Towards a Sound Financial Architecture for Sustainable Forest Management: The Role of National Forest Funds

Proceedings of the Expert Meeting on Strengthening Financing for SFM through National Forest Funds – 24-25 October 2013. Bogor, Indonesia

Contents

Acronyms

ACA	Additional Compensatory Afforestation
AF	Adaptation Fund
AMC	Asset Management Committee
BLU-BPPH	Badan Layanan Umum–Badan Pembiayaan Pembangunan Hutan (Public Service Board-Forest Development Funding Board)
BoD	Board of Directors
BPK	Supreme Audit Board (Indonesia)
BTEFC	Bhutan Trust Fund for Environmental Conservation
CA	Compensatory Afforestation
CAF	Compensatory Afforestation Fund
CAMPA	Compensatory Afforestation Management and Planning Authority
CATIE	Centro Agronómico Tropical de Investigación y Enseñanza
CEC	Central Empowered Committee (India)
CIFOR	Center for International Forestry Research
CSO	Civil Society Organization
DARD	Department of Agriculture and Rural Development
DENR	Department for Environment and Natural Resources (Philippines)
DFPM	Department of Forestry, Peninsular Malaysia
DJK	Dana Jaminan Kinerja (performance bond)
DJR	Dana Jaminan Reboisasi (Reforestation Guarantee Fund)
DR	Dana Reboisasi (Reforestation Fund - Indonesia)
EF	Environmental Fund
EUR	Euro
FAO	Food and Agriculture Organization of the United Nations
FCA	Forest Conservation Act (India)
FDC	Forest Development Cess (Malaysia)
FDCF	Forest Development Collection Fund (Malaysia)
FREDDI	Fund for REDD+ in Indonesia
FLEGT	Forest Law Enforcement Government and Trade
FPD	Forest Protection and Development (Law)
FPDF	Forest Protection and Development Funds (Vietnam)
FRDF	Forestry and Forest Resource Development Fund (Lao PDR)
FSSP	Forest Sector Support Partnership
GCF	Global Climate Fund
GEF	Global Environment Facility
GHG	Greenhouse Gas
GIZ	Gesellschaft für Internationale Zusammenarbeit
GOI	Government of Indonesia
GOV	Government of Vietnam
ha	Hectare
HTI	Hutan Tanaman Industri (Industrial Timber Plantation)
HTR	Hutan Tanaman Rakyat (Community planted forest)
ICCTF	Indonesia Climate Change Trust Fund
ICD	International cooperation Department
IDR	Indonesian Rupiah
JICA	Japan International Cooperation Agency
LoI	Letter of Intent
MAF	Ministry of Agriculture and Forestry (Lao PDR)
MARD	Ministry for Agriculture and Rural Development (Vietnam)

MOEF	Ministry of Environment and Forests (India)
MOF	Ministry of Finance
MoFor	Ministry of Forestry
MONRE	Ministry of Natural Resources and Environment (Lao PDR)
MOU	Memorandum of Understanding
MPI	Ministry for Planning and Investment (Vietnam)
MRV	Measurement, Reporting and Verification
MTIDF	Malaysia Timber Industry Development Fund
NAMAs	National Appropriate Mitigation Actions
NFA	National Forestry Act (Malaysia)
NFF	National Forest Fund
NGO	Non-Governmental Organization
NIE	National Implementing Entity
NPV	Net Present Value
NTFP	Non-Timber Forest Products
ODA	Official Development Aid
PCA	Penal Compensatory Afforestation
PES	Payment for Environmental Services
PFES	Payment for Forest Environmental Services
PhP	Philippine Pesos
PPC	Provincial Peoples Committee
PRF	permanent reserve forest (Malaysia)
PRISAI	Principles of the Social and Environmental Safeguards (Indonesia)
PTFCF	Philippine Tropical Forest Conservation Fund
REDD	Reducing Emissions from Deforestation and Forest Degradation
RM	Malaysian Ringgit
RPH	Rekening Pembangunan Hutan (Forest Development Account - Indonesia)
Rs	Indian Rupees
SFD	State Forest Department (Malaysia)
SFM	Sustainable Forest Management
SPV	Special Purpose Vehicle (Malaysia)
TFCA	Tropical Forest Conservation Act (USA 1998)
TFF	Trust Fund for Forests (Vietnam)
ToR	Terms of Reference
UKP4	Unit Kerja Presiden bidang Pengawasan dan Pengendalian Pembangunan – UKPPPP (Presidential Working Unit for Development Monitoring and Control)
UN	United Nations
UNDP	United Nations Development Programme
UNFF	United Nations Forum on Forests
USD	United States Dollar
VFDS	Vietnam Forest Development Strategy
VND	Vietnamese Dong
VNFF	Vietnam Forest Protection and Development Fund
WRI	World Resources Institute

1. Introduction

This document is the result of the Expert Meeting on Strengthening Financing for Sustainable Forest Management (SFM) through National Forest Funds (NFF) in the Asia-Pacific Region held on 24-25 October 2013 at CIFOR headquarters in Bogor, Indonesia. The meeting was organized with financial support from GIZ under contract agreement 81165218.

The expert meeting for the Asia-Pacific region is one of three meetings organized by FAO and GIZ with different local partners. FAO, GIZ and Centro Agronómico Tropical de Investigación y Enseñanza (CATIE) organized a first expert meeting in Costa Rica in January 2013. Eight countries from the region and four from outside Latin America had the opportunity to share best practices regarding the design and operational procedures of their experiences in managing NFFs. The second expert meeting, presented in this report, was organized by FAO, GIZ and CIFOR in October 2013. The meeting further deepened this knowledge sharing process by specifically focusing on the challenges and opportunities involved in establishing and successfully managing NFFs, conservation trust funds and climate/REDD+ funds in the Asia-Pacific region. At this meeting thirteen participants from 9 countries presented and discussed the various financing mechanisms. The third expert meeting will be organized by FAO, GIZ and AFF in Nairobi, Kenya in February 2014. This meeting will focus on experiences in Sub-Saharan Africa and extract lessons learned from those experiences.

The objectives of the expert meeting were to:

- Share knowledge and experiences related to establishing and managing NFFs or similar funding mechanisms and discuss lessons learned;
- Assess the effectiveness of NFFs in promoting SFM;
- Identify potential strategies (policy, legal/regulatory, and institutional) needed to effectively establish and manage identified NFF models; and
- Collect information on best practices for the development of a Practical Guidelines on NFFs.

A key question is how these funds can function more effectively and efficiently to achieve sustainable management of the countries' forests and other land-based resources. With growing environmental awareness there is a growing focus on sustainable forest management (SFM). Debates around Climate Change and biodiversity have increased recognition of the important role of forests in providing environmental services. Demand for forest products remains high, while supply is reducing. Demands on land for food and biofuel production add to the pressures on forest land. To address the pressures and meet demand, sustainable management of forests is a key solution.

With growing economic development in Latin America, Asia and Africa, private sector forestry investments, climate financing and ODA there is money available for sustainable development. But accessing it for SFM is complex. Dedicated financing mechanisms such as national forest funds can play an important role in this. The aim of NFFs in their most basic form are to set aside a portion of national revenues for forestry purposes, exist for more than a single government budget cycle, segregating specific forestry-related revenues and earmarking them for investment in the forest sector (FAO, 2001). In a broader sense they include other national (and potentially sub-national) funding mechanisms such as Conservation Trust Funds, Climate Funds and Compensatory Afforestation Funds. These funds can help meet specific SFM investment needs such as long-term & seasonal forestry planning horizons that are not limited to the financial year applied in the state budget. At the same time NFFs and related funds, if properly managed, may help increase transparency and accountability and may assist in leveraging additional sources of funding.

There are many challenges too. Current public fund-based mechanisms have not performed well, often due to poor governance (Barr et al., 2010). There has been both a proliferation and fragmentation of financing modalities (e.g. forest management, conservation, climate change, REDD+) despite OECD-DAC commitments to harmonize and align. As a result of these challenges it is important to look at past and on-going experiences with forest financing mechanisms and use lessons learned and best practices in the design of any future mechanisms.

National forest funds have existed for some time. Surprisingly, very little has been published on concrete experiences with managing and operating such funds. Some exceptions are studies published on FONAFIFO (De Camino et al., 2000; Heindrichs & Thomas 1997; Robalino et al., 2008), a National Forest Fund in Costa Rica, and CIFOR's study on Indonesia's Reforestation fund[2]. The series of regional expert meetings will help shed some additional light on the experiences of the different funds and provide some lessons learned. The financing mechanisms presented at the Asia-Pacific expert meeting can be grouped into three types. Firstly, there are National Forest Funds funded through levies or tax and used to support reforestation or forest management. The papers on these funds are presented in chapter 2. Secondly, there are a number of Conservation Trust Funds. These are funded through ODA or debt for nature swaps and can either be endowment funds[1] or sinking funds[2]. These are presented in chapter 3. Lastly there are the more recently introduced climate and REDD+ funds. Chapter 4 presents two examples of these from Indonesia. Within and between these groups there are different ways in which finance is sourced and disbursed and different ways in which the funds are managed. The meeting participants discussed the advantages and disadvantages of different approaches and possible improvements. The results of the discussions are included in the concluding remarks in chapter 5.

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[1] An endowment fund is received from external donors with restriction that the amount is to be retained in perpetuity. The income earned from interest or investment returns is used to fund activities.
[2] A sinking fund is received from external donors and is to support activities within a predetermined timeframe at the end of which the fund is fully spent.

Figure 1 Participants to the Expert Meeting on Strengthening Financing for SFM in Bogor, Indonesia 24-25 October 2013

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2. National Forest Funds

2.1 Legal and institutional dimensions of National Forest Funds

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BACKGROUND

National Forest Funds (NFFs) have existed for decades, with the first wave of NFF establishment dating back as far as 1930[4]. Over the years, NFFs have functioned to varying degrees of success in relation to promoting sustainable management of forests. The recognition that sustainable forest management (SFM) plays a critical role in tackling global challenges such as climate change, food security, and poverty alleviation, and the realization that NFFs could make crucial contributions in advancing SFM fuels the recent wave of renewed interest in the creation and operation of NFFs (AGF, 2012). Similar to the advantages of establishing Environmental Funds (EFs), NFFs are seen as a way to secure long-term finance for, a method to leverage additional funding resources, including encouraging private sector investments, and a tool to promote decentralization of management (Bayon et al., 1999; FAO, GIZ & GMZ, 2013). Additionally, NFFs are promoted to have the forestry specific roles in more effective forest management, adapting spending to seasonality of forestry operations, and supporting the production of ecosystem services (FAO, GIZ & GMZ, 2013).

INTRODUCTION

The term "National Forest Funds" has the potential to encompass a wide array of finance mechanisms, and could include any number of funds dedicated to forests. In the context of this paper, the term "National Forests Funds" has a narrower focus, and will only concentrate on the various types of extrabudgetary financing mechanisms that set aside a portion of national revenues (Rosenbaum & Lindsay, 2001) earmarked for use towards improving the conservation and sustainable use of forest resources (FAO, GIZ & GMZ, 2013). Although diverse and large sources of international funding could also be channelled through this type of mechanism, the NFFs must still be primarily freestanding mechanisms that can exist even without international aid.

The challenges of establishing an effective NFF is inextricably tied to the legal dimensions of the NFF design. There is a diversity of legal structures and systems in place in different countries that could influence the operation of NFFs. The wide array of structures and systems mean that no single ideal format for designing a forest fund exists, which will function at the same level of effectiveness in every jurisdiction. Currently, NFFs exist in the forms of: accounts held by existing governmental entities; trust funds; foundations; associations; or other entities allowable by law in the concerned jurisdiction. This paper aims to explore the legal significance of these most common designs of the organization of NFFs for different potential stakeholders involved. The variety of legal issues that may be involved spans the spectrum of public and private law, international and domestic law, and the subject matters implicated include a range from trust law to property law, to administrative law. This paper will focus on the interaction between the legal establishment and classification of NFFs, and the identified essential design elements of these NFFs[5]. Using examples of existing NFFs, the analyses will highlight the importance of several aspects of the different jurisdictions' legal frameworks, and how it could be

[3] Forest Economics, Policy and Products Division, Forestry Department, FAO

[4] The Knutson-Vandenberg Fund in the United States (1930), as mentioned by Rosenbaum & Lindsay, 2001.

[5] Organization, income sources, uses, and oversight. Varying categories in these design elements produce the different variations in NFFs, as identified in Rosenbaum & Lindsay, 2001, p.1-2.

used to potentially address the concerns that may obstruct the good governance of NFFs as finance mechanisms to promote SFM.

OVERVIEW OF FUND TYPES

Currently existing NFFs were established in various legal forms. Five of the most common forms of these NFFs are: a separate account held by existing governmental entities; a trust fund; a foundation; an association; or other entities allowable by law in the concerned jurisdiction.

Account

A NFF could exist in the form of a separate account managed by an existing governmental entity. Some NFFs have been established as such an account, and thus are subject to the sole control of the relevant governmental entity. Usually, the account would be established exclusively or jointly under the Ministries or Agencies responsible for forestry and/or finance, and the funds held separately from those in the regular account of the Ministry or Agency. In this form, the NFFs have no separate legal identity independent of the host governmental entity. In some cases, the controlling governmental entity would have wide latitude of discretion to utilize the resources these accounts hold however they see fit, perhaps only subject to certain restrictions posed within the relevant legislation.

Trust Fund

In some common law jurisdictions, NFFs are established as trust funds under the legislation and case law of the different jurisdictions. The initial establishment, the management, and the regulation of trust funds vary, depending on the specific laws of the jurisdiction involved. Generally, the basic notion of the trust fund is that the trustee will hold trust property "in trust" for the benefit of the beneficiaries. This means that the trustees hold legal title to the assets, and the beneficiaries hold the equitable title. The trustees are entrusted with holding and managing the property held under the trust. The term "trust fund" can be used to refer to the legal entity created to hold the assets in trust. Some civil law countries have also adopted laws that would allow the creation of a trust.

Examples include: the U.S. Treasury Reforestation Trust Fund; the Canada BC Forestry Revitalization Trust.

Foundation

NFFs often take the form of foundations in civil law jurisdictions that have not adopted the wholesale transplant of legislation to allow the creation of trust funds. Foundations hold many similarities with trust funds, and is said to have a large degree of overlap in their legal definitions. The exact definition of "foundation" varies according to the specific language of the legislation creating this type of legal entity. According to the European Foundation Centre (EFC, 2007), public benefit "foundations" generally refer to "independent, separately-constituted non-profit bodies with their own established and reliable source of income, usually but not exclusively, from an endowment, and their own governing board". Foundations have an independent legal personality, and the foundation holds the assets as its own legal person, separate from the members of the foundation.

Association

NFFs can be established via the law on associations in certain jurisdictions where perhaps other suitable entities, such as foundations or trust funds, do not exist in such a form under the laws. Organizations such as a society are sometimes the functional equivalent of an association, both drawing strength from the collective number of their members (Norris, 1999). Generally, the jurisdictions favouring the creation of associations, as identified by Spergel and Taiebare (2008), are certain francophone countries that have achieved independence prior to the adoption of the French "Law on Associations".

Other Organizations

NFFs can take form as other existing organization types for public benefit in jurisdictions that allow their creation, based on the existing legal framework in the country. An example of this is the 501(c)(3) tax-exempt non-profit organization in the United States. Other organizations could also be achieved by passing a statute to create a unique legal entity, which would not exist as a specific type of entity under the current legal framework. Certain NFFs have also taken form through establishment via international agreements. These agreements are usually bilateral agreements between donor and recipient countries that create a NFF as a main channel to receive funding.

Examples include: the Vietnam Forest Protection and Development Fund (VNFF), created via Decision No. 114/2008/QD-BNN; the Philippines Tropical Forest Conservation Fund (PTFCF), created via a bilateral agreement between the United States and the Philippines.

LEGAL STATUS IN DETERMINING GOOD FINANCIAL GOVERNANCE OF NFFS

For the purposes of this paper, good financial governance of NFFs will be considered in light of four elements for assessment: power; responsibility; accountability; and sustainability. The first three elements for assessment are adopted and adapted from the systems of efficient fund management that the World Bank and UNDP promote, in combination with similar categories used in discussing Climate Finance, as described by WRI (Ballesteros et al., 2010). The additional element of sustainability has also been identified for its importance in the good financial governance of a NFF, especially as it would be of particular use in the required planning across long time spans for SFM.

The effective functioning in each of these four aspects of good financial governance of NFFs are influenced by legal status and structure of the individual NFF, and the larger entirety of the legal framework in the respective jurisdictions themselves.

Power

The "power" element of good financial governance relates to both the formal and informal decision-making capacity of the finance mechanism. The legal issues that surround this element influence the requirements for establishing a NFF, such as the NFF's governance structure, the NFF's relationships with other organizations and individuals, and capitalization.

Formal requirements for establishment

Formal requirements for establishing a NFF include procedural and substantive requirements. These requirements may sometimes affect the governance structure and authority of the entity.

Procedural requirements include those related to the filing and registration procedures. Less so to do with accounts, these are the steps that must be fulfilled in order to establish the NFF as a separate entity such as a trust fund, foundation, association, or other type of stand-alone organization. Filing and registration typically involves the provision of certain types of information, and could sometimes involve a filing or registration fee. Commonly, registration is with some type of judicial or state entity is required for foundations (EFC, 2007). Trusts also usually require registration at the relevant government office using a Deed of Trust, Charter, or Articles of Incorporation (IPG, 1999). Sometimes, additional approval by the appropriate government entity is required for the ability to operate in foreign currency (IPG, 1999). In some jurisdictions, multiple registrations may be required. For example, the Mgahinga-Bwindi impenetrable Forest Conservation Trust of Uganda required registration as a trust with the Ministry of the Interior, as well as registration as a not-for-profit corporation with the Ministry of Justice (IPG, 1999). The information required for filing and registration often relates to the substantive requirements for establishing the entity.

Substantive requirements could include those to do with the purpose, governance structure, and capitalization of the entity. If the NFF was to be created as an existing type of entity, such as a foundation, there may be certain substantive requirement regarding its purpose that must be met in order to establish the NFF[6]. A NFF is inherently for public benefit, and unless targeted otherwise for private benefit, should not have trouble satisfying the general for public benefit purpose. In terms of the governance make-up of the entity, trust funds rely on the trustee(s) for management, and generally do not contain very specific requirements on the governance structure (Spergel & Taieb, 2008). However, entities such as associations may have some requirements regarding the minimum number of member it must have for its creation (EFC, 2007).

Capitalization

The legal status of the NFF could impact capitalization of the fund. Legal issues regarding the design of the NFF could act as a potential barrier to receiving funds from sources that are outside of the national treasuries (Kant & Appanah, 2013), and other components in the legal framework of the jurisdiction could have implications on the fund's ability to attract additional funds from other potential private investors. Private investors' potential concerns could include key issues that will be further explored in this paper, such as accountability to the investors, as well as taxation, which would also affect the long-term sustainability of the fund. Their concerns could also include other legal elements outside the scope of this look at the institutional aspects of a NFF, such as land tenure.

Legal personality and its implications

The legal classification of the NFF plays a large part in the capacity of the NFF to enter into legal relationships with other parties. While a separate legal personality exists for most of the forms NFFs are set up as, arrangements such as the NFF being only a separate account directly under the governance of governmental Ministries or Agencies does not afford such a NFF a separate legal identity. This could impede the decision-making capacity of the NFF, as it will not be able to enter into contracts directly with other parties as an independent legal entity separate from the Ministry or Agency they are operating under. Instead, the NFF would depend on the respective government entities to enter into the contractual arrangements that may have an impact on the operation of the NFF, and could also potentially influence relations and power dynamics between donor country and recipient fund. In addition to the power element, the separate legal personality may also relate to the accountability element of good financial governance of NFFs[7].

Responsibility

Following the element of power closely is the responsibility element of good financial governance of NFFs. The "responsibility" element involves the exercise of power with sound principles of fiduciary management. As a national financing mechanism, NFFs are responsible for being able to meet requirements imposed by both domestic and foreign laws, thus the legal dimension of a NFF has an effect on this domestic aspect and international aspect.

[6] For example, public benefit and private foundations are governed under different laws in Austria. Public benefit foundations may only serve public benefit purposes, whereas private foundations have the freedom to pursue private or public benefit purposes. In countries such as Portugal, Spain, and Poland, foundations may only serve public benefit. *See* EFC, 2007, pp.3, 6. Other organization types, such as a tax exempt not-for-profit organization (S01(c)(3)) in the U.S. may have their own, even more specific requirements for the purpose of the organization. *See* 26 U.S.C. § 501(c)(3).

[7] See discussion on Accountability.

Domestic aspect

In certain jurisdictions, the management bodies of a NFF have set responsibilities to perform according to their duty in the exercise of power. These responsibilities could be determined by the status and classification of the type of entity the NFF is. The type of duty may well be embedded in the legal framework of the jurisdiction from statutes, case law, or both, and must be adhered to by the responsible parties for the NFF. For example, a trust by definition creates a fiduciary relationship between the trustee and the beneficiaries (A. Scott, note 1, in Frankel, 1983). A fiduciary owes the beneficiaries a duty of "utmost good faith, trust, confidence, and candor," and must act "with the highest degree of honesty and loyalty...and in the best interests" of the beneficiaries[8].

International aspect

Many international funding mechanisms, such as the Adaptation Fund, have created their own set of fiduciary standards. While there are similarities with some of the responsibilities imposed by domestic laws, there could also be additional or more specific requirements imposed by the international funding mechanism's own standards to suit their particular needs. For NFFs to obtain funding directly from funds such as the Adaptation Fund, they must demonstrate their ability to comply with the fiduciary standards required by these funds. Furthermore, with the new initiatives for several of these international funding mechanisms to bypass intermediary agencies and use national entities as the implementing entities, standards set by the international mechanisms are of more significance in the certification of an entity such as a NFF as the National Implementing Entity (NIE). In the example of the Adaptation Fund, EFs such as the National Environmental Fund of Benin have already achieved recognition as the legal entity in Benin that is a NIE[9]. Therefore, if there is a vision for a NFF to eventually gain the status as a NIE, the establishment of the NFF must keep the standards imposed by these international funding mechanisms in mind.

Accountability

WRI identifies accountability as a "central challenge in the future climate financial mechanisms." The legal set-up of the NFF has significant ties with the accountability element of the fund design, and could involve areas such as administrative law. Specifically, one of the important factors to consider is whether where the NFF would fall on the continuum of private to public entities, as the boundaries of administrative law lie with the exercise of public power (Jayasuriya, 1999).

Entities administering the funding from NFFs can be considered private or public, and could perform private or public functions. Making the first step in classifying the status of the entity contain important implications for accountability. Usually, such a classification depends on the NFF's ties with the government. Classification could also fall into an intermediary area, as some entities are neither strictly public entities, nor completely private ones. These are the "hybrid organizations," the "quasi government" entities that possess both government and private sector legal characteristics (Kosar, 2008). These characteristics could influence the transparency and methods of redress one could seek against the entity.

As an example for the implications on transparency, the federal and states' Freedom of Information Acts (FOIA) in the United States subjects an "agency" to disclose requested information[10]. The public-private distinction can then play a role, as some states would classify whether an entity falls under the categorization of "agency" based on function, while others determine this on whether it receives public funding[11].

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[8] DUTY, Black's Law Dictionary (9th ed. 2009), duty.

[9] *See* Adaptation Fund: Accredited National Implementing Entities. https://www.adaptation-fund.org/national-implementing-entities

[10] 5 U.S.C. § 552.

[11] 27 A.L.R.4th 742. *See also* 76 C.J.S. Records § 114. "Relevant factors in determining whether an entity is

In the area of seeking redress against alleged wrongs of the entity, the legal status could be influential by determining whether appeals are permitted, the appropriate forum to seek appeal of the decisions, and the procedures required to seek the appeal.

Sustainability

Sustainability of a NFF is crucial to its success in playing a role to promote the long-term sustainable management of forests. There are two aspects of sustainability to consider for NFFs: Financial sustainability and organizational sustainability.

Financial Sustainability

Financial sustainability of a NFF is dependent on continuous and reliable sources of income, the sound management of the fund principle, and on having favourable tax laws.

Most NFFs have funding based on portion of the national revenue, usually forestry related funds from sources such as taxes, concessions, and penalties, because rarely will a NFF be able to generate sufficient income solely from initial endowment to fund any meaningful larger scale project. Beyond the initial endowment, some NFFs still rely partly on the annual budget set by the government, and some are more purely "extrabudgetary" in the sense that they do not rely or would rely less on funding from the annual budget. Whether it be taxes, concessions or penalties, for the NFFs more heavily reliant on extrabudgetary funding, it is crucial for its longevity that the source of income is to be an ongoing source that could guarantee a continuous revenue stream. Other NFFs could rely on outside sources of funding, usually through large international programmes such as the UN-REDD. However, some entities may have problems with receiving non-domestic sources of funding. Furthermore, outside sources of funding cannot be guaranteed and thus would be a challenging source if the NFF is solely reliant on this. The study on a similar, but more general mechanism of Environmental Funds (EFs) by Oleas and Barragán in 2003 revealed that most EFs have established some kind of way for its economic sustainability, either through endowment or revolving funds[12]. In the same study, Oleas and Barragán noted the real risk of "vanishing projects" if they are "sinking" funds that have no provisions to secure further capitalization beyond the disbursement of the principal[13]. Similarly, NFFs face the same risk for longer term projects or series of projects that fit into larger scale vision for SFM if it does not include a diversity of capitalization options. Thus, it is important to consider the capacity to receive different sources of funding during the design of the type of legal status or classification of a NFF.

Taxation plays a central role in the financial sustainability of the NFF, both in terms of retaining the maximum amount of funds for the NFF itself, and with regards to the NFF's ability to attract private and institutional investors. The tax status of a NFF is closely tied with its legal status and classification. Under domestic laws, certain legal entities are exempt from taxation, while others are not. Often, trust funds, foundations, and other organization types that are created to serve a public benefit could qualify as a tax-exempt entity. However, following the formalities for the establishment of the NFF as the type of entity exempt from taxation is important to securing the NFF's status as a tax-exempt entity. Given the amount of taxes other organizations might be obliged to pay in most jurisdictions,

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covered by a disclosure statute include the extent of government involvement, whether the entity was created by the government, whether the entity performs a governmental function, and the level of government funding."

[12] 12 of the 21 EFs have established mechanisms for economic sustainability in financing projects, whether through establishment of endowment funds or revolving (recurrent) funds. Oleas & Barragán, 2003, p.7. "Endowments...invest their capital and use only income from those investments to finance activities"; "Revolving funds...receive new resources on a regular basis – e.g. proceeds of special taxes, fees or levies designated to pay for conservation programs – which replenish or augment the original capital of the fund and provide a continuing source of money for specific activities." Bayon *et. al.*, 1999, p.4.

[13] Oleas & Barragán, 2003, p.7. "Sinking funds... are designed to disburse their entire principal and investment income over a fixed period of time..." Bayon *et. al.*, 1999, p.4.

the status of being tax-exempt would offer a great advantage for prolonging resources available for the NFF. Furthermore, tax laws governing the type of entity could be important in the NFF's ability to attract donors. For example, the domestic laws governing foundations allow donors to "claim tax relief for charitable donations in most jurisdictions," but usually only up to a certain limit (EFC, 2007). Foreign laws in the donor's country could also affect the foreign donor's decision to donate to a NFF in another country. In laws governing taxes, most EU countries do not offer tax relief for donations to "non-resident foundations," while some countries such as Poland has moved to allow tax relief for cross-border donations (EFC, 2007).

Organizational Sustainability

Organizational sustainability is partly issues such as secure funding for operational expenses, and partly just strict organization or filing matters. Anticipating funding required for operational expenses and providing those sources of funding means that the management don't have to waste time on a "permanent search for funding," and could instead focus their attentions on the strategic activities (EFC, 2007). With regards to the organization or filing, the type of entity affects whether the entity could exist in perpetuity, and whether its existence in perpetuity must be specified during the initial registration or filing during the creation of the entity. Generally, entities such as trust funds can exist in perpetuity, but whether this has to be specified during the creation remains up to the individual jurisdiction. In other types of organizations, such as the member-driven associations, more complications may come in the form of having additional requirements on how to prolong the existence of the entity beyond the existence of its founding members by methods such as substituting in new members, all of which should be considered in the design of the NFF.

CONCLUSIONS

NFFs can be commonly found in the forms of accounts, trust funds, foundations, associations, or other special types of entities created by law or international agreements. The legal and institutional dimensions of these classifications of NFFs could impact greatly the elements of good financial governance of the NFF, and thus the utmost care is required to consider the implications of certain classification or status in the respective areas of law when establishing the NFF.

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2.2 National Reforestation Fund: Case of Indonesia

Sudarsono Soedomo[14]

ABSTRACT

In order for the forestry fund to have substantial meaning, the fundamental factors that inhibit the forestry business must be removed first. Although public investment of the reforestation fund (DR) is quite large, the overall productivity of the land developed for industrial plantation forest has failed to achieve the targets set. Two internal factors that need to be addressed are (1) the property rights issue and (2) timber price, which are very crucial for long-term investments. Only when forestry investments are attractive, then the funds will flow to the forestry sector. If forestry investment is not profitable, then the forestry fund will only be wasted and there will be no sustainable production forests.

Keywords: Dana reboisasi (DR), Natural forest, Royalty, Incentive, Profitable, Sustainable

OVERVIEW AND BACKGROUND OF THE FUND

In accordance with the constitution, natural resources are used for the maximum benefit of the people in a sustainable manner. To ensure that such a use can be materialized, the productivity of the forest must be maintained; any degradation must be addressed, including by conducting reforestation. To ensure that reforestation can be implemented, the availability of funds dedicated to reforestation must be maintained. This is the background of Indonesia's forestry fund called DR. Although public investment of DR is quite large, the overall productivity of the land developed for HTI has failed to achieve the targets set. Two internal factors that need to be addressed are property rights issue and timber price.

In Government Regulation 6 of 2007, DR is defined as a fund collected from IUPHHK holders in natural production forest to reforest and rehabilitate forests[15].1 There is a confusion in understanding of DR and Reforestation Guarantee Fund (DJR, Dana Jaminan Reboisasi). From name point of view, both DR and DJR have similarity and it is understandable if one sees that the two terms have a close relation. It is true, the initial money of DR was from the money of DJR. DJR was money that belongs to holders of forest concession right that must be deposited in the government's account as a performance guarantee of reforestation of forest area under their concession. When we look at the substance contained therein, DR and DJR has a much different meaning. DR is not a guarantee of performance, while DJR is a guarantee of performance. Act 41 of 1999 through Article 35 clearly mandates that every holder of IUPPH is charged with a performance bond (DJK, dana jaminan kinerja). This mandate is not implemented by the Ministry of Forestry (MoFor). So, in terms of substance, DJR was altered to DJK, not DR.

Through the Presidential Decree No 35 of 1980 regarding DJR, the holders of forest concession were required to deposit money to the government as guarantee for performing reforestation on their logged over areas. As time went by, DJR at the hand of the government built up because very few holders of forest concession who performed reforestation. Furthermore, the government through the Presidential Decree No 31 of 1989 regarding DR cancelled the Presidential Decree No 35 of 1980 and DJR was changed to DR with all consequences. The Presidential Decree No 31 of 1989 later, experiencing many changes, e.g. through the Presidential Decree No 29 of 1990, the Presidential

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[15] Article 35 paragraph (1) of Law 41 of 1999 states " Each holder of forest utilization license as referred to in Article 27 and Article 29, subject to business license fees, fees, DRs, and performance bonds". In essence, DR is government revenue earmarked for reforestation.

Decree No 28 of 1991, the Presidential Decree No 40 of 1993, and finally the Presidential Decree No 24 of 1997.

The legal status of the DR from 1989 to 1999 was not clear, whether or not it was the state revenue. Logically, state revenues are grouped into two categories, namely in the form of tax revenue and non-tax state revenue or known non-tax revenues. During the period 1989 to 1999, DR was clearly not a tax nor non-tax revenues because inclusion of DR as a non-tax revenues lately occurred through Government Regulation No. 92 of 1999. Prior to 1999 the DR was off-budget, since 1999 the fund has been on-budget. Large amounts of idle money certainly made many government bureaucrats tempt to use it. It follows the characteristic of bureaucracy that tends to maximize the budget (Niskanen, 1968). Also, DR, which was large and growing rapidly, was contested by professional foresters who supported sustainable forest management and political ally of Suharto, who sit in the Ministry of Forestry (MoFor) (Ross, 2001).

