Annual Review - Summary Sheet

Title: BioCarbon Fund – Initiative for Sustainable Forest Landscapes (ISFL)		
Programme Value: £65m Defra Investment £50m BEIS Investment		**Review Date: 15th September 2018**
Start Date: May 2017	**End Date:** September 2018	*Start and end dates indicate the period that the review covers, including if this is over 12 months*

Summary of programme performance

Year	2014-5	2015-6	2016-7	2017-8			
Programme Score	B	B	A	B			
Risk Rating	Moderate	Major	Major	Major			

Summary of progress and lessons learnt since last review

Overall for this year the programme has been scored a B: moderately does not meet expectation.

The BioCarbon Fund – Initiative for Sustainable Forest Landscapes (ISFL) is a World Bank delivered programme which is designed to incentivise and enable countries to develop and implement land-use plans and policies which bring down deforestation and carbon emissions across large jurisdictional areas or eco-regions. These areas may include forests, agricultural regions, and other types of mixed land-uses.

The programme is on track to meet output level targets in many areas, has exceeded some targets, but has missed several critical 2018 indicators which demonstrate emerging risks to realising longer term outcomes. The timelines for generating and paying for emission reductions continue to slip and there are considerable challenges disbursing implementation grants, crucial to getting on-the-ground activities started. Last year's Annual Review set out the UK's expectations regarding reviewing and raising the programme's ambition for private sector engagement targets and this remains a key area for continuing work into 2018/2019. This assessment of key indicators and their relationship to longer term outcomes has informed the score of B this year.

Overall the UK recognises that the ISFL is a highly ambitious and untested intervention, and the scale and complexity of the challenge of reducing greenhouse gas emissions from the forest and land-use sector is significant. This is an important factor in scoring the programme's performance, and the Bank and all Contributors have taken an adaptive management approach to applying lessons from early implementation to improve programme design and delivery. The programme's first mid-term evaluation is underway and will support this approach with independent recommendations focussed on testing some of the assumptions in the programme's theory of change, as well as closely analysing barriers to programme implementation.

There have been significant staffing changes in both the Bank and Contributor teams. The ISFL Fund Manager has changed, and there is a new Practice Manager managing all climate change funds at the Bank. There is for the first time a Private Sector Specialist in post. These changes have resulted in a considerable period of adjustment in the last year.

Key areas of progress in the last year include:

- Finalising the Program Requirements and various associated technical documents which are the basis for the ISFL's carbon accounting methodology. This was a significant milestone, allowing participating countries to move forwards with their emission reduction programmes. However, it took longer than anticipated to complete, delaying implementation.

- Ongoing analysis of the private sector engagement strategy. Strengthening the strategy was raised in the last Annual Review as a recommendation and some improvements have been made but the strategy still requires further ambition to effectively meet the needs of partners and funding recipients in programme areas and the expectations of Contributors.

- Agreement of terms of reference for – and contracting of – the mid-term evaluation team, DAI Global. The UK is representing Contributors on the Evaluation Oversight Committee. The evaluation is set for completion in early 2019, a few weeks behind the schedule set out in the Monitoring, Evaluation and Learning Framework, but advancing.

- The establishment of a new system of monthly portfolio risk reports from the Bank's country-level operational teams including traffic light assessments of key delivery milestones. These reflect an effort by the Bank to unblock implementation and respond to Contributor requests and Annual Review recommendations for more frequent and frank communication around delivery risk.

- Contributors taking the decision to include Mexico and Indonesia in the funding pipeline, reflecting the strategic importance of forest dense countries like Indonesia to global climate and biodiversity goals, and reflecting a decision by Contributors from the 2016 Annual Meeting to mitigate the risk of the ISFL not utilising all the funds available.

- BEIS and Defra each moving a portion of the ISFL's results-based "BioCF Tranche 3" funding into the grant-based BioCF*plus* to support the development of programming in new pipeline countries Mexico and Indonesia. The Bank identified a funding gap in upfront support to open these two new programmes, and UK decided to make the transfer to help address these needs in new partner countries, and to mitigate the risk of that BioCF Tranche 3 would not utilise all UK funds committed to it in a reasonable timeframe.
    - BEIS moved £9.7m of its £50m T3 contribution to support a new programme in Mexico and private sector engagement.
    - Defra moved £13.9m of its £65.1m T3 contribution to potentially support the programme in Indonesia and private sector engagement in both Indonesia and Zambia.

- Initiation of the Mexico programme progressed quickly with the signing of a $10m BioCF*plus* grant to support the programme's implementation, which was 2/3 funded by the UK (BEIS) and 1/3 funded by the US Department of State. The programme launched on June 19th at an event hosted by the Mexican Forestry Commission.

- Zambia signing a $7.75m BioCF*plus* grant agreement with the Bank in September 2017, and signing a Letter of Intent to participate in an ISFL emissions reductions programme in November 2017.

- The President of Colombia also signed a $20m grant agreement with the Bank. However, the Bank has since experienced delays in finalising the process and launching the programme. This is due in part to legal issues which have required changes to the grant structure. These have resulted in missing targets in the ISFL's logical framework (logframe).

- New BEIS-funded staff joined the UK's Embassies in in Mexico and Colombia, allowing for greater in-country engagement with Bank, ministries and other Contributors.

- Contributors joining missions to Ethiopia in May and Zambia in July – Defra joined the Zambia mission which strengthened understanding of the scale of the challenge for pioneering jurisdictional programmes.

- Upcoming in October, the Bank and Contributors will meet for an extended Annual Meeting to:
    - Review stakeholder understanding of core objectives of ISFL given progress to date
    - Develop a common understanding of expectations (and modalities) for private sector engagement, including information sharing on World Bank and Contributor (bilateral and multilateral) engagements in this space
    - Focus on country-level programme implementation through 'deep-dives' of each ISFL program to discuss risks and opportunities; delivery; and ongoing activities by the World Bank (including ISFL) and Contributors (bilateral and multilateral).

Summary of recommendations for the next year

1. **Bank and Contributors** to focus on implementation in 2018-2019, reflecting that after rounds of revisions to the team structure and strategy there should now be a clear path for operationalising delivery.
    a. **Bank** to develop and implement plans to accelerate BioCF*plus* government-executed grant disbursement, including by considering how appropriate technical assistance and additional support could be offered more continually between missions to achieve disbursement and programme implementation, discussing with Contributors at the Annual Meeting in October and formalising an approach by the start of 2019.
    b. **Contributors** to work with the **Bank** to develop a system of in-country collaboration by start 2019 which ensures that as much support as possible can be provided for ISFL objectives through diplomatic and bilateral programming, as well as through aligning other related projects.
2. **Bank** to ensure at least one Contributor mission to each jurisdiction a year, with two months of notice provided in advance of travel dates.
3. The inclusion of Mexico in the pipeline was a highlight of the last year's delivery. Noting risk ratings in Portfolio Reports, consideration of further delivery-risk mitigation options remains justified. **Bank** to consider further options for Contributors by the mid-year meeting in 2019.
4. **Bank and Contributors**, via the Oversight Committee, to ensure a high-quality mid-term evaluation by January 2019. This is an extension of last year's recommendation which covered developing terms of reference and procuring the evaluation team. The evaluation team is procured, has delivered its inception report and now the evaluation needs to be delivered to the agreed ToRs with no further slippage in timeline for completion.
5. **Bank** to update the logframe, by start of July 2019, to reflect the addition of Mexico in the ISFL pipeline, ensure accurate titles for documents (i.e., changing the indicator on Methodological Approach to ISFL ER Program Requirements), and any necessary changes resulting from the evaluation, in consultation with Contributors.
6. Upon completion of the evaluation (Q1 2019), **Bank and Contributors** to streamline and improve efficiency on decisions for the fund. Bank to develop specific recommendations with Contributors about the types of documents/issues that are presented for feedback and approval with the aim of reaching key fund decision points more quickly.
7. **Bank** to facilitate that preparatory stage of Indonesia programme is completed by September 2019
8. **Defra** to make suggestions in a note (by June 2019) on developing a possible biodiversity strategy for the ISFL.
9. **Bank and Contributors** to reach and document a clear and shared (between Contributors and the Bank) strategy for private sector engagement at the October Annual Meeting and weeks following, including a gap analysis and strategy for each specific ISFL jurisdiction by end of June 2019.
    a. **Bank** to revisit targets and increase ambition for private sector engagement in the logframe according to this vision by end of June 2019.
10. As a continuation of last year's recommendation about taking on key lessons learned from the Forest Carbon Partnership Facility ERPA negotiations – **Bank** to share a note, by 2019 mid-year meeting, outlining the roles of responsibilities of Contributors, the Bank, and Country Partners during ERPA negotiations.

