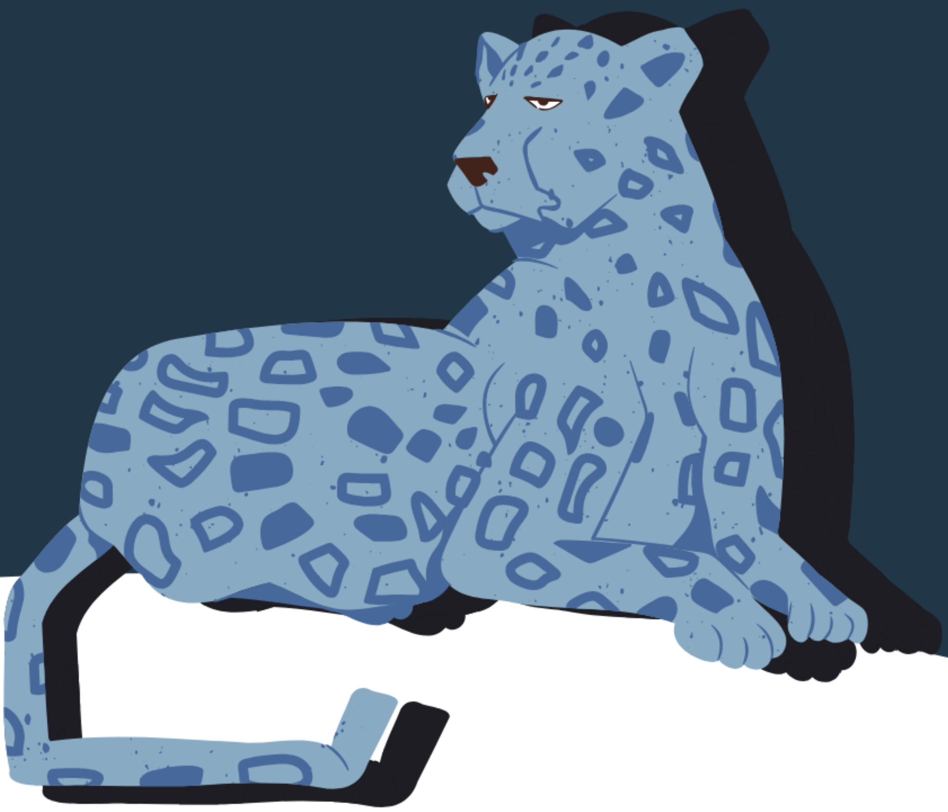

Conservation Trust Funds

A KNOWLEDGE PRIMER

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Centre for a Smart Future (CSF) is an interdisciplinary public policy think tank based in Colombo, with a network of researchers, practitioners, and policy professionals around the world. We believe that Sri Lanka's economic recovery must be just by people and just by nature. This Knowledge Primer is part of a series primers under CSF's Natural Capital Forum and the work pillar 'Nature and Finance'. These publications – and associated advocacy efforts - aim to improve Sri Lankan stakeholders' understanding on public and private financing instruments that are linked to nature. They are meant to be discussion starters and contribute to the public policy debate around these topics, and bridge understanding between the economics, finance, and public financial management communities, and the conservation, ecology, and environmental science communities in Sri Lanka.

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SNAPSHOT

- CTFs are Private, legally independent grant-making institutions that provide sustainable financing for biodiversity conservation, designed to act as a bridge between donors and implementing agencies.
- CTFs require clear sets of objectives, governance structures, financial structures, necessary staff, and the ability to operate efficiently and independently of government institutions. CTFs can be structured as trusts and foundations
- Financial Structures range from endowments and sinking funds, to revolving funds and or a combination of investment strategies.
- CTFs usually operate independent of the national government. Some are fully private entities, while others consist of public and private stakeholder representatives - rarely with a governmental majority.

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1. A foundational understanding of conservation trust funds (CTFs)

Covid-19, in its outcomes and origins, has demonstrated the critical importance of ecosystems, or the extent to which human beings rely on ecosystem services. As a global community, our failure to manage and engage with nature sustainably is apparent. According to the Dasgupta review, estimates indicate that between 1992 and 2014, produced capital per person doubled, while human capital increased by 13% globally; however, the stock of natural capital saw a decline of 14%.[1] One of the foremost foundations of biodiversity protection are Protected Areas, encompassing national parks, wilderness areas, community conserved areas and nature reserves.[2] A protected area is defined as 'defined geographical space, recognised, dedicated and managed, through legal or other effective means, to achieve the long-term conservation of nature with associated ecosystem services and cultural values.'[3]

However, these protected areas are often reliant on public funding. In the wake of Covid-19 and a multitude of sovereign debt crises, national governments do not have the finances needed to sustain such areas. Funding, in this regard, is crucial for the effective conservation and management of biodiversity. The Paulson Institute reports that the global biodiversity finance gap stands between US$ 598-824 billion per year.[4] If this gap continues to widen, it could roll back previous efforts at conservation, lead to the further depletion of natural capital stock, and scale down innovation needed to ensure development within the field. However, while these challenges may seem insurmountable, it is important to note that sources of support are emerging from within capital markets. The Nature conservancy reports that private investors, who previously committed US$ 892 million in conservation between 2004 and 2008, raised investment to a total of US$ 1.4 billion for the period 2009-2013.[5] While this is a positive move, the infrastructure set in place to manage this investment is often inadequate. Conservation Trust Funds, therefore, have an important role in supporting the overall architecture of global conservation efforts.

