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FROM MONASTERIES TO CAPITAL MARKETS

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CULTURE AND ENDOWMENT

The concept of environmental endowment is perhaps recent, but in Bhutan, the culture and spirit of endowments precede the advent of modern socioeconomic development planning. For centuries, the assets of community-owned monasteries (*lhakhangs*) were actively invested in local systems, either through share-cropping of monastery land and livestock or monetary investments, sustaining both religious practices and the economic well-being of the community. These cultural experiences on community 'investments' have enabled Bhutan to sustain public and material support for environmental conservation.

The Bhutan Trust Fund for Environmental Conservation (BTFEC) is a self-reliant funding source that can help many to protect Bhutan's environment. By identifying and implementing several major conservation initiatives in the past decade, and with the involvement of grass-root communities, a non-governmental organization and several agencies of the Royal Government of Bhutan (RGOB), the Trust Fund has filled an unoccupied niche in conservation. This paper describes the early stages of the Trust Fund's development and recent strategic advancements.

A GLOBAL PARTNERSHIP

The BTFEC was established in January 1991, with a US\$1 million donation from the World Wildlife Fund. Following the United Nations Conference on Environment and Development (UNCED) in 1992, it received a \$10 million grant from the Global Environment Facility (GEF). The funding mechanism of the GEF is designed to reverse the declining state of global biodiversity through stability in global climate change, biodiversity conservation, reduction of ozone-depleting chemicals and protection of international waterways (Yonzon, P.B. 1998. National Biodiversity Action Plan Project, Kathmandu). By 1996, Bhutan successfully mobilized an additional \$10.3 million from its development partners. Significant contributions from the respective governments of the Netherlands, Norway, Finland, Denmark and Switzerland were instrumental in making the Trust Fund a viable institution

(fig. 1). The Bhutan Trust Fund was legally incorporated under the Royal Charter in 1996, for the promotion of social welfare through environmental conservation of forests, flora, fauna, diverse ecosystems and biodiversity in Bhutan (Royal Charter for the Trust Fund for Environmental Conservation. 1996. Tashichho Dzong, Thimpu).

In order to maximize returns, the Bhutan Trust Fund has invested its assets in the United States and global capital markets (Table 1). The investment portfolio is the most critical asset of the Trust Fund because long-term conservation financing can not be sustained without healthy investment revenues. As the investment portfolio has significantly increased, the market value of the Trust Fund's assets now exceed \$30 million. Also, it has increased program spending, which exceed \$1 million annually for two successive fiscal years (1999-2001). Just as institutional success is measured by capitalization, revenue meeting expenditure, strategic grant making, and growing market value, the Trust Fund has also demonstrated tremendous global benefit, credibility of grantees, and financial innovation.

GOVERNANCE

The Bhutan Trust Fund operates independently of both the Government and any civil society group. The management board is the decision-making body providing strategic guidance, setting investment policy, and deciding on funding for grant proposals. In May 2001, the board was fully 'Bhutanised', and is now comprised of representatives from the Government's agriculture, environment, education and finance sectors, and civil society including the private sector. In investment matters, the board is assisted by a specialized three-member asset management committee.

A small secretariat of five full-time staff manage the Trust Fund's operations and implements the board's decisions. It is assisted by a part-time, multi-sectoral technical advisory panel who help review programs and grant proposals. As grants are implemented by various

government agencies, rural communities, NGOs, and individuals, the secretariat coordinates grant implementation, and regularly reports progress to the board. Grants are limited to \$300,000 each for a maximum duration of three years. The secretariat also awards discretionary small grants of less than \$8,500 each, totaling \$43,000 each year, mainly for applied conservation research. Each fiscal year, its books are audited and detailed financial statements are publicly disseminated.

STRATEGIC FUNDING OBJECTIVES

The first five-year strategic funding plan (1997-2002) was formulated from priorities outlined in the Biodiversity Action Plan (Ministry of Agriculture, 1998. Biodiversity Action Plan for Bhutan. RGOB, Thimpu), National Environmental Strategy (National Environment Commission, 1998. The Middle Path. RGOB, Thimpu) and the government's five-year socio-economic development plan. In addition, the Bhutanese society and donor community were widely consulted during its formulation.

