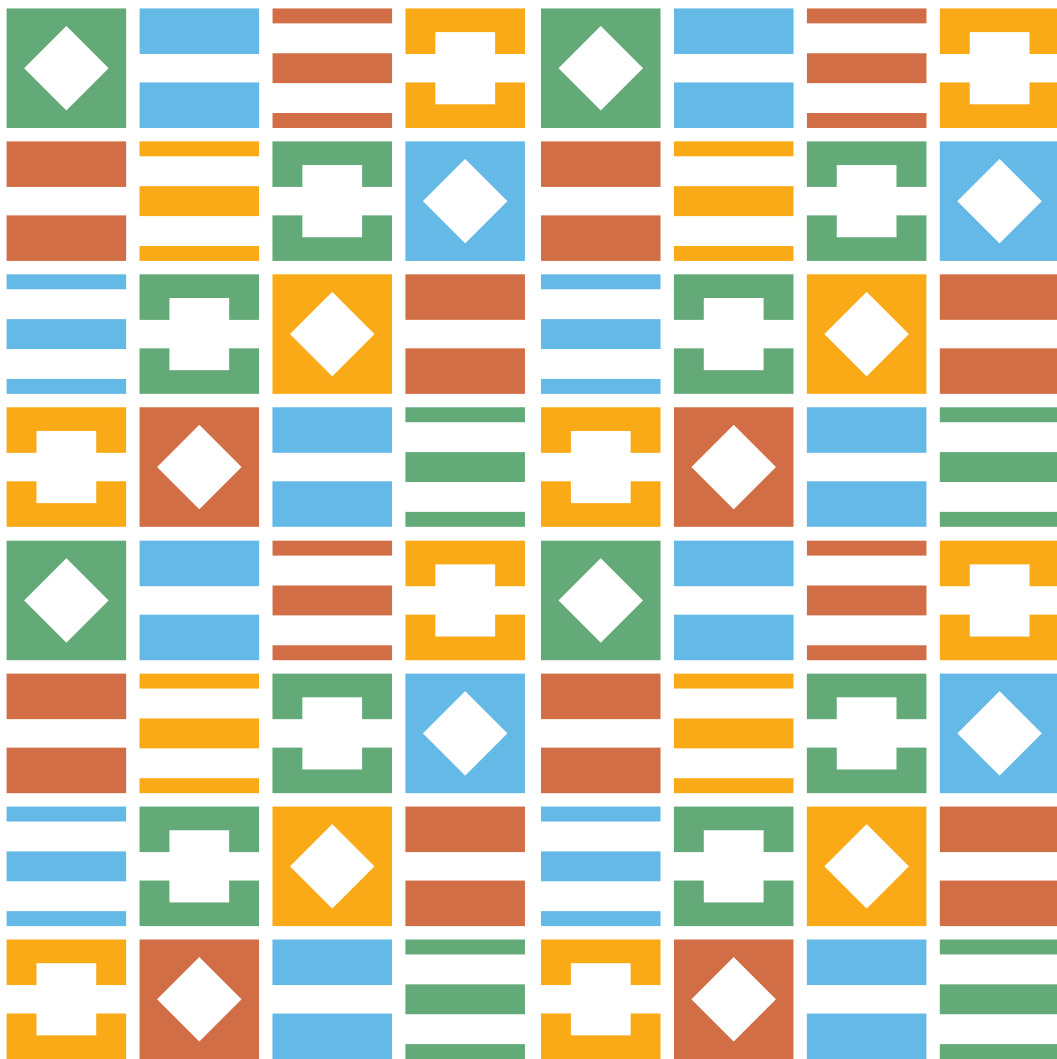


Guide to Good Practice and lessons learned from the creation, operation and monitoring of financial funds for environmental performance

Case studies:

The Amazon Fund and other environmental performance funds in Latin America



September 2022

Credits

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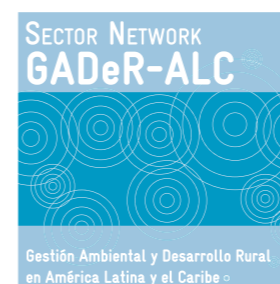
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In this publication we have chosen to use the classic generic masculine gender, understanding that all mentions in such gender always represent both men and women, and clearly cover both genders.





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Acronyms

BNDES	National Bank for Economic and Social Development
BNCR	Banco Nacional de Costa Rica (National Bank of Costa Rica)
CAF	Development Bank of Latin America
CFA	Conservation Finance Alliance
COFA	Amazon Fund Steering Committee
CTFA	Amazon Fund Technical Committee
CBD	Convention on Biological Diversity
CI	Conservation International (Conservation NGO)
COVID 19	Corona virus disease
GADeR-ALC	Sectoral Network community "Environmental Management and Rural Development in Latin America and the Caribbean"
GEF	Global Environment Facility
GCF	Green Climate Fund
GIZ	German Cooperation for Sustainable Development
FAO	Food and Agriculture Organization of the United Nations
AF	Amazon Fund
FAN	"Fondo Ambiental Nacional de Ecuador" (National Environmental Fund of Ecuador)
FCPF	"Fondo Cooperativo para el Carbono en los Bosques de Costa Rica" (Cooperative Fund for Carbon in Costa Rica's Forests)
FIAS	"Fondo de Inversión Ambiental Sostenible ECUADOR" (Sustainable Environmental Investment Fund ECUADOR)
FMCN	"Fondo Mexicano para la Conservación de la Naturaleza" (Mexican Fund for the Conservation of Nature)
FONAFIFO	Fondo Nacional de Financiamiento Forestal de Costa Rica (National Fund for Forest Financing of Costa Rica)
FONAG	"Fondo de Agua de Quito" (Quito Water Fund)
FPB	"Fondo Patrimonial de Biodiversidad de México" (Mexico Biodiversity Heritage Fund)

FPN	"Fondo Patrimonio Natural de Colombia" (Colombia Natural Heritage Fund)
IPBES	Intergovernmental Platform on Biodiversity and Ecosystem Services
IPCC	Intergovernmental Panel on Climate Change
KfW	German State Development Bank
M&E	Monitoring and Evaluation
MEA	Millennium Ecosystem Assessment
MINAE	"Ministerio de Ambiente y Energía de Costa Rica" (Ministry of Environment and Energy of Costa Rica)
NAMAS	Nationally Appropriate Mitigation Actions
NDC	Nationally Determined Contributions
OECD	Organization for Economic Co-operation and Development
ODM	Millennium Development Goals
ODS	Sustainable Development Goals
ODA	Official Development Assistance
NGO	Non-Governmental Organization
UN	The United Nations
UNDP	United Nations Development Program
PES	Payments for Environmental Services
REDD/REDD+	Reduce Emissions from Deforestation and Forest Degradation in Developing Countries ¹
REM	REDD Early Movers
ES	Ecosystem Services
TNC	The Nature Conservancy
USD	American Dollars
UNFCCC	United Nations Framework Convention on Climate Change
VA	Amazon Vision
WWF	World Wildlife Fund

¹ The + symbol implies that in its implementation are components of forest conservation and sustainable management with the participation of local population and increase in forest carbon reserves).

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1.

Introduction, Objectives and Guide Methodology

Payments for Environmental Services (PES) are means by which users of ecosystem services pay the providers of those services, motivating them to manage them properly. Awareness of the importance of ecosystem services for income, food security and human well-being generates a global trend to create financial mechanisms such as PES. The environmental performance funds are instruments that allow the mobilization of these conditional monetary transfers from the stakeholder to the supplier tied to the fulfillment of sustainable ecological behaviors.

The "Amazon Fund" (AF) in Brazil is a successful experience of an environmental performance fund and has served as an example for the creation of similar funds and mechanisms in other countries. It has been created with the intention of attracting donations for non-refundable applications to prevent, monitor and combat deforestation, promoting forest conservation and focusing on the Amazon biome. Another successful experience is the "Fondo Nacional de Financiamiento Forestal" (National Fund for Forest Financing) (FONAFIFO) in Costa Rica that manages state funds from fuel tax and water cannon collection and is part of Costa Rica's REDD+ strategy. The fund is focused on the forest conservation and restoration to maintain ecosystem services for the Costa Rican population. The funds "Fondo Patrimonio Natural de Colombia" (FPN) and "Fondo de Inversión Ambiental Sostenible de Ecuador" (FIAS) capture resources of diverse types and are geared toward environmental management in general. Among them are REDD+ resources, watershed conservation resources, among other PES.

GADeR-ALC is a Sectoral Network community for Environmental Management and Rural Development in Latin America and the Caribbean of the German Development Cooperation, implemented by GIZ. This network seeks to manage knowledge at regional level in environment, biodiversity, water, energy, agriculture, climate and cities sectors, to generate innovations, share lessons learned and enable inter sectoral cooperation.

In the context of the 2020 Call of the GA-DeR-ALC Innovation Fund, the workstream "Financial funds for payments for environmental performance: The innovative experience of the Amazon Fund" was developed. Its objective was to conduct exchanges and develop a guide to promote the creation of financial instruments for payment for environmental performance to strengthen initiatives that protect biodiversity, climate and sustainable development for local populations in all the countries of the Amazon and other regions of Latin America and the Caribbean.

Within the framework of this workstream, events were organized, and information was collected on the process of creation and operation of four successful funds in Latin America and the Caribbean mentioned above. From the analysis of these funds, a series of lessons learned were defined that provided the basis for this guide to good practice and lessons learned for the creation and operation of financial funds for environmental performance.

By making lessons learned and good practice available in the guide, we are looking forward to guide those interested parties in creating environmental performance funds on how to approach the fund creation phase and help fund managers in their process of improving the operation of these funds.

This guide presents lessons learned from the analysis of the four selected funds. The main lesson learned is that, since each country has its own regulatory and institutional framework, priorities, previous experiences and political dynamics, the creation and operation of the funds must be governed according to the context of each country. The creation of the fund cannot follow a sin-

gle formula built solely on lessons learned. With the lessons learned, we expect this guide's reader to be able to reflect on the different options that exist to create and operate a fund. That way, the reader will be able to identify which are the most appropriate paths, according to the local context. At the end of the guide, we have consolidated as good practices the most outstanding lessons learned that occurred in two or more funds.

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The **main objective** of this guide is:

To present good practice and lessons learned for the creation and operation of financial funds for environmental performance in Latin America and the Caribbean.

To meet this objective, the following methodological steps were taken:

- To systematize and present the theoretical framework of financial funds for environmental performance;
- To design a case study form for the collection of information on the funds;
- To collect information from the selected four funds in Latin America and the Caribbean for this systematization process
 - Amazon Fund (AF)
 - "Fondo Patrimonio Natural" (Natural Heritage Fund) (FPN)
 - "Fondo Nacional de Financiamiento Forestal" (National Fund for Forest Financing) (FONAFIFO)
 - "Fondo de Inversión Ambiental Sostenible" (Sustainable Environmental Investment Fund) (FIAS)
- To systematize the information of the four funds based on key criteria of financial funds for environmental performance
 - General information
 - Stakeholders involved in the creation and operation of the fund conditions prior to the creation of the fund
 - Key aspects in the fund creation and operation phase
 - Key aspects in the fund follow-up, monitoring and evaluation
- Identifying and validating lessons learned from the creation and operation of financial funds for environmental performance
 - Sending the methodological sheet and lessons learned to the funds for review and comments
 - Technical meeting for information exchange, review and identification of lessons learned.
 - Review by fund officials and GIZ
 - Caixa de Textoidentification of good practice based on highlighted lessons learned

2.

Who is the target audience for this guide?

2.1

Who is the target audience for the guide?

The proposal to develop this guide arose from the reflections made in the exchange spaces within the framework of the workstream "Financial funds for environmental performance payments: Innovative experience of the Amazon Fund", by fund officials and GIZ staff. Among these considerations, the importance of sharing good practices and lessons learned with future fund managers is highlighted, seeking that the successes and failures of existing funds help in the creation and operation of future funds.

The target audience for the guide is:

- Individuals from institutions or organizations that are in the process of creating an environmental performance fund;
- Environmental performance fund officers who participate in the operation of their fund;
- International cooperation agencies and environmental NGOs staff that provide technical assistance in the creation and operation of funds;
- Universities staff that conduct applied research or offer technical assistance in the creation and operation of funds.

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2.2 Funds addressed in the guide

The preparation of this guide on the creation and operation of financial funds for environmental performance payments was based on the innovative experience of the Amazon Fund in Brazil with REDD+ Climate Change mitigation resources linked to forest conservation and restoration. The donor's payment to the Amazon Fund is made ex post and the sums are defined based on the environmental performance achieved. This is one of the differences between performance funds and environmental funds.

In the exchange events "Experiences of Financial Funds for environmental performance payments: Good Practice and Lessons Learned" conducted within the framework of the workstream, a channel of communication and dialog between Brazil, Colombia, Ecuador and Costa Rica was created.

From the exchange between these four countries, the idea was born to create a "Guide of Good Practice and Lessons Learned in the Creation, Operation and Monitoring of Financial Funds for Environmental Performance" to serve as a guideline for other potential funds.

They decided to collect contributions from two other funds with REDD+ programs with ex post payments: The "Fondo Patrimonio Natural de Colombia" (FPN), and the "Fondo de Inversión Ambiental Sostenible de Ecuador" (FIAS). The analysis also includes Fondo Nacional de Financiamiento Forestal de Costa Rica (National Fund for Forest Financing of Costa Rica) (FONAFIFO), which, although it had not initially been an environmental performance fund with ex post payments, now incorporates Costa Rican REDD+ strategy. Due to its long history, this strategy has many valuable lessons learned for this guide.

Caixa de TextoCaixa de Textolt should be noted that this guide did not consider in its analysis climate funds operating at the regional and global level, such as the Global Environment Facility (GEF), the Green Climate Fund (GCF) and the Water Funds operating in Latin America and the Caribbean.

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3.

Conceptual framework for environmental performance funds

Human development and well-being depend on ecosystems and services that ecosystems provide, such as food, fuel, water, climate regulation, spiritual fulfillment and aesthetic pleasure. Although ecosystem services are vital for human well-being, the economic development model has led to environmental degradation (Kosmus et al., 2012, MEA, 2005).

Environmental performance funds arise out of concern with socio-environmental problems, such as climate change and the ecosystem services degradation. These funds have been created as a response and financial solution, to facilitate payment to suppliers but also to maintain or restore ecosystem services. Thus, through their action or inaction, they enable the conservation, sustainable use or restoration of ecosystems and, with them, the services they provide to society. Funding can come from a variety of sources, such as public resources, resource user fees, taxes, compensation measures, and international cooperation.

To better understand the overview in which environmental performance funds are implemented, this chapter presents the context of the environmental problem faced by these environmental finance mechanisms (subchapters 4.2 and 4.3). Subchapter 4.4 presents an overview of financial solutions in which environmental performance funds are developed. Subsequently, subchapters 4.5 and 4.6 go into more detail on environmental funds and environmental performance funds in preparation for chapters 5 and 6 of this guide.

3.1

Problematic environmental context for which environmental financial solutions are required

Since the Stockholm Conference in 1972, and especially since the Earth Summit in Rio de Janeiro in 1992, there has been growing concern about environmental degradation. There is also a concern about how the model of economic development, based on the unlimited use of natural resources, will affect immediate and long-term welfare and economic development throughout the world. This reflection promotes the advancement of the concept of sustainable development (Jackson, 2013), which has been an integral part of the Millennium Development Goals (ODMs) and forms the basis of the Sustainable Development Goals (ODSs).

There is a great deal of research on environmental degradation and how this degradation affects human well-being now and in the future. In addition, potential solutions to socio-environmental problems have been developed. The United Nations brings this scientific knowledge together in its assessment reports on climate change produced by the Intergovernmental Panel on Climate Change (IPCC) in the "Millennium Ecosystem Assessment" and the subsequent assessments of the Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES).

One of the main problems addressed by both IPCC and IPBES assessments is **deforestation**. Globally, deforestation has reached 177.5 million hectares since 1990. The average annual loss has been 7.8 million hectares between 1990 and 2000; 5.2 million hectares between 2000 and 2010; and 4.7 million hectares between 2010 and 2020 (FAO, 2021). The environmental problem in Latin America is related to the global problem. Deforestation in South America was 129.4 million hectares between 1990 and 2020, representing 3.0% of the world's forested area in 2000, while North and Central America lost 2.5 million hectares, representing 0.06% of the area in 1990 (FAO, 2021). Map 1 shows the areas of the Amer-

ican continent with areas of forest cover loss and gain between 2001 and 2020. The primary causes of deforestation are related to expansion of pastures for livestock, conversion of forests for agricultural expansion (agro-industrial and subsistence crops), deforestation for mining, forestry and aquaculture (Armenteras et al. 2017, Ardila et. al, 2020). Some secondary causes are related to the establishment of transportation infrastructure, agricultural and development policies, and population pressure (Armenteras et al. 2016, Ardila et al, 2020).

- Tree cover gain (2001-2012)
- Tree cover loss (2001-2020)
- Tree cover (2010)

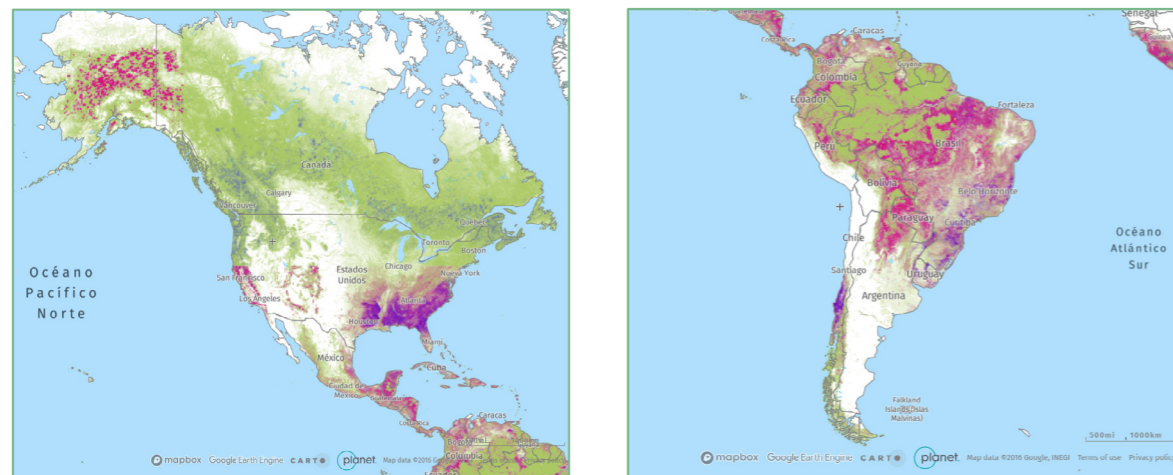


Figure 1: Cover loss (2001-2020), cover gain (2001-2012) and tree cover (2001) in the American continent (Source: Hansen et al., 2013)

Another global environmental problem is the **biodiversity loss**. The world's greatest biodiversity is concentrated in tropical forest countries (see map 3). This biodiversity produces ecosystem services. In the American continent, 65% of nature's contributions to people are in decline, with nearly 14,000 species at an elevated risk of extinction (IPBES, 2018). The most important causes of biodiversity loss are related to population growth, economic growth patterns, weak government systems and inequity, fragmentation, habitat conversion, overexploitation and overuse of resources (IPBES, 2018).

