Environmental trust funds

E4

Conservation or Environmental Trust Funds (ETFs) can be set up to provide a mechanism for releasing funding on a regular basis to support protected area management or conservation programmes. They are becoming an increasingly popular tool but considerable expertise is involved in their establishment. This sheet describes the basic form of these funds, and gives advice on other sources of information.

A trust fund can be broadly defined as a sum of money that (1) can only be used for specified purposes; (2) must be kept separate from other funding sources (e.g. a government's budget) and (3) is managed by an independent Board. ETFs thus involve obtaining capital up-front, investing it, and using the interest to finance conservation activities, instead of seeking funding on a case-by-case basis. In theory, ETFs can provide financial security, covering basic operating costs of an MPA, and allowing management to concentrate on conservation and other key activities. However, ETFs are not always suitable and the following conditions should be met:

- the funding requirements are long-term and sustained, thus urgent threats requiring a lot of funding over a short period are not appropriate;
- although ETFs can be set up for individual protected areas, they are considered most suitable for systems (e.g. MPA network or national protected area system);
- there is commitment from government and others to support the fund and participate in its work;
- there are appropriate national legal and financial practices and supporting institutions, to provide the confidence for raising the initial capital.

As yet, there are no fully effective ETFs in the WIO supporting MPAs, although the Comores and Madagascar (see case study) have experience in developing these for biodiversity conservation in general, and mainland Tanzania is in the initial stages of establishing one specifically for MPAs. As more is learnt about their application, especially from examples in Latin America and the Caribbean, their use may increase.

TYPES OF FUNDS

The three main ways in which the capital of a fund is managed are described below. Independent funds and foundations set up to provide grants are described in sheet E5.

Endowment funds - The capital is invested and the interest is used to finance activities; thus an endowment fund of US$15 million might produce US$0.7-1 million annually (depending on the market and types of investments) over an unlimited amount of time. A percentage of the earned interest must be re-invested to keep pace with inflation. These funds are most appropriate for long-term continuous funding needs, typically the case of an MPA.

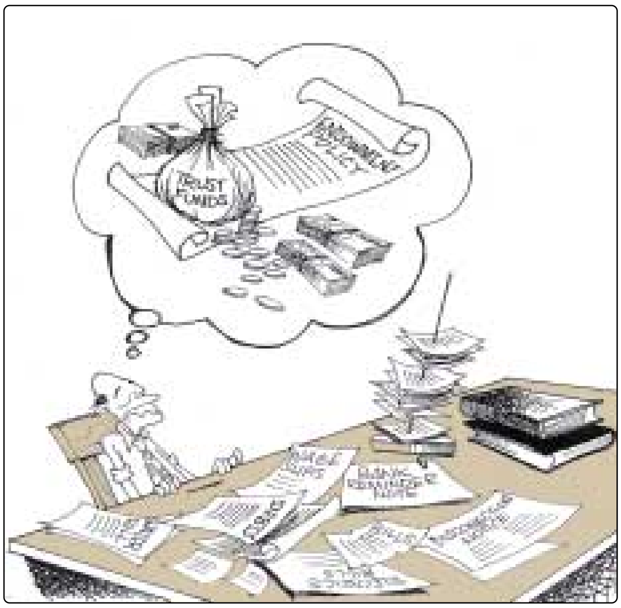
Sinking funds - The entire principal and investment income is disbursed over a fixed period of time (usually 6-15 years), enabling larger amounts of money to be used more rapidly. A sinking fund with a capital base of US$15 million might thus produce US$ 1.5-2 million annually but over a limited period. Such funds are most useful for large, urgent conservation issues and where there is enough capacity to use the funding rapidly and effectively.

Revolving funds - These receive new resources on a regular basis, such as proceeds of special taxes (e.g. on tourism), or fees or levies earmarked for conservation work, which replenish or augment the original capital of the fund and provide a continuing source of money. These only work if the source of funds is regular and predictable.

ESTABLISHING A FUND

Key factors involved in setting up successful ETFs, identified by the Global Environmental Facility (GEF), include clear and measurable goals and objectives, linkage between the fund and any national environmental action plan, a strong executive director, government support, high levels of stakeholder involvement and financial and administrative discipline.

Most Funds are managed by a Board of Directors or Trustees selected through a participatory process involving the fund's beneficiaries, local NGOs, community groups, the private sector, donors, and the government. Developing and running an ETF requires considerable investment in terms of staff time. As well as the board and the executive management, funds also need a financial manager and may require technical staff to assess the validity of activities to be funded. Some ETFs also set up Technical Advisory Bodies which help the board and hired staff.



