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GEF Evaluation of Experience with Conservation Trust Funds

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GLOSSARY OF ACRONYMS USED IN THE EVALUATION REPORT

BINP	Bwindi Impenetrable Forest National Park
CBD	Convention on Biological Diversity
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CONABIO	National Council for Knowledge and Use of Biodiversity (Mexico)
CTFANP	Technical Committee for the Natural Protected Areas Fund (Mexico)
EAI	Enterprise for the Americas Initiative
EFJ	Environmental Foundation of Jamaica
EU	European Union
FANP	Fund for Natural Protected Areas (Mexico)
FCG	Conservation Trust of Guatemala
FGV	Getulio Vargas Foundation (Brazil)
FMCN	Mexican Nature Conservation Fund
FOCADES	Central American Fund for Environment and Development
FONAMA	National Environment Fund (of Bolivia)
FONANPE	Fund for Natural Protected Areas Protected by the State (Peru)
FPE	Foundation for the Philippine Environment
FUNBIO	Brazilian Biodiversity Fund
GEF	Global Environment Facility
GEFSEC	Global Environment Fund Secretariat
GTZ	German Agency for Technical Cooperation
INRENA	Natural Resources Institute (Peru)
IPG	Inter-Agency Planning Group on Environmental Funds
IUCN	World Conservation Union
JCDT	Jamaica Conservation and Development Trust
JNPT	Jamaica National Parks Trust
LCSC	Local Community Steering Committee (Uganda)
MBIFCT	Mgahinga-Bwindi Impenetrable Forest Conservation Trust (Uganda)
MGNP	Mgahinga Gorilla National Park
M&E	Monitoring and evaluation
NEF	National Environment Fund
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
PACT	Protected Areas Conservation Trust (Belize)
PIR	Project Implementation Review
PROBIO	Brazilian Biodiversity Project
PROFONANPE	The Peruvian organization responsible for FONANPE
QCBS	Quality and Cost-Based Selection
RGOB	Royal Government of Bhutan
SGP	GEF Small Grants Programme
TMF	Table Mountain Fund (South Africa)

TNC	The Nature Conservancy
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
USAID	United States Agency for International Development
UWA	Uganda Wildlife Authority
WWF	World Wide Fund for Nature
WWF-SA	World Wide Fund for Nature – South Africa
WWF-US	World Wildlife Fund – United States

EXECUTIVE SUMMARY

The GEF has supported conservation trust funds in several countries as a means of providing long-term funding for biodiversity conservation. This evaluation was carried out by the GEF Secretariat's monitoring and evaluation unit in order to determine to what extent the potential advantages of these trust funds have been realized, how the concerns expressed about them have been addressed, what conditions appear to be necessary for funds to function effectively, and what can be said from the experience to date about their impact on conservation and sustainable use of biological diversity.

The evaluation team analyzed the experience of 13 funds in an attempt to distill lessons learned and make recommendations to the GEF regarding future assistance to conservation trust funds The evaluation focused on GEF-supported funds, as well as six others selected to give the portfolio geographical balance, provide opportunities to analyze the relative advantages of funds of various sizes and types, and provide insights on particular aspects of interest, such as innovative funding mechanisms. It should be noted that the GEF experience to date is largely of trust funds implemented by the World Bank.

This report is addressed specifically to the GEF, responding to concerns raised by the GEF Council at its October 1996 meeting about the success of trust funds as a means to achieve GEF purposes, that is, to finance the incremental costs of protecting globally significant biodiversity resources. There may be instances where a conservation trust fund is not appropriate in the GEF context but may still be a useful mechanism to address national conservation objectives. That notwithstanding, it is important to bear in mind that the GEF is currently the major source of international funding available for the capitalization of trust funds

The evaluation showed clearly that there is no "typical" conservation trust fund The funds' structure, scope of activities, priorities, and procedures vary according to their purposes, and the situation of the country they serve. However, it was useful in analyzing the funds' experience to group them into two general categories. "Parks" funds support specific protected areas within a national protected areas system. (The majority of GEF-supported funds fall into this category.) "Grants" funds channel resources to target groups (typically NGOs and community-based organizations) for a broad range of conservation and sustainable development projects, and often include the development of civil society institutions among their objectives These two types of funds tend to have significant differences in their relation to national strategies, in their governance structure, program management, and the ways and ease with which they meet GEF criteria This is discussed in detail in Annex D.

Summary of Findings and Conclusions

The team concluded that trust funds are not simply financial mechanisms, but must be viewed as institutions that have several roles to play, in addition to channeling funds. These include roles as key actors in the development of national conservation strategies,

as technical experts who can work with public and private agencies to develop agile and effective management approaches, and in some countries, as capacity-builders and nurturers of an emerging group of non-governmental organizations becoming involved in biodiversity conservation. To succeed, these institutions need more than financial management systems and skills They need governance structures, staff, and technical support to enable them to proactively influence the environment in which they work, and to maintain transparency and support for participatory approaches to conservation and sustainable development.

The team found that trust funds have made impressive accomplishments in the areas of (a) supporting protected areas, including enabling the creation of new national parks, expansion of existing areas, and providing a basic "resource security" for their operations; (b) generating and managing financial resources; (c) enabling the participation of civil society institutions in resource conservation; (d) increasing the level of scientific research applied to conservation issues; and (e) increasing public awareness of conservation issues. Uncertainty remains, however, about trust funds' ability to demonstrate long-term biodiversity conservation impact. In part, this is due to the difficulty of measuring biodiversity impact, and of attributing impact to a particular intervention, especially over the short term It is also true that trust funds generate relatively small amounts of resources in relation to national conservation needs.

The two types of trust funds address these concerns in distinct ways. "Parks" funds have shown some ability to create a basic sense of "resource security" for protected areas, enabling managers to focus on conservation rather than the endless scramble for financial resources. Several "grants" funds have chosen a programmatic or geographic "niche" in which to focus their activities to achieve maximum impact.

The funds have generally met GEF criteria. Specifically,

- Most of the funds studied, and all of the GEF-supported funds, have focused their programs to achieve *global environmental benefits* in the GEF's biodiversity focal area

- All of the funds studied fit within GEF's *operational programs*, usually supporting activities in several of the ecosystem types that define biodiversity operational programs (forest ecosystems, mountain ecosystems, arid ecosystems, freshwater and marine ecosystems).

- All of the funds studied are *country-driven* (i.e., governments and other sectors show strong commitments to fund objectives), reflect broad *public involvement and participation*, demonstrate *innovation*, and have *leveraged additional resources for global conservation*.

- Although the funds examined were largely Pilot Phase projects not subject to the *incremental cost criteria*, their programs illustrate ways that future funds can meet these criteria: in the case of protected areas, through up-front

agreements on the percentage of support to be provided by the government and by the fund, and in the case of grants to NGOs and community-based organizations, through requirements for counterpart and matching contributions

Trust funds have leveraged substantial additional funding for conservation. This has been true at the level of the fund itself -- for example, the six GEF funds with operating experience have raised more than $33 million in non-GEF contributions -- and at the level of projects financed by the fund, which generally include substantial counterpart contributions by the recipient organizations. However, only one of the funds studied has met its objectives for raising additional *endowment* funding. Most of the money raised has been short-term project financing or 6-10 year sinking funds. This has important implications for the design of future trust funds, as discussed in the team's recommendations. (See especially recommendations 5, 6, and 7.)

The majority of the funds studied were set up as non-governmental institutions with mixed public-private governing bodies. Non-governmental representatives on the governing body typically held the majority, with government often restricted to one or two seats. The team found several advantages of larger over smaller boards, in particular, the ability to establish working committees to deal with the diverse issues that funds must address: financial management, fundraising, technical oversight, etc. Also, governing boards whose members are elected in their personal capacity, as opposed to formal representation of organizations, agencies or sectors, tend to develop a stronger sense of "ownership" of the fund as an institution, and work more effectively to implement the fund's mission. The more formally representative boards tend to see their role in terms of allocating resources among their various agencies and sectors. Few of them do an adequate job of reporting back to their constituencies and keeping them involved.

Most of the funds studied have been able to keep their operating (non-program) costs in the 25-30 percent range (and some below 20 percent). However, there has been no clear guidance from GEF or its implementing agencies on acceptable levels of operating costs, or the basis on which those costs are calculated. Most of the funds at the high end of the operating costs range were either (1) operating on such small endowment income that even minimal operating costs constituted a high percentage or (2) not segregating different types of costs. *Operating costs* include both costs of an administrative nature (project identification, selection, supervision) and the costs associated with funds' roles as institutions (e.g., costs of board operations, fundraising, constituency building, participation in policy dialogue). However, funds also incur costs for *program support* such as technical assistance to grantees and *institution building* of the fund itself (staff training, technical support for development of policies and procedures) that are not properly considered operating costs.

The GEF-supported funds have successfully applied an asset management and asset manager selection model developed by the World Bank. This includes development of investment guidelines that reflect a conservative risk strategy and portfolio diversification; competitive, international selection of experienced, professional asset

managers; and regular, active oversight by the fund's board of directors of investment performance compared to standard benchmarks. The GEF-supported funds have generally established spending rules or practices that preserve capital over the long term by building cushions when returns are good for program support in times of market downturn.

The activities of all trust funds studied were consistent with national environmental or biodiversity strategies and/or action plans, and with the Convention on Biological Diversity However, since the range of activities consistent with these broad guidelines is generally wide, it is difficult to imagine a trust fund supporting projects *outside* these frameworks Trust funds in countries with participative strategies and planning processes generally had good links, while other trust funds had limited contact, often due to the planning process being inaccessible, stalled, overturned by a succeeding government, or otherwise of limited relevance

Some countries have established a single, national trust fund; others, one or more trust funds of limited geographical or programmatic scope. Where there is a clear need and strong local support (Uganda, South Africa) the site-specific funds have been effective. In general, except in the largest countries, the team observed a limited pool of national talent available to be tapped for governance, asset management, and policy oversight, and a limited pool of potential financial supporters for whom multiple funds would compete There appear to be significant advantages of scale in combining multiple purposes or "windows" in a single fund.

Finally, trust funds are only one of an array of financial mechanisms and institutional arrangements used to address biodiversity issues. The team identified key conditions *indicating* when a trust fund is likely to be the appropriate mechanism, and *influencing* the fund's ability to function as an institution and carry out its mission (Chapter IV). In particular, the team identified several factors that affect calculations of the "opportunity cost" of establishing a trust fund, and when other approaches might be more suitable (Box 10) It bears repeating, in conclusion, that *trust funds are more than financial mechanisms*, and are generally appropriate when the issue to be addressed is long-term in nature Where threats to biodiversity are serious and immediate, and can be effectively addressed by the rapid mobilization of relatively large amounts of funding, traditional project funding may be more appropriate.

The recommendations arising from these findings and conclusions are summarized in Box 1

BOX 1: RECOMMENDATIONS

GEF FINANCING OF TRUST FUNDS

GEF should continue to finance conservation trust funds when the necessary circumstances are met.

BOX 1: RECOMMENDATIONS

Four conditions are essential:

- The issue to be addressed requires a commitment of at least 10-15 years;
- There is active government support for a public-private sector mechanism outside direct government control;
- A critical mass of people from diverse sectors of society can work together to achieve biodiversity conservation and sustainable development, and
- There is a basic fabric of legal and financial practices and supporting institutions (including banking, auditing and contracting) in which people have confidence

The initial capitalization, together with other resources available on a recurrent basis, should allow a meaningful program in the chosen area of focus, over a significant period, keeping operating costs within a range of 20-25%. Trust funds should not be created without commitments for this minimum amount of capital from the outset

GEF support should be structured to provide incentives to encourage raising additional capital and assistance in developing innovative capitalization approaches.

GEF and its implementing agencies should explore ways in which they could provide resources to sustain partnerships with trust fund "graduates" beyond the supervision period.

DESIGN ISSUES

The concept of conservation trust funds as independent organizations that are more than financial mechanisms should be reflected in staffing patterns, governance structures, recruitment criteria for board members and staff, and technical support provided by outside donors and partners.

GEF projects supporting trust funds should make provision for training and technical assistance.

GEF support for recurrent costs of protected areas through "parks" funds should include a strategy for increasing other resources for these costs and seeking ways certain activities or areas could become self-financed. Individual conservation, sustainable use, and education projects supported by "grants" funds should have prospects for sustainability and/or achieving their objectives in a reasonable period with no need for continuing funding

GEF's implementing agencies should apply clearer and more consistent guidance on operating costs.

GEF's implementing agencies should consider the impact on trust fund agility and responsiveness, as well as operating costs, of prescribing complex procurement or administrative procedures.

The GEF should continue to apply as standard practice for its capital contributions to trust funds the successful asset management and asset manager selection model developed by the World Bank

GEF support for conservation trust funds, especially for the creation of new funds, should encourage the development of partnerships with international NGOs with experience and recognized abilities in this area, as well as the exchange of information among trust funds.

GEF and its implementing agencies should provide increased support to help trust funds define their intended impacts on biodiversity conservation and sustainable use and to develop performance indicators and simple, useful monitoring and evaluation systems to measure progress toward these objectives and feed back experience into program improvements and management decisions

I. INTRODUCTION AND BACKGROUND

1. More than thirty environment funds have been created over the past decade. Seven have received GEF support and assistance; 15 more are under design or active consideration. Generally, these funds aim to provide a long-term source of funding for biodiversity conservation and sustainable development. They are often seen as vehicles for bringing many stakeholders together to prioritize conservation actions that respond to local needs. The *Study of GEF's Overall Performance* and the *Study of GEF Project Lessons*, both conducted in 1997 as part of the Secretariat's monitoring and evaluation program, also recommended increased GEF support for conservation trust funds.

2. Others have raised questions about GEF financing of conservation trust funds. Concerns include the extent to which trust fund-supported activities meet GEF's criteria on global environmental impacts and incremental costs, the "opportunity cost" of providing relatively large sums of GEF grants to capitalize endowment funds, and how to assure the performance of the funds is adequately monitored and evaluated. The GEF Council in October 1996 requested the Secretariat to prepare a paper examining issues related to trust funds and the experience of World Bank-supported funds. This evaluation was designed to inform that paper and the further discussion on this topic by the Council at its October 1998 meeting.

3. This evaluation examined the experience of 13 conservation trust funds, seven of which received GEF support (in Bhutan, Brazil, Mexico, Peru, South Africa, Uganda, and the Eastern Carpathians region of Poland, Slovakia and Ukraine). GEF projects in Bhutan and central Europe have recently been completed, the projects in Uganda and Peru are approximately at the mid-point of their implementation, the project in Brazil has been in operation for about two years, the Mexico project has just begun (in January 1998) to operate under a restructured design which involves a trust fund, and GEF activities have not yet begun in the Table Mountain Fund in South Africa (approved in early 1998). Except in South Africa, these projects are from the GEF Pilot Phase. The other six funds were selected to complement the sample of GEF-supported funds with respect to size, type of program, sources of financing, and geographic distribution.

4. The evaluation was designed to answer the following questions:

- to what extent have the potential advantages of environment trust funds been realized in practice, and have the concerns expressed about them been minimized or overcome?
- what conditions are needed for conservation trust funds to succeed and what conditions are likely to hinder success?
- what evidence is there to date of the impact of these funds on conservation and sustainable use of biological diversity?
- what lessons and good practices can be identified from this experience that could usefully

be applied by other current or future funds?

- what recommendations for GEF policies result from a review of this first generation of conservation trust funds that would help guide future assistance to conservation trust funds?

5 To help answer these questions, the evaluation team looked at the strategic and national context within which conservation trust funds operate, their governance and management structures, how funds set their program objectives and manage their activities to achieve them, and their asset and financial administration performance. The team also looked at disbursements and visited projects financed by trust funds. The complete Terms of Reference for the evaluation is included as Annex A to this report

6. The evaluation was carried out under the direction of the GEF Secretariat's monitoring and evaluation team Scott E. Smith was the team leader The evaluation team included three GEF staff from the two implementing agencies that have supported conservation trust funds--Martin Krause and Kevin Hill from UNDP and Kathleen Mikitin from the World Bank, Walter Lusigi from the GEF Secretariat biodiversity/international waters team, and two outside consultants independent of the GEF, Ruth Norris and John Pielemeier. In addition, a reference group was formed to provide guidance to the evaluation team. Its 17 members included task managers and other implementing agency staff who have experience with trust fund projects, NGO representatives, current and former officers of environment funds, a member of the World Bank's evaluation staff, a member of the Convention on Biological Diversity secretariat, and representatives of other donors with an interest in conservation trust funds.

7. The evaluation team conducted interviews with task managers and reviewed documents (evaluations, supervision reports, project implementation reviews, project designs and related analyses, other articles and reports) on projects which include GEF-supported conservation trust funds. They also reviewed reports from international and regional fora on environment funds and other documents relating to the experience with GEF-supported and other environment funds, and interviewed people knowledgeable about this experience Seven funds in six countries were visited Brazil, Jamaica, Mexico, Peru, Slovakia (Eastern Carpathians) and Uganda Local consultants participated in these field visits in four countries: Lovelette Brooks in Jamaica; Maria Allegretti in Brazil; Silvia Charpentier in Peru; and Maria Hajnalova in Slovakia. Following the fieldwork, the team met to synthesize its findings, discussed them with the reference group, and prepared a draft of the evaluation report. The draft report was then reviewed with the GEF implementing agencies and secretariat, the NGO community, and others. Their input is reflected in this final report.

8. Chapter II of this report provides an overview of the 13 trust funds included in the evaluation. (Summary descriptions of the funds can be found in Annex C.) Chapters III and IV present the findings and conclusions of the evaluation team. Chapter V describes the implications of these findings and conclusions for GEF and includes the team's 13 recommendations.

