CFA | CONSERVATION FINANCE ALLIANCE

2020

CONSERVATION TRUST FUNDS 2020

GLOBAL VISION LOCAL ACTION

Paquita Bath, Amilcar Guzmán-Valladares,
Viviana Luján-Gallegos and Katy Mathias

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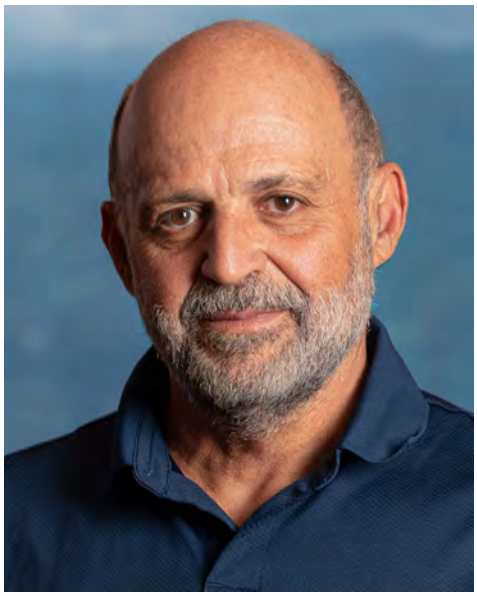
FOREWORD



As funders of the *GEF Evaluation of Experience with Conservation Trust Funds* (GEF 1998) and the *Rapid Review of Conservation Trust Funds* (CFA 2008), the Global Environment Facility is pleased to continue the tradition by supporting *Conservation Trust Funds 2020: Global Vision, Local Action*. Having provided initial and pass-through funding to over 50 Conservation Trust Funds (CTFs) during the past 30 years, the GEF is well-acquainted with the unique beneficial role these funds play in the conservation arena, and their potential to be powerful agents of change on behalf of nature and people. This report on the CTFs over the last decade, and looking forward to the future, takes its place among this year's many important reports on protecting our planet and is one of the most comprehensive reports on CTFs ever released, proving that global funds that complement national and sub-national funds can support the international mobilization of resources for biodiversity conservation.

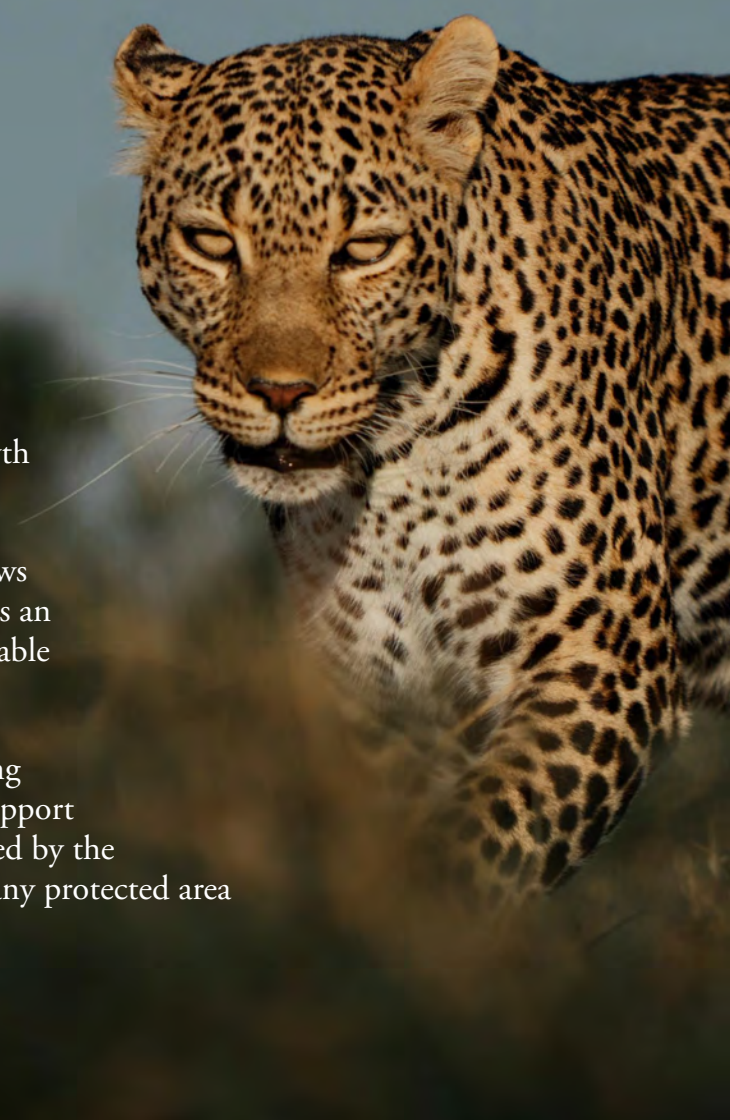
My own experience with the earliest form of CTFs goes back 40 years, when the founders of Costa Rica's system of national parks recognized that governmental procedures may not allow the flexibility to move quickly in providing financing to parks. They created a national parks foundation to blend government efforts through the use of the rule of public law with the foundation's ability to act efficiently and attract outside donor funding. This institution – independent from government, more efficient and effective than some public agencies, and appealing to donors, but with strong ties to government – showed the hallmarks of today's Conservation Trust Funds. The Costa Rican Government also recognized the value of this foundation as a good financing institution and valuable partner.

I worked for this newly formed foundation on land purchasing to expand and consolidate national parks for a year before moving into a government role.

Over the ensuing decades, we have seen the creation and evolution of CTFs around the world. These institutions have provided continuity and stability through government changes and economic downturns. Increasingly, they have played an important role not only in national policy, but as important partners in the implementation of international conservation goals. While many CTFs were created to narrow the funding gap for protected areas and biological corridors, they soon added an important human dimension, focusing on local and Indigenous communities. In recent decades, we have also seen their experiences from land conservation translated into the marine and coastal realm, with CTFs increasingly focused on ocean conservation at the national and regional levels.

As we move into the future, I call on the Conservation Trust Funds to focus on four key elements:

1) Continue building local and institutional capacity, while strengthening policy development and coherence. This is a key element of the work of trust funds, and it is critical to help governments achieve their conservation goals and targets by breaking down sectoral policy making and supporting the mainstreaming of conservation policies. As we look at the shortcomings in meeting the Aichi targets to date, the biggest challenges have stemmed from a lack of policy coherence, lack of resource mobilization, and a need to improve the policy and legal frameworks. These are areas in which CTFs can play a leading role.



2) Diversify financing mechanisms. Endowments, sinking funds, and flow-through funds have been useful tools for CTFs, but this is the moment to focus on a new generation of mechanisms such as Payments for Ecosystem Services, REDD+, insurance mechanisms, biodiversity offsets, blended finance, and impact investment. Many CTFs are already working in these areas and there is more opportunity for growth and expansion.

3) Improve effectiveness of asset management. The report shows that CTF endowments are not well invested overall, and this is an opportunity to improve capability and therefore increase available funding to conservation.

4) Play a leading role in the economic transformation emerging from the pandemic. We have seen CTFs step up to provide support to communities, rangers, and other stakeholders deeply affected by the pandemic and the related loss of tourism revenue affecting many protected area

systems and communities. Moving forward, CTFs have the opportunity to support the economic transformation and transition, including the shift toward decarbonization processes that we will need to see all over the planet. CTFs have an important role to play in facilitating the transition to a regenerative economy.

This decade will bring extraordinary new challenges to ecosystems and increased stresses from climate change across the planet. At the same time as these challenges affect our planet, and the quality and quantity of the environmental services it provides, governments will become increasingly constrained in their ability to respond. This presents both risk and opportunity for CTFs, which can facilitate the mainstreaming of biodiversity in long-term investments. While global leaders are struggling with the health, social, and economic repercussions of this pandemic, there is also an opportunity to transform future infrastructure investment to support climate mitigation and adaptation, and to link environmental restoration with economic development. Conservation Trust Funds can be an important part of the blended finance approach needed to address these challenges.

While Conservation Trust Funds are not a silver bullet, they are important contributors to developing innovative solutions to our planet's needs. In the coming years, Conservation Trust Funds will be crucial actors in convening organizations and alliances to develop the mechanisms needed to mobilize resources to fund ecosystem restoration and the conservation and sustainable use of biodiversity. We look forward to supporting the next generation of CTFs that are ready to embrace these challenges.

Carlos Manuel Rodriguez

Chief Executive Officer and Chairperson
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Task Force 2020

Zdenka Piskulich (Asociación Costa Rica por Siempre), Bryna Griffin (BirdLife International/Trillion Trees), Pema Choephyel (Bhutan Trust Fund for Environmental Conservation), Yabanex Batista and Karen McDonald Gayle (Caribbean Biodiversity Fund), David Meyers, (Conservation Finance

Alliance), Veronica Chang, Christopher Stone and Judith Reyes (Conservation International), Camila Monteiro (Convergencia Sustentabilidade), Fenosoa Andriamahenina (Fundação BioGuine), Mark Zimsky (Global Environment Facility), María José González (Mesoamerican Reef Fund), Carl Bruessow (Mulanje Mountain Conservation Trust), Lorenzo Rosenzweig and Karina Ugarte (Terra Habitus A.C.),Robbie Bovino and Munira Bashir (The Nature Conservancy), Stuart Dainton (World Wildlife Fund – UK), Melissa Moye (World Wildlife Fund - U.S.), Ray Victurine, Tom Clements and Katy Mathias (Wildlife Conservation Society), and Scott Lampman (United States Agency for International Development).

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Contributor	**Affiliation**
Ana Albán	Fondo de Inversión Ambiental Sostenible
María Alexandra Jorge	BIOFUND
Lisa Andon	Micronesia Conservation Trust
Fenosoa Andriamahenina	Fundação BioGuine
Natalia Arango	Fondo Acción
Rhona Barr	Independent Consultant
Yabanex Batista	Caribbean Biodiversity Fund
Curan Bonham	Conservation International
Germán Botero	Fondo Acción
Robbie Bovino	The Nature Conservancy
Esteban Brenes	World Wildlife Fund
Diego Burneo	Fondo Ambiental Nacional
Humberto Cabrera	Independent Consultant
Alba Carreras	Nature Trust Alliance
Carlos Chacón	PACIFICO
Victoria Chang	Conservation International
Merv Child	Nawankolas Council
Constance Corbier-Barthaux	AFD; FFEM

Contributor	Affiliation
Andreas Eke	Futuro Forestal
Sid Embree	Independent Consultant
María Margarita Fontecha	Fondo Acción
Mariana Galvão	FUNBIO
Romas Garbaliauskas	Conservation International
María José Gonzalez	MAR Fund
Tarcisio Granizo	World Wildlife Fund - Ecuador
Tamara Greenstone Alefaio	Micronesia Conservation Trust
Indra Gunawan	KEHATI, Indonesia
Brodie Guy	Coast Funds
Luis Honwana	BIOFUND
Glen Jeffries	The Nature Conservancy/NatureVEST
Angel Jonathan	Conservation Society of Pohnpei
Alexandra Jorge	BIOFUND
Uwe Klug	KFW
Mirjam de Koning	Prespa Ohrid Nature Trust (PONT)
William Kostka	Micronesia Conservation Trust
Juliet Kyokunda	Uganda Biodiversity Fund
Michael Lameier	U.S. National Oceanic and Atmospheric Admin.
Scott Lampman	USAID-TFCA
Trina Leberer	The Nature Conservancy
Jens Mackensen	KFW; Caribbean Biodiversity Fund
Katy Mathias	CFA; Wildlife Conservation Society
Karen McDonald Gayle	Caribbean Biodiversity Fund
Ross McMillan	Independent Consultant
Andréia de Mello Martins	FUNBIO
David Meyers	Conservation Finance Alliance
Kathy Mikitin	Independent Consultant
James Money-Kyrle	Independent Consultant
Rosa Montañez	Fundación Natura Panamá; RedLAC
Camila Monteiro	Independent Consultant
José Oscar Monteiro	BIOFUND
Melissa Moye	World Wildlife Fund
Alexandra Mylius	KFW

Contributor	Affiliation
Sean Nazareli	BIOFUND
Cynthia Nuñez	Fondo de Inversión Ambiental Sostenible
Tatiana Nuñez	Fondo Acción
Óscar Orrego	Fondo Acción
Paul Palacios	Fondo Ambiental Nacional
Karen Price	MEET; CAFÉ
Gerard Rambeloarisoa	FAPBM
Bertha Reyuw	Micronesia Conservation Trust
Lorenzo Rosenzweig	Fondo Mexicano para la Conservación de la Naturaleza
Jean Paul Rugama	Asociación Costa Rica por Siempre
Margaret von Saenger	RedLAC
Samuel Sangüeza Pardo	World Wildlife Fund – Bolivia
Andrew Schatz	Conservation International
Manoel Serrão	FUNBIO
Barry Spergel	Independent Consultant
Chris Trumpy	Coast Funds
Jon Tua	World Wildlife Fund – U.S.
Karina Ugarte	Fondo Mexicano para la Conservación de la Naturaleza
Elizabeth Valenzuela	Fondo Acción
Ray Victurine	Wildlife Conservation Society
Camila Zambrano	Fondo Acción

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WOLFS COMPANY ALIGNING VISIONS

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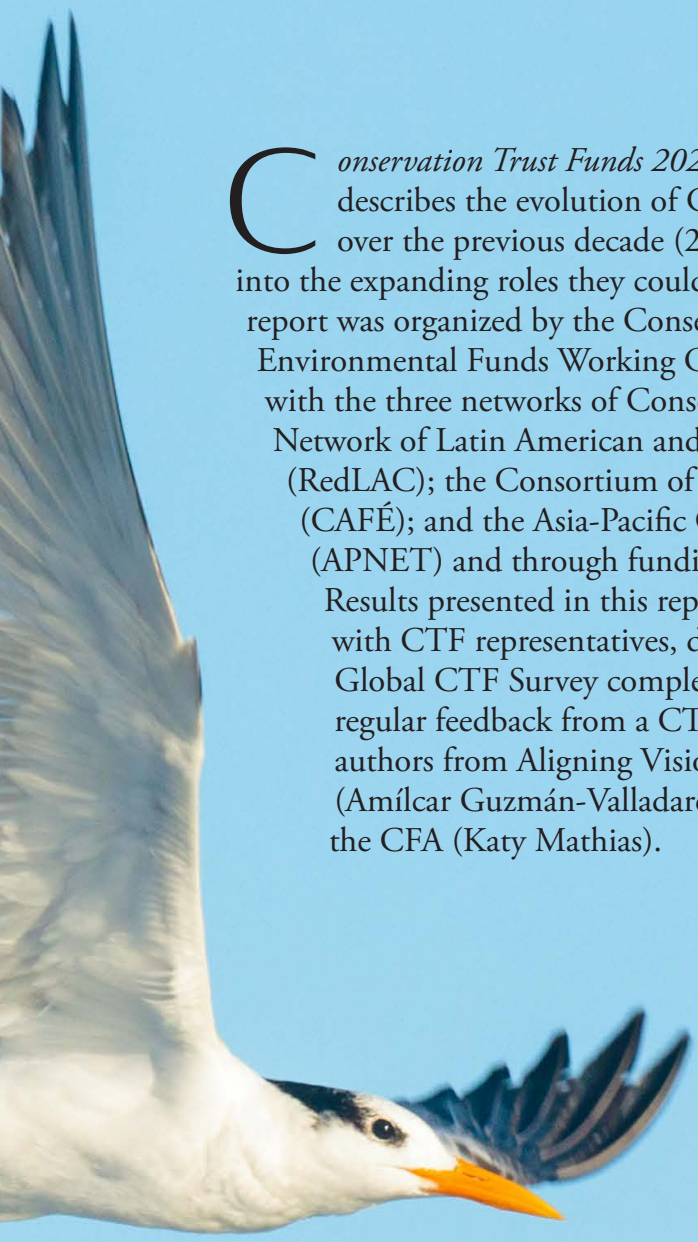
ACRONYMS

AFD	Agence Française de Développement
APNET	Asia-Pacific Conservation Trust Fund Network
CAFÉ	Consortium of African Funds for the Environment
CAGR	Compound annual growth rate
CBD	Convention on Biological Diversity
CBF	Caribbean Biodiversity Fund
CFA	Conservation Finance Alliance
CI	Conservation International
CBO	Community-based organization
CMP	Conservation Measures Partnership
COP	Conference of the Parties
CSO	Civil Society Organization
CTF	Conservation Trust Fund
CTIS	Conservation Trust Fund Investment Survey
EAI	Enterprise of the Americas Initiative
EAMCEF	Eastern Arc Mountains Conservation Endowment Fund
EFWG	Environmental Funds Working Group of the CFA
ESG	Environmental, social and governance
FUNBIO	Fundo Brasileiro para a Biodiversidade
GBMF	Gordon and Betty Moore Foundation
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEF	Global Environment Facility
FFEM	Fonds Français Pour L'Environnement Mondial
FIBA	Fondation Internationale du Banc d'Arguin
FMCN	Fondo Mexicano para la Conservación de la Naturaleza
FPIC	Free prior and informed consent
FUNBIO	Fundo Brasileiro para a Biodiversidade
IPG	Interagency Planning Group on Environmental Funds
KFW	Kreditanstalt für Wiederaufbau – German state-owned development bank

KYC	Know Your Customer
LAC	Latin America and the Caribbean
MAR Fund	Mesoamerican Reef Fund
MAVA	MAVA Fondation pour la Nature
MCT	Micronesia Conservation Trust
MRI	Mission Related Investment
NDC	Nationally Determined Contributions to reduce emissions and adapt to the impacts of climate change
NGOs	Non-governmental Organizations
OECD	Organization of Economic Co-operation and Development
PES	Payment for Ecosystem Services
PFP	Project Finance for Permanence
PPP	Purchasing Power Parity
PRI	Program Related Investment
REDD	Reduced Emissions from Deforestation and Forest Degradation
RedLAC	Red de Fondos Ambientales de Latinoamérica y el Caribe
RSPB	Royal Society for the Protection of Birds
SDG	United Nations Sustainable Development Goals
SME	Small and medium productive enterprises
TFCA	Tropical Forest Conservation Act of the United States
TNC	The Nature Conservancy
UK	United Kingdom
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
USA	United States of America
VAT	Value-added taxes
WCS	Wildlife Conservation Society
WWF	World Wide Fund for Nature (also known in the USA and Canada as the World Wildlife Fund)

EXECUTIVE SUMMARY

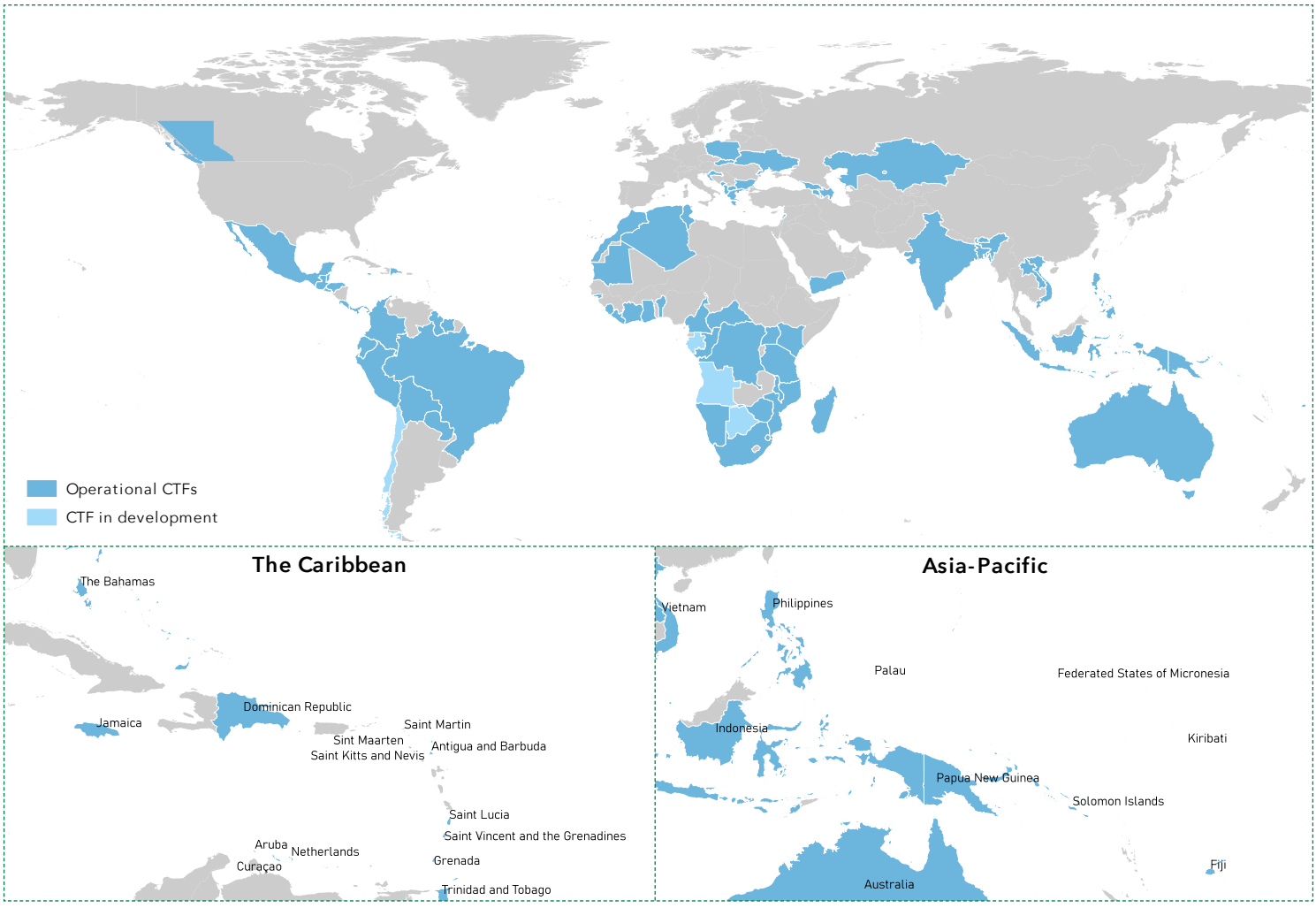


Conservation Trust Funds 2020: Global Vision, Local Action describes the evolution of Conservation Trust Funds (CTFs) over the previous decade (2010 to 2020) and provides insights into the expanding roles they could play in the coming years. This report was organized by the Conservation Finance Alliance's (CFA) Environmental Funds Working Group (EFWG), in collaboration with the three networks of Conservation Trust Funds: the Network of Latin American and Caribbean Environmental Funds (RedLAC); the Consortium of African Funds for the Environment (CAFÉ); and the Asia-Pacific Conservation Trust Fund Network (APNET) and through funding by a generous group of donors. Results presented in this report are based on over 65 interviews with CTF representatives, donors, and stakeholders; the 2020 Global CTF Survey completed by 50 CTFs (Annex 1), and regular feedback from a CTF Study Task Force to the lead authors from Aligning Visions (Paquita Bath), Wolfs Company (Amílcar Guzmán-Valladares and Viviana Luján-Gallegos) and the CFA (Katy Mathias).

Conservation Trust Funds as Institutions

Approximately 40 new CTFs have been established since 2010, joining the 68 active CTFs that were formed prior to 2009 (Annex 2). These 108 CTFs operate around the world as mission-driven conservation finance institutions that manage a diverse suite of financing mechanisms for nature conservation. Twenty-five CTFs formed prior to 2010 are now celebrating 20-30 years of operation. These CTFs offer a compelling history of successfully channeling global and national funding to finance local initiatives – achievements that are inspiring ever more start up CTFs. New platforms for regional coordination and financing, the sharing of administrative services, and pooling models for asset management are being implemented. These mechanisms support the formation of smaller CTFs, primarily from island nations and subnational units in large countries, in the hope they will increase the flow of resources and local ownership for conservation and sustainable development programs.

Figure 1. Overview of countries or regions with CTFs in development or fully operational in 2020.



The vast majority of CTFs are designed to be independent from government control and financing, mission driven, and accountable. These characteristics appeal to donors and other finance sources (e.g. companies) when CTFs have: 1) transparent financial and programmatic reporting; 2) the administrative capacity to respond quickly to urgent needs such as fires or hurricanes; 3) continuity in conservation programs during government administrative transitions and stability in times of political turmoil; 4) the ability to partner with governments and other actors to achieve national goals; and 5) a long-term focus on conservation as CTFs are established to be stable, durable, and vocal institutions. This later point is especially important; CTFs have become essential institutions for conservation in their countries and regions and gain a seat at the policy and investment "table" in contrast with many other civil society organizations.

Over the past decade, a number of governments have been interested in exerting greater public-control of CTFs that received international cooperation funds and/or manage domestically generated funding such as park fees or compensation payments. As a result, a number of new CTFs have emerged with greater government representation in the governing body and a few established CTFs have transitioned to become government-led institutions (Case Study 2). However, the wide majority of CTFs maintain independent governance structures while sustaining very strong ties with governmental agencies and effective connections to civil society groups including community-based organizations.

Whether privately or publicly managed, most CTFs strive to apply the *Practice Standards for Conservation Trust Funds* (Spergel and Mikitin 2014, Bath et al. 2020) to strengthen their organizational capacity and to meet donor and partner expectations. Many also benefit from joining their regional network (RedLAC, CAFÉ, or APNET) to accelerate their learning curves through sharing experiences, mentoring relationships, and collectively learning from pilot programs and policy efforts. The CTF networks have proven very effective at developing comprehensive capacity building programs and funding pilot projects as testing grounds to tackle innovative finance mechanisms.

Programmatic Evolution

Almost all CTFs were founded to help fill the financial gaps in specific protected areas or protected area systems. While a few CTFs confine their activities to providing grants in support of this model, the majority of CTFs have stayed true to this initial function while progressively expanding their scope. Today over 45% of CTFs actively attract and invest funds in marine and coastal systems in recognition of the increasing urgency to protect our oceans. In addition, over the past decade, 66% of CTFs have expanded their activities to invest in economic livelihood diversification programs. Over 44% make direct investments in climate change mitigation in response to the climate change crisis. This past decade has shown more and more CTFs aligning with their country's broader international commitments, such as to the UN Sustainable Development Goals, and linking

human and biodiversity well-being by increasingly financing innovative conservation measures for ecosystem services across broad landscapes.

CTFs are most successful when they are able to parlay their knowledge of local ecosystems and communities and the organizational landscape to align global goals with needed local investments. CTFs' unique niche is the ability to link global pools of funding to national conservation priorities, through a diverse set of grants and programs that build long-term in-country capacity. Successful implementation of CTFs' missions increasingly includes building local capacity, creating enabling environments, and supporting policy development for the implementation of conservation programs and conservation finance mechanisms. Over 64% of CTFs actively invest in local capacity, 66% invest in education and awareness on biodiversity and ecosystem services, and 49% directly engage on law and national/international policy decisions.

In addition to expanding their impacts, CTFs have developed more transparent and efficient administrative procedures, and are increasingly establishing risk management policies and safeguards. However, most have not invested in the same rigor to identify and track clear metrics to measure their conservation impact, or outcomes for climate change mitigation/adaptation and sustainable development. Few, to date, are able to provide impact data on their contributions towards national or international targets, although both CTFs and donors indicate this is an increasing priority. While CTFs do not use consistent indicators across the sector, the report was able to aggregate some analogous indicators from a subset of CTFs to indicate the scale of their activities. As examples: 1) thirty CTFs noted their work in 965 protected areas with 28 of those CTFs recounting 3,838 projects over a ten-year period; 2) five CTFs reported contributions to more than 3.2 million hectares of additional land/water under protection; and 3) ten CTFs reported reduced or avoided 524 million tons of CO^2 emissions. Generating aggregated impact data to showcase the effectiveness of the sector remains an unfulfilled challenge and opportunity for the next decade.

Mobilizing Resources

CTFs disbursed or allocated well over US$2 billion to support conservation projects and programs across the globe between 2009 and 2018 (Hartmann 2020).[1] CTFs, usually founded with an endowment, generally manage multiple

1 This global figure estimate (US$1,911,506,530) is based on annual reports of only 43 CTFs, which provided details on grants disbursed and/or funding allocated to conservation programs between 2009 and 2018. Reported values were adjusted for inflation and Purchasing Power Parity (PPP). The total estimate is expressed in normalized 2018 U.S. dollars.

Program Accounts[2] to effectively administer short-term funding, pass through funds, and a variety of sinking funds, thus managing a diversified funding and programmatic mix.

Table 1. Overview of CTFs by total asset size

Total Assets	Number of CTFs	Percentage of CTFs
<2 million	9	15%
2-10 million	17	29%
10-50 million	18	31%
>50 million	15	25%

(n=59 CTFs)[3]

While donations to endowments and sinking funds are the most common finance mechanism for start-up CTFs, almost 70% of operational and institutional CTFs also manage donations for specific programs and expenses and 25% manage flow-through funding.[4] Endowment funds have proven to be an anchor of stable capital, ensuring organizational resilience thanks to their endowment returns covering a reliable percentage of operating costs, financing the development of the CTF's own organizational capacity, and also allowing innovation with new financial mechanisms. As the first CTFs are now celebrating 30 years of activity, the investment in organizational capacity has proven very worthwhile, enabling these CTFs to be effective and efficient vehicles for moving large sums of global funding, from public and private sectors, to advance global, regional, and national conservation and sustainable development priorities.

Over the past decade, the majority of CTFs were capitalized and received funding from: 1) national and local governments; 2) multilateral organizations such as the Global Environment Facility (GEF); 3) bilateral funds including the Tropical Forest Conservation Act (TFCA) of the U.S. Government and ever greater commitments from the German and French Governments; 4) the Global

2 Program Account: A sum of money that can only be used for specific purposes for funding biodiversity conservation, sustainable development, and/or climate change mitigation and adaptation programs. A Program Account may have a governing body separate from, but acting in concert with, the governing body of the CTF. For many years these were referred to as "funds," but it was confusing nomenclature given that Conservation Trust Funds as institutions are also called "funds" in common usage.

3 This table includes data on total assets of 50 CTFs that participated in the 2020 Global CTF Survey and on the investable assets (endowment and sinking funds) of an additional nine CTFs, as published in their annual reports or reported by CTF networks.

4 Flow-through funds (also called pass-through funds) are funds received by a CTF from a third party donor that are then re-channelled (or sub-granted) to one or more final beneficiaries. This is usually based on a specific time-limited grant agreement between the CTF and the donor, where the donor transfers funds in regular installments to the CTF over the length of that agreement. The donor usually has a role in both the choice of final beneficiary and some oversight of the use of the funds, and the CTF is responsible for the day-to-day management and supervision of the sub-grant.

Conservation Fund created by CI and the Gordon and Betty Moore Foundation; 5) private foundations that now contribute to around one-fifth of CTFs worldwide; and 6) international nongovernmental organizations (NGOs) that have played an important role in leveraging funds for CTFs. During this same period, Project Finance for Permanence (PFP) deals have successfully united the above major donors behind large-scale complex conservation projects with CTFs.

As the severity of the world's biodiversity and climate change crises grows, established agencies such as the Global Environment Facility (GEF) and new multilateral financing agencies such as the Green Climate Fund and the Adaptation Fund are charged with channeling funding for their global objectives. Building on their organizational history many of the mature CTFs have become accredited as implementing agencies to manage these funds in their countries. To become accredited, CTFs must carefully consider the substantial financial and organizational investments required. However, CTFs that have become accredited have: 1) strengthened their seat at the table with government counterparts; 2) established effective risk management policies; 3) strengthened safeguards and administrative procedures; and most importantly 4) catalyzed additional funds for their countries and conservation objectives.

While the full potential of many new funding streams has not yet been realized, an increasing number of CTFs are managing diverse and innovative conservation finance instruments to raise and deploy funds such as payment for ecosystem services (PES), insurance instruments, biodiversity offsets, blended finance, and impact investing. This trend was accelerating at the turn of the decade with more CTFs actively engaged in discussions with private sector investors to help transform production practices, better value natural capital, and invest in innovative bio-economy incubators to scale new business models in extractive industries, tourism, fisheries, and agriculture. As CTFs manage this increasingly diverse range of financial flows, as well as pilot and scale new financial mechanisms, they are becoming ever more complex and sophisticated conservation finance institutions.

Finally, effective asset management is a key CTF role, both to ensure their own financial resilience as well as to generate additional conservation funds. At the beginning of 2020, CTFs collectively managed assets worth approximately US$1.9 billion. CTFs that have been capitalized with large endowments, have had the most catalytic resource mobilization strategies, leveraging other sources of funding to match, and often significantly surpass, the initial endowment capital. However, a key finding in the report is that, on average, CTF endowment investments have significantly under-performed both absolute and relative benchmarks. While top performers are achieving solid returns, the vast majority of CTF endowments are not well-invested, with the result that for those CTFs, conservation spending has not been optimized over the 13-year period reviewed. Some CTFs, particularly smaller CTFs with less than US$25 million asset base, are increasingly engaging in investment pooling to reduce investment costs and

access higher performing fund managers. At the same time, many CTFs are increasingly making investments that consider environmental, social and corporate governance (ESG) criteria, which are currently performing as well or better than traditional investments, in addition to the non-financial returns they generate.

Looking Forward

Over the past ten years many CTFs have dramatically evolved and expanded the scope and scale of their work, assuming greater risks to pilot new financial mechanisms in light of the biodiversity loss and climate change crises. They have become ever more innovative financial institutions, developing new means to have greater environmental impact through mainstreaming biodiversity concerns, piloting and scaling new financial mechanisms, and increasingly making the link between ecosystem health and human health and well-being. The organizational investments made in CTFs over the past few decades have created many experienced, proven institutions able to do their traditional work of protected area financing and grant making, while also amplifying their experience to work at landscape-levels, invest in incubators building investment-ready sustainable business solutions, and supporting transformative sustainable production models with multiple partners. Going forward in a post Covid-19 world, CTFs must continue to be important contributors to the innovative solutions our planet desperately needs. At a time when local and national environmental decisions dramatically affect our planetary well-being, CTFs' ability to link global priorities with local investments is a critical competency for all of our futures.

1. INTRODUCTION

1.1 Review Objectives

It has been over ten years since the last systematic overview of Conservation Trust Funds (CTFs) was published (Spergel and Taïeb 2008). Conceived as a ten-year retrospective, this review documents the evolution of CTFs as conservation financing mechanisms and institutions over the past decade, focusing primarily on 2010-2020. It aims to provide all actors with an improved understanding of the scope, effectiveness, and impact of CTFs around the world. At the same time, it strives to update global thinking around CTFs and the roles they have played, and could play, in today's conservation finance context as we face a challenging new decade.

The review has been initiated and managed by the Conservation Finance Alliance (CFA) – a global network established in 2002 to promote awareness, expertise, and innovation in conservation finance globally. The CFA includes almost all CTFs and major donors to CTFs, as well as many other conservation organizations, networks and individual experts.

In 2019, the CFA formed a CTF Study Task Force of experienced volunteers from CTFs and donor organizations. The study objectives and the terms of reference were developed by the Task Force in collaboration with the three networks of Conservation Trust Funds: 1) the Network of Latin American and Caribbean Environmental Funds (RedLAC); 2) the Consortium of African Funds for the Environment (CAFÉ); and 3) the Asia-Pacific Conservation Trust Fund Network (APNET). With financial support from generous donors, the CFA then engaged Wolfs Company (Esther Wolfs, Viviana Luján, and Amílcar Guzmán) and Aligning Visions (Paquita Bath) to develop this ten-year retrospective. The same consultant team was also asked to update the *Practice Standards for Conservation Trust Funds* (Spergel and Mikitin 2014) as a parallel effort resulting in the *2020 Practice Standards for Conservation Trust Funds* (Bath et al.).

The 2020 Global CTF Survey results, and other findings included here, are an effort to generalize across more than 100 CTFs to identify trends that apply to the sector as a whole. Numerous small vignettes and larger case studies are used to make specific points or highlight practices that have contributed to successful CTF operations.

1.2 Study Methodology

The consultant team started by reading the available literature and then advanced a list of the subject areas for Task Force input. They then developed an interview format and went on to interview over 65 professionals from CTFs, donors, and other experts (see Acknowledgements). Team members were able to attend the CAFÉ and RedLAC Assemblies in 2019 to hold many of these interviews in person, while others were conducted virtually.

At the same time, the team developed the 2020 Global CTF Survey in English, Spanish, and French (Annex 1). This online survey was emailed to 108 operational CTFs on three occasions to encourage wide participation. It was completed by 50 CTFs in the period between November 2019 and February 2020. Survey responses provided much of the quantitative data contained in this report. Additional quantitative data was provided by studies conducted through the Conservation Trust Investment Survey (CTIS) between 2006 and 2018. From this outreach, the team updated a list with summary profiles of over 100 CTFs globally and developed quantitative and qualitative data on current CTF trends. Team members also supervised a thesis project of a master's student who assessed information published online by 108 CTFs and conducted a systematic analysis of CTF reporting to support this review. The analysis included a total of 305 annual reports and 15 evaluation reports published by 53 CTFs.

As interim sections of *CTFs 2020: Global Vision, Local Action* were drafted, they were shared with Task Force members for ongoing feedback. Once the majority of the sections were completed, the CFA leadership (David Meyers and Katy Mathias), along with the consultant team, developed a list of preliminary conclusions that were then discussed and validated by the CTF Study Task Force, to ensure the key messages were highlighted within this review. This exercise also led to a more focused outline that streamlined the major findings and incorporated other more technical data into the annexes.

1.3 How to Read this Report

Following an Executive Summary of the major findings, the review is organized in five major sections:

- **Chapter 1: Introduction.** Includes an explanation of the objectives and methodology behind this review and a brief summary of the CTF movement prior to 2010.
- **Chapter 2: What are CTFs?** This chapter explores the added value of CTFs, the role they play supporting nature conservation and sustainable development, and major trends in programs and partnering over the past decade.
- **Chapter 3: Building Trust.** CTFs are only effective when they earn the trust of donors, governments, and civil society. This chapter describes how governance, accountability, and administration, are managed in CTFs to forge trust-based relationships and improve the enabling environment for conservation.
- **Chapter 4: Building Financial Resilience.** This chapter explores CTF's core business as financial institutions that mobilize resources, deploy programmatic instruments for spending money in the field, and manage their assets.
- **Chapter 5: CTF Outlook for 2020-2030.** The major trends and enabling conditions that have supported the growth of CTFs to the present are explored to project possible future CTF roles within the challenging decade that lies ahead.

In addition, the Task Force approved the preparation of five in-depth case studies that have been built on extensive interviews and feedback to showcase some of the many challenges and innovations that CTFs are tackling. These case studies provide detailed information on how specific CTFs have successfully launched innovative programs and dealt with major challenges.

1. **Launching a New CTF: BIOFUND in Mozambique.** Over the past decade many new CTFs have been created and more are preparing to launch. This case study examines factors for success that helped this CTF consolidate organizationally during its incubation period and then grow rapidly once it became fully operational.
2. **Public-Private Challenges in CTF Governance: FAN to FIAS in Ecuador.** This case study provides a perspective on the challenges CTFs face in reconciling the public responsibilities of governments towards their protected

area systems and the level of public /private control of a CTF and the international cooperation funds received.

3. **Coast Funds: Integrating Finance for Conservation and Sustainable Development of Indigenous Communities**. Based in Canada, this case study explores the unique features in a CTF that was designed using a "Project Finance for Permanence" model to manage ecosystem wide conservation in concert with the well-being of Indigenous people.
4. **Fondo Acción: Evolution of Private Sector Engagement Strategies.** A mature CTF, the Fondo para la Acción Ambiental y la Niñez in Colombia has been a leader in engaging the private sector in conservation and rural development strategies. This case reviews some of their successful programs in financing rural productive enterprises, influencing carbon markets, and impact investing.
5. **Micronesia Conservation Trust: The Role of a Regional CTF in Capacity Building for Conservation.** This case study explores the different roles that a regional CTF has played in collaborative initiatives to optimize coordination, reduce administrative burdens, and deploy capacity building programs for conservation.

Given the amount of information that was collected during this study period, a series of ten technical annexes are included to provide more detailed information on specific themes of interest to the CTF community.

Annex 1.	2020 Global CTF Survey
Annex 2.	List of CTFs
Annex 3.	Evolution of the CTF Networks
Annex 4.	Framework for Analyzing Private Sector Engagement Strategies
Annex 5.	Supplementary Information on Impact Reporting 2009-2018
Annex 6.	Legal Incorporation of CTFs
Annex 7.	"Know Your Customer" Compliance
Annex 8.	Patterns in Overhead Percentages Across CTFs
Annex 9.	Resource Mobilization Trends Among CTFs in the Start-Up Stage 2010-2020
Annex 10.	Resource Mobilization Trends Among Operational and Institutional CTFs 2010-2020

1.4 Background of CTFs Prior to 2010

1.4.1 Previous Key Studies

To better understand CTFs, their governance and impact, the Global Environment Facility (GEF) commissioned the *GEF Evaluation of Experience with Conservation Trust Funds* (GEF 1998). A decade later, a *Rapid Review of Conservation Trust Funds* (Spergel and Taïeb 2008) was commissioned by the CFA with funds from Agence Française de Développement (AFD), Fonds Français Pour L'Environnement Mondial (FFEM), Kreditanstalt für Wiederaufbau (KfW), World Wide Fund for Nature (WWF), and Conservation International (CI). The

latter work built on the former, using many of the same definitions and principles to understand the diversity of CTFs and their varied programs. The 2008 Rapid Review also provided a snapshot of CTFs in the conservation finance context of that time, for example discussing their involvement in debt-for-nature swaps and their potential "in the future" to manage payments for ecosystem services and biodiversity offset schemes, both of which were very innovative in 2008.

In the decade since, there have been a number of studies looking at a subset of CTFs or CTF issues. An annual *Conservation Trust Investment Survey* (CTIS) (Mathias and Victurine 2020) is produced by CFA and the Wildlife Conservation Society (WCS) in partnership with RedLAC, CAFÉ, and APNET. Two other important studies on the evolution of CTFs include a study on *Regional Conservation Trust Funds* (Spergel 2012), and A *Review of CTFs for Sustainable Marine Resources Management* (Bladon 2014). In addition, CFA has produced guiding documents and resources such as the *Environmental Funds Toolkit* (CFA 2010) and the *Practice Standards for CTFs* (Spergel and Mikitin 2014) that distill lessons learned from decades of CTF experience and are widely used. The *2020 Practice Standards for CTFs* update (Bath et al.) is a partner study to this ten-year review.

1.4.2 Abbreviated History of CTFs until 2010

a. The 1990s

CTFs began emerging as a force for conservation in the early 1990s around the globe, largely in response to the Convention on Biological Diversity (CBD) and the commitment countries made to effectively manage their protected areas and incentivize more sustainable practices. Bhutan and Panama both launched CTFs in 1991 followed closely by many more Latin American CTFs, and also Indonesia, Europe, and five African countries. Many of today's strongest and largest CTFs such as the Fondo Mexicano para la Conservación de la Naturaleza (FMCN) and the Fundo Brasileiro para a Biodiversidade (FUNBIO) were formed during this period.

The Interagency Planning Group on Environmental Funds (IPG) successfully promoted and supported CTFs through networking and capacity building from 1993-1999. The IPG was made up of representatives from multilateral and bilateral donors, philanthropic foundations and international environmental non-profits and built a greater understanding of what CTFs could offer. The IPG was also instrumental in the creation of RedLAC in 1999 and the CFA in 2002 to carry on its purpose of networking and knowledge sharing.

The vast majority of CTFs founded in the 1990s were initiated with international funding from private philanthropies, multilateral and bilateral aid agencies, and through debt conversion agreements. The Global Environment Facility (GEF) was a major donor for CTFs during this period, supporting the resolutions emerging from the Earth Summit in Rio de Janeiro (1992). From 1991-1997, the U.S.

Government used the Enterprise for the Americas Initiative to finance the launch of eight CTFs in Latin America and the Caribbean with US$176.9 million of scheduled deposits.

Funding for these CTFs were either early pilots (relatively small amounts of money to provide financing for one or two protected areas), or more serious investments that included substantial endowments. Income from the investment of endowments provided both operating support for CTF staff and annual returns to fund conservation objectives in perpetuity. These CTFs became well versed in investment management and sophisticated financial mechanisms and were well-positioned to take on multiple Program Accounts to manage more project-based sinking and revolving funds.

The CTFs' core business was to catalyze funding to invest in field programs managed by others over the long-term. They developed transparent Calls for Proposals to award grants to community, non-profit, scientific organizations, and government agencies for conservation and sustainable development activities. Financed projects depended on donor intent, but primarily supported the creation and management of specific terrestrial protected areas and increasingly support to the wider system of protected areas.

b. The 2000s

During this decade, the success of the trust fund model led to a proliferation of national CTFs being established in most developing countries with substantial biodiversity. CTFs were created in countries with a combination of insufficient domestic funds dedicated to conservation needs and donor interest in ensuring long-term funding to meet global conservation objectives. In most cases, existing agencies could not effectively manage or earmark the amount of funds needed to effectively conserve protected areas or protected area systems. Donors appreciated the opportunity to invest in privately managed institutions that provided transparent and accountable governance and financial systems while supplementing government contributions to protected areas. Studies, (Norris 1999; GEF 1998) based on the CTF experiences at the time, highlighted the key enabling conditions and factors for success helping to further the CTF model and the technical assistance available.

During this period, the larger CTFs also began expanding and deepening their engagement in the following programmatic areas to

- Develop more effective strategies to address key threats such as wildfire and launch new fields such as tropical forest restoration.
- Invest in sustainable livelihood programs for communities adjacent to protected areas.
- Participate in the design and execution of national environmental policy and strategies and work to mainstream biodiversity agendas into larger scale government programs.

- Cooperate for transboundary conservation initiatives or support the creation of regional CTFs.
- Systematically invest in the NGO community, government agencies, and community-based organizations to build local capacity to manage grants in rural areas through learning networks, capacity building and increased field coordination.

A major source of funding for launching new CTFs was the U.S. Tropical Forest Conservation Act (TFCA). Passed in 1998 it provided 20 debt-for-nature swaps in 14 countries. These agreements resulted in US$339 million for conservation programs by mobilizing U.S. congressionally appropriated funds, triggering additional funds from international non-profit partners including Conservation International (CI), Wildlife Conservation Society (WCS), WWF, and The Nature Conservancy (TNC). The interest generated from these investments then supported CTF programming. TFCA funds enabled the creation of many new CTFs such as the Arannyak Foundation in Bangladesh in 2003 and the Fondo de Conservación de Bosques Tropicales in Paraguay in 2006. In other cases, more established CTFs such as Fundación Natura in Panama and the Forest Foundation of the Philippines were selected to manage TFCA funds.

Another trend was the creation of regional CTFs to work on ecosystems that span national borders. Regional CTFs have additional challenges in designing governance structures and choosing where to be legally registered, given the need to balance representatives from different countries and governments. The earliest regional CTFs such as the Eastern Carpathians Biodiversity Conservation Foundation formed in 1995 – now the Carpathians Biodiversity Conservation Foundation, and the Tri-National Sangha Foundation formed in 2000, were soon followed by new CTFs in the 2000s such as the Mesoamerican Reef Fund (MAR Fund) in 2004, the Micronesia Conservation Trust (MCT) (expanded to include neighboring countries in 2005), and the Caribbean Biodiversity Fund (CBF) launched in 2008.

By 2010, CTFs were well-accepted financing mechanisms with a strong cadre of leaders committed to building the credibility of CTFs to support global financing commitments, improve national enabling conditions, and invest funding in accountable local institutions and projects. RedLAC, founded in 1999, proved to be an important convener supporting the emergence of new CTFs and increasing knowledge exchange and leadership among CTFs throughout Latin America and the Caribbean. With strong CTFs and leaders in place, it was clear CTFs would continue to evolve as key conservation financing institutions in the upcoming decade: 2010-2020.

2. WHAT ARE CONSERVATION TRUST FUNDS?

2.1 Definition and Overview

CTFs are private, legally independent mission-driven institutions that provide sustainable financing for nature conservation. They operate as conservation financing institutions rather than institutions that directly implement biodiversity conservation projects. As such, their core business is to mobilize resources from diverse sources – including international donors, national governments and the private sector – and to direct these resources, primarily through grants, to multiple programs and projects through

non-governmental organizations (NGOs), community-based organizations (CBOs), small and medium productive enterprises (SMEs), and governmental agencies (such as national protected areas agencies). Their effectiveness lies in linking the goals of donors with investments[5] in these local organizations, thereby building capacity and experience in locally led project implementation. Their evolution and trends over the past decade have positioned them as critical players in addressing the key issues facing humanity as we re-evaluate our relationship with nature.

The first CTFs were created in the 1990s. Today, more than 108 CTFs operate around the world, covering a wide range of geographic and thematic scopes (Annex 2). Historically, most CTFs were set up as independent non-governmental institutions to attract resources to fill the financial gaps between the protected area budgets vs. the real needs of the protected area system over the long term. This role requires extremely close alignment with national implementing agencies to ensure both supportive outreach to international donors as well as coordinated expenditures in the field. That is why many CTFs are characterized as public-private partnerships.

While all CTFs invest in habitat conservation, programs vary greatly. This past decade has seen a marked increase in sustainable development activities as 66% of CTFs (Table 23) now fund alternative livelihood and sustainable economic activities in conjunction with conservation. CTFs can, among other types of programs:

1. Cover the core operations of a specific set of protected areas.
2. Distribute project grants over a broad set of thematic areas.
3. Invest in community livelihood projects.
4. Build local capacity.
5. Manage environmental compensation and mitigation efforts.
6. Invest in small businesses to make them investment ready for sustainable activities at scale.
7. Build enabling conditions with the private sector to transform non-sustainable production activities.

Over the past decade, CTFs have increasingly invested in nature-based solutions to advance the United Nations Sustainable Development Goals (SDGs) and support climate change mitigation and adaptation efforts.

CTFs invest funds from long-term endowments and sinking funds that they manage or hold in custody (the definition of a "trust"). Some CTFs manage and disperse income from an endowment only, while most oversee a mix of endowment and sinking funds, operate revolving funds, and/or act as

5 In this review, the term "investment" when used in a programmatic context refers to both contributions as well as return-based asset ventures.

implementing agencies for large grants or other funding streams. Since 2006, the Conservation Trust Fund Investment Survey (CTIS), a collaborative initiative promoted by the CFA and carried out together with WCS, has collected organizational and financial information from CTFs around the globe. Data from 2018 indicate that the 34 CTFs participating in the CTIS survey manage over US$723 million in investable assets with an average CTF managing US$27.8 million (Mathias and Victurine 2020). In aggregate, the world's CTFs are estimated to hold and manage over US$1.9 billion in endowments and sinking funds.

CTFs are also known as Environmental Funds, mainly in Spanish speaking Latin America and French speaking Africa, as most of the countries in these regions have a civil law system where trust funds must be established by specific laws and are not part of the legal tradition as they are in common-law countries. Nevertheless, there are no fundamental differences between the use of these two terms in practice, whether they are legally constituted as trusts, foundations, charities, or associations. "Conservation Trust Fund" is still the most commonly used term for these entities in the English language, in which most of the conservation finance literature and resources are written and which is the common language spoken by the main donors or funding organizations. In addition, the term 'Environmental Fund' can also have a broader meaning beyond CTFs, to refer to funds or foundations that are not limited to conservation finance, but which are mainly active in other issues such as pollution control, waste management, clean energy, circular economy, etc. For the scope of this review and the *2020 Practice Standards for Conservation Trust Funds* (Bath et al.) the term "CTF" is applied.

As can be seen in Figure 1 and Annex 2, most CTFs are either established or operate in the global South. The reason surpasses differences in terminology and legal characteristics between foundations in civil law countries and trusts in common-law countries. In many developed economies, the commitment to preserve nature and biodiversity is either covered by the state or fulfilled by organizations that have a direct mandate and certain stable budgets from the state. With some exceptions, developed countries have fewer vast primary and intact nature areas, resulting in biodiversity and habitat protection often being interconnected with agriculture and other economic activities, particularly in Europe. In these settings, foundations tend to focus on a particular species, a particular type of landscape or habitat, or another specific topic. They are frequently funded by members and have an active role in program implementation and/or advocacy. In contrast, CTFs are established more frequently in developing or emerging economies due to their role vis-à-vis the state in supporting conservation. In these economies, the state has traditionally not allocated enough resources to fully cover the budget of preserving and managing natural areas, and governments sometimes lack the stability to undertake effective long-term conservation programs.

The number of CTFs operating around the world has expanded over the past decade. A list of the 108 fully operational CTFs in 2020, including 40 new CTFs this decade, is included in Annex 2. In addition, at least five CTFs are known to be in the process of formation at the time of publication.

2.2 Leading with Vision

2.2.1 Enabling Conditions

Most CTFs were originally founded to fill the financial gaps in protected area systems. Although a number of CTFs have limited themselves, or been limited by their founding documents, to grant making for this purpose, many CTFs have expanded their focus beyond PA finance. The CTFs established with a narrow scope, those that are risk averse, and those that have been unable to secure funding to widen their approaches, remain tightly focused on PAs. However, for many CTFs, national and planetary changes have inspired efforts to broaden their scope. The continuous human expansion into the planet's remaining wilderness areas and ongoing unsustainable production approaches have precipitated climate change and biodiversity crises. Thus, it has become ever more important for CTFs to be able to work with governments and other partners to respond to global and national priorities to preserve ecosystem functions, take action on climate change, and build greater food security through sustainable production. Many CTFs are doing just this in their respective countries/regions. Key enabling factors for the CTFs that have expanded their scope include:

- Committed initial founders and board members that are mission-driven in their efforts to launch an effective CTF and willing to take risks to try more innovative financial mechanisms. These leaders articulate the long-term commitment to conservation that CTFs bring to their respective countries and regions and open the doors for successful relationships with governments, donors, and civil society leaders (Section 3.1);
- Flexible founding documents that permit diversification both geographically and programmatically and anticipate the need for flexibility in resource mobilization;
- CTFs are usually founded with, or quickly secure, endowments that provide both stable operating funds and make them important partners for the government as the CTF can complement ongoing national investments. This provides the CTF with a seat at the table with government officials for setting and implementing national conservation commitments. CTFs with strong endowments parlay this anchor of stable capital to manage a wide range of financial flows that can respond to urgent needs for conservation and sustainable development investments (Section 4.1);
- An effective leader as Executive Director. The most effective CTFs have leaders whose values and vision are respected nationally. They are able to attract and work with excellent board members and staff to ensure effective programs and

transparent administration while also seen as collaborative and inclusive and therefore able to convene diverse organizations;
- A donor/sponsor willing to invest in building the institution with start-up funds (Case Study 1); and
- A strong knowledge of the organizational landscape and strategic ability to link donor and national priorities with effective field programs (Section 2.2.3).

With these conditions in place, many CTFs have become essential conservation institutions that can manage and deploy transparent and aligned investments over long time periods in national, regional, and global priorities.

By contrast, it must be recognized that a number of CTFs have closed over the years. This review identified 14 CTFs that have closed over the last 20 years. A number of the reasons for the closures include:

- Limited life cycle founding documents. The CTFs closed when the funding expired.
- Poor management;
- A merger with another CTF;
- A transition to a different governance model (Case Study 2); and
- Time-limited Executive Director. While almost all CTFs, allow the governing body to determine if an Executive Director should continue or not, in a few cases, there is an established term limit. The departure of a time-limited ED can create a leadership transition crisis.

In many of the cases above, the fundamental issue was the ability to secure sustainable funding, reinforcing the importance of an adequate endowment in the establishment of a CTF and of ensuring flexibility for securing diverse revenue flows.

2.2.2 Ensuring Organizational Integrity

CTFs secure their place as nature conservation finance institutions by earning the trust of donors through financial transparency, strong leadership and accountability, and a proven ability to manage effective relationships with governmental agencies and civil society organizations. Effective CTFs steward funding from international agencies, utilizing transparent governance systems, reporting, annual audits, clear project design, grant-making and/or execution efforts, and ongoing monitoring and evaluation.

During this past decade, a landmark publication, the *Practice Standards for Conservation Trust Funds* (Spergel and Mikitin 2014), furthered CTF organizational capacity. This document was supported by key international donors including KfW, the Gordon and Betty Moore Foundation (GBMF), World Bank Group, CI, WWF, the GEF, Banc d'Arguin International Foundation (FIBA), and MAVA Foundation. This voluntary tool has proven to be extremely useful to CTFs for self-evaluations, external evaluations, and to help new CTFs establish

good practices from the outset. Donors have also used it to review the effectiveness and efficient management of CTFs as part of their philanthropic decision-making. An update has been developed (Bath et al. 2020) in parallel with this ten-year review.

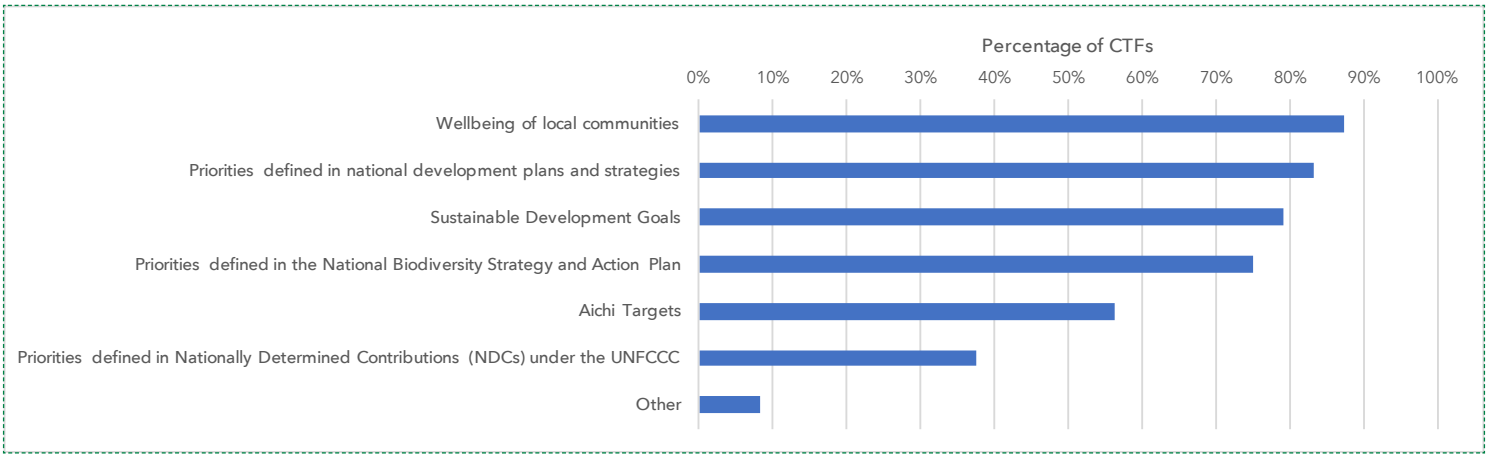
CTF independence has also proven to be a major draw for international donors that find CTFs to be more transparent financial managers than many government agencies with greater capacity to efficiently execute program goals (Section 3.1). Their independence from government budgetary systems provides greater flexibility to manage a diverse investment portfolio and move funds rapidly in response to emergency needs. In addition, CTFs provide continuity of purpose during government transitions, ensuring continued financing for conservation priorities and building working relationships with successive administrations.

2.2.3 Aligning Global Goals by Investing in Local Needs

Over the past three decades, most CTFs have evolved to advocate for, and support, national government efforts to conserve biodiversity and meet international commitments. The recognition that global challenges require greater commitments from all nations has inspired a number of international conventions and resolutions such as the United Nations Sustainable Development Goals (SDGs) and the Paris Agreement on the United Nations Framework Convention on Climate Change (UNFCCC). These agreements in turn stimulate multilateral, bilateral, and national financing commitments which when conjoined with private philanthropies, large international non-profit commitments, and increasing private sector investment interests, create a need for institutions that can effectively mobilize donor financing to impactful and accountable field projects.

