

Flexible resource mobilization in Ecuador: the Socio Bosque Fund

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4. Case Studies

Flexible resource mobilization in Ecuador: the Socio Bosque Fund

The Special Donations Fund under the *Programa de Protección de Bosques* (Socio Bosque Fund) is part of a financial sustainability strategy headed by the national environmental authority in Ecuador with support from international cooperation agencies, and is managed under the National Environmental Fund (*Fondo Ambiental Nacional*). Below is an overview, analysis and the lessons learned in the process of designing and operating this fund.

I) Overview

The Programa Socio Bosque (PSB)

The Forest Protection Program of the Ecuadorian Ministry of the Environment, an initiative designed to conserve native forests, paramos and other plant formations, contributes to enhancing the living conditions of families and local communities. It began working in December 2008 with a contractual agreement to provide economic incentives to family and community owners of natural forests and paramos in exchange for their contractual undertaking to conserve them.

At December 2012, the *Programa Socio Bosque* (PSB) had invested over 17 million dollars and formalized 2,002 agreements covering 1,116,215 conserved hectares representing a total of USD 7,701,340 and benefiting 123,431 persons, particularly communes, communities, indigenous nationalities, and Afro-Ecuadorian groups. By 2012, 100% of all PSB costs had been financed by the State.

The *Programa Socio Bosque* (PSB) has three purposes:

- To achieve coverage of protected forests, paramos, native vegetation, and their ecological, economic and cultural values (some four million hectares, equal to 66% of Ecuador's unprotected forests).
- To conserve native forest areas, paramos and other native plant formations in the country, reducing deforest rates (to 50% and associated greenhouse gas emissions (generating Certified Emission Reductions (CERs) due to avoided deforestation).
- Contribute to enhancing the people's living conditions (approximately one million participants).

In less than four years of implementation, the PSB has been able to bring over a million hectares of forests and paramos under its "conservation incentive" mechanism, 86.4% of which are tropical moist forests, 5.9% are montane forests, 4.4% are paramos, and 3.3% are dry forests. The lands that have benefited are spread throughout all 23 of Ecuador's continental provinces.

On a socioeconomic level, the PSB benefits 39,256 families or 123,431 persons, who receive a descending-curve annual payment of USD 30 per hectare per year that is delivered over two periods after monitoring the investment plans created by the beneficiaries themselves (May and October)

