

ANNEX 8

NATIONAL CLIMATE CHANGE FUND

SUMMARY DOCUMENT

REDD+ RESULTS-BASED PAYMENTS IN PARAGUAY FOR THE PERIOD 2015-2017

September 2019



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1. Introduction

Paraguay's eastern region is home to the subtropical Upper Paraná Atlantic Forest, which is among the most biodiverse and threatened ecosystems in the world. The Chaco, or western region, is part of one of the world's largest remaining areas of dry tropical forest. Over the last few decades, both regions have experienced large-scale deforestation and forest degradation, due in large to agricultural expansion. Considering these and other direct and indirect causes of deforestation, Paraguay developed its National Strategy of Forests for Sustainable Growth (ENBCS; see Annex 9 in this Full Proposal package).

To help address these above factors, part of the proceeds from this results-based payments (RBPs) proposal will be used **to support the operationalization and capitalization of an RBPs Window within the National Climate Change Fund (NCCF) in Paraguay**. Through a dedicated RBPs window, the NCCF will provide financial support for the full implementation of the ENBCS.

The current situation presents a **unique opportunity** to set up a long-term financing mechanism for REDD+ actions in Paraguay with world-class standards for **transparency, participation and application of safeguards**. The RBPs Window at the NCCF can provide a solid platform for participatory decision making for the investment of resources in the implementation of the REDD+ strategy. The application of the Cancun safeguards, as well as GCF and UN Environment safeguards and risk management procedures would ensure a “no-regrets” policy in the implementation of actions and measures. A structure designed to ensure participation of stakeholders involved in anti-deforestation actions would contribute much to an equitable distribution of benefits. The RBPs window of the NCCF will be a platform with a governance structure sufficiently solid to make Paraguay less dependent over time on external (technical and administrative) support for the management of contributions to the implementation of the ENBCS.

This document presents a summary of the proposed structure of the RBPs window at the NCCF. The structure will be further refined and elucidated before the fund and RBPs window are operationalized.

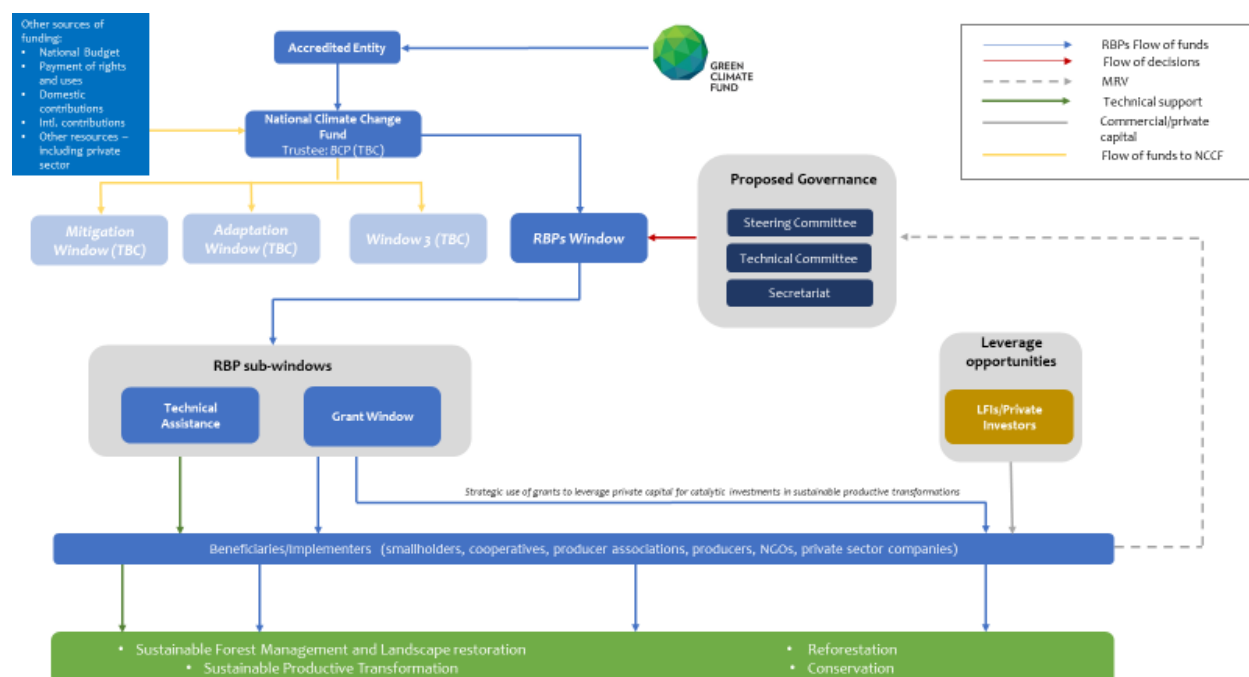
2. National Climate Change Fund: setting up a specific funding window for conserving forests

