

Guidelines for the Setup and Operation of Village Forest and Agriculture Grants (VFAGs) under the Implementation of the Governance Forest Landscape and Livelihood (I-GFLL) Program

under the

Implementation of the Lao PDR Emission Reductions Programme through improved
governance and sustainable forest landscape management Project

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Abbreviations

AE	Accredited Entity
BCEL	Banque pour la Commerce Extérieure Lao Public
CLIPAD	Climate Protection through Avoided Deforestation (Project)
DPMU	District Project Management Unit
EE	Executing Entity
EPF	Environment Protection Fund
GAP	Good Agricultural Practices
GCF	Green Climate Fund
GIZ	Gesellschaft für Internationale ZusammenarbeitL
GoL	Government of Laos
NPMU	National Project Management Unit
PLUP	Participatory Land Use Planning
PPMU	Provincial Project Management Unit
PSAP	Promotion of Sustainable Agricultural Practices
SFM	Sustainable Forest Management
VFAG	Village Forest and Agriculture Grant
VFAGC	Village Forest and Agriculture Grant Committee
VFM	Village Forest Management

1 Introduction

These Guidelines for the Setup and Operation of Village Forest and Agriculture Grants are complementary to the Operational Manual (OM) of the *“Governance Forest Landscape and Livelihood (I-GFLL) Project”* (from here on called *“the Project”*) under the Green Climate Fund (GCF) and Gesellschaft für Internationale Zusammenarbeit (GIZ) Program *“Implementation of the Lao PDR Emission Reductions Programme through improved governance and sustainable forest landscape management”* and should be used in connection with the GIZ guidelines provided as part of the Grant Agreement, in particular:

- Financial Guidelines for Grant Agreement (Annex 3)
- Award Procedure / Procurement Guidelines and Documentation of Contract Awards (Annex 4a and Annex 4b)
- I-GFLL Project Proposal (Annex 2a)
- PSAP Guidelines
- “White List” for Sustainable Agriculture
- VFM and Implementation Guidelines
- Monitoring, Reporting and Verification (MRV) for performance-based payments - Standard Operating Procedures

The VFAG Guidelines regulate and describe in detail the flow of project funds into village-owned and managed grants, and their use for the propagation of improved, deforestation-free agricultural production systems and sustainable forest management.

2 Organisation of Village Forest and Agriculture Grants (VFAGs)

2.1 Objectives and function of Village Forest and Agriculture Grants

Each project target village is endowed with one Village Forest and Agriculture Grant (VFAG) to channel project funds to the village and to organise and administrate their use on community level.

Contributing to the Project’s overall objective to reduce deforestation, project payments to target villages have the following purposes:

- “Investment payments” aim at stimulating local-level investments into improved, deforestation-free and sustainable agricultural production in order to create additional income from agriculture without encroaching into forest resources.
- Payments for “cash for work” are remuneration for specific project-related work and activities done by the villagers in connection with the implementation of annual Village Forest Plans and Village Conservation Plans.
- “Bonus payments” are incentives to reward good forestry practise and forest protection as they are laid down in the Village Forest Management Agreements and/or the Village Forest Conservation Agreements.

2.2 VFAG implementing organisations involved

2.2.1 Environment Protection Fund (EPF) – flow and control of funds

The independent Environment Protection Fund (EPF), founded 2005 based on a government decree¹, is the Government of Lao's (GoL) main funding window to support activities for the promotion of environmental management, protection and conservation, and acknowledged by GCF as the Project's entry point for operational funds. The EPF, as described in the Operational Manual, is responsible for the administration and transfer of project funds to Project Owners, including all related financial monitoring and auditing. Therefore, the EPF is foreseen to transfer funds to VFAGs for final processing and disbursement upon approval of operational budget plans by the National Project Management Unit (NPMU) (composed by a NPMU Technical and Management Team). Responsibilities and the role of the NPMU and EPF are as stated under chapter 1.4 *Processes and responsibilities* in the Operational Manual.

Furthermore, EPF carries the responsibility of reporting against project milestones and evaluations to the Accredited Entity (AE), GIZ. Monitoring results regarding VFAG disbursement and use will be collected at district level (first through the DPMUs), consolidated at provincial level (through PPMUs) and approved at the national level (through the NPMU). The EPF will compile the approved monitoring data into progress reports according to GCF requirements that are to be submitted to GIZ.

2.2.2 District Project Management Units (DPMU) – support and supervision of VFAG

The DPMU has the overall task to support and to supervise the VFAG from the time of its foundation until all project-related activities in the village are completed. This includes:

- Conduct initial consultation and information meetings in coordination with other relevant project partners;
- Support Facilitation of the VFAG foundation assembly;
- In cooperation with DAFO and other project partners, guidance of the VFAG assembly during the planning of VFAG-funded activities;
- Upon control against project and government policies and regulations, approval of VFAG plans;
- Supporting the VFAG Committee in its tasks of cash-handling, procurement, fund administration and documentation;
- Supervision and control of flow of funds on village level;
- Coordination of forest management monitoring and decision on compliance or non-compliance to project conditions for "bonus payment";
- Compiling VFAG plans into its annual and quarterly plans as Annex to the DAFO Quarterly Plans and thereby request the budget from the EPF to be transferred to the Village Accounts Compiling VFAG reports into its quarterly and annual progress reports.

¹ Decree 146/PM on the Environment Protection Fund of 6/6-2005

2.2.3 District Agriculture and Forestry Office (DAFO) - Extension of deforestation-free agricultural production systems

The upgrading of existing, extensive agricultural practices with low output, low overall profitability, often degrading soil fertility over time and/or encroaching on forest resources, into sustainable, deforestation-free agricultural or agro-forestry production systems in accordance with the approved “White List” is a main pillar of the Project.

