



## ADAPTATION FUND

25 January 2018

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Adaptation Fund Board

***Accreditation Panel Recommendation on Accreditation of the Bhutan Trust Fund For Environment Conservation (BT FEC) as National Implementing Entity for Bhutan***

Having reviewed the accreditation application of the Bhutan Trust Fund For Environment Conservation (BT FEC), the Accreditation Panel recommended that the BT FEC be accredited as a National Implementing Entity (NIE) of the Adaptation Fund.

A summary of the review can be found in Annex I

***Accreditation Decision:***

Having considered the recommendation of the Accreditation Panel, the Adaptation Fund Board decided to accredit the Bhutan Trust Fund For Environment Conservation (BT FEC) as a National Implementing Entity (NIE) of the Adaptation Fund for five years, as per paragraph 38 of the operational policies and guidelines for Parties to access resources from the Adaptation Fund. The accreditation expiration date is 24 January 2023.

**Decision B.30-31/15**

## **ANNEX I: REPORT OF THE ACCREDITATION PANEL ON ITS ASSESSMENT OF THE BHUTAN TRUST FUND FOR ENVIRONMENT CONSERVATION (BTFFEC) AS A NATIONAL IMPLEMENTING ENTITY (NIE) OF THE ADAPTATION FUND**

### **I. The Applicant**

BTFFEC sees itself as the world's first environmental trust fund. It was established in 1992 as a collaborative venture between the RGoB, United Nations Development Program, and World Wildlife Fund. An endowment of US\$20 million was set up as an innovative mechanism to finance conservation programs over the long term in Bhutan. Donors to the trust fund include the World Wildlife Fund; the World Bank/Global Environment Facility; and the governments of Bhutan, Denmark, Finland, the Netherlands, Norway and Switzerland.

In May 1996, BTFFEC was legally incorporated under a Royal Charter. This development made BTFFEC autonomous of government, permitting it to accept funds direct from both donors and the government and implementing projects funded by both sources. Today, it is an effective conservation grant-making organization that receives grant funding from the donor community and finances projects from this source as well as from income earned from its endowment fund.

To date BTFFEC has implemented 183 projects the bulk of which are small-scale projects (funded by BTFFEC) as well as some large projects (donor-funded). Its Secretariat is small by design with permanent staff of 20 people – of which three have been recruited in advance of successful AF accreditation – and in due course possible Green Climate Fund accreditation.

In the 2015–2020 Strategic Plan, BTFFEC's vision is that, *“All citizens champion their natural heritage of healthy forests, clean waterways, diverse flora and fauna and intact eco-systems and takes personal responsibility for maintaining a green and healthy environment for themselves and future generations”*. Its mission is *“To promote the socio-economic welfare of Bhutanese citizens by funding conservation of their flora, fauna, diverse eco-system and biodiversity; and addressing the adverse effects of development on Bhutan's natural environment”*.

BTFFEC has a long history with the World Bank/GEF and has implemented multiple projects funded by them. The World Bank/GEF reports satisfactory progress against all the project development objectives and concludes that BTFFEC shows satisfactory progress against project indicators and targets. This has been achieved by BTFFEC developing the institutional capacity to handle these – and other - environmental projects.

Finally, and ahead of AF accreditation, BTFFEC has identified one large-scale project that it will submit for AF funding just as soon as its accreditation by the AF Board is successful.

## **II. The Application**

On 23 November 2016, BTFEC applied for AF accreditation. The application was supported by over 200 documents. Over the Panel Review period, BTFEC engaged with the Secretariat and Panel (calls, visits, workshops, and finally the site visit) to ensure that it was responsive to AF requirements. This interaction, led by BTFEC's Director, was key to the speed and success of BTFEC's application leading to the Panel's accreditation recommendation dated December 2017.

## **III. Financial Management and Integrity**

### **A. Legal Status:**

The BTFEC is a legally and administratively autonomous entity governed by its Management Board (in effect its Board of Trustees). The Management Board's obligations are articulated in the Bylaws. The Bylaws also establish a Secretariat that is headed by a Director (Chief Executive Officer) who is appointed by the Management Board. The Director appoints staff to manage BTFEC on a day-to-day basis.

In 1996 it was legally incorporated under a Royal Charter as a non-profit organization, autonomous of the government. BTFEC's mandate is to support the six themes of field programs as described in the Royal Charter and programs to address ecological stressors having direct linkages and/or adverse impacts on the natural environment of Bhutan as defined in the periodic strategic plan.

