



# GEF LESSONS NOTES

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*The GEF recently completed an evaluation of **Experience with Conservation Trust Funds**. The evaluation sought to determine the extent to which potential advantages of trust funds have been realized, how concerns about them have been addressed, what conditions are necessary for funds to function effectively, and what can be said about their impact to date on biodiversity conservation. The evaluation assessed the experience of 13 funds, and included field visits to seven.*

*The trust funds examined in the evaluation have substantial accomplishments and have been effective under certain circumstances. However, they are only one of an array of institutional arrangements available to address issues of biodiversity conservation and sustainable use. This issue of GEF Lessons Notes is the first of three that draw on the evaluation, and discusses when a conservation trust fund may be an appropriate mechanism for supporting conservation activities.*

—Jarle Harstad

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## WHEN IS CONSERVATION BEST SERVED BY A TRUST FUND?

Trust funds have been set up in many developing countries during the past decade as a way to provide long-term financing for biodiversity conservation. They are typically created in and managed by private organizations, and are capitalized by grants from governments and donor agencies, the proceeds of debt-for-nature swaps, and, less often, from taxes and fees specifically designated for conservation. The funds examined in the evaluation of *Experience with Conservation Trust Funds* seek to provide more stable financing for national parks and other protected areas, or grants to private organizations and community groups for projects to expand understanding of conservation and to conserve biodiversity by using resources more sustainably.

The evaluation found that the most successful conservation trust funds were more than just financial mechanisms. They were able to act as independent organizations to influence their environment to build effective, responsive, and focused programs. They were the product of broad consultative processes. They had governance structures that involved people from different sectors, credible and transparent operational procedures, and sound financial management practices. The creation of such a trust fund requires a substantial investment of time and resources, and long-term commitment to building a new institution.

One of the first questions often asked about trust funds is whether the advantages of creating a fund outweigh the costs of tying up capital to generate relatively modest amounts of income over a long period of time. However, the choice of approaches depends on what a program is trying to accomplish; it cannot be answered on purely financial grounds. Several other factors are also crucial:

- the nature of the threat to be addressed;
- the type and time horizon of conservation activities;
- the abilities of other organizations;
- the need for—and value of—providing a mechanism for governmental and non-governmental organizations to work together to address conservation issues;
- the degree of commitment from government and other key players to support a trust fund and participate in its work; and
- the confidence in a country's legal and financial practices and supporting institutions.

## Nature of the Threat

Conservation trust funds are appropriate when the threat to biodiversity that is being addressed is *long-term and requires a sustained response over a number of years*. Trust funds are not the solution when the biodiversity resource in question faces major, urgent threats requiring mobilization of significant amounts of funding in a short time.

## Type and Time Horizon of Conservation Activities

Financially, trust funds can be structured in three ways. Creating an *endowment* allows capital to be invested. Only income from those investments is used to finance conservation activities. *Sinking funds* disburse their entire principal and investment income over a fixed period of time, usually a relatively long period, e.g., 10 years. *Revolving funds* provide for the receipt of new resources on a regular basis—such as proceeds of special taxes designated to pay for conservation programs—which can replenish or augment the original capital of the fund and provide a continuing source of money for specific activities. Any particular fund can combine these features as part of its mix of resources.

Faced with a decision about whether to create an endowment or sinking fund or spend it in a more traditional 4-5 year project, donors and local and international conservation communities should consider the *time horizon of the activities* they seek to support. Endowed trust funds can be appropriate for ongoing activities such as basic protected area management costs. Shorter term projects may be better for immediate needs such as infrastructure development. Between these two extremes, sinking funds can provide predictable but medium-term support for activities that eventually conclude, are handed over to organizations whose capacities have increased, or develop other sources of recurrent funding.

The evaluation documented two types of funds that have effectively addressed long-term needs. “Parks funds” provide recurrent and other costs of protected area management. “Grants funds” provide support for specific conservation activities, typically carried out by NGOs and community-based organizations.

“Parks funds” have been successful in providing “resource security”—assurance that basic operating costs and staff salaries will be covered—for protected areas. This allows park managers to concentrate on conservation activities, attracting project funding, and collaborating better with communities and interested organizations. A typical alternative has been to provide project funds directly to a protected areas agency. But it has sometimes been difficult for these agencies to sustain conservation efforts once project funding ends. This can lead to a “boom-bust” cycle, with a high level of spending during project implementation and then lack of follow-up and maintenance. Trust funds’ ability to generate more modest amounts of resources consistently over a longer period of time can smooth out such cycles.

It is unrealistic to expect a “parks fund” to generate all the resources needed to manage individual protected areas or a national system. Such a trust fund is most effective when its resources can be used in a strategic and catalytic way to cover basic costs but still encourage the adoption of complementary financing mechanisms—co-financing, government appropriations, user fees and other special levies. The Mexican Nature Conservation Fund, for example, expects some of the protected areas it supports to phase in fees and other recurrent revenues.

