

FULLBUSINESS CASE

Part 1 – Overview

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| **Programme/Project/Activity name** | International Climate Fund | |
| **Director/CEO name** |  | |
| Date submitted and Panel submitted to |  |  |
| Is additional/new funding required? If so, how much? | No |  |
| Is additional/new staff required? If so, how many? | No |  |
| If funding is required, where should it be sourced? | choose item | |

1. **Which decision are you seeking?**

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| Approval is sought, subject to Ministerial approval, for investment of Defra’s £40 million International Climate Fund (ICF) budget for 2015-16 into the preferred option of investing in a World Bank project in Sri Lanka and in the eco.business Fund, and for delivery plans for this option.  Five options have been considered:   1. Investment in a World Bank led conservation programme in Sri Lanka. 2. Expansion by £40m of an existing bilateral project in Brazil 3. Invest £40m in KfW’s new eco.business Fund 4. Split the £40m between the eco.business fund and conservation programme in Sri Lanka. 5. Do nothing   The decision must be made by the end of October 2015 in order for the budget to be spent by the end of the calendar year (a requirement for Official Development Assistance). |

1. **What are you trying to achieve?**

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| *What is the problem?*  Forests support the livelihoods of 1.6 billion people and contain up to 80% of terrestrial biodiversity. Deforestation and forest degradation cause an estimated 17% of global greenhouse gas emissions and forests store more carbon than the atmosphere.  Ecosystem services provided by forests include regulation of climate, carbon and water cycles, protection of soils and watersheds, regulation of flows in water courses and air quality benefits. More than three-quarters of the world’s accessible fresh water originates from forested catchments. Case studies in Brazil, Indonesia and India found that ecosystem services and non-market goods accounted for between 47% and 90% of the total income of the poor.  Thirteen million hectares of forests were lost annually in the decade 2000-10, equivalent to an area of forest the size of England being lost each year. Most of this forest loss was concentrated in tropical regions, with South America, Africa and parts of tropical Asia recording the largest net losses.[[1]](#footnote-2)  More than 50% of global deforestation is caused by land-use change for commercial agriculture. With the global population expected to grow by 1.2 billion by 2030, and the global middle class set to roughly double by 2030 from 2 billion today,[[2]](#footnote-3) pressure on forests from land-use change is expected to continue to increase.  Deforestation has significant development impacts, disproportionately affecting the poorest and most vulnerable, including women and indigenous people.[[3]](#footnote-4) Over 350 million people depend on forests for their subsistence and survival, and a billion people on remnant woodlands and agroforestry systems for their essential fuel wood, food and fodder.[[4]](#footnote-5)  *The International Climate Fund*  The UK International Climate Fund (ICF) provides £3.87 billion of Official Development Assistance from April 2011 to March 2016, for action on low carbon development, climate change adaptation, and forestry. Management of the ICF is split between DECC (£1.3 billion), DFID (£2.4 billion) and Defra (£140m).  The ICF has three core objectives:   * **Low Carbon Development** - reducing carbon emissions and helping developing countries move away from a carbon-intensive development pathway; * **Adaptation** - to help poor people adapt to the effects of climate change; and, * **Forestry** - to reduce deforestation and forest degradation   To achieve these objectives the ICF aims to pioneer innovation and test new high value transformational approaches with the aim of delivering projects that have the potential to achieve bigger and better results in the future. (See the ICF theory of change at Annex A for more details of ICF objectives)  The ICF also aims to drive change through the private sector by building new partnerships and shifting technologies to commercial scale and viability in order to ramp up low carbon investment. In developing countries the barriers to investment are often policy, regulation and lack of information – and first mover disadvantage (i.e. the first investor faces far higher barriers to entry): the ICF can help unlock the barriers and support that first effort which others can then follow more easily.  The ICF theory of change recognises that the private sector is able and willing to mobilise the required level of investment if risk and market failures can be offset through public funds and that investments generate a return.  *Forestry*  The ICF forestry portfolio focuses on regions with the greatest levels of deforestation. Forests are a critical part of achieving ICF adaptation and mitigation priorities. The ICF forestry portfolio improves forest governance, promotes sustainable natural resource management and sustainable agriculture as well as maximising results in terms of emissions reductions and biodiversity conservation.  The ICF has a theory of change and a set of high level objectives for forestry spend (Annex B). The objectives include:   * Supporting sustainable forestry and community forest management. * Promoting forest-friendly agriculture. * Improving forest governance in developing countries. * Improving the governance of the international timber trade. * Building up the knowledge and evidence needed for sustainable policy making.   Working together through the ICF DFID, DECC and Defra have been successfully using their comparative advantages and differing mandates to further HMG objectives in the forestry sector. DFID works to support sustainable development and poverty alleviation in developing countries with a focus on governance, land tenure reform and working through major multi-laterals, DECC works to realise ambitious global action to combat climate change, and Defra works to secure biodiversity benefits, promote more sustainable land use and agriculture practices, and ensure that ICF forestry activities are aligned with broader UK policy objectives.  *Achieving Defra policy objectives*  Addressing deforestation supports the objectives of a number of international frameworks of importance to Defra, including: the Convention on Biodiversity; the United Nations Forum on Forests; the post-2015 Sustainable Development Goals; and the United Nations Framework Convention on Climate Change (UNFCCC).  The ICF contributes to 2 of Defra’s 4 overarching policy objectives:   * *A cleaner, healthier environment which benefits people and the economy*: The ICF is the UK’s largest environment fund, with huge potential to deliver environmental outcomes directly as well as to benefit people and the global economy through working with the private sector. * *A nation protected against national threats and hazards*: climate change will directly affect the UK (through for example extreme weather events, increased flooding, increased threats from pests/disease) however the greatest risks and costs to the UK will be felt through international impacts (such as upward pressure on food prices and the costs of materials and goods, as well the potential loss of trade and earnings). Defra guidance of international climate finance can help mitigate those risks and costs to the UK.   The ICF will also contribute to achieving objectives within Defra’s 25-year environment strategy. It will offer opportunities to meet manifesto commitments on biodiversity (and illegal wildlife trade) and food security.  Defra’s 2011-2016 ICF allocation of £140m is for forestry projects in developing countries only. So far £100m has been invested in three projects (two in Brazil and the other through the World Bank’s BioCarbon Fund in Zambia and Indonesia). This business case assesses options for the investment of the remaining £40m.  *The Preferred Option*  A detailed multi-criteria analysis (Annex D) was undertaken to compare thirteen potential options for delivering against these objectives; this identified the options considered in this business case.  The highest scoring projects on the analysis were the Biocarbon Fund and eco.business fund and projects in Mozambique, Sri Lanka, Cameroon and Brazil.  Resource intensive bilaterals were ruled out given the constraints on Defra resources.  Given recent large-scale investment in the BioCarbon Fund (including a £65m investment from Defra and a $30m investment from the USA) the Fund is currently saturated and will not be able to make use of new funding within the next year.  The preferred option is to split Defra’s budget between a World Bank-managed project in Sri Lanka and the eco.business Fund (a public-private-partnership mechanism). This offers the possibility of widening the Defra portfolio in line with ICF aims to include an untested a higher risk project with high leverage potential and the potential to be transformational.  Splitting the funding has several other advantages; we mitigate the risk of over-reaching the absorptive capacity of funds as well as spread the overall risk of the investments. We also increase the breadth of the Defra portfolio and therefore (through eco.business in particular) increase our pool of options for the next phase of the ICF (2016-2020).  The preferred option has a lower resource requirement than both options would as standalone projects. This is mainly because a lower amount of resource is required in Sri Lanka for a smaller investment.  Resourcing for eco.business is flexible depending on the level of control over the investment we want to achieve. |

