

TC Document
RG-T2158
Performance Funds for the Protection and Recovery of Climate Services

I. Basic Information for TC

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| ▪ Country/Region: | REGIONAL |
| ▪ TC Name: | Performance Funds for the Protection and Recovery of Climate Services |
| ▪ TC Number: | RG-T2158 |
| ▪ Team Leader/Members: | Gloria Visconti (team leader), Elizabeth Cushion (co-team leader), Juan Chang (INE/CCS), Angelo Angel Gomez (INE/CCS), Michele Lemay (INE/RND), Sebastian Miller (RES/RES), Sebastian Hack (VPS/ESG), Guillermo Eschoyez (LEG/SGO), Liza Lutz (LEG/SGO) |
| ▪ Date of TC Abstract authorization: | April 2, 2012 |
| ▪ Type of TC: | Research and Dissemination |
| ▪ Donors Providing Funding | Sustainable Energy and Climate Change Multi-Donor Fund |
| ▪ Beneficiary: | All IDB borrowing member countries |
| ▪ Request/non-objection | Before carrying out any of the workshops proposed in this TC in the territory of any borrowing member country, the Bank will obtain the non-objection of the pertaining local authorities. |
| ▪ Executing Agency and contact name: | IDB, through the Climate Change and Sustainability Division (INE/CCS) |
| ▪ IDB Funding Requested: | \$500,000 |
| ▪ Local counterpart funding, if any: | n/a |
| ▪ Disbursement period: | 24 months |
| ▪ Required start date: | May 30, 2012 |
| ▪ Types of consultants: | Firm and Individual |
| ▪ Prepared by Unit: | INE/CCS |
| ▪ Unit of Disbursement Responsibility: | INE/CCS |
| ▪ TC Included in Country Strategy (y/n): | n/a |
| ▪ TC included in CPD (y/n): | n/a |
| ▪ GCI-9 Sector Priority: | Promotion of Sustainable Energy, Environment and Climate Change |

II. Objectives and Justification of the TC

- 2.1. The objective of this TC is to develop the necessary knowledge and information needed to define and test an instrument that can be deployed using a carbon proxy to capture the market potential for climate-based products and services.
- 2.2. The Latin-America and Caribbean region (LAC) is among the richest in carbon sinks. The eastern piedmont of the Andes may have the richest concentration of terrestrial carbon anywhere on the globe.

Various studies have indicated that South America alone accounts for about one third of the remaining natural carbon stocks and that these stocks are associated with complex and still relatively pristine terrestrial biomes. These biomes provide a valuable climate service by helping to regulate global flows of atmospheric carbon and water. The region contains close to 800 million hectares of forested areas, 570 million hectares of savannas, 700 million hectares of productive lands and more than a quarter of the planet's available drinking water.

- 2.3. Despite their global importance and the importance to LAC economies and livelihoods, the region's carbon sinks and the climate and biodiversity services they provide are increasingly threatened. Key threats include, but are not limited to: land use change, ecosystem fragmentation, insufficient valuation of climate goods and services, weak and ineffective institutions and governance, climate change, and invasive species. LAC is a major agricultural exporter and agriculture is a key sector in many of the region's countries, if not the major economic driver. Land conversion to agriculture has led to the degradation and deforestation of ecosystems across the region. Growth of cities and other infrastructure (such as roads and coastal urban and tourism development) as well as sectors such as mining and commercial fishing degrade the region's natural environments.
- 2.4. Carbon instruments, such as the one proposed in this operation, can be used to generate incentives for the promotion of biodiversity. Rather than measuring (ecosystem, species) biodiversity, the reason for implementing these instruments is to generate financial incentives which will reduce pressure on forests and other biodiversity-rich regions. This may be done by using carbon accounting to measure the performance of actions for reducing deforestation and forest degradation in order to allocate payments (incentives).
- 2.5. The concept of a carbon proxy will be studied in-depth in the Madre de Dios region of Peru due to the critical biodiversity contained within the region which is in competition with the considerable degradation pressures facing the area. Pressures from illegal and informal mining, migratory agriculture, gas and oil exploitation, and unplanned migration and development are combined with increasingly open access resulting from the completion of the Inter-Oceanic Highway. For this reason, the Madre de Dios region is a critical location for carrying out in-depth studies to begin testing a carbon instrument.
- 2.6. By using the approach presented in this TC, regions that effectively demonstrate reduced rates of deforestation and forest degradation could account for emissions reductions from these sources at a national level, and therefore may participate in a future global agreement on reducing emissions from deforestation and forest degradation (REDD). The focus on high conservation value areas and biodiversity corridors could make these "carbon units" more attractive by providing financial incentives. This approach will also promote sustainable land use alternatives for the improvement of local economies while at the same time reducing pressures on the forest in advance of a potential negotiated global agreement.
- 2.7. This TC contributes to the following GCI-9 lending targets: climate change, sustainable (including renewable) energy and environmental sustainability and also corresponds with one of the eight priority sectors identified for IDB in addressing climate change (ecosystem management and biodiversity).¹

