

Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No.: 17642

IMPLEMENTATION COMPLETION REPORT

BHUTAN

TRUST FUND FOR ENVIRONMENTAL CONSERVATION

(GET GRANT NO. 28602-BH)

April 2, 1998

**Royal Government of Bhutan and
Rural Development Unit, South Asia Region, World Bank**

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

CURRENCY EQUIVALENTS

Currency Unit	=	Ngultrum (Nu.)
November 1991 US\$1.00	=	Nu. 25.75
1992 US\$1.00	=	Nu. 26.00
1993 US\$1.00	=	Nu. 30.00
1994 US\$1.00	=	Nu. 31.40
1995 US\$1.00	=	Nu. 32.40
1996 US\$1.00	=	Nu. 35.40
1997 US\$1.00	=	Nu. 36.00

WEIGHTS AND MEASURES

The metric system is used throughout this report.

GOVERNMENT FISCAL YEAR

July 1 to June 30

GRANT YEAR 1

The Grant became effective on November 2, 1992 and the first year of the operation was 1992/93.

Vice President: Mieko Nishimizu Country Director: Robert S. Drysdale Technical Manager: Michael Baxter/Ridwan Ali Staff Member: Jessica Mott

ABBREVIATIONS AND ACRONYMS

BTF	-	Bhutan Trust Fund for Environmental Conservation
DANIDA	-	Danish International Development Agency
DOF	-	Department of Forestry
GEF	-	Global Environment Facility
GET	-	Global Environment Trust
ICDP	-	Integrated Conservation and Development Program
ICR	-	Implementation Completion Report
MOU	-	Memorandum of Understanding
NCS	-	Nature Conservation Section
NGO	-	Non-Governmental Organization
RGOB	-	Royal Government of Bhutan
UNDP	-	United Nations Development Program
UNEP	-	United Nations Environment Program
WWF-US	-	World Wildlife Fund, U.S.

As a GEF ICR, a public version of the final ICR will be developed and made available to the public upon request. Other than the public version, this document has a restricted distribution and may be used by recipients only in the performance of their official duties.

This document has a restricted distribution and may be used by recipients only in performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

IMPLEMENTATION COMPLETION REPORT
BHUTAN
TRUST FUND FOR ENVIRONMENTAL CONSERVATION
(GET GRANT NO. 28602-BH)

Preface.....	i
Evaluation Summary.....	iii

PART 1: IMPLEMENTATION ASSESSMENT

A. Statement/Evaluation of Objectives.....	1
B. Achievement of Objectives	3
C. Major Factors Affecting the Grant	5
D. Sustainability.....	6
E. World Bank Performance	7
F. Grantee Performance	8
G. Assessment of Outcome.....	9
H. Plan for Future Operation	9
I. Key Lessons Learned.....	10

PART 2: STATISTICAL TABLES

Table 1: Summary of Assessments	12
Table 2: Related GEF Biodiversity Trust Fund Projects	13
Table 3: Grant Timetable	14
Table 4: Grant Disbursements: Cumulative Estimated and Actual	14
Table 5: Key Indicators for Grant Implementation.....	15
Table 6: Key Indicators for Project Operation (not applicable).....	18
Table 7: Studies Included in the Project (not applicable)	18
Table 8A: Benchmark Program and Secretariat Costs.....	18
Table 8B: Benchmark Program and Secretariat Financing.....	19
Table 8C: Financing of BTF Capital	19
Table 9: Economic Costs and Benefits	20
Table 10: Status of Legal Covenants	21
Table 11: Compliance with Operational Manual Statements	22
Table 12: World Bank Resources: Staff Inputs	22
Table 13: World Bank Resources: Missions.....	23

Annexes

1. Achievement of Conservation Program Objective	25
2. Achievement of Trust Fund Objective.....	29
3. Performance Review Framework for Future BTF Operations.....	35
4. ICR Mission Aide Memoire.....	49
Attachment 1: Status of Recommendations.....	52
Attachment 2: BTF Policy and Operational Considerations.....	53

Map IBRD 29304 - National Protected Areas System

IMPLEMENTATION COMPLETION REPORT
BHUTAN
TRUST FUND FOR ENVIRONMENTAL CONSERVATION
(GET GRANT NO. 28602-BH)

Preface

1. This is the Implementation Completion Report for the Trust Fund for Environmental Conservation Grant in Bhutan, for which GET Grant 28601-BH in the amount of SDR 7.3 million (US\$ 10.0 million) was approved on May 21, 1992 and made effective on November 2, 1992. The grant was formally closed on December 31, 1997, and was fully disbursed, with the last disbursement taking place on December 16, 1996. Cofinancing was provided by WWF-US, Government of Norway, Government of Netherlands, Government of Finland, Government of Switzerland, and Government of Denmark.
2. This ICR was prepared by a joint mission of the World Bank South Asia Rural Development Sector Management Unit and the Royal Government of Bhutan. BTF staff provided a preliminary rough draft of the ICR, which the Bank/RGOB team¹ modified to meet Bank ICR guidelines and to reflect the consensus of Bank and RGOB views. The mission, which was also the Bank's final supervision mission, took place in October 1997 and involved a review of material gathered from the BTF and Bank files, as well as on findings from field investigations and discussions with Bank staff, RGOB staff, BTF staff, local cofinancier representatives, and other individuals associated with the grant. Jessica Mott, SASRD Sr. Natural Resource Economist, served as the task manager.
3. The ICR has been distributed in draft form to BTF Board members, BTF core advisory group members, cofinanciers, other interested stakeholders, and standard Bank reviewers. The final report takes into consideration all comments, which were either oral, or informal copy-editing suggestions.

¹

Ms. Jessica Mott (mission leader), Ms. Susan Shen (Ecologist), Mr. Theodore M. Smith (Trust Fund Specialist), and Mr. Kunzang Norbu (RGOB Planning Officer).

IMPLEMENTATION COMPLETION REPORT
BHUTAN
TRUST FUND FOR ENVIRONMENTAL CONSERVATION
(GET GRANT NO. 28602-BH)

Evaluation Summary

Introduction

1. The Bhutan - Trust Fund for Environmental Conservation was both the first GEF grant (of US\$10 million) for Bhutan, and the first GEF trust fund anywhere in the world. The trust fund was funded under the pilot phase of the GEF.

Project Objectives

2. **Objectives.** The objectives of the GEF grant as reflected in the Grant Agreement were to:

- (a) assist the RGOB in initiating a comprehensive nation-wide environmental conservation program and
- (b) test the feasibility of trust funds as a mechanism for providing long-term and sustainable support for conservation of biodiversity.

The grant provided financing for the BTF, which in turn financed a conservation program

3. **Evaluation of Objectives.** The conservation program objective was clear and realistic. The grant agreement specified benchmarks to measure progress on this conservation program. The benchmarks were achievable within the capacity of RGOB, given the Government's strong commitment to conservation. The original grant documentation provides little direct elaboration on the trust fund objective. Indirectly, the documentation referred to a few parameters that could be used to measure the achievement of the objective, such as using the US\$10 million of GEF financing to attract an additional US\$10 million from other donors, and preserving the real value of the initial capital.

Implementation Experience and Results

4. **Achievements.** The original conservation program benchmarks were achieved in three years, less than the anticipated timeframe of five years. These benchmarks included: (a) increase in conservation staff, (b) improved training, (c) strengthened information management (d) new system of protected areas that is representative of the country's ecosystems, (e) protected area gazettelement and inventories, and (f) new park management plans. The grant also helped to demonstrate the feasibility of trust fund mechanism that has the potential to provide long-term, sustainable support for biodiversity conservation. The RGOB used the GEF grant to attract funds from other donors who have more than matched the GEF contribution of US\$10 million and also encouraged their financing of other biodiversity programs separate from the trust fund. In response to the experience of the first few years, the Board improved financial management by contracting a professional asset manager and custodian to ensure higher income, improved reporting, and coordinated fund flow. Consistent with its design, the grant achieved GEF pilot

phase objectives of global benefits, innovation, demonstration value, uniqueness to the GEF portfolio, sustainability, and monitoring mechanisms.

5. **Impact.** Through the conservation benchmarks, the grant served as a catalyst to lay the basic foundation for an effective long-term conservation program, by establishing the legal, institutional, and technical framework, and in expanding implementation capacity. Regarding the trust fund objective, the grant helped to create a permanent, well-capitalized institution. The grant launched the first trust fund set up under the GEF and the first demonstration anywhere of a conservaton “trust fund”. It continues to provide useful lessons for environmental trust funds worldwide, and potential trust funds involving other sectors in Bhutan.

6. **Sustainability.** With continued prudent financial management, the trust fund is highly likely to be financially sustainable. However, the BTF is still developing as an institution, and the extent to which it reaches its full potential will depend upon institutional/management effectiveness.

7. **Costs, Financing, and Implementation Timetable.** When taking costs of the benchmark conservation program into account for a five-year period, there is no significant deviation between the total actual versus appraisal estimates of benchmark program costs. Regarding financing for the conservation program, there were much greater than anticipated contributions from donors (especially WWF) who responded to RGOB’s request for assistance when the BTF investment income was minimal during the initial years. The US\$10.5 million from cofinanciers to capitalize the BTF also exceeded expectations at appraisal.

8. **Key Factors.** Enabling factors included the World Bank, UNDP, WWF-US, and other donors’ funds and advice; the responsible and flexible response to financial reporting and investment deficiencies; strong ethic of integrity; the RGOB’s strong environmental sector policies and commitment to biodiversity conservation; and the rapid appreciation of equities, especially U.S. stocks. Inhibiting factors included inexperience in biodiversity trust fund design, development, and operations; lack of an adequate number of qualified staff available to work on conservation; limited time and attention which the BTF Board devoted to BTF issues; and minimal staff and lack of authority of the BTF Secretariat. The importance in Bhutanese culture of maintaining good relationships and making decisions through consensus was generally a positive force but it also slowed the pace of implementation.

9. **Performance of World Bank.** Bank involvement in identification and preparation was minimal. At appraisal, in the context of the time, the World Bank mission provided adequate technical, environmental, sociological, financial, and legal expertise and guidance. Bank support during supervision was highly satisfactory. During this period, the World Bank was instrumental in bringing about the necessary changes to the governance structure, financial reporting, and investment arrangements, and in prompting the BTF Board to develop a strategic plan. The highly collaborative relationship among the World Bank, BTF Board, BTF Secretariat, and WWF-US throughout the grant period helped World Bank staff to supervise efficiently and effectively. There was good continuity in World Bank staffing with only one change in task manager.

10. **Performance of Recipient.** RGOB demonstrated a high level of initiative and commitment in developing this innovative trust fund proposal, devising a governance structure that included an NGO and a multilateral donor, and in obtaining the necessary legal, financial, and technical support from WWF-US and UNDP. During implementation, RGOB demonstrated

flexibility in issuing a Royal Charter in place of the original MOU in order to resolve financial reporting and investment shortcomings. RGOB also implemented its conservation policies, achieved the conservation benchmarks, provided its agreed share counterpart funds, and raised additional cofinancing. At the institutional level, BTF continues to have room for continued improvement in clarifying its funding policies, adopting systematic operating procedures, increasing communications with potential recipients and donors, time devoted by Board members, and overall dynamism.

11. **Overall Outcome.** The overall outcome of the grant is satisfactory. Had the strategic plan been already finalized and operational for at least six months prior to the completion mission, the outcome would likely have been rated highly satisfactory.

Summary of Findings, Future Operations, and Key Lessons Learned

12. **Future Operations.** Future operations will consist of implementing the objectives of the BTF, as given in the Royal Charter, 1996. The BTF Board plans to guide these operations with a strategic plan that articulates the long-term vision, the program priorities, and administrative guidelines.

13. **Lessons for Future Operations in the Sector.**

- (a) Trust funds need a **legal framework** to institutionalize collaboration between donors and recipients, make decision-making and implementation transparent, and hold management accountable.
- (b) Concrete conservation program **benchmarks** during the first five years served as useful incentives, as clear indicators of achievement, and as mechanisms to mobilize donor support.
- (c) During the initial period of trust fund establishment, it is essential to have reliable **start-up funding** that does not depend upon investment income.
- (d) RGOB's reputation for integrity in governance, its demonstrated **commitment** to conservation, and the small size of the country (with associated support from interested European countries) all contributed to **willingness of donors** to make relatively large contributions. These conditions may limit the likelihood of replicating comparable levels of support for trust funds in many other countries.
- (e) The design and appraisal teams should include relevant **expertise** in financial asset management, trust fund institutional development, and trust fund program development.
- (f) Developing proposals for trust fund support of **ICDP** has proved more complex than originally anticipated.
- (g) BTF's experience confirms that **multi-stakeholder involvement** is beneficial (e.g., WWF-US and UNDP involvement in BTF Board, communication with donors, involvement of local people in protected area management planning, etc.).
- (h) Trust fund performance should be evaluated from a **long-term perspective**, taking into account the needs of future generations.

IMPLEMENTATION COMPLETION REPORT

BHUTAN --TRUST FUND FOR ENVIRONMENTAL CONSERVATION

Introduction

1. *The unique character of a trust fund, a financial vehicle designed at the outset to serve the needs of several generations, requires that it be evaluated against different criteria than those customarily used in typical investment "projects". The lens through which it can be assessed more legitimately should employ a time frame of 50 years than one of 5 years. In fact, the utility of such a financing vehicle cannot realistically be judged in the first half decade of its infancy. This report is therefore focused not on standard measures of project productivity (including disbursements), but rather on the development of the underpinnings of an institutional innovation dedicated to the long-term well-being of Bhutan's natural resource base. The first of its kind under GEF support, the Bhutan Trust Fund for Environmental Conservation is today still a young experiment in progress.*

Part I: Implementation Assessment

A. Statement/Evaluation of Objectives

2. **Country Context.** With its varied altitudinal and climatic conditions, Bhutan possesses extremely rich biological diversity for its area. It also serves as the last refuge of many species of flora and fauna that have vanished elsewhere in the Himalayan region due to habitat destruction associated with a rapidly expanding human population. Determined to prevent environmental degradation that has occurred elsewhere in the Himalayas, the Royal Government of Bhutan (RGOB) directed that 60 percent of its land remain under forest cover, and set aside 26 percent as protected areas. However, in the early 1990s, RGOB faced serious financial, institutional and human resource constraints in implementing conservation activities. To address these constraints, RGOB in association with World Wildlife Fund (WWF-US) and United Nations Development Program (UNDP) created the Bhutan Trust Fund (BTF) in March 1991. RGOB then sought financing from the Global Environment Facility (GEF) and other donors to capitalize the BTF.

3. **GEF Pilot Phase Objectives.** The Bhutan - Trust Fund for Environmental Conservation, funded under the pilot phase of the GEF, was both the first GEF grant (of US\$10 million) for Bhutan, and the first GEF trust fund anywhere in the world. Specific eligibility criteria of the pilot phase of the GEF comprised: (a) global benefits, (b) innovation, (c) demonstration value and replicability, (d) contribution to the GEF portfolio (i.e., testing particular methodologies or protecting particular biodiversity not covered elsewhere in the GEF portfolio), (e) sustainability, (f) monitoring and evaluation mechanisms, and (g) incremental financing requirements (i.e. costs that cannot be economically justified from a national perspective). The pilot phase also emphasized processes of partnership between the World Bank, UNDP, and United National Environment Program (UNEP), participatory involvement of key stakeholders, and transparency. The trust fund design was consistent with all of these criteria and processes.

4. **Grant Objectives.** The objectives of the GEF grant as reflected in the Grant Agreement were to:

- (a) assist the RGOB in initiating a comprehensive nation-wide environmental conservation program and

- (b) test the feasibility of trust funds as a mechanism for providing long-term and sustainable support for conservation of biodiversity.

The grant capitalized the BTF, and BTF helped finance the conservation program.

