

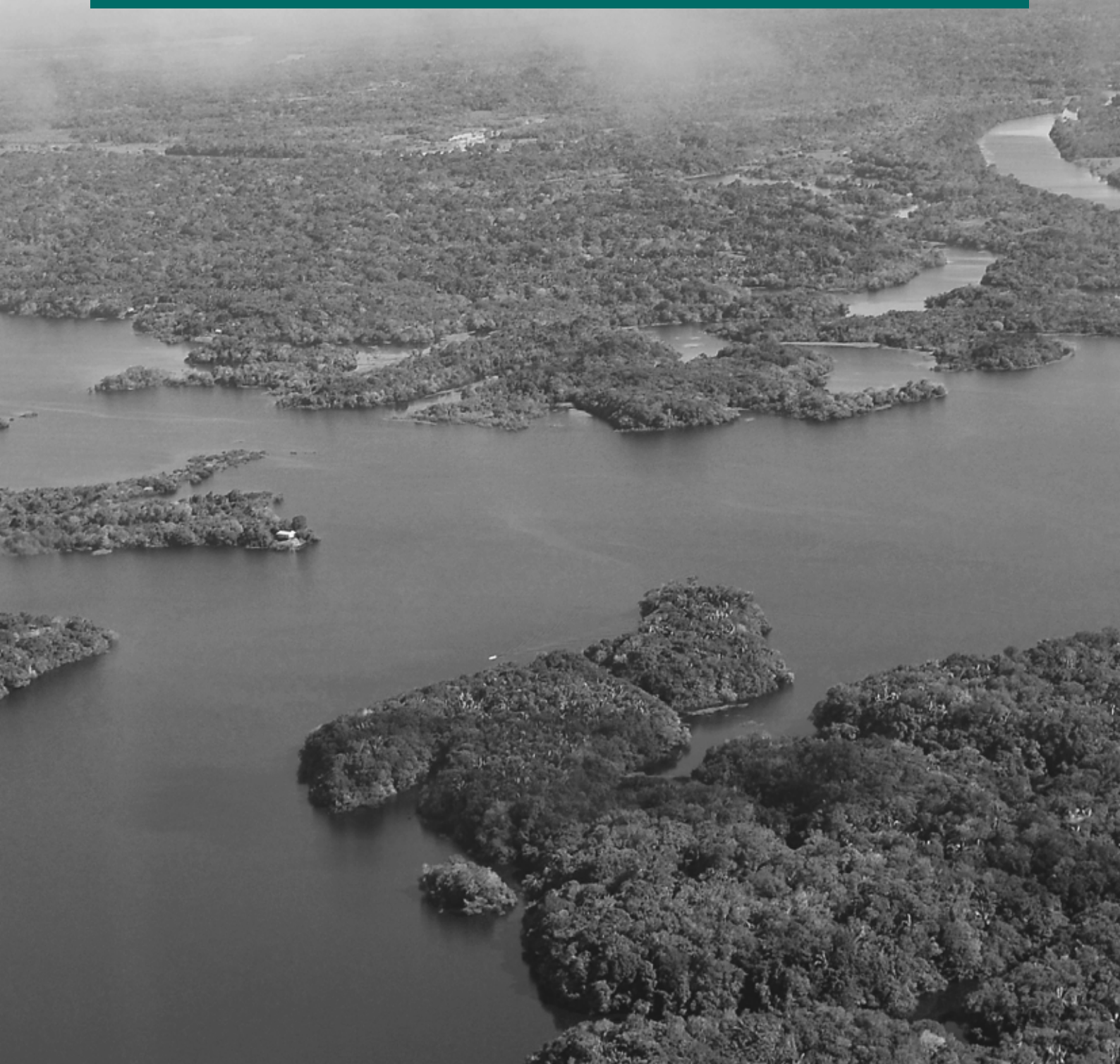


Working paper 372

The effectiveness of climate finance: a review of the Amazon Fund

Maya Forstater, Smita Nakhoda and Charlene Watson

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Abstract

The Amazon Fund is the largest dedicated fund supporting efforts to reduce emissions from deforestation and degradation in the Amazon, the world's largest tropical forest with invaluable biodiversity. It is managed by the Brazilian Development Bank with US\$ 1 billion in funding from the government of Norway, and technical assistance support from Germany. The Fund has demonstrated that developing country institutions can meet high standards of fiduciary governance and operational transparency. Yet while the \$1 billion committed to the fund is a significant sum relative to other climate funds, it is a small sum of money relative to the size of the Brazilian economy and the incentives that are driving deforestation. While the fund is intended to work on a payment for performance basis, in practice the payments have been less clearly linked to demonstrated emission reductions. A key priority is to better develop a strategy that will link the programs it funds with the realisation of national sustainable development aspirations. While there is formal space to engage a diversity of Brazilian stakeholders in the governance of the fund, they have not been actively involved in such decision-making processes over the past year. This working paper is one of a series of ODI studies of the effectiveness of international climate funds using a common analytical framework.

Acknowledgements

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Summary

FUND PURPOSE AND OBJECTIVES / THEORY OF CHANGE Brief summary of origins, objectives, approach		
SPENDING	Findings - qualitative discussion- summary	Key figures
	1. Resource mobilisation <p>The Amazon Fund is one of the first large-scale efforts to deliver performance-based-payment for forest carbon emission reductions. Norway's willingness to commit substantial and long-lived funds was instrumental in enabling the creation of the Amazon Fund. However, there is too little international climate finance channelled to buy-down emissions at the agreed value. Expanding contributor sources and domestic contributions could correct this problem. If emission reductions are occurring even without the financial support, however, there is a case to be made for the revision of reference levels and carbon price if emission reductions are to be considered additional. With deforestation rates predicted to increase this year, the Amazon Fund's performance-based-payment model may come under further scrutiny.</p>	US\$ 1.03 pledged in total (USD\$ 1 billion pledged by Norway) (12% deposited)
	2. Governance and administration <p>A multi-stakeholder Guidance Committee (the COFA) sought to sure inclusive governance of the fund. The COFA brings civil society, government and expert stakeholders together to provide strategic guidance on the operations of the fund, and a technical committee provides expert guidance. In practice, however, the influence of these bodies over the funds operations needs strengthening. The fund takes advantage of BNDES's strong financial management capacities. It operates with an increasingly high degree of transparency on operations and decisions. Management fee charged for the Fund is low, but does not cover the full costs of its administration.</p>	-3% management fee + management costs as an in-kind contribution
	3. Investment Strategy and Allocation <p>COFA guidance informs the selection of activities funded. As the fund has matured, it has sought out partners who will be able to help it direct funding towards particular objectives, particularly sustainable production activities which benefit forest communities. It has also sought to develop more projects with federal, state and municipal institutions. The need to develop a strategic investment strategy that will achieve fund objectives rather than passively respond to applications received has become clear over time. BNDES and the Ministry of Environment have invested in such a process: active engagement of the COFA and Technical committee in developing and implementing the strategy will be important.</p>	By December 2012, the Amazon Fund had allocated US\$ 226 million to 34 projects
	4. Disbursement and Risk Management <p>The Amazon Fund operates according to BNDES policies and processes as a sub-fund., which creates high assurance that robust fiduciary standards will apply. However, it has been more difficult for smaller organisations to access the fund. There is high transparency on disbursement. However, disbursement has been slow, in part as a result of the funds' operational processes, but also because of the difficulties of developing a portfolio of programs to be supported. Efforts are being made to simplify management processes. The safeguards of the Amazon Fund were not disclosed publically till 2012. Analysis of the implementation of these safeguards practice is needed.</p>	<p>- 32% of approved budget has been disbursed (US\$ 72 million out of US\$ 226 million)</p> <p>- 8 months on average for disbursement after agreement</p>
	5. Monitoring, evaluation, and learning <p>The transparency of applications received and the projects being funded has increased substantially. While the Amazon Fund does have a defined process for monitoring projects, it is focussed predominantly on tracking spending rather than impact and contributions to Fund objectives. There is limited public available information on impact or lessons learned. Four years into operationalization, there is now an opportunity to examine project impacts and comment on portfolio performance. Strengthening real time monitoring and reporting on results may help enhance the Amazon Fund's fundraising potential, and inform efforts to strengthen the impact of the fund within Brazil and the region.</p>	Any aggregate level results reported so far

