

Nepal Trust Fund For Conservation of Biodiversity ***by Brian Peniston***

I. History

Since 1993, officials in Nepal have expressed interest in designing and implementing mechanisms to support conservation of biodiversity activities in perpetuity in Nepal. A dedicated trust fund has been suggested as the most appropriate mechanism to conserve Nepal's natural heritage. Informal discussions started in 1993 between officials of the Government of Nepal and international conservation organizations concerning the formation of a Trust fund for conservation. In response to these discussions, it has been suggested that Nepal officials create a sustainable endowment fund. Many of the details of structure, governance, and operations are still under discussion.

II. Goals

The proposed goals of a Nepal Trust Fund for Conservation of Biodiversity are to create an endowment fund dedicated to support biodiversity conservation activities and strengthen Nepal's institutional capacities to manage and protect its natural heritage. Such a fund should be designed to operate in perpetuity. The suggested mechanism is to create a sustainable conservation trust fund, consisting of an endowment where principal is invested in low risk, high-yield investments to generate annual interest. Investment interest would provide financial support for conservation activities, agreed upon in advance by a Trust Fund Management Board. A portion of the income interest should be reinvested into the endowment to protect the principal against inflation, currency devaluation or international currency fluctuations.

III. Legal Structure

This is a proposed trust fund and is not yet operational. It will be designed to operate within the existing legal structures of Nepal, but will probably require special legislation to become operational. These issues are still under discussion.

IV. Governance/Administration

Many of the details concerning governance of the proposed trust fund for Conservation will need to be determined. It is presumed that the fund would be governed by a management board including representatives from government departments, nongovernment conservation organizations and contributing donor agencies. The board of trustees would be composed of representatives from key government ministries, noted national and international conservationists, national and international nongovernment agencies and donor agencies. A key task remaining is to carefully consider and recommend the appropriate representation and composition for a management board. It will be important for trust fund management to include representatives from all major stakeholders involved in conservation, and strike a balance between Government officials, nongovernment conservationists and outside donor agencies. A number of factors will need to be considered to ensure that trust fund management maintains a neutral and unbiased focus on biodiversity conservation and is not subject to domination or control by specialized interest groups. Steps must be taken at the design stages to ensure that funds are not diverted to other causes.

This is a proposed trust fund and is not yet operational. It has no administrative structure at present.

V. Funding

It is expected that the proposed fund will be an endowment, and will be designed to operate in perpetuity. Initial funds will be sought from international donors, both bilateral and multilateral. Given that Nepal has no history of managing and operating a dedicated endowment fund, a two-stage process may be considered. Phase One would consist of raising initial capital and developing a management structure with responsibilities to implement activities on a trial basis. As expertise is gained, the scope of the trust fund could be expanded and additional principal raised. These issues are still under discussion.

VI. Fundraising

No action has occurred for this proposed trust fund. Funds are being sought for a Trust Fund Formulation Mission to design the appropriate mechanism to support biodiversity conservation in Nepal. The idea that the Government of Nepal could contribute a percentage of its peak climbing revenues to initiate the formation of principal is under consideration. Such a contribution by the Government of Nepal would be limited in scope and probably only occur at the start up phases or until capitalization targets are met.

VII. Investment Policy

Investment policies have been established. Discussions are ongoing. It is probable that investments will be made offshore to ensure higher yields and less financial risk, as Nepal's investment sector is in its infancy. Management will probably be by a professional finance management group, and it is possible that these services may be sought on a pro bono basis.

Investment criteria are yet to be designed, but will likely include objectives such as:

- Preserve endowment fund principal;
- Yield interest of 6-10 % per annum; and
- Pose minimal financial risks.

VIII. Relation to National Environmental Plans

The proposed trust fund objectives will be coordinated with the national environmental planning framework, with a strict concentration on activities supporting biodiversity conservation. It will not focus on conservation of cultural heritage as an objective. Relationships to other relevant national environmental and conservation policies in Nepal will be determined at the design stages.

IX. Criteria for Grants

Investment interest from the proposed conservation trust fund in Nepal would be used to support a variety of conservation activities unanimously agreed upon in advance by the trust fund management board and reviewed annually. The precise combination of activities to be supported will be one of the considerations for a project formulation team.

