



# CONTRACTING FOREST CARBON

## LESSONS LEARNED FROM THE BIOCARBON FUND

FCPF PC12 MEETING, SANTA MARTA  
JUNE 29, 2012



- ◆ Introduction: “Setting the Stage” on Contracting for Forest Carbon
- ◆ Case Study: Colombia Caribbean Savannah BioCF Project
- ◆ Comment: Thomas Black (Centro Andino para la Economía en el Medio Ambiente)
- ◆ Round of Discussion



# The World Bank BioCarbon Fund (BioCF) (1)



- ◆ Public-private carbon fund mobilizing resources for pioneering projects that sequester carbon from forest and land use based projects (operational since 2004)
- ◆ Overarching Goal: To demonstrate that land based activities can generate high quality emission reductions and strong environmental and socio economic benefits for local communities
- ◆ BioCF actively promotes the development of the forest carbon market: developed or supported development of 10 approved methodologies under the Clean Development Mechanism (CDM), launched a variety of capacity and outreach activities (BioCF+)
- ◆ Rest of resources are used for CDM Reforestation projects using different carbon sequestration technologies: assisted natural regeneration, community reforestation, agroforestry, silvopastoral systems
- ◆ BioCF has contracted a total volume 9 Million Emission Reductions from 21 Afforestation/ Reforestation CDM projects reforesting a total of 108,000 ha in 16 countries
- ◆ In March 2012: first issuance of carbon credits from CDM forest project (4 Mio tons of CO<sub>2</sub>e, Brazil Plantar)





## *Tranche 1*

### **Operational since May 2004 (53,8 Mio US\$)**

- **5 Governments and public entities:** Government of Canada, Government of Italy, Government of Spain, Government of Luxembourg, Agence Française de Développement
- **8 private companies:** Tokyo Electric, Eco-Carbone, Idemitsu Kosan, Sumitomo Joint Electric Power Co., Sumitomo Chemicals, Japan Petroleum Exploration, Japan Iron and Steel Federation, Suntory