Strategic funding objectives of the Trust Fund focus on: (i) in-situ and ex-situ conservation initiatives, (ii) integrated conservation and development, and (iii) conservation education and public awareness. In supporting in-situ and ex-situ conservation initiatives, including sustainable utilization of species and genetic resources, activities eligible for funding include (a) capacity building for integrated conservation and development in protected areas with management plans, (b) conservation management planning and infrastructure buildings for parks yet to be brought under scientific management, (c) enhancing central government capacity to provide specialized support to protected areas management, (d) protection and/or restoration of the biophysical environment, and (e) sustainable forest management and conservation of agro-biodiversity (BT FEC, 1997. Strategic Plan 1997- 2002. Thimpu).

While strengthening integrated conservation and development planning through conservation research and monitoring of biodiversity change, the Trust Fund is building local capability to (a) conduct socio-economic and biodiversity assessments, inventories, and conservation research, (b) organize, analyze and provide access to conservation information, and (c) monitor biological change in protected areas and national forests.

To promote conservation education and awareness of conservation policies and issues, the Trust Fund is supporting (a) development of non-formal conservation awareness programs, (b) integration of environmental education into the national education curriculum, (c) preparation of resource materials and teaching aid on the country's natural heritage, (d) the involvement of religious communities in promoting conservation values and ethics, and (e) awareness building of conservation legislation, public policy and natural resource management regulations.

A PARADIGM WITH GLOBAL APPEAL

The Bhutan Trust Fund is widely recognized abroad and at home. Being the world's first environmental trust fund, it has inspired at least 17 similar funds elsewhere in the world. These second and third generation environmental funds have sophisticated financing and investment mechanisms whose progression are much of interest (Mikitin, K. 1995. Issues and options in the design of GEF supported trust funds for biodiversity conservation. Environment Dept. Paper No. 011, The World Bank, Washington, DC; Tavera, C. and Vasquez, P. Eds. 1996. Regional consultation on national environmental funds in Latin America and the Caribbean. Ecofondo, Santafe de Bogota, Columbia; Norris, R. et al. Eds. 1997. Report on the first Asia-Pacific forum on environmental funds. Cebu, Philippines; Norris, R. Ed. 2000. The IPG handbook on environmental funds: A resource book for the design and operation of environmental funds. The Interagency Planning Group on Environmental Funds, New York).

As of now, these funds which are also called national environmental funds, have been capitalized from a variety of sources including debt-for-nature swaps, bilateral debt reduction agreements, trust funds, foundations, endowments and similar grant-making mechanism for the maintenance of protected areas as well as a wider range of environmental and sustainable development activities (Dillenbeck, M. 1994. National environment funds: a new mechanism for conservation finance. Parks. Vol. 4 No.2: 39-46). They also provide tremendous opportunities for the original model in Bhutan to further its strategic and capitalization efforts (World Bank. 1999. Aide memoire of the 1st biennial review mission for the Bhutan Trust Fund for Environmental Conservation. South Asia Region, Washington, DC.).

At home, the Bhutan Trust Fund has inspired innovative mechanisms for social development. A recent example is the Health Trust Fund, currently capitalized with \$15 million against an operational target of \$24 million. In an innovative strategy, it secured a concessional \$10 million loan from the Asian Development Bank repayable over 40 years, which is being effectively used to match other contributions. Similarly, the Youth Development Fund was launched in 2001 as an NGO, and a cultural trust fund is being set up. Even Bhutan's national pension fund has invested almost half of its assets in the global capital markets. All these fund-generating initiatives have used the Bhutan Trust Fund as a model since the latter's financial innovation and technical credibility received wide international support and public participation.

