



Department
of Energy &
Climate Change

BioCarbon Fund Initiative for Sustainable Forested Landscapes

First Annual Review

June 2015

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Executive summary

This is the first annual review of the Department of Energy and Climate Change's (DECC) £50m investment in the World Bank's BioCarbon Fund Initiative for Sustainable Forested Landscapes (ISFL or Initiative). This Review covers the period since the Initiative was launched in November 2013 to May 2015. Overall, DECC is pleased with the good progress that has been made in the design of initiative level and country level programmes of work. However much still needs to be finalised and there remains a relatively high level of uncertainty relating to programme delivery. To some extent this is expected at this early stage however uncertainty could be reduced by implementing and communicating to donors programme management control such as formal planning and risk management, finalising a monitoring and evaluation plan and taking forward the other recommendations outlined in this Review.

Summary

Title: BioCarbon Fund		
Programme Value: £50m DECC investment	Review Date: 17.05.2015	
Programme Code: BioCF	Start Date: 20.11.2013	End Date: 31.12.2030

Summary of Programme Performance

Year	2015							
Programme Score	B							
Risk Rating	Medium							

Summary of progress and lessons learnt since last review

This is the first annual review of the Department of Energy and Climate Change's (DECC) £50m [investment](#) in the World Bank's BioCarbon Fund Initiative for Sustainable Forested Landscapes (ISFL or Initiative). This Review covers the period since the Initiative was launched in November 2013 to May 2015. Overall, DECC is pleased with the good progress that has been made in the design of initiative level and country level programmes of work. However much still needs to be finalised and there remains a relatively high level of uncertainty relating to programme delivery. To some extent this is expected at this early stage however uncertainty could be reduced by implementing and communicating to donors programme management control such as formal planning and risk management, finalising a monitoring and evaluation plan and taking forward the other recommendations outlined in this Review (see p.3).

Since the Initiative was launched a number of key outputs have been achieved which are summarised below¹.

Smart management

During 2014 the Initiative and its donors began work to develop some smart management principles to guide the ISFL in achieving timely progress. This work is still ongoing and these principles are expected to be formalised in consultation with relevant stakeholders soon. DECC is pleased with the progress that has been made and encourages the ISFL team to complete the consultation by the end of 2015.

Country selection and programme design

Four target forest countries (Colombia, Ethiopia, Indonesia and Zambia) have been selected. The World Bank, donors, and recipient governments have agreed to the scope of programmes in Zambia and Ethiopia, with windows to fund these countries now formally announced as open. Colombia's programme is expected to be announced as open later this year. Indonesia's programme will take longer than expected due to the impact of country's recent General

¹ See Section B for more detail on performance

Election and the reorganisation of key ministries. DECC is pleased with the progress that has been made. Programme milestones should be updated so that progress can be measured effectively.

Private sector engagement

Good progress has been made on engaging the potential private sector partners both at a global level and in target geographies based on analysis of drivers of deforestation and their associated supply chains. Discussions on potential partnerships are underway in the two most advanced programmes (Ethiopia and Zambia).

Monitoring and Evaluation

The ISFL has begun to develop a Monitoring and Evaluation (M&E) approach. The Bank and donors have agreed to a first draft of the Initiative's logical framework (['logframe'](#)) and theory of change. This represents significant progress in establishing the objectives of the Initiative at the global level. However, the detail of what the ISFL intends to achieve will be revised substantially throughout 2015, as local level (country window) programme designs are completed. The Initiative will regularly review progress and share lessons learned at Initiative-level and programme-level annual meetings. The ISFL's first Annual Meeting will take place in August 2015. DECC is content with the progress made but this Review highlights the need to improve the M&E Plan as outlined in the recommendations below.

CSO Engagement

The ISFL is currently working on an approach to engage with civil society organizations (CSOs) and other relevant stakeholders, including indigenous peoples, at both the Initiative and program levels. Further progress in this area is expected in the coming year.

Resource mobilisation

Resource mobilisation continues and there is now scope to build programmes that are very significant in scale. Contributions to ISFL now total \$363m². The number of World Bank staff on the ground in target forest countries is also increasing to support the development of programmes. However additional work to clarify future staff needs is underway. Details of full-time equivalents for in-country staff will be analysed and will be included in future reviews.

The above examples demonstrate the encouraging progress that has been made towards the programmes outputs. However an overall output score of B (moderately did not meet expectations) has been decided on the basis that the current logframe does not adequately capture expectations and progress and there are methods recommended to reduce the uncertainty and clarify expectations and reduce uncertainty to a level which DECC is more comfortable with. If the recommendations outlined below (p.3) are implemented by the World Bank ISFL team, in partnership with donors, an improved score of A (met expectations) would be warranted by the time of the next ICF Annual Review in Spring 2016.

² This figure may vary due to exchange rate fluctuations.

