Contributions to global climate deliberations: the experience of the BioCarbon Fund, the Forest Carbon Partnership Facility and the Forest Investment Program

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Introduction

An introduction to the World Bank's initiatives in three areas of forestry is presented. These document the experiences of two forest carbon initiatives, i) the **BioCarbon Fund** which deals with forestry under the Clean Development Mechanism, with reducing emissions from deforestation and degradation (REDD) at the project level and with other land use changes; ii) the **Forest Carbon Partnership Facility** (FCPF) which focuses on national level REDD; and iii) the **Forest Investment Program** (FIP) to be established under the Strategic Climate Fund.

I. THE BIOCARBON FUND

Introduction

This note summarizes the challenges for forestry projects under the Clean Development Mechanism (CDM). As of July 2008, only one forestry project is registered under the CDM; the registration occurred in November 2006. Although more projects should be coming through the pipeline, this rate clearly shows the difficulty in undertaking these projects.

However, the importance of forestry and land use changes to the climate change solution and their contribution in improving livelihoods and environment cannot be overstated. Forestry and land use are one of the few opportunities for poor rural communities to access the booming carbon market.

The BioCarbon Fund is a fund where Participants from both the public and private sectors which focuses on land use, land-use change and forestry project-based activities. These activities are mainly for Afforestation / Reforestation and are developed under the CDM; a number of projects in the BioCarbon fund are testing ways to reduce emissions from deforestation and degradation (REDD) and in agricultural activities. Below are the main points that have been learned through the experiences of the BioCarbon Fund primarily, the Prototype Carbon Fund and others.

Issue 1: Only afforestation / reforestation are allowed under the CDM

Implication: This misses major climate change mitigation opportunities and results in a fragmented approach to sound land management practices.

Solution: The CDM needs to be more inclusive of all forest and land use activities. The Joint Implementation (JI) mechanism does not exclude these activities; ways can be found for the CDM also. To prevent any risk of market flooding, specific limits or caps could be imposed on the volume of eligible credits.

Issue 2: Temporary credits – Replacement after 60 years

Implication: This can have a perverse effect because it could imply that parties to a contract decide to cut a forest down after 60 years in order to buy permanent credits to replace the temporary credits. The requirement to replace also impacts on market demand and the consequent discount temporary credits produce little incentive to implement forestry projects under the CDM.

Solution: There are a number of ways this could be dealt with. For example, remove the rule and allow indefinite temporary crediting; grandfather temporary credits and convert them to full CERs after a period of time, if necessary at a discount; or examine the buffer approach adopted by some voluntary schemes as a type of insurance for loss of some carbon.

Issue 3: Temporary credits – Two-types of temporary credits

Implication: A cumbersome and difficult-to-understand two-type of temporary credit system that contributes to confusion over the concept of temporary crediting.

Solution: Consolidate temporary credits, most likely keeping tCERs, and consider alternatives for the permanence issue that is more acceptable to the market. To date, tCERs have proved to be more popular than lCERs as the five-year renewal "lease" of tCERs is seen to be more favorable to both buyers and sellers of these types of credits.

Issue 4: A/R can only happen on lands without forest since December 31, 1989

Implication: Another rule that does not consider ecological integrity and where honest efforts to reforest lands deforested after 1989 cannot be supported.

Solution: Although this time frame may have made sense at the time of establishing the rules, time has moved on and this needs to be reflected in the rules. The rules need to allow Agriculture, Forestry and other Land Use activities on land deforested after 1989 as long as it can be proven that natural forest was not cut down in order to undertake a carbon-crediting activity. This is technically possible and would mean project entities would need to prove that the CDM did not create an incentive to cut down the existing forest.

The four issues above highlight some of the critical areas that need to be addressed to make forestry projects more *attractive* to undertake. In order to make project *easier* to undertake, some additional issues would need to be considered, such as simplifying methodologies, or examining the expensive and onerous monitoring approach to non-significant criteria in forestry projects, such as leakage due to fuel use. The latter could be addressed by allowing reasonably-conservative, discount factors to account for this. It is important to note, that making projects easier to undertake, does not mean compromising their contribution to climate change mitigation.

II. THE FOREST CARBON PARTNERSHIP FACILITY

Deforestation and land-use change are the second leading cause of global warming. They account for about 20 percent of global greenhouse gas (GHG) emissions, and over a third of emissions from developing countries. In many developing countries, deforestation and forest degradation[1] account for a majority of carbon emissions. For example, in Brazil and Indonesia, deforestation and land-use changes represent an estimated 70 percent and 80 percent of emissions, respectively. Although there remain divergent opinions as to whether deforestation and forest degradation in tropical and sub-tropical countries should be included in a future climate regime, there is an emerging consensus that this issue must be effectively addressed, as it would otherwise limit the options for reducing GHG emissions and GHG concentrations to acceptable levels.

