



FONERWA

Sustainable Financing Mechanism
for Environment and Climate
Change Initiatives in Rwanda



WHAT IS FONERWA?

The Government of Rwanda (GoR) is in the process of finalising the establishment of the Environment and Climate Change Fund – FONERWA – as a cross sectoral financing mechanism to achieve development objectives of environmentally sustainable, climate resilient and green economic growth. The establishment of FONERWA demonstrates Rwanda’s continued commitment to sustainable development and a green economy.

FONERWA¹ is the vehicle in Rwanda through which environment and climate change finance is channelled, programmed, disbursed and monitored. As a national Basket Fund, FONERWA is an instrument to facilitate direct access to international environment and climate finance, as well as to streamline and rationalise external aid and domestic finance. Access to the Fund is open to line ministries and districts, charitable and private entities, including businesses, civil society and research institutions.

¹ *The French acronym, FONERWA, was coined in 2005 under Organic Law no.4/2005 and means fund for environment and natural resources for Rwanda. Through the FONERWA Law, it has taken on the additional meaning of environment and climate change fund for Rwanda.*



OBJECTIVES OF FONERWA?

RESULTS PILLAR 1

Conservation & management of natural resources strengthened and sustained.

RESULTS PILLAR 2

R&D and technology transfer and implementation facilitated and utilised.

RESULTS PILLAR 3

Environment and climate change issues mainstreamed into policies, programmes, plans, budgets and activities for public and non-public agencies.

FONERWA design is based on three considerations: 1) Alignment with the FONERWA Law, 2) Reflection of FONERWA's national character and identified national priorities for environment, climate & development and 3) Meeting demonstrated financing needs for environment and climate change projects and programmes that demonstrate high value for money.

Grounded in Managing for Results principles, these considerations are reflected in FONERWA's key objectives:

OVERALL OBJECTIVE

FONERWA has the overarching objective of contributing to sustainable wealth creation and poverty reduction in Rwanda, through sustainable management of natural resources, climate resilient and green economic growth².

OUTCOME

The outcome of the FONERWA Fund is to sustainably and equitably finance and further strengthen national programmes and private sector initiatives in the areas of current and future environment and climate change, and development related challenges and opportunities.

RESULTS

In order to achieve the above, FONERWA will deliver the following results.

² Green economic growth implies economic growth and development with limited negative environment and climate-related externalities.



SCOPE OF FONERWA DESIGN?

The FONERWA design framework consists of four Thematic Financing Windows and respective entry points, or priority investment areas. Thematic Financing Windows structure and categorise the priorities of the GoR in relation to environment and climate objectives, as reflected in various GoR policies, strategies and relevant studies that demonstrate financial need. In support of these priorities, FONERWA is expected to make a significant contribution (20-30%) to Rwanda's existing financing gap, estimated at approximately US \$100 million per year across the Thematic Financing Windows. Mobilisation of resources on this scale will require significant contributions from Rwanda's development partners, existing and emerging international funds (e.g. the Green Climate Fund) and the private sector, among other sources, as the Fund matures.

Thematic windows and entry points are expected to evolve over time based on demands and future aspirations of the GoR and other beneficiaries. As a result, further prioritisation and resource allocation decisions across windows will be based on emerging priorities, the nature of investments from various sources and importantly value for money considerations. Transformational projects and programmes that demonstrate maximum economies of scale, efficiency and effectiveness will be given highest priority.

THEMATIC FINANCING WINDOWS AND ENTRY POINTS FOR FUND CAPITALISATION AND EXPENDITURE.

