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Financing Solutions for Sustainable Development

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Environmental Trust Funds

Independent legal entity and investment vehicle to help mobilizing, blending, and overseeing the collection and allocation of financial resources for environmental purposes. It is a country-driven solution that facilitates strategic focus, rigorous project management, solid monitoring and evaluation, and high levels of transparency and accountability. The term encompasses conservation trust funds, wildlife trusts, climate and forest funds, and other funds established to deliver environmental, social and economic benefits.

Key words: biodiversity; conservation trust; sinking fund; endowment fund; revolving fund; climate fund; wildlife trusts

How does it work?

National environmental trust funds (ETFs) have been established in more than 50 developing countries. Their structures and strategies vary according to the purpose, legal and political context, human resource capacity, and donor requirements. Mostly, they are independent grant-making institutions that mobilize, blend and manage financial resources for environmental purposes, such as biodiversity conservation, protection of wildlife, forests, [climate adaptation](#) and [mitigation](#). An ETF can be a vehicle to mobilize additional resources from donors, national governments, the private sector as well as private citizens by providing assurance (the root of the word trust) about the effective allocation of resources. If well designed and capitalized they become a driver for improving the effectiveness and scale of environmental and climate projects. Moreover, ETFs can facilitate the alignment of strategies among stakeholders and reduce transaction costs for donors, government entities and implementing agencies. While ETFs' disbursement strategies are not limited to grants and can theoretically encompass a vast range of options (e.g. equity participation or loan disbursement) the focus of this fiche is on grant-making ETFs.

Trust funds are defined by their legal, governance and financial structures, their resource mobilization strategy and their grant-delivery modality. As well as establishing the basis on which the fund will operate, the start-up phase deals with defining the objective and mandate, options for capitalization, solutions for sound governance and [fiduciary management](#), workable implementation arrangements, and the fund's results framework (inclusive of a monitoring, reporting and verification system). These elements can be captured in the legal documents that establish the trust fund, such as [by-laws](#) and charters, or by internal policies including operational manuals, investment policy, strategic plan, etc. In particular:

- 1. Legal structure:** the legal arrangement wherein donors transfer the control of financial assets to a trustee (individual, company, government agency or organization) that manages these assets on their behalf. Other legal entities, such as foundations, can undertake similar functions to those of a "trust"—which is per se only a legal arrangement—depending on the national legislation. In certain instances a fund can be established as a statutory authority by law. Whatever legal form is chosen, ETFs are for the most part private entities that are independent of government, although government representatives often sit on their governing bodies.
- 2. Governance structure:** the typical structure of a trust is composed of a board or steering committee, a small administrative secretariat, a technical or advisory committee, a trustee, and an internal audit function. An independent unit might be also established to undertake the monitoring and evaluation function.
- 3. Financial structure:** ETFs can be structured as [endowment funds](#) (e.g. the [Bhutan Trust for Environmental Conservation](#)), [sinking funds](#) (e.g. the [Brazilian Fund for Biodiversity](#)), [revolving funds](#) (the [Thai Energy Efficiency Revolving Fund](#)), or a combination of the above. A [sinking fund](#) disburses a share of its capital each year over a defined period of time, until it sinks to zero. They are often used to finance projects that can generate immediate results. A [revolving fund](#) is replenished or augmented on a regular basis, usually through fees, taxes or levies. [Revolving funds](#) are mostly used to channel earmarked public resources. An [endowment fund](#) operates by allocating a share of the income generated by the "endowment", which is usually composed of (or invested in) stocks or other revenue-generating assets. Successful ETFs often rely on a combination of the above structures.
- 4. Capitalization and resource mobilization strategy:** The first ETFs emerged in the early 1990s to manage the capital generated from [debt-for-nature swaps](#). Nowadays, the funding comes mostly from national governments (whether co-financing or not), multilateral and bilateral aid, NGOs, foundations, [lotteries](#) and philanthropic bodies. Some ETFs—especially [revolving funds](#)—generate resources through innovative sources of finance, such as [carbon offsets](#), [payments for ecosystem services](#), [resource extraction fees](#), [lotteries](#), etc. ETFs can

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also create special accounts to facilitate contributions from donors to meet their particular disbursement criteria. The capitalization process can be structured in phases and usually determines the lifespan and functioning of the trust.

