

Financing Global Sustainability: A proposal for Multilateral Environment Agreements

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This paper will address the following question: “Is the lack of financing the major roadblock in successful implementation of Multilateral Environment Agreements?” The answer is: “It is an important obstacle but certainly not the only one, and probably not even the major one”.

There are many other equally important barriers that need to be lifted before there can be any hope for improvement on the financial side. Although it is probably not the major roadblock, this paper is going to concentrate on possible solutions or improvement on the financial side. But because it is important to discuss the financial obstacles within an overall context, this paper will also briefly review the other important impediments: structural, cultural, economic and political.

Finally, as we strongly believe that environment and development Trust Funds can improve the implementation of MEAs, we will elaborate further on this mechanism and try to show evidence that they could be an important part of the solution for long-lasting and sustainable development in the future.

Structural roadblocks

The proliferation of Multilateral Environment Agreements has led to a serious structural disorganisation which, in turn, has led some MEAs to compete with one another (in the best case) or to contradict one another (in the worst case).

The case of the promotion by the UNFCCC of fast-growing forests for the purposes of carbon sinks to some extent contradicts the CBD objective of preserving biological diversity in often slow-growing natural forests.

This lack of efficient coordination has led to a situation of anarchy in implementing the conventions. It has also led to an ever-increasing international bureaucracy² which in turn has diverted the too few well-qualified developing countries’ staff from their essential local work, either to serve at international organisations’ HQs or to fill in forms and reports that very few people read.

The World Conservation Union (IUCN) has carried out an interesting study that shows the unsustainability of the actual MEA system through which “almost every week, somewhere on earth, thousands of government officials and civil society representatives migrate from their place of residence to somewhere else on Earth in the name of saving the environment.” (Lau Holst, 1999). According to the author, the total cost for a full round of biodiversity related Conferences of the Parties (COPs) is around Euro 50 million. And this figure relates to only seven of the MEAs.

Furthermore, it has created a “survival for the fittest” mentality (Orlando, 1999) in which the objective of many institutions has become the protection of the niches they have carved out and the budgets that goes with them.³

² Not only MEAs’ secretariat staff but also the numerous staff attached to one or another of the conventions within other international or national organisations and the number of consultants working for these conventions.

³ In his analysis, Orlando focuses on the competition between UN agencies for the leadership in the field of environment which in turn has marginalised the UN specialised agency created and ideally placed to deal with the environment: the UNEP

Applied researchers who have a close working relationship with field practitioners tend to agree that “*we have all come up with institutional roadblocks that stop us moving forward. And so as to appear to be busy, we are all indulging in a mass of ‘displacement activities’, strategies that remain on the shelf, books that are hardly read, papers that are obscure and academic, indicators that are not used, framework agreements that remain without the protocols, charters and conference reports, resolutions, you name it we have got it – but words do not replace deeds*” (Sandbrook, 1998/1999).

Faced with these strong limitations, conventions’ secretariats, or at least some of them, have been instrumental in trying to find ways to implement their conventions in the field.

Memoranda of Understanding and casual or regular cooperation, joint meetings, staff exchange, etc., have been promoted. The Ramsar Convention has been an innovator of the international cooperation between MEAs favouring synergistic approaches. As early as January 1996, the Ramsar Bureau and the CBD Secretariat prepared the ground for developing technical cooperation which is seen as a model MEA collaboration of a purely scientific nature. “*Clearly, Ramsar was two decades ahead of its time*” (Ovejero, 1999).

This MoU strategy is the only way for secretariat staff to try to be more active in the field in a more coordinated way. It is the only solution so far to balance the structural disorder existing in the international arena. But it strongly relies on good will and is certainly not a panacea. It is a “*repair strategy*” (Andersen, Skjaereth, 1999) that has its own limits. If the trend goes on, it is likely that in the near future there will be even more MoUs than conventions! Fundamental structural changes are needed to get a much clearer situation with clearly assigned responsibilities and a much better use of financial resources.

Some coordination and centralisation is needed but over-centralising is by no means the solution. On the contrary, a much stronger and well-organised decentralisation is probably the solution. If the objectives of all these environmental agreements aim at a radical change in human behaviour leading to a better managed environment, their very *raison d’être* is the implementation of these objectives in the field. The way in which international agreements are working today gives the impression that this situation will be changed by hordes of international experts, giving a very marginal role for those billions of human beings living (or surviving) on natural resources.

Simplicity being an engine of functionality, I would like to suggest the following rather simple reform to the global environment system:

- 1) Make a distinction between the conventions dealing with global environmental effects and those dealing with local ecosystems. With the exception of climate change, ozone depletion and persistent organic pollutants, most environmental problems are not global in scale and should be solved locally.
- 2) For those conventions dealing with local environmental problems (most of them), the basic but essential principle of subsidiarity and the ecosystem approach should be implemented immediately. The closer an institution or organisation is to the problem it is supposed to address, the easier it is to deal with it efficiently. Existing ecosystem-based institutions should be strengthened and/or regrouped physically. These decentralised offices should have a very large autonomy of actions with a very light administration. Light international secretariats, regrouped in a limited number of locations, would support,

coordinate and eventually monitor the work of the decentralised offices. The major advantage of the ecosystem approach is that it encourages an examination of institutional arrangements based on the scale of the environmental problems (Kimball, 1999) and forces the external technical support to adapt to local cultures rather than forcing local cultures to adapt to external approaches. There should be no standardised structures for these decentralised offices. The size, the composition and way of work should be decided on an *ad hoc* basis taking local realities into consideration.

- 3) For those conventions dealing with global environment problems, a form of centralised institution makes sense. The role of a joint secretariat would be to promote political awareness of major global environment threats, promote the solutions agreed upon at the COPs, and suggest technical solutions to them. Implementation of these solutions would be left with global, regional, national or local institutions as advocated by the subsidiarity principle.
- 4) A small international secretariat (perhaps under the leadership of the UNEP) might be entrusted with the responsibility to collect information from these decentralised offices to report to the world community and eventually evaluate the impact of their cumulative efforts on the global environment.

