

ACCESSING GCF FUNDS FOR LONG-TERM FINANCING OF PROTECTED AREAS

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APPLICATION PROCEDURES

GCF's Role

The Global Conservation Fund (“GCF”) finances the creation, expansion and long-term management of protected areas in the world’s biodiversity hotspots, high biodiversity wilderness areas and important marine regions¹. GCF grants are made during three stages of project development:

- Planning/strategic development phase - before stakeholders and/or decision makers have committed to a protected area outcome
- Implementation phase - a clear protected area strategy has been identified, stakeholders and/or decision makers have shown support for project objectives and implementation of the project is underway
- Long-term financing - the desired protected area(s) result has been achieved, a long-term financing mechanism to support the annual recurrent management costs of the protected area(s) has been created.

A significant portion of GCF funds is allocated toward ensuring the long-term financial sustainability of protected areas. This is primarily accomplished through the capitalization of endowments to cover the recurrent costs of protected area management.

GCF has technical expertise in designing and establishing such endowments. To ensure that the long-term financing mechanisms meet all of GCF’s requirements, we strongly encourage all projects to contact GCF early in the development process and work closely with the GCF team.

Approval Process for Long-term Financing

To ensure conformity with GCF standards and guidelines for LTF investments, we encourage collaboration between GCF and partner(s) in the design phase of the LTF mechanism. In the process of developing the mechanism, GCF will draw on a variety of resources to assess the appropriate long-term financing arrangements for projects, including legal and financial experts, donor organizations engaged in the region, partner organizations and experts with knowledge and experience in a particular region as well as independent research.

Once the long-term financing structure has been adequately developed, as determined by the GCF team, it will be presented to the GCF Decision Committee for approval. If approved by the Decision Committee, the project is developed further and key components are put in place (e.g., documents drafted, structures finalized, grant agreement signed, etc.).

A GCF investment will be made only once all of the key elements of the LTF mechanism have been developed and approved by GCF. While long-term financing projects are reviewed on a rolling basis, the length of time required for GCF approval will vary depending on the complexity of the long-term financing arrangements, collaboration and negotiations with involved stakeholders, partners and donors, and the time it takes for the long-term financing vehicle to be legally formed.

EFFECTIVE MANAGEMENT OF PROTECTED AREA(S)

Prior to committing funds to capitalize a long-term financing vehicle, a variety of conditions must be satisfied. While each GCF-supported project will have unique characteristics requiring a customized strategy

¹ For more information regarding marine and terrestrial biodiversity hotspots and wilderness areas, visit www.conservation.org.

and a long-term financing vehicle specifically tailored to fit the circumstances, the general information required by GCF is described in this section.

This information may be submitted to GCF in the form of a proposal or concept paper. However, GCF also recognizes that some information and documents requested below may be less developed or unavailable for certain projects. Therefore we encourage grantees to provide any available information up front and to work with GCF to develop the concept further.

Protected Area(s)

Long-term financing mechanisms supported by GCF may fund the annual recurring costs of one or more protected areas. Before committing funds to a long-term financing mechanism, GCF must be satisfied that either (i) the threshold protected area outcome for a region has been achieved (e.g., an area has been legally classified as a protected area) or (ii) the threshold protected area outcome is imminent (expected within 6 months).

The following information will be required:

- Geographic location of the protected area(s) to be supported, including at least one basic map, outlining the location site(s) at the country level, and detailed site-level map(s) highlighting relevant boundaries, surrounding land use, and adjacent or nearby protected areas. Detailed shape files are preferred where available.
- A description of the biodiversity value of the area(s), focusing on presence of globally threatened and restricted-range species², key habitat features, and ecological functions.

Management Plan

Critical to the sustainability of any protected area is a well-developed strategy for managing, protecting and maintaining the integrity of the protected area and its biodiversity. GCF requires that the grantee submit for review a management plan (that includes a detailed budget) for the target protected area(s).

The management plan should incorporate the criteria for a high quality management plan as outlined by CI and other leading conservation organizations. For examples of these criteria, please see IUCN document entitled, “Guidelines for Management Planning of Protected Areas,” and CI’s forthcoming document entitled, “Recommended Core Elements of Protected Area Management Plans.” In general, the management plan for each site must be reviewed by CI prior to an LTF investment in the area.

Business/Financial Plan

A Protected Area Business Plan is considered by GCF to be a means of achieving the management plan. A well crafted business plan will include both a detailed long-term financial plan and an analysis of current and new revenue-generating opportunities. A description of how these sources of funds will be jointly applied in order to support management of the protected area(s) can act as a first step in developing a fundraising strategy for the endowment.

