

WORKING PAPER

THE AMAZON FUND:

RADICAL SIMPLICITY AND BOLD AMBITION

INSIGHTS FOR BUILDING
NATIONAL INSTITUTIONS
FOR LOW CARBON DEVELOPMENT

Simon Zadek, Maya Forstater and Fernanda Polacow

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In developing this Working Paper we have drawn on documents and information published by the Amazon Fund and on a series of interviews we conducted with stakeholders and expert commentators. Throughout the report are quotes drawn from our interviews, and from a series of meetings with stakeholders and experts hosted by BNDES.²

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This Working Paper is being circulated for discussion, please send comments to maya@zadek.net (in English) or fernanda@zadek.net (in Portuguese).



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Executive Summary 3

1. The Amazon Fund 5

An experiment in developing a national climate change fund 5

Design challenges and initial solutions..... 7

The Amazon Fund's theory of change 9

2. Learning by doing..... 12

Early experiences 12

Challenges and gaps..... 13

Lessons learnt 16

3. The Future..... 18

Can the Amazon Fund make 'trees grow on money'? 18

Scenarios for the future of the Amazon Fund 19

Lessons for others 22

EXECUTIVE SUMMARY

The Amazon Fund is a crucial early experiment in developing a national climate funding mechanism. It offers an example for others who are seeking to develop mechanisms that shift beyond traditional aid models towards direct-access to climate finance. Such institutions reflect national priorities and are more cost effective, less bureaucratic and more responsive to local needs and stakeholder concerns.

The Amazon Fund's design is unique. Its design drew on the model and experience of private philanthropic funds and independent conservation trust funds. However, it broke with convention in three key ways:

- **Performance-Based Financing:** the Amazon Fund provides simple intermediation between performance-based financing (per tonne of carbon emissions avoided) and project investing.
- **Restricted Multi-Stakeholder Governance:** a multi-stakeholder committee involving federal and state officials and civil society representatives was established. However, the steering committee does not act as the board of the Fund, giving significant autonomy in practice to the Fund's managers.
- **Low-Cost Local Management by the National Development Bank:** the Fund is managed by the national development bank BNDES, with an agreement to take 3% of donations to cover costs.

Core to the Amazon Fund's design was a decision to 'start-fast and evolve'. If the Amazon Fund had been developed through a traditional approach, the ink would not yet be dry on the final agreed design. Instead the Amazon Fund began with just enough structure to get the Fund from idea to reality and to bring together each of the key actors needed to get it started. Together they have built up competencies, hosted debates and started to address key gaps and challenges.

The Amazon Fund's theory of change is critical to understanding how the Fund seeks to make change, how it makes 'trees grow on money', which is the ultimate challenge for any Reduction in Emissions from Deforestation and Forest Degradation (REDD) scheme:

- **Projects and Implementation:** scaling up the implementation of effective projects and approaches, and providing funding to support the implementation of Brazil's national strategy for preventing deforestation.
- **Power and Policies:** helping to strengthen and reinforce the political and institutional forces championing sustainable development of the Amazon region in Brazil.
- **Economic Pressures** - finding and supporting catalytic approaches that enable large scale economic transformation towards sustainable development in the Amazon.

In its first year the Amazon Fund has concentrated on the first of these drivers. The immediate pressure on the Amazon Fund has been to set criteria and rapidly start to select projects and disburse funds, as well as to ensure and demonstrate fiduciary responsibility. However, it has started to face a number of critical design and operational challenges in its governance and

strategy development, transparency and management capacity.

If the Amazon Fund remains focused only on the ‘projects and implementation’ lever it will have limited impact. Brazil’s REDD strategy will certainly need to tackle the economic and political drivers of deforestation. The question is whether the Amazon Fund can play an active part in this, as a driver of innovation, as a hub for learning and strategy development, and as a focal point for policy debate and development.

Currently the Amazon Fund is stuck in the middle between simplicity and ambition. We offer two potential directions in which the Amazon Fund might develop:

- **Simplicity:** the Amazon Fund remains a simple, low cost funding mechanism within a broader Brazilian REDD system.
- **Ambition:** the Amazon Fund develops into a mature and increasingly autonomous institution at the heart of Brazil’s REDD strategy, that is proactive in fundraising and investment, learning and influencing broader systems.

The best pathway depends on the ‘best bets’ of the Amazon Fund stakeholders themselves. If the Amazon Fund stakeholders see it as the best vehicle for developing and influencing Brazil’s strategic direction for the Amazon, and invest their time, resources and efforts, they could make it so. But if they believe that these decisions are better served by other forums they may decide to keep the Amazon Fund as a streamlined and simple accounting mechanism, and cascade more detailed funding decisions to other funds, states, municipalities and civil society consortia.

A key strength of the Amazon Fund is the involvement of economic, political and civil society actors. Ultimately to achieve sustainability, climate funding must succeed in shifting the economy to one in which low carbon industries are more competitive, and this would involve real shifts for all of these actors. It is therefore important that the Amazon Fund and its stakeholders continue to learn and develop the Fund and its governance, to meet the challenge it has been set.

The Amazon Fund’s experience highlights the need to develop national climate institutions that are truly developmental and able to catalyse low carbon development, not simply act as accountant for climate finance. Such funds, including the Amazon Fund, need to consider how they will address the three ‘theories of change’ and whether they have the right governance and management to do this. Are they designed and incentivized to take entrepreneurial decisions, and leverage private investment to drive value creation for low carbon development? Can they contribute to policy development and implementation in areas where there are huge vested interests in the status quo?

The Amazon Fund’s ‘start fast and evolve’ model offers a potent approach to begin to answer these questions in practice. The success of the ‘start-fast and evolve’ model depends on ensuring that the institution created is able to learn and adapt. One very clear lesson from the Amazon Fund is that ongoing learning cycles of review, reflection and design evolution should also be built into the process of institutional development of emergent national direct access institutions.

1. THE AMAZON FUND

In December 2008, Brazilian President Luiz Inácio Lula da Silva announced Brazil's commitment to reduce Amazon deforestation 80% below its historic baseline over the next ten years. To support this goal, Brazil created the Amazon Fund, supported by an initial pledge of US\$1 billion from the government of Norway. The Amazon Fund sought to invest these funds not only in law enforcement and the protection of forest reserves but in the low carbon development of the Amazon region, and to use them to demonstrate effectiveness and attract additional funding.