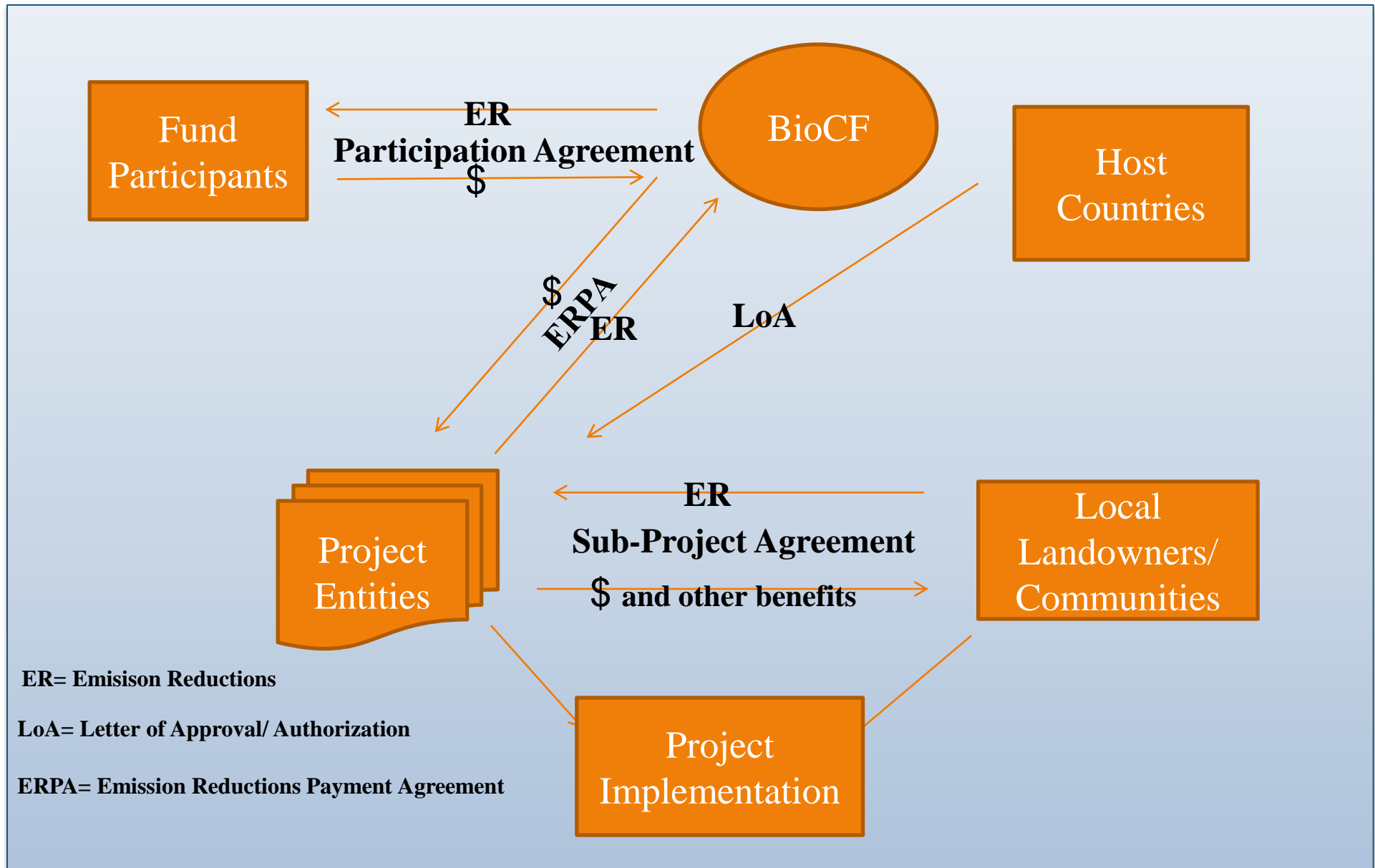
## *Tranche 2*

### **Operational since March 2007 (38,1 Mio US\$)**

- **4 Governments and public entities:** Government of Ireland, Government of Spain, Government of Luxembourg, Agence Française de Développement
- **3 private companies:** Consensus Business Group, Syngenta Foundation, ZeroEmissions Carbon Trust

