Chapter 6

Conservation trust funds as a model for REDD+ national financing

Barry Spergel and Michael Wells

- REDD+ funds modelled after conservation trust funds (CTFs) can provide stable long-term funding with high credibility for financing major REDD+ activities.
- CTFs can function as administrators of REDD+ funds, as managers of PES, or as carbon brokers.
- Existing CTFs have high-level political support even though they are independent of government; using them to distribute international REDD+ funding could therefore mitigate concerns about loss of sovereignty while also reassuring funders and buyers of REDD+ credits.

Introduction

More than 50 conservation trust funds (CTFs, also referred to as 'environmental funds') have been established in developing countries during the last 20 years. In general, these were created to provide stable, predictable and sustainable financing for conserving biodiversity and achieving related environmental goals. This chapter describes how REDD+ funding institutions modelled on CTFs could be appropriate instruments to manage and distribute REDD+ payments within individual countries.

CTFs have been established in almost every country in South America, in most Central American countries, in more than 10 African countries, 8 countries in Asia and the Pacific, and in the newly independent states of the former Soviet Union. These CTFs each have their own distinct missions, which include implementing national environmental strategies, financing national protected area (PA) networks and sometimes funding the running costs of individual PAs. The three largest environmental funds (in Brazil, Mexico and Peru) each manage assets of over US $100 million. The aggregate amount managed by nearly 60 funds exceeds US $1.5 billion. The experiences and performance of CTFs have been thoroughly documented (Wells 1991; GEF 1998; Norris 2000; Oleas and Barragán 2003; RedLAC 2008; Spergel and Taieb 2008).

Environmental trust funds in many forested developing countries are either national in scale or focus on a particular geographic area. Some funds have already taken on key roles related to REDD+. Others have developed capacities in areas likely to be critical in achieving and rewarding REDD+ performance. These include long-term financial and strategic planning, managing performance-based payment systems, monitoring and evaluating project completion indicators, and managing multiple funds from various sources with different purposes.

Chapter 5 outlined four institutional options for disbursing REDD+ funding at the national level: 1) project-based funding; 2) a legally independent national fund outside the government, such as CTFs; 3) a separate earmarked fund within the national government; and 4) direct budget support to government ministries and departments. This chapter examines the suitability of the second option, the CTF model, for managing and distributing REDD+ funding. We first describe the characteristics of a CTF before discussing how such a fund could become part of a national REDD+ strategy and be coordinated with other government efforts. Next, we discuss the merits of CTFs in terms of effectiveness, efficiency and equity (the 3Es), and co-benefits. Finally, we outline three different roles a fund could play within a national REDD+ system.

What is a conservation trust fund?

Most CTFs make grants to government-run protected area (PA) management agencies, NGOs, or both. While each CTF is responsible for managing and disbursing funds as well as for monitoring and evaluating the use of funds, it is the grantees or implementing organisations that actually carry out the conservation projects and activities.

Each CTF is an independent legal entity governed by a board of trustees or directors responsible for ensuring that the fund's financial resources are managed and used for their intended conservation purpose. The legal structure of a CTF depends on the country in which it is located. Many CTFs have been established by special national legislation or decrees. Virtually all CTFs have 'mixed' governing boards, made up of representatives of public and private sectors and civil society. This is usually a condition of most international donor agencies for contributing to CTFs. CTFs are often one of the few institutions in a country in which representatives from various sectors of society – government, business, academia, NGOs and community groups – come together to jointly manage an important set of activities. Donor agencies are often also represented on CTF boards, sometimes in a non-voting capacity. For example, the Global Environment Facility (GEF) executing agencies, such as the UNDP and The World Bank, can only serve as non-voting board members (GEF 1998).

CTF grants support a range of activities. These include capacity building and staff training for government agencies and NGOs; purchases of equipment; building and maintaining PA infrastructure; proposing and implementing legal and policy reforms; scientific research and biological inventories; environmental education and public awareness activities; recurrent management costs of national parks, forest reserves and community managed forests; integrated conservation and development projects (ICDPs, see Chapter 18); and administering PES for maintaining watersheds (Chapter 17). Many activities currently supported by CTFs overlap with the activities for which REDD+ funds are likely to be used.

