

## Chapter 10

# *Financing Strategies and the Role of External Agencies*

*Funding agencies have played a crucial role in the development of national strategies, and there are many ways to make the most of their involvement. There is a pressing need for donor coordination, so that the capacities of recipient communities are not undermined or distracted by overlapping and sometimes conflicting demands. There has been a tendency for donors to pick and choose from a portfolio of proposed actions, with the result that the strategy loses its importance as an overall framework for sustainable development. Also, donor support has been patchy, both in terms of the range of actions supported and continuity. Defining approaches for greater financial security needs to be given high priority.*

*National Environment Funds (NEFs) can contribute to long-term stable financing for strategies. Because NEFs rely on participatory management approaches, they also engender greater local control and self-reliance. One of the most attractive features of an NEF is its ability to distribute its funding consistently over a long period at levels which local institutions can effectively absorb.*

*Like external funding, technical assistance to national strategies from international organizations has had mixed results. There are important lessons on how to involve expatriate personnel. Experience has shown that international NGOs, in particular, can continue to play a vital role in providing the appropriate kinds of technical support to strategy teams.*

*No matter how successful some national strategies have been in attracting funds for their planning and implementation, the levels of resources are insignificant when compared to those associated with the big forces shaping development, such as structural adjustment policies and World Bank loans. For the remainder of the decade, the most important task for NSDSs will be to harness and modify those forces to be consistent with local sustainable development goals.*

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### *The role of donors*

In many lower-income countries, support from bilateral, multi-lateral and financial organizations is often necessary for the development and implementation of a strategy. Also, many donors consider a strategy to be an effective means of ensuring that their support is well-targeted and is applied within a locally-defined policy framework. It is recognized that strategies are a way of improving and integrating social, economic and environmental policies, and building national capacities to develop and implement such policies. But they can fulfill this role only if they are nationally-driven, participatory processes, and this takes time.

It is important to ensure that both national and external expectations and perceptions of the purpose of a strategy are consistent and mutually supportive. The wrong kinds of external support can lead to insufficient internalization of strategies and a concomitant lack of government commitment and loss of momentum. They may also result in irrelevant or damaging activities. If donors treat strategies merely as assessments, documents or plans, for example, they may be completed quickly, but they will no longer be strategies and their results will be trivial: a report and a few projects.

Concern about the role of donors as manipulators of national and local strategies, rather than as facilitators, has come to a

head for two reasons. First, there is a growing number of cases where a multiplicity of donors support different initiatives in countries which have little capacity to coordinate them. Second, environmental conditions are being tied to the receipt of grants and loans.

The problem of too many players has sometimes led to more money than can be absorbed, a glut of expatriate consultants, and activities run by staff with salaries and resources which set them apart from the institutions with which they are trying to work. Donors can be a creative force, stimulating governments and communities to rethink options and ways of managing change. But they need to work in a way that is appropriate to local conditions, and build upon existing initiatives. Recent guidelines by donors on ensuring the sustainability of their development assistance are to be welcomed (for example, SDC 1991). Donors' investments in strategies should lead to greater self-reliance and autonomy in the communities concerned; this will require a thorough review of existing investment patterns and an emphasis on options for sustainable financing.

### *Donor coordination*

The donor community should be considered as participants in the strategy from the very beginning of the process. Yet the principal lesson for donors – underlying all others – is that strategies must be led by the

***Box 24: Ten lessons for donors***

These are the ten main lessons for donors (for simplicity, both development assistance agencies and lending institutions/banks are here called donors), which have been learned through more than ten years of their involvement in strategies.

- 1. Coordinate donor activities:** Recipient governments must be supported in taking a leading role in coordinating external contributions to the strategy process.
- 2. Invest in the long-term:** Low-level continuous external backing over a long period is almost always much better than short, high-level, one-off inputs (unless contributing to a strategy trust fund).
- 3. Support the process:** Programme funding is needed for the capacity-building process; not just the products of strategic planning. Programme-oriented approaches are often more valuable than projects that are not an integral part of a strategy.
- 4. Support existing strategies:** If funding is conditional, the conditions should respect alternative approaches to strategies that exist locally. Buy in to existing processes, even if they do not quite fit the bill.
- 5. Do not impose external models:** The corollary to supporting 'homemade' or tailor-made strategies is the need to guard against designing for schedules, budgets and skills which do not fit with local norms and capacities.
- 6. Form and encourage partnerships:** Close working links with other donors and partnerships, and support for a variety of participants in a strategy, both governmental and non-governmental, add momentum and stability to the process. A good first step is to help governments identify stakeholders and their potential contributions.
- 7. Seek coherence in aid programmes:** Each donor needs to ensure that all components of its support interrelate and build upon each other within the strategy process.
- 8. Devise new forms of assessment:** Donors need to develop new indicators for sustainability and evaluation to reflect and give greater importance to the qualitative and process elements of strategies.
- 9. Refocus existing investment:** Donors need to review all elements of their aid programmes and help governments refocus existing investments towards sustainable development principles and objectives defined through the strategy process. This refocusing will be more important than initiating new 'environment' projects.
- 10. Be flexible and creative in financial arrangements:** Support innovative financing mechanisms; for example, National Environment Funds, which lead to consistency and self-reliance in maintaining the strategy process.



