

Annual Review - Summary Sheet

Title:

Low-carbon Agriculture for Avoided Deforestation and Poverty Reduction Phase II

Programme Value: £30 million

Review Date: March 2020

Programme Code: PO013

Start Date: Dec 2016

End Date: Dec 2022 (to be revised to February 2024)

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Summary of Programme Performance

Year	2017	2018	2019
Programme Score	No annual review	No annual review	B
Risk Rating	Moderate	Moderate	Moderate

Introduction

This is the first annual review of the International Climate Finance (ICF) programme “**Low-carbon Agriculture for avoided deforestation and poverty reduction Phase II**” (“**LCA Phase II**” hereafter), which takes place in the Cerrado and Caatinga biomes of Brazil. This review assesses the programme’s performance from December 2016 to December 2019 – a period covering the design and mobilisation period. Due to delays in developing a logframe, there were no agreed indicator targets for this period. As such, the annual review assessment is based on two areas: the quality of outputs from the design phase and the qualitative evidence of the programme’s overall progress thus far. The programme receives an overall score of **B**, reflecting that it is *moderately not meeting expectations*. In light of this score, this report proposes a series of remedial actions.

In alignment with Her Majesty’s Government (HMG)’s strategic aim to tackle climate change and reduce poverty through ICF, the Department for Environment, Food and Rural Affairs (Defra) has been investing

ICF to support sustainable rural development in Brazil since 2012. LCA Phase II is built upon the success and experience from a previous ICF programme, which focused on combatting deforestation and mitigating climate change by promoting low-carbon agriculture in rural Brazil. Under the previous programme (“**LCA Phase I**”), £24.9 million was invested from 2012 to 2019 in promoting low-carbon agriculture in the Amazon and Atlantic Forest biomes of Brazil. LCA Phase I, delivered by the Inter-American Development Bank (IDB), demonstrated that low-carbon agriculture could sustainably intensify agricultural production, whilst protecting the natural environment and rural livelihoods. In 2016, recognising the increasing climate and biodiversity significance of the Brazilian Cerrado, Defra committed a further £30 million of ICF, aiming to expand programme activities to the ‘MATOPIBA’¹ region of the Cerrado biome.

LCA Phase II was designed based on the lessons and evidence gathered from LCA Phase I. LCA Phase II has since undergone an extensive design and mobilisation period. During this period, a number of key changes in terms of the programme’s geographical scope and project components have been made to the original proposal. The changes in geographical scope were a direct result of a series of discussions between Defra, IDB and the Brazilian Ministry of Agriculture on priority areas of intervention. Changes to the project components were made due to lessons that emerged as LCA Phase I came to an end. In October 2017, LCA Phase II expanded its scope to include the entire Cerrado biome and in March 2018, £5 million of the total funding was earmarked for a project in northeast Brazil, in the Caatinga biome. The project components as set out in the business case have also been replaced as a result of the design phase. These are further discussed in section A below.

Despite the change to the individual project components, the overall theory of change for the intervention remains the same: that shifting to low-carbon agriculture helps combat deforestation whilst simultaneously reducing poverty for those most vulnerable to the effects of climate change. Through educating farmers about the benefits of low-carbon agriculture and encouraging the uptake of these practices, the programme aims to drive behaviour change and increased adoption of low-carbon agriculture in rural Brazil. The programme focuses on technologies which aim to increase agricultural productivity sustainably by restoring degraded lands and integrating different production systems (i.e. crop, livestock and forests). As shown in LCA Phase I, the theory of change is that adopting these practices will both restore land productivity in degraded areas and reduce the need for exploiting further mature forests for agriculture purposes. The LCA Phase II programme aims to ensure that farmers who convert their land to low-carbon agriculture will be able to earn more income from production and have more secure livelihoods as a result.

Summary of Progress

Programme design: Following business case approval, Defra and IDB established the “Low-carbon agriculture for avoided deforestation and poverty reduction trust fund” (LCA Fund) in late 2016 to finance projects nested within the programme. Defra and the IDB then agreed to fund a design phase. The design phase, which ran from July 2017 to May 2018, commissioned a series of studies and lesson learning workshops (based on LCA Phase I). At the end of this phase, the IDB concluded that the rest of the programme would be executed via three projects – (1) Cerrado, (2) Caatinga and (3) Monitoring, Evaluation (M&E) and Knowledge Management (see Fig. 1).

¹ The MATOPIBA region is comprised of those areas of the states of Maranhão, Tocantins, Piauí, and Bahia that are in the Cerrado biome.

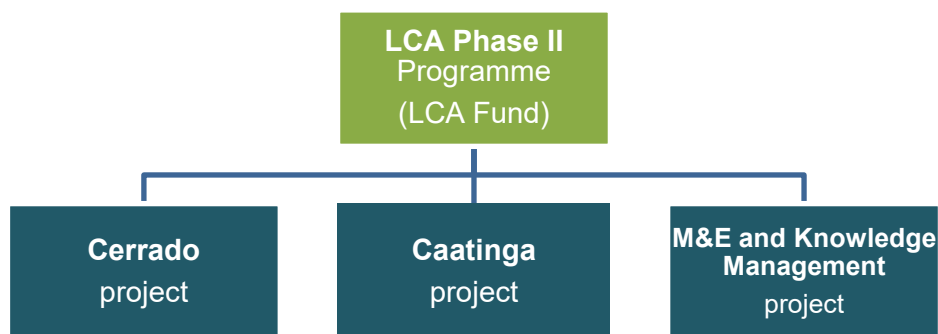


Figure 1: LCA Phase II Programme structure

Project design: The IDB went on to spend a further 14 months designing the three project areas outlined above and obtaining internal approval for their design. This additional time period for design work had not been factored into Defra's original programme delivery plan.

In 2018, Defra was notified by the IDB that the project design work could not progress until all funding for the projects was received by the IDB². This created further delays before implementation could begin which were accentuated by organisational changes within the IDB and changes to the political and policy contexts in Brazil after the presidential elections in October 2018. As a result, the project designs were not finalised until July 2019.

Project mobilisation: The following five months (August – December 2019) saw a period of project mobilisation, where progress was slower than Defra expected. Executing agencies IABS³ and FBDS⁴ were contracted to deliver the Cerrado and Caatinga projects respectively, and additional IDB resources were mobilised to execute the M&E project. Although the IDB has prepared three separate results matrices for the projects, there was not a logframe in place for the overarching programme. Defra raised this to the IDB but the development of an overarching logframe did not start until October 2019. With Defra support, a draft logframe was in place by December 2019.

As of December 2019, the programme completed its third full year of operation and in January 2020 entered full implementation.

Key Lessons

1. **There is a need for improved communication on the internal systems and processes of the IDB and Defra.** Clarity on key delivery milestones and internal processes, including timelines, is crucial in order to manage mutual expectations. IDB's processes to prepare and approve a project can take between four and ten months, depending on the nature and scale of the project. This is a significant amount of time, which if hampered by additional delays, can become even lengthier (LCA Phase II has seen this process take 14 months). Defra have also brought in additional demands since the programme began as a result of further strengthening of internal systems and processes for the continual improvement of effective management of ICF funded programmes. More frequent dialogue between Defra and IDB at field level and at headquarters (on both Phase II and the wider HMG climate portfolio in Brazil) will be critical to ensure an effective partnership going forward.
2. **The M&E component of the programme needs to reflect retrospective requests for additional information in light of ICF requirements.** The M&E framework should include a Theory of Change, logframe and an outline of methodologies for both monitoring and evaluating programme results. Prior to 2019, the M&E requirements for the programme were not clearly set out by Defra. In the process of putting in place key M&E documents, disparities have been found between Defra and IDB's approaches to and expectations of M&E for the programme. Strong M&E is critical to UK's ICF

² Additional details on this under section D: Value for Money and Financial performance.

³ IABS - Instituto Brasileiro de Desenvolvimento e Sustentabilidade (The Brazilian Institute of Development and Sustainability).

⁴ FBDS – Fundacao Brasileira para o Desenvolvimento Sustentavel (The Brazilian Foundation for Sustainable Development).

investments and it is critical that IDB put in place the necessary measures to ensure that results are robust and that a high quality evaluation can ultimately be carried out.

