

# **FEASIBILITY STUDY ON CREATION OF A CONSERVATION TRUST FUND IN MOZAMBIQUE**

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**A Report to the Biodiversity and Conservation Group of Mozambique**

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## ABBREVIATIONS

AFD	French Development Agency
AGA	Annual Grant Agreement
AWP	Annual Work Programme
BoD	Board of Directors
CA	Conservation Area
CTF	Conservation Trust Fund
C&BG	Conservation and Biodiversity Group of Mozambique
CI	Conservation International
DNAC	National Directorate of Conservation Areas
EU	The Fund's Executive Unit
FAO	Food and Agriculture Organization of the United Nations
FFI	Flora and Fauna International
FUNAB	National Environmental Fund
FUTUR	National Tourism Fund
GEF	Global Environment Facility
IUCN	International Union for the Conservation of Nature
KfW	German Development Bank
M&E	monitoring and evaluation
MICOA	Ministry for the Coordination of Environmental Affairs
MITUR	Ministry of Tourism
NP	National Park
NR	National Reserve
NGO	Non-governmental Organization
PA	Protected Area

PAC	Project Administration Committee
RfP	Request for Proposals
TAC	Technical Advisory Committee
WCS	Wildlife Conservation Society
WWF	World Wide Fund for Nature / World Wildlife Fund
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

## 1. INTRODUCTION

Over the years, Mozambique has developed a diverse set of policies and sector strategies for sustainable development and biodiversity conservation. While these policies are coherent on a sector by sector basis, they have not been coordinated. Thus, a holistic approach to biodiversity conservation through protected areas has remained elusive. To correct the situation, the Republic of Mozambique is developing a coordinated national conservation policy. While the policy has yet to be officially adopted, it calls for the harmonization of legislation on conservation areas (CAs), the establishment of a new parastatal agency to coordinate their administration, and the development of sustainable finance mechanisms.

As a first step in developing sustainable finance, an assessment is being undertaken to determine the current and projected financing needs of the country's system of CAs with an eye to developing a national strategy. The strategy will identify options for generating revenue and address legal, regulatory and institutional reforms that may be needed. As a catalyst for development of this sustainable financing strategy, in November 2007, Mozambique organized a *Conference on Sustainable Financing of Mozambique's Conservation Areas*. One of the key recommendations of the conference was the need to conduct a feasibility study to assess the potential for creating a conservation trust fund (CTF) in support of Mozambique's conservation areas. In this regard, Mozambique's Conservation and Biodiversity Group (C&BG), chaired by the Ministry of Tourism's (MITUR) National Directorate of Conservation Areas (DNAC), requested that the World Wide Fund for Nature (WWF) commission a feasibility study. The results of that study are presented in this report.

CTFs have contributed significantly to sustainable financing of protected area systems over the past decade, often serving as an "anchor" for a country's sustainable financing strategy. Most CTFs take the form of a legally independent institution (i.e. set up outside of government) that is managed by an independent board of directors. The main purpose of a CTF is to provide long-term and stable funding for protected areas, or grants to non-profit / non-governmental organizations (NGOs) and community groups for projects aimed at conserving biodiversity and using natural resources more sustainably. CTFs are often developed as the result of a process of long-term financial planning for protected areas

## 2. METHODOLOGY

This study has been carried out by a consulting team, consisting of Allen Putney and Hélio Neves. The feasibility assessment presented in this study was prepared based on a literature review of key reference documents; meetings of the Biodiversity and Conservation Group (made up of representatives of governmental and non-governmental organizations, and international donors) in Mozambique; and interviews with a wide range of stakeholders.

### 2.1 Reference Documents

The most important background documents refer to the experience with CTFs around the world, and in Mozambique to a national conservation policy, establishment of a Parastatal Agency for CA management, a financial model of 3 CAs, and an analysis of the legal options for establishing a CTF. The legal analysis summarized in this study is based on a report prepared by Samuel J. Levy, Ássma O. Nordine and António B. Bungallah, all of Sal and Caldeira. A list of reference documents is provided at the end of the report.

## **2.2 Persons Interviewed**

A list of the persons interviewed for this study is presented in Annex A. The list includes a wide range of stakeholders from government, donor organizations, non-governmental organizations, and the private sector. In most cases, the people interviewed had little idea of how a CTF is set up and functions, and indeed there was often confusion because most only knew of government run funds such as the Tourism Fund (FUTUR), and the Environmental Fund (FUNAB). Thus, most interviews began with a quick explanation on CTFs. After that, the major topic discussed in each case was the feasibility of a CTF in Mozambique and recommendations for its setup. Interviewees generally thought that the establishment of a CTF was both desirable and feasible. There was divergence of opinion on how the CTF should be set up and operated, and the sources from which it would receive funding.

## **2.3 Conservation and Biodiversity Group**

The Conservation and Biodiversity Group (C&BG) is a committee made up of representatives of governmental agencies, donors, and non-governmental organizations working on the theme of conservation and biodiversity. Indeed, much of the impetus for the establishment of a CTF comes from the Committee which in November, 2007, sponsored a conference on sustainable finance. One of the outputs of that Conference was the determination that one of the major steps for the sustainable finance of CAs in Mozambique was the development of the feasibility study presented in this report. The C&BG is composed of the following institutions:

- National Directorate of Conservation Areas, Ministry of Tourism (MITUR)
- Ministry for the Coordination of Environmental Affairs (MICOA)
- WWF
- WCS
- IUCN
- FFI
- AFD
- KfW and GTZ
- World Bank
- FAO
- USAID
- Peace Parks Foundation
- Danish Embassy
- International Finance Corporation

## **3. ANALYSIS**

### **3.1. Purpose**

Based on the interviews conducted, there is consensus that the role of the CTF should be to contribute to the achievement of the objectives of the National Conservation Policy of Mozambique by capturing, administering, disbursing, monitoring and reporting on financial resources for the effective and efficient management of protected areas. A National Plan for a

System of Conservation Areas is needed to guide the CTF with respect to the universe of CAs to be assisted by the Fund, and priorities for financing.

### **3.2 Feasibility**

According to the Global Environment Facility (GEF, 1999), there are four essential conditions that must be met if a CTF is to be successful.

1. The issue to be addressed requires a commitment of at least 10-15 years;
2. There is active government support for a public-private sector mechanism outside direct government control;
3. A critical mass of people from diverse sectors of society can work together to achieve biodiversity conservation and sustainable development; and
4. There is a basic fabric of legal and financial practices and supporting institutions (including banking, auditing and contracting) in which people have confidence.

Experience in recent years tends to support the requirement of these background conditions as an essential foundation for CTF development. In the case of Mozambique, these conditions seem to be met.

1. The funding issues related to CAs are long-term, and the Government has indicated an interest in establishing mechanisms that would provide long-term solutions of 10-15 years and beyond.
2. The Minister of Tourism has indicated, through the DNAC Director, an interest in developing a public-private sector financing mechanism for CAs, and a commitment to presenting the case for this approach to the Council of Ministers.
3. The existence and continuing activity of the C&BG with representatives from government agencies, international donors, and non-governmental organisations constitutes a critical mass from diverse sectors of society willing to work together to achieve biodiversity conservation, and specifically, sustainable funding of Mozambique's CAs.
4. The basic fabric of legal and financial practices, and supporting institutions (including banking, auditing, and contracting) are present in Mozambique, and have people's confidence.

### **3.3. Legal and Regulatory Framework**

As noted in the *Rapid Review of Conservation Trust Funds* (Conservation Finance Alliance, 2008), CTFs can be set up in the following ways:

- in-country trust funds (in common law countries);
- in-country foundations (in both civil law and common law countries);
- offshore foundations (e.g., in Europe or the US);
- created by special legislation; or
- created by international agreement between donor and beneficiary country governments.

Most of the individuals interviewed thought that precedence in Mozambique would lead to a CTF being set up as an in-country foundation. However, it was noted by several interviewees that the CTF might also be set up through a decision of the Council of Ministers, which carries the weight of law in Mozambique. This latter option should be carefully weighed through

careful consultation with the Minister of Tourism. Through this mechanism, it could conceivably be possible to establish the CTF with fiscal advantages not available through the foundation mechanism, especially with respect to governmental contributions to the Fund, or tax-free donations by corporations or individuals.