RESOURCE MOBILIZATION

DR is collected from royalties charged on timber harvested from natural forests. DR rate depends on the wood species, size, and location (Table 1). Largest revenue comes from Meranti and mixed timbers. Meanwhile, revenues from logs of ebony, natural teak, fancy wood, and sandalwood are very minor because the production of those timbers is also very low. Revenue per year of DR is presented in Table 2.

Table 1: Tariff of Reforestation Fund (USD per cubic meter)

Species	Kalimantan-Maluku	Sumatera-Sulawesi	Papua-NT
Meranti	16.00	14.00	13.00
Mixed	13.00	12.00	10.50
Ebony	20.00	20.00	20.00
Natural teak	16.00	16.00	16.00
Fancy wood	18.00	18.00	18.00
Sandal wood	18.00	18.00	19.00

Source: Government Regulation No. 92/1999

Revenue from lease of land is also included to generate ideas that there are other revenue sources, such as land rent, that can be used for reforestation. Land lease is generally associated with mining operations. Former mining areas need to be rehabilitated in order to make it productive for agriculture. Whether or not the rate of land lease is already efficient still needs to be studied further

Table 2: Receipt of reforestation fund (×1000 IDR)

Year	DR	Land Rent
2007	1 359 335 810.19	
2008	1 643 159 304.60	
2009	1 455 054 128.98	169 797 334.86
2010	1 721 221 417.26	162 231 506.40
2011	1 720 288 868.77	432 550 625.16
2012	1 516 134 718.31	403 865 794.15

Source: Directorate General of BUK

Annual revenue of DR tends to decline over time due to lower production of logs from natural forest. DR revenue on average is about 1.5 trillion IDR per year. The figures in Table 2 are not always consistent with the level of timber production in Figure 1 due to revenue of DR within a year does not always come from timber harvested during the year in question. Some DR received in a year may be as a payment against the outstanding DR in previous years.

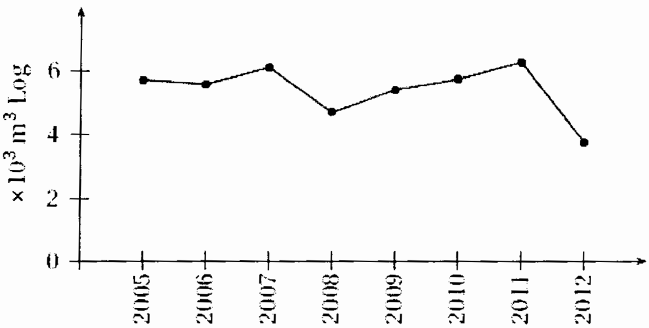

Figure 1: Log Production from Natural Forests

Other sources are still limited to the discourse, such as REDD+ funds and funds from carbon trading. Practice of payment for environmental services on a small scale has begun to occur, such as in Cidanau-Banten, between Cirebon and Kuningan local governments, and in Mataram NTB. Money paid by users of environmental services, at least, can help producers of environmental services to conserve forests in the upstream. Actually there is another important source, namely banking. For example, Bank Mandiri has shown its interest to help finance investments in forest plantations. But excessive regulation in the forestry industry makes the industry less attractive for investment (Kartodihardjo and Soedomo, 2011).

FUND UTILIZATION

The use of DR during the New Order era was almost without clear criteria, except closeness to the power. Activities that supported the rehabilitation of land could also be financed by DR, but the definition of the supporting activities was not very clear. Oversight of the use of DR also practically non-existent. The central government controlled fully the revenue and the use of DR. The situation changed after the New Order regime collapsed.

According to the government regulation No. 35 of 2002, DR shall be divided as follows: a. 40% (forty percent) for the producing region and b. 60% (sixty percent) for the Central Government. The DR of central government is allocated to the Technical Department (MoFor) and the remaining is allocated to the Forest Development Account (RPH, Rekening Pembangunan Hutan).

Some of the DR has been placed on Public Service Board-Forest Development Funding Board (BLU-BPPH, Badan Layanan Umum–Badan Pembiayaan Pembangunan Hutan), a financial management agency designed to help finance the development of plantations. BLU-BPPH must report the implementation of its activities, including financial management, to the MoFor.

Under management of BLU–BPPH, DR is directed to assist the development of plantation, particularly private forest and HTR (forests planted by the people in the forest area). Loans to small-scale forest owners have started running and welcomed, as is the case in Wonosobo and Blora. Loans that have been given begins with application of a farmer group. After an investigation in the field, when the application is approved, the contract is for each farmer individually, not as a group. However, HTR development still face obstacles in the form of licensing procedures which are very complicated, especially for small-scale farmers who have a lot of resource limitations. Barriers to the HTR is also a barrier to forestry funds.

FUND OVERSIGHT

Before 1999 the use of DR was practically not audited. Since 1999, the use of DR must have been audited by Supreme Audit Board (BPK). A central feature of the DR during the Suharto period was that these funds were not flowing into the state treasury to be included in the annual budget of the government, but incorporated as a state off-budget funds managed directly by the MoFor (Ascher, 1999).

On 5 February 2007, the Minister of Forestry and the Ministry of Finance jointly issued a regulation that supports the establishment of Forest Development Account (RPH) to support the use of DR in forest and land rehabilitation. RPH initial capital was granted in September 2007 amounting to 5.0 trillion IDR from the DR until then was administered by the Ministry of Finance.

Financial control over RPH is conducted by the Director General of the Treasury of the Ministry of Finance, which is obliged to release monthly reports related to the position of account to the MoFor. The MoFor can withdraw funds from the account to support the activities of forest and land rehabilitation. To do this, the MoFor must submit a five-year work plan, along with a budget detailing the objectives of utilization of the fund. Once approved, the Ministry of Finance will send funds from RPH to 'working unit' of the MoFor who is responsible for the expenditure of the fund for forestry development.

'Working Unit' of the MoFor is in charge of managing DR as a 'revolving fund.' This unit is allowed to disburse a variety of loans to a number of legal entities - state or privately owned - as well as to groups and cooperatives of farmers. To qualify for this loan, those legal entities and cooperatives are required to have business licenses in forest utilization (IUPHT, izin usaha pemanfaatan hasil hutan) and expertise in the field of forestry. The legal entities should have not been involved in any bad activities related to finance. If a legal entity fails to pay back the loan, then the debtor is subject to a penalty of 2 percent of the principal each year along with its interest. For groups and cooperatives of farmers, if they fail to pay back the loan then the debtor may be sanctioned collectively, which is not specified.

On 2 March 2007, the Minister of Finance announced the creation of BLU-BPPH, which would serve as a 'working unit' of the Ministry of Forestry that is responsible for forestry development expenditure. Establishment of BLU-BPPH aims to create a more flexible financing institutions in disbursing funds but more reliable in financial management. Since BLU-BPPH is in early stage, we do not have enough information to make a fair evaluation of its performance.

KEY STAKEHOLDERS

Some parties have influence and are influenced by forestry funds, particularly forestry fund in the form of DR, which is a state revenue. The fund management must be accountable to all the people, not only to those who contributed and who use it. As mentioned previously, the beneficiaries of DR in the past were mainly large-scale plantation companies, especially those who close to the center of power. Since the reform era, the target beneficiaries of the fund have changed slightly toward smaller scale agents of plantation forest.

Lately, there is a discourse to finance the rehabilitation of natural forests, particularly in relation to the application of intensive sylviculture. According to existing rules, any investment in natural forests, the results of the investment belongs to the government. As a result, there are no private parties who are willing to make long-term investments in natural forest land. As a way out, several parties suggested that agents who implement intensive sylviculture are exempted from the obligation to pay DR.

CURRENT STATUS

What could be achieved by DR was not much. Although public investment of DR was quite large, the overall productivity of the land developed for HTI has failed to achieve the targets set. Several years ago, the government gave the loan, which was sourced from the DR, to some companies of industrial plantation forest, even with zero percent interest, but the forests in question did not materialize and many loans have not been returned. Worse, there is a suggestion to abolish the loan in default.

The number of companies that were willing to undertake rehabilitation was very little. They prefer to give up the money that has been handed over to the government than to rehabilitate the forests and get the money back. This suggests that the levy rate set by the government was too low. There are indications that the same thing happens in the case of post-mining reclamation funds.

Indonesian experience shows that transparency and accountability are critical components of good financial governance. To a certain extent, DR abuses during the New Order were facilitated by non-standard accounting systems and weak supervision by the MoFor over DR account. So, it is important also to involve institutions that have the power of law in dealing with financial oversight, such as BPK and KPK (Commission on Corruption Eradication). The absence of effective oversight and accountability mechanisms has led to a large number of DR lost to fraud, diversion to other uses and wasted in the poorly managed HTI.

FUTURE OUTLOOK

Without the help of financial institutions, private forest in Java Island has grown up to 2.8 million hectares. There are several factors that contribute to the development of private forest in Java: clarity of rights, timber prices, transportation infrastructure, and population demographics. What happens in Java should provide very valuable lesson learned that could be replicated outside Java where idle lands are still plenty.

Is it true that the forest is experiencing a shortage of funds for investment? Is not a lack of applicants who want to invest? Is forest an attractive place for investment? I am afraid that the problem of the slow development of forests, especially outside Java, is not caused by a shortage of funds for investment, but by the lack of clarity about the rights, low timber prices, and limited transportation infrastructure. Once upon a time, President Harry S. Truman said

> "Give me a one-handed economist! All my economists say: On the one hand, on the other."

The same thing happened with the individuals working in forestry-related fields in Indonesia. On the one hand they want to keep forestry funds available for investment, but on the other hand they also make forestry less attractive for investment. In the upstream, many barriers with respect to licensing that must be faced by entrepreneurs. In the downstream, selling timber from a long investment is exposed to very low timber prices due to government policies that distort the market of logs. Forestry business in Indonesia can be summarized as "choked in the upstream and clogged in the downstream." But it is expected to remain healthy.

Identifying the real problem is very important because with it we can design the use of forestry funds more effectively and efficiently. On land that is not forested there are certainly human activities, which often involve tenurial conflicts. What is the better way to spend money from the forestry fund in a case like this? To resolve conflicts over tenure or to purchase seed? If there is no interference by humans, then the bare land will be covered quickly by vegetation through natural succession. We do not need to waste money for planting trees as a consequence. On the one hand we let the property rights remain unclear, but on the other hand we expect sustainability of forests is maintained. The intersection between the two is an empty set. Property rights offers incentives for long-term investments, because it protects individual against expropriation by other agents, including the state. In a particular situation, making land rights more secure and transferable would promote incentive for investment and efficient use of resources. There are three reasons supporting this conventional view. First, secure rights are believed to provide a guarantee to farmers the benefits from their investments will certainly flow to them and will not be appropriated by other agents. As a result, long-term investment is encouraged (Besley, 1995; Deininger and Jin, 2006). Second, capitalization of asset with more secure property rights is more probable. According to Feder and Onchan (1987), security of ownership improves chances of obtaining loans to finance agricultural investments. Secure property rights reduces costs for the lender and provides the basis for using land as a collateral asset. Third, secure tenure rights would allow farmers to devote their productive resources to agriculture, rather than to the defence of their holdings against expropriation by other agents.

According to the national forest plans, production forest that is allocated for large scale is 43.6 million hectares while for small scale is 5.5 million hectares. Does this mean that maintaining forests is tantamount to maintaining the injustice? Is justice not an important element of sustainability? So, forestry fund to be collected should be used to fix the injustice or to plant trees? There is no need to maintain forest sustainability if it does not deliver welfare to the people.

The most sustainable and reliable source of forestry fund should be the forest itself. To achieve this, the forestry business must be profitable. Currently, the forestry business in Indonesia is generally less profitable. Without any improvement in the business environment of the forest industry, it is difficult to expect people to invest their money in the forestry sector. Even the money that is available today will run out eventually.

Sustainability of DR is very difficult to maintain due to the decline in the ability of natural forests to produce timber, besides the growth rate of natural forest is generally too slow. Other sources of funding must be found. In addition, the possibility of investing a part of DR in financial markets, which results in a higher rate of return with an acceptable risk, should be considered.

Export ban on logs make log price difference between the domestic market and international market so far. For Meranti timber, the difference can reach 220 USD per cubic meter. With prices at the international level, the entire allowable cut of natural forests (about 9 million cubic meters) will likely be utilized. Difference between allowable cut and actual production has the potential to generate additional profit of 8 trillion IDR. If the government takes half of the additional benefits, via export tax for example, and allocate the revenue to forestry fund then every year there is an additional

4 trillion IDR to DR. But there is a big risk, the destruction of natural forests. The reason is that property rights in natural forests are not clear.

Payments for environmental services can be considered as a source of forestry fund. It is still in early stage of development. We need to explore it further. A partnership between local water companies (PDAM, Perusahaan Daerah Air Minum) and farmers in protected forests in Mataram Lombok can be a good example (Soedomo and Nugroho, 2009). PDAM Menang Mataram has allocated 850 million IDR in 2011 to fund conservation and to provide assistance to communities and villages around the spring[16].

Let us take a look the economy of Indonesia, particularly its fiscal policy. So far, the importance of forest is still limited in a seminar room. Meanwhile, burning fossil fuel is much more important so that the government needs to support it by providing subsidy. Although it cannot be compared directly, the figures in Table 3 say a lot about real attitude of the society represented by the government. State budget allocated to subsidy for fuel that add CO_2 in the air is much larger than the one allocated to activities or sectors that potentially support CO_2 reduction from the air. In 2006, the fuel subsidy was 64.2 trillion IDR, while the budget for environmental protection was only 2.7 trillion IDR.

[16] http://pdammenangmataram.com/detberita.php?index=25, Oct 14, 2013.

Environmental protection budget rose to 10.1 trillion rupiah in 2011, but at the same time fuel subsidy jumped to 129.7 trillion rupiah. In addition, two government institutions that are frequently associated with environmental protection, namely MoFor and Ministry of the Environment (MoE), received annual budget, in total, of 1.8 trillion IDR in 2006 and 7.0 trillion IDR in 2011. Reallocation of state budget by reducing fuel subsidy to increase budget related to environment and forestry could be an important source of forestry fund.

Table 3: Pro (+) and contra (-) forces of CO_2 emission (trillions IDR)

		Year						
Description		**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Fuel subsidy	+	64.2	83.8	139.1	45.0	82.4	129.7	123.6
Env. protection	-	2.7	5.0	5.3	10.7	6.6	10.1	10.6
MoFor	-	1.5	1.8	3.2	2.1	3.3	5.9	6.1
MoE	-	0.3	0.4	0.4	0.4	0.4	1.0	0.9

Source: Ministry of Finance

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2.3 Financing of Sustainable Forest Management in Peninsular Malaysia

Prof Dr Mohd Shahwahid Haji Othman[17]

ABSTRACT

The financing of sustainable forest management projects in Peninsular Malaysia has traditionally been funded by the Forest Development Collection Fund and Malaysian Timber Industry Development Fund. Recently with the intention of increasing the establishment of forest plantations a Special Purpose Vehicle was introduced for this purpose. This paper highlights the objectives, legal basis, management and organization, fund sourcing, utilization and monitoring status of the above financing mechanisms.

Keywords: Forest Development Collection Fund, Malaysian Timber Industry Development Fund, Special Purpose Vehicle

INTRODUCTION

The Department of Forestry, Peninsular Malaysia (DFPM) is committed to implement sustainable forest management (SFM) in the permanent reserve forest (PRF) of Peninsular Malaysia. This forest resource is to be administered and managed based on the principles and practices of sustainable forestry whose socio-economic and environmental protection values and benefits could be gained by all categories of society.

DFPM has pledged and implemented certified forest management activities. The latter is a mechanism reflecting its compliance to the best practice forest management base on compliance audit by independent assessors in all its certified PRF. Its success in implementing sustainable forest certification is the basis to the production of certified wood products traded in international markets.

The implementation of forest development projects is financed through development allocations approved by the Federal and/or State governments in the five year Malaysian Plans. Apart from these, the implementation of forest development projects at the state is also financed through allocations from the Forest Development Collection Fund (FDCF) that is collected base on the volumes of logs produced from PRF areas in states having forest harvesting activities.

Despite the above, financing allocations from the above two sources are occasionally not sufficient to fulfil the implementation of planned development forest programs. Two other financial mechanism were created. First the Government of Malaysia has dedicated the levy collection from timber exports for SFM activities into the Malaysian Timber Industry Development Fund (MTIDF). Second the Government of Malaysia has approved a special purpose vehicle (SPV) financial mechanism to encourage the establishment of forest plantations in the country.

FOREST DEVELOPMENT COLLECTION FUND

Financial sources allocated to State Forest Departments (SFD) for the implementation of development forest projects come from allocations from State Governments and from the Forest Development Collection Fund (FDCF).

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Year	Collection	Expenditure	%
2003	33.445	47.028	140.61
2004	37.371	49.979	133.74
2005	36.479	40.703	111.58
2006	42.889	41.138	95.92
2007	41.143	53.363	129.70
2008	40.387	43.07	106.64
2009	37.29	33.03	88.58
2010	42.515	35.693	83.95
2011	42.46	31.854	75.02
2012	46.833	40.712	86.93
Average	**40.081**	**41.657**	**105.27**

MALAYSIA TIMBER INDUSTRY DEVELOPMENT FUND

Overview and background

<u>Objectives</u>

MTIDF has the objectives to provide financial allocations from the timber export levy collections for:

i. Sustainable forest management projects; and
ii. Projects directly related to the development of the downstream timber industries.

Applications are entertained for

i. new projects and phases that have not been established by any other entity;
ii. applications from existing projects that:
    a. period and financing extension for implementing an existing project;
    b. modification of scope, activity and allocation;
    c. utilization of remaining allocations for implementing activities of existing project or different project scopes.

Among the SFM activities and projects funded include those in the three phases

i. Forest management involving the measurements and maintenance of new forest boundaries of forest reserves, implementing pre – felling and management inventories at the forest management unit, establishing and raising forest planning and management capacities, and R&D on SFM;
ii. Forest development involving implementing post-felling inventory, enrichment planting and R&D on forest development;
iii. Forest harvesting involving tree marking such as timber tagging, and raising the capabilities and efficiencies of harvesting;
iv. Forest protection involving the establishment and managing virgin forest reserves, protection of forested water catchment and water bodies, and implementations of forest management system for non-productive forest;
v. Activities of raising awareness and education; and
vi. Human resource training and acquiring of expert services.

Legal basis (or policy or institutional basis)

The formation of MTIDF is based on the allocation under Section 20, MTIB Act 1973 that allows for the implementation of the levy collection of sawn timber and veneer in 1990. The levy collections are to be pooled into the MTIDF. The financing of SFM programmes using a portion of the MTIDF was approved by the 13th Meeting of the National Forest Council held on July 1997.

Management and organizational structure

The management of the SFM financing using MTIDF is spearheaded by a National Committee of SFM chaired by the ministry chief secretary (then Ministry of Primary Industries). Now this committee is chaired by the Chief Secretary of the Ministry of Plantation and Commodity Industries (MPCI). This committee is now renamed the National Committee of the Malaysian Timber Industry Development Fund (NCMTIDF) with the following membership:

- A representative from MPCI
- A representative from MoF
- A representative from the Economic planning Unit, Prime Minister's Department
- A representative from the Ministry of Natural Resources and the Environment (NRE)
- A representative from the Department of Forestry, Peninsular Malaysia (DFSM)
- A representative from the MTIB
- A representative from FRIM
- A representative from Malaysian Timber Council (MTC)
- A representative from Malaysian Timber Certification Council (MTCC) and
- Two representatives from the timber industry.

The flow chart of financing applications is provided below:

1. Receival of paper application and recording the actions;
2. Sending application papers to the agency for comments and acceptance;
3. Presentation of paper in a meeting of the Technical Committee of the Malaysian Timber Industry Development Fund (TCMTIDF) chaired by the Deputy Secretary of the Ministry of the Commodity and Plantation Industries;
4. Result informed to the agency and applicant;
5. Presentation of paper in a meeting of the National Committee of the Malaysian Timber Industry Development Fund (NCMTIDF) chaired by the Secretary of the Ministry of the Plantation and Commodity Industries (MPCI);
6. Result informed to the agency and applicant;
7. Minutes of results brought up for endorsement by the Minister;
8. Project results forwarded to the Ministry of Finance (MoF);
9. Official endorsement and sending of approval letter from the chair of the NCMTIDF to the Malaysian Timber Industry Board (MTIB) for the issuance of allocation from the Levy Fund for the SFM project.

Resource mobilization or fund capitalization strategy (sources of money to the fund)

Fund size, variations

The Government of Malaysia has approved RM 350 million from the levy collections of timber product exports as additional funds to finance the implementations of development forest projects by FDPM and of research projects by the Forest Research Institute Malaysia (FRIM). This dedicated levy collection is termed the Malaysian Timber Industry Development Fund (MTIDF). The amount of the fund that has been used to financing SFM is provided in Table 3.

Table 3: Fund size and allocations from MTIDF

Period	Amount Approved by MoF[1]	Amount Financed and Spent[2]
From 1998 until now	RM 350,465,820: Breakdown of allocation	
	Department of Forestry, Peninsular Malaysia: RM 294,670,820 (84.08%)	Department of Forestry, Peninsular Malaysia: RM 107,900,000 (91.36%)
	MTIB: RM 11,655,000 (3.33%)	
	Forest Research Institute Malaysia: RM 40,000,000 (11.41%)	Forest Research Institute Malaysia: RM 10,200,000 (8.64%)
	Regional Centre of Forest Management: RM 4,140,000 (1.18%)	No records on financing to FRIM and RCFM

[1] Procedure on the management of levy collections from timber exports for projects financed by MTIDF

[2] Interview with Forest Department Peninsular Malaysia

Fund utilization

The allocation of the levy collection to State Governments for SFM projects is based on the matching leverage financing principle of 6:1. Financing is subjected to the amount of expenditures made by State Governments in a Malaysian Plan period for management and development of forest. For every RM 6 spent by State Governments, RM1 will be funded by the MTIDF. The State Governments have to also commit to the sustainable status of the forest where funding is solicited.

Fund oversight

Monitoring, auditing, reporting

The financing of SFM project is oversaw by a project monitoring team (PMT) formed by the TCMTIDF to monitor and regulate the implementation of the project funded by the Malaysian Timber Industry Development Fund (MTIDF) and conducted by project implementation agencies. The PMT is responsible to conduct various activities including inspection, monitoring visits and the preparation of project implementation progress reports for discussions at the TCMTIDF/NCMTIDF. The monitoring scope involves on various physical aspects of the SFM project and reviewing project documentation or recording.

A PMT comprises of:

i. Representatives of MPCI from the Division of Timber, Tobacco and Kenaf Industry (KTK) and the Auditing Unit;
ii. Representatives of any relevant government agencies for the case concerned.

Apart from the above project monitoring, audits are undertaken by the Ministry of the Plantation and Commodity Industries (MPCI) internal audits who have the rights to conduct auditing processes upon all projects funded by the MTIDF from time to time. All implementing agencies have to comply in allowing the PMT and internal auditors in conducting the monitoring, physical and financial inspections on these projects.

Key stakeholders

The key stakeholders of the MTIDF include:

- The manufacturers and exporters of sawn timber, veneer and plywood and other selected timber product. These timber products have been imposed an export levy;
- The MTIB who collects the levy to be pooled into the MTIDF;
- The National and Technical Committee of the Malaysian Timber Industry Development Fund;

- (NCMTIDF) and (TCMTIDF).

The beneficiaries of the MTIDF are:

- SFM project agencies and implementation sections/units such as the State Departments of Forestry's Forest Development/Silvicultural Units in Peninsular Malaysia, and the MTIB's Forest Plantation Section;
- Silvicultural activity and forest plantation funding applicants.

Current status

Key achievements

The FDCF especially on the forest development cess have been the main financing mechanism in funding forest development projects in Peninsular Malaysia. The MTIDF has provided additional funding by financing RM118 million out of the allocated RM 350 million on SFM activities.

SPECIAL PURPOSE VEHICLE (SPV) IN REFORESTATION

In March 2005, the Government pursued an aggressive programme to develop forest plantations in Malaysia. Under this National Timber Industry Policy – NATIP, the Government planned to develop 375,000 ha of forest plantation at an annual planting rate of 25,000 ha per year for the next 15 years. Once successfully implemented, every 25,000 ha of land planted is expected to produce 5 million m^3 of timber every year based on the wood production of 200 m^3 per hectare per year[18].

Objectives

A *Special Purpose Vehicle* (SPV) the Forest Plantation Development SdnBhd (FPDSB) was established:

i. To manage the disbursement of *soft loans* (total RM 1.045 billion);

ii. To carry out auditing process of the plantation as well as to provide technical support and training for the programme;

iii. To attract and encourage the private sector (local and foreign companies) to participate in the forest plantation programme, the Government is providing them with *fiscal incentives* such as an investment tax allowance. Besides of tax exemptions the Government extends also soft loans to eligible companies[19]. At the same time various states in Peninsular Malaysia, Sabah and Sarawak offer additional incentives. Eight species are given preference in this program, namely: *Hevea brasiliences, Acacia hybrid, Khaya ivorensis/senegalensis, Tectona grandis, Azadirachta excelas, Noelamarckia cadamba, Paraserianthes falcataria,* and *Octomeles sumatrana.* Some features of this SPV are as follows[20]:

> *The first borrower will only start to pay in the year 2022 i.e. the 16th year of his loan period from 2007. Therefore, there is no record of no payment loan (NPL) yet. In the case of NPL, the FPDSB has the right terminate the agreement and exercise such rights as provided under the Agreement such as the right to enter and take possession of the plantable area or any part or parts thereof for the purpose of enforcing the cutting rights as mentioned in the Agreement.*

[18] *Ministry of Plantation Industries and Commodities, (2005), Conference of Forestry and Forest Products Research (CFFPR)*

[19] *MTIB.(2012., Official Portal, http://www.mtib.gov.my/, Accessed 16th October 2013.*

[20] *Personal communication with MTIB in March 2013*

Fund Utilization

The loan is only eligible for a Malaysian Company, Cooperative or Association registered under the Companies Act 1965, Cooperative Act 2007 or Association Act 1966.

The loan amount will depend on the size or scale of the forest plantation. The scheme provides for three categories of loan i.e. large scale forest plantation more than 2,500 hectares, medium scale from 41 - 2499 hectares and small scale from 4 - 40 hectares. The loan amount for planting Rubber trees is RM10,000/hectare for Peninsular Malaysia and RM13,000/ha for Sabah and Sarawak. For the other seven forest species, the loan amount is RM 8,000/hectare for all the three regions.

The critical and important loan terms is that the timber produced must be used for local processing and FPDSB must be given the first right of refusal. The borrower must provide security document to FPDSB which include; 1) Charge on the land titleor Deed of Assignment, Power of Attorney and Directors personal guarantee.

The first instalment of payment will start in the 16th year of the loan period of 20 years. The interest rate of 3% per annum on the loan facility shall be chargeable from the date of disbursement of the loan facility. However, the payment of interest shall only become due by the borrower to the lender immediately upon the expiry of the grace period (15 years), upon which the interest chargeable during the grace period shall be capitalised/compounded and added for all purposes to the principal sum then owing and shall thenceforth continue to bear interest at the interest rate.

Current Status

To date, a total of 62,000 hectares of plantation forest has been established out of the 101,000 hectares approved.

FUTURE OUTLOOK (with specific focus on sound financial architecture, governance and sustainability)

The FDCF scheme of financing SFM is expected to be the more sustainable for as long as production of timber and other forest produces could be sustained.
The MTIDF is currently dependable on the export levy collections. But as the exports of primarily processed products are declining, the fund has to look at other alternative sources of fund especially that the MTIB is also seeking financing for its NATIP programmes.
The SPV is not revolving and as the purpose of the setting up of Forest Plantation Development SdnBhd (FPDSB) was to promote the establishment of forest plantations for the future timber supply through the soft loan it manages, it can be said that FPDSB will continue to play its role for as long as the forest plantation program exist or is in operation.

The Government has to look for alternative sources of revenue from the natural forest such as introducing environmental service tax like a watershed fee and recreational entrance fees, as well the creation of payments for environmental services.

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2.4 Approaches to Effectively Establishing and Managing National Forest Funds in India

B.K. Singh[21]

ABSTRACT

The creation of Compensatory Afforestation Fund (CAF) provides an insight into specialized institutional mechanism for assigning specific fund for different forest activities in a country based on the polluter pay principle. The present fund has been created by Apex Court of the country to create mechanism to sustain mitigation measures arising out of the diversion of forest land due to different activities in the country. This also provides an opportunity to look into the institutional structure for interaction for different stakeholders particularly those who pollute and those who mitigate. Though the corpus has the present fund to the tune of $ 5000 million, due to uncertainty regarding institutional framework to manage it has resulted in lower achievement.

OVERVIEW AND BACKGROUND OF THE FUND

The genesis of Compensatory Afforestation Management and Planning Authority (CAMPA) lay in the 29 October 2002 order of the Supreme court of India (SCI) that a 'Compensatory Afforestation Fund shall be created in which all monies received from the user agencies towards compensatory afforestation, additional compensatory afforestation, net present value of forest land, Catchment Area of Treatment Plan Funds, etc. shall be deposited. The rules, procedure and composition of the body for management of the Compensatory Afforestation Fund were to be finalised by the MoEF with the concurrence of the Central Empowered Committee (CEC). In compliance with these orders, creation of CAMPA was notified by MoEF in April 2004 as a custodian of CAF with the responsibility of receiving, managing and disbursing the monies and monitoring and evaluation of works. Ad-hoc CAMPA was an interim body which was created till CAMPA became operational. Initially its mandate was collection of monies and its investment. In 2009, Ad-hoc CAMPA was authorised to disburse funds as per prescribed guidelines. Simultaneously guidelines for creation of State/UT CAMPA were notified. So far total deposits in the CAF is around 5000 million dollar out of which around 3667 million dollar and 1333 million dollar are principal amount and interest amount respectively. Presently, this fund is managed by an Ad-hoc body called Ad-hoc CAMPA constituted by the Hon'ble Supreme Court of India vide its order dated 5th May 2006.

These payments of compensatory levies by the user agencies are based on the concept of "Polluters pay Principle" one of the core principle of sustainable development. This recognises that the polluter should pay for any environmental damage created, and that the burden of proof in demonstrating that a particular technology, practice or product is safe should lie with the developer, not the general public.

The composition of the Ad-hoc CAMPA is as follows:-

(i)	Director General of Forests	:	Chairman, Ad-hoc CAMPA
(ii)	Member Secretary CEC	:	Member
(iii)	Representative of CAG	:	Member
(iv)	Inspector General of Forests	:	CEO, CAMPA & Member Secretary (Forest Conservation)

[21] *Director, Ministry of Environment and Forests, Government of India*

This institution's uniqueness lies in not only the management of large corpus of funds, presently of the order of over 5000 million dollar, but also, its composition wherein the representatives of Ministry, the Comptroller and Auditor General of India (CAG), and the CEC constituted by the hon'ble Supreme Court of India are members of Ad-hoc body. The institution is working as per different orders passed by the hon'ble Supreme Court from time to time and as per decision of this body. The CAG is a statutory national accountant and auditor of India. Similarly, the CEC has been constituted by the Supreme Court of India to oversee and assist the apex court in adjudicating on different issues particularly related to utilization of forest land and forest resources.

Aim and objective of the fund:

To accelerate activities for preservation of natural forests, management of wildlife, infrastructure development in the sector and other allied works including:

- conservation, protection, regeneration and management of existing natural forests;
- conservation, protection and management of wildlife and its habitat within and outside protected areas including the consolidation of the protected areas;
- compensatory afforestation;
- environmental services, which include:

    (i) Provision of goods such as wood, non-timber forest products, fuel, fodder and water, and provision of services such as grazing, tourism, wildlife protection and life support;

    (ii) Regulating services such as climate regulation, disease control, flood moderation, detoxification, carbon sequestration and health of soils, air and water regimes;

    (iii) Non-material benefits obtained from ecosystems, spiritual, recreational, aesthetic, inspirational, educational and symbolic;

    (iv) Supporting such other services necessary for the production of ecosystem services, biodiversity, nutrient cycling and primary production and

    (v) Research, training and capacity building.

