



Profonanpe



Code of Good Corporate Governance

December 2021

1. Background

In May 2019, a restructuring process of Profonanpe began with the aim of adapting its organizational structure so as to allow its institutional growth and make it an allied institution for the implementation of the country's environmental agenda.

Two years after these changes began, Profonanpe has increased the value of managed assets by 142%, from US\$65.1 million to US\$112.3 million, manages a portfolio of 16 projects, and has obtained financing from the GEF-7 for 4 new projects, which amount to US\$42.9 million.

Profonanpe understands that this growth requires the adoption of strict fiduciary standards providing donors with the guarantee of proper management of their resources. At the same time, it imposes a massive responsibility on its Board of Directors in strategic direction and, due to the increase in managed assets, very diligent risk management is required.

Thus, during the course of 2020, the foundations to strengthen the framework of institutional integrity began to be laid. This involved, on the one hand, the hiring of a Compliance and Integrity Officer, who reported to the Board of Directors and whose role is ensuring that Profonanpe complies with Risk Management, the Internal Control System, and legal and regulatory requirements that apply to the sector and that pose a risk for the achievement of institutional objectives, and reporting suspicious transactions to the Financial Intelligence Unit (FIU). On the other hand, work was also started for the formulation of policies and regulations that guarantee an ideal framework for Profonanpe to be managed in a transparent and integral manner.

One of the elements of this integrity framework is the Code of Good Corporate Governance that compiles the framework of corporate action of Profonanpe, in such a way that donors, suppliers, employees, and other interest groups, be aware of the guidelines of conduct, policies and governance practices that guide the Board of Directors.

2. Nature and Objectives of Profonanpe

Profonanpe was created in 1992 as a private non-profit institution of public and social interest in charge of collecting, channeling, and assigning complementary

resources required to contribute to the conservation, protection, and management of protected natural areas (PNA). During its 29 years of managing and implementing programs and projects, it has explored ways of financing to guarantee adequate management of PNAs, tested schemes for the protection of natural areas with the participation of local communities, and assessed ways to combine conservation approaches with sustainable use. It has also managed to position itself internationally through accreditation to two international climate change funds, the Green Climate Fund and the Adaptation Fund.

With the recent merger with the National Environment Fund (FONAM), in January 2020, Profonanpe extends its framework for action to the collection, channeling, and managing of complementary resources aimed at the comprehensive management of the environment including forests, water, air, soil, solid waste, climate change, biological diversity, environmental liabilities, and continues with its agenda to strengthen PNAs. In this way, Peru now has a single fund in environmental matters, and Profonanpe becomes a strategic ally of the National Environmental Management System (NEMS) for the implementation of the national environmental policy.

3. Purpose, Vision and Mission

In accordance with the provisions of the Strategic Plan 2020-2025, Profonanpe has a wide range of functions, which are carried out in almost the entire national territory and involve different types of actors.

Our activities have the human being as a main actor and; therefore, we seek their connection with the environment in the different roles they play.

Propósito
PROMOVER LA SOSTENIBILIDAD DE LA VIDA CONECTANDO A LA HUMANIDAD CON EL MEDIO AMBIENTE

Purpose

FOSTER SUSTAINABILITY OF LIFE BY CONNECTING HUMANITY WITH THE ENVIRONMENT

Our vision for the 2021 - 2025 period is to be the ultimate partner for the implementation of programs and projects that generate a high impact in the execution of the national and regional environmental agenda. To that end, we work together with our stakeholders on strategic interventions linked to the conservation and sustainability of nature.

Visión

SER EL ALIADO REFERENTE EN LATINOAMÉRICA
PARA LA IMPLEMENTACIÓN DE LA AGENDA
AMBIENTAL

Vision

TO BE THE REFERENCE ALLY IN LATIN AMERICA FOR THE IMPLEMENTATION OF
THE ENVIRONMENTAL AGENDA

Our mission is to implement projects collaboratively with our partners to
positively impact the environment and people.

