

# Sustainable Finance for Conservation in Africa

## CONSERVATION TRUST FUNDS: PHILIPPINE EXPERIENCE

**By**

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### Introduction

The establishment of the Foundation for the Philippine Environment (FPE) and its endowment fund was the result of a process. This process continues on as FPE refines its management system and adapts itself to changed situations.

It is thus best that in the sharing of its experience, the context of situations as they unfolded during its conceptualization, establishment, and implementation stages be shared as well. Various interests were involved and while there were advocates for the trust fund, there were also those that questioned it. Its establishment is more a story of consensus building, creating synergy of interests, and adapting to the needs of its constituents.

### The Foundation for the Philippine Environment (FPE)

The FPE was legally established in 15 January 1992 as a grant making institution. It came about through an active four-cornered advocacy and lobbying involving Philippine NGOs and People's Organizations (POs), the Philippine Government through the Department of Environment and Natural Resources (DENR) and the Department of Finance (DOF), U.S. NGOs under the Philippine Development Forum (PDF) and the U.S. Government through the U.S. Agency for International Development (USAID). The Memorandum of Understanding (MOU) entered into by the Philippine Government, USAID, and the FPE on 5 March 1993 stipulated that its endowment fund would be utilized to support protected area management and development, ecological information base and surveys, environmental education, public awareness advocacy, technical skills and capability building, and community based biodiversity conservation work.

The FPE's endowment fund was set-up through a debt-for-nature swap mechanism. The USAID provided the financing from part of a \$125 million Natural Resources Management Program (NRMP) grant signed with the Philippine Government on 28 September 1990. The NRMP grant, on the other hand, is part of USAID's commitment to the global biodiversity conservation effort and support for the

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newly installed democratic government of then President Aquino. From 1992-93, USAID grant of \$18.2 million was used to buy back two debts worth \$29.2 million, of which \$21.08 million accrued to FPE as Central Bank Treasury Bills based endowment fund.

The endowment is now worth about PhP625 million (PhP51 = US\$1). Eighty percent of this is invested in bonds and 20 percent in equities. About half of the endowment is in Philippine pesos and the other half in U.S. dollars. On the average, investment income is at 10 percent of which 80 percent could be used for funding community-based biodiversity conservation related projects.

From 1992 to 2000, FPE has already funded site-focused, responsive, proactive and action grant type of projects to a total of PhP408 million.

## **The FPE vis-à-vis National Environmental Strategies**

The establishment of the FPE and its endowment fund relates to the need felt by both government and non-government stakeholders that the democratic gains of the post-Martial Law era had to be strengthened. The Philippine Strategy for Sustainable Development (PSSD), approved in 1989 by the Cabinet, had emphasized as one of its ten strategies the “promotion of a political constituency for the environment”. The PSSD recognized that environmental education, one other strategy amongst the ten, was not enough. What was needed was the mobilization of the people, not just a few but in their critical mass.

Philippine government officials, particularly at the Department of Environment and Natural Resources (DENR), had initiated innovative environmental programs that empowered grassroots participation such as the Community-Based Forestry Program and the release of Certificates of Ancestral Domain Claims (CADCs) to indigenous peoples. The strategy was basically to more effectively protect Philippine forests and waters by transforming uplanders as well as fishermen/coastal dwellers from being destroyers of their environment, through their opportunistic subsistence livelihood activities (e.g. slash-and-burn, dynamite fishing), to long term stewards of such resources. By making them direct beneficiaries of such resources, they are expected to protect such resources with greater commitment – on the whole becoming the “social fence” against destructive encroachment.

These community-based approaches were eventually incorporated into the National Integrated Protected Areas System Act and in the National Biodiversity Strategy and Action Plan, and the Master Plan for Forestry Development.

While the government provided the policy support at the national level, action at the field level, the success of which was very much dependent on a flexible participatory approaches and community organizing were and are best done by NGOs and POs. It was also recognized that community-based efforts would take a long time and thus support must be provided across political administrations. The FPE, as an NGO-managed institution and its fund as an endowment, fitted very well these needs.

Another very important environmental effort that the FPE significantly provides support for is that of Philippine Agenda 21 (PA 21). The coordination of its implementation depends on the Philippine Council for Sustainable Development (PCSD). In the PCSD, there are civil society counterparts to government agencies in a consensus approach to policy-formulation and decision-making. A Civil Society Counterpart Council for Sustainable Development (CSCCSD) was organized to make this “counterparting” and consensus building more effective. The support for CSCCSD assemblies and its Secretariat comes largely from FPE. Civil society participation in the present review and updating of Philippine Agenda 21 is also supported by FPE.

