establishing a CTF with a capital of only Euro ten to fifteen million. By the same token, Burkina Faso is now engaged in a partnership with the World Bank in a funding initiative to support the country’s PA System through a \$30 million program, instead of planning to establish a CTF that might be able to finance the country’s entire PA system in perpetuity by using the income from a capital endowment equal to far less than \$30 million.

Experts agree that CTFs are not a silver bullet and must be designed to fit into the national context. In countries that have completed comprehensive conservation strategies and where CTFs were established, such as in the LAC region, CTFs are just one of several mechanisms to ensure long-term financial sustainability for national PA systems and other biologically significant areas. Furthermore, even when it makes sense to create a CTF, a nation-wide CTF may not always be the best solution.

CTF’s income and capital spending varies depending on the context and on the basic purposes or mission of a CTF. Madagascar’s FAPB channels funds to ANGAP, the country’s PAs management authority, while BMCT has used most of its funds disbursed to date to pay for sustainable development projects.

In countries that are not ready to commit to preparing a national biodiversity conservation strategy, a national-level CTF may not make sense. Smaller local CTFs covering a specific geographic area may be a better solution. Smaller amounts are easier to raise, and the CTF will probably be more likely to succeed by having a narrower geographical scope than that of a

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<sup>26</sup> PAs as a percent of Madagascar’s total land area have recently tripled: new areas are called SAPM sites and are supposed to be managed by local communities. As far as FAPB’s financial gap is concerned, studies conducted by WWF-US and the World Bank (M. de Longcamp, JC. Carret, C. Ramarolahy) show that by 2012, the financing gap could already amount to between \$31 and \$46 million.

national-level CTF. For example, the Royal Society for the Protection of Birds (RSPB) is working with the government of Sierra Leone (with support from the EU, FFEM CI-GCF and potentially World Bank-GEF) on a project to protect one of the last patches of well-preserved West African Upper Guinean rainforest (the Gola Forest). The long-term financial security of this initiative will be supported by a CTF that would not only cover the operating costs of the PA but also include payments to the local chiefdoms to support community projects (as a means of providing incentives for their support for forest conservation whilst foregoing the timber royalty revenue that would have come their way had the forest been logged).<sup>27</sup>

#### **African CTF's Relationship with Government**

In some African countries where the national government faces severe cash shortages, CTFs could become an attractive target for government officials to try to use for purposes other than biodiversity conservation, because of their size and the relative predictability of their income. The risk of a CTF being taken over by a country's government can not be entirely avoided, but there are safeguards that can be put in place, such as building a well-balanced board that includes diverse stakeholders, including international donors; defining the CTF's mission as tightly and narrowly as possible; agreeing early on about the specific purposes or specific PAs for which the CTF's annual income can be spent, whatever its amount (i.e., allocating specific percentages for different uses, as BMCT's Articles of Incorporation do); giving decision-making autonomy to the CTF and making it truly independent of the government. For example, it was agreed when BMCT was created that each year 20 percent of all grants would go to support the management of two parks created, 20 percent would go to research, and 60 percent to local community organizations. Each year, the Park Authority must present funding proposals to BMCT, whose board may decide to turn them down.

Making CTFs clearly independent of government control to ensure greater accountability may cause tensions with governments. Legally establishing a CTF offshore is a type of safeguard that more and more fund designers in Africa have been considering. Keeping all of the CTF's capital offshore and only transferring the investment income earned every year to the beneficiary country is a solution that might give greatest peace of mind to the donors but may not always be easily accepted by national governments.

CTFs sometimes become appealing financing vehicles not only because of their success in LAC in particular but also because they are known to be "rich" institutions (at least by African standards): they usually pay higher salaries than those paid to civil service employees, and are housed in more comfortable office space. CTFs' original funders and board members should make sure that their particular CTF has enough resources to attract and retain a high quality staff while not creating a chasm in pay scales with other organizations working on conservation (such as government agencies, and local and foreign NGOs).

#### **Legal Issues and Options for Francophone Africa**

The existing legal systems in francophone Africa are not especially conducive to the creation of CTFs. The legal form of a "civil association" ("association civile"), which is most commonly used for non-profit organizations in the region, is cumbersome: it lacks flexibility in the types of governance structures it allows, and it limits the kind of financial investments that a CTF can make. However, the following strategies have been applied to create CTFs in francophone African countries:

<sup>27</sup> Comment by Martin Davies, RSPB, January 22<sup>nd</sup>, 2008.

- The adoption of a new national law creating the concept of a foundation, or expanding the scope and flexibility that foundations have in managing their assets (cases in point are Madagascar and Côte d’Ivoire);
- The incorporation of a special section into existing or new environmental legislation that creates a statutory PAs CTF that is legally independent of government and is tax-exempt – which is what Gabon is in the process of doing with its new Forestry Law;
- The registration of a CTF offshore in the UK, Netherlands or the US (as in the case of the TNS Foundation or of FEDEC, which operates in Cameroon as a foreign legal entity).

The first two approaches take much more time but can have a more far-reaching impact on the country, since the adoption of a new law on foundations essentially changes the rules of the game for foundations of any type. The third approach is more straightforward, but requires that CTFs be legally recognized in the countries where they operate (which in francophone African countries requires an “accord de siege”). They also have to sign cooperation agreements with the respective governments to receive public funds and enjoy tax-exempt status (which in francophone African countries requires a public benefit declaration).

A more substantial obstacle to development of CTFs in francophone Africa seems to be the centralized governance structure of many of these countries, according to experts having worked in the region. Centralization has various implications: little interest on the part of government in giving and guaranteeing autonomy to non-governmental or private organizations like CTFs; top-down approach that clashes with need for consultative processes during creation of CTFs; and oversized headquarters of PA management authorities, which prevents funding from being used most efficiently to bring about conservation on the ground. However, most experts agree that CTFs need national governments’ support in order to exist and thrive. Hence, the objective is to find a good balance between enough government representation on the board and sufficient autonomy for CTFs to include other major stakeholders, create the necessary international and national networks, and attract private funding.

The requirements for establishing successful CTFs in Africa, based on experience to date, can be summarized as follows (most apply to other regions as well):

- Integration into a country-wide conservation strategy that is based on needs assessments in and outside of PAs, and presents a system-wide management plan;
- Political support at the highest level, while government involvement in the day-to-day management and spending decisions of a CTF remains limited;
- International fundraising and technical support, because African countries themselves cannot raise all (or even most) of the funding needed to effectively conserve their biodiversity, including setting up CTFs;
- Consultative processes during which all stakeholders’ voices can be heard and integrated;
- A balanced focus on supporting sustainable livelihoods, and not simply supporting biodiversity conservation in ways that exclude surrounding communities and overlook development issues; and

- Highly capable staff and board members that can provide the breadth of skills needed to lead the CTF.

### **The Future of CTFs in Africa**

CTFs in Eastern African countries have struggled to raise significant funds following their initial capitalization. As a consequence, their impact is likely to remain limited. Needs assessments and gap analyses that have been conducted, for example in Madagascar and in some LAC countries, tend to show that even with “no frills” budget scenarios, the financial amounts needed to conserve biodiversity are significantly more than many CTFs’ current capital as well as significantly more than the sums that have been raised for conservation in recent years. In light of these facts, the following is necessary:

*The actual costs of effective conservation need to be accurately predicted.* Oftentimes they are based on past projects and donors’ willingness to pay for environmental projects; current costs have become higher than they need to be to effectively achieve conservation results. Thus, determining the true cost for achieving a reasonable level of conservation is a prerequisite before starting a CTF.

*Conservation needs to become a much higher priority for African governments and the international community.* The environment still represents less than ten percent of total Official Development Assistance. As long as environment and biodiversity conservation are not integrated into African countries’ poverty reduction strategies, funding will remain relatively small. Studies documenting the economic value of biodiversity and/or PAs, such as those conducted by the World Bank in Madagascar in 2002 and in Zambia in 2007, can help to make the economic case for conservation.

*Donors, NGOs and governments need to improve joint planning, prioritization and coordination across CTF initiatives.* There is wide recognition across Africa that international players (i.e., bilateral and multilateral donor agencies and international NGOs) do not sufficiently coordinate among each other. Most experts agree that some regions and PAs receive much attention because of their public relations value, while others are consistently overlooked.

*New sources of funding need to be tapped more systematically.* PES have raised hopes of providing large amounts of new funding for conservation, and so has the so-called “new philanthropy.”

*A continent-wide network organization of CTFs similar to RedLAC needs to be formed.* The CTF community in Africa needs a forum where CTFs can exchange best practices and reflect about possible ways to advance their agendas in the region. So far, CTF managers only seem to interact at international events to which they are invited, such as the World Parks Congress in Durban in 2003, or CFA-organized meetings in Arusha in 2002 and in Libreville in 2005. To be most effective, a new African CTF network organization will have to define precise goals and results that it wants to achieve within a defined timeframe.

Some summary figures:

	Committed Capital at Inception (in millions)	Estimated Amounts Spent on Projects since creation (in millions)	Administrative Costs (as percentage of total budget)
Tany Meva (Madagascar)	\$10.4	\$5.0	22.5
Table Mountain Fund (South Africa)	\$6.6	\$2.5	NA
BMCT (Uganda)	\$4.3	\$4.0	40.0
MMCT (Malawi)	\$5.5	\$3.5	NA
GHCT (Ghana)	\$2.0	\$1.0	NA
EAMCEF (Eastern Arc - Tanzania)	\$7.0	\$0.1	35.0
FEDEC (Cameroon)	\$3.6	\$0.9	27.0
FAPB (Madagascar)	\$20.0	NA	NA
FPRCI (Côte d'Ivoire)	0	NA	14.5
TNS (Sangha Tri-National)	\$10.6	NA	NA
TFCA (Botswana)	\$7.0	NA	NA
Total	\$77.0	\$24.0	

NA: Data not available. In some cases the CTFs are too recent to estimate funding.

**Notes:**

BMCT supports other activities that are not specifically related to the CTF. Hence, its operating costs cover those projects that are outside the realm of the CTF.

EAMCEF also manages a GEF project, accounting for its high administration costs.

## CHAPTER 11: ADVANTAGES AND DISADVANTAGES OF CONSERVATION TRUST FUNDS

As a conclusion to the *Review*, this final chapter examines whether the 16 assumptions about the advantages and disadvantages of CTFs that were listed in the 1999 GEF *Evaluation* remain valid. The original assumptions appear below in *italics*, and the discussion of these assumptions appears in blue below.

### Advantages of Conservation Trust Funds

1. *Revenue from CTFs can be used to finance operating and follow-on costs of PAs, which are usually not covered by donor organisations.*

This is true, since most donor agencies cannot fund projects for more than five years, and cannot fund recurrent operating costs. This means that most donor agencies are limited to funding “one-time” costs (i.e., for PA establishment, infrastructure, capacity building, collection of baseline data and short-term consultants), but cannot pay for periodic maintenance, repair and replacement of infrastructure and equipment, fuel for patrol vehicles and other supplies, or long-term monitoring and data collection. As a result, many of the achievements funded by donors prove to be short-lived, because developing countries may lack the financial resources to pay for recurrent maintenance and operating costs.

2. *As a long-term source of financing, funds facilitate the planning process for PA management.*

This is generally true, especially in the case of very successful CTFs like Mexico’s FMCN, Peru’s PROFONANPE and Ecuador’s FAN. This first advantage of CTFs only applies to parks funds, not to grants funds.

3. *The broad participation of governmental and non-governmental stakeholders in the supervisory bodies of CTFs contributes to a transparent decision-making process and improves acceptance of conservation measures in society (ownership). Through the support of NGOs, community groups and the private sector, CTFs also make an important contribution to the development of civil society.*

This is true, because if a board consists of a diverse collection of stakeholders who are independent of one another and have different interests, it generally means that decisions will have to be negotiated between the different board members, and will have to be justified by appealing to the CTF’s general purposes and its strategic plan.

However, there appears to be no easy way to prove or test the assumption that the broad participation of governmental and non-governmental stakeholders in the supervisory bodies of CTFs improves acceptance of conservation measures in society. This perhaps expects too much of CTFs.



The experience of many Latin American CTFs, as well as Asian CTFs such as Indonesia's KEHATI and the Philippines' FPE, demonstrates that CTFs can make an important contribution to the development of civil society through their support of NGOs, community groups and the private sector.

4. *As they are independent of government regulations, CTFs can react flexibly to new challenges.*

This seems to be generally true, especially if CTFs have good leadership. However, it cannot simply be assumed that this is automatically true of all CTFs.

5. *CTFs can plan in the long-term, because they are independent of changes in government and related shifts in political priorities.*

This tends to be true, as evidenced by the fact that CTFs have continued to function well and steadily pursue their biodiversity conservation mission even in countries that have undergone major political crises, changes in government, and related shifts in political priorities over the past 15 years, such as Peru. Obviously, this may not be true in countries where governments actually take control of CTFs, as happened in one case in Latin America.

6. *CTFs are more capable than donor organizations of working flexibly and with attention to small-scale details.*

This tends to be true because:

- CTFs generally have less complex procedures than international donor agencies;
- The regulations, policies and procedures of bilateral and multilateral donor agencies usually apply uniformly to all countries where those donor agencies give grants, and therefore are not as specifically adapted to local conditions as are the policies and procedures of CTFs; and
- CTFs can pay more attention to detail because the staffs of bilateral and multilateral donor agencies often individually oversee portfolios of projects costing tens or hundreds of millions of dollars.

7. *CTFs create better co-ordination between various actors (donors, government, civil society).*

This is true to the extent that CTFs have representatives of each of these actors on the governing boards or advisory committees.

8. *CTFs allow donors to comply with international recommendations for better aid effectiveness.*

See Chapter 3 of the *Review*: “CTFs and the Paris Declaration on Aid Effectiveness.”

9. *CTFs constitute a vehicle to collect and secure private contributions for biodiversity conservation, leading to increased investments in the sector, notably in Africa, from international and private foundations.*

In many cases CTFs have attracted very large donations from international and private foundations that otherwise might not have donated money to those particular countries for biodiversity conservation, and CTFs have also attracted multimillion dollar contributions from big international NGOs such as CI’s GCF and WWF.

### **Disadvantages and Risks of Conservation Trust Funds**

1. *CTFs tie up large amounts of capital, which generate relatively modest income, a portion of which is spent on administrative costs. However, most CTFs invest their capital wisely and receive income that corresponds to the opportunity costs. In particular, CTFs that aim to support PAs can keep their administrative costs down.*

The first sentence is certainly true of endowments, but is not true of sinking funds or revolving funds. Most CTFs whose assets come from debt-for-nature swaps, or bilateral debt reduction programs such as the EAI and TFCA, are sinking funds. They are “capitalized” on a 15- to 20-year payment schedule and receive incremental funding each year, which means that they do not tie up large amounts of capital. In other words, each year the debtor country’s government pays an agreed amount of local currency to the CTF, in lieu of repaying interest and/or principal of the cancelled foreign debt that the government would otherwise have to pay.

There can be no denying that endowments do have an opportunity cost. The key question is whether this cost is outweighed by the advantages of an endowment. The observations by the Executive Director of Mexico’s FMCN quoted in Chapter 2 are worth repeating:

“The advantage of an endowment is that what you lose in terms of immediate cash flow, you gain in permanence. The discipline that an endowment implies forces you to spend money wisely. Otherwise, it’s too easy to end up wasting money on ‘white elephant’ infrastructure projects (buildings, roads and vehicles) that will take a lot of money to maintain... [Furthermore,] having the CTF’s basic operational costs covered by an endowment serves as an anchor, and allows the CTF to focus its efforts on other fundraising efforts for different programs and projects.”

With regard to administrative costs, there are a number of points that can be made. Smaller CTFs tend to have relatively higher administrative costs, because larger funds can benefit from economies of scale with respect to many fixed costs, such as salaries for core staff, fees

paid to outside lawyers and auditors, and even investment managers' fees (which usually are a lower percentage of the assets being managed as the total amount of those assets increases). For this reason, the GEF *Evaluation* on CTFs concluded that five million dollars is probably the minimum size or threshold for establishing an endowment, because if an endowment is smaller than this size, then administrative expenses will eat up too much of the CTF's resources.

CTFs that make small grants to local NGOs rather than to national PA management agencies also tend to have higher administrative costs (depending on how "administrative costs" are defined), because small grants usually have higher per-unit administrative costs than larger grants, and also involve additional costs for RFPs and then having to review large numbers of proposals received in response. Parks funds do not need to spend money on publicly advertising and issuing RFPs, and usually only have to review a relatively small number of PA proposals each year. Nevertheless, even some grants funds have quite low administrative costs (i.e., five to ten percent, such as the EAI funds in Argentina and Uruguay), although such monetary savings is achieved at a high non-monetary cost (i.e., by minimizing the amount of M&E).

It is not necessarily true that CTFs earn "only a modest income" on their investments. Many CTFs such as Bhutan's BTFEC and Brazil's FUNBIO have earned investment returns of 12-18 percent per year for periods of five successive years or more. Most CTFs earn an average long-term rate of return from investing their endowments that is similar to the average long-term investment return earned by many US universities and non-profit institutions: around eight percent per year over a ten-year period.

*In co-financing schemes, contributions to the capital from donors like the FFEM remain small and reduce the visibility of the contribution and the institution.*

This may be true, but it is up to donors to try to achieve greater visibility through creative public relations. Many international donor agencies (including international conservation NGOs) actually find it to be a marketing advantage for their own fundraising purposes to be able to tell their own donors (or their government's finance ministry, parliament, and the public) that donor agency's contribution to a CTF has served to leverage five or ten times the funds by attracting matching contributions to the CTF from other donors or from CTF host-country sources (such as increased host-country government budget support for PAs, revenue from new fees or taxes that is earmarked for the CTF, or private sector contributions, such as the two Brazilian companies that recently contributed one million dollars each to the Amazon Region PAs CTF managed by FUNBIO).

2. *Fund capital is exposed to market volatility, which could lead to loss of capital. Funds are justified and designed to finance long-term operating costs while common public aid policies exclusively allocate public aid to investments and avoid spending on operating costs.*

It is true that CTFs which invest heavily in stocks have sometimes lost significant amounts of capital (up to 25 percent) in the short-term. However, each of the CTFs that lost part of their endowment capital when global stock markets fell sharply in 2001 after the "9/11" bombings

and the end of the “dot com bubble” then regained and even significantly increased the amount of their capital within a three-year period, as world financial markets improved (i.e., the Suriname Conservation Foundation, Bhutan’s BTFEC and Peru’s PROFONANPE). However, sometimes a significant loss (i.e., 15- 25 percent) of endowment capital has led CTFs to cease grant-making for several years. For this reason, CTFs whose primary mission is to support the recurrent costs of PAs (such as Mexico’s FMCN and Ecuador’s FAN) sometimes chose to invest their endowments in lower yielding financial instruments that have a guaranteed rate of return, such as government bonds and bank certificates of deposit. It is easier for grants funds to sharply curtail their activities in times of poor economic conditions than for parks funds to do this. The latter may decide to “invade” (i.e., to spend or borrow a portion of) their endowment capital in years when they have no net income, and then replenish this capital in later years when their investments are again performing very well. However, CTF legal documents generally impose strict limits and conditions for doing this.

3. *Depending on the overall framework and the authority of the CTF’s supervisory board, there is a danger that its funds will be used [up] by [making too large a number of grants to] governments and/or NGOs, and that there will be pressure to spend resources instead of increasing the capital of the CTF. The [donors’] lost control over [their] financial aid is a key question, but needs to be balanced in light of all current recommendations on aid effectiveness advocating for a “program approach” which implies withdrawal of control.*

This largely depends on whether a CTF’s legal documents and grant agreements with international donors explicitly prohibit this kind of over spending (which is true in the case of most CTFs), and on whether CTF boards and other aspects of governance are designed with adequate checks and balances to prevent this from happening. This kind of over spending is perhaps more likely to happen if national governments play a dominating role on CTF boards, because government officials are often subject to political pressures to spend money quickly for immediate impact. In the US, public benefit foundations and universities with multi-billion dollar endowments (like Harvard and Yale) are much more likely to be criticized for the opposite tendency, i.e. for spending too little of their annual investment income.

It is true that by contributing to CTFs, donors lose a certain amount of control over how their contributions are spent. However, they can exercise control indirectly by ensuring that a CTF’s purposes and activities are limited by its founding legal documents and by donor grant agreements, and sometimes also by the donor having a seat on the CTF’s governing board. However, a certain amount of loosening of donor control (i.e., sharing ownership and control with the beneficiaries) is recommended by the Paris Declaration, and is part of the basic rationale for establishing CTFs. However, this does not usually mean greater ownership and control by the government of the beneficiary country; rather, CTFs are usually partly owned and controlled by the representatives of a broad cross section of civil society in a beneficiary country.

4. *CTFs can breed complacency in terms of effective/efficient conservation management....if no incentives for good performance are provided for ([therefore] at least part of the payments [by CTFs] should be performance-related...)*

There seems to be no evidence that CTFs have bred complacency in terms of effective/efficient conservation management, although it could happen, especially if government agencies feel automatically “entitled” to receiving a certain part (or all) of a CTF’s annual grants, without having to go through an open, transparent and competitive process of submitting grant proposals each year.

However, many CTFs *do* make their grants performance-related. For example, Mexico’s FMCN and Peru’s PROFONANPE require individual PAs to meet certain targets each year to receive the next tranche of their grants, or to receive grant funding in the following year. This kind of conditionality might be much harder to enforce if the purpose of a CTF is only to finance the recurrent operating costs of a single PA, since in such cases there might not be any alternative potential grantees to which the CTF could award a grant. However, even in such cases, the CTF board could always decide to withhold or reduce funding for a particular year, until and unless certain conditions are met.

5. *The allocation of fund resources underlines a project orientation with the danger of neglecting the legal and economic framework.*

This may be true in the case of small funds, or funds that serve only to finance the recurrent operating costs of a single PA. However, as discussed in Chapter 3 of this *Review*, some CTFs make it a part of their mission to try to influence government policies on forestry and natural resource use and ownership, either by directly trying to influence (or help the government to draft) national legislation (as FPE and KEHATI have done in the Philippines and Indonesia, respectively), or by giving grants specifically for the purpose of strengthening NGOs’ capacity to play a role in national environmental policy debates (as Colombia’s FPAA has done), or by giving grants to academic and research institutions to do research on environmental policy issues (as Brazil’s FUNBIO has done).

