International experience with REDD+ and national forest funds

Viet Nam

Lowering Emissions in Asia's Forests (LEAF)

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International experience with REDD+ and national forest funds

Viet Nam

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1 Introduction

1.1 Background

At the 16th session of the conference of the parties (COP16) to the UN Framework Convention on Climate Change (UNFCCC) parties agreed to implement REDD+ through a phased approach that begins with readiness activities before moving to results-based demonstration activities, and finally to fully measured, reported and verified (MRV) results-based actions. While the bulk of global REDD+ actions so far have been focused on readiness activities, the recent shift of many countries toward piloting payments against results necessitates developing effective and efficient methods for receiving, managing and disbursing payments.

Viet Nam is quickly advancing with REDD+ implementation and expects to be among the first Asian countries to receive results-based payments. In this context, a 2012 decision of the Prime Minister[1] provides for establishing a REDD+ Fund under the Vietnam Forest Protection and Development Fund (VNFF) and the Viet Nam Forestry Administration (VNFOREST) has directed relevant agencies to prepare a proposal for such a fund for submission to the Government for approval in 2013.

The present paper comprises the first of several steps in which LEAF will support the government of Viet Nam in establishing a REDD+ Fund. Its purpose is to draw lessons and identify lessons learned from existing experience with national or regional funds with similar purposes to the Viet Nam REDD+ Fund. This includes several nascent REDD+ or climate change-focused funds, but also other forest protection or environmental funds which already have several decades of experience from which to draw.

The focus of this paper will be on the comparative analysis of the operational aspects of REDD+ or forest funds. We recognize that the macro-economic and sectoral conditions are essential for the decision of donors and private sector entities to dispose monies in national funds. The fiduciary and financial sector conditions that influence negotiations around results-based payments will be touched upon but not elaborated in detail in this paper. Relevant criteria will be subject to separate advice.

The paper is structured as follows. Section 1.2 presents an overview of the role and function of national REDD+ funds, while Section 2 provides a comparative analysis of the funds reviewed, focusing on seven aspects that are expected to be central to the design of the Viet Nam REDD+ Fund. In each case it will present the main approaches that have been employed for each issue and their respective implications, with a view to identifying lessons learned on the design of each component. A detailed overview of each fund is provided in Annex 1.

[1] Decision No. 799/QD-TTg of the Prime Minister dated 27/06/2012.

1.2 Role and Function of national REDD+ Funds

Results-based payments for REDD+ fall into a category of relatively new approaches towards official development assistance (ODA) such as “cash on delivery” and “outcome-based payments”, which condition donor payments on the achievement of particular results. In the case of REDD+, results that qualify for payment are measured in terms of reductions of greenhouse gas (GHG) emissions against a baseline. Other additional results, such as those related to poverty reduction, water conservation, and biodiversity outcomes, could also be financially rewarded in this manner; although common metrics for these are generally less developed.

One of the advantages of results-based payments is that the developing country has **full ownership and is fully accountable for achieving agreed results**—and in return gets a payment. The move from program-based to results-based finance empowers national institutions and by devolving more operational decisions to the national level strengthens national sovereignty in program implementation. One of the characteristics of REDD+ results-based payments is the greater discretion of the recipient government on how to use the funds.

The starting point of the management and administration of international payments is the establishment or assignation of national REDD+ funds. Such funds should allow the management of international contributions in a t**ransparent, effective and efficient manner**. Depending on national capacities, the funds would be more or less **decentralized** and decision-making would be more or less **devolved**. “Direct access” under the **Adaptation Fund** provides some useful lessons about requirements that have been applied to national entities that receive funding from the Adaptation Fund and are likely to apply in a similar way to REDD+ funding. Under the Adaptation Fund, countries established National Implementing Entities (NIEs) that – once accredited by the Adaptation Fund Board (AFB) - out fiduciary management of funds alongside to Multilateral Implementing Entities. To do so NIEs have to meet fiduciary criteria established and adopted by the Fund’s Board (see Text Box 1). Under REDD+ national funding entities are likely to assume an even more prominent role than under the Adaptation Fund’s governance. However, it is likely that donors will expect similar fiduciary criteria to be met for a national REDD+ fund than those needed for AFB accreditation (see Text Box 1).

