



# BioCarbon Fund

Initiative for Sustainable Forest Landscapes



## 2015 Annual Report

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## Acronyms

<b>BioCF</b>	<b>BioCarbon Fund</b>
<b>BioCF<i>plus</i></b>	BioCF technical assistance fund
<b>BioCF<i>plus</i>-ISFL</b>	BioCF preparation and implementation fund for the ISFL restructured BioCF <i>plus</i>
<b>BioCF T3</b>	BioCF Tranche 3, a Carbon Fund
<b>CSO</b>	Civil Society Organization
<b>ER</b>	Emission Reductions
<b>ERPA</b>	Emission Reductions Purchase Agreement
<b>FCPF</b>	Forest Carbon Partnership Facility
<b>FY</b>	Fiscal Year (World Bank fiscal year, July 1 through June 30)
<b>GEF</b>	Global Environment Facility
<b>IFC</b>	International Finance Corporation
<b>IP</b>	Indigenous Peoples
<b>ISFL</b>	BioCarbon Fund Initiative for Sustainable Forest Landscapes
<b>ISFL program</b>	A recipient country selected to be included in the ISFL portfolio
<b>M&amp;E</b>	Monitoring and Evaluation
<b>MRV</b>	Measurement, Reporting, and Verification
<b>OF</b>	Operating Framework
<b>OFLP</b>	Oromia Forested Landscape Program
<b>OILP</b>	Orinoquía Sustainable Integrated Landscape Program
<b>REDD</b>	Reducing Emissions from Deforestation and Forest Degradation
<b>REDD+</b>	REDD <i>plus</i> conservation of forest carbon stocks, sustainable management of forests, and enhancement of forest carbon stocks
<b>UNFCCC</b>	United Nations Framework Convention on Climate Change
<b>UN-REDD</b>	United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries
<b>WB/the Bank</b>	World Bank
<b>ZIFL-P</b>	Zambia Integrated Forest Landscape Program

## Introduction to the Report

The BioCarbon Fund Initiative for Sustainable Forest Landscapes (ISFL) is a multilateral initiative which spans both the suite of BioCF ISFL preparation and implementation funds (BioCF*plus*-ISFL) and the third tranche of the BioCF (BioCF T3), supported by contributor governments and managed by the World Bank. Contributions can be received through either BioCF*plus*-ISFL funds as a donor (Donor) and/or in combination with BioCF T3 as a participant (Participant) (together referred to as “Contributors”).

This is the first Annual Progress and Financial Report for the ISFL. In particular, this report reviews the progress and business highlights of the ISFL portfolio in FY15, as well as financial information for FY15.

## Initiative Objectives

The ISFL was launched in November 2013 with the objective to promote and reward reduced greenhouse gas emissions and increased sequestration through better land management, including REDD+, climate smart agriculture, and smarter land use planning and policies.

Global greenhouse gas emissions from land use account for nearly one-quarter of the total global greenhouse gas emissions. Agricultural expansion is the leading driver of deforestation globally, yet agriculture is also a major force for economic growth in developing countries. The ISFL works to incentivize alternative development pathways, including climate smart agriculture, so that these replace existing practices and policies that are resulting in deforestation.

The ISFL intends to deploy diverse incentives, including results-based finance, to catalyze changes across a landscape. The landscape approach looks at the trade-offs and synergies between different land-uses that may compete in a jurisdiction - such as agriculture, energy, and forest protection - and identifies integrated solutions that serve multiple objectives. Adopting a landscape approach means implementing a development strategy that is climate smart, productive and profitable at scale, and strives for positive environmental, social, and economic impact. Ultimately, the actions taken across the landscape will lead to significant reductions in greenhouse gas emissions by addressing structural issues which lead to deforestation.

The ISFL has three unique design features that are expected to enable the fund to achieve its objectives:

- Working on a landscape scale by operating at the jurisdictional level.
- Collaboration with the private sector to achieve sustainable economic growth in-country.
- Contributor governance and stakeholder engagement at the ISFL program level to ensure effective management of ISFL programs.