11. **Bank and Contributors** to review external communications strategy in Q1 2019 to align proactive messaging to key audiences and influencers in partner countries and domestically within the UK.

Progress against recommendations from last year' Annual Review

Recommendation	Progress
Private Sector Engagement a. Bank to conduct a high-quality assessment of any relevant capacity, procedural or funding issues that might be hampering progress to engage and partner with the private sector, looking at both immediate barriers and their underlying causes by the 2017 Annual Meeting; b. Bank to facilitate more regular communication with contributors about private sector engagement approach; c. Bank and Contributors to reach agreement on ambitious, realistic, deliverable goals related to private sector engagement.	This recommendation remains partially unmet. a. A private sector engagement workshop was arranged in June 2017 in Paris. At the October 2017 Annual Meeting, the Bank shared a Private Sector "Lessons Learned" paper, and an internal note for Contributors on the private sector narratives in each landscape. Contributors appreciated the narratives, which clarified how government programming in each jurisdiction will create enabling conditions for private sector engagement. b. There has been more communication with the establishment of semi-regular private sector update calls. c. The Bank also presented an early strategy for private sector engagement, but there is further work needed to define shared goals as part of the preparation for the next Annual Meeting. BEIS and Defra will seek to provide further clarity on our aspirations and support to the Bank as we work on reaching agreement in this area. The Bank has hired additional resource to dedicate exclusively to delivering the initiative-level private sector engagement strategy and manage a portfolio of projects on the ground. Our initial conversations have been very positive; however, we look forward to when the new private sector team will approach Contributors to continue work on co-developing goals.
Incorporate a new, low-risk country into the pipeline as part of continued approach to address pipeline risk by the start of 2018.	This was very effectively met. Mexico was approved into the ISFL pipeline in December 2017 and the programme launched on June 19th at an event hosted by the Mexican Forestry Commission.
Take on key lessons-learned from the Forest Carbon Partnership Facility ERPA negotiations – clearly delineate the responsibilities of Contributors, Bank staff, and recipient countries in advance of ERPA negotiations.	On track. The Bank has done valuable work streamlining processes and aligning internal ways of working between the ISFL and FCPF. They are working on sharing a note outlining the roles of responsibilities of Contributors, the Bank, and Country Partners during ERPA negotiations and will share with Contributors as we get closer to ERPA negotiations.
Invest time and expertise necessary to ensure the development of strong terms of reference and procurement for the first mid-term evaluation next March 2018.	This recommendation has been efficiently actioned. The UK input to the review of the terms of reference and our suggestions were incorporated. Procurement has successfully contracted DAI and an inception report is being reviewed currently.
UK to develop a full methodology for the assessment of KPI 15 on Transformational Change.	Partially met. UK BEIS and Defra have developed a draft methodology. This draft is being developed to align with the findings of the midterm evaluation, after which it will sent to and reviewed by the Bank FMT.

Bank and Contributors to ensure timely decision-making at fund meetings by observing hard deadlines for sending and reviewing preparatory documents and for taking decisions	Met, but to be continued. Two weeks to review documents is a challenge, so earlier sharing of documentation wherever possible is appreciated. The Bank has done a good job of clarifying decision points in meeting documentation, which helps Contributors to prepare more effectively for Fund Meetings.
Improve administration and communication through a formalised ISFL-run document management	Effectively met with the very useful web-based document management system developed in December 2017.

A: INTRODUCTION AND CONTEXT

Link to Business Case:	Link to business case
Link to Log frame:	Linked in Appendix A of the 2017 BioCF-ISFL Annual Report

Outline of the programme

The BioCarbon Fund – Initiative for Sustainable Forest Landscapes (ISFL) is a multilateral fund, managed by the World Bank with 4 participating donor countries: UK (BEIS and Defra), Germany, Norway and the US. The ISFL aims to incentivise a transformation of entire landscapes onto a more sustainable, low-carbon development path. It will test comprehensive carbon accounting methodologies to pay for emission reductions from a range of landscape features including forests, wetlands and agriculture. It also has a strong private sector focus, actively engaging major commodity producers, aggregators, traders and buyers to create public-private partnerships. There are five programmes in jurisdictions in Colombia, Ethiopia, Indonesia, Mexico and Zambia.

The ISFL has two complementary financing mechanisms: BioCF*plus*-ISFL (BioCF*plus*) which provides upfront grant funding and technical assistance and BioCF Tranche 3 (T3) which will provide results-based payments for emissions reductions. Total commitments to the ISFL at the end of the World Bank's 2017 fiscal year were $350m: $98m in BioCF*plus*; $252m in T3.

Originally BEIS and Defra were only invested in the results-based payment fund (T3). However, at the end of 2017 BEIS moved £9.7m, and Defra £13.9m from T3 to BioCF*plus* to meet up-front financing needs for new emissions reductions programmes in Mexico and Indonesia, as well as to support increased private sector engagement work in the programme, and to assure that our funds generate benefits as soon as possible.

Timing of the Annual Review

The last Annual Review was completed in May 2017. After discussions between the Bank and BEIS and Defra management teams, it was agreed that our Annual Review should better coincide with the Bank's standard results collection for their annual reporting. The Bank's fiscal year runs until the end of June with results collection thereafter. A Spring Annual Review meant that results collection was for only part of the year and duplicates end-of-year efforts; September was chosen as a more appropriate time for the UK to carry out its Annual Review. As this meant that the interval between Annual Reviews would exceed 12 months, we carried out an interim live scoring exercise with the Bank in May 2018. The results of this exercise assessing progress towards logframe targets and 2017 recommendations to May 2018 are shown in Appendix 2.

B: PERFORMANCE AND CONCLUSIONS

Annual outcome assessment

A long-term perspective is needed as the ISFL will run up to 2030. Because the project is still in its early stages, it is difficult to judge whether the ISFL will achieve its objectives - outcome indicator targets included in the logframe commence in 2019. However, the concerns we have raised on the timeline to generating emission reductions, challenges disbursing implementation grants, as well as the need to crowd in more investment to jurisdictions are clearly relevant here. These are crucial outputs which are delayed, and this will likely affect outcomes. The combined programme score of B reflects the UK's assessment that outputs, particularly regarding crowding in additional finance through public and private engagement, are not stacking up to meet outcome level goals. The mid-term evaluation currently commencing will provide a much deeper assessment in this area. ISFL's proposed outcomes relate to ICF Key Performance Indicators (KPIs). The ISFL's intended outcomes are:

Improve land management and use, including forest cover.

Evidence of progress –

- The agreement and publication of the ISFL ER Program Requirements was a major milestone for the year. There are additional associated guidelines including on buffers and reversal. These provide a clear description of the ISFL's carbon accounting methodology and allow participating countries to develop their emissions reduction programmes.
- Project Appraisal Documents (PADs) completed and implementation grant agreements signed in four countries, Colombia, Ethiopia, Mexico & Zambia, show that the resources to support improved land management and governance are available to participating countries, the challenge now is to disburse these funds and generate benefits.
- A range of excellent support has been provided from programme design workshops, technical reports, to knowledge dissemination events. As noted in the analysis of outputs, many related targets have been exceeded. The ISFL approach is complicated and innovative and these outputs will help catalyse the necessary training and coalition building between government agencies, public and private sector players, and local stakeholders that will form the political and regional will to deliver emission reductions.

Assessment - We assess that the ISFL remains well-positioned to achieve this outcome if:

- Progress on grant disbursals and Emissions Reduction Programme Documents steps up;
- Countries remain engaged and motivated to implement programming on the ground, supported by upfront preparatory funding to build capacity;
- The external mid-term evaluation provides timely and insightful recommendations to address slippage of key timelines.

Deliver benefits to land users

These benefits start to roll out as recipient-executed grants are disbursed to support improved services, improved infrastructure, training and capacity building, and increased agricultural productivity.