3. **Replicating the success of an earlier programme requires substantial engagement and additional analysis.** There was an expectation that Phase I of the programme could be expanded into the new biomes selected under Phase II with relative ease. This was unrealistic. Each region is unique e.g. in terms of land use, natural vegetation, geographic and socio-political components, as well as stakeholders. There is a need to agree clear timeframes and outputs for the design phases.
4. **A stakeholder engagement strategy with government partners is key.** The national elections of 2018 in Brazil meant that the IDB needed to re-engage with the new administration when it took office in 2019. The need for this, including that new administrations may reprioritise its policies, should be anticipated in the future. There will be municipal elections in October 2020 and federal and state elections in 2022. At this point, the projects will be midway through implementation. State elections may also affect the participation in the state committees and their interest in the technologies promoted by the project in each biome. These considerations should all be captured in a stakeholder engagement strategy and plan.
5. **Project steering group meetings should take place at the onset of programme operation.** Many of the challenges faced by Defra during the design and mobilisation period were due to the absence of regular communication. In future programmes, project steering group meetings between IDB, Defra and other key project stakeholders should start at the onset of programme operation, rather than when the programme enters implementation. The first meeting took place in February 2020. Going forwards, the steering meetings will take place on a quarterly basis, attended by Defra's in-country official. In addition, project progress meetings should be arranged between Defra and IDB on a fortnightly basis, starting 30th March, aiming to improve the overall programme performance.

Summary of key actions and timelines for completion

A summary of key actions is given below.

Legal / governance:

Action	To be actioned by	To be completed by
Clarify and agree additional programme requirements that have not been outlined in the LCA Fund Administrative Agreement, such as reporting and M&E requirements and ensure to inform IDB's UK Director of such requirements.	Defra & IDB	August 2020. Requirements will be reviewed throughout the course of delivery.
Outline the governance structure of the programme in a document, to be shared with Defra.	IDB	June 2020
Arrange annual governance meetings with IDB (including senior officials) to review progress against logframe. The first meeting should take place by January 2021, after one full year of implementation.	Defra	N/A

M&E:

Action	To be actioned by	To be completed by
Deliver an English-translated lessons learned document produced by ESALQ on Phase 1.	IDB	April 2020
Provide Defra with an executive summary of the Feasibility Study and an overview of the content of the training modules in English.	IDB	June 2020

Arrange a webinar between IDB, Agroicone (contractor for Phase 1 evaluation) and Defra to discuss key findings of the evaluation from Phase 1	IDB	July 2020
Develop evaluation plan. Finalise and agree with Defra.	Defra & IDB	July 2020
Finalise baseline report for KPI 6.	IDB	August 2020
Update the logframe with baseline figures and expected figures.	IDB, with Defra guidance	December 2020
Review and update Theory of Change regularly (at least annually).	Defra & IDB	N/A
Apply official methodologies thus far discussed with the M&E Defra team for KPI calculations.	IDB	N/A
Make use of potential available assistance on KPI framework and methodologies, e.g. through ICF MEL programme.	Defra & IDB	N/A
Ensure the professional translation into English of key documents. This should be included in future workplans. IDB and Defra will agree on which documents should be (fully or partially) translated, based on information from IDB about the project-related documents that are being prepared for submission to IDB. Translated documents should be delivered within one month after the original documentation is finalised.	IDB	N/A

Communications and Learning:

Action	To be actioned by	To be completed by
Adapt the communication and learning strategy as the programme moves from design to implementation stage. Ensure that there is a clear focus on influencing.	IDB	May 2020
Summarise and present the programme communications and influencing strategy in the next progress report.	IDB	May 2020
Set up a strategy on when and how to share lessons learned with other regions in Brazil and more broadly in Latin America.	Defra & IDB	December 2020

Programme management:

Action	To be actioned by	To be completed by
Set up fortnightly progress calls with IDB programme managers (and include senior officials when required), starting 30 th March 2020, once the Implementation Progress Report is delivered. The frequency of these calls shall be reviewed in June 2020.	Defra	March 2020
Provide a project cycle diagram with the typical timelines required for securing internal approval and setting up key elements of a programme.	IDB	April 2020
Set up a delivery workplan outlining expected and achieved project milestones. This is to be included in future progress reports.	IDB, with Defra input if required	May 2020
Set up a joint risk register, which is to be maintained and reviewed in the fortnightly project calls.	IDB & Defra	May 2020
Ensure all communications with Defra are well documented, e.g. readouts from meetings with key actions and responsible owners.	IDB	N/A
Keep a frequent, direct dialogue with implementing partners and governmental stakeholders, to allow for	Defra	N/A

close monitoring and for any challenges to be identified and resolved promptly.		
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Team Structure:

Action	To be actioned by	To be completed by
Update Defra on the project team structure and ensure updates are given on any changes to this team.	IDB	N/A
Ensure that the in-country team has sufficient capacity to participate in fortnightly meetings with Defra and to be responsive to ongoing enquiries from Defra.	IDB	N/A

Progress of implementation will need to be carefully monitored to ensure that delivery expectations are met.

A. Introduction and Context

Agriculture is playing an increasingly important role in Brazil's economic development. In 2019, the agriculture sector produced US\$96.8 billion (£74.4 billion) worth of exports, contributing to 43.2% of the country's total⁵. This growth owes much to the vast amount of unexploited, arable lands available in the country and favourable climate conditions to produce key commodities, such as soy, beef and leather and cattle. Agricultural expansion is adding pressure on Brazil's natural environment. Over 30 million hectares of arable land have been degraded as a result of unsustainable farming practices in the country⁶. Deforestation driven by agriculture continues to rise, with the latest figures showing that over 9,700 km² of forest were cleared between August 2018 and August 2019⁷ (an area six times the size of London).

In 2012, Defra identified an opportunity to support Brazil's sustainable rural development whilst protecting the natural environment. Defra invested £24.9 million in the "Low-Carbon Agriculture and Avoided Deforestation" (Phase I) programme in Brazil, delivered by the IDB. The programme, known in Brazil as *Rural Sustentavel*, directly supported the implementation of the Brazilian Low-Carbon Agriculture Plan (Plano ABC)⁸. In alignment with this plan, the programme aimed to promote, and support the adoption of, various low-carbon agricultural practices (also known as low-carbon technologies) amongst small and medium sized farmers in Brazil. These practices include systems of integrated crop-livestock-forest (ICLF), recovery of degraded areas with pastures and/or with forest, commercial forest plantations and sustainable management of native forests.

Whilst a full impact evaluation of LCA Phase I will not be complete until July 2020, the results collected so far from the programme have clearly demonstrated that promoting low-carbon agriculture can effectively reduce the pressure on Brazil's natural environment whilst improving rural livelihoods. LCA Phase I took place across 70 municipalities within the Amazon and the Atlantic Forest biomes of Brazil, reaching over 18,500 small and medium sized farmers. Upon completion in 2019, the programme converted 46,472 hectares of land under sustainable management and directly avoided deforestation or degradation in 8,550 hectares of land. In particular, LCA Phase I demonstrated the benefits with the adoption of ICLF systems. By integrating different production systems (crop, livestock and forest) in one area, ICLF can intensify livestock production sustainably, increasing livestock productivity to five times the national average whilst producing 57.5% less of GHG emissions compared to conventional farming methods^{9, 10}.

In 2016, Defra recognised the need to expand project activities to other areas in Brazil where agriculture was playing an increasingly significant role. As a result, Defra invested a further £30 million to fund a separate programme, LCA Phase II, to ensure Defra's low-carbon agriculture work can reach the MATOPIBA region. An Administrative Agreement was signed between Defra and the IDB which governs the management of the LCA Fund, whereby a disbursement schedule of four yearly instalments, starting 2017, was agreed.

During an extensive design phase, LCA Phase II has undergone key changes in both its geographical reach as well as its project components. In addition to widening the programme's geographical reach to include the Cerrado and Caatinga biomes, LCA Phase II has revised the project components by placing heavier emphasis on technical assistance and collective benefits¹¹. The programme will be implementing activities to improve farmers' access to technical assistance and training, as well as providing financial support to farmer organisations to strengthen the marketing of agricultural produce. In addition, the programme will improve the ability of local technical assistance providers, both institutions and individual

⁵ Brazilian Ministry of Agriculture (2020, accessed Feb 2020) "Vendas externas do agronegócio somas US\$ 96,8 bilhões em 2019" (<http://www.agricultura.gov.br/noticias/vendas-externas-do-agronegocio-somam-us-96-8-bilhoes-em-2019>)

⁶ Angelo, C., & Rittl, C. (November, 2019). "Relatório Síntese. Observatório do Clima", SEE.

⁷ INPE, Brazil (2019, accessed Feb 2020) (http://www.inpe.br/noticias/noticia.php?Cod_Noticia=5294)

⁸ The Low-Carbon Agriculture Plan is an ongoing federal plan overseen by the Brazilian Ministry of Agriculture, Livestock and Food Supply. It was established in 2010 as a tool to enforce the voluntary commitments undertaken by Brazil under the United Nations Framework Convention on Climate Change in 2009 (COP15), through promoting low carbon agriculture across Brazil.