5. **Benchmarks for the Conservation Program Objective.** The grant design specified benchmarks to measure progress on the conservation program objective. These benchmarks were conditions for release of the second tranche of GEF funds (US\$ 3 million). They included:

- (a) An increase in the Nature Conservation Division staff from 53 to 127;
- (b) An upgraded curriculum for the Bhutan Forestry Institute that increases the emphasis on wildlife, protected areas management, and community participation, as well as overseas training for three instructors;
- (c) The development of biodiversity information system capability within the Division of Forestry's Management Section, including (i) secondment of full-time staff to update, computerize, and process biological and socioeconomic data, and develop a GIS database for protected area management planning and monitoring, and (ii) short overseas training courses for two GIS technicians;
- (d) RGOB adoption of a revised national protected areas system plan with clear protection categories and prioritization;
- (e) RGOB issuance of official gazettelement for four protected areas and operational plans for three of these four areas;
- (f) Upgrading of Jigme Dorji Wildlife Sanctuary and Royal Manas National Park, including completion of baseline surveys, preliminary annual work plans and development of seven fully staffed and functioning beat offices; and
- (g) Development of one detailed management plan for a protected area that would serve as a model for other areas.

6. **Evaluation of Conservation Program Objective.** The conservation program objective was clear and realistic, important for Bhutan and its globally-significant biodiversity, and consistent with the World Bank's country assistance strategy for Bhutan (as articulated in 1993, which confirmed the World Bank's pre-existing strategy of focusing on three priority areas, one of which was natural resource management). Conceptually, the benchmarks for the objective were neither complex nor risky, and were achievable within the capacity of RGOB, given the Government's strong commitment to conservation. It also laid the foundation for a long-term biodiversity conservation program in Bhutan. However, the grant design neglected to specify a process to ensure sustained program development with new benchmarks, after the initial benchmarks had been achieved. This was due in part to an assumption that the National Environment Strategy and Action Plan which was expected to be completed in 1992 would provide the framework to guide future BTF funding.

7. **Evaluation of the Trust Fund Objective.** The World Bank's 1992 Asia Region Biodiversity Strategy identified the need to pilot a trust fund mechanism, and cited Bhutan as a appropriate place for such a pilot. However, the original grant documentation did not elaborate on the overall trust fund objective or list explicit benchmarks. Indirectly, the documentation referred to a few parameters that could be used to measure the achievement of the objective, such

as using the US\$10 million of GEF financing to attract an additional US\$2 million to US\$10 million from other donors, and preserving the real value of the initial capital. Although there was a projection of real rate of return (using assumptions of 1% and 3%), no performance indices for asset management, fund flow, and financial reporting were specified. The original grant documentation provided only a cursory description of the Board and Secretariat based on the Memorandum of Understanding (MOU), and did not provide guidance on operational management such as job descriptions for Secretariat staff, proposal submission formats, communications strategy, calendar of operations, procedures for communications with donors, and processes for professional reviews of funding proposals. In short, the institutional design of the BTF Secretariat was not fully developed with regard to its future operational responsibilities.

B. Achievement of Objectives

8. Achievement of the Conservation Program Objective. The grant achieved all the benchmarks associated with the conservation program objective in three years, less than the anticipated timeframe of five years.

- (a) The Wildlife Division is now upgraded into a Nature Conservation Division with 127 staff in 1995 (and 164 staff as of September 1997).
- (b) The Bhutan Forest Institute is using a revised curriculum and its staff has received further training.
- (c) New equipment and trained staff have strengthened the Forest Services Division's information management facilities.
- (d) RGOB has adopted a new system of protected areas that is representative of the country's ecosystems, comprising four national parks, four wildlife sanctuaries, and one nature reserve.
- (e) Four protected areas have been gazetted (Royal Manas National Park, Jigme Dorji Wildlife Sanctuary, Black Mountain National Park, and Bomdelling Wildlife Sanctuary), inventories are underway or have been completed in four areas and preliminary annual work plans developed for three of the four areas.
- (f) Jigme Dorji has been upgraded to a national park. Both Jigme Dorji and Royal Manas now have complete baseline surveys and functioning management plans.
- (g) A detailed management plan for Royal Manas National Park is serving as a model for other protected areas, e.g., Jigme Dorji and Black Mountain.

There has been a lag in following through with on-the-ground implementation after the benchmarks were met. This lag has been due to absence of key staff due overseas training. Table 5 lists key implementation indicators, and Annex 1 provides a detailed description.

9. Impact of Conservation Program Activities. The GEF grant has laid the basic foundation for an effective long-term conservation program in Bhutan by establishing the legal, institutional, and technical framework, and in expanding implementation capacity. The direct impact of the benchmark activities on biodiversity conservation, however, cannot yet be known since implementation beyond the benchmarks has been limited. The benchmarks have had several indirect impacts. The biophysical and socioeconomic baseline surveys and establishment of a database for protected areas will enable monitoring and evaluation of change over time and

more informed decision-making for allocation of scarce human and financial resources. Socially, the initial conservation activities incorporated community consultation and participation. The park management planning included workshops for consultation with all stakeholders including communities. Pilot “integrated conservation and development program” (ICDP) investments involved participatory planning by community groups, within the framework of the existing local government structure. Pilot ICDP activities in Royal Manas have already involved the local women’s association. The activities also established the local capacity and plans that enable further conservation investments by other donors.

10. **Achievement of the Trust Fund Objective.** The grant has helped to demonstrate the feasibility of a trust fund mechanism that has the potential to provide long-term, sustainable support for biodiversity conservation in Bhutan. BTF already has significant accomplishments in the areas of conservation funding, financial management, and initial programs, and is now addressing longer-term program development. The RGOB used the GEF grant to attract funds from other donors who have more than matched the GEF contribution of US\$ 10 million to the BTF, and also to encourage their financing of other biodiversity programs separate from BTF. In response to the experience of the first few years and pressure from the World Bank, the Board made important changes in the financial reporting and investment management. Citing the Grant Agreement’s due diligence clause, the World Bank made the new financial arrangements a condition of the release of the second tranche. The changes in financial management included the hiring of a full-time financial officer within the Secretariat; the contracting of a professional asset manager and custodian to ensure higher income, improved reporting, and coordinated fund flow; and related reforms in the BTF governance structure. From its gross five-year revenue of \$3.7 million, BTF funded \$163,000 in Secretariat expenditures, \$233,000 in fund management expenditures, and \$418,000 for four of the benchmark activities (\$12,000 for in-service training, \$116,000 for Royal Manas, \$227,000 for Jigme Dorji, and \$13,000 for Bomdeling). Limited investment revenue curtailed BTF programmatic funding during the first three years of the grant, while inexperience with program development and limited implementation capacity for conservation prevented BTF from funding of new programs during the fourth and fifth years of the grant (see Table 8C). In response, the Board has developed a draft final strategic plan that articulates the long-term vision, the program priorities, and operational guidelines for the next phase of BTF’s institutional development.

11. **Impact of the Trust Fund Objective.** The grant has helped to create a permanent, well-capitalized institution. The creation of the trust fund has also had several indirect impacts. By drawing attention to the importance of Bhutan’s biodiversity, and to the RGOB’s own remarkable commitment to biodiversity conservation, it precipitated a salutary increase in donor financing for biodiversity, separate from the BTF itself (see Table 8c). The experience with financial management, governance, and the strategic plan has influenced the design of biodiversity trust funds for other countries, and opened up the prospect of trust funds for other sectors within Bhutan. Now that it has experience with professional asset management, the RGOB is considering new financial arrangements for managing its foreign exchange reserves.

12. **Achievement of GEF Pilot Phase Objectives.** Consistent with its design, the grant achieved the GEF pilot phase objectives. Bhutan continues to play a significant role in helping to maintain a larger representation of the Eastern Himalayan ecosystems and endemic species of global significance. More than 60 percent of the land area remains under forest cover and 26 percent officially set aside as protected areas, the latter far exceeding the desired target of 10

percent established by International Union for Conservation of Nature (IUCN). The grant launched the first trust fund set up under the GEF and the first demonstration anywhere of the conservation “trust fund” concept. It has and is continuing to provide useful lessons for future trust funds worldwide (e.g., Uganda, Peru, Brazil, Laos, etc.) and in Bhutan (e.g., health and culture). The lessons learned that were incorporated in other GEF trust funds include asset management arrangements, organizational/administrative structures; and benchmarks for initial activities. Sustainability of the trust fund in perpetuity is provided by management guidelines which preserve fund principal in real terms by disbursing only from investment income. Bhutan’s small population and limited resource base limit government resources, and hence restricted RGOB’s ability to increase the regular budget allocated for conservation. GEF/World Bank’s involvement and close collaboration among Government, NGO, and the donors during the design and implementation of the project have been important in raising additional resources from other donors. The grant had clearly defined monitoring benchmarks which were met. There has been a strong and constructive partnership between the World Bank and UNDP. It was the first GEF investment that included other donor financing and the involvement of GEF partner agencies (e.g., UNDP) in the preparation, appraisal, negotiations, and the mid-term review. The trust fund also established important precedents for a governance structure involving government officials and NGOs, and for establishing procedures to ensure transparency with donors and other stakeholders.

C. Major Factors Affecting the Grant

13. **Enabling Factors.** Most of the factors affecting grant implementation were positive. The World Bank, UNDP, WWF-US, and other donors provided strong support both in funds and in advice. All parties, including the BTF Board, responded responsibly and flexibly to resolve the financial reporting and investment management deficiencies that were encountered. The importance within Bhutanese culture of maintaining good relationships and making decisions through consensus established a constructive and warm atmosphere for all trust fund participants. The consensus process also ensured sustained consistency in, and commitment to, the resulting decisions. The strong ethic of integrity within the Bhutanese civil service helped to preclude or avert the possibility of damage, perceived or otherwise, from conflicts of interest. (Inevitably, many individuals serving on the BTF Board and in the advisory core group will submit funding proposals to the BTF in their official roles outside of the BTF.) The RGOB’s reputation for integrity also enhanced the willingness of donors to contribute to the BTF. The grant has also benefited from the government’s environmental sector policies and commitment to biodiversity conservation. Counterpart funding was adequate. The fact that the biodiversity of Bhutan is relatively intact, and was not subject to unusual climatic or other crises during the initial five years also allowed the BTF program to develop gradually. During the fifth year of the grant when the BTF had professional asset managers, the rapid appreciation of equities, especially US stocks, contributed to a significant increase in the total value of BTF capital assets .

14. **Inhibiting Factors.** The main factor slowing grant implementation was the inexperience of the original donor representatives, Bhutan government, BTF Board members, and BTF Secretariat staff in biodiversity trust fund design, development, and operations. Another limiting factor was the lack of qualified staff within Bhutan available to work on conservation. The cultural importance of good relationships and consensus, generally a positive force, slowed the pace at which the BTF Board identified and addressed problems. The limited time and attention

which the Board members could devote to BTF issues meant that they have addressed problems sequentially as they have arisen--e.g. first achieving benchmarks, then resolving asset management, next focusing on the strategic plan-- rather than in a carefully planned and systematic way. The BTF Board's interaction with the Secretariat has also been limited. The minimal staffing and lack of authority of the BTF Director to take initiatives may have kept the BTF from reaching a broader constituency and from more quickly resolving issues associated with the Secretariat's implementation responsibilities.

15. **Benchmark Program Costs and Financing (Actual versus Appraisal).** Although Bhutan achieved the benchmark objectives within three years, each of these initiatives involved ongoing costs. When taking these costs into account for a five-year period, there is no significant deviation between the total actual versus appraisal estimates of benchmark program costs in local currency, although the US dollar value is lower due to the change in exchange rate (see Table 8A). The main deviations are in the estimated costs of establishing a national system of protected areas and a protected areas database and GIS capabilities. The actual amounts projected under the BTF turned out to be over-estimated because, fortuitously, much of the work on the national system of protected areas was undertaken under the Forestry Master Plan funded by the Asian Development Bank and for upgrading GIS capability within the Forest Resources Development Section by the Food and Agriculture Organization (FAO), the German Government, and World Bank-financed Bhutan - Forestry III project. Regarding financing for the conservation program, there was much greater than anticipated contributions from donors (especially WWF) who responded to RGOB's request for assistance when the BTF investment income was minimal during the initial years (see Table 8B). Donor contributions included significant technical assistance to benchmark activities to supplement limited local capacity. The US\$10.5 million from cofinanciers to capitalize the BTF also exceeded expectations at appraisal.

16. **Implementation Schedule (Actual versus Appraisal).** The benchmarks were met in three years instead of the anticipated five years due to RGOB's strong commitment and other positive elements mentioned above. Support provided by WWF also facilitated early implementation of the benchmarks. To ensure that the new financial arrangements were functioning smoothly and to assure other donors that the trust fund would continue to perform solidly, it was mutually agreed that the completion date of June 30, 1997 (and closing date of December 31, 1997) would be maintained.

D. Sustainability

17. **Financial sustainability.** With continued prudent financial management, the trust fund is highly likely to be financially sustainable. A unique aspect of a trust fund lies in the fact that there is a near certainty that it will produce income for program operations on a sustained basis over the long term. A fund such as the BTF probably has better prospects for serving the long-term conservation objectives of the RGOB than any other financial device currently in practice. Although the annual flow of earnings from invested capital will vary from year to year depending upon the behavior of investment markets and the performance of the BTF's asset manager(s), the guidelines that are currently in place on preserving the capital in real terms are expected to minimize any adverse impact on the asset value and income potential over the long term .

18. **Institutional sustainability.** BTF's institutional sustainability is likely. The strong RGOB commitment, supportive policy environment for conservation , and financial viability of

the fund will help sustain the trust fund as an institution. However, BTF is still developing as an institution, and the extent to which it reaches its full potential will depend upon institutional/management effectiveness. Regarding stakeholder support, there is room to broaden the range of local stakeholders (e.g., potential for one or more local NGOs to participate both as recipient of BTF grants and possibly on the BTF Board, potential for increasing number of government agencies receiving grants, potential to increase funding to local communities for ICDP, etc.). BTF's program development will depend upon implementation the strategic plan that establishes program priorities, allocates funds for recurrent costs in order to expand implementation capacity, and plans the phasing of short-term versus long-term fund expenditure.

E. World Bank Performance

19. **Identification and Preparation.** World Bank performance was satisfactory although its involvement at this stage was minimal. RGOB officials initiated the concept, and WWF-US and UNDP played a major and constructive role in providing assistance in terms of legal and financial expertise in preparation. Given UNDP's proposed role as asset manager and member of the BTF Board, to avoid the appearance of a conflict of interest, the GEF Secretariat requested that the World Bank appraise the proposed grant. World Bank processing was rapid once the GEF mechanism was established in March 1991. World Bank staff produced a combined initial and final executive project summary in October 1991, based on an RGOB proposal dated March 1990.

20. **Appraisal.** World Bank performance was satisfactory. In the context of the time, the World Bank mission provided adequate technical, environmental, sociological, financial, and legal expertise and guidance. The RGOB felt that the initial financial arrangements with UNDP provided legitimacy for the trust fund experiment that would be essential for mobilizing donor support. Appraisal team members felt that it was politically appropriate to proceed with this arrangement and alternative asset management options were not considered. Within the GEF, some felt that one purpose of the grant was to test UNDP's ability to manage trust funds of this nature with obvious possible implications for other country settings. Further, GEF pressures for World Bank/UNDP collaboration and a rapid start-up influenced the appraisal team stance. In retrospect, the appraisal did not devote sufficient attention to the specialized institutional and financial management aspects associated with trust fund design. The mission did not include anyone experienced in foundation management who might better have analyzed and helped to shape the design of institutional policies and components. It did develop financial projections of two scenarios indicating that the conservative investment strategy would not be sustainable after 20 years. The total amount of the GEF grant, as measured by its ability to meet the needs of future generations, was appropriate. The GEF grant instrument was very suitable for an investment that produced global benefits. During the appraisal mission, World Bank staff, BTF Board members, and other donor representatives including UNDP and WWF established highly collaborative relationships with one another.

