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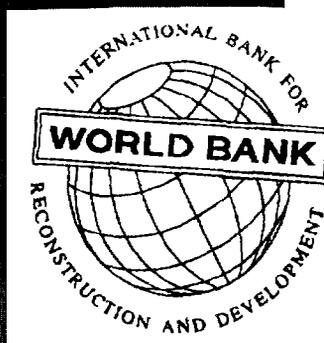
A World Free of Poverty



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Findings

Africa Region . Number 5 . October 1993



Findings reports on ongoing operational, economic and sector work carried out by the World Bank and its member governments in the Africa Region. It is published periodically by the Africa Technical Department on behalf of the Region.

Developing Financial Mechanisms for Long-term Funding of Biodiversity Conservation

For the past five years, conservation organizations have been seeking alternatives to traditional ways of financing conservation projects. Beginning mainly in Latin America as ways to manage money from debt-to-nature swaps and the Enterprise for the Americas Initiative announced by former President Bush in June 1990, these initiatives have now spread to other parts of the world, and have evolved as different mechanisms.

It is impossible to predict whether the current "boom" in international financing for conservation will last, and if so, at what level. Therefore, establishing long-term financial mechanisms, such as trust funds, endowments, and foundations, is essential. One source of funding - the Global Environment Facility (GEF) - is itself a unique international concept. The GEF presents a challenge for the international community to think through new funding mechanisms in order to avoid placing additional burdens on governments - which already have problems dealing with the recurrent cost budgets of high priority projects. If new financial mechanisms which address the long-term commitments and assurance of recurrent cost financing can be found, an important contribution will be made to international development financing.

With this in mind, the Regional Environment Divisions and the Global Environment Facility Administration in the Environment Department of the World Bank sponsored a one-day workshop in March, 1992. Conservation professionals, financial and legal specialists, and Bank operational staff involved in biodiversity work, particularly GEF projects, gathered to discuss trust funds, endowments, and foundations as ways of providing long-term funding for biodiversity conservation. Another workshop focusing on trust fund design for GEF biodiversity projects was held in July of that year.

This study completed by the Technical Department of the Africa Region (**Financial Mechanisms**

for Sustainable Conservation) presents the issues and operational lessons derived from these workshops. Part A sets out the background to these workshops; Part B examines issues in setting up a long-term financial mechanism; Part C addresses special considerations for the GEF; and Part D summarizes the conclusions drawn from the workshops. Annex 1 details five case studies relating to the setting-up and working of long-term financial mechanisms. The general findings include the following:

- Trust funds, endowments, and foundations help develop institutions involved in conservation. They are able to absorb large amounts of money and release them as a reliable, if modest, cash flow over a long period - theoretically in perpetuity. They ensure that institutions and national programs are not flooded with a rapid, short-term influx of capital. These mechanisms can develop according to a natural cycle which enables institutions and programs to grow over the long term.
- Without the involvement of local people, NGOs, and the private sector, protected areas will suffer progressive deterioration. Long-term financial mechanisms, properly designed, can provide opportunities for local people and groups to participate in funding decisions that affect their communities.
- Financial mechanisms need to be set up and articulated in ways that will survive changes of individuals, policies and governments.
- A dual process is key to the sustainability of long-term financial initiatives - making money available immediately in the field while simultaneously building up policy and planning coordinating mechanisms.

Case Studies

Background information on five financial mechanisms, all designed to conserve biodiversity, are provided in the annex mentioned. The first, the **Bhutan Trust Fund**, was established in March 1991. The Royal Government of Bhutan (RGOB) will receive US\$10 million (distributed in two tranches) from the Global Environment Trust Fund to leverage matching funds from bilateral donors, NGOs, and other agencies within the UN system. The two main goals of the Bhutan Trust Fund are (a) to help the RGOB conserve its forests and preserve its rich biological resources; and (b) to test the feasibility of a trust fund to provide long-term support for both the recurrent and capital costs of a biological diversity conservation program.

The **Bolivia National Fund for the Environment (FONAMA)**, is an umbrella fund. It is comprised of different accounts which invest in the environment, driven by the priorities and needs developed by Bolivia's Environmental Action Plan. FONAMA's structure is flexible and can receive funding from many different sources. FONAMA can manage accounts as diverse as the Enterprise for the Americas Initiative Account, which awards grants to NGOs, and the World Bank Technical Assistance Project Account, which is directed mainly at government agencies. Each account has one constant element - the administrative council. Each council determines the use of funds with inputs from FONAMA, Bolivia's General Secretariat of the Environment, the funding agency, and the implementing organizations.

The third mechanism, the **Foundation for the Phillipine Environment (FPE)**, will set up an independent funding base for (a) conserving the Philippines' biological diversity; (b) enhancing the ability of NGOs and other groups to carry out effective environmental and sustainable development projects and programs; and (c) encouraging community-based sustainable natural resource management. FPE's funding will be maintained from a number of sources, such as gifts, bequests,

grants, and endowments.

In April 1991, USAID/Philippines and the World Wildlife Fund (WWF) signed a cooperative agreement to implement a face-value debt swap and provide technical assistance to the FPE. In July 1991, WWF also signed a cooperative agreement with the Philippine Business for Social Progress to help in organizing the foundation. FPE will manage an endowment established through USAID which provides US\$5 million to WWF for a debt-for-nature swap. In addition, the Bank of Tokyo is donating US\$200,000 face-value debt paper to WWF for use by the foundation. The debt-for-nature swap, completed in March 1992, raised about 10 million Philippine pesos for the endowment. The foundation will be operational in about two years.

The **Guanacaste Conservation Area (GCA)** has been set up to support the long-term survival of a dry tropical forest ecosystem in Costa Rica. An endowment has been established with US\$3.3 million and land contributed by a local company. Traditionally, resources (such as cash, supplies and personnel) are assigned with little regard for local participation and the actual needs of the area. The GCA's emphasis on a decentralized process marks a radical change in the way that national parks and other conserved wildlands have been managed in Costa Rica.

Finally, the proposed **Peru Trust Fund for Conservation Units Project** has three goals:

- (i) Through the establishment of a trust fund (the National Fund for the Natural Areas Protected by the State, or FONANPE), it would provide a long-term and predictable source of funding for the protection of Peru's biodiversity.
- (ii) It would improve the Department of National Park's capacity to manage Peru's conservation units.
- (iii) The project would test the viability of a trust fund mechanism to provide long-term and sustainable funding for biodiversity conservation.

The workshops also focused on resolving issues related to governance, financial considerations, legal problems, administration of the funds, the working of conservation projects and programs through trust funds, endowments and foundations, and monitoring an evaluation. The general conclusion was that, ultimately, approaches to the use of conservation funds must necessarily derive from the specific country-context in which they seek to operate. However, given the prevailing situation, institutional and financial mechanisms of the type described in the case studies seem to offer the best hope of developing sustainable conservation efforts.

Jeri Larsen. 1993. **Financial Mechanisms for Sustainable Conservation**. AFTES Working Paper No. 1. Environmentally Sustainable Development Division, Technical Department, Africa Region. Washington D.C.: World Bank.

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