⁹ Embrapa (2016) "ICLF increases meat production by five times in Mato Grosso", [Online] <https://www.embrapa.br/en/busca-de-noticias/-/noticia/17003406/ilpf-aumenta-em-cinco-vezes-a-producao-de-carne-em-mato-grosso>. Accessed on 07/08/2019.

¹⁰ Mapa (Ministry of Agriculture, Livestock and Supply) (2016), Crop-livestock-forest integration is more profitable than exclusive crops. [Online] <http://www.agricultura.gov.br/noticias/integracao-lavoura-pecuaria-floresta-e-mais-lucrativa-que-culturas-exclusivas>. Accessed on 07/08/2019.

¹¹ Collective benefits can include provision of low-cost seedlings, storage facilities and improved marketing. These are achieved by supporting farmer organisations in these services.

professionals, to deliver capacity building on low-carbon agriculture. The programme will only focus on promoting the most effective technologies in terms of improving land use efficiency and GHG emission reduction - ICLF and recovery of degraded pastures.

Changes from the original Business Case

Geographical reach

Originally set in the MATOPIBA region of the Brazilian Cerrado, the geographical reach of LCA Phase II has now been expanded to include the entire Cerrado region as well as the Caatinga region of Brazil (see fig. 2). The programme will select municipalities within these biomes to receive project intervention, based on a set of criteria defined during the design phase.

Cerrado: In October 2017, the Brazilian Ministry of Agriculture requested that LCA Phase II includes the entire Cerrado biome rather than only focussing on the MATOPIBA region. The Cerrado, regarded as 'Brazil's last agricultural frontier'¹², is threatened with continued deforestation and land degradation. Deforestation rates in the biome, driven mostly by crop production and cattle grazing, have been four times greater than in the Amazon¹³. 60% of pasturelands in the region has suffered degradation, which over time decreases agricultural productivity¹⁴.

Caatinga: In 2018, LCA Phase II further expanded project activities to the Caatinga biome of Brazil. Located in northeast Brazil, the Caatinga is one of the most biodiverse and populated semi-arid regions in the world and is a biome particularly at risk from climate change. The severe overuse of Caatinga for grazing and browsing of livestock has resulted in large-scale environmental modification of the region. As a result, a large area of the ecoregion is ranked today as highly threatened by desertification. By 2018, almost 30% of the total area had already suffered desertification. Following consultation with the IDB and the Brazilian Ministry of Agriculture, Defra recognised an opportunity to expand LCA Phase II to the region to prevent further deforestation and land degradation. In May 2018, Defra received Ministerial approval for a proposal to earmark £5 million of the total £30 million programme fund to address climate-related and poverty challenges in the region through the promotion of low-carbon agriculture.



Figure 2: Map of major vegetation types in Brazil and other South American countries. This shows the locations of the Cerrado (yellow) and Caatinga biomes (brown).

Components

Studies and assessments carried out during the design phase have informed some important changes to the project mechanisms. Two of the original components, Results-Based Financing and a Private Guarantee Mechanism, have been replaced by various forms of technical assistance and capacity building to ensure effective behavioural change amongst farmers and rural communities. The removal of the latter component has reduced the overall programme cost from £36 million to £30 million.

Removal of Results-Based Financing: This mechanism, whereby financial payments are used to incentivise farmers to adopt low-carbon agriculture, was used in LCA Phase I. Under this mechanism, a farmer would receive one-off payments for converting their land to low-carbon practices, once an independent verification had been conducted. Whilst there are contexts where such a payment has proven

¹² Particularly the states of Mato Grosso, Maranhão, Tocantins, Piauí and Bahia.

¹³ Amazon Moratorium: Global Benchmark of Zero Deforestation.

¹⁴ Embrapa (accessed 2020) (<https://www.embrapa.br/busca-de-noticias/-/noticia/2361250/embrapa-mapeia-degradacao-das-pastagens-do-Cerrado>)

to be a successful way to induce behavioural change, Phase I found it to be problematic in a rural context in Brazil. Undertaking independent verifications of each farm was extremely resource intensive and making individual payments to farmers posed logistical challenges. Concerns were also raised over whether farmers would continue to use the technologies once the payment was made – and whether farmers were being incentivised to implement the technologies without being given a robust understanding of their importance. To ensure that LCA Phase II can deliver genuine behavioural change, this component has evolved during the design phase to focus on providing more technical assistance to promote low-carbon agriculture. It is expected that this approach will deliver results more efficiently and with a longer-lasting impact than payments of a one-time benefit.

Removal of Private Guarantee mechanism: This component aimed to mitigate the risks for commercial banks by providing medium to long term rural credit to farmers to buy the necessary inputs to adopt low-carbon technologies. The £14 million guarantee was originally proposed to provide a first loss partial collateral guarantee to both increase commercial banks' capacity for raising private funding and to increase their ability to finance more farmers without increasing the size of their balance sheets.

Defra and IDB reviewed this component during the early stages of programme operation and agreed to remove it due to the high risks involved and difficulties related with finding a financial institution interested in managing the guarantee mechanism. Furthermore, it was identified that the challenge was not in the shortage of rural credit, but in the accessibility of existing credit lines. For instance, a credit line is available under Plano ABC, which is one of the world's first credit lines to specifically finance low-carbon practices, yet farmers have struggled to access this due to a limited ability to complete the required documentation¹⁵. As a result, Defra and IDB agreed to address this particular barrier to support access to existing rural credits via technical assistance.

Revised components: As the programme takes place in two biomes of distinct socioeconomic and environmental characteristics, activities will differ in the Cerrado and Caatinga.

Cerrado project

- 1. Strengthening local capacities in low carbon agriculture:** This component aims to raise awareness of the benefits of low-carbon agriculture and sustainable practices in rural communities. The project will deliver workshops relating to low-carbon agriculture to farmers, technical assistance providers, and managers of local environmental agencies. This component will also deliver activities to educate rural communities on low-carbon agriculture - particularly targeting youth.
- 2. Promotion of low carbon technologies and sustainable practices:** This component will provide technical assistance to farmers in adopting low-carbon agriculture. The project will utilise a demonstration effect by implementing Demonstration Units (DUs) and Multiplier Units (MUs)¹⁶. It will also provide farmers with assistance in improving land management and resource efficiency and in accessing available rural credit. This component will also develop a system to monitor GHG emissions mitigation.
- 3. Development of value chains and access to markets:** This component will provide non-reimbursable support to rural organisations (as opposed to individual farmers) to strengthen the development of low-carbon agriculture value chains and promote access to markets. For instance, the project will help seed nurseries supplying low-cost seedlings to farmers, small-scale storage facilities which prevent post-harvest losses, local fairs that can support access to local markets, and suppliers of tools and small-scale agricultural equipment necessary to implement practices. This component will also explore introducing a new certification and labelling programme focused on sustainably produced products in the Cerrado region. The certification would be a pilot that explores market-based compensation for rural farmers using low-carbon supply chain practices.

¹⁵ Forest Trends (2015) "Mapping Rural Credit in Brazil" (https://www.forest-trends.org/wp-content/uploads/imported/ft-mapping-rural-credit-in-brazil_v19_final-rev-pdf.pdf)

¹⁶ LCA Programmes utilise the 'demonstration effect' to promote low-carbon agriculture by implementing Demonstration Units (farms that already adopt low-carbon technologies that hold workshops to demonstrate to neighbouring farmers) and Multiplier Units (farmer that will adopt low-carbon technologies as a result of project intervention).

Caatinga project

1. **Knowledge generation:** This component will finance studies which assess social and environmental factors in Caatinga. These will be used to inform project activities.
2. **Building capacity for, and the implementation of, low carbon agriculture:** This component will focus on raising awareness and improving knowledge of low-carbon agriculture and sustainable practices for farmers and rural communities. Farmers will be provided with assistance implementing low-carbon technologies. Rural organisations will be provided with non-reimbursable support to strengthen the development of low-carbon agriculture value chains and promote access to markets.
3. **Creating a sustainable legacy:** The project will include the design and set up of a financial mechanism, in the form of a fund or a facility, which would provide grants and credit to farmers to implement low-carbon technologies beyond the programme's lifetime (programme funding will not be used for this fund). This component will also build a network of governmental and non-governmental institutions to encourage knowledge sharing relating to low-carbon agriculture across the sector.

