Annual Review - Summary Sheet

The Forest Carbon Partnership Facility (FCPF)

Programme Value:	**Readiness Fund**	**£3.5m**	**Review Date: 8 October 2014**
	Carbon Fund	**£58.5m**	
	Total	**£60m**	
Start Date: 1 September 2013			**End Date: 1 September 2014**

Summary of Programme Performance

Year	**2012**	**2013**
Programme Score	A – met expectations	A – met expectations
Risk Rating	Low	Low

Summary of progress since last review

- Carbon Fund Participants agreed and endorsed the Carbon Fund Methodological Framework which is recognised as an emerging global standard for REDD+ transactions at scale.
- Carbon Fund Participants agreed to a pricing approach and delivered it to the Participants Committee who agreed with the guiding principles.
- Carbon Fund Participants approved 7 new Emission Reduction Program Idea Notes (ER-PIN) into the Carbon Fund pipeline, bringing the total to 8.
- In the Readiness Fund, 11 new countries joined, bringing the total to 47 countries in the FCPF.
- Substantial additional financial contributions were made to the FCPF, totalling approximately $250 million, raising the Facility's capitalisation to $827 million.

Recommendations from last review

1. Use the UK seat on the Participant's Committee to encourage an acceleration of the Readiness programme.

   The UK did not attend the last Participant's Committee (PC17) in June 2014. As discussed below, we propose to produce a project completion report for this investment.

2. Consider whether the FCPF should be covered in a separate Annual Review in 2014

   Recommendation has been acted upon. This Annual Review is a standalone document, separate from the CIFs.

3. The UK should continue to engage with the FCPF process through attending meeting and committing resource and expertise.

   The UK is actively engaged in the FCPF Carbon Fund; attending meetings, influencing decisions, reviewing ER Programmes and processes, and inputting to the on-going design on the fund.

A. Introduction and Context

FPCF LOGFRAME AT ANNEX 1

The **Forest Carbon Partnership Facility (FCPF)** was established in 2008 and assists developing countries in their efforts to reduce emissions from deforestation and forest degradation and foster conservation, sustainable management of forests, and enhancement of forest carbon stocks (all activities commonly referred to as "REDD+") by providing value to standing forests.

The 47 countries in the FCPF are home to more than 55% of all forest area in the tropics and subtropics (Brazil has 26% of forest area but is not in the FCPF), the progress made with REDD+ in the FCPF is set to have a significant global impact on forest conservation and climate mitigation.

The FCPF has two mechanisms: REDD+ Readiness Fund and FCPF Carbon Fund.

The **Readiness Fund** aims to assist developing countries to reach a capacity level at which they will be ready to participate in a future system for positive incentives to REDD+, and is focused around Readiness Preparation Proposals (R-PPs). The UK invested £3.5m into the Readiness Fund in 2008. This investment has been fully drawn down and spent. As a consequence the UK investment itself is no longer producing results. Additional contributions by other donors (Norway) are helping to meet demand for further finance from REDD+ countries. Total contributions to the Readiness Fund stand at US$360.

The **Carbon Fund** is designed to provide support to countries to scale-up REDD+ implementation and deliver verified emission reductions. It does this by providing payments on delivery of verified emission reductions (‘payment for results’) for pilot programmes in countries that have made good progress with implementing Phase I activities (i.e. coming through the pipeline from the FCPF Readiness Fund). The Carbon Fund is currently designed to close in 2020, when it is envisaged it will be replaced by a wider market for REDD+ credits under the auspices of an international climate agreement for this period, though there is an active discussion on extending the Fund beyond this period

The UK has invested £56 million to date in the Carbon Fund (£13.5m in 2011 and £45m in 2014). Total contributions stand at US$466.

Recommendations:

Since the original UK allocation from the Environmental Transformation Fund (ETF) for the FCPF Readiness Fund has been fully utilised, and DECC has the lead role on the FCPF Carbon Fund, this component will no longer be monitored through the DFID ETF annual review process. From this review onwards, DECC, will take on all FCPF Carbon Fund monitoring through its own systems. As a consequence, we propose to produce a project completion report for this investment before the end of the calendar year, and focus future reviews on the Carbon Fund, in which we have invested £56m.

B: PERFORMANCE AND CONCLUSIONS

Annual outcome assessment

A – met expectations

Overall output score and description

A – met expectations

Under the Readiness Fund, countries have continued to explore and generate lessons related to the necessary policies and systems for adopting national REDD+ strategies - developing reference emission levels; designing measurement, reporting and verification (MRV) systems; and setting up REDD+ national management arrangements, including proper environmental and social safeguards.

With significant new contributions this year from UK, Norway, Germany, and Finland, a total of $827 million has been raised for the FCPF to date - $360.5 million for the Readiness Fund and $466.5 million for the Carbon Fund. Initial targets have been exceeded. The Carbon Fund's available capital for ER payments (approximately $430 million) could purchase 86 million tCO_2e (assuming a notional price of $5 per tCO_2e).

Of the eleven countries that have announced their intention to join the Carbon Fund, eight have presented programme proposals that have passed detailed assessments against the agreed quality standards. The UK has reviewed each proposal, drawing in expertise from DECC Science, Economist and Legal teams, as well as experts at DFID. While we have made recommendations on each, and asked some to resubmit, we have been impressed with the quality to date. Partner donors including Norway, Germany, the US and Canada have also conducted detailed reviews and reached the same conclusions. The quality in the approved portfolio is described in a summary of the joint approval notes for each programme proposal at Annex II.

