International Climate Fund: Annual Review - Summary Sheet

Title: Forest Carbon Partnership Facility (FCPF) Carbon Fund		
Programme Value: £141.5m UK investment (£130m ICF + £11.5m ETF)		**Date: December 2017**
Start Date: 01 January 2017	**End Date:** 09 December 2017	

Summary of Programme Performance

Year	2012	2013	2014	2015[1]	2016	**2017**
Programme Score	A	A	A	A	A	**A**
Risk Rating	Low	Low	Medium	Medium	Moderate[2]	**Moderate**

Summary of progress and lessons learnt since last review

The FCPF Carbon Fund is the world's flagship fund for results-based finance for Reduced Emissions from Deforestation and Forest Degradation (REDD+). It purchases carbon credits from programmes designed to tackle deforestation that operate at a jurisdictional scale (i.e., whole countries or sub-national areas like states or provinces). The FCPF is a pilot fund, designed to test different approaches in the 19 jurisdictions participating in the Carbon Fund.

Over 2017, the BEIS has aimed to ensure that the pipeline continues to develop. BEIS has pushed for high-quality ER Programmes to be accepted into the portfolio, while recognising that occasionally pragmatic compromises are required in order to allow large, complex, multi-faceted programmes the opportunity to develop and become operational. BEIS has also been active in attempting to secure an agreement between CFPs and the World Bank on a 'default' set of Emissions Reduction Payment Agreement (ERPA) terms, as well as Terms of Reference for the conduct of ERPA negotiations to establish clear roles and responsibilities between CFPs and the Bank for this year's key milestone, the signing of an ERPA. BEIS has also been actively involved in the review of the FCPF's M&E framework, as well as in discussions between CFPs, Technical Advisors, and REDD countries on the interpretation of the Methodological Framework.

There is continued political commitment to the FCPF from forest countries, as demonstrated through progress of Emission Reduction Programme Documents (ERPDs): eight (DRC, Republic of Congo, Mozambique, Vietnam, Costa Rica, Mexico, Chile, Ghana) have now been accepted into the portfolio, and a further three are expected in June 2018.

The process for reviewing ERPDs is largely working smoothly. The Facility Management Team (FMT) has been responsive to emerging issues, and facilitated a discussion between forest countries, Technical Advisory Panels, and Carbon Fund Participants (CFPs) as part of a process of identifying and resolving these. The FMT has also been responsive to CFPs' request for longer lead-in times to review ERPDs ahead of Carbon Fund meetings.

There has also been good progress on Monitoring and Evaluation, with a productive process underway to agree a review of the FCPF's Evaluation Framework.

[1] It should be noted that from 2015 FCPF ICF Annual Reviews focus on the Carbon Fund. Previous reviews 2012-2014 were assessed on the basis of slightly different criteria (including progress of the Readiness Fund). Therefore direct comparisons to earlier reviews are not possible.

[2] New risk categories have been adopted for this review (i.e. Minor, Moderate, Major and Severe)

However, less progress has been made towards the signature of an Emissions Reduction Payment Agreement (ERPA) – the contract which would allow the operationalisation of an emissions reduction programme, and the key milestone for 2017. This slow progress is a result of:

- Delays completing due diligence on individual country programmes accepted (conditionally or unconditionally) into the pipeline has slowed these countries' progress towards beginning ERPA negotiations. In the case of these countries, there has been limited communication between host countries, FMT, and CFPs on progress. This has particularly been the case for Costa Rica and Mexico.

- There have also been several issues around the process for ERPA negotiations, which came to light in the context of the first ERPA negotiation, with the Democratic Republic of Congo (DRC).These include:

    - Lack of a clear process for agreeing commercial ERPA terms;
    - Lack of clarity over who between the FMT and CFPs should lead the negotiations, as a result of difficulties within the Bank between the FMT and DRC country office;
    - Issues around the level of oversight CFPs should have over secondary documentation which is a condition of ERPA effectiveness, such as reversal management mechanisms or benefits sharing plans.

In spite of operational difficulties this year, the FCPF still has strong potential to deliver very large sums of emissions reductions, and improve the livelihoods of forest dependent people.

Progress on Recommendations from the Previous Review

BEIS Programme Lead, in liaison with other CFPs and the FMT, should prioritise thinking about the ERPA negotiation process and the parameters for negotiating ERPA commercial terms (including issues such as price, contract volume, options, and the use of emissions reductions for NDCs). This should be completed in early 2017, in advance of the first ERPA negotiations commencing, and include efforts to design and implement an efficient process that results in: ○ value-for-money ERPAs, without undue delays; ○ a resource efficient process for CFPs to adequately manage concurrent decisions on ERPD reviews and overlapping ERPA negotiations.	**Recommendation not met.** Discussions between fund participants and the World Bank on the ERPA negotiation process were held in December 2016. At that meeting, the FMT agreed to produce a 'default' ERPA offer for fund participants' review. It was also agreed (was it?) that the World Bank, as the FCPF's trustee, would negotiate the ERPA with host countries on CFPs' behalf (anything else agreed at that meeting, like observer status?). As first ERPA negotiation test-case with DRC proceeded throughout 2017, however, a number of issues arose which did not meet our expectations. While some of these may be due to specific issues around the DRC negotiation, there is now a lack of clarity around the process for future ERPA negotiations. In the DRC ERPA negotiation, the FMT chose to play an 'honest broker' role between the DRC and CFPs, at the specific request (?) of the DRC WB Country Office, to avoid the Bank having to negotiate on the size of advance payments to DRC. Rather than play an oserver

