

INTER-AMERICAN DEVELOPMENT BANK

REGIONAL

**DEVELOPING LULUCF INVESTMENT OPPORTUNITIES FOR LATIN AMERICA AND
THE CARIBBEAN (LAC) REGION**

(RG-T1778)

PLAN OF OPERATIONS

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ELECTRONIC LINKS

1. Safeguard Policy Filter
<u>IDBDOCS-#2246842-ESG 2009000291_SPF</u>
2. Safeguard Screening Form
<u>IDBDOCS-#2246844-2009000291_SSF</u>

INFORMATION AVAILABLE IN INE/ECC FILES

Preparation:

Technical Cooperation (TC) Profile

Execution:

Procurement Plan

Terms of Reference for Consultancy Firm (“Retainer”)

ACRONYMS AND ABBREVIATIONS

CBO/RND	Country Office in Bolivia, RND Division staff
CIAT	Climate Analysis Indicators Tool
ECC	Sustainable Energy and Climate Change Unit
GEF	Global Environmental Facility
GHG	Greenhouse Gases
FIP	Forest Investment Program
IDB	Inter-American Development Bank
INE/ECC	Sustainable Energy and Climate Change Unit, Infrastructure and Environment Sector
INE/RND	Environment, Rural Development and Disaster Risk Management Division, Infrastructure and Environment Sector
LAC	Latin American and the Caribbean region
LULUCF	Land-Use, Land-Use Change and Forestry Sector
SECCI	<i>Sustainable Energy and Climate Change Initiative</i>
TC	Technical Cooperation

PLAN OF OPERATIONS FOR THE TECHNICAL COOPERATION

**DEVELOPING LULUCF INVESTMENT OPPORTUNITIES FOR LATIN AMERICA AND
THE CARIBBEAN (LAC) REGION**

RG-T1778

EXECUTIVE SUMMARY

Country/Regional	Regional		
Project Name:	Developing LULUCF ¹ investment opportunities for Latin America and the Caribbean (LAC) region		
Project Number:	RG-T1778		
IDB Project Team:	Team leader: Maria Netto (INE/ECC); Co-team leader: Eirivelthon Lima (INE/RND); Members: Tadashi Shimizu (INE/ECC); Ricardo Quiroga (INE/RND); Ernani Pilla (VPP/ESG); Trond Norheim (CBO/RND); Michael Rattinger (INE/ECC), Giovanna Rivera (INE/ECC), under the supervision of Juan Pablo Bonilla (Unit Chief, INE/ECC) and Hector R. Malarin (Division Chief, INE/RND).		
Date of Request:	April 26, 2010		
Beneficiaries:	Public entities responsible for protection and sustainable management of forests in IDB borrowing member countries.		
Executing Agency	Inter-American Development Bank (IDB), “the Bank”		
Financing Plan:	Sustainable energy and Climate Change	US\$	830,000
	Multi-donor Trust Fund (MSC)		
	Local:	US\$	156,000
	Total:	US\$	986,000
Objective:	<p>Each beneficiary country will provide a minimum of 20% of the total costs of the Program’s activities. This can be in-kind.</p> <p>This technical cooperation aims to provide the public institutions responsible for mitigation of climate change in the IDB borrowing member countries with technical expertise and financial means to fully participate in LULUCF related initiatives. The proposed program will contribute to: (i) the identification and development of plausible LULUCF projects or programmes; as well as investment and financial flows assessments and planning; (ii) the development of LULUCF/ investment opportunities at the national/regional level; and (iii) support borrowing member countries to access LULUCF/-financing instruments, which include FIP, the GEF, funding from</p>		

¹ Land-Use, Land-Use Change and Forestry sector.

the IDB and potential carbon markets. A secondary objective is to develop the IDB's technical and political know-how on the development of LULUCF projects and programmes.

Duration:	Execution timeline:	24 months
	Disbursement timeline:	28 months
Special Conditions for the Contract:	None	
Exceptions to Bank Policies:	None	
Technical Responsibility:	Sustainable Energy and Climate Change Unit (INE/ECC), and Environment, Rural Development and Natural Disaster Division (INE/RND), Infrastructure and Environment Sector, IDB	
Social and Environmental Review:	This project has been awarded a "C" categorization under the safeguard screening form 2009000291.	