Functions of the CAMPA:

- Funding, overseeing and promoting compensatory afforestation done in lieu of diversion of forest land for non-forestry use under the Forest (Conservation) Act, 1980;
- Overseeing forest and wildlife conservation and protection works within forest areas undertaken and financed under the programme;
- Maintaining a separate account in respect of the funds received for conservation and protection of Protected Areas;
- Creating transparency for the programme and mobilizing citizen support; and
- Earmarking up to two percent of the funds for monitoring and evaluation.

Similarly at the State level, the State CAMPA has been established as an Authority with the similar aim, objective and similar functions vide this ministry's notification dated 03rd July 2009.

Legal Basis: Why CAF and CAMPA?

According to forest survey of India, between 1951 and 1981, a total of 4.238 million ha of forest land was diverted for purposes like river valley projects; highways and industries. With a view to regulate the unabated diversion of forest land for non-forestry purposes the Government of India enacted a legislation, the Forest (Conservation) Act, 1980 (FCA) with effect from 25.10.1980, which provides a regulatory mechanism for unavoidable use of forest land for various developmental purposes. Under section-2 of the FCA, every State / UT Government, before permitting investigation / survey / prospecting in forest land and diverting / de-reserving forest land for non-forest purposes, requires prior approval of the Central Government. Also, the Central Government has from time to time framed guidelines and rules under the Forest (Conservation) Act 1980. The Forest (Conservation) Rules, 2003 are currently in force, which prescribe detailed procedure for obtaining forest clearances for projects involving diversion of forest land. A Forest Advisory Committee constituted under Section 3 of these Rules advises the Central Government regarding proposals received for utilization of forest land for non-forestry purpose.

The statute for forest diversion requires the diversion to be done in two stages. At Stage-I (i.e. 'in-principle approval stage'), the proposal is either agreed to or rejected after being thoroughly examined by the Regional Offices (up to 5 ha), State Advisory Group (5 to 40 ha) and Forest Advisory Committee (more than 40 ha). If agreed to, certain conditions, largely relating to payment of appropriate opportunity costs and expenses towards mitigating the environmental damages of diversion of forest land are stipulated, which are required to be fulfilled by the project authorities. Prominent among these conditions include:

- Net Present Value (NPV) or the quantification of the environmental services provided for the forest area diverted for non-forestry uses as determined by Central Government from time to time by appointing an expert committee. The concept of NPV as compensation for different ecological services provided by the forest land being proposed for diversion and non-forest use was put in place by SCI on 29th October, 2002 presuming that plantations and artificial regeneration could not compensate fully the impact of diversion;
- Identification of non-forest land for Compensatory Afforestation (CA) and payment of cost towards CA, or afforestation done in lieu of the diversion of forest land for non-forestry use under the Forest (Conservation) Act, 1980;
- Cost of Penal Compensatory Afforestation or afforestation (PCA) or additional Compensatory Afforestation (ACA) work to be undertaken over and above the prescribed compensatory afforestation under the Forest (Conservation) Act, 1980, in lieu of the extent of area over which non-forestry activities have been carried out without obtaining prior approval of the competent authority under the Forest (Conservation) Act, 1980 (FCA); and
- Other expenses towards mitigating the environmental damages including catchment area treatment, wildlife preservation, bio-diversity conservation and rehabilitation of displaced persons, if any.

After the receipt of the compliance report including confirmation of deposition of monies in CAF and fulfilling the conditions stipulated in the stage-I or in-principle approval, from the user agencies through the respective State/UT Governments, the stage-II clearance is accorded by the Government of India. Following this, the project authorities are handed over the forest land for non-forestry use, provided they also have other requisite clearances.

The increase in compensatory levies due to imposition of NPV has resulted in slowing down the pace of diversion of forest land from 0.15 million hectare per annum in 1950-80 period (i.e. prior FCA) to 0.036 million ha/annum after 1980.

The Supreme Court of India in November 2001 had observed that there was poor utilization of funds deposited for compensatory afforestation and also that a large amount of money for compensatory afforestation was not realized by the State Governments from user agencies. It observed that in some of the States the funds were deposited as `Forest Deposit' and were readily made available for afforestation while in other States the funds were deposited as revenue receipts of the State Government and could be made available to the Forest Department only through the budgetary provisions. In order to **increase the pace and quality of compensatory afforestation**, the Court created a separate fund in October 2002, so that compensatory afforestation could be taken up in a planned manner on a continuous basis and to ensure **timely and adequate** release of money, to provide necessary flexibility in implementation of the schemes etc. Thus fund was proposed to be created outside the consolidated fund of India and State wherein general revenue receipt of the Government is deposited. This was necessitated due to special characteristics of the forest and Wildlife work and low priority to forest and wildlife sector in budgetary allocation. These are mostly time bound, seasonal and long term period with low rate of return. Though there may be some commercial species which gives good return in artificial plantations, but they could not replace the diverted forest land. Species occurring in natural forest has different role to play in providing different benefits accruing to the society in tangible and intangible form.

SCI also directed that the Central Government (MoEF) shall within eight weeks frame comprehensive rules with regard to the constitution of a body and management of the compensatory afforestation funds. The Rules, procedure and composition of the Body for management of the Compensatory Afforestation Fund has to be finalized by the Ministry of Environment and Forests (MoEF) with the concurrence of the Central Empowered Committee (CEC). Accordingly, the Ministry of Environment and Forests vide its Notification No. SO525(E) dated 23rd April, 2004 constituted the Compensatory Afforestation Fund Management and Planning Authority (CAMPA) with the concurrence of the Central Empowered Committee (Annexure-I). The Notification mentioned above provides the Constitution of the Governing Body, Executive Body, powers and functions of the Governing Body as well as the Executive Body, meetings to be held apart from management of fund, disbursement of funds and monitoring and evaluation of the works at sites etc. However, the CAMPA so constituted could not become functional due to non-approval of the Central Government. Later on the Hon'ble Supreme Court of India vide his order dated 6th May, 2006 after examining the report (IA No. 1473) of the Central Empowered Committee (CEC) dated 24th January 2006 directed constitution of Ad-hoc Body of CAMPA till the CAMPA become operational. The Ad-hoc CAMPA was required to perform following two specific responsibilities:

(a) To ensure that all the monies recovered on behalf of the 'CAMPA' and which are presently lying with the various officials of the State Government are transferred to the bank account(s) to be operated by this body.

(b) To get audited all the monies received from the User Agencies on behalf of the CAMPA and the income earned thereon by the various State Government officials. The auditors may be appointed by the Comptroller and Auditor General (CAG). The audit may also examine whether proper financial procedure has been followed in investing the funds.

Finally, not only the deposit from the State Government/User Agency but release to the State Government also was operationalized vide SCI's order dated 10th July, 2009. Herein, the SCI accepted the recommendations of the CEC regarding utilization of fund for different purposes through creation of State CAMPA and prescribing guidelines for deposition and utilization of monies from CAF. The Salient features are as follows:

1. The guidelines and the structure of the State CAMPA as prepared by the MOEF has been notified/ implemented. All previous orders passed by this Court regarding this would stood modified to the extent necessary for implementation of the present proposal.
2. SCI considered it appropriate to permit the Ad-hoc CAMPA to release, for the time being, the sum of about 167 million dollar per year, for the next years, in proportion of 10 % of the principal amount pertaining to the respective State/UT. Since substantial amount of funds had

been received by the Ad-hoc CAMPA and sudden release and utilization of this large sum all at one time might not be appropriate and might lead to its improper use without any effective control on expenditure.

3. The amount towards the NPV and the protected area shall be released after the schemes have been reviewed by the State Level Executive committee and the Annual Plan of Operation is approved by the Steering Committee;
4. The amount towards the CA, Additional CA, PCA and the Catchment Area Treatment Plan may be released in the respective bank accounts of the States/UTs immediately for taking up site specific works already approved by the MoEF while granting prior approval under the Forest (Conservation) Act, 1980.
5. An amount up to 5% of the amount released to the State CAMPA may also be released and utilized by the National CAMPA Advisory Council, for monitoring and evaluation and for the implementation of the various schemes as given in para 19 of the Guidelines on the State CAMPA. It is left to the discretion of the National CAMPA Advisory Council whether it wants to spend money directly or through the Ad hoc CAMPA.
6. The recommendations for the release of the additional funds, if any, will be made in due course from time to time after seeing the progress made by the State level CAMPA and the effectiveness of the accounting, monitoring and evaluation systems.
7. The State Accountant General shall carry out the audit of the expenditure done out of State CAMPA funds every year on annual basis.
8. The State Level Executive Committee shall evolve an appropriate and effective accounting process for maintenance of accounts, returns and for audit.
9. The interest received by the State CAMPA on the amounts placed at their disposal by the Ad hoc CAMPA may be used by it for administrative expenditure.
10. Till an alternative system is put in place (after obtaining permission from this Court) the money towards CA, NPV and Protected Areas (National Parks, wildlife Sanctuaries) shall continue to be deposited in the Ad hoc CAMPA and its release will continue to be made as per the existing orders of this Court.
11. While carrying out the work of utilizing these funds the broad guidelines adopted by the National Rural Employment Guarantee programme (NREGA) be followed and as far as possible work may be allotted mostly to rural unemployed people, maintaining the minimum wages level.
12. The CEC may file status reports as regards implementation of the scheme every six months.

The above-said Guidelines for establishing CAMPAs in the States/UTs and putting in place a funding mechanism for enhancing forest and tree cover and conservation and management of wildlife by utilizing funds received towards Compensatory Afforestation, Net Present Value (NPV), etc., currently available with the Ad-hoc CAMPA was, by and large, in line with the discussions held in the meeting of the Chief Secretaries of the States. It has the objective to assist the States/UT's for setting up the requisite mechanism and is in consonance with the directions issued from time to time by the Hon'ble Supreme Court. These guidelines had desired flexibility; therefore the States/UTs were able to notify the State level CAMPAs keeping in view specific conditions prevailing there.

The very nature of Ad-hoc CAMPA was ad-hoc in nature and its complete operationalisation in terms of collection of deposits and investment took some time. This may have resulted in some procedural infirmities in initial stages. It is to mention that now Ad-hoc CAMPA has huge deposits and a sound and prudent investment policy in place with the specific assistance from the CAG representative.

RESOURCE MOBILIZATION OR FUND CAPITALIZATION STRATEGY (SOURCES OF MONEY TO THE FUND)

Initially, an amount of Rs. 2.97 billion for CA was lying unutilised with the Forest Departments in the respective State/ UTs and this increased to Rs. 12.00 billion and credited to the Ad-hoc CAMPA in 2006. This amount further increased to Rs. 993.2 billion in 2009 and accumulated to Rs. 2.36 trillion by March 2012. No funds were released during the period 2006-09 while an amount of Rs. 28.3 billion was released by Ad-hoc CAMPA during 2009-12. On 30.06.2009, when monies were first released to the State Government, the principal amount was only Rs. 94,000 million which is Rs. 212,279 million on 31.03.2013. Around 30% of monies deposited in CAF are due to NPV and rest 30% belong to site specific approved plans for CA, Wildlife Management plan and other mitigation plans.

To understand better, the money deposited in CAF can be traced to three phases:

1. Prior to charging net present value for diverted forest land i.e. prior to 30.10.2002

During this phase, forest land were allowed to be used for non-forestry purposes only with CA, without imposing stringent conditions of NPV, site specific plan, Catchment area treatment plans etc. hence most of the money collected were for compensatory afforestation and in some cases some site specific plan only. Hence amount deposited was very low. This was applicable for transfer of all forest land prior to 30th October, 2002.

2. Post 30th October 2002 to 28th March, 2008 i.e. prior to fixation of rates for NPV.

During this period, NPV was started to be collected from the user agency at the rate of Rs. 5.80 to 992,000 per hectare of forest land. The actual rates being determined by the State Government and Field Officers as per the site condition regarding density of vegetation, type of vegetation and other site factors. This resulted in deposition of more than Rs. 2 million per hectare as cost for different mitigation measures including Net Present Value (NPV). This relate to fast increase in CAF.

3. Post 28th March, 2008 – On 24th March, 2008, SCI gave their final judgement regarding rates of NPV to be imposed for diversion of funds. Now the rates are fixed for six eco classes and three density classes. Based on the ecological importance of forest falling in different eco-value and canopy density classes, relative weightage factors have also been taken into consideration. By using these relative weightage factors, the equalized forest area in eco-value Class I and very dense forest corresponding to forest falling in different eco-value and density classes have been compiled. For example, 17,997 sq. km. of open forest of Eco-Class IV has been calculated to be equivalent to 7,558 sq. km. of very dense forest of Eco-Value Class I. Accordingly, the entire forest area of the country has been calculated and found to be equivalent to 520,000 sq. km. forest area having highest *ecological significance as that of forest falling in eco-value Class I with density above 70%.* The following monetary value of goods and services provided by the forest have been considered:

(i) Value of timber and fuel wood
(ii) Value of Non-Timber Forest Products (NTFP)
(iii) Value of fodder
(iv) Value of Eco-tourism
(v) Value of bio-prospecting
(vi) Value of Ecological services of forest
(vii) Value of Flagship Species
(viii) Carbon Sequestration Value

Based on this, the NPV was fixed and the following recommendations have been made:

(i) *for non-forestry use/diversion of forest land, the NPV may be directed to be deposited in the Compensatory Afforestation Fund as per the rates given below:*

(in Rs.)

Eco-Value Class	**Very Dense Forest**	**Dense Forest**	**Open Forest**
Class I- Tropical Wet Evergreen Forests, Tropical Semi Evergreen Forests and Tropical Moist Deciduous Forests	1,043,000	939,000	730,000
Class II- Littoral and Swamp Forests	1,043,000	939,000	730,000
Class III - Tropical Dry Deciduous Forests	887,000	803,000	626,000
Class IV - Tropical Thorn Forests and Tropical Dry Evergreen Forests	626,000	563,000	438,000
Class V- Sub-tropical Broad Leaved Hill Forests, Sub-Tropical Pine Forests and Sub Tropical Dry Evergreen Forests	939,000	845,000	657,000
Class VI - Montane Wet Temperate Forests, Himalayan Moist Temperate Forests, Himalayan Dry Temperate Forests, Sub Alpine Forest, Moist Alpine Scrub and Dry Alpine Scrub	991,000	897,000	699,000

The use of forest land falling in National Parks / Wildlife Sanctuaries will be permissible only in totally unavoidable circumstances for public interest projects and after obtaining permission from the Hon'ble Court. Such permissions may be considered on payment of an amount equal to ten times in the case of National Parks and five times in the case of Sanctuaries respectively of the NPV payable for such areas. The use of non-forest land falling within the National Parks and Wildlife Sanctuaries may be permitted on payment of an amount equal to the NPV payable for the adjoining forest area. In respect of non-forest land falling within marine National Parks / Wildlife Sanctuaries, the amount may be fixed at five times the NPV payable for the adjoining forest area;

This has resulted in huge increase in fund in the CAF. It is pertinent to mention that after deposition of funds since May, 2006 to July, 2009, no fund was released from this Corpus. It resulted in huge accrual from interest amount on the principal deposits. These rates are under review for increase so that compensatory levies are increased.

The main source of accrual in CAF is from, as mentioned above, NPV, CA, ACA, PCA, special plans for wildlife management and soil conservation. As mentioned above, at present, the CAF has around $ 5,000 million (at the rate of Rs. 60.00 per dollar).

FUND UTILIZATION

The fund from the CAF is utilised by the State CAMPA as per the guidelines issued by the MoEF, New Delhi. The guidelines provides for utilisation of money as per guidelines para 11 and disbursement of funds as per guidelines para 12. The nature of work as mentioned earlier are CA, ACA, PCA, CAT for any other CAT and site specific scheme. A typical APO of the State Government is at Annexure-A.

Annual Plan Operation (APO) is prepared by the State CAMPA. These APOs are prepared after compilation of the annual plans of different Forest Divisions located in that State. These plans area approved by the Executive Committee of the State CAMPA and finally approved by the Steering Committee of State CAMPA. Time to time Governing Body of the State CAMPA formulates policy framework for the proper working of the State CAMPA. It also review and monitor working of the State CAMPA time to time. So far around $ 635 million has been released to State CAMPAs for implementing their Annual Plan of Operations.

The funds which were thus transferred to the Ad-hoc CAMPA, commencing in May 2006, remained with this body, and were accumulating with fresh receipts of compensatory levies received through the State Governments from time to time. It was only in July 2009 as mentioned above, that the hon'ble Supreme Court of India permitted the release of the funds to State CAMPAs, which were constituted in terms of the Guidelines issued with their approval. It is notable here that between the years 2006 and 2009/2010 no funds were released for the purpose of compensatory afforestation (CA). Considering that CA is an activity which requires advance planning and works, and also, such CA needs careful maintenance and nurturing for a number of years, it is clear that the non-provision of funds delayed the CA efforts on the part of the States, by a number of years. Since when the funds were released to the States in the year 2009/10 it required detailed planning before CA or assisted natural regeneration efforts could actually be taken up on the ground, the time lag in actual utilization of these funds was clearly inescapable.

From the above, it is clear that Ad-hoc CAMPA has worked in a highly uncertain situation regarding its existence and working. This has, inevitably, resulted in some delays and procedural problems. Ad-hoc CAMPA has succeeded in placing suitable systems for not only the deposit of funds with optimal interest earnings, but also, ensuring that compensatory afforestation, forest protection, demarcation of forest boundaries, operationalisation of working plans etc. are taken up in right earnest. Systems have also been put in place for e-based real-time monitoring of these efforts in some States, with its replication in other States being under consideration.

It has been found that release of funds is less than the fund accruing in CAF. The present estimated average annual accrual is around Rs. 45,000 million (i.e. Rs. 30,000 million as principal amount/new accrual and Rs. 15,000 million as interest amount). That is why, SCI has been approached for release of funds amounting to 10% of the total principal amount that will be around Rs. 22,000 million per annum.

Since most of the work are being carried out in forest areas, most of the benefits are accruing to the forest communities residing there. It has been specifically ensured that local communities, particularly poor eligible communities, are involved in carrying out these forestry and forest based works. However, this has worked only for three years the assessment regarding its rate of success could not be done. However, during submission of APOs by the State Governments, it is ensured that the sites where work will be carried out is geo-referenced and these are placed in the public domain for public interaction.

FUND OVERSIGHT

The institutional design for incurring expenditure from the CAF under Ad-hoc CAMPA and by State CAMPA is somewhat distinct from the expenditure being incurred by both the Central Government and State Government. In the case of expenditure being currently incurred by Ad-hoc CAMPA and by State CAMPA, there is no legislative authorisation for the incurrence of such expenditure. The money in the fund is kept out of Consolidated Fund of India based on the directions/orders of the Supreme Court and the expenditure is incurred without authorisation from Parliament. The Court passed its orders in 2002 when the quantum of expenditure was negligible during the initial years. As per CAG, by the end of March 2012, the expenditure incurred was 295.97 million dollar against releases of 471.53 million dollar. Given the large amounts being collected from user compensatory afforestation under the provisions of Forest (Conservation) Act, 1980, and in the context of the objectives of CAMPA, it may be necessary to review the existing institutional design in consonance with the constitutional scheme with regard to the authorization of incurring of expenditure on CAMPA related activities by approaching the Supreme Court, where considered necessary. MoEF has already moved executive instructions for approval of the Government for regularising the Ad-hoc CAMPA and State CAMPA. As per proposed instructions, the Ad-hoc CAMPA will be named National CAMPA and except 5% of the Corpus, remaining will be transferred to the respective State CAMPAs for more flexibility and transparency.

The account of the CAF has been prepared and audited by the Auditors, authorised by the National Auditor (CAG) and it has found no major discrepancy in the keeping of the account. This corpus has also been audited for its performance by the National Auditor (CAG) and has recommended for its regularisation as mentioned above. It is pertinent to mention that the expenditure for maintaining the corpus and Ad-hoc CAMPA is not met from this corpus, however, it is provided by CEC from a separate corpus of the CEC.

The expenditure from the CAF is monitored by Ad-hoc CAMPA and National CAMPA Advisory Council (NCAC) through quarterly progress reports and audit reports of the National Auditor. The items for expenditure is also listed and non-permissible items like construction of big building for headquarters, purchase of vehicles for non-frontline and supervising staff are not allowed. Precaution has been taken that day to day / routine expenditure is not met from this corpus and State Governments should ensure that these are met from regular budgetary provisions.

ROLE OF STAKEHOLDERS

The accruals in CAF and its expenditure by State CAMPA involve lot of stakeholders who may be divided into two categories:

1. Stakeholders responsible for deposition of money into CAF in lieu of diversion of forest land for mitigating different environmental impact due to its diversion.

   In this category most of the user agencies belongs to government bodies and private bodies involved in mining, power, road, defence, etc. The timely deposition will result in better performance of the corpus.

2. Stakeholders responsible for expenditure of money from CAF for mitigating different environmental impacts.

   In this category State Forest Departments, local institutions like Panchayats, Joint Forest Management Committees (JFMCs). The proper synergy between these organizations will result in better performance.

However, due to lack of clarity regarding involvement of major Public Sector Units, Special Purpose Vehicle (SPV) could not be made operational by the MoEF so far. However, Hon'ble Supreme Court, in pursuance of CEC's report has operationalised two SPVs, one in Orissa and other in Karnataka. These SPVs have more than 1670 million dollar as corpus for not only forestry activities but also socio-economic activities in the project area. These has been created at State level with Members from State Forest Departments, Tribal Affairs Department, Agriculture, eminent Non-governmental Organisations with Chief Secretaries of the States as Chairman of the SPVs. It is pertinent to mention that Chief Secretary is the head of the bureaucracy. So far, all investments of the CAF corpus is in different banks as term deposits.

CURRENT STATUS

The creation of CAF has led to thinking in the Government that separate corpus for forestry activities is required in the country and accordingly the present CAF and Ad-hoc CAMPA may be regularized. So far, out of releases from the CAF by Ad-hoc CAMPA has resulted in large scale compensatory afforestation and implementation of different afforestation and Wildlife Management Plans. However, the intended purposes could not be met due to slow pace of release of money to the State CAMPA.

The present Ad-hoc mechanism has led to indecisiveness in decision making regarding collection of monies, investment of these monies and expenditure from CAF. However, in 2-3 months, the Ad-hoc CAMPA and State CAMPAs will be regularized and then more prudent decision regarding above issues could be taken.

FUTURE OUTLOOK:

The CAF can be used in various ways as below:

1. Creation of forestry assets in a time bound manner in project form;
2. Creation of sustainable mechanism for financing maintenance of these assets;
3. Leveraging corpus as collateral for raising loans for forestry activities particularly commercial plantations on private land.

However, a decision in all these respects will require a strong National body for managing this CAF fund. The constitution and composition of CAF and Ad-hoc CAMPA has shown a ray of hope for mobilizing resources for forestry activities in developing countries wherein the budgetary support for these activities is very low in spite of the fact that most of the poor communities lives in forest areas in forest.

2.5 National Finance for Sustainable Forest Management in India

S. Balaji[22]

ABSTRACT

The forest and tree cover in India is spread over78.29 million hectares which constitutes 23.81% of the total geographical area. India lays great importance on forest conservation, its sustainable management besides increasing its natural capital through various afforestation initiatives. The pressures on India's forests continue to be severe with more than 200 million people dependent on it for their livelihood. In the context of Sustainable Forest Management (SFM), the Forest Conservation Act 1980 is a landmark legislation which has substantially reduced diversion of forest land for non-forestry purpose. The National Forest Policy 1988, gave a new orientation to the Forest management in the country. It laid emphasis on the role of forests in bio-diversity conservation and environmental stability. Forestry is a concurrent subject according to the constitution of India. Therefore both the Government of India and the State Governments are responsible for making investment in forestry sector. The major portion of forestry budget comes from the state governments which is supplemented by various schemes of Government of India and externally aided projects. The role of National Forest Finance in improving forest cover has been quite significant in India. Implementation of Compensatory Afforestation Management Planning Authority (CAMPA) Programme, Finance Commission Grant and National Afforestation Programme (NAP) funded by Government of India have significantly helped in improving the green cover. CAMPA is a new model of collection of monetary compensation from the user agencies for the forest land diverted and utilizing this amount for compensatory afforestation and other SFM initiatives in the country. This paper discusses Indian experience in strengthening the National finance for SFM with special reference to CAMPA.

Key words: Adhoc CAMPA, State CAMPA, Compensatory Afforestation, Sustainable Forest Management

SUSTAINABLE FOREST MANAGEMENT

Sustainable Forest Management (SFM) definition was developed at the Ministerial Conference on the Protection of Forests in Europe (MCPFE), and has since been adopted by the Food and Agriculture Organization (FAO). SFM is defined as the stewardship and use of forests and forest lands in a way, and at a rate, that maintains their biodiversity, productivity, regeneration capacity, vitality and their potential to fulfil, now and in the future, relevant ecological, economic and social functions, at local, national and global levels and that does not cause damage to other eco systems (Wikipedia). The Earth Summit at Rio adopted Forest Principles in 1992.

The United Nations Forum on Forests (UNFF) was established as a part of a new international arrangement on forests. A Non-Legally Binding Instrument on all types of forests was adopted on April 28, 2007. The UNFF instrument strives to strengthen political commitment and action at all levels to implement effectively sustainable management of all types of forests and to enhance the contribution of forests to the achievement of the internationally agreed development goals, including the Millennium Development Goals, in general and poverty eradication and environmental sustainability

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in particular (Anon, 2009). There are number of sustainable forest management initiatives undertaken across the globe. Some of the initiatives taken up in Asia during the last two decades include the Joint Forest Management programme in India, User Group Forestry programme in Nepal, Participatory Forestry in Bangladesh. The Government of Guyana and the Commonwealth Secretariat initiated International Centre for Rain Forest Conservation and Management (IWAKROMA) in over 4000 km. sq. of forest in Guyana. (Balaji, 1997). India is committed to implement the SFM and it is a signatory to the United Nations Forum on Forests.

INDIA'S FORESTS

India's forests spread over 78.29 million hectares provides livelihood to over 200 million people living adjacent to the forests in one way or other. Similarly, over 190 million out of total 530 million livestock population depend on forests. The territorial forest management is done through 788 forest divisions and 4706 forest ranges. There are 688 protected areas comprising 102 National Parks, 515 Sanctuaries, 47 Conservation Reserves and 4 community reserves covering 16.121 million hectares of forest lands. Joint Forest Management (JFM) projects were implemented over 24.6 million hectares in different states over the last two decades. These JFM areas are now being managed by local people through 1, 12,896 JFM Committees (ICFRE, 2010). Many of these areas are showing marked improvement in terms of rejuvenation and their biodiversity status (Balaji, 2012). The National Forest Policy1988, gave a distinct orientation towards the role of forests towards environmental conservation, ecological stability and conservation of bio diversity. It also clearly stated that the commercial consideration will only be secondary to ecological functions of the forests. Conservation orientation given since eighties has prevented diversion of forest land and exploitation of forests for commercial purpose. India now produces only 2.4million m^3 of timber and imports 6 million m^3 of timber annually from Malaysia, Myanmar, New Zealand, Ghana, Ivory Coast and Gabon (ICFRE, 2010). Government of India enacted Forest Conservation Act 1980, which restricted diversion of forest land for non-forestry purpose without the concurrence of the Central Government.

INVESTMENT IN FORESTRY SECTOR IN INDIA

Forestry is a concurrent subject according to the constitution of India. Therefore both the Government of India and the State Governments are responsible for Forest Management. While the Central government formulates the policy and legislations, the state governments are responsible for the field level direct management of the forests. Therefore major portion of forestry budget comes from the state governments comprising committed expenses towards staff salary, forest protection and development works through Non-plan and Plan Schemes.

National Forest Finance

The role of National Forest Finance in improving forest cover has been quite significant in India. The major central Government funding comes from CAMPA, National Afforestation Programme (NAP) and Finance Commission Grants. They have significantly helped in improving the green cover. CAMPA is the largest programme in size with an annual allocation of Rs. 10 billion. CAMPA is a new model of collection of compensation for Forest land diverted from the user agencies and utilizing this amount not only for compensatory afforestation but also for other SFM initiatives in the country. Finance Commission special forest grant is allocated to the states which have protected their forests better than the national average in extent and density. The award of Finance Commission grant for forests is also around Rs.9.5 billion per annum. This fund is given since 2005 to various state governments (Anon, 2005).National Afforestation Project is being implemented across the country. An amount of Rs.16.70 billion has been spent from 2007-08 to 2011-12 for undertaking afforestation and promote participatory forest management over 1.06 billion hectares. The National Afforestation Programme, Intensification of Forest Management and Wildlife schemes contribute annually Rs. 3 billion, Rs. 2.65 billion and Rs.0.8 billion respectively. Green India Mission has been formulated to combat the impact of climate change with an estimated out lay of Rs.460 billion to be spent over the next 10 years. It envisages improving the crown cover of forests over 5 million hectare and increase forest and tree cover over another 5 million hectare. It will lead to additional sequestering of 50-60 million tonnes of CO_2. The uniqueness of Green India Mission is that it follows a landscape approach. A modest beginning has been made with an allocation of Rs.500 million. Including other minor schemes, annually about Rs.27 billion is passed by the Central government to all the states for forestry activities. These schemes are sanctioned to state government to enhance the extent and quality of forest cover, besides conservation of forests and wildlife habitats. Afforestation activities are undertaken annually over 1.6 million hectares. Forested watersheds provide clean water in several cities like New York and Mumbai. For instance, the Catskill, Delaware and Croton watersheds deliver 1.3 billion gallons of water for 9 million citizens of New York (WWF/IUCN, 2003). The State Pollution Control Boards in India collect water cess from the industries (Anon 2009). In Tamil Nadu an innovative scheme of mass planting of 6.5 million trees has been implemented availing about Rs.300 million from Tamil Nadu Pollution Control Board. As forest plays an important role in protecting the water sheds and ensuring sustained water supply, it is important that such innovative funding mechanisms will have to be found to increase green cover further. The overall allocation to the forestry sector compared to total plan allocation is rather modest at less than 1% considering the extent of geographical area under forests and innumerable goods and services provided by them.

Externally Aided Projects

State governments are also playing significant role by providing financial allocation in the regular budget besides availing soft loan from international donor agencies like JICA (Japanese National Cooperation Agency). There are 11 externally aided state sector projects implemented in India. These are implemented in the states of Gujarat, Haryana, Himachal Pradesh, Karnataka, Odisha, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh and Sikkim with total budget of 64.53 billion to be implemented over 6-7 years of project period. These projects are funded by JICA (www.jica.go.jp/english). A project funded by the World Bank in Andhra Pradesh and another by JICA in Rajasthan concluded recently. The externally aided projects have played a significant role in not only enhancing the forest cover through afforestation and bio diversity conservation but have helped in strengthening forestry institutions and promoting tree cultivation outside the forests. Tamil Nadu Afforestation Project funded by JICA since 1995 has contributed for improvement in green cover and biodiversity enhancement in the state (Balaji, 2004).

CAMPA – AN OVERVIEW

CAMPA is a new model of collection of monetary compensation from the user agencies for Forest land diverted and utilizing this amount for compensatory afforestation and other SFM initiatives in the country.

Objectives

When any forest land is diverted for non-forestry purpose, under the Forest Conservation Act 1980, the Ministry of Forests and Environment, Government of India gives that concurrence with certain conditions. These conditions stipulate that the user agency should provide twice the extent of forest land diverted and also meet the cost of raising compensatory afforestation in that site. This condition of compensatory afforestation is not applicable if the land diverted is less than one hectare. In addition, the user agency will have to deposit an estimated amount of about Rs.1.00 to 1.50 million for every hectare of forest land diverted as the net present value (NPV). The amount collected towards

NPV of forest land diverted and the amount deposited towards compensatory afforestation are collected in a fund maintained by Government of India called Compensatory Afforestation Fund. CAMPA is intended as an institution to promote preservation of national forests including wildlife, increasing forest cover, its sustainable management and other allied activities. (www.moef.nic.in)

Legal basis

The legal basis for CAMPA is the Forest Conservation Act 1980, which stipulates that no forest land can be diverted for non-forestry purpose without concurrence of the Government of India. As per the order IA No.566/WP (Civil) No.202/1995 dated 30.10.2002 of the Supreme Court of India and according to the guidelines of Government of India the NPV of the forest land is collected from the user agency and deposited with the National Adhoc CAMPA, New Delhi. The Government of India in consultation with the state governments established the State CAMPA in every state in the year 2009 and put in place a funding mechanism for enhancing forest and tree cover by utilizing funds available with Adhoc CAMPA, New Delhi. The State CAMPA guidelines were approved by the Government of India as per the directions of Supreme Court of India, envisage the following:

1. The State CAMPA is intended as an instrument to accelerate activities for preservation of natural forests, management of wildlife, infrastructure development of the forest sector;
2. State CAMPA would receive money from user agency towards compensatory afforestation, Penal Compensatory Afforestation, net Present Value (NPV) and other amounts;
3. The State CAMPA would administer the funds received from the Adhoc CAMPA and utilize the money collected for all the welfare activities of the forests;
4. The Adhoc CAMPA, as the name suggests is a purely temporary arrangement. It will liquidate itself once all systems are in place and CAMPA has become fully functional in the frame work contained in Supreme Court order of 10th July 2009;
5. State CAMPA would serve as a common repository of funds accruing on account of Compensatory Afforestation and net Present Value;
6. State CAMPA would provide integrated frame work for utilizing multiple sources of funding. It provides a scope for training of the forest officials at various levels with an emphasis on training of the staff at cutting edge (forest range level). The amount can be utilized for providing residential accommodation to the field staff and provide necessary equipment to them. The Department would be modernized to protect and regenerate the forests and wildlife habitat;
7. The State CAMPA may engage few personnel on contract wherever there is shortage of personnel and promote conservation awareness among youth and children.