According to legal consultants SAL & Caldeira, Foundation law is poorly developed in Mozambique, and there is no trust law, so there is considerable flexibility in design. A foundation in Mozambique is defined as "*a collective entity with permanent assets dedicated to altruistic endeavours that are of social value*". Mozambican law also provides for "Public Interest Foundations" that although not precisely defined can be construed as "*a collective entity which pursues objectives that are of national or community interest, and cooperates with the Government in the provision of services at the national or local level*". The general purpose of a foundation in Mozambique is the development of activities that are in the public interest. A foundation can be established by a group of interested persons who can be either nationals of Mozambique or foreigners. At a minimum, a foundation is made up of its Board of Directors and its Executive Unit, but other entities may be established as required. The Board is made up of an odd number of members, one of which serves as President. Foundations that do not live up to the dictates of their constitution and by-laws may be dissolved by the Ministry of Justice

### **3.4. Financial Issues**

#### **3.4.1 Funding Requirements, CAs**

As one of the background studies for the sustainable financing conference, WWF (Tua and Neves, 2008) developed a draft financial model for Mozambique's CAs, and estimated projected costs and current financing sources based on base-line data for Bazaruto National Park (NP), Limpopo NP and Quirimbas NP. The financial planning study originally sought to estimate the annual gap between costs and revenues for 6 of Mozambique's CAs (Bazaruto NP, Gile National Reserve (NR), Gorongosa NP, Limpopo NP, Niassa NR, Quirimbas NP), which were selected in consultation with DNAC, but found that only Bazaruto NP, Limpopo NP, and Quirimbas NP had up-to-date management and business plans, which were needed to accurately project costs and revenues. The results of the study indicate a number of critical points. First, over a 10 year period, the projected gap between costs and revenues varies significantly between years and between areas. Second, the Limpopo NP capital intensive model of management requires roughly 5 times as much investment as the community-based management models used in Bazaruto NP and Quirimbas NP. Third, a very rough estimate of minimum average annual gap between costs and revenues for the management of a national park or reserve in Mozambique is at least US\$200,000/year. No estimates have been made for any of Mozambique's other national parks, reserves, or hunting preserves, but if it is assumed that the cost and revenue structures are similar to those of national parks (a shaky assumption), then an order of magnitude for the minimum requirement for CA System as a whole, excluding the costs of the CA Management Agency at the national level, would be somewhere in the neighbourhood of US\$5 m./year. Assuming that a more capital intensive management model results in a financing gap 5 times greater than the community-based model, then the maximum would be in the order of US\$25 m./yr., and the median US\$15 m./yr.

#### **3.4.2 Funding Requirements, CTF Operations**

The CTF itself will require recurring funding to cover its operational costs. Experience suggests that start-up costs for the first 2 years of a CTF may run between US\$200,000 to \$300,000 per

year. Once the Fund is up and running, operational costs start at as much as 30% of the total portfolio, but as it grows in size and experience, these costs can be brought down to about 15% of the portfolio.

If at all possible, it is important to establish an endowment fund to guarantee funding for a basic level of operational costs for the CTF on an annual basis. Assuming a conservative 5% return on investment, an endowment of US\$5 million. would be needed to produce an annual stream of US\$250,000 per year to cover basic operating costs. The endowment fund is also an excellent mechanism for covering the recurrent costs of managing CAs, as noted in section 3.4.4.

### **3.4.3 Fundraising**

Fundraising is one of the central activities of a CTF. Each country has different opportunities for fundraising based on the national context (legislation, policies, industries, biodiversity values, international relations, presence of non-governmental organizations, etc.). Because of this, there is no fundraising prescription that fits all, and the various options need to be evaluated on a country by country basis. This is the function of a CTF's Fundraising Strategy, which identifies the various potential sources of funding that might be available; analyzes the relative cost and benefit of seeking to tap each potential source; and, lays out an action plan for accessing funds.

On a global basis, the GEF, bilateral agencies and debt-for-nature swaps remain major sources of support for CTFs, though partnerships with corporations and big foundations play important roles in some CTFs, both as contributors and as catalysts for other donors. Those CTFs that have been able to demonstrate an effective grant-making programme and high level of accountability to donors have been the most successful. As with many endeavours, demonstrated success attracts further investment. It can be expected that in the future the sources of funding for CTFs will become more diverse. Current trends indicate that earmarked taxes (for example, environmental compensation schemes); payment for environmental services (especially carbon sequestration); and donations from the corporate sector and individuals will become more common.

The keys to successful fundraising for a CTF are:

- the skills of its management team and Board Members;
- a well thought out and executed fundraising strategy; and,
- "champions" in donor agencies or the private sector that can help make the right connections when needed.

These critical factors must be continuously borne in mind as a CTF is developed.

The laws of Mozambique indicate that a foundation may receive financing provided by the founders; and by subsidies, legacies, and donations that are provided by national or foreign entities (either private or public), which are consonant with the statutory purposes of the foundation. Since a foundation is a private entity, it is not eligible for general federal budget allocations.

### **3.4.4 Financial Structure and Investment Strategy**

Most CTFs manage funds as endowments, where the capital is preserved in perpetuity and only the interest is expended; as revolving funds, where revenues enter and are spent on a continuing basis; and as sinking funds where a single amount is received and then expended

over time. Endowments are set up when an annual stream of income is required on a recurrent basis and there is sufficient capital to support this. Revolving funds are typically set up in cases where regular income, such as from taxes, is received, accumulates in an account, then is spent for grants. Sinking funds are usually set up to manage project funding, which is earmarked for a particular area or purpose.

Whether managed as endowments, sinking or revolving funds, the assets of the CTF must be invested judiciously to generate the largest income possible with the least amount of risk. In order to achieve this, it is important that the CTF be able to call on financial expertise at 4 levels to assist in developing and implementing an investment strategy:

- within the Board of Directors;
- within the management team (usually in the person of the CTF's Administrative Officer);
- through an independent investment adviser retained for this purpose; and,
- through an investment firm that is hired, usually through a competitive process, to carry out the Fund's investment strategy.

The Conservation Trust Fund Investment Survey Analysis (Saccardi, 2008) revealed that the investment strategies of CTFs in general have performed as well as the endowments of US colleges and universities. This is because the CTF community has matured over the past decade and a half, and has grown more sophisticated in their investment policies. Many have hired highly qualified Investment Advisers that help in developing and monitoring investment strategies. Asset allocation varies greatly from one CTF to the next, and can evolve according to the CTFs shifting strategies and priorities. Environmental screening for investments has become standard for CTFs.

In developing an investment strategy, a CTF must consider a range of options. The larger financial markets of North America and Europe tend to be less risky and more diverse. Financial markets in developing countries in general tend to be quite small and risky, but because of this they can provide excellent returns in some cases. In addition, a CTF normally needs to manage operational funds in the country of domicile. Because of this, it is important that a CTF be authorized to invest both nationally and overseas.

Another investment strategy that can be used for start-up CTFs is to outsource investing of the Fund's assets to a common fund that specializes in institutional endowments. Under this arrangement, the CTF contracts management of its assets with a non-profit organisation that specializes in investing endowment funds. One such institution is the U.S.-based Common Fund for Non-Profit Organizations ([www.commonfund.org](http://www.commonfund.org)). With over US\$40 Billion in assets, Common Fund is able to capitalize on the advantages of scale to invest client's endowments for excellent returns and low risk. Another U.S.-based organization of this type is The Investment Fund for Foundations ([www.tiff.org](http://www.tiff.org)).

Among the issues that need to be researched in creating a CTF in Mozambique is the potential for investment in local financial markets and any foreign exchange regulations that may restrict transfer of funds to and from offshore investment accounts.

### **3.4.5 Tax Issues**

Endowment funds can only function efficiently if interest, investment income, and capital gains are not taxed either in the country where the money is invested or in the country where the CTF is registered or operating. If the CTF's investment income is taxed at a country's standard rates

for profits and income, this could result in losing one-third to two-thirds of the CTF's annual budget (assuming that the budget derives entirely from the income earned by investing the endowment). Thus, it is essential that the CTF be exempt from taxes on income, and for this provision to be negotiated when the CTF is established. In Mozambique, foundations are exempt from income, value added and stamp taxes, so no additional exonerations need to be negotiated. A Mozambique CTF may need to apply for tax-exempt status in countries where offshore investments are placed, and also consider tax issues related to tax deductions available for private donors to a Fund.

### **3.5. Grant-making Programme**

Eligible themes for CTF grant-making vary considerably around the world. Some CTFs have a broad mandate that covers green (natural resources), brown (pollution and contamination), and blue (marine) issues, while others are much more selective. For example, there are a number of CTFs that focus exclusively on PAs. Experience tends to show that a narrow thematic focus allows a CTF to have a greater measurable impact.

The focus of a CTF's grant-making programmes also varies considerably between countries. Eligible entities can include national, regional, and local governmental agencies; community-based organizations in and around PAs or resource complexes, non-governmental organizations, and occasionally the private sector. The particular mix of grantees is unique to each country.