I. BACKGROUND AND PROBLEM STATEMENT

- 1.1 In the Latin America and Caribbean (LAC) countries, the main source of Greenhouse Gases (GHGs) emissions is change in land-use, particularly the change of land from forest to agriculture. In 2008, LAC countries accounted for about 8.6% of the world's population and 8.2% of the world's Gross Domestic Product (GDP), while accounting for 12% of global GHG emissions (considering all GHGs), according to Climate Analysis Indicators Tool (CAIT) of the World Resources Institute (WRI). Unlike other regions in the world, the composition of LAC's flow of GHGs is dominated by carbon dioxide (CO₂) emissions from land-use change, which constitutes 46% of LAC's emissions, in contrast to the world's 18%. LAC has therefore a significant mitigation potential associated with Land Use and Land Use Change and Forestry (LULUCF) emissions.
- 1.2 This emission mitigation potential implies inspecting in detail the potential for sustainable forestry practices and forest management to avoid widespread deforestation; as well as the need of resources to support the implementation of afforestation and reforestation projects². Agricultural lands, such as cropland and pasture lands, provide an equal magnitude of mitigation potential to forests with large potential sustainable development benefits. Agricultural practices can collectively make a significant and low-cost contribution in achieving GHGs emission reductions³ by increasing soil carbon sinks.
- 1.3 A number of financing mechanisms for LULUCF activities are being developed and tested, including bilateral funds, enhancements of support through existing mechanisms such as the Global Environment Facility (GEF), and regulated and voluntary carbon markets. In order to access various financing opportunities countries will need to be able to track and understand various sources and develop clear programmers as to identify their needs for additional resources.
- 1.4 In practical terms, the ongoing negotiations towards financial mechanisms for GHGs emission reductions potential including in areas of Reduced Emissions from Deforestation and Degradation (REDD) are raising the demand for technical knowledge and financial support across all Multilateral Development Banks (MDBs). A quite significant number of countries in the LAC region have been actively engaged to develop national plans for mitigation strategies in LULUCF with long-term horizons, which require capacity to integrate climate change concerns in national development planning as well as sectoral and budgetary plans related to agriculture and forestry.
- 1.5 The IDB in its Analytical Framework for Climate Change Action committed itself to support climate change mitigation and adaptation by directing financial resources for lending and technical assistance activities in key sectors such as: land use, land use change, and forestry, agriculture and animal husbandry, energy, transportation water re-

² The IPCC estimates that the economically feasible potential of forestry activities in the LAC Region by 2040 ranges from 500 to 1,750 MtCO₂ per year, assuming a price of US\$20/tCO₂.

³ IPCC (2007) 'Climate Change 2007: Mitigation of Climate Change. Contribution of Working Group III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change' Cambridge University Press, Cambridge and New York.

source management, sanitation, and integrated urban development and climate-resilient cities. Land use change, particularly the conversion of forestland to agriculture, is a major driver of climate change. Therefore, the Bank will support lending and technical assistance projects that reduce emissions from deforestation and forest degradation⁴.

- 1.6 In consideration of GHG emissions reductions in LULUCF activities and monitoring, the Bank needs and requires specialized technical capacity. In order to respond to this need in a cost-effective and flexible manner, services of this TC will be offered through the modality of a retainer.
- 1.7 Even though retainers are relatively new in the IDB, they have demonstrated to be a profitable and flexible manner to offer services requested by Bank sectors and all its clients. These services have been well-accepted by various sectors and by IDB representatives in country offices. INE/ECC has done intense efforts to guarantee that other divisions in the Bank get to know and use retainer services.
- 1.8 It is important to mention that the most recent External Peer Review done by the IDB's Office of Evaluation and Oversight (OVE⁵), titled "Evaluation of the Bank's Processes for Managing Technical Cooperation", concluded that retainers were useful tools for the prompt delivery of specialized services in an efficient manner. OVE also highlighted that INE/ECC, within the IDB, accumulated the most experience with retainers.
- 1.9 The IDB already has an ongoing existent demand for technical support for LULUCF activities. For instance, the loan to Suriname (SU-L1017), the next phase of loans for the State of Acre in Brazil (BR-L0313), and the support of Peru as a pilot country for the Forest Investment Program (FIP)⁶ have stressed the importance of this support.
- 1.10 This technical cooperation is presented in accordance with the Sustainable Energy and Climate Change Initiative –SECCI – approved by the IDB Executive Board in March 2007 (document GN-2435), since it is aimed at promoting mitigation action by IDB clients.

