



ISFL Methodological Approach Workshop Summary

December 9-10, 2016 @ the Dupont Circle Hotel, Washington DC, USA

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1.1 Background

The BioCarbon Fund Initiative for Sustainable Forest Landscapes (ISFL) is a multilateral facility that promotes and rewards reduced greenhouse gas (GHG) emissions and increased sequestration through better land management, including REDD+ (Reduced Emissions from Deforestation and forest Degradation), climate smart agriculture, and smarter land use planning and policies.

The ISFL will achieve its objective of GHG emission reductions, while also addressing poverty and unsustainable land use, through four key design elements –

- 1) **Working at Scale** by focusing on an entire jurisdiction (state, province, or region) within a country.
- 2) **Leveraging Partnerships** by working systematically with other public sector initiatives and private sector actors.
- 3) **Incentivizing Results** by providing results-based climate finance over a 10-15 year period through the purchase of verified GHG emission reductions.
- 4) **Building on Experience** and lessons learned by BioCarbon Fund's initial work piloting land use projects, REDD+ initiatives, and other sustainable forest and land use programs.

1.2 The ISFL Methodological Approach

Building on key design elements 1 and 3, the ISFL will provide result-based finance on a jurisdictional scale by comprehensively considering performance, i.e. the reduction in net GHG emissions, in agriculture, forestry and other land uses (AFOLU).

Although countries are already reporting their GHG emissions from AFOLU to the UNFCCC, accounting for emission reductions from AFOLU for results-based payments on a jurisdictional scale is relatively untested.

- This ISFL Methodological Approach for GHG accounting (ISFL Methodological Approach) is therefore developed to support the piloting of comprehensive accounting by providing overarching guidance to the Programs selected by the ISFL on how to develop and apply a comprehensive GHG estimation, reporting, and accounting approach within a program jurisdiction for the purpose of monitoring and reporting results to the ISFL.
- The ISFL Methodological Approach does not contain detailed calculation methods or protocols, but instead acts as a standard that is designed to achieve a consistent approach to carbon accounting within the ISFL.
- The ISFL Methodological Approach builds on IPCC Guidelines for National Greenhouse Gas Inventories and other relevant UNFCCC documents and decisions.
- This ISFL Methodological Approach is meant for use in the ISFL only and does not preempt ongoing or future discussion under the UNFCCC, including on the implementation of the Paris Agreement.

The first workshop to discuss this methodological approach was held in January 2016. The summary and presentations are available at <http://www.biocarbonfund-isfl.org/methodology>. Following this workshop, the Initiative contracted a consultancy firm to:

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- i. Analyze the IPCC guidelines and identify the key decisions to be made in the design of a methodological approach that allows for results-based payment for emission reductions from different land-uses;
- ii. Analyze the data availability in the four ISFL target countries (Colombia, Ethiopia, Indonesia and Zambia) when it comes to emissions from Agriculture, Forest and other Land-Use (AFOLU);
- iii. Based on i and ii, lay-out potential options for the ISFL Methodological Approach for GHG accounting

The draft outcomes of the consultancy were used to prepare a zero draft version of the ISFL Methodological Approach for GHG accounting.

2. Workshop Summary

Following the draft of the consultant's report and the zero draft version of the ISFL Methodological Approach for GHG accounting, a second workshop was organized at the Dupont Circle Hotel in Washington DC on December 9-10, 2016.

The workshop brought together representatives of the ISFL Contributors¹, the four target countries², international experts and observers. The purpose of the workshop was to discuss the options presented by the consultants and the way these were reflected in the proposed criteria of the zero draft version of the ISFL Methodological Approach for GHG accounting that was presented to participants before the workshop. Based on the inputs received at the workshop and subsequent discussions, the ISFL Contributors will ultimately seek to agree on a final version of the ISFL Methodological Approach for GHG accounting. The workshop was divided in two parts:

- Introduction and overview of the findings of the ISFL Methodological Analysis Report produced by the consultant.
- Review and discussion of the different sections of the zero draft version of the ISFL Methodological Approach for GHG accounting:
 - o scope;
 - o baseline;
 - o monitoring and uncertainty;
 - o non-permanence and leakage; and
 - o double counting.

