

Sustainable Finance for Conservation in Africa

THE ROLE OF THE GLOBAL ENVIRONMENT FACILITY IN FUNDING CONSERVATION TRUST FUNDS AND PERSPECTIVES FOR THE FUTURE

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1. GEF Support for Conservation Trust Funds to Date

The Global Environment Facility (GEF) currently is the major source of international funding available for the capitalization of environment trust funds. Over the past decade more than 23 environment trust funds have been created or supported with GEF and World Bank assistance¹. Worldwide more than 100 funds are operating, in the process of establishment or in design². Typically created and managed by private organizations, capitalized by grants from governments and donor agencies, and from taxes and fees specifically designated for conservation, environment trust funds seek to provide long-term financing for biodiversity conservation and other environmental activities. Trust Funds either focus on financing of protected areas, or grants to private organizations and community groups for small projects with environmental benefits.

The majority of GEF projects supporting conservation trust funds have been implemented by the World Bank. The 23 conservation trust funds created or supported to date have associated project costs amounting to more than \$595.6 million. In Africa 6 GEF/World Bank projects with total costs of \$281.6 million have supported conservation trust funds to date. On average, GEF cash contributions to trust fund capital have ranged between \$ 5 -10 million.

¹ Figures are based on "official WB/GEF database" and information provided in project documents submitted to the GEF at the time of work program inclusion. No current figures were available for GEF/UNDP or GEF/UNEP operations.

² Ruth A. Norris, ed. (2000). The IPG Handbook on Environmental Funds. A resource book for design and operation of environmental funds. Based on Contributions by the Inter-Agency Planning Group on Environmental Funds. URL: www.geocities.com/shores_system/ef/ef_handbook.html

In Africa GEF has allocated a total of \$25.6 million to trust fund capital (see Table 1) and additional \$17.0 million are expected once trust funds currently under development have met agreed performance benchmarks. Co-financing from other sources amounts to \$18.8 million when taking into account indirect contributions, such as funding of operational expenses and initial set-up costs of trust funds (see Box 1).

Table 1: Conservation Trust funds in Africa supported by GEF

Fund Name	Country	Established	GEF Funding	Co-funding
Mgahinga-Bwindi Impenetrable Forest Conservation Trust	Uganda	1995	endowment (\$4.3 million)	\$ 4.0 million
Table Mountain Fund	South Africa	1993 (registered 1998)	endowment (\$5 million)	\$ 2.0 million (\$ 6.0 million in land purchases)
Mulanje Mountain Conservation Trust (MMCT)	Malawi	1994	endowment (\$ 5.5 million)	(\$ 1.7 million for set-up costs)
Eastern Arc Mountains Conservation Fund	Tanzania	Feasibility study in 1998	endowment (\$ 6.75 million)	(\$ 5.1 million for set-up and operating costs)
International Trust Fund for Biodiversity Conservation	Benin	Feasibility study in 2000	Endowment (\$ 5-6 million depending on benchmarks)	Fundraising underway
Fund for Financing of Protected Areas	Cote d'Ivoire	2000, endowment envisaged in 2007	sinking (\$4.0 million) and endowment (\$ 12.0 million depending on benchmarks)	Fundraising underway

Box 1: Fund raising for conservation trust funds in Africa:

The Mgahinga-Bwindi Impenetrable Forest Conservation Trust (MBIFCT) in Uganda raised funds for operating costs from bilateral donors (Netherlands, USAID) in the amount of \$ 4.0 million for the first 7 years of implementation and income from the endowment was capitalized rather than spent.

The Table Mountain Trust (TMF) in South Africa, established for the conservation of biodiversity of the Cape Peninsula and the Cape Floral kingdom as a whole, has leveraged indirect contributions of \$6.0 million in the form of land contributions in addition to \$2.0 million leveraged in cash contributions.

The Eastern Arc Mountains Conservation Trust Fund (EAMCEF) in Tanzania has leveraged funding for operational and initial set-up cost in the amount of \$5.1 million from the European Commission, the Government of Tanzania and member of the multi-stakeholder Inaugural Board of EAMCEF itself.

