Business Case

Summary Sheet

Title: Partnerships for Forests: Latin America Platform	
Project Purpose: Supporting the development of commercial deforestation-free supply chain initiatives in Latin America.	
Programme Value: £19.3m	**Country/ Region:** Latin America
Senior Responsible Owner: Pete Betts	
Start Date: August 2017	**End Date:** March 2020

Intervention Summary

Programme Summary

The Department for Business, Energy and Industrial Strategy (BEIS) proposes to provide £19.3m in R-DEL funds from the International Climate Fund (ICF) in financial years 2017-18 to 2019-20 to support a new Latin American platform for the Department for International Development (DFID) funded Partnerships for Forests (P4F) programme.

BEIS would be the only donor to the Latin America platform. DFID funds existing platforms in Southeast Asia, West and Central Africa, and East Africa. The programme will be delivered through an extension to the existing DFID contract with its delivery partner, Palladium International.

P4F supports investment models in which the private sector, public sector and communities can achieve shared value from forests and sustainable land use. It adds value to standing forests by incubating new investments in agroforestry and non-timber forest products, helping local, often indigenous communities and smallholder farmers connect to new markets and scale up production. It can also target commodities driving large-scale deforestation, facilitating multi-stakeholder approaches and solutions which support the implementation of zero-deforestation supply-chain commitments.

The programme provides a mix of grants and technical assistance to project developers (whether groups of smallholders, indigenous communities, entrepreneurs or established companies). The support is used to incubate investments from concept through to commercial viability, addressing a key gap for this sector – the lack of a pipeline of investible projects. The programme can also provide support to strengthen the enabling environment for sustainable investments, for example, through improvements to the regulatory and policy framework; and also supports measures which build greater demand for sustainable, deforestation-free commodities in international markets.

The programme is implemented through outsourced management. The existing Technical Assistance Provider, Palladium, was selected through a competitive tender process. A DECC representative was a member of the selection panel which appointed Palladium in 2015. Interventions which the programme could support are identified by teams based in the regions where the programme operates. These are reviewed against an agreed strategy and criteria, due diligence is undertaken, and final approval of interventions is provided by DFID (in the case of Latin America, this will be BEIS).

We anticipate that the Latin American programme proposed here could support between 12 and 15 initiatives, though the final number will depend on decisions taking during the inception phase, in which the Latin American strategy for the programme will be refined, building on the scoping study undertaken to support this business case. The scoping study identified potential for the programme to have high impact in Brazil, Colombia and Peru, complementing existing forest protection programmes in the ICF portfolio, including those funded by DFID and DEFRA. This geographic focus will be confirmed during the inception phase for the Latin American platform.

BEIS is scoping options to complement this intervention, including: results-based finance for verified emission reductions from avoided deforestation in the Brazilian states of Acre and Mato Grosso; support to Colombia for national-level action for forest protection; and follow-on development capital that could support the commercial scale-up of investments incubated by P4F.

Reasons for the intervention

From 2010 to 2015, reported natural forest area worldwide decreased by 6.5 million hectares per year.[1] Deforestation accounts for between 6% and 12% of annual carbon dioxide emissions.[2] Over the past 25 years the carbon stocks in forest biomass have decreased by almost 11.1 Gt, equivalent to 442 million tonnes per year or about 1.6 Gt of carbon dioxide.

Deforestation also results in the loss of biodiversity, and impairs ecosystem services which are vital for economic development and welfare, such as regulation of the water cycle.

An estimated 1.2bn people depend on forests for subsistence and income.[3] Deforestation undermines these livelihoods, and strikes disproportionately at the world's poorest communities, including indigenous people, the extreme poor and women.[4]

Deforestation is now mostly 'enterprise-driven' rather than 'state-driven'.[5] Private sector entities on all scales play a role through national and international supply-chain links and investment. Market failures underlie the conversion of forests to agricultural uses, particularly the lack of value attached to the social and environmental benefits which forests provide.

Realising the Paris Agreement and the Global Sustainable Development Goals will require a reconciliation of food production and forest conservation, so that future growth is sustainable. P4F works directly on this challenge.

Latin America is an important net exporter of food and agricultural commodities, accounting for 16% of total global food and agriculture exports. Demand for these commodities is forecast to rise strongly, in line with population growth and increasing affluence. The UK has some significant deforestation risk commodity flows from Latin America, importing 67% of soya beans from Brazil.[6]

Latin America is the most advanced tropical forest region in terms of linking supply chain players to the deforestation agenda. Brazil, Peru and Colombia in particular have strong domestic NGOs and an engaged domestic business community. Domestic policy frameworks are also stronger, relative to other developing countries with significant forest resources. With the right support, Latin America could become the first region to realise a transition to sustainable agriculture.

Many progressive companies from the UK and elsewhere are taking steps to mitigate the impact of their own operations on forests. In 2010, the Consumer Goods Forum (CGF) resolved to achieve zero net deforestation by 2020 through the responsible sourcing of soya, palm oil, paper and pulp and beef. The CGF represents some 400 retailers, manufacturers, service providers, and other stakeholders across 70 countries, with combined sales of EUR 3.5 trillion.

Implementing these supply-chain commitments, however, has been difficult, with mixed progress across the key commodities driving deforestation and challenges across all commodity value chains in turning commitments into positive change on the ground. With the 2020 deadline for zero-deforestation corporate commitments fast approaching, there is a significant opportunity to partner with progressive companies, local governments and communities to catalyse supply-chain action.

Proposal

BEIS proposes to support a private sector-focused intervention to help transform agricultural supply chains and build sustainable business models in Latin America. The intervention will form part of a broader strategy of targeted ICF support in Latin America, working across regions and states to incentivise change with results-based payments (jurisdictional approaches), as well as developing new, sustainable business models which support the transition to sustainable growth.

Working with ambitious national or state-level governments, and supporting "top down" approaches through REDD+ results-based finance programmes, P4F's more flexible, "bottom up", business-focussed approach will help address critical gaps in the enabling environment, create replicable, scalable business models to support the implementation of zero-deforestation goals, and maximise the impact of UK investments in the region.

The broader objective of the ICF forest finance portfolio is to provide proof-of-concept for a new land-use paradigm which promotes forest protection alongside sustainable agricultural production, meeting climate and development goals. Both governments and private sector entities have a role to play in achieving this.

This will also make best use of ICF staff resources, as we can focus expertise on select geographies, build strong relationships with regional stakeholders and maximise learning across programmes. This approach will be supported by country-based Foreign and Commonwealth Office (FCO) staff.

Options Appraisal

P4F is a project accelerator for sustainable commodity supply chains which incubates partnerships through to commercial maturity, and also targets in-country enabling conditions and demand side pull from international markets. Through our scoping activity, we failed to identify an alternative delivery mechanism that combines these elements. Most programmes work on either enabling environment or advanced project concepts closer to commercial maturity.

We considered adapting other current or potential Latin America investments in the ICF portfolio to cover the full range of P4F style interventions, as well as setting up a bespoke delivery model.

The criteria used to assess the options included: ability to leverage private finance (25%); transformational potential (15%); fit with ICF forest finance portfolio (15%); BEIS control of funds (5%); speed of deployment (15%); management costs (5%); visibility of UK climate finance (10%) and potential secondary benefits to UK business (10%).

The ability to leverage private finance and to transform commodity supply chains are the key strategic objectives of the intervention, as set out in the strategic case. Such a private sector led (but ICF-catalysed) transformation maximises the use of ICF funding both in the immediate and long-term.

The fit with the rest of the ICF portfolio is important in terms of both the resources required within the ICF to manage our portfolio, and in maximising the effectiveness of our existing and new ICF investments by providing delivery mechanisms for results based payments programmes, avoiding duplication and creating learning opportunities across programmes. Speed of deployment is also important given the urgency of the task – in particular the need to address the recent uptick in deforestation in Brazil and Colombia.

This investment would also support the aims of progressive UK businesses – in particular by helping to create a level playing field for those who wish to ensure their operations are sustainable.

Based on these criteria, P4F and the bespoke model option were both attractive options. The reduced management costs, and speed of deployment offered by P4F by sharing resources with DFID and not having to design and procure a new programme made it more attractive. It is therefore the recommended option.

There is strong potential for UK visibility and greater partnership working through this programme. Former Minister Hurd attended an event in Marrakesh on the P4F-supported Marrakesh Declaration on Responsible Palm Oil, and a further event on cocoa is planned for COP23. Upcoming events such as the HRH-Polman co-hosted meeting on zero-deforestation supply chains, and the TFA General Assembly early next year, also provide suitable platforms. Strong Embassy engagement in Colombia and Brazil, will ensure we leverage opportunities in-country.

As an existing DFID programme, we also assessed that there were efficiency and economy gains from building off an established UK Government platform rather than developing an entirely new BEIS-funded approach. This proposed BEIS extension would also fill a geographical gap in the P4F programme: DFID is not well placed to fund an extension to Latin America (given its focus on LDCs), whereas BEIS already manage a portfolio of projects and investments in this region.

To support BEIS' business case development, DFID agreed to fund a four-month scoping study through the existing P4F contract. Interim findings and options were presented at a stakeholder consultation in April attended by Nick Hurd (then BEIS Minister of State for Climate Change and Industrial Strategy) and key private sector stakeholders, to help shape the second and final phase of the study.

The key subjects that DFID/BEIS asked Palladium to address in the scoping phase included:

- Geographical scoping
- Commodity scoping
- Potential project partnerships; enabling condition initiatives and demand side measures (see below for descriptions of these intervention types)

- Finance requirements; and
- Governance issues

Our analysis of the options for a private sector-focused investment was corroborated by the stakeholder engagement carried out for the scoping study. A stakeholder consultation hosted by BEIS, P4F and DFID in Brasilia in March 2017, on the margins of the Tropical Forests Alliance (TFA2020) General Assembly, identified a wide range of innovative private sector-led investment opportunities which the programme could help to take forward, with no other donors focused on this approach. An online survey also supported this finding, suggesting a clear need for this kind of support, a clear niche in which no other donors are operating, and a strong probability of achieving significant impact from the planned BEIS intervention.

Main programme activities

1. Supporting Partnerships and Investments

The programme's main focus is supporting the development of "forest partnerships". These are partnerships between private sector companies, the public sector, and people—the communities that depend on tropical forests for their livelihoods—that catalyse investment in forests and sustainable land use.

A partnership could at one end of the spectrum, for example, help a community or indigenous people's agroforestry project generate a higher income by expanding its operations, working with local or national government to establish legal frameworks that enable such investments, and by attracting buyers and investors interested in social and environmental as well as financial impacts. At the other end of the spectrum, it could support a large-scale partnership deal between government, smallholders and private sector companies to reforest and restore degraded land to mixed forest that generates benefits for all partners, and also mitigates climate change.

Ideas for such partnerships exist, but often face challenges in reaching commercial scale. For example, this could be due to a lack of: personnel with skills in business development; a network of buyers and customers; access to investment; access to know-how and technology; and accreditation to sustainable or climate certification that provides market credibility.

P4F in Latin America will provide a combination of grants and technical assistance to help selected partnerships overcome such challenges and move from an idea or concept through to a full proposal, to development of a business plan, to running a pilot and finally to achieving commercial scale-up.

P4F will support partnerships at different levels of maturity, from those that are only ideas through to projects that have already been piloted and are looking to scale up. However, all partnerships should have the potential to deliver impact at scale, either through their own operations or through replication of the concept elsewhere.

BEIS, working closely with the programme delivery team, will determine a strategy for the region, building on the findings of the scoping study undertaken to support this business case. The programme delivery team will then work to implement that strategy, identifying potential interventions, screening these against agreed criteria and conducting due diligence. BEIS will be required to approve all programme interventions in the Latin America region before they go ahead. Grant funding and technical assistance will be allocated competitively, and only projects which show good potential to become commercially viable and deliver at scale will be supported. This will help to drive value for money and maximise the programme's impact.

The Latin America strategy and portfolio will be built out of the scoping study undertaken to support this business case. Potential partnership and investment opportunities identified through that work include:

- **Sustainable cattle production in Matto Grosso:** Cattle ranching is the main driver of deforestation in the state. The state government's Produce, Conserve and Include (PCI) Strategy aims to rehabilitate 2.5m hectares of degraded pasture expand production on degraded land by 3m ha and increase sustainable forest management to 6m ha. A P4F Partnership could provide technical assistance and grant funding to demonstrate the value and potential of restoration in small to medium farms, with improved pastures,

increased productivity, better animal welfare and greater product quality through a package of better nutrition, husbandry and health. A viable business model could then be scaled-up through broader implementation of the PCI strategy.

- **Sustainable food value chains in Amazonas:** Amazonas established a State Policy on Climate Change (PEMC) and the State System for Protected Areas (SEUC) in 2007, which feed into the state's Deforestation Prevention and Control Plan (PPCDAM) which contains goals to reduce deforestation while creating new economic alternatives. A P4F partnership could support this policy goal, providing grant funding and technical assistance to resuscitate wild fishery management within the Amazon River floodplain. This could provide alternatives to current domestic demands for beef, reducing deforestation pressures and creating additional incentives to conserve forest, thorough value created in the fishery.

Further examples of potential programme interventions are set out in the scoping report undertaken to support this business case (Annex B). Examples of partnership and investment interventions currently supported by the programme in three regions where it is currently operating are also presented in Annex C.

2. Enabling conditions

Work on enabling conditions focuses on unblocking barriers that hinder investments into forests and sustainable land use. For example, these might be burdensome government regulations, lack of technical capacity within an industry, or access to credit. Enabling conditions work might include supporting and sharing research on investment models; facilitating industry groups to provide knowledge or support; or convening multi-stakeholder groups to identify new strategies for supporting Forest Partnerships.

An example of enabling conditions work identified in the scoping study that P4F could support include:

- **Developing a policy framework for zero deforestation palm oil in Colombia:** Palm oil production is a rapidly growing industry in Colombia and is positioned to become a key deforestation driver in coming years. A P4F partnership could engage with the relevant governmental bodies and provide technical assistance for the development of policies and regulations around sustainable production of palm oil that would also respect and align with Colombia's commitment to zero-net deforestation in the Amazon by 2020. It could draw on experience from similar initiatives supported by P4F in West and Central Africa and Southeast Asia (Indonesia). Support would focus on applying the Roundtable on Sustainable Palm Oil's (RSPO) extra-strict sustainability stamp, known as 'RSPO Next', in the emerging Colombia sector; developing extensions services and other means of delivering support, especially for smaller producers, to reach the standards required for sustainable certification; and collaboration with municipalities to align certification schemes and sustainable production within municipal land use planning to provide additional incentives for deforestation-free palm oil.

3. Demand-side measures

Demand-side measures will help to create deeper and more valuable markets for sustainable commodities and support the implementation of existing corporate supply chain commitments, where relatively slow progress is being made in implementation. Examples of demand-side measures identified in the scoping study that P4F could support include:

- Supporting NGOs and indigenous peoples in the Amazon to identify indigenous products and non-timber forest products that can be branded and sold nationally and internationally to create value. Innovative ways in which the programme could support this include initiatives to market river fish amongst restaurateurs and high-end food retailers in the region's metropolitan centres, working with high-profile and influential chefs to develop value chains for these commodities and helping to raise their profile amongst domestic and international consumers.
- Supporting a UK initiative for a sustainable domestic soya market, building on the ground-breaking initiative for a sustainable UK palm oil market led by Defra through to 2016. This would involve collaborating with traders, processors, users and retailers, with support focused on pre-competitive convening and analysis to inform planning, political engagement, monitoring and reporting.

4. Leadership, Collaboration and Learning

Demonstration and replication is an important feature of the programme, and significant effort is invested in leadership, collaboration and learning. Examples of interventions in support of this output identified in scoping include:

- **Collaboration with the Tropical Forest Alliance (TFA):** The TFA is a key platform for collaboration and learning. It is a public-private initiative focused on realising private sector commitments to removing deforestation from supply chains for palm oil, soya, beef and paper & board. The TFA now has over 100 members, including companies operating throughout the supply chains for the target commodities, producer country governments and NGOs working in support of this objective. The TFA's Latin American regional committee and appointed coordinator work with partners in the region. P4F could collaborate with the TFA in Latin America, working together to organise and host learning events, on strategic initiatives, and ensuring lessons from potential programme interventions, such as those described above on sustainable cattle and palm oil, are disseminated to alliance partners.

Expected Outcomes

Expected outcomes in regions where the programme is operating currently stand at 1.7m hectares of forest brought under improved management (against a target of 1m ha) and leveraged private investment of £606m (against a target of £150m) by 2020.

The projected outcome for area under improved management breaks down to 177,000ha for West and Central Africa, 827,000ha for East Africa and 625,000ha for Southeast Asia. The projected outcome for leveraged private investment breaks down to £45m for West and Central Africa, £171m for East Africa and £387m for Southeast Asia.

These are modelled and probability-weighted outcomes, so will change over time as the portfolio develops, as understanding of the factors which influence success become better understood, and as actual results are recorded.

Despite these uncertainties, they provide a useful indication of the outcomes to be expected in Latin America. Generally, as noted above, capacity and opportunity to have impact at scale is generally greater in Latin America than in other programme regions. The region has stronger institutions, more established local and regional capital markets, and a track record of success in some regions of decoupling deforestation from agricultural expansion and economic growth. Impact on the scale expected in the three current regions should thus be expected, with potential to considerably exceed impacts in other programme regions.

Transformational change across jurisdictions and supply chains will take longer to emerge. However, when the political conditions are right , things can change quickly, as evidenced by the history of the soy moratorium in the Brazilian Amazon, which according to researchers, changed the rate of forest-to-soy conversion from 9.4 percent to 3.9 percent in the years after 2006.[7] The advantage of P4F is that it can operate fast and flexibly to respond to emerging political conditions, supply chain developments, NGO campaigns and other relevant events.

Governance

After two years of successful programme delivery we have the advantage of extending a tried and tested programme. DFID will continue to be the lead donor and contractual partner with Palladium. BEIS will lead programme strategy and operations in Latin America.

DFID and BEIS will establish a joint programme management team to liaise on matters relating to the overall programme strategy. A Memorandum of Understanding (MoU) between BEIS and DFID will set out how the Departments will co-manage the programme. This will include details on:

- governance, including how strategic decisions are made and issues resolved;
- financial arrangements;
- reporting, including annual reviews; and

- management of communication and reputational issues.

DFID is supportive of the extension to the programme, which was a possibility envisaged under the original business case, invitation to tender and management contract.

A £19.3m investment from BEIS represents a roughly one-third increase in the value of the DFID-held contract and would match the funding amounts of the existing programme regions. Should BEIS funding be approved, the contract extension would require sign-off by Cabinet Office and a DfID minister, in line with current practice for all contract extensions. DFID's Procurement and Commercial Department have established the P4F management contract in a way that allows for an extension, and this was also reflected in the original Terms of Reference and contract negotiation. The legal grounds for the contract extension have therefore been established, and subsequent steps will focus on ensuring there is a strong value-for-money case to proceed.

Delivery Partners

Following a competitive tender which included the scope to extend the project to Latin America, DFID contracted Palladium in partnership with McKinsey & Company to manage the technical assistance and grant-making facility. The Latin America platform will be managed under the same contract. Palladium is a global consulting firm with more than 50 years of experience in designing and delivering international development projects and programmes in Africa, Asia and the Americas. McKinsey is a global management consulting firm that serves leading businesses, governments and non-governmental organisations. Palladium and McKinsey are supported by Efeca, The Nature Conservancy, Forest Trends and Daemeter, which are Tier 2 partners in the consortium. These Tier 2 partners offer specialist expertise to support specific aspects of the programme.

We are confident that the consortium has the requisite expertise to manage the Latin America platform efficiently and effectively.

Geographic Focus

The scoping study for the Latin America platform focussed on opportunities in three countries: Brazil, Colombia and Peru, and found that these offered good potential for accelerating project ideas to commercial viability and being early exemplars of supply chain transformation. These countries have strong political commitments to address deforestation, institutional and technical capacity, an enabling environment and a track record of achieving results. As they are all in the Amazon region, there are good opportunities to find synergies and replication opportunities across the programme area.

The programme can build upon and leverage relationships from existing ICF-funded forest protection programmes in these countries. While we would not recommend expanding the programme to Mexico in this phase, this could be scoped in any future plans to scale up/extend the P4F programme, which we and DFID would aim to consider in the next 18 months, subject to strong performance of the programme in this phase.

There is generally good public support for using ICF to to stop deforestation in the Amazon. Tropical forests tend to be the poorest areas of a country, and include some of the poorest, marginalised communities. While some potential programme interventions on soya or beef supply-chains in a relatively wealthy state like Mato Grosso would have less direct impact on these communities, they have strong mitigation potential. Opportunities in Acre or Amazonia to support forest-friendly products, by contrast, are likely to have strong livelihood impacts. We recommend P4F's strategy for Latin America ensures it develops a balanced portfolio that delivers strong outcomes for both mitigation and livelihood objectives.

Another important consideration is that Brazil is the most important country in global action to address deforestation, based on the size of emissions and its remaining forest carbon stock. Brazil's efforts in curbing forest loss have been world-leading, but the current domestic political and fiscal situation has created challenges, and there has been an increase in deforestation in some areas. Supporting private sector and non-state action offers an effective route to influence positive change at this time. P4F screens all potential partnership initiatives for additionality, to ensure it is not replacing private sector investment.

Commodity Focus

An initial analysis of the commodities that the programme could focus on tackling was carried out as part of the scoping study. (For further details see the Strategic Case). The programme could tackle the major industrialised commodities such as cattle, soy and palm oil, particularly through enabling condition and demand side interventions (because of the size of these industries, and their relative ease in accessing capital, compared with the funding available for forest partnerships). It is also able to support new commercial opportunities for forest-friendly commodities such as cocoa, coffee, forest fruits and fish. These elements will be scoped in the inception phase of the programme.

Major risks

As with any intervention designed to address deforestation, P4F must address the potential for leakage and the risk of impermanance of the results. We must also consider the risk that supporting agricultural intensification will mean deforestation is simply delayed as agricultural activity proves more profitable, but the incentive to deforest is not removed. Given the scale and complexity of the challenge and the existing financial incentives for deforestation, achieving widespread transformational change will be extremely tough, and we must ensure resources are not spread too thinly across geographies and commodities. Working to support viable business models, and securing the investment required to bring these to fruitition, is a key means of mitigating risks associated with sustainability, impermance and transformational change.