Summary of Recommendations

The below lists the key recommendations that the World Bank ISFL team should implement (in partnership with donors) in order to improve the performance of ISFL over the next year:

- Complete consultation on ISFL's '**smart management principles**' that guide the timely delivery and governance of the initiative by the end of 2015.
- Finalise **decision making process** by the end of 2015 and continue **clear communication** between the Bank and donors on milestones and information required to make decisions. This will need to continue for all ISFL programmes
- Develop Initiative Level **M&E plan** by the end of 2015 (this should include updates and improvements to the log frame, setting out ISFL's approach to evaluations and outlining an approach to developing programme level M&E). This should be discussed at the ISFL Annual Meeting in August 2015.
- Update expected timeframes for key **programme milestones** so that progress can be measured effectively. This should be complemented by an outline plan of work and decisions at the initiative level and a strategy to identify risks to timely programme delivery and appropriate mitigation strategies).
- Communicate with Contributors ISFL's **risk management strategy** (including, *inter alia*, an assessment of the option to over programme the portfolio to address the delivery risks; consideration of new ways to articulate the ambition, scale and breadth of the programmes that ISFL and support to forest nation governments and to gain the political leadership required and avoid further delays in programme development, consideration of the risk of outstanding funding gaps to ensure the programmes' viability). This should be discussed at the ISFL Annual Meeting in August 2015.
- Complete analysis of **staffing requirements** at the initiative and programme level and include this in the budget forecasts as part of the initiative and programme level annual reports. This should be completed prior to the next ICF Annual Review in spring 2016.

A detailed assessment of lessons learned and associated recommendations is available at Annex A.

A. Introduction and Context

Business Case:	Business case
Link to Log frame:	Log frame and Theory of Change
Webpage	ISFL webpage

Outline of the programme

Opening of the initiative

DECC made a founding £50m (c. 77m³ USD) investment in the ISFL in November 2013. DEFRA has also committed £65m (c. 100m USD) to fund the Initiative (this includes the additional £40m contribution announced in January 2015). A [joint announcement](#) of the opening of the ISFL, with donor partners Norway (c. 117m USD) and the US (25m USD), was made at the UNFCCC Conference of the Parties in Warsaw (COP19). Germany joined the ISFL at the Conference of the Parties in Lima (COP20) with a c. 44m USD contribution. Contributions to date total c. 363m⁴ USD.

Objectives

The objective of the ISFL is to promote and reward reduced greenhouse gas emission reductions and increased sequestration through better land management, including REDD+⁵ (Reduced Emissions from Deforestation and forest Degradation), climate smart agriculture, and smarter land use planning and policies.

³ These figures (in USD) may vary due to exchange rate fluctuations.

⁴ These figures (in USD) may vary due to exchange rate fluctuations.

⁵ REDD+ stands for countries' efforts to reduce emissions from deforestation and forest degradation and foster conservation, sustainable management and enhancement of forest carbon stocks. The mechanism was requested by the Coalition of Rainforest Nations at COP11 (2005, Montreal) and its methodologies been under negotiation since.

At COP16 (2010, Cancun) Parties reached an agreement to adopt a three-phase REDD+ mechanism as part of the Framework Convention on Climate Change. The phases are: (i) readiness building, (ii) support to pilot implementation and (iii) results-based payment for emission reductions. At COP19 (2013, Warsaw) Parties agreed the UNFCCC's Warsaw Framework on REDD+ which outlines a work programme for REDD+ results-based finance, safeguard methodologies and guidance for baseline setting and monitoring, reporting and verification.

Several climate finance initiatives have been piloting the application of these REDD+ methodologies on the ground e.g. the UN REDD programme and World Bank's Forest Carbon Partnership Facility (FCPF). The majority of support to date has focussed on the first REDD+ phase, 'readiness building', but several forest nations have now progressed to a point where implementation and results-based support is required.

The ISFL seeks to foster low-carbon sustainable development. It supports developing forest nations to reduce deforestation and greenhouse gas emissions from other forms of land use change. It aims to demonstrate new approaches that can be applied globally, e.g. in national low-carbon strategies and global mechanisms of donor support such as REDD+.

To achieve these impacts the ISFL supports forest nations to improve land management, maintain and improve livelihoods, conserve biodiversity and leverage significant private and public sector finance to achieve transformational change.

Approach

In its initial round of activity the ISFL has elected to focus intensive effort in a small number of forest nation geographies (4-5). It will pilot programmes at transformational scale, with activities that go far beyond individual projects to cover whole jurisdictions with a focus on addressing the capacity and enabling environment necessary to produce such change.

The ISFL intends to deploy diverse incentives, including results-based finance, to catalyze changes across a landscape. The landscape approach looks at the trade-offs and synergies between different land-uses that may compete in a jurisdiction - such as agriculture, energy, and forest protection - and identifies integrated solutions that serve multiple objectives. Adopting a landscape approach means implementing a development strategy that is climate smart, productive and profitable at scale, and strives for positive environmental, social, and economic impact. Ultimately, the actions taken across the landscape will lead to significant reductions in greenhouse gas emissions by addressing structural issues which lead to deforestation.

Simultaneously, Consumer Goods Forum companies worth c £2trn a year in annual sales have committed to remove deforestation from their supply chains by 2020. The ISFL seeks to harness this impetus, actively engaging major commodity producers, aggregators, traders and buyers to create public-private partnerships (PPPs).

The ISFL has flexibility to support all three phases of the REDD+ process (i) developing a strategy and building capacity (ii) upfront investment to pilot implementation (iii) results-based (carbon) payments to take delivery to greater scale. The majority of the available funding is intended as payment for verified emission reductions (phase III).