WINDOW 1

Conservation & Sustainable Natural Resources Management

1. Ecosystem rehabilitation
2. Sustainable land management
3. Integrated water resource management (IWRM)
4. Sustainable forestry management
5. Sustainable mines & quarries
6. Promotion & protection of biodiversity

WINDOW 2

R&D & Technology Transfer & Implementation

1. Renewable energy & energy efficiency technology
2. Pollution management
3. Water storage, conservation and irrigation technologies
4. Applied and adaptive research (agroforestry, waste, urban planning)
5. Disaster risk reduction
6. Data collection, monitoring & Management Information System (MIS)

WINDOWS 3

Environment & Climate Change Mainstreaming

1. Strategic Environment & Climate
Assessments (SECAs)

2. Sector-specific adaptation and mitigation

3. Support to implementation of
cross-sectoral integrated planning

WINDOW 4

Environmental Impact Assessment (EIA) Monitoring & Enforcement

1. Monitoring implementation of environment
management plans for capital projects

2. Environmental auditing



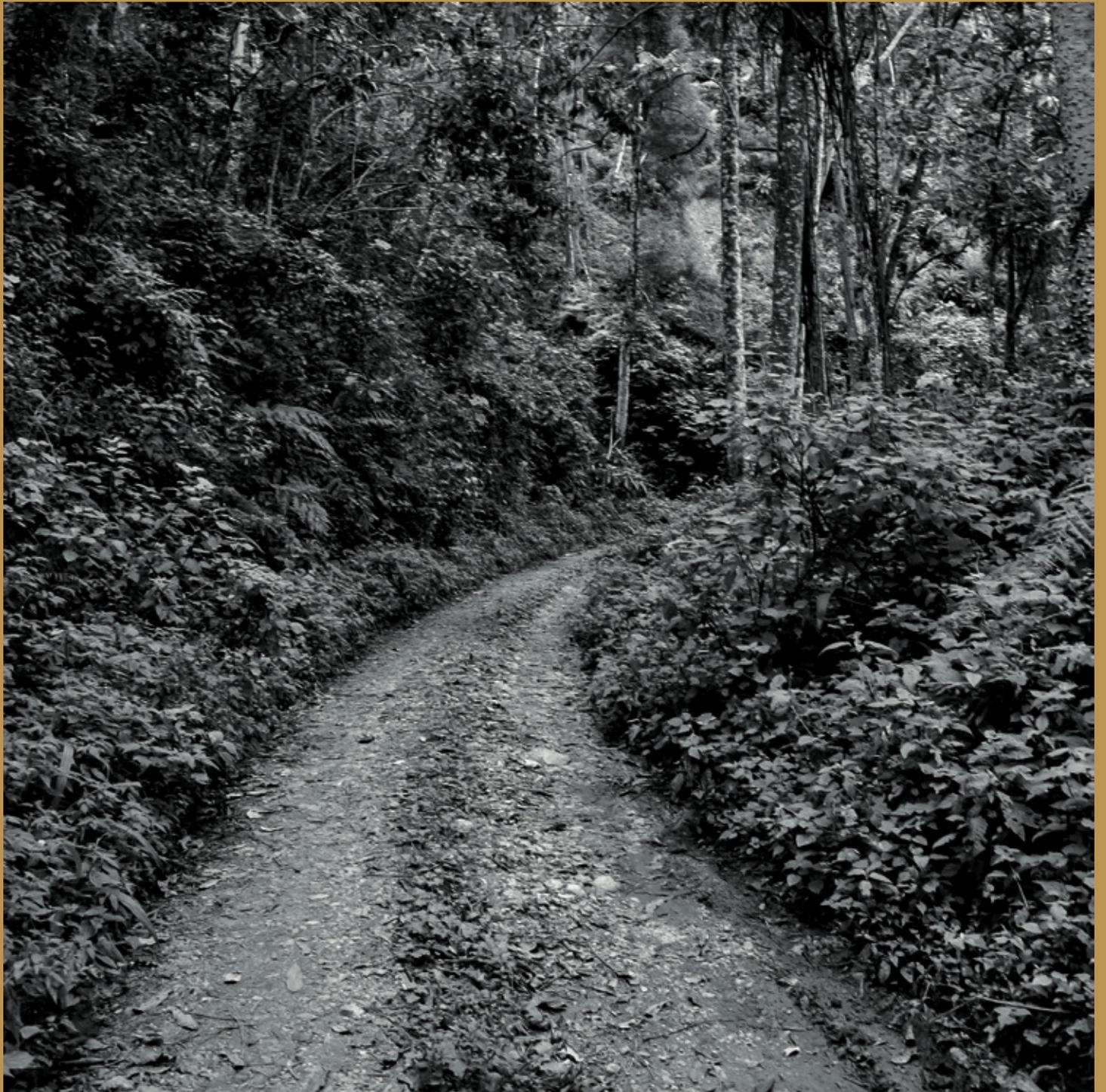
HOW WILL FONERWA BE CAPITALISED?

