# INTERNATIONAL TROPICAL TIMBER ORGANIZATION

# ITTO

## PROJECT DOCUMENT

| | |
|---|---|
| TITLE | 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 |
| SERIAL NUMBER | PD 359/05 Rev. 1 (F) |
| COMMITTEE | REFORESTATION AND FOREST MANAGEMENT |
| SUBMITTED BY | GOVERNMENT OF JAPAN |
| ORIGINAL LANGUAGE | ENGLISH |

SUMMARY

There has been a strong interest in afforestation and reforestation project activities under the Clean Development Mechanism (AR-CDM) of the Kyoto Protocol since this treaty took effect on 16 February 2005. In order to take full advantage of the AR-CDM, the project is designed to promote AR-CDM project activities through Public-Private-Partnerships, linking host developing countries with potential industrialized investor countries.

Specifically, the project aims at building capacity to develop AR-CDM projects in accordance with the modalities and procedures applying to AR-CDM projects. A manual on how to develop AR-CDM projects will be developed and disseminated to interested parties in ITTO member countries in the developing regions of Africa, Asia-Pacific and Latin America. Six regional workshops will be conducted, two in each region, with the aim of developing six AR-CDM project documents, which will be submitted to the CDM Executive Board. The project will also assist in raising the necessary finance for the implementation of AR-CDM projects. A dialogue with potential certified carbon credits buyers and investors will be conducted and four forums to promote financing of AR-CDM projects will be held in Japan during the project period. It is expected that through its capacity building and awareness raising workshops, this project will provide wider multiplier effects in AR-CDM project development in tropical regions.

| | | | |
|---|---|---|---|
| EXECUTING AGENCY | ITTO Secretariat | | |
| COOPERATING GOVERNMENTS | --- | | |
| DURATION | 36 MONTHS | | |
| APPROXIMATE STARTING DATE | TO BE DETERMINED | | |
| BUDGET AND PROPOSED SOURCES OF FINANCE | Source | Contribution in US$ | Local Currency Equivalent |
| | **ITTO** | **942,166** | |
| | **TOTAL** | **942,166** | |

## TABLE OF CONTENT

## Acronyms

| | |
|---|---|
| AR | - Afforestation and Reforestation |
| CDM | - Clean Development Mechanism |
| CERs | - Certified Emission Reductions |
| COP | - Conference of the Parties |
| $CO_2$ | - Carbon Dioxide |
| DOE | - Designated Operational Entities |
| EA | - Executing Agency |
| GHGs | - Greenhouse gases |
| IPCC | - Intergovernmental Panel on Climate Change |
| ITTO | - International Tropical Timber Organisation |
| LULUCF | - Land Use, Land-Use Change and Forestry |
| lCERs | - long-term CERs |
| PDD | - Project Design Document |
| PSC | - Project Steering Committee |
| SFM | - Sustainable Forest Management |
| tCERs | - temporary CERs |
| UNFCCC | - United Nations Framework Convention on Climate Change |

# PART I: CONTEXT

## 1. Origin

This project proposal originated from the ITTO International Workshop on Climate Change and Forest Sector: Clean Development Mechanism in Tropical Countries held in Seoul, Korea in September 2004, as well as builds on and is complementary to preceding and ongoing projects and activities funded by ITTO in the field of climate change and sustainable forestry. The workshop and the project activities reflect the increasing importance that sustainable forest management (SFM), particularly afforestation and reforestation activities, plays as part of the mitigation options provided by the Kyoto Protocol to United Nations Framework Convention on Climate Change (UNFCCC) and one of its mechanisms, the Clean Development Mechanism (CDM).

The ITTO International Workshop has been organized and implemented by Seoul National University, Korea Forest Research Institute, Northeast Asian Forest Forum, Center for International Forestry Research, and Swiss Intercooperation. The Workshop identified two main problems, hindering the development of CDM afforestation and reforestation projects (AR-CDM). The limited or rather complete lack of capacity on the side of project developers in developing countries to identify, formulate, and develop sustainable forestry projects under the CDM, as well as the inability to attract the necessary finances for the implementation of these projects.

The recommendations of the Workshop to ITTO include the following:

- Assist ITTO producing member countries in understanding the potential and constraints of A/R CDM projects in sustainable tropical forest management;
- Support the capacity building of ITTO producing member countries in A/R CDM project identification, formulation and development;
- Promote the development and implementation of pilot projects of A/R CDM to provide experiences, training and data to the critical issues in A/R CDM; and
- Enhance a better integration of ITTO's practical experiences and knowledge in tropical forestry into the UNFCCC negotiations.

The CDM of the Kyoto Protocol to the UNFCCC is seen as one of the most promising new financial mechanism that can contribute to the implementation of sustainable forestry, in particular through afforestation and reforestation of degraded forestland in the tropics. The CDM is a legal instrument under the Kyoto Protocol that allows industrialized countries to meet their binding emission reduction targets under the Kyoto Protocol, while at the same time contributes to sustainable development in developing countries. The ITTO commissioned report 'For services rendered – The current status and future potential of markets for ecosystem services provided by tropical forests' (ITTO Technical Series 21) from a team at Forest Trends also identified the forest ecosystem service carbon sequestration and the related greenhouse gas (GHG) markets as a very advanced and promising option to provide new financial resources to sustainable forestry activities.

The proposed AR-CDM Facilitation Project will serve as an instrument assist in the implementation of sustainable forestry projects in tropical developing countries, delivering environmental and socio-economic benefits, while at the same time assisting industrialised countries in meeting their emission reduction targets. The Facilitation Project will deliver mutual benefits to both sides, i.e., developing countries and developed countries, by demonstrating that existing hurdles and barriers for the development and implementation of AR-CDM projects can be overcome. It will also allow the participating, selected pilot projects to get access to the buyers of the carbon credits (i.e., CERs from CDM projects) generated, as well as access to necessary financial sources for the implementation of projects. On the other hand the Project will help to raise the awareness among the carbon credit buyers' and investors' community of these investment opportunities, as well as the possibility to meet emission reduction targets in an economical way with additional marketable development benefits.

## 2. Sectoral Policies

After the ratification of the Kyoto Protocol by the Russian Government the Protocol received the necessary amount of signatures and percentage of global GHG emissions by industrialized countries (i.e., Annex B to the Kyoto Protocol) to be the first international environmental treaty with binding targets and a timeframe, entering into force on 16 February 2005. The finalization of the rules and modalities for AR-CDM projects at the ninth Conference of the Parties (CoP) to the UNFCCC in December 2003 have paved the way for public and private sector parties to make use of the climate change mitigation option offered by the sustainable forestry projects developed under the CDM.

The simplified modalities and procedures for small-scale afforestation and reforestation project activities under the CDM in the first commitment period of the Kyoto Protocol, which were adopted at the tenth Conference of the Parties (CoP) to the UNFCCC in December 2004, have provided guidance on the development of small-scale AR-CDM projects for the benefit of the low-income community and individuals that are project participants. This decision calls for multilateral agencies, intergovernmental organizations and non-governmental organizations to organize regional workshops to facilitate the development and implementation of small-scale project activities under the CDM.

In line with the on-going efforts of international society to promote the CDM, the AR-CDM Facilitation Project directly contributes to the main objective of ITTO, to promote the expansion and diversification of international trade in tropical timber from sustainable sources. More specifically, the Project will also contribute to the recommended actions to implement Principle 17: Forest and climate change under the 'ITTO guidelines for the restoration, management and rehabilitation of degraded and secondary tropical forests' (ITTO Policy Development Series No 13). Action 59 recommends to develop strategies and approaches to promote the role of degraded-forest restoration and secondary forest management for the international carbon trade, for carbon sequestration and as carbon sinks. Action 61 recommends to promote the management of secondary forests and the rehabilitation of degraded forest lands as eligible activities under 'afforestation', and the restoration of degraded primary forests as an eligible activity under 'reforestation' in the framework of the Clean Development Mechanism, which generates co-benefits for local stakeholders based on their identified needs.

Among others, the Japanese Government has always been a strong proponent of the utilization of biological sinks as a part of Japan's climate change mitigation and emissions reduction strategy, including forestry projects under the CDM.

The Government of Japan is going to use the CDM as one of the flexible mechanisms to the Kyoto Protocol, however, supplemental to domestic emission reduction measures, to achieve its binding emission reduction commitments for the first commitment period of the Kyoto Protocol (2008-2012). Apart from the direct purchase of carbon credits from CDM by the Government, private sector parties in Japan affected by Japan's emission reduction commitment may also engage in CDM project activities to purchase carbon credits. By using the CDM, and in particular also through the implementation of afforestation and reforestation project activities (the only eligible land use, land-use change and forestry project activities under the CDM for the first commitment period), the Government of Japan aims to contribute to sustainable development in CDM host countries while achieving its Kyoto commitment in a cost-effective manner at the same time.

## 3. Programmes and Operational Activities

The proposed AR-CDM Facilitation Project would support the development of more projects such as the ITTO funded project "Alternative Financing Model for Sustainable Forest Management in San Nicolas" (PD 54/99 Rev. 1 (F)) which is currently entering its second phase (PD 240/03 Rev. 1 (F)), acting as an umbrella support programme for six new pilot projects in the Latin American, Asian, and African region, i.e., two per region. CORNARE (Regional Autonomous Corporation of Rio Negro – Nare), the co-executing Swiss agency EMPA (Swiss Federal Institute for Materials and Technology Research and Testing), and the Valles de San Nicolas community in Colombia, developed a pilot project in the San Nicolas region with the objective of testing an innovative financing method that combines sustainable management of tropical forests with the potential that the CDM of the Kyoto Protocol offers the forest sector. The experiences gained in this project will be used as part of a

training module to develop the necessary capacity among project proponents and concerned stakeholders that would participate in six regional capacity building workshops conducted as part of the Facilitation Project.

Another pre-project funded by ITTO the Facilitation Project would build on, representing a continued effort and increasing engagement by ITTO in the field of forestry and climate change or rather the CDM, is the ITTO funded project 'Promotion of Clean Development Mechanism in the Framework of Sustainable Forest Management with Local Communities Involvement' (PPD 47/02 (F)) in Indonesia. This pre-project submitted by the Government of Indonesia, implemented by The Association of Indonesian Forest Concession Holders (AHPI) collected baseline data and information for the development of strategies and a project proposal to promote the CDM in the framework of SFM, involving local communities.

The proposed AR-CDM Facilitation Project represents a needed, supplementary and complementary pilot measure to start feeding the Japanese GHG market with carbon credits from sustainable forestry projects. Carbon credits could be delivered to the public sector through the Japan Carbon Fund, as well as directly to the private sector. In the long-term, assuming an extension of the Project, carbon credits could also be delivered to multilateral carbon credit buyers such as the BioCarbon Fund, as well as other bilateral public and private sector buyers outside Japan.