	role, a nominated CFP representative has led the negotiation on behalf of other CFPs. At the June 2017 Carbon Fund meeting, CFPs requested that the FMT develop terms of reference for future ERPA negotiations. As of the time of this AR, they have yet to be developed.
The World Bank should prioritise the completion of its due diligence process for ERPDs that have been approved or are under development. This internal World Bank process must be completed before the Carbon Fund can start ERPA negotiations. The process is currently on track but has the potential to cause a delay to the start of ERPA negotiations. Delays to timely completion of this work which risks delaying the ERPA negotiation process should be flagged to CFPs by the FMT.	**Recommendation partially met**. Due diligence on programmes accepted at the time of writing of the last Annual Review is complete. However, due diligence on countries that were accepted into the portfolio in 2016 has taken longer to complete than envisaged (for example, 18 months for Costa Rica, and 12 months for Mexico). There was limited communication from the World Bank on the cause of these delays, and deadlines were repeatedly set back with limited explanation.
BEIS Programme Lead should attempt to influence the proposed review of the FCPF's Monitoring and Evaluation (M&E) Framework which is expected to be on the work plan for 2017. Consider how the Climate Compass review of the ICF KPIs can inform this work and draw on any relevant conclusions from the upcoming IEG review of the climate funds. BEIS Programme Lead should also consider the suggested **improvements to the logframe** recommended in section B and C.	**Recommendation met.** The FMT has been open and constructive on the M&E Framework review, and work seen so far has been of good quality. Recommendations on UK logframe updates from the last Annual Review were considered as part of the 2017 logframe update (see below).
The FMT should further consider how the Carbon Fund can form part of the 'programmatic approach' outlined in the World Bank's Forest Action Plan including consider how other complementary, World Bank, financing mechanisms could be harnessed to address any identified upfront funding gaps in the programmes to ensure successful implementation and delivery of verified emissions reductions.	**Recommendation partially met.** The Bank has analysed financing gaps in 10 ER programmes, and provided suggestions on how these could be covered, including through the use of WBG financing mechanisms, donor support, and country-internal support. There are good examples of programmatic financing in Laos, Ghana, and Mozambique, where the World Bank has co-ordinated funding from several streams, and in some cases leveraged private sector finance, in order to provide upfront investment in ER programmes. However, much of the programmatic approach so far has largely made use of other World Bank trust funds, such as the Forest Investment Programme (FIP), to provide additional financing. The UK's long term ambition is that

	‘mainstream’ World Bank financing instruments, as well as private finance, be made more readily available for forest finance. Promisingly, the World Bank has also discussed internally the prospect of innovative financing mechanisms such as revolving funds or bonds issued against future results-based payments.

Summary of recommendations for the next year

- **The FMT should communicate more frequently with CFPs, for example through a monthly update email or phone call.** This would facilitate the provision of updates on key issues such as host countries’ progress towards completing conditions in their ERPDs, or timelines for upcoming ERPA negotiations. The BEIS programme manager should also seek to communicate the UK’s requirements more clearly to the FMT, and work to co-ordinate responses with other CFPs.

- **BEIS programme lead should update the logframe to capture the distinction between ERPDs which have been accepted without conditions/have fulfilled their conditions and those conditionally accepted into the portfolio.**

- **The FMT and CFPs should agree to a Terms of Reference setting out the process for ERPA negotiations and the respective roles and responsibilities of CFPs and the FMT.**

- **The FMT should seek to avoid the number of substantive programme design decisions (particularly on contentious issues such as on benefits sharing or reversal management) which are made after ERPA signature.**

- **The FMT should review its resourcing and prioritisation, to ensure that at least three country reaches ERPA signature by the end of 2018.**

- **The World Bank should continue to develop new methods of filling financing gaps in FCPF programmes, including ‘mainstream’ World Bank finance (for example, IBRD loans), as well as innovative approaches (for example, forest bonds).**

- **The FMT, CFPs, and REDD countries should agree timetables for the completion of condition fulfilment and due diligence after a programme has been accepted into the portfolio.**

- **The FMT should seek to help countries access new kinds of finance to address their financing gaps, including options to access private finance, as well as ‘mainstream’ World Bank financing tools.**

A. Introduction and Context	
Link to Business Case:	Original ICF Business Case (£45m), 2013 ICF Extension Business Case (£85m top up), 2015
Link to Log frame:	Logical Framework, 2017

Outline of the programme
The Forest Carbon Partnership Facility (FCPF) is managed by the World Bank and was established in 2008 to assist developing countries in their efforts to reduce emissions from deforestation and forest degradation and foster conservation, sustainable management of forests, and enhfancement of forest carbon stocks (all activities commonly referred to as "REDD+") by providing value to standing forests. The FCPF has two separate but complementary funding mechanisms — the Readiness Fund and the Carbon Fund.

The **Carbon Fund**, which is the focus of this Review, has been operational since 2011. The Carbon Fund is a payment for results mechanism, designed to incentivise ambitious actions to reduce deforestation through payments for verified emission reductions (ERs) generated by REDD+ (Reduced Emissions from Deforestation and Forest Degradation) programmes.

There are currently 19 Emissions Reduction Programmes (ERPs) accepted, or provisionally accepted, into the Carbon Fund Pipeline from Cameroon, Chile, Costa Rica, Cote d'Ivoire, Democratic Republic of Congo, Dominican Republic, Fiji, Ghana, Guatemala, Indonesia, Lao PDR, Madagascar, Mozambique, Mexico, Nepal, Nicaragua, Peru, Republic of Congo, and Vietnam. Six of these (Costa Rica, DRC, Chile, Mexico, Ghana, and Republic of Congo) have been provisionally accepted into the Carbon Fund Portfolio on the basis of their detailed programme documents (ERPDs).

To date, UK has invested **£141.5m** in the Carbon Fund (£11.5m Environmental Technology Fund investment in 2011; £45m International Climate Fund (ICF) investment in 2014; £85m ICF investment in 2015). Committed funds to the Carbon Fund at the end of FY17 (30 June 2017) totalled **c.$733m**[3]. UK is the second largest financial contributor with a c.25% burden share.

B: PERFORMANCE AND CONCLUSIONS

Annual outcome assessment

The Carbon Fund's ultimate success will be measured against its outcomes. Although the Carbon Fund is still in a relatively early stage of its lifetime (it became operational in 2011 and will terminate in 2025) and ER programmes are still under development, there have already been some indications of progress towards the outcomes identified in the Theory of Change and Logframe.

OUTCOME 1: The FCPF has contributed to the design of a global regime under or outside UNFCCC that provides incentives for REDD+ and has catalysed the creation of recognised global standards for REDD+

[3] Amounts may vary due to exchange rate fluctuations.