The 2020 Global CTF Survey indicated that CTFs consider the following aspects (Figure 2-1) when setting their programmatic priorities.

Figure 2-1. Aspects considered by CTFs when deciding on priority programmatic areas



(2020 Global CTF Survey; n=49)

In addition, CTFs in-depth knowledge of the local organizational milieu enables them to identify effective grantees, build capacity in communities where it is lacking, and empower competent government agencies. CTFs enable nature conservation through responsible local organizations by using competitive processes for grants, clear reporting requirements, and ongoing mentoring and technical assistance as needed. CTFs' unique niche is the ability to link global pools of funding to conservation needs. By investing these funds in field projects managed by domestic organizations, CTFs help build long-term local conservation capacity.

For example, the MAR Fund's commitment to protect the fisheries and coral reefs of the Mesoamerican Reef puts them in regular contact with researchers, local co-managers, and fishing communities. At the same time, the French government's FFEM has made commitments to protect the global environment and contribute to food security, livelihoods, and economic development. When FFEM wants to invest in specific areas such as the resilience and integrated management of marine and littoral zones, MAR Fund is a natural potential partner. In addition to underlining the importance of ocean and coastal ecosystems for both climate stabilization and food security, a strong proposal must link FFEM funds with a set of collaborative transboundary local organizations that can work effectively with local fishers and influence the management and governance of natural resources.

In a similar example the Eastern Arc Mountains Conservation Endowment Fund (EAMCEF) received a grant from the government of Norway to both realize effective conservation in the Eastern Arc Mountains ecosystem and improved social welfare in adjacent communities. They designed their two-phase program with a focus on the SDGs. By improving water and soil conservation measures they were able to dramatically increase agricultural production thus improving food security and reducing poverty while preserving greater ecosystem functions (CAFÉ 2020).

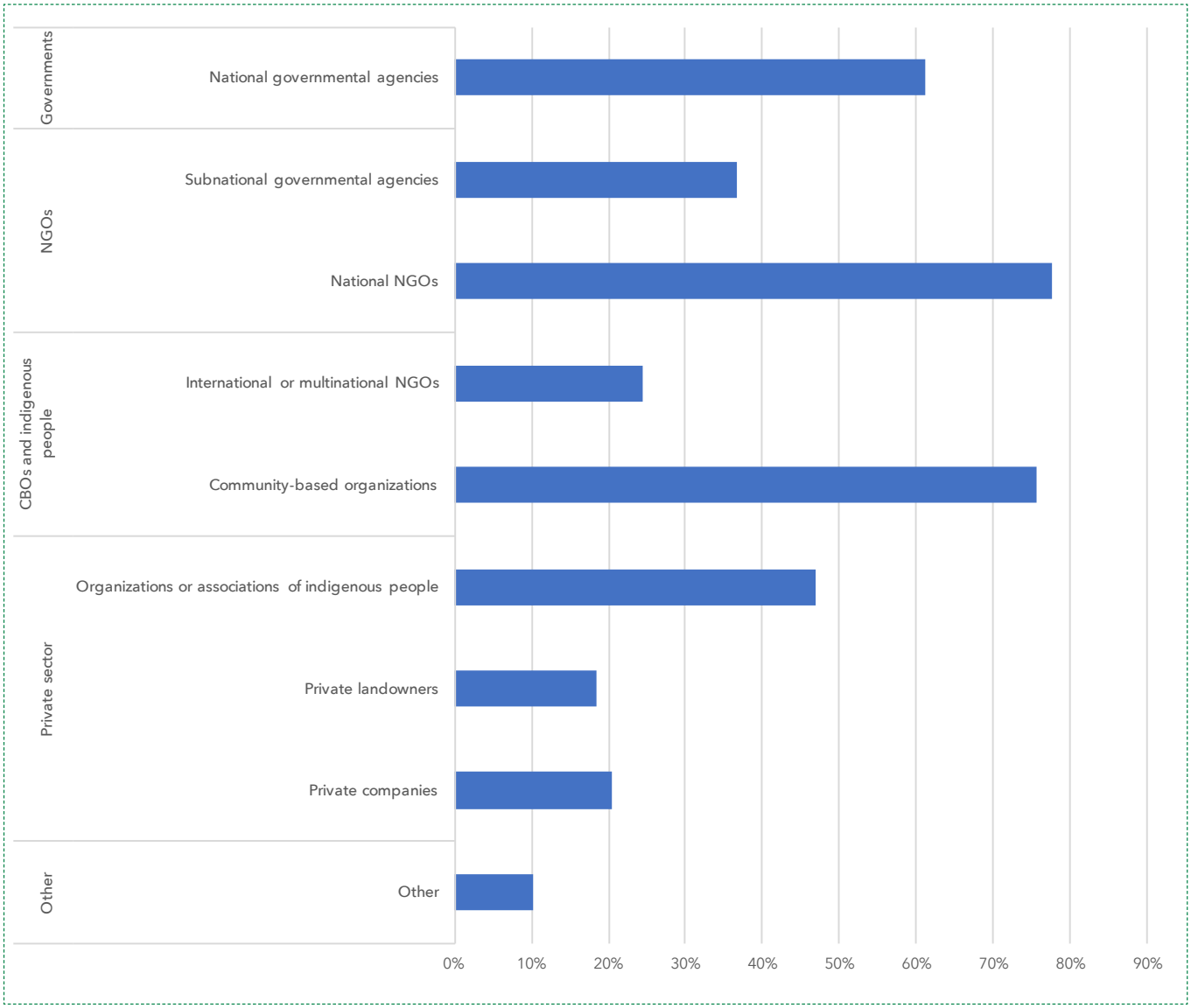
In both of the above cases, the CTFs had initial endowments that provided the flexibility to leverage funding in support of the UN Sustainable Development Goals – and other priorities. They have built relationships and the ability to envision how global to local connections can be made, the financial resources needed, and strategies to use benchmarks and indicators to ensure accountable actions. These competencies power the resource mobilization and conservation effectiveness of EAMCEF, MAR Fund, and other successful CTFs.

2.3 Effective Organizations

2.3.1 Partnerships

CTFs have traditionally funded conservation programs and projects that are implemented by NGOs, but as the scope of CTF thematic priorities has expanded, their grantees (Figure 2-2) and partners have also become highly diversified. Interviewed CTFs and donors emphasize that building enduring relationships with grantees and other stakeholders is essential to operationalize programs on the ground. Accordingly, around half of the CTFs that participated in the 2020 Global CTF Survey described either a specific partnership or similar type of engagement with governments, civil society, or other stakeholders, as one of the three most crucial aspects for their success.

Figure 2-2. Percentage of CTFs that invest in these direct beneficiaries



(2020 Global CTF Survey; n=49)

Partnering with all levels of civil society, CBOs, private sector businesses, NGOs, and government agencies is a critical CTF competency. Their deep knowledge of the local organizational environment, levels of capacity and accountability, collaboration practices, and local leadership talent, is pivotal for CTFs to manage effective grant programs, invest in local enterprises, partner with the private sector, and create effective alliances for policy changes. Working with partners, CTFs are able to test innovative financial mechanisms, rapidly deploy funds during emergencies such as wildfires or hurricanes, build capacity where it is most needed, and incentivize collaboration.

Interviews and survey results show that CBOs, NGOs, and government agencies, continue to be the main grantees and partners of around 80% of CTFs (Figure 2-2). Interviewed CTFs indicated that these organizations are uniquely positioned to implement conservation activities, because of their technical capabilities, knowledge of the local context, networks, leadership and/or responsibility for natural resource and protected area management. Such is also the case of organizations or associations of Indigenous people, which have consolidated their roles as CTF partners and leaders as described in Case Study 3 on the Coast Funds and Figure 2-2. This reflects the increasing recognition of the essential role of Indigenous people as effective land and biodiversity managers (Frechette et al. 2016; Sautner and Dixon 2018; Daley 2020; World Bank 2020).

Collaboration with governments has also offered CTFs the opportunity to participate in the development of policies and promote their implementation and enforcement, establish public-private partnerships, and participate in decision-making. While engaging with governments for advocacy purposes, more than half of CTFs have also provided grants to public agencies in order to support them in the effective fulfillment of their mandated conservation roles, such as managing protected areas, specific natural resources, or habitats (Case Study 1 on BIOFUND).

Given these many relationships, CTFs are perceived to be independent actors that have the power to convene diverse organizations and sectors to find common ground to advance global and national conservation goals, combat climate change and achieve sustainable development and biodiversity objectives. As CTFs mature, they increasingly work in alliances to help mainstream biodiversity considerations into national policies, build the capacity of local organizations, facilitate knowledge exchange, work to create enabling conditions in their countries of operation, and engage with private industries to transform unsustainable production practices. An example from Mexico is presented in Box 2-1.

BOX 2-1 **TRANSFORMING UNSUSTAINABLE PRODUCTION PRACTICES**

The Fondo Mexicano para la Conservación de la Naturaleza A.C. (FMCN) promotes regenerative ranching in Northern Mexico, focusing on Chihuahuan desert grasslands. Ranching is an economic driver in this part of the country and has been an important contributor to habitat degradation including eroded soils, depleted water supplies, and desertification of native grasslands. Regenerative ranching can be used as a tool to restore degraded lands and prevent their conversion to the intensive monoculture crop farming that is now devastating ecosystems.

Alliances are essential to transform the livestock sector by showcasing the advantages of regenerative grazing practices. FMCN teamed up with a network of over 250 progressive ranchers through collaborations with the regional civil society organizations Manejo Regenerativo de Ranchos A.C. and Fundación Pasticultores del Desierto, A.C., with individual ranch owners, and with conservation organizations such as IMC Vida Silvestre A.C. Their shared goal is to implement more sustainable cattle ranching operations that will provide greater long-term returns and increase habitat for biodiversity. In 2018, TNC Mexico donated Rancho El Uno, a 45,700-acre ranch in the middle of the Janos Biosphere Reserve in the state of Chihuahua to FMCN's regenerative ranching and private lands conservation program. This valuable land gift, together with seed funds for an endowment to support long-term protection of the property, will help FMCN, in partnership with the regional environmental fund (Terra Habitus A.C.) to put in practice the concept of regenerative ranching. As the successes and challenges of implementing new cattle grazing practices emerge, the alliance will need to grow. Future partners will include agricultural banks that provide relevant financial products such as loans to ranchers, extension service providers to share best practices, and buyers and consumers of sustainable meat.

Another example, currently under design by FMCN, in partnership with the National Institute of Ecology and Climate Change (INECC), is the project Connecting Watershed Health with Sustainable Livestock and Agroforestry Production in Mexico (CONECTA). The initiative, funded with GEF resources, with the World Bank as the implementing agency, will foster connectivity between ranching and agroforestry landscapes in 15 water basins in the states of Jalisco, Veracruz, Chiapas, and Chihuahua.

Efforts like this by CTFs to promote transformational changes in the primary sector, especially for regenerative agriculture, silviculture, and fishing are growing. All will require CTF leadership and facilitation to build the needed committed alliances.

Finally, the most successful CTFs have a close relationship with national implementing agencies to ensure both supportive outreach to international donors as well as coordinated expenditures in the field. CTFs' agility and flexibility have made independent CTFs an important ally for government agencies that are often constrained by political and financial limitations and are unable to invest in the community allies needed for effective nature conservation. Case Study 1 on BIOFUND describes the way in which the CTF evolved to support effective management by Mozambique's National Administration of Conservation Areas of the country's parks and reserves. Most CTFs have formal representation by government agencies on their governing bodies and/or regular coordination arrangements (Section 3.1).

2.3.2 The Ongoing Growth in the Number of CTFs

Given the success of many CTFs in attracting international donor funds for national conservation priorities, there has been an ongoing interest in countries, not currently served, to build this capacity. Around 40 new CTFs were formed

between 2010-2020 as listed in Annex 2 primarily from Africa, Asia, Latin America, and smaller island states in the Caribbean. The continuing investment in new CTFs includes global, regional, and subnational in-country funds. While the creation of global and regional CTFs responds to the need for articulated transboundary conservation efforts, the on-going demand for sub-national CTFs has been powered by the recognition that governments and local civil society organizations need to have the resources and the ability to be empowered and engaged in implementing their own conservation actions.

New CTFs, operating in smaller geographic and financial scales can struggle with finding efficiencies and justifying overhead, and are therefore looking for new pooling and shared service models, or ongoing partnerships and subsidiary relationships with the more established larger CTFs. The Caribbean Biodiversity Fund (CBF) provides these investment pooling and capacity-building services, building sustainable CTFs with matching fund requirements on many Caribbean islands. Well-organized partnership agreements and coordination with local boards and government agencies, have built a strong framework for these new CTFs, although a multi-year start up period with ongoing technical and financial support is needed.

In another case, FMCN is supporting the emergence of sub-national CTFs within Mexico. A few of the manifold reasons include:

1) FMCN is an institutional CTF with US$160 million in endowment funds and US$6 million in sinking funds as of 2019. Growing larger at this point could be politically unwise (creating potential resentments from public agencies) and could lead to a ballooning of its own staff rather than investing in other partners.
2) Sub-national CTFs are more agile and flexible, able to move money to the field quickly with greater local relationships and support from state agencies.
3) Sub-national private CTFs, as smaller non-profit organizations, can access funding and technical support that FMCN can no longer access.
4) Sub-national CTFs have greater local trust, buy-in, and board members from that area, engaging more environmental leaders across Mexico.

While this strategy may only make sense in large countries such as Brazil, Mexico, and Indonesia, ongoing efforts in many countries at wider decentralization of authority to state or local governments could encourage more sub-national CTFs. A corollary example in this past decade has been the dramatic expansion in the number of water funds protecting large watersheds at subnational levels. Water funds are not considered CTFs by default as their main purpose is to maintain water quality and quantity by preventing erosion, pollution, and siltation. However, when these important goals are achieved by forest conservation, or afforestation that supports biodiversity they may meet all the characteristics of a CTF. A first water fund, FORAGUA from Ecuador, joined RedLAC in 2019 and may be a forerunner of future CTFs that will be primarily concerned with conservation at the watershed level.

On the other end of the scale, the first global CTFs are forming. The Blue Action Fund was formed in 2016 thanks to bilateral cooperation efforts. It was established as a financial partner to move funding to non-profit implementers working on ocean conservation in Africa, Latin America and Asia/Pacific. They manage Call for Proposals by geographies prioritizing marine protected areas, conservation of biodiversity and recovery of fish stocks and food security. Additional CTFs of many types are currently being initiated to join the class of 2020-2030.

2.3.3 Support from CTF Networks

To strengthen their capacity, share experiences, build mentoring relationships, and empower the CTF sector, CTFs have built membership driven networks. While there are a number of focused smaller-scale networks, on a "continental" scale, CTFs are currently organized into three regional networks:

Table 2-1. Three Regional CTF Networks

Network	Region	Founded	# Members in 2019
RedLAC	The Latin America and Caribbean Network of Environmental Funds	1999	23
CAFÉ	Consortium of African Funds for the Environment	2011	18
APNET	Asia Pacific Conservation Trust Fund Network	2014	6

RedLAC, with a 20-year history, has maintained its initial commitment to sharing and learning among member CTFs. As their 2020-2023 strategic plan states:

> *RedLAC has been built on a culture of sharing and learning together for greater collective impact. RedLAC encourages leadership and joint action and invites environmental funds to share both failures and successes. As has been highlighted many times over the years, there is an understanding that members will return phone calls, provide advice, and offer time and staff to strengthen the case for permanent financing solutions. By supporting another Environmental Fund, member funds raise their visibility, strengthen their staff's capacity, and build the knowledge and relationships that make them, and the wider network, stronger. This passion for learning, self-improvement, and greater impact underlies our culture and all of our strategies.*

This philosophy has carried over to the other networks. All of their mission statements reflect this commitment to a sharing and learning culture:

- *RedLAC is a community of environmental funds that strengthens our members' capacity to be effective fund managers and leaders in innovative financial mechanisms for conservation and sustainable development.*

- *CAFÉ is a learning community that shares best practices and pursues innovative finance mechanisms in order to foster conservation, environmental management and sustainable development in Africa.*
- *APNET provides a common platform to promote and facilitate partnerships and collaboration among the Members and the wider community of organizations working to achieve a vibrant and healthy environment and sustainable communities in the Asia-Pacific region.*

They have built this culture through many venues including:

- A strong mentoring one-on-one culture where members are encouraged to call each other for support and ideas;
- Annual assemblies that focus on innovative finance strategies, best practices, and sector celebrations;
- Competitive funding to finance pilots as testing grounds for new approaches;
- Capacity building and knowledge management activities such as workshops, publications, and case studies;
- Leadership and visibility opportunities via different committees and speaking engagements;
- A collaborative and inclusive approach by the elected Presidents that reinforces the commitment to a supportive culture.

Over this past decade, the Capacity-Building Project (2010-2015) and Project K (2015-2019), managed by FUNBIO and funded by FFEM, the GEF through UNEP, the Gordon and Betty Moore Foundation, and MAVA Foundation with matching contributions from 40 CTFs in 28 countries, were launched to build capacity and South-South exchanges between RedLAC and CAFÉ members. In many cases these programs supported collaborations between a more experienced CTF in a specific financial innovation, and a CTF partner interested in adapting that innovation for a different context. This resulted in investments in documenting best practices, incentivizing innovative new project approaches via competitive funding, and sharing materials and methodologies to help strengthen newer CTFs and to replicate proven approaches in new geographies.

Within their strategic plans, the networks' priorities are to

1) build member capacity, accelerate their learning curves, and enable members to be leaders in developing sustainable financial mechanisms in their respective countries;
2) coordinate and convene members to enhance the visibility of the CTF movement/networks and support sustainable development financing in regional and global policy agendas; and
3) achieve financial sustainability for the networks given that they are still dependent on donors to fill the financial gap between membership dues and major programs.

Member CTFs are extremely positive about the role their networks play in encouraging better practices and enhancing their tools and skill sets. Successful capacity building and networking strategies such as the Annual Congresses and training events drive membership retention. The networks are credited with having greatly reduced the learning curve for new CTFs, provided mentors and solutions useful for all the members, and fostered the interpersonal relationships and teamwork that have inspired leaders throughout the CTF movement. While RedLAC was able to support CAFÉ's evolution through the Capacity-Building Program and then developed a joint initiative, Project K, financing is still limited for ongoing capacity building programs in all of the networks.

The networks have also helped CTFs build capacity in new areas of work. For example, a priority for RedLAC in the 2020-2023 Strategic Plan is to help link financial investors with CTF members to influence production value chains for greater agricultural sustainability. The networks through competitive pilot funding opportunities, mentoring, and training programs have proven adept at emboldening CTFs to extend their programmatic and outreach efforts. Similarly, RedLAC has engaged on the policy front, writing proposals for resource mobilization strategies for the 8th and 9th Conference of the Parties of the Convention on Biological Diversity (CBD) and contributing to the creation of the Program of Work on Protected Areas of the CBD Secretariat.

None of the networks have yet achieved true financial sustainability and APNET's lack of resources has impinged its ability to operationalize. RedLAC and CAFÉ have relied on a combination of member fees, which on average cover up to 30% of their costs (Embree 2018a and 2018b), and donor gifts. Ongoing fundraising activities are required to ensure robust services to the members and the ability to evolve strategies for continued relevance. A diagnostic study funded by Project K (Embree 2018) provides a number of different paths and services for the CTF networks to reach financial sustainability ranging from knowledge management services, to advisory fees, to providing shared back-office administrative services, to creating an endowment to supplement operating costs.

In addition to their three priorities, the regional networks also encourage their members to engage in two key activities sponsored by the CFA: *The Practice Standards for Conservation Trust Funds* and the annual *Conservation Trust Investment Survey*. The networks have an ongoing commitment to support these studies and promote the application of the Practice Standards and best practice investment strategies among their members as an ongoing commitment to CTF effectiveness. While these efforts have strengthened CTFs as a sector there is ongoing room for improvement, in establishing common impact indicators (Section 2.4.2), generating a higher response rate to surveys, and coordinating policy influencing opportunities within and across the networks. These are ongoing opportunities that will require continued collaboration, joint leadership, and investments.

A more detailed analysis of the evolution and current practices of the CTF Networks and their history, structure, and membership norms is included in Annex 3.

2.4 Conservation Priorities and Impacts

2.4.1 Conservation Priorities Over the Past Decade

CTFs disbursed and/or allocated well over US$2 billion to support conservation projects and programs across the globe between 2009 and 2018 (Hartmann 2020).[6] CTFs finance programs and projects that reflect their niche and mission. For consistency, the authors refer to the programmatic categories presented in Table 2-2[7] to showcase the types of programs CTFs have invested in over the past decade (Table 2-3).

Table 2-2. Categorization of programmatic areas

Programmatic category	Summary
Land and/or water protection	Establishment or expansion of marine or terrestrial protected areas.
Land and/or water management	Management of marine or terrestrial areas within or outside protected areas, and other conservation actions such as control of invasive species and habitat restoration.
Species management	Species management, recovery, re-introduction, or ex-situ conservation measures.
Education and awareness	Formal education, awareness raising and communications to influence behavior of individuals.
Law and policy	Development and implementation of formal legislation, policies, regulations, and voluntary standards.
Livelihood, economic and other incentives	Designing, developing, and implementing economic and other incentives to influence behavior.
External capacity building	Training of organizations and institution to develop capacities for better conservation.

(adapted from Salafsky et al., 2008)

6 This global figure estimate (US$1,911,506,530) is based on annual reports of only 43 CTFs, which provided details on grants disbursed and/or funding allocated to conservation programs between 2009 and 2018. Reported values were adjusted for inflation and Purchasing Power Parity (PPP). The total estimate is expressed in 2018 U.S. dollars. Given that this only reflects disbursements from 43 funds, the actual disbursement amount from 108 CTFs must be substantially higher than US$2 billion.

7 The classification used in this report follows the categorization of conservation actions proposed by Salafsky et al. (2008), which corresponds to version 1.0 of the classification adopted by IUCN and the Conservation Measures Partnership (CMP). This version has been subject of subsequent updates (CMP, 2019), but the continued use of version 1.0 is still deemed adequate to retain continuity (CMP, 2019). The authors of this report have therefore used version 1.0 due to its adequate fit with programs funded by CTFs over the last ten years.

The 2020 Global CTF Survey explored the conservation programs and specific conservation actions that CTFs funded over the last ten years. The results, in Table 23, show that most CTFs remained focused on traditional conservation programs (i.e. terrestrial and marine protection and management), with the biggest emphasis being in management of terrestrial protected areas. In a major change over this past decade almost half of the CTFs also funded management programs in marine protected areas. There was also a notable increase in programs for habitat and natural process restoration.

Over the past decade more CTFs invested in programs for climate change adaptation and mitigation and/or focused on sustainable enterprises and alternative livelihoods. A large proportion of CTFs also complemented and supported on-the-ground conservation programs with awareness raising and capacity building activities that targeted civil society or community managed enterprises. In short, Table 23 shows that CTFs managed a very wide range of conservation actions over the last decade reflecting an expansion in the scope and diversity of programs worldwide.

Table 2-3. Programs and conservation actions funded by CTFs over the last ten years

Programmatic category	Percentage of CTFs by category	Conservation actions	Percentage of CTFs by action
Land and/or water protection	57%	Establishing or expanding marine protected areas	25.5%
		Establishing or expanding terrestrial protected areas	34.0%
		Establishing other types of protection of specific resources or habitats	42.6%
Land and/or water management	91%	Management of marine protected areas	44.7%
		Management of terrestrial protected areas	68.1%
		Management of marine areas outside protected areas	23.4%
		Management of terrestrial areas outside protect areas	42.6%
		Invasive/problematic species control	34.0%
		Habitat & natural process restoration	61.7%
Species management	60%	Species management	46.8%
		Species recovery	25.5%
		Species re-introduction	6.4%
		Protecting biodiversity out of its native habitats (i.e. ex-situ conservation)	23.4%

Programmatic category	Percentage of CTFs by category	Conservation actions	Percentage of CTFs by action
Education and awareness	64%	Formal education	19.1%
		Awareness & communications	61.7%
Law and policy	49%	National or sub-national legislation	25.5%
		International policies & regulations	6.4%
		National or sub-national policies & regulations	29.8%
		Private sector standards & codes	8.5%
		Compliance & enforcement	36.2%
Livelihood, economic and other incentives	66%	Developing enterprises & livelihood alternatives	40.4%
		Promoting alternative products and services to replace environmentally damaging ones	34.0%
		Using market mechanisms to change behaviours and attitudes	14.9%
		Creating or using non-financial incentives to change behaviours and attitudes	21.3%
		Natural sciences research	38.3%
		Socio-economic research	25.5%
		Climate change mitigation	44.7%
		Climate change adaptation	55.3%
		Waste management and/or recycling	27.7%
External capacity building	64%	Training of civil society	53.2%
		Training of community-managed enterprises	53.2%
		Training of other private enterprises	21.3%

(2020 Global CTF Survey; n=47 CTFs)

Similarly, in prior decades a few of the larger CTFs began expanding beyond the terrestrial protected areas they were initially created to help protect. However, over the past decade, many CTFs are doing far more to work at land/seascape scales to respond to global and national priorities to preserve ecosystem functions, take action on climate change, and build greater food security through sustainable production. The following five areas of dramatic programmatic acceleration were highlighted in Table 2-3 above and in interviews:

a) Protecting marine and coastal ecosystems;
b) Building the capacity of key implementing partners;

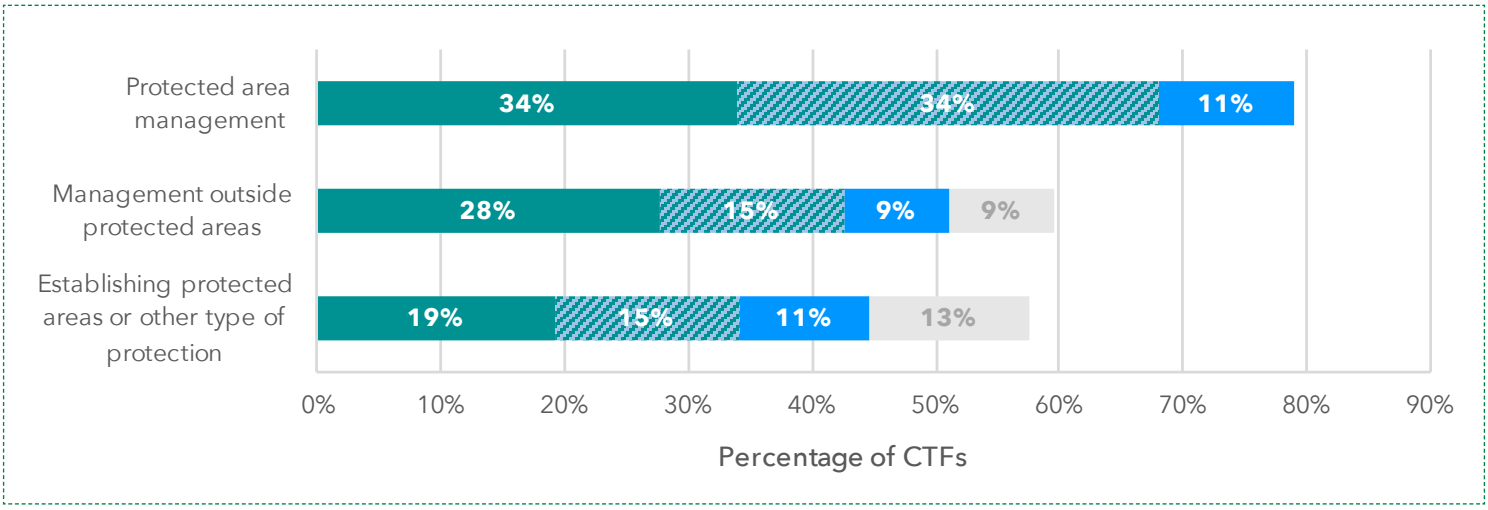
c) Mainstreaming biodiversity agendas and strengthening enabling conditions;
d) Engaging private sector partners for greater sustainability; and
e) Applying innovative financing models.

a. Protecting marine and coastal ecosystems

While the creation of terrestrial protected areas was a priority in the previous two decades, this past decade was a global wake up call for the need to create and manage marine protected areas and build greater capacity for marine funding and management expertise (Figure 2-3 and Table 2-3). Many CTFs have been in the forefront of advocating for, and building capacity to manage, marine protected areas, more sustainable fisheries, and reduced contamination and plastics. In some countries, established CTFs expanded their staff and skill sets to mobilize funding for marine areas, and in others, new CTFs emerged.

A major investment was made by TNC, the GEF, and KfW in the CBF to sponsor the creation and sustainability of new CTFs throughout the Caribbean. In addition, regional marine CTFs were formed. PACÍFICO, established as a foundation in 2017, is a coordination platform for four environmental funds to mobilize resources and implement marine-coastal conservation actions in the Eastern Tropical Pacific. Similarly, the Association for the Sustainable Financing of Mediterranean Marine Protected Areas (MedFund) was created in 2015 to fund Mediterranean marine protected areas as part of the regional efforts towards achieving Aichi Target 11 (10% of coastal and marine areas conserved) and the objectives of the Convention for the Protection of the Marine Environment and the Coastal Region of the Mediterranean. Finally, in the most global CTF launch to date, the Blue Action Fund was set in motion at the 2017 UN Ocean Conference to support the achievement of the SDG 14 (Conserve and sustainably use the oceans, seas and marine resources) across regions.

Figure 2-3. CTFs that funded protection and management programs in marine and terrestrial areas over the last ten years



(2020 Global CTF Survey; n=47 CTFs)

b. Building the capacity of key implementing partners

As key implementing partners, NGOs, CBOs, and governmental agencies have become frequent beneficiaries of capacity building actions, especially as many CTFs report that addressing capacity needs of local partners is essential for effective execution of projects and programs. Education, awareness raising, and capacity building actions have been widely financed as cross-cutting programs by 64% of CTFs according to the 2020 Global CTF Survey. Through these investments, CTFs have aimed to influence behavior, and ensure that key stakeholders are able to absorb grants, adopt new approaches and maintain best practices or conservation actions over time. Many new leadership efforts such as the Mesoamerican Reef Leadership Program organized by the FMCN and programs organized by the Micronesia Conservation Trust (MCT, Case Study 5) were funded over this past decade.

At the same time, CTFs have strengthened alliances with existing networks and initiatives to either implement CTF-led capacity development actions or ensure programmatic alignment and complementarity of capacities built through parallel programs of grantees or partners. Among others, various regional CTFs have engaged in collaboration with learning exchange and capacity building networks and initiatives that involve local partners. For example, the MAR Fund exchanges informally with the MPAConnect Network of Caribbean marine protected areas; the MedFund operates in close collaboration with the MedPAN network of Mediterranean marine protected areas; and the MCT (Case Study 5) has a deep involvement in a number of regional networks and initiatives with local organizations and communities.

As a final example, due to Covid-19, tourism revenues in Mozambique have been in free fall and private conservation operators that manage over 67% of the protected areas in the country can no longer pay for rangers. In an impressive example of the flexibility that CTFs have to respond to emergency needs, BIOFUND approved a 2020 Covid-19 emergency plan of up to US$3 million to maintain the jobs of up to 950 rangers in the Mozambique National System of Conservation Areas. By maintaining these positions, BIOFUND buoys local economies and ensures the ongoing protection and presence of rangers at a time when poaching and illegal logging can be expected to rise. This investment keeps in place an installed human resource capacity that would be extremely costly and time-consuming to replace.

c. Mainstreaming biodiversity agendas and strengthening enabling conditions

CTFs increasingly play an active role in the design and execution of national environmental policies and strategies to mainstream biodiversity agendas into larger scale government programs, including eliminating perverse subsidies that undermine environmental conservation. Biodiversity loss, climate fluctuations, and the breakdown of key ecosystems are all on an interrelated accelerated pace. A report from the Intergovernmental Science-Policy Platform on Biodiversity

and Ecosystem Services (IPBES 2019) concludes: *Negative trends in nature will continue to 2050 and beyond in all of the policy scenarios explored in the Report, except those that include transformative change – due to the projected impacts of increasing land-use change, exploitation of organisms and climate change, although with significant differences between regions.* In response, supporting a global biodiversity framework that includes transformative change necessitates CTFs to engage on government policies, build strong business models and practices with the private sector, and bundle funding flows for co-benefits (e.g. conservation with clean water provision/health concerns).

As a result, CTFs have expanded their strategies towards the creation of enabling environments for conservation through projects and programs to strengthen the economic, social, organizational, and policy contexts. Building high-level government commitment, particularly to mainstream biodiversity conservation, is a key part of many CTF's ongoing strategies. By supporting climate change adaptation and mitigation actions (55% and 45% of CTFs, respectively), and promoting sustainable enterprises or alternative livelihoods (40% of CTFs), CTFs have increasingly aligned climate action and sustainable development with their conservation priorities. Investments in the policy context have furthermore allowed CTFs to inform and catalyze the development of relevant laws and policies (around 25% of CTFs) and improve compliance and enforcement of relevant regulations (36% of CTFs). Increasingly, CTFs find themselves playing convening roles to help bring together government, private sector and social interests (Table 2-3, above).

Given this scenario, CTFs have also become increasingly active in promoting global responses. CTF leaders actively attend meetings such as Conference of the Parties (COPs) for international conventions as experts, speakers, and are even sometimes chosen to be part of their government's delegation. Interviewed CTF members indicated that a more coordinated compelling case for better financing commitments and policies could be made through the networks (Section 2.3.3). To date, RedLAC has been the most engaged, providing information at stands in the civil society pavilions, engaging members to write and support resolutions, and organizing networking opportunities to discuss financing and mainstreaming biodiversity conservation at major international events.

d. Engaging private sector partners for greater sustainability

Pilot strategies with private sector partners to address key threats such as expansion of the agricultural frontier, agrochemical pollution into waterways, unsustainable fishing practices, and more effective grazing practices are underway. They acknowledge that this is an increasingly important part of their work going forward. Engagement with these private sector partners has expanded opportunities for CTFs to advance programs that promote economic incentives and productive transformation. Despite the challenges that some CTFs describe in engaging with the right private sector partners or ensuring compatibility with their mission, this type of partnership is perceived as necessary to scale CTF programs.

Over the last decade, around 20% of CTFs have consequently worked directly with private companies (Table 2-3 above) often in broad alliances entailing in-kind support, knowledge exchange or programmatic alignment. CTFs have: aided small and medium productive enterprises to become more sustainable; helped scale conservation-driven business models; supported larger companies and specific sectors to improve supply chains; and made direct investments into innovative enterprises to drive sustainable practices. Case Study 4 on Fondo Acción provides an overview of such partnerships using a tailored framework to analyze alliances between CTFs and private companies. This theme is further discussed in Section 2.3.1 above and Section 4.1.2 that addresses biodiversity compensation and offset payments. Additionally, a Framework for Analyzing Private Sector Engagement Strategies is presented in Annex 4.

e. Applying financing models

Implementation of financing models including Program Finance for Permanence (Section 4.1.1a and Case Study 3), accreditation with multilateral financing organizations, and impact investments (Case Study 4), have all greatly expanded over this past decade. This theme is explored in detail in Section 4.1.1 and 4.1.2.

2.4.2 Trends in Reporting Conservation Results Over the Last Decade

As CTFs mobilize funding at ever larger scales and across an increasingly broad range of programs, empirical information on tangible conservation impacts is especially relevant for donors, partners, and CTFs to demonstrate achievements and adapt their operations and priorities. Definitions of conservation impacts vary across CTFs and refer to a wide variety of programmatic results. For the purpose of this review, the authors focus on results that range from immediate outputs to long-term impacts, and extend across geographical scales, in accordance with the results chain model proposed by OECD (Zwart 2017; Table 2-4).

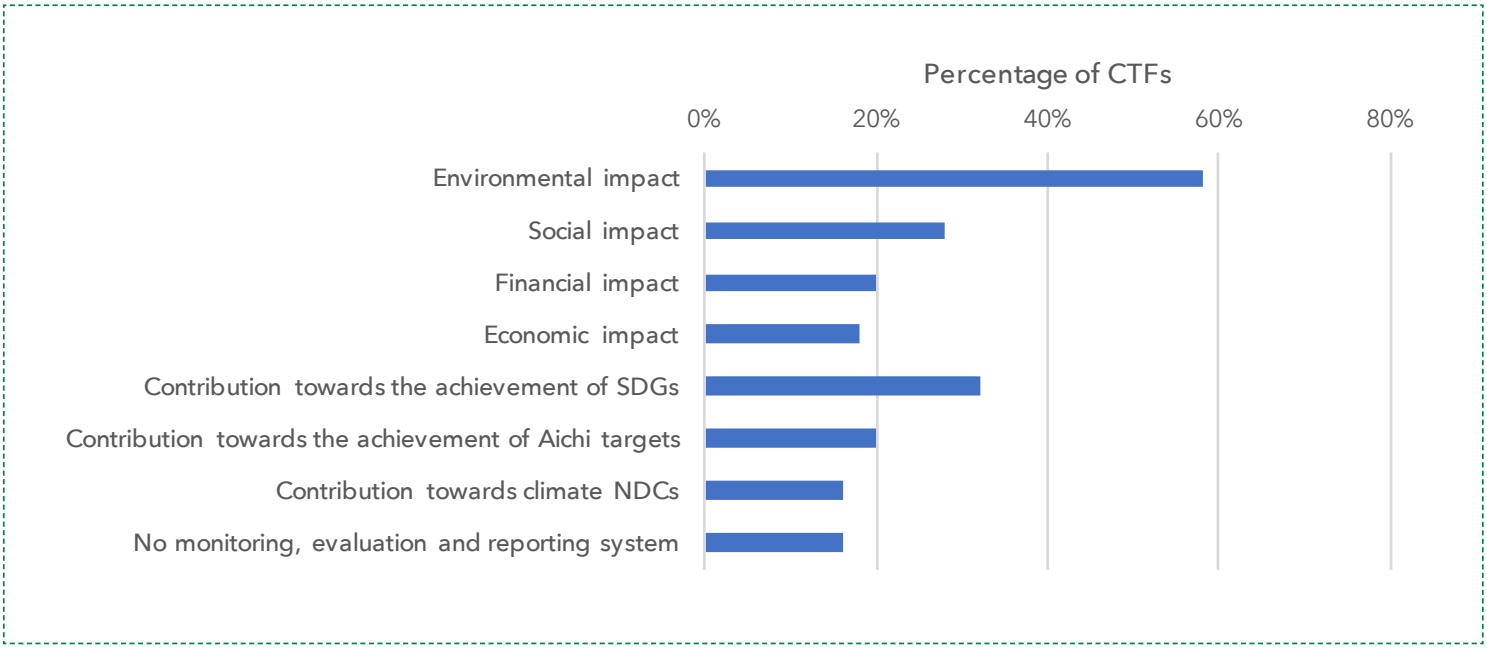
Table 2-4. Relevant result levels considered in this report based on the results chain model proposed by OECD

Results chain model levels	Description by OECD (2019) and proposed interpretation for the purpose of this study
Output	*"Products, capital goods and services."* Outputs are understood as the foreseen direct short-term results of CTF program implementation.
Outcome	*"Likely or achieved short-term and medium-term change and effects of intervention outputs."* Outcomes of CTF programs are understood as the effects of CTF program outputs on the local, national or regional context, including ecological, socioeconomic, governance and policy components, among others.
Impact	*"Primary and secondary long-term effects produced by development interventions."* The authors refer to impact of CTF programs as the contribution towards the achievement of national or international conservation or sustainable development goals and targets in the long term.

(Zwart 2017)

Despite some persistent challenges to implement robust monitoring and reporting systems, the communication of actual conservation results has been gaining momentum among CTFs over the last decade. Monitoring and reporting systems of CTFs have evolved from focusing mainly on project completion (as described in GEF 1998 and CFA 2008), to a more ample spectrum of results. According to the 2020 Global CTF Survey, over the last ten years more than 80% of CTFs implemented monitoring and reporting systems, predominantly focusing on conservation results. In addition, many also began scrutinizing a diversity of other impacts and/or contributions towards national or international goals and targets (Figure 2-4).

Figure 2-4. Percentage of CTFs that implemented monitoring, evaluation, and reporting systems covering different types of programmatic impacts over the last ten years



(2020 Global CTF Survey; n=50 CTFs)

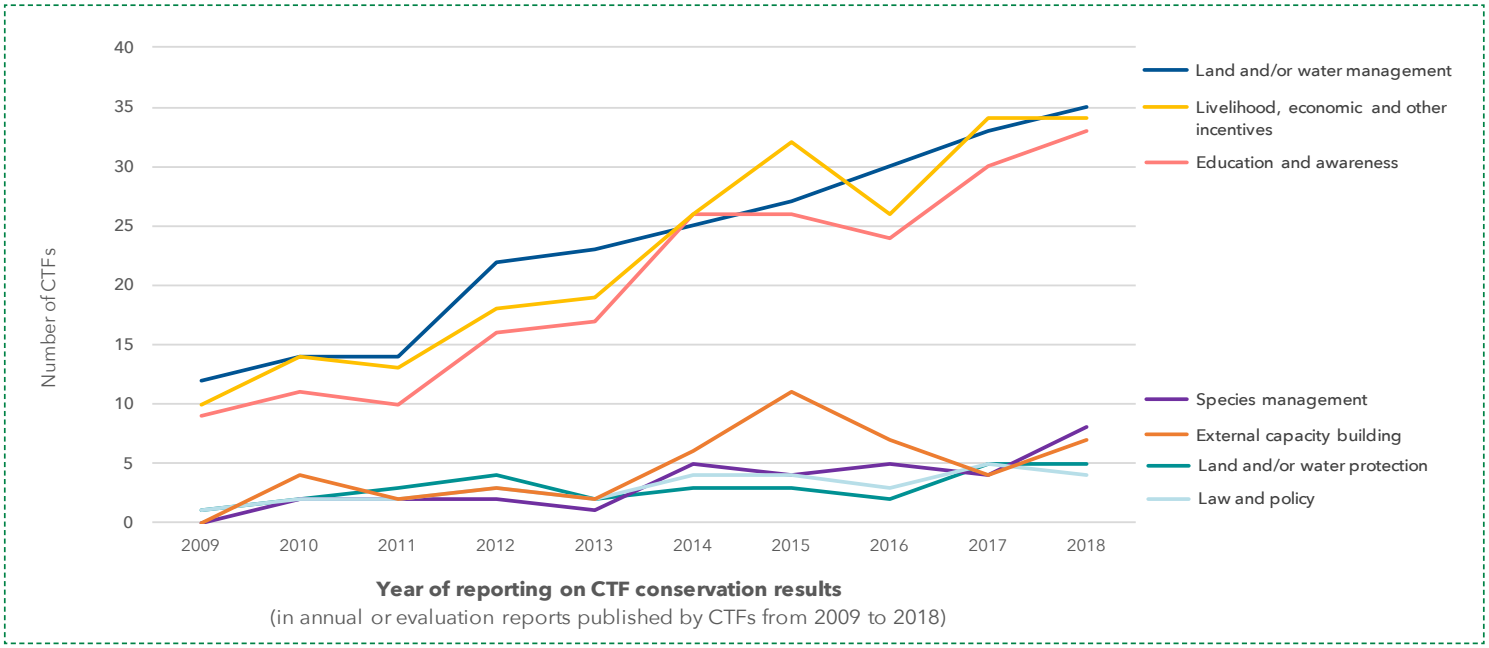
CTFs have shared information on conservation results with the public through many mediums. A systematic analysis of the 280 annual reports and nine evaluation reports that 49 CTFs published online between 2009 and 2018 identified the type of conservation results that CTFs reported (Hartmann 2020).8 This analysis shows that CTFs have increasingly and consistently reported on three programmatic areas, namely: 1) land and/or water management; 2) livelihood and

8 The systematic analysis conducted by Hartmann (2020) encompassed 305 annual reports and 15 evaluation reports published by 53 CTFs from 2008 to 2019. The analysis presented in this study focuses on a subgroup of 280 annual reports and nine evaluation reports that 49 CTFs published over the period between 2009 and 2018, which is the 10-year range with the best availability of reports since the publication of the Rapid Review of CTFs in 2008 (Spergel and Taïeb)..

economic incentives; and 3) education and awareness (Figure 2-5). As presented in greater detail in Annex 5, reporting at the 'outcome' level was mainly limited to these areas. The systematic analysis also suggests that monitoring and reporting of both 'outputs' and 'outcomes' are common practices among the CTFs that publish these annual and evaluation reports. Contributions of CTF programs towards national or international targets in the long term (i.e. impacts), on the other hand, were barely measured in quantitative terms in these annual reports (Annex 5).

Although the 2020 Global Survey indicated that 17 CTFs were tracking their work with the SDG goals and 20% with the Aichi targets (Figure 2-4), the analysis of annual reports (Hartmann 2020) confirmed that most CTFs reported this type of result by only mentioning the relevant goals or target, but without providing and measuring actual 'impact' indicators. The survey answers, however, represent the increasing interest in monitoring and reporting of long-term 'impacts' over the last few years. Interestingly, 32 CTFs reported in the survey that donors are more consistently requesting reports tied to national and international targets (particularly the SDG goals) so they anticipate a greater focus on these impacts going forward.

Figure 2-5. Thematic evolution of CTF reporting on conservation results from 2009 to 2018



(2020 Global CTF Survey; n=50 CTFs)

While the growing diversity of CTF programs represents a barrier for data aggregation on outputs and outcomes, some high-level estimates are feasible for CTFs that have used sufficiently simple, clear and comparable common indicators (Table 25). While these results represent only a select number of CTFs and indicators, they are an illustrative sample of the combined efforts and achievements of 49 CTFs over the ten-year period. Furthermore, they can serve as a starting point for an initial group of shared indicators that can inform future comparisons and be expanded as CTFs advance their monitoring and results reporting. Annex 5 presents a further analysis of CTF reporting and the indicators used over the past decade.

Table 2-5. Selection of comparable conservation outputs and outcomes reported by CTFs from 2009 to 2018

Programmatic category (Salafsky et al. 2008)	Output indicators	Number of CTF reports that included this indicator 2009-2018	Cumulative results obtained from the CTF reports 2009-2018
Land and/ or water management	Hectares of landscape covered by CTF support*	**27 CTFs**	**153.6 million ha**
	Total number of protected areas, parks, reserves and/ or conservancies supported by a CTF	**30 CTFs**	**965 areas**
	Number of projects supported/ financed	**28 CTFs**	**3,838 projects**
External capacity building	Number of people trained to practice sustainable economic activities*	**22 CTFs**	**90,535 individuals**
Various programmatic areas	Number of studies, reports and/ or articles published (grey literature) *	**11 CTFs**	**521 publications ****
	Total number of books, book chapters and/ or scientific articles published (academic literature) *	**9 CTFs**	**448 publications *****
	Outcome indicators	Number of CTF reports that included this indicator 2009-2018	Cumulative results obtained from the CTF reports 2009-2018
Land and/ or water management	Hectares of landscape added to protected areas, parks, reserves, conservancies and/ or CTF supervision*	**5 CTFs**	**3.2 million ha**
	Hectares of land reforested, afforested and/ or restored	**22 CTFs**	**213,700 ha**
	Hectares of land brought under a sustainable management tool*	**8 CTFs**	**28.2 million ha**
Land and/ or water protection or management	Tons of CO^2 equivalent emissions avoided and/or reduced	**10 CTFs**	**524.3 million tons**
Species management	Total number of species conserved in supported PAs, parks and/ or reserves*	**13 CTFs**	**Ranging from 19 to 497 species**

** This indicator was adapted and generalized in order to reflect a range of comparable indicators that provided the same data, but with unsubstantial differences in formulation, or that referred to specific projects.*

*** More than 95% of these publications were reported by two CTFs: 273 publications were released by the Academy for Conservation Science and Sustainability Studies of Ashoka Trust for Research in Ecology and the Environment (ATREE), and 228 by FUNBIO.*

**** More than 85% of these publications (i.e. 448) were released by the Academy for Conservation Science and Sustainability Studies of Ashoka Trust for Research in Ecology and Environment (ATREE).*

(adapted from Hartmann 2020)

2.4.3 Trends in Donor Reporting Requirements

Over the last decade, the monitoring and reporting of conservation results has been largely driven by grant-specific requirements set by CTF donors (Figure 2-6). Donors increasingly take into consideration CTF reporting capacity as a prerequisite for funding, and request information on conservation results through annual donor reports. As annual reporting primarily captures short-term results, external evaluation reports are increasingly built into project agreements for both interim and/or final evaluations to review results over relevant longer time periods such as five and ten years.

Forty out of 50 CTFs reported general donor request for monitoring and reporting while 31 out of the 50 CTFs specifically mentioned donor requests for outcome monitoring (2020 Global CTF Survey). Donors have also widely referred to, or requested alignment with, the *Practice Standards for Conservation Trust Funds* (Spergel and Mikitin 2014), the *Open Standards for the Practice for Conservation* (CMP, 2013; 2020), and/or with their own frameworks and guidelines for monitoring and reporting. While donors and CTFs refer to these resources, interviews suggest a wide and inconsistent use of the definitions of different levels of results and a lack of a common set of impact indicators. Finally, many CTFs fail to position their conservation results within the broader context. Fewer than half of the CTFs that published annual and/or evaluation reports between 2008 and 2019 referred to baseline data, and fewer than 20% linked their conservation results to a strategic plan or a theory of change (Hartmann 2020, Annex 5).
While most of the institutional donors and international NGOs interviewed describe the monitoring and reporting requirements in their grant agreements as minimal, the lack of alignment among grants and donors can still result in onerous lists of reporting requirements for individual CTFs. In an attempt to minimize the burden for CTFs, some donors have limited their monitoring and reporting requests to standard tools, such as the Management Effectiveness Tracking Tool (METT, WWF 2007), built as a framework for the World Commission on Protected Areas. Similarly, some have capitalized on advances in open-source global resources for conservation (e.g. Global Forest Watch) to measure specific conservation outcomes without requiring data gathering from CTFs.

CTF networks have also tried to advance the development of shared frameworks and indicators (see for example Putney 2012). The conservation community (for example the Conservation Measures Partnership, CMP) has made progress in mainstreaming some standardized tools, global monitoring instruments, and common frameworks. Interviews, however, suggest that CTFs and donors find these efforts to be largely insufficient to provide relevant results across a diverse array of CTF programs covering species, specific sites, alternative livelihoods, and/or marine areas, among others.

As a consequence, CTFs that manage diversified portfolios of projects, or depend on multiple donors, need to comply with monitoring and reporting of a number of grant-specific indicators, some of which are poorly aligned. A further

complication is a growing concern that the SDG indicators do not adequately account for biodiversity (Zeng et al. 2020). Interviewees recognize that CTFs and donors need to confront the following challenges and difficulties in coordinating a more systematic CTF monitoring and evaluation effort in the coming decade: 1) challenges in data aggregation; 2) insufficient use of new technologies for data gathering; 3) lack of comparability of conservation outcomes and impacts across CTFs; and 4) insufficient investment in outcome indicators, particularly in socio-economic and climate mitigation areas.

3. BUILDING TRUST

CTFs are created to be l institutions that are independent, mission-driven, and accountable. The earliest CTFs will soon celebrate their 30th anniversaries. Their organizational longevity plays a major role in the respect that many have gained in their countries due to their long-term commitment, their resilience and evolution as institutions that respond to national/international needs, and their ability to work with successive governments. Those CTFs that have launched successfully and continued to thrive have earned the trust of donors, governments, and private and civil society partners through strong governance, accountability, transparency, and administrative excellence. Across all of these critical traits, effective leadership is a central element.

CTFs are founded by an initial core of committed, mission-driven, founding members. These leaders define the *raison d'être* of a CTF and make the case for the long-term commitment to conservation that CTFs bring to their respective countries and regions. The political and economic connections of board members have a profound influence on how impactful CTFs will be in both the national and international conservation field. Strong leadership skills, strategic thinking, and the capacity to open doors with government agencies, civil society, and donors are essential traits for CTF governing body members and executive directors.

3.1 CTF Governance

The way in which CTFs are legally structured, their governance, bylaws, and administration are critical enabling conditions for building trust and accountability. While governance structures of CTFs respond to the legal requirements of each country, the most common structure for CTFs worldwide continues to be a Board of Trustees, or Board of Directors, (depending on the legal system), Board Committees, an Executive Director and staff for the daily operations of the CTF. In most cases the governing body, has clear powers, responsibilities, terms, and officers as established in the bylaws. The governing body serves as the fiduciary of the organization's capital assets, supervises the Executive Director, and sets the strategies and policies for the CTF. Some CTFs, including those in Mexico, Benin, Mozambique and British Columbia, also have a General Assembly, or similar body, made up of a larger group of representatives. These often include "founding members" or members from communities or sectors within the CTF's sphere of influence. The Assembly usually meets once a year and is responsible for, amongst other tasks, choosing the Board members.

Trends in CTF governance over the past decade include increased diversification of many governing body or committees. For example, in the Board of the Forest Foundation Philippines, as representatives of large NGOs complete their terms and step off the Board, these places are being filled by persons from the private sector. In other CTFs, members of Indigenous communities are joining the governing body. Some CTFs also include representatives of local communities on working committees to enhance their engagement with crucial populations and build local support for programs (Case Studies 3 and 4).

3.1.1 CTF Autonomy

Independent CTFs' governing bodies generally include a majority of private individuals or people representing organizations from the non-profit, academic ,or business sectors. One or two seats are usually set-aside for government representatives, often from the Ministry of the Environment and Ministry of Finance. In many cases a representative of large donors or international non-profits will sit on the governing body when they have made a substantial investment and want to support the board's capacity. These donor representatives may have a seat on the governing body or on a Program Account committee that supervises the expenditure of the funds they have provided.

Most CTFs work on a majority vote basis for governance decision-making. However, superpowers are not unusual and are often required as a fail-safe for the donor to ensure all parties meet their contractual commitments. They are also often a key indicator of the gradient between independent and publicly controlled funds. For example, the Fondo de Conservación de Bosques Tropicales (FCBT) of Paraguay has four Board members that represent private institutions, two Board members that represent the government of Paraguay, and one that represents the Government of the USA as the key donor. This makes for an effective public-private partnership wherein the four civil society organizations provide very high levels of input, help ensure transparency, and bring immense experience. However, while they are the minority, the government parties do have exceptional powers. The representatives of the two governments have special review and approval rights for grants exceeding $100,000, for administrative expense ceilings, and for internal fund policy documents. In another example, the Fondo de Inversión Ambiental Sostenible (FIAS) in Ecuador is set up with three private representatives and three public representatives for a six-person Board. However, the Minister of the Environment's vote will break any tie (Case Study 2). These extraordinary powers are rarely used as most CTF Boards work to build a consensus-oriented culture that respects differences of opinion, but they nonetheless clarify the power dynamics.

As a counterpoint example, the Fondo Mexicano para la Conservación de la Naturaleza (FMCN) had an *ex officio* government delegate on its Board of Directors from its founding in 1994 until 2018. In 2018 they asked the government delegate to step down from the Board to fully demonstrate their independence as a private CTF to all sectors. They continue to work very closely with government agencies to ensure alignment, but no longer have formal government representation on the Board.

The last decade has also shown a growing tension between the levels of public/private control of CTF governing bodies in some countries. As conservation priorities and SDGs are clearly primarily public responsibilities, many governments want greater control over the funding. Case Study 2: "Public-Private Challenges in CTF Governance: FAN to FIAS in Ecuador" showcases these tensions and the differing attitudes towards international cooperation funds. Governments are especially interested in control over nationally generated funds such as tourist fees, payment for ecosystem services (PES), gasoline taxes, and mitigation funds. These sources of funding are more readily allocated to CTFs that have majority government representatives or have given the government representatives extraordinary powers. Examples of these types of arrangements include: 1) the Protected Areas Conservation Trust (PACT) in Belize receives $7.50 for every tourist exiting the country as well as a percentage of protected area entrance and concession fees; 2) . the Fondo Nacional de Financiamiento Forestal (FONAFIFO) in Costa Rica manages PES based on funding received from a gasoline tax.

Whether privately or publicly managed, the most effective CTFs strive to apply the *Practice Standards for Conservation Trust Funds* (Spergel and Mikitin 2014; Bath et al. 2020) to build the financial transparency, accountability, and leadership that enable CTFs to build long-term productive relationships with donors, government agencies, and the civil society community.

3.2 Accountability

3.2.1 CTF Legal Structures

As can be expected, the legal structure and organization of CTFs is mainly dictated by the options and possibilities within the legal system where the CTF is to be incorporated. Civil law and common law countries will have their own specific characteristics and requirements. Therefore, the main findings regarding legal and tax issues in CFA's *Rapid Review of CTFs* (2008) remain valid to date, and, together with the *IPG Handbook on Environmental Funds* (Norris 1999), continue to be useful resources to understand the different options and considerations for legal structures and design of CTFs.

Donors and sponsors are mainly looking at the following minimum conditions to guarantee the successful establishment and operation of the CTF:

- The entity entrusted with the funds (the CTF) has full ownership9 of the funds, the funds are safe from undue interference, and policies are in place to minimize the chances of bankruptcy;
- The entity's governance guarantees the independent operation of the CTF;
- There is capable staff to administer and disburse the funds; and
- The entity can be granted a tax friendly status (to ensure that all or most of the funds are used to finance the objectives of the CTF).

The simplest structure is when each of the four elements required to achieve these conditions - ownership, governance, administration and tax – can be packaged into one legal entity (new or existing) in the CTF's home country. If the local legal system in a CTF's home country of operations does not guarantee the desired conditions for establishment or operation of the CTF, or additional criteria based on the its envisaged mission, design, and governance structure, legal reform may be required. For example, in Madagascar, a new foundation law was passed to facilitate the creation of a CTF. Alternatively, sponsors or funders may look outside the CTF's home country of operations to either set up the CTF as a fully offshore legal entity, or as a hybrid CTF structure, mainly to hold the endowment or trust moneys offshore. See Annex 6 for more in-depth information on the results of the 2020 Global CTF Survey regarding legal incorporation of CTFs in country and in offshore jurisdictions.

9 This might not always be the case when a CTF provides trust services for debt treatment agreements regarding bilateral debt. In this case, sometimes the funds may legally belong to the host government, although this happens less often in debt-swaps.

Another challenge arises for multi-country/territory regional funds. In this case, the donors or sponsors must choose between incorporating the CTF in one of the beneficiary countries or in an offshore jurisdiction. The criteria to be considered in this process will largely be case specific, but may include:

- The possibility of achieving the minimum conditions described above in one of the beneficiary countries;
- The trust of beneficiary countries is in the jurisdiction of one of them;
- The availability and cost of legal, financial, and other service providers;
- Transaction costs for set-up, ongoing operations, and money transfers;
- Tax treatment of the CTF as an entity, its donors, investments, but also aspects such as value added taxes and service taxes on goods and services;
- Desired location of the head office;
- Envisaged composition of the governing body (e.g. individuals or organizations);
- Currency in which the assets will be invested; and
- Ease in which by-laws can be modified.

Spergel (2012) examines in detail the legal aspects of structuring and incorporating regional CTFs, based on an analysis of seven regional CTFs.

A number of CTF closures over the past decade were due in part to initial legal design that limited CTF actions to geographies and activities specified by donors for the initial funds received. Donors are learning from this history and want to ensure that the organizational investment made in building a CTF is not lost going forward. This is particularly important for CTFs that were created to manage sinking funds with a clear expiration date. From a legal design perspective, CTFs need to be established with a broad mandate, flexibility for managing multiple Program Accounts, and the ability to amend legal documents, if they are to continue beyond the term of the initial funds. For example, some CTFs established specifically to manage sinking funds under TFCA agreements did not evolve to administer funding from other donors. Thus, the expiration of the TFCA sinking funds resulted in the cessation of the CTF as well. CTFs created to manage TFCA sinking funds that have secured additional Program Accounts, or pre-existing CTFs that received TFCA funding, have a different challenge. They must sort out the legal and governance re-structuring required for their continued operation after the removal of the affiliation with the TFCA program. This may include the amendment of constitutive documents, the termination of legal agreements, and/or a change in the constitution of the CTF's governing body.

