

## PROJECT BRIEF

### 1. Identifiers:

Project Number: PG-PE-4398  
Project Name: Papua New Guinea Forestry and Conservation Project  
Duration: 8 years  
Implementing Agency: World Bank  
Executing Agencies: National Forest Authority, Department of Environment and Conservation, Department of Finance's Office of Planning and Implementation, PNG Conservation Trust Fund Board  
Requesting Country or Countries: Papua New Guinea  
Eligibility: Ratified Convention on Biodiversity, 3/16/93  
GEF Focal Area: Biodiversity  
GEF Programming Framework: OP 3: Forest Ecosystems

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### 2. Summary:

The project will promote conservation and sustainable use of biodiversity, and more equitable sharing of benefits accruing from forest resources in one of the world's last remaining extensive tracts of tropical rainforest. The project will improve forest management, promote the environmental sustainability of forest harvests and implement a strategy to promote conservation and small-scale sustainable-use enterprises in biodiversity-rich areas. The GEF grant will: (i) develop an accessible mechanism to enable landowners to declare their lands for conservation and sustainable-use; and (ii) provide financial assistance to landowners in priority biodiversity areas to pursue conservation-based livelihoods as an alternative to large-scale commercial logging.

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### 3. Costs and Financing (Million US):

<b>GEF:</b>	-Project:	US\$ 17.0 million
	- PDF:	US\$ 0.3 million
	Subtotal GEF:	US\$ 17.3 million
<b>Co-financing:</b>	-IA:	US\$ 12.5 million (IBRD)
	-AusAID/Bank NFCAP	US\$ 1.5 million
	-Other International:	US\$ 22.5 million (to be determined)
	-Government:	US\$ 2.0 million
<b>Total Project Cost:</b>		<b>US\$ 55.5 million</b>

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### 4. Associated Financing (Million US\$)

### 5. Operational Focal Point Endorsement:

Name: Samana Utula **Title:** Ambassador  
Organization: PNG Rep. to United Nations **Date:** January 16th, 1998

### 6. IA Contact:

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## **A: Project Development Objective**

### *1. Background:*

Papua New Guinea (PNG) is one of four significant tropical rainforest wildernesses remaining on the Earth. 36 million ha, 70% of total land area, are still covered by closed natural forest; ranging from high altitude cloud and montane forests in the highlands to lowland mixed forest and mangroves near the coast. These forests are home to approximately 200 species of mammals, 15,000-20,000 plant species, 1,500 tree species and 750 bird species (53% of which are endemic and including 90% of the world's Birds of Paradise). This forest ecosystem constitutes one of the richest reserves of biodiversity remaining as an intact, contiguous tropical forest.

Forests provide the basis of livelihood and cultural life to the 80% of Papua New Guineans who still live in rural communities, in or near forests. Local clans/tribal groups under customary title own all but 3% of forested land. Although under law, no major development activity can occur on a clan's land without their consent, major social and economic disruptions have occurred in the recent past in areas where large areas of forest have been destroyed--primarily from highly exploitative and uncontrolled logging operations, in some cases land degradation in such areas to be permanent.

While at the level of broad national policy PNG is committed to sustainable management of its forest resources (and in fact, this is a requirement under the PNG constitution), it is evident that in the past two decades sustainability has been compromised by major financial and operational malfeasance. The 1989 Barnett Commission of Inquiry into the Papua New Guinean Forestry Sector concluded that logging practices were causing irreversible damage to forest resources, and impairing ecosystem functions. In 1991 the GOPNG initiated the National Forest and Conservation Action Program, in conjunction with the Bank and other donors, to reverse these trends. The Forestry Act (1991 and amended in 1993) facilitates establishment of a sustainable forest industry.

The Bank has aided reform of the forest sector through conditionality attached to the 1995 Economic Recovery Program Loan and additional conditions in the current Social and Economic Development Program. Reforms included: surveillance of log exports; adoption of new forest sustainability and logging code guidelines; improved resource revenue capture for the government and landowners; and enhanced legislative protection for the independent operations of the Forestry Board. These reforms provide the enabling framework within which the current project is proposed.

It is probable that current levels of production and returns from the forestry sector<sup>1</sup> to both the state and landowners could be maintained sustainably, along with most biodiversity and environmental values, given proper forest and conservation management. Accordingly this project focuses on supporting more ecologically sustainable forest management and biodiversity conservation through: (i) streamlined planning, monitoring and enforcement in the forest sector; (ii) strengthened capacity to conduct environmental impact assessment and monitoring in logging concessions; and (iii) greater landowner empowerment in decision making, plus capacity building and financing to enable landowners to implement forest management options consistent with biodiversity conservation.

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<sup>1</sup> At present this industry has an annual log output that averages approximately 2.8 million cubic meters. It contributes approximately US\$ 270 million to GDP annually, of which some \$85 million accrues to the Government of PNG (GOPNG) in the form of export taxes and other levies, and a further \$20 million goes to landowners in the form of direct royalty payments.

## *2. Project development objective and key performance indicators (see Annex 1):*

The Forestry and Conservation Project's central objective will be to strengthen the capacity of government and non-governmental entities to more sustainably manage and conserve Papua New Guinea's (PNG) forest resources in order to maintain biodiversity and to contribute to the well-being of forest owners on a long-term basis. This will include: (i) the promotion and implementation of more participatory processes for landowner involvement in forest management; (ii) improving environmental practices and ecological sustainability of commercial forest harvests; (iii) establishing the policy basis for a more ecologically sustainable community forestry sector based upon small to medium scale production; (iv) ensuring that environmental protection legislation is enforced; and (v) implementing a strategy and financing to promote land group based conservation areas. Conservation objectives will be primarily achieved through empowering landowners to decide upon, organize themselves and access financing for, small-scale sustained use forest development activities coupled to adjacent protected area establishment.

The project is organized into two phases utilizing the Adaptable Program Lending (APL) framework. Key performance indicators for Phase 1 (three years) will include whether: (i) the pilot participatory forest decision-making processes are adopted; (ii) the necessary policies are in place regarding forest management methods; (iii) demonstration land group based conservation projects are being satisfactorily implemented and (iv) the conservation fund is operating effectively. Phase 2 indicators will primarily evaluate whether expansion of the coverage of participatory processes and land group-based conservation has occurred and whether forestry management activities are more environmentally sustainable. Implementation of independent inspection of forest harvest activities will be structured to allow monitoring of improvements in forest harvest techniques. Conservation goals will be measured by trends in project numbers, trends in number of landowners and landowner groups designating their lands as conservation areas, and area of lands that are under conservation management and protected area designation.

## *3. Project Global objectives and key performance indicators (see Annex 1):*

The global environmental objective is to foster improved management and conservation of important forest ecosystems in one of the world's most biodiversity-rich and extensive remaining tropical rainforest regions. This will maintain long-term direct and indirect (e.g. watershed protection) benefits, existence and option values associated with functional tropical ecosystems and unique biological resources. Expected monitorable outcomes of project activities would be: (i) establishment of numerous and widespread, permanent, community-supported conservation areas that are representative of PNG's biodiversity; (ii) maintenance of regenerating natural forest cover in production and community forest areas; (iii) provision for conservation reserves within logging sites; (iv) establishment of legal mechanisms and a Conservation Trust Fund able to support landowner based conservation and sustainable-use activities; (v) increased landowner participation in, and benefits from, design and operation of sustainable-use and conservation activities. Indicators for measuring achievements are presented in Annex 1.

## **B: Strategic Context**

### *1(a). Sector-related Country Assistance Strategy (CAS) goal supported by the project (see Annex 1):*

CAS document number: 14906-PNG      Date of latest CAS discussion: August 7, 1995  
 New CAS under preparation for completion in September, 1998

The CAS for PNG targets poverty alleviation, employment creation, improved delivery of services to rural dwellers, and more effective mobilization of natural resources for landowners' benefit. The CAS also

identifies sustainable natural resource management and protection of the environment as vital ingredients in economic management and growth. The proposed project addresses the latter objectives directly and will also be a major vehicle for improved service delivery and poverty alleviation for landowners by supporting community development activities based upon sustained use of natural resources.

*b. GEF Operational Strategy/program objective addressed by the project:*

PNG ratified the Convention on Biological Diversity in 1993. The project is consistent with the GEF Operational Strategy, especially the Operational Program on Forest Ecosystems. The project focuses on *in situ* conservation in one of the world's largest remaining tracts of rainforests, an area rich in species and endemics that has been identified as one of the 200 most important ecoregions globally. The project supports conservation and sustainable use, and more equitable sharing of benefits, by improving forest management, strengthening independent monitoring and providing resources to allow areas of high biodiversity to be set aside for conservation rather than exploitation. It will provide local landowners with the information, skills and resources to allow land owners to choose alternative development options that encourage biodiversity conservation.

Empowering landowners to better conserve, sustainably utilize and benefit from biodiversity on their lands is a national priority for PNG and identified as such in several government strategies including the GEF-funded country study. The project is consistent with COP guidance as it focuses on conservation and sustainable use of critical ecosystems and threatened endemic species and supports the active involvement of local communities as managers and beneficiaries of better forest management. It responds to COP3 guidance through promoting conservation and sustainable use through capacity building, economic incentives and alternative livelihood opportunities for local communities; and by incorporating biodiversity issues and improving management in the forestry sector. In line with COP4 guidance the project takes an ecosystem approach to maximize biodiversity conservation in a range of forest habitats that will span altitudinal gradients and represent different management regimes.

*2. Main sector issues and Government strategy:*

Some of the main forest sector issues considered in designing this project include:

- Virtually all of PNG's forested land is under customary tenure. Due to a number of constraints, many forest landowners see the sale of these resources as their only avenue to improve their living standard;
- Over the last decade, foreign owned industrial-scale logging, based upon the export of raw logs, has been virtually the only type of forest management pursued in the country;
- Inadequacies in government forest management infrastructure continue to hamper effective forest monitoring and enforcement efforts, and continuing irregularities in the planning, granting and operation of many commercial forest timber areas are still widely reported;
- The recent downturn in Asian timber markets has dramatically affected existing production forestry. Community-based, sustainable forest management efforts are increasing throughout the country. Yet the GoPNG has not fully formulated a coherent strategy to support a broader forest management sector with community-based small- and medium-scale forest development;
- Environmental assessment and monitoring, to ensure adequate forest resource protection and environmental management, remains largely unrealized, hampered by lack of capacity and an ambiguous legislative and regulatory regime for screening of forest development activities; and
- The existing protected network is not representative of PNG's diversity of habitats and the country lacks a policy and institutional framework to support landowner conservation initiatives and conservation areas on privately-owned clan lands.