The types of projects and approaches to grant-making also vary considerably between countries. With respect to CTFs that focus on PAs, there are three broad approaches that tend to be followed. The first is the "negotiated grant agreement" approach where the programme of finance for the year is negotiated between the CTF and the PA Management Agency. This kind of grant agreement defines the amounts to be provided to the PA Management Agency or third parties; the schedule of disbursements; the purposes for which these funds are to be used; and the requirements for accounting, monitoring, evaluation; and reporting. The second approach is the "Request for Proposals" (RfP) in which the CTF announces its intent to provide funding for specific purposes over a specific time period, and invites interested entities to submit proposals for these purposes on a competitive basis. Each RfP defines clearly the basis on which proposals will be selected; the proposal format and schedule for submissions; eligibility criteria; the amounts to be granted; and the procedures for accounting, monitoring, evaluations, and reporting. The third approach is to establish general criteria for grant-making, and then to accept proposals throughout the year.

Whatever the approach or approaches to be utilized, a grant-making manual is required so that the process is clear, available for all to see, and can be used for training of staff and Board Members. As experience is gained, changes can be introduced into the manual whenever required.

### **3.6. Governance Issues**

The structure and composition of the governing body of a CTF is a major aspect of the Fund's profile. The most critical factor for "good governance" is having a non-governmental majority on its Board of Directors. This helps CTFs attract donations from the private sector and from international donors. The laws of Mozambique neither require nor prohibit the participation of government officials from serving on the Board.

Non-governmental Board members should be chosen based on their personal competencies rather than as official representatives of a particular constituency. Their terms should be staggered (rather than all ending at the same time) in order to provide greater institutional continuity. A large board (with 15 or more members) may be able to draw on more different kinds of technical expertise and geographical background from its members, but in some cases this can make it harder to reach decisions, and it raises administrative costs. One option used by many CTFs is to have a smaller executive committee that meets more frequently and handles many short-term and urgent decisions, while the full board focuses on larger and more strategic decisions, as well as approving an annual budget, work plan, and grants programme.

CTF boards often function more efficiently if they delegate certain topics to expert committees to discuss and then make recommendations to the full board. Common examples include a Finance and Investment Committee, and a Scientific and Technical Committee. These committees can also co-opt non-board members to assist them. Board members' responsibilities should be clearly specified in a CTF's Bylaws or its Operations Manual, and they should be given short (1- or 2-day) training and orientation when they join the Board. CTFs commonly employ between 4 and 25 staff, depending on the size and type of grants which they administer.

### **3.7. Other Issues Particularly Relevant to Mozambique**

There are a couple of issues that are particularly relevant to the Mozambique context. Perhaps the most important is how the Government can generate financing that can be used as counterpart financing for investments by other donors. The other issue is that of the CA management model that is to be funded by the CTF.

#### **3.7.1 Government Contributions to Capitalization of the CTF**

Experience has shown that government contribution to the capitalization of a CTF is an absolute necessity in order to demonstrate the Government's firm commitment to sustainable financing of its protected area system. Such contributions can then be used as counterpart funding for contributions by other donors. The government contribution, whether it is managed directly by a CTF or through another financing mechanism, is typically negotiated with donors to a CTF at the time the CTF is created.

In many countries, government contributions come through debt-for-nature swaps and/or from PA entrance and concession fees. In the case of Mozambique, neither of these potential sources appears to be easily accessible in the short-term. In fact, the legislation of Mozambique prohibits the government from contributing to a foundation through the regular federal budget, so whatever source is identified must not be part of the regular budgetary process. This is a major obstacle that needs more in-depth consideration.

There is limited scope for debt-for-nature swaps because most of Mozambique's debt has been forgiven by its creditors in the context of the Heavily Indebted Poor Countries (HIPC) initiative. However, HIPC countries, such as Cameroon, Madagascar and Tanzania, have allocated debt relief funds to the environmental sector and PAs through budget allocations programmed through their poverty reduction strategies and through the French government's debt-development contract (C2D).

With respect to CA entrance and concession fees, these currently are channelled to an existing government-run fund, FUTUR. There is likely to be strong resistance to re-allocating fees managed by FUTUR to a new CTF in the short term. There is also believed to be considerable leakage in the system. The fees that do reach FUTUR are supposed to be divided between local communities, which are entitled to 20% of the fees, and CA administration, which is supposed to receive 80% for CA management. However, in practice many observe that very little of these fees actually return either to the communities or to the local CA administration, and when they do it is on an ad hoc basis in response to proposals received for investment projects.

The Gorongosa NP Restoration Project, the Limpopo Trans-Boundary National Park, and the Company for the Management of Niassa NR have negotiated with Government to retain and distribute the fees collected in their areas, and would be strongly opposed to these fees going to a CTF. Gorongosa NP has been successful in retaining fees, but Limpopo NP and Niassa NR has not been able to achieve this yet. This is essential, however, if the government/private co-management model is to function effectively. Revenue retention for CAs is a critical part of the sustainable financing strategy for CAs.

Thus, if the Government is to contribute to the capitalization of the CTF, in the short-term, another source of revenue must be identified. Perhaps the most promising alternative is implementation of an Environmental Compensation Law modelled on the one that exists in Brazil which generates significant revenues for CAs. The Law requires the payment of a fee by all development initiatives that require an environmental license at the rate of 0.5% of the total investment. The environmental compensation fee is in addition to the regular licensing fee, and the two should not be confused. Indeed, Mozambique already has an environmental licensing fee in place, with the funds collected being managed by FUNAB, a government-run Fund.

The purpose of the environmental compensation fee is to compensate society for the indirect environmental impacts of development that cannot be mitigated, and/or for which no entity or collective can be indemnified. This fee is dedicated exclusively to PAs, which benefit all of society through the environmental services they provide. One problem with the Brazilian law is that the tax does not go to a CTF but rather to the Treasury where it is then redistributed to PAs or to direct services for a PA. However, if in the case of Mozambique, if the law stipulates that this fee be deposited directly with the CTF, it could then serve the double function of stimulating counterpart funding from other donors, while at the same time maintaining the environmental services provided to society by the CAs. It would be necessary for the law to stipulate that the fees be deposited to the Foundation directly so that they never enter into the federal budgeting process. However, this would run contrary to the current System of Fiscal Administration of Mozambique, and would require ample justification. Another down side of seeking to develop a new law for this purpose is that it could take considerable time to pass the legislature. On the other hand, the potential for such a law to raise significant revenues for a CTF might make it worthwhile to link the two in a single law. There may also be the possibility of obtaining a decision by the Council of Ministers for environmental compensation fees to capitalize the CTF, which would carry the weight of law.

### **3.7.2 CA Management Model**

Today's system of CAs employs a variety of models for management, each of which has different cost structures. As noted previously, the capital-intensive Limpopo model results in costs that are 4 to 5 times greater than the community-based models of Bazaruto NP and Quirimbas NP. This raises the question of how the CTF should react in the face of such different models, and how grants should be proportioned within the CA System. Should grant

amounts be calculated on a per hectare basis, individual project basis, or for specific aspects of a management plan, such as the protection programme? These are questions that the Founders' Committee may wish to resolve as part of the profile of the grant-making programme of the CTF that will be incorporated in the CTF's charter and by-laws.

### **3.8 Potential Sources for Capitalization of the Fund**

There is strong commitment for developing a CTF in Mozambique from a number of stakeholders. Among the most committed are the members of the C&BG. It is encouraging to note that several institutions are willing to consider specific commitments in the short term to the CTF development process. These include the following:

- KfW is willing to consider funding the start-up costs and operation of the CTF over a period of 1 to 2 years, and a contribution of Euros 1 to 2 m. for the capitalization of the Fund.
- AFD is willing to consider a contribution to the capitalization of the Fund. This funding could come from their technical assistance programme and/or from recycled debt funds.
- CI is willing to consider investing US\$ 1million in the CTF to support Primeiras and Segundas once it is declared a CA.
- UNDP/GEF is willing to consider assistance in developing a National Plan for the CA system, research on carbon sequestration baseline data, and a discreet technical component for the set-up of the CTF, as part of its development of a new GEF project in collaboration with the Carr Foundation and other partners
- WWF is willing to continue its technical support for establishment of the CTF and consider a capital contribution.
- The Government of Mozambique is willing to consider investment of a portion of the entrance fees to National Parks and Reserves in the CTF, though not in the first few years of operation.

In the longer term, a number of other specific sources of funding might become available:

- Government may choose to support, perhaps with technical assistance from Brazil, the writing and passage of an Environmental Compensation Law, or a decision by the Council of Ministers to institute a system of environment compensation fees that would capitalize a CTF. If the law were passed, or the Council of Ministers were to come to such a decision, this would raise significant revenues at the national level for the CTF.
- There is potential for developing a future GEF project to contribute to capitalization of the Fund.
- The Danish and Norwegian Embassies are currently considering priorities for their technical cooperation programmes from 2010 onwards, and might potentially consider including a contribution to the CTF as part of that future programme, especially if Government were to provide counterpart funding.
- There is potential to obtain one or more contributions to the CTF from mining companies operating in Mozambique.
- Major hotels operating in Mozambique may be willing to consider adding a donation, such as US\$1 per day, to the bills of clients as a contribution to the CTF. Those clients not wishing to make the donation would be able to have the donation eliminated from their bills.
- The selling of carbon credits has great potential for the long term, though the initial transaction costs are extremely high. Costs include the research required to establish

the quantity of carbon that is stored in the different ecosystems of Mozambique; legislation to define ownership of carbon and the institutions that will be in charge of its sale; and the costs to set up these institutions or to add this function to existing institutions.

