International experience with REDD+ and national forest funds

Lowering Emissions in Asia's Forests (LEAF)

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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.

Sub-national and national REDD+ implementation efforts continue to progress in Southeast Asia. 2013 will see Viet Nam become the first country in the region to begin Phase II of the UN-REDD programme, while in 2012 the Oddar Meanchey project in Cambodia became the first project to achieve Verified Carbon Standard (VCS) and Climate, Community and Biodiversity (CCB) validation in the region. In this context, significant interest has been generated in developing mechanisms to receive, manage, and disperse funds from REDD+ projects.

The focus of this paper is on comparative analysis of the operational aspects of REDD+ or forest funds. Best practices and lessons learned are drawn from eight existing funds that represent a mix of national and regional REDD+, climate change, and forest protection funds. These funds were chosen to provide information on appropriate design and regulation for internationally financed national-level funds operating in developing countries. Lessons learned from the UNFCCC Adaptation Fund on requirements that might be placed on national funds are also briefly considered. The fiduciary and financial sector conditions that influence negotiations around results-based payments are touched upon but not elaborated in detail.

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 the main approaches that have been employed for each issue and their respective implications are presented with a view to identifying lessons learned on the design of each component. A detailed overview of each fund is provided in Annex 1.

1.2 Role and Function of 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 “outcomebased payments", in which payments are conditionally applied based on the achievement of particular results. In the case of REDD+, it is expected that results that qualify for payment will be 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 recipient has **full ownership and is fully accountable for achieving results**—in return for which a payment is received. The move from program-based to results-based finance empowers national institutions and strengthens sovereignty by devolving operational decisions. It also provides the recipient government with greater discretion over the use of funds.

The starting point of the management and administration of international payments is the establishment or assignation of REDD+ funds. Such funds should allow the management of international contributions in a **transparent, effective and efficient manner**. Depending on capacities, the funds would be more or less **decentralized** and decision-making would be more or less **devolved**.

The **Adaptation Fund** provides useful lessons on requirements that have been applied to national recipient entities and similar requirements may apply to REDD+ funding. Under the Adaptation Fund, countries established National Implementing Entities (NIEs) that – once accredited by the Adaptation Fund Board (AFB) – carry out fiduciary management of funds alongside 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 although it is likely that

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

donors will expect similar fiduciary criteria to be met for AFB accreditation.

To meet these criteria national REDD+ funds should, to the extent possible, be (i) independent from government; (ii) managed by an independent body/set of managers; (iii) apply international accounting standards and meet international fiduciary criteria; and (iv) be managed in a transparent manner.

The design of national REDD+ funds depends on the particular country economic and legal systems, domestic policy, 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:

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[1]:
    a. Requesting and receiving funding from international sources;
    b. Submitting country REDD+ strategies;
    c. Submitting country REDD+ reports with MRV performance; 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;
    c. Social and environmental standards and grievance procedures; and
    d. Overseeing relations with international carbon markets.

The capacities of REDD+ funds will determine the responsibilities that international actors devolve to national and sub-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 and other stakeholders have to play a leading role in establishing national and jurisdictional funding structures.

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

[1] Streck, C. et al. REDD+ Institutional Options Report. Meridian Institute (p. 23). 2009. Available from: http://www.redd-oar.org/links/REDD+IOA_en.pdf.

and disbursing performance-based REDD+ funds. Table 1 provides an overview of each fund included. The comparison was carried out by reviewing primary fund documents and secondary literature, including founding legislation, memoranda of understanding, concept notes, operational procedures, procurement guidelines and other documents or guiding frameworks describing fund establishment, structure and management. The analysis is focused on seven specific components central to effective, efficient fund management as follows:

(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 to ensure that use of funds is compatible with social and environmental goals and does not result in negative impacts; and

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

Table 1: Overview of main features of funds reviewed

	Funding Target	Governance	Investment	Selection criteria	MRV	Safeguards	Specific donor requirements
Guyana REDD+ Investment Fund	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
Congo Basin Forest Fund	REDD+	AfDB administered trust guided by multi-stakeholder governing board and supported by private fund management agent	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.

	Funding Target	Governance	Investment	Selection criteria	MRV	Safeguards	Specific donor requirements
Indonesia Climate Change Trust Fund	All climate change mitigation sectors	Government-dominated structure with UNDP acting as trustee	No	Projects supported by line ministries which align with the National Action Plan on Greenhouse Gas Action Plan	Annual financial audits	According to policies of UNDP	Not clear.
Mexican Forest Fund	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
Peruvian Trust Fund for National Parks and Protected Areas (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
Costa Rica National Forest Financing Fund (FONAFIFO)	Conservation by small and medium forest owners	Semi-state entity guided by public-private stakeholder governing board and utilizing a national trust	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

	Funding Target	Governance	Investment	Selection criteria	MRV	Safeguards	Specific donor requirements
		facility					
Lao Environmental Protection Fund	Environmental protection projects	Autonomous organization guided by multi-stakeholder governing board	Yes, seed funding invested in endowment fund	Case-by-case appraisal	Governing body performs overall review of performance; simplified procedures for small projects; independent annual audits	Internal safeguards based on World Bank safeguards	Individual donors financing funding 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 where a large amount of liquid finance is required; 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 a balance between operational and legal independence of the fund from the government and retaining government ownership 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 legal and operational 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 such independence from the government has, however, been strongly linked to the effectiveness of funds and, crucially, their ability to attract donor finance. At the same time, it is important that the fund has strong government ownership in order to ensure coherence with national policies and programs. This is frequently secured through providing for broad government on the governing board (see below) or through close cooperation between fund management entities and government bodies. The experience with PROFONANPE also highlights that keeping the fund legally separate from the government can ensure that the state's creditors cannot access the fund's resources in the event of a default on 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.[2]

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. The choice of voting rules can have an important impact on the balance of power within the governing board, and so should be considered together with the definition of the composition of the board.

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

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[2] Spergel, B. and Taïeb, P. Rapid Review of Conservation Trust Funds. Conservation Finance Alliance Working Group on Environmental Funds (p. 27-29). 2008. Available from: http://www.conservation.org/global/gcf/Documents/rapid_review.pdf.

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.

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 entities known as *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.[3] The Amazon Fund's trust facility charges just 3% in administrative fees; however, significant administrative costs are absorbed by its implementing entity, the national development bank BNDES.

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

[3] Forstater, M. et al. The effectiveness of climate finance: a review of the Amazon Fund. ODI (p. 11). 2013. Available from: http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8340.pdf.

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 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.[4]

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.

[4] Spergel, B. and Taïeb, P. Rapid Review of Conservation Trust Funds, Conservation Finance Alliance Working Group on Environmental Funds (p. 58-59). 2008. Available from: http://www.conservation.org/global/gcf/Documents/rapid_review.pdf.

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 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 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.

Performance-based payments are typically made at the national level based on emission reductions below an agreed reference level (RL). At local level this degree of measurement is frequently too cumbersome and therefore less common. Funds which receive performance based REDD+ payments (GRIF and Amazon Fund) were not hindered by the fact that robust RLs 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 been 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, and 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 include 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, weak governance and the high risk of corruption led donors to insist on governance reforms 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.

Annex I Description and analysis of funds

GRIF: Guyana REDD+ Investment FUND	
Fund overview	In November 2009 the Government of Norway signed an MOU with the Government of Norway to provide up to NOK 1.5 billion (approx. USD 250 million) in support of performance based payments to implement activities from Guyana's Low Carbon Development Strategy (LCDS). The funds are being managed through the Guyana REDD+ Investment Fund (GRIF). The objective of the fund is to provide results-based payments to be re-invested in projects which support the implementation of the LCDS. GRIF funds livelihood development for Amerindians, renewable energy, capacity building, institutional strengthening and reform, and investments in high value, low-carbon economic development.
Fund type	Mixed fund.
Purpose and Scope of Funds	The GRIF provides funding for the implementation of projects under Guyana's LCDS, which covers a wide variety of sectors. The fund also provides support for capacity building related to LCDS and REDD+ efforts. Funding for project implementation can be used by the Government of Guyana or other entities eligible to receive financing from Partner entities, which ostensibly includes non-profit and private companies. Initial disbursements are delivered based on a combination of Guyana's ability to meet enabling indicators and maintain deforestation below a reference level of 0.275%, though the fund will eventually transition to a full performance based system where Guyana is rewarded for independently MRV'd emissions reductions with a goal of reporting at IPCC tier 3 by 2015. In order to be eligible to receive funds, project must comply with Partner Entity policies and procedures and procurement must adhere to 'internationally accepted procurement principles'.[5] To date two projects have received implementation funding, both with the IDB as the partner entity. One project aims at institutional capacity building for Office of Climate Change (OCC), the Project Management Office (PMO) and the Guyana Forestry Commission

[5] GRIF Steering Committee. Operational Manual: GUYANA REDD-Plus INVESTMENT FUND (p. 14). Available from: http://www.guyanareddfund.org/images/stories/pdffiles/GRIF%20Operational%20Manual%20Version%201.0.pdf.

	(GFC) and a second has the goal of increasing access to finance for Micro and Small Enterprises. Both are implemented by ministries of the Government of Guyana. Four other projects are currently at the concept or proposal stage.
Fund Sources	The fund is established with a degree of flexibility to allow multiple contributors to participate. However, to date Norway is the only contributor with a commitment of up to USD 250 million in recurring payments based on emission reduction achievements through 2015 at a rate of USD 5 per tC02eq. As of March, 2013 roughly USD 70 million had been deposited in the account.
Payments Disbursed	USD 14.4 million had been allocated to project implementation and project administration and USD 9.2 million had been dispersed. which Payments against the interim reference level are envisioned to eventually be phased out as an IPCC/UNFCCC compliant system is created in the country.
Procedural and legal requirements for fund establishment	GRIF was established on October 9, 2010 through an Administrative Agreement between Norway and the World Bank International Development Association (IDA). The Administrative Agreement was preceded by the signing of a Joint Concept Note and Memorandum of Understanding between the Government of Norway and the Government of Guyana, which elaborated the conceptual vision of the GRIF and its role in financing LCDS projects. An updated Joint Concept note was signed in March, 2011.
Governance structure	**Secretariat:** The Secretariat is charged with providing administrative support to the Steering Committee and the GRIF Trustee, and was originally composed of a representative from Guyana and a representative from Norway. The Secretariat created the GRIF operational manual and provides continuing coordination support between the trustee and Steering Committee. As an interim measure, the Meridian Institute became the acting secretariat as of March 2012. **Steering Committee (SC):** the SC is the oversight and decision making body chaired by the Government of Guyana. Members include the Government and financial contributors to the GRIF (Currently only the Government of Norway). Decisions are made by consensus, and partner entities, CSOs, and the private sector are invited to participate as observers.