B: Performance and Conclusions

Annual outcome assessment

At this early stage, our assessment is that the ISFL is likely to achieve the outcomes outlined in its draft logframe, but with considerable uncertainty in terms of timing of deliverables which breaches our initial expectations. The main sources of uncertainty are:

- Local programme designs are not yet finalised and agreed.
- Therefore, estimates of likely outcomes are still based on hypothetical scenarios created to inform the analysis of costs and benefits in the UK's Business Case for investment in ISFL.
- There are significant risks to successful delivery of the programme's outcomes (see section E).
- The programme's proposed outcomes are long term, running to 2030.
- The ISFL has yet to conduct a systematic review of progress and lessons learned – this will be conducted in time for the ISFL Annual Meeting in late summer of 2015.

As the Initiative is still in the process of designing local programmes no outcome-level results were expected at this stage. Examining progress towards delivering expected output-level results is more meaningful.

Overall output score and description

B – moderately did not meet expectations

We assess the ISFL to be on course to achieve the outputs outlined in its draft logframe. However the logframe will be developed further as country programme design advances. Currently the logframe does not adequately capture our short term expectations and it needs to be completed to ensure the longer-term targets are aligned with DECC's expectations. There remains a significant level of uncertainty relating to Initiative and programme delivery. To some extent this is to be expected at this early stage; however uncertainty could be reduced by implementing and communicating to donors programme management controls such as formal planning and risk management and finalising a monitoring and evaluation plan.

Since the Initiative was launched in November 2013 a number of key outputs have been achieved:

Smart management

During 2014 the Initiative and its donors began work to develop some smart management principles to guide the ISFL in achieving timely progress. This work is still ongoing and these principles are expected to be formalised in consultation with relevant stakeholders. DECC is pleased with the progress that has been made and encourages the ISFL team to complete the consultation by the end of 2015. Donors to the ISFL are expected to fund selected country windows; they are not expected to contribute to all geographies. A smaller number of donors are expected to fund a given window in larger volumes, simplifying programme level decision

making. Most decisions will be taken locally (i.e. country window) rather than at the global level (i.e. ISFL). For example, the selection of countries into the ISFL will be an Initiative level decision taken by all donors to the ISFL, whereas the budgets for individual programmes within the Initiative will be taken a programme level by the selection of donors intending to contribute to that country window. The ISFL also aims to focus stakeholder engagement at the local level, including transparent and impartial engagement of private sector partners and civil society. However, it will also update global stakeholders at regular intervals and ensure lessons from country windows are synthesised and shared with a global audience. DECC is pleased with the smart management principles and the efforts undertaken by the ISFL to simplify processes.

Country selection and programme design

Four selection criteria (relating to REDD+ capacity, an assessment of agriculture and commodities as key drivers of deforestation and forest degradation, plans for setting a reference level and national MRV system, and REDD+ funding and the strength of the enabling environment and country governance) were used to identify four target forest countries: Colombia, Ethiopia, Indonesia and Zambia. The ISFL has approached ministers in these countries, who have indicated their interest in participating in the Initiative. The World Bank, donors and recipient governments have agreed to the scope of programmes in Zambia and Ethiopia, with windows to fund these countries now formally announced as open. The scope of Colombia's programme is close to being agreed, with formal opening of the window expected to be announced in 2015. The development of Indonesia's programme will take longer than expected due to the impact of country's recent General Election and the reorganization of key ministries. DECC is pleased with the progress that has been made. However, programme milestones should be updated so that progress can be measured effectively and a risk management strategy should be developed to ensure the delivery risks are minimised.

Private sector engagement

The ISFL has engaged with key potential private sector partners both at a global level and in target geographies. This engagement has been led mainly by the World Bank's International Finance Corporation (IFC). The IFC has developed an ISFL 'offer' to pitch to the private sector and has been analysing existing low-deforestation and climate-smart approaches that companies are already employing. For each of the target jurisdictions a detailed analysis of drivers of deforestation and their associated supply chains will inform the approach to public-private partnerships. So far this analysis has been undertaken for Ethiopia and Zambia. The Bank is in discussions in Ethiopia with a global coffee off-taker to increase sustainability in farmer practices. The Bank is also in discussions with a large agri-business in Zambia with the potential to collaborate. DECC is encouraged by the progress that has been made to date and encourages further work to expand and build on these early successes.

Monitoring and Evaluation

The ISFL has begun to develop a Monitoring and Evaluation approach. The Bank and donors have agreed to a first draft of the Initiative's logical framework ('[logframe](#)') theory of change. This represents significant progress to establish the objectives of the Initiative at the global level. However, the detail of what the ISFL intends to achieve will be revised substantially throughout 2015, as local level (country window) programme designs are completed. Currently, the logframe serves as a starting point that mainly reflects overarching goals and donor engagement with the ISFL. However, indicators will be developed as programmes are further along in design. At this stage the Initiative's estimates of the outputs and outcomes rely substantially on the modelling DECC conducted to inform its business case. DECC is content with the progress made and but this Review highlights the need to improve M&E Plan as outlined in the recommendations (p.3).