21. **Supervision.** World Bank performance was highly satisfactory. Even before the mid-term review, World Bank missions addressed key implementation issues such as asset management, financial reporting, format for monitoring and evaluation, and the development of a strategic plan. Performance ratings were appropriate. Missions gave attention to biodiversity impact to the extent feasible for initial activities. The BTF Board and Secretariat have appreciated the mission advice and the emphasis by the World Bank on Bhutanese ownership of the trust fund. Loan

covenants were enforced consistently, including the due diligence clause. The World Bank was instrumental in bringing about the necessary changes to the governance structure and financial management arrangements, and in prompting the Board to develop a strategic plan. World Bank staff showed flexibility, sensitivity to local situations, and practicality in suggesting and helping develop modifications. The World Bank continued to have fairly good relations with UNDP, although there was a period of tension due to the initial financial reporting and investment management problems and the need to restructure. Now relations between the World Bank and UNDP are very good. The highly collaborative relationship between the World Bank, the BTF Board, BTF Secretariat, and WWF-US throughout the grant period helped World Bank staff to supervise efficiently and effectively. There was excellent continuity in World Bank staffing with only one change in task manager. The original task manager participated in the appraisal mission, the ICR mission, and all but one of the supervision missions, either as mission leader or as ecologist. There was a good mix of staff skills, except for the lack of a specialist in trust funds institutions until the ICR mission. The mid-term review mission also included representatives from RGOB, UNDP, WWF-US, and Norway. Frequently missions were timed to overlap with BTF Board meetings and included field visits.

22. **Deviations from World Bank Policies and Procedures.** There were no significant deviations from World Bank policies and procedures during implementation, although the design as reflected in the Grant Agreement established new precedents on how to handle procurement and disbursement in the context of a trust fund.

F. Grantee Performance

23. **Preparation.** RGOB's performance was highly satisfactory. RGOB demonstrated a high level of initiative and commitment in developing this innovative trust fund proposal. It took a deviation from its normal practice in signing the MOU, the governing document of the trust fund, with a non-governmental organization, and a multilateral donor. It also arranged to obtain legal, financial, and technical advice from WWF-US and UNDP. RGOB also actively sought out donor support from WWF-US, GEF, and bilateral donors.

24. **Implementation.** RGOB's performance was satisfactory. During implementation, RGOB demonstrated flexibility in issuing a Royal Charter in place of the MOU in order to resolve the financial reporting and investment management shortcomings. RGOB continued to demonstrate commitment to conservation in implementing its sector policies. RGOB also bore 10 percent of the incremental costs of the trust fund expenditures, and provided the counterpart financing on time. RGOB also succeeded in obtaining additional contributions to the trust fund to ensure its long-term financial sustainability and to extend its potential as a conservation funding mechanism. Benchmarks were achieved as per legal covenants, in three years instead of five years. Comprehensive monitoring and evaluation has lagged slightly, but a consistent framework had now been developed. There is a good beginning in participation (e.g., good participatory processes during PA planning and a few pilot investments for communities in vicinity of PAs), but significant BTF funding is not yet flowing to local communities in and around protected areas. Bhutan has well-functioning and long-established processes for participatory community decision making, but guidelines for defining linkages between biodiversity and community investments are not yet established. At the institutional level, BTF continues to have room for continued improvement in clarifying its funding policies, adopting systematic operating procedures, increasing communications with potential recipients and donors, time devoted by

BTF Board members, and overall dynamism. While institutional strengthening is expected to materialize under the mandate of the strategic plan now being finalized, it should be recognized that in the establishment of a trust fund, financial and asset management had to be given highest priority in the initial stages. Program and other operational capacities are necessarily a secondary priority. The BTF Board and Secretariat will now wish to demonstrate that their ability to develop institutional capacity in programs and operations will equal the professional rigor with which financial and asset management has been organized. Much remains to be done by the Grantee to make the BTF a high-performing institution.

25. **Compliance with Legal Covenants.** RGOB's performance was highly satisfactory. All covenants were fulfilled, some ahead of schedule.

G. Assessment of Outcome

26. The overall outcome of the grant is satisfactory. Had the strategic plan been finalized and operational for at least six months, the outcome would have been rated highly satisfactory.

H. Plan for Future Operation

27. **Description and Evaluation.** Future operations will consist of implementing the objectives of the BTF, as given in the Royal Charter, 1996. A strategic plan, defining a set of priority objectives, will guide the future operations. The draft final strategic plan reflects decisions at the November 1997 BTF Board meeting. It offers a vision which connects the BTF's role to Bhutan's national aspirations for protecting major ecosystems and habitat types; it defines program priorities for the next five years (nature conservation/protection, biodiversity information, and public education in conservation); it articulates goals for developing the institutional capacity of the Trust Fund; and it establishes criteria for its grantmaking (training, incremental staffing, and field programs). The strategic plan is consistent with the National Environmental Strategy and the draft Biodiversity Action Plan. Preparation of the BTF strategic plan has been a vehicle for developing a Board consensus on the direction of the BTF program. The strategic plan defines how the BTF would fund incremental staffing for program priorities, with specific benchmarks for staff numbers, schedule of phasing, training, and associated budget. However, as a supplement to the strategic plan, there still is a need to specify how to build the internal capacity of the BTF Secretariat to fulfill its mandate.

28. **Future Performance Indicators.** The draft final strategic plan includes a framework for monitoring and evaluating future trust fund performance (Annex 3). The indicators identified are extensive and generally relevant to the task. They are, however, not prioritized, have no quantifiable measures attached to them, and, in some cases, would benefit from placing them on a timeline. For example, what is to be achieved in year 1, year 2, year 3, year 4, and year 5 of the Plan? It might be useful to the Board if half-way through the five-year period, an external party were contracted to evaluate the performance of the BTF in meeting the targets within the Plan.

29. **Recommended Follow-up by World Bank.** The BTF will continue to send the World Bank copies of each BTF annual report. The World Bank, in turn, will continue to send the BTF documentation on the activities of environmental trust funds elsewhere in the world, as and when it becomes available. To further strengthen continued interchange of trust fund experience, BTF Board members have suggested that the World Bank undertake a visit focused on the BTF in the fall of 1999. At this point in time, it appears that the earliest optimum timing of a future impact

evaluation by the World Bank's Operation Evaluation Department might be in 2003, after five years experience in implementing the strategic plan. Outside of the World Bank's role, a good case can be made for the BTF to develop a collaborative relationship with an experienced counterpart trust fund or foundation. Such an arrangement could provide mentoring support and would help to compensate for the fact that World Bank's supervision missions did not provide this specialized expertise and experience.

I. Key Lessons Learned

30. **Legal framework.** It is essential for trust funds to have a legal framework to institutionalize collaboration between donors and recipients, make decision making and implementation transparent, and make management accountable.
31. **Benchmarks.** Concrete conservation program benchmarks during the first five years served as useful incentives, as clear indicators of achievement, and as mechanisms to mobilize donor support additional to that which was initially provided by the trust fund. It would have been helpful if the benchmarks addressed not only conservation program achievements, but also institutional development of the trust fund entity itself.
32. **Start-up Funding.** WWF-US provided valuable support during the start-up of the benchmark activities, separate from the uncertain investment income. During the initial period of trust fund establishment, it is essential to have reliable funding that does not depend upon investment income.
33. **Donor Support.** RGOB's strong reputation for integrity in governance, its demonstrated commitment to conservation, and the small size of the country (with associated support from interested European countries) all contributed to willingness of donors to make relatively large contributions. These conditions may limit the likelihood of replicating comparable levels of support for trust funds in many other countries.
34. **Trust Fund Management.** Establishing internationally respected asset management arrangements and addressing financial issues immediately and openly as they may arise is important, if not essential, to preserving donor and recipient confidence. If and when a trade-off arises, financial issues should be addressed prior to program issues. The unique characteristics of a trust fund should be recognized at the outset and the design and appraisal teams should include relevant expertise in financial asset management, trust fund institutional development, and trust fund program development. Such expertise is normally best found among senior officers working in such organizations.
35. **ICDP.** Providing trust fund support for ICDP has proved more complex than originally anticipated. The main challenge is to define and articulate criteria for how ICDP investments can successfully address biodiversity conservation objectives.
36. **Stakeholder Participation.** BTF's experience confirms that multi-stakeholder involvement is beneficial (e.g., WWF-US and UNDP involvement in BTF Board, communication with donors, involvement of local people in PA management planning, etc.)
37. **Time Horizon for Evaluation.** Trust fund performance should be evaluated from a long-term perspective, taking into account the needs of future generations. It should not be evaluated on the same basis as a traditional investment project.

Part II: STATISTICAL TABLES

Table 1: Summary of Assessments

Table 2: Related GEF Biodiversity Trust Fund Projects

Table 3: Grant Timetable

Table 4: Grant Disbursements: Cumulative Estimated and Actual

Table 5A: Key Indicators for Grant Implementation

Table 6: Key Indicators for Project Operation (N/A)

Table 7: Studies Included in the Project (N/A)

Table 8A: Benchmark Program and Secretariat Costs

Table 8B: Benchmark Program and Secretariat Financing

Table 8C: Financing of BTF Capital

Table 9: Economic Costs and Benefits

Table 10: Status of Legal Covenants

Table 11: Compliance with Operational Manual Statements

Table 12: World Bank Resources: Staff Inputs

Table 13: World Bank Resources: Missions

Table 1: Summary of Assessments

A. Achievement of Objectives	Substantial	Partial	Negligible	Not applicable
Macro Policies				x
Sector Policies	x			
Financial Objectives	x			
Institutional Objectives		x		
Physical Objectives	x			
Poverty Reduction		x		
Gender Issues		x		
Other Social Objectives	x			
Environmental Objectives	x			
Public Sector Management				x
Private Sector Development				x
Other				x
B. Sustainability	Likely	Unlikely		Uncertain
	x			
C. World Bank Performance	Highly satisfactory	Satisfactory		Deficient
Identification		x		
Preparation Assistance		x		
Appraisal		x		
Supervision	x			
D. Grantee Performance	Highly satisfactory	Satisfactory		Deficient
Preparation	x			
Implementation		x		
Covenant Compliance	x			
Operation - not applicable				
F. Assessment of Outcome	Highly satisfactory	Satisfactory	Unsatisfactory	Highly unsatisfactory
		x		

Table 2: Related GEF Grants

Grant Title	Purpose	Year of Approval	Status
1. Uganda - Bwindi Impenetrable National Park and Mgahinga Gorilla National Park Conservation (US\$ 4 million GEF grant)	To establish a trust fund, the income from which would provide a sustainable source of funds for park management, research, and community ecodevelopment activities	January 24, 1995	Offshore asset management account, Trust Fund Board, and Local Steering Committee operating. First grants have been awarded
2. Mexico - Fund for Natural Protected Areas (US\$ 16.3 million GEF grant)	To establish an endowment fund to provide stable long-term financing for basic protection and conservation activities in an around 10 protected areas	June 1997	Approved as part of project restructuring. Prior to approval had incorporated agreements on the management, financial; and administrative procedures for operating the fund
3. Peru - National Trust Fund for Protected Areas (US\$5.0 million GEF grant)	Seed money for trust fund that will finance park management activities including training, management plans, and operational costs	March 20, 1995	All GEF funds disbursed to trust fund, with strong earnings and additional cofinancing. In 1997 fund expects to channel over US\$ 2 million to 13 protected areas. Monitoring plan agreed and in operation.
4. Poland - Biodiversity Protection/ Slovak Republic - Biodiversity Protection/ Ukraine - Transcarpathian Biodiversity Protection (US\$300,000 million GEF grants)	To fund a tri-national trans-border trust fund to maintain the coordinated management of the international biosphere reserve in Eastern Carpathians. Funding for ecosystem management, protection, and research/monitoring.	December 12, 1991, September 16, 1993, and July 28, 1993 respectively	Expansion of biosphere reserve completed. Foundation established in 1995. Board has met to agree on trust's objectives, define work programs, and make funding decisions.
5. Brazil - Biodiversity Fund (US\$20 million GEF grant)	To capitalize a sinking fund to financing biome-level projects identified in national workshops	April 16, 1996	US\$ 10 million of GEF grant disbursed to fund. Board appointed and Secretariat established. Over 1000 proposals reviewed and 10 proposals selected by June 1997. Mechanisms for sub-project funding, monitoring, and fund raising under development.

Table 3: Grant Processing Timetable

Processing Steps	Date Planned	Date Actual
Identification	N/A	1989
Preparation	N/A	March 20, 1990 ²
Appraisal	October/November 1991	October/November 1991
Negotiations		May 5, 1992
Board presentation	January, 1992 ³	May 21, 1992
Signing		May 22, 1992
Effectiveness	June, 1992 ⁴	November 11, 1992
Completion	June 30, 1997	June 30, 1997
Grant Closing	December 31, 1997	December 31, 1997

Table 4: Grant Disbursements: Cumulative Estimated and Actual (US\$ million)

	FY93	FY94	FY95	FY96	FY97	FY98
Appraisal estimate	7.0	7.0	7.0	7.0	7.0	10.0
Actual	7.0	7.0	7.0	7.0	10.5	10.5
Actual as % of estimate	100%	100%	100%	100%	150%	105%
Date of final disbursement						

² Date reviews to proposal submitted by RGOB. Review of proposal by Bank did not begin until after the March 1991 approval of the GEF pilot phase.

³ As specified in October 11, 1991 FEPS

⁴ As specified in the May 1992 Project Document

Table 5: Key Indicators for Grant Implementation

Program Objectives	Implementation Indicators	Key Impacts
Objective 1: Institutional Building and Human Resource Development		
(i) Reorganization and upgrading of DOF's Wildlife Division (WLD) into a Nature Conservation Section, (NCS) headed by a Joint Director and comprising of initially an Inventory and Management Planning Unit (IMPU) and an Extension Education Unit (ECU) at headquarters, and a Deputy Director in-charge in each protected area under NCS's management.	WLD upgraded into NCS, headed by a Deputy Director; comprises of the said units; staffed by four senior level professionals who have advanced university degree, two mid-level technical staff, two field-level technical staff and administrative staff	Management Planning and inventory capabilities enhanced at NCS. Enhanced functional support to the operational units - protected area management
(ii) Strengthening of DOF's data collection, storage, and monitoring capability to incorporate biological diversity parameters; strengthening DOF's Forest Management Division (FMD's Geographic Information System (GIS); short-term training of existing GIS staff and new in GIS.	FMD's GIS facilities strengthened; - one 486 16 MB RAM with 500 MB HD and SUGA 14" Color Monitor, one color printer HP diskette 500C, one digitizing board, SUM MIV and one plotter HP designed 650c added; ARC/INFO software procured; database for Royal Manas National Park and Jigme Dorji National Park created; 3 technician trained on GIS.	Enhanced ability to monitor biodiversity change in Protected Areas establishment of a database. Enhanced ability to incorporate environmental information into forest management planning through training and provision of survey information.
(iii) Provide support to the Bhutan Forestry Institute, Taba, (BFI) to enable to (a) revise its curriculum to incorporate subjects such as wildlife conservation, protected areas management, and community relations; (b) give, in addition to the training it traditionally gives to forest guards, short-term refresher courses to high-level staff on technical subjects such as park management, ecology, wildlife, extension, buffer zone management and survey and inventory methodologies and (c) assist its trainers in developing pedagogic skills through (i) training in such subjects as speaking and presentation skills, and the use of teaching aids and (ii) attendance, either in-country or, in some cases, within the Asia region or overseas, at short-courses, seminars and workshops on conservation and park management.	The curriculum has been revised to include nature conservation subjects and the new curriculum is taught. Refresher courses on nature conservation have offered at National Resources Training Institute on an annual basis. 2 trainers at the BFI have received additional training on nature conservation overseas.	Trainees with qualification required for protected areas management produced. Improved quality of staff produced. Professionally conducted training teaching at the BFI.