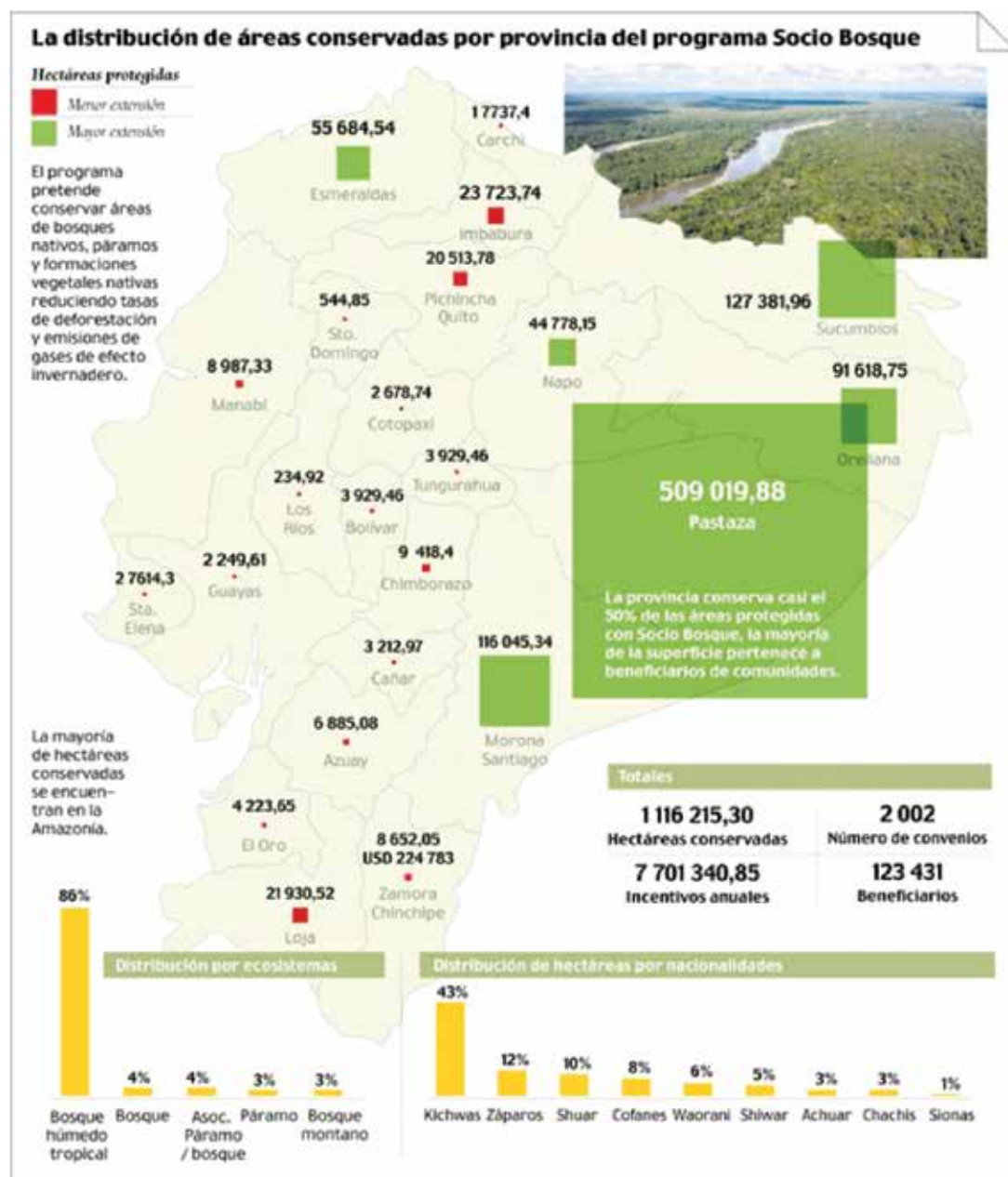
Tiered incentive payments vary depending on forest type, contract type (individual or community) and size of the area under conservation. The average cost per individual conservation area is USD 20.2 per hectare, while for community conservation areas it is USD 4.9 per hectare, as they tend to protect larger extensions.

PSB Status at June 2012 (absolute values)

| INDICATORS | Individual | Community | TOTAL |
|--------------------------------|-----------------|-----------------|-----------------|
| Agreements | 1,870 | 132 | 2,002 |
| Hectares under conservation | 123,843 | 992,372.28 | 1,116,215.28 |
| Number of beneficiaries | 8,591 | 114,840 | 123,431 |
| Number of families | 6,206 | 33,050 | 39,256 |
| Yearly incentive amounts (USD) | \$ 2,648,471.76 | \$ 4,906,213.28 | \$ 7,554,685.04 |
| Average cost per ha (USD) | \$ 20.2 | \$ 4.9 | \$ 6.7 |

Source: PSB, 2012

By 2012, the Ecuadorian State secured 100% of all PSB costs, but since its creation, the program has taken various steps to diversify its funding sources and mechanisms. In 2012, it was clear that PSB would have budget issues because of how successful the program was. Among other things, the program had uncertainties regarding incentive payments in October 2012 (around 3.5 million dollars).