3.2.2 Risk and Compliance

While CTFs strive to be in full compliance with all applicable laws and regulations, over the past decade, many donors and governments increasingly expect CTFs to identify and address risks and adopt national and internationally used environmental and social safeguards. Risks can affect organizational reputation, program effectiveness, and financial investments. Many donors

incorporate requirements to implement policies and procedures to assess and manage risk, and in many cases apply specific safeguards designed to protect Indigenous and local peoples affected by field projects, as well as to incorporate gender considerations in projects. CTFs are increasingly adopting risk management tools such as grievance procedures, whistle-blowing policies, proactive project disclosures to local communities, and free, prior and informed consent (FPIC) protocols with local communities and Indigenous peoples. All of these safeguards enable CTFs to build greater accountability while complying with regulations and donor intent.

A number of safeguards such as Anti-Money Laundering and Environmental and Social Impact Assessments are often adopted or adapted by governments or set by donors as strict requirements. In an effort to control the financing of illegal activities, one of the most used regulations is "Know Your Customer" (also known as Know Your Client and KYC). Annex 7 provides a more detailed examination of how "Know Your Customer" has affected CTFs over the past decade. The 2020 update to the *Practice Standards for CTFs* was commissioned in part to address the need for a greater focus on risk management and safeguards. In addition, a Task Force within the Environmental Funds Working Group (EFWG) of the CFA is currently developing guidelines on risk management and safeguards to support this process within smaller CTFs who experience a greater financial burden when adopting these safeguards.

As donors and multilateral financial institutions continue to place more importance on risk management, environmental and social safeguards, and gender, CTFs will be faced with initial costs to design and implement adequate policies to meet these requirements. High bars are set for CTFs who wish to become accredited with different multilateral financing mechanisms, as the number of required safeguards and policies is substantial. The full costs of implementation have to be weighed against the benefits of accreditation. This ties into the importance of maintaining secure operational funding for CTFs to be able to invest in the systems needed for building a strong and transparent institution (Section 4.1). CTFs with established endowments that provide a stable annual income for operating expenses and organizational capacity building are better able to invest in needed safeguards for environmental, gender, ethics, Indigenous communities, and transparency issues with zero tolerance for fraud and other malpractice.

3.3 Transparency

As financial institutions, the most important role of a CTF is to transparently show how funds are raised, managed, and deployed. CTFs have to demonstrate to donors, governments, and other stakeholders that the funds received or generated from investments were used for their intended purpose. Participating CTFs in the 2018 CTIS Survey manage over US$723 million in investable assets in aggregate (Mathias and Victurine 2020). While Chapter 4 covers CTF financial

management in detail, the most important tools available to CTFs to demonstrate their financial transparency are:

1) clear financial policies set by the governing body. In most CTFs, the governing body approves the annual budget, finance policy and investment policy, and manages the selection and review of the annual external audit. They also have a clear process for selecting, and assessing financial consultants and/or investment professionals and managing an annual portfolio performance review;
2) annual audits. See below.
3) Manual of Operations that specify procurement requirements for goods and services, segregation of duties for financial transactions, use of vehicles and materials, processes and procedures for awarding grants, and other accounting and administrative processes to assure transparency;
4) regular financial and programmatic reports agreed to with donors. Most CTFs also do an annual report that is available online for the wider public. In other cases, CTFs such as Profonanpe in Peru provide the interested public with an online list of current projects that summarizes the objectives, the donors, and financing; and
5) risk-management policies such as protections for whistle-blowers and conflict of interest statements as well as procedures designed to increase the chances for the governing body or senior management to be informed of, and address, potential problems quickly.

For smaller CTFs, under US$3 million annual budget and fewer than ten staff, about 70% perform financial management tasks internally (Winter 2015). The 30% that outsource accounting functions, use local bookkeepers and/or accountants to prepare monthly financial statements and to gather documentation for the annual audit. CTFs also secure the services of a certified accountant in the country of registration to prepare annual financial statements as per legal requirements.

Since financial transparency is essential for a CTF to attract financing, audits by independent external firms are a key requirement. Winter's (2015) study concluded that most CTFs hire mid-size or smaller local audit firms, although several use Big 4 international accounting firms.[10] CTFs that have annual audits by international accounting firms are well-positioned to raise funds from traditional donors and the private sector (Berghöfer et al. 2017). The fact that major firms have offices in most countries, are known entities to donors, and are accustomed to appraising funds in diverse currencies and global portfolios, make them attractive to CTFs and donors alike. A few CTFs use the same auditors, suggesting that shared services arrangements to gain economies of scale may become more frequent.

10 The four leading global accounting firms are Deloitte, PricewaterhouseCoopers, Ernst & Young and Klynveld Peat Marwick Goerdeler.

3.4 Administrative Excellence

There are developmental stages of administrative and operational maturity in a CTF's evolution. Each of these stages requires different levels of administrative prowess and different levels of investment in the CTF's organization, staff, infrastructure, and systems. Although it is difficult to generalize how long each of these phases could take, the CBF estimates that it takes an average of eight years to establish and fully operationalize a CTF in the Caribbean (Batista 2019).

Table 3.4-1. Stages in CTF administrative evolution

Administrative development in the five stages of CTF Evolution		
1	Pre-registration	Period of design and legal incorporation
2	Start-up	• Initial capitalization and staffing • Basic administration in place • Initial technology set-up (hardware and software) • Start-up costs covered • Financial reporting systems in place
3	Operational	• Core group of qualified staff • Core operational documents and procedures • Financial management system • Consolidated technology • Grant making underway • Initial monitoring and reporting • Increased resource mobilization and asset management
4	Institutional	• Sophisticated asset management • Expert staff with career development • Comprehensive technology and strengthened financial management • Multiple and diverse finance mechanisms • Program investments beyond grant making • Possible accreditation with multilateral institutions
5	Termination (some cases)	• Time-bound sinking funds expended • Termination of staff • Disposal of material assets • Financial closing • Closing reports

(adapted from Batista 2019)

The *Practice Standards for CTFs* highlight the relevance of best practices in administration for CTFs.

3.4.1 Overhead Challenges

The presence of a substantial endowment that covers a percentage of a CTF's operating costs on an annual basis is a huge contribution to the resilience and ultimately the longevity of CTFs (Section 4.1). CTFs with greater flexibility are able to invest more into the systems, technology, and staff needed to ensure administrative excellence and organizational evolution. CTFs with a small – or even no – endowment must manage their operational costs from short-term projects (usually two to five years), with a diminished ability to make longer-term commitments or invest in organizational capacity. While all CTFs are concerned about covering operating costs, those with little financial flexibility carry a heavier burden in addressing overhead challenges.

Several CTFs have adopted specific policies to calculate and set a target for the percentage of the budget that is used to run their operations, other than those costs that are directly covered by specific project or program funding, and report this in their annual reports. However, there is no standardized measure or single formula to calculate costs classified as overhead expenses, administrative costs, or management costs. More sophisticated CTFs, with diverse Program Accounts, may also work with different percentages, depending on the particular donor, type of project, or the services being provided. For example, they may set different overhead costs for managing a grant program with local communities as opposed to implementing a project as an accredited entity to the Green Climate Fund.

There are different ways in which CTFs finance their overhead expenses, ranging from fully covering them from endowment earnings to charging an overhead rate for donor-financed projects or for flow-through funds. However, information gathered from interviews suggest that some CTFs may subsidize the real costs of managing new income sources with the earning from endowments, for example by accepting financing from a donor knowing that the allowable overhead costs would not fully cover the associated overhead costs of running the financed program or project. This practice may generate risks, such as lack of transparency about the real program costs for donors and undercutting funding for other administrative or strategic areas that the CTF could otherwise have funded from the endowment earnings. The lack of a standardized approach to defining overhead, complicates the ability to identify programmatic costs versus more general support, can blur financial transparency, and makes it more difficult to assess the true costs and the cost efficiency of projects. This situation is not unique to CTFs – almost all non-profit organizations struggle with this issue.

Annex 8 provides detailed information from the 2020 Global CTF Survey on overhead expenses; it shows widely scattered responses that do not support clear conclusions. The data show that CTFs cannot be easily compared on this point, as higher overhead expenses do not necessarily signal that a CTF is more expensive. The cost differences could depend on the calculation used as well as the specific characteristics of the CTF and the programs it manages, including the type and size of programs, the intended beneficiaries, the distance and remoteness of the

areas where investments are made, and the cost of living in the area of operations, amongst others.

While CTFs have shown their ability to provide long-term sustainable finance for conservation, many still struggle to guarantee their own operational funding. Securing the overhead or administrative costs needed to invest in organizational systems and capacity for innovation is an ongoing challenge for CTFs and a reason why many continue to make the case for endowments as a prerequisite for organizational longevity.

3.4.2 Administration Challenges in Start-Up CTFs

Although a robust and sufficiently funded administrative structure is key for the success of CTFs, this is an aspect that is often overlooked. While attention is given to the financing needed for CTF grants and other programs, there also needs to be careful consideration of the funding needed to achieve a desirable level of organizational capacity. CTFs that are able to grow beyond a basic level of operation have an endowment that provides stable financing for operating expenses. It is this investment in the organization, which can enable a start-up CTF to run programs effectively, to convince key partners that they are permanent players with resources and skills to share, and to be able to plan for long-term inter-generational impact.

The lack of adequate endowments and/or operating funds has exacerbated the start-up phase challenges for a number of new CTFs. The governing body and Executive Director face a difficult start up with no staff, no operational documents, and little administrative budget to cover overhead expenses. With minimal operating costs covered, these CTFs have challenging discussions with donors that wish as much funding as possible will go to specific projects and programs. As a result, these CTFs sometimes have to subsidize project implementation from their minimal endowment earnings or other income, ultimately cannibalizing their assets. Smaller or younger CTFs often struggle to hire key administrative professionals such as a financial officer, human resources manager, or procurement officers – positions that are mainstream in larger and more established CTFs. In smaller CTFs, it is common to see a combination of administrative functions assigned to one individual – often the Executive Director (Bladon et al. 2014). This is also true for other general positions that do not directly relate to a specific program, but that are essential for a CTF's effectiveness and even survival, such as a full-time position for resource mobilization or to design innovative financing mechanisms. An example of how investments in organizational capacity increase a CTF's ability to execute its work, mobilize funding, and innovate is presented in Case Study 1 on BIOFUND in Mozambique.

3.4.3 Trends in CTFs' Strategies to Improve Management Performance and Optimize Administration

The *Practice Standards for CTFs* provide an excellent reference for best practices for CTFs including administration. However, some CTFs have also adopted other models or systems to strive for further management excellence. A very high standard is the ISO 9000 series (International Standards Organization), which requires management systems. Fondo Acción in Colombia has held this certification for its integrated information management system for several years; Fundación Natura in Panama also holds the ISO 9001 certification. These two CTFs have also adopted or adapted mainstream business performance management systems, such as the Balanced Scorecard by Kaplan and Norton (1992). While these additional efforts require organizational and financial investments, they have been a mark of high performing CTFs and an aid in fund raising and engagement with the private sector.

CTFs also continue to balance how to optimize the use of their financial resources in the field while building a sufficiently strong organization to achieve their mission and create long-lasting impact. For younger or undercapitalized CTFs, this can be a major struggle. Some of the main strategies that CTFs have been implementing to optimize their administration are briefly addressed here.

In cost accounting, a CTF's governing body sets strategic objectives and an aligned budget (Mikitin 2020), thus prioritizing and providing insights into organization-wide costs. Cost centers are established to track specific organization-wide expenses such as services to the governing body, innovative finance testing, policy development, impact monitoring, and reporting. As opposed to showing strictly a lump-sum cost, for example, for staff and communication materials, CTFs that can present the costs of these meaningful activities in a transparent manner are better able to showcase their importance for CTF operations and success.

Initial operations costs can be a hurdle for a CTF in its start-up phase, in particular if the capitalization target has not yet been met. National CTFs in the Caribbean have reduced or eliminated some initial operational costs through shared services and in-kind support from various organizations, including mainly government environmental agencies, as well as funding projects such as the USAID-funded Caribbean Marine Biodiversity Program, being implemented by TNC (CBF and TNC 2019). Hosting arrangements are also used by CTFs in the start-up phase (CBF and TNC 2019), such as sharing common services and/or office space with a partner organization. Hosting arrangements have been used in several countries (Antigua & Barbuda, The Bahamas, Dominican Republic, Grenada, Jamaica, Saint Kitts & Nevis, Saint Lucia, and Saint Vincent & the Grenadines). The main advantage is cost savings related to office space and initial staffing, allowing the CTF to focus resources on setting up their governance and operations. However, these arrangements may have the disadvantage that the CTF's perceived independence may be compromised (CBF and TNC 2019).

BOX 3-1 **THE SHARED SERVICES AND POOLING MODEL OF THE NATURE TRUST ALLIANCE**

The Fondo Mexicano para la Conservación de la Naturaleza A.C. (FMCN) promotes regenerative ranching in Northern Mexico, focusing on Chihuahuan desert grasslands. Ranching is an economic driver in this part of the country and has been an important contributor to habitat degradation including eroded soils, depleted water supplies, and desertification of native grasslands. Regenerative ranching can be used as a tool to restore degraded lands and prevent their conversion to the intensive monoculture crop farming that is now devastating ecosystems.

Alliances are essential to transform the livestock sector by showcasing the advantages of regenerative grazing practices. FMCN teamed up with a network of over 250 progressive ranchers through collaborations with the regional civil society organizations Manejo Regenerativo de Ranchos A.C. and Fundación Pasticultores del Desierto, A.C., with individual ranch owners, and with conservation organizations such as IMC Vida Silvestre A.C. Their shared goal is to implement more sustainable cattle ranching operations that will provide greater long-term returns and increase habitat for biodiversity. In 2018, TNC Mexico donated Rancho El Uno, a 45,700-acre ranch in the middle of the Janos Biosphere Reserve in the state of Chihuahua to FMCN's regenerative ranching and private lands conservation program. This valuable land gift, together with seed funds for an endowment to support long-term protection of the property, will help FMCN, in partnership with the regional environmental fund (Terra Habitus A.C.) to put in practice the concept of regenerative ranching. As the successes and challenges of implementing new cattle grazing practices emerge, the alliance will need to grow. Future partners will include agricultural banks that provide relevant financial products such as loans to ranchers, extension service providers to share best practices, and buyers and consumers of sustainable meat.

Another example, currently under design by FMCN, in partnership with the National Institute of Ecology and Climate Change (INECC), is the project Connecting Watershed Health with Sustainable Livestock and Agroforestry Production in Mexico (CONECTA). The initiative, funded with GEF resources, with the World Bank as the implementing agency, will foster connectivity between ranching and agroforestry landscapes in 15 water basins in the states of Jalisco, Veracruz, Chiapas, and Chihuahua.

Efforts like this by CTFs to promote transformational changes in the primary sector, especially for regenerative agriculture, silviculture, and fishing are growing. All will require CTF leadership and facilitation to build the needed committed alliances.

The creation of regional CTFs could also provide support for smaller CTFs, in particular where there are national CTFs that are too small (in terms of assets under management) to be cost-effective (Spergel 2012). Regional CTFs may serve more protected areas than (sub-national CTFs while economies of scale could be realized in set-up efforts and operational costs (Berghöfer et al 2017), for example by managing programs such as communications, financial administration, and training at the regional level. See Case Study 5 on the MCT, for an example of regional capacity building programs.

Platforms for shared services,[11] that group personnel, equipment, and other resources, along with pooling assets, designed to maximize organizational benefits or minimize risk, are generating more interest amongst CTFs. Box 3-1 describes the shared services and pooling model of the Nature Trust Alliance.

11 The report by Winter (2015) used the term 'pooling' to refer to the grouping of administration, investment management, and training. In this report, the authors use the term 'shared services' to refer to the grouping of resources for administrative, operational, and human resources purposes, and reserve the term 'pooling' only for grouping assets for investment management and other financial management purposes. Pooling is discussed in additional detail in section 4.3.4.

A detailed study to explore the options for sharing services in administration and training, and pooling investment management was conducted in 2015 by Winter. Smaller CTFs (under US$10 million of assets under management) are deemed candidates for sharing administrative and other operational services because they often have similar needs and a similar administrative set up. As new CTFs continue to be created, and in particular when they are small, shared services will continue to be another approach for optimization, with regional funds potentially fulfilling the role of shared services provider. The main benefits and disadvantages are presented in Table 3.4.3-1.

Table 3-1. Benefits and disadvantages of shared services for CTFs

Benefits	Disadvantages
Sharing overhead costs and eliminating redundancies across organizations leads to effectiveness	Time-consuming and potentially expensive to create and maintain
Increasing organizational impact	Turf issues can arise, especially in nearby geographies or with common donors
Reducing operating costs	Added complexity as more collaborators lead to more views to bring together
Freeing governing members and staff to focus more on core needs	Maintaining equality amidst differences in financial situation, organizational structure, time commitments, and board and leadership commitment of members, among others
Accessing skills, insight, and technology not otherwise available or affordable	Free-rider challenges
Increasing organizational flexibility and responsiveness	Self-interest can potentially usurp shared interest

(Winter 2015)

To further optimize administration, some CTFs are using management effectiveness tools that strive to identify the most cost-effective ways to achieve an objective, not only within the organizational setting, but also to define grant budgets and other programs. For example, when scrutinizing a budget for marine protected area enforcement, CTFs will try to determine whether a strategy of investing in small businesses built around sustainable fishing practices may be a more strategic and cost-effective alternative to purchasing and maintaining patrol boats.

Finally, in a world of fast digitalization and technological development, CTFs are also trying to keep abreast of technology, software, and digital tools that can support their organizational performance, build greater visibility with new donors, and facilitate financial transfers and monitoring and reporting with their grantees and partners. These topics are also reflected in the *2020 Practice Standards for CTFs* (Bath et al).

4. BUILDING FINANCIAL RESILIENCE FOR CONSERVATION

4.1 Resource Mobilization

CTFs have been created primarily in countries with high levels of biodiversity, insufficient domestic funds dedicated to conservation needs, and a recognition by international donors of the need to ensure long-term funding to meet conservation objectives. In response, CTFs need to mobilize resources from both domestic and international sources.

Older CTFs were usually established with substantial endowments. A full 90% of the CTFs responding to the 2018 CTIS survey have an endowment in place (Mathias and Victurine 2020). When CTFs were started in the early 1990s, this level of long-term investment was a major departure from traditional short term (usually less than five years) project funding (Adams and Victurine 2011). Endowments provide an anchor of stable capital for the CTFs, often covering a percentage of operating costs as well as guaranteeing stable annual financial flows to key protected areas or other priorities. CTFs founded with substantial endowments have been better able to manage a wide range of financial flows such as pass through funds, tourism fees, and other sinking fund projects as they have greater financial resilience and stronger administrative capacity.

Over time some donors have become concerned about the opportunity costs of holding money in endowments when there are so many urgent needs for direct investments in biodiversity conservation and climate change action. What has become increasingly clear over the last three decades is that the creation of permanent endowments has been essential to the organizational longevity that allows CTFs to work on conservation issues over longer periods of time. The financial solidity has given many CTFs a seat at the table with government officials and other decision-makers when they are recognized as permanent institutions with the ability to contribute to new challenges. CTFs with conservation endowments have been the first to invest in their own capacity to become accredited with multilateral agencies, and/or enhance administrative effectiveness, and/or launch new financial mechanisms such as biodiversity offsets or blended finance, thanks to a guaranteed flow of operating income. The strength of many established CTFs, and their ability to leverage additional funding, showcases that endowments can be considered investments in institutional capacity, securing long-term conservation activity while also allowing project funding in the short-term to proceed.

Today, CTFs manage a diverse mix of funding flows. While most CTFs were originally established with one "fund", many now manage numerous Program Accounts: sums of money that can only be used for specific purposes. Previously these additional financial packets were referred to as "funds," but it was confusing nomenclature given that CTFs, as institutions, are also called "funds" in common usage. Donors will work with a CTF to establish a Program Account, specify the purpose of the money, and determine if a separate governing body is needed to coordinate with the CTF governing body. Large CTFs manage multiple Program Accounts, catalyzing funding for diverse programs in the field.

Since the publication of the *Rapid Review of CTFs* (Spergel and Taïeb 2008), more than US$570 million have been put into endowments.[12] To complement the financial returns from these long-term investments, CTFs were also granted at least US$560 million in sinking funds, in addition to revolving and flow-through funds. The 2020 Global CTF Survey responses indicate that revolving funds in total generate more than US$14 million every year to a group of 30 CTFs. Furthermore, close to US$40 million in total flow-through funds were managed by 22 CTFs in 2019. These data highlight the fact that CTFs have used endowments as an anchor of stable capital to manage funding from a diverse group of donors using a range of financial mechanisms for priority conservation investments.

4.1.1 Main Funding Sources 2010-2020

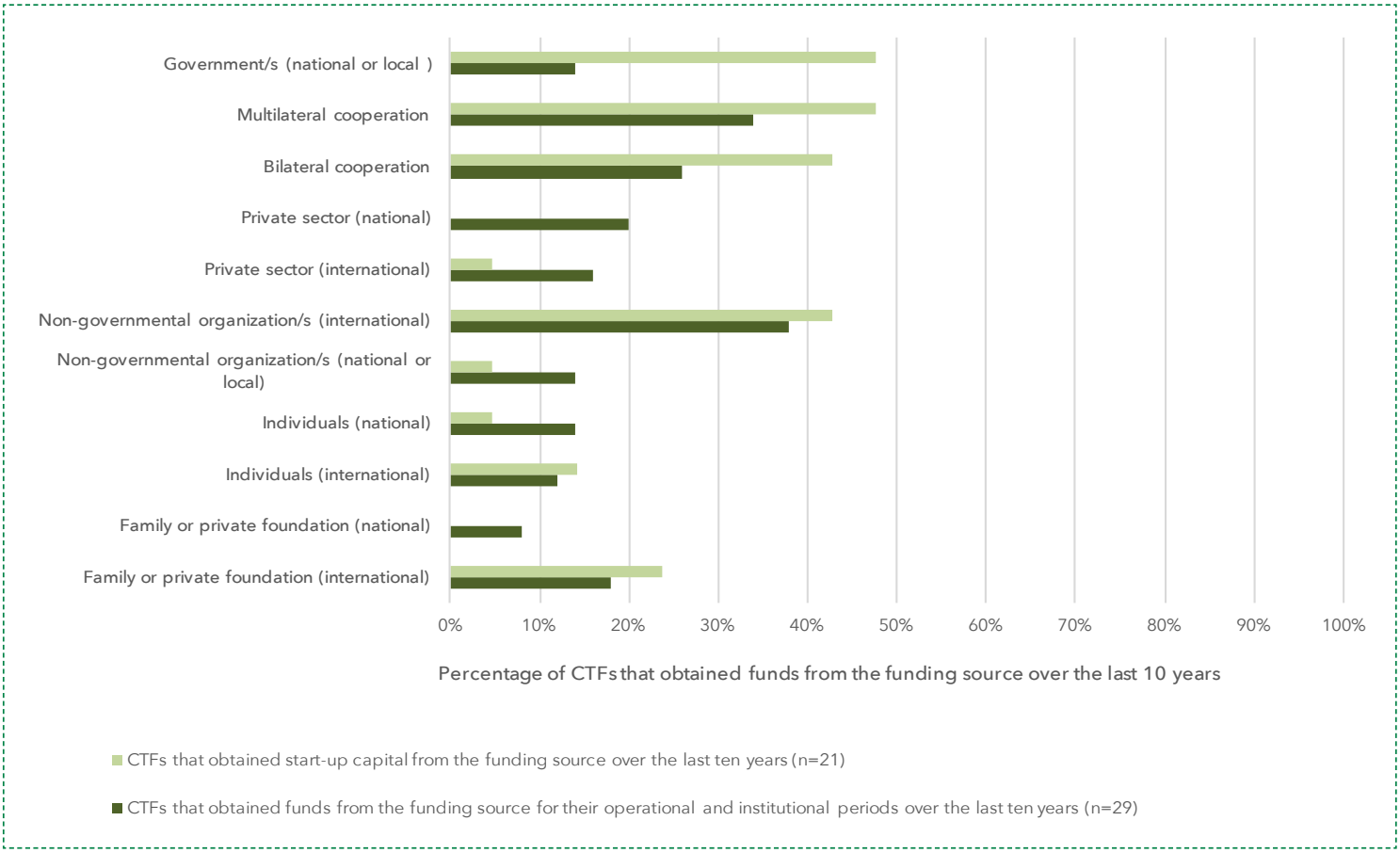
CTFs have been able to catalyze funding from international sources that otherwise may not have been invested in conservation programs. Donor discomfort with the lack of transparency in direct transfers to government ministries and agencies drove the idea of creating transparent and independent institutions that could then work with governments to build greater conservation success in country. There are clear trends in the diversity of funding sources and finance mechanisms that CTFs have accessed in different stages of their evolution, focusing on their start-up periods and their operational and institutional phases (discussed in Table 3.4-1).

CTFs have explored a number of funding sources (Figure 4-1) and finance mechanisms (Figure 4-2) to capitalize Program Accounts and generate additional short- or long-term income for their operations. The 2020 Global CTF survey responses provide insights into the main sources and mechanisms used by CTFs in their start-up stages, and their operational and institutional phases. For the purpose of this analysis, the authors refer to the start-up stage as the initial capitalization and staffing of a CTF, while the operational and institutional phases are applicable to CTFs with grant making mechanisms and operating procedures in place, as minimum conditions (Table 3.4-1).

Some funding sources were common in specific stages of CTF evolution. For example, national or local governments supported around 50% of the CTFs in their start-up stage, yet only directly support 15% of operational and institutional CTFs (Figure 4-1). The private sector, on the other hand, was a source of complementary funding for 15-20% of operational or institutional CTFs, while supporting the initial capitalization of only a handful of CTFs (Figure 4-1).

12 These figures are based on data obtained from the 2020 Global CTF Survey, CTF networks, PFP initiatives (Alves, 2015; Redstone Strategy Group et al. 2011; WWF 2020), the Global Conservation Fund (CI and GBMF 2017) and the TFCA programs (USAID 2020a; USAID, 2020b), on endowment and sinking funds created after May 2008. These estimates are not comprehensive of all CTFs worldwide. The actual value of CTFs' endowment and sinking funds over this period is therefore higher than the values expressed here.

Figure 4-1. Main funding sources of start-up capital and additional funds for CTFs over the last ten years



(2020 Global CTF Survey; n=21 CTFs in start-up stage; n=29 operational and institutional CTFs)

The results of the survey show that, over the last ten years, the most common funding sources for CTFs were multilateral and bilateral cooperation agencies, national governments, international NGOs, and private foundations.

Over the last decade, international NGOs (primarily WWF, CI, WCS, and TNC) have been important partners supporting CTFs' ability to mobilize financial resources from, and establish partnerships with, governments and private entities from the financial, banking and tourism sectors, among others. These NGOs provided funding to nearly 40% of CTFs over the last decade (Figure 4-1) and, at the same time, played a major role in leveraging funds, providing technical assistance and facilitating the establishment of partnerships for resource mobilization such as those used in Project Finance for Permanence deals (see next sections for further details).

Private foundations have also played an increasing role in financing CTFs (Bladon et al. 2014), supporting around one-fifth of CTFs worldwide over the last decade (Figure 4-1). U.S. private foundations, such as the Gordon and Betty

Moore Foundation, the David and Lucile Packard Foundation, the Walton Family Foundation and the Linden Trust for Conservation, as well as the Swiss-based MAVA Foundation, have been important donors for CTFs across the regions. Other authors (e.g. Bladon et al. 2014; Gobin and Landreau 2017) and interviewed experts suggest that other private foundations, family funds, and individuals may still offer untapped resource mobilization opportunities. As discussed in Section 2.2.3, donors appreciate CTFs' ability to align global goals (e.g. climate mitigation, biodiversity conservation, sustainable development goals etc.) with local organizations and accountable field projects.

Interviewed CTFs described USAID, KfW, AFD, and FFEM as the main sources of bilateral cooperation. U.S. government TFCA appropriations – a critical funding mechanism for many CTFs – experienced an impactful drop when appropriations were not renewed between 2013 and 2019. However, TFCA funds have still played an important role in funding over the past decade (see subsection b below). CTF representatives observed a trend of increasing funding and sophistication in donation programs of European bilateral cooperation agencies through CTFs. Other bilateral funding, particularly from the German and French governments, picked up this decade with their increased commitment to addressing climate change and protecting natural capital in developing countries. Much of this funding was in the form of sinking funds in support of protected area systems. These funds provided continuity for CTF grant-making programs, allowing CTFs to showcase their ability to move money to the field and meaningfully contribute to protected areas management and local rural economies, through grants and contracts for services and jobs.

As the severity of the world's biodiversity and climate change crises grew, new international mechanisms were put into place this past decade. The GEF has been joined by other multilateral financing agencies such as the Green Climate Fund (GCF), the Adaptation Fund, and the Forest Carbon Partnership Facility.

Along with the creation of these new multilateral agencies came a need to better deliver funding to the field. The idea of accrediting other organizations — including CTFs — to manage the funds emerged. Rather than investing in special purpose vehicles, CTFs provide a proven history and organizational competencies for managing these funds. Becoming accredited as an implementing agency with these multilateral organizations is a long and complex undertaking but provides many advantages. The CTFs that have become accredited describe a multi-year, and expensive, effort to integrate new policies, bring staff and systems up to speed, and then document many of the following policies and procedures:

- Gender sensitivity
- Indigenous rights and effective consultation
- Social and environmental safeguards
- Voluntary displacement
- Anti-corruption mechanisms

- Protocols to protect whistle blowers
- Information transparency
- Due diligence and internal controls.

Establishing these new policies has taken a lot of time, money, and effort. Interviewees point out that the opportunities must be weighed against the substantial financial and organizational investments required. However, those CTFs with the accreditation in hand, report reaping greater contacts and influence with their government counterparts, improved branding, more opportunities for bringing new funds to their countries, and better internal policies and procedures. Accreditation with multilateral financial mechanisms can both build CTF capacity and provide effective mechanisms for moving global funding to field programs.

Among the multilateral donors, the GEF was a major and consistent donor for the set-up, operational, and institutional phases of a diverse array of CTFs worldwide, via partners such as the World Bank or UNDP. CTFs furthermore started to gain access to emerging multilateral funding opportunities for climate change related programs through the Green Climate Fund (GCF). Thus far, eight CTFs have become accredited entities[13] by the GCF, while others may still access GCF funding through accredited bilateral organizations, development banks or government agencies.

Another major trend during this past decade has been the increasing search for more sustainable finance tools to decrease reliance on donor projects and sinking funds. One approach, for example, is the "Project Finance for Permanence (PFP)" model that combines large scale donor financing with a commitment by the government to assume long-term financing of conservation gradually as the sinking fund is consumed (see subsection d below).

Over the last decade, a number of finance programs have continued to provide effective platforms to catalyze and mobilize financial resources for biodiversity conservation, using CTFs as a key part of their strategies. The following subsections give an overview of four international resource mobilization initiatives that have used CTFs to channel substantial amounts of funds into conservation this past decade.

a. Tropical Forest Conservation Act (TFCA)
b. Global Conservation Fund/Conservation International (CI)
c. Global Environment Facility (GEF) and
d. Project Finance for Permanence (PFP).

The investments made through these initiatives showcase that CTFs can be effective and efficient vehicles for absorbing and expending large sums of global

13 Micronesia Conservation Trust, Bhutan Trust Fund for Environmental Conservation, Environmental Investment Fund of Namibia (EIF), Fondo Mexicano para la Conservación de la Naturaleza (FMCN), Fondo Acción, FUNBIO, Fondo de Promoción de las Áreas Naturales Protegidas del Perú (PROFONANPE), and PACT Belize.

funding – from private and public sectors – at the field level to advance national, regional, and global conservation, climate, and sustainable development priorities.

a. The Tropical Forest Conservation Act

Following the debt relief program implemented in the 1990s for Latin America and the Caribbean through the Enterprise for the Americas Initiative (EAI), the U.S. TFCA of 1998 (renamed as "Tropical Forest and Coral Reef Conservation Act" or TFCCA in 2019[14]) has offered a bilateral debt-for-nature swap mechanism for developing countries worldwide. The goal is to relieve their official concessional debt owed to the U.S. government while generating funds locally to support tropical forest conservation activities (USAID 2014; USAID 2020b; TNC 2020a). The TFCA agreements often bring together contributions from the U.S. government and NGO partners such as TNC, WWF, and CI to capitalize funds that are managed by CTFs or local NGOs.

Since the publication of the *Rapid Review of CTFs* in 2008 (Spergel and Taïeb), the U.S. government has signed seven TFCA agreements (out of 20 TFCA agreements since 1998) with five countries (a total of 14 countries have signed TFCA agreements). The agreements signed over this period have mobilized approximately US$176 million into funds managed by: FUNBIO (Brazil), Asociación Costa Rica por Siempre, the Indonesian Biodiversity Conservation Trust Fund (KEHATI), Fondo de las Americas (Peru) and the Forest Foundation Philippines (USAID, 2020a). TFCA and EAI agreements have furthermore served as models for other types of debt conversions, which are emerging as promising mechanisms to mobilize resources to CTFs (Box 4-1).

BOX 4-1. **AN EMERGING DEBT CONVERSION MODEL FOLLOWING THE IMPLEMENTATION OF TFCA AND EAI AGREEMENTS**

The successful implementation of TFCA and EAI agreements has served as a starting point for the design of other types of debt conversions, which are being explored and promoted by traditional EAI and TFCA partners, such as TNC.

A climate adaptation debt conversion was finalized in 2019 between the Government of Seychelles and its Paris Club creditors. This deal involved fundraising and technical support from the TNC's NatureVest program, assistance from the World Bank Group, credit from the GEF, and an IBRD guarantee for its successful completion.

The Seychelles Conservation and Climate Adaptation Trust (SeyCCAT) was instrumental in the debt purchase and is expected to benefit from the cash flow that is generated from the restructured debt (TNC 2020).

The TNC's NatureVestprogram expects to replicate the Seychelles model in 20 coastal countries in Latin America and Africa within the next 5 years. Depending on each country's characteristics and legal conditions, existing CTFs could be used or new ones will be set-up as part of the deal structure.

14 The "Tropical Forest Conservation Act" (TFCA) of 1998 was retitled in 2019 after a reauthorization act added coral reefs. The old acronym, TFCA, continues to be used for program deals arranged prior to 2019.

b. The Global Conservation Fund

The Global Conservation Fund, created in 2001 by Conservation International (CI) and the Gordon and Betty Moore Foundation (GBMF), was designed to finance the creation, expansion, and management of under-resourced protected areas in high-priority areas. Key co-funders of Global Conservation Fund grants were KfW, the GEF program, the World Bank Group, WWF, the Agence Française de Développement (AFD), and the Royal Society for the Protection of Birds (CI and GBMF 2017). Starting with an initial $100 million in capital from the GBMF, this fund built a global portfolio of programs to create and support protected areas, often using CTFs as the core long-term financing mechanism for grant making (CI and GBMF 2017).

The Global Conservation Fund provided financial and technical assistance to capitalize endowments, help launch new CTFs and leverage additional financial resources for established CTFs. Since the release of the *Rapid Review of CTFs* (Spergel and Taïeb 2008), the Fund has granted around US$41.7 million (from a total of US$43.2 million since its creation) to at least 20 CTFs; contributions have ranged between US$0.5 – US$ 5 million. CI estimates that Fund investments made during this period helped these CTFs leverage nearly US$80 million in additional capital (CI and GBMF 2017). Over the same period of time, the Global Conservation Fund further granted around US$1.5 million to CTFs in the context of TFCA debt-for-nature swap agreements.

c. The Global Environment Facility

The GEF has historically been a major catalyst and funding source for CTFs as part of its mission to tackle critical global environmental problems. By 2008, it had contributed almost 20% of the capital raised for CTFs worldwide (Spergel and Taïeb 2008). The GEF provides funding for CTFs to build up long-term capital and to finance specific CTF projects that are implemented with partners such as UNDP or the World Bank. As described in interviews with CTF representatives, the GEF has been a significant CTF donor, has participated in other programs as a co-funder, has provided funds to leverage additional support from other sources, and has invested in CTFs' organizational capacity through GEF projects.

The GEF has been involved in the creation of at least 50 CTFs worldwide. Since the publication of the previous review of CTFs (Spergel and Taïeb 2008), it is estimated that it has supported the creation of nearly 20 CTFs, including the CBF and eight of their national Caribbean partners, four in Africa, one in Asia Pacific, and two in Europe.

d. Project Finance for Permanence

Project Finance for Permanence (PfP) is a funding mechanism that unites major donors behind a large-scale complex conservation project managed through CTFs. PFP was adapted from the 'project finance' practices of the for-profit sector in complex projects that require long-term permanent funding and commitments from private and public sector partners for sustainable revenue streams. International NGOs and donors have promoted and implemented this approach to mobilize commitments from multiple sources up front, thereby avoiding piecemeal and insufficient funding for conservation areas and leveraging the power of a large donation to convince government to assure long-term funding. The approach has brought together the many different types of donors (national governments, bilateral agencies, private foundations, nonprofit organizations, and multilateral agencies) in a simultaneous conservation investment.

PFP deals rely on rigorous financial planning and have a single closing, which occurs only when all the resources and commitments required for full initial funding of these areas are met (Alves, 2015; WWF, 2020). In PFP deals, CTFs channel and manage the financial resources committed through endowments and/or sinking funds. In addition, each deal often obligates additional funds, e.g. from the government or other entities, to be mobilized via diverse channels to the management of conservation areas over the period of implementation. Classically, government budgets and other sustainable finance mechanisms are put in place over time as the sinking fund is gradually depleted.

The Asociación Costa Rica por Siempre (Forever Costa Rica) was founded in 2010 using PFP. To enable Costa Rica to be the first nation to fully comply with the Program of Work on Protected Areas under the Convention on Biological Diversity, clear goals were set, a sophisticated full cost analysis was undertaken, and a deal broker, TNC, helped bring key funding partners to the table to secure US$55 million.

- The Government of Costa Rica agreed to maintain the real value of the annual budget for its national system of protected areas based on 2008 figures and increase its investments in marine protection.
- On the private funding side, the Linden Trust for Conservation, the Gordon and Betty Moore Foundation (GBMF), the Walton Foundation, and the Campbell Foundation all made commitments.
- On the public side a major TFCA Debt for Nature Swap, GEF funds implemented by UNDP, and German bilateral funds were offered.

When all these commitments were organized, they contributed to a "single closing" that aligned the private and public donors in support of this ambitious initiative to be managed by the newly formed CTF, Asociación Costa Rica Por Siempre.

In another early case, US$86 million was secured for an endowment fund and an economic development fund managed by the Coast Funds (Case Study 3) in the context of the Great Bear Rainforest PFP project in Canada. Other PFP cases in the past decade include the following three initiatives totaling US$398 million and one new project currently being structured (i.e. Herencia Colombia - HECO).

- US$215 million were committed to the Amazon Regional Protected Areas (ARPA 2) for Life in 2014 that is managed by FUNBIO;
- US$43 million were mobilized in 2018 for a sinking fund managed by Bhutan for Life; and
- US$140 million were committed in 2019 for a fund managed by Profonanpe in Peru.

4.1.2 *Main Finance Mechanisms to Generate Funds*

The 2020 Global CTF Survey provides an overview of the most common finance mechanisms CTFs have used over the last decade, as well as those mechanisms that CTFs are incorporating into their upcoming resource mobilization strategies. For the ease of comparisons with other studies, the finance mechanisms that CTFs mentioned in the survey have been categorized according to the taxonomy of conservation finance mechanisms proposed by Meyers et al. (2020).[15]

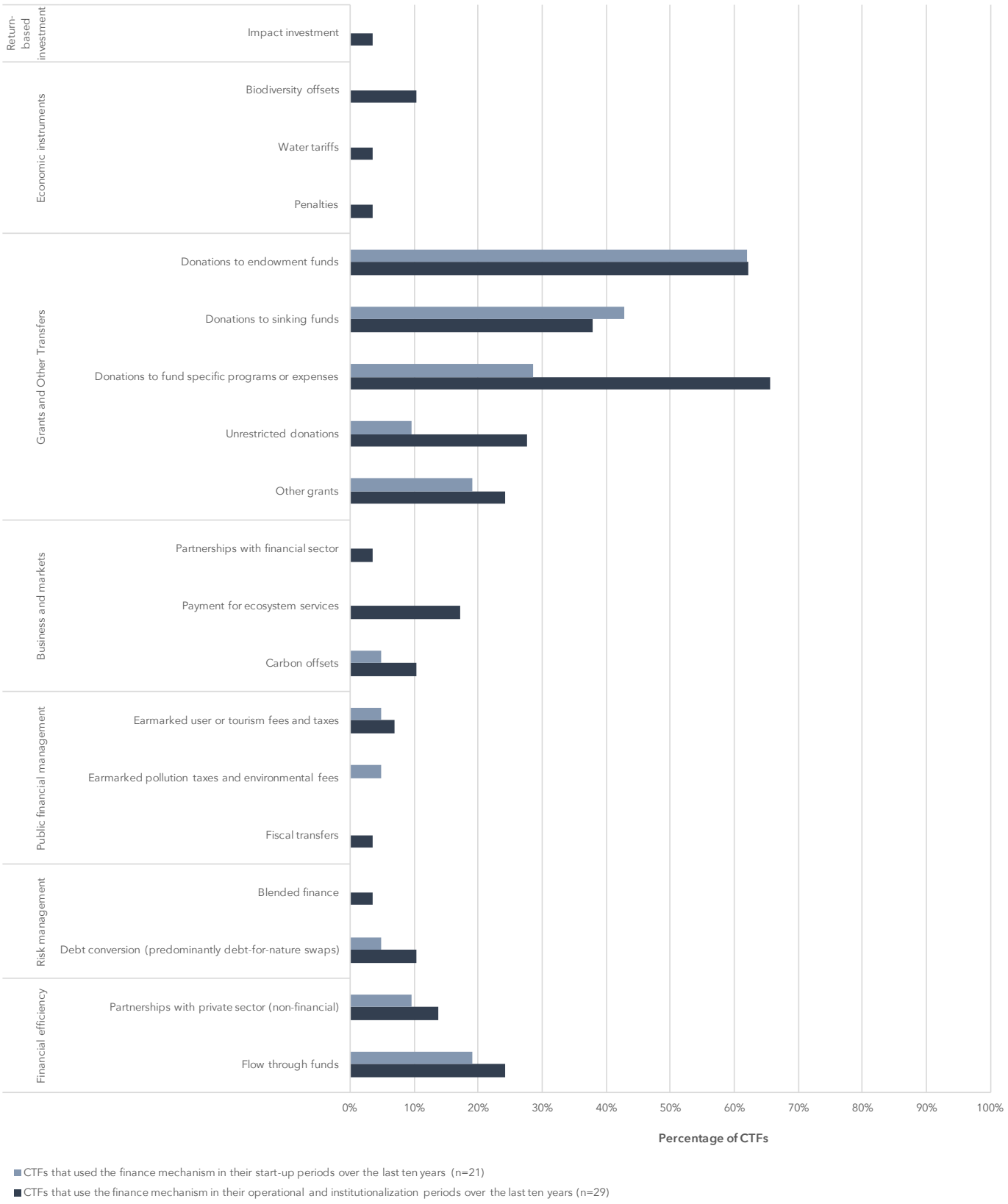
a. Trends in the use of finance mechanisms to generate funds

Figure 4-2 provides an overview of the short- and long-term finance mechanisms that CTFs have used over the last ten years to support their establishment, operations, and institutionalization.[16] Traditional grants and other transfers were the most common finance mechanisms for CTFs to generate funds over the last decade. Donations to endowment and sinking funds were by far the most numerous types of grants for CTFs in their start-up stages, while donations to cover specific programs and expenses were the most commonly used grants in the operations and institutional phases. Flow-through funds were also frequently used to generate short-term funding throughout the different stages of CTF evolution.

15 Descriptions of the main groups of conservation finance mechanisms are provided by Meyers et al. (2020), while definitions of specific finance mechanisms can be consulted in the Practice Standards for CTFs (Bath et al. 2020). Gobin and Landreau (2017) provide additional information and practical recommendations on the use of conservation finance mechanisms.

16 It should be noted that Payment for Ecosystem Service (PES) programs can be classified within alternative taxonomic groups of finance mechanisms depending on the instruments that support them. Since they usually rely on a mix of mechanisms, these have been placed into Business and Markets. Some of the answers in this group, however, could have been placed in the Public Financial Management category.

Figure 4-2. Finance mechanisms to generate funds used by CTFs in different phases of development over the last ten years



(2020 Global CTF Survey; n=21 CTFs in start-up stage; n=29 operational and institutional CTFs)

From domestic sources, there are increasing requirements on private companies to mitigate their impacts through financing biodiversity compensation and offset programs. Compensation programs involve "in lieu" payments where the developer pays into a fund instead of implementing an offset or directly purchasing credits. Offset programs set a higher bar, requiring no net loss or net positive outcomes in equivalent ecosystems. They are therefore the preferred model from a conservation perspective as long as the offsets are planned after all avoidance and mitigation measures have been designed. However, many countries begin with compensation programs and then raise the standards to achieve greater biodiversity benefits.

Some CTFs, such as FUNBIO and the Fondo de Inversión Ambiental de El Salvador (FIAES), have established agreements with their respective ministries to manage private sector compensatory in lieu payments, while others like BIOFUND are building this capacity (Case Study 1). As an example, FIAES has mobilized and expended US$81.4 million from a wide variety of donors since its creation in 1993 with Enterprise for the Americas Initiative (EAI) funds. They have now grown their capacity to manage compensation payments, implementing 54 projects in El Salvador between 2016-2019. Projects are primarily for biodiversity reforestation, tropical forest and mangrove restoration, biodiversity conservation, and sustainable agro-forestry initiatives. These projects are part of a wider land use strategy based on the Open Standards for the Practice of Conservation in nine conservation areas prioritized by the Government of El Salvador. FIAES employs compensation funds to complement international cooperation, private and public sector funding for conservation and sustainable development efforts in these nine areas.

Given the ongoing biodiversity crisis and increasing pressures on nature, many see the potential for biodiversity offset funding and increased private contributions to be significant. As in the above examples, CTFs are well positioned to manage these in lieu funds when clear roles and agreements are established with their respective governments.

Information collected from CTF annual reports (Hartmann, 2020) indicates a diverse mix of resource mobilization partnerships (financial and non-financial) with the private sector. Most of these partnerships were in the context of Corporate Social Responsibility (CSR) programs, including the following examples:

1) Donations — the Cameroon Oil Transportation company was a major donor to the Fondation pour l'Environnement et le Developpement au Cameroun, FEDEC, in 2017;
2) Earmarked revenues — the Swiss watch brand Breitling donated a percentage of the sales of a limited collection to FMCN;
3) Revenue collection — the telecom company Orange Madagascar provides technical support to the Fondation pour les Aires Protégées et la Biodiversité de Madagascar (FAPBM) to collect donations; and

4) Financial products — BIOFUND and the Commercial and Investment Bank of Mozambique launched a biodegradable debit card with 0.04% of the point of sale transactions channeled to the CTF.

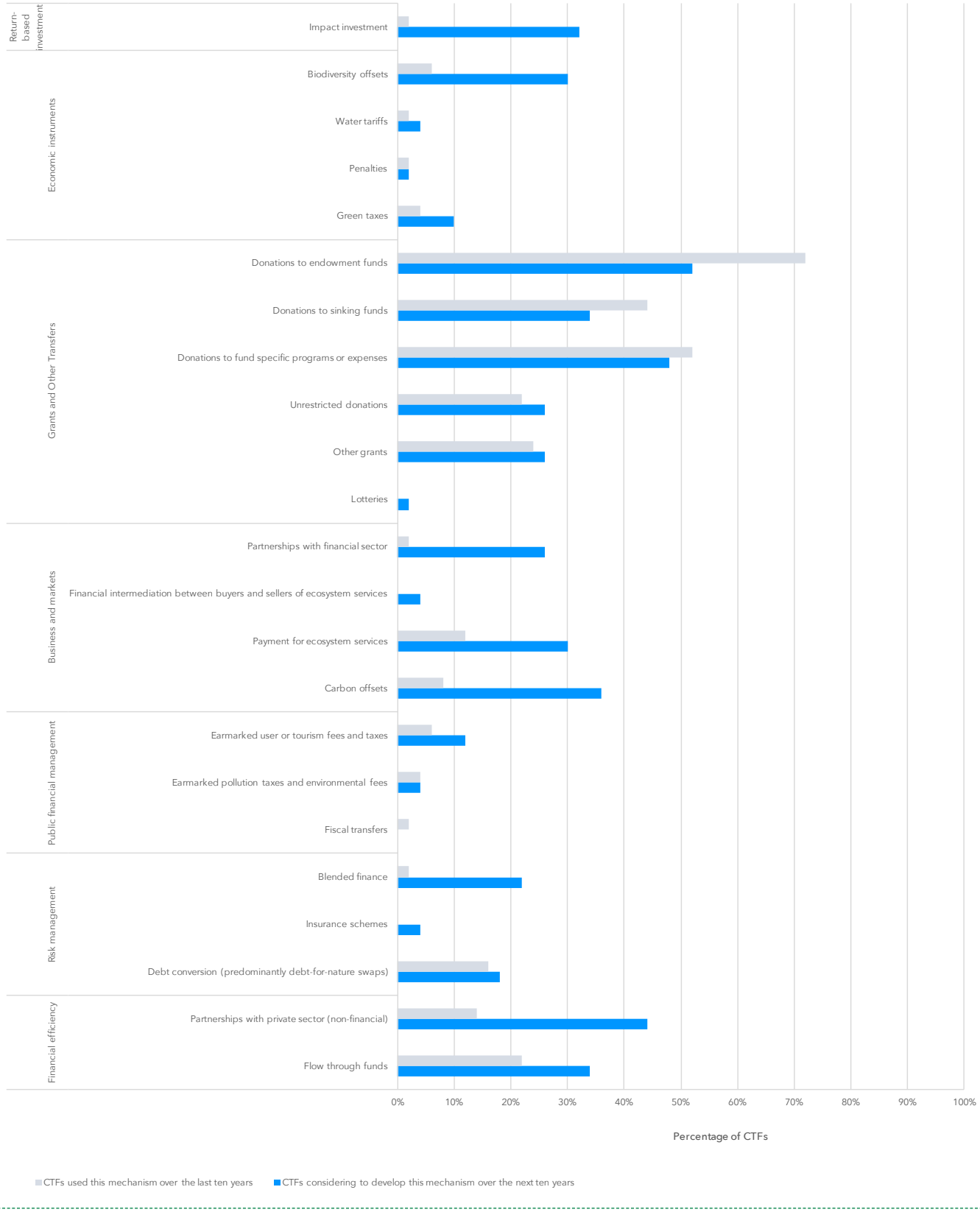
Although various other finance mechanisms were explored, Figure 4-2 shows that, barring donations, none of these were widespread among CTFs over the last ten years. As for the new or innovative conservation finance mechanisms, such as impact investments and blended finance structures, the results also suggest a limited, but slowly growing, use among CTFs. The limited use of some mechanisms most likely reflects their novelty or specificity to different contexts and not necessarily their revenue generation potential.

More detailed analyses of the use of funding sources and finance mechanisms by CTFs in their start-up stage, and operational and institutional phases are respectively provided in Annexes 9 and 10.

b. Diversification of finance mechanisms to generate funds

The 2020 Global CTF Survey indicates that donations to endowment and sinking funds will remain the most important CTF funding mechanisms in the coming decade. However, overreliance on a single funding source or finance mechanism carries the inherent risk that the funds will fall through, leaving the CTF unable to meet its spending commitments; diversification mitigates that risk. Most CTFs expect to rapidly diversify funding through other conservation finance mechanisms (Figure 4-3). CTFs anticipate that future diversification efforts will generate additional funds for conservation primarily through: 1) partnerships with the private sector (financial and non-financial); 2) PES; 3) carbon and biodiversity compensations; and 4) impact investment and blended finance.

Figure 4-3. Finance mechanisms CTFs have used and/or expect to use to generate funds



(2020 Global CTF Survey; n=50 CTFs)

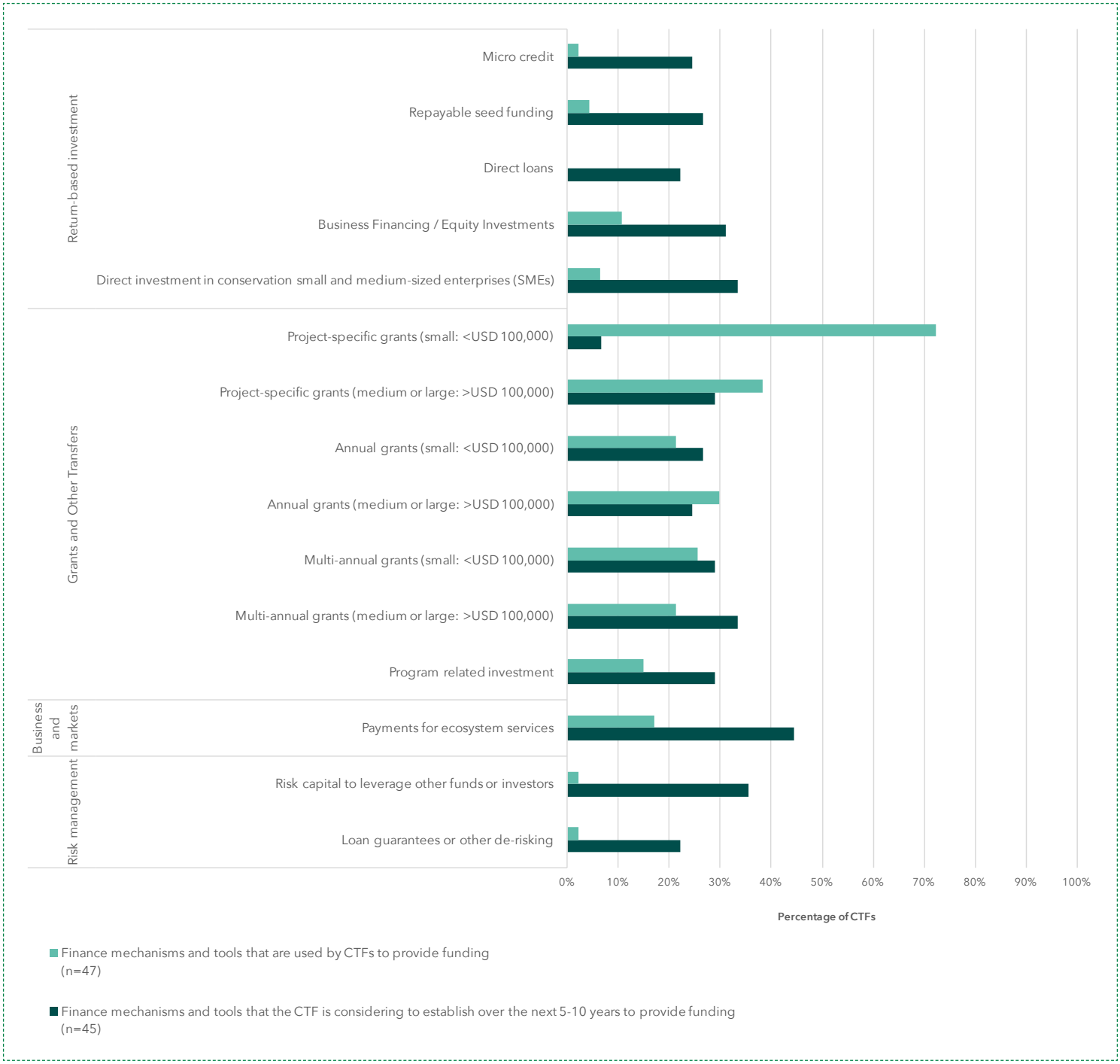
If trends from this past decade remain constant, CTFs can expect to continue benefitting from ad-hoc partnerships through Corporate Social Responsibility (CSR) programs from a diverse array of corporations. As more CTFs participate in carbon and biodiversity offset efforts, or pursue the implementation of PES schemes, relationships with the private sector to mobilize resources for conservation will most likely expand to an increasingly diverse range of profit-seeking actors, from community-based producers and enterprises, to large corporations (Case Study 4).

Impact investment and blended finance also stand out as promising mechanisms to mobilize additional funds for conservation. As CTFs can play a role in facilitating fund administration, this could also generate funds for CTF operations or programmatic budgets. Interviewees foresee that CTFs' most prominent future role in impact investment and blended finance transactions lies in their potential to deploy de-risking instruments to attract further capital from investors (Section 4.2).

4.2 Fund Deployment

While using an increasingly diverse number of mechanisms to generate funds, CTFs have also explored different options to deploy funds for conservation programs. In the 2020 Global CTF Survey, CTFs provided information on the finance mechanisms they used over the last ten years for fund deployment, as well as the mechanisms they expect to utilize in support of conservation programs over the next decade. These finance mechanisms for programmatic instruments, are presented in Figure 4-4, following the categorization proposed by Meyers et al. (2020).

Figure 4-4. Finance mechanisms CTFs have used and/or expect to use to deploy funds for conservation

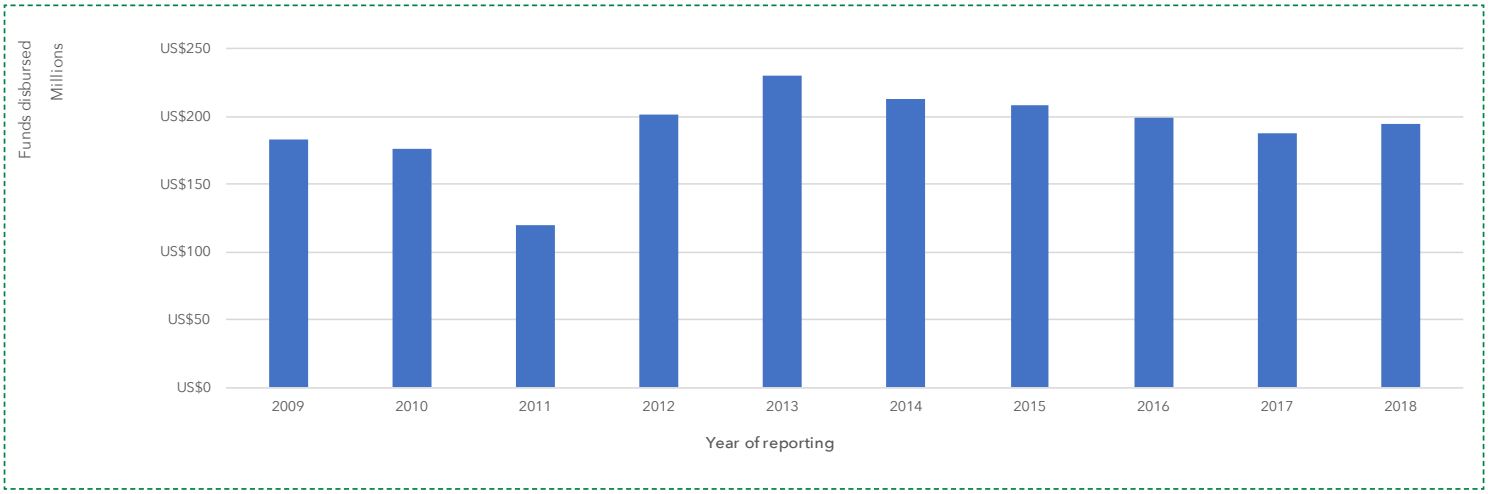


(2020 Global CTF Survey; n=47 and 45 CTFs respectively)

4.2.1 Trends in the Use of Finance Instruments to Deploy Funds

The 2020 Global CTF Survey shows that CTFs continued to use grants as the main tool for deploying funds for conservation (Figure 4-4). Small project-specific grants (<US$100,000) were the most common type of grant instrument, but other types of grants were also widely used, spanning different sizes (i.e. small, medium or large), and types (i.e. project-specific, annual, multiannual). Although there are no comprehensive estimates available of the total amounts CTFs disbursed through grants, the publicly available annual reports of almost half of the operational CTFs worldwide suggest that this amount could be well over US$200 million per year (Hartmann 2020).[17] As shown in Figure 4-5, the aggregated amount of funds CTFs reported to disburse every year remained somewhat stable, yet some interviewed CTFs reported substantial increases in grants disbursed as they made progress towards their institutionalization. As an example, BIOFUND's grant disbursements to protected areas in Mozambique rose from US$1.1 million to US$1.8 million between 2017 and 2019 and are expected to increase further in 2020 (Case Study 1).