The ISFL is intended to operate at a jurisdictional level in an area endorsed by the national government (e.g. a single geographic or political unit, such as a state or province, or even an entire country<sup>1</sup>). Supported programs are therefore expected to take place at significant scale and policy interventions could thus impact the whole jurisdiction.

The ISFL intends to work with private sector companies to influence commodity producer and buyers, which, for example, could include production activities of local commodity producers or procurement policies of major consumer goods companies. The ISFL intends to further work alongside global forums

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<sup>1</sup> A jurisdiction in a small country could encompass the entire country.

(e.g., TFA 2020, Consumer Goods Forum, commodity roundtables) in which groups of companies have pledged to reduce their impact on tropical forests and are trying to identify pathways to enact these commitments. In creating innovative and action oriented public private partnerships, the ISFL could create sustainable and longer-term economic incentives for better land use.

A key design feature of the Initiative is streamlined governance, therefore its efforts and activities will be focused at the ISFL program level. Decisions made on program design and implementation, as well as stakeholder engagement, will be focused at this level to ensure each ISFL program advances efficiently on the ground.

## Annual Progress Report and the Year Ahead

### Initiative-level

The ISFL has made significant progress since its inception in 2013. The ISFL has advanced in establishing policies, guidelines, and processes essential for the administration of the Initiative. Further, the Initiative has identified, selected, and opened jurisdictional programs as part of its portfolio.

As with any new initiative, the ISFL was required to develop policies to guide the administration of the fund. The development of guidance documents was collaborative between the Bank and Contributors to ensure that priorities were maintained and the subsequent administration of the Initiative was realistic and effective. Fundamental guidance throughout this process was provided by the Operating Framework (OF)<sup>2</sup>, a working document outlining the expected governance and objectives of the ISFL. The Bank, in close collaboration with the Contributors, produced a draft OF in November of 2014. The expectations detailed in the draft OF provided context for subsequent policies and guidance documents, such as the ISFL Monitoring and Evaluation framework, the ISFL Private Sector Engagement note, and the ISFL Stakeholder Engagement Approach<sup>3</sup> (details of each are outlined below). The Bank worked with Contributors to ensure that the fundamental principles in the draft OF were reflected in each approach mentioned above.

The draft OF was shared for review with Civil Society Organization (CSO) representatives from World Wildlife Fund (WWF) and Bioresources Development and Conservation Programme (BDCP) in the spring of 2015. Comments from CSO reviewers have informed the ISFL Stakeholder Engagement Approach.

As the BioCF*plus* trust fund undergoes restructuring (see *Restructuring BioCFplus*), the draft OF has significantly informed the development of the ISFL's formal governance, which will be finalized as an attachment to the administration agreement for the new BioCF*plus*-ISFL trust funds<sup>4</sup>. The final version of the governance will necessitate edits to the OF to align the documents more accurately.

### ISFL Notes and Approaches

In the spirit of the draft OF, the Bank, in collaboration with the Contributors and in some cases CSO reviewers, has started thinking through several approaches that inform the effective management of the Initiative. The content outlined below span topics from Contributor governance to carbon accounting methodology to private sector engagement. The Bank has prioritized the development of these topics in order to ensure the key design features of the ISFL are fundamental to any Initiative activities and decisions moving forward.

#### *Monitoring and Evaluation (M&E)*

The Bank, in collaboration with all Contributors, produced a draft logical framework (“logframe”) in order to monitor the milestones and progress of the Initiative as a whole. The logframe reflects the key design features of the ISFL, including indicators for ERs, land use management, livelihood benefits, private sector

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<sup>2</sup> The Operating Framework will be posted on the ISFL website (<http://www.biocarbonfund-ISFL.org>) once the restructuring of BioCF*plus* trust fund is complete and the OF is revised.