In 2017, the Carbon Fund's experience with the Methodological Framework continued to inform the development of other results-based REDD+ standards. For example, the design of the FCPF methodological framework, with robust pass-fail criteria and clearly defined requirements around use of IPCC data, has influenced the 'scorecard' developed by the Green Climate Fund to assess proposals for funding for results-based finance for REDD+. This scorecard approach was adopted by the GCF board in October 2017. During negotiations, the FCPF was held up as a 'gold standard' on carbon accounting, which the GCF should seek to emulate.

OUTCOME 2: Large scale, results-based payments Emissions Reduction Mechanism effectively demonstrated (reduced emissions from deforestation and forest degradation from FCPF Carbon Fund portfolio countries)

This outcome is dependent upon (a) signing of ERPAs and (b) programmes delivering on their ERPAs. Based on the current agreed milestones, the Carbon Fund is not expected to deliverer verified emissions reductions from its programmes until c.2019/20 (2-3 years after the first ERPAs are signed).

UK BEIS modelling estimates that the UK ICF investment in the Carbon Fund is expected to deliver 22,965,231 tCO2e of emissions reductions (attributed).[4]

Provided issues highlighted in this review around progressing programmes to ERPA stage are addressed, the Carbon Fund should remain on track to deliver this outcome.

OUTCOME 3: FCPF has catalysed investment in REDD+

REDD+ countries in the Carbon Fund are seeking investments to support the implementation of their programmes in order to successfully deliver emissions reductions and receive downstream payments from the Carbon Fund. The FCPF has helped to leverage public finance, particularly from other World Bank trust funds (for example, through coordination between the Forest Investment Programme and the FCPF in DRC), there are still barriers to unlocking larger scale public or private finance.

The jurisdictional approach of the FCPF could also help unlock new sources of private finance in sustainable supply chains in jurisdictions, such as the new &Green fund.

As new compliance markets such as CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation) come online, the high standard of carbon accounting of the FCPF makes it well placed to help forest countries access finance from companies wishing to purchase offsets for compliance purposes.

OUTCOME 4: The FCPF has generated momentum to address governance and transparency issues and policy reforms related to sustainable forest resource management and REDD+

There are numerous examples of policy reforms initiated in Carbon Fund pipeline countries which are an encouraging demonstration of commitment towards successfully implementing their Carbon Fund programme and delivering their (I)NDCs under the Paris Agreement. It is difficult to directly attribute these to the FCPF per se.

[4] 96,168,349 tCO2e (non-attributed).

REDD+ Readiness preparations have created an environment for strategic cross-sector policy planning which is also an important feature of Carbon Fund Programme design. For example:
- in 2016, Guatemala passed the “PROBOSQUES” (pro-forests) law which contains a significant investment in the forest sector; it is expected to provide 80,000 jobs and represents a public investment of c.$1.2bn between 2016 and 2046.
- Indonesia created the Peat-land Restoration Agency to address degradation of carbon-rich peat-lands and tackle peat forest fires; and
- Mozambique has initiated a broad agenda of forest sector reform including an assessment of all forest concessions and simple licences with a two year moratorium on issuing new forest concessions and simple licences.[5]

Overall output score and description

A – programme has met expectations.

Key actions

- Implement the recommendations outlined in the Summary Sheet above.

Has the logframe been updated since the last review?

Yes. Impact Indicator 2 ‘avoided emissions from deforestation’ has been replaced by ‘net change in GHG emissions’ (currently Outcome Indicator 2.1). This reflects the fact that, because some countries in the FCPF pipeline have adjustments to account for their current low-deforestation status, avoided emissions and net change in emissions as a result of fund activity will not be the same. This covers the direct emissions reductions caused by FCPF

The current indicators of Outcome 1: **1.1 Number of non-participant countries which adopt the FCPF approach in own REDD+ process**, and **1.2 Examples of how FCPF learning and experience has fed into UNFCCC REDD+ Decisions** are replaced with 1.1 significant elements of FCPF framework adopted into other funds; 1.2 number of countries using FCPF methodology in UNFCCC submissions or national forest policy 1.3 FCPF serves as a reference point in assessment of UNFCCC submissions. This is intended to better capture the transformative potential of the FCPF, which is to drive up standards in funds and the UNFCCC process.

Outcome 2 - Reduced Emissions from Deforestation and Forest Degradation - is now measured by avoided emissions, rather than net change in greenhouse gas emissions, to match changes to the Impact indicators. Outcome indicator **2.2 Number of programmes with signed ERPAs will be removed**, as this is reported on as an output indicator.

Outcome 3 now has two indicators: **3.1 amount of non-ODA public finance mobilised by FCPF programmes** and **3.2 amount of private finance mobilised in FCPF programmes**. Targets are based on the World Bank’s own analysis of financing gaps for FCPF programmes. The split between private and public finance is in line with ICF KPIs 11 and 12. ODA finance is excluded because the UK is a donor to several other funds which cover forest finance; including ODA spend could lead to attribution issues.

Outcome Indicator **4.2. Number of policy reforms initiated, completed** now has targets set reflecting the number of programmes expected to be operational by each milestone.

[5] These are just a few examples of policy reforms initiated in Carbon Fund pipeline countries. Further information and examples are described in the FCPF FY16 Annual Report, p. 28-31.

Output 1 now has a new indicator **1.3 Number of ERPDs invited into the portfolio,** reflecting that most countries have moved beyond the Readiness Package and Idea Note stage, and ERPD approvals can now be used to measure the success of the fund. **1.7 Amount of ER Purchases following ERPA** will be measured in MTCO2e, rather than dollars, in future. This is because the price of CO2 will be negotiated separately with each country, making spending a less accurate measure of success.

The weighting of Output 2 has been reduced from 20% to 5%, reflecting the fact that, barring a few outstanding issues such as the use of interpolation, methodological guidance and legal documents have now been completed. Some weighting is retained here so that adherence to the guidance and documentation will still count towards the fund's final score.