Program Objectives	Implementation Indicators	Key Impacts
Objective 2: Establishment of a National System of Protected Areas		
<p>(i) Establishment of a new national system of protected areas (including national parks, wildlife sanctuaries and forest resources) based on major revisions to the existing system both in terms of area and biological diversity, and including the carrying out of surveys and inventories, development of categories of protection and procedures for official gazetting and approval protected areas, official gazetting initially of four priority areas and the preparation, in consultation with local communities and government officials, of a detailed management plan for one gazetted area (under Part D of the program) for possible replication for other gazetted areas.</p>	<p>The old national system of protected areas has been revised and a new system has been established.</p> <p>Biological diversity inventories and socio-economic surveys have been carried out for the Royal Manas and the Jigme Dorji national parks.</p> <p>The four priority protected areas have been gazetted officially.</p> <p>Management plans have been drawn up for the Royal Manas and the Jigme Dorji National Parks.</p> <p>Biological diversity inventory and socio-economic surveys for the Black Mountain national park and the Bomdelling Wildlife Sanctuary have been initiated.</p>	<p>The revised protected areas system brings under legal protection 26 percent of land area.</p> <p>Official gazettement of the protected areas prevented the use of the protected areas for other development purposes.</p> <p>Management plans enabled implementation based on priority needs and attracted additional funding.</p>
Objective 3: Management of Selected Existing Protected Areas		
<p>(i) Strengthen the management of the two existing protected areas of the Jigme Dorji Wildlife Sanctuary and the Royal Manas National Park by the Recipient to the satisfaction of the Trustee.</p>	<p>Management plans have been drawn up and adopted for the Royal Manas and the Jigme Dorji national parks upon consultation of all the stakeholder.</p> <p>Demonstration projects involving the local communities in the parks' integrating conservation and development have been carried out.</p> <p>Cottage industries develop through rural credit schemes</p> <p>Park infrastructure for the Royal Manas national park has been satisfactory to support the park management. The park management is headed by a full-time senior professional supported by 87 _____ support staff.</p>	<p>Community participation in park management initiated</p> <p>Protection enhanced through additional staff and improvements in basic infrastructure.</p> <p>Relationships with local government and communities improved through local economic development activities, trail improvements, and increased interactions between park staff and</p>

Program Objectives	Implementation Indicators	Key Impacts
	<p>For the Jigme Dorji national park, a park management system has been adopted. Park management is headed by a full-time senior professional supported by 16 field staff.</p> <p>Management plan has been drawn up and adopted . The community schools have been established and improved sanitation and hygiene demonstrated.</p> <p>A network of trails has been developed and under outpost, two guard outpost under one park headquarters have been established.</p> <p>Rural income entering programs are being demonstrated.</p>	<p>communities.</p>
Objective 4: Development of a New Protected Area (The Black Mountain National Park)		
<p>(i) Official gazettement and approval of the Black Mountain or another area as new protected area.</p>	<p>The Black Mountain has been officially gazetted as a national park and Bomdelling as a wildlife sanctuary.</p> <p>Socio-economic surveys and biodiversity inventories have been completed.</p> <p>Management plan is being drawn up.</p> <p>The park management structure has been established and staff assigned.</p>	<p>Potential environmental consequences likely to arise from using the park area for commercial purposes have been eliminated.</p>

Table 6: Key Indicators for Grant Operation

Not applicable to this Grant.

Table 7: Studies Included in Grant

Not applicable to this Grant.

Table 8A: Costs of Conservation Program (July 1992 - June 1996)

	Appraisal			Actual		
	Local	Foreign	Total	Local	Foreign	Total
(US\$ '000)						
Institutional Strengthening	145	462	607	107	549	656
National System of Protected Areas	118	128	246	20	27	47
Strengthening Existing Protected Areas	341	554	895	249	532	781
New Protected Areas	174	106	280	164	117	280
Total Baseline	778	1250	2028	539	1,224	1,763
Physical Contingencies	30	60	90			
Price Contingencies	47	95	142			
Total Project Cost	885	1405	2260	539	1,224	1,763

Table 8B: Financing of Conservation Program (July '92 - June '96)

	Appraisal			Actual		
	Local	Foreign	Total	Local	Foreign	Total
(US\$ '000)						
Bhutan Trust Fund	796	270	1066	311	107	418
WWF-US	0	698	698	0	943	943
RGOB	89	0	89	228	-55	173
Other Donors	0	407	407	0	229	229
Total	885	1405	2260	539	1,224	1,763

Note: The allocation of local and foreign costs in appraisal document financing table not consistent with the appraisal document cost tables. This table therefore has recalculated appraisal estimates for the allocation between local and foreign in the financing table.

Table 8C: Financing of BTF Capital (July 1992 - June 1996)
(US\$ '000)

	Appraisal	Actual					Total
	Total	FY92/93	FY93/94	FY94/95	FY95/96	FY96/97	
GEF	10,000	7,000	0	0	0	3,000	10,000
WWF-US	1,000	1,000	0	0	0	0	1,000
Netherlands	1,000	948	0	52	1,455	0	2,455
Norway		587	470	512	0	440	2,009
Finland		0	0	10	20	0	30
Switzerland		0	0	0	2,586	0	2,586
Denmark		0	0	0	0	2,334	2,334
Bhutan		48	126	0	0	0	174
Cumulative Total	12,000	9,583	10,179	10,753	14,814	20,588	20,588
Revenue	1,200	119	540	455	716	1,921	3751
Program Expenditures	1,066	46	137	2	17	11	213
Secretariat Expenditures	354	25	28	27	25	32	3964
Fund Management Expenditures		0	17	10	18	205	250
Other Adjustments		0	0	0	42	22	64
Net Revenue	-220	48	358	416	614	1651	3087
Cumulative Net Revenue	-220	48	406	822	1436	3087	3087
Total Fund Balance	11,780	9,631	10,585	11,575	16,250	23,675	23,675

Note1: Secretariat Expenditures during FY92/93 included Fund Management Expenditures

Note2: Other Adjustments include depreciation on fixed assets and exchange rate adjustments

Table 9: Economic Costs and Benefits

The total benchmark conservation program from July 1992 to June 1997 cost roughly Nu 58 million or US\$1.8 million. Although this is a conservative estimate, it is on the lower side of conventional donor-funded conservation investments with similar scope of activities demonstrating the relative cost-effectiveness of expenditures associated with achieving the benchmarks. In contrast the project to strengthen management of one national park--Jigme Dorji--will cost US\$2.54 million over five years. The careful use of foreign technical assistance on an as needed basis lowered the overall cost. Costs also kept pace with a slowly growing implementation capacity minimizing the likelihood of waste.

Table 10: Status of Legal Covenants

Agreement	Text Reference	Covenant Class	Status	Description of covenant	Comments
GET	3.01 (a)	10	C	Carry out project in accordance with the implementation program including joint mid-term review	In compliance & on schedule
	3.02	3	C	Make proceeds of the GET Grant available for use by BTF for purposes of the program in accordance with and subject to the terms and conditions	In compliance.
	4.01 (b)	1	C	Maintain records and accounts and furnish Trustee report of audit after six months or upon request	In compliance.
	4.02 (b)	9	C	Furnish Trustee progress reports	In compliance.
	6.01 (a)	2, 3	C	Amend MOU to activate BTF at US \$9 million level and could invade principal if above US\$ 8.5 million	In compliance.
	6.01 (b)	3	C	Received other contributions first to activate BTF	In compliance.
	6.01 (c)	5, 10	C	Appoint PC and establish office with staff	In compliance.
	6.01 (d)	5, 10	C	Upgrade WLD to NCS and appoint head staff	In compliance.
	Schedule 5	10	C	Actions required prior to release of 2nd tranche	In compliance & ahead of schedule.

Status: C - Complied with
 CD - Compliance after delay
 NC - Not complied with
 SOON - Compliance expected in reasonably short time
 CP - Complied with partially
 NYD - Not yet due.

Covenant Class

- 1 Accounts/audit
- 2 Financial performance / generate revenue from beneficiaries
- 3 Flow and utilization of project funds
- 4 Counterpart funding
- 5 Management aspects of the project or its executing agency
- 6 Environmental covenants
- 7 Involuntary resettlement
- 8 Indigenous people
- 9 Monitoring, review, and reporting
- 10 Implementation
- 11 Sectoral or cross-sectoral budgetary or other resource allocation
- 12 Sectoral or cross-sectoral regulatory/institutional action

Table 11: Compliance with Operational Manual Statements

There were no significant deviations from World Bank policies and procedures during implementation, although the design as reflected in the Grant Agreement established new precedents for how to handle procurement and disbursement in the context of a trust fund.

Table 12: Bank Resources - Staff Inputs

Stage of project cycle	Planned		Revised		Actual	
	Weeks	US\$	Weeks	US\$	Weeks	US\$
Preparation to appraisal					14.1	45.6
Appraisal					5.4	17.9
Negotiations through grant approval					1.9	6.1
Supervision					33.9	173.3
Completion	14.5	67.5	17.1	61.5	14.4	58.6
Total					69.7	301.5

Table 13: Bank Resources - Missions

Stage of processing	Month/year	No. of persons	Days in field	Specialized staff skills represented	Performance rating		Types of problems
					Implementation status	Development objectives	
Appraisal	10/91	4	14	A, FA, E, L			
SPN	5/93	2	4	E, FA	2	1	Administrative Financial
SPN	4/94	2	11	E, FA	2	1	Financial
SPN/MTR	4/95	3	8	E, FA, EL	S	HS	Financial
SPN	11/95	2	4	E, FA	S	HS	Financial
SPN	5/96	1	3	E	S	HS	Financial
SPN	11/96	3	8	EC, E, FA.	S	HS	Financial
SPN	5/97	1	4	EC.	S	HS	Programming
SPN/ICR	10/97	3	14	EC, E, TFS	S	HS	Programming

A Anthropologist
 EC: Economist
 E: Ecologist
 FA: Financial Analyst
 EL: Environmental Lawyer
 L: Lawyer
 TFS Trust Fund Specialist

Annex 1: Achievement of Conservation Program Objective

1. In meeting all the benchmarks, the grant has satisfactorily met its conservation program objective of initiating a comprehensive nation-wide environmental conservation program.. It has established a legally-recognized comprehensive system of protected areas covering 26 percent of the total area of Bhutan and incorporated a wide range of representative ecosystems and important biodiversity. This means that these areas will not, for the foreseeable future, face pressures for large-scale development and will be the focus of conservation investments. The official gazettelement of four priority protected areas (PA) also means that local economic development within the PA should be consistent with the objectives of the PA and effort is underway through pilot integrated conservation and development activities to reconcile the needs of local communities with the need to protect and sustainably manage the important biodiversity. The upgrading of the Nature Conservation Service--through additional staff and training--is expected to provide the institutional support to carry-out conservation activities on the ground. Likewise , the development of a protected areas database should enable careful monitoring and evaluation of the impact of field activities and provide decision-makers with more accurate information to direct future action and funding.. The expansion of curriculum to include environmental conservation at the Bhutan Forestry Institute which provides one-year training for forest guards and at the Natural Resources Training Institute which provides 3-year training for extension staff has increased the awareness of staff to conservation issues. This and future generation of staff working on renewable natural resources are expected to be better aware of and equipped to address sustainable natural resources management. Likewise, the incorporation of environmental and other data (e.g., socioeconomic) into forest management plans is already ensuring that critical wildlife habitats in production forests which are outside of PAs will not be disturbed.

2. However, actual impacts of the conservation program on biodiversity, that is, leading to the maintenance or increase in critical species or habitats, are uncertain since such impacts require several years to realize and full-scale field implementation has just begun. The grant has only established the foundations of a long-term conservation program and implementation on-the-ground has only just began. Given the continued and high commitment of RGOB to environmental conservation, the prognosis continues to be good, albeit slow for the next five years.

3. The lag in following through with on-the-ground implementation after the benchmarks were met is largely due to limited implementation capacity hampered by key NCS and park management staff being trained overseas. More than half of the key staff were away on either Masters or PhD training. This meant less than optimal use of the increased forest guards and rangers in the field (e.g., Manas and Jigme Dorji) and infrastructure as well as ineffective build up and inefficient coordination of activities by the NCS (e.g., data management). Although a database system has been developed, NCS still lacks the staff and technical know-how to operate the system. In addition, the existing plan to establish a separate GIS and data management capability within NCS rather than consolidate with FRDS could lead to duplication, inefficient use of scarce staff, and perpetuate the weak linkage between protection and production activities. Slow and ad hoc implementation is not expected to improve in the short-term since several key

staff are still abroad and weak institutional capacity to manage an increasing portfolio of donor-funded projects. This is exacerbated by incentives which promote obtaining advanced degrees first rather than practical field experience through on-the-job training. To address the capacity constraint, the BTF strategic plan gives priority to carefully phased human resources development to strengthen implementation capacity, ensure quicker on-the-ground results and thus promoting more efficient use of scarce resources.

4. The attached Annex 1 Table provides a detailed breakdown of actual and appraisal costs and financing of the conservation program.

ICR Annex 1 Table: Conservation Program Costs and Financing (July 1992 - June 1997)
(‘000 Nu)

Program Activities	Actual Costs and Appraisal Estimates									
	BTF		WWF		RGOB		Other Donors		TOTAL	
	Actual	Appraisal	Actual	Appraisal	Actual	Appraisal	Actual	Appraisal	Actual	Appraisal
ORIGINAL PROGRAMS										
Institutional Building & HRD										
<i>Reorganization/upgrading of WLD into NCS</i>	0	5,382	5,792	464	2,676	747	7,800 [1]	3,734	16,268	10,327
<i>BFI In-service Training</i>	418	1,416	2,992	0	0	644	0	0	3,410	2,060
<i>Data-base Set-up</i>	0	1,931	2,620	0	0	644	0 [2]	2,369	2,620	4,944
Subtotal	418	8,729	11,404	464	2,676	2,035	7,800	6,103	22,298	17,331
National System of Protected Areas	0	3,451	1,584	541	0	3,502	0 [3]	0	1,584	7,494
Management of Two Protected Areas										
<i>Royal Manas</i>	3,945	5,562	8,111	541	2,058	4,197	0	644	14,114	10,944
<i>Jigme Dorji</i>	9,439	5,511	2,229	644	759	5,794	0 [4]	1,803	12,427	13,752
Subtotal	13,384	11,073	10,340	1,185	2,817	9,991	0	2,447	26,541	24,696
Black Mountain National Park Plan	0	4,197	4,943 [5]	103	376	2,446	0 [6]	1,931	5,319	8,677
NEW PROGRAMS										
<i>Bomdeling Wildlife Sanctuary</i>	426	0	3,390	0	0	0	0 [7]	0	3,816	0
<i>Phibsoo Wildlife Sanctuary</i>	0	0	391	0	0	0	0	0	391	0
Subtotal	426	0	3,781	0	0	0	0	0	4,207	0
Total Program	14,228	27,450	32,052	2,293	5,869	17,974 [8]	7,800	10,481	59,949	58,198

[1] Dutch funding of training Nu 7,180,000 and Swiss - 1 PhD for Nu. 680

[2] Dutch funding Biodiversity Conservation Project continues database establishment

[3] Significant work done under Forestry Sector Master Plan funded by ADB.

[4] GEF Funded Project of US\$2.47 million to strengthen management of Jigme Dorji to start October 1997

[5] Includes establishment of a Nature Study Center

[6] Implementation to be funded by the Dutch Project of which 40% of the 86.5 million Nu. will be for Black Mt

[7] Implementation to be funded by Danish Government of approximately US\$ 1.5 million.

[8] Includes contributed use of office space.