FONERWA allows for contributions from both internal and external sources, including contributions from the private sector.

Domestic capitalisation sources include: (1) Environmental fines and fees, (2) EIA fees (mentioned above), (3) Proceeds from Forestry and Water Funds, (4) Other environmental revenue and (5) Seed financing from domestic stakeholders (line ministries). In fact, FONERWA is the only fund in Rwanda that mobilises resources from the GoR's own revenue sources, making it less vulnerable to external aid shocks.

External capitalisation sources include bilateral and multilateral development partners' contributions and access to international environment and climate funds.

Private sector contributions will be considered in the form of grants and project co-financing in the short-term (0-1 years), and investment (e.g. equity) in the long-term (>5 years), among others.



WHAT FINANCIAL INSTRUMENTS WILL FONERWA OFFER?

FONERWA will utilise several instruments to achieve its objectives, phasing in more complicated instruments over time, depending on actual and emerging needs. Figure 1 on the following page presents the financing instruments in the short term (ST), medium term (MT), and long term (LT), and targeted beneficiaries, which includes national (line ministries) and sub-national (e.g. Districts) Government bodies, civil society and the private sector.

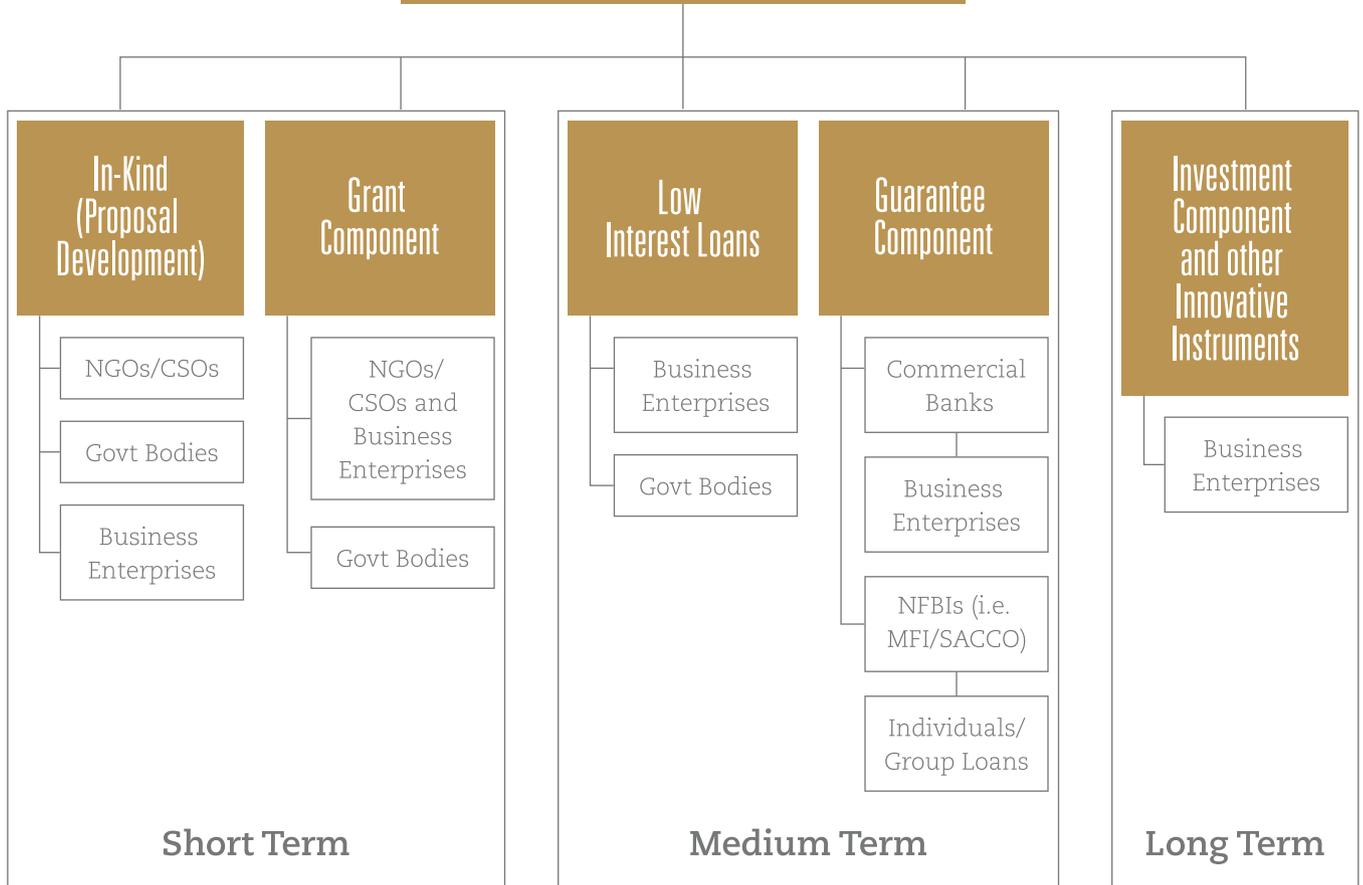
In the short-term (0-1 years), two primary financial instruments are proposed for both public and private beneficiaries: (1) In-kind support for proposal development and (2) Performance-based grants, a component of which will be co-financing (e.g. for private sector beneficiaries). In-kind support includes mostly technical assistance for proposal development to project promoters and, in some cases, offset of proposal development costs through grants.