AN EXPERIMENT IN DEVELOPING A NATIONAL CLIMATE CHANGE FUND

Beyond the Amazon, the attention of those concerned with addressing climate change has increasingly broadened from the negotiation of the global climate finance architecture to the development of the national 'direct access' institutions needed to steward finances on the ground.³ These direct access institutions are needed as the link between the global financial architecture and the financing of national policies and programs. To support systemic change towards low carbon development these institutions will need to deliver on several fronts: fiduciary responsibility; social and environmental safeguards' alignment to development priorities; verifiable performance; cost effective management; responsiveness to local stakeholders; and the ability to influence the drivers of private investment towards low carbon development.⁴

Designers of national climate funding institutions can learn from the experience of existing mechanisms of development aid such as budget support, challenge funds and trust funds, and the principles of effective development aid; ownership, alignment, harmonization, managing for results and mutual accountability.⁵ They will also need to build on 60 years of learning on what has and has not worked in traditional aid funding, and will need to be based on different principles of accountability and mechanisms of operation.⁶ Alongside other innovations such as the National Implementing Entities accredited by the UNFCCC Adaptation Fund, the Amazon Fund is significant as an early working experiment of such a national direct access fund.⁷

The Amazon Fund is unique, and in many ways uniquely Brazilian, as it was designed as a practical demonstration of Brazil's proposal for how forests should be included in the international climate architecture, and drew on a particular set of national institutions. However, it offers useful parallels for other national climate funding entities that are currently being designed. All are seeking to shift beyond bilateral and multilateral aid models towards direct-access institutions that reflect national priorities and are more cost effective, less bureaucratic and more responsive to local needs and stakeholder concerns.

The emerging institutional landscape of approaches to managing national climate funds includes:

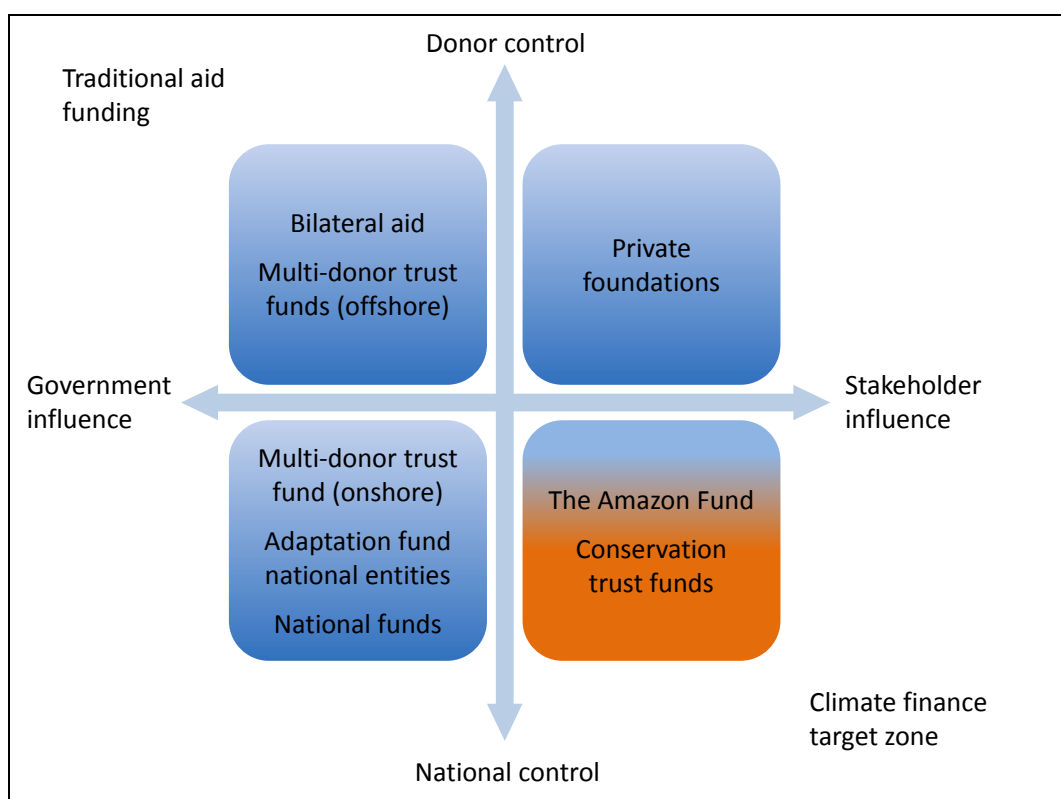
- **Existing conservation trust funds** which are private, legally independent grant-making institutions that provide sustainable financing for biodiversity conservation and often finance part of the long-term management costs of a country's protected area system.⁸

These are likely to be drawn into receiving and managing climate funding linked to forestry and land-use.⁹

- **Newly set up multi-donor climate change funds** such as the Bangladesh Multi-Donor Trust Fund, Congo Basin Forest Fund and Cambodia Climate Change Trust Fund set up with donor involvement in governance, and offshore management by international agencies such as the UNDP, World Bank and ADB.
- **National funds and government implementing entities** such as those appointed by the Adaptation Fund Board. They are under sovereign control, but do not include multi-stakeholder coordination or oversight.

Exhibit 1 illustrates where the Amazon Fund has positioned itself on the spectrum between government and broader stakeholder governance, and between donor and recipient country control. As Exhibit 1 highlights, it is an experiment seeking to develop and demonstrate an institutional model for climate funding that is in the target zone of stakeholder responsiveness and national control.

Exhibit 1. Funding mechanisms and alignment to stakeholders



The experience of the Amazon Fund will be useful for a broad set of national climate finance institutions that are seeking to move into the target zone of national control and stakeholder responsiveness. For example, conservation trust funds will need to develop carbon linked pay-for-performance systems if they seek to become climate finance mechanisms, offshore managed multi-donor climate change funds will need to develop local governance in order to transition into independent national mechanisms over time, while national funds and

government implementing entities are already coming under calls to review and strengthen procedures for community and civil society engagement.¹⁰

Lessons from the Amazon Fund will of course be particularly relevant to the institutions that will manage Brazil's eventual programme for Reducing Emissions from Deforestation and Forest Degradation (REDD) scheme. The Amazon Fund should not be viewed as 'Brazil's national REDD' scheme but as a first incarnation of it. The Brazilian Ministry of Environment is currently coordinating a political process to discuss and draft an initial proposal to implement a full REDD system in Brazil. This is looking at the institutional framework, the principles for benefit sharing, safeguards and the financial mechanisms for raising funds. Brazil's final REDD scheme will need to address the need for financial support for forest conservation beyond the ten year deforestation reduction period covered by the Amazon Fund. It will also have to reconcile the desire of the federal government for a national scheme outside of the carbon markets and the advocacy and development of state schemes that generate carbon credits. And, it should also need to link into any finally agreed UNFCCC framework.¹¹

DESIGN CHALLENGES AND INITIAL SOLUTIONS

The Amazon Fund was developed and operationalized very quickly. Its design drew on the model and experience of private philanthropic funds, independent conservation trust funds and Pilot Program for the Protection of the Tropical Forests of Brazil (PPG7).¹² It also drew on existing underpinnings, such as the satellite based deforestation monitoring system provided by the Brazilian National Institute for Space Research (INPE), and an established national policy framework for protection of the Amazon.

