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July 13, 2011

Project Finance for Permanence

Lessons from landscape-scale conservation deals

Prepared by Redstone Strategy Group in collaboration with the Gordon and Betty Moore Foundation and the Linden Trust for Conservation

Note from the project sponsors

Most of the world's remaining natural ecosystems are under significant stress, and these stresses are worsening as both global population and per capita consumption increase dramatically. In many important places, conservationists are working with local communities and national governments to create protected areas and multiple-use zones that conserve biodiversity and ongoing natural processes.

Even there, though, conservation is usually on the defensive, often proceeding on a year-by-year basis to fight off threats that are in many cases pervasive. However, there are some places that, if action is taken now, can be conserved in healthy states for the foreseeable future.

This is the goal of "project finance for permanence," or PFP, the subject of this report. In PFP, place-based conservation is approached holistically – bringing together the ecological, financial and organizational measures needed for long-term conservation, and doing this thoroughly and all at once, rather than incompletely and incrementally. Of course, eventual conservation success not only builds on the preceding efforts and in-place conditions, but entirely depends on successful implementation of the agreed plans. But, where PFP can be applied, it may be a preferred approach.

This report describes PFP as it has evolved so far, based on three large-scale conservation programs, in which the Gordon and Betty Moore Foundation, Linden Trust for Conservation, and Redstone Strategy Group (or their predecessors) have played significant roles and draws lessons for its continued progress.

These three programs are the Amazon Region Protected Areas project in Brazil, the Great Bear Rainforest project in British Columbia, and the Forever Costa Rica project. The Moore Foundation and the Linden Trust, with the assistance of Redstone, supported and partnered with high-capacity international NGO's – The Nature Conservancy (TNC) and the World Wildlife Fund, specifically – in these cases, and their contributions were and remain mandatory for the success that is being achieved. PFP builds on the great conservation deals executed by TNC and other organizations in the United States, in places like the Adirondacks and Montana, and on the discipline of project finance, developed on Wall Street for financing complex one-off projects.

PFP can provide multiple benefits. A centerpiece of PFP is the use of a single closing, by which we mean the actual delivery of the pledged funds at the time the pledge conditions are met. By bringing a large block of outside funding into a single closing, PFP can serve to organize the necessary parties and draw out new resources and commitments. Because the deal is set up so that it will not close without all of the financial, organizational, or other necessary milestones having been met, the participants each gain a high degree of true leverage for the funding or other commitments that they contribute. The all-or-nothing deal structure lends urgency to the process, driving speed. Finally, by setting a standard of permanence (i.e., adequate for at least the foreseeable future) , the milestones to the closing can be set to include all the necessary funding, organizational structures, and commitments to motivate

all the parties involved, including the host government, to effectively implement the conservation plan.

From a host government's point of view, then, PFP can help committed leaders – such as Presidents Cardoso and Lula in Brazil, or Presidents Arias and Chinchilla in Costa Rica – implement over time their conservation visions. From a donor's point of view, the deal may give the highest return to scarce philanthropic dollars. From an NGO's point of view, it can provide a vision of finality and allow over time the reallocation of scarce personnel and financial resources elsewhere.

However, PFP is an evolving approach. As described in the report, the deal-making processes used in the past can be greatly improved (for example, new sources of financing must be sought, and the role of "deal broker" can be clarified and implemented more rigorously). Importantly, there are limitations on where PFP can be applied (for example, it is expensive, and requires quite good national governance), so the domain of its applicability might be expanded – for example, by finding new internal and external sources of funding, and by targeting deeper social acceptance.

With this as context, the objective of the work was to bring attention to and elaborate on two ideas. The first is that, in the limited circumstances where it might be possible, ambitious structured project-finance approaches can help set the stage for "permanence" as a conservation goal by organizing the major resources and commitments that are necessary. The second is that this has been tried to a significant degree in at least three instances outside the U.S., with mixed but increasing overall success, and that, for at least the Moore Foundation and the Linden Trust, there are important lessons that can be learned and applied to continue that evolution.

Of course, the methodology applied – interviews with project participants, synthesized based on judgment and experience – was designed to support this objective.

In addition to assisting our own future work, we hope this report will be of value to other conservation practitioners and funders.

We would like to thank those whose insight and time strengthened this effort. They include the many individuals who gave their valuable attention for interviews; the team at Redstone Strategy Group that synthesized the results, lent its own experience, and wrote the report; Kent Redford of the Wildlife Conservation Society and Nick Salafsky of Foundations of Success who reviewed and provided comments on several early drafts; WWF, TNC, and the several individuals from each of the major projects who reviewed the final draft; and, finally, our own colleagues at the Moore Foundation and the Linden Trust for their effort.

We hope that this work will encourage our colleagues in the conservation community to consider other places that might be conserved "permanently" if actions are taken now, with ambitious, holistic, but practical solutions such as Project Finance for Permanence.

Larry Linden, the Linden Trust for Conservation

Steve McCormick, the Gordon and Betty Moore Foundation

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Summary

This report covers lessons from PFP's use as it has evolved through three deals: the Amazon Region Protected Areas (ARPA) in Brazil, the Great Bear Rainforest (Great Bear) in British Columbia, and Forever Costa Rica (FCR)

Over the past several decades, but in particular in recent years, the practice of conservation has increasingly adopted business-based and financial approaches. Among these is the use of project-finance techniques to mobilize the resources, institutional commitments, and other conditions needed for successful long-term conservation. This approach, here referred to as project finance for permanence (PFP), is the subject of this report.

This report covers lessons from PFP's use as it has evolved through three deals: the Amazon Region Protected Areas (ARPA) in Brazil, the Great Bear Rainforest (Great Bear) in British Columbia, and Forever Costa Rica (FCR). It is based on documentation of the deals and roughly 50 interviews with deal participants, senior leaders, and other experts in the field of conservation, as well as Redstone's own experience. More detail on the report's methodology, the list of interviewees, and related items of interest can be found in the appendices. Separately, a PFP Assessments report further details the three examples.

The remainder of this report covers the following lessons from the deals described above:

1. **PFP overview.** Project finance for permanence brings concentrated organizational and financial resources to bear on large-scale, long-term conservation programs. By designing projects for permanent protection, creating strong organizations and inter-organizational agreements, and using tested financial processes such as rigorous financial plans and a single closing, PFP builds a strong foundation for the permanence of ecologically important places.
2. **Where is PFP applicable?** PFP efforts are large endeavors, usually demanding many years of intensive work. Site selection is important, and it should take account of the factors associated with project success, such as strong government capacity, political commitment, high-capacity stakeholders, and strong potential for additional internal and external funding.
3. **Best practices.** Each of the three projects had strengths to be built on and weaknesses to be addressed in future PFP projects. As part of the continuing evolution of the approach, lessons from those experiences reveal possibilities for better program designs, more effective pre-closing activities, more complete fundraising, more efficient closings, and, in turn, outcomes that come closer to truly achieving permanence.
4. **Recommendations for improvement.** New PFP efforts could push its evolution. Specifically, PFP may benefit from 1) increased diversity of funding sources, 2) more attention to political and social sustainability, 3) fewer compromises in setting conservation objectives, and 4) clearer expectations for each major stakeholder.

The chapters that follow elaborate on each lesson in turn.

1

PFP builds a strong foundation for the permanence of ecologically important places

1. PFP overview

Project finance for permanence brings concentrated organizational and financial resources to bear on large-scale, long-term conservation programs. By designing projects for permanent protection, creating strong organizations and inter-organizational agreements, and using tested financial processes such as rigorous financial plans and a single closing, PFP builds a strong foundation for the permanence of ecologically important places.

The concept

The conservation community uses many tools to protect ecologically significant places. Few of these tools, however, can create trans-generational protection for important places, which typically requires complex political, social, and organizational activities at a very large financial, geographical, and organizational scale.

Project finance for permanence is a means of designing and launching protection at landscape scale relying on rigorous project selection and project management. It is modeled after the private sector practice of "project finance," in which funding is raised for complex projects (e.g., electric power plants) with a financial closing conditional upon the development of an agreed business plan, the establishment of all the necessary preconditions for business success (e.g., customer contracts), and the commitment of all needed funds – together comprising the complete set of resources and conditions needed for project success. As one interviewee described it, PFP aims "to reconcile conservation goals with financial means."

