INITIATIVE FOR
Climate Action
Transparency

Greenhouse Gas Management Institute, Verra

Agriculture Guidance

Guidance for assessing the greenhouse gas impacts of agriculture policies

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Additional guidance

APPENDIX A: STAKEHOLDER PARTICIPATION DURING THE ASSESSMENT PROCESS

This appendix provides an overview of the ways that stakeholder participation can enhance the process for assessment of GHG impacts of agricultural policies. Table A.1 provides a summary of the steps in the assessment process where stakeholder participation is recommended and why it is important, explaining where relevant guidance can be found in the ICAT *Stakeholder Participation Guidance*.

Table A.1: List of steps where stakeholder participation is recommended in the impact assessment

Chapter/step in this guidance document	Why stakeholder participation is important at this step	Relevant chapters in Stakeholder Participation Guidance
Chapter 2 – Objectives of assessing GHG impacts	• Ensure that the objectives of the assessment respond to the needs and interests of stakeholders	Chapter 5 – Identifying and understanding stakeholders
Chapter 4 – Using the guidance • Section 4.2.5 Planning stakeholder participation	• Build understanding, participation and support for the policy among stakeholders • Ensure conformity with national and international laws and norms, as well as donor requirements related to stakeholder participation • Identify and plan how to engage stakeholder groups who may be affected or may influence the policy • Coordinate participation at multiple steps for this assessment with participation in other stages of the policy design and implementation cycle and other assessments	Chapter 4 – Planning effective stakeholder participation Chapter 5 – Identifying and understanding stakeholders Chapter 6 – Establishing multi-stakeholder bodies Chapter 9 – Establishing grievance redress mechanisms

Chapter 6 – Identifying Impacts: How agriculture policies reduce GHG emissions or enhance removals	• Identify the full range of stakeholder groups affected by or with influence on the policy • Enhance completeness by identifying expected intermediate effects and impacts for all stakeholder groups • Identify and address possible unintended or negative impacts early on • Improve and validate causal chain with stakeholder insights on cause-effect relationships between the policy, behaviour change and expected impacts	Chapter 8 – Designing and conducting consultations
Chapter 7 – Estimating the baseline scenario and emissions	• Inform assumptions on existing and planned policies	Chapter 8 – Designing and conducting consultations
Chapter 8 – Estimating GHG impacts ex-ante	• Inform estimates of the policy's implementation potential • Gain insights into a policy's specific local context and impacts • Identify and address potential cultural and other barriers to policy implementation	Chapter 8 – Designing and conducting consultations
Chapter 10 – Monitoring performance over time	• Ensure monitoring frequency addresses the needs of decision makers and other stakeholders	Chapter 8 – Designing and conducting consultations
Chapter 11 – Reporting	• Raise awareness of the GHG benefits and build support for the policy • Inform decision makers and other stakeholders about impacts to facilitate adaptive management • Increase accountability and transparency and thereby credibility and acceptance of the assessment	Chapter 7 – Providing information to stakeholders

APPENDIX B: GUIDANCE ON DISCOUNT RATES

Different kinds of entities have different discount rates. To understand the likely implementation potential of a proposed policy, it is useful to analyse the policy from the perspective of the stakeholders that use and manage land. Where the policy requires investments that are not provided by the government, it is useful to analyse the policy from the perspective of the investors. Where a private land manager will use its own capital for the investment, analyse from the perspective of the land manger. Where land managers need to borrow capital from others, it is useful to analyse the policy from the perspective of potential investors.

The discount rate used to analyse private investments, from the perspective of private firms (e.g., timber companies), will be different from the discount rate used to analyse government spending. The best discount rate to use is the rate a bank would charge to provide a loan to the typical actor for the activity being analysed. For private, multiyear investments in developing countries, discount rates may be greater than 15% per year.

For government investments and costs, the best discount rate for the analysis is the rate that government pays to borrow money, with the term of the borrowing roughly matching the time span of the financial analysis. For example, if one is analysing an investment in equipment for improving logging practices where the equipment has a 5 year payback period, the rate the government pays for bonds that mature five years after issuance might be the appropriate discount rate for the analysis. That said, a 10 year rate is often more appropriate than a 5 year rate. While discount rates for stable governments may be 3%, rates for less stable governments may be 5-10% or even more.

Imputing a discount rate for smallholders who do not have access to credit can be difficult. Rates provided by informal lenders may be the best option for estimating rates for smallholders. These rates can be extremely high – 30% to 100% per year. Subsidised rates are not appropriate. For example, if an NGO provides subsidised loans for development or other social reasons, these loan rates may be quite different from the smallholders' discount rates.

To understand the likely behaviour of smallholders, the analysis should be done using observed interest rates or discount rates imputed from observing what activities the smallholder will or will not participate in. For example, if the smallholder does not buy available, reliable, high-yielding seed that would grow a crop that is harvested and sold one year after seed purchase, even when the net returns from farming would be 30% higher, the smallholder has an imputed discount rate of 30%. However, this discount rate may be high because of barriers such as seasonal food insecurity or lack of access to capital. If the policy can address these barriers, the appropriate discount rate for the analysis may be much lower.

Discount rates of investors include the risk that the investor will not be repaid, repayments will be delayed or repayments may be partial. Typically, an analysis of a policy will not include a financial risk analysis, but instead will look at rates required by banks for similar policies. Hurdle rates of return required by private entities investing in similar policies can be used as the discount rate for private investors. However, private investors may not be willing to reveal their internal rates for analysis, and it can be hard to tell if risk factors of the proposed policy would be like the risk factors of investments proposed as comparisons.

APPENDIX C: SELECTING THE SCOPE OF THE GUIDANCE

The two GHG sources and carbon pools included in the scope of this guidance (enteric fermentation and soil carbon pool) were selected using a set of criteria developed with the Technical Working Group:

- The role of the GHG source and/or carbon pool in country's NDCs
- The role of the GHG source and/or carbon pool in proposed NAMAs
- Gaps in available guidance
- Contribution of the GHG source and/or carbon pool to staying under a 1.5-2°C temperature goal
- Contribution of the GHG source and/or carbon pool to a large percentage of a country's emissions.