Reducing leakage is part of long-term transformation and there is little choice but to tackle the problem region by region and country by country. Leakage will be partially managed through working to encourage a broad-based transformation of supply chains or nesting support for partnerships within state-level sustainable development plans and related results-based payments. By working with projects with the potential to be scaled up and replicated, and by pursuing complementary changes to local enabling conditions and creating demand side drivers, the programme is targeting sustained, transformational change. It will be important for the programme to include interventions that support the creation of value in the standing forest, effective land use planning and regulations to discourage deforestation.

We will focus primarily on geographies where BEIS is or may invest in REDD+ results based payments programmes at a jurisdictional level. We will also try to build a portfolio by focusing on complementary actions across the three intervention types which target the same geographies and/or commodities. We will target interventions where local capacity and will for change is high and where follow-on investment capital is available from the private sector, other ICF interventions, other donors and domestic programmes. We will also scope the potential for a dedicated follow-on development capital facility over the next year. We will work closely with interested supply chain players and we will work through a trusted programme manager through an existing effective programme. These measures will maximise the chances for transformational change.

There are management risks around investing in an existing DFID programme. Agreeing an MOU to clarify expectations around resources and working relationships will provide some mitigation. We also recommend BEIS Minister Claire Perry write to her DFID counterpart as part of any approval process.

Strategic Case

The International Climate Fund (ICF) and forests

In 2015 the UK committed to provide 'at least' £5.8bn of climate finance to developing countries in 2016-2021. Forests and land use are a key focus of the ICF. The UK programmes approximately 20% of its climate finance to stop deforestation and strengthen the management of forests in developing countries. At COP21 in Paris, the UK, together with Germany and Norway, publicly pledged to deliver $5bn of forest finance between 2015 and 2020 to support ambitious action to halt deforestation, subject to credible programmes being developed.

All three ICF Departments (BEIS, DFID and Defra) have programmes focussed on this sector. The ICF forest portfolio of interventions together have the broad strategic aim of providing proof-of-concept for a new land-use paradigm which promotes forest protection alongside sustainable agricultural production, meeting climate and development goals. Further information on the ICF and X-Whitehall Porfolio Approach is provided at Annex A.

BEIS' forest investments to date have focussed on incentivising large-scale action to reduce emissions from deforestation through an approach agreed by the United Nations Framework Convention on Climate Change (UNFCCC). REDD+, as it is known, encourages countries to put in place forest monitoring systems, develop national or sub-national plans, build technical and institutional capacity, consult stakeholders and establish a baseline for forest emissions against which reductions (results) can be financially rewarded.

A review of BEIS' ICF and forest finance strategy was conducted over 2016-17, based on an analysis of the evidence to date, surveys and in-country visits and consultations with key stakeholders. A Ministerial steer on the forest finance strategy will be sought in August 2017. Our recommendation is that BEIS:

- focusses on ambitious, committed partners with the greatest chance of quick results, to inspire further ambition by 2020;
- incentivises action from the "top-down" (particularly through market-based approaches at a national or sub-national scale) and "bottom-up" (working with multiple stakeholders on the ground to promote sustainable production and trade of key agricultural commodities);
- support the private sector overcome the barriers to implementing zero-deforestation supply chains by 2020 and align with policy objectives to reduce the UK's "forest footprint".

This approach is in line with BEIS' ICF strategy; taking a more country-focused approach and strengthening engagement with key partners.

The importance of protecting tropical forests

These investments in protecting forests deliver substantial climate, development and biodiversity benefits. An estimated 1.2bn people depend on forests for subsistence and income.[8] They are home to around 80% of terrestrial biodiversity, a complex ecosystem of plants, animals, fungi and bacteria.[9] Forests regulate the climate, carbon and water cycles and protect soils and watersheds – vital for local as well as global agricultural production. More than three-quarters of the world's accessible freshwater originates from forested catchments.[10]

Despite these important benefits, the world's forests continue to be lost due to population growth and conversion to agriculture and other uses. Some 129 million hectares of forest - an area almost equivalent to South Africa - have been lost since 1990.[11] Most of this forest loss is happening in the tropics, particularly South America, Africa and parts of South East Asia.

Timber, palm oil, soy, beef, and pulp and paper production are now the principle drivers of deforestation.[12] Competition for land will increase significantly in the coming decades. It is estimated that global agricultural production will need to increase by 60% to feed an estimated nine billion people by 2050.[13] New models for production and protection will be needed if we are to meet food security and forest protection goals in parallel.

The importance of protecting and restoring forests, managing forests sustainably, restoring degraded lands and ending biodiversity loss is recognised in the 2030 Sustainable Development Goals.[14] Deforestation undermines the livelihoods of those dependent on forests for food, fuel and fibre, striking disproportionately at the world's poorest communities, including indigenous people and the extreme poor.[15]

Women in forest-dependent communities are primary users of forest resources and are particularly affected by deforestation. According to the World Bank, women in forest communities derive 50% of their income from forests, whereas men derive only a third.[16] Women often lack equal rights to land ownership and other resources, and have no legal rights to compensation when deforestation takes place.[17]

Over the past 25 years the carbon stocks in forest biomass have decreased by almost 11.1 Gt, equivalent to 442 million tonnes per year or about 1.6 Gt of carbon dioxide.[18] Deforestation currently accounts for between 6-12% of annual carbon dioxide emissions.[19]

Forests in the Amazon and Central America also positively contribute to the global climate though non-carbon dioxide related mechanisms that reduce temperature and drying, maintaining rainfall across huge distances and thousands of kilometres from where these forests stand.[20]

Meeting the Paris Agreement's long-term goal of balancing carbon emissions and removals in the second half of the century will require significant action from the forests and land-use sector: effectively halting deforestation alongside large-scale forest restoration.

A focus on Latin America

Deforestation

Latin America contains 40% of the world's intact forest[21] but these are threatened by some of the world's highest rates of deforestation. Recent World Bank data reveals that Latin America and the Caribbean saw the biggest total decrease in forest area globally between 1990 and 2015, losing 970,000 square kilometres, while over the past 12 years 38 million hectares in the Amazon Basin have been deforested, at rate that is more than three times the global average.[22]

Agricultural expansion to feed growing global and domestic markets, primarily of soya and beef but also other commodities such as oil palm, coffee and cocoa, is the primary driver of deforestation in the region, with mining and infrastructure development also playing a significant role.

Deforestation is now mostly 'enterprise-driven' rather than 'state-driven'.[23] Private sector entities on all scales, including multinational corporations, national companies, small and medium enterprises, cooperatives and smallholder farmers, play a role in this process of change, connected together through supply-chain links and national and international trade. A small number of commodities concentrated in a few countries accounts for a significant proportion of deforestation, including soya and cattle in Latin America.

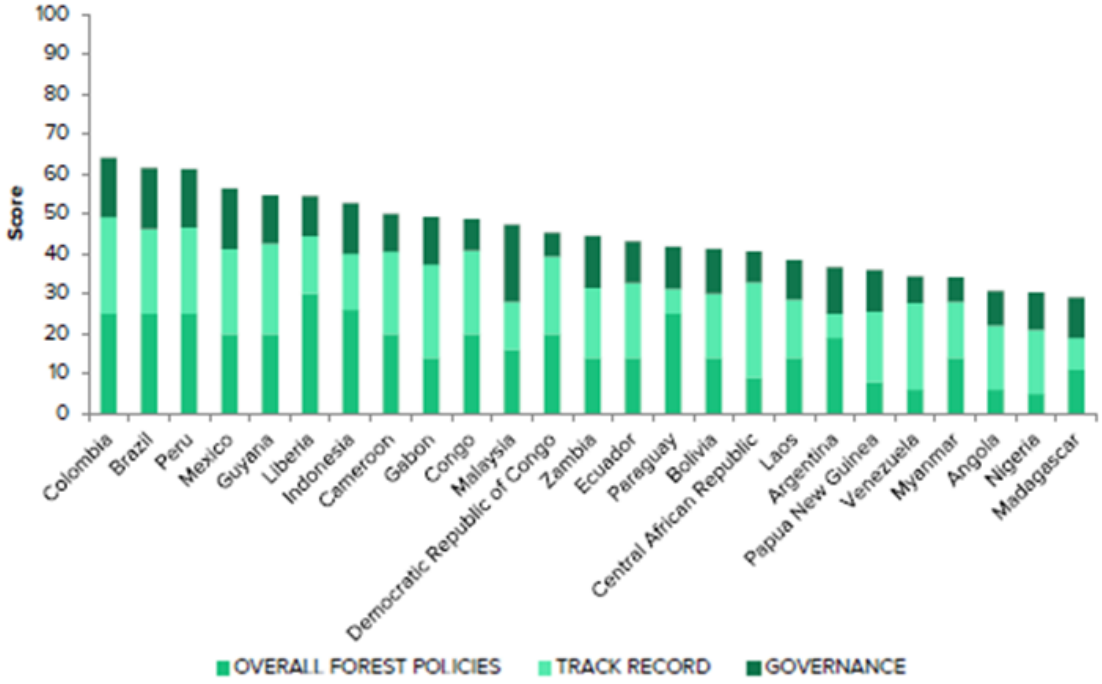
The type of agriculture driving change also varies across states, regions and countries. In Brazil, the cattle and soya industries have been the major drivers of deforestation in the Amazon. Despite industry-wide moratoriums that were put in place in the mid-2000s and the enhanced monitoring and enforcement efforts by the federal and municipal governments, strong domestic and Chinese demand for beef and soya have reduced incentives and have displaced deforestation to other regions and countries. Similarly, in Colombia, the end of the civil conflict and subsequent expansion of agriculture and livestock in the frontier regions of the Amazon continue to drive deforestation in the country. In Peru, the threat has traditionally come largely from small scale agriculture and from illegal mining, though the establishment of large scale commercial plantations of commodities such as oil palm is on the rise.

Deforestation trends in these three countries are complicated by conflicts over tenure rights, an economic recession, and a lack of coordination between private sector, governments, farmers and consumers. There are fears that the rate of deforestation will continue to increase in vulnerable areas where there are few incentives for sustainable agriculture and livestock practices.

Opportunities for impact in the Latin America region
This context presents challenges, but there are also many opportunities to drive positive change. This includes stronger institutions and capacity; leadership in innovative 'jurisdictional scale' sustainable development programmes; and an established track record of decoupling economic growth and agricultural expansion from deforestation; and the potential to leverage existing relationships held by the UK in the region.

Stronger institutions and capacity
Compared to other important tropical forest regions, Latin American countries have stronger institutions and greater technical capacity to curb deforestation, compared with other tropical forest regions. For example, a 2015 study[24] (see Figure 1 below) assessing forest countries' progress towards zero-deforestation based on overall policies and strategies in place to address deforestation, track record and governance, ranked Colombia, Brazil, Peru and Mexico as the highest-scoring in terms of "readiness" to produce results.

Figure 1: *Global Canopy Programme "Forest 500 2015 Jurisdictions report"*



Jurisdictional approaches
The region has also been at the forefront in the emergence of innovative jurisdictionally-led approaches to forest protection and agricultural productivity. Examples of this type of approach include Mato Grosso's Produce, Conserve, Include (PCI) Strategy, and Colombia's Amazon 2020 Vision, which aims to halt deforestation in the country's Amazon region by 2020.

Broadly speaking, jurisdictional approaches are defined as interventions undertaken within a specific geographical area following administrative or policy-relevant boundaries. A key feature of this approach is government leadership. Though the entry point for a jurisdictional approach may be focused on a single commodity, full jurisdictional sustainability requires cross-commodity application and consideration of both protection and production. These initiatives favour an integrated approach that brings together multiple stakeholders from across agricultural, political, economic and environmental sectors. Achieving sustainability requires active participation from all actors within a jurisdiction.
Jurisdictional approaches offer several advantages such as:

- Providing a framework for alignment of activities and goals within a defined landscape or jurisdiction;
- Bringing additional governmental support for responsible production and 'levelling the field';
- Allowing certification to go to scale and facilitating traceability for buyers; and
- Making production more inclusive of small producers.

Such jurisdicational approaches have in many cases been successful in attracting offers of REDD+ results-based finance, with jurisdictional REDD+ programmes in operation in the Colombian Amazon (REM), Orinoquia

(BioCarbon Fund), Acre (REM), and Peru (Germany-Norway Letter of Intent), with a REM programme in Mato Grosso being scoped.

Existing jurisdictional and policy initiatives in Brazil, Colombia and Peru provide an opportunity to align projects with public sector sustainable development goals and projects.

Track record of success

The national government in Brazil, as well as other state-level governments, have successfully implemented many innovative programmes to reduce deforestation. Brazil's results were achieved by intensifying and relocating beef and soy production and enforcing stringent environmental standards for these industries.[25] Illegal deforestation became riskier with expansion of protected areas, improved law enforcement, fines and embargos and with market exclusion through the beef and soy 'moratoria'. In just seven years, emissions from tropical deforestation in the Brazilian Amazon declined by 75%, a total of 2.6 billion tonnes of CO_2 (below a 1995-2005 average).

The Brazilian state of Acre decoupled deforestation from development, reducing deforestation by 60% in 2010 compared to a 1996-2005 baseline, while increasing its real GDP by 62% since 2002. This was achieved through a range of incentive programmes focused on sustainable forest management, zero-deforestation agriculture and support for indigenous peoples.

Colombia also has a track record of successful interventions. Measures which the Colombian Government have used include: placing 53% of its Amazon region under legal ownership of indigenous forest-dependent peoples; increasing protected areas; strengthening the programme to address illicit crops production at the deforestation frontier; establishing a deforestation monitoring, reporting and verification system (MRV) and a deforestation baseline for the Amazon region; and using this MRV system to provide early warning deforestation alerts to local authorities to promote more effective deforestation control.

In the Colombian Amazon, where the REDD Early Movers programme operates, emissions from deforestation were reduced by 30%, and while there are new challenges following demobilisation of the FARC, the Amazon region appears to be less effected.

Peru is also making positive progress. Even though Peru's annual deforestation rate is low compared to other of Latin American countries, it is preparing to bring net deforestation to zero by 2021. It has a comprehensive set of national-level strategies, guidelines and instruments in place to achieve the structural changes necessary. Peru's 'Geo-Forests' programme, part of the National Forestry and Wildlife Information System, comprehensively assesses deforestation and forest degradation.

Leveraging existing UK relationships

Colombia is a key partner for the UK, including on climate change and REDD+. The relationship is supported by regular ministerial meetings, and exchanges between officials. In a Joint Declaration of Intent between Germany, Norway, UK (GNU) and Colombia, announced at COP21 in December 2015, the UK committed to support Colombia to implement its national targets related to reducing deforestation and promoting forest restoration, as well achieving zero-deforestation in the Colombian Amazon by 2020, and to strive to end loss of natural forests by 2030.

Brazil is an important bilateral partner for the UK, with a series of high-level dialogues covering security, foreign policy, economic issues, defence and energy. Defra has a number of existing programmes operating in Brazil to support low carbon agriculture and farmer compliance with the Forest Code. The Embassy is strongly supportive of increased ICF support to Brazil, particularly in the areas of forest protection and green finance.

The relationship between BEIS and Peru is less well developed, but would have potential to develop around a national commitment to preserve 54 million ha of forest and to achieve 'net zero' deforestation by 2021.[26]

The need for continued support and engagement

Despite deforestation rates in the Amazon falling 82% in the past decade, it has increased 16% in 2015 and 29% in 2016, the highest recorded in the last eight years, indicating that more needs to be done to foster sustainable agriculture, enforce environmental law and stop illegal logging. Brazil is facing a deep recession, resulting in cuts to the budgets of key institutions responsible for controlling deforestation. The Ministry of Environment alone had its budget cut by 43%.

The view of the British Embassy in Brasilia is that forest finance from BEIS at this time could provide crucial support to boost a vibrant and legal forest economy to support the policy response and enforcement of existing laws. Engaging with national and state-level governments on the ground will be essential for the successful implementation of the project in Brazil.

In Colombia, continued partnership is needed to secure the peace process, through investments in sustainable, climate-resilient growth in remote regions neglected during Colombia's 50-year armed conflict. Bringing greater prosperity to remote rural regions is essential to securing a lasting peace, and is key to post-conflict recovery.

Agricultural supply chains

Agricultural expansion to feed growing global and domestic markets, primarily of soya and beef, but also other commodities such as oil palm, coffee and cocoa, is the primary driver of deforestation in Latin America. This has been marked by two key trends: the growth in large-scale monocultures and cattle ranches established by national and international commercial agricultural firms, and the gradual encroachment into the forest frontier by small- to medium-sized farms covering a range of commodities, often with low productivity.

Table 1 - Drivers of deforestation in Brazil, Colombia & Peru[27]

	Main driver of deforestation	Other drivers (in no particular order)			
Brazil	Cattle (livestock)	Soya	Hydropower	Industrial Logging	Transport
Colombia	Cattle (livestock)	Palm oil	Subsistence farming	Industrial Logging	Mining
Peru	Banana, coffee, cocoa	Palm oil	Industrial Logging	Mining	

Demand Side Influence

Latin America is notable amongst tropical producer regions for the size and importance of its domestic markets. For example, 80% of beef production in Brazil and over 80% of palm oil and cocoa production in Colombia are consumed by domestic markets. Currently, knowledge and demand for sustainable commodities is limited in home markets, creating little market pressure to adapt farming practices.

However, the overall size of production in these countries means that international markets still retain influence. Latin America is an important net exporter of food and agricultural commodities, accounting for 16% of total global food and agriculture exports and 4% of total food and agriculture imports. Exports include 60% of the world's soybean exports, 44% of beef exports and 33% of maize exports. Brazil is the world's largest exporter of soybeans and third largest exporter of beef. Soya and cattle in Latin America in particular account for a significant portion of deforestation.[28]

Demand for these commodities is forecast to rise strongly, in line with population growth and increasing wealth. For high value products such as coffee and cocoa, increasing demand for speciality varieties within the European and American markets is also providing extra incentive to improve production methods.[29]

The UK has some significant deforestation risk commodity flows from Latin America, for example it imports 67% of its soy beans and 20% of its coffee from Brazil and 10% of its coffee from Colombia. As Colombia, Brazil and Peru continue to build export markets, more could be done to help improve the sustainability of their produce.

Transformational opportunities through supply chains

A transformational opportunity exists, as an increasing number of companies set out public commitments to remove deforestation from supply chains associated with deforestation. Consumer-facing companies were the first to adopt 'zero deforestation' policies, spurring other companies in supply chains, particularly traders and growers, to commit to similar standards. In aggregate these commitments – which have yet to be realised in practice – offer an opportunity to shift markets and establish new norms for these industries.

These commitments, and the associated vision for change, are set out in the New York Declaration on Forests (2015), a statement of intent made by governments, companies, NGOs and indigenous peoples. In aggregate these commitments offer a transformational opportunity which will ensure investments in these commodities provide sustainable jobs and livelihoods, respect human and community rights, and prevent further deforestation.

Realising these commitments in practice will be highly challenging, requiring unprecedented cooperation between developing country governments, civil society and companies throughout agri-commodity supply chains (retailers, manufacturers, traders, processors, producers and smallholder farmers).

The Tropical Forest Alliance (TFA) has been formed to mobilise this cooperation. The alliance is a public-private initiative, hosted by the World Economic Forum and focused on realising private sector commitments to eliminate deforestation from supply chains for palm oil, beef, soya and paper. Over 100 organisations are now members of the alliance, including companies operating throughout the commodity supply chains, producer governments, NGOs and donors.

In the Latin America region, the key commodities within the scope of these supply chain commitments are soya and beef, with the TFA (and other initiatives) contributing to a growing sense of momentum. This represents an unprecedented opportunity for an intervention designed to support the transformation of norms and practices in these industries.

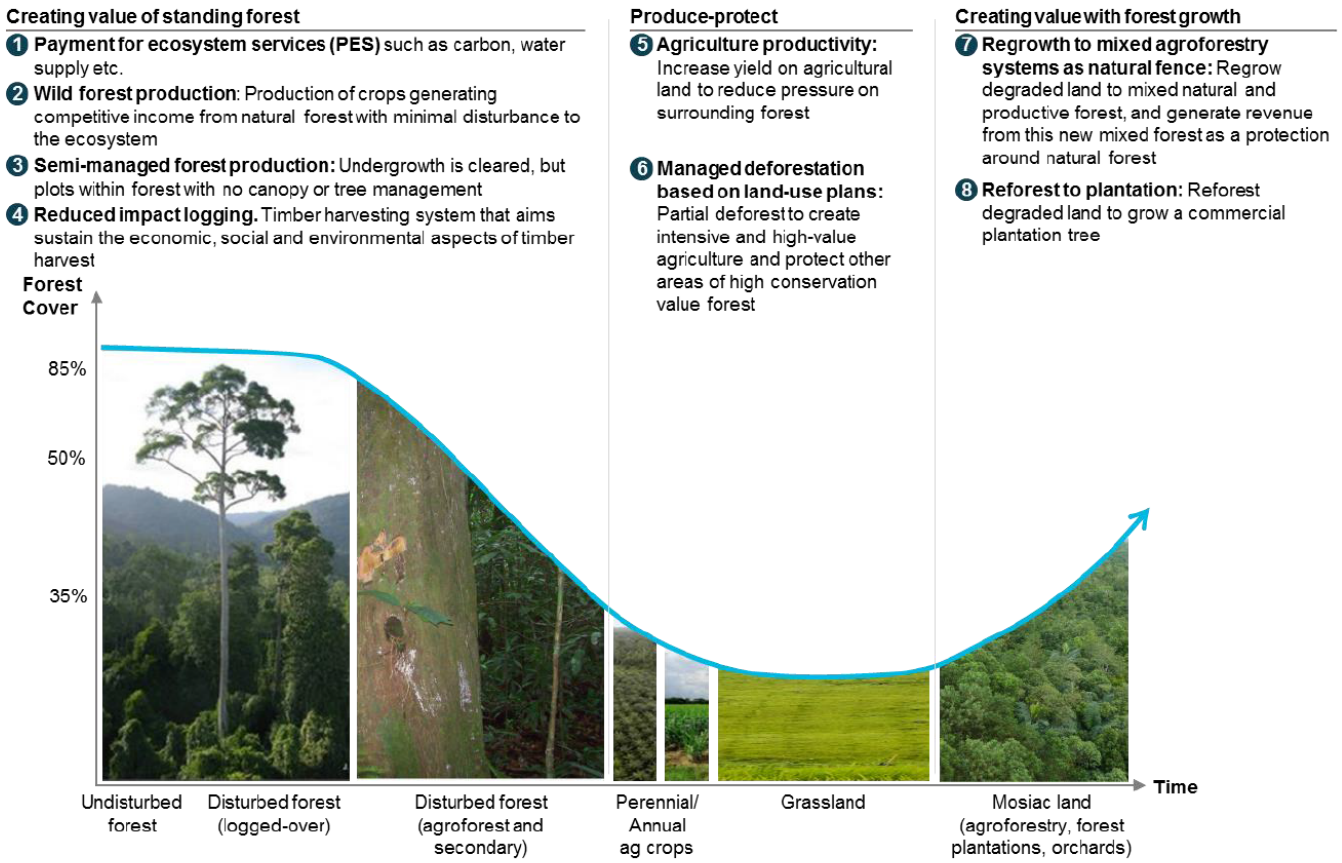
Market and governance failures

1. Market failures

The primary market failure affecting forests is the lack of value attached to the many social and environmental benefits which they provide, making it more economically rewarding to degrade or cut down trees than to keep forests intact. The lack of value attached distorts markets, affecting purchasing decisions and the allocation of capital. Timber and agricultural commodities produced in ways that cause deforestation cost less than they would if the full value of external costs was incorporated in the price.[30] Demand for these products in turn provides an incentive for further unsustainable investment and further deforestation.