Cultural roadblocks

This is probably the most underestimated impediment, and the way in which the ideas and objectives of the MEAs are promoted strengthens this impression. The fact that the largely overwhelming kind of communication support on conventions is in the form of completely indigestible and often very dry and long reports, written almost exclusively in one single language (English), is a guarantee that these conventions will not attract attention nor be understood or implemented by most countries.

The numerous reporting requirements, of course, justify the work of battalions of international experts and tend to create the belief that field work is very complicated and requires their technical support. To justify even further their importance, extensive use is often made of the most inappropriate terminology in order to appear more intellectual or serious. Just to mention two examples out of hundreds, today, one does not talk about lakes or swamps anymore but, preferably, about “water bodies”, and those people living on lake shores do not understand what it means. In the same way, one does not talk about the actions of human beings or more simply of man, but of “anthropic actions”. Not to mention words like ecosystem, biomes, genetic resources, carbon dioxide, genes, germoplasm, etc.

A *sine qua non* condition of the implementability of MEAs is a real respect for cultural diversity, not only on paper but in reality. This means in the day to day life of billions of human beings. Today, this respect is present in all rhetoric but very little has been done in reality. I suggest three urgent correction actions to better integrate the cultural diversity of our planet into the work of the MEAs:

1. **The first condition is a much broader use of other languages.** Several studies remind us that there seems to be a link between language diversity and biological diversity. Why then concentrate almost exclusively on one single language? The often-mentioned high cost of translation is a false argument. If we externalise the cost of the non-implementation of the

MEAs because of the lack of understanding of its objectives and rationale, as compared to the cost of more translation work, the balance is without a doubt in favour of having a much bigger language diversity. Added to that, the cost of translation would probably not represent more than a tiny percentage of the cost of international experts' air travel and per diems.⁴

2. **The second condition is the diversification of communication supports**, making much more use of video tapes, films, leaflets, stickers, music, photos, posters, theatre, printing on cloth, packaging or any other form of art. The form of communication support should be, to the maximum possible extent, adapted to the audience and, therefore, designed locally.

3. **The third condition is to demystify and simplify the problems at stake** by a much broader use of adequate terminology. The use of scientific terminology or technical and very specific jargon is often used as a guarantee to secure contracts and a proof of intelligence while the exact reverse should be the rule.

Most environmental problems are management problems and not scientific ones. Science is of course important but socio-economics is much more important for those who do not eat well every day. Today, there are relatively easy technical solutions for almost every environmental problem. There is no need for so many high level experts but rather for more down to earth field managers with a good environmental background and understanding of the socio-economic and cultural aspects of integrated environmental management.⁵

Economic roadblocks

Two big failures of the existing international environment system have to be urgently addressed: **poverty alleviation** is the first and most important one, and **market failures** is the other.

Today, the need for more globalisation of trade is not to be challenged anymore. But the even more urgent need to integrate both social, cultural and environmental aspects into the globalisation processes is not yet seriously endorsed by the stronger supporters of economic globalisation and the way globalisation is actually carried out today is therefore not acceptable. A strong environment regime needs to be included in the global trade regime.

The fact that there are serious diverging norms between the Convention on Biological Diversity (IUCN, 1994) and the Trade-Related Aspects of Intellectual Property Rights (TRIPs), a formal agreement under the auspices of the World Trade Organisation (WTO), is very worrying. These are not divergences between an old and outdated convention and a new one but between two relatively recent international instruments (Rosendal, 2000).

The lack of attention to poverty alleviation (apart from rhetoric) is a major impediment to the implementation of conventions and more generally to the conservation of biodiversity. By defining its three main objectives – ensure the conservation of biological diversity; promote the sustainable use of its products; promote fair and equitable sharing of the benefits arising out of its components- the CBD has been instrumental in making the link between poverty

⁴ See the excellent IUCN financial study on the cost of running COPs – Jakob Lau Holst, IUCN, 1999.

⁵ Integrated Environmental Management includes not only coercive environmental activities (monitoring, law enforcement, control, licensing, zoning, etc.) but also socio-economic concerns and activities (promotion of sustainable use of non-timber forests products, sustainable fishing, education programmes, debt management/conversion programme, etc.). It also relates to participatory and pluridisciplinary approaches.

and biodiversity conservation. But unfortunately, in practice, this has remained largely rhetoric and the percentage of sociologists, economists, anthropologists, political scientists or agronomists amongst the number of international experts dealing with MEAs is a good indicator of the little attention paid to the problem of hunger or economic development.

Another good indicator is the very little attention paid to poverty alleviation in the GEF funding criteria (GEF Operational Strategy, Washington DC, 1996).

Political roadblocks

The lack of real political support to the MEAs in developing countries is probably a consequence of the lack of attention paid to poverty alleviation. Without strong political support, MEAs will never be implemented, even if much more financial resources are made available.

But the lack of political support is not a monopoly of developing countries. Developed countries, which obviously cannot argue that nature conservation and environmental protection increase poverty in their territories, are also very timid on the implementation of conventions. The fact that some developed countries have not ratified the United Nations Framework Convention on Climate Change is a serious threat to the credibility of the whole global environmental management system.

The reluctance to reconsider the actual system of agricultural subsidies and export dumping in developed countries is another proof of the lack of political support.

Because of their historical contribution to global environmental degradation and their unparalleled political, technical and financial capacities, all OECD countries have a responsibility to exercise effective leadership and lead the global environment management agenda (Buck, 1999). A much stronger transatlantic cooperation is clearly needed, which should of course not be done at the expense of developing countries' interests.

On the other side of the planet, Japan should not rest on its past economic laurels but increase its role, leading the process of environmental conservation in the Asia region.

The principle of "differentiated but common responsibility" should be fine tuned and implemented. Differentiated should not mean that funds allocated to environmental conservation should be differentiated from development cooperation funds. But it should mean that, due to the added weight placed upon poor countries by the implementation of environmental instruments, additional resources should be put aside (CBD art. 21) and included in development cooperation programmes.

To the "differentiated but common responsibility" principle, we would add a "**undifferentiated development approach**" principle, which would mean that there should be no difference between environmental and development programmes or projects.