The Initiative will regularly review progress and share lessons learned at Initiative-level and programme-level annual meetings. The ISFL's first Annual Meeting will take place in August 2015.

CSO Engagement

The ISFL is currently working on an approach to engagement with civil society organizations (CSOs) and other relevant stakeholders, including indigenous peoples, at both the Initiative and programme levels. Currently, the Bank works with recipient governments to ensure that CSOs and key stakeholders in-country are consulted and included in the ISFL programme's process. This work primarily builds on the excellent efforts by UN-REDD and the Forest Carbon Partnership Facility (FCPF) to build and maintain structures for collaboration. Further progress in this area is expected in the coming year.

Resource mobilisation

Resource mobilisation continues and there is now scope to build programmes that are very significant in scale. Contributions to ISFL now total about \$363m⁶.

Country	Ministry	Date	BioCFplus Commitment (millions)	BioCF T3 Commitment (millions)
Germany	Federal Environment Ministry	2014-12-01	35 EUR	-
Norway	Agency for Development Cooperation (NORAD)	2014-03-17	150 NOK	-
	Norwegian Ministry of Climate and Environment (NICFI)	2014-11-26	-	690 NOK
UK	Department for Environment, Food, and Rural Affairs (DEFRA)	2013-12-17	-	65.1 GBP
	Department for Energy and Climate Change (DECC)	2013-12-17	-	50 GBP
USA	Department of State	2014-09-03	25 USD	-

World Bank Data on Commitments to ISFL to date. Figures may vary due to exchange rate fluctuations.

The number of World Bank staff on the ground in target forest countries is also increasing. ISFL programme teams have been initially established in Ethiopia, Zambia, and Colombia totalling 20 people in-country. The majority of people working on ISFL programmes split their time amongst other programmes as well, a common practice for other forest carbon programmes, including the Forest Carbon Partnership Facility. Additional staff and consultants will likely be hired once programmes are further developed and staff needs are defined. The Bank is currently undergoing an analysis to determine programme staff time needed for each country programme. Full-time equivalents for in-country staff will be analysed as well and can be included in future reviews.

However, there are some fundamental programme management tools which could be better employed to reduce uncertainty. For example communicating the work underway to finalise the

⁶ This figure may vary due to exchange rate fluctuations.

monitoring and evaluation plan, demonstrating a clear work plan with realistic timeframes and formalising the ISFL’s approach to risk management would go some way to improving certainty of the likelihood that ISFL will meet its objectives and intended outcomes.

Has the logframe been updated since the last review?

This is the first annual review of DECC’s investment in the ISFL. A draft of the ISFL’s global [logframe](#) has been agreed but is subject to significant further elaboration as the designs of local programmes are finalised. Furthermore it is anticipated that the logframe will be updated to better reflect near term expectations. At this stage the logframe is partially incomplete. DECC expects the logframe to be discussed at the upcoming Annual Meeting and updated by the end of 2015.

The logframe does not yet include impact weightings which limits our ability to assess progress. Completion of the logframe is expected as part of the M&E improvements recommended to be completed by the ISFL team by the end of 2015.

C: Detailed Output Scoring

Output Title	High quality emission reduction programmes in place		
Output number per LF	1	Output Score	B
Risk:	Medium-Low	Impact weighting (%):	TBD
Risk revised since last AR?	N/A	Impact weighting % revised since last AR?	N/A

Indicator(s)	Milestones	Progress
Number of contributor countries that have discussed and endorsed principles of a methodological approach for ISFL programmes	Agree in 2016	On course though the timing of endorsement for each ISFL programme may vary.
Number of contributor countries that have discussed and provided input to commercial terms (term sheet) for ISFL programmes	3 contributors to input by 2017, all by 2020	On course though a more ambitious timetable may be required to move leading programmes forward e.g. Ethiopia and Zambia
Number of ISFL Project Appraisal Documents and Concept Notes that have been discussed with contributors	3 by 2016	On course with one Project Concept Note finalised (Ethiopia) and two Project Concept Notes in development (Zambia and Colombia). Project Appraisal Documents will require more time to develop (after the PCN).
Number of ISFL programme countries with high quality monitoring and evaluation plans discussed with contributors	2 by 2016	On course as Ethiopia and Zambia are likely to have results framework components in place.
Number of ISFL programmes that are formally included in the ISFL portfolio	4 by 2015	At risk , with three local programmes likely to be formally 'opened' in 2015 but development of the Indonesia programme slower
Number of ISFL programmes that have signed an Emission Reduction (ER) document outlining its ER programme	3 by 2017, all 4 by 2020	On course
Number of Bank staff working on ISFL programmes	TBD in further logframe development	TBD after further logframe development

Recommendations

1. Consider what aspects of the ISFL's methodologies need to be determined earlier and at a local level.
2. Consider if, subject to appropriate readiness steps, faster-moving programmes such as Ethiopia and Zambia can move more quickly through the process to ER programme documents.
3. Explore options to increase the pace of development of Indonesia's programme.
4. Set clear expectations for how and when the ISFL's staff resources will grow.
5. Develop a risk mitigation strategy for ISFL programmes (including considering, subject to capacity, the viability of over programming in the ISFL portfolio with one or more additional country programmes to manage delays and other delivery risks).