INSTRUMENTS - Non-reimbursable grants

PORTFOLIO	<p>The largest allocations have been for a Payment for Ecosystem Services scheme in the State of Acre, and to the Brazilian Forest service for development of the National Forest Inventory. State projects (mainly support for fire departments) average at US\$6.2 million and projects managed by NGOs at US\$7.9 million.</p>	
OUTCOMES	<p>6. Scale</p> <p>The Amazon Fund was always intended to support sub-national level activity, and create incentives for more ambitious state level action to combat deforestation. Out of 34 projects, 5 work directly through state governments, largely supporting state fire fighting capacity; 7 projects fund municipal governments directly. Merely limiting the size of the projects that the Amazon Fund could support did not itself result in a portfolio of programs addressing the needs of forest dependent communities. The Amazon Fund now finances small grant programs implemented by partner financial institutions, in an effort to better address this need. The fund was constrained in its ability to support large programs until late 2011. It will be necessary to monitor whether the approaches supported are scalable and replicable. Project sizes range from \$5 million to \$ 32 million over 4 years.</p>	
	<p>7. Enabling Environments</p> <p>There has been a strong focus on capacity building in the Amazon Fund portfolio, including for state level institutions. So far, few programs have dealt with overarching market drivers of deforestation, or sought to shift the economic drivers of deforestation. In all cases, there is limited information presently available on the achievements of the programs supported.</p>	
	<p>8. Innovation</p> <p>In general, there appears to have been a limited focus on supporting innovation in the current portfolio of the Amazon Fund. Some creative delivery models have emerged as the fund seeks to invest in small grant programs to ensure that finance benefits forest communities and indigenous peoples. More detailed reporting on implementation may reveal whether innovations have taken place during the course of execution. Examples of support for autonomous innovation in the context of implementing smaller programs to support sustainable livelihoods may emerge.</p>	
	<p>9. Catalytic outcomes</p> <p>So far, the Amazon Fund has placed a limited emphasis on shifting incentives for the private sector, or partnering with the private sector for implementation, although it has attracted some corporate finance from the national oil company Petrobras. The impact of the managing the Amazon Fund on environmental and social governance on the operations of BNDES as a whole remains to be seen: there is the potential for it to have a catalytic role in raising awareness on options and approaches. There may be opportunities to maximise synergies with other international climate funds supporting REDD+ in Brazil, notably the Forest Investment Program with projects supported by the World Bank and Inter-American Development Bank.</p>	
OUTCOMES	<p>10. National ownership and sustainability</p> <p>The Amazon Fund is grounded in a Brazilian policy commitment enshrined in law, and its design was driven by leaders within the Brazilian government. It is managed by a Brazilian financial institution that is well versed in domestic implementation realities. The fund has engaged diverse national stakeholders in both its governance as well in the delivery of programs, working through NGOs, universities, state government institutions, and municipal government institutions amongst others. Nevertheless, it is shaped by political developments within Brazil, and the lack of clear political commitment to its objectives creates uncertainties about its role and purpose.</p>	
	<p>ROLE IN THE GLOBAL CLIMATE FINANCE ARCHITECTURE</p> <p>The Amazon Fund has piloted a nationally-driven approach to the delivery of climate finance, and the use of performance based payments. These experiences have demonstrated the potential of such approaches, but also some potential challenges. The Amazon Fund has shown that developing country-based institutions can meet high fiduciary standards, and provide substantial transparency on fund operations. However, competent fund administration does incur costs. National stakeholders need to play an active role in developing a strategic vision for how to programme funds to realise national sustainable development aspirations, and revisit such strategies on an on-going basis.</p>	

Introduction

The Amazon Fund aims to raise finance to support actions that prevent, monitor and combat deforestation, and promote the preservation and sustainable use of forests in the Amazon Biome. While Brazil's policies for sustainable development in the Amazon could not be conditional on international finance, resources were needed to support their development and implementation. The government also sought international recognition of contributions to global climate change mitigation goals. The Amazon Fund's initial aim was to raise US\$21 billion over 13 years (Goodman, 2008). As of February 2013, US\$1.03 billion has been pledged, with US\$227 million approved for activities. The Amazon Fund is the largest source of international climate finance in Brazil.

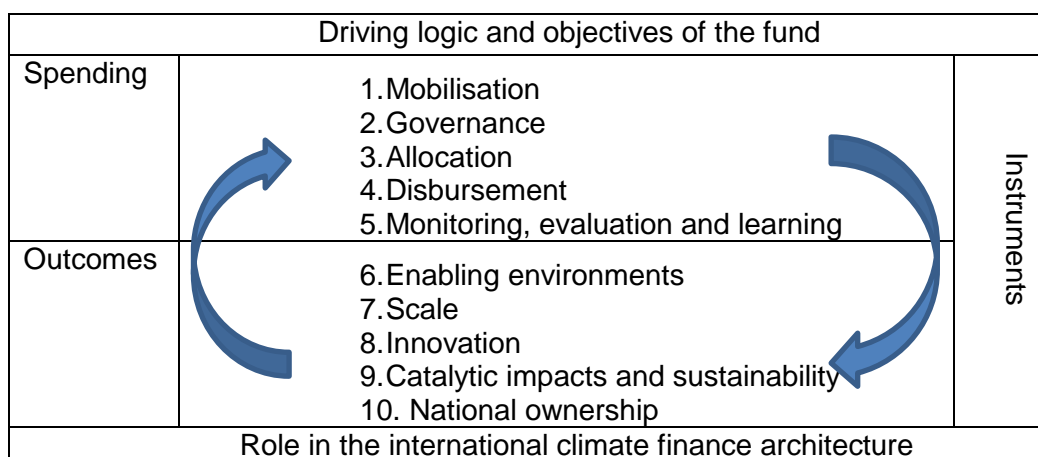
The Amazon Fund has attracted substantial international attention for its design and operation. It is seen to have demonstrated that an institution based in a developing country can lead and manage its own climate fund in an inclusive manner. The Brazilian Economic and Social National Development Bank (BNDES) was entrusted with managing the funds, as it was able to meet high standards of transparency and accountability. Funds are spent in accordance with the priorities of Brazil's Plan of Action for the Prevention and Control of Deforestation in the Amazon (PPCDAM) as well as its National Plan for Climate Change (PNMC). The Amazon Fund has also pioneered results-based finance for REDD+.

Four years after the operationalization of the Fund, and with the emergence of a portfolio of supported projects, it is timely to reflect on its achievements in practice. This paper is one of a series of papers that analyse the effectiveness of multilateral climate funds using a common analytical framework (Nakhooda, 2013).

Methodology and approach

As the international community seeks to scale up the delivery of climate finance, there is growing interest in understanding what it takes to spend international climate finance effectively. The goal of this assessment is not to present a comprehensive evaluation of the Amazon Fund. Instead, we seek to provide an evidence based overview of the operations and achievements of climate finance initiatives. Our goal is to identify key challenges encountered (and why), and lessons learned for the effective delivery of climate finance. This paper presents a qualitative analysis complemented with relevant quantitative data, that is cognisant of the context and constraints within which funds operate.

Figure 1: Framework for understanding the effectiveness of international climate finance



The assessment starts by considering the driving objectives of a multilateral climate fund, setting it in its historical context, and the range of financing instruments that it has been able to offer. The context, objectives, and instruments that a fund offers fundamentally shape what it is able to achieve. We then analyse five interlinked components of effective spending, or organisational effectiveness. We consider the integrity, efficiency and transparency of associated processes: (1) resource mobilisation, as the availability of resources fundamentally affects what a fund is able to support, and the range of outcomes and objectives it is able to achieve (2) the governance of a fund, as this is likely to shape trust in an initiative, and the extent to which it is operates in a transparent, inclusive and accountable way (3) an investment strategy and fund allocation process is one of the key outcomes of an effective governance structure, and it is essential to understand the formal

processes and informal influences that affect how funding decisions are made (4) Disbursement of funding and risk management in support of approved programs is a key issue of interest, and provides insights into the mechanics of supporting robust activities, and avoiding negative impacts (5) Monitoring, evaluation and learning processes, in order to understand the systems that funds have established to understand impact and strengthen performance.

Next, we present a detailed review of the active portfolio of the fund, in order to inform subsequent analysis of the effectiveness of its outcomes, using fund self-reporting complemented with data collected on <http://www.climatefundsupdate.org>. The review considers the recipients of funding (type of institution; geographic distribution); the level at which funds have worked; Instruments through which funding was delivered (such as grants, performance based grants; concessional loans, guarantees, equity, etc); and the types of technologies and approaches that have been supported.

On the basis of the portfolio review, we consider five interlinked components that are likely to shape whether global funds are likely to be effective in supporting **outcomes** that address climate change. We analyse whether the Fund has been able to work a variety of (6) scales from global to local, and support both small and large size projects that can be replicated and scaled up. We also consider the funds approach to engaging with (7) enabling environments, and whether it has been able to address underlying policy, regulation and governance that affects the long term viability of low carbon and climate resilient interventions. Next, we review the (8) catalytic effects of the fund, particularly in with respect to the private sector, recognising the diversity of ways in which investment and implementation capacities may be harnessed in support of low carbon climate resilient development. Recognising the central importance of finance for (9) innovation to global efforts to respond to climate change, we analyse the extent to which climate funds support innovative technologies and approaches, including at the local level. Finally, we consider the role of the fund in fostering (10) national ownership and leadership, seeking to understand the role that national institutions have played in identifying funding priorities, and how well its funding has been aligned with emerging national climate change and development priorities. Finally, we analyse the role of the fund in the global international climate finance architecture, and the particular value that it has added.

This study is based on a desk review of publicly available information on the Amazon Fund, available published and grey literature. In completing this analysis, we have drawn on primary interviews with stakeholders in the fund (including administrators, governing committee members, and civil society observers). We were not able to conduct field research to better understand the practical impacts of projects. Much more information was available on the effectiveness of spending, than on outcomes in practice, in part as a result of the early stage of implementation of the Fund. Future work will seek to build on the insights from this initial portfolio level review, and deepen understanding of the impacts of the fund in practice. Given the limited literature on the Amazon Fund at present, this work represents a significant contribution to advancing understanding of its achievements.

The context for establishing the Amazon Fund, and its driving logic and objectives

Brazil is the fourth largest greenhouse-gas (GHG) emitter in the world, with national emissions generated largely related to deforestation, as well as fossil fuel combustion. Between 2005 and 2009, however the country reduced its national GHG footprint by 25% as deforestation fell by 60%. This section charts the developments that resulted in this decline from early 2000 to the establishment of the Amazon Fund.

Political will and civil society interest in reducing deforestation in Brazil

The rapid reduction in deforestation in Brazil between 2005 and 2009 was driven by a period of high level political action, championed by the Ministry of the Environment which was then headed by Marina Silva. In 2004, Brazil launched the Plan of Action for the Prevention and Control of Deforestation in the Amazon (PPCDAM). The PPCDAM recognised both the direct and underlying causes of deforestation, and took a cross-sectoral approach to tackling the challenge, addressing planning, infrastructure and settlement, agriculture and economic development policies. The PPCDAM process was led by the President's Cabinet and engaged 11 different government ministries. Brazil's 2008 National Plan for Climate Change (PNMC) built on these efforts to reduce deforestation, and set goals to reduce deforestation by 40% between 2006 and 2009, and by 30% in each of the following four-year periods (Government of Brazil, 2008).

