

The Micronesia Conservation Trust: Securing Finances for Micronesia's Biodiversity Conservation and Sustainable Development

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Abstract

This article describes and discusses the establishment and operation of the Micronesia Conservation Trust (MCT). Following three years of preparations and multi-stakeholder consultations MCT was established in 2002 with the objective of supporting biodiversity conservation and related sustainable development for the people of the Federated States of Micronesia (FSM) by providing long-term sustained funding. In 2008 MCT completed its transitional growth from a national organisation operating solely in the FSM, to a regional organisation supporting and facilitating sustainable development in five Micronesian countries. It is thus timely to document the establishment and maturation of MCT, examining the processes and decisions that have resulted in this successful institutional innovation in Pacific island environmental governance.

MCT is an important institutional development in a number of respects. Firstly, MCT is efficiently delivering significant and increasing levels of financial and technical resources to conservation stakeholders throughout Micronesia. Secondly, the MCT experience represents an example of best practices in establishing and operating conservation trust funds (CTFs), and demonstrates the utility of this institutional form in a Pacific island context. Finally, MCT is fulfilling important mediating functions connecting community-based conservation stakeholders in Micronesia with a broad range of private and public donors interested in supporting improved conservation outcomes in the Micronesia region.

1. Introduction

This article describes and discusses the establishment and operation of the Micronesia Conservation Trust (MCT). Following three years of preparations and multi-stakeholder consultations MCT was established in 2002 with the objective of supporting biodiversity conservation and related sustainable development for the people of the Federated States of Micronesia (FSM) by providing long-term sustained funding. After overcoming various challenges in its early phase of operation, by the end of 2008 MCT had deposited US\$XX million from X sources in various endowment and sinking funds and had disbursed US\$XX million in competitive project grants to local conservation organisations. In 2008 MCT completed its transition from a national organisation operating solely in the FSM, to a regional organisation supporting and facilitating sustainable development in five Micronesian countries. It is thus timely to document the establishment and maturation of MCT, examining the processes and decisions that resulted in this successful institutional innovation in Pacific island environmental governance. MCT is the only conservation trust funds (CTF) operating in the Pacific islands, with the exception of Papua New Guinea's Mama Graun Conservation Trust Fund.

MCT is an important institutional development in a number of respects. Firstly, MCT is efficiently delivering significant and increasing levels of financial and technical resources to conservation stakeholders throughout Micronesia. Secondly, the MCT experience represents an example of best practices in establishing and operating CTFs, and demonstrates the utility of this institutional form in a Pacific island context. Finally, MCT is fulfilling important mediating functions connecting community-based conservation stakeholders in Micronesia with a broad range of private and public donors interested in supporting conservation outcomes in the Micronesia region. In a region and a sector where governance outcomes have often been hampered by mixed results and inefficient or ineffective practices, MCT is distinguished by having achieved its goals at levels exceeding plans and expectations, and by performing its functions with transparency, accountability and integrity.

This article is presented as follows. Section 2 overviews the development of CTFs as mechanisms supporting environmental governance in developing countries and Section 3 summarises documented best practices in the establishment and operation of CTFs. Sections 4 and 5 document MCT's institutional history, respectively outlining its preparatory phase and early operations (Section 4), and its maturation and transition from a national to a regional organisation (Section 5).

2. Overview of Conservation Trust Funds

CTFs are non-governmental grant-making institutions whose primary aim is to raise, invest, and re-grant financial resources for biodiversity conservation, protected area management and related sustainable development purposes. Depending on the CTF in question, secondary functions may include nurturing and strengthening civil society conservation organisations, as well as improving coordination between donor programs and activities with national or regional conservation plans and strategies (Conservation Finance Alliance 2008: 1, Global Environment Facility 1998: 10-11). Various legal forms have been employed in establishing CTFs; primarily as foundations in civil law

jurisdictions and as trusts in common law countries. Most CTFs have been established in the countries in which they operate, although some are based off-shore in order to maximise taxation benefits or to minimise risks to security of capital in circumstances of political instability. A few CTFs have been established by special legislation, which allows for the creation of an in-country CTF despite the absence of a satisfactory legal framework supporting public interests trusts or foundations (Conservation Finance Alliance 2008: 37-43).

There are at least 57 CTFs operating in developing and transition economies worldwide: twenty-five in Latin and South America, thirteen in Africa, ten in Asia, four in Europe, three in the Caribbean and one each in Papua New Guinea and Micronesia (Conservation Finance Alliance 2008: 148-165).

Many CTFs were established in the 1980s in response to the availability of large sums of money made available through debt-for-nature swaps (Global Environment Facility 1998: 14). Ironically, the Papua New Guinea and Micronesian CTFs were born directly in anticipation of large capital sums being made available to them through the World Bank's stillborn Forest and Conservation Project (PNG) and the re-negotiated Compact of Free Association (FSM). The irony lies in the fact that neither of these processes came to fruition in terms of delivering funds to the CTFs. Importantly in terms of assessing the validity of this institutional form however, both of these CTFs are operating successfully despite the early disappointment of not receiving the anticipated start-up funding.