To achieve this, the Project interlinks three major interventions:

- Agricultural extension and knowledge distribution (Activities 2.1.1 and 2.1.3);
- Promotion of investments into improved and sustainable farming systems through VFAG funding (Activity 2.1.2);
- Aiming at improving marketing chains of relevant agricultural products and commodities (Activity 2.2).

The provision of technical support to agricultural development is of central importance for the success of the interventions. The target districts’ DAFOs in cooperation with project staff and external experts will have the following tasks:

- To assist the villagers to select options for sustainable agricultural systems from the White List and investments to be promoted and supported by grants from VFAG;
- To facilitate the development of village agricultural activity and investment plans and budgets, and their submission to DPMU;
- To organise participatory and hands-on on-site trainings relevant to each village’s investments; wherever possible, external resource persons should be engaged;
- To promote farmer-to-farmer exchange of knowledge within the village and with other villages and resource persons;
- To identify private service providers and companies for the promotion of specific sustainable agricultural practices and marketing opportunities;
- To support project-related monitoring of activities.

2.3 VFAG payment conditions

2.3.1 Annual Payments for the implementation of Village Forest Management Plans

2.3.1.1 “Cash for work payments”

“Cash for work payments” are earmarked to compensate for forest management activities related to the project’s Village Forest Management (VFM) component. During the annual VFAG planning meetings, the Village Land Use and Forest Management Committee (VLUFMC) informs the VFAG Committee about the calculated budget for annual VFMPs based on Village Forest Management Plans/Village Conservation Plans, in an average of EUR 1.500 per year and village. The technical standards and remuneration of these activities is regulated in the “CliPAD Village Forest Management and Implementation Guidelines”.

2.3.1.2 Remuneration of VFAG Committee

The VFAG Committee’s work is remunerated from VFAG funds according to current daily allowance and travel cost rates of the Project, based on the estimated monthly workload in days and expected travel activity. VFAG

Committee remuneration is part of the annual “cash for work” budget (VFMPs), thus subject to approval by DPMU. Committee members are entitled to withdraw their allowances monthly, quarterly or annually. The remuneration for VFAG Committee members is paid from the “cash for work” budget provided to each village. Each of the 3 VFAG Committee members will receive a lump sum payment of LAK 80.000 per month, which might be paid ex-post as soon as the Cash for Work budget is received by the project. VFAG Committee members receive payments calculated from the selection of the VFAG Committee until project closure (Dec. 2023).

2.3.2 Upfront “investment payment”

The upfront “investment payment” - EUR 7.500 per village - has the main purpose to support activity 2.1 *Local incentives for Good Agriculture Practices* – to lower the pressure on forest resources by promoting improved agricultural practices. During the start-up process (Step 5 in chapter 3.1), an Annual Agricultural Activity and Investment plan for each village, is submitted to the VFAG in which the proposed sustainable agricultural activities per household are listed, based on the options provided in the “White List” and based on extension support by DAFO staff. The selected, sustainable production systems must fulfil the following criteria:

- The production system must be part of the options provided in the “White List”, which specifies the deforestation-free and sustainable systems;
- The technology must have an innovative character compared to traditional, extensive low-input low-output models; the system is either based on successfully tested technology and adapted to the specific context and environment, or it includes an element of testing and participatory research; The production system must be based on the adoption of Good Agricultural Practices (GAP)²;
- The production must be profitable with positive returns to all input resources;
- Marketing channels for the products must be sufficiently secure and well-organised;
- The production must be in line with priorities identified on district level, e.g. in the context of Multi-Stakeholder Platform events at that stage.

Investments may not be in violation of the Project’s or the government’s policies. Examples of prohibited, black-listed activities are:

- Animal-raising systems (large animals, goats and pigs) based on forest foraging;
- Crop production in zones proclaimed as forest areas according to Village Forest Management Agreements;
- Crop production systems using tillage on slopes with over 33% incline (unless for establishment of permanent crops or with use of erosion-controlling measures like contour lines, terracing, etc.);
- Crop production systems having negative impact on downstream irrigation systems;
- Productions with significant negative social or environmental side-effects (amongst others gender, poverty, soil degradation or climate change).

Expenditures eligible for grant financing from VFAG include all items and services, that must be purchased to carry out the investment, amongst others:

- improved seed and seedlings;
- start-up stock of livestock incl. vaccination;

² As defined by FAO – guidelines, standards and manuals are available for all major commodities.

- start-up feedstuff and organic fertilizers (max. 6 months' consumption);
- hand tools;
- hiring of machinery e.g. for levelling, terracing;
- material (pumps, beholders, pipes, sprinklers etc.) for on-farm irrigation;
- greenhouses and small buildings for production, post-harvest treatment or storing purposes;
- small-scale mechanization, small farm machinery for joint use;
- service provider fees (e.g. veterinaries), incl. remuneration of informal extension agents (traders, progressive model farmers).

Excluded from consideration for grant financing are

- synthetic pesticides;
- labor payments;
- locally available materials e.g. for fencing or shelter (bamboo, wooden poles);
- large machinery requiring special skills and maintenance.

The grand total of eligible expenditures for financing from VFAG funds cannot exceed EUR 400 per participating household.

Labor, local materials and the remaining part of financial inputs, that is not covered by the VFAG, are considered as own contribution.

For further details regarding technical issues, see "White List" document.