Building from this approved pipeline, the FCPF will to shape a diverse portfolio of programmes for the Carbon Fund that will generate high-quality and sustainable ER at scale, deliver environmental and community benefits, and generate important lessons. The experiences to be gained while implementing these programs will offer important lessons for all 47 countries participating in the FCPF. They will also enable these countries to continue making great strides in reducing emissions from deforestation and forest degradation.

Key lessons

Lesson 1: REDD+ methodological issues require a balance between simplicity and robustness

The Methodological Framework that has been developed and will be piloted under the Carbon Fund is viewed by Carbon Fund Participants (CFP) as a critically significant standard to guide the preparation and implementation of future ER Programs. The issues papers commissioned by the FMT as well as Design Forums and Working Group discussions held in 2013 highlighted the complexity of the issues and the difficulty of ensuring that future ER Programs in the Carbon Fund portfolio are not only technically robust and socially inclusive, but can also be implemented in reasonable time frames as well as provide enough certainty for recipient countries.

Lesson 2: Readiness and design of pilot ER Programs can advance in parallel

Countries that are designing and piloting the implementation of ER programs are demonstrating how readiness processes inform the design of such programs. At the same time, site-specific piloting presents an opportunity to advance knowledge exchange and work on elements that are relevant to national readiness preparations, such as Reference Scenario, Strategic Environmental and Social Assessment (SESA), and MRV. Readiness is increasingly understood as a continuum, and there are strong synergies and feedback between the two aspects of REDD+.

Lesson 3: Implementation in country gains momentum once capacity increases in REDD+ Coordination Units

In several FCPF countries, for example Nepal, one of the first activities undertaken with readiness grants was the hiring of experts and support staff (REDD+ Coordinator, Technical Advisor, Procurement Specialist, Communications Specialist) for REDD+ Coordination Units. This has meant that readiness implementation was often slow to start, but once key staff was in place, grant implementation picked up. This is not surprising as these capacity needs were to a large extent identified by countries in their R-PP. Looking forward, it is important that the capacity of the REDD+ Coordination Units be enhanced and sustained.

Lesson 4: Stakeholder engagement is essential to broadening understanding of REDD+

Countries recognise the need for stakeholder involvement in decision making. At the global level, this is evident by the diverse range of stakeholders represented in panel discussions on REDD+ issues. At the country level, stakeholder representation in REDD+ technical working groups and national climate change steering committees is improving, though it varies across countries.

Lesson 5: Importance of seeking private sector engagement at the country or programme level

At the global or market level, private sector interest in REDD+ as an investment has diminished compared to previous years. However, private sector engagement in REDD+ is still very relevant at the country level. For example, Costa Rica´s ER Programme plans to involve private owners of forests by making them responsible for implementing the activities of the REDD+ strategy; mobilising over $26 million in private finance for forestry and agroforestry activities; and creating local demand for sustainably sourced timber. Where the drivers of deforestation in a country programme are agricultural commodities such a palm oil, soy, beef and paper, there is potential to align the programme's objectives with private sector commitments to sustainable and zero-deforestation supply chains, creating stronger economic incentives and development opportunities.

Has the logframe been updated since the last review?

This review contains a new logframe (Annex 1) that includes Outputs and Outcomes from the FCPF M&E Framework, as well as UK ICF KPIs. This is different to the way FCPF was reported last year, when it was included as part of the CIF review under the following output statement (output 5 in the ETF):

> *FCPF Readiness Fund assists developing countries to reach a capacity level at which they will be ready to participate in a future system for positive incentives for REDD+; and Carbon Fund Tests and evaluates incentive payments for REDD+ in approximately five developing countries*

Indicators were:

> *Number and quality of REDD+ readiness preparation plans supported*
> *Knowledge generated and disseminated by FCPF including country advisory services*
> *Number and Quality of REDD+ Emissions Reduction Programmes supported*

For new FCPF Logframe see Annex 1.

C: DETAILED KPI SCORING

Output Title	**FCPF Carbon Fund**		
Output number per LF		**Output Score**	
Risk:	*Medium*	Impact weighting (%):	*N/A*
Risk revised since last AR?	*N*	Impact weighting % revised since last AR?	*N/A*

This KPI scoring covers the Carbon Fund. It does not include recent results produced by the Readiness Fund. DECC and DFID each invested £1.75m in Readiness in 2008 as part of the ETF. This investment was fully drawn down shortly after and spent on Readiness activities for the 37 countries who were then in the Fund.

Since December, a further 11 countries have joined the Readiness Fund; made possible by an additional contribution from Norway of US$100m. The UK's 2008 investment of £3.5m, is no longer producing measureable results.

Thus far, the Carbon Fund has not achieved any results that can be measured against the UK KPIs, and is not expected to do so until 2015/16 after ERPAs have been signed[1]. Until then, progress can be monitored against the following Carbon Fund milestones, and against the logframe at ANNEX 1.