Misión

GESTIONAMOS PROYECTOS COLABORATIVOS QUE
IMPACTAN POSITIVAMENTE EN EL MEDIO
AMBIENTE Y LAS PERSONAS

Mission

WE MANAGE COLLABORATIVE PROJECTS THAT POSITIVELY IMPACT THE
ENVIRONMENT AND PEOPLE

4. Institutional Principles

Profonanpe interventions are performed following these principles:

a. Integrity

At Profonanpe, we understand integrity as a commitment to accountability, understanding that we depend on those institutions and people who trust us by complying with their regulatory standards, certifications, and expectations.

We are an open institution that fosters internal and external information to be communicated in the most genuine and timely manner possible. Finally, we adhere to ethical standards in every decision and action we take to achieve our institutional objectives.

b. Innovation

At Profonanpe, we understand innovation as the constant search for new and better ways of doing things, as well as new mechanisms and services to promote improvement of the environment, always framed within the fulfillment of our strategic objectives and those of our allies. In addition, we are an organization that is characterized by its flexibility and adaptability to the challenges of the environmental sector.

c. Pursuit of Excellence

At Profonanpe, we constantly challenge ourselves and seek continuous improvement through all our processes.

We are agile and vocal, since we answer and communicate the demands of our strategic allies in a timely manner, providing solutions that generate shared value.

d. Empathy

We are empathetic to the needs of our stakeholders (cooperators, execution partners, implementing entities, communities, private sector, and public sector), and we always seek to anticipate their expectations. We are aware that through our actions we contribute to the sustainable development of people's lives, our country, and the planet.

e. Sense of Urgency

We act promptly and with the intent of making things happen efficiently and effectively. Having a sense of urgency means, for Profonanpe, doing what needs to be done immediately, without being asked, and as thoroughly as possible to create change.

5. Scope

This Code of Good Corporate Governance provides the principles to be followed mainly by the two management bodies of Profonanpe, so that they express their desire for self-regulation to the different stakeholders to which Profonanpe is related.

6. Management Bodies of Profonanpe

According to Section 8 of the Internal Regulations of Profonanpe (approved on 03/23/2021 through Supreme Decree No. 001-2021-MINAM), the entity has the following bodies: the Board of Directors (supreme body), the Executive Directorate, and the Management Board.

The course of Profonanpe is defined through the decisions, leadership, and execution of its two management bodies: the Board of Directors and the Executive Directorate.

6.1 Board of Directors

● Principle 1: Composition and Appointment Mechanisms of the Board of Directors

The Internal Regulations of Profonanpe indicate that the Board of Directors is made up of 8 members:

- a) Four (4) government officials:
- The Minister of the Environment or their representative, who serves as the chair.
 - The Head of the National Service of State-Protected Natural Areas.
 - A representative of the Ministry of Economy and Finance.
 - A representative of the regional governments, appointed by the National Assembly of Regional Governments (ANGR).

The Minister of the Environment's representative is appointed by Ministerial Resolution.

The appointment of the ANGR's representative shall be made by its Board of Directors and shall be communicated in writing to the Minister of the Environment.

- b) Two (2) representatives of Non-Governmental Organizations (NGOs) with a well-known trajectory in environmental management.

Said representatives are elected in accordance with the procedure established by Profonanpe for this purpose.

- c) One (1) representative of the business unions, chosen by the Confederation of Peruvian Business Institutions (CONFIEP), in accordance with the procedures established by the aforementioned confederation, among business institutions with a well-known trajectory in the capital market and/or wealth management.

- d) One (1) representative of an international organization for technical and financial assistance, who is invited to participate by the Ministry of Environment at the suggestion of the Board of Directors.

The members of the Board of Directors of Profonanpe, with the exception of the Minister of the Environment or their representative, and the Head of the National Service of State-Protected Natural Areas, are appointed by Supreme Resolution, endorsed by the Minister of the Environment.

With the exception of the government officials, the term of office of the other representatives of the Profonanpe Board of Directors shall be two (2) years,

being able to be re-elected for the same consecutive term. Likewise, if the term of office has concluded without their re-election being ratified or their substitute being appointed, they shall continue in the exercise of their functions until the issuance of the Supreme Resolution, through which the respective designation is made.

- **Principle 2: Independence of the Board of Directors** **OECD 2**

The members of the Board of Directors are personally responsible for making decisions applying their criteria autonomously and objectively. In the same way, their decisions shall be framed on the principle of good faith, with diligence, with due attention, and be aimed at achieving the institutional strategic objectives.