CTFs are a form of public-private partnership, representing the coming together of government and non-government interests with regard to biodiversity conservation and related sustainable development issues (Conservation Finance Alliance 2008: 1). Governments are important partners, but CTF governing boards typically draw more than half of their members from civil society and the private sector (Conservation Finance Alliance 2008: 27, Global Environment Facility 1998: 28). Similarly with regard to CTF beneficiaries, some of these are government agencies but most are non-governmental or community based-organizations.

Box 1 below reproduces seven categories of CTFs identified by the Rapid Review of Conservation Trust Funds published by the Conservation Finance Alliance in 2008. Many CTFs, including MCT, are hybrids of some of these categories, acting as 'umbrella funds' managing separate accounts for various purposes under a single legal and institutional structure.

Box 1 Categories of Conservation Trust Funds

Grants Fund

Channels resources to target groups (typically NGOs and CBOs) for a broad range of conservation and sustainable development projects, not limited to PAs.

Green Fund

Primarily finances activities related to biodiversity conservation.

Brown Fund

Finances activities such as pollution control and waste treatment. Many brown funds allocate five to ten percent of their grants for biodiversity conservation and PAs. Most brown funds are financed by pollution charges or fines.

Parks Fund

Finances the management costs (and sometimes also the establishment costs) of specific PAs, or of a country's entire PA system. PA management costs can also include financing for alternative livelihoods or sustainable development activities in PA buffer zone communities.

Endowment Fund

Capital is invested in perpetuity, and only the resulting investment income is used to finance grants and activities.

Sinking Fund

The entire principal and investment income is disbursed over a fairly long period (typically ten to 20 years) until it is completely spent and thus sinks to zero.

Revolving Fund

Income from taxes, fees, fines, or Payments for Ecosystem Services (PES), that are specially earmarked, regularly go into the fund to be used for specified purposes.

(Conservation Finance Alliance 2008: iii)

When operating as intended CTFs improve the effectiveness of international development assistance provided for the purpose of biodiversity conservation and related objectives such as sustainable income generation. This is achieved by CTFs ability to fully and flexibly align international financial resources from a range of donors with the biodiversity conservation priorities and agreed strategies of recipient countries; by reducing duplication and overlap of conservation project funding; by enhancing the efficiency and accountability of grant-making and grant-spending; by reducing the financial and technical burden associated with competitive fundraising by recipient organisations, particularly smaller organisations whose operations effectively achieve desired outcomes yet whose capacities do not include accessing international donor funds; and finally by 'increasing transparency and reducing opportunities for corruption, by the public disclosure of all CTF grants, operating costs and investments, and through supervision by independent public-private governing boards.' (Conservation Finance Alliance 2008: v).

3. Best Practices in Establishing and Operating Conservation Trust Funds

In 1999 the Global Environment Facility published its *Evaluation of Experience with Conservation Trust Funds* based upon a thorough review of various CTFs that had been in operation for at least five years at that time (Global Environment Facility 1998). The findings of the GEF evaluation were revisited in another substantial multi-author research project supported by the Conservation Finance Alliance (CFA - a group of 18 organisations interested in conservation finance including the GEF, the World Bank, USAID, WWF, the European Commission and Conservation International) which endorsed and refined the findings of the 1999 report. The 2008 CFA report expressly 'identifies best practice standards for effective governance and administration of CTFs, and provides guidelines for monitoring and evaluating CTFs operations and biodiversity impact.' (Conservation Finance Alliance 2008: 1). This section distils the core findings of these two publications. Section 3(a) considers factors that are important when considering establishing a CTF and section 3(b) examines best practices in operating a CTF.

3(a) Factors Important for Establishing a Conservation Trust Fund

The first precondition for a CTF is that the location to be covered by the fund possesses a 'globally significant biodiversity resource whose conservation is politically, technically, economically, and socially feasible' (Global Environment Facility 1998: 48). CTFs are inappropriate mechanisms to address urgent and critical threats that instead require the immediate application of either or both strict regulatory mechanisms and direct investment of substantial technical and financial resources. In contrast, CTFs are most useful where 'the conservation action required is long term and addressable with the flows a trust fund could produce' (Global Environment Facility 1998: 48). If the biodiversity resource in question is not of 'global significance' then it is unlikely that international finances will be invested in a fund seeking its protection.

A second precondition is that the governments of the jurisdictions in question are supportive of the establishment of a CTF that will be outside the control of the public sector and beyond political influence (Global Environment Facility 1998: 48). Active opposition to the establishment of a proposed CTF from either executive agencies or elected representatives at national or sub-national level will be a significant barrier to its successful operation. Experience in establishing CTFs indicates that this condition may require much advocacy in the start-up phase, but the efforts invested in this activity are ultimately repaid through the forming of an organisation that is greatly strengthened by broad support and involvement from the private, civil society and public sectors.