Some of the main government strategy issues considered in designing this project include:

- The 1994 review of the National Forestry and Conservation Action Program (NFCAP) recommended an increased focus on landowner-targeted mechanisms;
- Under the World Bank's 1995 Economic Recovery Program (ERP) loan, the GoPNG solidified its commitment to sustainable forestry;
- In 1995, the Forest Authority (FA) adopted a Logging Code of Practices that minimize environmental disturbance, and a new forest revenue system to replace the fragmented and complicated set of individual timber agreements;
- The GoPNG has begun to further reexamine its forest development strategy to ensure a more equitable sharing of benefits among landowners, including contracting studies on landowner benefits and domestic processing. The FA has requested World Bank assistance in responding to the downturn in commercial forestry by providing assistance in broadening the type and scope of forest management activities, including capitalizing on the benefits of standing forests; and
- The GoPNG has made continued progress in improved forest management an important part of its overall development strategy.

*3. Sector issues to be addressed by the project and strategic choices:*

One primary focus of the project is on supporting mechanisms to allow landholders to make more informed and sustainable decisions regarding forest usage from a broad range of options, including conservation, non-extractive management and smaller scale, sustainable community forest operations. A second is on improvement of the performance of existing commercial forest operations through creation of incentives and field capabilities for implementation of existing forest legislation. A third major priority will be implementation of a nation-wide conservation area program and sustained-use strategy through creation of necessary legal and financial frameworks, and generation of investment in conservation-based alternatives to large-scale logging. Environmental protection assessment will be strengthened through development of institutional and community-based mandates and capability for effective environmental assessment and monitoring.

Several strategic choices were made in conceptualizing this project:

- i.) Major conditionality to support implementation of the project was included and implemented under the framework of the Bank's first structural adjustment loan, the Economic Recovery Program. Additional measures are now included in the proposed second adjustment loan, the Social and Economic Development Program, and within conditionality for this project.
- ii.) The choice was made to pursue sustainability and forest conservation in PNG through development of participatory and non-governmental mechanisms, as well as more traditional government agency institution building. This broader approach allows the project to address crosscutting issues of poverty alleviation and participation more effectively than otherwise, and also to recognize the need for balance between larger and smaller scale forest operations in the sector. Development of landowner based institutions and mechanisms, and of a Conservation Trust Fund (managed and financed independent of government) will be key elements in the project.
- iii.) The magnitude and complexity of the issues facing the PNG forest sector led to the adoption of the APL lending instrument. The APL's two phases will allow policy commitments to be entrenched, and the piloting of several of the more innovative project measures. In particular, the phased approach will allow the Conservation Trust Fund—a keystone element of the project—to become fully operational and demonstrate its effectiveness prior to committing large sums of money in an endowment fund. Second phase activities presented throughout this proposal are somewhat tentative, in that they may be altered based upon extensive evaluation, monitoring and adaptive management based on lessons learned

from 1<sup>st</sup> phase.

## C: Project Description Summary

### 1. Project components:

The project has four major components, two of which (components 1 and 2) will benefit from GEF financing.

**Component 1: Landowner Forest Decision-Making**—This project will support development of more participatory and more effective landowner forest decision-making processes and consultative bodies. It will formalize procedures for landowners to make more informed forest utilization decisions from multiple options, including accessible and viable conservation and sustainable-use options. Under Phase 1 legal mechanisms would be established to give legal recognition and protection to local clan land and forest use decisions. The IBRD function of this component is focused primarily on development of landowner capabilities to select appropriate and sustainable forest operations and to benefit equitably from them. Incremental inputs are sought from the GEF to build awareness and capability to pursue conservation based activities in place of extractive activities. Information on proposed activities is provided below.

- a) **Development Options Study**—Facilitate landowner access to information and discussions of all development options prior to pursuit of any land-use decisions, and implementing a design process to determine how to optimally involve all stakeholders in development option decisions. (IBRD-1.25m /1.0m Other-0.25m /0.0m)<sup>1</sup>
- b) **Strengthening Landowner Representative Mechanisms**—Design and implementation of improved processes and systems for incorporation and recognition of land group representative organizations and representation of landowner groups in resource decision-making. A major input will be a proposed Land Group Summit to evaluate experience and facilitate discussion of needs for the second phase. Emphasis will be upon improving Incorporated Land Group approaches to forest management activities. (IBRD-0.4m/0.3m Other 0.25m / 0.0m)
- c) **Forest Management and Conservation Education**The project will support preparation and dissemination through multiple media (including radio, video and theatre) of information and materials to apprise landowners of development options with specific attention to conservation-related goals. (IBRD-0.15m /0.2m GEF-0.4m/0.5m)
- d) **Land-Group Based Conservation and Resource Management Areas**—This sub-component will make conservation more feasible and accessible to interested land groups through establishment of community-initiated conservation areas which link small-scale ecologically sustainable development activities with explicit habitat protection, within agreed Conservation Management Areas (CMA). The project will assist policy and legislative development to ensure the legal basis for establishment of CMAs by land groups; develop standards of management for CMAs; develop appropriate institutional capacity within DEC to assist groups to move towards establishment of CMAs; assist land groups to develop and implement conservation resource management plans (CRM) consistent with conservation and sustainable use of biodiversity on their lands; and assist communities to access conservation trust fund and other financing to support their conservation activities. CMAs will be piloted under phase 1 of the CMA program and extended to a wider group of interested and committed land groups under phase 2 of the project. (IBRD-0.2m/0.0m GEF-0.6m/0.5m)

**Component 2: Conservation Trust Fund**— The purpose of the Conservation Trust Fund (CTF) is to provide an ongoing and reliable source of in-country funding for biodiversity conservation and ecologically

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<sup>1</sup> First/second phase funding is shown in parentheses according to donor, e.g. 1<sup>st</sup> Phase IBRD 1.25m / 2<sup>nd</sup> Phase IBRD 1.0m.

sustainable development. The ultimate goal has been to design a CTF to cover a whole range of conservation activities, including forest and marine conservation and other areas. However, this grant request to the GEF covers only the forest sector. The GEF will be one of several donors to the CTF; GEF funds will be managed and monitored separately, and allocated strictly to *forest* sector projects designed to achieve *global* biodiversity benefits. The text below pertains specifically to the GEF project.

The CTF will support the framework developed under the landowner development options component (component 1) by providing a source of funds for landowners committed to pursuing conservation orientated resource use options in forest areas of high biodiversity value. The Trust Fund will be a non-governmental entity, governed by a multi-stakeholder Management Board, which will supervise the appointment and activities of a professional Management Unit. Funding will be focused at the landowner and Incorporated Land Group (ILG) levels, using NGOs as well as government agencies as service providers to support conservation and effective stewardship of forest resources. (Further details on CTF design elements are covered in Annex 3).

The CTF component of this project includes three phases of activity: (i) preparatory phase (ending in early 1999); (ii) three-year start-up phase (Phase I); and (iii) five-year endowment phase (Phase II). Substantial progress has already been made in the current preparatory phase to lay the groundwork for Phase I, including: (i) formal incorporation and legal registration of the PNG Trust; (ii) agreement on a process for establishing the Board (governing body) by September 1998; (iii) completion of an Operations Manual to define/clarify essential procedures and operations; and (iv) development of cooperative working relationships with key governmental bodies. Phase I will serve as a critical learning period for the endowment phase.

Under the two phases of project implementation activity are five sub-components:

- a) **Commencement**—Activities to establish the Fund will be undertaken during the preparatory phase and the beginning of Phase I. These expenditures generally represent one-time start-up costs, including technical support provider costs for approximately 18 months. The Fund Board will hire qualified staff, contract technical support, and establish administrative offices and associated infrastructure; develop and adopt an investment management plan, and select investment managers; and establish financial audit and control systems to international standards. The project provides training for Board and Staff in key administrative and management areas. (GEF-0.2m / 0.0m Other-0.2m / 0.0m)
- b) **Demonstration Projects**—Phase 1 will provide funding for an initial portfolio of demonstration projects during at least 2 full annual funding cycles on a sinking fund basis. Criteria for selecting projects to be funded have been adopted by the CTF Steering Committee and incorporated into an Operations Manual that will be reviewed by the Board in October 1998. The criteria include, in particular: forest biodiversity of global significance; local commitment to the project; long-term ecological, economic and social sustainability; pilot or demonstration value; and overall quality, innovativeness and feasibility. The Fund will support projects with conservation of biodiversity as a primary goal including the creation and management of clan-based conservation areas and sustainable use activities associated with conservation areas of global significance. (A representative network of priority biodiversity areas is being identified under the ongoing Bank-funded BIORAP exercise.) The Fund will focus its efforts on projects that offer meaningful, sustainable, long-term options that help rural people avoid the pressures to engage in unsustainable resource exploitation, particularly industrial-scale logging. More generally, the CTF will not fund activities that should be part of the regular costs of doing business—such as acquisition and operation of environmental protection equipment and mandated practices associated with development—that should be borne by the developer. In addition, the CTF will not fund activities that are rightfully the responsibility of



government for funding, such as required monitoring and regulatory activities under PNG laws and core operating costs of state-managed protected areas. The project will provide limited assistance for training in making grant applications to potential grantees. (GEF- 4.0m / 0.0m)