Although implementation of PPCDAM was slower than expected, by 2007 significant progress had been made. This included the creation of protected areas that covered an area the size of France, dramatic strengthening of law enforcement, and the development of a sophisticated forest monitoring system which produced real-time information on deforestation, and detailed annual analysis of trends and needs. During this period, constituencies for reducing deforestation, including NGOs, scientists, some political and business leaders, and indigenous people, became more organised and influential. Whereas they had once primarily focused on conservation and social justice, they began to highlight the unsustainability of low-productivity agriculture and ranching for Brazil over the long term.

While some of the decline in the rates of deforestation in Brazil must also be attributed to declining commodity prices and a strengthening currency, concerted government action against deforestation played a key role. Yet there are still substantial social and economic

pressures on Brazil's standing forests. Land tenure systems remain complex and contested, and safeguard systems are neither common nor formalised. In addition, the marginal difficulty of reducing deforestation is likely to increase as deforestation rates slow, as available land will become scarcer, and commodity prices continue to incentivise conversion. Future efforts to maintain progress towards deforestation reduction targets are therefore likely to demand further concerted effort from the Brazilian government and forest stakeholders.

Brazil's role in efforts to secure an international REDD+ mechanism

Prior to 2006, Brazil's position in the United Nations Framework Convention on Climate Change (UNFCCC) negotiations had been aligned to its heavy dependence on fossil fuels and desire to retain sovereignty over the Amazon forest. UNFCCC debates on an international REDD+ mechanism became more prominent in 2006, however, influenced by analysis from Brazilian NGOs and researchers on options for international compensation for avoided deforestation (IPAM and EDF 2005), and led by the Coalition of Rainforest Nations in which regional neighbours played a major role.

Amazon States themselves began to push for Brazil to accept the inclusion of REDD+ into the clean development mechanism (CDM)¹ or other carbon market mechanism, and began developing their own voluntary REDD+ schemes. This coalescence of influences began to shift Brazil's view on international action on REDD+, resulting in a proposal for the creation of a global fund to support efforts to slow down deforestation (Silva, 2012).

In 2007 a group of nine NGOs launched the 'zero deforestation pact' proposal in the Brazilian Congress. These organisations called for coordinated action between federal, state and municipal governments to tackle deforestation, estimating that achieving this would cost RS 1 billion a year (approximately US\$ 555 million in 2007). An "Amazonian Fund" managed by the National Bank for Economic and Social Development (BNDES) was proposed to help meet these costs. The proposal had substantial traction with government.

Brazil began work on the design of this fund with technical support from the AVINA Foundation², keeping this process relatively separate from international negotiations on a REDD+ mechanism. The establishment of the fund was led by Tasso Azevedo, Director of the National Forest Program at the Ministry of Environment; a long-time social entrepreneur and innovator in the forest conservation field. After considering a range of options, a (seemingly) simple payment-for-performance model as outlined below was adopted (Forstater and Zadek, 2009). Norway became the first 'angel investor' in this fund, making a US\$1 billion pledge of confidence from its International Forest Climate Initiative. The pledge reflected ambitions help develop and demonstrate the viability of REDD+ through seed funding for national initiatives. Enabling ambitious action in Brazil, the largest rainforest nation with the greatest potential for avoided deforestation, was crucial to securing global action on REDD+.

The establishment of the Amazon Fund

The Amazon Fund was established quickly, and became operational in August 2008. Norway's first payment of funding was delivered in 2009. To date, US\$129 million has been deposited in the Amazon Fund and US\$227 million approved for project activities³ (see Section 6). The Amazon Fund aims to raise donations for non-reimbursable investments in efforts to prevent, monitor and combat deforestation, as well as to promote

¹ The CDM was established under the Kyoto Protocol with emission reduction targets for Annex B Parties that could be met through climate change mitigation projects in developing countries.

² The AVINA Foundation is a foundation working to promote sustainable development in Latin America established in 1994 by a Swiss social and business entrepreneur.

³ The reason for the discrepancy between the lower deposited and the greater approved finance is that the Amazon Fund also benefits from contributions made to into the Gaia Fund, which are used to help fund its projects (see <http://www.gaiaamazonfund.org/>).

the preservation and sustainable use of forests in the Amazon Biome. It also supports the achievement of Brazil's international goal to cut deforestation rates by 80% between 2005 and 2020 as laid out in Brazil's National Climate Change Law. Stakeholders of the Amazon Fund have articulated three mutually reinforcing objectives and motivations (Zadek et al, 2010):

- To identify and scale up the implementation of effective projects, to support the implementation of Brazil's national strategy for preventing deforestation;
- To signal support from the international community for existing Brazil's policies for sustainable development in the Amazon and to strengthen and reinforce the political and institutional forces championing the Amazon in Brazil;
- To direct resources, particularly from the international community, towards catalytic approaches that enable large-scale economic transformation towards sustainable development in the Amazon.

It is worth noting that the Amazon Fund is not the only source of funding for forest conservation in Brazil. Substantial domestic public finance supports this agenda, and Brazil has secured funding from other multilateral REDD+ initiatives including the Forest Investment Program of the World Bank. A number of voluntary carbon market REDD+ credits originate in Brazil, and finance is also available through state level collaboration with the Governors Climate Finance Task Force.

A Instruments

The Amazon Fund provides non-reimbursable loans, which are effectively grants. The funding is treated as a loan until the end of the project period, however. Once BNDES verifies that funds have been spent in line with agreed terms, repayment is cancelled. The availability of grants seeks to reduce liabilities and risks for project implementers. There are no co-financing requirements.

1 Resource Mobilisation Approach

The first step to assessing the effectiveness of a fund is analysing the adequacy of resource availability to meet intended objectives. The performance based resource mobilisation approach of the Amazon Fund has attracted substantial interest, and is therefore analysed here in some detail.

Contributors to the Amazon Fund

The Government of Norway was the first donor to offer financial resources to the Amazon Fund. In 2008, the Government of Norway pledged up to US\$ 1 billion between 2008 and 2015. This headline figure has been broken down into a series of incremental pledges. The Norwegian government disburses funding every six months, at the request of BNDES and based on the Fund's financial needs: 700 million Norwegian Kroner in March 2009 (US\$126 million), 750 million kroner in 2010 (US\$134 million), 1 billion Kroner for 2011 and 2012 combined (US\$180 million). Under the formal terms of agreement, these Norwegian funds are envisaged to be spent by December 2015, although flexibility is expected.

The Federal Republic of Germany through the KfW bank also made a pledge to provide up to EUR 21 million (US\$ 28 million) for emissions avoided in 2008/2009 and 2009/2010. In addition, GIZ is providing technical support to the fund to help it strengthen its performance management systems through a 36 month contract (Amazon Fund, 2013).

A major innovation of the Amazon Fund was to establish a payment-for-performance fundraising model. Under this model, international donors provided financial support to deliver the objectives of the fund equivalent to the emission reductions achieved. This was estimated on the basis of the hectares of avoided deforestation achieved below a reference level (or baseline), average carbon stocks and a fixed carbon price. It offered payment-for-performance for tonnes of emission reductions but operated outside of existing carbon markets, and did not offset the GHG emissions of developed countries. Decisions about how to allocate funding between the Brazilian states and between actors, however, would be made domestically. This section provides more detail on the resource mobilisation model, as well as the finance pledged and deposited to the Amazon Fund.

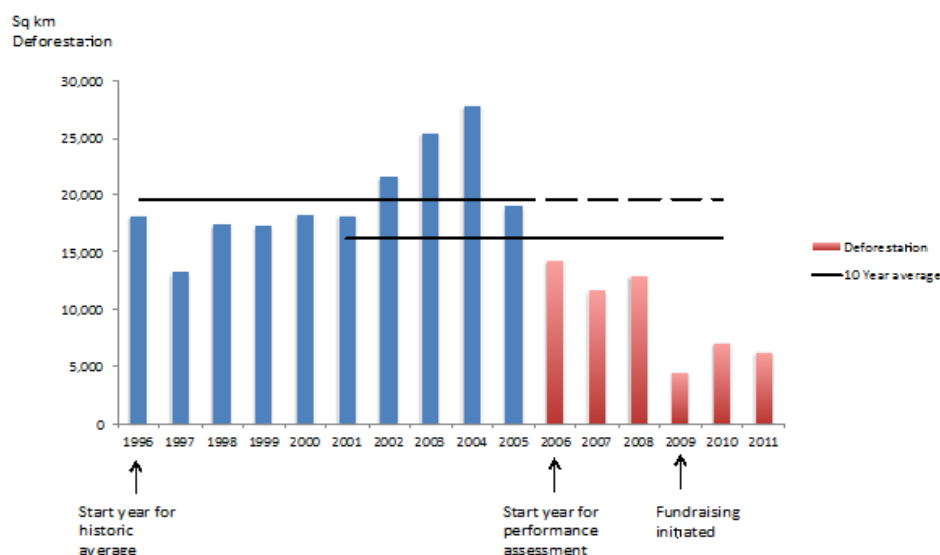
The payment-for-performance fundraising model

Deforestation rates are calculated each year across the whole of the ‘legal Amazon’⁴ region using satellite imagery collected by the Brazilian Space Agency (INPE). The area of avoided deforestation is then established against a historical reference level beginning in 2006 that is adjusted downwards – to reflect increasing ambition – every five years (based on a forest year that runs from August 1 to July 31). The GHG emission reductions, in carbon dioxide equivalents, for each hectare of avoided deforestation are estimated using a single emissions factor for avoided deforestation across the whole county: a conservative figure of 100 tons of carbon per hectare (equivalent to 367 tCO₂e/ha). Emission reductions are to be valued at a fixed price of US\$ 5 / tCO₂, to provide a carbon dioxide equivalency of donations. Donors are then issued a non-tradable certificate indicating the tonnes of avoided emission reductions associated with their donation. This approach did not follow the established project-based methodology of the CDM or voluntary carbon markets, or the pattern of ODA directing funding to specific outputs.

The Amazon Fund quickly built up a stock of emission reductions. Although fundraising was only initiated in 2009, emission reductions had accrued since 2006 (Figure 2). By the time of establishment, emission reductions were valued at US\$ 4 billion, and by 2011 US\$ 10 billion worth of emission reductions had been accrued. This might be seen as an upper limit on the fundraising potential of the Amazon Fund through its payment-for-performance model.