It is best if the Board has a mix of governmental and non-governmental representatives, because although the Board needs the support of the government, it should not be controlled by the government. The Board needs to be responsive to the needs and concerns of NGOs and community groups, but should not be pulled in too many directions by a wide range of constituencies with conflicting interests. Representation of the private sector is also useful, increasing efficiency as the private sector often have experience serving on boards, and often bringing a level of financial expertise not usually found in either government or the NGOs.

The Board should be selected in a participatory manner, with good representation by the Fund's beneficiaries, government, donors, and private sector, so that stakeholders have confidence in decisions that are taken. The roles and responsibilities of Board members must be very clear, and they should meet regularly (minimum annually) to set and approve the fund's direction, provide leadership, and craft a vision. An Executive Director should be appointed to be responsible for day-to-day management of the ETF. The quality of the Board and Executive Director and the way in which they are selected and interact, are key factors in success. Often members are expected to be volunteers but this is not a common concept in many WIO countries, and it may be necessary to provide some form of incentive for their active participation.

There are a number of ways to build up the initial fund. The two most important sources in the past have been debt swaps and the GEF; bilateral aid donors have never been a major source, with a few exceptions (e.g. Switzerland, the US, and Finland). The use of new and innovative sources, such as water usage fees, carbon sequestration credits, and taxes on tourism, are now being considered to capitalise funds. An appeal could be launched with a special event (e.g. anniversary of the MPA).

KEY POINTS FOR THE MPA

- **Setting up an ETF is not something that an individual MPA manager should consider, but MPA personnel can play a major role in any assessments as to whether this might be an appropriate mechanism for the MPA itself or for the national protected area system as a whole.**
- **Expert advice must be sought from the very beginning of the process, if it seems that this might be an appropriate approach to sustainable financing.**
- **If it is decided to go ahead with an ETF, MPA managers can assist by helping to develop alliances with businesses, government agencies, NGOs, donors and others to stimulate interest.**

Sources of further information

Conservation Finance Alliance 2003. *The Conservation Finance Guide*. Nature Conservancy (**www.nature.org**) and available on CD-ROM and the Website: **www.guide.conservationfinance.org**. Chapter on ETFs, with additional resources including:

GEF 1999. *Evaluation of Experience with Conservation Trust Funds*. with 'Lesson Notes' (also available on **www.gefweb.org.**

Bayon, R. *et al*. 1999. *Environmental Funds: Lessons Learned and Future Prospects*. IUCN/GEF. (also available on **http://biodiversityeconomics.org/pdf/topics-18-01.pdf**).

Norris, R. (ed.) 2000. *The IPG Handbook on Environmental Funds*. Interagency Planning Group on Environmental Funds (IPG) and Pact Publications. New York. **www.pactpub.com**

Preliminary Assessment. The Current Situation And Capacity Building Needs Of Environmental Funds In Africa.

Presentations from the Conference for African Environmental Funds: *Sustainable Finance for Conservation in Africa*, Arusha, Tanzania, 2002 available at: **www.conservationfinance.org/Africa_Conference/Papers_&_Talks.htm**

Humphrey, S. 2003. Module 7. Financial Management. *In*: Francis, J., *et al*. (eds.) *Training for the sustainable management of Marine Protected Areas: a training manual for MPA managers*. CZMC/Univ. Dar es Salaam, WIOMSA, The World Bank.

Spergel, B. & Moye, M. 2004. *Financing Marine Conservation: a Menu of Options*. Center for Conservation Finance, WWF, Washington D.C., USA. **www.panda.org/downloads/marine/fmcnewfinal.pdf**

CASE STUDY

An ETF for protected areas in Madagascar

The Madagascar Protected Areas and Biodiversity Foundation is being set up to provide sustainable funding for the country's protected areas system as part of a national sustainable financing strategy. Currently, all protected areas depend on external funds, mainly from donors, and it is expected that such assistance will substantially decrease within the next five years. With an estimated future capital of US$50 million invested, the Foundation is expected to cover a significant part of the costs of protected area management. In addition to revenue from an endowment fund, sinking funds raised by the Foundation will provide additional resources. The Foundation will also manage funds on behalf of donors; for example the World Bank's contribution to the biodiversity component of the last phase of the Madagascar Environment Program will be channelled through the Foundation.

The Foundation will provide financial support for all major management activities such as conservation, ecotourism, education, and to a lesser extent, research. Development activities in protected area buffer zones, however, will not be a priority as there are already national development programs which reach these regions. One part of the Foundation's endowment fund is earmarked for the creation of new protected areas, including MPAs.