2.3.3 Performance-based "Bonus payment"

A conditional, performance-based "bonus payment" amounting to EUR 10.000 on average per village is paid to the VFAG under the following conditions: The "bonus payment" will be transferred to the villages after the implementation of two annual village forest management plans and the completion of forest cover monitoring according to the following allocation formula:

- 100% bonus payment, if the forest cover in ha per village is 95% or higher compare to the determined ha in the Village Forest Management Agreement,
- 50% bonus payment, if the forest cover in ha per village is between 75 – 94,9% compare to the determined ha in the Village Forest Management Agreement,
- 0% bonus payments, if the forest cover in ha per village is below 75% compare to the determined ha in the Village Forest Management Agreement.

Further explanations regarding the possible "bonus payments" for each village are described in the Guideline "Monitoring, Reporting and Verification (MRV) for performance-based payments - Standard Operating Procedures".

[internal note: bonus payments will be calculated as per ha of forest area, depends on the total forest area (excluding NPA areas) of all villages according to the Village Forest Management Agreements, the performance of all villages regarding to the agreed forest areas and the total available amount for bonus payments. Village with NPA areas will receive a 1-time Village Forest Conservation Grant of an average of EUR 4.000 per village.]

The “bonus payment” can be used for upscaling of agricultural investments promoted under the “investment payment” and/or for further “cash for work payments” to compensate for forest management activities according to the annual VFMPs. The same conditions apply for both, as described.

2.4 Organisational set-up of the Village Forest and Agriculture Grants

2.4.1 The VFAG Assembly Meeting

The VFAG assembly is the highest decision-making body within the VFAG. It consists of adult representatives of all households residing legally in the village. The VFAG assembly adopts the VFAG bylaws including any amendments, elects the VFAG Committee, adopts the VFAG Committee’s annual report on the use of previous VFAG payments and decides on the use of the next-coming payments as well as any other upcoming issues.

The assembly convenes at least once per year; however, additional meetings can be called by the VFAG Committee upon demand.

All households have equal right to participate, to express their opinion and to take part in decisions and elections. Each household has one vote. Elections for the VFAG Committee take place by ballot vote after public nomination of candidates by the assembly. The three candidates with the most votes are elected, the candidates with fourth and fifth-most votes being substitutes in case of VFAG Committee members leaving the committee before the next assembly. However, at least one member must be female, and the female candidate with the highest number of votes has priority before other male candidates.

All major decisions issued by the assembly should be made unanimously in order to prevent disloyalty. Substantial efforts shall be made to achieve consensus; only in case such consensus cannot be achieved, decisions can be made with a simple majority vote.

2.4.2 The VFAG Committee

The VFAG Committee constitutes itself, based on the outcome of the election during the VFAG assembly meeting. It consists of three members (president, cashier, accountant). Normally, the member elected with the most votes, assumes the position of the VFAG President.

The Committee has the overall task of organising VFAG related activities and administrating VFAG funds. The VFAG Committee –with support from project staff or/and government counterparts – convenes VFAG assembly meetings at least annually and, additionally, on demand.

The VFAG President assumes the leadership of the Committee and the VFAG. He/she is chairing VFAG assembly meetings and is also representing the VFAG externally.

The VFAG Cashier is in charge with effectuating and recording all money transactions within the VFAG. He/she is also responsible for safekeeping VFAG cash stocks.

The VFAG Accountant has the task to record and document all income and expenditures within the VFAG in a timely, complete and correct manner. He/she keeps a cash book, collects bank statements and ensures that all expenditures are documented by invoices according to project accounting standards. At the end of each annual cycle, he/she prepares the Annual VFAG Usage Report.

2.4.3 VFAG sub-committees, farmer groups and external resource persons

The assembly can appoint persons, sub-committees or farmer groups formed during the planning process to be entrusted with the effectuation of VFAG investments. It can also appoint external resource persons to be involved for organizational or technical support. VFAG Committee members, however, are excluded from these tasks, as they keep the key responsibility for the grant's financial transactions.

3 VFAG Foundation

3.1 Organisational process

Precondition

Within the Free, Prior and Informed Consent (FPIC) process, a first meeting (here: FPIC 1) is held with all villagers to disseminate all project related information and to ask for their comments, whether or not they will give consent and accept to participate in the project. If the village agrees, minutes are signed to formalise the cooperation with the Project.

Step 1: VFAG Briefing with village authorities

As a first step, done as soon as possible after the completion of FPIC 1 (village consent), village authorities are briefed about the set-up of a VFAG, its objectives, activities and benefits. A time schedule for the following steps should be agreed on.

Step 2: Informing the community

Step 2 & 3 can be done during one or several subsequent village assembly meetings, depending on the level of details needed and the capacity of the villagers to absorb information.

It is crucial to ensure that villagers have good understanding of the Project's main pillars: forest management, promotion of deforestation-free agriculture and the payment system integrated within the Village Forest and Agriculture Grant. During initial village VFAG assembly meetings, all the village's registered households should be represented. In regard to the payment system, villagers should understand the details of the functioning of the VFAG, including the amount of money to be initially transferred ("investment payments"), the conditions of annual payments ("cash for work payments") as well as "bonus payments" including consequences and grievance procedures in case of declared non-compliance, and the options for the use of the VFAG funds. At this stage, it is not required that the villagers take any decisions on the actual use of the Village Forest and Agriculture Grant, but they should be encouraged to start internal consultation processes.

Step 3: VFAG foundation: Adoption of the Village Forest and Agriculture Grant bylaws and election of the Village Forest and Agriculture Grant Committee

The Village Forest and Agriculture Grant is officially founded during an initial VFAG assembly meeting following the agenda described in ch. 2.3.1., with special focus on the discussion and adoption of the VFAG bylaws and the election of the VFAG Committee.