### ***Box 25: The Pakistan NCS: turning the plan into action***

The following exercise was used in Pakistan by a technical working group supporting the multi-donor group for NCS implementation. Using wall charts, three levels of information were set out:

1. The recommended strategy programmes and actions and their rationale were set out in the top row.
2. Current programmes, projects and activities under each of the recommended strategy programmes were set out in the second row. Programmes and projects that fell roughly into the NCS programme area were included, and any part of the programme that did not meet, or conflicted with, NCS objectives was noted.
3. The commitments and disbursements by donors and lenders in each of the programme areas were set out in the bottom row.

Information for this exercise came from the UNDP computer database for the Development Cooperation Report, which documents in detail most donor-supported projects in lower-income countries. Information was requested on all current public sector investments by donors in programmes and projects that fell under the recommended strategy programmes.

Although the data on commitments and disbursements were not exactly quantifiable, they gave information that was critical for NCS implementation, such as:

- a clear indication of areas of shortfall in donor support to programmes recommended in the NCS document;
- an indication of where there was heavy donor investment in programmes that were producing obviously harmful environmental effects (such as large-scale expansion of irrigation and chemically-intensive agriculture) — these were flagged for refocusing, or for the addition of an environmental management component; and
- an indication of the absorptive capacity of the programme area, and hence, where emphasis should be put on refocusing measures and building capacity.

recipient country. This applies particularly to the coordination of donor participation. The increasing influence of external forces, often operating at the same time within a country but supporting different and uncoordinated strategy initiatives, has led to

considerable bewilderment in many developing countries. It has caused a diversion of existing capacity and an undermining of local initiative. It has resulted in a substantial waste of international and national resources and, all too frequently, a loss of

momentum in aspects of environmental policy to which governments were already committed.

Yet, in order for governments to take the lead in donor coordination, they require considerable resources and a firm commitment to cooperate by the external agencies. Permanent coordinating mechanisms are often lacking. In some countries, UNDP has taken the lead in coordination; in the case of NEAPs, the World Bank has led. Donors frequently have an interest in meeting independently from government when defining the focal areas for their assistance, or when wishing to develop common positions on what they feel to be an important issue of principle. While this interaction between the external players is important and should be encouraged, ultimately the government must be supported to exercise the leadership role in coordination.

Experience suggests a number of key ingredients for successful donor coordination:

- The government could empower a central ministry with authority to establish coordination mechanisms and procedures. This ministry may be the strategy secretariat, but might more usefully be the official contact point for donors, such as the Ministry of Foreign Affairs or Finance. In some cases, the national planning authority, with its cross-sectoral functions, might be the best choice.
- Coordination activities often require

special skills of synthesis and facilitation. Donors should make sure that coordination is not undermined by a lack of the necessary capacities.

- Local NGOs and private sector representatives also need to be brought into the donor coordination process at regular intervals.
- Effective coordination depends greatly on improved information exchange among donors on their investment portfolios and policies, including evaluation reports and other analyses of the country situation.
- Donors should seek to minimize and simplify their interventions so that coordination by government is less onerous. In-country missions, for example, should be limited in size and number, jointly undertaken, and scheduled so that the unnecessary impact on government business is reduced.

The early formation of a donor coordination group, and regular briefings, can help to achieve understanding of the purpose and the implications of a strategy. It will also foster the cohesion among the donor community necessary to ensure sustained and coherent support for the strategy.

In Pakistan, the government established a multi-donor coordination group specifically to integrate donor support for NCS implementation. A special technical working group was established to assist the donors; methods used are summarized in Box 25.



### *Strategy cohesion*

An important aspect of donor coordination is division of financial assistance according to the sectoral preferences of the donors.

This issue needs to be addressed early on. At the same time, donors should take care to ensure that dividing assistance by sectors does not reduce the cohesion of the overall strategy. Donors should integrate their aid or lending programmes into the priorities set by the strategy. Regardless of the preferences of donors, support is needed for the process, and for priority sectors as determined through the strategy.

Donor interests and the availability of financial support should not deflect strategies from their planned strategic focus. Definition of 'bankable' projects should be undertaken as part of the strategy and not dominate or be separated from the process. Donors have specific needs; for example, a portfolio of fundable projects, ordered according to clear priorities that have been established as part of a strategic process. Such needs should be stated clearly at the outset. The donors and lending agencies should work with the partner government so that these needs can be met as part of the process, without otherwise influencing its design or timetable. In other words, the portfolio of projects would be one of the intended products of the strategy process. But it would be up to the government and other national participants in the strategy to decide on the objectives of the strategy, the

design and timetable of the process, how it would be managed, when it would produce the portfolio of projects, and what the projects would be.

Failure to uncouple the particular needs of donors from the overall design and management of the strategy has damaged some strategies. In some cases, the timetable of the process has been compressed to produce a portfolio of projects as quickly as possible; usually too quickly for a coherent strategy to be developed in a participatory manner. In other cases, the donor has simply ignored the strategy, insisting that a new 'strategy' be prepared to draw up the portfolio of projects.