“It is incredible how quick they have been in a country that is known for its slow processes. They are showing great efficiency in building the Fund and achieving their aims of delivering funding on the ground.”

However, it broke with convention in three key ways:

- **Performance-Based Financing:** the Amazon Fund provides simple intermediation between performance-based financing (per tonne of carbon emissions avoided) and project investing. International funds are secured, uniquely to date, on the basis of emission reductions demonstrably achieved, drawing on credible monitoring data, acceptable baselines, and a fixed and mutually acceptable carbon price.
- **Restricted Multi-Stakeholder Governance:** a multi-stakeholder committee involving federal and state officials and civil society representatives was established to set the Fund's criteria and attest to their application. However, the steering committee does not act as the board of the Fund, giving significant autonomy in practice to the Fund's managers.
- **Low-Cost Local Management by the National Development Bank:** the Fund is managed by the national development bank BNDES, with an agreement to take 3% of donations to

cover costs. This is supported by a business model of low-cost, rapid decision-making, simple reporting arrangements and a fixed carbon price.

Exhibit 2. How does the Amazon Fund work?

	Funding	Governance of strategy and funding decisions	Strategic guidance and oversight	Fund management	Funding criteria
The Amazon Fund works through:	Donation linked to performance	Governing body of BNDES	Multi-stakeholder steering committee (COFA)	BNDES national development Bank	Policy coherent thematic funding areas agreed by COFA
Built on foundations:	INPE's satellite based forest monitoring system	Norway's 'few strings' donation and trust in BNDES	Early leadership, active civil society and increasing political support	BNDES existing processes and competencies	National policy framework for protection of the Amazon
Works like a:	Multi-donor trust fund	BNDES sub-fund	National fund	BNDES sub-fund	Conservation trust fund
Key innovations:	Performance based financing	Restricted multi-sector governance		Low-cost management	

The Amazon Fund offers a test of a set of design solutions to address each of the key criteria for national climate funds:

- **Fiduciary responsibility:** management of the Fund is mandated to the Brazilian National Development Bank, BNDES, a bank that has a strong track record of financial management. Norway has also reserved the right to withhold disbursements if the Fund departs from its goals and objectives, if it fails to submit reports and audits, or if it is mismanaged financially. The Fund is externally audited, with the audit report published annually.
- **Social and environmental safeguards:** the Amazon Fund is subject to the social and environmental safeguards of BNDES overall investments and in addition, includes specific investment criteria related to free prior and informed consent of local people. However, these are not included in the donor agreement. The Amazon Fund does not have a specific grievance mechanism.
- **Alignment to development priorities:** the investment criteria are aligned to the guidelines of the government's Sustainable Amazon Plan, the Program for Prevention and Combating Deforestation in the Amazon and state plans for the protection of the Amazon.
- **Pay for performance:** the Amazon Fund operates on a donation basis, raising money as a reward for cuts in deforestation levels already achieved in the previous year, measured against a 10-year average baseline, revised down every five years. INPE monitors performance using detailed satellite imagery. The calculation of this carbon performance measure is signed off by a technical committee made up of key scientific experts in the field.

- **Cost effective management:** in setting up the Amazon Fund the government mandated BNDES to retain 3% of each donation to cover management costs. This is extremely cost competitive compared to other funds. For example, the World Bank typically retains 10-15% of funding to cover its costs, with more recovered through fees imposed on particular projects and transactions. While voluntary carbon schemes can retain as much as 85% of the sales price for administration and management, with as little as 15% spent on the ground implementation.¹³
- **Stakeholder responsiveness:** the Amazon Fund has a steering committee (COFA) made up of federal, state and civil society representatives. Its role is to establish guidelines and criteria for use of resources and attest to their application in the Amazon Fund's annual report. COFA members may also form committees to address particular issues and make proposals. The rationale behind restricting the role of the multi-stakeholder committee was to prevent it from becoming locked into operational matters and negotiation over funding decisions whilst giving it enough oversight to enable the Fund to be given considerable autonomy from government.
- **Economic transformation:** deforestation cannot be combated simply through command and control mechanisms, but also depends on shifts in the underlying economic drivers that lead to deforestation. Research recently published in the Proceedings of the National Academy of Sciences states that 37% of the recent declines in deforestation can be explained by the creation of protected areas in the Amazon and 18% by other factors including law enforcement, with 44% due to economic factors.¹⁴ Therefore, in addition to providing funding for law enforcement and environmental protection, the Amazon Fund is mandated to fund activities that add value to standing forests such as payment for ecosystem services, development of sustainable forest management, research, market development and development of systems for sustainable economic use in protected areas. It may provide funding to the private sector, as well as to government agencies and civil society. It aims to invest at least 50% of overall funding in projects that promote sustainable economic development or scientific and technical research.

THE AMAZON FUND'S THEORY OF CHANGE

Critical to assessing whether the Amazon Fund's design is fit-for-purpose and how it is working in practice, is to understand how the Amazon Fund seeks to make change – how it makes 'trees grow on money', which is the ultimate challenge for any REDD scheme.

In the interviews, Amazon Fund stakeholders articulated three different theories of change for the Fund:

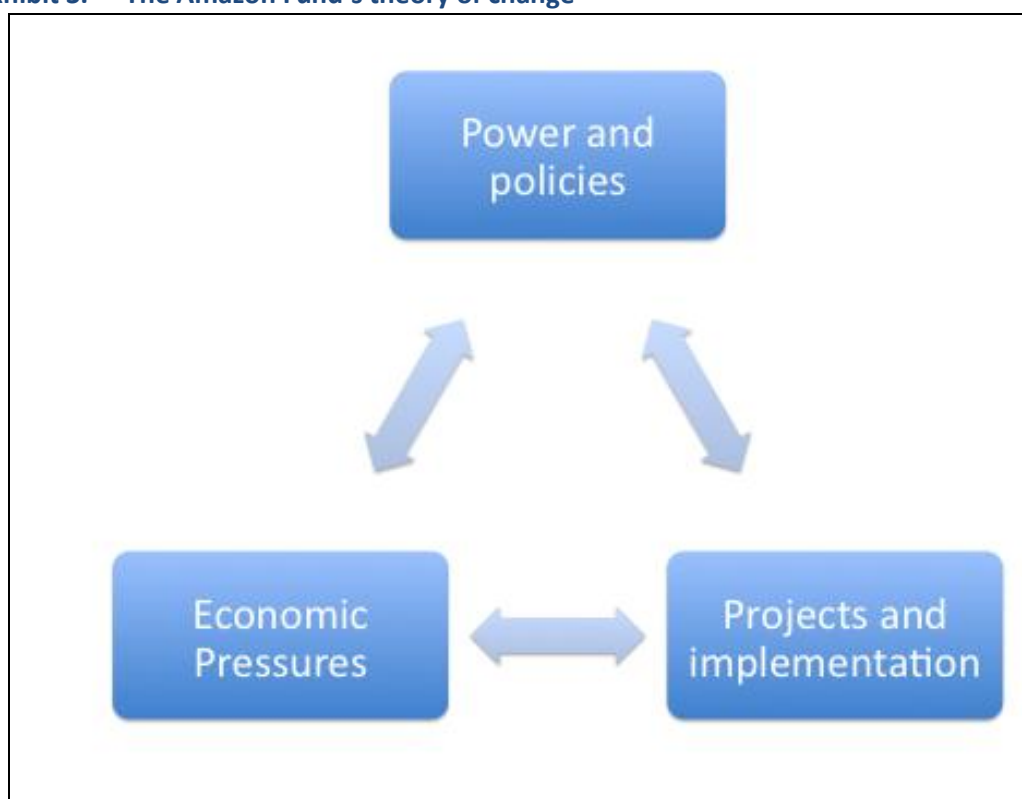
- **Projects and Implementation:** the Amazon Fund is a mechanism for scaling up the implementation

"I think that one of the Fund's duties is innovation. We must keep an open mind, and use what works. Having imagination is the great challenge. It is not only about obtaining resources and applying them, but rather to generate the challenge of innovation in Brazilian society in all senses."

of effective projects and approaches, and providing funding to support the implementation of Brazil's national strategy for preventing deforestation.

- **Power and Policies:** the Amazon Fund was created to reward and signal support from the international community for Brazil's policies to cut deforestation. The Amazon Fund achieves change by helping to strengthen and reinforce the political and institutional forces championing the Amazon in Brazil.
- **Economic Pressures:** the Amazon Fund offers an opportunity to direct international resources towards catalytic approaches that enable large-scale economic transformation towards sustainable development in the Amazon. These three mechanisms are of course not exclusive, but rather mutually reinforcing.

Exhibit 3. The Amazon Fund's theory of change



The 'projects and implementation' theory of change is the primary operating mechanism of the Fund; selecting projects that are in line with national policy priorities for avoiding deforestation. This includes building capacity to implement national policies for land registration, legal enforcement and development of protected areas.

However, many of the stakeholders of the Fund were clear about the limitations of this approach, following the experience of years of donor funding for Amazon projects

“With the Fund, Brazilian society has in its hand a unique opportunity to reduce emissions that can be financially compensated. But while it does not become a political priority, we can end up missing this opportunity.”

and capacity building through programs such as the World Bank managed PPG7. They highlighted that appropriate and effective action in the Amazon, must be based on a clear understanding of economic and political forces driving deforestation.

In fact, the Amazon Fund is not simply a mechanism for funding projects, but has key design features aimed at pulling the political and economic levers for change.

- **Power and Policies:** Norway's large, long and 'few strings' donation was intended to deliver real and symbolic support to policymakers, officials and activists working to develop and implement policies to value the Amazon and decrease deforestation. The Fund's steering committee brings together federal government agencies, states and civil society, which offers the potential to link back learning from its investments into policy debates, and vice versa. One direct mechanism for this is that the Fund's rules require states to develop a strategy to fight deforestation, before they can participate in the Amazon Fund governance, and apply for funding.

"The danger is that the Amazon Fund will be like the Pilot Program for Protection of the Amazon. It was successful in moving money and supporting projects, but in the end it didn't add up to anything. You have spent all the money and are left with nothing."

- **Economic Pressures:** the vision for economic transformation is expressed in the Amazon Fund's objective to 'make the forest more valuable than the alternative use of the land'. This is also frequently highlighted by many members of the COFA and the technical committee, as well as in the Amazon Fund's public communications. At least half of the Amazon Fund's investments are intended to go towards the innovation focused areas of research and sustainable enterprise development. The decision to make BNDES the implementing agency for the Amazon Fund was a combination of a desire to have a competent national institution managing the fund, and the recognition that as a major player in Brazil's development, the bank itself had to become part of the solution. BNDES invests in industries such as agriculture, meatpacking, dams and infrastructure that are part of the deforestation cycle. Many of the Amazon Fund's stakeholders have expressed the hope that engaging BNDES as the manager of the Fund, would enable the bank to build its own understanding of how its own investment practices can impact on deforestation.

"The entrance of the BNDES into the Amazon and to the environmental issue is of historical importance. For quite some time now, many of us have been calling for the Bank to be more involved in this area. I believe that the inclusion of the Amazon in the portfolio of the Bank is of historical magnitude and, in my view, goes beyond the constitution of the Amazon Fund."

2. LEARNING BY DOING

EARLY EXPERIENCES

In its first year the immediate pressure on the Amazon Fund has been to set criteria and rapidly start to select projects and disburse funds, as well as to ensure and demonstrate fiduciary responsibility. Eight projects worth US\$60 million have been approved to date, the initial five projects announced at Copenhagen were largely from NGOs, but later projects have included states and a municipality.

One danger ever present in the discussion of climate finance and forest frontiers is that funding mechanisms could fail through corruption and mismanagement. The Amazon Fund appears to have avoided this first hurdle, although it is likely to need to strengthen its demonstration of transparency and fiduciary responsibility to attract a wider range of donors. The steering committee has recently signed-off on the Amazon Fund's first annual report, indicating that the government, state and civil society participants are satisfied with the audit and that the Fund's allocations have been in line with government policy and the Fund's guidelines.

