



CONTRACTING FOREST CARBON

LESSONS LEARNED FROM THE BIOCARBON FUND

FCPF PC 12 MEETING, SANTA MARTA
JUNE 29, 2012



- ◆ Introduction: “Setting the Stage” on Contracting for Forest Carbon (Franka Braun, Markus Pohlmann – World Bank)
- ◆ Case Study: Colombia Caribbean Savannah BioCF Project (Sandra Ruiz - Corporación Autónoma Regional de los Valles de Sinú y del San Jorge)
- ◆ 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 CO₂e, Brazil Plantar)



Tranche 1

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

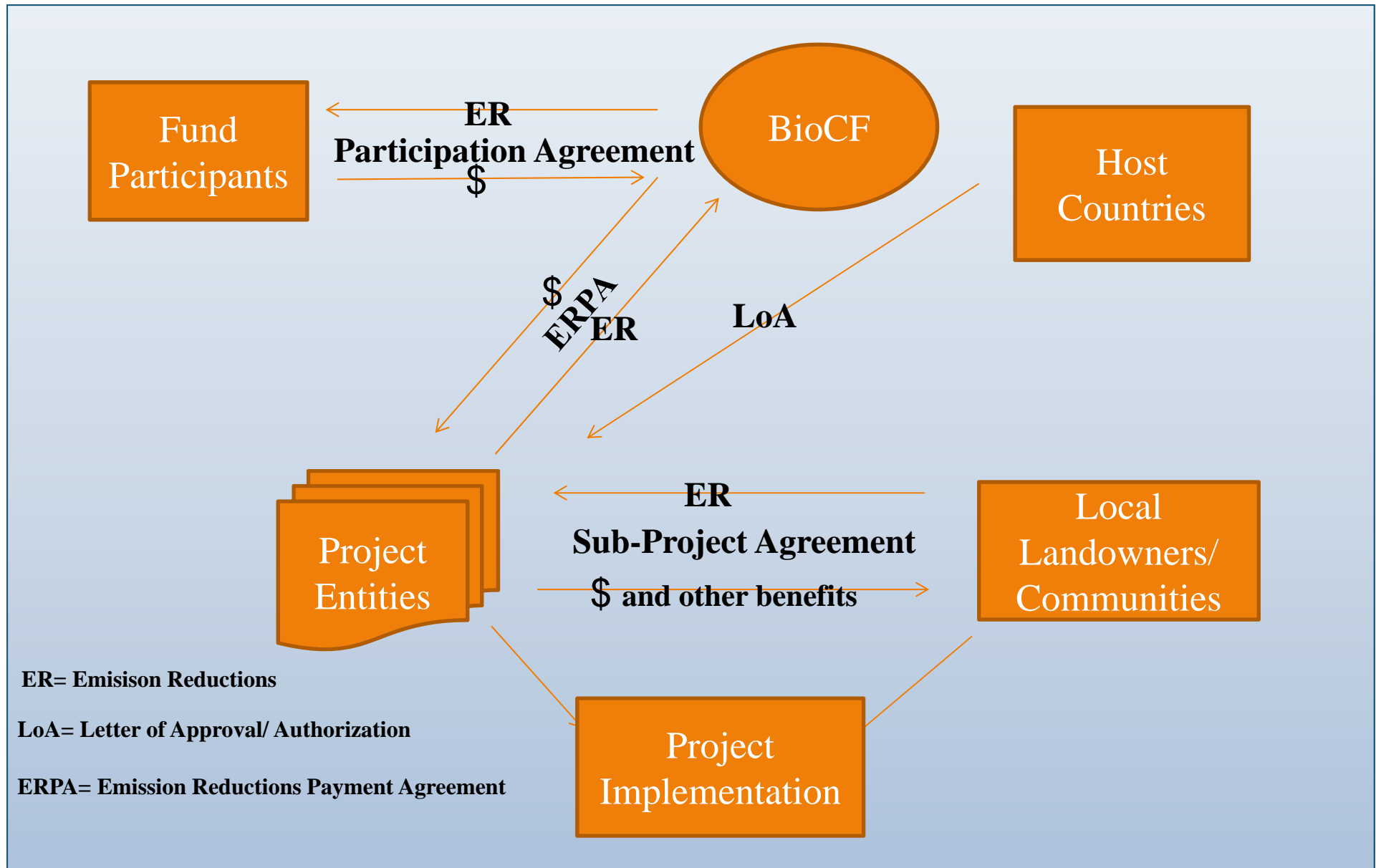
- **5 Governments and public entities:** Government of Canada, Government of Italy, Government of Spain, Government of Luxembourg, Agence Française de Développement
- **8 private companies:** Tokyo Electric, Eco-Carbone, Idemitsu Kosan, Sumitomo Joint Electric Power Co., Sumitomo Chemicals, Japan Petroleum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