To change this paradigm, incentives for environmentally, economically and socially sustainable forests need to be stronger than those for deforestation. Investment opportunities for sustainable forests that match or outperform alternative land use options either in terms of their risk return profile or security of supply are required. Figure 2 (below) outlines eight possible types of intervention that achieve this purpose.

Figure 2: The Forest Transition Curve: & archetypes of interventions



2. Governance failures

Weak governance makes it difficult to correct market failures that encourage deforestation at source.[31] In many forest nations, bureaucratic capacity, judicial oversight, market regulation and democratic accountability are weak, and patronage is used to generate political and financial support.[32 33] Forest resources and related revenues are often central to such patronage systems.[34] Governments in forest nations thus often have weak incentives to protect forests, and nurture the public goods and services which they provide.

Weak incentives to protect forests are compounded by conflicting legal and customary provisions relating to tenure, rights and land use.[35 36 37 38] Large tracts of forest are claimed by governments, but are used by local communities according to customary traditions. Conflicting claims on forest resources, as well as a lack of government capacity to adequately oversee forests under nominal state control, creates uncertainty. The lack of clear and legitimate property rights mean that forests are regarded as an open access resource, where users have the incentive to over-consume. This discourages management with a long-term perspective.

3. Barriers to investment

Where opportunities do exist for the sustainable management of forests and sustainable agriculture, investments can be held back by limited access to the finance required to develop projects, reflecting the duration, financing needs and risk profile of many investments of this nature.
Such investments require significant upfront preparation and financing, and take a long time to reach maturity and generate return. This increases the costs and risks associated with financing. [39 40 41] Forests and forest land are often not accepted as collateral because of uncertain tenure.[42] In practice, these barriers mean that finance is rarely available at an affordable price.

Smallholder farmers and community forest enterprises face additional barriers. Banks may be wholly unwilling to lend to these types of clients due to perceptions of risk, while smallholders and community forest enterprises may be unwilling to take on debt to invest in sustainable production methods, and have little knowledge of how banking institutions work.[43 44 45]

Opportunities for intervention

Tackling the identified drivers of deforestation, and the underlying market and governance failures and barriers, will require an approach that works with both private and public entities to mitigate the impact of agricultural investments on forests, and brings value to sustainably managed forests and the many public benefits which they provide.

The opportunities to address this challenge at scale are present in Latin America, through the region's stronger institutions and capacity; leadership in innovative 'jurisdictional scale' sustainable development programmes; established track record of decoupling economic growth and agricultural expansion from deforestation; and strong private sector commitments to the sustainable production and sourcing of commodities which have an impact on forests in the region, particularly soya and beef.

The scope of the programme reflects this, and proposes interventions across:

- Finance for partnerships and investments.
- Enabling conditions to support reforms in partner developing countries to facilitate greater private investment in forests and sustainable land use.
- Demand-side measures to support the extension of public and private commitments to source sustainable timber and agricultural commodities.
- Leadership, collaboration and learning.

The scoping report undertaken to support this business case (Annex B) describes how these interventions can catalyse and accelerate the opportunity for impact in Latin America, through providing finance to develop partnerships and investments; improving the policy and regulatory environment for sustainable investments; mobilising the power of the market to build demand for sustainable commodities; and supporting learning, scaling up and replication.

Key opportunities are identified around working within existing jurisdictional initiatives to align projects with public sector sustainable development goals and projects; and developing a balanced portfolio of partnerships, nested within existing jurisdictional initiatives. Partnership opportunities cut across agroforestry and non-timber forest products that are found in highly forested areas and which bring added value to standing forests; and larger commercial commodities such as beef and soy that are driving deforestation due to increasing demand and low productivity practices. The scoping indicates that existing partnerships and projects in Latin America appear to be at a further stage of commercial readiness than in other regions.

The TFA Global Agenda[46] also sets out the key opportunities around supply chain transformation. The analysis identifies 34 national and sub-national jurisdictions which are responsible for 41% of the global supply of soya, 34% of palm oil, and 11% of cattle production in tropical forest countries. Working in these jurisdictions has the potential to provide the scale needed to systematically address deforestation and align sustainability and development goals. Large-scale approaches with political support create a platform for public-private partnerships and enable private sector commodity commitments to operate in tandem with complementary governmental interventions. A key intervention required to realise this opportunity is finance to develop, catalyse and nurture the partnerships between the public and private sectors, and to mobilise private capital around sustainable production.

Why P4F?

What are the identified needs?

An opportunity exists to work in partnership with a group of Latin American countries, with established policy commitments to reduce deforestation, and jurisdictional (state, or regional) programmes aimed at supporting green growth; and to align private sector investment in support of those efforts, through supporting the implementation of commitments to produce and source commodities sustainably, without causing deforestation. This opportunity has the potential to realise significant reductions in deforestation rates and associated greenhouse gas emissions, as well as supporting sustainable development in poor and marginalised regions of these countries.

The investment required to realise this opportunity comprises grant funding and technical assistance, targeted explicitly at the development of partnerships with the private sector, which catalyse investment in forests and sustainable agriculture. The grant funding and technical assistance needs to be delivered in a flexible, adaptive and timely fashion, in order to facilitate effective cooperation with private sector entities. No other donor is providing this type of support in the Latin America region.

What is the proposed delivery route?
The appraisal case recommends working through P4F. This is an operational UK-funded programme, which was established in 2015 to provide grant and technical assistance to support the development of partnerships with the private sector and catalyse investment in forests and sustainable land use. The programme is currently operating in West and Central Africa, East Africa and Southeast Asia. Operations in these regions are funded by DFID. Operations in Latin America were also envisaged in the original programme business case (which was developed jointly by DFID, DECC and Defra), but operations in that region have not yet commenced.

The intervention will form part of a broader portfolio of ICF support in Latin America, working across regions and states to incentivise change with results-based payments (jurisdictional approaches), as well as developing new, sustainable business models which support the transition to sustainable growth. This 'top-down' (jurisdictional) and 'bottom-up' (business-focused) strategy will help to maximise the impact of UK investments in the region.

What is the programme going to do to tackle the problem?
P4F works to facilitate the development of partnerships between the private sector, public sector and communities that generate the same, or better, returns from forests and sustainable land use as from unsustainable practices.

The programme is implemented by an outsourced manager, appointed through a competitive tender concluded in 2015. The tender was won by Palladium, working in partnership with McKinsey & Company. Palladium and McKinsey are supported by Efeca, The Nature Conservancy, Forest Trends and Daemeter, which are Tier 2 partners in the consortium, offering specialist expertise to support specific aspects of the programme.

Palladium and McKinsey have established a technical assistance facility which provides grant funding and technical assistance to support public-private partnerships which secure responsible investment in forests and sustainable land use.

Under the existing programme, regional offices (hubs) have been established in Accra, covering West and Central Africa; Addis Ababa, covering East Africa; and Jakarta, covering Southeast Asia (primarily Indonesia). The hubs are responsible for identifying and developing potential partnerships. Under the proposed extension a fourth hub would be established in Latin America with the capacity to support programme operations in the region, particularly Colombia, Brazil and Peru. The team would also develop a regional strategy and pipeline of potential public-private partnerships for support in the priority countries, in consultation with BEIS.

Following the establishment of the strategy and pipeline, the team would deliver the programme using established programme guidelines and operating systems, grant management systems, monitoring and evaluation systems, due diligence and risk management procedures, and other operating guidelines developed during the implementation of the programme in other regions. The programme will provide grant and technical assistance to:

- Develop partnerships and investments.
- Improve enabling conditions for investment to facilitate greater private investment in forests and sustainable land use.
- Accelerate demand-side measures, which deepen markets for sustainable commodities.
- Support leadership, collaboration and learning, to facilitate replication and scaling-up of programme interventions.

Most of the programme resources will be invested in creating market-ready partnerships and investments, as this is the unique niche and opportunity which the programme is intended to address. Grant and technical assistance

will be provided to create partnerships and investments that offer an attractive balance of risks and returns for all partners, with the potential to mobilise significant investment, principally from the private sector.

Some funding will also be invested to create an improved enabling environment for sustainable investments, supporting reforms, regulatory changes, improvements to certification schemes and other interventions which make it easier to invest in sustainable business models; and to deepen markets for sustainable commodities.

Why do we think this model succeed?
The experience of implementing this programme in the three existing regions has highlighted strong demand for the type of support it provides, which has a unique focus on mobilising the private sector and a unique offer of flexible grant finance and technical assistance. This offer is helping to catalyse action at a time when companies have committed to ambitious sustainable supply chain targets; and governments have committed to ambitious sustainable development plans. Support to help turn these commitments into positive change on the ground is urgently needed and well-received.

The scoping study undertaken to support this business case also identifies strong demand and high potential for the programme in the region. Key opportunities are identified around working within existing jurisdictional initiatives to align projects with public sector sustainable development goals and projects, alongside a strong preliminary pipeline of partnerships and investments. The scoping study also indicates that existing partnerships and projects in Latin America appear to be at a further stage of commercial readiness than in other regions.

The Theory of Change

A programme theory of change has been developed drawing on evidence from other programmes which have worked successfully to change private sector incentives and behaviours. The theory of change considers how the private sector is increasingly influential in land use change and how the scale of deforestation is such that public funds and public action alone will be insufficient to stop it. It draws on a range of evidence to propose how private sector incentives and practices can be aligned to support sustainable land use. The theory of change is adapted to reflect learning within the programme and in relation to pathways to achieve greater impact, such as through scaling-up and replication of programme interventions. A simplified theory of change diagram is presented in Figure 3 and the logical framework for the existing programme is at http://iati.dfid.gov.uk/iati_documents/5590257.xlsx

The P4F ToC is being reviewed by DFID and Palladium annually to ensure it remains valid. The first review workshop in May 2017 was facilitated by the programme's independent evaluation consortium led by LTS International; the core elements of the current P4F ToC were explored and draft region-level and commodity specific ToCs were also. It was agreed that the P4F ToC would benefit from further refinement.

DFID, Palladium and LTS International are to continue this work as part of the independent evaluation's inception. BEIS should look to engage fully in this work to ensure that overall changes reflect BEIS interests and factor into the development of Latin America specific ToC products.

Figure 3: P4F Theory of Change

Expected Outcomes and Impact

The programme is currently on track to exceed targets in regions where it is currently operational. Expected outcomes currently stand at 1.7m hectares of forest brought under improved management (against a target of 1m ha) and leveraged private investment of £606m (against a target of £150m) by 2020.

The projected outcome for area under improved management breaks down to 177,000ha for West and Central Africa, 827,000ha for East Africa and 625,000ha for Southeast Asia. The projected outcome for leveraged private investment breaks down to £45m for West and Central Africa, £171m for East Africa and £387m for Southeast Asia.

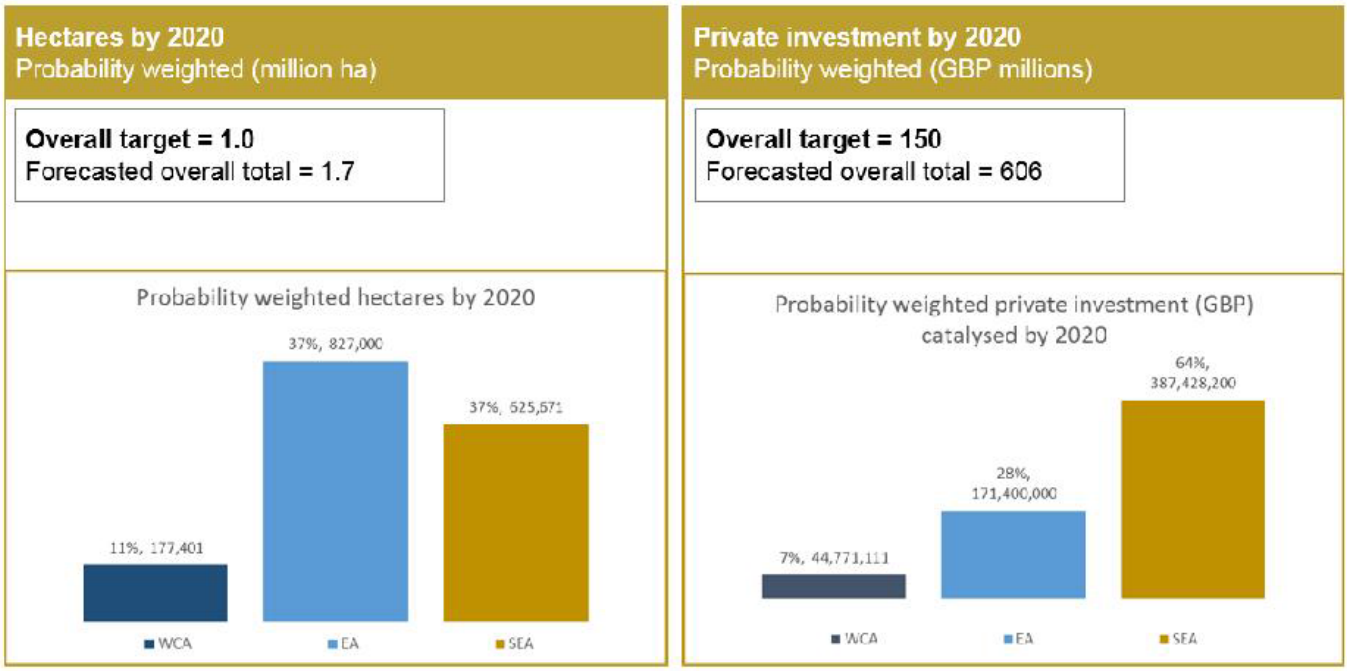
These are modelled and probability-weighted outcomes, so will change over time as the portfolio develops, as understanding of the factors which influence success become better understood, and as actual results are recorded.

Despite these uncertainties, they provide a useful indication of the outcomes to be expected in Latin America. Generally, as noted above, capacity and opportunity to have impact at scale is generally greater in Latin America than in other programme regions. The region has stronger institutions, more established local and regional capital markets, and a track record of success in some regions of decoupling deforestation from agricultural expansion and economic growth. Impact on the scale expected in the three current regions should thus be expected, with potential to considerably exceed impacts in other programme regions.

Transformational change across jurisdictions and supply chains will take longer to emerge. However, when the political conditions are right, things can change quickly, as evidenced by the history of the soy moratorium in the Brazilian Amazon, which according to researchers, changed the rate of forest-to-soy conversion from 9.4 percent

to 3.9 percent in the years after 2006.[47] The advantage of P4F is that it can operate fast and flexibly to respond to emerging political conditions, supply chain developments, NGO campaigns and other relevant events.

Figure 4: Latest results projections for current P4F programme by region



How will the contribution reduce social and gender inequality?

Social assessment

The programme has the potential to provide significant social and gender benefits. Secure tenure and enterprise support can make community forest management a source of new sustainable income for its members, enabling them to capture more of the value-added from forest products.[48]

Improved tenure and income security should reduce vulnerability for participants. Grants for community-forestry projects could result in benefits for both the environment and poverty reduction. Support for SMEs and commercial forestry could generate sustainable jobs in rural areas. Investment in smallholder agriculture could help to improve productivity, reduce poverty, and strengthen the position of smallholders in supply chains.

However, there are also a number of risks associated with programme interventions. Formalising land rights can exclude poorer groups, including women. Benefits from interventions could be unevenly distributed, and there is a risk of capture by elite groups.

There is also a risk of limited livelihood and poverty reduction associated with large-scale commercial forestry, risks that land acquisition could impact upon indigenous rights and cultural resources, and risks that small-scale producers are unable to engage in supply chains and comply with new standards.

Gender assessment

Women's access to land could be negatively affected by the project. Women often have limited entitlement to land ownership rights and lack the resources and awareness to negotiate and utilise access rights to common land for food gathering and livelihood generation.[49] Interventions must consider the gender dimensions of land and resource tenure. There is also a risk of unequal distribution of project benefits between genders.

Ignoring gender differences and failing to ensure women's participation in forest use and management could also lead to less effective interventions and outcomes.[50] There is a growing body of evidence demonstrating that women's participation in forest management improves governance, resource allocation and sustainability.[51]

Owning assets such as land or trees also strengthens the position of women in households and communities and provides them with incentives to sustainably manage their resources.[52] Realising this potential will require gender-responsive interventions which recognise women as primary users of forests with valuable knowledge and experience.[53] This can be achieved through promoting equal access of women to land ownership and other resources essential for effective socioeconomic participation in forest management, such as land, capital, technical assistance, technology, tools, equipment and markets.[54] Specific opportunities have been identified around:

- **Afforestation**: Case studies from around the world show how women have helped support afforestation whilst improving livelihoods.[55]
- **Securing ecosystem benefits**: Women's knowledge can add value to community forestry activities, providing benefits for sustainable management and enhancing forest carbon stocks.[56]
- **Improving long term sustainability**: Mainstreaming gender into interventions can improve efficiency, efficacy and long term sustainability. Women are forest managers, stewards and agents of change and these roles should be leveraged throughout the programme.[57]
- **Innovation**: Case studies show that women are often innovators who develop or adapt new agroforestry technologies.[58]

Addressing social and gender risks

To address these risks and exploit the opportunities, a Gender and Social Inclusion Strategy has been developed under the existing programme to integrate social and gender issues across programme activities, including overarching principles, assessment criteria for partnerships, and identification of opportunities for specific support to improve social and gender impacts. This will be applied to the Latin America platform while taking account of local contexts.

P4F applies risk assessment tools at various check points as projects are developed, approved and implemented. The lead organisation is held accountable via a clause in the grant agreement to ensure robust due diligence is conducted on all project partners. The assessment process has proven successful in flagging key risks from degradation of forests to labour issues, to modern slavery, to human rights violations, to land rights etc.

Regional teams are receiving specific training on the gender strategy. The P4F programme will also undertake an annual gender and social inclusion health check to monitor the implementation of the strategy. P4F will only select, support and develop business ideas and investment propositions that result in sustainable forests and land use. These will be assessed by using selection criteria including "Gender and social inclusion". Steps will also be taken to ensure that gender disaggregated data is collected where possible, to document how the programme is delivering a gender sensitive and progressive approach for women and girls.

Summary of key risks

Risk	Likelihood	Impact	Mitigation
Portfolio of interventions does not lead to transformational change in some or all targeted geographies and supply chains.	High	High	We will target interventions where local capacity and will for change is high and where follow on development capital is available from other ICF interventions, other donors, domestic programmes and the private sector. We will work closely with interested supply chain players and we will work through a trusted programme manager through an existing effective programme. We will also revise the programme's existing ToC so that it fully incorporates and addresses assumptions determining the delivery of transformational change.
Programme delivers few results before decisions need to be taken on possible extension.	High	Medium	We will set realistic expectations and targets for the Latin America programme. We will continue to draw on lessons learned from the other programme regions in assessing the programme's potential in Latin America.
Changes effected are unsustained.	Medium	High	By working with projects with potential to scale up and be replicated, and by pursuing complementary changes to local enabling conditions and creating demand side drivers, the programme is targeting sustained, transformational change. By working in regions where BEIS is investing in results based payment programmes, this potential source of funding should help make programmes more bankable and help create long-term change.
Programme interventions shift deforestation to other geographies.	Medium	High	Leakage is a risk with all investments in climate change mitigation and reducing deforestation. Reducing leakage is part of a long-term transformation and there is little choice but to tackle the problem jurisdiction by jurisdiction. The risk will be partially managed by encouraging a broad-based transformation of supply chains through P4F's enabling conditions work at jurisdictional level and by nesting support for partnerships within state-level sustainable development plans and related results-based payments.
Follow on development capital is not provided either as a separate ICF intervention or through other routes	Medium	High	We will mitigate this risk by scoping the options for a separate ICF development capital investment and will prepare a business case in due course.
Gaps in some elements of the programme render other elements of the programme ineffective or less effective.	Medium	High	We will mitigate this risk by identifying potential deliverable measures by engaging with stakeholders during the scoping exercise and focus on complementary actions across the three intervention types which target the same geographies and/or commodities.
Supporting agricultural intensification creates more funds for producers to reinvest leading to expansion of activities and further deforestation pressure.	Medium	High	Careful monitoring will ensure that this does not occur. Interventions will be nested within state-level sustainable development plans; support will be given to increase the value of standing forests alongside funding to improve agriculture.
Fragmentation of interventions and a lack of coherence in the portfolio lead to limited impact at programme level.	Medium	High	With no guarantee about which Forest Partnerships will reach commercial viability, and which governments and industries will show willingness to engage in this agenda, this risk cannot be completely expunged. However, we will mitigate the risk by focusing primarily on geographies where BEIS is or may invest in REDD+ results based payments programmes at a jurisdictional level. We will also try to build a portfolio by focusing on complementary actions across the three intervention types which target the same geographies and/or commodities.
DFID pulls funding from Partnerships for Forests	Low	High	Mitigation options would be limited here as this risk would only likely materialise through a political decision. BEIS would have to cease funding and consider contracting Palladium directly. This would involve a pause in delivery on the ground of around 3 months and may involve extra costs of funding hub operations and general reporting.
BEIS and DFID hold different visions for the programme, leading to unclear guidance to managing agent.	Low	High	BEIS and DFID will agree clear strategies, policies and a governance structure backed up by a memorandum of understanding.
Reputational issues arise in other P4F regions arise, impacting negatively on Latin America programme.	Low	High	P4F implements stringent due diligence procedures and an active risk review and management process. BEIS and DFID will collaborate to produce a proactive communication strategy and procedures for reactive responses.
Economic downturn in focus countries or change in political conditions reduces incentives for promotion of sustainable practices at national level.	Medium	Medium	Strategy will focus on building political dialogue with partner governments and sub-national leaders to support proactive regulatory reform, building on existing BEIS relationships. We have limited ability to mitigate this risk other than by working in a diverse range of jurisdictions. There are, however, likely to be political changes in Colombia and the state of Acre during the lifetime of the programme.
Private sector investments are oversubsidised by the programme.	Low	Medium	Additionality through public funding will be considered as part of due diligence. An additionality framework developed to support decision-making in existing geographies will be applied in Latin America to mitigate this.
Additionality of P4F programme low in crowded donor space.	Low	Medium	We have engaged extensively with the Latin American forest protection/supply chain stakeholder community through the Tropical Forest Alliance 2020 General Assembly and a follow up survey in part to identify where donors are already supporting similar programmes and platforms and where BEIS could add value. Again this will inform our final approach on those geographies and commodities to work with. But our scoping work indicates that a strong pipeline of opportunities exists.
Resurgence of conflict in programme areas restricts access for implementation.	Medium	Low	P4F has comprehensive procedures for political risk review and management. Flexibility in programme set-up will allow support to be redirected between focus countries should serious conflict re-emerge in Colombia.
Fraud and / or corruption affects programme, reducing ability of programme to deliver outputs effectively and causing reputational damage to programme and wider ICF.	Medium	High	The rigorous financial management procedures in the current P4F programme will be replicated for the Latin America platform. These procedures prevent fraud, waste and abuse as well as maximise levels of efficiency for P4F activities.See pages 43 and 44 for further details.

