

(8) PD 359/05 Rev.1 (F) Building Capacity to Develop and Implement Afforestation and Reforestation Projects under the Clean Development Mechanism (AR-COM) of the Kyoto Protocol in Tropical Forestry Sector

Budget and Funding Sources:

Total Budget:	US\$	942,166
ITTO Budget:	US\$	942,166
Unearmarked Fund:	US\$	942,166
Implementing Agency:	ITTO Secretariat	
Session of Approval:	ITTC Session XXXVIII, June 2005, Brazzaville, Republic of Congo	
Starting Date and Duration:	January 2006 / Planned; 36 months, Actual; 68 months	

I. Introduction

The project was approved by the Council at its Thirty-eighth Session in June 2005 in Brazzaville, Congo and fully funded at the same Session. The project has been implemented by the ITTO secretariat. The first extension until the end of December 2009 was endorsed by the Committee at its Forty-second Session while the second and third extensions until the end of 2010 was endorsed by the Committee at its Forty-third second Session. The fourth extension was made to August 2011 by the Committee at its last session in 2010.

II. Project Objective

The development objective of the project was to promote afforestation and reforestation project activities under the Clean Development Mechanism (AR-CDM) of the Kyoto Protocol through Public-Private-Partnerships, linking host developing countries with industrialized investor countries. Its specific objectives were: i) to build capacity to identify, formulate, and implement AR-CDM projects in ITTO Member countries; and ii) to assist in raising the necessary finance for the implementation of AR-CDM projects.

III. Project Achievements and Outputs

Specific Objective 1: To build capacity to identify, formulate, and implement AR-CDM projects in ITTO Member countries.

- A guidebook for AR-CDM project developers on how to identify and formulate AR-CDM project activities was developed as ITTO publication (TS 25 / 2006) and circulated to interested parties. This guidebook is available on ITTO website at http://www.itto.int/technical_report/?pageID=2. This guidebook describes the conceptual and procedural details for formulating afforestation and reforestation projects under the CDM by introducing the quantification of GHG benefits from determination of a project and baseline scenarios. It also provides an overview of global GHG/carbon markets and markets for AR-CDM
- With the support of UNEP's CASCADE programme, the Winrock International has updated the ITTO guidebook by including bioenergy projects in the regulatory carbon market. This updated version includes new information on bio-energy projects and an Annex on voluntary carbon markets.
- Three regional capacity building workshops on Afforestation and Reforestation CDM Project Development were organized as follows:

- A Latin American Regional Workshop on AR-CDM Project Formulation was organized in Lima, Peru on 19 – 23 March 2007 in collaboration with the Peruvian institutions such as the Ministry of Agriculture, the National Environment Fund (FONAM) and the National Institute of Natural Resources (INRENA). The Workshop was attended by over 50 participants, including national delegations from the Latin American ITTO member countries
 - African Regional Workshop on Afforestation and Reforestation CDM Project Design was held at N'sah hotel in Grand-Bassam from 23 - 27 June 2008 in collaboration with the National Forestry Development Corporation of Côte d'Ivoire (SODEFOR). The workshop was attended by twenty eight participants from nine African member countries, the Ministry of Environment and Forestry of Côte d'Ivoire, the National Rural Development Support Agency of Côte d'Ivoire (ANADER) and SODEFOR, as well as experts from the French Forestry Commission (ONF).
 - Asia-Pacific Regional Workshop on Afforestation and Reforestation Projects Development under the CDM was held from 8 – 12 September 2008 in Seoul, Korea in collaboration with the Seoul National University and with the support of Korea Forest Service and EcoService International. The workshop was attended by almost 50 participants.
- Based on the assessment of the three regional workshops, the following draft project ideas were selected for their further development into small-scale AR-CDM PDDs:

Country	Title of small-scale AR-CDM project idea
Ghana	Reforestation of the catchment area of the Volta Lake in Ghana
Côte d'Ivoire	Reforestation in degraded forest lands in Quick Grah in Southwest of Côte d'Ivoire
Cambodia	Small-scale cooperative reforestation CDM pilot project on public lands affected by shifting cultivation in Chi Phat Commune, Koh Kong Province, Cambodia
Myanmar	Community-based small scale reforestation project under the CDM in the degraded mangrove forest of Ayeyawady Delta, Myanmar
Mexico	Reforestation of mangrove forest in the state of Nayarit through sustainable forest management by the communities and cooperatives
Panama	Establishment of a small-scale reforestation A/R CDM project in the communities of Rome and Piñuela, Antón, Republic of Panama

- The above ideas were intend to increase carbon stocks in the proposed areas as well as improving the livelihoods of local communities. However, the progress for developing small-scale AR-CDM PDDs by concerned agencies has been slow due to the complexity of the CDM modalities and procedures. Draft PDDs from Ghana, Cambodia and Myanmar have been improved and kept in respective agencies for further development while draft PDDs for the other three countries have not been moved out due to personal change of concerned agencies in PDD development.

Specific Objective 2: To assist in raising the necessary finance for the implementation of AR-CDM projects.