During implementation, there is a great danger of slipping back into a project approach, making it more difficult for the country to retain control of its strategy. Big projects can quickly distort or sidetrack the strategy process. A special effort should be made by both the strategy secretariat and donors to maintain the strategic or programme focus of the strategy while recognizing the project basis of donor funding.

### *Funding security*

A broad base of donor support is likely to be most effective. A strategy can be expected to include a wide range of activities involving the government, corporate sector, NGOs and communities. It is unlikely that any one



donor will be able to sustain long-term support for all such activities. Thus, setting out to capture the interest of the larger donor community will be most desirable.

Broad support brings greater:

- resilience;
- coverage;
- confidence; and
- continuity.

The earlier in the strategy a donor consortium can be formed to support it, the better.

To promote NEAPs, the World Bank has tended to initiate discussions with governments by guaranteeing start-up funds. At the same time, through round table and one-to-one meetings, the Bank seeks other partners in the process among the bilateral donors and, more recently, UNDP. USAID is the principal donor in the Uganda NEAP, for example. In Zambia, the World Bank and UNDP shared the cost of the NEAP. Engaging a bilateral donor early in the process increases the chances of continuity and support following the preparation of an action plan and project portfolio. To date, the Bank has not contributed grant funds beyond the first phase in an NEAP; any substantial contributions to NEAP implementation are expected to come from a range of donors picking up individual projects or through Bank sector loans. It is too early in the history of NEAPs to determine the extent to which they will become perma-

nently integrated within government and continue with or without external support.

The history of NCSs and other independently initiated strategies has shown that, without this initial guarantee of start-up funds, many have never gone beyond a good idea. Others stalled when an individual donor supporting the planning phase did not continue funding for implementation. The World Bank has never contributed to a non-NEAP strategy, even in cases where it has accepted an existing process as satisfying NEAP requirements.

Loss of external support has not always meant the end of a strategy process. In fact, where the initial external contributions were modest, with the greater proportion of cost shouldered by local institutions, this has rarely been the case. A key to successful donor participation lies in understanding the absorptive capacity over time of the local administration or community undertaking the strategy. In most cases, small-scale, continuous, external backing over a long period is much better than short, high-level, one-off or irregular external inputs.

Priority needs to be given to supporting a core strategy process which provides the principal energy source for stimulating and maintaining action throughout the system. In the past, long-term commitments have not been easy when donors were locked into a project and not a process orientation. Yet a number of bilateral aid agencies, such as the



Swiss, Canadians and Swedes, have supported individual NCS processes consistently for more than a decade.

### *The cost of strategies*

The cost of strategies is best assessed by distinguishing between planning and implementation (Table 2). Planning includes start-up through to the preparation of action plans and investment portfolios. It is better defined in terms of approach and cost.

The planning phase for NCSs has lasted anywhere from two to six years and has usually included a range of demonstration and capacity-building programmes. NCSs which were prepared through local initiative, such as those in Zimbabwe and Nigeria, cost very little and were undertaken within existing government budgets. In Costa Rica, the NCS document took three years to prepare, at a cost of US\$220,000, of which 50 per cent came from six different external agencies, and 50 per cent from the

**Table 2: Cost of selected strategies**

	Cost US\$mil	Period	Donor
<b>Strategy planning</b>			
Costa Rica NCS	0.22	1987–89	50% IUCN, CI, WWF US, TNC, 50% national
Ethiopia NCS	1.60	1989–94	SIDA, ODA, NORAD, UNSO
Guinea NEAP	0.65	1990–91	WB, CIDA, UNDP, USAID, FAO, UNEP, UNSO
Zambia NCS	0.60	1984–88	SIDA, Dutch, CIDA
Zambia NEAP	1.00	1994–95	WB, UNDP
Kenya NEAP	2.20	1994–95	WB
Uganda NEAP	1.00	1991–94	USAID, WB, SIDA, UNSO, UNDP
Nepal NCS	0.50	1982–88	SIDA, SDC, USAID, CIDA, WWF
Nepal NEAP	0.03	1993	Ford Foundation, IUCN
Pakistan NCS	2.60	1988–93	CIDA
<b>Strategy implementation</b>			
Nepal NCS	3.50	1989–94	SDC, UNICEF, USAID
Seychelles NEMP	50.00	1992–96	Various
Colombia NEP	972.00	1990–94	60% national, 40% various
Zambia NEAP	2.00	1994–97	Dutch
Madagascar NEAP	85.00	1990–95	SDC, USAID, WB, UNDP, NORAD, ADB





government's Ministry of Natural Resources. The Pakistan NCS cost US\$2.6 million over five years and was funded entirely by CIDA.

In general, NEAPs have tended to be more expensive and prepared in less time. In Africa, NEAPs have usually taken an average of 18 months to prepare, and have cost anywhere from US\$300,000 to US\$3 million. Major donors supporting NEAP preparation have been the World Bank, UNDP, UNSO, and USAID. NCSs have been supported by a broader range of bilateral donors than have NEAPs, although more recently a number of countries, such as Norway, Japan, France and Sweden, have provided bilateral funding for specific NEAP activities, sometimes through the Bank. NEAP preparation has not usually included the same level of implementation activities as the NCS planning phases. The experience with NCSs worldwide has been fairly consistent, while for NEAPs the approach has varied greatly from region to region. In Nepal, for example, at Bank instigation, a National Environment Policy and Action Plan costing US\$30,000 was prepared over six months as part of the NCS process.