Step 4: Governmental approval

The Village Forest and Agriculture Grant including its by-laws and elected VFAG Committee is subject to approval by the District Governor.

Other preparatory processes

Participatory Land Use Planning (PLUP), Promotion of Sustainable Agricultural Practices (PSAP) and Village Forest Management Planning (VFMP) will be supported in every selected target village. Activities planned under PSAP and VFMP will be feeding into the VFAG planning process.

The Village Forest Management Agreement or Village Forest Conservation Contract is a final result of the Village Forest Management Planning process.

These activities are described in separate new PLUP Guidelines, new PSAP Guidelines, including the White List and the existing and approved VFMP Guidelines. Additionally, and at the beginning of the I-GFLL Program implementation, there will be an appointment for eligible entities undertaken by EPF including VFAG Committees. The requirements for the appointment are described in chapter 4.2 *Operationalisation of the REDD+ Funding Window under the I-GFLL* in the Project Proposal.

Step 5: Planning for activities financed by VFAG funds: First VFAG planning meeting

After completion of Step 4, the village prepares its plan for the VFAG, based on the Village Agricultural Activity and Investment Plan and the first Village Forest Management Plan. As this is an annually recurring event, it is described under chapter 4.1.1.

Step 6: Opening of VFAG current account at local bank branch

Upon district government approval (Step 4), each project target village opens a current account (referred to as VFAG current account), where all village payments are transferred to VFAG current bank account. The VFAG current account is opened at the respective district branch of the “Banque pour la Commerce Extérieure Lao Public (BCEL)”³ with the registered VFAG as account holder, and the VFAG President and VFAG Cashier as owners and joint signatories. If there is no BCEL branch in the respective district, Lao Development Bank (LDB) or Agriculture Promotion Bank (APB) branches may be used.

Step 7: Transfer of “investment” and “cash for work” payments to VFAG current account:

“Cash for work payments” are calculated for each village at the end of the VFMP process based on the forestry area in the village and the planned activities. The calculation is documented in the first Annual Village Forest Management Plan, which is signed by the Village Forest and Land Use Management Committee and DAFO. The request needs to be submitted to EPF as Annex to the Quarterly DAFO Plans.

The Amount of “investment payment” of EUR 7.500 is requested by the VFAG Committee and signed by all 3 VFAG Committee Members. The request needs to be submitted to EPF as Annex to the Quarterly DAFO Plans.

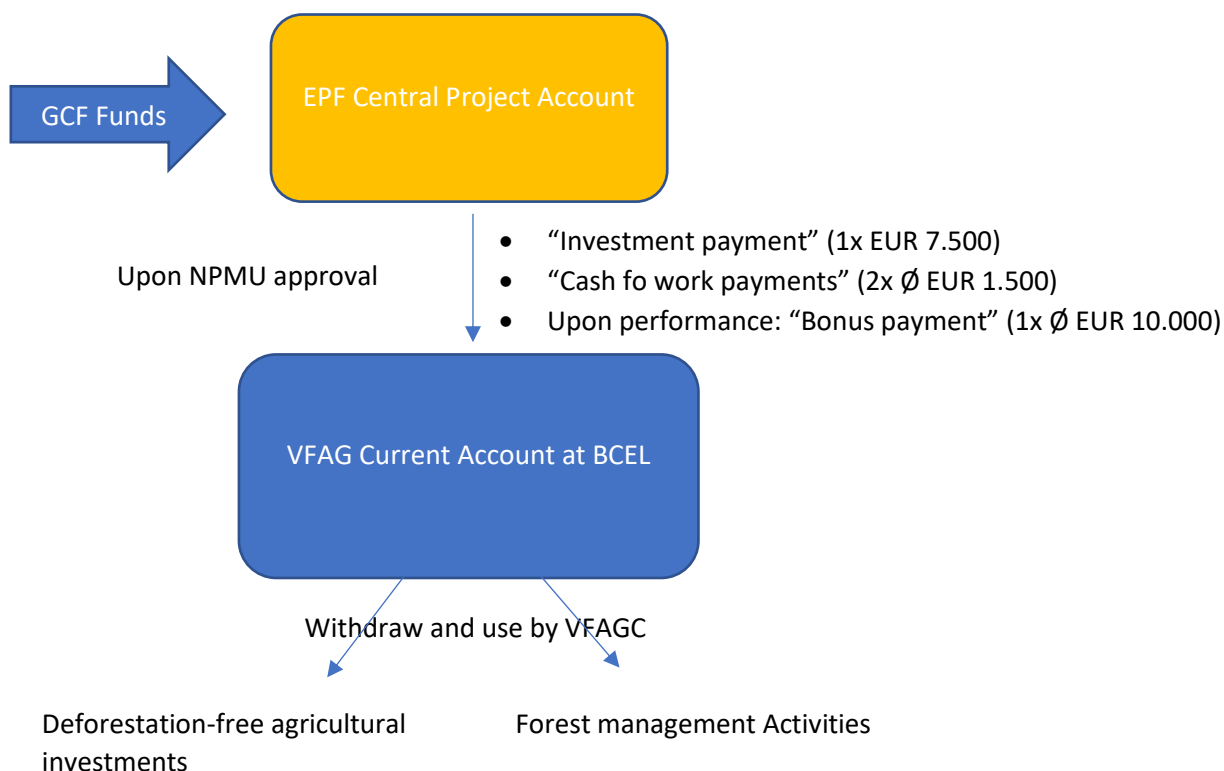
³ In districts, where BCEL does not have a branch, the bank accounts are opened in an adjacent district branch. In this case, and also in cases where target villages are far away from the district capital, withdrawals can be made using a nearby BCEL agent within its BCEL Community Money Express (BCOME) service network.