6. *Donor agencies are not necessarily structured to follow up effectiveness of very long-term investments (replenishment uncertainty, regular rotation of staff, changes in priorities) and to be able to remain accountable to tax payers on the use of public funds.*

In many cases, donor agencies are not necessarily structured to follow up on and ensure the effectiveness of very long-term investments. However, some donors (such as the US Government in the case of the TFCA and EAI funds) are required by law to maintain long-term involvement (i.e., by serving as a CTF board member until all of the funds which it contributed have been expended). The ways that donor agencies can address concerns about the effectiveness and accountability of long-term investments in CTFs include:

- Lengthening donor supervision periods (i.e., to ten years, instead of the usual five-year period);

- Agreeing to serve as a permanent or long-term member of a CTF's board;
- Keeping a permanent right to nominate a board member who is an individual or an NGO that the donor feels can represent its interests relating to biodiversity conservation or other goals; and
- Including a provision in donor grant agreements that requires the donor's approval for changes in the CTF's mission and purposes, changes in the CTF's governance structure or its articles of incorporation, or decisions to "invade" (spend) the CTF's capital (if the CTF has an endowment).

**SUMMARY of the 1999 GEF Report's Assumptions about the  
ADVANTAGES and DISADVANTAGES of CTFs**

**Advantages:**

1. Can finance recurrent costs;
2. Facilitates long-term planning;
3. Broad stakeholder participation leads to transparent decision-making and strengthens civil society;
4. Can react flexibly to new challenges;
5. Can plan for long-term because independent of changes in government and shifts in political priorities;
6. More capable than donor organizations of working flexibly and with attention to small-scale details;
7. Create better coordination between donors, government and civil society; and
8. Allow donors to comply with international recommendations for aid effectiveness;
9. A vehicle to collect and secure greater private contributions for biodiversity conservation.

**Disadvantages or Risks:**

1. Can tie up large amounts of capital; modest income; high administrative costs;
2. Exposed to market volatility and possible loss of capital;
3. There may be pressure to spend too much on grants instead of building up capital;
4. Secure financing can breed complacency if there are no performance incentives;
5. Making grants reflects a project-based approach, and risks neglecting the legal and economic framework; and
6. Donor agencies are not able to follow-up on such long-term investments and ensure accountability for the use of public funds.

## ANNEX A: TERMS OF REFERENCE

### *Background and Context*

More than 50 conservation trust funds (CTFs) have been created since 1992 with the aim of providing a long-term sustainable source of funding for biodiversity conservation. They have often also served as vehicles for bringing together a multitude of stakeholders – frequently to prioritise conservation actions that also respond to community and other local needs.

In 1999, the Global Environment Facility (GEF) sponsored a comprehensive *Evaluation of Experience with Conservation Trust Funds*.<sup>28</sup> Almost ten years later, the recommendations from this evaluation continue to guide the development of CTFs around the world. The GEF *Evaluation* focused on the performance of the CTFs themselves, but not on their biodiversity impacts, since at that time most of the CTFs operating were too recently established to allow for a reliable assessment of these impacts.

There is now a growing collection of fund evaluations carried out by the CTFs themselves and in response to donor evaluation requirements (for example, the UNDP and World Bank for GEF grants to CTFs and USAID for evaluation of CTFs managing debt swap proceeds). In 2003, the Latin American and Caribbean Network of Environmental Funds (RedLAC) also sponsored an assessment of member CTFs' experience.<sup>29</sup>

The Conservation Finance Alliance (CFA) Working Group on Environmental Funds<sup>30</sup> has identified the need to conduct a *Review* of fund experience to date. The overall objective of the *Review* is not to replicate the GEF *Evaluation*, but to highlight specific aspects of fund experience that will advance the creation, operation and evaluation of CTFs while enabling donors to better assess the rationale for further investment in CTFs.

In parallel, the French Global Development Facility (FFEM) Steering Committee has asked its Secretariat to assess the pertinence of CTFs as models for financing biodiversity conservation to guide their decision to continue supporting CTFs. Since francophone Africa represents the core geographical priority of the FFEM, the FFEM has requested that this *Review* include analysis of the state of development and future prospects for CTFs in francophone Africa.

Furthermore, Conservation International (CI) and World Conservation Society (WCS) with support from the Acacia Fund are coordinating preparation of financial benchmarking analysis that will collect on an annual basis financial and investment data from existing conservation

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<sup>28</sup> Global Environment Facility. (1999). *Experience with Conservation Trust Funds*, Evaluation Report N°1-99. Washington, DC.

<sup>29</sup> Oleas, Reyna and Barragain, Lourdes. (2003) *Environmental Funds as a Mechanism for Conservation and Sustainable Development in Latin America and the Caribbean*, Report prepared for RedLAC ([www.redlac.org](http://www.redlac.org)).

<sup>30</sup> The CFA Working Group on Environmental Funds includes representatives of Conservation International, European Commission, AFD, FFEM, KfW, GEF, Mesoamerican Reef Fund, National Environmental Fund (FAN-Ecuador), Peruvian Trust Fund for Protected Areas and National Parks (PROFONANPE), RedLAC, Royal Society for the Protection of Birds, The Nature Conservancy, Wildlife Conservation Society, World Bank, USAID, US Treasury and WWF.



endowment funds, and use that data to perform a comparative analysis of investment strategies and financial performance across the spectrum of funds.

The *Review* will draw on the collective experience of existing CTFs and CFA members, relying primarily on analysis of pre-existing evaluation and assessment reports, and targeted interviews with fund managers and other stakeholders.

### ***Objective of Review***

The objective of the *Review* is to look the current status of CTFs worldwide, focusing primarily on CTFs with at least five years of experience, to identify best practice standards for effective governance and administration of CTFs and to prepare guidelines for design and operation of CTFs as models for financing biodiversity conservation.

### ***Key Tasks of Review***

#### 1) Review of fund development

- Identify existing CTFs and prepare profiles of CTFs based on data provided by CTFs worldwide (including RedLAC's assessment);
- Conduct a critical review of legal, institutional and governance issues for CTFs operating in francophone Africa, presenting any recent innovations introduced in "civil law" countries to adapt the trust fund concept initially introduced in anglophone "common law" countries; and
- Identify and assess existing "long-term financing gap analysis" for biodiversity conservation by country.

#### 2) Analyze best practice standards for CTFs with five years of experience for effective governance and administration of CTFs based on the following illustrative list of questions:

- What structures and/or conditions – in the sense of "best practices minimum requirements" are needed for CTFs to be effectively governed and administered in a transparent, participatory and efficient manner, and what structures and/or conditions are likely to hinder success?
- What approaches have helped to ensure commitment and performance at local (i.e., PA) and national level (i.e., budget cycle)?
- What governance structure(s) and mechanism(s) are particularly conducive to independent and objective decision-making, particularly for prioritizing resource allocation?
- What considerations should be taken into account when designing a CTFs legal framework and governance (board) and administration structures, and defining the skills, qualifications and amount of time required for adequate oversight and supervision of a CTF's operation?
- What guidelines and criteria should be adopted when nominating a board for a fund?
- What other governance provisions should be incorporated into the CTF's statutes and bylaws, including succession/rotation of board members, procedural (i.e., quorum) and conflict of interest rules?
- What are the key prerequisites required for the effective management of the CTF's capital and oversight of the CTF's asset management by the board?

- What process and criteria should the board use to select and oversee performance of the CTF's asset manager(s)?
- What are the requirements for effective strategic planning, including prioritization of program objectives and projections of their financing needs?
- How does a fund effectively monitor and report on its funding program? What are the most effective M&E systems?
- For monitoring activities that are/were supported by the CTF: what are the major parameters for defining the necessary level of *ex-ante* and *ex-post* monitoring by the board on the one hand and the desired efficiency and flexibility on the other?
- What approaches for technical and financial auditing of activities supported by CTFs have proven particularly effective and efficient (highlighting respective *pros & cons*)?
- What are generally valid indicators for effective allocation of a CTF's resources (i.e., meeting annual PA operational targets or others)?
- What selection criteria have proven to be particularly valuable for effective, transparent and focused allocation of CTF resources (i.e., grantmaking)?
- What are the main factors driving decision-making and how many different administrative layers are required for approval of applications to the CTF?
- What can be considered a reasonable range for administrative expenses, and what factors should be taken into account in determining this level (i.e., type of grants provided, definition of types of administrative expenses included)?
- How realistic/ feasible are limits such as " $\leq 15$  percent of annual CTF revenues"?

3) Assess the institutional, financial and technical status of a representative sample of CTFs to update the GEF checklists for successful design and operation of CTFs based on more recent experience, and to draft a model template for monitoring and evaluation of CTFs.<sup>31</sup>

4) Evaluate methodologies for measuring the biodiversity impact of CTFs relative to the state of the art of biodiversity impact assessment.

5) Test assumptions regarding advantages and disadvantages of CTFs (see attachment 1).

As part of this activity, analyze to the extent possible, the conditions (technical, financial, economic, etc.) where the creation of a CTF is appropriate and desirable and where more traditional financing may be the most appropriate option.

### ***Deliverables and Timetable***

- Draft outline of report by November 5 for circulation to CFA Working Group members. Review/ follow-up on the draft report by CFA Working Group members will be done by e-mail and teleconference if technically feasible given the time available, and by a meeting in Washington provisionally scheduled for January 14, 2008.

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<sup>31</sup> The template to be developed should focus on monitoring and evaluating of a fund's institutional performance as well as the biodiversity impact of its financing/grant program.

- Presentation of draft outline and preliminary findings at side meeting to RedLAC General Assembly for discussion with RedLAC members and other stakeholders.
- First draft of report due for circulation by January 4, 2008.
- Second draft of report due for circulation by January 30, 2008.
- Final draft of report due by February 27, 2008.

The final product will be a CFA Working Group on Environmental Funds report and executive summary, mentioning the origin of the funding sponsors.

A specific budget is provided for editing the final report and its translation (French/ English/ Spanish).

### ***Methodology***

- A Steering Committee, consisting of the sponsors of the study, including AFD, CI, GEF, FFEM, KfW and WWF, will oversee implementation of the *Review*.
- The CFA Working Group on Environmental Funds will serve as the Advisory Committee for the *Review*. CFA Working Group members will provide key background documents to the consultants prior to and during the consultancy.
- The consultants will conduct their work based on the present TOR and will develop a joint work plan prior to conducting the *Review*.
- The consultancy will consist primarily of a desk review based on the consultants collecting information by e-mail and through targeted telephone interviews with CFA members, CTF representative and other stakeholders.
- The consultants will consult with RedLAC members and other CTFs participating in the RedLAC General Assembly (beginning November 13) in El Salvador. They will also consult electronically and periodically with Advisory and Steering Committee members.
- A lead consultant will have responsibility for producing the final report.

### ***Consultant(s) Qualifications***

Two consultants will be recruited for this *Review* to share the 15 weeks of estimated workload. Each consultant will have the following minimum profile:

- Substantial experience in design and operation of CTFs;
- Advanced degree in law, economics, natural resources management or other related field.
- Fluency in English, and French or Spanish.

The two consultants to be recruited should be collectively fluent in English, French and Spanish to conduct the review in all three languages.

## Attachment 1

### *Advantages of CTFs:*

- Revenue from CTFs can be used to finance operating and follow-on costs of PAs and which are usually not covered by donor organisations;
- As a long-term source of financing, CTFs facilitate the planning process for PA management;
- The broad participation of governmental and non-governmental stakeholders in the supervisory bodies of CTFs contributes to a transparent decision-making process and improves acceptance of conservation measures in society (ownership). Through the support of NGOs, community groups and the private sector, they also make an important contribution to the development of civil society;
- As they are independent of government regulations, CTFs can react flexibly to new challenges;
- CTFs can plan in the long-term, because they are independent of changes in government and related shifts in political priorities;
- They are more capable than donor organisations of working flexibly and with attention to small-scale details;
- They create better co-ordination between various actors (donors, government, and civil society);
- They allow donors to comply with international recommendations for better aid effectiveness;<sup>32</sup> and
- They constitute a vehicle to collect and secure private contributions for biodiversity conservation, leading to increase investments in the sector, notably in Africa, from international and private foundations.

### *Disadvantages and Risks of CTFs*

- CTFs tie up large amounts of capital, which generate relatively modest income, a portion of which is spent on administrative costs. However, most CTFs invest their capital wisely and receive income which corresponds to the opportunity costs. In particular, CTFs which aim to support PAs can keep their administrative costs down. In cofinancing schemes, contributions to the capital from donors like FFEM remain small and reduce the visibility of the contribution and the institution;
- Fund capital is exposed to market volatility, which could lead to loss of capital. CTFs are justified and designed to finance long-term operating costs while common public aid policies exclusively allocate public aid to investments and to avoid spending in operating costs. Depending on the overall framework and the authority of the supervisory board,<sup>33</sup> there is a danger that the CTFs are used by

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<sup>32</sup> The Paris Declaration (Mars 2005) on better aid effectiveness is organised around the five key principles: ownership, alignment, harmonisation, managing for results, and mutual accountability. Cf. [http://www.oecd.org/document/18/0,2340,fr\\_2649\\_3236398\\_35401554\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/18/0,2340,fr_2649_3236398_35401554_1_1_1_1,00.html)

<sup>33</sup> Checks & balances are a key issue – one important reason for Task 2 on governance analysis.

governments and/or NGOs and that there is pressure to spend resources instead of increasing the capital of the fund. The lost control over financial aid is a key question, but needs to be balanced in light of all current recommendations on aid effectiveness advocating for a program approach which implies withdrawal of control;

- CTFs can breed complacency in terms of effective/ efficient conservation management. If no incentives for good performance are provided for (at least part of the payments should be performance-related);
- The allocation of fund resources underlines a project orientation with the danger of neglecting the legal and economic framework; and
- Donor agencies are not necessarily structured to follow-up on the effectiveness of very long-term investments (replenishment uncertainty, regular rotation of staff, changes in priorities) and to remain accountable to tax payers on the use of public CTFs.

## **ANNEX B: LIST OF PERSONS INTERVIEWED**

### Directors of the following RedLAC Funds

Belize, Protected Areas Conservation Trust, PACT: Valdemar Andrade  
Bolivia, Fundación PUMA: Juan Carlos Chavez  
Brazil, FUNBIO/RedLAC: Pedro Leitão  
Brazil, FNMA: Elias Araújo  
Colombia, FPAA: José Luis Gómez Rodriguez  
Ecuador, FAN: Samuel Sanguëza Pardo  
El Salvador, FIAES: Jorge Oliviedo  
Jamaica, EFJ / Forest Conservation Fund: Rainee Oliphant  
Mesoamerican Reef Fund: Maria José González  
Mexico, FMCN: Lorenzo Rosenzweig  
Panama, Fundación Natura: Zuleika Pinzón  
Peru, PROFONANPE: Alberto Paniagua  
Peru, Fondo de las Américas: Juan Gil Ruiz  
Suriname Conservation Fund: Leonard Johanns

### Board members or staff of the following RedLAC funds

Brazil, FNMA Taciana Leme,  
Brazil, FUNBIO: Daniela Lerda and Manoel Sampaio  
Ecuador, FAN: Sjeff Gussenhoven  
El Salvador, FIAES: Ana Patricia Vasquez  
Guatemala, FCG: Carlos Baldetti  
Panama, Fundación Natura: Ariel Vaccaro  
Paraguay, TFCA fund: Juan Angel Alvarez and Felix Kasamatsu  
Peru, PROFONANPE: Tito Cabrera

### Directors of the following CTFs in Africa and Asia

Bhutan Trust Fund for Environmental Conservation: Tobgay Namgyal  
Philippines Tropical Forest Conservation Fund: Onggie Caraval  
Madagascar, FAPB: Christian Ramarolahy  
Madagascar, Fondation Tany Meva: Fenosoa Andriamahenina  
Uganda, BMCT, George Dutki  
Côte d'Ivoire, Foundation for Parks and Reserves, Fanny N'Golo

### Conservation International (CI)

Jennifer Morris  
Christopher Stone  
Léon Rajobelina

### French Global Environment Facility (FFEM)

Julien Calas  
Marc-Antoine Martin

European Commission (EC)

Pierre Carret

Fonds International du Banc d'Arguin (FIBA)

Sylvie Goyet

German Development Bank (KfW)

Matthias von Bechtolsheim

Christoph Kessler

Global Environment Facility (GEF)

Yoko Watanabe

Claudio Volonte

David Todd

Laura Kennedy

International Union for Conservation of Nature (IUCN)

Geoffroy Mauvais

The Nature Conservancy (TNC)

Scott Smith

Marlon Flores

Royal Society for the Protection of Birds (RSPB)

Alastair Gammel

Union Bank of Switzerland (UBS)

John Adams

United Nations Development Programme (UNDP)

John Hough

US Agency for International Development (USAID)

Scott Lampman

Jerry Bisson

Alicia Grimes

Victor Bullen

Charles Barber

US Treasury Department

Katie Berg

US State Department

Charity Dennis

Bernie Link

World Bank

Charles di Leva  
Alberto Ninio  
Kathleen Mikitin  
Claudia Sobrevilla  
Kathy MacKinnon  
Jean-Christophe Carret

WWF

Melissa Moye  
Marie de Longcamp  
Esteban Brenes  
John Morrison  
Brigitte Carr-Dirick  
Jean Paul Paddack

Independent Consultants

John Pielemeier  
Allen Putney  
Richard Margolius  
Rémi Guin  
Francis Lauginie  
José Galindo  
Stephen Cobb  
Uwe Klug  
Udo Lange



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## **ANNEX D: ANALYSIS OF QUESTIONNAIRES COMPLETED BY CTF EXECUTIVE DIRECTORS**

### ***I. Conservation Programs and Impacts***

#### *1. What percent of your fund's total grants used for each of the following purposes?*

Out of the 28 respondents (see complete list at end of this document), only four did not list PAs as one of the purposes of their grants. The second most mentioned use of the grants was local NGOs/ CBOs, followed closely by Sustainable Development/ Ecoenterprise Projects. Use for PAs though coming first had a wide distribution between 2.6 percent (EFJ/ Jamaica) and 100 percent (FAPB/ Madagascar) (average of 34 percent) while Local NGOs/ Community Organizations varied from five percent (Tany Meva/ Madagascar) to 75 percent (Green Trust/ South Africa) with an average of 20 percent and Sustainable Development Projects averaged 18 percent. Other purposes that were most quoted (in descending order) included: Capacity building, followed by Research/ Monitoring and Environmental Education which two-thirds of the CTFs mentioned as a use even though it rarely exceeded 15 percent.

#### *2. Does your fund have any specific biodiversity conservation targets in its short-term or long-term strategy?*

An overwhelming majority of CTFs (over 80 percent) do not have “Increase in population of certain species” as a specific conservation target. Interestingly enough, no biodiversity target (even the category Other Objectives) elicited more positive than negative answers. However, those categories were not far from the 50 percent mark, with Other Objectives at 43 percent and reduce certain threats and increase number of size of PAs slightly under 40 percent. Other Objectives were quite varied, i.e., maintain forest cover at a certain percentage, increase number of hectares of PAs under collaborative management, or maintain biodiversity.

#### *3. Has your fund been directly responsible for the establishment of any new PAs?*

Two-thirds said they were not responsible for the creation of any PAs. Their comments gave a somewhat more balanced picture, namely that three of the funds had an indirect impact on creating PAs while another one purchased land directly to protect it.

#### *4. Does your fund have any special sub-accounts?*

A small majority of CTFs (58 percent) have sub-accounts. They created them upon a donor's request (i.e., FAPB / Madagascar has such an account to receive money that will come from a debt-for-nature swap with Germany), wanted to tackle specific issues (i.e., Policy Support in Laos or Turtle Fund in PNG), or set up several CTFs early on to meet different needs (i.e., Ecuador).

#### *5. Has the creation of your fund resulted in an increase, a decrease, or made no change in your government's annual budget for conservation?*

In most cases (54 percent), the CTFs had no impact on government's annual funding for conservation. When CTFs did have an impact, it was more often to influence the budget positively (38 percent of responses) than negatively (eight percent). 80 percent of the CTFs that responded they had a positive impact are located in Latin America.

## ***II. Fund's Internal Management and Finances:***

### *1. How many members does your fund's board of directors have?*

The average size of the board of those who responded is ten members. The breakdown by category is as follows: between two and three representatives from national government agencies or ministries and from national or local NGOs, between one and two from unaffiliated individuals and from business sector representatives, slightly less than one from other organizations, and between zero and one from international NGOs and from foreign government agencies.

Those averages hide regional disparities, between Africa and Latin America and the Caribbean in particular. Whereas the board of an average African CTF has eight members, its equivalent in the LAC region has 12. Out of those 12, almost five come from the local NGO sector and 2.5 from national government agencies. By contrast in Africa, less than one board member comes from the national nonprofit sector while less than two come from national government agencies. Unaffiliated individuals and the business sector have about the same weight as government agencies in African CTFs' boards.

### *2. What is the total number of staff of your organization?*

The average number of staff is 15 in our sample. That number comes with a wide distribution since the lowest headcount is two and the highest are 60 and 68 at Brazil's FUNBIO and FNMA respectively, with a standard deviation of over 16. Eleven CTFs have 15 or more staff (including nine in the LAC region, the others being Laos and Tany Meva,), four have ten employees, seven have between five and nine, and six have fewer than five (MAR Fund, Dutch Caribbean, FAPB, Mama Graun, Table Mountain Fund and Green Trust).

We did not have enough data on staff breakdown (only five responses) to draw any meaningful conclusions. On several occasions, it was mentioned that CTFs supplemented their staff with consultants on an ad-hoc basis.

### *3. What is the average percent of your fund's total annual budget spent for management and administrative costs during each of the last three years?*

The average percentage of management and administrative costs over the last three years was a little over 23 percent among the 26 CTFs that responded (two that did not are still in start-up mode). As was the case with the number of staff, the distribution is broad again, with numbers ranging from five percent (FMCN and PROFONANPE) to 90 percent (Laos). Laos CTF is probably not representative since they started their operations recently. The standard deviation is almost 20 percent.

Among those that have been in existence for more than two to three years, the highest percentages include Uganda's BMCT, Tanzania's EAMCEF (35-40 percent), and Bolivia's FUNDESNAP (60 percent). Half of the funds that participated in our survey kept their administration and management costs at 15 percent of their budget or less, including two in Africa and two in Asia.