Evidence of progress –

- Upfront grants ($3.26m out of an expected $19.25m by 2018) have been disbursed and have supported the establishment of program implementation and management units, preparation of ER programs (including developments of GHG inventories, reference levels, benefit sharing arrangements, etc.), scoping and planning for on-the-ground investments, and land use planning.
- The Project Appraisal Documents (PADs) completed for Colombia, Ethiopia, Mexico & Zambia are comprehensive documents which detail a range of interventions, supported by implementation grants which will deliver benefits to land users.

Assessment – While the ISFL remains well positioned to achieve this outcome, the pace of progress towards achieving it is clearly at risk due to delays in grant disbursement. A priority of the coming year should be to facilitate improved grant disbursement. The ISFL will achieve this outcome if:

- Grant disbursement steps up and programmes proceed with implementation.
- Private sector initiatives such as IFC deals and other approaches as per agreed at the 2018 annual meeting start to multiply.
- Benefit-sharing plans (which outline how and with whom Emissions Reductions Payments will be shared) are designed in conjunction with ERPAs. Benefit-sharing plans must be finalized when ERPAs become effective.
- Payments from the first and every subsequent verification of Emissions Reductions are made and fund sustainable, long term benefits to land-users.

Leverage partnerships with and between the public and private sectors to advance the ISFL vision and approach.

The ISFL's objective is to partner with other public and private sector actors and organizations to help 'forest-proof' the sourcing of commodities and redirect market forces towards more sustainable land management practices.

Evidence of progress –

- Public financial leveraging has come in the form of co-finance commitments from the Global Environment Facility: $8.05m in Zambia, and $5.9m in Colombia. In addition, co-finance from the International Development Association (IDA) is secured in the form of a $17m loan to Zambia and a $56m loan from the International Bank for Reconstruction and Development (IBRD) to Mexico to support the ISFL programs. These agreements were signed last year. We note the benefits of GEF co-financing below.
- In addition to the existing $3m loan from the IFC to Ethiopia for investment services in the coffee sector, an IFC deal with Alqueria in Colombia was signed earlier in 2018 with BioCF*plus* funding that leveraged $1.55m from Alqueria.

Assessment – the ISFL will not meet this outcome unless the output level interventions are made more ambitious and are delivered at pace. The recent Contributor mission to Zambia reaffirmed the UK's view of the criticality of leveraging partnerships. The large scale of the ISFL jurisdictions (some greater than the size of the UK) mean private sector finance is crucial to meaningful and transformative impacts. We look forward to the analysis and alignment of ambition on private sector engagement at the October Annual Meeting and we welcome a step-change in Bank activity with dedicated staff in this area.

Biodiversity

Biodiversity benefits were an important element of Defra's business case to invest in the ISFL. The original ISFL logframe included biodiversity conservation as an outcome, however, during rebaselining in 2016, this was removed due to the difficulty of defining and measuring an indicator. Project concept notes (PCN) and project appraisal documents (PAD) do normally reflect the importance of biodiversity and Defra always has the opportunity to comment when these documents are reviewed. However, this is a priority area for the UK and Defra would like the Bank and Contributors to consider ways of elevating its importance in the ISFL. This might include developing greater links with existing bilateral conservation initiatives; for example, it appeared during the Zambia mission that there might be opportunities to work more closely with a USAID project which included activities in Eastern Province.

The leveraging of GEF funds in Zambia and Colombia are great examples of how support to biodiversity conservation can be enhanced in the jurisdictional programs. However, the huge scale of jurisdictions and range of relevant threats highlight the importance of looking for synergies with other biodiversity focused programmes in order to ensure that landscape scale efforts achieve both the desired climate and biodiversity outcomes (in line with SDGs and national plans - for REDD+ and Aichi, etc).

Recommendation: **Defra** to make suggestions in a note (by June 2019) on developing a possible biodiversity strategy for the ISFL.

Annual Output Assessment

Scale	Description
A++	Outputs substantially exceeded expectation
A+	Outputs moderately exceeded expectation
A	Outputs met expectation
B	Outputs moderately did not meet expectation
C	Outputs substantially did not meet expectation

The overall score for the BioCarbon Fund is B.

This year the BioCarbon Fund met or exceeded many of the targets that it met last year when on balance we took the decision to score the fund's performance as an A. Crucially, the 2017 score reflected the possibility that the fund was on track to meet key 2018+ targets. Our assessment this year is driven by the results of three key *missed* output indicators due for delivery in 2018: the signature of the first ERPA, the amount of grant funding disbursed, and the delays to the launch of ISFL-Colombia.

As noted last year, this fund represents a pioneering and innovative approach which has high potential to support transformational change to land use. Jurisdictional REDD+ programmes have in general been slower to establish and disburse than initially anticipated. The ISFL brings additional complexity by aiming for comprehensive landscape carbon accounting combined with public-private partnerships. The original timescales were based on relatively few precedents and came with a high level of uncertainty. The UK recognises the innovative and complex nature of the programme and that there have been important achievements. **However, overall we assess that outputs moderately did not meet expectation because progress towards meeting the ultimate outcomes have slipped.** We welcome the opportunity to have frank and open conversations about progress and risks in each country programme at the Annual Meeting in October 2018.

The same outputs as those reviewed in the 2017 are reviewed this year with updated targets and results, and no change to weightings:

1. Leverage partnerships with and between public and private sectors to advance the ISFL vision and approach.

2. Cross-cutting outputs for general ISFL design/implementation.

3. High quality tools and approaches in place to ensure that ISFL goals and objectives are achieved in a timely manner

Has the logframe been updated since the last review?

No changes have been made to the logframe since the last Annual Review.

C: DETAILED OUTPUT SCORING

Output Title	Leverage partnerships with and between public and private sectors to advance the ISFL vision and approach		
Output number per LF	3	**Output Score**	**A**
Risk rating (Minor, Moderate, Major, Severe)	Major	Impact weighting (%):	20%

Indicators	**Milestones**	**Progress**
3.1 Number of partnerships established with for-profit private sector organizations due to ISFL support	3 by 2019 4 by 2021	Met: three partnerships to date with Nespresso Coffee in Ethiopia, Alqueria Dairy in Colombia, and a partnership with the beef sector in Colombia approved in early September 2018.
3.2 Number of partnerships established with not-for-profit organizations/ initiatives (public or private) due to ISFL support	*3 by 2019* *4 by 2021*	On track: two engagements, which are TechnoServe (coffee) and Solidaridad (livestock) in Ethiopia. -
3.3 Number of engagements (formal workshops or joint initiatives) established with for-profit private sector organizations due to ISFL support	*4 by 2019* *8 by 2021*	Exceeded: total number of engagements is six. By country, these are: - Colombia: Expogestion, Hacienda San Jose, Bacao Andean Cocoa - Ethiopia: Pilot program for forest-based businesses - Zambia: Cargill, pilots on community ecotourism and game management area revenue sharing business models
3.4 Number of engagements established with not-for-profit organizations/ initiatives (public or private) due to ISFL support	*2 by 2019* *4 by 2021*	Exceeded: six to date, by country these are: - Ethiopia: Farm Africa, SOS sahel, EWNR (Ethiopia Wetlands and Natural Resources association), JICA - Colombia: TNC/TFA 2020 on green growth partnerships (private sector dialogues) - Zambia: COMPACI cotton platform

Key Points

We assess that the ISFL indicators met the targets quantified in the logframe – all were indeed met or exceeded - hence the output score of A shown above. However, this output moderately did not meet UK expectations again this year. This is due in large part to the partially unmet recommendation from last year's annual review that the private sector strategy be re-visited to increase ambition for leveraging finance into ISFL jurisdictions. Without more ambitious targets and a very clear strategy that has buy-in from all Contributors, the output level indicators will not realise longer term outcomes for successful landscape-wide programming.

Over the past few years, the UK has been vocal about how it considers private and public leveraging to be crucial to both the transformational change envisaged by the ISFL and necessary to generate emission reductions. Whilst the ISFL has already met the targets for this output in the logframe for 2019, a recent Contributor mission to Zambia highlighted large funding gaps in ISFL programmes that need to be filled by leveraging in other public and private funds. We believe there is a crucial need to crowd in more initiatives to jurisdictions.