[1] Emissions Reductions Purchase Agreements

Carbon Fund milestones		
Milestone	**Indicator**	**Progress**
Agree policy guidance on valuation/pricing approach	CF Participants agree pricing approach and send signal	Completed in June. Signal delivered to PC who agreed to the guiding principles on the valuation/pricing approach
Initiate a strategic discussion on the future of the Carbon Fund	CF Participants agree or otherwise to extend the Fund beyond 2020	Positive early informal discussions with CF participants. On the agenda for CF11 (6-8 Oct 2014)
Adopt Methodological Framework	Agreed in December 2013	Endorsed by PC in June 2014
Adopt General ERPA Conditions	-Fully defined ERPA Term Sheet by PC14	Complete
	-ERPA General Conditions endorsed by PC18 (Nov 2014)	Expected at PC18, November 2014
Further Private Sector investment	Facility Management Team signs Participation Agreements with at least 2 additional private Participants in 2014	No new Private Sector Participants to date, and no progress reported
Letters of Intent (LOI) signed for between 9 and 15 ER Programs	ER-PINs approved into pipeline	8 ER-PINs approved into pipeline with a view to signing LOIs 3 expected in October 8 LOI signed or about to be signed, Costa Rica, Ghana, Roc, DRC, Mexico, Chile, Vietnam, Nepal
Minimum of 8 signed Emission Reduction Payment Agreements (ER-PA) by 2017	Successful ER-PA negotiations	The CF expects ER-PA signatures to begin in 2015, however this does not seem realistic, and will be questioned by the UK at CF11.

Key Performance Indicators (KPI)

In order for the UK to be able to report on all its KPIs the FMT has agreed to provide the following additional information from 2015:

i. Number of tonnes of CO2 emissions from deforestation and forest degradation reduced in Carbon Fund supported interventions;

ii. Finance leveraged in FCPF countries, disaggregated (where available) by public and private sector (where available);

iii. The number of hectares where deforestation and forest degradation have been avoided.

Future Expected Results:

The original ETF business case did not model expected results. In the March 2014 results collection we modelled expected results and scaled them to the ETF contribution (£11.5m). In this results round we have modelled expected results from the new ICF contribution of £45m. Attribution is now 19% for the UK as a whole, splitting into 4% for the ETF and 15% for the ICF.[2]

The final portfolio will comprise of countries who go on to sign Emissions Reductions Purchase Agreements with the Fund. Expected results could therefore be updated after ER-PAs have been signed and project pipeline is complete.

Current 2020 targets are based on a stylistic model and will need to be updated after the ER-PAs have been signed and project pipeline is complete.

KPI (and Units)	Number of forest dependent people with livelihoods benefits protected or improved as a result of ICF support (persons)

KPI Value Reported (This results Collection)

	ETF Results Collection March 2014	ETF updated	ICF Business Case Oct 2013	ICF updated	Achieved
Individuals	4,300	29,764	26,204	116,467	0
Individuals unattributed	220,000	754,612	34,132	754,612	0

KPI (and Units)	Net change in Greenhouse Gas (GHG) emissions as a result of ICF support.

KPI Value Reported (This results Collection)

	ETF Results Collection March 2014	ETF updated	ICF Business Case Oct 2013	ICF updated	Achieved
tCO_{2e} UK	-815,000	2,878,363	-3,300,000	-11,263,160	n/a
tCO_{2e} unattributed	-40,290,000	-72,975,892	-10,000,000	-72,975,892	n/a

KPI (and Units)	Number of hectares where deforestation and degradation have been avoided through ICF support

KPI Value Reported (This results Collection)

	ETF Results Collection March 2014	ETF updated	ICF Business Case Oct 2013	ICF updated	Achieved
Hectares UK	48,700	219,335	200,000	858,266	n/a
Hectares unattributed	2,466,000	5,560,846	700,000	5,560,846	n/a

[2] Most recent financial update on p. 12 of https://www.forestcarbonpartnership.org/sites/fcp/files/2014/June/CF10%206%20Carbon%20Fund%20FY15%20Budget.pdf. $466.5 including UK commitment. Slight discrepancies might come from different exchange rates used by the World Bank versus the results collection exchange rate.

KPI (and Units)	Volume of public finance mobilised for climate change purposes as a result of ICF funding (£)

KPI Value Reported (This results Collection)

	ETF Results Collection March 2014	ETF updated	ICF Business Case Oct 2013	ICF updated	Achieved
public finance UK	11,200,000	5,445,316	n/a	21,307,759	0
public finance unattributed	660,000,000	512,892,996	n/a	512,892,996	0

Drop explained by taking out donor finance at the fund level and only including public finance for project set up.

KPI (and Units)	Volume of private finance mobilised for climate change purposes as a result of ICF funding (£)

KPI Value Reported (This results Collection)

	ETF Results Collection	ETF updated	ICF Business Case Oct	ICF updated	Achieved
private finance UK	8,730,000	22,098,417	34,000,000	86,472,066	118,000
private finance	433,790,000	560,266,926	104,000,000	560,266,926	6,300,000

Private finance leveraged is calculated as total private sector contribution, divided by the UK burden share at the time. In this case \$5m (CDC) + \$5m (TNC) + \$5 (BP) X 0.0472%.(ETF)

KPI (and Units)	Extent to which the ICF intervention is likely to have a transformational impact

KPI Value Reported (This results Collection)

There is potential for the FCPF to have a transformational impact in each of the pilot countries that go on to sign ER-PAs. In relation to the ICF definition of 'transformational', the IEG (Independent Evaluation Group) have judged the FCPF-C accordingly:

1. **Scale** — High in the countries it operates in, but limited in country scope by the availability of current funds. The potential exists to scale up with the fund. Demand for inclusion is running high.
2. **Innovation** — High
3. **Leverage** — Unclear
4. **Replication** — Potentially strong

Output Title	FCPF Carbon Fund		
Output number per LF		**Output Score**	
Risk:	*Medium*	Impact weighting (%):	
Risk revised since last AR?	*N*	Impact weighting % revised since last AR?	*N/A*

For detailed Output scoring see logframe on DECC Shares

Progress by Output taken from UK FCPF Logframe which can be found at Annex 1

<u>Output-level Indicator 2.1.a: Methodological Framework and Pricing Approach</u>

Methodological Framework (MF)

Over the last year, the draft MF was developed, building on the guiding principles adopted by the FCPF Participants Committee (PC) in June 2012. The process included presentations on the design of the MF at four CF and PC meetings, three Working Group meetings, and three REDD+ Design Forums.

The draft MF consists of 37 criteria and related indicators, associated with five major aspects of ER Programs: level of ambition, carbon accounting, safeguards, sustainable program design and implementation, and ER Program transactions. Additional operational information and non-binding good practice guidance may be developed to complement the MF. The MF may be refined over time, as pilots are implemented and new lessons learned. Participants adopted the final draft at their CF8 Paris, December 2013. It will be open to review after one year, i.e. CF12. The UK does not intend to seek changes at this stage. We will evaluate how effective the MF has been in guiding the ER-PIN process following presentation of the third tranche of ER-PINs at CF11 in October 2014.

Pricing Approach

The Carbon Fund supports the scaling up of REDD+ implementation by paying for measured, reported and verified emission reductions generated by pilot programmes in countries that are ready to take action. This provides countries with a financial incentive to design and implement the relevant fiscal, governance, land tenure policies to protect forests and reverse deforestation trends.

In June 2014, CF Participants discussed what price they may be prepared to pay for verified emission reductions (pricing approach). While recognising that the price will be subject to negotiation at the time of ERPA, CF Participants ensured the meeting record reflected their joint position with the following statement:

> *In order to provide guidance to REDD Country Participants for their ER Program development, including the preparation of their ER-PD, and acknowledging the policy guidance on pricing methodologies in FMT Note 2012-8 (Recommendations of the Working Group on the Methodological Framework and Pricing Approach for the Carbon Fund of the FCPF) adopted by the PC at PC12 in Santa Marta as well as the views expressed by observers at this CF10 meeting, the Carbon Fund Participants note their current willingness to pay up to US$5/t CO_2e.*

Civil Society Observers raised their concern about the consistency of the pricing signal from CFPs and the guiding principles adopted in the PC. While CSOs acknowledged that the statement does not negate price negotiations prior to ERPA signature, it was the CSOs' view that it constrains the extent to which a price can be negotiated.

<u>Output-level Indicator 2.1.b: Legal documents (General Conditions, ERPA term sheet)</u>

Meeting the target as per the FCPF Logframe, the PC endorsed the Term Sheet for the FCPF General Conditions of the ERPA at the 14th PC meeting held in Washington, DC, 2013. In accordance with the resolution, the FMT presented a first draft of the ERPA General Conditions at the 15th meeting of the PC in Lombok, Bali. It is expected to be adopted at PC18 in November 2014.

Output 2.2: Countries have entered in the portfolio of the CF

Approved, and expected, REDD+ country emission reduction programme funding requirements

	Approved country										October 2014				
	Costa Rica	Mexico	Ghana	DRC	Nepal	Chile	Congo	Vietnam	Total	Average	Peru	Indonesia	Guatemala	Potential total	Potential average
ER from programme until 2020 [mtCO2e][3]	14.7	8.7	18.4	34.2	14	7.5	11.7	20.6	129.8	16.2	12.8	38	16	208.4	19
Share of ER offered to FCPF-C[4] [mtCO2e]	12.5 85%	2.4 28%	18.4 100%	10 28%	14 100%	5.3 70%	11.7 100%	10.3 50%	84.6 65%	10.6 65%	6.4 50%	34 90%	16 100%	135 65%	12.3 65%
Cost of ER[5] programme to FCPF-C at $5 / tCO2e	$62m	$12m	$92m	$50m	$70m	$27m	$59m	$52m	$424m	$53m	$32m	$170	$80	$676m	$61.5m

D: VALUE FOR MONEY & FINANCIAL PERFORMANCE

Contributions to date to the Readiness Fund

Contributions to the FCPF Readiness Fund as of June 1, 2014 (US$m)

	FY09	FY10	FY11	FY12	FY13	FY14	FY15-17	Totals*
Australia	9.6		8.0	6.3				23.9
Canada			41.4					41.4
Denmark		5.8						5.8
European Commission				2.7		1.4	1.4	5.4
Finland	9.0			5.7	5.3			20.0
France	4.6	0.6		5.1				10.3
Germany			26.0		13.1	13.9		52.9
Italy			5.0					5.0
Japan	5.0	5.0		4.0				14.0
Netherlands	5.0			7.6	7.6			20.3
Norway	5.0	16.4	8.8			38.7	62.5	131.4
Spain	7.0							7.0
Switzerland	8.2							8.2
United Kingdom			5.8					5.8
United States of America	0.5	4.5			4.0			9.0
Committed Funding	53.9	32.3	94.9	31.5	30.0	54.0	63.9	360.5

[3] Estimated emission reductions to be generated by the proposed initiatives in the REDD+ country programme during the payment period of the fund from 2015 to 2020.
[4] Proportion of the total emission reductions that the REDD+ country programme will generate that are being offered to the FCPF-C. The remainder may be self-funded or offered to other buyers.
[5] Volume of emission reductions offered to the FCPF-C multiplied by a $5/TCO2e price. This does not include the FCP-C administrator's costs which are fixed for management across the portfolio.

