

MPA NEWS



Published on *MPA News* (<https://mpanews.openchannels.org>)

Building successful endowments to support MPAs: Malpelo and the Mesoamerican Reef (full article)

In the May-June 2014 issue of *MPA News*, we examined cases in which MPAs have worked to make their financing more sustainable ([MPA News 15:5](#)). The article focused in particular on the value of diversifying funding streams. By generating revenue from multiple sources rather than just one or two, MPAs can reduce the risk should one of the streams dry up, such as during periods of government budget cuts.

Another way of making financing more sustainable is through endowments. The funds in an endowment are invested and the earnings on those invested funds can be spent on an MPA's program activities. Meanwhile the capital in the investment remains there, serving to generate additional income each year. While no investment tool is risk-free, endowments can provide a level of financial sustainability for MPAs that is hard for other revenue sources to match. (*MPA News* covered endowments in our [9:10](#), [9:11](#), and [13:6](#) issues.)

Below, we profile the creation and management of two endowments that are supporting MPAs: the Mesoamerican Reef Fund (MAR Fund), which supports the conservation of marine resources in Central America, and Fondo Acción's Malpelo endowment, which supports management of the 8600-km² Malpelo Fauna and Flora Sanctuary of Colombia.

The Malpelo endowment: funding 36% of the MPA's annual budget

In the eastern tropical Pacific, the no-take Malpelo Fauna and Flora Sanctuary is home to nearly 400 species of fish as well as great numbers of marine mammals and sea turtles. Encompassing the small Colombian archipelago of Malpelo and its surrounding waters, the MPA covers 8575 km² and is a World Heritage site.

José Luis Gómez is executive director of Fondo Acción, a Colombian nonprofit entity that administers environmental funds (www.fondoaccion.org). As part of its work, Fondo Acción developed an endowment fund for Malpelo. That fund now holds US \$5 million.

MPA News: How did the Malpelo endowment fund get started?

José Luis Gómez: In 2006, Fondo Acción decided to create an endowment with net revenues that had accumulated in the Americas Account. This account had been created by the US government in agreement with the Colombian government using funds from a debt-for-nature swap. This financial mechanism was established between the US and several Latin American and Caribbean governments after the 1992 Rio Earth Summit.

In 2008, thanks to our collaboration with Conservation International Colombia, we identified an interesting opportunity to use our endowment in a strategic way. The Global Conservation Fund (GCF), a financial mechanism made possible by a grant from the Gordon and Betty Moore Foundation, had been established to support the creation, expansion and long-term management of protected areas. GCF would provide strategic and financial assistance, including the capitalization of endowments, to enable local communities, NGOs, and governments to protect their biological wealth.

Our Board decided to provide a US \$2.5 million match from the endowment of the Americas Account and to leverage the same amount from the GCF to constitute the Malpelo endowment subaccount. We then prepared a technical proposal and secured the institutional agreements that made this possible. The Malpelo endowment was created in 2008, precisely when the global financial crisis rocked the markets and produced severe losses in many endowments. However our Board and the Malpelo Steering Committee decided to begin grant making in 2009.

Since 2008, the annual management of Malpelo has been funded by at least three sources: revenue from the endowment fund, public funding (from the National Parks Service), and foundations and similar sources (namely project-based funding). On an annual basis, revenue from the endowment has represented at least 30% (in 2011) and up to 48% (in 2013) of the MPA's budget, with an average of 36% over the five-year period. The endowment has provided a total of US \$977,000 over these five years. That is more than twice as much as the funding provided by the public sector.

MPA News: What advice would you give on setting up and managing successful endowments?