## 4. RECOMMENDED DESIGN

The recommendations that follow are suggestions offered by the Consultants, and are based on experience in other countries, interviews in Mozambique, and reference documents. These recommendations do not imply approval by any other person or organization.

### 4.1 Guiding Principles

It is recommended that the CTF be structured to achieve the following basic principles:

**Government Support but not Control:** Worldwide experience makes it abundantly clear that those CTFs that succeed are those that receive strong government support, but which are not controlled by government. Thus, the governance structure should have a slight non-governmental majority while involving government at each step of the development and operation process.

**Government Counterpart Funding:** Since most potential international donors require government counterpart funding, priority will be given to seeking a decision by the Council of Ministers to develop an Environmental Compensation Scheme that would capitalize a CTF, or if this is not feasible, the development and passage of an Environmental Compensation Law that will institute a 0.5% tax on all development projects. This tax will be Government's contribution to the CTF.

**Accountability:** Funds administered by the CTF are understood to be managed in trust for the people of Mozambique, and for the donor agencies and their stakeholders. As such, the CTF should be fully accountable to donors, stakeholders, and the Government and people of Mozambique.

**Participation:** Priorities for grant making by the CTF will need to be established through participatory processes at the national and CA levels, and should include representatives of major stakeholder groups. Donors will be encouraged to respect these priorities, and grants will be made accordingly. Stakeholders should also be involved in participatory evaluations of the grant making process to identify weaknesses, and propose any amendments that may be required in functions and/or procedures.

**Transparency:** Important decisions on the grant making process will be communicated to stakeholders, including the Government and partners, on a regular basis, and all aspects of the process should be open to public inspection, except confidential information about individuals or grantees.

**Rigorous oversight and review:** Operations should be characterized by a rigorous system of regular technical and financial monitoring and evaluation with review by independent consultants and auditors which are tendered internationally.

**Quality assurance:** Results-based management should be used to establish the efficiency and effectiveness of the grant making process, identify bottlenecks and gaps, and provide the basis for timely solutions.

**Adaptive management:** The CTF should be a learning institution that not only monitors and evaluates each step of the grant making process for effectiveness and efficiency, but also acts quickly to revise procedures and improve performance when weaknesses are identified. Recommendations made by stakeholders (in the broadest sense) for revised procedures will need to be carefully considered and a dialogue undertaken to find the best solutions. As learning takes place, and new funding opportunities are identified, the CTF should evolve to deal effectively with new potential opportunities.

**Institutional Diversity:** It is understood that, just as with natural systems, institutional and financial diversity leads to stability. Thus, the CTF should see it as being in the interest of biodiversity conservation to support the existence, growth, and well-being of a diverse set of institutions related to biodiversity management, including financial intermediaries such as government-based environmental (FUNAB) and tourism (FUTUR) funds. It also should recognize the need to diversify sources of income, and to that end actively seek, experiment with, and bring on stream new sources, such as through payment for environmental services from CAs, individual donors, and partnerships with the private sector.

**Good governance:** The governing body and staff of the CTF should be held to the highest standards of ethical conduct, and conflicts of interest, or the appearance of conflict of interest, should be scrupulously avoided. Stakeholders should be encouraged to hold the CTF to the principles listed above at each stage of the development of the CTF, and of the grant making process.

## 4.2 Objective

The recommended objective for a CTF of Mozambique is to contribute to the achievement of the objectives of the National Conservation Policy by effectively and efficiently capturing, administering, and disbursing financial resources for the management of CAs according to the priorities established in a National Plan for the System of Conservation Areas of Mozambique.

## 4.3 Thematic Focus

It is recommended that the CTF focus its grant-making on the system of CAs that will be administered by a Parastatal Agency that is currently being established for this purpose. The CAs that will be eligible for CTF grants will include National Parks, National Reserves, and Hunting Preserves.

## 4.4 Legal Structure

It is recommended that the CTF be created through a decree of the Council of Ministers that includes, among others, the following basic provisions:

- A private CTF in the public interest is created to assist government in the sustainable finance of conservation areas.
- The Board of Directors of the CTF is appointed by a Founders' Committee composed of representatives of those entities, including Government, that provide capital to establish the CTF.

- The Founders' Committee is tasked with overseeing the decisions of the Board of Directors, and has the power to veto any decision that is contrary to the Constitution and By-laws of the CTF.
- Government contributes to the CTF through a 0.5% levy on the total cost of all infrastructure projects in Mozambique that require an environmental license.
- Corporate entities and individuals are encouraged to donate to the CTF, and all donations will be tax deductible.
- The CTF is authorized to invest its assets in Mozambique or in any other country that has diplomatic relations with Mozambique, and which is approved by the Board of Directors.
- The CTF will provide a summary technical and financial report to the Council of Ministers on an annual basis through the Minister of Tourism; and a detailed technical and financial report to the Ministry of Finance and the Administrative Court, including independent annual audits; and other information as may be requested by government authorities.
- This decision of the Council of Ministers will be published in the National Gazette and will have the force of law.

## **4.5 Functional Structure**

It is recommended that the CTF be structured to meet the needs of its stakeholders. Understanding and agreement on the roles and responsibilities of the principal stakeholders of the CTF is essential, especially recognizing that different stakeholders often have differing and strongly held perceptions of needs, priorities, and procedures.

The principal stakeholders of the Mozambique CTF are the:

- donors;
- Founders' Committee;
- the BoD;
- Technical Advisory Council;
- Project Administration Committees
- potential and actual grantees;
- associated communities, government agencies, NGOs, and private sector organizations; and,
- interested international organizations (bi-lateral, multi-lateral, non-governmental, industry associations, etc.)

### **4.5.1 Donors**

The major function of donors is to provide financial resources for the capitalization of trust funds, for the direct funding of projects, or to support the administrative costs of the CTF. These financial resources are targeted to implement national or institutional priorities. However, Donors can also play an important role in encouraging other donors to support the CTF, in suggesting improvements in the grant making process, in lobbying for governmental support, and in identifying new potential grantees.

### **4.5.2 Founders' Committee**

The Founders' Committee is made up of representatives of the institutions that contribute funding for the establishment and/or initial capitalization of the CTF. The initial role of the Founders' Committee is to agree on a Charter and By-laws for the institution, legally establish and launch operations of the CTF, and choose the initial members of the Board of Directors. Once the CTF is operational, the Founders' Committee will monitor the decisions made by the Board of Directors and Executive Director to assure that they are consistent with the institution's Constitution and By-Laws. Draft terms of reference for the Founders' Committee are presented in Annex B.

### **4.5.3 Board of Directors**

The recommended responsibilities of the Board of Directors (BoD) are to make all decisions regarding the grant making process, specific functions of staff, and internal organizational procedures, including:

- appointing the Director of the Executive Unit of the Fund;
- approving a strategic plan, operations manual, fundraising strategy, annual work programme, and investment guidelines;
- determining eligibility criteria for grantees;
- establishing BoD Committees to accomplish delegated tasks and review and approve their recommendations;
- establishing a small Technical Advisory Council (TAC) made up of key stakeholders, and review and approve their recommendations.
- establishing a Grant Administration Policy (Funding Policy);
- approving general and specific funding priorities recommended by the TAC; adopting an annual grant programme and approve individual grants; and,
- receiving, being informed by, and taking action on technical and financial evaluations and audits.

**4.5.3.1 Grants Committee:** The BoD's Grants Committee will work closely with the TAC, Project Administration Committees (PACs) and the CTF's Executive Unit (EU) to develop the annual grants programme based on agreed priorities and estimates of available income for the year. It is recommended that during the first years of the CTF's operation, 80% of the grant programme will be directed to the CA Agency through negotiated contracts. The other 20% will be dedicated to calls for proposals from NGOs and community-based organizations. These relative priorities will be re-evaluated by the BoD as experience is gained and the funding available to the CTF increases.

**4.5.3.2 Monitoring and Evaluation (M&E) Committee:** The BoD's M&E Committee will be responsible for reviewing summary evaluation reports prepared by the EU, and making recommendations for the expansion of successful approaches and projects, and the redesign or elimination of less successful approaches or projects.