Management and Organization structure

The Adhoc CAMPA at the Government of India level is managed by the National CAMPA Advisory Council headed by the Union Minister of Environment and Forests. The National CAMPA Advisory Council lays down broad guidelines for the State CAMPA and also undertakes monitoring and evaluation of the projects in consultation with the states. The State CAMPA has a governing body, a Steering committee and an Executive committee for its management. The governing body is headed by the Chief Minister of the state and consists of Minister of Finance, Minister of Forests, the Chief Secretary to Government, Principal Secretary, Finance and Planning, Principal Chief Conservator of Forests (PCCF) and Chief Wildlife Warden (CWLW) as its members. The Principal Secretary (Forests) is the member secretary of the governing body which lays down the broad policy frame work for the functioning of state level CAMPA. The Steering Committee of State CAMPA is headed by the Chief Secretary to Government and has its members the PCCF, CWLW, Principal Secretary Forests, Finance and Planning, a representative of the Government of India, the Nodal Officer of the Forest Conservation Act in the State, besides two eminent Non-Governmental Organizations (NGOs) nominated by the State Government. The Chief Conservator of Forests (CAMPA) is its member secretary. The Steering Committee lays down the rules and procedures for the functioning of the body and approves the Annual Plan of Operation (APO) proposed by the executive committee. It meets at least once in 6 months and ensures inter - departmental coordination besides monitoring the progress of the utilization of funds. The Executive Committee of the CAMPA is headed by the PCCF and consists of CWLW, the Nodal Officer in-charge of Forest Conservation Act, Financial Controller and two eminent NGOs as its members. The Chief Conservator of Forests (CAMPA) is the member secretary of the Executive Committee, which prepares the APO of the state for the next financial year and gets the approval of the steering committee before the end of December every year. The Executive Committee is responsible for taking all steps for giving effect to the State CAMPA and its overarching objectives and core principles. It is responsible for maintenance of accounts at the implementing agency level and also for proper auditing of the receipts and expenditure. It prepares an annual report of the activities undertaken during the previous financial year by the end of June. (www.tn.gov.in; www.forest.tn.nic.in)

Resource Mobilization

The money deposited with the Adhoc CAMPA, at New Delhi is disbursed to the State CAMPA formed in each State government. The State CAMPA would administer the amount received from the Adhoc CAMPA and utilize the same for undertaking compensatory afforestation and other forest department activities as per the APO. The State CAMPA, besides funding, overseeing and promoting compensatory afforestation will maintain a separate account and report to the Government of India about the progress made in utilization of the funds. The following shall be credited into the account of State CAMPA:

(i) Amount transferred to it by the Ad-hoc CAMPA;
(ii) Receipt of all monies from user agencies towards compensatory afforestation, additional compensatory afforestation, penal compensatory afforestation, Net Present Value (NPV), Catchment Area Treatment Plan or any one for compliance of conditions stipulated by the Central Government while according approval under the provisions of the Forest (Conservation) Act, 1980;
(iii) The unspent funds, if any, already realized by the states from user agencies and not transferred yet to the Adhoc CAMPA;
(iv) The funds from user agencies in cases where forest land diverted falls within the protected areas would be maintained under a separate head for undertaking activities relating to the protection of biodiversity and wildlife;
(v) Net Present Value of the forest land diverted for non-forestry purposes, collected under the Forest (Conservation) Act, 1980 and the rules and the guidelines made there under and in pursuance of the judgment of the Supreme Court dated the 29th October 2002 from user agencies.

The State Government may also credit to the State CAMPA any other grants and loan received by the Authority.

The monies received in the State CAMPA is kept in an interest-bearing account in a nationalized bank and periodically withdrawn for the works as per the Annual Plan of Operations (APOs) approved by the Steering Committee.

Fund size

The total fund size of Adhoc CAMPA at Govt. of India level was around Rs.129 billion as on 31.01.2010. The fund allocation to state government is in proportion to the compensatory afforestation to be implemented by them. This again depends on forest lands diverted by each state. The union government cannot divert the fund received from one state to other state governments. This fund represents amount deposited towards compensatory afforestation and net present value collected from different states. It also includes interests accrued over the principal amount. The interest accrued on CAMPA account is more than Rs.16 billion. The total allocation under CAMPA per annum is pegged by Government of India at the level of Rs.10 billion every year being one tenth of the total fund. This amount is distributed among state governments based on the annual plan of operations submitted by the State CAMPA to the union government. The fund size in respect of each state depends on the extent of forest land diverted. Therefore it is not uniform among all state governments. States like Odisha and Chhattisgarh had more than Rs. 10 billion in their account as on 31.01.2010. State governments like Tamil Nadu and Kerala which have not diverted that forest land much get only a small allocation of rupees 20 million annually under CAMPA. For instance, in Tamil Nadu forest lands over an extent of 4316 hectares have been diverted for 303 projects since the implementation of Forest Conservation Act 1980. This works out to 0.2% of total extent of forests in Tamil Nadu.

Fund utilization

The money available with the State CAMPA shall be utilized for meeting following items of expenditure:

(i) The expenditure towards the development, maintenance and protection of forests and wildlife management as per the approved APO;
(ii) Non-recurring as well as recurring expenditure for the management of the State CAMPA, including the salary and allowances payable to its officers and other employees;
(iii) In cases where forest land diverted falls within the Protected Area, that is, areas notified under sections 18, 26A or 35 of the Wildlife (Protection) Act, 1972 activities related to protection of biodiversity and wildlife are to be undertaken;
(iv) The expenditure incurred on monitoring and evaluation subject to overall ceiling of 2% of the amount to be spent every year; and
(v) Disbursement to such other projects related to forest conservation.

Criteria for access and usage

The criteria for distribution of CAMPA fund to the state CAMPA is based on the Annual Plan of Operation prepared by the state governments. The total fund allocation to all states is pegged at Rs.10 billion per annum. The state CAMPA will get its allocation for the second year only if it submits its Annual Report along with utilization certificate to the Adhoc CAMPA along with the APO for the succeeding year. It has to prepare its budget for APO at one tenth of total principal amount accrued for the particular state.

Monitoring

Monitoring and evaluation of the works is undertaken by the State CAMPA through its Executive committee. The Executive committee is responsible for proper auditing of both receipts and expenditures of funds and also preparation of the Annual Report. The Steering committee of State CAMPA also monitors proper utilization of funds released by the State CAMPA. The National CAMPA Advisory Council shall have the power to order special inspection and financial audits of the works executed by the State CAMPA. The office of the Accountant General or any other auditor appointed by it will also audit the accounts of the State CAMPA. The accounts of the state CAMPA as certified by the Accountant General shall be forwarded annually by the State CAMPA to the State government, the Ministry of Environment and Forests (MOEF) and the Adhoc CAMPA. The state government and the MOEF shall have the power to conduct special audit or performance audit of the State CAMPA. The National CAMPA Advisory Council as well as the state level Steering Committee shall have the power to withhold or suspend the release of remaining funds or part thereof if they are satisfied that the funds released have not being utilized properly.

Key stakeholders

The investors for the CAMPA fund are those who utilize the forest land diverted for non-forestry purpose. They may be state agencies like Electricity Board, and the Public Works Department, Water Supply and Sewerage Boards or private enterprises. The benefit of State CAMPA fund goes towards increasing green cover and compensatory afforestation on one hand and sustainable forest management on the other. This ensures that the overall forest and tree cover improves in the state increasing the goods and services provided by them for the present as well as future generations to come.

Current status

State CAMPA has been established in most of the states since the year 2009. About Rs.113.78 billion has accrued in the Adhoc CAMPA besides Rs.16.8 billion interest as on 31.01.2010. About Rs. 7.2 billion has been released to 23 states and union territories. Some of the states like Odisha, Chhattisgarh, Andhra Pradesh and Uttarakhand have received substantial amount like Rs.1.3 billion, 1.2 billion, 897 million and 816 million per annum respectively. States which have not diverted much of forest lands like Tamil Nadu and West Bengal have received only Rs. 19.7 and 52.9 million respectively per annum.

Challenges, weaknesses and risks compared to other models

The CAMPA fund distribution is based on the extent of land diverted by each state. Therefore, the fund disbursed is neither uniform nor proportionate to the extent and requirements of the states. However, this model ensures compensatory afforestation over double the area, so that the net forest area increases in the country. However, the compensatory lands transferred to the forest department are quite often marginal refractory lands. Therefore a lot of inputs are requested to ensure success of the plantations.

Specific measures needed for improvement

The compensatory afforestation undertaken by different states may be assessed after one year, fifth year and tenth year for follow up cultural operations to ensure success of the plantations. The CAMPA plantation areas are geo referenced. Therefore, impact of CAMPA plantation undertaken could be assessed through video clipping and remote sensing to improve better monitoring. The best compensatory afforestation sites may also be selected and given an award annually.

FUTURE OUTLOOK

The present arrangement of CAMPA is fairly well structured. The CAMPA model of funding compensatory afforestation and other SFM initiatives are quite sustainable at least for another decade or two, considering the corpus fund available with the Adhoc CAMPA, New Delhi. CAMPA model, Finance Commission special grant based on the extent of forests protected and use of Water Cess collected from industries by the Pollution Control Board to increase green cover could be replicated in other countries as well. Accelerated forest development and increasing green cover outside forests requires substantial additional investment in Indian forestry sector. The present level of investment at 1% of the Government budget is grossly inadequate to meet the challenges ahead. It has to be increased to at least about 2.5% of the overall budget outlay of the central and state Governments as already recommended by the National Forest Commission and Tamil Nadu State Forest Commission. (Anon, 2009) Towards meeting this goal, besides funds from the CAMPA and the ongoing schemes, investments from Green India Mission, NREGS (National Rural Employment Guarantee Scheme) may be utilized. NABARD (National Bank for Agriculture and Rural Development) institutional financing may be accessed by the private wood based companies and tree farmers to increase green cover in suitable farm lands. Public Private Partnership mode may also be explored to augment tree resources outside the Forests to bring one third of the land area under Forest and Tree cover.

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2.6 Vietnam Forest Protection and Development Fund (VNFF)

Ivo Litzenberg[23], Pham Hong Luong[24]

ABSTRACT

Vietnam is one of the first countries to create an legal framework for a system of Forest Protection and Development Funds supported by a policy on Payments for Forest Environmental Services which allows the mobilization, the management and the utilization of forest ecosystem revenues to reduce the state's financial burden for forest protection, to create incentives for companies, communities and individuals to protect forests, to ensure poverty reduction for forest depending people and sustainable use of forest resources, to improve the forest quality and quantity as well as ensure an increased contribution of the forestry sector to the national economy.

To channel and manage the payments a fund was established with the objective to effectively mobilize and utilize financial resources to protect and develop forests, ensure the creation of a market-oriented mechanism, a significant reduction of forest violations such as illegal logging, support the decentralisation and devolution of forest management as well as the creation of a strong movement towards socio-economic development for social security in remote areas and ethnic minority regions. Through the payments of users of ecosystem services the fund mobilized an average revenue of around 47 million USD per anno.

Some challenges and limitations remain, as the nationwide implementation of the policy has not been timely, transaction cost are still too high, complex regulations on forest management and forest owners have not been finalized, the unit price to be received by the beneficiaries of payment mechanism is too inflexible and widen considered too low compared to the possible revenue through converting forest into other land uses as well as insufficient incentives to attract wide private sector investments. The following paper gives a brief comprehensive analysis over the government owned Vietnam Forest Protection and Development Fund.

Keywords: Forest Protection and Development Fund, National Forest Fund, Trust Fund, Payments for Forest Environmental Services PFES, Reducing Emissions from Deforestation and Forest Degradation REDD, Forest Development Strategy

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OVERVIEW AND BACKGROUND OF THE FUND

In Vietnam the national forest coverage declined from over 43% to 20% between 1943 and 1993. Since then considerable efforts have been made to increase the overall forest cover. As a result, Vietnam's forest cover increased from 9.2 million ha in 1992 to 13.39 million ha in 2009 – equivalent to nearly 40% forest cover of the nation. Different Government programs played a key role in the increasing of the forest coverage but despite the increase the forests of Vietnam are still under serious threats as various regions still have high deforestation rates including parts of the Central Highlands, the Central Coast and the Southeast region. To counteract the decrease in coverage the Government of Vietnam (GoV) approved a national strategy for the forest sector, the **Vietnam Forest Development Strategy**[25] 2006-2020 (VFDS 2020), which identified five clear objectives:

- increasing overall forest coverage to 43 % of the national land area;
- completing the allocation of forestry land to households and other entities;
- promoting forestry-based livelihoods; and
- protecting 10 million ha of natural forests through management contracts with smallholder households; and accelerating the development of forest plantations.

To support the VFDS 2020 the **Trust Fund for Forest**[26] (TFF) was established on the 23rd of June 2004 through the first Memorandum of Understanding (MoU) signed between the Government of Vietnam (GoV) and the Governments of Finland, the Netherlands, Sweden and Switzerland for an initial phase 2004-2007 (which was subsequently extended to 2008) and a follow-up MoU which remains valid until the end[27] of December 2013. The TFF was essentially used as a distribution and management platform for streaming the funds of the contributing donor to the diverse beneficiaries. The GoV made a strong commitment to forest protection and has issued an array of legal instruments such as Prime Minister Decisions, Decrees, Circulars, laws and policies on Forest Law Enforcement. On the 14th of January 2008 the GoV issued[28] the Decree 05 on **Forest Development and Protection Funds** (FPDF) to create the basis for the formulation of a legal framework on **Payments for Forest Environmental Services** (PFES[29]) to be applicable nationwide

Decree 99 provided the first directions in defining the different interests, rights and obligations of PFES with the aim to charge PFES owner and user (payees and payers); socializing forestry and create an sustainable economic foundation for forest protection and development, environmental and eco-system protection, therefore raising the quality of service provision; particularly ensuring water sources for electricity generation, fresh water supply and tourist business activities. To channel the PFES revenue the GoV decided[30] through the Ministry of Agriculture and Rural Development (MARD) Vietnam on the 28th of November 2008 to establish a central **Vietnam Forest Protection and Development Fund** (VNFF) as a GoV instrument to provide financing support to overcome multiple socio-economic obstacles and ensure and growing independence from public budget via a nationwide network of FPDF's.

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[25] Strategy promulgated and enclosed with the Prime Minister's Decision No. 18/2007/QD-TTg, dated 5th of February 2007

[26] TFF established by Official letter No. 850/CP-NN issued by the Vietnamese Prime Minister

[27] Finland embassy letter number 507 dated 3rd of July 2012 and Swiss Development Cooperation Reference: 852-1 (12).02 – NGUHAIRPC, dated 17th of October 2012

[28] No. 05/2008/ND-CP

[29] Decree No 99/2010/NĐ-CP

[30] Decision No. 114/2008/QD-BNN

Trust Fund for Forest (TFF)

The predecessor for the VNFF is the TFF as a **financing mechanism** by pooling funds from international donors to address sectoral priorities with regard to pro-poor sustainable forest management and for the reduction of transactional costs as well as aligning with administration and planning systems of the GoV in support the implementation of the VFDS. The donor commitment was 30.92 million EUR. The TFF goals are the protection of the environment, improved livelihoods of people in forest dependent areas as well as an enhanced contribution of the forest sector to the national economy and an increased contribution of forests in terms of climate change mitigation and adaptation[31]. In addition the TFF had the **specific objective** to serve as a pilot to develop experience and lessons learned to be beneficial to the establishment of VNFF. As the TFF was acting as the pilot for the VNFF it was approved[32] in July 2013 to integrate the TFF as a semi-independent fund into the VNFF to continually receive and manage Official Development Aid (ODA) payments from the international community.

Vietnam Forest Protection and Development Fund (VNFF)

Vietnam was one of the first countries in Asia (as well as the world) to create a comprehensive legal framework for the establishment of an system of **Forest Protection & Development Funds**, closely linked with the policy PFES to create financial incentives for individuals, communities or organizations to protect forests (and provide environmental services in general). The organizational structure of the VNFF consist a Board of Directors (BoD), a Management Unit as well as an independent, separate Control Unit. The VNFF has different child funds as the TFF (see above) or the REDD+ (Reducing Emissions from Deforestation and Forest Degradation REDD+) fund. The VNFF oversees the implementation and sustainable management of the provincial FPDF's. The objectives of the **VNFF** are to mobilize, receive, manage and utilize effectively resources to protect and develop forests. The documents and instruments which guided the TFF in the past were adapted as the base for all instruments and procedures of the VNFF. The operational principles of the VNFF are:

- the VNFF is a non-profit entity and securing initial funding support from the state[33];
- the VNFF provides funding supports to programs, projects and non-project activities which are not funded from the state budget or not addressing investment requirements; and
- the VNFF secures transparency, publicity, effectiveness, efficiency, designated and relevant use of Fund according to the state laws.

RESOURCE MOBILIZATION

The VNFF and the organisational units will operate for different tasks via semi-independent child funds with own specific tasks / working areas. For the mobilization, receiving and management and utilization of financial sources to support to the forest protection and development initiatives the VNFF itself will uses money via PFES revenues but the sub-funds will use other financing sources as Official Development Aid (ODA), direct funding or other payments (Carbon Trade, REDD+) via the TFF or REDD+ child fund.

For the VNFF on central level and the FPDF on provincial level 35 out of the 63 provinces have established a steering committee to ensure the transparent implementation of the PFES. Until mid of the year 2013 already 31 of the provinces have a provincial fund. The VNFF currently merely collect money from PFES via hydropower, clean water and tourism but not mobilized any other resources

[31] The full details of TFF's portfolio can be found on the website: "www.vietnamforestry.org.vn"
[32] Decision 1667/QD-BNN-VNFOREST, dated 22th of July 2013 by VNFOREST
[33] 100 billion VND

(industrial production companies, aquaculture...) as regulated in Decree 99. For forest environmental services buyer a fixed payment is applied. For i) Hydropower plants is 20 VND/kWh of commodity electricity; for ii) clean water production and supply businesses is 40 VND/m3 of commodity water; for iii) organizations and individuals conducting tourism business benefiting from forest environmental services the level of payment for forest environmental services is 1-2% of the revenue generated in the payment period and for iv) The payments of industrial production and carbon sequestration / aquaculture need to be included within PFEs but still need to be defined.

The users of ecosystem services and therefore the direct beneficiaries from forest environmental services have to pay to the forest owners of the area that creates the supplied services. For the calculating of the PFES payments[34] to the owner of the forest ecosystem services follows the formula **"Total payment to forest owner / p.a. = Average unit payment for 1 ha of forest area of forest contracted * K-coefficient"**. The k-coefficient is to determine the relative value of different forest areas based on an average of four factors K1 to K2 whereas the factors are simply multiplied, following the formula **K = K1*K2*K3*K4** whereas K1 to K4 stands for:

- K1 – Forest condition and yield: 1.00 (rich); 0.95 (average); 0.90 (poor and rehabilitated);
- K2 – Forest use: 1,00 (Special use); 0,95 (Protective); 0,90 (Production);
- K3 – Forest origination: 1,00 (natural); 0,90 (planted);
- K4 – Level of difficulty of protection: 1,00 (very difficult); 0,95 (difficult); 0,90 (less difficult).

Some communities see the K coefficient as a source of potential social discontent but nevertheless the K-coefficient will have to be employed in due time, if PFES is to be effective it should therefore encourage communities not only to keep forests intact but to improve their quality through sustainable land management practices to achieve a high coefficient resulting in higher payments. During the period 2011-2015 annual average of PFES revenue is estimated to be approximately 1.000 billion Vietnamese Dong (VND) equivalent to ca. 47 million USD. In 2012, the VNFF collected around 1.171 billion VND[35] including the remaining debt collection of the year 2011; in the first six months of 2013 the central & local FPDF's collected more than 400 billion VND (approximately 19 million USD). This revenue is equal to the State Budget of 1.210 billion VND allocated for the implementation of the Forest Protection and Development Plan. The Table 1 shows the revenue.

Year	Hydropower	Clean water	Tourism	**Total (USD)**
2009	9.999.521	454.860	14.560	**10.468.941**
2010	4.679.391	405.082	17.271	**5.101.744**
2011	12.748.464	682.134	31.763	**13.462.361**
2012	54.983.961	804.925	41.502	**55.830.387**

Table 1: PFES revenue from 2009 to 2012 (USD)

FUND UTILIZATION

For the **approval process** for projects of the child fund TFF (funded by ODA) the Board of Directors (BOD) makes decision on priorities for each period. On the basis those priorities organizations are appointed to prepare project concept notes. The TFF Management Unit informs selected applicants to prepare program or project concept notes in accordance with template specified in the TFF

[34] Pilot implementation in Lam Dong Province, Vietnam
[35] Approximately 55.8 million USD (with an average exchange rate USD/VND of 1/21.000)

Operational Manual. The TFF Management Unit then reviews the eligibility after receiving and after the project/ program concept note is approved by the BOD the selected organization continue to further develop the concept note into full proposal. After agreement of the donors and the GoV as well as registration with the Ministry of Finance (MoF) and Ministry of Planning and Investment (MPI) the project can start utilize TFF funds.

In 2010 the average household payments (in the pilot province[36]) ranged from 540 to 615 USD and therefore around four times higher than forest protection payments received under former national government policies. There are currently two forms of payment, direct and indirect payments. **Direct payment applies** to the cases where the users of forest environmental services are able and have sufficient conditions for making direct payment to the suppliers of forest environmental services without having to go through the VNFF intermediary organization. This kind of payment is carried out based on the voluntary negotiated agreements between the users and suppliers of forest environmental services in line with the regulations, where the payment level is not lower than the level regulated by the GoV for the same forest environmental service. For the **indirect payments** the users of forest environmental services pay to the suppliers of forest environmental services through the central VNFF or the provincial FPDF or agencies and organizations, decided by the Provincial People's Committee, acting in place of the provincial Forest Protection and Development Fund. The relations between the user and owner of the ecosystem services as well between the Forest Protection Funds and forest authorities are described in Figure 2.

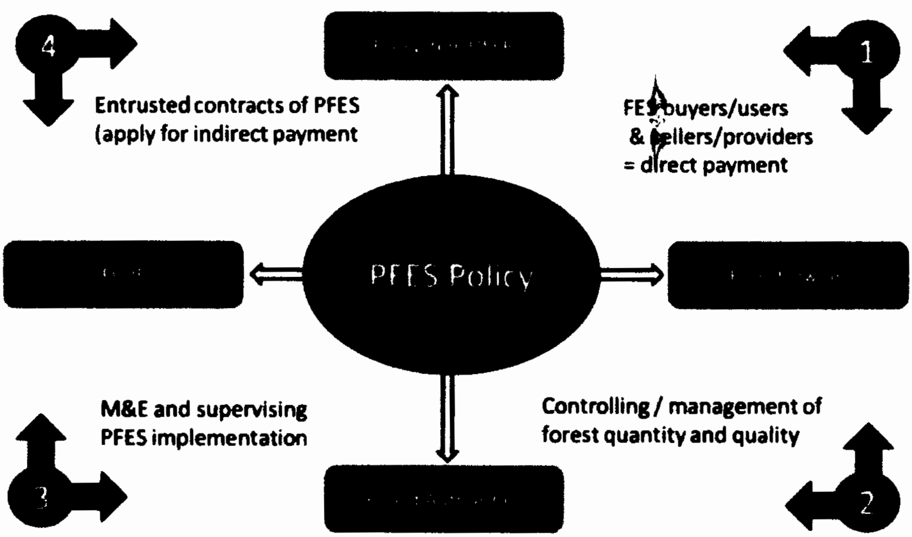


Figure 2: Stakeholder Relations

For the fund utilization of the payment for forest environmental services entrusted via the VNFF a maximum 0.5% of the total entrusted money from payers of PFES can be used for professional operations of the VNFF. The remaining amount is transferred back to the FPDF. The total revenue received from the VNFF and from the users of forest environmental services is considered 100%. A maximum of 10% may be used for paying for operations such as administrative costs according to entrusting mechanism, activities to receive payment, acquittal making, checking, supervision, and

[36] In the pilot project it was set to an "ha" level agreement between 300.000 t0 450.000 VND, depending on the basin assure equitable payments and thereby avoid possible conflicts

auditing; support for activities relating to handover and assessment of forest; support for activities relating to monitoring quality of forest environmental services; support for activities relating to payment for forest environmental services at district, commune, and village levels.

An amount not more than 5% of the total entrusted revenue is set aside for contingency to support households, individuals, and village communities contracted for long-term forest protection in case of drought and disaster. The remaining amount is paid to the suppliers of forest environmental services. This amount is considered 100% (only if the forest owners who are Governmental organizations contracting out forest for protection, a 10% of the above-mentioned amount may be used for carrying out check, supervision, handover check, quality and quantity assessment of forest for making annual payment for forest environmental services. The remaining amount (90%) is used for paying to households contracted for forest protection).

The following Figure 3illustrates the PFES procedure.

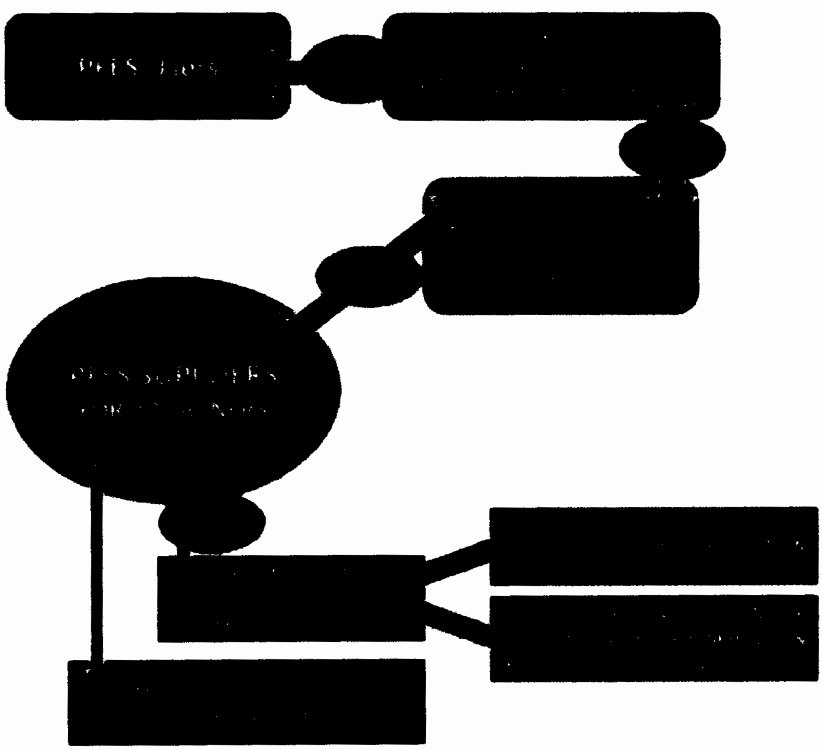


Figure 3: PFES Process

FUND OVERSIGHT

For the VNFF the BoD will to conduct regular meeting at least every three month to review and decide on issues which are under the authority and liability of the BoD. All decisions shall only take effect upon a two/third members' participation. The meetings are chaired by the BoD chairman (normally the MARD Vice-minister) or an authorized member. If any urgent cases arrive, comments from BoD members could be made in written form or the members meet for irregular meetings. All the meeting documents are prepared and circulated to members at least three days prior to the meeting. All BoD decisions need to be made upon a majority principle; for any case of which the voting is balanced, the ideas and opinion suggested by the BoD chairman on his/her vote are the final decision whereas the chairman on decisions made by BoD and is accountable to the state laws on any consequent effects resulted from them. All the decisions made by the BoD are obligatory to the VNFF operations and the BoD chairman is responsible for enforcing these resolutions and decisions as well as has the right to reserve his idea for reporting to the MARD Minister.

For a transparent implementation of the PFES payments the Vietnam Forest Administration (VNFOREST) collaborates closely with the Provincial People's Committees (PPC) to identify forest areas supplying forest environmental services and annually inform the PPC of forest areas supplying PFES. The PPC direct the provincial Department of Agriculture and Rural Development (DARD) to take the lead and collaborate with relevant departments, agencies and sectors to develop and submit all necessary documents to the Provincial People's Committee for approval of projects and programs relating to the implementation of the policy for payment for forest environmental services, including:

- reviewing land and forest allocation;
- new land and forest allocation;
- contracting for long-term forest protection; and
- identifying, categorizing and listing suppliers of services and users of forest environmental services.

The PPC is also responsible to ensure the stability of areas and functions of forests supplying forest environmental services in the land use planning schemes and forest protection and development planning schemes; to certify the list of forest owners being organizations supplying forest environmental services to one particular user entity based on recommendation from the DARD and to assign the DARD to act as the focal point to conduct handover check, to assess quantity and quality of forest and to issue certification to forest owners being organizations as well as to conduct checking and monitoring on forest owners being organizations in implementing their rights and obligations. In addition to the Management Unit the VNFF consist also of one **Control Unit**[37].

CURRENT STATUS

The VNFF aims on handling PFES revenue to create incentives for companies, communities and individuals to protect forests by compensating them for any cost for managing and protecting those forest and therefore help to improve the forest quality and quantity as well as reduce the state financial burden for forest protection and managing and at the same time improve the social wellbeing, reduce poverty and increase the forestry's sector contribution to the national economy. Although the VNFF is up and running and revenues are flowing, PFES is still difficult to apply because of any different decrees, a wide range of stakeholders of all kinds, complicated procedures and buyer-supplier relationships.

Economic impacts

The policy on PFES has gradually promoted the creation of market-oriented mechanism and expressed the regulatory role of the Government as well as the relations in negotiating contracts of PFES supply and use between forest owners and beneficiaries. The implementation of the PFES policy has increased the contributions of forest sector in the national economy so far and until now[38] the central

[37] The different rights and obligations of the Control Unit are regulated in the Article 10 of the Decision no. 128/2008/QD-BNN dated 31st of December 2008

[38] Status: July 2013

and local funds have signed 247 entrusted contracts with hydropower plants, water suppliers and tourism facilities to pay for the forest environmental services.

Environmental impact

The violation cases[39] of forest management and protection have been reduced by around 50%. It is clear that the implementation of the policy contributed to promote forest management and protection better. The violations as illegal logging dropped down as shown in Table 2.

Violations	2008	2009	2010	2011	2012
Cases	42,429	40,841	33,821	29,551	28,565
Violated area (ha)	3,172	2,072	1,747	2,186	1,164

Table 2: Forest Violations 2008 - 2012

Annually, about 2.3 million ha of total contracted area for forest protection received PFES. The Table 3 below shows that the PFES policy together with general efforts of forest sector contributed to increase forest area and coverage over the years.

Indicators	2008	2009	2010	2011	2012
Forest area (million ha)	12,84	12,90	13,03	13,14	13,46
Forest coverage (%)	38,70	39,10	39,50	39,70	39,90

Table 3: Development of forest situation 2008 - 2012[40]

Social impacts

The PFES policy has been created a strong movement for the socio-economic development, ensured the national defence and social security in the remote areas and ethnic minority regions. This policy also created jobs, increased incomes, improved the livelihoods of forest dependent people. Forest owners, households, individuals contracted for forest protection received PFES money beside the direct values from forest. Average PFES amount at some localities for forest owners, households, individuals contracted for forest protection is very high in comparison with the support amount from direct Government support and programs. This policy attracted the interest of political system at all levels, authorities, internal and external organizations, and individuals. Through the implementation of the policy, the general awareness of the whole society about the role of forest, forest service values and the contribution of forest sector have been gradually increased.