One concluding example amongst many is related to the multimillion dollar Natural Resources Management Project (NRPP) of the G7 Pilot Programme to Conserve the Amazon Rain Forest (PP/G7)⁶ In spite of the huge funding available, three years after its start, this project has not managed to have the least political influence on local governments and on local people's behaviour because it restricted its work to repressive Command and Control

⁶ The author of this paper is a former Senior Environmental Advisor/Natural Resources Economics, for the G7 Pilot Programme to Conserve the Amazon Rain Forest / Natural Resources Policy Sub-Programme, in Brazil.

environmental instruments without any room for alternative sources of nutrition to poor local people. In this particular case, it took more than three years for the international stakeholders, including major development cooperation agencies and the World Bank, to understand this basic evidence, which was put forward at the very start of the project by some Amazonian governors. The “donors” insisted upon putting forward the argument that the Funds were to be used for the environment, not for development activities!

Extensive field experience demonstrates that the approach to environmental management has to be both horizontally and vertically integrated.

Vertical integration refers to institutions and requires that the approach to environmental management involves institutions at all level, state, regional, provincial, local, municipalities, including those that might not appear to be relevant at first glance: ministries of planning and economy, ministries of finance, public and private development banks, etc. Depending upon local realities, even the army might be of use! It also means that both national, provincial and municipal authorities have to be involved, as well as all stakeholders’ associations and communities. In other words, environmental management is not the sole business of the ministries of environment. Both donors and recipients should bear this in mind when designing sustainable development programmes and projects.

Horizontal integration refers to sectors and suggest that environmental concerns should be part of all kinds of activities, including agriculture and fisheries, but also finance, social affairs, science and technology, economics, trade and education, etc.

By accepting and promoting this undifferentiated development approach on integrated environmental management, it is very likely that the MEAs will gain strong political support in most developing countries.

The financial roadblock

As mentioned above, the financial roadblock is one amongst others but is, in my view, probably not the most important one. The problem is not so much the lack of financial resources but rather the way these resources are allocated. Nevertheless, solving the financial problem is a guarantee for sustainability and does therefore deserve all our attention. It is also probably the most technical and least attractive problem for most traditional environmentalists.

The major reasons for the failure of so many environmental programmes are threefold: 1) they are based on projects and when the project ends, very often the programme or the activities die with it; 2) they are too dependent on “donor” funding and when the “donor” is not interested anymore, the programme ends, and 3) environment and development continue to be seen as two different issues.

The situation is worsened by the extremely centralised and bureaucratic way in which bilateral and multilateral development funds are functioning.

Two examples illustrate what an overcentralised and project approach can lead to:

- Accessing GEF Funds can take, in some cases, up to six or seven years. Project proposers sometimes see their proposal turned down after years of intensive work in project preparation just because the donors did not pay their commitment to the Fund! GEF projects are also famous for their “incremental cost” approach, which in fact very few people on Earth but a small group of specialists are able to calculate seriously. All this administrative hassle is required just to receive anything from 20 to 40 % of the total project cost. In any case, only well-trained international experts are capable of preparing GEF projects at the expense of the local ownership feeling. Once you finally have your project approved, you still need to run after other potential donors to complement the budget.

One has to commend the GEF Secretariat for, finally, taking these broad-based criticisms into consideration and looking for ways to either simplify or cancel the incremental cost approach. Let us hope that the project approach will also be reviewed. One also has to commend the GEF for having pioneered in the setting up of Environmental Trust Funds (see below).

- Before the overall Commission was eventually dismissed by the EU Parliament, and according to the famous Prodi Report, the EU Commission was famous world-wide for its “nepotism, fraud, mismanagement and horrible bureaucracies”.⁷ The decision making process was monopolised in Brussels and recipients’ views were often completely ignored. Those lucky enough to have a project approved in their life time had to wait another life time to see the first payment due reaching their bank account.

Fortunately, the EU Parliament strongly reacted in 1999, dismissing the Commission as a whole and recommending an urgent and in-depth review of the EU development cooperation work. One has to recognise that since that time the situation has improved greatly. The major reform was to decentralise the management of the EU programmes and funds to recipient countries through their respective EU delegations.

Another major reform has been to differentiate the policy development work (DG Development) from the project/programme implementation work (EuropeAid).

A major negative side effect of huge centralised funds is that little transparency often leads to corruption. Corruption is widely spread in developing countries and should be fought by all means. But of course developing countries do not have a monopoly for corruption. The EU has done its *mea culpa*. The World Bank has not been immune either and was forced by the Swedish and the Norwegian Development Cooperation Agencies in December 2000 to provide information on the mismanagement of their respective Trust Funds. Several World Bank staff ended up being dismissed for corruption. Other examples could be given with UN Agencies, Regional Development Banks, bilateral development cooperation agencies, and even NGOs.

There are three fertile grounds for corruption: 1) the lack of transparency, 2) the physical distance from the end users of the funds, and 3) the lack of ownership feeling on the funds. As we will see below, Trust Fund can help reduce this risk.

⁷ The strong words are from the Committee of Independent Experts, First Report on Allegation of Fraud, Mismanagement and Nepotism in the European Commission, 15 March 1999.

Most people and authorities in developing countries do not see or understand why and how a better implementation of these MEAs will directly and immediately (today, not tomorrow) benefit them. And they are right; most MEAs add to their development burden but do not actually benefit them in the short term. Furthermore, they very much view them as a priority for rich countries who can afford to protect animals and plants while the poor have other top priorities : to eat every day. Those who understand more about it argue that several of these MEAs protect common and global goods, and therefore also the rich. They are reluctant to make efforts to protect something which they do not see as theirs.

The very fact that MEAs are often managed or imposed upon developing countries from “abroad”, and that their implementation is strongly suggested or guided from abroad add to the confusion or lack of interest.

MEAs’ management and implementation shall be more in line with field realities and therefore, much closer to the people involved. It is common sense to say that when MEAs help people live better, or when people start perceiving that MEAs will not further complicate their lives, they will be self executing! But unfortunately, this common sense idea does not seem to have reached all environmentalists yet!