9 A list of the many people contacted during the evaluation is contained in Annex B. The

evaluation team recognizes the valuable inputs made to this study by all of these people, and wishes to warmly thank them--especially the extremely busy board members, directors and staff of the seven funds visited--for giving of their time to contribute to our understanding and learning.

10. It is our hope that this evaluation report will be but one step in a continuing process of learning about and from conservation trust funds and the contributions they are making to the conservation and sustainable use of biological diversity in their countries. This report is only one of a series of products envisioned from this evaluation. We encourage feedback from readers, your suggestions on the kind of information and communication media that would be most helpful to you, and/or additional experience you would like to pass on related to conservation trust funds. You can contact the GEF Secretariat's monitoring and evaluation team at **geflessons@gefweb.org**.

II. SUMMARY OF FUNDS INCLUDED IN THE EVALUATION

KEY POINTS

Generalizations about trust funds are difficult because the funds vary considerably in scope, size, and purpose.

It is, however, useful to divide the funds into two general categories: "parks" funds that support protected areas, and "grants" funds that channel resources to target audiences for conservation activities. These two types differ in their relationships to national conservation strategies; their governance structures; the importance of representative involvement of stakeholders; grant management procedures, financial management strategies, and the ways and ease with which they meet GEF criteria.

11. There are various types of environment funds. Those supported by the GEF have been set up as ***trust funds*** (in countries whose legal systems are based on British or US models) or (in most civil law countries) as ***foundations***. In either case, these funds legally set aside assets (e.g., GEF grants) whose use is restricted to the specific purposes set out in a legal trust instrument. They can be structured financially in three ways. When an ***endowment*** is created, the financial assets of the fund are invested to earn income and only that income is used to finance agreed-upon activities. ***Sinking funds*** are designed to disburse their entire principal and investment income over a fixed period of time, usually a relatively long period, e.g., 15 years. ***Revolving funds*** provide for the receipt of new resources on a regular basis--for example, 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 environment fund can combine these features depending on its sources of capital.

12. The evaluation showed very clearly that there is no "typical" trust fund. The funds' structure, scope of activities, and procedures vary according to the purposes for which they were set up and the situation of the country they serve. Some are national, some regional, some dedicated to a particular biodiversity resource. Only two of the funds studied are actually national environmental funds (NEFs) in the sense of having a mandate to support the full range of activities, governmental and non-governmental, included in national conservation plans or strategies – although many conservation trust funds have quite broad mandates and the defining characteristics that would qualify a fund as an NEF have not been agreed upon. The team did not visit any environmental funds covering both "brown" and "green" agendas.

13. In describing the main features of the funds studied, the team found it useful to divide the funds into two groups, according to the types of activities they support, since several of the findings and conclusions apply particularly to one group or the other. "Parks" funds support

either national protected areas systems, or a specific protected area or group of protected areas. "Grants" funds channel resources to target groups (typically NGOs and community-based organizations) for a broad range of conservation and sustainable development projects, not limited to protected areas.

14 There are several important ways in which these two types of funds often differ. Annex D analyzes them in more depth, but generally they include:

- their role within a national biodiversity or environment *strategy;*
- *governance:* the extent of government involvement and the importance of representative involvement of stakeholders;
- *grant management* procedures for activities financed;
- the ways and ease with which funds *meet GEF criteria;* and
- *financial issues* such as the fund's structure, life expectancy and resource mobilization strategy.

15. Box 2 shows the typology of the funds studied -- at best an approximation, since several of the funds actually span the two groupings -- together with information about their founding dates and GEF funding. A brief description of each of the funds studied can be found in Annex C.

BOX 2: FUNDS INCLUDED IN THE EVALUATION

Fund Name, Country	Established	Type of Fund	GEF Funding Received
Mexican Nature Conservation Fund (FMCN)	1994 (parks fund 1997)	Initially grants, parks fund added	endowment ($16.5 million)
PROFONANPE, Peru	1992	Parks	endowment ($5.2 million)
Jamaica National Parks Trust (JNPT)	1991	Parks	none
Mgahinga-Bwindi Impenetrable Forest Conservation Trust (MBIFCT), Uganda	1995	Parks (grants window for buffer zones)	endowment ($4.3 million)
Foundation for Eastern Carpathian Biodiversity Conservation (Poland, Slovakia, Ukraine)	1994	Parks	endowment ($300,000)
Protected Areas Conservation Trust, Belize	1995	Parks	none
Table Mountain Fund, South Africa	1993	Parks	endowment ($5 million)
Bhutan Trust Fund for Environmental Conservation	1991	Primarily parks fund	endowment ($10 million)
Foundation for the Philippine Environment	1992	Grants	none
National Environment Fund (FONAMA), Bolivia	1990	Grants fund within larger agency	project
Environmental Foundation of Jamaica (EFJ)	1992	Grants	none
Brazilian Biodiversity Fund (FUNBIO)	1995	Grants	sinking fund ($10 million disbursed, additional $10 million committed)
Conservation Trust of Guatemala (FCG)	1991	Grants	none

III. FINDINGS AND CONCLUSIONS

16 To address the five key questions in its terms of reference (see paragraph 4 above), the evaluation team examined several aspects of conservation trust fund performance. These included the strategic and national context in which funds operate, their governance structures, program management, financial and asset management, activities financed, and their relationship to GEF programs, implementing agencies, and application of GEF criteria. This section begins with a review of trust fund accomplishments overall, and then presents findings and conclusions on each of these topics. Lessons, best practices, and other points of special interest are highlighted in boxes.

A. Accomplishments and Impact to Date

KEY POINTS

Trust funds' main accomplishments include:

- **Supporting protected areas, including enabling the creation of new national parks, expansion of existing areas, and providing a basic "resource security" for their operations;**
- **generating and managing financial resources;**
- **encouraging the participation of civil society institutions in resource conservation;**
- **increasing scientific research applied to conservation issues; and**
- **increasing public awareness of conservation issues.**

Uncertainty remains about trust funds' long-term conservation impact. Successful "parks" funds are catalytic in nature; successful "grants" funds have focused on program niches. Trust funds generate relatively small amounts of resources relative to conservation needs.

Biodiversity impact is closely correlated with effective demand for resources.

17. Conservation trust funds have recorded impressive accomplishments during the first 2-3 years that most of them have been in operation. At the same time, their long term success, and in particular their impact on biodiversity conservation, is still not assured, and several of the funds examined have suffered setbacks and disappointments.

18 Although conservation trust funds are generally seen as vehicles for achieving positive impact on biodiversity conservation and sustainable use, the objectives described in project documents for the first generation of GEF-supported trust funds often lacked specifics about conservation outcomes. Box 3 lists these objectives for the six projects for which there is

significant implementation experience In each case, the original project objectives focused, in one form or another, on the establishment of the trust fund mechanism itself. References to biodiversity impact are in most cases indirect.

19. Two of these projects, in Bhutan and the Eastern Carpathians, are now completed. In Bhutan, objectives have been formally achieved as all key benchmarks were met. Most of the activities supported by the fund since its inception were those designed as part of the original project. There has been little testing yet of the ability of this trust fund to serve as a grant mechanism to support conservation field activities. Given the ability of the fund to attract endowment capital from a variety of sources and the attention that is now being given to developing program management procedures, the prospects for achieving this appear promising, however. In the Eastern Carpathians, project objectives have been only partially achieved .Although the mechanism itself has been established, the fund's extremely limited capital has not allowed it to become operational in more than the most basic sense The trust fund has recently decided to hire a limited staff and make a major fundraising effort. If this effort proves successful, prospects will improve.

20. Two other projects--in Uganda and Peru--are basically at the midpoint of their implementation period. The stated project objective for the MBIFCT in Uganda appears to have been achieved, at least to the extent that grants to community groups and support for park management and research have been funded and the trust fund's capital has grown substantially through reinvestment of interest income In Peru, PROFONANPE has been extremely successful at serving as a mechanism for debt swaps. With the benefit of hindsight, the objective of strengthening the capacity of the government Natural Resources Institute (INRENA) through a private trust fund appears to have been overly ambitious, and is not likely to be achieved under present circumstances. The viability of PROFONANPE as a long term and predictable source of financing the management of priority protected areas has been partially achieved, although limited by its inability to date to attract more endowment capital, and by government domination of its governing board and a difficult transition between executive directors. However, PROFONANPE now seems poised to move forward effectively, with recent legislation changing the composition of the government's representatives on the board and a new director who is actively building bridges to the private sector and seeking to diversify its programs.

21. The remaining GEF conservation trust fund projects, FMCN/FANP in Mexico and FUNBIO in Brazil, appear to be off to an excellent start after a major restructuring away from government execution to implementation through the fund (Mexico) or a protracted design period (Brazil). Both of these projects have more specific biodiversity conservation objectives, and in this area there has been less measurable progress to date.

BOX 3: OBJECTIVES OF GEF CONSERVATION TRUST FUND PROJECTS

1. FUNDS INCLUDED AS COMPONENTS OF LARGER PROJECTS

Brazilian Biodiversity Fund (FUNBIO)

1. Provide long-term and sustainable support for conservation and sustainable use of biological diversity in Brazil.
2. Support the establishment and development of a Brazilian Biodiversity Fund that would administer a long-term grants program to promote conservation and sustainable use of biodiversity.

Foundation for Eastern Carpathian Biodiversity Conservation (Poland, Slovakia, Ukraine)

Establish a three-country mechanism through the development of an international trust for biodiversity protection whose income would be used to protect the biodiversity of this transboundary area.

2. "STAND-ALONE" FUNDS

BHUTAN TRUST FUND FOR ENVIRONMENTAL CONSERVATION

1. Assist government of Bhutan in conserving its forestry and preserving rich biological diversity.
2. Test the feasibility of trust funds as a mechanism for providing long-term and sustainable support for conservation of biological diversity

Mexican Nature Conservation Fund (FMCN)

1. Protect unique biodiversity in eligible biosphere and special biosphere reserves
2. Strengthen protected areas management at the reserve level
3. Promote local participation, including indigenous communities, in the implementation of protected areas operating and management plans
4. Ensure long-term recurrent cost financing for core protection and conservation activities

PROFONANPE, PERU

1. Provide a long-term and predictable sources of funding for the protection of Peru's biodiversity through the establishment of a trust fund, the income of which would be used for financing the management of priority protected areas
2. Improve the Natural Resource Institute's (INRENA's) capacity to protect and manage Peru's protected areas
3. Provide the country with a reliable institutional mechanism to channel debt donations for sustainable development and conservation through bilateral and commercial debt-for-nature swap agreements
4. Test the viability of trust funds as mechanisms for providing long term and sustainable funding for biodiversity conservation

MGAHINGA-BWINDI IMPENETRABLE FOREST CONSERVATION TRUST (MBIFCT), UGANDA

Support biodiversity conservation in the BDNP and MGNP both directly, by providing incremental support for park management and related research activities, and indirectly, by funding grants to help local community groups develop economic activities which will provide alternative means of meeting needs which were traditionally met by harvesting forest resources.

22. Beyond their specific objectives, the evaluation team noted a number of significant accomplishments achieved by these GEF-supported conservation trust funds and the others included in the study:

- National, permanent *civil society institutions* focused on biodiversity have been created and gained credibility, bridging the public and private sectors (most funds).

- There has been *broad participation of stakeholders* in the design and operations of trust funds, and they demonstrate strong "ownership" of the funds (most funds). However, continuing to get this input on a systematic basis will require work.

- A *successful model for asset management* characterized by good returns on investments, transparency and integrity is used by most funds

- *Very highly qualified people* have been attracted to lead trust funds (boards and staff). The excellent reputations of board members, from all sectors, have strengthened a generally positive public image of most trust funds

- *Additional financial resources* have been directed to biodiversity conservation activities. Funding has come from contributions to endowment or sinking funds (especially in Bhutan and Peru), complementary project financing, and in some cases through additional government funding (Mexico).

- *New national parks* have been created and park systems expanded. The reliability of financing from trust funds has encouraged even budget-strapped governments to authorize new protected areas (one new park in Ukraine, creation/expansion of park system in Jamaica).

- *A basic sense of "resource security"* has begun to be felt by managers in some important protected areas. This allows them to focus on broader conservation issues (and additional sources of support) beyond just trying to meet basic staff and operating costs. It also leads to greater staff continuity, an important ingredient to building relationships with stakeholders essential to participative management. (Mexico, Jamaica, Uganda).

- Trust funds have established *effective, efficient and transparent mechanisms for transferring resources to field activities*, and have encouraged new management regimes (NGO partnerships) in protected areas (Mexico, Bolivia, Jamaica, Belize).

- Trust funds have *helped government agencies and NGOs improve their ability to carry out field activities and get project funding*. (Mexico, Jamaica, Uganda).

- *Scientific work* has been carried out, including resource inventories, zoning and mapping, that help measure changes in biodiversity (Uganda, Brazil, Mexico, Eastern Carpathians).

- *New NGOs* have been established and the roles of existing NGOs expanded. The funding opportunities provided by the Bhutan fund stimulated the creation and expansion of that country's first two NGOs. EFJ is the main source of project funding for most young environmental NGOs in Jamaica.

- *Certain types of biodiversity projects* have had access to grant funding for the first time. This is especially true for projects which tend to fall between sectoral cracks or are new areas of endeavor. In Brazil, FUNBIO has funded agro-biodiversity projects which the agriculture and environment ministries saw as beyond their responsibility, and has helped find funding for medicinal plant projects which the ministry of health would not fund.

- Environmental education activities have been financed. In Jamaica, where *conservation awareness* was low, this has almost certainly had a cumulative positive impact on *community involvement* as reflected in the growing number of small NGOs which now embrace environment among their objectives.

23. In addition, the team observed a few initial examples of how conservation trust funds have had upstream impact on policy or institutional operations:

- FMCN/FANP (Mexico) participates in the review of protected area annual operating plans. Along with the Mexican park service, it receives and assesses field reports and makes recommendations for improvements. It is using its financial role to advocate for more participatory park management. FMCN also helped finance and participated in a process that resulted in the identification of the priority areas for biodiversity conservation in Mexico. Funds in Guatemala and Bolivia have participated in national biodiversity strategy development.

- Although FUNBIO in Brazil is a relatively new institution, some of its *institutional procedures* are already being replicated. A government fund uses elements of FUNBIO's grant review process. NGO board members are trying to replicate the rigorous and efficient system of operations established by the FUNBIO board.

24. These accomplishments are reasonably impressive, especially for new organizations. But is this enough? At what cost were they achieved? Approximately $56 million has been committed by the GEF to the six trust funds with implementation experience, although $10 million of this amount (in Brazil) has not yet been disbursed. That said, at least this amount is actually still available in endowments or sinking funds in these six institutions from the GEF grants, as are additional contributions (some $33 million to those six funds) made by other donors.

25. Comparisons of the success of conservation trust funds with other GEF projects were beyond the scope of this evaluation. The cost-efficiency of donor investments in conservation trust funds is particularly difficult to measure because the stream of benefits from trust fund

investments goes on for long periods, or in the case of endowments, potentially forever. However, the evaluation team found that the sample of GEF trust funds projects has performed at least as well as the overall GEF biodiversity portfolio, as summarized in the *1997 Project Implementation Review*.

26. It is clear, nevertheless, that very little can be said about the impact funds are having on actual conservation or sustainable use of biodiversity on the ground. Clear definition in project design of the problems addressed would have been helpful. Also, measuring the biodiversity impact of any program is difficult primarily because indicators of biodiversity status are hard to measure and typically change very gradually over long periods of time. Finally, it is very hard to attribute biodiversity impacts to a particular activity in many cases, so the impact of a fund's programs may not be distinguishable from the impact of others. So far, with the exception of FMCN in Mexico, addressing the issue of biodiversity impact has not been a priority for the funds examined. Most have not defined specific biodiversity impact objectives, indicators, or monitoring and evaluation systems.

27. In general, even the resources of well-endowed conservation trust funds are small relative to the broad challenges of biodiversity conservation. "Parks" funds typically do not have enough resources to fully address the management and conservation problems of the protected areas on which they focus. The national "parks" funds examined are, at best, able to reach only a small portion of their countries' protected areas with significant biodiversity resources. And while ensuring that a basic level of staff and operating costs are provided annually is important, it is not enough to guarantee long-term conservation.

28. For "parks" funds to have significant impact, their resources must be regarded as catalytic, not just a reliable, continuing source of funding for recurrent costs. Their support needs to be framed within the broader management plans for the protected area or system, and needs to actively seek to bring other resources to bear on conservation activities. Most of the "parks" funds included in the evaluation have not yet reached this point. In fact some, such as PROFONANPE in Peru, have been deliberately discouraged by the government from looking at how their funding relates to and supports the broader management and operating plans of the parks it supports.

29. The biodiversity impact of "grants" funds appears to be a function of the fund's focus on a specific set of problems or program areas. All of the "grants" funds studied have very modest resources compared to the huge challenges that they might address. Most were overwhelmed by responses to initial requests for proposals, and have gone through a sequence of events leading to a greater focus of their limited resources on one or more program "niches." This process occurred after four years of EFJ operations and one funding cycle in Brazil, and began in the second year of FMCN's grant program in Mexico. Program focus has not yet occurred in Bhutan and is still quite broad in the Philippines. As mentioned above, even "grants" funds that have tightened program focus still have not defined indicators for conservation impact, although several are beginning to employ the logical framework methodology.