During the development of the Monitoring, Evaluation and Learning Framework the UK pushed for greater ambition on the targets, but this was not ultimately reflected in the final logframe. Additionally, we do not think these indicators adequately reflect the nature and volume of the work the Bank is doing to crowd in finance to ISFL jurisdictions. There is an opportunity to better plan for and measure this area of the fund's work.

There has been progress over the last year. In June 2017 the Bank hosted a retreat in Paris to better understand Contributor expectations for private sector engagement. As part of this meeting the Bank published a "Lessons Learned" analysis of their work to date in the area, which highlighted the difficulty of working to enable private sector engagement in jurisdictions with such different profiles and needs. Some jurisdictions do not have international supply chains or large-scale private sector actors, while others are crowded spaces for this type of work. The Bank presented an early strategy for how they focus efforts at the Initiative-level: helping companies make industry commitments, facilitating collaborative engagements, and creating public-private partnerships. Contributors reflected that this was a broad remit for a small Bank team, and that there would need to be more detailed discussion to hone in on an effective strategy.

At the Annual Meeting in October, the Bank shared a useful document which worked with country-level programme leads to make explicit the work happening in each country programme to create entry points for private sector engagement. This was helpful in facilitating Contributor understanding of the work happening at the country-level and where there may be gaps that can be filled with Initiative-level private sector engagement work and funding.

In December, as part of the UK's decision to move a portion of funding from the results-based fund (T3) to the technical assistance fund (BioCF*plus*), the UK allocated $12m for dedicated work on private sector engagement in Zambia, Indonesia and Mexico ($4m in each). Germany is supporting private sector engagement work in Colombia, and Norway and the US in Ethiopia. To make this decision, the UK undertook an analysis of the cost and effectiveness of IFC-administered public-private partnerships and found that the costs of IFC deals are consistent with costs of similar technical assistance extension programmes for smallholders. However, as part of this decision-making process the Bank agreed with Contributors that it may be possible to use the allocated funding to support other types of private sector engagements through other delivery partners, and that not all funding for this area need flow through the IFC.

In March 2018, a new private sector engagement specialist started with the Bank team to work across the ISFL and the Forest Carbon Partnership Facility. Dedicated capacity on the Bank team for this work is a positive development and Contributors look forward to hearing from the new specialist with an update of the private sector engagement strategy. Specifically, Contributors would like to work closely with the specialist and Bank team to ensure shared vision for the private sector strategy in the ISFL, including by agreeing to milestones and targets that better reflect the expectations of all involved.

One area potentially not being fully explored is collaboration with other donor bilateral initiatives and programmes. There are substantial ISFL Contributor country bilateral programmes in most of the ISFL countries. An example is Zambia. Both DfID and USAID support programmes which could have useful synergies with the jurisdictional approach in Eastern Province from cookstove initiatives to IWT to development capital. This does need input and liaison from Contributors, as often bilateral programmes are managed by different Departments to those involved with the ISFL.

The UK recognises the efforts the Bank has made this year and look forward to the significant progress needed next year (in both operationalising an effective strategy and developing more effective indicators for measuring this progress.)

Recommendations

1. **Bank and Contributors** reach and document a clear and shared (between Contributors and the Bank) strategy for private sector engagement at the October Annual Meeting and weeks following, including a gap analysis and strategy for each specific ISFL jurisdiction.
    a. **Bank** to revisit targets and increase ambition for private sector engagement in the logframe according to this vision by start 2019.

C: DETAILED OUTPUT SCORING

Output Title	Cross-cutting outputs for general ISFL design/implementation		
Output number per LF	CC	**Output Score**	**A+**
Risk rating	Minor	Impact weighting (%):	40%

Indicator(s)	**Milestones**	**Progress**
Number of funded technical studies completed	*21 by 2018* *23 by 2020*	On track: 20 studies completed. - Colombia: 4 - Ethiopia: 9 - Zambia: 7 A diagnostic study for Jambi (with the IFC) is mostly complete, but waiting final management approval from IFC.
Number of countries that develop a grievance redress mechanism	*3 by 2018* *3 by 2020*	Not Met: two completed. Ethiopia and Zambia have both developed Feedback and Grievance Redress Mechanisms (FGRM). Mexico has its own FGRM and the appropriate one to be applied to the ISFL program will be determined. Development of the FGRM in Colombia is in process.
Number of workshops held to prepare an ISFL program	*16 by 2018* *20 by 2020*	Exceeded: 28 have been completed to date: - Colombia: 8 - Ethiopia: 9 - Indonesia: 3 - Zambia: 8
Number of project concept notes (early stage project design documents) approved for ISFL programs	*3 by 2018* *4 by 2020*	Exceeded: five completed, one note for each of Colombia, Ethiopia, Indonesia, Mexico and Zambia.
Number of Project Appraisal Documents (project design Documents - PADS) approved for ISFL programs	*3 by 2018* *4 by 2020*	Exceeded: there are now four PADs (Colombia, Ethiopia, Mexico & Zambia). Indonesia is working on PAD, due in June 2019.
Number of project manuals or other administrative documents completed	*1 by 2018* *4 by 2020*	Exceeded: three completed. - Colombia: 2 - Ethiopia: 1.

Key Points

As noted above, four of the six targets have been exceeded. As the fund moves into implementation the Bank has done a good job making sure that all design inputs and documents are complete, and that an appropriate number of programme preparation workshops have been held to support partner countries. In fact, the Bank has suggested that the ISFL revise the indicator for programme prep workshops to make it more ambitious as it has already been greatly exceeded.

Mexico was efficiently approved into the ISFL pipeline with all accompanying project documentation as part of an over-programming risk mitigation approach supported by the Bank and all contributors. This was a highlight of the last year's delivery. The number of ISFL programs has therefore increased to five, meaning a number of indicators in the logframe will need updating this year.

There were lengthy discussions over upfront funding through BioCF*plus* for Indonesia, which centred around the submission and approval of the Project Concept Note (PCN) document. The Indonesia programme implementation required a transfer of UK funds from T3 to BioCF*plus*. During the donor mission to the country in early 2017, the UK requested that the upcoming Bank project concept note (PCN) contained comprehensive information to enable the due diligence process for this funding decision. The UK did not consider that the standard Bank PCN template combined for both the ISFL and its fellow forest fund the Forest Carbon Partnership Facility (FCPF) gave the level of information it needed to take the decision over allocating funds. Further information was subsequently provided by the Bank, though this process delayed decision-making.

Following a range of discussions and high-level meetings, Defra agreed that it would contribute to BioCF*plus* for the Indonesia programme but would do so only once the preparatory stage is completed, and a number of milestones reached by agreed dates. Fellow Contributors Norway and the USA agreed to fund the preparatory stage. Defra appreciated the efforts made by the fund management team to provide additional information and their flexibility in accepting the milestone-based approach and conditionality of UK funding.

Recommendations

1. **Bank** to update the logframe, by start of July 2019, to reflect the addition of Mexico in the ISFL pipeline, ensure accurate titles for documents (i.e., changing the indicator on Methodological Approach to ISFL ER Program Requirements), and any necessary changes resulting from the evaluation, in consultation with Contributors.
2. Upon completion of the evaluation, **Bank and Contributors** to streamline and improve efficiency on decision making for the fund. Bank to develop specific recommendations with Contributors about the types of documents/issues that are presented for feedback and approval with the aim of reaching key fund decision points more quickly.
3. **Bank** to facilitate that preparatory stage of Indonesia programme is completed by September 2019.