I also think that too much importance is placed by Convention Secretariats to what contracting parties actually report on at the expense of giving importance to what is actually being done in a country to conserve nature and promote sustainable development.

Here again, two words are important: poverty alleviation and environmental management.

There might be a way to address these two issues: **the setting up of local Trust Funds**, site-specific Funds, theme-specific Funds or National Environment/Development Funds. The history of existing Environmental Funds helps understand the rationale behind the mechanism but the latter needs to be updated or adapted (see below).

Environmental Funds

Environmental Funds (EF)⁸ are not new and the idea dates back to the early 1990s.

It is therefore important to draw lessons from it. Their importance and number have been on the increase ever since but there is still some reluctance on the part of bilateral donor agencies to support the capitalisation of EFs. Today, there are about forty six operating Funds, mostly in Latin America (IUCN, The Nature Conservancy, WWF, 1994). There are fewer EFs in Africa, Asia and the Commonwealth of Independent States, but their numbers in these regions are also increasing. Globally, about 56 new Funds are either being created or under negotiation.

Since their inception, EFs have attracted considerable expectations and interest from environmentalists (Bayon and others, 1999). They are seen and often used as much more than mere financial mechanisms. On the financial side, they are promoted as long-term sources of finance for conservation and sustainable development tools. One of the main

⁸ Perhaps the wording “Environmental Fund” is not the most desirable as it might give the wrong impression that these kinds of funds perpetuate the existing dichotomy between environment and development activities. The reality of existing funds has shown that this is far from being the reality but Sustainable Development Funds might be a more appropriate wording.

arguments used is that they are very good instruments to finance protected areas' recurrent costs. In other words, costs like permanent monitoring, park guards, infrastructure maintenance and any other regular cost that can be planned well ahead could be financed through EFs. At the same time, they are often used to strengthen environmental organisations and promote a participatory approach to environmental management (see below Fund structures). Another argument put forward is that they are a perfect tool to balance the often very limited "financial absorption capacity" in many developing countries.

Of course, the counter-argument is that huge amounts of money only render small amounts of cash. Some critics also add to this that EFs require strong institutional capacities and bear a high administrative cost. As we will see below, these arguments are not entirely true and solutions can be found. The fact that the existing global financial mechanisms are administratively cheaper remains to be proved. On the other side, one could bear with a higher administrative cost if it leads to a much more efficient implementation of multilateral environment agreements. Furthermore, capacity building in conservation finance or financial management of conservation assets is an important and often undervalued part of the art of environmental management.

Funds for EFs come from various sources but the most important ones are the Global Environment Facility (GEF), bilateral donor organisations through debt counterpart funds, and development cooperation funds. One also predicts a potential increase in funds from the UNFCCC and its Kyoto Protocol signed in December 1997. The Protocol calls for further exploration of financial mechanisms, including carbon sequestration fees and the Clean Development Mechanism (CDM). This mechanism is still somewhat controversial and particular attention should be paid to make sure the mechanism does not become a loophole for rich carbon emitters through which developed countries could obtain "carbon credits" for their activities in developing countries.

Once they are operational, many Funds manage to raise additional funds from various sources or gain additional capital from good portfolio management. Environmental Funds should not rely solely on Official Development Assistance funding but also, and maybe increasingly, on local funding sources like environmental fees, royalties, and fines, and on any other so-called Market Based Instruments (MBI).

For example, a newly created Fund in Ecuador, with the support of the US NGO The Nature Conservancy, will be capitalised by fees charged for the use of water in the city of Quito. The Fund, in turn, will provide money needed to protect the forests in the city's watershed.

What are Trust Funds?

There is no rigid definition for Trust Funds. Their structure, scope of activities and procedures vary according to the purpose for which they were created. Not all Funds are serving environmental goals -- UNICEF has created many Funds for children's protection. UNESCO has supported Education Funds. Some Funds are specifically designed to support micro-enterprises. But one has to recognise that the majority of the existing Funds are directed at conserving the environment and promote sustainable development. They are generally of three types:

- National Environment Funds (NEFs) which are often very big and serve a full range of activities. Some of them became real institutions. The Bolivian CONAMA is one of them. The Buthan Trust Fund for Environmental Conservation is another.
- Some are theme- or site-specific Funds and aim at protecting a specific animal species or a specific ecosystem.
- Many of them are Funds that make grants to others. The Brazilian Biodiversity Fund (FUNBIO) is one of these, as is the Foundation for the Philippine Environment. These Funds often have a strong civil society institutional strengthening component.

Funds can take at least three fundamentally distinct forms: Cash Fund, Endowment Fund, Revolving Fund.

Cash Fund or Sinking Fund: This form is the simplest one. The Cash Fund receives money from donors, fines, royalties or any other source, either in one instalment or in several tranches, and spends it according to the availability of money and approval of projects. All spending is done on a grant basis. Project monitoring can be carried out by the Fund administration. When Funds are exhausted, either the Fund is replenished or, if it was designed as a Sinking Fund, it ends its operations. This is often the case with debt counterpart Funds.

Endowment Fund: The Endowment Funds invest the Funds received in an interest-bearing form such as bonds, private bank accounts, real estate, etc. and spend only interest earned on those investments. This form trades cash availability, which of course is considerably smaller than in the case of the Cash Fund, against the establishment of a long-term financial investment for environmental conservation.. Moreover, the establishment of administrative bodies is also a more long-term affair. However, this kind of Fund requires a minimal financial critical mass to be worth while. If the capital invested is too small, the interest earned will be insignificant and not worth the trouble.

Revolving Funds: The Revolving Fund disburses the cash in the same way as the Cash Fund but it does so on a loan basis. A long-term financial mechanism is therefore established in the same way as the Endowment Fund. Here again, there is a trade-off, this time between investment security and immediate outreach to target groups. Assuming that loans made in the context of the Fund's environmental aims are not as secure an investment as government bonds or real estate, the Funds trade greater availability of cash for its projects against a higher degree of insecurity.

What kind of Fund is best?