Recommendations

- There is a need to provide further detail on the project components and deliverables in a separate document beyond the project documents (Technical Cooperation documents) prepared by the IDB. For instance, the Caatinga project document mentioned the possible design of a Caatinga Fund or Facility to provide financing for farmers to adopt low-carbon agriculture. It did not detail key information such as who will be designing this fund, where funds will be drawn, and how the programme can measure its effectiveness. Once these details are known, they should be reflected in IDB's progress reports.
- There is a need to incorporate activities and delivery plans in the M&E and Knowledge Management project to ensure the programme will be influencing policy in Brazil. These should be actioned and shared with Defra by May 2020.

B: Performance and Conclusion

Annual outcome assessment

The overall outcome objective of LCA Phase II is *to improve resource efficiency, increase productivity and income, significantly reduce GHG emissions as well as generate employment opportunities and therefore reduce poverty in Cerrado and Caatinga biomes*. Given that implementation on the ground is yet to begin, the progress against the outcome objective cannot be assessed in this annual review.

Overall output score and description

LCA Phase II was intended to apply lessons learned from LCA Phase I to other biomes of Brazil. In order to make sure that the approach could be adapted to suit the new socioeconomic, environmental as well as political contexts of Cerrado and Caatinga biomes, the programme undertook an extensive design phase to carry out a series of additional feasibility studies.

As implementation has yet to begin, assessment on performance against programme outputs cannot be conducted. As such, this annual review's assessment is based on a combination of the overall programme performance up to December 2019, and the quality of the products produced during the design phase (as interim outputs).

Output	Impact weighting	Score
1. Design phase products: Lessons learned from Phase I and Prioritisation of areas of intervention	25%	B
2. Design phase products: Financial mechanisms and capacity building for rural farmers and technical assistance agents	25%	A
3. Design phase products: Methodology to monitor results and design of the project communications strategy	15%	B
4. Overall programme performance	35%	C

Once programme operations start in the coming months, these outputs will be replaced by delivery outputs, which are indicated in the logframe.

C: Detailed *Interim* Output Scoring

Output Title	Lessons learned from Phase I and prioritisation of areas of intervention		
Output number per LF	N/A	Output Score	B
Risk:	Minor	Impact weighting (%):	25%
Risk revised since last AR?	N/A	Impact weighting % revised since last AR?	N/A

Indicator(s)	Progress	Scoring
Lessons learned from LCA Phase I	Complete in April 2018	B
Criteria for targeting beneficiaries and selecting municipalities	Complete in April 2018	A

An in-depth understanding of the region where the programme would take place was required prior to implementation. The programme commissioned the Luiz de Quieroz College of Agriculture, University of São Paulo (ESALQ) to produce two products: lessons learning from LCA Phase I and a paper on the targeting of beneficiaries.

Lessons learning from Phase I

The following table summarises the key lessons identified by ESALQ in the document. Upon review of a summary of the lessons identified, it is considered that the document has incorporated a wealth of in-depth analyses and evidence from Phase I, which have informed the design of LCA Phase II. However, there needs to be a better framing of each lesson and associated recommendations for future programming. The paper was not translated into English, which has proved challenging during this Annual Review process. Once a translated version is delivered by April 2020, Defra will review whether further actions are required.

Table 1 Lessons Learned Phase I

1. There is a need to reconsider the proportion of small-scale and medium-scale farmers the project should benefit. The two main objectives of LCA Phase I, to reduce GHG emissions and to reduce poverty, were achieved by supporting a mix of farmers of different scale. Implementing low-carbon agriculture in medium-scale farmers can maximise results in GHG mitigation, whereas supporting small-scale farmers will achieve most in terms of poverty reduction. In order to maintain a balance of both target results, LCA Phase II needs to carefully determine the type of farms it is supporting.
2. The geographies selected were too large to enable effective implementation. When selecting beneficiary municipalities, LCA Phase I did not give consideration to the geographical distances between targeted areas, which presented challenges to carrying out project activities, both logistically and financially. Future programmes should consider implementing DUs, MUs and capacity building exercises in concentrated areas in order to maximise impacts and reduce project costs.
3. Training in low carbon technologies needed to be completed earlier so that subsequent technical assistance activities can be carried out more effectively and efficiently.
4. The results-based payment mechanism was considered ineffective. There was no evidence that the payment led to continued use of the technology post-payment.

Criteria for selecting beneficiaries (farmers who will benefit from the programme)

Based on lessons learned from LCA Phase I, ESALQ identified a set of selection criteria which will be applied when selecting beneficiary farmers in Phase II. These criteria require the farmers to:

- (i) prove legal ownership of the property;
- (ii) sign a legally binding agreement (to be detailed) to become a DU or an MU;
- (iii) be eligible for rural credit;

- (iv) comply with the criteria of minimum and maximum farm area and income¹⁷;
- (v) have a farm located within the project area; and
- (vi) Comply with environmental legislation.

Criteria for prioritising beneficiaries

ESALQ also developed a set of criteria which can be used to *prioritise* farms when selecting beneficiary farmers. The recommended set of criteria for prioritisation is as follows:

- (i) The farmer is living on the farm;
- (ii) The farmer is between 16 and 29 years old;
- (iii) The farmer is female (or where women are head of the household); and
- (iv) The farm contains a high percentage of legally required conservation area (i.e. native vegetation).

Criteria for selecting municipalities for intervention

ESALQ partnered with Embrapa to select areas of intervention based on a combination of geographical and geopolitical considerations and assessments. The final product has substantial conceptual and evidence analysis. It is thoroughly documented, both with field and institutional surveys as well as technical references from internal specialists and wider literature.

- *Cerrado project*: Detailed work has been done to determine the geospatial distribution approach for the implementation of ICLF in the Cerrado. Two studies were conducted to develop a framework which will enable LCA Phase II to target municipalities based on consideration from three aspects: i) environmental; ii) socioeconomic; and, iii) policy-institutional-legal framework. Following a consultation process, LCA Phase II has established 100 targeted municipalities in four states across the Cerrado biome: Goiás, Mato Grosso, Mato Grosso do Sul and Minas Gerais.
- *Caatinga project*: The selection criteria for Caatinga were developed by executing agency FBDS rather than ESALQ. Due to the very different socioeconomic and environmental contexts of the biome, the selection of municipalities was based on a different set of indicators: poverty, natural-vegetation cover, and exposure to future climate change.

Recommendations

- Prior to programme implementation, Defra should have sight of the programme delivery plan, including a stakeholder engagement strategy by the implementers in the chosen states –i.e. IABS and FBDS. This should also include a detailed targeting strategy, i.e. the proportion of small versus medium-sized farmers the programme is aiming to reach and the rationale behind it. In addition, it should ensure the geographical targeting of beneficiary farms is not driven by the need to reach a certain target DU or MU number, but by the need to maximise overall programme impact. By May 2020.
- The IDB should provide Defra with a document which summarises the findings of the ESALQ lessons learned document in English. In particular, the lesson learned on results-based payment should be detailed and supported with robust evidence. By April 2020.

¹⁷ According to the adaptation of the Rural Credit Manual (MCR), prepared by the Central Bank of Brazil and Law 8.629/1993, which provides on the regulation of the constitutional provisions related to Agrarian Reform, as references to establish criteria, rules and conditions of minimum and maximum limits of area and income.

Output Title	Financial mechanisms and capacity building for rural farmers and technical assistance agents		
Output number per LF	N/A	Output Score	A
Risk:	Minor	Impact weighting (%):	25%
Risk revised since last AR?	N/A	Impact weighting % revised since last AR?	N/A

Indicator(s)	Progress	Scoring
Feasibility study – financial mechanisms	Complete in March 2018	A
Technical modules for farmers and technical agents	Complete in May 2018	A

This output focussed on defining project mechanisms for LCA Phase II. Under this output, the design phase looked at how to best incentivise farmers to adopt low-carbon agriculture. The feasibility report and tailored technical modules, upon review by the Defra in-country official, are deemed comprehensive and of high quality, having been designed based on empirical evidence from LCA Phase I as well as from wider sources of references.

Feasibility study: financial mechanisms

Since LCA Phase II will no longer deploy the result-based financing mechanism, there was a need to identify alternative mechanisms to encourage the uptake of low-carbon agriculture. Although rural credit which supports the adoption of low-carbon agriculture is readily available, it is currently still highly inaccessible for the majority of small and medium sized farmers.

As a result, a feasibility study was carried out to identify (1) the main barriers to small and medium sized farmers accessing credit and (2) the types of credit or green finance available which the programme can help farmers access. The study analysed the profile of rural farmers who have had access to the credit line offered under Plano ABC. It includes analysis of existing technical capacity and identifies areas where additional capacity building and technical assistance is needed in order to improve access to credit for low carbon agriculture. The document also highlights the conditions for the farmer to gain access to other sources of financing, such as that from the Brazilian Development Bank.