- c) **Evaluation**—Regular monitoring and evaluation activities of Fund management and individual project performance will be undertaken throughout the project; these activities and costs are included under the administration sub-component below. Special evaluations will also be required, including, in particular, an in-depth evaluation of Phase I toward the end of Year 3, and mid-term and final evaluations of the CTF’s overall performance and effectiveness (during Phase II). The evaluations will include specific recommendations on strengthening grant-making programs and other CTF operations. It is expected that special evaluation will be grant funded under Phase 1 and costs during Phase II will be covered by endowment investment income. A satisfactory performance rating for the Fund is a necessary requirement for establishing the endowment fund in Phase 1. (GEF-0.3m / 0.0m)
- d) **Endowment Phase**—Contingent upon a satisfactory evaluation of Phase I operations, the intention is to establish an endowment fund under Phase II. The Trust Fund’s endowment will be established with a \$10 million GEF contribution and additional co-financing (from public and private sources). The goal is to capitalize the endowment fund at \$30 million USD, to reliably generate a minimum of \$1.5 - 2.0 million USD for conservation projects annually. The Board and management staff of the Fund will develop and implement an aggressive fund mobilization strategy during Phase 1 to obtain concrete additional commitments of co-financing. Grant-making strategy under the endowment fund will be significantly shaped by lessons learned during Phase I. (GEF- 0.0m / 10.0m Other 0.0m / 20.0m)
- e) **Trust Fund Administration**—The management unit, with support from technical advisors as appropriate, will carry out a wide range of general administrative activities required to support grant-making programs; develop a strong overall monitoring and evaluation scheme for the grant-making program; build monitoring plans into each grant; monitor financial management through an annual audit to internationally recognized standards; monitor compliance with donor and other requirements; and prepare and disseminate annual progress and lessons learned reports, documenting monitoring and evaluation results. Annual work plans will be submitted to the Board—as well as donors for “no-objection”—in advance of implementation. The Board will review periodic reports to ensure that GEF funds and earnings are restricted to GEF-eligible activities, and the World Bank will conduct periodic supervision missions to monitor GEF fund expenditures. Costs during Phase I will be resourced by grant assistance, but Phase II costs will be covered by investment income. (GEF – 0.5m / 0.0m Other- 0.3m / 0.0m)

## 2. *Co-financing*

GEF funds for the endowment phase will only be provided on a co-financing basis and upon completion of an independent evaluation at the end of Phase I, documenting that all major requirements were met and that the Trust Fund is performing effectively. The objective will be to leverage additional co-financing at a 2:1 ratio, in order to achieve the \$30 million USD goal but a minimum 1:1 co-financing ratio will be required for release of GEF endowment funds during Phase II. Depending on the status of co-financing commitments, GEF endowment funds could be released in one or more tranches. Preliminary discussions of endowment co-financing over the long-term have generated a potential list of sources and targets: PNG Government and private sector; other public sources (e.g., bilateral and multilateral donor agencies); and other sources (other innovative funding sources, such as carbon sequestration initiatives, will also be explored). In this regard, German KfW and AusAid have already been approached regarding co-financing, and both have expressed interest in supporting the CTF.

**Component 3: Sustainable Forest Management**—The objective of the Sustainable Forest Management

component will be to augment the efforts of the Forest Authority and others in pursuit of sustainable forest management. The component will support institutional reform and technical assistance to improve capacity and incentives to implement sustained yield forest management in areas that are being commercially managed for timber production. In addition, efforts will be made to broaden the focus of forest management activities to include more diversity in management regimes, degree of sustainability, size, ownership and processing. A fundamental input will be establishment of independent inspection of existing forest operations. The project will develop improved regulations, monitoring and enforcement capability for implementation of new logging operations especially to incorporate enhanced conservation and environmental guidelines. Specific activities under this component will include:

- a) **Training and Development for the Logging Code of Practice**—Implementation of the recently enacted logging code of practice will be strengthened through training of industry operators and NFA staff. Additionally, support will be given to the process of continued review and refinement of the code. (IBRD-0.1m / 0.1m Other-0.05m / 0.0m)
- b) **Improved Inspection and Monitoring**—Immediate provision will be made to contract an independent third party to audit forest logging operations to assess allocation of concessions, enforcement of regulations and monitoring of harvesting against performance-based standards. Results will be reported to the Forestry Authority, Forestry Board and all stakeholders. Emphasis will be placed on skill transfer between the audit team and department monitoring staff. (IBRD-0.6m / 0.65m Other- 0.4m / 0.35m)
- c) **Forest Planning**—GIS capacity in the FA and DEC and forest planning capacity at both the national and site levels will be strengthened to better identify areas appropriate for sustainable forest management and/or conservation. The Forest Inventory Management System (FIMS) will be expanded to access other sources of data and information on appropriate land uses such as BIORAP, PNGRIS and other national databases. These planning exercises will utilise capacity built through BIORAP and be linked to revision of the National Forest Plan. (IBRD-0.30m / 0.35m Other 0.25m / 0.35m)
- d) **Post-Harvest Forest Management**—Natural production forest management will be improved through expanded application of management regimes and post harvest activities that attempt to more adequately to maintain the production forest's composition, structure, function and wildlife habitat potential. (IBRD-0.1m / 0.3m Other-0.75m / 0.5m)
- e) **Plantation Activities**—Feasibility work will determine conditions necessary to encourage plantation development, not as a substitute for long-term natural forest management, but as an option for already degraded lands. (IBRD-0.1m / 0.1m Other-0.75m / 1.0m)
- f) **Improving Timber Industry Performance**—Improvements to large-scale commercial logging operations will be promoted through introduction of performance bonds, linked to compliance with operational codes and guidelines. Strengthen capacity of the FA to regulate tendering and management of forestry operations and improve administration of financial revenue collection. (IBRD-0.25m / 0.0m)
- g) **Ecologically Sustainable Community Forestry Policy Framework**—Assistance to develop and implement a forest policy, legislation, regulations and guidelines for more ecologically sustainable, small to medium scale, community based and certified forestry operations. (IBRD-0.2m / 0.1m)
- h) **Community Forestry Extension**—FA and NGO staff will be trained to provide community forestry extension services to communities that wish to pursue ecologically sustainable community forestry activities including providing training for: assessing biological baselines; inventory taking, development of management and monitoring plans; the elements of an ecologically based forest management plan; techniques in ecologically sustainable forestry such as liana cutting and directional felling; equipment maintenance; and local marketing. Community sustainable forestry technical information modules will be developed and utilized. (IBRD-0.25m / 0.25m Other-0.25m / 0.2m)

- i) **Certified Forestry**—Assistance will be provided to the FA and NGOs to develop a voluntary higher certified standard of forest management, appropriate to the types and scale of PNG forest operations. (IBRD-0.1m / 0.15m Other-0.05m / 0.1m)

**Component 4: Environmental Assessment and Monitoring.** Provision of technical assistance to develop and test rigorous assessment and monitoring methodologies and operational systems under the new environmental regulatory framework being enacted under the Environmental Act. Experienced environmental assessment and enforcement professionals will assist in the development of operational manuals and provide counterpart training over a two-year time period. During this time environmental impact assessment and monitoring will be rigorously carried out on all forest projects. Under phase 2 technical assistance will be provided to design systems and legal instruments to institute a fee-based system for environmental impact monitoring in consultation with industry groups. (IBRD-1.2 / 1.25 Other-0.3 / 0.5)

- a) **Environmental Protection**—This component will provide the necessary technical assistance to develop institutional capacity within Department of Environment and Conservation to exercise strong environmental protection and regulatory capability in the forestry sector, ensure adequate environmental screening of all forest development projects, and provide the basis for environmental screening of other environmentally impacting industries.
- b) **Development and Implementation of New Environmental Regulatory Framework**—Technical assistance and follow-up support will be provided to develop a comprehensive suite of supporting policies, regulations, guidelines and directives under the Environment Bill to regulate the forest sector (including projects converting forest to agricultural use or plantation). (IBRD-0.4m / 0.25m)
- c) **Environmental Monitoring by Local Communities**—This activity will augment Government activities by providing community members living within conservation areas and sustainable forest concession projects with the opportunity and necessary training to monitor conservation and sustainable forest management practices. Emphasis will be placed on training community members to monitor forest management issues that are of concern to local communities and on providing training to trainers within government agencies and NGOs. (IBRD-0.4m / 0.5m Other-0.2m / 0.0m)

<u>Component</u>	<u>Category</u>	<u>Indicative Costs (US\$M)</u>	<u>% of Total</u>	<u>Bank-financing (US\$M)</u>	<u>% of Bank financing</u>	<u>GEF-financing (US\$M)</u>	<u>% of GEF financing</u>	<u>Other Co-Financing</u>
		<u>1st/2nd Phase</u>		<u>1st/2nd Phase</u>		<u>1st/2nd Phase</u>		
Landowner Forest Decision Making	Institution-building	3.5 / 2.5	10%	2.0 / 1.5	28%	1.0 / 1.0	12%	0.5 / 0.0 <sup>1</sup>
Conservation Trust Fund	Financial mechanism	5.5 / 30.0	67%	0.5 / 0.5		5.0 / 10.0	88%	? <sup>2</sup> / 19.5 <sup>3</sup>

<sup>1</sup> AusAID funded, Bank Executed NFCAP program.

<sup>2</sup> Packard Foundation and The Nature Conservancy (TNC) will provide support towards start-up costs. The MacArthur Foundation will likely provide some co-financing for support start-up costs in Phase I.

<sup>3</sup> Several discussions are underway for first phase co-financing, and will be confirmed prior to going to Bank Board. Second phase co-financing will be actively pursued during phase one of the Trust Fund.

Increasing Forest Management Sustainability	Policy, institution-building	4.5 / 4.5	15%	2.0 / 2.0	32%	-	-	2.5 / 2.5 <sup>1</sup>
Environmental Protection	Policy, institution-building	2.5 / 2.5	8%	2.0 / 2.0	32%	-	-	0.5 / 0.5 <sup>2</sup>
	Total	16.0 / 39.5	100%	6.5 / 6.0	100%	6.0 / 11.0	100%	3.5 / 22.5
		55.5		12.5		17.0		26.0

<sup>1</sup> Government contribution, \$1 million each phase, largely from reforestation levy for regeneration and plantation sub-components.

<sup>2</sup> AusAID funded, Bank Executed NFCAP program.