C: DETAILED OUTPUT SCORING

Output Title	High quality tools and approaches are in place to ensure that ISFL goals and objectives are achieved in a timely manner		
Output number per LF	Tier 3	**Output Score**	B
Risk rating:	Severe	Impact weighting (%):	40%

Indicator(s)	**Milestones**	**Progress**
Volume of grants committed under ISFL to create an enabling environment for emission reductions	*$39.5m by 2018* *$39.5m by 2020.*	Exceeded: $56m committed to date - Colombia: $20m - Ethiopia: $18m - Mexico: $10m - Zambia: $8m
Volume of grants disbursed to ISFL programs[1]	*$19.25m by 2018* *$30.5m by 2020*	Not met: $3.26m disbursed - Ethiopia: $2.33m - Zambia: $0.93m Grant disbursement has been slower than anticipated in Ethiopia, Colombia, and Zambia. In the case of Ethiopia, the program has sought to prioritise preparations of the ER program while the government works through delays setting up an implementation unit. In addition, unrest in Oromia has meant limited access for some consultants and staff, which has impacted disbursements. In the cases of Colombia and Zambia, grant signatures occurred later in the fiscal year than originally anticipated, providing a shorter timeline for those programs to meet end of FY disbursement targets.
Number of emission reductions purchase agreements signed	*1 by 2018*	Not met. Ethiopia was slated to be the first jurisdiction to sign an ERPA. See above for reasons for the delays.
Number of ISFL target countries that are officially included in the ISFL pipeline	*4 by 2018* *4 by 2020*	Met expectations. Technically with Mexico five countries are in the pipeline: Ethiopia, Zambia, Indonesia, Mexico and Colombia. However, at this stage Mexico is not included in the logframe so the targets do not reflect 5 countries.

[1] Targets for this indicator are based on best estimates of disbursement schedules to ISFL program countries. It is anticipated that grant disbursements in Colombia, Ethiopia, and Zambia will conclude by 2023.

Number of countries with ISFL programs under implementation	*3 by 2018* *4 by 2020*	Not Met: grant agreements signed and programmes launched in Ethiopia, Mexico and Zambia. This target is not met because Mexico is not yet included in the logframe targets and Colombia has been significantly delayed due to changes in administration.
Number of ISFL programs that develop a Strategic Environmental and Social Assessment (SESA) and Environmental and Social Management Framework (ESMF)	*1 by 2018* *3 by 2020*	Met: SESA and ESMF developed for Ethiopia. Progress noted in Colombia and Zambia.
Number of documents made public in order to share ISFL approaches and lessons learned	*15 by 2018* *20 by 2020*	Met: 15 documents have been published to date. - 3 Annual Reports - 2 methodology workshop summaries - Presentations on ISFL ER Program Requirements (counted as 1) - 1 Methodological Approach draft - 1 ISFL ER Program Requirements - 1 MEL Framework - 1 Stakeholder Engagement Approach - 1 Private Sector Engagement Approach - 1 Vision document - 1 Lessons Learned from Private Sector Engagement document - 1 Buffer Requirements - 1 ER Title Transfer -
Number of ISFL knowledge dissemination events carried out	*2 by 2018* *5 by 2020*	Exceeded: 9 events to date - 2 CSO briefings - Public webinars on ISFL ER Program Requirements (counted as 1) - AgriFin event - COP23 events - Global Landscape Forum Landscape Talk - Webinar on 1/24 with WWF; - Facebook Live event on 3/29/18 - Innovate4Climate
An ISFL Carbon Accounting Methodological Approach is finalised	*By December 2017*	Complete. Program requirements were agreed by all and made public.
An ISFL Private Sector Engagement Approach is developed and updated, as necessary	*By December 2017*	Met, though as noted in the Output section above focussed on private sector engagement, Contributors seek further development of a strong private sector engagement approach.

KeyPoints

The slippage on two key output indicators in Tier 3: grant disbursement and ERPA signature are particularly relevant for assessing the initiative's progress. These are fundamental to the success of the programme: if grants are not disbursed, activities to generate emissions reductions are not in place, and business as usual continues. The Bank and Contributors should consider incentive mechanisms and support systems which will aid partner governments to unlock flows of grant funding. Further, the Bank should consider options for Contributors and partner countries if upfront grant disbursement does not occur within reasonable timelines.

If ERPAs are not signed potential results-based payments are not going to happen. The first re-baselining of the logframe has already been undertaken and subsequently the first ERPA target has been missed a second time. This reflects the complexity of predicting timelines for untested REDD+ programming, but also suggests challenges to come in meeting programme outcomes.

The BioCF-Colombia programme has not yet been able to launch. The $20m BioCF*plus* grant was signed in March 2018, however progress in reaching grant effectiveness has been delayed due to budgetary and legal complications with the client which arose during the grant incorporation process. Agreement has been reached by all implementing agencies on a way forward to overcome this issue, and enable work to proceed, which is expected to be formalized by the end of 2018. However, the grant must be re-signed, and the programme launched in early 2019. The Colombia programme has seen significant delays since work on the programme began in 2014.

We understand that there have been particular challenges in Ethiopia. The implementation grant of $18m was signed in early 2017, but to date only $2.33m has been disbursed. The country was slated to sign an ERPA first. There have been ongoing difficulties with procurement, hiring and keeping staff as well as on-the-ground implementation of activities. There are key areas such as the development of the benefit sharing plan which have shown little development between World Bank missions. Last year's Annual Review noted that civil unrest and governance changes had been experienced in the target region of Oromia in the last two years. The Bank's most recent Implementation Status & Results Report for Ethiopia shows overall implementation progress as moderately unsatisfactory and the overall risk rating as high. The portfolio reports for the Ethiopia programme now show all key milestone and delivery risks as red (this is replicated in Colombia).

One thing noted during UK participation in a recent mission to Zambia is that there is a particularly concentrated period of support and accompaniment by Bank experts during the mission which demonstrated great capacity, expertise and motivation. However, the UK asks that achievements be more sustained between missions. Clearly the development of in-country capacity is paramount to the ISFL's success, but during these challenging early years, with complicated and technically demanding requirements to meet, as well as innovative and equally demanding socio-economic considerations such as the benefit sharing plan, we wonder whether there could be more continual technical assistance between missions by the Bank. Contributors will take an action to ensure that as much support as possible can be provided to support ISFL objectives in country through diplomatic and bilateral programming, as well as through aligning other related projects.

However, there have been important achievements. A particular highlight is the rapid development of Mexico as an over-programming option and its subsequent inclusion in the pipeline. The programme requirements were agreed and published. This means that countries can move forward developing their emission reduction programmes. Related methodological documents including the ISFL Buffer Requirements were also published, which provide the detail necessary for carbon accounting. The Zambia mission highlighted encouraging progress, for example setting up project implementation units, since the launch in February this year.

Recommendations

1. **Bank and Contributors** to focus on implementation in 2018-2019, reflecting that after rounds of revisions to the team structure and strategy there should now be a clear path for operationalising delivery.
    a. **Bank** to develop and implement plans to accelerate BioCF*plus* government-executed grant disbursement, including by considering how appropriate technical assistance and additional support could be offered more continually between missions to achieve disbursement and programme implementation, discussing with Contributors at the Annual Meeting in October and formalising an approach by the start of 2019.
    b. **Contributors** to work with the **Bank** to develop a system of in-country collaboration by start 2019 which ensures that as much support as possible can be provided for ISFL objectives through diplomatic and bilateral programming, as well as through aligning other related projects.
2. **Bank** to ensure at least one Contributor mission to each jurisdiction a year, with two months of notice provided in advance of travel dates.
3. The inclusion of Mexico in the pipeline was a highlight of the last year's delivery. Noting risk ratings in Portfolio Reports, consideration of further delivery-risk mitigation options remains justified. **Bank** to consider further options for Contributors by the mid-year meeting in 2019.

D: VALUE FOR MONEY & FINANCIAL PERFORMANCE

Key cost drivers and performance

As noted in our last Annual Review, up to now, the key input cost drivers of the ISFL programme have been:

1) administrative fees and charges related to the management of the programme 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 in T3 and implementation activities in BioCF*plus*. The current fee structure is in line with the expectations included in BEIS' Business Case (page 79).

This BioCF*plus* portion of our funds is projected to face administration costs of 5.3% (£1.25 m). Our financial model will be updated to reflect this. Once the UK BioCF*plus* funds start being disbursed, analysis of implementation costs will also be included in this section. The T3 administrative costs, including initiative level expenses, up to 6.75%.

An important change since the last Annual Review is that £23.6m (£9.7m BEIS, £13.9m Defra) of UK funds were transferred from T3 to BioCF*plus* to provide upfront finance. The transfer was one of the suite of measures to reduce the risk of not spending all funds allocated to the results-based tranche (T3), and to satisfy identified funding needs in BioCF*plus*.

