

# 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

7th Draft Version, March 2023

## Contents

Abbreviations.....	3
1 Introduction .....	4
2 Organisation of Village Forest and Agriculture Grants (VFAGs) .....	4
2.1 Objectives and function of Village Forest and Agriculture Grants .....	4
2.2 VFAG implementing organisations involved.....	4
2.2.1 Environment Protection Fund (EPF) – flow and control of funds.....	4
2.2.2 District Project Management Units (DPMU) – support and supervision of VFAG.....	5
2.2.3 District Agriculture and Forestry Office (DAFO) - Extension of deforestation-free agricultural production systems .....	5
2.3 VFAG payment conditions .....	6
2.3.1 Annual Payments for the implementation of Village Forest Management Plans .....	6
2.3.2 Upfront “investment payment” .....	7
2.3.3 Performance-based "Bonus payment” .....	8
2.4 Organisational set-up of the Village Forest and Agriculture Grants.....	8
2.4.1 The VFAG Assembly Meeting.....	8
2.4.2 The VFAG Committee.....	9
2.4.3 VFAG sub-committees, farmer groups and external resource persons .....	9
3 VFAG Foundation .....	9
3.1 Organisational process.....	9
4 Operation of Village Forest and Agriculture Grants .....	13
4.1 Annual VFAG cycles.....	13
4.1.1 Agricultural Investment planning.....	13
4.1.2 Implementation of VFAG plans .....	14
4.1.3 Documentation and Reporting .....	15
4.1.4 Performance monitoring for release of “bonus payments” .....	16
<b>Annexes .....</b>	<b>17</b>

## 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 Zusammenarbeit
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:

- 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 promotion 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 payment categories and 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 decree<sup>1</sup>, 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

---

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

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”.
- Compile VFAG plans for approval and further processing to request the budget from the EPF to be transferred to the Village Accounts and Compiling VFAG reports into its quarterly and annual progress reports.

### 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 “WhiteList” is a main pillar of the Project.

To achieve this, the Project interlinks three major interventions:

- Agricultural extension and knowledge distribution (Activities 2.1.1.1 and 2.1.1.3).
- 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 2.2.1).

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 WhiteList 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, up to an average of EUR 2.000 /year/village for outside NPA villages and up to an average of EURO 3.500/year/village for guardian villages (NPA villages). Remark: the actual cash for work amount per village will depend on the forest area of the respective 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 either 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 in LAK with the corresponding value of EURO 8 per month (Remark: according to project budget request, VFAGs need to convert its budget to Euro to request funds from EPF so these three VFAGCs will get the actual compensation based on the exchange rate by the date of EPF transfer to VFAG bank account. VFAG Committee members receive payments calculated from the selection of the VFAG Committee until project closure.

### 2.3.2 Upfront “investment payment”

The upfront “investment payment”- up to an average of EUR 13.200 per village depending on village size and number of eligible households - has the main purpose to support activity 2.1.2 Investments in sustainable climate informed and deforestation-free agricultural practices and agroforestry– to lower the pressure on forest resources by promoting improved agricultural practices.

During the start-up process (Step 5 in chapter 3.1), an 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 “WhiteList” and based on extension support by DAFO staff. Each upland farming family in the village is eligible to receive support and can apply for investment contributions of up to EUR 400 from the VFAG once selected in the VFAG assembly meeting. The selected, sustainable production systems must fulfil the following criteria:

- The production system must be part of the options provided in the “WhiteList”, 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 Promotion Sustainable Agriculture Practice (PSAP).
- 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

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 seeds and seedlings. start-up organic fertilizers (max. 6 months’ consumption).
- hand tools.
- plastic sheets for covering or drying.
- fencing material.
- hiring of machinery e.g., for levelling, terracing.
- material (pumps, beholders, pipes, sprinklers etc.) for on-farm irrigation in the case of vegetable gardens.
- greenhouses and small buildings for production, post-harvest treatment or storage purposes.
- small-scale mechanization, small farm machinery for joint use.