The financial resources of CTFs are usually in the form of endowments. Typically, the initial capital is provided by a combination of bilateral aid agencies (e.g., United States Agency for International Development, Kreditanstalt für Wiederaufbau and Agence française de développement), GEF, international conservation NGOs, foundations, corporations and the national government. The capital of each fund is usually invested by professional asset managers to generate a long-term stream of income to finance grant awards for the CTF's stated purposes. However, some CTFs are sinking funds, meaning that their capital will be completely spent over a fixed period, usually from 10 to 20 years. Revolving funds are a third type of CTF. They receive a continuous stream of revenue from specially earmarked fees, taxes, fines or payments for environmental services (PES). A CTF that manages and disburses REDD+ funding from the sale of national carbon credits on international markets would take the form of a revolving fund. However, official development assistance (ODA) funding for early phases of REDD+ activities could be managed as a form of endowment or sinking fund.

The Mexican Nature Conservation Fund (FMCN), established in 1993, is one of the most highly regarded environmental funds. Of particular relevance to

REDD+, the fund now administers a substantial part of the budget supporting Mexico's protected areas, and allocates funds to each protected area based on performance against goals and work plans. FMCN is governed by a board that includes government and nongovernmental representatives, all of whom serve in a personal capacity to ensure independence.

The delegation of authority to manage and disburse national REDD+ payments to an independent fund may prompt concerns about possible loss of national government sovereignty, although the degree of independence of a CTF will depend on the composition and power of its governing board. However, most CTFs do have a high degree of national ownership and high-level political support. Many were created by special acts of their national legislatures, and some were directly sponsored by their country's president (e.g., FMCN, the Foundation for the Philippine Environment and a new CTF in Ethiopia). To the extent that these institutions have already been accepted by governments, using an existing CTF to manage REDD+ payments could mitigate concerns about possible threats to national sovereignty. CTFs can also provide a measure of stability during changes in government or economic booms and busts when public sector spending programmes (especially conservation programmes) may be vulnerable to sharp budget cuts (Spergel and Taieb 2008).

Whether it will be more appropriate to adapt existing CTFs to administer REDD+ funding, or to establish new institutions using CTF models will depend on the situation in individual countries. Establishing and making a new CTF operational typically takes at least two years. This is due in part to the lengthy participatory process of designing a CTF, and in part to the time required for fundraising and negotiating with international donors. The latter might or might not be necessary when establishing CTF-type institutions to administer REDD+ funding at the national level. This will depend on the system that is adopted for allocating REDD+ funding at the international level. CTF-like funds offer lower transaction costs, openness and transparency, flexibility, an ability to secure stable, long-term funding and credibility with a broad array of national as well as international stakeholders. Given the need for urgent action to start the flow of funds for supporting REDD+ activities, the advantages of using CTF-like funds need to be considered.

CTFs and the 3Es plus co-benefits

Effectiveness

CTFs have shown that they can effectively administer international and domestic funds from diverse sources over long periods. They have effectively disbursed funds for prescribed purposes through grant programmes that enhance, but do not overwhelm, the absorptive capacity of recipient organisations. CTFs are designed to distribute funds over long periods and are insulated from year-to-year shifts in government priorities and revenue flows. As a result, they are probably more likely to fulfil the critical REDD+ goal of *permanence* than either purely market-based mechanisms, which may have revenue levels that fluctuate dramatically, or regular government budget support, which is subject to shifting political priorities.

Countries wishing to use CTFs or the CTF model for channelling REDD+ funding could either establish new CTF-type institutions to manage REDD+ revenues or, in some cases, extend the mandate of existing CTFs. Engagement in REDD+ may not be appropriate for all CTFs, however. The potential scale of REDD+ financing is considerably larger than that normally managed by CTFs. It is likely to have a significant impact on a country's land use practices and policies, and could overstretch the institutional capacities of the CTFs. Channelling REDD+ funding through CTFs would also require much closer policy coordination and revenue sharing among many different government ministries and agencies. Finally, the statutes or legal charters of some CTFs limit them to awarding grants for specific tasks or locations (e.g., the CTFs established with GEF funding for individual parks in Malawi, South Africa, Tanzania and Uganda).

Efficiency

Several studies have found that CTFs are usually more efficient and less bureaucratic than government agencies. They can facilitate the timely procurement of basic equipment and supplies as well as pay wages and salaries efficiently. In countries such as Brazil, Mexico and Peru, once CTFs began supporting a large part of the operating costs of the PA networks, delays ceased and it became easier to recruit better staff for the parks (Spergel and Taieb 2008).