2.1 Introduction and findings of the ISFL Methodological Analysis Report

(see Annex 1 for presentation and the introduction of the concepts, for example explanation of Tiers)

The session provided (i) a brief introduction of some of IPCC guidelines, its key concepts and the decisions that will be required for the ISFL Methodological Approach for GHG accounting; and (ii) a summary of the assessment of data availability in the four ISFL target countries. In this assessment, a checklist of relevant

¹ Representing Germany, Norway, the United Kingdom and the United States.

² Colombia, Ethiopia, Indonesia, and Zambia.

parameters was used, that included the types of data needed to assess and monitor GHG emissions and removals at a jurisdictional scale using IPCC Tier 2 approaches.

Discussion

- All the participants appreciated the analytical work and information presented, however, they also indicated that there could be various other sources of information that could provide relevant data and are not included in the report. Examples mentioned included project level data, information collected by nongovernmental organizations (NGOs), the private sector or other government agencies, national communications, Biennial Update Reports (BURs), forest maps, data plots and surveys that could be available in different Ministries.
- The ISFL target countries encouraged the use of officially accepted data, i.e. approved/endorsed by the governments of the target countries.
- Country representatives also emphasized the challenge of bridging the gap between national data that was presented in the analysis with what is available at sub-national or jurisdictional level. In most cases sub-national level data on the various parameters is not available or dispersed in time and national data cannot easily be disaggregated.
- It was emphasized that the report provides a broad picture of data that is available and further work will be required in each country to fully assess and analyze their data for the application of the ISFL Methodological Approach for GHG accounting.
- Participants stressed the desire to have the data used for ISFL accounting build on, and support, national GHG inventories rather than to develop parallel systems.
- It was further discussed that the ISFL Methodological Approach on GHG accounting should not seek to be overly prescriptive but rather aim to find the right level of practicality and feasibility in each of the target countries. The aim therefore is not to build the perfect MRV system in the host countries but rather to help countries reach the level of reporting at national level on all sectors while allowing for a sufficient level of environmental integrity to enable result-based payments.
- Suggestions were made to employ an integrating framework, or tools, to accommodate different types, relevance or quality of data. Such a framework should be accompanied by a stakeholder engagement process.
- At the end of day 1, representatives from ISFL countries provided inputs on the gaps and additional data sources that could improve the analysis and the report that would feed into the methodological approach. It was recognized additional work in this area will still be needed.

2.2 Review and Discussion of Key Elements and Options

Throughout the remainder of the sessions, participants were given an overview of the options presented in the draft consultant's report and how these were reflected in each section of the zero draft version of the ISFL Methodological Approach for GHG accounting.

A summary of the discussion on the key elements and related options are presented below.

Scope

Full comprehensiveness ideally requires accounting of all AFOLU related emissions and removals. However, taking into account that the ISFL target countries are at different stages of reporting on their GHG data, a certain degree of flexibility would need to be accepted. Therefore it was discussed what the minimum potential scope of land use categories, carbon pools and non-CO₂ gases should be that will be required as part of the ISFL Methodological Approach.

