6.2 International experience with REDD+ and national forest funds

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Introduction

At the 16th session of the Conference of the Parties (COP 16) to the UN Framework Convention on Climate Change (UNFCCC) parties agreed to implement REDD+. This would be done through a phased approach that begins with readiness activities and then moves to results-based demonstration activities, and finally to fully measured, reported and verified (MRV) results-based actions. Although the bulk of global REDD+ actions have so far focused on readiness activities, the recent shift of many countries toward piloting payments against results necessitates the development of effective and efficient methods for receiving, managing and disbursing payments.

EXISTING FUNDS SUPPORT A MIX OF NATIONAL AND REGIONAL REDD+, CLIMATE CHANGE AND FOREST PROTECTION.

The focus of this article is a comparative analysis of the operational aspects of REDD+ or forest funds. Best practices and lessons learned are drawn from eight existing funds that support a mix of national and regional REDD+, climate change and forest protection projects. It provides information on the appropriate design and regulation of internationally financed national-level funds operating in developing countries.[1]

Role and function of REDD+ funds

The starting point of the management and administration of international results-based payments for REDD+ is establishing or assigning REDD+ funds. Such funds should allow international contributions to be managed in a transparent, effective and efficient manner. Depending on capacities, the funds may be centralized or decentralized and decision-making may be devolved to a lesser or greater extent.

The design of national REDD+ funds depends on existing economic and legal systems, the domestic policy and institutional framework, and the availability of resources. National REDD+ funds must perform two basic functions.

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They must manage relationships with the entities operating under a) the UNFCCC REDD+ mechanism; b) national or regional REDD+ programmes; and c) international multilateral and bilateral sources of REDD+ funding. This involves several tasks:[2]

- requesting and receiving funding from international sources;
- submitting country REDD+ strategies;
- submitting country REDD+ reports with MRV performance; and
- regularly reporting to the COP or high-level body on REDD+ implementation.

They must agree to and implement four types of processes:

- international funding, fiduciary[3] and reporting procedures;
- standards, MRV methodologies and other technical procedures;
- social and environmental standards and grievance procedures; and
- oversight of relationships with international carbon markets.

The capacities of REDD+ funds will determine the responsibilities that international actors can devolve to national and sub-national institutions. The small number and size of existing independent REDD+ funds still acts as a barrier to the development of a longer-term REDD+ financing structure. Governments and other stakeholders have to take the lead in establishing national and jurisdictional funding structures; this article is aimed at contributing to such efforts.

Comparative review of experience with international funds

The eight funds discussed here have a diverse array of goals, ranging from funding protected areas to receiving, managing and disbursing performance-based REDD+ funds (Table 1). The funds were compared 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 that describe fund establishment, structure and management. The analysis focuses on five components central to effective, efficient fund management:

- fund structure;
- fund governance and management;
- eligibility and selection criteria;
- evaluation and MRV; and
- social and environmental safeguards.

Fund structure

The majority of funds surveyed, including all the REDD+ funds, are independent stand-alone funds rather than components of other funds. Many of the funds contain several sub-funds relating to thematic issues (e.g., FONAFIFO in Costa Rica) or specific large-scale projects (e.g., Peru's PROFONANPE).

The funds have also utilized different components in order to meet diverse objectives. PROFONANPE, for example, uses a combination of endowment, sinking and mixed funds. Endowment funds are used for projects that 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 that require a balance between long-term stability and short-term liquidity.

Table 1. Overview of funds reviewed

Fund name	Funding target
Amazon Fund	REDD+
Congo Basin Forest Fund (CBFF)	REDD+
Guyana REDD+ Investment Fund (GRIF)	REDD+
Indonesia Climate Change Trust Fund (ICCTF)	All climate change mitigation sectors
Mexican Forest Fund (FFM)	Broad range of forestry activities
Peruvian Trust Fund for National Parks and Protected Areas (PROFONANPE)	Protected area conservation and management
Costa Rica National Forest Financing Fund (FONAFIFO)	Conservation by small and medium forest owners
Lao Environmental Protection Fund (EPF)	Environmental protection projects

The most successful funds examined have managed to secure a range of funding sources, which helps them limit their exposure to 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, although the Amazon Fund has also obtained US$ 4.2 million from the Brazilian petroleum company, Petrobras.