The weighting out Output 3 has been increased from 15% to 30%. This is to reflect the increased importance of measuring how programmes are performing on the ground, now that countries are beginning to implement programmes. Indicator **3.1 Number of ER programmes that demonstrate ways to maintain or enhance livelihoods** will be changed to **3.1 Number of forest-dependent people benefiting from FCPF programmes,** to better reflect ICF KPI 3. **Output 3.2 Number or ER programmes that demonstrate ways to conserve/restore biodiversity (fauna and flora) and take into account traditional knowledge** has been removed, in line with recent changes to the BioCarbon Fund-ISFL log frame.

Output 4 **Knowledge gained in the development of the FCPF and implementation of ER programmes are broadly shared and used by international REDD+ practitioners** will be revised at a later date. The World Bank is currently reviewing its own strategy and KPIs for communications, in line with the recommendation of the external evaluation.

C: DETAILED OUTPUT SCORING

Output Title	*Emissions Reductions Programmes planned and implemented/progressing through the Carbon Fund process*		
Output number per LF	1	**Output Score**	**B**
Risk rating (H, M or L):	**H**	Impact weighting (%):	60
Risk revised since last AR?	Yes	Impact weighting % revised since last AR?	No

Indicator(s)	**Milestones**	**Progress**
1.1 Number of Readiness Packages endorsed by PC (cumulative)	*2 by 2014* *8 by 2015* *20+ by 2018*	**Exceeded:** 45 RPPs approved as of 2017
1.2 Number of Early Ideas presented to the Carbon Fund (cumulative)	*10 by 2014* *20 by 2015*	**Over-achieved.** No new early ideas were presented in 2017 15 by 2014 24 by 2015
1.3 Number of ER-PINs invited into pipeline (cumulative)	*10 by 2014* *17 by 2015*	**Over achieved.** Total (cumulative) at time of 2016 Annual Review: 19 *11 by end of 2014* *18 by end of 2015* *19 by end of 2016*
1.4 Number of ERPDs accepted into the	*6 by 2017* *10 by 2018*	**On track.** Ghana, Chile, DRC, Costa Rica, Mexico, and Republic of Congo have been

portfolio	*13 by 2019*	accepted into the portfolio. Of these, DRC, Ghana, and Chile were accepted unconditionally, while Mexico, Costa Rica, and ROC were accepted with conditions.
1.5 Number of ERPAs signed (cumulative)	*1 in 2017* *3 in 2018* *10-13 in 2019*	**Not on track to deliver** by end of 2017 reporting period**.** One ERPA negotiation, for the DRC programme, saw formal negotiations begin in August 2017. Although agreement has largely been reached on the commercial terms, there have been difficulties in reaching agreement on the DRC's benefits sharing plan. Formal ERPA negotiations with the DRC started later than expected, with the World Bank's internal decision meeting giving clearance to negotiating the ERPA being delayed several times and not taking place until August.
1.6 Amount of disbursements for ER Programmes according to plans (%)	*Targeting 100% disbursement by the end of the fund in 2025*	**Progress cannot yet be assessed.** Pipeline development continues apace, and it is likely that at least 10-13 programmes will be accepted into the portfolio. The FMT uses sophisticated Monte Carlo modelling to estimate the volume of ERs which the portfolio will produce by 2025, which suggest that 100% disbursement is relatively easily achievable. The FMT are also proactively using portfolio management tools such as call options in ERPA contracts to reduce risk of underspend.
1.7 Amount of ER purchases following ERPA signature (MTCO2e/year)	*Targeting total available balance of the Carbon Fund by the end of the fund in 2025*	**Progress cannot yet be assessed.**
1.8 Number of pilots where carbon accounting, programmatic elements and pricing are operating as planned (cumulative)	*1 in 2017* *3 in 2018* *10-13 in 2019*	**Not on track to deliver by end of reporting period.** This indicator is dependent on a programme being operationalised, which would happen up to a year after the signature of an ERPA.
1.9 Average % of monetary benefits shared with beneficiaries in approved pilots	*TBD*	**Progress cannot yet be assessed.**

Comment

A key priority for the Carbon Fund this year was to sign at least one Emissions Reduction Payment Agreement (ERPA) in 2017,as a precursor to programmes being implemented, for example through the creation of benefit sharing plans or reversal management mechanisms. To date (early November) that has not occurred, and we judge it highly unlikely the Carbon Fund will meet this milestone.

Delays in ERPA signature will have a knock-on impact on indicators around how programmes are functioning.

There are a number of reasons for delayed progress against this milestone. The first country selected into the pipeline, DRC, became the “test case” for the Carbon Fund’s ERPA negotiation process. While the progress of the DRC programme through the Carbon Fund pipeline is to be commended, a number of aspects of the DRC programme meant that this was a more complicated negotiation than would normally be expected.

In our view, the lack of clarity over the role of the FMT in ERPA negotiations was a major factor contributing to the delay of this milestone. The original understanding between the FMT and CFPs, as discussed (at the 15th Carbon Fund meeting), was for the FMT, as Trustee, to lead negotiations with CFPs observing. However, in in reality the FMT has played more of an ‘honest broker’ role, mediating between donors and the forest country. This has slowed negotiations and put additional resource burden on donors to the FCPF.

The recommendations from the 2016 FCPF Annual Review, and the request of CFPs at the December 2016 Carbon Fund meeting, was that the FMT and CFPs agree respective responsibilities and processes for the ERPA negotiations, with an agreed framework setting out CFP expectations on specific terms. However, this was not concluded before the ERPA negotiations with DRC commenced. As of November 2017 the FMT have not produced a note setting out respective roles, or a default set of CFP expectations on terms.

As currently drafted, the DRC ERPA provides a one year window to the DRC to finalise a benefits sharing plan and reversal management mechanism, and to hire a programme management unit. These are substantive parts of the programme and will have a material impact on whether the programme will be successful. There is general agreement among Tranche B CFPs (including the UK) that much of this documentation should be in at least near-final state before an ERPA can be signed, due to its potential impact on the operation of a programme. It should also be noted that leaving a large window after ERPA signature to finalise secondary documentation delays the operationalisation of programmes.

Looking forward to the expected milestones for ERPA signature in 2018, we expect to be on track for future ERPA signatures, with at least four countries (Mexico, Chile, Costa Rica, Ghana) ready to begin ERPA negotiations.