To meet these criteria national REDD+ funds should be as much as possible (i) be independent from government; (ii) managed by an independent body/set of managers; (iii) apply international accounting standards and meet international fiduciary criteria; (iv) be managed in a transparent manner. The design of national REDD+ funds depends on the particular country economic and legal systems, domestic policy priorities, existing institutions, and the availability of resources. However, there are a number of aspects concerning how these national funds interact with the international REDD+ architecture merit some consideration. The interface between the national-level and international finance require REDD+ funds to fulfill the following functions:

Text Box 1 - Fiduciary Standards under the Adaptation Fund

Fiduciary Standards for NIE under the Adaptation Fund:
In creating the Adaptation Fund, the parties to the Kyoto Protocol decided that it must practice "sound financial management, including the use of international fiduciary standards" (Decision 5/CMP.2). At its 7th meeting the Adaptation Fund Board adopted the following fiduciary standards, which are required to become an implementing entity of the Fund:

a) **Financial Integrity and Management**
- Accurate and regular recording of transactions and balances, audited periodically by an independent firm or organization
- Managing and disbursing funds efficiently and with safeguards to recipients on a timely basis
- Produce forward-looking plans and budgets
- Legal status to contract with the AF and third parties

b) **Institutional Capacity**
- Procurement procedures which provide for transparent practices, including on competition
- Capacity to undertake monitoring and evaluation
- Ability to identify, develop and appraise projects/programs
- Competence to manage or oversee the execution of the project/program including ability to manage sub-recipients and support delivery and implementation

c) **Transparency and Self-Investigative Powers**
- Competence to deal with financial mismanagement and others forms of malpractice

1. Managing relationships with the entities operating under the (a) UNFCCC REDD+ mechanism, (b) national or regional REDD+ programs, and (c) international multilateral and bilateral sources of REDD+ funding. These include[2]:
    a. Requesting and receiving funding from international sources;
    b. Submitting country REDD+ strategies;
    c. Submitting country REDD+ reports with MRV and peer; and
    d. Regularly reporting to the COP or high-level body on REDD+ implementation
2. Agreeing to and implementing:
    a. International funding, fiduciary, and reporting procedures;
    b. Standards, MRV methodologies, and other technical procedures; and
    c. Social and environmental standards and grievance procedures.
    d. Overseeing relations with international carbon markets.

[2] See page 23, REDD+ Institutional Options Report. http://www.redd-oar.org/links/REDD+IOA_en.pdf

The capacities of national REDD+ funds will determine the responsibilities that international actors devolve to national institutions. The current small number and size of independent REDD+ funds still acts as a barrier to the development of a longer-term REDD+ financing structures. Governments have to play a leading role in establishing national funding structures. It is in this light that the current study marks a first step in advising the Government of Viet Nam on the establishment of a national REDD+ fund.

2 Comparative review of experience with international funds

The following comparative review comprises an examination of eight funds characterized by a diverse array of goals, ranging from funding protected areas to receiving, managing and disbursing performance-based REDD+ funds. Table 1 provides a general overview of each fund reviewed. The comparison was carried out through a desk review of primary fund documents and secondary literature, including founding legislation, memorandums of understanding, concept notes, operational procedures, procurement guidelines and other documents or guiding frameworks describing how the fund is established, structured, and managed. The analysis is focused on seven specific components which are central to effective, efficient fund management, with a view to highlighting lessons and best practices from existing experience in respect of each component. The seven components are:

(i) Fund structure – comprising the overall design of the fund, including its legal personality and relationship with the government, the creation of multiple windows and fund types and the source of funding utilized;

(ii) Fund governance and management – the types of institutions charged with governing and managing the fund together with their composition, function and responsibilities;

(iii) Principles and rules on investment – the approach, rules and guidelines set out for investing the resources of the fund;

(iv) Eligibility and selection criteria – the type of actions and entities eligible for funding, as well as criteria for selection of recipients;