II. THE PROGRAM

A. Objectives

- 2.1 This technical cooperation aims to provide the public institutions responsible for mitigation of climate change in the IDB borrowing member countries with technical expertise to fully participate in LULUCF related initiatives and existing and future financing mechanisms. The proposed program will contribute to: (i) the identification and development of plausible LULUCF projects or programmes; as well as investment and financial flows assessments and planning; (ii) the development of LULUCF investment opportunities at the national/regional level; and (iii) support borrowing member countries to access LULUCF financing instruments, which include Forest Investment Program (FIP), the GEF, funding from the IDB and potential carbon markets. A secondary

⁴ For more information on the new IDB Climate Change strategy please see the document "Analytical Framework for Climate Change Action, IDB Docs # 35138249

⁵ Office of Evaluation and Oversight (OVE).

⁶ For more information on the Forest Investment Program please visit the website <http://www.climateinvestmentfunds.org/cif/node/5>

objective is to develop the IDB's technical and political know-how on the development of LULUCF projects and programmes.

B. Description of Project Activities and Components

- 2.2 The Program will be divided in six components. These components will be implemented by a specialized consultancy firm or a consortium of firms:
- 2.3 **Component 1: Promotion of comprehensive LULUCF mitigation options with policy dialogue:** Under this component a specialized consultancy firm or consortium will be hired to identify, support and implement LULUCF Emission Reduction activities based on demands from countries. This consultancy will be hired under a retainer modality and will offer a menu of technical assessment and planning services, tailored to each case specific need as described under the component 2 to 6 below. The objective is to provide the beneficiary country with the ground assessment of the current situation and the needs for investment and planning in order to access finance for addressing climate change including through possible participation in the FIP, the GEF, carbon markets and other IDB finance.
- 2.4 **Component 2: GHG inventory and assessment of emission reduction potential:** This component will support countries in estimating the current land cover, rate of land-use change and associated emissions with remote sensing analysis. The idea is to overcome the difficulties in discussing problems related to LULUCF when there is no information available on status of forest resources, land use change in periodic traces. This remote sensing analysis will be followed by a geographic analysis to assess the importance of deforestation and forest degradation. For instance, it is essential to know how much forest is still standing and where it is located spatially. Another key issue is land tenure, it is important to know how forests are spatially distributed with respect to public and private ownership. This component will also analyze the spatial distribution of deforestation.
- 2.5 **Component 3: Monitoring, Reporting and Verification (MRV) Assessments.** Establishing appropriate MRV system at the national level is a basic requirement to participate in most LULUCF programs. It provides the basis for accounting for GHG stocks and fluxes. The goal of this component is to undertake a comprehensive analysis to understand how far is the current monitoring, reporting, and verification system from an internationally acceptable MRV system. By internationally accepted, we mean that the specialized consultancy firm or consortium should follow the most updated guidelines from the Intergovernmental Panel on Climate Change (IPCC) for national GHG inventories covering agriculture, forestry and other land use, and good practice guidance for land use, land use change and forestry. In close coordination with public sectors and the IDB, the Retainer will identify the current state as well as the needed investments to implement an internationally acceptable MRV system.
- 2.6 **Component 4: Institutional & legal assessment.** This component will undertake three assessments. In the first assessment, the consultancy firm or consortium will characterize current policies and legislative framework dealing with protection and management of forest resources. Specifically, this assessment will reveal: (i) what are the institutions responsible for implementing the objectives set in the policies and laws, and (ii) the level of authority established by the current policies and laws. In the second assess-

ment, the Retainer will examine the capacity of the institutions with respect to the mandate established by laws and policies. It is crucial to know the level of forestry law compliance in the country whether the on-going deforestation is legal or illegal according to the current legal framework established in the country. The third assessment is a gap analysis to understand what issues are not being covered by current policies, legislative framework, and current institutional capacity taking into consideration the current debate on requirements for an effective LULUCF program.