Challenges, difficulties and obstacles

Time: The nationwide implementation of the policy hasn't been timely. After Decree 05 and 99 came into force, the guiding regulations of the Ministries and departments have been issued slowly, as the result the some of the provinces are passive with a lack of suitable facilities and questions about the legal framework to timely and competent implement PFES. In many provinces, the implementation of the policy is therefore not timely due to the shortage of strong attention and guidance of provincial

[39] According to the final report of the pilot phase to implement the policy in Lam Dong and Son La from 2008 to 2010 under the Decision no. 380/QD-TTg of the Prime Minister

[40] MARD (Announcement of forest situation over the years)

leaders and close cooperation of provincial departments and agencies. Some provinces have the potential PFES revenue but have not established FPDF's yet whereas some others neither establish FPDF nor assign any organization/agency to take over the responsibility of FPDF. Some of the regulations and guidelines have been also issued slowly and inadequately even if they are very ambiguous. Because of that local authorities can either interpret them too freely or resist doing anything out of fear to making mistakes. Also with the Decree 99 so far only households, communities or companies (state-owned or private) are eligible to receive PFES payments but there are still uncertainties about the legal status, for example the status of communities varied over time, in the Forest Law of 2004 they are legal subjects with the right to manage and protect their forest, whereas under the 2005 Civil Code they are not considered legal entities and therefore cannot enter legal contracts. In the end this unclear status has caused local communities to become discouraged about forest protection and the willingness to transform forest land into agriculture are remains still high.

Regulations for Payers / Receivers: To implement PFES it is necessary to identify the exact forest boundaries and areas allocated to each forest owner, household, individual contracted for forest protection. However, this is the biggest shortcoming relating to the implemented progress of land and forest land allocation (un-tight and not very concrete). Until now most of the provinces have not completed this assignment due to the lack of financial support from the State budget. This is one of the major reason affecting the progress and disbursement rate of PFES to the forest owners as the implementation of PFES while not providing the exact and detailed forest boundaries assigned to the specific owner continues to be risky and would be potentially leading to conflicts, isolation, back-dating claims and comprehensive complaints in the future. In regard to the regulations more guidance is needed on how communities, companies or individuals spend their PFES revenue (the decree just states it is considered income so the owner can consider any kind of use and there is no obligation to invest any kind of revenue for continues afforestation, forest protection, education or capacity building. In addition, the Decree 99 has only regulated the detail of the payment level for hydropower production plants, clean water and tourism companies, which now simply pass their PFES "costs" on to the end user; therefore the public is the real buyer within the PFES system, what makes the current PFES revenue a kind of taxation for the end-user. The water supply company's and hydropower plants do benefit in reality from protection forest and watershed protections (e.g. less sedimentation of their reservoirs, less maintenance cost for the turbines...) but are not voluntary willing to pay. The tourist companies also do not fully appreciate how landscape beauty contributes directly to their business and it is still unclear, which sectors of the tourist industries should pay for using environmental services. The decree 99 does not regulate other specific subjects; especially the payment levels and payment methods for: (i) industrial facilities those using direct water source, (ii) forest carbon sequestration and retention services, (iii) provision services of spawning grounds, sources of feeds, and natural seeds, use of water from forest for aquaculture, (iv) FES for hydropower plants with energy storage system and v) detailed procedures and payment calculations for the tourisms industry. According to that the Government assigned MARD to continue studying and consulting the Prime Minister to issue the specific decisions; however, until now these contents are being studied for proposals.

Transaction costs / Propaganda: The transaction cost are still too high, due to the large number of different forest owners, the complexity of the Vietnamese administrative structures and different procedures, the limited capacity (time and human resources) of public servants, a frequent conflict of interest. The week coordination and information exchange between and within government agencies. This ultimately leads to the need to promote the PFES policy further, as it is for many parties (payer and receivers, Government officials) still a new policy. However, the fact showed that because the propaganda and policy dissemination is still very limited many provinces only focus on organizing the workshops on the implementation but not attend to other methods such as television, radio, newspaper, leaflets, posters, brochures, or direct propaganda through the meetings with PFES suppliers and users. In additions, training and capacity building, especially for local officers (at provinces, districts, communes) are not really focused, therefore the officers have not been provided enough knowledge, skills and experience to proactively advise leaders in organizing instruction, propaganda and dissemination of policy. These are also considered as the basic causes affecting the progress of PFES policy implementation in the local.

Payment Level: Unit price to be received by the beneficiaries of PFES mechanism is still unreasonable and widen considered to low compared to the possibility to converting forest to other land uses; especially for coffee or shrimp farms (in case of mangrove forest). In addition there is a big difference on electricity price in some provinces and therefore also within the expected PFES payments. As defined in the regulations the payment will depend on the volume and the revenue of production facilities of hydropower, clean water and forest area involving in PFES in one basin but it does not allows to balance and regulate the average payment for all different basins as the current policy guidelines focus on a fixed setting only. PFES payment is low and not consistent with price variation. The regulation of fixed PFES for hydropower plants with 20 dong/kwh and clean water facilities with 40 dong/m3 is currently not appropriate and does not meet the general living price variation anymore, therefore directly affect the actual income of forest dependent people. Especially, for the payment rate of 20 dong/kwh according to the commercial electricity of hydropower plant last year accounted for a small proportion compared with the average electricity selling price and tends to reduce and is opposite with the rate of electricity increase. The average electricity price tends to increase continuously over the years; compare the year 2012 with 2008 the price increased 61.46%; meanwhile, hydropower businesses still only pay 20 dong/kwh for PFES. In the comparison between PFES and the average electricity, the selling price in over five years reduced from 2.25% (in 2008) to 1.39% (in 2012). This reflected the unreasonableness of a fixed payment regulation and should be revised. The decrease is shown in Figure 4.

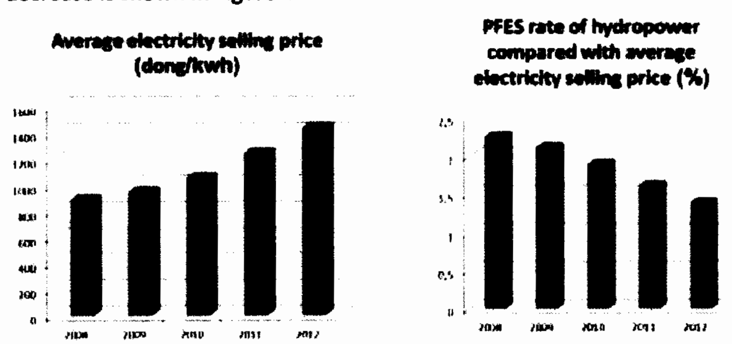


Figure 4: Development Price / PFEs rate for electricity

Mobilization of payment from small and medium hydropower plants also proved to be very difficult as their selling price is fixed included in their contract with the Viet Nam Electricity (EVN) company and therefore has not been calculated and added the PFES money. The adding of PFES payments into their pricing model makes PFES a tax, given to the end user which is against the concept of PFES.

Spending: The Central VNFF transferred 99.5 percent of the PFES budget collected in 2012 to the provinces but of that amount only around 50% were distributed to households managing forest resources as there are large numbers of individual owners of ecosystem services, scattered over a big and inaccessible area and sometimes geographically very isolated. Distributing payments in cases where individual households are forest owners proves also difficult because the Government uses on-the-ground forest inventories to determine household payment levels and enters into individual contracts with each single household-level forest managers which is time and human resources consuming. In addition there is in general still a weak technical and financial capacity at different levels as well as weak coordination between different agencies (DARD, PPC, Central level...).

FUTURE OUTLOOK

One of the preconditions to further successfully implement the PFES policy is to support the provincial FPDF'S to be fully operative and therefore the GoV should arrange adequate resources including personnel and budget and not only establish the funds on paper. MARD should closely coordinate with all involved and relevant Ministries and agencies to study and advise the Prime Minister to issue an decision specifying the subjects, the payment levels and the payment methods for: (i) industrial facilities those using direct water source, (ii) forest carbon sequestration and retention services, (iii) provision services of spawning grounds, sources of feeds, and natural seeds, use of water from forest for aquaculture, (iv) FES for hydropower plants with energy storage system. MARD in cooperation with EVN and the Ministry of Industry and Trade shall then agree about solutions for the PFES debts in 2011 and 2012 for the small and medium hydropower plants. From now to latest the end of 2015 a study and evaluation of the implementation of PFES policy should be conducted to be the basis of a new changing and flexible payment level in accordance with the market price fluctuation to ensure the appropriateness with the efforts of forest protectors. MARD shall further guide the VNFF and VNFOREST to summarize all lessons learnt; disseminate best methods of implementing PFES policy of the top eligible PFES payment provinces in Vietnam. FPDF's of all provinces proactively organize communication activities under variety of methods, by many communication channels, to raise the awareness and knowledge on the policy of all authorities, units and subjects of PFES suppliers and users.

Besides, FPDFs of all levels should organize training courses on profession, technology, finance, communication skills for officers to provide them knowledge, experience to advice organization's leaders to implement the policy effectively. Because PFES is still a new policy MARD should take facilitate the role of the primary focal management agency of PFES to mobilize the maximum interest, cooperation and active participation of involved Ministries through meetings, exchanging dialogues and it is needed to have the strong guidance of PPC leaders at local level as well as the close cooperation of provincial departments and agencies.

In addition to the internal resources, the system of FPDF's should also acquire urgent needed external financial supports and technical assistance through the international organizations, NGOs (e.g. UNDP, WB, ADB, GIZ, CIFOR, ICRAF, IUCN, SNV, Winrock International...) to acquire the advanced knowledge, experience, processes, technology and techniques to ensure a stable working, country-wide and long-lasting PFES system.

The local authorities need to efficient arrange their human resources and budget through programs and projects to support the reviewing of the forest area and to prepare dossiers of PFES management so that the PFES revenue is paid for forest owners for their confidence and willingness to be involve in forest protection and management. With an available and working FPDF system it will be possible for the government to effectively implement the national action program on "Reduction of Green-house Gas Emissions through efforts to Reduce Deforestation and Forest Degradation, Sustainable Management of Forest Resources, and conservation and enhancement of Forest Carbon Stocks" 2011 – 2020 (Program REDD+) approved by the Prime Minister[41] whereas the REDD+ will be considered as a part of the VNFF.

[41] Decision no. 799/QD-TTg dated 27th of June 2012

For the future aquaculture payments VNFOREST is the specialized management agency assigned by MARD to lead the development of a policy on provision services of spawning grounds, sources of feeds, and natural seeds, use of water from forest for aquaculture. Development of specific regulations and guidelines to be the basis of paying for this type of ecosystem service is necessary, therefore encouraged to ensure equal benefits for forest owners, households and people who involving directly in forest protection and development.

PFES policy aims at sustainable, long-lasting management of forest resources and livelihood improvement for forest dependent people. A working PFES mechanism – even with all the current shortcomings – is a major achievement for Vietnam's forestry sector. As it went thought numerous improvements and refinements during the recent years of development such as legal frameworks and institutional arrangements it already generated some substantial revenue and gained the substantial support of the international community as well as the support of the Government of Vietnam. To further improve the support of PFES on both central and provincial government level will certainly provide a bright future for PFES. But to become more effective and efficient the policy makers as well the implementers need to continue to adapt the system and work forward developing a working monitoring and evaluation mechanisms, clear procedures, guidelines and instruments for all involved stakeholders as well as improved marketing campaign. Focus should be on technical support for improving forest data, forest quality and forest managers as well as data collection. It would be also advised to teach the different stakeholders about the PFES scheme trough training that explains the benefits for forest protection and continue to show the potential value of PFES payments and how it will improve the livelihoods. Additional technical guidance how to use and spend the unused und undisbursed PFES fund financial transaction can help to accelerate the disbursement rate.

2.7 The Forestry and Forest Resource Development Fund (FRDF) under the Ministry of Agriculture and Forestry in Lao PDR

Ms. Lomkham Sengchanoudom[42]

ABSTRACT

The Forestry and Forest Resource Development Fund (FRDF) was established in 2005 with the aim to generate funds that the people from within and outside the country have been contributed. The funds are only used for forestry operations including various production, protection and conservation activities as well as wildlife conservation, education, research and policy development.

The fund was set-up based on a Prime Ministers decree and consists of a Board of Directors and a FRDF Secretaries' board, including the Ministry of Agriculture and Forestry, the newly established Ministry of Natural Resources and Environment, the Ministry of Finance and the Ministry of Planning and Investment.

Resources of the fund are currently allocated to 12 projects within 16 provinces of Lao PDR and the capital city. While there are procedures for the fund oversight and management, the FRDF is currently facing multiple challenges; on national level the production forest management plan is still not finalized, which means no sustainable income flows to the fund. Furthermore the President Decree on the distribution of income is not implemented yet. On international level there is limited access to funding sources, currently all international investments are channelled outside the FRDF.

Key words: Lao PDR, FRDF, Prime Ministers Decree, Ministry of Agriculture and Forestry, PES, REDD+

OVERVIEW AND BACKGROUND OF THE FUND (OR FINANCING MECHENISM)

Overview (mission/goals/purpose, objectives, etc.)

The Forest and Forest Resource Development Fund (FRDF) is a fund established under the Prime Minister's decree No. 38/PM, 21.2.2005.

The aim of the FRDF is to attract funds from national and international level for forest activities which aim for forest rehabilitation and environmental protection, production, conservation of forests, plantation and water source protection to enhance breeding for wildlife in both aquatics life of flora and fauna, for strategy disseminating, law and technical development in the forestry sector and other objectives related to forestry and forest resource activities.

Legal basis (or policy or institutional basis)

Legal basis of the Forest and Forest Resource Development Fund (FRDF) is the Prime Minister's decree No. 38/PM, 21.2.2005.

[42]Head of Office, Forestry and Forest Resource Development Fund (FRDF), Ministry of Agriculture and Forestry, That Dam Campus, Vientiane Capital. Email: slomkham@yahoo.com

Management and organizational structure (board of directors/trust)

A. The FRDF Directors boards is composed of the following:
   1. Deputy Minister of Agriculture and Forestry (MAF) - President;
   2. Director General of Department of Forestry, MAF - vice President and Chairperson of Secretaries' board;
   3. Director General of Department of Agriculture Extension and Cooperation, MAF - vice President;
   4. Director General of Department of Poverties, Ministry of Finance (MOF) - member;
   5. Director General of Department of Planning, MAF - member;
   6. Director General of Department of Forest Inspection, MAF - member;
   7. Director General of Department of Planning and Land Development, Prime Minister's Office - member;
   8. Director General of Department of Forest Management (MONRE) - member;
   9. Deputy Director General of Department of Planning and Investment, (MPI) - member.

B. The FRDF Secretaries' board:
   1. Director General of Department of Forestry - President;
   2. Director General of Department of Poverties - member;
   3. Deputy Director General of Department of Planning and Investment, MAF - member;
   4. Deputy Director General of Department of Forest Management (MONRE) - member;
   5. Deputy Director General of Department of Energy and Mining - member;
   6. Deputy Director General of Department of Planning and Investment, MAF - member;
   7. Deputy Director General of Department of Agriculture land Management MAF - member;
   8. Head of National Budget Division, MOF - member;
   9. Head of National Treasury Division, MOF - member;
   10. Head of Agriculture and Forestry Extension Division, MAF - member.

C. LOCAL FRDF COMMITTEES (from 16 provinces and 1 Capital city):
   Same organization as on central level

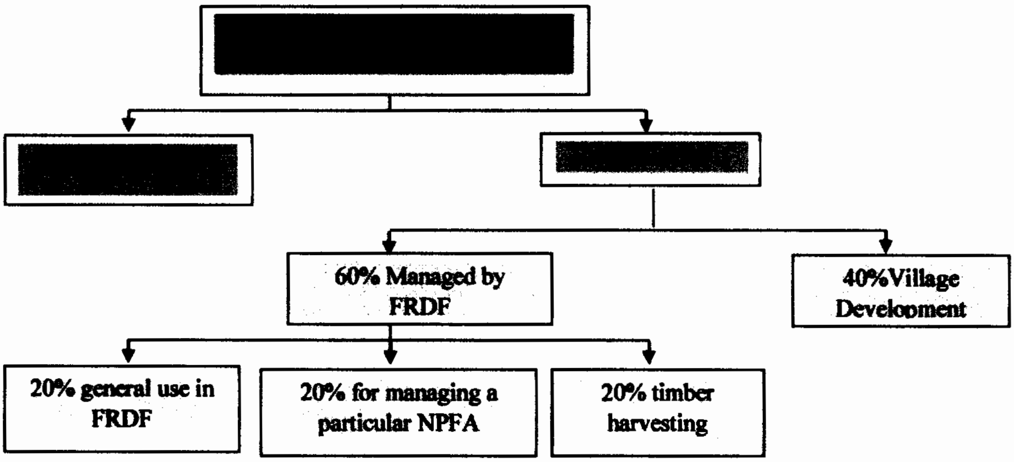
D. ROLES of LOCAL FRDF COMMITTEES:
   1. Plan income collection (of all committees);
   2. Monitoring fund utilization of subprojects that including: proposal writing, budget plan, activities planning, summary and evaluation of each project to report to FRDF Office, PAFO and PNEO.

RESOURCE MOBILIZATION OR FUND CAPITALIZATION STRATEGY
FRDF IN THE FUTURE (SOURCE OF MONEY TO THE FUND)

- To finish production forest management plan in all 51 areas (production forest should have a plan for cutting trees and bidding price it can make more income to FRDF);
- Update all guidelines which involve income from sales of wood from areas with government's infrastructure projects such as: mining exploration, road construction, the grids, hydroelectric power construction, etc.;
- Implementation of Decree No. 38/PM, 21.02.2005, article 12 and other regulations which involve FRDF (there are 7 sources, but conducted only 2-3 sources of fund);
- Implementation of President of Lao PDR No. 001/President, 31.12.2012 on the sales of wood from forest production as benefit sharing mechanism: 70% to national budget, 30% to FRDF, to support forest production throughout of country, to support and development forest production

where harvesting, fund to village development (Fund to villagers or partners) (see figure below). Now not implemented yet;

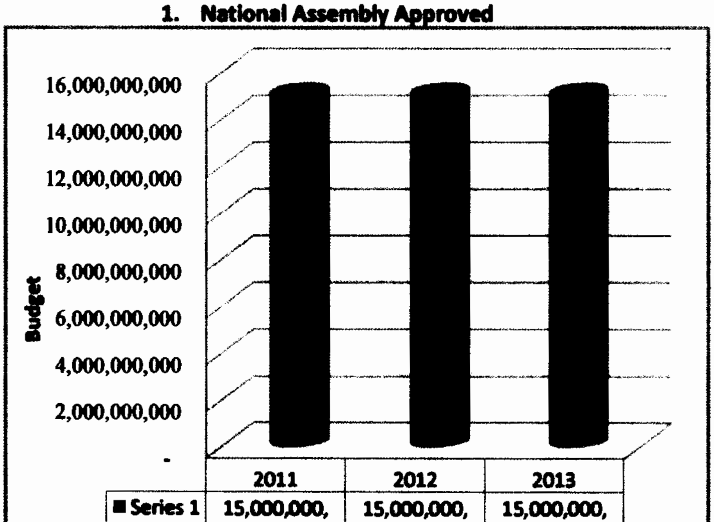
- PES where Dam building to support other areas;
- International fund: PES, REDD and REDD+.



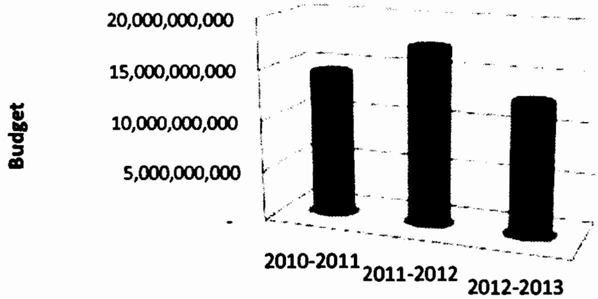
Fund size, variations etc.

FRDF income collection and utilization from 2010 – 2013

1. **National Assembly Approved**

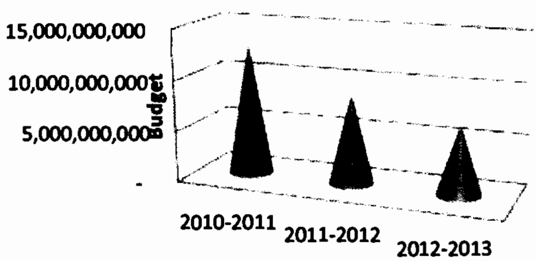


Income collection plan from Provinces



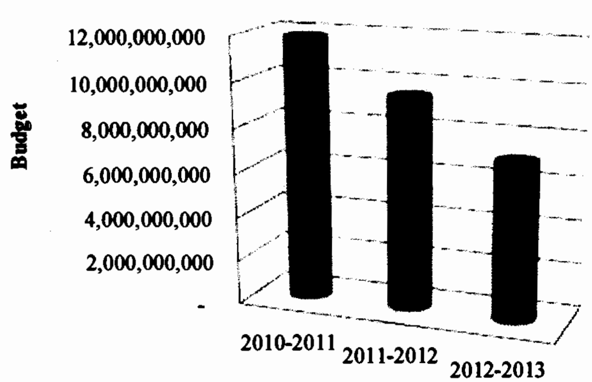
	2010-2011	2011-2012	2012-2013
■ Budget	14,412,612,034	17,474,958,919	12,913,729,592

3. Implementation income collection from Provices



	2010-2011	2011-2012	2012-2013
■ Series 1	13,179,179	8,800,603,	6,795,170,

4. Implementation payment to all projetcts



	2010-2011	2011-2012	2012-2013
■ Budget	11,846,884,538	9,519,973,900	7,066,642,000

Lao's currency is Kip: $ 1 = 7,825 kip

Taxes, user fees, royalties, timber sales

The funding shall be derived from various sources such as:

1. Forest royalty, fee for the use of forests, forestland and forest resources;
2. Fees for timber and NTFPs harvested from plantations;
3. Fees for forests, forestland and forest resources inventory;
4. Contributions from national and international profit-oriented organizations involved in business activities in the forestry sector including NTFPs and wildlife;
5. Contributions from not–for-profit organization involved in the forestry sector such as international agencies (e.g. the International Monetary Fund –IMF), national agencies, individuals, private and public organizations;
6. Other incomes including interest earned from bank deposits and net returns from investments;
7. Income consisting of a share of the money derived from competitive bidding for the sales of timber derived from Production Forest as stated in Prime Minister Decree No.59 /PM, 22 May 2002, on Sustainable Production Forest Management.

Climate change finance including REDD+ funds

Currently it is not clear where REDD+ funding will be coming. There are a number of bilateral and multilateral REDD+ projects, which provide initial REDD+ funding (for the purpose of providing incentives, non-result based yet) but these are not yet channelled through the FRDF:

- Conducted in some provinces as: PARED (participatory land forest management for reducing deforestation project);
- CliPAD project (Climate Protection though Avoided Deforestation).

FUND UTILIZATION

Criteria (access and usage)

The purpose of this fund is to mobilize financial resources that shall be used to support and strengthen the sustainable forest management, environmental protection and sustainable development of forest resources to achieve the indicative targets of the national socio-economic plans. The objectives of fund utilization are limited specific to:

1. Protection of Protected Area and National Biodiversity Conservation Areas;
2. Plantation establishment, regeneration of forests, watershed management and environmental protection;
3. Protection and propagation of plants, animal wildlife fauna and flora to ensure survival and increase the populations of these species;
4. Forest, forestland and forest resources inventory;
5. Sustainable forest, forestland and forest resources management;
6. Conduct research and extension on forestry activities;
7. Dissemination of laws, rules and techniques related to forestry activities;
8. Managing Forest and Forest Resource Development Fund (FRDF) activities;
9. Granting of awards to individuals and organizations that have made outstanding achievement in protecting and regenerating forest and forest resources.

Special windows or target sectors or groups

Fund allocation 2012-2013 (1 year)

The FRDF account number is deposited at the national Treasury in the Ministry of Finance (MOF). The budget of the FRDF in 2012-2013 approved by the national assembly was 15.000.000.000 kip or around $ 1,916,932. The money is allocated to 12 Forestry sector projects supported by the FRDF both on provincial level within 16 provinces and 1 Capital city.

	Planned	**Payment processed**
Central level*	7,365,000,000, kip (48.1%)	3,041,792,000 kip, ($ 388,727,412) (41,3%)
Provincial level**	7,635,000,000 kip (50.59%)	4,024,850,000 kip, ($ 514,357,827) (52,71 %)

*Account at National Treasury, Ministry of Finance
**Account at Provincial Treasury PAFO and PNEO

Allocation of funds to the individual projects 2012-2013

No	**Name of project**	**Budget (Plan) kip 2012-2013.1$= 7,825 kip**
1	Inventory and sustainable production forest management (DoF, MAF)	2,500,000,000 kip
2	Forest and forest resource inspection (DoI, MAF)	1,000,000,000 kip
3	Management Forest and Forest resource Development Fund (FRDF)	1,000,000,000 kip
4	Dissemination of laws, rules and techniques related to forestry activities (DoF, MAF)	800,000,000 kip
5	Survey and allocate agriculture land and forest land at district level (DoF land survey, MAF)	1,000,000,000 kip
6	Stop shifting cultivation for local people who live around forest (DoE, MAF)	1,000,000,000 kip
7	Management forest production and forest plantation (DoF, MAF)	1,500,000,000 kip
8	Conservation biodiversity, forest conservation and wildlife protection (MONRE, MOD)	2,500,000,000 kip
9	Regeneration of forests and environmental protection (MONRE)	2,500,000,000 kip
10	Forest investment management and plantation (DoF, MAF)	400,000,000 kip
11	Government focus development area (DoF, MAF committee)	400,000,000 kip
12	Provincial focus development area (DoF, MAF, committee)	400,000,000 kip
Total		**15,000,000,000 kip**

FUND OVERSIGHT

Monitoring, auditing, reporting

Money derived from all different sources shall be deposited in the FRDF's account which opened in the National Treasury of Lao PDR under the inspection of the MOF and regulation on income-expenditure of the national government budgetary.

For the fund from international source it depends on contract and regulation of Lao's government and donors and investor agreement.

1. *Account audits*

   The fund account shall be audited based on the relevant regulations pertaining to public account. This responsibility shall be carried out by the duly-authorized public account auditor and shall be consist of both regular audits and special audits.

2. *FRDF Office follow up in come collection and monitoring fund each project 2 times per year that includes*:
   - Monitoring and evaluation started after payment or expenditure every term
   - Start and prepare proposal writing for the new budget next year around second term of the year.
   - Monitor and evaluate the progress and to prepare the finance report on achievement of the implementation of the using fund.

3. *Reports*

   The Directors board shall be submitted regular and timely progress and financial reports to the Fund contributors and other organizations based on their requirements.

FRDF Office report to Secretaries' board 4 times per year and to Directors Board 2 times per year the report the progress and result on implementation all of activities of using the fund annually at the end of each year by using the indicators developed by the document.

KEY STAKEHOLDERS

Investors, beneficiaries. Investors include plantation companies and private entities.

CURRENT STATUS

a. Key achievements:
- Now forest cover increase it including rubber tree plantation
- Shifting cultivation is reduced.

b. Challenges, weaknesses and risks, and comparison with other models.

<u>Challenges (risks)</u>
- Not finish production forest management plan (all 51 areas) no plan, no cut trees;
- Not sustainable income, cutting tree based on government infrastructure (at reservoir area, along the road building);
- Cutting tree without specific economic focus, (as salvage logging) no plan to cut trees, it depend on government project sale all species of tree together, it lead to low price;
- President of Lao PDR No. 001/President, 31.12.2012 on the sale wood from forest production, no implementation yet);
- Fund from national budget only;
- No fund from international agency;
- Payment for Environmental Services (PES) specific the dam area as: (Namtuen II hydropower).

Weakness

- Income decline each year (reduce cut trees);
- Too few source of income for FRDF, so insufficiency fund for activities throughout the country;
- National budget cannot add fund when FRDF cannot collect income.
- (FRDF) collect income by our self;
- Landscapes (forest areas) such as mountains that are difficult to assess and need more fund;
- Need provide fund to all projects that involve with forestry activities the same time (no pilot model).

c. Specific measures needed for improvement

National level:

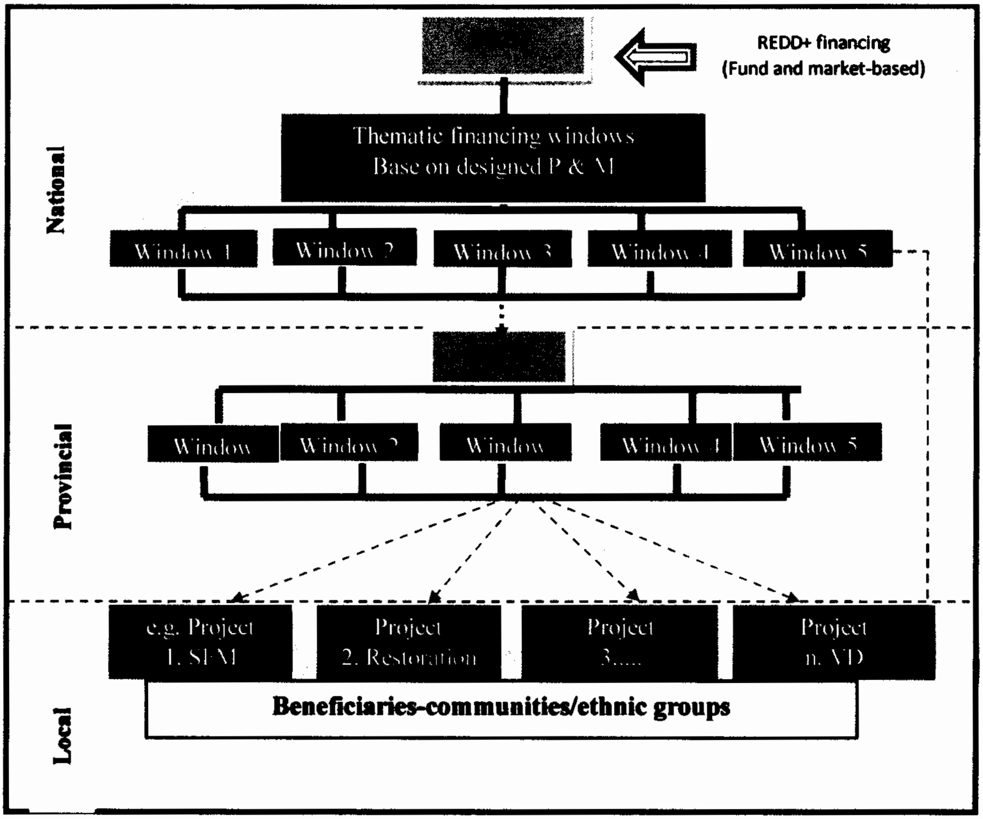
- Seeking more sources for funding
- Update all guidelines which involves with income generation
- Sale of wood from area where government's infrastructure projects as: mining exploration, road building and hydropower building ...)
- Fund from domestic and international agencies
- PES to all of rivers sources, not specific watershed as:
    - (Namtuen II hydropower not support other area)
- Promotion more fund to forest management (promote people)
- Expand reforestation and plantation and reduce using wood from
    - Natural forest

International level;

- Access funds from international investors or businesses (for example through eco-tourism, concession of forestland);
- Fund from investors or business (Other sources of fund which involve forestry sections as: tourism place, concession forestland;
- Income generation through PES, not only Environment Protection Fund (EPF);
- Access funds from REDD+ activities.

FUTURE OUTLOOK (WITH SPECIFICE FOCUS ON SOUND FINANCIAL ARCHITECHTURE, GOVERNNANCE AND SUSTAINABILITY

(Draft) Distribution fund to villagers or partners future plan as: People who participate to forest management, forest conservation and forest development that will have benefit sharing (company, private, villagers)



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Forestry Law No 6, 24 Dec 2007

Decree on the FRDF No. 38/PM, 21 Feb 2005

Decree on the Protection Forest No. 333/PM, 19/7/2010

Aquatics life and wildlife Law No.05, 14.1.2008

Forestry Strategy to the year 2020, No 229/PM, 9 Aug 2005

Decree President of Lao PDR No. 001/President, 31.12.2012 on the sale wood from forest production

PM Decree No.59/2002 on sustainable of PF

MAF Regulation No. 0204/2003 on Establishment and Sustainable Forest Implementation.