As discussed below, the PFP model is the result of an evolution across a number of large-scale projects, including the three cases examined here: (1) the Amazon Region Protected Areas (ARPA) program to conserve 60 million ha of Amazon rainforest, (2) the combined conservation/economic development plan for the Great Bear Rainforest in British Columbia, and (3) the Forever Costa Rica project to expand and finance Costa Rica's terrestrial and marine protected area system.

Figure 1. PFP in context

The aim of PFP is to help establish the conditions required to secure the ecological, financial, organizational, political, and social sustainability of globally important places. The term conditions reflects the idea that the deal is merely one phase of a multi-phase process (Figure 1). Developing the preconditions to begin the PFP process often takes years (or decades, in some instances), and the bulk of the actual conservation takes place during implementation, during which conservation succeeds or fails. Nonetheless, where applicable (see Chapter 2), the PFP model provides a means to do as much as possible to create the conditions for implementation success.

The term sustainability reflects the importance of achieving permanence through long-term (i.e., multi-generational) resilience, not absolute immutability. Planning cannot anticipate every conceivable challenge a program may face. Rather, PFP is intended to create a strong foundation across all the necessary dimensions for post-closing implementation and subsequent adaptive management, allowing a program to weather unforeseen storms (and recognizing that efforts will also be affected by exogenous factors). At the same time, sustainability also implies something greater than resilience, in that sustainable landscapes will thrive in less challenging times, not simply overcome difficult circumstances. Appendix B defines each of the five types of sustainability sought by PFP (and included in the goal statement) in more detail.

Figure 2. Simplified PFP model

Figure 2 presents a simplified model of PFP's four elements and indicates how PFP precedes implementation. While implementation is, of course, critical to conservation success, this report focuses on these four elements, which are described briefly below (Appendix C covers more detail, including suggested activities for each component):

- **Preparing for PFP and designing the program: Assessing program needs;** recruiting and funding the core PFP team; and creating the ecological, financial, organizational, political, and social planning to ensure PFP's success.
- **Fulfilling organizational, legal, and governmental closing prerequisites:** Enacting legal and regulatory frameworks for creating the program; managing organizations, laws and decrees indicating commitment to the program; creating new protected areas (PAs) as necessary; adjusting budgets related to the resulting program; and undertaking the first steps of implementation (if required).
- **Fundraising to accomplish the program objective:** Fundraising for the program's full cost by using a single closing (or more if necessary) and related fundraising phases.
- **Closing and hand-off for implementation:** Completing a single final (or phase-end) closing after all necessary closing conditions have been met

(including government actions and the raising of all of the necessary funds for implementation).

Note that PFP's elements are not necessarily produced in strict sequence – in practice, there is often considerable overlap – but they are generally addressed in the order described above.

Key benefits

PFP coordinates the many entities typically needed to achieve landscape-scale conservation by establishing a multi-stakeholder process that benefits all involved. Some resulting advantages include:

- **Financial leverage** that magnifies the effect of each funder's contribution through the closing. For example, one interviewee pointed out that from a single foundation's standpoint, a $5 million commitment to FCR had an effective leverage of 10:1. PFP is particularly powerful from the perspective of private funders. Though private money alone is seldom sufficient for landscape-scale programs, initial private investments can help build credibility for a PFP effort and catalyze government interest.
- **Transactional influence** that uses the promise of large-scale philanthropic investments to encourage constructive activity on the part of governments, non-governmental organizations (NGOs), and others. External funds provide incentives for other entities' legal, regulatory, and organizational actions through the closing structure, which requires that all closing preconditions are met. For example, the ARPA and Great Bear projects both contributed to significant new protected area laws in their respective regions. In ARPA, the 2000 National System of Conservation Areas Law (SNUC) defined the strict and sustainable use PA categories, with management systems for each. In Great Bear, the 2006 Parks Act amendments introduced PA co-management with First Nations.[1]
- **Simultaneous attention to ecological, economic, and social concerns** that is possible through the multi-party PFP process. In particular, PFP can represent a significant departure from the stereotypical tension between ecological and human economic goals in conservation projects. At the same time, further incorporating social and economic concerns into project design was one of the most cited opportunities for improving PFP. In ARPA, for example, interviewees praised the addition of sustainable use reserves, but urged the program to increase local community involvement.
- **Conditions for post-closing implementation and adaptive management** that are established through the program design. After the closing, the work of PFP is by definition largely complete, and execution becomes the exclusive focus of the team "on the ground." If successful, PFP delivers a complete set of ecological and organizational conditions that set the stage for successful implementation. However, PFP does not guarantee against changing conditions, or the plans may be flawed, and the execution entities must be well prepared to adapt to those changes.

PFP coordinates the many entities typically needed to achieve landscape-scale conservation by establishing a multi-stakeholder process that benefits all involved

1 First Nations are Canada's non-Inuit, non-Métis indigenous communities.

Adaptive management is the integration of design, management, and monitoring to adapt and learn by systematically testing assumptions (Salafsky et al., 2001). As is the case with any project or program, PFP's sustainability is supported by a management team with the knowledge and ability to articulate the assumptions behind their actions, collect and analyze the data needed to test these assumptions during implementation, adapt their program based on the findings, and document and share the lessons that they have learned. This learning includes determining how to address restoration needs and biodiversity threats within the program area, as well as how to improve the PFP approach itself. As described in Chapter 3, adaptive management has been key to implementation success in ARPA and the Foundation for Protected Areas and Biodiversity (FAPB) in Madagascar.

Evolution of PFP

While PFP is presented in this report as a single conceptual framework, in practice the definition and structure evolved over the past 15 years. This evolution was not explicitly planned, but the three examples clearly diverged from approaches used in many previous conservation programs. Future PFP efforts will no doubt continue this evolution, refining the model with each new application.

Historically, many conservation programs have focused on single protected areas, and external donations have often served as important "supplements" to government funding, rather than a means to influence government financing and PA-related activities.

Figure 3. PFP has evolved across the three examples

As shown in Figure 3, ARPA brought about many major departures from common practice. That project incorporated a landscape-scale network of PAs designed for ecological sustainability, structured multi-stakeholder involvement led by champions within the major involved organizations, and private sector-style financial planning aimed at using external funds as leverage, rather than simply as additional funding. Great Bear and FCR then added other distinctive characteristics of PFP, such as full-cost fundraising and a structured closing. Figure 4 illustrates a basic timeline of each of the examples, which are described briefly below. Substantial additional detail on overviews, key findings, and assessments against PFP goals and elements for each project is available in a separate PFP Assessments report. Also, while at times the text

mentions specific actors due to their involvement in relevant details, this in no way detracts from the importance of the partnership in each project; the collaboration and participation of all partners is a crucial element of PFP.

ARPA

In 1998, the president of Brazil pledged to protect ten percent of Brazil's Amazon biome. The government then worked with the World Wildlife Fund, the German Development Bank, the World Bank/Global Environment Facility, and others to develop this public-private PA program. ARPA's original protection goal was 50 million ha (later increased to 60 million ha), and its total endowment funding target (excluding costs for creation and consolidation) was initially roughly $240 million (though this has also changed over time).

ARPA sparked PFP development as described above and is distinctive for its immense size, ambition, and expansion of the protected area system, as well as for its innovative efforts to integrate private sector-style planning into the program design process.

Great Bear

After intensive anti-logging campaigns and legal decisions recognizing indigenous land rights, negotiations culminated in a joint land conservation/economic development plan for this British Columbia coastal rainforest. The program includes nearly 8.5 million ha of ecosystem-based management, of which about 2 million ha is under strict protection. The conservation and development funding totaled C$120 million.

Great Bear introduced full-cost fundraising and a single financial closing to PFP. The project also took a more comprehensive view of stakeholder support and organized efforts through "shuttle diplomats" from each constituency. For example, The Nature Conservancy led the private fundraising effort (and continues in an important conservation role), while Tides Canada led the key final stages of the PFP process, up to and including the financial closing.[2]

FCR

On the heels of Costa Rican President Óscar Arias' declaration of "peace with nature," this effort leveraged new external funding to create a program aimed at permanently meeting the protected-area standards of the Convention on Biological Diversity (CBD). Led by The Nature Conservancy, and building on years of conservation planning it conducted in partnership with the government, the program includes $57 million of new external funding ($47 million present value), and agreements of $18 million annually in government funding. Fundraising was led by The Nature Conservancy and a partnership of philanthropic foundations, with The Conservancy leading on the debt swap with the U. S. Government. The program will double the size of Costa Rica's marine PAs and support other PAs in perpetuity.