Deforestation for agricultural expansion, cattle ranching, logging, and plantation development, can deprive the poor of access to resources. Lacking viable alternatives, poor people often convert forests into farms that soon become unproductive due to degraded topsoil conditions. This process destroys sustainable sources of timber and related forest products that offer long-term stability and exchanges them for short-term income generation. Finding new funding sources to tackle deforestation and degradation also holds promise as a tool for reducing poverty among forest-dependent people and promoting their sustainable development.

In the face of this continuing challenge, the international community is exploring the potential of utilizing carbon finance to provide some of the necessary resources. Although there currently exists no regulatory instrument under the United Nations Framework Convention on Climate Change (UNFCCC) to compensate reductions in emissions from deforestation and degradation (REDD) in the form of carbon payments, the Parties to the UNFCCC are discussing the possibility of creating such an instrument in the future. It is in this context that the World Bank, prompted by a range of stakeholders, in 2006 proposed the creation of a Forest Carbon Partnership Facility (FCPF or Facility). The FCPF will assist developing countries in their efforts to reduce emissions from deforestation and degradation (REDD). It will have the dual objectives of building capacity for REDD activities in developing countries and testing—on a relatively small scale—a program of performance-based incentive payments in pilot countries. The overall development objective of the Facility will be to set the stage for a much larger system of positive incentives and financing flows in the future. As such, the direct impact of the FCPF in reducing emissions from deforestation and degradation would be relatively limited, but the framework and approaches that would be tested and proved under the FCPF would inform Parties to the UNFCCC as they negotiate a future climate regime which may include REDD.

The FCPF comprises of two separate mechanisms:

1. **Readiness Mechanism –** under this mechanism, the Facility intends to assist 20 or more developing tropical and sub-tropical countries prepare themselves to

[1] Forest degradation means the loss of biomass (and carbon) under the forest cover. Continuing degradation may lead to deforestation, i.e. the loss of forest cover.

participate in a future, large-scale system of positive incentives for REDD. This will include, but is not limited to: (i) establishing a national reference scenario for emissions from deforestation and degradation; (iii) preparing a national REDD strategy; and (iv) establishing a monitoring system for emissions from deforestation and degradation. Indigenous groups and other forest dwellers will participate in the process so they can benefit from future carbon finance flows.

2. **Carbon Finance Mechanism –** the Facility will support a few countries that will have successfully participated in the Readiness Mechanism to join, on a voluntary basis, a second mechanism that will pilot incentive payments for REDD. The Carbon Fund will remunerate the selected countries or actors within the selected countries, in accordance with negotiated contracts, for emissions reductions that are verified independently. The Carbon Fund's payments are intended to provide an incentive to the recipient countries and the various stakeholders within each of these countries to achieve long-term sustainability in financing forest conservation and management.

Together, these two mechanisms seek to create an enabling environment and sponsor a body of knowledge and experience that can facilitate the development of a much larger global program of incentives for REDD over the medium term (5-10 years).

FCPF Status Update

Given that a large part of COP13 focused on the potential for REDD, the FCPF was publicly "launched" by Mr. Zoellick, along with nine developed country ministers and the acting President of the Nature Conservancy, during the meetings in Bali. At present, US$187 million has been pledged to the both funds of the FCPF and US$83 million has been formalized, out of which US$68 million to the Readiness Fund and the remainder to the Carbon Finance Fund. Nine industrialized countries have formalized their participation: Australia, Finland, France (the French Development Agency), Japan, Norway, Spain, Switzerland, the United Kingdom and the United States.

The FCPF has finalized consultations on the Facility's design, including a series of regional consultations with indigenous peoples and other forest dwellers, in partnership with the head of the UN Permanent Forum on Indigenous Issues. These workshops were organized and chaired by regional IP organizations. In Asia, the workshop took place in Kathmandu from February 28 to 28 and included 25 indigenous people representatives. In Africa, the consultations took place in Bujumbura, Burundi, from March 13 to 14, counting on the participation of 18 indigenous people and 9 forest dweller representatives. Finally, the workshop in Latin America took place in La Paz, Bolivia, from March 17 to 19, with the participation of 33 indigenous people and 2 forest dwellers representatives. The FCPF intends to continue a meaningful dialogue with indigenous peoples and forest dwellers, now at a country level through the Readiness activities.

There has been substantial demand for the FCPF, with letters of interest received from over 40 countries thus far. Most of these countries have done so as a result of their own positions and support for REDD in the international climate negotiations. The FCPF has also received 28 “Readiness Plan Idea Notes”, the formal request for participation in the Readiness Mechanism.

The first Steering Committee meeting of the FCPF took place on July 9-10 in Paris, where fourteen countries were selected to start implementing activities under the Readiness Mechanism. Among the countries were six in Africa (the Democratic Republic of Congo, Gabon, Ghana, Kenya, Liberia, Madagascar); five in Latin America (Bolivia, Costa Rica, Guyana, Mexico, Panama); and three in Asia (Nepal, Lao PDR, and Vietnam). The Participants Committee meeting is scheduled for September 17-19, 2008 in Washington DC.

The FCPF is in current discussion with the UN REDD Initiative, comprising the UNDP, UNEP and FAO, in order to explore potential synergies on REDD-related activities, maximize service to potential REDD countries and avoid duplication.