Appraisal Case

Assessment of options

As discussed below in the value for money analysis, the original IFSLU business case considered different delivery options for the programme. While the business case did consider Latin America alongside the existing programme geographies, and P4F offered a strong option for taking forward the intervention, we thought it important to also assess alternative options through our scoping activity.

Programme Options

Through our scoping activity, we failed to identify an alternative delivery mechanism that currently plays an equivalent role as a project accelerator for sustainable commodity supply chains. P4F uniquely combines this role with support to create in-country enabling conditions and to drive demand side pull from international markets.

Most programmes work with more advanced project concepts closer to commercial maturity. We therefore also considered adapting other current or potential Latin America investments in the ICF portfolio to cover the full range of P4F style interventions, as well as setting up a bespoke delivery model. The full range of options considered was as follows:

1. Do nothing
2. Extension of P4F to Latin America
3. Co-invest in Defra-funded eco.business Fund[59]
4. Set up bespoke delivery vehicle
5. Investment through federal government led funds – Amazon Fund[60] and Colombia Sostenible[61]
6. Extension of private sector activities under the BioCarbon Fund[62]

1. Do nothing

This would involve no specific additional ICF investment in Latin America to tackle commodity driven deforestation. There would be some limited potential to apply demand side measures for the current P4F programme to Latin America and to maximise the private sector partnering activities of the BioCarbon Fund Programme in the Orinoquia region of Colombia and the Silvo-Pastoral Systems cattle intensification programme in Colombia. We would not expect to see an equivalent programme or investment to that proposed appear either from other parts of the international donor community, domestic governments or supply chain players. This was corroborated by feedback we received during the scoping activities in Brazil at the TFA2020 General Assembly and subsequently.

2. Extension of P4F to Latin America (recommended)

As discussed in the strategic case, this would be an extension of the current DFID funded programme to Latin America. The advantages include working with a proven model and a trusted delivery partner. Further benefits and disbenefits are discussed below as part of the multi-criteria analysis.

3. eco.business Fund

This would involve investing alongside Defra and other donors in the Finance in Motion run eco.business Fund, and supporting this work with targeted UK government led initiatives on enabling conditions and demand-side measures. The Fund is designed to support biodiversity conservation and the sustainable use of natural resources. Structured as a public-private partnership (PPP) with a diversified risk-return profile, the Fund invests in agriculture and agri-processing; fishery and aquaculture; forestry; and tourism projects while also providing technical assistance to these projects. While similar to P4F, it invests in more commercially mature projects, has a different strategic focus (biodiversity conservation) and in itself lacks the enabling conditions and demand side measures elements of the P4F programme.

4. Bespoke delivery vehicle

As mentioned above, there are few programmes working holistically across the supply and demand ends of commodity chains. There are obvious advantages to replicating the P4F model, though this could also be done in

combination with the follow on development capital recommended in the original Investments in Forests and Sustainable Land Use (IFSLU) business case[63], which preceded the creation of the P4F programme. However, management costs would be higher and it would take longer to start operating than if we extended P4F.

5. Investment through federal government led funds - Amazon Fund and Colombia Sostenible

The proposal here would be to provide an investment earmarked specifically for creating sustainable supply chain projects through the Brazilian Amazon Fund and/or Colombia Sostenible. This might be difficult to negotiate given host governments' preference for control of funding. We would likely have less ability to control individual investment decisions. We would also be limited in the geographies the programme could work in. There would also be less visibility for the UK as a development assistance provider, though we are likely to generate substantial political capital with the countries involved through such a direct investment. Both federal funds could play a role in supporting P4F forest partnerships once they are closer to commercial maturity.

6. Extension of private sector activities under the BioCarbon Fund

This option would involve building on the current activities within BioCarbon Fund Initiative For Sustainable Forest Landscapes (ISFL) programme managed by the World Bank, in which both BEIS and Defra have existing investments. We could provide additional funding to expand management and technical assistance capacity and for provision of grants for the Fund's private sector engagement work.

The BioCarbon Fund is already well-placed to create the right enabling conditions for forest partnerships, but would need to be complemented by UK government-led work on demand side measures. Private sector engagement is an explicit defining characteristic of the ISFL that sets it apart from other major REDD+ results-based finance funds. This engagement can take several forms, from collaborating on sustainability approaches, to blending finance in-country, to convening stakeholders to work toward complementary goals.

However, as identified in the most recent BEIS Annual Review, progress on private sector engagement in the BioCarbon Fund has been slow. Only one partnership – with Nespresso in Ethiopia – has been developed, and concrete commitment of private sector support in other programmes is still lacking. Another disadvantage is that currently the only part of Latin America that the ISFL is working in is the Orinoquia region of Colombia. Again the ISFL could play a role in supporting P4F forest partnerships once they are closer to commercial maturity.

Multi-criteria analysis

The options above were appraised against several criteria. These various criteria have been allocated percentage weightings in Table 2 below. Each programme has been marked red, amber or green against each criteria and 0, 50 or 100 points allocated respectively, before the weightings are applied. The total scores for each programme are in the penultimate row, with a position ranking in the final row. The Do Nothing option is assessed as green where it would not create a problem against the criteria assessed and red where there is an opportunity cost.

Chosen criteria

The ability to leverage private finance and to transform commodity supply chains are the key strategic objectives of the intervention, as set out in the strategic case. Such a private sector led (but ICF-catalysed) transformation maximises the use of ICF funding both in the immediate and long-term.

The fit with the rest of the ICF portfolio is important in terms of both the resources required within the ICF to manage our portfolio, and in maximising the effectiveness of our existing and new ICF investments by providing delivery mechanisms for results based payments programmes, avoiding duplication and creating learning opportunities across programmes.

Speed of deployment is also important given the urgency of the task – in particular the need to address the recent uptick in deforestation in Brazil and Colombia.

These are the highest weighted criteria.

Part of the new BEIS ICF Strategy is that where possible in our interventions, we achieve greater visibility for UK climate finance and as a secondary benefit support the aims of progressive UK businesses – in particular by helping to create a level playing field for those who wish to ensure their operations are sustainable.

Management costs and BEIS control of funds are important but do not vary to significant degrees given the ability to put additional controls in place. Consequently, these are less highly weighted.

Table 2 - Analysis of multi-criteria with other factors being equal – avoided CO_2 emissions; avoided hectares of deforestation; funding deployed.

G=100, A=50, R=0	Weighting	Do Nothing	P4F	Eco.business Fund	Bespoke Model	Federal Programmes	BioCarbon Fund
Ability to leverage private finance	25%						
Transformational potential	15%						
Fit with ICF forest finance portfolio	15%						
BEIS control of funds	5%						
Speed of deployment	15%						
Management costs	5%						
Visibility of UK climate finance	10%						
Potential for UK business secondary benefits	10%						
Score		25	95	75	80	40	65
Ranking		6	1	3	2	5	4

Reasons for ratings

This assessment is based on HMG's experience in investing in P4F, the eco.business Fund, and the BioCarbon Fund, as well as our scoping discussions with the Governments of Brazil and Colombia and existing donors to, and recipients from, the Amazon Fund and Colombia Sostenible.

1. Private Finance Leveraging

P4F and the eco.business fund are designed to leverage private finance. P4F has a target to leverage £150m by 2020 from its current ~ £56m investment and current projections suggest it will reach £500m. Our assumption is that a bespoke model would be similarly designed. So each of these options are scored green. While the BioCarbon Fund also has an element of private finance leveraging specifically built in, as mentioned above, it has struggled with this aspect so far.

2. Transformational Potential

The provision of follow on development capital will be key to achieving wide-scale transformation, as will the ability to bring forward a significant pipeline of supply chain projects, and the ability to support projects with work on enabling conditions and demand side measures. While the eco.business Fund can bring projects forward, it does not work on the other supporting elements. The federal programmes are focused more on providing grants to projects which are ready to operate, than nurturing new project concepts. As noted, while the BioCarbon Fund is designed to bring together the private and public sector to achieve results it has so far only

worked with large scale projects which are ready to operate, and would require a change of tack to work as a project accelerator. Doing so would give the programme a very wide remit, and evidence so far suggests that widening the remit would not be helpful to ensuring strong delivery of the existing programme. A bespoke model could score over other options if development capital were also part of the design. However, we are separately scoping options for a development capital fund that would meet that need.

3. Fit with ICF Forest Portfolio

In developing the BEIS forest finance strategy we identified a gap for a P4F-style project accelerator to help kick-start the investments needed to support the successful implementation of existing jurisdictional REDD+ results based programmes. With only UK donors, P4F and a bespoke model could be tailored to fit well with the rest of the forest finance portfolio, while the BioCarbon Fund receives an existing UK investment.

4. Visibility of UK finance

Again with UK only donors P4F and a bespoke model could garner better visibility of UK finance, than multi-donor funds such as the eco.business Fund, BioCarbon Fund and the federal programmes.

5. Potential for UK business secondary benefits

Simliarly, with the UK as the only donor, a secondary benefit would be that P4F and a bespoke model could be more easily tailored to align with the relative strengths of progressive UK businesses.

6. BEIS control of funds

By funding through DFID, or through multi-donor funds we would face certain constraints in deciding programme strategy and investment criteria and in some case have a less direct financial management relationship with the supplier. The federal programmes in particular are likely to reserve programming decisions to the fund managers. A bespoke BEIS-only delivery model would not have these disadvantages.

7. Management Costs and Speed of Deployment

Conversely, because of their hands-off nature the federal programmes would require less ICF resource to manage and money could be given over quickly upon approval of a business case. P4F, the BioCarbon Fund and the eco.business Fund score over the bespoke model through the advantages of building on existing programmes, sharing management costs, and quicker deployment. Though for all options other than P4F and a bespoke model, the UK government would have to put in greater resources to the creation of demand side measures, and for the eco.business Fund, enabling conditions.

Summary

Overall, there is little to choose between P4F and the bespoke model option but the reduced management costs, and speed of deployment offered by P4F by sharing resources with DFID and not having to design and procure a new programme made it more attractive. It is therefore the recommended option.

Assessment from the IFSLU Business Case

The original Investments in Forests and Sustainable Land Use (IFSLU) business case[64] which preceded the creation of the P4F programme, considered the opportunities for investing in Latin America as well as the current programme geographies. That business case was published in December 2014. We have no strong reason to believe that the findings of the IFSLU appraisal case do not remain valid as circumstances in the forests and land use sectors have not changed significantly. The most noticeable difference is the recent uptick in deforestation in Brazil and Colombia which make the need for an intervention more pressing. However, in developing this business case we have also drawn on any relevant experience from the delivery of the programme in the existing geographies and the results of the scoping study.

The IFSLU business case identified a set of interventions with the potential to influence private sector incentives and tested these through a comprehensive analysis of **effectiveness** (proof of overall concept)**, efficiency**

(identifying the best means to implement the programme) and **economy** (to ensure the inputs are at the required quality for the lowest price).

Following an initial review of options[65], an external team was appointed to support design of the programme, comprising an economist, private sector, social and governance advisers. Studies were commissioned in Brazil, Cameroon, the DRC, Ethiopia, Indonesia, Mexico and Tanzania to inform this work. Discussions were also held with representatives from governments, donors, companies, NGOs and research organisations.

Value for Money analysis

Value for money for the programme is considered in relation to the three E's: Economy, Efficiency and Effectiveness.

Economy (This section considers economy, particularly how to purchase inputs at the best quality and price.)

For the IFSLU business case, different ways to provide the required inputs were identified drawing on an assessment of private sector approaches to development undertaken for DFID by Lions Head Global Partners[66]:

- Commercial fund
- Private equity fund
- Developmental fund
- Impact fund
- Challenge fund
- Grant fund
- Technical assistance facility

These options were then assessed using a simplified multi-criteria analysis. The appraisal concluded that both an impact fund and a technical assistance facility would offer the best routes through which to provide the inputs to manage the programme. This reflects the fact that inputs which need to be provided to make the programme a success comprise both grant funding and capital funding, as neither alone can address the needs and opportunities identified in the strategic case. The full assessment of this option is included in Annex D.

This conclusion was corroborated by experience with other private sector programmes which DFID manages. For example, both the Climate Public Private Partnership (CP3) Platform[67] and the Private Infrastructure Development Group (PIDG)[68] work with a combination of grant and capital funding.

DFID has yet to establish a separate development capital fund. As mentioned above, it is a strong possibility that any development capital facility that DFID sets up for the other geographies will not operate in Latin America. BEIS will scope out potential funding routes for this element later this year. This could include, for example, a distinct capital development fund (such as the newly launched AndGreen Fund), the private sector element of the BioCarbon Fund in Orinoquia, or government led forest finance programmes such as the Amazon Fund or Colombia Sostenible. This will help ensure that the impact of the technical assistance is maximised.

The potential weaknesses of a technical assistance facility is lack of ability to engage effectively with private sector actors, to offer products and services of interest – for example debt or equity support, and to identify potential for financial returns. P4F has addressed this concern by engaging McKinsey & Co, with its strong business advisory experience, as part of the management team.

The other weakness identified was the potential to provide quality inputs at an acceptable administrative cost. By piggybacking on the back of the existing P4F programme BEIS is confident that this approach will provide significant economies compared to alternative approaches. It should be noted that administration fees are bound up in the fees for delivery of technical assistance milestones. They are not clearly disaggregated as during the procurement process bidders were asked to state the price at which they could deliver the technical assistance services alongside the distribution of grants.

Efficiency (This section refers to how well inputs are converted into outputs)

The appraisal for the IFSLU Business Case also concluded that there was no straightforward solution to implementing the programme and that there was a strong rationale for establishing programme management arrangements that were specifically tailored to the needs of the programme, through outsourcing management. We have no strong reason to believe that this rationale will not continue to hold for implementing the project in Latin America. If anything, it is likely that the experience built up from the current programme, are likely to increase the attractiveness of this outsourced option.

The full assessment of this option is included in Annex E. The only weakness identified was that this option would require a significant investment of management time to establish and oversee. By building on the existing system, and sharing resources with DFID (as detailed in the management case) BEIS will both avoid this weakness and potentially help support DFID's management of the core programme.

There are a number of features of the P4F approach that have the potential to produce efficiencies, including using the effective processes of the existing delivery partner, the competitive allocation of projects, the assessment of additionality, and the focus on leveraging private finance.

The extension to Latin America will allow P4F to take advantage of the structured approach to programme management which has been established, under which high potential partnerships receive support to develop and pilot innovative business models, working towards commercial investment at scale. Rigorous evaluation at a series of staged decision gates will ensure that only partnerships with the potential to reach commercial viability and deliver significant development benefits will be supported by the programme over the medium-term. Robust financial management and due diligence systems will also support efficient management of the forest partnerships.

Another key strength of the existing programme which will be carried over to the extension is the competitive allocation of projects. For example the Technical Assistance Facility will allocate funding to project proposals on a competitive basis, with funding allocated to proposals which offer the greatest impact. Investments will be required to demonstrate strong potential impact in reduced greenhouse gas emissions from land use change.

Assessment will also be made to ensure that all interventions are additional and would not have occurred without ICF intervention. This helps maximise the outputs which can be achieved from limited investment. Additionality will be achieved through a requirement to demonstrate that for each project supported, there is a high probability that without BEIS support the project would not be able to proceed as quickly, or at all, or at the scale made possible with the support of the programme.

Finally by targeting private finance investment the programme is able to ensure that greater impact is achieved through the use of limited public funds

Preferred delivery route from original business case

After deciding that a programme focused on joint public and private investments to tackle deforestation would be very likely to have a positive rate of return; that outsourced management would be required to implement the programme; and that an impact fund and technical assistance facility offered the best routes through which to provide the inputs required to implement the programme, the IFSLU business case went on to consider the correct way to structure and procure these inputs.

The recommended approach to securing the required inputs comprised a direct contract issued to establish a technical assistance facility; and the separate establishment of an investment company to finance a range of private sector-driven solutions to tackling deforestation, through an approach drawing together characteristics of both impact funds and challenge funds. As mentioned above, the investment company has yet to be established. In the appraisal, the following weaknesses of this approach were noted:

- requires procurement and management resources to issue and manage the contract;
- cost implications;
- strong and capable contractors will be required to successfully implement the contract;

- aligning the length of the contract term, with the available DFID budget and the development of public private partnerships, would be challenging, e.g.private public partnerships typically need to run over decades to be successful, but never less than 5 years; and
- success of programme depends on contractor performance, and effective specification of expected performance in terms of reference.

The administration and management costs for P4F were set through a competitive tender and benchmarked against other public-private programmes which have demonstrated good value for money through efficient and cost-effective management and administration. And again, by piggybacking on the existing contracting and management arrangements, the cost implications for BEIS will be minimised. A description of the current management arrangements and how these will be built on to involve BEIS for management of the Latin America platform and P4F globally is described in pp.40-44 of the Management Case.

The 2016 annual review of the programme found that a "*strong and collaborative working relationship has been established between DFID and the Partnerships for Forests management team… The consortium, comprising Palladium and McKinsey, have also formed a strong partnership, combining Palladium's development experience and McKinsey's business advisory experience.* In summary, the current programme is performing well and was rated A.

The length of the contract term is a greater problem as further time has elapsed. However, the Latin America platform will be able to use existing management arrangements, learn lessons from the other platforms, and build on a strong base of potential and existing projects and programmes in, as mentioned in the strategic case, the three forest countries most ready to deliver results. There will also be opportunity to extend the programme should it prove successful in the initial years.

The current P4F programme also includes several tools for ensuring economy of inputs including:

- competitive allocation of funds
- rigorous procurement, negotiating and contracting procedures that focus on costs management and value for money;
- rigorous monitoring of grants and technical assistance expenditure and delivery; and
- decision gates to enable rapid divestment of opportunities that do not appear to be working (fail fast, with carefully managed risk).

Effectiveness (This section considers how well the outputs from an intervention achieve the desired outcome)

The Technical Assistance Facility will allocate funding to project proposals on a competitive basis, with funding allocated to proposals which offer the greatest impact. Investments will be required to demonstrate strong potential impact in reduced greenhouse gas emissions from land use change.

While competitive allocation of funding will help to achieve the best value-for-money, it also means that this business case cannot specify exactly what interventions will be funded through the programme.

The latest projections for how much land the recruited projects in the current P4F portfolio will bring under sustainable management and how much private finance it will leverage is outlined in the Strategic Case. Together with the scoping work on Latin America that has been undertaken, we are confident that applying the same procedures under the same management team is likely to lead to similarly good results for Latin America.

Experience shows that successful efforts to reduce deforestation take significant long-term investment by the forest nations themselves as well as strong political will. To tackle different direct and underlying drivers of deforestation, a variety of policies and initiatives need to be designed and implemented and their combined effect results in the desired decreases in deforestation.

By combining demand-side measures, support for enabling conditions and finance for partnerships, the programme's blend of support offers the maximum amount of flexibility, ensuring that the programme can

intervene at all points in supply chains, respond to opportunities which arise, and address blockages and support solutions to implementing sustainable practices at all levels.

In the IFSLU Business Case the effectiveness of the programme's interventions were assessed through economic, (costs and benefits), financial, environmental, and social and gender appraisals.

Costs and benefits of the programme from previous business case

The original economic appraisal was based on having both a technical assistance facility and follow on development capital in place. Only the technical assistance facility (P4F) has been created under the current IFSLU programme so far. It is a strong possibility that any development capital facility that DFID sets up for the other geographies will not operate in Latin America given DfID's focus on least developed countries and the fact that their preferred supplier, CDC Group plc, does not operate in Latin America. BEIS will therefore scope out potential funding routes for this element later this year to ensure than the impact of the technical assistance component is maximised.

Modelling for the IFSLU business case to estimate the impacts of components 2,3, and 4 (enabling conditions; catalysing investment in sustainable forestry; and catalysing investment in agricultural intensification and restoration of degraded land) of the original business case assumed that projects would be able to access this development capital. Modelling was based on a hypothetical set of investments in sustainable forestry (community and commercial scale) and agriculture (smallholder and commercial scale). The results are indicative and should be taken as a guide to the possible returns on investment. Results (seen below in Table 3) were estimated for total funding of £100m, £125m and £150m.