- 2.7 **Component 5: Social Assessment and inclusion.** In considering LULUCF mitigation options this operation will consider the relevant social factors pertaining to forest dwellers and users, as well as producers of forest by-products. In particular, this subcomponent will undertake an assessment of the relevant communities (e.g., indigenous communities, small farmers, agro-industries, etc.) affected by potential LULUCF mitigation activities. The assessment will serve to identify their needs and ensure that their voice is included in LULUCF-initiative processes via direct engagement and by helping public institutions responsible for these initiatives to better understand and engage these populations more effectively.
- 2.8 **Component 6: National accounts and financing and assessments for investment potential.** Once a plan of investments to implement a LULUCF program, with detailed direct costs, is available, the firm or consortium will study the opportunity costs of foregone revenues with protection of forest resources and compute a traditional cost-benefit analysis. The success of any LULUCF project will be measured by its ability to reduce GHG emissions and its operational costs, which in turn depends on economic trade-offs between benefits and costs of a national LULUCF program. The costs and benefits are likely to vary substantially across the LAC countries.
- 2.9 The firm or consortium may assist in identifying and develop plans for accessing financing options and opportunities for specific programmes and projects including through assessment of opportunities for promoting private sector investments, accessing existing international public financing (including FIP, GEF and IDB) as well as accessing carbon markets.

III. EXPECTED OUTCOMES

- 3.1 **Three to four LULUCF investment plans in LAC region.** These plans will lead to LULUCF type of financing and/or future loan and/or grant operations within the IDB. An additional expected outcome of this TC is the creation of a pro-active LULUCF policy dialogue among LAC countries, based on a solid document identifying country/specific problems related to deforestation and forest degradation; assessing the main building blocks for effective protection and management of forest resources; and that seeks to develop an action plan to tackle these problems. This TC will also help the IDB to position itself as an important player in LULUCF and forestry and agriculture issues in the context of climate change.
- 3.2 As a part of mainstreaming the Mitigation to Climate Change initiatives of the IDB, this project will also contribute to the following dimensions in which the proposed IDB intervention would provide value added:

- i. Improve Climate Change awareness and achieve more climate-friendliness in Bank loans and operations, which makes them more sustainable;
- ii. Leverage Inter-institutional platform INE/ECC has forged an ample working relationship with multiple government entities in member countries to address climate change (including Ministries/Agencies of Environment, Planning and Treasury)
Complement other sector activities (e.g. FIP and GEF), addressing concerns on complementary and coordination issues.

IV. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 4.1 The best way to respond to growing demand for LULUCF-related programs in the IDB is to define an umbrella initiative in order to set priorities, create enabling conditions, and support initiatives that can lead to better protection and management of forests. Both ECC and RND have an overlapping interest and mandate on this topic that has led to a joint initiative between the two of them since it will optimize the IDB's capacity to respond to countries' climate change mitigation needs through agriculture, protection and management of forest resources and land-use changes in general. Therefore, this TC will be executed by the IDB and directly coordinated, managed and supported by INE/ECC in close collaboration with INE/RND. The IDB will be responsible for supervising and monitoring as well.
- 4.2 INE/ECC will have the basic responsibility of supervising and monitoring the TC's activities as well as the contracting of the consultancy firm. All consulting services required for execution of this program will be hired in accordance with standard Bank procedures for the selection and hiring of Consultants (document GN-2350-7).
- 4.3 With the resources of this TC, a consultancy firm will be hired under the modality of *retainer*. The "retainer" modality is a relatively recent practice which has found application in those cases where the Bank needs to provide a series of precisely defined and highly technical advisory services to clients in areas where there are not many specialized consultants or companies. Due to the relative lack of available expertise in the region, and the comparatively short time span in which this expertise should be made accessible to clients, the modality has shown to be an effective service delivery mechanism.
- 4.4 This modality of hiring *retainer* will allow the IDB as well as the eligible member countries to have access to technical services from a highly specialized consulting firm (*retainer*) until the maximum available amount in the TC is reached. The selection of requests will follow SECCI and IDB's eligibility requirements. Each request of activity from the beneficiaries will be obtained through a country representative, who then will pass that request to INE/ECC. INE/ECC will prepare an order of Work ("Task Order") in which it will specify the type and duration of the work, the remunerated amount and expected products. There is no limit of task order requests in each specific component of this TC.
- 4.5 The beneficiaries of this TC will be governments and public entities responsible for protection and sustainable management of forests in IDB borrowing member countries. Member countries with existent projects that will have positive or negative impacts in

deforestation and degradation and where climate change is part of their country strategy will be considered eligible to get access from the resources of this TC and they need to comply with the SECCI eligibility requirements. Requests will be analyzed according to the order in which they are received, their geographic presence within LAC, characteristics of the project, and other factors such as Greenhouse Gas (GHGs) emissions reduction (i.e., rates from deforestation and sustainable land management); potential institutional capacity building (e.g., land management, integration, MRV[Monitoring, Reporting and Verification]); degree of relationship between IDB and the government; and short and long-term opportunities to increase LULUCF operations in the selected country among others.