2 These roles are examples of the many important roles played by different parties, including First Nations, NGOs, funders, and industry groups. The involvement of such a wide range of stakeholders is an important feature of the project.

FCR saw three important achievements in PFP's evolution: the project covered the full PA network of an entire country (though the area covered by ARPA is far bigger); the "deal broker" role became more defined, resulting, among other benefits, in increased speed to closing; and the full suite of protected areas covered marine, freshwater, and terrestrial areas. Yet even FCR left significant opportunities for developing the approach. For example, many interviewees felt that local stakeholder engagement could have been more effective (though many also recognized this limitation as a tradeoff for speed).

Figure 4. Timelines of the three examples

Other examples

Of course, there are numerous examples of other conservation efforts with one or more characteristics of PFP. The Nature Conservancy, for example, has led major deals with key elements of PFP in the United States in regions such as Montana and the Adirondacks. Outside the United States, the Mexican Fund for the Conservation of Nature, in partnership with several Mexican government agencies, is in the process of launching a $250 million initiative to integrate coastal watershed management for the Gulf of Mexico and the Gulf of California. Similarly, Conservation International's Global Conservation Fund has helped finance numerous protected areas.

For another example, Madagascar's Fondation pour les Aires Protégées et la Biodiversité (FAPB) is an independent funds management entity that finances a national network of protected areas created through a multi-stakeholder process. As one interviewee commented, the project did not consciously follow the PFP approach as it existed at the time. Nonetheless, according to the interviewee, FAPB's success appears to confirm the potential value of PFP.

There are also myriad examples of other large-scale place-based conservation efforts.

2

2. Where is PFP applicable?

PFP efforts are large endeavors, usually demanding many years of intensive work. Site selection is important, and it should take account of the factors associated with project success, such as strong government capacity, political commitment, high-capacity stakeholders, and strong potential for additional internal and external funding.

PFP is one tool among many that can contribute to large-scale conservation efforts, and is by no means a universally relevant approach. And while it is likely that many of the concepts included in PFP could be valuable in a wide range of conservation contexts, this report assesses PFP as applied specifically to place-based conservation and assumes that PAs will form the centerpiece of resulting programs.

The remainder of the report discusses key lessons learned and best practices gleaned from the three projects discussed in Chapter 1. There are, of course, many potential avenues for further work that could shed additional light on PFP that fall outside this report's scope. Some possibilities are listed in Appendix F.

Important factors for site selection

Proper site selection is critical to PFP success

As PFP is potentially limited in its application, proper site selection is critical to success. This section concentrates on factors to help identify locations where PFP is particularly applicable. Additional factors, such as ecological importance and urgency of threats are also relevant, but apply to all potential PFP projects, and are therefore not discussed here.

- **Strong national governance and legal structures.** In addition to having a stable system of government (e.g., no recent history of coups, dictatorships, military governments, or constitutional re-writes), the relevant government(s) should have the ability to enact and enforce regulations, the legal system should be mature enough to enforce contracts and provide for financial vehicles such as trusts, and expropriation risk must be low. In other words, governance quality affects not only the relationship between nongovernmental parties and the government, but also between the nongovernmental stakeholders. All three project areas under study were in countries above the 50th percentile in World Bank indicators on government effectiveness and control of corruption during their project years (though Brazil was slightly below on rule of law, and indeed, PA enforcement remains an issue for ARPA). In countries with weaker governance than those reviewed here, the possibility of greater reliance on independent entities and the private sector would have to be explored.
- **High-level, strong, and continuous political commitment.** Because government plays a central role in sustainable conservation, high-level political sponsorship is needed throughout a program's life – at the national level and in some cases also the sub-national level. FCR recently took the major step of securing the support of a new Costa Rican presidential administration, reflecting its continued political support; conversely, many ARPA interviewees noted the challenges associated with sustaining support for that program across administrations. Even receptive governments often require outside engagement

to follow through on long-term conservation.

An endeavor of this nature and scale usually requires a significant investment of political capital. Substantial political will is therefore necessary to bring a PFP project to completion. Likewise, non-governmental project team members should be cognizant of the magnitude of the requests being made of the government.

- **High capacity of stakeholders to design and execute.** PFP depends on partnerships with and among highly capable non-governmental actors. Examples might include an NGO that can work closely with entities like the park service or a fund manager with a credible track record. In particular, the lead NGO partner should have general technical, as well as in-country, expertise, relationships with local and international partners, and large-scale fundraising ability. TNC had many of these characteristics in Great Bear and Forever Costa Rica, while WWF (among others) had many of these characteristics in ARPA.

  Similarly, because multi-stakeholder involvement is crucial to PFP, success depends on each stakeholder's interest in the project's success. Many ARPA interviewees, for example, cited the importance of enthusiasm from members of the government, private funders, NGOs, and multilateral organizations early in the project.

- **Strong potential for internal and external funding.** PFP is expensive, especially if endowments are used. Therefore, it is critical to apply it in places with the potential for significant additional funding. This includes external private funding, which can unlock both external bilateral and multilateral funding and, importantly, additional funding and other commitments from the host government. Innovative and diverse funding sources may play an increasingly important role in this topic (see Chapter 4).

  Private funding plays an important catalytic role, as it draws out other funding as well as governmental actions and commitments. Therefore, although it is by nature limited, private funding should not be minimized. Indeed, multiple interviewees cautioned against reducing private capital to the point where it would no longer provide a major incentive for other funders to participate. As a result, it is extremely helpful if a project location is somewhere private donors know and like, or if there is a clear potential "anchor funder" for the project to build credibility among peer private donors.

  The government of a project location is typically the single largest source of funds for PFP programs. As Bovarnick et al. (2010) show, direct government budgeting and PA revenues account for almost three-quarters of PA funding in Latin America and the Caribbean, even though this funding comprises only roughly one percent of national budgets (or 0.006 percent of GDP, on average). Consequently, the possibility of significant internal funding beyond that already allotted to PAs – as indicated, for example, by measures of national wealth or the existence of facilities such as Brazil's environmental compensation tax – is an important precondition to success.

Of course, locations that meet only some of these criteria may still be fruitful venues for adapted forms of PFP. However, these four criteria – rare as their combination is – are likely necessary for successful implementation of the full PFP model. As discussed above, PFP can be extremely powerful where these conditions exist, but their rigor means that its applicability is without question limited in scope.

3

Each of the three projects had strengths to be built on and weaknesses to be addressed in future PFP projects

3. Best practices

Each of the three projects had strengths to be built on and weaknesses to be addressed in future PFP projects. As part of the continuing evolution of the approach, lessons from those experiences reveal possibilities for better program designs, more effective pre-closing activities, more complete fundraising, more efficient closings, and, in turn, outcomes that come closer to truly achieving permanence.

While past PFP projects are generally regarded as highly successful, interviews and the experiences of the report's authors suggest that future efforts can be even better if the approach is fine-tuned. A resulting description of best practices for each of the four elements of PFP is summarized below.

Preparing for PFP and designing the program

- **Pinpoint a deal to make all stakeholders better off and then involve a minimal set of parties to make it happen.** A mutually beneficial outcome is the cornerstone of long-term success, so involving relevant constituencies in a highly-structured, multi-party stakeholder process is a key early step. As discussed, a defining characteristic of Great Bear (and a necessary condition for its closing) was that all key stakeholders were better off taking the deal than not. At the same time, it is impossible to engage every stakeholder, especially those that lack clear leadership and organizational infrastructure. It is thus essential that the project team clarify which stakeholders are needed, as well as the wider circle with whom the project can consult periodically.

- **Organize a partnership including at a minimum the host government, a high-capacity conservation NGO, and an anchor funder for the external private funding.** PFP deals are inherently public-private partnerships with the host government. The lead NGO (WWF or TNC in the cases studied here) can, depending on the circumstances, lead on fundraising, provide scientific expertise, mediate partner relationships, and handle post-closing implementation. It is highly unlikely that a successful PFP could be executed without one of the few NGOs that have the sophisticated skills and relationships. An anchor funder with significant capacity (the Moore Foundation in each of these cases) gives the PFP effort early credibility and important connections across the philanthropy community.