1. **How will you set about achieving it?**

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| In Sri Lanka we will partner with the World Bank on a landscape scale conservation project which includes components on the conservation of biodiversity, managing ecosystems, increasing community involvement and increasing capacity of local institutions as well as reducing Human-Elephant conflict.  The eco.business fund was founded in 2014 by Finance in Motion, KfW and the US non-governmental organization Conservation International. The aim of the fund is to enable businesses to make investments that contribute towards preserving biodiversity and the sustainable use of natural resources – for example in agriculture, forestry and fishing, as well as in eco-tourism. The structure of the fund is based around a model which aims to maximise leverage of private sector funding.  *Project Management*  In Sri Lanka day to day management of the work will be carried out by the World Bank who are contributing 40% of the project costs from their own budget. They will be providing sufficient capacity in-country to run the project and will be responsible for all agreements with the Sri Lankan government. We will continue to work closely with the World Bank on overall project management in Sri Lanka, and our input will be formalised through a legal agreement.  For the eco.business fund Defra will have oversight of investments through a place on the Board (which will set the strategic direction for the Fund as a whole and through which project-specific decisions will be taken.) This will enable Defra to ensure the fund aligns with Defra and ICF goals.  For both projects Defra involvement will be relatively light touch through taking high level steering roles, and will be deliverable using existing resources. Our role on the eco.business Fund board can be particularly flexible; initially as a high level steering role on the board but with scope to have more input should we wish to do so and if resources allow.  *Evaluation and Review*  Both projects will report against a range of ICF Key Performance Indicators (KPIs):  *KPI 3 – Number of forest dependent people with livelihoods benefits protected or improved as a result of ICF support*  *KPI 4 – The number of people whose resilience has improved as a result of ICF resilience*  *KPI 6– Change in greenhouse gas (GHG) emissions as a result of ICF support*  *KPI 8 – Number of hectares where deforestation and degradation have been avoided through ICF support*  *KPI 10 – value of ecosystem services generated or protected as a result of ICF support*  *KPI 12 - Volume of private finance mobilised for climate change purposes as a result of ICF funding*  *KPI 15 – Transformational Impact*  Each project will also include an evaluation component.  The KPIs are a comprehensive set of indicators which will capture, where possible, results relating to the core goals and objectives of the ICF. They have been designed to monitor aggregate results of diverse climate change programmes. As such, they are a major contribution to the evidence base upon which climate finance policy and programme decisions can be made.  More details of the monitoring and evaluation plans for each project can be found at section 10. |