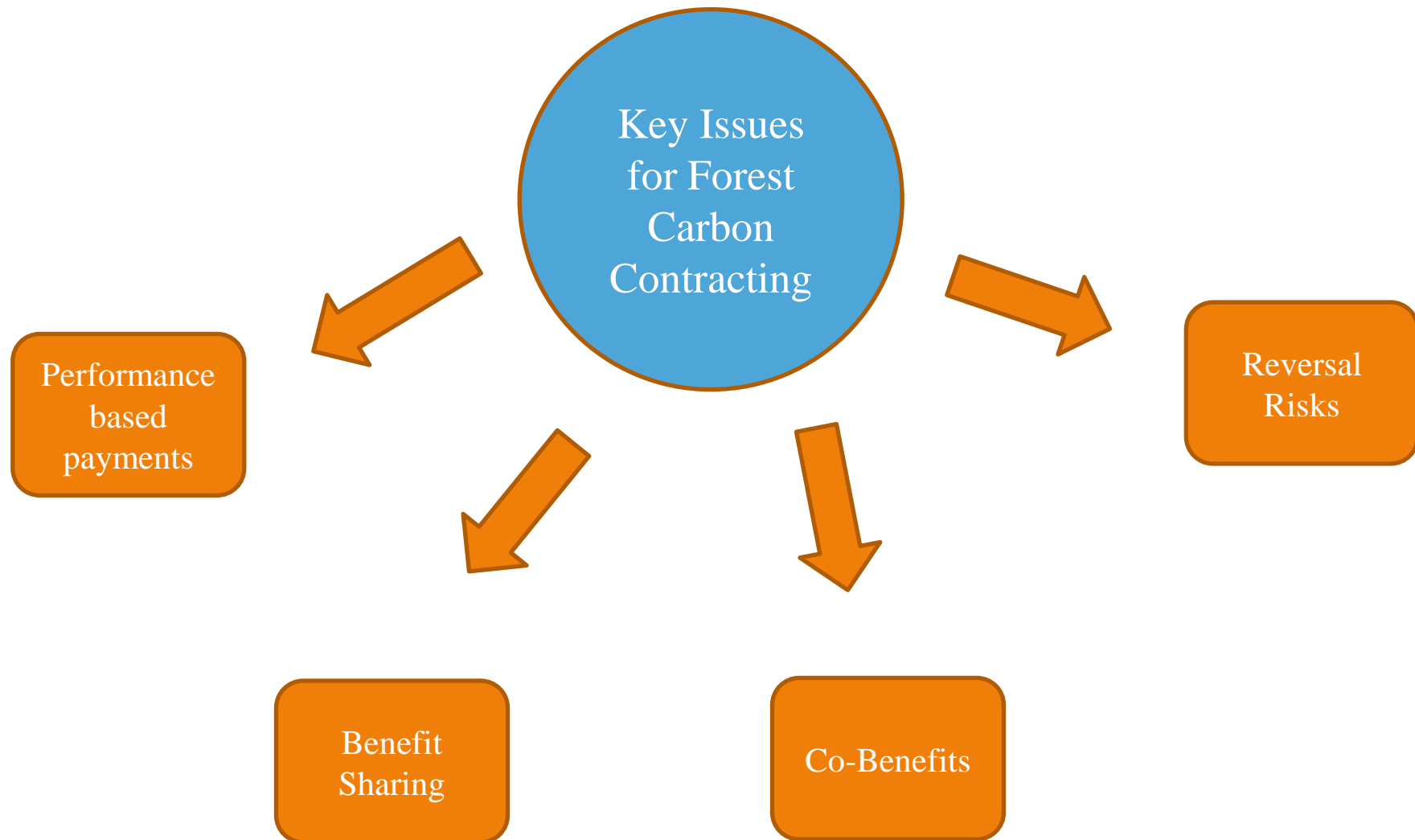


# Contracting for Forest Carbon: BioCarbon Structure

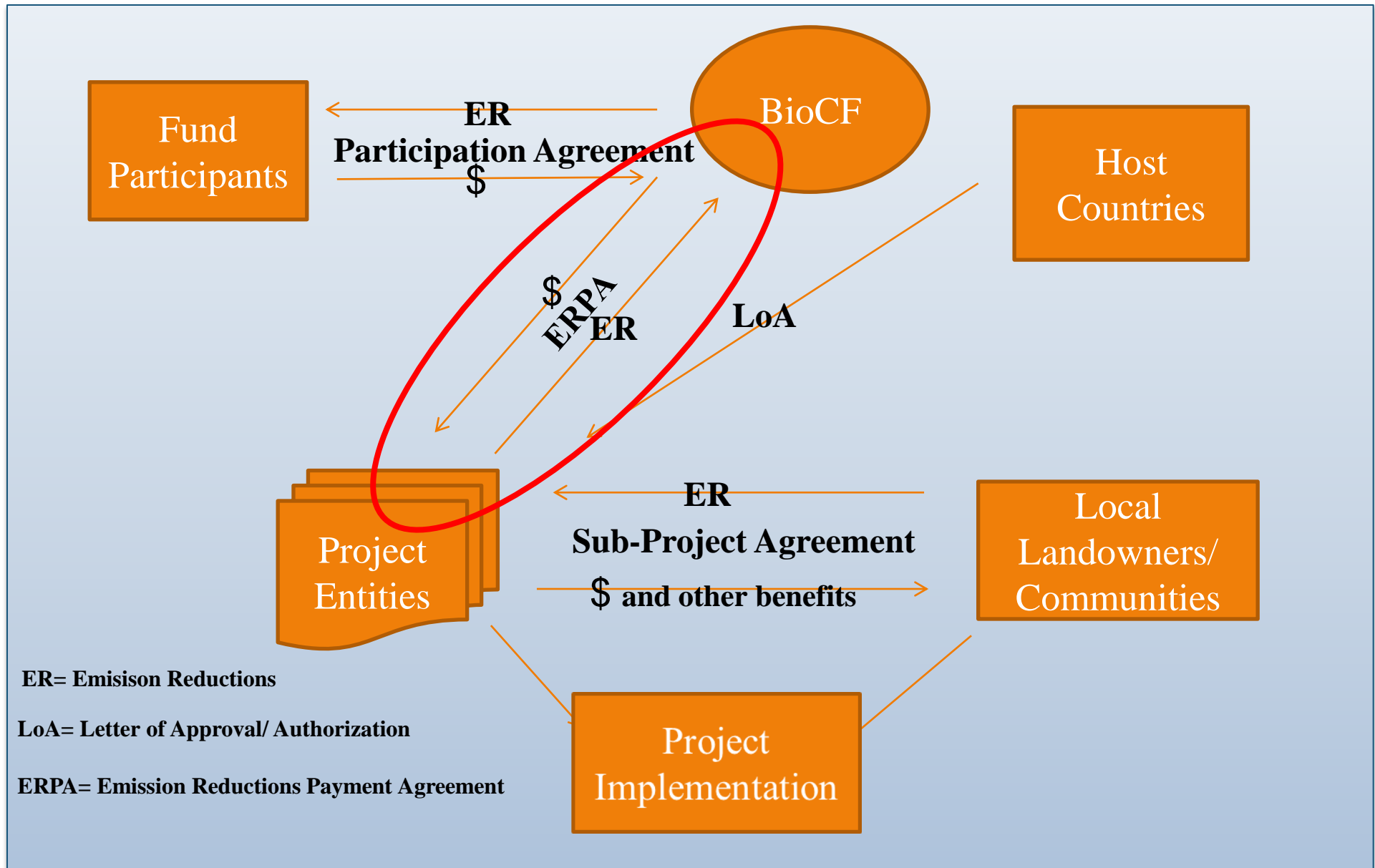


## Key Commonalities with FCPF

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# Performance based payments (1)



## Performance based payments (2)

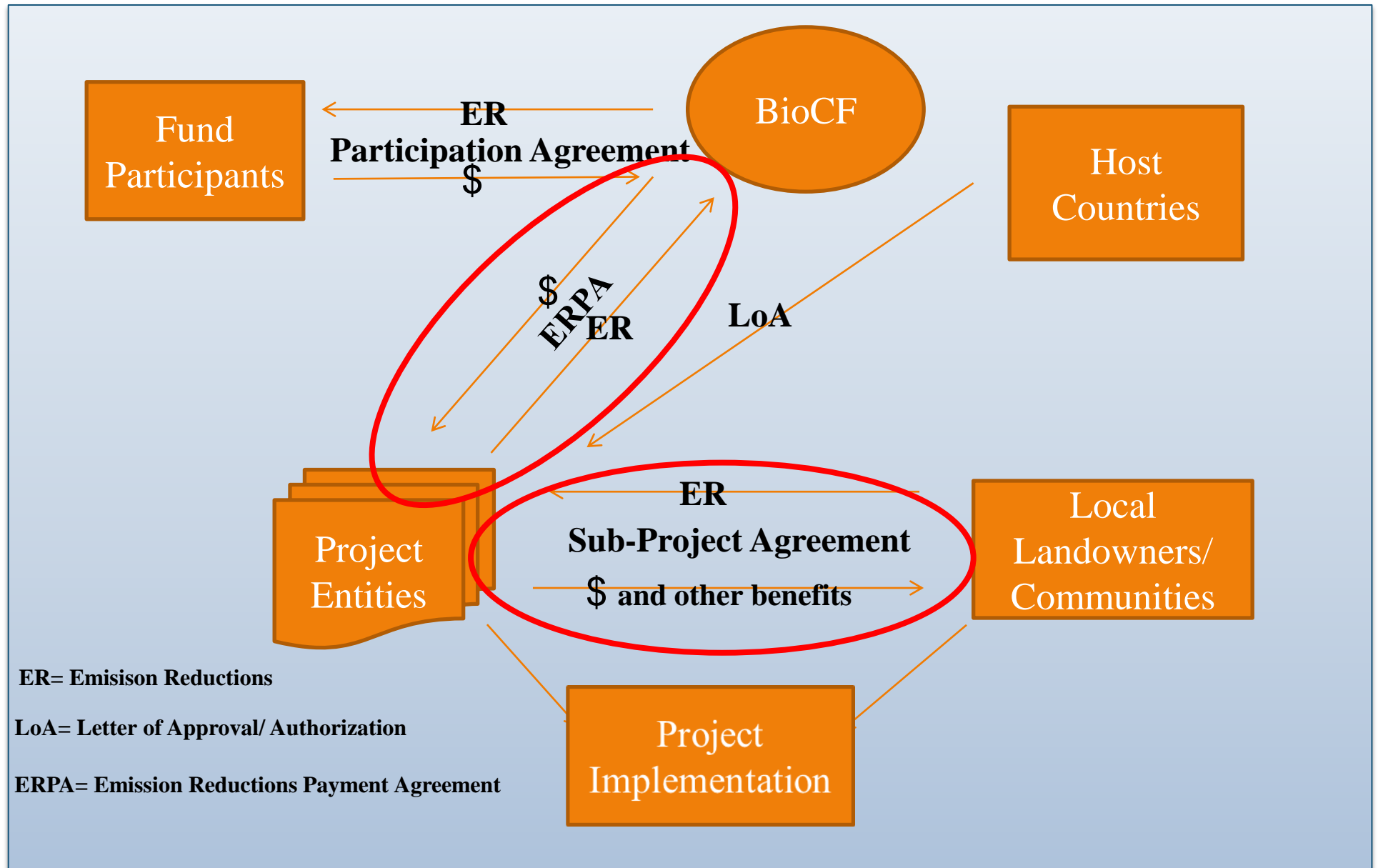
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- ❑ Contractually agreed payments for transferred Emission Reductions against either monitored amounts of carbon sequestered [if verification not required in a given year] or monitored and independently verified amounts of carbon sequestered [if verification required]
  