A report was produced at the end of this study, which concluded that enhanced technical assistance will be key to promote low-carbon agriculture. Farmers need technical assistance to prepare documentation related to credit application and in order to implement the technologies once credit is approved. The report also identified the most viable options for small and medium sized farmers to access finance to implement low-carbon agriculture, such as through Rural Credit Notes (CPR)¹⁸. The findings of this report have directly fed into the programme design of LCA Phase II.

Training modules

Following the above study, a set of training materials were developed and collated for use in the implementation phase. ESALQ developed modules of technical content, which enable the projects to capitalise on existing tools, such as existing courses, workshops material and online course platforms, such that the programme does not duplicate efforts. Taking into consideration the current context and challenges of rural technical assistance in Brazil, ESALQ produced two sets of training modules targeted at farmers and technical agents. The modules include information and examples of the cost-effectiveness of adopting low-carbon technologies in rural areas as well as the benefits derived from the registration of rural properties on the CAR system (Brazil's Rural Environmental Registry), an instrument of the Forest Code. The modules will also seek to develop skills to improve farmers' access to markets and rural credit.

Recommendations

¹⁸ Rural Product Notes (CPR) are one of the most important credit instruments to promote private financing in the agricultural sector. They can be issued in two modalities: Physical CPR - where the delivery of the indicated rural product must take place and; Financial CPR - where the financial settlement of the CPR is made based on the indexes and prices of the product in question, but without physical delivery of these.

- IDB should provide Defra with an executive summary of the Feasibility Study and an overview of the content of the training modules in English. By June 2020.
- IDB should include the professional translation into English of key documents into budgets and workplan in the future. IDB and Defra will agree on which documents should be (fully or partially) translated, based on information from IDB about the project-related documents that are being prepared for submission to IDB. Translated documents should be delivered within one month after the original documentation is finalised.

Output Title	Methodology to monitor project results and Design of the Project Communications Strategy		
Output number per LF	N/A	Output Score	B
Risk:	Moderate	Impact weighting (%):	15%
Risk revised since last AR?	N/A	Impact weighting % revised since last AR?	N/A

Indicator(s)	Progress	Scoring
Baseline and methodology to measure success based on ICF Key Performance Indicators (KPIs)	Complete in May 2018	B
Communication strategy oriented to stakeholders designed and established	Complete in April 2018	B

This component aimed to establish a baseline and methodology to measure project results, particularly on monitoring changes in GHG emissions, and to develop a communication strategy.

Key Points

Methodologies to measure programme success

When the programme was agreed, most of the official methodologies for measuring ICF KPIs had yet to be developed. As a result, the IDB commissioned ESALQ to develop a methodology to monitor a key outcome indicator, KPI 6 on greenhouse gas emission reductions.

Whilst ESALQ was developing a methodology, the official ICF KPI 6 methodology was agreed (November 2018). Embrapa (who will be responsible for monitoring KPIs 6 and 8 for LCA Phase II) and Defra concluded that this official KPI 6 methodology did not fully reflect KPI 6 results for this particular programme, as the methodology does not take agriculture production (harvests) or land productivity into account. Defra and Embrapa remain in discussion to agree a methodology to assess the net change in GHG emissions (tCO₂e). A baseline study on measuring KPI 6 is expected by August 2020.

Under this output, the programme has not established any baseline or methodology to measure other aspects of programme results. As of December 2019, the majority of baseline figures are still to be determined. As such, this indicator is scored B.

Communication strategy

Initial work has been completed on the design of a communications strategy. However, an overarching communications strategy for all projects that are part of LCA Phase II, tailored to distinct stakeholder groups, is yet to be put in place.

Recommendations

- Defra and IDB to agree the baseline report for KPI 6 by August 2020.
- Communications and influencing strategy to be presented in English to Defra by May 2020.
- IDB to adapt the communication and influencing strategy to the Cerrado and Caatinga projects by May 2020.

Output Title	Overall programme performance		
Output number per LF	N/A	Output Score	C
Risk:	Moderate	Impact weighting (%):	35%
Risk revised since last AR?	N/A	Impact weighting % revised since last AR?	N/A

Indicator(s)	Progress	Scoring
Delivery against timelines	In progress	C
M&E	In progress	C
Communication with donor (Defra)	In progress	B

Since the programme has not yet achieved any expected results, this Annual Review cannot fully assess programme progress. This section qualitatively assesses the programme's performance during the kick-off design and mobilisation phase as part of the overall scoring exercises.

Delivery against timelines

Progression by IDB to-date has been slow (see Annex 3). Defra was also unaware of the expected timeframes of additional procedures, such as acquiring approval for project documents from the IDB board and drawing contracts with executing agencies. These issues could be resolved by clearer communication between IDB and Defra, by way of regular meetings or clearly setting out an expected timeline during mobilisation phase. Other factors include internal staff changes in the IDB, and changes in the political context after the national elections in 2018, which generated some uncertainty in the legal and operational environment.

A new administration took office in the Government of Brazil in early 2019. The new government suspended all contracts and partnerships with third-sector agencies (i.e. non-governmental organisations), pending financial and administrative scrutiny. This required a period of re-engagement with the Brazilian Ministry of Agriculture to ensure the programme was endorsed by the federal government (this is important as LCA Phase II is directly supporting the implementation of the federal Plano ABC). Following a series of engagements coordinated by the UK Embassy in Brazil, the Ministry of Agriculture signed a formal letter on 20 March 2019 to endorse the programme and has since been actively engaged in project design. This has not only ensured the programme could proceed, but has also strengthened the UK's overall partnership with the current government of Brazil towards influencing climate policy ambition and programme implementation.

M&E

At the start of LCA Phase II, M&E was guided by the IDB's own guidelines (which differ from that of Defra's ICF standards). Defra has intensified its efforts to support IDB in meeting these requirements since 2019 (e.g. developing a logframe), but the IDB project team have not delivered at pace in resolving the issue.

There have also been challenges relating to the resources supporting M&E for the programme, with no additional resources secured to plan and oversee M&E activities until after the project designs were completed. As a result of these shortcomings, the development of the logframe did not start until November 2019 and the evaluation plan will not be in place until July 2020.

The handling of Monitoring, Evaluating and Learning (MEL) has been a major issue of discussion between Defra and IDB during this three-year period. Whilst significant progress has been made since late 2019 (i.e. the Theory of Change revised and a draft logframe developed), Defra will continue to pay close attention to this element of the programme, and in particular ensure that it has the requisite skills and capacity to ensure the programme will be delivered alongside high quality MEL. Defra has also secured external technical assistance to support the development of KPI 15 indicator on measuring the likelihood of transformational change the programme will deliver.

There has been a lack of clarity around how lessons and evidence from the previous phase programme, or from other programmes, have been drawn to inform current project designs. Although a 127-page report has been produced by ESALQ, a leading agricultural institution in Brazil, Defra has only received a translated version in a condensed, half-page summary. Whilst the IDB team has attempted to translate and explain some of these lessons in more detail in other documents, due to language barriers it is still unclear what evidence has been used to support these findings. Therefore, the programme would benefit from having the ESALQ report professionally translated, and if necessary, the IDB should explain in a separate document how these lessons have been applied to project designs in LCA Phase II. Given the lack of information, it is also currently difficult for Defra to judge whether, or how, the programme is building an evidence base to inform national or state-level policy. The theory of change, and subsequently delivery plans, requires a more in-depth review in the coming months to ensure that the programme is not only delivering benefits for targeted beneficiaries in the short- to medium-term, but is also contributing to a wider transformational change in the agriculture sector in Brazil.

Communication and Influencing

Many of the above challenges owe to a lack of regular communication between Defra and the IDB, which is essential to understanding and managing expectations. Defra and IDB should clearly define requirements and deadlines going forward. The governance structure of the programme should be clearly defined, and should include an annual governance meeting to review overall progress against logframe.

A clear communication plan is needed to outline the plans for how programme findings, lessons and successes will be disseminated to actively influence policy and inform other programmes of a similar nature. This should ensure lessons can be passed on beyond the programme itself, to a wider group of stakeholders, including policymakers at state and federal level as well as to an international audience.

These issues have now been taken up at senior level, including through the IDB Board. Defra has established good working relationships with senior decision-makers within the IDB and is working closely with the UK Executive Director to ensure the programme will progress timely with strong MEL and project management.