Annex 2: Achievement of Trust Fund Objective

1. **Background on World Bank Support.** The World Bank had never before financed endowment capital for a trust fund. In 1992, the World Bank Asia Region produced "Conserving Biological Diversity: A Strategy for Protected Areas in the Asia-Pacific Region". This strategy specifically noted that trust funds provide a guaranteed, long-term flow of financial resources for conservation, which would help cover the costs of operating and managing protected areas on a long-term basis. Trust funds could help poor countries that have government commitment but low absorptive capacities and limited budgets, particularly for recurrent expenditures. Given the amount of capital needed and relatively small annual flows, trust funds would be most appropriate for small poor countries, or for the protection of individual sites of global significance. The strategy specifically mentioned Bhutan as an appropriate place for piloting a trust fund mechanism.

2. **Original Financial Management Arrangements.** The initial financial management arrangements for the BTF Secretariat to account for funds received from UNDP and disbursed to implementing agencies were not adequate for BTF's purposes. This led to many problems in the initial years. BTF's accounting system and information needs from UNDP for financial reporting should have been more clearly describe. An outline of BTF's basic accounting procedures fro accounting staff to follow, and the type and format of regular information required from UNDP should have been agreed with UNDP to ascertain if UNDP could comply therewith before finalizing arrangements with UNDP. BTF's original accounting staff were part time and had only the most basic knowledge of accounting. They were part time and had only the most basic knowledge of accounting. They were neither familiar with UNDP procedures nor trained in BTF's consolidated financial reporting requirements for Board, donor and annual audit purposes. The UNDP Treasury remitted income from BTF's investments to the Secretariat in Thimphu through the UNDP Thimphu Office on and "advance" or imprest fund basis. The Secretariat in turn disbursed the funds to the implementing agencies, and reported back to the UNDP. The implementing agencies submitted technical and financial progress reports on the BTF Secretariat. The Secretariat published an annual report that included a consolidated financial statement and a summary of the technical reports. The Secretariat encountered problems in obtaining timely and complete financial information to enable it to produce consolidated financial statements, largely because UNDP was not experienced in managing assets for an external client and because the fund flow arrangements bypassed the Secretariat. UNDP and the Secretariat did not receive timely reports on actual program expenditures from implementing agencies, nor did the Secretariat consistently receive a complete financial information on investment income and net disbursements from UNDP in a timely fashion. As a result, in the initial years, the Secretariat and the Board were frequently not sure of how much investment income was available for program funding. Due to its unfamiliarity with asset management, the BTF Board decided during project design to adopt a very conservative investment strategy. At this stage the Board was not concerned that UNDP's own financial regulations restricted BTF investment to secured instruments such as bonds. However, Board concern grow when the return to investment was minimal.

3. **Changes in Financial Management.** To resolve the problems in financial reporting, fund flow, and low returns, the Board constituted a Finance Committee in 1994 to advise on the selection of an asset manager, and the drawing up of investment management and custodial contracts. The Finance Committee comprised the RGOB Ambassador to the United Nations, the Head of the UNDP Treasury Section, and the WWF-US Director of Conservation Finance. Although the original conditions for the release of the second tranche did not specifically address the issue of financial management, at the mid-term review in 1995, the World Bank decided to add new and improved financial arrangements as a condition for the release, including the appointment of a suitably experienced local accountant to maintain BTF's accounting records and systems and to facilitate timely financial reporting and preparation of the annual financial statements. The Board reviewed proposals from five short-listed investment firms, taking into consideration the firms' track records and management fees and BTF's investment strategy guidelines. In 1996 it selected Mees Pierson as the investment manager and CoreStates Bank, N.A. as the custodian. In consultation with the donors, the Board decided to replace the MOU with a Royal Charter in 1996, in order to reflect these new financial arrangements. The World Bank hired Braehead Treasury Management, Montreal to review the strategy and performance of Mees Pierson. In response to the Braehead report, the Finance Committee developed several recommendations related to performance measures and monitoring, which the Board adopted at its May 1997 meeting.

4. **Current Financial Reporting Arrangements.** Mees Pierson now provides a quarterly performance report to the Board and meets with the Board annually. The CoreStates Bank also provides quarterly reports to the Board, and monthly reports to the Finance Committee. Both the Finance Committee and the Secretariat review the quarterly reports. The Finance Committee also screens the portfolio on a monthly basis to ensure that none of the firms have poor environmental records. The Secretariat's full time financial/accounting officer who maintains BTF accounting records and systems also prepares the operational, programmatic and consolidated financial statements. The Secretariat should arrange before the end of each fiscal year for Mees Pierson to provide the Royal Audit Authority of Bhutan (RAA) with a report certified by Mees Pierson's auditors showing the investments and cash held by Mees Pierson at June 30th each year, to satisfy RAA's audit requirements.

5. **Fund Flow and Progress Reporting.** The BTF Secretariat draws funds from the Custodian in accordance with the approved work plan and budget, and disburses them to implementing agencies. The implementing agencies submit quarterly technical and financial reports to the Secretariat. There is an annual financial audit. The Secretariat produces an annual report which includes the technical progress summaries and audited financial statements.

6. **Levels of Investment Capital and Income.** Original capital during the first three years of operation was less than US\$ 10.8 million. With increased donations in the fourth and fifth year, by total donated capital totaled US \$20.6 million by June 30, 1997. Under UNDP's management, the capital produced an investment income of about US\$ 120,000 (1.2%) in FY92/93, and US\$400,000 -US\$700,000 (4-5%) in the next three years. Under the new financial management arrangements and the bull market worldwide, the investment income net of fees reached US\$ 1.7 million (8.3%) during the fifth year. For details see Table 8C.

7. **Original Governance Arrangements.** Originally the BTF was governed by a 1991 Memorandum of Understanding (MOU), under which the UNDP was the Trustee as well as the Investment Manager. BTF paid accounting and asset management fees to the UNDP. At that time, the Management Board had five members: the WWF and the UNDP appointed one member each, and the RGOB appointed three members. The three RGOB elected the chairperson. All members elected the member secretary and the treasurer. A Program Coordinator headed the BTF Secretariat. The Board met twice each year and decisions were adopted by a four-fifths majority. A quorum of four-fifths of the members could meet and transact business. Full Board participation by unanimous vote was required for decisions related to the expansion of Board membership, the investment of Trust Fund principal, and any change in Board rules.
8. **Changes in Governance.** Under the Royal Charter, 1996, the Board now constitutes six members. Five are from RGOB and one is from WWF-US. The UNDP resident representative participates on the Board as an ex officio. Membership of WWF-US and participation of the UNDP Resident Representative will be only for five years from the date of issue of the Charter. After that date, members of the Board will be all Bhutanese including members from the private sectors and non-governmental organizations. The Board is responsible for investment management contracts, custodian contracts, works plans, budget, strategy, and fund raising. It serves as the BTF trustee. The RGOB members select the chairman, and the Director of the Secretariat serves as ex-officio Member Secretary. Four fifths of the members constitute a quorum, and utilization of the trust fund requires support from at least five members.
9. **Core Group.** The Core Group functions as an advisory group to the BTF Secretariat. It is comprised of working-level staff in various agencies (mostly government, but also including representatives from UNDP, WWF, and RSPN (a local NGO).
10. **Original BTF Operational Programming.** At the outset, the BTF program focused on the benchmark activities. The low level of investment income net of the UNDP management fees limited the funding available during the first year. In response the Board and Secretariat mobilized funding from other sources, primarily WWF and the Bhutan government. The available BTF funds were used to fill in funding gaps. Both the Board and Secretariat focused their attention on meeting the benchmarks during the initial three years and on rearranging the investment management during the fourth year. During these four years they did not focus on the longer-term issue of on how to best use the available BTF income. Although the BTF Secretariat solicited additional proposals, inexperience and limited implementation capacity curtailed the number of proposals received.
11. **Strategic Plan Development.** Once the initial benchmarks were met, and the BTF was operating under the 1996 Charter, the BTF Secretariat, Core Group, and Board turned their attention to developing a strategic plan. The strategic plan is intended to articulate the vision, objectives and operational framework for the BTF, beyond the general principles outlined in the Charter. The draft final strategic plan builds upon the objectives outlined in the Charter, the 8th Five year Plan Conservation Program, and the Environmental Strategy for Bhutan. It also provides a standard format for proposals, for monitoring, and for developing capacity in proposal design. Furthermore, it is explicitly tackling the issue of limited implementation capacity. The plan allocates a portion of BTF funds for targeted support for human resource development in

biodiversity, and for costs of incremental staff. Beginning in late 1996, the Secretariat, in consultation with the BTF Core Group and BTF Board members, developed a series of iterative draft texts. The BTF Core Group held several workshops to discuss various early texts, the May 1997 World Bank supervision mission further discussed views and texts, and the Board considered a full draft document at its May 1997 meeting. Board members have submitted a variety of comments since then, and met in November 1997 to resolve outstanding issues and finalize the plan.

12. **Impact of the Trust Fund Objective.** The grant has helped to create a permanent, well-capitalized institution. The creation of the trust fund has also had several indirect impacts. By drawing attention to the importance of Bhutan's biodiversity, and the RGOB's commitment to biodiversity, it precipitated a dramatic increase in donor financing for biodiversity, separate from the BTF itself. See Annex 2 Table. The experience with investment management, governance, and the strategic plan has influenced the design of biodiversity trust funds for other countries, and opened up the prospect of trust funds for other sectors within Bhutan. One indirect impact has been the increased experience and sophistication of senior RGOB officials related to financial asset management in general, which they are now applying in their management of RGOB foreign exchange reserves.

ICR Annex 2

Table: Estimated other donors' contribution in biodiversity and environment programs of Bhutan during 1992/93-2001/02
(US\$ in millions)

Sl.No.	Donors	Estimated Annual Contributions in 7FYP						Estimated Projection of Annual Contributions in 8FYP					
		1992/93	1993/94	1994/95	1995/96	1996/97	FY Total	1997/98	1998/99	1999/2000	2000/01	2001/02	FY Total
1.	Denmark ⁵	0.352	0.353	0.352	0.352	0.353	1.762	2.352	2.353	2.353	2.352	2.353	11.763
2.	GEF ⁶	-	-	-	0.066	0.099	0.165	0.385	0.346	0.300	0.300	0.300	1.631
3.	Netherlands ⁷	-	0.106	0.159	0.095	0.114	0.474	0.381	0.380	0.380	0.381	0.381	1.903

⁵ Estimate includes DANIDA's support to National Environment Commission during 7FYP and its allocation for Environment Sector Support Program in 8FYP.

⁶ Included in the estimate are GEF's support to Green House Gas Emission Project and Jigme Dorji National Park.

⁷ Contributions of SNV and SCF/US are added together with Netherlands input to the Integrated Sustainable Development Program (ISDP) in Zhemgang Dzongkhag in terms of Forestry and Wildlife Management Program. Netherlands contribution to Biodiversity Project in the 8FYP including Institutional Strengthening of Nature Conservation Section and Black Mountain National Park Management Program has also been included in the estimate.

Sl.No.	Donors	Estimated Annual Contributions in 7FYP						Estimated Projection of Annual Contributions in 8FYP					
		1992/93	1993/94	1994/95	1995/96	1996/97	FY Total	1997/98	1998/99	1999/2000	2000/01	2001/02	FY Total
4.	Norway ⁸	-	-	-	-	0.020	0.020	-	-	-	-	-	-
5.	Switzerland ⁹	0.928	0.928	0.928	0.928	0.928	4.640	-	-	-	-	-	-
6.	WWF ¹⁰	0.198	0.170	0.390	0.266	0.252	1.276	0.585	0.451	0.476	-	-	1.512
7.	UNDP ¹¹	0.102	0.811	0.346	0.207	0.150	1.616	0.119	0.118	0.118	0.119	0.119	0.593
Total		1.580	2.368	2.175	1.914	1.916	9.953	3.822	3.648	3.627	3.152	3.153	17.402

⁸ Includes only Norway's funding of a post graduate course for NCS.

⁹ Includes Helvetas contribution to the establishment of Natural Resources Training Institute (NRTI) in Lobesa, Thimphu Dzongkhag and its funding for 4 Ph D courses for the Ministry of Agriculture.

¹⁰ Estimate include WWF's general conservation budget and its support to the Royal Manas National Park

¹¹ Only UNDP's support to Institutional Development of Forestry Services Division and Jigme Dorji National Park has been included.

ICR Annex 3
BTF Program Performance Indicators

Program Objective	Expected Program Impact	Impact evaluation measurement	Specification of Possible Programs or process	Specification and Level of inputs	Expected Program Outputs	Specification of Implementation Indicators	Specification of Areas	Program Risks
Objective (i) : To strengthen protection and management of the protected natural areas for the conservation of genetic, species and ecosystem diversity.								
Increase capacity at field level, of park staff and the community, for protection and management of those parks which have management plans	Increased implementation of field programs	<p>Number of operational plans implemented</p> <p>Poaching and other illegal activities controlled</p> <p>Administrative set up strengthened, number of staff increased and capacity developed</p> <p>Implementation of capacity building activities</p> <p>Increase skilled staff</p> <p>Timely progress report</p> <p>Community involvement in park management</p>	<p>Building an effective administrative and management mechanism</p> <p>Increasing field staffing</p> <p>Designing HRD and training programs</p> <p>Institutionalizing community participation</p>	<p>Recurrent expenditure</p> <p>Logistic support and equipment</p> <p>Staff training</p> <p>Local community participation</p> <p>Participation of Dzongkhag Administration</p> <p>FSD initiative</p> <p>RCSC employing incremental technical administrative and accounting staff</p>	<p>More trained staff</p> <p>Effective administrative mechanism in place</p> <p>Linkage between the NCS and field units</p> <p>Institutionalized community participation</p>	<p>More staff employed</p> <p>Capacity building programs undertaken</p> <p>Implementation of antipoaching programs</p> <p>Park staff resident ratio</p> <p>Conflict resolution</p> <p>Community participation</p> <p>Qualified technical staff posted</p>	<p>Protecting rare and endangered species and their habitats</p> <p>Management of different zones.</p> <p>Institutional development</p> <p>Community development</p> <p>Conservation regards</p>	<p>Inadequate incremental staffing</p> <p>Inadequate funding</p> <p>Lack of commitment for incremental staffing from FSD</p> <p>Change in policy</p>

Program Objective	Expected Program Impact	Impact evaluation measurement	Specification of Possible Programs or process	Specification and Level of inputs	Expected Program Outputs	Specification of Implementation Indicators	Specification of Areas	Program Risks
Increase capacity for planning conservation and development programs at Park Management, Dzongkhag Administration and Nature Conservation levels	Increased number of conservation and development plans produced	Number of conservation and development plans produced Number of staff at Park Management Nature Conservation and Dzongkhag Administration levels trained	Nominating staff for training Training staff Identifying institutes Incremental staff	Training Costs	More trained planners More plans produced	Number of staff under training Institutions identified Increased capacity for planning	Community development planning Conservation planning	Lack of staff for training

Program Objective	Expected Program Impact	Impact evaluation measurement	Specification of Possible Programs or process	Specification and Level of inputs	Expected Program Outputs	Specification of Implementation Indicators	Specification of Areas	Program Risks
Develop and implement practical operational conservation and development plans for the protected areas within the available planning and implementation capacity	Reduced negative environmental impact Economic progress of the communities	Budget being spent on time Translating the plan into actions Less conflicts between Park Management and stakeholders Poaching and illegal activities controlled Preparation of operational plans Park management established Timely flow of funds	Involvement of stakeholders in planning Information gathering, analysis and application Matching plan with the need and capacity to implement the plan Designing and implementing anti-poaching and other protection program Designing and implementing conservation community and development programs Strengthening conservation management	Functional and technical support by NCS Inputs from park staff Inputs and support from stakeholders Access to technology Initiatives by park management Appropriate policy and legislative support	Timely progress report No backlog of budget Minimum negative environmental impacts in the field Reduced poaching and illegal activities Organized involvement of community and other stakeholders in the planning and implementing of the protection and management programs Community development	Practical plan Implementation as planned Support and inputs received from NCS, Park staff and stakeholders Collaboration between NCS, Park staff and stakeholders Number of operational plans drawn and implemented Frequency of patrolling Research Integrated conservation and community development programs undertaken	Policy Strategy Building collaboration Species and habitat conservation Community development	Lack of planning experiences Lack of technology Lack of data- base Lack of capacity to implement Demotivated staff Poor extension services Uninterested community