Table 3: Potential returns on an illustrative portfolio of investments (three scenarios)

Funding Level	**£100m**	**£125m**	**£150m**
Impact indicators			
Total hectares reforested	16,000	19,000	23,000
Total hectares under sustainable forest management	15,000	18,000	22,000
Total hectares under improved management	50,000	65,000	79,000
Estimated number of livelihoods impacted	45,000	58,000	71,000
Total tonnes CO2e avoided (MTCO2e)	13	17	20
Value for money indicators			
Private Sector Leverage	0.28	0.28	0.28
Total discounted costs (including private ex DS)	£87m	£109m	£131m
Total discounted benefits	£554m	£711m	£866m
Donor costs per tonne	£5.21	£5.07	£4.99
Benefit to cost ratio (BCR)	6.36	6.52	6.62
NPV	£467m	£602m	£736m

Table 3 shows a strong benefit cost ratio and also a low donor cost per tonne, and suggests that the programme offers very good value for money when compared to the remainder of the ICF portfolio. The original business case also presented the above information for different types of investments. The exact size of the benefits in Latin America will depend on the portfolio of investments, which cannot be determined at this stage.

The private sector leverage ratios in the original business case for the programme as a whole and by type of investment are comparatively low when compared to ICF-wide projects. However, leverage ratios are untested and based on assumptions rather than evidence.

The Net Present Value of the programme represents benefits achieved through efficiency improvements, such as intensified production. An additional benefit which is not modelled is that productivity is improved in ways that fit the needs of progressive companies at the top end of supply chains, such as retailers and manufacturers which are committed to sourcing sustainably produced commodities.

Modelling for the IFSLU business case found that the cost of emissions reductions across the range of illustrative portfolio investments (£2-22 per tonne CO2e) , would compare favourably to the costs of emissions reductions in other sectors. In general, interventions which curb deforestation have a highly favourable return in terms of mitigating emissions. However, the low costs of achieving emissions reductions through avoided deforestation can make it difficult to assess the relative efficiency and economy of different preventative interventions. It is therefore important not to base investment decisions solely on the apparent effectiveness of unit costs of emissions reductions, but also to consider the feasibility of different interventions and additional tests of value for money, and ensure economy and efficiency throughout the implementation of the programme. We consider that if a development capital facility is also established to complement the technical assistance facility in Latin America, the cost-benefit modelling of the original business case will continue to hold.

For further detail on the modelling see pp. 24-27 of the IFSLU business case, which also included separate modelling on demand-side measures.[69]

Financial appraisal

Financial modelling was commissioned under the original IFSLU business case to complement the economic model. The economic model suggested that investments would yield a positive benefit to society. The financial model tested whether such investments had the potential to also deliver private benefits in the form of financial returns.

For the IFSLU business case, research was undertaken into potential project returns including for Latin America.[70] The research assessed an appropriate average annualised recipient investor target rate of return for sustainable investments in forestry and related sectors on a country and project type basis; and analysed actual returns on different types of projects in the target countries, including timings of returns. This research was carried out largely on the basis of consultations with industry experts and participants, where possible drawing on their experience from actual investments.

Actual return data for target countries and project types was extremely limited, but good information was collected from a range of informants, including active investors, on target projects, risks and expected project level returns. Actual return data, where available, was therefore combined with expected or modelled (so hypothetical) returns for target projects in target countries. The returns data relevant to Latin America is summarised in Table 4 below.

Table 4 - Overview of returns data

Category	Investor expectations	Actual projects
Plantation forestry		
OECD	4-10%	4-6%
Latin America[1]	8-12%	5-10%
Other forest management		
Social investors	4-8%	Wide range between -20% and +20%
Commercial investors	>10%	
Agriculture / Agro-forestry		
Global investor expectations	10-15%	0-10%

[1] Available data focused on Brazil

For further detail of the financial appraisal please see pp. 27-29 of the IFSLU business case.[71]

Environmental appraisal

The environmental appraisal for the IFSLU business case drew on a broad range of evidence to highlight where programme interventions might have an environmental impact, and also to identify risks that need to be managed and mitigated. The appraisal concluded that the programme has significant potential to conserve biodiversity and enhance ecosystem services, but care will also be required to avoid adverse impacts. Safeguards are required to mitigate this risk.

The appraisal found that the programme was likely to fall under the following of DFID's Climate/Environment Risk and Opportunity Categories: Risk Category – B – Medium Risk; Opportunity Category – A – High Opportunity. This means that there is a modest risk that programme interventions could have adverse environmental impacts, but a strong possibility that programme interventions will provide positive environmental impacts.

Interventions are likely to make a highly significant contribution to climate mitigation. There is good potential to realise significant environmental benefits, particularly in terms of biodiversity and ecosystem services.[72] However, both forestry plantations and agriculture have the potential to cause adverse environmental (and social) impacts, through replacing diverse ecosystems with monocultures, use of non-indigenous species, demand for water and other factors.

An important conclusion from the environmental appraisal is that strong project-level appraisal procedures, with the best possible safeguards, need to be applied. Monitoring impact will be challenging and it will be difficult to track the environmental impacts of a large portfolio of investments, and adequate investment in monitoring is also recommended. For further information on the implementation of environmental safeguards and monitoring see the Management Case.

Value for money through the project lifecycle

It is also important to explain how value for money will be assessed throughout the project lifecycle. Once the Initiative is operational, value for money will be monitored through DFID and BEIS's Annual Review process applied to all ICF spend, using the three "E"s approach outlined above. Ensuring appropriate value for money will be a core focus of our monitoring and evaluation approach, as set out in the Management Case.

Additionality

Assessments of proposed investments will be a critical part of programme operations and the means by which impact and value for money will be assured. The range of potential investments identified in the scoping study has the potential to combine the strengths of the public and private sectors, achieve scale through supply chain, logistical and market links, and bring in additional private sector creativity, resourcefulness and finance to tackle the problem of deforestation.

However, it will be crucial to determine the additionality of each investment, to be sure that public funds are achieving additional impact, supporting investments that would not otherwise have taken place in the absence of the support, and not providing an unjustified subsidy to private business in order merely to increase returns on something that would have been done anyway.

Additionality will be achieved through a requirement to demonstrate that for each project supported, there is a high probability that without BEIS support the project would not be able to proceed as quickly, or at all, or at the scale made possible with the support of the programme.

The level of subsidy required to stimulate private investment in sustainable land use projects will vary according to several factors, including region and type of project. Investment in projects which focus on communities, cooperatives and small enterprises would be seen as more costly, complex and risky, and so will require higher returns (and consequently higher levels of subsidy) than those involving a more standard familiar business model.

Overall value for money assessment of the preferred option

Consistent with the original business case, we are first establishing an outsourced technical assistance facility, and consider that the experience built up from the current programme is likely to increase the attractiveness of this option. We will later scope out the separate establishment of an investment company to finance a range of private sector-driven solutions to tackling deforestation.

For the P4F technical assistance facility that is the subject of this business case, the administration and management costs for P4F were set through a competitive tender and benchmarked against other public-private programmes which have demonstrated good value for money through efficient and cost-effective management and

administration. By piggybacking on the existing contracting and management arrangements, the cost implications for BEIS will be minimised.
There are a number of features of the P4F approach that have the potential to produce efficiencies, including using the effective processes of the existing effective delivery partner, the competitive allocation of projects, the assessment of additionality, and the focus on leveraging private finance.

We consider that if a development capital facility is also established to complement the technical assistance facility in Latin America, the attractive cost-benefit modelling of the original business caseis likely to continue to hold.

Ensuring appropriate value for money will be a core focus of our assessments of possible investments, and our monitoring and evaluation approach, as set out in the Management Case.

Commercial Case

What will the programme do?

The programme has four main interventions:

- Develop partnerships and investments.
- Improve enabling conditions for investment to facilitate greater private investment in forests and sustainable land use.
- Accelerate demand-side measures, which deepen markets for sustainable commodities.
- Support leadership, collaboration and learning, to facilitate replication and scaling-up of programme interventions.

The programme is designed to be flexible in responding to demand and allocating money competitively to the best opportunities, it's therefore difficult to estimate the exact number of projects that will be supported and with how much funding. However, current portfolio results projections assume between 12 and 15 projects will deliver results in each region. Current grants to Forest Partnerships are in the range of £100-£200k, but these are expected to grow as ideas reach commercial maturity. Grants for Enabling Conditions initiatives vary much more widely from £35k to £1.5m. The only grant so far for a Demand Side Measure initiative is one for £120k for the Amsterdam Declarations secretariat.

To have transformative impact, the current P4F programme is increasingly shifting approach to bring together clusters of demand-side measures, enabling conditions initiatives and forest partnerships with synergies. For example, on palm oil, P4F is supporting demand side measures through the Amsterdam Declarations, enabling conditions work through the TFA2020 Africa Palm Oil Initiative and the High Carbon Stocks Convergence Process and plans to support several forest partnerships on the ground in West & Central Africa, mainly focusing on produce-protect frameworks. We would take the same approach in Latin America.

The research collected for the scoping study indicates that there already exist a multitude of potential forest partnerships, enabling conditions and demand side measures for P4F to consider across different landscapes in Brazil, Colombia and Peru. Some example potential initiatives are given in the text box below.

Subject to approval of this business case and agreement of a contract extension, the inception phase will begin in Q3/4 2017. The inception phase likely to last 4-6 months, will include work to develop a clear Latin America Strategy, including confirming the exact geographic and commodity focus for the plan; the means of establishing forest partnerships, enabling conditions and demand side measures; and the establishment of a regional hub for Latin America.

Building a balanced portfolio of forest partnerships

The scoping study has revealed 112 potential or example forest partnership opportunities in Latin America, at various stages of design. Unlike the other regions covered in P4F however, several potential forest partnerships identified are well developed and already nested in enabling environments either through jurisdictional mandates or commodity-specific initiatives. Some of the opportunities identified are already under implementation, but could provide models for replication, which could be supported by other programmes, within or without the ICF portfolio, providing development capital.

Once a partnership has successfully passed through an initial screening process, it will receive a package of grant funding and / or technical assistance(Figure 5) to move it through the "Forest Partnership Maturity Funnel" (Figure 6), taking partnerships from ideas, through development of business concepts, business plans, negotiation and piloting and on to commercial scale-up and investment finance.

Example potential interventions identified in the scoping study

Forest Partnerships

- Restoring degraded pastures through cattle intensification purposes has been widely acclaimed as the biggest opportunity for meeting national emission targets in Brazil. Similar to the BEIS funded Silvo-Pastoral Systems programme in Colombia, opportunities to replicate such programmes exist across Latin America.
- Currently 20 % of coffee production is classified sustainable with a substantial bottle-neck preventing expansion to small and medium farms that are unable to absorb costs to produce sustainably and do not have incentives to do so either. There are opportunities to work with the government, the Brazilian Coffee Industry Association (ABIC) and private sector companies to provide targeted financial support and technical training in order to raise the supply of sustainable coffee.
- Cocoa farming around the world is facing a crisis due the lack of incentives of future generations to take up farming. For many decades the majority of cocoa produced was by subsistence farmers that struggled to break even every season. The threat of security of supplies have forced companies and governments to examine the industry. In Brazil, there are a number of tailored programmes for young cocoa farmers, focusing on improving their entrepreneurial skills as commodity producers. These programmes need support to be replicated and scaled-up and private sector players need to be more engaged.
- The seeds of the Brazil nut tree are some of the most economically valuable Non Timber Forest Products produced within the Amazon region. Brazil nut production could provide potential co-benefits through preserving standing forests while providing livelihoods to indigenous communities. Managed reserves which permit collection of Brazil nuts are now being set up in Acre, Pará and Rondônia and are trying to organize local processing and commercialization cooperatives so collectors (*castanheiros*) can obtain a better price for their harvest. These initiatives require additional support to ensure appropriate set-up and scale up.
- The opportunity to resuscitate wild fishery management within the Amazon River floodplain (also known as varzea) could provide alternatives to current domestic demands for beef. Namely, there is growing recognition that rain-fed agriculture could complement wild capture fisheries to achieve production volumes comparative to the beef industry. Such an initiative could connect to the incipient “eat local, eat Amazon” initiatives. This would reduce demand pressures on cattle ranchers to encroach into nearby forests.
- Native foods and other Non-Timber Forest Products are currently not well marketed in Colombia and few projects are currently working in this space. Additional support is required to identify and develop access to markets for indigenous produce, linking the small producers to the supply chain. Lessons could be applied from neighbouring Peru, where local restaurateurs, in association with international NGOs, have been more active in the promotion of Amazon produce.

Enabling Conditions

- In Colombia, the Earth Innovation Institute and Solidaridad have been working with eight agricultural commodity organisations (*federaciones*) for palm oil, beef, coffee, cocoa, rice, banana, flowers, and the farmers’ society) to develop jurisdictional production-protection pacts for sustainable commodity production in territories where at least two agricultural commodity sector organisations overlap. Six potential regions of work have already been identified, where sectoral projects targeted to improve environmental management are being implemented.
- Efforts towards promoting jurisdictional standards for certification of sustainable beef could help restore the Brazilian reputation after the 2017 meat scandal. To comply with certification standards, smallholders and small slaughterhouses must adopt good agricultural practices, eliminate deforestation and social conflict from their activities, amongst other things. In addition, sufficient and effective traceability systems must be in place. Currently, minimal supply chain visibility exists beyond direct suppliers. Complying with those stringent and costly certification standards will require support around access to ongoing technical training, and capacity building around good practices and access to formal and affordable credit.
- Large palm oil businesses in Peru are moving towards sustainability commitments. Grupo Palmas, Peru’s largest producer, recently published its No Deforestation, No Peat, No Exploitation (NDPE) policy that covers palm oil and cocoa. This has created stranded lands and opportunities for P4F to work to develop alternative land management strategies that create value.
- In Colombia, research indicates that domestic demand for sustainable produce is low, and that few consumers have the means or the motivation to pay price premiums for differentiated products. Corporate suppliers are therefore unwilling to incur costs in developing such products without a guaranteed market. Support is needed to build consumer awareness and demand for sustainable produce in order to support producer and supplier investments in this area.
- With Colombian government support for palm oil development, there is an opportunity for P4f to engage with relevant governmental bodies and provide technical assistance for the development of policies and regulations around sustainable production.

Demand Side Measures

- Given the importance of coffee exports to Colombia, and the strong trade linkages with the UK, there is potential to work with UK companies to improve sustainable supply chain linkages with coffee producers, especially for niche and high-end varieties.
- Initiated by Marks & Spencer plc and Tesco plc, P4F could increase support to the (proposed) UK Soya Initiative that aims to build on existing private sector commitments and create non-competitive space for constructive informed dialogues between various actors in the supply chain. This may include supporting dialogues with animal feed manufacturers and livestock producers in the UK.
- As production increases in Colombia the relative amount of exports to the international market is expected to grow. The focus on international sales of Colombian oil palm could provide an opportunity to engage the sector in initiatives to improve sustainability and mitigate some of the future deforestation risk from oil palm expansion. There are early indications that internal production is already orienting itself towards stricter sustainability standards. The Colombian oil palm company Daabon Group recently became the world’s first company to receive the Roundtable on Sustainable Palm Oil’s (RSPO) extra-strict sustainability stamp, known as ‘RSPO Next’, an achievement seen by observers as early signs of a shift towards rising palm oil certification standards for the region. Support is needed, especially for smaller producers, to reach the standards required for sustainable certification. Working with municipalities to align certification schemes and sustainable production within municipal land use planning would provide additional incentive for deforestation-free palm oil.

Many partnerships are expected to leave the programme before reaching the stage of commercial scale-up. This may be for a variety of reasons, including slow progress; a challenging operating environment; an underlying business model which offers insufficient return; or because further support is secured elsewhere. Estimated rates of entry to the maturity funnel, graduation and progress for successful partnerships through decision gates towards scale-up and commercial finance are presented in the programme logical framework.[73]

For P4F to operate as a responsive grant management programme, the programme will remain dynamic and respond to opportunities and gaps with respect to the entire portfolio as new Forest Partnerships are introduced, others are dropped out from the funnel and others are in process or delayed.

Figure 5: Support provided through the P4F facility

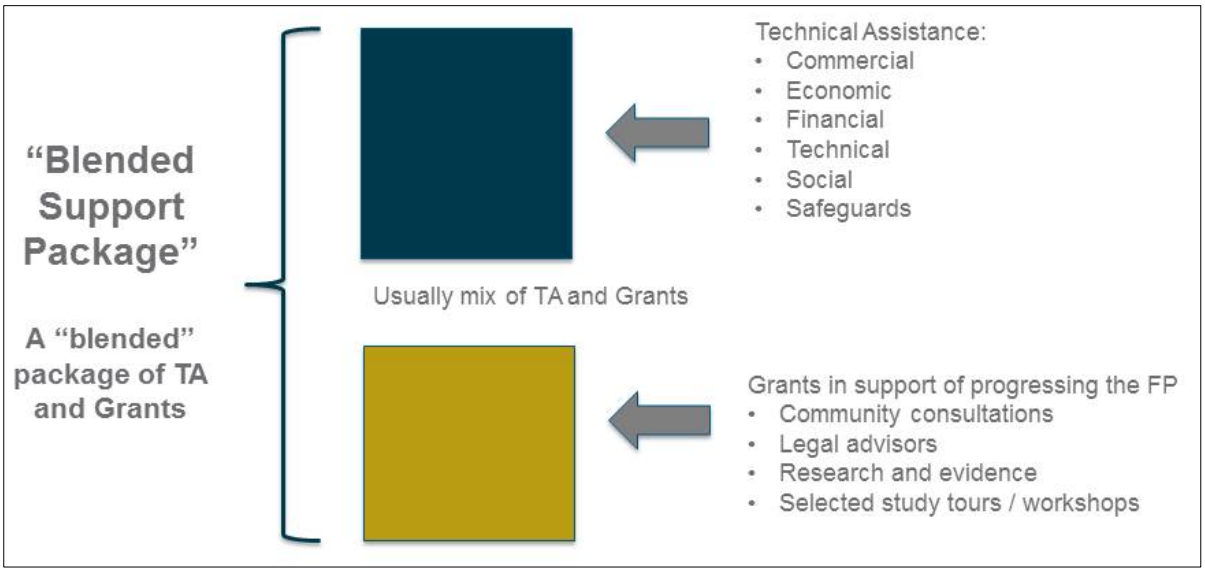
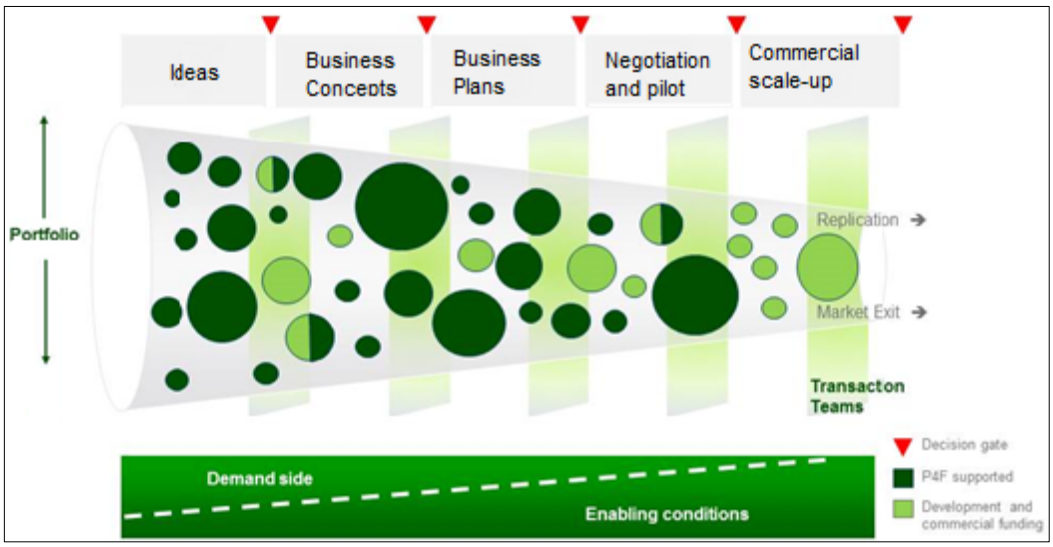


Figure 6: P4F Forest Partnership Maturity Funnel



How will the delivery option be implemented?

When the original Investments in Forests and Sustainable Land Use business case[74] was developed it was considered that effective cooperation with the private sector would require outsourced programme management. This was necessary to ensure that:

- the correct range of commercial and private sector skills are deployed to manage the programme, alongside development expertise;
- public sector support for the private sector is provided according to clear criteria, through an open and transparent process, so that the public sector does not provide competitive advantage to any one firm; and
- sound commercial judgment is brought to bear in the use of public funds for investment purposes.

The contracted programme has four components:

- Component 1 supports buyers (public and private) in commodity supply chains associated with deforestation to develop and implement sustainable procurement policies and other such demand-side measures (demand side measures).
- Component 2 supports improvements in the policy and regulatory environment in developing countries, to facilitate private investments in sustainable forestry and agriculture (enabling conditions).
- Component 3 focuses on the provision of finance to catalyse investments in sustainable forestry and deforestation-free agriculture in developing countries (forest partnerships).
- Component 4 focuses on the programme's leadership, collaboration and learning.

Each of the four programme components will be implemented under the current DFID contract with Palladium International through a combination of technical assistance and finance committed through calls for proposals, targeted outreach and unsolicited submissions. These different routes help to ensure quick mobilisation, early results and an open and transparent approach. Direct solicitation allows the programme to target leaders and innovators, while calls for proposals help to ensure a level playing field for all potential partners.

The programme's first open call for concepts in West Africa yielded a high number of proposals and a significant amount of data on the size of the market for P4F's support. The call was successful in bringing in a large number of projects with good potential. External communications channels, such as newspaper advertisements and press releases generated large numbers of applications, but the majority of high quality proposals were the result of direct emails to previously identified targets, or personal contact.

How will the contract meet value for money?

The technical assistance contract was awarded to Palladium International following an open OJEU tender process. Criteria used to guide the selection of the service provider included demonstrated capacity to:

- Manage complex development programmes in challenging environments.
- Procure goods, services and expertise relating to:
    - Community forestry and plantations
    - Community enterprise development
    - Forest and land rights
    - Gender issues
    - Commercial forestry and plantations
    - Sustainable agriculture
    - Supply-chain management
    - Sustainability certification
    - Monitoring and evaluation
    - Knowledge management and communications
- Resource and manage technical units in a small number of countries.

The contract is providing the necessary resources to support demand-side measures in the UK and other developed markets; establishing and managing technical cooperation units in a small number of countries; and providing grants to support partnerships and to develop a pipeline of investment opportunities.

