

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC1928

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<b>Project Name</b>	Chile FCPF Readiness Preparation Grant (P124908)
<b>Region</b>	LATIN AMERICA AND CARIBBEAN
<b>Country</b>	Chile
<b>Sector(s)</b>	Forestry (100%)
<b>Theme(s)</b>	Climate change (100%)
<b>Project ID</b>	P124908
<b>Borrower(s)</b>	AGCI
<b>Implementing Agency</b>	National Forestry Corporation (CONAF)
<b>Environmental Category</b>	
<b>Date PID Prepared/ Updated</b>	27-Nov-2013
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<b>Estimated Date of Board Approval</b>	

## I. Introduction and Context

### Country Context

Chile is one of the most developed countries in the southern hemisphere and relies heavily on its natural resource base for employment and exports. The country has a wide range of ecological zones; including expansive arid desert, remote Pacific islands, a Mediterranean ecosystem, high-altitude grasslands and wetlands, and temperate rainforests, among others. This diverse landscape contributes to Chile's rich biodiversity, natural beauty and highly favorable environmental conditions for its successful resource-based industries; including forestry, fisheries, and agriculture. Yet, despite its natural assets and economic prowess, the country is challenged by land degradation problems including desertification, accelerated soil erosion, and forest degradation. Climate change is exacerbating land degradation through changes in rainfall quantity and regimen, and rising temperatures. Government of Chile has demonstrated its commitment to addressing land degradation with the passage of supporting legislation and signaled its intent to contribute to global efforts to mitigate greenhouse gas releases through forest carbon sequestration.

### Sectoral and Institutional Context

Chile has around 16.59 million ha of forests, of which 2.87 million are plantations, with about 52 percent privately owned and 48 percent publicly. (Around 2 percent are owned by indigenous communities.) Gross deforestation is very low, estimated at around 27,000 ha annually (0.16%) and with plantations expanding by about 64,000 ha each year, Chile's overall forest cover is expanding. This said, forest degradation remains a serious problem in the country's native forests, with almost 4

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million ha of forests affected. Most degradation occurs in the southern natural forests, where unsustainable and unmanaged fuelwood extraction is a major contributor to the problem, and an estimated 63% of all native forest management in the country leads to forest degradation . The most common causes of forest degradation are due to over cutting and poor forest management practices, mainly for fuelwood . Forest fires and the introduction of cattle for grazing are also contributing factors.

In 2006, the National Advisory Committee on Climate Change (Comisión Nacional Asesora sobre Cambio Climático, CNACC), a body of nine governmental institutions created in 1996 (CNACC, 2006), prepared a National Climate Change Strategy that is currently being implemented under the National Climate Change Action Plan 2008-2012. Within this policy and institutional framework, the Office on Climate Change was established in 2010, under the office of the Undersecretary of the Ministry of the Environment, to facilitate work on the issue from an organizational and administrative standpoint. The Office has an annual budget and a permanent staff to carry out its work.

The year 2010 marked the culmination of a process of transforming Chile's institutional framework for environmental governance which had begun in 2006. As part of that process the country moved from a multisectoral model, in which environmental matters were coordinated by the National Environmental Commission (CONAMA), to a more centralized and authoritative model under the Ministry of the Environment. The Ministry of the Environment is the national institution currently responsible for working with the Chilean President on the design and implementation of environmental policies, plans, and programs. It is also responsible for protection and conservation of the country's biological diversity and its water and renewable natural resources, as well as for promoting sustainable development and comprehensive environmental policy and regulatory framework.

In terms of international commitments, Chile became party to the Copenhagen Accord of the UNFCCC on January 29, 2010 (COP15), providing information on its Nationally Appropriate Mitigation Actions for inclusion in Annex II of the Accord on August 26 of the same year. Chile's NAMA target, as declared in its communication and subject to the provision of international support, is to achieve a 20% deviation below the Business as Usual emissions growth trajectory by 2020, with 2007 as the base year. Chile further declared that the main focus of its NAMA to achieve this target will be energy efficiency, renewable energy, and Land Use, Land use Change and Forestry. In this context, the Ministry of Agriculture through its National Forestry Corporation (CONAF) is making a substantial contribution towards this target by developing a Forests and Climate Change Strategy, in view to position the country's forestry sector as a key climate mitigation instrument, in line with its second National Communication.