5. **Fund utilization, i.e. grant-delivery:** EFs do not carry out interventions (i.e. environmental projects) directly, but they manage a grant portfolio that is allocated to eligible implementing agencies such as NGOs, community-based organizations, government agencies, and in some cases private sector entities. Grants are allocated via calls for proposals or financing windows. Each call clarifies eligibility criteria (e.g. NGOs), thematic priorities (e.g. climate resilience), and deadlines. The governing body makes decisions on fund allocations or delegates this to a technical committee, an administrative secretariat or agent. The trustee then distributes the funds to the implementing agencies that have been awarded funds. The implementing agencies execute the projects as laid out in the grant agreement that is signed with the trustee and report on results. In addition to funding for projects, EFs can also provide technical assistance and grants to strengthen the institutional capacity of the implementing agencies. They can also help to strengthen capacities for national ownership and management of environmental finance.

The [environmental funds tool kit](#) provides sample documents, references and examples from a variety of EFs covering the following operational functions: [Start Up](#); [Legal and Governance](#); [Planning](#); [Fundraising](#); [Finance and Administration](#); [Investment Management](#); and [Grant Making](#). It is important to note that the start-up process of a trust fund-from the initial design to the first disbursement-can last several years. The capacity of implementing agencies might need to be strengthened in the first instance, i.e. before projects can produce results. The [Bhutan Trust Fund for Environmental Conservation](#) has focused on developing human and institutional capacity in the its first years of operations, while the [China Clean Development Mechanism Fund](#) was able to scale up the number of projects financed from 14 to 125 only after 5 years.

Stakeholders

- **Contributor(s)/financial sponsors** provide the financial resources that capitalize the trust fund. Donors usually sit on the governing body and play a critical role in the start-up phase of the trust fund.
- **The Governing body** oversees the fund's operations. A board or steering committee (made up of representatives from e.g. ministries, civil society organizations, international organizations, and the private sector) approves policy and operational guidelines, budget and reporting, directs the EF's strategy, manages partnerships and oversees the work of the trustee. It may or may not take decisions over grant allocations, which might be devolved to the secretariat or other bodies. In addition to a board or steering committee, a separate technical committee may provide substantive reviews of project proposals and the secretariat may manage day-to-day operations.
- **Trustee/administrative agent:** manages the financial assets transferred to the fund on behalf of the governing body. The trustee concludes legal agreements for the fund's establishment, receives financial resources from contributors and disburses them to the implementing entities selected for carrying out programmes and projects. The trustee function can either be entrusted to a unit of the fund's secretariat or outsourced to a separate entity in exchange of a service fee.
- **Implementing agencies:** receive financial resources from the fund's trustee, manage, and report on them to execute projects according to the signed grant agreement. NGOs, community based-organizations, and governmental agencies are typical implementing agencies.
- **Non-financial sponsor(s):** international organizations and NGOs can help to carry out feasibility studies, provide capacity development and mobilize prospective donors and funders.

Potential in monetary terms

The capacity of EFs to secure resources is tied to their ability to deliver results, manage partnerships, and develop a successful resource mobilization strategy. The potential capital target for a resource mobilization strategy is in the range of US\$ 5 -100 million for multi-year operations, with notable exceptions. In its 20 years of operations, [Fumbio](#) (Brazil) raised capital of over US\$500 million. The [Mexican Fund for the Conservation of Nature](#) holds a US\$120 million endowment and manages a number of parallel [sinking funds](#). The [Sangha Tri-national Foundation](#) holds an endowment of approximately US\$28 million, and US\$8 million in [sinking funds](#). The [Bhutan Trust Fund for Environmental Conservation](#) received an initial endowment of just over US\$21 million, which has since been expanded to US\$44 million. The [Thai Energy Conservation Promotion Fund](#), a [revolving fund](#) financed through levies on petroleum, has an annual income of approximately US\$225 million. The [Madagascar Biodiversity Fund](#) is a private Malagasy foundation with a capitalization of over US\$50 million that amid of the country's security and political situation remained operational for over a decade.