30. The evaluation also found that the biodiversity impact of conservation trust funds is closely

correlated with the *effective demand* for resources. The operational capacity of NGOs, businesses, academic and government institutions is limited in all countries studied. To achieve impact, most "grants" funds need to adopt (a) a long-range strategy of building the capacity of user groups through small grants and technical support; (b) a more immediate strategy of providing fewer grants, to institutions already relatively strong, or (c) a combination of the two approaches. The long-term strategy requires that institution-building activities lead to a defined biodiversity impact.

B. *Conservation Trust Funds Are More than Financial Mechanisms*

KEY POINTS

Trust funds are not simply financial mechanisms, but must be viewed as institutions that have several roles to play, in addition to channeling funds. These include roles as:

- **key actors in the development of national conservation strategies;**
- **technical experts who can work with public and private agencies to develop agile and effective management approaches; and**
- **in some countries, capacity-builders and nurturers of an emerging group of non-governmental organizations becoming involved in biodiversity conservation.**

To succeed, trust funds need more than financial management systems and skills. They need governance structures, staff, and technical support to enable them to proactively influence the environment in which they work, and to maintain transparency and support for participatory approaches to conservation and sustainable development.

31. Conservation trust funds were initially established in the late 1980s when relatively large amounts of money became available through debt swaps. They were seen as innovative financial mechanisms to absorb these "lumps" of capital, invest and manage the resources wisely, and disburse appropriate amounts to cover recurrent costs of national parks or small grants to NGOs The design focus was primarily on establishing the necessary financial and legal mechanisms and asset management systems, and ensuring adequate flows of resources to cover administration and program activities.

32. It was generally assumed that other issues were secondary or would need less attention: (a) funds would follow national strategic and policy directives, (b) necessary governance structures could be established, (c) effective demand for grants would exist and grant-making procedures could be easily established; and (d) highly skilled personnel could be attracted to the board and staff of the trust fund.

33. The evaluation team found that the financial management aspects of GEF trust funds have been almost universally successful. Asset mangers are achieving investment results above their benchmarks, and revenues are being efficiently passed along in small amounts. However, the experience of the past decade has clearly demonstrated that trust funds have also needed to focus their attention on the other ingredients noted above.

34. National environment or biodiversity strategies, or master protected area management plans, did not exist in many countries (Mexico, Jamaica, Peru, Bolivia, Brazil) and trust funds had

to establish their own strategic priorities and interact regularly with government and other organizations to help focus their programs.

35. Some of the boards established for the early conservation trust funds were constructed more to allocate resources among various stakeholders than to govern independent institutions. As a consequence, they did not have the membership needed for this broader role. In all countries, governments had little experience working with independent institutions such as trust funds. Most trust funds were governed by representatives from several sectors of society (the NGO community, the private business sector, government and academia) in a completely new arrangement. Governance demanded a good deal of time and creativity from all concerned parties, the board, the executive secretariat, and the donors.

36. Many funds found that effective demand for their grants did not meet expectations. "Parks" funds initially had to work with government administrative procedures that were not appropriate for field activities involving a large number of small, difficult-to-invoice purchases. The number of NGOs that could prepare and manage good project proposals was limited (Jamaica, Bhutan, Mexico), and trust funds often had to provide or arrange for technical support to potential grant recipients. Establishing efficient grant application and review procedures did not come easily. Several funds (Jamaica, Brazil, Mexico, Uganda, Philippines) were initially overwhelmed with poorly written proposals. Transparent procedures to review and approve grants were not commonly available for simple replication and needed to be established. An overlay of donor requirements regarding procedures also complicated the project selection process.

37. Many funds were not adequately staffed to carry out their many functions. Typical staffs were largely administrative and financial personnel. Most funds found they also needed technical capacity to establish a program strategy, direct project selection, monitoring and evaluation, and have a voice in national policy. Staff also needed knowledge and skills related to working with a multisectoral board, fundraising, and communications.

38. In summary, trust funds set up primarily as financial channels tended to be inadequate to respond to the range of challenges they encountered. Trust funds are complex institutions that must carry out a variety of functions simultaneously. They must function as self-governing institutions, as grant-making organizations, and as participants in the conservation policy arena. In addition, conservation trust funds have often had to strengthen the capacity of recipient organizations. To succeed, conservation trust funds need to be more than just financial mechanisms.

C. *GEF Program Linkages and Meeting GEF Criteria*

KEY POINTS

Most of the funds studied, and all of the GEF-supported funds, have focused their programs to achieve global environmental benefits in the GEF's biodiversity focal area.

All of the funds studied fit within GEF's operational programs, usually supporting activities in several of the ecosystem types that define biodiversity operational programs (forest ecosystems, mountain ecosystems, arid ecosystems, freshwater and marine ecosystems).

All of the funds studied are country-driven, reflect broad public involvement and participation, demonstrate innovation, and have leveraged additional resources for global conservation.

Although the funds examined were largely Pilot Phase projects, their programs illustrate ways that future funds can meet GEF's incremental cost criteria: in the case of protected areas, through up-front agreements on the percentage of support to be provided by the government and by the fund, and in the case of grants to NGOs and community-based organizations, through requirements for counterpart and matching contributions.

39. This section presents the findings and conclusions of the evaluation team on three areas related to GEF financing and support for conservation trust funds: (a) how well trust funds fit with the special nature and criteria of the GEF; (b) how trust funds relate to other GEF-financed activities; and (c) implementing agency oversight and supervision of trust fund projects.

GEF CRITERIA

40 GEF has defined a number of specific criteria which projects must meet to be eligible for financing. GEF projects, by definition, support the agreed *incremental costs* of projects designed to have *global environmental benefits* in one of four focal areas, in this case conservation and sustainable use of biological diversity. GEF has described ten *operational programs* within which its projects must generally fit. In addition, GEF emphasizes that its projects must be *country-driven* and reflect broad *public involvement and participation*. As a new financial mechanism with limited resources relative to the problems it addresses, GEF places a premium on projects which are *innovative* and ideally *leverage* substantial additional resources for global environmental objectives as a result of GEF support.

41. Of the 13 trust funds studied for this evaluation, seven have received GEF support (in Bhutan, Brazil, Eastern Carpathians, Mexico, Peru, South Africa and Uganda). Implementation of all of these projects appears to be generally consistent with GEF's objectives and criteria. However, except in South Africa, these projects were approved during GEF's Pilot Phase, before the full elaboration of operational programs and current policies and procedures, especially with respect to defining global environmental benefits and incremental costs. Therefore, it is not appropriate to evaluate them against these standards. Nevertheless, implementation of these projects, and the activities supported by them and other conservation trust funds, provide insights into how well GEF's current eligibility criteria might be applied to similar funds in the future.

42 With respect to achieving *global environmental benefits*, "parks" funds which aim directly to support specific protected areas or protected area systems easily meet this standard as long as the global significance of biodiversity is a selection criterion for the areas which the fund supports with GEF resources. The GEF projects which capitalize "parks" funds--Eastern Carpathians, Mexico, Peru, South Africa, Bhutan, Uganda--all meet this test. One potential issue with funds of this type regards support for projects which respond to community initiatives in and around protected areas. As the team observed in Uganda, community priorities are not always clearly for those activities which produce global environmental benefits directly. Therefore, there may be some tension in the short term between local and global priorities when funds are responsive to stakeholder input.

43 For "grants" funds, meeting the global benefits criterion is more challenging, and requires that the types of activities for which grants are made, or the geographic areas in which they will be carried out, are determined to be of global significance in terms of biodiversity. This is clearly possible. FUNBIO in Brazil, the only "grants" fund in the current GEF portfolio of trust fund projects, has defined five categories for its grants, all of which are consistent with priorities identified in the Convention on Biological Diversity, including sustainable use and agrobiodiversity. In addition, FMCN in Mexico, using non-GEF resources, operates a major grants program which is focused on areas determined to be of high priority for biodiversity conservation. The Foundation for the Philippine Environment also focuses grants in priority conservation areas

44. A simple, common-sense approach to *incremental costs* can also be applied relatively easily to activities supported by "parks" funds. This would require that trust fund contributions be additional to, and not substitute for, resources that others (including the government) have already been providing for the management of globally significant protected areas. That this can be done is demonstrated by experience in Mexico, where the government is financing five core staff and an increasing share of basic operating costs of the ten protected areas receiving assistance from FMCN/FANP, supported by GEF. Experience to date in Peru and Uganda is not as clear, however. There is some evidence that PROFONANPE resources in Peru are financing activities previously supported by government and others in some protected areas. In Uganda, resources generated by MBIFCT are actually less than the amount of visitor fees generated by the two parks where its activities are focused. All of these fees are treated as general revenue by the parastatal wildlife agency. Only a very limited amount finds its way back into budgets for park

management and surrounding community development in Mgahinga and Bwindi parks. As with the global environmental benefits criterion, incremental costs are likely to be more difficult to define for activities supported by "grants" funds.

45. Ideally, these basic GEF criteria relating to global significance of biodiversity and assessment of incremental costs would be satisfied in advance for the entire program of activities to be financed by a GEF-supported conservation trust fund as part of the project design. The fund's operational manual (objectives and eligibility and selection criteria) should reflect the focus on globally significant biodiversity and projects in which the GEF resources were matched by local or national contributions in cash or in kind. If this could not be done, and if either of these tests would have to be applied for individual fund-supported activities, then simple, straightforward and understandable procedures would be essential. The trust fund would also require resources beyond GEF contributions to finance complementary and/or "baseline" activities not eligible for GEF financing.

46. All of the conservation trust funds studied are very much *country-driven*. The governance structures of trust funds reinforce country ownership in a way that traditional project implementation arrangements often do not. Similarly, trust funds have generally been very good vehicles for advocating for greater *stakeholder involvement and participation*. In two Latin American countries where the GEF has supported "parks" funds, these funds have been effective in encouraging government agencies to consult more actively and widely with community groups and others with a stake in the management of protected areas, often in the face of government reluctance. While in both cases improvements are still possible, significant if gradual progress is being made and, in the process, government attitudes more generally may be changing

47. While some of the conservation trust funds studied have a focus on one or a few specific protected areas that would fit one of GEF's four biodiversity *operational programs*, most support activities in many ecosystems. Examples include several "parks" funds that support park *systems* whose individual protected areas include mountain, forest, and wetland ecosystems; and "grants" funds that have chosen thematic niches such as agro-biodiversity or medicinal plants, that encompass many ecosystems. Therefore, strict application of a policy that GEF projects must fit only <u>one</u> operational program, rather than the entire biodiversity operational strategy, would distort the country-driven project selection process and add another layer to already complex program administration, and therefore not be appropriate for trust fund projects.

48. The evaluation found that conservation trust funds are mechanisms that are potentially *innovative* and flexible, able to respond to local conditions with agility. However, as noted in the program management section (III. F), in practice much of this potential is not yet being realized, as trust funds struggle under the burden of complex administrative and accounting procedures, some of them imposed by the GEF implementing agencies and other donors. The funds studied for this evaluation, particularly in Bhutan, Peru and Uganda, have done very well at attracting *additional funding* for biodiversity conservation as a direct result of GEF support, even if much of it has not gone into permanent endowments. In fact, the evaluation team has documented an additional $33 million in resources that have been mobilized beyond the $46 million in GEF

disbursements to date to six funds (excluding South Africa, which has just begun implementation).

LINKAGES TO OTHER GEF ACTIVITIES

49. Most GEF conservation trust fund projects to date have been implemented through the World Bank, although UNDP played an important role in the design of the Bhutan trust fund; a UNDP project helped establish another conservation trust fund, and UNDP has several new trust fund projects under design. UNDP's GEF Coordination Unit was instrumental in forming the Interagency Planning Group on Environmental Funds in 1993 and has provided leadership and services to this group since that time. The IPG is a broad-based group representing multilaterals, bilaterals, foundations, and NGOs which (a) promotes communication among environmental funds and donors and (b) sponsors capacity-building activities for funds. GEF resources from both UNDP and the World Bank have supported IPG activities.

50. In general, GEF-supported conservation trust funds appear to have only limited linkages to other GEF programs or enabling activities in their countries. Sometimes they are the only regular GEF biodiversity project in implementation. Knowledge of the funds by GEF national focal points and in-country UNDP offices varies considerably. In one Latin American country, UNDP has recently had a number of productive contacts with the GEF-supported fund, while in another the local UNDP office seemed basically unacquainted with the fund even though it was considering new GEF projects in the same area in which the fund was working. In Poland and Ukraine, the Eastern Carpathians fund was basically ignored by the GEF implementing agencies from birth.

51. An exception to this general picture is a frequent linkage observed between trust funds and the GEF Small Grants Programme. In at least four of the funds studied--in Mexico, Belize, Guatemala and the Philippines--there are on-going relationships. They include SGP-funded activities carried out in conjunction with protected area management activities supported by the trust fund, and coordinated support and/or co-financing to community organizations and NGOs from both SGP and the fund. There is a formal agreement between the Foundation for the Philippine Environment and the Small Grants Programme whereby the SGP screens and selects projects for FPE funding. PACT in Belize and MBIFCT in Uganda are represented on SGP national steering committees. Conservation trust funds are also increasingly involved in discussions with organizations interested in submitting medium-sized grant proposals for GEF consideration. These proposals often complement or build on fund-supported activities.

IMPLEMENTING AGENCY OVERSIGHT AND SUPERVISION

52. The approach of the implementing agency to monitoring, overseeing and supervising conservation trust funds has a significant effect on a fund's success. Task managers cannot be expected to be trust fund specialists. Furthermore, trust fund projects are complex and involve many different elements, and no one task manager is likely to be able to backstop them adequately alone. Therefore, those who bring in specialized expertise in supervision *in a context of mutual commitment by the fund and the donor to build expertise and find solutions* have been more

successful Supervision which the fund finds facilitative and supportive of the achievement of program objectives, which helps the fund operate flexibly but responsibly as an independent organization, and which reinforces the leadership and accountability role of its governing body, brings positive results Examples of this approach are illustrated in Box 4 below. Indeed, "supervision" missions have sometimes been a primary source of guidance on important issues confronting a fund, such as asset management or fundraising. On the other hand, an approach in which task managers involve themselves in the details of accounting, compliance with implementing agency procurement procedures, and routine reporting--which was also reported to the evaluation team in some cases--has been less productive

BOX 4: BEST PRACTICES IN IMPLEMENTING AGENCY OVERSIGHT AND SUPERVISION

The tasks involved in managing a trust fund are varied and complex, and usually at least some are outside the scope of the task manager's own expertise. Several World Bank task managers have responded to this challenge by using the supervision process to bring in experts from a variety of disciplines to assist the trust fund. Examples.

- Luis Constantino, task manager for the Mexico Natural Protected Areas Fund, included consultants experienced in fundraising and ecotourism in the first supervision mission, and experts on mining and fisheries for the second mission. These consultants helped the fund analyze the potential costs, benefits, feasibility, and probable outcomes of activities under consideration. In some cases, they suggested modifications to projects or different types of projects better suited to achieve similar objectives. The fund considered their reports and briefings very valuable to its decision making process.

- Agi Kiss, task manager for the Mgahinga-Bwindi Impenetrable Forest Conservation Trust in Uganda, brought in a financial management expert from WWF-US who had been involved in the design of the Bhutan fund, to assist MBIFCT develop its asset management guidelines and supervision procedures. The same expert joined the midterm review team, and during the review, presented a workshop on asset management for members of the MBIFCT board.

53 The evaluation team concluded that, in most cases, if trust funds are given adequate organizational support, a supervision period of five years is likely to be enough to assure that a functioning governance system is in place, that several grant cycles have been completed, and that the fund is able to continue to manage its program and finances adequately on its own. Devoting more explicit attention and resources to institutional strengthening of GEF-supported funds than has been provided to date would increase the chances that this supervision period would be sufficient.

54. Several of the funds visited expressed a desire to maintain a continuing partnership relation with the implementing agency beyond the "official" supervision period, focused on sharing of experience and lessons learned. There would also be value for the GEF in establishing an ongoing monitoring relationship with conservation trust funds, since the time required to document biodiversity conservation impacts generally exceeds the normal supervision period.

D. *Strategic and National Context*

KEY POINTS

The driving forces for setting up trust funds have included national governments, local conservation leaders, international conservation NGOs, and donors. Success in involving the business sector has been modest.

Trust funds are generally consistent with national environmental plans and strategies or, when no strategy exists, with the Biodiversity Convention. They vary in the degree of direct linkage.

Some trust funds have contributed significantly to the development of national conservation policies and strategies.

Trust funds' overall contribution to biodiversity funding in their country or region is generally small in relation to the need, but targeted to priority areas or problems. Financial leveraging opportunities have rarely been fully realized.

DRIVING FORCES

55 The international conservation community, particularly NGOs, have been strong advocates of trust funds. But national governments, local conservation leaders, and donors have also proposed and helped set up trust funds. In Bhutan, a government official initiated the idea of a fund (using the Philippines as a model), and quickly received support from a leading NGO and UNDP The Bolivian government invited an international NGO to assist in establishing a fund. In Brazil, the availability of GEF funds encouraged government and the national NGO community to work together to establish a fund. Donors have played a key role in ensuring that trust funds received initial capital through direct provision of resources (GEF, several European donors, USAID) and by negotiating national government contributions linked to debt reduction (US Treasury Department, GTZ). Local NGO and government officials, as well as business leaders, participate in trust funds as board members. In some countries (Jamaica, Brazil, Mexico), representatives of the academic community are also included.

56. The key supporters of "parks" funds include government and NGOs closely involved in elements of the protected area system (e.g., park management, programs in buffer zones) The critics of "parks" funds tend to be NGOs and other groups associated with protected areas not benefiting. An example is the Jamaica National Parks Trust, whose only NGO board members represent organizations managing two existing national parks Several NGOs with plans to manage new national parks hope to establish new, park-specific trust funds rather than be minority members of the JNPT board.