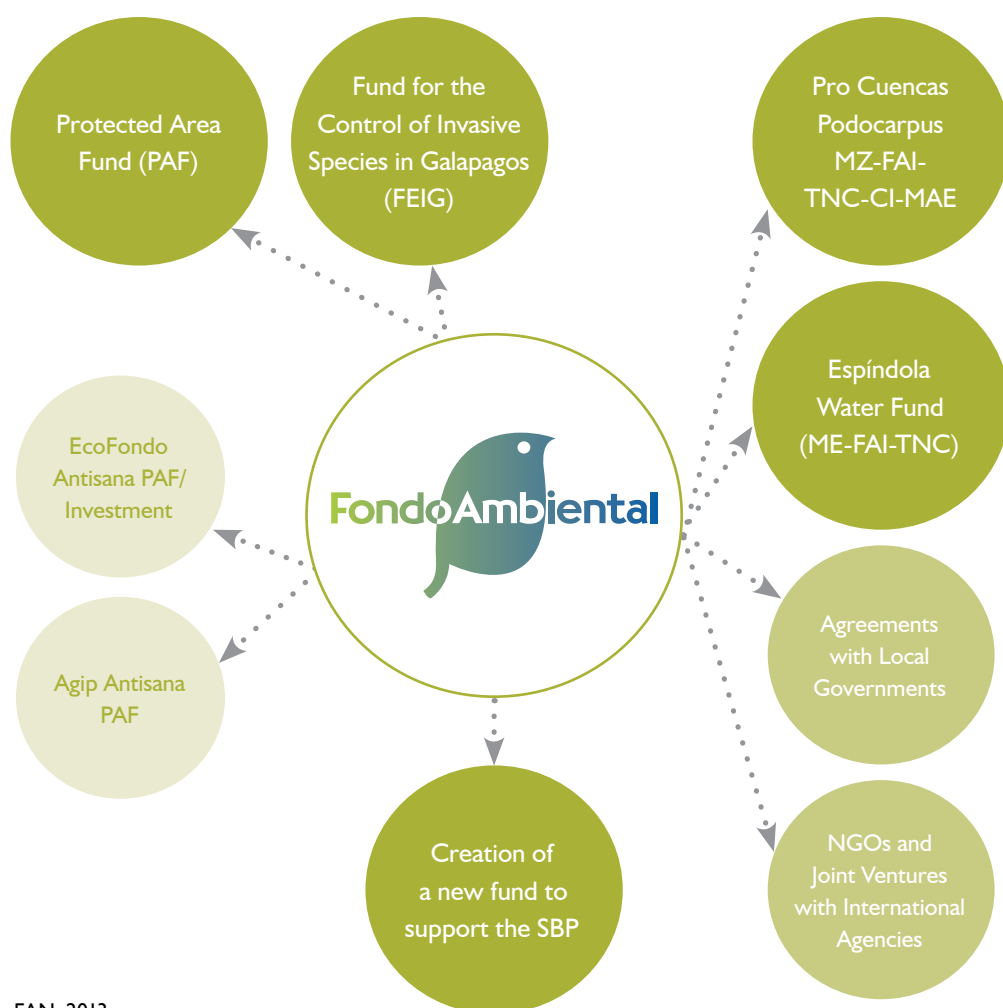
Source: PSB, 2013. Prepared by: El Comercio, 2013.

The National Environment Fund (FAN)

The FAN is a private-law, not-for-profit entity created in 1996 under the provisions of the Ecuadorian Civil Code and based in Quito. Its primary purpose is “to finance plans, programs, projects, and any activity designed to protect, conserve and enhance natural resources and the environment.”¹ Up until 2012, the FAN portfolio included several sub-accounts with an environmental focus, primarily the Protected Areas Fund (Fondo de Áreas Protegidas - FAP), the Fund for the Control of Invasive Species in Galapagos (Fondo para el Control de Especies Invasoras de Galápagos - FEIG), and water funds, in addition to some short-term projects.