Figure 4-5. Funds disbursed and/or allocated to conservation programs and protected areas, as reported by CTFs between 2009 and 2018



(based on data collected by Hartmann 2020; n=43 CTFs)

Over the last decade around 17% of CTFs administered and deployed funds obtained through PES schemes. These schemes focused on carbon storage, biodiversity protection, and freshwater provision with landowners, communities, and other stakeholders such as cattle ranchers (Case Study 4). Although some CTFs also used other programmatic instruments, none were widely implemented.

17 Estimates were obtained from annual reports of 43 CTFs that provided details on grants disbursed and/or funding allocated to conservation programs between 2009 and 2018. Reported values were adjusted for inflation and Purchasing Power Parity. The total estimate is expressed in 2018 U.S. dollars.

Among the return-based instruments, the most common instruments implemented were equity investments and investments in small and medium-productive enterprises (SMEs), but these were used only by 7% and 10% of CTFs, respectively. Interviews with CTFs also indicated an increased interest in Mission Related Investments (MRI)[18] (Case Study 4).

Around 15% of the CTFs that participated in the 2020 Global CTF Survey indicated that they deployed Program Related Investments (PRI)[19], which could also reflect a further move towards return-seeking instruments over the last decade. It remains uncertain however, whether these CTFs referred to structured PRI processes, which were based on formal policies, and required review and approval by their investment and grant-making committees. As such, the percentage of CTFs that made PRI capital available could be smaller than that reported through the survey.

4.2.2 Further Diversification of Instruments to Deploy Funds

Over the coming years, CTFs expect to continue using grants as an essential instrument to deploy funds for conservation. In addition, grant-making programs are expected to expand and evolve. Answers to the 2020 Global CTF Survey indicate that CTFs want to move from providing small project-specific grants, towards making larger grants over longer time periods (Figure 4-4), as part of their ongoing efforts to provide stable program support and ensure partner organizational capacity and follow through.

At the same time, CTFs intend to explore other instruments to help them scale and increase their impact. Following the example of CTFs that have implemented PES schemes, over 45% of CTFs are looking into this type of instrument (Figure 4-4) to mobilize and deploy additional funds for conservation. Interviewed NGO representatives foresee that CTFs can have a major role in the management and investment of the funds generated from PES schemes focused on water provision and carbon storage (e.g. REDD+ and blue carbon projects), but also in designing such schemes, and promoting and informing legislative modifications, when required.

While traditional grants can enhance enabling conditions for effective conservation, interviewees foresee that further transformative potential can be realized through other mechanisms, rarely used by CTFs to date, such as microfinance, equity investments, investments in small and medium productive enterprises, and risk-management instruments. Between 20% and 35% of CTFs

18 Following the Practice Standards for CTFs (Bath et al. 2020), MRI is a financial investment that uses investment assets (i.e. corpus) rather than program assets to further the CTF's mission.

19 Following the Practice Standards for CTFs (Bath et al.2020), PRIs are "low-cost financing […] that aligns with a donor's mission-related purpose […]. These investments are expected to generate returns, but these may be below market returns. Typically, if the investment produces a beneficial conservation outcome, but a financial loss, the investment will be converted to a grant."

aim to explore at least one of these return-based instruments, and almost 30% of CTFs intend to deploy PRI capital over the coming decade (Figure 4-4). Interviews with CTF and NGO representatives suggest that the deployment of PRI capital, as well as other return-based investments by CTFs, will only be feasible when: (1) National legislation allows these type of investments by non-profit organizations; (2) CTFs can generate or have access to investable projects aligned with their mission and/or programs; and (3) CTFs can bear the risks of investing directly in such projects. Some interviewees see CTFs as having a big opportunity to use grant funds in loan programs as they are not dependent on returns and can contribute to blended finance options or loan guarantees.

Similarly, around 35% of CTFs seek to manage and minimize investment risks in order to attract other funds or (impact) investors, for example, in blended finance transactions (Figure 4-4) without necessarily having to invest their own funds. In this same context, interviewees foresee an increasingly important role for CTFs in identifying niches for impact investing and strengthening grantee capacity to become recipients of future return-based investments.

Finally, innovation and engagement with the private sector were highlighted by interviewees as critical for CTFs to diversify finance instruments for field programs. CTFs such as FMCN and Fondo Acción are early adopters and trend setters for the use of new finance instruments for conservation programs. As showcased in this review, instruments can include pilot loans to cattle ranchers for more sustainable grazing, engaging the private sector in community-based enterprises, facilitating carbon and biodiversity compensations, and creating an MRI fund (Box 2-1; Case Study 4).

4.3 Asset Management

4.3.1 Background

Asset management – the investment of money to generate returns – is one critical strategy for CTFs to build financial resilience, by ensuring sustainable and predictable revenue streams. CTFs' investable capital typically consists of (1) endowment principal; (2) long-term portion of sinking funds; and (3) any other long-term reserves.

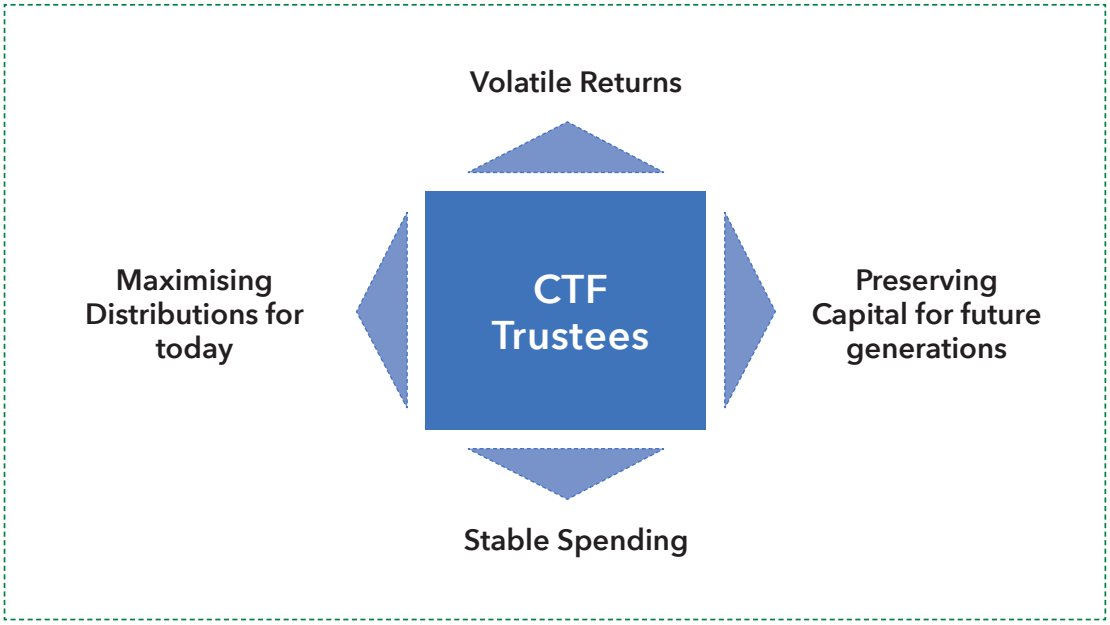
Endowments, in particular, play an important role in CTFs' financial resilience. With a long-term predictable income stream, CTFs are better able to budget and plan, to leverage other sources of revenue, to remain flexible and responsive to changing conditions, and to maintain consistent levels of staffing. An added benefit of endowment income is that it can typically be applied to recurring annual administrative and programmatic expenses that, while critical to the CTF's mission, may not be especially attractive to donors.

In theory, the endowment principal is invested in perpetuity, and only the returns are spent. Ideally, in order to ensure that future earning streams have the same

purchasing power as the present day, endowments are invested with a goal of growing its value at least at the rate of inflation.

CTF Trustees (or Board members) charged with investing endowment assets face a challenging set of trade-offs between competing interests and conditions, illustrated in Figure 4-6 below. Current spending competes with ensuring capital for future generations, and the desire for stable spending rates appears at odds with general volatility in certain capital markets.

Figure 4-6. Trade-offs of investing endowment assets



(Money-Kyrle and Mathias, nd).

The magnitude of the need for current spending on biodiversity conservation is well documented. New estimates indicate an additional operating expenditure of US$20 to US$45 million will be needed annually to manage ongoing costs of protected areas if targets such as 30% of the earth's surface protected by 2030 move forward (McKinsey & Company 2020). Indeed, there are many compelling arguments that immediate spending should take precedence over future spending, in order to maximize the earth's potential for resilience and avert further degradation. Many donors have expressed a concern about funding endowments for this very reason, that the structure of an endowment ties up capital that is needed in the present day. However, as noted above, endowments have provided the foundation for many CTFs to become sustainable conservation institutions over the past two to three decades. Many of these have leveraged other sources of funding at many multiples of their endowment capital.

Sinking funds present different investment challenges, as they require higher levels of liquid assets to meet the spend-down schedule of the fund. However, where allowed by donors, sinking funds also present opportunities to invest the long-term portion of the fund in investment vehicles that can generate additional income streams for conservation. In addition to investing their sinking funds to grow the sinking fund's impact beyond its face value, CTFs have also used sinking funds to allow endowments to grow, untouched, over an initial three to five year start up period, and to direct sinking fund investment returns into a reserve fund or endowment capital to improve the CTF's long term sustainability and institutional resilience.

Investment decisions are a trade-off between acceptable risk and desired levels of return. Typically, investors are compensated for risk – the more risk, the more potential return, but also the higher likelihood of volatility, and potential loss. CTF trustees, as fiduciaries, have a responsibility to make prudent investment decisions and not take undue risks with the CTF's capital. At the same time, meeting the need for stable spending will require accepting some necessary level of risk. Asset diversification, use of qualified professional advisors, adopting a long-term perspective, and building internal capacity in investment expertise, are all tools CTFs use to manage their investment risk.

4.3.2 CTFs Capitalization and Investable Assets

Capitalization of CTFs is one of the tools for filling the funding gap and improving the use of funds. However, this continues to be a major challenge, whereby successful resource mobilization should be based upon a comprehensive strategic and financial plan (Bladon et al., 2014). The *Practice Standards for CTFs* recommend that CTF financing should be diversified, and that it should make provisions for long-term capital and short-term funding (Bath et al. 2020). Endowments and sinking funds are the most used forms of long-term capital.

The 2020 Global CTF Survey looked at the total amount of long-term and short-term funding being managed by CTFs, considering endowments, sinking funds, annual revolving funds and flow-through funds (Table 4.1). For a better estimate of the total investable assets (endowments and sinking funds) being managed by CTFs worldwide, the data from the survey was complemented with information on CTFs that did not participate in the survey; data was included from the RedLAC and CAFÉ networks, the CTIS data base and the final report of the Global Conservation Fund (CI and GBMF 2017). The combined data provides an estimate of US$1.9 billion[20] in investable assets being managed by CTFs worldwide as of the beginning of 2020.[21]

20 This estimate considers 69 CTFs worldwide.
21 The data available on sinking funds from the CTIS database dates to 2015.

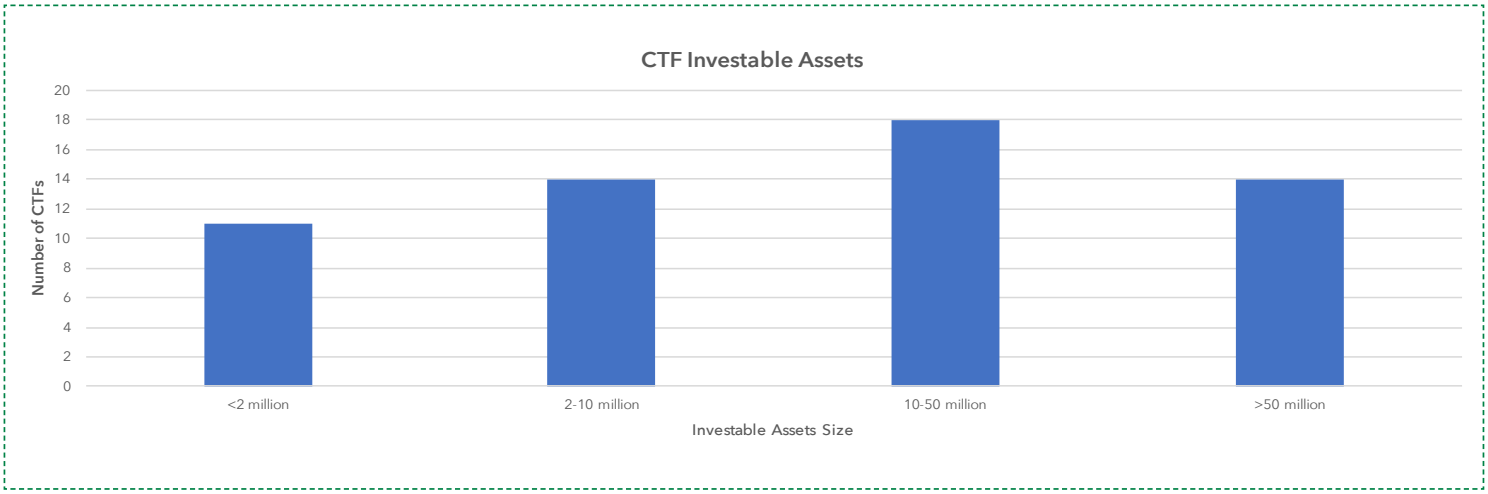
Table 4-1. Types of funds managed by CTFs

	Endowment funds (US$ millions)		Sinking funds (US$ millions)		Investable assets (Endowment + Sinking) (millions)	Annual revolving funds (millions)	Flow-through funds (millions)
	Start-up assets in Year 1	Current assets	Original assets	Current assets	Current	Current	Latest annual amount
Number of CTFs	37	45	26	35	52	11	22
Average	$15.03	$27.6	$11.45	$17.06	$35.37	$1,3	$4.39
Minimum	$0.005	$0.06	$0.161	$0.062	$0.3	$0.012	$0.07
Maximum	$82.1	$153.8	$67	$170	$190	$3.5	$53

(2020 Global CTF survey).

Using the asset size categories of CTFs that have been defined in this report, Figure 4-7 shows that the majority of the CTFs responding to the survey are in the two highest categories (32) with over US$10 million in assets (56%). The results also show that there is a large proportion of CTFs with assets under US$10 million (44%), of which 11 CTFS have less than US$2 million in investable assets.

Figure 4-7. Number of CTFs per investable asset size category



(2020 Global CTF Survey and data obtained from CTF networks; n=57 CTFs)

International donor agencies have estimated that the minimum viable size for a CTF endowment is probably around US$10 million (Spergel 2012), so it would seem that there are well over 25 CTFs that are struggling to achieve that

minimum size. CTFs with smaller endowments need to use a combination of project financing, investment returns and sinking funds to be able to finance their projects and operations, which can sometimes result in challenges in financing overhead or management expenses (Section 3.4.1).

CTFs are aware of the need to raise larger amounts of long-term capital, and several of them have ambitious targets. However, it is challenging to find donors for capitalization. CTFs that have raised the most capital tend to be those with catalytic resource mobilization strategies, which attract initial large contributions from one or two international donors. After demonstrating a high level of accountability and performance, they are then able to build relationships with other donors (Bladon et al. 2014; CFA 2008). Some examples are MAR Fund, Bhutan Trust Fund for Environmental Conservation (BTFEC), FMCN, CBF, BIOFUND, and CTFs created through PFP models (Section 4.1.1).

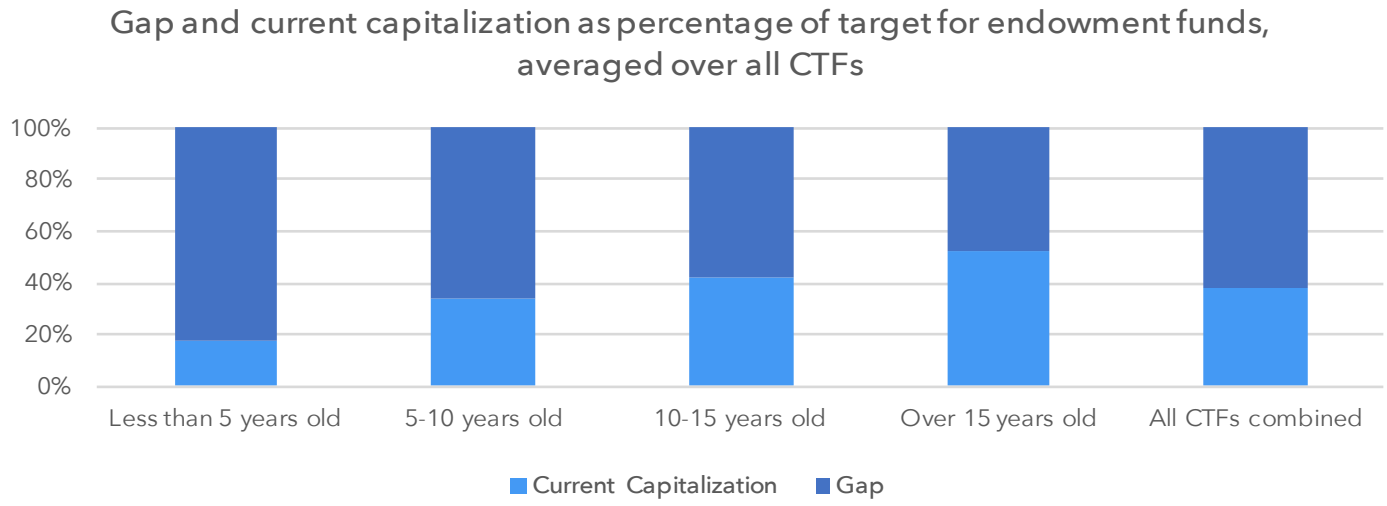
The 2020 Global CTF Survey looked into whether CTFs had set a capitalization target for endowments and sinking funds, and, if so, whether there were any gaps with respect to those targets. The results show that if all the capitalization gaps of the respondent CTFs for endowments and sinking funds are totaled, there is a capitalization gap of at least US$1.65 billion. Table 4-2 presents the total and average capitalization gap amounts, per CTF age category. These are also presented in Figure 4-8 as average percentages of the capitalization target, per CTF age category, for endowments, sinking funds, and these two combined.

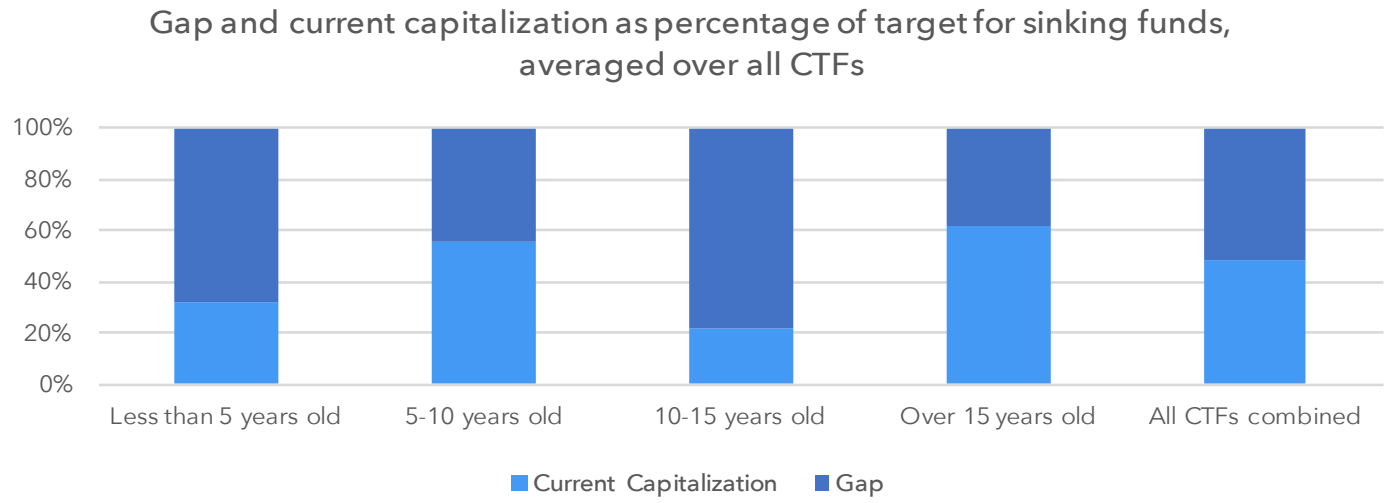
Table 4-2. Total capitalization gaps of CTFs per age category

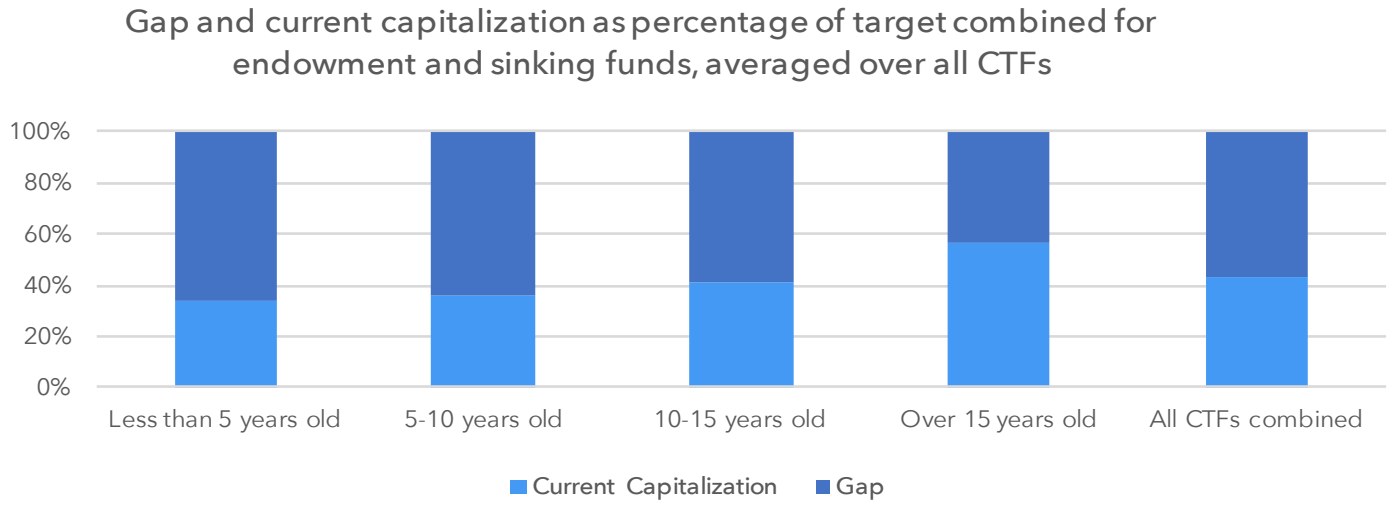
		Endowment funds		Sinking funds	
CTF Age	Number of CTFs	Average gap (US$ million)	Total gap (US$ million)	Average gap (US$ million)	Total gap (US$million)
Less than 5 years old	11	$26.75	$107	$6.52	$32.6
5-10 years old	10	$44.81	$313.7	$1.48	$4.44
10-15 years old	10	$56.33	$169	$25	$50
Over 15 years old	19	$119.05	$952.4	$3	$23.6
All CTFs	50	$70.10	$1,542.1	$6.91	$110.64

(2020 CTF Global Survey)

Figure 4-8. Current capitalization gaps, averaged over all CTFs, presented as a percentage of the capitalization targets for: 1) endowments; 2) sinking funds; and 3) endowments and sinking funds combined







(2020 CTF Global Survey; n=22 CTFs)

Although the survey did not ask for further comments on the reasons for these gaps, or whether or not having reached the capitalization target has affected a CTF, it could be argued that the under-capitalization could be one of the factors contributing to the challenge many CTFs face in achieving a sufficient and stable flow of income to cover overhead or management expenses (Section 3.4.1).

4.3.3 Key Findings from Conservation Trust Investment Survey (CTIS) Multi-Year Study

The CTIS has been gathering investment data from CTFs since 2006 and has published twelve annual reports on the investment management policies, practices, and results of the CTFs (Mathias and Victurine). With 13 years of accumulated data, in 2020 the CTIS project produced an analysis of key trends and findings.[22] The most notable finding is that, on average, CTF endowment investments have been significantly under-performing both absolute and relative benchmarks. While top performers are achieving solid returns, the vast majority of CTF endowments are not well-invested, with the result that conservation spending has not been optimized over the 13-year period studied.

The CTIS analysis looked at CTF endowment real returns, i.e., returns after inflation. Real returns are useful for several reasons. First, endowments are ideally invested to grow at least at the rate of inflation, thus ensuring that the fund maintains the same purchasing power over time. Given that some CTFs are operating in high inflation economies, the effect of inflation can be significant if the fund's assets are maintained in that currency. Second, it can be difficult to compare nominal returns across the CTFs, as they use different baseline currencies and investment products. Analyzing real returns is an effort to normalize the returns for comparative purposes.

In its multi-year analysis (2006-2018), the CTIS project looked at endowment real returns after fees, compared to an absolute benchmark – specifically, inflation plus 3% - and to a relative benchmark made up of published indices for specific asset classes. The conventional wisdom has been that CTFs should target spending rates of 3-4%; the absolute benchmark represents the low end of this range. The analysis also looked at internal rankings, to identify any funds that consistently outperformed the rest of the field. The goals of the analysis were two-fold – assess CTF endowment investment performance over time, and, to the extent possible, identify which investment strategies have been the most successful over time. The study reflects input from 61 CTFs over the course of 13 years, and focuses on 67 separate endowments for which data were available.

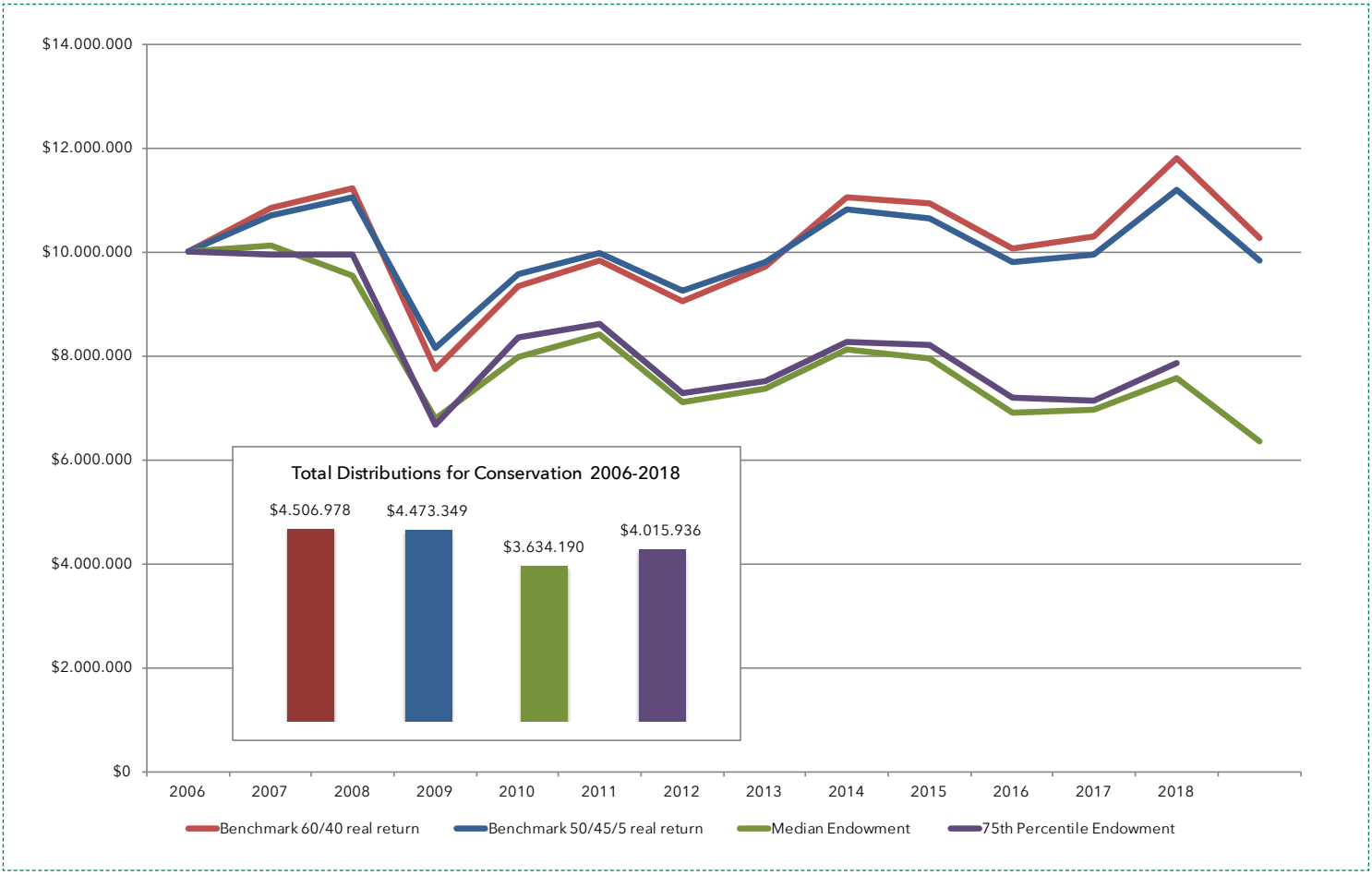
Using the reported investment results, the study evaluated the returns of a hypothetical US$10 million invested at the start of 2006, the first year for which CTIS data are available. The study compared four sets of returns for the period 2006-2018 (all in real returns):

22 A more in-depth report on the findings from the multi-year analysis of CTIS data is in progress and will be published separately.

- A composite benchmark of 60% global equities and 40% global bonds
- A composite benchmark of 50% global equities, 45% global bonds and 5% cash[23]
- The returns of the median endowment
- The returns of the 75th percentile endowment

The results are illustrated in Figure 4-9 below. The analysis assumed a 3% annual spending rate for all four portfolios. The portfolio that followed the 60% equities/40% bonds benchmark ended the 13-year period with just over $US10 million in real terms, having spent US$4.5 million in funding for conservation during that time. By contrast, the value of the portfolio that mirrored the median endowment's real returns declined in both nominal and real terms. It ended the 13-year period with only US$6.3 million on a real basis, having distributed US$3.6 million in funding for conservation. The 75th percentile endowment fared only slightly better.

Figure 4-9. Comparative cumulative investment results 2006-2018 (real)



(CTIS multi-year analysis; n=67 endowments)

23 The benchmark is composed of the MSCI World index (USD), the Bloomberg Barclays Global Aggregate TR index unhedged (USD), and the 3-month U.S. Treasury bills. The U.S. inflation rate was applied to the nominal index returns to generate the real return.

Table 4-3. Comparative investment outcomes 2006-2018 based on an initial capitalization of US$10 million and assuming a 3% spending rate

Portfolio	Total Distributions for Conservation 2006-2018 (US$ million)	Ending balance 2018 (real US$ million)
60/40 Benchmark	$4.51	$10.25
50/45/5 Benchmark	$4.47	$9.82
Median endowment real after-fee returns	$3.63	$6.34
75th percentile endowment real after-fee returns	$4.02[24]	$7.85[25]

The magnitude of the difference is striking. A US$10 million endowment with returns based on the benchmark of 60% global equities, 40% global bonds would have generated over 25% more funding for biodiversity conservation over the 13-year period, compared to the endowment earning the median endowment's returns. That same benchmark portfolio would have ended the 13-year period having maintained its real value, whereas the median endowment portfolio declined over 35% in real terms.

Given that, on the whole, the CTF endowments did not generate sufficient returns to both achieve a 3% spending rate and grow at the rate of inflation over the study's time period, the CTFs were either spending less than 3% per year, growing at less than inflation thereby losing value in real terms, or some combination of the two.

However, the performance of the two benchmark portfolios shows that it was possible to achieve returns sufficient to cover both inflation and a 3% spending rate over that time period.

The CTIS multi-year study analyzed those CTF endowments that achieved top real-return performance in multiple years, relative to the benchmarks, to the other CTFs, and to the target of achieving inflation plus 3% returns. Of the 67 individual endowments under analysis:

- Fifteen funds met or exceeded the 50/45/5 benchmark at least 60% of the time, and of these, four funds exceeded the benchmark at least 70% of the time.

24 The 75th percentile endowment did not provide investment return data for calendar year 2018. Its estimated total distributions for conservation over the 13-year period are annualized based on 2006-2017.

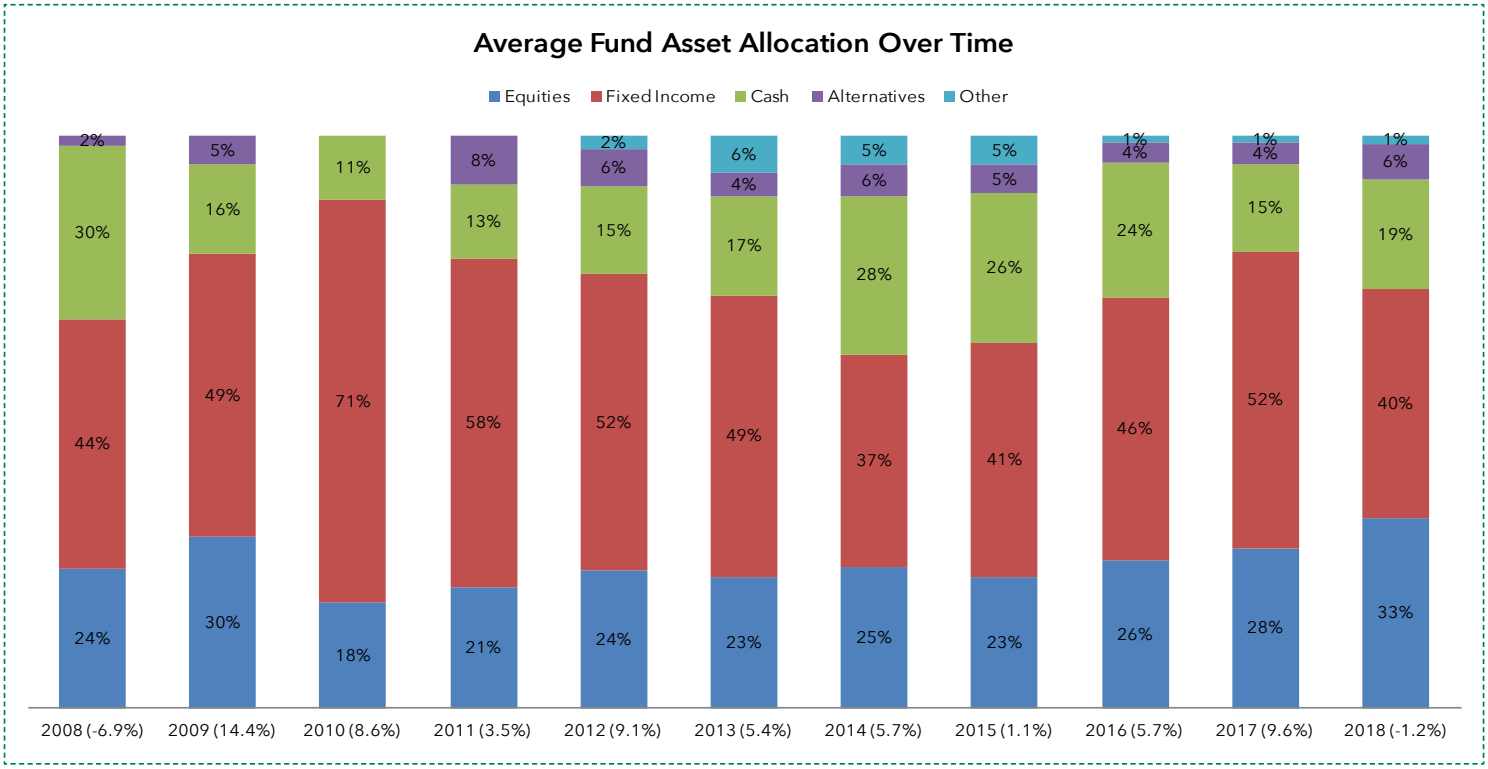
25 The 75th percentile endowment ending balance is as of 2017.

- Three funds appeared in the top two quartiles of CTF returns in every year they appeared, consistently outperforming their peers.
- Fourteen funds achieved a real return compound annual growth rate (CAGR) above 3.1%, enabling them to spend 3% per year while growing at the rate of inflation.

Of the endowments that had the most consistent high performance on all three criteria, the most notable similarity is an asset allocation with equities constituting 50-60% of the portfolio, some allocation to alternatives, minimal cash, and fixed income in the 20-30% range. Of course, different allocations work best in different market conditions, and the specific allocations reported for a single fund do vary over time, but the ranges remain consistent. The endowments that demonstrated top performance over an extended period also relied on advice from investment professionals, maintained their investments in hard currencies, and had globally diversified portfolios. For comparison, the funds with the consistently lowest performance averaged fixed income allocations at nearly 50% and cash of 17%, with equities at closer to 30% and minimal use of alternatives.

Historically, CTF asset allocations have shown a heavy weighting to fixed income (see Figure 4-10 below). Findings from the CTIS annual studies and conversations with donors and CTF leaders, suggest the reason for this attraction to fixed income appears to be a perception that investing in equities is too risky. This notion may have been driven in part by past donor guidance, although few if any donors currently seem to be conveying this message. While investing in fixed income does mitigate one type of risk by minimizing the risk of loss, it introduces a different type of risk, specifically the risk of losing value on a real basis. For many CTFs, this issue is compounded by investing entirely in the CTF's own countries' fixed income products, losing the risk management benefits that come from diversifying not only assets, but also the number of countries' economies making up the portfolio.

Figure 4-10. Average fund asset allocation over time, 2008-2018



(Conservation Trust Investment Survey for Calendar Year 2018; n=61 CTFs)

There is, of course, a certain degree of arbitrariness to the time period of this multi-year study. The time period was selected because these are the years for which CTF investment data are available. Clearly if the study had been limited to 2008-2012, none of the portfolios considered would have maintained both spending and inflation coverage. However, while the picture might look a bit different if the full 13-year study started or ended a year sooner or later, likely it would not change materially.

Over multiple years of the annual CTIS reports, Greg Alexander and Scott O'Connell of Acacia Partners, in their Forewords, have entreated the CTFs to re-visit their endowments' asset allocations and move towards a higher exposure to equity. The findings of the multi-year analysis bear out their advice: CTF endowments would, on the whole, have yielded higher returns if they had had a higher percentage of equities in their portfolios. Each CTF faces its own risk/return analysis and investment constraints, and it is important to note that the 60/40 and 50/45/5 portfolios used here for comparison are not recommendations but examples. Overall, many CTFs have significant opportunity to improve their investment management strategies in the coming decade.

4.3.4 Other Developments and Trends

Section 3.2.2 addressed the challenges being faced by CTFs more generally in relation to increasing compliance and reporting requirements. The implications for asset management are mainly a potential increase of the fees to engage investment professionals and tax advisors, and to maintain a banking relationship, plus value-added taxes (VAT) on those. CTFs need to carefully consider how these costs relate to the earnings made on the investments. For example, on a 4-5% return, a CTF may be paying 1% on fees to the investment professionals and other advisors. In particular for small CTFs, costs for investment management fees represent high investments that could threaten program costs.

A strategy to reduce costs for investment management fees and other financial dealings (such as insurance policies, tax advisors, and auditors) is the grouping of assets by two or more CTFs, normally referred to as pooling. Investment professionals suggest that CTFs with less than US$25 million asset base are better candidates for pooling of investment management services, since they could benefit from access to better asset classes and higher performing fund managers, and better fee negotiation, compared to what they could access on their own (Winter 2015). CTFs considering this option will need to consider whether it is necessary for the selected model to align investment policies and investment outcomes. The investment firm managing the assets needs to segregate accounts, as CTFs must maintain their fiduciary responsibility as well as legal or beneficial ownership over their part of the pooled assets. See Table 3-1 (Section 3.4.3) for a list of advantages and disadvantages of shared service models, which can equally apply to pooling models.

Different pooling models have been implemented by CTFs. For example, the CBF has pooled all assets of CTFs with partnership agreements in place into one endowment account under one investment policy with one investment committee. Each national CTF then receives annual earnings from a designated sub-account via an established formula. CBF has also offered national CTFs the option to pool new monies each of them raises (instead of building their own investment management capacity), but to date none of them have raised enough new funds to invest. MCT also operates on a similar model, but with fewer accounts. In the East African group of pooled assets under management by the UBS Arbor Group, each CTF maintains its own investment policy and its own investment committee, so the pooling mainly consists of grouping the assets to be managed by the same investment manager, thereby obtaining a preferred fee structure. In the Nature Trust Alliance shared services and pooling model (described in Box 3-1) the three participating CTFs have a shared investment committee and two of them, the Caucasus Nature Fund (CNF) and the Prespa Ohrid Nature Trust (PONT), share investment policies.

There are also tax considerations, related to investment management, which CTFs need to take into account during the design, set-up, and operational phases. When assets are being managed offshore, bringing investment proceeds back to the

CTF's home country may require engaging tax advisors in different jurisdictions to deal with different withholding tax laws and regulations as well as reporting requirements. At the same time, CTFs may be restricted either in practice or by law, or by its own constitutive documents or agreements, to invest in local or foreign currencies or in local or foreign markets. Changes in tax regulations may also impact CTF operations and their organizational structure. For example, when services, sales, and/or VAT are introduced or raised in the home base of a CTF, this will change the cost structure for transactions. In some cases, tax changes could undermine the economic rationale for CTF registration in that country.

A worldwide trend that is increasingly relevant for CTFs is sustainable, responsible, and impact investing (SRI). As defined by the Forum for Sustainable and Responsible Investment, which is a member of the Global Sustainable Investment Alliance, "*sustainable, responsible and impact investing (SRI) is an investment discipline that considers environmental, social and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact*" (McFarland 2017; The Forum for Sustainable and Responsible Investment 2020). SRI investing, also known as ESG or sustainable investment, has become increasingly mainstream, with assets of almost US$23 trillion being allocated to responsible investment strategies as of 2016 (Bauman et al. 2017). In only the first quarter of 2020, the global platform of Exchange Traded Funds (ETFs) reported a US$14.8 billion inflow for stock tickers with an ESG focus (representing three quarters of the inflows seen in the whole of 2019). This is explained by an improvement of the risk-return relation of these instruments and a long-term view of investors (Mora 2020).

A growing body of research, as presented in the study by the International Endowments Network (Dyer et al. 2020), and recognized by the major investment managers worldwide such as BlackRock (Mora 2020), UBS, JP Morgan, and FINAD (CFA 2020), is showing that ESG investments are performing as well or better than traditional investments, in addition to the non-financial return they generate. Furthermore, in particular during the current COVID-19 crisis, data analyzed by these same investment managers demonstrate that the risks of ESG investment are not higher, and could actually represent a long-term risk management strategy, compared to traditional investment approaches (BlackRock 2020; Mora 2020; CFA 2020). The latter has been explained by the various sustainability characteristics of companies that have good ESG scores, such as strong governance and corporate culture, internalization of risk factors such as climate and environmental change, and a record of good employee satisfaction and customer relations, which makes their financial performance more resilient in times of crisis (BlackRock 2020; Mora 2020; CFA 2020).

This trend is relevant for CTFs for three main reasons:

1) SRI investment strategies could yield strong financial performance over the long-term;

2) SRI investing could be used as a mitigation strategy for program and reputational risk, to make investment portfolios more resilient, as well as a way to comply with donor restrictions and other constraints limiting certain investments; and
3) CTFs can use their mission and values as guidance to determine the investment criteria for their SRI investment policy, increasing their impact by financing mission-aligned investment objects.

The relevance of this trend has been reflected in the 2020 update of the *Practice Standards for CTFs,* where a new asset management standard has been included recommending CTFs to align their investments with their mission and values. There are different SRI investing strategies that CTFs can implement to align their investments with their mission and values. These range from exclusion lists to adopting, and actively investing all the assets through a full SRI investment policy. Box 4-2, extracted from the *2020 Practice Standards for CTFs* (Bath et al.), presents an overview of these strategies.

BOX 4-2. **OVERVIEW OF POTENTIAL SRI INVESTMENT STRATEGIES FOR CTFS**

1. **Negative screening** excludes certain companies or sectors whose practices or products are not consistent with the ethical standards or environmental or social mission of a CTF (e.g. companies that engage in deforestation, companies that use child-labor, companies that use unsustainable palm oil in their products, etc.);
2. **Best-in-class (or positive) screening** selects companies based on their performance, highlighting positive examples of biodiversity friendly products and socially responsible practices that further the CTF's mission and goals;
3. **Norms-based screening** may exclude companies from an investment if they fail to meet internationally accepted norms that are central to a CTF's mission, such as the UN Declaration of Human Rights, the UN Declaration on the Rights of Indigenous Peoples, or the conventions of the International Labour Organization (ILO);
4. **Environmental, Social and Governance (ESG)** integration focuses on the assessment of the structural integration of ESG factors that are aligned with a CTFs mission into investment decision making;
5. **Sustainability themed investing** has a broad meaning, which includes companies making social and environmental achievements in line with the CTF's mission and priorities. As most of the 3000 largest companies in the world report against the SDGs, sustainability reporting has migrated to reporting in relation to specific measures of performance against these goals. This strategy may result in inclusion of financial products such as blue and green bonds, sukuk, microfinance, and other investments that fulfill progress on those SDGs that a CTF identifies as the most relevant for its mission and goals, for example #13 (climate change), #14 (life on land), and/or #15 (life in the sea);
6. **Impact investing** includes an explicit intention to produce a positive impact in line with the CTF's mission and priorities as well as produce a financial return; this requires impacts to be measured and reported against the intended targets; and
7. **Corporate engagement and shareholder** action aim to push corporations to address environmental and social issues that are at the heart of a CTF's mission and goals, by exercising shareholder rights in the CTF's portfolio of investments.

Adapted from the Global Sustainable Investment Alliance

Some CTFs are already implementing several of these strategies. See for example Case Study 3 on Coasts Funds (British Columbia, Canada), which discusses how this CTF has fully aligned its investment policy with its mission through a combination of SRI strategies such as norms-based screening, impact investment, and corporate engagement and shareholder action. Case Study 4 on Fondo Acción (Colombia) presents an example of a CTF engaging in impact investing with its own mission investment impact fund.

While most of the strategies listed above can be implemented by a CTF through its investment advisor or investment managers, impact investment - a subset of SRI that actively aims to achieve a measurable social or environmental impact alongside a financial return (Bauman et al. 2017), - is most likely to be implemented by a CTF directly. Therefore, impact investment is a topic that could partly fall under the asset management strategies of CTFs, or under the programmatic financing instruments, depending on the source of capital being used and the objectives being sought. As an investment strategy, it hasn't been widely used by CTFs so far, but see Case Study 3 on Coast Funds. Impact investment requires several considerations by a CTF, which involve human capacity and institutional maturity aspects, and requires regulatory and legal analysis. Risk assessment and management is a critical component of any impact investment and requires ongoing improvements (CFA 2014). The governing body and investment committee must understand the investment strategy and regularly train themselves, in addition to ensuring risks are documented and monitored systematically.

5. CTF OUTLOOK FOR 2020–2030

5.1 Trends 2020-2030

The main conclusions in this retrospective reflect our understanding of CTF evolution over the past decade, 2010-2020. The described role and value added of CTFs determine their position, experience, and competencies in preparation for the coming decade. CTFs have been aware of many of these trends. They have requested the 2020 update to the *Practice Standards for CTFs* (Bath et al.) to respond to new areas of greater attention particularly: 1) human resource management; 2) communications; 3) technology; and 4) risk management.

Additional CTF trends that appeared to be gaining traction globally include:

a. Start-up CTFs:

1. The number of CTFs continues to grow worldwide – including subnational in-country funds, CTFs in smaller countries, and CTFs created to support new regional or global conservation initiatives and targets towards 2030;
2. CTFs expand the use of pooling models for asset management and shared administrative services to realize economies of scale while maintaining beneficial ownership and without breaching fiduciary responsibility; and
3. Greater flexibility in new CTF organizational founding documents enable the CTF to manage multiple Program Accounts over time. Donors are increasingly avoiding limiting new CTFs to one Program Account in the founding documents so that they do not necessarily "time out" when a sinking fund is fully expended.

b. Operational and Institutional CTFs:

1. CTFs increasingly use Project Finance for Permanence (PFP) models;
2. More CTFs become accredited with multilateral financing mechanisms and institutional CTFs will become accredited with multiple mechanisms;
3. The role of CTF leaders as facilitators to bridge the connection between conservation, climate action, and the UN SDGs among diverse public and private stakeholders, will become increasingly important;
4. CTFs progressively align their investments with their mission and values through different sustainable, responsible, and impact (SRI) investment approaches;
5. CTFs increasingly adopt more sophisticated risk management systems and safeguards to comply with regulations and donor intent and build greater accountability into their programs;
6. CTFs partner more with the private sector to enhance opportunities to scale impacts and accelerate the transformation towards a green and blue economy, in particular in sectors such as agriculture, cattle farming, forestry, fisheries, extractive, financial, and tourism;
7. CTFs' expanding roles as investment managers, facilitators, conservation program managers, grant makers, international financing mechanism executors, etc., require substantial organizational investment and consistent means to cover their overhead/administrative costs; and
8. CTFs and CTF networks are ever more engaged at the policy level to mainstream sustainability and biodiversity finance and concerns into broader economic plans at national, regional, and international scales.

In addition, interviewees discussed the importance of the CTF networks in promoting the credibility and capacity of CTFs by encouraging alignment and providing mentoring with the *2020 Practice Standards for CTFs,* promoting more standardized programmatic results, and engaging the membership to influence international conservation financing.

The trends described above were identified before Covid-19. Many of these trends will continue, and some (see below) will even accelerate in a post Covid-19 economy. Additional opportunities and challenges will however influence these and other trend lines.

5.2 CTF Priorities in a Changing World

The Covid-19 pandemic provides an unprecedented opportunity for transforming human interaction with nature, as it lays bare the potential for future pandemics from zoonotic diseases tied to deforestation, habitat loss, wildlife trade, and ecosystem decline. This decade poses extraordinary new challenges due to the anticipated collapse of ecosystem functions in certain areas and increasing stresses from climate-driven changes across the globe. As these new challenges affect our planet, governments will become increasingly strained in their ability to respond but will be more open to mainstreaming biodiversity in more sustainable long-term investment programs. While global leaders struggle with the health, social, and economic repercussions of this pandemic, there is an opportunity to transform future infrastructure investments to support climate mitigation and adaption and link environmental restoration/conservation with economic development, human health, and food security. With climate stresses increasing there will be a greater need for political decisions and financial allocations to tackle socioeconomic impacts and vast human migration pressures.

While not a panacea, CTFs must be important contributors to the innovative solutions our planet desperately needs. CTFs will be crucial actors in convening those capable of organizing alliances and developing the financial mechanisms needed to mobilize resources to: 1) build new business models and practices with the private sector to preserve the ecosystem functionality of our soils, reefs, oceans, and forests; 2) effectively restore degraded habitats; 3) mainstream biodiversity concerns into broader government policies.

CTFs are uniquely suited for this moment. The organizational investments in CTFs over the past few decades have created many experienced proven institutions capable of channeling global resources to local venues, often with endowments that help guarantee needed and flexible operational funding. As CTFs strengthen and diversify their mix of conservation instruments, they are increasingly able to scale their impact to sea- and land-scape levels, by, for example, investing in incubators to accelerate investment-ready sustainable business solutions, building transformative production models with multiple partners, and linking global capital to local institutions and communities. Moreover, rather than expecting governments and multilaterals to invest in new special purpose vehicles, and the difficulty and expense of building new institutions, many CTFs stand ready to take on these challenges.

Critical challenges and opportunities that CTFs face this decade include the need to

1. work with governments on some of the most difficult public well-being issues of our times;
2. adopt technological innovations;
3. support economic transformations; and
4. ensure ongoing CTF organizational viability.

5.2.1 Work with Governments

CTF engagement on national and international policy issues can be expected to accelerate given the global scope of the climate and biodiversity challenges. Working through the CTF networks is one means of making a more compelling case for better financing commitments and conservation policies. Building on past history such as RedLAC's proposal preparation of a resource mobilization strategy at the Convention of Biological Diversity 8th Conference (CBD COP8) in Brazil, members could unite to write combined position papers, organize spokespersons for international events, and/or use the membership to proactively prepare country delegations on key points prior to events. There is strong interest in doing this work, but funding support for a coordinated leadership push through the networks will be a prerequisite going forward. At the national level, more CTFs are actively engaging in policy efforts to mainstream biodiversity, bundling with other funding flows for co-benefits (e.g. health and ecosystem conservation) and to reduce the huge amount of resources that flow towards activities that harm the environment. Key opportunities for working closely with government agencies that all CTFs will need to consider include:

- **Debt** – According to Andrew Peake of UBS, the pandemic has generated US$258 trillion of global debt as of July 2020 that translates into 331% of global GDP (CFA 2020). Thanks to the U.S.-led debt for nature swap programs of the last two decades, many CTFs have experience with debt restructuring models. Along with the U.S. Tropical Forest and Coral Reef Conservation Act (TFCCA) of 2019, new models for using debt conversions (Box 4-1) are a huge opportunity for CTFs to engage in structuring new deals to support national and international biodiversity and other priorities.
- **Migration** – Large movements of people displaced by economic hardships, disrupted agricultural patterns, flooding, storm damage, water shortages, excessive heat and other pressures will take place both within national borders and across international frontiers. While this is primarily understood to be a national security concern of governments, it will be one of the biggest global challenges this decade. CTFs, while not addressing the needs of migrants directly, have long been involved in working to stem rural migratory flows through documenting migration pressures as factors in their situation analysis/theory of change program design and through investments in alternative livelihood programs. Migration will also be an additional concern for CTFs' primary work in conservation through protected areas, as there is a long history

of desperate migrants moving into protected areas and/or of governments purposefully housing migrants in wilderness areas to limit social tensions elsewhere. This is a cross-cutting threat for both the environment and human livelihoods that increasingly appears to be on many CTF radar screens.

- **Public readiness for change** – Aligned with the greater opportunities for policy influence and communications campaigns is a greater mental openness to new development models. The devastating impacts of Covid-19 are forcing many national leaders and the public to rethink the development model and globalization patterns that have been our paradigm for many decades. Economic growth that fails to account for environmental damage, salaries that don't guarantee a living wage for essential employees, health care systems fail to serve the most vulnerable and therefore contribute to endangering the wider public – are all examples of accepted models that are now under greater scrutiny. Most CTFs have invested in environmental education (Table 2-3) yet this is an unprecedented opportunity to engage leaders and the general public (see technology below) to consider more sustainable and transformative economic strategies.
- **Infrastructure** – Slowed economies in the shadow of Covid-19 and anticipated severe economic impacts from unprecedented storms, heat waves, flooding etc. will stimulate the desire of many governments to "spend out of the crisis." In many cases this will lead to substantial infrastructure investments. This is a huge opportunity to mainstream biodiversity and climate change considerations into infrastructure projects to support a green or blue economy and the use of nature-based infrastructure solutions. Many CTFs already take a sea- and landscape scale view of territorial planning that includes considering the impact of infrastructure investments. New government spending priorities provide an opportunity to incorporate ecosystem thinking and better integrate nature, economic, and social criteria in project designs. Infrastructure projects also increase the need to offset residual impacts and many CTFs are in a strong position to manage private sector offset funds.

5.2.2 Adopt Technological Innovations

At the start of the Covid-19 pandemic, big tech companies initially dropped market value along with the rest of the economy. However, most have come back strong as more people and businesses adopted available technologies to connect virtually for work and school. Technology innovations, and the disruptive opportunities they generate, are expected to continue to accelerate with an increasing global reach. CTFs have been investing in more technology particularly with regard to cybersecurity and administration. Now with Covid-19, many CTFs' staff members are working virtually, coordinating with grantees and partners across different conference platforms. This is an opportunity for CTFs to become ever more tech savvy.

- **Performance metrics** – CTFs have strong organizational standards for administration, governance etc. (Spergel and Mikitin 2014) and benchmarks

of investment performance through the yearly CTIS publication (Mathias and Victurine 2020). However, many CTFs are not yet using the full suite of measures and indicators needed to showcase their field work and evaluate their impact in conservation and sustainable development, a competency that will be ever more important when competing for limited funding and to showcase the capacity to manage innovative solutions.

New technologies are spurring greater field data collection, broader applications of satellite imagery to show forest cover or reef health, citizen science, citizen reporting of environmental crimes, and boat identification to monitor marine protected areas and fishing boundaries. Investing in technologies will be foremost in helping CTFs more reliably bring the power of data and analytics to their work and the effectiveness of CTF grants and other programmatic investments. As the role of CTFs in mitigation compensation increases, the need for effectively measuring biodiversity loss, gains, and offset design will also become more pressing. One of the most important future roles of the CTF networks may well be to address priority research and standard programmatic indicators for the CTF community.

- **Social media and communications** – To date, relatively few CTFs have fully harnessed the power of social media, grassroots fundraising, citizen science, and public engagement strategies. This has been changing over the past few years and communications campaigns and social media outreach will no doubt accelerate dramatically over the next decade. For example, the Asociación Costa Rica Por Siempre (ACRxS – Forever Costa Rica) has managed a number of social media campaigns to raise local funds for specific projects (e.g. a campaign for $200,000 for a boat and maintenance fund to strengthen surveillance in Cocos Island National Park). They also managed Desafio CRX5 (Costa Rica times 5 Challenge) to increase the number of Costa Rican nationals visiting and supporting the national park system. That campaign has now been followed by "#somosmar" – or "we are ocean," in coordination with the Vice Minister of Water and Seas, to raise public awareness of the importance of Costa Rica's marine areas. Using online communications campaigns to build greater support for national tourism is a trend that a number of CTFs are exploring. Building up national tourism post Covid-19 is an increasing priority for many countries given that international tourism is expected to be severely limited for quite some time and many protected areas rely strongly on international tourism fees.

5.2.3 Support Economic Transformations

The "hardest nut to crack," over the next decade will be CTF engagement with the private sector as needed partners in order to transform the economic patterns and subsidies that fail to value biodiversity and ecosystem services. Until recently, there was little effort to link conservation outcomes with potential financial returns, and therefore limited interest from entrepreneurs. Increasingly however, businesses are aware of their dependence on ecosystem services and natural resources and understand their importance to the bottom line. The climate and biodiversity

loss crises inspire conservationists to move beyond protected areas to address transformational opportunities, changing market dynamics, and/or to protect more nature-based infrastructure with an emphasis on economic viability. The huge global financial repercussions of disrupting the environmental balance with the emergence of more zoonotic diseases and climate change impacts, accelerates this trend and is incentivizing far more businesses to engage.