Development of the pipeline continues apace, with four ERPDs – from Chile, Mexico, Ghana, and Republic of Congo - accepted into the portfolio since the last Annual Review, and another four ERPDs due to be submitted in January 2018.

Progress toward ERPA signature milestones has also been hindered by delays in the FMT’s due diligence of ERPDs (in the case of Costa Rica, a revised ERPD was not accepted as conditions had not been met) and long lead-in times for countries to fulfil conditions.

Recommendations

- BEIS programme lead should update the logframe to capture the distinction between ERPDs which have been accepted without conditions/have fulfilled their conditions and those conditionally accepted into the portfolio.

- The FMT and CFPs should agree to a Terms of Reference setting out the process for ERPA negotiations and the respective roles and responsibilities of CFPs and the FMT.

- The FMT should reconsider its resourcing of different countries, so that resource is more evenly shared between countries, increasing the likelihood of at least one country reaching ERPA signature.

- The FMT should seek to minimise the number of substantive decisions (such as on benefits sharing or reversal management) which are made after ERPA signature.

- The FMT, CFPs, and REDD countries should agree timetables for the completion of condition fulfilment and due diligence after a programme has been accepted into the portfolio.

Output Title	*Standards and preparations in place for high-quality ER Programmes discussed and endorsed by CF Participants*		
Output number per LF	2	**Output Score**	**A**
Risk rating (H, M or L):	L	Impact weighting (%):	5
Risk revised since last AR?	**No**	Impact weighting % revised since last AR?	Yes

Indicator(s)	**Milestones**	**Progress**
2.1 Methodological Framework and Pricing Approach endorsed	*Endorsement by 2014*	**Achieved** in December 2013. An updated Methodological Framework was endorsed in 2016.
2.2 Business Processes endorsed (ER-PIN, ERPD, ERPA)	*Endorsement by 2014*	**Achieved** in 2014/15. An updated Business Process was endorsed in 2016.
2.3 Legal Documents (General Conditions, ERPA Term Sheet) endorsed	*Endorsement*	**Achieved** in 2014. ERPA Term Sheet was endorsed in March 2013. The General Conditions for ERPAs was endorsed in November 2014.
2.4 Buffer and registries guidelines approved	*Endorsement*	**Partially achieved**. Buffer Guidelines were endorsed in January 2016 Registries guidance was published in November 2016.

Comment
No change from last year.

Output Title	*Pilots have been successfully implemented on ways to sustain and enhance livelihoods*		
Output number per LF	3	**Output Score**	**B**
Risk rating (H, M or L):	M	Impact weighting (%):	30
Risk revised since last AR?		Impact weighting % revised since last AR?	Yes

Indicator(s)	Milestones	Progress
3.1 **Number of forest-dependent people benefiting from FCPF programmes**	*TBD*	**Progress cannot yet be assessed.** Milestones and a methodology for reporting against this indicator will be developed as part of reporting on the ICF KPI 3.
3.2 Number or ER programmes that demonstrate relevant sustainability standards, as provided for in the Common Approach for Readiness preparation including those for grievance	*1 in 2017* *3 in 2018* *10-13 in 2019*	**Not on track to deliver by end of reporting period.** This indicator is dependent on an ER programme being operationalised.

Comment

A cross-ICF methodology is currently being developed for reporting on livelihoods. No ER programmes are yet operational. However, it should be noted that CFPs closely scrutinise ERPDs for their compliance with social and environmental safeguards and long-term sustainability, and programmes selected so far would likely meet this requirement if they were operationalised to specification. In addition, many countries include non-carbon benefits in their programme design. For example, DRC's ER programme helps to improve livelihoods through diversification of agricultural production for smallholders, which reduces deforestation rates while also improving incomes

Recommendations

BEIS ICF team to work with FMT to develop methodology for reporting against Indicator 3.1/ICF KPI 3 on forest dependent people benefiting from FCPF programmes.

Output Title	*Knowledge gained in the development of the FCPF and implementation of ER programmes are broadly shared and used by international REDD+ practitioners*		
Output number per LF	4	**Output Score**	**A**
Risk rating (H, M or L):	M	Impact weighting (%):	5
Risk revised since last AR?	N	Impact weighting % revised since last AR?	No

Indicator(s)	Milestones	Progress
4.1 Examples of utilisation of/or reference to FCPF	An increasing number of examples exist by 2015 and	Met in 2015. No change in the number of examples

knowledge products	remains stable until the end of the fund	has been recorded this year.
4.2 Number of people reached, by type of knowledge product and type of audience (including website site counts)	*TBD*	N/A
4.3 Number of neutral/positive mentions of FCPF and REDD+ issues in different key media worldwide	*TBD* - Increase in neutral and positive mentions worldwide	Net increase in neutral and positive mentions worldwide
4.4 Number of negative mentions of FCPF and REDD+ issues in different key media worldwide	*TBD* - Decrease of negative mentions worldwide	Net decrease in negative mentions worldwide.

Comment

The World Bank has recorded a net increase in neutral and or positive mentions of the FCPF and REDD+ more generally world-wide. This output is currently under review as part of the external review of the FCPF's Evaluation Framework, and is likely to change substantively as part of this work.

Recommendations

- BEIS lead to liaise with other participants and the FMT on how best to capture the knowledge and learning component of the FCPF as part of the ongoing evaluation review. This should also be used to update the BEIS logframe for the FCPF.

D: FUND PERFORMANCE NOT CAPTURED BY OUTPUTS

N/A

E: VALUE FOR MONEY & FINANCIAL PERFORMANCE

Key cost drivers and performance

Financial contributions to the Carbon Fund now total c.$740m[6] of which approximately $688m will be available for ER purchases. Since the Carbon Fund became operational in 2011, expenditure to date totals $21.6m, solely on costs relating to fund administration[7]; no payments for emissions reductions have been made yet.

Most of the UK's £141.5m (of which £130m from the ICF, and £11.5 from the ETF) investment in the Carbon Fund has been committed via Promissory Note and has not yet been cashed. As a result, the UK contribution is vulnerable to exchange rate fluctuations.

