

## Development of a Micronesia Challenge Endowment for CNMI

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One of the first actions that each jurisdiction undertook upon declaring their commitment to the Micronesia Challenge (MC) is the development of sustainable finance plans, which were then compiled into a Regional Sustainable Finance Plan. These plans identified the funding needed to effectively meet the goals of the MC and key strategies to secure the necessary funding from local and international sources. It is currently estimated that interest income from an endowment of approximately \$56 million will be needed to supplement local sources for the long-term sustainability of the MC in all five jurisdictions. Selected to house the MC endowment by the Chief Executives, the Micronesia Challenge Trust (MCT) provides the financial security and management needed to maximize the return on these funds and provide long-term support to each of the five jurisdictions of the MC. Although the endowment funds are invested together, each jurisdiction has their own sub-account and will develop their own dissemination mechanisms for their interest income. The MC endowment is currently valued at over \$18 million. The full capitalization of the endowment for the MC will provide a targeted, yet flexible and accessible, source of direct finance for conservation initiatives and projects in each of the jurisdictions, implemented by communities, organizations, agencies and institutions. For the past 4 years, TNC has been assisting partners in the region, including those in the CNMI, to implement the recommendations in the MC Regional Sustainable Finance Plan. Through this activity we worked with CNMI partners to identify the most feasible options for generating local income and provide technical assistance to design strategic actions toward achieving the recommendations.

#### Development of Funding Mechanisms for CNMI's MC Sustainable Finance Plan

Representatives from The Nature Conservancy and Micronesia Conservation Trust joined the CNMI MC Focal Point in meeting with Governor Ralph Torres and several members of the legislative leadership on December 1, 2015 to provide an overview of the Micronesia Challenge (MC) endowment and CNMI's MC sustainable finance plan. Following the meetings, a new bill was introduced by Representative Angel Demapan authorizing the Department of Lands and Natural Resources to collect fees from tourists visiting Marine Protected Areas to fund the Marine Conservation Program and to help meet the CNMI's \$2 million commitment to the Micronesia Challenge endowment. See [nvariety.com/cnmi/cnmi-news/local/82023-speaker-house-measure-can-help-nmi-meet-micronesia-challenge-commitment](http://nvariety.com/cnmi/cnmi-news/local/82023-speaker-house-measure-can-help-nmi-meet-micronesia-challenge-commitment) for more information.

Specific TNC support was provided to support the Department of Environmental Quality (DEQ), CNMI MC Focal Point and new MCT Board member from CNMI to put together the presentation mentioned above in order to secure support for renewal of an updated MC MOU between the CNMI Government and MCT. TNC then supported the development of talking points outlining the rationale for building a Micronesia Challenge (MC) endowment for the CNMI in partnership with CNMI's MC Focal Point Fran Castro and DEQ staff.

On December 22, 2015, all 20 members of the House of Representatives voted yes to pass House Bill 19-105. The amended bill calls for 90% of the fees collected from tourists visiting marine

protected areas in the CNMI to be devoted to the Marine Conservation Program managed by the Department of Lands and Natural Resources and the remaining 10% of the fees to be transmitted to the secretary of Finance for deposit in a separate CNMI Micronesia Challenge Fund within the Department of Finance to help meet the CNMI's \$2 million commitment to the Micronesia Challenge endowment. The bill further states that "this fund shall provide supplemental support for the activities of the Micronesia Challenge in the CNMI in the amount of \$2 million. The secretary of Finance shall be the expenditure authority for the CNMI Micronesia Challenge Fund. Once this fund reaches the required amount of \$2 million, it shall be transferred in accordance with the Micronesia Challenge requirement. Then the 10% fees collected herein shall be henceforth deposited into the Marine Conservation Revolving Fund" ([mvariety.com/cnmi/cnmi-news/local/82511-house-oks-marine-protected-area-fee](http://mvariety.com/cnmi/cnmi-news/local/82511-house-oks-marine-protected-area-fee)).