Regulation No. 001, 27 Feb 2008 on Rules of FRDF

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MOF Regulation No. 0885, 27 APR 2007 on Income collection management

3. Conservation Trust Funds

3.1 Kingdom of Bhutan: Bhutan Trust Fund for Environmental Conservation

Singye Dorji[43]

BACKGROUND

The **Kingdom of Bhutan** is a landlocked country in South Asia located at the eastern end of the Himalayas. It shares border with China to the north and with India to the south, east and west. Bhutan's total land area is 38,394 square kilometre. Its population was 720,679 (2012) with literacy rate of 63 percent and life expectancy 68.9 years. Vajrayana Buddhism is the state religion and Dzongkha is the national language.

Bhutan's economy is one the smallest in the world and is based on agriculture, forestry, tourism and sale of hydroelectricity power to India. Agriculture provides the main livelihood for more than 60 percent of the population. In 2011, GDP per Capita was Nu. 120,831 or US$ 2,667. In the same year, GDP grow rate was 8.5 percent and average inflation rate was 8.9 percent. The currency is Ngultrum and its value is pegged with Indian Rupee.

Despite its small size, Bhutan's landscape ranges from subtropical forest at 160 meters in the south to alpine region of more than 7,000 meters above the sea level in the north. It features extremely diverse geophysical elements as well as stunning biodiversity at the ecosystem, species and genetic levels.

The Biodiversity Action Plan categorizes Bhutan in to three eco-floristic zones; (i) the alpine zone (above 4000m), (ii) the temperate zone (2000 – 4000m) and (iii) the subtropical zone (150-2000m) with some "flagship" species such as snow leopard (*Uncia uncia*) Bengal tiger *(Panthera tigris tigris)*, red panda *(Ailurus fulgens)*, Bhutan Takin *(Budorcas taxicolor whitei)*, golden langur (*Trachypithecus geei)* leopard (*Panthera pardus*) clouded leopard (*Neofelis nebulosa*), elephant (*Elephas maximus)* and greater one-horned rhinoceros (*Rhinoceros unicornis*). These eco-floristic zones are reservoir of biodiversity with 5603 species of angiosperms and gymnosperms providing safe haven for wild fauna of mammals (200 species), avifauna (677 species), and herpetofauna (more than 50). However, the invertebrate fauna are poorly known, although Bhutan hosts many butterflies, including rare species such as the Bhutan Ludlow's Swallowtail *(Bhutanitis Ludlowi)*.

Bhutan ranks in the top ten percent of countries with the highest species density on earth, and it has the highest fraction of land in protected areas (more than 50%) as well as the highest proportion of forest cover (72%) of any Asian nation. Thus, it is one of a very few countries that have an opportunity to maintain their biodiversity largely intact. However, equally there are several challenges one of which, is the sustained financial support to ensure environmental conservation for long time that will contribute to maintaining the current state of our natural heritage for all times to come. Furthermore, Bhutan's constitution explicitly prescribes to maintain the forest cover at 60 percent of the land area in perpetuity

Thus as an innovative mechanism to provide guaranteed source of funding in perpetuity for conservation of environment and biodiversity in the country, the Bhutan Trust Fund for Environmental Conservation (BTFEC) was established in 1992 by the Royal Government of Bhutan (RGoB) in collaboration with the World Wildlife Fund. With seed money of $1,000,000 contributed by the WWF,

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[43] Chief Finance Officer, Bhutan Trust Fund for Environmental Conservation

the RGoB sought financing from the Global Environment Facility (GEF) – through the World Bank- and other bilateral donors to capitalize BTFEC.

Today, BTFEC is an effective conservation grant making organization governed by the Royal Charter 1996, and a high-level Management Board. Since the approval of its first strategic plan in 1997, BTFEC has provided substantial funding directly toward establishing and funding a protected areas network in the country.

Mission, purpose and objectives

Since its establishment the BTFEC has been driven by the following goals and objectives:

"...for the promotion of the socio-economic welfare of Bhutanese citizen through conservation of the forests, flora, fauna, wildlife, diverse eco-systems and biodiversity of Bhutan" (*Royal Charter 1996*).

Legality

BTFEC was established in 1992 by signing a Memorandum of Understanding (MoU) among the Royal Government of Bhutan, United Nations Development Program, Thimphu and World Wildlife Fund.

Since May 1996, the Royal Charter issued by the 4th King of Bhutan governs the BTFEC. All duties and powers of the Management Board are enshrined in the Charter. The Board may, by unanimous agreement, recommend amendments to the Royal Charter, whenever necessary.

With its social mandate, operation of the BTFEC is exempted from federal income tax under Internal Revenue Code 501(C)(4) of the United States Internal Revenue Service.

Organizational Structure

Detailed organizational chart is given as an annexure.

A six-member high-level Management Board is fully responsible for the management of the BTFEC. The Board is supported by a small secretariat with eight staff headed by the Director. The Director, Chief Financial Officer and the Chief Program Officer comprise the Management Team.

A five-member Asset Management Committee (AMC) supports the Board in investment of the endowment setting an annual (and sustainable) spending limit calculated as a percentage of the rolling average of past three years ends' market value. The AMC is mandated to make prudent investments as per policy and guidelines adopted by the Board and meets every quarter. The Acting Chief Financial Officer, in a capacity of the head of the Administration and Finance serves as the *ex-officio* Member Secretary.

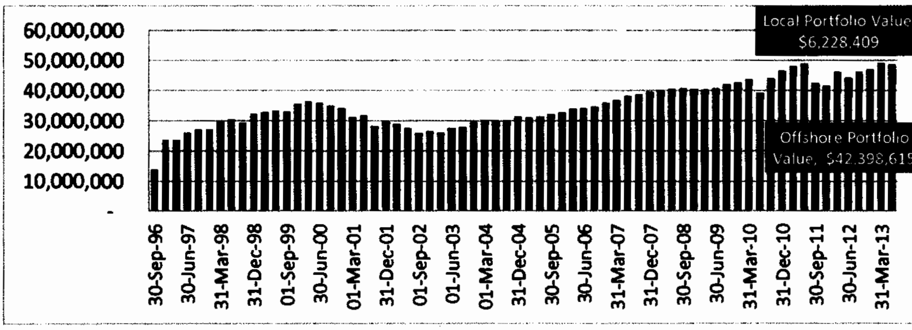
To ensure technical soundness of proposals received for BTFEC funding, a seven-member Technical Advisory Panel reviews semi-annually, all proposals as per screening criteria adopted by the Board. The Director, Chief Program Officer and the Program Officer are members of the Panel. Other four members are from different organization deputed for their individual capacity and ability to contribute to the grant reviewing process.

RESOURCES MOBILIZATION AND FUND CAPITALIZATION STRATEGY

Endowment Achievements:

To date, the endowment has grown by a total of 194% gross. After deducting expenses, it grew by 128% or $27.323 million (i.e., present market value $48.627 million minus original principal $21.304 million). Endowment holdings of 30 June 2013 was 87 percent in offshore and remaining 13 percent in Bhutan.

In order to get a fair idea, growth of the endowment over the years have been depicted in the chart below:



The above amount includes RSPN's endowment fund of $1.3 million.

Consolidated annualized total return from investment portfolio since inception was 6.98% and cumulative total return was 214.70%. Details of return from the investment portfolio is stated below:

Period	*Total Return*
Quarter Ending 30 June 2013	0.02%
Six Months	5.51%
1 year annualized return	13.35%
2 year annualized return	3.60%
3 year annualized return	8.74%
5 year annualized return	6.13%
Since inception - Annualized	6.98%
Since inception - Cumulative	214.70%

Challenges:

Among many other issues, human-wildlife conflict is most distressing. The conflict prevails throughout Bhutan with large carnivores like tigers and other cats predating on domestic livestock's in Central Bhutan, elephants damaging the crops of the farmers in the South and wild pigs and monkeys eating away the annual harvest of the people in the Eastern and Western parts of Bhutan. Thus resulting to illegal poaching.

The endowment was set up two decades ago with a target capital of US$20 million and has grown to $48 million as of 30 June 2013 generating annual total return available for spending of around $1.7 million on average (a portion of the annual income must be ploughed back to the endowment for maintain the real value) for supporting conservation activities in Bhutan. Due to the rising environmental issues, BTFEC keeps on receiving increasing number of grants proposals. Under current situation, BTFEC is not in position to accommodate all good proposals that require desirable financing from the annual investment returns generated from its relatively low current capital base. To spend more than the current spending limit guidelines with the current portfolio level would put its sustainability into serious question. This higher level of desirable spending is sustainable only with an increase of its capital base to a minimum of US$100 million.

FUTURE OUTLOOK OR WAY FORWARD

As mitigation measure to the human-wildlife conflict, in collaboration with the Royal Government of Bhutan, a separate endowment fund is under creation. The endowment aims to provide seed money to establish *"Rural Livestock and Crops Insurance Scheme"* in all 205 gewogs (county/blocks) in next five years. So far, only nine such schemes have been established.

BTFEC is striving improve its operational effectiveness and sustainability. To this end, GEF has committed a five-year grant of $4.08 million (GEF 5 STAR) with aims to work towards improving the conservation impact and sustainability of the BTFEC.

In order to achieve the objective of sustainability and to increase it capital base, BTFEC is in the process of preparing of fund raising strategy by hiring international consultant to raise maximum possible contributions in next five years.

BTFEC is also considering to revising its Operations Manual 2010- consisting of Administrative, Program, Human Resource, Financial Management, Auditing and Procurement sections.

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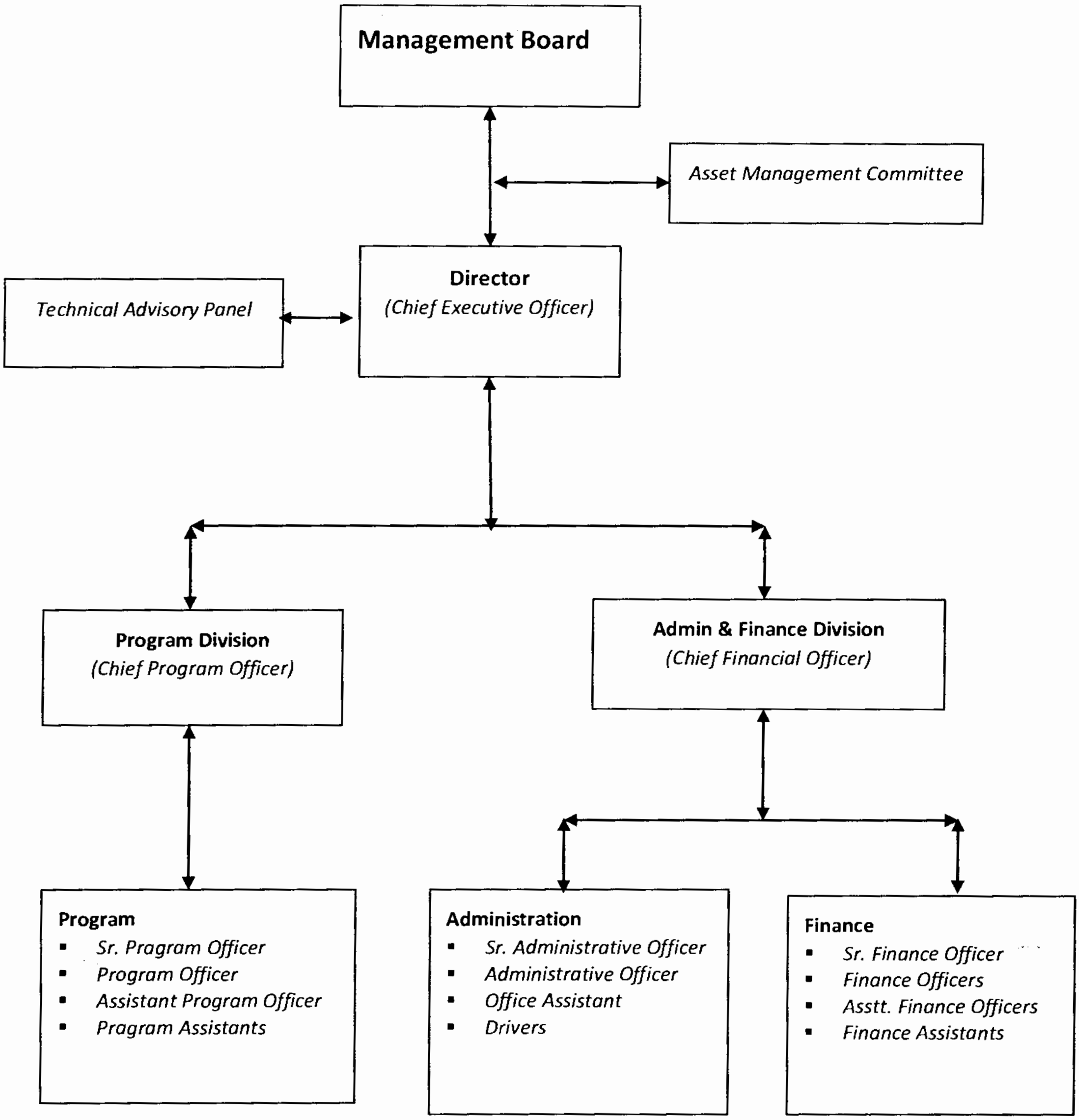
The Endowment Fund for Human Wildlife Conflict, Department of Forests and Park Services.

BCTF ORGANIZATIONAL CHART



3.2 Philippine Tropical forest conservation trust fund: Connecting Forests, People and Development

Jose Andres A. Canivel, JD[44]

ABSTRACT

In September 2002, the government of the Republic of the Philippines and the U.S. Government entered into two agreements that: (a) established a Tropical Forest Conservation Fund amounting to $8.2 to provide for forest conservation activities from 2002 to 2016, and designated the Philippine Tropical Forest Conservation Foundation (PTFCF) as the administrator of the conservation fund.

PTFCF provides grants to projects implemented by civil society organizations, research institutions and individuals whose activities aim to conserve, maintain or restore tropical forests in the Philippines. Projects supported by PTFC have: improved the management of approximately 1.3 million hectares of forest lands; restored approximately 3,400 hectares of forests; established over 40 community-conserved areas in key biodiversity areas and critical watersheds; institutionalized over 52 community-level sustainable enterprises that provide additional income to community members; and increased level of awareness on forest conservation issues, particularly the ecosystem services provided by forests.

PTFCF was able to achieve these results through a rigorous competitive grants program, developing efficient and ecologically sound approaches in forest conservation, and engaging in strategic partnerships with key stakeholders and actors in the key biodiversity areas. At the same time, PTFCF kept its administrative costs low and managed its resources prudently.

Although PTFCF and its partner organizations can claim milestones and significant gains in the last decade in forest and mangrove conservation and environment protection, serious challenges to the sustainability of its efforts still remain.

CONTEXT AND BACKGROUND

The Philippines has a land area of 30 million hectares, 15 million of which is classified as forest lands. The Department of Environment and Natural Resources (DENR) estimate that remaining forests in the country cover approximately 7.4 million hectares, of which 2.5 million hectares are considered as closed canopy (DENR-FMB 2005). The remaining forested areas are fragmented. Within these forests are an estimated 24,300 forest-dependent species of mammals, birds, reptiles, amphibians and fish (DENR-FMB 2005). Vegetative biodiversity is likewise very high with high degrees of species richness and endemism. Most remaining forests (both upland and coastal) are continuously threatened by illegal logging, mining, land use conversion and unsustainable use.

The 1998 US Tropical Forest Conservation Act (TFCA) provided the Philippines with a unique opportunity to address the multifarious issues concerning the Philippine tropical forests. The TFCA enables the US government and developing countries with forests, like the Philippines, to negotiate for debt relief and the establishment of a forest conservation fund.

On 19 September 2002, the governments of the United States and the Philippines signed two bilateral agreements under the TFCA that established the Philippine Tropical Forest Conservation Foundation (PTFCF) to manage a US$8.2 M conservation fund to provide for forest conservation activities in the country from 2012 to 2016. PTFCF was organized through a consultative process that involved civil society and government agencies. The strong collaborative efforts among the Philippines and U.S. governments and the civil society sector resulted in the creation of the PTFCF.

[44] Executive Director, Philippine Tropical Forest Conservation Foundation

The Foundation became operational in early 2005. Prominent and experienced NGO leaders agreed to join its founding board and quickly worked to establish its governance system, develop a strategic plan and announce its first "Call for Proposals." They set the areas of focus for the Fund's grant-making program namely: Dipterocarp and upland forests; coastal mangrove forests; protected areas; and prioritized grants to small people's organizations (POs). These priorities have remained relevant to date. As it matured in experience and knowledge, the Foundation has gradually developed several new modalities for making grants and achieving the Fund objectives.

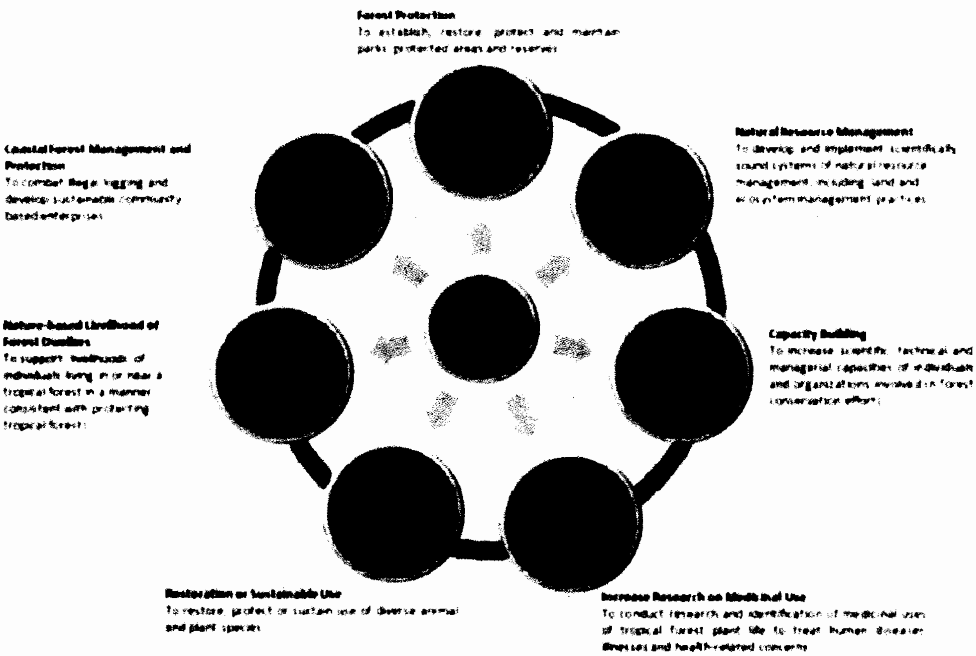
The administration of the tropical forest conservation fund is currently under the direction of an NGO-led Board of Trustees (BOT) with two representatives each for the Philippine and the U.S. governments, five individuals from NGOs and an Executive Director. The Board of Trustees is comprised of the following: *Dr. Paciencia P. Milan (Chairperson), DENR Secretary Ramon J. P. Paje (Vice-Chair), Mr. Jaime I. Ayala (Treasurer), Dr. Rowena R. Boquiren, (Secretary), DOF* Secretary Cesar V. Purisima, *Mr. Joseph Foltz (USAID), Mr. Heath Bailey (U.S. Embassy)* Dr. Proserpina Gomez-Roxas Mr. Federico Lopez. T*he Executive Director leads the seven person staff of PTFCF.*

PTFCF VISION, MISSION AND OBJECTIVES

PTFCF "*envisions biologically diverse Philippine forests that are sustainably managed and equitably accessible to responsible stakeholders.*" Its mission is to "*Protect and restore Philippine forests by working with communities, catalysing local and national actions for their sustainable management.*"

The seven objectives of PTFCF underscore the interconnectedness of forests, people and development (Figure 1). Tropical forests are prioritized through protection and management activities. People, specifically forest dwellers, are recognized as key players in forest conservation and are, thus, given precedence through capability-building activities and provision of alternative livelihood. Development is ensured through activities that focus on sustainable use of tropical forests. Research and identification of medicinal uses of tropical forest plant life to treat human diseases, illnesses and health related concerns also contribute to overall human development. The overall thematic focus of conservation efforts supported by PTFCF centers on forest formations, particularly dipterocarp forests and mangrove forests.

Figure 1. The PTFCF Objectives



INVESTING IN FOREST CONSERVATION

The selection of projects for PTFCF funding involves a competitive process, which starts with the issuance of the annual Call for Proposals. The types of conservation projects that are eligible to receive grants include: the establishment, maintenance, and restoration of parks, protected reserves, and natural areas, and the plant and animal life within them; the conduct of training programs to increase the capacity of personnel to manage conservation parks; the development of and support for communities residing near or within tropical forests; the development of sustainable ecosystem and land management systems; and the conduct of research to identify the medicinal uses of tropical forest plants and their products.

Only Philippine-based institutions are eligible to submit concept proposals including: civil society organizations (CSOs; i.e. NGOs, indigenous peoples' organizations and other such community-based organizations) engaged in forest conservation; private economic, scientific or academic institutions, as well as social and professional organizations; and individuals (for short-term research projects). Government agencies, local government units (LGUs) and other government instrumentalities, as well as state universities and colleges (SUCs), are not eligible. The business sector (such as corporate foundations, chambers of commerce or specific industry chambers) is invited to engage in partnerships with NGO and PO proponents instead of directly applying for grants. Moreover, large NGOs or federations with national coverage are encouraged to take the lead in submitting grant proposals to capacitate their local partners.

Grants for forest conservation are extended under any of six types. Area grants, with a maximum grant amount of PhP 2 million (US$ 48,553) per year, are earmarked for projects implemented in PTFCF priority areas for a maximum of three years. Small grants, ranging from PhP 100,001 (US$2,428) to PhP 500,000 (US$ 12,138), support eligible activities within the priority areas but give emphasis on a particular component of a larger forest conservation project. They typically have a shorter duration of implementation and a strong partnership component. On the other hand, project proposals for immediate implementation within a limited time period and amount not beyond PhP 100,000 (US$ 2,428) are funded under the micro grants. Moreover, research proposals from scientific organizations/institutions and individuals are considered under the applied research grants. Research can be multi-year (at most three years) with support that shall not exceed Php 1 million (US$ 24,277) per year. The expected output of a research grant is a peer-reviewed published paper.

The conservation planning and development grant (CPDG) supports conservation actions in areas without active POs/representations/existing plans. Eligible proposals include: information on the proponent's capacity, resources and readiness; status of the area and needed interventions consistent with PTFCF mandate; and proposed activities and budget. Funding for CPDG ranges from PhP 100,000 (US$ 2,428) to PhP 400,000 (US$ 9,711), and has a timeframe of one year. A project development grant (PDG) was created to respond to promising concept proposals. The output of a PDG is a project proposal to be submitted to PTFCF for possible funding. Activities under this grant include planning and project development and capacity building in PTFCF's prioritized areas, among others. Support ranges from PhP 100,000 (US$2,428) to PhP 200,000 (US$ 4,855) within a year.

Proposal Evaluation and Approval

PTFCF evaluates projects in phases, a concept proposal phase and then a full proposal phase. Proponents are asked to first submit a concept proposal, which provides for the objectives, strategies and an indicative budget of a proposed project. The concept proposal is evaluated by staff and a sub-committee of the BOT. Proposals that are favorable evaluated are then asked to prepare a full blown proposal which, in addition to the objective and strategies, provides details on activities and budgets that are required to meet the objectives of the project. These full proposals are evaluated by a Program Committee, with final approval by the BOT.

MILESTONES AND IMPACTS

Projects supported by PTFCF since 2005 have resulted in significant outcomes: improved the management of approximately 1.3 million ha of forest lands; restored approximately 3,400 ha of forests through the re-introduction of appropriate native tree species; established over 40 community-conserved areas in key biodiversity areas and critical watersheds; institutionalized over 52 community-level sustainable enterprises that provide additional income to community members; and increased level of awareness on forest conservation issues, particularly the ecosystem services provided by forests.

Forest Restoration

A critical feature of forest restoration projects supported by the PTFCF (both for forests and mangroves) is the use of native species of trees and mangroves to circumvent the problems of past reforestation efforts that relied almost exclusively on exotic species.

PTFCF advocates for a scientific approach called the "rainforestation" approach, or keystone species approach in the restoration of forests. In this approach, pioneering local species (sun-requiring trees) are planted first, and then the climax forest tree species (shade-loving trees, or dipterocarps) are planted under the established pioneers. While this approach is both time and resource consuming, it has higher chances of success, better approximates natural forest growth and ensures full ecosystem services provided by such forests.

Mangroves conservation is one of the priorities of PTFCF. PTFCF introduced three key pioneering practices in mangrove reforestation. First, instead of planting just one species for the entire area to be rehabilitated, reforestation followed the natural growth of the mangrove area. Thus, the appropriate species of mangrove were planted depending on whether an area was muddy, sandy or rocky. Second, the planting of mangroves was done landward, that is, planting starts from the sea and moves towards the land. Third, the Foundation prioritized abandoned fishponds and transformed them into reforested mangrove areas.

In 2012 alone, PTFCF-supported projects rehabilitated some 105 hectares of abandoned fishponds and mangrove areas, and sustained the protection and management of 845 hectares of old-growth and restored mangrove forests with counterpart support from the respective LGUs and communities.

The establishment of various nurseries (for native/indigenous forest and fruit tree seedlings and mangroves) is a key component to PTFCF's reforestation strategy. Starting 2007, PTFCF worked to increase the supply and availability of seedlings and wildlings of Philippine tree species through the establishment of various community-based nurseries. These nurseries not only ensure the availability of planting materials and the appropriate matching of species to the project area; they also provide livelihood to the participating organizations and communities and increase the level of participation of women and the youth.

Law Enforcement and Forest Monitoring

PTFCF prioritizes the protection of the remaining old growth tropical forests blocks of the country by supporting action to curb illegal logging. The protection of these remaining forest blocks—such as in the Sierra Madre Mountain Ranges, the island province of Palawan and in Eastern Mindanao (Caraga Region)—is vital not only because they serve as living models of forest restoration efforts but because they provide the source of materials for reforestation efforts.

From 2008 to 2011, PTFCF supported a partnership between Tanggol Kalikasan, a public interest legal organization, and the Isabela Province Anti-Illegal Logging Task Force to expand law enforcement activities and curb illegal logging in the Northern Sierra Madre Natural Park (NSMP). By establishing a checkpoint along the Abuan River (the major waterway used for transporting illegally-cut wood from the Sierra Madre), approximately 800,000 board feet of illegally-cut hard wood were confiscated. Confiscations of illegally-cut wood and illegally-processed lumber continued in the succeeding years with the support of the Provincial Government of Isabela. The total confiscations exceeded 1.5 million board feet. This project has resulted in the largest confiscation ever in the history of the anti-illegal logging in the country. In addition to confiscations, court cases were filed against the lumberyard operators and owners, who were typically rich businessmen or politicians.

PTFCF has an ongoing project in partnership with the Palawan NGO Network, Inc. (PNNI) for the conservation of forests in the country's "last frontier" and support community-based forest monitoring and anti-timber poaching operations. The project, targets the confiscation of equipment and tools (particularly chainsaws) used in timber poaching. Over 50 chainsaws have been confiscated and cases were filed against the owners and/or operators of anti-timber poaching operations for violations of the Chainsaw Act of the Philippines (Republic Act [RA] 9175), which prohibited the possession of chainsaws in forest areas without permits.

The Foundation has established financial management policies covering disbursement and procurement, conflict of interest and limits on grant amounts. Audits by a third party auditor are conducted annually, with no material findings reported to date.

The global financial crises in 2008-2009 affected the Foundation's portfolio investments. The number of grants approved during these years decreased as interest income from investments also decreased. However, PTFCF immediately revised its investment strategies to recoup its realized and unrealized losses from previous years.

FUTURE DIRECTIONS

The Philippine government is currently negotiating for another debt reduction agreement with the US government. Resources mobilized through a second debt reduction agreement will be focused on REDD Plus readiness, supporting financial sustainability of protected areas and parks, and enhancing the role of civil society in the national government programs such as the NGP, the Philippine National REDD-plus Strategy (PNRPS), as well as the National Climate Change Action Plan.

A. Support for continuing forest conservation programs and projects, especially mangrove forest conservation and community conserved areas

Our community-based conservation efforts have proven effective in reducing threats to the forests, increasing forest cover and improving livelihoods of our partner-communities. These projects would be scaled up across larger ecosystems, involving more communities and engaging more partners. In addition to increasing the number of forest areas under improved management, new funding would be provided to current partners to support sustainability efforts and increased private sector and LGU involvement.

B. Support for Enhancing Forest Conservation in National Parks and Protected Areas

Efforts at conserving forests within national parks and protected areas will be enhanced. Current PTFCF supported efforts are often implemented at the project area level, with short term impacts on over-all protected area management. With more resources allocated for protected area support, current projects will be directed towards more long-term activities involving more stakeholders. Indicative activities include enabling information-based and science-driven decision making, enhancing forest protection approaches and protocols, addressing livelihood and tenure issues of forest-dependent communities and indigenous peoples living in or adjacent to parks and protected areas, and developing sustainability mechanisms to ensure park maintenance and operations.

C. Protected Area Sustainability

Another key strategy is the development of sustainability options to support forest protection and restoration of protected areas, such as endowments and payments for ecosystem services (PES) schemes. Current management and protection efforts are hamstrung by the allocation of limited resources and over-reliance on bilateral funding. Projects along this line will study and develop models for financial sustainability for national parks and protected areas, with focus on Mt. Mantalingahan in Palawan, and the Northern Sierra Madre Natural Park.

D. Support for Watershed Conservation

Philippine forests, however, do more than provide habitat for plants and animals. An estimated 18-20 million people, including indigenous peoples, are dependent on forest lands for subsistence uses and customary or traditional livelihoods. Most of the country's watersheds are forest reserves with varying degrees of legal and institutional protection. Watersheds provide water for domestic use, irrigation and hydroelectric power. Forests influence the climate through transpiration, and particularly in the eastern side of the Philippines, they mitigate the impact of typhoons.

The watersheds that service large urban centers like Metro Manila, Davao City, Metro Cebu, as well as provinces with large agricultural producers like Bukidnon, Isabela, and Nueva Ecija have been characterized as threatened. Efforts to conserve these areas will enhance forest biodiversity as well as improve the provisioning of ecosystem services. However, given the scale of restoration efforts and the resources required to accomplish it, partnerships between the public sector, civil society and the private sector are necessary. The private sector, particularly companies that have a major stake in the resources supplied by the watershed, will be encouraged to invest and ensure the sustainability of the conservation actions in the watershed. National government agencies, together with local government units can create a conservation policy and governance framework for the watershed. Such a conservation framework should demarcate the boundaries and management zones for the watershed, identify key threats to the watershed, ensure stakeholder consultation and participation, provide incentives for actions that promote conservation, and provide penalties and disincentives for actions that degrade forests or impact the provisioning services. Civil society, including the church and academia, and the local communities will be the local implementers of conservation actions.

PTFCF projects will create and foster public private partnerships (PPPs), develop watershed management plans and institutionalize multi-stakeholder management arrangements, and initiate community enterprises that advance community livelihood consistent with watershed conservation goals.

Aside from large watersheds, PTFCF will support conservation efforts for sub-waters or micro-watersheds that service a relatively small area with definite users and stakeholders. These micro-watersheds usually service 50 to 100 hectare agricultural areas farmed by small landholders and farmer cooperatives. PTFCF will support projects that link forest protection and restoration activities by upland communities to water provisioning of agricultural lands through payments for ecosystem services and/or community agreements. Projects such as this will compensate upland communities for their effort and inhibit them from engaging in activities that will degrade forests while ensuring sustained delivery of watershed services.

E. Support for the National Greening Program (NGP)

The current administration, through the NGP aims to plant 1. 5 million hectares within six years with native tree species, forest trees and fruit trees. However, given the phenology of dipterocarps and other forest trees, the paucity of information in seed production for these native species as well as the distance of seed production areas to the reforestation sites, support along these lines are urgently needed. PTFCF envisions support for seedling production and the development of seedling production and tree nurturing protocols in addition to protection of mother trees and seed production areas.

F. Support for forest adaptation and REDD Plus

The country has adopted a Philippine National REDD Plus Strategy (PNRPS) that aims to reduce forest degradation and deforestation, reduce poverty in the uplands, conserve biodiversity and improve forest governance. PTFCF supports the PNRPS since it is another tool for improving forest quality and quantity, strengthening the gains of community based forest management and enhancing forest governance and management.

