

Conservation Finance Partnership Fund

Feasibility Study

Terms of Reference

February 10, 2021

Conservation Finance Alliance (CFA)

Introduction

The Conservation Finance Alliance, together with strategic partners, seeks to establish the Conservation Finance Partnership Fund (CFPF) as an independent global Conservation Trust Fund (CTF). The Fund will have two principal objectives: 1) to support Conservation Trust Funds through a pooled fund architecture and 2) to build global conservation finance capacity by providing a source of sustainable finance for the CFA. The need for this global fund stems from two related elements. The first is that just under half of all CTFs are small to medium sized, with assets under management of USD\$10 million or less.¹ These CTFs struggle to be efficient and effective at both raising and managing money due to their small size coupled with proportionally high administrative costs, higher investment fees, and limited staff capacity. By providing a pooled fund through which they can outsource investment management and reporting, as well as get access to lower-cost, higher quality investment management support, CFA can enable these CTFs to achieve greater returns, reduce costs, and increase their impact. Secondly, conservation finance tools are essential to address conservation finance needs and reduce pressures that drive ecosystem loss. Unfortunately, the organizations that most need conservation finance capacity tend to lack an adequate training budget and, thus, are trapped in a low capacity – low finance situation. The mission of the Conservation Finance Alliance is to promote awareness, expertise, and innovation in conservation finance globally and the CFA's impact is growing substantially with over 1100 members worldwide. The financial and cost savings benefits from the CF Partnership Fund will be shared among the partner CTFs and the CFA – allowing the CFA to build its own endowment to finance global conservation finance capacity development – i.e. implement its mission.

These Terms of Reference seek for a consultant or consulting group to work with the CFA leadership to achieve the following tasks:

- 1) Work with the CFA Secretariat and Business Planning Task Force to clarify and expand the details of the concept of a Conservation Finance Partnership Fund (CFPF or the "Fund").
- 2) Review existing pooled Funds such as the Caribbean Biodiversity Fund, Micronesia Conservation Trust, and Nature Trust Alliance to inform this study.
- 3) Identify the appropriate locality for establishing the Fund that achieves the Fund's goals at a minimum of administrative and tax costs.
- 4) Determine how the investment management structure of the pooled fund concept would operate, outlining how such funds would be managed within an investment firm, and the

¹ <https://www.conservationfinancealliance.org/10-year-review>

reporting systems that would be available to meet the needs of the various member funds.
Articulate the specific services that the CFPF would offer to the participating CTFs.

- 5) Explore the key governance considerations in creating a pooled fund within the Conservation Trust Fund community, including considering implications for each participating CTF's fiduciary responsibilities, and propose the governance structure for the Fund.
- 6) Explore "Know your Client" and other anti-money laundering and Securities rules to assure that the Trust Fund is able to manage the endowments of other funds – and develop an appropriate asset transfer/management strategy in response.
- 7) Expand the CFPF concept to include practical details that would go into an operations manual and include in final report.
- 8) Identify 10-20 small to medium CTFs with under USD\$10 million in assets and conduct interviews to ascertain their top priorities for pooling (building on Winter 2015, see below), as well as any legal or governance constraints that would need to be accommodated for them to participate.
- 9) Develop a financial plan for the Fund, including capitalization levels, number and size of participating CTFs, costs and cost sharing, impact of foreign exchange, and net revenue projections. The plan should include sensitivity analysis and cost-benefit analysis.
- 10) Conduct a stakeholder analysis to assess how the plan might be viewed by CFA stakeholders and key audiences.
- 11) Prepare a short PPT presentation that identifies the benefits of the Conservation Finance Partnership Fund to potential client CTFs.
- 12) Prepare a PPT presentation and spreadsheet that quantifies the overall value of this pooled approach to the CFA, Client CTFs, and other key stakeholders including donors. This is a fundraising document.
- 13) Prepare a draft Trust Charter that captures the main conclusions of the study.
- 14) Prepare a final report that summarizes the findings and includes the other work products as annexes.

Background

Conservation Trust Funds

Conservation Trust Funds (CTFs, often called Environmental Funds) are essential national, subnational or regional institutions that provide consistent and transparent funding for conservation actions, generally with strong support from their stakeholders. As of the end of 2019, there were approximately 105 CTFs worldwide. Conservation Trust Funds are defined as "private, legally independent institutions that provide sustainable financing for biodiversity conservation." CTFs finance a range of essential conservation actions including long-term management costs of a country's protected area (PA) system, conservation activities and sustainable development initiatives outside PAs, and sustainable livelihoods.

Many new and small CTFs have difficulty running an effective endowment – low levels of endowment capital result in very high relative and absolute costs of financial and operational management. Many smaller funds lack the scale necessary to adequately diversify their investments, and take advantage of the cost reductions that come with larger size. This scale problem can be overcome through the establishment of a pooled CTF – one of the main goals of the Conservation Finance Partnership Fund. The CFPF will offer small to medium and start-up CTFs the ability to pool their investments into a larger

fund that will greatly reduce the cost of investment management, thus allowing more money to be spent on operational issues and directly on conservation. The cost savings of fund pooling and high-quality portfolio management will generate enough additional capital for both the CFPF and the pooled CTFs to benefit financially from this arrangement. Additional services will be offered to CTFs going forward including fundraising services and the ability to engage in impact investment.