¹ Integrated Strategy for Climate Change Adaptation and Mitigation, and Sustainable and Renewable Energy. March 2011.

- 2.8. Additionally, this TC will be closely linked to the IDB's new Biodiversity Platform (BK-C1097) by providing support for its development and conducting background studies for topics which could form a part of its future activities. The Biodiversity Platform is aimed at helping countries of the region achieve more effective policies and investments in biodiversity conservation and the maintenance of ecosystem services, while opening new economic and business opportunities for enhancing the value of the Region's natural capital as a contribution to sustainable development. This Platform will be presented as a proposal at the Rio+20 UN Conference on Sustainable Development in June 2012, and is scheduled for presentation to the IDB Board of Directors in December, 2012.

III. Description of activities/components and budget

- 3.1. The objective of this TC is to generate the necessary knowledge and information needed to define and test an instrument that can be deployed using a carbon proxy to capture the market potential for climate-based products and services, thereby maintaining and enhancing the richness of the regions' forest ecosystem integrity. This will be achieved through studies that help to define the concept of a carbon proxy instrument by identifying similar instruments that are already in use and lessons learned from these experiences as well as opportunities for pilot testing the approach. Specifically, the TC will evaluate the legal, technical and economic feasibility of developing and mainstreaming carbon instruments as a means to generate incentives to promote biodiversity in LAC countries. In addition, location specific studies will be conducted in Peru's Madre de Dios region to gather the necessary information for a local approach.
- 3.2. For this purpose, specialized consulting services will be hired in order to develop detailed country-level studies and to build upon existing information on existing carbon instruments which support the protection of biodiversity. The studies will take into consideration ongoing work by the IDB as well as other institutions, including the outcomes of an analysis that IDB is developing jointly with GIZ (Project Number 2010.2195.5-00.100).
- 3.3. The TC "Performance Funds for the Protection and Recovery of Climate Services" has three components with associated activities:
- 3.4. ***Component 1: Design of a regional carbon proxy instrument:*** This component will finance consulting services aimed at identifying the major requirements and constraints associated with generating financial incentives to promote biodiversity. Activities will include: (i) identifying existing market-based and performance-based carbon approaches to biodiversity conservation; (ii) identifying successful projects and programs which use carbon as a proxy; and (iii) evaluating existing regulatory barriers for implementing a carbon instrument at a country level.
- 3.5. The outcome of Component 1 will be a series of specialized studies that will support the structure of a carbon proxy instrument, to provide financial incentives for the promotion of biodiversity. These studies will evaluate legal, technical and economic considerations for the introduction of such instruments in target countries. The results of the individual studies will be further evaluated to identify similarities.
- a. Activity 1.1. Identify existing market-based and performance-based carbon approaches for biodiversity conservation. REDD+ and some commodity certification systems are examples of

market-based carbon initiatives that have clear environmental protection indicators. Before the introduction of a new instrument, analyses of successful and non-successful initiatives as well as the current voluntary carbon markets are required. This activity will provide background information on the feasibility of introducing a carbon instrument, based on similar experiences. Consulting services will be hired to produce an inventory of previous and ongoing initiatives by governments, NGOs, multilateral organizations, the private sector and civil society and to compile the lessons learned as well as a market evaluation and analysis, including internal markets and bilateral agreements. Special emphasis will be placed on those initiatives that have benefited from the voluntary carbon markets and fund-based approaches. Although examples may be gathered from international experiences, a special emphasis should be placed on the Latin American and Caribbean Region.