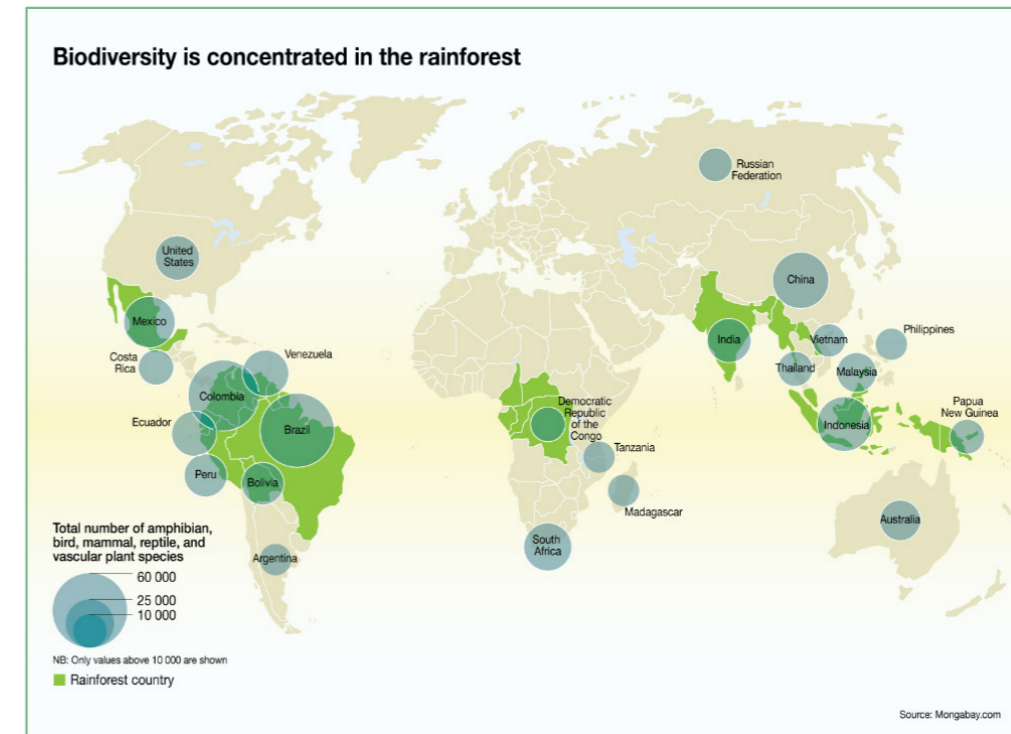


Figure 2: Biodiversity concentration in tropical forests (Source: GRID-Arendal, 2015)

Climate change is currently the most discussed environmental issue worldwide. Greenhouse gas emissions in Latin America accounted for about 10% of total global emissions in 2018 (Wellenstein and Hickey, 2021). Greenhouse gas inventories in the countries of the region show that the main emitting sectors are energy (43%), agriculture (23%) and land use changes (23%) (Crumpler et al., 2020). This situation is much more pronounced in South America than in Central America.

The effects of climate change in the region are related to (i) losses in the tourism and fishing sectors, with an 80% loss in Caribbean corals (Wellenstein and Hickey, 2021); (ii) increased vulnerability of agro-ecosystems in 80% of the countries (Crumpler et al. 2020); (iii) loss of freshwater sources for drinking, irrigation and hydropower generation, as a result of the loss of glaciers (Wellenstein and Hickey, 2021); (iv) floods and droughts, as observed and projected phenomena most frequently related to climate risks (Crumpler et al. 2020); (v) loss of productive assets and infrastructure, loss of rural livelihoods and income, poverty and inequality (Crumpler et al. 2020).



These environmental issues are interrelated with various socioeconomic conditions in the region. (Crumpler et al. 2020). The malnourished people percentage has decreased while the total number of people without food security has increased; the growth of urban areas has surpassed that of rural areas; farming systems are very diverse, ranging from subsistence systems to integrated systems with global markets; the region moves from a middle-income to upper middle-income classification, with significant differences between countries.

In this context national and international initiatives are developed in favor of conservation and sustainable development. Environmental fund initiatives for conservation have been in place for nearly 40 years². There are currently about 108 funds worldwide (Bath et al., 2020). The following chapter provides an overview of the environmental solutions in which these funds emerged.

² The first environmental funds were created in 1991 in Bhutan and Panama (Bath et al., 2020)

3.2

Context of international governance in which environmental funds emerge

Some actions that have been taken to face the most pressing environmental problems, both in the region and in the world, are related to different international agreements, such as the 2030 Agenda and the Paris Agreement.

In 2000, a new partnership emerged to address socio-environmental problems in the world, called the Millennium Development Goals. In 2015, these goals evolved into the Sustainable Development Goals (SDGs), which, together with the 2030 Agenda, were adopted in 2015 by the UN General Assembly to establish a transformative vision and achieve economic, environmental and social sustainability. For environmental issues, goals 13 and 14 make proposals for the protection and sustainable use of oceans and terrestrial ecosystems, combating desertification, reducing land degradation and biodiversity loss. Goal 15 establishes targets related to combating climate change and its effects. Goals 2, 3, 6, 7, 8, 10 and 11 have an indirect relationship with socio-environmental

problems and set goals, as for example, sustainable development and the rational use of ecosystem services (CODS, 2020).

The Paris Agreement was adopted in 2015 with the objective of "achieving a global temperature increase of no more than 2°C and creating mechanisms to limit this increase to below 1.5°C above pre-industrial levels" (Samaniego et al. 2019). Nationally Determined Contributions (NDCs) constitute each country's contribution to address climate change and achieve emission reductions in a global effort. The NDCs define mitigation and adaptation goals, as well as priority sectors and financing needs (Samaniego et al. 2019). In a scenario without NDC implementation, emissions would grow by 45% between 2015 and 2030. Currently, NDC implementation proposals estimate an emission reduction of 36% 2030 (Crumpler et al., 2020). Despite the above, the proposed contributions for emission reduction would not achieve the global warming goals. On the contrary, they would generate an increase of 3°C by 2100 (Samaniego et al. 2019). An important part of the mitigation proposals of Latin America countries is focused on actions related to energy, land use and agriculture and, to a lesser extent, water, housing and infrastructure (see Figure 3).



Country / sectors	1	2	3	4	5	6	7	8	9	10
Chile										
Brazil										
Costa Rica										
Guatemala										
Paraguay										
Dominica										
El Salvador										
Antigua and Barbuda										
Argentina										
Barbados										
Haiti										
Honduras										
Peru										
Uruguay										
Venezuela (Bolivarian Republic of)										
Mexico										
Nicaragua										
Dominican Republic										
Belize										
Bolivia (Plurinational State of)										
Colombia										
Ecuador										
Bahamas										
Saint Vincent and the Grenadines										
Trinidad and Tobago										
Grenada										
Cuba										
Guyana										
Panama										
Suriname										
Saint Kitts and Nevis										
Saint Lucia										
Jamaica										

Figure 3: Latin America and the Caribbean: sectoral distribution of mitigation measures (Source: Samaniego et al, 2019)



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The Convention on Biological Diversity (CBD) is a multilateral treaty signed by 156 countries during ECO92 in Rio de Janeiro, in 1992. Its objectives are conservation of biological biodiversity, sustainable use of its components and fair and equitable distribution of benefits from access to genetic resources. In 2010, the Strategic Plan for Biological Diversity 2011-2020 was adopted, together with the Aichi Biodiversity Targets, to work on the underlying causes of biodiversity loss. The assessment of that plan showed that none of the 20 targets were fully achieved, although six targets have been partially achieved (Secretariat of the Convention on Biological Diversity, 2020). Full implementation of the plan was not achieved, as countries did not set effective targets and there was a lack of adequate funding, awareness and accountability for biodiversity conservation (Xu et al., 2021). Therefore, it is proposed that, to achieve the goals defined for 2050, the sources of financing must be increased, with the addition of sources such as payment schemes for environmental services. The following subchapter addresses financial solutions to socio-environmental problems.

3.3

Financial solutions to socio-environmental problems at the global level

The United Nations mentions that, to achieve the SDGs in developing countries, it is necessary to mobilize 2.5 trillion dollars per year, in addition to an additional trillion for the fight against COVID-19 (OECD, 2020). These resources are necessary to make the investments to change the development structures towards a more sustainable development model. In recent decades there have been changes in legal and institutional frameworks in favor of environmental protection and incorporation of environmental damage prevention and mitigation measures in sustainable development processes. Companies are trying out changes in their production processes by incorporating environmentally friendly measures and technologies, and initiatives are being implemented to finance good environmental practices and the internalization of the opportunity costs of natural resource use (MEA, 2005). Within these initiatives are financial solutions that seek to pay for the necessary measures to improve the environment at the local, national, regional and international levels and to achieve the SDGs.

In 2015, the Addis Ababa Agenda was adopted with the aim of establishing a new financial framework to mobilize resources to promote sustainable development. The seven thematic areas defined in that agenda are (UN and IATF, 2016) a) domestic public resources; b) domestic and international private finance and business; c) international development cooperation; d) international trade as an engine for development; e) debt and debt sustainability; f) working with systemic issues; g) science, technology, innovation and development capacity. The OECD (2020) recognizes that the impacts of COVID-19 in different countries have increased the financing gap to achieve the SDGs and decreased investments to curb environmental degradation. Also shows that it is important to change the way financing is done and, to align domestic policies to reduce the barriers

to achieving the SDGs. Within the range of financial solutions are carbon markets, protected area concessions, crowdfunding, debt-for-nature swaps, lotteries, taxes, and environmental funds (UNDP, 2021).

Meyers et al. (2020) classify conservation financing mechanisms into seven broad categories, where environmental funds are a strategy within financial assistance and other transfers (see Figure 4).

Category	Subcategory
A. Return Based investments	Microfinance Investment and crowdfunding between peers (Peer-to-peer P2P) Angel investors, incubators and startup financing (Venture Capital) Capital Markets Debt: leasing, bank loans, notes, and trade finance Sustainable Investment Strategies
B. Economic Instruments	Environmental-related Taxes Fees and Charges Tradable resource use permits Fines and penalties Compensations and offsets Subsidy schemes motivated by environmental issues
C. Financial assistance and other transfers	Official Development Assistance (ODA) Private and Corporate Sector Philanthropy Conservation Trust Funds / Environmental Funds Remittances
D. Business and Markets	Business for Conservation Resilience in the supply chain Corporate Social Responsibility and Sustainability Voluntary Compensations
E. Public Financial Management	Public tax planning, budgets and disbursements Tax transfers Government financial assistance Reform to harmful subsidies Allocate income for nature



F. Risk Management	Insurance products Payments for success Blended finance
G. Financial Efficiency	Management effectiveness Public-private partnerships Integrated accounting Integrating biodiversity into development

Figure 4: Taxonomy of Conservation Finance Mechanisms (Source: Meyers et al., 2020)

In the case of climate finance, there are many estimates of the financial gap for financing mitigation and adaptation activities. On the one hand, Macquarie et al. (2020) estimated that in 2019 the flow of climate finance resources was between 608 and 622 billion dollars. Additionally, the resources needed to maintain a 1.5°C increased scenario until 2050 is between 1.6 trillion and 3.8 trillion per year. In other words, there is still a deficit between 1 and 2.2 trillion dollars per year, with the possibility that these values will increase because of the effect of COVID-19. On the other hand, Coninck et al. (2018), in a study for the IPCC, determined that the investment between 2015 and 2035 to limit warming to 1.5°C, in the energy sector alone, would be 2.38 trillion annually. That corresponds to 2.53% of total global GDP. In order to maintain a global warming limit of 2°C and incorporate other sectors, such as transport, infrastructure and energy demand efficiencies, the OECD estimates total annual expenditures of 6.38 trillion, with an estimated share of global GDP of 6%.

The following subchapter will discuss the financial solution of environmental funds in more detail.

3.4 What is an environmental fund?

The previous subchapters showed the environmental problems and the context in which the need to seek solutions to fund actions that promote conservation and sustainable use of ecosystem services and implement good environmental practices. These solutions should contribute to the achievement of the international agreements on Biological Diversity, Fight Desertification and Climate Change, etc., the Sustainable Development Goals, the Paris Agreement and the socio-environmental policies in each of the countries.

Environmental funds are instruments or mechanisms that allow the transfer of resources from a public or private stakeholder interested in maintaining, conserving, using or improving an ecosystem service or good socio-environmental practices, to an ecosystem service provider or stakeholder that implements good environmental practices or contributes to the protection of that ecosystem service.

An environmental fund is a financial mechanism that allows the financing of environmental projects. They can be defined as an "independent legal entity and investment vehicle to help mobilize, combine and supervise the collection and allocation of financial resources for environmental purposes" (UNDP, 2021). The funds are managed by environmental trustees³, banks or the government (Meyers et al, 2020). They operate as financing institutions for conservation. More than project implementers, they focus on resource mobilization (Bath et al., 2020).

Although all the funds have in common the transfer of resources from a financier to environmental services providers, through third party entity, differ in basic characteristics according to their objective, stakeholders' in-

³ Environmental trust commissions can be defined as private, legally independent institutions that provide sustainable financing for biodiversity conservation, for the support of environmental actions such as the protection of protected areas, sustainable livelihoods, and other conservation goals (Conservation Finance Alliance, 2014, cited by Meyer et al. 2020)

terest, the political, legal, institutional, social and environmental framework in the country, among others. Table 1 presents few environmental funds features and a variety in guidelines that may exist in environmental funds.

Features of Environmental Funds	
Fund Financier	Public/ Private/ Mixed; National/ International/ Mixed
Mandatory contributions to the Fund	Voluntary/ Mandatory
Type of payment to the fund	Outputs/ Performance; Uniform or Differentiated Payments
Source of Fund resources	Examples: Duty payment contributions, Federal Expenditure Budget in each country, National and International Donations, including ODA funds, Sale of Credits nationally and internationally, Value of Certified Reductions, Debt-for-nature swaps, Taxes or Subsidies
Legal figure for the creation of the fund	Decree, Private Act of Incorporation, Law
Entity managing the fund	Public/Private Bank, NGO, Public Entity, Trust
Fund Governance	Only the entity that manages the fund, Committees, Commissions, Technical Committees.
Type of payment from the Fund	Projects/ Performance / Uniform or Differentiated Payments
Fund Beneficiaries	Examples: Individuals, Social and Community-based Organizations, Public entities and agencies agencies, NGOs, small and medium-sized companies
Types of projects and investments	Examples: Restoration of environmental functions, Conservation of environmental functions, Land use opportunity costs, Good environmental practice, Infrastructure and equipment, Research, Education, training and coaching, Organizational strengthening, Land purchase, Personnel costs, Investment in life projects for communities, Promotion of mitigation and compensation actions, Investments to make non-sustainable productive activities viable, Small business investments to be ready for investments that conduct their activities in a sustainable manner, investments for decontamination, Implementation of adaptation measures to climate change and promotion of sustainable value chains.



Program areas	Examples: Welfare of local communities, Priorities defined in national development plans and strategies, Sustainable Development Goals, Priorities defined in the National Biodiversity Strategy and Action Plans, Aichi Targets, Priorities defined in the UNFCCC NDC.
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Table 1: Main characteristics of environmental funds (Source: authors, based on OECD (2007); Bath et al. (2020); UNDP (2020))

Examples of environmental funds are the “Fondo de Agua de Quito” (FONAG) in Ecuador, which was the first water fund created in 2000 in Latin America; the Amazon Fund (AF) and the National Environmental Fund (FNMA) in Brazil; the “Fondo Mexicano para la Conservación de la Naturaleza” (FMCN) and the “Fondo Patrimonial de Biodiversidad” in Mexico (FPB); “Fondo Nacional de Financiamiento Forestal” in Costa Rica” (FONAFIFO); the “Fondo Patrimonio Natural” in Colombia and the “Fondo de Inversión Ambiental Sostenible” (FIAS) in Ecuador. As this guide is focused on environmental performance funds, the following subchapter explains the details of some of these funds.

The water funds in Latin America

The first funds in Latin America were water funds. In them, the communities that have lands in the upper part of the hydrographic basins are vigilant caretakers of water ecosystem services, through the implementation of actions such as re-vegetation, restoration of riparian vegetation, non-deforestation of forests, establishment of good agricultural and livestock practices, restoration and creation of wetlands, and road management. These activities contribute to maintaining or improving water services related to water purification, flood risk mitigation, aquifer recharge, and erosion reduction.

Water users in the lower part of basins receive the benefits for the water services generated upstream and are the source

of incentive funds to be implemented upstream, in the form of cash payments, technical assistance or materials (“Alianza Latinoamericana de Fondos de Agua ALFA”, 2020).

As of 2018, 24 water funds had been created in Latin America, while others were in the process of being created and prospected. Mexico, Colombia and Brazil stand out as the countries where more initiatives are being managed (see map Figure 1). Some of the benefits generated by water funds are: 227,173 hectares conserved, 23,823 families participate in the projects in the basins, 205 million dollars have been leveraged by the funds, and 89 million people are potential beneficiaries of water ecosystem services (ALFA, 2020).



Figure 5: Water funds in Latin America. (Source: ALFA, 2020)

3.5 What is an environmental performance fund?

Environmental performance funds have the specific feature that a buyer is willing to invest resources in the fund to be delivered to an agent, who assumes the responsibility of achieving predefined results in environmental matters. The results are defined in advance and financing only occurs after the results are achieved and compliance is independently verified (OECD, 2014).

The environmental performance fund is a mechanism that functions as an intermediary between an interested party in financing environmental performance and the provider of environmental performance. Although general environmental funds are monitored and environmental impacts are evaluated, in the environmental performance funds this M&E has a greater weight in terms of rigor and scope, because it is from this process that the financier contribution is defined.