## **FPE's Structure and Objectives**

The formulation of FPE's structure and its objectives was the product of many consultations that involved more than 600 people from NGOs and People's Organizations between 1990-92. The purpose of such an extensive consultative process was to create an institution that will have the whole NGO and PO community in the country as its constituency. While FPE was to be organized as an NGO, it would have to be one that is above all the "factions" that is the result of a very dynamic NGO and PO community that numbers no less than 50,000 all over the country.

FPE's structure reflects the concerns raised in these consultations and the eventual solutions crafted on these concerns. Balanced representation was a major concern. It was decided that the FPE is to be governed by a Board of Trustees composed of 11 members. Six are regional island cluster representatives (two each from Luzon, Visayas and Mindanao). Four are elected "at large" who are regarded as "luminaries" with national credibility to represent the national level concerns and balance of what could be parochial concerns of the regional representatives. Another representative is also elected from "friends" in the international NGO community to provide a global perspective. A government representative from the Department of Finance (DOF) also sits in the Board in an ex-officio capacity to help provide insight from the government perspective and help generate support from that sector.

The inclusion of another representative from the Department of Environment and Natural Resources (DENR) was considered. However, the DENR who was then supportive of a fully NGO-managed trust fund felt that two high ranking government representation in the Board might lead to undue influence from the government sector. USAID, the donor, also felt the same and decided not to pursue any membership from the agency in the Board.

It was decided that the 11 members of the Board shall be the only members of the FPE. Once a Board member's tenure ends, then that member ends his or her membership to FPE. The reason for this is that if the FPE opens itself to general membership, then there could be a scramble from different alliances and coalitions to put in more of their members so that leadership of the foundation and its endowment is captured. Open membership would create competition, factionalism and conflict of interest. Later on, however, past members of the Board and former Executive Directors were asked to join an FPE-organized Council of Advisers. To further insure that the members of the Board are those that actually do not have interest in capturing FPE's funding for his NGO or PO, a policy was later on passed that Board members cannot avail of FPE funding, except for small action grants, should a strong need arise for such grants.

Instead of full membership in the traditional sense, interested NGOs and POs can become "virtual members" through the Regional Consultative Councils (RCCs) and the Regional Advisory Councils (RACs). The Regional Consultative Councils are informal bodies from the community of NGOs and POs within a region that are convened with FPE funding support and hosted by a region-based NGO as needs arise. The RCCs discuss local needs and developments and make recommendations for FPE's consideration. The RCCs also nominate who would be members in the three autonomous Regional Advisory Committees, which are then tasked to nominate members of the Board. To prevent conflict of interest, RAC members cannot be nominated to the Board. Thus, these NGOs and POs are "virtual members" because, while they cannot directly vote on grant-making decisions, no one becomes a member of the Board of FPE without their nomination.

In the year 2000, FPE set up three regional offices. This move was initiated with the aim of decentralizing its operations and to assure that regional needs and realities are properly considered in FPE's portfolio of projects. FPE's move towards decentralization has led to observations that response and feedback to local projects and proposals have been quicker. Regional offices have also started to assist the Regional Advisory Committees as "informal secretariats".

The FPE's stated purpose is: "*To contribute, encourage, assist, and provide technical, managerial, and financial support to non-government organizations, people's organizations, communities and others for environment protection, natural resource conservation and management, and sustainable development.*"

It is important to note here the addition of the term *sustainable development*. While the debt-for-nature swap agreement and the resulting endowment fund was donor-focused on biodiversity conservation, it was felt that the FPE as a foundation should open itself to acquiring other funds to support other locally determined community needs that may arise out of certain situations and over time. There was concern over the tendency to define biodiversity conservation as something outside other needs of communities particularly as regards poverty reduction.

Another serious concern raised by the Philippine NGO and PO community when FPE was being organized was that FPE would become the richest NGO and would thus dominate all other NGOs and POs. Aside from the unique structure that was set up for FPE in answer to this concern, FPE also made it a policy that it cannot be an implementor of projects. Its main roles would be as a:

- 1) *Grant-maker*: FPE initiates, assists and finances activities of communities through its NGO and PO partners aimed at biodiversity conservation. Capacity-building of communities, NGOs and POs is part of this support.
- 2) *Catalyst for cooperation*: FPE encourages and supports local and international cooperation between and among communities, NGOs, POs, business groups, government agencies and donors toward the development and implementation of biodiversity conservation and sustainable development programs.
- 3) *Fund-facilitator*: FPE generates additional financial resources through fund leveraging, support for proposal development, and building financing linkages between proponents and donors.