4. *What is the approximate amount of new contributions or revenues that your fund has raised or received, starting in the second year after the fund began operating (earnings from investments not included)?*

The funds in our sample managed to raise an average \$19 million after their first year of operations. It should be noted that respondents included grant and capital (both sinking and endowment) money in their responses, which skewed them a bit (if grant money had not been included, the total would have been slightly lower). However, there are wide discrepancies in the group, which is shown by a standard deviation of over \$30 million. Indeed, “heavyweight” funds such as FMCN, FNMA, and PROFONANPE managed to raise \$90 million or more after their inception while the next largest amounts were between \$20-25 million and were all raised by RedLAC funds (Ecuador’s FAN, Panama’s NATURA, Colombia’s FPAA, and Brazil’s FUNBIO). None of the African CTFs managed to raise more than \$6 million after their first year, though the recently created FAPB in Madagascar will be a likely exception.

5. *If your fund's investment earnings have ever been substantially less than expected in certain years, did your fund do any of the following?*

The answers were pretty mixed but there were two major trends that emerged. A majority of CTFs made fewer or no grants the year investment earnings were substantially lower than expected (64 percent) and used unspent grant money or income from previous years (58 percent). Most CTFs (82 percent) did not dismiss staff and 64 percent chose not to spend part of the CTF’s capital or raise emergency contributions to continue making grants.

*Funds that participated in our Survey:*

BMCT, ECOTRUST (Uganda), Tany Meva, FAPB (Madagascar), FPRCI (Côte d’Ivoire), MAR Fund (Central America / Regional), FEDEC (Cameroon), EAMCEF (Tanzania), EFJ (Jamaica), FAN (Ecuador), Dutch Caribbean Nature Alliance, Vietnam Conservation Fund, LEPP (Laos), BTFEC (Bhutan), MCT (Micronesia), NATURA (Panama), Mama Graun Conservation Trust Fund (Papua New Guinea), Green Trust , Table Mountain Fund (South Africa), FMCN (Mexico), FPAA (Colombia), FUNDESNAP (Bolivia), PUMA (Bolivia), FNMA, FUNBIO (Brazil), PROFONANPE, FONDAM (Peru), and SCF (Suriname).

## **ANNEX E: CONSERVATION TRUST FUND CASE STUDIES**



## **Indonesian Biodiversity Foundation (KEHATI)**

*The Indonesian Biodiversity Foundation, better known as KEHATI (Yayasan Keanekaragaman Hayati), was established in 1994 by the signing of a Memorandum of Understanding between the US Agency for International Development (USAID) and KEHATI. KEHATI's mission is to promote conservation efforts as well as the sustainable use of Indonesia's biological resources by way of funding of biodiversity conservation activities. KEHATI's role has changed over the years. Initially established to promote biodiversity conservation at the level of species conservation through grant-making, it has broadened its focus to also serve as facilitator and public advocacy arm for community-based biodiversity conservation.*

### **Origin of Fund**

In 1994, the United States, through USAID, agreed to fund an endowment for an Indonesian biodiversity foundation governed by an Indonesian Board of Directors. Thus, KEHATI was formed. In 1995, KEHATI and USAID signed a ten-year (1995-2005) Cooperative Agreement, which provided a grant in the form of a \$16.5 million endowment fund to ensure the continuation of KEHATI as a grant making foundation. USAID also agreed to disburse a total of \$2.5 million to support the first five years of KEHATI's operation. In its first two years, KEHATI focused efforts on forming its organizational structure, operational framework, and Board. Between 1995 and 1998, KEHATI's mandate was mainly that of a grant-making institution, supporting biodiversity conservation at the species level. In 1999, it shifted its focus towards community-based biodiversity conservation, and in 2002 added additional emphasis to its role as a grant-maker and facilitator to serve as a policy advocate for sustainability and community-based resource management. KEHATI's focus, according to its strategic plan in the next four years (2008-2012), is reducing threats to biodiversity loss and increasing ecosystem resiliency. Since it was founded, KETHATI has established a nationwide reputation as a leader in protecting biodiversity in Indonesia.

### **Board Composition**

As an independent foundation, KEHATI is governed by a Board of Trustees composed of 21 distinguished Indonesians, representing scientists, academics, NGO leaders and the business community. Professor Emil Salim is the Chairman of the Board of Trustees and has also served as the Minister of Environment of Indonesia in a former capacity.

### **Fund Operations**

The operations of KEHATI are guided by a Strategic Plan. The Advisory Board is responsible for budgeting and establishing the general policy and guidelines for fund management and

operations. The Executive Board assumes the role of establishing operational policies, setting priorities for annual programs, monitoring program execution, and hiring the Executive Director of KEHATI. The Supervisory Board is in charge of supervising the implementation of the policies. The Executive Board and the management are assisted by special committees, including the Grant-making Committee, the Investment Committee, and the Resource Mobilization Committee. The Executive Director and staff oversee and manage KEHATI's programs and activities on a day-to-day basis, including budget/financial management, staff issues and general affairs, grant administration and other miscellaneous activities.

### **Funding and Fundraising**

Annual income from the initial USAID funded endowment has constituted a pool which funds both operating expenses and the grants program. A cooperative agreement between USAID and KEHATI allowed until March 2005 ultimate US control over the investment funds and supervisory financial purview of the Foundation.

KEHATI has explored several fundraising strategies in the recent past, including raising funds through private sector donations for the "Green Fund," a single purpose investment instrument where income earned would support additional environmental causes. A mass mailing campaign targeting the general public was also initiated throughout Indonesia. Both attempts were slow in progress due to lacking legal incentives (tax deductions for donations) and general infrastructure allowing for effective mail delivery. Fundraising is expected to take two strategic approaches: grass-roots fundraising through awareness building, and targeting Board member contacts and networks.

### **Investment Management**

KEHATI's policy is to maintain an asset mix of 60 percent equity and 40 percent fixed income. Through this traditional asset mix, KEHATI has been able to maintain its strategic objective and planned funding of programs, and be a reliable provider of support for environmental causes, even in tough economic times. KEHATI's performance situates very well when compared overall to the investment returns of US private, community and public foundations.

### **Activities Supported**

KEHATI views itself as a "Grant-making Plus" organization that supports biodiversity conservation in Indonesia. As such, KEHATI's activities range from protected areas and local natural resources management in various ecosystems, including semi-arid, agro-biodiversity and coastal and small-island habitats. KEHATI further provides technical assistance to local partners, particularly relating to community organizing, local management activities (including administration, finance, program development, report writing, proposal development, mapping,

monitoring, etc.), and with issues relating to community-based conservation (including sustainable economic development, agro-business and eco-tourism).

### **Monitoring and Evaluation**

KEHATI and its local partners base their work on an annual workplan, also known as the Logical Framework Analysis. However, during the last USAID-conducted evaluation in 2005, KEHATI was unable to point to specific indicators or benchmarks for monitoring the workplan activities. KEHATI now has data available that covers the duration of grant period, total grant funds, and matching funds from other donors; however, some data, including monitoring for level of income and areas covered by the grants are yet to be compiled. The organization had rather focused its efforts on establishing and measuring the process rather than the output, outcome or impact of its projects. Thus, the indicators used to measure the level of success were through project completion and grants disbursements.

KEHATI has encouraged its partners to be transparent in the program planning and implementation process and has sent its staff to the field to observe and provide input and assistance when needed. KEHATI conducts two visits to each project area annually, usually around evaluation periods, and spends about one week per visit.

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**Cameroon, Central African Republic and Republic of Congo  
Sangha Tri-National Foundation  
(TNS Foundation)**

*The Sangha Tri-National Foundation (“TNS Foundation”) was created in March 2007. The TNS Foundation is an independent conservation trust fund that will raise and channel millions of dollars for the protection and management of a trans-boundary forest complex called Sangha Tri-National covering a total surface area of some 28,000 km<sup>2</sup>, including the three contiguous National Parks of Lobeke in Cameroon, Dzanga-Ndoki in the Central African Republic and Nouabale-Ndoki in Congo (Brazzaville), and their buffer zones. The TNS complex is one of the most important conservation areas in Central Africa, not only because of the great diversity of its habitats but also because it harbors important populations of the mega fauna of Central Africa with the highest densities of bongos, gorillas and forest elephants in Africa.*

**Origin of Fund**

Following the March 1999 Heads of State Summit on conservation and sustainable management of forest ecosystems in Central Africa, including trans-boundary areas, and the signature of the “Yaoundé Declaration,” the Governments of Cameroon, Central African Republic and Republic of Congo took in December 2000 a major step towards materializing their commitment through the signature of a Cooperation Agreement to establish and manage the TNS trans-boundary forest complex. Recognizing the need to strengthen the long-term financing of conservation activities in the TNS, government representatives of the three countries, as well as several partners, confirmed the feasibility of creating a conservation trust fund. A process for the design and creation process of the TNS Foundation was developed with support mainly from the World Bank/World Wide Fund for Nature (WWF) Alliance for Forest Conservation and Sustainable Use (World Bank/WWF Alliance), German Agency for Technical Cooperation (GTZ), Wildlife Conservation Society (WCS), French Cooperation and the US Agency for International Development (USAID)-funded Central Africa Regional Program for Environment (CARPE). A Steering Committee responsible for overseeing the Foundation’s creation process and receiving support from a Regional Facilitator, and a small team of experts in conservation finance from WWF, WCS and GTZ, worked together to develop the profile and the legal documents leading to the Foundation’s registration.

## **Board Composition**

The governance structure has been purposefully designed to have a single, independent Board of Directors with a majority of non-governmental representatives. The first seven Board Members were appointed in March 2007 by each of the following founder organizations: Government of Cameroon, Government of the Central African Republic, Government of the Republic of Congo, WCS, WWF, Regenwald Stiftung and the German Development Bank (KfW). It is also planned that the French Development Agency (AFD) will be represented on the Board beginning in June 2008. These “Category A” Board Members also selected three non-governmental Board Members (“Category B”) who are from the TNS countries and from the civil society, including one from the banking sector. The Chairman of the Board is one of the “Category A” members and was appointed in March 2007 as well.

## **Fund Operations**

The TNS Foundation is registered as a company limited by guarantee in the United Kingdom, where it received charity status in March 2008. It is also currently seeking recognition in each of the three TNS countries, where it will conclude a cooperation or country agreement that will define the terms of the collaboration between the Foundation and the Government, and their respective rights and obligations. A cooperation agreement with the Ministry in charge of protected areas in Cameroon was concluded in early May 2008, as a first step towards the Foundation’s full recognition in the country. Based on the Board’s decision, the Executive Office of the TNS Foundation is currently established in Cameroon. The Executive Director is responsible for implementing the Board’s decisions and for overseeing daily operations. The TNS Foundation has two sub-committees: an Investment Committee and a Fundraising Committee, each composed of three Board Members and one or two external experts. Business plans are available for each of the three National Parks and a document presenting the TNS Foundation’s financial projections over the next five years was completed in the second half of 2007. At its June 2008 meeting, the TNS Foundation will endorse its grant manual and review drafts of its operations manual, fundraising strategy and investment policy with the objective of finalizing all its main management tools by September 2008.

## **Funding and Fundraising**

The TNS Foundation has already received several endowment commitments from both public and private sector donors. Endowment funding is currently secured from KfW (five million Euros), AFD (three million Euros) and the Regenwald Stiftung (about 3.5 million Euros) registered in Germany to support tropical forest conservation in Central Africa and capitalized through sales of Krombacher’s “rainforest beer,” for a total of about 11.5 million Euros. The current target of the TNS Foundation is to raise an additional amount of 22 million Euros. It is

expected that funding agreements with the first three contributors will be completed by September 2008. In addition to its endowment commitment, KfW has also provided 500,000 Euros as start-up funds to cover the Foundation's operation over its first two years (pending actual return on investment) and to fund the first grants to the TNS beneficiaries.

### **Investment Management**

The investment manager will be hired through a restricted international call for tenders to be completed by early September 2008.

### **Activities Supported**

The objective of the TNS Foundation is to contribute to the specific priority financial needs to manage each of the three TNS parks, both in terms of conservation and in terms of sustainable management of natural resources in the peripheral zones. Those needs correspond to both recurrent and investment priority costs as defined and approved in the management and business plans of the parks. In addition, the Foundation also plans to support a number of well-defined trans-border activities linked to coordination, trans-boundary planning and information exchange, as well as some joint implementation activities. The Foundation will therefore have four funding "windows": one for each of the three National Parks and one for trans-border activities.

### **Monitoring and Evaluation**

The monitoring and evaluation criteria of the Foundation will be defined during the second half of 2008.

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### **Names of Board Members**

Category A:

- Denis Koulagna Koutou (Cameroon)
- Maurice Yondo (Central African Republic)

- Antoinette Nkabi (Congo)
- Laurent Magloire Somé (WWF – Chairman)
- Matthew Hatchwell (WCS)
- Martin Bostroem (KfW)
- Uwe Klug (Regenwald Stiftung)
- Irène Alvarez (AFD as from June 2008)

**Category B:**

- Gervais Bangaoui Batadjomo (Cameroon - Parliamentarian and biodiversity expert)
- Passe Sanand (CAR – biodiversity)
- Gilbert Bopounza (Congo – banker)

## **Madagascar**

### **Fondation pour les Aires Protégées et la Biodiversité de Madagascar (FAPB)**

*Established in 2005, the Madagascar Foundation for Protected Areas and Biodiversity supports and fosters biodiversity conservation in Madagascar by financing and promoting the effective protection of existing protected areas and the creation of new ones. The creation of the Foundation is a major step towards securing sustainable financing for the protected areas system and reducing the dependence upon external funding. Due to its strong institutional base, the Foundation has to date attracted significant commitment from the national government as well as multilateral and bilateral donors and non-governmental organizations.*

#### **Origin of Fund**

In 2000, Madagascar initiated an innovative process to design a long-term sustainable financing strategy to secure substantial investments towards Madagascar's Environmental Action Plan. The following year, the Minister of Environment appointed a Trust Fund Steering Committee after the Sustainable Financing Commission had identified the creation of a conservation trust fund as the most promising sustainable financing tool to support protected area management and biodiversity conservation. In January 2005, the Madagascar Foundation for Protected Areas and Biodiversity ("Madagascar Foundation") was established by the Government of Madagascar through a debt-for-nature swap with the Government of Germany, and donations from the World Wide Fund for Nature and Conservation International as a public benefit foundation under Malagasy law. The mission of the Foundation is to help support the preservation of biodiversity in Madagascar by promoting and financing of the expansion, creation, conservation and valorization of protected areas. The Madagascar Foundation plays a key role in the country's larger sustainable finance agenda. Madagascar is one of the few countries to have assessed its funding needs to support its national protected areas system that varies between three and ten million dollars per year.<sup>34</sup>

#### **Board Composition**

The governing bodies of the Foundation include the Board and several committees. The first Board of Directors was appointed by the Foundation's founders and is currently composed of

<sup>34</sup> Carret, J-C et Ramarolahy Christian. 2006. *MAP environnement : coûts et ressources disponibles*. Banque Mondiale. Washington DC.

Brand. J. 2007. *SAPM et sauvegardes: coûts de création et gaps de financement – note explicative des estimations*. Banque Mondiale. Washington DC.



eight members (the Foundation's Statutes call for nine board members) that represent the public and private sectors and civil society. These members will serve a term of four years. Thereafter, one-third of the Board of Directors will be replaced every two years under the conditions established by the By-laws. The By-laws require that at least three Board members are women and that all major regions are represented. Currently, seven members are Malagasy citizens and residents. The Board's Executive Committee includes the President, Vice-President and Treasurer. The special committees oversee investment, financing and prioritization of funding allocation.

### **Fund Operations**

Establishing the Foundation required the passage of a new foundation law as well as the registration of the Foundation as a public benefit foundation, under Statutes submitted by the founders. The Foundation By-laws that were subsequently adopted by the Board cover issues not stipulated in the Statutes regarding appointment and/or recruitment, roles and responsibilities of the Board of Directors, the President of the Board, the Committees and the Executive Director. The Executive Director oversees the programs, and operations and administration of the Foundation.

The operations of the Madagascar Foundation are guided by a Strategic Plan approved by the Board as well as the Operations Manual defining the rules and detailed procedures of the Foundation.

### **Funding and Fundraising**

The total amount committed so far for the Foundation's endowment fund surpasses its initial goal of \$50 million by 2012 with \$53 million committed to date by several private and public donors including the German, French and Malagasy governments, the World Bank, the MacArthur Foundation, Conservation International, WWF and an individual donor. While \$37.5 million have been secured, an additional \$7.5 million are in the process of being secured through an agreement with the German government. There are also negotiations underway with the Global Environment Facility to contribute nine million dollars to the endowment fund. Protected areas are a priority in the Madagascar Action Plan (MAP)<sup>35</sup>, with the President of Madagascar announcing that eight percent of new debt relief will be allocated to protected areas through the Madagascar Foundation. The French and Malagasy governments recently finalized negotiation of another debt-for-nature swap agreement – the largest to date in Madagascar and totaling over \$20 million – that will be invested into an endowment fund managed by the Foundation. Furthermore, the Foundation manages a sinking fund of \$1.28 million (of which \$0.54 million

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<sup>35</sup> The Madagascar Action Plan is a five-year plan which establishes direction and priorities for the Malagasy nation from Vision "Madagascar Naturally" from 2007 to 2012.

have been disbursed to date) and debt-for-nature swap funding of \$13.17 million to be paid over 24 years.

The Foundation was registered as a 501 (c) 4 organization in the United States in July 2007 that allows it to claim tax-exemption on investment revenues. The Foundation is further tax exempt in Madagascar where Malagasy residents can receive tax deductions on donations.

### **Investment Management**

The Foundation has adopted a conservative investment approach and hedges fluctuation and risk by investing in the international as well as domestic markets. The Executive Director is expected to keep abreast of market developments and maintain constant dialogue with the investment managers. JP Morgan Chase was selected by the Board and began managing the Foundation's investments in the beginning of 2007 based on recommendations from the Foundation's Investment Committee. The Foundation holds annual meetings with its investment managers to review the portfolio and global trends, opportunities and risks. Prior to JP Morgan Chase's involvement, the funds (about one million dollars) were solely invested in Madagascar and provided a rate of return of 12.4 percent in 2006. The rate of return the following year (2007) was 8.5 with 90 percent of the capital placed in the international market place and ten percent invested in Madagascar.

The revenues generated through the investments are used to support conservation activities established and disbursed according the Foundation's financing priorities. Some funding is reserved for unexpected and urgent needs of less prioritized protected areas and the sinking fund is designated to solely cover operational costs. It is projected that with capital of some \$50 million, the Foundation will generate about three million dollars yearly from interest earnings that will be used to fund protected areas.

### **Activities Supported**

The Foundation was established to finance, with certain exceptions, protected areas that are of a permanent status, and that have been in existence for more than three years. A prioritization policy defining allocation criteria is expected to be finalized in 2008.

To accomplish this mission, the Foundation provides financial support towards the following activities:

- a. Conservation and sustainable management of protected areas;
- b. Research on biodiversity and ecological monitoring of protected areas;
- c. Promotion of ecotourism in protected areas; and

- d. Education and building awareness with respect to conservation and valorization of protected areas.

Since June 2007, the Foundation has granted \$800,000 (\$300,000 in 2007 and \$500,000 in 2008) for five protected areas including Ankarafantsika, Marojejy, Andringitra, Tsimanampetsotsa and Kirindy Mitea.

### **Monitoring and Evaluation**

As of yet, it is too soon to assess the Foundation's results in terms of conservation impact, and monitoring and evaluation systems have not been put in place. It is however expected that the Foundation will play a major role in establishing and collecting baseline data as a benchmark to monitor and evaluate the biodiversity impacts as well as project completion indicators to secure ecological integrity for Madagascar's protected areas network.

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## **Tanzania**

### **The Eastern Arc Mountains Conservation Endowment Fund (EAMCEF)**

*The Eastern Arc Mountains Conservation Endowment Fund (EAMCEF) was established in 2001 as a mechanism to provide for long-term, reliable and sustainable funding for biodiversity conservation in the Eastern Arc Mountains of Tanzania. EAMCEF was set up as a joint initiative of the Government of the United Republic of Tanzania, the World Bank and the Global Environment Facility (GEF) and now operates as a non-for-profit Trust. EAMCEF's mission is to catalyze resources to foster conservation of forest biodiversity in the Eastern Arc Mountains of Tanzania through investment in sustainable community development, sustained financing for protected areas management and financial support to applied research.*

#### **Origin of Fund**

The main intention of establishing EAMCEF is to address the need for a long-term sustainable approach to funding the conservation of forest biodiversity in the Eastern Arc Mountains of Tanzania. The Eastern Arc is recognized globally as a biodiversity hotspot with some of Africa's most unique biodiversity; however, human activities have reduced drastically the original extent of forest cover. The Eastern Arc Mountain forests form major catchment areas that collectively provide water for most of Tanzania's coastal communities, including Dar-es-Salaam with a population of over three million people and most of the major industries in the country.

EAMCEF came about as a result of reforms which had been taking place in Tanzania over the past twenty years. The National Forest Policy (1998), which emphasizes biodiversity conservation through multidisciplinary approaches by multiple stakeholders as well as the Trustees' Incorporation Ordinance provide strong political and legal support for the Fund's activities. The Global Environment Facility made an initial capital contribution of seven million dollars, which EAMCEF manages as an endowment fund.

#### **Board Composition**

EAMCEF is governed by a Board of Trustees that includes five members representing government, local communities, conservation NGOs and academia. EAMCEF is mandated to receive advice and guidance from Local Advisory Committees in each area where it finances projects. The Local Advisory Committees elect the two community-level board members.

#### **Fund Operations**

EAMCEF was established to initially operate as a component of a larger World Bank financed project under the Ministry of Natural Resources and Tourism called the Tanzania Forest Conservation and Management Project. Under this project, the Fund received two million

dollars to cover operational costs and finance grants for a period of five years. This funding ended in June 2008 at which time it is expected that EAMCEF will apply income derived from investment of its endowment to finance its operations and provide grants to eligible projects in the region.

EAMCEF is managed on a day-to-day basis by a Secretariat based in Morogoro and is headed by an Executive Director. Other members of the Secretariat include: Finance and Administration Officer, Program Officer for Planning and Communications, Field Project Officer for the East Usambara Mountains, Field Project Officer for the Udzungwa Mountains, Office Assistant, Administrative Assistant and two drivers.

### **Funding and Fundraising**

The initial fundraising framework prepared for EAMCEF estimates a funding need of about \$600,000 to \$1 million, which would require an endowment fund of between \$12 and \$20 million. The Fund uses a combination of endowment and sinking funds to increase its income and project financing stability.

