

# **Introduction to the Establishment of Environmental Funds:**

**A proposal for Kazakhstan, Kyrgyzstan and Georgia**

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## 1. Introduction

The first Environmental Funds (EFs) were created in the early 1990s. Their importance and number have been on the increase ever since. Today, there are about forty six operating funds, mostly in Latin America (IUCN, The Nature Conservancy, WWF, 1994). There are less EFs in Africa, Asia and the Commonwealth of Independent States but their number 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. They are seen and often used as much more than a mere financial mechanism. On the financial side, they are promoted as long term sources of finance for conservation and sustainable development tools. One of the main argument 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 it is 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. On the other side, capacity building in conservation finance or financial management of conservation assets is an important and often under-valued 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 huge 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 very controversial and could 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 a good portfolio management. Due to a sharp decrease in Official Development Assistance Funds (ODA), it is foreseen that new funds will have to rely much more on local funding sources like environmental fee, royalties, fines etc. (see below the introduction on Market Based Instruments ). 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 forest in the city’s watershed.

## 2. What are Environmental Funds?

There is no rigid definition of an EF. 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 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.

Funds 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 one.
- Some are theme or site specific funds and aim at protecting a specific animal species or a specific ecosystem. The Mgabinda-Bwindi Impenetrable Forest Conservation Trust is one of them in Uganda. Other examples are given by the Jamaica National Parks Trust or the Peruvian Fund for Areas Protected by the State. (PROFONANPE).
- Many of them are funds that make grants to others. The Brazilian Biodiversity Fund (FUNBIO) is one of them, as is the Foundation for the Philippine Environment. These funds often have a strong civil society institutional strengthening component.

Environmental Funds are sometimes categorised according to the level of their structure: the “one level structure” and the “two-level structure” (Kaiser and Lambert, 1996)

The two level structure has been created for EFs capitalised by rich donor governments for poor recipient government. All important decisions regarding the funding of particular activities or projects are taken by a bi-lateral Committee where donors often have a no-objection right. A Technical Committee often composed and staffed by NGOs prepares projects or activities to be submitted to the bi-lateral Committee for funding. This old style model is not really interesting for us and we will therefore not elaborate too much on it.

The one level structure is much more interesting. Instead of two Committee, there is only one, which tends to be named “Administrative Committee” where different kinds of player sit at the same table: government agencies/institutions, NGOs, community representatives etc.

This model implies a very broad participation of NGOs not only at the technical level but also at the decision making level. One of the major interesting side effects of this kind of structure is the discussion taking place within the Committee or Board of the EF on how to best use its capital. Decisions are to be taken after broad discussion where all members are appointed on their personal capacities. Not only does this foster decision between public institutions and civil society organisations but it also fosters technical and political debates on environmental management subjects. In other words, it fosters participatory environmental management. It also helps civil society organisations to be involved in complicated financial management activities.

Another interesting side effect of this model is the strong ownership feeling created by the structure of the Fund itself. As we will see below, the ownership feeling also depends on the location of the capital of the fund and the way this capital is managed.

The WWF (Barry Spergel, 1995) has elaborated further the concept of environmental funds and sees three main possibilities for fund governing structures:

A. Funds with a mixed NGO/government governing board

Advantages:

- Can serve to institutionalise cooperation between the public and private sector.
- Can combine most of the advantages offered by both of the other two types of funds, while avoiding many of their limitations.
- Likely to result in projects that are sustainable in the long run, by combining local initiatives with Government support.

Disadvantages:

- Citizens of the country may be confused about whether or not to regard the Fund as an official government organisation.
- Likelier to suffer from lack of focus than the other two types of funds, if purpose and project criteria are not clearly specified at the outset.
- If the NGO side always has a clear majority, then the government may not take the fund as seriously or commit as many resources as it would to a government fund ; if the government side always has a clear majority, the NGO may be taken for granted and they may focus on getting near-term funding for their own projects.