1. **What policy and/or delivery options have you considered?**

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| **Option** | **Description** |
| **Option 1**  Investment in a World Bank led Ecosystem Conservation And Management Project in Sri Lanka | **Summary**  The main aim of the ecosystem conservation and management project is to improve the management of protected areas and biologically critical ecosystems in Sri Lanka, in order to avoid deforestation and increase resilience to climate change.  The project will generate national and local environmental and social benefits. National benefits include conservation of biodiversity at the landscape level through improved landscape management and biodiversity mainstreaming. In addition, improved watershed management will benefit sectors such as agriculture, power generation and water supply.  The project will improve biodiversity conservation, develop the capacity of government implementing agencies, implement climate smart agriculture, improve sustainable water supply and power generation in fringe areas and ensure that local communities have improved livelihoods and benefit from better use of ecosystem services.  The project will directly benefit approximately 50,000 people in rural or indigenous communities in the buffer zones of protected areas and other sensitive natural habitats within three selected landscapes: (i) the biodiversity rich South West and Central wet zone; (ii) the South Eastern dry and arid forest ecosystem and; (iii) a mixed climatic zone including and integrated land-seascape.  The main components of the project are:   1. Improved management of Natural Habitats within selected landscapes. 2. Initiation of programmes to reduce human-elephant conflict 3. Enhancement of revenue earning potential of protected areas and affected areas through nature based tourism and community partnerships which will reduce dependence on forest resources. 4. Strengthening Institutional capacity and investment capability of investment agencies.   In addition the project aims to pursue the creation of opportunities for women and girls both within the initial project and in the longer term.  **Consideration**  This project fits well with both Defra and ICF criteria through delivering sustainable land management, biodiversity and adaptation benefits and working with some of the poorest people in the country. The project represents very good VFM according to World Bank analysis due to substantial benefits in the form of ecosystem services, with the main risks surrounding the ability of the World Bank to deliver the project and the changing political situation in Sri Lanka.  Sri Lanka’s forests cover 30% of the land area, split between the wet zone and the dry zone. 30% of the dry forests are considered degraded and the wet forests are highly fragmented. Causes include illegal logging, fires, and the introduction of invasive species. Sri Lanka’s biodiversity is largely found in the wet zone of the country although the dry forest ecosystems are severely threatened due to development pressures.  While community dependency on forests is relatively low in Sri Lanka, the rural sector accounted for nearly 78% of the country’s population and over 85% of poor Sri Lankans. The rural population work mostly in the agriculture sector which has little resilience to climate change and is most adversely affected by Human Elephant conflict.  The project is in line with the ICF forestry theory of change (Annex B). It will increase community participation in reducing deforestation and forest degradation through mobilization of communities whose livelihoods depend on the forests in the supported landscapes and adjacent buffer zones.  The landscape approach adopted by the project delivers several benefits across ICF and Defra objectives. The landscapes have been selected against criteria which ensure high biodiversity significance, a high presence of endemic species and potential for non-consumptive ecosystem services.  Human-Elephant conflict is caused by the encroachment of agriculture onto the habitat of the elephant population. Human-Elephant conflict has reached alarming proportions in many parts of the dry zone in Sri Lanka with around 70 humans and over 200 elephants killed annually due to the conflict.  A landscape conservation strategy will be piloted, aimed at allowing elephants to continue ranging outside protected areas based on using on-going shifting agriculture outside protected areas to create optimal habitat for elephants and providing benefits to farmers through elephant conservation will be piloted. The lessons learned and outcomes for human wildlife conflict could be replicated across other countries in the future.  Agriculture also has impacts on availability of drinking water for the local population. The project will address agricultural sustainability through both. Soil conservation is critical for agricultural productivity and particularly for poorer households who are most dependent on agriculture for their livelihoods.  The changing political situation in Sri Lanka could affect the pace of delivery, for example if political priorities in Sri Lanka change and reduce support for this project delivery could become more difficult and certainly more time consuming and lead to project delays.  The World Bank have assured us that they will have the capacity to staff the project, in fact our contribution leverages funding from the Bank and their investment will include staffing the project on the ground in Sri Lanka. |
| **Option 2**  Extension of an existing bilateral project in Brazil. | **Summary**  Defra currently manage two bilateral projects in Brazil focusing on forest restoration and preventing deforestation. One of these has the potential for expansion to new regions in Brazil.  The ‘Low Carbon Agriculture for Avoided Deforestation project’ is a£24.9m project, delivered by the Inter-American Development Bank in collaboration with the Brazilian Ministry of Agriculture, supporting small and medium sized farms in the Amazon and Atlantic Forests to implement low-carbon agriculture, protecting forests and biodiversity.  The project targets the barriers experienced by farmers in accessing rural credit for sustainable agriculture practices and the restoration of degraded pastures and forests. This will include investments in agroforestry systems, recovery of degraded land, commercial forest plantations, sustainable forest management and compliance with environmental regulation (i.e. Forest Code and Legal Reserves & Permanent Protected Areas).  It will increase annual income per hectare 5-fold for farmers and restore 41,100 hectares of forests. The project started in 2012 and is due to be completed 2017.  The proposed option would expand this project to include Maranhao, Piaui, Tocantins and Bahia States. The project would continue to unlock rural credit to support the Government of Brazil’s Sectoral Plan for the Mitigation and Adaptation of Climate Change for a Low Carbon Emissions Agriculture (Plano ABC) and the Forest Code.  **Consideration**  Any extension of the project will look at lessons learned from the existing work in the Atlantic and Amazon regions and incorporate these into project design. A key component would be working with our delivery partner the Inter-American Development Bank (IDB) - to attract more private finance.  Based on our experience in Brazil and networks already set up with the IDB, the Brazilian Ministry of Agriculture (MAPA), the British Embassy and other stakeholder groups the project would have low set-up costs and management overheads although the project would still be more resource intensive than other options and is likely to have higher administrative costs for Defra than other options  An expanded bilateral project would continue to meet both Defra and ICF objectives and analysis has shown an expanded project is likely to deliver good value for money based on the quantified benefits in this business case.  Further investment in this project would limit Defra’s portfolio and possibly attract criticism on this point from NGOs and other stakeholders. Timing of investment is key; we have invested considerable time and resource in getting our Brazil projects off the ground. Another investment at this point would risk destabilising the project , at a time when it is just reaching the point of delivering significant results on the ground. Investing now could also distract the implementation team at a crucial period for project delivery and therefore carries a resource risk should our team have to concentrate on setting up new work as well as ensuring delivery of our first results.  Whilst expanding this project remains an excellent proposition, we would be better served by waiting for 1-2 years before making a further investment. At this point the project will be delivering results on the ground and we will have a greater evidence base to use in fine tuning the plans for expansion. Waiting until the most opportune moment to invest would maximise chances of success and optimise value for money for this option. |
| **Option 3**  Invest £40m in KfW’s new eco.business Fund | **Summary**  The eco. Business fund aims to promote business practices contributing to biodiversity conservation, the sustainable use of natural resources and climate change mitigation and adaptation. It will achieve this by providing access to adequate finance for certified sustainable businesses via selected local financial institutions to support the sustainable production of agriculture commodities and forestry products. It seeks to encourage the adoption of business practices that contribute to sustainable use of natural resources.  The fund is structured as a public-private partnership and aims to secure the participation of public investors, multilateral organizations, development finance institutions, NGOs, foundations and private institutional investors.  The funding model aims to provide financing for investing in activities that conserve nature and foster biodiversity. It is based on the premise that current biodiversity conservation efforts need to attract significant private sector investments in order to have a positive impact.  The most well established private sector investments to support sustainable development utilise certification schemes with specific sustainability standards. The eco.business fund will use certification schemes to increase private sector investment in sustainable business practices.  The fund initially plans to work in Latin America (Columbia, Ecuador, Peru) and the Caribbean.  The fund is expected to be active primarily in the following sectors (a) Agriculture (b) Forestry (c) Marine and also (to a lesser extent) tourism.  **Consideration**  The eco.business fund fits with ICF aims by encouraging stronger private sector involvement to tackle climate challenges. The eco.business fund is innovative and at the forefront of efforts to nudge private sector investments towards sustainable practices and so fulfils the ICF criteria of being both transformational and of harnessing the private sector. Defra’s contribution is expected to bring in additional private finance enhancing the impact of our contribution beyond the size of our investment.  It also fits well within Defra’s portfolio, adding a public-private partnership to existing government-focused bilateral and multilateral investments. The project has a relatively low benefit-cost ratio based on the *quantified* benefits in this business case but the inclusion of non-monetised ecosystem service benefits would tend to mitigate concerns about whether the benefits would exceed the project’s costs.  Several aspects of the eco.business fund scored highly in our initial analysis including involvement of the private sector, delivering forest specific interventions, leveraging private finance and the high level of influence Defra is likely to have over spending.  Investing in the Fund does represent a higher risk option however this would spread Defra’s ICF portfolio risk appetite and bring it more in line with the ICF’s risk appetite. An overarching aim of the ICF is to achieve transformational change through innovation; achieving this necessitates a medium-high risk appetite.  The eco.business fund has high potential to leverage private sector finance which justifies investment in this higher risk project.  In order to mitigate the risks this project presents we have ensured that Defra’s investment allows us a seat on the eco.business fund board. This will give us the opportunity to shape investments in line with ICF and Defra priorities. There is also the opportunity to get involved in more detailed decision-making through the fund should we identify a risk that the fund is not delivering against our objectives.  We know that we can achieve at least 1:1 leverage early on (and potentially much more in the longer term) with a £20m investment, but that this proportional level of leverage would be unlikely with an investment of £40m, weaking the value of the investment. An investment of the full £40m is therefore considered to carry too high a risk for Defra; however a smaller investment would be viable. |
| **Option 4.**  Split the £40m between the Eco.business fund and the Sri Lanka project | **Summary**  The eco.business fund is a new fund with a lot of potential for private sector leverage. The Sri Lanka project represents more tested investment with a trusted partner and has the advantage of including wildlife benefits, a priority for Defra ministers.  Both projects are better suited to an investment in the region of £20m, whereas a £40m investment would introduce a risk of under delivery in both projects.  Combining these investments means we can benefit from the combined advantages of the projects while mitigating the risks of investing a large amount in a new fund.  It is possible to split the £40m into two separate funds with relatively little extra resourcing requirements.  The benefits of this preferred option are outlined in more detail below. |
| **Option 5** | Return the money to Treasury. This action will limit the influence of Defra in the ICF as well as foregoing biodiversity benefits. Treasury are likely to recycle the funds into the ICF and allocate to either DECC or DFID or both, there would be less emphasis on biodiversity and correspondingly more on carbon (DECC) or poverty eradication (DFID). In addition the ICF is falling short of a ministerial target that 20% of ICF spend is on forestry projects, and neither DECC nor DFID would be likely to spend reallocated money on forestry. Doing so includes a significant reputational risk to Defra and will undermine our credibility in the next round of the ICF. |