The Amount of “Bonus Payments” is calculated by PAFO/DAFO after the implementation of 2 Annual Village Forest Management Plans. On this basis, a “Bonus Payment” request needs to be signed by all 3 VFAG Committee Members. The request needs to be submitted to EPF as Annex to the Quarterly DAFO Plans.

DAFO is responsible to file and consolidate all “cash for work payment”, ‘Investment payment” “bonus payment” requests and Annex the original requests and a summary sheet, including village name, amounts of different types of payments, total sum of payments and village account number.

The flow of funds to VFAG is depicted in **Error! Reference source not found.:**

- **Figure 1: Flow of VFAG related Grants**



4 Operation of Village Forest and Agriculture Grants

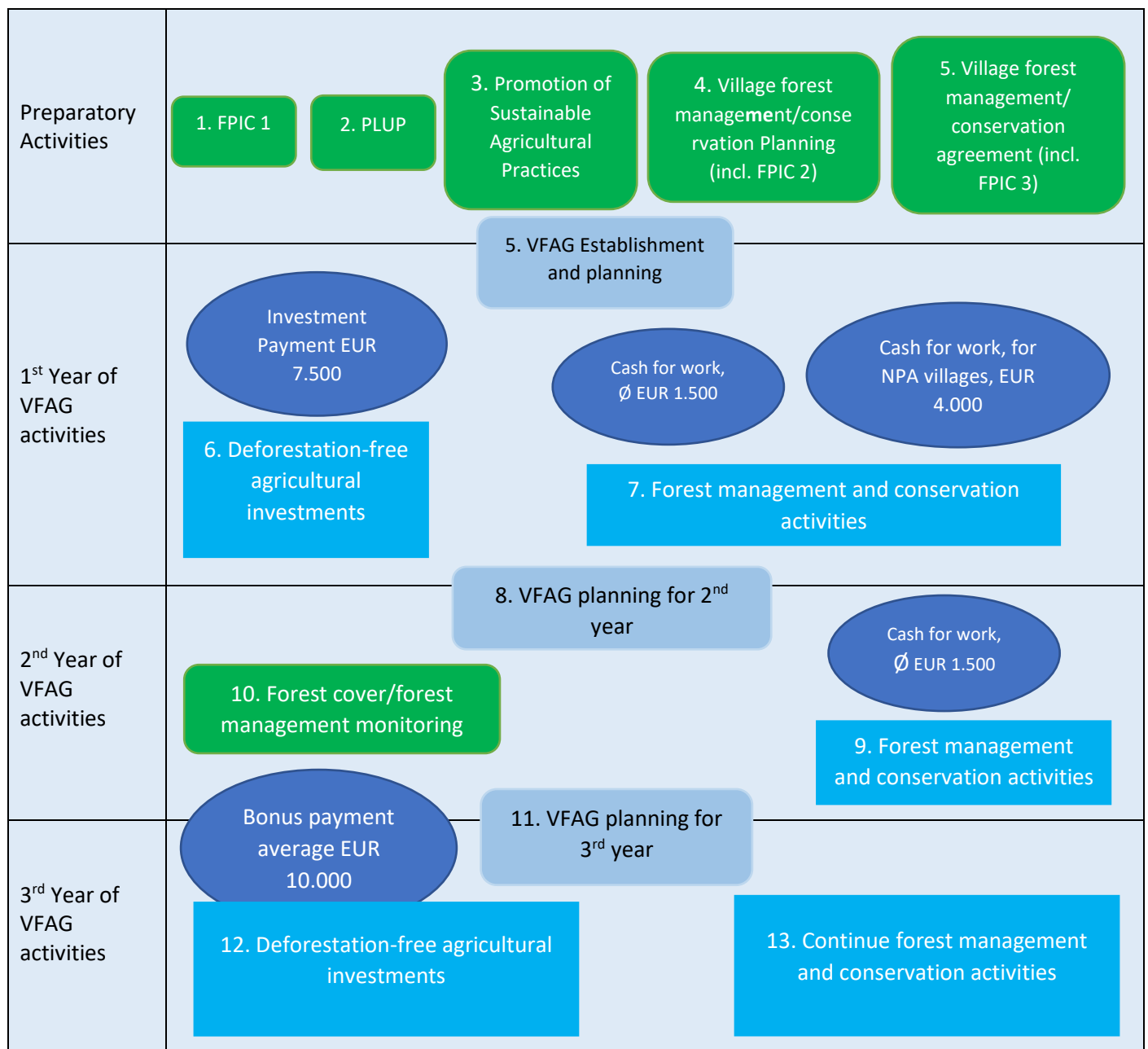
4.1 Annual VFAG cycles

The annual VFAG cycle revolves around VFAG Annual Village Forest Operational Planning. The cycle consists of planning, documented implementation and reporting. Performance monitoring of the community’s compliance is carried out simultaneously.

The Annual VFAG cycle is visualised in

Figure 2: VFAG planning and implementation cycle:

Figure 2: VFAG planning and implementation cycles



4.1.1 Agricultural Investment planning

VFAG Agricultural Investment planning is typically conducted during several preparatory events involving different relevant groups of stakeholders. However, each planning process shall be concluded with a VFAG assembly, where the coming year's Agricultural Investment Plan is finalised. The Annual Agricultural Investment Plan includes investment plans developed by farming households.