57. The main supporters of "grants" funds are the potential users. Often a "grants" fund is the

only flexible source of funds accessible to local and national NGOs, over which they can exert policy and management influence. The team observed two cases in which government views a "grants" fund as "the NGO fund" and tends not to play an active role. Critics also include NGOs not benefiting from the fund, and environmentalists who would prefer to see resources concentrated to achieve impact on a priority problem.

58. The business sector has played an active role in many trust funds, mostly in governance and as a source of expertise for financial management. Most funds have had no trouble in recruiting business leaders and representatives of business organizations (Chamber of Commerce, national business council, tourism industry association) to their boards. These representatives have played effective leadership roles on board investment committees. Except in Guatemala, they have been less effective in establishing fundraising strategies and in raising funds among their colleagues.

59. In two cases, this basic business sector role was amplified. In Belize, the tourism industry association was an initial supporter of establishing a new trust fund and currently serves on the board, although there was a period when its support was withdrawn over the issue of the level of the tourist tax. FUNBIO was established in Brazil with an explicit objective of encouraging participation of the business sector in biodiversity conservation. Four board seats (of 18) are set aside for business representatives. The board chairman is a highly respected banker. The first call for proposals encouraged projects which demonstrated a partnership between the business sector and government, an NGO, or an academic institution. Much of the business sector (including larger enterprises which FUNBIO hopes to target) has, however, found FUNBIO grants too small and the FUNBIO bureaucracy too heavy to warrant their interest. FUNBIO is now designing a new partnership program to attract this target group.

60. Trust funds proposed in several countries in the late 1980s were seen primarily as financial mechanisms to channel proceeds from innovative fundraising strategies such as debt-for-nature swaps into protected areas. In the period leading up to the UN Conference on Environment and Development, trust funds were proposed as means to provide resources for the implementation of national environmental plans and Agenda 21. Most of the conservation trust funds reviewed in the evaluation were established as integral parts of broader strategies. Examples of these linkages include:

- The Bhutan fund is virtually synonymous with that country's national environmental strategy, having financed many of the key components
- FONAMA (Bolivia) provided both intellectual leadership and financial support to a consultative process for a national environmental strategy -- although the strategy was not adopted by the government succeeding the one that created the fund.
- Jamaica's national parks trust fund was designed as an element of a broad USAID project that supported a national protected areas strategy and strengthening the conservation NGO community.
- The Belize fund was conceived as a financial mechanism to provide recurrent costs of a

national protected areas system, and retains that objective among others -- all consistent with national environmental priorities -- developed during design.

- FUNBIO in Brazil was funded by GEF through the same project which supported the development of a national biodiversity strategy, although the synergy between the two components has not been as great as expected.

61. There are some differences between "parks" funds and "grants" funds in linkages to national strategies. Since the government owns the land where "parks" funds operate, it is essential that the fund work cooperatively with government and support a national strategy when it exists. Advantages include increased legitimacy, complementary funding from government budgets, and sometimes support in fundraising. Working within such a national strategy also provides opportunities for trust funds to have upstream impact. In Mexico, for example, FMCN participates in the review of protected area annual operating plans, and has worked with the park agency to develop a more participatory mode of park management, adopted in the entire national system.

62. Experience in Peru demonstrates, however, that park fund operations can be affected adversely by government officials unwilling to allow the fund to play a meaningful role in broader management issues, and by the absence of a strategic framework for protected area management. The Eastern Carpathians fund has also been disadvantaged by the failure of one of the three governments to participate actively.

63. "Grants" funds are typically less directly tied to national strategies. However, some "grants" funds find it beneficial to focus on one or more elements of a national strategy, as they define "niches" in which they can maximize impact. In Mexico, a government-led prioritization process, which FMCN helped finance, has enabled the fund to focus its grants on priority areas for biodiversity conservation. In Brazil, FUNBIO hopes to take the lead in linking the business sector to a new national biodiversity strategy. In Jamaica, EFJ plans to concentrate its environment resources on conservation "hot spots."

64 The "grants" funds studied include high-ranking government officials on their boards and generally, the activities they support fall within the range of whatever national strategy has been adopted. However, most national strategies are quite broadly written; a conservation trust fund with a coherent strategy *outside* such objectives would be difficult to imagine.

FINANCIAL CONTRIBUTION TO BIODIVERSITY CONSERVATION

64. Most trust funds were established with the intention to leverage additional funds for conservation. In most countries studied, NGOs and businesses had no access to national sources of grants for environmental activities prior to establishment of a trust fund. So, for private sector conservation activities, trust funds represent a significant new source of funding, at a level that almost certainly exceeds $10 million per year on a global basis.

BOX 5: SUMMARY OF ADDITIONAL FUNDS RAISED

Country	GEF $	Other $ (sources)
Jamaica JNPT	0	$437,000 (USAID, debt swaps).
Jamaica EFJ	0	$9.2 million (US Enterprise for the Americas)
Belize PACT	0	$500,000/year (tourist tax)
E. Carpathians	$300,000	$300,000 (MacArthur Foundation)
Uganda MBIFCT	$4.3 million	$4 million (USAID, Dutch bilateral)
Peru PROFONANPE	$5.2 million	$17 million (debt reductions and direct bilateral assistance: $500,00 in endowment capital from Canada, Finland, Netherlands)
Brazil FUNBIO	$10 million disbursed $10 million more committed	FUNBIO must raise $5 million to "trigger" second tranche
Mexico	$16.5 million	FMCN has committed to raise $5 million for endowment; park funding requires government to expend certain basic amounts to qualify for trust fund funding
Bhutan	$10 million	$11.4 million
South Africa	$5 million	none to date (just starting)
TOTAL	$61.3 million	$52.5 million

65. Most initial "parks" fund designs anticipated that the funds would eventually raise enough capital to assure the basic financial viability of a national park system or selected key components. The design process in many cases provided an opportunity for a full discussion of the issue of financial sustainability for protected areas and sustainable development priorities -- including issues such as capturing user fees for management activities; revisions in tax policies to allow for the collection of special taxes and to provide incentives for personal and corporate contributions to nonprofit conservation organizations; government support to fundraising efforts, particularly by facilitating support from international donors; and policies for "graduating" certain areas from full trust fund support to a mix of fees, appropriations, and other sources. With the exception of Mexico, these kinds of far-reaching discussions were rarely held. However, in two cases (Bhutan and Brazil), GEF contributions were set up to encourage the establishment of enabling policies or the generation of additional funding, by disbursing in tranches, with the second disbursement dependent upon the achievement of benchmarks.

66. To date, the GEF has committed $61 million to conservation trust funds (and disbursed $46 million to the six with operating experience). These six established funds have raised or secured commitments for an additional $33 million that flows through the trust fund budget. Most trust fund-supported projects also include a cash or in-kind contribution from the recipient. Some trust funds, notably the Foundation for the Philippine Environment, have formed partnerships with other funding organizations in an effort to increase the flow of funding to conservation. The team was not able to document the specific total amounts of additional funding leveraged by these means, but estimates that trust fund disbursements in total are increased in value by at least 50 percent by other contributions.

67. Government contributions to grants funds have been provided in different forms. Mexico agreed during preparation of the original FMCN project to provide $10 million to the fund over a period of years, with $1 million given the first year. Belize allocates funds from its tourist tax to PACT. Other governments have not contributed funding except through payments linked to debt reduction agreements, which channel an obligation that the government formerly owed to a bank or foreign government to the conservation fund.

68. The record is mixed on whether government contributions to biodiversity conservation and protected areas systems have increased or decreased since the establishment of funds. In most countries, governments provide some budget resources to national parks. In Mexico the government shares financing of the operating costs of 10 parks with the trust fund based on a formula established during project design, assuring that the baseline does not diminish. The Peru fund finances some budget items previously paid by government, while the government has increased spending on other park-related costs. In Jamaica, the trust fund has financed most costs for the country's first two parks The government has not met its commitment to provide annual contributions to the endowment, but it has provided some operating costs of two parks. In Uganda, biodiversity funding has recently increased, but mostly due to the large number of GEF and other external donor projects.

LINKAGES TO OTHER GEF ACTIVITIES

70. The majority of GEF trust funds have been "stand-alone" projects Exceptions are (a) Brazil, where the trust fund is one of two components; and (b) the Eastern Carpathians, where all three countries had larger biodiversity projects (the trust fund was administratively a component of the Slovakia project). In the latter case, the trust fund was designed with clear linkages to other GEF activities. The GEF Slovak Republic Biodiversity Project finances management activities in the Slovak portion of the Biosphere Reserve, and the project coordinator served as president of the trust fund. The Ukraine project also supports the Ukrainian portion of the reserve.

71. In most countries, the GEF-supported trust fund is the only fund of its nature. In Peru and Uganda, there are government National Environment Funds that exist on paper, but do not have capital. In Mexico and Brazil, a national biodiversity council manages a small, non-endowed grant fund. CONABIO in Mexico finances biodiversity research and pilot projects. In Brazil, PROBIO's GEF-supported small grants fund may also finance biodiversity pilot projects. In

theory, both of these funds could finance some of the same activities as the trust funds. In practice, demand far exceeds supply, and informal coordination between the funds has avoided any competition or confusion. In Brazil, several government-managed project funds provide grants to state and local entities, including NGOs and community-based organizations, but they do not invest and manage capital as endowment or sinking funds.

72. Another example of cooperation between two funds is the Foundation for the Philippine Environment and the Foundation for Sustainable Society's formal memorandum of understanding encouraging co-financing and information exchange.

E. *The Governance of Conservation Trust Funds*

KEY POINTS

The majority of experience indicates that funds are appropriately set up as non-governmental institutions with mixed public-private governing bodies, with non-governmental representatives in the majority.

There are several advantages of larger over smaller boards, in particular, the ability to establish working committees to deal with the diverse issues that funds must address: financial management, fundraising, technical oversight, and others.

Governing boards whose members are elected in their personal capacity, as opposed to formal representation of organizations, agencies or sectors, tend to develop a stronger sense of "ownership" of the fund as an institution, and work more effectively to implement the fund's mission. The more formally representative boards tend to see their role in terms of allocating resources among their agencies and sectors. Few of them do an adequate job of reporting to their constituencies and keeping them involved.

73. Building a strong, influential, cohesive board of directors that is representative of a conservation trust fund's diverse constituencies, that can serve as an influential voice for biodiversity conservation, and that can provide strong, sound direction and oversight for the fund is perhaps the single most important element in a trust fund's long-term viability and success. For this reason, the evaluation team examined closely how trust funds are governed, and how their governing systems have worked in practice

74. Conservation trust funds are typically governed by boards of directors or a group of trustees, depending on their legal basis. Even in the few that have general assemblies or other broader bodies (e.g., Mexico, Guatemala, Jamaica EFJ), the boards are the principal decision-making bodies. These boards vary in size, between relatively large ones in Mexico, Brazil, and the Eastern Carpathians (14-18 members) to smaller ones (5-9 members) in Bhutan, Peru, Uganda, Guatemala, Belize, South Africa and JNPT and EFJ.

75. Who is involved in the governance of trust funds? Except for the funds in Bhutan and Bolivia, which are government organizations, the funds studied are private institutions and have governing bodies with members from the public and private sectors. Even the government funds have taken, or are planning to take, steps to bring non-governmental groups into their governing structures: FONAMA's administrative committees (which oversee its various "windows") include NGOs, and the Bhutan fund board will include business and national NGO members by 2001. Of the funds evaluated, only FCG in Guatemala has no government representatives on its governing

body (administrative committee)

76 Government members of boards represent specific positions, e.g., the minister of environment, director of the protected areas system. Even though they are private organizations, two of the "parks" funds evaluated (Peru, Uganda) require that the board president be one of the government representatives, although the government does not make up a majority of the board membership. Government officials formally name all fund board members in Belize, EFJ and Peru. In Mexico and Brazil, however, government representation is limited to one or two members of relatively large boards. In South Africa, the trustees of the Table Mountain Fund include government representatives although they serve in their individual capacity.

77 Non-governmental members sometimes formally represent NGOs, business, academia or other sectors (for example in Peru, EFJ and Uganda), and are often elected by their constituency organizations. In other funds, however, board members are individuals serving in a personal capacity, selected to reflect the needs of the fund and the diversity of its constituencies (e.g., Mexico, Brazil, JNPT and the Eastern Carpathians). Most of the funds studied also include at least one representative of a donor agency, although not always with voting power.

78. In addition to governing boards, the team observed a variety of other mechanisms used by conservation trust funds to involve key actors and stakeholders. Board committees that focus on specific aspects of a fund's program or management often include outside members. Several funds, including those in Mexico, Uganda and Brazil, involve a number of people within the conservation community in the review and evaluation of grant proposals. The MBIFCT in Uganda receives input from local steering and advisory committees that include broad representation of communities and academic organizations with a stake in conservation and protected area management. PROFONANPE in Peru has a technical committee which makes input on its annual work plan. FMCN in Mexico has an "international committee," which serves as a vehicle for exchange of information between the fund and international NGOs and donors, and a source of support to the fund from these organizations

79. The evaluation team found that for a conservation trust fund to realize its potential, it is important that its board see itself as the directors of an independent organization with institutional objectives, not just a forum for deciding how to divide the fund's resources. The team concluded that boards made up of individuals reflecting the needs of the fund and the diversity of its constituencies--but serving with a primary obligation to the fund itself, and not to the sectors they represent--work better than boards whose members are elected to formally represent the interests of the sectors or constituencies that nominate them The latter can increase political influences and decrease the board members' sense of ownership in the fund itself

80 A key attribute for successful boards is the integrity of its members and the respect within the community that comes from this. The team also found that boards made up of members drawn from diverse sectors (e.g., Mexico, Brazil) are able to cover within the board membership a wider range of functions than boards with limited sectoral expertise. This diversity of membership is a key factor in establishing effective specialized committees that are linked directly to the fund's

governing body This has been especially important in the area of financial and administrative oversight. Some funds have tried to put in place other mechanisms (e.g., technical committees) to provide access to a broader range of expertise. While this has been important in relieving pressures on otherwise very busy board members and in expanding the pool of talent on which the funds can draw, the absence of formal linkages to the governing structure has sometimes limited their effectiveness. The active participation and leadership of prominent business people who bring a private-sector management perspective has proven extremely important for the successful operation of conservation trust funds

81 Although trust funds are generally private organizations, the government remains a significant actor in almost all of the funds examined by the team. This has been an important way that trust funds have maintained linkages to public policies and programs. On the other hand, several funds have been adversely affected by the nature of government participation in their governing bodies. In Peru, a fund originally intended to support both government and NGO activities related to protected area management has been dominated by the government membership on its board. Funding during PROFONANPE's first two years of operation has gone almost entirely to activities carried out by the government agency headed by its board president. In some cases, government representatives on trust fund boards have shown little interest in the fund and their responsibilities as board members, or have changed frequently as different individuals were assigned to the positions represented on the board.

82 The boards of several funds evaluated include formal representatives of non-governmental groups. Even where this is not the case, at least the initial board membership was selected as a result of broad consultative processes with a large number of stakeholders, often carried out across the country or area of focus of the fund. Most funds also reach out beyond their boards of directors to include others in technical committees or their project selection processes. Nowhere did the evaluation team observe, however, a governing structure of a conservation trust fund explicitly functioning as a forum for continuous discussion among various stakeholder groups as a means of creating better understanding around issues related to biodiversity conservation and sustainable use. Several of the funds give an important emphasis in their *programs* to education and awareness, and to involving community and other groups in conservation and management activities, but there is little evidence of the funds' *governing bodies* themselves playing this role in an active way. In fact, in those cases where boards do operate on a representative basis, in general more attention by these board members is needed to providing feedback to, and receiving input from, the constituencies they represent

83. Because most of the funds studied are still relatively young, they have not yet experienced transitions in leadership. Based on the experience of some other funds, this would appear to be an area where continued attention is warranted. EFJ in Jamaica and MBIFCT in Uganda are presently undergoing a change in their executive directors, and their experience will provide insight in how transitions affect achievement of objectives, and interesting lessons for other trust funds. Where transitions have occurred in board leadership or in the executive management of the funds included in the evaluation, they appear to have gone smoothly. The exception was in Peru, where a difficult transition between executive directors set the fund back by at least a year.

PROFONANPE also faces a major change in almost all of the members of its board of directors this year.

84. One particularly important factor affecting the ability of boards to make smooth transitions is the planned frequency of rotation of (non-governmental) members and the ways new members are selected. Bringing new people onto boards at regular intervals is an important way to build awareness of and "ownership" in a fund as well as to get fresh perspectives and ideas into the leadership of the organization. However, care needs to be taken to provide continuity by staggering terms. Based on the experience of the funds examined by the evaluation team, it appears that boards which themselves nominate new members based on the fund's needs and criteria reflecting the diversity of their constituencies are more able to weather membership transitions than those whose members are formally elected by specific organizations or networks (and/or whose boards include many government representatives whose tenure is not predictable). Funds that have various committees with a role in governance issues are often able to draw on these groups for candidates for board membership, as committee members who are not on the board have an opportunity to develop relationships with the trust fund and demonstrate what they can contribute.

85. Donor agencies have generally played a helpful and facilitating role when represented on the boards of conservation trust funds. However, it is important that donor representatives have the fund's interest foremost in mind when serving as a board member. The team observed a situation in which a donor agency's own interests in programs implemented through or associated with the fund, and with beneficiaries of the fund's programs, reportedly influenced its representative to vote in a manner that was not necessarily in the interests of the fund's long term mission and objectives. Periodic rotation of donor representatives also would appear to be a good idea, although to date this has not occurred in the funds observed. Finally, the extent to which donors exercise control over key decisions about how a fund's resources are used affects the ability of boards to become true leadership bodies for their organizations.