None of these alternatives is better or superior to the other (Mikitin, 1995). Each one fits a particular situation which should be carefully analysed. Among these deciding factors, one can note the following: the immediate financial absorption capacity of the NGOs, government agencies, and communities; the amount of funds available; the experience NGOs or state agencies have with Revolving Funds; the relationship between the NGO community and the government; the situation of the local financial market, etc.

The Bhutan Trust Fund for Environmental Conservation is the first such Fund established in 1992 as a follow-up to the Rio Conference. It is exemplary in that it is a collaborative venture between the Royal Government of Bhutan, the United Nations Development Programme (UNDP), the World Wildlife Fund (WWF), the Global Environment Facility (GEF) and the cooperation agencies of Denmark, Finland, The Netherlands, Norway and Switzerland.

After a few years of careful financial management, the capital of the Fund rose from an initial US\$ 10 million to approximately US\$ 28 million today. Administrative costs are approximately 10% of investment revenues. Investment of assets has been contracted out to an overseas private investment manager and net income is more than 8% annually. The success of the Fund capitalisation is due to the strong government commitment to protect Bhutan's forests and biodiversity.

Grant funding in early years was severely limited by the lack of local capacity in project preparation and implementation. After a few years of concentration on capacity building activities, the Fund has developed grant-making guidelines and procedures and is now supporting a series of projects annually.

The Fund has become a fully independent grant-making organisation financing projects which (1) support conservation initiatives in the entire green sector, including sustainable utilization of genetic and species resources; (2) strengthen integrated conservation and development planning through applied conservation research and monitoring of biodiversity change; (3) promote education and awareness of conservation policies and issues.

The Mgahinga and Bwindi Impenetrable Forest Conservation Trust⁹ is another very good example of the usefulness of this kind of mechanism, both in terms of participatory and community management of natural resources and of the creative and very positive role the "donor community" can play in fostering this approach.

The Bwindi forest is the most important biodiversity hotspot in Uganda and contains half of the world's mountain gorilla (*Gorilla gorilla beringei*). It is surrounded by densely populated agricultural land. Violence is endemic in the area.

Most nearby communal swampland was converted to farmland by few rich farmers, depriving poor people of access to once-communal land used for grazing and collection of natural commodities. Swamp clearance lead to climatic changes.

Logging and hunting in the forest dramatically increased, as did gold mining. In good faith, and so as to avoid further destruction, the Government of Uganda established a national park in 1991. No consultations were held and little attention was paid to local needs. As a result, local resentment rose, forest fires were set and threats made against the gorillas.

Under pressure, local authorities finally agreed to discuss the problem with villagers and communities, supported by the NGO, CARE International. A consultation process started which lead to the creation of a Trust Fund.

⁹ Based on the report submitted by Ray Victorine (Conservation Finance Programme – Wildlife Conservation Society) : Maximising Conservation Benefits : Grant Programmes and Sustainable Financing. Symposium on Sustainable Financing for Protected Area and other Environmental Programmes, Madagascar, 15-18 May 2001.

The objective of the Fund is to protect prime mountain gorilla habitats by funding park protection, research and community conservation activities in a priority conservation area. The estimated capital needs for an endowment were US\$ 10 million. An initial GEF-funded endowment of US\$ 4.3 million in 1994 was granted as the basis of the Trust endowment but, because they were sceptical or for reasons of legal restrictions, no donors actually added funds to this endowment.

A USAID 900.000 US\$ grant in 1994 and a further DGIS US\$ 2.7 million in 1997, given on a sinking fund basis, covered all administrative and project costs for a period of 7 years, allowing the Trust to reinvest 100% of its interest income into the initial endowment. It is estimated that by the end of 2002, the Trust will have amassed an endowment of about US\$ 8 million, close to its original target of 10 million.

With these long-term secured resources, the Bwindi Trust Fund created a grant programme with the long-term aim of protecting two national parks : the Bwindi and the Mgahinga. To achieve this goal, the Trust Deed ¹⁰establishing the Trust Fund apportioned grant resources according to the following priorities :

- 20% for research
- 20% for local park authorities to defray management and recurrent park costs
- 60% for community projects promoting conservation and sustainable development activities

Not only did the Trust Deed allocate the majority of funds for community development activities, but it also strongly involved the community in its management by establishing community representation within both the governance structure and the organisations's programme management regime. Three of the nine members of the Board of Directors are community members from the area of operation of the Trust, elected by their peers. They participate in all governance issues related to the management of the Trust.

To further develop the participatory and democratic management of the Fund, a Local Community Steering Committee (LCSC) was established. It comprises villagers, NGO representatives and community conservation officers. Members serve for a two years term. The responsibility of the LCSC is to review and approve all community projects, subject to final technical review and Board approval for projects above US\$ 1,000, but more rigorous technical review is required for construction infrastructure projects.

During the first round of projects received by the Trust, more than 90% represented infrastructure projects perceived as essential by local communities, like schools, roads, bridges, clinics. The non-community members of the Board urged the communities to submit projects with a more direct link to resource conservation and economic development! A long, fruitful and democratic discussion took place on the best way to manage the parks and the surrounding area. Finally the Board agreed that the communities' vision of the long-term

¹⁰ The Trust Deed is a legal document which transfers the ownership of a sum of money or other property from the donor to the trustee, in order for the trustee to administer it for specific purpose or individuals. The Deed of Trust usually specifies the exact purpose for which the money can be used, the way in which it can be invested, the specific responsibilities of the trustees, and what will happen to the money if the purpose for which the Fund was established becomes impossible to achieve.

management of the parks had to be taken into account and it approved most of the projects. The communities, in turn, confirmed their commitment to sound management of the parks. A strong relationship of trust and confidence was established between the environmental managers and the communities. Recent research reveals growing local support for the Parks and the gorillas. (Hamilton, 2000)

The conclusion is that, without anybody noticing it, the Trust Fund helped to implement the Biodiversity Convention, the Ramsar Convention, the Climate Change Convention and maybe several others. It also helped foster democracy and peace in a region characterised by intense conflicts. Finally, it fosters poverty alleviation. All that, on a long-term basis, with a sustainable financial mechanism.

