

# MPA NEWS



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## Creating Endowments for Sustainable Funding of MPAs: Experts Describe the Opportunities and Challenges

There are multiple sources of financing for MPAs, including domestic government budgets, international assistance, visitor fees, and more. While each source plays a vital role for sites worldwide, it can also be subject to fluctuation. Domestic budgets can be cut. International donors can change their area of interest. Tourism rates can rise and fall. These variations create instability for MPA management.

An ideal component of sustainable finance strategies would be a tool that ensures a steady, or even rising, stream of funds over the long term. The tool that perhaps comes closest to this ideal is an endowment. In an endowment, funds are invested and the earnings on those invested funds are spent on program activities. Meanwhile the capital in the investment remains fully invested, thus generating additional income year after year. While not risk-free (they involve investments, after all), endowments can provide a level of financial sustainability for MPAs that is hard to match. This month, *MPA News* examines this tool, including how to establish endowments, cases where they exist for MPAs, and what their main challenges are.

### Benefits of endowments

"Endowments are useful for several reasons," says John Adams, senior vice president for investments at UBS Financial Services, a global finance firm. Adams heads a group within UBS that manages the long-term investment of conservation endowments for income and growth. "First, endowments create financial reserves that can help meet budgets during unexpected hard times," he says. "This allows an organization that has worked hard to hire a good staff to retain talented people during a lean period of funding." Second, says Adams, an endowment will normally provide, from investment income, part or all of the funding needed to meet the budget of the organization. The larger the endowment is, the less an MPA manager has to search for other sources of funding.

"Finally," he says, "the endowment creates a real psychology of permanence" that extends throughout the MPA, including staff, the community, and donors. "If everyone knows that there is funding in perpetuity for the organization, the future of the protected area is in far better shape," says Adams.

Examples of MPA-related endowments in practice or in the planning stage include:

#### Protected Natural Areas Fund (FANP), Mexico

Established in 1997 by a grant from the Global Environment Facility, the FANP annually contributes hundreds of thousands of dollars in interest to several Mexican MPAs. The FANP is managed by a private institution - the Mexican Nature Conservation Fund - which aims to build the endowment to US \$300 million by the year 2050, through further contributions from donors and reinvestment of some of the accrued interest. *MPA News* profiled the FANP in 2003 (*MPA News* 5:5). It is described in further detail at [www.conservationfinance.org/Workshops\\_Conferences/WPC/WPC\\_documents/Apps\\_01\\_Gonzalez\\_v2.pdf](http://www.conservationfinance.org/Workshops_Conferences/WPC/WPC_documents/Apps_01_Gonzalez_v2.pdf).

#### Endowment for Aleipata and Safata MPAs, Samoa

Established in 2003 with ST 20,000 (US \$8600) that had been earned by these two MPAs from tourism and other fees, this endowment demonstrates that the tool does not have to be initiated by outside donors. The endowment was expanded in March 2008 with a donation of ST 240,000 (US \$104,000) from Conservation International (CI) and the Coral Reef Initiative in the South Pacific (CRISP). The expanded endowment is expected to contribute 30% of the annual funds necessary to manage these community-based MPAs. It is managed in a trust fund overseen by a local board of community leaders, advised by international financial experts. More information is at [www.conservation.org/newsroom/pressreleases/Pages/funds-awarded-to-samoas-largest-marine.aspx](http://www.conservation.org/newsroom/pressreleases/Pages/funds-awarded-to-samoas-largest-marine.aspx).

#### Endowment for Phoenix Islands Protected Area, Kiribati

Also initiated with funding from CI (US \$2.5 million in this case), this endowment is expected to grow with matching funds from private and public institutions, as described in *MPA News* 9:8. The endowment will serve multiple functions, including supporting management costs for this enormous 410,500-km<sup>2</sup> MPA and compensating the government of Kiribati for lost revenue suffered from cancellation of fishing licenses. It will be overseen by a board of managers including personnel from CI, the Kiribati government, New England Aquarium, and other entities.

### Setting up an endowment

In establishing an endowment, there must be an institution in place to administer it: this institution is known as a conservation trust fund, or CTF. In general, CTFs manage money that can be used only for a specified purpose, and are overseen and controlled by an independent board of directors. A CTF can take any of a number of forms depending on the legal code of the country where it is established (including as a "nonprofit corporation", "foundation", or "trust", among other forms). A soon-to-be-published review of conservation trust funds, conducted by the Conservation Finance Alliance ([www.conservationfinance.org](http://www.conservationfinance.org)), describes 53 CTFs around the world, mostly terrestrial.

Conservation trust funds do not have to feature endowments. A CTF may be funded only with a simple operating fund for use in the current fiscal year budget. Alternatively it may have a "sinking fund": an account to be spent down to zero over a particular period of time. Combinations of different types of funds are also possible.