## PART II: THE PROJECT

### 1. Project Objectives

### 1.1 Development Objective

The development objective of the project is 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.

### 1.2 Specific Objectives

The specific objective of the project is to build capacity and awareness to develop and implement AR-CDM projects in ITTO Member countries.

### 2. Justification

2.1 Problems to be addressed

The main problems impeding the development and implementation of AR-CDM projects are the lack of capacity to identify, formulate and implement AR-CDM projects in accordance with the modalities and procedures of the CDM project cycle as well as the underlying inability of project developers to attract financing to allow for the implementation of these projects. This situation is aggravated by the lack of seed capital and technical capacity to kick-start the project development process to prepare such proposals accurately for entering the CDM project cycle and attract investment.

2.1.1 Lack of capacity to develop AR-CDM project activities in tropical forest sector: The complex rules of the CDM project cycle compound the problem of developing AR-CDM projects. The CDM project cycle is very challenging for project developers, including the following major steps: project design and development, validation, registration, monitoring, verification and certification, and issuance of the CERs (i.e., the carbon credits). A relatively wide range of actors is involved in the project cycle, including project developers, the Designated National Authority (i.e., the CDM office of the host government), Designated Operational Entities (DOEs) to validate or verify/certify a project, and the CDM Executive Board for the international approval. To pass the first part of the project cycle until validation and registration projects developers will need to prepare a PDD as the core document presented to a validator and the Executive Board which needs to provide sufficient information on technical aspects such as additionality, the baseline and project scenario and the relevant methodologies, permanence, leakage, and environmental and socio-economic impacts (FCCC/CP/2003/Add. 2).

Lack of capacity to design and implement AR-CDM projects is related to the following:

- Capacity to appropriately design projects, including use of methodologies to define baseline and additionality, to calculate carbon potential and to design the monitoring plan;
- Capacity to appropriately implement the project and to monitor the project and carbon fluxes;
- Capacity to establish clear and transparent legal agreements regarding carbon sequestration, which is an ecosystem service, is non-existent in many countries; and
- Capacity to interact in the validation, verification, and certification processes

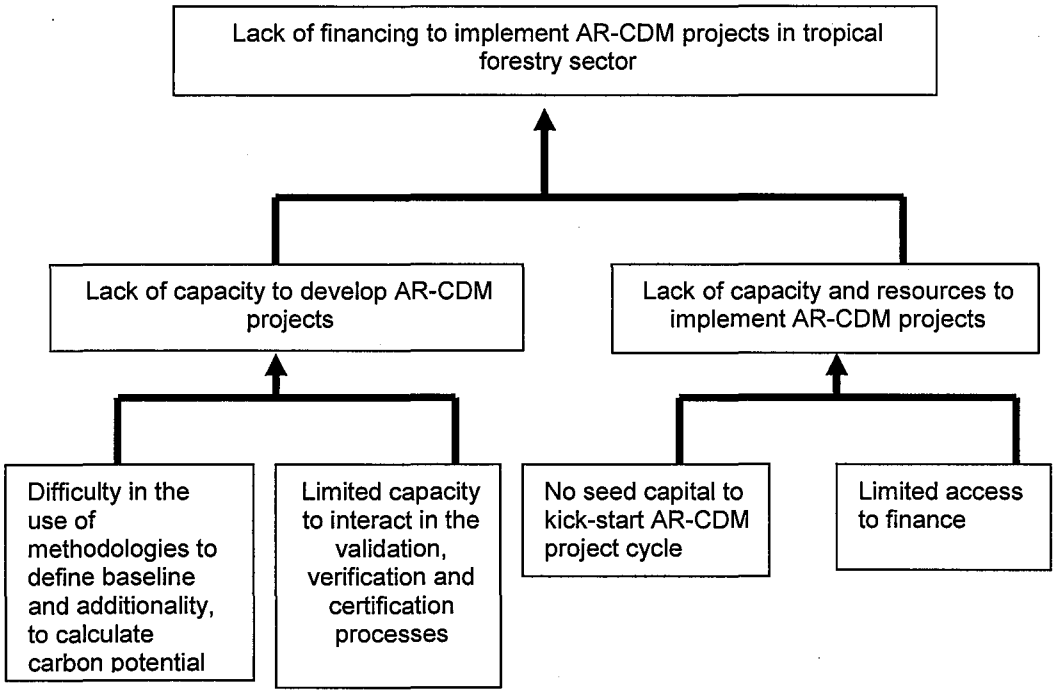
The requirements for developing AR-CDM projects in general, regardless their size, burden these projects with difficulties apart from attracting finance for their implementation.

2.1.2 Lack of financing for project implementation: The main problem for land use change and forestry projects with environmental and socio-economic components or benefits that could qualify as CDM projects is the lack of financing for their implementation. Current financial resource flows into forestry are significant but inadequate to achieve AR-CDM projects with sustainable development benefits or rather qualifying for the CDM.

Linked to this is the preceding problem of such projects, i.e., projects with strong environmental and socio-economic components, having no seed capital to kick-start the CDM project cycle, as well as the 'normal' forestry project cycle, and to attract other sources of finance, because they are not profitable enough. Most CDM projects are financed through a combination of equity and debt finance, with carbon credit sales providing an additional 'plus' to the Internal Rate of Return, thus acting as a sweetener to an investment proposition that can nearly stand on its own. So, while once implemented these projects may provide carbon credits at very competitive rates, they cannot attract pre-operational (private sector) capital in order to go through the various project cycle steps.

In addition to seed capital, most projects need to raise upfront finance for implementation (i.e. actually planting trees). Land use project developers, however, have limited access to finance, seed capital, international exposure or technical capacity, credit rating, or access to insurance, to develop a project through the CDM project cycle. Consequently, they are also usually not able to attract financing to allow project implementation.

**Problem Tree**




In the past experience has demonstrated that simply setting up carbon funds or purchase programmes does not necessarily lead to the implementation of viable CDM projects. The two main weaknesses are the ability of many project proponents to develop feasible projects combined with the inability of attracting the necessary investment for implementation. In particular those projects supposed to contribute strongly to sustainable development benefits in the host countries by

delivering a lot of environmental and/or socio-economic benefits to the local communities or stakeholders are often poorly developed from methodological point of view and mostly lack a proper financial structure.

## 2.2 Intended situation after Project completion

After the 36 months proposed for the project implementation, ITTO will have the pilot experience under the first global AR-CDM Facilitation Project linking the provision of technical capacity to develop and prepare the projects as CDM projects to be presentable to carbon credit buyers and project investors with the assistance in raising the further capital needed to implement AR-CDM projects. The Project provides the seed capital to allow for the capacity building among project developers, enabling them to develop feasible project ideas into real CDM projects opportunities to be finalized together with the direct technical expertise provided by the Project itself. As a parallel measure, subsequently initiated, the projects will be introduced to potential carbon credit buyers and investors by the Project.

The Facilitation Project will lead to the following achievements based and in accordance with the proposed outputs:

2.2.1 Training provided to project developers and other concerned stakeholders in CDM host countries or rather developing countries on how to access carbon credit buyers and project investors to sell carbon credits and obtain funding. A manual on how to develop AR-CDM projects will have been disseminated among the forestry community in ITTO member countries in the developing regions in Asia, Latin America, and Africa. Six regional workshops will have been conducted, one in each region, with a training programme for potential project developers and other stakeholders on how to develop AR-CDM projects and access buyers of the carbon credits generated.

2.2.2 Submission of six AR-CDM projects with the international supervisory body of the CDM, i.e., the CDM Executive Board (EB). The necessary documentation to be submitted to the CDM EB, i.e., the Project Design Documents (PDD), will have been prepared, submitted, and revised, in the case this deemed to be necessary.

2.2.3 Guidance given to Japanese CER buyers and investors on emission trading schemes with a focus on the Japanese scheme, with targeted information about the rewards, as well as risks and issues related to AR-CDM projects.

2.2.4 Financial needs of the six selected AR-CDM projects will have been identified and ways of addressing barriers explored, facilitating investments in the projects.

2.2.5 Extension of the Facilitation Project for the technical and financial support for AR-CDM projects in need based on an expressed interest by public and private sector parties in investing in, or purchasing the carbon credits from the AR-CDM projects developed, and further potential project opportunities. Japanese and other interested carbon buyer and investor parties will have been brought together, face-to-face and electronically, received information on AR-CDM carbon purchase and investment opportunities, discussed related issues, and exchanged ideas. Commitments from public and/or private sector parties for carbon credit purchases and investments for the six selected AR-CDM projects will have been sought, as well as for further identified project opportunities.

## 2.3 Project Strategy

### 2.3.1 Implementation strategy and approach

The establishment of the Project will provide the necessary means to allow the preparation of six AR-CDM projects for implementation by assisting to overcome the technical barriers related to this project type and facilitating to raise the financial means.

The approach of the Project is twofold by assisting in establishing the partnerships between public and private sector parties in Japan and other industrialised countries and the forestry and land use sector in developing countries. Firstly, by building up the necessary capacity to develop AR-CDM projects, delivering environmental and socio-economic benefits and being attractive from a commercial point of view. The Project will create the preconditions to attract carbon credit buyers and investment for the projects by providing the necessary technical assistance to complete the development process. Secondly, in an underlying parallel process the Project will prepare and present the selected projects to potential carbon credit buyers and entities interested in investing in these projects to prepare them for the implementation. Japan in the beginning will be a target market and efforts will be made to present quality AR-CDM projects developed by the project in other industrial countries.

Constellations with different actors and collaborations among these are imaginable with respect to the development, implementation and financing of AR-CDM projects. Based on past experiences with sustainable forestry projects governments, non-governmental organisations (NGOs), and private sector companies can be expected to become engaged in the projects. Industrialized countries may provide the financial (i.e., the seed capital) and technical assistance to the project developers and carbon credit buyers/investors through the Project. The industrialized countries may participate directly as a project entity or by providing loans, grants or subsidies through the relevant institutions, possibly joined by other non-profit or private entities. Private sector companies will participate either directly as a project entity, or indirectly as a project sponsor. The forestry and pulp and paper industries will be interested in a direct participation, seeking profits and multiple benefits from products such as forest products and carbon credits, whereas the power industry or trading companies are more interested in an indirect participation as a project sponsor mainly seeking carbon credits. NGOs are the main player promoting development-oriented and small-scale AR-CDM projects, and will rather participate directly in these projects, considering carbon credits as a new, additional funding source. All actors will be interested in the additional, non-monetary value, using their engagement in projects with sustainable development benefits for public relations and marketing campaigns.