### **4.5.4 Executive Unit**

It is recommended that the Executive Unit (EU) implement all phases of the grant making programme approved by the BoD. In so doing, they will work in coordination with all stakeholders. The following are the major responsibilities of the EU:

- Identify and contract the technical and financial expertise required to administer and support the grant making process, giving emphasis to the administration of financial resources, and the selection and supervision of projects.
- The preparation of work plans and budgets.
- The design, implementation, and supervision of negotiated agreements and Requests for Proposals (RfPs).
- The organization of regular meetings of the BoD, TAC and PACs, and the careful reporting of results to relevant stakeholders.
- The design and implementation of communications programmes involving stakeholders and the wider public.
- The design and implementation of transparent systems for financial management and the monitoring and evaluation of the Annual Work Programme and individual projects.
- Monitoring of investment performance and asset management contracts.
- Analysis of the needs and design of programmes for capacity building.
- Preparation of regular technical and financial reports for the BoD and donors on the activities of the CTF, and of the projects being financed.
- Development and implementation of systems to evaluate staff performance.
- Identification of lessons learned and adjustments needed in grant administration.
- Communicating the results and impacts of the CTF's grant making process to all stakeholders, including Government and the public at large.

It is recommended that the structure of the EU be held to a minimum so as to limit administrative costs. The EU will be housed in a single office in Maputo and only a small staff contracted [Executive Director, Administrator, Project Officer(s), Secretary and Driver]. If it can be shown to be less costly, all other services, such as technical evaluations of proposals; technical assistance for grantees; training and capacity building; the monitoring and evaluation of projects; and human resource, accounting, and legal services will all be outsourced to private firms or consultants, conservation NGOs, and/or academic institutions.

#### **4.5.5 Technical Advisory Council (TAC)**

It is recommended that the CTF establish and support the work of a Technical Advisory Council made up of representatives of the principal stakeholders. The role of the TAC is to advise on:

- the setting of priorities;
- donor and grantee coordination and harmonization
- the establishment and maintenance of positive inter-institutional relations;
- the evaluation of strengths, weaknesses, threats, and opportunities relating to the grant making process; and,
- required changes in grant making process.

The TAC will elect its own leadership and form committees as required to facilitate its work. The budget of the TAC will be negotiated with the BoD, but will purposely be kept small in order to maintain low administrative costs. Where possible, important activities of the TAC will be spun off and financed as individual projects. Members of the TAC will be appointed by the BoD bearing in mind the need to keep it small and efficient, while at the same time having qualified and dedicated members that represent a balance among the principal stakeholders.

Initially, the BoD may wish to constitute a TAC with few members and high energy, which is nonetheless balanced. Such a TAC might include individuals related to:

- donors
- environmental NGOs
- rural development NGOs
- CA Management Agency
- the Ministry of the Environment
- the Ministry of Planning
- IUCN's World Commission on Protected Areas

#### **4.5.6 Administrative Committees for Individual Project Accounts**

It is recommended that donors be encouraged to donate to the general CTF trust fund, with its standard procedures for investment, administration and grant-making. However, in those instances where a donor requires specific investment, administrative or grant making procedures, a separate account will be established. Decisions regarding the procedures for these accounts will be made by individual Project Administration Committees (PACs), which will be structured according to the wishes of the donor, but will usually include a representative named by the CTF, a representative named by the Donor, and a representative named by the potential grantee. Normally, each PAC will only have to deal with those few arrangement or procedures that are different from the norm. The recommendations of each PAC will be forwarded to the BoD for final approval.

#### **4.5.7 Grantees**

As the major grantee of the CTF, the CA Management Agency will play a central role within the TAC in determining priorities, negotiating the annual grant programme, and helping the CTF to settle on the most efficient and effective procedures for grant administration. All grantees will implement field projects according to an Annual Grant Agreement, and will be held accountable for results, the spending of grant funding, and reporting. The results and funding will be tracked on a regular basis using an agreed monitoring and evaluation system of the grantee, and through the use of independent technical and financial audits.

#### **4.5.8 Associated Communities, Government Agencies, NGOs, and Private Sector Organizations**

These are entities that will directly or indirectly be affected by CTF grants, and as such will require channels to communicate their interests and concerns to the CTF and its donors and grantees. The TAC, and its several committees, will be one formal channel for this communication. While the major stakeholders will be represented permanently on the TAC, other affected stakeholders will be invited to participate in the TAC, especially through its individual committees, on a case by case basis. Affected stakeholders will also be invited on a case by case basis to meetings of the individual PACs and to workshops for individual conservation units undertaken to develop the AWP.

#### **4.5.9 Interested International Organizations (Inter-Governmental Organizations, NGOs, and Private Sector Associations)**

Many international organizations, be they inter-governmental or from civil society or the private sector, will have an interest in the activities of the CTF and its donors and grantees. Each of these organizations could potentially become a donor or partner, and thus will be kept informed on a regular basis of the activities of the CTF. When warranted, these organizations will be invited as guests to the deliberations of the TAC and/or its committees.

## **5. Setting-Up the CTF**

### **5.1 Main Steps of Proposed Process**

The setting-up of the CTF could follow a 3-step process that involves building of consensus on the profile for the organizations, the development of legal instruments, and the elaboration of operational and strategic instruments.

#### **5.1.1 Consensus on Profile**

The objective of the Profile is to clearly establish the fundamental orientations of the CTF and to serve as a marketing tool for founders and partners. The profile defines the main features of the proposed CTF for Mozambique including its objectives; the start-up process; legal, governance, and administrative structures; and fundraising, investment, and grant-making strategies. The feasibility assessment presented in this report seeks to provide the elements that will be needed for developing consensus on the CTF's Profile. The objective is not to enter into details of the constitution and by-laws, operations manual or financial plan, but to provide an advanced and coherent framework that is agreed by major stakeholders. A first draft profile for a CTF for Mozambique is presented in Annex C.

#### **5.1.2 Legal Instruments**

This step focuses on the drafting, with the assistance of legal counsel, of the requisite legal instruments (constitution, by-laws, internal regulations, as well as the linked Environmental Compensation Scheme to be decreed by the Council of Ministers, or legislated) in accordance with the orientations adopted in the Profile. Draft terms of reference for this activity are provided in Annex D. Once the legal instruments are developed, action is required to ensure proper registration of the CTF, granting of the required authorizations, formal appointment of the Founders' Committee, Board of Directors, and Executive Director, and emission of the Environmental Compensation Scheme Decree by the Council of Ministers or passage of the Environmental Compensations Law by the legislature. Additional legal assistance will be required when the Fund has been established to review grant agreements with donors to the Fund.

#### **5.1.3 Operational and Strategic Instruments**

A number of operational and strategic tools will be developed to provide the CTF with the required instruments to become functional. These include:

- Developing a Strategic Plan that creates a long-term vision for the Fund and provides guidance on how that vision will be achieved, the sequence of tasks that will have to be undertaken, and responsibilities for implementation. The Plan will also lay out the basic

policies of the institutions with respect to governance, operations, grant-making, and finance. Draft Terms of Reference are provided in Annex E.

- Developing an Operations Manual, which will define policies and procedures, especially for the annual work plan, projects cycle, and monitoring, evaluation and reporting system. Draft Terms of Reference are provided in Annex F.
- Developing a Fundraising Strategy and Action Plan, which will identify potential sources of funding at the national and international levels, outline a strategy to mobilize them in order to meet the objectives of the CTF, and articulate an action plan for implementation. Draft Terms of Reference are provided in Annex G.
- Developing an Investment Strategy, which initially will outline the procedures for outsourcing investment to a common fund. Later when experience has been gained, the strategy will be developed further to:
  - set out the principles for investment and management of CTF assets by the Fund itself;
  - define the criteria to select an Investment Adviser; and
  - outline the procedures for selection of an Investment Manager.

## **5.2 Implementation Structures**

The CTF will be implemented by a preparatory team, led by a Coordinator, and guided by a Founders' Committee.

### **5.2.1 Founders' Committee**

Based on informal discussions undertaken for the development of this feasibility assessment, there is a core group of stakeholders that is highly motivated to push forward the development of the CTF. This includes MITUR (DNAC), MICOA, KfW, AFD, WWF, UNDP/GEF, FFI, and the World Bank. This core group will form the basis for a Founders' Committee which will:

- agree on Terms of Reference for the hiring of a Sustainable Finance Coordinator who will be contracted to organize and facilitate the set-up of the CTF over a 6 month gestation period;
- develop consensus on a final profile for the CTF that will be submitted to the C&BG for review, and then submitted to the Minister of Tourism for final approval; and,
- adopt Terms of Reference for the establishment of a formal Founders' Committee and CTF Board of Directors, and the selection of their members.