The cost of implementing strategies varies greatly depending on the coverage of the action plan. The initial phase of the Nepal NCS implementation programme was limited to cross-sectoral demonstration activities. It focused on setting in place the

key elements of a future environmental management framework for the government. The programme has cost about US\$1 million each year. On the other hand, external support to the various sectoral master plans that fall within the NCS umbrella have attracted several hundred millions of dollars. The investment portfolio designed for the Seychelles National Environment Management Plan defines US\$50 million in project concepts, from conventional protected area initiatives to sewage and pollution control programmes. Colombia has defined a five-year National Environment Programme ending in 1994, costing US\$972 million. Only about US\$200 million of this has been raised; 60 per cent from national government budgets and the remainder from external sources including the Ecological Coffee Fund, TFAP, debt-for-nature swaps and soft loans for environmental infrastructure. Colombia was attempting to allocate 0.55 per cent of its GNP to sustainable management of natural resources.

The advantage of a comprehensive investment portfolio is that the external and internal agencies participating in the scheme begin to see the links between their activities within the strategy framework. The disadvantage is that rarely are all projects funded, so that, for all practical purposes, the strategy disintegrates into bits and pieces. It is probably better to limit the size of a strategy implementation programme to well-targeted activities that reinforce the strategy.



### ***Box 26: National environment funds***

A National Environment Fund is a publicly or privately constituted organization which solicits and manages funds from various sources and makes grants to support environmental and sustainable development projects. A trust arrangement is common. Most national funds are created and managed through a participatory process that involves different sectors of society, government, non-governmental organizations, academics, and others in designing the institution or project grant criteria.

If properly designed and operated, NEFs can be the catalyst to improve environmental management, biodiversity conservation, and sustainable and equitable use of resources.

NEFs can be set up as endowments or pass-through grant-making facilities. They can be funded through a variety of mechanisms such as debt-for-nature swaps, debt forgiveness schemes, in-country fees on tourism, and direct contributions from donors. They can be one unitary fund or a structure incorporating multiple sub-accounts.

NEFs can include various attributes which make them attractive for funding sustainable development:

- **Support of national strategies:** NEFs can ensure that national environmental planning frameworks are effective tools for ordering national priorities rather than being simply prerequisites for donor assistance. They do this by putting the environmental action plans on a stable financial footing and ensuring that selected priorities represent a consensus of relevant players.
- **Stable financing:** NEFs have the potential to provide the stable long-term financing necessary for the effective implementation of conservation actions.
- **Appropriate scale:** NEFs provide an institutional mechanism for disbursing appropriately-sized funds that are within the capacities of beneficiary institutions to effectively absorb.
- **Participation:** NEFs encourage the participation of a wide range of interested parties; for example, through representation on boards of directors, technical review committees, and general assemblies.
- **Transparency:** Decision-making in the NEFs is subject to public review and critique.
- **Cooperation:** NEFs promote democratic values of participation, cooperation and accountability, which have implications beyond the environmental sector.
- **Strategy cohesion:** NEFs help nurture the growth of trained national personnel and avoid uneven coverage of environmental priorities.

*box continues*

- **Balanced priorities:** NEFs offer a promising means for balancing global priorities with national needs and aspirations. This occurs in the negotiation over criteria for the management of sub-accounts set up by particular donors.
- **Donor Coordination:** NEFs can play an important role in donor coordination by providing a focal point for negotiation (especially regarding the need to link in with existing strategies), accounting, monitoring, evaluation and auditing.

A particularly important component of an implementation programme, which should be given high priority for funding, is the development of methods for reviewing and refocusing conventional areas of government and private sector investment in resource development. Approaches include various forms of environmental assessment and audit and a reorientation by donors of their investment in the main resource management sectors to emphasize sustainable use and environment protection.

### *National environment funds*

New methods and structures which promote self-reliance and local control are needed for funding strategies. One of the most promising approaches is the design of national environment funds (NEF) so that they can become a core source of finance for strategy implementation. The NEF concept was first tested in 1990 as a means of distributing funds generated through debt-for-nature swaps. NEFs have since expanded in their scope to cover a wide range of sustainable development activities. There are now funds

operating or planned in more than 20 countries in Asia, Africa and Latin America (Table 3). More than US\$290 million has been committed to these funds and more than 100 projects have already been funded. The main characteristics of NEFs are summarized in Box 26, with case studies of funds operating in Bolivia and Colombia shown in boxes 27 and 28.

The most attractive aspect of the NEF approach is that it is consistent with the most important principles of the strategy process, such as encouraging broad participation, openness and accountability. At the same time it counters some of the key weaknesses of strategies by providing a consistent long-term source of funding under a flexible management regime that can be adapted to best suit local requirements.