On November 20, 2012, Chile's initiative on the "Implementation of a National Forestry and Climate Change Strategy, Including the Development and Implementation of a Platform for the Generation and Trading of Forest Carbon Credits," with financial support from the Government of Switzerland, was officially registered as a NAMA under the UNFCCC . The objective of this initiative is to identify and implement alternative financial mechanisms for the country's forestry sector based on current and projected demand in the carbon markets. Chile is also participating in the World Bank's Partnership for Market Readiness where it is looking at different market mechanisms, including the possibility of implementing an Emissions Trading System (ETS), as a solution for meeting the targets set in its 2020 commitment, especially for the Energy sector.

The Ministry of Agriculture (Ministerio de Agricultura, MINAGRI) is the government institution tasked with promoting, guiding, and coordinating agriculture, livestock, and forestry activities in Chile. The National Forestry Corporation (Corporación Nacional Forestal, CONAF) is an entity affiliated with the Ministry of Agriculture and is the agency responsible for the administration and enforcement of forest legislation in Chile, acting as the country's Forest Service. CONAF has more than 130 branch offices located in all the regions with a permanent staff of over 2,000 employees, and is one of the public institutions with the most extensive representation throughout the national territory. However, given the geographic extension of the country's forest area, its enforcement strategy is focused mainly on specific priority areas with particular conservation issues.

Relevant ongoing programs in the forest sector include the Afforestation and reforestation program (Presidential Decree no. 701) which supports all classes of landholders in tree planting and plantation management (thinning and pruning) and The native forest restoration and management program (Law no. 20.283), approved in 2009. Sustainable forest management, restoration and conservation in native forests are eligible for co-financing under the law. These two programs would potentially tie into the REDD+ strategy, with improvements to be defined through studies and public consultations during the preparation phase. Most REDD+ actions in Chile would likely be implemented at the level of the individual producer, legal landholder or community.

The policies, programs and other interventions Chile intends to implement to reduce emissions from deforestation and forest degradation will be defined through studies and consultations during the readiness preparation phase. The potential strategy options currently under consideration fall into seven main categories; (i) improvement in the planning and management of native forests, (ii) management and control of illegal logging, (iii) training and capacity building for producers, (iv) mainstreaming silvopastoral practices into pasturelands, (v) wildfire prevention and control, (vi) offsets for future hydroprojects, and (vii) improvement of afforestation and reforestation practices to optimize carbon capture.

CONAF is also implementing a USD6 million GEF funded Sustainable Land Management Project (Proyecto de Manejo Sustentable de la Tierra). The project focuses on the management of degraded lands, the conservation of biodiversity in productive areas, and other activities aiming at the mitigation of climate change. It is working to strengthen the Chilean Government's incentive mechanisms for sustainable agriculture and forestry through a landscape approach. The Government offers economic benefits to landowners so that they can manage their properties with these objectives in mind. As such, it is highly relevant and complementary to the country's REDD+ efforts.

### **Relationship to CAS**

The World Bank Group 2011-2016 Country Partnership Strategy with Chile (Report no. 57989-CL), discussed by the Executive Directors on February 15, 2011, highlights the Government of Chile's development agenda called Chile País Desarrollado, which sets the goal for achieving high income developed country status by 2018. The primary challenges highlighted in the CPS are related to boosting economic growth and eliminating extreme poverty. In addition, the Government has committed to protecting the environment in order to ensure the long-term environmental sustainability of growth as well as respond to Chile's commitments to address climate change as a new member of the OECD.

## II. Proposed Development Objective(s)

### Proposed Development Objective(s)

The Project Development Objective is to assist the Recipient in carrying out the Readiness Preparation Activities.