- **Establish a "deal broker" to lead stakeholder engagement and drive the process.** In PFP, it can be difficult to ensure that: (1) all necessary stakeholders come to the table, (2) each stakeholder's interests are taken into account, and (3) the project stays focused on its goals. For example, one Great Bear interviewee noted that the project's conservation and economic goals were not equally salient to all parties. A deal broker trusted by all stakeholders plays a vital role in maintaining cooperative focus.

  While it is not necessarily vital that one individual or organization plays this role, it is useful if there is one clear manager who holds the confidence of all parties. For example, in ARPA, interviewees widely cited the importance of

"champions" within each major stakeholder in building enthusiasm for post-closing implementation, but also lamented the lack at specific times in the program's history of a single "driver" to move the process forward.

- **Secure sufficient funds to get the deal done.** Several interviewees noted that PFP itself has substantial costs that financial plans for the landscape conservation itself often do not include, such as the costs for NGO partner(s), lawyers, and consultants during the deal process and for the years immediately after the closing. As a result, project teams may scramble to obtain the funds for the program design phase. When planning for PFP, teams should acknowledge these costs, and make sure to include a mini-fundraising plan for pre-closing activities.

- **Define charismatic program goals that include permanence in the conservation plan, but make them measurable.** A strong plurality of interviewees named the setting of measurable, charismatic conservation goals as one of the most important PFP characteristics. Further, 80 percent of interviewees favored setting ambitious goals with challenging fundraising targets over accepting a less complete program goal. Indeed, the Amazon "brand" was one of ARPA's most-cited strengths.

- **Define program goals that are attractive to the host government.** Developing a deal that is attractive to all parties is a vital aspect of PFP. However, as noted above, the support of government is necessary to build momentum for the project in the first place. If a project can assist the government in, for example, meeting its international commitments (as FCR helped Costa Rica reach key milestones under the CBD), it will likely be much more appealing to the top levels of government.

- **If possible, design the program to achieve significant societal benefits.** Many interviewees felt strongly that projects should incorporate ecosystem-service benefits, such as greenhouse gas reductions or local sustainable use or water quality protection. Indeed, these topics may have replaced biodiversity as the dominant environmental concern for at least some funders; one interviewee claimed that ARPA risks becoming "obsolete" (in a societal, not ecological, sense) if it continues to focus so heavily on Amazonian biodiversity (though many other interviewees noted that ARPA has made substantial progress on this topic, including by adding sustainable use reserves).

- **Capitalize on a catalyzing event, such as a presidential declaration.** Events that make conservation a society-wide priority facilitate PFP. Of course, projects require effective planning to take advantage of these opportunities. ARPA is an exemplary combination of capable planning and opportunistic action (to build on President Fernando Henrique Cardoso's commitment to protect ten percent of the Amazon). Similarly, many Great Bear interviewees cited the new First Nations' land use plans and the markets campaign against lumber companies in making that project possible.

  As illustrated by ARPA and FCR (spurred in part by a speech delivered by President Óscar Arias), the catalyst is often a prominent display of political will. Given that political will is a prerequisite for PFP, it thus may often be that

Resilience is a defining trait of a sustainable PFP program

an enthusiastic head of state can create the catalyzing event through public support for the project.

- **Write the financial plan to be outcome-focused, and then create versions to make it usable by all parties involved in the deal.** Because PFP focuses on achieving long-term goals, the project team should initially write the financial plan based on outcomes rather than on governmental accounts. However, one weakness in past projects was the inability of key stakeholders – especially government – to use these outcome-based versions of financial plans. FCR and ARPA interviewees, for example, pointed out that the first versions of the financial plans did not adhere easily to government line-item budgeting, making them less useful to government officials. "Translating" the financial plan as needed may save significant time in the long run.
- **Design the independent funds management entity for adaptive management.** As discussed in Chapter 1, resilience is a defining trait of a sustainable program. ARPA, as the oldest program, has undergone the most change (e.g., the addition of sustainable use reserves and variations in government capacity and commitment). FUNBIO's[3] ability to adjust its procedures and complete tasks previously undertaken by government (e.g., PA budgeting) has smoothed implementation. Similarly, one interviewee noted that FAPB's flexibility allowed it to successfully weather two political crises in Madagascar. The independent entity should therefore be capable of monitoring and evaluation.

Fulfilling organizational, legal, and governmental closing prerequisites

- **Ensure that the public-private partnership is secure by developing distinct "closing conditions" and "disbursement milestones."** The former should frame a deal in which all parties both contribute to and receive something from the project, so that each is better off accepting the deal than rejecting it. When these conditions have been met, the deal can close. Disbursement milestones include the measures required of government in the program design and term sheet to allow the private funds management entity to distribute funds for implementation. In most projects, including ARPA and FCR, the government is the major source of financing for supported PAs (as well as authority for the program). It is thus crucial that the PFP structure can use the financial partnership between the government and the independent entity to ensure performance by all parties of previously-agreed-upon actions.
- **If possible, design mechanisms to formalize government intentions to fulfill funding agreements.** One Brazilian government official noted that ARPA's fundraising success tempts the government to direct public money away from ARPA towards "less privileged" PAs. FCR confirmed ongoing government funding through a letter from the President and trust disbursement milestones, though these measures are untested. Any steps to increase the security of public funding would therefore be helpful.

3 FUNBIO is the entity in Brazil that manages the ARPA trust fund, among other conservation programs.

- **Use an existing organization where possible.** Where there are suitable options, a PFP project team should recruit an existing organization rather than create a new one (ARPA, managed by FUNBIO, is the only PFP project to do so). This obviates the need to build organizational structure and credibility from scratch and can reduce project time and cost significantly. One interviewee, for example, noted that simultaneously designing the project and management entity was a challenge for FCR.
- **Gate external funding on completion of major governmental actions.** Because PFP projects operate at landscape scale, the government almost always needs to take legislative or executive action to frame subsequent PA management. SNUC, the 2000 Brazilian law on the National PA System, formally instituted that system and also designated requirements for stakeholder consultation and guidelines for creating "PA mosaics." Likewise, a 2006 amendment to British Columbia's Park Act created a new PA type to balance First Nations' interests, conservation goals, and recreational objectives. Similarly, in FCR, the government decreed new marine-protection categories and committed to doubling the territory in marine PAs.

Fundraising to accomplish the program objective

- **Fundraise for the full cost of the program.** To close, the project team needs commitments to cover the financial plan's estimates for program costs in perpetuity. PFP is an "all or nothing" approach: the deal broker does not call any commitments unless the project has obtained commitments for the full cost. One interviewee compared this feature to funding an airport. One would not start that construction if there were only money for one half of a runway. However, in conservation the common practice is to do just that, and assume or hope the rest of the funding will come later. PFP aims to avoid that incompleteness by uniting vision and financing.
- **Set achievable, but ambitious, fundraising targets for all funding sources, including funds to be raised by the host government.** Several FCR interviewees, for example, issued words of caution regarding government fundraising targets. On one hand, government participation in the fundraising process was very attractive to some funders; on the other hand, asking the Costa Rican Government to raise $16 million of the $50 million target slowed the project. In fact, the government only met its commitment through a late debt-for-nature swap with the U. S. Government. Similarly, there is concern that ARPA's fundraising target may be overly ambitious. That said, interviewees also acknowledged that without the ambitious targets in place, the funding that eventually materialized might never have been brought to bear. More generally, the overall fundraising plan ideally should include an analysis of what aspects of the plan are likely to be most difficult and "backup plans" for these aspects.

Closing and hand-off for implementation

- **Make clear how to decide when closing conditions have been met.** At the closing, the negotiated terms become formally binding. Yet this step is based on the project meeting certain stipulations (e.g., all prescribed initial government

actions have taken place, as in FCR). The project needs a structured way to determine whether those requirements have been met.

- **Design a single closing, if possible.** Although in bigger projects it may appear more expedient to fundraise in stages (as has been the case with ARPA), such an approach loses much of the power of PFP and should therefore be avoided if possible. That said, if a phased approach is decided upon, a "closing" can be structured within each phase: fundraising should aim to secure commitments to cover the full cost of the phase, and a closing should occur prior to transitioning to the next phase. Even in a multiple-closing structure, each closing should deliver a major sustainable conservation achievement.

4

New PFP efforts could push its evolution

4. Recommendations for improvement

New PFP efforts could push its evolution. Specifically, PFP may benefit from 1) increased diversity of funding sources, 2) more attention to political and social sustainability, 3) fewer compromises in setting conservation objectives, and 4) clearer expectations for each major stakeholder.