Another weakness of strategies has been their failure to engage people who understand and work with finances. Binding NEFs into national strategies will bring together skills to attract, manage and disperse funds. Most important, strategy teams

**Table 3: Overview of some national environment funds**

Country/name of fund	\$ committed (millions)	Source of funding	Year
<b>Asia</b>			
<i>Bhutan</i> / Bhutan Trust for Environmental Conservation	12.6	GEF, Dutch, WWF, Norway	91–2
<i>Philippines</i> / Foundation for the Philippine Environment	25.4	USAID Debt Swap, Bank of Tokyo Debt Swap, USAID Debt Swap	90–2
<i>Indonesia</i>	20.0	USAID	90
<b>Africa</b>			
<i>Madagascar</i>	12.0	GEF	92
<i>Uganda</i>	4.0	GEF	93
<b>Latin America and the Caribbean</b>			
<i>Argentina</i>	3.1	EAI	93
<i>Bolivia</i> / FONAMA	80.3	EAI, GEF, WB, IADB, USAID/ PL-480, TNC Debt Swap, WWF-Debt Swap, Govt of Bolivia Debt Swap, US Govt, Japan, Switzerland, Canada, Sweden, Mexico, Germany, Holland	91
<i>Colombia</i> / ECOFONDO	58.5	EAI, Canada, USAID/IUCN/TNC, WWF	92–3
<i>Chile</i>	18.7	EAI	91
<i>Dominican Republic</i> / PRONATURA	0.6	Puerto Rico Conservation Trust	91
<i>El Salvador</i> / SEMA	49.2	EAI, Canada	92–3
<i>Guatemala</i> / Guatemala Trust for Environmental Conservation	0.8	UK Foundation, WWF, US banks	92
<i>Honduras</i> / Fundación VIDA	7.0	Govt Bond-debt forgiveness, USAID	92–3
<i>Jamaica</i> / Environmental Foundation of Jamaica	22.0	USAID and PR Conservation Trust	91
<i>Jamaica</i> Conservation and Development Trust	0.7	TNC, Eagle Commercial Bank	91–2
<i>Mexico</i> / Fondo Mexicano para la Conservación de la Naturaleza	20.2	US State Dept, USAID, Bankers Trust, MacArthur Foundation, WWF, USAID	93
<i>Panama</i> / Fundación NATURA	25.8	USAID, TNC, Panama	91
<i>Peru</i> / PROFONANPE	5.5	GTZ, GE	93
<i>Uruguay</i>	7.0	EAI	92

would include resident staff who have the skills to use the NEF as a lever for attracting national contributions over time. Money in the bank builds confidence and is an incentive for cooperation. Governments will usually contribute on a regular basis under these conditions.

### *Developing an NEF*

The process of developing a NEF can take more than two years. It involves negotiations with different constituent groups and with donors. There are several key steps:

- an interim advisory board is selected with representatives from diverse sectors involved in the national strategy;
- consultation is carried out with the different sectors in all regions of the country to receive advice on appropriate goals, management practices and grant criteria for the fund;
- the board defines the terms of reference for the fund's staff, the appropriate legal constitution and a charter and bylaws;
- the charter and bylaws that contain the purpose and restrictions of the fund, as well as its management structure, need to be discussed and finalized in consultation with the main strategy constituents and potential donors; and
- a permanent board is elected, staff are hired and, once funding is secured, an NEF can commence soliciting proposals and making grants.

### *Disadvantages of NEFs*

Already, in the short experience with NEFs, there are pitfalls that some funds have encountered, such as:

- Governments can use the existence of a fund to avoid addressing their wider responsibilities;
- Funds should not implement projects, so as to avoid competing with their clients.
- The first donors to support a fund often have sought to control its decisions and operation, deterring other potential donors who view it as claimed territory.

Each of these problems can be avoided with thorough consultation and flexibility by the strategy team. They need to adjust the fund design to accommodate the needs of various constituents, while pointing out to them the experiences of funds elsewhere in the world.

NEFs should seek to cover some of the costs of a strategy's core implementation activities and support a wide range of projects that tackle high-priority issues or are useful for catalytic or demonstration functions. It is unlikely that a fund will cover the bulk of strategy investment required. In the former Eastern Bloc countries, for example, environmental funds are a popular mechanism for contributing to pollution clean-up costs. Yet, in the Slovak Republic, for instance, it is estimated that the cost of meeting the country's environmental objectives would require 50 per cent of GNP, while the



### ***Box 27: Bolivia's NEF***

Bolivia's NEF, FONAMA (Fondo Nacional para el Medio Ambiente), is a flexible independent public institution housed in the Bolivian government. One of the oldest and most fully-developed of all NEFs, FONAMA started in 1990 as a mechanism for the management of debt-for-nature swaps. Its first effort was to promote commercial and bilateral debt swaps to support conservation and sustainable development projects. Its role expanded to include raising and managing funds from various sources for investment in conservation, sustainable development, and environmental quality. FONAMA is now responsible for organizing all investments in the environment in Bolivia, seeking to integrate government activities with those of indigenous communities and NGOs. It is governed by a board that includes representatives of the government, NGOs and the private sector, and is assisted by an administrative council that provides both technical and administrative support and is responsible for fund raising. FONAMA is an umbrella structure composed of two main parts: an Enterprise of the Americas Initiative account, and a World Bank/Global Environmental Facility/Government of Switzerland account. It also includes at least 16 sub-accounts of various sizes, each with different characteristics, objectives, and management structures, as determined by the source and purposes of the funds obtained.