To attract additional capital for its endowment, EAMCEF is exploring the interest of major donors in the Eastern Arc Mountains as a major biodiversity hotspot. EAMCEF also targets bilateral and multilateral donors whose preference is to provide grants or sinking funds to support program objectives, and explores other sources of funds that may be more restrictive or limited to direct program financing rather than administrative costs. By leveraging different sources of funds EAMCEF can offset the use of some of its internal funds that in turn can be allocated towards the endowment.

EAMCEF is currently developing a joint fundraising approach with Conservation International's Critical Ecosystems Partnership Fund (CEPF) and WWF.

### **Investment Management**

EAMCEF's endowment is invested offshore with investment advisory services provided by the Arbor Group at UBS.

### **Activities Supported**

The over-riding principle governing selection of any project for funding by EAMCEF is that the project activity must result in some demonstrable (direct or indirect) benefit to conservation of biodiversity in the Eastern Arc Mountains, especially in the designated target areas. A secondary principle, which should influence project funding is that such funding should be complementary to other conservation and/or development activities in the area. Thus, EAMCEF grants are not intended to substitute for funds that are already available.

EAMCEF is initially concentrating its project funding in the following mountain blocks: 1) East Usambara Mountains; 2) Udzungwa Mountains; 3) Other mountain blocks will be targeted at a later stage.

EAMCEF funding will be on three priority thematic areas namely: 1) Community development and conservation activities for improvement of rural livelihoods of forest adjacent communities; 2) Applied biodiversity research relevant to the conservation of biodiversity in the priority Eastern Arc Mountains; and 3) Management of forest reserves and protected areas to strengthen the management capabilities.

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## **Armenia, Azerbaijan and Georgia Caucasus Protected Areas Fund (CPAF)**

*In the Caucasus today, an abundance of pristine nature exists, however there is also a severe shortage of funds to carry out the day-to-day work to support conservation. The Caucasus Protected Areas Fund (CPAF) was therefore established in 2007 to support ongoing operations and maintenance of the protected areas in Armenia, Azerbaijan and Georgia. This area includes 80 existing protected areas across the three countries.*

### **Origin of Fund**

The Caucasus Protected Areas Fund (CPAF) was established in an effort to protect the natural treasures of Armenia, Azerbaijan and Georgia that faced serious socio-political and economic challenges following the collapse of the Soviet Union. CPAF was established to support up to 50 percent of the recurrent management costs of protected areas in all three countries. It took a total of four years to establish the Fund and consisted of stakeholder consultations, protected areas financial gap analysis, analysis of the legal and institutional frameworks in all three countries, and a feasibility study. Phase two of the effort involved designing a detailed structure of the Fund, drafting the necessary documents to register the Fund as a tax-exempt German foundation, and raising the initial capital of 7.5 million Euros, appointing a Board of Directors, and hiring the Executive Director.

### **Board Composition**

The Board of Directors will oversee the CPAF. The Board remains to be established and will also oversee its three national sub-accounts, which will be available to donors who may only be interested in supporting protected areas in one particular country. The Board will include the Chairman, Vice-Chairman and Treasurer. The Executive Director will attend Board meetings and serve in the capacity of Board Secretary, but will not be a Board member. The Fund's By-laws specify that no more than half of the Board members may consist of government or semi-government representatives at any given time, however the country ministers involved in providing feedback for the feasibility study somewhat surprisingly suggested that all of the Fund's board members should represent international donor agencies and NGOs to ensure objectivity guided by scientific criteria in decision-making. This suggestion was perhaps a result of a somewhat unusual political situation in the three countries.

## **Fund Operations**

The CPAF has established detailed By-laws guiding the Fund's administration, operations and management. The most important task and challenge for the Executive Director is to raise the substantial capital needed for the Fund. The Executive Director is also responsible for day-to-day operations, coordinating for internal and external review of grants proposals, administering and monitoring grants, and representing and promoting the Fund in various capacities. Aside from appointing the Executive Director, the Board's responsibility also involves approving the annual budget and helping to ensure that it is sustainably managed.

## **Funding and Fundraising**

One of the Fund's biggest challenges in capitalizing initial major support was lobbying the German Government to change their regulations to be able to make a hard currency contribution to the Fund. In the past, the German Development Bank (KfW) had supported a number of conservation trust funds but always through bilateral debt swaps. An extensive lobbying effort led by WWF-Germany and others that lasted more than five years finally succeeded to make way for the German Government to contribute five million Euros to the CPAF endowment. This in turn allowed for other funding commitments, including one from Conservation International's Global Conservation Fund (GCF) of an additional three million dollars, since the GCF requires matching of at least 2:1 from other donors. In addition to a contribution of 500,000 Euros from WWF, the CPAF endowment was established with an initial amount of 7.5 million Euros, which today totals about 11 million dollars.

The strategic approach in raising additional funds includes: targeting potential international private sector and foundation donors, including organizations and wealthy individuals; corporate foundations; and bilateral government and multi-lateral agency support. To better market the Fund and get the attention and interest of potential donors, a short and concise Trust Fund Prospectus has been developed. It presents a quick snap shot of the CPAF, including a map and other visuals that depict the extent, richness and challenges of the Caucasus eco-region.

## **Investment Management**

The Fund's two main objectives for investment include preserving the capital and earning a net total annual return that averages at least five percent per year. According to the By-laws, the Fund's capital must be invested by an internationally recognized investment manager who is hired by the Board through a transparent and competitive process. All investments further need to comply with the investment guidelines that have received majority Board approval. To minimize the impact of year-to-year fluctuations in interest rates and stock market returns on the Fund's budgets, and to facilitate longer-term financial planning, the Fund's annual spending needs to be based on the average total rate of return on investments that the Fund has earned over



the past three years.

### **Activities Supported**

The Fund's primary purpose is not to implement any conservation activities but rather to make grants to support up to 50 percent of the critical management costs of Priority Protected Areas (PPAs) in the three Caucasus countries. PPAs are defined as those that are: 1) Part of a wider Priority Conservation Area as defined in the Caucasus Ecoregional Plan; 2) Legally protected in perpetuity, have their own administrative structures and management plans; and 3) Have been determined by the Board to be PPAs, based on the biological priorities established in the Caucasus Ecoregional Conservation Plan. Moreover, the grant application cannot be directly submitted to the Fund, but must go via the ministry responsible for environment and nature in the country where the PPA is located. This gives each country's ministry the ability to choose which eligible PPAs it wants to prioritize for grants from the Fund. While it is possible for the Fund to support conservation activities in the broader Caucasus ecoregion, the By-laws outline restrictive conditions that have to be met for the Fund to make grants to PPAs in Turkey, Iran and Russia.

### **Monitoring and Evaluation**

The Fund expects to issue its first grants in 2009. It is thus too soon to assess the conservation impact and to implement monitoring and evaluation.

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**Bolivia**  
**Fundación para el Desarrollo del Sistema Nacional de Áreas Protegidas**  
**(FUNDESNAPE)**

*The Bolivian Foundation for the Development of the National System of Protected Areas (FUNDESNAPE) is a private, nonprofit organization, created in April 2000 to contribute to the financial sustainability of Bolivia's National System of PAs (SNAP). It began operations seeking funding sources and designing mechanisms to administer and channel funds to the SNAP. After seven years, FUNDESNAPE has established an important basis for sustainably financing Bolivia's protected areas (PAs) and has begun to work closely with social and institutional stakeholders in promoting financial management systems for PAs.*

**Origins of the Fund**

At the end of the 1990s, the Government of Bolivia designed a sustainability strategy for the National System of Protected Areas (SNAP) with the active participation of representatives from protected areas (PAs), local communities, business people, governmental biodiversity conservation agencies and international cooperation agencies. This strategy proposed creating an endowment fund, managed by a private organization, and therefore not subject to political changes, created by Bolivian civil society. International donors were interested in supporting PAs but preferred to channel funds through a private organization to assure transparent and effective management. In these circumstances, representatives of Bolivian civil society, together with institutions involved in PA management (principally the National Agency for Protected Areas - SERNAP) found it advisable to create a private, non-profit organization to assist SNAP achieve financial sustainability. With this objective, the following organizations established a general assembly for the Fund consisting of (1) One representative of the Ministry of the Presidency; (2) One representative of the Ministry of Sustainable Development and Planning; (3) One representative of the Environmental Defense League; (4) One non-governmental organization (NGO) representative (Trópico); (5) One representative of the Management Committees of the SNAP (Sajama National Park); (6) One representative of the Executive Committee of the Bolivian University; (7) One representative of the Business Federation of Bolivia; and Two representatives of international donors. These nine members formed the Foundation for Development of the National System of Protected Areas (FUNDESNAPE) in April 2000.

FUNDESNAPE's operations for the years 2000-2001 were financed by resources from the Global Environment Facility (GEF)-World Bank Project "Sustainability of the PAs of Bolivia," and by donations from the governments of the Netherlands and Germany, and from the W. Alton Jones Foundation. FUNDESNAPE's governance and operational policies and structure were designed during this period.

Some of the funds used for capitalizing FUNDESNAPE (i.e., five million dollars) had been previously administered by the National Environment Fund (FONAMA). Because of FONAMA's operational constraints from being a public institution, these funds had not been

disbursed according to plan. These circumstances caused some donors to withdraw the resources they had contributed to FONAMA, and in the case of funds that were allocated for conservation of PAs, and transfer those funds to the newly created FUNDESNAP.

To date, FUNDESNAP has received total contributions to its endowment of \$13.7 million: \$5.03 million from the GEF; \$3.92 million from the governments of Switzerland and the United Kingdom; one million dollars in a swap of PL-480 debt with the US Government; \$400,000 from the company Gas Oriente Boliviano that is earmarked for the San Matias Protected Area; \$650,000 from a fundraising activity that auctioned the right to name a new primate species discovered in Madidi National Park. These endowment funds together generate enough income to finance the operational costs of 14 of the 22 PAs that make up the SNAP, as well as the Central Administration Unit of SERNAP. SNAP also administers several sinking funds, including \$2.7 million from a debt-for-nature swap with the German Government that had originally been given to FONAMA to manage, but was transferred to FUNDESNAP and used for supporting the recurrent operational costs of four to five PAs.

FUNDESNAP has received over ten million dollars in other contributions over the last five years, for supporting strategic investments for conservation and sustainable development initiatives in the SNAP, including projects for the sustainable use of biodiversity, productive infrastructure in local communities, ecotourism projects, management plans for PAs, bio-commerce, land registration and capacity building.

International and national private organizations have given financial support to the SNAP, through FUNDESNAP, to benefit non-governmental stakeholders (one million dollars over the last two years) mainly related to capacity building.

Financial resources administered and channeled by FUNDESNAP to SNAP represent 30 percent of the basic financial needs of the SNAP (\$4.2 million per year). The State provides two percent of the budget of SERNAP, five percent comes from tourism entrance fees, and the remaining 53 percent is covered by international assistance, channeled through the central government and managed directly by SERNAP. FUNDESNAP administers an additional \$1.5 million each year for integrated management of the SNAP (including strategic investments for programs and projects).

Since 2005, FUNDESNAP has assumed a wider responsibility for contributing to SNAP's development by working with other main PA stakeholders: civil society organizations, municipalities, prefectures and other non-governmental institutions. FUNDESNAP has partly supported the development of financial mechanisms to support the integration of municipal- and departmental-level PAs into the SNAP. FUNDESNAP has also helped to build capacity in financial planning topics related to PAs.

### **Operation of the Fund**

The ultimate governing authority of FUNDESNAP is the Assembly of Founders, which is composed of two representatives of the Bolivian Government, one representative of the business sector, one representative of the academic sector, two representatives of NGOs working in PAs,

two representatives of international donors, and one member of a PA management committee. In the near future, it is likely that government authorities are not going to continue participating in the Assembly, due to new public policies related to government control systems. International donors are also going to be replaced by Bolivian civil society organizations that are at the same level of maturity as FUNDESNAPE.

The Assembly of Founders elects seven individuals to serve as FUNDESNAPE's Board, who are selected on the basis of their individual professional qualifications, and not as representatives of institutions.

FUNDESNAPE is organized to allow for separate financial committees for each account established by a donor grant agreement. These committees are made up of members of the Board and Assembly, FUNDESNAPE staff, and (when requested) a donor representative. Their function is to supervise the financial management of the accounts established by the respective agreements.

FUNDESNAPE finances its own operational and administrative costs through charging a percentage of the funds that it administers, and through grants that it receives for institutional strengthening projects. There are no formal ceilings, but on average costs are kept to five to ten percent of the amount channeled annually to PAs. This percentage includes costs of monitoring and evaluation.

### **Activities Supported**

- PAs management
- Biodiversity use programs and projects
- Strategic financial planning for conservation
- Capacity building for financial sustainability
- Financial systems building for conservation and sustainable development
- PAs local and global benefit studies

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**Bolivia**  
**Fundación “Protección y Uso Sostenible del Medio Ambiente”**  
**(Fundación PUMA)**

*The PUMA Foundation originated in a series of bilateral agreements between the governments of Bolivia and the United States: the Framework Agreement signed on November 26, 1991, establishing the Enterprise of the Americas Initiative (EAI) Account; and the amendment to that Agreement, signed on June 18, 2000, which created a new private foundation to administer the account. PUMA seeks to provide a stable source of financing to NGOs and community groups that implement projects focused on environmental protection and sustainable use of natural resources in Bolivia.*

**Origins of the Fund**

A bilateral debt reduction agreement that was negotiated between the governments of Bolivia and the United States (US) in 1991 resulted in the canceling of debt owed by the Government of Bolivia of approximately \$372 million, in exchange for the Government of Bolivia’s issuance of a bond for \$20 million to be paid in six-month installments over a ten-year period, for the purpose of financing environmental projects in the country. The financial resources that Bolivia obtained through the Enterprise of the Americas Initiative (EAI) were originally channeled through the Bolivian National Environment Fund (FONAMA) as a sub-account of that Fund. In addition, the Government of Bolivia renegotiated additional debt owed to the US Government (so-called PL-480 debt), and in exchange committed to transfer to FONAMA a sum of \$1.8 million over 15 years. After an initial period of organizational success, FONAMA experienced an institutional crisis that led to its failure to comply with the requirements of the EAI Framework Agreement. The US and Bolivian governments therefore decided to withdraw the EAI funds that had been given to FONAMA, and to create a new private organization to administer these funds. In March 2001, PUMA was legally established as an independent private civil society organization.

The Government of Bolivia completed making all of its deposits to the EAI account in January of 2002. During the time that FONAMA managed the EAI Account, about \$6.2 million was spent on projects, leaving a balance of \$17.6 million. After considerable delays, this balance was transferred to PUMA so that the funds could be managed in accordance with the EAI Framework Agreement, as well as PUMA’s statutes and internal regulations, and other legal requirements.

Upon its formal establishment, PUMA began to recruit its board, the highest decision making body. This process was carried out under the leadership of a private consultant specializing in human resource recruitment. Once the Board was seated, the process of selecting and contracting a general manager began, again with a consulting firm working under the supervision of the Board. The Board also decided to re-employ professional staff who had performed functions relating to the EAI account in FONAMA (such as monitoring and evaluation (M&E) of projects, accounting and fund administration), thereby preserving the EAI account’s institutional

memory. At the same time, consultants prepared manuals for operations and the project cycle, and other operational documents for the new institution.

One of the first decisions the Board had to make after the EAI resources were transferred was how much should be disbursed as sinking funds and how much held as an endowment. Like other funds supported by the EAI, PUMA faces the challenge of diversifying its funding sources to assure its financial sustainability and its operations after the EAI resources are depleted.

### **Operation of the Fund**

The Board is the highest authority of the Fund and is composed of seven members: one representative of the Government of Bolivia, one representative of the US Government and five invited members. Board members may be laymen or juridical persons, of Bolivian nationality or residence. The five invited members are elected through a public call for applications under the supervision of a human resources recruitment firm. The Board's President and Vice President are elected from among the non-governmental representatives. The Government representatives currently are the Minister of Rural Development, Agriculture and Environment, or the Vice Minister of Biodiversity, Forest Resources and Environment (or their successors, alternates or the institution that assumes their functions in case of a government restructuring), and the Director of the US Agency for International Development (USAID). Board members serve terms of two years and can be elected once only after serving one term.

The Board's responsibilities are to: (1) Legally represent the foundation; (2) Exercise fiduciary responsibility to assure that the foundation's funds are properly used for plans, programs and projects; (3) Elect the President and Vice President of the Board from among its members; (4) Formulate and define key actions for the management of the foundation in its administrative, economic, financial and social aspects; (5) Promote fundraising policies; (6) Authorize the General Manager to enter into inter-institutional agreements for the implementation of specific programs and/or projects; and (7) Approve the annual operating plan and budget. The foundation's operations are delegated to a staff unit, consisting of a team of three people in each of two areas: (1) Projects; and (2) Administration and finance. PUMA's operations are paid as a percentage of annual disbursements, with a 15 percent ceiling. PUMA has a strategic plan.

The challenges that PUMA has experienced include: (1) Delay in the transfer of resources to PUMA caused by FONAMA's excessive political influence over national funding; and (2) Continuing political changes in the Government's representatives on the Board.

### **Activities Supported**

The Framework Agreement established the thematic areas of projects that may be financed. According to PUMAs strategic plan, the three areas of financing include:

- Forest and forest land
- Biodiversity and sustainable use of animal and plant species
- Hydro biological resources

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## **Brazil**

### **Fundo Brasileiro para a Biodiversidade (FUNBIO)**

*The Brazilian Biodiversity Fund (FUNBIO) is a private, nonprofit organization created in 1995 to provide strategic resources for biodiversity conservation in Brazil. After twelve years in operation, it is evident that the valuable support this institution has provided to conservation is the result of its willingness to experiment with innovative financial mechanisms involving the private sector in the identification of alternative approaches to conservation and sustainable use of biodiversity.*

The Brazilian Biodiversity Fund (FUNBIO) is a private, nonprofit organization established to provide strategic resources for biodiversity conservation. FUNBIO was created in 1995 through an initiative of the Brazilian Government and the Global Environment Facility (GEF) to help implement the Convention of Biological Diversity. These two institutions identified a need to create mechanisms to support government and private institutions, including academic institutions and private enterprises, in the development of activities to increase the conservation and sustainable use of biodiversity in Brazil. These efforts gave rise to two initiatives: the Project on Conservation and Sustainable Use of Brazilian Biodiversity and FUNBIO.

During the design of the World Bank-GEF project, various alternatives for the creation of a fund were considered. One of these was the integration of FUNBIO in the National Environmental Fund (FNMA). This option was rejected because FNMA is a government institution and subject to the normal volatility of change in governments and procedures. In addition, being part of a public institution could have reduced the opportunities for engaging the private sector in participating as a partner in a project whose fundamental purpose is to explore innovative financial mechanisms in collaboration with the business sector, among others.

#### **Origin of the Fund**

Three institutional options were considered for FUNBIO: (1) Creating a new foundation specifically dedicated to managing FUNBIO; (2) Incubating FUNBIO inside of an existing foundation; or (3) Developing a consortium of foundations to manage FUNBIO. Following a long consultative process, the second option was chosen to “incubate” FUNBIO inside of an existing Brazilian private foundation that is agile, flexible and insulated from changes in government and able to help FUNBIO raise national and international funds. In September 1995, FUNBIO was established as an autonomous unit of the Getulio Vargas Foundation (FGV).

In 2000, after a five-year period of incubation in FGV, FUNBIO became independent. FGV transferred the capital it had received to establish FUNBIO as a new independent organization, which adopted the same name, functions and obligations that it had assumed as a unit under FGV.

Since its beginning, FUNBIO was intended to be an efficient, transparent and long-term financing mechanism which, outside of government jurisdiction, could assure financial support for priority projects to conserve biodiversity, and attract funding from the private sector. FUNBIO was established with a GEF grant of \$20 million in sinking funds, with FUNBIO agreeing to raise an additional five million dollars in national counterpart funding. The GEF disbursed half of the \$20 million capital at the beginning of the project and required the national counterpart funding to be raised before the second tranche of the GEF funding could be released. To date, FUNBIO has raised around \$7.1 million in counterpart funding. FUNBIO also manages \$43.5 million through the Amazon Region Protected Areas (ARPA) program, and FUNBIO has earned \$14.5 million in revenues, thus adding significant resources for biodiversity conservation in Brazil.

The original GEF resources were a sinking fund that had to be spent in 15 years. This requirement included a commitment that FUNBIO diversify its funding base to achieve financial sustainability once the GEF resources were depleted. In 2003, FUNBIO considered the first phase of operations complete.

### **Operation of the Fund**

The highest decision-making body at FUNBIO is the Board of Directors, referred to as a Governing Council, comprising 28 leaders from distinct segments of society who are involved in biodiversity conservation in Brazil (eight non-governmental (NGO) representatives, eight private sector representatives, eight academics and four government representatives). Members are selected to ensure a balance in geographic representation and gender equity, with leadership in biodiversity conservation being the most important criteria for selection. One-fourth of the members are up for election each year. The Council's responsibilities include defining FUNBIO's general policies, identifying priorities and promoting its programs. To avoid losing the benefit of the abilities of the members of the Board of Directors once they complete their terms, FUNBIO has created a consultative council composed of former Board members, who continue to serve in a purely advisory capacity.

FUNBIO's operations are managed by an executive committee, four technical committees and an executive secretariat. FUNBIO employs 65 professional staff. FUNBIO's Executive Committee is composed of the President and Vice President of the Governing Council and the coordinators of the technical committees. The Executive Committee coordinates the work of the technical committees and supervises the work of the Executive Secretariat. The technical committees conduct analysis and supervision and are organized by specific expertise in the following areas: (1) Finance and auditing; (2) Asset management; (3) Fauna; and (4) Natural protected areas (PAs). The technical committees are made up of members of the Governing Council and individuals invited to participate based on their expertise in relevant areas.

The Executive Secretariat implements FUNBIO's strategy and programs in both technical and administrative aspects. It provides the Governing Council with proposals and information for its decision-making, coordinates the development of plans, programs and reports, and supervises activities of FUNBIO. In addition, FUNBIO contracts with outside service-providers for specialized services such as legal counsel, accounting and audits. One of the challenges FUNBIO

has identified is development of a human resources policy that permits standardized evaluation, compensation and training of its operational staff.

FUNBIO's administrative and management expenses are covered by a percentage of the GEF funds. The ceiling established for such costs is 22 percent, but in 2007 administrative and management expenses were budgeted at 15 percent of FUNBIO's total annual budget.