Discussion

- The ISFL Methodological Approach aims to move away from the approaches for project level or activity level results-based finance because these often do not recognize the various interactions happening in a landscape.
- Participants emphasized the need to be consistent with national GHG inventory and UNFCCC principles in terms of definitions and data, to the extent possible.
- The zero draft of the ISFL Methodological Approach proposed to use key category analysis (KCA) as the basis for determining the scope and therefore put the emphasis on the most significant sources of emissions. The use of key category analysis of the land use categories could help to avoid cherry-picking of program activities to account for based on convenience. Most countries have done a KCA exercise for their national reporting to the UNFCCC. Some have also conducted the exercise at sub-national level. KCA exercise for AFOLU has not been done and can be challenging.
- In addition to the KCA, the zero draft proposed to make a further distinction between emissions and removals associated with conversions between land-use categories and emission and removals within an AFOLU category. It was discussed whether this distinction was useful and participants emphasized on the need to avoid creating new terms/labels.
- The discussions also explored the level of effort needed to put the process and systems in place in each of the countries to help them achieve full comprehensiveness.
- Participants emphasized that the focus of the initiative is on forested landscapes and therefore emissions and removals from forests should be prioritized in the design of the ISFL Methodological Approach while also considering other key categories. At the same time, the focus on integrated landscapes for ISFL requires identifying practical means to include other lands. The bar or threshold for including GHG emissions and removals from other AFOLU categories other than forests would have to be thought through carefully. Prioritization could help in deciding the minimum threshold.
- Part of the upfront support of the ISFL can help countries to develop their MRV system and create the enabling environment for implementing activities in other AFOLU sectors where they may have not paid as much attention to date.
- Some countries have already started to improve their national data to capture all aspects required by the ISFL Methodological Approach for GHG accounting.

Baseline

To estimate the total emission reductions achieved, emissions and removals that occur during a monitoring period will be compared to a baseline. Various approaches have been developed in the past for defining baselines in emission reduction projects and programs. Discussions in this session focused on the preferred approach for establishing a baseline as part of the overall ISFL Methodological Approach.

Discussion

- Countries may not necessarily have a time series for consecutive years, more specifically often lack historical data on activity data within a land use category.
- IPCC has a number of methods to help countries fill data gaps between different years and calculate a trend if there is a good correlation.
- Some participants echoed that it would be better if the requirements of the ISFL Methodological Approach built on baselines that are already in place, for example REDD+.
- It was discussed that one of the reasons that REDD+ can use baselines with long term (10 years+) historic average values is that activity data (i.e. land use changes) can be determined from an archive of remote sensing images. However, some of the type of activity data required for the ISFL, such as management practices in cropland remaining cropland for example, in most cases cannot be derived from remote sensing data and therefore requires existing datasets.
- On setting baselines, participants agreed that consistency with national data should be a priority. Ideally, countries should have one consistent reporting system with spatially-explicit data from which data required for accounting can be extracted thereafter.
- Due to the complexity in setting the baseline given the differences between countries, participants discussed if the methodological approach should focus only on conversions between land-use categories and not on changes within a land use category.
 - o It was noted that the distinction between whether to report on and account for either land use conversion or changes within a land use category may not be the best way to help decide on a baseline. Rather, a focus on better quality data could be more helpful to start with. The program can move forward with what is historically available and include ways to address the issue where data quality may not be there.

Monitoring and Uncertainty

The discussion in this session focused on (a) if the ISFL program should monitor all land use categories included in the scope using IPCC Tier 2 methods and spatially explicit information on land-use conversions between land-use categories, and (b) how best to deal with uncertainties of estimates of emission reductions.

Discussion

- There was consensus that programs should be able to monitor spatially explicit information on land-use conversions between land-use categories, although it was questioned if a Tier 2 approach would always be feasible.
- The zero draft of the methodological approach proposed to deal with uncertainty through a discount. This discount could be based on a calculated uncertainty or it could be a fixed discount. It was discussed that a fixed discount precludes improvements in the quality of data. Therefore, requiring a fixed discount across the board may not be the best approach.
- Suggestions were made to use simple diagrams to better explain discounts used against uncertainties as the language used may not be specific enough to make the intention clear.

Non-permanence and Leakage

There is a risk that emission reductions and removals from some types of AFOLU activities will be reversed after results-based finance has been received. There is also a risk that activities generating emission reductions and removals will displace activities that cause emissions to areas outside the accounting area or jurisdiction. Decisions over the treatment of non-permanence and leakage are largely related to the assurances required by those providing results-based finance. Questions focused on whether to deal with leakage through the program design and with non-permanence via a standard set-aside percentage.