There must also be satisfactory legal frameworks supporting the establishment of trust funds, foundations, or similar institutions, as well as a 'basic fabric of legal and financial practices and supporting institutions (including banking, auditing and contracting) in which people have confidence' (Global Environment Facility 1998: 49). The availability of tax exemptions for contributions to public interest funds or foundations will also substantially increase the incentives for private donors to contribute to the fund (Conservation Finance Alliance 2008: 42-43).

Another condition for the successful establishment of CTFs is the support of a critical mass of key individuals within a range of sectors. 'People from NGOs, the academic and

private sector, and donor agencies -- the environment community -- who can work together despite their different approaches to biodiversity conservation' (Global Environment Facility 1998: 49). Experience with CTFs has shown that, in contrast to most alternate conservation governance approaches driven by government and civil society representatives, CTFs benefit from the close involvement of business leaders who can bring to the CTF boardroom highly useful skills, such as financial and investment management. (Conservation Finance Alliance 2008: 32).

CTFs are rarely successfully established without the availability of a mentor or champion organisation to provide assistance and guidance in the start-up phase and to offer technical and other support in the early stages (Global Environment Facility 1998: 49). As discussed in sections 4 and 5 below, The Nature Conservancy (TNC) played this role with respect to the MCT. In other circumstances, commencing CTFs have been 'twinned' with another more established CTF to assist them in their establishment and early operating phase.

The final two preconditions for the successful establishment of CTFs are closely linked and somewhat axiomatic: 'Effective demand for the fund's product' and 'realistic prospects for attracting a level of capital adequate for the fund to support a significant program' (Global Environment Facility 1998: 49). A CTF will not be successful if it cannot generate sufficient interest in conserving the biological resources upon which it focuses, and a CTF with insufficient funds will not effectively achieve its goals. As indicated in the discussion on the MCT however, the failure of donors to deliver upon expected major funding may result not in the failure of a new CTF, but rather in the broadening of its donor base and thus its becoming a more resilient and dynamic organisation than would be the case if it relied upon a single income stream such as a large GEF grant or capital from a debt-for-nature swap.

3(b) Best Practices in Operating Conservation Trust Funds

The first identified best practice in CTF operation is the clear articulation of measurable goals and objectives, matched with the willingness and capacity of the management of the organisation to adopt a 'learning approach' wherein the experiences and performance of grant-making is regularly appraised and refined. Mexico's Fondo para la Conservacion de la Naturaleza is cited by reviewers as a good example of these practices, whereas most CTFs 'would have benefited from more detailed attention to the articulation of goals, objectives, and indicators in operating manuals during design' (Global Environment Facility 1998: 49). Fulfilment of this criterion will also avoid risks that the CTF will become drawn in many different programmatic directions to the point where it is ineffective due to excessive fragmentation of activities.

It is vital for members of the board or other governing body of the CTF to be fully engaged in its operations, policy, leadership, and in the advocacy of the fund's interests with various the constituencies of donors, regulators, grantees etc. A board with members possessing a range of skills and experiences, including at least some people who have reached the highest levels in their chosen field, is strongly advantageous to the successful operation of a CTF (Conservation Finance Alliance 2008: 27-29). It is also important for CTFs to have governance arrangements providing necessary checks and balances against conflicts of interest, and to enable succession of board members in a way that does not leave the CTF bereft of institutional memory and experience. The Philippine, Brazilian,

Mexican and Belize CTFs are cited as providing the clearest evidence of what can be achieved when these conditions are met, whereas the Peruvian fund 'illustrates the difficulties that can arise when it is not' (Global Environment Facility 1998: 50).

CTFs are most likely to achieve their potential of improving the effectiveness of aid for conservation and related sustainable development goals when there are clear linkages between their own strategies of grant-making, and nationally agreed strategies and plans for biodiversity conservation and environmental protection and governance (Global Environment Facility 1998: 50). This enables advantageous dovetailing of programs and avoids wasteful overlapping of projects and activities in the conservation sector.

Like most organisations, particularly those operating within high-level political or financial circles, CTFs will be most effective when they employ competent, well-qualified and dedicated staff members, with the executive director position being pivotal in the organisation's success. It is again the Mexican, Brazilian and Philippine CTFs that are cited as being the best example of this criterion (Conservation Finance Alliance 2008: 34-36).

In addition to strong and competent leadership from the executive director and a fully-engaged managing board, a CTF will be most effective when it possesses high levels of technical capabilities and has access to appropriate training, mentoring and technical assistance in order to build and maintain in-house capacity. The Bolivian CTF is noted as an organisation that suffered 'a crisis of donor confidence' when it lost substantial technical capacity in the mid 1990s (Global Environment Facility 1998: 50).

An effective CTF will avoid becoming an executing agency itself, but will instead build and maintain strong and constructive relationships with relevant government agencies and other appropriate organisations, particularly those regularly providing services to its grantees. These relationships assist in maximising impact within the identified geographic and sectoral range and ensure maximum levels of interest and acceptance of their activities and strategies (Global Environment Facility 1998: 50).