	The SC's responsibilities include: • Establishing safeguard, fiduciary and operational standards, including the approval of the operations manual (completed). • Approving the GRIF verification framework and operational manual (completed). • Overseeing the process for accrediting additional Partner Entities (outside the UN, IDB, or WB). • Approval of project concept notes and proposals. • Allocation of resources to projects and assignment of related administrative fees. • Approval of an advanced annual estimate of administrative costs for the trustee and secretariat. **Partner entity** – Partner entities assist project implementing entities to develop concept notes and proposals and are responsible for supervision and oversight of implementing entities including ensuring they adhere to Guyana law and Partner Entity policies including procurement procedures and safeguards. The World Bank, IDB, and UNDP are currently approved Partner Entities and additional partner entities can be added as needed according to an accreditation process to be determined by the SC. The SC determines the funds to be allocated to the implementing entity for administrative costs for oversight of project implementation. As part of its administrative duties, the implementing entity provides annual progress updates to the SC on project implementation and achievements and a final report within six months of project completion. **Implementing Entity** - Implementing entities receive funds from Partner Entities to implement projects which have been approved by the SC. Implementing entities can include ministries from the Government of Guyana or other organizations approved by the SC and Partner Entity. **Trustee** – The trustee acts as the financial intermediary for the GRIF by receiving payments from contributors, managing the funds' assets and investments, transferring funds to partner entities for projects approved by the SC, and submitting regular financial reports to the SC. Currently the World Bank acts as the Fund's trustee.
Fiduciary	Lies both with the trustee and implementing entities.

Responsibilities	
Application and disbursement procedures	Partner Entities are responsible for preparing applications, ensuring that they are aligned with the LCDS and SC conditions, that safeguard and fiduciary responsibilities are in place, and that a robust results framework is developed and agree to by the SC.
Administrative	USD 700,000 was allocated to the World Bank IDA for the establishment of the GRIF and first year administrative costs. For FY 2013 IDA estimated administrative costs would amount to USD 200,000. To date, partner entities have been allocated a total of USD 2.54 million for administration, including for supporting project concept notes and project development.
Monitoring/ Reporting/ Verification (incl. performance indicators)	**At the fund** level the Secretariat is required to post progress reports, annual reports and non-audit quality reports on financial disbursements, and results of audits on the GRIF web site. These reports are provided to the secretariat by Partner Entities. The Trustee is responsible for providing a single audited annual report within six months of the end of the fiscal year for posting on the GRIF website. The fund's performance indicators cover two aspects: (i) The ability to maintain deforestation below an interim reference level, (ii) The ability to meet a set of (currently ten) enabling indicators which cover areas such as indigenous rights and improved governance. Verification is carried out annually by independent third parties jointly agreed to by the governments of Norway and Guyana. Separate audits are carried out to assess emissions from deforestation and forest degradation, and to assess the country's progress towards achieving enabling indicators. The firms DNV and the Rainforest Alliance have been selected to carry out these audits to date. **At the project level** performance indicators are developed in the project proposal which are monitoring by implementing and partner entities. Regular reports must be submitted to the SC, and fund contributors can request independent reviews or evaluations of

	projects if deemed necessary, as stipulated in the Transfer Agreement.[6]
Social and Environmental Safeguards	Projects must follow the relevant social and environmental safeguards as dictated by the Partner Entities operational policies.
Interest/ investments	The trustee has maintained a "liquid portfolio comprised almost exclusively of cash" to allow for the immediate disbursal of funds to projects. As of March 2013, the Fund had earned a cumulative USD 700,000 on undisclosed investments. This represents a 1 percent overall return on the USD 69.8 million deposited to date.
Relationship with other funds	N/A
Specific Donor Requirements	Norway requires dual audits to be carried out to determine both the levels of deforestation, and advancement towards a separate list of enabling indicators which are subject to change over time. Norway also requires projects be approved by the SC and comply with Partner Entities safeguards before funding is dispersed.
Key Results	The latest verification report from the Rainforest Alliance noted that significant progress has been made on independent forest monitoring, the Forest Law Enforcement, Government and Trade process on forest legality (FLEGT), and the Extractive Industries Transparency Initiative (EITI) and GRIF funded projects such as the Amerindian Titling Project and the Institutional Strengthening project.[7] However, the same report criticized the government of Guyana for a lack of transparency and weakened communication with Amerindian communities. The Fund has received further criticism because the baseline deforestation rate was set much higher than the historical deforestation rate, allowing the country to receive funds even as deforestation rates increase.[8] The selection of Guyana as a recipient country has also been called into question as it is not a significant source of greenhouse gas emissions and ranks low on most governance and corruption indices.

[6] GRIF Steering Committee. Operational Manual: GUYANA REDD-Plus INVESTMENT FUND (p. 14). Available from: http://www.guyanareddfund.org/images/stories/pdffiles/GRIF%20Operational%20Manual%20Version%201.0.pdf.

[7] Donovan, R. et al. Verification of Progress Related to Indicators for the Guyana-Norway REDD+ Agreement, 2nd Verification audit covering the period October 1, 2010 – June 30, 2012. The Rainforest Alliance. 2012. Available from: http://www.regjeringen.no/upload/MD/2012/Nyheter/Rainforest_Alliance.pdf.

[8] Lang, C. Increasing deforestation in Guyana gives Norway a headache. REDD-Monitor.org. 2011. Available from: http://www.redd-monitor.org/2011/01/27/increasing-deforestation-in-guyana-gives-norway-a-headache/.

Congo Basin Forest Fund (CBFF)	
Fund Overview	The Congo Basin Forest Fund (CBFF) is a multi-contributor, multi-participant trust fund jointly funded by the governments of Norway, the UK, and Canada to conserve forests and reduce poverty in the Congo Basin countries, namely the Democratic Republic of Congo, Republic of Congo, Cameroon, Central African Republic, Chad, Equatorial Guinea, Gabon, Rwanda, Burundi, and São Tomé and Príncipe. Funds must be used in alignment with the Central African Forest Commission's (COMIFAC) Convergence Plan. Its overall goal is to reduce the deforestation rate in the Congo Basin from 0.19% annually to 0.10% by 2018.[9] The fund was launched in June 2008 and is hosted as a 'special fund' in the African Development Bank's Department of Agriculture & Agro-industry (OSAN). The CBFF is focused on capacity building and REDD+-related pilot projects. A diverse range of projects have been approved ranging from eliminating slash-and-burn through the use of bio-char to alternative livelihood development and community forest management programs.
Fund type	Sinking Trust fund
Purpose and Scope of Funds	The fund aims to support activities which align with the COMIFAC Convergence Plan and lead to emission reductions in the forestry sector including sustainable forest management; livelihood and economic development; monitoring, assessment, verification and reporting; benefit distribution and PES and capacity building in REDD+. The governing council issues periodic calls for proposal and NGOs, Governments and others can access the funds by submitting concept notes to the Secretariat. Applicants are provided assistance by the Secretariat to develop full project proposals. The majority of funding has been dispersed to sustainable forest management, livelihood and pilot REDD+ projects, though capacity building projects which do not directly reduce emissions make up a small portion of the portfolio. All project funding lasts for three years on a non-renewable basis. Of the current portfolio, 13 projects were submitted by government

[9] African Development Bank. FRAMEWORK DOCUMENT FOR THE ESTABLISHMENT OF THE CONGO BASIN FOREST FUND (CBF). 2008. Available from: http://cbf-fund.org/sites/default/files/Framework_Document_%20for_the_Establishment_of_the_Congo_Basin_Forest_Fund.pdf.

	institutions while 27 came from CSOs, and 35 of 41 are in the implementation phase. Individual projects range in size from EUR 110,000 to EUR 7.6 million.
Fund Sources	The fund has received GBP 100 million in commitments from the government of Norway's International Climate and Forest Initiative and the UKs International Climate fund. Funding from the UK has come both from the Environmental Transformation Fund and the International Climate Fund. Since its launching, Canada joined as a third donor in 2012 pledging CAD 20 million to the initiative. The fund has a proposed sunset date of 2018, with a possibility for extension. Roughly USD 143 million had been deposited into the account as of March 2013.
Fund Disbursements	As of March 2013 nearly EUR 20 million had been disbursed to projects. During the first two calls for proposals the fund committed to disbursing a total USD 186 million to 40 projects.
Procedural and legal requirements for fund establishment	The CBFF was created through the *Instrument for the establishment of The Congo Basin Forest Fund*, administered by the African Development Bank. The document built upon commitments from the Congo Basin Forest Partnership (CBFP) and COMIFAC.
Governance structure	**Governing Council**: The governing council provides strategic direction, financial oversight, project appraisal, approval of annual budgets and oversight of general fund operations. It is comprised of one senior management representative from the AfDB, one contributor representative (with representation changing on a rotating basis), one CSO representative (representation changes on a rotational basis), the Secretary General of Economic Community of Central African States, and the President of COMIFAC. Governing Council decisions are taken by consensus or by simple majority where consensus is unattainable. **Trustee:** The trustee is responsible for administering fund resources under its policies, fiduciary rules, and investment guidelines. The AfDB was selected as the trustee and established the secretariat to ensure its responsibilities as trustee are met. **Secretariat**: Based in Tunis at the headquarters of the AfDB, the Secretariat sits within the AfDB's Agriculture and Agro-Industries Department (OSAN) with Task Managers located at AfDB regional