For the first two years, the majority of resource allocations to the private sector (20% of total fund resources) will come in the form of grants until guarantee and concessional loan facilities are introduced. Medium-term (2-5 years) instruments will include more complicated financial instruments, namely low interest and/or concessional loans.

Long-term (>5 years) financial instruments such as equity investments are expected to be introduced several years into the operationalisation of FONERWA, subject to the Fund's performance and private sector demand. The makeup and sequencing of these phased developments will be determined by the evolution of the Fund and the FONERWA Managing Committee.

FIGURE 1
PROPOSED FINANCIAL
AND NON-FINANCIAL
INSTRUMENTS FOR FONERWA

Fund





WHAT IS FONERWA'S GOVERNANCE STRUCTURE?

The governance structure of FONERWA allows the GoR, development partners, Private Sector and civil society oversight of projects/ programmes to ensure maximum transparency and accountability. Figure 2 on the following page illustrates the FONERWA governance structure consisting of a Managing Committee, Technical Committee and Secretariat.

The Ministry of Environment and Natural Resources (MINIRENA) of the GoR is the national institution responsible for Fund oversight. Under MINIRENA guidance, the Rwanda Environment Management Authority (REMA) will house the FONERWA Secretariat, with the support of a Fund Management Team, recruited by Department of International Development (DfID) of the UK Government for an initial two year period.

The FONERWA Managing Committee will be responsible for monitoring and directing the Fund's activities. It is the highest organ in the Government of Rwanda for FONERWA management and oversight, and involves participation from stakeholders including the GoR at central (Permanent Secretaries) and district levels (through the Ministry of Local Government, MINALOC), development partners, civil society, and the private sector.

The FONERWA Technical Committee will be responsible for ensuring strong ownership of FONERWA-supported activities, and enhancing their sustainability. The Technical Committee will consist of Director Generals from key environment and climate related sectors, as well as development partners.

The FONERWA Secretariat will provide facilitation for the central coordination of the Fund, with the support of a Fund Management Team in the first two years of operation.

