

## Win-Win Approaches to Development and the Environment

### Environmental Trusts and Endowments



Center for Development Information and Evaluation

**Financial resources to address environmental problems are hard to come by in developing countries already severely constrained in funding social and economic programs. Donors, developing country governments, and nongovernmental organizations are experimenting with trusts and endowments to meet a share of environmental program requirements. Environmental trusts appear promising as a means for mobilizing additional capital resources. They also show promise as a way to help extend the reach of government programs and expand participation of local groups in the stewardship of natural resources.**

### The Problem

Given other demands for limited public resources for education, health, infrastructure, and other programs, developing countries are finding it hard to sustain, let alone increase, funding for environmental programs. Moreover, environmental degradation and natural resource depletion have reportedly accelerated in countries burdened by foreign debt and needing to increase exports and foreign exchange to meet external obligations.

### The Win-Win Solution

Recent evaluations indicate that environmental trusts and endowments have emerged in several developing countries as a means for addressing some of these financial obstacles. (See Synthesis Reports *Stemming the Loss of Biological Diversity: An Assessment of USAID Support for Protected-Area Management*, July 1995, and *Forestry and the Environment: An Assessment of USAID Support for Farm and Community Forestry*, July 1995).

Often capitalized with initial contributions from external donors, environmental trusts generate a flow of annual interest earnings to fund their activities. Some environmental trusts have been capitalized through debt-for-nature swaps. These arrangements cancel outstanding external hard-currency loan payments in exchange for committing government assets (securities, treasury bonds) of equal or proportional amounts to endow local or national organizations. In these cases, governments gain by lowering their external debt. The environment benefits from an increased and steady flow of revenues from trust fund earnings.

In most developing countries, environmental trusts are administered by a local or national nongovernmental organization (NGO) that uses fund earnings to conduct environmental awareness and action programs. In some cases an umbrella NGO may be charged with managing fund assets for a constellation of other grantee NGOs that apply for a share of trust earnings to cover part of the costs of their programs. Environmental trusts are usually overseen by a board of directors composed of representatives from private institutions and enterprises and from public agencies.

Environmental trusts serve a valuable function in mobilizing private initiative to address specific issues. Well-directed and well-managed environmental trusts succeed in leveraging their earnings against the resources, people, and money of other individuals, enterprises, and organizations. In so doing they increase awareness and extend the reach of public agencies with only limited capability to address environmental problems.

Environmental trusts also provide a mechanism for attracting additional contributions to further capitalize their asset bases and increase their earnings and operating capacity. Environmental trusts have raised funds from public campaigns, corporate sponsors, and private bequests.

### The Role of USAID

Over the last decade USAID has contributed to the creation and capitalization of environmental trusts in several countries. Support has included debt-for-nature loan forgiveness, direct-grant capital contributions, and technical and administrative guidance for creation and operation of environmental trusts. The Agency has often provided this assistance in partnership

with U.S. environmental NGOs, which themselves have capitalized and managed endowments to fund their own operations.

In **Sri Lanka**, USAID gave the government a \$500,000 grant to capitalize a wildlife conservation trust that conducts special studies and education programs in support of national parks and biodiversity conservation programs.

In **Jamaica**, the Agency helped the government pay off \$400,000 in debt in exchange for allocating an equivalent amount in local currency to capitalize a trust. Revenues from the trust support a local environmental NGO in operating the country's first two pilot national parks.

In **Costa Rica**, USAID is concluding negotiations for creation of a \$2 million trust fund to capitalize a regional NGO. The body helps the government manage the natural forests and forest parks of one of the country's main conservation areas.

Environmental trusts and endowments are promising tools for advancing environmentally sustainable development in countries where the political, economic, and financial climate is conducive to their operation. USAID, along with other donors, NGOs, and developing-country governments, can

- # Identify opportunities to mobilize public funds through debt-for-nature swaps and other financial arrangements
- # Discuss with developing countries ways to reform fiscal policies that limit trust fund operations and financial solvency

- # Help environmental trust administrators conduct campaigns to raise funds that can capitalize the asset base needed to raise earnings
- # Mobilize complementary funding from government and nongovernmental organizations and from other donors to fund environmental programs
- # Exchange information about trust fund structures and performance and train fund administrators and financial managers

funds tend to be complacent about further building their capital bases? Do they instead rely on their assets rather than aggressively seek additional capitalization? Are smaller, leaner trusts that must go after additional capital to conduct their programs more likely through their fundraising to generate greater awareness of environmental problems and more advocacy for their solution? Or do smaller trusts become too absorbed with fundraising and neglect their missions?

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## Other Topics in This Series

- # Bioprospecting
- # Carbon Sequestration
- # Ecotourism
- # Farm Forestry
- # Forest Stewardship Contracts

## Outstanding Issues

Environmental trusts and endowments are a relatively new feature on the institutional landscape in developing countries. Early evaluations of environmental trusts have identified some issues that merit attention in monitoring future performance and impact of environmental trusts.

**Direction and control.** How independent of political influence are environmental trusts? Do trusts whose boards include representatives of government agencies have sufficient independence to avoid being “captured” by political interests? Do trusts that *are* free from government involvement in their direction remain sufficiently in touch with mainstream environmental issues to be effective? Do donor agencies lose all control over their contributions to environmental trusts?

**Administration and coordination.** How clearly articulated are the mandates of environmental trusts? Do they unnecessarily duplicate public programs, or do they complement and extend the reach of government agencies? Do trusts collaborate with—or confront—government agencies? What ways have trusts found of using fundraising to complement and support program operations?

**Financial solvency.** Does the mix of trust fund assets offer promise for long-run solvency? What share of trust assets are in public securities? Other assets? What are the financial-earnings profiles of these securities relative to each other and to historic rates of inflation?

**Capitalization and performance.** Do environmental trusts launched with large initial endowments perform better than those that are less well endowed? Do administrators of larger

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