Engagement with the Senate has been ongoing, but the Bill still remains with the Committee for Resources, Economic Development & Programs. Unfortunately, a committee member has continued to block the the bill. We have completed our support for this task as described in the proposal and we continue to stand by ready to assist if requested.

See the following pages for the full talking points document created titled: Why do we need a Micronesia Challenge Endowment for CNMI

## Why do we need a Micronesia Challenge Endowment for CNMI? And how does it work?

The Micronesia Challenge is a commitment signed in 2006 by the Federated States of Micronesia, the Republic of the Marshall Islands, the Republic of Palau, Guam, and the Commonwealth of the Northern Mariana Islands to preserve the natural resources that are crucial to the survival of Pacific traditions, cultures and livelihoods. The overall goal of the Challenge is to effectively conserve at least 30% of the near-shore marine resources and 20% of the terrestrial resources across Micronesia by 2020.

### ACRONYMS:

MC – Micronesia Challenge

MCT – Micronesia Conservation Trust

MPA – Marine Protected Areas

### CONTACT INFORMATION:

- **Fran Castro** – Micronesia Challenge Steering Committee and CNMI Point of Contact
- **Diego Benavente** – CNMI Based Board Member for the Micronesia Conservation Trust
- **Willy Kostka** – Executive Director of the Micronesia Conservation Trust

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### WHAT IS THE PURPOSE OF THE CNMI MICRONESIA CHALLENGE ENDOWMENT FUND?

The purpose of the CNMI Micronesia Challenge Endowment Fund is to provide a standard, permanent, and SUSTAINED funding source for conservation projects whether executed by the CNMI's various natural resource management agencies, or by NGOs, or by community groups in need of funding to execute conservation actions and management for CNMI's natural resources. Once this fund is established there will be a minimum standard amount of money (\$100,000 – explained below) available each year for conservation work in the CNMI. This standing fund will be available without relying on external grantors, numbers of tourists, or tax payer dollars.

### HOW DO WE CREATE THE CNMI'S MICRONESIA CHALLENGE FUND OF \$2 MILLION?

CNMI's current funding strategy lies on the recently passed (December 2015) **House Bill 19-105**, which gives DLNR the ability to charge tourists fees to enter CNMI's Marine Protected Areas (MPAs). The majority of those proceeds will go directly to DLNR who as an agency will be responsible for the distribution of funds to manage programs and projects to protect and manage CNMI's MPAs. 10% of the funds will be allocated to the CNMI MC endowment until it hits the total of \$2 million, and at that point 100% of proceeds will go directly to DLNR.

**NOTE:** As the MC is only receiving 10% of the proceeds from the MPA tourist fees, by the time the CNMI Endowment reaches \$2 million, **DLNR will have already collected \$18 million in fees**. All fees collected after the MC endowment hits \$2 million will continue to go directly to DLNR.

## **WHO MANAGES THE CNMI'S \$2 MILLION MICRONESIA CHALLENGE ENDOWMENT FUND?**

CNMI's Micronesia Challenge Endowment commitment is \$2 million dollars. The two million will be invested as part of the total MC Endowment fund which is close to \$18 million dollars. These funds represent funds contributed by and for the other participating jurisdictions namely: Palau, FSM, and RMI. Guam, like CNMI has the opportunity to create its own Endowment Fund, but has yet to do so. This collective fund is invested and managed by the MCT Board of Trustees through the financial advisement company of Raymond James. The funds are specifically managed through the Raymond James' Asia Pacific Group [Guam office](#). The benefit of managing CNMI's \$2 million endowment as part of the larger MC Endowment is that there is a reduced investment management fee, as well as a more diversified investment portfolio and a much larger return on investment on \$18 million due to access to financial instruments with better return rates than there is if CNMI were to invest the \$2 million separately.

## **HOW MUCH MONEY IS AVAILABLE FOR PROJECTS IN THE CNMI EACH YEAR?**

Once we achieve the full \$2 million investment, CNMI will have access to 5% of the capital every year, or \$100,000/year. As the fund managers continue to reinvest the interests on the initial \$2 million, the endowment will grow, as will the amount of funding available each year for CNMI's projects.