### **5.2.2 Coordinator**

The Coordinator (could also be a National and International Consultant Team) will be the focal point responsible for facilitating the creation and start-up of the CTF under the guidance of the Founders' Committee. His/her mission includes:

- ensuring the implementation of a coordinated and concerted approach, involving meetings and consultations with a wide range of individual and institutional stakeholders in Mozambique as well as in Europe and North America; the organization of meetings; and preparation and distribution of technical documents, etc.;

- working with the Founders' Committee to define the Profile of the CTF, and coordinating the selection of consultants for the development of legal instruments and the Strategic Plan, Operations Manual, Fundraising Strategy and Investment Strategy;
- drafting project proposals for submission to potential donors;
- ensuring effective communications between all actors concerned: Governments, donors and other partners, etc.
- preparing and implementing marketing tools and activities in-country and abroad.
- ensuring administrative and financial management of the funds allocated for the preparatory process with the support of a National Consultant and Administrative Assistant

Draft Terms of Reference are provided in Annex H. It is initially envisaged that this facilitation will extend over a period of 12 months. It is proposed that the Coordinator receive ad hoc technical assistance and guidance from specialized international consultants to be hired for the design of the Strategic Plan, Operations Manual, and Fundraising and Investment Strategies. Precise terms of reference for those consultants should be designed at the outset of the Coordinator's mission, with the Founders' Committee. The consultant(s) should have specific expertise in conservation finance and / or in-depth knowledge of the Mozambique context and CA administration.

## **6. Action Plan**

A plan of action for establishment and functioning of the CTF is outlined in Figure 1. The Plan includes preparatory work, development and registration of legal instruments, training, development of operational and strategic instruments, start-up activities, and initial operations. The Plan assumes that the establishment of the Fund by a decision of the Council of Ministers will require the same approximate steps at the establishment of a foundation

## **7. Estimated Budget**

The estimated budget for establishment and development of a CTF for Mozambique is presented in Figure 2. For budgetary purposes, it has been assumed that the cost of establishing a Fund by a decision of the Council of Ministers will entail costs similar to the establishment of a foundation.

**Table 1:  
Action Plan**

ACTIVITIES	RESPONSIBILITY	OUTPUT	TENTATIVE SCHEDULE <i>(by quarter over two year period)</i>							
			1	2	3	4	5	6	7	8
<b>Preparatory Activities</b>										
Profile for CTF in Mozambique finalized, reviewed, and approved.	Conservation and Biodiversity Group (C&BG).	Agreed profile for a CTF for Mozambique	X							
Proposals for establishment of CTF drafted, approved, and submitted to interested donors.	C&BG	Agreed proposals submitted to interested donors.	X							
Negotiations with donors to revise proposals as needed.	C&BG	Proposals accepted by donors for funding.		X						

ACTIVITIES	RESPONSIBILITY	OUTPUT	TENTATIVE SCHEDULE <i>(by quarter over two year period)</i>									
			1	2	3	4	5	6	7	8		
ToR for (1) Coordinator (2) legal consultant, and (3) environmental compensation scheme consultant drafted, reviewed, and approved.	C&BG	Agreed ToR for consultants.			X							
Coordinator, legal consultant, and environmental compensation scheme consultant recruited through competitive process.	C&BG	Coordinator, legal consultant, and environmental compensation scheme consultant recruited.			X							
ToR for Founders' Committee (FC) drafted, reviewed, and approved.	Initial draft and facilitation by Coordinator; C&BG review and approve.	Agreed ToR for FC.			X							
Initial donors form FC, meet, and approve internal operational procedures and statutes.	Facilitated by Coordinator in close consultation with C&BG.	FC formed.			X							

ACTIVITIES	RESPONSIBILITY	OUTPUT	TENTATIVE SCHEDULE <i>(by quarter over two year period)</i>									
			1	2	3	4	5	6	7	8		
Members of CTF Board of Directors (BoD) appointed.	FC in close consultation with C&BG	CTF BoD established.			X							
CTF's BoD meets and approves internal operational procedures and statutes, including Committee structure.	BoD facilitated by Coordinator	BoD fully operational			X							
ToR for CTF Director and CTF Administrator drafted, reviewed, and approved.	BoD facilitated by Coordinator	ToRs for CTF Director and CTF Administrator approved.			X							
CTF Director recruited through open competitive process.	BoD	CTF Director hired.				X						
CTF Administrator recruited through open competitive process.	CTF Director	CTF Administrator hired.					X					

ACTIVITIES	RESPONSIBILITY	OUTPUT	TENTATIVE SCHEDULE <i>(by quarter over two year period)</i>							
			1	2	3	4	5	6	7	8
<b>Legal Instruments</b>										
Draft Constitution and By-laws	Legal consultant	First draft Constitution and By-laws.			X					
Review, approval, and signing of Constitution and By-laws.	FC in consultation with the wider C&BG; facilitated by Coordinator.	Final approved draft of Constitution and By-laws.				X				
Legal recognition of Constitution and By-Laws by Justice Ministry.	Legal consultant	Government approval of Constitution and By-laws.				X				
Gazetting of legal recognition.	Legal consultant	Public notification of the establishment of the CTF.					X			

ACTIVITIES	RESPONSIBILITY	OUTPUT	TENTATIVE SCHEDULE <i>(by quarter over two year period)</i>								
			1	2	3	4	5	6	7	8	
Registration of legal recognition, Constitution, By-laws, name, official address, members of Board of Directors, and with National Registry.	Legal Consultant	Registration of CTF with Government.					X				
Obtain finding from Justice Ministry that the CTF qualifies as a public interest Fund.	Legal consultant	Formal recognition by Government of the CTF's status as a Fund in the public interest.						X			
Gazetting of the finding by the Justice Ministry that the CTF is in the public interest.	Legal consultant	Public notification of the finding that the CTF is in the public interest.						X			
<b>Operational and Strategic Instruments</b>											

ACTIVITIES	RESPONSIBILITY	OUTPUT	TENTATIVE SCHEDULE <i>(by quarter over two year period)</i>									
			1	2	3	4	5	6	7	8		
Draft strategic plan and operations manual	Initial drafts by Coordinator; review by CTF Director; review and approval by BoD	Approved Strategic Plan and Operations Manual.			X							
Draft fundraising strategy.	Initial draft by Coordinator; review by CTF Director; review and approval by BoD.	Approved Fundraising Strategy.				X						
Draft annual work programme	Initial draft by Coordinator; review by CTF Director; review and approval by BoD.	Approved Annual Work Programme.				X						
Initial investment strategy	Initial draft by Coordinator; review by CTF Director; review and approval by BoD.	Approved Investment guidelines and procedures for outsourcing with a common fund.				X						

ACTIVITIES	RESPONSIBILITY	OUTPUT	TENTATIVE SCHEDULE <i>(by quarter over two year period)</i>							
			1	2	3	4	5	6	7	8
<b>Training</b>										
Training support component drafted for inclusion in UNDP/GEF Project	Coordinator in consultation with BoD	Training component funded through UNDP/GEF Project	X							
BoD inception training.	BoD; facilitated by Coordinator.	Directors trained in CTF governance.					X			
Review of CTF's strategic plan, operations manual, fundraising strategy, and annual work programme during training mission to FUNBIO in Brazil, and FMCN in México.	CTF Director; facilitated by Coordinator.	Director trained in CTF operations.					X			
<b>Start-up</b>										

ACTIVITIES	RESPONSIBILITY	OUTPUT	TENTATIVE SCHEDULE <i>(by quarter over two year period)</i>									
			1	2	3	4	5	6	7	8		
Rental of Fund Offices, and acquisition of office equipment and furniture, and vehicle.	CTF Director and Administrator	CTF HQ operational.					X					
Outsourcing of HR, legal, and accounting functions on competitive basis.	CTF Director and Administrator in consultation with BoD.	HR, legal, and accounting services retained.					X					
<b>Initial Operations</b>												
Negotiation of contributions from donors, and of specific agreements on the use of the donation.	CTF Director and Administrator in consultation with BoD											

ACTIVITIES	RESPONSIBILITY	OUTPUT	TENTATIVE SCHEDULE <i>(by quarter over two year period)</i>									
			1	2	3	4	5	6	7	8		
Negotiation of grant agreements with the CA Management Agency of Mozambique.	CTF Director under guidance of BoD											
Annual work programme reviewed and approved.	BoD	Approved annual work programme in place.					X					
Initial donations received and conveyed to common fund for administration, except those to be used during the year for operations.	CTF Administrator in coordination with FC	CTF capital account established.					X					
Annual work programme implemented.	CTF Director in coordination with BoD.	Operational phase of CTF begun.					X	X	X	X		