Conservation Trust Funds (CTFs) are defined as "Private, legally independent grant-making institutions that provide sustainable financing for biodiversity

[1] "The Economics of Biodiversity: The Dasgupta Review - Headline Messages." HM treasury , 2021. https://assets.publishing.service.gov.uk/media/60182857d3bf7f70c2afe5bb/Dasgupta_Review_-_Headline_Messages.pdf.

[2] IUCN. "Effective Protected Areas," n.d. https://www.iucn.org/our-work/topic/effective-protected-areas.

[3] Day, Jon , Nigel Dudley, Marc Hockings, Glen Holmes, Dan Laffoley, Sue Stolton, Sue Wells , and Lauren Wenzel. "Guidelines for Applying the IUCN Protected Area Management Categories to Marine Protected Areas." Switzerland: IUCN, 2019. https://portals.iucn.org/library/sites/library/files/documents/PAG-019-2nd%20ed.-En.pdf.

[4] Paulson Institute. "Financing Nature: Closing the Global Biodiversity Financing Gap - Paulson Institute," November 11, 2021. https://www.paulsoninstitute.org/conservation/financing-nature-report/.

[5] "Investing in Conservation: A Landscape Assessment of an Emerging Market." The Nature Conservancy , 2014. https://www.nature.org/content/dam/tnc/nature/en/documents/InvestingInConservation_Report.pdf.

conservation."[6] Designed to act as a bridge between donors and implementing agencies, CTFs do not engage in conservation efforts directly, rather they mobilise investment from a range of stakeholders - including international donors, national governments, and the private sector - and direct funds to local organisations or agencies operating within a specific country.[7]

Over the last two decades, over 50 CTFS have been established in developing and transition economies globally.[8] Emerging first in the 1990s, CTFs were created in response to 'debt-for-nature' swaps. These swaps consisted of the cancellation of a developing country's foreign debt in exchange for a commitment by national governments to domestic conservation investment.[9] The success of debt for nature swaps led to the generation of large amounts of local currency which lacked transparent, intermediary, and third-party structures needed to effectively absorb and disperse funds to adequately meet the conservation needs of the time.[10] Conservation trust funds, therefore, emerged as public-private partnerships designed to absorb these funds and thereby provide sustainable financing for conservation projects.[11] Traditionally, CTFs were formed as a means of ensuring long-term financing for a country's Protected Areas.[12] The institution has since evolved to encompass areas outside grant-making; playing key roles in the development of national conservation strategies; aiding in capacity building of local organisations; and working with both public and private sector agencies to improve approaches in the management of conservation sites. [13] One pivotal example that embodies this shift is the Seychelles Conservation and Climate Adaptation Trust (SeyCCAT) (see box 1). While SeyCCAT operates as a grant funding mechanism, it also provides considerable support to increase the capacity of institutions and organisations. SeyCCAT targets capacity building on three levels. Firstly, in collaboration with its partners, it provides sessions encompassing project and budget writing skills, and project management. At the second stage of the application process, SeyCCAT offers dedicated facilitators for mentoring and training.[14] Finally, upon success, SeyCCAT provides Blue Grants Funding Projects (projects from the main revolving fund of the SeyCCAT) with the capacity to conduct their own monitoring and evaluation.[15] Therefore, CTFs such as SeyCCAT play a pivotal role in absorbing, retaining and disbursing funds, while

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[6] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds." Conservation Finance Alliance, May 2008. https://www.cbd.int/financial/trustfunds/g-rapidassess.pdf.
[7] "Practice Standards for Conservation Trust Funds." Conservation Finance Alliance , 2020. https://redlac.org/wp-content/uploads/2021/04/CFAPracticeStandards2020.pdf.
[8] "Guide to Conservation Finance: Sustainable Financing for the Planet." World Wildlife Fund (WWF) , 2009. https://wwfint.awsassets.panda.org/downloads/wwf_guide_to_conservation_finance.pdf.
[9] Guerin-McManus, Marianne. "Conservation Trust Funds." UCLA Journal of Environmental Law and Policy 20, no. 1 (2001). https://doi.org/10.5070/l5201019381.
[10] Guerin-McManus, Marianne, "Conservation Trust Funds."
[11] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."
[12] Bladon, Annabelle , Essam Mohammed, and E. J. Milner-Gulland . "A Review of Conservation Trust Funds for Sustainable Marine Resources Management: Conditions for Success." International institute for Environment and Development, 2014. https://www.iied.org/sites/default/files/pdfs/migrate/16574IIED.pdf.
[13] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."
[14] Commonwealth. "Case Study: Innovative Financing – Debt for Conservation Swap, Seychelles' Conservation and Climate Adaptation Trust and the Blue Bonds Plan, Seychelles (on-Going)," n.d. https://thecommonwealth.org/case-study/case-study-innovative-financing-debt-conservation-swap-seychelles-conservation-and.
[15] Commonwealth, "Case Study: Innovative Financing."

ensuring that organisations have access to these sources of finance, and the institutional capacity needed to ensure that financing is effectively used in conservation projects.