### Key Results

Based on the activities to be financed by the FCPF, the key results from the proposed REDD readiness preparation grant would include the following:

- Consultations on the national REDD+ strategy are carried out with indigenous peoples, local communities, civil society, the private sector and other key stakeholders;
- A definition of forest degradation in the context of REDD+ has been established in consultation with key stakeholders
- The national forestry extension program is strengthened in order to enable small and medium landholders as well as indigenous peoples communities to access the benefits of CONAF's various forestry programs
- A SESA is conducted during the readiness phase and an ESMF is prepared in managing potential social and environmental impacts for the REDD+ strategy implementation phase.

Key results expected from the future implementation of REDD+ in Chile following the readiness phase may include (though by nature, this list would need to be refined during the readiness preparation phase):

- Measured, Reported and Verified reductions in emissions resulting from the implementation of REDD strategies;
- Additional income accessed by participating indigenous peoples and other forest-dependent communities and private owners;
- Continued monitoring and mitigation of environmental and social impacts (ESMF);
- Enhanced cross-sectoral coordination in areas dealing with REDD+;
- Continuous consultations with and enhanced participation of relevant stakeholders including indigenous peoples and civil society in REDD+ policy-making.

Chile has signaled strong interest in developing an Emissions Reduction Purchase Agreement (ERPA) under the Carbon Fund (CF) of the FCPF which is expected to develop in parallel to and in support of the readiness process.

## III. Preliminary Description

### Concept Description

The Readiness Preparation Proposal (R-PP) prepared by the Government of Chile identifies a broad set of activities to support the country in strengthening its technical and institutional capacities to participate in a future REDD+ mechanism. The financial envelope needed to cover the set of activities needed to reach REDD+ Readiness in Chile has been estimated to USD 13.68 million in the R-PP. This envelope will be supported by different sources, which include multilateral and bilateral financing arrangements in addition to the Chilean government's own contribution. The FCPF Participants Committee (PC) authorized grant funding of \$3.8 million in March 2013 (PC14) based on Chile's submission of its R-PP in October 2012, while the Government of Chile will provide significant funding in the amount of USD 4.919 million. Recently, the country registered a

Forestry NAMA with the Secretariat of the UNFCCC, for which the Swiss Government has contributed approximately US\$3 million. That, together with funding currently being negotiated with the private sector at the national level, is expected to finance the priority activities of the REDD+ Readiness process, which will allow the country to build a strong base for further engagement in the REDD+ process.

The FCPF grant will finance specific activities included in components 1, 2, 3 and 4 of the R-PP. These activities have been selected after technical discussions with the National Forestry Corporation (CONAF), taking into account the technical and financial needs of Chile's REDD+ Readiness process, the comparative advantage of the World Bank in supporting them, as well as the complementarity with support made available by other partners. Table 1 below provides an overview of the RPP budget and the activities to be financed by the FCPF. It should be noted that the activities to be financed by the FCPF in support of the REDD+ Readiness Program in Chile do not include the implementation of REDD+ programs or activities on the ground. The FCPF support is limited to analytical studies, capacity building, and participation and consultation processes at the national and sub-national levels.

The specific REDD preparation activities Chile intends to carry out in preparing its Readiness Package are described in the R-PP, and include: strategy development through stakeholder consultations, analytical work, capacity-building, a Strategic Environmental and Social Assessment (SESA), and technical work to establish a national forest Reference Emission Level/Reference Level and monitoring system. These activities are funded by the FCPF Readiness Preparation Grant of \$3.8 million.

#### IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04	x		
Forests OP/BP 4.36	x		
Pest Management OP 4.09			x
Physical Cultural Resources OP/BP 4.11			x
Indigenous Peoples OP/BP 4.10	x		
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

#### V. Financing (in USD Million)

Total Project Cost:	3.80	Total Bank Financing:	0.00
Financing Gap:	0.00		
<b>Financing Source</b>			<b>Amount</b>
Borrower			0.00
Carbon Fund			0.00

Readiness Fund of the Forest Carbon Partnership Facility	3.80
Total	3.80

## VI. Contact point

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