Several of the more longstanding forestry funds have obtained substantial financing from the national private sector, primarily through compulsory taxes or levies; this is the main source of funding for FFM and FONAFIFO. It is worth noting, however, that both funds are heavily focused on payment for ecosystem services, providing a clear link with private-sector payments. Voluntary payments from private-sector entities in the country or region where the fund operates have also been secured by several funds; payments are usually based on the motivation of corporate social responsibility. While in all cases this constitutes a small proportion of funding, it offers a useful complement to other financing sources.

Fund governance and management

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 an independent legal personality, either as a private non-profit organization, trust, or a decentralized or semi-state entity. The legal form depends to a significant degree on the national legal context. Such independence from government has been strongly linked to the effectiveness of funds and, crucially, to their ability to attract donor financing.

At the same time, it is important that the funds have strong government involvement in order to ensure coherence with national policies and programmes. This is frequently secured through providing for broad government representation on the governing board (see below) or through close cooperation between fund management entities and government bodies. The experience with PROFONANPE also highlights the fact that keeping the fund legally separate from the government can prevent the state's creditors having access to the fund's resources in the event of a default on sovereign debt.

Although the funds studied differ in several aspects of their internal governance structures, all of them have two basic institutions: a governing board (e.g., steering council, board of directors) and a management body (e.g., executive office). The board is typically responsible for providing overall direction to and oversight of the fund, such as developing operational and investment procedures. 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 members of the governing board are high-level representatives from the public sector (often from multiple ministries/agencies), the private sector and civil society. In several of the REDD+ funds, notably GRIF and ICCTF, civil-society and private-sector representatives have only observer status; however, 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 (this matter was subsequently addressed). These conclusions are consistent with other reviews of international conservation funds, which have highlighted the importance of avoiding government domination of governing bodies — while also maintaining at least one high-level government representative — as key to the success of funds.[4]

Decision structures and voting powers of entities on the governing board tend to vary widely. Some funds use decision by consensus; others adopt decisions through a majority vote. Similarly, although some funds give each member of the governing body a single vote, the Amazon Fund gives each stakeholder group (national government, local government, civil society) a single block vote. The type of voting rules can have an important impact on the balance of power within the governing board, and should be considered when the composition of the board is being determined.

The responsibilities of governing boards typically include matters such as adopting policies 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 where large numbers of funding requests are involved, it greatly increases efficiency to limit the involvement of the governing body to decisions above a certain threshold.

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, receives support for the financial and technical monitoring of its various programmes and projects from 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 the entities who implement projects to develop concept notes and proposals; they are also responsible for supervising such entities in their implementation of projects.

In addition to these bodies, many funds also utilize a service provider to manage the funds. In the case of the REDD+ and national climate funds, this management has frequently been provided by an international organization such as the African Development Bank (as under the CBFF) or UNDP (as under the ICCTF). Most national forest funds, as well as the Amazon Fund, have a national bank as trustee.

The trustee is typically responsible for fiduciary management and for 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 members 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 Fund Management Agent (FMA), a consortium of the Netherlands Development Organization and PricewaterhouseCoopers, was engaged to oversee small projects. FONAFIFO uses private-sector entities known as regents to monitor the performance of the large number of funding recipients. In each case the use of such entities has been reported to have greatly facilitated efficiency, although 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 ICCTF, UNDP administrative costs were roughly 12 percent, while the World Bank typically charges between 10 and 15 percent for fund management.[5] The Amazon Fund's trust facility charges just 3 percent in administrative fees; however, significant administrative costs are absorbed by its implementing entity, the Brazilian Development Bank.

Experience with the CBFF shows that the use of an FMA increased the efficiency of project dispersal at a much lower cost than that provided by the Secretariat run by the African Development Bank (AfDB). The FMA was appointed in 2011, a year that saw the value of project approvals increase by 923%. Today the FMA oversees nearly 80 percent of approved projects while operating on a budget (for 2011–14) that is roughly 35 percent lower than the AfDB's administrative expenditures for 2010 alone.

The Amazon Fund and ICCTF have incorporated technical committees in the governing structure of their funds, though these bodies have distinctly different functions in each fund. The technical committee of the Amazon Fund is responsible for developing methodologies for detecting changes in forest carbon stocks and estimating emission reductions for performance-based payments. In comparison, the technical committee of the ICCTF was created to perform technical reviews of project proposals and recommend whether they should be approved.