Their opinions should always be recorded in the minutes, especially when they support dissenting opinions.

- **Principle 3: Functions of the Board of Directors**

The Board of Directors is the ruling body of Profonanpe and the highest decision-making body, being the institution's internal policy-setting and normative body. As such, it is the highest authority to establish and enforce institutional strategies, plans, and policies. Its members hold office on an honorary basis.

The functions and responsibilities of the Board of Directors are clearly defined in the Internal Regulations and in the Statutes of Profonanpe. The Board of Directors shall meet regularly, at least once a quarter, to ensure timely monitoring of all priorities of Profonanpe.

The functions of the Board of Directors are different from those of the Executive Directorate, and there should not be situations that harbor duplication or conflicts of functions between these two bodies.

The directors shall not have a labor or commercial relationship, directly or indirectly, with Profonanpe.

- **Principle 4: Duties and Rights of the Members of the Board**

The members of the Board of Directors shall carry out their work with due good faith, diligence, high standards of ethics, care, and reserve, always acting with loyalty and in favor of the entity's interests.

In its performance, the Board of Directors, as a body, acts with unified criteria, and the members exercise their functions with independent criteria. The members of the Board of Directors have the right to request the support or contribution of experts, to participate in induction programs on their powers and responsibilities, as well as to be timely informed about the entity's organizational structure. As mentioned above, its members hold office on an honorary basis.

The members of the Board of Directors shall be provided, sufficiently in advance, with all the information related to the matters to be dealt with within the sessions of the Board of Directors. Furthermore, they shall be provided with all the tools to fully fulfill their functions.

The functions that shall be included in the Internal Regulations and Statutes are the following:

- Reviewing and guiding corporate strategies, major action plans, risk management strategies and procedures, annual budgets and plans of business; setting performance targets; monitoring the management performance; supervising the investments made.
- Controlling the effectiveness of the governance practices of Profonanpe and introducing the necessary changes.
- Selecting, rewarding, and controlling the Executive Director, as well as supervising the succession plan when appropriate.
- Controlling and managing possible conflicts of interest between the Directorate and the Board of Directors.
- Guaranteeing the integrity of accounting and financial reporting systems, including independent auditing, and the adoption of robust systems of control, risk management, economic and operational control, and their adaptation to the relevant legislation and standards.
- Supervising the process of information and communications.

● **Principle 5: Functioning of the Board of Directors**

The entity has a document called the "Profonanpe Statutes" which mentions the rules for the proper functioning of the Board of Directors, its organizational structure, as well as its functions and the responsibilities of the Chair of the Board of Directors.

The Board of Directors shall foster and facilitate the creation of special committees within it, in order to support important and permanent issues in the progress of Profonanpe, which given its complexity, merit specialized and more detailed treatment.

Said committees shall report to the Board of Directors on their decisions and recommendations. It is recommended that the committees be made up mostly of independent members. The aspects that may motivate such committees are, among others: audits, appointments, remuneration, and assessment of compliance with duties. As least, an audit committee shall be formed, whose functions are:

- Supervising of risks and internal control.
- Approving accounting policies and supervising their compliance.
- Keeping integrity of financial statements.
- Guaranteeing qualifications, independence, and performance of the Financial Auditor.
- Supervising the Internal Audit function.
- Supervising compliance with internal regulations and standards, laws and regulations.

5.1. Executive Director

The Executive Director is responsible for the effective management and daily supervision of the programs and projects of Profonanpe, and is elected by the Board of Directors. The Executive Director exercises the legal representation of Profonanpe, at the national and international levels, having for that end, the powers to file claims, counterclaim, answer claims and counterclaims, withdraw from the process and the claim, agree to the claim, reconcile, compromise, submit to arbitration the disputed claims in the process, substitute or delegate procedural representation, celebrate extrajudicial transactions, intervene in the Meeting of Creditors, in accordance with the provisions of Section 75 of Legislative Decree No. 778.

The functions and responsibilities of the Executive Director are clearly delimited in the Statute and/or in the internal regulations of Profonanpe, and are duly disseminated in its different instances.

The Executive Director follows the directing role of the Board of Directors and the policies and guidelines that it establishes, and shall have a sufficient margin of autonomy to carry out work efficiently, always being obliged to account to the Board of Directors for any decisions. The Executive Director is required to act following the principles of due diligence, care, and reserve towards the interests of Profonanpe.