The variety of funds has given rise to different fund structures. Each seeks to maximize the delivery of funding, i.e., the desired environmental outcomes in the context in which the fund is created. According to Flynn (2011), there are six key elements that constitute the basic structure of a fund focused on climate change issues:

- ① Objectives
- ② Capitalization
- ③ Governance
- ④ Fiduciary Management
- ⑤ Implementation of agreements or arrangements
- ⑥ Monitoring, reporting and verification

Flynn (2011), based on an analysis of UNDP's experience in managing more than 750 trust funds and multi-donor funds, proposes a schematic structure. The diagram shows the questions that must be answered to structure an environmental performance fund and, one focused on climate issues at the national level (see figure 6). In each of the components there is a flow of support in coordination and support. It also highlights how financial resources flow from the financing sources to the entity in charge of managing the resources (in this case, the administrators of the environmental pay-for-performance fund). Finally, the resources reach the implementers, who develop specific activities to achieve the defined strategic goals.

In environmental performance funds, the flow of information related to monitoring and verification is indispensable. This information makes it possible to identify compliance with the environmental results for which payment for performance is agreed. This can be seen in the graph with the blue arrows in figure 6.

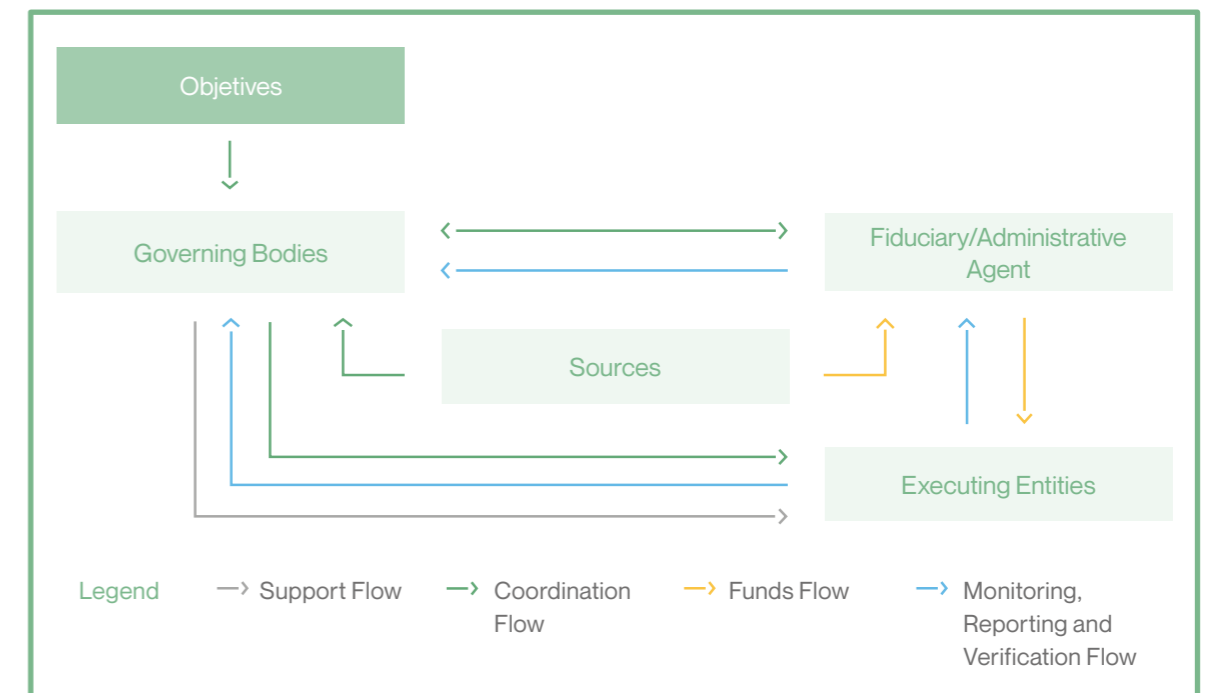


Figure 6: General Structure and Design Considerations of a National Climate Fund (Source: Flynn y Glemarec (2011), cited by Flynn (2011))

Environmental performance funds have these common characteristics. However, each country has its own dynamics depending on the needs, the regulatory and institutional framework, and the established priorities. National and local conditions, stakeholders involved, among others, which have led to the generation of procedures, must also be considered (Flynn, 2011).

The above analysis of environmental performance funds will be used as a reference in the identification of the lessons learned represented in the next two chapters.

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4. Lessons learned for the creation phase of environmental performance funds

4.1 Introduction

Environmental funds have a history of more than 20 years in the Latin American and Caribbean (LAC) region. Experience has shown that creating a fund is a long-term effort. For this guide, we have divided the process into two stages, which, while ideally occurring linearly, can also be cyclical, depending on the context and political will:

- Preconditions that provided the basis for creating the fund;
- Fund creation.







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The following chapters present lessons learned from the creation phase of four environmental performance funds on which information has been collected:

- ① Amazon Fund (AF) of Brazil;
- ② Fondo Patrimonio Natural de Colombia (FPN);
- ③ Fondo de Inversión Ambiental Sostenible de Ecuador (FIAS); and
- ④ Fondo Nacional de Financiamiento Forestal de Costa Rica (FONAFIFO).

The source of information in the summary tables comes from four fact sheets, developed jointly with each of the funds (GIZ, 2021a, 2021b, 2021c and 2021d). If there is an additional source, it is mentioned directly in the text.

General information on the four funds that generated the basis for these lessons learned guide is presented in Table 2.

Name of Fund	 Amazon Fund (AF)	 "Fondo Patrimonio Natural" (Natural Heritage Fund) (FPN)	 "Fondo Nacional de Financiamiento Forestal" (FONAFIFO)	 "Fondo de Inversión Ambiental Sostenible" (FIAS)
Country	Brazil	Colombia	Costa Rica	Ecuador
Year of creation	2008	2005	1996	2017 (FAN 1996)
Entity managing the fund	National Bank for Economic and Social Development (BNDES), together with the Fund's Steering Committee (COFA ⁴)	Board of Directors and General Assembly (NGOs, Universities, Research Centers and experts), together with the Director General	Board of Directors, integrated by public and private entities, together with the Director General	FIAS Directory
Type of entity managing the fund	Public bank	Foundation	Decentralized public entity	Non-profit civil entity

⁴ Extinct in 2019, indefinitely.

Legal mechanism of creation	Decree 6.527/2008 of the Presidency of the Republic	Private deed of incorporation under the civil code	Forestry Law No. 7575 of 1996	Executive Decree No. 146 of September 6th, 2017
Financing sources	International resources for environmental performance, national state resources and company resources.	National state resources, international state resources for environmental performance, Official Development Assistance (ODA) resources, and resources from companies and NGOs.	National state resources, complemented with resources from companies, NGOs, ODA.	National government resources, international government resources for environmental performance, corporate resources, NGO and ODA resources.
Financier Motivation	Emission reduction provider (Brazil) receives ex post compensation. CO2 certificates cannot be used by countries in their emission reductions.	According to the fund's program or project: compensation mechanism for the pollution generate ⁵ (Carbon emissions) - beneficiary of ecosystem services SE – ODA, carbon emissions.	The government seeks to generate benefits for its population in general by recognizing a payment for environmental services provided by forests.	According to the fund's program or project: compensation mechanism for the pollution generated (Carbon emissions) - beneficiary of ecosystem services SE – ODA, Carbon emissions.
Payment for Environmental Performance	AF is an environmental performance fund framed in avoided deforestation (REDD+)	REDD+ chapter is managed as an environmental performance fund; the others are environmental chapters.	FONAFIFO is an environmental performance fund with payment to private farm owners for the environmental service of forest conservation and restoration.	REDD+ chapter is managed by a Pay-for-performance Program, called the REM-Ecuador Program, which is framed within the actions to reduce emissions from deforestation and forest degradation. This Pay-for-performance is made ex post and based on results.

Table 2: Main characteristics of the 4 funds analyzed (Source: Author)

5 Who pollutes pays.

4.2 Previous conditions that were the basis for creating the fund

As can be seen in Table 2, environmental funds are dedicated to address socio-environmental problems, but each one has specific characteristics. Many of them arise from their conception or even in conditions prior to their creation. The following are lessons learned regarding previous conditions or actions that allowed preparing the ground.

4.2.1 With the development of a pre-feasibility study, the context in which the fund will be created is better known: To perform a good context analysis or pre-feasibility study provides a good understanding of the context in which the fund is proposed to be created. Some elements of analysis are the interests of the stakeholders involved, the environmental performance status of the fund, whether there are buyers interested in the ecosystem service or environmental performance, among others. These points increase the chances of success in the creation phase.




Fund	Summary description
 AF	There were a number of studies by research institutions and NGOs that provided a good context for the potential of an environmental performance fund for REDD in Brazil, including deforestation models, opportunity costs of avoided deforestation, implicit carbon price, carbon credit rights, forest conservation measures and recovery of deforested forests, and the identification of financing sources at national and international levels (Examples: Soares Filho et al (2006), Young et al. (2007), Börner y Wunder (2008))
 FPN	In 2003/2004, the Parks Unit, together with WWF and TNC, performed a study of the current situation of protected areas and the funding gap for effective protected area management. The study included an institutional analysis, which demonstrated the difficulty of receiving long-term donor funding to strengthen protected areas (including restricted areas), thus taking the first steps towards the creation of the Natural Heritage Fund (GEF, 2004).
 FIAS	The context that led to the creation of FIAS was the extinction of the National Environmental Fund (FAN), which had considerable resources as an endowment fund and transferred part of its functions and resources to the new fund. Additionally, and before the extinction of the FAN, there was a complexity to return the source debt swaps of those endowment funds of the FAN Fund. To better understand this context, a pre-feasibility study financed by the Development Bank of Latin America (CAF), the United Nations Development Program -UNDP- and Conservation International -CI- was performed over a period of about 3 months.

Table 3: Pre-feasibility Study funds information (Source: author)

4.2.2 With the development of a feasibility study, the options for the creation of the fund will be identified: Conducting a feasibility study allows identifying options for the type of entity that will manage the fund, the creation mechanism, the institutional framework and the current regulations for funds. The identification of different options, with their uncertainties and risks, allows defining measures to mitigate them. The range of options supports the consultation and decision-making phase between donors and entities that will manage the fund. Likewise, it allows to show the donor the fund's probabilities of success and the solidity of the studies on which the definition of creation alternatives is based.





Fund	Summary description
 AF	No feasibility study was done. However, the fund's proposal was based in part on the success of the Action Plan for the Prevention and Control of Deforestation in the Amazon (PPG7) in reducing deforestation; BNDES, as a bank with experience in loan management; and on lessons learned from Brazil's Pilot Program for the Protection of Tropical Forests. Based on the experiences of PPG7, the German Cooperation played a significant role in supporting the mobilization of funds from international donors, with the need for strong leadership from the government, election of a renowned, reliable national institution, recognized for its good management capacity and transparency, and the involvement and participation of a civil entity from the creation phase.
 FPN	Within the framework of the formulation of the GEF project "Fund for the Conservation of Protected Areas" conducted between 2004 and 2006, the feasibility of creating the fund was analyzed, seeking to have an agile fund to finance the management of protected areas.
 FIAS	In 2016, a feasibility study was performed between the Ministry of Environment (now Ministry of Environment, Water and Ecological Transition), the German Development Bank KfW (as the most important donor of the defunct FAN), CI, UNDP and CAF. The study cost was USD 60,000 and provided the basis for the creation of FIAS.
 FONAFIFO	Prior to the creation of FONAFIFO in 1996, the state bank already operated a trust scheme ⁶ to grant loans to small and medium farmers. These experiences provided the basis for the creation of a trust fund for forestry purposes aimed at the conservation of forests and ecosystem services. Such was the case of Trust 178 between the Ministry of Agriculture and Livestock and the Banco Nacional de Costa Rica. When Trust 178 was finalized, it was decided to open Trust 340 of FONAFIFO

Table 4: Feasibility Study funds information (Source: author)

⁶ The trust is a succession institution that allows the testator to entrust a person with the administration or conservation of certain assets to be handed over to another at a given time (conceptosjuridicos.com).

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4.2.3 Coordinating with stakeholders allows taking advantage of their knowledge, experience and opinions in the preparation phase:

The creation of an environmental performance fund involves a series of public and private stakeholders, donors and fund beneficiaries. Performing coordination, participation and consultation processes prior to the creation of the fund make it possible to ascertain their interests, opinions and challenges, bring together the interests of the multiple stakeholders and minimize the conflicts that may arise during the creation phase.



Fund	Summary description
 AF	Prior to the process of creating the fund, there were coordination and agreement processes such as the Permanent Interministerial Working Group (13 ministries) for the Action Plan for the Prevention and Control of Deforestation in the Amazon, the National Pact to Value Standing Forests and Reduce Deforestation, uniting nine Brazilian NGOs, among others.
 FONAFIFO	During the process of discussion of the draft law on the fund, stakeholders from different sectors were involved, namely, environment, agriculture, financial system, civil society, organizations, among others.

Table 5: Information on multi-stakeholder involvement funds in the creation process (Source: author)

4.2.4 Having a broad base of prior information facilitates the creation of the fund: It would be difficult to create an environmental performance fund without prior investment in research by public entities, academia, civil society and international cooperation. It is necessary to have real and reliable data on the ecosystem service offered to the interested party in environmental performance. This information is necessary to define the baseline and estimate the scope of the proposed environmental performance. In turn, it serves as an important input to estimate the amounts of payments linked to environmental performance that will be proposed to the financier or donor. This information base must also be aligned with government statistics and indicators, which can be used to measure compliance with the fund's objective, which can be used to measure compliance with the fund's objective.




Fund	Summary description
 AF	The Brazilian government had a system for monitoring land cover with satellite images, and this information, combined with studies by universities, NGOs and international cooperation agencies, provided a sufficient basis for negotiating the participation of Norway and Germany in an environmental performance fund for avoided deforestation in the Brazilian Amazon.
 FPN	Forest cover assessments in Colombia and Ecuador show reductions in deforestation rates. On that basis, a decision was made to become part of the REM of the governments of Germany and Norway. As the monitoring system is not yet well developed, the same fund resources have been allocated in part to improve the system. This is part of the preparation activities or "readiness" to implement REDD+ projects. In the case of the FPN, one of the key indicators is the gap in the financing of Colombia's national system of protected areas. Current financier and projected needs.
 FIAS	

Table 6: Fund information on informed decisions at the creation phase (Source: author)

4.2.5 The fund must be created within the political and regulatory framework of your country: It is a great advantage, before starting the phase of creating a fund, to have adequate and functioning local, national or international policies, as well as a conducive political climate that facilitates the phase of creation and operation of the fund. If policy and regulatory adjustments are required, they are identified at this stage so that they can be implemented in the creation and operation phase. Thus, risks of complications are avoided by going against or not being harmonized with existing policies and regulations.



Fund	Summary description
 AF	Brazil has been implementing the Action Plan for the prevention and control of deforestation in the Amazon since 2004. Since the United Nations Climate Change Conference (COP9) in 2003, compensation schemes for reducing deforestation have been negotiated at the international level. Brazil's role was crucial for the design and approval of REDD+. These national and international policies and political will at the highest level were decisive in the creation of the fund.
 FONAFIFO	During the 1990s, Costa Rica gave an impulse to national environmental policies and legislation and actively participated in the international initiatives of the Rio Summit and Declaration, the international conventions on Climate Change, Fight against Desertification and Biodiversity, etc. This meaningful change in the way the State and society perceived the management, conservation and sustainable development of natural resources was the basis for the creation of the fund financed with State resources.

Table 7: Fund information on regulatory and institutional framework at creation (Source: Author)

It is worth mentioning that funds are created in a unique context in each country and this context influences the creation of each fund. Therefore, it is important to know the context before starting the creation process. Table 1 presents a methodology that can be used to learn detailed understanding of the context in which the Environmental Performance Fund is expected to be created.

Table 1: Useful methodology for context analysis prior to the creation of an Environmental Performance Fund



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The “Integration of Ecosystem Services in Local Planning” approach developed in 2012 by GIZ was developed based on lessons learned/good practice from GIZ projects. That approach suggests the analysis of the following factors in preparation for decision making about measures of environmental performance linked to ecosystem services:

- Analysis of ecosystem services/environmental performance that can be targeted by the fund;
- Analysis of status and trends of ecosystems and ecosystem services;
- Analysis of driving activities that affect or degrade environmental services or performance;
- Analysis of relevant stakeholders for the fund (public stakeholders, companies, NGOs: international cooperation, grassroots organizations, academia, etc.). This analysis should include on the one hand the users or those interested in paying for environmental performance and on the other hand the provider;
- Analysis of policies, regulations and institutional framework;
- Analysis of current incentives that motivate decision making linked to the ecosystem service.

The analysis includes a table of key feasibility criteria for solutions and measures for the integration of ecosystem services. The attached table presents an adaptation for Environmental Funds.

Criteria for the feasibility analysis of Environmental Funds	
Political feasibility	To what extent does the creation of the fund have the interest of decision-makers?
Public acceptability	Does the fund have support from local users and providers? Is the fund in harmony with broader social and cultural norms?
Legal Standards	Can the Environmental Performance Fund be created within the regulatory framework?
Economic viability	Does the fund have the potential to generate a net benefit for society in general or only for the groups involved?
Equity	Can the fund affect a group positively or negatively? What are the effects, especially on the poorest and most vulnerable sectors?
Financial viability, sustainability and cost-effectiveness ratio	Will there be sufficient funds committed or that can be generated to cover the costs of the long-term measures? Are they the most cost-effective means to achieve a specific result?
Effectiveness and Outreach	Does the fund have a high probability of success and reaching the largest possible number of target participants/beneficiaries?
Urgency	What are the urgent factors for the creation of the fund?
Institutional capacity and sustainability	Is there an organizational structure and institutional capacity to manage the fund, monitor it and implement it over the long term? Is a new structure required?
Ease of implementation	Are the measures realistic? So much that can be implemented in each period and with the budgetary resources and skills available?

Table 8: Criteria for feasibility analysis of environmental funds (Source: adapted from Kosmus et al., 2012)



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The next chapter present lessons learned from the creation phase of an environmental performance funds.

4.3	Fund creation phase
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In the fund creation stage, stakeholders agree on the objectives, capitalization of the fund, governance, rules of fiduciary management and form of implementation, as well as monitoring and evaluation. Although it is ideal to agree on these details before the act of creation, this stage can also be developed in the months/years following the official creation of the fund, as shown by the operation of some of the funds consulted. The following are some of the choices learned from the analysis of the four funds for which information was collected.

4.3.1 Creation objectives can be single or multiple: Environmental performance fund creation objectives can be targeted at a single service or environmental performance, or multiple services/objectives. Whether to focus on a single or multiple services, it depends on country-specific situations, institutional history, and regulatory developments that facilitate the development of such objectives.