Whereas Chapter 3 describes current best practices for PFP, many interviewees also discussed ways to push the bounds of the PFP approach. While some of these suggestions significantly change the approach's goals and parameters, they represent potential steps for building on PFP to achieve even greater benefits, and are included here to describe current thinking on future directions for PFP. It is important to bear in mind that these recommendations should not be viewed as necessary for future uses of PFP, and that each one leads the model in a new direction. Additional details on survey results and a list of interviewees can be found in Appendices I and J.

Expand program scale by diversifying funding sources

Traditional sources of PA funding (i.e., standard government budget allocations and private and multilateral donations) are limited, sometimes unpredictable, and highly subject to macroeconomic fluctuations. As a result, many interviewees cited finding additional sources of funds (ideally within the host country) as the single largest improvement opportunity for PFP. Past projects could also benefit from diversification: ARPA Phase 2 is raising additional funds, and almost 80 percent of ARPA interviewees raised the possibility of seeking new recurring (and local) funding flows.

Depending on the circumstances, PFP may unlock additional internal and/or external funding. The following is a framework for considering additional funding sources, with some specific examples mentioned by interviewees, though an exhaustive analysis of alternative funding mechanisms is beyond the scope of this report.

Additional internal funding may include (1) general governmental funds committed as part of the PFP deal, as was the case in Great Bear and FCR, (2) other governmental funds, also potentially committed as part of the deal, and (3) non-governmental funding. The opportunities for item (2), other governmental funds, vary by country, and can include dedicated revenue streams or other funding facilities such as the Brazilian environmental compensation funds described below or oil royalties. The opportunities for item (3), internal non-governmental funding, will also vary by country; an often-cited potential source is payments for ecosystem services.

- **Environmental compensation funds:** A successful environmental compensation payments program is underway in Rio de Janeiro state in Brazil. Additionally, according to several interviewees, the Brazilian national government may already have about $100 million in environmental compensation payments in hand, and perhaps would have over $1 billion

more if all payments were collected from infrastructure projects related to the country's Growth Acceleration Program. This potential funding source is recurring and has an established track record. The main implementation challenge is building sufficient political will to assign the environmental compensation payments to high-priority uses rather than remaining subject to the constituency-based dispersion typical of politically-driven allocations.

- **Payments for ecosystem services (PES):** PES schemes have already been implemented in several locales, but never for a PFP project. For example, The Nature Conservancy is working to establish thirteen water funds in Ecuador, Colombia, and Peru, the most successful example of which is perhaps the Fondo para la Protección del Agua (FONAG) in Quito, Ecuador. Together, the thirteen funds aim to protect about 2.5 million ha and serve almost 15 million people. Other examples include the hydropower PES funds in the Philippines and the Sierra de las Minas Biosphere Reserve Water Fund in Guatemala.

Additional external funding may include a variety of sources, and, as with internal funding, innovative approaches should be developed. The approaches most often mentioned by interviewees were REDD+ (Reducing Emission from Deforestation and forest Degradation) and debt-for-nature swaps.

- **REDD+:** REDD+ is a long-term hope for forest conservation. It depends on implementation of cap-and-trade systems for greenhouse-gas emission reductions with provisions for forest-conservation offsets. Currently, these conditions are emerging only in California. Nonetheless, Norway and the UK have pledged $500 million and $100 million per year, respectively, to support REDD+ capacity building, which may be a harbinger of broader funding from the North. Norway's specific initiatives include commitments of up to $1 billion to Brazil through the Amazon Fund, $1 billion to Indonesia, $250 million to Guyana, and around $90 million to Tanzania.

- **Sovereign debt-for-nature swaps (DNS):** While this type of funding has been very important in the past, as in the examples of Forever Costa Rica and Madagascar's FAPB, which benefited from a $20 million DNS from France in 2008, future opportunities are likely to be scarce. The United States has historically funded DNS through the Tropical Forest Conservation Act, but statutory restrictions and budget cuts will greatly limit its ongoing potential. Meanwhile, the most active European DNS sources, France and Germany, tend to authorize only about one debt swap each year.

These types of revenue streams should not necessarily bypass the control of the independent funds management entity. To maintain the advantage of the PFP funding structure, it would be strongly preferable for the funds to pass through that entity, which can then ensure that disbursements are subject to performance milestones. This aspect of any additional funding structure is important to securing ongoing government commitment, and where government funds are prevented from flowing through independent entities, it is important to use legal or regulatory means to prevent funding diversions.

Note that funding definitions and flows are described in more detail in Appendix E.

Increase emphasis on political and social sustainability

The complexity of PFP project areas is a major threat to long-term ecological and social benefits. PFP guards against this hazard through its multifaceted approach to sustainability. Failing to address all aspects of sustainability is therefore a risk to the entire project.

Failing to address all aspects of sustainability is therefore a risk to the entire PFP project

For example, organizational sustainability is critical because the trust management entity could collapse or experience "mission drift," leaving its original goals unfulfilled. Political sustainability is needed because insufficient political support within government may hamper program implementation through ineffective policy and enforcement. In the worst case, agencies may explicitly renege on program commitments.

Past projects tended to focus on ecological, financial, and organizational sustainability. Interviewees, as a result, highlighted political and social sustainability issues more often. Below are the most promising recommendations for improving PFP through a deeper commitment to political and social sustainability:

- **More fully integrate all levels of government personnel into the process.** Past PFP efforts tended to begin with a top-down approach to government, focusing on high-level sponsorship and expecting lower-level support to follow. However, this approach underestimates the practical importance of entrenched bureaucracies and intra-governmental politics. Interviewees recommended including mid-level government officials throughout the process and providing deliverables in familiar forms. These mid-level officials are most likely to remain across a change in government, making them crucial in building stable political momentum.

  Developing coordination with a key governmental actor should be considered an important aspect of the PFP process in general. This actor (or agency) could act as a centralized point of responsibility to address inter-agency conflicts, handle conservation-economics tradeoffs, and similar challenges. Likewise, this recommendation emphasizes the need for non-governmental partners with knowledge of and relationships with the government.

- **Use high-level political sponsorship without becoming too tightly associated with a single politician.** This point is related to the previous one. Support from prominent government officials can be a tremendous asset, but changing political conditions may create a corresponding liability. One FCR interviewee described having "thousands of brochures with President Arias' picture" that became useless when the new president took office. (Of course, this balance can be difficult, as the presiding authority will likely want to assert ownership and authorship of the project.)

- **Especially early in the project, invite active government participation and avoid appearing to manage by fiat.** Several interviewees said that the FCR proposal initially created an impression among Costa Rican officials that another entity was imposing a new initiative on them, potentially fostering resentment and delaying the project's adoption. A more participatory approach might appear time consuming at first, but many interviewees argued it would

be more efficient in the long run.

- **Work through trusted local partners and culturally-attuned project teams.** Respecting local ways of doing business is an important first step in creating support for the program. Cultivating strong local partnerships and relying on team members with significant in-country experience are the two best ways to address this concern. One interviewee suggested that a great improvement to FCR would have been to "make FCR truly Costa Rican, rather than belonging to outsiders" earlier in the process by nurturing additional relationships with domestic actors.
- **Integrate economic development goals more fully, when possible.** As in the case of Great Bear, this may include establishing and defending legal rights – particularly title and access rights – for local stakeholders. While this aspect of conservation programs may be a means to sustainability rather than an end in itself, increased focus on development goals may greatly increase social buy-in to the program. Many interviewees praised the inclusion of local economic development in Great Bear or highlighted the lack of local social investment in ARPA and FCR as weaknesses of those projects. Moreover, while Great Bear was remarkable for considering the needs of local communities, it was not designed to ensure that particular economic goals were achieved. In part, this design decision reflected the challenges in building First Nations' capacities to successfully make use of economic development funds, as subsequently noted by several interviewees.

Avoid compromising on conservation goals

Given the significance of catalyzing events for PFP success, it is important to be opportunistic. As a consequence, there is some tendency for PFP projects to take previously established conservation objectives as given. While an existing PA network is a great start for PFP, it should not be assumed to cover the entire relevant program area (recognizing of course, that expansion requires additional government and local stakeholder buy-in).