1. **What are the benefits of the preferred option over all other viable options?**

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| The preferred option is to split the funding between the Sri Lanka project and the eco.business Fund. Both of these projects individually offer the ability to meet Defra and ICF objectives as well as delivering value for money.  Investment in these two projects is time critical.  The **eco.business fund** is in an expansion phase, offering a window of opportunity for Defra to shape this new innovative approach. We could join in future but it will have gone past the inception phase and we will have missed the chance to develop the fund from the beginning to fit Defra and ICF priorities.  In **Sri Lanka** there is an opportunity to take advantage of significant domestic interest and the World Bank is working hard to finalise the project as soon as possible. If we don’t take advantage of the political moment it might have passed before we get another opportunity to invest.  **Brazil** is a great opportunity but (as per earlier text) the most opportune time to invest is in 1-2 years. As we are the owner of the Brazil project, there is no downside from waiting and only risks (both to the existing £24.9m project as well as any new finance) of going too early.  Splitting the investment enables us to invest in a new and innovative project while balancing the risk with a more tested aproach. It allows us to maintain the balance of Defra portfolio across this period and increase ability to deliver against objectives across the portfolio both in this period and potentially in future years.  We have assessed the available options according to ICF and Defra objectives and for their value for money.  ***Indicative Results of Economic Analysis\*:***   |  |  |  |  | | --- | --- | --- | --- | | **Option** | **Brazil** | **eco.business** | **Sri Lanka** | | **Benefit to Cost Ratios (BCR)**  **(sensitivity range)\*\*** | 4.6  (2.6 - 7.3) | 1.3  (1 – 1.7) | 54  (NA) | | **Net Present Value (NPV) (central)** | £56m | £45m | N/A | | **Land area protected (Ha)** | 500,000 | 65,000 | 750, 000 | | **Tonnes of carbon saved** | 420,000 ts. There are however differences in methodology between the projects so it is not appropriate to directly compare the BCRs.  However, the difference in scale for the BCRs is large across the projects. For Sri Lanka, the extremely high BCR is due to the World Bank’s inclusion of ecosystem service values in the benefits. We have not been able to include such benefits in our own analysis of Brazil and the eco.business fund. | 560,000 | Negligible | | **Leverage assumed** | None | 1:2 | None | | **VfM assessment** | Monetised benefits outweigh costs; inclusion of non-monetised benefits would increase BCR further | Monetised benefits outweigh costs but BCR relatively close to break-even; inclusion of non-monetised benefits would increase BCR further | World Bank’s monetised benefits vastly exceed costs due to inclusion of ecosystem service benefits |   *\* Based on a 20-year appraisal period with partial monetisation of benefits.*  *\*\* see analytical annex*  *Value for Money*  We judge that on the tentative evidence available, and using assumptions consistent with other Defra ICF projects that all 3 projects will deliver benefits that outweigh the costs i.e. the BCRs are estimated to be greater than one over a 20-year time horizon, a reasonable appraisal period for forestry and environmental projects has been restricted to those on agricultural income and the value of avoided carbon emissions. Inclusion of non-monetised benefits (such as ecosystem services) would lead to higher BCRs for Brazil and the eco.business fund.  The eco.business fund has a relatively low benefit-cost ratio based on the quantified benefits in this business case and there is also likely to be some level of optimism bias inherent in the analysis (see analytical annex). However the inclusion of non-monetised ecosystem service benefits could plausibly mitigate concerns about whether the benefits would exceed the project’s costs. In addition, the analysis has assumed a relatively low level of private sector leverage over the 20-year appraisal period and the benefits would increase with higher level rates.  The cost benefit analysis reflects a simplistic representation of the projects and is only indicative. However, we judge there are more uncertainties around the costs, benefits and associated value for money of the eco.business fund relative to the Brazil and Sri Lankan projects (see Annex C for sensitivity analysis). Based on our indicative analysis of options, the projects in Sri Lanka and Brazil would likely represent better value for money.  *Climate Benefits*  The **eco.business fund** is projected to save the largest amount of carbon (563,000 tonnes CO2e).  The focus of the **Sri Lanka** project on ecosystem services means the project is expected to have a more indirect impact on carbon emissions, however it will have significant additional benefits for climate change adaptation through sustainable management of natural resources and increasing the resilience of rural communities.  The Sri Lanka project aims to achieve certification of 500,000 ha of forest landscapes by internationally or nationally recognized standards that incorporate conservation and management considerations and forestry is integrated across project components, for example developing rapid assessment systems, identification of high conservation value forests and setting out a stakeholder negotiation framework for land and resource use decisions and for balancing the trade-offs inherent in such large-scale approaches.  The **Brazil** project is expected to save 416,000 tonnes CO2e.  *Biodiversity and Wildlife Benefits*  **Sri Lanka** hosts a diverse array of ecosystems and is an international Biodiversity Hotspot. The IUCN Global Red List assessed that 571 species of fauna and flora of Sri Lanka are threatened with extinction. [[5]](#footnote-6)  Ecosystem benefits have been monetised for Sri Lanka by the World Bank. Based on the Millennium Ecosystem Assessment and previous World Bank work, values for ecosystem services such as wetlands in Sri Lanka, the benefit cost ratios can be very large indeed.     |  |  | | --- | --- | | **Component** | **Benefit to Cost Ratios (BCRs)** | | 1 & 4 – Ecosystems services | 100 | | 2 – Human Elephant Conflict | 4.1 | | 3 – Nature-based tourism | 1.0 | | ***Total (weighted)*** | ***54.4*** |   Source: Calculations based on Valuation of Environmental Services in Sri Lanka: A Case Study of Agriculture and Watershed Benefits in the Southern Province, World Bank, 2010.  Project components which will directly benefit biodiversity include: the restoration of degraded ecosystems through reforestation, conservation and protection of wildlife corridors and linkages between protected areas, restoration of water resources for agriculture and wildlife use, rehabilitation of degraded wetlands for provision of ecosystem services, restoration of watersheds and development of regulations and guidelines for green infrastructure so that infrastructure development is compatible with the sensitivity of ecosystems.  In order to tackle Human Elephant Conflict the project will explore options for Human Elephant Coexistence including implementation of a landscape conservation strategy aimed at allowing elephants to continue ranging outside PA’s creating optimal habitat for elephants and providing benefits to farmers through elephant conservation  Ecosystem services benefits were not modelled for the **eco.business Fund** due to lack of data, however the main pressures to the conservation of biodiversity and natural resources in the Fund’s priority areas come from land use change, land degradation exacerbated by climate change, pollution from nutrients, unsustainable use of resources, and invasive alien species.  To combat these pressures the eco.business fund aims to use Certification Standards as a mechanism for integrating sustainable development into mainstream markets. They set a baseline for sustainable practices and facilitate transition in mainstream supply towards standardising such practices. A study commissioned by KfW and undertaken by the International Institute for Sustainable Development (IISD) in 2014 identified a series of sustainability standards that ensure a significant contribution to biodiversity. Currently, there are more than 300 certifications available in the markets, offering different quality and focus. Certification can lead to production of increased yields or higher value products, but also entail up-front costs which increase the risks and financing needs of the producers.  These standards are not tracked by financial institutions and prevent sustainable businesses from benefiting from improved access to credit, which would otherwise further increase the benefits of “being sustainable” (and in particular going through the substantial investments required to achieve this status). The fund seeks to address this issue.  **Brazil** is a mega-biodiverse country, and would deliver significant biodiversity benefits through avoiding deforestation and forest degradation. The current project is yet to report on wildlife and biodiversity benefits.  *Poverty Benefits*  Poverty benefits have not been quantified for any of the projects; however each project could have a significant impact.  In **Sri Lanka** the rural sector accounted for nearly 78% of the country’s population and over 85% of poor Sri Lankans. The rural population work mostly in the agriculture sector. There are already many examples from within the country that demonstrate looking after natural resources makes poorer communities more resilient. For example healthy forests protect agricultural land from soil erosion and flooding safeguarding natural resources and increasing productivity.  The project will fund community forest action plans for activities leading to better forest management. The proposals will be prepared in consultation with the respective communities. The objective of the proposals would be to involve communities in reducing deforestation and forest degradation in the conservation landscapes and buffer zones.  The implementation of the approved community action plans would improve the management of natural resources to support livelihoods and contribute to poverty reduction, especially in the conservation landscapes of the country.  The rural poor are disproportionately affected by Human Elephant Conflict (HEC) through both loss of crops and loss of life. Protected areas are of insufficient size and quality to sustain the country’s elephant population, and as a result wild elephants are compelled to graze on agricultural land leading to conflict with local farmers.  The project will aim to secure 50% reduction of HEC-induced damages to crops and properties lives in human-elephant co-existence project sites and a 75% reduction in the loss of human lives in these project sites;  The **eco.business fund** will contribute to alleviating poverty through supporting smallholder farmers in developing countries, and through mobilising private sector investment to create sustainable livelihoods. For example, holding certification can result in economic benefits for smallholder farmers including potential for price mark up, better access to international markets and less exposure to market fluctuations. There is substantial potential for job creation and pro-poor growth by supporting labour-intensive sectors in rural areas  In **Brazil** our current project expects an increase in annual income per hectare by 5-6 folds for the poorest landholders through productivity and efficiency gains. This is significant financial gain and poverty alleviation for those considered these groups of farmers. The expansion of the project, however, would be most effective in targeting medium to large landholders in Brazil; this would have greater carbon and biodiversity benefits than before but lower poverty benefits.  *Leveraging Potential*  In **Sri Lanka** it is likely that UK funds will leverage additional World Bank funding (approximately 40% of the total fund). For the purposes of the indicative analysis contained in this business case, we have assumed no leverage.  In **Brazil** it is also likely that UK funds will leverage additional funding, as has been achieved in the existing project through an agreement with Banco do Brasil (the largest Brazilian bank). We would, however, have to negotiate a new agreement and so could not guarantee leveraging levels. However, we would expect the Brazilian Ministry of Agriculture (MAPA) to provide institutional support to leverage technical assistance in the field. For the purposes of the indicative analysis contained in this business case, we have assumed no leverage.  The **eco.business fund** has a high potential for private sector leverage and fits with the ICF aim of encouraging a stronger private sector involvement to tackle the current climate change challenges. The fund is designed to attract private finance by setting the right incentives for the private sector to invest. It will also provide the right enabling conditions for financial institutions as joint initiative of investors committed to the sustainable use of natural resources and private sector development. For the analysis contained in this business case, we have used finance-in-motion’s conservative assumption around leveraging potential, which roughly eguates to 1:2 (for every £1 Defra funding, the private sector contributes £2).  *Defra control over spending*  For the **eco.business fund** Defra will sit on the Board of Directors who will be the main decision-making body. Approval of investment proposals submitted by the Manager is delegated to an Investment Committee appointed by the Board.  In **Sri Lanka (**if in our interests) we could specify which specific components of the projects in which to invest in order to ensure Defra funding is concentrated on ecosystem services and biodiversity, however given the nature of the project this might not make any difference to delivery. We would have control over spend, but lower control over project delivery.  The bilateral nature of the **Brazil** project means we would have a high level of control over spending, however there would be additional admin resource required to expand the project at this point.  *Governance and Finance*  For **Sri Lanka** the World Bank is the trustee and implementing agent of the project and we will enter into a detailed binding agreement with them on Governance and Finance arrangements. The project already has a well-developed implementation document setting out components, milestones and monitoring and reporting requirements, to which Defra are in broad agreement.  To meet with the timescales and internal approvals processes within the World Bank, they have requested that we initially lodge the funding under the BioCarbon Fund (under which Defra has already invested in the Initiative for Sustainable Forest Landscapes). This allows the World Bank to *consider* channelling their own contribution through the BioCarbon Fund as required by their own approvals processes. A decision can then be made during the project inception phase as to whether the project is drawn into the BioCarbon Fund formally, or transferred to a standalone Trust Fund under the control of the in-country team. Although this will increase administrative burden for the project team in the early phase of the project, it is necessary to secure a financial contribution from the World Bank. This approach brings in two key risks that need to be managed. Firstly, introducing an additional decision step risks creating delays during the project inception phase; this needs to be managed through close engagement with World Bank processes and insertion of clear milestones/decision points to ensure clarification is not delayed. Secondly, that we need to ensure that any process link with the BioCarbon Fund does not have a read-across to the Initiative for Sustainable Forest Landscapes (under the BioCarbon Fund), which is already overburdened; we will ensure that there is a defined approach with the Bank to move to a fully standalone fund should there be any expectation of the project removing resources from the Initiative for Sustainable Forest Landscapes.  Project implementation will entail the creation of a stand-alone project management unit (PMU) at the Sri Lankan Ministry of Tourism and Sports. The PMU aims to reduce any risk of changes after the upcoming general election, oversee land landscape level activities and to ensure coordination support is provided to respond to Bank’s operational requirements.    For the **eco.business fund** Defra’s investment entitles us to take a seat on the board. This enables us to ensure that the fund’s investments remain aligned with ICF and Defra objectives.  For both projects we will lodge a promissory note with the bank of England and draw down funding as required. We have discussed our approach with both the World Bank and eco.business fund who are content with our practical plans for payment.  In **Brazil** the project would replicate the existing governance and financial arrangements, which have proved robust thus far.  *Risk Mitigation*  Splitting the investment enables us to invest in a new and innovative project while balancing the risk with a lower risk approach.  It allows us to maintain the balance of Defra portfolio across this period and increase ability to deliver against objectives across the portfolio both in this period and potentially in future years |

1. **People and money**

**6.1 What are the expenditure requirements for the proposed work?**

Add rows, if needed. Add an additional table for extra years, if needed.