Today, the link between environment and development is recognised and taken into account in the establishment of all new Trust Funds, including in the naming of the Funds. In its June 1998 proposal for a “ Haitien Fund for Environment and Development”, the NGO The Nature Conservancy recognises “that while most environmental funds are bio-diversity conservation oriented, the challenge in Haiti is clearly to design a Fund which incorporates a significant component on income generation through sustained use of natural resources”¹¹

Conservation International and WWF-Bioregion Sahul are currently providing technical assistance for the establishment of a “Papua Conservation Fund” in Indonesia. Papua is without doubt another biodiversity hotspot on Earth. But like many others, it is increasingly threatened by continuing large-scale conversion of natural forests, and by disregard for the environmental impacts of logging, mining, oil palm plantations and transmigrant farming. There is a very urgent need for a better implementation of the CBD, Ramsar Convention, Climate Change Convention etc.

Hopefully, today, the potential for better environmental conservation has improved. With the support of the two above-mentioned NGOs, the Indonesian national and provincial governments and local NGOs are beginning to make real progress towards articulating a sustainable development framework that integrates biological priorities with social and economic imperatives. But, according to the findings of several workshops, the main limitation to this progress is the lack of sustainable funding to implement conservation activities.

Because of their knowledge, vision and motivation to conserve biodiversity in Papua, the involvement of local communities and NGOs has been very important. Unfortunately, their capacity and ability to raise financial support cannot yet sustain the implementation of long-term conservation activities.

During a series of workshops involving all national, provincial, local and international stakeholders, the idea of creating a conservation Trust Fund has been adopted. The workshops set the objective of creating a multi-billion rupiah trust fund for the conservation of Papua’s unique biological heritage. The participants were of the opinion that “if this heritage is sustainably managed, it can be a source of economic and spiritual well being for present and future generations “.¹²

¹¹ Report from R. Curtis, D. Marte, R. Norith. Designing a “Fond Haitien pour l’Environnement et le Developpement”, Issues and Options, June 1998. The Nature Conservancy.

¹² CI folder : “ Papua Conservation Fund” . undated.

The objective of the proposed Fund is to support community-based organisations, NGOs and research institutions in the following type of activity :

1. Natural resources and conservation management.
2. Empowerment of community organisations and strengthening of NGOs.
3. Scaling-up the quality of conservation activities and the conservation movement in the province, in general.
4. Empowering local institutions such as traditional and tribal institutions.
5. Increase conservation awareness among corporations active in the forestry sector.
6. Strengthening community-based enterprises and economic development consistent with long-term conservation.

In short, implement the CBD, Ramsar Convention, Climate Change Convention, etc...
The governance structure will of course be transparent, democratic and participatory.

The Mexican Nature Conservation Fund (MNCF) is yet another good example. It was created in 1996 and initially capitalised on an endowment basis with a USAID grant of US\$ 30 million another US\$ 10 million from the Government of Mexico and US\$ 16.5 million from the GEF earmarked for use in 10 strategic natural protected areas.

The MNCF main goals are to help conserve ecosystems in biodiversity hotspots; reverse environmental degradation by promoting sustainable productive processes in collaboration with local communities and prepare society in general to protect biodiversity.

Until 1999, the Fund supported 285 projects in the following field :

1. Ecosystem and species conservation	129 projects
2. Sustainable use	31 projects
3. Institutional strengthening	46 projects
4. Identification of conservation needs	12 projects
5. Scholarship	37 projects
6. various	30 projects

Total 285 projects

In Suriname, a 1.6 million hectares of the Central Suriname Nature Reserve is being well managed through an initial endowment of US\$ 1 million raised through private funds by Conservation International. This adds to the US\$ 15 million of the local Suriname Conservation Trust capitalised through a GEF US\$ 9.54 million grant and another US\$ 5 million from the UNDP and the United Nations Foundation (UNF) . The Fund allows the Foundation to manage protected areas equalling 163.000 square kilometers.

A GEF evaluation of existing Trust Funds

The Global Environmental Facility (GEF) conducted a review of Environmental Funds in 1998 (GEF, 1999a). Some of their findings regarding the performance of EFs are reproduced below:

- new national parks have been created or existing protected areas expanded or upgraded as a result of EF support
- EFs have generated substantial financial resources that would not otherwise have been available for nature conservation
- Environmental Funds have helped devolve responsibility and decision-making about environmental priorities and programmes to the local level.
- A broad array of stakeholders has often been involved in the creation of Environmental Funds. Increasing participation of civil society in environmental issues.
- Important scientific work has been carried out through EFs, including inventories, zoning and mapping, that will help measure changes in biodiversity.
- Some Funds are having an upstream impact on broader environmental policies.

Environmental Funds are more than financial mechanisms

Environmental Funds have proved to be much more than mere financial mechanisms. They are ever more becoming environmental management institutions, some times complex institutions. This is both good and bad. Good because it promotes a greater awareness of the need to effectively conserve nature and promote sustainable development in a participatory way, involving the civil society and public institutions. Bad because it could also become an obstacle if these institutions become too demanding in terms of administrative and technical capacities and costs. According to the GEF report (GEF, 1999a), the Funds that have done best are those that have done much more than just financial management but also played a role in building institutional capacity and private-public partnership, developing agile and non-bureaucratic management approaches, nurturing community groups becoming involved in environmental management, and contributing to the articulation of environmental priorities and strategies.

This is exactly what Multilateral Environment Agreements should promote!

The GEF report concludes that while EFs have attracted highly qualified board members, directors and other staff, they still require capacity-building assistance to develop fully and meet their potential as institutions. Governing Boards work much better when their members serve in their individual capacities rather than as formal representatives of a constituency or sector.

The GEF (GEF 1999a and 1999b) also identified conditions for the successful establishment and operations of Environmental Funds. The first four conditions in the following list are *sine qua non* conditions for the success of a Fund.

Important factors for establishing an Environmental Fund

- The environmental issue to be addressed is significant, and appropriate actions to respond are long term and can be met with the resource flows an EF could produce.
- There is active and broad-based government support for creating a mixed, public-private sector mechanism that will function beyond direct government control.
- There is a critical mass of people from diverse sectors – government, NGOs, academic and private sectors, donor agencies – who can work together despite different approaches to nature conservation and sustainable development.
- There is a basic fabric of legal and financial practices and supporting institutions (including banking, auditing and contracting) in which the majority of people have confidence.