- b. Activity 1.2. Identify successful country projects and programs which use carbon as a proxy. On the basis of the study performed under Activity 1.1., a further analysis will be conducted by consultants to select previous and ongoing experiences in which carbon has been used as proxy to measure the performance of a biodiversity conservation or restoration project. The analysis will detail experiences from conservation NGOs or multilateral organizations, and compile their lessons learned as part of the preparation of such projects. Special attention will be given to those experiences that have developed clear monitoring mechanisms and that use defined indicators to measure success.
- c. Activity 1.3. Evaluate existing regulatory barriers at a country level, for the introduction of a carbon instrument. A thorough analysis of the legal ramifications of introducing a new or modified biodiversity-rich carbon instrument will be conducted in order to avoid conflicts with existing environmental and social laws. Consulting services will be hired in order to identify 3-4 countries in the LAC region where such an instrument could be feasible, evaluate relevant country legislation as well as provide an analysis of barriers and opportunities at the country level.

3.6. Component 2: Design of a biodiversity-rich carbon instrument in Peru. This component will provide the baseline information needed to develop an instrument for reducing deforestation and land degradation and enhancing forest recovery in the area surrounding the Inter-Oceanic Highway in the region of Madre de Dios, Peru. This component will conduct studies which focus on: (i) identification of land uses and property rights in the region; (ii) stakeholder surveys; (iii) identification of appropriate pricing mechanisms, and; (iv) calculating the opportunity costs associated with protecting biodiversity in the region. The products of this component will be several studies and analyses that outline the issues described here as well as a regional workshop to be carried out in Peru, to verify and distribute the study results. Activities under this outcome may be grouped under single consulting contracts.

- a. Activity 2.1. Analysis of land use, drivers of deforestation, and property rights in the region. A study will consolidate all of the available research on the drivers of deforestation in the zone surrounding the Inter-oceanic Highway. The study will also gather all available data to establish a map of existing high conservation value areas in the same region and will identify the forest areas under the most severe threat of degradation and deforestation. Finally, the

study will seek to identify the potential carbon instrument beneficiaries (which could include individuals as well as formal or informal organizations) and conduct a desk analysis to identify any land use and/or land tenure mapping that has been carried out in the region.

- b. Activity 2.2. Stakeholder identification. An assessment will be carried out to identify all actors in the region, including carbon instrument beneficiaries, authorities, institutions, native communities associations, private companies, etc and should build upon previous studies, including those by CIAT. In addition, a household survey will be conducted to determine the principle income generating activities for identified stakeholders in the area surrounding the Inter-oceanic highway who will benefit from carbon proxy payments. The survey will focus on activities that contribute to deforestation and forest degradation in the surrounding area.
- c. Activity 2.3. Identification of appropriate pricing mechanisms. A variety of mechanisms will be compared for use in the region: marketing conservation carbon assets (carbon sinks with a high associated biodiversity value) versus road tolls or others. Additionally, carbon contract options and benefit sharing mechanism will be compared in order to identify the best mechanism for delivering payments to the beneficiaries.
- d. Activity 2.4. Calculating the opportunity costs associated with protecting biodiversity in the region. A land opportunity cost analysis will be conducted to determine a carbon price that will reflect the value of biodiversity and compete with revenue from alternative, unsustainable, extractive activities associated with the drivers of deforestation and biodiversity degradation. This study will provide critical information regarding the monetary value of a carbon proxy at or near a point where alternative land uses would be discouraged.

3.7. **Component 3: Support to the Biodiversity Platform.** This component will support the link between the definition and testing of an instrument that can be deployed using a carbon proxy and the areas of intervention to be identified under the Biodiversity Platform. An individual consultant will be hired in order to provide expertise and advice for organizing four regional dialogues and one dialogue in Washington, DC, which will provide critical feedback for the Biodiversity Platform. As a part of this process, the possible inclusion of the carbon proxy concept within the scope of the Biodiversity Platform will be raised.

Indicative Results Matrix

| Indicative Results Matrix | | | | | | |
|---|-------|----------|------|---------|---------|--------------------------|
| | Unit | Baseline | | Year 1 | Year 2 | Expected Completion Date |
| | | Value | Year | Planned | Planned | |
| Component 1: Design of a regional carbon proxy instrument | | | | | | |
| Activity 1.1. Identify existing market-based approaches for biodiversity conservation | study | 0 | 2012 | | 1 | Q1 2014 |
| Activity 1.2. Identify successful country projects and programs which use carbon as a proxy | study | 0 | 2012 | | 1 | Q3 2013 |