The Trust Fund initiative goes a little further with the Royal Society for the Protection of Nature (RSPN), Bhutan's only environmental NGO. In order to sustain its core operations, RSPN is establishing a \$1 million endowment, to which the Bhutan Trust Fund has committed \$450,000 to attract matching contributions. As a result, the RSPN is gradually moving towards financial sustainability.

KEEPING WITH THE PACE OF CHANGE

Bhutan's vision on decentralization, empowering rural communities with economic decision-making authority, has important conservation implications that could provide a template to all ground work on conservation and development. To complement this framework, a large number of recent grants supported by the Trust Fund include monitoring economic changes in rural livelihoods, understanding patterns of fuelwood consumption, environmental education in 361 primary schools, creating five faculty positions in the natural sciences at Sherubtse College, instituting environmental monitoring protocols in forest management, and a financing scheme with the Ministry of Finance to recruit and train more than a hundred staff for field conservation. With the present annual growth rate of 3.1 percent, Bhutan's population

(667,500 in 2000) could cross 2.5 million by 2040 (National Environment Commission.1998). Urbanization is rapid; more timber, fuelwood and clean water are needed than before. These emerging ecological stressors collectively may pose serious threats to the country's biodiversity.

As it is difficult to track the effects of multi-faceted development on natural resources, the Trust Fund has yet to devise a comprehensive mechanism to identify and mitigate emerging environmental issues connected with growing urban demographics, resource-related issues in rural areas, and the impact of geo-political realities.

Although the Trust Fund is investing substantively in building individual and institutional capability for conservation, it could be argued that such interventions cannot by themselves effectively mitigate urban pressures.

Figure 1. Endowment progression of the Bhutan Trust Fund.

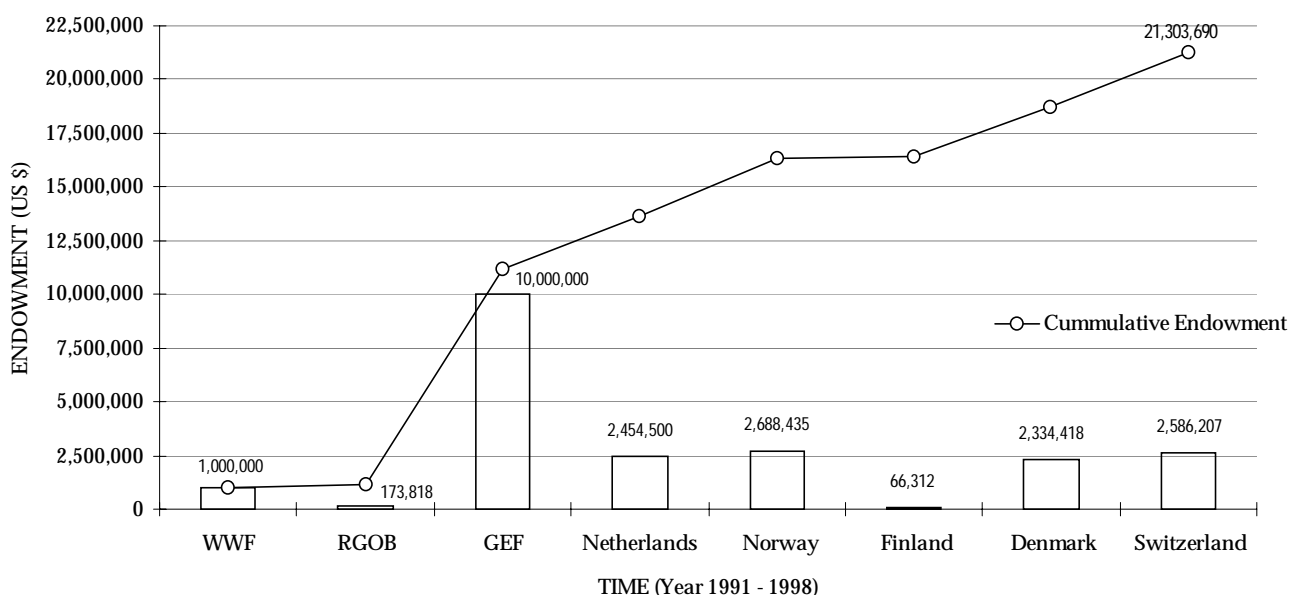


Table 1. Growth of the Investment Portfolio of the Bhutan Trust Fund.