(v) Evaluation and MRV – rules and process for effective and transparent monitoring and evaluating of, firstly, the overall performance of the fund and, secondly, the performance of individual funded activities;

(vi) Social and environmental safeguards – the rules and guidelines set out for ensuring the use of funds is compatible with social and environmental goals and does not result in unintended consequences;

(vii) Specific donor requirements – requirements that have been set out by fund donors as a condition for donating money to the fund

Table 1: Overview of main features of funds reviewed

	Funding Target	Governance	Investment	Selection criteria	MRV	Safeguards	Specific donor requirements
GRIF	REDD+	World Bank administers trust, guided by government-donor governing board	Yes, conservative and liquid portfolio	Based on Guyana's LCDS	Performance based (fund level); annual financial audits	According to policies of World Bank and implementing entity	Enabling indicators are included alongside performance indicators
CBFF	REDD+	AfDB administered trust guided by multi-stakeholder governing board and supported by private fund management agnet	Yes, investments at discretion of trustee	Based on alignment with six criteria	Annual financial audits (both fund and project level)	According to policies of AfDB	Use funds to combat deforestation, develop national baseline and MRV systems, and enhance government/civil society partnerships
Amazon Fund	REDD+	National bank-administered trust guided by multi-stakeholder governing board and supported by technical committee	Yes, liquid capital invested in fixed income investment fund	Projects must directly or indirectly reduce deforestation, with up to 20% set aside for international projects or projects outside of Amazon biome	Performance based (fund level); annual financial audits	REDD+ SES and according to BNDES policies	Not clear.
ICCTF	All climate	Government-	No	Projects supported	Annual	According	Not clear.

	change mitigation sectors	dominated structure with UNDP acting as trustee		by line ministries which align with the National Action Plan on Greenhouse Gas Action Plan	financial audits	to policies of UNDP	
FMM	Broad range of forestry activities	National bank administers, guided by multi-stakeholder governing board	Yes, long-term investment maximized	Depends on sub-program	Overall audits by Federal auditor; recipient level depends on program	No data available	Mostly domestically funded; future participation in FIP will involve applying World Bank procedures
PROFONANPE	Protected Area conservation and management	Independent legal entity, guided by multi-stakeholder governing board	Yes, conservative investment portfolio managed by private entities	Each project subject to individual donor funding	Governing board supervises all projects; independent annual audits	World Bank safeguards apply	Grants subject to Grant Agreements
FONAFIFO	Conservation by small and medium forest owners	Semi-state entity guided by public-private stakeholder governing board and utilizing a national trust facility	No data available	Depends on sub-program; participants ranked by ecological value of land	Private entities responsible for auditing participants reports; independent annual audits	Ad-hoc social and environmental polices apply to domestic funds; donor standards applied to donor funding	Certain funding streams subject to individual donor requirements
Lao EPF	Environmental	Autonomous organization	Yes, seed funding	Case-by-case appraisal	Governing body	Internal safeguards	Individual donors financing funding

	protection projects	guided by multi-stakeholder governing board	invested in endowment fund		performs overall review of performance; simplified procedures for small projects; independent annual audits	based on World Bank safeguards	windows may request that their own policies/ standards be followed in place of standard policies

2.1 Fund structure

Key points

- The majority of funds are independent, stand-alone funds, though many comprise several sub-funds or funding windows with thematic focuses.
- The most successful funds have secured multiple funding streams.
- Diversifying funding sources and engaging the private sector through mandatory or voluntary payments can both increase funding and limit exposure to political or economic events.

The majority of funds surveyed, including all REDD+ funds, exist as **independent, stand-alone funds** rather than components of other funds. Many of the funds do, however, contain several **sub-funds** relating to thematic issues (e.g. FONAFIFO in Costa Rica) or to specific large-scale projects (e.g. Peru's PROFONANPE). Funds have also utilized **different fund-types** in order to meet diverse objectives. PROFONANPE, for example, uses a combination of endowment, sinking and mixed funds. Endowment funds are used for projects which have relatively large seed funding and require long-term financial stability; sinking funds are used for projects were a large amount of liquid finance is required to be available; mixed funds are used for projects which require a balance between long-term stability and short-term liquidity.