Fund	Summary description
 AF	Focuses on attracting donations for non-refundable investments in actions to prevent, monitor and combat deforestation, and promote the conservation and sustainable use of the Legal Amazon ⁷ , with the possibility of investing up to 20% in the Amazon regions of other countries and other Brazilian biomes.
 FPN	It focuses on the conservation of biodiversity (natural heritage) and ecosystem services, particularly in natural areas. The REM Amazon Vision (REM VA) project, managed by FPN, focuses on payments for reduced deforestation in the Amazon.
 FIAS	Focuses on financing environmental management, protection, conservation and sustainable use of natural resources and biodiversity, as well as actions to mitigate and adapt to climate change and to manage environmental quality.
 FONAFIFO	It is charged of making payments to small and medium forest producers for environmental services focused on greenhouse gas mitigation, protection of water resources, protection of biodiversity, scenic beauty.

Table 9: Fund information on creation objectives (Source: author)

⁷ According to the Institute for Applied Economic Research, the Legal Amazon is "an area that corresponds to 59% of the Brazilian territory and encompasses all 8 states (Acre, Amapá, Amazonas, Mato Grosso, Pará, Rondônia, Roraima and Tocantins) and part of the state of Maranhão". It differs from the rainforest zone (Amazon biome), which occupies 49% of the Brazilian territory, as it is a planning and economic development unit.

4.3.2 The financing lines of the fund must be derived from the objectives: From the objectives flow the financing lines that are ideally defined in the creation phase. The funds analyzed have a wide range of financing lines that vary according to the ecosystem services and environmental performance that are the object of the fund.





Fund	Summary description
 AF	The following financing lines are aimed at measures that reduce deforestation and forest degradation: <ul style="list-style-type: none"> • Management of public forests and protected areas; • Control, monitoring and enforcement of environmental regulations; • Sustainable forest management; • Economic activities developed from the sustainable use of vegetation; • Ecological and economic zoning, land use planning and regularization of property titles; • Conservation and sustainable use of biodiversity; and • Recovery of deforested areas.
 FPN	The Fund has a wide range of investment lines, which are used according to the objective of the fund/donor. <ul style="list-style-type: none"> • Management of protected areas; • Biodiversity Protection and Conservation; • Sustainable Forest Management; • Climate Change Adaptation and Mitigation; • Productive Reconversion; • Environmental Governance; • REDD projects; • Protection and management of water sources; • Environmental Legislation; • Design and implementation of financial instruments and mechanisms; • Capacity Development; • Environmental Education.
 FIAS	The Fund has a wide range of investment lines, which are used according to the objective of the fund/donor. <ul style="list-style-type: none"> • Conservation and Sustainable Use of Natural Resources; • Climate Change; • Environmental Quality; • Bio-enterprises; • Restoration; • Environmental offsets.
 FONAFIFO	Financing lines are: <ul style="list-style-type: none"> • PES schemes for forest cover recovery (reforestation, natural regeneration and agroforestry systems) and forest cover maintenance (forest protection and management); • Forest harvesting plantation program; • Forestry Credit; • Mixed financing scheme Credit + PES (forest harvesting plantation program).

Table 10: Fund information on financing lines (Source: author)

4.3.3 The new fund must be aligned with national and international policies and standards: The objectives of the funds analyzed are aligned, since their creation, and aimed to support the achievement of different policies clearly and explicitly State policies related to environmental issues and international agreements, such as the Framework Convention on Climate Change or the Convention on Biological Diversity. It is important to have an area or person in charge of analyzing the evolution of the country's policies, or that generates a relationship with state entities for the construction of public policies.





Fund	Summary description
 AF	Supports the implementation of: Action Plan for the Prevention and Control of Deforestation in the Amazon, in order to reduce the rate of CO2 emissions, valid until 2020; National REDD+ Strategy; National Climate Change Plan; State Plans to combat and prevent deforestation in the 9 Amazon states (Acre, Amazonas, Amapá Maranhão, Mato Grosso, Pará, Rondônia, Roraima and Tocantins); National Policy for Territorial and Environmental Management of Indigenous Lands.
 FPN	Supports the implementation of: NDC, Policy Document on SDGs (3918), Deforestation 4021 and Protected Areas (3680), Climate Change Policy, Comprehensive Biodiversity and Ecosystem Services Management Policy. The REM-Amazon Vision Project supports the reduction to zero of deforestation in Colombia by 2020.
 FIAS	Supports the implementation of: National Biodiversity Strategy 2015-2030; National Climate Change Strategy (2012-2025); National Forest Restoration Plan 2019- 2030; Ecuador REDD+ Action Plan "2016-2025".
 FONAFIFO	Supports the implementation of: Forest Policy (2000); Biological Corridors Strategy (Executive Decree No. 33106-MINAE, of 2006); Water Resource Protection (Organic Environmental Law No. 7554, of 1996); National REDD+ Costa Rica Strategy (2016); Climate Change Adaptation National Policy 2018-2030 (2018); National Biodiversity Strategy 2016-2025 (2016); Nationally Determined Contributions 2020 (NDC); Nationally Appropriate Mitigation Actions; National Decarbonization Plan (2019); National Forest Development Plan 2011-2020 (2011).

Table 11: Alignment funds information with policies and regulations (Source: author)

4.3.4 The capitalization of the fund may occur through equity, extinguishable or revolving resources: Funds can be designed to raise equity, extinguishable or revolving resources⁸. During the creation of the fund, the mechanism(s) through which the resources will be received and managed is (are) defined, although adjustments may occur over time. Fiduciary management depends on the timing of the delivery of the funds and the modality of resource management. The funds analyzed differ from one another if their capital can be fully utilized, if their returns are utilized, or if it is an intermediate form. Because of this, the decisions made about immediate spending on environmental performance measures or investments in the stock market also vary. Funds that manage equity resources or extinguishable funds that should not be available to implement measures are able to generate additional returns in funds/securities with a conservative profile to be invested later in the same projects, be used to cover administrative expenses, maintain a monetary update, among other needs.

⁸ Extinguishable resources are those that are used for a specific purpose and must be terminated at the end of a project. The equity resources are those that are not susceptible to use, since what is used are the yields for the payment of projects. Revolving funds correspond to a modality in which the capital is used and subsequently a payment is made for the use of such resources, generating a recovery of capital to be used again





Fund	Summary description
 AF	AF includes from its design phase the management of equity and extinguishable resources. Resources that are not required in the short term will be invested in the Gaia and Gaia II funds, managed by Banco do Brasil, with a conservative profile (fixed income investments and Brazilian government securities) to obtain additional returns and maintain a monetary restatement (AF, 2020).
 FPN	The FPN Fund can manage equity, extinguishable and revolving funds.
 FIAS	<p>The FIAS Fund can manage equity, extinguishable and revolving funds. Resources that are not required in the short term for projects are invested through the Ecuadorian stock market (85% of resources) and the New York Stock Exchange (15% of resources). The equity funds finance basic expenses in protected areas (Protected Areas Fund) with the yields obtained the previous year, and the projects selected in the Fund for the control of invasive species of the Galapagos.</p> <p>In the extinguishing funds, investments are long-term, to generate a flow that over 20 years will pay incentives for forest conservation through the "Fondo Socio Bosque". In the short-term extinguishing funds, the balances of the contributions are invested according to their cash flow, to generate additional value for the benefit of the project itself and to cover the cost of administering the FIAS.</p>
 FONAFIFO	FONAFIFO is managed with revolving funds from the public budget, so it does not have equity or extinguishable resources to make investments and generate additional returns.

Table 12: Information on capitalization of funds (Source: author)

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4.3.5 Having a prior agreement with a donor reduces investment risk in the fund creation phase. The fund's objective establishes a basis for the type of resources available for the fund's capitalization. Creating a fund with an identified source of capitalization reduces the investment risk of economic and human resources in the creation phase. All four funds analyzed had in their creation phase secured a donor interested in capitalizing the fund, or the resources available for that purpose.





Fund	Summary description
 AF	The Amazon Fund can be capitalized with REDD+ funds, whether international, national state or resources from carbon companies. When it was created, the negotiation process for the generation of the payment scheme by Norway and later Germany had already begun.
 FPN	Its creation process took place through a donation for the preparation (Project Preparation Grant) of the GEF fund, and subsequent implementation of the project (Full Size Project). Thus, from the first resources that reached FPN after its creation, it was agreed to pay incentives and maintain the fund with GEF resources (GEF, 2004)
 FIAS	FIAS was created to replace the National Environmental Fund (FAN), based on a decision by the Ecuadorian government. Many of FAN's resources were provided by international cooperation. Therefore, it was necessary to generate different arrangements with donors so that the new fund, FIAS, would assume the administration of these resources. In the case of the REM program, the different negotiations with donors made it possible to identify flows of funds associated with the measurement of deforestation reduction, following a methodology like that of Brazil and Colombia.
 FONAFIFO	FONAFIFO was created with the same legal instrument (Forestry Law No. 7575) as the state commitment to finance the payment for environmental services on farms for the conservation and restoration of forest cover.

Table 13: Fund information and its donor agreements (Source: author)

4.3.6 The fund must have a governance space for multi-stakeholder decision-making. Environmental performance funds have multi-stakeholder committees to make decisions on the management of the fund, with the board of directors, the assembly, the guiding committee or the director may fulfill this role. The governance of the fund must involve multiple stakeholders from its creation phase. Public and private entities, NGOs, universities, civil society organizations and eventually some financiers participate as observers.





Fund	Summary description
 AF	COFA, before its extinction, was constituted by 1) Federal Government with several ministries (7), the Civil House of the Presidency of the Republic and BNDES, 2) local governments of the Amazon that had a Plan to prevent deforestation, 3) Civil society (communities, NGOs, companies). Donors could participate as observers in the decision-making process. COFA was a multi-stakeholder governance space responsible for establishing criteria, guidelines and monitoring of the AF. (See http://www.fundoAmazonia.gov.br/pt/fundoAmazonia/governanca/COFA/index.html)
 FPN	FPN's Board of Directors and Assembly are made up of state entities (National Parks, the Amazonian Institute for Scientific Research) and the Regional Autonomous Corporation of Cesar, NGOs (CIPAV Foundation, Fundación Natura Colombia, Red de Reservas de la Sociedad Civil), a university (Javeriana University) and three experts (environmental, social and financial). In the REM Amazon Vision project, there are only state entities: five ministries, the National Planning Department, High Council for Post-Conflict, Human Rights and Security, National Natural Parks of Colombia, Institute of Hydrology, Meteorology and Environmental Studies, Amazon Institute of Scientific Research, and three regional autonomous corporations (Corporation of the North and East Amazon, Corpoamazonia, Cormacarena). Funders, international consultants and project technical staff are eventually invited. (See https://www.patrimonionatural.org.co/nosotros/junta-directiva/)
 FIAS	The Board of Directors is made up of public entities (Ministry of Environment, Water and Ecological Transition; Ministry of Foreign Affairs; National Secretariat of Planning and Development), private entities (university representatives, environmental organizations), a civil society expert and an observer from the contributors. There are various levels of governance in project management. (See http://www.fias.org.ec/contenido/item/fias-organizacion)
 FONAFIFO	The Board of Directors is made up of the Ministry of Environment and Energy, the Ministry of Agriculture and Livestock, a representative of small forestry producers, a representative of the National Banking System and a representative of the timber industry. (see https://www.fonafifo.go.cr/es/conozcanos/junta-directiva-eo/)

Table 14: Fund information of governance spaces (Source: author)

4.3.7 The fund must have a solid technical management structure composed of internal or external fund technicians. Technical coordinating bodies must be created in order to generate information for the fund's decision-makers. These technical bodies analyze the projects received in terms of their technical-financial feasibility, as well as the planning of operational activities.

In the case of technical bodies, these have a smaller number of participants and are made up of technicians from the fund itself or, in some cases, with the participation of technicians from other entities. These bodies may be composed of a single technical committee, or their functions may be divided among several directorates or committees. In all cases, the technical bodies report to the general director and may eventually participate in the meetings of the decision-making bodies, when deemed appropriate.

It is key to work on the relationship between the technical teams and the administrative and financial teams to present analyses of greater impact and cost-efficiency indicators to provide better input for discussions about environmental public policies.

Fund	Summary description
 AF	AF had a Technical Committee (CTFA) with a total of six experts appointed by the Ministry of Environment and consulted with the Brazilian Climate Change Forum. BNDES is responsible for analyzing, approving, contracting, monitoring, reporting and evaluating the projects. BNDES provided COFA with information on the application of resources from the Amazon Fund. BNDES has technical cooperation with GIZ to conduct external evaluations of the effectiveness of the projects supported, among other activities developed jointly with GIZ.
 FPN	The fund has a technical sub-directorate in charge of different projects and sub-accounts. It also develops management and development, project monitoring, systematization and knowledge management. Regarding the Amazon Vision project, it has an Execution Unit of the REM program, in charge of planning and implementing the activities. It has five pillars: forest governance, planning and sustainable sectoral development, agro-environmental, environmental governance with indigenous peoples, enabling conditions. The other programs have their own technical teams responsible for technical support. It also has spaces for multi-stakeholder governance and technical advice.





 FIAS	There are three technical groups in the fund: a) program and project management, which contains the programs, projects and monitoring directorate, and the inter-institutional relations directorate; b) planning and innovation management, which contains the processes and risks management directorate and the sustainability and innovation directorate. Each program and project have its own technical team; c) Administrative and Financial Management, which provides advice on investments and fund profitability. It has spaces for multi-stakeholder governance and technical advice.
 FONAFIFO	The fund has three technical directorate: a) environmental services directorate, with its monitoring and control department and PES management department; b) forestry promotion directorate, with the credit management department and the forestry development department; c) environmental services development and marketing directorate, with the proposal development department and the market department. It does not have spaces for multi-stakeholder governance and technical advice.

Table 15: Fund information on technical management (Source: author)

4.3.8 Safeguards and transparency policies are key elements for fund acceptance by the donors and the public. The creation of transparency rules or safeguards allows for greater clarity on the impacts on different socio-economic and environmental aspects, as well as on the operation of the funds. There are distinct types of transparency rules that funds must comply with, either as part of good practice adopted at the international level (as in the example of the Conservation Finance Alliance (CFA), see below, Box 2) or as part of countries' internal requirements. It should be remembered that all the funds analyzed receive public resources. Therefore, they must also comply with the regulations applicable to the management of these resources. As the funds may need to comply with national and international transparency standards, a process of harmonization between these rules should be generated.

In any case, it is important to keep in mind that, depending on the ecosystem service, there may be specific compliance rules, as is the case of socio-environmental safeguards, for REDD+ related projects.





Fund	Summary description
 AF	Initially there was a set of legal regulations and financial management safeguards applied by the BNDES, which were comprehensive, but did not have an organized document in the style of the REDD+ safeguards. This was addressed after its creation. In 2012, socio-environmental safeguards were established and, in 2015, safeguards were implemented in the following topics: a) legal compliance; b) recognition and guarantee of rights; c) distribution of benefits; d) economic sustainability and poverty reduction; conservation and environmental recovery; e) participation; f) monitoring and transparency; g) governance (see http://www.fundoAmazonia.gov.br/pt/monitoramento-e-avaliacao/salvaguadas-de-redd/).
 FPN	FPN initially had no safeguards. The CFA Trust Fund Management Standards apply to fund management. The Amazon Vision project employs a Comprehensive Socio-environmental Risk Management system, worked jointly with the World Food and Agriculture Organization (FAO), where risks and mitigation activities are identified. The areas in which VA program component risks were identified are traditional knowledge, territorial rights, distribution of benefits, transparency and access to information, participation, free prior and informed consent, territorial and environmental planning, forest governance, strengthening capacities, biodiversity and ecosystem services, sectoral planning, emissions displacement and accountability (FAO, 2020).
 FIAS	Since its creation, FIAS has had a Code of Ethics that details the institution's principles of action and applies CFA standards. The REM project has a risk system and seven national safeguards, according to the REDD+ scheme: a) complementarity of national forest programs with international agreements; b) transparency and effectiveness of national forest governance structures; c) respect for the knowledge and rights of indigenous peoples and members of local communities; d) full and effective participation of stakeholders, in particular that of indigenous peoples and local communities; e) compatibility of measures with the conservation of natural forests and biological diversity; f) adoption of measures to address reversal risks; g) adoption of measures to reduce emissions displacement (Ministry of Environment of Ecuador, 2019).
 FONAFIFO	FONAFIFO, as a fund managed by a public entity, complies from the outset with the established regulation for the administration of public funds, as well as a series of national laws related the use of public resources. The REDD+ project applies the same safeguards mentioned in REM Ecuador.

Table 16: Fund information on transparency and safeguards (Source: author)

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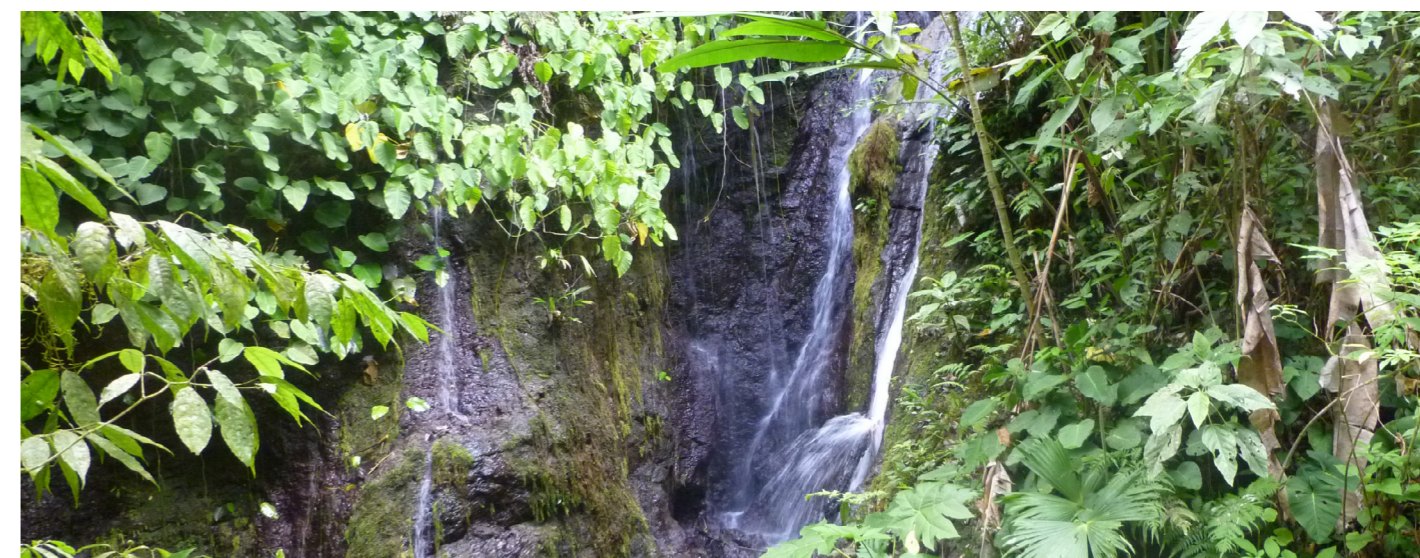


Table 2: Practice standards for conservation finance

In 2019, the Conservation Finance Alliance (CFA) produced a revision of its practice standards for conservation funds, generating in 2020 a new guide. The objective of these standards was to become a support tool in the design, management, monitoring and evaluation of conservation funds. It also allows funds to document and improve their operations. It allows donors to understand the capacity of the funds and the impacts they can have during their distinct phases of maturity. For funds in the process of creation, they serve as a guide for effective creation and consolidation.