In addition to being a preferred vehicle for resource mobilization, EFs can enhance coordination and cost-efficiency in the delivery of environmental projects and help to achieve a greater orientation towards results, if compared-for example- to standard operations in Government or dispersed [ODA](#) interventions. These results are usually achieved through a combination of strict monitoring and results frameworks and capacity development interventions for the implementing agencies. The actual monetary potential to reduce financial and operational costs is highly dependent on contextual factors and the level of fragmentation and degree of inefficiency of prevailing practices.



Related SDG



Related Sector



When is it feasible?

Legal requirements and/or other feasibility requirements

Common law countries and most countries with civil law allow the creation of private trusts, the legal form of many EFs. In the absence of appropriate legislation, EFs may also be established by: 1) Enacting a special law to establish the fund and grant it tax exemptions and other privileges (e.g. the [Bhutan Trust Fund for Environmental Conservation](#), the Thai [Energy Conservation Promotion Fund](#)); 2) Establishing an offshore fund (e.g. the [Sangha Tri-National Foundation](#)); and/or 3) Establishing a fund through a bilateral or international agreements. The legal registration of a trust fund usually includes (the terminology may differ among countries): 1) The adoption of legal statutes or articles of incorporation; 2) The creation of a governing board; 3) The deposit of the initial capital; and 4) The tax registration.

Minimum investment and running costs

A minimum investment threshold is required for an endowment fund to sustain its operations and deliver grants, but there is no minimum threshold for sinking and [revolving funds](#). The [Global Environmental Facility](#) suggest a minimum threshold of US\$5 million, yet some funds have become operational before reaching their resource mobilization target (e.g. the [MAR fund](#)). Substantial economies of scale can be reached only if the capitalization surpasses a certain threshold, which is normally in the range of US\$10-US\$20 million.

Start-up costs, encompassing consultants' fees, legal fees, meetings, and travel might vary from a few thousand to a few hundred thousand US dollars. The running costs include salaries and other administrative and financial costs. These overhead costs can normally be expected to range from 10 to 20 per cent of the total annual budget, even if exceptions and lower ratios are possible to achieve (e.g. [BNDES](#)'s 3 per cent subsidized management fee for the [Amazon fund](#)).

In what context it is more appropriate

Political support and commitment from stakeholders, as well as effective operational structures, to guarantee a transparent use of resources is a pre-condition for the attraction of financial and non-financial sponsors. Trust funds are usually established to provide a transparent vehicle for donors that would not otherwise be able to fund environment and climate projects. A second important aspect is the ability to ring-fence the allocation of certain resources to the preservation of the environment, which helps to reduce the possible negative influence of political cycles over conservation. The establishment of independent institutions should, however, never undermine or duplicate the core function of the Government, thus disempowering existing organizations. Capacity development interventions can be of value in temporarily overcoming critical capacity gaps in Government.

What are the main risks and challenges?

Pros

- Support goal setting and the development of programmatic strategies;
- Reduce fragmentation and duplication in aid disbursements and ODA, while increasing predictability;
- Offer longer-term investment options compared with ODA projects;
- Strengthen strategic coherence and national ownership;
- Manage partnerships;
- Strengthen project development, approval and delivery processes;
- Better manage financial and implementation risks;
- Increase accountability in project execution and orientation to results;
- Reduce political, fiduciary and corruption risks through robust [fiduciary management](#) systems;
- Reduce financial and operational transaction costs by generating economies of scale;
- Offer a transparent option to ring-fence financial allocations for environmental purposes and protect them from political cycles;
- As independent and light-weight institutions, compared with government departments and large NGOs, EFs can react more flexibly to emerging challenges and can afford to invest in innovation;
- Valuable forum where diverse stakeholders come together to discuss environmental challenges and solutions pragmatically.

Cons

- The start-up phase of EFs is a long and often politically charged process;
- The announcement of the creation of EFs can generate unrealistic expectations over resource mobilization targets, particularly in the short term;
- EFs, as separate entities, do not build financial management capacity in government agencies. As a side-effect, they can discourage donors and the private sector to build trust in governments;
- EFs have limited capacity to measure the impact of investments, even though this is essential.