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **£000s** | **2014/15** | **2015/16** | **2016/17** | **2017/2018** | **2018/19** | **2019/20** | **2020/21** | **2021/22** | **2022/23** | **2023/24** | **2024/205** | **2025/2026** | **2026/27** | **Total** |
| Admin | Pay |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Non Pay |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other 1 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other 2 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Admin subtotals** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Prog | Evidence |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Work stream 1 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Work stream 2 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Work stream 3 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Programme subtotals** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Capital | Project 1 | 40,000 |  |  |  |  |  |  |  |  |  |  |  |  | **40,000** |
| Project 2 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Project 3 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Project 4 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Capital subtotals** | **40,000** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |  |
|  | **TOTALS** | 40,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **40,000** |

|  |  |
| --- | --- |
| **Can you confirm that all costs have been cleared by your Finance Business Partner(s)? Provide names below** | **Yes** |
| **Cleared by:** | |

Provide any additional information here, e.g., required contingency funding, sources of income, savings to other parts of Defra from cost-sharing, etc.

|  |
| --- |
| This spend comes from a ring-fenced budget. It will be lodged as a promissory note with the Bank of England, before being drawn down as needed by the relevant implementing agency. No additional admin spend will be necessary |

**6.2 What are the staffing requirements for the proposed work?**

Add additional rows for additional grades, if needed. Add an additional table for extra years, if needed.

Legend:

‘FTEs’ = Full Time Equivalents

‘Re-allocated’ = FTEs re-assigned from other activities or absorbed into existing capacity.

‘Externally recruited’ = FTEs to be recruited externally to Defra.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **FTEs** | **Grade** | **20--/--** | **20--/--** | **20--/--** | **20--/--** | **20--/--** | **20--/--** | **20--/--** | **20--/--** | **Totals** |
| Staff | Re-allocated from: |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
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| **Internal subtotals** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Recruited: |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **External subtotals** |  |  |  |  |  |  |  |  |  | **0** |
| **TOTALS** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |

|  |  |
| --- | --- |
| **If this a voluntary exit or voluntary/compulsory redundancy, have you consulted Defra HR Operations?** | **No** |

|  |  |
| --- | --- |
| **Can you confirm that all staffing estimates have been cleared by your HR Business Partner(s)? Provide names below** | **Yes** |
| **Cleared by:** | |

Additional Information (Full/Outline BCs only)

|  |
| --- |
| No existing work will have to stop to enable current resources to support this project. The work can be met with existing resources. This includes:  *Fund Direction*  For the eco.business fund we will have a seat on the board, we can use this seat as Defra resources allow either to direct the fund at a strategic level using a light touch approach or by using our seat on the board to take a more proactive approach to direct investments for example contribute to M&E planning.  In Sri Lanka day to day management of the work will be carried out by the World Bank. They will be providing sufficient capacity in-country to run the project and will be responsible for all agreements with the Sri Lankan government. We will continue to work closely with the World Bank on overall project management in Sri Lanka, and our input will be formalised through a legal agreement.  For both projects the additional effort needed can be met within existing resources. |

# Part 2 – Planning and assurance

1. **Who are the lead contacts for this case?**

|  |  |
| --- | --- |
| **Programme/Project Executive** |  |
| **Business Case Lead** |  |

1. **Are there any other versions of this business case in circulation and what approvals have they received?**

|  |  |
| --- | --- |
|  | **Status / comments** |
| **Strategic BC** | No |
| **Outline BC** | No |
| **Full BC** | No |
| **Other BC** | No |

1. **On which Defra Business Plan Priority / Structural Reform Plan Objectives will the proposed work have an impact?**

|  |  |
| --- | --- |
| **List all relevant Priorities / Objectives in this green box**  A cleaner, healthier environment which benefits people and the economy.  A nation protected against natural threats and hazards, with strong response and recovery capabilities.  A world-leading food and farming industry | |
| **Performance Measure** | **Level of impact** |
| A cleaner, healthier environment which benefits people and the economy. | **Significant impact** |
| A nation protected against natural threats and hazards, with strong response and recovery capabilities. | **Direct influence** |

1. **What policy evaluation plans are in place? What timescales are involved?**

|  |
| --- |
| **Monitoring and Evaluation**  Both projects will be measured against their own objectives as well as against the ICF KPI’s.  **Sri Lanka**  Project Specific Indicators have been set out in the project implementation document. Key indicators are:   1. 500,000 ha of landscapes certified by internationally or nationally recognized standards that incorporate conservation and management considerations; 2. 250,000 ha brought under enhanced biodiversity protection measured through PA area score cards for PAs managed by DWC and FD; 3. 50% reduction of HEC-induced damages to crops and properties lives in human-elephant co-existence project sites; 4. 75% reduction in the loss of human lives in project sites;   Also set out are Project Outcomes including:   * Developing rapid assessment systems for landscape scale forest quality including the identification of high conservation value forests * Setting out a stakeholder negotiation framework for land and resource use decisions and for balancing the trade-offs inherent in such large-scale approaches and * Recognizing and using overlapping cultural, social, and governance “landscapes” within biologically defined areas”   For this project there iswell-tested standard World Bank method of evaluation planned which covers implementation, compliance and outcome monitoring, and will draw on lessons learnt from review of programme materials and local evidence gathering led by delivery bodies on a project by project basis. These reporting processes and methods have been used successfully for ICF projects in the past and we are content with outcome monitoring and lessons learnt planning included in the PAD so far.  The project performance will be independently monitored by a consortium of national conservation NGOs at the end of years 2 and 4, while achievement of project objectives and outcomes will be monitored by the same group at project closure.  A monitoring matrix to track inputs, outputs and outcomes, with intermediate and key performance indicators has been developed for the project. Outcomes and outputs will be monitored during project implementation using data compiled by PMU and generated by the project as well as other sources to evaluate progress.  However, there is a possible risk around the delivery bodies’ ability to deliver M&E data of an appropriate quality for the World Bank to complete the planned evaluation. We aim to actively steer the World Bank’s evaluation work to ensure the project and generate learning outcomes as well as evidence for accountability purposes and to ensure that methods and outcomes of their evaluations are sufficient to report against the KPI’s.  **eco.business fund**  Given the early stage of the fund the M&E systems are less well-developed than for the Sri Lanka project. In addition to this the innovative nature of the project means it presents more of a challenge to both monitor and evaluate.  However, as Defra have a seat on the board we are well placed to influence the monitoring and evaluation systems of the fund as a whole, to both ensure they are robust in themselves and to ensure a good fit with Defra and ICF M&E objectives. KfW, who will be responsible for delivery, partner with the UK on several ICF projects already and are comfortable that they will be able to meet our requirements.  A key risk is that resource constraints in Defra mean we cannot allocate sufficient time or expertise to steer and quality assure M&E plans. The position should become clearer after Spending Review. In any case, we will consider using the ICF MEL contract call-off function to source expert advice to inform development of M&E plans, as well as drawing on the “learning” strand of the MEL contract to help clarify Defra’s learning objectives, and their implications for M&E plans. |