2. Added Value of Conservation Trust Funds

A range of previous studies have provided detailed information and recommendations on i) when conservation trust funds can function as the right mechanism for biodiversity conservation and ii) the added value of conservation trust funds. This presentation has no intend to reinvent recommendations made on these aspects in earlier studies. It will recapture recommendations briefly and will focus on the future perspective of GEF support to conservation trust funds instead.

Key points for choosing a trust fund as a financing mechanism

Although conservation trust funds' structures, scopes of activities, objectives, organizational set-ups differ according to their intended goal and the surrounding national policy and regulatory setting, there are some common points that suggest trust funds could function as a preferred mechanism to address biodiversity conservation:

- Threats to biodiversity to be targeted are likely to remain or to increase over time;
- The response for biodiversity conservation requires long-term funding, yet scale of funding for risk mitigation is modest;
- Existing agencies are unable to manage funds for long-term measures in an effective, reliable and transparent matter;
- Capacity to implement activities on the ground is present in community organizations and national organizations and agencies.

The added value of conservation trust funds

To date conservation trust funds have achieved broad-based participation and presentation of multiple stakeholder and interest groups in governance structures. These structures have allowed a broad range of stakeholders participating in biodiversity conservation to proactively influence program objectives and activities and to monitor results. Multi-stakeholder governance structures have maintained credibility and transparency of trust fund management procedures and allocation of grants. Experience from projects supporting conservation trust funds have shown that ownership has mostly been reinforced in ways traditional project arrangements were not able to achieve. The added value of conservation trust funds with regard to operational aspects can be summarized in the following points:

- Channeling resources through trust funds provides operational flexibility in programs financed and allows adaptive program management;
- Trust funds provide the possibility to channel funds to several implementation partners working towards a common goal and implementing activities according to their comparative advantages;
- Trust funds permit a high number of small sub-projects with low processing costs.

A standard applied in World Bank implemented projects is selection of asset managers based on competitive proposals sought from a nationally diversified list of internationally recognized investment firms to allow funds to invest in major international financial markets.

3. Conditions for GEF Support to Conservation Trust Funds

In order to seek GEF support for a trust fund, the trust fund has to be located in a country that is signatory of the Convention on Biological Diversity and has to have active support of the national government in signing of the application. Further consistency of conservation objectives with the GEF operational strategies and programs has to be demonstrated as to "protect globally significant biodiversity resources". To comply with GEF criteria global environmental benefits sought have to be

identified, causes for biodiversity loss have to be specified and response measures formulated, links to national strategies and other initiatives have to be pointed out and evidence for innovation and potential replication has to be provided. In addition, the incremental cost principle has to be taken into regard, meaning that GEF will only finance incremental costs, while co-funding has been secured to cover substantial local contributions.

Key conditions for GEF support to conservation trust funds can be summarized as followed:

- Program objectives are consistent with the GEF operational strategy and operational programs; Projects focusing on protect areas management have taken the production landscape and tenure issues into account;
- Active government support for a public-private sector mechanism outside of direct government control has been demonstrated;
- An enabling environment providing a basis of legal and financial practices obligatory for the operation of a trust fund is present;
- A phased programmatic approach based on benchmarks is taken to establish the conservation trust fund;
- A critical mass of stakeholders form different sectors working towards a common goal for biodiversity conservation exists;
- Initial capitalization of the trust fund should allow a meaningful program with operating costs at a range of 25% of funds allocated to “small” project grants (meaning in the order of \$50,000 or smaller), or 10% of funds allocated to “medium” project grants (meaning in the order of \$500,000 or smaller).