“Grants funds” have played a useful role in involving non-governmental organizations and private businesses in activities such as co-management of protected areas, private reserves, development of sustainable economic uses of biodiversity resources, and alternative livelihoods for resource users. A trust fund can be a transitional strategy for developing a stronger civil society presence in resource management, and building the capacity of NGOs.

## Organizational Abilities

An important question to ask when considering the creation of a conservation trust fund is *whether an existing agency can effectively manage the amount of funds and type of activities needed to address*

*the problem.* The challenge of conservation and sustainable use of biodiversity often requires new institutions to provide long-term financial stewardship and to pioneer participative, inclusive approaches to defining priorities and evaluating project proposals. In these cases, the public-private structures typically adopted by trust funds can provide advantages, including the ability to time disbursements for effective use (rather than being driven by an externally-funded project schedule).

Another factor to take into account is *whether there is a community of organizations able to implement the range of activities needed* to achieve the conservation objective being sought. This includes not only organizations to conduct field-level activities, but also supporting institutions to carry out monitoring and data collection, awareness-raising and education, and management training to support local groups. Trust funds have shown an ability to work flexibly to build capacity in partner organizations. For example, some of the funds analyzed in the evaluation helped potential recipient organizations plan their activities better and strengthen internal management skills. They also collaborated with others to improve understanding of the threats to biodiversity, and expand environmental education efforts in support of biodiversity conservation.

Finally, it is important to ask *whether existing operational procedures are appropriate* for the kinds of conservation activities needed. Some of the trust funds analyzed in the evaluation were able to break administrative bottlenecks and develop alternatives to bureaucratic procedures that kept money from reaching the field in a timely manner. In several cases, government procurement and accounting systems were not appropriate for managing the types of disbursements typical in remote protected areas—many small expenses for which formal receipts were not available. As private institutions, trust funds offer an opportunity to bring to bear a more businesslike system of financial management and controls, while maintaining transparency and accountability to donors and other stakeholders.

### Multi-Sectoral Mechanisms

Institutional aspects are also important to consider. Where existing agencies already operate in participative and transparent ways, there may not be a need to create a new institution. However, *when there is a need for a new kind of institution* that will be accountable to its stakeholders and will bring in leaders from various sectors to create open and inclusive mechanisms, a trust fund can be an effective approach. In the countries visited during the evaluation, conservation trust funds were often one of the few instances of organizations where government, NGOs, businesses, academic institutions and community groups came together to manage an activity jointly.

### Local Commitment and Ownership

The evaluation concluded that two conditions are essential for the success of a conservation trust fund. First, there must be active government support—not just acquiescence or agreement—for a mixed, public-private sector mechanism in which it actively participates but that operates beyond direct government control. The most effective trust funds studied enjoyed broad-based government support at all levels—from senior political leaders to regional and local bodies, extending beyond environmental departments to include ministries of finance and planning. Second, there must be a critical mass of people from diverse sectors of society—NGOs, government, the academic and private sectors, and donor agencies—who can work together despite what may be different approaches to biodiversity conservation and sustainable development. A common vision is needed for a trust fund to realize many of the potential advantages discussed above. Developing this support and vision may require substantial encouragement through broad consultations and advocacy often over long periods. However, when prospects for meeting these two conditions are bleak, a trust fund is not likely to be a viable approach.

### Legal and Financial Environment

Trust funds can provide a steady stream of resources only if their capital is invested prudently and managed well. Accountability to donors and the public requires rigorous record keeping and regular, independent audits. Optimum performance depends on the trust fund's ability to have faith in and en-

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force contracts with project implementers, technical assistance providers, and others. Thus, a successful trust fund must be set in an environment with well established systems of banking, auditing, and contracting, including appropriate legislation and oversight. When these systems are absent or cannot be depended on, a project approach that includes other kinds of conditions and safeguards would usually be preferable.

### Summary: Conditions for Success

The evaluation identified a number of conditions for a trust fund to be successfully established, and to assure its effective operation (see checklists). It is not necessary for all of the conditions to be present for a trust fund to succeed, but project planners should take seriously the absence of any enabling factor, and make plans to compensate for this, or choose another financing mechanism. That said, the evaluation concluded that a trust fund should be considered only if four of these conditions are present:

- The biodiversity conservation issue to be addressed requires a long term commitment—at least 10-15 years;
- There is active 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 of society who can work together despite different approaches to biodiversity conservation and sustainable development; and
- There is a basic fabric of legal and financial practices and supporting institutions in which people have confidence.