Contributions to date to the Carbon Fund

Contributions to the FCPF Carbon Fund as of June 1, 2014 (US$m)								
	FY09	FY10	FY11	FY12	FY13	FY14	FY15-17	Totals*
Australia			12.7	5.7				18.4
BP Technology Ventures			5.0					5.0
Canada				5.0				5.0
CDC Climat			5.0					5.0
European Commission	6.3	0.4						6.7
Germany	4.0	3.8	21.1	15.4	6.6	27.5	56.9	135.3
Norway	10.0				161.3			171.3
Switzerland				10.8				10.8
The Nature Conservancy	5.0							5.0
United Kingdom			17.9					17.9
United States of America			10.0		4.0			14.0
Committed Funding	25.4	4.2	71.8	36.9	171.9	27.5	56.9	394.5
Pledged Funding (Conditional)								
United Kingdom							72.0	72.0
Committed Funding plus Pledges	25.4	4.2	71.8	36.9	171.9	27.5	128.9	466.5

UK conditional pledge now committed

The UK has contributed a total of £56.5m to the Carbon Fund (£11.5m under the ETF in 2011, and £45m from the ICF in 2014), of which 8-9% will be spent on fixed and administrative costs, and the rest will be for the purchase of verified emissions reductions.

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

The original ETF contribution did not have any underlying VfM proposition. It is too early to give a full assessment of VfM compared to the 2013 FCPF-C business case. In the future, this will be assessed looking at the economy, efficiency and effectiveness of the Carbon Fund.

There is no comparable VfM assessment for the Readiness Fund as the original ETF contribution did not have any underlying VfM proposition. Demand from REDD+ countries for the Readiness Fund remains high, with 11 new countries joining since the last review, prompting Norway to make an additional $100m contribution.

Assessment of whether the programme continues to represent value for money

The Carbon Fund not yet delivering performance based payments, and is running one year behind schedule with MRV periods expected to start in 2016 (originally envisaged for 2015). However, given that the progress within the Carbon Fund has accelerated in the past year and that countries have presented promising ER-PINs, we still consider this investment VfM.

Administration costs are 8-9% which represents good value for money for a multilateral forest fund[6].

Quality of financial management

The FMT provide regular financial updates on the Fund, and yearly budgets are approved by CFPs.

[6] While admin costs in the FIP are lower, a significant costs there are being carried by the MDBs and are not reflected in the figures.

E: RISK

Overall risk rating: Medium

Overview of programme risk

Risk Summary - the event and impact	Current Risk Rating			Mitigation Plan	Target Risk Rating	Target Risk
	Probability	Impact	Rating (P X I)			
REDD+ countries' R-Packages are not endorsed by 2015, meaning they cannot sign ER-PAs, as per the terms of the Charter	5	4	VH	a) Engage with the FCPF-R to make sure it is running efficiently b) Work with other Donors to ensure our views are represented where we cannot attend FCPF-R meetings c) Make decisions on the FCPF-R virtually where possible	M	While there is no obvious scope for the UK to directly influence R-PP implementation, we can work with other large donors, and use the ICF, to ensure incentives are there for countries to progress with Readiness activities
Due to attrition, quality concerns, external factors, or other delays, insufficient ER-PINs develop into full Programmes to absorb the full capitalisation of the Fund	3	5	H	a) Work with other Donors to provide advice where countries need to improve their plans allow some flexibility for improvement during the programme development stage b) Review with Bank the attrition rate assumption for projects - is it too conservative? c) Informally discuss the size of programmes with countries d) Extend the lifetime of the Fund and encourage further submissions in 2015 e) Ensure that Carbon Fund guidelines do not prevent quick succession, e.g. question unnecessarily long negotiation periods. f) Encourage Bank to increase their resources to provide adequate support to countries. See following risk.	L	Current expected bids look sufficient to reach the required threshold. However still some difficult issues that are hard to mitigate e.g. DRC and Mexico viability
Bank slow to carry out portfolio design work. Delays to the portfolio design will result in reduced MRV periods, potentially undermining the credibility of the Programmes	2	4	M	Along with other Donors help the FMT to facilitate progress, and secure appropriate resources in Washington and in-country Extend the Fund	L	An agreed portfolio design this year would reduce this risk to the level of countries falling away. Support exists among Participants to extend the Fund
ERPs do not deliver sufficient Emission Reductions	3	4	M	Scrutinise ER-PINs/ER-PDs and reject any that do not look as though the activities described are sufficient	M	Support exists among Participants to extend the Fund. Risk medium due to

				Where a country are offering a relatively low share of its ER, negotiate to purchase more Extend the Fund		untested nature of Fund.
In countries where the cost of producing ER is high, The agreed pricing approach of paying US$5/t CO_2e may make some programmes not financially viable	**4**	**4**	**H**	Scrutinise ER-PIN to advise early where we don't think programmes are suitable for CF funding Giving an early signal has provided REDD+ countries an opportunity to design their programmes to match available funds	**M**	Most countries are bidding around the $5 mark.