### 2.3.2 Implementation roles and functions

#### 2.3.2.1 Implementing agency

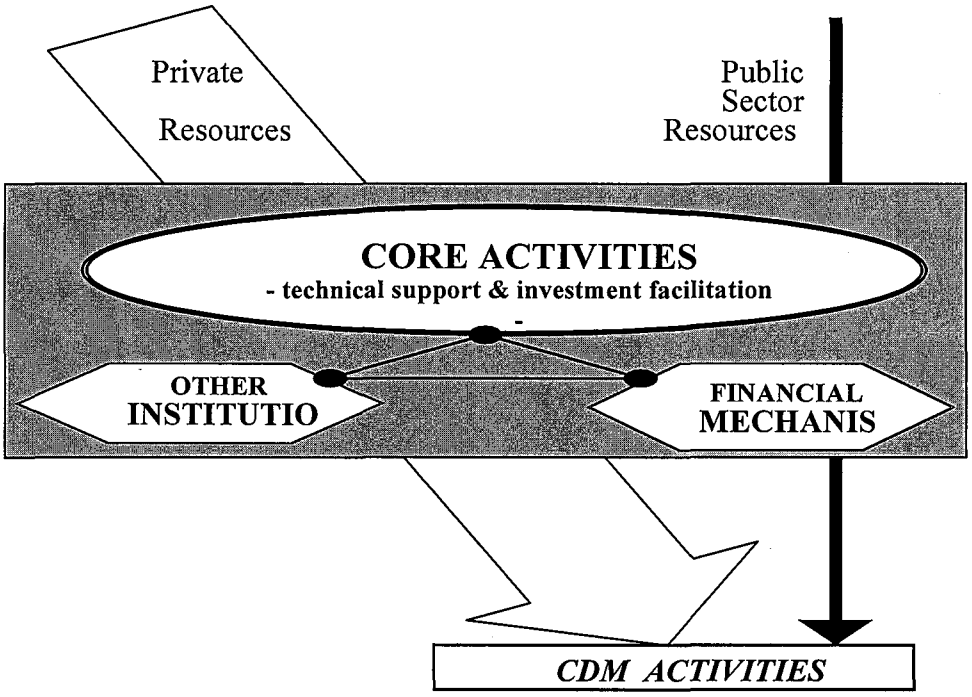
ITTO is recommended to take on the role of the implementation agency due to being an international organization having ample experience and knowledge in the field of sustainable tropical forest management, the promotion of the forestry sector in tropical countries, as well as links to programmes and projects with local communities and similar stakeholders, and to the forestry industry.

Furthermore, ITTO would ensure the fulfilment of the twofold aim of the CDM, necessary to register CDM projects successfully, assisting industrialized countries in meeting their emission reduction targets while at the same time contributing to sustainable development in developing countries. ITTO would be able to balance the mostly rather biased views on the side of the private sector, as well as on the side of the NGO and civil society sector groups to identify and promote those projects with mutual benefits.

#### 2.3.2.2 Implementation support

In particular, on the capacity building component it will be crucial to involve and collaborate with FAO. FAO has the following functions in the field of climate change: repository of data and information

(collection, analysis and dissemination); custodian of definitions, guidelines, standards, methods, and models; neutral forum; provider of capacity building, active participation in the UNFCCC negotiations and in relevant field projects. FAO's involvement would be critical in view of using its experience in climate policy and mitigation capacity building measures, particularly in the field of land use change and forestry, apart from other synergies that might be useful in the context of the Facilitation Project. For example, FAO successfully ran a two-phase regional programme in Central America to build up local capacities in identifying and formulating CDM project opportunities. The Facilitation Project would use FAO's experience in this field, built on it, and would prepare projects for the concrete implementation through the submission of completed PDDs.




2.4 Target beneficiaries

At the local level:

- Local communities, land owners, and other project proponents or stakeholders of the selected projects through the implementation of AR projects that would not take place without the CDM, thereby receiving additional revenues by the sale of carbon credits.

At the national level:

- Potential project developers and other stakeholders in ITTO producer countries will benefit from the training provided at the regional workshop so that the creation of further AR-CDM projects is expected as a spin-off.
- The public and private sectors in industrialized countries (i.e. Annex B to the Kyoto Protocol) through the purchase of carbon credits that will contribute to meeting their emission reduction targets in a cost-effective manner.

At international level:

- ITTO, in collaboration with FAO, will lead a unique, cutting edge initiative that will help to overcome hurdles and barriers for the development and implementation of AR projects that fulfil a twofold objective, i.e., contributing to the implementation of forestry operations with sustainable development benefits and to the mitigation of global climate change.
- Carbon credit purchase and investment opportunities are made available for public and private sector investors outside Japan as well, combining cost-effective GHG mitigation opportunities with sustainable development benefits that would otherwise not occur.

## 2.5 Technical and scientific aspects

The role of biological or terrestrial sinks and their importance within the global carbon cycle as an important factor contributing to global warming, as well as their significant role in mitigating global climate change has been widely recognized by the scientific community, followed by relevant decisions at the international policy level, i.e., the UNFCCC, to make use of this important climate change mitigation option. The mitigation option offered by the CDM of the Kyoto Protocol allows for partnerships between developed and developing countries, delivering cost-effective mitigation measures while delivering development benefits to the rural poor. However, due to the CDM being an innovation and new financial mechanism the development and implementation of these projects still faces barriers the proposed Facilitation Project will help to overcome through capacity building and awareness raising in developed and developing countries, and pursuing demonstration projects prepared for the GHG market.

The Intergovernmental Panel on Climate Change (IPCC) as the international body providing the scientific background knowledge for climate change has given evidence that global climate change is a human-induced phenomenon caused by, *inter alia*, deforestation, as well as tropical forests are affected by climate change. After burning of fossil fuels deforestation and inappropriate land use and land-use change are the second source of GHG emissions and a major concern for sustainable development. The impacts of climate change on tropical forest ecosystems include variations in the availability of wood, reduction of water availability, increased pressure on agricultural land, biodiversity loss and socio-economic stresses. Forests can contribute to solving climate change related problems. The role of forests in carbon sequestration as a result of photosynthesis has been demonstrated. Because trees have a much longer lifespan than agricultural crops, they act as long-term reservoirs, which lock up the carbon for decades, even centuries, in the form of cellulose and lignin. Therefore, enhancing carbon sinks and reducing deforestation can contribute substantially to mitigating climate change and its impacts on ecological and social systems (*Special Report on Land Use, Land-Use Change and Forestry*, IPCC 2000; *Third Assessment Report*, IPCC 2003).

The potential role of tropical forestry in mitigating climate change is addressed under the Kyoto Protocol to the UNFCCC through the flexible mechanisms (i.e., CDM, JI, and Emissions Trading) that allow industrialized countries (i.e., Annex B countries) to meet their emission reduction commitments partly abroad. The CDM, one of the three flexible mechanisms, allows for the development and implementation of climate change mitigation options in developing countries (i.e., non-Annex B countries) to be accounted for in Annex B countries against their emission reduction targets under the Kyoto Protocol.

The technical framework underlying the development and implementation of land use, land-use change, and forestry (LULUCF) projects has been provided by the IPCC in its *Special Report on Land Use, Land-Use Change and Forestry* (IPCC, 2000), and recently in its *Good Practice Guidance for Land Use, Land-Use Change and Forestry* (IPCC, 2003) which provide a framework for forestry activities under the CDM and provide methodological support for designing, implementing and monitoring these activities. Although, the policy and technical framework has been set now there are still only a few experiences and methodologies in the field of developing advanced LULUCF climate mitigation projects (e.g., the Costa Rican environmental services project under the Activities Implemented Jointly pilot program under the UNFCCC, or the SFM project in San Nicolas, Colombia).

The Facilitation Project would assist selected pilot projects and their developers in Latin America, Asia, and Africa with passing through the CDM project cycle, preparing the PDDs, and submitting the projects to the CDM Executive Board. In addition to the direct assistance to selected demonstration projects, a wider project developers and stakeholder community would receive training and would be

involved in capacity building measures to allow for the preparation of further AR-CDM projects. The Project will also try to cover a wide range of project types, to the extent possible, that are allowed under the related definitions of afforestation and reforestation, including: establishment of woodlots on communal lands, rreforestation of marginal areas with native species (e.g. riverside areas, steep slopes, around and between existing forest fragments - through planting and natural regeneration), new, large-scale industrial plantations, establishment of biomass plantations for energy production and the substitution of fossil fuels, small-scale plantations by landowners, introduction of trees into existing agricultural systems (agroforestry) and silvopastoral systems, rehabilitation of degraded areas through tree planting or assisted natural regeneration. The Project will also focus, to the extent possible, on the restoration and rehabilitation of degraded and secondary tropical forests, looking into the opportunities of identifying multi-component projects that involve local communities.

## 2.6 Economic aspects

The Facilitation Project will assist in the development of sustainable forestry projects through the introduction of a new financial mechanism, i.e. the CDM, to eligible projects while at the same time trying to assist in leveraging more financing for their implementation. Since GHG markets become a reality and carbon credits or CERs represent a real asset for projects due to generating additional revenues they can be used to increase the debt share in their financial structure or take out debts at all. This approach is also known as monetization.

In the past the market for carbon credits from forestry projects was mainly driven by the BioCarbon Fund and the CDCF, and a few private sector companies interested in carbon credits from the land use sector. Meanwhile, a clear increase in the interest or rather demand in such credits can be detected, particularly from public and private sector buyers in Japan, Canada or Southern Europe (e.g. Italy).

Over the past couple of years there has been great speculation about the actual price of carbon, with little indication in the market place, since purchases have mostly been related with project development and investment rather than strictly carbon *per se*. However, based on the price ranges for carbon credits being paid until today by the major purchasers, and based on estimations a price (Niles et al. 2002, Scherr et al. 2004) a price of around $10-12 per t C or rather $3 per t $CO_2$ can be expected. Given restrictions on forest carbon credits and estimating a value of US$10 per ton of carbon, the CDM is expected to raise at most US$300 million per year for afforestation and reforestation in the first commitment period (2008–2012). This price estimate already includes to a certain extent a discount rate on CERs from forestry projects; AR-CDM projects have two own currencies, i.e., long-term CERs (lCERs) and temporary CERs (tCERs), to reflect the reversibility or temporary nature of the carbon storage in biomass. However, no trades have been done yet with tCERs and/or lCERs, the first ones are expected in the near future, but it is certain that they will be cheaper than normal CERs. Normal CERs are currently traded for up to €5 per t $CO_2$.