In terms of funding sources, the most successful funds examined have managed to secure a **range of funding sources**, helping them to limit their exposure to specific political or economic events. The REDD+ and national climate funds reviewed have thus far primarily relied on international public donors, in particular Norway, Germany and the United Kingdom, though the Amazon Fund has also obtained a small amount (USD 4.2 million) from the national petroleum company, Petrobras.

Several of the more long-standing forestry funds, on the other hand, have obtained substantial **financing from the national private sector**, primarily through compulsory taxes or levies, and in the FFM and FONAFIFO this constitutes the main source of funding. It is worth noting, however, that both of these funds are heavily focused on payment for ecosystem services, providing a clear link with private sector payments. Voluntary payment from private sector entities operating in the country have also been secured by several funds, usually based on motivations of corporate social responsibility. While in all cases this constitutes a small proportion of funding, it offers a useful complement to other finance sources. In the case of FONAFIFO, such contributions have been facilitated through the issuance of Environmental Service Certificates (ESCs) which constitute recognized proof of contribution.

2.2 Fund governance and management

Key points

- Ensuring the independence of the fund from the government has been an important factor in attracting donor finance.
- All funds have some form of governing board and management body, while several funds also engage trust facilities, technical committees or professional private sector entities to increase efficiency. Government bodies can support but do not typically play central roles.
- Including a balance of representatives from government, civil society and the private sector on the governing board and ensuring equal voting rights for each has increased funds' legitimacy and effectiveness.
- Limiting transaction costs helps increase the attractiveness of the fund for donors. While most large international agencies charge between 10-20%, evidence from the private sector and national banks has shown administrative charges can be held as low as 3% .
- Ensuring appropriate fiduciary responsibilities are in place is key. Fiduciary obligations will apply to at least trustees, but in many cases also to management bodies or other persons managing or disbursing funds.

The majority of the funds surveyed exist as autonomous or semi-autonomous entities with a **substantial degree of independence from the national government**. In most cases this involves the fund having independent legal personality, either as a private non-profit organization, trust, or a decentralized or semi-state entity. The precise legal form depends to a significant degree on the national legal context. The level of independence from the government has, however, been strongly linked to the effectiveness of funds and, crucially, their ability to attract donor finance. The experience with PROFONANPE also highlights that keeping the fund legally separate from the government can also ensure that the state's creditors cannot access the fund's resources in the event of the country defaulting on its sovereign debt.

While the funds studied differ in several aspects of their internal governance structures, in all cases two basic institutions exist: a governing board (e.g. steering council, board of directors) and a management body (e.g. executive office). The board is typically charged with providing overall direction to and oversight of the fund, such as developing operational and investment procedures, while the management body usually manages the day-to-day operations of the fund and in many cases carries a certain degree of fiduciary responsibility. Several funds, such as GRIF and ICCTF include specific roles and responsibilities for project implementers within their overall organizational structure.

In most cases **membership of the governing board** consists of high-level representatives from the public sector (often from multiple ministries/agencies), private sector and civil society. In several of the REDD+ funds, notably GRIF and ICCTF, civil society and private sector representatives are afforded only observer status; however, in each case this has been the subject of considerable criticism and has arguably hampered the funds' ability to attract multiple donors. Similarly, a Global Environment Facility review of the performance of PROFONANPE found that government domination of the Steering Council had hindered diversification and adversely affected its operation, a matter that was subsequently addressed. Such conclusions are consistent with other reviews of international conservation funds, which have highlighted the importance of avoiding government domination of governing bodies, while also maintain at least one high-level government representative, as key for the success of funds.[3]

Decision structures and voting powers of different entities on the governing board tend to vary widely. Some funds use decision by consensus while others adopt decisions through a majority vote. Similarly some funds give each member of the governing body a single vote, while the Amazon Fund gives each stakeholder group (national government, local government, CSOs) a single block vote.