	offices in Yaoundé and Kinshasa. The Secretariat is charged with providing reports on the administrative and programmatic operations, accepts project concept notes and presents them to the Governing Council, and manages resources according to AfDB rules and procedures, and safeguard policies. The Secretariat is also responsible for conducting ex-ante financial management assessments to ensure program sponsors have the capacity to manage grant funds. In 2011 the Secretariat selected a Fund Management Agent (see below) to oversee fund arrangements under EURO 2.5 million. **Fund Management Agent** – Appointed in 2011, the Fund Management Agent is responsible for financial oversight of small and medium sized projects—those which total EUR 2.5 million or less. 31 of the 40 projects currently under the CBFF portfolio have a value of less than EUR 2.5 million. In this role the FMA trains stakeholders on the project management cycle, gives technical appraisals of concept notes, provides oversight and submits quarterly reports to the secretariat, and monitors and evaluates projects. Currently the Fund Management Agent is a consortium of SNV Netherlands Development Organization and Price Waterhouse Coopers.
Fiduciary Responsibilities	The Governing Council retains overarching fiduciary responsibility, though responsibilities also exist within the FMA, trustee, and fund recipients who are subject to carrying out, reviewing, or supporting financial audits at different levels.
Application and Disbursement Procedures	Applicants are invited to present concept notes during periodic calls for proposals. Projects are appraised by the governing council according to the following evaluation criteria: – Will the project slow the rate of deforestation and reduce poverty in forest communities? – How does the proposal contribute to CBFF's thematic areas? – Does the project conform to the COMIFAC Convergence Plan and in particular to COMIFAC strategic areas 2, 6 and 9? – How innovative and transformative is the proposal? – Where a national REDD strategy exists, how does the project contribute to its elaboration and implementation? – Is the problem clearly identified? Is the likely to address the

	problem effectively? Disbursement procedures are outlined in the CBFFs Disbursement Handbook which requires periodic reports on the progress of the project and submit annual audited financial statements.[10]
Administrative	The AfDB hosts the CBFF as a "special fund". According to the Framework Document the bank estimated it would cost USD 6 million in administrative costs to host the fund through the Secretariat.[11] However, according to 2009 and 2010 Annual Reports the Secretariat had already incurred costs of roughly USD 3 million. In 2010 this represented roughly 45% of all expenditures. The FMA has been given a grant of EUR 800,000 for oversight and management of small and medium sized projects from 2011-2014.
Monitoring/ Reporting/ Verification (incl. performance indicators)	**At the fund level** the Secretariat must provide the director of OSAN with six-monthly progress reports on the activities of the fund, including a description of project audits and project activities approved since the last report. The Secretariat is also charged with providing an annual report including a financial statement, a description of achievements for the year, and a report on annual progress towards the CBFF's strategic indicators. All reports are to be made public according to the AfDBs disclosure policy which stipulates publication of reports on the internet and at in-country publication centers (reporting does not appear readily available in English). The fund is subject to audit requirements of the AfDB including annual external audits. Although funding is not explicitly performance based, the CBFF has aspirational indicators of progress including: reducing the average rate of deforestation in the Congo Basin from 0.19% to 0.10% annually, doubling the area of community administered forests, ensuring adequate access to the fund for women's associations, increasing income for forest-dependent populations

[10] African Development Bank. Disbursement Handbook. Available from: http://cbf-fund.org/sites/default/files/Disbursement%20Handbook%202012%20version_0.pdf.
[11] African Development Bank. Framework Document for the Establishment of the Congo Basin Forest Fund (CBF) (p. 7). 2008. Available from: http://cbf-fund.org/sites/default/files/Framework_Document_%20for_the_Establishment_of_the_Congo_Basin_Forest_Fund.pdf.

	at a rate at least equal to GDP growth, and reducing logging intensity.[12] **At the project level** funding recipients are required to provide the Secretariat with six monthly progress reports and six-month work plans and budgets. For small and medium-sized projects quarterly reports must be provided by recipients to the FMA which provides feedback and forwards progress reports to the Secretariat.
Social and Environmental Safeguards	The CBFF does not have its own safeguard policies, though projects are required to adhere to the AfDB operational policies and safeguards.
Relationship with other Funds	N/A
Specific Donor requirements	In the Statement of support to the CBFF, donors requested that funds be used to develop holistic national strategies to combat deforestation (in particularly those aligned with the COMIFAC convergence plan), support the development of national baseline and MRV systems, and enhance partnerships between government and civil society.[13]
Interest/ investments	In 2010 the Fund earned EUR 175,028 or less than a 1% return on assets.[14] Investment decisions are at the discretion of the trustee.
Key Results	CBFF achievements in terms of project approvals and funding has increased dramatically since appointing the FMA to oversee small and medium sized projects. In the year prior to the appointment of the FMA only four projects were approved, compared to nineteen approved the year the FMA was appointed. The FMA also appears to be a cost-effective solution, running on a three year budget of just EUR 800,000 compared to an estimated USD 6 million for the Secretariat over 10 years. Early criticisms of the fund were that CBFF operational policies were not effectively applied and funding was slow to be dispersed as the AfDBs requirements were overly cumbersome for smaller

[12] African Development Bank. FRAMEWORK DOCUMENT FOR THE ESTABLISHMENT OF THE CONGO BASIN FOREST FUND (p. 10). 2008. Available from: http://www.pfbc-cbfp.org/docclefs.html?file=docs/key_docs/cbff_strategic_framework.pdf.
[13] Stakeholder of the Congo Basin Forest Fund. Statement of Support to the Congo Basin Forest Fund. Congo Basin Forest Fund (2008). Available from: http://cbf-fund.org/sites/default/files/statement_of_support.pdf.
[14] Congo Basin Forest Fund. 2010 Annual Report. African Development Bank (p. 16). 2011. Available from: http://cbf-fund.org/sites/default/files/CBFF%20%202010%20Annual%20Report%20and%20Annual%20Audit%20EN.doc.

	sized forestry projects. In 2011 the operational procedures were revised, which along with the appointment of the FMA seems to have addressed issues related to non-compliance and assisted in the ability of smaller projects to meet funding requirements.
Brazil Amazon Fund	
Fund Overview	The Amazon Fund a multi-contributor trust fund which provides grants to projects which reduce deforestation or forest degradation primarily in the Brazilian states of Acre, Amapá, Amazonas, Maranhao, Mato Grosso, Pará, Rondonia, Roraima, and Tocantins. However, up to 20% of funding can be used in other biomes in Brazil or other tropical countries. To date the Fund has secured financing from three donors: Norway, Germany, and the Brazilian petroleum company Petrobras. **Objective:** The Amazon fund's objective is to fund activities which reduce deforestation, enhance monitoring, and promote conservation and sustainable management of resources. **Activities eligible for funding:** The scope for eligible funding includes management of public forests and protected areas; control, monitoring and environmental inspection; sustainable forest management; economic activities developed through the sustainable use of the forest; ecological and economic zoning, land-use planning and land-title regularization; conservation and sustainable use of biodiversity; and the recovery of deforested areas. According to the 2012 Annual Report, funded activities included "…fostering sustainable production activities, environmental and land-title regularization, monitoring rural properties, recovery of degraded and permanent protection areas, consolidation and maintenance of preservation areas, institutional strengthening and the physical and operational structure of government agencies, environmental management, and expanding knowledge available and used in regional biodiversity."
Fund type	Mixed fund
Purpose and Scope of Funds	The Amazon Fund provides grants for projects which prevent deforestation or assist in monitoring or capacity building efforts related to REDD+, in conformance with Action Plan for Prevention and Control of the Legal Amazon Deforestation. All activities must be aligned with the Sustainable Amazon Plan (PAS) and the Action Plan for Prevention and Control of the Legal Amazon Deforestation (PPCDAM). Implementation periods for projects run from 1.5 to 5

	years. 48% of dispersed project funding has to-date been allocated to the private sector or NGOs, while 45% has been allocated to government led projects and 4% to universities.
Fund Sources	The fund has received a commitment of Norway for up to USD 1 billion by 2015. KfW joined as a second donor in 2010 with a commitment of USD 27.8 million, and Petrobras became a third donor in 2011 with a commitment of USD 4.2 million. The fund has received deposits of USD 112 million from Norway, USD 12 million from Germany, and USD 4.8 million by Petrobras
Payments disbursed	To-date USD 78 million has been disbursed to 26 projects, while USD 215 million has been committed in total to 36 projects.
Procedural and legal requirements for fund establishment	The fund was established on 1 August, 2008 through Decree 6527/2008 which directed the Brazilian development bank, BNDES, to operationalize and manage the fund. Following the creation of the Fund by BNDES Board of Executive Officers Resolution 1640, an MOU was signed by the governments of Norway and Brazil on September 16th 2008.
Governance structure	**Amazon Fund Guidance Committee (COFA):** COFA is responsible for establishing guidelines and procedures of the Amazon Fund, COFA contains representatives from federal (over 9 ministries and agencies), state governments (representatives from the 9 states recognized as the legal Amazon) as well as from civil society. Each block (federal government, state government, and civil society) is allowed a single vote and members within each block are allowed a single vote within their block. Resolutions are approved by consensus, and the secretariat is housed at the Management Department of the Amazon Fund (DEFAM). COFA's influence has been limited by insufficiently regular meetings. **Management Department of the Amazon Fund (DEFAM)** – DEFAM is a department of BNDES specially created to manage the Amazon Fund. DEFAM is charged with the overall operation of the Fund, including consideration and approval of grant applications, distribution of funds, monitoring, fundraising, and reporting. In the absence of regular guidance from COFA, DEFAM has in practice been afforded a significant degree of autonomy is managing the Amazon Fund, a fact that created some difficultires in the early years of the Fund, when there remained little experience within BNDES in REDD+ forest conservation. DEFAM also acts as the COFA Secretariat and convenes the annual meeting with donors.

	Technical Committee (CTFA): The technical committee is responsible for the technical aspects of developing emission reduction methodologies and carrying out annual certifications of avoided emissions. Currently six technical experts sit on the panel with three year appointments and the possibility to renew for a second period. Sitting on the CTFA is a non-remunerated position.
Fiduciary Responsibilities	DEFAM is subject to a high degree of fiduciary responsibility. A certain degree of fiduciary responsibility is also applied to grantees, who are subject to independent audits and review.
Application and disbursement procedures	The Fund has created a standardized financial request form for applicants to complete. Applications are reviewed and approved by DEFAM in accordance with BNDES' standard due diligence procedures, as well as guidelines set out by the COFA.
Administrative	The Amazon fund retains 3% of donations for defined administrative costs including advertising, travel expenses, managing the COFA secretariat, and travel. Additional administrative costs have, however, been borne by BNDES but not charged to the fund.[15]
Monitoring/ Reporting/ Verification (incl. performance indicators)	**At the fund level** portfolio reports and newsletters providing up-to-date information on the funds activities are published on the internet on a monthly basis. The annual report is to be published by the second quarter of the following year and includes information on financial performance, donor activity, fund priorities and guidelines, and operational performance. The Fund is also subject to annual financial and material audits by an external party in accordance with national and international financial standards. The financial audit requires the fund to produce financial statements in accordance with International Financial Reporting Standards (IFRS). The material audit, performed separately, ensures that projects are aligned with the Steering Committee guidelines, Sustainable Amazon Plan and Plan for Deforestation Prevention and Fighting in the Amazon.[16] Payments to the fund are based on Brazil's ability to reduce

[15]Brazilian Development Bank (BNDES). Amazon Fund Activity Report 2011 Actions and Projects (p.58). 2011. Available from: http://www.amazonfund.gov.br/FundoAmazonia/export/sites/default/site_en/Galerias/Arquivos/Relatorio_Atividades/RAFA_2011_INGLES_CADERNO_2_Final.pdf.