The overall lifespan of the Amazon Fund is unspecified. However its resource mobilisation approach is naturally self-limiting, as it depends on falling levels of deforestation. If deforestation rates stabilise at a low rate or fall to zero, the fund will not be able to generate any additional tonnes.

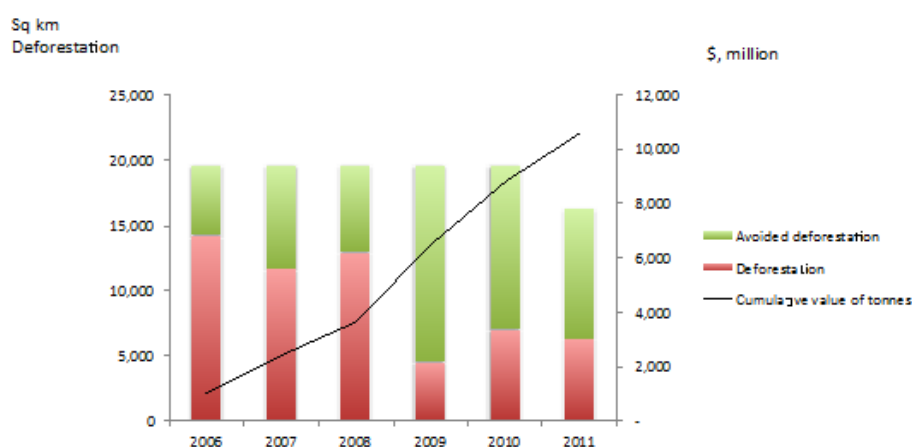
Figure 2: Deforestation over time and the Amazon Fund’s reference level



Source: Amazon Fund Annual Report 2011

⁴ The legal Amazon is the area instituted by the Brazilian Government that includes nine Brazilian States with parts of the Amazon within their territory; it covers 520 million hectares.

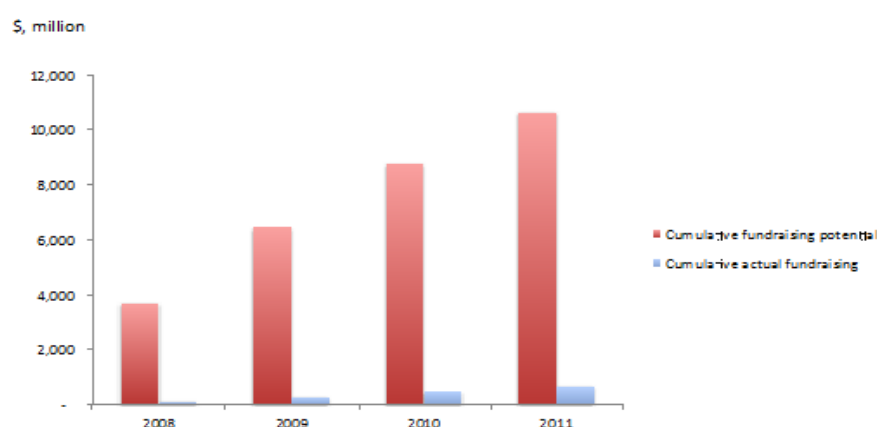
Figure 3: Annual avoided emissions and cumulative potential fundraising value



Unfunded emission reductions: additionality and pricing

The Amazon Fund has not yet been able to mobilise funding at the level that its payment-for-performance model implies (Figure 4). Unfunded emission reductions are now more than ten times those that will be funded. Although, the designers of the Amazon Fund did not have the expectation that the full amount of emissions would be ‘bought’, the widening gap between emission reductions and funding creates a self-reinforcing challenge for the fund. It challenges not just the future of such a payment-for-performance model, but also the additionality of the emission reductions generated and the appropriateness of the US\$5/tCO₂e attributed value.

Figure 4: Amazon Fund potential versus actual fundraising



The Amazon Fund model was intended to provide funders with an assurance of additionality of results – that emission reductions would not have occurred without the finance-- by demonstrating a clear relationship between the amount donated and Brazil’s performance in meeting its avoided deforestation goals. However with so much ‘air in the

system', or emission reductions already amassed by the fund, the payment-for-performance relationship between money and emissions is largely symbolic. Funders assessing the fund are therefore returning to value-for-money assessments that are based on projects and activities, and the prospects that additional funding could be disbursed, to determine whether they should pledge resources to the fund.

Norway's annual funding pledges have also been separated from the formal payment-for-performance model in the value attributed to a tonne of emission reductions. Officially, according to the paper certificates they receive from the Amazon Fund, Norway's payments still reward emission reductions achieved in 2006. In reality, however, the level of funding is determined and announced with reference to deforestation in the previous year. This also implies that the value of the emission reduction is much lower than US\$ 5/tCO₂e.

The payment-for-performance model of the Amazon Fund reflected what was politically feasible at the time of its design. It was designed rapidly in the opportunity space before the Copenhagen COP of 2009. The fundraising model mediated between Norway's desire to demonstrate that ex-post payments for verified emission reductions provide the best way to incentivise emission reductions (Government of Norway, 2012) and Brazil's policy positions on sovereignty of the Amazon and on REDD+. The US\$ 5 dollar per tonne of CO₂e figure was proposed by Brazil, and seen as a reasonable public headline figure in relation to considerations of the overall value for money of Norway's donation towards Brazil's effort, and relative to carbon prices in the voluntary and statutory markets at the time. While the Amazon Fund does not issue tradable credits it was also seen as important to set the price at a level that would allay broader fears that REDD+ would drive down carbon prices. Furthermore, the simple historical reference level was agreed, so as not to constitute a hard international target.

As long as deforestation is falling, the payment-for-performance model aligns to the extent that Norway's continued annual pledges, and the fund's increasing allocations all signal in the same direction. Revision of the baseline and value of carbon might be options that increase confidence in additionality of emission reductions as well as the appropriateness of the carbon value. Deforestation appears to be rising again this year, however, and the apparent link between spending, funding and performance may be broken. The Amazon Fund may, therefore, attract a smaller Norwegian contribution, despite having a backlog of emission reductions still to sell. At the same time, the fund will be able to draw down on a backlog of donations committed and waiting in Oslo for a transfer request.

Take away messages

- The Amazon Fund established one of the first large-scale demonstrations of performance-based-payment for forest carbon emission reductions. The model design agreed on credible forest monitoring, a politically acceptable reference level, and a fixed mutually acceptable carbon price.
- The divergence from the official negotiated payment-for-performance model is reflected in payments. Norway's willingness to commit substantial and long-lived funds was instrumental in enabling the creation of the Amazon Fund. It was actively involved in negotiation of a headline US\$/tonne value for emission reductions against the historical reference level. In practice, however, payments are based on the previous year's deforestation trend rather than reported emission reductions.
- There is too little international climate finance channelled into the Amazon Fund to buy-down emissions at the agreed value. Expanding contributor sources of finance and domestic contributions could correct this problem. If emission reductions are occurring without the financial support, however, reference levels and carbon prices may need revision if emission reductions are to be considered additional. With deforestation rates predicted to increase this year, the Amazon Fund's performance-

based-payment model may come under further scrutiny.

2 Voice and administration

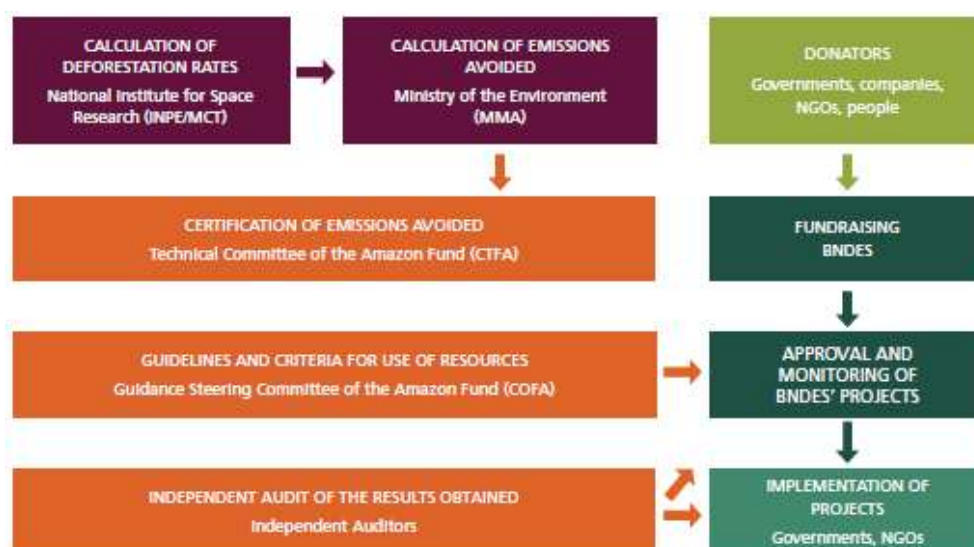
The Amazon Fund is owned and managed by Brazilian institutions. A diversity of stakeholders are formally included in its decision-making Committees. It is often held up as an example of how a nationally owned and managed, inclusive climate change fund can be established. The governance of the Amazon Fund is therefore of interest to both developing and developed countries, particularly if theory translates into practice. This section outlines the management and operation of the fund, the decision-making process and inclusiveness of the Fund's governance (Figure 1). The Amazon Fund is managed by the Brazilian National Development Bank. It acts with the guidance of a Governing Committee (the COFA).

Voice and decision-making

A key feature of the Amazon Fund is its Guidance Committee, 'COFA', which was structured to allow integrated cross-governmental inputs into investing in sustainable development in the Amazon that included other key stakeholders. The Ministry of Environment is the lead government institution championing forest policy in practice, and accountable to the president for deforestation rates. It has chaired the COFA, and provided much leadership over the establishment of the fund. The role of COFA is to establish guidelines and criteria for use of Amazon Fund's resources, update the Board of Directors and Executive Officers annually, and attest to their application in the Amazon Fund's annual report. COFA can also set up working groups to develop recommendations to BNDES. Civil society representatives are active in the Committee which is also composed of federal and state representatives; organised for voting purposes into three chambers. The Technical Committee (CTFA) of the Amazon Fund also plays a key role in the quality assurance of the annual calculation of emission reductions and is composed of eminent scientists and academics from Brazilian institutions.