B. Funds associated with a government agency

Advantages:

- Can be a tool for implementing national environmental strategies and effecting policy changes.
- Can provide a way to organise and coordinate official development assistance for the environmental sector.
- Can provide support for under-funded governmental responsibilities, such as park guard salaries, protected area infrastructure, etc.
- Can be a recipient for earmarked taxes, fines, and permit fees.

Disadvantages:

- Personnel, programmes and policies can be subject to sudden political changes.
- Can be top-down in approach and insufficiently responsive to local needs.
- NGO and local communities suspicion of government
- Can be bureaucratic and restricted by civil service rules and government pay scales.

### C. Funds with a governing board composed entirely of NGOs

#### Advantages:

- Likely to be responsive to local needs, based on popular participation.
- Promotes values of democratisation and local participation.
- Able to integrate grass roots economic and social development with environmental programmes.
- Well suited for institution strengthening of local NGOs and providing support to local grass-roots projects.
- Independent of changes in government, thus offering institutional continuity.
- Can serve as a vehicle for private donations ( individual, corporate and foundation)

#### Disadvantages:

- With a diverse group of NGOs, it can be difficult to reach consensus on programmes, policies and implementation.
- Not being associated with government can mean that it is hard to influence national environmental strategies and policy reform.
- Generally unable, or uninterested in funding governmental responsibilities, such as park guard salaries, protected area infrastructure, and so on, which may be essential for biodiversity conservation.

Independently of their structure, the Fund can take at least three fundamentally deferent forms: cash fund, endowment fund, revolving fund.

Cash 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 spend 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 fund 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 funds requires a minimal financial critical mass to be worth it. If the capital invested is too small, the interests earned will be insignificant and not worth it.

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.

### 3. What kind of funds is the 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, 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 (strictly regulated, partially regulated, free), etc.

### 4. Where should the capital be located?

Whatever the form of the fund, a decision on where to locate the capital has to be carefully taken, after serious consideration of all options. As a basic rule, and for many reasons, we think that it is often better to keep the capital in the country, in local currency. But before taking any decision, the following questions should be answered:

- Are we in a country where there is an existing good and secure banking system?
- Are we in a country where devaluation is likely in the near future?
- Are we in a country with strong inflationary risks?
- Is the financial market regulated, partially regulated or completely deregulated?
- What is the balance of payment (BOP) situation of the country?
- How is the legal financial system?

Once these questions are carefully analysed and answered, and the risk is well known and calculated, one of the following options might be considered:

A. The capital is located in local currency (or in hard currency) in a domestic bank.

#### Advantages:

- The fund operates under the law and customs of the country of the beneficiary.
- It builds domestic capacity in trust and financial management.
- NGOs have a stronger sense of ownership.
- Increases confidence in the local financial market, which may attract more capital to the country and have positive macro-economic effects. ( valid for small development countries).
- The Fund can be used to raise awareness of environmental/development issues.

### Disadvantages:

- If the structure of the governing body is not well designed, it may give the impression that the fund is nothing more than another budget line for the government.
- The fund is prey to political instability and corruption.
- Its legal status may not meet minimal requirements regarding fiscal situation.
- There is always the risk of devaluation.
- You may be working with an inadequate banking system (inflation might eat up accumulated earned interests).

B. The capital is invested abroad, in a fiscal “paradise” (offshore trust) and managed by offshore asset managers.

This can of course only be implemented if you have decided to have an endowment fund and if, either the capital is given in hard currency or the local currency can be legally exchanged into hard currency. An interesting alternative to this option would be to have the funds located in a “developed” country in hard currency and jointly managed by local NGOs and “southern” NGOs.

### Advantages:

- Investment remains in hard currency, in a secure place and managed by highly qualified professionals.
- Highly sophisticated and secure legal framework for the capital.
- Good facilities for asset mobility are available if it becomes necessary.
- Return on investment might be higher than in country.

### Disadvantages:

- You lose the opportunity to build local capacity in asset and fund management.
- High technical dependency on asset managers.
- Loss of sense of ownership and control.
- Cost of financial service might be high.

The Global Environmental Facility (GEF), the financial mechanism for the Convention on Biological Diversity and the UN Framework Convention on Climate Change, conducted a review of Environmental Funds in 1998 (GEF, 1999 a). 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.