While CTFs hold promise is facilitating sustainable financing, it is important to note that such mechanisms are only effective if they meet the relevant criteria. In reviewing CTFs, the GEF evaluation concluded that conservation trust funds require four essential conditions to be considered appropriate for a specific site or country; the issue being addressed needs a commitment of at least 10 to 15 years; active government support for a public-private sector mechanism outside government control; a critical mass of people from diverse sectors of society that can work together to achieve biodiversity conservation and sustainable development; and finally, CTFs need to keep administrative costs below a certain ceiling, based on a standard definition of the constitution administrative costs. [16]

Box 1: Seychelles Conservation and Climate Adaptation Trust (SeyCCAT)

In 2015, the Seychelles government legislated the creation of the Seychelles Conservation and Climate Adaptation Trust (SeyCCATT). In the wake of the financial crises of 2008, the Seychelles reached significant debt repayment challenges with sovereign debt reaching more than 150 per cent of gross domestic product. With an economy intrinsically linked to its marine and coastal assets, the government sought to undertake the world's first Blue Economy debt-for-nature-swap by converting 21.6 M USD of national debt and launching the first sovereign blue bond. In 2015, the Seychelles government legislated the creation of the Seychelles Conservation and Climate Adaptation Trust (SeyCCATT) to adequately retain and administer the funds generated by the swap.

The World Bank report on the Seychelles states that SeyCCAT is scheduled to receive US $432,000 per year from the GOS, over 20 years. Each year, SeyCCAT will distribute US$281,000 for marine conservation and planning implementation. The remaining US$151,000 per year will be placed into an endowment, with an expected ending value of US$6.7 million, after 20 years. This endowment will then fund work starting in the 21st year (after the cash flow from the debt restructuring ends).

SeyCCAT is structured under three pillars; The Blue Grants Fund, The Blue Endowment Fund; and the Blue Challenge Fund. The Blue Grants Fund is the main revolving fund of the SeyCCAT. It distributes funds through a competitive "request" for proposals basis and consists of five strategic priorities alongside four cross cutting themes. These priorities include supporting new and existing marine and coastal protected areas, empowering the fisheries sector with the robust science and knowledge to improve governance sustainability and market options, promoting the rehabilitation of marine and coastal ecosystems that have been degraded by external impacts, develop and implement risk reduction and social resilience plans to adapt to the effects of climate change, and to nurture businesses models to secure the sustainable development of the Seychelles Blue economy. While it is primarily a grant making entity, SeyCCAT has identified that it

[16] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."

can only be successful in achieving its objectives if recipients of grants are empowered with the knowledge and capacity needed to manage and employ funding effectively.

2. Establishing the framework: Legal pillars and institutional structures

CTFs were established to be permanent institutions capable of achieving long-term sustainability. In pursuit of continuity, CTFs require clear sets of objectives, governance and financial structures, necessary staff, and the ability to operate efficiently and independently of government institutions. Depending on the legal framework of a country there are two ways in which CTFs can be structured; that of trusts and foundations.[17]

In many countries, CTFs are established in the form of a trust. A trust is a legal arrangement in which assets are managed by one group (the trustee) on behalf of another group (the beneficiary).[18] In the case of CTFs, a trustee or group legally owns and manages the financial resources or property which has been donated exclusively for a designated charitable purpose as defined in a charter or deed of trust for specified beneficiaries.[19] Countries that enact common law entail that a trustee is obligated to make all decisions about the assets with the beneficiary's interests in mind.[20]

In countries where there is no legal basis to establish a trust - inclusive of most civil law countries - foundations and civil associations are often used to the same end. In these instances, a CTF might also be established through national legislation or decree.[21] As opposed to enacting a general law on foundations and trust funds that may take many years to implement, A special law, in this regard, could enable a country to establish a CTF.[22] This was exemplified in Madagascar where such laws were implemented to satisfy the requirements of international donor agencies, whose donations were conditional on the country enacting an entirely new law that governs foundations.[23] From 2002 to 2003, donors and the Malagasy government worked on defining a legal, financial and organisational framework for the foundation that relied on the 1995 Foundation Act.[24] Following legal audits, the 1995 Foundation Act gave way to