Formally the Amazon Fund's governance process has not changed since its establishment. Funding and operational decisions are made by BNDES using its own systems within the guidelines set by the COFA and reflecting the overall policy framework of the PPCDAM and the Sustainable Amazon Plan (PAM). However in practice, the balance of power between the Government, BNDES and COFA has shifted over time, as key people have come and gone in government and the civil service.

Figure 5: Governance structure of the Amazon Fund



Source: Amazon Fund Annual Report, 2011

The Amazon Funds' relationship with Brazil's National Development Bank

Management of the Amazon Fund is entrusted to the Brazilian National Economic and Social Development Bank (BNDES). BNDES is a wholly-owned federal public company under the supervision of the Minister of State for Development, Industry and Foreign Trade. Housing the Amazon Fund within BNDES enabled quick operationalization of the Fund. It capitalised on the established governance, operational and risk control systems of BNDES, as well as its reputation for integrity and impartiality from political processes (Zadek et al 2009). Managing the Amazon Fund through a domestic institution was expected to strengthen national ownership and sovereignty, rather than working through a multilateral organisation (Forstater and Zadek, 2009).

BNDES retains 3% of funding received for management costs, a much lower rate than many other institutions might charge. For example, the World Bank typically retains 10-15% of funding, with more recovered through fees imposed on particular projects and transactions. But this funding only covers expenses such as travel, audit, advertising and support for the COFA. The larger proportion of running costs incurred, such as staffing and office costs, are donated by BNDES. The bank does not assess these costs separately so it is not possible to assess the full cost of administration. It is clear, however, that these are substantially higher than 3%. Furthermore, this constrains the autonomy of administration of the Amazon Fund (which is ultimately a relatively small program for BNDES), as it is dependent on BNDES voluntary commitments of resource for core administration purposes.

Stakeholder engagement

There is a long history of civil society engagement and action to advance forest conservation in Brazil, and this vibrant movement has been a key driver for policy and government action. On paper, COFA and the Technical Committee seek to harness multi-stakeholder capacity and momentum to provide legitimacy and assurance. In practice, however, these committees appear to have limited decision making roles. Civil society COFA members have expressed frustration at the difficulty of influencing BNDES's operational procedures. Technical Committee members have also expressed concerns that they are underutilised. Their role is largely limited to signing off on carbon emission reductions, they are not able to contribute to the development of investment strategies and priorities for the fund. The Technical Committee has proposed that its mandate be widened

to providing studies on carbon reduction potential and assessing the environmental effectiveness of investments from the Amazon Fund.

In 2011, COFA met in two ordinary sessions with summary minutes published on the Amazon Fund's website. It is concerning, however, that no COFA meetings were held in 2012. In interviews, civil society members noted that "[the] failure to hold meetings COFA reflects one of the most critical points of the current governance of the Fund. There is a blatant disregard in conducting the Steering Committee, whose annual meeting schedule has not been observed, leading to difficulty in fulfilling their duties, in particular the monitoring of the implementation of the Fund, and the definition of its priorities, strategic guidelines and criteria for applying resources" (Ramos, 2012). A COFA meeting was held at the end of March 2013, though it was not possible to reflect meeting outcomes in this working paper. In practice, the different players within the COFA have a wide range of different interests and levels of engagement in the process.

Take away messages

- A multi-stakeholder Guidance Committee (the COFA) sought to ensure inclusive governance of the fund. The COFA brings civil society, government and expert stakeholders together to provide strategic guidance on the operations of the fund, and a technical committee provides expert guidance.
- In practice, however, the influence of these bodies over the fund's operations needs strengthening.
- The fund takes advantage of BNDES's strong financial management capacities. It operates with an increasingly high degree of transparency on operations and decisions. The 3% management fee charged for the Fund is low, but does not cover the full costs of its administration.

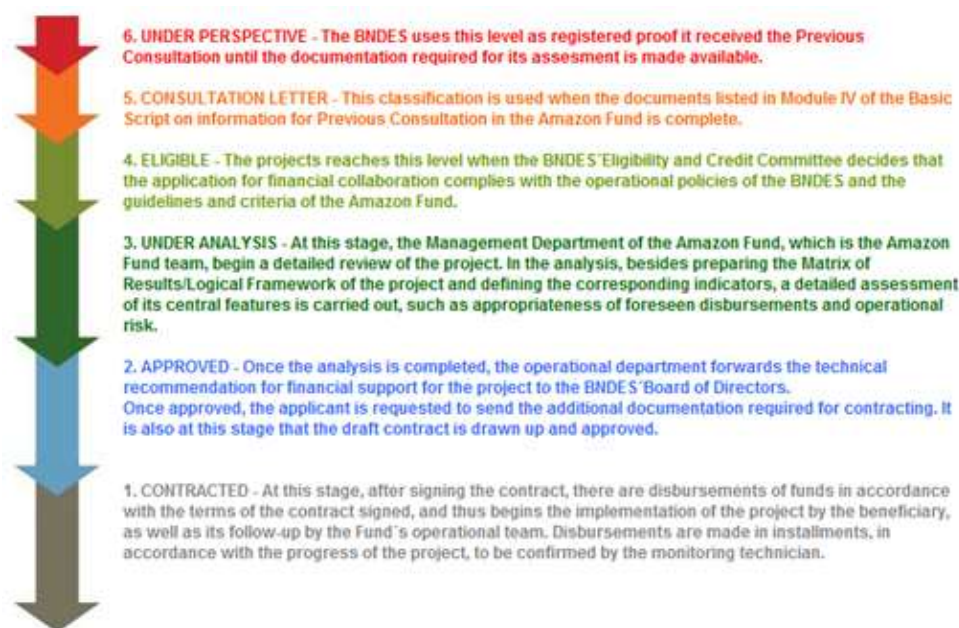
3 Resource Allocation and Investment strategy

While the Amazon fund is designed as a payment-for-performance model for fundraising, it does not work in this way in its downstream investment strategy. Projects *do not* have to demonstrate effectiveness in terms of low cost emission reductions or a particular area of hectares conserved. This model reduces liability at sub-national levels and for project implementers, which are often less able or willing to take on such risk. The rationale is to contribute support to Brazil's overall approach to forest conservation and sustainable development in the Amazon.

The allocation process

Projects are selected through an ongoing open call for proposals. Stakeholders can request support by submitting a Previous Consultation. The Previous Consultation template specifies basic characteristics of the proposed project, and seeks details on (i) the history and description of the applying organisation (ii) information on basic elements of the project (with details elaborated through the analysis phase) such as, area of deforestation envisaged and involvement of local communities and Indigenous peoples; and (iii) on legal aspects. These are assessed by BNDES, using the criteria agreed by the COFA in addition to BNDES assessment of the organisations management capacity and similar to establish eligibility (Figure 6).

Figure 6: Operational Flow of Amazon Fund Projects



Source: Amazon Fund, 2013

Activities to be supported by the Amazon Fund

The Amazon Fund's mandate is to provide non-reimbursable grant financing to in projects and activities that support the PPCDAM policy framework, as laid out in National Decree N° 6,527/08 into seven themes. For operational purposes, these have in practice been subsumed into four themes by BNDES (Table 1). Guidelines, minimum requirements for projects, priorities and restrictions and limitations are drawn up and annually updated by the COFA. The current guidelines state that in addition to coherence with the thematic areas of the Amazon Fund, and Federal and State Plans for sustainable development in the Amazon, minimum requirements are that projects:

- Directly or indirectly contribute to emission reduction through avoided deforestation or forest degradation;
- Demonstrate consent from communities or from their representative institutions;
- Do not substitute for public budgets earmarked for allocation areas in the Amazon Fund; and,
- Demonstrate a multiplying effect on the funds used, by leveraging other resources (in cash or kind).

Table 1: Thematic mandated activities supported by the Amazon Fund

Activity themes of the PPCDAM policy framework	BNDES Modalities of Projects for operational purposes of the Amazon Fund
<ul style="list-style-type: none"> • Management of public forests and protected areas • Environmental control, monitoring and enforcement • Sustainable forest management 	<ul style="list-style-type: none"> • Promoting sustainable production activities • Conserving and protecting Public Forests and Protected Areas • Scientific and technological development • Modernisation and institutional

<ul style="list-style-type: none"> • Economic activities developed from the sustainable use of the forest • Ecological and economic zoning, territorial planning and agrarian regulation • Conservation and sustainable use of biodiversity • Recovery of deforested areas 	development of agencies operating in the Amazon Region
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The Amazon Fund also has a tool to analyse projects' intervention logic which is structured into four sub-programmes with the singular strategic target of reducing deforestation with sustainable development in the Amazon Region to: (i) support activities that maintain standing forest that is economically attractive (ii) support government efforts to ensure human activities are more in line with environmental legislation (iii) ensure that the Amazon has appropriate land use planning (iv) ensure science, technology and innovation contributes to the recovery, conservation and sustainable use of the Amazon (Annual report 2009). Each sub-programme has indicators, projects are classified by sub-objectives. However, the tool does not yet seem to guide strategic allocation decisions. The Amazon Fund may provide funding to the private sector in addition to government agencies and civil society. Similarly, up to 20% of the funds can be used to support forest monitoring and control activities in other biomes in Brazil and other tropical forest countries. However, the Fund has only just begun to develop mechanisms for providing funds to other biomes and countries.

Currently the greatest portion funding goes to civil society (voluntary sector) projects, but a greater volume of state and municipal projects are now in the pipeline. This may represent an important opportunity to use the Amazon Fund more strategically, as *“it is understood that the states and municipalities are natural partners of the Amazon Fund, and that without the technical and political involvement of the states, the full performance of the fund will not be possible”* (Amazon Fund Annual Report 2011).