The National Climate Change Act (Law No. 5875/2018) of 2018 called for establishing the NCCF with the purpose of attracting “*public, private, national and international financial resources to support the implementation of actions to address Climate Change*”. The secondary regulations for the operationalization of the NCCF are currently being designed and a trustee is being identified. Secondary regulations for operationalizing the Fund include the overall governance structure, procedures for operation, responsibilities, accountability, criteria for allocation of resources, safeguards to be applied, risk management, and the definition of the type of financial products that the NCCF will offer.

The proceeds from the GCF will be used to establish an RBPs window within the NCCF that meets world-class standards related to transparency, participation, and governance and that can attract and channel contributions from other third parties into forest conservation and sustainable land use. The focus of the RBPs Window of the NCCF will be to support activities that contribute both to the NDC and the ENCBS.

3. Proposed operational modalities of the RBP window

3.1. Indicative fund architecture



3.2. Indicative governance of the RBPs Window

Within the overall governance of the NCCF as established by article 14 of Law 5875/17, MADES has the responsibility for identifying, obtaining, planning, administering, and investing the public, private, national, and international financial resources within the fund¹ with the aim of

¹ The secondary regulations for this fund have not been published.

implementing the necessary actions to face climate change. This RBP programme constitutes one of the activities that MADES will be implementing to address climate change.

The programme will guarantee the regulation and the operation of a specific and dedicated window for RBPs within the NCCF.^{2,3} This window will have a separate and dedicated bank account and specific governance arrangements. This specific and dedicated window will be compliant with UN Environment and GCF's operational policies and procedures.

The proposed governance structure for this specific window within the NCFF is described below:

Steering Committee

A Steering Committee for the RBPs account will be established, with documented terms of reference, and will be responsible for the approval of disbursements.

The Steering Committee of the RBP account or the Trustee shall consist of 9 members:

- The Minister of MADES;
- The Minister of MAG;
- The Minister of INFONA;
- The Minister of the STP;
- 4 representatives (a representative of Indigenous Peoples, an NGO representative, a representative of private sector associations and a representative of academia), with experience in forest and land-use issues. Four alternates will also be appointed who will temporarily replace the holders in case of illness or absence or other temporary impairment. The duration of the appointments will be for 2 years and renewable for term.
- A representative from the Accredited Entity

Steering Committee members may not approve any disbursements in favour of persons or organizations related to them. In case of disbursement requests as described in the previous paragraph, those involved must declare such relationship before the Committee and must not participate in any discussion or vote.

Technical Committee

A Technical Committee with substantive experts will also be established. It will review and pass on recommendations to the Steering Committee for approval/rejection of eligible proposals in accordance with the criteria specified within the RBPs Window and where appropriate in the call for proposals.

The Technical Committee will score proposals against documented criteria set out in the planning stage on the eligibility and feasibility of the proposed projects.

² This governance structure can be used as a reference for the development of the governance arrangements of the overall NCFF. The governance arrangements utilized for the RBPs Window aim to facilitate the participation of non-state actors in the decision-making structure of the use of proceeds of the results-based payments.

³ The PMU will work with specialists to structure and establish the RBPs Window of the Fund.