<sup>3</sup> Each of these documents will be posted on the ISFL website in the winter of 2015/2016.

<sup>4</sup> This attachment will be posted on the ISFL website once legal documents are signed.

engagement, and program management. This draft served as a starting point for the Initiative and the logframe is expected to be updated.

#### *Private Sector Engagement*

A key design principle of the ISFL is engagement with the private sector to work towards a sustainable economy that promotes effective land management in each ISFL program country. The Bank is addressing this priority through several channels, including the International Finance Corporation (IFC), consulting firms, and global forums. The Bank details its proposed method of engaging with the private sector in the 'ISFL Private Sector Engagement Approach.'

#### *Stakeholder Engagement*

Building on the experience of the Forest Carbon Partnership Facility (FCPF) and UN-REDD, each ISFL program has engaged with key stakeholders, including CSOs, Indigenous Peoples (IPs), and vulnerable/marginalized populations, throughout the design process. This engagement will continue as programs progress. The Bank has explored effective avenues for engaging with key stakeholders in the 'ISFL Stakeholder Engagement Approach.'

#### *Communications and Knowledge Management*

External communications and knowledge management serve to enhance and strengthen the work of the Initiative. The Bank has balanced external requests for information on the ISFL with sharing relevant and sufficiently developed information on the Initiative and its program countries. As part of this, the Bank has maintained and updated its website (<http://www.biocarbonfund-ISFL.org>), produced Initiative-level information documents, created printed materials focused on the Ethiopia, Zambia, and Colombia programs, and engaged global CSO colleagues in briefings on the ISFL. The Bank plans to expand its communications and knowledge management toolkit as ISFL programs become more developed and confirmed information is available.

#### *Comprehensive Landscape Methodological Approach*

The ISFL is exploring options for a comprehensive landscape methodological approach that builds and expands on existing approaches for accounting for emissions from the forest and land use sectors. The Bank is planning a technical workshop in the winter of 2016, in collaboration with Contributors and technical experts, to begin the process of developing components of an approach to comprehensive landscape accounting.

### **Restructuring BioCFplus**

The BioCFplus has served as the technical assistance fund for the BioCF, including the ISFL. Because the fund is limited to World Bank technical assistance and includes several other work programs apart from the ISFL, the Bank is restructuring the BioCFplus trust fund in order to more fully meet the objectives of all the work programs it serves. As part of the restructuring, the Bank will create single-donor trust funds for each Contributor to BioCFplus for the ISFL. This suite of single-donor trust funds is known as BioCFplus-ISFL and addresses the following priorities, amongst others:

- 1. Governance:** The restructured BioCFplus-ISFL funds are expected to complement the objectives of BioCF T3, allowing a common governance across both funds to support the ISFL.

2. **Program-level allocations:** Under the restructured BioCF*plus*-ISFL funds, Contributors will be able to allocate their funding to ISFL program country windows within their respective single-donor trust fund. In other words, ISFL Contributors will have a choice as to which ISFL program country it funds and will subsequently make decisions for these programs (along with other relevant Contributors to that ISFL program).
  
3. **Funding for investment:** The restructured BioCF*plus*-ISFL funds are expected to permit a wider array of activities to be funded, beyond its current ability to fund technical assistance, capacity building and project preparation. The restructured BioCF*plus*-ISFL is expected to also fund the implementation activities of a program, if necessary, and IFC advisory services, to better support the ISFL’s private sector engagement.