In the early years, FPE's role was directed at its grant-making role. The reason was that its formation created great expectations from the NGO and PO community and demand for funding support increased rapidly. The Board also decided that FPE should first build up its NGO and PO constituency through grant making and derive needed experience in such a role. It was then felt that its role as *catalyst for cooperation* and *fund facilitator* will be easier to come about when its track record in grant making has established its credibility with its constituency, as well as with the government and donor community. In later years, FPE has increased its efforts in its role as *catalyst for cooperation* and *fund facilitator*.

## **Management and Fiscal Challenges**

The first management challenge the creators of the FPE and the endowment fund had to face was on how to immediately start the process as soon as concrete agreements were made with the donor. The solution was the setting up of an Interim Board from the most experienced and highly credible leaders

of Philippine civil society. With support from the Ford Foundation, the knowledge of some of the members of the Interim Board on setting up foundations and management of trust funds were built through a study tour of well-established foundations in the U.S. As there was no experienced Filipino NGO yet on debt-swaps at the time, agreement among the NGOs, government, and the donor resulted in the selection the World Wildlife Fund (WWF) to handle the effort. The WWF was also selected not only because of its experience but also because it was part of the group of U.S. NGOs that lobbied the donor for the fund. WWF was also willing to bring in additional funds to the US\$5 million first tranche for the Interim Grants Program the USAID signed with it in 1991. A US\$200,000 debt donation by the Bank of Tokyo to WWF eventually came in to augment the initial fund for the debt swap.

As far as setting up an office with competent and committed staff, the solution was to contract out through WWF's technical assistance grant from the USAID, the Philippine Business for Social Progress (PBSP) to provide interim management support. PBSP is one of the biggest NGO in the Philippines with experience in managing a trust fund set up by business for social projects and is highly credible to the Philippine government and the USAID. The WWF could have been asked to provide staff but it was strongly felt that contracting a Filipino NGO would be more able to provide the service and would lead to endogenous capacity building.

The PBSP management contract, however, did not include an Executive Director. The Executive Director position was seen as a critical one, both in terms of the skills needed to guide a fledging foundation but also in terms of creating credibility to the nationwide community of NGOs/POs and to a still watchful government and donor. A highly objective and competitive process was thus decided upon in the selection of the Executive Director. A reputable international consulting firm specialized in the selection of executive officers of major business corporations was contracted to test, interview and shortlist three candidates from the many that applied from an advertisement for the position placed in major newspapers. Care was made that the process would not be questioned in terms of its objectivity. The Board then deliberated on the report by the consulting firm on the shortlisted candidates and made its selection.

Once the management system was in place, the next major challenge was doing the debt-for-nature swap in a way that meets the criteria of the Board and is most profitable for the FPE. The first swap was completed on March 6, 1992 with WWF purchasing approximately US\$10.2 million worth of debt from Lazard Freres and Co. and Goldman Sachs at a discount of 50 cents on the dollar. This was then redeemed by the Central Bank at 90 percent of their face value. The second swap was made on August 4, 1993 with US\$19 million bought at the rate of 72 cents on the dollar. The redemption rate was 60% this time but FPE accepted it to speed up the process as then Senate President Angara was questioning the "legality of government appropriations not previously approved by Congress". The tedious work of establishing a broad multisectoral constituency and selection of highly credible members of the Board of Trustees paid off in the face of such challenges then and later.

The FPE undertook a tedious and long process in its debt swap efforts. FPE's Interim Board has a strict screening process that no "blood debts" (i.e. onerous loans) would be bought. It took two years to conclude the swaps, so long that by the time the second swap was concluded, the Department of Finance ended promoting debt swaps because of the negligible discounts on market offers resulting from the country's improved economic situation.

With the endowment fund set up through the swaps, the FPE was tasked to prove its "track record". The agreement with the Philippine Government and the USAID stipulated that the funds would not be fully transferred to the Foundation for its independent management until such "track record" is established. The "track record" indicators included not only the organization of a working Board of Trustees and the recruitment of highly experienced and credible Executive Director and staff, but also the development, approval and implementation of a Business Plan and the Foundation's financial management (accounting and auditing) system. An internationally accredited accounting and auditing firm was contracted, after a bidding and selection process. FPE's Business Plan and accounting and

auditing system was developed through a consultative process with the Board of Trustees and the staff. The firm also provided training for FPE staff on the accounting and auditing system, as well as follow up guidance in its implementation. It also provided the parties to the agreement certification that a financial management system that meets strict fiduciary responsibilities for the utilization of the endowment fund by the Foundation and its grantees has been properly set up.