The GHG and CDM market offers various opportunities for the private forestry sector to participate in AR-CDM projects. Particularly, opportunities to create strategic partnerships between forest industry and local communities should be considered, because they could result in win-win situations (Robledo and Tippmann 2004. *Opportunities and challenges for the timber industry when participating in CDM forestry projects*, ITTO International Workshop on Climate Change and Forest Sector: Clean Development Mechanism in Tropical Countries, Seoul, Korea). The following opportunities can arise: multi-component projects, diversification of local income, bioenergy, reduction of conflicts with local communities and the timber industry, contribution to food security, watershed management and biodiversity protection.

Sustainable forestry projects developed under the CDM have the potential to contribute significantly to poverty alleviation in developing countries. Recent studies show that over the next decade, 48 major tropical and subtropical developing countries have the potential to reduce about 2.3 billion tons of carbon. This would require the implementation of carbon friendly practices in agriculture, forest and previously forested lands on a scale of 50 Mio. Ha of land globally. The sequestration potential of seven major developing countries (i.e. Brazil, China, India, Indonesia, Mexico, the Philippines and Tanzania) which account for 60% of the forested area in the developing world is estimated to be about 120 Mt C annually with a cumulative potential amounting to 1.851 Gt C by 2012 (Niles et al.

2003. *Potential carbon mitigation and income in developing countries from changes in use and management of agricultural and forest lands*, Philosophical Transactions of the Royal Society). However, the possibility of buying CERs from LULUCF activities during the first commitment period of the Kyoto Protocol is limited to one per cent of base year emissions times five of the participating Annex I Party what results in an amount of credits allowed from CDM-LULUCF activities equal to 33 Mt C (121 $MtCO_2e$) per year

Carbon sequestration and storage, in contrast, could eventually become a true global commodity – with fully interchangeable products. The carbon market is at a turning point from being a niche market to become a market at global scale with carbon traded as a commodity, however the major international and national mechanism are not yet fully implemented in all participating countries and intermediary institutions are, and still need to be, developed (Scherr et al. 2004, For services rendered - The current status and future potential of markets for the ecosystem services provided by tropical forests).

## 2.7 Environmental and social aspects

There are several layers or rather steps involved in the development of a CDM project ensuring the assessment of the environmental and social impacts of a project which will be applied for the projects to be developed under the Facilitation Project, as well. The Marrakech Accords and the decisions for CDM-LULUCF projects made at CoP 9 lay out the rules and regulations governing CDM projects that have to be applied throughout the CDM project cycle. Good-practice CDM project development will start during the project screening process with assessing potential impacts, followed by the host governments check against sustainable development criteria, the validation checking the PDD and conducting field visits, the approval by the CDM Executive Board, and verifications of the projects results based on monitoring reports and field visits. Stakeholder consultations, one is at least required before the validation, will ensure the participation of local stakeholders potentially affected by the projects.

Projects may result in a range of both positive and negative externalities, including socio-economic effects on employment and livelihoods, and environmental effects on soils, water, and biodiversity. Of particular interest for carbon offset projects are the unwanted emissions-related externalities, known as 'leakage', which may reduce a project's overall GHG benefits. An example of potential leakage associated with forestry is the displacement of logging activities to alternative areas as a result of a conservation project. Leakage will not necessarily disqualify a project as a valid offset, unless projected increases in external emissions are so substantial as to negate much of the GHG savings. In many cases it should be possible to adjust the design and management of the project to prevent or minimize the effects of leakage. The project should identify and minimize any negative effects on environmental and development issues in the area of operation, in addition to potential causes of leakage, during the early stages of project development. Non-GHG related externalities will also be considered during a good-practice project design. Projects should aim to have positive, or at least not have negative, environmental, social and economic externalities, and be consistent with appropriate norms, both local and international, in regards to at least the following issues: biodiversity (water and land); hydrology (water); chemical usage and disposal (air, water, soil); overall process efficiency and waste utilization (air, water, soil), employment legislation, tax regulation, etc.

The project design phase is the process of conceiving the project concept, estimating the GHG mitigation potential of the project, undertaking the feasibility analysis, identifying the various project partners and developing a working plan. The output of this phase is the PDD that includes

- a monitoring plan including the monitoring of non-GHG impacts of the project;
- a report summarising comments by local stakeholders and how these are taken into account in the project; and
- an analysis of environmental and socio-economic impacts of the project, or an Environmental Impact Assessment (EIA) report if it deemed to be necessary according to host country regulations.

Under the CDM system, a GHG mitigation project has to be approved by the host country government and contribute towards its sustainable development objectives (social, economic, environmental). A further level of acceptance is from the CDM Executive Board, which needs to accept it under the rules

and requirements of the Kyoto Protocol. Among others, the DOE in charge of validating the project will address

- whether the project conforms to the sustainable development objectives of the host country and local stakeholders in question; whether the project is compatible with and supportive of national and developmental priorities;
- how the project will monitor its GHG and sustainable development achievements (inspection of the monitoring plan); and
- how the project will deal with GHG (leakage) and non-GHG externalities.

During the verification of projects after they have been implemented a DOE will check, amongst others

- that the project has followed the implementation plan described in the validated PDD; and
- that the sustainable development indicators proposed in the PDD have been monitored and meet the project's targets (i.e. environmental and socio-economic impacts should be positive).

As it has been clearly shown the consideration of the environmental and social impacts, including the consultation of local stakeholders or participation of local communities, is inherent to the design and development of CDM projects. In addition, the AR-CDM Facilitation Project will take the relevant ITTO guidelines, i.e., particularly the guidelines for the restoration, management and rehabilitation of degraded and secondary tropical forests and the guidelines for the establishment and sustainable management of planted tropical forests into consideration. Other standards for carbon sequestration projects, ensuring high-quality projects such as those developed by the Community, Climate Biodiversity Alliance will also be taken into account.

Particular attention will be given to small-scale AR-CDM projects defined as "those that are expected to result in net anthropogenic GHG removals by sinks of less than 8 Kilotonnes of CO2 per year and are developed or implemented by low-income communities and individuals, as determined by the host Party" (FCC/CP/2003/Add. 2, Dec. 19/CP9). Small-scale projects were defined to promote participation of small-scale farmers and local communities in the CDM. These projects aim to improve the socio-economic and environmental conditions of poor communities, which are currently implementing unsustainable land use practices on degraded land due to lack of knowledge or opportunities, and which could not participate in the CDM without special modalities and procedures. In particular, community-based small-scale CDM (SSC-CDM) projects have a high potential to contribute to the sustainable development goals of host countries. SSC-CDM projects can improve living conditions and provide access to basic needs, such as energy supply, for the rural poor in developing countries (UNEP, 2003. *Open for Business. Entrepreneurs, Clean Energy and Sustainable Development*). The simplified modalities for small-scale reforestation and afforestation activities under the CDM were decided during COP-10 in Buenos Aires, Argentina, in December 2004. However, due to the limited amount of carbon credits generated by such projects and the related higher transaction costs, most investment currently flows into large-scale CDM projects. The most promising approaches to overcome these obstacles are instruments or mechanisms that facilitate the development of SSC-CDM projects and promote the sale of carbon credits from these projects; the provision of seed capital and project bundling can help to get projects off the ground and make the carbon credits competitive in the GHG market (Tippmann and Medina-Gomez, 2003. *Making Small-Scale CDM Projects Competitive on the GHG market - Focus Africa*, CDM Investment Newsletter, Vol.1).

## 2.8 Risks

The risk to the successful implementation of the project is considered low as the Project will provide a new capacity building to support afforestation and reforestation activities and that many agencies involved are fully aware of the importance of this Project to the successful development and implementation of AR-CDM projects in tropical forestry sector.

The biggest risk, nevertheless, will lay in the ability to obtain the necessary financing for the implementation of AR-CDM projects. To overcome this, the identification of potential CER buyers and investors will be undertaken as one of the most important project activities through the organisation

and implementation of the carbon credit buyers' and investors' conference in Japan in an early stage of the Project.

In addition, potential risks may arise from lack of cooperation between key stakeholders owing to the wide scope of activities involved and lack of mutual understanding and commitment. In this regard, the ITTO and Project Steering Committee will play an important role in project coordination and monitoring.

In order to encourage better participation of relevant agencies such as the UNFCCC, FAO, CIFOR and Intercooperation, these organizations will be invited to the capacity building component of the Project. With the well established long-term relationship established between ITTO and these agencies, the risk of not getting necessary cooperation is low.

## 3. Outputs

**Specific Objective :** To build capacity and awareness to develop and implement AR-CDM projects in ITTO member countries.

**Outputs:**

1. Manual for AR-CDM project developers on how to identify and formulate AR-CDM project activities.
2. Six regional workshops to provide training for potential project developers and/or other stakeholders in AR-CDM host countries on how to obtain AR-CDM registration with the international CDM supervisory board and funding.
3. Project Design Documents for six AR-CDM projects submitted to the international CDM supervisory body.
4. Guide for CER buyers and investors on emission trading schemes, focusing on the Japanese scheme, with targeted information about rewards, as well as risks and issues related to AR-CDM projects.
5. Studies for the selected AR-CDM projects to facilitate investments.
6. Extension programme for technical and financial support for AR-CDM projects.

## 4. Activities

4.1 Output 1: Manual for AR-CDM project developers on how to identify and formulate AR-CDM project activities.

- Activity 1.1: Interview potential project developers for AR-CDM projects.
- Activity 1.2: Review studies, reports and other documentation available.
- Activity 1.3: Prepare manual for project developers.

4.2 Output 2: Six regional workshops to provide training for potential project developers and/or other stakeholders in AR-CDM host countries on how to obtain AR-CDM registration with the international CDM supervisory board and funding.

- Activity 2.1: Initiate project identification process among project developers through the announcement of regional workshops and dissemination of project developers' manual.
- Activity 2.2: Prepare presentation and training material for workshops.

- Activity 2.3 Prepare a CDM case study based on the ITTO funded sustainable forest management project in San Nicolas, Colombia.
- Activity 2.4: Conduct six regional workshops to train project developers in the requirements for successful CDM project applications and how to access different emissions trading schemes and prepare CDM projects for investment.

4.3 Output 3: Project Design Documents for six AR-CDM projects submitted to the international CDM supervisory body.

- Activity 3.1: Screen project portfolio according to CDM and investment requirements to identify the best six AR-CDM project candidates.
- Activity 3.2: Prepare Project Design Documents for the selected projects, submit them to the international CDM supervisory body, and revise them according to comments received by the CDM Executive Board, in the case it deems to be necessary.

4.4 Output 4: Guide and conference for CER buyers and investors on emission trading schemes, focusing on the Japanese scheme, with targeted information about rewards, as well as risks and issues related to AR-CDM projects.