[17] Guerin-McManus, "Conservation Trust Funds."
[18] IUCN, "Effective Protected Areas" (2023) Available at https://www.iucn.org/our-work/topic/effective-protected-areas
[19] Bladon, Annabelle , Essam Mohammed, and E. J. Milner-Gulland . "A Review of Conservation Trust Funds."
[20] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."
[21] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."
[22] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."
[23] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."
[24] Meral, Philippe , and Catherine Aubertin. "Protected Areas, Sustainable Land?" Institute of Research and Development, n.d. https://horizon.documentation.ird.fr/exl-doc/pleins_textes/divers20-06/010052553.pdf.

a new law in 2004, which increased the autonomy of the foundation thereby meeting the criteria set by donors.[25]

While most CTFs are established locally, some countries that operate according to civil law lack a legal basis for CTF creation within the country. In these cases, CTFs could be established in offshore locations, thereby ensuring the safety of the trust's capital.[26] Relocation, in this regard, could be due to political or financial instability, lack of transparency or confidence in the domestic country's governance measures. Relocation could also be attributed to hopes of gaining access to specific donors, or that of tax exemptions. An example of a relocated, or externally registered trust fund is the Mesoamerican Reef (MAR) Fund, established as a US tax-exempt charity foundation created to support transnational solutions for Mexico, Belize, Guatemala, and Honduras (see box 2).[27] Many civil law countries, in this regard, tax income earned by charitable trusts. If new legislation cannot be enacted to prevent taxation (whether at source or in the destination country), CTFs tend to be registered in a country with a more flexible legal system such as the UK or the USA.[28]

For countries abiding by common law, such as the UK and the US, statutory laws grant tax exemptions for income earned by charitable trusts. Often, when civil law countries cannot enact new legislation to prevent taxation, CTFs are registered in common law countries.[29] There are a few specific reasons as to why registration in a common law country may be essential for countries that do not have legal systems which could inspire confidence. Firstly, the laws enacted in those countries would not have provided taxation exemptions and may impose legal restrictions to the effective operation of a CTF.[30] Additionally, A country might seek to dominate and control a CTF, which could lead the trust to be absorbed by the national government.[31]

When establishing a Charitable Trust or Foundation (CTF), it is crucial to consider several key factors. Firstly, a comprehensive examination of the legal landscape is essential. This entails evaluating whether a country's laws impose challenging legal requirements or restrictions that could hinder the effective operation of the trust or foundation. Additionally, attention should be directed towards assessing the potential risk of the national government utilising its authority to override the board and incorporate the CTF into its public infrastructure. Moreover, it is vital to investigate whether the government provides tax exemptions on the income generated by the CTF. These legal considerations play a pivotal role in determining the structure and feasibility of the CTF.

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[25] Meral and Aubertin, "Protected Areas, Sustainable Land?"
[26] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."
[27] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."
[28] WWF, "Practice Standards for Conservation Trust Funds."
[29] WWF, "Practice Standards for Conservation Trust Funds."
[30] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."
[31] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."

Box 2: Mesoamerican Reef Fund (MAR)

MAR was created in 2004 to finance the conservation and sustainable use of the marine and coastal ecosystem of the Mesoamerican Reef - an ecoregion shared by four countries including Mexico, Belize, Guatemala, and Honduras. Formed in the context of strong political will and support for the conservation of the ecoregion, it was built on the technical, administrative, and financial capacities of four pre-existing national CTFs in Mexico (FMCN), Honduras, Belize (PACT) and Guatemala. The fund functions as an example of how large-scale regional CTFs can benefit from the structure of pre-existing CTFs, regional funding, and inter-institutional coordination. The mission of the MAR Fund is to drive regional funding and partnerships for the conservation, restoration, and sustainable use of the Mesoamerican Reef. By encompassing an entire ecoregion, its aim is to consolidate and allocate donor contributions to common and strategic objectives in accordance with local action implemented within the region.
[32]

As of December 31, 2021, the endowment fund has been valued at 32,790,641 USD and has four separate accounts. Over a period of six years, MAR, through KfW, developed a partnership with the German government for an initial direct donation of €1 million. Having proved that it could operate effectively at the regional level, it managed to secure a second grant from KfW of €10 million. Consequently, MAR has attracted additional investment and remains confident about the growth of the fund. With the establishment and growth of its endowment, the fund has been able to expand from small grants programmes to larger projects centred on clearly defined priority PA sites.[33]

MAR Accounts

- KfW Funds - utilised for the Small Grants Program and to co-finance operational and administrative expenses
- FFEM - Revenue is used to support the Small Grants Program for local conservation projects by local communities and NGOs in natural resources management initiatives
- Reef Rescue - Supports activities that improve the resilience and recovery of coral reefs within the region.
- MAR Fish - Revenue will be used to support the conservation and management of the Cayman Crown Reef, which is shared by Guatemala and Belize.