FIGURE 2
FONERWA
GOVERNANCE
STRUCTURE

FONERWA Management Committee

Observers/Resource
Persons

Plenary Members:
DP and CSO/PS Rep

GoR Chair and Members
DP: Co-chair
(on a rotational basis)

Provides funding prioritization,
decision-making, & strategic oversight

FONERWA Technical Committee

GoR Chair, Co-Chair (DfID for first 2 years)
and Members (including technical experts)

Technical advice,
proposal screening

FONERWA Secretariat, Fund Management Team

Administer Fund day-to-day mgt.,
M&E, quality assurance, resource
mobilisation and technical assistance.



WHO CAN ACCESS FONERWA?

The fund can be accessed by line ministries, Government agencies, Districts, Civil Society Organisations (CSOs) including academic institutions and the private sector, as long as the proposed activities are in compliance with Fund eligibility criteria, and the project/programmes are screened through various steps as discussed in the project screening section of this document. At least 20% of total FONERWA resources will be earmarked for the private sector for use across Thematic Financing Windows, and at least 10% of Fund resources will be earmarked for Districts.



HOW WILL THE FONERWA APPLICATION PROCESS WORK?

The FONERWA project/programme proposal screening will be carried out in a fair and transparent, multi-step process. This will be overseen by the Fund Management Team/Secretariat and Technical Committee, with ultimate funding decisions made by the Managing Committee.

Figure 3, and its corresponding descriptions on the following page, details the 6 key steps of the proposed screening process.

6 KEY STEPS OF THE PROPOSED SCREENING PROCESS

STEP 1 SUBMISSION OF PROJECT PROFILE DOCUMENT (PPD)

Line Ministries/private sector/civil society should complete Project Profile Documents (PPDs) for proposals to be considered by the FONERWA Secretariat, in conformity with FONERWA Thematic Financing Windows key entry points.

STEP 2 REVIEW FOR ELIGIBILITY CRITERIA

PPDs will be screened by the **Fund Management Team** against eligibility criteria.

PPD Eligibility Criteria

- > Results based, aligns with thematic windows/entry points and FONERWA M&E framework
 - > Benefits sustained beyond lifetime of project activities
 - > Demonstrates value for money
 - > Involves ongoing stakeholder consultation
 - > Promotes strategic national/international environment/climate objectives
 - > Conforms with existing legislation, and anti-corruption provisions
-

STEP 3 PREPARATION AND SUBMISSION OF FULL PROJECT DOCUMENT (PD)

If successful, applicants will be asked to submit a full project document, and advice and support from the Fund Management Team to elaborate or improve the proposal will be provided as needed – in particular for applications targeting other international and regional climate change and environment funds.

STEP 4 TECHNICAL APPRAISAL AND SHORT-LISTING OF PDS

Full proposals will undergo a technical appraisal by the **Fund Management Team**. The team will assess each PD according to four overall technical appraisal criteria, each with detailed sub-criteria, and assign a priority ranking for submission to the FONERWA Technical Committee.