¹ FAN Bylaws, p. 1

Portfolio of FAN Programs and Projects



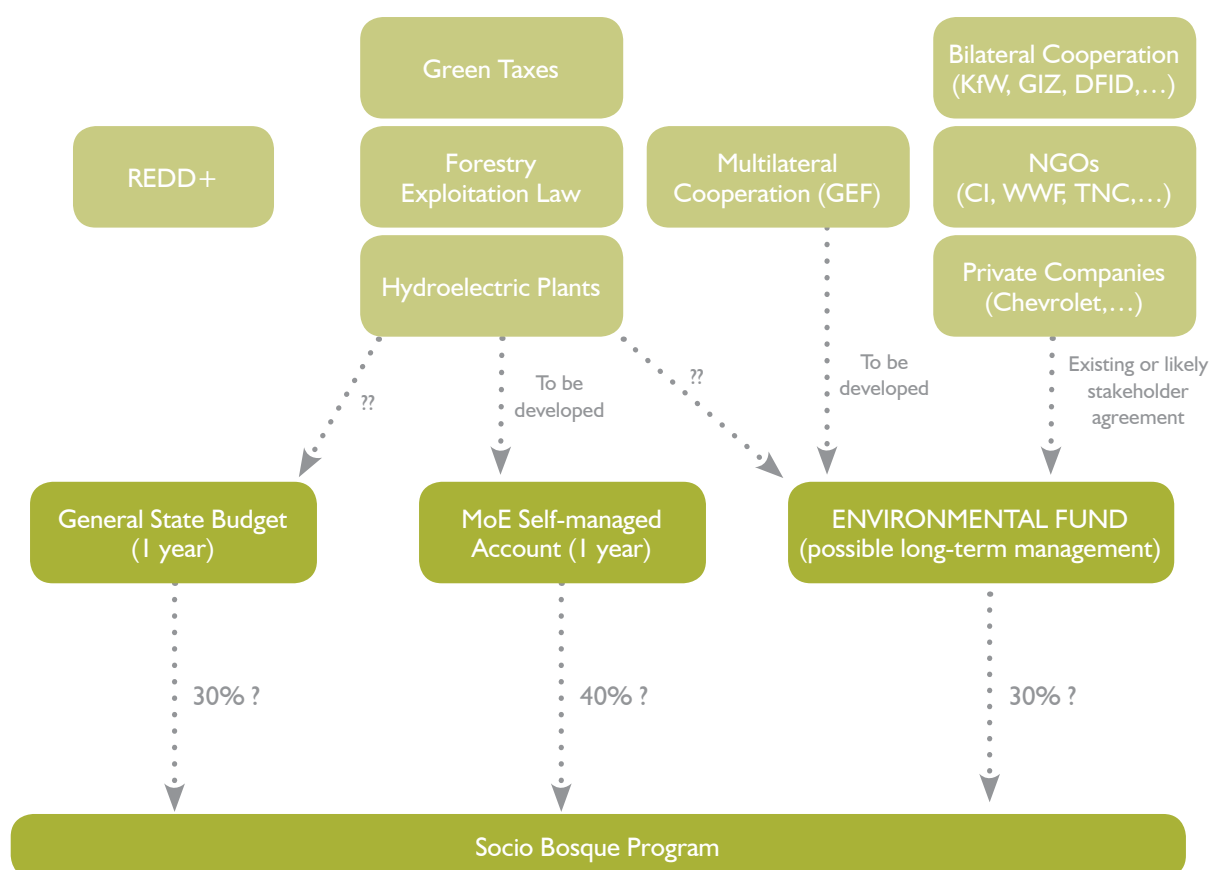
Source: FAN, 2013

FAN's strategic horizon for 2016 states:

1. To contribute to consolidating the National System of Protected Areas (*Sistema Nacional de Áreas Protegidas* - SNAP) in Ecuador.
2. To encourage sustainable production initiatives in the buffer zones of protected areas, in order to maintain and enhance ecosystem functions.
3. To help local and regional organizations, autonomous governments, indigenous nationalities, communities of African descent, and other local stakeholders with the environmental management of their territories. To offer support for organized civil society (NGOs).
4. To develop financing instruments and mechanisms for ecosystem services and human wellbeing designed to support biodiversity conservation, climate change mitigation and adaptation, and sustainable development.
5. To strengthen organizations in fulfilling their missions and implementing the 2016 Strategic Plan.

The Ministry of the Environment (MAE) has had the support of the German Cooperation as one of its key partners in co-financing the priorities of the national environmental authority. Accordingly, an overall strategy for the *Programa Socio Bosque* was developed jointly in 2012, and the National Environmental Fund was entrusted with managing new and additional resources. This decision was made taking into account consistency between institutional objectives, experience and credibility, and other sources.