Tranche 2

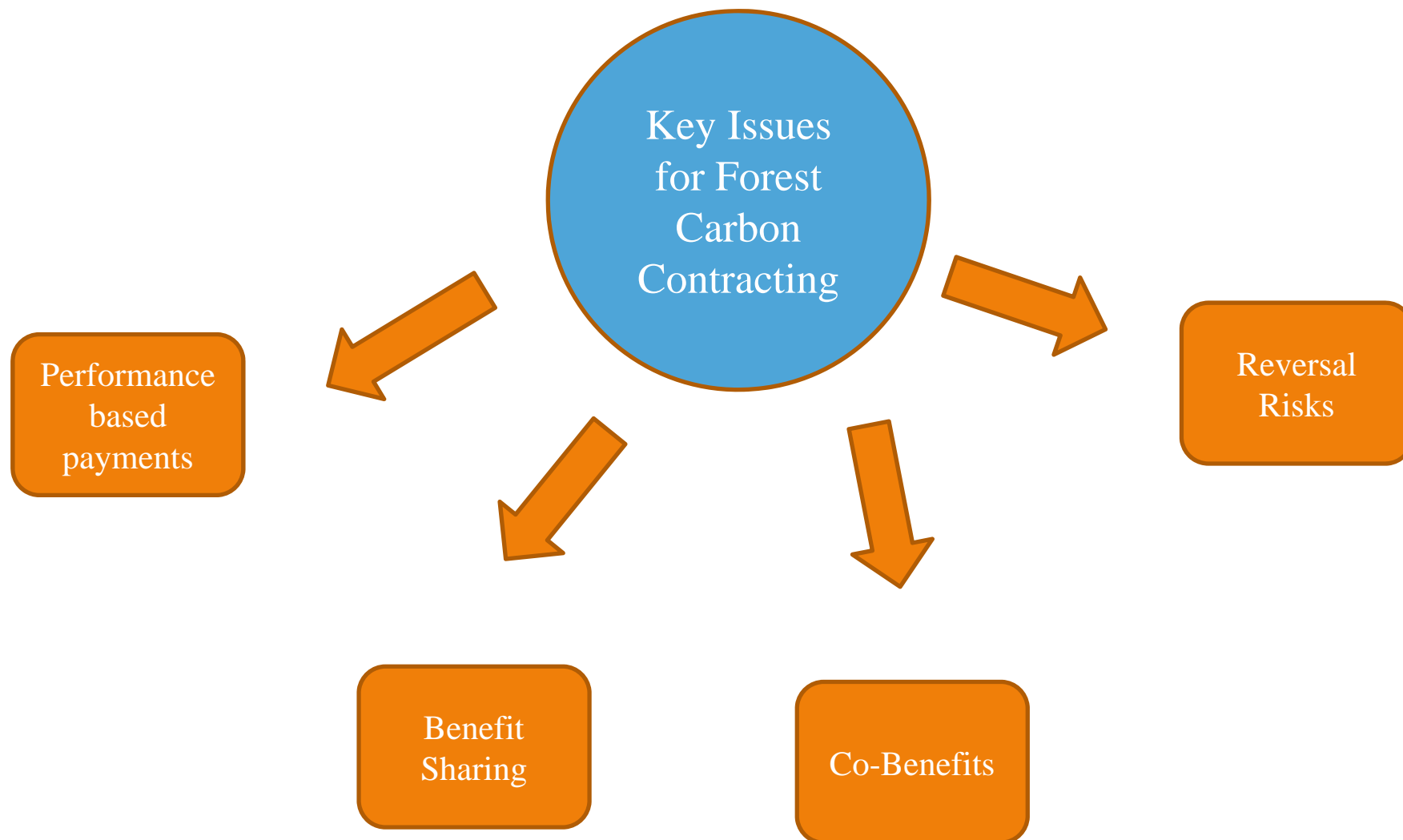
Operational since March 2007 (38,1 Mio US\$)