Risks

- Variability and inflation of administrative costs, and/or lack of delivery, due to poor design;
- Over-complexity of pass-through mechanisms compared with alternatives, for example direct transfer to the national authority in charge of managing the protected area system;
- Slow disbursement of funds due to poorly managed grant-making or excessive board control;
- Failure to coordinate with stakeholders in the implementation and monitoring and evaluation;
- Investment loss related to endowments' exposure to capital markets. Fluctuations in the stock market can undermine returns on investment, particularly during financial crises;
- Fraud and political influence over grants allocation;
- Over-reliance on EFs might produce cutbacks in the more reliable public conservation budget;
- By-passing of Government departments, whose functions are overtaken by the trust fund;
- Lack of organizational/technical capacities impede local stakeholders to engage with the fund.

How can the design be ameliorated to improve the impact?

EFs can produce measurable outcomes in environmental preservation, biodiversity, climate change mitigation and adaptation. They can become vehicles for catalysing, adding and blending financial flows and stimulate green investments that would otherwise not happen. Their impact is determined largely by the performance of the projects financed on the one hand and on their operational efficiency on the other hand. EFs should also be firmly aligned with existing national social and development strategies, frameworks, and systems.

The critical element to enhance their impact is the identification of projects that can deliver multiple benefits. For example, forest preservation projects can maximize the delivery of benefits additional environmental to carbon sequestration (which might be the EF's main focus), including conservation of biodiversity and arresting land degradation. They can also be designed to foster social and economic benefits if, for example, communities living in the proximity of the forest are paid to protect their environment and trained in how to establish sustainable business ventures (e.g. eco-tourism and/or harvesting of medicinal plants), or they can facilitate access to potable water by the same communities. The grant selection process is therefore critical and so is the inclusion of social results among the selection criteria. On the other side politically influenced decisions or incompetency can be detrimental and result in grant allocation that does not realize the greatest achievable impact.

Competition for funding among different institutions can be an important element stimulating greater social and environmental impact by EFs. In order to attract projects, additional resources might be invested in marketing and outreach. Where EFs are challenged by a lack of submission of "good" projects, a proactive strategy of offering capacity development support to eligible agencies could be beneficial. The adoption of sound social and environmental safeguards is also to be considered as a minimum condition for the fund to allocate grants, an example being the safeguards adopted by [REDD+](#) or by the [World Bank Group](#).

In order to maximize the positive social impact, the funding disbursed by EFs needs to reach those who need it most. For example, a climate fund should have appropriate windows to support the communities most vulnerable to climate change. This might require the EF to establish learning networks and provide continuous support to potential beneficiaries in the form of capacity development (e.g. [LaoEPPF](#)). EFs should also ensure local stakeholders obtain a fair chance to access the funds, for example, by providing ample time for them to develop proposals or encourage project proposers to partner or to collaborate with more established entities. The EF's governance structure should also be designed to nurture relationships with its stakeholders accordingly.

Measures to increase the operational effectiveness and efficiency of EFs encompass the adoption of best practices in results-based management, financial management, risk management and project execution oversight that cut across the five design elements of an EF described in the first section. It is equally important to define clear, realistic and measurable objectives and related monitoring and evaluation frameworks. Most EFs monitor and evaluate project completion indicators, but they have been less successful in measuring the longer-term impact of their grants; impact monitoring and evaluation might however require additional investment. The calibration of these monitoring frameworks to track socio-economic benefits effectively is necessary to understand and ameliorate the contribution of EFs to sustainable development. The introduction of additional steps to measure EF's leveraging effect on sustainable development might be considered, including detailed environmental and social impact assessments.

Guidelines and Case Studies

Guidance

- [Blending climate finance through national climate funds](#)
- [Environmental Funds Tool Kit](#)
- [Fundraising strategies for Environmental Funds](#)

Case studies

- [Bhutan: Trust Fund for Environmental Conservation](#)
- [Cambodia: Climate Change Alliance Trust Fund](#)
- [Micronesia: Micronesian Conservation Trust](#)
- [Brazil: Amazon Fund](#)
- [Thailand: Energy Efficiency Revolving Fund](#)

Our work

[International Guidebook of Environmental Finance Tools](#)



Sustainable Development Goals



Environmental finance

Our Perspective

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We should reach a consensus on the fact that macroeconomic policies in low-income economies need to



also jettison the conventional wisdom of undue restrictiveness.