Project selection and approval

Approval of projects has been slow which has concerned both funders and members of the COFA and broader civil society. BNDES has reported that the initial slow start was due to lack of high-quality fundable projects, while external stakeholders and some COFA members complain of narrow operational criteria, lack of communication and rigid procedures making it difficult to access funding (see Section 7). BNDES has taken some steps to simplify and make the application process more accessible and to offer more support to applicants in developing their proposals. The proportion of project proposals rejected has fallen, suggesting some success in this effort.

At first BNDES was not willing to publish details of projects submitted, as well as those funded. Civil society organisations in the Amazon Fund steering committees have sought more complete reporting on the applications that have been received and the projects that have been funded. Details are now reported on the Fund website.

A key challenge for the Amazon Fund has been to allocate funds quickly. It has tended to operate more as a 'filter' for projects and organisations that are able to meet BNDES's administrative criteria, for organisational fiduciary responsibility and monitoring. This in part reflects the lack of prioritisation within the PPCDAM policy framework (Hargrave 2012). BNDES is collaborating with the Ministry of Environment to identify 'structuring projects' that hold the potential for significant impact and transformation.

Take away messages

- COFA guidance informs the selection of activities funded. As the fund has matured, it has sought out partners who will be able to help it direct funding towards particular objectives, particularly sustainable production activities which benefit forest communities. It has also sought to develop more projects with federal, state and municipal institutions.
- The need to develop a strategic investment strategy that will achieve fund objectives rather than passively respond to applications received has become clear over time.
- BNDES and the Ministry of Environment have invested in such a process: active engagement of the COFA and Technical committee in developing and implementing the strategy will be important.

4 Resource Disbursement and Risk Management

The project cycle

The fund uses BNDES's existing cycle for assessing and approving projects and disbursing funds. Developing a stable pipeline of projects has been a substantial challenge. BNDES processes have been lauded for strong integrity, but also criticised for setting management and funding criteria that are difficult for organisations to meet in practice.

Risk management

Financial accounts are subject to three audit processes. The first occurs in the external audit of the BNDES' financial statements which include the Amazon Fund, secondly there is a financial audit specifically of the 'Gaia Fund' which is the financial account of the Amazon Fund. Third is a compliance audit to assess whether the supported projects, given their forecast goals, products, services, and efforts, are in accordance with the provisions in Decree N° 6,527/08, COFA guidelines and criteria, Sustainable Amazon Plan (PAS) and Plan of Action to Prevent and Control Deforestation in the Legal Amazon (PPCDAM). A financial audit of the Amazon Fund was conducted by Deloitte Touche Tohmatsu. The Compliance audit has been conducted by BDO. The compliance audit, which is published each year, is based on a review of documentation and interviews with BNDES, and assesses whether the bank is following its own procedures.

Safeguard Provisions

The Amazon Fund's Social and Environmental Safeguards follow the REDD+ Social and Environmental Safeguards consolidated by the Institute of Forest and Agricultural Management and Certification (Imaflora, 2010). These safeguards result from a broad discussion on the social and environmental risks of REDD+ in Brazil, based on a bottom-up approach that included representatives of indigenous peoples and local communities, smallholders, research institutions, the private sector, and environmental organizations. They are intended to be updated to align with COFA decisions. There is broad agreement on eight principles: legal compliance; acknowledgement and guarantee of rights; distribution of benefits; economic sustainability, improving standards of living and reducing poverty; environmental conservation and remediation; participation; monitoring and transparency; and governance. Project proposals are to be screened for related risks, and detail mitigation measures. This due diligence may require changes to certain aspects of the initial project design.

The Amazon Fund is also subject BNDES overarching social and environmental safeguards, and includes specific investment criteria related to free prior and informed consent of local

people. However, there is a need for more transparency about how the Amazon Fund applies BNDES social safeguard policies. The Amazon Fund lacks a specific grievance mechanism. Projects can be cancelled if circumstances change, or programs are not found to be in compliance with agreed standards: to date, one project with the municipality of Cumaru do Norte has been cancelled (Amazon Fund Project Portfolio, March 2013).

Take away messages

- The Amazon Fund operates according to BNDES policies and processes as a sub-fund, which creates high assurance that robust fiduciary standards will apply. However, it has been more difficult for smaller organisations to access the fund.
- There is very high transparency on disbursement. However, disbursement has been slow, in part as a result of the funds' operational processes, but also because of the difficulties of developing a portfolio of programs to be supported. Efforts are being made to simplify management processes.
- The safeguards of the Amazon Fund were not disclosed publically till 2012. Analysis of the implementation of these safeguards practice is needed.

5 Monitoring, Evaluation and Learning

The payment-for-performance model of the Amazon Fund makes a strong case for robust investments in monitoring, evaluation, and learning, both to help secure funding for results delivered, as well as to strengthen the impact of programs.

Substantial reporting

One of the Amazon Fund's key innovations was its limited upward accountability to donors; restricted to certification of overall emission reductions, and financial and compliance audits. The Amazon Fund publishes basic, but limited, information about projects; implementing agencies, timespan and overall budget as well as a brief outline of activities and rationale. It also publishes the date of contracting and the date and amount of financial disbursements. It provides regular updates on funding pledged, deposited, approved and allocated (Watson et al, 2012).

Project monitoring and evaluation

Project monitoring is based on standard BNDES processes, with mechanisms focused on checking that grant recipients are spending money on the activities stated. The process of monitoring has three stages. First, projects submit performance reports to BNDES, according to an agreed project schedule, these include details of payments made and received, implementation progress in relation to agreed activities and performance data according to agreed monitoring indicators. Second, each release of funds is subject to verification for compliance with relevant contractual provisions and clauses. BNDES verifies whether the project has carried out the physical and financial implementation of the project as reported, through site visits and analysis of paperwork. Third, at the end of the project, the organisation must submit a final report which includes a narrative description cost breakdown, analysis of results and assessment of impacts and lessons learnt and a self-assessment of the project and of the relationship with BNDES. Two years after the project has been implemented, the organisation is required to submit an Effectiveness Assessment Report, including an assessment of the reach of the objectives over a longer period of time.

Since 2009, the Amazon Fund has published an annual report that reflects the insights from project level reporting. The annual report is reviewed and approved by the COFA. To date they have detailed fund mechanisms and the projects to which funding was allocated. However, no results have been included on the basis that the Fund and its projects are at too early a stage to report impacts or lessons. Expected results are reported, however, for example the number of families receiving PES benefits, the number of individuals trained, and the area of properties mapped (Amazon Fund website).

On-going project monitoring reports are not publically available and there is no indication that final project reports will be published. External project evaluations are not required. While there may be legitimate reasons not to disclose full project reports, some aggregate reporting is essential to understanding the achievements of the fund. Furthermore, opportunities for learning that can strengthen future programming may be missed. Analysis of insights from project implementation may also help demonstrate the value that the Amazon Fund has added. Such efforts would be timely and strategic given the increasingly advanced implementation of the fund. Members of the COFA and the Technical Committee have substantial relevant expertise that might usefully be harnessed to this effect.

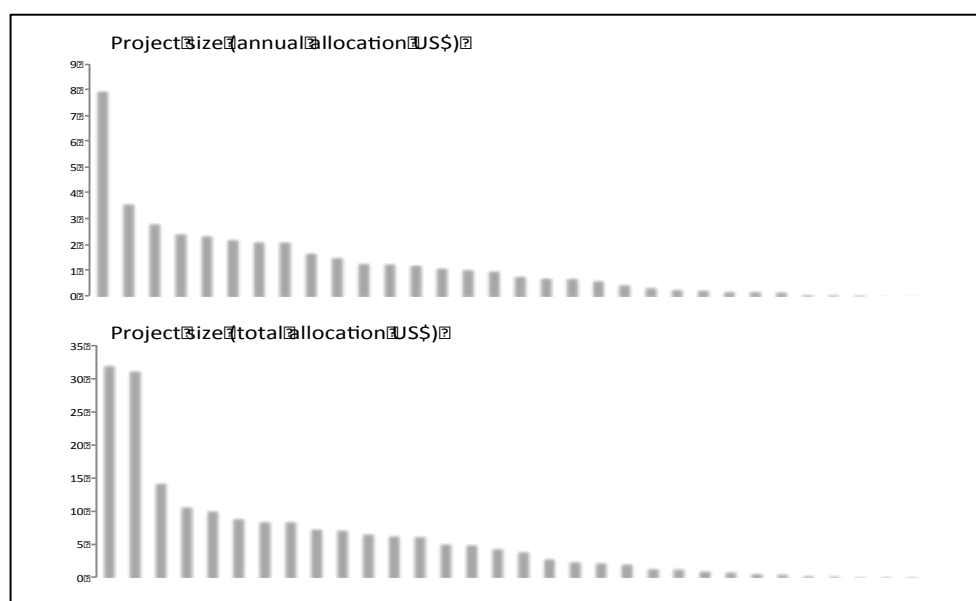
Take away messages

- The transparency of applications received and the projects being funded has increased substantially over time, in part as a result of COFA guidance.
- While the Amazon Fund does have a defined process for monitoring projects, it is focussed predominantly on tracking spending rather than impact and contributions to Fund objectives. There is limited public available information on impact or lessons learned.
- Four years into operationalization, there is now an opportunity to examine project impacts and comment on portfolio performance. Strengthening real time monitoring and reporting on results may help enhance the Amazon Fund's fundraising potential, and inform efforts to strengthen the impact of the fund within Brazil and the region.