### **B. Financial statements and project accounts:**

The Annual Financial Statements are prepared using the RGoB's 'generally accepted reporting framework'. The Government adopted International Public Sector Accounting Standards (IPSAS) and is implementing it over the 2015-2020 period. While this means that BTFEC's financial statements do not yet fully comply with IPSAS, they are in process to this end. The external auditor, the Royal Audit Authority (RAA), has provided clean opinions on each of the years reviewed – with minimal issues for management to follow up. This positive result was confirmed with the Auditor General who, at the site visit, informed that his staff had undergone training on environmental auditing and were conducting thematic performance audits. A recent performance audit covered Bhutan's National Parks. In this audit, the RAA complimented BTFEC – both as grantor and implementing entity – on its work. Thus, BTFEC will now be subjected to annual financial audits as well as periodic environmental performance audits.

### **C. Internal Audit and Governance and Audit Committee:**

As a condition of the World Bank/GEF project, BTFEC contracts an internal audit specialist to conduct audits, mainly at the project level. This arrangement is expected to come to an end in late 2018. In anticipation of this, and to respond to the AF's internal audit requirements, the BTFEC Board has (1) approved revised terms of reference for its internal

auditor; (2) created a staff position of the internal auditor; and (3) now fully adopted the RGoB National Internal Control Framework (NICF) that mandates that internal audit follows international internal auditing Standards. The Panel's review of the contracted internal auditor's work to date is that he is doing this even though his focus is more at the project level. The Panel inform too that internal auditing is now independent of management and reports directly to the Governance and Audit Committee (GAC) whose terms of reference has been revised to reflect this.

The GAC is a Board committee with a majority of independent members whose professional backgrounds show the right level of competence for the task. The GAC is being expanded to add a member with environmental, social and gender expertise. This committee's role in overseeing risk and internal auditing is articulated in its terms of reference and is being put into use with the selection of the internal auditor. In discussion with the outgoing and incoming GAC chairs, both fully appreciate the importance of their role.

#### **D. Internal Control Framework:**

BT FEC applies the 2013 National Internal Control Framework (NICF) that applies the COSO Framework concept. It covers internal auditing, financial management, budgeting, the PEMS System, and property management. A recent decision by BT FEC's Board is that its internal auditor must now comply with NICF means that BT FEC will fully use the Framework.

To date, internal audit has, over time, made numerous recommendations relating to control framework enhancements. BT FEC provided an update as of August 2017, confirming the status of implementation showing the efforts made to fully implement recommendations. The incoming GAC chair has decided that implementation of outstanding recommendations made by both internal and external auditors is a priority for the GAC.

#### **E. Payment and disbursement controls and the budgeting process:**

For payments, an Operations Manual details the full process from requisition through to check signing. This description is thorough and is built into the SAGE ACCPAC system software. The internal auditor has reviewed payments at the project level and the Royal Audit Authority (RAA) has audited elements of BT FEC's payments system and controls. No significant issues have arisen from these routine audits.

For budgeting, BT FEC takes a cautious view in line with the provisions of its Royal Charter. Because it relies on its own endowment fund income to finance grants as well as the Secretariat's fixed costs, it proposes conservative budgets and monitors expenditure carefully. Its starting point is a conservative estimation of portfolio income which provides the overall budget expenditure limit. Management confirms that since inception BT FEC's net expenditure has not outstripped its income. For donor-funded projects, to be overseen by BT FEC, a limited number of new staff posts have been added to ensure it has the capacity to handle additional work, when it is accredited to the AF.

The Operations Manual requires a detailed budget for all projects that are appraised and approved in due course and used to monitor financial aspects of projects.

#### **IV. Project Cycle Management**

##### **A. Procurement**

The Operations Manual details the procurement process end-to-end. There is a competitive procurement process, a Tender Committee, and International Bidding and National Bidding requirements that must be followed. Where necessary, BTFEC follows World Bank procurement rules that are more than sufficient for AF purposes.

There is procurement planning - especially for donor-funded projects.

The RAA reviews the procurement process as part of the annual audit process and reports anything out of line. In the latest RAA Management Letter, it reported one procurement issue that BTFEC has already remedied.

If anything, the procurement process and requirements are somewhat 'onerous' given the overall size of core and non-core procurement and the size of BTFEC's staff. Nonetheless, BTFEC recognizes the need to increase staff capacity to deal with the increased procurement volume with new donor-funded projects anticipated. To this end, the Board has approved an addition procurement staff post.

##### **B. Project identification and appraisal:**

As with almost all BTFEC operations, the Operations Manual has directives and processes that cover project identification through the entire project process.