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

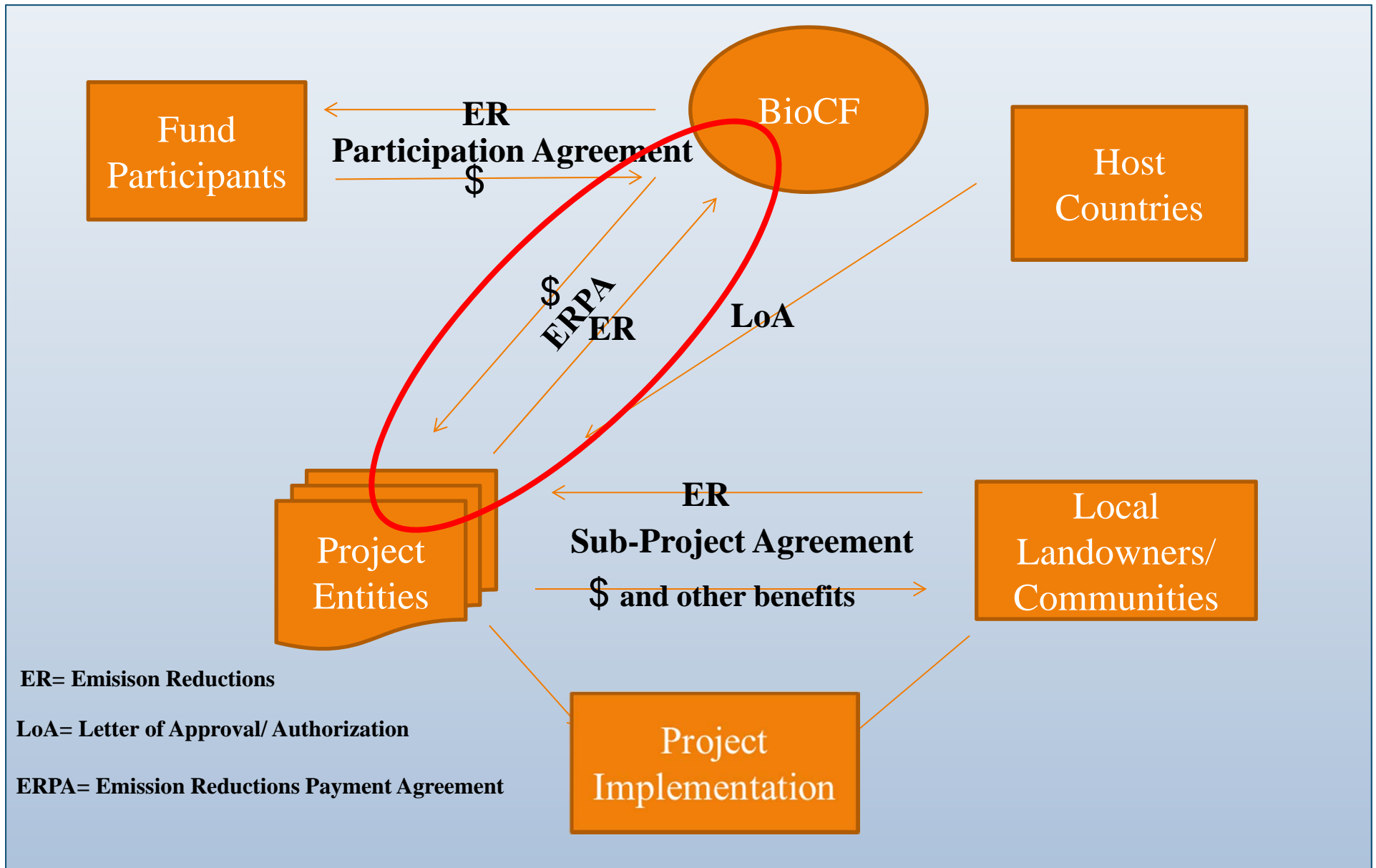
Contracting for Forest Carbon: BioCarbon Structure



Key Commonalities with FCPF



Performance based payments (1)



Performance based payments (2)