The Board of Directors is comprised of international collaborators, experts, the Central American Commission on Environment and Development (CCAD), and the in-country funds from each of the Mesoamerican Reef countries – Protected Areas Conservation Trust (Belize), Fundación para la Conservación de los Recursos Naturales y Ambiente en Guatemala (FCG), Fundación Biósfera (Honduras), and Fondo Mexicano para la Conservación de la Naturaleza (Mexico).[34]

Board of directors (13 members in total)

[32] Bladon, Annabelle , Essam Mohammed, and E. J. Milner-Gulland . "A Review of Conservation Trust Funds."
[33] Bladon, Annabelle , Essam Mohammed, and E. J. Milner-Gulland . "A Review of Conservation Trust Funds."
[34] "What Is MAR Fund? – MAR Fund – Protecting the Mesoamerican Reef," n.d. https://marfund.org/en/what-is-marfund/.

- Representation from the four member CTFs
- Four national representatives
- One member from the Central American Council on Environment and Development (CCAD)
- Seven additional representatives

Execution

- Decisions are made by the board
- The Executive Director passes technical coordination to the member CTFs - this allows MAR to benefit from the outcome while saving on costs

Subcommittees

- Finance Committee
- Grants Review Committee
- Evaluation Committee
- Development Committee

Unlike most CTFs that focus on a specific, singular region, or account, the MAR fund is a working example of cross-border collaboration between existing CTFs that span a vast ecoregion, requiring both collaboration within governing boards, and coordination between funding objectives.

3. Navigating authority: A closer look at governance structures

CTFs, as seen in BACoMaB, are managed by a governing body (see box 3). Traditionally, CTFs have 'mixed' governing boards, made up of representatives of both public and private sectors, and civil society (usually a precondition of most international donor agencies for their contribution). Depending on a country's existing legal framework, it is composed of either a board of directors, a governing council or an oversight committee. CTFs usually operate independent of the national government. Some are fully private entities, while others consist of public and private stakeholder representatives - rarely with a governmental majority.[35] Donor agencies, in this regard, are often represented in a non-voting capacity. On average, the size of the governing board depends on the amount of money and number of accounts being managed, with sizes ranging from five to twenty members for smaller accounts, while those managing larger amounts of money and multiple accounts are directed by significantly larger boards.[36]

The Executive Director or Secretary of the fund is recruited by the board to oversee the implementation of board decisions. The number of staff hired to carry out implementation often ranges between 4 and 25.[37] Often, these numbers are dependent on the amount of money, the number of accounts managed, and the period of the fund's existence. The governance structure also includes the

[35] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."
[36] Bladon, Annabelle , Essam Mohammed, and E. J. Milner-Gulland . "A Review of Conservation Trust Funds."
[37] Bladon, Annabelle , Essam Mohammed, and E. J. Milner-Gulland . "A Review of Conservation Trust Funds."

establishment of specialised committees composed of board members themselves and / or external experts to advise the board on technical, financial, or administrative issues, as seen in the case of MAR.[38]

Board governance is an essential element of effective CTF administration. If there is a disproportionately large representation on behalf of the national government, international investors, who specifically require independence and autonomy from public institutions, may choose not to facilitate funding to a specific trust fund. Government involvement could also be determined through the flow of funds; the ability to transfer the organisation's funds into and out of the country; and the link between trust funds and departments such as the Ministry of Finance; and the legal provisions allowing earmarked taxes to be deposited in a non-governmental trust fund or foundation.[39]

To ensure effective governance, it is essential to address several key components. Firstly, the composition of the board of directors for a fund should carefully consider the balance between government and non-governmental representatives. Striking an appropriate ratio is crucial for maintaining a well-rounded and unbiased decision-making process. Additionally, limiting the number of representatives from international donors to one or two members helps foster a sense of national ownership of the Charitable Trust or Foundation (CTF). Furthermore, to enhance clarity and accountability, it is imperative to outline specific roles and responsibilities for board members in the CTF's bylaws or operations manual. Establishing a clear standard of performance for new board members facilitates a better understanding of expectations, contributing to the overall effectiveness of the governance structure.

[38] Bladon, Annabelle , Essam Mohammed, and E. J. Milner-Gulland . "A Review of Conservation Trust Funds."
[39] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."

Box 3: Banc d'Arguin Coastal and Marine Biodiversity Trust Fund (BACoMaB), Mauritania

Established in 2009, the BACoMaB was designed to ensure the long term financing for Banc d'Arguin National Park (PNBA)[40]. The endowment is currently worth €10 million, two million of which has come through the EU-Mauritania Partnership Fisheries Agreement, the rest from the KfW and MAVA Foundation. Owing to the lack of political stability in Mauritania, and the absence of a legal basis for such a fund to exist, BACoMaB is a foundation governed by UK law.

The BACoMaB is a crucial example of how a CTF framework could play a role in a Marine Payments for ecosystem services (PES) scheme. There are attempts to replicate its mechanism in Guinea-Bissau, where the CTF BioGuinea is being delayed due to political constraints.