**Incremental Cost.** Incremental costs for the proposed conservation activities are estimated at US\$17, which would be divided into 2 phases: \$6.0 million, \$11.0 million. GEF support would be targeted to the following components:

- 1) The landowner decision making component will empower landowners to consider multiple development options and to better organize themselves. GEF activities will provide a strengthened legal means for landowners to place lands under conservation and protected status, provide legal assistance to landowners choosing the conservation and sustainable-use route and contribute the necessary landowner awareness and education inputs in support of the proposed new Conservation Trust Fund. Expenditures of US\$1.0 in each phase will be necessary to cover incremental costs associated with making conservation more accessible to PNG landowners.
- 2) US\$15 million to be matched with co-financing to support a financing mechanism to respond to landowner initiated conservation and preservation proposals. The GEF is asked to make two tranches of US\$5 million and US\$10 million respectively. The first tranche will be complemented by co-financing from Bank funds and Foundation funds to cover administration and fund establishment costs, and US\$4 million will be used to capitalize the initial conservation fund on a sinking fund basis. The second tranche will be contingent upon commitment of other donors in moving to a capitalization stage, indications that the fund has been successfully established and is disbursing effectively according to its rules, and completion of the initial policy work discussed above.

## *2. Key policy and institutional reforms supported by the project:*

The project will directly support major fiscal and other reforms which have been introduced into the forest sector in recent years, or which will be introduced under reforms included in forthcoming Bank structural adjustment assistance:

- export tax, landowner royalty and project development levies, all designed to extract economic rent from utilization of the resource, and to distribute it effectively to landowners, have been and continue to be developed, introduced into law, and implemented in PNG;
- development and maintenance of more rigorous and transparent mechanisms for allocating timber licences and permits to logging operators and conversion activities - and the capacity of the forest agency to manage and enforce these - have been major goals of recent legislative, institutional and management reforms in PNG. Further measures to reinforce these will be introduced in this project and the forthcoming Social and Economic Development Program loan;
- improved standards of management in forest operations have been introduced under the PNG Logging Code of Practice, and further development of capacity to monitor and enforce implementation of these standards will be undertaken in the project;
- GoPNG has a major objective to more effectively involve landowners in decision making about the use of their resources, and also to ensure that landowners benefit from the use of their resources. Fiscal measures, institutional decentralization and new local or land group level institutional arrangements are being introduced to support these objectives, and the project will support these activities;
- GoPNG is a signatory to international conventions relating to biodiversity conservation and environmental management conventions, but conservation options have historically been difficult to pursue through establishment of traditional, large protected area approaches, in the highly fragmented land ownership arrangements in PNG. The project will enhance the capacity of the government conservation and environment agency to monitor and control the environmental outcomes of large scale resource projects, and it will also support multiple clans/land groups who wish to pursue conservation based activities in their local areas.

### *3. Benefits and target population:*

The project will:

- i.) Maximize both the level, and the long-term sustainability, of revenues flowing to landholders and to GoPNG from forest management in Papua New Guinea;
- ii.) protect local and national environmental values such as soil and water quality, land and forest productivity;
- iii.) maintain development options from an intact and regenerating natural resource base; and
- iv.) provide global benefits from biodiversity protection and carbon sequestration, arising from increased options for conservation investments.

The primary target population for this project is the forest landowner population, which comprises approximately two-thirds of the PNG population. A small minority of this group will not be materially assisted by the forest management aspects of the project, because of the fact that their forests have already been logged out in a manner so destructive as to preclude the likelihood of recovery.

### *4. Institutional and implementation arrangements:*

#### *Executing Agencies*

- i.) *Landowner Forest Decision Making*—A small, consultancy based unit to manage implementation of this activity will be based initially in Department of Treasury and Corporate Affairs' Office of Planning and Implementation, and with clear linkages to other relevant governmental bodies including the Department of Provincial Affairs and Local Level Government, Forest Authority and Department of Environment and Conservation. This choice may be adapted as the need arises.
- ii.) *Conservation Trust Fund*—The proposed financing mechanism will initially operate as a sinking fund and subsequently will be an endowment-based fund. It will be a charitable entity incorporated in PNG as a Trust Company, independent of government. The Trust will be governed by an independent Board composed of individuals of high public standing, including representatives of both civil society and government.
- iii.) *Environmental Protection*—strengthening of environmental regulatory capacity will be managed within the Department of Environment and Conservation following enactment of new environmental protection legislation, regulations and environmental policy where necessary.
- iv.) *Forest Management*—The forest management component of the project will be managed through the Forest Authority. Certain of the larger issues related to revenue collection, export and trade policy, and elements of the monitoring of log flows, will come under the general jurisdiction of the Ministry of Treasury and Corporate Affairs.

#### *Project Oversight*

An oversight committee, to be convened and chaired by a senior officer of the Ministry of Treasury and Corporate Affairs, and utilizing the secretariat services of the Office of Planning and Implementation, will meet on a quarterly basis, or more often as deemed necessary, to decide upon general management and implementation issues related to the project. The committee will also include representatives from the major involved line Ministries (Forestry, Environment and Conservation, Provincial Affairs), consultants from the landowner forest decision making unit, and a member of the Board of trustees of the Conservation Fund.

#### *Project Coordination and Implementation*

- The General manager of the Forest Authority will be directly responsible for the management and implementation of the forests management component. The Managing Director of the Authority will

- oversee the necessary policy developments and regulatory framework;
- An officer of the Office of Planning and Implementation will maintain financial records and exercise due diligence over the activities of the consultancy based unit established to manage the landowner decision making unit. The consultants will manage the funds and activities of the unit;
  - The Secretary, Environment and Conservation, will be responsible for the implementation of the environment protection component; and
  - The Conservation Fund Board will be responsible for the overall direction, governance, financial management (including decisions re spending of income from endowment investment) and monitoring of progress of the Conservation Fund. Endowment funds will be invested offshore and managed by a professional asset manager. A professional Management Unit will be responsible for day-to-day operational activities of the Trust, and report to the Board.

## D: Project Rationale

### 1. Project alternatives considered and reasons for rejection:

- i.) A project design focusing exclusively on institution building in the National Forest Authority and the Department of Environment and Conservation was considered for reasons of simplicity of institutional arrangements, but rejected because there is not yet sufficient momentum in the area of landholder initiative and involvement to rely on traditional agencies to complete the process.
- ii.) A much broader project, encompassing natural resources management as a whole, was considered - with forestry as the lead-off component, to be followed by interventions in fisheries and marine areas, and then possibly mining. It is likely that investments in these areas will be considered by the Bank when enough is known about the priorities and issues for these sectors.
- iii.) The lack of an ongoing and reliable source of funding to support biodiversity conservation in PNG has, in the past, been a major obstacle to achieving conservation objectives. One-off project funding was considered but would not meet the likely recurrent cost needs of engaging, and building capacity among, landowners for long-term conservation and ecologically sustainable management to maintain forest biodiversity.
- iv.) The new APL instrument and approach has been adopted as the most appropriate design for this project, because it requires the introduction and testing of new or significantly improved approaches to forest management, and of the participatory and financing mechanisms required. These approaches need to be introduced and tested in the field in a limited way, before full-scale introduction. Phase I of the project (1999-2001) will be the period when necessary legislation and capacity building are put in place and pilot approaches tested. Based on the results, a major decision will then be taken as to how to proceed with broader implementation. Phase II project details throughout this Project Appraisal Document are best estimates of how the program will proceed with expectations based on information available at this time.

### 2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned):

Sector issue	Project	Latest Supervision (Form 590) Ratings	
		Implemen- tation Progress (IP)	Development Objective (DO)
		(Bank-financed projects only)	
<b>Bank Projects</b>			
Forest Sector Adjustment	Economic Recovery Program Loan	S	S
Forest Sector Adjustment	Social and Economic Development Program Loan (proposed)		

<b>Bilateral Trust fund activities implemented by Bank</b>			
Forests & Biodiversity	NFCAP activities, Forest Management and Planning Project, and Biodiversity Conservation	na	na
Forests & NGOs	Targeted Community Development Project for NGO Strengthening and Projects		
Biodiversity	BIORAP—capacity building for conservation planning (ongoing); Biodiversity Strategy Action Plan (GOPNG requested GEF enabling activity)		
Forest Management	Audit of Landowner Benefits, and Domestic Processing & Cost of Production Studies.		

<b>Other development agencies</b>			
European Union	SGS Forestry Export Monitoring Project & Sustainable Forestry Project		
GTZ	Landowner Awareness Project		
UNDP/GEF	Integrated Conservation and Development Project		
UNDP	Capacity 21 Project		
AusAID	Forestry HRD Project		
AusAID	DEC Strengthening Exercise		

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

### *3. Lessons learned and reflected in the project design:*

Some valuable lessons are available on PNG from the 1988-89 Judicial Inquiry into forestry, experiences from Bank execution of forestry and biodiversity activities (including NFCAP) under trust funds, from the experience with the Economic Recovery Loan, from experiences under the UNDP-GEF ICAD project, and from NGO-implemented conservation and sustainable use projects. These lessons, and the proposed measures to be taken under the projects to deal with them, can be summarized as follows:

- i.) Prior experience demonstrates that landowners have been excluded from full participation in the management decision making process concerning natural resources they own and directly depend upon. The project intends to assist landholders to make more informed decisions regarding resource use, support their ability to choose from multiple forest management options including conservation and sustainable-use of biodiversity, and to implement their choices.
- ii.) A strong preoccupation in the Ministry of Forestry with formal revenue collection and application of a complicated regulatory framework has diverted institutional attention from the most effective means of achieving sustainable forest management. The project will follow up specifically on community-based field measures aimed at sustainability.
- iii.) There are many stakeholders and agendas in the PNG forests sector. Emphasis needs to be given to consensus building, to forest conservation as a component of sustainable forest management, and to realistic and accessible alternative development options. This is the critical input necessary to capitalize upon customary land ownership, expansive and intact forests and rising environmental awareness within PNG.
- iv.) Bank and international experience with endowment funds to promote biodiversity conservation shows the importance of: i) participatory design processes with landowners and other stakeholders, to ensure consensus on trust fund objectives and eligible activities; ii) an independent management structure for the Conservation Trust Fund, with broad representation from civil society and government; iii) professional investment advisors to manage the capital endowment within an agreed investment strategy; iv) clear rules defining what are eligible activities to be funded; who is eligible to apply; how funding requests will be evaluated/selected; the funding cycle and funding ceilings; v) a qualified,



motivated (small) technical team to administer daily operations; vi) a funding mobilization strategy to ensure sufficient capitalization to generate desired income flows; and vii) sound financial management and control procedures to ensure timely release and monitoring of funds. These lessons are being applied in the preparation of the proposed Conservation Trust Fund and will be reflected in the final trust fund design.