## Lessons Learned

Since the inception of the ISFL in 2013, the Bank has identified various lessons pertaining to the administration of the Initiative and program country design and preparation. These are synthesized below:

Lesson Learned	Description
<b>Capacity of recipient country</b>	<ul style="list-style-type: none"> <li>• ISFL programs are novel and cross-sectorial and therefore, take more time to design and negotiate in-country than originally expected.</li> <li>• There is a period of time required for the government to develop strategies to reach the ambitious vision and comprehensive approach of ISFL.</li> <li>• The multi-sectorial approach of ISFL can present challenges for navigating the institutional arrangements of the recipient governments. This presents initial difficulty in identifying actors who can champion this collaboration early on.</li> </ul>
<b>Funding gaps</b>	<ul style="list-style-type: none"> <li>• Gaps will likely exist for upfront funding for ISFL program countries.</li> <li>• Outside of ISFL funding, gaps may exist for enhancements to the enabling environment that change the way land-use decisions are made as well as results-based payments for emission reductions (ERs). Additional sources of funds may need to be identified.</li> </ul>
<b>In-country presence</b>	<ul style="list-style-type: none"> <li>• It is useful for Bank staff and Contributors to simultaneously attend select missions for exposure to program specifics.</li> <li>• This experience allows both groups to better understand the challenges and successes of each program.</li> </ul>
<b>Timely decision making from Contributors required to make progress</b>	<ul style="list-style-type: none"> <li>• The Bank requires timely decisions from Contributors in order to progress action on the ground and to engage local staff (both Bank staff and country government staff/stakeholders).</li> <li>• Clear communication between the Bank and donors on milestones and information required to make decisions will need to continue for all ISFL programs.</li> </ul>
<b>Need to progress methodologies to avoid delaying fast moving programs or developing ad hoc, inconsistent approaches</b>	<ul style="list-style-type: none"> <li>• Discussions on key carbon accounting methodologies are required, particularly for the programs that are moving fastest, e.g., Ethiopia and Zambia.</li> <li>• This may require some methodological decisions based on a set of principles to be taken at the local level (ahead of decisions at the Initiative level) and may, therefore, result in slightly different methodologies in different geographies.</li> </ul>

	<ul style="list-style-type: none"><li>• Comprehensive landscape-level carbon accounting methodologies may not be developed by UNFCCC by the time programs will need to begin reporting against emission reductions.</li></ul>
<b>ISFL program countries provide forums for collaboration within and outside the WB</b>	<ul style="list-style-type: none"><li>• WB staff who contribute to the ISFL span various regional and topical areas at the WB, due to its cross-sectorial nature.</li><li>• Incorporating expertise from agriculture, environment, regional units, facilities like FCPF and the Global Environment Facility (GEF), and other knowledge areas has been integral to the successful design of ISFL programs.</li><li>• CSO and technical groups are willing to collaborate with the ISFL on common goals to achieve greater success.</li></ul>

## Program-level

Upon its inception, the Contributors and the Bank, identified 28 countries to consider as ISFL program countries. These countries were further narrowed to a shortlist of 17 based on key criteria including:

- **REDD+ Readiness:** A range of indicators that provide a preliminary view of countries' engagement and capacity in REDD+ and abatement potential from possible ER programs.
- **Enabling environment and governance:** Indicators that cover a broad range of relevant areas, such as the strength of the enabling environment, country governance, and private sector engagement in the country - including the extent of engagement with green growth type initiatives - as well as co-benefits.
- **Agricultural drivers:** Analysis to understand which commodities are the key drivers of deforestation and forest degradation and whether the pressure has been historically high, or is likely to increase significantly in the near to medium term (five to ten years), and if the associated abatement potential from climate-smart agriculture in the potential ER programs could be significant.

The shortlist of 17 was further narrowed to four target countries based on the initial level of funding from Contributors and their regional diversity: Ethiopia, Zambia, Colombia, and Indonesia. The Bank has made significant progress in preparing and designing a program in each target country. At the time this annual report was published, the ISFL had formally opened programs in Ethiopia, Zambia, and Colombia. The Bank continues to scope opportunities in Indonesia. Each opened program is at a different stage and is outlined below.

## ISFL COUNTRY PROGRAMS



## Ethiopia

The Oromia Forested Landscape Program (OFLP) targets carbon mitigation results and offers incentives for social and environmental land-use projects in the region. Managed and implemented by Oromia Regional State, OFLP will contribute to a transformational change in how landscapes are managed. The benefits of such activities go beyond emission reductions to deliver multiple benefits including poverty reduction and resilient livelihoods, biodiversity conservation, and water provisioning services important for Ethiopia’s current and future energy profile.