The fund also demonstrates the complexity in establishing a CTF. While the idea for the CTF emerged in 2002, it took time to get the Mauritanian government on board, and for each of the respective preconditions to be established. This also involved the modernization and restructuring of The National Park of Banc d'Arguin (PNBA) authority. It was only in 2007 that a steering committee, led by GIZ and the International Foundation of Banc d'Arguin (FIBA) - which required a ministerial decree, was formed,

A key factor in the creation of mobilisation of BACoMaB was the support of FIBA and GIZ, which helped strengthen the management of PNBA. These partners also helped to lobby the Brussels Commission into supporting the Fisheries Partnership Agreement negotiations, which were in turn championed by the Director of the EU Common Fisheries Policy, who helped to push for a proportion of the EU-Mauritania Fisheries Agreement to be earmarked for BACoMaB.

4. Navigating fiscal landscapes: Exploring the financial structure of conservation trust funds

Most CTFs are designed to have a stable and enduring financial structure. The requirement of the structure is to provide a normalised flow of funds not subject to the fluctuations and uncertainties of project funding.[41] While there are many financial structures that enable consistent funding, the choice of approach depends on the purpose and size of the CTF.[42] Many CTFs are currently hybrids of what earlier studies considered to be distinct categories, serving as "umbrella funds," they include different accounts for specified purposes, under a single legal and institutional structure.[43] Financial Structures range from endowments and sinking funds, to revolving funds and or a combination of investment strategies.

[40] Bladon, Annabelle , Essam Mohammed, and E. J. Milner-Gulland . "A Review of Conservation Trust Funds."
[41] Bladon, Annabelle , Essam Mohammed, and E. J. Milner-Gulland . "A Review of Conservation Trust Funds."
[42] "Evaluation of Experience With Conservation Trust Funds." Global Environment Facility, 1998. https://www.cbd.int/financial/trustfunds/g-gefevaluation.pdf.
[43] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."

Endowments refer to the process of investing financial assets of a fund, and using the income generated from this investment towards conservation activities.[44] Here, capital is invested in perpetuity, with investment income being used to finance grants.[45] When assets are structured in the form of endowments, the initial capital is provided by a combination of bilateral aid agencies, the GEF, international conservation NGOs, foundations, corporations, and the national government.[46] The Mexican Fund for the Conservation of Nature (FMCN) is a good example of a well structured endowment fund (see box 4). In 1997, the National Council for Protected Areas decided to transfer its remaining resources from a GEF to the FMCN, whose resources were used to create an endowment - the Natural Protected Areas Fund (FANP).[47] At this stage, the endowment fund was capitalised by a single donor, supporting 10 PAs. Today, the FMCN is supported by 12 donors, financing a total of 16 PAs.[48] While this type of funding can be seen as a long-term source of financing for PAs and national parks, covers basic operational costs, and can be used to generate additional sources of funding; it ties up substantial amounts of capital with relatively low returns.[49] Due to its low returns, and significant delays in producing income, this option is often considered to be the least attractive to donors[50].

Sinking Funds finance activities using both principal and investment income until the total fund sinks to zero. This means that capital will be completely spent over a fixed time period of about ten to twenty years.[51] Despite its lack of permanence and continuity, sinking funds are suitable when large amounts of money are required on a singular basis. For instance, Peru‘s National Fund for Protected Areas (PROFONANPE), uses various sinking funds alongside an endowment to provide 75 per cent of the financial resources needed for Peru’s entire national PA system.[52] Sinking Funds, most often, capitalise on assets that come from debt for nature swaps or bilateral reduction programmes.[53] Their incremental funding structure and 20 year payment schedule, means that, unlike endowment funds, it doesn’t tie up large amounts of capital. This could be considered attractive (depending on outcomes) for donors who appreciate visible results of their investment strategies.

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44 Bladon, Annabelle , Essam Mohammed, and E. J. Milner-Gulland . “A Review of Conservation Trust Funds.”
45 Spergel,Barry, and Philippe Taïeb . “Rapid Review of Conservation Trust Funds.”
46 “Comparative Comparative Advantages of CTFs and Project Approach to Support Protected Areas Systems: Examples from the Field - Final Synthesis Report.” Conservation Finance Alliance, 2013. https://papaco.org/fr/wp-content/uploads/2015/11/2-Final_Synthesis_Report_Comparative_Advantages_CTF_vs_Project.pdf.
47 Spergel,Barry, and Philippe Taïeb . “Rapid Review of Conservation Trust Funds.”
48 Spergel,Barry, and Philippe Taïeb . “Rapid Review of Conservation Trust Funds.”
49 Bladon, Annabelle , Essam Mohammed, and E. J. Milner-Gulland . “A Review of Conservation Trust Funds.”
50 Spergel,Barry, and Philippe Taïeb . “Rapid Review of Conservation Trust Funds.”
51 Bladon, Annabelle , Essam Mohammed, and E. J. Milner-Gulland . “A Review of Conservation Trust Funds.”
52 Spergel,Barry, and Philippe Taïeb . “Rapid Review of Conservation Trust Funds.”
53 Spergel,Barry, and Philippe Taïeb . “Rapid Review of Conservation Trust Funds.”