V. COST AND FINANCING

A. Description and sources of funding

5.1 Based on the activities described in this profile and the number of countries to be covered under the proposed operation, the budget for this TC has been estimated at US\$ 986,000 of which US\$830,000 will be financed with resources of the Sustainable energy and Climate Change Multi-donor Trust Fund (MSC) on a non-reimbursable basis, and US\$156,000 will constitute the local counterpart contributions to be provided by participant governments. To this end, each beneficiary country will provide a minimum of 20% of the total costs associated with the Program's activities, to be specified in the task-order to be considered under the retainer contract. The counterpart contribution can be in-kind.

5.2 Budget table

Program resources will be allocated according to the following estimated budget:

Activities	IDB US\$	Local (20%)= in kind US\$	Total US\$
1. REDD-Readiness support in selected countries	780,000	156,000	936,000
2. Contingencies	50,000	-----	50,000
TOTAL	830,000	156,000	986,000

VI. M

AJOR ISSUES

6.1 In order to manage risks, the IDB will establish a strong policy dialogue based on-the-ground technical assessments. It also strongly recommended a stepwise approach, focusing, in early stages, on capacity building and national-level strategies in the early stages, and then proceeding to performance-based payments for ecosystem services at scale where possible, with a strong focus on incentives.

- 6.2 This TC presents two main risks. The first one is related to the number of tasks that could be submitted. The number of tasks presented could be too high, it could overwhelm the screening capacity of team. To mitigate this risk, a project assistant has been assigned to support the team. Alternatively this number could be too low. To mitigate this risk, this TC has a component to promote comprehensive LULUCF mitigation options with policy dialogue (see par. 2.2 above).

VII. ACTION PLAN

- 7.1 The plan of operation will be presented for approval in April 2010 with following action plans.

Activities	2010A	2010B	2011A	2011B	2011A
• Contract with Retainer(s)	X				
• Policy Dialogue	X				
• Work plan for Task orders	X				
• Implementation of Task orders	X	X	X	X	
• Monitoring / Track records		X	X	X	
• Evaluation / Final products					X

VIII. MONITORING AND EVALUATION

- 8.1 The primary monitoring responsibility of the operation during its execution lies with the INE/ECC. INE/RND will support the execution and monitoring of the operation.
- 8.2 During the TC's execution, several administrative and technical missions will take place as to assess progress. These missions will take place in close cooperation with the local institutions involved in the Project as well as the retainer(s). As a result of these missions, any necessary operation changes will be prescribed in order to comply with the Project requirements.
- 8.3 The progress reports written by the Project Team every 3 months, will propose lines of action to overcome any problem thus far encountered in the development of the Project.
- 8.4 There will be a midterm evaluation conducted by independent consulting firm hired per IDB policy.

IX. ENVIRONMENTAL AND SOCIAL STRATEGY

- 9.1 Since the technical cooperation focuses mainly on consultancy services, workshops, and reports, no environmental or social impact is expected from the execution of the TC. The project team proposes a “C” categorization under the safeguard screening form 2009000291.

X. CERTIFICATION

- 10.1 I hereby certify that this operation was approved for financing under the for Sustainable Energy and Climate Change Initiative Fund Trust (SECCI-MSC), through a Eligibility Act #0058-2009 of the SECCI Committee dated August 11, 2009. Also, I certify that resources are available from the Fund for Sustainable Energy and Climate Change Initiative (SECCI-MSC) for up to an amount of USD830,000, in order to finance the activities described and budgeted in this document. These certification reserves resources represented for the referenced project for a period of four (4) calendar months, starting from the date of approval of the funds. If the Project were not to be approved by the IDB within this period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US Dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this Plan of Operations. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.