The areas covered by the CFA standards are:

Area	Number of standards
Governance	10
Institutional effectiveness	8
Programs	12
Management	12
Asset management	10
Mobilization of resources	9
Risk management and safeguards	7
Total	68

Table 17: CFA Standards Areas (Source: CFA (2020))

In this link you can find the document with the different standards: <https://www.conservationfinancealliance.org/s/Practice-Standards-CTF-2020-ENG.pdf>

In this link it is possible to find an Excel tool for the application of the 68 standards in the seven areas mentioned above: <https://www.conservationfinancealliance.org/s/Annex-2-Assessing-CTF-Use-of-the-PS-Tool-download.xlsx>

4.3.9 A responsible entity with a recognized history in fiduciary management can be chosen or a new structure can be created. In the fund creation phase, it must be analyzed whether it is better to hand over fiduciary management to a recognized and renowned entity or whether it is necessary to create a new entity responsible for fiduciary management to achieve the objectives. Pay-for-performance funds (particularly payments for emission reductions) were included within existing and new banks, NGOs, or international cooperation agencies.





Fund	Summary description
 AF	The fiduciary management of the Amazon Fund is done by BNDES, which was created 70 years ago, and is created within the structures of BNDES, which administers the resources and does follow-up and monitoring.
 FPN	FPN has been created as a competent entity in the fiduciary management of environmental funds. It involved the participation of public and private entities, as a response to the difficulty of some state entities to receive and implement environmental performance resources. The Amazon Vision Fund/REM Colombia Program is managed by the FPN.
 FIAS	FIAS has been created as a private law entity whose objective is the fiduciary management of environmental funds, such as debt swap, biodiversity conservation and, currently, environmental performance funds. It is also an implementer of projects in the management of protected areas, climate change, biodiversity conservation, etc. The environmental performance fund REM Ecuador Program is managed by the FIAS Fund.
 FONAFIFO	FONAFIFO has been created as an organ of maximum deconcentration body under the Ministry of Environment and Energy, with instrumental legal status necessary for the fiduciary management of state resources. Simultaneously creates the capacity to capture resources for PES with the financing of forests and forestry plantations.

Table 18: Fund information on the fund structure (Source: author)

4.3.10 The legal figure of the entity managing the fund must be in accordance with the regulations and the context of each country.

In the case of opting for a new structure, in the creation phase, it is necessary to define the legal form, framework of interests and legal framework. There is not only one legal form to establish the funds. The legal figures found are public entity, private (non-profit) entity, mixed entity, decentralized public entity and, in some cases, as part of existing State structures. It is observed that the context is specific to each country, as well as the background in the management of programs and projects of different entities, and this context defines the decision on the legal figure to be chosen. In addition, the difficulty in receiving resources from some public entities has helped to guide the selection of the legal figure, opting for a new one.





Fund	Summary description
 AF	It does not have its own legal entity. FA acts through BNDES for all disbursement operations and project evaluation.
 FPN	It is registered as a Foundation (non-profit entity). It operates as a mixed entity. It is also recognized as a decentralized public entity, which allows it to work in the provision of "public services" when there are no State entities that can do so and to sign agreements with public entities. In the case of the REM VA project, it is the FPN that carries out all contracting processes.
 FIAS	It is a private law entity with its own legal status, non-profit, governed and subject to the provisions of the Ecuadorian Civil Code, with nationwide action.
 FONAFIFO	It is a maximum deconcentration body under the Ministry of Environment and Energy. It is part of the State Forestry Administration.

Table 19: Fund information on legal status (Source: author)

4.3.11 The fund's organizational chart must have a responsible directorate for financial management.

To ensure the proper management of the resources received, sub-directorates or coordinating offices are created to manage financial, administrative and legal matters. In some cases, an operational sub-directorate already exists. These sub-directorates report directly to the Fund's management and have a close relationship with the technical bodies, to achieve a complete evaluation between activity reports, expenditure reports and compliance reports. In this way, an identification of the correspondence between each of these reports is achieved.





Fund	Summary description
 AF	Financial and legal coordination is the responsibility of the governance structures created within the BNDES. In particular, the legal area and the finance area are involved. The balance sheets analyzed show not only the budget execution, but also the interrelation with the objectives of each project.
 FPN	It has a financial coordination, budget, accounting and treasury teams. It also has a legal coordination (contracts and legal advice) and an operations coordination, which has an administration, procurement, document management, and occupational health and safety group. The VA project has a financial committee specialized in investment management and planning. FPN participates in this committee.
 FIAS	It has a legal counsel and an administrative and financial management composed of administrative and human resources management, accounting and treasury management. It has an internal audit, as a core part of the transparent management of resources.
 FONAFIFO	It has a legal affairs department, comprising the contract formalization department and the legal department. It also has an administrative-financial department, composed of the financial-accounting department (treasury, accounting and budget) and the administrative department (general services, human resources, occupational health and archives).

Table 20: Fund information on organization chart (Source: author)

4.3.12 The external audit is part of the financial monitoring and evaluation system of the funds.

The funds include in their follow-up and monitoring system an external audit to control the application of funds. Follow-up and monitoring of the fund by external entities is vital to guarantee impartiality in the financial management of resources. Audits can be performed by contracted private organizations or by different state control entities (comptroller's or prosecutors), bearing in mind that most of the funds manage public resources provided by national and foreign governments for their implementation. It is important that the financial results be analyzed together with the results of project activities and the impact of the fund, so that means (financial resources) and ends (project or fund objectives) coincide.





Fund	Summary description
 AF	BNDES has had a follow-up and monitoring system in place since its design phase, including external audits, the latter with the fund's operating resources. These independent audits verify the BNDES' accounting, as well as compliance with COFA guidelines, directives and criteria in the operation of the fund and the existence of physical evidence of project execution.
 FPN	The monitoring system has a firm that audits the management of the fund annually and changes every three years. Each project, contracts an external financial audit, independently. The more complex projects are audited annually, and the simpler ones (less than 1 million USD and less than two years) undergo a final audit. In addition, the Fund, as administrator of public resources, is subject to the control of the Comptroller General of the Republic. In addition, FPN's structure has a specific internal control and follow-up position that monitors all observations and recommendations made by the different audits to improve the Fund's management standards.
 FIAS	FIAS has a Code of Ethics which specifies the standards of conduct for internal auditing, with the objective of promoting an ethical culture in the organization's internal auditing. The Internal Auditor is responsible for "performing subsequent internal control of FIAS administration, without intervening in the decisions of the Board of Directors and recommending adjustments to the administrative and financial management of FIAS operations". FIAS also has external audits of the administrative management of its fund portfolio.
 FONAFIFO	On the financial side, FONAFIFO has annual audits, in addition to the supervision of the responsible state entities (Ministry of Finance, Comptroller General of the Republic, Ministry of National Planning and Economic Policy, among others).

Table 21: Fund information on financial audits (Source: author)



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4.3.13 External auditing is also included in the funds' monitoring and results / impact evaluation system. The funds include in their follow-up, monitoring and evaluation system the review of results by external entities. The fund must have external audits to evaluate its results (impact), as well as internal mechanisms to verify compliance with the objectives of the projects financed. As in the financial follow-up and monitoring system, when managing public resources, different state entities may audit the results of the fund and its projects, the funds should include an evaluation of the impact of the execution of their resources on social, economic and environmental variables.





Fund	Summary description
 AF	<p>The Ministry of Environment is responsible for calculating the effective reduction in carbon emissions from avoided deforestation in the Amazon, based on data from the National Institute for Space Research (INPE). The CTFA, before it was extinguished, had the function of certifying avoided emissions, see chart on page 99. BNDES annually contracts external auditing services to verify the correct application of funds, monitoring reports and follow-up of the fund. Those independent audits verify the BNDES' accounting, as well as compliance with COFA guidelines, directives and criteria in the operation of the fund and the existence of physical evidence of project execution. Project implementers provide feedback on project implementation. The BNDES team visits the projects during execution. At the end of the project, an evaluation report prepared by the organization responsible for its execution is delivered, and BNDES produces a summary evaluation of each project and publishes it on its website and in the Amazon Fund's annual activity report. Independent ex-post effectiveness evaluations are conducted with support from GIZ.</p>
 FPN	<p>The follow-up of the financed projects is done from the database where the follow-up indicators are obtained. In addition, there are instances of follow-up to the agreements, where compliance with the planning and management instruments defined in the projects' operating manuals is verified.</p> <p>Follow-up of the fund's impact: the process of learning systematization and impact is currently underway.</p> <p>There is an annual internal control report, which consists of a section with general information on the annual overview, the execution conducted, strengthening processes that occurred during the year, quantitative and qualitative summary of the audits received during the year, qualitative aspects identified in the processes, recommendations on the processes.</p>
 FIAS	<p>The FIAS Monitoring and Evaluation System is under development. FIAS in 2021 will establish a first phase of implementation of its Monitoring, Follow-up and Evaluation Plan through a pilot to design the Monitoring and Evaluation System. In a second phase, the other interventions managed by FIAS will be integrated into this system. At the moment, files have been designed by fund/program/project for follow-up purposes. Despite the above, each year there is an audit on each of the projects, as well as on FIAS. The results are published on the fund's web page.</p>
 FONAFIFO	<p>FONAFIFO, as a public entity, is subject to all monitoring and control instruments established by the central government, such as the approval of its budget and its execution. Compliance with annual programmed actions (annual operating plans, management progress reports), requested by the Ministry of the Environment and Energy, the Ministry of National Planning and Economic Policy, and the Ministry of Finance, among others, is also reported.</p> <p>As a transparency practice, the results obtained in the previous year are presented at the beginning of the year⁹.</p>

Table 22: Fund information on technical audits (Source: author)

⁹ Link is attached: <https://www.fonafffo.go.cr/es/documentos/presentaciones/>

5.

Lessons learned for the operation phase of environmental performance funds

5.1 Introduction

Environmental funds have a history of more than 20 years in the Latin American and Caribbean region. The operation of these funds contemplates a series of key elements, as presented by Flynn (2011), based on the review of 750 funds worldwide.

- ① Objectives
- ② Capitalization
- ③ Governance
- ④ Fiduciary Management
- ⑤ Implementation of agreements or arrangements
- ⑥ Monitoring, reporting and verification

The four environmental performance funds vary in their operation depending on the decisions made during the creation phase. As each has a different structure and operating procedures, it was not always possible to arrive at common lessons learned among the four funds. In addition, there were non-homogeneous lessons learned with different options, such as the entity responsible for fiduciary management, implementation agreements, etc.

This chapter presents lessons learned for the operation phase, obtained from the analysis of the four funds covered in this guide (FA, FPN, FIAS, FONAFIFO). The source of information in the summary tables comes from four fact sheets, developed jointly with each of the funds (GIZ, 2021a, 2021b, 2021c and 2021d). If there is an additional source, it is mentioned directly in the text.

5.2

Compliance of objectives in the fund's operating phase

The fund's objectives are the basis for its operation. The previous chapter mentioned the importance of the relationship of the funds with national and international policies and legislation, and that the thematic orientation of the objectives generates the basis for having or not capitalization opportunities (donor interest) and addressing the other elements identified by Flynn (2011). This subchapter presents lessons learned related to the "Fund Objectives" found in the analysis of the operation of the four funds in this guide:

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5.2.1 The objectives define the type of projects that can be managed by the fund during its operation. In the creation phase, the fund's objectives are defined, which has implications for financing management during operation. In the fund's operation phase, it is important to ensure that the activities and projects developed by the fund allow it to advance in achieving the proposed objectives. The selection of projects and calls for proposals must be aligned with the fund's objectives, vision and mission. This ensures that the financed projects contribute to the achievement of the fund's objectives and produce the desired impact.





Fund	Summary description
 AF	AF has supported projects in the areas of forest recovery, improvement of productive systems, recovery of deforested areas, and forest management. It is also active in other topics, such as strengthening environmental control, monitoring and enforcement. Thus, the projects that have been financed help from different perspectives to reduce deforestation and greenhouse gas emissions, which is the fund's main objective.
 FPN	Its objective is focused on the conservation of biodiversity and ecosystem services in natural areas, in its broad sense of interpretation. This has allowed, during its operation, to raise funds from a wide variety of thematic projects. Since its creation, it seeks to support the financial sustainability of the national system of protected areas. The Fund has developed projects in REDD+, water PES, generation of conservation landscapes, ecological restoration, forests and climate change with Afro-Colombian communities, and financing projects in key biodiversity areas.
 FIAS	As the financial mechanism for environmental management in Ecuador, it has allowed working with a wide variety of issues, such as Socio Bosque, Amazon without fires, Invasive Species of the Galapagos, the REM Ecuador Program and the Protected Areas Fund. The operation of the fund with this variety of projects has led to compliance of the fund's objectives.
 FONAFIFO	FONAFIFO has a specific objective, and its operation shows that the type of projects it finances are oriented solely to the objective of maintaining and recovering the country's forest cover. The main activities focus on payments for conservation, reforestation and forestry credits. From the beginning, payment for results has been one of the fund's lines of work, especially with PES schemes.

Table 23: Fund information on types of projects (Source: author)

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5.2.2 Multi-objective funds organize their operations with specific programs and projects for each issue. Funds with multiple objectives have an organization that allows each objective or service to be worked on individually, that is, through specific projects and programs. On the other hand, funds with a specific objective do not have this way of structuring the operation of the fund and what they generate is support for different initiatives in the same issue.





Fund	Summary description
 FPN	<p>The structure of the fund is managed through programs and projects according to the objective sought, which depends on the donor's interest, environmental performance or the ecosystem service to be achieved, among others.</p> <p>With the Strategic Plan, the programmatic structure follows a process structure. This implies a major institutional change.</p>
 FIAS	
 AF	<p>The fund structure is oriented to the sole management of REDD+ resources (AF) and forest conservation and restoration (FONAFIFO). Resources from different donors are managed equally. In the case of the AF, there are public calls for proposals and guiding criteria for specific topics (see http://www.fundoAmazonia.gov.br/pt/como-apresentar-projetos/criterios-orientadores/)</p>
 FONAFIFO	

Table 24: Fund information on program and project operation (Source: author)

5.2.3 Adjustments should be made to the operation of the fund to allow for the inclusion of vulnerable groups (indigenous and Afro-American communities, women's organizations and small producers).

The communities have vast tracts of forest within their territories. In the different funds, it has been necessary to adjust the operation to the generation of specific procedures and guidelines that recognize the characteristics of these population groups. The same occurs with the decision-making processes within the funds, which try to identify clear processes for the approval of the development of projects on their lands. Likewise, the inclusion of small producers has been necessary, given the difficulty they have in complying with some requirements, such as the property titles of the areas where the projects will be developed. Thus, the financing request analysis processes were adapted to include these groups.





Fund	Summary description
 AF	COFA, within its guidelines, established guiding criteria for the inclusion of direct benefits to traditional communities, settlements and family farmers. In the minimum project conditions, a prior consent document must be submitted if collaborating with indigenous communities. Another strategy has been the use of binding projects, allowing large or medium-sized organizations to provide the necessary technical assistance to beneficiaries who do not yet have the capacity to implement a project on their own.
 FPN	The REM VA project includes a specific pillar for the development of activities with indigenous communities. It also has an agro-environmental pillar for collaborating with agricultural producers (Mancala Consultores, 2020)
 FIAS	In the case of the Socio Bosque Program, a series of special conditions are established so that communal property areas and indigenous peoples and nationalities can participate in receiving the incentive, which corresponds to a payment for forest conservation for 20 years.
 FONAFIFO	Indigenous Territories have been relevant since the creation of the PES Program. In 2016, an adjustment was made to the established regulation to incorporate key aspects regarding the requirements that indigenous territories must present when applying to the PES Program. These include topics related to assembly agreements, accountability on the destination of resources and other general issues on plans, preparation of the technical study, the possibility of developing traditional activities in the area under payment and limits on the areas to be submitted, among others.

Table 25: Fund information on inclusion of vulnerable groups (Source: author)

5.3 Financial sustainability for fund capitalization

Financial sustainability is important to keep the funds in operation. The capitalization element of the fund in the operation phase presents challenges to fund managers in terms of fiduciary management, innovation in the search for resources and donors to capitalize the fund. This subchapter presents lessons learned on "capitalization" elements found in the analysis of the operation of the four funds in this guide.

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5.3.1 Retroactive payment vs. advance payment of resources. Because of their approach, environmental performance funds are usually retroactive, i.e., they are paid for a service already rendered. In some cases, to reduce transaction costs, the figure of payment in advance has been proposed, i.e., the payment of several installments, covering several periods, to cover payments for actions conducted on the properties to achieve the desired levels of environmental performance. This figure also implies the definition of frequency of the payments, so that an annual payment is one of the most usual forms. Quarterly or monthly payments would tend to generate the proposal of payments in advance, to avoid the costs associated with the transfer of resources.





Fund	Summary description
 AF	The AF, being a pure environmental performance fund, receives its funds retroactively based on comparative forest cover conservation performance in the Amazon. The performance values of avoided emissions reduction in tons of carbon result from the difference between the historical average rate of deforestation - considering periods of ten years since these decades are updated every five years - and the deforested area measured in the year in question.
  FPN FIAS	FPN is a mixed fund with advance payments in most of its projects and programs. The Amazon Vision Program - REM (FPN) and REM Program (FIAS) have retroactive payments on the comparative performance of forest cover conservation (in the Amazon, for the Colombian case) in the previous 10 years.
 FONAFIFO	FONAFIFO is an environmental performance fund that promotes the conservation and restoration of forest cover on privately owned land. The government, through the fund, makes annual payments, making the first disbursement upon signing the respective contract. Subsequent payments are issued after verification of compliance with technical and administrative aspects.

Table 26: Fund information on the form of pay-for-performance (Source: author)

5.3.2 Diversification of income sources increases the financial sustainability of the fund: Diversification of donors/income sources is considered by all four funds as a good practice be able to broaden the project portfolio, expand the geographic area of implementation and reduce the risk of running out of resources. To promote financial sustainability, the fund should focus on attracting both national and international resources. To this end, there are a variety of strategies, as shown in the table below.