Revolving funds refer to a fund that is replenished on a continuous basis, through earmarked taxes or user fees.[54] Given that the financial source is sustainable, these funds can last in perpetuity, covering CTF's operating costs, and consistently financing environmental conservation efforts. The danger, however, lies in the potential withdrawal of the core source which could lead to the abrupt dissolution of the fund in its entirety.

Investment strategies, in this regard, are often dependent on the goals of CTFs, the local economic context, and donor requirements.[55] Strategies range from local banks, fixed income government bonds, stocks, and real estate, to more complex portfolios. Investment strategies often tend to be conservative in order to minimise risk while focusing on capital growth. The revenue generated from invested is split into two; that which is to be withdrawn and spent on operations and that which is to be reinvested.[56]

To ensure sound financial stewardship, it is imperative to address several key components. Firstly, consideration should be given to the process of making grants—whether a Charitable Trust or Foundation (CTF) has the ability to directly provide grants to a specific government agency or if it must go through the Ministry of Finance. Clarifying this procedure is vital for efficient fund allocation. Additionally, the authorization for individual Protected Areas (PAs) to directly accept funds from the CTF needs to be examined, or if funds can only be transferred to the national government agency overseeing PAs. Lastly, securing tax exemption for Trust Funds on income derived from investments is crucial for financial sustainability. Taxation could result in a significant reduction, potentially one-third or more, of the CTF's annual income, emphasising the importance of addressing this aspect for effective financial management.

[54] Bladon, Annabelle , Essam Mohammed, and E. J. Milner-Gulland . “A Review of Conservation Trust Funds.”

[55] C. Bonham. et. al. “Conservation Trust Funds, Protected Area Management Effectiveness, and Conservation Outcomes: Lessons from the Global Conservation Fund,” 2012. https://parksjournal.com/wp-content/uploads/2014/10/PARKS-20.2-Bonham-et-al-10.2305IUCN.CH_.2014.PARKS-20-2.CB_.en_.pdf.

[56] Spergel,Barry, and Philippe Taïeb . “Rapid Review of Conservation Trust Funds.”

Box 4: Mexican Fund for the Conservation of Nature (FMCN)

Established in 1994 the FMCN was created to finance biodiversity conservation in Mexico through four key conservation programs, that of PAs, Forests and Watersheds, Oceans and Coasts, and business sustainability projects and cooperation schemes. Distributing over 65 million USD in support of conservation projects, helped promote sustainable business and public-private partnerships, build institutional capacity, and play a crucial role in improving Mexico's PAs (Locker & Rosenzweig 2011).

The fund was initially sustained through seed capital provided by the US and Mexican governments private group of philanthropic donors. The fund now channels financial support to fifty-three natural protected areas, representing 5.6% of Mexico's land surface and 5.5% of its seas, while managing a total of 157 million USD in equity funds (RedLAC, 2020). In the beginning of its mobilisation, Asset managers were given control of FMCN's discretionary decisions regarding financial strategy. However, it was soon realised that an independent financial expert and an investment committee would be helpful in reducing financial risk (Locker & Rosenzweig, 2011).

There have been a few core factors which have made the financing and mechanisation of the FMCN successful; favourable economic and political climate at its inception, strong leadership including the support of the Mexican government, and the early involvement of the government officials in the FMCN's advisory committee (Norris 2000; Locker & Rosenzweig 2011). This strong political support paired with the particularly autonomous nature of the FMCN has made way for its continuity. Apart from these strengths, since its inception, the fund has made strides due to the use of diversified sources of revenue. By employing multiple streams of finance, the fund has successfully avoided isolation and potential collapse in the face of source withdrawal.

5. Key considerations for Sri Lanka

As anthropogenic impacts of climate change become more apparent in our current landscape, there is an urgent need to address both long and short-term concerns. In the developing world, these concerns, while critical, often do not have the finances needed to sustain long-term support. Countries such as Sri Lanka, in light of its sovereign debt crisis, are in the midst of considering debt-for-nature swaps as a possible option to restructure its US$7.1billion debt and finance the conservation of its protected areas in the process.[57] However, it is important to note that the success of such efforts are reliant on the context within which they are employed. The essential feature of a conservation trust fund is that it meets the need for long-term sustainable financing.[58] It is therefore

[57] Costa, Moriah. “Sri Lanka Becomes Latest Country to Consider Debt-for-Nature Swaps.” Green Central Banking, May 5, 2023. https://greencentralbanking.com/2023/05/05/sri-lanka-debt-for-nature-swaps/.
[58] Guerin-McManus, “Conservation Trust Funds.”

essential for countries such as Sri Lanka to consider whether it has the infrastructural, legal, institutional capacity needed to manage trust funds in the long-term.