Technical Appraisal Criteria

- > Desirability
 - > Viability
 - > Feasibility
 - > Capacity to leverage additional resources
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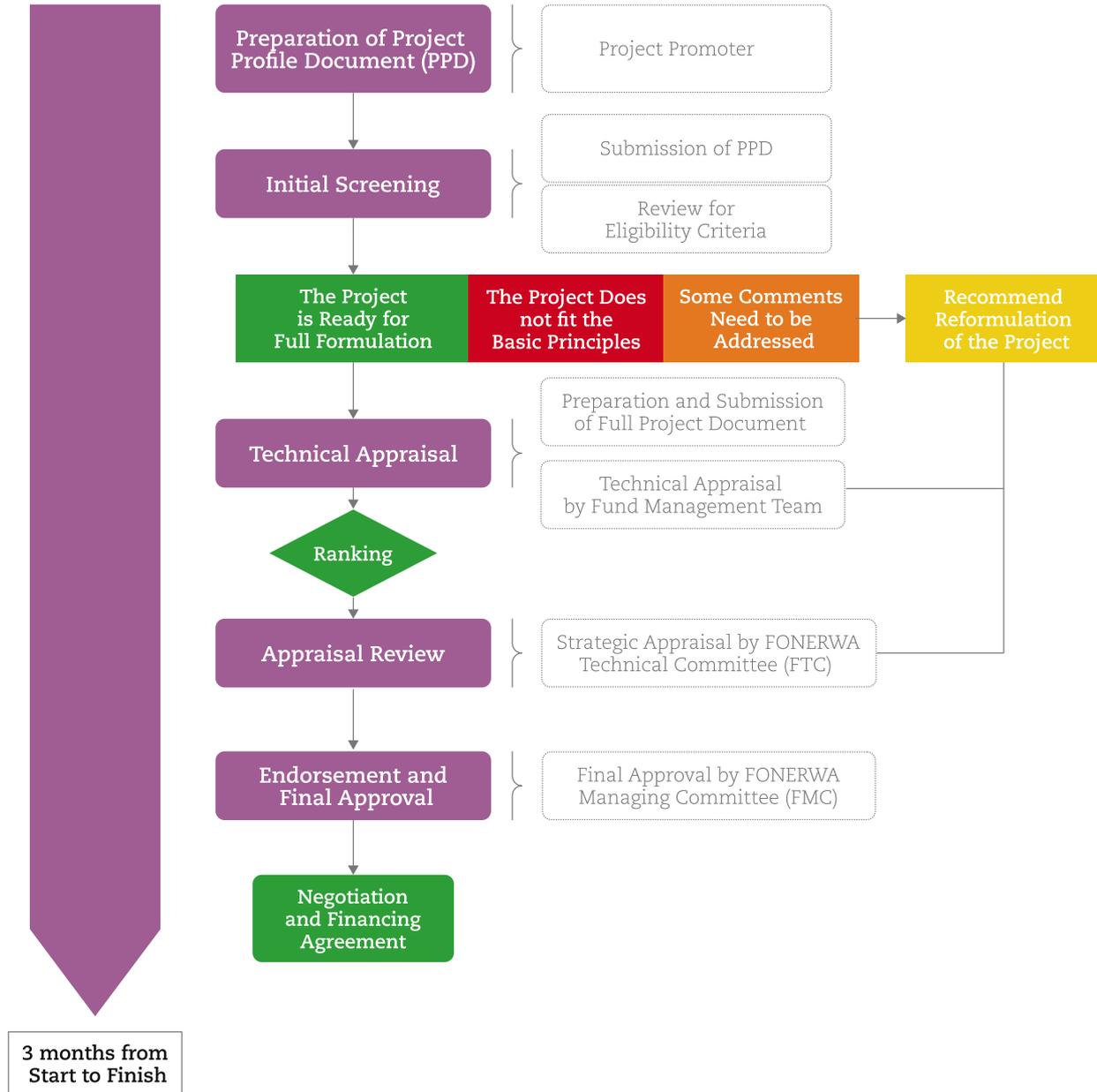
STEP 5 APPRAISAL REVIEW

Following proposal approval at the Technical Appraisal step, the FONERWA Technical Committee will review the appraisal process and ensure that it was conducted following established procedures. Suggested project rankings will be further discussed at this stage before their submission to the FONERWA Managing Committee.

STEP 6 DECISION MAKING

The FONERWA Management Committee will be solely responsible for approval of final funding decisions.

FIGURE 3 FONERWA PROPOSAL SCREENING PROCESS





WHEN WILL FONERWA BE OPERATIONALISED?

FONERWA will begin initial operations in August 2012. The first round of proposal submissions will be accepted from January, 2013.



WHERE CAN I FIND MORE INFORMATION?

As part of the FONERWA design process, the following documents have been prepared and are available at www.rema.gov.rw:

Key Design Documents

- > Final report with rationale for the design features
- > Operational Manual
 - > Project Screening Procedure
 - > Logical Framework
 - > Monitoring and Evaluation Procedure
 - > Procurement and Financial Management Procedures
 - > Governance Structure Terms of References
 - > Capacity Building Plan

*For further information or comments, please contact Dr. Rose Mukankomeje, Director General of the Rwanda Environment Management Authority (REMA) dgrema@rema.gov.rw

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