Fees and charges

On the administrative side the current fee structure for T3 contributions outlined by the World Bank includes the following:

The World Bank applies a one-off 2% central unit fee to contributions to T3 to cover central Bank and corporate expenses (legal and resource management support, for example). On the £40.3m BEIS investments this equates to £810k in total; on Defra's £51.1m investment it equates to £1.0m. This 2% fee is taken from each call of funds.

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 to T3. This was drawn down in March 2014 and on Defra's additional contribution in April 2016.

The Trustee is entitled to apply up to a maximum of 4% of window property[2] as a charge to cover verifications and initiative level expenses, which includes: fund administration, communication and knowledge management, strategy and procedures for private sector engagement, evaluations, methodology development, and any other activities that the Bank deems appropriate for the purpose of benefitting the Initiative as a whole (including Section 3.6(c) of the PA). This equates to up to £1.7m on the UK's investment[3]. These charges are approved based on annual budget forecasts and charged based on actual expenses. It was indicated in last year's Annual Review that these admin costs are expected to decrease over time. The World Bank have recently estimated expenses in this category will be significantly lower than the 4% cap, potentially around 2.57% for BEIS[4], and 2.67% for Defra.

For contributions to the BioCF*plus* in 2017, funds are subject to the Bank's updated cost recovery policy, which charges a central unit fee of 5% on grants below $50m. The Bank estimates that £5.1m of the BEIS contribution and £6.0m of the Defra contribution will be disbursed as grants.

A projected cost breakdown for the contribution portfolio as a whole is detailed below:

Projected Structure of Contribution Spending for BioCF-ISFL

Cost Category	BEIS (£m)	% of BEIS Contribution	Defra (£m)	% of Defra Contribution
BioCFplus-ISFL Grants	£5.1	10.2%	£6.0	12.2%
IFC Services	£3.0	6.0%	£6.1	12.3%
ERs	£35.8	71.6%	£45.2	69.5%
ISFL Initiative Activities	£1.9	3.8%	£2.3	3.5%
Supervision costs and fees	£4.2	8.4%	£4.7	7.2%

A buffer for exchange rate fluctuations is used as a budget tool to plan for investments over the lifetime of the ISFL. This buffer is not 'set aside' or charged to contributions. Instead, the Bank uses this information to plan for investments in country programmes to ensure that Contributors are not overcommitted based on outstanding contributions. This buffer is adjusted as cash is received by the World Bank, making planning straightforward. Once all cash is received by the World Bank, the buffer is no longer necessary.

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

Economy: Overall projected supervision costs and fees for the program are presented as communicated in the October 2017 proposal document for transferral of funds to the BioCF*plus.*

These costs include a) the Bank central unit fee on contributions; b) business development fees; c) window property fees; and d) further supervision and administration costs.

Overall costs [5]are projected at £4.2m for the BEIS contribution of £50m or 8.4%; and £4.7m for the Defra contribution of £65m, or 7.2%. This is against an expected baseline of 6.75% (as set out on page 79 of the BEIS business case). The primary driver for this increase over and above expected costs is the Bank's updated cost recovery policy of 5% on grant funding provided through the BioCF*plus* facility (£5.1m of BEIS contribution; £6.0m of Defra contribution).

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[2] The available T3 Window Property is the T3 Contribution less the central unit fee (2%) and the business development fee (0.75%). The 4% cap on 'window property' excludes supervision costs which also fall within the window property category.

[3] BEIS's investment of £50m less the 2.75% fees.

[4] This based on the ISFL Cost Sharing Scenarios and Implications discussion Paper, March 2015.

[5] All projected costs assume a $/£ exchange rate of 1.32: Costs of $6.7m on BEIS's $66m and $7.9m on Defra's $85m.

Efficiency: It was originally assumed in the modelling that set-up time would take 2 years, and the results-based disbursements (ER purchases) would begin in 2016 lasting for 8 years. This assumption was unrealistic – in the 2017 Annual Review, expectations were remodelled to assume that the first ERPA will be signed in 2018, so the results-based disbursements would be expected to begin in 2019 at the earliest, 2 years later than originally forecast.

In the past year, further delays have affected the set-up time of the program, meaning that the first ERPA will not be signed until 2019. This has pushed back the first tranche of results-based disbursements to 2020 at the earliest. In addition, the volume of upfront grants disbursed to date has fallen significantly below forecasts. These are delays in implementation rather than pipeline reduction. As such, this should not affect the value for money for the programme significantly other than delaying the benefits, however it should still be modelled for next year.

Effectiveness: As the program is yet to deliver results due to the delays outlined above, actual results do not meet the expected results for this point in the program. However, this is not expected to affect the actual lifetime results of the program, as the delays have not yet caused any reduction to be applied to the pipeline.

Overall expected CO2 savings attributed to the programme have fallen since last year following the transfer of funds to the BioCF*plus* fund. This reflects the fact that there are now less funds available to purchase emission reductions which is the basis of claiming results. Consequently, there is a slight increase in the expected overall UK attributed cost per tonne of CO2 abated as more UK money has been allocated to addressing barriers at the upfront stage. Importantly, it was assessed that transferring these funds to the development of specific country programmes would increase the likelihood of ERPAs being signed and emission reductions achieved. The transferring of funds has thus been important to ensuring value for money, which isn't captured by analysing expected emission reduction purchases

A significant change to value for money from the UK perspective has been the introduction of a 50% additionality discount to expected emission reductions from the programme. This is a methodological change to reflect uncertainty in business as usual emission reductions which is a standard practice across the ICF portfolio. It's important to note that this is to be conservative in the results that the UK attributes to its own funding and does not change the expected overall impact of the programme.

After these changes the expected UK attributed cost per tonne is £19/tCO2e an increase from £8.7 last year. Before consideration of the additionality factor the expected cost per tonne is £9.5tCO2e, which reflects less expected emissions reductions purchased by the UK.

Assessment of whether the programme continues to represent value for money

As the BioCarbon Fund remains in the early stages of implementation it is too early to judge whether it will return the expected results, however there is no evidence that the economic arguments in favour of delivering the ISFL in cooperation with the World Bank have changed significantly since the approval of the Business Case, nor has there been any significant change to the design of the programme which will prevent the programme from delivering value for money.

At the aggregate level, the only reduction in expected emission reductions comes from reducing the amount of UK money available to purchase emission reductions. The UK assessment, which accounts for leakage, estimates that the programme will achieve 28.9m emission reductions, a fall from 31.8m. which is the same percentage reduction as the fall in the size of the Tranche 3 fund. As such, the expected BEIS attributed cost per tonne has changed since the previous Annual Review: increasing from £8 to £9.50.

Further, a 50% additionality rating has this year been applied to the expected benefits of the program. This reflects updated standard analytical practice across the ICF portfolio, enabling programs to account for uncertainty around business as usual emissions reductions and optimism bias. To reflect that this program has been in operation for several years before analytical guidance was updated, ICF analysts have agreed to implement a cost per tonne range encompassing 50%-100% additionality values - £9.50/tCO2e-£19/tCO2e.

Despite these updates, this figure remains well within the range of current BEIS investments (£6-37/tCO2e), suggesting that it remains a sound investment.

Quality of financial management

The World Bank is a trusted partner for financial management. A long-term financial plan was provided by the BioCF-ISFL team as part of the 2017 Annual Report and an update provided during the Annual Meeting. The ISFL reports budgets for the following financial year at each Annual Meeting. The actual spend against the forecast is monitored and updated regularly by the World Bank and reported at each Annual Meeting.

A payment schedule is forecast in the long-term financial plan, indicating the drawdown of funds from the UK contribution. This has been updated to reflect any changes made because of the upcoming decision on ‘cost sharing’ for Initiative Level expenses.

In the BioCF Instrument, it states that the single audit will be provided for financial reporting each year. The Bank and Contributors have agreed that a narrative for budget information will be provided annually.

E: RISK

Overall risk rating: Major

The Bank presented its work on the risk register at the 2017 Annual Meeting. There are four risk areas in the register: strategic, operational, stakeholders and financial; risk ratings and mitigation measures were discussed with contributors. Reducing delivery risk has been an important focus of the last year's work on the ISFL. Of note and covered in the earlier section on progress against last year's recommendations, was the addition of Mexico into the ISFL pipeline. A second measure implemented last year by both Defra and BEIS further addressed the risk of under-delivery of emissions reductions and subsequent underspend by transferring funds from T3 to BioCF*plus.* The Bank identified needs in Indonesia and Mexico for additional funds to cover BioCF*plus* grants and to support greater private sector engagement.