Palladium reports through the programme's Senior Leadership Team to DfID's Senior Responsible Official. BEIS will join these arrangements. Details of the governance arrangements are presented in the Management Case.

Post-contract cost controls have been applied, particularly through monitoring fee rates and the management fee as a percentage of annual funding. This ratio is benchmarked against other similar contracts.

How will we ensure partners have the capability to deliver?

Palladium, as supplier, has flexibility under the contract in the structure and composition of its' programme team, and the required expertise can be drawn from staff, consortium partners, call down arrangements, or other cost-effective ways of securing the required expertise.

Palladium already has sub-contracts in place with McKinsey & Company; Forest Trends and EFECA to deliver the programmes in the current geographies. The contract grants Palladium DfID's consent to also appoint The Nature Conservancy (TNC) as sub-contractors. TNC is the world's largest nature conservation organisation and it works in 16 countries in the region, including Brazil, Colombia and Peru.

How will performance be managed and measured?

A strong and collaborative working relationship has been established between DFID and the P4F management team, including through strategy workshops, regular management meetings, joint outreach and engagement with partners, and field visits. The consortium, comprising Palladium and McKinsey, have also formed a strong partnership, combining Palladium's development experience and McKinsey's business advisory experience.

The contract includes a clear implementation plan. The contract extension will include an implementation plan for the Latin America region.

The review cycle includes annual reviews against key performance indicators (KPIs) including impact, results achieved and more general performance measurements based on success in determining appropriate grant recipients and technical assistance recipients. For further details of day-to-day management arrangements, formal governance, and results monitoring please see the Management Case.

Is the contract flexible enough?

The means of implementation is intended to offer the greatest flexibility ensuring that the programme has the capacity to intervene at all points in the supply chain, respond to opportunities which arise, and address blockages and support solutions to catalyse sustainable investments.

The current £56.5m contract lasts until 16 November 2020 with the possibility of a three year extension. It includes DFID's standard terms and conditions. The contract was advertised with a lower limit value of £56M and an upper of £120M, and an option to extend by 36 months with the current contract end date of 16th Nov 2020. A £19.3m investment from BEIS represents a one third increase in the value of the DFID-held contract, within scope of the original terms of reference and contractual arrangement with Palladium.

Regulation 72 of the Public Contract Regulations 2015, allows for Contracts and framework agreements to be modified without a new procurement procedure where the modifications, irrespective of their monetary value, have been provided for in the initial procurement documents in clear, precise and unequivocal review clauses.

The contract states "*The scope of the programme may be expanded during the five-year contract to include other regions, such as Latin America, and / or additional commodity supply chains, including soya and cattle products.*"

The contract includes the following provision: "*DFID reserves the right to scale up or scale back this contract in response to programme requirements, and possible availability of significant additional funds from DECC* [BEIS] *and Defra over the lifetime of the programme… the Supplier should be prepared to amend the strategy, business plans and budgets to take account of this and should be aware of the need for a contract amendment should this be the case...*" Any scale up or down of the Programme will be subject to an acceptable commercial agreement between DFID and the Supplier.

The contract also includes a provision allowing for changes to the KPIs attached to the contract.

What is the process for contract extension?

DFID's Procurement and Commercial Department have confirmed a legal case exists for contract extension, however this will need additional scrutiny to assess the value for money proposition. Approval of DFID Ministers and Cabinet Office (for contract extensions over £5m) is also required. We judge the risk of non-approval of the contract extension to be low.

Can we negotiate on anticipated costs?

Current management fees are split across a capped expenses budget and the technical assistance budget. The consortium is paid for the provision of technical assistance against a schedule of milestones at agreed rates. These rates will be considered at the point of contract extension.

Travel and expenses are aligned with DFID best practice, requiring economy class flights and reimbursement of actual subsistence costs.

Can we agree the investment mandate?

Palladium has agreed funding criteria with DFID (such as match-funding requirements, contributions in kind, leverage of other resources, and expected impact of interventions). Specific investment criteria for Latin America will be agreed between BEIS and the Senior Leadership Team during the inception phase.

Can BEIS funds be recovered?

Funds will be paid through completion of programme milestones. DFID will only make payments if the criteria for meeting a milestone are met to the satisfaction of the DFID Programme Manager and BEIS Project Manager. The current contract allows for a proportion of funding to be withheld or recovered if DFID considers that performance is unsatisfactory. For operations in Latin America, any decision to withhold or recover funds will be taken in conjunction with the BEIS project manager.

Financial Case

Costs overview

The total financial commitment required to establish and fund an initial two and a half-year phase of this programme (FY17-18–FY19-20) is ~£19.3m. This figure reflects an initial ~£20m commitment to each of South East Asia, East Africa, and West & Central Africa and that the Latin America region is already benefitting from a share of the funding from the current programme that is supporting the TFA2020 Secretariat. So this will match the funding allocations to the existing programme geographies. From the results of the scoping study we are confident that there is sufficient investable demand for P4F's services to cover this amount. Should the intervention prove successful, there is also opportunity to extend the programme through a new procurement.

Costs incurred through the programme will comprise R-DEL disbursements through the technical assistance facility to support enabling conditions for investment in partner countries, support to develop initiatives for potential future capital funding, and grants which help to realise the objectives of the programme. The funding will come from the allocated ICF budget and will be paid via DFID to the contracted manager of the technical assistance facility: Palladium International. Palladium will be responsible for disbursing funds to forest partnerships, leaders of enabling conditions work and where feasible, demand side measures work.

The largest cost driver is technical assistance, which will be paid for against milestones tied to the identification and progression of Forest Partnerships. Early-stage support to partnerships has consisted largely of technical assistance, to support the development of business plans and establish necessary partnerships structures (for example, industry associations), but the rate of expenditure will increase as grant support is also committed and disbursed.

Grant disbursements from the technical assistance facility are made when needed by end recipients. Disbursement requests will detail the funding needs, cash balance and liquidity position to avoid payment being made in advance of need.

Should BEIS decide to follow the same funding proportions as for the original programme then the funding amount allocated to technical assistance would be £8.666m; the allocation to grants would be £7.820m; and there would be a capped expenses budget of £2.327m. Expenses are claimed monthly based on actual expenses incurred.

The allocation to a separate independent and evaluation contract would be £450k to be aligned with the current programme. However, the funding proportions will be reassessed during the inception phase in light of experience from the current programme and the demand established by the scoping study. Additional funding may be required should we not piggyback on the existing independent evaluation contract with LTS International.

Palladium receives funds quarterly in arrears. DFID will bill BEIS on a half yearly basis, based on the payments to the technical assistance facility and other programme costs. There is no expectation of a financial return on the grants DFID provides to the technical assistance facility. The grants will include a provision that if the technical assistance facility has not spent disbursed amounts of the grant by the time the grant expires, DFID can request the return of the unspent disbursed amounts. Where these unspent funds pertain to the Latin America platform, they will be returned to BEIS.

Cost profile

The costs profile below has been projected with input from Palladium on the basis of experience from the current programme and expectations for operations in Latin America.

The inception phase will take place during Year 1. The elements to be funded during the inception phase are:

- Establishment of a P4F hub in Latin America. The location and hosting arrangements for the hub will be determined during the inception phase, based on a recommendation from the P4F facility;

- Development of a detailed Latin America regional strategy, building on the scoping study conducted from January-June 2017;
- Outreach to identify potential Forest Partnerships to support through the Latin America platform, as well as preparation for the launch of a potential call for proposals in line with the finalised regional strategy; and
- Commencing early action initiatives on demand-side measures, enabling conditions and high-potential partnerships, as appropriate.

The operational phase will commence once the Latin America hub has been established, and the programme begins to operate at its full capacity.

A few months will be required to recruit the first pipeline of Forest Partnerships in Latin America through calls for proposals or specific outreach to request concepts. In practice, the Forest Partnerships can take some time to develop and negotiate from the concept stage (roles, responsibilities, match-funding, MoUs, etc.). The time required for that will be much less than in other regions, as we would benefit from the experience and systems established over the first two years of the programme.

While the exact geographical focus of the programme will be decided in the inception phase, based on demand identified during the scoping phase we might expect 70% of funds to go to projects in Brazil and 15% each to Colombia and Peru. As discussed in the Strategic Case, grants in the current programme to Forest Partnerships are in the range of £100-£200k. Grants for Enabling Conditions initiatives vary much more widely from £35k to £1.5m. The only grant so far for a Demand Side Measure initiative is for £120k.

Table 5 – Projected Latin America programme costs in £k's

Item	FY17-18						FY18-19					FY19-20					Total
	Nov	Dec	Jan	Feb	Mar	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	
Expenses	80	80	80	80	80	**400**	240	240	240	240	**960**	240	240	240	240	**960**	**2,320**
Grants & TA				100	710	**810**	2,250	2,850	2,850	2,400	**10,350**	2,325	2,000	1,000		**5,325**	**16,485**
Monitoring & evaluation					0	**0**		100		175	**275**				175	**175**	**450**
Total	80	80	80	180	790	**1,210**	2,490	3,190	3,090	2,815	**11,585**	2,565	2,240	1,240	415	**6,460**	**19,255**

Financial and fraud risk assessment

The rigorous financial management procedures in the current P4F programme will be replicated for the Latin America platform. These procedures prevent fraud, waste and abuse as well as maximise levels of efficiency for P4F activities. P4F operates a comprehensive financial information management system that allows Palladium to track and manage value for money within the context of its output based payment model contract with DFID. Programmatic cost structures are monitored on a continuous basis to provide a clear evidence base for spend/output and spend type (direct programme, grants, technical assistance, operational etc.).

The internal P4F Grants and Technical Assistance manual describes the step-by-step grants & technical assistance management process for the P4F programme. The manual is consistent with Palladium's grant and technical assistance policies, it reflects the P4F Terms of Reference, incorporates best practices in grant & technical assistance management, and aims to support the Senior Leadership Team (see Management Case) to deliver the project in an effective and efficient manner. The manual is applicable to all representatives working with P4F: Palladium, DFID (and in future, BEIS) and Business Partners (McKinsey and other second-tier partners).

The manual is designed to limit DFID's and Palladium's exposure to undue reputational and fiduciary risk that may arise due to a lack of appropriate and comprehensive processes, which could also lead to financial loss. Hence, any deviation requires the approval of Palladium's Director of Grants.

All technical assistance must be agreed by the Senior Leadership Team in advance of provision.

Cash managed by P4F is held in tracked bank accounts. The manager reports to DFID on a six-monthly basis to account for how this money is used. This will be used to support the quarterly drawdowns by demonstrating a need for funding and demonstrate that large unspent cash balances are not being allowed to build up.

Rigorous due diligence and auditing will help to mitigate the risk of corruption and fraud in the partnership and grants managed by P4F. Regular monitoring will help to identify risks and facilitate early corrective action.

All beneficiaries of the programme and investment partners will be required to apply the standards of transparency and traceability required by DFID.

Monitoring, reporting and accounting for funds

The 2016 Annual Review of the current programme[75] states that:

> "*Robust programme management and financial management systems have been established, providing clear and timely information on work flows and related expenditure; establishing appropriate and proportionate due diligence processes; and providing accurate financial forecasts.*
>
> *Improvements have been made to simplify contract milestones and link payments more explicitly to programme operations and work flow, providing greater transparency and a clearer link between outputs and payments, as well as helping to improve the accuracy of forecasting and providing field teams with the correct incentives to encourage innovation."*

Financial accounting considerations

It is important that all disbursements meet the requirements of ODA eligible expenditure as laid out by the Development Assistance Committee Statistical Reporting Directive to ensure that BEIS spending on the programme contributes to the UK development objective of achieving 0.7% ODA / Gross National Income. ODA will only be generated when P4F disburses funds to an ODA-eligible third party, generally one in a developing country that will deploy the funds there. This is the point at which resources are viewed to leave the UK's control.

Evidence on the timing and need for BEIS funding

The Strategic Case details the latent demand for funding. Once the Latin America platform is established Palladium will be required, inter alia, to:

- work with BEIS advisers to develop funding windows for demand side measures and finance for forest partnerships;
- prepare calls for grant proposals, including defining scope to be covered, setting timelines, defining evaluation criteria, developing application forms and assessment methodology, and agreeing the process with BEIS;
- publicise calls for proposals in a way that raises awareness amongst potential grantees;
- establish a system to advise grant applicants on the application and selection process, including responding to any questions and giving appropriate consideration to the needs of applicants from developing countries; and
- prepare up-to-date consolidated forecasting of expenditure and inform BEIS monthly about any changes to forecasts.

Each of these activities will help establish the timing, and need for BEIS funding ahead of commitment.

Management Case

What are the Management Arrangements for implementing the intervention?

This section describes the current P4F management arrangements and the proposed modifications to support its expansion into Latin America with BEIS funding. The management arrangements use, or extend, the approach taken by DFID in delivering the programme in the initial three regions. After two years of successful programme delivery we have the advantage of extending a tried and tested programme arrangement. DFID will continue to hold the contract with Palladium and undertake formal contract management functions. BEIS will have direct oversight of programme operations in Latin America, and will sign off deliverables relating to the programme's operations in the region, such as the regional strategy, as well as related funding decisions.

Management arrangements suited to the programme objectives have been established and tested in the first two years of the programme by DFID and P4F. They are designed around the primary focus of the programme - catalysing projects that lead to transformative outcomes for the forests and land-use sector. The arrangements allow effective and credible engagement with both public and private sector entities. They also allow the programme to respond to emerging opportunities, to identify appropriate blends of support to incubate projects, and to manage and mitigate risks.

P4F management arrangements have been designed to allow quick and efficient decision-making, based on commercial viability and public benefits realised through investments, while maintaining an objective and transparent basis for managing resource allocation, a robust due diligence processes, the ability to balance competing interests and priorities, and an adaptive, flexible approach to implementation. The extension that BEIS is proposing in this business case will build on this approach.

The strength of this approach is evidenced by the programme's annual reviews. The technical assistance facility management arrangements are performing well, and the programme as a whole has scored an 'A' "outputs met expectations" in both annual reviews so far. No major risks or issues have been raised in these reviews related to the programme management or its delivery.

A programme office has been established in Bristol, and three hubs are supporting work in the three regions where the programme is current operating. Systems which support effective programme management have been established, including for grant and financial management, risk management, due diligence and monitoring, evaluation and learning. These systems will be applied for the extension to Latin America. Systems and processes will continue to evolve and be improved over the programme's course.

A strategy will be established to guide operations in the region, building on the conclusions of the scoping study undertaken to support this business case. We have a high degree of confidence that the BEIS investment and Latin American platform can be mobilised in an efficient and effective manner for three reasons:

- the potential to expand the programme's scope to include Latin America and absorb finance from (then) DECC (now) BEIS or Defra was part of the initial DFID business case, and was written into the contract terms for the P4F Technical Assistance Facility;
- systems and procedures for the programme are already in place, and experience of establishing the other three regional platforms can be drawn upon; and
- BEIS has worked closely with DFID and the P4F management team over the past six months as part of the scoping arrangements for a Latin American platform, with a strong alignment of interests.

A Memorandum of Understanding (MoU) between BEIS and DFID will be established in order to set out management arrangements for the programme, ensuring BEIS leadership and oversight of programme activities in Latin America, in line with established programme objectives.

Details of the Programme Governance: Current Arrangement

DFID oversight is currently provided by a Senior Responsible Official (SRO) (0.6 FTE) and a programme manager (0.2FTE). The SRO works closely with P4F and is responsible for signing off contract deliverables, programme

strategy and funding decisions. Engagement takes place through weekly management calls; weekly technical review meetings to discuss the portfolio and sign-off new funding decisions; participation in strategy meetings and retreats; and ad-hoc engagement on issues and with strategic partners and stakeholders.

Formal quarterly reporting (end-December, March, June) and annual reporting (end-September) is provided by P4F to DFID. DFID prepares an Annual Review for sign-off by the Head of DFID's Climate and Environment Department (CED) by 9 December every year. To ensure accountability within DFID, bi-weekly programme meetings are held between the SRO, programme manager and the team leader responsible for this area of work. Procedures for escalating strategic issues and key risks are also in place.

Details of the Programme Governance: Proposed Future Arrangement

Future governance arrangements to accommodate BEIS in the programme need to maintain clear lines of accountability between Palladium and DFID, as counterparties to the contract establishing the P4F facility, while ensuring that BEIS has oversight of programme activities relating to the Latin America platform.

To ensure this, the contract will remain between DFID and Palladium. All formal communication relating to the contract will continue to be provided through relevant DFID staff (SRO, programme manager) and Palladium staff (Programme Director, Team Leader, Operations Director).

DFID and BEIS will establish a programme management team to liaise on matters relating to joint programme strategy, consistent with the programme aims and method as set out in this business case and the IFSLU business case and logical framework. The programme management team will comprise the DFID SRO and programme manager, the BEIS project manager, and other DFID and BEIS staff on an ad-hoc basis. DFID will continue to hold primary responsibility for contract management, the overall programme and strategy in West & Central Africa, East Africa and South East Asia. BEIS will hold primary responsibility for strategy in Latin America.

The departments will work together to promulgate a joint approach to the programme. BEIS will participate fully in programme governance through: weekly management calls; weekly technical review meetings; participation in strategy meetings; and ad-hoc engagement on important issues and with strategic partners and stakeholders.

DFID will continue to sign-off contract deliverables and funding decisions relating to the overall programme and activities in West & Central Africa, East Africa and South East Asia. Contract milestones relating to contractor performance and the mobilisation and implementation of the programme in Latin America will be signed off by BEIS, through DFID, which retains primary responsibility for contract management as the legal counterparty to the contract. BEIS will sign-off funding decisions relating to programme operations in Latin America.

BEIS will use existing internal procedures for escalating strategic issues and key risks relating to the programme (including dashboards, super-dashboards, annual reviews), in line with current best practice programme management as applied in the department.

These governance arrangements will be adapted by mutual agreement over the lifetime of the programme and will be set out in the MoU between BEIS and DFID.

Risks

The major risks associated with the management arrangements are related to their shared nature. This brings several advantages and efficiencies. However, the extension of a DFID programme and the use of its existing contract, and some programme management and financial systems, introduces new risks. Some of these are beyond BEIS's direct control. Any change to either department's resource or funding commitment to the programme could have knock-on effects for the other's financial and human resources to ensure the programme's continued operation, and/or associated reputational risks for the programme and HMG.

Agreeing an MOU to clarify expectations around resources and working relationships will provide some mitigation. We also recommend BEIS Minister Claire Perry write to her DFID counterpart as part of the approval process.

There is a risk to BEIS that DFID seek to end the programme early, though we judge this to be low in the period to 2020, given contractual arrangements with the supplier, and recent DFID review/scrutiny of existing programmes, with Ministers signing-off continued operation of P4F. The programme is strongly aligned with DFID focus on economic development. The programme has a strong record on programme delivery and there is a strong working relationship between BEIS and DFID on forest investments under the ICF, as well as a current shared commitment to the objectives of the programme. We have assessed the possibility of a quick and complete withdrawal from this programme by either party to be unlikely.

A DFID withdrawal would likely involve a pause in delivery with consequent reduction in results achieved, extra costs related to the need to take on responsibility for Palladium's central management and reporting functions, and resource implications from taking on contract management within BEIS. The extra costs would be offset to some degree by the reduced costs from the three month delay.

Other issues on the day-to-day management or strategic direction of the programme would use the ongoing and strong working relationship between the departments and, if necessary, be escalated to the ICF Governance structure, e.g. the ICF Management Board, for resolution.

The procurement method proposed (contract amendment) means DFID have formal sign-off of all BEIS-approved funding decisions related to Latin America, but will be guided by BEIS advice. In a practical and operational context, BEIS will work directly with the P4F team to implement the Latin America programme activities. Should any difference of views arise between departments, these would need to be resolved through inter-departmental dialogue (as outlined in the MoU) and raised at Board level if required.

This risk is assessed as minimal, as decisions will be taken within a clear framework. BEIS investments in Latin America will be guided by the established overarching programme strategy and operating model, the scoping study conducted together with DFID and Palladium, and a regional strategy that will be developed based on the conclusions of the scoping study during the inception phase of the Latin America programme.

A further risk relates to the relationship with the delivery partner, Palladium. With two donors but one manager, the two departments will need to work hard to ensure our instruction and direction of the programme is delivered with one voice. This risk will be managed through a clear definition of responsibilities, with DFID continuing to hold responsibility for contract management, operations in West and Central Africa, East Africa and Southeast Asia; and BEIS taking on responsibility for programme activities in Latin America.

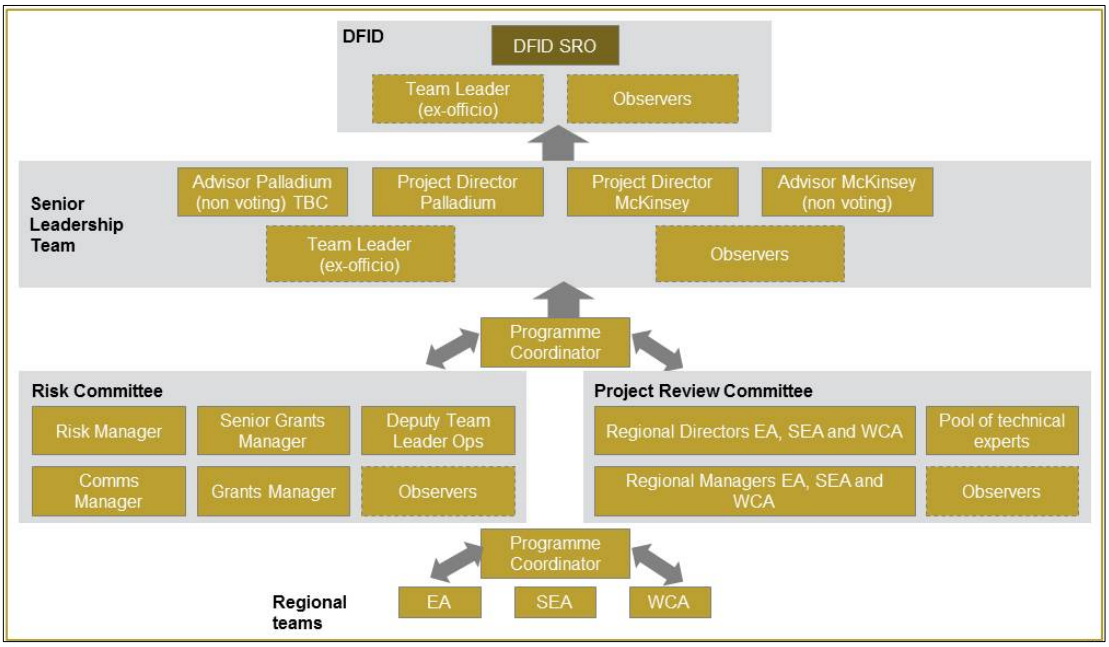
Details of Programme Implementation: Current Arrangements

A team responsible for implementing the programme has been recruited and mobilised. Programme Directors from Palladium and McKinsey hold overall responsibility for programme implementation. Senior staff based in the Bristol programme management office comprise a Team Leader, Deputy Team Leader (Technical) and Deputy Team Leader (Operations), supported by a senior manager for monitoring and evaluation, a programme coordinator and a strong programme management team covering monitoring, evaluation and learning, finance, grant management and other functions. The regional hubs are staffed by a regional director, technical and programme management staff. The regional hubs are largely responsible for originating Forest Partnerships and related work on enabling conditions.
The programme identifies potential partnerships through direct solicitation, through an open web-based portal which is publicised through appropriate channels (effectively an ongoing call for proposals), and will also accept unsolicited proposals. This ensures that participation in the programme is open to all interested parties and that funds are allocated in a competitive and transparent manner.