Twice a year BTFEC invites project-funding applications to be submitted. Management conducts a screening of all applications and, on a competitive basis, selects projects it might wish to finance. These undergo further appraisal before a final selection is made including being reviewed by an independent Technical Review Panel (TAP). The TAP make recommendations designed to enhance the project that the applicant responds to before the Board receives the final proposals for project funding from management.

BTFEC attracts two types of project seeking funding: those it will fund out of its endowment income (small grants), and those who would attract donor funding (e.g. AF). Its project portfolio shows that small grants total between US\$1,5 – 1,8 million annually. It sets financial and time horizons for such projects (i.e. US\$224K per project with a maximum timeline of three years). Its largest project is the 2013-18, five-year World Bank/GEF project worth US\$4,5 million that multiple components.

As of October 2016, the BTFEC portfolio comprises 32 projects worth some US\$5,6 million.

BTFEC has revised and expanded the information on its website to require all applicants to consider E&S and gender elements more comprehensively than before and has provided a written commitment to the AF that all projects funded by it will include the application of AF's E&S and Gender standards throughout the project cycle including to project closure and final evaluation.

### **C. Project implementation planning and quality-at-entry review**

**Planning and Quality-at-Entry:** Applications were reviewed showing that grant project proposals do consider E&S and Gender risk assessment criteria and do a detailed risk assessment of the same.

For this purpose, BTFEC has revised its Risk Management Framework to incorporate E&S and Gender Risk as well as Fraud and Corruption Risk and clearly lays out Management's responsibilities for (1) risk management of the BTFEC itself (operational and financial): and (2) project risk management. The Board approved this comprehensive Framework in October 2017.

To ensure quality-at-entry, BTFEC employs a two-screen process. The first screen is done by the BTFEC Secretariat to see if the concepts are good. At this stage, the Secretariat goes further and assists applicants improve the quality of their proposal. The TAP performs the second screening reviewing the technical soundness of proposals submitted to it. The TAP also makes recommendations to improve proposals.

At the Site Visit, the TAP confirmed its role was that of quality control. They review proposals forwarded to them by management to decide whether a proposed project fits the Gross Happiness Commission criteria (only for RGoB projects) and whether the scope and technical details are appropriate for all proposals. Minutes confirm that the TAP requires proposals to be revisions in almost all cases. The revisions are designed to ensure that projects have the greatest technical impact. The TAP has decided to add an E&S expert to the Panel. We also confirm that the TAP now reviews proposals for (1) technical, financial, economic, legal, E&S and Gender issues as well as planned livelihood impact; (2) sustainability; and (3) to ensure costs are realistic.

Finally, a management letter of assurance to the AF provides additional that E&S and Gender components will be mandatory for all BTFEC projects going forward.

**Project Budgeting:** BTFEC provided examples of 2017 projects that showed detailed budget information facilitating easier cost monitoring over the project life cycle. For this purpose a template (available on the website) is used.

### **D. Project monitoring and evaluation during implementation**

The BTFEC Operations Manual is specific as to what is required for Monitoring & Evaluation (M&E) for all projects in its portfolio and is the responsibility of the Chief Program Officer (16 years' experience in project implementation and management) and Program Officer.

Project M&E reports are presented and discussed in BTFEC staff meetings and the feedbacks are shared with the concerned grantees with follow-up actions noted.

The Board approved a new M&E Framework (including detailed requirements, etc.) in June 2017. This codifies practices that have been in place since the World Bank/GEF in 2013. The World Bank confirmed this. However, the new M&E Framework gives no guidance as to how to monitor or evaluate E&S and Gender issues. Management knows this to be the case and will enhance the Framework shortly. The Panel's view is that the whole project cycle (from application and appraisal, through to project closure and final evaluation) in fact now requires E&S and Gender monitoring and evaluation. To assure the AF that these practices will be codified in an enhanced M&E Framework, the Director provided a Letter of Assurance that all projects (however funded) now include E&S and Gender monitoring and evaluation. This is a big enhancement to BTFEC's overall M&E practices.

At two project site visits, it is confirmed that BTFEC monitors its projects periodically and produced documentation that risk was monitored; the Internal Audit consultant's six-monthly report was followed up; and that looked carefully at project progress, risks arising as well as preventive or remedial action to deal with these on a timely basis.

Finally, the Operations Manual requires projects be audited independently. The Royal Audit Authority does this and in some cases combines accounting and performance information that fits well with AF requirements to report on both financial and project outcome accountability. In this case, BTFEC was given positive feedback on project outcomes.