Program Objective	Expected Program Impact	Impact evaluation measurement	Specification of Possible Programs or process	Specification and Level of inputs	Expected Program Outputs	Specification of Implementation Indicators	Specification of Areas	Program Risks
Build capacity to draw up and implement management plans, develop infrastructure and set up management systems for those protected areas which do not have infrastructure management set up and management plans	Minimized negative environmental impact and community development through sustainable use of natural resources	Potential environmental consequence avoided Community development models demonstrated	Biodiversity inventory and socioeconomic surveys Management Planning Building capacity Creating park administrative set up Developing management system	Recurrent expenditure Incremental staff Training staff Community/stakeholders participation	Management plans Management system Administrative set up Trained and skilled staff Progressive communities Institutional community participation and official gazetment	More staff employed Functioning park management system Increased staff strength Implementation of capacity building activities	Conservation research Community development	Inadequate staffing Lack of funds
Develop coordination, collaboration and joint implementation mechanisms with the resident communities, including Dzongkhag Administrations, to plan, implement and manage conservation and development programs in the protected areas	Increased involvement of all stakeholders Involve local communities in minimizing environmental consequences through community development programs	Stake holder involvement in management and protection Local community participation Co-ordination and Joint implementation mechanism developed and adopted	Co-ordination between with different stakeholders Institutionalized consultation Promoting broader participation	NCS support initiatives Park Management initiatives Dzongkhag Administration inputs Community participation.	Effective implementation of integrated conservation development programs Participatory implementation of integrated conservation and development projects Redressal of socio-economic development needs through consultation Joint implementation of conservation programs adopted	Involvement of communities and Dzongkhag Administration in the implementation of integrated conservation development programs Communities and other stakeholder inputs Less conflict with stakeholders Smooth implementation	Workshop and meeting Stakeholder participation through local consultation Local institutional development	Sectoral approaches Poor communication and extension Power struggle Inadequate management policy guidelines

Program Objective	Expected Program Impact	Impact evaluation measurement	Specification of Possible Programs or process	Specification and Level of inputs	Expected Program Outputs	Specification of Implementation Indicators	Specification of Areas	Program Risks
Provide specialized functional support and co-ordination to individual Park Management by NCS	Effective functional support to Park Management	<p>Number of management plans written</p> <p>Information supply</p> <p>Research publication</p> <p>Institutionalized support to management of biodiversity at the field level</p> <p>Training support</p>	<p>Strategic Planning</p> <p>Institutionalizing linkage between NCS, FSD, MOA</p> <p>Park management and stakeholders</p> <p>Workshops and training</p> <p>Building inter-agency consultation mode</p> <p>Developing inventory methodology</p>	<p>Training NCS staff</p> <p>Reorganizing/ strengthening NCS</p> <p>Functional mandate of NCS to field units defined</p> <p>Information supply</p> <p>Formulation of management plan</p>	<p>Trained staff providing for specialized support</p> <p>Plan prepared</p> <p>Strengthening of information system</p> <p>Co-ordination mechanism put in place</p> <p>Specialized support to integrated conservation and development, co-ordinate training programs</p>	<p>NCS organized by Units and headed by appropriate staff</p> <p>Improved information system</p> <p>Improved interaction between NCS, FSD and other stakeholders</p> <p>Support to research and development programs</p> <p>Improved working relation and linkages</p>	<p>Management planning</p> <p>Information management. Conservation research</p> <p>Policy development</p> <p>Inter-agency coordination</p>	<p>Poor coordination mechanism</p> <p>Inappropriate staff employed</p>

Program Objective	Expected Program Impact	Impact evaluation measurement	Specification of Possible Programs or process	Specification and Level of inputs	Expected Program Outputs	Specification of Implementation Indicators	Specification of Areas	Program Risks
Objective (ii) : To develop and manage an information system to strengthening biodiversity conservation by strengthening conservation and development programs planning and monitoring biodiversity changes overtime.								
Increase capacity for socio-economic surveys, biodiversity inventory, and setting up information management system at the Nature Conservation Section	An information system useful for conservation planning Rational decision making	Use of analysed information to make informed conservation decisions An information system with data on all the protected areas Capacity to manage the information system	Procuring data management tools and strengthening data management facilities Procuring softwares to store, process and analyse data. Setting up an information management system	Incremental staff Training Satellite immegery Incremental staffing Training staff Aerial photos	Trained staff Employed information technologist Information management system Research stations Number of inventories and surveys	Recruitment of incremental staff Procurement of hardware and software Availability of analyzed information for decision making Socio-economic survey Bio-diversity inventory National herbarium development Bio-diversity research	Biodiversity information Socio-economic data Physical information Inventory methodology Improving hardware and software facilities Biodiversity inventory Socio-economic surveys	Lack of incremental staff Lack of initiative to develop and information system

Program Objective	Expected Program Impact	Impact evaluation measurement	Specification of Possible Programs or process	Specification and Level of inputs	Expected Program Outputs	Specification of Implementation Indicators	Specification of Areas	Program Risks
Step up capacity at NCS for organizing, storing, analyzing and providing access to information	Sharing of information locally, regionally and globally Increased capacity to analyze and apply information to on-the-ground conservation programs	Information available for required use Information generated and shared Analytical tools adapted, esp. GIS technology	Incremental staffing and training Data collection Data storing Data analysis Development of research methodology and inventory design Information sharing networking Institutional development at NCS, FSD Hard copies distribution	Employing information technologist Recurrent cost Database Procuring computer hardware and software Data collection Information sharing Net working and interagency collaboration Acquiring analytical tools for GIS technology and satellite data interpretation Updating skills for analysis and interpretation	An information system Hard copies of information Number of people using information Hard copies of information published Institutionalized analysis and application of information	Regular in-country meetings and participation in international conference and conservation Type of analytical tools acquired Competent staff to apply GIS and remote sensing techniques	GIS/remote sensing technology Land use data collection	Expensive technology Lack of net - working and collaboration
Assess and monitor changes in the national forest cover and status of biodiversity	National forest cover maintained at 60% of total land area Avert loss of biodiversity	Updated satellite information interpretation Ground truthing exercises	Capacity building at NCS, FSD to monitor Bhutan's vegetation cover Policy input from Government	Funding for ground truthing survey and data interpretation Technical assistance to NCS, FSD Policy recommendations to RGOB	Interpreted satellite data every five years? Biodiversity assessment reports at regular interval Policy comment papers	Monitoring reports from NCS, FSD on status of national forest cover Policy level workshop to review findings and proper legislation	Biodiversity status monitoring Land use	Lack of staff in RGOB to conduct field assessment Unavailability of satellite data Expensive undertaking

Program Objective	Expected Program Impact	Impact evaluation measurement	Specification of Possible Programs or process	Specification and Level of inputs	Expected Program Outputs	Specification of Implementation Indicators	Specification of Areas	Program Risks
Strengthen conservation considerations in forest management planning and monitoring for sustainable forestry development in Forest Management Units	Reduced negative environmental impacts in the Forest Management Units Environmentally gazetted amanagement	Forest Management Units managed for different functions including eco-system services	Management prescription for different functions Impact assessment of management plans in the Forest Management Units	Management prescriptions to suit different functions of forests in the Forest Management Units Impact assessment Training	Reduced negative environmental impacts in the Forest Management Units Publication of impact assessment reports Management plan implemented as planned	Management prescription for safe-guarding different functions of the forests in the Forest Management Units Impact of the management plans assessed	Functional mapping of Forest Management Unit Institutionalization of impact assessment	Lack of expertise to assess the impacts
Objective (iii): To promote awareness on conservation issues and strengthen conservation ethics through formal and non-formal education to increase capacity for effective implementation of environmental conservation and development programs.								
Develop and implement non-formal conservation awareness programs	Raise environmental awareness among the Bhutanese public	Increase in social awareness on conservation issues	Social awareness building	Training Public awareness campaigns Development of extension materials	Awareness campaigns per year ? Distribution of extension materials	Campaign programs implemented through media, schools, religious bodies, etc	Endangered species and their habitat management Emerging conservation problems	Lack of leading organization to implement non-formal awareness programs
Integrate environmental education into national school curricula at primary, secondary and tertiary levels	Increased capacity within education system to support conservation education Nature Club institutionalized into education system	Number of schools with environmental conservation curriculum	Incorporating environmental education in the primary, secondary and tertiary institutions	Develop and implement curriculum at education division	Environmental Education taught in schools	Environmental Awards Essay and Arts competition Nature Clubs activities Environmental curriculum taught	Endangered species Emerging national environmental problems	Heavy curriculum

Program Objective	Expected Program Impact	Impact evaluation measurement	Specification of Possible Programs or process	Specification and Level of inputs	Expected Program Outputs	Specification of Implementation Indicators	Specification of Areas	Program Risks
Increase capacity for planning, implementation and management of conservation education programs by exposing teachers, planners and administrators to conservation education through refresher courses and training workshop	Educate teachers, planners and Administrators on conservation education	Number of refresher course and training workshops conducted	Seminars, workshops and study tours on conservation education Training planners	Teachers, planners and administrators education	Number of teachers, planners and administrators attending seminars, workshops etc	Train teachers, planners and administrators	Human and institutional development	
Develop teaching materials and resource books on Bhutan's natural heritage and current conservation issues	Teaching materials and resource books developed	Types of teaching materials and resource books developed, published and used	Resource books on conservation issues	Education Division determining substance of resource books and publishing them	Teaching materials and resource books published	Number of schools receiving teaching materials and resource books		Inadequate expertise for developing resource books and teaching materials

Program Objective	Expected Program Impact	Impact evaluation measurement	Specification of Possible Programs or process	Specification and Level of inputs	Expected Program Outputs	Specification of Implementation Indicators	Specification of Areas	Program Risks
Involve religious communities in promoting conservation ethics	Conservation ethics strengthened	More people enriched in conservation ethics	Formalizing conservation education in the curriculum of religious studies Including non-formal education in the religious rituals performed by religious communities Training members/ religious persons in conservation education	Training/study tours Printing and publication Translation Workshops/seminars	Rituals/religion communities involved in conservation education Translated texts More people exposed to conservation ethics Institutionalized learning of conservation education	Translating texts Workshops Rituals programs including non-formal conservation education program	Environmental consequences Sustainable use of resources	Lack of focal points
Develop awareness of policies, regulations and management systems that benefit conservation	Informed of policies and regulations that benefit conservation	Number of public aware of policies and regulations	Educating peoples representative on policies and regulations Funding public meeting to learn about policies and regulations Organizing public meeting Printing and distributing policy document and regulation	Expenses for training peoples representative Expenses for public meeting Printing costs	Peoples representative trained Public meetings held Regulation and policy document printed and distributed	Awareness program designed and implemented	Forest fire Endangered species Sustainable use of resources etc.	Time constraint on the public

Program Objective	Expected Program Impact	Impact evaluation measurement	Specification of Possible Programs or process	Specification and Level of inputs	Expected Program Outputs	Specification of Implementation Indicators	Specification of Areas	Program Risks
Provide support to in-service training institutions such as BFI, NRTI, Nature Study Center, for human resources development	Skilled staff produced	Efficiency of staff at implementation of conservation programs	Refresher courses Training of trainers	Cost of training Logistic support Teaching material	Refresher course conducted Teaching materials provided	Number of refresher courses	Wildlife management Community development Extension	
Objective (iv) : To build capacity of BTF Secretariat to ensure sound internal management of the Bhutan Trust Fund								
Manage financial assets	Atleast 5% return above management fees and inflation	Financial returns	Issuing investment guidelines	Contract professional asset manager in long-term	Financial reports	Comparative performance with other asset manager Effective communication Effective fund disbursement	Not applicable (NA)	Stock market fluctuation Poor communication Exchange rate fluctuation
Allocate available revenue to effective programs	Revenue used effective	Proposals developed and funded	Proposals versus workplan	Staff time and materials to increase awareness of BTF and facilitate submission of proposals	Approved proposals	Number of approved proposals Value of approved proposals Ratio of approved proposals to available funds Change in value from previous year. Average timing between submission and approval	NA	Few proposals Proposals not properly completed Political pressures Perception of unfairness Volume of proposals beyond capability of BTF secretariat

Program Objective	Expected Program Impact	Impact evaluation measurement	Specification of Possible Programs or process	Specification and Level of inputs	Expected Program Outputs	Specification of Implementation Indicators	Specification of Areas	Program Risks
Review performance and demonstrate accountability of grantees	<p>Ensure money spent for intended purpose</p> <p>Achieve desired results</p> <p>Feedback to improve proposal evaluation process</p>	<p>Yes/No rating</p> <p>Qualitative rating on scale</p> <p>Evidence of adjustments</p>	<p>In house review</p> <p>Independent review of contract every 5 years?</p>	<p>Quarterly reports from grantees</p> <p>Bhutan Trust Fund staff time on review</p>	Bhutan Trust Fund performance summary	<p>Timeliness of grantee reports</p> <p>Timeliness of Bhutan Trust Fund summary</p>	NA	<p>Grantees don't issue reports on time</p> <p>Grantees' reports incomplete</p> <p>Format of grantees reports does not provide information</p> <p>Achievement of results of impossible to evaluate</p> <p>Volume of review beyond capacity of Bhutan Trust Fund Secretariat</p>
Develop capacity of BTF Secretariat to develop and manage conservation programs with conservation partners and grantees	Increased institutional capability at Bhutan Trust Fund secretariat to develop, manage and administer conservation programs	<p>Recruitment of additional program staff. (program officer and assistant)</p> <p>Office development and management.</p> <p>Human resources development through in-country, region and overseas training</p>	Institutional and human resources development	<p>Hire a staff with MBA as the Director of the Trust Fund</p> <p>Trained Program Officer in conservation program development, monitoring, evaluation and administration</p> <p>Train accounting and support staff in computer skills</p>	Increased capacity at Trust Fund Secretariat to support conservation programs through recruitment and training of additional staff	Additional staff recruited and trained	<p>Training in conservation program development</p> <p>Computerized accounting</p> <p>Analyses of financial reports and computer skills</p>	

Program Objective	Expected Program Impact	Impact evaluation measurement	Specification of Possible Programs or process	Specification and Level of inputs	Expected Program Outputs	Specification of Implementation Indicators	Specification of Areas	Program Risks
Communicate with stakeholders to ensure direct support for need-based conservation activities	Confidence in BTF Leveraging of continued donor support for conservation in Bhutan	Evidence of additional funding for conservation in Bhutan	Internal reporting Audits Independent review every 5 years?	BTF staff Royal Audit Authority Independent Audits of Corestates Bank	Annual report covering financial statements and programmatic content (including relation to objectives on comments on evaluation process)	Timely reports Unqualified audits	NA	Reports not sufficiently comprehensive Reports not effectively disseminated

ICR Annex 4

Bhutan - Trust Fund for Environmental Conservation

Implementation Completion Review Mission: October 6-19, 1997

Aide Memoire

1. **Introduction.** A joint World Bank/Royal Government of Bhutan mission¹² reviewed the above project from October 6-19, 1997 and jointly developed a draft implementation completion report. The mission held discussions with members of the Bhutan Trust Fund (BTF) Management Board (MB); the BTF Core Group (CG), the Ministry of Agriculture and its Forestry Service Division (FSD) and Nature Conservation Section (NCS); UNDP/Thimphu; World Wide Fund for Nature (WWF)-Bhutan; local donor representatives of the Swiss, Dutch, and Danish Governments, and the BTF Secretariat. The mission also visited Jigme Dorji National Park and met with local staff, district officials, and local communities there. Mission members express their sincere thanks to all for the assistance and hospitality extended during the course of the mission.
2. **Wrap-up Meetings.** The following summarizes the mission's major findings and agreements, which were discussed at a wrap-up meeting on October 17 chaired by Honorable Planning Minister Lynpo C. Dorji, MB Chairman.
3. **Overview of Mission Discussions.** The mission focused on: (a) evaluating the GEF grant to BTF, using an Implementation Completion Report (ICR) to state the findings of the Bank and the Government, and (b) providing advice to the Board on how to frame various policy and implementation issues involved in the strategic plan for future BTF operation. The mission also reviewed the status of recommendations made during the May 1997 mission (Attachment 1).
4. **Summary of ICR Findings.** The mission found that the GEF grant achieved both of its objectives: helping to initiate a conservation program and testing the feasibility of a trust fund mechanism. Through the benchmark activities, the BTF grant has laid the basic foundation for an effective long-term conservation program in Bhutan by establishing the legal, institutional, and technical framework and in expanding implementation capacity. The grant has also proved the feasibility of a trust fund mechanism that has the potential to provide long-term and sustainable support for biodiversity conservation. The BTF is now a permanent, well-capitalized institution. The Government used the GEF grant to mobilize funds from other donors, who have more than matched the GEF contribution of US\$ 10 million to the BTF, and also increased their financing of other biodiversity programs separate from the BTF. The experience with financial management, governance, and the strategic plan has influenced the design of biodiversity trust funds for other countries, and opened up the prospect of trust funds for other sectors within Bhutan.