FUNBIO has undergone six strategic planning processes during its lifetime. The first strategic planning process served to organize FUNBIO's initial activities (1996/1997). The second was carried out during the same year, as a survey regarding the strategic direction of the Fund once it had recruited more sources of counsel and advice. In 1998, FUNBIO carried out the third exercise to revise the structure of the Fund in relation to FGV. In 2001, there was a planning exercise to define the institutional mission and identify the strategy for the future. In 2003, a fifth strategic planning was carried out with the participation of members of the Governing Council and staff members to review the institutional mission and define a functional structure for the Executive Secretariat. In 2006, FUNBIO started its last planning exercise, which was finalized in 2007 with the elaboration of an action plan for the next three years. This last exercise was motivated by the perception that FUNBIO needed to be prepared to scale up its programs and reach in face of the growing challenge of biodiversity loss and that, besides intermediate financial resources, FUNBIO could contribute in other ways by providing, solutions, innovations and best practices models, operating as an facilitator of key players. FUNBIO views strategic planning as a process of continuous adjustments to assure that the organization is well positioned in the face of constant external changes.

FUNBIO's mission as currently stated is "to provide strategic resources for the conservation of biodiversity." FUNBIO does this in the following ways:

- Identifying key investment needs and opportunities
- Creating new financial instruments and financing mechanisms
- Supporting programs and sustainable investments

The organization raises and distributes economic resources to finance activities with this objective. It is an intermediary between sources of funding and project implementing organizations seeking to develop environmental enterprises that are economically sustainable. It works to complement government actions, in accordance with the Convention on Biological Diversity (CBD) and the National Biodiversity Program. FUNBIO's clients include private sector partners and NGOs, as well as local communities and governments that are implementing projects for conservation and sustainable use of biodiversity. FUNBIO gives priority in its funding to projects involving the private sector (businesses and NGOs) in conservation activities. This has been a critical element in attracting additional contributions from these sectors.

One of the contributions of environmental funds to environmental management is the impact that they can have on policy and operational practices. FUNBIO provides an example, in that during its initial years of operation, some of its institutional processes and practices served as a model

for other NGOs and government agencies. This was the case with its project review and selection process, and its operational systems.

Some of the major challenges that FUNBIO has faced include: (1) Becoming independent of FGV, with the need for FUNBIO staff, previously dedicated entirely to technical functions, to take on administrative functions as well; (2) The difficulty of finding staff with experience in managing an NGO; (3) Developing the capacity to administer and monitor activities in remote parts of the country; and (4) The lack of legislation promoting or supporting financial donations to NGOs, which has limited FUNBIO's local fundraising efforts.

### **Activities Supported**

FUNBIO divides its activities into two phases: first-generation programs and second-generation projects. First-generation programs are those funded during FUNBIO's first ten years of operation, when FUNBIO funded small-scale community-based projects, focusing mainly on testing innovative mechanisms for conservation and sustainable use of biodiversity.

In the absence of a national biodiversity strategy in Brazil, FUNBIO identified five priority areas in its first call for proposals: (1) Sustainable management of natural forests; (2) Agriculture and biodiversity; (3) Sustainable fisheries; (4) Management of conservation units; and (5) Conservation of ecosystems on private property. The breadth and variety of themes brought a response of 1,083 proposals submitted. Of these, FUNBIO selected and supported ten for a total of \$2.1 million. This experience required the Fund to redefine its programs to better focus its priorities and niche, and make more effective use of its resources. To date, FUNBIO has financed 62 projects for a total of \$12 million.

FUNBIO's first-generation programs consist of the following four programs:

#### **(a) Consortium Fund**

This fund supports the work of consortia of organizations with common interests in priority areas for conservation and sustainable use of biodiversity. Each fund is formed by a donation from the consortium, complemented by resources from FUNBIO. FUNBIO's contribution is limited to 50 percent of the total budget of the initiative supported. FUNBIO has signed seven contracts, with the following consortium leaders: Instituto Terra, Ford Foundation, Klabin do Paraná Produtos Florestais, Cemig (state electric company of Minas Gerais), Fundacao Promar (a marine issues foundation), Rureco (foundation for rural economic development of the east-central region of the state of Paraná) and Advisory Services for Alternative Agriculture Projects, with a total investment of \$8.7 million, of which \$5.6 million was provided by partners. The types of projects currently supported by this program are conservation, recovery and consolidation of natural capital, environmental education, production and trade of medicinal plants, research on fish in rivers with hydroelectric basins, fishery resource management and agro-biodiversity.

### **(b) Support for Sustainable Production**

The objective of this program is to consolidate innovative, sustainable biodiversity use projects that are already operating. The projects must represent an alternative to economic activities with high environmental impact and open new avenues for employment and income generation for local populations. In addition, the program supports certification of products and processes that ensure the conservation of natural resources that necessary for economic activities.

The program developed from findings that resources contributed by government and international agencies to this type of activity in different sectors (nearly one billion dollars in 1997) were very concentrated in production, leaving aside market research and development, and capacity building for business administration. FUNBIO developed a methodology based in business planning to strengthen capacity for market research and business planning with a focus on environmental sustainability and economic viability. Having developed this methodology, FUNBIO issued a call for proposals for this type of project. In a pilot phase FUNBIO funded three projects totaling \$100,000 that was completed in 2000. A total of ten projects (three still in progress) were supported and implemented by community organizations, associations and cooperatives of producers, NGOs and small businesses. Each project received about \$90,000 to develop business plans and other activities. The extraction of non-timber forest products, organic agriculture and ranching are the most common activities in this program. The program directly benefited almost 2,600 families in three different ecosystems, promoting an increase in their income, and as a consequence, a better quality of life. Other results include: (1) Reduction of human pressure on forests fragments; (2) Creation of forestry corridors; (3) Sustainable management of coastal resources; and (4) Establishment of agro-forestry systems to guarantee conservation of biodiversity and prevent soil erosion.

### **(c) Ecotourism Best Practices**

This program supported the development of human resources to strengthen the ecotourism sector, and to define a set of best practices to serve as a reference for ecotourism projects in remote areas of Brazil. In its first phase, the project contracted a consultant team to write a best practices manual covering operational and financial aspects of the industry. The manual was immediately used to train technical specialists and form multidisciplinary teams to implement ecotourism projects. The program's objective was to benefit local and traditional communities, associations, cooperatives, owners of private and community reserves, and small micro-enterprises operating ecotourism projects in areas of high biodiversity. Another criterion for selection of these projects was their potential to generate employment and income for local populations. The program received support from additional financial partners, including Financiadora de Estudos e Projetos (a Brazilian agency that finances studies and projects), Banco da Amazônia SA, Embratur (the Brazilian Tourism Institute), and the Ministry of Environment. FUNBIO provided complementary matching funds from its own resources for each of the partners. The program also received in-kind contributions from Varig Airlines and the Companhia Vale do Rio Doce (a Brazilian mining company). The program invested approximately one million dollars in ecotourism, which resulted in training 54 technical specialists in 15 different ecotourism destinations.

#### **(d) Ford Foundation Partnership**

This program offers economic support to sustainable development community projects. The partnership between the Ford Foundation and FUNBIO brought \$1.16 million to this program, which has financed nine projects (two of which are still in progress). The projects mainly supported the production of tropical fruits, vegetables, spices, coffee, medicinal plants, hearts of palm and handmade wood products. This program's objectives were sustainable management of forest resources, introduction of agro-forestry systems, training and organizational support for communities. A second stage of this program, started in 2001, focused on supporting three projects in the state of Acre.

#### ***Second Generation Projects***

##### **Amazon Region PAs**

The second phase of FUNBIO's programmatic history started when it became involved in the ARPA Program, an initiative of the Brazilian Federal Government that aims to protect 12 percent of the Brazilian Amazon through the creation and consolidation of PAs. FUNBIO was selected to manage the program's funds, and specifically to coordinate all procurement of goods and services necessary for the implementation of PAs, in addition to ensuring asset management. The ARPA program's donors are the GEF (through the World Bank), WWF-Brazil, and the German Development Bank KfW. The first phase of ARPA, with terms ending in 2008, is expected to include a total of \$69.9 million in resources, and \$18.1 million in direct investments by the Brazilian Federal Government.

Apart from managing resources that are spent directly in PAs, FUNBIO is also responsible for managing the PAs Fund (FAP), carrying out studies for pilot projects, and developing such projects for the long-term sustainability of strict PAs. FUNBIO is also in charge of implementing activities to encourage social participation around these areas and in 2008, selected 17 community-based projects to support around seven key PAs.

##### **Fauna Brazil Portfolio**

In 2006, FUNBIO launched the Fauna Brazil Portfolio, based on a technical cooperation agreement signed by FUNBIO, the National PA Agency IBAMA, and the Federal Public Prosecutor's Office. The objective is to develop programs, projects and actions for conserving the endangered fauna and fishing resources in Brazil. The resources for the Fauna Brazil Portfolio come from federal administrative fines, judicial awards and donations allocated to projects to protect endangered species. In 2007, FUNBIO received an initial investment of \$1.5 million from seismic companies to support seven marine species protection projects.

##### **Probio II – Integrated Public-private Actions for Biodiversity Conservation**

This project developed by FUNBIO and the Federal Government was recently approved by the GEF. Its objective is to mainstream biodiversity protection activities in the investment strategies

and decision-making processes of the public and private sectors in Brazil. FUNBIO is responsible for the component that aims to encourage medium and large private companies to increase their investments in conservation activities and to develop multi-sector and inter-institutional initiatives in priority conservation regions. To determine where projects will be implemented, FUNBIO will build up a knowledge database with diverse information about key areas that meet two criteria: high priority for conservation (as defined by the Ministry of Environment), and the existence of an economic agent willing to participate in the project. This component is expected to involve a total outlay of \$33 million. Of this, GEF will contribute \$7.5 million and FUNBIO has pledged to raise \$22.5 million.

### **Sustainable Juruti**

In 2006, Alcoa challenged FUNBIO to help them develop sustainability options for a new bauxite mining project in Juruti, in the west of Pará, state in the Amazon. FUNBIO is designing a long-term fund for supporting sustainable activities in the region and intermediating financial and material resources for projects that integrate social, economic and environmental aspects intended for the development and well-being of the population.

### **Environmental Secretariat of the State of Rio de Janeiro**

FUNBIO is currently working on a project to rebuild the environmental fund of the State of Rio de Janeiro (FECAM), which receives about \$300 million per year from oil production royalties. The challenge is to design specific funds to ensure that resources are being applied for dealing with key environmental issues. FUNBIO was selected specifically because of its experience in managing the ARPA program. The Rio de Janeiro state government intends to create a funding mechanism to finance conservation of the state's PA system.

FUNBIO is also working with the state of Rio de Janeiro's Government to structure a fund that receives payments from compensation fees for large-scale infrastructure development projects.

### **Biodiversity Conservation Investments Database**

FUNBIO is the coordinator of the Biodiversity Conservation Investments Database project, whose aim is to develop, test and implement a monitoring system (including a database and other analytical tools) to monitor information about public and private investments in conservation in the Andes-Amazon region. The system will help environmental funds, donors, government agencies, NGOs and other stakeholders of the environmental community to identify the gaps and needs for further investments, thereby improving the coordination of new resource allocation to the region.

The initiative is a partnership between ten different environmental funds from Latin America that support projects in the Andes-Amazon region and that are members of the Latin American and the Caribbean Network of Environmental Funds (RedLAC). RedLAC's membership currently includes 20 environmental funds from 14 countries, which together manage around \$700 million in investments that support more than a thousand conservation and sustainable use of natural resources projects. The mission of RedLAC is to promote the integration and the strengthening

of environmental funds in Latin America and the Caribbean in a continuing learning system for the sake of conserving the region's natural heritage conservation and promoting sustainable development. FUNBIO is a member of RedLAC, and was elected to host RedLAC's presidency beginning in 2008.

### **Fund Administration**

FUNBIO's Governing Council has established a committee on finance and auditing that is responsible for developing FUNBIO's investment strategies and monitoring the results achieved by FUNBIO's asset manager. In addition, the Committee oversees FUNBIO's annual external audit and presents the results of the audit to the Governing Council.

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## **Brazil**

### **Fundo Nacional do Meio Ambiente (FNMA)**

*Brazil's National Environment Fund (FNMA) is a public institution within the Ministry of Environment, created in 1989 as one of the first actions of the Brazilian Government to finance environmental projects that promote the rational use of natural resources and the maintenance, improvement or restoration of the environmental quality of the distinct Brazilian ecosystems.*

*FNMA receives budget allocations from the Federal Government to finance its activities. In addition, from 1993-2005 the Fund invested \$75 million in loans from the Inter-American Development Bank, including Brazilian Treasury counterpart contributions. Over its 18-year history the fund has financed more than 1,400 projects, investing over \$100 million.*

*Throughout its history, FNMA has faced the challenge of being the main source of environmental funding in a country with 8.5 million square kilometers of continental territory and six major biomes. Other challenges include guaranteeing the Fund's sustainability and accurately evaluating fund results as they reflect public policy.*

#### **Origins of the Fund**

At the end of the 1980s, the environmental movement began to gather force in Brazil. At the same time, fires in extensive regions of the Amazon began to represent a national problem with global impact, placing Brazil at the epicenter of global environmental issues. It was in this context that the Special Secretariat for the Environment, reporting directly to the President of the Republic, was established as the principal entity for environmental management at the national level. Later the National Environment Fund (FNMA) was created as a response to multiple demands from society, which had begun to identify the impact of inadequate management of natural resources on the citizens' quality of life. FNMA was created by law N° 7.797 to finance environmental projects that promote the rational use of natural resources in different Brazilian ecosystems.

#### **Operation of the Fund**

FNMA's highest governing body is its Governing Council. FNMA's staff is responsible for carrying out all project funding activities and guaranteeing FNMA's financial sustainability. The Minister of the Environment presides over FNMA's Governing Council. The Council has 34 members, including alternates: six representatives of the Ministry of Environment, four representatives of the Brazilian Institute of Environment and Renewable Natural Resources, two representatives of the Ministry of Planning, Budget and Management, two representatives of the Brazilian Association of State Environmental Agencies, two representatives of the Brazilian Association of Municipal Environmental Agencies, two representatives of the Brazilian National Waters Agency, and 16 representatives of various non-governmental organizations.

FNMA's staff is comprised of approximately 68 civil servants, as well as a Director and Substitute-Director, appointed by the Minister. The Fund is organized into three management units:

1. The project unit is responsible for the selection, monitoring and evaluation (M&E) of projects. This unit subsidizes the Council, responsible for making the final decision about which projects will be funded. The unit is divided into two departments responsible for the technical and financial aspects of project implementation.
2. The administrative-financial unit is responsible for all actions pertaining to financial management, internal administration, purchases and contracts. This unit also manages the Fund archives.
3. The institutional development unit is responsible for FNMA's sustainability, for capacity building of project proponents and executors, as well as strategic planning.

Unlike other Environmental Funds in Latin America, FNMA operates with resources derived from the Federal Budget. Additionally, FNMA receives resources generated by the Petroleum Law, and ten percent of the funds raised through fines levied under the Law of Environmental Crimes. In 2001, FNMA signed a technical cooperation agreement of three million Euros with the Netherlands to support projects that fight desertification and climate change.

Today FNMA is the main public institution funding small and medium-sized environmental projects in Brazil. To guarantee its sustainability and improve the services provided to Brazilian society, FNMA must respond to several challenges: 1) Continue to pursue partnerships within government and through technical cooperation to guarantee financial sustainability; 2) Build-up a qualified staff to maintain operational sustainability; 3) Build-up capacity among regional partners, such as state and municipal funds, decentralize environmental funding; and 4) Improve the M&E of projects funded by FNMA.

### **Activities Supported**

One of the factors that add value to CTFs is their potential to contribute to the financing of national priorities. In this context, one of the great advantages of a governmental fund is its close relation to the implementation of national plans and priorities. FNMA's work is linked to the Federal Government's national four-year plan for public investment. FNMA finances projects in six thematic areas:

1. **Water and Forests:** Projects that contribute to preservation, recovery and the sustainable use of forest resources, conservation and recovery of springs and other water resources and that fight desertification.
2. **Conservation and Management of Biodiversity:** Projects that contribute to the conservation and sustainable use of biological diversity and genetic resources and contribute to the expansion of PAs.

3. Territorial Management and Planning: Projects that contribute to planning processes that include sustainability, stimulating public participation.
4. Environmental Quality: Projects that contribute to urban solid waste management and to the implementation of municipal policies based on sustainable development as well as projects that implement solutions to dangerous waste production and projects that contribute to the mitigation of greenhouse gas emissions.
5. Sustainable Societies: Projects that contribute to the sustainable development of local and Indian communities, protecting the environment and improving life quality, while maintaining their productive activities. This thematic area also funds environmental education and cultural and social change processes.
6. Fishery Resources: Projects for the sustainable use of fishery resources, involving local communities and promoting the conservation of strategic habitats and of aquatic biodiversity.

There are two ways in which grant applicants can submit and receive approval for projects: 1) Unsolicited requests submitted by institutions on their own initiative, in accordance with FNMA's guidelines; and 2) Response to calls for proposals issued by FNMA focused on one or more of the themes described above. Both public agencies and non-governmental organizations (NGOs) can submit proposals. To be eligible, NGOs must be affiliated with the National Registry of Environmental Organizations or have two years of legal existence. Additional information about eligibility criteria can be found at FNMA's website: [www.mma.gov.br/fnma](http://www.mma.gov.br/fnma).

FNMA's project cycle emphasizes the identification of social benefits of projects as part of their design. One of the selection criteria is the level of participation of different social groups in areas such as management of participatory processes, identification of mechanisms permitting equitable distribution of biodiversity benefits, and projects that assure the respect of local customs and traditions.

Strengthening the institutional capacity of implementing organizations is key to assuring the effective use of the funds granted by FNMA. Therefore, the Fund carries out training events for grant applicants and grantees. The Fund also uses an e-learning facility provided by the Ministry of Education to provide project implementers with manuals and other needed information. Users can also consult FNMA staff, using an internet chat environment, about specific aspects of their projects. In 2005 FNMA published two new manuals: *Orientations for Project Proposal* and *Orientations for Project Execution*.

M&E of projects is carried out through the review of progress reports and field visits to evaluate technical and financial aspects. FNMA is currently developing mechanisms to monitor and evaluate the impact of its projects on the conservation and sustainable use of natural resources.

In 2006, FNMA participated in the creation of the Brazilian Network of Environmental Funds, a clearinghouse for exchanging experiences and planning partnerships. The Network currently has

24 member-funds, including state and municipal funds, and more than one hundred funds throughout the country are interested in joining. The Network will also contribute to building institutional capacity among its members.

### **Administration of the Fund**

FNMA is a department within the Environmental Ministry's Executive Secretariat. FNMA is managed by a Director appointed by the Minister, who is assisted by the three unit managers. Additionally, FNMA is subject to external audit by the Federal Secretariat of Control.

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## **Colombia**

### **Fondo para la Acción Ambiental y la Niñez (FPAA)**

*The Fund for Environmental Action and Childhood (FPAA), with origins in a bilateral agreement signed in 1993 by the governments of the United States and Colombia, administers the Enterprise for the Americas Initiative in Colombia, a fund capitalized by a debt swap that generated \$41.6 million to finance projects of environmental conservation and child welfare, implemented by non-governmental and community-based organizations.*

*On March 30, 2004, a subsidized debt-for-nature swap agreement was signed under the Tropical Forest Conservation Act by the Governments of the United States and Colombia and by The Nature Conservancy, World Wide Fund for Nature and Conservation International. In August 2004, FPAA was appointed Fund Administrator for this Account, which will generate approximately ten million dollars for forest conservation over 12 years.*

Colombia, located at the Northwest extreme of South America, has a surface area of 1,141,748 km<sup>2</sup> and an approximate population of 44 million, including more than 100 ethnic groups. Colombia is the fourth largest country in South America and the second most populous. In this context, the Fund for Environmental Action and Childhood (FPAA) works as a mechanism to promote development through non-governmental organizations (NGOs) and community-based organizations. The Fund gives priority in its work to minorities, including indigenous communities, communities of African origin, and to regions of special interest for natural, economic, and social characteristics. Under exceptional conditions, FPAA can also support public entities.

FPAA is a mechanism that promotes the participation of diverse sectors of society in a common objective: sustainable development, managed locally and participatory. FPAA supports projects that promote a new relationship between humans and the environment, and strengthen the vision and effectiveness of local environmental administration.

#### **Origins of the Fund**

FPAA was established in August 2000 as a non-profit NGO, with origins in the bilateral agreement signed in 1993 between the Governments of Colombia and the United States (US). This agreement created the “Enterprise for the Americas Initiative Account” in Colombia and generated a flow of economic resources through a debt reduction agreement. The interest owed on Colombia’s remaining debt to US Agency for International Development (USAID) (\$ 279 million) was re-directed to capitalize a fund with \$41.6 million in ten years. The EAI Account had been administered by Ecofondo, a nonprofit environmental foundation, since 1993. However, the first applications for funding did not begin until 1996. In 1997, difficulties in the implementation of projects resulted in the suspension of activities until the program was reactivated with the establishment of FPAA in 2000. FPAA administers the EAI resources with

the objective of co-financing projects intended to preserve, protect, or manage Colombia's natural resources, and at the same time, promote child survival and development.

On March 30, 2004, a subsidized debt-for-nature swap was signed under the Tropical Forest Conservation Act (TFCA) by the Governments of the US and Colombia and by participating NGOs: The Nature Conservancy (TNC), World Wide Fund for Nature (WWF) and Conservation International (CI). The US Government provided seven million dollars; TNC, CI and WWF contributed a total of \$1.4 million. The agreement was declared effective on September 7, 2004 and will generate approximately ten million dollars for forest conservation over 12 years.

The TFCA provides direct funding for conservation and sustainable development activities (50 percent) and an endowment fund (50 percent) for public and private PAs, buffer zones and corridors. Funds are channeled to NGOs and community-based organizations with experience and previous work in the targeted areas, with the purpose of increasing connectivity and ecological integrity of tropical forests in Colombia.

### **Structure and Operations of the Fund**

The Directive Council, the highest decision-making body of the FPAA, is responsible for the administration, direction and control of the FPAA, as well as of the EAI Account. The Council authorizes procurement of the necessary technical, administrative, financial and operative services for appropriate administration of the EAI Account. The current Council is composed of eight members: a representative of USAID; the Director of the National Planning Department and the Minister of the Environment, representing the Colombian Government; and five representatives of civil society from the following sectors: academic and scientific organizations, environmental and child development NGOs, and community development organizations.