CTF Pooling

In 2015, the CFA and a range of partners implemented a study on pooling of Conservation Trust Funds that explored options and drivers for a broad array of pooling options.² The report observed that, “CTFs are good candidates for pooling because they do not typically compete, serve distinct geographies and PAs, have similar missions to protect biodiversity, have similar administrative and governance structures, and can have similar needs.” Areas where pooling was determined to be especially valuable to CTFs included: board member training, fundraising, staff member training, investment management, information technology, and risk management. Different models of CTF pooling are currently being used including associations of CTFs for shared actions (i.e. [PACIFICO](#)), national funds linked through a regional fund structure ([MAR Fund](#), [Caribbean Biodiversity Fund](#)), and specific pooled approach ([Nature Trust Alliance](#)). The range of approaches clearly indicate that there are multiple benefits to CTFs for collaboration beyond the existing CTF networks (RedLAC, CAFÉ, and APNET). This current concept will focus primarily on pooling of investment management but will also explore opportunities for pooled training (both Board and staff), back office support, as well as fundraising and resource mobilization— in effect, all centered around conservation finance which is the expertise and focus of the CFA.

Additional Associated Opportunities

The existence of this fund will allow for additional associated opportunities that can increase the scope and impact of the Fund. The Fund design should allow for known and emerging new opportunities that could be supported by and mutually beneficial for the Fund. The most obvious opportunity is using the Fund’s structure and management for a range of conservation related endowments and long-term investments, such as keeping funds for REDD+ projects, managing endowments for environmental banks, or other offset projects.

Expected Mutual Benefits

The Conservation Finance Partnership Fund will be developed in collaboration with existing and new CTFs that would be the Fund’s “clients.” As a pooled model, all collaborating funds will need to experience clear benefits from their participation. There are two primary cost savings that the Fund will seek to optimize – and from which the Fund will collect its own operating costs. The first is that larger endowments or investment portfolios are offered lower investment management fees. For example, a fund with an endowment of \$2m may pay more than 1% of the value of the assets under management (AUM) for active investment whereas a fund of over \$10 million is likely to pay between 0.5% and 0.8% in management fees; larger funds, greater than \$50 million may pay in the 0.3% range. Greater savings are available if the Fund moves to more passive investment vehicles (e.g. ETFs, zero load funds). Larger portfolios can negotiate better discounts both for fund management and investment consultants. At an estimate of \$20M for pooled investment resources, pooled funds could save \$100,000 just in annual

² Exploring Options for Pooling the Administrative, Investment Management, and Training Functions of Conservation Trust Funds, John Winter ([2015](#)).

financial management fees alone. With larger levels of capital, the pooled Fund will be able to invest in more alternative strategies (e.g. Venture Capital funds) and produce a better overall return on investment while maintaining a diversified portfolio. The Fund management could propose a profit-sharing approach as well so that gains in returns can also cover some Fund management costs. At \$50M in pooled investments, annual savings could be about \$250,000 split between the fund clients and the fund management. Additional revenues and benefits of pooling will be possible through pooled capacity development for boards and staff, as well as pooled fundraising. Staff training can focus on conservation finance solutions – an area in which CTFs are increasingly experimenting.

The CFA will raise and maintain its own endowment as part of the pooled fund. This endowment would have two functions. First, it would be a stand-alone fund, taking advantage of the services of the pooled entity and providing opportunities for the CFA to raise, manage, and deploy its own financing, and, second, it would work as a marketing mechanism, demonstrating CFA's willingness to share investment strategies and risks. Future opportunities could arise out of shared Program Related and Mission Related Investments.

The Conservation Finance Alliance

The [Conservation Finance Alliance \(CFA\)](#) has been operating since 2002 and includes most of the leading practitioners of conservation finance globally. The mission of the CFA is *to promote awareness, expertise, and innovation in conservation finance globally*. This is done through extensive collaboration and partnerships with individuals and organizations. The CFA is largely a member driven organization with over 1000 individual members and strong engagement by the most active environmental NGOs and many donors working in the conservation finance space. In effect, the CFA is the leading global professional alliance for conservation finance experts, practitioners, and organizations. Conservation finance is defined as *mechanisms and strategies that generate, manage, and deploy financial resources and align incentives to achieve nature conservation outcomes*. The CFA recently published a white paper entitled: [Conservation Finance. A Framework](#). In 2020 the CFA released two key studies on Conservation Trust Funds: an update to the [Practice Standards for Conservation Trust Funds](#), and "[Conservation Trust Funds 2020: Global Vision, Local Action](#)," a 10-year Review of Conservation Trust Funds. Through its work on CTF Practice Standards, the [Conservation Trust Investment Survey](#) (CTIS), trainings for CTFs, and effective partnerships, CFA has a strong network of partner CTFs who value the work of the CFA and perceive it to be a neutral arbiter of critical information. CFA can leverage its existing connections and reputation in the CTF community to attract potential participants.

Consultant Qualifications

- 1) Individual or Consultant Team with at least 10 years working for, or with, Conservation Trust Funds (CTFs)
- 2) Proven basic knowledge of legal and tax issues surrounding CTFs
- 3) Excellent communication and presentation skills in English (fluency in French or Spanish an advantage)
- 4) Knowledge of CTF networks and understanding of pooling mechanisms
- 5) Knowledge and understanding of the field of investment management, investment reporting requirements, and the investment management approaches used by CTFs

Level of effort

The entire consultancy is expected to be completed with a total budget not to exceed \$36,000 inclusive of all costs.

The consultant(s) will be hired by WCS, on behalf of the Conservation Finance Alliance. Collaboration among independent consultants is acceptable, with one individual as the lead consultant and contracting entity, ensuring timeliness and quality of deliverables.

Application Process

Please send a CV and a cover letter highlighting relevant experience and daily rate to secretariat@cfalliance.org by EOB March 5, 2021. Please include the subject line: Partnership Fund.