During the first Agricultural Investment planning, the use of the "investment payments" is decided on. Poorer and female-headed households, which generally are more relying on the use of forest resources and shifting cultivation practices should be given priority in the Agricultural Investment planning. The villagers decide on an investment plan (see Annex C), based on the conditions stipulated in chapter 2.3.2, including a short description of the planned activity and an investment budget plan including all required inputs, valued at actual market prices.

The resulting annual Agricultural Investment planning is documented on the "Annual Agricultural Investment planning and reporting format" (see

Annex B: Annual VFAG Planning and Reporting Format) and signed by the VFAG Committee and the DAFO representative present at the meeting.

Once the investment plans are finalized, the VFAG Committee submits the plans to DPMU. DPMU shall, within 30 days upon receipt, and after hearing other stakeholders that DPMU deems to have reasonable interest in the process, take a decision whether to approve or to reject the investment plan. If an Agricultural Investment plan is rejected, it can either be changed along the reasons stated for rejection, or a new investment plan can be developed.

After the first planning, once per year, the VFAG Committee supported by DAFOs and project staff organize the annual VFAG planning assembly. The purposes of the meeting are to present and to discuss the results of the previous year's agricultural investments and any other actual issues, and to decide on the use of the upcoming fund release. (if any)

The release of the "bonus payment" depends on the outcome of two years' forest monitoring. In case of compliance, a planning meeting is conducted. The same conditions apply as for the "investment payment". Previous investments, where successful, should be upscaled by including households, that have not benefitted from the first round. If previous investments have not been successful, or do not have the potential to be scaled up, other production systems and investment opportunities shall be identified in accordance with the White List. Grants for agricultural investments will in most cases not be given equally to all households in the village; in this case, poorer and female headed households shall be given priority for grant financing.

Funds from the "bonus payment" can also be used for a continuation of the forest management and conservation activities in accordance with Annual Village Forestry Operational Plans starting from the third year.

4.1.2 Implementation of VFAG plans

After the payment to the VFAG current account, the signatories can withdraw cash from the Bank. It is the VFAG Committee's full and sole responsibility to oversee the use of VFAG according to the decisions made by the village assembly, as stipulated in the Annual Village Forestry Operational Plan and the Agricultural Investment Plan. DAFO, sub-committees or resource persons identified during the VFAG assembly meeting are supporting the implementation of the activities. It is DPMU's task to ensure that the villages receive the support required to ensure successful implementation.

DPMU must guide and support the VFAG Committee to support formally correct procurement of goods and services included in the VFAG plan, which are procured by the benefiting households. DPMU must ensure that the Project's procurement guidelines (Annex 4a to Operational Guidelines) are followed. Direct Order (DO) can be used for procurement purchases under EUR 1.000, with no formal justification and without formal contract form. For procurement packages worth over EUR 1.000, Price Quotations (PQ) with at least three bidders is required. The awarding of the contract to the economically most favourable bidder must be documented according to the Documentation of Contract Awards (Annex 4b to Operational Guidelines).

DPMU cooperates closely with DAFO in order to ensure the necessary technical support during implementation of VFAG plans.

4.1.3 Documentation and Reporting

All transactions regarding the VFAG must be recorded timely, completely and correctly, and accompanied with relevant documentation acc. to project requirements.

Recording and reporting is the responsibility of the VFAG Committee, however, DPMU provides support and supervision.

All cash transactions are to be recorded in a simple cash book.

Actualised bank statements for the VFAG current account must be provided by the Bank at each withdrawal.

For all expenditures, receipts must be obtained, stating the date of payment, recipient and detailed description of the subject of the payment, signed (and stamped, where relevant) by the recipient, in line with the Financial Guidelines of the EPF (Annex 3a of Operational Guidelines).

At the end of each annual VFAG cycle, the VFAG Committee with support from DPMU elaborates a VFAG annual expenditure report (see

Annex B: Annual VFAG Planning and Reporting Format). DPMU co-signs to confirm the correctness of the report. If DPMU finds any irregularities, they must be written down as remarks and brought to the attention of the community during the next VFAG meeting. Moreover, information regarding to further reporting are stated in chapter 1.4 Processes and responsibilities of the Operational Manual.

VFAG annual reports are feeding into the quarterly and annual progress reports of DPMU.

4.1.4 Performance monitoring for release of “bonus payments”

4.1.4.1 *Monitoring process*

The monitoring process of Village Forest Management (implementation of annual village forest management plans and forest cover monitoring) is described in Monitoring Reporting and Verification (MRV) Guideline for Performance-based Payments.

If the monitoring process does not result in major concerns, the “bonus payment” for the village is to be included into the next-coming quarterly DAFO plan.

In case, serious contract breaches have been detected by any of the monitoring units in charge, DPMU must immediately inform the village authorities and the VFAG Committee. The VFAG Committee and DPMU organise a village hearing to discuss the observed issues, to determine what caused them, whether the community is carrying responsibility, and how to address the issues in the future.

Based on the outcome of the hearing, DPMU takes a final decision, whether to issue a formal objection or not.

In case DPMU adheres to an objection, a formal objection statement with detailed description of the issue and its causes is sent to the NPMU Technical Team with notification of the village head, DPMU, PPMU and the NPMU Management Team. In this case, the village does not receive further payments from the Project.