In addition to its fiduciary responsibilities, the FPE was faced with the tasks of: (1) making sure that funds are used for field projects and; (2) directing the use of the funds to priorities identified through an objective and scientific process. The first task was the result of a self-imposed limitation arising from agreements from all parties, particularly the community of NGOs and POs that FPE should not use the funds to enlarge itself but that as much of the funds should go to projects at the grassroots level. The policy agreed upon was that no more than 20% of the annual income from the corpus of the endowment should be used by FPE for administrative purposes. This policy forces FPE to maintain a small staff, provide for a competitive salary but never an extravagant one, and to implement its administrative operations in a most efficient way.

Administrative costs and the limits of fund use to less than the annual income from investment of the corpus resulted in the second task. Projects cannot multiply indefinitely. Focus and prioritization has to be made. At the same time, this has to be made in a way that none of FPE's NGO and PO constituency could allege bias toward certain groups and their site-based projects. This was accomplished through site prioritization, first through consultations with the Regional Consultative Committees and Regional Advisory Councils and then validated by an Experts' Advisory Panel. Only a certain number from a list of priority sites (within what was considered as FPE's absorptive capacity to fund and manage) was initially selected. Other sites would come in as projects in this initial set "graduate" thus allowing FPE to shift its funding support elsewhere. The acceptance by FPE's NGO and PO constituency of these priority sites also reduced the competition for funds as only those NGOs and POs who have established or are willing to commit to a long-term working relationship with communities within the priority areas can submit proposals.

After priority sites were selected, the question was on how to determine what priority projects should be directed in these sites. FPE funded NGOs to conduct site assessment and profiles from which priority action could be determined. In hindsight, the site assessment and profiles should have been less rapid and more detailed, particularly as regards benchmarks for monitoring and evaluation of project impacts. The lack of more detailed assessments led to an underestimation of what needs to be done and to over-ambitious targets. In a substantial number of sites, FPE had to proceed to a second phase of funding as three years of efforts in such sites were not enough to create significant impacts and sustainability.

The policy to focus funding for projects within priority sites created another issue. What then could other NGOs and POs outside of priority sites then do? FPE decided to fund not only the "site-specific" projects from the priority sites but also "proactive projects". The proposals for proactive projects came from FPE's assessment of what needs to be done at the national level to support action at the site and local levels. The proactive projects, to which the most qualified NGOs or POs could be recruited (or apply for), included "Environmental Defense" (organizing and training lawyers and putting up a legal defense fund to support enforcement of conservation laws and defend NGOs and POs from harassment by influential violators) and "Capacity-Building" (first in the use of EIA and the country's EIA system to defend against destructive projects and later to other needed skills). Action grants of not more than P100,000, later increased to P150,000 (about US\$3,000) were also allocated to fund quick or emergency response to critical environmental issues. As timing and flexibility are vital to action grants, the Executive Director was given blanket authority to approve requests by NGOs and POs for action grants.

FPE had also been asked by its NGO and PO constituency to be proactive as regards policy advocacy. But this opens up FPE participation into potentially controversial and politically sensitive issues. FPE's

government and donor partners were wary and continues to be so as regards the foundation's possible involvement in such issues. The consensus that was developed was that FPE's involvement in such issues would be to fund the research and capacity-building activities of NGOs and POs so that they would be more effective in their advocacies on these issues. While its individual members can take certain advocacy positions and make such positions public, the FPE as an institution has taken a more "neutral" public stance.

In terms of fiscal management, the following were/are the major challenges: (1) maintaining the value of the endowment's corpus; (2) increasing the earnings from investments to meet ever increasing demands for funding support, and (3) assuring that grantees manage their finances correctly and efficiently.

For maintaining the value of the endowment's corpus, the Memorandum of Understanding (MOU) with the donor and Philippine Government was that annual investment/interest incomes that are unutilized be added to the corpus. The approach should have been to require that a proactively computed amount equal to maintaining the value of the corpus be taken from annual allocations of investment/interest incomes and automatically added to the corpus. The FPE, however, felt that the need to provide the fullest support to NGO and PO efforts in the field was urgent. Most of the income ended up being fully allocated to projects.

High levels of currency devaluation and inflation over the last five years however have seriously eroded the value of the endowment. FPE has started to implement measures to add funds from its income into the corpus. These measures include leveraging funds with other donors and helping grantees and potential grantees network with other donors so that funding demands continue to be met despite decreasing the budgets allocated for such. FPE has also started to put more efforts on its "fund facilitator" and "catalyst for cooperation" roles. FPE also had to put more importance to strengthening various aspects of project sustainability so that funding demands from FPE of projects decrease as they mature.