The Council implements its policies and decisions through an Executive Secretary, who is appointed by the Council and serves as its authorized representative. The Executive Secretariat is staffed by 21 persons including three area directors (technical, financial and administrative, and legal), four environmental specialists, two childcare and development specialists, two monitoring and evaluation specialists and nine financial, information, legal, accounting and administrative support personnel. Amezquita and Company-PKF is the external auditor.

Financial management is the responsibility of a financial commission with three members: the USAID representative, the Planning Department representative and the Executive Secretary. Project monitoring, technical auditing and institutional development of implementing organizations are outsourced to specialized technical support units and lately, carried out directly by the Executive Secretariat.

Historically, FPAA has made grants through open calls for proposals in which the applicants receive continuous feedback and assistance. Starting in 2002, FPAA's Council adopted a new policy for strategic partnerships with two main objectives: (1) To leverage funds from partners and conduct joint and focused calls for proposals; and (2) To build on the technical strengths of partner organizations and become a "learning organization." The Executive Secretariat also took charge of project appraisal, formerly contracted to the technical units.

## **TFCA Oversight Committee**

FPAA's Directive Council agreed to the creation of a separate oversight committee for the TFCA debt swap account. This committee has five members and is composed of representatives from the US Government (USAID), the Government of Colombia (Ministry of the Environment, Special Administrative Unit of the National Natural Parks System - UAESPNN), and the three international NGOs (TNC, WWF and CI) which contributed to the TFCA debt swap account.

### **Activities supported**

#### *Americas Initiative Account*

On October 2006, the EAI Account was divided into a sinking fund and an endowment fund. Depletion of the sinking fund is expected to take place by 2011. This fund is used to provide grants to projects in the conservation and sustainable development component and in the childhood development and protection component. The projects are screened and selected through requests for proposals (RfPs) carried out directly by FPAA or jointly by FPAA and its partners. The sinking fund is also used to pay for capacity building of NGOs and CBOs, and for FPAA's operational costs (including staff salaries and fees for external auditors and fiscal agents).

FPAA's Board also decided to use the EAI endowment fund with the purpose of attracting new donors and establishing dedicated sub-accounts for specific purposes. The objective is to substantially increase the fund's size and to consolidate it as a long-term financing mechanism. Earnings will be used to fund programs in priority areas, cover operational and capacity building costs, and provide capitalization.

Between 2001 and 2007, FPAA approved 650 projects, supported by \$35.8 million in EAI funds and counterpart matching funding of \$33.6 million from strategic partners and grant beneficiaries.

#### *Forest Conservation Agreement Account*

The first grant allocated by the Oversight Committee of the FCA Account was given to the UAESPNN. The grant funded a project that provided critical technical inputs for the sustainable management, land planning and conservation of the Vía Parque Isla de Salamanca PA and its buffer zone, the Biosphere Reserve and Ramsar site of Ciénaga Grande de Santa Marta, in the priority forest area of the Caribbean corridor.

For the first grantmaking phase (2004-2008), the Oversight Committee dedicated \$2.9 million for the forest areas of El Tuparro Biosphere Reserve, the Yariguíes National Park and PA and the Oak Forest Conservation Corridor.

While FPAA issues RfPs, the period to receive project profiles is considered a "permanent window." On November 2005, FPAA opened an RFP for El Tuparro and Yariguíes. The RFP for the Oak Forest Corridor was launched in September 2006. These were publicized widely using

national and local newspapers, local and regional radio stations, mailings to NGOs and CBOs, Web site advertisements and onsite meetings with local organizations.

To date, \$1.47 million has been granted to four projects, including the special project in the Caribbean corridor; implementing agencies have committed counterpart funding for \$1.07 million, for an aggregate investment of \$2.54 million.

The criteria for project selection are provided in detail in the website: [www.accionambiental.org](http://www.accionambiental.org).

## Fund Administration

### *Americas Initiative Account*

The Directive Council and Executive Secretariat monitor performance of the three financial agents in charge of the EAI Account portfolio.

EAI Fund/Trustee	USD millions	% total
<b>EAI Endowment</b>	<b>\$23.7</b>	<b>61.6%</b>
Fiducolombia	\$11.9	
Valores Bancolombia	\$11.8	
<b>EAI Sinking</b>	<b>\$14.8</b>	<b>38.4%</b>
HSBC	\$14.8	
<b>TOTAL</b>	<b>\$38.5</b>	<b>100%</b>

\* December 31, 2007

The portfolio is managed according to a set of investment policies approved by the Directive Council. 24 percent of the EAI endowment fund is in US dollars and covered by a specific investment policy.

The EAI sinking fund is invested in holdings issued or guaranteed by the Colombian Central Bank or publicly traded stocks of industrial and commercial companies, banks, financial corporations or public debt or commercial bonds with AAA, AA+ or equivalent rating.

### *Forest Conservation Agreement Account*

The Oversight Committee and FPAA's Executive Secretariat monitor performance of HSBC, the financial agent in charge of the TFCA account portfolio.

TFCA Fund	USD millions	% total
<b>TFCA Endowment</b>	<b>\$3.4</b>	<b>59.6%</b>
<b>TFCA Sinking</b>	<b>\$1.7</b>	<b>29.8%</b>
<b>TFCA Reserve</b>	<b>\$0.6</b>	<b>10.5%</b>
<b>TOTAL</b>	<b>\$5.7</b>	<b>100.0%</b>

The portfolio is managed according to the same investment policy that is applied to the EAI sinking fund. The TFCA endowment fund is in US dollars.



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## **Ecuador**

### **Fondo Ambiental Nacional (FAN)**

*The National Environmental Fund of Ecuador (FAN) is a private, non-profit organization created in 1996, which began operating in 1999 under the leadership of the Ministry of the Environment of Ecuador. After operating for more than eight years, it has developed into a highly regarded institution for fundraising and channeling financial resources to support environmental management in Ecuador based on national environmental priorities.*

*FAN has grown from a small fund operating just one account, to a fund that manages several long-term financing mechanisms which support the National System of Protected Areas (SNAP) and its buffer zones, in close cooperation with bilateral, multilateral and private donors. FAN currently has agreements for managing over \$30 million, out of which more than one-half consists of endowment funds, including the Protected Areas Fund (\$13 million), and the Galapagos Invasive Species Fund (\$3 million). FAN disburses approximately four million dollars a year, out of which \$700,000 supports SNAP (for which FAN provides over 20 percent of the annual budget). In addition, FAN operates several other sinking fund accounts including EcoFondo, a 17-year \$16.9 million sinking fund, which is one of the most important initiatives by the private sector to support biodiversity conservation and sustainable use of natural resources in Ecuador.*

#### **Origins of the Fund**

The National Environmental Fund of Ecuador (FAN) is a private, non-profit organization that grew from the interest of a group of leaders from different sectors of society (government, environmental non-governmental organizations (NGOs), business and academic sectors) who wanted to establish a suitable mechanism to finance environmental management and conservation of biodiversity in Ecuador. The group was concerned about the existing weaknesses in the National System of PAs (SNAP), which were due to inadequate funding and the lack of long-term continuity for initiatives supported by the government or donors, once the funding for projects ran out. The group, at the same time was very much aware of the fact that Ecuador is perhaps the most biodiverse country on earth in relation to its surface area, and also possesses a wealth of cultural diversity.

During the decade of the 1980s, Ecuadorian civil society generated a variety of environmental initiatives and projects, and governmental activity in this sector was also beginning. During the 1990s, the State gradually assumed a larger role in creating institutions for environmental management. These were important advances, in spite of the fact that the decade was economically and politically a very difficult time in Ecuador. From 1990 to 1999, annual economic growth was zero, the currency was devalued by three orders of magnitude, annual inflation was more than 50 percent, and from 1996 to 2001, Ecuador had five presidents. This situation hindered environmental policy, in that constant adjustments to economic policy have

dominated the work of the state, making medium and long-term planning very difficult. In this context, civil society played an important role in the establishment of improved environmental institutions and practices.

The need for a mechanism for long-term financing of environmental management was considered a high priority. In 1994, the founding group instituted a process of consultation and workshops with civil society leaders, the donor community and other Latin American environmental funds to identify a suitable solution. From these consultations, the fundamental principles for the creation of an Ecuadorian environmental fund emerged: (1) It would be established as a private institution under the Civil Code, but with government representatives participating as a minority of the Fund's board; and (2) There would be a direct correlation between the Fund's programs and Ecuador's national environmental priorities. In January 1996, the Bylaws of FAN were approved, but until 1999 no further progress occurred. FAN's operations began in 1999 with the support of the Global Environment Facility (GEF)/World Bank, The Nature Conservancy (TNC), Ministry of Environment, Summit Foundation, and the commitment of the Government of Ecuador to make a grant of one million dollars as seed capital.

At that point, FAN began a process of consultation with the international donor community to review the 1996 design and determine whether it was still adequate. This process led to a decision to enlarge the governing body to include individuals chosen for their personal leadership, to contribute to the development of the institution, a fundraising process was initiated, and a strategic plan and internal procedures were developed. The contribution of international organizations and other funds from the Latin America allowed FAN to learn from their experiences and develop a stronger concept.

Between 1999 and 2001, FAN conducted initial negotiations for the capitalization of its first initiative, assistance to SNAP, which started in 2002. The funding included: (1) \$2.9 million generated through a debt swap with the German Government; (2) \$4.3 million from the GEF; and (3) \$700,000 from the Netherlands International Cooperation Agency. The initial \$1 million contribution from the Government of Ecuador, disbursed in 2001 was essential for the purpose of showing the commitment of the Government to support the establishment of FAN as a private institution.

### **Progress and Development of the Fund**

Since 2001, FAN has grown from a small fund operating a single account, to a fund which manages several long-term financing mechanisms in support of SNAP and its buffer zones in close cooperation with bilateral, multilateral and private donors. It currently has agreements for over \$30 million out of which more than one-half are endowment funds including the PAs Fund (\$13 million), which supports 11 of the 36 PAs of SNAP, and the Galapagos Invasive Species Fund (FAP) (three million dollars). FAN disburses approximately four million dollars a year, out of which \$700,000 supports the SNAP (for which FAN provides over 20 percent of the annual budget). In addition, FAN operates several other sinking fund accounts including EcoFondo, a 17-year \$16.9 million sinking fund, which is one of the most important initiatives by the private sector to support biodiversity conservation and sustainable use of natural resources in Ecuador.

Relations between FAN and the Ministry of Environment of Ecuador have also developed over time, particularly in forging co-ownership of the FAP and closely partnering to launch the Galapagos Invasive Species Fund. FAN's institutional relations with national and international environmental NGOs have also strengthened local governments. FAN has also partnered with other international foundations such as the Gordon and Betty Moore Foundation and the John D. and Catherine T. MacArthur Foundation. FAN is now broadening its activities to include new concepts such as conservation incentives and compensation for ecosystem services. One example of this is the Podocarpus Pro-Watershed Fund jointly being developed with the Municipality of Zamora, the Ministry of Environment, the ArcoIris Foundation, TNC and Conservation International (CI). Aware of the importance of contributing to the development of national capacities in conservation, FAN is also involved in providing technical assistance and in exploring new innovative financial mechanisms to support conservation of biodiversity and sustainable use of natural resources in Ecuador in partnership with CI and with Germany's Development Agencies – the German Development Bank (KfW) and the German Agency for Technical Cooperation (GTZ).

### **Governance**

The highest governing body of FAN is the Board, which is composed of seven members: one representative of the Government of Ecuador, one representative from the private business sector, one representative of the academic sector, one representative from the environmental NGOs, and three individuals not linked to government who are elected on the basis of personal leadership and who have experience in areas that FAN considers necessary. These three slots are currently filled by representatives of the financial sector with experience in investment management, who help to assure sound management of FAN's investment portfolio. The principal functions of the Board are to define operational policies, approve audited financial statements, approve the annual operating plan and budget, approve the strategic plan and investment policies, and select the Executive Director through an open competition based on merit.

All members of the Board have an equal vote, and the Fund's President is elected from among its members. The inclusion of the Minister of Environment among the Board members has facilitated processes of negotiation of support from the Government and assures that activities financed by FAN are consistent with national environmental policies identified by the Ecuadorian society through a participative process and documented in the National Strategy for Sustainable Development in Ecuador (2000).

The Board is supported by a Financial Resources Management Committee to oversee investment strategies, including development of policies and supervision of the investment portfolio, and also a programs committee which follows all implementation of programs and projects under the responsibility of FAN.

## Operations

FAN has an operational team of 18 persons who work in the areas of resource administration, finance/administration, and professionals who work in the areas of PA management, and sustainable use of natural resources. FAN also has a team that conducts monitoring and evaluation (M&E) of activities by its grantees, and has an internal auditor who is part of the staff and reports directly to the Board. FAN's financial statements are audited every year by an internationally recognized firm, and the results posted on FAN's web page in accordance with FAN's disclosure and accountability policies and practices.

FAN's leadership decided to begin FAN's operations by focusing initially on a single topic, and then after demonstrating results in that area, adding other topics to the institution's agenda. FAN decided to begin with a focus on PAs, since biodiversity conservation is one of the priorities of Ecuador's environmental strategy for sustainable development. PAs represent 18 percent of the national territory and harbor a great biodiversity of ecosystems and species. During the last 30 years, NGOs have worked continuously in PAs. However, there is no sustainable financing for basic operations of core management activities in the SNAP. In response to this challenge, FAN and the Ministry of the Environment designed a new financing mechanism specifically to assure the long-term operation of PAs: the FAP.

## Financial Mechanisms

### *Protected Areas Fund*

FAP is an endowment fund generating investment returns which are used to finance the recurrent operational costs of PAs. The reasons for choosing an endowment formula as funding mechanism include: (1) The problem to be addressed requires a constant flow of funds over the long-term; (2) Efficient mechanisms for channeling resources are needed, given the size and complexity of on-site operations; (3) There is potential to forge a public-private alliance toward a common goal; (4) The system of PAs is already established; (5) The threat of collapse of the PA system due to lack of funding is a long-term challenge that requires constant attention for a minimum of ten to 15 years; and (6) FAN can establish legal and financial procedures that are transparent and allow the resources to be efficiently delivered.

Raising endowment funds is an additional challenge since donors tend to restrict this type of investment. However, the Fund has embarked on a dynamic process of mutual learning in negotiations with potential donors. FAN is the recipient of the three debt-for-nature swap between Ecuador and Germany; this is the first case in which Germany capitalized an endowment fund through a debt-for-nature swap operation.

FAN is working on the design of the PAs program and has facilitated the establishment of improved planning mechanisms for the PAs. In the same way, the methods devised to channel resources to the field and to monitor and evaluate results, will facilitate the use of results-oriented management practices by the environmental authority. FAN role goes beyond that of a financial mechanism. Channeling resources implies additional activities, including institutional

strengthening, networks of key actors, and training in financial management, planning, accounting and M&E, among other topics.

The contribution of the environmental fund to the operation of PAs is not intended to substitute for the Government's responsibility to continue to provide current funding and develop new funding sources for PAs. The Government's commitment to fulfilling this responsibility is included as part of the agreement between FAN and the Government for operating FAP. Since 2003, more than \$2.3 million has been disbursed from FAP to finance PAs. The current level of capitalization of FAP is \$13 million, and its capitalization target is to reach \$35 million in 2011.

#### *EcoFondo*

EcoFondo is a 17-year, \$16.9 million initiative by the private sector (OCP-EnCana) to support biodiversity conservation and sustainable use of natural resources in Ecuador. EcoFondo finances projects that are selected through a competitive project cycle procedure. Independent experts evaluate all of the submitted proposals and EcoFondo's Board of Directors then decides which proposals to support. Funding is available primarily for PAs directly impacted by the OCP pipeline and other areas impacted by petroleum extraction.

#### *The Galapagos Invasive Species Fund*

This is a new initiative between the Ministry for the Environment, the GEF, United Nations Foundation, CI's Global Conservation Fund and the Galapagos Conservancy, and its target capitalization is \$15 million. It will provide stable and long-term funding for the control and management of invasive species in the Galapagos archipelago. Its current capitalization is \$3.2 million.

#### *Project Management*

FAN manages a number of different restricted accounts together with national partners. These accounts support projects that range from identifying new areas which merit protected status because of their high biodiversity values, to strengthen several existing national parks, to activities aimed at institutional strengthening, policy development and raising environmental awareness. Funding for these accounts comes mainly from large international partners such as: TNC, CI, the John D. and Catherine MacArthur Foundation and the Gordon and Betty Moore Foundation.

### **Contact Information**

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## Mexico, Belize, Honduras, Guatemala The Mesoamerican Reef Fund (MAR Fund)

*The Mesoamerican Reef Fund is a non-profit corporation created by four environmental funds from Belize, Guatemala, Honduras and Mexico as a financial mechanism for conservation and adequate resource use in the Mesoamerican Reef Eco-region. While many environmental funds have been set up in the last 15 years in the developing world, this unique conservation finance mechanism is the first environmental fund in the Western Hemisphere that transcends the national boundaries of four countries to encompass an entire ecoregion.*

For the purpose of the Mesoamerican Reef (MAR) Fund, the Mesoamerican Reef is defined as the system extending nearly 1,000 km from the northern tip of the Yucatán Peninsula in Mexico to the Bay Islands / Cochino Cayes complex off the north coast in Honduras. It includes, besides coastal and marine ecosystems, the watersheds that drain into the Caribbean in Mexico, Belize, Guatemala and Honduras. The ocean extension of this ecoregion varies from approximately 40 km off the northern coast of the State of Quintana Roo in Mexico, to 240 km off the Gulf of Honduras and 50 km off the north coast of Honduras at the mouth of the Aguán River (Fig. 1).

*Figure 1. Mesoamerican Reef Ecoregion*



The MAR contains the largest barrier coral reef system in the Western Atlantic and is part of a larger interconnected system of coastal habitats and currents that stretch throughout the Caribbean basin and beyond. It is composed of extensive coral reefs including luxuriant patch,

fringing, and barrier reefs and unique offshore atolls. A diverse array of fish, invertebrates, birds, plants, sea turtles and mammals inhabit the area. The region also has important coastal habitats such as beaches, coastal rivers/lagoons, mangroves, sea grasses and coastal wetlands that provide important breeding, nesting and foraging habitat for numerous species.

The MAR sustains nearly two million people from the four countries, with a large proportion living along the coasts and islands. Indigenous communities depend heavily on the reefs for subsistence. These four countries also share several important transboundary drainage systems including the Bay of Chetumal (Mexico and Belize) and the Gulf of Honduras (shared by Belize, Guatemala and Honduras). The rich resources in the region have important ecological, aesthetic, and cultural value to its inhabitants. Productive fishing grounds support valuable commercial and artisanal fisheries. Millions of tourists are attracted to the sandy beaches and teeming reefs providing important economic revenue to the people and their governments.

The ecoregion is exposed to a series of threats, which, according to their magnitude and origin, have different levels of impact on the reef system. The four primary threats that are likely to have significant impacts on biodiversity in the ecoregion have been identified as follows:

- a. Coastal habitat degradation or conversion
- b. Declining water quality
- c. Declining or depleted fisheries
- d. Increased stress due to oceanographic and climatic phenomena

An ecoregional approach to conservation involves the understanding that conservation efforts should be planned and implemented beyond national boundaries. In June 1997, the presidents of Mexico, Guatemala and Honduras and the Prime Minister of Belize signed the Tulum Declaration, by which the importance of the MAR Ecoregion was fully recognized.

In addition to explicit political support, numerous significant and important conservation efforts are currently being carried out in the MAR. These initiatives, however, are often limited by project cycles and established time horizons. It is therefore essential to achieve long-term financial sustainability for the protection and resource management efforts promoted by local organizations in the ecoregion.

Acknowledging this need for long-term financial sustainability, representatives from four environmental funds came together to establish the MAR Fund. The idea was to build, based on the capability and experience of the four pre-existing funds, a financial mechanism as a complementary initiative to the present and future efforts in conservation and sustainable use of natural resources in the eco-region.

The four participating funds are:

- Belize's PAs Conservation Trust (PACT)



- Fundación para la Conservación de los Recursos Naturales y Ambiente en Guatemala
- Honduras' Fundación Biosfera
- Fondo Mexicano para la Conservación de la Naturaleza (FMCN)

The initiative was launched with the endorsement of the Latin American and Caribbean Network of Environmental Funds (RedLAC), and the technical and financial support of World Wildlife Fund (WWF), The Nature Conservancy (TNC) and Summit Foundation.

The MAR Fund mission is to conserve the resources and natural processes in the MAR region for the benefit of present and future generations through the management of natural resources and technical and financial support for priority areas and issues such as water quality, sustainable tourism, sustainable fisheries and institutional strengthening.

It is a participatory, privately managed mechanism, which fosters coordination with public sector, civil society and private entities regionally and in each one of the countries. It works in coordination with other initiatives and projects carried out in the MAR, in order to consolidate joint efforts and to promote synergies in financial terms and also in regard to conservation results/impact. The MAR Fund derives its management capacity from the existing technical, administrative and financial management capabilities of the four participating environmental funds. It thus builds on existing structures looking for the most efficient and effective arrangement.

The MAR Fund has a committed Board of Directors, integrated by women and men with many years of experience in the MAR eco-region. The finance and technical committees provide valuable support and advice to the Board. The strategic plan has been completed, as well as the majority of the operation procedures for the organization. The present focus is on the development and implementation of the business plan and funding strategy.

### **Progress to Date**

During 2007-2008, the MAR Fund designed and launched a fundraising campaign to secure core operating and programmatic funds. The fundraising strategy has derived largely from the results of a detailed feasibility study and consists of two parts. The initial part of the campaign, focused on core operation costs, was launched in October 2007. The MAR Fund will approach larger donors for larger amounts to provide sinking and/or endowment funds for specific programmatic activities, such as the network of coastal and marine protected areas (PAs) and the community fisheries initiative.

The centerpiece of the MAR Fund's grant-making program is the establishment and support of an interconnected network of well-managed coastal and marine PAs of high ecological and socioeconomic value. The MAR Fund concluded the priority-setting process for coastal and marine PAs to define a network of 14 areas on which to focus the first funding efforts.

The MAR Fund is also developing the groundwork for a community fisheries program, through which it will promote and finance the design, establishment and monitoring of fisheries co-management agreements. The first stage of this process, which consisted of diagnostics on community fisheries and community fishing groups in the MAR region, was completed in 2007. Currently, the second stage is underway, consisting of initial workshops on ecosystem-based fisheries management and community marine reserves.