Fund	Summary description
 AF	The Amazon Fund has two international public entities as donors: The Government of Norway (>94%) and the Government of Germany, through KfW (5%), and one national donor: Petrobras (<1%) ¹⁰ . No additional sources other than those mentioned above were found. The last payment was made in 2018. Since then, the Brazilian government has been waiting to define a new decision-making structure for the fund.
 FPN	It is financed by several sources: international cooperation (81%) and national resources (19%) ¹¹ . In the case of the REM-VA project, 100% of the resources come from the governments of the United Kingdom (43%), Germany (14%), and Norway (43%) ¹² .
 FIAS	FIAS manages a portfolio of programs and projects with financing from various sources: national resources (9%), German government (59%), Norway (5%), others (17.4%), France and Italy (0.6%), and NGOs (9%). Germany (27%) and Norway (73%) funded the REM program.
 FONAFIFO	FONAFIFO obtained its first resources from various state sources: it receives 3.5% of fuel tax revenues and 25% of water canon revenues. The fund has diversified its capitalization portfolio: resources from the Forest Carbon Cooperative Fund, the GEF fund, conventions, agreements, contracts for the purchase and sale of environmental services with private and public companies, and the development of mechanisms for raising funds, such as debit card placement, among others.

Table 27: Fund information on diversification of pay-for-performance sources (Source: author)

¹⁰ Corresponds to the amounts disbursed and received for the reduction of verified emissions, according to the FA's reports to the contributors up to 2021.

¹¹ Management report for 2020.

¹² Corresponds to the value of the share of payments made for emission reductions between 2013-2019, in a total value of 87.3 million dollars.

5.3.3 Climate financing is an important source of resources at the international level for environmental funds: Carbon topics and in particular payments for REDD+ results have become a source of resources for the different funds. The four funds have taken the opportunity of the new rules and new climate financing to strengthen their finances and include these resources as new sources of capitalization. In the future, the funds will have to adapt to new negotiations on mitigation and adaptation activities at the international level.





Fund	Summary description
 AF	The main source of financing for the AF is retroactive payments for deforestation reductions under REDD+, based on emission reductions in previous years.
 FPN	Included the REM VA project in its portfolio of managed projects in 2016.
 FIAS	The Ecuadorian government developed the REDD+ Action Plan between 2012 and 2016.
 FONAFIFO	In 2012, the first project for the sale of CO2 Emission Reduction Certificates in the regulated market with the World Bank, is signed. FONAFIFO has been coordinating the REDD+ strategy for more than 10 years. In 2020 signed a new contract with the World Bank's Carbon Fund and another one in 2021 with the Green Climate Fund, with payments for results. (See https://www.fonafifo.go.cr/es/servicios/programa-de-reduccion-de-emisiones/)

Table 28: Fund information on source of income for climate change mitigation performance (Source: author)

5.3.4 Creation or adjustment of policies for the generation of resources for the financing of projects: Since its creation, the FONAFIFO Fund has been financed by taxes or contributions. However, this form of fund capitalization is not yet seen in many countries. The funds can request the creation of new policies or the adjustment of existing policies to generate new taxes or contributions, such as a tax on carbon emissions or on water charges for the protection of micro-watersheds. These regulatory developments require a series of studies that show the importance of these norms, their fiscal impact on the agents subject to payment, as well as the resources expected to be collected and the impact they are expected to have on the natural resource.




Fund	Summary description
 AF	The only sources of funding are the resources from avoided deforestation payments. It does not contemplate additional sources.
 FPN	In addition to the resources generated for emission reduction payments (REM VA), a tax on carbon emissions from fuels was generated in 2016. Of this revenue, 10% will be used to finance payment schemes for environmental services related to forest conservation, restoration and reforestation of degraded areas. Thus, there is a new source of financing. In the case of water PES schemes, the resources used by FPN come from resources that the Nation sends to the governors' offices through the General Participation System and from a willingness to allocate these resources for payment schemes.
 FONAFIFO	Since its inception, the program has been financed with national resources, 3.5% of fuel tax revenues and 25% of water canon revenues.

Table 29: Fund information on source of resources with national taxes (Source: author)

5.3.5 Managing complementary resources for technical assistance:

Managing funds for complementary processes such as technical assistance, evaluations, creating an enabling environment for safeguards, gender, interculturality, etc., improves the quality and reduces operating costs of the fund. There are NGOs and international cooperation entities interested in providing technical assistance to strengthen the capacities and efficiency/effectiveness of environmental performance funds (GEF, GIZ, TNC, CI, etc.).



Fund	Summary description
 AF	The BNDES receives technical assistance from GIZ for the management of the fund in the framework of which monitoring, and evaluation efforts have been conducted, and topics such as gender, safeguards, among others, have been addressed.
 FONAFIFO	The Costa Rican government has managed GEF resources and made a loan with the World Bank to strengthen the FONAFIFO Fund. This has improved the fund's operation and monitoring process, addressing gender measures and indigenous territories, among others.

Table 30: Fund information on supplementary resources to cover fund expenses (technical assistance) (Source: author)





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5.4 Governance processes in the operation of the Fund

An environmental performance fund operates an institutional framework with a variety of public, private and international cooperation stakeholders, for which it has governance spaces that allow the participation of these stakeholders in the technical decision-making spaces, as well as in the follow-up and strategic definition. This subchapter presents lessons learned on "governance" elements found in the analysis of the operation of the four funds in this guide.

5.4.1 Even with governance spaces, the fund may suffer from unilateral political decisions: The participation of diverse stakeholders, including public and private, in the governance and decision-making spaces generates a greater sense of relevance and the alignment of objectives with state policies can reduce the risks of the fund's operation in the face of political decisions. Even so, they may, after years of operation, suffer from adverse political decisions that affect the fund's operation, as was the case of the FAN and AF funds. The sense of belonging, the interest of beneficiaries and donors, and the support of stakeholders in governance spaces are considered key elements in reducing this risk.

Fund	Summary description
 AF	Decree No. 9,759, dated April 11, 2019, extinguished the COFA and CTFA Committee. As a result of that process, no new disbursements have been received from donors since 2018, pending the definition of new decision-making and technical support bodies.
 FPN	There have been no changes in its organizational or operational structure that affect its functioning. There have been changes in terms of follow-up and monitoring, impact measurement, as well as the management of specific issues such as intellectual property. The governance space and interest of the beneficiaries is important for the stability of the fund.



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 <p>FIAS</p>	<p>With Executive Decree No. 998 of April 10, 2016, it was resolved to dissolve the FAN that had been created on January 18, 1996. It took until 2018 for FIAS to be created based on FAN, an entity that inherits the protected areas projects, control of Invasive Species in Galapagos, Socio Bosque Program, and assumes new commitments, such as the REM fund. Interest in the fund, both from donors and beneficiaries, played an significant role in the creation of FIAS based on FAN.</p>
 <p>FONAFIFO</p>	<p>FONAFIFO has not undergone any changes due to political influence. It remains under the Ministry of Environment and Energy and has not undergone structural changes since its creation. The interest of the owners is a key factor in the fund's stability.</p>

Table 31: Fund information on political advocacy in the fund (Source: author)

5.4.2 The transparency of the decision-making bodies is enhanced if they meet frequently, and minutes are published. The governance bodies responsible for decision-making should hold regular meetings and keep minutes of their meetings to promote transparency in decision-making on fund management. In some of the funds analyzed, the minutes of meetings are available for public consultation, generating greater transparency in relation to decision-making processes.




Fund	Summary description
 <p>AF</p>	<p>COFA met twice a year on a regular basis and could hold extraordinary meetings. In the early years it met as often as three to four times a year. The minutes of its meetings are available on the website.</p>
 <p>FPN</p>	<p>The Founders' Assembly meets once a year, during the first four months of the year. The Board of Directors meets quarterly. The Steering Committee meets monthly. Minutes are not available on its website.</p>
 <p>FONAFIFO</p>	<p>FONAFIFO's Board of Directors meets at least 10 times a year, where decisions on resource and project management are made. Board's minutes are available on their website.</p>

Table 32: Fund information on committee transparency (Source: author)



5.4.3 Organization charts for the definition of responsibilities. The creation of clear descriptions of each of the positions within the organization is essential for defining management responsibilities and knowing to whom they report. These functions can be represented by organizational charts that guide the identification of lines of supervision and management at several levels of the fund, as well as the distinct aspects managed by each one. In the four cases analyzed, all had organizational charts showing these functions and reporting lines.

FONAFIFO's organization chart is shown below as an example.

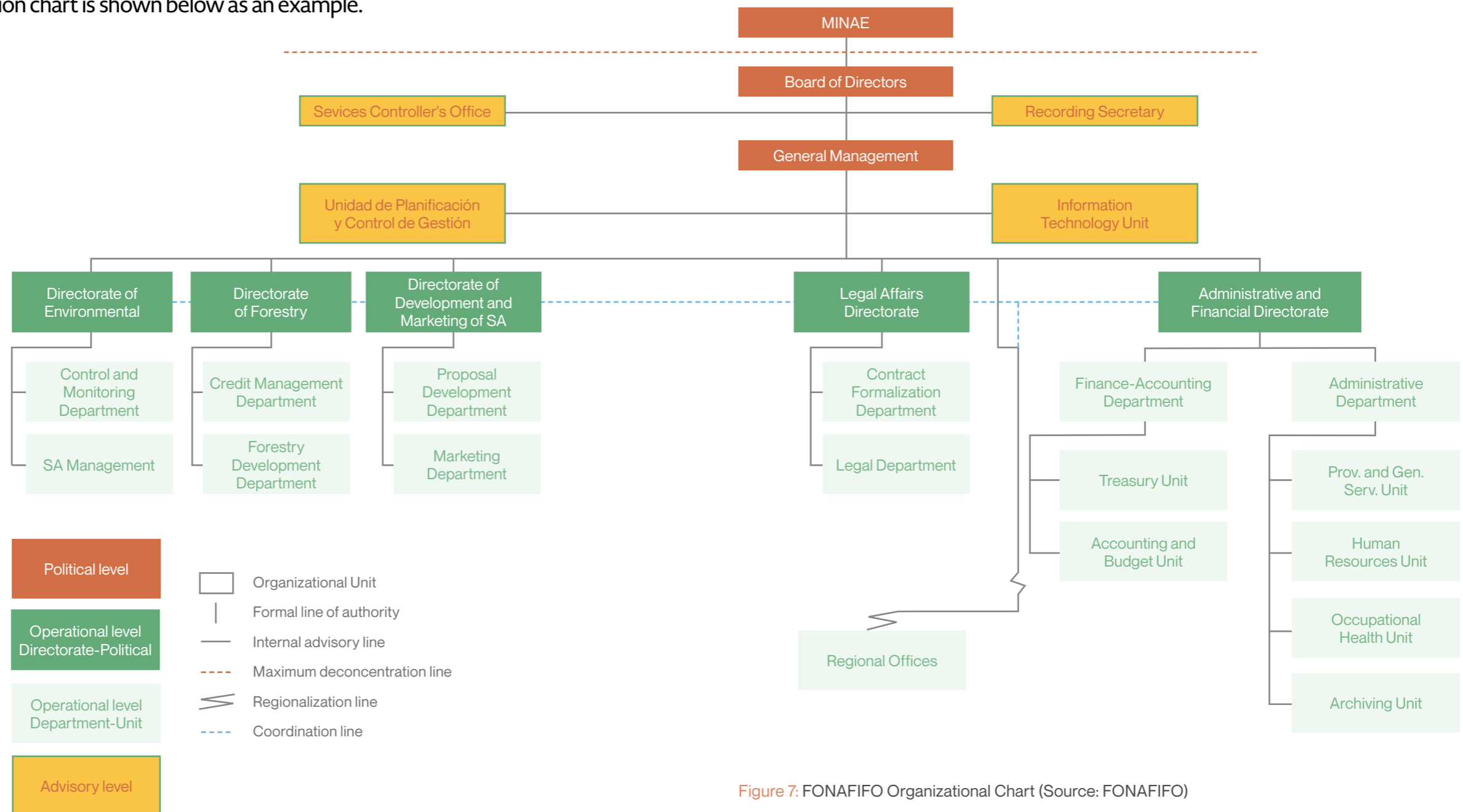




Figure 7: FONAFIFO Organizational Chart (Source: FONAFIFO)

5.4.4 There must be leadership profiles and broad knowledge of the people who participate in governance spaces. The people in the governance and decision-making body work in an inter-institutional framework with broad participation of other stakeholders, combined with decision-making in relation to resource management. Therefore, it is key that the people who participate in these decision-making bodies have the preparation to perform the function. They must have excellent interpersonal relations, with leadership figures, have experience in managing overly complex projects/programs, and have a results-oriented management.

The position of director or general coordinator is especially important. It serves as a bridge between the decision-making bodies and the technical bodies within the fund. It is also a focal point of contact with donors or financiers. It also plays a key role in the generation of long-term management strategies in the process of seeking resources and negotiating the different contracts, agreements and donations received by the fund.

The members of the decision-making bodies must be committed individuals (in some cases they are not remunerated), with time availability, willingness to generate internal policies and capacity to generate relationships with the other members to support the fund.

Fund	Summary description
 AF	In this link you can see COFA's formation http://www.fundoAmazonia.gov.br/pt/fundo-Amazonia/governanca/COFA/index.html
 FPN	In this link you can see the current formation of the Board of Directors. https://www.patrimonionatural.org.co/nosotros/junta-directiva/





 FIAS	In this link you can see the list of the people that form the Board of Directors. http://www.fias.org.ec/contenido/item/fias-organizacion
 FONAFIFO	In this link it is possible to see the formation of the Board of Directors. https://www.fonafifo.go.cr/es/conozcanos/junta-directiva-eo/

Table 33: Fund information of leader profiles (Source: author)

5.4.5 Safeguards application: The application of transparency rules or safeguards allows for greater clarity on the impacts on different socio-economic and environmental aspects, as well as the funds' execution of resources. There are diverse types of transparency rules that funds must comply with, either as part of good practice adopted at the international level (e.g., CFA), or as part of countries' internal requirements. It should be remembered that in all the funds analyzed public resources are received. Therefore, they must comply with the regulations applicable to the management of these resources. As the funds may need to comply with national and international transparency standards, a process of harmonization between such rules should be generated.

In any case, it is important to keep in mind that, depending on the ecosystem service, there may be specific compliance rules (as is the case of socio-environmental safeguards) for REDD+ related projects.

The projects executed by the funds must have sufficient time for the design and implement these safeguards. As far as possible, they should be incorporated from the time of project formulation in order to validate them with the fund.







Fund	Summary description
 AF	Initially there were no safeguards, but there was a set of legal regulations and financial management safeguards applied by the BNDES, which were comprehensive, but did not have an organized document in the style of the REDD+ safeguards. However, they were treated after their creation. In 2012, socio-environmental safeguards were established. In 2015, socio-environmental safeguards were established in the following topics: a) legal compliance; b) recognition and guarantee of rights; c) distribution of benefits; d) economic sustainability and poverty reduction; conservation and environmental recovery; e) participation; f) monitoring and transparency; g) governance.
 FPN	CFA's Trust Fund Management Standards. The Amazon Vision project employs a Comprehensive Socio-environmental Risk Management system, where risks and mitigation activities are identified. The areas in which the component risks of the VA program are identified are traditional knowledge, territorial rights, distribution of benefits, transparency and access to information, participation, free prior and informed consent, territorial and environmental planning, forest governance, strengthening capacities, biodiversity and ecosystem services, sectoral planning, emissions displacement and accountability.
 FIAS	FIAS has a Code of Ethics that details the institution's principles of action and applies CFA standards. For the REM Program, there is a system with seven national safeguards: a) complementarity of national forest programs with international agreements; b) transparency and effectiveness of national forest governance structures; c) respect for the knowledge and rights of indigenous peoples and members of local communities; d) full and effective participation of stakeholders, in particular that of indigenous peoples and local communities; e) compatibility of measures with the conservation of natural forests and biological diversity; f) adoption of measures to address reversal risks; g) adoption of measures to reduce emissions displacement.
 FONAFIFO	Compliance with the standard established for the administration of public funds, as well as with the national legislation relevant to the use of public resources. For the REDD+ project applies the same safeguards mentioned in the REM Ecuador.

Table 34: Fund information on safeguards implementation (Source: author)

5.5 Good Fiduciary Management

The key role of environmental performance funds is the mobilization and management of funds from the donor interested in environmental performance to the service providers. For this reason, good financial management is required, with accounting and administrative procedures that allow traceability and transparency in the management of funds. This subchapter presents lessons learned on "fiduciary management" elements found in the analysis of the operation of the four funds in this guide:

5.5.1 Funds can have a wide scope of roles and topics. The key role of an environmental performance fund is to mobilize resources, facilitating the transfer of resources from a stakeholder interested in an ecosystem service or good environmental practice to a provider offering the service. Some funds, such as FPN and FIAS, have expanded this role to include the implementation of environmental projects in a broader sense, taking advantage of the administrative and financial capacity and technical quality to implement small and medium-sized projects.

Fund	Summary description
 AF	The Amazon Fund mobilizes funds, mainly from the German and Norwegian governments to organizations that support forest conservation as a strategy to reduce carbon emissions. Enters into contracts with implementing organizations
 FPN	The Natural Heritage Fund began as a fund aimed at mobilizing funds for the conservation of Colombia's natural areas and, over time, expanded its portfolio to the implementation of projects with a broad environmental scope, such as watershed management, environmental management, among others. The FPN manages the REM program, a fund that mobilizes resources from the governments of Norway and Germany for environmental performance in terms of reducing carbon emissions for VA.








 FIAS	FIAS began as the FAN Fund (Fondo Ambiental Nacional) with the mobilization of debt swap resources for the management of protected areas as its main area of intervention, however, also assuming the role of project implementer for national and international NGOs (CI, TNC, Ecofondo, etc.). The FIAS Fund combines this role of mobilizer, administrator and implementer of projects due to its good administrative structure and technical quality. FIAS manages the REM program, a fund that mobilizes resources for environmental performance in carbon emission reduction from the governments of Norway and Germany and implements part of the fund directly.
 FONAFIFO	FONAFIFO mobilizes funds from donors (public, private, NGOs, international cooperation, etc.) for forest conservation and restoration measures on private lands. Provides technical assistance and implements projects aimed to that purpose. However, it has not assumed the role of on-farm implementer. This task falls on the landowners who receive the funds and implement the measures in the field with the support of the Forest Regent.

Table 35: Fund information on their role (Source: author)

5.5.2 The operating cost calculations of the funds must include technical operating expenses. The operating costs of the four funds cannot be compared, as they are calculated by adding operating cost items according to the structure of each fund. The literature reports an average operating cost of around 20% for the environmental funds, including administrative and technical staff costs, travel costs, audits, evaluations and office expenses, among others.