Responsibilities of governing boards typically include matters such as adopting polices and funding strategies, monitoring and reviewing fund performance, devising investment guidelines and setting rules and conditions for loans/grants. In some cases they are also responsible for approving budgets or funding requests, particularly for large projects. The experience with the CBFF, however, indicates that were large numbers of funding requests are involved; limiting the involvement of the governing body to decisions above a certain threshold greatly increases efficiency.

Management bodies typically comprise a full-time team of specialized staff, often headed by an executive director. Their functions often include the operational and financial administration of the fund, devising strategies and plans for presentation to the governing board, approving or pre-screening funding requests and, as in the case of the Lao EPF, providing assistance to funding recipients in preparing funding proposals.

Management bodies are frequently supported by **government agencies or international organizations**. PROFONANPE, for example, is supported in financial and technical monitoring of its various programs and projects by two line agencies, the Department of Finance and Administration, and the Department for Development and Supervision. Under GRIF, meanwhile, partner entities such as the World Bank and UNDP assist project implementing entities to develop concept notes and proposals and are responsible for their supervision and oversight.

[3] Barry Spergel and Philippe Taïeb, Rapid Review of Conservation Trust Funds, Conservation Finance Alliance Working Group on Environmental Funds (Second Edition, May 2008), pages 27-29.

In addition to the bodies listed above, many funds also utilize a **trust facility** to manage the funds. In the case of the REDD+ and national climate funds, this facility has frequently been provided by an international organization such as the African Development Bank (as under the CBFF) or UNDP (as under the ICCTF). Under most national forest funds, as well as the Amazon Fund, a national bank has undertaken the role of trustee.

The trustee is typically responsible for the fiduciary management and investing the funds in accordance with the policies and directives of the governing body. Trustees are invariably subject to **fiduciary responsibilities**. In many cases, certain aspects of fiduciary responsibilities are also applied to other bodies – members of governing bodies, for example, are usually subject to conflict of interest provisions, as are executive directors, while staff must adhere to certain codes of ethics. In the case of the ICCTF, executing agencies are also subject to fiduciary responsibilities.

In a limited number of cases, **private sector entities** have also been incorporated in governance structures. In the case of the CBFF, a private sector management agent (a consortium of SNV and PricewaterhouseCoopers) was engaged to oversee small projects while under FONAFIFO private sector *regents* have been used to monitor performance of the large number of funding recipients. In each case the use of such entities has been reported to have greatly facilitated efficiency, though the experience under FONAFIFO also highlights the need for regular and thorough audits of such entities to protect against potential conflicts of interest.

Evidence from the REDD+ and national climate funds suggests that private institutions or national banks may be able to administer funds more efficiently than larger international institutions such as the UNDP or World Bank. In the case of the ICTFF, UNDP administrative costs were roughly 12%, while the World Bank typically charges between 10-15% for fund management.[4] By contrast the Amazon Fund's trust facility is a national bank which charges just 3% in administrative fees.

Experience with the Congo Basin Forest Fund shows that the use of a Fund Management Agent (a consortium of PricewaterhouseCoopers and SNV) increased the efficiency of project dispersal at a much lower cost than the Secretariat, run by the African Development Bank (AfDB). The FMA was appointed in 2011, a year which saw the value of project approvals increase 923%. Today the FMA oversees nearly 80% of approved projects while operating on a budget from 2011-2014 that is roughly 35% lower than the AfDB's administrative expenditures for 2010 alone.

The Amazon Fund and ICCTF also have incorporated **technical committees** to the governing structure of their funds, though they have distinctly different functions in each fund. For the Amazon Fund the technical committee is exclusively charged with developing methodologies for detecting forest carbon stock change and estimating

[4] http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8340.pdf pg 11

emission reductions for performance based payments. By comparison the technical committee if the ICCTF has been created to perform technical review of project proposals and recommend them for approval based on their technical merits.

2.3 Investment of fund monies

Key points

- Investment in conservative assets which provide sufficient access to liquid capital in order to keep funds available for disbursement is preferred by most funds.
- Sufficiently capitalized funds can ensure long-term sustainability through the creation of endowment funds which yield sufficient annual interest to fund a portion of operations.
- Experience with the Amazon Fund shows that it is possible to earn significant return on investment by engaging professional fund managers.
- It is standard practice to adopt investment guidelines that include safeguards to prevent investments in environmentally destructive practices.