To date, FONAMA has secured commitments (both actual transfers and legally binding obligations) of just over US\$47 million and claims additional pledges of US\$33 million that are being negotiated. As of mid-1993, FONAMA had approved 44 projects, ranging in size from US\$11,000 to US\$13 million, with a total value of US\$27 million. These were in various stages of execution, including US\$2 million worth of projects which had been completed.

government's contribution to the fund is less than 2 per cent of GNP. Strategy teams will need to continually explore other creative ways of maintaining funding commitments to the process.

NEFs are also attractive for donors. They provide donors with the facility to move large sums of money cheaply. NEFs can be a

wholesale disbursement facility while achieving other donor objectives inherent in the national strategy process. Also, having a team of finance professionals working for sustainable development means that funds can be managed in a way which satisfies donors, with separate accounts and governing structures if necessary.

## *The role of international NGOs and expatriates*

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*‘Technical teams are transitory. Communities are permanent.’*

Dionisio Batista, IUCN Panama

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It is most important to use nationals of the country as much as possible, to rely on national capacities, and to build national capacities where they are lacking. Expatriate personnel should assist only where local expertise is lacking. Donors and other external agencies should not supply an expatriate team to run the strategy process for the country; nor should expatriates dominate the team. Expatriates must possess experience and qualifications not found locally, and should have an understanding of local political, socio-cultural, economic and other issues. Ideally, they should also be able to communicate in the local language.

### *Advantages*

The advantages of expatriate involvement can include the following:

- they can bring new ideas;
- they can work synergistically with local experience;
- they provide strong links with donors, enabling projects to be picked up much faster;
- they have stronger links to top-level decision-makers, who may accept

expatriates’ recommendations more readily (not always the case, nor always an advantage); and

- they provide training and capacity-building.

### *Disadvantages*

The disadvantages might include:

- expatriates pick the brains of local experts (who often receive no credit or financial benefit), leading to animosity;
- some expatriates lack necessary expertise;
- expatriate ideas and perceptions are often not attuned to local circumstances, and are therefore impractical;
- expatriates may not be as good as local people at assessing local situations;
- they have a lack of commitment to implementation and continuity in short-term assignments; and
- their salaries and benefits are a sensitive issue since, generally, they are higher than local rates.

Remuneration and allowances for local staff and local consultants should be set by the host country, not by the donors, after cross-sectoral discussion and agreement. This will avoid large disparities between project staff and their peers in government service.

### *International NGOs*

The OECD (1987) has pointed out that international NGOs, in their own right,



### ***Box 28: Colombia's NEF***

Colombia's NEF, *ECOFONDO*, was initiated as a multi-purpose, private, non-profit trust fund to allocate resources for the environment. Initially, funding was to be provided by a rebate of the 4 per cent import tax on Colombian coffee into Europe: although the proposal ultimately proved to be unworkable, the idea of the fund endured. A participatory process was developed, involving both government and NGOs. In early 1993, the core group of organizers convened a constitutional assembly for what is now called the *ECOFONDO*. At that time, 110 NGOs signed an enabling declaration as founding members of the fund, and the possibility is open for the involvement of environmental NGOs that are not founding members.

As of May 1993, 270 NGOs and 18 government agencies had expressed an interest in being members of the future Corporación ECOFONDO. Its structure includes a general assembly to allow full representation of all interested groups and a large potential number of regional committees. It has a board of directors involving both government and NGOs, technical committees to help with the evaluation and selection of projects, and regional advisory boards for each of the 12 major regions of Colombia. It also includes an Office of the Executive Director and an independent auditor.

In July 1993, ECOFONDO was granted full legal status. It is intended to operate as an endowed fund, although there are no restrictions against use of the principal funds. The current plan is for early infusions of funds to be used primarily for projects, while subsequent monies will be allocated increasingly towards an endowment.

One of the first tasks of *ECOFONDO* is to manage funds derived from the Enterprise for the Americas debt reduction. Through this programme, it expects to receive approximately US\$38 million over the next 10 years. As of August 1993, an *ECOFONDO* account had already received close to US\$6 million in local currency. *ECOFONDO* has also reached an agreement with the Canadian government to set up a sub-account with another \$13 million from renegotiation of Canadian bilateral debt. This programme was announced by Canada at UNCED in 1992.

make a significant contribution to funding for development assistance (about 10 per cent of the level of official development

assistance worldwide). It has noted a number of positive features about international NGO assistance that are pertinent to their



participation in national strategies, whatever their funding sources:

- much of their help is either through, or in cooperation with, local community groups;
- they tend to concentrate their activities in the least developed countries;
- they tend to direct their assistance towards the poor and other disadvantaged groups;
- they often provide a presence in rural areas or in neglected parts of urban communities and emphasize self-help approaches;
- they can work effectively with local or regional governments;
- they are often well-positioned and inclined to try out new ideas or techniques; and
- they use experts who tend to be committed to community-based work, and who often cost less because of a willingness to live closer to local people.