86. The leadership and management skills that boards and executive directors have brought to conservation trust funds have varied greatly. It probably goes without saying, but the relationship between the board and staff, especially the executive director, is extremely important to the effective functioning of a trust fund. Where a harmonious and synergistic relationship has been present, the fund has excelled, where it has not, the fund has floundered. An ingredient that is essential for this relationship to work well is a clearly-articulated set of responsibilities for each which reflects a balancing of the leadership and management workload between the two. This does not come easily, but it greatly helps define the skills needed by both the board and the executive leadership of the fund. In this regard, the experience of the funds examined for this evaluation indicates that management skills are more important for fund executive directors than technical background in biodiversity conservation. That said, it has proven to be very important for a fund to have technical people on its staff.

87. The funds with larger boards made up of individuals (rather than elected representatives) in countries with diverse and robust economies, e.g., Mexico and Brazil, have tended to have within

their board membership the skills and resources needed to oversee the complex variety of fund activities and governance responsibilities. Funds with smaller boards and in countries where there is less diversity of expertise to call on have had more difficulty in this area.

88. In several of the funds studied (EFJ, PROFONANPE, FONAMA's EAI fund) boards have limited their focus to oversight of the grant selection process, or in other respects have not fully developed their policy or strategic planning roles. Most of the boards studied have yet to take, or were just beginning to take, an active role in fundraising. Board development, focused on building governing bodies that carry out the full extent of their roles and responsibilities, is a capacity-building need expressed by several of the funds. However, there has been little in the way of training or technical assistance provided to boards as part of GEF or other support to conservation trust funds, even though the explicit objectives of these projects were often to support the establishment of the fund. This is an area in need of more attention in the future.

F. *Program Management*

KEY POINTS

It is easier for a "parks" fund than a "grants" fund to establish a strategic focus because of the "parks" fund's direct link to selected protected areas and strategic planning for the protected area system. However, "grants" funds have in several cases demonstrated an ability to select program "niches" in which to focus for biodiversity impact.

Trust funds have made major achievements in establishing transparent selection processes. Agile administrative procedures have been difficult to establish in several cases, often due to donor requirements.

Trust funds have attracted highly qualified personnel but still require capacity-building assistance to develop their potential as institutions.

Most funds have been able to keep operating costs in the 20-25 percent range. However, there has been no clear, consistent guidance from the GEF on what is an acceptable level and what costs are included in the calculation.

The overwhelming majority of the funds studied do not include analysis of biodiversity impact in their monitoring and evaluation activities.

STRATEGIC FOCUS

89. Generally, "parks" funds are better equipped than "grants" funds to target program activities on biodiversity conservation impacts, because they have a pre-defined geographic focus and links to master plans for protected areas or protected area systems. On the other hand, "grants" funds are more likely to finance innovation and catalytic activities, and have the advantage of reaching a more diverse constituency of recipients. "Grants" funds have in several cases demonstrated an ability to select program "niches" in which to focus for biodiversity impact. Mexico, Uganda, and Brazil provide examples.

90. Factors that make it difficult for funds to proactively seek out activities that help advance their biodiversity strategy include weaknesses in national strategies that leave the fund without clear guidance; under-staffing due to limits on overhead costs, resulting in lack of time to support the board in strategic planning or spend time in the field seeking out potential partners and projects; reliance on a limited "universe" of capable recipients that have their own priorities; and the nature of their design (multi-stakeholder participation in governance and selection processes). Participative processes often set the fund up for "dividing the pie" such that all stakeholders get a piece, with consequent fragmentation of program emphasis.

BOX 6: CREATING A STRATEGIC FOCUS FOR A GRANT-MAKING PROGRAM

The Mexican Nature Conservation Fund has a broad mission -- "to conserve the biodiversity of Mexico and ensure the sustainable use of natural resources through the promotion of strategic actions and medium to long-term financial support." Civil society organizations compete for grant awards on an annual basis, with a single call for proposals issued each April. The evolution of this trust fund's strategic focus through three funding cycles provides an example of how a fund can refine its criteria and procedures to give its program coherence and increase the chances of achieving impact.

The first call for proposals (1996) brought in more than twice as many proposals from research institutions as from NGOs and community groups, whom FMCN had expected to be the primary project implementers. To change this balance, the second call focused on activities that would produce results from the field, and looked for linkages to conservation priorities established in a national process partially funded by FMCN and led by the National Council for Knowledge and Use of Biodiversity (CONABIO). In the intervening period, FMCN also funded organizations who could assist NGOs and community organizations in the design and preparation of projects in priority areas.

By the time the third call for proposals was issued in 1998, FMCN had increased the linkage of its funding to the CONABIO process, had developed a strategic plan, had used feedback from the first two cycles to refine both the call for proposals and the selection process, was working on a logical framework for the grants program identifying biodiversity conservation and institutional strengthening objectives and how to measure results, and was coordinating with CONABIO and other organizations that finance projects to avoid duplication of projects and share information about proposing organizations.

ADMINISTRATION OF GRANT PROGRAMS

91. Trust funds have made major achievements in establishing transparent processes for developing program priorities and selection of project activities. The Mexican Nature Conservation Fund is an outstanding example, and several others, including funds in Uganda, Belize, Bolivia, Brazil, and Jamaica, have made substantial strides in developing transparent processes, surpassing the normal procedures of government agencies and private organizations in their respective countries.

92. In general, the more focused programs have more efficient selection processes, while broader-purpose funds that maintain "open door" policies to any qualified project proposer often struggle to process large numbers of applications. Several of the funds visited were considering limits on the number of new projects to take on (i.e., focusing on fewer, larger projects rather than many small ones) due to limited staff for supervision and monitoring.

93. Several of the funds studied have exceedingly burdensome and bureaucratic administrative procedures, of a type more suitable for large government agencies than for the agile private institutions funds were envisioned to be. These procedures increase administrative costs, as well as transaction costs for potential recipients. In some cases they are a barrier to access by potential recipients. Sometimes extremely close supervision and insistence on application of World Bank procurement and disbursement management policies may be necessary because of the situation in the country, but in some cases these procedures have been adopted at the insistence of the donor when national conditions did not seem to warrant such action. Brazil is an example of a fund

established in an existing institution, where it would have been appropriate for the implementing agency (World Bank) to review and certify that institution's administrative, financial management, grant management, and procurement procedures, rather than imposing its own. In some countries, rather than establish grant-making procedures "de novo," trust funds have the opportunity to adopt elements of small-grant making procedures successfully used by private foundations and donors (e.g., Jamaica's Green Fund and the Boticario Foundation in Brazil).

BOX 7: THE GRANT-MAKING CYCLE

"Parks" fund

- Protected area staff prepare annual operating plans and budgets, involving stakeholders in consultations.
- Trust fund determines eligible activities and allocates resources according to priorities for each protected areas (may be determined at design or by board in ongoing oversight).
- Disbursement schedule agreed; disbursements made according to schedule, with receipt/review of financial and technical reports generally required before each subsequent disbursement.

"Grants" fund

- Board determines funding priorities and amount available for current cycle. Call for proposals issued.
- Concept papers or full proposals reviewed by technical committee; recommendations made to board
- If concept papers were reviewed/approved, proposing organizations prepare full proposals, technical review and recommendations step repeated. Some funds provide technical or financial assistance to organizations preparing full proposals from approved concept papers.
- Board approves projects. Grant agreements or contracts prepared; funding disbursed according to schedule, with periodic review of financial and technical reports.

SKILLS AND TRAINING

94. Generally funds have been able to recruit locally for technically qualified professional staff (although external assistance has been important in some cases to help them develop their roles as institutional leaders). Funds need to strike an appropriate balance between paying enough to attract good people and creating conditions in which their own staff exhibit dedication and commitment commensurate with that of their grantees. This is a difficult balance to strike, and a few funds have experienced image problems when grantees (financially struggling local organizations) perceive that a large share of available funding is spent on the salaries of capital-city staff.

95. The GEF has not systematically provided training and capacity-building for trust funds, and the helpfulness of task managers has varied. Uganda's task managers were, together with in-country USAID staff, the primary source of technical assistance, while in the Eastern Carpathians, frequent turnover in project management and lack of coordination among the three GEF/World Bank projects meant that the Foundation got little help or advice on its management and development. The funds visited expressed a strong desire for additional training and networking to build their own capacities in such areas as board development, fundraising, project appraisal,

monitoring and evaluation, and capacity-building among grantees.

OPERATING COSTS

96. Most funds have been able to keep their operating costs in the 25-30 percent range (and some below 20 percent) but this has come at some cost to the funds as institutions, particularly in their ability to develop technical expertise. The range among the funds studied was 10 percent (Jamaica National Parks Trust, which pays an administrative fee of 10 percent of trust income to its home institution, the Jamaica Conservation and Development Trust) to more than 30 percent (Uganda's MBIFCT, which operates essentially as an intermediary NGO itself, providing extensive project support to recipients; the Eastern Carpathians Foundation, whose tiny endowment generates only $30,000 in revenues per year; and Bolivia's FONAMA, whose operating costs were running at $850,000 per year in 1995). In general, the smaller the endowment, the more difficult it has been to stay within operating cost ceilings.

97. The analysis of operating costs was complicated by the lack of clear, consistent guidance from the GEF on the issue. Different "ceilings," as well as different criteria for setting those rates, have been applied to different funds. In addition, the definition of what is counted as administrative or operating costs has varied.

98. The evaluation team applied the following criteria.

- **Operating costs** are the day-to-day "costs of doing business" for a trust fund. These typically include the annual costs associated with basic trust fund operations: staff salaries, board meetings, office expenses, equipment and maintenance, costs associated with managing the endowment, and program management (project selection, supervision, and evaluation) Operating costs also include the costs associated with a fund's role as an institution. These include participating in the development of biodiversity strategies and policies, constituency building for biodiversity conservation, coordination with other funds and biodiversity projects, dissemination of experience and lessons learned, networking, and fundraising.

- **Institution building costs** are generally start-up costs incurred primarily in the fund's first year or two, although training and consultations may continue even as the fund matures. These costs include training of the trust fund's own personnel, development of an operations manual and other key documents, legal fees related to applications for tax exemption, orientation for board members, and similar activities.

- **Program support costs** are the services provided to build capacity of recipient organizations, share technical expertise, and support recipients and potential recipients in ways other than direct supervision. In some cases, development of the absorptive capacity of NGOs or other potential grant recipients is the role of institutions other than the trust fund (e.g., an umbrella NGO organization in Jamaica). When a trust fund decides to provide support for increasing recipient capacity, it typically does so either (a) through project funding, making grants or entering into contracts with organizations skilled in that area (an approach used by FMCN in Mexico) or (b) through direct technical assistance (Uganda, Philippines) provided by trust

fund staff.

MONITORING AND EVALUATION

99 Trust funds generally carry out project monitoring by reviewing periodic reports, making field visits and, in some cases, requiring approval of even minor changes from original plans. Report requirements are quite detailed and focus on tracking expenditures and meeting target dates as set out in proposals and project plans. Reporting requirements generally are standard, whether the recipient is a young, small organization receiving $50,000, or an experienced organization receiving a much larger grant. Several representatives of seasoned organizations interviewed by the team felt that the administrative burden of trust fund reporting requirements was excessive.

100. Few funds conduct technical monitoring of activities or focus their monitoring on outputs and overall objectives. The ability of funds to visit project sites is a function of staff size and the number of projects financed.

101. Comprehensive project evaluations are rare. End-of-project reports are normally prepared by the grantee. Of the trust funds studied, only FMCN (Mexico) uses a logical framework to provide a consistent basis for project appraisal, monitoring and evaluation. The Bhutan fund established and met benchmarks for establishing "the legal, institutional, and technical framework [for conservation] and expanding implementation capacity" in its first five years of operation; however, during these years, it was financing a detailed program of activities spelled out at design, rather than selecting projects and activities proposed by government or private organizations. FONAMA (Bolivia) designed a technical monitoring system, but it was not functioning well at the time of the independent evaluation. PROFONANPE (Peru) contracted independent evaluations of three NGO pilot projects funded by Germany, but has no system for monitoring impacts in the park system. Among the funds visited, only FMCN had detailed plans to carry out impact evaluation, building impact indicators into both NGO projects and protected area activity plans.

G. *Asset and Financial Management*

KEY POINTS

Trust funds (including four of the six mature GEF-supported funds) have leveraged substantial additional funding for conservation. However, there is little diversity in the donor base and few contributions have been made as endowment capital.

Future fundraising prospects are mixed.

The GEF-supported funds have successfully applied an asset management and asset manager selection model developed by the World Bank. All but one of the GEF-supported funds have met investment return objectives through 1997. Professional asset managers have performed as well or better than benchmark indices against which funds monitor their performance.

Few funds have all the necessary financial expertise in-house and thus need (a) financial expertise in addition to asset managers, and (b) technical assistance and training to ensure that key staff and boards understand the principles guiding investment strategies and make informed decisions.

FUNDRAISING AND GENERATION OF ASSETS

102. Four of the GEF-financed conservation trust funds have raised substantial financing from other sources (see Box 5), but except in Bhutan, very little of this is endowment capital that will contribute to their long-term sustainability as trust funds. PROFONANPE (Peru), for example, received $5.2 million from the GEF and has raised an additional $17 million, primarily through debt reduction agreements and direct bilateral assistance. This funding would not have been available for conservation if PROFONANPE had not pioneered the debt swap mechanism for conservation in Peru However, less than $500,000 of the additional funding generated has been added to the endowment (FONANPE). The remainder comprises sinking funds with 6-10 year horizons.

103. The fund most successful to date in raising endowment capital from sources in addition to the GEF has been Bhutan, which received $10 million from the GEF and raised additional endowment capital of $11.4 million from WWF, Switzerland, the Netherlands, Norway, Finland, and Denmark. Although many factors were involved in this fundraising success, including the Royal Government of Bhutan's integrity in managing the trust, a clear set of achievable conservation objectives, and existing links with Scandinavian aid agencies, it was also useful that the World Bank's grant agreement established the GEF disbursements in tranches. Release of the

first tranche was conditioned upon, among other considerations, securing $2 million in other donor contributions (The second payment was conditioned upon meeting policy and park establishment targets)

104 There is not much diversity in the donor base. Half a dozen bilateral donors (US, Canada, Germany, Netherlands, Switzerland, Finland) have provided funding primarily through debt reduction agreements, although some have provided direct donations. The John D and Catherine T MacArthur Foundation has contributed endowment capital to one fund and funding to expand the project portfolio of several others

105 Future fundraising prospects are mixed Few donors are willing to provide endowment capital, although funds and their donors hope that if it is demonstrated that funds are sound mechanisms for achieving conservation, some donors who have previously adopted a "wait and see" attitude may support endowments There are prospects for additional debt negotiations in some countries (particularly in the Asia Pacific region) that could generate endowment capital. The most promising areas at present are innovative local sources such as tourist taxes and user fees, and structuring non-endowment co-financing so that it returns interest to the endowment (see Box 8)

ANNUAL FLOW OF FUNDING GENERATED INVESTMENTS AND RETURNS

106 Generally, investment income of GEF supported funds has been adequate to cover administrative costs and initiate program activities Every GEF fund except the Eastern Carpathians met its targeted annual total return objectives through 1997 Part of the non-GEF portion of the Mexico portfolio, however, has been a low performer for several years, and the (non-GEF) Jamaica funds, after initially receiving high returns, are currently suffering from the downturn in the Jamaican economy and stock market It is important to bear in mind, in the analysis of two to five years of returns, that the past three years have been exceptional in terms of performance for international financial markets and that US inflation, an important factor in targeting returns for GEF-supported funds, has been very low Investing substantial amounts in emerging markets - a practice not usually consistent with the conservative investment principles of the World Bank model -- is an issue particularly for PROFONANPE (Peru), both Jamaica funds, and the Table Mountain Fund (South Africa).[1]

[1] Current volatility in international financial markets will further test the validity of the conservative investment strategy with active portfolio management approach adopted by many of the GEF-supported funds. Under this approach, funds can meet their program objectives by achieving a total return in the 8 percent range; asset manager performance is monitored against a simulated low-risk portfolio, creating a strong incentive for investment managers to promptly correct course in light of the current situation. Funds' short term programs are unlikely to be affected by the current volatility since the funds (1) are not yet spending their endowment income and/or (2) have accumulated reserves either because of slow spending start-up or investment performance exceeding objectives through early 1998.

BOX 8: FUNDRAISING INNOVATIONS

- The Protected Area Conservation Trust of Belize raises $500,000 per year through a $3.75 tax on tourists entering the country by plane or cruise ship.

- The Mgahinga-Bwindi Impenetrable Forest Trust of Uganda raised project funding from bilateral donors to support its operations and grant portfolio during its first seven years, so that income on the endowment capital provided by the GEF could be added to the endowment rather than spent. The initial GEF endowment capital has grown from $4.3 million to $5.6 million (expected to reach $7.5 million by the time the bilateral funding concludes).

- The Foundation for Eastern Carpathian Biodiversity Conservation and the Foundation for the Philippine Environment raised funds from the US-based John D. and Catherine T MacArthur Foundation to support operations during the start-up phase and to fund an early tranche of projects, which enabled them to have a more diverse portfolio and build a better track record early than they would have been able to accomplish living solely on earnings from endowment.

- PROFONANPE in Peru agreed with two of its donors to capitalize interest income from debt swaps and traditional projects In part to offset an unexpected devaluation applied to a debt swap. Finland agreed to provide PROFONANPE a small grant contribution to its endowment and to allocate all interest earned on the swap proceeds to the endowment. Similarly, GTZ agreed to disburse up-front the entire amount of a 6-year project and to invest it, in effect, as a sinking fund. PROFONANPE expects this will allow project activities to be extended to 10 years and still leave substantial interest income for its permanent endowment.