Recommendations

- IDB to deliver an evaluation plan which is approved by Defra. By July 2020.
- Review and update the Theory of Change as required – at least annually, throughout the programme lifecycle.
- IDB to use the official methodologies thus far discussed with the M&E Defra team for KPI calculations - throughout project lifecycle.
- IDB and Defra to make use of potential available assistance on KPI framework and methodologies, e.g. through ICF MEL programme.
- IDB to develop a strategy relating to lessons learning. By December 2020.
- IDB to clearly communicate to Defra of upcoming project milestones, in the form of a delivery plan. This should be defined by May 2020 and be included in all future progress reports.
- Defra to arrange annual governance meetings with IDB (including senior officials) to review progress against logframe. The first meeting should take place by January 2021, after one full year of implementation.
- IDB and Defra to set up fortnightly progress calls (at a minimum) by March 2020. (*complete*)
- Update Defra on the project team structure and ensure updates are given on any changes to this team.

D: Value for Money and Financial performance

Key cost drivers and performance

To date, Defra has disbursed £24 million to the IDB in three instalments, representing 80% of total investment. The programme requires payments from Defra ahead of implementation, due to an IDB procedure whereby the IDB cannot undertake any project design unless the resources are in the trust fund (explained under *Efficiency* sub-section below). The last tranche of disbursement is expected to be made by July 2020:

Defra ICF disbursements to LCA Fund	
Date	Tranche
2017	£9,710,000
2018	£7,490,000
2019	£6,800,000
No later than 31 st July 31, 2020	£6,000,000

The delivery of the design phase costed US\$237,871 (£279,627). In addition, the IDB also charges an administrative fee of 5% of the total programme cost, as well as a one-time flat fee of US\$35,000 (£28,785) to cover the cost of establishing the LCA Fund.

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

Economy

So far, the programme is demonstrating economy. The Result-Based Financing component has been removed from the project design partly due to the operational costs involved. This has been replaced by deliverables which are less costly to implement (in terms of operational costs). Technical assistance, which will be an integral part of this programme, can reach a larger number of beneficiaries. Such redesign will ensure the programme has a longer term impact whilst reducing overall operational costs.

The Cerrado and Caatinga projects have a cost structure which focuses the majority of funds on benefitting farmers and rural communities, with project management and administration costs of the executing agencies (including auditing) accounting for less than 10% of the total cost.

Efficiency

The programme is assessed as demonstrating low efficiency. The existing arrangement is considered to have low efficiency in converting inputs (funds) into outputs (results). Although the LCA Fund has been set up in December 2016, it was not until 2018 that the IDB informed Defra of an IDB procedure whereby project designs could not be finalised unless all resources required were received, rather than simply committed. This presented challenges for the design of the Cerrado project, but was later resolved by separating the design into three stages so that the financing of the project can gradually increase as disbursements are made. Although this has now been resolved, the efficiency of the programme has been reduced due to the additional time required to prepare documents which need to be approved internally within the IDB. For Defra, 80% of funds have been disbursed to the IDB but no project results (in terms of climate mitigation and poverty reduction) have been achieved yet.

Effectiveness

The projects have yet to start activities on the ground. As such the programme is assessed as currently demonstrating low effectiveness.

Equity

Given that implementation is yet to begin, it is not currently possible to fully assess the programme's performance in terms of equity. Given the different socioeconomic conditions of the Cerrado and Caatinga biome, LCA Phase II will focus on delivering benefits to medium sized farmers in the Cerrado and to

smaller sized, low-income farmers in the Cattinga. Both projects are expected to have direct positive impacts on women in the areas of intervention. More detail is required on how the programme will specifically support female farmers. The programme also includes a component aimed at targeting technical assistance to the young rural population. Greater detail is also needed on how benefits might accrue to this particular subset of the beneficiary group targeted. In light of the above, LCA Phase II is considered to have a moderate equity rating.

Assessment of whether the programme continues to represent VfM

The programme has yet to demonstrate VfM. However, it is expected that VfM will improve once implementation begins.

Quality of financial management

The programme continues to demonstrate a high standard of financial management. Whilst programme implementation has been delayed, actual budgets versus expected budgets for the activities undertaken to date are in line with expectations. Of 80% of the funds disbursed to the IDB so far, over 71% (£17.2 million) has been committed on the design phase, the Cerrado, Caatinga and M&E projects. The IDB's financial management is also subject to a high degree of external and internal scrutiny. In July 2019, the first audited financial statement for the programme, for the period from January 2017 to December 2018, was submitted to Defra.

In addition, IDB carried out a detailed evaluation of institutional capacity of both executing agencies (IABS and FBDS), which included the analysis of their procurement procedures and the financial systems. Each of the agreements signed between IDB and the two executing agencies included, as a condition for first disbursement of funds, the contracting by IABS and FBDS of a financial specialist to work on a full-time basis for the Project Management Unit. Disbursements of funds by IDB are made upon the presentation of detailed forecasts of activities and procurement for up to six months. Future disbursements are made upon the condition that at least 80% of the disbursed funds have been spent and justified.

Date of last narrative financial report	15/02/2019
Date of last audited annual statement	08/07/2019

E: Risks

Overall risk rating

At the conclusion of this Annual Review, the programme is considered to have an overall risk rating of **moderate**.

Overview of programme risk

The following table summarises the current outstanding programme risks and their mitigating actions. Please note the likelihood and impact levels reflect those at the residual risk level, i.e. after mitigating actions are in place.

A joint risk register between Defra and IDB should be set up to ensure effective management of risks.

Risk type/ Risk description	Likelihood	Impact	Mitigating actions	Contingency Plan (if risk does occur)	Risk Rating
Delivery/Operational: Programme progress may be delayed as a result of travel restrictions introduced by the Government of Brazil to contain the COVID-19 virus outbreak.	Likely	Major	Delays to programme implementation due to this will be outside of the programme's control.	IDB to take into account the likely delays in the delivery workplan. IDB and Defra should closely monitor the situation and further assess other risks relating to this, including safeguarding.	
Context/Delivery: Brazil's Ministry of Agriculture (MAPA), the main government counterpart of the programme, could have disagreements with the executing agencies of the Cerrado and Caatinga projects. This could lead to delays in project activities or even termination if Government requested that action to IDB.	Unlikely	Major	Brazil in-country officer to closely monitor political climate in Brazil throughout programme lifecycle, and to continue to work closely with MAPA to ensure positive working relationship, including satisfactory work of the Steering Committees of the two projects. To ensure future engagements with the Brazilian government focus more on a 'clean growth' narrative.	MAPA has issued a letter of commitment to ensure the programme will continue. Promote regular meetings of the Steering Committees, which are instrumental for coordination between the MAPA, executing agencies (IABS and FBDS), IDB and Defra. Escalate to IDB at senior level and FCO for further advice when necessary. If project is delayed, reassess project delivery timeline and re-plan if necessary.	
M&E: The lack of a consolidated M&E plan means that outcomes may not be effectively measured and the project cannot report effectively against the KPIs.	Unlikely	Major	Defra to closely follow up with M&E experts on IDB side for each TC project, and to prioritise the development of a logframe before implementation begins. Bring in expertise from Embrapa as they are a high capacity organisation that can report results against the KPIs. Defra to capitalise in learning from this by for example setting up collaboration with Ecometrica to compare hectare reporting methods.	To engage IDB senior officials at headquarter level to ensure an M&E plan is developed promptly.	
Operational: Operational issues within the IDB may hinder implementation and delivery in line with ICF and Defra reporting requirements.	Possible	Major	IDB to ensure acute stakeholder management, solid project team composition, clear progress reporting and high level decision making on appropriate funding allocation to project implementation.	To escalate issue to IDB and Defra senior officials as appropriate. Regular communications with the project team to closely monitor progress.	