F: COMMERCIAL CONSIDERATIONS

Delivery against planned timeframe

The Carbon Fund is behind schedule with five-year MRV periods not expected to start until 2016/7 (originally envisaged for 2015). Recently, however, progress has accelerated. More countries than expected have come forwards with high quality plans, and donors, confident that the Fund is working, are expected to continue to make contributions.

Resource limitations within the World Bank means that progress is sometimes slower than we would ideally like to see, and significant additional input by donor countries is required, for example in reviewing ER-PINs. This reduces the attractiveness of the delivery model. We have and will continue to raise World Bank resourcing levels within the Bank, as well as defining the scope for independent reviews of the ER-PDs to reduce the resource burden on donors.

Due the lack of certainty in the compliance market for ERs more broadly, and the absence of a specific REDD+ carbon market, it has proven difficult to find private sector entities willing to invest financially in the Fund, even from the perspective of corporate social responsibility. The World Bank did not meet its 2014 target of attracting two new private sector investors.

This year CDC novated its share in the Carbon Fund to the French Government.

G: MONITORING & EVALUATION

The FCPF reports to Participants annually. They are published on the FCPF website, alongside independent reviews, and the FCPF M&E Framework.

H: TRANSFORMATIONAL

Transformational KPI Tool

Criteria	As assessed by:	Achieved Score (to date)	Expected score
Fostering political will to act on climate change	Partner governments are acting on climate change, as evidenced by: • Design of national REDD+ strategies, monitoring systems and ER Programs address indicators for enhancement of livelihoods of local communities and for biodiversity conservation. • Review of national strategies, monitoring systems and ER-Program agreements.	2 There has been a higher than expected interest in the FCPF-C. 11 countries so far have submitted ER-PINs, out of which 8 have been approved. A higher score will be achieved if more REDD countries come forward under the FCPF-C or similar funds with ER proposals, and if programme design and implementation is successfully carried out.	4
ICF-supported activities are enhancing local capacities to act on climate change	Evidence from HMG ICF country offices and spending units of one or more of the following: • Enhanced capacity of IPs and CSOs to engage in REDD+ processes at the country level • Number and types of examples of in-country REDD+ actions where IPs CSOs, and local communities participate actively. • Examples of IPs and REDD country-CSO representation in institutional arrangements for REDD+ at the national level. • Participation by IPs and CSOs in capacity building programs (Observers, REDD Countries)	1	4
HMG-supported activities are encouraging innovation and testing new approaches and ideas	Could include: • Increased levels of private sector investment for incentivizing, testing, and supporting up-scale of ER activities. • Take on board feedback from pilots on integration of innovative approaches to benefit sharing in readiness planning and through ER Programs (FMT).	1	3

HMG-supported activities are creating the incentives for others to act on climate change	Could include: • The FCPF contributes to the design of a global regime under or outside UNFCCC that provides incentives for REDD+. • The incentives provided by REDD+ schemes are sufficient. • Selected FCPF countries demonstrate key elements (carbon accounting, programmatic elements and pricing) of performance-based payment systems for emission reductions generated from REDD+ activities with a view to ensuring equitable benefit sharing and promoting future large-scale positive incentives for REDD+.	1	4
HMG-supported activities are being replicated by others	Could include: • Value of co-financing attracted into UK-initiated interventions • Volume of public finance leveraged *[use public finance leverage indicator]* • Volume of private finance leveraged *[use private finance leverage indicator]*	1	4
Activities are likely to be sustained once HMG funding ends.	Could include: • The FCPF has generated momentum to address governance and transparency issues and policy reforms related to sustainable forest resource management and REDD+. • Pilots have been successfully implemented on ways to sustain and enhance livelihoods and conserve biodiversity.	1	3

ANNEX I

FCPF LOGICAL FRAMEWORK

FCPF Logframe
240914.xlsx

ANNEX II

Summary of REDD+ country programme ideas approved into the FCPF-C pipeline

Approved emission reduction programme proposals

Ghana

Forest area: 4.6m ha (77%)[7]

Estimated emission reductions offered to the FCPF-C: 18.4 mtCO_2e (100%)[8]

Estimated cost to the FCPF-C: $92 m[9]

Ghana's REDD+ programme was the first presented to the FCPF-C to focus on production of a globally important agricultural commodity — cocoa — which is responsible for significant emissions in the programme area. Donors welcomed the fact that the programme will establish a multi-institutional, public-private, programmatic REDD+ approach to reducing degradation and deforestation from agricultural expansion. The Ghana Cocoa Board and private sector companies were partners in the proposal.

It was commended that the programme will implement localised landscape-level land use planning and support effective forest law enforcement and benefit sharing using a community-based resource management approach.

DRC

Forest area: 9.8m ha (80%)

Estimated emission reductions offered to the FCPF-C: 10 mtCO_2e (28%)

Estimated cost to the FCPF-C: $50 m

Participants appreciated the high-level political ownership and the personal participation of the Minister of Environment in delivering the proposal, as well as the country's active engagement on REDD+. They emphasised DRC's significant progress on readiness, in particular the advanced status of safeguards and consultations.