- **Principle 6: Communication Channels between the Board of Directors and the Executive Director**

The Board of Directors develops and keeps effective channels of communication and interaction with the Executive Director, preserving the proper order among the different instances and respecting the existing hierarchies in Profonanpe.

The Executive Director is the competent instance to channel the requirements of the members of the Board of Directors. Procedures shall be developed so that the Board of Directors is regularly aware of the requests for information made by its members.

- **Principle 7: Evaluation Mechanisms of the Board of Directors and the Executive Director**

Defined and known performance evaluation mechanisms of the Board of Directors and the Executive Director have been developed. Objective indicators applicable to each of the referred cases, but which essentially reflect the contribution of those evaluated to the fulfillment of the objectives of Profonanpe, as well as their own functions, are prioritized. The evaluation of the Board of Directors is carried out once a year, and the participation of an external evaluator is required to ensure the objectivity of the exercise.

On the other hand, the evaluation of the Executive Director is the responsibility of the Board of Directors. For this purpose, board meetings are held without the presence of the Executive Director. The reports are made known to those evaluated for their discussion and proposal of adjustments for better performance.

- **Principle 8: Continuity Plan of the Executive Directorate**

The Board of Directors shall define and implement a succession plan for the Executive Director, in order to ensure the continuity of Profonanpe's activities and thus minimize the transition impact. Additionally, it is recommended that Profonanpe have a succession plan seeking the professional growth of its employees, so as to allow adequate administration and retention of internal talent.

- **Principle 9: Reports of the Board of Directors**

Once a year, the Board of Directors shall request a report from the Audit Committee on the situation of Profonanpe's Corporate Governance, in all its relevant aspects, highlighting the constraints that still exist, as well as the policies and mechanisms that shall be adopted to overcome them. The reports shall be linked to the different principles set forth in this Code of Good Corporate Governance. The Executive Director actively participates in the making and discussion of these reports. The Board of Directors approves this report.

7. Risk Policy and Code of Ethics

- **Principle 10: Effective Risk Analysis System**

Profonanpe has systems and procedures that make it possible to timely identify the different risks it faces and to measure the potential effects that they could have on its operation and financial situation. Likewise, the tools that Profonanpe uses to reduce or manage these risks shall be clearly identified and operational.

The Board of Directors is responsible for establishing the monitoring, control and risk management policies, for which effect it may request the reports it deems pertinent from the entity in charge.

The Board of Directors is responsible for the making, dissemination and supervision of Profonanpe's Code of Ethics.

The Profonanpe Compliance and Integrity Officer is in charge of ensuring and monitoring the actions established to mitigate or manage the identified risks. Additionally, they are responsible for defining and implementing controls to mitigate/address corruption risks, based on Profonanpe's Crime Prevention Model, along with the areas involved.

- **Principle 11: Internal Control**

Internal Control is an integrated and dynamic management process that, through verification, supervision, and surveillance mechanisms, supports an institution in achieving its planned goals, reducing the risks that it may face along the way. In the case of the entity, as indicated in its "Declaration About Internal Control in Profonanpe", it is inherent to its functions as an environmental fund. Through this, the efficiency and transparency of the processes, the reliability of the information, the protection of managed resources, and accountability are guaranteed, in accordance with international internal control standards.

The Internal Control process is applied in all instances of Profonanpe, led by its Board of Directors and Executive Directorate, and implemented through the Administration and Finance Management, and the Monitoring and Evaluation Directorate, in coordination with the areas reporting to them. The details of the implementation of Profonanpe's Internal Control process are contained in its Operations Manual, and it is supported by the Integrated Virtual Management System EMMA.

At the Administration and Finance Management level, the Internal Control mechanisms allow efficient and documented management and supervision of the resources, assets, and operations managed by Profonanpe; always with transparency and truthfulness in the information that is managed and delivered to our donors and executors, within the framework of the agreements we sign.

At the level of the Monitoring and Evaluation Directorate, the Internal Control mechanisms allow follow-up and monitoring of compliance with the agreements made between donors, executors, and Profonanpe, in order to ensure that the resources are effectively allocated to the performance of the relevant activities for the fulfillment of the goals and within the established terms.