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 grant 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 “WhiteList” document.

### 2.3.3 Performance-based "Bonus payment"

A conditional, performance-based “bonus payment” amounting to EUR 10.000 on average per village depending on the forest area and the respective forest cover change 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 compared 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% compared to the determined ha in the Village Forest Management Agreement,
- 0% bonus payments, if the forest cover in ha per village is below 75% compared to the determined ha in the Village Forest Management Agreement.

The total amount of the bonus payment will also depend on the overall forest area of the village. 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”.

80% of the “bonus payment” should be used for upscaling of agricultural investments promoted under the “investment payment” and 20% 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 quarterly 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 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 cashbook, collects bank statements and ensures that all expenditures are documented by invoices according to project accounting standards. In each quarter he/she prepares the quarterly 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 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. Regarding 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 by-laws 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 result of the Village Forest Management Planning process.

These activities are described in separate new PLUP Guidelines, new PSAP Guidelines, including the WhiteList 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 Climate Change 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)”<sup>2</sup> 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 might 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 Amount of “investment payment” of up to an average of EUR 13.200 is requested by the VFAG Committee and signed by all 3 VFAG Committee Members.

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.

All type of funds (cash for work, investment payment and bonus payment) must be requested by 3 VFAG committee members by using the provided project financial formats with attached all approval plans and related documents to DPMU anytime for approval and DPMU submit to CliPAD/I-GFLL project for quality check and approve and then send to NPMU for final approval and submit to EPF to transfer funds to VFAG bank account directly.

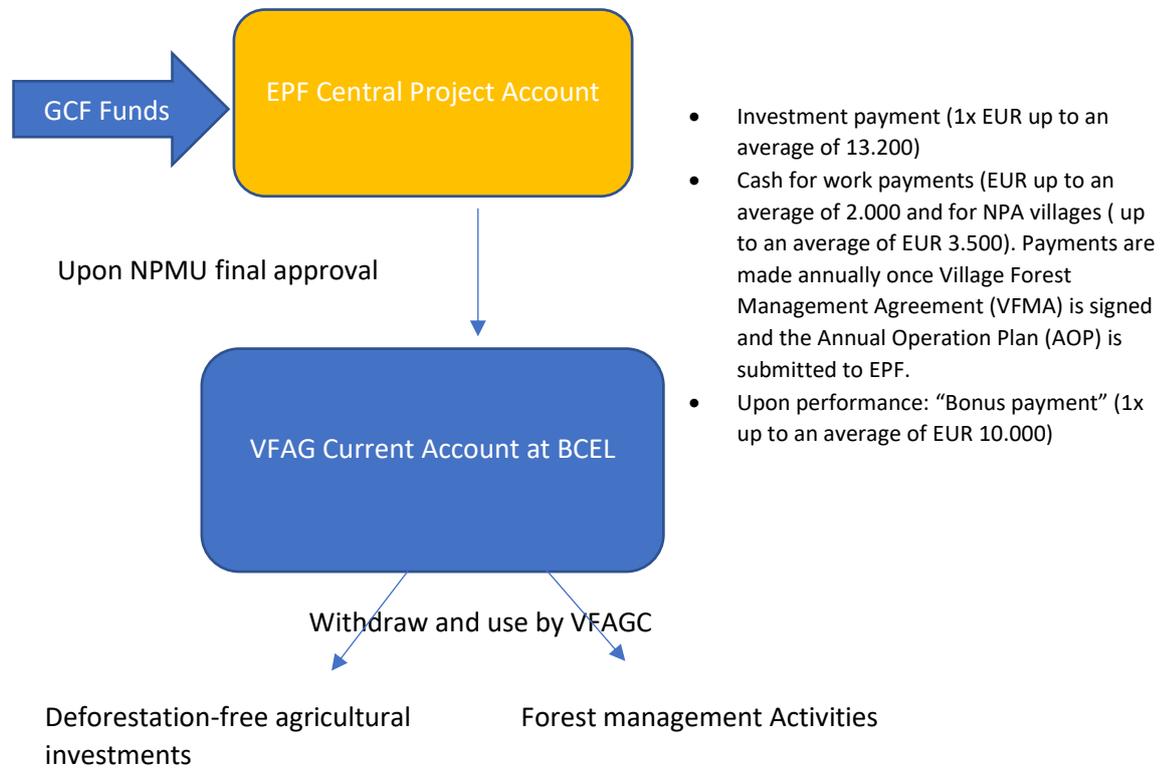
Remark: all types of fund requests to EPF will be in Euro. EPF will transfer funds to VFAGs accounts in LAK based on the exchange rate at the day of the transfer. Once target villages spend their funds, they need to convert from LAK back to Euro to report to EPF. The conversion is done based on the exchange rate of LAK to EUR of the day when EPF transferred the funds from EPF’s EUR bank account to the village’s LAK bank account.