[16] Amazon Fund. Amazon Fund Project Document. 2008. Available from: http://www.amazonfund.gov.br/FundoAmazonia/export/sites/default/site_en/Galerias/Arquivos/Boletins/Amazon_Fund_-_Project_Document_Vs_18-11-2008.pdf.

	deforestation compared to a historical 10 year baseline, which is updated every five years. A conservative emission factor of 100 tC/ha has been applied for average carbon stocks in the biome and the country receives USD 5 per tC02eq of avoided emissions. The Donation Agreement between Norway and Brazil further states that Norway may order an independent review or evaluation of the Fund at any point. **Projects** are not assessed against emission reductions, but against agreed performance indicators. A three step monitoring process is followed beginning with the submission of performance reports to BNDES on a schedule agreed to prior to project implementation. The reports must include payment received and paid and implementation progress relative to the agreed performance indicators. Prior to each subsequent disbursement of funds, projects are subject to compliance audits to ensure the project is being implemented according to plan. Finally projects are required to submit a final report at the conclusion of the project and an Effectiveness Assessment Report two years after funding has closed.[17] Recipients are subject to BNDES' disbursement procedures which include an annual third party audit to ensure the project aligns with Decree 6,527/08, the COFA guidelines, the Sustainable Amazon Plan (PAS), and the Plan of Action to Prevent and Control Deforestation in the Legal Amazon (PPCDAM).
Safeguards	The Amazon fund adopted safeguards based on the REDD+ Social and Environmental Safeguards and are based on eight principles: Legal compliance; Acknowledgement and guarantee of rights; Distribution of benefits; Economic sustainability, improving standards of living and reducing poverty; Environmental conservation and remediation; Participation; Monitoring and transparency; and Governance.[18] The fund is also subject the BNDES safeguards, including those relating to Free, Prior, and Informed Consent (FPIC).[19]
Interest/	Liquid capital is invested by a Banco do Brasil subsidiary called BB

[17] Forstater, M. et al. The effectiveness of climate finance: a review of the Amazon Fund. ODI (p. 16). 2013. Available from: http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8340.pdf.

[18] BNDES. Amazon Fund discloses social and environmental safeguards. Management Department of the Amazon Fund. 2012. Available from: http://www.amazonfund.gov.br/FundoAmazonia/export/sites/default/site_en/Galerias/Arquivos/Boletins/2012_Boletim_28_ingles.pdf.

[19] Forstater, M. et al. The effectiveness of climate finance: a review of the Amazon Fund. ODI. 2013. Available from: http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8340.pdf.

investments	Gestão de Recursos - Distribuidora de Títulos e Valores Mobiliários S.A. (BBDTVM) in a fixed income investment fund called the Gaia Fund.[20] The Amazon Fund's 2011 annual report indicated the Gaia fund earned over USD 3.7 million on total investments of USD 18.1 million, or a roughly 20.8% return on investment,[21] though a more modest 9.6% was achieved in 2012.[22]
Relationship with other Funds	The Brazil Amazon Fund invests surplus capital through the Gaia Fund.
Specific Donor Requirements	Specific donor requirements are not clear, though the Fund has established a vigorous safeguard system and is administering funds through a domestic financial intermediary with extensive international experience. Further, in the absence of a robust reference level and MRV system, the country has adopted a conservative approach to carbon stock levels and continuously revises deforestation rates based on historical analyses.
Key Results	The Brazil Amazon Fund has received acclaim as a pioneering demonstration that recipient countries can effectively, transparently, and responsibly manage funds using exclusively domestic institutions. The devolved decision making structure which incorporates a wide range of stakeholders has also been praised, as well as its low administration fees and ability to mobilize funds from multiple sources, including the private sector. However, the fund has been criticized for its slow project selection and approval process, particularly in the early stages of the fund when a significant portion of applications were rejected. The application process has since been streamlined which has improved the success rate of project approvals; however, the application of BNDES' rigorous due diligence procedures continues to make it difficult for smaller applicants to attain funding. It is understood that Brazil is considering the introduction of intermediaries between BNDES and small-scale recipients that could facilitate streamlining funding applications.

[20] Amazon Fund. Amazon Fund Project Document (p. 21). 2008. Available from: http://www.amazonfund.gov.br/FundoAmazonia/export/sites/default/site_en/Galerias/Arquivos/Boletins/Amazon_Fund_-_Project_Document_Vs_18-11-2008.pdf.

[21] BNDES. Amazon Fund Activity Report 2011. Management Department of the Amazon Fund (p. 60). 2012. Available from: http://www.amazonfund.gov.br/FundoAmazonia/export/sites/default/site_en/Galerias/Arquivos/Relatorio_Atividades/RAFA_2011_INGLES_CADERNO_2_Final.pdf.

[22] BNDES. Amazon Fund Activity Report 2012. Management Department of the Amazon Fund (p. 53). 2013. Available from: http://www.amazonfund.gov.br/FundoAmazonia/export/sites/default/site_en/Galerias/Arquivos/Relatorio_Atividades/RAFA_Virtual_English__2012.pdf.

	In addition, the failure of COFA to meet regularly has arguably afforded too much autonomy to BNDES, which in early years had little experience in REDD+ or forest management.

Indonesia Climate Change Trust Fund (ICCTF)	
Fund Overview	The Indonesia Climate Change Trust Fund (ICCTF) was established in 2009 by the Ministry of Finance and Ministry of National Development Planning and covers a variety of sectors with specific priority windows for adaptation, energy, and land based mitigation. It is a multi-contributor trust fund established to coordinate funding for projects linked to the countries overall climate change mitigation ambitions outlined by the National Action Plan on Greenhouse Gas Action Plan (RAN-GRK). The objective of the ICCTF is to operate a single fund with multiple windows to assist the country in achieving its mitigation ambitions set out in RAN-GRK. It is envisioned that funding for internationally supported Nationally Appropriate Mitigation Actions (NAMAs) through the UNFCC will be channeled through the fund.[23] While it has a broader focus than only REDD+, the ICCTF has a land-based mitigation window which funds project related to peatland management, sustainable forest management, reduced emissions from deforestation, and plantations.
Fund Type	Initially a sinking trust fund (in the 'innovation stage') with hopes of transferring into a mixed fund (in the 'transformation stage').
Purpose and Scope of Funds	Funds are to be used for any projects that contribute to the RAN GRK, with special windows for energy, adaptation and land use mitigation activities. Land use mitigation activities include sustainable forest management, reduced emissions from deforestation and forest degradation, and improved peatland management. The pilot land use mitigation project is being implemented by the Ministry of Agriculture and aims at developing

[23] Ministry of National Development Planning/National Development Planning Agency (BAPPENAS). Indonesia Climate Change Trust Fund (ICCTF): Indonesia towards a Low Carbon Economy and Enhance Resilience to Climate Change. ICCTF. 2011. Available from: http://www.icctf.or.id/sites/default/files/resource/Booklet.pdf.

	methodological approaches to enhance carbon sequestration in peatlands.[24]
Fund Sources	The ICCTF has received pledges from the UK, Australia, and Sweden, with USD 21 million pledged and USD 11.2 million deposited into the fund.
Payments dispersed	The ICCTF has disbursed USD 4.72 million to projects and pledged an additional USD 9.5 million, with USD 1.2 million dedicated to land use mitigation activities in the form of a pilot peatland management project, sustainable community forest management, and sustainable natural forest management.
Procedural and legal requirements for fund establishment	The fund was established by the Ministry of Finance and Ministry of National Development Planning through Ministerial Decree No.44/M.PPN/HK/09/2009
Governance structure	**Steering Committee (SC):** Charged with general oversight, strategic guidance, and prioritization of funding, the SC is comprised of representatives from the National Development Planning Agency (BAPPENAS), the Ministry of Finance, the National Council for Climate Change, and donor agencies. Selected CSOs/NGOs are invited to participate with observer status.[25] **Technical Committee (TC):** Charged with reviewing proposals, assessing technical feasibility and sustainability, and recommending proposals for funding and is composed of BAPPENAS, the ministry of finance, and other line ministries with relevant technical expertise. **Executing Agencies (EA):** Executing Agencies develop proposals and implement projects and are limited to government line ministries. The line ministry may choose to collaborate with CSOs, universities, private or companies who can participate as implementing agencies. **Trustee:** The trustee is legally entrusted to manage the ICCTFs funds and report to the SC. Indonesia has stated a desire to appoint a national financial institution as the trustee, though the

[24] Ministry of National Development Planning/National Development Planning Agency (BAPPENAS). Indonesia Climate Change Trust Fund (ICCTF): Indonesia towards a Low Carbon Economy and Enhance Resilience to Climate Change (p. 9). 2011. Available from: http://www.icctf.or.id/download/document/6512bd43d9caa6e02c990b0a82652dca.pdf.
[25] Climate Finance Options. Funding Sources: Indonesia Climate Change Trust Fund (ICCTF). 2013. Available from: http://climatefinanceoptions.org/cfo/node/232.

	duties are currently being carried out by the UNDP as an interim measure.
Fiduciary Responsibility	Fiduciary responsibilities lie at the project level with Executing Agencies.
Application and disbursement procedures	Line Ministries, Government Agencies and Local Government agencies are eligible to submit project application to the Secretariat for consideration. If the project meets eligibility requirements the proposal is passed to the Technical Committee which assesses the project based on the guidelines established by the Steering Committee. Final approval must be given by the Steering Committee. Once a project is approved and funds have been dispersed the secretariat organizes annual missions to monitor project implementation in addition to the requirements for annual third-party financial audits.[26]
Administrative	In 2011 the ICCTF Secretariat had USD 315,000 in expenditures compared to a disbursement of USD 2,350,000 for project implementation, representing an administrative cost of roughly 12% for the Secretariat.[27]
Monitoring/ Reporting/ Verification (incl. performance indicators)	**At the fund and project level** annual audits are performed on the Steering Committee, Trustee, and Executing Agencies. The Steering Committee's audit is solely based on policy compliance, while the Trustee is subject to a performance audit. By comparison, fiduciary responsibilities primarily fall on the Executing Agencies which are subject to financial audits and are "totally responsible for ensuring compliance with prevailing regulations on the use of public funds."[28] Performance indicators are developed on a project-specific basis between the Technical Committee and the project implementers.[29] The aspirational goal of the fund is to contribute to the country's voluntary commitment to achieve a 41% reduction in emissions

[26]Frankfurt School UNEP Collaborating Centre for Climate & Sustainable Energy Finance. National Climate Finance Institutions Support Programme Case Study: The Indonesia Climate Change Trust Fund (ICCTF) (p.14). 2012. Available from: http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/icctf_2012-08-16_final_version.pdf.