**Figure 2: Estimated Budget**

<b>Budget Item</b>	<b>Description</b>	<b>Estimated Cost (US\$)</b>
<b>Preparatory Activities</b>		
Finalization of CTF profile	2 days @ \$500/day	1,000
Donor proposals	15 days @ \$500/day	7,500
ToR for FC	2 days @ \$500/day	1,000
FC internal operation procedures and statutes.	5 days @ \$500/day	2,500
BoD internal operational procedures and statutes.	5 days@ \$500/day	2,500
ToR for CTF Director and Fund Administrator	2 days@ \$500/day	1,000
Recruiting of CTF Director and Fund Administrator	10 days @ \$500/day; communications	5,000
<b>Total</b>		<b>20,500</b>
<b>Legal Instruments</b>		
Constitution and By-laws	7 days @ \$1,000/day	7,000
Judicial certification of Constitutions and By-laws	2 days @ \$1,000/day; certification fees (\$2)	2,002
Gazetting of judicial certification	1 day @ \$1,000; gazetting fee (\$1)	1,001
Registration of CTF	2 days @ \$1,000; registration fee (\$20)	2,020
Judicial finding that CTF is in public interest	2 days @ \$1,000; fee (\$11)	2,011
Gazetting of finding that CTF is in public interest	1 day @ \$1,000; fee (\$1)	1,001
<b>Total</b>		<b>15,035</b>
<b>Operational and Strategic Instruments</b>		
Strategic Plan	15 days @ \$500/day	7,500
Operations Manual	30 days @ \$500/day	15,000
Fundraising Strategy	15 days @ \$500/day	7,500
Annual Work Programme	15 days @ \$500/day	7,500
Initial Investment Strategy	15days @ \$500/day	7,500
<b>Total</b>		<b>45,000</b>

<b>Budget Item</b>	<b>Description</b>	<b>Estimated Cost (US\$)</b>
<b>Training</b>		
Drafting of Training Component for inclusion in UNDP/GEF Project	3 days @ \$500/day; communications (\$100)	1,600
Exchange visit from Brazilian Biodiversity Fund (FUNBIO)	Trip to Maputo 1 trip @ \$5,000 trip	5,000
Training mission for CTF Director and CTF Administrator (not including salary)	Trip to Brazil and México 2 trips @ \$5,000/trip	10,000
BoD inception training	Workshop - \$ 5,000	5,000
<b>Total</b>		<b>21,600</b>
<b>Start-Up</b>		
Outsourcing of legal, accounting, and human resource services	\$2,000/mo. x 12 mo.	24,000
Office rental	\$1,000/mo. x 12 months	12,000
Supplies		5,000
Office furniture	5 sets, meeting table and chairs, print and copy room furniture	6,000
Office equipment	5 computers, printer, copier, fax, telephones, cell phones	10,000
4x4 Vehicle		40,000
Maintenance		5,000
<b>Total</b>		<b>102,000</b>
<b>Initial Operations</b>		
Director's salary & benefits	\$ 7,000/mo. x 12 mo.	84,000
Administrator's salary & benefits	\$ 5,000/mo. x 12 mo.	60,000
Secretary salary & benefits	\$1,000/mo. x 12 mo.	12,000
Driver salary & benefits	\$500/mo. x 12 mo.	6,000
National and international travel	\$3,000/mo. x 12 mo.	36,000
Communications	\$250/mo. x 12 mo.	3,000
<b>Total</b>		<b>201,000</b>
<b>Sub-Total</b>		<b>405,135</b>
Administration	15%	60,770
<b>GRAND TOTAL</b>		<b>US\$ 465,905</b>

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## **ANNEXES**

- A. Contact List**
- B. Terms of Reference for the Founders' Committee**
- C. Preliminary Profile for a CTF in Mozambique**
- D. Terms of Reference for Legal Counsel**
- E. Terms of Reference for Developing a Strategic Plan**
- F. Terms of Reference for Developing an Operations Manual**
- G. Terms of Reference for Developing a Fundraising Strategy**
- H. Terms of Reference for a Coordinator of the Start-up Process**

## ANNEX A – CONTACT LIST

Bechtel, Peter - Northern Mozambique Programme Coordinator, WWF  
Bila, Ancieto - World Bank  
Cavalier, Jaime - East and South Africa, GEF  
Chitará, Sérgio – Team Leader, National Conservation Policy Consultants  
Falcão, Mario – Director of Master Course, Eduardo Mondlane University  
Faria, Pacheco – Vice President, Fundo Nacional do Turismo (FUTUR), and Private Sector Representative, CTA  
Kadel, Ralph - KfW  
Izidine, Samira - IUCN  
Leclerc, Bruno – Director, AFD  
Louro, Cristina – Biodiversity & Conservation Officer, Centra Terra Vida  
Massey, Peter – Tourism Consultant, International Finance Corporation  
Mataveia, Piedade – Deputy National Director, Ministry of Finance  
Matusse, Cristina – Head of Planning Department, Ministry of Planning and Development  
Monteiro, Rui – Tourism Consultant and Private Sector Representative, CTA  
Motta, Helena – CountryCoordinator, WWF/Mozambique  
Moye, Meliissa – Director, Conservation Finance, WWF/US  
Napica, Policarpo – National Director, MICOA  
Nhassengo, Bento – National Tourism Directorate (DINATUR)  
Nordine, Assama, SAL & Caldeira  
Pira Bau, Abrão – Member, Board of Directors, Fundo de Fomento Pesqueiro  
Potter, Derek - Adviser, Maputo Special Reserve  
Reina, António – Director, Forum Natureza em Perigo  
Riemer, Jan – Counsellor, Environment & Energy, Danish Embassy  
Rodrigues, Anabela – Director, Niassa Reserve Society  
Sandhop, Carsten – Director, KfW  
Santos, Sonia – Focal Point for Environmental Aspects, Ministry of Planning and Development  
Sarmiento, Luis – Tourism Programme Officer, SNV  
Sekhran, Nik – Southern Africa, UNDP  
Seventine, Carlos – Executive Secretary, Fundo do Ambiente (FUNAB)  
Soto, Bartolomeu – National Director of Conservation Areas, Ministry of Tourism  
Souto, Michelle, International Finance Corporation  
Stone, Chris – Grants Manager, Global Conservation Fund, CI  
Tua, Jon – Senior Program Officer, Conservation Planning and Design, WWF-US

## **ANNEX B - TERMS OF REFERENCE FOR THE FOUNDERS' COMMITTEE**

### **Objective**

The objective of the Founders' Committee is to establish an entity with representatives from the donors, including the Government of Mozambique, who provide donations for establishment of a CTF in Mozambique, to guide the establishment of the CTF, and monitor its progress and compliance with the articles of its Constitution and By-laws.

### **Tasks**

The Founders' Committee will be tasked with the following:

- developing, in close consultation with the C&BG, consensus on the profile of the Fund to be established;
- selecting and supervising the Coordinator for initial establishment of the Fund;
- reviewing a project proposal for establishment and initial operations of the Fund;
- developing a grant agreements with donors that finance proposals for establishment and initial operations of the CTF;
- reviewing Terms of Reference and approving selection of consultants;
- reviewing draft legal instruments for the CTF;
- establishing criteria for selection of the Board of Directors, in consultation with the C&BG, and identifying individuals to serve on the Board of Directors;
- after the CTF is established, monitoring the decisions of the Board of Directors and the operations of the Fund to make sure that they adhere strictly to the articles of the Constitution and By-laws of the Fund; and,
- discussing with government and investigating any allegations of misconduct by the Board of Directors or Executive Unit of the CTF.

## **ANNEX C – DRAFT PROFILE FOR A CTF FOR MOZAMBIQUE**

**NAME:** Mozambique Fund for Conservation Areas (MOFCA)

**LEGAL STATUS:** Public Interest Fund

**OBJECTIVE:** To contribute to the sustainable finance of the Conservation Areas of Mozambique, including National Parks, National Reserves, and National Game Parks, through grants for operations and management, and for the sustainable development of related communities.

### **GOVERNANCE:**

**Founders' Committee:** This Committee will be made up of representatives of the donors providing funding during the start-up phase (2 years). The Committee will appoint the first members of the Board of Directors (BoD) and will be vigilant to make sure that the operations of the Fund adhere to the Constitution and By-Laws of the Fund.

**Board of Directors:** The BoD will consist of seven outstanding and dedicated individuals appointed in their personal capacity by the Founders' Committee. As a group, the BoD will have solid experience with biodiversity and conservation issues, financial management, governance, business, non-governmental and community organizations, and academic institutions. Terms of office of the first group of Directors will be staggered so that they are not all replaced at the same time. Afterward, the period of a Director will be 3 years. New Directors will be appointed by the Founders' Committee on the advice of the BoD, and outgoing Directors will be eligible for reappointment.

**Administrative Committees:** If a donor wishes, an Administrative Committee will be set up to oversee the use of that donor's funding. The Committee will normally be made up of a representative of the donor, the Fund's Grant Officer, and a representative of the implementing entity. The Committee will make day to day decisions with respect to the donor's funding within the guidelines established by the BoD and the operations manual.

### **ADMINISTRATIVE STRATEGY:**

**Operations Manual:** The procedures for all aspects of operation of the CTF will be spelled out in an Operations Manual approved by the BoD.