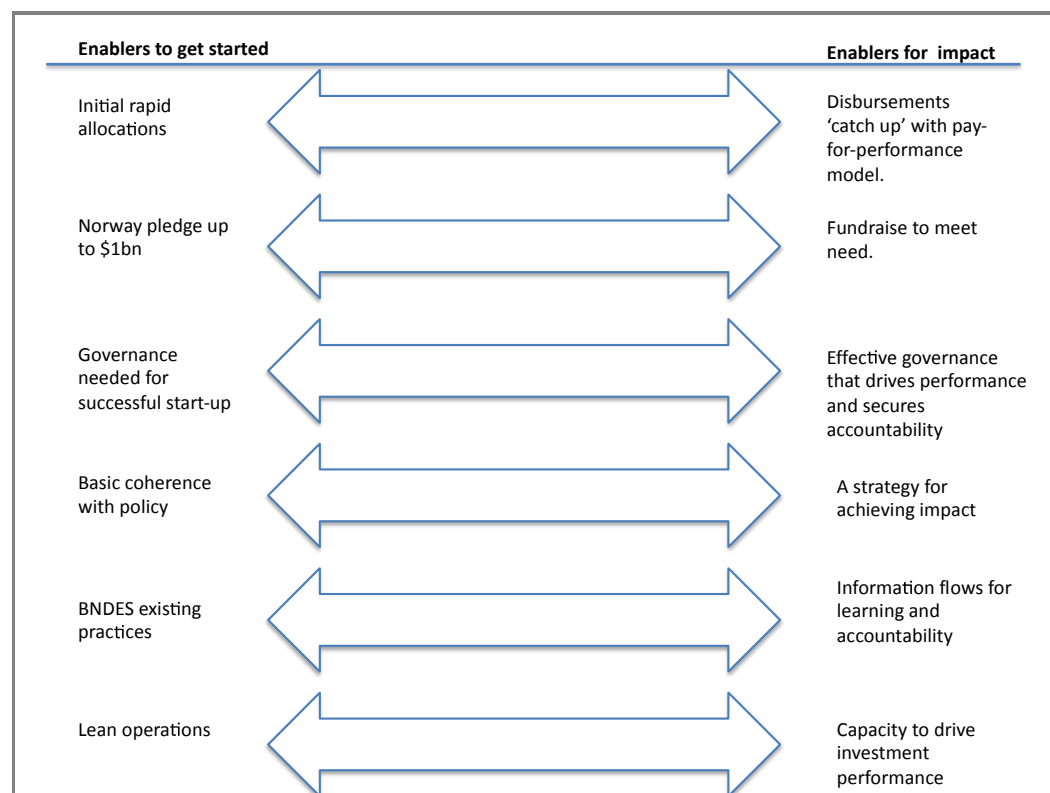
"We had a good experience applying to the Fund, the process was less bureaucratic and faster than the World Bank. The contracting stage is very tough though, as they don't really understand how NGOs work, and all the forms are the same type that they use for commercial loans."

While the Amazon Fund has been able to get started relatively quickly, compared to other funds, the actual rate at which money is being invested on the ground is much slower than the rate that it is being 'earned' through reductions in deforestation within the agreement with Norway. Therefore BNDES's key priority has been to ramp up disbursement rate and capacity.

CHALLENGES AND GAPS

As the Amazon Fund has sought to mature its operations, a number of critical design and operational challenges have surfaced:

Exhibit 4. Design and operational challenges in the Amazon Fund’s second phase



- Project funding gap.** BNDES complains of a 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. The Fund started out by using the same application forms, funding procedures and employee competency sets for the Amazon Fund as BNDES does for its commercial, industrial and infrastructure loans. There have been concerns that the application procedures are not clear or appropriate, and this is believed to have been a factor preventing some organisations from applying or leading them to make incomplete applications. There are also concerns that BNDES staff lack specific competency in assessing environmental projects and sustainable development issues – such as gender equity and the rights of indigenous people.
- Ambition gap.** Norway’s initial donation of US\$110 million a year was followed by a smaller donation from Germany, but there have been no additional donations to the Fund. The Brazilian government has stated that it needs US\$1 billion a year of

international contributions to fully implement its medium term plans for protection of the Amazon. BNDES has a mandate to raise funds through the Amazon Fund mechanism, but it has not pursued this yet. Indeed recent funding raised by Brazil - such as through the debt-for-nature swap with the US and through its own oil-production levy - have not been channelled through to the Fund.

- **Governance gap.** The multi-stakeholder committee and the technical committee were critical to the setting up of the Amazon Fund, providing legitimacy and assurance that the Fund was not a donor-led or federal government program, that it would be responsive to stakeholders, and that it would not be captured by narrow interests or short-term political pressures. However at present, the ongoing role of the committee remains ambiguous; it is generally perceived as having more influence and oversight of BNDES's management of the Amazon Fund than it does in practice. Civil society COFA members are frustrated by the difficulty of influencing BNDES's operational procedures. The technical committee members also feel underused, as they are not able to contribute to the on-going development of investment strategy, and are limited to signing off on the end of year calculation.

“The Amazon Fund does not have a committee that thinks strategically about development in the Amazon, or about innovation. COFA is not really the place that this is happening; it does not have this strategic medium to long-term approach to the development of the Amazon.”

“The technical committee is made up of people with vast technical and scientific knowledge. Their role is to validate the carbon reduction numbers, but the calculation is amazingly simple and so the committee is not really necessary. It is a waste of everybody's time. It could be used to assist in commissioning research and studies and advising on strategy.”

- **Strategy gap.** The Amazon Fund was in effect launched as a REDD fund, in advance of Brazil developing a REDD strategy. The criteria developed provides basic guidance as to the themes and activities that should be funded including requirement for coherence with national and state plans, and an aim to target 50% of funding towards scientific research and innovation in sustainable economic activity in the Amazon. However, in its early operations BNDES has tended to apply its criteria as a filter, rather than as a set of strategic priorities, seeking to identify projects that are able to satisfy the administrative hurdles to allow the Fund to begin to make grants. To date, the Amazon Fund has not met its ambition to target over half of funding towards innovation, but has tended to fund traditional command and control measures. It has also not found a way to get its funds to grassroots organisations such as associations of rubber tappers, smallholders and indigenous people.

“The application criteria are narrow. They don't deal with the drivers of deforestation. In particular don't deal with the agriculture sector”

- **Transparency Gap.** As with other operational practices the Amazon Fund started out by

applying standard BNDES processes to its levels of transparency. Transparency of BNDES has long been a concern of civil society organisations in Brazil. In 2009 was the first time that BNDES published a list of projects contracted. At first BNDES was not willing to publish details of projects submitted, as well as those funded. Civil society organisations in the Amazon Fund

“It is an innovative mechanism. But it seems non-transparent from an outsider’s perspective. There is not much information about the Fund’s projects, its developments, its guidelines, its strategic view and approaches. We don’t know about its compliance mechanisms for example.”

steering committees have sought a greater degree of transparency from BNDES over the applications that have been received and the projects that have been funded, and there has been some movement in this area with BNDES now publishing details of project applications received and being processed (although this information is only available in Portuguese). There is also little transparency about the Bank’s social safeguards, and the Amazon Fund lacks a specific grievance mechanism. Updates on the Amazon Fund website have been few (and often only available in Portuguese) and there has been a low level of engagement with the media.