Possible activities include assisting specific national parks and protected areas, strengthening local capacities for long term management through training and skills development, and providing support to innovative mechanisms which involve local communities in the conservation and management of biodiversity. Nepal may design a conservation trust fund which would go beyond models currently operating by providing a large portion of investment income to support community based biodiversity conservation efforts.

X. Disbursements to Date

There have been no disbursements to date.

XI. Monitoring and Evaluation System

No monitoring and evaluation systems have yet been designed. This will be one of the tasks for the project formulation team.

XII. Auditing Requirements

Auditing systems for the proposed trust fund have not yet been determined. A combination of internal and external audits are envisioned.

XIII. Perceived Needs

Perceived needs for a trust fund for conservation of biodiversity in Nepal will be determined during the design stage. Additional needs will be identified after operations are initiated.

XIV. Computer Resources and Capabilities

This proposed fund has no operational equipment at present. Computer equipment is readily available for purchase in Nepal. Internet access is also available in Nepal at market prices.

XV. Notable Accomplishments

None to date.

XVI. Other Challenges

To establish a Conservation Trust Fund for Nepal, a two step process is proposed. Step one consists of forming a pre-formulation team, organized by Government of Nepal officials in collaboration with international donors and participating non government organizations with an interest and concern for biodiversity conservation in Nepal. The pre-

formulation team would be responsible for developing an initial concept for a Conservation Trust Fund for Nepal, and would develop terms of reference for a more formal project formulation mission. The pre-formulation team would also identify key officials and individuals to consult in Nepal and would oversee the operations of the project formulation mission.

The second step would consist of fielding a formal Project Formulation Mission to visit Nepal. This team would follow up on suggestions provided by the pre-formulation team and would explore these ideas in greater detail. The project formulation team would define issues, including appropriate management board structure, appropriate conservation activities, operational issues in Nepal's legal context, and the minimum principal required. Based on these investigations, the project formulation team would design a conservation trust fund for Nepal.

A conservation trust fund will allow Nepal to continue to experiment and find innovative solutions for conservation of biodiversity, including granting local communities greater authority to sustainably use and manage the country's natural heritage. Possible activities that the fund might support include:

- Management of protected areas;
- Strengthen DNPWC staff and institutional capacities through management and community development training;
- Develop innovative mechanisms to implement Nepal's buffer zone legislation;
- Support new mechanisms for community based biodiversity conservation, including integrated conservation and development projects, sustainable utilization of genetic resources, and other innovative approaches;

- Investigate other areas of high biodiversity value (in and outside the protected area system);
- Support innovative mechanisms for biodiversity conservation outside Nepal's protected area system; and
- Support other appropriate activities determined during the trust fund formulation mission.

Possible Two-Phased Structure for Initial Implementation:

Nepal has a long history of development assistance and a strong performance record for achievements in the field of biodiversity conservation. However, the Government of Nepal has not yet established or managed endowments or similarly structured trust funds. Given this lack of experience, a two-phased approach may be most appropriate for Nepal.

Phase I might be a pilot phase where initial capital is small and interest income is used to support only a few conservation activities. As management expertise and experience are gained, the trust fund could seek to raise additional principal. The endowment would generate sufficient interest to support conservation activities at a larger national scale during Phase II. Small targets would enhance success potential at the start-up phase and could be expanded as the Management Board proves its capacities over time. Eventually, the fund may seek to generate between US\$40 to US\$50 million in principal. The project formulation mission would need to explore these and other options in detail during field work.

The project formulation team would conduct field work in Nepal and report their findings and recommendations. While conducting field work, the project formulation team would also be building consensus and support for the trust fund among Nepali officials and potential donor organizations in Nepal.

At present, an informal working group has been established in Nepal to consider this task. This group will need to be formally created and provided with authority to contract and oversee implementation of a project formulation mission to Nepal. Possible representatives include Department of National Parks and Wildlife Conservation, Ministry of Forests and Soil Conservation, Ministry of Finance, Ministry of Population and Environment, National Planning Commission, Environmental Protection Council, The Mountain Institute, World Conservation Union (IUCN), World Wildlife Fund, American Himalayan Foundation, King Mahendra Trust for Nature Conservation, Nepal Forum of Environmental Journalists, and other prominent organizations or individuals.

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