Output Title	ISFL programmes have received disbursements to support ISFL interventions		
Output number per LF	2	Output Score	N/A yet
Risk: Countries may not deliver expected volume of emission reductions within stipulated timeframe given the nature of such programmes.	Medium -High	Impact weighting (%):	TBD
Risk revised since last AR?	N/A	Impact weighting % revised since last AR?	N/A

Indicator(s)	Milestones	Progress
Volume of World Bank executed funding disbursed to ISFL programmes in support of ISFL interventions (USD)	\$10.5m by 2020	On course. This milestone could be increased if appropriate. Amount is a conservative estimate of disbursement that can be adjusted once programmes are further developed, giving the Bank a better sense of disbursement rates.
Volume of recipient executed funding disbursed to ISFL programme countries in support of ISFL interventions	\$58.5m by 2020	On course. This milestone could be increased if appropriate. Amount is a conservative estimate of disbursement that can be adjusted once programmes are further developed, giving the Bank a better sense of disbursement rates
Volume of results-based financing disbursed to ISFL programmes in support of ISFL interventions	\$42m by 2025	On course. Amount is a conservative estimate of disbursement based on the inherently risky nature of payment for emission reduction programmes. The fact that these programmes monitor emission reductions on a landscape scale implies that there are activities outside of the control of ISFL programmes that could negatively impact emission reductions.

Recommendations

1. Target 100% disbursement and manage risks (including considering, subject to capacity, the viability of over programming in the ISFL portfolio with one or more additional country programmes to manage delays and other delivery risks) to ensure an appropriate level of delivery by programmes. Adjustments to disbursement rates will be made once programmes are further developed if appropriate.
2. Interim milestones should be added to the logframe to reflect other steps in programme development beyond disbursement to increase other confidence that disbursements will be made in the timeframes expected.

D: Value for Money and Financial Performance

Key cost drivers and performance

The key input cost drivers of the IFSL programme include 1) administrative fees related to the management of the programme at Fund level and 2) supervision and implementation charges for programme management expenses incurred during the implementation of the country-windows. These costs are funded out of the contributions and reduce the amount of money available to buy carbon credits. The current fee structure is in line with the expectations included in DECC's Business Case (page 79).

On the administrative side the current fee structure outlined by the World Bank includes the following:

- The World Bank applies a one-off 2% fee to contributions to cover the general administrative expenses of the Trust Fund, including TACT and legal. On the £50m DECC investments this equates to £1m in total.
- The Trustee is entitled to apply up to a maximum of 4% on the contributions as a fee to cover initiative level administrative expenses: fund administration expenses such as resource management, fund management, and fund operations. This equates to up to £2m on DECC's investment. The fees are pre-approved based on annual budget forecasts and charged based on actual admin expenses, however, the equivalent amount for the entire contribution is already set-aside/earmarked as soon as contributions are made. Even though we might expect admin cost to decrease over the life of the fund, the World Bank is unclear about this trend as of now.
- In addition, there is a fee for 'business development' or the initial set up cost of each window that is 0.75% of each contribution. This amount is recharged from the BioCF+ Readiness Grant of the country-window when it is formally established. As the costs are reclaimed from BioCF+ (where DECC is not currently invested) DECC's investment will not be used for these initial set up costs.

Supervision and implementation charges are defined as programme management costs (TTLs, etc.) and will differ by each window. Due to the early stage implementation of the programme, the World Bank could not provide reliable forecasts on the quantum of these future charges by the date of this Annual Review. It was suggested that as part of the Indicative Needs Assessment exercise they will attempt to estimate these country-specific costs, and present it for discussion at the August TFC meetings.

VfM performance compared to the original VfM proposition in the business case

There is no reason that the economic arguments in favour of delivering the BioCF in cooperation with the World Bank have changed since the approval of the Business Case.

When it comes to the "economy" of delivering the project through the World Bank, the initial VfM appraisal and cost-benefit analysis included in the Business Case included conservative

assumptions on admin and implementation charges, 12% and 15% respectively. In order to estimate the amount available for results-based payments, it is proposed that the modelling is updated once the estimates on implementation charges are shared by the World Bank.

At this stage there is limited information to support the “efficiency and effectiveness” assessment of this section of the review due to the early stage of implementation of the programme. At this stage forecasts for our expected results are still based on scenarios in DECC’s [Business Case](#) for investment in ISFL (“central scenario” pages 82-84). This March 2015 results collection updated the headline expected UK attributed results to reflect fund-level attribution (to be consistent with other ICF projects), but maintained the tracking of project-level expected results in order to track VfM of the assumed public funding. In addition, unattributed expected results were scaled up to the current size of the BioCF T3 results-based financing tranche, which was indicated as \$261m at the time. DECC’s fund level attribution was calculated based our burden share in the overall BioCF IFSL fund which also includes a tranche (BioCF+) for financing up-front costs. The table below summarises the currently expected results:

	DECC expected results		
	DECC project level attributed (original BC expectations)	DECC Fund level attributed	Unattributed
Attribution %	15%	21%	
Individuals	9,831	13,654	64,960
Land Area Protected (ha)	199,301	276,819	1,316,962
Total tonnes CO2e avoided	4,370,828	6,070,870	28,882,024
Private finance leveraged	46,562,602	64,673,216	307,681,332
Public finance leveraged (not in logframe currently)	all co-finance	19,440,653	92,488,456

Assessment of whether the programme continues to represent value for money

The programme has met or is on track to meet all of its output indicators in ISFL’s draft global logframe to date. It is expected that a more thorough analysis of the value for money of each supported window will be possible in future reviews as ISFL programmes are formally included in the ISFL portfolio. It is expected that the WB will revise expectations and set new targets as countries come forward with more detailed proposals. Two proposals are expected to be received in 2015 from Ethiopia and Colombia.