**Staff:** The CTF will be staffed by a Director, an Administrator, and support staff (secretary and driver) who will work out of a central office in Maputo. A Project Officer will be needed as the size of the grant programme increases.

**Outsourcing:** If found to be financially advantageous, all legal, accounting, and personnel services will be outsourced to private firms on a competitive basis. The evaluation, monitoring, and supervision of grants will be outsourced as required to consultants, local NGOs, or academic institutions on a competitive basis and will be overseen by the Grant Officer.

**Grants:** Annual grant agreements will be negotiated with the administration of each conservation area that is supported by the CTF. These grant agreements will total no more

than 80% of the funding available in any given year. The other 20% will be used to finance related community and NGO projects. The grant requirements and eligibility for these grants will be outlined in bi-annual calls for proposals.

**Monitoring and Evaluation:** Procedures for M&E will be written into all grant agreements and will follow the general procedures outlined in the Operations Manual. Technical and financial reports on the performance of grantees, and of the CTF in general, will be forwarded to donors and the Ministry of Finance on an annual basis. Independent audits will be undertaken annually.

#### **FUND STRUCTURE:**

1. Operations endowment – developed from donor contributions and short-term interest derived from sinking funds.
2. Endowment for the recurrent costs of conservation areas – developed from donor contributions and 10% of the levies received for environmental compensation.
3. Revolving fund fed by 90% of financing received from environmental compensation levies.
4. Sinking Fund established with financing for earmarked projects.

#### **FUNDRAISING STRATEGY:**

1. Initially, convert the good will shown by the Government of Mozambique (GoM), and the already committed bi-lateral, multi-lateral, non-governmental, and private sector donors into projects that fund the operations and capitalization of the CTF.
2. Work with the GoM to develop mechanisms for biodiversity offsets for major infrastructure development. For example, seek a decree by the Council of Ministers, or achieve the passage of an environmental compensation law that will mandate a fee of 0.5% on all major infrastructure development that requires an environmental license. This fee would be paid to the CTF as a trustee for financing the management of conservation areas. The conservation of these areas would serve as compensation for generalized environmental damage caused by infrastructure development that cannot be mitigated and for which no individual or group can be indemnified.
3. Develop the capacity to put together large scale carbon sequestration schemes that can earn carbon credits for avoided deforestation in conservation areas and their buffer zones.
4. Develop innovative partnerships with the private sector and with individual donors

**INVESTMENT STRATEGY:** The BoD will approve an investment strategy that will initially focus on contracting for investment management through a common fund approach. As experience is gained, the BoD may decide to make other arrangements with private financial managers under investment guidelines established by the BoD for this purpose.

## **ANNEX D - TERMS OF REFERENCE FOR LEGAL COUNSEL**

### **Objective**

The objective of the consultancy by the legal experts is to assist the Founders' Committee in all legal aspects of its mission, and is therefore to:

- determine the potential legal structure of the proposed CTF, and
- design and finalize all requisite legal instruments and formalities to set up the proposed CTF, in accordance with the orientations set out in the Profile.

### **Tasks**

The legal expert:

- reviews the legal options for establishing the CTF in Mozambique;
- drafts all requisite legal instruments - e.g., charter, by-laws, articles of association, internal regulations, etc. - in accordance with the orientations adopted in the Profile and in close cooperation with all concerned parties, including governmental legal counsels in the relevant Ministries;
- advises the Founders' Committee during the discussion and review of the draft documents; and,
- takes any action, as requested by the Founders' Committee, to register the legal instruments and obtain the required authorizations.
- advises the BoD on donor grant agreements once the CTF is operating.

### **Profile**

An accredited lawyer with experience in the set-up of foundations in Mozambique.

## **ANNEX E – TERMS OF REFERENCE FOR DEVELOPMENT OF A STRATEGIC PLAN**

### **Objective**

The objective of the consultancy is the drafting of a Strategic Plan with a long-term vision for the CTF and a sequence of actions, time-table, and definition of responsibilities for achieving the vision

### **Tasks**

The consultant:

- reviews existing strategic plans for CTFs in the sub-region and other countries;
- develops, in close consultation with the Founders' Committee and Board of Directors, a broad vision for the policies and operations of the CTF that are consonant with the Constitution and By-laws;
- articulates the sequence of action, scheduling, and distribution of responsibilities for implementation of the vision;
- advises the Board of Directors during the review and discussion of the draft Strategic Plan; and,
- finalises the Strategic Plan in accordance with the Board of Director's recommendations.

### **Profile**

The consultant has extensive experience in strategic planning and administrative and institutional management, preferably with expertise in the design and implementation of CTFs.

## **ANNEX F – TERMS OF REFERENCE FOR DEVELOPMENT OF AN OPERATIONS MANUAL**

### **Objective**

The objective of the consultancy is the production of an Operations Manual defining the proposed CTF policies and procedures, especially for the annual work plan, projects cycle, and monitoring, evaluation and reporting system.

### **Tasks**

The consultant:

- reviews existing trust fund procedures manuals in the sub-region and other countries;
- on the basis of applicable regulations, and in accordance with the orientations provided in the Profile, prepares a draft Operations Manual including, notably, the definition of the proposed CTF grant-making programme: eligibility criteria, review and selection, reporting requirements, monitoring and evaluation, etc.
- advises the Founders' Committee during the review and discussion of the draft Operations Manual; and,
- finalizes the Operations Manual in accordance with the Founders' Committee's recommendations.

### **Profile**

The consultant has extensive experience in administrative and institutional management, preferably with expertise in the design and implementation of grant programmes.

## **ANNEX G – TERMS OF REFERENCE FOR DEVELOPMENT OF A FUNDRAISING STRATEGY AND ACTION PLAN**

### **Objective**

The objective of the consultancy is the development of a Fundraising Strategy and Action Plan identifying appropriate sources of funding to meet the proposed CTF financial needs, determining the probable costs and benefits of each potential source, and ordering priorities accordingly.

### **Tasks**

The consultant will:

- complete a preliminary assessment of financing needs (grant programme, administrative costs and assets investment costs), in view of the proposed CTF objectives and structure;
- Identify potential sources of revenues and their respective policies and requirements;
  - in-country sources such as the revenues that could be generated from an Environmental Compensation Scheme, payments for environmental services, government allocations, revenues from entrance fees, tourism and hunting, and private sector contributions,;
  - multi-lateral donors: European Union, Global Environment Facility, United Nations Development Programme, World Bank, etc,
  - bilateral donors: France, Germany, The Netherlands, United States of America, Denmark, Norway, and others;
  - international NGOs,
  - private companies, and,
  - private foundations and individual donors.
- in close cooperation with partners, prepare a draft Fundraising Strategy including potential amounts, timetable and funding conditions;
- Advise the Founders' Committee during the review and discussion of the draft documents;
- finalize the Fundraising Strategy; and,
- develop a plan for implementing the Fundraising Strategy.

### **Profile**

The consultant will have extensive experience in implementing sustainable financing mechanisms at the international level, with good knowledge of, and contact with, multi-lateral institutions, bilateral donors, international NGOs and private foundations.

## **ANNEX H – TERMS OF REFERENCE FOR A COORDINATOR FOR THE START-UP PROCESS**

### **Objective**

The Coordinator's objective is to ensure the logistical and technical organization of the Founders' Committee's work to ensure that the Committee's mission is successfully achieved, through a coordinated and concerted approach.

### **Tasks**

The Coordinator:

- organizes the necessary meetings, including the preparation and distribution of documents, reports, etc.;
- develops necessary work plans and agendas;
- prepares a work plan to carry out the necessary analysis to develop consensus on the Profile of the CTF, including the preparation of terms of reference for ad hoc consultants.
- Coordinates the meetings of the Founders' Committee leading to the development of consensus on the CTF Profile;
- prepares the terms of reference and selection of consultants for the development of the legal instruments, Strategic Plan, Operations Manual, and Fundraising Strategy, and presents them to the Founders' Committee and BoD (after the CTF is established) for review and adoption;
- presents the reports and recommendations from the consultants to the BoD;
- develops marketing tools and activities to promote the CTF in the sub-region and abroad;
- writes proposals for key donors;
- takes any action necessary to ensure legal creation of the CTF; and,
- ensures the administrative and financial management of the funds allocated for the preparatory process, with the support of an Administrative Assistant.

### **Profile**

The Coordinator has:

- recognized qualifications in biodiversity conservation, economics, law, finance or public administration;
- proven organizational, communications (in Portuguese and English), and coordination skills, preferably in connection with the implementation of participatory processes;
- more than ten years experience in financial and administrative management;
- experience in the design and / or the management of financing mechanisms, preferably trust funds;
- ability to easily draft documents and technical reports in English and Portuguese;
- a strong interest in biodiversity conservation and enhanced protected area management.