- There is a legal framework that permits establishing the Fund, and tax laws that allow it to be exempt from taxes.
- There are mechanisms to involve a broad set of stakeholders in the design process, and a willingness by these stakeholders to use them.
- One or more mentors (e.g., another more experienced fund or an experienced international NGO) are available to provide technical support to the new Fund.
- There are realistic prospects for attracting a level of capital sufficient for the Fund to support a significant programme while keeping operating costs to a reasonable percentage.
- There is an effective demand for the fund's products, i.e. a client community interested in and capable of carrying out environmental activities on the scale envisaged.

If one of the first four conditions is missing, it is suggested to investigate other possible financial mechanisms. Some of the other conditions might not be met but if so, efforts should be made to remedy the situation as soon as possible.

Conditions for an efficient operation of an Environmental Fund

Establishing a Environmental Fund is one thing. Effective operation of this Fund is another thing and, according to the GEF review of existing EFs, requires specific conditions:

- Clear and measurable goals and objectives, and a results-oriented management culture that learns from experience and is open to changes in approach based on feedback.
- A governance structure with appropriate checks and balances, conflict of interest provisions, and succession procedures.
- Members of governing bodies who are prepared to commit their time, engage in Fund policy-making and leadership, and build support with varied constituencies.
- Linkages between the Fund and any national environmental strategy or action plan.
- An ability to attract dedicated competent staff, especially a strong executive director. Basic technical and other capabilities that permit the Fund to become a respected and independent actor in the community. Access to, and effective use of training, mentoring, and technical assistance resources to build capacity.
- Harmonious and productive board-staff relationship.
- Constructive relationship with relevant government agencies, intermediary organisations that provide services to clients, and other organisations in the environment community. The Fund should avoid becoming an executing agency itself.
- Financial and administrative discipline, combined with programme flexibility and transparency, and procedures that support this and are consistently applied.
- Mechanisms for continuing to involve a wide range of stakeholders in the Fund's programmes and direction, tempered with enough strategic direction and leadership to avoid programme fragmentation.

- Asset management competitively selected, a diversified portfolio of investments, financial expertise to provide regular reporting, and oversight by Fund boards comparing actual performance to benchmarks.

How to capitalise the Fund

As mentioned earlier, money to capitalise EFs is often sought from bilateral or multilateral donor organisations. This is fine and justified by the common but differentiate responsibility principle but, of course, one should not exclusively rely upon “donors”. Mobilisation of domestic financial resources as a way to increase local autonomy and local responsibility should be sought.

Two local fund raising options will be briefly mentioned below: Market Based Instruments and Debt-for-Sustainable Development Swaps.

A. Domestic fundraising through local Market Based Instruments (MBI) might be a good start.

MBIs are a (relatively) new generation of environmental management instruments which appeared in the United States and Europe during the seventies. Initially, they generated harsh concerns and much controversy amongst many. Traditional environmentalists were concerned that the economic arena was invading the environmental field. Traditional economists were concerned about the idea of valuing common goods like air, water and even immaterial goods like landscape, etc.

Since then, a slow but continuous evolution has taken place. The number of applications for MBI has increased as well as the type of instruments. The first one to appear was the simple user charges (on water) and subsidies. Today, there is a full range of instruments well conceived and adapted to modern realities.

In most countries, the primary function is still to raise funds for public budgets. This is good and bad – bad if the funds raised are applied to finance activities which are not related to environmental conservation or pollution control. In this way, it would act as a perfect perverse incentive for fundraising institutions: the more pollution there is, the more they can raise funds for whatever departments!

It is potentially very good if the funds are used to sustain the huge financial requirements to implement more traditional environmental management tools like Command and Control Instruments (CCI). One of the weaknesses of the CCI is that it costs a lot of money but does not raise any. MBI are ideal to supplement CCIs in that sense.

If funds raised through MBIs are used for institutional strengthening activities, training activities, monitoring improvements, etc., the logic becomes: the more pollution there is, the more we have funds to control it efficiently. Funds raised by MBI could also be used to subsidise good environmental initiatives and Environmental Trust Funds. But they should not be seen as mere fundraising instruments. An additional value of MBIs is that they have the potential to induce behavioural changes and motivate industrialists to go further than legal minimum environmental anti-pollution requirements.

In huge countries like Brazil, India, China or any other, where there is an enormous heterogeneity of environmental but also cultural, social and economic situations, flexible environmental economic instruments can much more easily accommodate this heterogeneity and diversity than rigid environmental and standardised control and command instruments.

Economic instruments also have a role to play in promoting sustainable development and therefore also the objectives of many Multilateral Environment Agreements (UNEP, 1997). They help internalise environmental costs and promote full-cost pricing policies which is the starting point of any sustainable development. Another role is using the Funds raised to invest in socio-economic projects, recuperation of depleted areas, training, reforestation of watersheds, soil Conservation, or to capitalise Environmental Funds.

Of course, MBIs have to be well regulated if they are to be efficient. Doing this is not easy and requires a lot of well-qualified human resources like lawyers, economists and environmental economic valuation specialists to be put in place. They would be useless without a good set of regulations and an efficient legal system. But once they are in place, MBIs are supposed to be more-or-less self-enforced.

Providing it does not add much to their work and responsibilities without bringing any financial benefit, municipalities could become key actors in this effort and lead the process of creating site specific Trust Funds.