Quality of financial management

The financial controls outlined in the business case are listed below with an update:

- A payment schedule will be forecast, indicating the drawdown of funds from the UK contribution
 - A long-term financial plan will be provided in outline to financial year 28/29 as part of the ISFL Annual Report.
- An annual projection of spend will be obtained from the World Bank

- The ISFL will report budgets for the following financial year at each Annual Meeting. The actual spend against the forecast will be monitored and updated regularly by the World Bank.
- DECC project staff will be able to compare financial and narrative reports on the implementation of agreed activities with the financial reports.
 - In the BioCF Instrument, it states that the single audit will be provided for financial reporting each year. The Bank and donors have agreed that a narrative for budget information will be provided annually.
- All BioCarbon Fund grants are covered by Governance and Anti-Corruption (GAC) guidance, which has been approved by the UK. World Bank policies on Financial Management and Procurement also apply to this Fund's activities. The risk of fraud is taken seriously by the Bank; both the BioCarbon Fund team members allocated to a particular project and World Bank regional contacts are directly responsible for supervision of it and therefore for any instances of fraud.
 - The Anti-Corruption Guidelines are and will be incorporated by reference in all ISFL grant agreements with counterparts.

An ISFL financial statement will be audited following the close of each fiscal year on June 30 as part of the Bank's single audit. Audits are completed within six months following the close of the fiscal year and are undertaken by an independent auditor.

Date of last narrative financial report	None to date (due as part of the first Annual Report in autumn 2015)
Date of last audited annual statement	September 19, 2014 by KPMG LLP

E: Risk

Overall risk rating:

Medium

Overview of programme risk

The top risks identified in the Business Case were:

Risk	Mitigations proposed	Current status
Difficulty securing private sector involvement in the programme to leverage the investment.	Bank and DECC to build stronger private sector commitments to action	↓ Medium-low residual risk IFC have made good progress engaging businesses at a global and local level with some promising public-private partnership designs in development. Major commodity producers, aggregators and buyers confirmed and elaborated on their zero deforestation commitments in the New York Declaration on Forests .
Failure to set robust national, jurisdictional and project baselines against which performance will be judged.	Support forest nations to develop robust technical proposals and Monitoring, Reporting, and Verification systems.	↓ Medium-high residual risk The risk is significant with the BioCarbon Fund likely to attempt challenging accounting methods, integrating methodologies for several sectors beyond forests, e.g. agriculture and energy projects. The Bank proposes potentially moving from tested carbon accounting methodologies for forests to a more comprehensive approach once the methodology is available. However, the Forest Carbon Partnership Facility has agreed in consultation with stakeholders a robust methodological framework which the BioCarbon Fund's approach to large scale carbon accounting could build on.
Programmes fail to create changes that are sustainable in the long term	Ensure that the sustainability of interventions is hardwired in programme design.	↓ Medium-low residual risk Project design documents, including Project Concept Notes, must analyse the long-term viability of interventions. Controls must also be employed for reversal of the benefits that the programme creates. Successful public-private partnerships for carbon-smart commodity production have the potential to reach internal financial sustainability relatively soon, e.g. through improved yields or price premiums for increased product quality. This is a significant portion of the planned investment. However,

		some other elements of the programme may need ongoing support, e.g. monitoring, reporting and verification systems have a higher risk of reversal.
Slow start up of programme due to lower initial forest nation and World Bank capacity	Bank to quickly secure required resources and fund capacity building for local programmes	-High residual risk Unchanged at this time. Some of the target forest nations still face significant capacity constraints. Bank staffing is upscaling but until analysis of staff requirements is completed it is difficult to assess if the current level of resource is sufficient.

The mitigations proposed in the Business Case have largely been effective.

Outstanding actions from risk assessment

- A comprehensive risk management strategy should be developed to formally manage risks (to include, *inter alia*, an assessment of the option to over programme the portfolio to address the delivery risks; consideration of new ways to articulate the ambition, scale and breadth of the programmes that ISFL and support to forest nation governments and to gain the political leadership required and avoid further delays in programme development, consideration of the risk of outstanding funding gaps to ensure the programmes' viability). This should be discussed at the ISFL Annual Meeting in August 2015.
- Options for managing portfolio risks, such as programmes unable to deliver the expected scale of Emissions Reductions, will be discussed at the next ISFL Annual Meeting, likely to be in August 2015.