The PNRPS assumes a 10-year time horizon (2010-2020) and serves as approximate guide for development of REDD-plus activities in the Philippines. The PNRPS does not seek to prioritize strategies and activities within these Phases or establish related budgets. Priority-setting and budgeting will be part of future action planning. Action planning will also elaborate plans about how to scale-up from the readiness phase to full engagement. However, the PNRPS timeline does provide insight into the process of early REDD-plus development and scaling up towards national-level engagement.

Consistent with the PNRPS, PTFCF will support activities that focus of REDD Plus readiness including (a) capacity building, consultation and planning, integration of REDD Plus into DENR programs, (b) and reform of policies for community and biodiversity safeguards, and (c) the development of Measurement, Reporting and Verification (MRV) standards for forest carbon accounting.

Development of Conservation Planning and Management Tools

A critical component for REDD Plus is support for improving the information base on which conservation decisions are made, including survey, inventory, monitoring, remote sensing, mapping and capacity development to for efficient use of these tools and technologies. These tools will be made available to planners at the national and regional level and will be further developed so that local forest managers, including communities will be able to plan, implement, evaluate and manage their forest conservation actions.

Support will also be allocated for projects that enable climate change integration in planning, implementation of climate change integrated conservation actions and monitoring of climate change impacts on forest biodiversity. Specific outputs include: (a) modelling of impacts of climate change to forest biodiversity, (b) maps of forest cover of PTFCF sites and forest landscapes, (c) capacity building for GIS based conservation planning and decision making, (d) and other IEC materials for enhanced forest conservation planning and monitoring.

Modest gains in forest conservation have been achieved the past ten years in the forestry sector with strong inputs from PTFCF projects, but more support is needed for sustained action and increased impacts.

3.3 Experiences with the Biodiversity Trust Fund in Vanuatu

Hanington Tate Tamla[46]

BACKGROUND

The need to protect and conserved biodiversity is immense. In several developing countries, forests ecosystems are being destroyed without the knowledge of the important biodiversity composition of the forests; with the loss of forests biodiversity blamed mainly on intensive or unsustainable logging and industrial agriculture.

In Vanuatu, concerns regarding the loss of forests cover become evident in the mid-90s when foreign companies began to arrive in Vanuatu and resulted in the country witnessing for the first time extensive logging activities. The initial concern at that time was to protect a stand of Kauri (*Agathis macrophyla*) forest covering an area of around 3,025 hectares, known to be the largest intact Kauri forests in the southern hemisphere.

The Vanuatu Conservation Trust Fund was established in 1998, in response to the National Forest Policy (1997) which identified that the National Parks Act does not provide for the management of conservation areas. The fund was established specifically to cover the protection and management of the Kauri Reserve, but also has a broader view to cover the management and maintenance of all protected and conservation areas in Vanuatu.

Below is the documentation of experiences with the development of the Biodiversity Trust Fund for Vanuatu.

RESOURCE MOBILIZATION

The Biodiversity Conservation Trust Fund has not been very successful since its establishment in September of 1998. On the date of its launching, the Minister responsible for forestry deposited and amount of USD100 into the trust account, which was so far the only money deposited into the account. The fund was managed by a private finance firm (Pacific island Trading Company), specifically to ensure that it is managed professionally and easy to acquit expenditures from the fund.

After its establishment, the government made several efforts to attract funding into the fund's account. Being a new system, several efforts have been put together by the Department of Forests and the Department of Environment (Environment Unit) to get money into the account. These activities included awareness of the fund and its importance to biodiversity conservation among government institutions, government Ministers, community organizations, NGOs, donors and finance institutions. A website was also developed as part of awareness to raise funds for the trust fund, giving access to interested persons and organizations outside Vanuatu of the intended purpose of the fund.

KEY STAKEHOLDERS

The Trust Fund was established specifically for the management and maintenance of forest areas under protection and conservation. Based on the land tenure system in Vanuatu, land is owned either by an individual or a family or clan. Some members of the community may not own the land but have access to the land for specific use usually through agreements from the customary owners. Institutions

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and organizations outside the community, for instance, government and NGOs may also have a specific interest in the land. Therefore, the key stakeholders of the trust fund includes customary landowners, communities, the government, non-government organizations and other groups having an interest in the protected/conserved forests, either through direct or indirect involvement in the conservation activities. A key stakeholder of the fund can be a regular donor of funds into the account.

DEVELOPMENT AND CURRENT STATUS OF THE TRUST FUND

The Trust Fund in Vanuatu has been through several development stages. When the fund was launched in 1998, it was launched as the Conservation Trust Fund, with the Department of Forests as the lead government agency to administer the fund.

A few years after its establishment, the Department of Environment which coordinates establishment and management of protected areas, coordinated the development of the National Biodiversity Conservation Strategy for Vanuatu in 1999. The strategy recognises the importance of sustainable management of biodiversity, and also acknowledges that the government does not have the financial capacity manage conservation areas. The strategy therefore highlights the establishment of an environmental management trust fund to finance biodiversity research and conservation work. The strategy proposes a payment of USD10 for every visitor to Vanuatu.

The development of the Biodiversity Conservation Trust Fund becomes more interesting with the enactment of Environment and Conservation Act in 2002. The Act transforms the Biodiversity Conservation Trust Fund to the Environmental Trust Fund, broadening the scope of the fund beyond the scope of the original establishment of the fund. The areas that the fund covers include (quote);

- *(i)* *the negotiation, monitoring (including the retention of technical experts), investigation or analysis of any matter or the undertaking of any environmental monitoring or audit programme,*
- *(ii)* *to pay for environmental rehabilitation work,*
- *(iii)* *to pay for research programmes,*
- *(iv)* *for the management of community conservation areas,*
- *(v)* *if necessary, to pay for refund of environmental bonds and security of costs; and*
- *(vi)* *as required for the protection and conservation of the environment*

Despite broadening the scope of the Trust Fund, advocates of forest protected area management and biodiversity conservation continue to put biodiversity conservation and protection as the main focus of the trust fund. While there is still discussion on the fund, there is an urgent action that Vanuatu needs to take is to ensure clarity between the Environmental Trust Fund and the Biodiversity Trust Fund. At the moment, while Vanuatu is spending time to work on its Trust Fund to ensure that it is operational, it still refers to a Trust Fund under two separate names, the Environmental Trust Fund and the Biodiversity Trust Fund.

FUTURE OUTLOOK

The interests of making the Biodiversity Conservation Trust Fund or the Environmental Trust Fund operational to fund the growing number of forest protected and conservation areas continue to exist. This is evident through government policies and project related work to strengthen efforts to make the fund operational.

Currently, there is a proposal to review and amend the Vanuatu Conservation Trust Fund with the view to develop revenue raising strategy and a marketing package suitable to suite different audiences and to seek and attract funding contributions from different sources. A terms of reference has been developed under the Coral Triangle Initiative (CTI) to engage a technical expert in assessing the Environmental Trust Fund, identify and where feasible, develop sustainable financing mechanisms that will enable the fund to operate effectively. A similar activity is planned by the Food and Agriculture Organization through the Global Environment Facility funding, to identify funding opportunities for the Biodiversity Conservation Fund.

Since the establishment of the Conservation Trust Fund in 1998, there have been more financing options available now than then. Therefore, the current strategy is for Vanuatu to investigate and make use of the current available funding options and mechanisms to support the operation of the Trust Fund. Until the Trust Fund is operational, the security of the current and future conservation and protected areas in Vanuatu will not be effectively managed and maintained.

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Department of Environment and Conservation 2002 Environmental Protection and Conservation Act, Port Vila, Vanuatu.

ADB TA 773 – REG: Strengthening Coastal and Marine Resources Management in the Coral Triangle Initiative of the Pacific Phase II (project document), 2012 – 2015.

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4. Climate and REDD+ Financing

The expert meeting included two contributions relating to climate and REDD+ financing in Indonesia. These contributions were not as papers but as presentations. Dr. Amin Budiarjo[47] presented the Indonesia Climate Change Trust Fund (ICCTF). Ms Gita Syahrani[48] presented the Fund for REDD+ in Indonesia (FREDDI). The presentations can be found in Annex 4.

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[48] Legal Specialist, Funding Instrument, REDD+ Special Team UKP4

5. Concluding remarks

The financing mechanisms presented at the expert meeting are diverse in their sources and scale of financing, the ways in which they are managed, and their levels of success. More importantly, the funds in each of the countries operate in a very dynamic environment and are themselves subject to change. Hence there are opportunities to learn from other experiences and put new lessons into practice. This section gives an overview of the key issues raised during the discussions and some preliminary suggestions on ways forward.

Sources of funds

The modes of fund sourcing and sizes of the different funds vary greatly. Where some funds, such as the Vanuatu Biodiversity Trust Fund, have struggled to obtain financing, others have constituted a large capital fund from which the interest accrued is used to fund reforestation (Compensatory Afforestation Fund in India). Some funds are funded through levies or tax (FDCF, DR, FRDF), others through PES (VNFF). Among the Trust Funds, some are a sink fund[49] (PTFCTF) spending the funds within a predetermined timeframe, others are endowment funds[50] using interest and investment returns to support activities (BTFEC). All funds have a common interest in diversifying their funding often by trying to identify new innovative sources.

The most common source of funding for NFFs is currently levies or taxes. The expert meeting concluded that there is still room to increase revenues through this system but policy changes are required in most countries, viz.,

- To allow private firms more access to financial loans and leasing of public land to establish forest plantations. The interest on the loans and income through leasing could be added to the forest funds;
- To liberalize conditions of timber sales, including the possibility to export logs. Increased trade in timber products would lead to increased income for National Forest Funds;
- Government commitment to forest & environmental conservation and SFM needs to improve, only then will the funds really benefit the forests. This calls for addressing difficult perverse incentives such as fuel subsidies and large scale land conversion projects;
- Illegal logging and tax evasion undermine the ability of the fund to operate as it should due to a loss of revenues. Similarly when funds are disbursed for a specific purpose of reforestation or SFM, there must be a control mechanism to ensure that funds are actually used for this purpose. Hence forest funds depend on a functioning judiciary system to ensure compliance with policies and regulations and avoid illegal activities. As such, a judiciary system with attention to forest crimes is a prerequisite to the success of any fund.

Many of the existing Trust Funds also depend on ODA to provide capital for the fund establishment. Once established activities can be supported using these funds until the fund runs out (i.e. sink funds) or by investing the capital and using the investment returns. There was a general desire among participants to have more freedom on how ODA is used. Hence the suggestion was raised to avoid earmarking of ODA but instead advocate for financial contributions to funds managed nationally with a long-term perspective instead of short term project-like approaches. This better fits with the long-

[49] A sinking fund is received from external donors and is to support activities within a predetermined timeframe at the end of which the fund is fully spent.
[50] An endowment fund is received from external donors with restriction that the amount is to be retained in perpetuity. The income earned from interest or investment returns is used to fund activities.

term investment needs of SFM itself. Some funds are already being established that follow this principle, for example, the Amazon Fund in Brazil managed by the Brazilian Development Bank (BNDES). In Indonesia, the fund management of the Indonesian Climate Change Trust Fund (ICCTF) is scheduled to transfer from UNDP as interim fund manager to a national bank (Bank Mandiri) in 2014.

Among the more innovative sources of funds, one potential source that has many interested is a payment for environmental services (PES) mechanism as a way to finance SFM with payments from those profiting from the services provided by the forest, i.e. water users (drinking water, hydropower, irrigation users and eco-tourism). Vietnam has extensive experience with payments for forest environmental services (PFES) through its VNFF, which is funded entirely through PFES. The fund has been very successful in collecting payments from companies (mostly hydropower plants), where other countries are struggling to realize this. Some countries would require policies to improve their PES framework. Additionally possibilities could be explored for cross-border PES for example between India and Bhutan , where India already purchases electricity generated in Bhutan's hydropower plants that thrive thanks to Bhutan's extensive forest cover.

More awareness of the role of forests for their business could leverage additional interest from an engaged private sector. Private sector investments in SFM could come from a broader range of companies not limited only to those directly active in the forestry sector. An example of this could be drinking water companies. In India these companies are taxed as a form of payment for environmental services, but instead of a tax there could also be an interest to invest in the source of drinking water, or hydropower. In addition to investments this could also be in the form of corporate social responsibility (CSR). An example of CSR is the Voluntary Carbon Offset scheme by Malaysian Airlines in which the funds are used to invest in SFM, while Garuda Indonesia has a similar scheme that will support reforestation in Indonesia.

REDD+ also has potential to provide funds for SFM. If SFM manages to maintain carbon stocks at a higher level than the existing carbon stocks in a particular area of forests then the gain in carbon stock is eligible for performance payments under REDD+. In order for REDD+ to have a broader impact it is important that the work done on REDD+ readiness is linked to a broader forest/landscape management approach. This will provide useful outcomes of REDD+ readiness work even in the case that REDD+ fails to materialize as an international mechanism.

A prerequisite for both private sector investment and REDD+ is that land tenure has be clear. Currently tenure conflicts are still abundant and hampering long-term land-based investments. In the case of REDD+, land tenure is important to determine beneficiaries for any potential performance payments. The preparations for REDD+ in countries like Indonesia for example have elevated land tenure on the policy agenda for this reason. For private sector investment the land tenure has to be clear in order to ensure possible investment returns from that particular lend in the long term. If land tenure rights change midway this would jeopardize the investment returns.

Use of funds

The funding mechanisms presented primarily aim to support SFM, reforestation or conservation activities. Whether the funds are successful in achieving their objective depends on many different aspects. However, a number of participants made it clear that funds have not been successful in changing private sector actors towards more sustainable forest management practices. In order for forest funds to achieve this, the private sector has to be able to benefit from the funds and be aware of this. There is a clear shortfall with regards to private sector engagement at present.

In other cases certain requirements have to be in place before SFM, reforestation or conservation can be achieved. Therefore, the Indonesian REDD+ Fund (FREDDI), once established, aims to supports not only implementation on the ground but also policy interventions that help meet the basic requirements for REDD+ implementation.

Fund Management

Some funds are better managed then others. Indonesia's Reforestation Fund suffered from poor governance before an audit led to significant changes in the management structure. Others funds are somewhat successful but could be improved if some barriers are removed, i.e. the CAF at the state level in India could be more successful if the allocation to states were to be made more flexible i.e. not based on past deforestation trends but on planned afforestation targets. In Vietnam, the VNFF is managed by the Agriculture and Forestry department, while land ownership records are maintained by the environment department. This creates challenges in identifying the beneficiaries of payments by the fund. The PTFCF in the Philippines has a very thorough due diligence process for disbursing funds to partners. This fits well with their concept of People and Processes over Pesos (PPP, in response to Public-Private Partnership model which is promoted elsewhere and which tends to be more finance focused).

A number of countries have multiple funds with similar or overlapping mandates with regards to forest management or conservation. Especially the arrival of climate and REDD+ funds in recent years may partly overlap with existing forest funds. Indonesia has a number of funds as presented in the papers where coordination between the funds is still lacking. In Vietnam the various funds are grouped under one overarching fund although other ministries are also preparing to establish their own funds. Malaysia has various funds that were founded with specific purposes to add to the original MTIDF. Bhutan decided to establish a second fund in response to their stakeholder concerns of increased human-animal conflict. The BTFEC works for the protection of a number of animal species that are now responsible for crop and livestock depredation. The additional fund will be used to cover the damages resulting from these conflicts. This suggests that the existence of multiple funds is not necessarily a problem, but complementarity and close coordination is very important to effectively and efficiently achieve the objectives of all funds.

The success of funds also depends on the accountability mechanisms of the funds. This can be achieved through a number of actions related to fund management and oversight that apply to most funds:

1. Broaden representation in fund management and decision making;
2. Improve accounting and monitoring systems to increase transparency and accountability. This can be achieved through annual reports and audits, where audits should cover not only financial performance, but also physical accomplishments;
3. Strengthen parliamentary oversight and independent annual reviews;
4. Raising awareness among public through media, improve public access to information about the fund and fund use and share success stories and lessons learned;
5. Build capacity of staff managing funds and their supervisors;
6. Effective money transfer mechanisms to fund beneficiaries, especially where beneficiaries are individuals (e.g. using mobile phone technology).

ANNEXES

Annex 1. Detailed Programme of the Expert Meeting 24-25 October 2013

Thursday, 24 October 2013

08.30-09.00	REGISTRATION	
09.00-09.45	**SESSION I : Inauguration**	
09.00-09.15	• Welcome and opening statements	**Andrew Wardell**, CIFOR
09.15-09:45	• NFFs: Objectives, rationale and significance • NFFs: Key issues for attention (from the draft paper)	**Rao Matta**, FAO **Rogier Klaver**, CIFOR
09.45-11:00	**SESSION II: Indonesia's experiences with forest financing** Chaired by Andrew Wardell	
09.45-11.00	• Indonesia experiences with reforestation fund • Fund for REDD+ in Indonesia (FREDDI) • Indonesia Climate Change Trust Fund (ICCTF)	**Prof. Sudarsono Soedomo,** IPB **Ms. Gita Syahrani,** UKP4 **Dr. Amin Budiarjo,** Bappenas
11.00-11.15	COFFEE BREAK	
11.15-12.30	**SESSION III: Countries' experiences with different financing mechanisms** Chaired by Rao Matta	
11.15-12.30	• Country presentations (focusing on specific challenges and ways of addressing them)0	**Prof. Shahwahid Othman** – Various forestry funds in Malaysia **Mr. Win Myint** – Myanmar Government financing for forestry **Mr. B.K. Singh** - Compensatory Afforestation Fund India (National)
12.30-13.30	LUNCH	
13.30-15.15	**SESSION III (Contd.): Countries' experiences with different financing mechanisms** Chaired by Andrew Wardell	
13.30-15.15	• Country presentations (focusing on specific challenges and ways of addressing them)	**Dr. S. Balaji** - Compensatory Afforestation Fund India (State) **Mr. Ivo Litzenberg** – Vietnam Forest Protection and Development Fund **Ms. Lomkham Sengchanoudom** – Forest Resource Development Fund in Laos
15.15-15.30	COFFEE BREAK	

15.30-15.50	• Welcome remarks by the CIFOR Director General	
15.50-17.15	**SESSION III (Contd.): Countries' experiences with different financing mechanisms** Chaired by Rogier Klaver	
15.45-17.15	• Country presentations (focusing on specific challenges and ways of addressing them) • Questions and clarifications	**Mr. Singye Dorji** - Bhutan Conservation Trust Fund **Mr. Jose Canivel** – Philippine Tropical Forest Conservation Fund **Mr. Tate Hannington** - Vanuatu Biodiversity Conservation Trust Fund
18.30	RECEPTION DINNER ON CIFOR CAMPUS	

Friday, 25 October 2013

08.00 – 09.00	*Internal meeting organizing committee*	
09.00-09.15	Recap of the inputs from the first day	Rogier Klaver, CIFOR
09.15-11.45	**SESSION IV: Mobilizing Innovative sources of financing to NFFs**	
09.15-11.45	**Group I:** Traditional sources **Group II:** Non-government initiatives **Group III:** International mechanisms and instruments	Facilitated GROUP exercise
10.30-10.45	COFFEE BREAK	
11.45 – 12.30	**Presentation of groups' recommendations**	Groups' spokespersons
12.30-13.30	LUNCH BREAK	
13.30-15.00	**SESSION V: Enhancing the effectiveness of NFFs**	
13.30-15.00	**Group I:** Use of funds including access modalities **Group II:** Fund governance and administration **Group III:** Oversight and monitoring including accountability	Facilitated GROUP exercise
15.00-15.15	COFFEE BREAK	
15.15-16.00	**Presentation of groups' recommendations**	Groups' spokespersons
16.00-17.00	**SESSION VI: Way Forward**	
16.00-17.00	• Supplementing comments to groups' work • Action items for future • Wrap-up presentation / closing statements	Plenary

Annex 2 List of participants

	Country	Name	Fund/ Organization
1	Bhutan	Mr. Singye Dorji	Bhutan Conservation Trust Fund (BCTF)
2	India	Mr. B.K. Singh	CAMPA (Compensatory Afforestation Fund Management And Planning Authority) /India
3	India	Dr. S. Balaji	CAMPA/Tamil Nadu
4	Philippines	Atty. Jose Andres Canivel	Philippine Tropical Forest Conservation Fund (PTFCF)
5	Vanuatu	Mr. Tate Hanington	Vanuatu Biodiversity Conservation Trust Fund
6	Vietnam	Mr. Ivo Litzenberg	Forest Protection and Development Fund (VNFF) Ministry for Agriculture and Rural Development
7	Vietnam	Mr.Nguyen Van Vu	Forest Protection and Development Fund (VNFF), Ministry for Agriculture and Rural Development
8	Laos	Ms. Lomkham Sengchandoudom	Head of Forestry and Forest Resource Development Fund (FRDF), Ministry of Agriculture and Forestry
13	Myanmar	Mr. Win Myint	Director of Planning and Statistics Department, Ministry of Environmental Conservation and Forestry, Myanmar
14	Malaysia	Prof. Shahwahid Othman	Dean of the Faculty of Economics in Universiti Putra Malaysia
9	Indonesia	Prof. Sudarsono Soedomo	Professor at Bogor Agricultural University
10	Indonesia	Ms. Gita Syahrani	Fund for REDD+ in Indonesia (FREDDI)
11	Indonesia	Dr. Amin Budiarjo	Indonesian Climate Change Trust Fund (ICCTF)
12	Indonesia	Ms. Yuliana Wulan	GIZ/Indonesian Climate Change Trust Fund (ICCTF)
15	Indonesia	Dr. Hideyuki Kubo	UN Office for REDD+ Coordination in Indonesia (UNORCID)
16	Indonesia	Ahmad Dermawan	CIFOR
17	Indonesia	Anna Sinaga	CIFOR
18	Indonesia	Yuni Hariyanti	CIFOR
19		Dr. Rao Matta	FAO HQ - Rome
20		Susanne Wallenoeffer	GIZ HQ - Eschborn, Germany
21		Dr. D. Andrew Wardell	CIFOR
22		Rogier Klaver	CIFOR

Annex 3 Expert meeting Information Brief

Expert Meeting on Strengthening Finance for Sustainable Forest Management through National Forest Funds[51]

Background

To promote sustainable forest management (SFM), both the Food and Agriculture Organization of the United Nations (FAO) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, along with other international and national partners, are assisting member countries in developing and implementing effective financing strategies and instruments. Conceived as a "key capacity building effort," these activities help nations to identify and critically evaluate the variety and effectiveness of various financing options to augment resources for sustainable forest management (SFM). CIFOR has extensively studied forest finance varying from financing small scale forestry to SFM and, more recently, REDD+ financing options. This includes specific studies on financial governance in relation to Indonesia's Reforestation Fund (Dana Reboisasi), and plans to review the experience of the Indonesian Forest Restoration Fund (GERHAN).

To initiate an exchange of experience on "**Strengthening Finance for Sustainable Forest Management through National Forest Funds**", FAO, (GIZ) and Centro Agronómico Tropical de Investigación y Enseñanza (CATIE) organized a first expert meeting in Costa Rica in January 2013. Eight countries from the region and four from outside Latin America had the opportunity to share best practices regarding the design and operational procedures of their experiences in managing NFFs.

The proposed second expert meeting, being organized in collaboration with GIZ and CIFOR on 24th and 25th **October 2013**, will further deepen this process by specifically focusing on the challenges and opportunities involved in establishing and successfully managing national forest funds (NFFs) or similar funding mechanisms (please see the attached concept note) in the Asia and the Pacific region.

Objectives

Specific objectives of the Expert-Meeting are to:

- Share knowledge and experiences related to establishing and managing NFFs or similar funding mechanisms and discuss lessons learned;
- Assess the effectiveness of NFFs in promoting SFM;
- Identify potential strategies (policy, legal, and institutional) needed to effectively establish and manage identified NFF models; and
- Assemble information on best practices for the development of a Practical Guide on NFFs.

[51] Institutional mechanisms designed to set aside a portion of taxes or revenues and funding for forestry and/or conservation outside the normal budgetary processes. Unlike the traditional mechanisms, these funds exist for more than a single government budget cycle and offer some flexibility in spending.

Participants

All those invited forest practitioners, policy-makers, development partners and researchers from government, private sector, and civil society with experience in NFFs and interest in promoting strategies to strengthen financing for SFM.

Contribution from participants

Expected inputs from each invited participant are a PowerPoint presentation and a background paper including:

- A brief outline of the working modality of an NFF or any other similar dedicated funding mechanism in a country or specific sub-national jurisdiction
- Major challenges entailed in establishing and/or managing NFFs and some practical hints and best practices to address them.
- New and innovative strategy(ies)/models that indicate significant potential to augment resources for NFFs (including those related to climate change, conservation Trust Funds, block grants for sub-national investments in SFM, REDD+, PES etc.).
- Policy, institutional, and other measures needed to ensure an enabling environment for effective implementation of the identified strategies or models.

A proceedings of the meeting will be published so **all invited participants are required to provide a background paper** for the meeting. Guidelines for preparation of these papers and oral presentations are enclosed.

Anticipated Outputs

The expected results of the workshop are:

- Knowledge shared among key stakeholders in the region on strengthening finance for SFM.
- An enhanced understanding of innovative mechanisms such as NFFs for promoting SFM and of the requirements to effectively implement them.
- A clearer idea on collaborative actions, support processes, and other inputs needed to augment resources for SFM through NFFs for FAO, GIZ and other development partners.
- Expert Meeting report.

Workshop Venue

Centre for International Forestry Research (CIFOR)
Jalan CIFOR, Situ Gede, Sindang Barang, Bogor (Barat) 16115, Indonesia http://www.cifor.org/

Further Information

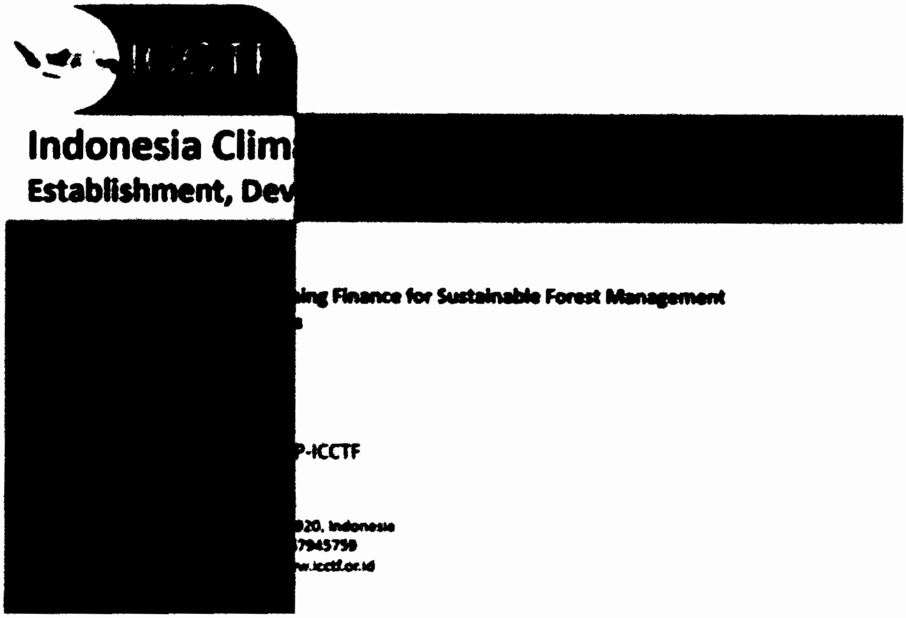
For further information, please contact:

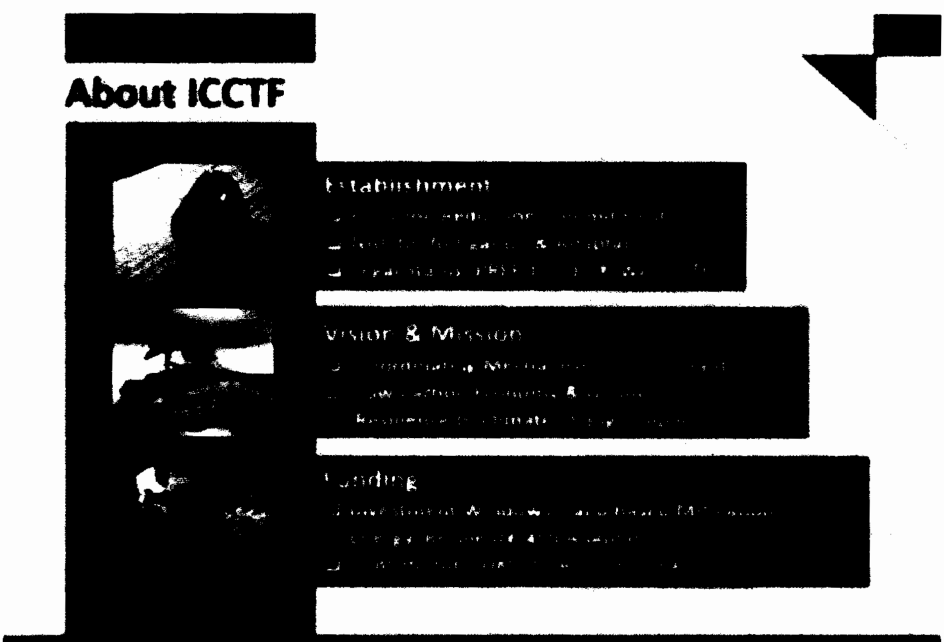
- D. Andrew Wardell, Research Director, Forests and Governance Portfolio, CIFOR a.wardell@cgiar.org
- Rao Matta, Forestry Officer, Food and Agriculture Organization (FAO) of the United Nations, Rome, Italy. Rao.Matta@fao.org
- Fabian Schmidt-Pramov, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Eschborn, Germany: fabian.schmidt@giz.de

Annex 4 Presentations Climate and REDD+ Financing

a. Indonesia Climate Change Trust Fund (ICCTF)

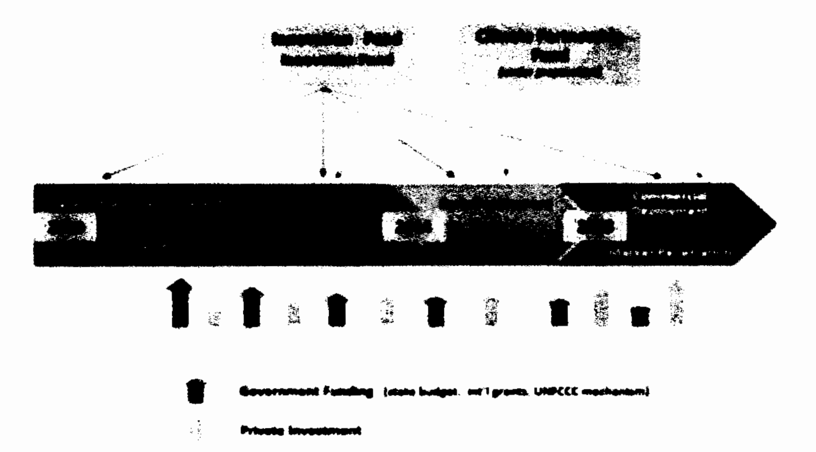
Dr. Amin Budiarjo[52]



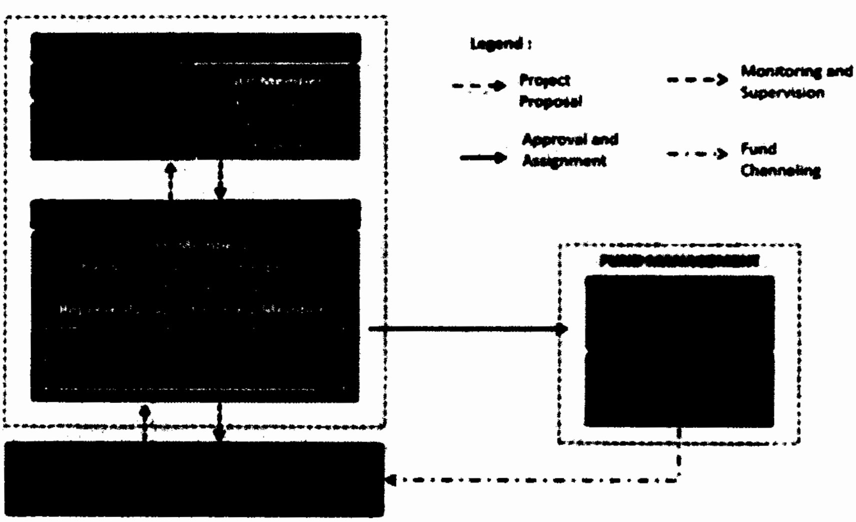


[52] National Manager, ICCTF Secretariat

Funding Mechanism



Current Organizational Structure



Land Based Mitigation Window

Land Based Mitigation Window

Focus Area of Land Based Mitigation (1)