v.) The *GEF Evaluation of Experience with Conservation Trust Funds* identifies certain key conditions associated with trust fund success, including internal and external factors that contribute to the fund's ability to become a viable institution and achieve its mission. The PNG CTF, at this early planning phase, meets a "critical mass" of these conditions, particularly the following:

- The existence of a valuable, globally significant biodiversity resource whose conservation is politically, technically, economically, and socially feasible. The biodiversity conservation issue to be addressed requires a long term commitment.
- There is active government support for creating a mixed, public-private sector mechanism that will function beyond direct government control.
- There is a critical mass of people from diverse sectors of society who can work together despite their different approaches to biodiversity conservation and sustainable development;
- There is a basic fabric of legal and financial practices and supporting institutions (including banking, auditing and contracting) in which people have confidence.
- A legal framework exists that permits establishing a trust fund (including an enabling tax environment).
- Mechanisms are in place to involve a broad set of stakeholders during the design process, and willingness of stakeholders to use these mechanisms.
- "Mentors" are supporting the Fund's establishment and operations -- in this case, a donor agency (World Bank) with good program support and an international NGO partner (The Nature Conservancy).
- Realistic prospects exist for attracting a level of capital adequate for the fund to support a significant program while keeping administrative costs to a reasonable percentage (Packard and MacArthur Foundations have agreed to provide co-financing support covering part of the start-up costs. Discussions are underway with the Australian and German Governments about possible support for fund administration costs and/or contributions to either the sinking or endowment fund).
- An effective demand exists for the fund's product.

vi.) The GEF STAP review was carried out in December of 1997. It concluded that the project is an "excellent proposal to conserve the globally and locally important biodiversity in Papua New Guinea," and is pragmatic regarding what can be accomplished. We have incorporated into this document suggestions that landowners, and the importance of their biological resources, be emphasized more, and comments regarding monitoring and evaluation. The lack of good forest ecology information was noted and there will be an attempt to integrate limited support for forest ecology research in response to this concern. The idea of community-based monitoring has been raised and will be investigated. It has been suggested that the project open dialogue with mining and petroleum interests to assess their interest in participating in trust funds, conservation area establishment and land use planning. A representative of the mining industry is a member of the Fund Steering Committee.

#### *4. Indications of borrower commitment and ownership:*

Over recent years, the Bank has established a comprehensive dialogue with GoPNG, especially the Forest Authority. The Minister for Forests and General and Managing Directors of the Forest Authority support the forestry and conservation project of the nature described in this document. There is a widespread

realization in government that improved forest management, conservation and environmental protection are an important component of a sustainable and ultimately successful development process. This has been expressed as a primary component of the country's medium term development strategy, and in requests for Bank assistance. An endorsement letter requesting GEF support has been received from the National GEF focal point.

*5. Value added of Bank and Global support in this project:*

The proposed project will be considerably strengthened by the close relationship that has been developed between the Bank's broad adjustment work and forest sector issues in PNG. The Bank has developed strong and positive relationships with international and local NGOs and the donor community involved in natural resource management in PNG. The Bank has the necessary expertise and experience to assist with the establishment of a financial instrument to support conservation activities, and to mobilize a significant amount of grant-based co-financing.

Participation of the GEF and other donors willing to finance development of landowner based conservation and sustainable forest management alternatives will be essential to success of the program in PNG. GEF support is critical in order to ensure that biodiversity conservation is integrated into sector policy and management, as a catalyst for identifying further donor support for a conservation funding mechanism, for ensuring full participation of landowner groups in decision making and their full access to information on alternative development options. GEF involvement makes possible conservation and sustainable forest management options that would not otherwise be available.

## **E: Summary Project Analysis**

*1. Economic:*

[ ] Cost-Benefit Analysis : NPV=US\$      million; ERR=    % [ ] Cost Effectiveness Analysis:  
 [X] Incremental Cost      [ ] Other (Specify)

Economic impacts of GOPNG industry policies in sector, income/investment impacts of enhanced revenue flows to landholders, viability of logging and processing sector, viability of certified forestry and other conservation management alternatives. The incremental cost analysis is presented in Annex 2.

*2. Financial:*

Revenue implications of royalty policies; impacts of trade/export tax policies on sector development, implications of Conservation financing instrument for overall investment in sector.

*3. Technical:*

Selection and design of systems for monitoring and enforcement in forest operations (independent inspection, performance bonds, etc.), forest database and GIS data integration, design and surveys for landholder participation and involvement.

*4. Institutional:*

Models will be developed for landholder participation and concession level representative structures; a structure for promoting landowner interest in pursuing conservation; and a management structure for a Conservation Trust Fund.

*5. Social:*

High levels of participation from diverse stakeholders, including government, civil society, the private

sector and most especially landowners, are central to the outcome of the project. For this reason, a strong participatory and consultative approach has been applied in project preparation and will continue to be the methodology used in project implementation. The project will learn and build upon the lessons of previous GEF activities in PNG; including the Lak and Bismarck-Ramu ICAD sites. The Bank is currently supporting a field audit of Landowner Benefits which is analyzing the extent to which timber companies are meeting their commitments to landowners. This study is an important component of assessing the social issues upon which this project depends. Under preparation a review will be completed of best practice and successful models for landowner organization appropriate for conservation management.

6. *Environmental assessment:* Environmental Category [ ] A [X] B [ ] C

The two principal environmental issues the project addresses are the environmental sustainability of PNG's forests being managed for production, and the protection of important biodiversity and other environmental values associated with the forests. The impacts of the project on the environment are expected to be overwhelmingly positive. A sectoral EA is being undertaken which will describe current environmental issues, describe implications of the current situation on forest ecosystems, identify ways that project interventions are expected to improve the environmental situation and identify risks associated with proposed interventions, and develop processes and mechanisms for local clan (landowner) groups to assist in identifying locally specific EA criteria and for monitoring compliance.

7. *Participatory approach:*

a. Primary beneficiaries and other affected groups:

A major effort made to achieve meaningful input from local and international NGOs, and PNG governmental departments. Extensive meetings were held in an early stage of concept document development. Input was received from a wide range of stakeholders in the project and incorporated into project concept design. There has been great support for the project approach, and suggestions for improvement of existing conservation activities.

The proposed Conservation Trust Fund has arisen from extensive in-country consultations, and communications with NGOs experienced in PNG and Trust Funds. In 1996, The Nature Conservancy and the Biodiversity Strengthening Program of the PNG Department of Conservation/UNDP began collaborating to develop a consensus around the creation of a financing mechanism and its mission and operating fund. Over a two-year period, some 500 people and organizations in PNG were consulted in depth—including numerous stakeholder workshops. The result has been a process that has established ownership of the proposed fund within the country's conservation community. A leading international NGO, TNC, with considerable experience in trust fund design and management, facilitated the process.

b. Other key stakeholders:

The project preparation team has liaised closely with the other donors operating in the forest sector in PNG, to develop a project that is complementary to other efforts, and eliminate overlaps in approaches.

- The concept of a Conservation Trust Fund emerged from UNDP sponsored analyses related to the development of integrated conservation and development projects in PNG. The landowner conservation management approaches being supported by this project will be complementary to the ICAD approach being supported under the ongoing UNDP project and the UNDP project for Bismarck-Ramu under preparation.
- The programs in forestry and landowner awareness in progress, or being developed, by GTZ and the European Union, have been taken into account in project design. Both of these donor groups are being approached to co-finance aspects of this project.
- The Australian aid (AusAID) program, which has financed major field activities at Kandrian

Gloucester, and institution building program in DEC, and a human resources project in the Forest Authority, has been strongly influential in the design of this project, and a close liaison with AusAID has been maintained. An AusAID team to consider the next phase of AusAID involvement in the forestry sector was imminently expected in PNG at the time this document was submitted. Discussions in preparation for this mission were held in Port Moresby and Canberra, and draft project preparation material was shared. Finally, the project team has liaised with AusAID on the matter of the new tranche of AusAID financing for the National Forestry and Conservation Action Program (NFCAP). This fund, which will be administered through the GoPNG Office of Planning and Implementation, will support specific institutional, policy and some investment based activities in the sector. It will be highly complementary to the Conservation Trust Fund, and close partnership between the two is expected to develop.

In general, the team has shared documentation on the project -- the original concept document, consultant working papers, and other material -- with donors from the outset of preparation activities, and has involved itself in donor covered discussions and meetings whenever possible.

## **F: Sustainability and Risks**

### *1. Sustainability:*

Four elements will be vital in determining the sustainability of this project. First, it will depend heavily on the continued commitment of GoPNG, to maintain the conditionality and the management standards that will be established under the project. Second, the project will rely on development of effective mechanisms for landholder participation and monitoring in conservation and forest management. Third, the CTF will need to be capitalized at a level sufficient to generate annual resources needed to meet demand, an estimated need of \$3m for alternative development options in the long term. Lastly, conservation mechanisms must be accessible, attractive and able to respond quickly to opportunities and requests for local conservation initiatives.

### *2. Critical Risks (reflecting assumptions in the fourth column of Annex 1):*

<u>Risk</u>	<u>Risk Rating</u>	<u>Risk Minimization Measure</u>
(i) Forest management input ineffective	N	Reliance on initial inputs from contract sources
(ii) Delays in establishing landholder participation mechanisms	M	Strong and early involvement of NGOs and community groups
(iii) Industry non-compliance with conditionality/regulatory framework	H	Support and, if necessary, stand-by financing for GoPNG
(iv) insufficient incentive/interest by landholders in conservation investment	N	Comprehensive assessment of interests/requirements during design
(i) inappropriate changes to sector policy	M	Strong linkage to continued adjustment program and donor program
(ii) poor forest management component design	N	Reliance on prior Forest Management and Planning Project output and analyses in design
(iii) incentive for existing landowner company representatives to undermine new participatory arrangements	H	Conditionality for GoPNG to establish new regulations and support implementation early must be strong
(iv) conservation financing mechanism not adequately supported	M	Donor and industry commitment to be ascertained prior to inception
Overall Risk Rating	S	

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N (Negligible or Low Risk)

### *3. Possible Controversial Aspects:*

This project might encounter difficulties or even defiance from the private logging sector in PNG. Every effort has been, and will continue to be made to involve the sector positively in the reforms proposed. Recent history, however, suggests that when the industry sees its interests threatened by any major changes to the existing policy and institutional structures, it reacts by threatening standoff, withdrawal of investment from the country, and so on. The Bank and other donors should be ready to stand firm and to support the Government.