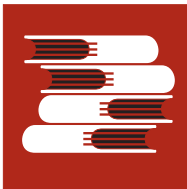
Where threats to biodiversity are serious and immediate, where they can be effectively addressed by the rapid mobilization of relatively large amounts of funding, and where this level of activity can be sustained, traditional project approaches may be more appropriate.

### FEEDBACK AND SUGGESTIONS



We hope the *GEF Lessons Notes* series will be a catalyst for an on-going dialogue on what is working, what is not, and how people involved in the GEF have found solutions to challenges that face all of us. We welcome your reactions to this edition. We would also like your suggestions of topics of interest to you. Please send us an email at [geflessons@gefweb.org](mailto:geflessons@gefweb.org)—or contact us at the coordinates listed below.

### OTHER GEF MONITORING AND EVALUATION PUBLICATIONS OF INTEREST



The full report and a Summary Evaluation Report on *Experience with Conservation Trust Funds* are available on the GEF web site ([www.gefweb.org](http://www.gefweb.org)) or from the GEF Secretariat monitoring and evaluation team. Earlier issues of *GEF Lessons Notes* can be also obtained from the GEF web site or by writing us. If you would like to be on the mailing list for regular receipt of *GEF Lessons Notes*, please contact our email address or the address below. Please let us know whether you wish to receive an electronic version or a hard copy, and which language (English, French, or Spanish) you would prefer.

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## FACTORS IMPORTANT FOR ESTABLISHING A TRUST FUND

*Factors in **bold type** are essential. Some “critical mass” of the remaining factors should also be present; absence of more than a few greatly increases risk.*

- ✓ **A valuable, globally significant biodiversity resource whose conservation is politically, technically, economically, and socially feasible. Absence of major threats requiring urgent mobilization of large amounts of resources (i.e., the conservation action required is long term and addressable with the flows a trust fund could produce).**
- ✓ **Government support of the concept of a fund outside government control, that involves both the public and private sectors. The support should be active and broad-based, from senior political leaders to regional and local bodies, extending beyond environmental ministries and departments to include ministries of finance and planning. A reasonable financial contribution from government, if not directly to the fund, then to project activities.**
- ✓ A legal framework that permits establishing a trust fund, foundation, or similar organization. Tax laws allowing such a fund to be tax exempt, and providing incentives for donations from private contributors.
- ✓ **People with a common vision—from NGOs, the academic and private sector, and donor agencies—who can work together despite their different approaches to conservation. The support and involvement of business leaders is crucial to bring in private sector management skills, especially skills in financial management.**
- ✓ **A basic fabric of legal and financial practices and supporting institutions (including banking, auditing, and contracting) in which people have confidence.**
- ✓ Mechanisms to involve a broad set of stakeholders during the design process, and willingness of stakeholders to use these mechanisms.
- ✓ Availability of one or more mentors—a donor agency with good program support, a partnership with an international NGO, “twinning” with another, more experienced trust fund—who can provide both moral and technical support to the fund during the start-up and program implementation phases.
- ✓ Realistic prospects for attracting a level of capital adequate for the fund to support a significant program while keeping administrative costs to a reasonable percentage. In most cases this means having clear commitments from other donors beyond the GEF, or debt swap mechanisms established, before starting the fund.
- ✓ An effective demand for the fund’s product, i.e. a client community interested in and capable of carrying out biodiversity conservation activities on the scale envisioned, and sufficient to achieve significant impact.

## FACTORS IMPORTANT FOR SUCCESSFUL TRUST FUND OPERATIONS

- ✓ Clear and measurable goals and objectives. A “learning organization” mentality and environment, oriented toward results and achieving objectives, and flexibility to make adjustments in objectives or approach based on feedback and experience.
- ✓ A governance structure with appropriate checks and balances, conflict of interest provisions, and succession procedures. “Ownership” of the fund by its board and other governing bodies, indicated by members’ commitment of time, engagement in policy and leadership, and building support of the fund with varied constituencies.
- ✓ Linkage between the trust fund and the leadership of any national biodiversity strategy or environmental action plan.
- ✓ Ability to attract dedicated, competent staff, particularly a strong executive director. Harmonious and productive board-staff relationships.
- ✓ Basic technical and other capabilities that permit the fund to become a respected and independent actor in the community. Access to, and constructive use of, training, mentoring, and technical assistance programs to build capacity.
- ✓ Constructive relationships with relevant government agencies, with intermediary organizations that provide services to grantees, and with other organizations in the community. The fund should avoid becoming an executing agency itself.
- ✓ Financial/administrative discipline combined with program 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 programs and direction. Enough clear vision and leadership to avoid program fragmentation and being pulled in many directions.
- ✓ Asset management competitively selected; diversified portfolio of investments; financial expert to provide regular reporting; and oversight by fund boards comparing actual performance to benchmarks.
- ✓ A supportive, nurturing implementing agency task manager, able to bring in the resources and expertise needed.