Eligibility and selection criteria

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

The eligibility of entities to receive funding is closely related to the overall purpose and scope of the fund. Funds that seek to conserve government-managed areas, such as PROFONANPE, will primarily direct funding to state entities such as protected area authorities. Funds that seek to conserve privately managed forests — such as FONAFIFO, FFM or the Lao EPF — will direct funding to communities or private forest owners. Several of the REDD+ funds have sought to reach forests managed by private, community and government bodies through a combination of instruments. Allowing a broad range of entities to receive funding can broaden the reach of funds and improve their performance and dynamics.

Procedural requirements vary depending on project type and size. They reflect the importance of striking a balance between ensuring that applications are rigorously scrutinized and taking into account applicants' capacity limitations. In the Lao EDF, a five-to-six-page application form submitted in Lao is required for small projects (up to US$ 60,000); larger projects require a more detailed project proposal to be submitted in English. Support in drafting proposals is also provided to both small and large applicants. 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 applications; other funds require less rigid project concept notes.

In terms of project duration, the REDD+ funds often focus on short to medium time spans. The CBFF, for example, funds projects with a maximum duration of three years; the Amazon fund primarily funds projects that last two to four years. PROFONANPE, which is focused on conserving national protected areas, often funds longer-term projects, though it utilizes regular reviews to ensure that goals can be adapted as needed.

Evaluation and MRV

Evaluation of overall fund performance

In most cases, overall review of fund performance is undertaken by the governing board on an annual or semi-annual basis. Reports are generally prepared by the management body. They include details on both financial and substantive performance and include an overview of projects and their performance. Reports that have been approved by the governing body are usually made public, which is considered best practice by donors.

It is standard practice to hire external third parties to perform annual financial audits according to international standards; some funds also provide for audits of emission reductions or other factors. Some donors may additionally request extraordinary reviews of the fund, usually at the donor's expense. It is considered best practice to make review documents public.

MRV of individual funded activities

The form of MRV employed at the project level generally depends on the type and size of the initiative. PROFONANPE, which funds large projects that are typically run by state agencies, requires quarterly, semi-annual and annual reports on project results, issues and budgets; these are presented to the Steering Council. The approval of annual budgets is contingent on indicators from the previous year being fulfilled.

For smaller projects implemented by the private sector or NGOs, it is more common for monitoring to be undertaken through annual reporting to the executing 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 a project-specific basis, and 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 monitor PES participants, who in turn pay them. This creates a risk of conflict of interest, however, which necessitates regular audits of these agents.

If funding recipients have limited capacity, 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 at collective meetings, since few recipients have the capacity to write detailed reports.

MRV of performance-based payments

Performance-based payments are typically made at the national level and are based on the reduction of emissions below an agreed reference level (RL). At the local level this degree of measurement is frequently too cumbersome and is therefore less common. Funds that 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. Instead, they use conservative estimates and deforestation proxies as interim approaches.[6]

Social and environmental safeguards

A robust system for the implementation of social and environmental safeguards is considered crucial to attracting donor funding to REDD+ funds. A large majority of major international public donors require their safeguard standards — or those that are as or more stringent — to be applied to projects or programmes that they fund.

Where funding is sought from multiple donors, two main strategies have been employed to meet their safeguard requirements. The first is to apply donor safeguards on a project-by-project basis. This approach is applied by FONAFIFO, for example; international donors provide only a relatively small proportion of funding, and this is directed toward specific projects. Funds that use donor money to support a more diverse range of project activities or intend to combine donor funding in a common account will generally adopt stringent safeguards that are likely to satisfy the requirements of most donors.

Endnotes

1. This article is based on a full-length report that contains comparison tables and annexes detailing key attributes of the funds examined (Conway, Pritchard and Streck 2013).
2. See Streck et al. 2009.
3. Fiduciary procedures are put in place to ensure the fulfillment of fiduciary duties, that is, duties of trust and responsibility, in financial management.
4. See Spergel and Taïeb 2008.
5. See Forstater, Nakhooda and Watson 2013.
6. Deforestation proxies refer to figures that are agreed between the donor and the recipient country to represent the level of deforestation in the country for the purposes of the reference level in the absence of more precise information being available.

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