- **Principle 12: External Control**

The verification of the effectiveness and efficiency of Profonanpe's Internal Control mechanisms is validated annually, through external audits that are carried out on the institution by independent entities and/or consultants. These audits allow us to periodically review the institutional processes and give us the opportunity to implement constant improvements, always with a view to punctual and correct compliance with the commitments assumed.

Profonanpe is currently carrying out financial audits, both for the entity and for the projects in the portfolio; furthermore, audits are being carried out on management issues.

- **Principle 13: Code of Ethics**

Profonanpe's Board of Directors shall approve a Code of Ethics, which covers different aspects that could affect its management. The Code shall reflect clear principles of combating corruption in all areas of Profonanpe's performance, and provide specific mechanisms that protect and encourage interested parties, and especially workers, to report any illegal or unethical conduct of Profonanpe staff. The Code of Ethics is the key pillar of the organization in terms of the corruption risk prevention model and the integrity model in general.

Profonanpe rigorously reviews the Code of Ethics that it has decided to apply, fostering its full knowledge and compliance by all its personnel, directors, and members of the Board of Directors. This Code establishes the incentives and sanctions that favor its compliance or non-compliance, respectively, and the Board of Directors shall require the Compliance and Integrity Officer to report on monitoring the Code of Ethics on a regular basis.

The directors, heads, and anyone with a decision-making capacity shall immediately report the nature and extent of the conflict of interest that they have with Profonanpe, and shall refrain from participating in decision-making related to such a situation, particularly in processes that involve hiring of persons or entities that are linked to them.

8. Transparency and Disclosure of Information

- **Principle 14: Financial Statements and Management Report**

Profonanpe prepares its Financial Statements adhering to the International Financial Reporting Standards (IFRS), issued by the International Accounting

Standards Board (IASB) and which are in force internationally.

Likewise, the Board of Directors approves once a year the Profonanpe Management Report, which reports, among other topics, on its financial performance, actions within the framework of institutional strengthening, the performance of projects during the year, human management situations, among other significant events for the entity.

- **Principle 15: Information Policy**

The Board of Directors shall establish, publicize, and enforce Profonanpe's Information Policy, which is aimed at making known in a complete, precise, timely manner, and if applicable, periodically, what is related to Profonanpe's public interest activities.

Furthermore, the Board of Directors shall approve non-public information management policies, by which the directors, managers, and other workers, who have access to information that is not yet public, adhere to the principles of confidentiality and care of the interests of the EPE; in any case, not taking advantage, for themselves or third parties, of the use of said information, even after it has been disclosed. The improper use of such information shall be severely penalized.

- **Principle 16: Information Mechanisms**

There are specific and regular mechanisms to implement the Information Policy, through which access to information referring to Profonanpe is disclosed or allowed. Such mechanisms are chosen in such a way that the greatest possible scope of disclosure is achieved, either individually or jointly. In turn, requests for information are dealt with through well-defined and well-known channels. The Board of Directors is responsible for defining these mechanisms, as well as monitoring their proper functioning.

9. Acceptance, Compliance, Monitoring, Modification, Violation and Validity of the Code of Good Governance

- **Principle 17: Acceptance and Compliance**

This Code of Good Governance is applicable to the governing bodies of Profonanpe, which shall act in accordance with its content.

Profonanpe shall disseminate the content of this Code by publishing it on its information access channels.

- **Principle 18: Monitoring**

The monitoring and control of the Code of Good Governance implementation shall be the responsibility of the Board of Directors, which shall ensure its dissemination, knowledge, and interpretation, making the recommendations and proposals that are necessary to keep it updated and improve its content.

- **Principle 19: Modification**

Any modification of the Code of Good Governance shall require the approval of the Board of Directors.

- **Principle 20: Violation or Non-Compliance**

Any violation or breach of the Code of Good Governance shall be communicated, by whoever has knowledge, to the Chair of the Board of Directors or to the Compliance Officer, who, according to their nature, shall define the channel that would be followed for the information received.

The confidentiality of said information shall be guaranteed, as well as the identity of the person who provides it.

- **Principle 21: Validity**

This Code of Good Governance has been approved at the meeting of the Profonanpe Board of Directors, held on December 15, 2021 and shall remain in force until its modification is approved.