Support from the World Bank for the strengthening of incorporated land groups will need to be implemented with care, and through capable NGO and community groups, to avoid any misconception that the project is acting as some sort of proxy for government registration of clan land, which is not a popular idea in PNG.

## **G: Main Loan Conditions**

### *1. Effectiveness Conditions:*

- i.) Introduce regulations to require logging companies awarded new licenses or permits to post significant performance bonds, to be forfeit on evidence from independent inspection of non-compliance with all provisions of the Forestry Act, the Logging Code of Practice, and gazetted environmental assessment and clearance provisions.
- ii.) Establish a satisfactory legal framework and bases, including national standards for independent inspection of forest operations and reporting of results to government agencies, the private sector and civil society.
- iii.) Repeal any provision in the Forestry Act, including Section 19, which allows the Minister for Forestry to delegate the authority of the Forestry Board to an individual of his choice.
- iv.) On the matter of clearance and approval of agricultural conversion and infrastructure projects which imply clearance of significant areas of natural forests: rescind NEC Decision No. 59/97 and reinstate and gazette NEC Decision No. 113/96 in its place, ensuring also that the Forestry Board must approve the issue of timber permits or licenses to allow such clear-felling prior to project approval.
- v.) Cabinet endorsement of the Conservation Trust Fund as a proposed conservation financing mechanism.
- vi.) Cabinet will endorse two specific measures relative to the activities of timber permit holders:
  - all permit holders will be required to maintain the 50 cm diameter minimum girth limit on logs for extraction, and no selective felling of only high value or large diameter logs will be permitted. Any exceptions previously granted to these rules, which are specified in the Forestry Act, will be withdrawn immediately.
  - All permit holders will maintain their contractual obligations to landholders, and will continue to make royalty payments to landholders based on their specified minimum level of log harvest in cases where the actual harvest levels have fallen below this volume. Permit holders unwilling to continue to make such payments will have their licenses withdrawn, and any previous exceptions to this requirement will be withdrawn.
- vii.) Until a log export levy can be implemented to cover the costs of consultancy based log export operation monitoring, this activity will be supported through a direct budget allocation from GoPNG, and will not be drawn from the operating budget of the Forest Authority.
- viii.) The operational budget for the PNG Forest Authority will be maintained for the duration of the project at the 1997 (real) level.

### *2. Proposed Dated Covenants*

By June 30, 1999, GoPNG will introduce the following measures:

- i.) Gazette the legal regulatory basis requiring the DEC to assess and clear the environmental acceptability of natural resource projects prior to their further processing or approval by line ministries;
- ii.) establish institutional capacity and appropriate regulations to support independent inspection of forest operations, introduction of performance bonding and incentive mechanisms;
- iii.) establish necessary institutional capacity and regulatory reform to facilitate effective implementation of the development options approach to landowner participation in land use decision-making and their involvement in projects through appropriate representative mechanisms;
- iv.) enact necessary laws and regulations to facilitate establishment of an effective environmental protection agency, and its fee-based mechanism;
- v.) gazette necessary laws and regulations to strengthen capacity for land groups to form legal entities, to function effectively, and to secure voluntary designation of their natural resources as conservation

areas; and  
vi.) enactment of all necessary laws and regulations to support establishment of conservation areas.

**H. Readiness for Implementation**

The engineering design documents for the first year's activities are complete and ready for the start of project implementation.  Not applicable.

The procurement documents for the first year's activities are complete and ready for the start of project implementation.

The Project Implementation Plan has been appraised and found to be realistic and of satisfactory quality.

The following items are lacking and are discussed under loan conditions (Section G):

**I. Compliance with Bank Policies**

This project complies with all applicable Bank policies.

[The following exceptions to Bank policies are recommended for approval:       The project complies with all other applicable Bank policies.]

**Annex I**  
**Project Design Summary**  
**Papua New Guinea Forestry and Conservation Project**

Narrative Summary	Key Performance Indicators	Monitoring and Supervision	Critical Assumptions and Risks
<p><b><u>Country Assistance Strategy Objective</u></b></p> <p>Support sustainable management of natural resources vital to Papua New Guinea's economic growth and environmental protection</p> <p><b><u>GEF Operational Program</u></b></p> <p>Support innovative measures for in-situ conservation and sustainable use of forest biodiversity</p>	<p>Increased IBRD and GEF assistance for lending and non-lending services in natural resources management</p>	<p>Reports on the level of on IBRD and GEF assistance to Papua New Guinea</p>	<p>Existence of strong political will and commitment to ensure sustainable use and management of natural resources</p>
<p><b><u>Project Development Objectives</u></b></p> <p>Strengthen capacity of government, local communities and other stakeholders to sustainably manage and conserve PNG's forest resources;</p> <p>Involve landowners to the maximum extent possible in deciding upon, and sharing in the benefits from, sustainable forest management and conservation</p> <p>Initiate and test satisfactory mechanisms to involve landholders in improved forest management and conservation</p> <p>Initiate and test satisfactory approaches to sustainable forest management by forestry and conservation agencies</p>	<p><i>By end of Phase I (2001)</i></p> <p>Adoption of successful approaches in several pilot areas</p> <p>Adoption and successful testing of independent monitoring and environmental assessment of commercial forest operations</p>	<p>Government and Bank Supervision/mid-term review reports</p> <p style="text-align: center;">“</p>	<p>Government agencies, NGOs and community groups and landowners are committed to work together to ensure sustainable use and management of forest resources</p>



<p>Initiate and finance non-government conservation based landowner project support mechanisms</p>	<p>Establishment of necessary structure and initial disbursements to landowners</p> <p><i>By end of Phase II</i></p> <p>Adoption at broad scale of processes for land group representation and their participation in forest management,</p> <p>Satisfactory implementation of land group-based conservation areas coupled with sustainable livelihood activities</p> <p>Initiation of independent monitoring of production forest operations, and effective environmental assessment of such operations</p> <p>Full financing and functioning of non-government based landowner conservation project financing mechanism</p>	<p>Project supervision; ICR</p>	
<p><b><u>Project Outputs</u></b></p> <p><i><u>Landowner Forest Decision-making Component</u></i></p> <p>Establishment of a participatory process to strengthen representation and involvement of the Integrated Land Groups (ILGs) in forest resource decision-making</p>	<p><i>By end of Phase I (2001)</i></p> <p>Establishment of a Landowner Decision and Organization Unit, initially in the Office of Planning and Implementation</p> <p>Preparation of landuse management plans in selected demonstration areas--through a participatory decision-making process</p> <p>Identification of land group-based conservation areas in areas of known biodiversity importance</p>	<p>Project monitoring and evaluation system</p> <p>“</p> <p>“</p>	<p>Landowners are presently not optimally informed about forest development options</p> <p>Increased information and community TA will lead to more beneficial forest use decisions</p>

<p>Preparation and endorsement by relevant GOPNG agencies of updated legislation to support clan level sustainable use and management of forest resources</p> <p>Institutionalization of the participatory planning process for decision-making on forest resource use and management</p> <p>Expansion in the coverage of land group-based conservation areas and land group-based monitoring</p>	<p>Legislation submitted to Parliament</p> <p><i>By end of Phase II</i></p> <p>Complete implementation of development options study methodology; and declaration of land group-based conservation areas</p> <p>Implementation of a capacity building program for the LDOU, land groups and relevant provincial and local-level government staff in participative land use planning and resource management</p> <p>Implementation of land group-based monitoring of protected areas and forest management areas</p>	<p>GOPNG reporting</p> <p>Project evaluation and monitoring</p>	
<p><u>Sustainable Production Forest Management Component</u></p> <p>Availability of an updated Logging Code of Practice to incorporate advances in best practice management</p> <p>Initiate improvements in the capacity of the Forest Authority in forest monitoring, enforcement and management planning</p>	<p><i>By end of Phase I (2001)</i></p> <p>Preparation and endorsement by key stakeholders of updated Logging Code of Practice</p> <p>Implementation of a training program for Forest Authority and industry personnel on the revised Code of Practice</p> <p>Initiation of an independent audit system to develop a nationwide baseline on the performance of forest operations</p> <p>Availability of forest information products for forest policy makers and managers</p>	<p>Project monitoring and evaluation system</p> <p>Project evaluation and supervision</p> <p>“</p>	<p>Further improvements to content and application of logging code of practice are necessary</p> <p>An independent forest audit system is essential to improve forest management and accountability</p> <p>Assume availability of information products from FIMS and skilled staff will lead to improved forest planning and management</p>

<p>Initiate a system to promote natural regeneration and plantation activity following harvest and to rehabilitate previously degraded areas</p>	<p>Implementation of natural regeneration and plantation pilots in different forest types</p>	<p>“</p>	<p>Recent studies indicate regeneration is feasible and beneficial in PNG</p>
<p>Establishment of a Financial Management System to upgrade revenue collection and disbursement</p>	<p>Upgrade institutional arrangements and computer system for forest revenue collection and disbursement</p>	<p>“</p>	<p>Distribution of revenues to clan groups has been identified as a major problem for the Forests Authority</p>
<p>Improved incentive and performance system for industry</p>	<p>Implementation of training program in financial management for FA staff</p>	<p>“</p>	
<p>Improved incentive and performance system for industry</p>	<p>Introduction of experimental measures such as performance bonding</p>	<p>“</p>	<p>Industry clearly needs to be engaged as proactive contributor to long term forest management</p>
<p>Establishment of clan-based forest operations</p>	<p>Identification of important impediments to industry effectiveness and cooperation in sustainable management practices</p>	<p>“</p>	
<p>Establishment of clan-based forest operations</p>	<p>Identification of legal/regulatory reforms encourage clan based forest operations</p>	<p>“</p>	<p>Complicated licensing arrangements seen as a constraint on small scale operations at present</p>
<p>Fully implement the application of improved forest management, monitoring and enforcement</p>	<p>Initiation of training and extension needed</p> <p><i><u>By end of Phase II (2006)</u></i></p> <p>Institutionalize application of the Logging Code of Practice</p> <p>Institutionalize application of the independent audit system and monitoring for forest operations</p> <p>Expansion and refinement of information products, with emphasis upon site level plans</p> <p>Apply performance bonds and other incentive/disincentive measures piloted in Phase I</p>	<p>Project evaluation and supervision</p>	