Palladium has established a management information system which allows the process of screening proposals and related decisions to be documented. Following initial development of the idea or concept, a 'red flag test' is applied to assess whether the concept is likely to be viable, fits with the P4F mandate, is aligned with relevant UK government policy and does not present undue risk. This ensures that unviable concepts are removed from the pipeline at an early stage, avoiding wasted effort to develop them any further.

If a concept passes the red flag test, it is developed into a full proposal by the proponent, with advice and guidance from the regional hub. Comprehensive due diligence is undertaken by teams in the regional hubs, focused on issues including the potential commercial viability of the project, environmental and social impacts, additionality achieved through investment of public funds, and key risks, including reputational risk. Proposals are then screened through a Project Review Committee, focused on technical issues, and a Risk Committee. Once proposals have passed through these committees, with all outstanding issues satisfactorily addressed, the proposal is elevated to the Senior Leadership Team for approval. The proposal is either sent back for further work, or submitted to the DFID SRO for final sign-off. The workflow established around project approval, and membership of relevant committees, is presented in Figure 7.

Figure 7: Current project approval workflow



Details of Programme Implementation: Future Arrangements

Under the proposed expansion of the programme, a fourth regional hub would be established in Latin America, with the location and hosting arrangements to be confirmed during the inception period for the work. The hub would be managed and supervised by the established P4F leadership and management teams. A dedicated team, based in Latin America would be recruited. BEIS would maintain oversight of these operations.

Table 6 - Programme governance and implementation: summary of roles and responsibilities

Unit	Function
HMG	HMG funds the programme, appoints a supplier to implement the programme on HMG's behalf, works with the supplier to develop programme strategy, engages on behalf of the programme in relevant policy fora (TFA Steering Committee, Amsterdam Declarations), and signs off programme funding decisions.
DFID SRO	Overall programme management and performance on behalf of DFID.
DFID programme manager	Programme management, financial management and forecasting, contractual issues.
BEIS SRO	Overall accountability for BEIS investment.
BEIS project manager	Programme strategy, financial management, contractual issues and performance in Latin America.
HMG P4F programme team	Liaising and agreeing a shared approach to programme strategy and management.
P4F technical assistance facility	The P4F technical assistance facility is responsible for: • Establishing and managing technical cooperation units in priority countries; • Identifying a pipeline of Forest Partnerships with commercial potential for support through the programme; • Issuing grants and providing technical assistance in alignment with programme objectives.
Senior Leadership Team	Comprised of the responsible director from Palladium and McKinsey. Responsible for overall programme management and performance, and for recommending funding decisions to HMG.
Senior Management Team	Comprised of the Team Leader, Deputy Team Leader (Technical) and Deputy Team Leader (Operations). Responsible for overall programme management and implementation.
Risk Committee	Comprised of Risk Manager, Grants Managers and Deputy Team Leader (Operations). Responsible for assessing risk across the programme portfolio.
Project Review Committee	Comprised of Regional Directors and relevant technical staff. Responsible for reviewing partnerships and recommending for support.

Unit	Function
Regional Teams	Comprised of a Regional Director and technical and programme management staff. Responsible for identifying and managing partnerships funded through the programme.

Next steps

BEIS, working with the P4F facility, DFID, and HMG officials in Latin America, will oversee an inception phase for the Latin America programme window running over a six-month period. The inception phase will comprise:

- Establishing a P4F hub in Latin America and any need for further resources in the Bristol head office. The location and hosting arrangements for the hub will be determined during the inception phase.
- Development of a detailed Latin America regional strategy, building on the scoping study conducted from January-June 2017.
- Outreach to identify potential Forest Partnerships to support through the Latin America programme window.
- Commencing early action initiatives on demand-side measures, enabling conditions and high-potential partnerships, as appropriate.

How will progress and results be monitored, measured and evaluated?

A significant investment is being made in monitoring and evaluation for the programme. This will help to strengthen the evidence base for interventions over time, and maximise the demonstration and lesson-learning potential. It will also provide information to support the management of an innovative, flexible and adaptive programme. Close monitoring will enable DFID and BEIS to track progress, identify opportunities and manage risks, in line with best practice.

The P4F facility has developed a Monitoring, Evaluation and Learning (MEL) strategy, as well as related tools, processes and internal capacities and systems required to support the MEL strategy implementation.

This framework will be applied to the Latin America window from the outset, ensuring that valid, reliable and useful measures of performance are available and used to support programme and stakeholder learning, management of programme strategy and programme implementation, improvement of the programme, mitigation of risk and reporting of performance.

The P4F MEL strategy is based on the following elements:

- *The Theory of Change (ToC)*, built out from the early theory of change set out in the programme business case, using a range of participatory processes. The P4F ToC has been used as the basis for developing other elements of the MEL strategy. The P4F ToC is presented on p.21.
- *Strategy and implementation planning* aligned to, and informed by, the ToC, ensuring that data collection for monitoring purposes is embedded in business processes around the programme operating model (the partnerships maturity funnel), as well as supporting demand-side measures and enabling conditions.
- *The Results Framework,* reflecting the need for a detailed understanding of the many activities, outputs and changes that will flow from P4F interventions. The results framework has helped to establish a range of indicators, targets and milestones that will be used as both a source of progress monitoring and for evaluation and learning. The results framework is presented in Annex F.
- *The Logical Framework*, built out from the outline logical framework in the programme business case and providing a robust and measured set of targets and accompanying indicators, supporting effective programme management and clear reporting on results and progress. The Logical Framework can be found at http://iati.dfid.gov.uk/iati_documents/5590257.xlsx.
- *Monitoring tools and related processes*, which are currently under development and in different stages of piloting. These will be used to monitor progress against indicators in the results framework.

A learning culture is embedded at the heart of the programme and is designed to:

- provide opportunities and space for learning and reflection;
- act as a formative and iterative programme design and implementation stimulus; and

- capture learning that can feed into knowledge products and guide the wider sustainable land use investment community.

To support this learning culture, the P4F facility has started to implement the following processes and approaches:

- monthly learning and reflection opportunities;
- monitoring and reporting processes designed to identify and capture learning outputs;
- an incentive framework and accompanying opportunities for P4F team members to identify and share learning; and
- a comprehensive set of KPIs in the area of leadership, collaboration and learning outputs.

The Latin American platform will benefit from the early learning from the programme. We also anticipate there will be a strong learning benefit to the programme as a whole from the inclusion of Latin America, particularly Brazil, given the relatively advanced and mature opportunities for investments in sustainable forests and land-use.

Results and reporting

A results framework has been developed and is being integrated into the programme, though more work is required to ensure consistency down to the project-level. The results and accompanying indicators, milestones and targets have been designed to guide programme implementation, performance, financial accounting and reporting. This includes reporting and formal management (via the logical framework), programme management (via a range of output based monitoring tools, analysis and reports), programme performance and financial charging (via the programme KPIs and milestone payments framework under which the programme is managed).

A reporting cycle has been established to provide regular reporting of results and related indicators, milestones and targets. Reporting templates are succinct and focused in order to provide clear and accessible information about the programme, while minimising the burden of both preparing and signing off reports. Quarterly reports are submitted in December, March and June, with an annual report submitted in September.

Reporting on Latin America will be incorporated within these reports and related reporting cycle, providing the UK government with a single set of programme reports. Specific management meetings to discuss quarterly and annual reports and provide feedback will commonly be held between the P4F team, DFID and BEIS.

For DFID, the programme Annual Review falls due on 9 December. The annual programme report, submitted in September, provides the information needed to complete this exercise. BEIS will align with this reporting cycle. BEIS and DFID will compile separate but coordinated annual reviews, covering respectively Latin America activities (BEIS); and the global programme and regional interventions in West and Central Africa, East Africa and South East Asia (DFID).

The MEL strategy has been designed as a living strategy which will evolve as the programme matures and the evidence base is strengthened. In particular the ToC, the results framework and the learning questions have been designed to be regularly reflected on, reviewed and, where appropriate, revised.

The MEL strategy will be reviewed at least annually and revised as necessary. This will include the following key activities:

- An annual formal review workshop of the ToC and results framework, to coincide with annual reporting, annual review and indicator review processes (Oct-Nov).
- A quarterly review of progress against results framework indicators.
- Monthly learning events to identify and share learning within the team.
- A scheduled programme of sharing learning externally and knowledge exchange activities.

In addition to programme level MEL, the P4F facility will undertake a range of MEL activities associated with specific Forest Partnerships, enabling conditions and demand-side interventions. The exact details of this remain

to be confirmed, as the projects are confirmed and enter the respective grants and technical assistance processes and specific MEL requirements are established.

The P4F hub in Latin America will apply this MEL system, providing BEIS with information to support learning and adaptive management of programme activities.

Independent evaluation and learning

When the programme commenced in 2016 it was assessed as having a medium evidence base with some elements supported by only limited evidence. The programme is also novel and innovative. Accordingly, a significant investment in evaluation and learning is planned. A contract for an Evaluation Manager for P4F was tendered by DFID in 2016 and awarded to LTS International in April 2017.

The Evaluation Manager is now mobilising and began working with the P4F facility in May 2017, with responsibility for:

- developing a programme evaluation and learning framework, in consultation with DFID and the P4F facility;
- developing a baseline to support future evaluation of programme outcomes and impacts; and
- implementing an evaluation and learning framework for P4F programme activities.

The baseline should provide an initial point of reference to support future evaluation, while the evaluation and learning framework should aim to describe the extent to which programme activities have contributed towards the programme outcome; explain how and why outcomes were achieved; synthesise lessons learned from the programme; examine the programme against DAC criteria reflecting on the relevance of interventions; responsiveness to changing contexts; impact; sustainability; equity; and value for money; and make recommendations for adaptive management for consideration by DFID, BEIS and the P4F facility; and in later years of the contract, make recommendations for the scope of future phases of work.

Annual learning reports will also consider whether risks and assumptions inherent in the programme approach are valid, whether any need to be modified, and whether any actions should be undertaken to mitigate risks. Further consideration is needed on whether these should focus on different specific topics in each instance.

Learning questions across the programme will be developed through consultation between the P4F facility and the Evaluation Manager. Evaluation and learning will inform knowledge management and lesson-learning in the programme. Areas where important lessons of wider relevance are anticipated include ways of arranging and structuring public-private cooperation to tackle deforestation, ways to design and implement projects that benefit commercial and community interests, ways of working with private companies to reduce deforestation, and ways that do not work. Lessons will be shared through papers, publications, seminars and events relevant for climate and the environment and also for social and gender issues.

During the initial six months of the Latin America programme window, BEIS will decide whether to invest in the P4F Evaluation Manager contract to fund independent evaluation and learning around the Latin America portfolio or whether to procure separately for this function. DFID will support this process by clarifying and facilitating any procedural requirements and related approvals. In the interim, DFID will engage BEIS in the review of evaluation manager's initial deliverables whilst also commissioning their external peer review through the EQUALs service.

Time required to mobilise and build up the portfolio means that in the early phase of the Latin America programme, results and learning are likely to be generated from the other regions helping to inform the approach to forming and supporting Forest Partnerships in Latin America. In the longer term, the potential for results at scale and the transfer of significant learning from Latin America to other regions of the world is high.

Exit strategy

At the intervention level, the exit strategy is based on the programme incubating commercially viable projects which attract commercial finance and generate returns, ensuring no further need for public support. At the programme level, the exit strategy is based on learning from the innovative pilot partnerships funded by the

programme, replicating these and nudging the innovation towards mainstream industry practice. Collaborative platforms, such as the Tropical Forest Alliance 2020, will be important in realising this exit strategy.

Annex A – The International Climate Fund (ICF) and Forest Finance

The UK is an established leader in climate finance, which is provided through the International Climate Fund. In 2015 the UK committed to provide 'at least' £5.8bn of climate finance to developing countries in 2016-2021. The ICF, which is the means by which this finance is delivered, has a strong focus on 'transformational change'. This is defined as change that catalyses further changes and ultimately results in a global shift towards low-carbon, sustainable growth in line with limiting global temperature rise to well below 2 degrees.

The 'guiding principles' of the ICF describe how transformational change is to be achieved, through:

- ***Innovating to overcome critical barriers in the market****:* Take financial and technological innovation to developing country markets and test approaches tailored to their unique contexts
- ***Investing with impact by mobilising private capital at scale****:* Embed private finance and technical assistance across the portfolio to enhance the impacts and success of our projects
- ***Inspiring by sharing UK skills to raise ambition****:* Harness UK strengths and leadership in key countries, sharing evidence and expertise to build confidence and capabilities

A recent revision of the ICF strategy places greater emphasis on deeper relationships with countries, as a way of securing better policy impact where the UK delivers climate finance.

Forests and land use are a key focus of the ICF. The UK programmes approximately 20% of its climate finance to stop deforestation and strengthen management of forests in developing countries. At COP21 in Paris, the UK, together with Germany and Norway, publicly pledged to deliver USD$5bn of forest finance between 2015 and 2020 to support ambitious action to halt deforestation, subject to credible programmes being developed.

All three ICF Departments (BEIS, DFID and Defra) have programmes focussed on this sector. DFID supports programmes focused on tackling illegal logging and related corruption; and on encouraging sustainable trade, and promoting private sector investments based on legal and sustainable supplies of timber and agricultural commodities. Defra funds programmes which promote sustainable agriculture and protect biodiversity.

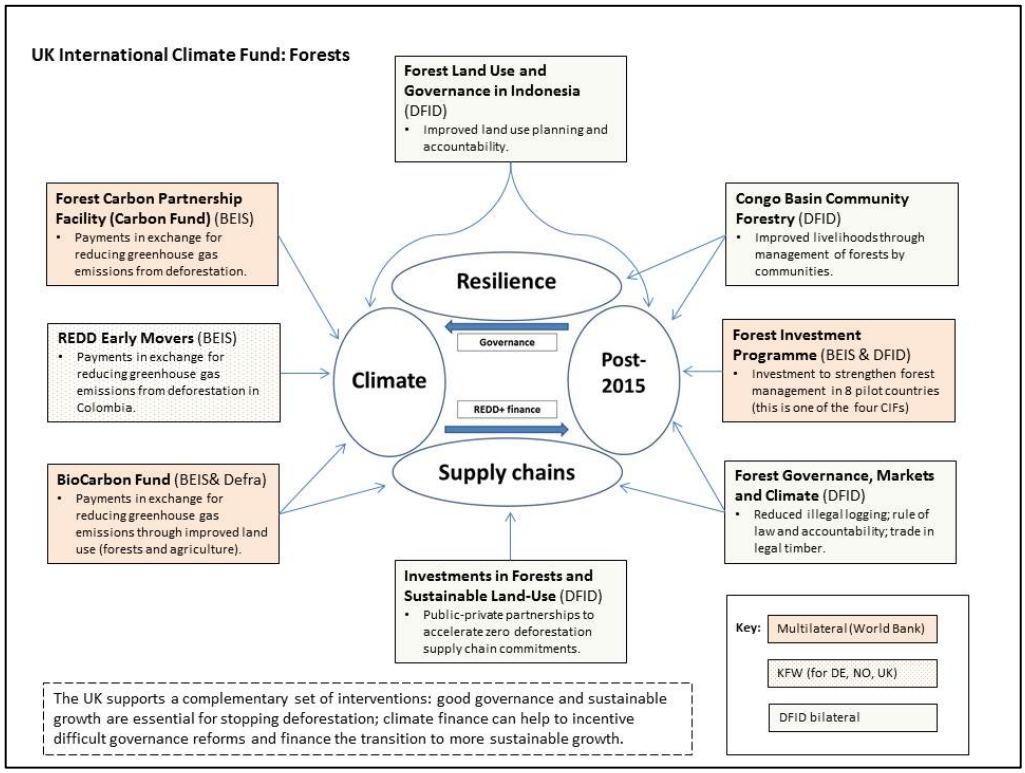
BEIS ICF forest investments to date have focussed on incentivising large-scale action to reduce emissions from deforestation through an approach agreed by United Nations Framework Convention on Climate Change (UNFCCC). REDD+, as it is known, encourages countries to put in place forest monitoring systems, develop national or sub-national plans, build technical and institutional capacity, consult stakeholders and establish a baseline for forest emissions against which reductions (results) can be financially rewarded.

This portfolio of interventions (Figure 8) has the broad strategic aim of providing proof-of-concept for a new land-use paradigm which promotes forest protection alongside sustainable agricultural production, meeting climate and development goals.

A review of BEIS' ICF and forest finance strategy was conducted over 2016-17, based on analysis of evidence to date, surveys and in-country visits and consultations with key stakeholders. A Ministerial steer on the forest finance strategy will be sought in August 2017. Our recommendation is that BEIS:

- focusses on ambitious, committed partners with the greatest chance of quick results, to inspire further ambition by 2020;
- incentivises action from the "top-down" (particularly market-based approaches at a national or sub-national scale) and "bottom-up" (working with multiple stakeholders on the ground to promote sustainable production and trade of key agricultural commodities);
- support the private sector overcome the barriers to implementing zero-deforestation supply chains by 2020 and align with policy objectives to reduce the UK's "forest footprint".

Figure 8: ICF forest portfolio (not including Defra bilateral projects)



The ICF currently supports a substantial portfolio of interventions in Latin America (Table 7). Interventions currently supported include a major focus on results-based payments for verified emissions reductions, through the Forest Carbon Partnership Facility, the BioCarbon Fund and REDD Early Movers, as well as support for sustainable agriculture in Brazil through the multilateral Forest Investment Fund, as well as through Defra bilateral projects. This support in Brazil is targeted at the Cerrado and Atlantic regions. Defra also support some impact investment in Peru, through the Eco.Business Fund.

Partnerships for Forests has the potential to complement these interventions, through an offer of flexible grant finance and technical assistance to develop partnerships and investments. This will help to engage private sector and develop investments which are nested within jurisdictional emissions reductions programmes (this has been a key shortcoming in results-based programmes to date); it will complement Defra investments in sustainable Brazilian agriculture through the potential to link this work to broader shifts in international markets (and through supporting sustainable agricultural investments in other regions of Brazil and the wider Amazon Basin); and it has the potential to collaborate closely with the Eco.Business Fund, using grants and technical assistance to develop projects which the Eco.Business Fund could potentially invest into. Successful collaboration of this nature has been established with impact investors in other programme regions.

Table 7: ICF support for forest projects in Latin America.

Fund	Dept.	Relevant Geographies	Examples of Activities Supported
Forest Carbon Partnership Facility (FCPF) Carbon Fund	BEIS	Peru	Results-based payments for verified tonnes of emission reductions.
FCPF Readiness Fund	BEIS	Colombia (Pacific Region), Peru	Technical assistance and upfront investment in REDD+ readiness.
BioCarbon Fund Investment in Sustainable Forest Landscapes	BEIS and Defra	Colombia (Orinoquia)	Combines results based finance, technical assistance and blended finance (IFC, PPPs) at landscape-level.
REDD Early Movers	BEIS	Colombia (Amazon)	Results-based payments, with finance channelled into investments which help further reduce deforestation and improve livelihoods in the Amazon, based on five main 'pillars' of implementation: (1) strengthening forest governance (2) cross-sector coordination (3) establishing sustainable agricultural systems (4) supporting indigenous peoples and protecting their rights (5) building an enabling framework including strengthening Colombia's deforestation monitoring system.
Proyecto Ganadería Colombiana Sostenible – Sustainable Cattle Ranching Project	BEIS	Colombia	Promotes climate smart cattle ranching at forest fringes through technical assistance and payments for environmental services.
Forest Investment Programme	DFID, BEIS	Brazil, Peru	FIP grants and low-interest loans, channelled through partner multilateral development banks (MDBs), are empowering countries to address the drivers of deforestation and forest degradation both inside and outside of the forest sector to achieve the triple win of being good for forests, good for development and good for the climate.
Reducing Deforestation in the Brazilian Cerrado	Defra	Brazil (Cerrado biome)	Promotion of farmer compliance with the Brazilian Forest Code through environmental registration of rural holdings (CAR – Rural Environmental Registry) in 14 municipalities. Promotion of controlled burning, prevention of forest fires, replacement of burning by more sustainable agricultural practices and strengthened firefighting capacity
Low Carbon Agriculture for Avoided Deforestation	Defra	Brazil	Supports small and medium sized farms to implement low-carbon agriculture, protecting forests and biodiversity.
Eco.business Fund – South America	Defra	Initially Peru, Colombia	The Eco.business Fund is a public-private partnership. The fund promotes business and consumption practices that contribute to biodiversity conservation and the sustainable use of natural resources and which mitigate climate change and adapt to its impacts.

Annex B P4F Latin America Scoping Study

The report compiled by Palladium and McKinsey&Company is provided as a separate document.