Annexes

Annex A: VFAG Bylaws format

By-laws for Village Forest and Agriculture Grants

Under the “Implementation of the Lao PDR Emission Reductions Programme through improved governance and sustainable forest landscape management Project”

I. Name, address and contact details of the Village Forest and Agriculture Grant

Name, address and contact details of the Village Forest and Agriculture Grant

Name of the VFAG	“Village Forest and Agriculture Grant of (Name of the village)”
Address:	
- Village	
- District	
- Province	
Name and phone number of contact person (VFAG President)	
Name and phone number of contact person (cashier)	
Name and phone number of contact person (accountant)	

II. Objectives and Principles of the Village Forest and Agriculture Grant (VFAG)

Objectives

- (1) During the foundation assembly, the members of the VFAG discussed and agreed unanimously to commit themselves to the following objectives of the VFAG:
 - To provide tangible incentives for all community members to comply with good forest protection practices and sustainable forest management in all village forests, as stipulated in the Village Forest Management Agreement (date from:) or Village Forest Conservation Contract (dated from:).
 - To ensure good benefit for the community and its members from the project incentive payments financing the VFAG by
 - Developing a mechanism at village level to enhance autonomy of the community in participatory and transparent management and utilization of the Fund.
 - Using funds for investments based on priorities and decisions made by the community.

Principles

- (2) The Village Forest and Agriculture Grant operates under the principles of mutual trust, transparency and democratic decision-taking.
- (3) These bylaws and the election of the Village Forest and Agriculture Grant Committee must be confirmed by the relevant district authority (DPMU or Governor's Office).

III. Organisation of the Village Forest and Agriculture Grant

Ownership and Membership

- (4) The Village Forest and Agriculture Grant is owned by the village community and managed by the Village Forest and Agriculture Grant Committee (VFAGC).
- (5) The VFAG membership consists of all households with a permanent registration and with household members living currently in the village. Each household (relatives living under the same roof) holds one membership.
- (6) VFAG members have the rights and responsibilities
 - To actively contribute to sustainable forest management and development efforts within the village boundaries;
 - To participate in VFAG assembly meetings;
 - To decide on the use of the VFAG during VFAG assembly meetings;
 - To receive the benefits of the VFAG activities as decided by the assembly;
 - To follow regulations defined under the VFAG management and resolutions of the village meetings.

The VFAG Assembly

- (7) The VFAG Assembly consists of representatives from all households within the village that have signed up as members. The Assembly is the highest decision-taking authority of the Village Forest and Agriculture Grant. It has a quorum, when at least 75% of the registered households are represented. It assembles at least once per year ahead of the release of the next year's incentive payment with the following agenda:
 - Determination, whether the assembly has the quorum of at least 75%;
 - Report of last year's activities and use of funds incl. audit comments, discussion and adoption by the assembly (not relevant for first meeting);
 - Report and discussion on past year's forest monitoring incl. DPMU decision on compliance/non-compliance, discussion and adoption by the assembly (not relevant for first meeting);
 - Information on upcoming release of "bonus payments", proposals for the use, discussion, elaboration and adoption of the 'Annual VFAG usage plan' (only in case of compliance);
 - Discussion and development of an action plan to ensure future compliance with conservation contract/forest protection regulations (only in case of non-compliance);
 - Election of Village Forest and Agriculture Grant Committee (if relevant);
 - Any other business as proposed by village authorities, community members or attending support staff.

The Village Forest and Agriculture Grant Committee

The Village Forest and Agriculture Grant Committee is elected during the foundation assembly. It consists of 3 (three) members; the VFAG Committee must include at least one female member. The VFAG Committee is responsible for the handling of the administrative and financial issues within the VFAG. The elected board members constitute themselves to hold the following positions:

- The President (usually the person elected with the highest number of votes) is the VFAG representative, holding the overall responsibility for the VFAG;
- The Cashier of the VFAG, who has the overall responsibility for the cash stock of the VFAG including the keeping of the cashbook;
- The Accountant of the VFAG, who has the responsibility for the completeness and correctness of the documentation of VFAG transactions, incl. accounting documents, bank statements, receipts and reports.

The Village Forest and Agriculture Grant Committee members ensure implementation of VFAG activities according to its objectives and internal regulations, specifically:

- Request of support from higher authorities in severe violation cases, which cannot be handled by the village community alone;
 - Opening, management and documentation on the VFAG accounts;
 - Organisation and facilitation of community meetings to reach agreement on how to use the fund and prepare annual plan based on the community assembly's decision;
 - Organisation of the implementation of the annual plan according to community decision;
 - Administration of the Fund under full and personal responsibility;
 - Management of the Village Forest and Agriculture Grant following the principles and values of the community;
 - Recording all accounting transactions, file accounting documents and receipts in accordance Project requirements;
 - Transparency and accountability towards the village community, government authorities and project representatives;
 - Elaboration and submission of annual reports on activity implementation, and VFAG financial reports;
 - Regular information on the status of VFAG in front of community and provision of all financial records to individual community members on request;
 - Coordination with and full transparency towards government agencies in charge.
- (8) The VFAG Committee is responsible for the handling of administrative and financial issues in connection with VFAG activities and shall as such not take part in the execution of community investments financed by VFAG funds.
- (9) Members of the VFAG are compensated for their work on a (monthly/annual) basis according to project rates. Their remuneration is part of the annual VFAG plan.

IV. Financial resources, use and accounting procedures

- (10) The Village Forest and Agriculture Grant is funded by project payments.
- (i) Upfront, "investment payment" for investment in innovative, profitable and deforestation-preventing agricultural activities by resident households, amounting to.....
 - (ii) "Bonus payments" to be paid upon compliance with the Village Forest Management Agreement (date from:) or Village Forest Conservation Contract (dated from:). VFAG amounting to a total of

(iii) Annual “cash for work payments” for activities concerning forest management and conservation. These payments are issued upon receipt and approval of annual plans.