OFLP will foster equitable and sustainable low carbon development mainly through a series of state-wide and local enhancements to institutions, incentives and information to drive investment to scale (enabling environment). The program will also serve as a coordination framework, enabling Oromia to mobilize, coordinate and scale up funding from several different sources as well as harmonize efforts to implement the country’s economic and green growth initiatives at the regional level.

OFLP complements Ethiopia’s Climate Resilient Green Economy (CRGE) strategy, which aims “to protect the country from the adverse effects of climate change and to build a green economy that will help realise its ambition of reaching middle income status before 2025 <sup>5</sup>.”The government has developed visions for the CRGE specific to forests and agriculture and OFLP aligns closely with both, providing a common ground for success for both.

Program profile	
<b>Jurisdiction</b>	Oromia State, Ethiopia
<b>Size of jurisdiction</b>	28.5 million hectares
<b>Population in jurisdiction</b>	30+ million
<b>Accounting area</b>	All forests in Oromia
<b>Implementing agency</b>	Oromia Forest and Wildlife Enterprise and regional bureaus
<b>Proposed funding envelope size</b>	\$18 million upfront grant, \$3.2 million IFC advisory services, up to \$50 million for ER payments
<b>Date program opened</b>	September, 2014
Future milestones	
<b>Decision meeting/final Project Appraisal Document</b>	End of September 2015
<b>Grant Agreement signed with government (projected)</b>	Winter/Spring 2016

## Zambia

The Zambia Integrated Forest Landscape Program (ZIFL-P) has four major pillars of focus, including: (1) increased carbon stocks through activities that address local drivers of deforestation, sustainable climate smart agriculture, and land management; (2) poverty reduction by providing alternatives to deforestation-dependent livelihoods; (3) institutional strengthening of planning and coordination processes; and (4)

<sup>5</sup> Available at <http://www.undp.org/content/dam/ethiopia/docs/Ethiopia%20CRGE.pdf>

biodiversity conservation as a result of conservation, improved institutional capacity, and better planning.

The ZIFL-P is designed within the broader development agenda of Zambia, known as the Vision 2030, which aims to make Zambia a “prosperous middle-income country by 2030” with guidance from the Sixth National Development Plan (SNDP). The program will provide overall guidance on and a platform for actions to be undertaken in key sectors such as agriculture, energy, and land use more broadly.

Program profile	
<b>Jurisdiction</b>	Eastern Province, Zambia
<b>Size of jurisdiction</b>	5.1 million hectares
<b>Population in jurisdiction</b>	1.59 million
<b>Accounting area</b>	TBD
<b>Implementing agency</b>	National Climate Change Secretariat
<b>Proposed funding envelope size</b>	\$10 million preparation and upfront grant, up to \$30 million for ER payments <sup>6</sup>
<b>Date program opened</b>	September, 2014
Future milestones	
<b>Concept Note review meeting</b>	October 2015
<b>Studies commissioned</b>	Fall 2015
<b>Draft Project Appraisal Document/potential Quality Enhancement Review</b>	Summer 2016

## Colombia

The Orinoquía Sustainable Integrated Landscape Program (OILP) adopts a programmatic approach that will combine various instruments to best respond to the challenge of addressing the drivers of deforestation and unsustainable land use changes in Colombia’s Orinoquía region, towards an integrated landscape management approach that ensures a sustainable and climate smart development of the regions’ forest, agricultural, water and ecosystem resources. In order to do so, the ISFL program will support a combination of technical assistance to improve the enabling environment that results in carbon emission reductions at a jurisdictional level.