Fund	Summary description
 AF	According to Art. 1 of the creation decree in 2008, the AF uses only 3% of the amount donated to cover operational and other costs. In general, the operating costs of these funds are between 10% to 15% or even higher. BNDES contributes with its own resources to cover human resources, office and material expenses.
 FPN	Approximately 2.7 billion pesos annually.
 FIAS	FIAS reports using 2% of the total amount managed for administrative expenses, which includes human capital, operating expenses, investments, follow-up and development of programs and projects. This amount does not include costs related to the technical operation of the fund, which are charged to each program and project separately.


 FONAFIFO	FONAFIFO operates with 21% of the income it receives, which covers staff salaries (both technical and administrative), building rental, and general operating expenses (including travel expenses for technical personnel, among others).
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Table 36: Fund information on operating costs (Source: author)

5.5.3 The definition of human resources necessary to manage the fund depends on the processes to be addressed in the operation of the fund. The number of staff required to manage the fund depends on the processes undertaken by the fund and the level of delegation/out-sourcing to third parties. FONAFIFO arrives with staff at the farms, while AF staff visit the fund's beneficiary organizations and do not visit each farm where the program is implemented. The number of personnel mentioned by FIAS includes only the personnel responsible for fund administration, not including the technical staff responsible for program implementation.





Fund	Summary description
 AF	At the beginning of the fund in 2009 there were eight staff members; in 2010 there were 27. (Gómez García et al, 2019).
 FPN	The fund's structure is variable and depends on its own needs. There is a fixed structure that responds to the main processes that the fund manages (approximately 35 people) with the entry and exit of projects, the structure has reached an expansion of up to 120 people, and can later contract to 60, depending on the number of demands that active projects have
 FIAS	30 officials at FIAS.
 FONAFIFO	FONAFIFO has 105 highly qualified officials responsible for execution the institution's two substantive programs: the Payment for Environmental Services Program and the Forestry Credit Program. It is also the focal point of the REDD+ Strategy.

Table 37: Fund information on human resources (Source: author)

5.5.4 The implementation of measures at the farm level requires highly detailed administrative processes accompanied by training and technical assistance. Having internal policies and processes aimed at the robust and solvent application of resources makes it difficult for the funds to reach landowners or small organizations, due to their weak financial and accounting management capacity. The importance of reaching these beneficiaries has led the funds to seek alternative strategies to reach them, such as making requirements more flexible, working with intermediary organizations, generating capacity building processes or having support processes.





Fund	Summary description
 AF	BNDES, as a bank with experience in loan management (conservative and risk-averse), had internal policies and processes aimed at the robust and solvent application of resources. This made the application difficult for organizations with limited financial and accounting management capacity, such as local governments and civil society entities operating in the Amazon region. This led to a slow development of the portfolio of projects and payments in the first years of the fund's execution. As an alternative strategy, models with greater capillarity were sought and, in 2011, financing was started for binding projects, passing resources to partner institutions to support small cooperative organizations and associations. In addition, until 2012 COFA established a limit of 20 million reais for any project to be supported by the AF, which prevented the receipt of structuring projects, resulting in slow portfolio development.
 FPN	The very rigorous procedures in terms of procurement are incompatible with some realities in the territories, since there are no organizations with the administrative capacities required in some of the procedures that donors demand to be complied with. In addition, the transfer of resources to indigenous communities has a risk component in the justification of expenditures. In these cases, additional monitoring and control measures are implemented in the processes of transfer, review and continuity of these agreements. Furthermore, working on the capacities of local organizations helps maintain a network of allies in the territory that allows FPN to generate sustainable investment processes with these partners.
 FONAFIFO	Since its creation, it has focused on PES schemes for small and medium-sized producers. It has procedure manuals for the operation of the PES program. (See https://www.fonafifo.go.cr/es/documentos/manuales-del-pps/)

Table 38: Fund information on administrative complexity to receive resources for the fund (Source: author)

5.6 Implementation Arrangements

Environmental performance funds can have various implementation arrangements, from grants to address land use opportunity costs, to information and technical assistance-oriented incentives, to loans from the donor interested in environmental performance, among others. Implementation arrangements are ideally defined at the inception phase. However, they are often developed in detail during the operation of the fund. This subchapter presents lessons learned on "Implementation arrangements" elements found in the analysis of the operation of the four funds in this guide:

5.6.1 Implementation of measures in the field is conducted through implementation arrangements with other stakeholders. The implementation of projects in the field can be done through different modalities (contract with direct beneficiaries and regents, call for organizations, including binding organizations, contracting of consulting firms, etc.). In any case, the fund should have a legal structure in place that allows for implementation arrangements to be made through several types of contracts with diverse types of organizations, such as individuals (beneficiaries), legal entities, NGOs, community organizations, among others. It is also possible to consider including public-private partnerships in the implementation of projects in the field to meet the fund's objectives. In some cases, the possibility should be considered of State entities accessing resources directly, as in the case of resources for climate adaptation.

Fund	Summary description
 AF	Proposals may be submitted to the AF by public or private institutions, companies or NGOs that have legal status and are interested in execution a project and that sign a non-reimbursable partnership contract with the BNDES. Since 2012, agglutinating projects are financed, i.e., resources are passed on to partner entities to support projects of cooperatives, associations and small producers.





 <p>FPN</p>	 <p>FIAS</p>	<p>In the case of the REM fund, agreements can be reached with distinct types of executors and co-executors (public, private, private non-profit entities, NGOs, grassroots organizations, indigenous organizations, traditional authorities and their associations, mixed entities)</p>
 <p>FONAFIFO</p>	<p>Owners with properties that have a cadastral plan and property deed can access the PSA scheme, which manages the fund. The landowners are the implementers of the measures on their farms, with the technical support of the Forest Regent</p>	

Table 39: Fund information on implementation arrangements (Source: author)

5.6.2 Criteria for selecting implementers/beneficiaries include administrative/financial and technical aspects. In some cases, the fund itself may be the implementer of the actions developed by the beneficiaries in the field. In others, it is possible to generate calls for proposals or agreements with local entities so that, through them, the implementation of projects in the field can be executed. Under either of these two possibilities it is necessary to have clear access criteria, both for the beneficiaries and for the entities that serve as project implementers. The criteria should be public and widely disseminated and, as far as possible, a process of calls for proposals should be generated where different beneficiaries or different implementing partners can be evaluated.

Fund	Summary description
 <p>AF</p>	<p>The guidelines and criteria for project selection were developed in the first year of the Fund and approved by the COFA Committee in 2008 under the name: "Table of Guidelines and Criteria". It includes criteria, which have been changing over time, related to deforestation issues, coherence with REDD+ policies. Since then, they are approved and adapted every two years. They were last formulated in 2017 and 2018. The fund also seeks to involve a diversity of stakeholders and shared governance, so one of the selection criteria is the articulation between different stakeholders, public, private, third sector or communities with a shared governance structure. Another selection criterion is the generation of direct benefits and the involvement of traditional communities, settlements and family farmers. Relevance is also a selection criterion and is measured by its replicability and impact potential (e.g., R\$/hectare of protected or sustainably managed forest).</p>





 <p>FPN</p>	<p>It selects operators that must comply with legal qualification (verification of compliance with all legal requirements to make an agreement between institutions), administrative capacity (demonstrated by the processes of the institutions, available human resources, and references of administration of resources) similar to the one being applied. Cost-efficiency of the administration, accredited experience, and technical suitability of the administration are sought in the operators. For REM VA, an evaluation is made of legal, financial and procurement capacity. Declarations of conflict of interest, of not having received or accepted bribes, non-inclusion in lists of companies with sanctions.</p>
 <p>FONAFIFO</p>	<p>The criteria for selecting beneficiaries are established by law, as well as in ministerial resolutions issued for the operation of the PES program. Priority criteria are considered for the allocation of the resources of the Payment for Environmental Services Program aimed at favoring the participation of farm owners located in localities with a low social development index; small farms; the visibility of women farm owners is sought and their participation in the program is promoted; indigenous territories are important and priority stakeholders.</p>

Table 40: Fund information on criteria for defining implementation arrangements (Source: author)

5.6.3. Funds that manage high volumes of resources usually work with binding organizations or implementing organizations. Funds with a high volume of resources have implementing organizations or binding organizations that are responsible for implementing actions at the farm level.



Fund	Summary description
 <p>AF</p>	<p>The AF supports binding organizations that pass resources to other organizations. Despite the foregoing, they are responsible to the BNDES for the proper application of the resources provided.</p>
 <p>FONAFIFO</p>	<p>In the case of the Payment for Environmental Services Program, the implementing agent is the landowner, who is advised by the forestry regent. This may be a freelance professional or part of an NGO that provides the service to its clients.</p>

Table 41: Fund information about binding organizations / implementing agencies (Source: author)

5.6.4 Implementation arrangements with third parties have administrative/financial and technical support. The stakeholders that sign implementation agreements with the fund must have administrative/financial and technical support, particularly when small and medium-sized landowners are involved. This support may be offered by the fund's own staff, regents or technical assistants from partner organizations. The support should be paid for and included in the fund's costs, but also partly assumed by the fund and its team. In addition, this monitoring can support the follow-up and monitoring of the activities agreed with the fund.




Fund	Summary description
 AF	The BNDES team supports project implementers through field visits, performance reports, joint elaboration of the logical framework, virtual and on-site courses, among others. BNDES receives technical assistance from GIZ to provide support to the implementing entities. It is the implementing organizations that assume the technical/administrative assistance at the field level. In part, the implementing organizations themselves receive direct support from GIZ.
 FPN	The level of support provided by the fund's staff and external technical assistance agencies depends on how the program or project is structured. In the case of the REM project, an initial evaluation of administrative capacities is performed to determine if any specific aspect needs to be strengthened.
 FONAFIFO	All PES contracts must have an associated forestry regent as the technical responsible for the project. The regent is hired by the owner of the farm and his or her professional practice is supervised by the respective professional association, which in the case of Costa Rica is the Colegio de Ingenieros Agrónomos y Forestales (College of Agricultural and Forestry Engineers). To supervise management, there are forestry reGENCY regulations. The Fund's technicians supervise the owners and regents in the implementation of activities and conduct quality control.

Table 42: Fund information on technical assistance (Source: author)

5.6.5 Different call mechanisms can be used to apply for fund resources. Employing a mix of strategies to receive proposals for investment measures in ecosystems makes it possible to identify investment opportunities like call for proposals, direct delivery throughout the year, tenders, direct assistance with landowners, socialization meetings with stakeholders in the territory, governance spaces. This situation is also compatible with the diversity of fund users and their distinct levels of administrative, organizational and financial capacity.





Fund	Summary description
 AF	Proposers can submit projects in public calls for proposals or direct delivery, which are governed by the same criteria. Large organizations can apply for binding programs, taking on the role of implementer with several small organizations. Initially, no proposals were received, so in 2009 the AF conducted a round of presentations in all Amazonian states with the BNDES to raise awareness among stakeholders about this funding opportunity.
 FPN	It has been defined in each of the projects managed by FPN. Depending on the defined scope, closed mechanisms have been used, from a short invitation list to direct selection, international bidding, among other selection methods.
 FIAS	FIAS conducts calls for bids, open tenderings, tenders with terms of reference according to the object, fund or theme.
 FONAFIFO	Landowners can voluntarily apply to be part of the PES Program, under its different recognized activities (forest protection, forest management, reforestation, natural regeneration and agroforestry systems). FONAFIFO annually opens a call period to receive new applications for the PPSA.

Table 43: Fund information on convening mechanisms (Source: author)

5.7 Effective follow-up, monitoring and evaluation

Follow-up, monitoring and evaluation of funds is an essential element in the operation of environmental funds. Effective collection of administrative, financial and environmental information provides evidence of progress in achieving objectives, the level of expenditures and compliance with administrative/accounting processes in the management of the fund. For environmental performance funds, it is also necessary to have constant and effective monitoring that allows donors' contributions to be accounted for according to the environmental performance achieved. This subchapter presents lessons learned on follow-up, monitoring and evaluation found in the analysis of the operation of the four funds in this guide:

5.7.1 A good follow-up, monitoring and evaluation system is indispensable to know the compliance of objectives: To consider the results and impacts of environmental performance funds, there are follow-up, monitoring and evaluation systems that address all aspects of the results chain. A variety of mechanisms are used, such as annual reports for each of the projects, reports on compliance with the objectives of each project and the fund in general, as well as impact evaluations at the level of environmental performance and socioeconomic benefits for the final beneficiaries, among others.

It is desirable that the definition of follow-up and monitoring be made from the planning of the projects and that resources be allocated to evaluate the impact, after the intervention has ended. In the case of environmental issues, it is necessary to consider times between 2 and 5 years after the conclusion of the projects, to demonstrate their impact.








Fund	Summary description
 AF	Each project has a logical framework and a monitoring plan for products and services. The projects submit execution and financial reports to BNDES. BNDES visits the projects. At the end of the project, a report is generated between the implementer and BNDES with implementation results and lessons learned. There is also an ex-post effectiveness evaluation in collaboration with GIZ.
 FPN	The follow-up is done from the database where the indicators described above are obtained. In addition, there are instances of follow-up to the agreements, where compliance with the planning and management instruments defined in the projects' operating manuals for verification. The REM VA project has a logical framework with 22 variables for monitoring and reporting on financial execution.
 FIAS	Project monitoring is done through the governance bodies and Program and Project Management.
 FONAFIFO	There are records and systematization of all contracts in force since 1997 (more than 19,000 contracts). In addition, all mechanisms have been implemented for the operation of annual budgets, and financial, administrative, and technical audits are performed by both central government entities and external audits. FONAFIFO, as part of its transparency policy, renders annual accounts publicly to all stakeholders.

Table 44: Fund information on monitoring system (Source: author)


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5.7.2 The results of follow-up, monitoring and evaluation must be validated by external stakeholders: Procedures for follow-up and monitoring of the fund's results should be well defined. The fund must have external audits for evaluating its results (impact), as well as internal mechanisms to verify compliance with the objectives of the projects financed. As in the financial follow-up and monitoring system, when managing public resources, different state entities may audit the results of the fund and its projects and should include an evaluation of the fund's impact on social, economic and environmental variables (see also 5.3.12 and 6.7.6).

Fund	Summary description
 AF	The Ministry of Environment is responsible for calculating the effective reduction of carbon emissions from avoided deforestation. The Technical Committee (CTFA) has the function of analyzing, validating and certifying emissions from deforestation in the Amazon. The BNDES annually contracts external auditing services to verify the correct application of funds, monitoring reports and follow-up of the fund. Those independent audits verify the BNDES' accounting, as well as compliance with COFA guidelines, directives and criteria in the operation of the fund. Project implementers provide feedback on project implementation. The BNDES team visits the projects during execution. An evaluation report is submitted at the end of the project. GIZ contracts independent evaluators for ex-post evaluations.
 FPN	Follow-up of the financed projects is done from the database where the follow-up indicators are obtained. In addition, there are instances of follow-up to the agreements, where compliance with the planning and management instruments defined in the projects' operating manuals for verification. Follow-up of the fund's impact: the process of learning systematization and impact is currently underway. There is an annual internal control report, which is composed of a section with general information on the annual overview, the execution conducted, processes of strengthening that occurred during the year, quantitative and qualitative summary of the audits received during the year, qualitative aspects identified in the processes, recommendations on the processes.
 FIAS	The FIAS Monitoring and Evaluation System is under development. FIAS in 2021 will establish a first phase of implementation of its Monitoring, Follow-up and Evaluation Plan through a pilot to design the Monitoring and Evaluation System for the FEIG (in execution). In a second phase, the other interventions managed by FIAS will be integrated into this system. At the moment, files have been designed by fund/program/project for follow-up purposes.





FONAFIFO


FONAFIFO, as a public entity, is subject to all monitoring and control instruments established by the central government, such as the approval of its budget and its execution. Compliance with annual programmed actions (annual operating plans, management progress reports), requested by the Ministry of the Environment and Energy, the Ministry of National Planning and Economic Policy, and the Ministry of Finance, among others, is also reported.

The payment for environmental services program implemented by FONAFIFO has its own platform to manage the information of the participants of the payment for environmental services program, as well as other financial instruments developed by FONAFIFO. More information can be found on the website: <https://www.fonafifo.go.cr/es/>

As a transparency practice, at the beginning of the year a presentation is made with the results obtained in the previous year. Attached is the link: <https://www.fonafifo.go.cr/es/documentos/presentaciones/>

Table 45: Información de los fondos sobre evaluaciones y auditorias (Fuente: autor)

5.7.3 A good method of tracking, monitoring and evaluating environmental performance increases donor confidence. Tracking environmental performance allows measuring the fund's impact on different components of nature. Tracking is often difficult because of the costs associated with measurement, the contribution gap, other forces impacting environmental performance, among others. Even so, funds have designed methodologies to calculate performance in the form of satellite imagery, modeling and other qualitative methods. An excellent of monitoring and evaluation method allows for a higher level of donor confidence in environmental performance.

Fund	Summary description
 AF	The methodology for calculating the area of deforestation is based on information from the Brazilian Amazon Forest satellite monitoring project of the National Institute for Space Research (INPE). It is a mechanism based on past performance, using a ten-year average of deforestation (updated every 5 years) and comparison with an annual rate, multiplied by the amount of carbon in the biome. This indicator is used instead of performance indicators related to specific measures. Annual reports are also prepared. Information on supported projects is published on the AF website and effectiveness evaluations are conducted at the program and project level. (see for example the mid-term evaluation of the AF in https://rb.gy/zsjo3v , and the evaluation of the effectiveness of the Bolsa Floresta program at https://rb.gy/j9urlu)






 FPN	The Amazon Vision Fund is the only environmental performance fund within the FPN and is developed ex post and based on performance in terms of changes in the rate of deforestation in official forest assessments in Colombia. Colombia adopted in 2017 the Forest and Carbon Monitoring System to monitor deforestation, monitor natural forest biomass and causes and agents of deforestation. No specific environmental performance measurements are made for each of the measures implemented.
 FIAS	The REM program is the only environmental performance fund within the FIAS and is developed ex post and based on performance in terms of changes in the rate of deforestation in official forest assessments in Ecuador. No specific environmental performance measurements are made for each of the measures implemented.
 FONAFIFO	FONAFIFO's environmental performance is measured based on information on forest cover and the number of hectares under environmental service payment contracts. Although FONAFIFO's original scope of action was focused on environmental issues, it has evolved over time, incorporating social and economic aspects into its management. There are reports on social, environmental, and economic impacts over time. There is a record of the country's forest recovery.

Table 46: Fund information on monitoring and follow-up methods (Source: author)

The following image shows the deforestation reduction calculation model for the purpose of calculating Brazil's emission reductions, which is the environmental performance of the Amazon Fund.