Secretariat

MADES, through the Project Management Unit (PMU), will provide the secretariat for the NCCF. The Secretariat will undertake the day-to-day operations and will coordinate all activities related to the RBPs window, including drafting the terms of reference for the calls for proposals, provide administrative support and backstopping to the Steering Committee and the Technical Committee. The Secretariat will publish the calls for proposals under the RBP window, receive and review the proposals, undertake administrative checks, and consider the financial and operational capacity of applicants. It will assess the eligibility of received proposals, its risk categorization and compliance with safeguards. The Secretariat will also have responsibility for publicizing the award winners, monitoring, evaluating and reporting RBPs window activities and capturing lessons learnt in the implementation of the RBPs Window.

Monitoring & Evaluation

The Secretariat will monitor and assess activity progress to confirm that fund beneficiaries implement project activities. The Secretariat will support the financial monitoring of the project activities on a regular basis. In addition, the Secretariat will monitor compliance with UN Environment and GCF Safeguards during activity implementation. These reports will be shared with the Steering Committee.

The Secretariat will monitor the impact of fund disbursements against key performance indicators to be developed for each RBPs Sub-window. The Secretariat will also ensure that upon completion of activities, Project Completion and Closure will be undertaken.

Audit

A recognized firm of certified public accountants will undertake a financial audit on a yearly basis.

Grievance and redress

The Fund will establish and provide transparent, adequate and easily accessible channels for raising grievances. A specific mechanism will also be developed for grievance redress.

Safeguards

There is a strong commitment to avoid, minimize or mitigate environmental, social and economic impacts associated with the activities/projects to be implemented with the use of proceeds, including those financed through the NCCF.

The Secretariat, led by the safeguards and gender specialists, will carry out an initial safeguards screening of all proposals, which will be submitted to the Technical Committee for inclusion with its review and recommendations to the Steering Committee. This screening will take account of potential environmental, social and economic risks and impacts (as well as potential benefits) of the proposals, and alignment of proposals with the following safeguards and standards, which are described in detail in the ESMF annex:

- The safeguards and standards of UN Environment and GCF;
- The Cancun safeguards for REDD+.

The screening will identify if any additional impact management plans and/or mitigation measures are needed, as per ESMF provisions, for example if activities/projects supported by the Fund could involve or affect:

- indigenous peoples;
- livelihoods;
- cultural heritage;
- biodiversity;
- other (see ESMF and its annexes for further information).

This screening will be used to determine whether the project is considered low, moderate or high risk. The proceeds will only be used to finance activities/projects with low or moderate risk, as defined by the AE protocol for risk assessment.⁴ The use of proceeds will not be used to support any of the activities included in the Exclusions list (section 5.2) of the ESMF annex.

3.3. Criteria for the eligibility of RBPs Window applicants

A pre-requisite for eligibility of all applicants is that the applicants must align to UN and GCF values and must not:⁵

- Be complicit in human rights abuses;
- Tolerate forced or compulsory labour or the use of child labour;
- Violate sanctions established by the UN Security Council.

Applicants should also have proven adequate managerial, financial, and administrative capacity to implement the project activity and deliver expected results.⁶ The fund will develop tailored procedures for smallholders, communities, and indigenous peoples.

⁴ These activities would correspond to GCF risk category C (project has minimal or no adverse risks) or B (project has mild adverse risks that would likely be reversible) and would not include projects of category A (project has significant adverse risks that may be irreversible).

⁵ Proposals from ineligible applicants will not be submitted for a technical assessment.

⁶ In order to demonstrate management and administrative capacity, the applicants must meet minimum fiduciary standards, and must have the required governance structure and capacity to receive funds and implement their proposal.

3.4. Criteria for the eligibility of activities

All activities funded through the RBP sub-windows will be required to support the country's NDC and the ENCBS. Specific eligibility criteria for each of the sub-windows will be developed during the first year of the project.⁷

4. Accessing the RBPs Window of the National Climate Change Fund

Potential beneficiaries of the RBPs window of the NCCF will present a business and financing plan for conservation and/or transition from BAU to climate-smart practices within the eligible activities. Proposals will be assessed against eligibility criteria by the Secretariat, and if eligible they will be assessed against technical and financial criteria by the Technical Committee.⁸

