

ROUNDTABLE SERIES ON SUSTAINABLE FINANCING FOR MARINE CONSERVATION

'DEEP DIVE ON CONSERVATION TRUST FUNDS
WITH INTERNATIONAL EXPERT DAVID MEYERS'

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Session Background and Overview

Sri Lanka's marine ecosystems are of immense ecological and economic significance. Ecological conservation sites rely on financial planning and effective management. As Sri Lanka begins to emerge from its economic crises with persisting fiscal pressure, conservation will require innovative financing solutions. However, accessing financing solutions can only be achieved if stakeholders agree on the issues, limitations, mechanisms, design of instruments, and outcomes of conservation. For this, there needs to be a collaborative approach among government officials, the private sector, and civil society stakeholders.

The Centre for a Smart Future (CSF), in partnership with Blue Resources Trust (BRT), launched a Roundtable series in 2023 aimed at enhancing knowledge on sustainable and innovative financing for marine conservation, as part of a project funded by the Oceans5 consortium. The Knowledge Roundtables bring together stakeholders from relevant diverse disciplines and organisations to bridge the gaps in understanding and application, and the gaps between theoretical design and practical considerations.

The third Knowledge Roundtable in February 2024 featured an online introduction to Conservation Trust Funds (CTFs). Led by David Meyers, Executive Director of the Conservation Finance Alliance (CFA), the session delved into the potential of CTFs to provide stable and sustainable funding for conservation. Meyers underscored the importance of independent assessments and government commitments, exploring fund structures, activities, and practice standards behind the deployment of Conservation Trust Funds. This interdisciplinary initiative brought together government officials, private sector representatives, marine scientists, bankers and finance specialists, researchers, civil society groups, and international organisations.

This analytical note captures the key insights and discussion points from this session to provide a wider audience with access, and to serve as a free resource and reference point for other engagements in this space.

Disclaimer: Views captured in this note reflect the presentations and participant deliberations. They do not necessarily reflect the views of CSF, Blue Resources Trust, or any project partners and funders.

DISCUSSION POINTS

Overview of CTFs

- CTFs are financing institutions that can support long-term management costs, such as salaries and operating expenses.
- There are three different CTF networks, namely 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).
- CTFs can co-invest funds with the government and, therefore, have the potential to go beyond operating solely as a financing institution to provide capacity-building services on the sub-national, national, and, at times, regional levels.
- CTFs involve checks and balances, trust deeds, and international investments. While there is no fixed minimum size for a CTF, covering basic costs may require around \$10 million.
- Building a CTF requires significant time and a champion donor willing to provide funding upfront and involves numerous challenges in engaging stakeholders and securing commitments.

Governance

- The concept of a Trust reflects a three-party fiduciary relationship commonly found in common-law countries. It involves a source of funds, a trustee responsible for managing the funds, and beneficiaries who benefit from the trust.
- Beneficiaries can include Protected Areas (PAs) or communities surrounding them. The trustee controls the funds, ensuring they are managed in the beneficiaries' best interests.
- The typical structure of a trust fund involves a board of trustees or directors who have legal and fiduciary responsibilities. CTF boards ensure funds are used for intended purposes, necessitating caution in investment decisions. The board oversees the fund's operations, including raising money through various means such as donors, debt conversions, entrance fees, or government budgets.
- Achieving the right mix of board members is crucial for effective governance, particularly in countries new to conservation trust funds. This involves balancing representation from fund contributors, governance experts, and stakeholders impacted by fund deployments, such as local communities and NGOs.
- Planning board composition meticulously from the outset is vital, ensuring diverse expertise and avoiding dominance by any single sector.

Financial Structure

- Most CTFs include a programme fund. Programme funds aim to maintain a corpus of capital through investments, only using the profits generated from these investments. There are four types of funds, namely, endowment funds, sinking funds, revolving funds, and pass-through funds.
- Other sources of funds include debt conversions. While the frequency of debt conversions (in relation to programme funds) has been low, they are growing significantly. Well-publicised debt conversions, such as those in Ecuador for the Galapagos Islands, have resulted in substantial amounts being allocated toward conservation.