F: Commercial Considerations

Delivery against planned timeframe

DECC's Business Case did not outline a timetable for delivery. Delivery of the programme was anticipated to run to 2030 with interim milestones to be determined as the designs of local programmes were finalised and governance primarily at the local level. This emphasis on local governance remains. Therefore, this Annual Review has focussed on a few key global milestones only, those recorded in the ISFL's draft global logframe. This logframe was only recently agreed and delivery of the majority of outputs listed in it remains on course (as described above). There is one indicator where delivery may be behind schedule: "four local ISFL programmes formally included in the ISFL programme by 2015". Design of Indonesia's programme has taken longer than expected so may run into 2016. All other output-level logframe indicators are on track.

As part of the development of an M&E plan, overall timeframes for each ISFL Programme will be updated and outlined to include when significant milestones are expected to be achieved for each programme, this will provide a more detailed timeframe for ISFL delivery.

Performance of partnership(s)

DECC has worked effectively with the Bank, including to help draft the ISFL's smart management principles, draft the initial ISFL logframe and establish a robust plan of activity for the 2015 year. We have also worked constructively with our donor partners Norway, Germany, the US and UK Department of Environment, Forests and Rural Affairs (DEFRA) on all of these issues.

DEFRA have earmarked significant funding for the Zambia programme and Indonesia. Our current expectation is that DECC will manage investments in other programmes, potentially Colombia and/or Ethiopia and may join the Indonesia window in due course if the pace of delivery increases and funding needs are significant. The two UK departments have collaborated well to share workload, influence key ISFL decisions and each bring valuable expertise to bear on the fund, e.g. DEFRA's biodiversity expertise and DECC's expertise in methodologies for carbon payments.

G: Monitoring and Evaluation

Evidence and evaluation

The World Bank has developed a preliminary draft [logframe](#) and a [theory of change](#) for the ISFL as a whole, in consultation with donors. However, as noted above these are subject to substantial further development in 2015 and 2016 as local programme designs are elaborated and finalised.

These frameworks reflect the theory of change outlined in the UK Business Case and the key performance indicators and M&E methodologies of the UK's International Climate Fund. The Bank has suggested particular emphasis should be added on the ISFL:

- Driving integration of improved land-management in national policies;
- Demonstrating effective new approaches leading to replication globally.

The current draft ISFL logframe proposes to disaggregate the number of forest-dependent people with livelihoods directly or indirectly improved or protected as a result of the ISFL by gender.

The World Bank will be responsible for monitoring and reporting of progress against these results frameworks, both at the local and global level, on an annual basis. It is expected that independent evaluations of progress at the local level will take place. Local level M&E plans will

be developed once country windows develop results frameworks as a component of the Project Appraisal Document. It is expected that an evaluation schedule will be discussed at part of an ISFL M&E plan which will be developed by the end of 2015.

Monitoring progress throughout the review period

Primary responsibility for monitoring and reporting the results of the ISFL is the World Bank's. However, DECC has discussed the Initiative directly with the Government of Colombia, with good feedback from the Ministry of Agriculture and Rural Development (MADR) on the flexibility of ISFL 'landscape approach' to work across multiple sectors, including climate-smart agriculture. MADR expressed willingness to engage strongly with the proposed Colombian window of the ISFL. DECC and other donors also accompanied a World Bank preparation mission to Ethiopia during which the government engaged CSOs and other relevant stakeholders. This experience allowed donors to better understand the country specific circumstances and the challenges and opportunities for the programme.

H: Transformational Change

Rating

The International Climate Fund uses a five point scale to forecast and assess transformational change:

- 0) Transformation judged unlikely
- 1) No evidence yet available - too soon to revise assessment in business case
- 2) Some early evidence suggests transformation likely
- 3) Tentative evidence of change – transformation judged likely
- 4) Clear evidence of change - transformation judged very likely

The ISFL's likelihood of producing transformational change is assessed as 3/'likely', though it will take a significant period of time for the ISFL to begin to generate the kinds of result that would allow verification of this forecast, e.g. replication of approaches that the ISFL has demonstrated.

Evidence and evaluation

At this stage, with local programmes still in design, this assessment is based on high-level features of the ISFL's approach. ISFL has successfully approached ministers in target forest nations (those that met criteria set out by the Initiative) to secure their interest in participating in the programme. We assess there to be significant potential to raise political will and reinforce strong local ownership in these countries. The World Bank has identified a core thread of the ISFL's theory of change to be (a) demonstration of the effectiveness of new and innovative public-private partnerships and cross-sector landscape approaches (b) ensuring these lessons are widely accessible and (c) replicated in other programmes globally. The ISFL's emphasis on strategically engaging with the private sector across multiple sectors (including climate smart

agriculture) brings substantial leverage potential which could increase the scale of intervention further.

Monitoring progress throughout the review period

Several suitable indicators have been included in the ISFL's draft logframe, e.g. "level of integration of improved land use management in national policies in both ISFL and non-ISFL countries". However, a formal review has not been conducted and for these longer-term objectives we are unlikely to see significant results for some time.