¹²

Ms. Jessica Mott (Mission Leader), Ms. Susan Shen (Ecologist), Mr. Theodore M. Smith (Trust Fund Specialist), and Mr. Kunzang Norbu (RGOB Planning Officer)

5. **Further Processing of the ICR.** The mission team plans to revise the draft ICR during November, taking into consideration comments received during the wrap-up meeting as well as written comments sent to the Bank. After the BTF Board meeting in November or December, the team will update the ICR to reflect the latest status of the strategic plan, and to incorporate complete FY97 financial data. At the wrap-up meeting it was agreed that Karma Phuntsho would be responsible for coordinating review and clearance of a revised draft ICR in December, before its dissemination to GEF, the Bank Board, and the public.

6. **Strategic Plan.** The BTF Board now plans to hold a full-day retreat sometime in November or December, in the hope of developing a clear consensus on the long-term vision and on BTF program priorities for the next five years. The mission commends the decision to devote such time to the BTF at this critical juncture. Attachment 2 of this Aide Memoire attempts to frame policy and implementation questions which the Board may wish to begin to explore during the retreat. The mission believes that an important part of the strategic plan will be the establishment of specific implementation benchmarks with a clear time-line (e.g., broad dissemination of proposal guidelines, fund flow for incremental staff and for human resource development). Attachment 3 of this Aide Memoire comprises excerpts from the GEF Operational Strategy, which the mission hopes will help to clarify the range of activities that would be consistent with the GEF biodiversity mandate.

7. **Agreed Follow-up Actions.** Actions agreed during the current mission consist of:

No.	Issue	Action	Agency Responsible	Completion Date
	Review of draft ICR	Distribute draft ICR to Board members, core group members, local donor representatives, and key individuals involved in BTF history. Forward any written comments to Bank	BTF Secretariat	Distribute by October 20 and send comments by November 7, 1997
	Financial Tables for ICR Annex 2	Update and send to Bank	BTF Secretariat	November 25, 1997
	Update on status of strategic plan	Inform Bank of conclusions of BTF Board meeting, and send copy of draft final Strategic Plan if available	BTF Secretariat	after next Board meeting
	Updating of ICR to reflect comments from wrap-up meeting,, written comments, Board decisions on strategic plan, and updated FY97 financial data.	Finalize ICR and submit for final RGOB clearance	Bank	December 8, 1997
	RGOB Clearance of ICR	Review and clear final ICR for public distribution	[designated RGOB official]	December 31, 1997
	Share trust fund experience from other countries	Send BTF information on trust fund developments in other countries	Bank	ongoing
	Keep Bank informed of BTF activities	Send copies of annual reports, other progress reports, final Strategic Plan, and other relevant documents	BTF Secretariat	ongoing
	Visits to facilitate communication and interchange	Visit BTF to learn more about further BTF experiences and to exchange views	Bank	Fall, 1999

Attachments

1. Status of Recommendations Made During May 1997 Mission
2. BTF Policy and Operational Considerations
3. Excerpts from GEF Operational Strategy
4. Draft ICR

Status of Recommendations Made During Last Mission

Recommendations of Last Mission	Actions Taken Since Last Mission
Grantee:	
Revise the draft strategic plan for the trust fund to include a vision statement, a description of implementation capacity implications and constraints, an explanation of the importance of proceeding with conservation activities as soon as possible, a proposal that BTF finance of scholarships and recurrent expenditures of incremental conservation, and recommendations on BTF programming procedures	Board has reviewed and commented on a revised draft strategic plan, and now plans to use its next meeting to develop a consensus on fundamental policy and implementation issues that the strategic plan needs to address.
In response to Braehead report, Finance Committee to recommend that BTF Board formally document objectives, quantify investment guidelines and establish agreed monitoring indicators	The Board formally adopted investment objectives, guidelines and monitoring indicators at its May 1997 meeting
Recommend specific environmental criteria that Mies Pearson could use if so instructed by BTF Board	The Board has requested that the Finance Committee propose specific criteria, these are not likely to be available until the spring 1998 Board meeting.
Develop a detailed 20 year human resource development (HRD) plan for BTF objectives, and an immediate plan for scholarships and recurrent costs to be funded by BTF in FY97/98 and FY98/99, to be presented at the fall 1997 Board meeting	The BTF Secretariat has, in consultation with affected agencies, has prepared a preliminary human resource development and manpower proposal, that the Board will consider in the context of the strategic plan. RGOB would be responsible for formal approval and implementation of the proposal.
Estimate annual BTF expenditures on scholarships, recurrent costs, and project proposals over the next twenty years, building on the HRD plan	Estimates will depend upon Board decisions in the next meeting regarding the parameters of BTF funding for incremental staffing and human resource development.
Recommend to BTF Secretariat potential sites in Asia for study tours on management systems to improve people/park interactions	The Bank has recommended visits to Kalakad and Buxa Tiger Reserves in India, selected protected areas in Nepal, and the GEF-funded biodiversity project in the Philippines.
Send copy of NES to Bank after it is printed	NES not yet in print
Send copy of BAP to Bank after it has draft ready for distribution	Bank received during October 1997 mission
Revise draft ICR to ensure that it fully addresses issues related to trust fund establishment and operation, and that it evaluates the impact of the programmatic activities. See Attachment 3 for details Review and further revise with assistance of core group	Bank received revised draft in September 1997
Arrange mission for September/October.	Accomplished

BTF Policy and Operational Considerations

Introduction

1. **Purpose.** The purpose of this report is to convey to the Management Board of the BTF information and perspectives which the mission has gleaned from its exposure to individual Board members, Secretariat staff, “core group” participants, contribution donor officials, other Bhutanese officials, the draft strategic plan and other BTF documents. In addition, the mission has drawn, where appropriate, on the experience of its members in other national settings—all in an effort to frame questions which the Board might wish to explore in a policy-making context. The mission is fully aware and respectful of the fact that the Bhutan Trust Fund for Environmental Conservation represents an international innovation, that it is a “work in progress,” and is, in certain respects, experimental in nature. The BTF has made important advances in a short time. Commentary provided here is forward-looking, not backward looking.
2. **Development Stages.** It may be helpful to the Board to view the development of the Bhutan Trust Fund in three stages—beginning with the initial idea for the fund which originated in Bhutan in the late 1980s.
 - (a) *Stage I:* Development of the concept of the Bhutan Trust Fund, including the design and appraisal work which went into the formation of the Trust.
 - (b) *Stage II:* Solicitation of capital contributions, establishment of basic operational policies, implementation of activities to achieve benchmark objectives, contracting for asset management arrangements to meet international standards, creation of the framework for a Secretariat and engaging staff to run it, and the adoption of a basic Charter for the BTF.
 - (c) *Stage III:* Adoption of a Strategic Plan with in increased focus on program implementation and the institutional development of the BTF as an operating organization.

The BTF has progressed to Stage III, accomplishing a considerable amount in the first two stages.

Key Policy Issues for Board Consideration

Programmatic Scope of BTF Utilization

3. **Overview.** BTF Board members have raised the issue of the programmatic scope of BTF utilization during their May 1997 review of an early draft version of the strategic plan. This policy issue involves three major elements: (a) the range of programmatic support that would be consistent with the GEF biodiversity mandate; (b) the projected long-term funding requirements from BTF for biodiversity expenditures; and (c) the possibility of broadening the BTF program mandate to cover a wider range of environmental activities such as natural hazard mitigation..
4. **Activities Consistent with GEF Biodiversity Mandate.** The BTF Board has a strong interest in ensuring that the portion of BTF funds associated with the GEF grant (e.g., principal and accumulated interest) will fund activities that are consistent with the GEF mandate for the

conservation and sustainable use of biodiversity as defined by GEF. Board actions in this regard will influence the willingness of GEF to provide grants for trust funds in the future, and also affect RGOB's reputation as GEF's first trust fund recipient. The Board also has a legal responsibility defined by the GEF Grant Agreement. In cognizance of this fact, until now the Board has taken a relatively conservative and narrow interpretation of which activities would be eligible for BTF grants. The mission hopes that the Attachment 3 which comprises excerpts from the GEF Operational Strategy (1996) will clarify for the Board the full scope of activities that would be consistent with the biodiversity mandate. For example, conservation activities for protected areas can include not only direct management interventions, but also integrated conservation and development programs that mitigate potential conflict and promote collaboration by addressing both the impact of protected areas on local people and the impact of local people on protected areas. Outside of protected areas, biodiversity management within productive sectors can include integration of biodiversity conservation and sustainable use into land use management plans. The Board may wish to consider marginally expanding the scope of the vision statement and program funding objectives in the draft strategic plan, taking into account the guidance provided by GEF Operational Strategy.

5. Projected Long-term Funding Requirements for Biodiversity. Neither the Board nor the mission have specific projections of the funding requirements for biodiversity over the long-term. The NEC has offered to estimate the post-project recurrent expenditures that RGOB will be incurring after the completion of protected area and biodiversity conservation projects in the current donor-funded investment portfolio. The mission recommends that the Ministry of Agriculture make these preliminary estimates within the next three months. Even in the absence of data, the mission's impression is that over the long-term, the BTF income will only be able to cover a portion of the total funding requirements for biodiversity in the future. Over the next year, the Board may wish to commission a detailed comprehensive analysis of future long-term funding requirements for biodiversity, perhaps with reference to the Biodiversity Action Plan that has recently been drafted. This analysis would enable the Board to better judge the optimal size of capital (including additional contributions from donors) within the BTF which should be devoted to biodiversity. As a small country with a strong reputation for integrity and for commitment to biodiversity, Bhutan is in a unique position of potentially meeting a significant portion of its total biodiversity expenditures through the BTF.

6. Broadening the BTF Scope to Cover a Wider Range of Environmental Issues. BTF Board members have legitimate interests in natural hazard mitigation and management of a wider range environmental issues. In a country with Bhutan's terrain and climate, addressing these issues is fundamental to poverty alleviation and quality of life. Some trusts funds of other countries have placed GEF grant moneys in a special account dedicated to funding biodiversity activities, and have used funding from other sources for a broader range of activities. The Board may wish to consider a similar arrangement for the BTF. In this case, the mission recommends that the Board carefully consult individual donors before reallocating any of the existing BTF capital (and associated interest) to a broader range of activities. If the Board decides that the BTF should have a wider environmental mandate, it would also need to carefully consider the implications for fund-raising, programmatic priorities, funding eligibility requirements, secretariat workload, etc. In any case, the mission suggests that the Board consider the issue of

broadening the scope of BTF funding only on its substantive merits, and not as a means to respond to donor pressures to spend more of the BTF investment income in the short-term.

BTF Funding for Increasing Local Implementation Capacity

7. **Overview.** The mission welcomes the Board's decision in principle to use a portion of BTF funds to increase local implementation capacity by funding human resource development and salaries and benefits of incremental staff. As a next step, the Board needs to carefully review the manpower and human resource development proposal, determine the overall parameters for BTF support of the associated expenditures, and consider issues related to the phasing and nature of human resource development.

8. **Manpower and Human Resource Development Proposal.** The manpower and human resource development proposal being prepared by the BTF secretariat in consultation with concerned agencies should provide a valuable basis for Board deliberations on this issue, and replace the earlier version of Annex C of the Strategic Plan. The mission recognizes and values the fact that RGOB officials are taking care to ensure the incremental staff are genuinely needed, will be properly utilized, and will be allocated across agencies in ways that maximize efficiency and collaboration. Clearly, the BTF Board is taking care to steward its resources wisely, and not to spend BTF income just because it is there or because donors are pressing for short-term results. The mission suggests that part (ii) Capacity Implications of Vision is no longer needed in main text of the Strategic Plan, provided that part (i) contains a footnote reference that Annex C provides indicative estimates on the capacity implications.

9. **Parameters Determining Level of BTF Support for Local Capacity.** The Board will now need to consider the manpower and human resource development (HRD) proposal in light of several possible parameters: limits on the BTF allocation for local capacity, limits on the time period of BTF support, and requirements for matching RGOB funds.

- (a) Does the Board want to set a ceiling for the percentage of BTF's annual budget investment income that would be devoted to salaries of incremental staff and other incremental recurrent expenditures? If so, the mission suggests that HRD expenditures not be treated as part of the ceiling. In addressing the issue of a possible ceiling, the Board will need to consider whether in the future there will be significant tradeoffs between funding local capacity and funding "field" programs. At this early stage, such tradeoffs do not have to be confronted.
- (b) Does the Board want to specify the length of time that BTF would support expenditures for specific incremental staff prior to these expenditures being transferred to the regular government budget? If so, the mission recommends that the Board set a range of time. For example, the Board might specify that that regular budget would absorb these expenditures within five years if fiscal conditions permitted, and in any case within 15 years. The Board should also take note that some trust funds in other countries envisage perpetual funding of recurrent costs with no time limits, and that GEF would not require any time limits for Bhutan. The BTF is now a domestic resource and funding by the BTF would be fully consistent with Bhutan's desire to be self-reliant.

- (c) Finally, the Board may wish to consider what would be an appropriate mix of BTF and RGOB funding for incremental recurrent costs. At a minimum, RGOB would need to fund 10%, as per normal requirements.

10. **Human Resource Development Issues.** When the Board reviews the HRD proposal, the mission suggests that it carefully consider issues related to the phasing and the nature of training. The recent experience of the Nature Conservation Section has shown that “bunching” of overseas scholarships has curtailed implementation in the short run. It may be important to incorporate more mentoring and on-the-job training. In reviewing the HRD proposal, the Board should be sure to carefully consider the HRD requirements of BTF Secretariat staff.

Meeting Short-term Demands or Long-term Needs

11. **The Balancing Act of Governing a Trust Fund.** In deciding on its spending policy, the Board could legitimately consider two extreme options:

- (a) It could decide to annually expend the Fund’s entire net income (defined as dividends, interest and asset appreciation) on current environmental program priorities. This would keep the asset base at roughly the same level as it is now, assuming protection against inflation was maintained. This would, in turn, mean that annual income, and therefore BTF expenditures, would not grow but remain at approximately the same level over the long term.
- (b) It could alternatively decide to keep expenditures at a minimal level for a given period of time, turning nearly all income into investments. This strategy would grow the BTF’s financial assets, with the result that the Fund’s future income and funding capability would be much larger.