[27] United Nations Development Program (UNDP) Indonesia. ICCTF External Report 2010-2011 (p. 16). 2012. Available from: http://www.icctf.or.id/download/document/d645920e395fedad7bbbed0eca3fe2e0.pdf.

[28] ICCTF. Finance and Performance: Auditing. 2012. Available from: http://www.icctf.or.id/finance-and-performance/auditing/.

[29] ICCTF. Finance and Performance: Auditing. 2012. Available from: http://www.icctf.or.id/finance-and-performance/auditing/.

	with international support by 2020.
Social and Environmental Safeguards	The fund is subject to UNDP safeguards as the UNDP is the acting interim trustee. However, it is envisioned that a monitoring and evaluation unit will be established and lead the establishment and monitoring of safeguards once the function of trustee is transferred to a national financial institution.
Interest/ investments	The Fund does not appear to invest capital, and faced a foreign currency exchange loss during 2011.
Relationship with other funds	N/A
Specific Donor Requirements	The ICCTF has stated an intention to manage funds through a domestic financial institution, but to date donors have required funds to be entrusted to the UNDP. Other donor requirements are not explicitly available.
Key Results	The fund has been slow to raise and mobilize funds, with only three projects receiving funding at the end of 2012 for implementation. It has further been unsuccessful in its attempt to appoint a national financial institution as a trustee of the fund.[30] The governance structure has also been criticized for being top-down with little involvement of CSOs.[31]

[30] ICCTF. ICCTF Progress Report 2010-2012 (p. 25). 2013. Available from: http://www.icctf.or.id/download/document/3416a75f4cea9109507cacd8e2f2aefc.pdf.
[31] United Nations Development Program (UNDP) Indonesia. ICCTF External Report 2010-2011 (p. 14). 2012. Available from: http://www.icctf.or.id/download/document/d645920e395fedad7bbbed0eca3fe2e0.pdf.

Mexico Forest Fund	
Overview	The Mexico Forest Fund (Fondo Forestal Mexicano, or FFM) is the primary financial vehicle for the management of forest resources in Mexico, holding the funds related to all major programs run by CONAFOR (the Mexican Forestry Administration). It has a large annual budget, with disbursements in 2012 equaling USD 185.5 million, and funds a broad range of programs in areas including sustainable forest management, ecosystem conservation, siviculture, agro-forestry and payment for ecosystem services. One of its distinguishing characteristics is the large proportion of funding it obtains from domestic sources, most notably payments by users of environmental services and land-users, contributing greatly to the sustainability of the fund.
Fund type	Mixed Fund
Purpose and Scope of Funds (incl. eligibility criteria)	The FFM contains several sub-programs, each of which contains its own conditions of participation: i. Forestry Development Program (PRODEFOR), which involves 22,000 separate projects in areas such as technical forest management and ecotourism. Funding recipients are forest owners and managers, including in many cases communities (*ejidos*). ii. Community Siviculture Program: Involves capacity building in siviculture activities iii. Program to Develop the Market of Environmental Services by Carbon Capture, Derivatives of Biodiversity, and to Promote the Establishment and Improvement of Agro-forestry Systems (PSA-CABSA); iv. Forest Ecosystem Conservation and Reforestation Program (PROCOREF): Reforestation program that also includes forest land protection, conservation and restoration; v. A PES program in forestry whereby landowners are paid in return for maintaining and managing forest on their land over five year period: – Applicants are chosen based on the location of land, with prioritization given to key water catchments and biodiversity corridors; – Several local PES schemes have been created through contracts.
Funding sources	1. Payments by major commercial water users 2. International donors (expects to receive carbon-related payments)

	3. Reforms in 2012/13 require payments to be made as a condition for authorization to engage in land use changes
Payments Disbursed to-date	In 2012 USD 185.5 million was disbursed,[32] while the Fund had total assets of USD 642 million. In 2011 12,200 transactions took place through the FFM
Procedural and legal requirements for fund establishment	The establishment of the FFM was provided for in the General Law on Sustainable Forest Development 2003, in particular sections 12, 123 and 143. The FFM was then formally established by way of a 10 year power of attorney (Mandatario).[33]
Governance structure	The FFM has a multi-layered governance structure, reflecting its size and diversity of activities. The overall fund governance structure outlined below is complemented by specific institutional and management structures for each project funded by the FFM. The central FFM institutions are the following: **Mixed Committee of the FFM:** The Mixed Committee is the governing and operational body of the FFM and is in charge of supervision, monitoring and oversight. The Mixed Committee is comprised of an equal number of governmental (federal level), private sector and social sector representatives, and is chaired by a representative of CONAFOR (National Forestry Commission). The Mixed Committee usually meets four times per year. **Programming and Investment Committee:** This Committee is responsible for managing the investments of the fund, including through monitoring quarterly performance, and for managing the oversight of the Fund's resources. The Committee meets four to five times per year. **CONAFOR:** Is the creator of the power of attorney by which the fund was established and is responsible for integrating the FFM within national forestry strategies and policies. **NAFIN**: Is the national development bank in which the accounts are held and which is entrusted with the management and

[32] Comité Técnico de Protección y Conservación Forestal. Programa de Compensación Ambiental por Cambio de Uso de Suelo. 2012. Available from: http://proteccionforestal.wordpress.com/2012/05/04/programa-de-compensacion-ambiental-por-cambio-de-uso-de-suelo/.
[33] Avila, O. et al. Administración 2006-2012 Memoria Documental Esquema del Fondo Forestal Mexicano. Available from: http://www.conafor.gob.mx:8080/documentos/docs/8/4124CNF-09%20Fondo%20Forestal%20Mexicano.pdf.

	investment of funds through a power of attorney.
Fiduciary responsibilities	NAFIN is subject to fiduciary responsibilities and manages funds according to an agreed system of fiduciary management known as FIDUCIA. In addition, the current investment plan under the Forest Investment Program intends to develop new fiduciary protocols that streamline fiduciary requirements from different funding sources.
Application and disbursement procedures	Over the lifetime of the FFM several key lessons have been learned and built upon in order to make the application and disbursement process more efficient. In the first place, Applications for payment withdrawals by PES recipients were originally made manually; however, the large number of applications introducing a mechanism for automatic online withdrawals. Secondly, while originally payments were made from NAFIN (the Mexican Development Bank) through state authorities, to make payments more efficient it was proposed to have payments made directly by NAFIN. The lesson learned through the FFM experience is therefore that streamlining and automating payments to the extent possible, while cutting out unnecessarily intermediaries can reduce administrative burdens and costs, while reducing waiting times for funding recipients.
Administration and financial management	The administrative and financial management procedures of the FFM have evolved over time with the aim of increasing efficiency. Current features include the following: – The Fund contains sub-accounts for all sub-programs in order to keep funding separate and moves are being made to account for any transfers between accounts in more detail; – A new electronic financial administration system was introduced in 2011 to facilitate more effective and efficient management; – Dossiers are maintained of all financial records and records of committee meetings; and – Procedural manuals relating to financial and trust management

	and effecting payments are maintained and regularly updated. The administrative fee paid to NAFIN for management of the trust fund in 2008 was approx. USD 27,200 plus VAT.[34] Transaction costs for the PES program, meanwhile, have been estimated at USD 1 million per year.[35]
Monitoring/ Reporting/ Verification (incl. performance indicators)	The Fund is subject to audits by the Federal Superior Public Finance Auditor, and 'observations' raised are then addressed. Audits may relate to different subject matters (e.g. investments, availability of finances). MRV of funded activities varies depending on the fund. For the PES schemes payments to providers of environmental services are provided only after verification of effective management at the end of a five-year period.
Social and environmental safeguards	No single safeguards system, though each program funded by the FFM has its own set of policies and guidelines. Future channeling of international finance through the FFM is likely to be accompanied by the application of international donors' safeguards.
Interest/ investments	Changes in investment strategy were made in 2012 to diversify investments with a view to improving returns and the liquidity of funding
Relationship with other funds	Several smaller funds with aims related to the FFM have been created as sub-accounts within the FFM. For example, the Biodiversity Endowment Fund (Fondo Patrimonial de Biodiversidad) has been created to provide PES in biodiversity hotspots where no other sources of funding are available.[36] Several 'Concurrent Funds' have also been established at local level to administer local PES systems. CONAFOR provides up to half the capital of these funds through the FFM. In addition, the FFM co-finances a range of REDD+ and forest

[34] Auditoria Superior de la Federación. Informe del Resultado de la Fiscalización Superior de la Cuenta Publica 2008. 2010. Available from: http://www.asf.gob.mx/trans/informes/IR2008i/Tomos/T6V3.pdf.
[35]Streck, C. et al. Options for Managing Financial Flows from REDD+. Climate Focus. 2010. Available from: http://www.law.harvard.edu/programs/about/pifs/symposia/fcfs/2010-fcfs-briefing-materials/streck-options-final.pdf.
[36] CONAFOR, Programa Nacional de Pago por Servicios Ambientales y Áreas Protegidas: México, Presentación at VII Araucaria Seminar on "Environmental Services in Protected Areas" 17-21 October 2011, Montevideo, Uruguay.

	conservation programs together with international donors.
Specific donor requirements	To-date the FFM has been largely funded by domestic sources, and so donor requirements have not applied. However, it is currently planned to channel investments from the World Bank's Forest Investment Program through the FFM, which will lead to the application of "protocols for funding application and fiduciary protocols for using of funding resources."[37]
Key Results	A 2012 review highlighted the following achievements: – Lending transparency and certainty to the management of resources for its sub-programs – Providing a clear system for granting payments to beneficiaries – Supports federal entities in their management of the resources of each sub-program – It is expected that the security the FFM offers will attract international finance However, it has also been noted that the original design of the fund was not equipped to deal with its great increase in size over a short time, and hence restructuring has been necessary. The World Bank has stated that the FFM has "demonstrated its capacity to increase the number of operations without compromising the transparency and efficiency of various programs."[38] A separate review highlighted the advantage of using a trust fund structure in order to facilitate security of payments over the long term despite political uncertainty over annual budgetary allocations. This works by keeping each year's budgetary allocation is set-aside for payments over the following four years. the disadvantage, however, is that less funding is available for each year.[39]

[37]CONAFOR. Forest Investment Program Investment Plan Mexico. 2011. Available from: http://www.conafor.gob.mx:8080/documentos/docs/35/2603Plan%20de%20Inversi%C3%B3n%20Forestal%20de%20M%C3%A9xico.pdf.
[38] CONAFOR. Forest Investment Program Investment Plan Mexico. 2011. Available from: http://www.conafor.gob.mx:8080/documentos/docs/35/2603Plan%20de%20Inversi%C3%B3n%20Forestal%20de%20M%C3%A9xico.pdf.
[39]Alix-Garcia, J. et al. 10 Lessons Learned from Mexico's Payment for Environmental Services Program. 2009. Available from: http://are.berkeley.edu/~esadoulet/papers/LessonsPES.pdf.