- Activity 4.1: Interview potential CER buyers and investors, as well as traders and brokers with experience in CDM project transactions.

  The Japanese public and private sector is already or will engage in the BioCarbon Fund of the World Bank, which is designed to ensure that developing countries, including some of the poorest countries, have an opportunity to benefit from carbon finance in forestry, agriculture and land management. Five Japanese utilities and industrial companies have signed a Memorandum of Understanding (MoU) with the BioCarbon Fund, and out of this five two electricity companies (i.e., Okinawa Electric Power Co., Inc., and Tokyo Electric Power Co., Inc.) are official participants in the Fund already.

  Japanese private sector companies also participate in another fund that belongs to the Carbon Finance Group of the World Bank, the Community Development Carbon Fund (CDCF). The CDCF focuses on community-based projects in developing countries, including community forestry projects (e.g., agroforestry activities). Namely the following Japanese companies are committed participants in the CDCF: Daiwa Securities SMBC Principal Investments Co. Ltd., Idemitsu Kosan Co. Ltd, Nippon Oil Corporation, the Okinawa Electric Power Co., Inc.

  In the are of AR-CDM projects, it was reported that the Marubeni Corporation in Japan planned to plant 10,000 ha of rubber tree in Mondulkiri grasslands (Eastearn region of Cambodia). To encourage the participation of the Japanese pubic and private sector in AR-CDM project activities, a comprehensive interview with potential CER buyers and investors should be conducted.

- Activity 4.2: Review studies, reports and other documentation available.
- Activity 4.3: Prepare guide for CER buyers and investors.
- Activity 4.4: Conduct forum in Japan to raise awareness and information about carbon credit purchase and investment opportunities.

  The forum (a half-day in English/Japanese) will be held in four times during project period: two in the first year and the other two in the second year.

4.5 Output 5: Studies for the selected AR-CDM projects to facilitate investments.

- Activity 5.1: Identify the financial needs of the six selected AR-CDM projects and explore ways of addressing barriers.
- Activity 5.2: Prepare studies.

4.6 Output 6: Extension programme for technical and financial support for AR-CDM projects.

- Activity 6.1: Organize meetings, as well as establish a web page and an electronic network, where Japanese and other interested investor parties will get together to receive information on AR-CDM investment opportunities, discuss related issues, and exchange ideas.
- Activity 6.2: Seek commitments for carbon credit purchases and investments for the six selected AR-CDM projects, as well as further identified project opportunities from public and/or private sector parties.
- Activity 6.3: Define framework and structure of the extension programme, and roles and functions of the executing agency and/or new partner organizations.

## 5. Logical Framework Worksheets

| PROJECT ELEMENTS | INDICATORS | MEANS OF VERIFICATION | IMPORTANT ASSUMPTIONS |
|---|---|---|---|
| **DEVELOPMENT OBJECTIVE**<br><br>The development objective of the project is 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. | Increased awareness of AR-CDM projects by key stakeholders in the tropical forestry sector<br><br>Increase number of AR-CDM projects for implementation in the tropical forestry sector | Expressions of interest to collaborate from both project developers and carbon credit buyers and investors<br><br>Validated and submitted Project Design Documents | AR-CDM projects delivering carbon credits and sustainable development benefits can be both technically feasible and economically viable |
| **SPECIFIC OBJECTIVE**<br><br>Build capacity and awareness to develop and implement AR-CDM projects in ITTO Member countries | Increased enabling conditions, including institutional and legal arrangements, to develop AR-CDM projects in the tropical forestry sector<br><br>Increased capacity to develop feasible AR-CDM projects in accordance with the rules and procedures of the CDM in the tropical forestry sector<br><br>Raised awareness among carbon credit buyers' and investors' community of investment opportunities as well as the possibility to meet emission reduction targets<br><br>Validated projects submitted for approval as CDM projects to the international CDM supervisory board | County reports for forestry and other policies<br><br>Country report<br><br>Independent validation reports by DOEs accredited to the UNFCCC will confirm the development of the projects according to the rules and regulations<br><br>Confirmation by the CDM Executive Board as officially submitted CDM projects | Developing countries are willing to learn the formulation of AR-CDM projects and are able to implement these projects<br><br>Projects will be developed according to the rules and regulations so that they will obtain national and international approval |
| **OUTPUT 1**<br><br>Manual for AR-CDM project developers on how to identify and formulate AR-CDM projects. | 300 copies of manual disseminated to project developers through regional workshops and other means | Manual<br><br>Number of PINs received or rather project developers looking for investment and/or carbon credit buyers | Interest on the side of project developers to engage in AR-CDM projects with a need for information |

| PROJECT ELEMENTS | INDICATORS | MEANS OF VERIFICATION | IMPORTANT ASSUMPTIONS |
|---|---|---|---|
| **OUTPUT .2**<br><br>Six regional workshops to provide training for potential project developers and/or other stakeholders in AR-CDM host countries on how to obtain AR-CDM registration with the international CDM supervisory board and funding. | Six regional workshops (i.e. two workshops per region) completed by 3/2007<br><br>Around 90 project developers trained on the basis of the six regional workshops (i.e. 15 participants in each workshop). | Participants list/attendance forms or certificates issued<br><br>Six framework PDDs | Many project developers will benefit from the training, and be willing to develop AR-CDM projects<br><br>Selected projects will have learnt to prepare a framework PDD to be finalised with the support of the facilitation programme |
| **OUTPUT 3**<br><br>Project Design Documents for six AR-CDM projects submitted to the international CDM supervisory body. | Six AR-CDM PDDs submitted to the CDM EB for registration by 9/2007 | Validated, complete, and submitted PDDs | The projects are developed according to the rules and regulations of the CDM and will be able to use approved methodologies or develop new methodologies acceptable to the CDM EB |
| **OUTPUT 4**<br><br>Guide for CER buyers and investors on emission trading schemes, focusing on the Japanese scheme, with targeted information about rewards, as well as risks and issues related to AR-CDM projects. | Four forums conducted in Japan by 9/2007<br><br>60 participants in each of the four forums<br><br>Number of guides disseminated to CER buyers and investors through conference and other means<br><br>Carbon credit buyers and investors are provided with the necessary information about the six AR-CDM projects to assess the possibility to purchase carbon credits and/or invest | Workshop reports<br><br>Number of requests or further information on AR-CDM investment opportunities<br><br>Presentations and to the carbon credit buyers and investors community based in the PDDs and studies about the financial needs<br><br>Information about AR-CDM project opportunities available on the website and disseminated through electronic network | Interest on the side of CER buyers and investors to engage in AR-CDM projects with a need for information.<br><br>Non-existence or limited provision of carbon credits from AR-CDM projects does not allow the utilization of these projects as climate change mitigation option for carbon credit buyers<br><br>Public and private sector is generally willing or interested to provide (co-) financing to AR-CDM projects |

| PROJECT ELEMENTS | INDICATORS | MEANS OF VERIFICATION | IMPORTANT ASSUMPTIONS |
|---|---|---|---|
| **OUTPUT 5**<br>Studies for the selected AR-CDM projects to facilitate investments. | Six studies on the financial needs of each of the projects and ways to address barriers completed by 9/2007<br><br>The necessary financial information (feasibility) about the six AR-CDM projects to assess the possibility to purchase carbon credits and/or invest disseminated to key stakeholders by 12/2007 | Studies | Project developers are able to provide necessary data and information to assess the financial needs and barriers |
| **OUTPUT 6**<br>Extension programme for technical and financial support for AR-CDM projects. | Information about the carbon credit purchase and investment opportunities provided by the six selected projects, as well as on further potential project opportunities disseminate among the carbon credit buyers and investors community<br><br>Presentations to and follow-up discussions with parties interested in the carbon credits and/or investments in the six selected projects or further | Presentations, meeting reports, website, emails<br><br>Meeting reports, presentations, emails | The implementation of the facilitation programme will lead to many new AR-CDM project applications to the Facilitation Project, as well as more investment offers<br><br>Public or private sector parties express an interest in investing in, or purchasing the carbon credits from the AR-CDM projects developed |

## 6. Work Plan

| OUTPUTS/ACTIVITIES | RESPONSIBLE PARTY | SCHEDULE (Quarter) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| **Output 1 - Manual for project developers** | | | | | | | | | | | | | |
| **Activities:** | | | | | | | | | | | | | |
| 1.1 - Interview potential project developers for AR-CDM projects | Int. Consultant | | | | | | | | | | | | |
| 1.2 - Review studies, reports and other documentation | Int. Consultant | | | | | | | | | | | | |
| 1.3 - Prepare manual | Int. Consultant | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| **OUTPUT 2 - Workshops for project developers and/or other stakeholders** | | | | | | | | | | | | | |
| **Activities:** | | | | | | | | | | | | | |
| 2.1 - Initiate project identification process | Int. Consultant/Regional Consultants (Latin America, Asia, Africa) | | | | | | | | | | | | |
| 2.2 - Prepare presentation and training material for workshops | Int. Consultant/Reg. Consultants (Latin America, Asia, Africa) | | | | | | | | | | | | |
| 2.3 - Prepare a CDM case study based on the ITTO funded sustainable forest management project in San Nicolas, Colombia. | Int. Consultant/Reg. Consultants (Latin America) | | | | | | | | | | | | |
| 2.4 - Conduct six regional workshops | Int. Consultant/Reg. Consultants (Latin America, Asia, Africa) | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| **OUTPUT 3 - Project Design Documents** | | | | | | | | | | | | | |
| **Activities:** | | | | | | | | | | | | | |
| 3.1 - Screen project portfolio | Int. Consultant/Reg. Consultants (Latin America, Asia, Africa) | | | | | | | | | | | | |
| 3.2 - Prepare, submit, and revise Project Design Documents | Int. Consultant | | | | | | | | | | | | |
| **OUTPUTS/ACTIVITIES** | **RESPONSIBLE PARTY** | **SCHEDULE (Quarter)** | | | | | | | | | | | |
| **Output 4 – Guide and conference for CER buyers and investors** | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| **Activities:** | | | | | | | | | | | | | |
| 4.1 - Interview potential CER buyers and investors as well as traders and brokers | Int. Consultant/Japanese Consultant | | | | | | | | | | | | |
| 4.2 - Review studies, reports and other documentation | Int. Consultant/Japanese Consultant | | | | | | | | | | | | |
| 5.3 - Prepare guide | Int. Consultant/Japanese Consultant | | | | | | | | | | | | |
| 5.4 - Conduct conference in Japan | Int. Consultant /Japanese Consultant | | | | | | | | | | | | |

| OUTPUTS/ACTIVITIES | RESPONSIBLE PARTY | SCHEDULE (Quarter) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| **OUTPUT 5 – Studies to facilitate investments** | | | | | | | | | | | | | |
| **Activities:** | | | | | | | | | | | | | |
| 5.1 - Identify the financial needs of the six selected AR-CDM projects and explore ways of addressing barriers | Int. Consultant | | | | | | | | | | | | |
| 5.2 – Prepare studies | Int. Consultant | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| **OUTPUT 6 - Extension programme** | | | | | | | | | | | | | |
| **Activities:** | | | | | | | | | | | | | |
| 6.1 - Organize meetings, establish web page and electronic network for interested investor parties to receive information, discussion, and exchange | Int. Consultant/Japanese Consultant | | | | | | | | | | | | |
| 6.2 - Seek commitments for investments for the six AR-CDM projects plus for further project opportunities | Int. Consultant/Japanese Consultant | | | | | | | | | | | | |
| 6.3 - Define framework and structure of facilitation programme, and roles and functions of executing agency and/or new partner organizations | Int. Consultant/Japanese Consultant | | | | | | | | | | | | |