Fiscal Year	Investment Portfolio (US\$)	Revenue	Expenditure	Reinvested Income
1992-93	9,654,076	119,188	71,115	48,073
1993-94	10,460,609	540,092	173,342	366,750
1994-95	11,409,139	455,133	144,946	310,187
1995-96	15,970,346	716,482	164,370	552,112
1996-97	23,255,736	1,920,924	213,754	1,707,170
1997-98	26,250,447	3,132,153	177,462	2,954,691
1998-99	28,781,214	2,849,755	430,612	2,419,143
1999-00	29,896,698	2,251,779	1,129,499	1,122,280
	Total	11,985,506	2,505,100	9,480,406

Environmental issues connected with increasing human needs have not been comprehensively addressed, and as a proponent of sustainable development, the Trust Fund needs to know the precise nature of these emerging threats.

SYNERGY - THE FUTURE ROAD MAP

Considering the evolution of various second and third generation environmental funds elsewhere, three probable synergetic roles exist for the Bhutan Trust Fund: i) as a financier of the government's recurrent costs of conservation; ii) as a parastatal conservation agency; and iii) as an independent grant maker guided by strategic five-year planning cycles.

The first option relates to financing the government's recurrent costs of conservation. Initially, when mobilizing contributions to its endowment, the Bhutan Trust Fund was expected to finance the recurrent costs of the government's conservation programs, especially for protected areas and the Government's Nature Conservation Division. The Trust Fund has since grown out of this role as its resources can be more effectively utilized to set up conservation infrastructure in the field, rather than assuming the central government's budgetary responsibilities. Importantly, the government also wished to continue funding conservation directly to demonstrate its commitment to environmental conservation. One of the key issues of this option, is the amount of funding available from the Trust Fund, which is much less than the existing amount required by the Government for nature conservation.

A second probable course for the Trust Fund is to evolve into a parastatal conservation agency. A 'parastatal' is an organization with many of the functions of a government agency, but run by an independent board of directors appointed by the government. Successful conservation

parastatals are operating in South Africa, Kenya, Tanzania, Madagascar, the Seychelles and Canada, with a few in transition in Zimbabwe, Uganda and Zambia (Spergel, B. 2000. Concept paper on the potential establishment of a parastatal conservation agency in Bhutan. Bhutan Trust Fund for Environmental Conservation, Thimpu. Unpublished report). The governance structure of a parastatal requires a careful deliberation if a single parastatal should be established to manage all of Bhutan's national parks. Also, revenue - sharing and establishing sources for more revenue are important. Spergel (2000) has explored other potential sources in Bhutan for parastatal revenue.

A third option is to maintain the present status quo, whereby annual grant making is guided by five-year cycles developed and planned in tandem with the government's five-year socio-economic development plans. Currently, the Trust Fund is implementing its first five-year strategic plan outside the government. The key issue in maintaining the present set-up, is the inadequate level of public participation in the Trust Fund's grant making. Therefore, stakeholders' absorptive capacity of grant resources, need to be optimal. All these three above scenarios have been evaluated in detail for their potential to fulfill the social welfare mandate (Namgyal, T.S. 2001. Sustaining conservation finance: future directions for the Bhutan Trust Fund for Environmental Conservation. Journal of Bhutan Studies. Vol. 3, No.1: 48-83).

As the Bhutan Trust Fund ensures that its resources are publicly accessible for education, research and environmental advocacy, its future role will be determined largely by political economy and the subsequent effects of land-based development. Therefore, there is now a strong need to begin mapping the future road for synergy where population-related developments will be intrinsic to conservation. By fairly equating economics with ecology, Bhutan could perhaps continue to maintain its environmental leadership in South Asia and beyond.

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