Peruvian Trust Fund for National Parks and Protected Areas (PROFONANPE)	
Overview	PROFONANPE is a private, non-profit public interest institution established in 1992. Its goal is to manage and channel funding for the conservation of biodiversity harbored in natural protected areas and their buffer zones, and it serves as the "financial arm" of the National Protected Areas System (SINANPE), funding the majority of its activities. It receives funds from a wide variety of sources, comprises several sub-funds and has been said to be the largest environmental fund in the world.
Fund type	PROFONANPE manages several types of funds: i. Endowment funds: in these funds accrued interest may be expended but not the fund's principal (e.g. the seed capital was invested as an endowment fund) ii. Sinking funds: in these funds both interest and principal may be used iii. Mixed funds: The fund's capital is used for project financing while interest from the fund is capitalized in a separate account as an intangible trust (endowment) fund
Purpose and Scope of Funds (incl. eligibility criteria)	PROFONANPE has an exclusive focus on conserving and effectively managing protected areas in Peru. Within this remit, it funds the following activities: i. Management strengthening in natural protected areas, covering: – Recurring costs. – Small scale infrastructure. – Basic equipment. – Organizational strengthening. – Training. ii. Investments, covering: – Strategic and operational planning. – Infrastructure works. – Large scale equipment. iii. Civil society and private sector participation, covering: – Management committees' strengthening. – Support to management contracts. – Sustainable economic activities. In addition, the following areas have been identified as priorities for

	future fund-raising: i. Recurrent costs in protected areas' management. ii. Preparation and implementation of master plans, management plans and financial plans for protected areas. iii. Management of new financial resources in order to promote the implementation of programs and projects that include the participation of the State, civil society and the private business sector in the management of protected areas. iv. Development of initiatives to promote environmental services rendered by natural protected areas. v. Development of initiatives to promote greater dissemination of the national and global importance of Peru's protected areas. vi. Dissemination and promotion, at national and international levels, of PROFONANPE's achievements and operational strategy.
Funding sources	A wide variety of funding sources are utilized: i. Debt for nature swaps, mostly with developed country creditors but also through private sector foundations. ii. International public donors (e.g. UNDP, GEF, KfW) iii. Private donors (e.g. multinationals operating in Peru) iv. Foundations & NGOs Some funds are donated into the general accounts of the fund (endowment funds), while others are directed toward specific projects (earmarked funds). Recently, PROFONANPE has sought to develop strategies to attract independent revenue through new financing mechanisms involving local communities, industry and civil society.
Payments Disbursed to-date	PROFONANPE has to-date raised USD 134 million, most of which is allocated to specific projects.
Procedural and legal requirements for fund establishment	PROFONANPE is a private, non-profit, public interest organization, established under the civil code. In addition to complying with the civil code, it is governed by its internal bylaws.
Governance	The Fund is a private organization separate from the Government. This has been said to have several advantages, including

structure	preventing the Government (or the Government's creditors) from seizing its assets or merging it into a Government entity.[40] **Steering Council:** This is the fund's governing and highest decision making body. It is comprised of eight members who are appointed as follows: – Four government representatives: one each from the Ministry of Environmental Affairs, SINANPE, the Ministry of Economy and Finance and the Regional (State) Governments. – Two members from non-governmental organizations renowned for their track record in natural protected areas. – A representative from private business. – A representative from international cooperation agencies. **Executive Director's Office:** Has responsibility over the organization's effective daily management and oversight of its programs and projects. Functions include submitting the annual budget to the Board, preparing financial statements and management reports, providing for the proper use of its financial resources and seeking new financial contributions. The Executive Director's Office 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. **Project Executors:** Are responsible for implementing individual projects. Project Executors include the Managers of Natural Protected Areas, SERNANP central office, management units or regional governments.
Fiduciary responsibilities	The overall responsibility for ensuring compliance with grant agreements falls to PROFONANPE, who must ensure it is only used in accordance with its stated objectives. However, all fund recipients are obliged to avoid conflicts of interest etc.
Application and disbursement procedures	Each year the Project Executor must prepare an Annual Operations Plan, including a budget, and an Acquisition Plan. This is submitted to the Steering Council and the donor for approval.
Administration and financial	PROFONANPE uses an Integrated Administrative Management System (SIGA) which disseminates "timely, clear and transparent

[40] Spergel, B. and Taïeb, P. Rapid Review of Conservation Trust Funds May 2008. Conservation Finance Alliance Working Group on Environmental Funds. 2008. Available from: http://www.conservation.org/global/gcf/Documents/rapid_review.pdf.

management	financial information" and ensures it is permanently available. Its functions include control and management of bank accounts, income and outgoings, the balance of assets and liabilities, contracts for goods/services, project budget. Specific aspects include the following: i. Funds are deposited in private banks under financial management contracts. ii. Separate accounts are held for individual projects. iii. The Fund and all employees and recipients are subject to the Fund's Administrative Guidelines iv. PROFONANPE has a Code of Ethics to which all employees and external consultants must adhere in all operations. Key aspects include requirements of transparency, neutrality, discretion, duty of skill and care, avoidance of conflict of interest etc.
Monitoring/ Reporting/ Verification (incl. performance indicators)	MRV of each sub-project is carried out by PROFONANPE according to the following steps: i. Project Executors must report **quarterly** to PROFONANPE on compliance with the Annual Operations Plan, including on results, impacts and progress toward financial and substantive project goals, in accordance with the Fund's Administrative Guidelines. Each project must have a matrix of indicators and results which must be evaluated every quarter.[41] Annual funding is conditional upon targets for the previous year having been achieved. ii. Project Executors must report **biannually** on all actions undertaken during the preceding period, progress towards meeting indicators, problems and limitations, payments executed and planned, lessons learned and status of compliance with Grant Agreements. iii. Project Executors must also report to PROFONANPE on the financial management of the project in accordance with the Administrative Guidelines and must keep requisite records (e.g. invoices etc). iv. Funds withdrawn for specific activities must be accounted for by reference to that activity including, in some cases, by reporting on any goals/indicators associated with that activity.

[41] PROFONANPE. Anexo a los Convenios e Cooperación Interinstitucional que PROFONANPE Suscribe con Ejecutores "Lineamientos Administrativos PROFONANPE." Available from: http://www.profonanpe.org.pe/prfnp/LineamientosAdministrativos.pdf.

	v. The SIGA system is used to supervise the budgetary execution of activities, sub-programs and categories as contained in the annual budget and in each project's total budget (note that these are primarily public projects executed by government agencies, and so MRV is different than in the case of private projects). In addition to this project-level MRV, independent external auditors are engaged to perform annual financial statement audits and internal control audits (i.e. audits of the financial management system). Claims and observations can also be sent to the external auditors for investigation.
Social and environmental safeguards	PROFONANPE must comply with the World Bank's social and environmental safeguards policies. In addition, specific projects may be subject to the safeguards requirements of individual donors. All recipients of funds must comply with the Fund's Rules for the Prevention and Control of Corruption, as well as the World Bank's funding guidelines (since PROFONANPE was established with GEF seed funding)[42].
Interest/ investments	Each fund is managed by private Peruvian financial organizations, and investment guidelines are agreed with donors.[43] A conservative investment portfolio is maintained in order to ensure predictability of resources. Investment performance is measured against Peruvian private pension funds'performance.[44] Due to Peru's high risk of defaulting on its sovereign debt in the 1990s, legal advice was obtained counseling to only invest PROFONAPE's assets within Peru, so they could not be seized be foreign courts. The interest from the original endowment fund is used to pay PROFONANPE's operational costs. Under mixed funds the principal is disbursed to projects, while the interests is accrued to

[42] PROFONANPE. Rules for the Prevention and control of Corruption and other. Available from: http://www.profonanpe.org.pe/prfnp/Rules%20for%20the%20Prevention%20and%20control%20of%20Corruption%20and%20other..pdf.

[43] Lockwood M., Worboys, G., and Kothari, A. Managing Protected Areas A Global Guide. IUCN. 2006. http://books.google.nl/books?id=xXm1FbdPIsMC&printsec=frontcover#v=onepage&q&f=false.

[44] Spergel, B. and Taïeb, P. Rapid Review of Conservation Trust Funds May 2008. Conservation Finance Alliance Working Group on Environmental Funds. 2008. Available from: http://www.conservation.org/global/gcf/Documents/rapid_review.pdf.

	a separate account to create a new endowment fund when the project comes to an end.
Relationship with other funds	PROFONANPE is a member of several international networks of environmental funds, and through these shares experiences and has engaged in cooperation efforts to develop regional projects.
Specific donor requirements	Grants allocated by donors for specific projects are subject to Grant Agreements, which typically incorporate that donor's rules or guidelines on use of funds.
Key Results	The following notable results have been achieved by the Fund: i. The size of the Fund has increased massively since its establishment, and it has been stated that PROFONANPE is the largest and most successful environmental fund in the world.[45] The Fund has attracted a large number and variety of donors, a testament to its transparent and effective management and operating procedures. ii. A 1998 report by the GEF noted that PROFNANPE had been extremely successful in serving as a mechanism for debt-for-nature swaps. It also noted that its long-term sustainability had been partially restrained by its limited endowment, and that government domination of the Steering Council had hindered diversification and adversely affected its operation.[46] These issues were subsequently addressed. iii. A 2008 review noted the use of an endowment fund had led to creating long-term sustainable financing. It also stated that funding through PROFONANPE had had a positive impact on the management, resources and staffing of protected areas (particularly through ensuring predictable funding), and that the participatory process built into the preparation of annual work plans allowed for small but important input of non-governmental actors to participate in the decision-making process for PAs.[47]

[45] KfW Entwicklungsbank. Autoridades del Sector Ambiental del Perú dan reconocimiento al apoyo de la Cooperación Alemana en la conservación de Áreas Naturales Protegidas. 2010. Available from: https://www.kfw-entwicklungsbank.de/migration/Entwicklungsbank-Startseite/Development-Finance/About-Us/Local-Offices/Latin-America/Office-Per%C3%BA/Novedades-y-Eventos/Cordillera_Azul.pdf.