Ideally, project teams should develop conservation plans to achieve the following goals:

- **Achieve strict biodiversity objectives.** Conservation plans should have specific biodiversity goals. These objectives might include ecosystem representation, coverage of threatened and endangered species habitat, and sufficient representation of focal species habitat. It may or may not be the case that existing conservation planning addresses these concerns.
- **Cover areas large enough to support biological diversity.** In many potential project areas – especially in small countries – some existing PAs will be too small to support the ecological integrity of key ecosystems. As a result, to provide for ecological sustainability, conservation plans should ensure that supported PAs collectively cover a sufficient area to maintain biodiversity.
- **Protect geographies that are connected through migration corridors.** Connectivity is of great importance for long-ranging migratory species, and

conservation biologists are increasingly concerned about migration corridors for adaptation to climate change. Thus, corridors should generally be included in conservation planning as well.

- **At the same time, design an appropriately flexible plan to support adaptive management.** It is difficult to anticipate the effects of climate change, economic development, population growth, and other factors that may affect program areas over time. As a result, just as with the organizational design, the conservation design should allow program managers to react to changing conditions as they seek to maintain the ecological integrity of the PFP region.

Set clear expectations for each major stakeholder

Because PFP aims to create a deal acceptable to all parties, it is important to ensure that each party's expectations are explicit and dovetail with the overall program design

Finally, because PFP aims to create a deal acceptable to all parties, it is important to ensure that each party's expectations are explicit and dovetail with the overall program design. For example, the funders at the closing of Great Bear or ARPA Phase 1 may have had less interest in post-closing activities (such as ecosystem-based management in Great Bear, or full PA consolidation in ARPA) than the NGOs involved with implementation. While these differences in priorities may remain, all parties should at the least be explicit about their expectations so that there are no surprises when limited interest among funders participating in the closing contributes to funding gaps for implementation activities that are not included in the PFP design.

Ideally, project teams should set expectations in the following ways:

- **Establish the extent of the project early in the process.** Ensure that the stakeholders' plans are aligned in terms of outcomes, expected timelines, and funding to implement PFP. For example, funders must understand and accept limitations on contributions made by government, government must be aware of its pre-closing and ongoing responsibilities, and local stakeholders must be clear on and comfortable with the impact – both beneficial (e.g., the Great Bear development fund) and otherwise (e.g., restricted access to resource use) – that the program will have on them.
- **Account for monitoring and evaluation and incorporate these responsibilities into the implementation handoff.** As discussed above, measuring effectiveness is crucial to successful adaptive management. Not only should there be funds available to conduct this measurement, but responsibility for the necessary tasks should be assigned clearly.
- **Revisit expectations following program design.** In particular, PFP funders should be thorough and transparent regarding the degree to which they intend to support ongoing activities following the closing. Many interviewees noted that NGOs have continued to play an active role after Great Bear's closing and are likely to do the same for FCR, yet the closing funding did not fully account for these costs (though Great Bear did set aside some funds outside the endowment for this purpose).

A

Appendix A. Study description and methodology

This report presents the results of work carried out by Redstone Strategy Group on behalf of the Linden Trust for Conservation (LTC) and the Gordon and Betty Moore Foundation (GBMF) to evaluate and refine project finance for permanence (PFP). These two foundations are also the primary audiences for the report.

The work that culminated in this report had two related aims: (1) to assess the strengths and weaknesses of PFP as applied in the Amazon Region Protected Areas (ARPA), the Great Bear Rainforest (Great Bear), and Forever Costa Rica (FCR), with the intention of developing refinements to the approach; and (2) to determine the conditions under which a refined PFP approach is likely to be most successful (i.e., to establish selection criteria and PFP best practices for future projects). For each program, the goal was to identify how PFP as applied did or did not contribute to program success, recognizing that the approach itself evolved over time. The work did not attempt to assess the programs themselves, beyond what was necessary to draw lessons on the PFP approach.

Redstone also looked briefly at the Pilot Program to Conserve the Brazilian Rain Forest (PPG7) and Foundation for Protected Areas and Biodiversity (FAPB) in Madagascar to identify additional lessons that could be drawn from those programs.

This study focused specifically on the activities associated with the conservation "deal," rather than on implementation of the programs as a whole. Additionally, because all three PFP examples are either ongoing or recently completed, it is too early to know what the eventual results of each will be. The assessments in this report, therefore, aim to evaluate the degree to which PFP appears to have helped create the conditions for the goal discussed in Chapter 1 and Appendix B.

Moreover, the project followed an "80/20" approach in the belief that a relatively rapid assessment would yield sufficiently accurate results (the idea being that roughly 80 percent of the answer is discoverable in 20 percent of the time necessary for a full assessment). The study team did not employ a formal scientific design or seek a high standard of proof to reach conclusions. Rather, support for the report's conclusions relied on:

- 46 interviews, including 14 with general conservation experts and 32 with experts who have close knowledge of specific projects (Appendix G includes a full list of interviewees). More interviews were conducted for ARPA than the other two cases because ARPA is the oldest of the three projects.
- A survey concerning the most important preconditions and project characteristics for successful PFP, and certain tradeoffs often confronted in large conservation projects.
- Key documents from the example programs, which were used to assess the examples' strengths and weaknesses and to develop broader recommendations.

- Redstone's direct experience working on all three examples.[4]

A number of additional analyses would be both interesting and informative when it comes time for a full assessment of each project – Appendix F lists analyses suggested during the course of the project, but which fell outside of the project's scope.

Of course, each interviewee and member of the Redstone team brings his or her own biases to the conversation. However, as indicated above, the goal was not to produce scientifically sound estimates of the effect of different activities on conservation program success, but to seek out dozens of informed perspectives with the intention of understanding past successes and challenges to help ensure future successes.

Finally, this report discusses an inferred model. Each of the three cases represents a step in a gradual evolution towards the PFP model discussed in the report, and even the most recent example (FCR) did not fully conform to the model. Thus, PFP as discussed in the report is an archetype inferred from the results and lessons of the three examples, not deduced by assessing applications of a preconceived approach. It is not the goal of this report to define a process that subsequent efforts should blindly imitate; instead, the report attempts to lay out a model of practices towards which future PFP efforts can strive, as applicable.

4 While Redstone's involvement in all three examples introduces potential biases in this report, LTC and GBMF both believe that the potential benefits of having a group familiar with these efforts and their inner-workings outweighs this potential concern.

B

Appendix B. Definitions of sustainability

As discussed in Chapter 1, PFP aims to establish the conditions to secure the ecological, financial, organizational, political, and social sustainability of globally important places, defined as follows:

- **Ecological sustainability** signifies that the area in question has the qualities necessary to maintain ecological resilience in a dynamic environment. These qualities may include PAs of sufficient size to support biological diversity and corridors between PAs that allow for migration of long-ranging species.
- **Financial sustainability** signifies that sufficient funds management processes are in place so that the program does not expect to have to engage in future fundraising. This includes governmental and other funds secured through the deal.
- **Organizational sustainability** signifies that the necessary organizations (e.g., an independent funds management entity, the park service, and other relevant government agencies) and their arrangements (e.g., disbursement milestones for external funds) are sturdy enough to withstand both internal and external changes. Practically speaking, the program structure often necessitates a trust fund (see Appendix E for further discussion of funding sources, channels, and uses), although there is nothing inherent to the model that requires a trust fund.
- **Political sustainability** signifies that government commitment is high during the project and remains strong and stable across administrations, as well as across changes in personnel and priorities. While high-level political forces are exogenous to the program, there are concrete program design decisions that can reinforce political support even in unfavorable conditions.
- **Social sustainability** signifies that immediately affected communities support the program, and the larger community at least passively assents to the program's existence. This creates an implicit social "license to operate" that becomes enshrined in habit and tradition over time.
- **Global importance** is the degree to which the conservation of a place plays a tangible and significant role in maintaining the environmental well-being of the planet as a whole. Global importance is exogenous to a PFP effort, though it can be (and often is) a major factor in project selection. Moreover, in locations with relatively less global ecological importance, a PFP effort can still be important if it innovates or sets a precedent (e.g., FCR's contribution to helping Costa Rica reach PA standards under the Convention on Biological Diversity [CBD]).