- While investing in conservation businesses may offer potential revenue streams, it also involves inherent risks. Organisations reliant on grants may lack self-sustainability, highlighting the importance of exploring alternative revenue sources. Successful fund deployment requires the right expertise and capacity within the trust fund structure.

Government Involvement

- CTFs must navigate a delicate relationship with governments, ensuring they complement rather than replace government investments in conservation.
- Government budgets are often more secure funding sources, but CTFs can capture additional revenue through taxes and fees.
- While CTFs focus on their expenditures, they can indirectly encourage government transparency by demonstrating impact and fostering increased accountability through shared methodologies and reporting practices.
- There is an inherent risk of government interference. Failure to enshrine the independence of the trust fund in its founding documents can lead to increased government presence on the board, contrary to its intended autonomy. Instances of government takeover, despite initial independence mandates, have led to discontent and, in rare cases, complete derailment of trust funds. The success of a CTF often hinges on governments' willingness to let the CTF operate independently.

Transparency

- Reporting for CTFs is crucial for transparency, good governance, and demonstrating impact. CTFs publish annual reports online which detail investments in projects and financial status, including expenditure and remaining funds.
- CTFs outline their mission, strategies, and long-term plans, including targets and Key performance indicators (KPIs). While grantees are required to track these indicators, measuring impact in conservation can be a challenging task.

Potential risks and limitations in building effective CTFs

- CTFs face risks related to investment decisions, such as market volatility and inflation. Diversification of investment portfolios across different asset classes can mitigate these risks. CTFs also face operational risks involved in managing CTFs, including governance issues, regulatory compliance, and administrative challenges. Implementing robust management practices and diversifying spending strategies can help mitigate operational risks.
- Some trust funds have struggled to raise adequate capital, hindering their ability to fulfill their mission. This can stem from issues with board competence, lack of investment in staff expertise, or deficiencies in the secretariat's capabilities.

Recommendations for Sri Lanka

- For countries such as Sri Lanka, it's recommended to have a national CTF, though separate ones for marine and terrestrial conservation could be feasible. If specific donors focus on particular aspects of conservation, setting up separate funds might be justifiable.
- Building trust is crucial for establishing effective partnerships and securing donor support. Transparency, good governance, and a committed and competent

management team are essential components in building trust.

- While setting up two CTFs is possible, ensuring adequate scale and mission alignment is essential.

RESOURCES TO GET STARTED

RESOURCE	ORGANISATION	USE
Knowledge Primer on Conservation Trust Funds	Centre for a Smart Future	Introduction to Conservation Trust Funds
Practice Standards for Conservation Trust Funds	Conservation Finance Alliance	Serves as a tool for improving the design, management, and monitoring and evaluation of CTFs
Conservation Trust Funds 2020: Global Vision, Local Action	Conservation Finance Alliance	A ten year review of CTFs
Conservation Trust Investment Survey	Conservation Finance Alliance	A study designed to provide information that can assist established Conservation Trust Funds (CTFs) in analysing their investment strategies, and to create a foundation upon which new or nascent CTFs can learn from the experience of others.
Financing Marine Conservation Part 1	Centre for a Smart Future	Introduction and overview of innovative financing mechanisms by Lucy Emerton, CSF and BRT's technical advisor.
Environmental Funds Working Group	Conservation Finance Alliance	Working group to encourage promotion, knowledge transfer and exchange about environmental funds among relevant funds, donors and NGOs.
Environmental Funds Tool Kit	Conservation Finance Alliance	This tool kit shares the experiences of Environmental Funds – their legal documents, manuals, plans, and communication materials.
Experience with Conservation Trust Funds	Global Environment Facility	This report focuses on trust funds as a means to achieve GEF objectives and criteria to finance the incremental costs of protecting globally significant biodiversity resources



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