## 7. Budget

### 7.1 Overall Project Budget by Activity (USD)

| OUTPUT/ACTIVITY | 10 PROJECT PERSONNEL | 20 SUBCONTRACTS | 30 DUTY TRAVEL | 40 CAPITAL ITEMS | 50 CONSUMABLE ITEMS | 60 MISCELLANEOUS | GRAND TOTAL |
|---|---|---|---|---|---|---|---|
| **Output 1 - Manual for project developers** | | | | | | | |
| **Activity 1.1**<br>Interview potential project developers | 5,000 | | | | | | 5,000 |
| **Activity 1.2**<br>Review studies, reports and other documentation | 5,000 | | | | | | 5,000 |
| **Activity 1.3**<br>Prepare manual | 16,000 | | | | | 15,000 | 31,000 |
| **Output 2 - Workshop for project developers and/or other stakeholders** | | | | | | | |
| **Activity 2.1**<br>Initiate project identification process | 9,000 | | | | | 3,000 | 12,000 |
| **Activity 2.2**<br>Prepare presentations and training material for workshops | 9,500 | | | | | | 9,500 |
| **Activity 2.3**<br>Prepare a CDM case study based on SFM San Nicolas project | 4,000 | | | | | | 4,000 |
| **Activity 2.4**<br>Conduct six regional workshops | 32,000 | 30,000 | 146,125 | | | 16,000 | 224,125 |
| **Output 3 - Project Design Documents** | | | | | | | |
| **Activity 3.1**<br>Screen project portfolio | 20,000 | | 17,250 | | | | 37,250 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Activity 3.2** | | | | | | | |
| Prepare, submit, and revise Project Design Documents | 64,000 | 60,000 | 44,100 | | | 15,000 | 183,100 |
| **Output 4 - Guide and conference for CER buyers and investors** | | | | | | | |
| **Activity 4.1** | | | | | | | |
| Interview potential CER buyers and investors, as well as traders and brokers | 40,000 | | | | | | 40,000 |
| **Activity 4.2** | | | | | | | |
| Review studies, reports and other documentation | 10,000 | | | | | | 10,000 |
| **Activity 4.3** | | | | | | | |
| Prepare guide | 10,000 | | | | | 2,000 | 17,000 |
| **Activity 4.4** | | | | | | | |
| Prepare and conduct conference in Japan | 14,000 | 40,000 | 3,150 | | | 10,000 | 67,150 |
| **Output 5 - Studies to facilitate investments in AR-CDM projects** | | | | | | | |
| **Activity 5.1** | | | | | | | |
| Identify the financial needs of projects and explore ways of addressing barriers | 25,000 | | 15,000 | | | 3,000 | 43,000 |
| **Activity 5.2** | | | | | | | |
| Prepare studies | 7,500 | | | | | | 7,500 |
| **Output 6 - Extension programme** | | | | | | | |
| **Activity 6.1** | | | | | | | |
| Organize meetings, establish web page and electronic network for interested investor parties | 25,000 | | 10,000 | | | 8,000 | 43,000 |
| **Activity 6.2** | | | | | | | |
| Seek commitments for investments | 20,000 | | 7,000 | | | | 27,000 |
| **Activity 6.3** | | | | | | | |
| Define framework and structure of facilitation programme, and roles and functions | 10,000 | | 3,150 | | | | 13,150 |
| **TOTAL** | 326,000 | 130,000 | 245,775 | | | 72,000 | 773,775 |

7.2 Yearly Project Budget (USD)

| Annual Disbursements / Budget Components | Total | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|
| *10. Project personnel* | | | | |
| 11. National consultant (Japan) | **90,000** | 40,000 | 40,000 | 10,000 |
| 12. Regional consultants (Regional/Asia, Africa, Latin America-Colombia) | **96,000** | 48,000 | 48,000 | - |
| 16. International Consultant | **140,000** | 70,000 | 50,000 | 20,000 |
| *Sub Total* | **326,000** | 158,000 | 138,000 | 30,000 |
| *20. Sub-contracts* | | | | |
| 21. Subcontract (Validators) | **60,000** | | 60,000 | |
| 22.Subcontract (six regional workshops/forums in Japan) | **70,000** | 35,000 | 35,000 | |
| *Sub Total* | **130,000** | 35,000 | 95,000 | |
| *30. Duty travel* | | | | |
| 31. Daily Subsistence Allowance | **72,000** | 35,000 | 30,000 | 7,000 |
| 32. International Travel | **159,000** | 78,500 | 67,500 | 13,000 |
| 33. Transport Costs | **14,775** | 10,200 | 2,575 | 2,000 |
| *Sub Total* | **245,775** | 123,700 | 100,075 | 22,000 |
| *40. Capital items* | | | - | - |
| *Sub Total* | | | | |
| *50. Consumable items* | | | - | - |
| *60. Miscellaneous* | | | | |
| 61. Sundry | **32,000** | 16,000 | 10,000 | 6,000 |
| 62. Workshop/conference materials | **40,000** | 10,000 | 15,000 | 15,000 |
| *Sub Total* | **72,000** | 26,000 | 25,000 | 21,000 |
| **Subtotal 1** | **773,775** | 342,700 | 358,075 | 73,000 |
| *80. ITTO Monitor., Evaluat. and Administ. Costs* | | | | |
| 81. Monitoring and Review Costs | **45,000** | | | |
| 82. Evaluation Costs | **15,000** | | | |
| **Subtotal 2** | **833,775** | | | |
| 83. Programme Support Costs (13% of subtotal 2) | **108,391** | | | |
| *90. Refund of Pre-Project Costs* | **-** | | | |
| **TOTAL** | **942,166** | | | |

7.3 Project Budget By Unit

| Budget Components | Unit | Unit costs (USD) | Total |
|---|---|---|---|
| *10. Project personnel* | | | |
| 11. National consultant (Japan) | 9 man-month | 10,000/ man-month | 90,000 |
| 12. Regional consultants (Regional/Asia, Africa, Latin America-Colombia) | 12 man-month | 8,000 /man-month | 96,000 |
| 16. International Consultant | 14 man-month | 10,000/ man-month | 140,000 |
| *Sub Total* | | | 326,000 |
| *20. Sub-contracts* | | | |
| 21. Subcontract (Validators - validation costs for small-scale AR-CDM projects) | 6 projects | 10,000 per project | 60,000 |
| 22. Subcontract (Regional workshops/forums in Japan) | 6 regional workshops | 5,000 per workshop | 30,000 |
| | 4 forums in Japan | 10,000 per forum | 40,000 |
| *Sub Total* | | | 130,000 |
| *30. Duty travel* | | | |
| 31. Daily Subsistence Allowance | 60 days in Japan | 300 per day | 18,000 |
| | 540 days for six regional workshops | 100 per day | 54,000 |
| 32. International Travel | 6 trips for international consultant | 5,000 | 30,000 |
| | 6 trips for three regional consultants | 2,000 | 12,000 |
| | 90 trips for six workshop participants | 1,300 | 117,000 |
| 33. Transport Costs | | | 14,775 |
| *Sub Total* | | | 245,775 |
| *60. Miscellaneous* | | | |
| 61. Sundry (editing, networking, organization of meetings, etc..) | | | 32,000 |
| 62. Workshop/forum materials, proceedings and publication | | | 40,000 |
| *Sub Total* | | | 72,000 |
| **Total** | | | 773,775 |

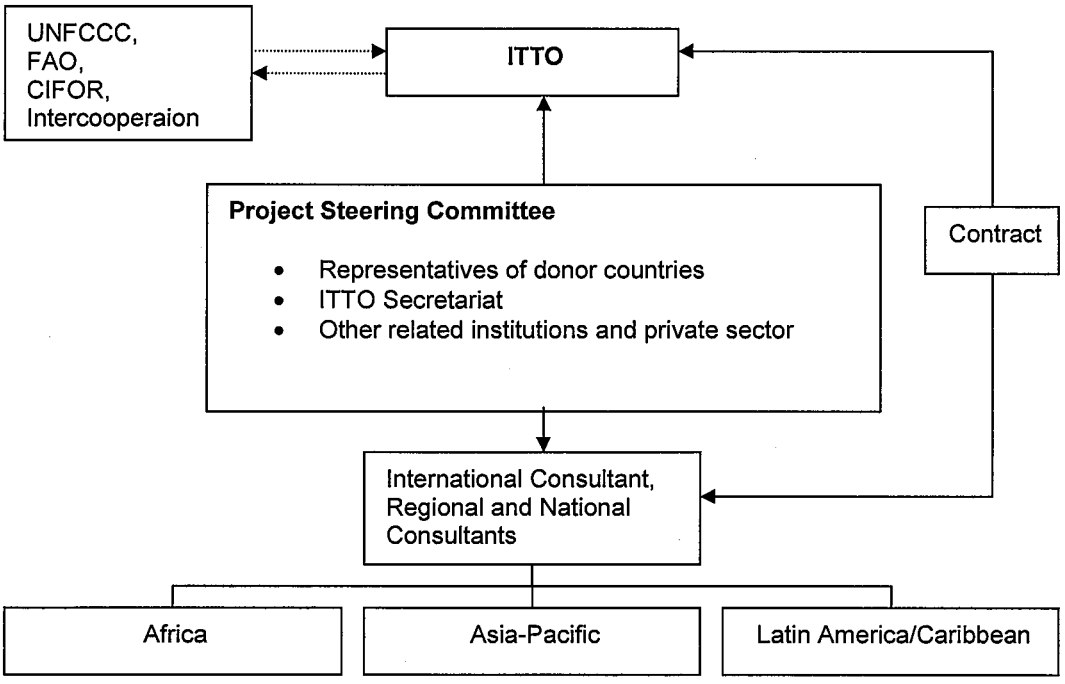
## PART III. OPERATIONAL ARRANGEMENTS

### 1. Management Structure

ITTO will be the executing agency, administering and supervising the implementation of the AR-CDM Facilitation Project. However, due to the limited human resources and technical capacity ITTO will implement the Project in close collaboration with an international consultant specialised in the fields of climate change mitigation projects, emissions trading, related fund and facility management, and environmental finance as well as a Japanese consultant.