However, says Adams, an endowment should be considered for any CTF with a permanent mission, such as administration of a protected area. "The only negative element is that it often takes years of hard work to establish a meaningful endowment fund," he says.

The hard work consists of several steps. "Prior to establishing a protected area endowment, a CTF should develop adequate administrative capacity and have a well-defined business plan," says Adams. He notes that several large conservation organizations, including The Nature Conservancy, Wildlife Conservation Society, WWF, and Conservation International provide technical assistance to CTFs in achieving these goals. "Once organizational and financial goals are defined, budgets can then be put into place," he says. "This allows an evaluation of whether available funding sources are adequate to meet the annual budget. If there is a shortfall, the priority should be placed on meeting basic needs, not establishing an endowment. Most conservation trust funds begin with a large mission and limited financial resources."

If it is feasible to begin work on establishing an endowment, says Adams, the current major donors for the CTF should be consulted. Are they willing to put up full or partial funding to assure the permanent financial stability of the organization? "At this time the donors will want to have progress reports and will look carefully at business-plan and budget forecasts," he says. "They will also look carefully at the administrative capacity of the organization. In working with the initial donors that helped to establish the CTF, a plan for the long-term development of an endowment can be organized. This often will include widening the field of major donors, with the initial donor serving as a catalyst."

Adams notes that conservation trust funds sometimes include forming an endowment as part of the initial funding plan for the organization, and a small set are established immediately with endowments. Without exception, he says, all of the CTFs he has encountered have continued to raise additional funds after the initial investment.

### Challenges for endowments

Scott Smith is a senior policy advisor with the Global Marine Team of The Nature Conservancy, and has long been involved in conservation finance. He coordinated a workshop at the World Parks Congress in 2003 on building portfolios for sustainable financing of MPA networks (*MPA News* 5:5). He says the challenges involved in setting up CTFs and endowments should not be understated.

"Establishing a conservation trust fund is a substantial undertaking," says Smith. "A successful trust fund needs not only funding, but respected and transparent governing bodies with a mix of private and public sector representation; capable staff and operating procedures to oversee its programs; and financial expertise to guide investment of its capital and assure sound management of its grants. In many places, especially in remote areas of developing countries where many MPAs are located, these are difficult to find."

In terms of establishing an endowment, he adds, there is an additional hurdle: making the argument that a relatively large amount of funds should be set aside for the long term instead of spending it on today's needs. "For these reasons, I believe that it is not effective to think about creating trust funds or endowments for individual MPAs," says Smith. "The technical, financial, and organizational skills are usually just not available to create and operate a trust fund successfully at this level."

Instead, he says, it may be more effective and efficient to create trust funds to support a number of protected areas, such as a network of ecologically connected MPAs or a national system of MPAs. "Defining the scope of a trust fund to include multiple MPAs allows pooling of resources generated by the more charismatic or accessible MPAs," he says. Those resources can then benefit other components of the network that are unable to generate sufficient revenue to cover their own costs. "This also allows trust funds to program scarce resources for the activities that produce the greatest benefits (as defined by the trust fund's mission and objectives) across a network or system. In so doing, they can provide some healthy, performance-based competition for funding."

Smith offers these tips for practitioners who want to create a conservation trust fund or endowment:

- (1) It is important to have a strong, respected, committed group, mostly from outside government, who will lead the establishment of the fund, be its advocates, and become the core of its initial governing body.
- (2) It is important to begin a program slowly, gain and build on experience, and in the process establish a reputation for competent, objective, transparent, and results-oriented programming.
- (3) If you have a donor who is interested in contributing to an endowment, invest these funds wisely and in a relatively conservative manner, based on sound financial principles and advice. In good years, when returns exceed the average expected returns on investment, be sure to reinvest the surplus rather than artificially expanding programs with the windfall.

#### **For more information**

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### **BOX: Additional sources of information on conservation trust funds, endowments, and MPA financing in general**

*Evaluation of Experience with Conservation Trust Funds*(1999, Global Environment Facility) [www.gefweb.org/M&E/Eval\\_TF/eval\\_all.pdf](http://www.gefweb.org/M&E/Eval_TF/eval_all.pdf)

*Sustainable Financing of Protected Areas: A Global Review of Challenges and Options*(2006, IUCN) <http://app.iucn.org/dbtw-wpd/edocs/PAG-013.pdf>

*Financing Marine Conservation: A Menu of Options*(2004, WWF) [www.worldwildlife.org/what/howwedoit/conservationfinance/WWFBinaryitem7140.pdf](http://www.worldwildlife.org/what/howwedoit/conservationfinance/WWFBinaryitem7140.pdf)

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