As organisations whose principle activities include raising and distributing large sums of money, it is unsurprising that effective CTFs must apply sound principles of administrative and financial discipline together with high levels of financial and governance transparency (Conservation Finance Alliance 2008: 5-6). Detailed operations manuals and investment policies should be in place at an early stage and applied with discipline and consistency. The CTF reviews also suggest that some flexibility to deal with unforeseen circumstances should be built into these aspects of CTF management:

Again, FMCN (Mexico) is the best example of a fund that sets a high standard of financial discipline, while still maintaining the flexibility to deal with extraordinary circumstances -- both in adapting to the circumstances of its grantees and in making funds available to cover unforeseen but crucial needs. MBIFCT in Uganda is another good illustration (Global Environment Facility 1998: 50).

With regard to investment policies, asset managers should be competitively selected and a diversified portfolio of investments should be maintained. Expert advisors should also be engaged to assist or direct this aspect of CTFs operations and there should be regular reporting and benchmarking of the performance of CTF investment strategies (Conservation Finance Alliance 2008: 50-59).

This section has overviewed the documented lessons available with regard to the successful establishment and operation of CTFs. The following sections describe and discuss the establishment and early operations of the Micronesia Conservation Trust with reference to these lessons and best practices.

4. Establishing the Micronesia Conservation Trust

Stakeholders concerned with FSM's sustainable development and conservation of biodiversity first gave detailed consideration to establishing a CTF in the late 1990s (Raynor 2008). At that time conservation NGOs were not very active in FSM. The Nature Conservancy (TNC), a US-based international NGO was undertaking a program of conservation projects, particularly in Pohnpei. The Conservation Society of Pohnpei, in future years to become FSM's most prominent and largest conservation NGO, was established in 1998 and was taking on much of the work previously performed by TNC. The Kosrae Conservation and Safety Organisation (KCSO) had been formed but at that time did not have established offices or paid staff. There was no non-governmental environment or conservation activity in Yap or Chuuk (Raynor 2008). As described below, the development of MCT occurred at the same time as the substantial development of non-governmental and multi-sectoral conservation activities within FSM, with TNC providing the initial facilitatory and championing role referred to in section 3(a) above as being among the necessary factors in successful CTF development.

The late 1990s and early 2000s were a time of great uncertainty in FSM in economic and political respects as a result of then current negotiations regarding the renewal of The Compact of Free Association between FSM and the United States of America (the Compact). The Compact is an international agreement that determines the relationship between the FSM and the US under the terms of which the FSM cedes certain powers in relation to strategic matters and the US provides financial and technical resources, as well as privileged immigration status for FSM citizens relative to other foreign nationals. The initial period for the Compact's assistance provisions expired in 2001, and FSM's politics and diplomacy during the period 1998-2002 was dominated by the re-negotiation of those provisions. The widespread concern in FSM at that time was that the various forms of assistance provided by the US under the Compact would be significantly curtailed resulting in a sudden drop in standards of living for FSM's citizens (Rose 2007: 155-158).

FSM's environmental and biodiversity conservation stakeholders held grave concerns at that time that the renegotiated Compact would starve the environment sector of funds resulting in negative conservation outcomes. The perceived impact would be two-fold; less money in the private sector economy would place more extractive pressure on FSM's meagre natural resource base, and lessening finances for governmental environment activities would reduce the capacity of government to regulate activities affecting the environment or to undertake programs on conservation-related issues (Rose 2007: 168-169). These concerns were heightened when early in the renegotiation process the US identified five sectors into which it would supply future Compact money (health, education, infrastructure, private sector development and capacity-building) and emphasised that under the renegotiated Compact provisions future assistance would be subject to increased accountability measures. When the initial list of sectors did not include 'environment' it was not clear how future environment activities would be

funded. Thereafter effective lobbying in Washington by conservation stakeholders resulted in 'environment' being added as a sixth Compact assistance sector (Rose 2007: 159).

The addition of 'environment' as a distinct sector for the renegotiated Compact both alleviated much concern regarding future environmental protection in FSM, and was also crucial in terms of generating sufficient interest among the relevant stakeholders in coming together to discuss establishing MCT. The strategy and the hope among environment stakeholders at that time was that the FSM National Government would agree to allocate a portion of the environment sector Compact funds towards a CTF (Raynor 2008). The rationale put to the FSM Government was as follows: Existing public spending on environmental issues throughout FSM in 1999-2000 was around US\$700,000 per annum. Discussions indicated that the US was likely to agree to annual environment sector payments of around US\$2 million per annum. Therefore, FSM's National and State governments could receive US\$1.5 million per annum, allocate US\$0.5 million to MCT, and still be US\$800k per annum ahead of their original position (Raynor 2008).