The international consultant will provide the guidance for carbon credit buyers and investors on emissions trading schemes, as well as for AR-CDM project developers on how to access buyers and investors. The international consultancy will also coordinate and supervise the identification of projects, as well as the preparation of the PDDs submitted to the international supervisory board of the CDM, assisted by three regional consultants from Latin America, Asia, and Africa. The international consultant will coordinate the carbon credit buyers and investor conference in Japan, as well as collaborate with the national consultants on the organisation and implementation of the six regional workshops in Latin America, Asia, and Africa. Furthermore, the international consultant will be in charge of conducting the studies on the financial needs of the selected projects, and the work on the extension programme. This includes liaison with relevant organizations including the UNFCCC, FAO, CIFOR and Intercooperation jointly with ITTO. The international consultant will report directly to ITTO.

A project organizational chart is shown below:




The national consultant (Japan) will collaborate with the international consultant on all aspects related to Japan and will particularly focus on all aspects to the involvement of the Japanese public and private sector. The Japanese consultant will work jointly with the international consultancy on the preparation of the guide for CER buyers and investors, on the organisation and implementation of the carbon credit buyers' and investors' conference in Japan, parts of the studies on financial needs, as well as on the extension of the programme. This also includes the preparation of certain documents in Japanese. The Japanese consultant will report to ITTO under the coordination of the international consultancy.

The three regional consultants will assist and collaborate with the international consultancy in preparing and conducting the regional workshops in Asia, Latin America, and Africa. Also, they will be involved in the screening of the project portfolio to identify the most suitable to be developed as AR-CDM projects, and in the preparation of the framework PDDs. Due to the utilization of the experience gained in AR-CDM project development in the ITTO funded project on 'Alternative Financing Model for Sustainable Forest Management in San Nicolas' in Colombia during the workshops the regional consultant for Latin America will have to have worked with the San Nicolas project. The regional consultants from Latin America, Asia, and Africa will report to ITTO, but their work will mainly coordinated by the international consultancy.

A Project Steering Committee (PSC) will be established to govern the implementation of the Project. The PSC will provide guidance on matters retaining to the implementation of the Project and ensure that the Project is directed towards achieving its intended objectives. The members of the PSC are representatives of donor countries to the Project and ITTO. The international consultancy firm and regional consultants will provide advice on the technical matters.

## 2. Monitoring, Reporting and Evaluation

In general, the Project will be monitored and evaluated by representatives of ITTO, the executing agency, themselves in accordance with ITTO operational regulations. All the following activities will be carried out on the basis of the objectives, outputs, activities and indicators established in the logical framework, work plan and in the implementation guidelines.

(a) Project Progress Reports – A project progress report will be prepared for consideration by ITTO every six months.

(b) Project Completion Report – A final report will be prepared as soon as possible after project completion and in any case within no more three months after the completion date.

(c) Monitoring, and Review Visits – ITTO representatives will attend the carbon buyers and investors conference in Japan, as well as the six regional workshops to monitor and review the progress of the Project been made up to that time.

(d) Evaluation – No ex-ante or ex-post evaluation is deemed to be necessary given the preparation and facilitation rather than operational nature of this project. The monitoring missions, however, will decide whether an ex-post evaluation is necessary and useful for the follow-up or rather extension of the Project.

**Project Monitoring, Reporting and Evaluation**

The following preliminary monitoring and reporting schedule indicates the following dates for reporting and monitoring visits:

| Description | Date |
|---|---|
| 1. First PSC meeting | November 2006 |
| 2. First project progress report | February 2006 |
| 3. First monitoring mission | March 2006 |
| 4. Second PSC meeting/monitoring mission | June/July 2006 |
| 5. Second project progress report | August 2006 |
| 6. Third project progress report | February 2007 |
| 7. Third PSC meeting | May 2007 |
| 8. Fourth project progress report | August 2007 |
| 8. Fifth project progress report | February 2008 |
| 7. Project completion report | August 2008 |

## 3. Future Operation and Maintenance

After the 36 months Project implementation period, the Project is expected to continue to provide technical and financial support to AR-CDM projects. The extension programme or rather the definition of its framework and structure, roles and functions of the executing agency and/or new partner organisations has been integrated into the outputs and activities of the Facilitation Project. Depending on the amount of commitments from public and/or private sector parties for carbon credit purchases and investments, as well as further identified, feasible and viable AR-CDM project opportunities the role of ITTO as the (only) executing agency might be reconsidered. The entire, or major parts of the day-to-day management might be outsourced to a newly established agency, private or public-private-partnership, with ITTO and other international or non-profit organizations, and public representatives on the board. It can be expected that the global GHG market will be in full swing after the 36 months implementation period which will be in line with the first year of the first commitment period of the Kyoto Protocol, i.e., 2008. The extension of the Facilitation Project towards other environmental or ecosystem services might be considered, as well.

## PART IV. THE TROPICAL TIMBER FRAMEWORK

### 1. Compliance with ITTA 1994 Objectives

The proposed AR-CDM Facilitation Project will contribute to the following ITTO objectives as expressed in Article 1 of the International Tropical Timber Agreement (ITTA), 1994:

- Art. 1 a): To provide an effective framework for consultation, international cooperation and policy development among all members with regard to all relevant aspects of the world timber economy. The Facilitation Project will provide a consultation forum through workshops and a conference for the establishment of partnerships between stakeholders in producer countries and a consumer country interested in the development of sustainable forestry projects, based on recent outcomes of international policy developments relevant to forestry projects under the UNFCCC. A new aspect, i.e., the additional value of the environmental service of carbon sequestration, of relevance to the world timber economy will be introduced to the stakeholders.
- Art. 1 c): To contribute to the process of sustainable development. The projects participating in the Facilitation Project will contribute to the sustainable development objectives of the host countries. This contribution is inherent to the CDM and will be ensured throughout project cycle by approvals from host governments, independent validation/verification organisations, the international supervisory board of the CDM, as well as the inclusion of local stakeholders and communities through consultations.
- Art. 1 f): To promote and support research and development with a view to improving forest management and efficiency of wood utilization as well as increasing the capacity to conserve and enhance other forest values in timber producing tropical forests. The CDM or rather carbon sequestration represents an additional value added to forestry activities in timber producing tropical forests.
- Art. 1 g): To develop and contribute towards mechanisms for the provision of new and additional financial resources and expertise needed to enhance the capacity of producing members to attain the objectives of this Agreement. The Project is clearly tailored towards the introduction of a new and additional financial resource or rather mechanism (i.e., the CDM), enhancing the capacity and expertise needed to make use of this new financial mechanism through training measures and the development of pilot or demonstration projects.
- Art. 1 j): To encourage members to support and develop industrial tropical timber reforestation and forest management activities as well as rehabilitation of degraded forest land, with due regard for the interests of local communities dependent on forest resources. The development of AR-CDM projects under the Facilitation Project will support the development of industrial tropical timber reforestation activities, serving the interests of local communities dependent on forest resources, through the generation of additional revenues for such projects and the introduction to international carbon credit buyers and investors in forestry projects.
- Art. 1 k): To improve marketing and distribution of tropical timber exports from sustainably managed sources. The introduction of the CDM projects to carbon credit buyers and investors developed by the Project will be based, *inter alia*, upon improved marketing of the products and services delivered by these projects with a focus on carbon sequestration.
- Art. 1 m): To promote the access to, and transfer of, technologies and technical cooperation to implement the objectives of this Agreement, including on concessional and preferential terms and conditions, as mutually agreed. The whole process initiated, promoted, facilitated, and accompanied under the proposed Project will directly lead to the access and transfer of technical cooperation through North-South and South-South knowledge transfer, and transfer of expertise about the development and implementation of AR-CDM projects. It is also intended to initiate the access to, or transfer of technologies through the establishment of partnerships between a developed country and developing countries.

### 2. Compliance with ITTO Action Plan

The Yokohama Action Plan 2002-2006 recognizes the impacts of UNFCCC negotiations on the work of ITTO as new developments that should be considered. Under developments since the Libreville Action Plan the Yokohama Action Plan refers specifically to the CDM and ongoing ITTO projects related to the CDM, and the Special Report on LULUCF prepared by the IPCC. Particularly, "ITTO is

contributing to further methodological development through project work that relates to forests and climate change". The AR-CDM Facilitation Project is a directly contribution to the further methodological development through project work, relating to forests and climate change and represents a comprehensive and concerted approach to support the utilization of the CDM by its members.

One of the key strategies, i.e., strategy 4., to accelerate progress towards the fulfillment of the ITTO Objective 2000 refers to "diversifying incentives for maintaining and expanding the forest base to help ensure continued timber supplies. This would include factoring in the value of, and developing innovative markets for, ecosystem services derived from production forests." The creation of partnerships between developing countries and an industrialised country, non-Annex B and Annex B countries under the Kyoto Protocol, represents a step towards the implementation of this strategy through stimulating and facilitating carbon credit trades between these countries.

The Project will contribute to a number of cross cutting actions, which are seen as an important component of the Action Plan, ITTO will undertake to facilitate progress in an integrated manner in all three areas of its substantive work:

b) Actively cooperate and coordinate with international organizations and other international fora that undertake activities relevant to ITTO's objectives, with a view to sharing experience, reducing duplication, enhancing complementarities and harmonising activities. The cooperation with FAO under the capacity building and project development component is geared towards sharing experience, reducing duplication, enhancing complementarities and harmonising activities. In the long term further co-operations with other international organisations could be established such as with the Carbon Finance Group of the World Bank.
e) Assist human resource development and institutional strengthening by conducting national, regional and international training activities and the provision of fellowships. The six regional workshops are tailored to train project developers and other concerned stakeholders in Latin America, Asia, and Africa in developing CDM projects.
h) Encourage and increase the involvement of non-government stakeholders, including industry and trade associations, environmental organizations and indigenous groups, in the activities of the Organization with a view to promoting transparency, dialogue and cooperation in furthering ITTO's objectives. The carbon buyer and investor conference in Japan, as well as the guide for this group, will involve the private sector in the development and implementation of the projects to be developed under the Project. Participants in the regional workshops will represent a mix of project developers from the forestry and land use sectors, including the groups mentioned above.
j) Explore and encourage investment and private sector joint ventures in the forestry sector, including the re-investment of forest-generated products. The second component of the Facilitation Project, assistance with project financing, will, *inter alia*, explore and encourage investment and private sector joint ventures in the forestry sector.
k) Support demonstration and pilot projects in all areas of its substantive work, especially on a regional basis. Two demonstration and pilot projects will be developed under the Project in each region (Latin America, Africa, and Asia).