1. **What degree of commitment is involved?**

|  |  |  |
| --- | --- | --- |
| **Public concern** | How much public concern surrounds this work or the issue the work is aligned to? | Negligible |
| **Legislative Requirement** | What is the legislative requirement for the proposed work? | Negligible |
| **Political Commitment** | What is the level of political commitment for the proposed outcomes? | Medium |
| **Contractual commitment** | What contractual commitment is there to undertake this work? | Negligible |
| **Interdependency** | How does this work relate to other Defra activities? | Relates to same Director's portfolio |

Provide specific details if any of the answers above are not ‘Negligible’.

|  |
| --- |
| **Political commitment:** The UK is committed to playing a leading role in supporting developing countries to tackle the drivers of deforestation. This commitment was reiterated at the UN Secretary General’s Climate Summit (23rd Sept 2014) at which the Prime Minister, alongside a coalition of countries and multinational companies, committed to halve the rate of global deforestation by 2020 and halt it by 2030 as part of the New York Declaration on Forests. In addition to this, the governments of Germany, Norway and the UK set out plans to work together to meet that common vision by agreeing to fund up to 20 new forestry programmes by 2016, to restore 150 million hectares of forests by 2020 and to restore an additional 200 million hectares by 2030. The three governments also agreed to work with other consumer countries to promote national commitments that encourage deforestation-free supply chains.  International Climate Finance is the UK’s primary mechanism of delivering these commitments. To this end, civil society and the international community will expect the UK to maintain the aim of the UK International Climate Fund of the previous SR period to dedicate 20% of funding to forestry projects. Defra expertise and capacity is essential to achieving this.  Climate Finance will also directly support delivery of the Sustainable Development Goals and helps meet our international commitment towards achieving global climate finance of $100bn by 2020/21.  **Interdependency:** The Better Regulation, EU and International Directorate is the home for knowledge and influence in the international arena, promoting Defra’s priorities and coordinating activity to achieve positive outcomes. The Director’s responsibilities include international biodiversity, including tackling the illegal wildlife trade; forestry; global sustainable development goals and trade. |

1. **What are the benefits of doing this work?**

List and describe all benefits, including benefits that have not been monetised.

|  |
| --- |
| **Investment in Sri Lanka provides:**  **Economic**   * The leveraging of additional finance from public and private sector in the form of IDA from the World Bank.   **Environmental**   * 500,000 ha of landscapes certified by internationally or nationally recognized standards that incorporate conservation and management considerations; * 250,000 ha brought under enhanced biodiversity protection * Reduced loss of and pressure on forest habitats will protect biodiversity and habitat in Sri Lanka.   **Climate and Poverty**   * 50% reduction of HEC-induced damages to crops and properties lives in human-elephant co-existence (HECOEX) project sites; * 75% reduction in the loss of human lives in HECOEX project sites; * Climate-smart agricultural and low-carbon land-use practices will enhance agricultural productivity and improve local livelihoods. * Community partnerships which will reduce dependence on depleted forest resources   **Political and international** **relations**   * Engagement and partnership with Sri Lanka and the World Bank will build relations for future collaboration on broader issues, such as the illegal wildlife trade. * Continued investment will demonstrate political will to combat the drivers of deforestation.   **Investment in Eco business Fund provides**:  **Economic**   * The leveraging of additional finance from other donors and the private sector   **Environmental**   * 65,625 hectares will be brought under enhanced protection. * Reduced loss of and pressure on forest habitats will protect biodiversity and habitat   **Climate and poverty**   * Reducing forest loss and forest degradation will reduce CO2 emissions by 563,000MTCO2e.   **Political and international** **relations**   * Demonstration of ability to leverage private sector finance. |

|  |  |  |
| --- | --- | --- |
| **Net Economic Benefit** | What is the net present benefit to society that this proposal reasonably expects to deliver (the value today of this proposal’s benefits minus the value today of its costs)? | **Present value benefits**  **Not known**  **Present value costs**  **Not known**  **Net present value**  **Not known** |
| **Timing of benefits** | Once implemented, over what timeframe are the net benefits expected to accrue? | 10 years - <20 years |
| **Benefits realisation** | What is your estimate of the likelihood of the benefits being realised? | Probable |

**Outline and Full BCs only:**

* Provide an overall cost to benefit ratio using the grand total from question 5.1.
* Discuss the profiles for all benefits and how their realisation will be monitored.

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | **Option** | **Brazil** | **eco.business** | **Sri Lanka** | | **Benefit to Cost Ratios (BCR)** | 4.6 (2.6-7.3) | 1.3 (1.0-1.7) | 54.5 | | **Net Present Value (NPV)** | £56m (£24m-97m) | £45m (£2m-80m) | N/A | | **Land area protected (Ha)** | 450,000 | 65,000 | 100,000 – 200,000 | | **Tonnes of carbon saved** | 420,000 | 560,000 | Negligible | |  |  |  |  | |

Explain the degree of confidence in the benefits estimates and profiles and what input you have received from Economists or other analysts.

|  |
| --- |
| For a detailed explanation, please see the analytical annex C.  Given the data available there are differences in methodology between the projects therefore the BCRs for each project are not a direct comparison.  The difference in scale for the BCRs is large across the projects. For Sri Lanka, the extremely high BCR is due to the inclusion of ecosystem service values in the benefits. We have not been able to include such benefits in the analysis of Brazil and the eco.business fund, where monetised impacts have been restricted to those on agricultural income and the value of avoided carbon emissions.  For both eco.business and Brazil it can be assumed that the BCR would increase if ecosystem benefits were included, however we don’t estimate that this would alter the overall ranking of the projects.  In addition eco.business is the only project to include possible private or public sector leveraging; again we do not expect this to affect the ranking of the projects.  Other uncertainties considered include, for eco.business, the possibility of ‘optimism bias’ inherent in the analysis. This is because our assessment is solely based on information provided by Finance-in-Motion (the managers of the eco.business fund) whereas our assessment of the Brazilian project and the WB’s analysis of the Sri Lankan projects are based in each case on a relatively wide range of sources from the literature. |

1. **What project planning has been completed?**

**13.1 Risk Potential Assessment**

Where appropriate (see guidance, but generally for higher risk programmes/projects) complete a Risk Potential Assessment and record the ratings below. This will determine whether Gateway review is applicable to the proposed work.