The prospect of a substantial annual contribution from the renegotiated Compact funding towards a CTF was a sufficient hook to get the relevant people talking about and interested in a CTF for FSM. The first official documentation of a planned CTF in FSM was in the report of the 1999 National Economic Summit, a multi-sectoral meeting of public, private and civil society stakeholders (Federated States of Micronesia 2000, 101). The US Government was lobbied on the CTF proposal by concerned FSM stakeholders but responded that it would not mandate the allocation of money to a CTF; it would instead be up to the FSM negotiators to include it in their package of proposals (Raynor 2008).

Ultimately the strategy of seeking a portion of Compact money proved fruitless in that the FSM Government decided not to include a CTF in their package of requests. In fact, the FSM National Government has to date provided little other than verbal support for MCT, a situation that continues to be of concern for the MCT Board (Kostka 2008a). There are two perspectives held regarding MCT's early focus on seeking Compact money, a strategy that was not finally abandoned until 2004. The first is that it was a waste of time and energy to pursue an objective that had little high-level political support from the beginning and even if successful would have led to a narrow donor base for the organisation. The second is that the MCT may not have been established at all if the concept was initially discussed in the absence of any strategic focus in terms of likely major funding sources.

TNC was instrumental in the establishment of the MCT from the earliest stages through to its maturation, facilitating much of the initial planning and consultative activity around establishing a CTF in FSM. It should also be emphasised that MCT is now a thoroughly self-supporting and self-managing organisation operating without significant input from TNC.

Among TNC's first contributions in relation to the development of a Micronesian CTF was to involve Scott Smith, a Washington-based TNC employee in who had previously been Team Leader for the GEF on the 1998 Evaluation of Experience with CTFs (Global Environment Facility 1999: 66). With this recent prior experience Smith was among the world's most knowledgeable CTF experts and thus TNC could not have found someone

more appropriately qualified to conduct feasibility assessments on the prospects of a CTF in FSM or to introduce key stakeholders in FSM to the CTF concept. After two fact-finding and consultation visits to FSM covering each of the four States, Smith reported that 'most of the factors that are important for establishing a conservation trust fund are present in FSM' (Smith 2000: 1).

Smith's assessment was based upon the following six findings:

1. FSM's biodiversity was of global significance and there was a general absence of immediate threats.
2. There was a high and growing level of awareness among key political decision-makers of the importance of ecological sustainability to the resilience of FSM's societies and economies;
3. There existed high levels of consensus upon the activities needed to promote acceptable conservation and natural resource management outcomes;
4. There was available a 'critical mass' of appropriately placed, qualified and interested individuals who could be drawn together to work on establishing a CTF;
5. There was a supportive legal framework under which a CTF could be chartered;
6. There was a possibility of major funding via the Compact renegotiation (Smith 2000: 1).

Smith also reported that despite the factors weighing in favour of establishing a CTF in Micronesia were a number of significant challenges to be overcome:

1. There was little sense of nationhood within the FSM, and high levels of competition among the four states for recognition and resources. There was also a lack of trust in national institutions and processes permeating most areas of governance, including environmental governance. This translated in many interviewees reporting that they favoured state-based CTFs, rather than a national one. State-based CTFs would be too small in scale to be successful.
2. While there was a critical mass of key people, these individuals were already busy and in many cases overcommitted.
3. The non-government environment sector in the FSM was small and there may be limited demand for potential CTF grants, particularly of high-quality well-designed projects.
4. While a sound case could be made for the allocation of a portion of Compact funds for a CTF this outcome was by no means guaranteed, and perhaps not even likely (Smith 2000: 1).

In careful hindsight Smith's analysis can be regarded as accurate on all counts. By correctly identifying the challenges Smith's assessment greatly assisted FSM's CTF advocates to set in place mechanisms for overcoming them. To the extent that, until 2004, MCT continued to focus on raising capital from the renegotiated Compact, it can be seen to have ignored Smith's early warning regarding the risk associated with that strategy.

Thereafter, TNC facilitated the setting-up of a steering committee to oversee the establishment of the MCT and funded its operations. The first meeting of the group that was to become the MCT steering committee was held in Chuuk State in February 2001 (The Nature Conservancy 2001a). At that meeting seventeen people representing various organisations and conservation-related interests from FSM's four states attended. The

core purpose of the Chuuk meeting was to decide whether there was sufficient interest in establishing a CTF in FSM, and if so to determine the next steps and how to overcome any identified challenges. The meeting included expert presentations on established CTFs in other countries and the group discussed various options regarding how a Micronesian CTF might be formed. The major outcome of the Chuuk meeting was unanimous support for a CTF in FSM and the group constituted themselves as a steering committee mandated to achieve that purpose (The Nature Conservancy 2001a).

In the months thereafter a coordinated process of planning and consultation was undertaken throughout FSM for the purpose of setting up the MCT. Key decisions made during this planning phase included determining a structural response to the challenge of interstate competition over the MCT, i.e. the preference for individual state CTFs. This issue was addressed by establishing MCT Board representation upon what was termed an “eco-regional basis”. In practice this meant that representation on the initial MCT Board, and within its grant-making strategy, would provide equity throughout the country by regarding the FSM not as divided between four States, but as ‘high-islands’ and ‘low-islands’ (atolls) each with different ecological and social issues and priorities. The steering committee also considered legal and governance issues, the process by which board members would be chosen, as well as the mission and goals of the MCT (The Nature Conservancy 2001b).