- ❑ Contractual partners [i.e. project entities] in the BioCF:
  - Governments
  - Private Companies
  - NGOs
  - Public-private cooperation
  - Research Institutions
  
- ❑ Emission Reductions Purchase Agreement (ERPA) establishes
  - Ownership and transfer of legal title to Emission Reductions
  - Payment against transferred Emission Reductions
  - Allocation of rights and responsibilities regarding project development, monitoring, reporting and verification
  - Remedies in case of non-performance other than Force Majeure events
  
- ❑ Payments made annually in order to ensure constant cash flow and project continuity





# Benefit- sharing (1)



## Benefit Sharing (2)

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- ❑ Defines the flow of monetary and non-monetary benefits from forest carbon transactions and other forest projects to local stakeholders/implementing entities/affected communities (Beneficiaries)
- ❑ To be designed on a project-by-project basis in a participatory way with Beneficiaries
- ❑ Types of benefits include:
  - Share of revenues from sale of Emission Reductions (e.g. through direct payments or specific investments identified by Beneficiaries (e.g. timber planting, grain stores, improved health care facilities etc.)),
  - Forest-related products (e.g. rubber, medicinal plants, hay/fodder for livestock, firewood etc.)
- ❑ ERPA establishes
  - Obligations of the project entity to establish and implement a certain benefit sharing mechanism under the Sub-Project Agreements
  - Remedies in the event of failure to establish or properly implement benefit sharing mechanism
- ❑ Sub-Project Agreement specifies
  - Benefit-sharing mechanism between the project entity and the Beneficiaries (including % of share of payments received under the ERPA, other benefits, grievance mechanisms etc.)

## Co-benefits

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- ❑ Apart from the payments received from the sale of Emission Reductions, BioCF projects have many additional socioeconomic and environmental benefits:
  - Employment creation
  - Additional revenue from forest-related products
  - Erosion control and soil rehabilitation
  - Watershed protection
  - Biodiversity and recovery of native tree species
  
- ❑ Although co-benefits are not required for the generation and verification of Emission Reductions, under the BioCF, such co-benefits are accounted for in the form of a premium on the price per transferred Emission Reduction
  
- ❑ The Project Design Document specifies certain co-benefits achieved by a BioCF project
  
- ❑ Some BioCF projects start measuring co-benefits against pre-defined indicators to track successful co-benefit achievements


## Reversal Risk

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- ❑ To ensure the environmental integrity of a forest carbon transaction, the risk of the potential occurrence of reversal events (e.g. fire, logging etc.) must be addressed
- ❑ Trustee requires periodic independently verified 'Permanence Reviews' to identify the occurrence of any reversal events within the project boundary
- ❑ Responsibility for occurrence of any reversal event lies with the project entity, unless reversal event is due to the occurrence of a Force Majeure event
- ❑ Ways to minimize reversal risks in the BioCF include:
  - Temporary crediting (under UNFCCC/Kyoto Protocol rules)
  - Replacement ER approach
  - Buffer Reserve approach





A lush green landscape featuring a large, mature tree on the left side. In the foreground, there is a body of water reflecting the sky and the tree. A person wearing a yellow shirt and light-colored pants is walking along a dirt path on the right side of the image. The background consists of a dense line of green trees under a clear blue sky.

**Thank you very much !**

For more information and  
resources, please visit  
[www.biocarbonfund.org](http://www.biocarbonfund.org)



## Some Important Lessons Learned

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- Regular, predictable payments required to provide sufficient incentives at the project level
- While clear contractual allocation of responsibilities, rights and obligations are important, it is equally important that project partners fully understand and accept its respective responsibilities, rights and obligations
- In particular, in cases where a BioCF project is implemented by multiple partners, it is crucial that the project entity takes leadership in contracting, coordinating, informing and managing expectations at the Beneficiary level
- Strong participation of Beneficiaries required in deciding on and establishing any benefit-sharing mechanism under the project
- Strong project related co-benefits can improve the overall quality and public support of a forest carbon project
- Addressing the potential occurrence of reversal events is crucial to ensure the environmental integrity of a forest carbon project