Donors need to give much greater emphasis to supporting the role of international NGOs in national strategies. When compared with international consulting companies, NGOs often bring a longer-term commitment to the countries they are serving, greater flexibility, and better value for money. Large organizations like UNDP and the World Bank need to form partnerships with international NGOs which can work on a scale, and with a form of intimate involvement, that brings the best results

when technical support is requested by national strategy teams. The use by these big donors of large expatriate missions, involving ad hoc consultants can be especially counter-productive and can drain local capacities when more sensitive inputs would better encourage local initiative and action.

International NGOs can also help donors to identify and remove international barriers to the implementation of national strategies. Such barriers include: externally-determined development aid, unfavourable trade conditions, debt, and structural adjustment policies that do not support the national strategy.

### *Conclusion*

There are three issues of special importance to the financial security of strategies for sustainable development and to the future role of international organizations.

**1. Innovative and flexible financial arrangements.** These can bring greater local control and security to the strategy process. There are various forms of trusts or endowments which work on a consistent level of return through interest on a principal sum. Also, grant funding can be particularly useful in the early years of a strategy. These need to be tested more widely, particularly in the least developed countries where government budgets and capacities are constrained through structural adjustments. Donors will need to invest in the process of



discussion and design leading to the most appropriate form of fund for local conditions, whether government-run, private, or a mix of the two. In some cases, it is better to create an NGO-dominated fund, focusing on support to smaller scale activities, so that government commitment to internalizing investment for environment protection is not diminished.



Although NEFs are an important way to organize and coordinate external funding in a country, ultimately they must aim to mobilize national resources. They should explore, for example, ways of channelling taxes, charges or fines associated with the use of natural resources or maintenance of environmental quality to the fund.



Biodiversity-rich but economically-poor countries might consider special visa charges for tourists, as a form of biodiversity rental that would replenish the fund instead of a consolidated revenue account. Pollution fines, park entry fees, and various charges for the use of what may previously have been free environmental goods might also go to the fund.



In countries such as Vietnam, where the private sector is becoming the main force for development in a largely unregulated system, special methods are needed to encourage contributions from large and externally-financed development, while giving emphasis to helping small local enterprises define sustainable use strategies.



Creative financing options such as these should move away from dependency in strategy implementation and build a local sense of environmental responsibility and ownership.

**2. Analysis of the sustainability of existing development investment.** The current approach to national strategies, encouraged through the World Bank-promoted NEAPs, is to define a portfolio of environment-related projects which are then marketed to donors.

This approach has a number of problems, the most important being that it can divert attention from a more detailed assessment of how existing government and donor budgets are allocated. A US\$3 million environment project, for example, becomes insignificant when applied in an area where US\$100 million investments are supporting larger schemes.

A priority in strategy implementation needs to be applying forms of environmental or sustainable use assessment to the major development financing so that modifications, adjustments and reallocations can be made consistent with strategy objectives. Otherwise, the impacts of specific environmental projects will be insignificant in terms of the mainstream of development. Sustainability analysis might include:

- comprehensive regional reviews followed by investment programmes, such as those

now being developed for the Ethiopian NCS through an extensive consultative process within the framework;

- various forms of environmental auditing, for example, the procedures governing industry performance within the European Community; and
- a green reporting process as introduced recently in Norway.

The Norwegian initiative is particularly important in demonstrating the continuing role for a central strategy agency in monitoring the effectiveness of strategy implementation. In Norway, each sectoral agency is required to report in detail on how its budget is allocated to achieve sustainable development goals. If, in successive years, the strategy agency (in this case the environment ministry) considers that a sector has failed to live up to its targets, then the agency can recommend to parliament that the associated budget is reallocated to other programmes which are performing better within or outside the sector.

**3. Awareness of the forces shaping development.** In the least developed countries, for example, these forces include the terms of international trade under the General Agreement on Tariffs and Trade (GATT), structural adjustment policies required by the IMF and the overall economic philosophy and loan policy pursued by the World Bank. There has been a tendency for participants to be ignorant or unaware of the importance of these forces

which means, inevitably, that the process is overrun by them.

A principal aim of the framework for trade and the policies of these organizations is to encourage export-oriented integration of developing countries in the world economy. Such policies are driven by economic values. Balancing those values with the other objectives of sustainable development needs to be a central concern of international and national strategy processes in both the developed and developing worlds.

Increasing economic links between countries creates complex environmental relationships, which will need to be accounted for in terms of trade and aid. Special commodity-related environmental agreements between two countries or blocks of countries will be needed, so as to address the environmental impacts embodied in a country's imports and exports of goods and services.

Donor countries must begin to more effectively match their aid policies with analysis of the environmental debts (and importation of carrying capacity) that may be hidden in their relationship with recipients. If Western consumption patterns encourage the production of (for example) bananas in Costa Rica or carpets in Nepal, then the aid programmes of importing countries need to help address the significant environmental externalities associated with these products. Relying simply on the producing country to apply the Polluter



Pays Principle, when the necessary capacities are lacking, can worsen inequities and ruin local community economies. Special policies and phased programmes of support to the industries concerned may be needed and should be built in to the national strategies of both the donor and recipient countries.