The RBPs Window within the NCCF will have 2 sub-windows:⁹

- **Grant window** – through this sub-window the Fund will incentivize the adoption or transformation of productive practices, facilitate conservation, restoration, and reforestation. Instruments to be designed include matching grants, pre-investment grants on a co-financing basis, and small grants tailored for the needs of communities, smallholders, local-based organizations, including indigenous peoples. A key aim of this window will be to leverage capital from private sources for catalytic investments for forest conservation and zero-deforestation sustainable productive transformations.
- **Technical Assistance** – funding will be available for supporting disbursements made through the Grant Window through different modalities according to the type of beneficiary and transaction (ranging from direct technical assistance to support for the implementation of projects in which the grant fund has enabled blending with commercial capital).

The indicative activities to support the country's NDC and the ENBCS will include:

- **Sustainable Forest Management and Landscape Restoration** – aiming to incentivize the different key actors at the length of the forest supply chain to adopt more sustainable practices in the management of native forests, including through the provision of incentives for the restoration of native forests.
- **Sustainable Productive Transformation** – aiming to incentivize the transition from BAU agricultural and livestock practices to climate-smart practices with limited or no impact on

⁷ The relevant GCF investment criteria (impact potential; paradigm shift potential; sustainable development potential; needs of the recipient; and efficiency and effectiveness) will be used as inputs for informing the eligibility criteria and assessment of activities to be funded.

⁸ The Technical Committee may have established financial support bands for each eligible activity depending on the economic, financial, and climate characteristics of the economic activity and the region in which they will be implemented.

⁹ The instruments to be provided by the RBP window are consistent with the Accredited Entity's level of accreditation and fiduciary functions. This however does not limit the instruments that can be developed for the NCCF.

deforestation. A key aim when supporting these activities will be the mobilization of additional capital, commercial and private sector, including through working with local financial intermediaries (including non-bank financial intermediaries), to support the transition to climate-smart and reduced deforestation productive practices.

- **Reforestation** – aiming to incentivize reforestation for energy generation or other purposes (given the role of biomass for energy generation as a driver of deforestation). In addition, it will aim to incentivize the incorporation of trees in the productive matrix.
- **Conservation** – aiming to support local organizations, communities, indigenous peoples, and smallholders working on the conservation of forests in Paraguay (small grants and co-finance).

5. Sustainability of the Fund

Article 15 of the Law No. 5875/2018 establishes the different funding sources for the NCCF:

- The annual resources contemplated in the General National Budget.
- Contributions, payment of rights and uses provided for in the corresponding Laws.
- Contributions from individuals or legal entities, national or international.
- Contributions made by governments of other countries and international organizations.
- Other resources obtained and provided for in other legal provisions.

It is expected that once the NCCF is fully operational, its high standards of transparency, participation and safeguard requirements will attract co-financing from different sources. Targets of interest include the private sector and the energy sector (which already contributes funds to a range of environmental activities), in addition to contributions from the National Budget. The structuring of the NCCF also provides opportunities for leveraging resources from LFI, lending institutions and private producers. MADES is already assessing options to ensure regular contributions to the NCCF from fees and taxes.

The full implementation of the ENBCS should also result in the creation of "**virtuous circles**", where the decrease in deforestation rates opens the possibility of accessing new payments, which are then invested in forest protection, promoting additional decreases in deforestation and thereby allowing continued access to payments. This would have a strong political effect in Paraguay by showing that the environmental sector can generate significant economic resources in addition to those benefits achieved by protecting the environment. If the project is successful in establishing this dynamic, and therefore in attracting a regular flow of resources, the sustainability prospects of the Climate Change Fund would be greatly improved.

6. Internal policies and procedures to be developed for the operationalization of the RBPs window

The following internal policies and procedures will be developed for the full operationalization of the RBPs window and sub-windows within the NCCF.

- Terms of Reference for the Steering Committee
- Terms of Reference for the Technical Committee
- Eligibility criteria for activities to be funded
- Internal procedure for assessment and selection of projects
- M&E policy
- Grant award and disbursement internal policy
- E&S policy based on UN Environment and GCF operational safeguards
- Procurement Policy
- Gender Policy
- Project monitoring policy
- Transparency and access to information policy