All of the funds studied, with the exception of ICCTF, have sought to invest at least some of their funds in one way or another. In most cases responsibility for investing fund resources is undertaken by the trustee in accordance with **policies or guidelines** set forth by the fund's governing body, though investment advisers may also be engaged to provide strategic advice. Such policies are typically geared toward **conservative investment strategies** involving fixed-income assets in order to ensure predictability and security while providing necessary access to liquidity to provide funding to projects upon approval. Despite this conservativeness, some funds have succeeded in earning significant returns: the Amazon Fund has obtained 5-20% returns over several years by creating a separate fund administered by a private investment firm.

Policies and guidelines may distinguish between several categories of funds or between sub-funds or accounts, often with a view to ensuring appropriate time-frames are applied to investments. Endowment funds, for example, are frequently placed in long-term investments which typically result in higher returns, which can provide both stability and a source of income to fund operations; sinking funds, by contrast, are placed, if at all, in short term investments with high liquidity. The importance of this issue was highlighted in an audit of the FFM, which stressed the importance of carefully assessing the amount of liquid capital the fund needs to keep available in order to ensure monies that are not needed in a given period invested beyond that period in order to ensure greater return.

Though the present review did not assess social and environmental criteria applied to investments, a separate review of conservation funds found that most conservation funds now apply environmental screening to their investments, including through working with companies to improve environmental practices. Socially-responsible investment screening is less common, however, as it is a time-consuming and expensive practice.[5]

2.4 Eligibility and selection criteria

Key points

- Allowing a broad range of entities to receive funding, including governmental, private sector, non-governmental, and educational entities, can broaden the reach of funds and improve performance and fund dynamics.
- In defining funding application processes it is important to strike a balance between ensuring applications are rigorously scrutinized and taking into account applicants capacity limitations, for example through applying different processes to different funding amounts and supporting applicants in the process.
- International organizations can be employed as partner entities to assist in project implementation.

Eligibility and selection criteria are generally set out by the fund's governing body to reflect and give rise to the strategic objectives and mandates of the fund. The REDD+ funds studied display a variety of approaches to defining **eligible activities**. GRIF, for example, currently focuses on capacity building and low-carbon economic development rather than emission reductions projects, as Guyana's forests are not significant sources of greenhouse gas emissions. CBFF, on the other hand, tends to fund only projects that directly reduce emissions, while the Amazon Fund directs money both to projects that directly reduce deforestation and to capacity building efforts. Several funds utilize separate windows, sub-funds or funding streams for different types of activities.

Eligibility of entities to receive funding is closely related to the overall purpose and scope of the fund. For funds that seek to conserve government-managed areas, such as PROFONANPE, funding will primarily be directed to state entities such as protected area authorities; funds that seek to conserve privately-managed forests such as FONAFIFO, FFM or the Lao EPF, on the other hand, will direct funding to private forest owners or communities. Several of the REDD+ funds have sought to reach private, community and government managed forest through a combination of instruments. Under the Amazon Fund, for example, 48% of dispersed project funding has been allocated to private or

[5] [5] Barry Spergel and Philippe Taïeb, Rapid Review of Conservation Trust Funds, Conservation Finance Alliance Working Group on Environmental Funds (Second Edition, May 2008), pages 58-59.

NGO recipients, while 45% of funding has been allocated to government led projects and the remainder to universities. GRIF permits private entities to participate, but requires a pre-approved partner entity (World Bank, IDB or UNDP) to be included to oversee project development and implementation. The ICCTF, by contrast, requires all projects to be led by line ministries or national or local government agencies, a factor which has arguably contributed to only three projects having been approved thus far.

