KM 4 CTI Learning Notes
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SF 101. Basics in Sustainable Financing for the CTI

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What does sustainable finance mean?

Many of us have heard or used the term sustainable finance but few really understand the concept. More often than not, environmental projects are tagged as sustainable even if two basic principles for sustainability are not attained.

These are: 1) the long-term nature of financing as opposed to covering only the short-term costs, including project costs and 2) engaging in activities that are either environment-unfriendly or run the risk of not being sustained after project life.

In the former, sustainable financing clearly alludes to financing beyond the project lifetime, while in the latter, there is an inherent qualifier that sustainable financing must be applied to programs that ensure that benefits are maintained for the future generation and conform to acknowledged best practices.

Watch out for "KM 4 CTI Experience Notes" in Sustainable Finance -- featuring the experience of Palau in funding a Protected Area Network where the main source of funds is not a trust fund but a tourist conservation fee.

What are the conditions to assure SF?

There are two specific conditions to assure the long-term flow of money for an agreed purpose. These are **TRUST and trustworthy institutions or mechanisms.**

Trust is of utmost importance. It must exist between and among all partners involved. For example, in the 2008 global financial crisis, the problem was not about the lack of money that could have been infused into the financial system. It was mainly about the lack of trust between financial institutions, such as banks, to lend money to each other because of distrust over internal investment policies.

In the same vein, you need to have **reliable and trustworthy institutions/organizations that have a proven record in handling money for the intended purpose and producing the desired results.**

Confidence in an institution can be lost if they mismanage the flow of money, thereby stopping the flow of funds and negatively affecting sustainability. Money flows when trust and trustworthy institutions/ organizations provide for sustained, tangible, and outstanding results.

How do we frame fund raising positively?

Sustainability in conservation work also implies constant fund raising and and/or ensuring the constant flow of revolving funds that would ensure continuous support needed for the intended sustainable system. Fund raising may be viewed in a more positive light in the sense that prospective donors are offered sound investment opportunities for conservation products and services.

Thus, the first step to a successful fund-raising campaign is having a good and most importantly sound product to start with. Along this line, specific programs and projects that are needed to implement the CTI National Plans of Action (NPOAs) should be viewed by donors as bankable projects.

Sustainable finance is an important consideration for the CTI because, in most cases, there are not enough investments or country budgets to fund the implementation of the NPOAs and the Regional Plan of Action (RPOA).

Furthermore, it is as important to think of long-term financing to fund the recurrent costs of activities needed to continue to keep the target biodiversity, coral reefs, and fish resources that will guarantee food security for the next generation. This could not be accomplished by the traditional project finance mode.

"In most cases, trust funds are not the most substantial contributor to a country's sustainable financing architecture..."

-- Egide Cantin

Dispelling myths about
sustainable finance

Myth 1: Sustainable finance equals trust funds

People often equate sustainable finance with Conservation Trust Funds. However, Conservation Trust Funds are just one of many types of sustainable financial mechanisms implemented in the CTI region and around the world. A Conservation Trust Fund is perceived as an independent, charitable not-for-profit organization that has built its capital either with endowment or sinking funds or revolving funds.

Conservation Trust Funds do not implement work on the ground, but rather, grant funding to different local organizations and communities to carry out the desired conservation work. It has an independent Board of Trustees, operates a grant-making program and process, and generally uses a Scientific Granting Committee to assess the feasibility of proposals for funding.

Examples of Conservation Trust Funds in the Region are the Foundation for the Philippine Environment (FPE), KEHATI in Indonesia, the regional Micronesia Conservation Trust Fund (MCT) that serves three countries and two US territories in Micronesia, and the regional Mama Graun Conservation Trust Fund serving the Melanesian countries.

Other sustainable finance mechanisms include, but are not limited to, the following:

- yearly government budgetary appropriations for conservation areas;
- protected areas entry fees;
- green or departure fees from visitors to a country, either by boat or airplane;
- payments for ecosystem services; and
- current Conservation Trust Funds providing money that support sustainable resources management.

The non-exhaustive list above shows that sustainable finance is not restricted to trust funds. In fact, in most cases, trust funds are not the most substantial contributor to a country's sustainable financing architecture to finance protected areas and natural resource management in any country.

Myth 2: Sustainable finance equals endowment

Another misconception in sustainable finance is that Trust Funds only exist if they have an endowment. This is not in any way accurate, even if the majority of Conservation Trust Funds had been endowed or capitalized at different levels – from less than one million dollars when they service multiple conservation areas or support natural resource management in one country or in multiple countries.

Three types of financial mechanisms

To better appreciate the meaning of Conservation Trust Fund capitalization, one needs to understand the definition of the three financial mechanisms that Conservation Trust Funds use for their operation to finance conservation work, namely: endowment, sinking fund, and revolving fund. A Conservation Trust Fund can use one or all of these three financial mechanisms to secure funding to provide grants to local organizations for them to use in implementing selected conservation and resource management activities.

Endowment. an endowment is a capital donation to a third party, for which the third party may be the Conservation Trust Fund. This capital has to be preserved in value at all times, and only the net revenues could be used to finance the agreed target scope and activities for which the Conservation Trust Fund has been created. In general, endowments are given to organizations or institutions that have a strong track record of transparency, reliability, and accountability. It is not necessarily the case that a nonprofit charitable organization has to be established to host and manage this type of donation.

However, in the last 20 years, many Conservation Trust Funds had been created with pledges of endowment, where the donor is working very closely with technical experts to set up the policies, rules, regulations and operations of the new institution according to international standards for the Trust Fund to hold, manage, and spend the net investment revenues in line with the highest standards of accountability and transparency.

Sinking Fund. a sinking fund is a capital donation that is given to an organization to be used within a set time frame (for 1, 2, 3, 5, or 10 years) for a defined set of objectives or activities. It is different from an endowment capitalization in that sinking fund donations, including both capital and interest, have to be fully utilized during the agreed time frame of the donation. Sinking funds are generally given to a Conservation Trust Fund as a result of an intensive fund-raising program where the Trust Fund has to compete with other types of organization to access donations.

Revolving Fund. a revolving fund is a fund that is replenished yearly by fees or levies that are collected in different forms, e.g. entry fees collected from visitors to protected areas, royalties, and national green fees – as long as the fund is replenished yearly.

Queries and clarifications
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