<p>Implement post-harvest measures for sustainability</p>	<p>Apply industry wide requirements for post harvest forest management practices</p> <p>Apply results of plantation pilots to investment and incentive structure for plantations</p>		
<p><u>Environmental Protection Component</u></p> <p>Improve capacity of Department of Environment and Conservation in application of appraising Environmental Impact Assessment</p> <p>Establishment of a community based environmental monitoring system</p> <p>Institutionalize comprehensive and sustainable environmental assessment of resource projects</p> <p>Broad application of community based environmental monitoring</p>	<p><u>By end of Phase I (2001)</u></p> <p>Complete enactment of Environment Act legislation</p> <p>Development of licensing systems and procedures for effective assessment and ongoing regulation of forestry development projects</p> <p>Implementation of training program in assessment, licensing and monitoring</p> <p>Implementation of a demonstration on community-based environmental monitoring system</p> <p><u>By end of Phase II (2006)</u></p> <p>National implementation of systems for approval, reporting, monitoring and licensing forest resource operations, and extension into other natural resource operations</p> <p>Expansion of the community-based environmental monitoring system</p>	<p>GOPNG reporting</p> <p>Project evaluation and supervision</p> <p>“</p> <p>Project evaluation, mid-term review and supervision</p> <p>“</p>	<p>Upgrading of organizational status and increased resources for the Department of Environment and Conservation will result in better enforcement of EIA guidelines and procedures</p> <p>Develops capability and ownership of resource owners to control outcomes for their resources</p>

<p><u>Conservation Trust Fund Component</u></p> <p>Establishment of a conservation trust fund to provide long-term financing for conservation and sustainable development</p> <p>Implementation of projects to demonstrate environmentally sustainable and economically viable alternatives to logging</p> <p>Establishment of endowment funding to resource Fund permanently</p>	<p><u>By end of Phase I (2001)</u></p> <p>Establishment of a sinking fund to support demonstration projects in conservation and sustainable development</p> <p>Selection of a Board, establishment of deeds and articles, audit and reporting systems</p> <p>Solicitation of proposals, evaluation and funding decisions and allocation to selected projects</p> <p><u>By end of Phase II (2006)</u></p> <p>Continued fundraising/donor involvement to facilitate evolution of the sinking fund into an endowment fund</p> <p>Expansion in the coverage of the conservation and sustainable development projects</p>	<p>Board of trustees reporting, fund management reporting, project supervision</p> <p>“</p> <p>Independent evaluation of the sinking fund performance</p> <p>Board reporting, project evaluation and supervision</p>	<p>The availability of an accessible, non-government based funding for conservation and sustainable development will encourage a significant number of clans to pursue conservation options</p> <p>Donors will find it attractive and convenient to provide funds to create a viable endowment</p>
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## Annex II

### Papua New Guinea Forestry and Conservation Project

#### Incremental Cost Analysis

##### 1. Broad Development Goals

Papua New Guinea's (PNG) forests are part of the so-called Malesian phytogeographical zone which extends from Peninsular Thailand in the northwest to PNG and adjacent islands in the southeast. PNG covers 46.3 million hectares, of which about 36 million ha are still covered by closed natural forest; ranging from high altitude cloud and montane forests in the highlands, hill forests on the slopes, to lowland mixed forest and mangroves nearer the coast. PNG's forests are currently the least degraded forests in this region, but the trend is that most forests are to be industrially logged. PNG has a very limited land area under protection and conservation status.

The Forest Act (1993) provides the primary foundation for efforts to reform the PNG forest sector. The Act has set the basis for sustainable utilization of forest resources. It addresses the need for a decentralized decision making process in regards to PNG's forest resource allocation. The World Bank's 1995 Economic Recovery Loan provided a strong set of forest conditionalities which are designed to move the industry towards more sustainable commercial forest harvests and provide the policy framework necessary for conservation set-asides. The government's medium term development strategy highlights the importance of sustainable forest management and transparency in the forest sector.

The key development objectives of the Forest and Conservation Project are to:

- a) improve landowner participation in forest use decisions, their access to the benefits of sustainable forest management, their awareness of forest management and conservation issues, and accessibility to a conservation designation for their land;
- b) establish a mechanism for providing significant and sustainable in-country funding for conservation area establishment coupled to community based sustainable resource use;
- c) improve the capacity of GOPNG to plan, implement and enforce sustainable and environmentally responsible forest management; including a broadening of forest management options; and
- d) upgrade the GOPNG's capability to assess the environmental acceptability of forest resource operations and review or reject proposals accordingly, to be followed by regular and effective monitoring.

##### 2. Baseline

In the absence of GEF support, the focus of the government efforts in the forestry sector would be on upgrading the performance of commercial forest operations so that exploitation of the country's rich timber resources is done in a more sustainable manner and with less environmental impact. Additionally, there would be some effort to achieve more diversity in type, scale and intensity of forest management activities and to strengthen landowner involvement. This would involve continued reform of forest sector policies, creation of field capabilities for monitoring timber operations, and strengthening of environmental assessment and enforcement institutions. A modest share of donor support to the forest sector would likely be directed to enhancing biodiversity conservation, most probably by supporting a biodiversity

conservation trust fund.

- a) *Landowner Forest Decision-Making*—Under the baseline scenario, support will be provided for a program to make landowners better equipped to make critical management decisions over use of their forest lands. Landowners would be given information and tools to consider and implement options for sustainable forest area management. Cost \$4.0 million.
- b) *Conservation Trust Fund*—Under the baseline scenario, it is expected that donor organizations active in the realm of alternative development options, such as AusAID, other bilateral donors and international NGOs, could reasonably be expected to redirect approximately \$5.0 million of their expected biodiversity conservation financing into a conservation trust fund.
- c) *Sustainable Forest Management*—Control over destructive forest logging operations will be improved. The emphasis will be upon minimizing environmental impacts of production forestry and ensuring it maximally contributes development. Cost \$9.0 million.
- d) *Environmental Protection*—There is to be a major effort to ensure that environmental assessment and monitoring of proposed forestry and other development projects are diligently carried out. Cost \$5.0 million.

Implementation of the Baseline Scenario is expected to cost \$23 million. The result of this program would be a more sustainable forest industry, reduced environmental impacts, more diversity of forest management type and scales, and more involvement of landowners in production forest area management decisions. Biodiversity impacts would generally be positive and include strengthened capacity to assess environmental impacts of development projects, enforcement of timber regulations to protect waterways and sensitive sites and some individual conservation projects. However, biodiversity values would not be fully integrated into sector policy development and timber operation planning and implementation. Significant unmet demand for alternative conservation-based development options from landowner communities would persist due to the lack of a long-term compensatory financing mechanism.

### **3. Global Environment Objectives**

The global environmental objective is to better conserve the rich biodiversity and important ecosystem functionality of Papua New Guinea's rainforests through establishment of conservation areas and community based sustainable management (the GEF alternative), coupled to sustainable, environmentally responsible forest harvest of natural forests in other areas (the baseline and other project components).

Specific objectives in pursuit of global environmental benefits include: (i) establishment of a conservation strategy that is culturally appropriate, maximally utilizes customary land tenure to its advantage, and facilitates widespread conservation and sustainable development activities that maintain biodiversity and ecosystem values over large expanses of rainforests; (ii) maintenance of effective forest cover, especially in areas near sensitive conservation sites; (iii) establishment of a financial mechanism able to support landowner based conservation activities; (iv) promotion of increased landowner participation in, and benefits from, sustainable management and conservation activities.

### **4. GEF Alternative**

The GEF alternative comprises:

- a) *Landowner Forest Decision-Making*—Landowner forest decision making baseline activities will be expanded to include a specific conservation focus. This would include development of a policy framework and mechanism that will allow land groups to declare their lands as conservation and

sustainable-use areas. This requires revision of policy and procedures for securing landowner-initiated conservation designation, greater emphasis upon conservation awareness and education, outreach activities and legal advice for landowners wishing to pursue conservation. Total cost: \$6.0 million.

- b) *Conservation Trust Fund*—Under the GEF Alternative, financial assistance would be provided to support landowner based alternatives to large-scale logging and establishment of conservation and sustainable-use activities in forest areas. The required funding was calculated by estimating the resources generated from royalties on large scale logging operations and the level of landowner community demand for alternative livelihood and conservation options (see Attachment 1). Based on this analysis, it appears that about \$2 million is needed on an annual basis to support a full range of conservation-related activities. This would be achieved by establishing a long-term financing mechanism, which would be funded on a sinking fund basis during a demonstration phase (\$5.5 million) and, if successful, on an endowment basis thereafter (\$30.0 million, of which \$10 million GEF, \$20 million other donors). Total cost: \$35.5 million.
- c) *Sustainable Forest Management*—same as for baseline. Total cost: \$9.0 million.
- d) *Environmental Protection*—same as for baseline. Total cost: \$5.0 million.

Total cost of GEF Alternative: \$55.5 million

## 5. Incremental Costs

The cost of the baseline scenario is estimated at \$ 23 million. The GEF alternative is estimated to cost \$55.5 million, resulting in an incremental cost of \$ 32.5 million. In keeping with the GEF operational principle of leveraging GEF resources, cost-sharing for the endowment mechanism will be an integral feature, relying on both domestic and international resources. The GEF is therefore asked to fund \$17 million of the incremental cost. GEF funding would comprise \$ 6 million for Phase 1 and \$11 million for Phase 2. GEF funding for the endowment component of Phase 2 (\$10 million) would be conditional on successful implementation of trust operations in Phase 1, matching commitments to the endowment from other donors, and demonstrated demand for funds for conservation in forest areas of high biodiversity value.