- Funding innovations outside the group of funds examined but brought to the team's attention by reference group members and others included a new fund starting in Ecuador that will conserve the watershed that supplies the capital city, using funds raised from a fee added to water bills.

107. Professional asset managers, drawn in all GEF cases except Peru from major international investment firms, have performed as well or better than the benchmark indices against which funds monitor their performance.

108. Early investment strategies (Bhutan, Uganda, Peru) were designed in large part by the asset management firms The general indices (broad world or local indices) for evaluating performance were usually chosen by the asset manager Initially, reporting by investment firms was selective and did not always facilitate performance monitoring by funds. Funds were often slow to respond to advice from asset managers, generally because they did not fully understand investment performance and the value of asset management services. Nevertheless, funds were generally satisfied with the level of their investment earnings.

109. There were several instances of inappropriate initial investment strategies (Bhutan, Eastern Carpathians, Philippines). In some cases, overly conservative strategies resulted in insufficient revenue to carry out full program activities (Bhutan is the notable example, although the Bhutan

fund had an adequate alternative source of funding to carry out its programs during the period when endowment income was low.) Other funds did not diversify their portfolios, or exposed their assets to high risk, particularly by concentrating all investments in one market (the fund's own country) or a region (e.g., Latin America). It was necessary for the World Bank to provide considerable financial expertise to Peru's PROFONANPE and its asset manager, in part because the investment profession was newly formed following privatization of the Peruvian banking sector and because of the higher risk inherent in emerging markets.

110.In 1996, a review[2] of funds' preparation of investment strategies and selection of asset managers concluded that while fund investments had achieved their target total return, and asset managers had attained their contractual investment performance indices, better performance is possible when (a) investment strategies are more explicit in setting goals appropriate to long-term investors, (b) initial and annual cash needs (net income) are more rigorously determined; (c) benchmarks or simulated portfolios with market and asset class specific indices (rather than a general world index) are used to monitor investment performance; (d) asset manager contracts and reporting address funds' specific situations and monitoring needs; and (e) target performance for asset managers is set above the benchmark results. These principles of "active management" were applied to the Brazil and Mexico GEF portfolios with excellent results. Those portfolios have outperformed their benchmarks and market performance overall.

111.A lesson highlighted by the case of Peru is that investment strategies should be revisited regularly, particularly in high-risk markets, and action taken promptly by the fund's board when conditions change. Peru's investment strategy, which placed hard currency capital in an emerging market, was considered during design to be lower risk than the possible attachment of its capital by creditors of the insolvent government When Peru came under the Brady Plan, risk factors should have been revisited. PROFONANPE hesitated to make changes (and the World Bank did not emphasize the urgency of revisiting the strategy in its supervision of the project), due in part to continuing high local market returns. This proved costly when the Peruvian market suffered a downturn in 1997. This has significantly lowered annual returns. Liquidation to reinvest in lower risk financial markets of OECD countries will lead to losses.

[2] Financed by Canada through the Consultant Trust Fund managed by the World Bank for the global environment.

BOX 9: INVESTMENTS AND RETURNS (GEF FUNDS ONLY)

Fund	Target Return	Markets	Asset Manager Location	Total Return (1997 annual)
Bhutan	US Inflation + 6%	80% US 20% Int'l (non-emerging)	Netherlands/US	16.35%
Peru	Average dollarized return over 3-year period: 5% above US inflation	80% local (Peru dollarized) 20% US	Peru	9.2%
Eastern Carpathian	6.6% total return	US	Switzerland	5.43%
Brazil	US Inflation + 6%	95% US 5% Brazil**	UK	10.8%
Uganda	US Inflation + 6%	Int'l (non-US) US*	UK/Channel Islands	7.96%
Mexico	US Inflation + 6.5%	US	US	13.6%***

Note: US inflation for 1997 was about 2%

* As of 1998, investments in the US markets were growing as a share of the total portfolio.

** FUNBIO's investment guidelines permit up to 15 percent of assets to be invested in Brazil.

***GEF funds were first invested 8/97; returns shown through 6/98.

SELECTION OF ASSET MANAGERS

112. World Bank-supported funds investing in major international financial markets (Mexico, Bhutan, Uganda, Brazil) have selected asset managers based on competitive proposals sought from a nationality-diversified list of internationally recognized investment firms. Both industry standard and the World Bank's QCBS (Quality and Cost-Based Selection) practices have been used with equally satisfying results.

113. Funds investing locally have used local competitive searches (South Africa, Eastern Carpathians, Peru). For local currency endowments, in the absence of deep capital markets and a fully functioning investment profession in the home country, funds often rely on banks (generally identified through relations with board members) for advice and tend to invest in short-term instruments such as treasury bills (Guatemala). In the case of Peru, a nascent private banking

sector limited the number of candidates for asset manager. The three candidate banks/investment firms were so dissimilar that there was no basis for comparison.

TECHNICAL ASSISTANCE AND CAPACITY-BUILDING

114. Bhutan, Brazil, Uganda, South Africa, and Mexico all benefited from international financial expertise to assist with preparation of initial investment strategies and guidelines as well as selection of an asset manager. Assistance was provided to the Eastern Carpathians Foundation by WWF and the MacArthur Foundation but was limited to selecting a bank to invest the foundation's capital. Given the small size of the capital, the focus was on fee minimization rather than a strategy to achieve a targeted return with an acceptable level of risk.

115. Funds in several cases have a limited pool of in-country expertise upon which they can draw to ensure a sophisticated level of investment knowledge at the board, fund director, or staff levels. Several funds have had to rely on outside advice to monitor investment and asset manager performance, with little expertise of their own to evaluate the advice or to analyze investment strategies in the face of dynamic market situations. Their ability to monitor effectively is limited not only by their own expertise, but also in several cases by less than full responsiveness by asset managers. The World Bank provided initial assistance with establishing guidelines but made no provision to continue financial counseling as part of fund operations. Mexico and Brazil, however (the two funds able to call on the most sophisticated pool of knowledge from their board, staff, and advisors), have engaged at their own expense professional financial advisors to supplement their in-house expertise.

116. In the case of Mexico, the World Bank provided technical assistance to review FMCN's investment management practices at the time the Mexico Protected Areas Project was restructured to operate through a fund. FMCN, a fund whose board includes considerable financial expertise, recognized the value of professional counsel and hired a financial advisor to help with the re-structuring of its portfolios, guide investing of USAID funds ($19.5 million), prepare investment guidelines for the GEF capital ($16.5 million), monitor performance of FMCN's three asset managers, keep its investment strategy current, and assist with debt swaps. This same approach could provide a cost-effective solution for any fund that cannot maintain the required level of expertise on its board or staff. Normally, this assistance should be considered a legitimate cost of doing business, and operating cost targets should not be so restrictive as to preclude it.

117 Donor-provided technical assistance to prepare an investment strategy and select an asset manager has generally provided little lasting knowledge of asset management within the fund, because it focused on the process of preparing guidelines and selecting an asset manager, and assumed all investment needs would be met by the asset manager. Client responsiveness of asset managers has been less than expected and levels of knowledge in funds very limited in general. This points to a need in most funds for (a) financial expertise in addition to asset managers; and (b) financial training for key staff and board members to ensure they are well informed in making decisions and understand principles guiding their investment strategy.

RESPONSIBLE INVESTING

118 The evaluation team noted that many of the funds analyzed are interested in "responsible" or "green" investing, but have limited capacity to develop such a strategy. This is due to several factors

- There is little actual experience with this concept, beyond in a few cases specifying to the asset manager certain stocks or categories of stocks in which they did not wish to invest (logging, toxic wastes)
- In the early years, most funds must maximize income (for a given level of risk) to ensure operating funds, making restrictive guidelines counter-productive.
- Practical guidelines for establishing and implementing a "responsible" investment strategy are not available. Principles and implementation of responsible investing practices have been noted as a priority for capacity-building by national environmental funds participating in Interagency Planning Group workshops in both Latin America and Asia/Pacific

119.Bhutan and Mexico have specific clauses in their investment guidelines to ensure their investment philosophy is consistent with their institutional mission. Bhutan's board is charged with developing responsible investment guidelines for use by the asset manager. FMCN's guidelines minimize investments in companies with poor social and environmental records and delegate individual investing decisions to the investment manager

IV. CROSS-CUTTING CONCLUSIONS

A. Advantages and Challenges of Conservation Trust Funds

120 The terms of reference for the evaluation listed a series of advantages and drawbacks or challenges often attributed to conservation trust funds. This section presents the team's findings on each of those hypotheses.

121. Of the frequently cited ***strengths and advantages,*** the evaluation generally confirmed that:

- *Funds can absorb major amounts of funding and disburse it over time consistent with the absorptive capacity of recipient organizations.* In virtually all of the "grants" funds studied, the ability to time and size grants to meet -- and build -- absorptive capacity of governmental and non-governmental organizations was cited as an advantage over traditional ways of implementing projects.

- *Funds often have participatory structures that involve a wide range of stakeholders-- e.g., governing boards, technical advisory committees, and or project selection committees that include representatives from indigenous peoples groups, community organizations, local and national government agencies, private businesses, the academic community, and international donor or NGO representatives.* Even the government or government-dominated funds (Bolivia, Bhutan, Peru) had established some level of participatory structure -- technical advisory committees, sub-account administrative councils, requirements for participatory planning processes by grantees. Uganda's MBIFCT, the Environmental Foundation of Jamaica, and the Mexican Nature Conservation Fund are outstanding examples of meaningful stakeholder participation in decision making processes.

- *Funds can be politically independent of particular administrations or parties, and can provide continuity from one government to another.* Not all of the countries studied had experienced a change of administrations or parties. In only one case -- Bolivia, a government fund -- was a turnover of government disastrous to the fund's ability to continue its programs, and in that case, the problem is being addressed in part by setting up the major grant-making account as a separate, private foundation.

122. There was limited evidence in support of the following:

- *Funds can provide a stable, long-term source of funding for biodiversity conservation, not only to cover recurrent costs, but also to smooth out year-to-year fluctuations in project funding. This can also provide a better basis for long-term planning and strategy implementation.* In general, the team concluded that it was too early to tell whether this advantage will be borne out over the long term, although it appears to be the case for most "parks" funds. (Mexico and Bhutan, and a probable outcome in Uganda and Belize.)

- *Funds are able to attract a diverse range of national and international funding sources.* The

funds studied tended to have one to four sources of funding. A few -- notably Peru -- had attracted non-endowment funding from a variety of sources (but largely a single mechanism, i.e. debt reduction agreements). There are examples of funds capturing funding from innovative and national sources (notably Belize) but none of a fund fully tapping the diverse range of sources theoretically available, particularly for endowment capital.

- *Environment funds can operate quickly and responsively to a variety of organizations that have relatively limited institutional capacity, avoiding much of the bureaucracy of large donor or financial agencies.* Several funds have highly bureaucratic administrative procedures, often at the insistence of the donor. However, there are also examples of funds that have been highly responsive to NGOs and local communities, in particular, the Mgahinga-Bwindi Impenetrable Forest Conservation Trust and the Foundation for the Philippine Environment.

- *Funds can provide a vehicle for collaboration among government and non-governmental organizations in defining funding priorities, and for constructive engagement with the private commercial sector.* Mexico, Brazil, Guatemala, South Africa, and the Eastern Carpathians are examples of funds that do facilitate such collaboration and constructive engagement. The two government funds and one government-dominated fund studied did not achieve this result.

123 Of the most frequently cited ***challenges and potential drawbacks***, the team found that three are significant problems, at least in some funds. These are:

- *Trust funds can tie up substantial amounts of scarce resources for conservation and development to generate often modest amounts of income, some of which, in turn, is spent on administering the fund.* In applying this question to each of the funds studied, the most common answer was "Yes, but ": (a) most funds have invested their endowment capital wisely and have generated returns nearly equivalent to the opportunity cost of capital, (b) operating costs vary but are probably not substantially greater than the true administrative costs of project management; and (c) tying up this capital extends the benefit stream for many more years than a project benefit stream.

- *The additional and steady flow of resources from environment funds can relieve pressure for continuing or increased government or donor expenditures on conservation and sustainable development, resulting in decreased government or donor spending and commitment in these areas.* This is a problem in the Jamaica National Parks Trust, and potentially a problem in Peru. Mexico provides a case study where the trust fund has actually leveraged increased government commitments to protected areas. In Uganda, MBIFCT has "picked up" some community development projects that the government had planned to support but dropped when it reduced the amount of funds available for community revenue sharing.

- *In the GEF context, it may be difficult in practice to pass on to individual activities financed by trust funds GEF-specific criteria such as incremental costs and achieving global*

environmental benefits. As discussed in Chapter III.C, "parks" funds have an easier time of meeting this standard than "grants" funds. However, all of the GEF-financed "parks" funds, as well as the Brazil "grants" fund, were in fact focusing their programs on areas identified by the Convention on Biological Diversity as global priorities.

124. Challenges and drawbacks that have in practice proved to be surmountable include:

- *Funds require highly technical and sophisticated management skills to safeguard the fund's capital, provide a predictable income stream in sometimes volatile economic environments, and create a participative and transparent governance structure involving multiple stakeholders.* There are two dimensions to this issue. On the one hand, the funds studied have generally been able to recruit nationally for staffs, boards, and advisory committees with good technical qualifications. On the other hand, funds have needed technical and capacity-building assistance related to their functioning as institutions – governance, fundraising, capacity-building for recipients, and investment oversight. This assistance has been available to some extent, but the demand still exceeds what is available.

- *There can be enormous pressure to disburse funds, particularly after lengthy start-up phases, which can lead to an erosion of capital assets and excessive project-focus, financing a profusion of activities without developing clear strategies.* There are no documented cases of erosion of assets due to pressure to disburse. However, the "grants" funds in particular often struggle with a profusion of proposed activities and difficulty in developing clear strategies. The Mexican Nature Conservation Fund is an example of a trust fund addressing the "profusion" problem by iteration of increasingly strategic program priorities, linked to conservation outcomes (see Box 6). Another example is the Foundation for the Philippine Environment, which concentrates a large percentage of its activities in geographical areas selected for their biodiversity importance in order to maximize impact. Belize's Protected Areas Conservation Trust is an example of a fund that has focused thematically, on activities such as protected areas, eco-cultural tourism, and archeological sites.

- *Funds can be overwhelmed with demands for resources from a variety of sources (often well beyond the environmental groups originally involved), and with efforts to effectively accommodate the involvement of a large number of diverse stakeholders.* This, too, is more of a problem for "grants" funds than for "parks" funds. Several funds initially overwhelmed by demands have developed effective measures to define a niche and structure participation and selection criteria. In addition to the examples discussed in the preceding paragraph, the Mgahinga-Bwindi Impenetrable Forest Conservation Trust -- which received 4,750 applications in response to its first call for community proposals, when it had intended to fund 50 -- demonstrated an adaptive response. The trust fund's Local Community Steering Committee, which was charged with recommending to the board which projects to fund, responded by deciding on a thematic focus for the grant cycle, notifying proponents that only those types of activities would be considered in the first round, and proceeding to short-list 150 for full consideration. In the second round, the committee has proposed setting up screening processes at the parish level so that local councils select three priority community projects to submit.

- *Funds give direction and control of potentially large sums of resources to independent organizations (although governments and donors may be represented on their boards), and activities financed can lack coordination with national environment strategies and priorities.* Funds have generally done well in managing large sums of money with integrity and transparency. "Parks" funds generally take direction from park system master plans and protected area unit plans. "Grants" funds in two cases (Guatemala and Bolivia) have been active supporters of national environmental strategies, providing both funding and technical expertise. The fund's degree of coordination with national environmental strategies depends to a great extent on whether a coherent national strategy exists, or whether there are competing strategies and a broader lack of coordination at the national level.

B. Conditions For Success

125. Taking all of the findings into account, the evaluation team concluded that it is possible to identify certain key factors associated with trust fund success. Some of these factors determine whether the conservation objective is best addressed by a trust fund or another approach. Some affect the fund's prospects of becoming a viable institution While it is not necessary for all the conditions to be met, some "critical mass" appears to be a prerequisite for success, and the absence of more than a few would greatly increase the risk of delays, difficulties, and failure to meet objectives. The "critical mass" will vary according to the type, size, scope, and objectives of the fund in question. However, when any of the key factors is missing or only partially achieved, there are risks that need to be clearly addressed in the design process.