When considering the institutional and legal framework for a CTF, it is important to note the role of the national government and its involvement. The appeal of CTFs is that they are independent institutions capable of providing long-term financing.[59] However, if the role of the national government isn't clearly defined, it could come at the cost of independence and thereby lose out on consistent funding from investors. For instance, one of the key issues regarding institutional autonomy is the involvement of government representatives on the board of directors.[60] While it is important to facilitate a close relationship with the government, inadequate balance of power amongst representatives may lead to the mismanagement of funds. This could materially affect the existence of the fund itself as government players may request to seek control of the fund as it is built to finance protected areas which are owned and managed by government organisations. Government control could thereby become a cause for concern for private investors, as transparency isn't as easily guaranteed and it may be difficult to track finances as a result. For instance, Fundo Brasileiro para a Biodiversidade (Funbio), a national entity whose mandate is to provide strategic resources for biodiversity conservation in Brazil, reported that the reason it had been able to attract several million dollar donations from private corporations in Brazil was specifically attributed to its independence from the government.[61] Additionally, the instinct for independence also operates on an individual basis. The Fund of Ecuador (FAN) established a special sub-account for Ecuadorian citizens who want to support Ecuador's national parks but do not feel confident about simply donating money to the government for this purpose.[62] It is crucial, therefore, for conservation trust funds in Sri Lanka to ensure independence and autonomy from the national government at every stage of the institutional and legal design.

CTFs initially originated as endowment funds for debt for nature swaps. Endowment funds are designed to absorb, retain and administer a large proportion of funds. Debt for nature swaps, in this regard, generate enough capital to be able to sustain such funds. However, if other sources of finance can only generate smaller funds, alternate disbursement mechanisms such as loans and donations may be more appropriate. Additionally, many protected areas in Sri Lanka do not have the need or the institutional capacity for exorbitantly large amounts of funding. For instance, IUCN reports that in 1993, Sri Lanka's Department of Wildlife Conservation only expended 56 per cent of its approved budget because it did not possess the capacity needed to responsibly utilise such

[59] C. Bonham. *et. al*, "Conservation Trust Funds, Protected Area Management Effectiveness, and Conservation Outcomes: Lessons from the Global Conservation Fund."
[60] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."
[61] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."
[62] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."

funds.[63] What countries such as Sri Lanka do require are small-scale funds capable of financing administrative, and management costs on a site specific level. Endowments, therefore, could pose a greater challenge for organisations incapable of managing funds effectively. In this case, it is important to ask the question as to whether CTFs, in their transparency processors, eligibility criteria and approval granting methods, may miss out on smaller but more essential needs of local communities that could be financed by small donations and short-grants instead. In these instances, a restructuring may be essential. For example, Uganda's Bwindi Mgahinga Conservation Trust (BMCT) allows its local community steering committees to approve small grants of up to $1,000 pursuant to pre-established criteria, without first getting the approval of the Trust Management Board.[64] In doing so, they were able to break down grants into smaller portions capable of meeting site specific needs. Therefore, it is essential to consider whether CTFs are the appropriate financial mechanisms to operationalise in these environments, or if there are more appropriate means to meeting the need on the ground.

6. Conclusion

CTFs are most useful when the environmental threats "require a sustained response over a number of years".[65] In using long-term impact as its metric for success, CTFS needs to engage with wider objectives, rooted in the existing context of the domestic country, in relation to the specific goals of the fund itself. However, these include the need for capacity building, transparency and accountability in governance structures, a sense of ownership amongst stakeholders, and active political participation and support.[66]

While in many cases the more immediate need may be to fund PAs or national parks, the long-term vision is to either make financing available to local implementing organisations in absorbable amounts or increase the institutional capacity of domestic parties. Trusts that act as an intermediary bridge allows for greater transparency between donors, beneficiaries, governments, and the private sector and could therefore ensure funding is sustained on a long-term basis. Through the active participation of NGOs and governments in generating and managing financial resources, CTFs foster a feeling of ownership, by encouraging direct participation, heightened awareness, and improved community engagement. [67]

[63] Emerton, Lucy , Joshua Bishop , and Lee Thomas . "Sustainable Financing of Protected Areas: A Global Review of Challenges and Options." IUCN, Gland, Switzerland and Cambridge, 2006. https://portals.iucn.org/library/efiles/documents/PAG-013.pdf.
[64] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."
[65] Guerin-McManus, "Conservation Trust Funds."
[66] Spergel,Barry, and Philippe Taïeb . "Rapid Review of Conservation Trust Funds."
[67] Guerin-McManus, "Conservation Trust Funds."

CTFs come in many forms, and they operate within vastly different frameworks. Its strength is centred on its ability to adapt to the context and needs of the country or region in question.[68] As we have seen throughout this primer, CTFs offer numerous advantages, including stable funding, efficiency in resource allocation, the potential for co-financing, and local empowerment. The operation of each CTF is therefore dependent on the political and legal contexts, the purpose of the CTF, and the funding available. It is essential that CTFs meet the required components stated in the GEF evaluation, in that the project being funded extends from 15 to 20 years, there is adequate government support, a critical mass of non-governmental actors, and the need to keep administrative costs at a minimum. A CTF, therefore, may not be a suitable tool in every circumstance but they provide immense support, structure and continuity for circumstances that do.

[68] Bladon, Annabelle , Essam Mohammed, and E. J. Milner-Gulland . "A Review of Conservation Trust Funds."

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