

Alternative Financing Model for Sustainable Forest Management in San Nicolas, Colombia (Colombia)

Final report summary

PD 54/99 Rev.2 (F)

I. Introduction

The project was approved and fully financed by the Council at its Twenty-seventh Session in November 1999 in Yokohama, Japan. The Agreement regulating the implementation of the project was signed in September 2000. The first disbursement of funds was made in June 2001. A project Addendum with a budget for a six-month project extension was approved and financed in the amount of US\$ 83,704 at the Thirty-second Council Session in May 2002. This extension also served as a bridge between the current pilot project and its second phase, PD 240/03 Rev.1 “Alternative Financing Model for Sustainable Forest Management in San Nicolás – Second Phase: Non-Kyoto Rehabilitation Areas”. Further extensions of the project were then sequentially granted until January 2004, August 2005, August 2006, August 2007, June 2008 and June 2009 without additional funds in order to allow for the successful completion of the project.

II. Project Objective

This project seeks to curb the degradation of natural resources through the design of a financing model that combines the sustainable management of natural forests with alternative financing sources such as the contribution of various industrial sectors and the possible incorporation of the forest sector into the context of the Clean Development Mechanism. The project’s pilot area comprises a total of 72,367 ha of protection/production forests that are to be sustainably managed in a participatory manner with the local communities so as to ensure the equitable distribution of benefits generated by the project.

III. Project Achievements and Outputs

The Project was completed in June 2009. In accordance with the project document and the project addendum, planned activities were carried out during the project's lifespan and its achievements can be summarized by specific objectives as follows:

Specific objective 1: Develop an Investment and Financing Plan for the SFM Society in San Nicolas:

- An initial model developed by EMPA proposed the creation of a society based on shares that would be responsible for the sustainable management in accordance with a management plan established by the project. However, it became evident that this scheme was not an appropriate one for Colombia, as its legislation and types of land tenure made it impractical. Therefore, in the context of the definition of Environmental Shares, it was decided that the shareholder association to be established to manage the Environmental Shares be a non-profit corporation;
- 15 meetings were held with community leaders, NGOs and the educational and institutional sector to discuss the proposed non-profit corporation and the procedures for its establishment;
- In September 2003 the shareholder association was legally established as the Corporation for Sustainable Forest Management – MASBOSQUES;
- Environmental Shares (ES) were also redefined, as these were central to the financing mechanism, as an instrument to negotiate the environmental services different to carbon sequestration and the regulation of hydrological systems. As such, each ES represents the additional environmental services to the fixation of 1 ton of CO₂ and it was agreed that one ES would be sold for each unit of Verified Emission Reduction (VER) on the voluntary carbon market at a base price of US\$ 1.50;
- A second financial instrument developed was the Environmental and Social Recognition (ESR), by which the participation of national and international investors in a project aimed at the sustainable forest management in the San Nicolas valleys were recognized. This instrument was created to increase the interest of the potential investors and also of their corporate images;
- Two financing mechanisms were identified: Certificates of Emission Reduction (CER) for those areas eligible under the Kyoto Protocol (forest plantations, agroforestry, silvopastoral systems) and Verified Emission Reduction (VER) for forest conservation and restoration, which are directed at the voluntary carbon trade market;
- The baseline and the stage for the project were developed taking into account all the decisions taken at the UNFCCC COPs as well as the different alternatives presented in document FCCC/SBSTA/2003/5-7 and its annexes;
- A monitoring and verification plan was developed by EMPA for activities under both financing mechanisms in order to obtain data to be used in the estimation of carbon sequestration, to provide an incentive for professionals and farmers to improve forest management, to improve the existing models of estimation and update technical specifications and to obtain data for the analysis of environmental and socio-economic impacts;
- For both financing mechanisms, management activities were identified within the Forest Management Plan for San Nicolas and 15 workshops were convened to identify pilot areas;

- The carbon flows were defined based on the ECO2Forestry™, giving the project a timeline of 40 years plus another 10 years for the installation of the activities;
- CER and VER prices were estimated on a no loss/no gain basis for MASBOSQUES, in as long as it could cover the costs of its advisory, training and assistance programs, and on the plantation establishment costs required so that communities would not indebt themselves with loans;
- An analysis concluded that the best alternative was to use the “stock change” for an accreditation of 21 years as it generated the lowest prices for the CER (US\$ 5.30), making them competitive on the international market;
- Many potential investors were contacted. The Biocarbon Fund of the World Bank was the most promising due to the interest manifested by it in the project;
- In October 2007 the new methodology and monitoring baseline developed by the project was approved by the Forestry and Reforestation Working Group of the CDM Executive Commission under the title: Afforestation and reforestation baseline and monitoring methodology ARAM0009 “Afforestation or reforestation on degraded land allowing for silvopastoral activities”.

The next step is the validation process of the methodology, which to date has not been finalized. In this light, MASBOSQUES has assumed the responsibility of keeping track of the validation process of the methodology at the UNFCCC after project completion.

Specific objective 2: Formulate a Forest Resource Management Plan in coordination with the community:

- The management plan for the pilot area was developed in a participatory manner with the communities of 9 municipalities of the region and currently continues to be implemented. The plan has also been published and widely disseminated in the region.

Specific objective 3: Ensure the basic social and institutional conditions required for project implementation:

- The project’s objectives and activities were promoted through many workshops and seminars at the community level. A total of 695 people participated via local institutions such as the Municipal Environmental Management Units, the “Asocomunales” (community action groups within municipalities), local environmental NGO’s and the communities at large; and
- The project’s objectives and activities have been promoted through numerous national and international seminars and conferences.
- Overall, the project’s results have further been documented in several technical reports, publications, thesis and articles, and are also available on a freely available interactive DVD.

IV. Lessons Learnt and sustainability

Among the many important lessons learnt from the implementation of this project, the following can be highlighted:

- The implementation of the project took longer than expected, due mainly to the still unfinished Clean Development Mechanism (CDM) provisions and validation process within the UNFCCC. It should be emphasized, however, that the timing of the validation process was beyond the control of the project, and actually lied directly with the Kyoto process within the UNFCCC. As such, the Executing Agency has had to transfer this responsibility to MASBOSQUES for follow up after project completion;
- The sustainability of the project's activities hinges on the capabilities of MASBOSQUES in continuing with social process initiated in the region and in finalizing the validation process within the UNFCCC.

V. Concluding Remarks

Overall, the project contributed towards promoting and developing alternative financing mechanisms for sustainable forest management in Colombia. The ITTO Secretariat has received the Project Completion Report, many technical reports and publications and, once it receives the Final Financial Audit Report, this project will be reported as completed. Copies of the Completion Report and some other technical documents are available upon request from the ITTO Secretariat, as is an interactive DVD which conveniently contains all of the project's products and outputs, including maps, manuals, technical reports and audiovisual material.