- **Transforming rural production economies** – Leading CTFs are investing in transformational opportunities to encourage agro/food-industries to meet world demand while ensuring that the ecosystems in which they operate are sustainably managed and nature-based infrastructure is valued and protected. Innovations are underway: water funds are multiplying; roundtables in fisheries, forestry, and agriculture are certifying products that use ecologically sustainable practices; insurance schemes for coral reefs and other infrastructure have launched; and impact investors are asking CTFs to incubate small sustainable business ideas to help them become investment ready. These innovations need to scale swiftly.
- **Compensation mechanisms** – There will also be increased requirements on companies for greater corporate responsibility and to mitigate their impacts through obligatory biodiversity compensation and offset "no net loss in equivalent ecosystem" schemes (Section 4.1.2). In a number of countries legislation is underway to use CTFs to manage mitigation funds from the private sector for compensation or full offset programs (Case Study 1). CTFs can provide greater assurance to private companies that funds will be used appropriately and ties with the government can be strengthened through a show of effective and transparent financial management and conservation impacts.
- **Strengthen local organizational capacity** – The CTF niche of linking global funding opportunities with local needs cannot be overstated. This past decade has seen an ongoing expansion of capacity building efforts to ensure effective implementation and ongoing commitment locally. CTFs intend to continue using grants but with a greater emphasis on partner organizational viability and longer-term commitments. CTFs anticipate greater engagement in microfinance, equity investments, compensation mechanisms, investments in small and medium enterprises, and risk-management instruments to build and strengthen local civil society and private sector capacity.

5.2.4 Ensure CTF Organizational Viability

Investments in CTFs, particularly endowments, over the last few decades have enabled the emergence of CTFs with long-term institutional capacity and experience that have worked to fill protected area financial gaps, build local capacity for conservation, and more recently engage in larger landscape level ecosystem programs supporting national and international priorities. Endowments have functioned as an anchor in a diversified suite of tools and mechanisms that CTFs use to fund their work, often providing the basis for CTFs to leverage other funding streams. To lose this built capacity at this stage of global crisis would be a

huge loss in nations' ability to respond, innovate and move funding effectively in order to align global goals with investments in local needs (Section 2.2.3).

- **Resource mobilization** – With Covid-19, CTF resource mobilization strategies are in flux. Traditional donors of pass through and programmatic sinking funds are responding to emergency needs such as food security and medical support. Many of these donors will be harder to mobilize, and will continue to be, until the economy recovers. In addition, endowments and interest earnings are riding a rollercoaster, with the past practice of assuming relatively stable 3-4% spending rates currently a utopian pipedream. Finally, national governments, straddled with debt and social upheavals, may diminish investments in protected areas without strong international pressure. This will be a difficult climate for building endowments to support the ongoing operations and set programs of CTFs. CTFs will need to point to the importance of endowments for providing the institutional viability and resilience that have enabled the strongest CTFs to pursue their missions over decades and effectively move ever larger amounts of sinking funds and flow-through funding to the field.
  One analysis indicates that *"By managing their liquidity, cutting costs and non-core programs, appealing to important donors, and accessing lines of credit, many non-profits will succeed in leaning against the wind. But the unfortunate fact is that many others won't" (*Martin 2020). Likewise, many smaller CTFs will struggle to maintain essential staff and operations during the first few years of this decade. A number of CTFs are reorienting their grants to maintain the organizational viability of their grantee partners and civil society and government agency capacity to implement effective field programs going forward (e.g. BIOFUND's US$3 million investment to maintain the jobs of up to 950 rangers - Section 2.4.1b). Looking forward, the decisions that wealthier countries take to invest in transformational efforts to support the UN SDGs, climate action, and biodiversity conservation will be an important opportunity for funding flows through debt conversion and bilateral and multilateral commitments. While innovative solutions and new financing mechanisms are needed to scale on-the-ground efforts, many CTFs have proven the ability to step well beyond traditional donations to utilize PES schemes, environmental compensations, and multiple public-private partnerships, among other options to mobilize funds for conservation at larger scales and beyond protected areas.
- **Risk management** – CTFs have made a big investment in policies and safeguards to better manage risk over the past decade (Section 3.2.2). Institutional CTFs such as FUNBIO list many policies and safeguards[26] that respond to national regulations and set high standards across all their programs that are acceptable to multiple donors. It can be anticipated that donors and governments will increasingly push for more environmental and social management systems (ESMS) in funding managed by CTFs. This puts a great deal of stress on smaller CTFs as the onus and costs of establishing

26 FUNBIO https://www.funbio.org.br/en/politicas-e-salvaguardas/

these policies is high, making the case for focusing resources on risks that have a high probability of occurring or would have severe impacts. Many CTFs are also reconsidering their approaches around how to think about unforeseen risks such as Covid-19. While in the past, it may have been understandable to downplay the need for cash reserves, the pandemic has reasserted the relevance of diverse sources of funding, the usefulness of being able to reframe financial projections with changing circumstances, and the importance of establishing reserves and building contingency plans for unforeseen financial fluctuations.

- **CTF leadership** – An oft-quoted inspirational idea from English author Oscar Wilde, is that one should *"Shoot for the moon. Even if you miss, you'll land among the stars."* Given the severity of the many crises facing mankind linked to the very nature of our relationship with our planet, it is easily arguable that none of us are thinking big enough. CTF leaders who look for "moonshots" – big transformational ideas that can scale quickly while investing in ecosystems and people – will build the critical legacy that will define CTF leadership in this coming decade.

5.3 Looking Ahead

There are numerous challenges and opportunities for CTFs as world leaders struggle to respond to national needs while addressing planetary crises connected to the depletion of the world's natural capital. While many CTFs have made important contributions over this past decade, the broader reality is that the world is failing to meet the Aichi goals, is not advancing at the scale needed for the Paris Agreement, and is clearly losing ground on many of the SDGs. Going forward, it is inspirational and absolutely necessary to set new ambitious goals such as "30 x 2030" (30% of the planet's surface in protected areas by 2030 to ensure the viability of ecosystems essential to human wellbeing). However, the enabling conditions, political will, social safeguards, and financial resources are strained in almost all countries being asked to dramatically expand their conserved lands and waters.

CTFs, in every country/region, can provide a clear vision and pathway for financing protected areas, enhancing the sustainability of land and sea-scapes, and transforming economic models for greater human-ecosystem health. This will require building on their best experiences in partnering, in expressing the value of nature's benefits in financial, economic and social terms, in streamlining global donations to effective local investments, and in mainstreaming biodiversity and sustainability concerns into government policies. The fact that many CTFs have evolved quickly over the past ten years provides hope that they can grow at the scale and pace needed to contribute to the transformational changes needed for greater sustainability over the next decade.

The world, as we know it, has been radically transformed by a zoonotic disease within a one-year time frame. As other threats destroy our ecosystems, and increasingly disturb human structures and lives, the pace of change to conserve

our natural capital must accelerate rapidly. CTFs have a tremendous opportunity to engage leaders in public and private sectors, along with the local stakeholders, to make the deep changes and investments needed to give future generations the opportunity to build a longer-term partnership with our amazing planet Earth.

6. CASE STUDIES

Case Study 1: Launching a New CTF: BIOFUND in Mozambique

Acronyms used in the case study	
AFD	Agence Française de Développement
ANAC	National Administration of Conservation Areas
BIOFUND	Fundação para a Conservação da Biodiversidade
CAFÉ	Consortium of African Funds for the Environment
CTF	Conservation Trust Fund
FUNBIO	Fundo Brasileiro para a Biodiversidade
GEF	Global Environment Facility
GOM	Government of Mozambique
KfW	Kreditanstalt für Wiederaufbau – German state-owned development bank
RedLAC	Latin American and Caribbean Network of Environmental Funds
TNC	The Nature Conservancy
UNDP	United Nations Development Program
USAID	US Agency for International Development
WCS	Wildlife Conservation Society
WWF	World Wide Fund for Nature

BIOFUND (Fundação para a Conservação da Biodiversidade/ Foundation for the Conservation of Biodiversity) is an independent, privately managed CTF with a strong strategic relationship with the Government of Mozambique (GoM). It was legally created in 2011, became operational in 2015, and made its first disbursements in 2016. It has grown rapidly and now has a portfolio of US$37.2 million. This case study explores the evolution of a relatively young CTF that has invested heavily in three strategies that have lessons for the wider CTF community:

1) Consolidate BIOFUND as an institution;
2) Develop an effective working relationship with the government; and
3) Invest in enabling conditions — "create a favorable environment."

Background

Mozambique is a richly bio-diverse country with terrestrial, coastal, freshwater, and marine ecosystems hosting iconic wildlife species. Major international donors are interested in supporting the protected area system of Mozambique. Unfortunately, the government agencies historically have had a difficult time prioritizing strategies and effectively absorbing and spending international funds. As a result, many earmarked funds for Mozambique were often delayed. BIOFUND was thus formed in the traditional manner of many CTFs, to provide effective and transparent financial administration to help attract and manage

international funds to provide long-term financial support to the protected area system. The large protected area system represents 28% of the country. It is estimated that 81% of the running costs of the national system of protected areas is covered by international cooperation support.[27] However, the gap between the needs of the protected area system and the actual reality of funds is enormous, and an important driver for the creation of a new CTF.

Commit to Organizational Institutionalization

From its inception, BIOFUND did not move forward until it was able to ensure appropriate organizational effectiveness, using, in large part, the *Practice Standards for CTFs* (Spergel and Mikitin 2014) as a guide. As a result, it had a long incubation period (2011-2017). The Capacity Building Project managed by RedLAC and CAFÉ provided mentoring opportunities in 2014 for BIOFUND to work with the Fundo Brasileiro para a Biodiversidade (FUNBIO). FUNBIO had a recognized track record of organizational and operational excellence, and both countries speak Portuguese. From 2016 to 2018, KfW supported an ongoing mentorship program for FUNBIO, and other consultant groups, to work closely with BIOFUND to put effective systems in place, develop clear operation and procedure manuals, train staff in financial management, and work closely with the Board on governance issues. The Executive Director of BIOFUND was closely engaged in all of these discussions, emphasizing the importance of honing operational design at an early phase. This allowed the systems to get designed well from the beginning with a small start-up staff.

For these early years, BIOFUND did not make disbursements, so all expenses were essentially overhead. They hired three highly experienced people at competitive salaries to ensure that proven FUNBIO policies and procedures were reviewed and adapted for the Mozambique reality. A Pilot Phase in 2016 was used to disburse small amounts of funding and ensure the effectiveness of all procedures and that funding could be tracked appropriately. Once the procedures were proven effective, operations were fully initiated in 2017 with a major staff build up (18 staff as of December 2019) to manage increasing disbursements and new programs that include financial management training, scholarships, technical assistance, and ongoing capacity building for beneficiaries.

A similar level of effort went into designing an appropriate governance structure. The founders were committed to creating a national CTF as opposed to an offshore structure. While creating a foundation in Mozambique took longer, the purpose was to create a greater sense of national ownership. Mozambique foundations use a General Assembly – Board structure. The BIOFUND General Assembly is currently composed of 50 members, of which one third are institutional members and two thirds are individual members from diverse

27 2014 data taken from BIOFUND Web site Conservation Areas of Mozambique page (http://www.biofund.org.mz/en/mozambique/conservation-areas-of-mozambique/)

backgrounds, including a number of conservation organizations and many of the original founders of BIOFUND. While achieving a quorum is difficult with so many members, it is still an effective model as the General Assembly discusses and approves strategies, annual reports, plans, and budgets. Members are also a solid source of voluntary advice for technical or administrative matters.

The General Assembly selects the Board of Directors. The Board has a number of statutes that control its composition:

- Seven private sector, academic or civil society members, one Government representative, and one KfW representative;
- Term limit after two consecutive four-year terms;
- No more than 25% of Board members may be from the public sector; and
- No more than third of the Board members may be non-Mozambican.

The Board in turn supervises the Executive Director who manages all staff and programs. A new November 2018 Foundations Law in Mozambique (still being clarified and now implemented) transfers some of the current powers from the General Assembly to the Board, fortifying Board powers including the ability to amend BIOFUND's statutes.

BIOFUND was fortunate to have donors who understand the importance of investing up front in the institution and recognizing the distinct phases that a new CTF must traverse. Numerous donors including KfW, the Agence Française de Développement (AFD) and the World Wide Fund for Nature (WWF) covered much of the fixed and operational costs to support BIOFUND's design and legal creation phase (2007-2011), estimated at about US$300 000 of direct costs. Approximately US$1.3 million was then spent in setting up the institution (2011-2015), mostly supported by the Global Environment Facility (GEF) and implemented by UNDP (funds administered by WWF in this period), as well as KfW and AFD. The capacity building of its human resources occurred from 2015-2017 and included FUNBIO's multi-year technical assistance – financed by KfW with program support from the International Development Association (IDA of the World Bank - Mozbio 1) with an overall estimated cost of US$2.5 million.

In summary, it took about ten years and US$4 million (and a lot of work and dedication from the many formal and informal members of BIOFUND) to successfully create and establish BIOFUND. In addition, a generous contribution to the endowment by KfW was then augmented through donations from the GEF, implemented by the World Bank, and the Global Conservation Fund.

The investment paid off. Since 2018, BIOFUND has been fully operational. Program Accounts include US$9.4 million raised from AFD and the World Bank, as well as a further US$9 million raised in 2019 from the European Union. Income from the endowment, valued at the end of 2019 at US$37.2 million, is used primarily for ongoing investments in the non-salary operating costs of

national parks and reserves. In addition, there is an expense ceiling of 20% of disbursements that can be used for BIOFUND operations. At the end of 2019, a total of nearly US$800,000 has been used from the endowment revenues, with almost another US$1 million projected for 2020.

Kathy Mikitin stated in the Independent Institutional Assessment of BIOFUND in 2019:[28]

> *"Applying the norms from the evaluation checklist of the Practice Standards for Conservation Trust Funds as a benchmark, BIOFUND meets or exceeds 83 of the 85 applicable norms that are considered to be attributes of successful CTFs."*

Along with the independent assessment, BIOFUND reviews a related set of organizational indicators annually, providing a chance to measure their progress on an ongoing basis.[29]

By having effective and transparent systems in place, BIOFUND was able to quickly demonstrate that it was an effective mechanism for channeling financial resources to the protected area system. Along with the donors listed above, new donors such as USAID/Counterpart International are now using BIOFUND to support biodiversity programs. Its annual budget is expected to double to over US$8 million in 2020.

Develop a Strong Working Relationship with the Government

The Ministry for Land, Environment, and Rural Development, through the National Administration of Conservation Areas (ANAC) manages seven national parks, 12 national reserves and additional game farms and hunting reserves. As the main goal of BIOFUND is to support the protected area system, initial disbursements have been to select national parks and reserves, most of them managed by ANAC.

BIOFUND's strategies for conserving the protected area system are to: 1) attract funding; 2) strengthen ANAC's capacity to execute effective programs with solid administrative systems; and 3) build ongoing support from the GoM. In 2016, the pilot phase provided only US$150,000 in disbursements to ensure that expenses could be tracked and money would not be routed through the central government budget. Successful early administrative successes led to a increases in disbursements to national parks and reserves — US$1.1 million in 2017, $1.8 million in 2018, $1.8m in 2019 and $5.6 million anticipated in 2020. Disbursements cover non-salary operating costs such as vehicle maintenance,

28 Mikitin, Kathy. Assessment of the Efficiency and Effectiveness of BIOFUND's Governance, Management and Operations. June 7, 2019

29 BIOFUND, Ferramenta de Acompanhamento da Eficácia da Gestão – Formulario de Avaliação. Reports done from 2014-2019.

demarcations, ranger field rations, communications, and infrastructure maintenance. These investments have strengthened law enforcement capacity and provided direct support to areas affected by disasters such as recent cyclones. BIOFUND has also invested in the administrative and financial capacity of ANAC staff to plan, budget, and manage their funds at the protected area level.

Finally, to build its own reputation and inspire the conservation community with early wins, BIOFUND invested initially in the conservation areas that had the best administrative and financial capacity to manage new funds rather than those with the greatest financial deficit. This allowed BIOFUND to develop and test its procedures first with the areas that had a lower risk of failure. While some of the neediest protected areas were not eligible for initial support, systems are now in place for their incorporation. Since 2019, BIOFUND has targeted increasing funds to these weaker areas and now provides support to 74% of the parks and reserves in the country.

In a parallel strategy, BIOFUND is hoping to mobilize significant additional funding for conservation through innovative finance mechanisms such as biodiversity offsets. While the term "offsets" refers to "no net loss, and preferably a net gain, of biodiversity on the ground,"[30] compensation payments for biodiversity loss are also an effective means to direct money to important conservation areas. BIOFUND uses the term "offsets" for both definitions. With support from RedLAC (Project K), USAID (Counterpart International), and working with the COMBO (WCS) and BIOFIN (UNDP) projects, BIOFUND is strengthening biodiversity compensation regulations with the GoM. A working group that also includes strong private sector participation is moving forward to finalize the regulations and support offset implementation.

Mozambique has embraced adoption of a mitigation hierarchy of "Avoid, Minimize, Restore and finally Offset" to compensate for the negative impacts of a development project. While the legal framework is in place, work is needed to develop clear specific regulations to aid in implementation. Protected areas (both public and private areas) get first priority for receiving compensation funding. A training and experience exchange is underway for staff in government institutions and private sector companies. Training includes showcasing how an effective biodiversity compensation program can actually streamline large-scale development projects to be in compliance with the International Finance Corporation (IFC) performance standards required by many financing organizations, while providing clarity about GoM requirements. An initial pilot is

30 International Finance Corporation Guidance Note 6: Biodiversity Conservation and Sustainable Management of Living Resources uses the same definition as the Business and Biodiversity Offset Program. The full definition is: "Biodiversity offsets are measurable conservation outcomes resulting from actions designed to compensate for significant residual adverse biodiversity impacts arising from project development after appropriate prevention and mitigation measures have been taken. The goal of biodiversity offsets is to achieve no net loss and preferably a net gain of biodiversity on the ground with respect to species composition, habitat structure, ecosystem function and people's use and cultural values associated with biodiversity." P. 8. Updated June 27, 2019.

being designed for invasive species eradication in the Maputo Special Reserve. The partners are working together to register and quantify baseline data and design appropriate metrics to showcase how offset payments can effectively be deployed to generate biodiversity gains and support the protected area system. BIOFUND has shared its progress to date with CAFÉ partners to help launch a network group to help other African countries achieve no net biodiversity loss through similar compensation and offset programs.

Invest In Enabling Conditions – "Create A Favorable Environment"

Many CTFs have made significant investments to create a more favorable and receptive climate for conservation in their respective countries (Section 2.4). However, the vast majority of these have been well established CTFs, created in the late 90s and early 2000s. They had a strong history of protected area investments before branching out into sustainable development, leadership programs, and broad communications efforts aimed at public education. BIOFUND began investing in these types of programs even before beginning more traditional disbursements in protected area management. This is partly due to the fact that Mozambique, as one of the poorest countries in the world, has to effectively manage conservation priorities within a framework for addressing food security, health, and education.

BIOFUND's approach to strengthening the enabling conditions in Mozambique to date has been three-fold:

1) **Communications.** Provide strong communication materials for Mozambique citizens. For a young CTF, Mozambique has included communication activities from the beginning in its annual work plans. Key staff, with help from General Assembly and Board members, technical collaborators, and local service providers manage these communication activities. Since 2015, an itinerant biodiversity exhibition of photography, speakers, films, and data is made accessible to young students and adults for one to three weeks every year in the major cities of Mozambique accompanied by extensive media coverage. The number of participating schools and the total number of participants are tracked as indicators of success. BIOFUND has also invested heavily in its website with regular news updates. Finally, raising awareness on key themes such as the economic and ecological relevance of mangroves, oceans, and other key ecosystems are part of regular partnerships with other key actors from the conservation community in Mozambique.
2) **Legal and Policy Reform.** As described above, BIOFUND has worked with the Mozambican government, and increasingly with the private sector to build the legal, technical, and financial procedures needed to begin mitigation and offset programs. Building high-level government commitment and alignment between ministries is a key part of this program. This program directly contributes to refining the legal framework for conservation in country.

Additionally, BIOFUND supported the development of an overall framework to support co-management partnerships for protected areas. Proven to result in positive conservation and financial outcomes, co-management partnerships have made significant gains in Africa in recent years. Working with other partners such as USAID and the World Bank, BIOFUND has promoted these concepts in Mozambique. The government has adopted this framework moving forward.

3) **Program for Conservation Leadership.** Like other CTFs such as the Fondo Mexicano para la Conservación de la Naturaleza (FMCN) with the Mesoamerican Reef Leadership Program, and the Micronesia Conservation Trust (MCT) (Case Study 5), BIOFUND, with support from the World Bank, is enhancing the human resources talent needed to effectively manage conservation areas. This program provides professional training, technical assistance and exchanges for professionals within the national system of protected areas. In addition, it provides scholarships and research grants to engage more talented young people. Finally, the leadership program also integrates with BIOFUND's communications efforts by engaging younger students in conservation activities.

Conclusion

Overall, the gap between the needs of the protected area system and the actual reality of funds received remains enormous. As of 2016 the World Bank estimated that the Mozambique system "*would require an injection of a one off investment of approximately US$120 million, and then annual operational funding of approximately US$70 million, compared with just US$19M per year being spent currently.*"[31] It is estimated that US$8.4 million will be spent in 2020 by BIOFUND alone, making it a very significant partner for the sector. BIOFUND has gotten off to a good start in addressing some of these operational needs in the 14 national parks and reserves in which they are currently investing, about 68% of the extant conservation areas in Mozambique. Their goal is to reach 100% of the national parks and reserves. They are building the conditions for more funding through solid institutional capacity building, a strong working relationship with GoM, and efforts to build the enabling conditions for an inspired conservation commitment in country. These three strategies have been a critical roadmap for their success to date.

This case study was made possible thanks to the materials made available by BIOFUND and interviews with, and feedback from, Luis Honwana, Sean Nazerali, María Alexandra Jorge, and José Oscar Monteiro of BIOFUND and Andréia de Mello Martins of FUNBIO.

31 World Bank Group, A National Biodiversity Offset System: A Road Map for Mozambique. October 2016. p 14.

Case Study 2: Public-Private Challenges in CTF Governance: FAN to FIAS in Ecuador

Acronyms used in the case study	
CTF	Conservation Trust Fund
FAN	Fondo Ambiental Nacional
FIAS	Fondo de Inversión Ambiental Sostenible
GEF	Global Environment Facility
KfW	Kreditanstalt für Wiederaufbau – German state-owned development bank
MAE	Ministry of the Environment

In 2016, a privately managed CTF, the Fondo Ambiental Nacional (FAN) in Ecuador was dissolved by the Government of Ecuador. Two years later, a new CTF, the Fondo de Inversión Ambiental Sostenible (FIAS), was created to continue FAN's work of attracting, managing, and investing national and international cooperation donations. While FAN was managed by a governing body made up primarily of private sector individuals, FIAS has an equal number of government representatives and private sector individuals on the governing body with the decisive vote on split decisions lying with a government representative. This case study reviews this history.

Background

The past decade has seen a change in the underlying power dynamics between non-profit organizations, such as CTFs, and governments, as the state has assumed a stronger role in the conservation arena, particularly in Latin America. When many CTFs were formed in the 1990s and early 2000s, most Latin American governments still declared new "paper parks" with very little ability to provide effective management. As a result, the nongovernmental sector played an extremely important role advocating for greater levels of conservation awareness and protection. This included fundraising for direct action in the parks and receiving substantial program funds via CTF grant allocations. Today, most Latin American governments have a ministry responsible for managing their protected area systems, hiring park personnel, and setting policies for biodiversity conservation, climate change mitigation and adaptation, etc. CTFs increasingly provide funding directly to government programs and/or work to ensure that their funding impact is strategically aligned with government priorities.

A number of Latin American countries, particularly Venezuela, Bolivia, Brazil, and Ecuador have seen the rise of governments with greater centralized decision-making authority. In the case of Ecuador, the election of Rafael Correa in 2006 precipitated major changes in the non-profit community. One of Correa's first actions was the ratification of a new constitution in 2008 that helped to

immediately centralize greater authority. While the fact that the government was taking greater responsibility for conservation goals was very exciting, it also was a difficult time for non-profits. The government argued that many national and international non-profits had usurped the responsibilities of government agencies, were fundraising for roles that belonged to the state, and that they needed to be more strongly regulated to support and align with the Ministry of the Environment (MAE). Some non-profits closed and others feared having their licenses revoked if they didn't align more closely with government priorities.

The Correa government invested heavily in new infrastructure projects and anti-poverty initiatives. With Correa's re-election in 2009 and again in 2013, the pace of government spending continued to be high. At the same time, the government declared the national debt illegitimate and failed to pay bondholders for two years, eventually paying creditors at 30-35% of the bond value. This led to strained relationships with many creditors and an increasing reliance on loans from China. The 2014 drop in oil prices (Ecuador is a major oil exporter) signaled further economic troubles and increased debt.

FAN was founded as a private independent CTF to attract and invest international and national funds into conservation for the sustainable development of Ecuador. Its legal founding in 1996 was through Executive Decree 3409 with full support from the MAE. It became fully operational in 2001 with seed funding from the Government of Ecuador. The seven-member Board was composed of three representatives of key sectors (academia, NGO, and business) and three private members selected by the Board in addition to the Minister of the Environment.

Over the years, KfW[32] became FAN's most important donor, much of it through debt swaps. KfW has made investments in a series of Program Accounts managed by FAN including: 1) the Protected Areas Fund; 2) the Fund for Controlling Invasive Species in the Galapagos; 3) a Global REDD for Early Movers Program; and 4) Socio-Bosque - an innovative conservation incentives program. In 2016 FAN managed about US$64.5 million in three large Program Accounts, primarily from KfW but also including funding from Conservation International, the Global Environment Facility (GEF), UNDP and the Government of Ecuador. The vast majority of the capital was invested in Ecuador's markets and historically received returns averaging over 7% a year. Most of the returns went to the MAE for financing management costs of thirty of the national protected areas in the country, Socio Bosque, and an invasive species control program in the Galapagos. The consistent returns provided MAE with a regular and planned source of income for the protected area system and other investments.

32 KfW is the German state-owned development bank (originally called Kreditanstalt für Wiederaufbau) that provides financial cooperation through loans and grants. In this case the funding was through grants and debt forgiveness.

The Conflict

In 2015 and 2016 many non-profits throughout Ecuador, including FAN, were treading carefully and keeping a low profile. The country was hurting economically and the Government made a point of philosophically insisting that international cooperation funds were destined for the state. They argued that public funds should be under public control. FAN was quietly confident that they would be left to operate as usual. Although the vast majority of their holdings were from international cooperation agreements, FAN determined that their reliable investment performance, clean annual audits, and use of the funds for MAE was an effective model that efficiently met the government's needs.

Nonetheless, two successive Ministers of the Environment stated their disapproval with the private majority on the FAN Board and concluded the public sector was not adequately represented. Pressure was placed on the FAN Board to evolve. Interviewees noted that there was an agreement in principle to move toward a 50-50 public/private Board. This was not formalized however, and there was never an agreement reached on the selection of the President of the Board. FAN's President at the time was a private businessman and the government wanted a public representative as Board President. While various interviewees contest the pace at which this negotiation was taking place, the government determined the FAN Board was not moving forward quickly enough in support of this transition.

In April 2016, then Minister of the Environment (Daniel Ortega) and representatives of a Commission of Liquidation entered the FAN office and asked FAN's Executive Director of the past five years, Diego Burneo, to leave his post. President Correa had signed Executive Decree N.998 for FAN to be dissolved and liquidated. The Decree declared that public resources should be managed by public institutions and entrusted the MAE to ensure that the resources resulting from FAN's liquidation should be used for environmental conservation, in compliance with the legal provisions of the relevant agreements. The justification given was that as FAN was not aligned with the constitutional, legal, and regulatory obligations regarding the administration of public funds, it was "compromising the nation's interests." Three delegates, selected by MAE, made up a Liquidation Commission to ensure that the resources in the Program Accounts would be used for the same purposes as they were originally intended.

According to interviewees, the government at the time determined that moving the funds from FAN's Program Accounts to the 'cuenta unica' (government budget) would be a relatively simple process. The original Ministerial Decree to the Liquidation Commission was to have a clear plan for moving forward within 30 days. However, as the Liquidation Commission quickly concluded, the contractual agreements, particularly with KfW, would not allow the government to transfer the funds and would require the funds to be repaid to the German Government. Non-compliance by CTFs with donor agreements may constitute

a breach of legal contract, which could expose the CTF to payment obligations.[33] Nonetheless, the Correa Government remained committed to asserting public control over these funds.

The legal implications left the Ecuadorean government with few good options. The liquidation decision had been made and yet there were no immediate means to access the Program Accounts without potentially breaching the legal agreements in place with Germany. In 2014, during the protests over oil drilling in Yasuni National Park, a German parliamentary delegation was prohibited from entering the country as they had planned to meet with environmental activists, creating some diplomatic friction. Thus, finding the right balance between the government's objectives and maintaining a fruitful relationship with a key partner like Germany was crucial.

With the government unsure of how to proceed, and the Minister of the Environment (who had encouraged the liquidation process) being asked to resign, the Liquidation Commission was left with the responsibility to manage FAN and its Program Accounts until an appropriate alternative could be developed. This period lasted for over 24 months with the funds frozen in all of FAN's Program Accounts — and MAE activities left unfinanced — until a solution could be engineered.

The Birth of FIAS

FAN Program Accounts including the Protected Areas Fund, the Fund for Controlling Invasive Species in Galapagos, and the Fund to support Socio Bosque, were safeguarded to ensure funds would not be misspent and the government did not breach any agreements with KfW and other donors. A key clause in all the agreements[34] between KfW, the MAE, and the Ministry of Economy and Finance gave KfW a say in any redirection of the funds they had contributed to the Program Accounts, should FAN be suspended. During this period KfW sent several letters clearly stating the importance of the *Practice Standards for CTFs* (Spergel and Mikitin 2014) and their expectations that KfW due diligence of any proposed future funding model would take into account these standards as key evaluation criteria.

In 2017, Vice President Lenín Moreno was elected to the Presidency. His first choice as Minister of the Environment was Tarsicio Granizo. Aware that FAN Program Accounts were on hold, Minister Granizo worked with Ana Albán, Liquidation Commission Chair, to develop an Executive Decree to form a new CTF that could manage the various FAN Program Accounts. Early drafts

33 Governance Standard 9, Practice Standards for Conservation Trust Funds - 2020 (Bath et al.).

34 The clause used in KfW contracts is included in a section entitled "Causes for the removal of funds." The agreement states that if FAN were suspended, the Governments of Germany and the Ecuador would need to agree on future uses of the funds in the Program Accounts.

were reviewed by KfW to ensure that a "no objection" determination would be obtained at a later stage. In September of 2017 Executive Decree 146, creating the Fondo de Inversión Ambiental Sostenible (FIAS), was signed by President Moreno.

FIAS was created as a non-profit private entity, in most ways identical to FAN. Its main purpose is to be a financial mechanism to attract, manage, and invest national and international cooperation donations. The major marked difference from FAN is the governance structure. The FIAS Board is now made up of representatives from the following institutions and sectors:

1) Ministry of the Environment;
2) Ministry of External Relations;
3) Government Planning Secretary;
4) Academia;
5) Civil society environmental organizations; and
6) A respected private person selected by consensus from the above 5 members.

In case of a split 3-3 vote, the President's vote (now the Minister of the Environment) will be the deciding vote. In addition, seats for observers without voting privileges have been included for other donors on a rotating basis (for the first two years this seat was held by KfW) and the FIAS Executive Director. An additional interesting difference to the FAN bylaws is the term limits on the Executive Director – being eligible solely for two three-year terms as opposed to most CTFs that leave the Board to determine staff tenure.

KfW reviewed the operating manuals for the Program Accounts and the addendums to the original contracts between KfW and the Minister of the Environment and FAN. After an extensive analysis and confidence that FIAS was committed to using the *Practice Standards for Conservation Trust Funds* (Spergel and Mikitin 2014), KfW provided no objection signatures for all of the addendums that facilitated the transfer of the Program Accounts from management by FAN to FIAS.

As of November 2019, FIAS, under the leadership of Ana Albán, has successfully transitioned all FAN Program Accounts to FIAS management. It currently invests about 90% of its capital in the Ecuadoran Mercado de Valores (a lack of diversification that is being scrutinized) and distributes returns and sinking funds to the appropriate grantees and ministries. In addition, it has successfully acquired new Program Accounts and has grown to over US$102.2 million. Transparent financial reports are being provided and independent audits by recognized international firms such as Deloitte are being performed.

Even with all of these solid advances, however, there remain ongoing challenges over the governance of the Program Accounts. Donors want a majority governance composition by civil society representatives on some Program Accounts. For the

Protected Areas Fund an agreement has been reached that donors have a say on issues regarding the use of their donations. While these negotiations are ongoing, it is clear that FIAS will continue to grow, manage the ongoing public-private tension, and carry on the legacy left by FAN, the Government of Ecuador, and the ongoing engagement of the international donor community.

Reflections on the Transition

The provisions expressed in the legal agreements and other governance documents between the CTF and the donors, help to ensure compliance with the applicable laws and regulations and enable the Program Accounts to effectively achieve their purpose. The following are a few additional anonymous comments made to the author by various interviewees reflecting on lessons learned during the transition and hopes for FIAS going forward. It is clear that managing different philosophies present in private versus public-led governance in CTFs will continue to be an ongoing dialogue for donors, governments and CTFs.

> *The difference between the founding documents of FIAS and those of FAN are miniscule and evolve strictly around the public/private balance on the Board. It has been a long hard process to build a new CTF out of the ashes of FAN. A much simpler solution could have been worked out by increasing the public representation on the FAN Board without having to close it down completely.*

> *FAN was not well known in Ecuador and did not have a communications program. When it was closed down, no one really protested, as so few people knew about its work. CTFs underinvest in communicating our value.*

> *FIAS is being well managed, but a weakness of being part of the government bureaucracy is that it is difficult to move forward efficiently. For example, MOUs with other organizations require the Minister of the Environment's approval. However ongoing changes in political appointees, and their need to get up to speed, has resulted in numerous delays in securing the requisite signature.*

> *The assumption in this case is that the FIAS Board can overrule the governance of the Program Accounts unless there is an objection from a major donor. Agreements between donors and CTFs when creating Program Accounts and their governing bodies should clarify authorities and powers vis-à-vis CTF Boards as well as Program Account governing body composition. [Practice Standards for CTFs - Governance 2 - "When new Program Accounts are established within a CTF, clear guidelines are put into place to establish if the governing body of the CTF, or that of the Program Account, can make the final decision in cases of a material conflict."]*

Using an Executive Decree as the legal mechanism for creating a CTF is the least desirable form. It makes amending the founding documents by the CTF extremely difficult (often requiring an act of Congress), whereas a government administration could change them readily. In this case it became the justification for undue influence by the government.

If we want to create an impact on public policies, mobilize public and private funds for local communities, and achieve conservation at scale, multi-sector alliances are needed. Specifically, it would be helpful to consider changing the perception that totally private funds are unequivocally better, but instead also ensure that CTFs maintain inclusive structures where there is always donor representation and participation of key government sectors. Additionally, the importance of clauses established in the contracts, statutes and other governance documents as security measures to protect funds cannot be overlooked.

This case study was made possible thanks to the many interviewees who provided their perspectives, connections, and/or documents. All of them are committed to ongoing conservation in Ecuador. Special thanks to Ana Albán, Diego Burneo, Carlos Chacón, Tarsicio Granizo, Scott Lampman, Jens Mackensen, Alexandra Mylius, Cynthia Nuñez, Mario Piu, Paul Palacios and Samuel Sangüeza Pardo.

Case Study 3: Coast Funds: Integrating Finance for Conservation and Sustainable Development of Indigenous Communities

Acronyms used in the case study	
CTF	Conservation Trust Fund
EBM	Ecosystem-based Management
ILO	International Labour Organization
NGO	Nongovernmental organization
PfP	Project Finance for Permanence
TNC	The Nature Conservancy
WWF	World Wildlife Fund

Coast Funds (or the Funds) refer jointly to the Coast Conservation Endowment Fund Foundation (the Foundation) and the Coast Economic Development Society (the Society). These are two separate legally independent entities, privately managed under one single governance structure and one administrative organization. Coast Funds was established in 2007, with public and private resources mobilized under a Project Finance for Permanence (PFP) approach. Their mission is to partner with 27 First Nations to achieve their goals for permanent conservation and sustainable economic development in the Great Bear Rainforest and Haida Gwaii areas of coastal British Columbia, Canada. This mission is fully integrated into the Funds' design and operations, providing a model for landscape-wide investment in the well-being of Indigenous people, which can achieve healthy and empowered communities that preserve the integrity of the ecosystems in which they live.

Since both Funds are managed under a single and indivisible structure and their goals are interdependent and complementary, Coast Funds as a joint organization is described as a single CTF in this case study. This case study explores the following features of this unique CTF structure, to showcase the synergy created by funding sustainable development and conservation:

1. The conditions that led to the Funds' creation;
2. The First Nations at the heart of governance, funding allocation, and investment management;
3. Key measurable achievements; and
4. Challenges and lessons learned.

Brief Overview of the History of the Creation of the Funds: A Long and Complex Landscape Management Conflict Resolved Through a Multi-Party Engagement Process

Coast Funds is part of a landmark multi-stakeholder landscape management architecture, that emerged from a turbulent and transformational conflict of

over 20 years, built around the preservation of the Great Bear Rainforest.[35] The Great Bear Rainforest is a temperate coastal forest covering 64,000 km^2 on the Pacific Coast of British Columbia, Canada.[36] The rainforest is a pristine wilderness environment with global ecological importance, hosting abundant terrestrial life and adjoining critical coastal marine areas. The spirit bear, a subspecies of black bear with white fur, is only found there. First Nations (Indigenous) communities have traditionally lived and depended on the forest for their subsistence for thousands of years, sustainably managing land and sea resources. But after the European colonization, and throughout much of the 20th century, newcomers developed new economic activities that unsustainably extracted resources from First Nations' unceded territories, leaving few benefits for the Indigenous communities.

In the early 1990s, governmental policies allowed massive old-growth forest clear cuts, and environmental groups created a strong movement for forest protection in the area. Towards the end of the 1990s, the forest industry understood the growing concerns of their customers, who responded to the environmental campaign, and decided to follow a new course towards resolving the conflict. At the same time - supported by a series of legal rulings that strengthened their rights and title claims to their unceded lands - First Nations began working closely together to re-assert a greater say over their traditional territories and decisions that affected their common challenges, such as employment and access to resources and economic opportunities.

In 2001, all parties agreed to a framework for resolving the conflict. Subsequent negotiations led to a landmark multi-party agreement in 2006, which included the following main agreements (Smith et al. 2009):

1) The establishment of a regional network of **protected areas**, to preserve the full diversity of habitats of the Great Bear Rainforest from logging and other industrial activities. These protected areas were designated Conservancies, a new designation created specifically to a) respect and protect the traditional uses and cultural values of First Nations; b) allow sustainable use to support their needs; and c) provide assurance to environmental groups of the protection of ecological values. The creation of Conservancies quadrupled the amount of protected area in the Great Bear Rainforest to 21,120 km2.
2) The implementation of **Ecosystem-based Management** (EBM) for land and resource management. Specific guidance for EBM was captured in an EBM Handbook and EBM Framework.

35 There are extensive written accounts and analyses, from different perspectives, of the conflict and the negotiation process that lead to its successful resolution. Since this is not the focus of this case study, only a summary as general background is provided here. The reader is referred to other studies for further detail, for example: Clapp et al. (2016) and Smith et al. (2009).

36 In addition, the Haida Gwaii covers 10,200 km^2, making for a total area of 74,200 km^2 served by Coast Funds.

3) The creation of the **Coast Opportunity Funds** (now called Coast Funds). The structure envisaged a privately funded conservation endowment to finance conservation management, science, and stewardship by First Nations, and public funds for a sinking fund to invest in sustainable First Nations' businesses.
4) A new **government-to-government relationship**, between the British Columbia government and the First Nations leadership, to foster shared-decision making and collaboration with stakeholders.

After almost 20 years of conflict and negotiation, the final agreements protected 85% of the Great Bear Rainforest from industrial logging and enhanced social-cultural-economic opportunities for the sustainable development of First Nation communities.

The Creation of Coast Funds

Coast Funds has the dual but interdependent goals of financing First Nations' efforts to preserve the ecological values of their homelands across the Great Bear Rainforest and finance the sustainable development of First Nations' local and regional economies. The need for both financial streams became clear during the negotiation process as one objective could not succeed without the other. Creation of Coast Funds provided the financial resources required by First Nations to support and implement the overall agreements.

The private funders for a planned conservation endowment were challenged to get creative to achieve the desired outcomes. Philanthropic organizations initially perceived the legal and political power of the First Nations as obstacles, but then they recast these as tools for successful implementation of their private interests. In a process that took longer for some funders than others, donors recognized that the funding structure needed to support more than strictly conservation activities. This was a critical evolution in the thinking of environmentalists and philanthropic private donors, from a fenced conservation model to a model that depended on the social, economic, and cultural well-being of the traditional caretakers for the resources to be protected.

The Province of British Columbia had a strong focus on economic development. It viewed the creation of the Funds as a major opportunity to engage in reconciliation with coastal First Nations and shift the regional economic model from a reliance on resource extraction by outsiders, to a model that was diversified, sustainable and would yield benefits to local communities. The commitment of the provincial government to the economic development funding was key to the success of the overall package, including the buy-in of the forest sector and the First Nations.

The Nature Conservancy (TNC) took the lead in the fundraising efforts to obtain private funding for the conservation endowment, under a PFP approach (Section 4.1.1a) that uses a single closing for all the funding (Linden et al. 2012). This

strategy was informed by the first landscape conservation finance deal of this kind, spearheaded by WWF to create the Amazon Region Protected Areas program. In the case of Coast Funds, the single closing involved: 1) securing the two streams of private and public funding; 2) the signing by First Nations' governments and the provincial government of the land-use agreements; and 3) the enactment of laws to implement the overall agreements. Figure 6-1 describes the resulting funding structure of Coast Funds.[37]

Figure 6-1. Description of the two funds in Coast Funds

Coast Funds		
	Conservation Fund (Endowment)	**Economic Development (Sinking Fund)**
Original capitalization	56 million CAD (permanent endowment) 2 million CAD (regional conservation planning fund)	60 million CAD
Funding Providers	The Nature Conservancy The William and Flora Hewlett Foundation The Gordon and Betty Moore Foundation David and Lucile Packard Foundation The Rockefeller Brothers Fund Tides Canada Foundation	Government of Canada Province of British Columbia
Legal structure	Coast Conservation Endowment Fund Foundation (charity)	Coast Economic Development Society (not-for-profit)
Main purpose	General income to provide ongoing funding to First Nations to support conservation science, resource planning, capacity development and related conservation management activities.	Under a private equity fund model (but with full ownership by First Nations, and no profits or loan repayment), invests in business development initiatives by First Nations in the Great Bear Rainforest and Haida Gwaii, in sectors with potential to support sustainable development and strengthen community well-being.

First Nations at the Heart of the Governance, Funding Allocation Mechanism, and Investment Policy of Coast Funds

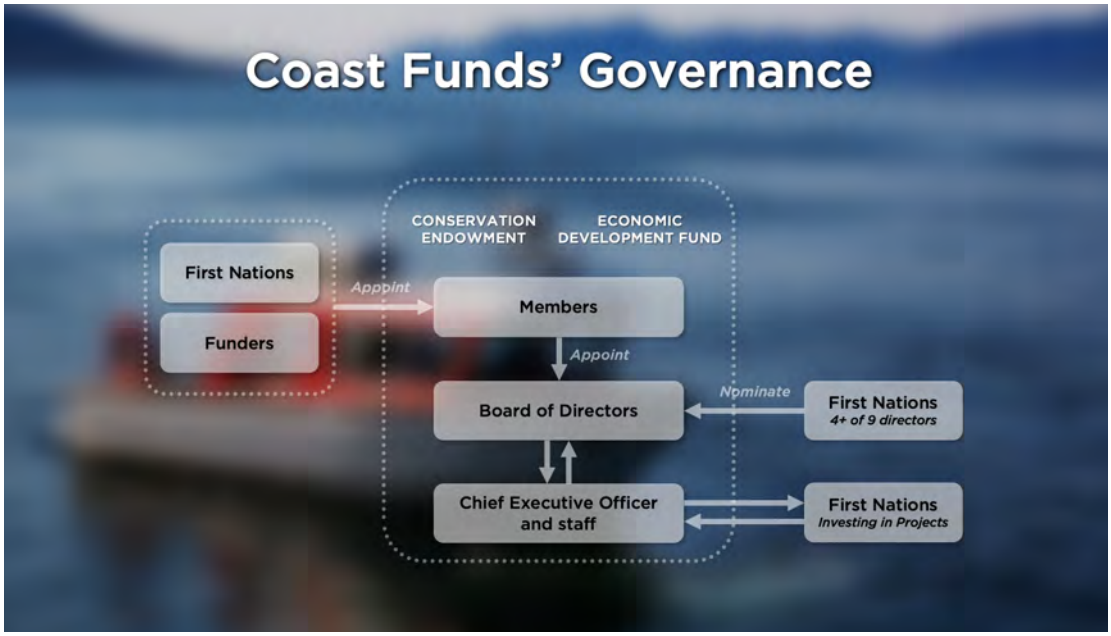
First Nations, the provincial government, and private funders worked together on the design of the governance structure and funding allocation mechanism of Coast Funds. More recently, the investment policy of the Funds has also been fully aligned with the Coasts Funds' mission, placing the rights and development of Indigenous peoples as central investment criteria. This section describes these three distinguishing pillars.

Governance

Over a period of three years, very intense discussions were held to design the governance structure. All parties needed a sound governance framework to advance their objectives. A balance had to be found to ensure the representation of all interested parties: four regional groups of First Nations, the private funders, and the provincial government. Figure 6-2 presents a diagram of the two-tier governance structure. The parties agreed that the Funds would share one set of Members, one Board of Directors, and one administrative organization led by one Chief Executive Officer (CEO), to ensure an economy of scale and the concerted achievement of the objectives of both Funds.

37 All monetary amounts listed in this case study are presented in the Funds' currency, Canadian Dollars (CAD).

Figure 6-2. Governance Structure of Coast Funds



(Guy 2020)

The **Members** meet annually to approve audited financial statements, appoint the auditor for the coming year, and appoint directors to the Board. This body is constituted by six voting members from each of the organizations involved in the Funds' founding, with none of them having overriding power: two nominated by First Nations, two nominated by private funders (one by TNC, and the other shared by the other private donors), and two nominated by the provincial government. First Nations also nominate two non-voting members. Decisions are adopted with a 75% majority, not by consensus.

A nine-member **Board** serves as the governing body**.** At least four of the directors are nominated by the four First Nations' regional organizations, one per sub-region. As a result, First Nations have a direct relationship with and on the Board, ensuring that governance decisions are informed by knowledgeable and connected individuals. The Board holds quarterly meetings, while some work is accomplished through sub-committees which report and make recommendations to the Board. Directors are nominated to the Board, and nominees are evaluated by the Board with a competency matrix that it maintains as per its bylaws. During the first years of operations, a number of initial directors viewed the Funds as a stakeholder Board, with each director appearing to represent their interest group. While the Funds were designed to be governed independently from the interests of the founding groups, the Board addressed this perception by implementing clear policies, including the Board competency matrix, to ensure good governance of the Funds.

The **CEO** (with six staff) is in charge of the day-to-day operations of the Funds, and acts as the main point of contact for the Board, First Nations, the provincial government, and partner organizations operating in the region. Staff members work directly with First Nations on funding applications and overall project coordination. They collaborate with First Nations' governments and companies, to ensure that Indigenous organizations have streamlined access to funds from the Foundation and the Society, while also ensuring the Board fulfills its fiduciary responsibilities when making project funding decisions.

The Conservation Investments and Incentives Agreement[38] provided that the shared costs of staff and resources are allocated to the Foundation and the Society, respectively, pursuant to written agreements. These costs are funded out of the earnings from the Foundation's endowment and the Society's fund, respectively, and cannot exceed 2% of the funds under management by the Foundation and the Society per year.

Funding allocation mechanism

Given the circumstances under which Coast Funds was established, the way in which funds from the Foundation and the Society are disbursed to beneficiaries vary from what is typically seen in other CTFs. First, only the 27 participating First Nations can access this funding, in accordance with the requirements and criteria for each of the Funds, as set out in the Conservation Investments and Incentives Agreement. Second, each Fund is a pool of sub-allocations, since upon establishment each participating First Nation was allocated the amount that it could receive from each of the Funds, which is set out in a schedule in the Conservation Investment and Incentives Agreement.

It was deemed important during the negotiations that First Nations should not have to compete among themselves for funding, and that Coast Funds would not have to make decisions of how to allocate funding among First Nations. Therefore, each participating First Nation was allocated a specific amount that it could receive for eligible projects under each Fund. The allocation method was intended to incentivize higher levels of conservation, by providing more benefits to First Nations that committed to higher levels of biodiversity protection. The formula used considered high biodiversity areas, connectivity, and population. As a result, First Nations with the largest conservation area potential received the largest allocations, while First Nations whose lands have been impacted more intensely by development received lower allocations.

While the initiative to submit conservation projects and economic development projects rests with the First Nations – they decide if and how they want to

38 The Conservation Investments and Incentives Agreement entered into in 2007 (and amended from time to time) between the Coast Conservation Endowment Fund Foundation, the Coast Economic Development Society, and the Private Funders.

invest their allocation – they must adhere to the agreed-upon funding criteria to ensure that the Funds' objectives are met. This resulted in a slower than expected disbursement level from the Funds in the start-up stage, since First Nations first had to internally agree on their conservation and development priorities and prepare work plans before they could submit projects for funding. First Nations had to engage community members to define their priority needs and design projects. This process required institutional and technical capacity. During this period, the Funds assisted First Nations on topics such as strategic planning, work plan development, financial planning, and project management.

Given that project design is an Indigenous-led process at the community level, individuals present proposals to their First Nations government for approval prior to submission to Coast Funds. In this model, the Board holds a fiduciary responsibility to ensure that the submitted projects are well-conceived, in line with the Funds' funding criteria and objectives, and that appropriate safeguards are in place. The Funds and First Nations also work together to make recommendations for new projects based on lessons learned from previous projects.

Mission aligned investments

The Conservation Investments and Incentives Agreement mandated that the investment policies and guidelines of each of the Funds include a negative asset list and a screening process to take into consideration social, environmental, and Indigenous elements. The Funds are obliged to retain investment managers with the ability and expertise to implement social, environmental, and Indigenous screens. Coast Funds has implemented this mandate in its investment policy and guidelines, and has further aligned its investments with the Funds' mission and values, including reconciliation, through the following approaches:

a) Divestment from tar sands oil. The Board rapidly took this decision in 2009, based on the risk this industry creates for Indigenous communities and the ecology of the region.
b) Shareholder proxy voting guidelines to vote in the companies they invest in, using the following principles:
   i. Ensure the Free Prior and Informed Consent of Indigenous Peoples in these companies' projects and businesses, as well as adoption and adherence to the United Nations Declaration on the Rights of Indigenous Peoples. This Indigenous rights-based approach to shareholder engagement is unique to CTFs, and other foundations, globally.
   ii. Respect human rights based on the principles of the UN's declaration of Human Rights, the conventions of the International Labour Organization (ILO), or the Canadian Charter of Rights and Freedoms.
   iii. Improve sustainability and social issues or adopt internationally accepted social and sustainability standards and norms.
   iv. Disclose climate risk mitigations and support the 2°C objective of the Paris Accord.

c) Indigenous-led impact investment strategy, to support First Nations stewardship while furthering the Indigenous economy, including:
   i. Invest directly in Indigenous-owned renewable energy infrastructure projects. Coast Funds is co-owner, through a private infrastructure fund, of the hydroelectric facilities that the Tahltan Nation recently developed in their territories. This investment is regarded as the largest clean energy investment by a First Nation in Canada.
   ii. Generate investment returns from ownership of solar farms across Canada and a major wind energy project owned by three First Nations on Vancouver Island.
   iii. Focus the bond holdings of the Funds on the Indigenous owned First Nations Finance Authority that provides lending for, amongst others, clean water projects in First Nations communities.

This mission aligned investment strategy has not compromised the returns of the Coast Funds' investments. On the contrary, it has made its investments more resilient, even now in the face of the Covid-19 pandemic. Since 2009, Coast Funds' endowment has generated more than CA$61 million in earnings from investments, with return rates ranging between 0.5% and over 18%, consistently outperforming their benchmarks. These steadily strong return rates have enabled Coast Funds to set aside a reserve of CA$4 million (plus CA$5.7 million unrealized gains), that form a reliable source of self-determined sustainable finance to face economic crises (Guy 2020).

Key Measurable Achievements

As of April 2020, Coast Funds had CA$117 million in assets under management consisting of CA$86 million in the conservation fund and CA$31 million in the economic development (sinking) fund. This amount is just CA$1 million lower than the combined original capitalization of the Funds (Guy 2020), despite spending CA$29 million from the economic development fund over years. In the same period, Coast Funds has approved CA$100.7 million towards 395 conservation and sustainable economic development projects (Coast Funds, 2020a). This investment has leveraged an additional CA$220 million in direct investments in First Nations communities from other sources (Guy 2020).

In addition to these financial milestones, Coast Funds, in partnership with the First Nations, has established a learning framework to understand the environmental conservation, economic prosperity, social empowerment, and cultural vitality impact of the Funds' investments, through a set of 20 well-being indicators. The Funds have had major successes both in terms of well-being and conservation,[39] of which just a few are highlighted here. All involved parties believe that the combined investments in sustainable economic development and conservation capacity have generated far more impact than anticipated.

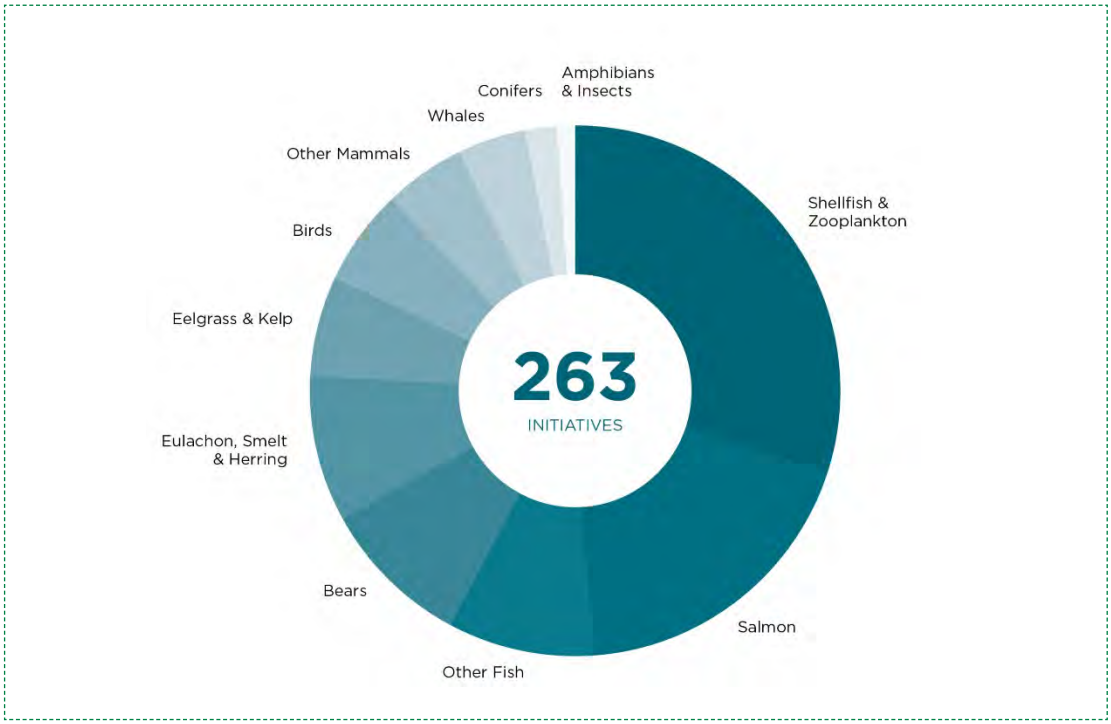
39 For a complete overview see https://coastfunds.ca/community-well-being/ and Coast Funds' 2019 Annual Report.

Conservation

Since the Funds' establishment and the enactment of the new legislation and land-use policies, 195 conservancies and nature parks have been created. These are quite expansive areas, protecting watersheds, large ecosystems, and landscapes. First Nations have thus far conducted conservation work in 45% of them (87 protected areas). These activities include land- and marine-based stewardship, research and restoration initiatives, protected area management plans, and monitoring activities (Coast Funds 2020a). In addition, First Nations capture their own data on the ecological and environmental impacts of their conservation activities, but these are not reported or aggregated at the Funds' level.

As shown in Figure 6-3, First Nations have conducted 263 scientific studies or habitat restoration initiatives, on 58 different marine and terrestrial species (Coast Funds 2020b).

Figure 6-3. Species research and restoration initiatives by First Nations with funding from Coast Funds



(Coast Funds 2020b)

Coast Funds has funded the operation of 16 different regional monitoring and guardian watchmen programs operated by First Nations governments, which patrol, survey, and collect data from marine and terrestrial environments, covering on average 3.5 million hectares annually (Coast Funds 2020a).

Overall, each First Nations government is re-asserting its inherent authority across its lands and waters in different ways. Coast Funds' staff members have observed an increase in strategic planning, use of technologies, and expression of authority as a result of the sustainable finance First Nations governments access from the Foundation (Guy 2020).

Economic prosperity, social empowerment, and cultural vitality

Funding provided by Coast Funds has generated 1101 permanent jobs. The projects it has financed employ 13% of the First Nations workforce in the Great Bear Rainforest area (Guy 2020). This has directly resulted in increases in family-supporting incomes in First Nations communities compared to 2006, having almost doubled for some of them (Guy 2020).

The growth in First Nations businesses and endeavors has also spurred a language and culture revitalization. For example, youth are engaged in traditional performances for tourists, and 44 projects have been undertaken to increase knowledge about First Nations languages. Furthermore, the growth of the Indigenous economy has reduced emigration from First Nations' communities, and people that have previously left are returning home.

Social cohesion amongst First Nations, particularly around stewardship and conservation, has also solidified, as project implementation has increased the dialogue between the different First Nations and fostered higher levels of collaboration. The Indigenous public service in communities has also grown, with First Nations governments taking a more active role in the day-to-day management of their territories. This is observed through well-functioning stewardship and resource management offices and the First Nations engagement with external parties involved in activities such as logging and mining, consistent with their vision of territorial stewardship. This development of Indigenous self-government capability for stewardship is an unprecedented achievement in Canada, contributing greatly to strengthened expression of Indigenous rights and cultural revitalization.

Challenges and Lessons Learned

Over ten years of operation have demonstrated that the interlinked conservation and sustainable development finance model adopted by Coast Funds has successfully generated long-lasting conservation results that contribute directly to Indigenous well-being. Sustainable funding from Coast Funds has helped create a conservation-based economy that has supported development of sustainable businesses, which has strengthened both ecological management and ecotourism businesses. There are also healthier populations of bear and other species, and greater abundance in those ecosystems where Indigenous peoples have active projects.

This success is also due to an organizational structure that is Indigenous-led and supported by a strong and skilled Board, making it possible for a relatively small staff to manage the daily operations of the Funds. The clear mission and purpose of the Funds has also enabled the Board and the CEO to focus Coast Funds' resources to serve First Nations, without engaging in other activities that may not strictly fit within the purpose of the creation of the Funds, such as policy development and international outreach.