#### **E. Project closure and final evaluation**

Grantees are required to submit an Implementation Completion Report (ICR) within 45 days after the completion of the project period. The Program Division evaluates the ICR and either communicate or visit the project site in the event of any discrepancies. From the sample reviewed, ICRs provided some project outcome and impact assessment information but did not report on the financial aspects as required by the Operations Manual. Also, as Gender is a new topic, it needs to be integrated into the ICR. In any event, the World Bank/GEF projects have included everything that the AF now requires by way of project closure and final evaluation.

While not a requirement of all projects, but because it is important to the AF, BTFEC has recruited an additional staff member to perform monitoring and evaluation activities to the standard required by the AF and produce project closure and final evaluations for projects funded by it. It has provided a Letter of Confirmation to this end that requires it to cover all of the technical, financial, economic, legal, E&S, and Gender components of the project. It took some time for BTFEC to understand and accept all these components which they now do and will meet the requirement. In any event, BTFEC has learned from the World Bank/GEF projects where such reports are also a requirement.

## **V. Policies and framework to deal with financial mismanagement**

BTFEC has a Board-approved Whistleblowing Policy that is available on the Complaints Page on the main website. During the site visit, BTFEC revised its website to include the Whistleblower Policy, the investigations procedure, and how allegations of fraud and corruption will be handled by the ACC – required by law. The ACC website, in turn, confirms its authority to investigate. The visit to the ACC confirmed their professionalism and determination to address issues as they arise.

BTFEC's website homepage shows a prominently that '*BTFEC is an organization that practices Zero Tolerance to Fraud and Corruption...*' This links directly to where a Complaint Form that can be downloaded. Complaints via the website, or other avenues, all go to the Director and/or the Governance and Audit Committee of the Board. Under Bhutanese law, complaints involving fraud and corruption must be sent to the Anti-Corruption Commission (ACC) who will decide how best to dispose of them. At the site visit, it is confirmed that the ACC is a credible, independent organization that states that no complaints have been lodged either about BTFEC, or any of the projects they execute to date.

## **VI. Commitment to apply the Fund's Environmental & Social and Gender Policies**

In its Strategic Plan 2015-2020 and Implementation of Strategic Plan, BTFEC does not articulate what E&S or Gender Principles apply to BTFEC's work and is silent about Gender targets. This will be added in the next Plan. However, BTFEC's Project Screening Checklist does cover both topics for all projects already.

Also, the Board has approved BTFEC's Social & Environmental Management Policy Framework and the Gender Equality Strategy Framework demonstrating necessary commitment to Policies that align well with AF criteria. These are available on the website.

At the site visit, and from information received from the World Bank/GEF Task Team leader, it is confirmed that BTFEC complies with the World Bank's E&S and Gender criteria and, by extension, the AF's criteria. The Panel concur with the World Bank/GEF that BTFEC has embedded E&S and Gender issues throughout their project cycle and is fully able to handle additional work that will come from AF grants in due course.

## **VII. Capacity to address complaints on environmental & social and gender harms caused by projects/programs:**

BTFEC follows RGoB's established complaints mechanisms using the following principles (supported by laws and regulations):

- Keep complaints 'local',
- For civil matters, use the Alternative Dispute Methods when necessary,
- Construction complaints receive specific attention, and
- If all else fails, go to court.



As far as BTFEC is concerned, E&S and/or Gender complaints about harm caused by projects, could be lodged through multiple ‘windows’:

- BTFEC itself;
- Gewog or Dzongkhag Administrations (both are types of local government);
- Project Implementation Agency Authority;
- Construction Development Board;
- Concerned Ministry; or
- Royal Court of Justice.

The BTFEC website provides information for lodging all Complaints (i.e. Fraud and Corruption, E&S, and Gender). There is a link to BTFEC’s E&S and Gender policies. At the site visit, the website Complaints Page of the website was updated to provide a single form for all types of complaints with a description of the investigations process for E&S and Gender complaints that might lead to the Board for resolution. Finally, Management informed that there has *‘not been a single complaint lodged against it since inception.’*

#### **VIII. Overall Conclusion:**

*The Accreditation Panel concludes that BTFEC meets the requirements of the Adaptation Fund’s Fiduciary Standards as well as its Environmental & Social Policy and Gender Standards. It appreciates the efforts of BTFEC to strengthen its oversight, transparency, and accountability policies and procedures during the accreditation process that is another good example of capacity building.*