Consideration was given to finding a “local name” for the MCT (as with PNG’s Mama Gruan Trust, which means ‘Mother Earth’ in PNG Pidgin) but given the widely varying linguistic heritages of FSM’s states it proved impossible to find a name from a language other than English that would resonate in the vernacular of each FSM society. At its August 2001 meeting the steering committee of the proposed MCT decided upon the mission and goals for the new organisation (The Nature Conservancy 2001b). MCT’s first board members were recruited during late 2001 through a competitive recruitment process, and MCT was chartered as a non-profit organisation in FSM law in early 2002 including the registration of Articles of Incorporation and By-Laws. MCT held its first Board Meeting in May 2002, represented by four high-island members and three low-island members (one low-island position was vacant at that time) (Micronesia Conservation Trust 2001).

Another factor important in MCT’s establishment was that the consultation and planning for MCT was undertaken at same time as the FSM’s National Biodiversity Strategy and Action Planning (NBSAP) process (Federated States of Micronesia 2002). The preparation of an NBSAP is a requirement for all parties to the Convention on Biological Diversity and in FSM each of the States prepared NBSAPs in addition to the national NBSAP. Many stakeholder consultation and planning meetings were conducted for the purpose of NBSAP preparation and these served as fora in which the nascent MCT could be introduced and described to key individuals and organisations concerned with biodiversity conservation in FSM. The FSM NBSAP identifies MCT as the primary funding mechanism for many of its activities (Federated States of Micronesia 2002: 49-51). Coordination between the development of the MCT along with the principle biodiversity plans at State and National level ensured that the MCT Board and management staff maintained a detailed awareness of agreed strategies and current activities in relation to environmental and conservation issues in FSM.

MCT had a difficult time establishing itself in the first three years of operation. An early challenge was filling the Board Chairmanship. The first Chair of MCT was Asterio

Takesy, then a senior member of the intergovernmental committee conducting negotiations on behalf of FSM with the US on the renewed Compact. While a good choice as leader of MCT, Mr Takesy was unable to attend the first Board meeting of the MCT and resigned his position prior to the second meeting in September 2002, having been newly appointed as the Director of the South Pacific Regional Environment Program (Micronesia Conservation Trust 2002). Charles Chieng of the Yap Community Action Program (a Yap-based NGO) held the Chairmanship thereafter until 2008, and the current Chair of MCT's first regionalised Board of Trustees is Aren Palik, President and CEO of the Pacific Islands Development Bank.

The most significant early challenge for MCT was the failure of its strategy of accessing a portion of the renegotiated Compact's environment sector money. Pursuing this opportunity was the principle fundraising strategy of the MCT Board during 2001-2003, a decision that in hindsight can be regarded as unfortunate. Placing all their fundraising eggs in the 'Compact basket' left MCT in a difficult position in early 2004 when it became clear that this would not come to fruition (Micronesia Conservation Trust 2004). As noted above however, it is uncertain whether there would have been enough interest among the concerned individuals to support MCT's establishment had this strategy not been on the table in 1999-2001.

Despite a lack of substantial fundraising success in its initial operating phase, by 2004 MCT had put in place a sound basis for its operations in governance and legal respects. These included Board members drawn from the public, private and non-profit sectors representing FSM's high and low island ecosystems, a detailed set of By-Laws and Articles of Incorporation, grant-making guidelines and forms, as well as a clearly enunciated mission statement and goals. MCT had also established a technical committee to independently assess grant applications and to advise potential grantees on improvements to projects. Despite this, MCT was close to being wound-up in 2004 for want of funds, **having raised only US\$X from X sources at that time**. At the July 2004 Board meeting it was reported to the Board of Trustees that MCT had sufficient funds to operate only until October of that year (Micronesia Conservation Trust 2004).

MCT's situation in 2004, an organisation with sound governance structures established via a thorough consultative process but without significant funds, was somewhat unusual as compared to the typical CTF situation wherein it is the need to distribute substantial pre-identified funds that originally justifies a CTF's existence. This fact was put in clear focus by Asian Development Bank representatives when visited by then MCT Vice-Chairman Willy Kostka in 2002: 'Why have you created a Trust Fund with no money?' they asked him (Kostka 2008a). This challenge, which served to harden Kostka's resolve to make MCT successful, also demonstrates both obstacles overcome by MCT as well as the perception of international grantors regarding CTFs. That is, they consider CTFs to be mechanisms for disbursing existing money. In contrast, the more recent experience of MCT as described below suggests that perhaps CTFs could be better regarded as governance institutions whose principle value lies in their capacity to mediate between the local implementers and international grantors, as well their capacity as effective mentors and monitors for local conservation organisations, and that this potential exists independently of pre-identified funding sources.