The piloting of community forestry activities and co-operation with the private sector was encouraging. The DRC confirmed that the moratorium on new industrial logging concessions will be maintained.

The technical proposal for establishing the reference scenario against which DRC's performance will be judged was challenged and requires further work in the next year to comply with the FCPF-C's Methodological Framework.

Mexico

Forest area: 17.7m ha (100%)

Estimated emission reductions offered to the FCPF-C: 2.4 mtCO_2e (28%)

Estimated cost to the FCPF-C: $12m[10]

Mexico's proposal offered an innovative, participatory and community-based approach. The proposal would generate important lessons from the "ejido" systems of self-governance and

[7] Forest area within the accounting area of the proposed programme and (proportion of national forest area)

[8] Estimated emission reductions that the proposal suggests would be sold to the fund and (proportion of total emission reductions that the programme is estimated to generate)

[9] Based on an assumed $5 / t$CO_2$e average price

[10] Note Mexico have actually indicated a higher funding requirement based on a higher assumed price but for consistency we have recalculated using $5/T

management of natural resources by indigenous communities for other countries who strive to develop strong legal frameworks for community and indigenous peoples' rights.

Mexico has made good progress on REDD+ readiness and the plan is backed by strong political commitment. It was recognised that the Mexico's proposal is clearly aligned with its zero net deforestation goal, its national REDD+ strategy and its climate change law. Other strengths include the integration of multiple levels of government and external stakeholders in design of the programme and the clarity of Mexico's land tenure regime.

However the implied carbon price presented by the proposal was very high, beyond the maximum price that the FCPF-C is has signalled it will offer. Therefore Mexico will need to revise its offer during the next phase of programme design.

Chile

Forest area: 22.4m ha (51%)

Estimated emission reductions offered to the FCPF-C: 5.3 mtCO_2e (70%)

Estimated cost to the FCPF-C: $27m

Chile's program focuses on addressing degradation in temperate forest, as opposed to other countries which emphasise avoiding or reducing deforestation in tropical forests. Thus it adds to the diversity of the FCPF-C portfolio.

Participants recognised the Chilean institutional capacity and experience with NAMA implementation, the nested accreditation approach that will support Voluntary Carbon Standard projects, and the participation of the private sector.

Vietnam

Forest area: 2.3m ha (45%)

Estimated emission reductions offered to the FCPF-C: 10.3 mtCO_2e (50%)

Estimated cost to the FCPF-C: $52m

Vietnam's emission reduction programme proposal was welcomed as one of the strongest received to date, with robust analysis of drivers on which the program builds, integration of existing REDD+ projects into the programme as a solid platform for near-term delivery, collaboration across the Government, and integration with bilateral and multilateral development partners (including UN-REDD) and the private sector.

Republic of Congo

Forest area: 12m ha (97%)

Estimated emission reductions offered to the FCPF-C: 11.7 mtCO_2e (100%)

Estimated cost to the FCPF-C: $59m

Participants noted the clear analytical assessment of the drivers of deforestation, and appreciated the political ownership and ambitious geographical scope of the program. The proposal contained innovative approaches to public-private partnership and the potential to test the use of biochar at a large scale. It also confirmed a new 'forest code' for the RoC that will help to establish a moratorium on new palm oil concessions.

However, like its neighbour DRC, the RoC has substantial work to do in the next year to ensure its reference scenario fits the FCPF-C's Methodological Framework, and ensure the programme is feasible while remaining financially viable.

Nepal

Forest area: 1.8m ha (52%)

Estimated emission reductions offered to the FCPF-C: 14 mtCO_2e (100%)

Estimated cost to the FCPF-C: $70m

Nepal's proposal was highly commended on various aspects including its high level of cross-government ownership, ongoing integration of REDD+ into cross-sector national policies, strong partnership with indigenous peoples and civil society organizations building on an effective DFID programme in the region, strong progress on readiness in recent months, inclusion of social and biodiversity goals and use of Nepal's existing community-based forest management systems to ensure effective and benefit sharing.

Costa Rica

Forest area: tbc

Estimated emission reductions offered to the FCPF-C: 12.5 mtCO_2e (85%)

Estimated cost to the FCPF-C: $62m

Costa Rica's was the first proposal approved into the FCPF-C pipeline. Donor approval reflected a high level of confidence in the proposal and in the Government, highlighting Costa Rica's strong political commitment, long experience with Payment for Environmental Services, stable institutions, clear land tenure controls which will facilitate mitigation activities, multi-sectorial approach and incorporation of the REDD+ approach into the national strategy for a low carbon economy, as well as state-of-the-art technical work (e.g. with respect to MRV).

Smart Guide

The Annual Review is part of a continuous process of review and improvement throughout the programme cycle. At each formal review, the performance and ongoing relevance of the programme are assessed with decisions taken by the spending team as to whether the programme should continue, be reset or stopped.

The Annual Review includes specific, time-bound recommendations for action, consistent with the key findings. These actions – which in the case of poor performance will include improvement measures – are elaborated in further detail in delivery plans. Teams should refer to the Smart Rules quality standards for annual reviews.