Gómez: Endowments are attractive financial mechanisms in the field of conservation finance. However their effectiveness depends on several institutional factors. The Malpelo endowment, for example, is embedded in a particular institutional arrangement. The main components of this arrangement include:

1. A special agreement between the Colombian National Parks Service, a public entity, and Malpelo Foundation, a Colombian conservation NGO. This agreement enables Malpelo Foundation to act as an operator and thereby implement the protected area's Annual Management Plan. The Plan has been previously approved by the Parks Service. The Parks Service is also key in maintaining strategic partnerships with other public agencies — particularly the Colombian Navy, which is in charge of patrolling the protected area.
2. A simple governance structure with a Technical Committee and a Steering Committee. The Technical Committee (Parks Service, Conservation International Colombia, and Fondo Acción) provides advice to Malpelo Foundation, monitors progress periodically and reviews the annual request of funds from the Malpelo endowment. The Steering Committee approves the annual grant to Malpelo Foundation and decides on changes or updates to the investment policy for the Malpelo endowment.
3. An endowment administrator. This role is played by Fondo Acción. Fondo Acción also monitors performance of the endowment's financial manager.
4. A financial manager. Custody and investment decisions are in the hands of UBS-The Arbor Group, a private firm. The financial managers are required to follow the investment policy adopted for the Malpelo endowment.

Having clearly defined roles and responsibilities for the different public and private agencies that take part in the arrangement is a key lesson from the Malpelo model.

Success also depends on financial aspects. The Malpelo endowment, currently US \$5.2 million, is in fact a subaccount within a larger endowment operated by Fondo Acción and managed by UBS – The Arbor Group. The larger endowment is US \$38.2 million in size. Sheltering the Malpelo endowment subaccount in the larger endowment is very positive as it provides the financial managers with sufficient breathing space to balance the portfolio and obtain better conditions for investments. (The net annual return on the Malpelo subaccount from 2008-2014 has been 5.39% each year on average.)

Finally it is important to note that while the revenues from the Malpelo endowment cover core management plan costs (such as technical and scientific staff from Malpelo Foundation and scientific expeditions), these funds are also used by Malpelo Foundation to leverage additional resources from other donors for different activities of the management plan.

MPA News: Fondo Acción is a member of RedLAC, the Latin American and Caribbean Network of Environmental Funds, which has 22 members from 16 countries (<http://redlac.org/english>). In what ways has participation in RedLAC been helpful to Malpelo?

Gómez: RedLAC's core mission involves learning and sharing best practices in conservation finance, as well as developing and testing innovative financing strategies. Fondo Acción has shared the Malpelo case with other RedLAC members and international donors.

Conservation trust funds (endowments, sinking, revolving funds, etc.) are increasingly common mechanisms of financing that help maximize efficiency in the use of resources, leverage and/or impact. This has been acknowledged by international donors as well.

The Malpelo model has been backed financially by Conservation International, the Gordon & Betty Moore Foundation and the Walton Family Foundation. Forever Costa Rica is another very interesting model implemented by another RedLAC Environmental Fund, Costa Rica por Siempre Association, and in turn backed by The Nature Conservancy, Linden Trust for Conservation, Moore Foundation and

Walton Family Foundation.

Both cases are building blocks for a more ambitious and challenging initiative currently under way: the Pacifico Platform. Pacifico is a joint effort of five RedLAC Funds: Costa Rica por Siempre (Costa Rica), Fundación Natura (Panama), Fondo Ambiental Nacional FAN (Ecuador), Fondo Patrimonio Natural (Colombia) and Fondo Acción (Colombia). The Funds have agreed to work collectively and collaboratively to protect a conservation corridor initially comprising Isla del Coco (Costa Rica), Coiba island (Panama), Malpelo and Gorgona islands (Colombia) and Galápagos (Ecuador), all in the Eastern Tropical Pacific Ocean. Pacifico thus aims to become a regional network within RedLAC, following the example of the Mesoamerican Reef Fund [described below], as well as a fundraising platform. Its operation will be based on different financial mechanisms such as existing and new trust funds. A successful Pacifico will undoubtedly benefit Malpelo and the other protected areas in the Corridor.