Diversifying sources of PSB financing (indicative percentages)

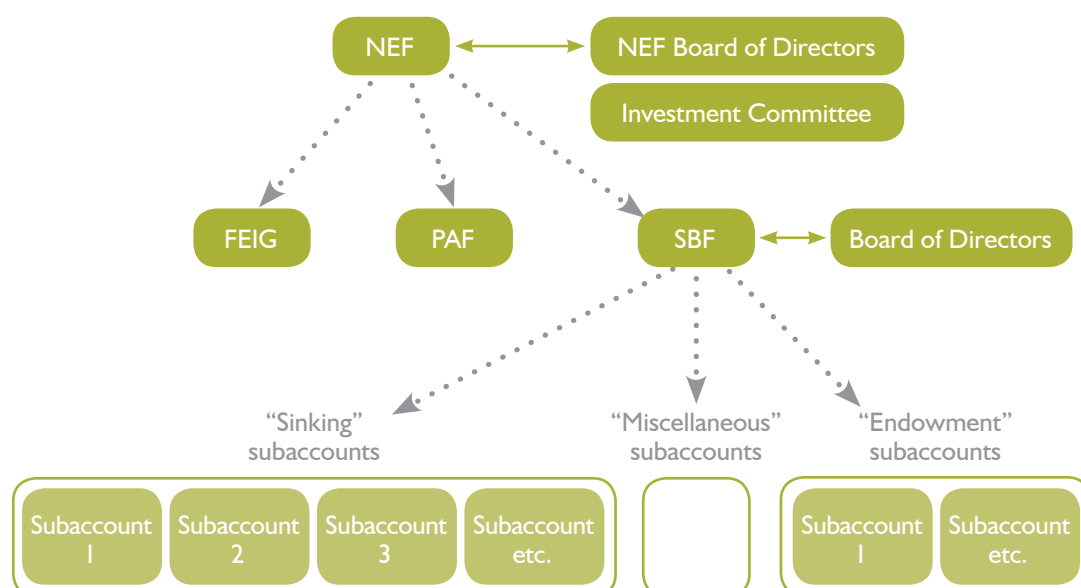


Source: Landreau, 2012 for KfW-PSB

In this way, the National Environmental Fund works as an authorized third party on the fund-raising cycle and is empowered to house the Socio Bosque Fund (FSB). Accordingly, this sub-account was designed with the basic characteristic of having its own Board of Directors. It was also stipulated that all FSB resources would be invested in the domestic economy following the criteria established by the FAN Investment Committee.

In turn, the FSB is made up of several sub-accounts—sinking funds (where capital itself is used), endowment funds (where only interest from invested capital is used) and miscellaneous funds, essentially to receive small contributions and ensure that current expenditures are paid—so the FAN will have no time to make investments in the domestic economy.