Operational: There could be challenges in the identification of capable local and regional partners to deliver technical assistance, capacity building and R&D (research & development). This could hinder progress against achieving project outputs.	Possible	Moderate	Project stakeholders already have a good institutional network. Embrapa, IABS and FBDS have mapped technological units, which will provide support to project delivery.	The project institutional and government relations will be enhanced by communication strategies to foster new networks and alliances to support project execution.	
Fiduciary: Unexpected fluctuations in exchange rates, - specifically the impact that EU Exit may have on the value of Pound Sterling - and the evolution of the strength of Brazil's currency.	Possible	Moderate	Finances will be drawn down strategically and in small amounts to mitigate for fluctuations in exchange rate. Keep close communication with IDB accountants to identify fluctuations early on.	The risk will be minimised by its mitigating actions, but regular contacts will be kept with IDB accountants. Advice will be sought from HM Treasury when necessary. A mid-term evaluation will be carried out for each of the TC projects, in which adjustments could be made if the evolution of the exchange rate compromised the capacity to meet goals.	
Context/Delivery: Changes in public policies could affect financial and non-financial mechanisms and thus the projects' ability to achieve its outputs.	Possible	Minor	Mapping of programmes and financing frameworks and continuous articulation with national and sub-national stakeholders to define new forms of support. In addition, the project has been negotiated with senior officials at MAPA and Embrapa, ensuring buy-in and alignment with Brazilian policies.	Monitor issue via quarterly progress reports, updates calls with the IDB, and discussions in the TCs' Steering Committees. Assess the viability of project design if required.	
Delivery: A lack of awareness of issues and a lack of access to rural credit could make it difficult for farmers' adoption of technologies promoted by the programme. This will affect the programme's ability to achieve its outputs.	Unlikely	Moderate	A communication strategy to be in place to engage stakeholders, provide training on new technologies and improve access to rural credit to maximise implementation. Ensure appropriate attention is given to the focus of technical assistance services in supporting farmers to prepare investment proposals necessary to access existing credit lines. Relevant stakeholders will also be mapped early on to ensure buy-in and time to produce relevant technical material.	Monitor issue via quarterly progress reports and updates calls with the IDB. Assess the viability of project design if required.	
Delivery: Farmers' organisations may not adopt low carbon certification, or labelling may fail to showcase the benefits and added value of low carbon agriculture production. This would affect the programme's ability to achieve its outputs.	Unlikely	Moderate	The development of the certification, in consultation with relevant farmers' organisations, will be communicated to local supermarkets. Support to access of sustainable products to local markets will be provided. Demonstrating a clear benefit in adopting low carbon practices in the property.	Monitor issue via quarterly progress reports and updates calls with the IDB. Revisit and discuss project design with the project team.	
Delivery: Project may fail to deliver long-term socioeconomic change and improve resilience to climate variations. This would result in project failing to achieve KPI 15 on transformational impact.	Unlikely	Moderate	Priority areas of interventions have been identified in the scoring exercise in design phase, to ensure maximised impacts from intervention. Having Embrapa and MAPA support on the project will also increase sustainability of impacts.	Monitor issue via quarterly progress reports and updates calls with the IDB. Revisit and discuss project design with the project team. Incorporate this consideration into impact evaluation.	
Context: Relevant stakeholders, such as state and municipal governments, may not be willing to participate and engage in the projects. This would affect programme's ability to achieve its outputs.	Unlikely	Minor	Meetings will be held throughout programme lifetime to ensure they are informed of planned activities and contribute to the delivery of activities e.g. through institutional support. MAPA has been actively engaged on the development of this proposal since previous administration.	To escalate issue to IDB and Defra senior officials as appropriate.	

F: Commercial Considerations

Delivery against planned timeframe

In addition to the longer-than-expected design and mobilisation phase, the programme experienced several interruptions as a result of the need to clarify ICF M&E requirements, changes in the political and policy context, as well as internal IDB procedures which caused delays.

This requires Defra and the IDB to agree a new delivery timetable.

Performance of partnership(s)

The IDB is the trustee and coordinator of the LCA Phase II programme. Collaboration between the IDB and Defra has improved significantly over the last year due to improved communication, but there is still space for further strengthening.

In terms of procurement, the default legal arrangement used for most of IDB projects is to utilise executing agencies and delivery partners to carry out project implementation or to deliver specific components. In LCA Phase II, this includes contracting or partnering with a wide range of institutions such as Embrapa, ESALQ, and the National Service on Rural Apprenticeship (SENAR). Executing agencies, IABS and FBDS, have been selected during the design phase and they will adhere to the IDB's policies and procedures.

IDB policies reflect the interest of the organisation to grant transparency, competition, equality of opportunities, and the principles of economy, efficiency and integrity in the procurement of any IDB-financed operations.

Overall, although concerns have been raised in terms of communication and M&E, Defra is satisfied with IDB's performance as a delivery partner and is confident the programme will pick up its pace once implementation starts.

Could Defra be a more effective partner?

Defra's in-country official, based in Sao Paulo, has built a close working relationship with the project team at IDB. In addition to carrying out monitoring field visits and engagement with IDB, the official leads on monitoring risks relating to changes in the wider political context of the programme. In April 2019, Defra also recruited an additional UK-based programme officer to support programme oversight. Close monitoring will be required going forward to ensure the programme remains on track.

LCA Phase II is part of a wider effort to strengthen the UK's climate diplomacy in Brazil. Through this programme, Defra works with other government departments to ensure HMG develops a comprehensive portfolio of ICF programmes in Brazil.

Asset monitoring and control

Defra expects that the IDB put in place a rigorous check on management of programme assets. The IDB has mechanisms in place, including procurement plans and financial audits to ensure an oversight of the assets procured under LCA Phase II.

G: Conditionality

Update on partnership principles (if relevant)

The UK government currently does not have a Partnership Principles Assessment on Brazil.

H: Monitoring and Evaluation

Evidence and evaluation

The absence of a clear M&E strategy has raised significant concerns during this review process. In particular, it was extremely challenging to obtain relevant evidence and information from the IDB to support key decision points during the design and mobilisation phases. This is in part due to a lack of clear definition of Defra's M&E requirements during the early stages of operation, which contributed to the programme not having a Theory of Change or a draft logframe until late 2019. Although substantial analytical work has been done, most of the products developed (as described in section C) have not been translated into

English and/or lack a concise executive summary. Most notably, the document on lesson learning from LCA Phase I, which informed heavily on the design of the Cerrado and Caatinga projects, had only been translated into English in a brief, one-page summary. It is important to incorporate the translation of key documents into future budgets. Defra also recommends that the programme clearly set out a learning strategy.

In terms of evaluation, planning for evaluation has been slow. There has been a shortage of resource for this area from the IDB. In particular, a lack of an agreed, dedicated evaluation team.

Monitoring process throughout the review period

Defra has emphasised the importance of having a robust MEL framework from the onset of the programme. Such a framework is critical to successful delivery of the initiative, providing the longer term evidence base needed to inform future policy and practice in Brazil and in the region more broadly. It is also key in terms of accountability, ensuring that the impact of the programme is captured and reported with substantial evidence.

The IDB did not put in place an external team to deliver the MEL component of the programme and internal expertise was not sufficient to deliver this component satisfactorily. In addition, Defra could have more clearly communicated ICF M&E guidelines and logframe templates in order to support the development and delivery of the MEL.

Closer dialogue between Defra and IDB's M&E specialists have recently enabled the teams to obtain a clear understanding of the expectations for the MEL. IDB has designated a Brazil-based consultant to be responsible for delivering the monitoring plan. In addition, two evaluation specialists from IDB headquarters are responsible for defining the evaluation methodology and supporting the implementation of the baseline and final impact surveys. As a result, an evaluation plan is expected to be agreed between IDB and Defra before July 2020.

In 2020/21, project monitoring will be carried out (a finalised logframe will be in place) as implementation starts. Findings will be validated by an Advisory Council made up of MAPA, IDB, Defra, Embrapa, IABS, FBDS and relevant stakeholders.

The programme's theory of change has been updated (Annex 2) to reflect the changes made in the project design which aimed at enhancing impact from the original Business Case. The original theory of change is attached in Annex 1 for reference.