## **HOW DO AUTHORIZED RECIPIENTS/PROJECT MANAGERS ACCESS THE MONEY?**

Each jurisdiction establishes their own means of managing their annual funds from the MC Endowment. The system is generally established by the President or Governor and a Technical Committee representing key resource management agencies and NGOs who decide the criteria for spending the money, and what qualifies as an acceptable project / fund recipient for their jurisdiction. The Micronesia Conservation Trust, who manages the process of investing the money with Raymond James, will have no role in determining local priorities for projects that fall under the Micronesia Challenge framework, as the entirety of the funding will come from the CNMI government itself. That said, because MCT is a registered 501c3 and they have to report their funds to the IRS, they are responsible that funds are spent according to the approved program strategy for CNMI, and will provide guidance if it appears that projects proposed to receive funding are outside the program strategies and priorities that CNMI formally adopts for these funds.

In other jurisdictions such as Palau, FSM, and RMI, major NGOs such as Conservation International, The Nature Conservancy, and the multilateral agencies such as Global Environmental Facility, have injected funding with specific objectives to those jurisdictions' endowments. MCT has some say to ensure that funds are used in accordance with the donors' objectives. *Because CNMI will not have external donors contributing to the CNMI MC Endowment, MCT will not have that kind of oversight over the CNMI's funds.* **Bottom line:** CNMI leadership decides disbursement qualifications and systems and ultimate distribution of the funds to achieve the goals of the MC, while the staff at MCT serve as advisors.

## **WHAT ARE CNMI'S NECESSARY NEXT STEPS?**

- Legislature and Governor approve bill providing for the establishment of CNMI's \$2 million endowment via a percentage of funds received from charging tourists MPA access fees.
- Governor and key agencies and organizations (eg: (DLNR, DFW, BECQ-CRM, MINA?) establish CNMI Micronesia Challenge Fund Endowment Technical Committee.

- Working group creates formal written management strategy and MOU between MCT and the CNMI Government's established MC Technical Committee, to define appropriate projects and determine how to grant funds each year. CNMI's official program strategy will define CNMI's conservation priorities for these funds, and will specifically state what these funds can, and CANNOT be used for.
- Once the endowment value of \$2 million has been achieved, a working group will announce when applications are due, review applications, and communicate with MCT how the funds should be disbursed.
- Disbursements occur on an annual basis. The application review and nomination process will occur once a year in accordance with the agreed upon guidelines and timeline established in the formal CNMI Micronesia Challenge Fund Management Strategy that will be developed.

#### **HOW OTHER DO JURISDICTIONS ACCESS THE MONEY? – Examples:**

##### **Palau – [Protected Areas Network \(PAN\)](#)**

- The Republic of Palau created an independent non-profit organization to serve as a financial trustee of the monies obtained to support the PAN to manage the funds from donations and arrival fees. This nonprofit organization is called the PAN Fund. **The original board members were appointed by the President of Palau, and confirmed by the Senate.**
- The PAN Fund is mandated to do the following:
  - Seek outside funding sources for States' conservation and sustainable development efforts
  - Leverage sources of outside funding through mechanisms such as the Micronesian Conservation Trust
  - Ensure that outside funding is used for the purposes established by and required by outside donors

##### **FSM**

- The FSM Department of Resources and Development is the lead FSM organization for the Micronesia Challenge
- The FSM Department of Resources and Development worked with MCT and other stakeholders to develop the FSM Country Program Strategy that provides the guidelines on how the MC funds are to be disbursed
- An advisory group representing various agencies and organizations sits with the advisory group to read through applications and determine which projects qualify to receive funding from the FSM MC Endowment based on the FSM Country Program Strategy
- Once the Advisory Committee has approved projects based on their established priorities, they authorize MCT to disburse the project funds directly to the project managers (to minimize the overhead costs of the FSM Committee having to manage the funds).

*Sample MC Endowment Management plans are available upon request. \**