1. Increasing human resources capacity and strengthening institution in forestry and peat land	Increasing knowledge and capacity in forestry and peat land management	• Development of "Climate Change Mitigation in Land-Based" education and training programs. • Dissemination of forestry and peat land best practices.
	Strengthening institution in forestry and peat land	• Establishment and strengthening of Forest Management Units (FMU) at conservation forest (KPHK), protected forest (KPHL) and community forest (KPHR) through pilot projects. • Formulation of standard criteria for categorizing degraded peat land and ecosystems, development of a 'Master Plan for Peat land Ecosystem Management' at provincial level
2. Enhancing improved land management practices in forest conservation area, degraded peat land and community critical land	Formulation of technical guidelines on the management of forest conservation area, degraded peat land and community critical land	• Formulation of technical guidelines on protected and conservation forest management. • Formulation of technical guidelines on the management of community forest, agroforestry, and energy estate in critical land. • Formulation of technical guidelines on farming and plantation practices in degraded peat land.
	Development of low carbon agroforestry, energy estate and community forest in critical land, and farming and plantation practices in degraded peat land	• Development of low carbon community forest, agroforestry, and energy estate in critical land. • Development of farming & plantation practices in degraded peat land.
	Development of pilot project on conservation and protected forest management to reduce GHG	• Managing the conservation forest and protected forest to optimally and continuously reduce GHG

Focus Area of Land Based Mitigation (2)

3. Development of standard method of GHG emission measurement and information system related to baseline and emission in conservation/ protected forest, community forest, agroforestry, energy estate, farming and plantation in peat land	Formulation and determination of standard method of GHG emission measurement in conservation and protected forest, agroforestry, energy estate, farming and plantation in peat land	• Formulation and determination of standard method of GHG emission measurement in conservation forest, protected forest, agroforestry, and energy estate. • Formulation and determination of standard method of GHG emission measurement on farming and plantation in degraded peat land.
	Development of information system including progress monitoring, and carbon trade model in conservation/ protected areas, community forest, agroforestry, energy estate, farming and plantation in peat land	• Development information system including progress monitoring in conservation/ protected areas, community forest, agroforestry, energy estate, farming and plantation in peat land • Development of carbon trade model for conservation/ protected areas, community forest, agroforestry, energy estate, farming and plantation in peat land

ICCTF Pilot Project 2010-2011

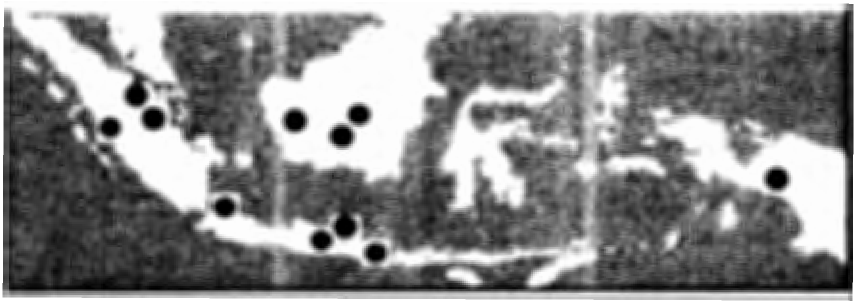
2 Jabiren, Central Kalimantan
3 Muara, Jambi
4 Pelalawan, Riau

2 Tangerang, Banten
3 Serang, Banten
4 Bekasi, West Java
5 Bandung, West Java
6 Bogor, West Java
7 Klaten, Central Java
8 Semarang, Central Java
9 Surabaya, East Java
10 Gresik, East Java

13 Kudus, Central Java
14 Muara Enim, South Sumatra
15 Pekanbaru, Riau
16 Tanjab Barat, Jambi
17 Porsea, North Sumatra
18 Deli, North Sumatra

2 North Sumatra
3 Batu, Malang, East Java
4 Bau-Bau, SouthEast Sulawesi
5 Kamal Muara, North Jakarta
6 Indramayu, West Java

ICCTF On-going Project 2012-2014



Sustainable Management of Degraded Peatland to Mitigate Green House Gas Emissions and Optimize Crop Productivity (ICCTF-MoA)

1. Papua
2. Kalimantan Barat
3. Kalimantan Tengah
4. Riau
5. Jambi

Enhancing Sustainable Management of Community-Based Wood Pellets Production as Biomass Energy to Support Low Carbon Economy and Climate Change Mitigation in Bangkalan, Madura, East Java (ICCTF-MoFor)

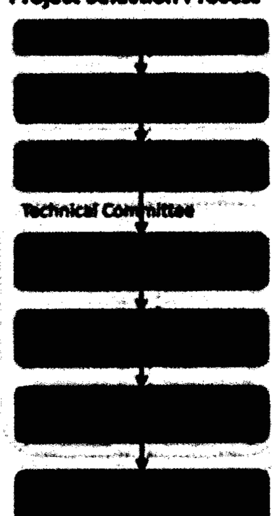
1. Bangkalan, Madura

Health Vulnerability: Assessment, Mapping, and Community Based Adaptation on Dengue Hemorrhagic Fever and Malaria Diseases (ICCTF-MoH)

1. West Sumatra
2. DKI Jakarta
3. East Java
4. Bali
5. Central Kalimantan

Project Selection

Project Selection Process



Selection Criteria

1. Thematic Window Consideration

Land Based Mitigation Window

- Potential to reduce deforestation and land degradation.
- Promotes carbon sequestration.
- Increases resilience of local communities to address climate change.
- Does not marginalize or aggravate relations with traditional communities and other local stakeholders.

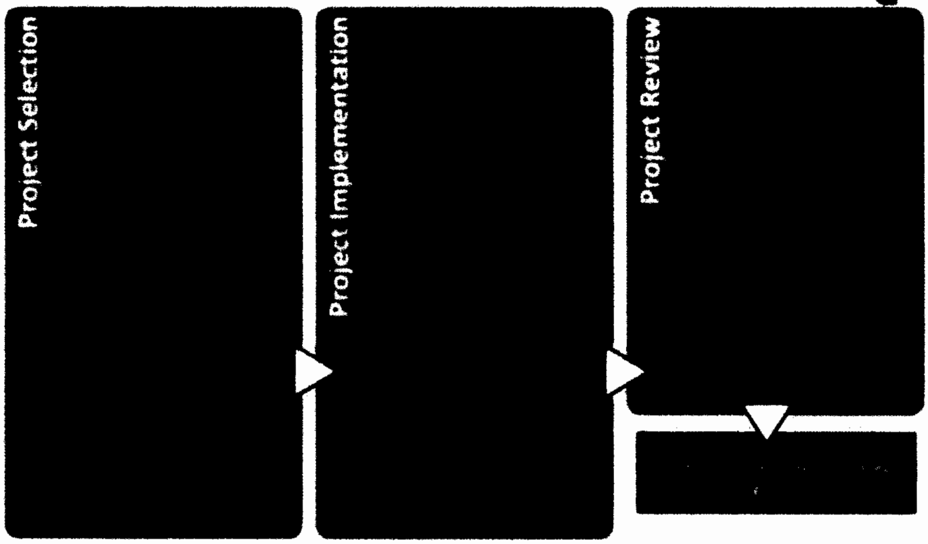
2. General Programmatic Consideration

- In line with national policies and priorities
- Provide beneficial impacts to communities
- Capacity development
- Environmental impact
- Bridge financial gaps

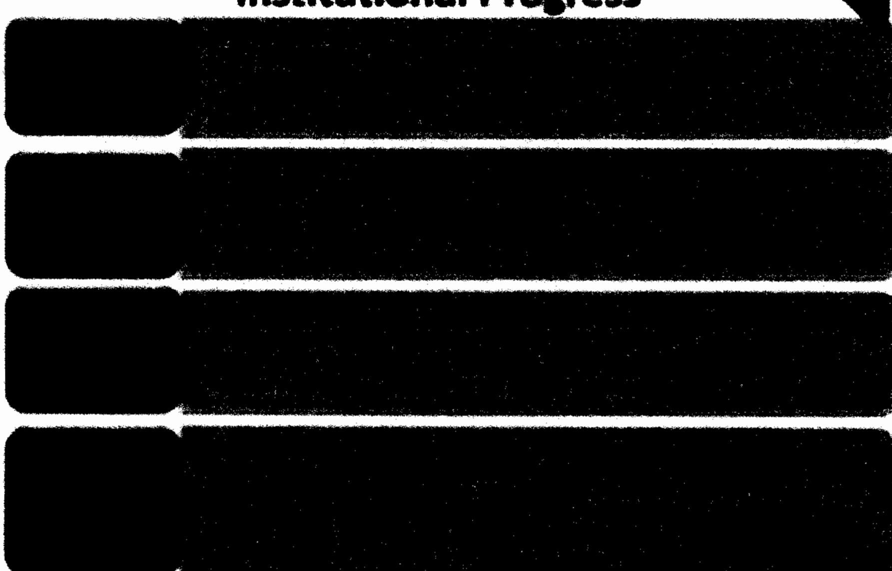
3. Readiness of the Project Proponent

- Roles and responsibilities
- Focal point, management team and institutional support
- Counterpart fund or support fund
- Project Management Unit mobilization

Project Management Cycle



Institutional Progress



Way Forward

2011 - 2013
Improvement of institutional capacity

2011 - 2014
Transition to fully national setup (LWA-ICCTF)

2013 - 2015
Involvement of wider beneficiaries/ stakeholders in project implementation

2014 - 2020
Fund channeling for international climate funds (AF, GCF, NAMAs)

b. Fund for REDD+ in Indonesia (FREDDI)

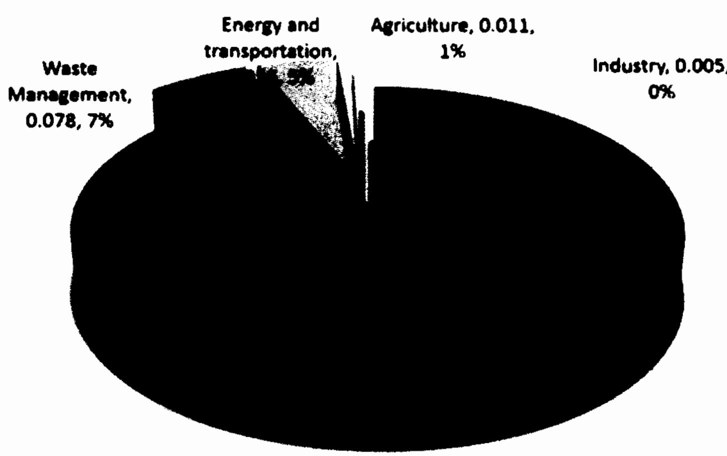
Gita Syahrani[53]

Financing REDD+ in Indonesia through FREDDI : A Work in Progress

Gita Syahrani | Institutional Design & Legal Specialist – Funding Instrument | REDD+ Special Team UKP4

Expert Meeting on Strengthening Finance Sustainable Forest Management through National Forest Funds in the ASIA-Pacific Region | Bogor, 23-24 October 2013

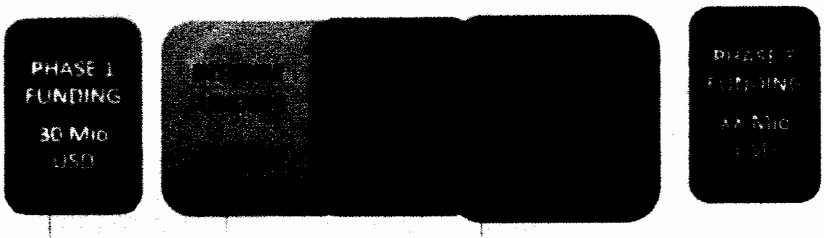
Forestry and peat **dominate emission reduction targets**



In gigatons (gt, billion tons), and in percentage

[53] Legal Specialist, Funding Instrument, REDD+ Special Team UKP4

Funding Strategy : A Phased Approach



Design & Preparation

Transitioning
Design to REDD+ Agency
Testing Design Elements

- Small Grants
- Quick Wins
- Preparatory
- Pilot
- Foundation to Phase 2 Operational

Institutional Building
Implementation of Design

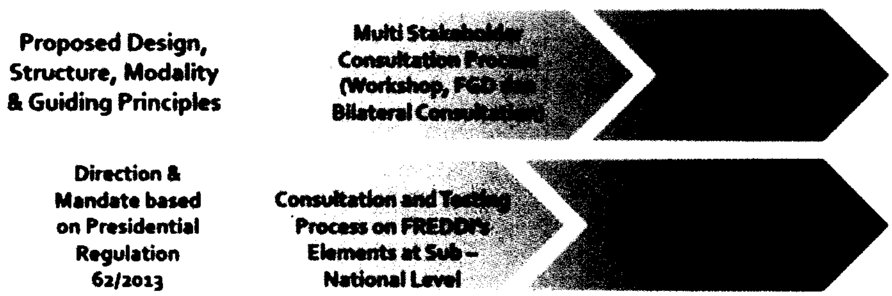
- Large Project/Programs
- Longer term
- Transformational
- Expansion/Replications
- Foundation to Phase 3

Focus on Payment for Performance

REDD+ in Indonesia

- The President's announcement.
- LOI with Norway - 2010.
- Establishment of the REDD+ Task Force.
- National REDD+ Strategy
- Design and Construction of REDD+ Agency at the Ministerial level.
- Moratorium for 2 years, extended recently for 2 more years.
- One Map Initiative.
- Provincial REDD+ Strategy and Action Plan.
- Regulatory advancements, including indigenous tenurial rights.
- Landmark Kuala Tripa Case.
- Constitutional Court Decision on Hutan Adat. Design of MRV Unit.
- Design of FREDDI
  - Structural design.
  - Accreditation.
  - Business Plan.
  - Pipeline.
  - Benefit Sharing
- PRISAI, the Safeguard Protocol.
  - Links with SIS and SESA.
- MRV, RL/REL, Registry.
- Demonstration activities.

: Design and Establishment Process as Funding Instrument for REDD+ in Indonesia

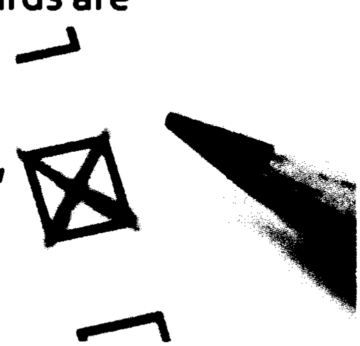


or

Presidential Regulation 62/2013 regarding REDD+ Agency defines Funding Instrument as:
"funding management instrument that is established by the Head of the REDD+ Agency to guarantee a transparant management of fund that is transparant, accountable, efective in accordance with the guidelines and REDD+ funding safeguards pursuant to the prevailing laws and regulations"

Guiding Principles

- Effectiveness, Efficiency, Fairness, Transparency and Accountability;
- Government of Indonesia leadership in design, management and governance of FREDDI;
- Ensuring that PRISAI as safeguards are part of FREDDI operation and REDD+ Projects;
- Flexibility to finance national initiatives, provincial priorities, demand-driven proposals, and small grants.



FREDDI: Fund For REDD+ Indonesia Overall Objectives

- Support the emissions reduction efforts from deforestation and forest degradation in Indonesia;
- Support the implementation of the REDD+ National Strategy
- Support the institutional strengthening and further work of the REDD+ Agency through Funding Window 1;
- Promote payment for performance approach;
- Provide funding that is complimentary to existing sources including national budget, regional budget and other donors
- Ensure that REDD+ funding is sustainably and effectively managed, disbursed and mobilized further.

Addressing Key Challenges :
The five pillars of the
National REDD+ Strategy

Legal review, reform, and enforcement.

Institutional setting and strengthening.

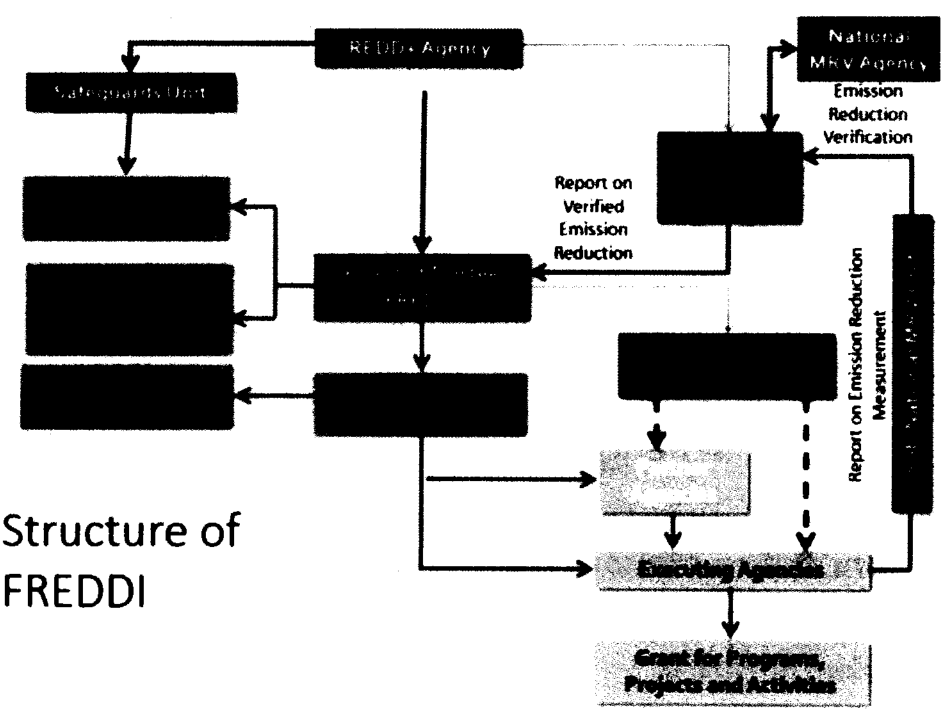
Awareness raising and paradigm shifting.

Stakeholder engagement.

Strategic programs through Sustainable landscape management; Sustainable natural resources management and Conservation & rehabilitation.

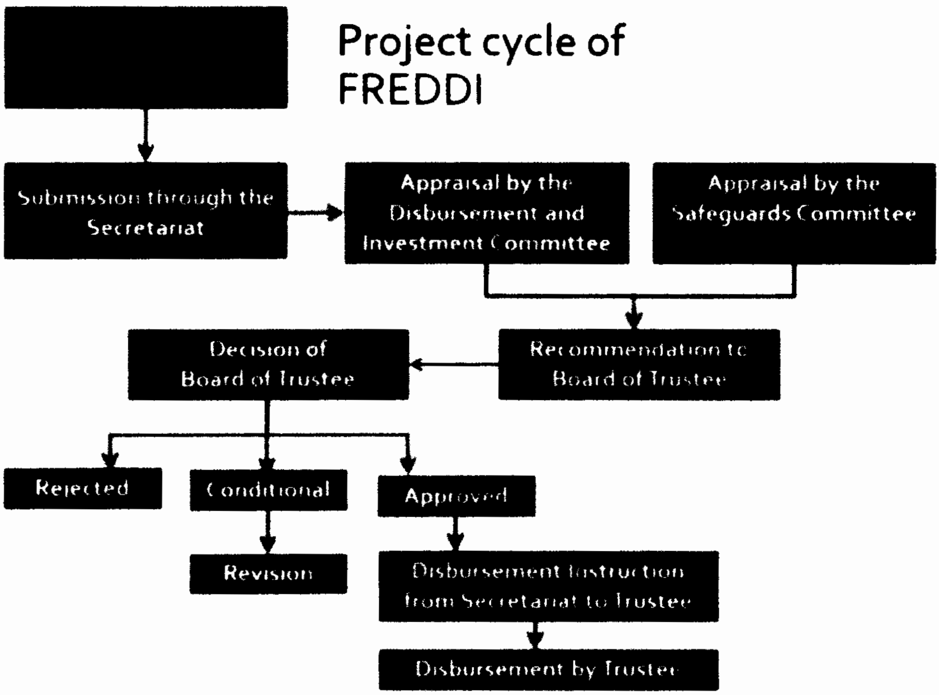
: a "fund of funds."

- The Trust Fund for REDD+ in Indonesia, , is a fund of funds. It is a fund that invests in other funds.
- The funds underneath , the subsidiary funds, can be special-purpose vehicle companies, fund managers, or collective investment agreements.
- These subsidiary funds can form joint ventures with other funds or other companies, among others, to use it as disbursement vehicles and as leverage to mobilize other funds.



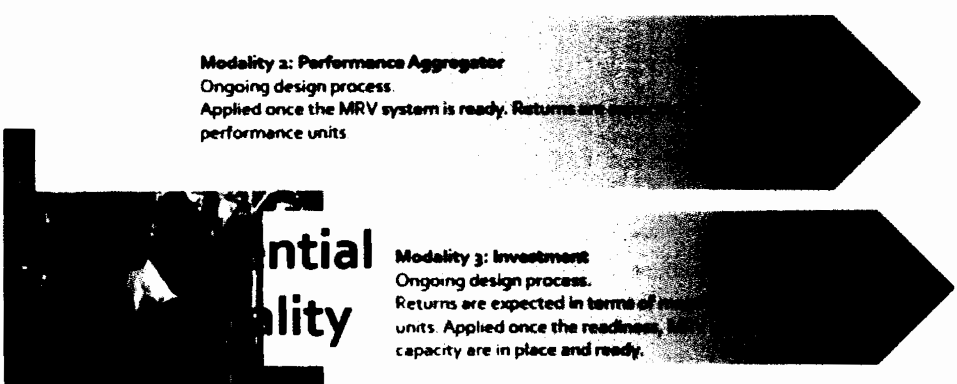
Structure of FREDDI

Project cycle of FREDDI

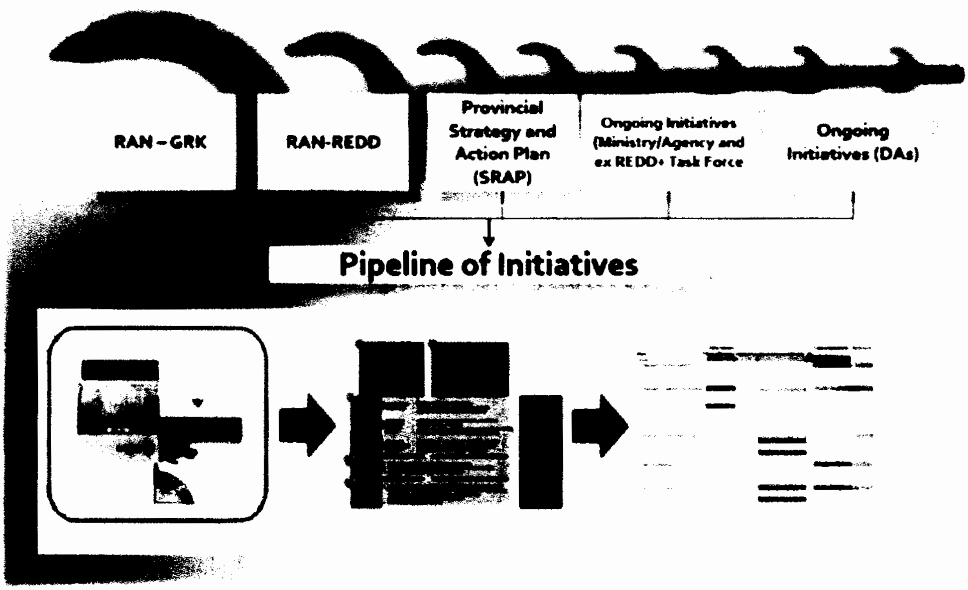


Modality 1.A: Pure Grant
Final Stage of Design
Consist of small scale, medium and large grant
Grant is channeled with the priority on readiness activities, infrastructure development and capacity building

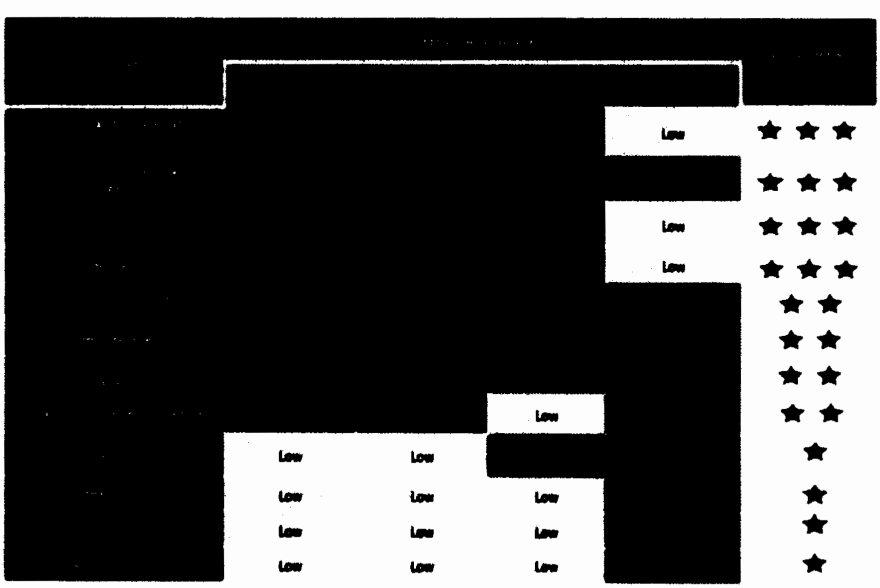
Modality 1 B: Performance-based Grant
Final Stage of Design
Consist of small scale, medium and large grant
Grant is channeled based on an agreed upon verified performance covering emission reduction activities and the activities that support emission reduction target



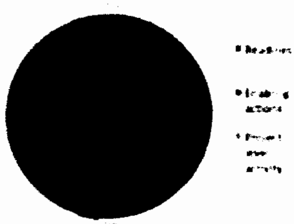
Pipeline Portfolio Development

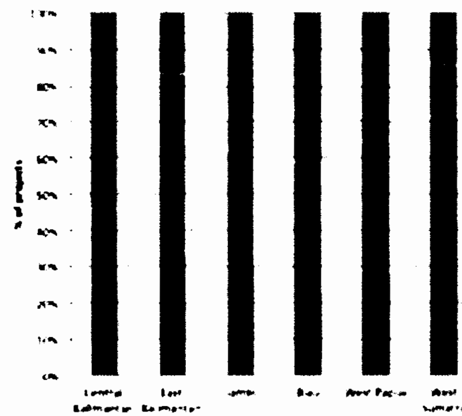


Pipeline Portfolio : **Simulation of Sectoral Priority**



Pipeline Portfolio :



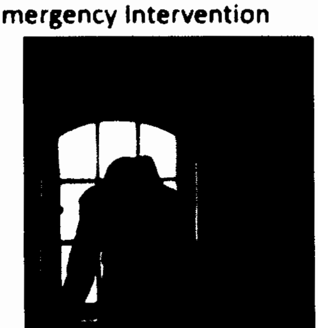


Activities in SRAP REDD+ are distributed evenly between readiness, enabling actions and projects

FREDDI : FUNDING WINDOWS

As support mechanisms of FREDDI in order to achieve its main objective by taking into account the pipeline development portfolio and the board array of stakeholders, scale, target and the duration of REDD+ project in Indonesia

- Strategic Window: Readiness, National Priority and Emergency Intervention
- Sub-National Initiatives
- Competitively-Selected Initiatives
- Small-Grants

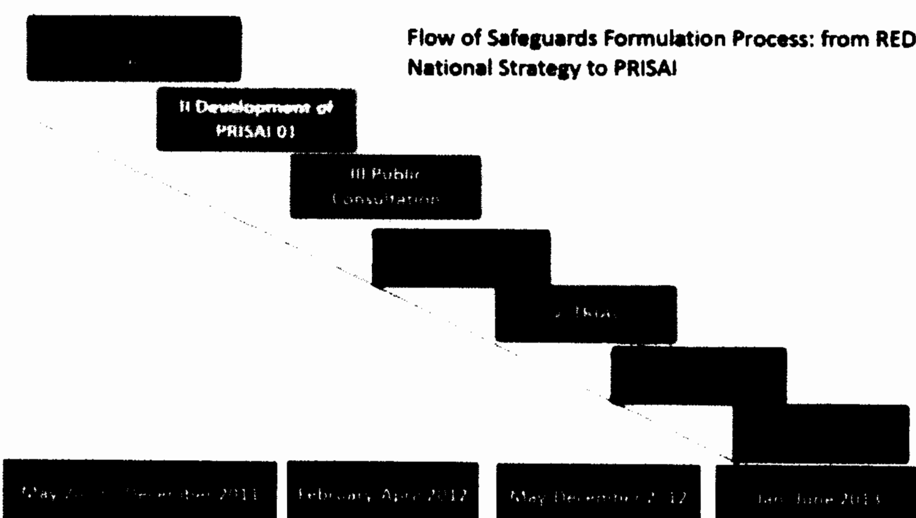


Principles of the social and environmental safeguards (PRISAI)

1	Clarifications of the status of tenure and land rights;
2	Ensuring actions complement, or are consistent with, the objectives of emission reductions and relevant international conventions and agreements;
3	Improvement of forest governance;
4	Warrants a transparent, accountable and institutionalized information system;
5	Respect for the knowledge and rights of indigenous people and members of local communities;
6	Full and effective participation of relevant stakeholders with attention to gender;
7	Improvement in the conservation of natural forests biological diversity, and ecosystem services;
8	Actions to address the risks of reversals;
9	Actions to reduce displacement of emissions;
10	Fair REDD+ benefit sharing to all relevant stakeholders and rights holders;

Formulation of Safeguards in Indonesia PRISAI

Flow of Safeguards Formulation Process: from REDD+ National Strategy to PRISAI



Paradigm shifts that guide the principles for benefit-sharing and incentive mechanisms

Community as "disturbed neighbors" of an "REDD+ Project" that needs to be "bribed" through cash-distribution	Community as a part of, and "co-owners" of the project, being inside the project boundary, sharing responsibility as well as benefits
Benefits being defined almost entirely as cash distribution	Benefits being [illegible] well-being, [illegible] sustainability, [illegible] fulfilled social [illegible]
Benefits being defined almost entirely as derived from carbon.	[illegible]
Benefits being defined using strict REDD+ Project Perspective	[illegible]

Thank you

More information

www.satgasreddplus.org

info@satgasreddplus.org

Annex 5 Result from group work

	Traditional Sources	Non-Government Initiatives	International Mechanisms
Current and potential sources of financing	a. A fee on extraction right through a bidding/tendering process which will augment revenue for forest department; b. A royalty fee/sales tax; c. A forest rehabilitation cess; d. National Parks and Tourism; e. Taxation of users; f. Interest from loans provided for Forest plantation establishment;	Private sector a. Payment for (Forest) Environmental Services; b. Resource Use Payments; c. User companies (i.e. drinking water companies); d. Private sector investments in SFM ; e. Corporate Social Responsibility; f. Finance/Banking Sector; Others g. Large NGOs; h. Overseas workers remittances.	a. Revolving fund for local communities; b. Multi donor trust funds; c. Bilateral Donors (ICCTF and FREDDI); d. Debt-for-nature swap; e. REDD+ (future).
What is needed to mobilize those finances	a. Policies need to allow private firms more access to financial loans and leasing of public land for plantations establishment; b. Policies are needed to liberalize conditions of timber sales, including possibility to export logs; c. Policy to improve PES framework, including cross-border PES (India-Bhutan); d. Increased recognition and subsequent payment for the importance of forests for water produced for drinking water, hydropower and eco-tourism; e. Raising awareness on NFF among decision makers and public; f. Government commitment to forest & environmental conservation and SFM; g. Enforcement of policies.	a. Policy changes in banking/finance sector to streamline requirements for loans; b. Access to donors/investors (both large NGOs and individuals); c. Compensation for maintaining rich biodiversity; d. Incentives for private sector forestry.	a. Move from earmarked to un-earmarked donor support through national institutions/funds; b. No more short projects, no more sink fund, but invest in local income generation and sustained nationally owned programmes; c. Continue work on REDD+ components and link to broader scope of forest/landscape management. This will provide useful outcome of REDD+ work even in the case that REDD+ fails to materialize as international mechanism; d. Discuss the possibilities for an International Forest Fund; e. Compensation for maintaining rich biodiversity.