The funding allocation mechanism has generally worked well, as it avoids competition among First Nations for the funds and relieves administrative staff from the burden of overseeing calls for proposals and grant allocation processes. This allows the staff to focus on service to First Nations, support for project implementation, and the monitoring and reporting of project outcomes. However, there is now a realization that the method chosen to calculate the allocations between First Nations was too focused on conservation potential, and did not consider aspects such as restoration or ecosystem based management, which is mandatory under the resource management legislation created for the Great Bear Rainforest and Haida Gwaii by the provincial government and First Nations. This has resulted in less funding to First Nations with territories with less protection potential and a shortfall in their ability to invest in conservation or restoration. As an unintended consequence, these First Nations have experienced relatively less positive change in well-being and self-driven governance over the past decade.

Despite its successes, Coast Funds had a challenging start-up stage in which the Board came together to start operations without any support staff or operational guidelines and policies. From this experience, the Funds' founding director stressed the importance, when creating a CTF, of ensuring that there is strong organizational capacity from the beginning of operations to prevent losing valuable time and efforts in getting the work started.

Going forward, the Funds' greatest challenge is the dissolution of the sinking fund for economic development, given the historical interdependence with the conservation endowment. Even though this funding has lasted longer than originally expected,[40] it is envisaged that the fund will be fully expended in the next four years. The First Nations have requested that Coast Funds investigate how it can continue offering valued services, respecting the principle of Indigenous self-determination, beyond the dissolution of the economic fund.

The Coast Funds' model has provided inspiration for conservation finance solutions in other regions of the world, where conservation efforts are linked to communities in poverty, with social challenges, and where natural resources are facing, or under threat of, unsustainable exploitation. However, specific local

40 The economic development fund was designed to be fully spent over time. Different from other PFPs, Coast Funds was not fully-costed. Analysis of the full cost was estimated in the hundreds of millions CAD (Guy, 2020).

needs, legal frameworks, political, social and environmental circumstances, and potential sources of funding will always need to be carefully considered. In the case of Coast Funds, its establishment was enabled by a series of social, environmental, legal, and political factors (described briefly above), including the contribution of the anchor sustainable development funding by the federal and provincial governments. In other countries where governmental funding might not be viable, funding with a similar purpose could be sought through other means such as bilateral or multilateral cooperation, or debt-relief initiatives. It is also key to understand that this model is based on empowering the communities to self-determine their needs and priorities within certain broad parameters, with the CTF providing an enabling, capacity building, and supporting role.

This case study was made possible thanks to the materials provided by Coast Funds, the interviews with Merv Child (Coast Funds' Founding Director, and Executive Director of Nanwakolas Council), Chris Trumpy (Coast Funds' long-standing Director, and former Deputy Minister of the Ministries of Environment and of Finance of the provincial government), Ross McMillan (lead for the Coast Funds' private funders, and former CEO of the Tides Canada Foundation), and special thanks to Brodie Guy (Coast Funds' CEO) for his overall coordination, input, and feedback.

Case Study 4: Fondo para la Acción Ambiental y la Niñez (Fondo Acción): Evolution of Private Sector Engagement Strategies

Acronyms used in the case study	
CDM	Clean Development Mechanism
CIPAV	Center for Research on Sustainable Agricultural Production Systems
CSR	Corporate Social Responsibility
CTF	Conservation Trust Fund
FEDEGAN	Colombian Federation of Cattle Ranchers
FIMI	Fondo de Inversiones Misionales de Impacto – Mission-related Impact Investment Fund
NDC	Nationally Determined Contribution
NGO	Nongovernmental organization
PES	Payment for Ecosystem Services
PSE	Private sector engagement
REDD+	Reducing Emissions from Deforestation and Forest Degradation
TNC	The Nature Conservancy

The Fondo para la Acción Ambiental y la Niñez (*Fondo Acción*, or *Fondo*) was established in Colombia in August 2000 as a private non-profit foundation. It started administering the first bilateral debt swap between the governments of the United States and Colombia, from the Enterprise for the Americas Initiative. Since then, the Board and Executive Directors have positioned Fondo for growth as an efficient, transparent and cost-effective administrator of environmental and child development funds. As of 2019, Fondo Acción managed a platform of over 20 Program Accounts, with an endowment portfolio of US$48.5 million, supported by a team of 29 staff. This case study explores how Fondo Acción became an early adopter of innovative finance mechanisms with private sector engagement through initiatives such as financing rural productive enterprises, influencing carbon markets, and impact investing.

Background

Fondo Acción has been increasingly and adaptively investing in private sector engagement (*PSE*) strategies, rooted in the conviction that conservation on its own is not viable when confronted with rural communities with significant socio-economic needs. It has aligned its current strategic plan (2017-2020) to Colombia's peace process, which also focuses on the importance of strong rural development. Based on these strategic decisions, Fondo has invested heavily in three PSE strategies:

i. Finance community-based and rural productive enterprises;
ii. Influence biodiversity compensation and carbon markets;
iii. Impact investing.

In this case study, 'private sector' refers broadly to enterprises that undertake a commercial economic activity, from small community-based producers to large corporations, with a range of profit-seeking profiles. For each strategy, example programs are highlighted to showcase their evolution over time, different PSE approaches, how a CTF can be positioned to take advantage of these opportunities, and how working with different segments of the private sector can lead to transformational change. Diagrams present the main features of each example, based on a theoretical framework (Lampman unpublished) to standardize the characterization of the widely diverse possibilities of PSE. This framework is presented in Annex 4.

KEY CHARACTERISTICS OF FONDO ACCIÓN THAT HAVE ENABLED IT TO PLAY THE ROLES DESCRIBED WITHIN THESE PSE STRATEGIES:

- **Legal nature**: Being a private and independent organization gives confidence to donors and the private sector. Because it manages two debt-for-nature swaps, Fondo Acción has a strong board with diverse representation, including from the Colombian and U.S. governments.
- **Quality management system**: Internal controls and policies that increase the accountability of the CTF, guide the management of technical and financial information, and support Fondo's cost structures for project administration. Fondo Acción's accreditation to the Green Climate Fund and the World Bank underscores the quality of its internal systems and processes.
- **Government relationship:** Fondo Acción works closely with the Government to build productive relationships with all sectors. Fondo Acción aligns its projects and programs with national, regional, and local development goals.
- **Adaptability:** Fondo Acción adapts readily to the needs of its clients and partners but is strict with compliance of its rules and the quality and the impact of its actions. It has a clear set of operating rules, with defined spaces for decision-making and follow-up. It does not approach its clients and partners with a preconceived recipe but is open to jointly designing a project based on the needs at hand.
- **Capacity-building:** Fondo Acción has a commitment to building the capacity of partner communities and businesses, thereby increasing the sustainability of Fondo's actions and supporting partners' access to other funding sources.
- **Track record:** Fondo has a long history of working on environmental and childhood issues.
- **Efficiency:** Strong policies and procedures have increased efficiency through quick processes, such as Fondo's calls for proposals process and its relations with the private sector.
- **Inclusive:** There is a commitment to build processes that link initiatives and stakeholders to achieve broader and more sustainable results**,** rather than focusing only on specific targets or objectives in a program-by-program approach.
- **Risk Management:** Fondo Acción steps-up to new challenges and manages risks with mitigation strategies.

Finance Community-based and Rural Productive Enterprises

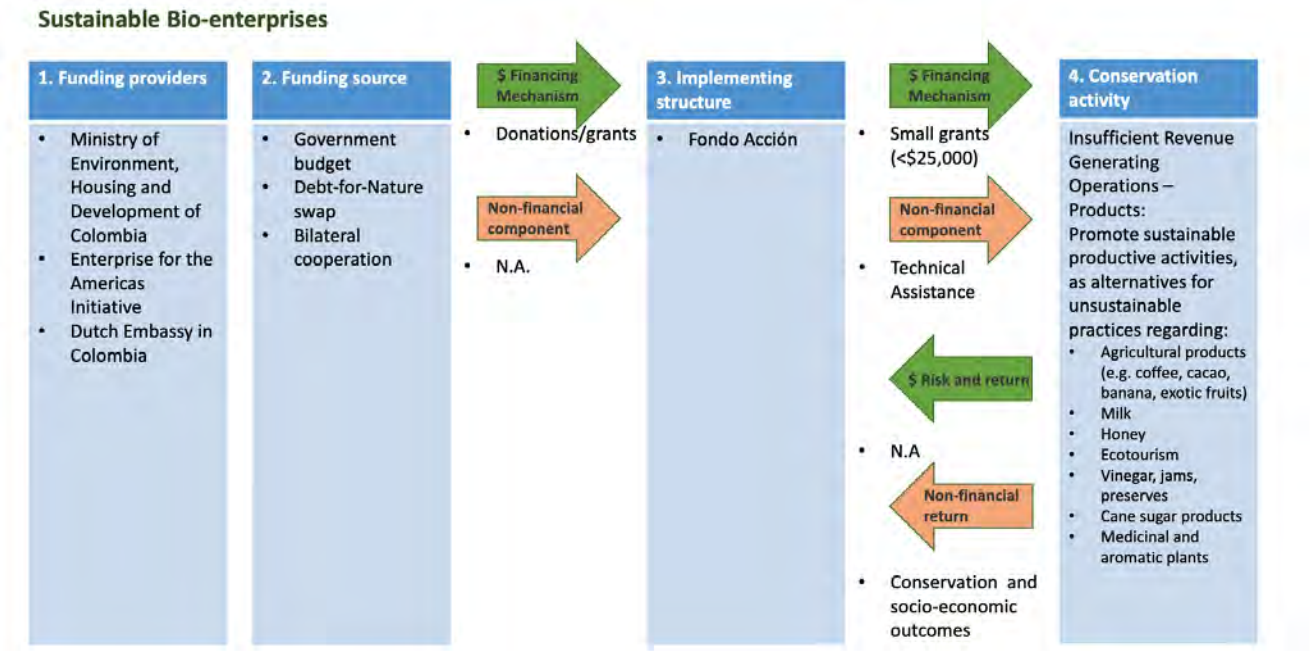
Since its establishment, Fondo Acción has implemented innovative financing mechanisms to generate income alternatives for rural producers and support sustainable landscape management. Fondo has expanded its role from second-tier financing, to provide technical support, organizational strengthening, and capacity building. This evolution has also meant an increase and diversification of Fondo's staff, to include expertise in, for example, marketing, business models, and value chains. Currently, Fondo Acción supports partners and allies with technical, legal, and administrative expertise, from the legal establishment of a business to the improvement of their value chains to reach more developed markets.

Sustainable Bio-enterprises

The Sustainable Bio-enterprises Program (*Bionegocios Sostenibles*) started in 2007, as an accelerator effort to improve the profitability of environmentally beneficial community enterprises that contribute to conservation efforts and social development. Participating enterprises were limited in their market entry, production capabilities, and ability to meet legal requirements. Most operated informally. The Sustainable Bio-enterprises Program allowed them to formalize their operations and open the door to new markets, for example through finance and support for equipment improvements, sanitary and brand registration processes, compliance with legal requirements, quality control systems, and organic and fair-trade certifications.

Figure 6-4 shows that traditional financing, such as donations and grants, was received by Fondo Acción and then re-granted to the community enterprises. In addition to the financial component, beneficiaries also received technical assistance. The program was not designed to generate financial returns for Fondo or the donors, so the conservation and social outcomes represent the most important non-financial returns.

Figure 6-4. Schematic description of the Sustainable Bio-enterprises Program 2007- ongoing.



Amount disbursed/administered by Fondo Acción up to June 2020: US$1.6 million[41]

In total, 23 bio-enterprises benefited from this program, of which an important sample has been captured in a portfolio compiled by Fondo Acción (Fondo Acción 2007). Fondo representatives mentioned the following as the main impacts:

- Change of perception of alternatives for unsustainable natural resources use, towards a sustainable use perspective that also generates a commercial and economic benefit;
- Community benefit sharing;
- Access by enterprises to additional financial resources;
- Increased access to artisanal or local markets;
- Increased access to international markets, like Canada and Japan; and
- Empowerment of producers to better value their products and reduce dependency from buyers dictating commercial terms.

Value chain strengthening

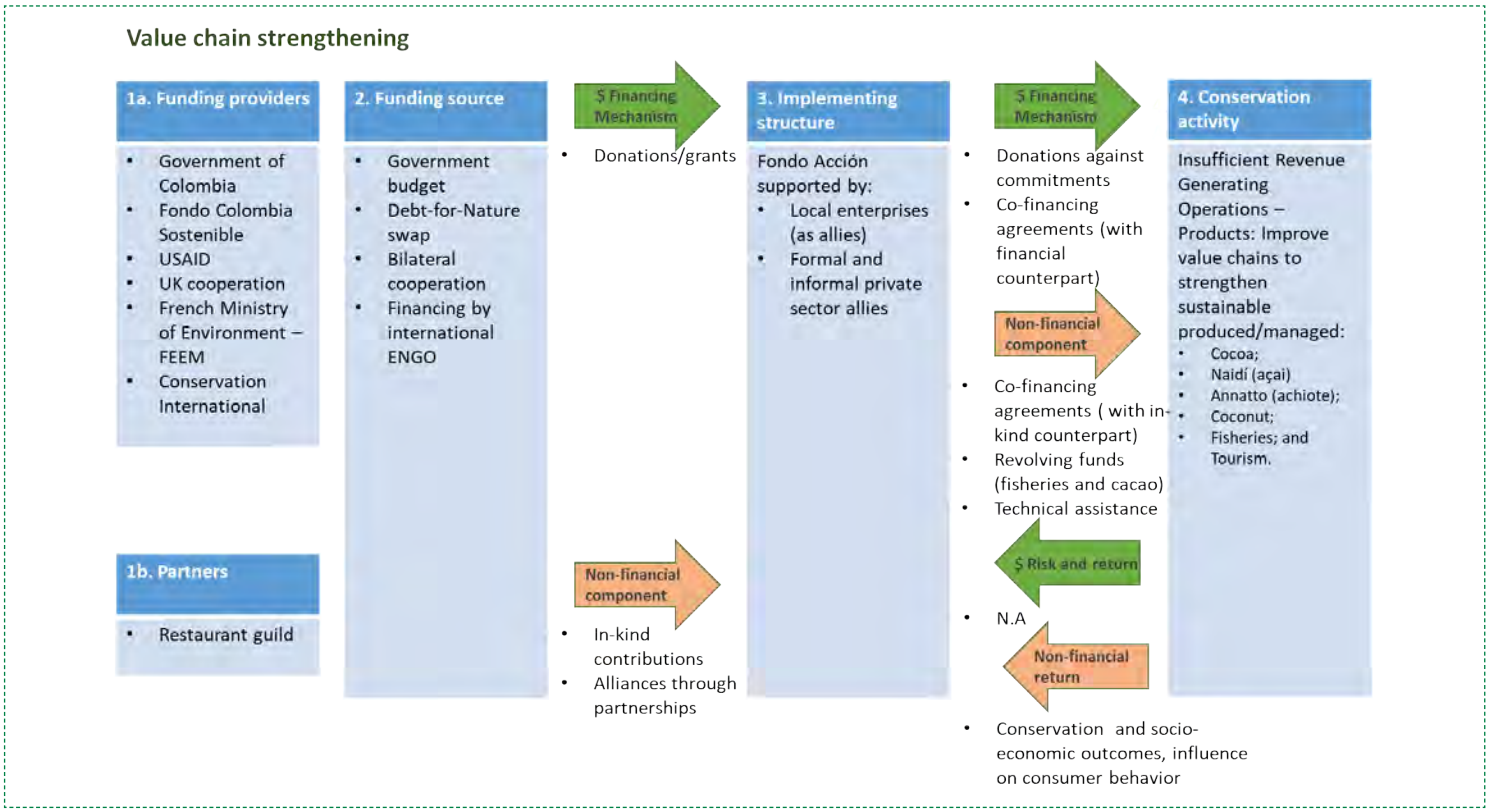
Sustainable Bio-enterprises branched out to strengthen value chains in 2015. This sub-program has a more integrated business approach, wherein Fondo Acción

41 This is the total amount for the Sustainable Bio-enterprises and the value chain strengthening programs, together.

connects producers with target and segmented markets. The program provides financial resources and technical assistance to enable small-scale producers to scale up to a level at which they can access investment or credit from the private or financial sector. Business round tables have been organized within the program, and Fondo Acción has partnered with reputed impact investors, such as Acumen, and consumer guilds (such as gourmet restaurants) to support specific value chains.

Figure 6-5 shows the engagement with the private sector, through direct (non-financial) support from private sector consumers, such as restaurants and a cosmetics company. The financial mechanisms used by Fondo Acción leverage resources or commitments from the beneficiaries, either through their commitments in the execution agreements for the donations, or by providing co-finance (in-kind or financial). Revolving funds, like in the case of forestry, cocoa, and fisheries, are also underway, whereby income generated is converted into working capital and re-invested by the producers. Conservation and socio-economic outcomes continue to represent the main return, while the sustainable fisheries program has also influenced consumer behavior. Financial returns for the funding providers were not part of the objectives.

Figure 6-5. Schematic description of the value chain strengthening program. 2015- ongoing.



Amount disbursed/administered by Fondo Acción up to June 2020: US$ 1.6 million[42]

42 This is the total amount for the value chain strengthening and the Sustainable Bio-enterprises Programs, together.

The program has so far strengthened the value chain of the six products listed in Figure 2, and has engaged diverse producers, such as Naidiseros del Pacífico SAS, cocoa and coconut producer associations, and fishers' associations. The fisheries program, co-financed by Conservation International, began with support to the fishing communities and consumer education. The fishing communities benefit from facilitated direct entry to the market, while urban consumers gain access to more sustainable fish products, such as the 'catch of the day.' Fondo Acción contributes its ability to link traditional and artisanal activities with (i) sustainable fishing best practices, and (ii) a market chain that represents higher income to the communities living in the conservation areas and reduced expenses on intermediaries.

The main conservation results achieved are: 1) reduced pressure on native terrestrial and marine biodiversity; 2) established conservation areas within farms (such as live hedges, corridors along rivers and streams); 3) adoption of best practices for sustainable production/fishing; and 4) commercial use of non-timber forest products (with high environmental and income returns).

Sustainable Colombian Cattle Ranching Program

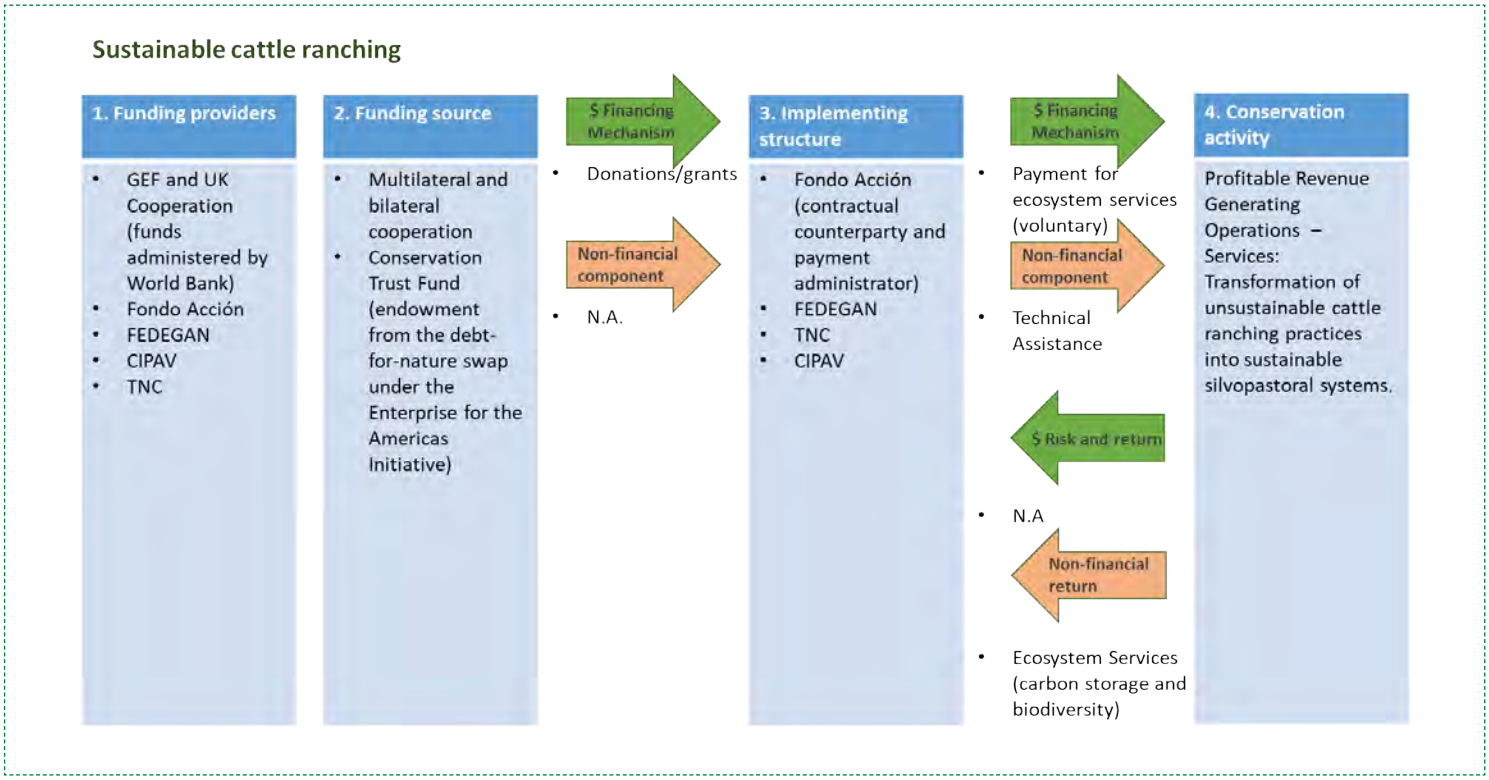
From 2010 to 2020, Fondo Acción served as the financing mechanism for the Sustainable Colombian Cattle Ranching Program *(Ganadería Colombiana Sotenible*), a large-scale effort with a total value of US$34.4 million. The Colombian Federation of Cattle Ranchers (FEDEGAN), The Nature Conservancy, and the Center for Research on Sustainable Agricultural Production Systems (CIPAV) were the other partners. The main objective was to transform traditional unsustainable cattle ranching practices into sustainable silvopastoral production systems, while demonstrating that these practices also improve productivity. A payment for ecosystem services (PES) program, focused on biodiversity provided by participating ranches, was designed as an incentive to support the ranchers financially and technically, while the improved practices produced economic results (which could take up to three years).

Fondo Acción administered the payments under the PES scheme, based on individual contracts with the ranchers, and provided legal support required for the program's implementation. Payments to the ranchers were made in four instalments based on their conservation efforts and the land use changes measured during the program. The first one was a baseline payment, established to avoid perverse incentives for deforestation and recognize conservation efforts, and the other three were ex-post performance-based payments.

As can be seen in Figure 6-6, while traditional sources of funding were deployed, the PES scheme represents a more innovative approach through payments intended to incentivize the cattle ranchers for the risk they were taking by re-converting some of their land into sustainable cattle farming practices. In this case, while there is no financial return, there is a more direct return for the

payments, namely the ecosystem services (carbon storage and biodiversity) provided by the sustainable measures adopted by the participating cattle ranchers. The active participation by a private sector organization, FEDEGAN, in the implementation can also be considered an innovative feature.

Figure 6-6. Schematic description of Colombia Sustainable Cattle Ranching program 2010-2020.



Amount disbursed/administered by Fondo Acción (PES payments) up to June 2020: US$3.2 million.

This is the largest effort to promote more sustainable cattle ranching undertaken in Colombia so far. It has served 4,100 beneficiaries in five regions of the country that cover 83 municipalities in 12 administrative departments. To date it has impacted 100,515 hectares for more environmentally friendly production.

At the policy level, the Sustainable Colombian Cattle Ranching Program:

- Contributed to the strengthening of the Sustainable Ranching Group;
- Sparked a broad range of inter-institutional coordination on the topic;
- Informed the development of the national policy on PES; and
- Funded the design of the cattle ranching Nationally Appropriate Mitigation Action for Colombia and supported Colombia's Nationally Determined Contributions (NDCs) to the climate change goals, as presented in Paris.

For Fondo Acción, execution was an important administrative, financial, and legal challenge. The program enabled them to strengthen their financial operations and gain experience in managing large-scale projects and one-on-one contracts with individual cattle ranchers. Donors were particularly appreciative of the safeguards that Fondo Acción provided.

Influence Biodiversity Compensation and Carbon Markets

The experience with rural sustainable development, described above, positioned Fondo Acción to engage in Colombia's emerging environmental markets: carbon and biodiversity compensation.[43] In the early 2000s, Fondo made a visionary strategic decision to engage with the corporate private sector, after undertaking a reputational risk analysis. Working with extractive companies or large corporates was not common for Colombian NGOs at the time. At the onset of this private sector engagement (PSE) strategy, Fondo recognized that even though they were engaging with entities whose activities could be perceived as controversial, they could work together to improve extraction practices.

In practice, Fondo Acción's corporate PSE strategy was initiated within the framework of Corporate Social Responsibility (CSR). Large firms, such as mining and coal companies, found in Fondo an efficient way to focus their CSR investments, gain better acceptance, and generate more impact. This partnership also provided them with greater credibility, reputation, and traceability, because Fondo audits its activities and guarantees follow-up and reports.

Building on those CSR relations, Fondo Acción further started to promote voluntary PES schemes, as a co-financer. In these PES schemes, Fondo makes the disbursements and provides technical and administrative assistance to local organizations directly linked with the landowners that provide the ecosystem services. One example is the payment for water provision (environmental services), whereby a hydroelectric company benefits from the protection activities that service providers – the owners of the relevant properties – undertake to maintain water quality and quantity. Payment is made directly between the two parties, but Fondo facilitates the link. It also acts as a high-risk financer, providing the financing to start the schemes when it is difficult for another entity to intervene, thereby leveraging resources to mobilize stakeholders who later on can continue with the program.

43 This compensation for biodiversity loss is discussed in this section, since in Colombia this mechanism is considered part of Colombia's environmental markets (Fondo Acción et al. 2016). This is mainly because many of the compensatory obligations are executed through PES schemes between the compliance company (directly or through a third party) and the owners of the lands where the compensatory conservation takes place. In Spanish, there is no direct translation for offsets, but this compensation scheme is a biodiversity offset scheme, since the hectares to be protected through any of the modalities legally prescribed are meant to offset the effects caused by the licensed activity. However, the term 'compensation' is used here as it is closer to the term used in Spanish for this mechanism.

Compensation for biodiversity loss scheme

In 2012, when Colombia adopted a legal framework[44] to compensate for biodiversity loss in mining and infrastructure projects, companies with an established CSR relationship with Fondo Acción sought to continue the collaboration. Colombia set a mandatory requirement for companies undertaking licensed projects, works, or activities to compensate for negative impacts on biodiversity that cannot be avoided, mitigated, or corrected through design and implementation measures. The compensatory obligation is established as a number of hectares to be conserved, reforested, restored, or managed at a landscape level (Fondo Acción et al. 2016).

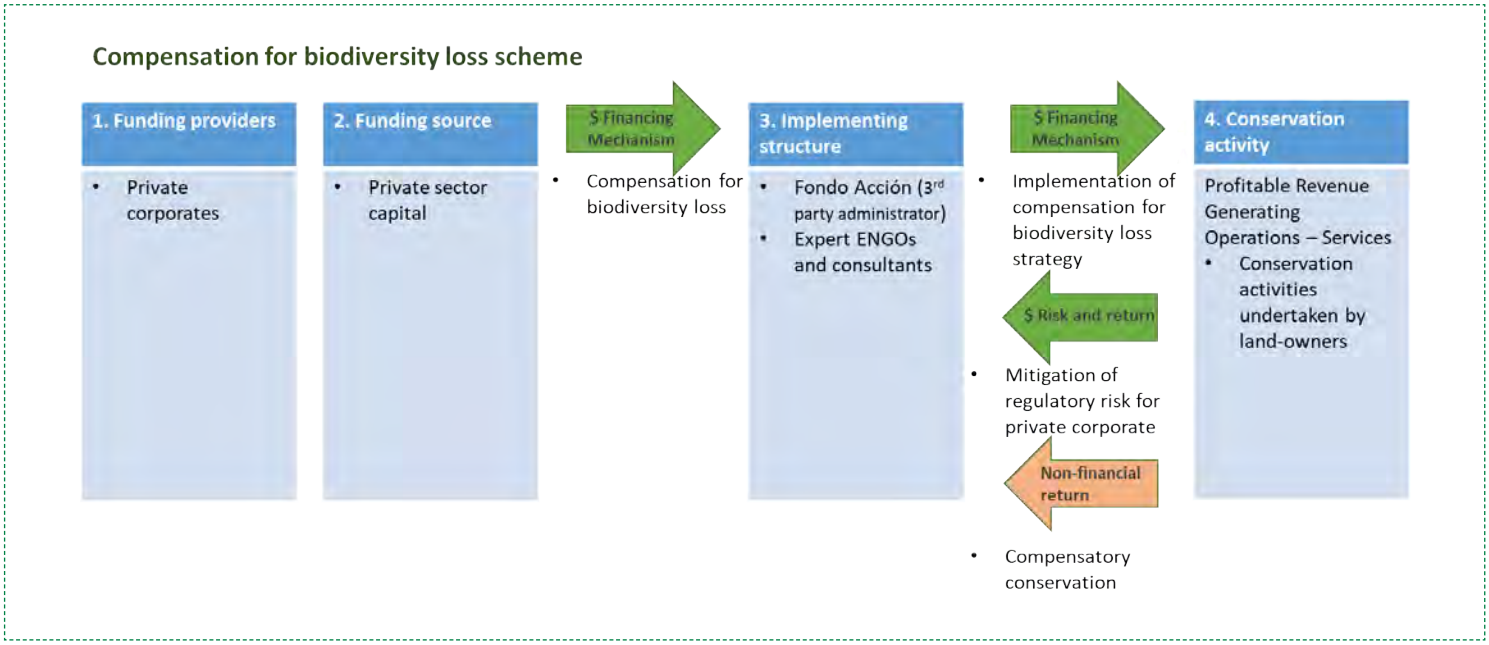
Fondo Acción has defined general guidelines and a strategy to ensure sound compensation activities beyond mere compliance. Companies recognize this as a beneficial and cost-effective alliance to fulfill their environmental obligations and achieve the anticipated results.

Companies can undertake the compliance activities directly or through a third party, which, in some cases, has been Fondo Acción. The company then submits to the authorities a certification of the actions undertaken. For example, for Anglo Gold Ashanti, Fondo Acción coordinated the work of a team composed of Conservation International, Wildlife Conservation Society, and Forest Trends experts, to design an environmental compensation plan for a mining operation in the Colombian Andes. The compensation strategy was designed to enhance the sustainability of the investments as well as generate social and environmental benefits, going further than what would be required to fulfil the already rigorous standards in the Colombian legislation.

There are no direct financial returns, for the corporations or environmental NGOs, resulting from the activities undertaken. However, by compensating for biodiversity loss through this scheme (Figure 6-7), there is an actual economic benefit for the private corporations, as without the mandatory compensatory activities, a company would not be legally able to operate the licensed activity or project.

44 Regulated in the Manual for the Determination of Compensations for Biodiversity Loss, adopted by Resolution 1517 of 2012.

Figure 6-7. Schematic description of Fondo Acción's involvement in the mechanism of compensation for biodiversity loss 2005-ongoing.



Amount disbursed/administered by Fondo Acción up to June 2020: US$2.1 million.

Carbon markets and REDD+ projects

In the past, Fondo Acción and the Centro de Desarrollo Limpio (Clean Development Center) allied to support the development of projects under the Clean Development Mechanism (CDM) of the Kyoto Protocol (Fondo Acción 2010) in Colombia. The alliance supported Colombian CDM project owners, and Fondo Acción actively promoted Colombia's CDM projects internationally. More recently, Fondo Acción's participation in the carbon markets has revolved around community projects for Reducing Emissions from Deforestation and Forest Degradation (REDD+).

Colombia participates in three carbon markets: 1) the international compliance market between governments with CO^2 reduction obligations; 2) the internal market associated with the carbon tax (established by law no. 1819 of 2016); and 3) the international and internal voluntary carbon markets. Fondo Acción participates in the voluntary markets and in the internal market associated with the carbon tax, and estimates that it has been involved in transactions for over six million tons of $C0^2$ covering approximately 700,000 hectares of forest.

- In the **voluntary market**, Fondo Acción has been involved in five carbon offset purchases, equal to a total of 155,104 tons of avoided CO^2 emissions, with an estimated value of US$753,132. Most buyers are private sector platforms that serve international clients. Fondo's roles in these transactions comprise

marketing to potential buyers, proposal preparation, price negotiation, due diligence, process contract preparation and translation, and registration with the Markit environmental registry.

- In the **market associated with the carbon tax**, Fondo Acción has participated in nine carbon offset purchases, equal to a total of 1,255,934 tons of avoided CO^2 emissions, representing a value of US$5.8 million. Fondo also has ongoing negotiations with several carbon brokers. The roles of Fondo in this market are similar to the ones described above. It is worth mentioning that companies subject to the carbon tax are not obliged to buy carbon offsets but can choose to use them in lieu of paying the carbon tax. Despite this voluntary character, representatives of Fondo Acción indicated that currently a high demand for carbon offsets in the Colombian market surpasses the existing supply.
- All these carbon offset transactions are part of a REDD+ community project portfolio, which encompasses nine projects in one Indigenous community and 18 Afro-Colombian territories.

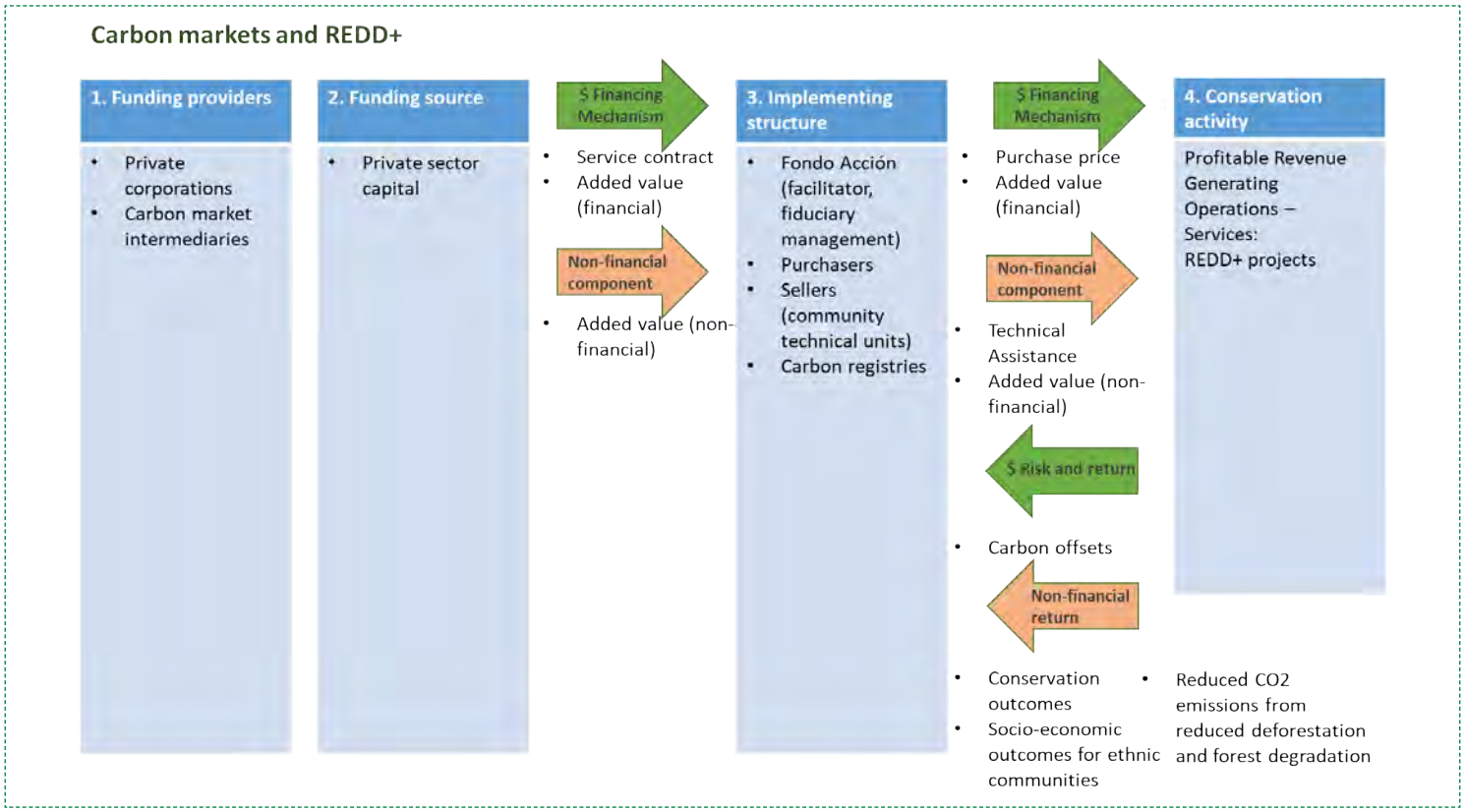
Besides the carbon related revenues, this portfolio has a high sustainable development value because ethnic Colombian communities own and implement the projects. Each REDD+ project has a technical unit composed of community members trained and paid by Fondo Acción, with the goal that these units will in time fully manage each project.

Fondo Acción has supported the development of REDD+ in Colombia since 2009, with its readiness and capacity building efforts. Its main activities in this area to date include:

- Conducted capacity building on climate change and REDD+ with indigenous communities in the Amazon in 2009.
- Designed a REDD+ standard with Columbia University and four more Conservation Trust Funds in South América between 2010 and 2012.
- Participated in a national NGO group for REDD+ readiness, providing technical input to the Ministry from 2010-2014.
- Administered the Forest Carbon Partnership Facility (FCPF) resources to prepare Colombian Readiness proposal, and the UN REDD+ resources for capacity building.
- Supported USAID in capacity building efforts in 2013 with their REDD+ portfolio communities, the largest portfolio in the Choco bioregion. These projects are now administered by Fondo Acción and are selling carbon offsets in the internal market.
- Administered the payments and support with the procedural manuals and capacity building for COCOMASUR, a community council of Afro-Colombian communities.

As shown in Figure 6-8, as part of the negotiation of the carbon offset purchases, Fondo Acción negotiates with buyers the inclusion of an added value on top of the purchase price. This added value could be financial or non-financial. Some examples include: financial education for Community Councils (sellers); due-diligence and learning exchanges; capacity building modules about child rights; and additional donations.

Figure 6-8. Schematic description of Fondo Acción's involvement in Colombia's carbon markets with respect to REDD+ projects 2012-ongoing.



Amount disbursed/administered by Fondo Acción up to June 2020 (only with respect to the carbon offset transactions): US$6.5 million.

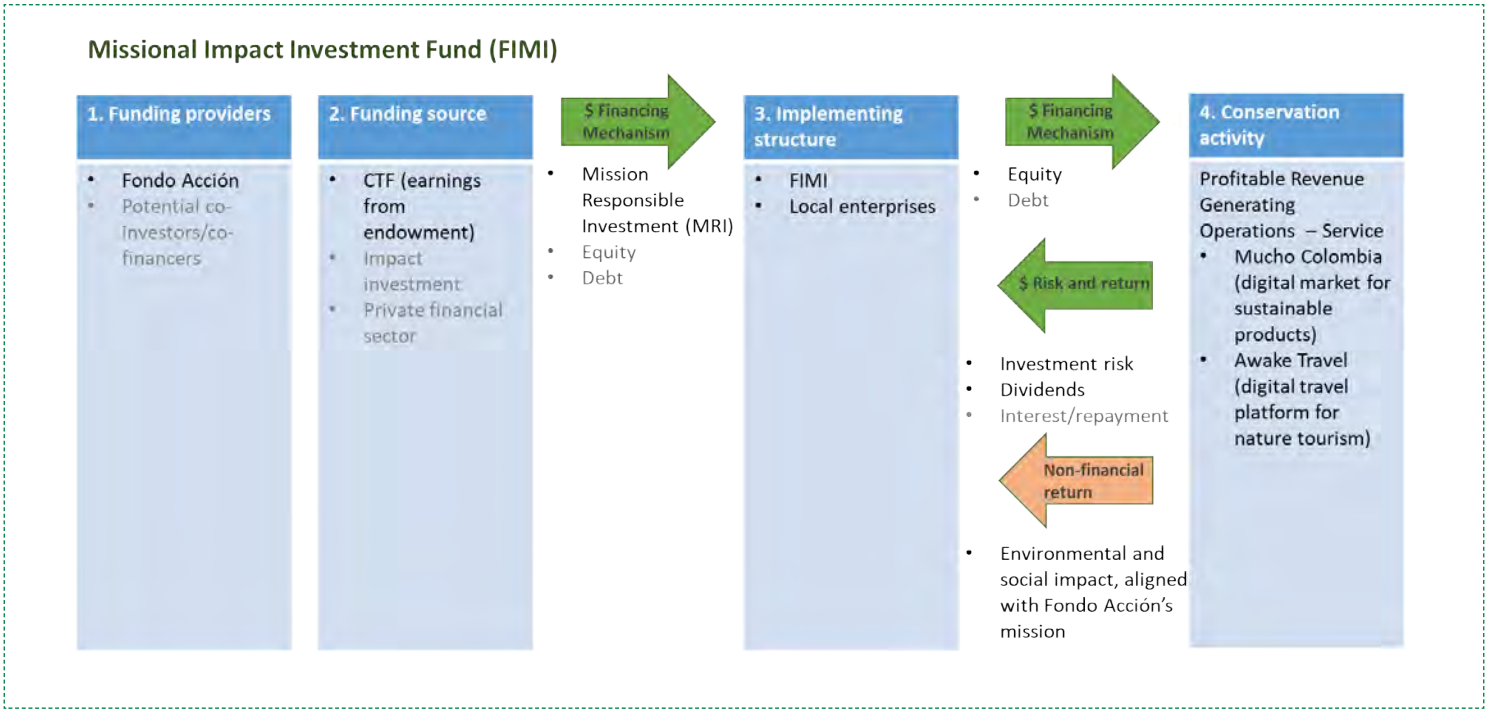
Impact Investing

Following the example of large family funds and foundations in the United States, Fondo Acción created a mission-aligned impact investment fund *Fondo de Inversiones Misionales de Impacto (FIMI)* in 2018. This strategy evolves from Fondo's experience in supporting numerous communities in productive and commercial improvements. Two and a half million US$ from Fondo Acción's endowment earnings are directed to invest in business models that could generate financial, social, and environmental returns, aligned with its mission. FIMI operates as an accelerator fund, providing patient and catalytic capital to expanding ventures, to enhance their potential impact and attract other stakeholders to support local entrepreneurship.

FIMI aims to invest in four or five companies, mainly as a shareholder with no more than a 25% stake. It has an exit time horizon of six to eight years, to allow fund re-investment. Fondo Acción also reinvests part of the income in supporting the producers so that their projects are socially, environmentally, and financially viable (Fondo Acción 2020). Consortia with other funders, such as Acumen, Capital Partners, and Fundación Bancolombia, are also envisaged to leverage more funds.

In its first two years, FIMI has made two investments. The first investment was in MUCHO Colombia, a digital initiative for responsible consumption to facilitate the connection between sustainable rural producers and conscious consumers. FIMI's second investment in 2020 was in a local nature-tourism platform, Awake Travel, which supports sustainable tourism in natural areas, with local community hosts.

Figure 6-9. Schematic description of Fondo Acción's FIMI (the text in grey represents potential additional financing that could be leveraged through FIMI's investments) 2018-ongoing. FIMI's capital: US$2.5 million.



Amount invested by Fondo Acción up to June 2020: US$353,806.

Lessons Learned

Fondo Acción's broad mission and vision, as well as its focus on forest conservation hand-in-hand with community rural development, has anchored the evolution of Fondo's PSE strategies over the years. This evolution involved a diversification in program and institutional investments that has led Fondo to take a higher level of financial risk with its own impact investments. The PSE strategy developments described here require a strong and skilled Board, and supportive donors, that enable Fondo to continue innovating.

Fondo Acción has sought to develop financial incentives and financial mechanisms to achieve their goals. Learning to adapt and to scale-up is in its DNA. Looking back, Fondo representatives realize that having alternative livelihoods based in forest conservation and building capacities for forest and land governance in the local context, also creates and sustains peace. These elements are evident in the focus of Fondo Acción's strategic plan 2017-2020: *intergenerational sustainability and peace*.

By continuing to develop and use existing financing mechanisms and tools to increase engagement with a broad range of private sector entities, Fondo Acción also seeks a transformation towards sustainability at a larger scale, creating impact in production and value chains both bottom-up and top-down. Being able to sit with private sector representatives in different settings and work on diverse product offerings continues to create openings for Fondo with new sectors.

KEY LESSONS LEARNED BY FONDO ACCIÓN THROUGH THESE PSE STRATEGIES:

1) To achieve real transformation, the broad spectrum of private sector discussed here - rural productive sector, corporate sector and digital innovators – must be engaged in conservation investments. A greater impact can be achieved if the programs (either independently or as a whole) integrate economic development, markets, and the corporate sector.

2) Learning to be adaptive is required to take advantage of different opportunities. The private sector has a different logic than the not-for-profit sector. To create meaningful alliances, it is necessary to address human resource limitations by ensuring staff have the expertise to use business models, understand value chains, and manage other business concepts.

3) It is necessary to remain aware of the different objectives of the corporate private sector and potential reputational challenges. Fondo Acción always questions what the fit is between the corporate sector's objectives and Fondo Acción's potential role, in line with its mission and objectives. Sometimes these assessments lead to letting potential opportunities pass by.

4) Building the relations and supporting policy change to get results takes time and effort. Fondo Acción is able to work under these longer timeframes, but it generates challenging discussions with donors and the private sector, as they may have a shorter time horizon to see and achieve results.

5) Communicating in the language of the audience that needs to be engaged is key for success. In the example of REDD+, training materials were translated and co-designed with the local communities to provide the technical information needed to support their engagement. Fondo also had to learn how to communicate with the corporate private sector. In this case, it is not only about understanding their jargon, but also about understanding their needs and interests, and being able to convey that in the language used by Fondo representatives to open up conversations.

6) Keep on-the ground involvement and acknowledge locally built capacity. This applies to all aspects, from production, to governance and monitoring. Building local capacities, and recognizing their skills, creates more local buy-in. For example, when the Colombian government wanted to design community-monitoring protocols, Fondo Acción facilitated conversations and visits between the government and communities that had community monitoring programs for REDD+ in place. The Government then hired COCOMASUR, a grassroot organization, as consultants, to advise on the design of the community monitoring protocols.

7) For PES schemes, cash payments can be logistically and culturally very challenging. In some specific cases, it is worth considering whether in-kind payments could be a better alternative.

8) Strengthening technical, administrative, and financial capacities, as well as improving the profitability of the conservation or productive activities, is a step towards helping grassroots organizations to detach themselves from a welfare vision of support. It encourages them to become entrepreneurs, take risks, and use debt instruments. It also has a positive impact generational succession in the communities, since it encourages young people to stay in the rural areas to continue running these sustainable businesses.

9) The *Practice Standards for CTFs* (Spergel and Mikitin 2014) have been integrated into the governance, planning, and operational procedures, and are part of the follow-up Fondo Acción gives to projects. They have also fed different sets of indicators used by Fondo.

This case study was made possible thanks to the materials made available by Fondo Acción, the interviews with and feedback from the following representatives of Fondo Acción: Natalia Arango, Germán Botero Tatiana Nuñez, Óscar Orrego, Elizabeth Valenzuela, and Camila Zambrano, and specially the overall support and coordination within Fondo Acción by María Margarita Fontecha.

Case Study 5: Micronesia Conservation Trust: The Role of a Regional Conservation Trust Fund in Capacity Building for Conservation

Acronyms used in the case study	
APIC	Association for the Promotion of International Cooperation
BRMC	Bill Raynor Micronesia Challenge Scholarship Fund
CNMI	U.S. Commonwealth of the Northern Mariana Islands
FIA	Forest Inventory and Analysis
FSM	Federated States of Micronesia
GEF	Global Environment Facility
MCT	Micronesia Conservation Trust
MCYC	Micronesia Challenge Young Champions Program
MFAN	Micronesian Finance and Administration-Operations Network
MIC	Micronesians in Island Conservation
PAN	Protected Area Network
PIMPAC	Pacific Islands Managed and Protected Areas Community
PIPTIEM	Professional Internships in Pacific Terrestrial Island Ecosystem Management
RMI	Republic of the Marshall Islands
ROP	Republic of Palau
TNC	The Nature Conservancy

The Micronesia Conservation Trust (MCT) supports biodiversity conservation and sustainable development in the Federated States of Micronesia (FSM), the Republic of Palau (ROP), the Republic of the Marshall Islands (RMI), the U.S. Commonwealth of the Northern Mariana Islands (CNMI), and the U.S. Territory of Guam (MCT 2020).

MCT places special emphasis on training and exchange of experiences and best practices, as strategic approaches to ensure that grantees can effectively design and manage their conservation programs. With their regional scope and long history of collaboration with Micronesian communities and governments, MCT is a hub for collaborative efforts to optimize coordination, while minimizing the costs and administrative burden of capacity building for other entities (MCT 2020; Wilson and Hanley 2019). This case study explores the collaborative approach and specific roles MCT has taken to strengthen regional capacities for conservation through a number of learning networks and capacity building initiatives in Micronesia.

Background

The establishment of MCT was facilitated by The Nature Conservancy (TNC) and originated from common conservation interests from FSM's four states in the context of bilateral negotiations with the U.S. Government in 2001-2002 (Gastelumendi et al. 2012; Rose 2015). Although it started at the national level, MCT and its founding members saw an opportunity to expand its scope beyond the FSM to 1) facilitate the Pacific Islands Managed and Protected Areas Community (PIMPAC); 2) host the GEF Small Grants program in FSM, RMI, and ROP; and 3) manage a region-wide invasive species eradication project (Gastelumendi et al. 2012).

While transitioning into a regional CTF, MCT assisted the development of, and became the financing mechanism for, the Micronesia Challenge. This was a commitment formalized by the Chief Executives of Micronesia in 2006 to "effectively conserve at least 30% of the near-shore marine resources and 20% of the terrestrial resources" across the region by 2020. The Micronesia Challenge has achieved these overarching targets in Palau and partly in other jurisdictions, leaving behind an extensive list of lessons learned that the regional conservation community is currently integrating in strategic plans for the next decade (Gombos 2020). In the context of the Micronesia Challenge, MCT became a key conservation partner for organizations, communities, and governments from across the region, and as an international influencer.

MCT also became an accredited entity of the Green Climate Fund in 2017 and a National Implementing Entity for the FSM by the Adaptation Fund in 2015. Thereby, MCT gained potential access to large project grants for joint implementation with government and community partners.

As of December of 2019, MCT managed more than US$22 million in endowments, including:

- The Micronesia Challenge Endowment (approx. US$20.6 million), which was capitalized by the Global Environment Facility (GEF), Conservation International (CI), TNC, and national governments from the Micronesian region;
- The Bill Raynor Micronesia Challenge Scholarship Fund (approx. US$550,000);
- The Yela Conservation Easement Endowment Fund (approx. US$520,000); and
- The MCT Operational Endowment Fund (approx. US$850,000).

In addition, MCT manages various sinking funds from donors such as U.S. government agencies, U.S.-based private foundations, the European Union, the GEF, the Adaptation Fund, and the German Government. As of December 2019, these amounted to around US$2 million per annum.

Over the last decade, MCT has become increasingly involved in PIMPAC and other regional capacity building initiatives, by mobilizing resources, coordinating their implementation, and delivering training and assistance directly to their partners.

Overview of Regional Capacity Building Networks and Initiatives

Pacific island countries have relatively small populations and face considerable shortages of technical, managerial, and professional skills (UNFPA 2014; ILO 2017). Micronesian jurisdictions are no exception, so gaps in technical skills for conservation have been traditionally filled by international agency and NGO expatriates. The adoption of ambitious regional and global commitments exacerbated the need for greater capacity within Micronesian communities, organizations, and governments. Since the early 2000s, Micronesia has seen the creation and growth of a number of capacity building initiatives to support natural resource management and conservation efforts, including:

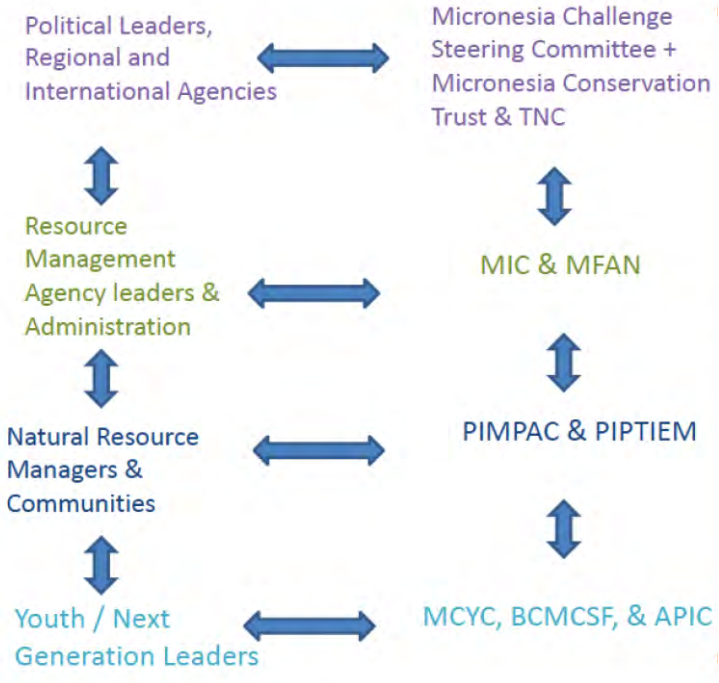
1) The learning-exchange and capacity building network PIMPAC, which targets natural resource and conservation practitioners;
2) Leadership and management capacity networks, such as the "Micronesians in Island Conservation" (MIC)

program and the "Micronesian Finance and Administration-Operations Network" (MFAN) for natural resource organizations;

3) Internship programs, such as the "Micronesia Challenge Young Champions Program" (MCYC) and the "Professional Internships in Pacific Terrestrial Island Ecosystem Management" (PIPTIEM) aimed at natural resource managers and communities; and
4) Scholarship programs, such as the "Bill Raynor Micronesia Challenge Scholarship Fund" (BRMC), and the "Association for the Promotion of International Cooperation" (APIC) Sophia University Scholarship Program aimed at students and young professionals.

While the link between these initiatives is mainly informal, efforts to align these programs have expanded their impacts and provided exchange opportunities across management levels and generations of conservation leaders and practitioners (Figure 610). Given the wide coverage and long history of PIMPAC in the region (see text box below), this network has positioned itself as a key platform to promote the development and growth of other initiatives. Collaboration and partnerships between these initiatives have in turn enabled the development of core competencies across a range of natural resource leaders that PIMPAC would have been unable to address as an isolated network (Gombos 2020).

Figure 6-10 Capacity building networks and initiatives and their target audiences in the broader context of the Micronesia Challenge



(Gombos 2020)

THE EVOLUTION OF A KEY LEARNING-EXCHANGE NETWORK IN MICRONESIA: THE PACIFIC ISLANDS MANAGED AND PROTECTED AREAS COMMUNITY (PIMPAC)

PIMPAC was founded in 2005 as a learning-exchange network for conservation practitioners in Micronesia. While providing grants to many of the Pacific islands in the region, the Coral Reef Conservation Program of the U.S. National Oceanic and Atmospheric Administration (NOAA) identified a niche to bring together marine protected area practitioners to learn from each other. NOAA's efforts to establish an exchange network were supported by other organizations that were active in marine conservation and committed to strengthening conservation planning across the region.

MCT's involvement in PIMPAC began during the early development stages of the network, including the participation of MCT representatives in PIMPAC's kick-off meeting. Since the beginning, NOAA Coral Reef Conservation Program recognized that local coordination support and match funding would be required for the effective implementation of capacity building activities across the region. As a Micronesian CTF, MCT was able to fill these roles, since it had strong local connections, could manage grants as a flow-through entity, and could raise funds for PIMPAC.

While PIMPAC's initial activities focused on marine conservation, its scope was expanded to add land adjacent to marine areas and support an increasing number of leadership competencies to further the overarching Micronesia Challenge targets and other specific jurisdictional goals (Gombos 2020). This process was accompanied by the involvement of MCT as co-coordinator of PIMPAC with NOAA and a change in PIMPAC's name (into its current version) to reflect the incorporation of terrestrial areas into its scope.

PIMPAC's capacity needs assessments place emphasis on core competencies for effective site-based management. The definition of these competencies has helped the network define overarching goals that are ultimately achieved through four key approaches: 1) training and technical assistance; 2) learning exchanges; 3) partnership building; and 4) coordination and leveraging funds (Gombos 2020; Wilson and Hanley 2019). The implementation of these approaches is co-coordinated between MCT and NOAA, in collaboration with jurisdictional teams of on-the-ground facilitators, a core support team of advisors and mentors, and several partner networks and organizations (Gombos 2020).

MCT's Role in Capacity Building Networks and Initiatives

MCT places capacity building at the core of its activities, since the CTF has learned that long-term impacts of their grants depend on adequate capacities of their partners to effectively design, implement, and sustain conservation activities over time (see text box below). In 2010, MCT recruited its first capacity building manager. Since then, it has gradually developed a capacity building program that includes resource mobilization, regional coordination, and direct training and assistance for conservation organizations across the region. While the capacity building manager leads and implements most of MCT's activities in this program, at least eight members of the core team of the CTF are involved in capacity building. This amounts to a total allocation of approximately 1.7 full time employees (FTEs) to the program (Table 6-1).

Table 6-1. Micronesia Conservation Trust engagement in capacity building networks and initiatives

Networks and initiatives		Time allocated by MCT (FTE)	Roles of Micronesia Conservation Trust		
			Resource mobilization	Regional coordination	Training and assistance
Capacity building and learning networks	PIMPAC	0.25 FTE	X	X	X
	MIC	0.1 FTE	X	X	X
	MFAN	-			X
Internship programs	MCYC	-	X	X	
	PIPTIEM	0.2 FTE	X	X	
Scholarship programs	BRMC	0.5 FTE	X	X	
	APIC		X	X	
Other capacity building support		0.6 FTE	X	X	X

MCT's successful engagement with PIMPAC, created the opportunity to inherit the coordination responsibility of MIC from TNC in 2009. MIC was established in 2001 to enable the expansion of TNC's conservation impacts by strengthening governmental and non-governmental leadership across the region, especially in highly biodiverse areas or landscapes. As one of the initial members of MIC, and having close ties with TNC, MCT became a natural successor for the coordination of the MIC network.

BOOSTING THE IMPACT OF CONSERVATION PROGRAMS THROUGH CAPACITY BUILDING

MCT funds target technical training to support practitioners in their efforts to achieve specific conservation outcomes. As an example, training activities for PIMPAC members have supported coral reef monitoring research carried out by local practitioners and guided by scientists from the University of Guam Marine Laboratory, TNC, and other technical institutions. Over the last decade, their coral monitoring research results have been used to guide adaptive management in marine protected areas; inform fisheries policies, laws and regulations; and ultimately support improved enforcement and compliance. Increases in fish biomass in marine protected areas that are part of these programs have been largely attributed to these integrated efforts, in which targeted trainings were important catalyzers. MCT and PIMPAC interviewees reflected that the conservation outcomes would have been achieved at a much slower pace, and most likely with higher costs for the individual entities involved, without the integrated technical training.