12. **Capital Growth Versus Short-term Expenditures.** These extreme alternatives are described in order to illustrate a policy choice which the mission encourages the Board to engage. Put simply: *How much of the annual income from BTF investments should be allocated to annual program and operational expenditures, and how much should be reinvested in order to increase the income-producing capacity of the fund in future years?* The case favoring increased current expenditures is probably best made on the basis of potential irrecoverable losses to Bhutan’s biotic wealth—if such prospective losses can be adequately documented. The chief “lobbyists” for increased current expenditures are normally senior government officials and donor agency representatives who naturally wish to see concrete accomplishments during their respective tenures. This short-term orientation is understandable: current needs are real and those in positions of responsibility seek results. Additionally, donor representatives wish to know how their contributions are being used. At the other extreme, the case favoring heavy reinvestment of income/earnings rests on the importance of building up Bhutanese conservation funding capacity and thereby protecting future generations. A trust fund of \$100m would deliver more funding than a fund of \$30m. There are, however, no “lobbyists” to argue on behalf of future generations; they are not yet born. The mission concludes that there is no “right answer” to this policy choice, but observes that growth in national wealth in other countries has not guaranteed that conservation needs will be adequately addressed, even in booming economic times. The current backlog in infrastructure maintenance in US national parks, for example, is estimated at between \$6 and \$8 billion (!).

13. **Operational Experience.** Another argument in favor of beginning to spend is that it would provide the opportunity for the BTF to “learn by doing”, and establish well-functioning operational systems. Gradually increasing the rate of spending over time may help the BTF to minimize mistakes and to ensure that its workload does not exceed its capability.

14. **How Much Is Enough?** To the mission’s knowledge, there is no rational basis linked to the level of income which a trust fund of \$20m would produce. The basis for the size of the GEF grant of \$10m and the subsequent matching contributions which pushed BTF assets to over \$20m probably had mostly to do with the availability of funds at the time and with a general sense that \$20m was a pretty good minimum to work with. At 5% net per annum, such a fund would generate income of \$1m per year for operations and grants. The net contribution of \$1m, it must be stated, was not defended on the basis of a refined calculation of the country’s needs. It may well be that \$2m would be an excellent figure to support the effective, sustained management of Bhutan’s nine protected areas. This raises a question as to whether the Board might wish to re-evaluate the initial goal for the accumulation of assets--*and raise it?* To do so would strengthen the concept of a sustainable fund. It could also, in times of government budget reductions and/or economic crises, offer an additional level of security for the protection of Bhutan’s natural resource wealth. Whatever the Board may decide, the arguments which support a policy of growing the BTF’s financial assets provide reasoned, legitimate responses to the expenditure demands of those who assert the primacy of today’s immediate needs.

Implementation Priorities & Institutional Strengthening

15. **Financial Achievements.** In the short run—the last five years--the BTF’s financial achievements have run ahead of its institutional accomplishments. Financial achievements include the successful accumulation of assets (currently approximating US\$27 million accrued through contributions and earnings) and the utilization of professional asset management services to provide a strong sense of security to contributing donors. In addition, the BTF established, with World Bank assistance, a set of internal financial procedures and controls in order to instill high levels of confidence among all interested parties that funds are being used for the purposes described in public documents. Because the BTF is principally a financial innovation, the Management Board’s decision to give highest priority to developing and securing strong financial policies was entirely appropriate. To have insisted on other priorities would have been a serious mistake.

16. **Programming Capability.** Other aspects of institutional development have lagged behind, including BTF’s capacity for developing and initiating programs through the government’s implementing agencies. As donors and government fully understand, it requires human resources (staffing) and institutional infrastructure to be effective. The BTF has but minimal amounts of both and is only now poised to tackle these program requirements. It will do so within the framework of a 5-Year Strategic Plan which the Management Board will adopt in the near future.

17. **Pace of Development.** The challenge ahead is not whether the BTF will move ahead to develop capacity for program initiatives involving the expenditure of BTF funds, but how smartly and how thoroughly it will be able to do this in the next five years. Taking into account limitations common to the general working environment of Bhutan—which differ substantially

from those of Bern, The Hague, Oslo, Copenhagen or Washington—the answer will depend heavily on the performance of the Management Board and the Director of BTF and on the absorptive capacity of Bhutan’s implementing agencies.

Building Capacity in the BTF Secretariat

18. The following list covers several steps in BTF’s institutional development which should be considered. Most of them have already been identified in the Strategic Plan. Some are intended to help refine elements of the Plan in the areas of institutional capacity and human capacity.

- (a) **Secretariat Benchmarks.** The Board might wish to explicitly define what a fully operational BTF Secretariat would look like in 3-5 years. This would include: number of staff and capabilities of each, physical facilities and preferred office location, communications capability, and the estimated annual operating and program budget. This action would define a provisional goal for the institutional development of BTF, a target subject to change, but nonetheless an organizational goal against which to measure progress. If the words of an anonymous sage, “If you don’t know where you are going, you won’t know when you get there.”
- (b) **Staff recruitment, appointments, and performance upgrading.** Under the Strategic Plan, BTF aspires to facilitate and finance a large number of program activities. If staff are not yet prepared to initiate and manage these activities, a staff enhancement (training) plan should be designed. This could include some form of collaboration with experienced trust fund/foundation officers in other countries since on-the-job mentoring is likely the most efficient for of training.
- (c) **Budgets.** Preparation of two annual budgets, one for programs (grants) and one for the administration of the BTF. The budgets should be prepared by the Secretariat (with initial guidance from the Management Board) and recommended to the Board for approval prior to the beginning of each year. These budgets represent the annual BTF financial plan. And they would be consistent with the BTF’s Five Year Plan.
- (d) **Workplan and Calendar.** Establishment of an annual workplan and calendar of BTF events with emphasis placed on deadlines for action. Most importantly for those outside BTF, schedules for submitting proposals and deadlines for BTF decisions on funding of proposals need to be established and made known. (This aspect of “transparency” demonstrates respect for those seeking funding.)
- (e) **Dissemination of Proposal Guidelines.** Publication and distribution of proposal guidelines and format after Management Board approval. As BTF gains experience, it is almost a certainty that the guidelines will need to be amended, but it is important to establish an open practice of making funding policies known to anyone who has a legitimate interest. This is an excellent means to communicate the high standards which the BTF is applying to its funding decisions.

- (f) **Performance Indicators.** The draft Strategic Plan does not, at this point in its formulation, set concrete programmatic benchmarks with associated expenditures and completion dates for the next 5-year period. It includes a framework for monitoring and evaluating future trust fund performance that is extensive and generally relevant to the task. The indicators are, however, not prioritized, have no quantifiable measures attached to them, and, in some cases, would benefit from placing them on a timeline. For example, what is to be achieved in year 1, year 2, year 3, year 4, and year 5 of the Plan? It might be useful to the Board if half-way through the five-year period, an external party were contracted to evaluate the performance of the BTF in meeting the targets within the Plan.
- (g) **Communication.** The Secretariat needs to establish a communications strategy/policy which is designed to reach all potential stakeholders. When operational this would provide potential fund recipients with the information they need in order to prepare requests for funding, and keep contributing donor agencies well-informed of BTF activities.
- (h) **Accounting and Information Systems.** Future enhancement of financial records/accounting system involving the use of appropriate software. This can wait until the BTF becomes more active in its funding activities. Beyond finances, the Secretariat will, in the future, need to develop a good internal information system which enables it to keep track of all of the requests for funds, grant documents, correspondence on each grant, and reports from each grantee. This system for keeping and retrieving information will probably need to be developed within the next year or two—depending upon the number of grants made.
- (i) **Outside Expertise.** Development of BTF's capacity to tap expertise outside of BTF, on a contractual basis, to perform functions which the BTF itself cannot undertake. "Outside expertise" could be used to design initiatives for BTF funding, to review the technical aspects of proposals, to undertake specific monitoring and evaluation assignments, and to review donor and RGOB funding for environmental conservation, etc. The use of outside expertise is a common practice among trust funds and foundations in other countries.
- (j) **Secretariat Initiatives.** With the adoption of the strategic plan, it is reasonable to expect the Secretariat to develop a capability to take new initiatives from time to time. For example, the Director might identify the need for a specific type of research and seek Board approval for the Secretariat to commission the study. In other words, the Secretariat should be a pro-active operation at times.

Governance issues concerning the Management Board

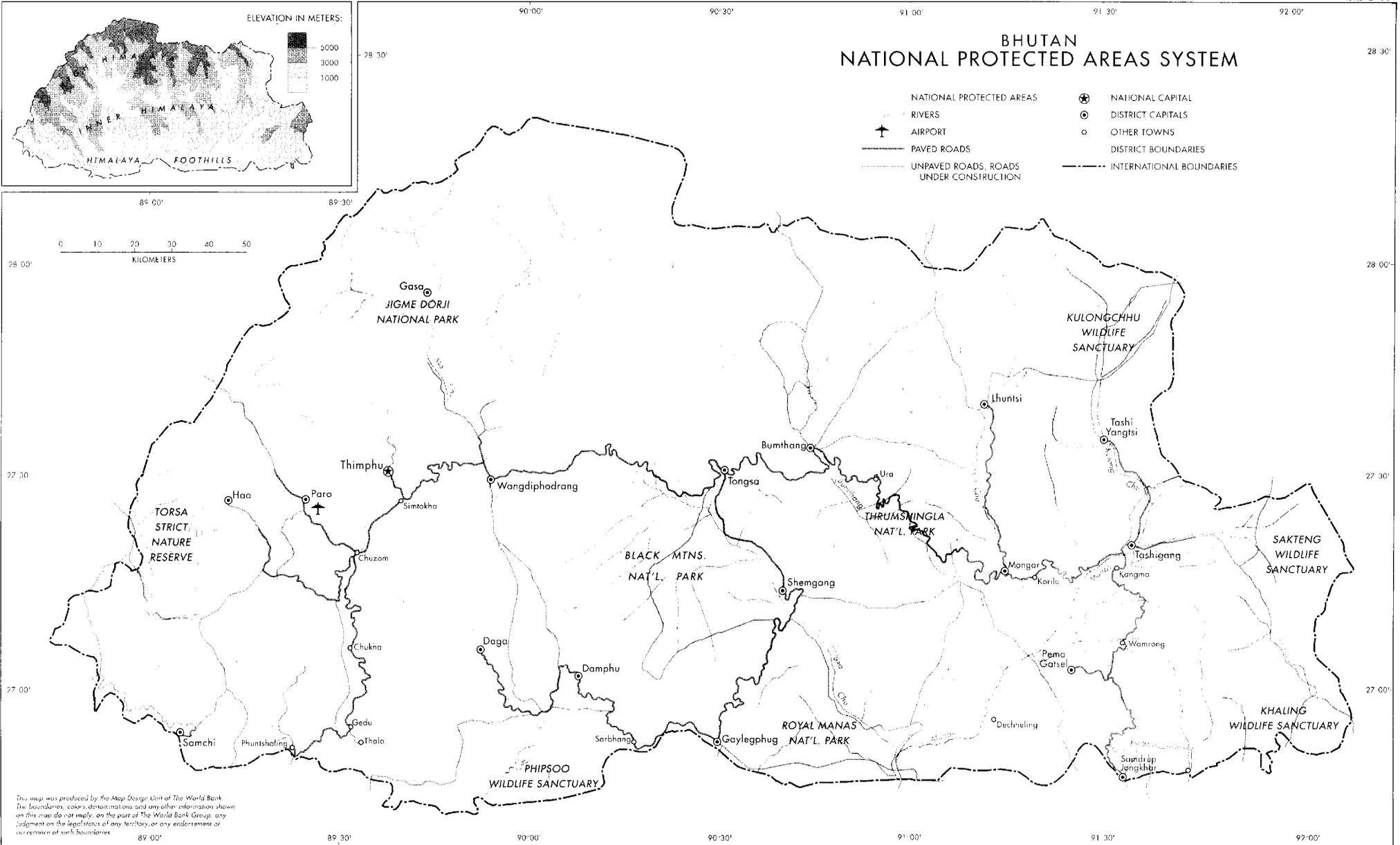
19. **Overview.** The Management Board of the BTF, composed mainly of very senior RGOB officials, contains unusually sophisticated talent. All of the ability and intelligence necessary to direct the affairs of the Trust Fund are there. But there remains a set of issues bearing on the functions of the Board as a corporate body, and it is to these functions which this section is addressed.

20. **Time Requirements.** Growth in the complexity and the size of the BTF program will likely require more time of the Board members. Meetings will need to be more regularly scheduled and decisions will more frequently need to be reached between meetings. This is a logical projection. It will be up to the Board to determine how best to respond to BTF's growth.
21. **Succession.** A policy needs to be formulated to ensure that replacements for each departing board member are selected with great care. The method of selecting future Board members and of choosing the chairman and treasurer should be designed so that the BTF is served by the highest professional standards
22. **Selection of Secretariat Director.** The Board may wish to recognize that the selection and appointment of the Secretariat's Director is likely the most important function it performs. This might lead the Board to design its selection process in such a way that the candidate chosen is the right person to fulfill the vision and achieve the objectives described in the Strategic Plan.
23. **Term of Secretariat Director.** The establishment of a term of office for the Director may be appropriate. Four or five years is reasonable. The term could be renewable.
24. **Treasurer.** The Treasurer of the Board should be a member of the BTF Finance Committee—or at least this idea should be carefully considered.

Management of BTF Financial Assets

25. **Background.** The history of how BTF financial assets have been managed to achieve income is detailed elsewhere and need not be repeated here. UNDP, for multiple contextual reasons which founding members and contributors to the Trust agreed to, served as the initial asset manager. In 1995-6 a change in approach was agreed to and the investment management firm of Mees Pierson was selected to manage the Fund's assets following a lengthy and careful process of screening a large number of investment managers.
26. **Current Issues.** While the management of the Trust's assets—now estimated to be about \$27 million—appears to be in generally good order, there are still a few matters to be sorted out. None is pressing, but each will likely require attention.
- (a) **Asset Management Committee Responsibilities.** The BTF Board might wish to rename Finance Committee to more accurately reflect its asset management responsibilities. In establishing the Asset Management Committee, a good argument can be made to formalize its status—advancing beyond the ad hoc nature of the current BTF Finance Committee. In addition, the Committee might be given a formal set of responsibilities which could include such things as:
- (i) holding regularly scheduled meetings,
 - (ii) reviewing the asset manager's performance on a regular basis,
 - (iii) reporting its views to the Board,
 - (iv) recommending changes in investment strategy to the Board,
 - (v) recommending, as appropriate, changes in investment managers to the Board, and

- (vi) identifying and recommending a company to engage in periodic reviews of the performance of the investment manager(s).
- (b) **Asset Management Committee Membership.** As a part of formalizing the status of a BTF Asset Management Committee, the Committee's membership should be established by the Board. The current membership, which includes individuals from RGOB's Embassy in New York, from UNDP, and from WWF, appears to serve well at present, but a more enduring arrangement will probably need to be worked out before too long.
- (c) **Environmental Screening.** If the Board wishes to establish some environmental "screens" for its investment policy—that is, instructions to its investment manager(s) specifying which types of companies to avoid investing in because of their poor environmental records—the mission suggests that it do two things. It should seek information from other trust funds/foundations or NGOs (e.g., WWF/US) to learn what "screens" they are currently using. Second, in making policy on this, it should adopt a simple, basic screen rather than a complex set of screens. WWF has previously made a recommendation in favor of simplicity.
- (d) **Definition of Inflation.** In order for the Trust Fund not to lose ground to inflation, the assets of the Fund and the spending policy of the Fund must be managed in such a way that the corpus is not reduced. Managing assets for "total return" means discounting earnings for the rate of inflation. Because inflation in industrialized countries where BTF's assets are invested may be different from that in Bhutan, the Board may at some point wish to make a choice as to which figure to use. The mission's present recommendation is that, for the sake of simplicity, a US inflation figure be used.



This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.