---

<sup>2</sup> 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 flow of funds to VFAG is depicted in figure below:

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



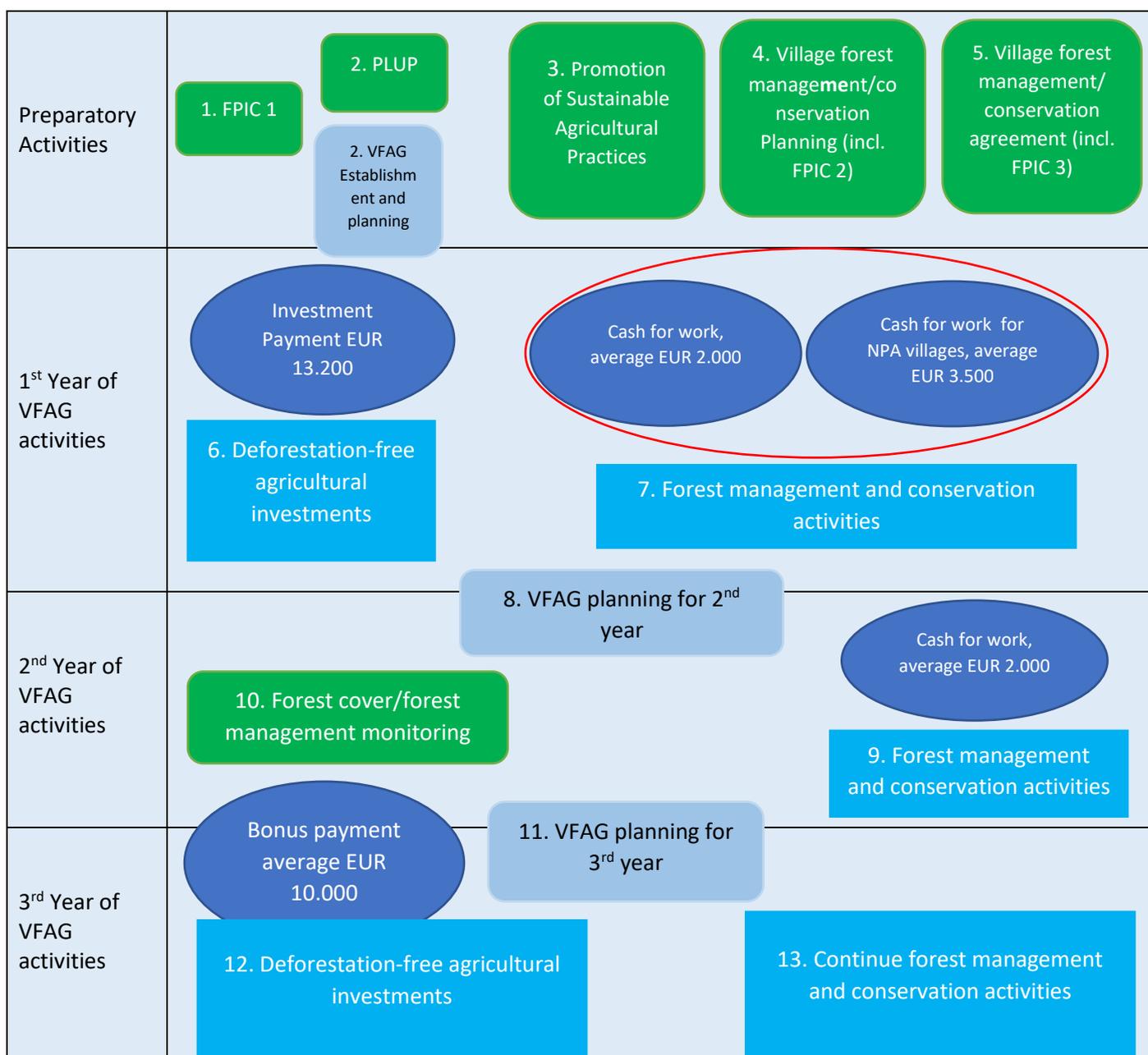
## 4 Operation of Village Forest and Agriculture Grants