FACTORS IMPORTANT FOR ESTABLISHING A TRUST FUND

a) Existence of a valuable, globally significant biodiversity resource whose conservation is politically, technically, economically, and socially feasible. Absence of major, urgent threats requiring mobilization of large amounts of resources in a short time period (i.e., the conservation action required is long term and addressable with the flows a trust fund could produce). The importance of the resource on a global scale affects the fund's ability to attract international financing.

b) Government support of the concept of a fund outside government control, that bridges the public and private sectors. The support should be active and broad-based, from the President 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 co-financing of project activities. This condition often takes a long period of advocacy during the design and start-up phases

c) 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.

d) A critical mass of people with a common vision. People from NGOs, the academic and private sector, and donor agencies -- the environment community" — who can work together despite their different approaches to biodiversity conservation. The support and involvement of business leaders is crucial to bring in private sector management skills, especially skills in financial management.

e) A basic fabric of legal and financial practices and supporting institutions (including banking, auditing and contracting) in which people have confidence.

f) Mechanisms to involve a broad set of stakeholders during the design process, and willingness of stakeholders to use these mechanisms.

g) 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.

h) 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.

i) 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

j) *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.* FMCN (Mexico) provides the best example of the benefits of this approach. The team concluded that most funds would have benefited from more detailed attention to the articulation of goals, objectives, and indicators in operating manuals during design.

k) *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.* The Foundation for the Philippine Environment, FUNBIO (Brazil), FMCN (Mexico), and PACT (Belize) provide the clearest evidence of what can be achieved when this condition is met, while PROFONANPE (Peru) illustrates the difficulties that can arise when it is not.

l) *Linkage between the trust fund and the leadership of any national biodiversity*

strategy or environmental action plan. Most of the "parks" funds organize and focus their funding priorities through participation in or guidance from planning processes of their partner agencies. FMCN's ability to focus its "grants" program through linkages with national priority-setting processes best illustrates the advantage of this factor

m) *Ability to attract dedicated, competent staff, particularly a strong executive director. Harmonious and productive board-staff relationships.* The best examples of the benefits of highly qualified, strong leaders in the executive position working well with diverse, supportive, influential boards are FMCN (Mexico), FUNBIO (Brazil), and the Foundation for the Philippine Environment.

n) *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.* The Mexico and Uganda funds illustrate this point. Bolivia also provides an object lesson: although FONAMA's loss of influence in 1993-95 was primarily due to political changes, the fact that those political changes also caused the organization to lose its technical capacity was what precipitated a crisis of donor confidence.

o) *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.* MBIFCT's ability to rely on CARE as a technical assistance provider to grantees in Uganda has been essential to the community grants program's progress. FMCN (Mexico) and the Foundation for the Philippine Environment are examples of other trust funds that have made it a priority to develop partnerships and working relationships with key organizations to extend their reach and assure greater local acceptance of activities

p) *Financial administrative discipline combined with program flexibility and transparency; and procedures that support this and are consistently applied.* Most of the funds studied exhibited this attribute to some extent. Again, FMCN is the best example of a fund that sets a high standard of financial discipline, while still maintaining the flexibility to deal with extraordinary circumstances -- both in adapting to the circumstances of its grantees and in making funds available to cover unforeseen but crucial needs. MBIFCT in Uganda is another good illustration.

q) *Mechanisms for continuing to involve a wide range of stakeholders in the fund's programs and direction, with enough clear vision and leadership to avoid being pulled in many directions and program fragmentation.* FMCN (Mexico) and MBIFCT (Uganda) are examples of funds demonstrating this attribute. Recently, FONAMA has provided an example of the problems a trust fund that does not pay attention to this priority can encounter.

r) *Asset management competitively selected: diversified portfolio of investments; financial expert to provide regular reporting and oversight-comparison to benchmarks.* As discussed in Chapter III.G. most of the GEF-supported trust funds have adopted this mode.

s) *A supportive, nurturing Implementing Agency task manager, able to bring in the resources and expertise needed.* This is discussed in Chapter III C

C. *Deciding Between Trust Funds or Traditional Projects*

126. The GEF is sometimes faced with the decision of whether to support a conservation trust fund or to finance biodiversity activities through a more traditional project mechanism. Although this evaluation only studied GEF (and other) projects which financed trust funds and does not include a comparative view of both funding modalities, a project approach was seriously considered during the project design phase in Brazil and the GEF-funded Mexico trust fund replaced an ineffective traditional project. In addition, key informants were asked to provide their assessments of the advantages of both trust funds and traditional projects. Our findings suggest several factors which should be carefully considered when the GEF is reviewing alternatives for financing biodiversity conservation projects. These factors are closely associated with the conditions for success discussed in the previous section

127 A primary concern expressed by some about trust funds is that they tie up substantial amounts of scarce donor resources for conservation and development in endowments which generate only modest amounts of income From a purely financial perspective, the primary question is whether trust funds are the best use of capital, given its opportunity cost Several factors influence the answer to this question First, although it is very difficult to compare the *benefits* from trust funds and those from projects, in theory trust funds should generate more benefits, *ceteris paribus*, because the benefit stream from an investment in a trust fund is much longer than from a 5-year project, and will potentially continue forever if the endowment is well managed Second, the *costs* of trust funds may be higher than traditional projects over the short-run (3-5 years) However, endowment capital is invested and generates revenues which are equivalent to at least a portion of the opportunity cost of capital In 1997, for example, three of the six GEF trust funds generated endowment revenues larger than the 10% opportunity cost of capital normally used in World Bank financial analyses. While these gains from endowment investment may not continue at similar levels over the life of the trust fund, they are usually significant and must be considered in comparative analyses

128 This evaluation found that trust funds can normally be administered with operating costs between 20-25% of the annual revenues generated from the endowment. However, these costs are probably only modestly greater than the real administrative costs of traditional projects if all costs are included, and have the advantage of generating much longer-term benefit streams.

129. Financial analysis is only one factor that should be considered in choosing whether to finance a trust fund or a traditional project. In many ways discussed in this report, trust funds provide the opportunity to generate long-term benefits which are more systemic and sustainable

than benefits from traditional projects For trust funds included in this study, the decision to use a trust fund modality focused heavily on non-financial factors. These include (a) the time frame needed to address threats to biodiversity (often long-term); (b) the absorptive capacity of recipient organizations (often limited); (c) the incentives to spend large amounts of money quickly that are often associated with projects and the frequent difficulty of sustaining this level of expenditure following project completion; (d) the value and need to provide a venue for non-government entities such as local NGOs and the business community to work in harmony with government to address biodiversity issues; and (e) whether using private sector procedures, rather than government procedures, will improve the efficiency of conservation funding. The additional benefits from trust funds clearly must be weighed against the risks and costs associated with establishing or expanding a complex institution. For the vast majority of individuals interviewed as part of this evaluation – people involved directly with trust funds and independent observers – the trust fund experience is assessed very positively, and viewed as bringing many long-term and systemic benefits that have not been available from traditional projects.

130. A summary of several key factors to be considered in the decision on whether to finance a conservation trust fund or a traditional biodiversity project are summarized in Box 10

BOX 10: FACTORS INFLUENCING THE TRUST FUND/PROJECT CHOICE

	Trust Fund	Project
Threat to Biodiversity:	Threat is long-term. Best addressed over 10-15 year period	Immediate and strong. Best addressed over a 3-5 year time frame.
Funding needs:	Problem best addressed through modest amounts of funding provided over many years in periodic increments	Funding needs are large and/or lumpy. Level of activity can be sustained once project funding ends in 3-5 years.
Recipient Absorptive Capacity:	Can only effectively manage modest amounts in periodic increments with gradual increase over time	Can efficiently manage and effectively spend major infusion of funds over 3-5 years.
Common Vision:	Critical mass of people with common vision for biodiversity objectives and willingness to participate in trust fund governance	Lack of common vision regarding trust fund. Collaborative management of biodiversity program less efficient than management by a less complex institution.
Program Efficiency:	Need to create more efficient funding and operational mechanisms in lieu of existing (normally government) bureaucracy.	Existing bureaucracy functions efficiently and does not constrain achievement of biodiversity objectives
Enabling Conditions:	Legal basis and other conditions for trust fund operations (e.g. incentives for fund raising) exist or can be quickly established	Legal and other conditions for fund operation do not exist and are unlikely to be quickly established.
	Basic fabric of legal and financial practices allows for transparency.	More direct donor supervision of resources required to ensure appropriate use of funds.
Collaboration:	Desirable to create a vehicle for government and non-government (NGO, private sector) collaboration	Such opportunities for collaboration already exist or are not appropriate.
Demand for grants fund resources:	NGOs and other user groups have capacity or can gradually build capacity to use annual funds generated from endowment.	1) Effective grant-funding mechanism exists 2) NGOs and other user groups have very limited capacity to manage even small amounts of funding. Project to build capacity may be prerequisite to trust fund.
Demand for parks fund resources:	Framework of national parks system established, some parks exist with reasonable degree of government support	1) Nascent national parks system. 2) Recurrent costs assured by government or other sources. Parks need capital improvements.

V. IMPLICATIONS FOR GEF AND RECOMMENDATIONS

GEF Financing of Conservation Trust Funds

131. While most of the conservation trust funds examined have had three years or less of full program operation and several have experienced setbacks and growing pains--some of them serious--the basic conclusion that emerges from this evaluation is that, under certain circumstances, trust funds have proven to be effective mechanisms for support to activities designed to achieve global environmental benefits.

132. **Recommendation 1:** *GEF should continue to finance conservation trust funds when the necessary circumstances are met.* GEF is one of the few significant sources of capital for conservation trust funds today. Its leadership in financing funds has catalyzed substantial additional resources--both financial and intellectual. Trust funds, particularly those that focus on protected areas, show great promise of evening out the typical "boom-bust" cycle of traditional projects and the related perverse incentives to spend large quantities of money quickly. They are providing resources through transparent, participative processes to groups and for important activities that have not previously had access to financing. Trust funds supported by GEF and others are making tangible progress in increasing involvement of community groups, NGOs, private businesses and others in decision-making on conservation issues in which they have a stake. Some are contributing to policy discussions on conservation and sustainable use based on their program experience. The prospects for doing this in other places beyond the handful supported to date appear to be good.

Conditions for GEF Support

133. Conservation trust funds are not always the most appropriate response to the issues of biodiversity conservation. In some circumstances, a more traditional project approach may be appropriate. In Chapter IV.B. above, the evaluation team outlined the *factors it has found to be conducive for conservation trust funds to succeed.* These can be used as a checklist for project designers or reviewers when new trust fund projects are considered. Where a critical mass of these factors is not present, other approaches which have a shorter-term perspective and imply a more limited commitment to a specific approach or institutional arrangement are indicated

134. **Recommendation 2:** *The team believes that four conditions are essential for the creation and/or capitalization of conservation trust funds, and recommends GEF support only when they are met:*

- *The biodiversity conservation issue to be addressed requires a long term commitment--at least 10-15 years;*
- *There is active government support--not just agreement--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 their different approaches to biodiversity conservation and sustainable development; and*

- *There is a basic fabric of legal and financial practices and supporting institutions (including banking, auditing and contracting) in which people have confidence.*

135. **Recommendation 3:** *The concept of conservation trust funds as independent organizations that are more than financial mechanisms should be reflected from the outset in staffing patterns, governance structures, recruitment criteria for board members and staff, and technical support provided by outside donors and partners.* This evaluation has shown that conservation trust funds are complex and demanding to establish and sustain. The effort to create and support them is justified only if they are viewed from the beginning as independent institutions that have a long-term role to play. Although most trust funds supported by GEF have been seen primarily as financial mechanisms, the evaluation team found that they are more than that. To succeed, they need more than financial management and accounting systems and skills. They need to be able to monitor the performance of their programs; to feed back experience into strategic plans, program improvements and broader policy discussions; and to work closely with recipients and other organizations to ensure a quality portfolio that complements other activities in their areas of focus. In short, they need to proactively influence their environment and adjust their programs to fit.

136. **Recommendation 4:** *GEF projects in support of trust funds should make provision for training and technical assistance, or assure that they are provided by other partners.* Trust funds need to give more explicit attention than has been given to date to training and technical assistance to help build the abilities they need to operate effectively as independent, long-term institutions. This need not be through separate grant funding; in fact, in at least two cases observed during the evaluation, this kind of assistance was effectively provided as part of implementing agency supervision missions.

Financial Sustainability

137. This concept of conservation trust funds has implications for the minimum amount of resources needed for a fund to be financially viable. The evaluation team found that, in general, trust funds have so far been unable to raise sizable additional capital contributions beyond those provided by the original donor. Most of the resources they have been able to attract are for specific project activities which, while consistent with their objectives, often do not provide them with the financial security or degree of flexibility needed to achieve their long-term organizational goals.

138. One dimension of this issue is whether a permanent *endowment* is needed to accomplish a trust fund's mission, or whether a *sinking fund* (that could be replenished at some future point based on experience) is adequate for this purpose. In general, the evaluation team concluded that

permanent endowments are more likely warranted for "parks" funds, while a sinking fund that disburses over 10-20 years may be appropriate for "grants" funds. In looking at this issue, it is important to consider not only large capital contributions from donor organizations, but also government policies enabling flows to the fund of locally-generated resources (e.g., from tourist taxes, park entrance feeds, concession fees or other user charges), as well as tax laws regarding charitable giving by the private sector

139. **Recommendation 5:** *The initial capitalization of a conservation trust fund, together with other resources available on a recurrent basis (e.g., proceeds from tourist taxes or park entrance fees) should be large enough to allow a meaningful program in the fund's chosen area of focus, over a significant period of time, while keeping operating (non-program) costs within a range of 20-25%. Trust funds should not be created unless there are tangible commitments for this minimum amount of capital from the outset.*

140 Four variables interact to define the minimum amount of capital needed:

- the amount of money needed on an annual basis to carry out a significant program in whatever area the fund focuses on;
- the amount of other (non-endowment) funding regularly available;
- the expected return on investment, and whether the fund can draw down the capital to meet current expenses (sinking fund) or uses only returns (endowment); and
- the minimum level of operating costs needed for the fund to function.

141. **Recommendation 6:** *Beyond the minimum amount, GEF support should be structured to provide incentives to encourage raising additional capital (e.g., through tranching or matching provisions) and assistance in developing innovative capitalization approaches.* Ultimately, a trust fund's best fundraising tool is a record of success with its initial project cycles. In some cases, the best strategy may be to provide bridge financing or allow a first tranche of financing to be used as a sinking fund, with endowment capital provided once a track-record is established.

142. **Recommendation 7**: *GEF support for recurrent costs of protected area management through "parks" funds should include a strategy for increasing the provision of other resources for these costs and for looking for ways certain activities or areas could become self-financed. Individual conservation, sustainable use, and environmental education projects supported by "grants" funds should have prospects for their own sustainability and/or achieving their objectives in a reasonable period of time with no need for continuing funding.* Establishing a conservation trust fund that is itself financially viable does not guarantee the financial sustainability of the activities it supports. Even if a fund has an assured, long-term source of funding, it is important that its resources be used in strategic and catalytic ways, filling gaps and leveraging other contributions through the choice of activities it supports.

Operating Procedures and Costs

143. **Recommendation 8:** *GEF's implementing agencies should apply clearer and more consistent guidance on operating costs for the conservation trust funds it supports.* Operating costs should be defined as the "cost of doing business," including board operations; maintenance of an office and basic financial, accounting and technical staff; program planning, constituency relations; fundraising; project selection and supervision; and program monitoring and evaluation. Program support costs, such as technical and capacity-building assistance to grantees, should be calculated in separate line items and excluded from "operating" costs. Normally, the trust fund should seek to externalize these program support costs by contracting or providing grants to other organizations who would provide the service, if such organizations are available. Based on this definition, a ceiling of 20-25% of net revenues for operating costs appears to be a reasonable target for trust funds to meet. Generally, funds with larger endowments and/or program activities should be able to operate at the lower end of this range, while funds with smaller endowments and/or programs may be at the high end. Projects should include parallel financing (not drawn from endowment earnings, but provided by GEF or other donors) for initial institution-building costs, including board development, staff training, consultant assistance, and design of monitoring and evaluation systems.

144. **Recommendation 9:** *GEF's implementing agencies should give greater consideration to the impact on trust fund agility and responsiveness, as well as on operating costs, of prescribing complex and elaborate procurement or administrative procedures. They should generally seek to help develop, and then certify, a fund's own procedures that are appropriate to the environment in which it operates, rather than impose the implementing agency's standard procedures, which were developed for very different circumstances.* This is especially true when a trust fund is created within another, established organization. Any specific criteria that trust funds are required to apply to determine the eligibility of specific projects or activities for GEF financing (i.e., with respect to incremental costs or global environmental benefits) should specifically bear in mind their implications on administrative costs and fund responsiveness, and be as simple, straightforward and understandable as possible.

Asset Management

145. **Recommendation 10:** *The GEF should continue to apply as standard practice for its capital contributions to trust funds the successful asset management and asset manager selection model developed by the World Bank.* This includes development of investment guidelines that reflect a conservative risk strategy and portfolio diversification; competitive, international selection of experienced, professional asset managers; and regular, active oversight of investment performance compared to standard benchmarks by a fund's board of directors, preferably with the benefit of periodic, expert advice.

Partnerships

146. **Recommendation 11:** *GEF support for conservation trust funds, especially for the creation of new funds, should encourage the development of partnerships with international*

NGOs with experience and recognized abilities in this area, as well as the exchange of information among trust funds. The evaluation demonstrated the benefits to a trust fund of having relationships with other funds, international NGOs, and more than one donor agency.

147. **Recommendation 12**: *In addition to support provided through individual projects to information exchange and networking among conservation trust funds, GEF and its implementing agencies should explore ways in which they could provide a small amount of resources to permit their staff to sustain ongoing partnerships with trust fund "graduates" beyond the normal supervision period.* An ongoing relationship between trust funds and the GEF and its implementing agencies beyond the normal 4-5 year period of supervision would also be beneficial. This would allow GEF and its implementing agencies to gain a richer knowledge of trust fund experience and conditions for success, to apply lessons learned to future projects, and to verify that trust funds are achieving conservation impact and continue to support GEF priority activities over the long run

Monitoring Biodiversity Impact

148. **Recommendation 13:** *GEF and its implementing agencies should provide increased support to help trust funds define their intended impacts on biodiversity conservation and sustainable use and to develop performance indicators and simple, useful monitoring and evaluation systems to measure progress toward these objectives and feed back experience into program improvements and management decisions. As part of this process, GEF should insist that all current and future conservation trust fund projects have fully developed logical frameworks.* At the same time, GEF could benefit from--and therefore should actively seek out and apply--the experience of some trust funds, e g , FMCN in Mexico, in defining its own biodiversity program-level performance indicators Given the generally nascent state of the art of performance and results measurement for biodiversity programs, this is an ideal area for partnership between the GEF and conservation trust funds.