- **Capacity gap.** In general the cost differential between national institutions and international organisations in managing climate finance has been stated in terms of lower staff costs, and reduction in expenses of international flights and offices.¹⁵ However an initial assessment of BNDES suggests that this is not the only factor underpinning BNDES low-cost structure in managing the Amazon Fund. In 2010 the Amazon Fund had nine (and now has 21) members of staff– managing a current annual budget of US\$110 million dollars – giving a figure of 0.08 people per million.¹⁶ This is in line with the level of BNDES staffing, but benchmarked against other funds suggests that the Amazon Fund may be understaffed to manage the throughput of the Norwegian donation, or to ramp up fundraising and spending.¹⁷ The Fund has now increased its staffing levels but the centralised nature means that staff are limited in their ability to visit Amazon states on a regular basis, and successful funding bids have often involved grantees making multiple trips to BNDES in Rio de Janeiro. While there have been some road-shows in the Amazon, the Fund does not have a local presence, and interviewees indicated that awareness and understanding of the Fund amongst local stakeholders remains low. Successful bidders have been asked by others to explain and guide them through the application, indicating a need for more local capacity building and communication.

LESSONS LEARNT

The ‘start fast and evolve’ model enables climate institutions to develop in readiness for funding flows.

If the Amazon Fund had been developed through a normal approach, the ink would not yet be dry on the final agreed design. Instead the Amazon Fund began with just enough structure to get the Fund from idea to reality and to bring together each of the key actors needed to get it started. BNDES has built up competencies, and together with COFA are starting to pursue actions to address some of the gaps identified:

- **Evolving funding processes** - to ensure they are clear, well designed and accessible, including developing a funding stream and process for smaller organisations.
- **Improving transparency and communications about the Amazon Fund** - both on the internet and through grantee and funder road-shows. BNDES now reports - on project proposals received, their place in the pipeline, and those that have been funded - on their website and has begun to publish key documents in English.
- **Refining the focus and articulation of the segments and activities the Amazon Fund invests in** - BNDES convened three day-long meetings with specialists in the sector and the Amazon region to discuss the opportunities, challenges and solutions to development in the Amazon. These proceedings were published and also fed into the development of a results matrix (logical framework) for the Fund. BNDES will continue to refine the results framework as it builds up experience from analysing and monitoring projects.

The success of the ‘start-fast and evolve’ model depends on ensuring that the institution created is able to learn, adapt and evolve.

Otherwise it may become stuck within its shortcomings. Both the BNDES and the Amazon Fund stakeholders perhaps underestimated at the outset the challenges of - on the one hand building the specific capacities the bank would need - and on the other, of challenging its established practices. During the design of the Amazon Fund, no mechanisms were put in place to ensure that BNDES’s operational procedures met the specific needs for effective investment in deforestation reduction in Amazon. Without an “operations manual” of key expectations, processes and principles at the outset these elements have had to be negotiated and developed as the Fund has evolved. In the face of an organisation with a strong culture and

“This is a new mechanism. There are problems in starting up a big initiative. It is easy to get frustrated. But everything has had to be developed and negotiated as they went along. This is part of what happens when you bring in a lot of stakeholders.”

“Right now the Amazon Fund is still the best REDD mechanism on the planet, as it is a financial mechanism capable of reducing emissions. It serves us as a real learning mechanism to the government, to BNDES and to society as a whole in how one should deal with REDD. It is a good institution but has fundamental problems that need to change, especially speeding up its disbursements, enabling small organisations and improving transparency at BNDES.”

established ways of doing things, the imperative of getting the Fund off the ground quickly, this has been an arduous process and has taken much of the steering committee's attention.

An adoptable toolkit of standards, processes, policies, and competencies could be useful in accelerating the initial learning curve. The confidence in BNDES to take on management of the Amazon Fund was crucial to its rapid development. While the Amazon Fund's civil society participants and their broader networks are often strong critics of the Bank, they also hoped that placing the Amazon Fund within the bank would enable broader engagement and capacity building to understand and address the drivers of deforestation within its conventional investment portfolio. In the process of taking on the Amazon Fund, BNDES has strengthened its Environmental Division, and bank personnel have gained experience and knowledge through engagement with the COFA and through technical assistance from NORAD and GTZ, and inputs by the Brazilian Forest Service, Ministry of Environment and the Brazilian Institute of Geography and Statistics in developing their impacts framework.

“The Ministry of the Environment has broken a barrier within the government which prevented the inclusion of forests in the discussion on climate change. With that, it managed to leverage the idea of creating a fund for the Amazon. We live in a situation of political conflict between different areas of government, with no prospect of solution. To surpass these barriers in the environmental area and move into other areas is essential.”

A simple financing mechanism may not be enough. At present the Amazon Fund is not an institution with a strategy, budget and targets. It is a simple, low-cost financing mechanism housed within a strong and powerful institution. However its goals, and the hopes and expectations of its stakeholders are hugely ambitious. In order to make ‘trees grow on money’ the Amazon Fund seeks to provide sufficient funding to enable capacity building and implementation of Brazil's national strategy for preventing deforestation, by federal agencies, states, municipalities and civil society. It also seeks to identify and scale up new approaches to sustainable development in the Amazon, to the point where they influence the economic drivers of deforestation. The emerging funding, strategy, capacity and governance gaps indicate that the Amazon Fund is likely to have to either develop beyond its initial simple, financing mechanism, or revise down these ambitions.

3. THE FUTURE

CAN THE AMAZON FUND MAKE ‘TREES GROW ON MONEY’?

It is of course too early to evaluate the Amazon Fund’s impacts but it is clear from the current focus of BNDES, and of discussions at the COFA, that the Amazon Fund is focused on building its capacity, funding strategy and pipeline of projects, to deliver through the first theory of change **‘projects and implementation’** – ramping up its ability to disburse funding to a greater number of projects, and coordinating transfers of funding to the Amazon region. Overcoming operational challenges in order to ramp up disbursements in this way will be crucial to the Amazon Fund as it transitions from its early start-up phase to a fully-fledged and operational fund.

“The first central idea of the Amazon Fund should be to initiate an effort to make resource allocation more systematic and efficient.”

BNDES has hosted discussions amongst Amazon stakeholders and experts on the drivers and solutions to deforestation. These have emphasised the political and economic dimensions of the problem. The lessons of the Pilot Program to Conserve the Brazilian Rainforest are that funding a basket of projects is not enough to achieve lasting change. Indirectly supporting policy development by building the constituency of Brazilian politicians, officials, NGOs and professionals in favour of “green” environmental policies, is slow and unpredictable.¹⁸ As a national institution the Amazon Fund has the potential to do more to influence **‘power and policies.’**

“There is a great lack of harmony between the environmental area and other areas in the government, which calls into question the issue of the country’s credibility to continue receiving these donations.”