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Supporting multiple MPAs: the Mesoamerican Reef Fund

The Mesoamerican Barrier Reef System extends more than 1000 km along the Caribbean coast of Central America, from Mexico's Yucatán Peninsula through Belize and Guatemala to Honduras. In 2004, in-country conservation funds from these four nations worked together to create the Mesoamerican Reef Fund. Called the MAR Fund, it is designed to provide financial sustainability for conservation in the region, including for multiple MPAs (the Belize Barrier Reef System, a World Heritage site, is among these). The MAR Fund also encourages more effective coordination — on fundraising, grantmaking, and reef management in general — among the four participating funds.

María José González is executive director of the MAR Fund.

MPA News: How much money does the MAR Fund give out to projects?

María José González: That varies each year. We disburse to projects mainly through two windows:

- The Small Grants Program, which currently has seven grants underway for a total of US \$242,770; and
- The "Conservation of Marine Resources in Central America" Project, which is financed with €10 million (US \$13.4 million) in endowment funds contributed by the Government of Germany through the KfW [Germany's development bank]. In this project, the main focus is on strengthening the management, conservation, and sustainable use of resources of priority coastal and marine protected areas in the Mesoamerican Reef. The project has two five-year phases, each supported by €5 million of the endowment. In Phase I, which initiated in 2012 and is ongoing, we have funded four priority areas, with a total of \$1,000,335 approved for 2014. In Phase II, which will begin field implementation this year, five additional areas will be supported. These areas are now developing their work plans and we don't know yet how much funding they will require for the remainder of 2014.

MPA News: What are the main challenges the MAR Fund has experienced over the years?

González: The two main challenges have been:

1. Raising funds. The MAR Fund was established as an alliance to raise and distribute funding for strategic conservation initiatives in the MAR, in addition to existing funds. When the mechanism was established, it had no funding — it started from scratch. It began by defining its working priorities, both thematically and geographically, and then by initiating fundraising for them. In addition to the fact that the fundraising strategy started in 2008 (probably the worst year, financially speaking), it was important to begin working regionally to generate trust in the mechanism. After all, MAR Fund was the first regional fund in the Americas and it was viewed a bit as an experiment.

Thanks to the support of the Summit Foundation, which was our angel donor, and other wonderful foundations that believed in us and the MAR Fund concept, we were able to begin operations in the region. We started very small, and have grown slowly. We have been able to demonstrate that the mechanism is effective, and that through our particular structure we can support regional initiatives. We are still learning, of course, but I believe we have been able to adapt to the required changes in order to respond to the operation needs. The four national member funds are the foundation upon which the mechanism relies for its regional reach.

2. Changes and evolution in governance. When the fund was designed by the founding members, with support from WWF and The Nature Conservancy, all was new. There were no other multinational examples that could be applied adequately to the Mesoamerican Reef region. The mechanism was then designed very much centered around the four founding members. As the MAR Fund has grown, we are seeing that some of the structures that were initially put in place now need to be reconsidered for adequate growth to respond to the region's needs. The Board is currently having these discussions with the intent of being more effective in leading the MAR Fund to successful growth and expanded operation. It is part of the normal evolutionary process of organizations.

MPA News: What advice do you have for setting up an endowment?

González: • If another, already-existing financial mechanism can administer the funds/endowment for the objectives that have been established, consider joining forces instead of establishing a new fund from the beginning. The process takes time and money and a lot of work. By working with another, already-established mechanism, you can probably move ahead faster in focusing on your objectives.

- Know your targeted donors well and let them know you.
- It is not easy to raise endowment funds. Be persistent. At the same time, MPA management should continue to move forward toward its goals through non-endowment funding.
- It is very important to operate in a transparent and accountable manner.

For more information:

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BOX: New paper describes success factors in developing conservation trust funds

Fondo Acción and the MAR Fund are each featured in a new working paper that describes good practices in the development of conservation trust funds. Published by the International Institute for Environment and Development (IIED), the 42-page *Review of Conservation Trust Funds for Sustainable Marine Resources Management: Conditions for Successors* 12 case studies from around the world, with lessons learned. It is available at <http://pubs.iied.org/16574IIED.html>.

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