Annex A

TERMS OF REFERENCE

GEF EVALUATION OF EXPERIENCE WITH CONSERVATION TRUST FUNDS

Background and Rationale

The FY98 work program for the GEFSEC's monitoring and evaluation team includes an evaluation of GEF's biodiversity activities. One specific set of biodiversity projects has received considerable attention within the GEF, including in the Overall Performance study and the 1997 PIR. These are projects which have supported and/or established conservation trust funds. An evaluation of GEF's experience to date with such funds would be timely and would meet an expressed need of the Council, implementing agencies, and the NGO community interested in the GEF.

More than thirty environment funds have been created over the past decade, and twelve have received GEF support. Generally, they aim to provide a long-term source of funding for biodiversity conservation and sustainable development. They have often also served as vehicles for bringing multiple stakeholders together to prioritize conservation actions that respond to community and other local needs. The Biodiversity Convention and the NGO community have strongly endorsed this approach and encouraged GEF to expand its financing of such funds. The Overall Performance Study also recommended increased GEF support for conservation trust funds, and suggested that GEF's comparative advantage might be in providing technical assistance and initial seed capital to get funds started, while leveraging other resources for the funds' capital itself.

Others have raised questions about the merits of this mechanism, however. Some Council members have voiced concerns, in particular about the extent to which GEF's eligibility criteria related to global environmental impacts are met for activities financed by environment funds, the "opportunity cost" of providing relatively large sums of GEF grants to capitalize endowment funds, and how to assure the performance of the funds is adequately monitored and evaluated. The Council requested the secretariat to prepare a paper examining these and other issues related to environment funds. That paper is now planned to be submitted to the Council at its meeting in October 1998. This evaluation will make a direct input to this policy paper. It will also contribute to the 1998 PIR and provide the basis for an issue of the *GEF Lessons Notes* series.

There are various types of environment funds. Those supported by the GEF have sometimes been set up as ***trust funds*** (in countries whose legal systems are based on British or U.S. models) and sometimes (in most civil law countries) as ***foundations***. In either case, these funds legally set aside assets (e.g., GEF grants) whose use is restricted to the specific purposes set out in a legal trust instrument. (In the balance of these Terms of Reference, both types of funds are referred to as "trust funds".) They can be structured financially in three ways. When an ***endowment*** is created, the financial assets of the fund are invested to earn income and only that

income is used to finance specifically agreed-upon activities. ***Sinking funds*** are designed to disburse their entire principal and investment income for agreed-upon activities over a fixed period of time, although this could be a relatively long period, i.e., 15 years. ***Revolving funds*** provide for the receipt of new resources on a regular basis--for example, 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 environment fund can combine these features depending on its source of capital.

Advantages and Potential Drawbacks of Trust Funds

Environment trust funds offer a number of potential ***strengths and advantages***. Among them are:

- Funds can provide a stable, long-term source of funding for biodiversity conservation, not only to cover recurrent costs, but also to smooth out year-to-year fluctuations in project funding. This can also provide a better basis for long-term planning and strategy implementation.

- Funds are able to attract a diverse range of national and international funding sources.

- They can absorb major amounts of funding and disburse it over time consistent with the absorptive capacity of recipient organizations.

- Environment funds can operate quickly and responsively to a variety of organizations that have relatively limited institutional capacity, avoiding much of the bureaucracy of large donor or financial agencies.

- They can provide a vehicle for collaboration among government and non-governmental organizations in defining funding priorities, and for constructive engagement with the private commercial sector

- Funds often have participatory structures that involve a wide range of stakeholders-- e.g., governing boards, technical advisory committees, and/or project selection committees that include representatives from indigenous peoples groups, community organizations, local and national government agencies, private businesses, the academic community, and international donor or NGO representatives.

- Funds can be politically independent of particular administrations or parties, and can provide continuity from one government to another.

On the other hand, creation and implementation of environment funds present a number of ***challenges and potential drawbacks***, including:

- Trust funds can tie up substantial amounts of scarce resources for conservation and

development to generate often modest amounts of income, some of which, in turn, is spent on administering the fund.

- They require highly technical and sophisticated management skills to safeguard the fund's capital, provide a predictable income stream in sometimes volatile economic environments, and create a participative and transparent governance structure involving multiple stakeholders.

- The additional and steady flow of resources from environment funds can relieve pressure for continuing or increased government or donor expenditures on conservation and sustainable development, resulting in decreased government or donor spending and commitment in these areas.

- There can be enormous pressure to disburse funds, particularly after lengthy start-up phases, which can lead to an erosion of capital assets and excessive project-focus, financing a profusion of activities without developing clear strategies.

- Funds can be overwhelmed with demands for resources from a variety of sources (often well beyond the environmental groups originally involved), and with efforts to effectively accommodate the involvement of a large number of diverse stakeholders.

- Funds give direction and control of potentially large sum of resources to independent organizations (although governments and donors may be represented on their boards), and activities financed can lack coordination with national environment strategies and priorities.

- In the GEF context, it may be difficult in practice to pass on to individual activities financed by trust funds GEF-specific criteria such as incremental costs and achieving global environmental benefits.

Issues that the Evaluation will Address

Annex 1 lists the environment funds that have received GEF support to date, those that are presently being designed or under active consideration, and additional funds that may possibly be supported in the future. The evaluation will examine the experience under these GEF projects--and selectively under environment funds assisted by other donors--to determine:

(1) to what extent have the potential advantages of environment trust funds been realized in practice, and have the concerns expressed about them been minimized or overcome?

(2) what enabling conditions are needed for conservation trust funds to succeed and what conditions are likely to hinder success?

(3) what evidence is there to date of the impact of these funds on conservation and sustainable use of biological diversity?

(4) what lessons and good practices can be identified from this experience that could usefully be applied by other current or future funds?

(5) what recommendations result from a review of this first generation of trust funds for GEF policies that would help guide future funding of and technical assistance to conservation trust funds?

Specific Scope of Work

Within the framework of the five questions listed above, the evaluation team will assess the following specific issues:

I. FUND ADMINISTRATION AND ASSET/FINANCIAL MANAGEMENT

- How much additional funding for conservation trust funds has been leveraged with GEF resources? From what sources have these resources been provided? What are the prospects for further fund-raising in the near future?

- In practice, what has been the annual flow of funding for biodiversity conservation and sustainable use activities generated by GEF-supported funds? Has there been a good match between projected resources and those actually generated?

- How has the trust funds' capital been invested? How has the real return on the assets in these funds compared to market averages and investments by similar organizations during the same period?

- What skills and resources were required to manage the funds' assets? Have the funds used professional asset managers? If so, how were they selected and how has their performance been evaluated? Did fund managers and board members have the skills and experience to deal adequately with assets management issues? What training or other capacity building assistance was provided in this area (by GEF or others), and what impact have they had?

- How much is spent on administrative costs? Were ceilings on these costs respected in practice? What are the components of the funds' costs?

II. Program Management

- Are the funds guided by a specific strategy for selecting the activities they will finance? Are their grant programs targeted to have a particular impact on conservation and sustainable use of biodiversity? Has this strategy given focus to the activities financed? Has it stood up to pressure from stakeholders to fund other activities that are not within priority programmatic areas? To what extent do the funds proactively seek out activities that help advance their biodiversity strategy? Based on experience to date, what impact does it appear that the funds are having on biodiversity conservation and sustainable use?

- What monitoring and evaluation systems are in place for activities financed by the funds? Have the funds identified progress and performance indicators for individual activities and their overall programs? How are they being used in practice?

- What procedures are in place for selecting and administering the funds' grant programs? Are decisions about selection of individual activities made in a transparent and consistent manner? How are these procedures regarded by fund managers, recipients and donors? How many administrative layers do proposals have to pass through before they are approved? What authority do field staff have to make adjustments in projects based on implementation experience?

- What procedures were implemented to assure that GEF criteria and CBD guidance, *inter alia* with respect to incremental cost financing and selection of activities intended to produce global environmental benefits, were passed on to activities financed by the funds? Were these procedures followed? Does the implementation of these activities to date support the rationale for funding them with GEF resources?

- What skills and resources were required to manage the funds' programs? Were people available locally or was it necessary to hire them from outside the country? What training or other capacity building assistance was provided in this area (by GEF or others), and what impact have they had?

III. Governance

- Who is involved in the governance of the funds? What governance structures are in place and how well do they function? How wide a range of stakeholders are involved in a meaningful way? Have the funds' governance structures led to a better understanding among all stakeholder groups, especially on issues related to biodiversity conservation and sustainable use?

- How independent are the governance structures of direction by any one set of stakeholders or interests? of the professional management of the fund? of the political processes in the country? Do board members and others involved in fund decisions (e.g., technical selection

committees for projects) represent their own institutions, sectors or interests, or do they act for the benefit of the community of stakeholders as a whole?

- What provisions exist for the regular and orderly change of board members and professional fund managers? Have funds experienced a transition in the members of their governing bodies? Have they experienced a change in managerial leadership? How have these successions been handled? How have the organizations fared as a result of these successions?

- What skills and resources were required to manage the participation of a large number of stakeholder groups in the funds' governance structures? Do board and other members of governing bodies have the necessary skills to carry out their roles? Do they devote the time necessary to perform their expected roles? What training or other capacity building assistance was provided in this area (by GEF or others), and what impact have they had?

IV. Strategic and National Context

- Who are the driving forces for setting up the trust funds the GEF has supported? What linkages exist between the funds and government and NGO activities, particularly those supported through GEF projects?

- What contribution do GEF-supported funds make to overall funding for biodiversity activities in the countries in which they are located? Are there other environment funds operating in the same country? How is their mission and program different from the GEF-supported fund?

- To what extent are the funds' program strategies based on national biodiversity action plans or related strategies? How do national priorities influence the selection of sites and activities financed by the funds? How do national governments view the funds?

- To what extent have fund managers contributed to the development and/or monitoring of national biodiversity strategies, and/or to other national fora in which biodiversity priorities are considered? What influence have the funds had on national or local policies, laws and institutional constraints? Have the funds served as an effective voice for biodiversity conservation and sustainable use within their countries?

- Have resources allocated to biodiversity conservation and sustainable use activities by national governments and/or others, in addition to those supported by the funds themselves, decreased or increased as a result of the creation of the GEF-supported funds?

V. GEF'S ROLE

Based on the experience of the funds currently supported:

- What are the basic requirements and enabling environment needed for a conservation trust fund to be established? What are the factors that influence the optimal size of a trust fund, and sequencing of support to one?

- Under what conditions should GEF consider assistance to new or existing conservation trust funds? What niche can GEF best fill in supporting the creation and growth of conservation trust funds? What implications does this have for the comparative advantages and roles of GEF's implementing agencies?

- What kinds of activities and/or objectives are most suitable to be supported through conservation trust funds, as distinguished from other general or multipurpose funds or direct funding of specific activities?

- How have GEF-supported projects strengthened the organizational skills and capacity of assisted conservation trust funds to carry out their responsibilities?

- What kinds of monitoring and evaluation systems are appropriate at the project/ implementing agency/GEF level for conservation trust funds? What are the long-term requirements for monitoring the performance of conservation trust funds to determine their impact on biodiversity conservation and their management and financial sustainability?

EVALUATION APPROACH

There is considerable experience and expertise within the GEF family on environment funds. For example, an Interagency Planning Group (IPG) on Environmental Funds involving a wide range of donor (including GEF) agency representatives, foundations, and NGOs is chaired by Jane Jacqz, a member of the UNDP/GEF staff. The IPG has sponsored a number of global and regional fora that have brought together fund managers, donors and NGOs to exchange experiences beginning in 1994. The World Bank published in 1995 a paper on "Issues and Options in the Design of GEF Supported Trust Funds for Biodiversity Conservation" prepared by Kathy Mikitin, a member of its ENVGC staff. A number of the international NGOs most actively involved with the GEF--including The Nature Conservancy, World Wildlife Fund-US, and Conservation International--have a high level of interest in and experience with environment funds.

Therefore, while the evaluation will be carried out under the direction of the GEFSEC M&E team, it will involve the active participation of GEF staff from implementing agencies, the secretariat and the NGO community. The approach to conducting the evaluation, and schedule for carrying it out, that will be followed is described below:

- The assessment team will be made up of seven people: Scott Smith, a member of the GEFSEC M&E team, will serve as team leader, Kathy Mikitin from the World Bank's GEF coordination unit, Martin Krause and Kevin Hill from UNDP's GEF coordination unit, Walter Lusigi, a member of the biodiversity/international waters team from the secretariat, and two outside consultants independent of the GEF.

- A reference group will be created to provide guidance to the evaluation team. It will be made up of 15-20 people representing task managers with experience overseeing projects which include trust funds, environment fund and biodiversity specialists in the implementing agencies and GEF secretariat, NGO representatives, members of implementing agency evaluation staff, and representatives of other donors with an interest in environment funds. In addition, current or former officers of environment funds that will not be evaluated under the study will be included. The reference group will review the evaluation team's implementation plan for the study, help identify and obtain materials for the evaluation team, facilitate arrangements for project visits by the team, and review and provide additional input on drafts of the team's reports. The group will not meet physically with any frequency, but will perform its functions by individual conversations with the team, telephone conference, electronic mail, or other forms of correspondence.

- In addition to the core team members, local consultants will be hired in countries to be visited as part of the evaluation to help prepare for the field visits and participate actively in them. These consultants will be employed through UNDP, with funding from the M&E budget for the evaluation.

METHODOLOGY

The evaluation will be conducted in three steps:

- *First*, the team will conduct interviews with task managers and review documents (e.g., evaluations, supervision reports, project implementation reviews, project designs and related analyses, other articles or reports) on projects which include GEF-supported conservation trust funds. They will also review reports from international and regional fora on environment funds and other documents relating to the experience with GEF-supported and other environment funds (including funds in the Philippines, Jamaica, and Belize), as well as interview others knowledgeable about this experience. On the basis of this desk review and interviews, the team will prepare a progress report identifying the team's preliminary findings and the key issues on which the rest of the study (especially the field visits) will concentrate. The team will also prepare interview guides to be used in all of the field visits in order to assure that comparable information is collected systematically in all of the trips.

- *Second*, the team will visit 5-6 funds supported by GEF and, ideally, 1-2 others. Teams of two members will travel to two countries each for approximately three weeks. Each trip will include a major field visit from 10-12 days in duration to a GEF-supported fund, and involve visits to subproject sites. In each of these countries, team members will be joined by a local

consultant. Each trip will also include another country where the team will make a shorter visit (3-5 days), primarily limited to visiting the funds' headquarters. These shorter trips will seek to complement and/or update material available from project evaluations and other reports, and will include at least one country with environment funds not supported by the GEF.

The GEF has made substantial investments in trust fund equity in five countries to date: Bhutan, Brazil, Mexico, Peru, and Uganda. The GEF project in Bhutan has just been completed and a final evaluation and completion report has been prepared. It is likely that the evaluation team can benefit from a current assessment of the project without a field visit. The trust fund in Mexico just began operating with GEF funds in January 1998. Therefore, the countries tentatively selected to be the major field visits are Brazil, Peru and Uganda.

Of the other funds supported by the GEF, no contributions were made to equity in Bolivia or the Seychelles. GEF projects supporting the Central American Fund (FOCADES) and trust funds in Malawi, Mongolia, and South Africa have not yet begun implementation. Thus, minor field visits are tentatively planned to Mexico and the Eastern Carpathian funds, as well as to two funds in Jamaica which have not received GEF support but offer some interesting experience for the evaluation.

While these visits are being made, 1-2 background papers on issues related to the evaluation will be prepared by other team members and/or representatives of U.S.-based NGOs with considerable experience and important perspectives on conservation trust funds. These papers will be available to the full team by the time all of the field visits are completed.

- *Third*, following the field visits, the team will meet together to synthesize their findings, discuss them with the reference group and others, and prepare the draft of the evaluation report. This draft report will then be reviewed with the implementing agencies and secretariat, the IPG members, the NGO community, and others. The evaluation report will be revised based on the input received from these consultations and presented to the Council at its October meeting.

SCHEDULE

The evaluation team will hold its first meeting from April 15-17, 1998. This meeting will be devoted to developing working relationships among team members, elaborating a specific plan for carrying out the evaluation, and dividing responsibilities among the team members.

While the specific implementation plan for the study will depend on the outcome of this first meeting, it is expected that the general schedule for the evaluation will be:

- ⇒ April 20 - May 8: desk reviews/research of evaluations, mid-term reviews, supervision reports, and other documents; discussion with task managers; sharpening of issues; confirmation of the projects to visit in the field; and logistical planning for field work.
- ⇒ May 15: completion of progress report.
- ⇒ May 18 - July 17: field work (three visits of approximately three weeks each, which will include a total of seven funds, by teams of two members); continued desk reviews and interviews. Tentatively, the funds to be visited are (1) Brazil-FUNBIO (10-12 days) and Jamaica--two funds not financed by GEF (4-5 days), (2) Peru-FONANPE (10-12 days) and Mexico-FMCN (4-5 days); and (3) Uganda-Mgahinga/Bwindi (10-12 days) and Eastern Carpathians (2-3 days).
- ⇒ July 20 - August 7: team meetings and drafting of report.
- ⇒ August 10 - September 16, discussion of draft report with IAs, biodiversity task force, NGOs, IPG, others Input made into policy paper GEFSEC prepares for October Council meeting Draft of evaluation report sent to Council o/a September 16
- ⇒ September 16 - October 1: finalization of report
- ⇒ October 14-15, presentation to Council
- ⇒ December 31: final report translated, printed, and distributed.