[6] Further financial performance information can be found in the FCPF FY17 Annual Report, produced annually by the Facility Management Team. Numbers may vary due to exchange rate fluctuations.
[7] 'Administration' in this context includes the creation of technical advisory panels, providing advisory services and programme development support to countries, and private sector engagement. Core administrative costs associated with the Carbon Fund are $2.4m since 2011.

The Carbon Fund has not yet produced any results as it is in the pre-delivery stage, so the evidence has been evaluated as moderate.[8] This evidence base is built on expected results as opposed to actual results.

Economy (i.e. Are we or our agents buying inputs of the appropriate quality at the right price?)

- The economy of the Carbon Fund is sensitive to changes in the Sterling to US dollar exchange rate and as a result has decreased this year due to unfavourable exchange rate movements from a UK perspective.
- An important consideration in the coming year is the ongoing price negotiations for the verified emissions reductions. Fund participants have signalled that $5/t CO2e is the upper limit they are willing to pay. If the final price agreed is lower, the economy of the Carbon Fund would increase; if the final price agreed in higher, the economy of the Carbon Fund would decrease.
- Total administrative costs – including capacity building and funding for countries to develop ER programmes – amount to 7% of fund capital. Core administrative costs – e.g. staffing and office overheads - this year were $2.4m – around 0.3% of fund capital.

Efficiency (i.e. How well do we or our agents convert inputs into outputs?)

- The efficiency of the programme was decreased during the revised value for money assessment as part of the 2015 Extension Business case. This was largely due the set up time for the Carbon Fund being initially underestimated (there was no previous benchmark for the time required to establish a complex and robust mechanism of this type). As recommended by the 2015 Annual Review, the expectations and milestones for the Carbon Fund were re-baselined. There has been further slippage this year, as the FCPF is likely to miss its key milestones of signing an ERPA and operationalising an ER programme by the end of the year. As such, the fund is now considered less efficient than it was last year.

Cost –effectiveness (i.e. How much impact does an intervention achieve relative to the inputs that we or our agents put in?)

- BEIS remains confident that funds are likely to be disbursed, in spite of delays this year. The cost of reducing a tonne of carbon is used as a measure of cost effectiveness; this is to £5.49 at the fund-level. This has changed from last year due to UK attribution increases as a result of the rebound of the Pound, and the amount of funds available for purchasing ERs increasing due to improved exchange rates of several currencies against the US Dollar. This is within the value-for-money range for ICF programme, and is close to the original business cases' estimation, suggesting that the Carbon Fund remains a sound investment.
- As a payment-for-results mechanism, disbursements are tied to the achievement of clearly specified outcomes, in the case of the Carbon Fund this is emissions reductions. Therefore the majority of payments will only be made if the intervention is successful[9]. However it is possible that programmes will not be able to deliver all the anticipated ERs. Guidelines of Buffers have been agreed to insure programmes

[8] Countries are responding to the incentive provided by the Carbon Fund's Results Based funding scheme as evidenced by the growing pipeline, and are developing and implementing appropriate plans to achieve planned results. Actual results related to finance leveraged and individuals supported may start reporting in 2017 following the signing of the first ERPA. First actual results related to carbon savings are only expected to be reported during the first payment year which will be dependent on the negotiated terms of the ERPA but is expected to be around 2019.

[9] There is a possibility that programmes could negotiate advances to cover the upfront costs of their ER programme.

against the risk of reversals, though it is not clear yet how this will work in practise as countries may opt to use alternative mechanisms and the issue is closely related to contract volumes which will be negotiated as part of the ERPA's Commercial Terms.

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

VfM assessment has not changed other than the reduction in economy due to unfavourable exchange rates in 2016.

Quality of financial management

The FMT provide annual financial reports as part of the FCPF Annual Report. Budgets are approved annually by Carbon Fund Participants at the Carbon Fund meeting closest to the end/start of the World Bank's fiscal year, which starts on July 1 and ends on June 30.

We have confidence in the capability of the World Bank as partners to deliver the requirements of the programme. The FMT have offered assurance it will scale up resources to meet the needs of an expanded pipeline, if required. It is likely that efficiencies will be realised as the portfolio size increases and learning is shared across programmes. Where additional expertise is required, such as a Technical Advisory Panel to support the development of programmes and provide an independent assessment of programmes' technical quality, this has been be procured by the World Bank.

Date of last narrative financial report	September 2017
Date of last audited annual statement	September 2017

See FCPF Annual Report FY17

F: RISK

Overall risk rating:
Moderate

Overview of programme risk. Key risks to the programme include:

Risk Description	Mitigation	Residual RAG
ERPA negotiations are prolonged causing delays (reducing the efficiency of UK ICF investment in the Fund) or fail altogether (meaning there is an insufficient number of ERPAs to commit 100% of Carbon Fund contributions – resulting in lower results than expected and a return of unspent capital)	FMT will prioritise building capacity in forest countries' understanding of the ERPA process and Terms. FMT will clearly set out expectation of respective roles of World Bank and CFPs ahead of ERPA negotiations, and raise in advance with CFPs any issues which may increase the need for CFPs to resource an ERPA negotiation. CFPs should also collaborate to consider their approach to the negotiations in advance and establish positions on the key negotiable commercial terms (such as price, volume, use of ERs, and other variables that form the package of incentives included in the ERPA). CFPs must also be prepared to do more of the 'heavy lift' of ERPA negotiations, including	In spite of steps taken to mitigate this risk, the RAG rating has been raised to red. Reaching the point where ERPA negotiations can begin, as well as the negotiations themselves, have proven more challenging than anticipated. It