ANNEX A: Lessons learned

Lesson Learned	Description/Causes	Recommendations
Capacity of Recipient Country	<p>ISFL programmes are innovative and cross-sectorial and have, therefore, taken more time to design and negotiate in-country than originally expected.</p> <p>There is a period for the government to develop strategies to reach the ambitious vision and comprehensive approach of ISFL. Once the government takes ownership of the programme, the details of the design begin to formalise. The timeline for completing design varies in each country and depends on a multitude of factors. For example, some countries need to reorganise existing ministries to manage this type of programme. Other countries may require workshops and trainings on Monitoring, Reporting and Verification (MRV) systems, methodology, and/or implementation. Depending on the country, building this capacity can take months to a year to ensure that systems are well anchored within organizational structures and stable enough to manage an ISFL programme.</p> <p>In addition, the multi-sectorial approach of ISFL can present challenges for navigating the institutional arrangements of the recipient governments. Traditionally, development</p>	<p>Factors to consider when assessing the potential timeframes for completing programme design includes an assessment of existing institutions and how they will collaborate (done through the Analysis of the Legal and Institutional Framework study done in each ISFL program country). This assessment as well as early impressions of recipient government capacity can inform a more realistic timeline of getting each ISFL programme off the ground.</p> <p>Additionally, it is helpful to identify a ministry or individual(s) who can champion the ISFL programme in-country early on. This may require time to identify this person/ministry as well as adequately inform them on the details of the programme approach. However, they can work to build relationships within the government and leverage support for the ISFL programme in-country.</p> <p>Overall, timelines for each ISFL programme need to be updated to account for the time necessary for recipient governments to fully understand the scope and vision of the ISFL as well as build relationships across sectors, ministries and stakeholders</p>

	<p>programmes are channelled through one sector (e.g., agriculture, environment, or transport). However, ISFL attempts to create a platform for collaboration between sectors. While ISFL is designed to address these challenges, it still presents initial difficulty in identifying actors who can champion this collaboration early on.</p>	<p>ISFL should also consider new ways to articulate the ambition, scale and breadth of the programmes that ISFL support to forest nation governments and avoid further delays in programme development.</p> <p>Formal planning and risk management procedures will help respond to challenges like this in the future. Over programming is one potential option to deal with delivery risks such as this.</p>
Funding Gaps	<p>ISFL is intended to fund enhancements to the enabling environment that change the way land-use decisions are made as well as results-based payments for emission reductions. However, some funding gaps may still exist and it can be a challenge for the programmes to identify sources for this funding.</p>	<p>ISFL can consider how to leverage finance from other programmes (e.g. receiving support on agriculture), other forest funds such as the Forest Investment Program (FIP), and/or designing programmes to facilitate the complementarity of other sources of funding. There is also a possibility of leveraging private investment to fill gaps.</p> <p>Where investment gaps are particularly significant and public or International Finance Institution (IFI) funding is needed to achieve transformational scale, the Bank should consider further how it can provide or help broker the additional funding agreements required (this could include, for example, consideration loans, bonds, guarantees, and/or advanced results based payments). As part of this the ISFL would need to ensure that the additional benefits of all funding sources are maximised through effective programme design.</p>
In-country Presence	<p>The Bank has staff presence in ISFL programmr countries and several staff members dedicated to working on the design, implementation, and supervision of each programmr. However, in addition, it has been useful for Washington based fund management staff as well as donors to attend select missions for exposure to programme specifics. This</p>	<p>Ensure sufficient and regular communication between the fund management staff and in-country staff (including donors where appropriate).</p>

	experience allows both groups to better understand the challenges and opportunities of each programme.	
A clear decision making process and timely decision making from donors required to make progress	The Bank needs donors to make timely decisions in order to progress action on the ground and to engage local staff (both Bank staff and country government staff/stakeholders). Significant delays in programme development can occur, especially for the first programme to be developed in the ISFL.	Timely decisions have been hampered so far by a lack of clear decision making process. The Bank and donors are working on outlining the decision points and documents required throughout the process to effectively manage donor involvement. Additionally, clear communication between the Bank and donors on milestones and information required to make decisions will need to continue for all ISFL programmes.
Need to progress methodologies to avoid delaying fast moving programmes or developing ad hoc, inconsistent approaches	Discussions on key carbon accounting methodologies are required, particularly for the programmes that are moving fastest, i.e. Ethiopia and Zambia. This may require some methodological decisions based on a set of principles to be taken at the local level (ahead of decisions at the Initiative level) and may, therefore, result in slightly different methodologies in different geographies. In addition, comprehensive landscape-level carbon accounting methodologies may not be developed by UNFCCC by the time programmes will need to begin reporting against emission reductions.	The Bank has proposed the possibility of first utilising existing forest carbon accounting methodologies and later switching to comprehensive accounting methodologies, once they are developed. The Bank is undertaking technical work on comprehensive landscape accounting methodology and will include relevant stakeholders in this process. DECC would be comfortable with some variation in methodologies provided all programmes employ robust, feasible and value-for-money approaches.
Formal risk management strategy to effectively mitigate key delivery risks	Unforeseen delays have been experienced in Indonesia due to the 2015 General Election and subsequent reorganisation of key ministries. This delay, and continued uncertainty, in one (out of four) programmes has resulted in conservative estimates for ISFL's overall delivery of results.	The ISFL should develop and communicate to donors a strategy for managing key delivery risks. One option could be to over programme, if there is capacity to manage a larger portfolio of countries, to effectively deal with attrition. The assumptions in the logframe should be updated to include outline the broader context which success of ISFL depends so it is clear if the logical results framework is

		disrupted actions can be taken to correct the course.
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