Average CTF administrative costs are around 15% of their budget. Although the administrative costs of smaller CTFs (with endowments of between US $3 million and $10 million) may be much higher than this, most of the larger CTFs have administrative costs of between 10% and 12%, and this is also likely to be true of the CTFs that would administer the more than $100 million that REDD+ would generate each year in many countries.

CTF multistakeholder boards and transparent decision making processes provide checks and balances against corruption and waste. Independence from government allows CTFs to exercise a high degree of critical oversight, and to monitor and evaluate how grants to government agencies, such as national park agencies or government forestry departments, are being used. Like any institution, CTFs can become inefficient and bureaucratic, but a recent study found that most of the very few cases where these problems usually occurred had boards with a high proportion of government members or were otherwise subject to government pressures (Spergel and Taieb 2008).

Using an existing CTF to administer REDD+ payments could reduce the start-up period and minimise the risks associated with creating an entirely new institution. Using an existing CTF with a good track record in accounting for funds, and in monitoring and evaluating the performance of its grantees, is also likely to increase the confidence of those paying for REDD+. This should lead to lower risk premiums, thereby potentially resulting in greater efficiencies and in higher payments to REDD+ 'suppliers'.

Equity

A major advantage of CTFs is that they protect funds from being diverted by governments for other purposes, and insulate them from national budgetary crises. Many national finance ministries initially opposed the creation of CTFs as off-budget funds, but were persuaded to accept and support the establishment of CTFs as a way of accessing international funding.

CTF boards include a broad range of national stakeholders and have transparent decision making procedures and annual independent financial audits. Such structures may make them more able to distribute REDD+ funding equitably and resist 'elite capture' of benefits than either government line ministries and agencies or market-based mechanisms. CTFs, such as FMCN in Mexico and Indonesia's KEHATI Foundation, include social development NGOs on their boards, while the Suriname Conservation Foundation board includes representatives of indigenous forest communities. Many CTFs administer payments for compensating communities whose land or access rights have been restricted when protected areas were created. The CTFs make grants to those communities to improve healthcare and schools, and to provide training and technical assistance for developing alternative livelihoods.

Co-benefits

CTFs' significant experience, capacity and focus in biodiversity conservation gives them a clear comparative advantage over other institutional options for channelling REDD+ funding toward this co-benefit. CTFs can also have an advantage in providing co-benefits for indigenous people in cases where CTFs include indigenous people in decision making and as beneficiaries. However, CTFs do not appear to have an advantage over other institutional options in achieving the co-benefit of poverty mitigation. Because of their limited financial resources and their conservation-focused institutional mandate, CTFs only support poverty alleviation projects as a way of reducing human pressures on natural resources, and of generating greater community support for conservation, rather than as an end in itself. CTFs sometimes struggle with governments that want to use CTFs for poverty alleviation projects which are not related to conservation.

Three roles for CTFs linked to REDD+

We consider three options for the functions that CTFs could perform in relation to REDD+.

CTFs as administrators of REDD+ funds. A CTF could administer a proportion of international REDD+ funding to support a variety of REDD+ activities. Many REDD+ activities will require sustained long-term funding rather than short-term project funding. Most CTFs today support long-term activities for capacity building and readiness, such as strengthening national forest management and policy making capacity, and strengthening capacity at local levels, including for community forestry. Many CTFs have also supported the development of more environmentally friendly policies and measures (PAM) for forestry and agriculture. Some CTFs have even given grants specifically for developing legal frameworks for REDD+ and strengthening the national capacity in measuring, reporting and verification (MRV).

CTFs have also funded many different types of forest protection activities that need to be supported over long periods. These include improving law enforcement to reduce illegal activities; improving the environmental sustainability of logging concessions; improving post-harvest management efficiency; and afforestation and reforestation (A/R) projects.

CTFs as PES managers. CTFs could also be put in charge of managing a national (or subnational) system of payments for environmental services (PES). Some CTFs (such as Costa Rica's FONAFIFO, Guatemala's Sierra de las Minas Water Fund, the Mexico's FMCN and Brazil's FUNBIO) currently administer periodic PES to local forest owners or owners of forest user rights. These CTFs offer small-scale models of how larger-scale systems for distributing REDD+ payments could operate in the future. They have demonstrated the ability to effectively administer and monitor grants to the same types of beneficiaries that are likely to receive payments for REDD+, including national government ministries and agencies, local governments, private landowners, local communities and indigenous people.