The long-term financial plan should demonstrate that there will be sufficient financial resources (i.e. sinking funds) to effectively manage the protected area(s) until the capitalization target (see below) is reached. This plan should include a detailed multi-year budget that provides cost estimates for the following:

- Personnel and staff salary costs (PA administration costs);
- Equipment and maintenance, including physical infrastructure to be purchased or maintained on a recurring basis;
- Enforcement and surveillance;

² For more information on threatened species, visit www.redlist.org

- Monitoring, evaluation and research; and
- Community projects, alternative income generation programs, etc..

It is important that the plan also include an analysis of current and potential future threats as well as an articulation of adaptive management to address these threats.

Capitalization Target

As a general matter, target capitalization of long-term financing vehicles will be determined based on projected funding requirements in the field. Currently, an estimate of 5% net annual returns is widely used to calculate the annual return on endowment investments³. While conservative, this estimate assures that the long-term financing mechanism will be managed prudently without having to rely on above-market performance in order to meet its obligation.

GCF grantees and protected area managers should consider that once funds are deposited into the long-term financing vehicle, it will take at least one year before any income generated on the capital will be available for use. In addition, endowment funds are generally undercapitalized at the outset, and grantees must therefore account for this in developing their financial plans and fundraising strategies.

GCF encourages grantees to estimate a capitalization target early in the development phase of the long-term financing mechanism. This estimate helps to determine the structuring options as well as the parameters and priorities for fundraising.

Fund Distribution Policy

A fund distribution policy sets forth the transparent procedure for determining the endowment's funding activities and identifies priorities for funding in the event requests for funding exceed available income. This is particularly important for endowments that will be undercapitalized in the early years and those that are designed to fund multiple protected areas. In such cases, a fund distribution policy ensures decisions are made according to an agreed-upon strategic framework that aims to maximize conservation benefits.

Funds Coordination

Prior to investing in a long-term financing vehicle, GCF may choose to enter into a Co-Financing Agreement with donors memorializing their relationship and joint strategy. This agreement will spell out the overall strategy for creating/co-funding a financing vehicle and will address each party's respective responsibilities and funding commitments.

THE LONG-TERM FINANCING MECHANISM DESIGN

GCF is focused on the creation of sustainable long-term financing mechanisms that yield sufficient annual funding to ensure the effective and durable management of the protected areas they are designed to support, and that have governance structures in line with international best practices. A well designed governance structure can ensure that funds are used primarily to support the projects on the ground, rather than being diminished by excessive administrative costs at the fund management level. GCF seeks to use or create the most efficient, cost-effective, and practical structure possible to ensure the greatest likelihood of success.

GCF technical support will be provided to tailor mechanisms for each project in order to meet the following minimum requirements:

³ Through its collaboration with the Conservation Finance Alliance, GCF is coordinating a review of this 5% return projection which came from a 1998 GEF study of conservation endowment funds. As a result, this 5% projection could be revised once this analysis is complete in late 2007.

Fund Structure

Traditionally, trust funds have been the donor vehicle of choice. However, GCF will also consider a wide range of structuring alternatives including the following:

- New US-based tax-exempt entities with foreign operations;
- Locally based entities with offshore or US based investment accounts;
- Contractual joint ventures with offshore or US based joint-accounts.

Ultimately, the design of a vehicle will be driven by financial accountability and security concerns, tax regimes (US and foreign), partner donor requirements or expectations, local capacity, a region's political and financial stability, as well as other factors.

Governance

Each long-term financing mechanism will have a unique governance/organizational structure tailored to the circumstances. Each fund must have an operations manual which institutes credible and transparent operational procedures as well as effective checks and balances.

Identification and selection of appropriate Board members and investment managers is an important part of creating an effective long-term financing mechanism. GCF expects each long-term financing vehicle to have an effective independent decision making body comprised of individuals from a variety of sectors (government, NGOs, business, academia, community) who possess sufficient capacity and expertise to properly direct and oversee the management, investment and allocation of funds.

In order to ensure that the governance structure is adequate and appropriate for the purpose of the fund, GCF will require a full understanding of the role of stakeholders and other organizations, as well as local, national and regional government(s) in the project. We expect that the financing mechanism will include an appropriate cross-section of stakeholder input.