Procedural requirements frequently vary depending on project type and size. In the Lao EDF, 5-6 page application form submitted in Lao is required for small projects (up to USD 60,000), while larger projects require a detailed project proposal to be submitted in English. Support in proposal drafting is also provided to both small and large applicants. In the case of PES schemes, a land title is often required, though this requirement has been criticized as overly exclusive, and in some cases has been relaxed for certain categories of participants (e.g. indigenous communities under FONAFIFO). For loan schemes, it is common to require proof of credit-worthiness and the provision of collateral. Some REDD+ and National Climate funds such as the CBFF, Amazon Fund, and ICCTF use standardized templates for application, while other funds ask for less rigid project concept notes to be created for funding requests.

In terms of **project durations**, the REDD+ funds often focus on short to medium time spans. The CBFF, for example, funds projects with a maximum duration of 3 years, while the Amazon fund primarily funds projects 2-4 years in duration. PROFONANPE, which is focused on conserving national protected areas, often funds longer term projects, though it utilizes regular review periods to ensure goals can be adapted as needed.

2.5 Evaluation and MRV

2.5.1 Evaluation of overall fund performance

Key points

- It is common for the governing board to undertake annual or semi-annual reviews of overall fund performance and adjust its policies and strategies accordingly.
- It is standard practice to engage external third parties to perform annual financial audits according to international standards, while some funds also provide for audits of emission reductions or other factors.
- It is considered best practice to make review documents publically available
- Some donors may request extraordinary reviews of the Fund, usually at the donor’s expense.

In most cases reviewed, **overall review of fund performance** is undertaken by the governing board through annual or semi-annual reviews. Reports are generally prepared by the executory body, and include details on both financial and substantive performance, including an overview of projects and their performance. Reports that have been approved by the governing body are usually made public or, as in the case of the Lao EPF, submitted to the government, an aspect considered best practice by donors.

2.5.2 All funds engage **external auditors** to assess the fund's annual financial statements. Some funds, such as GRIF, are also subject to external audits of emission reductions and performance indicators, which is carried out by third parties (private audit firms or NGOs) agreed between Guyana and Norway. Results of audits are typically required to be posted online, often in English. In some cases requests for extraordinary audits are allowed, by the Governing Council in the case of the CBFF and by the donor in the case of GRIF.MRV of individual funded activities

Key points

- MRV requirements are typically linked to the type and size of projects and funding recipients.
- In most REDD+ funds MRV arrangements are usually agreed on a project-specific basis.
- Using private sector entities to perform MRV can reduce costs, but raises the risk of conflicts of interest.

The form of MRV employed at project level generally depends on the **type and size of projects**. PROFONANPE, which involves large projects typically run by state agencies, requires quarterly, bi-annual and annual reports (in varying levels of detail) on project results, issues and budgets to be presented to the Steering Council, while the approval of annual budgets is made contingent upon indicators from the previous year being fulfilled.

For smaller private sector or NGO-implemented projects, it is more common for monitoring to be undertaken through annual reporting to the executory agency or, as in the case of GRIF, partner entities. In the REDD+ funds detailed MRV plans, including performance indicators and monitoring schedules, are typically developed on project-specific bases, while almost all projects are subject to annual financial audits.

Where there are large numbers of funding recipients, such as in PES schemes, **outsourcing MRV** can reduce costs. Under FONAFIFO, private sector agents perform monitoring on PES participants, who they are in turn paid by. However, this creates a risk of conflict of interest, necessitating regular audits of these agents.

Finally, where capacity of funding recipients is low, **simplified reporting** can reduce the burden on participants. Under the Lao EDF, for example, reporting by recipients of small amounts of funding is made orally though collective meetings, since many recipients have little capacity to write detailed reports.

2.5.3 MRV of Performance Based Payments

Key points

- It has not been necessary for REDD+ funds to have full scale RL and MRV systems in place to receive performance based payments; however, conservative indicators have been applied in their absence.
- In some funds meeting governance indicators, including developing robust RLs and MRV systems, is required as a condition of receiving further payments.