Structural adjustment involves major injections of external funds into the economy of a country (on highly concessional terms) on the understanding that certain changes will be made in how the economy is managed. Usually, these changes involve trimming back the public sector, reducing or eliminating subsidies, greatly increased emphasis on private investment and giving priority to increasing export earnings.



Structural adjustment policies could be designed to achieve sustainable development objectives but, to date, the process has not been oriented in this way, nor has it included mechanisms to integrate environmental concerns. On the contrary, the Asian Development Bank has found that structural adjustment policies in a number of countries in its region may have led to environmental degradation (ADB, 1990).



Strategy teams will need to forge partnerships and acquire the technical expertise and methods which will allow them to incorporate these complex effects of structural adjustment policies and associated loans. The IMF and the World Bank will need to give increasing resources to assisting in this process and to tailoring policies that reinforce, and not undermine, environment goals.

Creative responses will be needed. Given the net flow of funds from South to North due to the servicing of debt over the past decade, loans for environment protection and sustainable development may continue to create as many problems as they solve. Greater emphasis on debt relief in exchange for various environmental services, such as the conservation of biodiversity, is an important option.

National sustainable development strategies provide an opportunity to expose many of the inequities and imbalances that result from economic policies and past trading relationships among countries. More importantly, they provide an opportunity to introduce mechanisms for correcting these imbalances.

## References

*The ideas and information which led to this handbook were drawn mainly from the regional networks of people with experience in strategies who have been coming together regularly over the past two years in Africa, Asia and Latin America. Some of the written products of their work appear in this list. We have not attempted to compile a comprehensive bibliography of reports and papers on strategies. Instead, we have only identified those key policy statements by various organizations or governments which relate to strategies and which themselves provide more detailed reference material. These were the primary sources for the handbook. They include the main global policy documents, such as the World Conservation Strategy, Caring for the Earth and Agenda 21, as well as some more specific sources cited within the text, from which examples have been taken.*

*The World Resources Institute (WRI), in collaboration with IUCN and IIED, regularly produce comprehensive directories of strategy documents which are available from any of the three organizations.*

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# Glossary

ADB	Asian Development Bank	FAO	Food and Agriculture Organization (UN)
AKRSP	Aga Khan Rural Support Programme (Pakistan)	GATT	General Agreement on Tariffs and Trade
BCSD	Business Council for Sustainable Development	GDP	Gross Domestic Product
BRAC	Bangladesh Rural Advancement Centre	GEF	Global Environment Facility
CBO	Community-based Organization	GINEF	Global Initiative on National Environment Funds
CEPA	Commonwealth Environment Protection Agency (Australia)	GNP	Gross National Product
CI	Conservation International	GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
CIDA	Canadian International Development Agency	IADB	Inter-American Development Bank
CILSS	Permanent Committee for Drought Control in the Sahel	IEC	Public Information, Education and Communications
CSD	Commission on Sustainable Development	IGAE	Inter-Governmental Agreement on the Environment (Australia)
EAI	Enterprise for the Americas Initiative	IIED	International Institute for Environment and Development
ECODES	National Conservation Strategy for Sustainable Development (Costa Rica)	IMF	International Monetary Fund
EIA	Environmental Impact Assessment	IMO	International Maritime Organization
EPA	Environmental Protection Agency	IUCN	International Union for Conservation of Nature and Natural Resources (the World Conservation Union)
EPC	Environmental Protection Council (Nepal)	JRC	Journalists Resource Centre for the Environment (Pakistan)
ESD	Ecologically Sustainable Development (Australia)	LIRD	Luangwa Integrated Resource Development Project (Zambia)



NCS National Conservation Strategy

SIDA Swedish International Development Authority

NEAP National Environmental Action Plan

SPREP South Pacific Regional Environment Programme

NEF National Environment Funds

TFAP Tropical Forestry Action Programme



NEMP National Environment Management Plan

TNC The Nature Conservancy

NEP National Environment Programme

UN United Nations

NEPAP National Environment Policy and Action Plan (Nepal)

UNCED United Nations Conference on Environment and Development (1992)



NEPP National Environment Policy Plan (Netherlands)

UNCHS United Nations Centre for Human Settlements

NESDS National Ecologically Sustainable Development Strategies (Australia)

UNDP United Nations Development Programme



NFAP National Forestry Action Plan

UNEP United Nations Environment Programme

NGO Non-governmental Organization

UNESCO United Nations Educational, Scientific and Cultural Organization

NORAD Norwegian Agency for Development Cooperation

UNSO United Nations Sudano-Saharan Office



NPC National Planning Commission (Nepal)

UPP User Pays Principle

NSDS National Sustainable Development Strategy

USAID United States Agency for International Development



ODA Overseas Development Administration (UK)

WB World Bank

OECD Organization for Economic Cooperation and Development

WCED World Commission on Environment and Development

ONE Office National de l'Environnement

WCS World Conservation Strategy



PPP Polluter Pays Principle

WHO World Health Organization

RAC Resource Assessment Commission (Australia)

WMO World Meteorological Organization



SDC Swiss Development Corporation

WRI World Resources Institute

WWF World Wide Fund for Nature

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