5. The Maturation and Growth of the Micronesia Conservation Trust

2004 was a significant turning point for MCT as it abandoned the strategy of seeking a portion of the Compact environmental sector money and consequently moved towards building a broad donor base. This new strategic focus has proved pivotal to MCT's maturation and growth during the past half decade.

In mid 2004 MCT's non-Compact related fundraising efforts began to bear fruit. In that year an anonymous donor provided US\$50,000 to be used for both administration and re-granting, the US Department of Interior provided US\$40,000 for re-granting, and discussions commenced regarding MCT housing the GEF Small Grants program for Micronesia. These developments helped to re-focus MCT's Board of Trustees and management staff on building the organisation upon a broad donor base. MCT's first call for project proposals was issued in 2004 and 3 grants were consequently made.

MCT was designated as the GEF Small Grants program administrator for Micronesia in 2005. This assisted greatly in cementing MCT's role as a conservation financing organisation (Kostka 2008). Also at this time MCT commenced negotiations with the European Union in relation to MCT administering the non-government grants program made available under the 9th European Development Fund, a euro 719,000 sinking fund termed the Conservation and Environmental Protection Programme (CEPP). An agreement with the European Union on the CEPP fund was finally reached in April 2007 and CEPP grant-making commenced in 2008 (Federated States of Micronesia 2007).

As noted by the worldwide CTF reviews discussed in section 3 above, the involvement of highly motivated and experienced individuals is a significant factor in the success of new CTFs. This lesson is borne out by MCT's highly qualified and dedicated staff and also by the people serving on its Board of Trustees. In particular, a significant factor in MCT's improving fortunes after 2004 was the appointment of Willy Kostka, first as a fundraising consultant and then as Executive Director. Kostka, one of MCT's original Board members, had already achieved remarkable success in leading the Conservation Society of Pohnpei from 1998-2005. During that period CSP had grown from a local start-up NGO with only 2 staff to a highly active organisation operating numerous programs, employing around 20 people and raising significant international funding from a range of sources. Kostka's success in these endeavours was recognised in his being awarded a Pew Fellowship in Marine Conservation in 2006 (Federated States of Micronesia 2006). Kostka's 2004 Terms of References as an MCT fundraising consultant required him to raise US\$200,000 in six months, a goal he surpassed by 150%. The international recognition gained through receipt of the highly-regarded Pew Fellowship was undoubtedly helpful in this regard.

MCT has gone from strength to strength since 2004 and the period 2005-2008 has seen MCT grow and mature into a highly successful conservation financing organisation. In 2006, MCT's operating budget was approximately \$300,000. In 2007, this grew to approximately US\$840,000 and US\$1,212,322 in 2008. These figures exclude the GEF Small Grants Program which is now approximately US\$1,000,000 per annum. MCT's projected operating budget for 2009 is \$2,455,484. As described below, MCT is now overseeing the endowments for the regional Micronesia Challenge, which currently total US\$14 million. (GEF US\$6, The Nature Conservancy US\$ 3, Conservation International US\$3, Government of Taiwan US\$.5, and Government of Palau US\$1.5) (Kostka 2008b: 3).

MCT's emergence as a successful CTF did not occur in isolation of other important developments in capacity building and policy development in biodiversity conservation in FSM. As noted above, during 2000-2003 the FSM and each of the States underwent a NBSAP planning process in conformity with commitments under the CBD, which meant that key conservation stakeholders in FSM were aware of MCT. This complementarity with state and national conservation planning meant that relevant stakeholders recognised at an early stage that if MCT developed as planned it would become a valuable mechanism generating and disbursing funding for conservation. It also ensured that MCT's own program of grant-making was consistent with existing plans and priorities in biodiversity conservation. A lack of such coordination and consistency is frequently cited as a major shortcoming of international assistance programs in environmental issues and others.

At the same time as TNC was facilitating MCT's establishment, it was also sponsoring an initiative aimed towards developing indigenous Micronesian conservation leaders; Micronesians in Island Conservation (MIC). MIC is a network bringing together talented personnel from government and non-government organisations active in the environment sector from FSM and also from the wider Micronesian region. 'In its first three years (2001-2004) MIC worked with 22 leaders and 20 government and non-government organisations in Micronesia to help them strengthen the effectiveness of their organisations and expand the impact of their conservation work' (The Nature Conservancy 2008: 8). MIC operates via the sharing of lessons and experiences of conservation initiatives among key individuals, thereby building the capacity of both individuals and the organisations they work for. MIC has also fostered the start-up of four new Micronesian non-government conservation organisations (The Nature Conservancy 2008: 8).

This approach of informal lesson-sharing among a network of both senior and emerging conservation leaders has proven highly successful. MIC has been a significant factor in overcoming one of the major challenges of MCT originally identified by Scott Smith at the outset of planning for a CTF in Micronesia – that of a small non-government environment sector in Micronesia capable of undertaking only limited numbers of quality, well-designed projects (Smith 2000: 1). While MIC is not linked in a formal way with MCT, it brings together representatives of many of MCT's grantees and potential grantees in an epistemic network that is highly complementary of MCT's objectives and has generated a much larger pool of conservation activities competing for MCT grants.