Funds which receive performance based REDD+ payments (GRIF and Amazon Fund) were not hindered by the fact that robust reference level (RL) or forest carbon MRV systems had not yet been established in-country, and have instead used **conservative estimates and deforestation proxies** as interim approaches. The Amazon Fund, for example, uses a conservative a factor of 100tCO_2e/ha for estimating carbon emissions from forest area and applies a historical baseline that cannot be adjusted based on modeling. In the case of Guyana, the government has agreed to **enabling indicators** for receiving further payments which include the creation of a reference level and MRV system which will report at the UNFCCC tier 3 level. At the same time, levels of payments per tCO_2e are reduced if deforestation rates go above an agreed maximum.

2.6 Social and environmental safeguards

Key points

- Robust safeguard systems are crucial for attracting donor funding in REDD+ funds.
- Where funding is received from multiple donors, fund safeguards must be at least as stringent as those set by each donor in order to avoid having to apply donor-specific safeguards to each funding stream.

The provision of a robust system for the implementation of social and environmental safeguards has considered **crucial for attracting donor funding** in the REDD+ funds and, though to a lesser extent, in the national forestry or environmental funds reviewed. A large majority of major international public donors require the application of their safeguard standards to projects or programs to which their funding is directed or, as an alternative, the provision of safeguards that are of equal or greater stringency.

Where funding is sought from **multiple donors** (as is generally the case) two main strategies have been employed to ensure their safeguard requirements are met. The first is to apply donor safeguards on a project-by-project basis. This approach is applied, for example, by FONAFIFO, where international donors provide only a relatively small proportion of funding, and this is directed toward specific projects. Funds which use donor money to fund a more diverse range of project activities or intend to mix donor funding in a common account, on the other hand, will generally adopt stringent safeguards that are likely to satisfy the requirements of most donors. PROFONANPE (which was originally established with GEF seed funding) applies the World Bank's safeguards, while the Amazon Fund employs both the REDD+ SES standards and BNDES's policies which includes criteria on Free Prior and Informed Consent (FPIC). By comparison the Lao EPF has developed its own Environmental and Social Safeguard Framework (ESSF), which are in accordance with the World Bank's safeguards.

In addition to the above, several funds which are managed under the trusteeship of international organizations and are required to apply the safeguard policies of those organizations. This is the case, for example, with the CBFF, which applies the AfDB's safeguard policies and the ICCTF which applies the UNDPs safeguards.

2.7 Specific donor requirements

Key points

- Donors requirements will often reflect the governance and other circumstances of the host country as well as the strategic goals and national interests of the donor.
- Funds typically manage donor requirements by applying them on a project-by-project basis or adopting stringent rules and procedures for all aspects of fund governance that are likely to satisfy donor requirements.

Donors considering contributing to a fund will seek assurance that their contributions will be managed in a sound manner and **in line with their funding policies and strategic goals**. This generally includes requiring elements such as due diligence, adequate planning, transparent financial administration and robust monitoring and reporting, while some donors (such as the World Bank) will also seek to retain a role in approving plans and policies. In addition, many international public donors will impose their general funding terms and conditions, which frequently includes social/environmental safeguards and rules on financial management.

As discussed in section 2.6 above with respect to safeguards, funds typically manage these requirements either by applying these conditions on a project-by-project basis, or by adopting procedures stringent enough to satisfy most major donors.

In the case of performance-based REDD+ funds, donors have shown flexibility in some areas, reflecting the phased approach being taken to REDD+ and the varying levels of country 'readiness'. For example, in the Amazon Fund and GRIF donors permitted payments to be made without fully functioning Reference Levels and MRV systems being in place, instead allowing for the systems to be developed and changed over time. Despite the general flexibility that comes with the receipt of results-based payments, donors often still specify how funds should be used (e.g. by appraising certain programs or funding windows).

Specific donor requirements may also reflect the national circumstances of the host country. In Guyana, low governance levels and high risk of corruption led to donors insisting upon governance reforms being introduced as a condition for results-based payments.

Finally, in certain cases donors may impose conditions that promote their own national interests, such as the promotion of their businesses. A grant from Germany to FONAFIFO, for example, required that German air or maritime transport firms be given equal status to Costa Rican firms in providing services funded by the grant.

The precise requirements likely to be set out by individual donors will be further elaborated on in a subsequent phase of LEAF's support to the establishment of the Vietnam REDD+ Fund.