The Fund is already credited with having influence on BNDES’s broader investment policies, which help to drive **economic pressures**. The Bank has recently launched a 1 billion Reais (US\$588 million) fund to finance projects to reduce greenhouse gas emissions associated with agriculture. It has also established more rigorous lending criteria for ranchers and farmers, requiring traceability by meatpackers to ensure cattle production does not result in deforestation.

Brazil’s REDD strategy will certainly need to tackle the economic and political drivers of deforestation. The question is whether the Amazon Fund can play an active part in this, as a driver of innovation, as a hub for learning and strategy development and as a focal point for policy debate and development. Alternatively it may become a simple accounting mechanism – a bank account and fundraising system at the interface between Brazil’s national policy development and implementation and the international climate finance system.

“The Fund is the country’s bet to deal with international money and so it should be more creative and dynamic.”

Currently the Amazon Fund is stuck in the middle between simplicity and ambition. This is an uncomfortable and unstable position. For example civil society stakeholders argue that the Amazon Fund should develop funding windows and processes that are accessible to a vast array of small and informal organisations. BNDES has therefore agreed to open a funding window for small organisations, and develop appropriate procedures. However, it is ill-suited to getting small grants to community based organisations, and the Amazon Fund's low operational cost margin do not allow for such involved funding processes.

Similarly, despite stated high ambitions, the Amazon Fund has not yet caught up with the funds raised and remains passive in terms of attracting additional funding. It has not articulated a strategy for fundraising and project funding that could enable it to close the gap.

SCENARIOS FOR THE FUTURE OF THE AMAZON FUND

Developing an effective approach to climate funding in Brazil that enables economic transformation depends on developing an institutional framework capable of:

1. **Attracting sufficient international, domestic and market based financing** to meet the financing needs for Brazil's low carbon development.
2. **Ensuring development and implementation** of effective policies and activities using this money.
3. **Seeking out and supporting innovative approaches** to promote sustainable economic development in the Amazon, involving and influencing the private sector, its supply chains and customers.
4. **Ensuring that climate funding is accessible to all forest stakeholders**, particularly those who are not reached through existing large project funding mechanisms.

There are several institutional roles which need to be fulfilled to create systemic change; developing strategy, prioritising investment, assessing performance, knowledge management and learning, communication, capacity building, and proactively influencing the policy environment. These roles do not need to be taken on by the Amazon Fund or any one single institution, some may be carried out by government or a broader network of institutions, but they do need to be coordinated, communicated, mandated and resourced.

“The efforts of governmental agencies in the Amazon are in serious disarray. In this case, a new instrument such as the Fund, together with the presence of BNDES, may help.”

We offer two potential directions in which the Amazon Fund might develop:

- **Simplicity:** the Amazon Fund remains a sub-fund of BNDES and operates as a simple, low cost funding mechanism within a broader Brazilian REDD system. The Amazon Fund's role would be to account for funding and forest carbon flows, in support of a well-defined and ambitious national strategy. At its core would be the simple formula of dollars per tonne

and tonnes per hectare. Strategy development, capacity development, influence and learning carried on by other parts of the system.

- **Ambition:** the Amazon Fund develops into a mature and increasingly autonomous institution at the heart of Brazil’s REDD strategy, that is proactive in fundraising and investment, learning and influencing broader systems. The Amazon Fund develops a vision and strategy that is not only stewarded and supported by its stakeholders but one that involves them and will ultimately shift their investment decisions.

Exhibit 5. Three scenarios for the Amazon Fund

Simplicity	Stuck in the middle	Ambition
Award grants to broader network intermediary organisations for capacity building, programmes and small grant giving	Project funding gap: Unable to identify enough high-quality fundable proposals using current criteria and funding mechanisms	Develop specialist funding competency, and catalyse the development regional and thematic programmes
Remain as a simple mechanism, passively collecting and accounting for funds donated through inter-governmental agreements	Ambition gap: Lack of proactive fundraising strategy to close the gap between current funding and overall need	Invest in management, fundraising, communication, and capacity building to go beyond initial funds secured
Remain as a BNDES sub-fund with limited stakeholder roles. Stakeholder engagement on REDD strategy would take place separately at national level, and in local processes	Governance gap: Frustration amongst stakeholders involved in governance	Develop into an autonomous institution with BNDES providing secretariat
Seek greater guidance from national and state REDD strategies to prioritise funding	Strategy gap: Lack of a strategy for prioritising investments and reaching ambitious impacts	Develop as a mature organisation with a strategy and targets for funding, influence and impacts, including engagement with economic actors
Maintain low 3% direct administration costs	Capacity gap: Calls for more involved processes for communication, capacity building, small organisations conflict with low operating costs	Provide transparent analysis of costs needed to upscale impacts
Transparency gap: Whichever way the Amazon Fund develops, transparency will be crucial.		

Whichever track the Amazon Fund goes down there will be risks and dangers. In part the best pathway depends on the 'best bets' of the Amazon Fund stakeholders themselves. If the Amazon Fund stakeholders see it as the best currently available vehicle for developing and influencing Brazil's strategic direction for avoiding deforestation, and invest their time, resources and efforts they could make it so.

But if they believe that these decisions are better served by other forums they may decide to keep the Amazon Fund as a streamlined and simple accounting mechanism, and cascade more detailed funding decisions to other funds, states, municipalities and civil society consortia. But continuing to try to navigate a middle course is perhaps the most dangerous route of all.

At present the Amazon Fund sometimes faces criticism for its paradoxes – it is, ironically funded by the proceeds of oil, managed by a major investor in infrastructure, agriculture and mining, and governed in part by federal and state agencies whose sustainable development policies still sit alongside an extractive economy model. However it is this involvement with each of these economic and political actors that may be its most important strength.

Ultimately, to achieve sustainability, climate funding must succeed in shifting the economy to one in which low carbon industries are more competitive, and this would involve real shifts for all of these actors, and for the broader private sector.

“There is no national project for the Amazon. Brazil does not even know if it should make a large group of national parks out of the Amazon, or a huge soybean plantation, or maybe both. Unless we establish this vision we cannot solve the issues. Thinking practically it would be important if BNDES was to create a nucleus for strategic thought: a forum, a space to create this national project. Brazil will only tackle the Amazon issue when we create a national project for the region.”