Together with TNC, the MAR Fund delivered a workshop to identify opportunities for cooperation and to minimize duplication of efforts among 15 organizations active in the MAR region. As a result of the workshop, a matrix was developed, with information on who is doing what in what parts of the region. It also indicates if funding is available or is under negotiation. The possibilities for joint work are outlined in the matrix.

### **Contact Information**

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## Peru Fondo de las Américas (FONDAM)

*The Americas Fund of Peru (FONDAM) was created as a result of a debt reduction agreement and the Framework Agreement establishing the Americas Fund, signed by the governments of Peru and the United States in 1997.*

*FONDAM's purpose is to promote activities in support of the preservation, protection or administration of the natural and biological resources of Peru in a sustainable and environmentally sound way, and promoting improvements in survival and development of the children of Peru.*

### Origins of the Fund

The Americas Fund of Peru (FONDAM) was created as a result of a debt reduction agreement and the Framework Agreement establishing the Americas Fund, signed by the Governments of Peru and the United States (US) in 1997. FONDAM began operations in March 1999.

FONDAM's resources total approximately \$18 million and are managed by a financial agent. During the start-up phase, because the funds flowed from a debt swap, the Ministry of Economy and Finance, specifically the Directorate of Public Credit and the Vice Minister of Finance, were responsible for acquisition and management of the funds. Once the agreements were signed, the responsibility passed to a fund board composed of the ministers of agriculture and health, a representative of US Agency for International Development (USAID), and representatives of civil society.

### Fund Operations

FONDAM is governed by a Council formed by eight members: one designated by the US Government, two by the Peruvian government, and five representatives of non-governmental organizations (NGOs), of which two serve for three-year terms and three for two-year terms. The NGO representatives are elected by the NGO Assembly from their corresponding technical area.

Current members of the Council are: (1) The presiding Officer which is the Executive Director of the Instituto de Desarrollo y Medio Ambiente (IDMA); (2) The Vice President of Asociación de Servicios Educativos Rurales 9; (3) The President and Executive Director of Consorcio para el Desarrollo Sostenible de Ucayali; (4) The Executive Director of Kusi Warma Association; (5) The President of Asociación Tecnología y Desarrollo; (6) One representative of the Minister of Health; (7) One representative of the Minister of Agriculture; and (8) One representative of the Director of USAID.

The Council's responsibilities include approval of the annual budget, approval of projects proposed for grants, consideration of annual audited financial statements, selection of the

Executive Secretary and the external auditor. Council members do not raise funds, but do vote to approve plans to include other financing sources in FONDAM.

The Executive Secretariat carries out FONDAM's strategy and work plans, including technical, administrative and financial aspects. The Executive Secretariat provides the Council with proposals and information related to its decisions, coordinates the development of plans and reports, and supervises the implementation of FONDAM's activities. FONDAM's administrative expenses are financed by a percentage of the resources being administered, in accordance with the agreement. The annual average is about 12 percent; the maximum allowable ceiling is 20 percent.

FONDAM conducted its most recent strategic planning process in 2006. Its mission is "to promote activities in support of the preservation, protection or administration of the natural and biological resources of Peru in a sustainable and environmentally sound way, and promoting improvements in survival and development of the children of Peru."

One of the challenges that has made the management of the Fund more difficult is the low institutional capacity of local NGOs to develop and implement projects.

### **Activities Supported**

In accordance with the Agreement that created FONDAM, FONDAM works to finance projects designed to: (1) Promote activities in support of the preservation, protection or administration of the natural and biological resources of Peru; and (2) Promote improvements in child survival and development.

Since its creation, FONDAM has supported 312 projects totaling \$15.92 million through four grant-making mechanisms: (1) Calls for proposals; (2) Co-financing; (3) Axis of development grants; and (4) Special projects. In Co-financing, FONDAM has signed agreements with the Moore Foundation to develop projects in the Condor Kutuku Conservation Corridor and with the Critical Ecosystem Partnership Fund (CEPF) to develop projects in the Vilcabamba–Amboro Conservation Corridor, one of the priority hotspots for this organization. In addition, FONDAM participated in the planning and design of a Consortium's proposal that won an international bidding process within the framework of USAID's Amazon Basin Conservation Initiative.

The Call for proposals mechanism has a continuous selection process that lasts about four months, from the call for proposals until the signing of agreements. In this process, there are two phases: (1) Qualification of applicants on the basis of profiles submitted; and (2) Development of project's operative plans with technical assistance from FONDAM's professional team. This latter phase concludes with the presentation of projects to FONDAM's Council for selection and approval. At the beginning, profiles and projects were submitted from any part of Peru, for child survival and development projects, and for mixed projects, the priority was given to the projects that benefit areas with high levels of poverty. However, in the last few years, FONDAM has concentrated all of its interventions in areas with high levels of poverty. Projects can run for 24 months and requests may not exceed \$100,000.

Approximately 60 percent of FONDAM's grant resources go to environmental projects, 20 percent to child survival and development projects, and 20 percent to mixed projects linking the two themes. The allocation of resources to the distinct themes depends on the technical quality of the proposals received. Applications for \$25,000 or more must include a minimum counterpart funding by the requesting organization of ten percent of the total cost of the projects. Implementing organizations may be Peruvian non-governmental organizations or non-profit civil society organizations, duly incorporated and with current legal status as non-profit organizations, whose objectives and activities are related to preservation, protection or administration of natural and biological resources and/or promoting child survival and development

Environmental, child development and mixed projects must comply with the following eligibility criteria: (1) Presented by an eligible institution; (2) Technically, socially and environmentally feasible; (3) Promote active participation of beneficiaries in all phases of the project; (4) Promote gender equality and active participation by women; (5) Produce results that benefit all participants equitably; (6) Develop mechanisms that assure the sustainability of results; (7) Promote inter-institutional coordination and cooperation; and (8) Correspond to an eligible area, in accordance with the following criteria:

### **Environment**

- Protection of natural areas or fragile ecosystems
- Protection and conservation of threatened species
- Conservation of genetic diversity and native species
- Sustainable management of renewable natural resources: agriculture with native species, ecotourism, "green" businesses
- Restoration of degraded ecosystems
- Reforestation and agro-forestry systems
- Soil conservation
- Prevention/control of pollution in rural or urban areas

### **Child Survival and Development**

- Education, nutrition and food security
- Prevention of family violence
- Support of mother-child survival and development

## **Mixed Projects**

- Environmental soundness and preventative health
- Management of natural resources—food security, nutrition and preventative health

The theme of institutional strengthening arose through exchange of experience among NGOs implementing projects. There have been capacity building events built around the lessons learned in the various projects.

FONDAM has developed a system of management and control to verify the achievement of objectives proposed in the project applications, coordinated according to the unique characteristics of each project. The system allows for the assessment, in real time, of the situation of all the projects at a national level. To accomplish this, the technical and administrative staff of FONDAM continuously updates the system with information from quarterly reports and field visits. The system generates distinct types of management reports that permit the staff to make decisions and recommend corrective actions to improve the levels of achievement.

The experience gained, the implemented logistics and the basic purpose of helping the needy, motivated FONDAM to prepare and develop the following services:

- Project Administration System
- Services Administration System

In this framework, FONDAM has signed three agreements where FONDAM administers the resources of:

- The Yanacocha Mining Company's Local Fund for Solidarity with the People of Cajamarca Program
- The Oderbrecht Association for the Southern Inter-oceanic Highway Development Plan
- The Xstrata Mining Company for the Chaninchasun Project, of Las Bambas Mining Project

## **Fund Administration**

FONDAM's assets are invested through a financial agent, according to investment guidelines approved by the Council. The financial agent (i.e., asset manager) was selected from among Peru's principal banks, through a call for bids.

**Contact Information**

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## ANNEX F: LIST OF CONSERVATION TRUST FUNDS

### Asia/Pacific

Country	Name of CTF	Point of Contact	Year Established	Main Donors
Bangladesh	Arannyak Foundation	Farid Uddin Ahmed, Executive Director House 68, Road-1 Block-1 Banani, Dhaka 1213, Bangladesh e-mail: farid@arannayk.org	2003	Bangladesh-US (TFCA debt swap)
Bhutan	Bhutan Trust Fund for Environmental Conservation (BT FEC)	Tobgay S. Namgyal, Director Tashichho Dzong Complex P.O. Box 520 Thimpu, Bhutan Tel: 975 2 323846, 326419 Fax: 975 2 324214 e-mail: namgyal@druknet.bt	1991	World Bank-GEF, WWF, Netherlands, Switzerland, Norway, Finland
Federated States of Micronesia	Micronesia Conservation Trust (MCT)	Willy Kostka, Executive Director P.O. Box 2177 Kolonia Pohnpei FSM 96941 Tel: 691 320 5670 Fax: 691320 8903 e-mail: mctdirector@mail.fm  <a href="http://mctconservation.org">http://mctconservation.org</a>	2002	TNC, US, Packard Foundation
Indonesia	Yayasan Keanekaragaman Hayati Indonesia (Kehati)  Indonesian Biodiversity Foundation	Damayanti Buchori, Executive Director  Jl. Bangka VIII no. 3B Pela Mampang Jakarta Tel: +62 21 718 3185 Fax: +62 21 719 6131 e-mail: glumiu@kehati.or.id <a href="http://www.kehati.or.id">http://www.kehati.or.id</a>	1994	USAID, US private foundations



Country	Name of CTF	Point of Contact	Year Established	Main Donors
Kazakhstan	Biodiversity Conservation Fund of Kazakhstan	Assel Karasheva, Director  Tel: +7 3172 592550 (ext.127) Fax: +7 3172 592540 Mobile: +7 701 533 33 87 e-mail: trustfund.kz@gmail.com kazakhstan.wetlands@undp.org  <a href="http://www.wetlands.kz">http://www.wetlands.kz</a>	1998	UNDP-GEF, Kazhakstan
Laos	Laos Environmental Protection Fund	Soukata Vichit, Executive Director  EPF Executive Office P.O. Box 7647 3rd Floor, STEA Building, Sidamduan Rd. Vientiane, Laos Tel: +856 21 252739 Fax: +856 21 252741 e-mail: soukatav@laoepf.org.la  <a href="http://www.laoepf.org.la">http://www.laoepf.org.la</a>	2005	Asian Development Bank-GEF, hydro-electric power companies
Pakistan	Mountain Areas Conservancy Fund (MACF)	Raja Attaullah Khan, Project Director  Moutain Areas Conservation Project, IUCN H. 38, St. 86, Main Embassy Road, G-6/3 Islamabad, Pakistan Phone: +92 51 227 06867 Fax: +92 51 227 0688  <a href="http://macp-pk.org/macf.htm">http://macp-pk.org/macf.htm</a>	1999	UNDP-GEF, Government of Pakistan (anticipated, not yet capitalized)

Country	Name of CTF	Point of Contact	Year Established	Main Donors
Papua New Guinea	Mama Graun Conservation Trust Fund	Jane Mogina, Director P.O. Box 107, Boroko, NCD 111 Papua New Guinea Tel: +675 325 6041 Fax: +675 323 0397 e-mail: moginaj@global.net.pg; mamagraun@global.net.pg	2000	TNC, Packard Foundation, World Bank-GEF
Philippines	Foundation for the Philippine Environment (FPE)	Christine F. Reyes, Executive Director  77 Matahimik St., Teachers' Village Diliman, Quezon City Philippines 1100 Tel: +63 2 927 2186 Fax: +63 2 922 3022 e-mail: creyes@fpe.ph  <a href="http://www.fpe.ph">http://www.fpe.ph</a>	1992	Philippines-US (debt swap)
Philippines	Philippines Tropical Forest Conservation Fund	Juan Angel "Onggie" Canivel, Executive Director  Unit 714 Manila Bank Bldg 6772 Ayala Avenue Makati City 1200 Philippines Tel: +63 917 3229608 e-mail: jacanivel@gubat.org  <a href="http://www.ptfcof.org">www.ptfcof.org</a>	2002	Philippines-US (TFCA debt swap)
Vietnam	Vietnam Conservation Fund (VCF)	Do Quang Tung, Operation Manager  4th Floor, A3 Building, Forest Protection Department No. 2 Ngoc Ha St., Ba Dinh District Ha Noi, Vietnam  e-mail: fpdvn@hn.vnn.vn	2005	World Bank-GEF, Netherlands

Country	Name of CTF	Point of Contact	Year Established	Main Donors
Yemen	Socotra Conservation Fund	Malek Abdulaziz, Manager Sana'a – c/o SCDP office P.O. Box 551 Sana'a Yemen Tel: +967 1 256077 e-mail: scf@socotraisland.org  <a href="http://www.socotraisland.org/fund">www.socotraisland.org/fund</a>	N/A	UNDP-GEF

**Africa**

Country	Name of CTF	Point of Contact	Year Established	Main Donors
Botswana	Tropical Forest Conservation Fund (TFCF)	Edmont B. Moabi, Permanent Secretary Ministry of Environment and Culture, Botswana	2006 (swap agreement signed)	Botswana-US (TFCA debt swap)
Cameroon	Foundation for Environment and Development in Cameroon Fondation pour L'Environnement et le Développement au Cameroun (FEDEC)	Ernest Bodo Abanda B.P. 4860 Yaoundé Tel: +237 75 47 06 92 e-mail: e_bodabanda@yahoo.fr  <a href="http://www.fedec-cam.org">http://www.fedec-cam.org</a>	2001	Cameroon Oil Transportation Company
Cameroon	Cameroon Mountains Conservation Foundation (CAMCOF)	LBZG/MCBCC P.O. Box 437 Limbe, Cameroon Tel: +237 333 2620 Fax: +237 333 2834 e-mail: info@mcbcclimbe.org	2001	UK Dept for International Development (DFID)
Cameroon, Central African Republic, Republic of Congo	Fondation Tri-National de la Sangha (TNS)  Sangha Tri-National Foundation	Timothée Fometé, Executive Director  C/O WWF-CARPO B.P. 6776 Yaoundé, Cameroun Tel: +237 99 93 64 46 e-mail: fondationtns@yahoo.com	2007	KfW, AFD, Rainforest Foundation WWF

Country	Name of CTF	Point of Contact	Year Established	Main Donors
Côte d'Ivoire	Fondation pour les Parcs et Réserves de Côte d'Ivoire (FPRCI)  Foundation for Parks and Reserves for Côte d'Ivoire	Fanny N'golo, Director  01 BP 11842 Abidjan 01 Côte d'Ivoire Tel: +225 22 41 71 00 e-mail: fondationparc@africaonline.co.ci	2002	World Bank-GEF Germany (anticipated, not yet capitalized)
Ghana	Ghana Heritage Conservation Trust (GHCT)	Nkunu Akyea, Executive Director  Heritage House, Box CT 454 Cape Coast Ghana Tel: +233 42 30265 or 30264 e-mail: ghct@ghana.com	1997	USAID (debt swap), CI
Madagascar	Fondation pour les Aires Protégées et la Biodiversité de Madagascar (FAPB)  Madagascar Foundation for Protected Areas and Biodiversity	Christian Ramarolahy, Executive Director  VX 13 Andrefandrova 101 Antananarivo MADAGASCAR Tel : +261 20 22 605 13; 261 0 33 02 265 19 e-mail: cramarolahy@fondation-biodiversite.mg  <a href="http://www.fondation-biodiversite.mg">http://www.fondation-biodiversite.mg</a>	2005	Madagascar-Germany (debt swap), KfW, AFD, FFEM, World Bank, CI-GCF, WWF/MacArthur Foundation Madagascar-France (debt swap)
Madagascar	Fondation Tany Meva  Tany Meva Foundation	Fenosoa Andriamahenina, Executive Director  Lot I A I 1 Bis Ambatobe 103 Antananarivo, Madagascar Tel: +261 20 22 403 99 Cell: +261 33 14 403 99; 261 32 05 403 99 e-mail: tanymeva@moov.mg  <a href="http://www.tanymeva.org.mg">http://www.tanymeva.org.mg</a>	1996	USAID, MacArthur Foundation, Summit Foundation, CI

Country	Name of CTF	Point of Contact	Year Established	Main Donors
Malawi	Mulanje Mountain Conservation Trust (MMCT)	<p>Carl Bruessow, Executive Director</p> <p>P.O. Box 139 Mulanje, Malawi Tel: +265 1 466282/179 Fax: +265 1 466241 e-mail: carl@mountmulanje.org.mw</p> <p><a href="http://www.mountmulanje.org.mw">http://www.mountmulanje.org.mw</a></p>	1996	World Bank-GEF
Seychelles	Seychelles Island Foundation	<p>Ronny Renaud, Executive Officer</p> <p>Premier Building, P.O. Box 853 Victoria, Mahe, Republic of Seychelles Tel: +248 321735 Fax: +248 324884 e-mail: sif@seychelles.net</p>	1979	Tourism fees
South Africa	Table Mountain Fund (TMF)	<p>Onno Huyser, Manager</p> <p>C/O WWF South Africa Private Bag X2 Die Boord 7613, South Africa Tel: +27 21 762 8525 Fax: +27 21 762 1905 e-mail: ohuyser@wwf.org.za</p> <p><a href="http://www.wwf.org.za/?section=Trusts_TMF">http://www.wwf.org.za/?section=Trusts_TMF</a></p>	1998	World Bank- GEF, WWF-South Africa (South African private donors) CEPF
Tanzania	Eastern Arc Mountains Conservation Endowment Fund (EAMCEF)	<p>Francis B.N. Sabuni , Executive Director</p> <p>Plot No. 30, Kingalu Road P.O. Box 6053, Morogoro, Tanzania Tel. +255 23 261 3660 Fax. +255 23 261 3113 e-mail: eamcef@morogoro.net</p> <p><a href="http://www.easternarc.or.tz">http://www.easternarc.or.tz</a></p>	2001	World Bank-GEF

Country	Name of CTF	Point of Contact	Year Established	Main Donors
Uganda	Bwindi Mgahinga Conservation Trust (BMCT)	Geo Z. Dutki, Trust Administrator P.O. Box 1064 Kabale, Uganda Tel: +256-0486-24120/ 24123 Fax: +256-0486-24122 e-mail: dutki@bwinditrust.ug  <a href="http://www.bwinditrust.ug">http://www.bwinditrust.ug</a>	1994	World Bank-GEF, USAID, Netherlands

Europe

Country	Name of CTF	Point of Contact	Year Established	Main Donors
Armenia-Azerbaijan-Georgia	Caucasus Protected Areas Fund (CPAF)	David Morrison, Executive Director Tel: +339 61 52 34 15 Fax: +331 45 55 48 59 dmorrison@caucasus-naturefund.org  www.caucasus-naturefund.org	2007	KfW, CI-GCF, WWF
Bulgaria	National Trust EcoFund (NTEF)	67 B "Shipchenski prohod" blvd 1574 Sofia, Bulgaria Tel: +359 2 973 36 37; 38 16 Fax: +359 2 973 38 18 e-mail: ecofund@ecofund-bg.org  http://www.ecofund-bg.org	1995	Bulgaria-Switzerland (debt swap)
Poland	EcoFund	Maciej Nowicki, President  Bracka 4 St., 00-502 Warsaw, Poland e-mail: info@ekofundusz.org.pl  www.ekofundusz.org.pl/us	1992	Poland debt swaps with US, France, Switzerland, Finland, Italy
Poland-Slovakia-Ukraine	Foundation for Eastern Carpathian Biodiversity Conservation	Zbigniew Niewiadomski Head Representative  Representative Office in Poland 38-714 Ustrzyki Gorne 19 Poland Tel: +48 13 461 0643 Fax: +48 13 461 0610 e-mail: ecbc@wp.pl	1995	World Bank-GEF, MacArthur Foundation



**Latin America and Caribbean**

Country	Name of CTF	Point of Contact	Year Established	Main Donors
Argentina	Fondo para las Americas/ Argentina (FPLA)  Americas Fund	Silvia Tissoni  San Martin 451, entpiso, Of. 69 C1004AAI - Buenos Aires Argentina Tel: +54 11 4348 8521 Fax: +54 11 4348 8595 e-mail: fpla@medioambiente.gov.ar	1993	Argentina-US (EAI debt swap)
Belize	Protected Areas Conservation Trust (PACT)	Valdemar Andrade, Executive Director  Two Mango Street, P.O. Box 443 Belize City, Belize Tel: +501 822 3637 Fax: +501 822 3759  www.pactbelize.org	1997	Airport and cruise ship passenger tax  Belize-US, TNC (TFCA debt swap) for PACT Foundation
Belize, Guatemala, Honduras and Mexico	Mesoamerican Reef Fund (MAR)	María José González, Executive Director  17 Av. "D" 0-19 Zona 15, Colonia El Maestro Guatemala 01015 Tel: +502 2365 8985 Mobile: +502 5630 1386 Fax: +502 2365 8985 e-mail: mjgonzalez@turbonett.com  http://www.marfund.org	2004	Summit Foundation, Avina Foundation, Packard Foundation, Oak Foundation, WWF

Country	Name of CTF	Point of Contact	Year Established	Main Donors
Bolivia	Fondo Nacional para el Medio Ambiente (FONAMA)  The National Environmental Fund, Bolivia	Sergio Arenas Mariaca, President  Calle Mercado 1328 – Edif. Mcal. Ballivián, piso 1 Bolivia Tel: +591 2 233 0892 Fax: +591 2 220 1796 e-mail: sarenas@mail.megalink.com; fonama@mail.megalink.com	2007	Bolivia
Bolivia	Fundación Protección y Uso Sostenible del Medio Ambiente (PUMA)  Foundation for Protection and Sustainable Use of Environment, Bolivia	Juan Carlos Chávez Corrales, General Manager  Calle 15 de Calacoto - Edificio Torre ketal, Piso 3 La Paz, Bolivia Tel: +591 2 791777; +591 2 141495 Fax: +591 2 791785 e-mail: fpuma@fundacionpuma.org  <a href="http://www.fundacionpuma.org">http://www.fundacionpuma.org</a>	1991	World Bank -GEF, Switzerland, UK  Bolivia-US (EAI debt swap)  Bolivia-Germany debt swap  Private donors
Bolivia	Fundación para el Desarrollo del Sistema Nacional de Areas Protegidas (FUNDESNA)  Bolivian Foundation for the Development of the National System of Protected Areas	Sergio Martin Eguino Bustillos, Executive Director  Prolongación Cordero No. 127 P.O. Box. 3667 Tel: +591 2 243 1875; 211 3364 Fax: +591 2 243 3120 La Paz, Bolivia e-mail: fundesnap@fundesnap.org  <a href="http://www.fundesnap.org">http://www.fundesnap.org</a>	2000	World Bank-GEF, Switzerland, UK,  Bolivia-US debt swap  Germany-US debt swap  Gas Oriente Boliviano