### 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 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. The implementation of these investments can take more than one year.

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. Each upland farming family can apply for investment contributions to the implementation of PSAP on their land plot of up to EUR 400. This means that the initial investment payment can cover a minimum of 27 upland farming families. The villagers decide on an investment plan (see Annex A), 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 quarterly reporting format" (see Annex B: Annual VFAG Planning and Quarterly Reporting Format) and signed by the VFAG Committee and the DAFO representative present at the meeting.

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 investment payment (up to an average of 13.200 EUR). 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 WhiteList. Grants for agricultural investments shall be given with priority to poorer and female headed households.

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.

If the village decides to seek support from the DPMU for procurement, the DPMU shall assist the VFAG Committee to procure goods and services specified in the VFAG plan. The benefiting households remain the buyers of the goods and services and need to agree to the procurement.

DPMU cooperates closely with DAFO 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.

The 3 VFAG committee members with support from DPMU technical teams prepare/elaborates a VFAG quarterly financial report to EPF by using all the project provided financial formats.

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

The following is a brief explanation of the information required for Cash for Work reports and Investment Payment reports.

#### **Cash for Work: Implementation of annual village forest plans for village**

Settlements according to:

- Annual village forest operational plans
- Participants lists of workers and information on the amount of payments according to the annual plan
- Fingerprint or signature of the worker for each payment
- Approval of the village agriculture and forestry sub-unit (VAFSU)

#### **Cash for Work: Provide village conversation funding**

Settlements according to:

- Annual village forest operational plans
- Participants lists of workers and information on the amount of payments according to the annual plan
- Fingerprint or signature of the worker for each payment
- Implementation report of the village agriculture and forestry sub-unit (VAFSU)

#### **Implementation of the upfront Investment Payments**

Settlements according to:

- Approval for the Village Forestry and Agriculture Grant Committee (VFAG-C) and DAFO
- Project idea must be within the criteria of the White-List
- VFAG-C financial report (list of expenditures) on the implementation of the investment payments

#### 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 confirmed by DPMU and VFAGCs can request to EPF to transfer funds direct to VFAG bank account.

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

### 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:
    - 100% bonus payment, if the forest cover in ha is 95% or higher compared to the determined ha in the Village Forest Management Agreement
    - or**
    - 50% bonus payment, if the forest cover in ha is between 75 – 94,9% compared to the determined ha in the Village Forest Management Agreement
    - or**
    - 0% bonus payments, if the forest cover in ha per village is below 75% compared 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 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 transparently and accountably and prepare quarterly financial statements to EPF; at each annual assembly meeting, the VFAG must report in detail on progress and financial issues to DPMU.
- (8) The VFAG Assembly appoints sub-committees, entrusted persons and farmer groups for the actual implementation of activities and investments financed by the VFAG.