Annex C – Example Interventions from the current DFID P4F programme

Forest Partnerships

As of mid-March 2017, four Forest Partnerships had been approved by DFID under the current programme for funding and implementation. These are:

- *Ethiopian Wild Coffee* (see box)- aiming to increase incentives for forest conservation by developing a value chain for high-quality forest coffee.
- *Niassa Natural Capital Association* - bringing together a cross-section of stakeholders in Niassa, Mozambique, to create a new and innovative institution to manage sustainable land use at the landscape scale.
- *Ecosystem Restoration Concessions (ERCs)* - seeking to transform forest management in Indonesia by creating business models for ERCs that create value from standing forest or from forest restoration
- *Lestari Capital Sustainable Commodity Compensation Fund* - building a value chain for conservation and emission reduction services in Indonesia.

Ethiopia Wild Coffee

The Ethiopia Wild Coffee partnership has been supported by P4F through grants to Boot Coffee and Farm Africa in order to carry out an analysis of potential supply and demand and design a blueprint for the future value chain. The work funded has included the collection of around 80 samples of "forest coffee" from different regions, and 'cupping' of the samples. Cupping is a standardised protocol to taste and score the quality of coffee. A large proportion of the samples showed undisputable quality potential, with high scores similar to other speciality coffees. The samples also came from large areas of forests. The 80 co-operatives where the samples were collected cover around 200,000 hectares of forest, which is under participatory forest management. P4F also funded the launch of the partnership, in collaboration with the Ethiopian government, at the Global Speciality Coffee Expo in Seattle in April. The findings of the analysis and sampling were presented in order to attract demand-side partners and create a viable sustainable business.

Enabling Conditions

Three enabling conditions projects have been approved for funding and implementation:

- The TFA2020 Africa Palm Oil Initiative (APOI) (see box)– enabling the transition of the APOI from principles agreed nationally and regionally to actions on the ground.
- Developing a joint framework for action for deforestation-free cocoa in Ghana and Cote d'Ivoire.
- Operationalizing Zero Deforestation Commitments: High Carbon Stock Convergence (HCS) with High Carbon Value (HCV) and Free Prior and Informed Consent - aiming to develop a single, operational, methodology that companies can use as a tool to help them meet their zero-deforestation commitments.

TFA2020 Africa Palm Oil Initiative

Launched in Marrakech in November 2016, the TFA2020 APOI started to receive grant funding from P4F in the first quarter of 2017. P4F funding supports work to:

- build and strengthen projects for responsible palm oil production;
- finalise national principles and action plans in the producer countries;
- create national palm oil platforms in ten countries;
- implement the national action plans; and
- promote regional harmony, learning, and monitoring to support the regional palm oil platform.

Demand Side Measures

The programme supports the secretariat for the Tropical Forests Alliance 2020 – the main multi-stakeholder platform working on deforestation free supply chains; and also for the Amsterdam Declaration group in Europe (see box) - a group of governments committed to supporting industry meet their zero deforestation supply chain commitments.

Amsterdam Declaration

> *"Recognising the need to eliminate deforestation in relation to agricultural commodity trade with our countries, we - as European countries and as member states of the European Union - take note and declare ourselves supportive of the private-sector and public initiatives to halt deforestation by no later than 2020"*

The Amsterdam Declaration was signed by Denmark, France, Germany, Italy, the Netherlands, Norway and the United Kingdom to support the private-sector goal of zero net deforestation and, in particular, the commitments expressed in the New York Declaration on Forests, underlining the global importance to preserve primary forests and high conservation value areas including through responsible supply chain management.

In support of the Declaration, the signatory countries:

1. Will help the private sector meet their goals of eliminating deforestation;
2. Encourage more companies to set deforestation commitments and join initiatives;
3. Invite more companies to voluntarily report on Corporate Social Responsibility and their carbon footprint;
4. Promote multi-stakeholder partnerships, working coherently on supply chain instruments, landscape approaches and climate change instruments;
5. Invite the European Commission to foster partnership initiatives by Member States;
6. Encourage implementation of the EU trade strategy with regard to responsible supply chains;
7. Encourage integration of the elimination of deforestation in current dialogues and (trade) agreements with producer countries;
8. Support policy options and a roadmap towards an EU Action Plan on Deforestation.

A P4F grant has supported facilitation, coordination and administrative support to the Amsterdam Declarations.

Annex D – Extract from IFSLU Business Case – Assessment of implementation through a technical assistance facility option

Table 3.22: Option 4 assessment against criteria

Criteria	Assessment
Potential to work in ways that are aligned with private sector norms and practices	A grant programme focused on the provision of technical assistance would not operate in ways that are directly aligned with private sector norms, but could work in ways that are complementary. A grant programme manager would be focused not on achieving a financial return, but on outcomes that facilitated private investment. **Overall score = 2**
Potential to offer products and services to attract and engage successfully with private sector entities	A technical assistance facility could not provide debt or equity support to private investments, but would not be able to provide technical assistance and grant funding to support project development, broader pre-competitive partnerships with the private sector, and technical assistance to improve enabling conditions for private investment. **Overall score = 2**
Potential to apply an objective and transparent basis for managing resource allocation	Resources would be allocated according to an investment policy established by public funders overseeing the facility, with related reporting requirements. **Overall score = 3**
Potential to take decisions on the basis of financial return, taking into account policy priorities of carbon, poverty and biodiversity	Grants would not be allocated on the basis of financial return, but would be used in ways that complement and support investments which the programme aims to support. **Overall score = 2**
Potential to apply quick and efficient decision-making, with minimal bureaucracy	Decision-making would be quick and efficient and fully aligned with private sector norms. **Overall score = 3**
Potential to adapt over time, to reflect changing market circumstances and needs	Grant funding has the potential to be used in ways that are significantly more adaptive and flexible than capital investments. Grant agreements can be structured in ways that allow for regular review and revision, funding commitments can be set over a relatively short period, and funds can be used to support and incubate early stage ideas that emerge during programme implementation. **Overall score = 4**
Potential to ensure interventions are sustainable and last beyond the project lifetime	The sustainability of interventions over time would depend on the long-term viability of the investments which are financed. Support for enabling conditions and policy reform will help to ensure the longer-term sustainability of programme investments. **Overall score = 3**
Potential to ensure that funds are invested coherently in a portfolio with potential to support or demonstrate transformational change	The focus would be on creating and investing in a portfolio that facilitated investments and achieved outcomes in terms of reduced deforestation. This would help to demonstrate how responsible private investment can play an important role in reducing deforestation. **Overall score = 3**
Potential to provide quality inputs at acceptable administrative cost	Final costs would be determined through an approach to market. Grant-making funds typically approach team structure and compensation from a different perspective when compared to investment funds. Pricing is often done on a cost plus basis. **Overall score = 2**

Scores: 1 = unsatisfactory; 2 = weak; 3 = satisfactory; 4 = strong

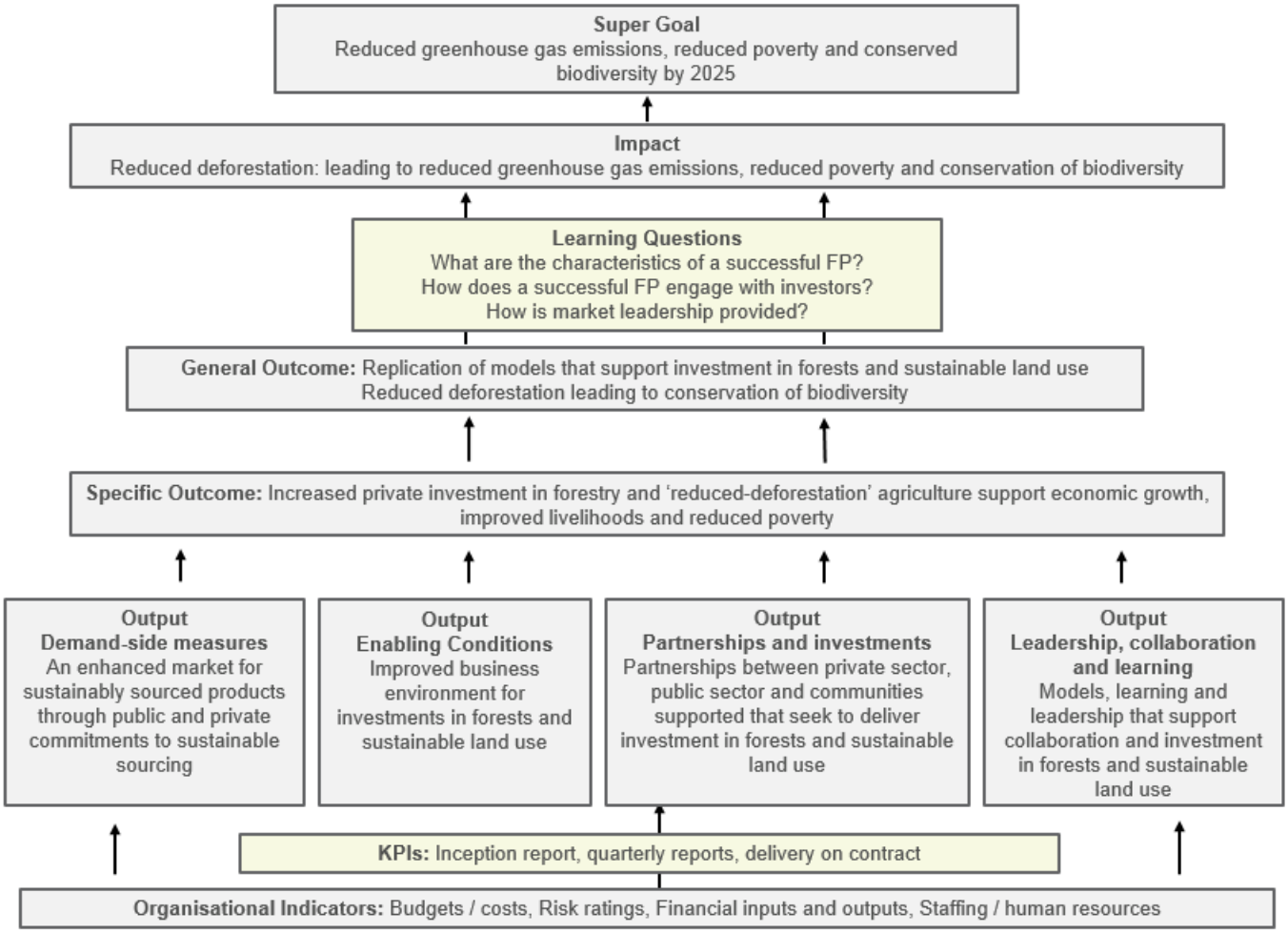
Annex E – Extract from IFSLU Business Case – Assessment of outsourced management option

Table 3.14: Option 2c assessment against criteria

Criteria	Assessment
Potential to support the implementation of demand-side policies to increase demand and market share of sustainably produced timber and agricultural commodities.	Outsourced management could be contracted to provide grants and technical assistance to support public and private organisations to plan and implement demand-side measures. There are a number of service providers which specialise in offering such support. The UK has established this type of service through a contractor to support the implementation of a timber procurement policy. A number of service providers, such as ProForest and The Forest Trust (TFT), assist governments and companies to improve the sustainability of their procurement policies. **Overall score = 3**
Potential to provide effective support to improve the enabling environment for private investment in sustainable agriculture and forestry.	Outsourced management could be contracted to provide effective support to improve the enabling environment. There are a number of service providers which specialise in offering such support. For example, DFID works a number of companies that provide facilitation and technical assistance services to support implementation of measures to tackle illegal logging in a wide range of developing countries. **Overall score = 3**
Capacity to quickly establish and resource technical cooperation units in priority countries.	Outsourced management could be contracted to establish and resource technical cooperation units in priority countries. It would take some time to mobilise such support, but there are service providers which would be capable of providing such support. **Overall score = 3**
Expected ability to partner and co-finance with private investors to reduce deforestation.	DFID has some experience of outsourcing management of programmes to partner and co-finance investments with the private sector. This can be achieved through challenge funds or facilities to develop and finance projects such as those established under the PIDG. This type of outsourcing has not been tried in the forestry sector, although DFID contributes to (but did not initiate) AgDevCo, which supports similar work in the agriculture sector. Nevertheless, outsourcing this function would require identifying a suitable service provider from outside the range of suppliers which normally provide services to support implementation of forestry technical assistance programmes. **Overall score = 3**
Expected scope to respond flexibly to results and opportunities.	Terms of reference, output-based contracts and other incentives can be used to encourage service providers to respond flexibly to results and opportunities. Light, lean management arrangements and carefully designed business systems can help to ensure that opportunities are recognised quickly and a timely. **Overall score = 3**
Management requirements, reflecting expected set-up time and administrative cost to DFID.	This option would require a significant investment of management time to establish and oversee, but would offer the advantage of providing management arrangements that are tailored to the needs of the programme. Management inputs would peak during inception and in the early stages of implementation, and would diminish over time, as service providers became established and operational. Setting up new bilateral programme arrangements would also result in DFID taking on more visible risk. This risk would be reputational in nature (relating to ability to deliver a challenging and visible programme) and would not place public funds at risk of misuse (strong and direct financial oversight would be possible to implement through this approach). **Overall score = 2**

Scores: 1 = unsatisfactory; 2 = weak; 3 = satisfactory; 4 = strong

Annex F: P4F Results framework



Note: areas shaded in blue are proposed for inclusion in the logical framework used for programme reporting to DFID.

Super-Goal and Vision				
Statement	**Indicator**	**Source**	**Who collects?**	**When?**
Reduced greenhouse gas emissions, reduced poverty and conserved biodiversity by 2025	Long-term goals such as this are outside the scope of the programme. They could be measured through SDGs or other national-level metrics, but it is doubtful that P4F work would feed into these changes over the course of the programme. Reduced greenhouse gas emissions, reduced poverty and conserved biodiversity could sometimes be assessed through individual projects.			

Impact					
Statement	**Indicator**	**Source**	**Who collects?**	**When?**	**Target**
Reduced deforestation - leading to reduced greenhouse gas emissions, reduced poverty and conservation of biodiversity	Rate of deforestation in developing countries (ICF KPI 8)	FAO Forest Resources Assessment (FRA) 2010, 2015, 2020 Global Forest Watch	FAO	Reports due in 2015 and 2020	Target: [10 million hectares a year (average 2010-2020)][56] Baseline: Deforestation accounts for 10% of global greenhouse gas emissions (IPCC AR5)
	Volume of [reduced] CO_2 emissions from avoided deforestation and degradation and re-forestation	Intergovernmental Panel on Climate Change (IPCC) Assessment Reports; national reports on implementation of the UN Framework Convention on Climate Change (UNFCCC). Alternative estimates derived from deforestation rate applying appropriate conversion factors.	UNFCCC	End of project	[#]57 Baseline: Deforestation accounts for 10% of global greenhouse gas emissions (IPCC AR5)

The first general outcome described below is the main vehicle that links changes in discrete projects (FPs, demand side measures and enabling conditions support) to wider changes. Without this replication many more widespread benefits will not happen (although some may come through the 'demand-side' channel). The second indicator is to address biodiversity outcomes of particular interest to DEFRA.

General Outcomes					
Statement	**Indicator**	**Source**	**Who collects?**	**When?**	**Target**
Replication of models that support investment in forests and sustainable land use.	# and description of models replicated, adapted and/or scaled[58] (ICF KPI 15)	Case studies developed by P4F M&E staff or external evaluators. (this may not happen until after the first phase of P4F has ended)	P4F M&E team / external evaluators	As and when models are replicated	[3 by 2020]
	# and description of cases where stakeholders have acted on the basis of P4F lesson learning	P4F M&E staff	P4F M&E staff / external evaluators	From annual or bi-annual survey and KIIs. Scanning all learning objects for evidence of use.	[5 by 2020]
Reduced deforestation leading to conservation of biodiversity	# and description of cases where P4F has contributed to conserved biodiversity	Case studies developed by P4F staff. These may be based around individual investigations and process tracing where required.	P4F M&E team FP staff	Ad-hoc	[3 by 2020]

Specific Outcomes					
Statement	**Indicator**	**Source**	**Who collects?**	**When?**	**Target**
Increased private investment in forestry and 'reduced-deforestation' agriculture support economic growth, improved livelihoods and reduced poverty	Level of private investment mobilised (ICF KPI 12)	P4F records based on publicly available private finance pledges	P4F M&E team	As and when P4F related agreements and contracts are signed.	[£150m invested by 2020]
	# and description of cases where there has been a change in livelihoods and/or employment and/or reduced poverty with a contribution from P4F interventions	Case studies developed by P4F staff. These may be based around individual investigations where required.	P4F M&E team GESI	Ad-hoc	[3 by 2020]

[59] Outputs					
Statement	**Indicator**	**Source**	**Who collects?**	**When?**	**Target**
Demand-side measures An enhanced market for sustainably sourced products through public and private commitments to sustainable sourcing.	# and description of cases where P4F have supported demand side policy change, at public (sub-national, national or international) or corporate level, that enhance forests and sustainable land use investment.[60] P4F management records / database.	Case studies and targeted policy review to provide evidence of change.[61]	Relevant bodies produce reports and websites. P4F M&E staff (or external evaluators) conduct contribution analysis / process tracing.	As and when 'claims' are made by P4F	[2 by 2020]
	# and description of cases where P4F have contributed to value or commodity chain change with regards to enhanced forests and sustainable land use.	P4F management records / database Case studies and targeted policy review to provide evidence of change	P4F staff P4F M&E team	Ongoing	[1 by 2020]
Enabling conditions Improved business environment for investments in forests and sustainable land use.	# and description of cases where P4F has supported organisational change or national or international initiatives designed to enable private investment in forests and sustainable land use.	Targeted policy review to provide evidence of change. Contribution analysis or process tracing to provide evidence of P4F influence.	P4F staff P4F M&E team	Ongoing	[3 by 2020]
	# and description of cases of FPs that have benefitted from an enabled business environment as a result of P4F support.	P4F management records / database	P4F staff P4F M&E team	Ongoing	[7 by 2020]
Partnerships and investments Partnerships between private sector, public sector and communities supported that seek to deliver investment in forests and sustainable land use.	# of concept notes that are accepted into the FP maturity funnel following rigorous assessment.62 [FPMF entry]	Concept notes submitted to P4F P4F management records / database	P4F staff	Ongoing	[35 by 2020]
	# and description of FPs with an MoU and full proposal accepted as a result of P4F support.63 [Decision gate 1]	FP concept notes MOUs between FP principals	P4F management records / database P4F staff	Ongoing	[15 (of 25) by 2020]64
	# and description of FPs with a business plan and investment plan or prospectus as a result of P4F support. [Decision gate 2]	FP business plans, investment plans or prospectus Updated MOUs between FP principals P4F management records / database	P4F staff	Ongoing	[15 (or 20) by 2020]

	# and description of FPs with initial resource commitments and ready to undertake a pilot or trial as a result of P4F support. [Decision gate 3]	Contracts Letters of commitment Updated MOUs between FP principals P4F management records / database	P4F staff	Ongoing	[10 (of 15) by 2020]
	# and description of FPs ready and prepared for commercial scale-up as a result of P4F support. [Decision gate 4]	FP business plans, investment plans or prospectus Updated MOUs between FP principals P4F management records / database	P4F staff	Ongoing	[7 (of 13) by 2020]
	# and description of FPs with new or enhanced stakeholder acceptance planning (including gender and social inclusion) as a result of P4F support.	FP business plans, investment plans or prospectus Updated MOUs between FP principals P4F management records / database	P4F staff GESI	Ongoing	[10 by 2020]
Leadership, collaboration and learning	Understanding of the level and reasons for pass / fail / return of FPs.	Portfolio level report and supporting case studies based on data analysis and interviews with failed FPs to each decision gate within the FPMF.[65]	P4F M&E team GESI	Annual	[Current baseline = No understanding Target = clear understanding Milestone 1 = FPMF analysis and learning report (2017). Milestone 2 = FPMF analysis and learning report (2019).]
	# of P4F learning papers, FP models and case studies described and communicated.66	P4F M&E / Comms team records / database	P4F staff GESI	Ongoing	[20 by 2020]
	# of people accessing [key] P4F publications, associated resources and messages.67	P4F M&E / Comms team records / database	P4F staff	Ongoing	[# by 2020]
	# and description of initiatives with enhanced or high value collaboration68 undertaken by P4F.	P4F M&E / Comms team records / database	P4F staff	Ongoing	[20 by 2020]

	# and description of events with a substantial contribution69 from P4F.	P4F M&E / Comms team records / database	P4F staff	Ongoing	[30 by 2020]

The KPIs as taken from P4F milestones schedule.

KPIs					
Statement	**Indicator**	**Source**	**Who collects**	**When**	**Target**
Cross-cutting milestones	Annual Learning Event	Workshop Report	TBC	Annually	Submission
	Quarterly M&E Reports	Report	TBC	Quarterly	Submission
	Quarterly Comms & Outreach Report	Report	TBC	Quarterly	Submission
	Quarterly Grants Management Report	Report	TBC	Quarterly	Submission
	Annual Selection of Intern Candidates	Intern List	TBC	Annually	Submission
	Biannual Indicator Updates	Report	TBC	Bi-annually	Submission
	Quarterly Financial Reports	Report	TBC	Quarterly	Submission
	Annual Work Plan	Work plan	TBC	Annually	Submission
	Annual Budget	Budget	TBC	Annually	Submission
	Annual Reviews	None	TBC	Annually	Submission
	Final Report	Report	TBC	2020	Submission
Results-based milestones	Quality of deliverables and alignment of project outputs to project need	Contract outputs vs Actual achieved to the agreed standard	TBC	TBC	All agreed project outputs delivered to the agreed quality standards agreed and approved by the DFID Programme Lead
	Programme is delivered on time by the milestone dates stated in the contract	Contract Milestone Dates vs Actual Milestone dates	TBC	TBC	All milestones delivered within 2 weeks of the identified milestone date
	Programme reports are submitted on time with the required inputs to the required quality standard	Expected number of programme reports and content of report vs Actual number of programme reports received and content of report	TBC	TBC	All programme reports/audits submitted on time in line with agreed timeframes and to contain the level of detail/information agreed and approved by the DFID Programme lead
	Programme is delivered to budget	Anticipated Final Cost/Forecast vs Actual Final Cost (from DFID forecasts)	TBC	TBC	Total Cumulative programme costs to date within Contracted programme costs
	Satisfaction of FP transaction partners	Satisfaction surveys	TBC	TBC	Partner satisfaction score for the period of assessment to be greater than 70%.
	Accuracy and timely submission of forecasting and invoices	The number of invoices and the accuracy of the value of invoices due within the period of assessment	TBC	TBC	All invoices to be submitted in line with agreed milestone payments with regards timeliness and accuracy

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