While assuming key functions in PIMPAC and MIC, MCT has also facilitated the MCYC and PIPTIEM internship programs and administered the BRMC and APIC scholarship programs. BRMC supports individuals from Micronesia to pursue masters' or doctorate degrees on conservation or natural resource management in universities in USA, Fiji, New Zealand, and Australia, while APIC supports advanced studies in Japan. Both scholarship programs request commitments to return to Micronesia to work in the environmental sector once the students have obtained their respective degrees. PIMPAC members and MCT partners place these scholarship and internship programs among the most valuable capacity building efforts of MCT, since they have seen tangible impacts as their students have taken key leadership positions in conservation upon their completion (see text box).

NUMBER OF MICRONESIANS IN THE INTERN AND SCHOLARSHIP PROGRAMS AS OF 2020

BRMC and APIC scholarships:

13 students have been funded through this scholarship. As of April 2020, three of them have graduated and currently occupy positions at the Micronesia Islands Nature Alliance in CNMI, the Environmental Protection Agency in Chuuk, FSM, and the Micronesia Conservation Trust in Pohnpei, FSM.

MCYC internships:

Approximately 50+ young interns from all Micronesia Challenge jurisdictions (RMI, FSM, Guam and CNMI) participated and benefited from this program.

PIPTIEM internships and traineeships:

Approximately 50+ people have participated in the internships and traineeships funded by this program.

Resource mobilization

To support the capacity building programs, MCT looks for sustainable financing, raises and manages funds that complement NOAA's budget, and makes grants and disbursements to cover complementary expenses of learning exchanges and trainings. While NOAA has steadily allocated a federal budget of approximately US$130,000 per year to PIMPAC, MCT has managed a diverse grant portfolio, including funds from the U.S. Department of the Interior and donations from U.S. private foundations for specific projects (Gombos 2020). In parallel with the fundraising efforts for PIMPAC, MCT has also channeled funding from Margaret A. Cargill Philanthropies, the U.S. Department of the Interior, and the German Government (via TNC) to support capacity building activities of MIC and has managed grants from the U.S. Forest Service to support the PIPTIEM internship

program. MCT is furthermore capitalizing on resources obtained through the Adaptation Fund for capacity building activities in FSM to help policy makers and enforcement officers fully understand the Protected Area Network (PAN), and guide communities through the application process to become part of the PAN and obtain PAN funding. In short, MCT has funded activities of the PIMPAC and MIC networks, the PIPTIEM and MCYC internship programs, and complementary trainings, mainly through specific portions of project grants and programmatic donations.

MCT also mobilizes resources for the BRMC and APIC scholarships through sinking funds that were raised from U.S. private foundations (e.g. David and Lucile Packard Foundation and Margaret A. Cargill Philanthropies) and a sub-account of the Micronesia Challenge Endowment Fund. Depending on the scholarship, MCT reimburses supplies and travel expenses, and/or pays for tuition fees. For programs abroad, MCT has set up mechanisms to cover travel expenses during school breaks in order to keep students connected with their country organizations and increase the likelihood of retaining native talent. Sinking funds for these purposes are expected to terminate within the next two years. After this period, MCT will likely tap into endowment returns. The endowment account was established in 2015 with a legacy gift from Bill Raynor, TNC's former Micronesia Program Director and respected conservation leader, along with additional contributions from his friends and donors who had strong relationships with TNC and MCT. To raise additional capital, MCT has used donations from individuals and governments. As of October 2019, MCT had raised nearly US$400,000, which represents around one third of the Bill Raynor Micronesia Challenge Scholarship Fund's capitalization target of US$1.2 million.

MCT's fundraising strategy has proven effective to date as it: 1) engages diverse stakeholders from local communities to international donors; 2) builds on its reputation as a globally recognized and trusted CTF; and 3) administers grants effectively (Gombos 2020; Wilson and Hanley 2019). MCT has resourcefully combined project funding from different sources to support the region's capacity building needs. In recent years however, some of the donors that provided large donations have shifted priorities and raising capital for sinking and endowment funds for capacity building has become increasingly challenging. MCT has consequently turned to funding tied to project grants with a capacity development component, and unrestricted funds obtained from the provision of consultancy services. By pulling various funding sources together, the CTF has been able to keep a capacity building manager over time and support key activities. Although this strategy has successfully kept its capacity building program running, MCT's management team foresees that this will not suffice to address most regional capacity needs over the long run. In an effort to secure predictable long-term funding and move beyond ad-hoc support to capacity building, MCT's team is currently working on the definition of strategic steps, including stronger communications about the impacts of their investments in regional capacities.

Regional coordination

MCT's role in regional capacity building initiatives has historically extended well beyond fundraising. Over the past 15 years, MCT has gradually positioned itself as a unique facilitator of networks and initiatives that bring together representatives from governments, private enterprises, and community and non-profit organizations. As a CTF managed by Micronesians, MCT has remained close to its partners, has developed a deep understanding of their needs, and has secured the trust of the regional conservation community.

As examples of the close links of MCT's staff with programs on the ground, interviewees highlight the involvement of MCT's Executive Director in the foundation of the Conservation Society of Pohnpei, PIMPAC, MIC, among other organizations and initiatives, and the recent incorporation of a former beneficiary of a BRMC scholarship as MCT's capacity building manager. As described by a PIMPAC member:

> *Most of MCT's staff is from within the region. They understand local needs because they have been there before. They are really close to different organizations across Micronesia. Whenever we receive funding from them, they also provide assistance, either by phone or face-to-face. They spend significant time experiencing the work we do, because they want to understand how difficult it is.*

MCT and NOAA provide overarching coordination and communication among PIMPAC members to assess capacities and skills required, plan network activities, and monitor progress. They divide responsibilities according to their organizational strengths and focus on areas that fit within their respective conservation programs. While NOAA focuses on marine conservation capacities, MCT primarily coordinates capacity development for the management of terrestrial areas and crosscutting topics such as climate change. Both co-coordinators collaborate with trainers, enforcement officers, and managers from PIMPAC partner organizations such as TNC, RARE, OneReef, universities, and local NGOs (Gombos 2020). This entails monthly coordination meetings and regular stakeholder engagement. In the coordination of the BRMC and APIC scholarships and MCYC and PIPTIEM internships, MCT works closely with some of the same partners involved in PIMPAC to assess needs, connect suitable candidates with available positions, and establish partnerships and agreements.

At a higher level, MCT has also coordinated the development of management and leadership capacities among directors of conservation organizations through the MIC network. By "having one foot in each network," interviewees consider that MCT has contributed substantially towards the alignment of priorities and actions among learning initiatives. MCT's role in building local capacity through MIC and PIMPAC was important for the implementation of the Micronesia Challenge, but as this formal commitment entered its final phase, members and partners of

MIC saw a decline in the sense of urgency that drove the network in the past and the funding available to support it. Marine and terrestrial conservation targets of the Micronesia Challenge were partly achieved in most jurisdictions (and fully achieved in Palau) and an extensive list of lessons learned has been recently compiled (Gombos 2020). As MCT and other stakeholders currently build on these experiences to plan for the future, the re-activation of the MIC will likely align with the expected emergence of shared commitments towards new regional goals.

Interviewed partners recognize MCT's ability to navigate the challenges associated with coordinating multiple initiatives with stakeholders at different management levels and across a culturally diverse region. Building on recent evaluations of this role (Gombos 2020; Wilson and Hanley 2019), MCT and its partners are currently defining next strategic steps to expand the impact of capacity building activities and revitalize initiatives such as MIC.

Training and assistance

When providing grants, MCT also delivers direct ad-hoc assistance and trainings to local organizations and partners in coordination with its conservation program. This type of support focuses on the most pressing technical, administrative, and management capacities of grantees to plan, implement, monitor, and report on their conservation projects (Wilson and Hanley 2019). MCT is highly regarded in this role and local organizations often reach out to the CTF when they require specific guidance.

Through their participation in capacity building networks, MCT receives diverse ad-hoc requests to cover varying capacity needs. Through PIMPAC, MCT supports practitioners with technical capacity needs that are tied to the conservation program delivery, ranging from data collection and analysis, to reporting. At MIC, on the other hand, training and assistance delivered by MCT has covered financial management, monitoring, planning, and leadership capacity for managers (Wilson and Hanley 2019). While TNC coordinated the MFAN network, MCT staff members have provided technical assistance and supported capacity building activities on administration and finance. MCT has assisted in the development of action plans and grant proposals and has trained organizations to strengthen their financial administration and governance. By developing complementary toolkits, e.g. Local Early Action Plan Toolkit and a Locally Managed Areas Guide, MCT provides additional resources for organizations to implement new skills for effective conservation.

MCT's Strategic Plan 2019-2021 (Kostka et al. 2019) highlights some of MCT's additional notable capacity-building actions over the past three years, including training achievements, such as:

- helping partners to understand and use MCT grants tools to support effective project management and progress towards the Micronesia Challenge Regional Monitoring and Evaluation program;
- training conservation officers across all jurisdictions in enforcement, conservation and related skills, including certification from Guam Community College; and
- co-sponsoring and delivering training in FSM to design and develop bankable climate change adaptation projects to increase access to climate finance, including an introduction to cost benefit analysis tools.

It also lists MCT's work in technical and management assistance, such as:

- providing assistance to the Micronesia Challenge Terrestrial Champion and the U.S. Forest Service to establish Forest Inventory and Analysis Working Groups to monitor forest health in Guam and CNMI;
- supporting critical monitoring and regional databases at the University of Guam Marine Lab and Palau International Coral Reef Center; and
- partnering with the Guam Plant Extinction Prevention Program at the University of Guam to increase staff capacity with a new data analyst and two interns to support the Forest Inventory and Analysis project.

To strengthen' MCTs training and technical assistance going forward, the strategic plan for 2019-2021 (Kostka et al. 2019) focuses on two priorities:

- "Professional guidance, assistance and tools for grantees, including for grant-seeking, project management, monitoring and evaluation, and adaptive management."
- "Improved availability of scientific data and technical expertise."

In alignment with the other capacity building initiatives, these ongoing priorities will contribute to a "better integration across current capacity-building networks and programs" (Kostka et al. 2019).

Conclusion

Micronesia is a vast region with diverse cultures and highly interconnected ecosystems with only a handful of regional organizations engaged in biodiversity conservation efforts across jurisdictions. By providing grants and capacity building to Pacific island organizations, MCT has assumed a leadership role for the achievement of regional conservation goals. MCT's team has learned that their success depends on the capacity of their partners to manage grants, implement conservation projects, and build the required conditions for sustainable natural

resource management. Through its active involvement in regional partnerships, networks, and initiatives, MCT has organically built a capacity development program to support its mission. Despite the inherent challenges of this task, network members and partners have praised the capacity of the CTF to adapt and navigate obstacles. To address the difficulties associated with fundraising for capacity development in the long term, MCT has been resourceful in combining different sources of funding to meet the basic needs of this program. To be effective in this large and dispersed region, MCT has streamlined their support by focusing on the most pressing capacity needs and expanding the scope of their work through partnerships. Finally, to move beyond ad-hoc coordination and training delivery, MCT completed important evaluation processes in 2019 and is currently planning next steps to consolidate its capacity building program.

This case study was made possible thanks to the materials made available by the Micronesia Conservation Trust and interviews with and feedback from William Kostka, Lisa Andon, Bertha Reyuw and Tamara Greenstone Alefaio of Micronesia Conservation Trust, Michael Lameier of U.S. National Oceanic and Atmospheric Administration, Trina Leberer of The Nature Conservancy, and Angel Jonathan of Conservation Society of Pohnpei.

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ANNEXES

Annex 1. 2020 Global CTF Survey – English Language

Introduction

Many thanks in advance for your contribution to two key reports on Environmental Funds / Conservation Trust Funds (CTFs). The development of these reports is led by the Conservation Finance Alliance (CFA) in partnership with RedLAC, CAFÉ and APNET. The purpose of this survey is to better understand the activities of CTFs over the last 10 years, the evolution of their global role, essential conditions for their success, and their potential for future contribution to conservation. This survey is also intended to collect crucial information on the use and improvement of the Practice Standards for CTFs. We have tried not to duplicate questions from the Conservation Trust Investment Survey (CTIS) and from prior surveys conducted by the CTF networks, with the exception of questions 5 to 9, which are essential to understand current assets.

Your responses will remain confidential and only aggregate or anonymized results will be shared.

Please answer each question in respect of the CTF for which you work, or the CTF that you are familiar with. Please complete only one survey per organization. If you have any questions or would like to complete the survey via a conference call, please contact: amilcar.guzman@wolfscompany.com

CTF's general information

1) Full official name of organization: _____
2) Abbreviation or preferred name: _____
3) Year established: _____
4) Person completing this survey:

   Name: _____

   Position: _____

   Email address: _____
5) Total Assets:
   Please consider the value reported in the latest balance sheet of the CTF.
   a. < USD 2 million
   b. USD 2-5 million
   c. USD 5-10 million
   d. USD 10-20 million
   e. USD 20-50 million
   f. USD 50-100 million
   g. USD 100-300 million
   h. USD 300-500 million
   i. > USD 500 million

   Please specify value (optional): _____
6) Endowment funds:
   Note: if more than one, please provide total value
   Number of funds: _____)
   Total value of current funds (*USD, estimated*): _____
   Total value of original funds (*USD, estimated by 1st year after creation*):
   _____
7) Sinking funds: Please specify:
   Note: if more than one, please provide total value
   Number of funds: _____
   Total value of current funds (*USD, estimated*): _____
   Total value of original funds (*USD, estimated by 1st year creation*):
   _____
8) Annual revolving funds:
   Please provide average annual amount of revolving funds (USD, estimated): _____

9) If the CTF acts as a pass-through entity in order to provide funding to other recipients, please provide pass-through project funds (USD, estimated)
Please provide the latest annual estimate of pass-through project funds
Latest annual amount (*USD, estimated*): _____
Year: _____

10) Where is the CTF legally incorporated or registered?
Please specify country: _____

11) Which of the following categories of incorporation, registration or establishment apply to the CTF?

Select all that apply

a. In-country trust fund
b. In-country foundation
c. Offshore trust fund or foundation
d. Created by special legislations
e. Created by international agreement between donor and beneficiary country government
f. Other, please specify: _____

12) [*Condition: if the CTF is incorporated or registered as an offshore trust fund or foundation*] What were the main reasons to select an offshore jurisdiction?
Please select all that apply

a. The CTF pays fewer taxes than in its home country
b. It is easier to receive private/individual donations
c. Private/individual donors can deduct taxes
d. It is easier to invest globally
e. There is better access to fund service providers (legal or financial)
f. There is more security that funds will remain independently managed
g. There is no legal framework in home country
h. The fund provides financing in multiple countries
i. It is required by the donor
j. Other, please specify: _____

13) In addition to the main country where the CTF is registered or incorporated, is the CTF, or a mother/sister organization, registered as a charity or other tax-deductible organization in another country (e.g. the U.S.)?

a. Yes
b. No
c. Prefer not to answer

14) [*Condition: if the CTF is registered as a charity or other tax-deductible organization in another country*] As the CTF, or a mother/sister organization, is registered as a charity or other tax-deductible organization in another country, please specify:
In which country: _____
Why? _____

CTF's administration

15) Please estimate the average percentage of the CTF's annual budget expenditure that goes to cover overhead costs?

Overhead costs are expenses that may not be directly contributing towards the CTF's programmes but which are necessary for the general operation of the CTF and its work, and include support staff salaries, staff time needed to work with boards and committees, staff time needed for policy development, computers, file systems, phones, trainings, rent, utilities, insurance, and office maintenance.

a. <5%
b. 5-10%
c. 10-15%
d. 15-20%
e. 20-25%
f. 25-40%
g. >40%
h. The CTF does not track this percentage
i. Prefer not to answer

Additional comments (optional): _____

CTF's asset management

16) Does the CTF have a target for optimal capitalization?

a. Yes
b. No
c. Prefer not to answer

[*Condition: if the CTF has a target for optimal capitalization]* As the CTF has a target for optimal capitalization, please indicate **capitalization targets** and **current gap** to achieve targets (when applicable):

17) Endowment funds:

Capitalization target (USD): _____

Current Gap (USD): _____

18) Sinking funds:

Capitalization target (USD): _____

Current Gap (USD): _____

19) Other funds:

Capitalization target (USD): _____

Current Gap (USD): _____

Please specify the type of funds: _____

20) Total:

Capitalization target (USD): _____

Current Gap (USD): _____

21) Has the increase in scrutiny in the financial industry ("Know Your Customer" regulations) in the last decade affected your CTF's ability to obtain investment management services?

a. No, we have not noticed changes
b. Yes, we have had to supply additional information to investment firms, but it has not interrupted our access to investment management services
c. Yes, the additional scrutiny has limited our options for potential investment professionals to assist the CTF and/or we have had to change service providers
d. Yes, we have been unable to obtain desirable investment management services due to the heightened scrutiny in the last decade.
e. Prefer not to answer

Financial resources and resource mobilization

22) What sources of capital were used to **establish** the CTF (i.e. start-up period)?

Select all that apply

a. National and/or local government/s
b. Multilateral cooperation
c. Bilateral cooperation
d. National private sector
e. International private sector
f. International non-governmental organization/s
g. National or local non-governmental organization/s
h. Individuals (domestic)

i. Individuals (international)
j. Family or private foundation (domestic)
k. Family or private foundation (international)
l. Others, please specify: _____

23) Which financing mechanisms were used to establish the CTF (i.e. start-up period)?

Select all that apply

a. Donations (to endowment funds)
b. Donations (to sinking funds)
c. Donations to fund specific programs or expenses
d. Unrestricted donations
e. Other Grants
f. Debt-for-nature swap
g. Biodiversity offsets
h. Carbon offsets
i. Impact investment
j. Blended finance
k. Partnerships with financial (banking) sector
l. Partnerships with private sector (non-financial)
m. Insurance schemes
n. Earmarked user/tourism fees and taxes
o. Earmarked pollution taxes and environmental fees
p. Fines
q. Grant administration for international funders and donors
r. Financial intermediation between buyers and sellers of ecosystem services
s. Payment for ecosystem services, please specify: _____
t. Lotteries
u. Water tariffs
v. Green taxes
w. Other, please specify: _____

24) Is the CTF more than 10 years old?

a. Yes
b. No

25) [*Condition: if the CTF is more than 10 years old*]

What are the sources of the funds the CTF has received over the **last 10 years**?

Select all that apply

a. National and/or local government/s
b. Multilateral cooperation
c. Bilateral cooperation
d. National private sector
e. International private sector
f. International non-governmental organization/s
g. National or local non-governmental organization/s
h. Individuals (domestic)
i. Individuals (international)
j. Family or private foundation (domestic)
k. Family or private foundation (international)
l. Other, please specify: _____

26) [*Condition: if the CTF is more than 10 years old*]

Please rank the top 5 mechanisms that provided the most additional funding to your CTF over the **last 10 years**?

Use 1 for the most important and 5 for the least important

a. Donations (to endowment funds):_____
b. Donations (to sinking funds) :_____
c. Donations to fund specific programs or expenses:_____
d. Unrestricted donations:_____
e. Other grants:_____
f. Debt-for-nature swap:_____
g. Biodiversity offsets:_____
h. Carbon offsets:_____
i. Impact investment:_____
j. Blended finance, please specify:_____
k. Partnerships with financial (banking) sector:_____
l. Partnerships with private sector (non-financial):_____
m. Insurance schemes:_____
n. Earmarked user/tourism fees and taxes:_____

o. Earmarked pollution taxes and environmental fees:_____
p. Fines:_____
q. Grant administration for international funders and donors:_____
r. Financial intermediation between buyers and sellers of ecosystem services:_____
s. Payment for ecosystem services:_____
t. Lotteries: _____
u. Other: _____

27) If you ranked 'other' among the top 5 of the previous question, please specify mechanism: _____

28) What new financing mechanisms is the CTF considering to develop over the **next 10 years** in order to increase or diversify the CTF income?

Select all that apply

a. Donations (to endowment funds)
b. Donations (to sinking funds)
c. Donations to fund specific programs or expenses
d. Unrestricted donations
e. Other grants
f. Debt-for-nature swap
g. Biodiversity offsets
h. Carbon offsets
i. Impact investment
j. Blended finance, please specify:_____
k. Partnerships with financial (banking) sector
l. Partnerships with private sector (non-financial)
m. Insurance schemes
n. Earmarked user/tourism fees and taxes
o. Earmarked pollution taxes and environmental fees
p. Fines
q. Grant administration for international funders and donors
r. Financial intermediation between buyers and sellers of ecosystem services
s. Payment for ecosystem services
t. Lotteries
u. Water tariffs

v. Green taxes
w. Definitely plan to diversify, but have no specific ideas yet
x. No, the CTF is not considering any new financing mechanisms for the next 10 years
y. Other, please specify: _____

Monitoring, reporting and evaluation

29) Has your CTF, independently or by working with partner organizations, implemented a monitoring, evaluation and reporting system that covers any of these aspects?

Select all that apply

a. Financial performance
b. Investment performance
c. Social impact
d. Environmental impact
e. Economic impact
f. Financial impact
g. Contribution towards the achievement of Sustainable Development Goals
h. Contribution towards the achievement of Aichi targets
i. Contribution towards climate Nationally Determined Contributions (NDCs)
j. No, the CTF has not implemented a performance and/or impact monitoring system
k. Other aspects, please specify: _____

30) Have any of the CTF's funders requested you monitor the performance and impacts of your CTF?

Select all that apply

a. Yes, they request performance monitoring (outputs)
b. Yes, they request monitoring of impacts (outcomes)
c. No, they have not requested performance or impact monitoring
d. Prefer not to answer

Essential conditions for CTF's success in the previous 10 years

31) What have been the three most crucial aspects for the success of the CTF over the last 10 years?

Please specify in a few words: _____
_____

32) What have been the three most crucial challenges for the CTF over the last 10 years?

Please specify in a few words: _____
_____

Programmatic areas and financing provided by CTFs (operations)

33) Which of the following tools or mechanisms are used by the CTF to provide funding for conservation or sustainable development?

Select all that apply

a. Small project-specific grants (<USD 100,000)
b. Medium or large project-specific grants (>USD 100,000)
c. Small annual grants (<USD 100,000)
d. Medium or large annual grants (>USD 100,000)
e. Small multi-annual grants (<USD 100,000)
f. Medium or large multi-annual grants (>USD 100,000)
g. Payments for ecosystem services
h. Risk capital to leverage other funds or investors
i. Micro credit
j. Loan guarantees or other de-risking
k. Repayable seed funding
l. Direct loans
m. Business Financing / Equity Investments
n. Program related investment
o. Direct investment in conservation small and medium-sized enterprises (SMEs)
p. Other, specify _____

34) Which of these tools or financing mechanisms, that the CTF does not currently use to provide funding, is the CTF considering to establish over the next 5-10 years?

Select all that apply

a. Small project-specific grants (<USD 100,000)
b. Medium or large project-specific grants (>USD 100,000)
c. Small annual grants (<USD 100,000)
d. Medium or large annual grants (>USD 100,000)
e. Small multi-annual grants (<USD 100,000)

f. Medium or large multi-year grants (>USD 100,000)
g. Payments for ecosystem services
h. Risk capital to leverage other funds or investors
i. Micro credit
j. Loan guarantees or other de-risking
k. Repayable seed funding
l. Direct loans
m. Business Financing / Equity Investments
n. Program related investment
o. Direct investment in conservation small and medium-sized enterprises (SMEs)
p. Other, please specify: _____

35) Who are the direct beneficiaries of the funds provided by the CTF?

Select all that apply

a. National governmental agencies
b. Subnational governmental agencies
c. National non-governmental organizations (NGOs)
d. International or multinational NGOs
e. Community-based organizations
f. Organizations or associations of indigenous people
g. Private landowners
h. Private companies
i. Other, please specify: _____

36) Which of the following programmatic areas has your CTF funded over the last 10 years? *Select all that apply*

a. Establishing or expanding marine protected areas
b. Establishing or expanding terrestrial protected areas
c. Establishing other types of protection of specific resources or habitats
d. Management of marine protected areas
e. Management of terrestrial protected areas
f. Management of marine areas outside protected areas
g. Management of terrestrial areas outside protect areas
h. Invasive/problematic species control
i. Habitat & natural process restoration
j. Species management

k. Species recovery
l. Species re-introduction
m. Protecting biodiversity out of its native habitats (i.e. ex-situ conservation)
n. Formal education
o. Training of civil society
p. Training of community-managed enterprises
q. Training of other private enterprises
r. Awareness & communications
s. International legislation
t. National or sub-national legislation
u. International policies & regulations
v. National or sub-national policies & regulations
w. Private sector standards & codes
x. Compliance & enforcement
y. Developing enterprises & livelihood alternatives
z. Promoting alternative products and services to replace environmentally damaging ones
aa. Using market mechanisms to change behaviours and attitudes
ab. Creating or using non-financial incentives to change behaviours and attitudes
ac. Natural sciences research
ad. Socio-economic research
ae. Climate change mitigation
af. Climate change adaptation
ag. Waste management and/or recycling
ah. Others, please specify: _____

37) Does your CTF consider any of the following aspects when deciding on priority programmatic areas?

Select all that apply

a. Wellbeing of local communities
b. Priorities defined in the National Biodiversity Strategy and Action Plan
c. Aichi Targets
d. Sustainable Development Goals
e. Priorities defined in national development plans and strategies

f. Priorities defined in Nationally Determined Contributions (NDCs) under the UNFCCC

g. Other, please specify: _____

38) Is Protected Area Financing part of the CTF's scope of work

a. Yes

b. No

c. Prefer not to answer

39) [Condition: If Protected Area Financing is part of the CTF's scope of work]

What percentage of the total financing needs of the Protected Areas supported by the CTF is covered by the CTF on average every year?

a. <1%

b. 1-10%

c. 10-25%

d. 25-50%

e. 50-75%

f. > 75%

g. 100%

h. The CTF does not have a reliable estimate of the total financing needs of the protected areas the CTF targets

i. Prefer not to answer

40) If available, please provide an estimate of the financing needs of the protected areas the CTF targets (*USD, estimated yearly average*): _____

Practice standards

41) Has the CTF used the Practice Standards for CTFs? *The Practice Standards for CTF's are available here*

a. Yes

b. No

c. Prefer not to answer

42) [*Condition: if the CTF has used the Practice Standards for CTFs]*

Why has the CTF used the Practice Standards for CTFs? *Select all that apply*

a. To guide the design of the CTF (before being officially established)

b. To guide the improvement of an established CTF

c. To document compliance with the standards for donors

d. Prefer not to answer

Additional reasons or comments (optional): _____

43) [Condition: If the CTF has used the Practice Standards]

How has the use of the Practice Standards for CTFs been beneficial for the CTF?

Select all that apply

a. It has improved access to donors or funders
b. It has helped with accreditation to a financing mechanism or organization
c. It has helped develop a strong composition of the Board of Directors
d. It has helped define and/or improve the CTF's management structure
e. It has helped strengthen the grant-making process
f. It has helped with investment management
g. It has helped develop and/or improve the CTF's manuals, policies and/or procedures
h. It has helped with the design or revision of the monitoring, evaluation and/or reporting system
i. It has helped with the implementation and/or enhancement of financing mechanisms
j. It has improved/enabled the relations with stakeholders
k. No, the use of the Practice Standards for CTFs has not been beneficial for the CTF
l. Other, please specify: _____

Final page

Thank you for your answer!

Your input has been recorded will form an important contribution to the upcoming reports on Conservation Trust Funds/Environmental Funds.

Annex 2. List of CTFs

Based on the Global CTF Survey and Task Force member expertise, this is a 2020 list of current CTFs that are operating or in development globally

Network	Region	Country	Organization Name	Acronym	Year established
	LAC[45]	Antigua and Barbuda	Marine Ecosystems Protected Areas Fund	MEPA Trust	2015
	LAC	Antigua and Barbuda	Antigua and Barbuda Sustainable Island Resource Framework Fund	SIRF Fund	2006
	Asia-Pacific	Australia	Tasmanian Land Conservancy	TLC	2009
	LAC	Bahamas	Bahamas Protected Areas Fund	BPAF	2014
APNET	Asia-Pacific	Bangladesh	Arannayk Foundation	AF	2003
RedLAC	LAC	Belize	Protected Areas Conservation Trust	PACT	1996
CAFÉ	Africa	Benin	Fondation des Savanes Ouest Africaines	FSOA	2012
	Asia-Pacific	Bhutan	Bhutan for Life	BFL	2017
APNET	Asia-Pacific	Bhutan	Bhutan Trust for Environmental Conservation	BTFEC	1992
RedLAC	LAC	Bolivia	Fundación para el Desarrollo del Sistema Nactional de Áreas Protegidas	FUNDESNAP	2000
RedLAC	LAC	Bolivia	Fundación para la Conservación del Bosque Chiquitano	FCBC	1999
	LAC	Brasil	Fondo Nacional de Meio Ambiente	FNMA	1989
	LAC	Brasil	Fundo Amazonia		2008
RedLAC	LAC	Brasil	Fundo Brasileiro para a Biodiversidade	FUNBIO	1996
	Europe	Bulgaria	Bulgaria National Trust Ecofund	NTEF	1995
	Asia-Pacific	Cambodia	Central Cardamoms Conservation Endowment		2015
CAFÉ	Africa	Cameroon	Fondation pour l'Environnement et le Développement au Cameroun	FEDEC	2006
	North America	Canada	Coast Conservation Endowment Fund Foundation and Coast Economic Development Society	Coast Funds	2007
	LAC	Chile	Route of Parks: Protecting Patagonia*		
	LAC	Colombia	Corporación ECOFONDO	ECOFONDO	1993
RedLAC	LAC	Colombia	Fondo para la Acción Ambiental y la Niñez	Fondo Acción	2000

45 LAC for Latin America and the Caribbean

Network	Region	Country	Organization Name	Acronym	Year established
RedLAC	LAC	Colombia	Fondo Patrimonio Natural	Patrimonio Natural	2005
	LAC	Colombia	Serranía de las Quinchas Conservation Endowment		
CAFÉ	Africa	Congo, Democratic Republic of	Fonds Okapi pour la Conservation de la Nature	FOCON	
RedLAC	LAC	Costa Rica	Asociación Costa Rica por Siempre	ACRXS	2010
RedLAC	LAC	Costa Rica	Fondo Nacional de Financiamiento Forestal	FONAFIFO	1997
RedLAC	LAC	Costa Rica	Fundación Banco Ambiental	FUNBAM	2008
	LAC	Costa Rica	Fundación Costa Rica - Estados Unidos para la Conservación	CRUSA	1996
	LAC	Costa Rica	Guanacaste Dry Forest Conservation Fund	GDFCF	1997
CAFÉ	Africa	Cote D'Ivoire	Fondation pour les Parcs et Réserves de Côte D'Ivoire	FPRCI	2003
RedLAC	LAC	Dominican Republic	Fondo Nacional para el Medio Ambiente y los Recursos Naturales	MARENA	2009
RedLAC	LAC	Dominican Republic	Fundación SUR Futuro - Fondo Ecodesarrollo Sabana Yegua	FSF	2011
	LAC	Ecuador	Fideicomiso Fondo Para la Proteccion del Agua	FONAG	2000
RedLAC	LAC	Ecuador	Fondo de Inversión Ambiental Sostenible	FIAS	2017
RedLAC	LAC	Ecuador	Fondo Regional del Agua	FORAGUA	2009
RedLAC	LAC	El Salvador	Fondo de Inversión Ambiental de El Salvador	FIAES	1993
APNET	Asia-Pacific	Federated States of Micronesia	Micronesia Conservation Trust	MCT	2002
	Asia-Pacific	Fiji	Fiji Nature Conservation Trust	Nature Fiji-MareqetiViti	2007
	Asia-Pacific	Fiji	Sovi Basin Protected Area Endowment		2008
	Africa	Gabon	Fund for Protected Areas*		
	Africa	Ghana	Ghana Heritage Conservation Trust	GHCT	1997
	Global	Global	Blue Action Fund	BAF	2016
	Global	Global	Forests for Life Action Fund		2019
	LAC	Grenada	Grenada Sustainable Development Trust Fund	GSDTF	2016

Network	Region	Country	Organization Name	Acronym	Year established
	LAC	Guatemala	Fundación para la Conservación de los Recursos Naturales y Ambiente en Guatemala	FCG	2000
	LAC	Guatemala	Fondo Nacional Para La Conservacion de la Naturaleza	FONACON	1997
CAFÉ	Africa	Guinee Bissau	Fondation BioGuine	FBG	2011
RedLAC	LAC	Guyana	Guyana Protected Areas Trust	GPAT	2011
	LAC	Haiti	Fonds Haïtien pour la Biodiversité*	FHB	2018
RedLAC	LAC	Honduras	Fondo para el Manejo de las Areas Protegidas y Vida Silvestre	FAPVS	2007
	LAC	Honduras	Fundación Hondureña de Ambiente y Desarrollo	Fundación VIDA	1992
	Asia-Pacific	India	Ashoka Trust for Research in Ecology and the Environment	ATREE	
	Asia-Pacific	Indonesia	Harapan Rainforest Endowment		2009
APNET	Asia-Pacific	Indonesia	The Indonesian Biodiversity Foundation	KEHATI	1994
RedLAC	LAC	Jamaica	Environmental Foundation of Jamaica	EFJ	
	LAC	Jamaica	National Conservation Trust Fund of Jamaica Ltd.	NCTFJ	2014
	Asia-Pacific	Kazakhstan	Biodiversity Conservation Fund of Kazakhstan	BCFK	2007
	Africa	Kenya	African Wildlife Fund	AWF	
	Africa	Kenya	Kenya Wildlife Conservation Trust Fund	KWCTF	2013
	Africa	Kenya	Northern Rangelands Trust Community Conservation Trust Fund	NRT-CCTF	
	Asia-Pacific	Laos	Lao Environmental Protection Fund	EPF	2005
	Africa	Liberia	Liberia Conservation Fund	LCF	2019
CAFÉ	Africa	Madagascar	Fondation Environnementale Tany Meva	FETM	1996
CAFÉ	Africa	Madagascar	Fondation pour les Aires Protégées et la Biodiversité de Madagascar	FAPBM	2005
CAFÉ	Africa	Malawi	Malawi Environmental Endowment Trust	MEET	1998
CAFÉ	Africa	Malawi	Mulanje Mountain Conservation Trust	MMCT	2000
CAFÉ	Africa	Mauritania	Banc d'Arguin, and Coastal and Marine Biodiversity Trust Fund Limited	BACoMaB	2010
RedLAC	LAC	Mexico	Fondo Mexicano para la Conservación de la Naturaleza, A.C.	FMCN	1994

Network	Region	Country	Organization Name	Acronym	Year established
CAFÉ	Africa	Mozambique	BIOFUND – Foundation for the Conservation of Biodiversity	BIOFUND	2011
	Africa	Mozambique	Fundo Nacional de Desenvolvimento Sustentável	FNDS	2016
CAFÉ	Africa	Namibia	Community Conservation Fund of Namibia	CCFN	2017
	Africa	Namibia	Environmental Investment Fund of Namibia	EIF	2012
	Asia-Pacific	Palau	Protected Areas Network Fund	PAN Fund	2012
RedLAC	LAC	Panama	Fundación NATURA	NATURA	1991
	Asia-Pacific	Papua New Guinea	Tree Kangaroo Conservation Program	TKCP	1996
	Asia-Pacific	Papua New Guinea	Biodiversity Fund in development by UNDP*		
RedLAC	LAC	Paraguay	Fondo de Conservación de Bosques Tropicales	FCBT	2006
	LAC	Paraguay	San Rafael Endowment Fund		2013
	LAC	Peru	Fondo de las Américas del Perú	FONDAM	1997
RedLAC	LAC	Peru	Fondo de Promoción de las Áreas Naturales Protegidas del Perú	PROFONANPE	1992
APNET	Asia-Pacific	Philippines	Foundation for the Philippine Environment	FPE	1992
APNET	Asia-Pacific	Philippines	Forest Foundation Philippines	FFP	2002
	Europe	Poland-Slovakia-Ukraine	Carpathians Biodiversity Conservation Foundation		2012
	LAC	Regional Colombia, Costa Rica and Panama	PACIFICO	PACIFICO	2012

Network	Region	Country	Organization Name	Acronym	Year established
RedLAC	LAC	REGIONAL Antigua and Barbuda, Dominican Republic, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and The Bahamas	Caribbean Biodiversity Fund	CBF	2012
	Europe	REGIONAL Albania, Greece and the Republic of North Macedonia	Prespa Ohrid Nature Trust	PONT	2015
	Europe	REGIONAL Armenia, Azerbaijan and Georgia	Caucasus Nature Fund	CNF	2008
	LAC	REGIONAL Bonaire, Curacao, Aruba, St. Maarten, Saba and St. Eustatius	Dutch Caribbean Nature Alliance	DCNA	2004
RedLAC	LAC	REGIONAL Mexico, Guatemala, Belize and Honduras	Mesoamerican Reef Fund	MAR Fund	2004
	Africa	REGIONAL Angola, Botswana and Namibia	Cubango-Okavango River Basin Fund*	CORB Fund	2019
CAFÉ	Africa	REGIONAL Cameroon, Congo and Central African Republic	The Sangha Tri-national Trust Fund Ltd	FTNS	2007
	Europe	Regional Mediterranean	The MedFund	The MedFund	2015

Network	Region	Country	Organization Name	Acronym	Year established
	Asia-Pacific	Republic of Kiribati	Phoenix Islands Protected Area Trust Fund	PIPA Trust	2009
	Africa	Seychelles	Seychelles Conservation and Climate Adaptation Trust	SeyCCAT	2015
	Africa	Seychelles	Seychelles Island Foundation	SIF	1979
	Africa	Sierra Leone	Gola Rainforest Conservation Endowment		2010
	Asia-Pacific	Solomon Islands	Tetepare Endowment Fund		2010
	Africa	South Africa	African World Heritage Fund	AWHF	2006
	Africa	South Africa	The Table Mountain Fund	TMF	1998
	LAC	St. Kitts and Nevis	St. Christopher and Nevis Conservation Fund		2017
RedLAC	LAC	St. Lucia	St. Lucia National Conservation Fund	SLUNCF	2016
	LAC	St. Vincent and the Grenadines	St. Vincent and the Grenadines Conservation Fund	SVGCF	2020
RedLAC	LAC	Suriname	Suriname Conservation Foundation	SCF	2000
	Africa	Swaziland	Swaziland National Environment Fund		2002
CAFÉ	Africa	Tanzania	Eastern Arc Mountains Conservation Endowment Fund	EAMCEF	2001
CAFÉ	Africa	Tanzania	Tanzania Forest Fund	TFF	2010
	LAC	Trinidad and Tobago	The Green Fund		2001
CAFÉ	Africa	Uganda	Bwindi Mgahinga Conservation Trust	BMCT	1994
	Africa	Uganda	Environmental Conservation Trust of Uganda	ECOTRUST	1999
CAFÉ	Africa	Uganda	Uganda Biodiversity Trust Fund	UBF	2016
	Asia-Pacific	Myanmar	Myanmar Biodiversity Fund		2019
	Asia-Pacific	Vietnam	Vietnam Environment Protection Fund	VEPF	2005
	Africa	Zimbabwe	African Wildlife Conservation Fund	AWCF	2005

* These CTFs are currently in development and are not yet operational.

Annex 3. Evolution of the CTF Networks

Section 2.3.3 discusses the important role the CTF networks play in supporting the CTFs and raising their visibility. This annex provides more background information on their evolution and current practices.

History of the CTF networks

RedLAC emerged from the Interagency Planning Group on Environmental Funds (IPG) that focused on networking and capacity building for CTFs from 1993-1999. Launched in 1999, RedLAC maintained this commitment to a vibrant sharing and learning culture. Over the past two decades, it has received substantial philanthropic funding as well as technical support from international NGO partners. It has consolidated its membership services and evolved its strategies with visionary Presidents, an engaged group of member CTFs, and long-term donor partners.

As the oldest network, RedLAC has served as a model for the other two networks. CAFÉ was launched in 2011. Between 2010 and 2019, the Capacity Building Project, and the follow-up Project K (Knowledge for Action)[46] provided important opportunities for CAFÉ to launch and work closely with RedLAC colleagues during its founding period. Joint committees were created, many South-South exchanges took place, a formal mentorship program was established between CTFs, and competitive pilot funding was made available to help members in both networks to try innovative financial mechanisms. While RedLAC and CAFÉ are both fully operational, APNET, launched in 2017, is still in the initial stages of defining a first strategic plan and fundraising strategy to fully launch.

These three networks collaborate with additional alliances on both a global scale and in more limited geographies. On a global scale, the Conservation Finance Alliance (CFA) promotes awareness, expertise, and innovation in conservation finance. CFA builds communities of practice around key areas of interest for conservation finance experts and practitioners who volunteer to participate in working groups and task forces. Its Environmental Funds Working Group (EFWG), established in 2008, promotes environmental funds (CTFs) and knowledge transfer. Impressive accomplishments, in partnership with RedLAC and CAFÉ, include the publication of the *Practice Standards for CTFs* (Spergel and Mikitin 2014), an online *Toolkit for Environmental Funds*, the annual *Conservation Trust Investment Survey*, and an ongoing commitment to compile and disseminate updated information on environmental funds, such as this publication.

CTFs have also formed alliances around geographic priorities to attract funding, share resources, and coordinate activities around shared goals. Many of them

46 These programs were generously funded by FFEM, the Gordon and Betty Moore Foundation, GEF through UN Environment, MAVA Foundation and implemented by Funbio on behalf of RedLAC and CAFÉ.

also provide capacity-building services to their CTF members. For example, the Caribbean Biodiversity Fund organizes training and sharing among its partner national funds. Similarly, the Mexican Fund for the Conservation of Nature (FMCN) hosts its own network of subnational funds (RedFAM: La Red de Fondos Ambientales de Mexico). In other examples, regional CTFs have built collaborations for shared purposes such as the Caribbean-Pacific Alliance for Marine Conservation Finance created by three regional CTFs (PACIFICO, MAR Fund and Caribbean Biodiversity Fund) to facilitate knowledge sharing and collaboration on marine and coastal conservation issues. While acknowledging that more focused groupings of CTFs will continue to evolve, this chapter focuses on the three large regional bodies.

Structure of the CTF Networks

Due in large part to RedLAC's successful 20-year trajectory, its general operational approaches are replicated in the other two regional networks:

1. There is an Executive Committee that oversees the strategic plan, supports the Network President, and makes key decisions for the network;
2. The President, traditionally an Executive Director of a member CTF, is elected by the other members for up to two two-year terms;
3. None of the Networks are set up as private nonprofits and all funding raised for programs must be managed by the host CTF, or other willing members;
4. There is a rotating Secretariat that moves every 2 to 4 years. In RedLAC the Secretariat is based in the CTF that houses the Presidency. This is not required in the other two networks, but is currently the practice;
5. There is a one-member /one-vote ethos whereby members choose the President and endorse major directions such as the strategic plans in annual Assemblies;
6. The major service to the members is an Annual Congress[47] that provides the opportunity for face-to-face exchange, expert-led sessions, and shared problem-solving discussions;
7. Other member services provided are dependent on fundraising success; and
8. Networks are extremely sensitive to not competing with their member funds.

Within this broad framework, the Executive Secretariat manages operations with supervision from the elected volunteer President. The Secretariat tends to play an administrative role while strategic decisions are the province of the President and the Executive Committee. As with all operating decisions there are plusses and minuses to this structure. This brief list summarizes some of the ongoing tensions that have emerged.

47 The Annual Congress for both networks is supported by rotating hosts to give participants an opportunity to see CTF work in different countries. In 2020, during the Covid-19 pandemic, the Asociación Costa Rica por Siempre organized a virtual congress for RedLAC and CAFÉ members to ensure the ongoing exchange and dialogue during an exceptionally challenging period.

Operating Norms	Advantages	Challenges
Executive Committee	Strong ownership by the members and opportunity to gain new leadership skills and visibility for member representatives.	Costs of face-to-face meetings are often borne by the members, a disincentive for smaller funds to join.
Presidential leadership	Dedicated and experienced CTF leaders have taken the helm, providing vision and reinforcing network values.	CTF CEOs already have full-time jobs. This discourages some from applying.
Networks are not legally independent	Democratic ownership of the networks by the members and built in administrative capacity from the host CTF lowers administrative costs. The network reduces competition with its members for fundraising.	Network funding must be sought by, and channeled through, member CTFs as the networks are not independent NGOs. While many CTFs support network fundraising and program management, their first fundraising priority must be their own CTF.
Rotating Secretariat	In RedLAC and CAFÉ, the President chooses the Executive Secretary and places confidence in them.	Loss of organizational memory as the Secretariat may move every few years.
Assembly	Strong ownership of the network by the members through a one member/ one vote opportunity for 'democracy in action' to elect the President, approve the Strategic Plan, and endorse the Executive Committee.	There is some concern that if the trend continues of increasing numbers of publicly-managed CTF members, the networks may have to be careful to ensure their independence from government – or government block influence. This is still seen as a somewhat distant possibility given many robust privately managed CTFs.
Annual Congress	High value events that attract leadership from throughout the conservation finance community and give visibility to the host fund.	Expensive events that require hosts to raise substantial funds ($100k for RedLAC) and play a major role in logistical organization.
Additional Services	The Capacity-Building Project and Project K were big incentives to members of CAFÉ and RedLAC, a boost to the reputation of both networks, and a major support for CAFÉ's early value-added benefits for its members.	"Donors are less interested in supporting general capacity building and organizational strengthening than in the past; donors now wish to include these activities in "on-the-ground" results-oriented projects and initiatives (e.g., blended finance; PES; impact), which networks are not directly involved in." (Embree 2018c)

Network membership

Networks set criteria for new members and welcome both publicly and privately governed CTFs. For example, CAFÉ requires that applicant funds:

1. Be legally established;
2. Be based in, and operate as, an environmental fund in one or more African countries to finance the protection and conservation of a country's natural resources and environment;

3. Be committed to undertaking membership responsibilities and payment of membership dues; and
4. Confirm its interest in and commitment to the CAFÉ Charter.

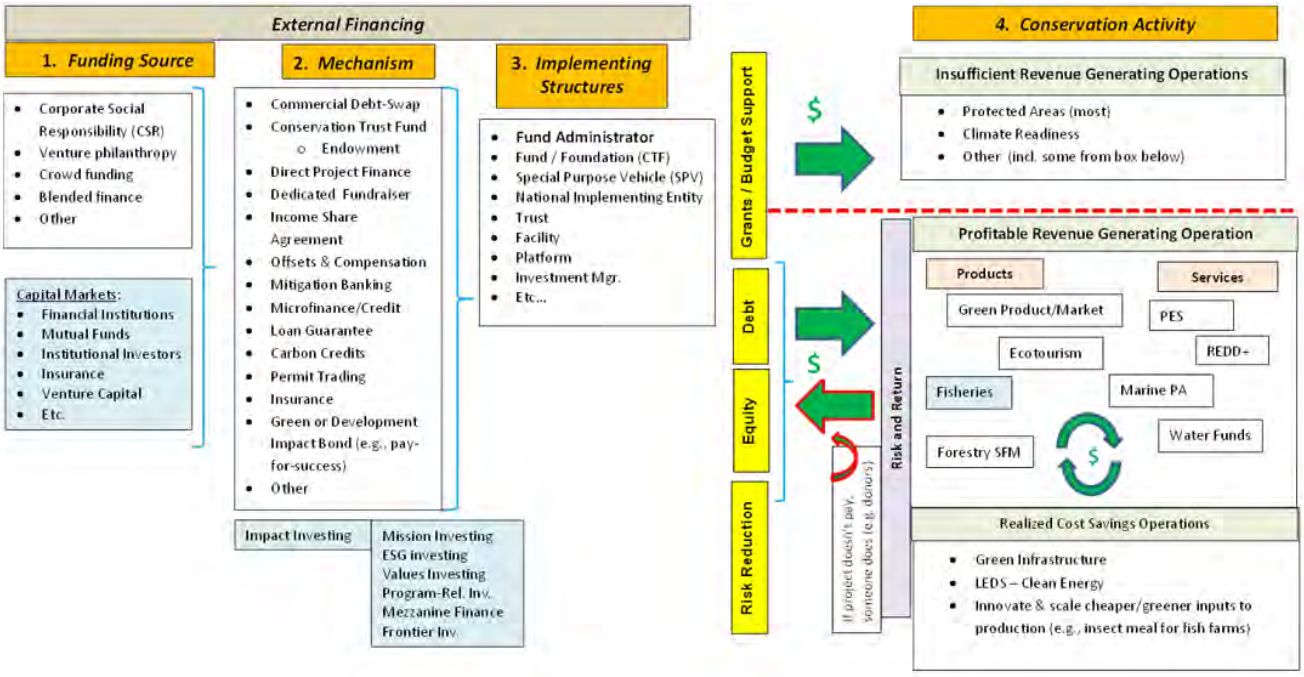
RedLAC uses similar criteria to welcome all sizes of CTFs (current range is USD$7 million to USD$340 million) whose core function is to provide sustainable financing for biodiversity conservation and sustainable development programs. CTFs applying for membership submit their bylaws, financial information on both permanent endowments and sinking funds, and other organizational information to the RedLAC Executive Committee. They also must secure a reference from a current member. Finally, all applicants must endorse RedLAC's values and are interviewed to stress the importance of the values for the success of the network.

There are clearly CTFs in each region that are not yet members, either because they are unconvinced by the value proposition, or it is unclear whether they qualify. Water funds for example had not joined prior to 2020, when the first Water Fund joined RedLAC. If the value proposition and their contribution to the wider community goes well, this could accelerate the number of new members in RedLAC. Within CAFÉ the membership fee has been seen as onerous by some smaller CTFs, but as more CTFs are established in Africa there is anticipation of an expanding core group of members. APNET's founders are still organizing the first set of services, a prerequisite to being able to reach out and attract additional members.

Annex 4. Framework for Analyzing Private Sector Engagement Strategies

CTF engagement with the private sector covers many programmatic areas and involves a broad range of private sector entities. The authors used an adaptation of the framework presented in Figure 81 Private Sector Environmental Finance Framework (Source: Lampman, n.d.) to standardize the descriptions of the Private Sector Engagement (PSE) strategies described in Case Study 4 on Fondo Acción in Colombia.

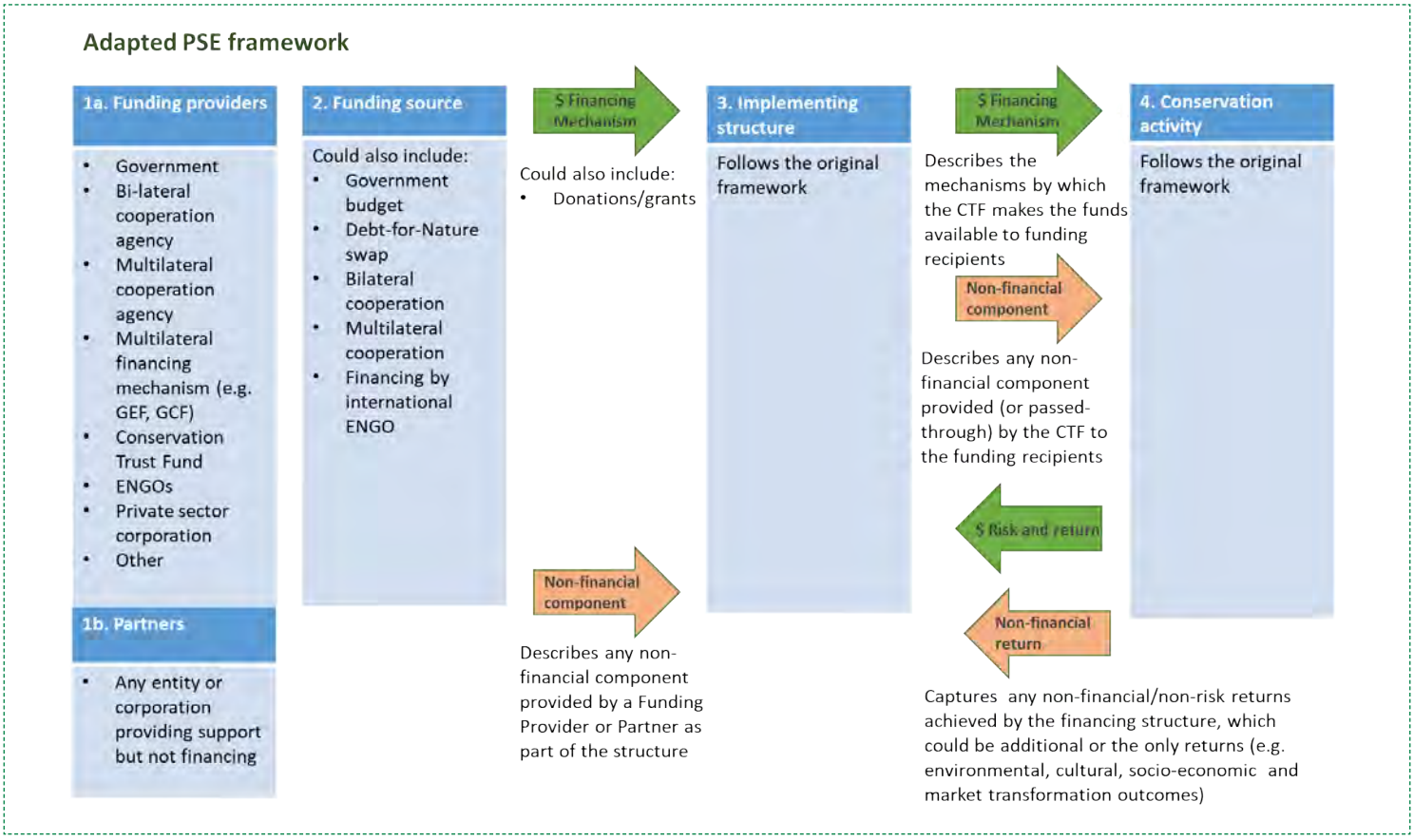
Figure 8-1. Private Sector Environmental Finance Framework



(Source: Lampman, n.d.)

This framework developed by S. Lampman (n.d.) is originally envisaged to standardize the theoretical analysis and description of private sector environmental finance. However, with a few adaptations as shown in Figure 82, the authors found it a useful tool to standardize the theoretical analysis and description of financing provided or administered by CTFs across a range of donors/investors. The framework is useful irrespective of whether the funds are provided by the private sector or other traditional providers of environmental finance, such as bilateral and multilateral cooperation, governments, and international NGOs. The adapted framework can also be used, as in Case Study 4 on Fondo Acción, to describe financing programs wherein the funding recipients are small- or medium-sized productive enterprises or community-based organizations. It also captures non-financial elements of a financing program, including in-kind support, partnerships, and non-financial returns such as biodiversity conservation, carbon capture, and social or cultural outcomes.

Figure 8-2. Description of adaptations made to the Lampman (n.d.) framework

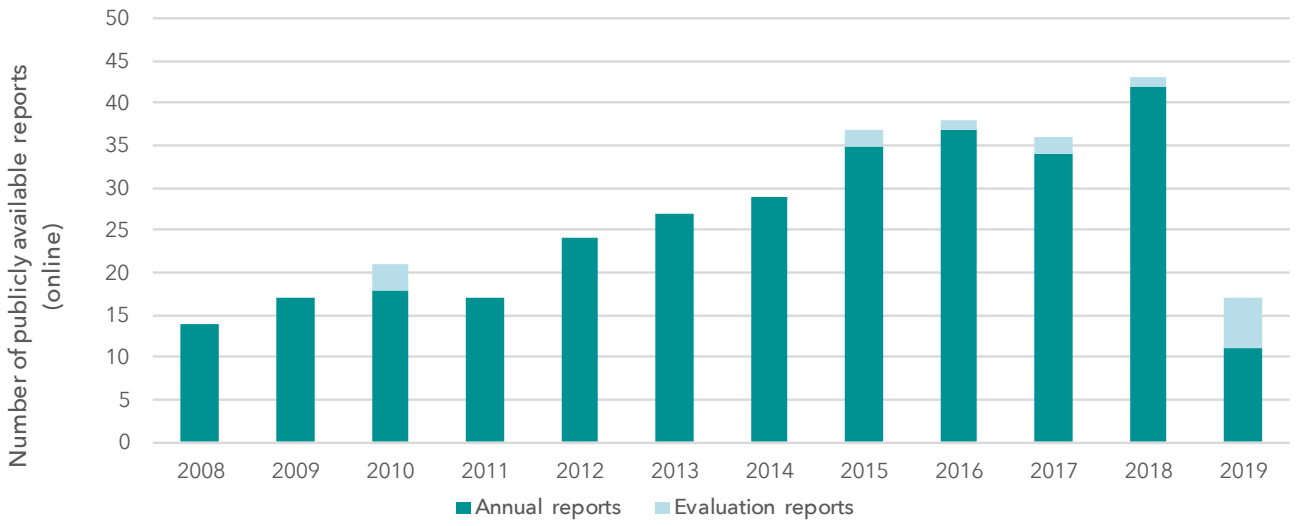


Annex 5. Supplementary Information on Impact Reporting 2009-2018

Methodology Used

To obtain information about frequently reported conservation results by CTFs, Hartmann (2020) conducted an exhaustive online search for publicly available annual and evaluation reports from 2008 onwards on CTF websites. This search yielded a total of 305 annual reports and 15 evaluation reports that were published by 53 (out of 108) operational CTFs. As illustrated in the figure below, the number of reports being published online by CTFs steadily increased over the last decade. While the number of publicly available reports for 2019 is exceptionally low, this is most certainly explained by reports still being prepared to be published through the rest of 2020. The systematic analysis of conservation results that is presented in the rest of this study consequently excluded 2019 reports and focused on the ten-year period between 2009 and 2018, encompassing 280 annual reports and nine evaluation reports that were published by a subgroup of 49 CTFs.

Figure 8-3. Annual and evaluation reports that were made publicly available by CTFs as of June 2020



(adapted from Hartmann 2020; n=53 CTFs)

Reported Results

The systematic analysis of annual and evaluation reports of CTFs (Hartmann, 2020) showed that CTFs oriented their reporting efforts towards three programmatic areas, namely: (1) land and/or water management; (2) livelihood and economic incentives; and (3) education and awareness. The analysis also showed that CTFs increasingly reported at the 'output' level (i.e. direct short-term results) across programs and at the 'outcome' level (i.e. short-term and

medium-term change and effects of intervention outputs) in relation to the three most common programmatic areas. However, 'outcome' reporting was much less frequent, or completely absent, in reference to other programmatic areas. Similarly, reporting of results at the 'impact' level (i.e. contributions towards the achievement of national or international goals and targets in the long term) was mostly absent in annual and evaluation reports, yet it was mentioned by some CTFs, as presented in the subsequent section.