4. Perspectives for Future GEF Support to Funding of Conservation Trust Funds

Over the last decade institutional and policy frameworks for biodiversity conservation and management have been established in several African countries and several biodiversity programs in Africa are moving on to a second or third phase (e.g. in Benin, Burkina Faso, Cote d’Ivoire, Madagascar, Mozambique, South Africa). As a result, it is expected that there will be an increased demand for mechanism to finance the some of the recurrent costs of biodiversity and national parks management. As high initial costs related to capacity building and establishment of an institutional, policy and regulatory framework for biodiversity management and conservation have already been covered by earlier initiatives, trust funds are often sought to finance recurrent cost of protected area management and to keep earlier efforts and initiatives running and active. However, it should be carefully evaluated whether the creation of a trust fund is the most viable option to continue financing of biodiversity initiatives, hereby taking into consideration GEF prerequisites formulated for successful trust fund operation and increased competition to access GEF resources. Looking ahead proposals for conservation trust fund are anticipated to face selectivity when requesting GEF support³. Selectivity for funding of conservation trust funds is expected to be based on the greatest effects in terms of impact relative to the amount of GEF funding required. Hence, trust funds with convincing prospects for leveraging of co-funding and for biodiversity conservation on the ground are most likely to be stronger candidate. Key prerequisites for trust funds can be summarized as following:

- i) Reasonable amount of co-funding secured;
- ii) Good governance structures for biodiversity conservation and management in place;
- iii) Long term commitment of government recognizable

³ Resource availability for funding of trust funds will further be decreased due to competing demands for GEF resources from an expanded set of operational programs and other “funding window” which has evolved over under GEF over the course of the last decade.

A reasonable amount of co-funding is necessary for a project to be eligible for GEF support. Although there are no official figures on minimum levels of co-funding required, it is generally estimated that the ratio should be 1:1 and potentially higher for countries where significant leveraging of additional resources can be expected. It is important to keep in mind, that project proposals to be funded out of a Trust Fund have to conform with GEF operational strategies and programs and have to comply with GEF's incremental cost principle. Applying this incremental cost principle when planning a trust fund intended to cover recurrent costs of protected area management means that substantial government or other donor contributions are required, since GEF is only expected to cover incremental costs. One critical issue remains that future fundraising prospects from bilateral donors are modest, since many donors are still not eager to tie up capital in endowment funds. It is more likely that, on the short term, co-funding of operating expenses and initial set-up costs will be easier to leverage rather than a capital contribution for a trust fund. Areas for financing trust funds are also local sources such as tourist taxes or user fees, which providing recurrent resource flow into trust fund capital.

Good governance structures are crucial to allow modest returns from endowment funds to result in measurable impact. Without an adequate institutional, regulatory and policy environment already in place, conservation trust funds are unlikely to meet their objectives for biodiversity conservation and unlikely to keep their operation costs at a reasonable level. Hence, good governance is a crucial factor for future GEF support for conservation trust funds. Just as important will be the indication of long-term commitment of government to the establishment of a trust fund as a means of financing biodiversity conservation and management activities. Indicators for government commitment could be policies resulting in recurrent resource flow or the creation of other innovative financing approaches, the establishment of institutions entrusted with biodiversity or protected area management, implementation of national biodiversity action plans and the likes.

Although GEF is expected to continue to support conservation trust funds along recommendations put forward in the *GEF evaluation: Experience with Conservation Trust Funds*⁴, GEF is strongly encouraging consideration of alternative and innovative financial arrangements for biodiversity conservation. One has to keep in mind, that trust funds tie up substantial amounts of resources in endowments and generate potentially perpetual but nevertheless modest amounts of income. Taking into consideration competing resource demands from other operational programs and "funding windows", it is advisable to carefully evaluate on a case by case basis whether the creation of a trust fund is the most adequate options for sustainable financing of biodiversity conservation or whether other innovative financial arrangements are feasible. Examples for alternative financial arrangements are for example taxation mechanisms, environmental services, eco-tourism, user-fees, private concessions, contribution campaigns ("adopt- a wetland-hectare"). A review of alternative financial arrangements is currently underway and lessons learned and recommendations for future GEF projects will be summarized and published shortly.

⁴ Global Environment Facility (1999): *Experience with Conservation Trust Funds*. URL: www.gefweb.org/ResultsandImpact/Monitoring___Evaluation/Evaluationstudies/evaluationstudies.html