In addition to their role in distributing PES, CTFs have also served as mechanisms for distributing long-term compensation and managing benefit-sharing programmes for local communities. This has required disbursing compensation payments over extended periods to people whose land or access

Table 6.1. Roles CTFs could play in administering REDD+ funding

Point of comparison	CTFs as administrators of REDD+ funds	CTFs as PES managers	CTFs as carbon brokers
Roles played by a CTF in the system of payments for REDD+	CTF acts only as administrator for disbursing REDD+ payments to implement specific REDD+ policies	CTF acts as manager of a national PES-based REDD+ system	CTF acts as broker or intermediary between large numbers of sellers and buyers of carbon units
Modality for setting payment amounts	Grants-based (more like traditional ODA or philanthropy)	Payments based on performance, but could be 'locked in' or negotiated for long periods	Market based, so the prices paid for REDD+ could change day to day
Criteria for distributing REDD+ payments	Payments based on: • need for capacity building, • assessment of project quality and past performance, • soft performance-based criteria, • equity and other relevant considerations	Payments based on measuring performance against agreed benchmarks: • actual emissions reductions, • rough proxies for emissions reductions	Payments to sellers are based on delivery of carbon units
Scale of operation and exclusivity	A CTF would be given authority to administer specific aspects of the national REDD+ system	A CTF would be given exclusive authority to administer the national PES system	A CTF would broker a large number of individual site-specific REDD+ transactions, but buyers and sellers could also deal directly or use other intermediaries besides the CTF
Transaction costs	Lower transaction costs, because payments are made for exogenous reasons (i.e., proxy indicators, such as implementing conservation programmes and strengthening enforcement activities) rather than the quantity of carbon units	Intermediate transaction costs, as payments can be based either on direct measurements of emissions reductions or on proxies	Higher transaction costs, because a CTF would measure and monitor (i.e., certify) the emissions reductions that it brokers, and would in effect serve as an insurer of the quality and quantity of carbon units
Equity considerations	In theory, can be more targeted to achieving social equity and benefiting disempowered groups; in practice, could become more susceptible to politics and corruption	An intermediate case, which might for example pay groups without clear carbon rights	Would favour those with clear and secure tenure rights (which could include indigenous groups, depending on whether they have been given land title and rights to sell carbon)
Required level of technical capacity and political stability	Suited to less developed or more politically unstable countries, because based on rough proxy indicators that are easier to monitor and verify	Suited to developing countries with moderate to high levels of technical capacity and/or good governance	Suited to countries with higher levels of technical capacity or good governance, because of the sophisticated skills and MRV capacity required

rights have been restricted in order to create or expand protected areas, or provide them with long-term benefits such as improved healthcare, schools, training and technical assistance for developing alternative livelihoods.

CTFs as carbon brokers. An additional role that CTFs could play is to certify and bundle together the emissions reductions of a large number of REDD+ sellers (such as small landowners, local communities and indigenous groups). CTFs would then act as brokers, selling carbon credits to international buyers (and perhaps also to domestic buyers that are high carbon emitters). This option would be a way to overcome impoverished sellers' lack of information, bargaining power and negotiating skills. It would also provide a way to save buyers the effort and cost of doing a 'due diligence' check on each seller from whom they buy carbon units. In addition, CTFs could lower the risks to buyers of sellers' failures to deliver promised emissions reductions, by spreading such risk across a large portfolio of projects.

Table 6.1 illustrates the different roles that CTFs could play in a national REDD+ system. These differences have been somewhat stylised for purposes of comparison. In practice, there could be more of a continuum between these options and, in any case, each option would have to be custom designed – like all CTFs – to fit the particular political, legal, economic and environmental situation in each country.

Conclusion

Forested developing countries are eventually expected to receive very substantial payments for reducing greenhouse gas emissions by selling carbon credits in international carbon markets. In the near future, however, REDD+ payments seem likely to originate from more conventional ODA sources to support REDD+ planning, strategy development, capacity building (e.g., in MRV), policy reform, demonstration activities, etc. Even though many countries are not likely to reach the full market stage for several years (phase 3, see Chapter 2), the institutional requirements of an effective disbursement system are likely to be so complex, demanding and possibly controversial, that planning should begin as soon as the international REDD+ architecture becomes clearer.

CTFs are a well-established institutional vehicle for managing assets and disbursing grants in the environmental arena, and have a generally successful track record in a diverse range of country contexts. CTFs, therefore, should be carefully considered as a national disbursement mechanism for REDD+ payments, even though REDD+ will bring new challenges that CTFs have not so far encountered.