The Annual Review assesses and rates outputs using the following rating scale. ARIES and the separate programme scoring calculation sheet will calculate the overall output score taking account of the weightings and individual outputs scores

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

Teams should refer to the considerations below as a guide to completing the annual review template.

Summary Sheet

Complete the summary sheet with highlights of progress, lessons learnt and action on previous recommendations

Introduction and Context

Briefly outline the programme, expected results and contribution to the overall Operational Plan and DFID's international development objectives (including corporate results targets). Where the context supporting the intervention has changed from that outlined in the original programme documents explain what this will mean for UK support

B: Performance and conclusions

Annual Outcome Assessment

Brief assessment of whether we expect to achieve the outcome by the end of the programme

Overall Output Score and Description

Progress against the milestones and results achieved that were expected as at the time of this review.

Key lessons

Any key lessons you and your partners have learned from this programme
Have assumptions changed since design? Would you do differently if re-designing this programme?
How will you and your partners share the lessons learned more widely in your team, across DFID and externally

Key actions

Any further information on actions (not covered in Summary Sheet) including timelines for completion and team member responsible

Has the logframe been updated since the last review? What/if any are the key changes and what does this mean for the programme?

C: Detailed Output Scoring

Output

Set out the Output, Output Score

Score

Enter a rating using the rating scale A++ to C.

Impact Weighting (%)

Enter the %age number which cannot be less than 10%.

The figure here should match the Impact Weight currently shown on the logframe (and which will need to be entered on ARIES as part of loading the Annual Review for approval).

Revised since last Annual Review (Y/N).

Risk Rating

Risk Rating: Low/Medium/High

Enter Low, Medium or High

The Risk Rating here should match the Risk currently shown on the logframe (and which will need to be entered on ARIES as part of loading the Annual Review for approval).

Where the Risk for this Output been revised since the last review (or since inception, if this is the first review) or if the review identifies that it needs revision explain why, referring to section B Risk Assessment

Key points

Summary of response to programme issues raised in previous annual reviews (where relevant)

Recommendations

Repeat above for each Output.

D Value for Money and Financial Performance

Key cost drivers and performance

Consider the specific costs and cost drivers identified in the Business Case

Have there been changes from those identified in previous reviews or at programme approval. If so, why?

VfM performance compared to the original VfM proposition in the business case? Performance against VfM measures and any trigger points that were identified to track through the programme

Assessment of whether the programme continues to represent value for money?

Overall view on whether the programme is good value for money. If not, why, and what actions need to be taken?

Quality of Financial Management

Consider our best estimate of future costs against the current approved budget and forecasting profile

Have narrative and financial reporting requirements been adhered to. Include details of last report

Have auditing requirements been met. Include details of last report

E Risk

Output Risk Rating: L/M/H

Enter Low, Medium or High, taken from the overall Output risk score calculated in ARIES

Overview of Programme Risk

What are the changes to the overall risk environment/ context and why?

Review the key risks that affect the successful delivery of the expected results.

Are there any different or new mitigating actions that will be required to address these risks and whether the existing mitigating actions are directly addressing the identifiable risks?

Any additional checks and controls are required to ensure that UK funds are not lost, for example to fraud or corruption.

Outstanding actions from risk assessment

Describe outstanding actions from Due Diligence/ Fiduciary Risk Assessment/ Programme risk matrix

Describe follow up actions from departmental anti-corruption strategies to which Business Case assumptions and risk tolerances stand

F: Commercial Considerations

Delivery against planned timeframe. Y/N

Compare actual progress against the approved timescales in the Business Case. If timescales are off track provide an explanation including what this means for the cost of the programme and any remedial action.

Performance of partnership

How well are formal partnerships/ contracts working

Are we learning and applying lessons from partner experience

How could DFID be a more effective partner

Asset monitoring and control

Level of confidence in the management of programme assets, including information any monitoring or spot checks

G: Conditionality

Update on Partnership Principles and specific conditions.

For programmes for where it has been decided (when the programme was approved or at the last Annual Review) to use the PPs for management and monitoring, provide details on:

a. Were there any concerns about the four Partnership Principles over the past year, including on human rights?
b. If yes, what were they?
c. Did you notify the government of our concerns?
d. If Yes, what was the government response? Did it take remedial actions? If yes, explain how.
e. If No, was disbursement suspended during the review period? Date suspended (dd/mm/yyyy)
f. What were the consequences?

For <u>all</u> programmes, you should make a judgement on what role, if any, the Partnership Principles should play in the management and monitoring of the programme going forward. This applies even if when the BC was approved for this programme the PPs were not intended to play a role. Your decision may depend on the extent to which the delivery mechanism used by the programme works with the partner government and uses their systems.

H: Monitoring and Evaluation

Evidence and evaluation

Changes in evidence and implications for the programme
Where an evaluation is planned what progress has been made
How is the Theory of Change and the assumptions used in the programme design working out in practice in this programme? Are modifications to the programme design required?
Is there any new evidence available which challenges the programme design or rationale? How does the evidence from the implementation of this programme contribute to the wider evidence base? How is evidence disaggregated by sex and age, and by other variables?

Where an evaluation is planned set out what progress has been made.

Monitoring process throughout the review period.

Direct feedback you have had from stakeholders, including beneficiaries
Monitoring activities throughout review period (field visits, reviews, engagement etc)
The Annual Review process