III. THE FOREST INVESTMENT PROGRAM

Many of the potential solutions to reducing emissions from deforestation and degradation (REDD) are well documented. But current approaches to developing climate-related programs are highly fragmented and do not include an analysis of developing country government perceptions of forest-related remedial strategies, including mitigation and adaptation measures. More consideration needs to be given to effective collaboration between governments, communities, private sector companies and financial institutions in planning and implementing programs that address climate change. These approaches need to be put into the context of the overarching global climate change agenda, linking the local and global levels.

It is becoming clear that REDD would be only one mitigation tool—albeit an important and innovative one—within a comprehensive sustainable forest management response, which would include reforestation and restoration measures, as well as the need to address the role of policies of other sectors.

Emerging Needs

Emerging analytical work and best practice examples of ongoing development assistance provide evidence that the following are indicative of a portfolio of investments that may be instrumental in addressing climate change:

- Investments to support a shift by agribusiness companies away from dependence on harvesting of rain forests towards planting on non-forest lands.
- Investments in rural development and social infrastructure programs that will help to increase agricultural productivity and create sustainable livelihood opportunities for forest-adjacent, low-income rural families that currently depend to a high degree on subsistence agriculture and on income from illegal logging.
- Investments in non-forest sector programs (agriculture, transportation, mining etc.) to ensure inclusion of specific provisions for forest protection.
- Investments in building institutional, legal and technical capacities of governments and private and communal forest stakeholders to effectively protect and manage forests as well as to undertake strategic and management planning and control.
- Investments in improving forest governance and forest sector transparency (e.g. forest inventory, log tracking systems and certification).
- Investments in forest-based industries to support increased utilization of farm forest and smallholder-based plantation resources through company/community partnerships.
- Investments for engaging local communities and smallholders in restoration of degraded forest ecosystems and establishment of timber/pulpwood plantations.
- Investments in community-based ownership and management of protected areas.
- Investments to support the containment of forest fires and pests and other investments in adaptation measures.

However, substantial new investment needs are also emerging in the context of REDD, especially in implementing the Forest Carbon Partnership Facility. The FCPF was designed to prepare, and demonstrate a new performance-based approach to reward developing countries for achieved carbon emission reduction outcomes from standing forests. The FCPF Readiness Fund assists countries in building their capacity to tap into a future system of positive incentives for REDD by providing support for the development of the methodological approach and key analytical work such as for the emissions reference scenario, the monitoring system and key reforms and investment needed, but in most cases not for implementing the reforms and investments themselves. The FCPF Carbon Fund will demonstrate optional approaches for payments for achieved emission reductions against the reference scenario. The FCPF is thus not designed to provide for the investment needs outlined above, with the exception of testing payments of emission reductions. There is, therefore, a clear need for funds covering this “missing middle”.

A 2007 UNFCCC study of investment needs assessed the financing needs in the order of US$ 5-6 billion a year.

The Forest Investment Program

On July 1, 2008, with G8 endorsement, the World Bank Board of Executive Directors gave their approval for the development of two climate investment funds (CIF) which will also address the role of forests in climate change. One is **The Clean Technology Fund (CTF)**. The second, **The Strategic Climate Fund (SCF)**, will provide financing to pilot new development approaches or to scale up activities aimed at a specific climate change challenge or sectoral response through targeted programs. An important objective of the SCF is to maximize co-benefits of sustainable development, particularly in relation to the conservation of biodiversity, natural resources ecosystem services and ecological processes.

As one of the targeted programs under the SCF, a **Forest Investment Program (FIP)** will be developed, aiming to finance immediate investment needs that can act as a bridge for piloting actions and learning while UNFCCC negotiations take place. The program is to be established by the end of 2008 with a view to mobilizing significantly increased funds to accelerate efforts in developing countries to reduce deforestation and degradation, promote improved sustainable forest management as a means to reducing carbon emissions, and protect of carbon reservoirs.

Taking into account the underlying causes of deforestation, the objective of the proposed FIP would be to finance transformational investments in developing countries to initiate change towards low carbon emissions and climate resilient sustainable forest management. It is understood that such investments will only be effective if made within the context of an enabling legal, institutional framework and a conducive investment climate for follow-up action by the private sector, marked by strong governance capacities in developing countries.

Inclusiveness and broad stakeholder participation will be key features of the FIP, both in its design and implementation. It is important that diverse stakeholders participate early on in the FIP development process, recognizing that a sustainable solution to deforestation and forest degradation, the promotion of sustainable forest management as a means to reducing carbon emissions, and the protection of carbon reservoirs require the active involvement of multiple actors across society.

The FIP consultation process is currently being launched, and will follow an iterative process with various design meetings, with the aim of obtaining approval in early in 2009. The process will include, among other actors, governments in developing and donor countries, civil society groups and indigenous and forest peoples' organizations, local and international non-governmental organizations, the private sector, and foundations and will seek close collaboration from the UNFCCC, other UN agencies, the Global Environment Facility, bilateral development programs, and an emerging Global Forest Partnership.