	leading ERPA negotiations in the case of there being difficulties within the World Bank which limit its ability to act as Trustee of the fund. CFPs will also set out more clearly and in advance of negotiations their baseline expectations on secondary documentation such as benefit sharing plans.	is likely that similar issues to those which have arisen this year – questions around WBG's due diligence process, role of the FMT as the Fund's Trustee, and the approach to issues such as BSPs – are likely to arise in future ERPA negotiations.
GBP:USD Exchange rate risk. GBP weakens further, UK contribution and overall financial resources of the Carbon Fund reduce as a result leading to lower than expected results. NB: CFPs pro-rate share of ERPA and other costs will be apportioned at the time of First Closing (shortly before signing the first ERPA).	Consider the implications of current UK contribution value in USD as part of portfolio management when selecting The World Bank, as Trustee, will require UK to cash its pro rata share of each ERPA agreed to ensure the UK does not over commit through ERPAs (which are agreed in USD). So UK will not *have* to increase its contribution but may wish to in order to secure the expected results.	This remains a high risk across ICF programmes. Mitigation strategy is unclear.
Delivery risk (including underspend) due to programmes being unable to attract sufficient funding from other sources for the upfront investments required to implement the programmes and produce the ERs which the Carbon Fund intends to purchase	Scrutinise the World Bank's Due Diligence (which includes an assessment of financial viability) on each of the programmes before entering ERPA negotiations. Scrutinise ERPDs to ensure robust financial plans are in place and an integrated approach to leveraging public and private finance, before final approval of programmes for funding. Work with committed host countries that are prepared to contributes resources to the programme too. Support the World Bank's efforts to advise countries on wider support that may be available to them from the Bank and other sources (including continuing to investigate the possibility of innovative financial instruments such as bonds and guarantees)	This is a moderate risk
Delivery risk (including underspend) due to attrition, quality concerns, external factors, or other delays,	The Carbon Fund is currently over programmed (19 programmes in the pipeline with the intention to include 10-13	Innovative, multi-sector, REDD+

insufficient ER-PINs develop into full Programmes to absorb the full capitalisation of the Fund, and/or operational delivery of forest nations' programmes is unsuccessful.	in the portfolio) and the pipeline is diverse. The Carbon Fund was extended to 2025 in April 2015. Part of the rationale for this extension was to improve the likelihood of programmes delivering the full volume of ERs. Milestones and associated deadlines have been agreed and countries should be encouraged to progress swiftly through the carbon fund process. The milestones and deadlines also facilitate monitoring of the pipeline's progress.	programmes are inherently complex and risky. Programmes have not yet been implemented or tested so this risk remains moderate.
The Methodological Framework (MF) is too stringent, meaning that an insufficient number of ERPINS develop into full ERPS	Maintain a pragmatic position but uphold the principles of the MF to ensure the overall environmental integrity of the Carbon Fund programmes.	This is now considered to be minor risk. Early ERPDs show that it is possible to comply with the MF.

Outstanding actions from risk assessment

- Develop clear roles and responsibilities for future ERPA negotiations, and develop a strategy for handling difficulties within the World Bank.
- Monitor the Foreign Exchange Rate Risk and the impact on portfolio management if the GBP:USD exchange rate remains significantly below the historical average.[10]

Innovative, multi-sector, REDD+ programmes, such as those in the Carbon Fund, are inherently complex and risky. We are content with the current level of risk and the World Bank's approach to risk mitigation as detailed in the above table.

G: COMMERCIAL CONSIDERATIONS

Delivery against planned timeframe

The initial underestimation of set-up time and perceived delays in the Carbon Fund were discussed at length in the Extension Business Case. UK expectations (and logframe) were re-baselined in 2017 so that progress can be monitored effectively based on updated, realistic, expectations. According to these revised expectations the Carbon Fund is not progressing as hoped, due to delays in the signing of ERPAs and the subsequent operationalisation of programmes.

Performance of partnership(s)

In 2016 the World Bank launched its Climate Change Action Plan and Forest Action Plan. Both Action Plans acknowledge the contribution of forests to economic development,

[10] The exchange rate used in the COP21 Joint Statement from Germany, Norway, and the United Kingdom was based on average exchange rates in the period from Sept 2014 to Nov 2015, which corresponds to an average exchange rate assumption of 1.59 USD to 1 GBP.

livelihoods, and climate objectives. The forest action plan takes a cross-sector perspective to assess potential trade-offs and maximise on potential synergies. In 2017, the Bank has taken significant steps to deploying the programmatic approach, as seen in Mozambique and Laos. This is strong progress in the right direction, and the World Bank could consider further developing the programmatic approach by investigating the use of more private finance, or larger-scale IBRD instruments such as bonds.

Asset monitoring and control

The assets in the Carbon Fund relate to the emissions reductions produced by the programme. The guidance on registries (expected by the end of 2016) will help inform how these assets will be recorded and transferred to CFPs. Further discussion on the use (by the seller or the buyer) of emissions reductions generated by Carbon Fund programmes will be discussed at the next Carbon Fund meeting in mid-December.

H: MONITORING & EVALUATION

Evidence and evaluation

The **Second Independent Evaluation of the FCPF was completed in November 2016**. Unfortunately it was a protracted process and the final report was almost a year late due to quality concerns. UK BEIS has played an active role throughout the process as part of the Evaluation Oversight Committee (comprising 3 donor participants, 3 REDD+ country participants and 3 Observers) to support the evaluation process and ensure the structural independence of the Evaluation Team[11].Despite the UK's efforts, the final evaluation report still fell short of our quality and utility expectations; further details are provided in the 2016 Annual Review.

The FMT are currently reviewing the FCPF's Monitoring and Evaluation Framework in conjunction with an external consultant. This has been a fruitful process, with inputs from Oversight Committee members readily taken on board. In this process, the UK's main concerns have been that the evaluation framework continues to track key quantitative measures of progress, for example on finance leveraged, while also improving data gathering for more qualitative indicators, such as the contribution of the FCPF to developing a global REDD+ framework. It is anticipated that delivery of this second area will be integrated into the review's consideration of alternative evaluation procedures and approaches. A final updated logframe covering both the Readiness and Carbon Fund elements of the FCPF is expected to be ready in December 2017.

Monitoring progress throughout the review period

The bi-annual Carbon Fund meetings provide great opportunities to monitor progress throughout the year. As outlined in Section C the Carbon Fund is continuing to meet our expectations in terms of outputs. The Annual Participants Assembly is also a useful opportunity to take stock on the progress of the facility overall (covering both the Readiness Fund and the Carbon Fund).