Overall Structure of the Socio Bosque Fund



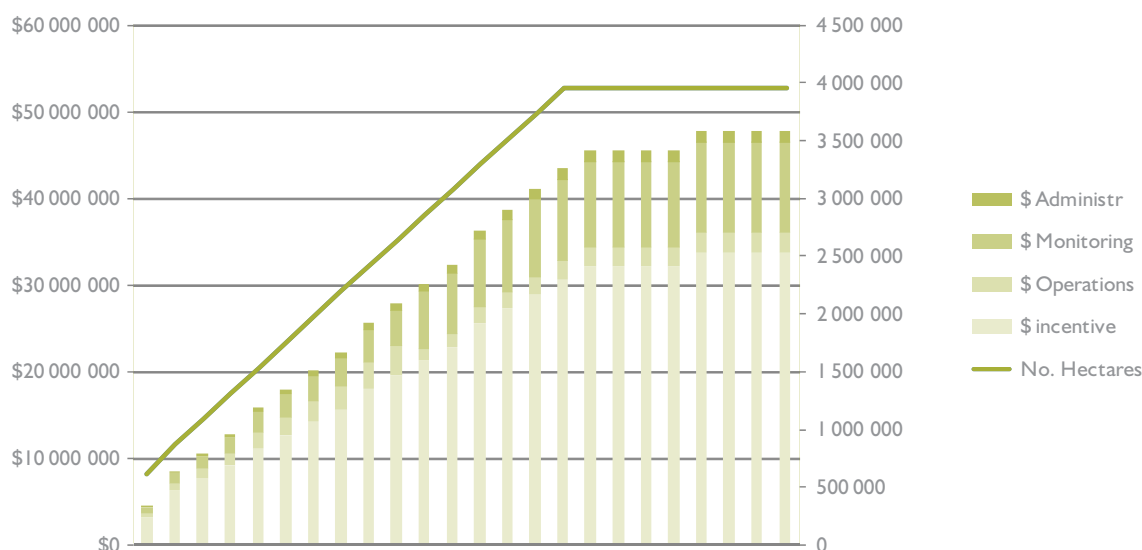
Source: Landreau, 2012 for KfW-PSB

The German Cooperation made an initial investment of USD 6.4 million through the KfW in 2012, and an additional USD 20 million are projected for the 2013-2015 period.

II) Analysis

Importance of Financial Projections

Long-Term Projections of PSB Financial Needs



Source: Landreau 2012, based on a work meeting with the PSB management of MAE

When Germany proposed to support the PSB, it already had one million hectares under conservation and had met 25% of its coverage target, which was to cover four million hectares. Future financing needs will depend primarily on how quickly the PSB expands, the ratio of individual partners to collective partners, and the anticipated raise in incentives. During a work meeting, the following hypotheses were established:

Hypotheses Used to Develop Projections

| | |
|---|---------|
| Number of additional hectares per year | 220,000 |
| Individual partners area / total area as of 2012: | 10% |
| Individual incentive growth rate every 4 years as of 2014 | 5% |
| Group incentive growth rate every 4 years as of 2014 | 5% |
| Working expenditures / total budget until 2019: | 12% |
| Working expenditures / total budget from 2020: | 5% |
| Overhead / total budget | 3% |
| Monitoring expenses / total budget until 2020: | 15% |
| Monitoring expenses / total budget from 2020: | 22% |

Source: Landreau 2012, based on a work meeting with the PSB management of MAE

In addition to a solid financial analysis, the MAE and KfW wished to have a technical solution to cover incentive payments on the long term (i.e., the 20 years of the signed agreements). Therefore, a financial model was also developed and made available to the FAN. This model enables determining more dynamically the resources available at year *I* to pay incentives to PSB partners, based on the following parameters:

- Yearly average raise in incentives
- Net annual yields of the FAN
- EUR / USD exchange rate
- Contingency fund

This tool is important for FAN and the FSB Board of Directors to decide whether a donor's proposal is feasible or not. A graphic representation of the tool is as follows:

Graphic Representation of the Financial Model Available to FSB

(Yearly incentives distributed over 20 years with an initial capital of 1 million dollars, a contingency fund of 5%, a yearly incentive raise of 3%, and interests from FAN of 6%)



Source: Landreau, 2012 for KfW - PSB of MAE

Importance of a Clear Institutional Framework

The Socio Bosque Fund (FSB) is integrated in the financial management structure of the National Environmental Fund and has its own Board of Directors. Its operationality is stipulated in the:

- MAE-FAN Agreement: The agreement defines the obligations of the parties, with a focus on transparency and financial control. It also defines the makeup of the FSB Board of Directors, and is made concrete through the Work Manual.
- The FSB Procedural Manual: the manual regulates FSB implementation management.

“ The Socio Bosque Fund made its first transfers to its collective partners for USD 190,759 in 2012 and USD 2,268,134 in 2013.”