In the management of its endowment fund, FPE also had to balance risks and profit. At first, FPE took a very conservative and safe investment stance. From 1992 to 1994, the endowment was invested solely in Central Bank special series bills. But fluctuations in the treasury bills market and perennially low yields of such investments prompted the Board to assess other options. As a first step, 20 percent of the endowment was placed in equities while 80 percent continued to be kept in treasury bills to minimize risk. In 1996, the Board took a bolder move and convinced USAID for an amendment to the MOU so that FPE could withdraw the whole endowment from the Central Bank and turn over its management to three local fund managers and an offshore bank.

Strict guidelines for fund/investment placements, however, had to be imposed. The trust agreement between FPE and its fund managers required that portfolio should consist only of investment grade fixed income securities. While up to 20 percent of the value of the portfolio may be invested in equity securities, such should be publicly traded on internationally recognized stock exchanges or the NASDAQ over-the-counter market with issuers carefully chosen among solid, consistent performers. High rollers are discouraged. Placements in futures contracts, options or derivatives, which are high risk, are also not allowed. Also disallowed were investments in securities of a company owned (i.e. more than 5 percent of its debt or equity securities) or managed by an FPE Board member or officer or his/her relative unless FPE was informed of the fact beforehand.

The increase in income resulting from transfer of investment from the Central Bank was also the result of good timing. It was done before the Central Bank bills fell below the market rates. Foreign fund placements, on the other hand, coincided with the devaluation of the Philippine peso.

FPE, however, had to continue finding ways of increasing its income. New investment instruments seem to show that an additional 3 to 5 percent more income can be derived. FPE would have to

reassess its policy on profit vis-à-vis risks and develop a plan for optimizing its income from investments. FPE has decided to hire a financial adviser for this.

Furthermore, FPE would also have to make a decision on how strict it wants to be in terms of its criteria for “environmentally correct investment”. Being an environmental institution, FPE does not want its investments supporting companies that are not environment-friendly. FPE regularly monitors the reports of fund managers for such undesirable placements.

Another major challenge faced by FPE is assuring good fiscal management by its grantees. The value of highly profitable fiscal management of investments is negated when increased profits are eventually wasted by projects. At the start, NGO and PO partners of FPE, particularly those that had no experience managing substantial funds, did not have the appropriate financial management systems. Detailed accounting of funds and regular submission of financial reports were even seen by some as tedious and a bureaucratic requirement that should be resisted. NGO and PO partners therefore had to undergo intensive financial management trainings before funds are released to them. FPE project staff have to conduct follow up visits to make sure that skills and knowledge are being applied and to help correct errors. FPE is also in the process of developing an operations manual that includes financial management among other things. The challenge here, however, is how to put together a comprehensive manual yet making it short, simple and flexible enough for the variety of situations that exist in the field.

## **Lessons Learned and Recommendations**

The experience of FPE has shown that an endowment/trust fund can play an important role in biodiversity conservation and sustainable development particularly when efforts related to these require the flexibility, innovativeness, and long-term commitment that NGOs and POs bring in.

There is great value in developing multisectoral cooperation, first in the advocacy for the trust fund and later on in its management. While there may be different groups of NGOs and POs at local and international levels, they should be able to work together. Government is also a major stakeholder. Government support is necessary to help convince donors and meet political and legal requirements. Yet government, as well as donors, should also be convinced that less government control of the trust fund is advantageous in the long term.

Trust funds are not simply mechanisms for more efficient and effective way of managing limited funds in the long term. The process of their formation and design of management can be utilized to strengthen participatory democracy and good governance. It is thus important that stakeholder participation, through formal and informal structures and processes, be part of trust fund formation and management.

The credibility of the people advocating for the trust fund, and later on managing it, is vital. Such champions from both civil society and government should be recruited to form its Board of Trustees and its staff. It is also important that a network of such people be organized throughout the whole country. It should also be made sure that the process of fund establishment and management is a highly credible process.

The utilization of the trust fund should be guided by a well-crafted business plan or program that provides focus as well as flexibility. It is expected, however, that needs and situations will change. The organization managing the trust funds should therefore have a system for organizational introspection. A monitoring and evaluation system that could measure both project performance and impact should be part of the fund’s management system.

The demand for support from conservation trust funds will most likely increase rather than diminish over time. There will have to be continuous efforts to increase the size of the trust fund as well as increase its investment incomes. Conservation trust funds thus require the participation of business and finance experts and not just conservation experts. Its role should not just be limited to grant making. Fund facilitation and creating cooperation that leads to pooling of financial and other resources are also vital roles.