[11] The Global Program Review of the FCPF conducted by the World Bank's Independent Evaluation Group (IEG) in 2012 recommended that in accordance with good practice the oversight of evaluation should be carried out by the program's governing body instead of the FMT. The Oversight Committee was therefore set up to represent the Participants Committee to ensure organizational and behavioural independence of the evaluation. The evaluation team was procured by the World Bank.

At the programme level, there are some outstanding concerns (prepared by the NGOs and posted on the FCPF website) about programmes which will have to be taking into consideration when reviewing and selecting ERPDs into the portfolio.

I: TRANSFORMATIONAL CHANGE

Rating

The Carbon Fund's overall KPI 15 box marking is currently judged to be 1 – no evidence yet available/too soon to revise assessment in business case.

Monitoring progress throughout the review period

The note describing the indicators and methodology for KPI15 was prepared for the March 2015 Results Collection. Since then the evidence and scores have been updated for each Results Collection.

Evidence and evaluation

Assessment against ICF KPI 15 (December 2016)

As of December 2016, there is limited evidence available yet against the below indicators. Therefore the FCPF-C overall KPI 15 box marking is currently judged be **box 1 – no evidence yet available – too soon to revise assessment in business case**. However, some indicators show evidence of box 2 - Some early evidence suggests Transformation likely or box 3 - Tentative evidence of change – transformation judged likely. Increases to scores from the March 2016 results collection are marked with an arrow (↑).

CRITERIA	INDICATOR	EVIDENCE (BY DECEMBER 2017)	SCORE
1. Fostering political will to act on climate change	*1.1. A qualitative assessment of ER-PINs and ERPDs on the level of political buy-in.*	Of the 7 final draft ERPDs reviewed by December 2017, most demonstrated a strong level of political commitment. However, in some cases CFPs have been concerned that there is a lack of appetite at the highest political levels to implement these large-scale, paradigmatic programmes, which may be a barrier to implementation. In these cases, CFPs have generally accepted programmes into the portfolio on the condition that countries demonstrate high level political commitment.	2
	1.2. Number of R-Packages endorsed by Participations Committee (FCPF-Readiness Fund indicator but of relevance to FCPF-C as R-Package is	10 R-Packages were endorsed by 2017.	3 ↑

	required before an Emissions Reductions Payment Agreement (ERPA) can be negotiated)		
	1.3. Number of forest countries coming forward under the FCPF-C or similar funds with credible ER proposals.	The Carbon Fund pipeline stands at 19 countries. This shows strong demand from forest countries. This exceeds the original expectations of the Carbon Fund which has originally aimed to pilot REDD+ results based payments in 5 countries.	3
	1.4. Number of ER programs designed and successfully implemented under the FCPF-C or similar funds.	0 programs at implementation stage.	1
As of December 2017, there has been *some* early evidence to suggest that transformation is likely against *some* of the above indicators. The number and quality of ER program proposals has been higher than expected. There are currently 19 countries in the FCPF pipeline. Approximately 10-13 programs will be piloted by the Carbon Fund therefore demand is exceeding supply. However, no country is yet at the stage of implementing their programs.			**2**
2. Delivering at scale	*2.1. Qualitative assessment of ER Programs against the aim to address a significant portion of forest related emissions and removals.*	ER programmes are required per the methodological framework to be jurisdictional in scale, and to include all significant sources and drivers of GHG emissions. So far, no programme accepted into the portfolio has failed to meet these criteria.	2
	2.2 An assessment of the significance of the reported number of hectares where deforestation and degradation have been avoided through ICF support.	Evidence will be available once ERPAs have been signed (0 ERPAs to date)	1
	2.3 An assessment of the significance of the reported number of forest dependent people with livelihoods benefits protected or improved as a result of ICF support.	Evidence will be available once ERPAs have been signed (0 ERPAs to date)	1

As of December 2017, no actual results have been reported as ER programs are still at design stage.			**1**
3. Evidence of effectiveness Ideas and lessons shared widely.	*3.1. The number of and types of standards and management tools discussed and endorsed for ER programs, including (a) Methodological framework and Pricing Approach (b) business processes (ER-PD, ER-PIN, ERPA) and (c) legal documents (General Conditions, ERPA term sheet)*	All of the anticipated standards and management tools have now been endorsed. ERPDs continue to be accepted into the portfolio at pace, from a wide variety of countries including LDCs, suggesting at the global applicability of the standards set by the FCPF.The FCPF-C could score a 3 against this indicator once ERPAs are signed which will prove the viability of these standards.	2/3 ↑
	3.2 Number and type of knowledge sharing resources made available on the FCPF website.	There a number of resources and templates available on the FCPF website. This could score even higher if there is evidence that these resources are widely used.	3
	3.3 Qualitative assessment of improved quality of ER programs demonstrating learning from previous experience. Number of countries developing high quality ER program with limited support.	There is anecdotal evidence that host countries have learnt from previous Carbon Fund meetings what CFPs' key concerns are, and anticipate how to address these questions before they present their ERPDs. Some more developed countries, such as Chile and Mexico, have developed ER Programmes largely independently.	1
	3.4 FCPF has catalysed the creation of recognized global standards for REDD+ and there are examples of non-participant countries that have adopted FCPF standards in their own REDD+ process	The high standards of the FCPF did help set a point of reference for negotiating the first window for REDD+ results-based finance in the Green Climate Fund. The FCPF has also been referenced in discussed relating to the technical criteria for programmes eligible under ICAO's CORSIA.	2
The FCPF is a relatively transparent fund. All of the materials and evidence of discussion is published on the FCPF website. There is some evidence to suggest the FCPF-C could be transformational in this regard, a higher score will be given when there is further evidence of the utility of these ideas and lesson sharing to forest countries inside or outside the FCPF.			**2**

4. HMG-supported activities are creating the incentives for others to act on climate change.	*4.1. The volume of public finance mobilised for climate change purposes as a result of ICF funding (£s)*	Evidence will be available once ERPAs have been signed (0 ERPAs to date)	1
	4.2 The Volume of private finance mobilised for climate change purposes as a result of ICF funding (£s)	Evidence will be available once ERPAs have been signed (0 ERPAs to date)	1
No actual results reported yet. Nothing to warrant change against expected results.			**1**