As noted in the body of the report, a program's success is partly determined exogenously, and PFP's ability to contribute depends on a minimum level of each type of sustainability. While PFP can create forward progress on all five types of sustainability, the approach is most likely to influence financial, organizational, and

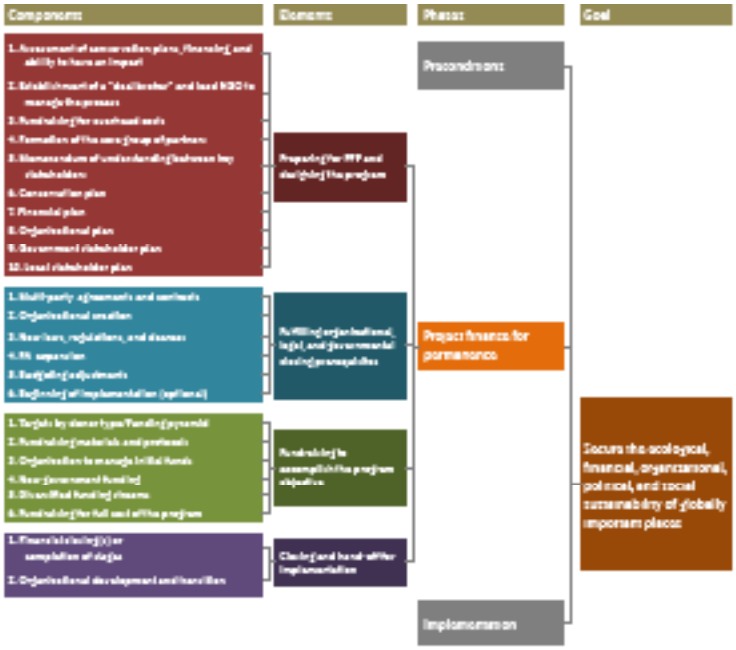
ecological sustainability (in that order). PFP can also increase political and social sustainability (as emphasized in Chapter 4), but exogenous factors, such as governance quality and aspects of the host culture, tend to be more influential.

C

Appendix C. Detailed PFP process description

This appendix provides a detailed description of the PFP model (Figure 5). As described in Chapter 2 of this document, the model is organized according to the process used to achieve program goals, and developed with the team's thinking throughout the study. The overall process is divided into two main phases, the first of which is project finance for permanence. The model breaks the PFP phase into four elements that occur in roughly the order described by the model, but with significant overlap. These four elements are: 1) preparing for PFP and designing the program, 2) fulfilling organizational, legal, and governmental closing prerequisites, 3) fundraising to accomplish the program objective, and 4) closing and hand-off for implementation. Each of these elements involves a set of components. The properties of these components are described below, including specific activities that are generally included in each.

Figure 5. Detailed PFP model



Preparing for PFP and designing the program

1. **Assessment of conservation plans, financing, and ability to have an impact**
    - Assess existing conservation and financial plans
    - Assess the potential of existing organizations to house project funds
    - Pinpoint a deal to make all stakeholders better off

2. **Establishment of a "deal broker" and lead NGO to manage the process**

- Identify a lead NGO to help manage the process
- Agree on a "deal broker" to manage the process in the following ways:
  - Handle politics across all levels of government
  - Mediate between parties with unaligned interests
  - Engage difficult-to-engage constituencies
  - Ensure participants meet firm deadlines
  - Own the financial plan
  - Approach potential donors as a peer

3. **Fundraising for overhead costs**

- Generate a plan for PFP activities and assign responsible entities
- Develop an overall budget for those anticipated activities
- Devise a cost-sharing plan that covers the entire budget across all core partners
- Agree to conditions and mechanisms for calling and disbursing overhead funds
- Obtain commitments from core partners for all needed funds

4. **Formation of the core group of partners**

- Determine the key governmental participant, lead NGO, and lead funder representatives that will form the core project finance group
- Determine the next most important group of stakeholders to include in the process
- Determine the additional stakeholders that will require consultation during the PFP process

5. **Memorandum of understanding between key stakeholders**

- Define vision and goals
- Describe qualifications and roles of each stakeholder
- State expected financial contribution of each stakeholder
- Delineate estimated timeline

6. **Conservation plan**

- Denote a clear, measurable, charismatic conservation objective including permanence
- Provide for flexible adaptive management
- Design for biodiversity needs (e.g., PA size, connectivity, ecosystem representation, species habitat, and all necessary terrestrial, freshwater, and

marine elements)

- Integrate with the social and economic needs of stakeholders in the area

7. **Financial plan**

- Include necessary activities, and only necessary activities
- Estimate initial and ongoing program costs to perpetuity in detail
- Disaggregate one-time and perpetual needs clearly
- Provide for compensation of local stakeholders for the opportunity cost of conservation.
- Design the resulting entity to use line items to monitor progress toward project objectives
- Determine existing government financial support using budget appropriations
- Build a version of the financial model in terms familiar to the government (e.g., line items)

8. **Organizational plan**

- Utilize an existing organization where suitable options exist
- Design for adaptive management
- Define relationship with all relevant levels of government
- Create effective internal organization and governance
- Distribute funds during implementation based on achievement of milestones
- Include actionable mechanisms for organizational change over time
- Delineate clear financial management criteria
- Allocate sufficient budget for the creation and management of the entity

9. **Government stakeholder plan**

- Identify all relevant government stakeholders, including environment and finance ministries, agriculture and parks agencies, and others, potentially including armed forces and national security agencies
- Delineate government relationships and contacts
- Describe expected government commitments
- Define tasks for engaging government officials

10. **Local stakeholder plan**

- Include indigenous and local communities in the conservation and financial planning
- Include media and industry as needed in the conservation and financial planning

Fulfilling organizational, legal, and governmental closing prerequisites

1. **Multi-party agreements and contracts**
    - Develop a clear program "proposal" to which the government agrees
    - Negotiate memorandums of understanding and other agreements between key stakeholders to ensure all parties agree with the PFP goals and deliverables
    - As appropriate, establish bilateral or multilateral contracts to secure negotiated agreements
    - Agree to closing conditions and post-closing disbursement milestones
2. **Organizational creation**
    - Coordinate with government to make sure the legal structure supports the organization
    - Hire high-capacity organizational leadership with local knowledge
    - Establish the organization (or structure within the chosen existing organization) formally
3. **New laws, regulations, and decrees**
    - Pass legislation as necessary to implement the program
    - Establish and/or empower government agencies with regulatory authority over the program's activities
    - Provide specific regulatory guidance as needed to establish conditions for program success
    - Secure governmental approval through the appropriate agencies or executive agents
    - Establish tax reform goals as needed to set the stage for fundraising
    - Offer public pronouncements, as needed, in support of the project or specific elements
4. **PA expansion**
    - Expand and/or create PAs as directed by the conservation plan
    - Entrench the necessary provisions to ensure that required later PA expansion takes place
5. **Budgeting adjustments**
    - Re-allocate or increase budget items or funding as directed by the financial plan
    - Modify budgeting processes and procedures to incorporate the new program
    - Beginning of implementation (optional)
    - Include initial implementation steps in closing conditions, if necessary or

desirable

- Execute those steps before closing

Fundraising to accomplish the program objective

1. **Targets by donor type/Funding pyramid**

    - Create fundraising target in consideration of full cost and existing government funding
    - Develop realistic funding mix targets among individual donors, foundations, corporate donors, multilaterals, bilaterals, and additional government contributions
    - Establish explicit preconditions to trigger fulfillment of donor pledges
    - Segment the overall fundraising target into a series of campaign targets of decreasing size
    - Subdivide each campaign target into multiple gifts (gifts within each campaign are of equal size, but gift size should decrease as campaign targets decrease)
    - Identify candidate donors for each campaign, or designate particular fundraising entities to specific campaigns

2. **Fundraising materials and protocols**

    - Develop pitch presentations for large-gift target donors
    - Develop marketing materials for public-facing campaigns, or designate fundraising entities to handle marketing and outreach for campaigns
    - Involve at least one leading NGO and one anchor funder to attract donors
    - Make available dedicated, full-time staff and resources for fundraising
    - Involve a peer funder in the process

3. **Organization to manage initial funds**

    - Receive and account for all gifts
    - Establish appropriate organizations to handle funds in accordance with tax and accounting standards and international law
    - Provide funds for the operations of temporary organizations from project overhead budget

4. **New government funding**

    - Allocate additional government funds as directed in the financial plan
    - Legally commit to the provision of those funds
    - Diversified funding streams
    - Develop alternative funding mechanisms for the program, as necessary

- Structure the flow of funds through the independent funds management entity, if possible

6. **Fundraising for full cost of the program**

- Secure funds equal to the estimates in the financial plan, including ongoing costs
- Divide fundraising into phases if necessitated by project scale

Closing and hand-off for implementation

1. **Financial closing(s) or completion of stages**

- Allow for a single closing or, if a single closing is impossible, several conditional closings in very large projects
- Ensure the presence of all features needed for ultimate conservation success
- Specify clearly who decides when closing conditions have been met

2. **Organizational development and transition**

- Formally hand off program management to a transparent, politically independent legal entity for funds management

D

Appendix D. PFP checklist

The following checklists are intended to complement Appendix C by providing simple guides to the crucial aspects of PFP location selection and project execution.