(11) Other funding sources, if available, comprise:

- Supports from local government budget;
- Voluntary contributions of individuals and organizations;
- Grants from organizations, individuals, programs and other projects implemented in the locality.

(12) The Village Forest and Agriculture Grant carries out and finances activities promoted by the Project and decided on by the community during its assembly.

(13) Village Forest and Agriculture Grant Financial and Accounting Procedures: The VFAG Committee has the responsibility to report to DPMU and comply with processes, accounting and finance regulations of Project and government. The following points are highlighted:

- The president and the cashier of the VFAG are joint signatories of the VFAG bank accounts, and in charge with withdrawing cash from the VFAG current account;
- Each financial transaction must be recorded timely and correctly into the VFAG Cashbook;
- Each financial transaction of the VFAG must be witnessed by at least two (2) responsible members of the VFAGC;
- For all transactions, receipts must be prepared showing the date, venue of the transaction, the name and contact detail of the payer and the payee, detailed purpose of the transaction and its amount. Receipts must be signed by both parts;
- All accounting documents must be filed and stored safely;
- The VFAGC prepares an annual report on the use of the VFAG funds that is audited by the DPMU and subject to adoption by the community assembly.

V. Non-compliance and final provisions

(14) If the community violates the arrangements that are the basis for the incentive payment, NPMU or its legal successor can decide to terminate the remaining VFAG term deposit accounts and transfer the remaining balances to the account of the EPF.

(15) If the DPMU or any other part involved issues a non-compliance objection, a community assembly is organised with the participation of DPMU, where the community has the right to defend itself, and where an activity plan for future compliance is made. If village and DPMU disagree about the outcome, the village has the right to submit a grievance to the NPMU. The final decision is with the NPMU.

(16) The Village Forestry and Agriculture Grant dissolves automatically after the completion of all project-related activities.

(17) These bylaws are effective from the day of their adoption by the community assembly.

(Place).....,

(Date).....

Undersigned representative of the village authorities and members of the Village Forest and Agriculture Grant Committee on behalf of the membership

Position	Name	Address	Contact detail
1. Village Head			

3. President of VFAG Committee			
4. Cashier of VFAG Committee			
5. Accountant of VFAG Committee			

By-laws for Village Forest and Agriculture Grant

(Brief version for printout and display in the village)

- (1) Objectives of the VFAG:
 - Provide incentive for forest protection and management
 - Ensure good benefit for the community
- (2) Principles: mutual trust, transparency and democratic decision-taking
- (3) Following payments will be made to the community:
 - Annual “Cash for work payments” for implementation of annual Village Forest Management and/or Conservation Plans.
 - One initial “investment payment” of to be used for investments into improved, deforestation-free agricultural systems.
 - One “bonus payment” upon compliance with the Village Forest Management Agreement for Community Investments according to project regulations and community decision, of:
 - LAK, if the forest cover in ha is 95% or higher compare to the determined ha in the Village Forest Management Agreement
 - or**
 - LAK, if the forest cover in ha is between 75 – 94,9% compare to the determined ha in the Village Forest Management Agreement
 - or**
 - 0,00 LAK if the forest cover in ha per village is below 75% compare to the determined ha in the Village Forest Management Agreement.
- (4) The Village Forest and Agriculture Grant can be used for activities or investments promoted by the Project and approved by the village community and DPMU
- (5) The VFAG is owned by the community. Each household holds one membership.
- (6) The VFAG Assembly takes all important decisions, especially on the use of the VFAG funds. It meets at least once per year prior to the release of the that year’s payment.
- (7) The VFAG Assembly elects the Village Forest and Agriculture Grant Committee, that oversees administration and implementation of the Assembly’s decisions in between assembly meetings.

It consists of three members:

 - a. President of Village Forest and Agriculture Grant,
 - b. Cashier of VFAG,
 - c. Accountant of VFAG.

The Village Forest and Agriculture Grant Committee must work transparent and accountable; at each annual assembly meeting, the VFAG must report in detail on progress and financial issues.
- (8) The VFAG Assembly appoints sub-committees, entrusted persons and farmer groups for the actual implementation of activities and investments financed by the VFAG.

Annex B: Annual VFAG Planning and Reporting Format

USAGE PLAN

Name of village, province:
 Date of the assembly meeting:
 Number of households represented:
 Number of households in the village:
 Date of payment release:
 Payment no.
 Expected amount:

According to

- the Guidelines for the Setup and Operation of Village Forest and Agriculture Grants
- the Village Forest Management Agreement or Conservation Contract between the village and the Project

Today, our village has held an assembly meeting to discuss and decide on the use of “investment payments” (and probably “bonus payments”).

The assembly has agreed to use the funds for the following purposes:

No.	Description of activity	Amount	Exp. Time of completion	Responsible
A				
B				
C				
D				
E				
Total amount:				

Date:

Names and signatures of the Village Forest and Agriculture Grant Committee

Names and signatures of DPMU representatives

1

1

2

2

3

3

REPORT FOR THE ACTUAL USE (To be filled upon accomplishment)

The responsible persons confirm hereby to have used the funds appropriately in the spirit of the community's decision and plan. All payments are documented by legally obtained receipts, that are attached to this report. The responsible persons are aware that they will be called to account for any neglectful or fraudulent use of money.

Expenses are listed as follows:

No.	Use/Items purchased	For activity	Receiver	Amount
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
	Total			

We confirm the correctness of the above account with our signatures:

Names and signatures of Village Forest and
Agriculture Grant Committee

Names and signatures of persons entrusted with
the management of the investments

1

1

2

2

3

3

4

4

5

5

Controlled by (Name, date, signature)

Remarks

DPMU

PPMU

NPMU/CO

External