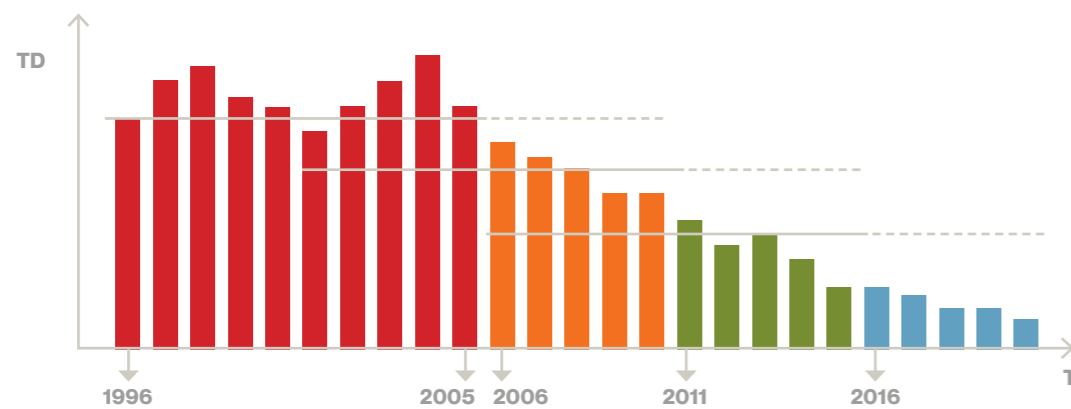
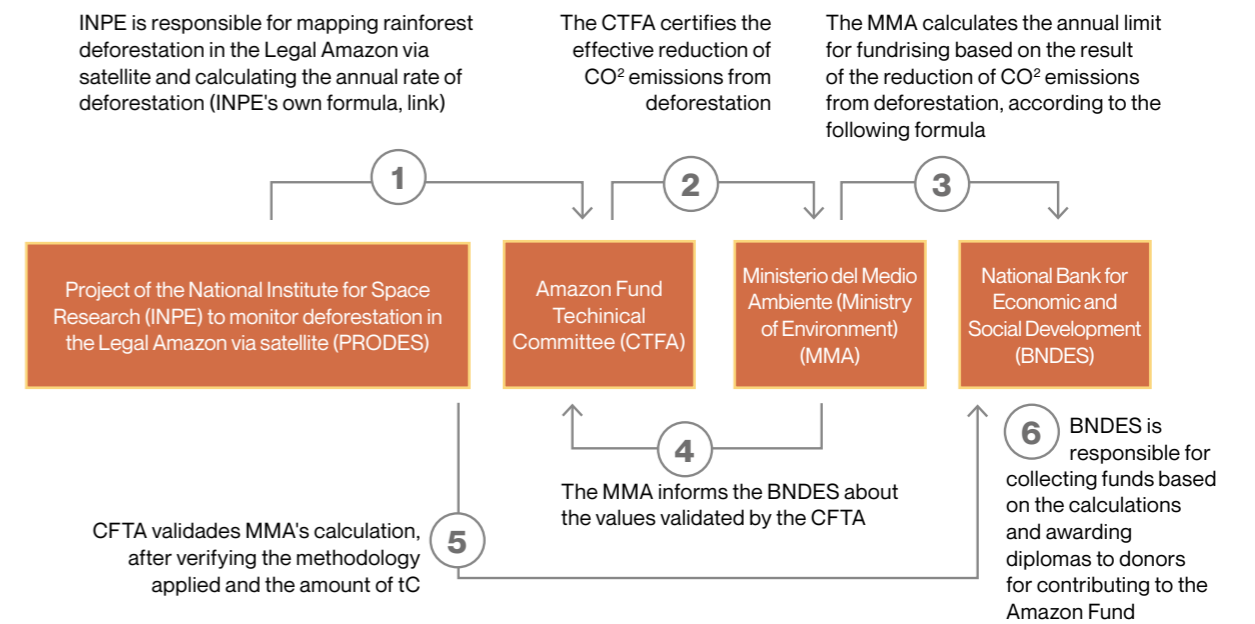


Figure 8: Representation of the deforestation reduction calculation model for emission reduction calculation purposes¹³

¹³ TD = deforestation rate; T = time

Calculation of the reduction of CO² emissions from deforestation for the Amazon Fund



$$ED = (TDM_{2001-2010} - TD_{20XX}) * C_{Biomass} * FC_{C-CO^2}$$

ED	TDM ₂₀₀₁₋₂₀₁₀	TD _{20XX}	C _{Biomass}	FC _{C-CO²}
Reducing Carbon Emissions from Deforestation (tCO ²)	Average rate of deforestation between 2001 and 2010 (corresponds to 16,531 km ² or 1,653,100 ha)	Observed deforestation rate in the respective year 20XX in km ² or ha	Average value of carbon present in biomass	C to CO ² conversion factor: 44/12

To calculate the CO² emissions avoided by reducing deforestation:

1. The project document signed by the Ministry of Environment (MMA), the National Bank for Economic and Social Development (BNDES) and the Norwegian government establishes the reference period from 2001 to 2010 for the average rate of deforestation (TDM).
2. The minutes of the meeting of the Amazon Fund Technical Committee of November 14, 2012 (see link) recorded that the average amount of carbon in biomass, publicly defined by the National Climate Change Policy Law (see link), of 132.3 tC/ha, should be used within the scope of the Amazon Fund; the same minutes also define the application of the aforementioned formula.
3. BNDES defined US\$ 5.00/tCO² as the reference value for the calculation of the annual limit for fund raising.
4. Until 2010, the average deforestation rate defined by PRODES for the period 1996-2005 of 19,500 km² or 1,950,000 ha, was used.

Figure 9: Calculation of the reduction of CO² emissions from deforestation in the Amazon Fund¹⁴

¹⁴ TD = The formula used for the calculation of avoided emissions is as follows: $ED = (TDM_{2001-2010} - TD_{20XX}) * C_{biomass} * FC_{C-CO_2}$
 Where: ED = reduction of CO² emissions from deforestation (tCO²_{eq}) | TDM₂₀₀₁₋₂₀₁₀ = average value of deforestation between 2001 and 2010, corresponding to 1,653,100 ha or 16,531 Km². | TD_{20XX} = deforestation record in the corresponding year (20XX), reported in km² or in hectares. | C_{biomass} = amount of carbon contained in the biomass of the forest (132,3 tC/ha), | FC_{C-CO₂} = fC to CO² conversion factor (44/12).

5.7.4 The variety in type of indicators of the monitoring and evaluation system can be very wide, depending on the availability of budget. Performance fund indicators can cover a wide range of issues, from the environmental performance of the fund to the direct and indirect objectives of the fund. For funds it is important to consider indicators to measure social and economic impacts, both to identify possible negative impacts generated by investments in environmental performance measures, and to show the social and economic impacts generated by these investments. A broad base of indicators requires a larger budget for the monitoring and evaluation system. The following table shows examples of indicators for the funds analyzed.




Fund	Summary description
 AF	Project indicators must be in line with the AF's logical framework. Therefore, there are measurable outcome indicators. These indicators are negotiated between the executing team and BNDES technicians. The AF's quarterly reports show: number of projects, value requested, type of executor, distribution of projects by federal unit, approval phase (in consultation, under analysis, and supported).
 FPN	% of time of the agreement, % of financial execution, % of technical execution. These are used to derive the efficiency indicators: (exec. tech. /time), (effectiveness / financial axis). They are analyzed monthly. Likewise, the execution of the procurement and operational plans of each project can be measured.
 FONAFIFO	Budget executed, amount of financial resources executed per year; number of financed hectares of contracts under the PES Program per year; number of trees financed under contracts in the PES Program per year; number of new hectares contracted and number of contracts per activity per year; investment of the PES Program in Indigenous Territories per year; number of women participants in the PES Program per year

Table 47: Fund information on indicators (Source: author)

5.7.5. Safeguards should be included in the monitoring and evaluation system. In addition to monitoring compliance with activities and results of measures and the impact on environmental performance, it is important to also measure compliance with safeguards.



Fund	Summary description
 AF	The Fund evaluates compliance with safeguards in ex-post evaluations of completed projects. Safeguards related to COFA Guidelines and Criteria and BNDES operational policies are also considered during the project analysis and monitoring phases.
 FONAFIFO	Safeguards are part of FONAFIFO's monitoring system indicators

Table 48: Fund information on safeguards monitoring (Source: author)

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5.7.6 Internal and external auditors required for monitoring and evaluation.

The collection of information on the implemented measures is performed by the funds' technicians, with the collaboration of the participants or beneficiary organizations. This information is subsequently analyzed and reviewed by the stakeholders in the program's governance bodies and external auditors, and may also involve external evaluations, as was done by the Amazon Fund or the Natural Heritage Fund (see also 5.3.12 and 6.7.2).

It is important that audits are coordinated with different processes to avoid becoming an additional burden on project execution.





Fund	Summary description
 AF	BNDES performs administrative, financial and technical follow-up of the projects, based on the reports submitted by the project implementers. The BNDES team visits the projects during execution. An evaluation report is submitted at the end of the project. COFA monitors the operation of the Fund and the results of the projects. In accordance with article 2 of decree 6527/2008, the BNDES annually contracts external auditing services to verify the correct application of funds, monitoring reports and follow-up of the fund. Those independent audits verify the BNDES' accounting, as well as compliance with COFA guidelines, directives and criteria in the operation of the fund. GIZ, in the framework of the program "Cooperation with the Amazon Fund / BNDES" has coordinated ex-post evaluations of 17 completed projects and developed the methodology "Conceptual framework for evaluating the effectiveness of projects supported by the Amazon Fund". Evaluations have demonstrated significant contributions of the projects in the reduction of deforestation and restoration of degraded lands (Gómez García et al. 2019). GIZ also financed a mid-term evaluation of the Fund in 2018. (Gómez García et al. 2019).
 FPN	In the case of Patrimonio Natural, it has received an average of ten external audits in recent years. This is in addition to the internal audit.
 FIAS	The Programs and Projects Management, together with the technicians of each program or project, collects information on the implementation of the measures and presents it to the board of directors and the fund's governance body. At that time, the Programs and Projects Management was conceptualizing the monitoring and evaluation system for the administered interventions.
 FONAFIFO	The landowners, with the support of the forest regents, annually submit information on the measures taken in the field through the web platform. The FONAFIFO team visits the properties during project execution and reviews the information gathered by the Forest Regents. Technicians from the different departments form the links that feed the PES program monitoring team.

Table 49: Fund information on internal and external involvement in monitoring system (Source: author)

5.7.7 External audits increase confidence in the fund. Follow-up and monitoring of the fund by external entities is considered vital to guarantee impartiality in the financial management of resources. In many cases, financial audits are performed by private organizations specifically contracted to develop these controls. In addition, there are different controls by state entities (comptroller's or prosecutor's offices), consider that most of the funds manage public resources provided by national and foreign governments for their implementation. It is important that the financial results be analyzed together with the results of project activities and the impact of the fund, so means (financial resources) and ends (project or fund objectives) coincide.





Fund	Summary description
 AF	BNDES generated a contract with independent entities (KPMG, Deloitte) since 2010 on the veracity of the balances recorded in the AF's financial records, as well as compliance with the placement of these balances in the BNDES accounts (see https://rb.gy/qalue4). It then focuses on the resources of the Gaia I and Gaia II funds of Banco do Brasil, where resources are invested with a conservative profile. It verifies Gaia Fund disbursements for project implementation and AF management expenses. Those independent audits verify the BNDES' accounting, as well as compliance with COFA guidelines, directives and criteria in the operation of the fund. Exceptionally, the BNDES and the AF were also audited by the Tribunal de Contas de la Unión, which acts as the Federal Court of Audit (see TCU, 2017).
 FPN	A firm that audits the management of the fund annually and changes every 3 years. Each project independently also engages an external financial audit (see for example https://www.patrimoniounatural.org.co/documentos/informe-auditoria-30-junio-2020-corazon-de-la-Amazonia/). The more complex projects are audited annually, while the simpler ones (less than 1 million USD and less than two years) have a final audit. In addition, the Fund, as administrator of public resources, is subject to the control of the Comptroller General of the Republic (see https://rb.gy/jbdqv1).
 FIAS	FIAS has a Code of Ethics which specifies the standards of conduct for internal auditing, with the objective of promoting an ethical culture in the organization's internal auditing. The Internal Auditor's responsibility is to "perform subsequent internal control of FIAS administration, without intervening in the decisions of the Board of Directors, and to recommend adjustments to the administrative and financial management of FIAS operations". FIAS also has external audits of the administrative management of its fund portfolio (see http://www.fias.org.ec/documento/categoria/auditoria-externa-2018).
 FONAFIFO	On the financial side, the FONAFIFO has annual audits, in addition to the supervision of the responsible state entities (Ministry of Finance, Comptroller General of the Republic, Ministry of National Planning and Economic Policy, among others).

Table 50: Fund information on importance of external audits (Source: author)

5.7.8 Digitization of information increases third-party access to information and fosters learning. In an increasingly digitalized world, it is important to communicate and exchange information digitally. Web pages have been considered by the four funds as an essential communication strategy for communicating with both the public and the beneficiaries. FONAFIFO even manages its follow-up system with landowners, where it makes its investments online. As the funds make progress in the implementation of projects and generate a series of lessons learned in relation to specific topics, knowledge is generated that can be shared with other entities and stakeholders. This process of generating lessons learned and of support to other entities that initiate a similar process helps to reduce time and costs and increase the impact for the beneficiary communities. Many of the materials for lessons learned or project evaluations are available online from the funds or are services that can be requested from those funds.



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Fund	Summary description
 AF	<p>AF has a web page where it presents results and impacts, and shares information on the operation of the fund for the public. http://www.amazonfund.gov.br/en/home/</p> <p>Provides materials developed within the framework of cooperation with GIZ on topics such as project management, results and impact monitoring. See, for example, project monitoring for the fire department:</p> <p>www.fundoamazonia.gov.br/pt/biblioteca/fundo-Amazonia/guias-de-aprendizagem, as well as all ex-post evaluation reports, see external evaluations (fundoAmazonia.gov.br).</p>
 FPN	<p>FPN information is available at https://www.patrimonionatural.org.co/.</p> <p>It has a library with reports on the executed projects, as well as documents on incentives, institutional videos and a virtual library with technical documents on the executed projects www.fondopatrimonionatural.org.co/publicaciones/</p> <p>It does not have a platform for monitoring, evaluation and communication of projects and programs results that is open to the public.</p>
 FIAS	<p>FIAS information is available at http://www.fias.org.ec/inicio. It has a repository from which reports can be downloaded, but it does not have a platform for monitoring, evaluation and communication of projects and programs results.</p>
 FONAFIFO	<p>FONAFIFO has a platform to manage the information of the participants of the payment for environmental services program on its web page: https://www.fonafifo.go.cr/es/.</p> <p>The web page also provides statistics on compliance with the indicators.</p> <p>FONAFIFO is included in the Costa Rican Foreign Ministry's catalog of best practices in the country. It receives annual requests from governments and entities from all continents interested in learning about the PES Program and the institution that executes it. Within the framework of Triangular Cooperation, FONAFIFO has been part of several projects as a provider. It has within its lines of work a support and training service based on lessons learned in PES schemes and forest credits, for different entities. See https://rb.gy/a8mpc3</p>

Table 51: Fund information on digitization of information on web pages (Source: Author)

6. Good practice in creating and operating environmental performance funds

The analysis of the creation and operation of the four funds produced the lessons learned presented in chapters four and five. In this last chapter of the guide, we present the most outstanding lessons learned, which were evidenced in two or more funds as good practices. These good practices have shown their value in the creation and operation of the funds covered in this guide (AF, FPN, FIAS, FONAFIFO). We recommend considering them in the process of creating and operating environmental performance funds.

The good practices identified in the guide for the creation phase are:

- Initiate the creation of a fund once a prior agreement has been reached with the donor;
- Conduct pre-feasibility and feasibility analyses;
- Take advantage of relevant information for the creation of the fund, generated or compiled by stakeholders in the country (universities, NGOs, etc.);
- Harmonize the fund with the political framework and national and international standards;
- Considering multi-stakeholder governance spaces at the technical/management level in the design of the fund facilitates transparency and ownership in decision making/technical advice/monitoring & evaluation;
- Select a legal figure that is in line with the country's regulations;
- Choose objectives that allow diversification of income sources with a variety of environmental performance results, different donors, etc.;
- Design a solid structure for technical management with an internal team and external advice (Universities, NGOs, International Cooperation, etc.);

- Defining clear transparency rules and/or safeguards helps fund acceptance;
- Create a set of selection criteria that allows for an adequate selection of projects/programs, without leaving out beneficiaries from vulnerable groups;
- Define, together with the donor, the performance measurement mechanism, based on official government information or recognized research entities in the country;
- Design a monitoring & evaluation (M&E) system that includes internal and external audits.

In addition to these good practices for environmental development funds, we recommend considering the standards of practice for conservation funds (CFA, 2020) and the key elements elaborated by Flynn (2011) based on the experience of 750 environmental funds managed by UNDP (2011).

The good practices identified in this guide for the operation and monitoring/follow-up phase are:

- Operate the fund according to the objectives established with each donor (by programs/projects);
- Include climate finance within the environmental performance objectives, as it is one of the most important sources;
- Adjust the selection criteria, administrative rules of the fund, etc. to allow the inclusion of vulnerable groups;
- Although the performance fund receives the resources retroactively from the donor, the payment to the beneficiaries is made in advance;
- Diversification of income sources (multiple donors/diverse types of environmental performance) increases financial sustainability of the fund;
- Initiating policy creation/adjustment processes may generate additional sources of revenue (new taxes or other contributions to the fund);
- It is possible to request technical assistance from NGOs, universities and international cooperation to complement some of the activities developed

by the fund such as technical assistance, monitoring & evaluation, among others;

- Establish implementation arrangements with third parties for technical management through binding projects or implementing organizations;
- Diversify the mechanisms for generating calls for proposals to reach all potential beneficiaries;
- Holding frequent meetings and publishing the minutes of governance meetings increases the transparency of the fund;
- Having a detailed organizational chart allows defining management and monitoring & evaluation responsibilities;
- Apply transparency rules and safeguards, and monitor their application;
- Upgrade the M&E system to a balance between quality and costs (cost-effective);
- Adjust M&E indicators according to current needs and budget availability (e.g., include safeguards);
- Involve external stakeholders in the monitoring & evaluation system (external auditors);
- Digitizing the exchange of information with beneficiaries streamlines communication and response time (e.g., in case corrections are required);
- Digitizing the fund information to a web page increases transparency and encourages learning;;

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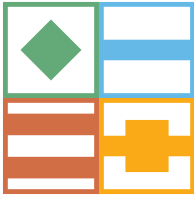


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