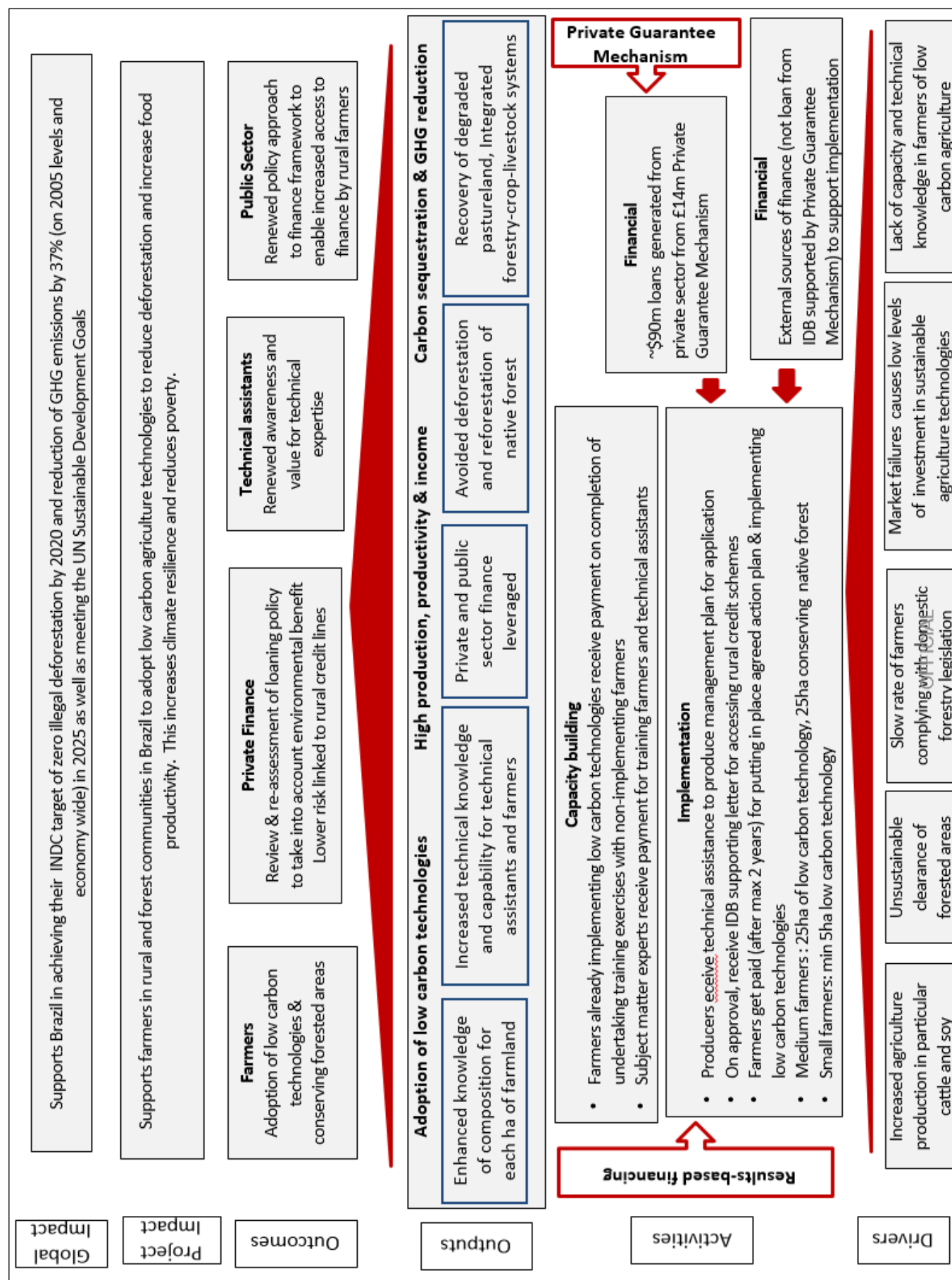
Defra will continue to closely monitor programme progress through:

1. Financial monitoring and regular updates
2. Meetings/field visits/teleconferences
3. Financial reports
4. Progress reports (quarterly)
5. Supervision missions and meetings
6. Monitoring visits
7. Issues and risks monitoring
8. Asset register
9. Advisory Council Meetings
10. Monitoring of project indicators and milestones delivery
11. Project communication tools

Key actions

- IDB, with Defra's input, to ensure the ICF logframe is updated with baseline figures and expected figures by December 2020.
- IDB to present an evaluation strategy during project implementation and impact evaluation plan by July 2020.
- IDB to use the official methodologies thus far discussed with the M&E Defra team for KPI calculations. Throughout project lifecycle.

Annex 1 – Theory of Change (Original)



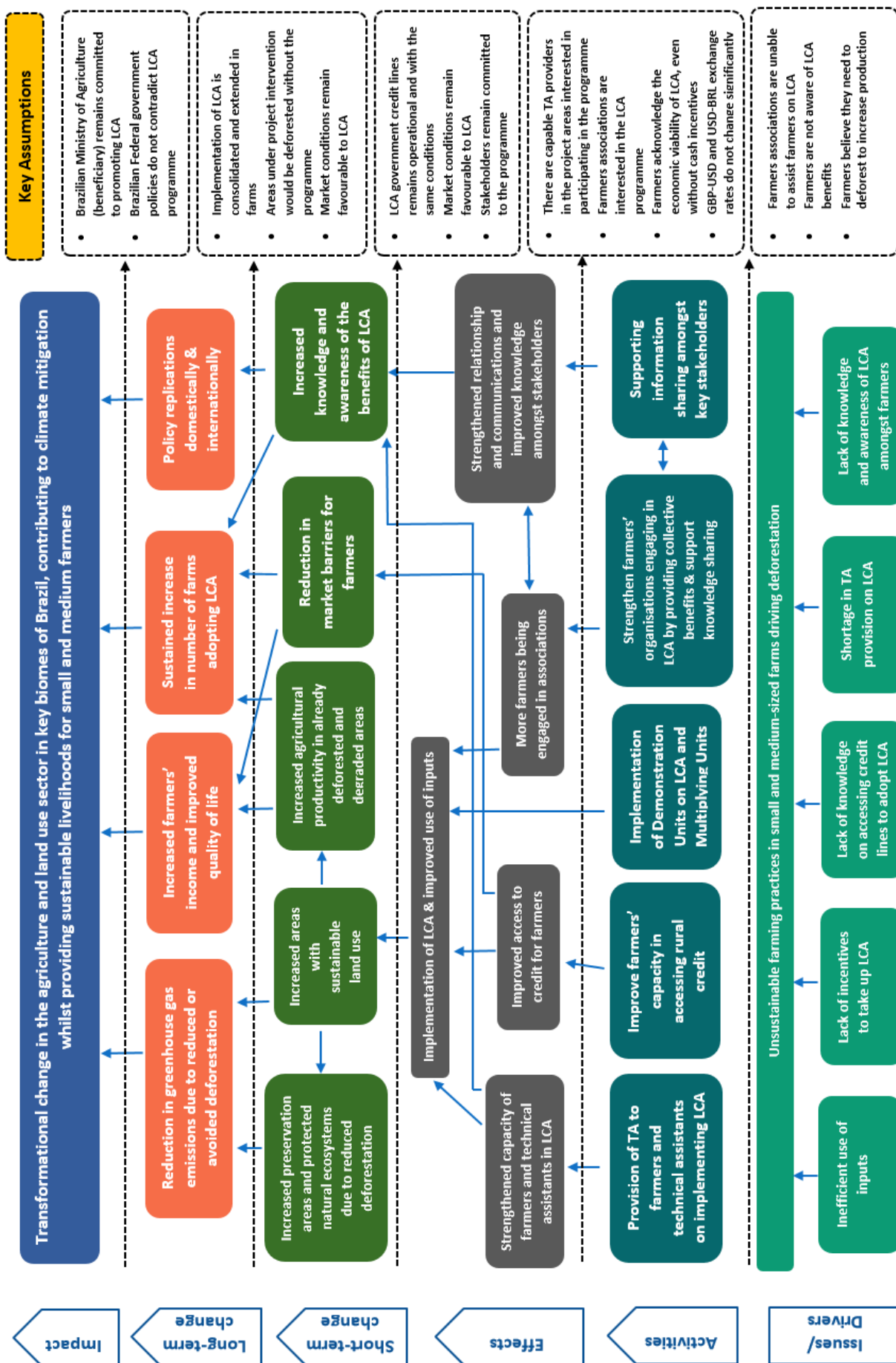
Annex 2 – Theory of Change (Updated)

LCA = low carbon agriculture

TA = technical assistance

Last updated: 20/12/2019

Low Carbon Agriculture (Rural Sustentavel Phase II) Theory of Change



Annex 3 – Programme timeline from April 2018 to December 2019

The following table shows key programme events that took place between April 2018 and December 2019:

Date	Milestone
April 2018	Design phase near completion. A workshop to present key findings was delivered to the IDB, Defra and the Brazilian Ministry of Agriculture.
May 2018	The IDB delivered the first drafts of the technical proposals for Cerrado and Caatinga.
June – July 2018	Defra, IDB, Embrapa and the Ministry of Agriculture discussed findings from the design phase and how to structure the second phase. The ministry refined their intervention strategy in Caatinga and Cerrado biomes and Embrapa started to work to prioritise municipalities crossing their methodologies with studies elaborated by the hired consultancy from the design phase, ESALQ.
August 2018	Project stakeholders had several discussions to agree on project interventions. Technical proposals went through additional redrafts due to the new IDB requirement whereby the proposal can include funds up to the amount available in LCA Fund.
November - December 2018	Project stakeholders discussed the proposed intervention areas based on changes in the wider political context as a result of recent elections.
January – March 2019	Re-engagement process with the Government of Brazil post-election. The Ministry of Agriculture sent a letter reaffirming support to IDB. This is a pre-requisite to initiate project approval processes within the IDB.
April – June 2019	IDB finalised technical proposals.
July 2019	Technical proposals approved internally by the IDB.
August – September 2019	IDB signed contracts with executing agencies IABS and FBDS.
Oct 2019	Executing agencies set up to reach criteria to receive disbursements from the IDB (such as setting up bank accounts and mobilising project teams). The IDB made the first financial disbursements to executing agencies.
December 2019	IABS and FBDS set up projects teams.
First quarter of 2020	Field activities are expected to begin.