[46] Global Environment Facility Secretariat Monitoring and Evaluation Team. Evaluation of Experience with Conservation Trust Funds. GEF. 1998. Available from: http://www.peblds.org/files/Publications/GEF/GEF_Evaluation_of_Experience_withConservationTrustFunds.pdf.

[47] Spergel, B. and Taïeb, P. Rapid Review of Conservation Trust Funds May 2008. Conservation Finance Alliance Working Group on Environmental Funds. 2008. Available from: http://www.conservation.org/global/gcf/Documents/rapid_review.pdf.

FONAFIFO (Costa Rica)	
Overview	The objective of FONAFIFO is to provide financing to small and medium forest owners and managers to help conserve their forest resources. The majority of its funding is directed towards payments for ecosystem services, though a significant amount is also directed to forest owners through loans, grants and guarantees. It is considered among the most successful forest funds in the world.
Fund type	Comprised of several trust funds, each with a thematic focus.
Purpose and Scope of Funds (incl. eligibility criteria)	The primary purpose of FONAFIFO is to provide financing to small and medium forest owners and managers to help conserve their forest resources. This includes the following specific financing lines: i. Payment for a bundle of ecosystem services (incl. carbon, water, biodiversity); ii. Loans to small and medium producers. Credit lines to organizations of small and medium producers iii. Financing of reforestation, agroforestry, forest rehabilitation and technological changes for the exploitation and industrialization of forest resources to benefit the small and medium producers through credit or other mechanisms; iv. Guarantees for loans provided to small and medium producers. Eligibility requirements for the PES scheme include proof of forest ownership (with the exception of indigenous territories) and presenting a sustainable forest management plan. Participation in the PES program was originally based on a “first-come, first-served” basis, while flat-rate payments were provided. This application and selection process led to those with low-profit, low deforestation-risk land being most interested in agreeing to conservation. Reforms later introduced a points system for scoring applicants and differentiated payments based on ecological importance of land area. Eligibility requirements for obtaining credit include providing an income certification or financial statements (issued by a chartered accountant), posting property as a guarantee (and presenting cadastral map of property), providing details of guarantors and, in certain cases, providing evidence of cash flow, relevant contracts and invoices and other business details.
Funding sources	1. 3.5% of the Unified Fuel Tax (main source).

	2. 40% of the Forest Tax, levied on timber. 3. A USD 32 million loan granted and a USD 8 million grant were provided by the World Bank in 2000 for the PES schemes. This was built upon by USD 100 million being provided by the Bank for 2008-2012. 4. A EUR 10.2 million loan from Germany in 2002 for the Huetar Norte PES Project. 5. Ecosystem service payments by hydroelectric plants (initiated through agreements with hydro companies). 6. Voluntary contributions by the private sector, usually companies who rely on ecosystem services, for which 'Environmental Service Certificates' (ESCs) are issued. These contributions are generally directed toward the specific region in which the donor company uses ecosystem services, and are tax-deductible. They do not correspond to any carbon or other ecosystem service rights. Voluntary contributes under points 5 and 6 together contribute about 1-3% of total funding.
Payments Disbursed to-date	The total amount of budget for PES schemes 1995-2013 was USD 290.65 million, while the total amount of loans from 1987-2012 was approx. USD 8.97 million.
Procedural and legal requirements for fund establishment	FONAFIFO was established through the Forest Law No. 7575 of 1996 which lays down, inter alia, its objectives, legal status, funding sources and basic governance structure.
Governance structure	FONAFIFO is a "fully decentralized" organization existing within the structure of the National Forest Administration. It has independent legal personality, which gives it significant independence in administering its own resources. It has a head office in San Jose and several regional offices throughout the country. FONAFIFO performs its functions and operations through a trust facility. Under this mechanism FONAFIFO, as settlor, conveys the ownership of its assets and rights to the Banco Nacional de Costa Rica (BNCR), as trustee, which is responsible for using them to achieve the stated objectives as set forth in the incorporation papers. The beneficiaries of the trust are small and medium forest producers.

	The main institutes involved in managing FONAFIFO are: **Board of Directors:** FONAFIFO is governed by an Executive Board, which is responsible for issuing general directives, credit rules and other regulations; approving financial operations; and setting out interest rates, repayment installments, permitted guarantees and other conditions of loans. The Executive Board is comprised of the following five members: i. Two members from the private sector to be appointed by the Executive Board of the National Forest Office (a semi-state entity set up to promote and develop the forestry sector). Of these, one representative is chosen from small and medium sized forest producers, and one from the industrial sector. ii. Three public representatives, with one each appointed by the Ministry of Environment and Energy, the Ministry of Agriculture and Livestock and the National Banking System. **Executing Unit:** The Executing Unit is charged with the operational management of the Fund. It is headed by an Executive Director and has five sub-units: i. Environmental Services Unit ii. Credit Unit iii. Administrative Unit iv. Legal Unit v. Resource Management Unit **BNCR:** Responsible for managing FONAFIFO's several trust funds.
Fiduciary responsibilities	BNCR is subject to fiduciary responsibilities in management of the trust funds. In addition, members of the Executive Board are permitted to engage in transactions with the Fund; however in all cases where members, persons connected to them (by up to three degrees of separation) or persons they (or persons connected to them) represent have an interest in a transaction, that member must refrain from voting and withdraw from the part of the meeting that considers it.
Application and disbursement	Participation in the PES program is based on contracts with landowners following verification of eligibility. Carbon rights are

procedures	ceded and all obligations are attached to the land as easements. Nine local offices handle initial paper work and pre-approve PPSA applications. Application procedures were originally complex with many separate requirements, reportedly leading to poorer applicants having difficulty applying. Procedures were later streamlined, however, including the greater use of computerized record checks and allowing applicants to joint collectively through collective contracts.
Administration and financial management	All funds are managed through one of several (currently four) trust funds administered by the BNCR. Each trust fund receives financial resources from defined sources (e.g. the revenues from the forest tax are directed to Trust 544) and is responsible for administering specific programs or financing lines. Funds relating to the PES program are kept in a separate account within one of the trust funds. FONAFIFO's annual transaction costs were 22% of the total budget for the Costa Rica PES programs in 2008. Efforts to lower transaction costs include outsourcing project design and monitoring to local forest engineers, linking projects with local organizations and forest engineers who help create the social, investment and land management plans for submission to PPSA.
Monitoring/ Reporting/ Verification (incl. performance indicators)	Different MRV systems are provided under different programs, according to need. Examples include: i. Under the PES program monitoring is primarily carried out by field visits of private *regentes*, which are paid by the PES participants. To reduce the risk of collusion between *regentes* and participants FONAFIFO regularly audits selected monitoring reports, and can hold regents liable for misstatements or fraud. FONAFIFO also carries out review of management reports submitted by Forest Managers, while audits of FONAFIFO and the PES Program, including the SIG and IPMS as follow-up and supervision tools which, together with computer platforms, allow for information management of all PES contracts; ii. The use of all payments corresponding to ESCs are monitored separately by the Tropical Agricultural Research and Higher Education Center (CATIE), the Junta National Forestal Campesina (JUNAFORCA), as well as through internal and external audits, and also by the General

	Comptroller's Office of the Republic.[48]
Social and environmental safeguards	The following social and environmental measures have been adopted to ensure social and environmental issues are addressed: i. FONAFIFO has in recent years added several poor *cantones* to its list of eligible areas (previously based solely on environmental criteria)—it is estimated that 80% of the payments go to areas with 'low development indices'.[49] ii. Measures have been introduced to reduce transaction costs, making the programs more accessible; iii. Annual quotas have been introduced for participation of women and indigenous groups; iv. FONAFIFO has relaxed the requirement that applicants for protection forests have individual land title as long they have secure tenure (they need to show long-term occupation and that a titling process has started) and the inclusion of indigenous groups with communal land titles; v. The Board of Directors has established a working group to coordinate with indigenous groups
Interest/ investments	Funds are managed under trust agreements with the National Bank of Costa Rica. The terms of these agreements do not appear to be publicly available.
Relationship with other funds	FONAFIFO is for the most part managed separately and has a clearly distinct scope from other national forest funds such as the Fondo Forestal. However, FONAFIFO does make certain transfers to the Fondo Forestal to compensate costs borne by the Forestry Administration related to the PES program.[50]
Specific donor requirements	1. Germany applied KfW's standard grant conditions with respect to its grant for the Huetar Norte project. In addition, it required KfW to be exempt from tax and also required that German air or maritime transport firms be given equal status to Costa Rican firms in providing services funded by the grant. 2. The World Bank applied its general lending conditions to its 2000 loan. In addition it required, inter alia:

[48] Fono Nacional de Financiamiento Forestal Costa Rica. 2005. Available from: http://www.fonafifo.com/paginas_english/invest_forest/i_ib_que_es_csa.htm.

[49] FONAFIFO, CONAFOR and Ministry of Environment. Lessons Learned for REDD+ from PES and Conservation Incentive Programs, Examples from Costa Rica, Mexico, and Ecuador. 2012. Available from: http://www.forestcarbonpartnership.org/sites/forestcarbonpartnership.org/files/Documents/Full%20version%20of%20PES%20Lessons%20for%20REDD+%20March%202012.pdf.