The Amazon Fund Portfolio

By December 2012, the Amazon Fund had allocated \$ 216 million to 34 projects (see Annex II). US\$ 73 million has been disbursed; a little over half of Norway's first year contribution and the development of projects has been relatively slow. Projects range in size from US\$2 million to US\$8 million per year, or under US\$ 5 million to US\$32 million overall (Figure 6). The largest allocations have been for a Payment for Ecosystem Services (PES) scheme in the State of Acre, and to the Brazilian Forest service for development of the National Forest Inventory. State projects (mainly support for fire departments) average at US\$6.2 million and projects managed by NGOs at US\$7.9 million. The NGOs that have accessed funding from the Amazon Fund tend to be well established organisations such as The Nature Conservancy, Imazon, and IPAM, and experienced in handling funding from national and international agencies. Larger NGO projects tend to be partnerships with state governments such as the Bolsa Floresta (forest allowance) project managed by the Sustainable Amazon Foundation (FAS) under a mandate from the State of Amazonas.

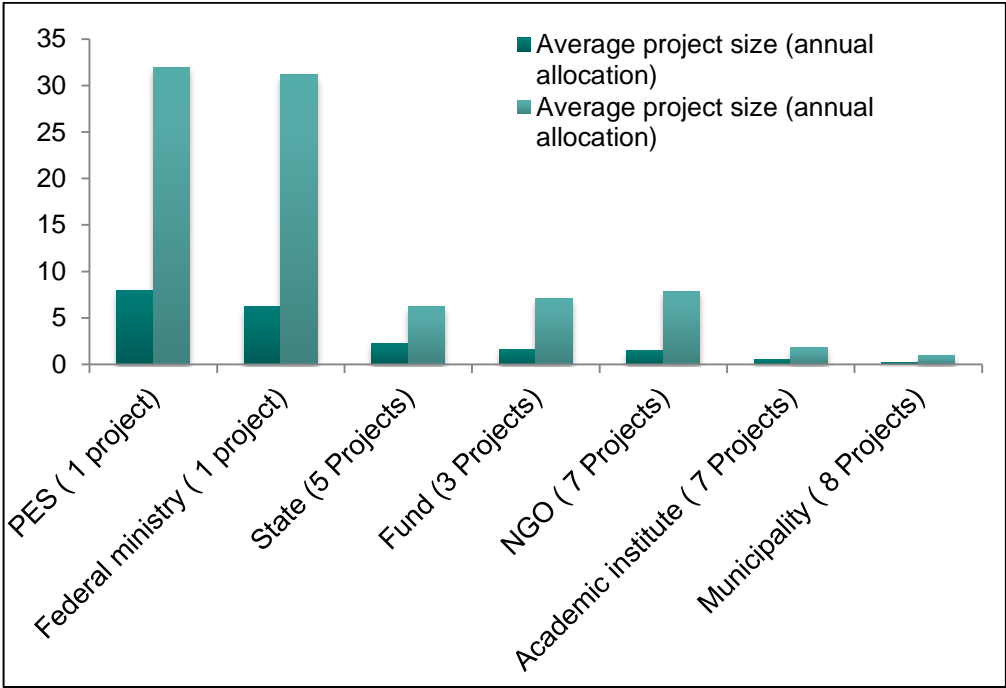
Figure 7: Amazon Fund projects size in annual and total allocation (US\$ millions), with projects arranged by size



NB: Each bar is one project.

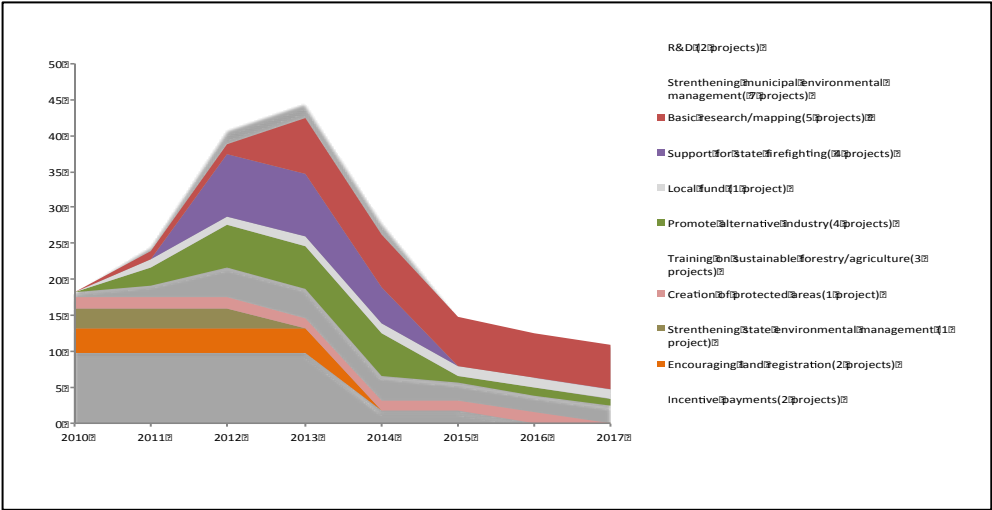
Source: based on Amazon Fund project database, Feb 2013

Figure 8: Project size by implementing organisation



The portfolio of activities in the Amazon Fund has developed over time (see figure 9), developing an increasing focus on basic research and mapping exercises, and apparently a declining focus on efforts to incentive based programs emission or land registration to rationalise tenure arrangements.

Figure 9: Project portfolio development by annual allocation (US\$ millions)



B Effectiveness in achieving outcomes

On the basis of this portfolio review, we now turn to consider the outcomes that the Amazon Fund has achieved in practice to date. Much more information was available on processes for spending climate finance, than on outcomes given the early stage of impact reporting as noted in section 6. There is also relatively limited secondary literature on the achievements of the fund in practice. This analysis would be usefully complemented with more in depth case studies that seek to explore the impacts of supported interventions. This is an important area for future work that has unfortunately been beyond the scope of this working paper.

6 Scale

Working at multiple levels

An express objective of COFA guidance has been to ensure the Fund works at a variety of scales. As a fund seeking to tackle a highly localised set of pressures on forests in a country with a federal governance structure, there is a strong recognition of the need to engage subnational stakeholders, particularly federal and municipal authorities, in the implementation of programs. As noted, many of the programs implemented in partnership with NGOs have a regional focus within key states. To date, the fund has supported a relatively large number of programs that work directly through sub-national institutions, including 7 programs to strengthen municipal level environmental management.

In order to access the Amazon Fund directly, states must have developed a strategy to reduce deforestation and degradation; this is intended to create an incentive for states to identify priorities before they approach the fund (Watson et al 2012). It has supported also supported several initiatives to strengthen state capacity to combat fires. There has been a concentration of activity in the state of Para, as well as in Mato Grosso. Both states have some of the highest rates of deforestation in the Brazilian Amazon (Imazon 2012). The Amazon Fund has only supported one project that seeks to strengthen state level environmental management practices as of January 2012 in the state of Acre, which was an early investor in a strong strategy to combat deforestation.

Managing projects of different sizes

Many COFA members had a strong interest in ensuring that the Amazon Fund would support programs that benefitted forest dependent communities and civil society organisations, and sought to ensure that fund would be able to support small programs. Some participants were also wary of the implications of supporting large-scale conservation programs, and having a majority of funding concentrated in a few large projects. As a result, COFA guidelines initially imposed a project size limit COFA of BR 2 million

(approximately US\$ 1.1 million in 2007). In practice, it has been difficult to find a diversity of small size project implementers, who are able to work with BNDES procurement and financing systems, and the limit was removed at the end of 2011.

New approaches to delivering finance at multiple scales

The Amazon Fund has established partnerships with several intermediary funders and organisations to provide a cascade of funding to smaller projects. Most recently the Amazon Fund has awarded mid-sized grants to other funds such as the Banco do Brasil Foundation (FBB) Federation of Agencies for Social and Educational Assistance (FASE) and the Brazilian Biodiversity Fund (Funbio) to manage small grants funds for the promotion of sustainable enterprise and community development. This is aimed to help smaller NGOs and community associations to access the fund on a practical level. This approach is expected to be more effective in delivering direct benefits to people and traditional communities, indigenous people, agrarian reform settlers.

Replication

COFA guidelines state that projects with higher potential for replication will be prioritised, as well as projects with higher potential for impact. Impact might be assessed in terms of cost effectiveness (R\$ per hectare of forest protected) or potential to promote sustainably management practices. It is not yet clear how this is assessed in project review processes, however. To date, there is a limited evidence base from which to assess whether Amazon Fund supported programs have been replicated, or are likely to be scalable.

Take away messages

- The Amazon Fund was always intended to support sub-national level activity, and create incentives for more ambitious state level action to combat deforestation. Out of 34 projects, 5 work directly through state governments, largely supporting state fire fighting capacity; 7 projects fund municipal governments directly.
- Merely limiting the size of the projects that the Amazon Fund could support did not, in and of itself, result in a portfolio of programs addressing the needs of forest dependent communities. The Amazon Fund now finances small grant programs implemented by partner financial institutions: it is hoped that this model will improve the accessibility of finance for small projects that support communities. The fund was also constrained in its ability to support large programs until late 2011.
- It will be necessary to monitor whether the approaches supported are scalable and replicable.

7 Enabling environments

Policy, regulatory and governance frameworks fundamentally shape the viability of investment in low carbon and climate resilient approaches. Public finance can be used to strengthen the underlying “enabling environment for climate finance” and help address the various risks and barriers that different stakeholders (particularly private sector actors) face in scaling up investment in solutions to climate change (and scaling back investment business as usual approaches).

Policy, regulatory and tenure reform

The Amazon Fund has not focused on further strengthening of the national policy or regulatory environment for addressing deforestation in Brazil, although some funding has

supported the development of better forest inventories by the Federal Ministry of Environment. The fund has also supported several programs that seek to enhance land tenure and support the registration of land to adhere to relevant laws and regulations, including through partnerships with non-governmental institutions. Such programs are underway, for example, in different regions of Paraa in partnership with both Imazon and the Amazon Environmental Research Institute (IPAM), and with municipal governments in Alta Floresta. So far, there is limited reporting on the impact of these programs. Future research might seek to understand how these activities have had impact, as several of these programs were amongst the first to be supported by the fund.