Table 8-1. Types of results reported by CTFs between 2009 and 2018

Programmatic category (Salafsky et al. 2008)	Type of result reported (OECD 2019)	Percentage of CTFs that published results by type and programmatic category (percentages estimated with respect to number of CTFs that reported results in each year of analysis)									
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Land and/ or water protection	Output	6%	10%	18%	17%	7%	10%	8%	5%	14%	12%
	Outcome	-	-	-	-	-	-	-	-	-	-
	Impact	-	-	-	-	-	-	-	-	-	-
Land and/ or water management	Output	71%	67%	82%	92%	85%	86%	73%	79%	92%	81%
	Outcome	35%	33%	35%	50%	52%	52%	62%	55%	64%	53%
	Impact	-	-	-	-	-	-	-	-	-	2%
Species management	Output	-	10%	12%	8%	4%	17%	11%	13%	11%	19%
	Outcome	-	5%	6%	4%	-	14%	8%	11%	8%	19%
	Impact	-	-	-	-	-	-	-	-	-	-
Education and awareness	Output	53%	52%	59%	67%	63%	90%	70%	63%	83%	77%
	Outcome	-	14%	12%	8%	22%	24%	24%	18%	14%	16%
	Impact	-	-	-	-	-	-	-	-	-	-
Law and policy	Output	6%	10%	12%	13%	7%	14%	11%	8%	14%	9%
	Outcome	-	5%	-	-	-	7%	3%	3%	6%	2%
	Impact	-	-	-	-	-	-	-	-	-	-
Livelihood, economic and other incentives	Output	59%	67%	76%	75%	70%	90%	86%	68%	94%	79%
	Outcome	29%	24%	41%	42%	26%	52%	46%	32%	50%	47%
	Impact	-	-	-	-	-	-	-	-	-	-
External capacity building	Output	-	19%	12%	13%	7%	21%	30%	18%	11%	16%
	Outcome	-	-	-	-	-	-	-	-	-	2%
	Impact	-	-	-	-	-	-	-	-	-	-
Total number of CTFs that reported results by year		17 CTFs	21 CTFs	17 CTFs	24 CTFs	27 CTFs	29 CTFs	37 CTFs	38 CTFs	36 CTFs	43 CTFs

(adapted from Hartmann 2020; n=49 CTFs in total)

Programmatic Indicators Used

The systematic analysis conducted by Hartmann (2020) also identified a number of frequently used indicators when reporting on results of CTF programs. An overview of these indicators is presented below following the structure of the OECD results chain model (2019).

Figure 8-4. Overview of frequently used programmatic indicators by CTFs

OUTPUT

- Hectares of landscape covered by CTF support (43 CTFs)*
- Number of projects supported/financed per year/in total (38 CTFs)
- Total number of PAs, parks, reserves and/or conservancies supported by CTF (26 CTFs)
- Hectares of landscape added to PAs, parks, reserves, conservancies and/or CTF supervision (13 CTFs)*
- Number of people participating in education workshops, lectures and/or programs per year/in total (49 CTFs)*
- Number of infrastructure works completed benefitting local population per/in total (32 CTFs)*
- Number of people taking part in organised awareness raising events per year/in total (29 CTFs)*
- Number of studies conducted per year/in total (28 CTFs)*
- Number of trees and/or mangroves planted per year/in total (26 CTFs)*
- Number of educational, promotional and/or informative materials produced or distributed per year/in total (26 CTFs)*
- Number of people, households or communities benefitting from alternative income-generating activities per year/ in total (23 CTFs)
- Number of CTF staff, PA staff and/or rangers trained per year/in total (22 CTFs)
- Number of CTF strategic plans developed and/or updated in total (22 CTFs)
- Number of media features on CTF's work published per year/in total (21 CTFs)*
- Number of CTF's social media followers, YouTube subscribers or website users gained per year/in total (21 CTFs)*
- Number or kilogram of inputs, equipment and/or production modules supplied for alternative income generating activities per year/in total (19 CTFs)*

OUTCOME

- Hectares of land reforested, afforested and/or restored per year/in total (28 CTFs)
- Total number of species conserved in supported PAs, parks and/or reserves (20 CTFs)*
- Total revenue generated through sustainable livelihoods per year (17 CTFs)*
- Tons of CO_2 equivalent emissions avoided and/or reduced per year/in total (14 CTFs)
- Hectares of land brought under a sustainable management tool per year/in total (12 CTFs)*

IMPACT

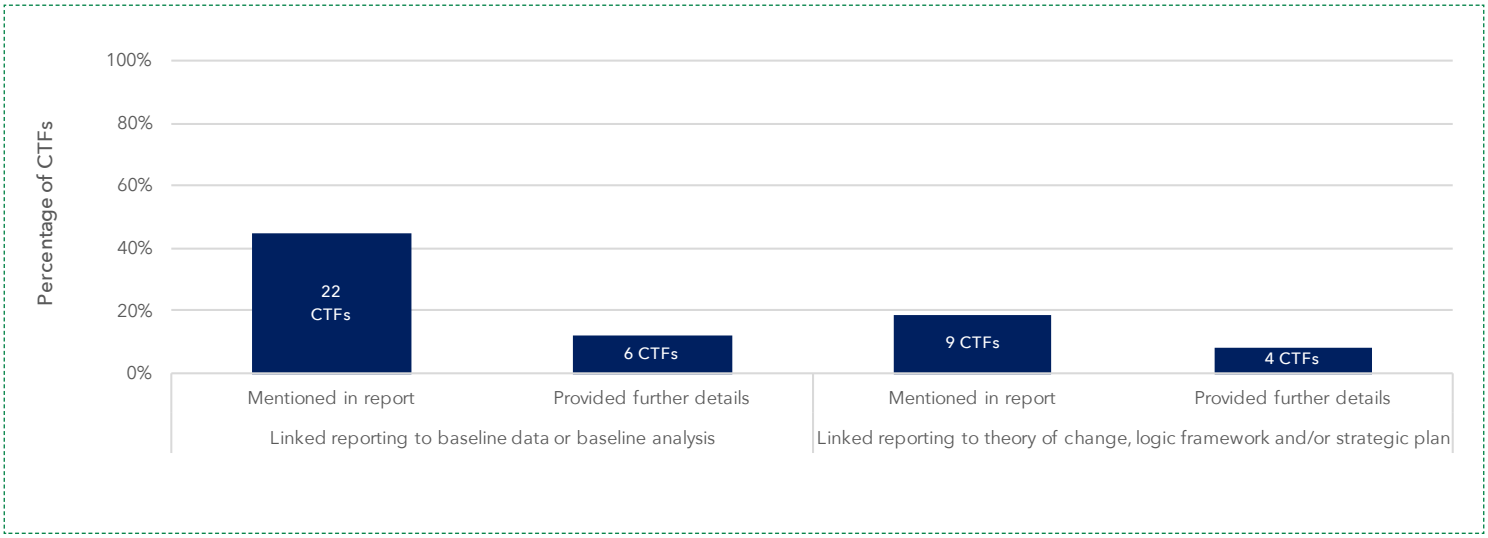
- Mentioned contribution to SDGs in general (12 CTFs mentioned addressing SDGs)
- Mentioned contribution to SDGs, specifying which goals are addressed in particular (5 CTFs)
- Mentioned contribution to Aichi targets, specifying which targets are addressed in particular (10 CTFs mentioned addressing Aichi targets)

(adapted from Hartmann 2020)

Quality of Reporting

Many CTFs align reporting efforts with the *Practice Standards for Conservation Trust Funds*, the *Open Standards for the Practice for Conservation* (CMP, 2013; 2020), and/or frameworks and guidelines for monitoring and reporting recommended by donors. Despite the progress in the publication of recommendations and guidance materials, technically sound reporting of conservation results remains a challenge for many CTFs. The indicators used to measure programmatic results vary across CTFs as does the quality and completeness of the information presented in annual and evaluation reports. As a reference of the quality of the information reported, Hartmann (2020) recorded the number of CTFs that mentioned or provided details on the linkages with baseline data, or any guiding frameworks or strategies. The results of this analysis indicate that systematic monitoring and reporting on programmatic results is uncommon among CTFs, since only around 40% of those that published annual and/or evaluation reports between 2009 and 2018 referred to baseline data and merely 12% provided baseline comparisons or other relevant details. Similarly, a limited percentage of CTFs (18%) that published reports mentioned their strategic plans or theory of change, and less than half of the CTFs in this group (8%) provided further information.

Figure 8-5. Linking programmatic impacts to baseline scenarios or CTF strategies in publicly available annual and evaluation reports



(adapted from Hartmann, 2020; n=49 CTFs)

Annex 6. Legal Incorporation of CTFs

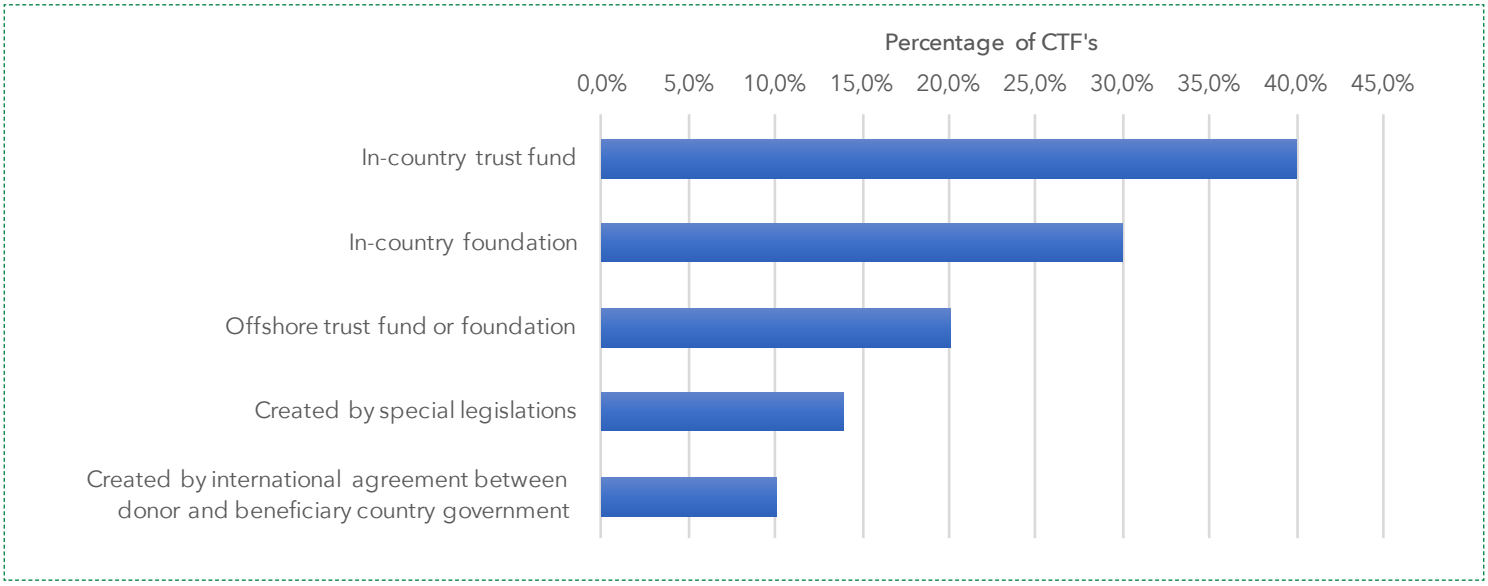
Due to corporate legal requirements or tax regulations, it is sometimes difficult to achieve a simple one-entity structure in the CTF's home country or offshore, and some innovation may be required. For example, in the first U.S. debt-for-nature swap in Indonesia, KEHATI was identified as the legal entity that could administer the funds, because of its special tax status. However, meeting the other conditions proved difficult. To achieve the envisaged design, Conservation International set up a trust in Singapore with HSBC, to have safe ownership of the funds. A governance committee was created to issue instructions to the trust and administrative arrangements were put in place between the trust and KEHATI for the operational activities.

Another challenge arises for multi-country/territory regional funds, when the donors or sponsors are faced with the choice of having one of the beneficiary countries as the jurisdiction of incorporation of the regional CTF or incorporating it in an offshore jurisdiction. Spergel (2012) examines in detail the legal aspects of structuring and incorporating regional CTFs, based on an analysis of seven regional CTFs. The criteria to be considered in this process will largely be case specific, but may include:

- the possibility of achieving the minimum conditions described above in one of the beneficiary countries;
- the availability and cost of legal, financial, and other service providers;
- transaction costs for set-up, ongoing operations, and money transfers;
- tax treatment of the CTF as an entity, its donors, investments, but also aspects such as value added taxes and service taxes on goods and services;
- desired location of the head office;
- envisaged composition of the governing body (e.g. individuals or organizations);
- currency in which the assets will be invested; and
- ease in which by-laws can be modified.

The 2020 Global CTF Survey examined the categories of legal incorporation or creation of CTFs to date. Figure 8-6 presents the distribution of the respondent CTFs among the five categories included in the survey. In-country trust funds and foundations represent the largest percentage, with 75% of the CTFs falling in these two categories. Table 8-2 describes the reasons that CTFs provided for choosing an offshore jurisdiction.

Figure 8-6. Distribution of CTFs per category of legal incorporation or creation



(2020 Global CTF Survey; n=50 CTFs)

Table 8-2. CTF reasons for selecting offshore jurisdictions

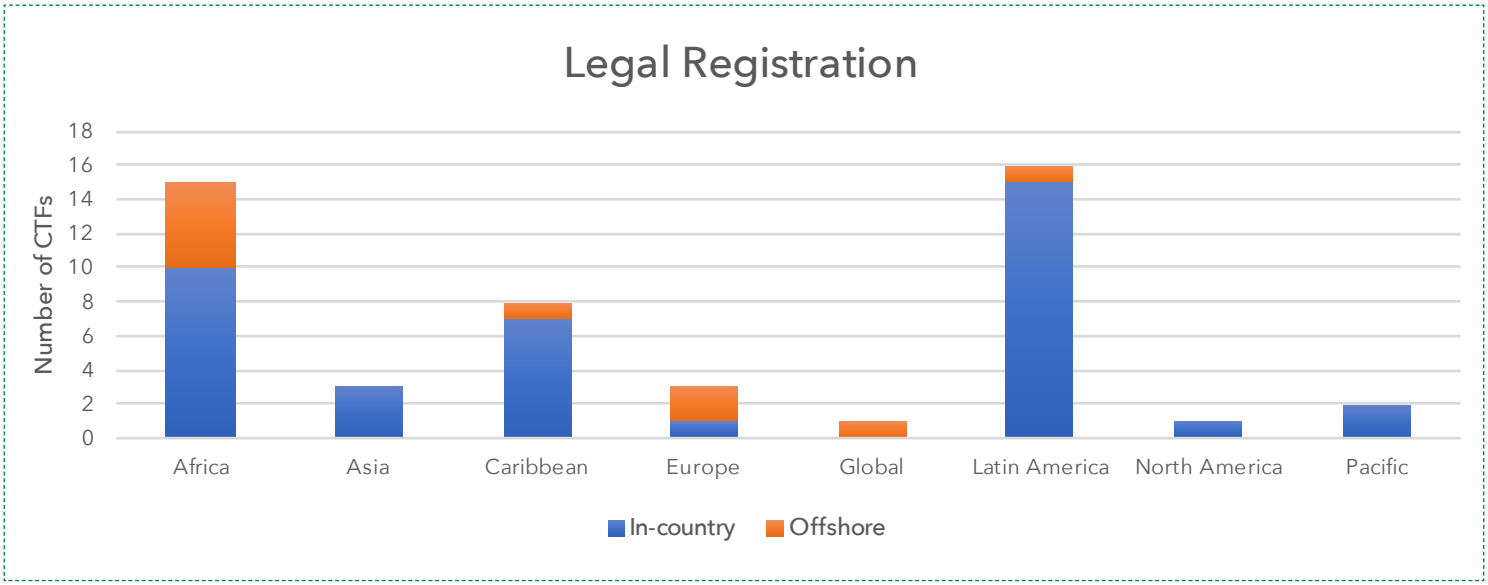
Stated reasons for selecting an offshore jurisdiction	Number of responses
The CTF funds programs in multiple countries	4
Easier to receive private/individual donations	3
Greater freedom to manage global investments	3
Private/individual donors can deduct taxes	2
Better access to fund service providers (legal/financial)	2
More certainty of independent management of the funds	2
No suitable legal framework for establishment in the CTF's home country	2
Donor requirement	2

(2020 Global CTF Survey)

The survey identified ten CTFs registered offshore (Figure 8-7). The United Kingdom appears to be the most used offshore jurisdiction, chosen by six CTFs (five with their operations in Africa, including one with multi-country operations, and one with regional operations in the Caribbean). Germany and the United States (Delaware) are the other two offshore jurisdictions listed in the survey. Germany hosts two CTFs with regional operations in Europe and one with global operations, and a regional CTF in Central America is registered in Delaware. While not included in the responses from the survey, interviews indicate that

Singapore has also been used to structure hybrid CTFs, where endowments are kept as offshore trusts registered in Singapore, but the institution managing the operations of the CTF is in-country. These structures benefit from favorable tax treatment of the trust, as long as the funding sources originate outside of Singapore.

Figure 8-7. Number of CTFs registered in-country and offshore per region of operations



(2020 Global CTF Survey; n=43 CTFs)

The 2020 Global CTF Survey also asked whether CTFs, in addition to the country where they are primarily registered or incorporated, also had a double or affiliated registration as a charity or other tax-deductible organization in another country. Eighteen CTFs responded positively to this question, of which the majority have an additional registration in the United States (9) as a 501(c)(3) non-profit, or in the United Kingdom (4). This seems to be mainly a fundraising tool to allow tax deductions, or a tool to ensure the security of the investments, or more favorable tax treatment. However, the other four CTFs which did specify (one didn't) the country in which they had an additional or affiliated registration (The Bahamas, Albania, Guinea Bissau, and Guatemala), provided other reasons, such as to improve regional outreach, to allow CTF staff to be closer to the program area, and to host the head office.

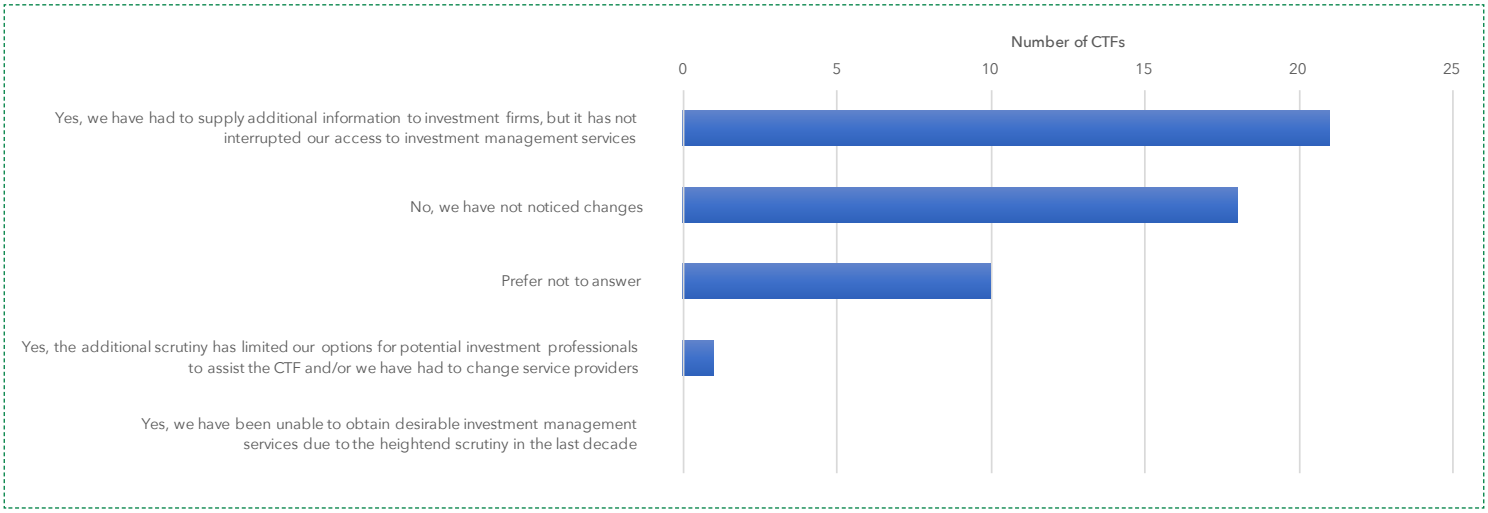
Annex 7. "Know Your Customer" Compliance

In the first decade of this century, Know Your Customer (also known as Know Your Client and KYC) regulations started being adopted or strengthened in countries with a strong financial services industry, such as the United States, European Union member states, Switzerland, and Singapore, and then globalized rapidly. Initially only applying to financial services providers, KYC regulations require that service providers put measures in place to verify, amongst others, the identity and proceeds of their customers' funds. Compliance with KYC requirements aims to prevent persons or organizations involved in criminal activities such as money-laundering, bribery, corruption, and terrorism, having access to financial services or misusing the financial system for criminal purposes. In the past 20 years, KYC requirements have become compulsory for other business service providers, such as law firms, accountants, and financial and tax advisors. Multilateral and bilateral financial institutions, as well as multilateral financing mechanisms have also had to incorporate certain global KYC standards, as a requirement from their donor countries.

CTFs have also seen the KYC requirements of their fund service providers and governments strengthen over the past decade. They have been impacted differently depending on their country of operations, legal registration, and the country where endowments and investments are managed. While the principles behind KYC requirements are global, each country has put in place requirements that incorporate the rules differently, some more strictly than others. Their application can have variable repercussions for different types of fund service providers, depending on characteristics such as size, customer base, commercial margins, regulating entity, etc. These differences are present even within countries of the European Union.

The 2020 Global CTF Survey asked whether the increase in scrutiny by the financial industry in the last decade has affected respondent CTFs' ability to obtain investment management services. As shown in Figure 88, 21 out of 50 CTFs answered that they have had to supply additional information but their access to investment management services has not been impacted. The overall answers to this question show that, in terms of investment management, complying with additional KYC requirements does not seem to have overly impacted CTFs.

Figure 8-8. Answers by CTFs to the question: Has the increase in scrutiny in the financial industry ("Know Your Customer" regulations) in the last decade affected your CTF's ability to obtain investment management services?



(2020 Global CTF Survey; n=50 CTFs)

Interviews were used to gather more specific information and examples of how CTFs may have been impacted by stricter KYC requirements, not only in relation to investment management services. One example, mentioned in several interviews, has been an increasingly challenging process for CTFs who are, or are looking to become, incorporated as legal entities registered with the United Kingdom Charity Commission. UK registration is a good option for CTFs to reassure donors who are concerned that domestic legislation is not robust enough to protect assets. Registration requirements are relatively straightforward, compliance with UK regulations is seen as a good benchmark, and CTFs can ask that its contracts be governed by UK law. However, registering as a charity in the UK also subjects the CTF to increased scrutiny from UK's Financial Task Force. In addition, since financial service providers in the UK need to ensure that the proceeds they handle are not being used to finance terrorism or launder money, many financial service providers have opted to not provide services to charities, in particular in geographies that may be subject to sanctions or high terrorism activity.

These compliance obligations affect financial services providers differently, depending on the service they give. Investment managers seem to be less concerned with doing business with foreign CTFs, as long as the country of operations is not on a blacklist, and the CTF is registered in the UK. As part of their due diligence they conduct a compliance and risk review which includes scrutiny of the members of the governing body and the CTF's organizational structure. However, transactional banking services – to receive payments from investment proceeds or donors and make payments to the CTF's account or CTF's beneficiaries in its home country – are now very difficult for foreign CTFs registered in the UK. UK transactional banks perceive that the fees they can

charge are small compared to the potential regulatory risk for fines and therefore choose not to provide the service. Complicating issues include the banks' lack of understanding of the CTF business model and the lack of visibility of many of the end-users or receivers of CTF funds. Some CTFs have found ways to overcome this obstacle as they obtained pre-approval by a bank before the regulations became stricter. Other UK-registered CTFs have had to switch investment managers or have found investment firms that can provide them transactional banking services with a discrete number of international payments.

KYC regulations have also affected CTFs registered as 501(c)(3) non-profits in the USA. A 501(c)(3) designation makes it significantly easier to receive grants from US-based foundations, as donors need to comply with lower due diligence requirements than if they were giving to an entity registered in a country whose compliance requirements are less well established. However, it has the opposite effect for US-based banks who recognize that a US-based non-profit could be a legal structure to disguise money-laundering as charitable grants to foreign countries. Therefore, U.S. banks, to comply with KYC regulations, must give CTFs greater scrutiny. In one case, a transaction bank terminated its relationship with a CTF. The CTF received funds from a bilateral donor and then transferred the funds to a foreign country. This raised red flags. However, the bank was not willing to undertake the due diligence needed to verify the legitimate use of the funds and found it easier to stop providing the transaction service. This CTF ultimately moved to another bank that had more experience with CTFs and was able to confirm the legitimacy of the transfer of the funds. While this is a specific example, it shows the issues that CTFs with offshore registrations may face if their country of operations or home base is on a high-risk list. The case also highlights the importance for CTFs to ensure their financial service providers have experience with CTFs, understand the CTF's business model and organizational structure, and are willing to manage anticipated financial flows.

Other CTFs gave the following examples of challenges they have faced in complying with KYC requirements:

- Obligation to provide extensive reports to their government when receiving funds from multilateral and bilateral cooperation and family foundations, including the legal documents of the fund providers, names of their leaders, etc. Some donors are hesitant to provide the information requested, but it is needed for compliance with the government's anti-money laundering requirements.
- The KYC requirements are mainly structured for corporate organizations, and not for NGOs or some of the donors, like multilateral entities. It is difficult to comply with KYC requirements to show the source of funds when funding is received from multilateral entities like the United Nations Development Program (UNDP) or the Food and Agriculture Organization (FAO).
- Incorporation of KYC requirements into grant agreements requires more documents to sign and more information to be provided by grantees, which increases the cost of doing business for the CTF and the beneficiaries.

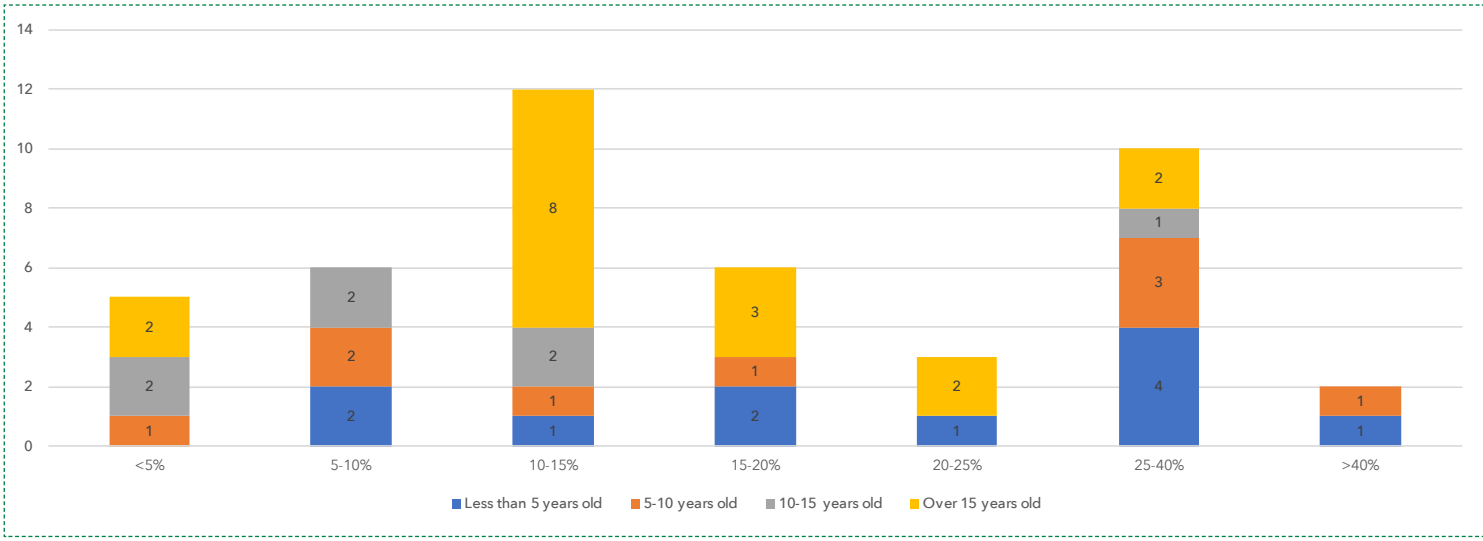
- Additional compliance steps added by banks, or more recurring KYC checks, can be accompanied by threats of terminating the business if new requirements are not complied with.

It is unclear whether KYC requirements have resulted in structurally increased operation or transaction costs for all or the majority of CTFs. However, there are CTFs, funding providers, and experts that indicate that fulfilling the increasing levels of due-diligence required by KYC regulations does increase CTFs' cost of doing business. Others point out that regardless of cost, doing business has become more difficult, both in finding financial service providers and ensuring they are willing to perform due diligence on the business operations of the CTF for needed transaction services.

Annex 8. Patterns in Overhead Percentages Across CTFs

In an attempt to understand whether there are any patterns or differences in the overall overhead percentages across CTFs, the 2020 Global CTF Survey asked CTFs for the average percentage of their annual budget applied to overhead expenses. In the survey, the following definition was used: Overhead costs are expenses that may not be directly contributing towards the CTF's programs but which are necessary for the general operation of the CTF and its work, and include support staff salaries, staff time needed to work with boards and committees, staff time needed for policy development, computers, file systems, phones, trainings, rent, utilities, insurance, and office maintenance.

Figure 8-9. CTFs answers to the survey question on their percentages of overhead expenses classified by each CTF's age category

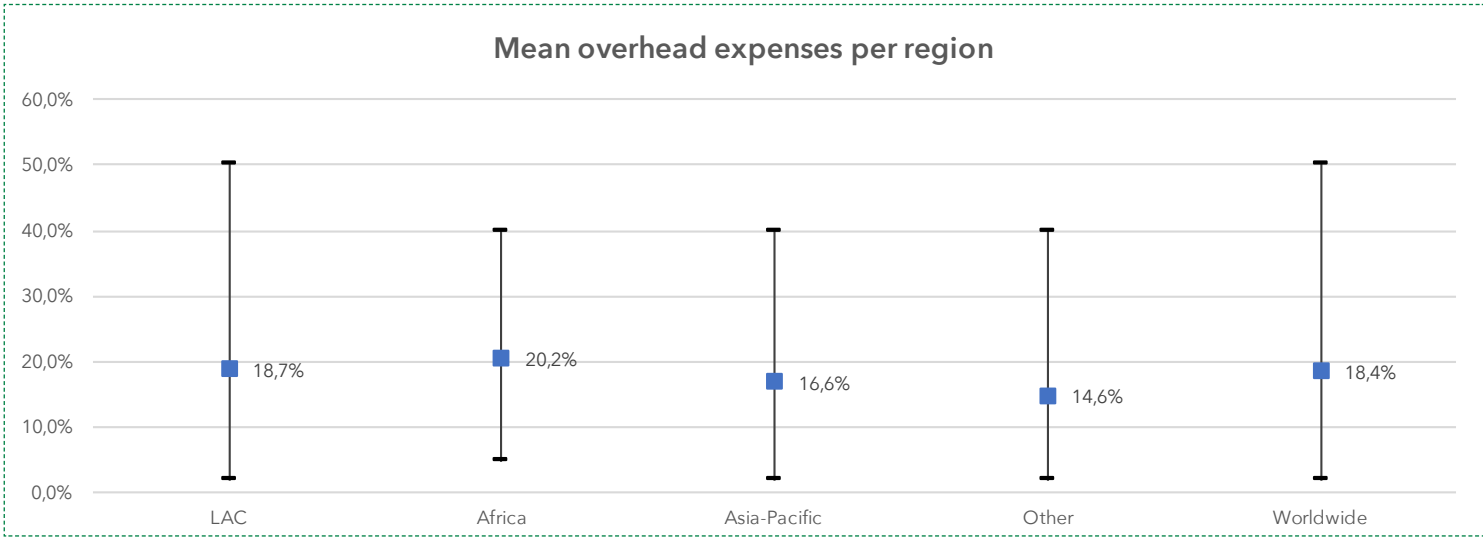


(2020 Global CTF Survey; n=43 CTFs)

Answers were widely scattered, negating the ability to draw clear conclusions as to whether lower or higher overhead expenses percentages could be attributed to a CTF's age, asset size, or region of operation. Figure 8-9 shows the answers of the 43 CTFs that selected a percentage range of overhead expenses, divided by their age category. Out of the other seven respondents, five preferred not to answer the question and only one CTF does not track this percentage. The single answer selected by most CTFs is the 10-15% range. In this range, the largest category is represented by CTFs over 15 years old, but this age category also shows a wide range of answers from less than 5% up to 25- 40%. 25-40% was the most selected single range by CTFs less than five years old, but they also show an ample spread from 5-10% up to more than 40%. The answers from CTFs between five and 15 years old, are even more difficult to group, with the former selecting also 25-40% as the main single answer but having answers across the full range, and the latter having an equal number of responses for the first three ranges and 1 for the 25-40% range.

Figure 8-10 presents the mean overhead expenses for the main regions represented in the survey and an overall mean worldwide. These are calculated based on the survey responses, using the median of the percentage ranges in the answers. The minimum and maximum ranges represented in the answers for each region are also depicted.

Figure 8-10. Estimated mean of overhead expenses per region, based on the median of the percentage ranges in the survey answers



(2020 Global CTF Survey; n=50 CTFs)

The authors caution that this data just represents a high-level reference point, for information purposes. The data shows that CTFs cannot be compared based on their overhead expenses, and that different attributes of a CTF do not readily explain the wide differences observed. Higher overhead expenses do not necessarily signal that a CTF is more expensive. These costs will depend on the calculation used as well as the specific characteristics of the CTF and the programs it manages. Programmatic factors influencing overhead expenses include, for example, the type and size of programs, the intended beneficiaries, the distance and remoteness of the areas where investments are made, and cost of living in the area of operations, amongst others.

Annex 9. Resource Mobilization Trends Among CTFs in the Start-Up Stage 2010-2020

Based on 2020 Global CTF Survey data, this section describes the main trends in type and diversity of funding sources and finance mechanisms that CTFs (by age and asset size groups) have used for their **start-up periods** since previous decades. These results are based on survey responses from 50 CTFs.

Type of funding sources and finance mechanisms in the start-up stage

As previously shown in Figure 4-1, governments, international NGOs, bilateral and multilateral cooperation agencies and private foundations were the most common funding sources for CTFs in their start-up stage over the last decade.

As shown in Figure 8-11, the main sources of start-up funding did not vary substantially with respect to previous decades. The main exception is seen in multilateral cooperation agencies, which supported nearly 50% of the newly established CTFs over the last ten years, as opposed to around 25% of CTFs in previous decades. While other sources supported a similar percentage of new CTFs than in previous years, the results suggest a decrease in the share of new CTFs that received support from domestic sources, i.e. individuals, private foundations, private sectors and NGOs (Figure 8-11).

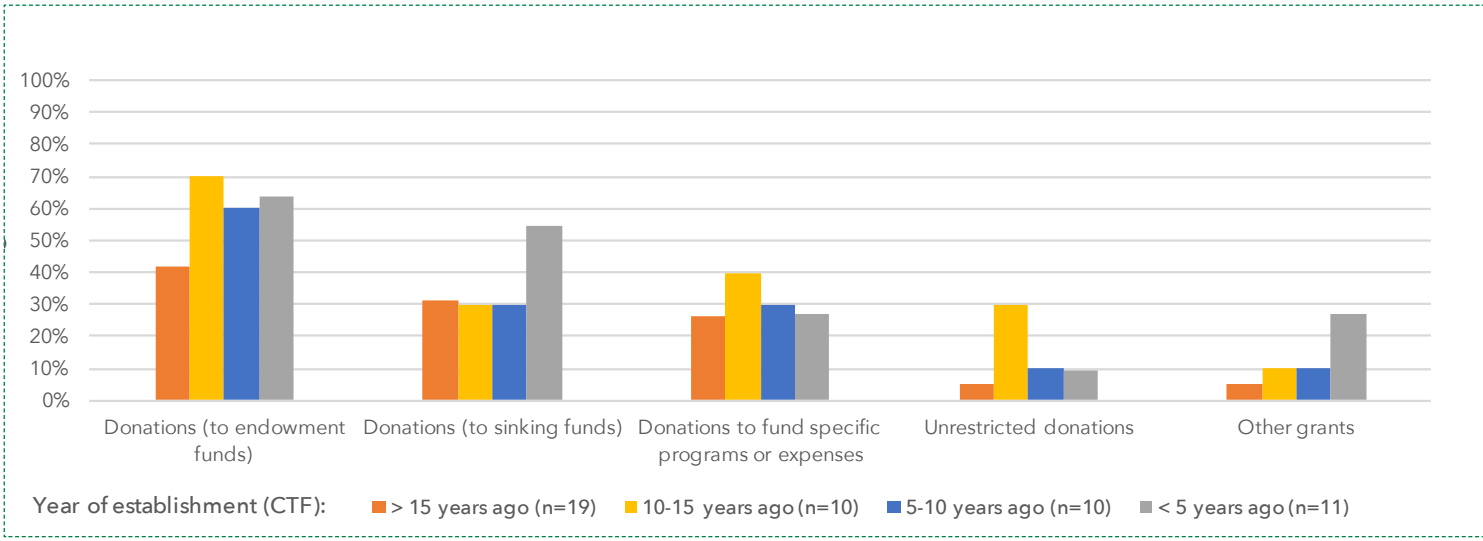
Figure 8-11. Sources that provided start-up capital to CTFs over time

(2020 Global CTF Survey; n=29 CTFs established more than ten years ago; n=21 CTFs established less than ten years ago)

The private sector also supported the establishment of fewer CTFs over the last decade than in previous years. However, since private sector support has been more frequent among operational and institutional CTFs (Figure 4-1), this does not necessarily indicate a decrease in their support to CTFs overall.

As previously described, over the last ten years, most of the start-up capital for CTFs has been mobilized in the form of grants and other transfers (Figure 4-2). With respect to previous years, endowment funds continue to be used by a comparable proportion of new CTFs in their start-up stages, while donations to sinking funds and other grants were used much more often as a finance mechanism among these CTFs over the last 5 years (Figure 8-12). Flow-through funds also became more common over the last decade, but these are still used by less than 20% of CTFs in their start-up stages (Figure 5).

Figure 8-12. Grants and other transfers used by CTFs in the start-up stage over time



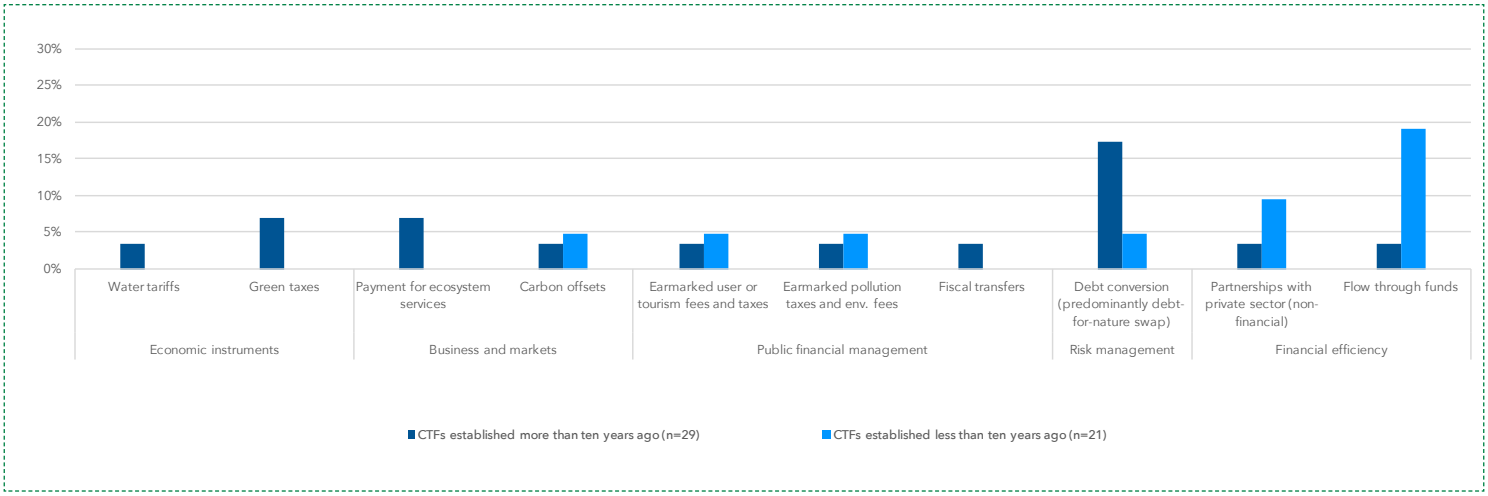
(2020 Global CTF Survey; n=number of responses specified in legend)

Partnerships with the private sector have been used by an increasing percentage of CTFs in comparison with previous years. Earmarked government revenue from fees and taxes, as well as carbon offsets, have also remained as finance mechanisms for the establishment of CTFs since previous decades. However, all these mechanisms are still used by a small percentage (less than 10%) of CTFs.

Although debt conversions (specifically debt-for-nature swaps) served to mobilize substantial amounts of start-up capital to CTFs, the use of this mechanism became less common than in previous years, since the last TFCA agreement was signed in 2014.

As opposed to previous decades, finance mechanisms such as payments for ecosystems, green taxes, water tariffs, and fiscal transfers, did not contribute to the establishment of CTFs in recent years. Some of these, however, are still used by operational or institutional CTFs (Figure 8-13).

Figure 8-13. Other finance mechanisms used by CTFs in the start-up stage over time



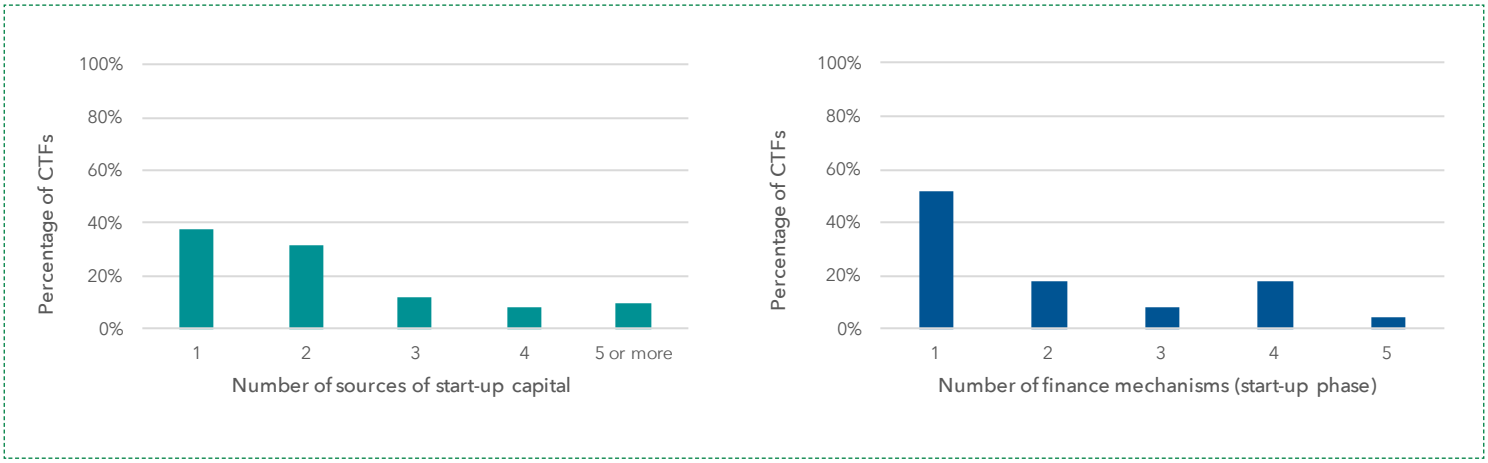
(2020 Global CTF Survey; n=29 CTFs established more than ten years ago; n=21 CTFs established less than ten years ago)

Diversity of funding sources and finance mechanisms in the start-up stage

Survey results show that CTFs are often established with support from a limited variety of sources of capital and finance mechanisms. A large proportion (almost 70%) of CTFs (both start up and older CTFs) obtained start-up capital from only one or two funding sources (Figure 814, left). Similarly, 52% of CTFs in their start-up stage used only one finance mechanism to channel and generate funds (predominantly donations to endowment or sinking funds) (Figure 8-14, right).

The remaining 48% of CTFs, which were established with a mix of two or more finance mechanisms, reported an average of three (and up to five) different mechanisms during their start-up stage (Figure 8-14, right). Of these CTFs, nearly all of them used donations to endowment funds, sinking funds and/or specific conservation programs as part of their mix of finance mechanisms. Debt conversions (specifically debt-for-nature swaps), other grants, flow-through funds, and partnerships with the private sector were also often used in combination with other mechanisms by CTFs in their start-up stages.

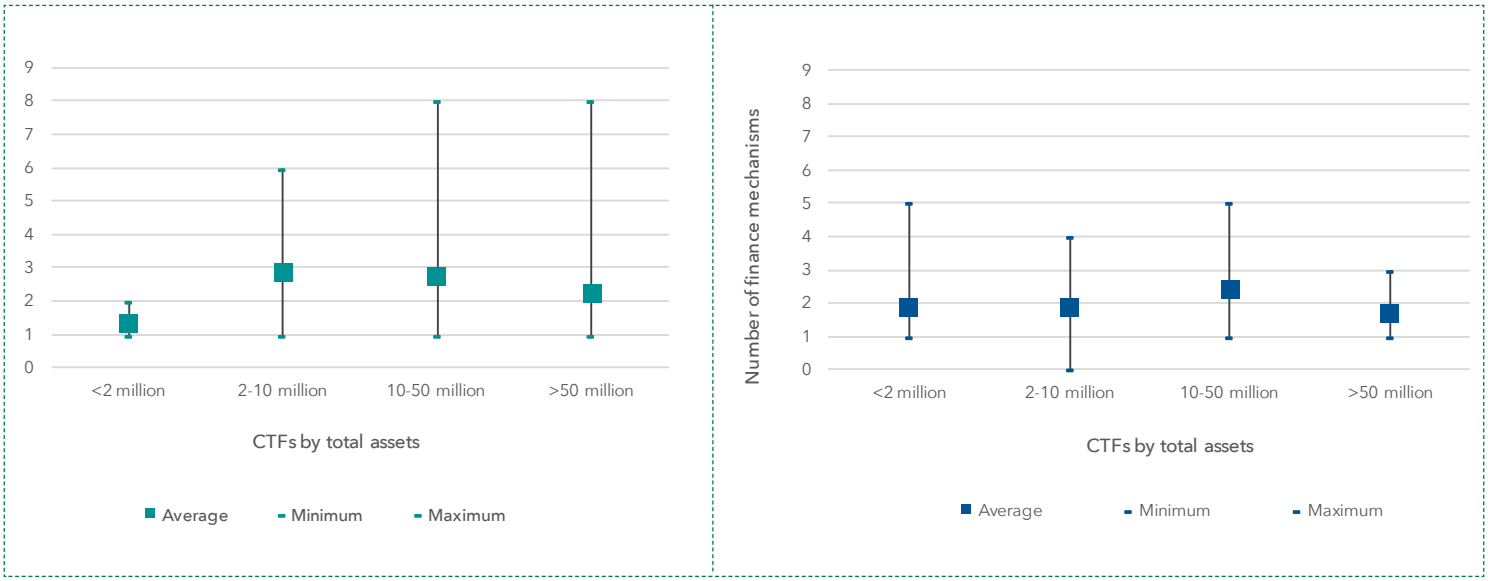
Figure 8-14. Number of sources of capital (left) and finance mechanisms (right) used by CTFs in the start-up stage



(2020 Global CTF Survey; n=50 CTFs)

The survey results also suggest that the number of funding sources and finance mechanisms used by CTFs in their start-up stage has been similar among CTFs managing different amounts in total assets, with the exception of CTFs that manage less than $2 million in total assets, as these have relied on fewer sources of start-up capital than larger CTFs (Figure 8-15, left).

Figure 8-15. Number of sources of capital (left) and finance mechanisms (right) used in the start-up of CTFs in different asset size groups



(2020 Global CTF Survey; n=50 CTFs)

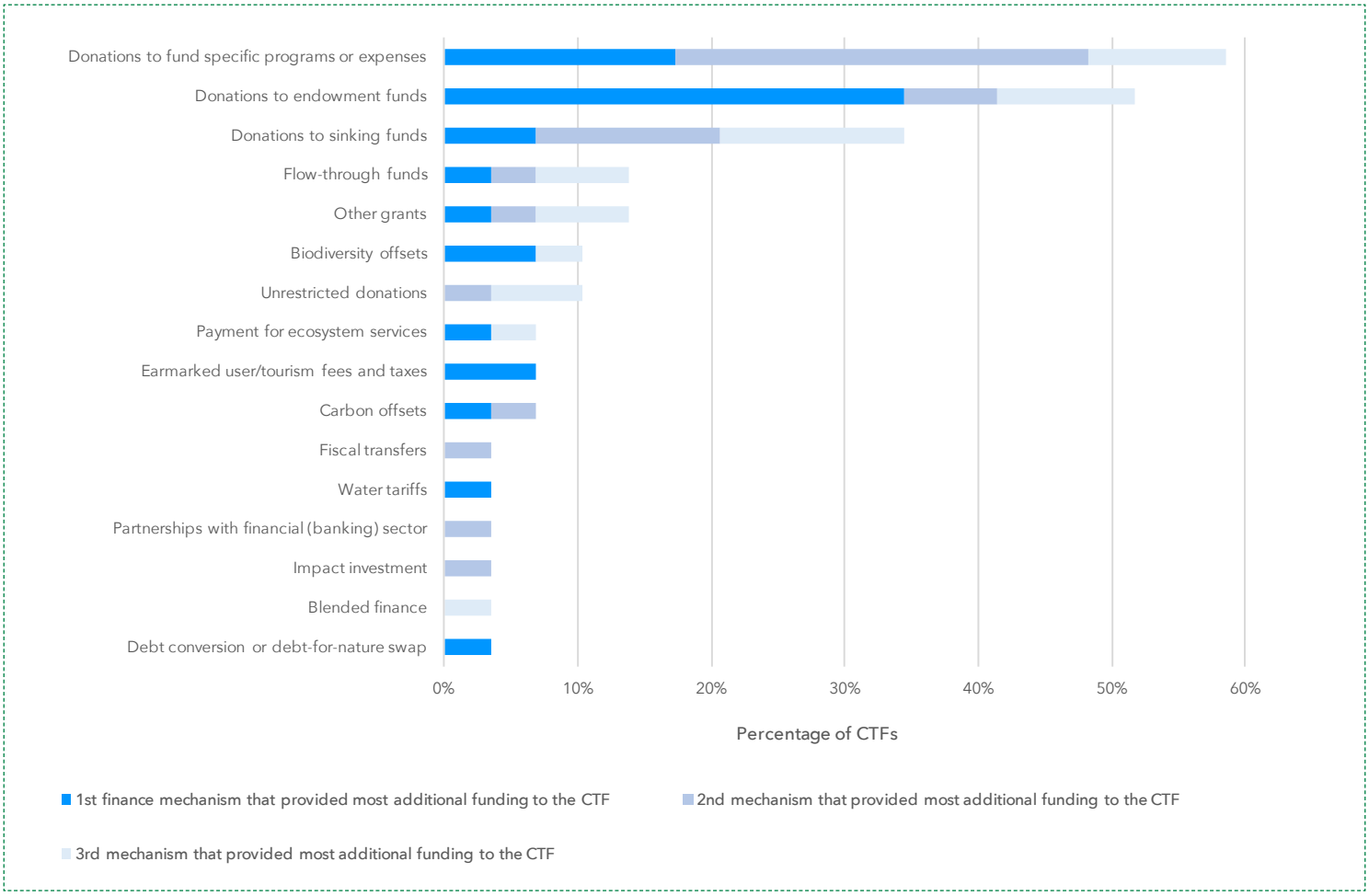
Annex 10. Resource Mobilization Trends Among Operational and Institutional CTFs 2010-2020

The 2020 Global CTF Survey also investigated the funding sources and finance mechanisms that CTFs used to support their **operational and institutional stages** over the last decade. This section draws on survey responses from 29 CTFs that are more than ten years old.

Type of funding sources and finance mechanisms used in the operational and institutional stages

As previously illustrated in Section 4.1.1, over the last decade, most operational and institutional CTFs obtained funds from international NGOs, bilateral and multilateral cooperation agencies, national governments, private foundations and, in a smaller proportion, the private sector. For the majority of operational and institutional CTFs, the most substantial amounts of additional funds were channeled through donations to specific programs, endowment funds, and/or sinking funds (Section 4.1.2 and Figure 8-16).

Figure 8-16. Finance mechanisms that provided the most funding to support operational and institutional CTFs over the last decade



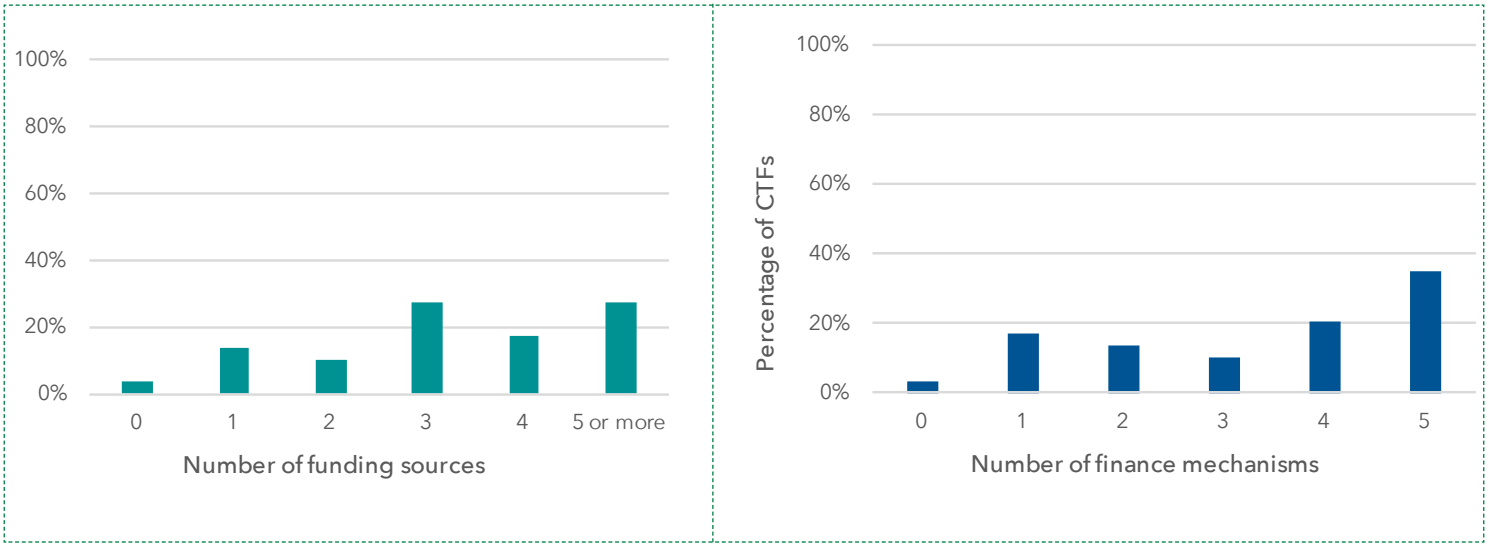
(2020 Global CTF Survey; n=29 CTFs more than ten years old)

While operational and institutional CTFs obtained most of their funding from grants and donations, they also tapped into a diversity of other finance mechanisms to mobilize additional resources into their programs. Flow-through funds were used by around 25% of the operational and institutional CTFs (Section 4.1.2) and became one of the top three finance mechanisms that provided most funding to approximately 15% of operational and institutional CTFs (Figure 8-16). Although other finance mechanisms were less frequently used by operational and institutional CTFs, answers to the 2020 Global CTF Survey highlight the resource mobilization potential of additional finance mechanisms such as biodiversity offsets, payments for ecosystems services, earmarked user or tourism fees and taxes, carbon offsets (e.g. REDD+), water tariffs, and debt conversions (Figure 8-16).

Diversity of funding sources and finance mechanisms in the operational and institutional stages

In contrast with the CTFs in their start-up stages, the results of the 2020 Global CTF Survey show that operational and institutional CTFs used a diversified mix of funding sources and finance mechanisms over the last decade. These CTFs obtained funds from an average of four (and up to 11) different sources (Figure 8-17 left) and the great majority (80%) of them used at least two finance mechanisms (Figure 8-17 right).[48]

Figure 8-17. Number of funding sources (left) and finance mechanisms (right) used by operational and institutional CTFs to obtain additional funding over the last decade

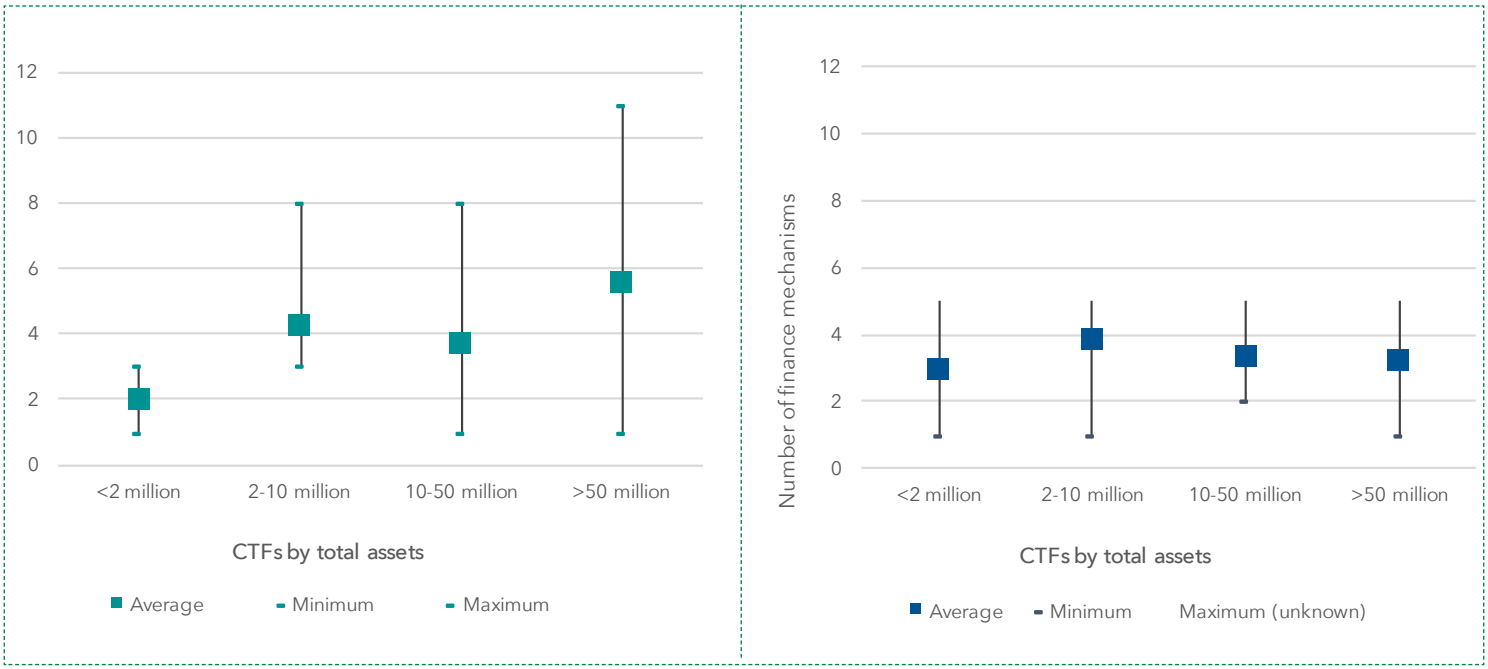


(2020 Global CTF Survey; n=29 CTFs more than ten years old)

48 One of the participating CTFs indicated that it has not used any additional funding sources or mechanisms over the last ten years, because it has operated on the basis of its initial endowment and sinking funds since the start-up stage.

Comparisons based on total assets suggest that larger CTFs have obtained funds from a more diverse array of funding sources than smaller CTFs (Figure 8-18, left). The diversity of finance mechanisms, however, does not seem to differ among different asset size groups (Figure 8-18 right).

Figure 8-18. Number of funding sources (left) and finance mechanisms (right) used by operational or institutional CTFs in different asset size groups



(2020 Global CTF Survey; n=29 CTFs more than ten years old)