[50] Regulation to the Forestry Law of Costa Rica, Nº 25721-MINAE, 23 January 1997, Article 45.

	i. the carrying out of the project in accordance with agreed plans; ii. The exercising of due diligence and best administrative, financial and environmental practices; iii. Regular reporting and implementation of monitoring in accordance with agreed standards; iv. approval from the World Bank on the general scope of the project's operations plan, as well as other project aspects v. the maintaining of adequately qualified staff in the areas of, inter alia, financial systems analysis, procurement and natural resource management; vi. Maintaining an operations manual the details, inter alia, administrative and financial procedures, a Project Implementation Plan and an Indigenous Plan; and vii. Maintaining a financial management system acceptable to the World Bank.
Key Results	The following results have been reported for FONAFIFO: i. The PES programs have reportedly helped increase national forest cover from 44% in 1998 to 51% in 2005. ii. It has been reported that there appear to be few instances of noncompliance in the Costa Rican PES program.[51] iii. It has been noted that the inclusion of multiple funding sources has enabled FONAFIFO to protect against some revenue streams being reduced (e.g. fuel tax as fuel prices rise). This moreover allows FONAFIFO to provide higher payments in areas with greater environmental value.[52]

[51] FONAFIFO, CONAFOR and Ministry of Environment. Lessons Learned for REDD+ from PES and Conservation Incentive Programs, Examples from Costa Rica, Mexico, and Ecuador. 2012. Available from: http://www.forestcarbonpartnership.org/sites/forestcarbonpartnership.org/files/Documents/Full%20version%20of%20PES%20Lessons%20for%20REDD+%20March%202012.pdf.

[52] Ibid.

Lao Environmental Protection Fund (EPF)	
Overview	The Lao EPF was established in 2005 with the aim of funding small and medium projects for environmental protection in Lao PDR. Under its constitution documents it has a broad potential funding base, though in practice funding has come from a limited number of donors. It is characterized by a high proportion of small grants being issued to communities and other local stakeholders, with extensive support to grantees facilitating access and implementation of projects.
Fund type	1. An endowment fund generates interest to fund operational costs under windows iii, iv and v (see below). 2. A sinking fund exists to disburse money directly to beneficiaries under windows i and ii.
Purpose and Scope of Funds (incl. eligibility criteria)	The EFP may provide funding through grants, low-interest loans and subsidies. To-date only grants have been awarded. Funding is provided according to five-year strategic programmes, which set criteria for prioritizing funding. Funding should support and be in line with key national programs, such as the National Forestry Strategy. There are five funding windows: i. Policy implementation and capacity enhancement (PICE). ii. Biodiversity and community investment (CBI). iii. Pollution Control. iv. Water Resources Management. v. Sustainable Land Resources Management. The vast majority (88.75%) of funding has been allocated under windows i and ii. In 2012 it was decided to distribute all the budget for the year equally among the country's provinces in order to build capacity at provincial level to manage environmental protection projects.
Funding sources	The EPF can absorb all kinds of contributions from donors and the private sector, although it cannot access a direct fiscal transfer from line ministries due to its off-budget nature. national and international endowment funds; national. According to its founding document, it may be funded by: i. Taxes or levies from environment and natural resources; ii. contributions by development projects; iii. contributions by business and private sector; and

	iv. interests generated by EPF capital. To-date the principle sources of income have been: i. The Asian Development Bank provided the USD 5.7 million loan for the endowment fund. ii. The World Bank has provided USD 7.1 million for project activities. iii. Business contributions in the amount of USD 265,000 iv. Interest on the endowment fund.
Payments Disbursed to-date	The total grants provided to beneficiaries by the EPF in 2006-2010 were USD 3.4 million, disbursed to 202 projects.
Procedural and legal requirements for fund establishment	The EPF was established through the issuance of Prime Ministers Decree 146 in 2005 which, inter alia, appointed the BoD. Additionally, it is governed internally by the EPF Charter (adopted by the BoD) and its Operations Manual.
Governance structure	The EPF is an autonomous organization, both financially and administratively, though it is housed within the Prime Minister's Office. It is governed by the following two bodies: **Board of Directors (BoD)**: The BoD is chaired by the Deputy Prime Minister and co-chaired by the Ministry of Finance, and consists of seven other members from the Ministry of Natural Resources & Environment (MONRE), the Ministry of Energy and Mining(MEM), the National Council for Science and Technology, the Lao Women's Union and Bolikham Commerce and Industry Association. It is responsible for: i. Establishing the EPF's policies, strategies, and priorities; ii. Providing guidance to and monitoring the performance of the Executive Office; iii. Approving strategic programs/funding windows, manuals, action plans, operational procedures and annual reports; and iv. Approving or rejecting funding requests above USD 60,000. **Executive Office (EO):** The EO is headed by the Executive-Director, who is appointed by the BoD, and consists of four units (financial and administrative unit, sub-projects operations unit, public information unit and monitoring and evaluation unit) and recently restructured in two units (finance and administrative Unit, and technical Unit. It is responsible for the management of the EPF including:

	i. Approving project grants up to USD 60,000; ii. Implementing daily operations and administration; iii. Preparing strategic programs, manuals, action plans and annual reports for approval by BoD; and iv. Prepare budgets and annual revenue and expenditure plans.
Fiduciary responsibilities	Procurement procedures are applied at Fund level, project level and community level.
Application and disbursement procedures	For grants up to USD 60,000 the following procedure applies: i. A discussion is usually held with applicants in advance, and support can be provided in completing the 5-6 page application form, which can be submitted in Lao; ii. The Executive Office completes a standard evaluation form, including a matrix scoring appropriateness of the proposal to the fund objectives and selection criteria; and iii. The Executive-Director decides whether to accept or reject the proposal within one month, providing a brief justification. 1. For grants above USD 60,000: i. An initial meeting is usually held with applicants, and support can be provided with developing proposal if requested; ii. A detailed proposal is submitted in English; iii. A peer review process is conducted on the proposal; iv. The Executive-Director decides to accept, reject or suggest amendments to each proposal, based on defined evaluation and assessment criteria; v. Where accepted, the proposal is sent to the BoD for approval. A short justification is required in the case of rejecting the Executive-Director's recommendation.
Administration and financial management	The EO applies a basic computerized accounting system that includes charts of all accounts in order to provide sufficient financial information for managing and monitoring project activities by windows, projects or components, procurement categories and clients. The accounting system is capable of producing financial monitoring reports and annual financial statements. About 20% of the fund's budget is spent on operational costs.[53]
Monitoring/	1. Due to low capacities of many funding recipients, at **project**

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Reporting/ Verification (incl. performance indicators)	**level** the EPF has a simplified monitoring and reporting system involving oral reports being provided at annual provincial-level stakeholder meetings. The EPF also has a number of facilitators working at the provincial level to oversee the technical progress of project implementation. 2. **At fund level** the EO must prepare quarterly reports on fund operations, annual operations reports and annual financial reports. Annual reports must include details on the status and activities of the EPF, a list of all projects and activities that have received EPF financial support and the financial status of the EPF. Reports must be approved by the BoD and are then submitted to the Government and to donors. Reports must be made available in print and electronic media. 3. The EPF is subject to an **annual independent financial audit** pertaining to its finances, financial administration, and operations, including internal accounting, operations of specialized financing windows and investment activities.
Social and environmental safeguards	The EPF has developed the EPF Environmental and Social Safeguard Framework (ESSF), which is applied to all projects. The ESSF is in accordance with the World Bank's social and environmental safeguards. The ESSF sets social and environmental criteria, according to which each project must be assessed. In the event that potential negative impacts are foreseen, a full assessment is required, and appropriate mitigation measures must be identified.
Interest/ investments	Interest from the endowment fund is used to cover the EPF's operational costs. According to the Operations Manual, the Board should develop investment guidelines to minimize risk of the investment of the EPF capital, while ensuring a sustainable return for financing administration and operation of the EPF. Currently the endowment fund is deposited in a bank and generates around 6 percent of interests. A professional fund manager may be hired but thus far this has not occurred due to the limited value of the endowment fund (this is considered justified when it reaches above USD 10 million).
Relationship with other funds	The scope of activities that are eligible for funding by the EPF overlaps somewhat with those that can be funded by the Forest and Forest Resource Development Fund. However, no clear links between the operations of the two funds could be discerned.

Specific donor requirements	Individual donors financing special funding windows may request that their own policies/standards be followed in place of the Fund's standard policies. In particular, the World Bank's financial management and social and environmental standards are applied to all activities funded by the sinking fund.
Key Results	A 2012 case-study of the EPF suggests the following lessons learned:[54] i. The creation of multiple fund-types under the EPF, as well as the creation of multiple windows has proven beneficial. In particular, many donors appreciate the flexibility this allows in accommodating their specific preferences for the use of their funding (e.g. through creating specific windows for channeling it). Additionally, different funding types (sinking, endowment) serve different purposes (e.g. stability and flexibility). ii. Using an endowment fund helps to create stability for the fund, particularly where no sustainable capital sources have yet been identified. However, the size of the endowment fund is crucial to ensuring sufficient interests to fund operations. iii. A high turnover of staff in the EO has presented a challenge to maintain capacities. On the other hand, having all procedures and guidelines clearly set out and explained facilitates keeping capacities at an adequate level. iv. The inclusion of detailed procedures for financial management and social and environment safeguards both in the EPF Charter and Operations Manual has provided a strong basis for effective management and implementation of the fund. v. The EPF has been successful in facilitating local stakeholders to access grants due to continuous support being provided by the EO in the form of training, assistance in developing project proposals and simplification of the reporting mechanism. Other factors which have facilitated local/community involvement include: - Ownership and decision-making regarding community projects vesting in communities. - Training being provided on procurement procedures for community projects.

[54] UNDP Energy and Efficiency. Case Study Report: Environmental Protection Fund in Lao PDR. 2012. Available from: http://www.snap-undp.org/elibrary/Publications/EE-2012-NCF-CaseStudy-Lao.pdf.

	- Community accounts for managing funds can be opened in local banks. - Support is provided in accounting and financial management procedures.

Annex 2 Basic concepts and definitions

Debt for nature swap A financial transaction under which a portion of a developing country's foreign debt is cancelled in return for the implementation of conservation or other environmental protection initiatives. This typically takes place between a debtor and creditor country, whereby the latter forgives the former's debt in exchange for investing the money in conservation. An alternative is where an NGO purchases the debt from a private creditor and returns it to the debtor country in exchange for enacting environmental policies or measures.

Sinking Trust Fund A Sinking Trust Fund disburses the entirety of its capital and any interest earned over a period of time until the resources are depleted. For the purpose of this review a fund was considered a Sinking Trust Fund if its investments were primarily non-reimbursable projects and initiatives that do not provide any financial return (e.g. in emission reduction payments).

Endowment Trust Fund Endowment trust funds invest capital in interest bearing assets and use only the resulting investment income to finance activities.

Mixed Fund A fund that combines two or more funding structures.