The Facilitation Project is consistent and supports actions to meet both goals in the field of reforestation and forest management. The measures implemented will be in line with the following two actions that are supposed to contribute to meet Goal 1 - Support activities to secure the tropical timber resource base:

- assess opportunities for, and promote development of, non-timber forest products and forest services which can improve the economic attractiveness of maintaining the forest resource base; and
- encourage members and assist them, where appropriate, to develop innovative mechanisms and relevant legislative frameworks, including incentives and market-based instruments, to secure and expand, where appropriate, the forest resource base.

The introduction and utilisation of the CDM as new financial mechanism which increases the product base of forestry activities and eventually their economic attractiveness through the

ecosystem or environmental services of carbon sequestration to ITTO members is in line or rather implements these action points.

The measures implemented under Project will also support actions supposed to contribute to meet Goal 2 – Promote sustainable management of tropical forest resources. The following two actions will be implemented under the Project:

- Implement research and development activities in the management of secondary tropical forests, restoration of degraded tropical forests and rehabilitation of degraded forest land, taking into consideration ITTO guidelines. The Project will take the ITTO guidelines into consideration when screening and developing projects, and will ensure, to the extent possible, that the AR-CDM projects, or at least some of them, will contribute to the restoration of degraded tropical forests and rehabilitation of degraded forest land.

- Establish and manage forests for multiple uses in close cooperation with local forest owners and communities living in forest areas. The CDM project cycle already requires the involvement in the local stakeholders in the development of projects through stakeholder consultations. The Project will also ensure the close cooperation with local forest owners and communities living in forest areas, particularly where they are directly involved in the project development and implementation or directly affected by a project.

# ANNEX A – TERMS OF REFERENCES FOR CONSULTANTS AND EXPERTS

## Terms of Reference for the International Consultant

**Qualifications:**

A consultant that can demonstrate in-depth and long-term expertise in the field of carbon sequestration and land use, land-use change and forestry in relation to natural resource management, rural development, and forestry and/or agroforestry, CDM project development, GHG markets and successful transactions in these markets. Experience in the implementation of CDM capacity building and training courses/workshops, the elaboration of relevant documentation for CDM projects, as well as the management of carbon credit purchase funds or facilities will have to be proven. Excellent interpersonal and communication skills, as well as fluency in the English language are required.

**Activities:**

1) Capacity building to identify, formulate, and implement AR-CDM projects:

- prepare a manual for the formulation of AR-CDM projects for project developers and a brochure by reviewing relevant studies, reports and other documents available;
- assist in the implementation of six regional workshops in collaboration with the regional consultants (Latin America, Africa and Asia);
- coordinate the project identification process and
- identify six AR-CDM projects, prepare, submit, and revise the Project Design Documents for the selected projects in cooperation with the regional consultants in Latin America, Asia, and Africa.

2) Assistance in raising the necessary finance for the implementation of the AR-CDM projects:

- interview project developers, investors, traders and brokers with experience in CDM project transactions in cooperation with the national consultant (Japan), and prepare a guide for carbon credit buyers and investors;
- prepare studies to identify the financial needs of the six selected AR-CDM projects and explore ways of addressing barriers as well as further identified project opportunities in collaboration with the Japanese consultant;
- present AR-CDM investment opportunities to public and private sector parties through participation in the forums for carbon credit buyers and investors in Japan as well as the establishment of a website in collaboration with the Japanese consultant; and
- Define the framework and structure of the extension programme in collaboration with the Japanese consultant.

## Terms of Reference for the National Consultant (Japan)

**Qualifications:**

A consultant that can demonstrate expertise in the fields of carbon sequestration and land use, land-use change and forestry, climate change, project development, the GHGs markets, and in particular the Japanese market. Experience in the preparation of CDM guides or manuals, and collaborations with the public and private sector on GHG mitigation strategies and projects, particularly in Japan, will be desirable. Excellent interpersonal and communication skills, as well as fluency in the English language are required.

**Responsibilities:**

- interview project developers, investors, traders and brokers with experience in CDM project transactions in cooperation with the international consultant, and review studies, reports and other documentation available to prepare a guide for carbon credit buyers and investors in collaboration with the international consultancy;
- conduct four forums for carbon credit buyers and investors in Japan in collaboration with the ITTO Secretariat and the international consultancy;.
- Contribute to the preparation of studies to identify the financial needs of the six selected AR-CDM projects and explore ways of addressing barriers, present the projects to public and/or private sector parties interested in investing in these projects and seek commitments for carbon credit purchases and investments for the six selected AR-CDM projects, as well as further identified project opportunities in collaboration with the international consultancy;
- Present AR-CDM investment opportunities to public and private sector parties through the organisation of meetings, as well as the establishment of a website and an electronic network for the discussion of related issues and exchange of ideas in collaboration with the international consultancy with a focus on the Japanese market; and
- Contribute to defining the framework and structure of the extension programme, and roles and functions of executing agency and/or new partner organizations in collaboration with the international consultancy.

## Terms of Reference for Regional Consultant (Asia)

**Qualifications:**

The consultant must be a university graduate and experienced individual from the Asian region who can demonstrate expertise in the area of carbon sequestration and land use, land-use change and forestry in relation to natural resource management, rural development, and forestry and/or agroforestry, CDM project development. Experience in the implementation of CDM capacity building and training courses/workshops, the elaboration of relevant documentation for CDM projects will be desirable. Relevant work experience in Asia, excellent interpersonal and communication skills, as well as fluency in the English language are required.

**Responsibilities:**

- assist the ITTO Secretariat in preparing and conducting the regional workshop in Asia, and conduct the project screening and identification process in collaboration with the international consultant; and
- assist in the preparation of Project Design Documents for the two Asian Projects.

## Terms of Reference for Regional Consultant (Latin America)

**Qualifications:**

The consultant must be an university graduate and experienced individual from the Latin American region who can demonstrate expertise in the of carbon sequestration and land use, land-use change and forestry in relation to natural resource management, rural development, and forestry and/or agroforestry, CDM project development. The consultant must have work experience with the ITTO funded project "Alternative Financing Model for Sustainable Forest Management in San Nicolas" (PD 54/99 (F)) which is currently implements its second phase (PD 240/03 (F)). Experience in the implementation of CDM capacity building and training courses/workshops, the elaboration of relevant documentation for CDM projects will be desirable. Relevant work experience in Latin America, excellent interpersonal and communication skills, as well as fluency in the English and Spanish languages are required.

**Responsibilities:**

- prepare, conduct, and present a training module with the San Nicolas project as a case study for CDM project development for all regional workshops in collaboration with the international consultancy.
- assist the ITTO Secretariat in preparing and conducting the regional workshop in Latin America, and conduct the project screening and identification process in collaboration with the international consultant; and
- assist in the preparation of Project Design Documents for the two Latin American Projects.

## Terms of Reference for Regional Consultant (Africa)

**Qualifications:**

The consultant must be an university graduate and experienced individual from the African region who can demonstrate expertise in the of carbon sequestration and land use, land-use change and forestry in relation to natural resource management, rural development, and forestry and/or agroforestry, CDM project development. Experience in the implementation of CDM capacity building and training courses/workshops, the elaboration of relevant documentation for CDM projects will be desirable. Relevant work experience in Latin America, excellent interpersonal and communication skills, as well as fluency in the English and French languages are required.

**Responsibilities:**

- assist the ITTO Secretariat in preparing and conducting the regional workshop in Africa, and conduct the project screening and identification process in collaboration with the international consultancy; and
- assist in the preparation of the framework Project Design Documents for the two African Projects.

## ANNEX B – PRELIMINARY OUTLINE OF THE PROGRAMME FOR THE REGIONAL WORKSHOPS IN LATIN AMERICA, ASIA, AND AFRICA

The workshops will gather project developers and other concerned stakeholders involved in the development of potential AR-CDM projects in each region in a 3-day. The workshops will be organized by the ITTO Secretariat in collaboration with the international and regional consultants. The objectives of the workshops are to:

- increase general knowledge of AR-CDM issues and provide training for the participants in AR-CDM project development;
- make contact with representatives of potential project sites and communities, who could form part of the AR-CDM project portfolio of the Facilitation Programme;
- provide pre-selected stakeholders with the opportunity to present their project ideas; and
- enable project proponents to collect the data and information necessary to prepare a PDD.

The contents of the workshops will be:

- overview of climate policy and GHG market developments in the context of AR-CDM projects;
- rules and regulations for AR-CDM projects;
- technical issues such as baseline setting, monitoring and verification protocol, carbon modelling and accounting;
- introduction to PDD and baseline and monitoring methodologies development
- emissions trading systems and carbon credit buyers;
- financial and investment issues;
- in-depth AR-CDM case study: SFM project San Nicolas in Colombia, as well as other case studies;
- presentations of pre-selected AR-CDM project opportunities by project developers; and
- preparation of framework PDDs by project developers with technical assistance by consultants.

## ANNEX C: Recommendations of 29th Expert Panel and the modifications made in the revised proposal

| Recommendations of the 29th Expert Panel | Modification in the Revised Proposal |
|---|---|
| 1. Reformulate the specific objectives as appropriate taking into account the project title; | The two specific objectives of the project were reduced to one based on the recommendation of the Expert Panel. Please see page 4. |
| 2. Improve the problem tree; | The problem tree was revised by highlighting 'lack of financing to implement AR-CDM projects in tropical countries'. Please see page 5. |
| 3. Improve the scope of the project in the project strategy by opening it to other industrialize countries that may be willing to join; | The project strategy was modified to include Japan and other industrial countries. Please see pages 7-8. |
| 4. Extend the organization of the regional workshops to six in order to increase the impacts of the project; | Six regional workshops will be organized during project implementation. Please see pages 13. |
| 5. Provide more precise quantitative indicators and realistic assumptions in the logical framework; | The indicators and assumptions in the logical framework were improved based on the Expert Panel's recommendation. Please see pages 16-17. |
| 6. Include a project organization chart by indicating cooperating agencies in project implementation; | A project organization chart is provided on page 25. |
| 7. Refine the summary of the project on the cover page; and | The project summary on the cover page was improved. |
| 8. Include an Annex which shows the recommendations of the 29th Panel and the respective modifications in a tabular form. | Annex 4 summarizes the modifications made in the revised proposal in connection to the recommendations of the 29th Expert Panel. |

* * *