- Two AR-CDM Carbon Investment Forums had been organized in Tokyo on 17 October 2006 and 19 November 2009 with the support of the Pacific Consultant CO., LTD (Japan). Each forum was attended by about 30 participants from the Japanese private sector. The forums provided an opportunity to overview GHG market developments in the context of AR-CDM projects and their financial and investment issues as well as six draft AR-CDM project ideas identified by the three regional workshops
- An interview was carried out with major Japanese private entities which were active in the carbon market. These include the pulp and paper and forest sector, power/utility sector, manufacturing

sector, and others. The interview outcomes showed that the demand for carbon credits from AR-CDM projects was limited in Japan due to the following:

- Replacement duty of tCERs and ICERs: From a corporate point of view, replacement duty is a debt in the future; Future prices of credits are very uncertain and it is difficult for a private company to make any investment in uncertain future.
- Lack of procurement systems from the government: tCERs or ICERs were not linked to the achievement of the government's emission reduction target in Japan
- Complicated rules of AR-CDM: As rules are too complicated and changed too often, private companies were hesitant to invest in a scheme where high risks exist.

IV. Outcomes and Impacts

The guidebook on how to develop AR-CDM projects has been disseminated among the forestry community in ITTO member countries in the developing regions in Asia, Latin America, and Africa. This is a step-by-step practical guide for AR-CDM projects development and has been widely used by interested parties. In the area of rehabilitating degraded forest lands, the guidebook features ITTO efforts on the implementation of the "ITTO Guidelines for the Restoration, Management and Rehabilitation of Degraded and Secondary Tropical Forests" which recommends the development of strategies to promote the role of degraded-forest restoration for carbon sequestration.

The three regional workshops, one in each region, had contributed to capacity building for the development of AR-CDM PDD in ITTO producing member countries. Participants in the workshop learned the concepts of baseline, additionality and leakages, monitoring and verification including an overview of approved methodologies for carbon sequestration projects. The workshops also provided an opportunity to update the status and trends of carbon markets. Many of the participants who obtained knowledge on AR- CDM have been engaged in the promotion of the emerging issue of reducing emissions from deforestation and forest degradation (REDD). Their knowledge also contributes to the development of national action plans for forest-based climate change mitigation.

The AR-CDM Investment Forums had brought some Japanese carbon buyers and investor parties to link with the ITTO capacity building project on AR-CDM projects. Through discussions on financial issues relating to AR-CDM projects, many risks to project developers were identified including natural risks such as fire, disease and floods, as well as economic risks such as changes in opportunity cost of land. Underlying reasons for the low demand in the Japanese private sector for carbon credits from AR-CDM projects will be useful lessons for the development of future forestry carbon projects.

It was expected that through its capacity building and awareness raising workshops, this project would be able to provide wider multiplier effects in AR-CDM project development in tropical regions. In fact, the project has been contributed to introducing AR-CDM project development but it has limited effects in multiplying AR-CDM projects delivering carbon credits due to difficult technical and financial challenges of AR-DCM projects.

V. Lessons Learnt and sustainability

The lessons from the implementation of the project include:

- Characteristics of AR-CDM projects well recognized: Project activities must be additional and result in real, measurable and long-term emissions reductions. Carbon stocks generated need to be secured over the long term (permanence), and any future emissions that might arise from these stocks need to be accounted for
- There is a continued need to strengthen the capacity of specialists who work on climate change in the area of forestry at the national level and foster awareness raising among decision-makers and all actors involved in forestry on national responses to climate change
- Provide African countries with technical and financial assistance to develop forest carbon projects with a project formulation manual or guidelines in French

- Clearly include climate change issues relating to forest in national development agenda and integrate these issues into the approach for achieving the Millennium Development Goal
- Difficulties in developing AR-CDM projects in the tropics are identified as follows:
 - Complicated rules and procedures for AR-CDM projects; streamlined, and simplified procedures are essential for the development and implementation of AR-CDM projects
 - Lack of capacity: Capacity is needed to design, implement and monitor projects but the design of AR-CDM projects often leads to need for foreign assistance and consultancy needs
 - Transaction costs are often high to other project development and operational costs; small-scale projects are often not large enough to justify transaction costs;
 - Lack of access to the private sector investment; As credits from AR-CDM projects have to be replaced by permanent one in future, potential private investors were disappointed with AR- CDM business
- As a long delay encountered in the organization of regional workshops was attributed to the longer time taken in identifying host agencies, active consultation is required in the identification of collaborators.

The sustainability of the project will be dependent on the continued use of the ITTO guidebook for the development of AR-CDM projects as well as the knowledge on the IPCC Good Practice Guidelines for Land Use, Land-Use Change and Forestry. It is expected that the ITTO guidebook and such knowledge will be facilitating the estimation of anthropogenic forest-related greenhouse gas emissions by sources and removals by sinks forest carbon stocks and forest area changes in relation with REDD+. Furthermore, the sustainability has been ensured with the implementation of ITTO Thematic Programme on REDDES (Reducing Deforestation and Forest Degradation and Enhancing Environmental Services). This Thematic Programme is entrusted with strengthening of the capacity of ITTO developing member countries and their stakeholders to reduce unplanned deforestation and forest degradation as well as maintain and enhance climate change mitigation actions.

VI. Concluding Remarks

The project implementation was started from January 2006 with a three-year time plan after the CDM of the Kyoto Protocol was introduced in February 2005. The project has been extended for additional thirty- two months, hoping that the further development of six draft AR-CDM PDDs which were prepared by the regional workshops and favorable market development for carbon credits from AR-CDM projects.

However, it should be recognized that AR-CDM project development is not high on the agenda in the participating agencies due to complicated rules and procedures for AR-CDM project development and limited financial aspects of AR-CDM projects which would be beyond of this capacity building project. In view of this situation, the Committee may wish to consider closing this project without any further extension.