Addressing market barriers

The Amazon Fund has yet to fund projects that are focused on addressing market drivers of deforestation and degradation, or any of the underlying incentives and subsidies that may also support deforestation. The fund has yet to focus on tackling the economic pressures that drive deforestation, although programs that would take on such challenges were initially quite central to the conceptualisation of the fund. The fund has invested in PES programs in the states of Amazonia and Acre. The regions targeted by these programs have relatively low rates of deforestation to begin with, and it is not clear that these programs will shift incentives in ways that reduce deforestation.

Take away messages

- There has been a strong focus on capacity building in the Amazon Fund portfolio, including for state level institutions.
- So far, few programs have dealt with overarching market drivers of deforestation, or sought to shift the economic drivers of deforestation
- In all cases, there is limited information presently available on the achievements of the programs supported. Future work could explore the impacts of targeted interventions through a case study approach

8 Supporting innovation

Although the design of the Amazon Fund has many innovative features, it has adopted a relatively conservative investment strategy. Its initial portfolio of programs is been driven by the availability of projects which met the overall criteria, and were proposed by implementers that were able to meet BNDES's administrative requirements. There were also strong pressures to spend money across different sectors and recipients, in order to avoid creating the impression that certain regions or sectors were being favoured. Much of its funding has been focused on important but well-established interventions, such as forest mapping, state fire-fighting, municipal environmental management and the social projects of NGOs.

Funding to implement the PPCDAm is certainly needed at federal, state and municipal level. But some stakeholders have expressed concerns that funding may simply replace domestic commitments of funding for a limited period of time, and are not yet realising the systemic changes in capacities and incentives that are needed for REDD+ efforts to be sustainable. The amounts of funding available to date have also not been so large that they can really help shift overarching institutional incentives.

A second development relates to the delivery of finance, to ensure that funding can be available to forest dependent communities for the implementation of small scale projects and programs that support the adoption of more sustainable livelihoods. To this end, the Amazon Fund has made funding available to intermediary institutions including the Banco

de Brasil, and contributions to the Brazilian Biodiversity Fund (Funbio) programs to support programs that benefit indigenous peoples' including a dedicated fund for the Kayapó people.

Take away messages

- In general, there appears to have been a limited focus on supporting innovation in the current portfolio of the Amazon Fund
- Some creative delivery models have emerged as the fund seeks to invest in small grant programs to ensure that finance benefits forest communities and indigenous peoples
- More detailed reporting on implementation may reveal whether innovations have taken place during the course of execution: examples of support for autonomous innovation in the context of implementing smaller programs to support sustainable livelihoods may emerge

9 Catalytic outcomes

An exploration of the catalytic impacts of the Amazon fund provides a lens through which to consider the diversity of ways in which public finance can mobilise action and investment, particularly the private sector.

Raising additional finance and mobilising investment

Norway's initial contribution was intended to catalyse the development of a fund that would attract finance from a diversity of sources. There have been relatively small additional donations from Germany. The Amazon Fund has the potential to realise creative interventions that engaged a diversity of stakeholders in efforts to combat deforestation. As a fund established in the context of efforts to realise a global REDD+ instrument (although without formal links to any associated negotiations).

There was also a possibility to attract private finance, including from companies seeking to improve their environmental reputation (both within and outside Brazil). Early talks with Walmart, and the American energy company AES, however, did not result in funding. More recently the Brazilian state-owned oil and gas company Petrobras has financially supported the fund with a series of donations in 2011 amounting to US\$ 4.5 million. These contributions result from regulatory requirements to invest in environmental programs.

Leverage and co-finance

So far, the fund has not focused on interventions that might attract or shift private investment to support efforts to reduce emissions from deforestation and degradation, even though an original intention of the establishment of the fund was to facilitate transformation. Several programs do involve co-finance, however. Although the Fund can support private sector programs, it has not invested in any such programs so far.

Mainstreaming environmental considerations within BNDES

Some civil society organisations and indigenous people's groups originally expressed concerns about the contradiction between the Amazon Fund providing support for projects to prevent deforestation, and BNDES's wider investments in agriculture and infrastructure, which are key contributors to deforestation pressures. However, others stressed the opportunity for the Amazon Fund to build understanding of environmental and social issues within BNDES and influence its wider operations. Ultimately, the Amazon Fund is a very small program for BNDES, but one that brings significant international attention and

scrutiny. Such scrutiny might complement ongoing efforts to strengthen environmental and social governance within the institution. Such an achievement would constitute a major catalytic impact, and warrants deeper analysis but was beyond the scope of this study.

Take away messages

- So far, the Amazon Fund has placed a limited emphasis on shifting incentives for the private sector, or partnering with the private sector for implementation
- The impact of the managing the Amazon Fund on environmental and social governance on the operations of BNDES as a whole remains to be seen: there is the potential for it to have a catalytic role in raising awareness on options and approaches

10 National ownership

National ownership of the Amazon Fund's goals was central to its quick establishment: it was designed as an instrument that would help realise the PPCDAM, and support the country's national climate change strategy. The PPCDAM and other associated laws have had clear successes in driving down deforestation (CPI, 2012). Brazilian government officials led the design and operationalization of the Amazon Fund with a strong emphasis on the need to ensure that Brazilian institutions led the charge in operationalizing and programing the fund. BNDES was appointed as trustee and manager, putting the funds in the care of a national financial institution that understood the national context. While the fund can support relevant programs and activities for government institutions, it is not integrated into Brazilian public financial management systems.

Participants in the COFA report that the Fund has helped create incentives for cross-sectoral and cross-government action to address deforestation. It has prompted subnational institutions to invest in plans, prioritization, and implementation capacities. Spin-off institutions are reported: for example, the State Secretaries of the Environment of the nine Amazon states have established a permanent forum on REDD+. However, the various government agencies, subnational institutions and other stakeholders represented on the COFA have had limited operational decision-making authority, as discussed.

Operationally, there are no formal mechanisms to link the operations of the Amazon Fund back to domestic efforts to monitor progress against implementation of the PPCDAM. Similarly, its links to efforts to implement and monitor progress against national climate change policies are unclear, even though the Fund's activities should support its realisation.

At the same time, new government policies and directives are creating new pressures on tropical forests. For example, rural credit programs have been introduced that prioritise extensive cattle ranching, and public funding is directed to large-scale infrastructure projects that will open up new tracts of the Amazon. There have been changes within key ministries and agencies involving some of the early individuals who had championed the Fund, and efforts to reduce deforestation and address climate change. Analysts observe increasing political polarization between environmentalist and agricultural factions, and fears deforestation is again on the rise (Silva, 2012), reflected most recently in debates over changes the Brazilian forest code.

Links with other international climate finance

Since the operationalization of the Amazon Fund, additional international climate finance has been directed to REDD+ efforts in Brazil through the Forest Investment Program of the

World Bank-administered Climate Investment Funds. The approved investment plan, which will be implemented through the World Bank, IFC, and the Inter-American Development Bank, appears to be designed to complement the Amazon Fund with a focus on the Cerrado region of Brazil. There is, however, some overlap, as the Amazon Fund can also make investments in some parts of the Cerrado (Brazil Forest Investment Plan, 2012). The FIP program places a substantial focus on supporting private investment in its programming, though it is in its very early stages of programming (no projects have been approved so far). Myriad international institutions are also engaged in helping to address the links between deforestation and climate change in Brazil. There seems scope to strengthen synergies and facilitate collective learning from these collective efforts.

Take away messages

- The Amazon Fund is grounded in a Brazilian policy commitment enshrined in law, and its design was driven by leaders within the Brazilian government. It is managed by a Brazilian financial institution, that is well versed in domestic implementation realities
- The fund has engaged diverse national stakeholders in both its governance as well in the delivery of programs, working through NGOs, universities, state government institutions, and municipal government institutions amongst others
- Nevertheless, it is shaped by political developments within Brazil, and the lack of clear political commitment to its objectives creates uncertainties about its role and purpose

Conclusion: Role in the International Climate Finance Architecture

The international community is increasingly interested in the role that national climate funds and financial institutions can play in delivering climate finance. The Amazon Fund experience offers practical insights into this possibility, and suggests both challenges and opportunities.

The Amazon Fund design sought to overcome many of the technical challenges of REDD+, such as monitoring and reporting on emission reductions without absolute certainty about how to quantify the carbon stored in forests. It recognised that funding would need to be delivered in a particular political economy, and could help shift incentives. Key innovations included its payment-for-performance financing model, restricted multi-stakeholder governance approach, and low-cost local management.

The Amazon Fund has demonstrated that developing country based institutions can meet high fiduciary standards, and provide substantial transparency on fund operations. However, competent fund administration does incur costs, and the full costs of administering the Fund are higher than budgeted. Furthermore, there is room to strengthen the impact of multi-stakeholder governance design features, to help advance a more strategic approach that is better aligned with national needs and priorities. Over the past year, the Ministry of Environment and BNDES have invested in developing a strategic plan for the future of the fund, which will be presented to the COFA: the impact of their collective efforts to strengthen and realise such a strategy remains to be seen. National stakeholders need to play an active role in developing a strategic vision for how to program funds to realise national sustainable development aspirations throughout program implementation.

In practice, payments are not being delivered through the Amazon Fund on the scale that it would take to really shift incentives in a large economy such as Brazil. While \$1 billion may sound like a great deal of money, it is tiny compared with the size of the Brazilian economy and the revenues from activities that drive deforestation and degradation. Additional sources of international funding have yet to materialise (see figure 1). The lack of progress in realising an international REDD+ mechanism, or commitments to deliver additional global REDD+ funding, has compounded this challenge.

Above all the Amazon Fund highlights the core dilemma of international climate finance (and indeed of development funding in general): ambitious national action for low-carbon development requires political will and policy changes which must be negotiated domestically. International funding can support this transition, but it cannot force it. In designing climate finance mechanisms, there will need to be some compromise between pressures to demonstrate efficiency and additionality, and a pressures to support a long

term, sustainable policy measures to be enacted. In this context climate funds need to be part domestic efforts to drive sustainable development.

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