### Attachment 1

- 1) Present flow of royalties direct to landowners from logging operations in PNG is approximately US\$ 15 million/year.
- 2) Indications from landowner awareness and other activities are that at least 30% of landowner groups would prefer (or at least agree to) activities other than commercial logging in their areas. It is highly likely that at least half of the sites involved in this figure would merit investment in conservation or low-impact sustained use management. Thus, some 15% of landowners involved in large-scale logging are expected to be interested in financing for alternative conservation based activities.
- 3) In order to expect that conservation activities be pursued in any particular area, it is reasonable to assume that income bearing alternatives to logging in such areas would require at least the equivalent of the royalty yield to become established.
- 4) Combining these estimates (US\$15 x .15), it is suggested that an annual flow of approximately US\$ 2 million would be needed to support a program large enough to take up anticipated demand for alternatives to commercial logging. This would require an endowment trust fund that is capitalized to at least the US\$ 30 million mark.



Incremental Cost Matrix

<b>Component</b>	<b>Cost Category</b>	<b>Cost (US\$ million)</b>	<b>Domestic Benefit</b>	<b>Global Benefit</b>
<i>Landowner Forest Decision-Making</i>	Baseline	4.0	Larger and more sustainable benefits from forests, and more equitable distribution	
	GEF Alternative	6.0	Same as above, plus landowners can access conservation option in addition to sustainable use option	Enhanced conservation of biodiversity in conservation areas through voluntary action
	Increment	2.0		
<i>Conservation Trust Fund</i>	Baseline	5.0	Exploitation of some new alternative sustainable use options	Modest, short-term improvement in conservation of biodiversity
	GEF Alternative	35.5		Significantly enhanced and sustainable conservation of biodiversity
	Increment	30.5		
<i>Sustainable Natural Forest Management</i>	Baseline	9.0	More sustainable benefit flows from forest harvests	Less destructive logging helps to conserve biodiversity in production forests
	GEF Alternative	9.0		
	Increment	0		
<i>Environmental Protection</i>	Baseline	5.0	Minimization of adverse environmental impacts of development projects	Some enhancement of biodiversity conservation in production forests
	GEF Alternative	5.0		
	Increment	0		
<b>Total</b>	Baseline	23.0		
	GEF Alternative	55.5		
	Incremental Cost	32.5		

## ANNEX III

### Papua New Guinea Conservation Trust Fund (CTF)

#### Supplemental Design Information

**1. Introduction.** The concept of a CTF in PNG has been discussed since the early 1990s. In 1996, The Nature Conservancy and the UNDP-sponsored Biodiversity Strengthening Program of the PNG Department of Environment and Conservation began collaborating to develop a national consensus around the creation of a Trust Fund and its mission and operating plan. This has included very broad consultations (over 500 meetings and interviews with groups and individuals in PNG) as well as the preparation of a number of key technical studies looking at legal, institutional and socio-political issues surrounding the creation of such a fund.

The overall scope of the CTF will cover forests and other areas such as marine conservation. This annex outlines the major design elements of the broader CTF -- including activities that will be funded by the GEF as well as those funded by other sources. The design elements in this annex reflect the broad consultations described above and agreement by the CTF Steering Committee, composed of 14 leaders from key governmental and non-governmental stakeholder groups. The Steering Committee has assumed responsibility for directing the Trust Fund project prior to the establishment of the Management Board in September 1998.

The CTF Steering Committee and Management Board will actively draw on the experiences of existing CTFs, including reviewing in-depth the forthcoming study by the GEF on experiences to date with CTFs, and adapting various design elements of the PNG CTF as appropriate.

**2. Goal and Objectives.** The goal of the Conservation Trust Fund is to provide an ongoing and reliable source of in-country funding for biodiversity conservation and sustainable development in Papua New Guinea. More specific objectives include:

- to conserve -- and where necessary restore -- natural resource areas, particularly those that are national priorities and of global significance in terms of biodiversity value;
- to strengthen the capability of resource owners to conserve and sustainably manage their own natural resources through education, training and other capacity-building activities built into projects; and
- to enhance the knowledge and information base needed to monitor and achieve sustainable resource management and biodiversity conservation.

**3. Linkages to Other Biodiversity/Environmental Strategies.** The CTF will establish particularly strong linkages with the Department of Environment and Conservation (as described below). In addition, the CTF will be appropriately integrated into relevant biodiversity/environmental strategies and programs, such as: the National Forest and Conservation Action Plan (NFCAP), the Targeted Community Development Program (TCDP), the Total Catchment Environmental Management (TCEM) Strategy, and programs sponsored by bilateral and multilateral agencies.

**4. Legal Instrument.** The Trust Fund will be created through the establishment, in September 1998, of a tax-exempt, charitable body under PNG law known as a "Trustee Company". As required under PNG law, the Trustee Company will have a Trust Deed (containing the constitution) and by-laws (defining management structure and various rules under which the Fund shall operate).

**5. Role of Department of Environment and Conservation (DEC).** DEC serves as the lead governmental agency within PNG on all conservation-related matters, including setting conservation priorities, formulating conservation policies and implementing conservation programs. Therefore, a strong cooperative relationship will be developed between the DEC and the CTF: (i) the DEC Secretary will hold an ex-officio seat on the Board; (ii) in carrying out its mission, the CTF will recognize and work in support of the role of DEC as the lead agency in conservation priority-setting; and (iii) DEC-sponsored projects meeting relevant criteria will be eligible for funding by the CTF.

**6. Governance and Structure.** Some additional design information on governance and structure issues is provided below:

**(i) Management Board**

Board members will be drawn from a wide range of stakeholder groups, with members serving in their *individual* capacity with the sole objective of achieving the mission of the Trust Fund. The Board will be composed initially of approximately 7 members serving staggered three-year terms with a two- or three-year term limit. The Board size may be expanded in time based on expertise and technical needs. Two sets of provisional criteria have been developed for Board membership:

Criteria set #1: For all directors:

- Demonstrated commitment to the principles and mission of the Trust Fund;
- Resident of PNG; and
- Proven track record of distinguished accomplishment, integrity and experience in PNG.

Criteria set #2: Directors serving on the Board shall be representative of the following areas:

- Secretary of DEC or successor agency
- Secretary of Finance and Planning or successor agency
- Conservation planning, science or management
- Community development
- Financial management
- Private sector experience
- Management including project development and operations experience

The initial Management Board will be chosen by the CTF Steering Committee in September 1998, following an open period of nominations, including public announcements and a Stakeholders Assembly soliciting nominations. Thereafter, a transparent and participatory process will be used by the Board to elect its own successors. Fixed terms and term limits will help to stimulate the involvement of new members. The Board will take active measures to ensure that interested stakeholders have meaningful input into (i) assessment of Board performance; (ii) Board composition issues; and (iii) the nominations process. One key mechanism for this will be an annual *Stakeholders General Assembly*.

The focus of the Board will be on over-arching policies and priorities of the CTF, financial management, and fostering public-private partnerships necessary to build consensus and raise funds. The CTF's by-laws and other rules related to Board procedures will include strong provisions to reduce potential conflicts of interest. The Board will assure that priorities, procedures, and operating plans are reasonable and transparent, and that the Management Unit carries them out efficiently.

## **(ii) Management Unit**

Day-to-day management and administration of the Trust Fund's activities would be carried out by a management unit headed by an Executive Director appointed by and responsible to the Board. The unit would be responsible for such areas as: preparation of annual work plans and budgets; development and implementation of systems for soliciting, receiving, reviewing, and recommending proposals; and regular reporting to the Board on program and project implementation. The Management Unit will be kept relatively lean, and the percentage of Fund assets available for administrative costs will be capped (e.g., 20% of resources annually available). Instead of building permanent staff for the Fund, there will be a preference for reliance on short-term and consultant expertise, and developing expertise within other PNG organizations that can be contracted to provide services. Rather than becoming an executing agency itself, the Management Unit will, as much as possible work through and take advantage of other organizations in PNG.

## **(iii) Technical Support Provider (start-up phase)**

An organization experienced in Trust Funds will be contracted to serve as Technical Support Provider during the critical start-up phase. This will entail, in particular, providing assistance in the following areas:

- legal issues, taxation, financial management, personnel, information management, tracking systems, and other technical matters encountered during the start-up phase;
- liaison with major donors and providing assistance in securing additional financial contributions;
- supporting the establishment and capacity building of the Management Unit;
- assisting with identification and resolution of problems; and
- providing other appropriate forms of support to the Management Board and staff in carrying out their responsibilities.

## **(iv) Technical Advisory Committees**

Technical committees will be established to assist in review and selection of project proposals as well as project oversight (and any other functions where the Board and/or Management Unit require additional technical expertise).

**7. Linkages.** The CTF will establish strong, collaborative and synergistic linkages with the Department of Environment and Conservation (as described above) and other relevant bodies and programs, such as: the Steering Committees of the National Forest and Conservation Action Plan (NFCAP), the Targeted Community Development Program, the Total Catchment Environmental Management (TCEM) Program, the UNDP-sponsored Ramu Catchment Biosphere Reserve Initiative, the GEF Small Grants Program, and other programs sponsored by PNG government agencies and international agencies.

**8. By-laws and Trust Deed.** The by-laws and Trust Deed will serve as the principal legal instruments of the CTF. Together, they will include among their provisions:

- definition of the Fund's mission, goal, and over-arching objectives;
- definition of the general categories of activities to be supported, and eligible beneficiaries, with provisions for modification of same by the Board;
- terms governing invasion (i.e., drawdown) of endowment principal;
- definition of the other operative bodies of the Trust Fund and the responsibilities and authority of each.
- elaboration of Board procedures;

- requirements for annual audits of operational, grant-making, and asset management programs;
- general procedures governing grant-making programs;
- a cap on the annual operating budget, and procedures for modifying the cap;
- procedures for modification of the bylaws;
- provisions for overriding specific by-laws (This will likely be only through unanimous decision of the Management Board, in order to ensure the maintenance of the endowment and integrity of the Fund's original purpose); and
- provisions for the dissolution of the Trust under extraordinary circumstances, and disposition of assets in case of dissolution. (The disposition of the assets will be left to the discretion of each donor).

**9. Immediate Next Steps Toward Completing Preparatory Phase:**

<u>Activity</u>	<u>Time Frame</u>
Create CTF Steering Committee	June 1998 (completed)
Finalize Trustee Deed	September 1998
Register Trust Company as legal entity	September 1998
PNG Cabinet Paper Endorsement	August 1998
Establish Management Board	September 1998
Complete investment guidelines and solicit asset management proposals	October 1998
Board formally Adopts Operations Manual	October 1998
Secure Start-up Grant from GEF	October 1998
Prepare staff hiring plan	Early 1999