##### 5. 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 good and bad. Good because it promotes a bigger awareness of the need to effectively conserve nature and promote sustainable development in a participatory way, involving the civil society and public institutions. But 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-democratic management approaches, nurturing community groups becoming involved in environmental management, and contributing to the articulation of environmental priorities and strategies.

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 their potential as institutions. Governing Boards work much better when their members serve in their individual capacity 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. Some of these conditions (in bold) are *sine qua non* conditions for the success of a Fund.

##### 6. 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 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 envisioned.

If one of the 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 done to remedy the situation as soon as possible.

#### 7. Conditions for an efficient operation of an environmental fund.

Establishing a Environmental Fund is one thing. Effective operations of this fund in another thing and according to the GEF review of all existing EFs require 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 benchmark.

## 8. How to capitalize Environmental Funds?

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.

Before starting fundraising for an EF, it is of fundamental importance that you prepare a careful assessment of your needs. The most common and often fatal mistake is that protected area managers tend to rush after money (as much as possible) without a clear idea on how much they need and what they are going to do with the money they are raising.

One should apply a clear step by step approach to the fundraising exercise:

1. Clearly define what needs to be done to ideally assure a good management of the protected area (control, monitoring, site restoration, socio-economic activities, zoning...). Because it is unlikely that you will be able to meet all your requirements, in the list of things that needs to be done, one shall define those who are essential and those who are important but not vital.
2. Once this list is done, one should define what is actually being done and what is not being done. One should remember that the establishment of EF is not an alternative to government's obligations to assume their responsibility with regards to protected area management, it is a complement.
3. The next step is to quantify the costs of what needs to be done and is not being done. And the sum of these amounts should be your threshold (minimum) amount of capital your need for the environmental fund.
4. Look at the fundraising options. The fundraising strategy shall be prepared taking into account the characteristics of each activity. One does not fund raise at the same places for research activities, for salaries for park rangers or for park infrastructure work. Many options are available, either at the national or international level (look at [www.conservationfinance.org](http://www.conservationfinance.org) for more information on the options.

An important element is to take into account the socio-economic functions of protected areas. Each and every protected area on Earth has a direct or in-direct economic influence in or around its boundaries. The major problem is that these functions are often not perceived or recognised. The reason for that is that they are difficult to quantify in financial terms. But economists are increasingly working on the valuation of ecosystems goods and services. This is not an easy subject to talk about in the framework of this short introductory paper and we would suggest to interested readers to see the “Economic Valuation of Wetlands Goods and Services” paper in annex for more information.

Two local fund raising options will be briefly mentioned below: Market Based Instruments (sometimes called economic instruments) and Debt-for-Sustainable Development Swaps.

**A. Domestic fundraising through local Market Based Instruments (MBI) might be a good start. It is becoming a *sine qua non* condition for the GEF’s involvement in co-funding Environmental Funds.**

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.

#### **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”).

- ERC 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 channelled into the Trust.

## **B. Debt-for-Sustainable Development Swaps remain an important fundraising tool.**

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.<sup>1</sup>

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 Enterprise 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.

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<sup>1</sup> 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

9. Environmental Funds are good instruments to help implement Multilateral Environment Agreements (MEAs) like the Convention on Wetlands (Ramsar, 1971) or the Biodiversity Convention.

Below are some interesting recent examples of successful Environmental Funds:

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 Trust<sup>2</sup> 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,

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<sup>2</sup> 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.

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.

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 <sup>3</sup>establishing 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 organisation'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.

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<sup>3</sup> 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.

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 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 "Haitian Fund for Environment and Development", the NGO The Nature Conservancy recognises "that while most environmental funds are biodiversity 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"<sup>4</sup>

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

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<sup>4</sup> Report from R. Curtis, D. Marte, R. Norith. Designing a "Fond Haïtien pour l'Environnement et le Développement", Issues and Options, June 1998. The Nature Conservancy.

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 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 rupees 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".<sup>5</sup>

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  |

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<sup>5</sup> CI folder: "Papua Conservation Fund". Undated.

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, 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 kilometres.

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