Overview of programme risk:

Risk	Mitigations proposed	Current status
Slow start up and development of ISFL country programmes leads to significant delays to outcomes.	- In depth analysis at the October Annual Meeting of the risks and progress by programme. - Bank to consider ways of giving assistance continually rather than just concentrated during missions. - Bank's new Portfolio Reports for tracking operational delivery, allowing for greater oversight and management of this risks.	**Severe** residual risk This risk remains unchanged. Slow disbursal of grants and delayed first ERPA signature is contributing to the continued severe rating, as it prevents the funding of capacity building in-country.
Difficulty securing private sector involvement in the programme to leverage the investment.	-Bank and Contributors to work together at Annual Meeting to align expectations and to ensure all contributor leads and contacts are available to the ISFL. - Bank to develop in depth strategies for each jurisdiction by June 2019	**Major** residual risk Three public-private partnerships have been established, with some potential to establish further such partnerships, but progress has been slow and securing concrete commitment from the private sector has been challenging.
Under-delivery of Emissions Reductions by host countries results in underspend of ISFL funds.	The Bank and UK have moved funds from the results-based tranche to the upfront tranche to reduce underspend risk of UK funding and support the inclusion of Mexico and Indonesia in the pipeline.	**Moderate** residual risk Success of host country programming is dependent on a range of highly variable factors, from government change to regional conflict to industry trends. The BioCF*plus* grants help to strengthen and build resilient governance and MRV systems, but cannot guarantee results. Overprogramming will help to minimize the impact of underdelivery from any one country.
Risk that robust accounting methodology goes beyond forest countries' incentives to comply	-Provide ongoing technical assistance to support development of the emission reduction programme. - Support forest nations to develop robust technical proposals and Monitoring, Reporting, and Verification systems.	**Moderate** residual risk This risk is moderate as partner countries continue to participate in ISFL programmes and progress towards signing emissions reductions contracts. However, there remains some residual risk that forest countries may be unable to fully implement MRV systems or policy change due to capacity and political will.

Programmes fail to create changes that are sustainable in the long term.	Ensure that the sustainability of interventions is hardwired in programme design.	**Minor** residual risk While sustainability is assessed as part of project selection, the slow progress in leveraging private and public partnerships does reduce the outlook for sustainability.

F: COMMERCIAL CONSIDERATIONS

Delivery against planned timeframe

At the time of the ISFL's inception, it was anticipated that there would be a 2 year set up period, with ERPAs signed in 2016 and the ISFL T3 programmes delivering results thereafter. The milestone of the first ERPA in 2016 was missed and has now been missed again in 2018. Milestones for upfront grant disbursement are also not on track. The launch of BioCF-Colombia has been much delayed, and programme preparation in Indonesia has moved slowly in the past but is now on track. Given the delays, the UK will work closely with the Bank over the next year to incorporate feedback from the ISFL Mid-term evaluation into risk mitigation measures that seek to minimize further delays to country programming.

New monthly portfolio reports have provided a very useful visual indication of progress on milestones. This is particularly relevant in the case of Indonesia where Defra funding to the BioCF *plus* is conditional on several key milestones being met. We think that there could be additional analysis added to the portfolio reports when the risk rating of key milestones is flagged as red/ high to help stakeholders better understand causal factors and design appropriate responses.

Also highlighted in the portfolio reports is the timing of achievements / progress to date. There are large variations in the time taken between country proposal submission and programmes becoming active: from around a month to over four years. There are undoubtedly useful lessons to learn which we hope the mid-term evaluation will help identify.

Performance of partnership

The World Bank is a trusted delivery partner for the UK. The working relationship between the Bank and Defra and BEIS ISFL project leads is effective – communication is at its best when the plan for monthly calls is followed. The UK will also continue to coordinate periodic Contributor liaison calls to ensure joined up support to the Bank.

There have been staffing changes in both the Bank and Contributors which have notably affected the levels of communication and Bank-Contributor engagement over the last six months. However, the UK's assessment is that the new fund management team brings valuable experience and a focus on both implementation and frank discussion of risk which we welcome. Work and regular communication should resume in full after the upcoming Annual Meeting.

The performance of the Bank-Contributor partnership in-country has been less effective. UK officials at Post have noted that Bank activities in country are not transparent and often fail to include officials in comms planning or regional workshops and events. This does not meet UK objectives for Contributor-visibility in country. UK officials have attempted coordination of regular Bank-Contributor meetings in country to share progress and diplomatic resource to drive implementation but have not been met with much response from Bank colleagues. The UK requests a review of this way of working as part of the analysis for driving implementation and grant disbursement at the country-level.

Communications around programme launches and programme-level interventions require further coordination. Communications around the launch of the programme in Colombia are an example of where this coordination is essential. Proactive messaging for the launch was not agreed with Contributors and resulting media pick-up did not accurately represent the programme.

Recommendation: Contributors and Bank to review external communications strategy in Q1 2019 to align on proactive messaging to key audiences and influencers in partner countries and domestically within the UK.

G: MONITORING & EVALUATION

Evidence and Evaluation

The monitoring and evaluation system is now fully established and integrated. The project is reporting actual results against all of the project specific indicators allowing a quantitative assessment as well as a qualitative one to be made.

The UK inputted closely to the terms of reference for the mid-term evaluation and was content with their scope. A firm called DAI were contracted and have submitted an inception report. The inception report was reviewed by officials in BEIS and Defra and through DfID's EQUALS facility, which found the quality of the draft report to be "fair". The UK is representing Contributors on the evaluation oversight committee and continues to shape the process through providing commentary and feedback. The DAI team are working to improve the scoring of the inception report in line with our suggestions. We expect the final inception report to be submitted shortly in advance of country missions made by the evaluation team. The evaluation aims to:

- ▪ Validate or adjust the ISFL theory of change (TOC) and ensure that the program is on course to achieve its objectives.
- ▪ Evaluate the ISFL approach and structure against the World Bank Independent Evaluation Group (IEG) and Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) criteria of efficiency, effectiveness, and relevance, and provide recommendations.
- ▪ Review progress to date against defined milestones.

The interim report will be published in November, and the final report will be completed by early 2019. The evaluation process fell a few weeks behind schedule during the contracting phase but we do not expect any further delays and look forward to the publication early 2019 so that recommendations from the process can inform the ISFL's work in advance of the next Annual Review.

Monitoring progress throughout the review period

The Defra project manager joined the July 2018 World Bank monitoring mission to Zambia. The World Bank's Aide Memoires from their other missions during the review period have been used to inform this report, as have the latest technical implementation reports from country task teams and country portfolio reports from the fund management team. The UK embassies in Bogota, Mexico City and Jakarta have maintained their proactive roles in monitoring project progress over the past year for the country-specific programmes and the BEIS project manager has been in regular contact with the World Bank team.

Changes to the Logframe for upcoming year

After discussion with the Bank, the only changes to the logframe for the upcoming year will focus on the adjustment of targets to reflect the addition of Mexico and Indonesia to the programme pipeline. The Bank will also seek to tweak targets where they are greatly exceeding, such as in "programme preparation workshops," to reflect more accurately the frequency with which these types of activities are necessary.

Finally, the UK will work with other Contributors and the Bank to devise logframe targets for public and private sector engagement which better capture the ambition and the complexity of work which the Bank is undertaking to meet the need for crowding in investment to ISFL jurisdictions. These changes should happen within the next year to avoid further challenges in scoring the Annual Review in this area in years to come.

H: TRANSFORMATIONAL CHANGE

Rating

In the 'Progress against recommendations from last year' section in the Summary we noted that UK BEIS and Defra have developed a draft methodology for the assessment of KPI15. This draft is being developed to align with the findings of the midterm evaluation, after which it will sent to and reviewed by the Bank FMT.

The BioCF-ISFL is still in the early stages of implementation. The grant-based BioCFplus ISFL is supporting programming in the five participating countries but the development of emission reduction programmes is at too early a stage to conclude on the likelihood or not of transformational change, resulting in the current KPI15 box marking of 'No evidence yet available - too soon to revise assessment in business case' in our internal reporting.

