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.

FONERWA\(^1\) 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.

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\(^1\) 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.
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.

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

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**WINDOWS 3**

1. Strategic Environment & Climate Assessments (SECAs)
2. Sector-specific adaptation and mitigation
3. Support to implementation of cross-sectoral integrated planning

**WINDOW 4**

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.
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

In-Kind (Proposal Development)
- NGOs/CSOs
- Govt Bodies
- Business Enterprises

Grant Component
- NGOs/CSOs and Business Enterprises
- Govt Bodies

Low Interest Loans
- Business Enterprises
- Govt Bodies

Guarantee Component
- Commercial Banks
- Business Enterprises
- NFBIs (i.e. MFI/SACCO)
- Individuals/Group Loans

Investment Component and other Innovative Instruments
- Business Enterprises

Short Term

Medium Term

Long Term
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 MINRENA 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 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

**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

Preparation of Project Profile Document (PPD)

Initial Screening

The Project is Ready for Full Formulation

The Project Does not fit the Basic Principles

Some Comments Need to be Addressed

Recommend Reformulation of the Project

Technical Appraisal

Preparation and Submission of Full Project Document

Technical Appraisal by Fund Management Team

Appraisal Review

Strategic Appraisal by FONERWA Technical Committee (FTC)

Endorsement and Final Approval

Final Approval by FONERWA Managing Committee (FMC)

Negotiation and Financing Agreement

3 months from Start to Finish
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)
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Disclaimer: This document is an output from a project funded by the UK Department for International Development (DFID) for the benefit of developing countries. However, the views expressed and information contained in it are not necessarily those of or endorsed by DFID or the members of the Climate and Development Knowledge Network*, which can accept no responsibility or liability for such views, completeness or accuracy of the information or for any reliance placed on them.

*The Climate and Development Knowledge Network (“CDKN”) is funded by the Department for International Development and the Dutch Ministry of Foreign Affairs and is led and administered by PricewaterhouseCoopers LLP. PricewaterhouseCoopers LLP is assisted in the management of CDKN by an alliance of organisations comprising the Overseas Development Institute, Fundacion Futuro Latinoamericano, SouthSouthNorth, LEAD International, and INTRAC.