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|---|-------------------------|---|------|---|---|---------|
| Activity 1.3. Evaluate existing regulatory barriers at a country level, for the introduction of a carbon instrument | study | 0 | 2012 | | 1 | Q3 2013 |
| Component 2: Design of a biodiversity-rich carbon instrument in Peru | | | | | | |
| Activity 2.1. Analysis of land use and property rights in the region | study | 0 | 2012 | 1 | | Q4 2012 |
| Activity 2.2. Stakeholder surveys | Number of surveys | 0 | 2012 | | 1 | Q1 2013 |
| Activity 2.3. Identification of appropriate pricing mechanisms | study | 0 | 2012 | | 1 | Q3 2013 |
| Activity 2.4. Calculating the opportunity costs associated with protecting biodiversity in the region | study | 0 | 2012 | 1 | | Q4 2013 |
| Component 3: Support to the Biodiversity Platform | | | | | | |
| Support to the regional dialogue process | Number of consultations | 0 | 2012 | 5 | | Q4 2012 |

Indicative Budget

| Component | Description | IDB Funding | Counterpart Funding | Total Funding |
|------------------|---|--------------------|----------------------------|----------------------|
| Component 1 | Design of a regional carbon proxy instrument | \$200,000 | 0 | \$200,000 |
| Component 2 | Field-testing a biodiversity-rich carbon instrument in Peru | \$200,000 | 0 | \$200,000 |
| Component 3 | Support to the Biodiversity Platform | \$100,000 | 0 | \$100,000 |
| Total | | \$500,000 | | \$500,000 |

IV. Executing agency and execution structure

4.1. The IDB will be the executing agency of this TC in response to the findings in the 2011 “Final Report to the Inter-American Development Bank” of the Independent Advisory Group on Sustainability, which was formed to review the Bank’s Environmental and Safeguards Compliance Policy (OP-703) and to identify ways by which the IDB could better support its borrowing member countries in achieving their goals of sustainable development. The report underlined the need for the IDB to protect critical biodiversity and enhance environmental governance in the region.

4.2. The activities included in this TC are aimed at providing the Bank and its borrowing member countries a better knowledge on the major requirements and constraints associated with generating financial incentives to promote biodiversity services. The Bank is the entity best positioned to carry out this work due to its ongoing engagement in the international climate dialogue through the ongoing implementation of REDD+-related programs including the Forest Carbon Partnership Facility and the Forest Investment Program. The research that will be conducted as a part of this TC will strengthen Bank’s knowledge to better understand the drivers and underlying causes of deforestation in the region

and implement corrective actions to preserve forests capital. The outcomes of the studies can also be used as inputs to support future international climate schemes where the IDB is providing a technical advisory role (i.e. Green Climate Funds).

- 4.3. The Climate Change and Sustainability Division (INE/CCS) will have the principal administrative and technical responsibility. Other Divisions will participate as a part of the project team that will support the technical supervision and monitoring.
- 4.4. **Procurement:** The Bank will contract all the consulting services and procurement of goods and services in accordance with the policies contained in Documents GN-2350-9 and GN-2349-9. The terms of reference for the consultancies and the procurement plan are included as Annexes.

V. Major issues

- 5.1. The risks associated with these activities are low. The main risks relating to the TC execution are related to the quality of deliverables to be developed. This will be mitigated by peer review and close supervision of the activities by CCS.

VI. Exceptions to Bank policy

- 6.1. None

VII. Environmental and Social Strategy

- 7.1. The Environmental and Social Classification for this project is Category "C." There are no projected negative direct or indirect social or environmental impacts associated with these activities. ([IDBDOCS-#36837996 - SAFEGUARD POLICY FILTER REPORT](#) and [IDBDOCS-#36837992 - SAFEGUARD SCREENING FORM](#))
- 7.2. Pursuant to Section 7.1 of the document GN-2470-2, the consultant outputs associated with this TC will be supervised and monitored by INE/CCS in collaboration with the other divisions participating in the project team in order to ensure that all results and outputs are obtained.

VIII. Required Annexes:

- 8.1. Annex I: Terms of Reference for activities to be procured
 - i. Annex I.A. "Support to identify requirements and constraints of developing a proxy instrument". ([IDBDOCS-#36835454](#))
 - ii. Annex I.B. "Análisis de la línea de base - Carretera Interoceánica". ([IDBDOCS-#36838011](#))
 - iii. Annex I.C. "Análisis de mecanismos de precio y determinación del pago por conservación de biodiversidad - Carretera Interoceánica". ([IDBDOCS-#36838016](#))
 - iv. Annex I.D. "Support for Stakeholder Consultations". ([IDBDOCS-#36838025](#))
- 8.2. Annex II : Procurement Plan ([IDBDOCS-#36838040](#))