Monitoring and Evaluation

The operations manual should include a well-designed system of monitoring and evaluation. The oversight boards/personnel should regularly assess both the effectiveness of the protected area(s) to be funded and the performance of the fund itself. This will require regular communications and reporting between the fund and the protected area manager(s). The oversight board/personnel should have demonstrated ability to develop, adapt and utilize growth-oriented strategic plans, and to assess and adapt to risks.

To determine the success of a long-term financing mechanism, GCF will require annual reporting on a set of indicators and success targets. Projects deemed high-risk may be required to report at semi-annual intervals. The reports should be informed by both self-reporting of the fund as well as input from the entity's grant recipients (e.g., protected area managers). GCF may also, through either GCF staff or a third party, conduct verification of a subset of its portfolio. The specific reporting format and procedures will be provided during the grant agreement negotiations.

Fund Growth

In some cases, the entire target capitalization will be secured at the time of GCF's investment. However, in many cases, additional fundraising will be required. We expect that the oversight board/personnel and the protected area manager(s) will assume responsibility for attracting additional capital, and will collaborate on these efforts. Prior to its investment, GCF must be satisfied that the fundraising plan is viable and that implementing this plan will be a priority for all parties.

Financial Accountability

GCF will expect a high-degree of accountability from long-term financing vehicles (and their boards/personnel). Among other things, GCF will require (i) the keeping of books and records reflecting activities/expenditures to the satisfaction of GCF; (ii) the delivery of periodic financial reports tracking investment performance, costs, expenditures and liabilities/commitments; and (iii) the performance of independent audits on the books and records of the financing vehicle. GCF will also retain the right to periodically examine the books and records of any long-term financing vehicle to which it contributes as well as to attend Board meetings and receive copies of all Board materials.

GCF expects that administrative costs for LTF mechanisms will be controlled and monitored. As a general matter, a rate of less than 15% is considered within industry standards. GCF would expect to see economies of scale develop once the fund is fully operational, resulting in a reduction of the administrative rate over time.

Investment Guidelines

The long-term financial viability of financing vehicles will depend largely on the return generated from the investment of capital. GCF has developed a set of investment guidelines that it expects each financing vehicle to adhere to when developing an investment policy with its investment manager. Among other things, these guidelines set forth the acceptable portfolio mix of debt to equity as well as minimum required bond ratings. GCF has developed a document entitled, "Investment Guidelines for Trusts and Other Long-Term Financing Vehicles" which can be requested from GCF for further detail on these guidelines.

Additionally, all capital committed by GCF generally must be maintained in an off-shore and/or US or European based investment account and be managed by an investment manager of international standing and reputation satisfactory to GCF.

Bank Accounts

GCF will generally require that each long-term financing vehicle maintain two bank accounts. All capital will be maintained in an off-shore and/or US or Europe based investment account. Funds available for distribution will be transferred to a second, locally based account. Distributions from the investment account to the local expense account will be tightly controlled by the governing documents of the financing vehicle and the investment manager will be bound by such requirements.

Documentation

The minimum requirements must be satisfied and memorialized to the satisfaction of GCF (to, among other things, ensure the enforceability of all requirements). Accordingly, before making any long-term grants, GCF will require appropriate documentation reflecting the agreed upon terms/ structure. Among other things, the following agreements/instruments will be required prior to disbursement of the grant:

- Protected Area Legislation
- Other relevant legislation (e.g. logging concessions, fishing licenses)
- Documentation of Official Declaration of target protected area(s)
 - Presidential Decree
 - Legislative Ratification
 - Publication in Official Gazette
- Foundation/Non-Profit Law (including tax treatment)
- Proof of U.S. 501(c)(3) status or equivalency

- Articles of Incorporation of LTF mechanism
 - Confirmation of organizational mission
 - Transfer of assets upon dissolution
- By-Laws or joint venture agreement in the case of a joint venture
 - Documentation of government/NGO representation
 - Maintenance of books and records
- Operations Manual
- Appointment of Officers and Directors
- Banking instruments confirming the formation of all necessary accounts and confirming agreed upon signatories and authorizations
- Investment Policy
- Co-Financing Agreement Among Donors (if necessary)
- Grant Agreement in form and substance satisfactory to GCF

GCF SUPPORT

The Global Conservation Fund is committed to developing mechanisms that efficiently and effectively finance the long-term management of protected areas in the world's biodiversity hotspots, high biodiversity wilderness areas and important marine regions⁴. GCF is fast becoming a technical leader in this field and is able to draw on this experience and expertise to support partners in reaching their long-term sustainability goals.

GCF Contacts

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⁴ For more information regarding marine and terrestrial biodiversity hotspots and wilderness areas, visit www.conservation.org.