Country	Name of CTF	Point of Contact	Year Established	Main Donors
Brazil	Fundo Brasileiro para a Biodiversidade (FUNBIO)  Brazilian Biodiversity Fund	Pedro Leitão, Executive Director  Largo do IBAM no. 1/ 6º andar - Humaitá 22271-070 Rio de Janeiro – RJ, Brazil Tel/fax: +55 21 2123 5305 e-mail: funbio@funbio.org.br  <a href="http://www.funbio.org.br">http://www.funbio.org.br</a>	1995	World Bank-GEF, ARPA (Brazil, KfW, WWF, World Bank-GEF), Ford Foundation, Alcoa, Brazilian foundations and corporations
Brazil	Fundo Nacional do Meio Ambiente (FNMA)  National Environmental Fund	Elias de Paula de Araujo, Director  Esplanada dos Ministérios, Bloco B, 6º andar 70 068-900 Brasília, DF – Brazil Tel: +55 61 3214 8323 Fax: +55 61 3214 8321 e-mail: fnma@mma.gov.br  <a href="http://www.mma.gov.br/fnma">http://www.mma.gov.br/fnma</a>	1989	Brazil, Inter-American Development Bank
Chile	Fondo de las Américas – Chile (FDLA)  Americas Fund	Jorge Osorio Vargas, Executive Director  Huérfanos 786, of. 708 Santiago de Chile, Chile Tel: +562 633 5950 Fax: +562 664 4213 e-mail: josorio@fdla.cl  <a href="http://www.fdla.cl">http://www.fdla.cl</a>	1993	Chile-US (EAI debt swap), WHO
Colombia	Fondo Conservación Áreas Protegidas  Colombian National Protected Areas Conservation Trust Fund	Alberto Gallan, Executive Director  e-mail: <a href="mailto:agalan@patrimonionatural.org.co">agalan@patrimonionatural.org.co</a>	2006	World Bank-GEF

Country	Name of CTF	Point of Contact	Year Established	Main Donors
Colombia	Corporación ECOFONDO	Rafael Colmenares, General Secretary  Calle 82, No. 19-26 Bogotá, Colombia Tel: +57 1 691 3452 63 74 Fax: +57 1 256 24 24 e-mail: ecodir@ecofondo.org.co; ecotodos@colnodo.apc.org  <a href="http://www.ecofondo.org.co">http://www.ecofondo.org.co</a>	1993	Canada, Netherlands
Colombia	Fondo para la Acción Ambiental y la Niñez (FPAA)  Fund for Environmental Action and Childhood	José Luis Gómez Rodríguez, Executive Secretary  Carrera 7 No. 32-33 Of. 2703 Bogotá Colombia Tel: +571 285 3862  e-mail: joselgomez@accionambiental.org; orussi@accionambiental.org  <a href="http://www.accionambiental.org">http://www.accionambiental.org</a>	2000	Colombia-US (EAI debt swap)  Colombia-US, CI, TNC, WWF (TFCA debt swap)
Costa Rica	La Fundación CRUSA  CRUSA Foundation	Hermann L. Faith, Executive Director  Rotonda de la Bandera San Pedro, Montes de Oca San José, Costa Rica 12229 1000 Tel: +506 2283 0665 Fax: +506 2283 0981 email: hlfaith@cr-usa.org  <a href="http://www.cr-usa.org">http://www.cr-usa.org</a>	1996	USAID  Costa Rica-US, TNC (TFCA debt swap)

Country	Name of CTF	Point of Contact	Year Established	Main Donors
Costa Rica	Fondo Nacional de Financiamiento Forestal (FONAFIFO)  The National Forestry Financing Fund	Jorge M. Rodríguez, Executive Director  Avenida 7 entre Calle 3 y 5 San José, Costa Rica P.O. Box 594 2120 Tel: +506 257 8475 Fax: +506 257 9696 e-mail: <a href="mailto:contactenos@fonafifo.com">contactenos@fonafifo.com</a>  <a href="http://www.fonafifo.com">http://www.fonafifo.com</a>	1996	gasoline tax, PES (carbon sequestration & watershed conservation), World Bank-GEF, KfW
Ecuador	Fondo Ambiental Nacional (FAN)  National Environmental Fund	Samuel Sangüeza-Pardo, Executive Director  Avenida Amazonas N34-311 Edificio Financiero Amazonas, piso 9 Quito, Ecuador Tel: +593 2 224 6020, 224 6161 Fax: +593 2226 2605 e-mail: <a href="mailto:ssanguenza@fan.org.ec">ssanguenza@fan.org.ec</a> ; <a href="mailto:fan1@fan.org.ec">fan1@fan.org.ec</a>  <a href="http://www.fan.org.ec">www.fan.org.ec</a>	1999	Ecuador-Germany (debt swaps)  World Bank-GEF, KfW, Netherlands  OCP-Encana for EcoFondo
El Salvador	Fondo de la Iniciativa para las Américas (FIAES)  The Enterprise of the Americas Initiative Fund	Jorge Oviedo, Executive Director  Colonia Escalon San Salvador, El Salvador Tel: +503 222 36498 Fax: +503 222 45475 e-mail: <a href="mailto:jorge.oviedo@fiaes.org.sv">jorge.oviedo@fiaes.org.sv</a>  <a href="http://www.fiaes.org.sv">www.fiaes.org.sv</a>	1993	El Salvador-US (EAI, TFCA debt swaps)

Country	Name of CTF	Point of Contact	Year Established	Main Donors
Guatemala	Fideicomiso para la Conservación en Guatemala (FCG)  The Guatemala Conservation Trust Fund	Carlos Baldetti, Executive Director  17 Av. D 0-19 Colonia El Maestro Guatemala City, Guatemala	1991	Guatemala-US, TNC (TFCA debt swap), WWF, Whitely Trust (UK)
Guatemala	Fondo Nacional para la Conservación de la Naturaleza (FONACON)  Foundation for the Conservation of Nature	Yvonne Ramírez, Executive Director  Cuarta calle 6-17 Zona 1 Guatemala City, Guatemala e-mail: fonacon@inteln.net.gt	1997	Guatemala
Haiti	Fondation Haïtienne de l'Environnement (FHE)  Haiti Environmental Foundation	Gerard L. Xavier, Executive Director  3, Rue Marcelle Toureau Berthe Petion-Ville Haiti Tel: +509 257 1988 Fax: +509 510 8480 e-mail : fhe_haiti@yahoo.com	1999	USAID
Honduras	Fundación Hondureña de Ambiente y Desarrollo "Vida" (Fundación Vida)  Vida Foundation	Jorge A. Quiñónez, Executive Director  Avenida Las Minitas, Calle Cervantes, Casa Número 322, Tegucigalpa, M.D.C., Honduras e-mail: jorge_quinonez@fundacionvida.org  www.fundacionvida.org	1992	Honduras-US (debt-swap)

Country	Name of CTF	Point of Contact	Year Established	Main Donors
Jamaica	Environmental Foundation of Jamaica (EFJ)	Joan Grant Cummings, Executive Director  1B Norwood Ave. Kingston 5 Jamaica Tel: +876 960 6744 Toll Free: 1 888 991 2953 Fax: +876 920 8999 e-mail: jgrantcummings@efj.org.jm  <a href="http://www.efj.org.jm">http://www.efj.org.jm</a>	1991	Jamaica-US (EAI debt swap)
Jamaica	Jamaica Protected Areas Trust (JPAT)	Rainee Oliphant, Executive Director  1B Norwood Avenue Kingston 5, Jamaica Tel: +876 870 7086 e-mail: roliphant@forestry.gov.jm  <a href="http://www.jpat-jm.net">http://www.jpat-jm.net</a>	2004	Jamaica-US, TNC (TFCA debt swap)
Mexico	Fondo Mexicano para la Conservación de la Naturaleza (FMCN)  Mexican Nature Conservation Fund	Lorenzo Rosenzweig, Executive Director  Damas 49. Col. San José Insurgentes. México D.F., Mexico 03900 Tel: +52 55 5611 9779 Fax: +52 55 5611 9779 e-mail: lrosenzweig@fmcn.org  <a href="http://www.fmcn.org">http://www.fmcn.org</a>	1994	World Bank- GEF, US, Mexico, private foundations

Country	Name of CTF	Point of Contact	Year Established	Main Donors
Panama	Fundación para la Conservación de los Recursos Naturales (NATURA) Foundation for the Conservation of Natural Resources	Zuleika Pinzón, Executive Director Apartado 2190, Panamá 1, Panamá Tel: +507 232 8773 Fax: +507 232 7613 e-mail: info@naturapanama.org; zpinzon@naturapanama.org <a href="http://www.naturapanama.org">http://www.naturapanama.org</a>	1991	Panama-US, TNC (TFCA debt swap), Inter-American Development Bank (loan)
Paraguay	Fondo de Conservación de Bosques Tropicales Tropical Forest Conservation Fund	N/A	2007	Paraguay-US (TFCA debt swap)
Peru	Fondo de las Américas (FONDAM) Americas Fund	Juan Gil Ruiz, Executive Secretary Av. Javier Prado Este 5318 La Molina Lima 12, Peru Tel: +511 447 9952 Fax: +511 447 9953 e-mail: fondam@fondoamericas.org.pe <a href="http://www.fondoamericas.org.pe">www.fondoamericas.org.pe</a>	1997	Peru-US (EAI debt swap)
Peru	Fondo Nacional para Areas Naturales Protegidas por el Estado (PROFONANPE) National Fund for Protected Areas	Alberto Paniagua, Executive Director Prolongacion Arenales 722 Miraflores Lima 18, Peru Tel: +51 1 212 1010 Fax: +51 1 212 1957 e-mail: apaniagua@profonanpe.org.pe <a href="http://www.profonanpe.org.pe">www.profonanpe.org.pe</a>	1992	World Bank-GEF, US, Mexico, KfW, Netherlands, Finland, Belgium Peru-US, CI, TNC, WWF (TFCA debt swap)



Country	Name of CTF	Point of Contact	Year Established	Main Donors
Suriname	Suriname Conservation Fund (SCF)	Leonard Johanns, Executive Director Burenstraat 33, 4e etage, Paramaribo Suriname Tel: +597 470 155 Fax: +597 470 156 e-mail: surcons@sr.net  <a href="http://www.scf.sr.org">http://www.scf.sr.org</a>	2000	UNDP-GEF, CI-GCF, Suriname, Netherlands

## **ANNEX G: MODEL TEMPLATE FOR MONITORING AND EVALUATING CONSERVATION TRUST FUNDS**

The following template is a set of questions designed to help CTF boards, staff and donors to monitor and evaluate a CTF's institutional performance and conservation impacts over time, and to facilitate comparisons with other CTFs. Unlike a "scorecard," this template does not attempt to assign particular weights to different questions, or to assign particular grades or ratings to different answers, to come up with an overall numerical score for each fund. By presenting a list of detailed, standardized questions that can be asked of all CTFs, it aims to make it easier to speak about CTFs in a single common language, using the same shared terms and categories, and to generate information that can later be analyzed for different purposes, like the information generated by a census. This template is only a guide, and may need to be adapted to fit the needs of particular CTFs and donors. It is hoped that others will help to improve this tool over time.

### **Legal Compliance**

Is the CTF in compliance with all of the provisions of its:

- a. Articles of incorporation (including its mission statement)?
- b. Bylaws?
- c. Grant agreements with donors?
- d. Laws of:
  - i. The country where it is operating?
  - ii. The country where it is legally registered (if that is a different country)?

### **Compliance with Reporting Requirements**

Has the CTF fully completed and submitted on-time all of the reports required by:

- a. International donors:
  - i. Financial reports?
  - ii. Technical reports?
- b. National government agencies:
  - i. Reports required for maintaining a CTF's legal registration and license to carry out activities as a non-profit entity?
  - ii. Reports (and payments, if any) required for compliance with tax laws?

### **Transparency**

Has the CTF demonstrated transparency by publishing and making widely available an annual report (and/or Website) that includes:

- a. List and amounts of all grants made?

- b. Total administrative expenses, including a definition of what this includes?
- c. Audited financial statements?
- d. Description of program goals and plans, and strategies for achieving them?

### **Procedures / Operations Manual:**

- a. Does the CTF have an operations manual (or manuals) that includes:
  - i. Procedures for board meetings, including taking of minutes and maintaining permanent written records of all board actions?
  - ii. Detailed criteria and procedures for grant-making?
  - iii. Procedures for M&E?
  - iv. Internal financial and accounting procedures?
  - v. Procurement rules and conflict-of-interest rules?
  - vi. Procedures for employment and performance evaluation of staff?
- b. Are (ii) and (iii) published or made available to all grantees and to those organizations interested in applying for grants?
- c. Are (iv), (v) and (vi) distributed to staff and kept updated?
- d. Are the operational manual and other administrative manuals followed in practice?
- e. How often are the operational manual and other administrative manuals updated?

### **Auditing Financial Performance**

- a. Does the CTF employ (either on its own staff, or as an outside consultant) a person with the skills required to do internal auditing to ensure compliance with all financial requirements of donors, national government agencies and the CTFs own bylaws and operations manuals?
- b. Has the CTF been audited each year by an independent accounting firm that applies generally accepted international accounting standards and meets all donor and national government requirements?
- c. Has the CTF been given a passing grade by such an independent auditor?

- If not, has the CTF given a satisfactory explanation for its non-compliance, and produced a plan for achieving full compliance within one year?

## **Investment Performance**

(for CTFs that have endowments or sinking funds)

- a. Does the CTF have (and – in the cases of (i) through (iii) below – does it comply with) an investment policy and/or investment guidelines that:
  - i. Include limits for investing in different types of assets?
  - ii. Include requirements for diversification among different types of investments?
  - iii. Include limits or restrictions on invading (i.e., spending) capital?
  - iv. Include annual investment performance targets or goals, linked to international benchmarks?
  - v. Have been approved by the CTF’s governing board?
  - vi. Meet any applicable international donor requirements?
  - vii. Meet any national government legal requirements?
- b. Has the CTF used an open and competitive process to select a highly regarded outside investment manager(s) (and/or investment consultants and advisors, hereafter all referred to as the “investment manager”) that meets all applicable international donor requirements and national government requirements?
- c. Does the CTF’s board (or a board committee) have (and apply) a set of procedures for reviewing the performance of the CTF’s investments at least quarterly, and for the CTF’s executive director to communicate with the CTF’s outside investment manager (by email, fax or telephone) at least monthly?
- d. Does the CTF’s board have (and apply) a set of procedures for reviewing the CTF’s investment policies, guidelines, and asset allocation’s at least annually, and (if necessary) updating or revising them in the light of current financial conditions, and the CTF’s own needs?

## **Administrative Efficiency**

- a. What is the CTF’s definition of administrative costs? In general, this should not include costs for technical assistance to grant applicants with designing proposals, or technical assistance to successful grantees with implementing their proposals.

- b. Does the CTF have a maximum limit on administrative costs as a percentage of its annual budget (at least starting from its third year of operations)?
- c. Has the CTF kept its administrative costs within the prescribed limit, if there is a limit?
- d. If the CTF has a limit on administrative costs but has not kept within that limit,
  - i. Has it provided an explanation satisfactory to its donors for exceeding the limit?
  - ii. Is it taking sufficient steps to either:
    - a. Reduce such costs?
    - b. Significantly increase its income?
    - c. Obtain additional outside funding specifically to cover such costs, either temporarily or permanently? or  
Provide justification acceptable to its donors for why limits on its administrative costs should be temporarily or permanently raised?

### **Clarity and Focus of Goals, Objectives and Roles**

- a. Does the CTF have a mission statement that is clearly defined and can serve as a means of setting priorities, or is the mission statement so broad or does it include so many different goals that it has little practical value?
- b. Does the CTF have a five-year strategic plan and an annual work plan that establish clear goals and priorities to guide its grant-making and other activities?
- c. Are the CTF's strategic plans based on a participatory process including the most relevant stakeholders?
- d. Has the CTF followed and carried out its five-year and one-year work plan, or given persuasive reasons for not doing so?

### **Effectiveness in Achieving Biodiversity Conservation**

- a. Do the CTF's mission strategic plan and annual work plan clearly refer to biodiversity conservation goals?
- b. Are the CTF's strategic plan and its grant-making criteria linked to national biodiversity conservation strategies and the program of work on PAs of the CBD?
- c. If a CTF's goal is to support a country's entire PA system,
  - i. What percent of the country's PAs receive support from the CTF?

- ii. What percent of the total annual operating costs of the country's PA system is provided by the CTF?
  - iii. Is the amount of funding provided by a CTF (or the number of PAs that it funds) based on a national-level PA financial gap analysis?
  - iv. Are there clear and meaningful performance indicators that PAs must achieve in order to receive funding?
  - v. Are there clear and objective criteria for determining which PAs in the system should have priority in being awarded grants from the CTF?
  - vi. Does the CTF have clear procedures for receiving and approving requests for financial support from PAs?
  - vii. Does the CTF provide grants for PA system-level planning?
  - viii. Does the CTF provide grants for institutional strengthening and capacity building for the PA management agency's headquarters staff and office(s)?
  - ix. What are the relative percentages of the total amount of grant funding that the CTF gives each year to support activities at a PA management agency's headquarters versus the amounts given to support activities in the field (i.e., at individual PAs), for each of the following categories of expenses (if applicable):
    - Salaries?
    - Training?
    - Vehicles?
    - Computers and other types of equipment costing more than \$500?
    - Buildings?
- d. Does the CTF promote biodiversity conservation and sustainable management of resources in PAs' buffer zones? If so,
- i. How much is the total amount of the CTF grants for biodiversity conservation-related activities in PA buffer zones?
  - ii. How much cofinancing has the CTF leveraged for this purpose?
  - iii. How many communities or people in buffer zones have been benefited?
- e. Does the CTF provide grants for capacity building and institutional strengthening of NGOs and CBOs? If so, list the amounts and purposes.

## **Monitoring and Evaluation**

- a. Does the CTF have a plan and procedures (and does it follow them) for monitoring and evaluating the biodiversity impacts (or the reduction of threats to biodiversity) resulting from its grants?
- b. Does the CTF have a program-level or CTF-level log frame with indicators to monitor and evaluate the aggregated impact and progress of the program/CTF in conserving biodiversity and/or reducing threats to biodiversity?
- c. Does the CTF require its grantees to identify key impact and progress indicators to allow monitoring the biodiversity impacts and/or reduction of threats to biodiversity as a result of their projects?
- d. Does the CTF require its grantees to collect the baseline and end-of-project data that are needed for adequately monitoring the biodiversity impacts of their projects?
- e. Does the CTF require its grantees to identify, analyze and prioritize specific threats to biodiversity, and design their activities based on this?
- f. Does the CTF require its grantees to actually use and apply the results of collecting and analyzing data from monitoring biodiversity impacts to adapt their PA management and project implementation activities?
- g. Do the CTF's grantees in fact carry out the actions described in (b), (c) and (d) above?
- h. Does the CTF have systems or procedures for analyzing, synthesizing and disseminating among its staff, board members and grantees the lessons learned from monitoring and evaluation of individual projects, to make it possible to apply those lessons in the future?
- i. Does the CTF have systems or procedures for making available the lessons learned from monitoring and evaluation to other CTFs and organizations involved in biodiversity conservation?

## Fundraising

- a. Has the CTF Board developed a multi-year fundraising plan that identifies potential new funding sources, sets annual fundraising targets, and specifies actions to be taken each year for achieving those fundraising targets?
- b. Has the CTF actively pursued its fundraising targets by carrying out planned fundraising activities, or by modifying those targets and activities to best take advantage of changing circumstances and new opportunities?
- c. Has the CTF been very successful, somewhat successful, or unsuccessful in achieving fundraising targets during the past year?

## Promoting an Enabling Environment for Biodiversity Conservation

- d. Has the CTF caused or facilitated positive changes in government policies, laws and regulations dealing with:
  - i. Biodiversity conservation and PAs?
  - ii. Production sectors that significantly impact biodiversity?

If the answer is yes, describe the changes, and describe how the CTF caused or facilitated them.

- e. Has the CTF caused or facilitated the spread of more ecologically sustainable practices of natural resource use by the private sector and local communities?

If the answer is yes, describe the changes, and describe how the CTF caused or facilitated them.

- f. Has the CTF strengthened the organizational, technical and financial capacities government institutions and NGOs to address threats to biodiversity and promote more sustainable use of natural resources?

If the answer is yes, describe the changes, and describe how the CTF caused or facilitated them.

- g. Has the CTF increased awareness and understanding of the importance of conserving biodiversity among relevant stakeholders who significantly impact biodiversity?

If the answer is yes, describe the changes, and describe how the CTF caused or facilitated them.



h. Has the CTF leveraged additional resources for biodiversity conservation from:

- i. National and local governments?
- ii. Bilateral and multilateral donor agencies?
- iii. Foundations?
- iv. International and local conservation NGOs?
- v. International and national businesses?
- vi. Individuals?

If the answer is yes, describe how much has been leveraged changes, and describe how the CTF caused or facilitated them.

**The Conservation Finance Alliance (CFA)** was created in 2002 to meet the global conservation funding challenge by creating opportunities for greater collaboration among governments, public agencies and NGOs, sharing information more systematically, pooling necessary expertise and resources, and combining forces to support specific conservation finance mechanisms on-the-ground.

**CFA members include:**

Chemonics International  
Conservation Development Centre (CDC)  
Conservation International (CI)  
Royal Danish Ministry of Foreign Affairs (DANIDA)  
Brazilian Biodiversity Fund (FUNBIO)  
German Agency for Technical Cooperation (GTZ)  
International Union for Conservation of Nature (IUCN)  
German Development Bank (KfW)  
National Parks Conservation Association (NPCA)  
The Nature Conservancy (TNC)  
Latin American and Caribbean Network of Environmental Funds (RedLAC)  
The Royal Society for the Protection of Birds (RSPB)  
United States Agency for International Development (USAID)  
United Nations Development Programme (UNDP)  
United Nations Environment Programme (UNEP)  
United Nations Educational, Scientific and Cultural Organization (UNESCO)  
Man and the Biosphere Program (MAB)  
Wildlife Conservation Society (WCS)  
The World Bank  
World Wide Fund for Nature (WWF)