Another important recent development in Micronesian conservation governance and policy is the Micronesia Challenge. The Micronesia Challenge is a high-level commitment made by the Chief Executives of each of the five Micronesian jurisdictions (Republic of Palau, FSM, Republic of the Marshall Islands, the Commonwealth of the Northern Mariana Islands and Guam) 'to effectively conserve at least 30% of near-shore marine and 20% of the terrestrial resources across Micronesia by 2020' (Remengesau 2008). The Micronesia Challenge, initially made at an international marine conservation meeting in Palau in 2005, is not an empty political promise. The five Micronesian jurisdictions re-affirmed their commitment to the Micronesia Challenge at the Eighth Conference of the Parties to the Convention on Biological Diversity and have since put in place measures to oversee its implementation, including a Regional Steering Committee and a dedicated office employing full-time professional staff (Killion 2006). Importantly for present purposes, MCT has been appointed as the financing mechanism for the

Micronesia Challenge. As noted in MCT's 2007 Annual Report, 'this recognises and reaffirms MCT's vital role in supporting conservation and sustainable development initiatives across the region. It also means that MCT will be able to assist the MC jurisdictions raise, invest, disburse and manage the MC Endowment Fund' (Micronesia Conservation Trust 2008: 6)

The MCT Board of Trustees and management staff first began to envisage MCT as an organisation performing a regional role beyond the four States of the FSM when it commenced discussions for hosting the GEF Small Grants Program covering FSM, the Marshall Islands and Palau (Kostka 2008a). It was however the emergence of the regional MIC, and particularly the Micronesia Challenge, which gave extra impetus and urgency to this goal of MCT regionalisation. The MCT Board approved the necessary steps for the organisation's regionalisation in 2006. These included the revision of its By-Laws, Articles of Incorporation, the adoption of an Investment Policy and the appointment of an investment manager. These measures, together with a restructuring of the Board itself with new members including high-profile and well-qualified people from Micronesian jurisdictions outside of FSM as well as international members from outside the region, were completed and approved at the December 2008 meeting (Kostka 2008a).

6. Conclusions

MCT is a good example of a CTF operating successfully in a Pacific island context and its experiences since 1999 provide sound evidence confirming the lessons reported globally by the GEF and the Conservation Finance Alliance regarding best practices in CTF establishment and operation. Primary among these lessons are the inclusion of appropriately qualified, experienced and motivated individuals drawn from the public and private sectors as well as civil society; the close involvement of an effective championing and mentoring partner organisation in the initial phases; the setting of clear goals and objectives for grant-making and income investment; an institutional basis of sound, transparent and accountable governance structures; and thorough and ongoing coordination of CTF plans and activities with other relevant policies and plans.

A final conclusion relating to MCT's experiences, and one not emphasised in existing literature, is that CTFs can perform what could be described as 'funding mediator' roles. This occurs as MCT is highly cognizant of the economic, cultural, political and ecological landscape in Micronesia and is thus well-placed to decide which initiatives and organisations warrant funding, to efficiently monitor projects and to provide guidance and mentoring to local grantees. Additionally, international donors considering giving support to MCT appreciate that it is managed in light of their requirements for transparency and accountability for the spending of all funds provided, and MCT's developing track record of success is enhancing donor confidence in its operations and in the projects supported by it. In this sense MCT is an institution mediating and connecting the 'global' and the 'local'.

MCT has proven to be vital in institutionalising and cementing a major shift in biodiversity conservation policy and practice that has been sought in the Pacific island region since the late 1980s; that of seeking conservation objectives through 'community-based' strategies. This policy shift has been well-documented in both published literature as well as in regionally-agreed plans and strategies (SPREP 1999, SPREP 2002, SPREP 2007, Federated States of Micronesia 2002, Johannes 2002, Baines et al 2002, Rose

2008). The following comment from the UNDP evaluation of the SPREP-administered South Pacific Biodiversity and Conservation Project is a compelling indication of the importance placed upon community-based conservation by concerned stakeholders within and outside the region:

The underlying rationale for community-based biodiversity management . . . is, in fact, of fundamental importance for the future of Pacific Island countries in that it is the only effective and lasting approach to poverty avoidance and alleviation (Baines et al 2002: 4).

Whilst there has been much national and sub-national activity undertaken in support of community-based conservation throughout the Pacific island region during the past twenty years, as well as many millions of dollars of international assistance directed towards it, developing resilient institutional structures supporting this form of conservation has proven elusive (Rose 2008). While sustainable and reliable financing of community-based conservation initiatives is by no means the only obstacle to this paradigm shift in conservation practice, it is undoubtedly a core one (Baines et al 2002). In this sense, the Micronesia Conservation Trust has forged a pathway to success in environmental governance in Micronesia and its experiences can be seen as useful lessons for application in the wider Pacific island region.

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