The program will incentivize socially responsible investments (including through the participation of the private sector) and will ensure environmental dimensions are mainstreamed in the economic development of the Orinoquía region, including resilience to future climatic shocks. Also, through the payment of carbon credits, the program will support an equitable distribution of the climate benefits to help reduce poverty and vulnerability. The proposed program therefore contributes to the Country Partnership Strategy goals and the Government of Colombia’s National Development Strategy.

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<sup>6</sup> The potential for an IFC component of the Zambia program is currently unidentified.

<b>Program profile</b>	
<b>Jurisdiction</b>	Orinoquía region, Colombia
<b>Size of jurisdiction</b>	38.1 million hectares
<b>Population in jurisdiction</b>	1.5 million
<b>Accounting area</b>	TBD
<b>Implementing agency</b>	Ministry of Agriculture and Rural Development (MADR), Ministry of Environment and Sustainable Development (MADS)
<b>Proposed funding envelope size</b>	\$15 million preparation and upfront grant, up to \$50 million for ER payments <sup>7</sup>
<b>Date program opened</b>	August, 2015
<b>Future milestones</b>	
<b>Concept Note review meeting</b>	September, 2015
<b>Studies commissioned</b>	Fall 2015
<b>Draft Project Appraisal Document/potential Quality Enhancement Review</b>	Spring 2016

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<sup>7</sup> The potential for an IFC component of the Colombia program is currently unidentified.

## Financial Information

### Financial Overview of the Initiative

The ISFL spans the suite of BioCF*plus*-ISFL funds (primarily for technical assistance, capacity building, and implementation) and BioCF T3 (primarily for ER payments). All funds operate in United States Dollars (\$) and follow a cash accounting method for reporting actual expenses.

Committed funding to the BioCF*plus*-ISFL funds and BioCF T3 at the end of FY15 totals almost \$355 million, with \$88 million committed to BioCF*plus*-ISFL and \$265 committed to BioCF T3.

### BioCF*plus*-ISFL

Table 1 represents the committed contributions to BioCF*plus*-ISFL funds through the end of FY15. In terms of cash, the BioCF*plus*-ISFL funds received contributions of \$59.9 million, cumulative to FY15. This was made up of \$43.6 million from Germany's Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB), \$8 million from Norway's Ministry of Climate and Environment (NICFI), and \$8.3 million from the United States of America Department of State (DOS). This leaves outstanding contributions of \$28.6 million from existing signed agreements to be paid by Norway (\$11.9 million) and the United States of America (\$16.7 million) to the BioCF*plus*-ISFL funds in the coming years. These outstanding contributions represent agreed phased contributions spread out over a number of years.

**Table 1. BioCF*plus*-ISFL Donor Contributions as of end of FY15 (in \$ thousands)**

Contributor	Total	Outstanding <sup>8</sup>	Cumulative to FY15
Germany BMUB	43,596		43,596
Norway NICFI	19,847	11,869	7,978
US DOS	25,000	16,700	8,300
<b>Committed Funding</b>	<b>88,443</b>	<b>28,569</b>	<b>59,874</b>

### BioCF T3

Table 2 represents the committed contributions to BioCF T3 through the end of FY15. In terms of cash, the BioCF T3 received contributions of \$1.7 million to cover costs for business development of ISFL programs. Outstanding contributions total \$263.6 million from existing signed agreements to be paid by Norway NICFI, United Kingdom Department for Energy and Climate Change (DECC), and United Kingdom Department for Environment, Food, and Rural Affairs (DEFRA) in the coming years.

**Table 2. BioCF T3 Participant Contributions as of end of FY15 (in \$ thousands)**

Contributor	Total	Outstanding <sup>9</sup>	Cumulative to FY15
Norway NICFI	95,708	94,976	732
UK DECC	73,709	73,065	644
UK DEFRA	95,903	95,580	323
<b>Committed Funding</b>	<b>265,320</b>	<b>263,621</b>	<b>1,699</b>

<sup>8</sup> Exchange rates are calculated based on projected annual averages spanning Q3CY15 to Q2CY16.