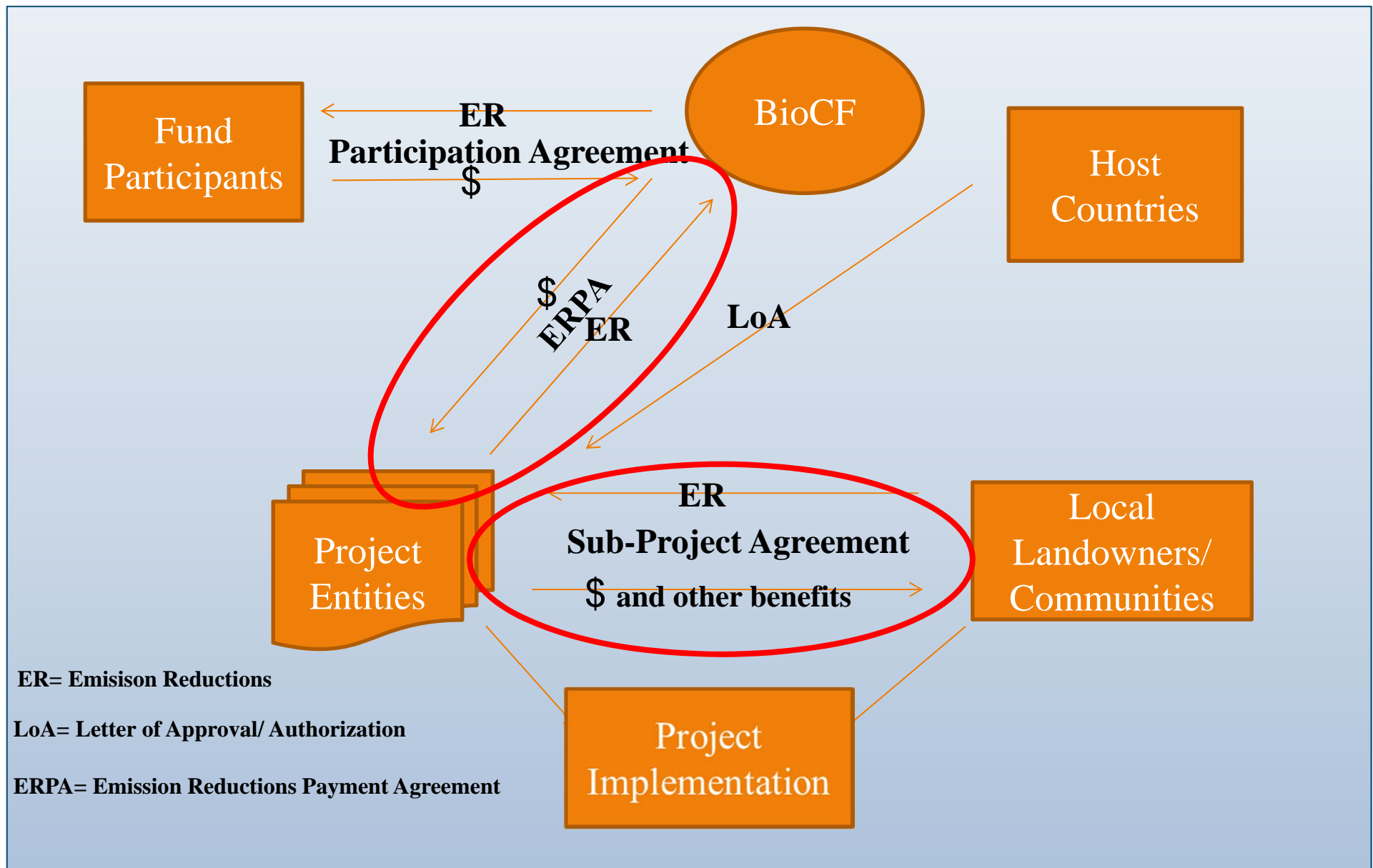
- ❑ Contractually agreed payments for transferred Emission Reductions against either monitored amounts of carbon sequestered [if verification not required in a given year] or monitored and independently verified amounts of carbon sequestered [if verification required]

- ❑ 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)

- ❑ 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

- ❑ 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

- ❑ 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

Some Important Lessons Learned

- Regular, predictable payments required to provide sufficient incentives at the project level and ensure project sustainability over time
- 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



A lush green landscape featuring a large, mature tree on the left side. In the foreground, there is a calm pond reflecting the sky and the surrounding greenery. 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 trees under a clear blue sky.

Thank you very much !

For more information and
resources, please visit
www.biocarbonfund.org