Checklist 1 lists the four key preconditions for PFP on which Chapter 2 elaborates. As noted in Chapter 2, there are other preconditions (e.g., significant and threatened biodiversity) that are important for all conservation projects, and therefore not included here.

Checklist 2 lists the essential tasks of PFP. A successful PFP effort depends on addressing each item in the detailed PFP model in Appendix C. Chapter 3 reviews a subset of those as "best practices", highlighting complex, difficult, and often overlooked nuances of those activities. Checklist 2 takes a related but even more-focused look, listing the most important "must-have" items for quick reference.

Checklist 1: Key PFP preconditions

1. ___ Strong national governance and legal structures

2. ___ High-level, strong, and continuous political commitment

3. ___ High capacity of stakeholders to implement

4. ___ Strong potential for internal and external funding

Checklist 2: Key PFP tasks

Preparing for PFP and designing the program

1. ___ Design a deal that puts in place all the financial and institutional resources necessary for permanent conservation and makes all stakeholders better off

2. ___ Establish a "deal broker" and lead NGO to manage the process

3. ___ Secure sufficient funds to get the deal done

4. ___ Denote a clear, measurable, charismatic conservation objective for permanence

5. ___ Estimate program costs to perpetuity in a financial plan

6. ___ Select independent funds management entity to support implementation

Fulfilling organizational, legal, and governmental closing prerequisites

7. ___ Agree on closing conditions and post-closing disbursement milestones

8. ___ Design mechanisms to formalize government funding intentions

Fundraising to accomplish the conservation objective

9. ___ Fundraise for the full cost of the program

Closing and handoff for implementation

10. ___ Design a single closing (if possible)

E

Appendix E. Funding definitions and flows

The project finance for permanence approach often results in a complex flow of funds from several sources to cover many different uses. This section describes the basic sources and channels of funds and their associated uses.

Funding sources, modes and channels:

- **Funding sources** may include the national or provincial governments of the host country, multilateral agencies, bilateral donors, private foundations or individuals, and businesses.
- **Modes of funding** include one-time transfers of funds and ongoing funding streams. Examples of ongoing streams might include payments for ecosystem services (PES), payments from carbon funds, or settlements from industrial interests such as environmental compensation funds.
- **Funding channels** include direct payments and payments via intermediate entities such as trust funds.

  A trust fund may manage endowments (generally funded up front and intended to live in perpetuity by paying out only their investment returns), sinking funds (generally funded up front and intended to pay out all their funds over a defined period), or revolving funds (whose funds are received and paid out periodically). Endowments are an especially important tool for ensuring permanent funding, while sinking funds are useful for major initial investments to secure achievements that will be crucial for later implementation (e.g., economic development for First Nations in Great Bear).

Funding uses are high-level divisions of costs that describe very roughly the set of activities supported during PFP. Note, however, that PFP overhead is the only funding use incurred during PFP itself, while the other four expenditures occur during implementation.

- **PFP overhead** is the cost of the activities that must be undertaken prior to closing. It includes the cost of all planning and fundraising, as well as associated administrative and legal costs.
- **Protected area operations** are the direct costs of creating, managing, and maintaining PAs that are associated with the program. These may include land acquisition costs, PA staff wages, and equipment and supplies.
- **Local social investment** encompasses the economic development portion of the program. These are the direct costs of providing for, among other things, the transition of local communities' economies to sustainable practices.
- **Ongoing overhead** is the indirect cost of post-closing program activities, including administrative costs and investment management costs. These costs may be distributed across several entities, including the trust manager and local NGOs.

- **Capacity building** and technical assistance are activities performed by local partners in support of the conservation or development activities described above.

F

Appendix F. Potential further work

As discussed in Chapter 2 and Appendix A, the scope of the work that resulted in this report was limited to assessing PFP as it was applied in the three cases and developing recommendations for selection criteria and best practices for future PFP efforts. Given the highly qualitative and rapid (i.e., "80/20") nature of the work, there are a number of additional work items that, while outside the scope of this report, could provide invaluable information for future projects. The following list includes ideas from interviewees, other outside experts, and internal team thinking, though it is by no means exhaustive.

Potential further work includes:

- Compare the expected environmental return on investment of applying PFP versus other approaches to land conservation in various locations (for example, whether PFP has been more or less successful than other approaches in securing high absolute amounts of long-term conservation financing; or, more generally, conduct a more detailed comparative analysis of PFP versus other approaches)
- Conduct a detailed quantitative analysis of post-closing costs (i.e., the success of each aspect of the financial plan in predicting actual costs)
- Conduct an analysis aimed at estimating the cost to assemble a PFP effort as a percentage of the total deal cost (understanding that there would likely be high variation across projects)
- Develop financial metrics to guide and assess the success of financial planning, fundraising, closing conditions, and disbursement milestones (e.g., degree of financial leverage for each party, impact on available government funds, funding burn rate)
- Assess the conservation goals versus the conservation outcomes in detail for each case (though note that because the three projects are in very different stages and all are only a few years into implementation, it may be best to hold off on comparisons for now)
- Assess the possibilities for applying PFP to non-place-based work

G

Appendix G. Acknowledgements and interviewees

Myriad individuals and organizations contributed to the efforts that led to this report. In particular, Redstone would like to thank Kent Redford and Nick Salafsky for their insightful input throughout this study, all of the interviewees for taking the time to share their valuable experiences and perspectives (listed below), and LTC and GBMF for their generous support of and active participation in the development of the report.

Interviewee list

Name	Affiliation
General interviewees	
Scott Burns	Walton Family Foundation
Guillermo Castilleja	GBMF
Jason Cole	Margaret A. Cargill Foundation
Bill Ginn	The Nature Conservancy (TNC)
Alan Holt	Margaret A. Cargill Foundation
Sergio Knaebel	Sandler Foundation
Tom Lovejoy	Heinz Center
Marcia Marsh	World Wildlife Fund (WWF)
Steve McCormick	GBMF
Brian McPeek	TNC
Jennifer Morris	Conservation International /Global Conservation Fund
Carter Roberts	WWF
Barry Spergel	N/A
Michael Wells	Michael P. Wells & Associates
ARPA interviewees	
Ana Cristina Barros	TNC
Maria Cecília Wey de Brito	Ex-Brazilian Ministry of Environment (MMA)
Marco Bueno	MMA
Bráulio Dias	MMA
Pedro Leitão	FUNBIO
Fábio Leite	FUNBIO
Rosa Lemos de Sá	FUNBIO
Greg Love	WWF
Cláudio Maretti	WWF-Brazil
Rômulo José F. Barreto Mello	Chico Mendes Institute, MMA
Adriana Moreira	World Bank
Trajano Quinhões	MMA
Adriana Ramos	Instituto Socioambiental
Marcio Santilli	Instituto Socioambiental

Name	Affiliation
Manoel Serrão	FUNBIO
Meg Symington	WWF
Ronaldo Weigand Jr.	Nave Terra Sustentabilidade
Great Bear interviewees	
Kent Gilges	Conservation Forestry
Jim Leape	WWF-International
Aileen Lee	GBMF
Ross McMillan	Tides Canada
Scott Rehmus	Coast Conservation Endowment Fund Foundation
Merran Smith	Tides Canada
Forever Costa Rica interviewees	
Mikael Andren	Paul Tudor Jones II Family Office
Katie Berg	US Department of Treasury
Margo Burnham	TNC
N. Julisa Edwards	TNC
Dan Janzen	University of Pennsylvania
Zdenka Piskulich	Forever Costa Rica Association
Michael Rothschild Vargas	Forever Costa Rica Association
Additional projects interviewees	
Melissa Moye (FAPB – Madagascar)	WWF
Eric Swanson (FAPB – Madagascar)	WWF
Adriana Moreira (PPG7)	World Bank

H

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