|  |  |  |  |
| --- | --- | --- | --- |
| **Risk Potential Assessment** | Medium Risk | **Consequence:** | Medium |
|  | **Complexity:** | Medium |

|  |  |
| --- | --- |
| Summarise briefly the main risks to the successful delivery of the activity and the key areas of uncertainty remaining. **Main risks to delivery** | For both projects risk in common are:   * Support for sustainable forestry and agriculture displaces unsustainable activities into other locations through “leakage”.   **Mitigation action** Both projects take a landscape scale approach and operate over wide areas. On the ground interventions impact several areas, minimising the risk of leakage.   * Slow start-up times lead to delayed implementation.   **Mitigation action** includes working closely with delivery partners to expedite action. We are engaging with the World Bank at a high level to ensure sufficient resources are devoted to delivering in Sri Lanka and should be able to influence the pace from our position on the board of eco.business.  For Sri Lanka   * Risks around the ability of Sri Lanka to deliver the project due to political factors.   **Mitigation action** Ensure programmes are fully supported by local and national governments to increase probability of success , and ensure sufficient numbers of World Bank staff are appointed to support the Government of Sri Lanka where necessary  For eco.business   * Lack of M&E means that outcomes cannot be effectively measured and the project cannot report effectively against the KPI’s.   **Mitigation action** Ensure substantial analysis is undertaken in the design phase of the projects to ensure that methodologies and risk management tools are based on the strongest possible evidence.   * The fund does not leverage enough Private sector funding or does not perform as expected and either VFM is not realised.   **Mitigation action**  Work closely with the fund to ensure all mitigation actions against failure are carried out including carefully selecting partners with an adequate risk profile, carefully evaluated by an experienced team of professionals from Finance in Motion. Our presence as flagship donors will considerably support the attraction of further investors. |
| **Key areas of uncertainty** |  |

**13.2 Are there any issues (I), assumptions (A) or constraints (C) that may impact or affect delivery of the preferred option and its outcomes significantly?**

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **I/A/C** | **Consequence** | **Proposed mitigation / action** |
| **Sri Lanka** | | | |
| There is limited experience within the Conservation and Forestry departments in implementing externally financed projects. |  | Low capacity and sustainability | Both Departments have undergone reforms during the implementation of previous projects supported by other donors and the World Bank is on hand to provide technical assistance. |
| The project will be executed by two implementing agencies from different ministries. |  | Risk that institutional rivalry may discourage collaboration. | This will be mitigated by project coordination in a centrally controlled Project Coordination Committee (PCC). In addition the agencies involvement during the Project Appraisal demonstrates their commitment to a collaborative approach. |
| Financial Management – Implementing agencies unfamiliarity with World Bank finance protocols may delay procurements such as hiring of contractors. |  | Project implementation delay | The agencies already have experience with implementing projects supported by other multilateral/bilateral donors. Financial Management capacity assessment and training will be conducted for all implementing agencies through which project funds will flow. |
| Stakeholder engagement – the project will require participation of community, landscape stakeholders including local political authorities. |  | Lack of support from within communities for the projects. | The project will need to obtain the support of affected communities and the local political leadership. The project has already begun dialogue and consultations with stakeholders and these will continue. Periodical surveys to measure local stakeholder sentiment will be conducted. |
| **Description** | **I/A/C** | **Consequence** | **Proposed mitigation / action** |
| **eco.business Fund** | | | |
| Products offered by the Fund are not demanded by Financial Institutions due to their non-subsidized terms and conditions or difficulties in placing the Funds. |  | Low take up of financing. | This will be mitigated against by reducing the administrative burden imposed on financial institutions by requesting pragmatic reporting/monitoring requirements |
| Not enough public sector investors to shore up the private sector investment. |  | Leveraging targets not met. | The GEF's investment in Senior Shares combined with the investment of the German and UK Government puts the Fund in a good position to mobilize sufficient funding from additional investors for the next 2-3 years. Our presence as flagship donors will considerably support the attraction of further investors. |
| There is the risk that partners selected do not have the capacity to deliver. |  | Fund aims are not met, negative reputation of the fund | The Fund will mitigate this risk by carefully selecting partners with an adequate risk profile, carefully evaluated by an experienced team of professionals from Finance in Motion. Following each investment, the risk profile of each investee is monitored at least on a semi-annual basis based on the partners’ financial reporting and the findings of the regular update due diligences. |

1. **Which assurance activities have been undertaken?**

Use Assurance Prompts to identify the relevant assurance activities and to respond to the following questions.

|  |  |
| --- | --- |
| Are there any planned or completed **Gateway Reviews**? | **No** |
| Are there any planned or completed **Audits**? | **No** |
| Is there a new **IT** resource demand? | **No** |
| If yes, have you sought approval from Information Services or the NADB? | **No** |
| Is there a new **Estates** resource demand? | **No** |
| If yes, have you sought approval from the Defra & Network Estates Team? | **No** |
| Is there a new **Evidence** resource demand? | **No** |
| If yes, have you sought approval from the Evidence Team? | **No** |
| Will **Procurement** be required? | **Yes** |
| If yes, have you sought approval from Procurement? | **Yes** |
| Will this project use ‘**innovative and complex’** **commercial models**? | **No** |
| If yes, have you consulted the Cabinet Office? | **No** |
| Will this activity require new **regulation**? | **No** |
| If yes, has a ‘Policy Appraisal Statement’ been signed off by the Better Regulation Team? | **No** |
| Are there **Data Collection** implications? | **Yes** |
| If yes, or you do not know, have you consulted a Statistical Officer? | **No** |
| Will this work use any form of **personal data**? | **No** |
| If yes, or you do not know, have you conducted a data privacy assessment? | **No** |

Comment on all relevant assurance activities that have been completed and/or planned. If an assurance activity has been completed, or you have a response from an assurance provider (e.g. estimates, authorisation, etc.), please provide the information as annexes to this business case.

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| There are various layers of evaluation to ensure Defra can understand and demonstrate how benefits are realised for each project.  These include: annual HMG and ICF level evaluations, annual fund level evaluations using project level performance indicators (including on biodiversity), independent verification of project level results as part of the payment for performance mechanism, and internal World Bank evaluation procedures.  For both projects implementation is through well-established trust fund structures with respected fraud checks and balances.  The World bank is an HMG trusted delivery partner and recently underwent a central assurance assessment by DFID which concluded that – “*The World Bank (WB) is a low risk partner for DFID. In terms of central systems and processes, it carries no unacceptable fiduciary or reputational risks. It has also been extensively reviewed, both internally and externally, in all aspects of its operations.”*  Defra have a seat on the eco.business fund board and we are well placed to shape the monitoring and evaluation systems of the fund as a whole, to both ensure they are robust in themselves and to ensure a good fit with Defra and ICF M&E objectives.  The eco.business fund Board of Directors is composed of between three to five members and is the main decision making body. Board members are elected at the general meeting of Shareholders. From our contribution, it is guaranteed we will have a seat on the Board.  Concept Notes for the projects have been peer reviewed by technical experts from across DECC and DFID, and subsequently approved by the ICF Board (Senior managers from Defra, DECC and DFID). |

1. FAO (2010). Global Forest Resource Assessment. [online] Available at: www.fao.org/forestry/fra/en/ [↑](#footnote-ref-2)
2. http://2014.newclimateeconomy.report/wp-content/uploads/2014/08/NCE\_Chapter3\_LandUse.pdf [↑](#footnote-ref-3)
3. World Bank, Poverty and Forest Linkages, 2008 [↑](#footnote-ref-4)
4. Forest Peoples Programme, Numbers of Forest Dependant People, 2012. [↑](#footnote-ref-5)
5. http://www.iucnredlist.org/ [↑](#footnote-ref-6)