III) Lessons Learned

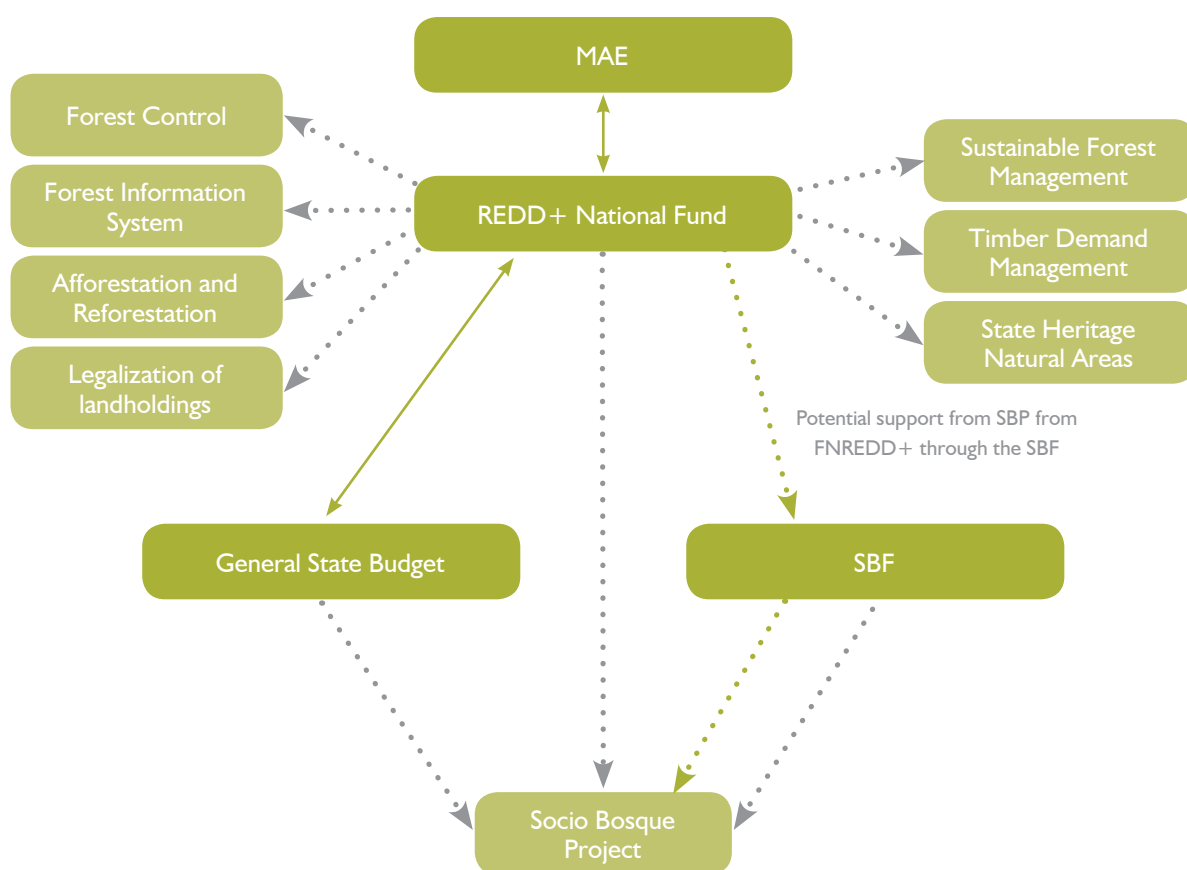
Having a long-term strategy is important to achieve positive outcomes. The managers of both the PSB and the FAN have worked with a long-term strategic vision.

The FAN has shown a great degree of flexibility in order to meet the requirements of both the Ministry of the Environment and the German Cooperation (KfW).

A KfW grant was used to create a financial mechanism that is adaptable and usable by other parties. Aside from the German Cooperation, other donors have been able to support the PSB through the FSB (the Global Conservation Fund – Conservation International transferred USD 1.1 million at the end of the second semester of 2012).

In the future, funding sources for the FSB is expected to diversify even more. It is likely that the FSB will benefit from funds from the REDD+ mitigation mechanism, provided it solves matters of permanence, leakage and additionality. Below are potential interactions among such mechanisms:

Possible FSB / FN REDD+ Interactions



Source: Landreau, 2012 for KfW – PSB of MAE

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Entrevistas: a) Lutz Horn-Haacke/KfW, b) Max Lascano/PSB, c) Diego Burneo/FAN. Quito, agosto 2013.

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Página Web PSB en sociobosque.ambiente.gob.ec

Página Web FAN-FSB en www.fan.org.ec/