“The future of BNDES and Brazil, from the standpoint of its development and its position in the world, will be decided in a fierce competition, which requires vast strategic foresight, because the new parameters have not yet been given a price. The name of the game is “sustainable development”. This is the future of BNDES; this is the future of business. This is not an item on an agenda, but one that will decide what Brazil will be like tomorrow.”

LESSONS FOR OTHERS

For those developing climate funding institutions in other countries, the Amazon Fund's 'start fast and evolve' model offers a potent approach to breakthrough the deadlock of international negotiating paralysis, and begin to build up institutional capacity.

As Exhibit 6 highlights, many countries are setting up institutions that parallel the Amazon Fund. However, it has been noted that despite the UNFCCC Adaptation Fund's provision for National Direct Access institutions, many countries are falling back on traditional multilateral agencies to manage their adaptation finance.¹⁹ This represents a lost opportunity to begin to build up the institutional capacity and learning needed to effectively manage these funds towards national priorities.

One of the most important criteria in the institutional design and selection of these institutions should be the ability to learn and evolve, and to support stakeholder engagement to drive strategy development. The Amazon Fund's experience highlights the need for ongoing learning cycles of review, reflection and design evolution to be built into the process of institutional development of emergent national direct access institutions

Such funds, including the Amazon Fund, need to consider how they will address the three 'theories of change' and whether they have the right governance and management to do this. Are they designed and incentivized to take entrepreneurial decisions to drive value creation for low carbon development, and to leverage private investment? Can they contribute to policy development and implementation in areas where there are huge vested interests in the status quo?

In short, what becomes clear from the experience of the Amazon Fund is that to support low carbon development, national climate institutions need to be truly developmental, and not simply mechanisms to account for climate finance. Establishing meaningful, national low carbon growth and development plans requires new institutional arrangements underpinned by transparency and strong political and economic leadership.

Exhibit 6. Emerging national climate funds

Model	Examples	Funding	Governance	Guidance	Fund Management	Funding Criteria
Multi-donor trust fund	<i>Typical</i>	<i>Donation</i>	<i>Inter-ministerial committee</i>	<i>Governmental or multi-sector advisory group</i>	<i>Initially offshore</i>	<i>Linked to national policy</i>
	Bangladesh Multi-Donor Trust Fund	Donation	Government Climate Change Unit under Ministry of Environment and Forests	Parliamentary Group on Climate and Environment	World Bank (with intention of becoming national later)	Bangladesh Climate Change Strategy and Action Plan
	Congo Basin Forest Fund	Donation	Governing council of donors, experts and some stakeholders	Congo Basin Forest Partnership	African Development Bank. Funding decisions made by governing Council	Innovation Coherence with regional plans
	Cambodia Climate Change Trust Fund	Donation	Ministry of Environment on behalf of National Committee for Climate Change (NCCC),	Multi-stakeholder Technical Advisory Panel	UNDP (with intention to transfer to a national committee later)	National policy
	Indonesian Climate Change Trust Funds	Donation	Ministerial steering committee	Technical committee (government)	UNDP (with intention to transfer to a national trustee)	Linked to national budget, roadmap and mid-term plan
Adaptation fund national implementing entities		Project funding from adaptation fund	May include ministries, inter-ministerial commissions and government cooperation agencies.		National body	Does not make funding decisions – makes decisions to submit applications to the Adaptation Fund Board
Conservation trust fund		Donations, counterpart funding, revenues	Governing council of NGO, sector, academics and officials.	Consultative council – former board members. Technical committee	Independent private institutions	Programmatic funding areas (not yet climate funding)
National Fund	Fundo Nacional do Meio Ambiente (FNMA) National Environmental Fund	Public funding, levies, donations	Governing Council of government ministries, agencies and NGOs		Environment Ministry	Linked to national four-year plan, with thematic areas for funding
	China CDM Fund	Levy, public funding and donations	Interministerial governing board		Ministry of Finance	Contribute to China National Climate Change Plan
The Amazon Fund		Donation	BNDES Board	COFA	BNDES	Thematic, linked to national plan.

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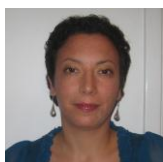
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ABOUT THE AUTHORS



Simon Zadek is a non-resident Senior Fellow at the Centre for Business and Government of Harvard University's Kennedy School. He founded, and was until recently Chief Executive of AccountAbility, where he established the organisation's global leadership in sustainability standards, collaborative governance and responsible competitiveness, extending its impact from bases in Beijing, Sao Paulo, London and Washington, and through activities in South Africa and across the Middle East. Simon sits on the International Advisory Board of the Brazilian business network, Instituto Ethos, the Advisory Board of the sustainability fund manager, Generation Investment Management, and the Boards of the International Centre for Trade and Sustainable Development and the Employers' Forum on Disability. In 2003 he was named a World Economic Forum 'Global Leader for Tomorrow'. Simon's work with businesses, governments and international organisations over the last decade has contributed to establishing responsible business on the global map as a core business strategy and public policy issue and practice.

Simon can be contacted at Simon@zadek.net. To learn more about Simon's work visit www.zadek.net



Maya Forstater has worked for over ten years in the field of sustainable business, leading research and helping organisations learn, improve and communicate on issues ranging from climate change to supply chain labour standards. She has worked with major corporations, multi-sector partnerships and business groupings in the energy, ICT, apparel, mining and minerals and mobility sectors, and has written extensively on a range of issues related to sustainability and business. She has authored and contributed to numerous publications including: 'Responsible Business in Africa: Chinese Business Leaders' Perspectives' (Harvard Kennedy School of Government); 'Low Carbon Growth Plans: Advancing Good Practice' (Project Catalyst); Mobility for Development (WBCSD); The UNEP/AccountAbility Handbook on Stakeholder Engagement; The Materiality Report (AccountAbility); Corporate Responsibility: Implications for SMEs in developing countries (UNIDO); and Business and Poverty: Bridging the Gap (IBLF).

Maya can be contacted at Maya@zadek.net or follow her on twitter: [@mforstater](https://twitter.com/mforstater).



Fernanda Polacow has worked for over ten years in the non-profit sector and in the field of sustainable development, participating in community programme development, public health campaigning, public policy framing, research development, communications strategy development and implementation and PR campaigns. Fernanda has participated in the research with the Amazon Fund on new climate institutions arrangements (Radical Simplicity in Designing National Climate Institutions: Lessons from the Amazon Fund, 2009) and has authored and co-authored articles for media like the Financial Times, Fortune China, Ethical Corporation, Impactus, Ideia Socioambiental, CIVICUS, and Ethical Performance.

Fernanda can be contacted at Fernanda@zadek.net

This Working Paper is being circulated for discussion, please send comments to maya@zadek.net (in English) or fernanda@zadek.net (in Portuguese).

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