Discussion

- It was agreed that addressing leakage through the program design could be a good approach. Drivers of deforestation can be used to assess the risks of leakage and additional data can always be built into the system over time. Participants recognized that the risk of leakage is lower at a jurisdictional scale than at a project scale.
- Participants recognized that the risk of non-permanence might be different for non-forest related land use, and is lower at a jurisdictional scale than at a project scale.
- The risk of non-permanence can be addressed through setting aside a percentage of the achieved emission reductions, either as a discount or in a buffer mechanism
- When determining the size of this set aside, some participants indicated that a fixed percentage may not be the best way to deal with non-permanence since it doesn't provide incentives for improvements. Rather, participants expressed a preference to have the percentage be based on some sort of risk assessment. This would also allow the percentage of set-aside to be higher in some instances and lower in others.
- To provide incentives, a buffer mechanism could also be used, like a (pooled) buffer as employed by the Forest Carbon Partnership Facility (FCPF).

Double counting

The accounting area of jurisdictions adopting the ISFL methodological approach may overlap with other initiatives that may generate results-based finance for GHG emission reductions. To avoid double counting, or multiple claims to emission reductions generated, monitored and verified under a Program and paid for by ISFL, a National Registry where the emission reductions are registered may be considered. International or third-party registries could also be an option.

Discussion

- The use of a registry can help programs track progress and display performance.
- On the issue of the occurrence of energy substitution (e.g. biofuels), it was discussed that the ISFL would not pay for emission reductions in the energy sector because is specific to AFOLU only.

3. Conclusion and Next Steps

Although work remains to finalize the ISFL Methodological Approach to GHG accounting, the active discussions and exchanges during the two day workshop helped to bring country representatives, ISFL

Contributors and the ISFL program teams to high-level agreement on key issues and the next steps in the following months.

As the way forward, the ISFL Contributors outlined the following ideas to further guide the development of the Methodological Approach:

- Emphasis was made on the need to clearly separate reporting from accounting.
- Although the ultimate objective is for countries to utilize a comprehensive landscape accounting approach, there is a need to provide a realistic starting point for countries to begin accounting and to increase comprehensiveness and quality over time. This was highlighted in the consultants' report and the discussions.
- Key category analysis is a way to begin and identify opportunities for emissions and removals.
 - o It was posed that ISFL programs could potentially begin by accounting for emission from forest land, forest land remaining forest land and all land use conversions between land use categories. In addition programs should include at least one additional land use category with significant emissions.
 - o Over time, programs can reach comprehensiveness by adding more categories as data availability improves. This can be factored into the design of the emission reductions purchase agreement (ERPA).
- The issue of setting baselines was not settled and simplification may be necessary. The 10-year historical average used in FCPF has a good rationale. The ISFL would need general principles that build towards this 10-year standard and apply it at the start as much as possible.
- Deciding on the use of buffer or discounts to address non-permanence and leakage will be interdependent on all other aspects of the methodological approach.

Next Steps:

- Taking into account the discussions and feedback received during the workshop, the ISFL Contributors will combine their ideas into a new version that will be send to World Bank team before December 25, 2016.
- The World Bank team will review and revise these ideas to draft a new version of the Methodological Approach in close cooperation with the ISFL Contributors.
- This new draft will be send to Contributors, Host Countries and Experts by mid-January 2017 for comments. It will also be published on the ISFL website.
- The World Bank team will collect comments and these comments will be the basis for a follow up face-to-face discussion between Contributors and Host Countries for one day (date and location TBD but potentially end of February).
- Following the one-day face-to-face, the ISFL Contributors will continue to work on the Methodological Approach with the aim to produce the final draft. The ISFL target Countries remain for other practical discussions TBD (e.g. safeguards).
- Contributors discuss final draft internally and seek clearance where required. Assuming no further discussions or changes required, this version becomes final and is published.

Annex 1: Presentations – separate attachment

1. Introduction to the ISFL
2. ISFL Methodological Approach – Process to date
3. LMABI (Consultants) report