Evidence and evaluation

There is a mid-term evaluation of BioCF-ISFL currently being carried out. A final report will be available early in 2019. The evaluation's purpose *is to validate or adjust the ISFL theory of change (TOC), evaluate the ISFL approach and structure, and review progress to date against defined milestones,* this will provide additional evidence and indicators with which to assess KPI15.

As noted previously, in the 2017 annual review, anecdotally, there is evidence of progress in several areas:

1. **Fostering political will to act on climate change at all levels, including strengthening local ownership of projects**: There has been interest in the BioCF-ISFL from ministries in participating countries; the rapid initiation of the Mexico programme was a particular highlight. Indonesia also confirmed its programme. Cross government coordination both between ministries and between levels eg central and provincial is crucial. Partnerships with private enterprise and other bodies can help to increase political buy-in to programmes.

2. **Delivering at scale: interventions (such as national, sectoral or regional programmes) that have sufficient reach to achieve institutional and policy reform, or drive down costs of technology deployment:** The BioCF-ISFL funds landscape-level programmes with high mitigation potential, so by definition aims to deliver at scale. The policy and governance changes governments make in order to implement BioCF-ISFL programmes, and experience gained by companies, communities, and governments, give potential for scaling-up of programmes. However, crowding in of public and private sector funding is critical to having meaningful impact at scale.

3. **Replicability:** Replication is likely to begin later in the programme cycle once land sector emission reduction programmes are successfully functioning.

4. **Innovation: innovative technologies are piloted, with the potential to demonstrate new ways of doing things, which could lead to wider and sustained change:** The Program Requirements and various associated technical documents, which are the basis for the ISFL's carbon accounting methodology, have been finalised, these can be rolled out to similar landscape-level programmes. The ISFL reports on lessons learnt in its annual report and updates content on its website to reflect lessons learnt, including on the development of the methodology (ISFL ER Program Requirements).

5. **Sustainable: change is likely to be sustained once ICF support ends:** Project Appraisal Documents (PADs) are assessed on their likelihood of sustainability before being accepted into the ISFL pipeline.

6. **Leverage / create incentives for others to act: the costs of climate action are reduced to the point that acting on climate is a sensible decision for commercial firms and private**

individuals. These cost reductions may need to be steep enough to overcome behavioural inertia: Leveraging private finance is a major aim of the ISFL. There have been successful partnerships established with Nespresso in Ethiopia and Alqueria Dairy in Colombia. Further work is needed to ensure that more of the potential of private investment is unlocked. This is planned to continue through next year.

ANNEX 1: Progress on Indicators at the time of the May 2018 Interim Results Collection

Indicator	Progress through May	Notes
21 funded technical studies by 2018	20 completed	No technical studies were required for BioCF-Mexico due to advanced stage of government planning and programming. Low-input for Bank and Contributors.
3 Countries to develop grievance redress mechanism by 2018	2 completed	Ethiopia and Zambia have both developed Feedback and Grievance Redress Mechanisms (FGRM). Mexico has country systems that could serve this purpose, including CONAFOR's system, but the exact mechanism is yet to be determined subject to the investment plans. Development of the FGRM in Colombia is in process.
16 programme preparation workshops by 2018	28 workshops completed	Teams have workshops every time they go on mission
3 PCNs approved by 2018	5 PCNS	Includes Mexico
3 PADs approved by 2018	4 PADs	4 includes Mexico – working towards Indonesia PAD (due June 2019)
$39.5m grants committed by 2018	$56m committed to date	
$19.25m grants disbursed by 2018	$2.58m disbursed to date	Grant disbursement has been slower than anticipated in Ethiopia, Colombia, and Zambia. In the case of Ethiopia, the program has prioritized preparations of the ER program, which is not resource intensive. In addition, unrest in Oromia has limited access for some consultants and staff, which has impacted disbursements. In the cases of Colombia and Zambia, grant signatures occurred later in the fiscal year than originally anticipated, providing a shorter timeline for those programs to meet end of FY disbursement targets.
1 ERPA signed by 2018	None signed	Unlikely to meet this target, dates now slipping to 2019.
3 countries under implementation by 2018	4 countries launched	Colombia, Ethiopia, Zambia, Mexico
15 ISFL documents made public by 2018	15 made public to date	Ties to MEL framework
1 SESA by 2018	1 in Ethiopia	Progress in Colombia, Zambia
3 knowledge dissemination events carried out	9 events to date	CSO briefings, internal knowledge event on private sector engagement, agrifin, cop events, GLF forum, webinar with WWF on

		ISFL ER programme requirements, Facebook Live event, Innovate 4 Climate.
Indicator	Progress	Explanation
3 partnerships with for-profit private enterprises by 2019	2 partnerships to date	Nespresso coffee project in Ethiopia Alqueria dairy project Orinoquia
4 engagements established with private enterprises by 2019	6 to date	6 engagements to date: - Colombia: Expogestion, Hacienda San Jose, Bacao Andean Cocoa - Ethiopia: Pilot program for forest-based businesses (reported in last year's Annual Report) - Zambia: Cargill, pilots on community ecotourism and game management area revenue sharing business models (reported in last year's Annual Report
3 non-profit partnerships by 2019	6 to date	Ethiopia - Farm Africa, SOS sahel, EWNR (Ethiopia Wetlands and Natural Resources association), JICA Colombia- TNC/TFA 2020 on green growth partnerships (private sector dialogues) Zambia – COMPACI cotton platform
2017 Recommendations		
Private Sector Engagement – a. Bank to conduct a high-quality assessment of any relevant capacity, procedural or funding issues that might be hampering progress to engage and partner with the private sector, looking at both immediate barriers and their underlying causes by the 2017 Annual Meeting; b. Bank to facilitate more regular communication with contributors about private sector engagement approach; c. Bank and donors to reach agreement on ambitious, realistic, deliverable goals related to private sector engagement	Partially met – more work to come.	The Bank has established semi-regular private sector update calls, and seek to provide updates as and when they arise. A private sector engagement workshop was arranged in June 2017 in Paris. As part of the 2017 Annual Meeting, the Bank shared a Private Sector "Lessons Learned" paper, and an internal note for Contributors on the private sector narratives in each landscape. Contributors appreciated the latter, which clarified how government programming in each jurisdiction will create enabling conditions for private sector engagement. The Bank also hired new resource to dedicate exclusively to delivering the initiative-level private sector engagement strategy and manage a portfolio of projects on the ground. BEIS and Defra do not feel that we have we have achieved point C in partnership with the Bank. There may be some work over the summer to define these shared goals as part of the preparation of the Autumn retreat. BEIS and Defra will seek to provide further clarity and support to the Bank as we work on reaching agreement in this area.

Incorporate a new, low-risk country into the pipeline as part of continued approach to address pipeline risk by the start of 2018.	Met	This was very effectively met. Mexico was approved into the ISFL pipeline in December 2017 and the programme launched on June 19th at an event hosted by the Mexican Forestry Commission.
Take on key lessons-learned from the Forest Carbon Partnerhip Facility ERPA negotiations – clearly delineate the responsibilities of Donors, Bank staff, and recipient countries in advance of ERPA negotiations.	On track	The Bank has done valuable work streamlining processes and aligning internal ways of working between the ISFL and FCPF. They are working on sharing a note for the roles of responsibilities of Contributors, the Bank, and Country Partners during ERPA negotiations and will share with Contributors as we get closer to ERPA negotiations.
Invest time and expertise necessary to ensure the development of strong terms of reference and procurement for the first mid-term evaluation next March 2018.	Met	This recommendation has been efficiently actioned. The UK input to the review of the terms of reference and our suggestions were incorporated. Procurement has successfully contracted DAI.
UK to develop a full methodology for the assessment of KPI 15 on Transformational Change.	On track	On track, being drafted.
Bank and Contributors to ensure timely decision-making at fund meetings by observing hard deadlines for sending and reviewing preparatory documents and for taking decisions.	Met	But to be continued. Two weeks to review documents is a challenge, so earlier sharing of documentation wherever possible is appreciated. The Bank has done a good job of clarifying decision points in meeting documentation, which helps Contributors to prepare more effectively for Fund Meetings.
Improve administration and communication through a formalised ISFL-run document management system.	Met	Effectively met with the very useful web-based document management system.