Typology and definition of most common Market Based Instruments (OECD, 1998)

- **Emission charges:** direct payment based on the measurement or estimation of the quality and quantity of a pollutant.
- **User charges:** payment for the cost of collective services. For example, charges for the collection and treatment of solid waste, charges on sewage water, charges on hazardous waste, charges on aircraft noise, charges on air pollution, etc. (pollution control). When they are used for natural resources management, they are usually called user fees. For example, for access to national parks, to hunting or fishing facilities.
- **Product charges:** applied to products that create pollution either through their manufacture, consumption or disposal (fertilisers, batteries, pesticides). The aim of this charge is to put a real price on the product to include its collection, disposal and treatment.
- **Taxes** for natural resources management are payment for their use. They are also sometimes called Royalties.
- **Marketable (tradable, transferable) permits, rights, quotas:** also called emission trading. Are based on the principle that any increase in emission or in the use of natural resources must be offset by a decrease of an equivalent, or sometimes greater, quantity. Two broad types of tradable permits system are actually in operation: those based on emission reduction credits (ERCs) and those based on *ex ante* allocations (“cap-and-trade”).
 - ERCs takes a “business as usual” approach scenario as the starting point and compare this baseline with the actual performance. If the pollution emitter

performs better than the anticipated baseline, a “credit” is earned. This credit can be either used by him or sold to another emitter whose emissions are higher than the accepted baseline.

- The “cap-and-trade” approach sets an overall emission and use limit (the cap) and requires all pollution emitters to acquire a share of this total before they can emit. Shares may be given free of charge by an environmental agency or auctioned. Their owners can either utilise them, save them for later use, or trade them.
- **Deposit-refund system:** payment made when purchasing a product. The payment (deposit) is fully or partially reimbursed when the product is returned to the dealer or a specialised treatment facility.
- **Non-compliance fee:** imposed under civil law for polluters who do not comply with environmental or natural resources management requirements and regulations. They can be proportional to selected variables such as damage caused by non-compliance, profits linked to reduced non-compliance cost, etc.
- **Performance bonds:** used to guarantee compliance with environmental or natural resources requirements; polluters or users may be required to pay a deposit in the form of a bond. The bond is refunded when the compliance is achieved.
- **Liability payments:** payment made under civil law to compensate for the damage caused by a polluting activity. Such payments can be made to victims or to the government. They can operate in the context of specific liability rules and compensation schemes, or compensation funds financed by contributions from potential polluters (Funds for oil spills, Funds for chemical pollution).
- **Subsidies:** all form of explicit financial assistance to polluters or users of natural resources, e.g. grants, soft loans, tax breaks, accelerated depreciation, etc. for environmental protection.

This list is of course not exhaustive. Specific instruments that respond to the very diverse needs of local realities (deforestation, fires, over-fishing, hunting) could be created.

The Protected Area Conservation Trust (PACT) of Belize has pioneered an initiative in that it is financed by a US\$ 3.75 tax levied since 1995 on international tourists arriving by air or sea. This tax generates some US\$ 500.000 per year and is directed towards conservation in and around the protected area. Each year, 5% of revenue is set aside to build an endowment. In addition, 20% of all site entry fees, recreational licences and permit fees, concession fees and fines “will” be channeled into the Trust.

B. Debt-for-Sustainable Development Swaps remain an important element of an overall strategy to improve the implementation of MEAs

Although efforts have been made lately by some creditor countries to alleviate the burden of developing countries’ indebtedness, the debt remains a very high impediment to sustainable development in many of them.

The question is not whether developing countries debt should be “forgiven” or not. The only interesting question is whether the indebtedness has an impact on poverty and on environmental degradation. The answer to both questions is obviously yes.

Furthermore, forgiveness is a very paternalistic approach and one that gives the impression that the lender has no responsibility in the situation. It is the rich and strong that forgive to the poor and weak. This approach does not reflect the reality of modern international relations between sovereign states. Pure forgiveness might also become a very perverse incentive for new unscrupulous borrowers who might well think that they should borrow as much as they possibly can and use the funds in any way they want, knowing that in any case, one day or another, someone will forgive them in the name of charity.

But, taking into account that the responsibility is often shared by both the borrowers and the lender, and that unfortunately, the effects of the past mistakes are paid today by the poor who very often did not even benefit from these loans, urgent and constructive solutions must be found to solve this unacceptable situation sustainably.

Debt-for-Sustainable Development Swaps will never be the single definitive solution to the problem but its much more extensive use could certainly be part of a more global solution.¹³

A series of Funds has been initially capitalised with the proceeds of debt swaps. The Bolivian National Environment Fund (FONAMA) was partially capitalised in 1993 with the proceeds of debt swaps with Canada, Mexico, Germany and the Netherlands. The “Fondo de las Americas”, the national environment fund of Chile was initially capitalised in 1994 through two debt swaps with the US Government which amounted to about US\$ 18 million over a period of 8 years. The Colombian ECOFONDO was also capitalised in 1992 with the proceeds of a debt swap with the government of Canada (US\$ 12 million) and from the government of the United States under the Entrepise for the Americas initiative (US\$ 41 million). Several other funds, mostly in Latin America, were capitalised with the proceeds of debt swaps : The “ Fondo Integrado Pro Naturaleza (PRONATURA) of the Dominican Republic ; the Environment Fund of El Salvador (FONAES) ; the Guatemalan Trust Fund for Environmental Conservation ; the Environment Foundation of Jamaica ; The Jamaica National Park Trust Fund ; Peru’s Protected Area Fund PROFONANPE ; The Foundation for the Philippine Environment (FPE) ; the ECOFUND Foundation of Poland ; among others.

CONCLUSION

Today, the overall implementation and efficiency of MEAs is not satisfactory. There are a number of reasons for that, including structural weaknesses, lack of cultural sensitivity, lack of attention to economic concerns (poverty alleviation and market failures), serious political roadblocks in both developed and developing countries and financial limitations.

¹³ On the debt swap mechanism, see Kaiser, Yurgen, and Lambert, Alain (1996). *Debt Swaps for Sustainable Development: a practical guide for NGOs*, IUCN, SDCO, Eurodad, 72pp, ISBN 2-8317-0362-X

Although the financial problem is certainly important, the lack of cultural sensitivity and the lack of concerns for poverty alleviation and market failures are, in my view, the major impediments to a more efficient implementation of MEAs.

MEAs Secretariats should play a major role in providing useful services to Contracting Parties to their Conventions and not limit their work on monitoring Conventions' implementation or add obligations to developing countries' development priorities.

A much broader use of Environment and Development Trust Fund would probably help tackling several of these problems.

Taking these aspects much more into consideration has become a priority for the Ramsar Convention Bureau.

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