1. Due to the fact that the role of avoiding deforestation for following commitment periods is not yet clear the potential emission reductions for conservation will be accounted separately in the pilot project

IV FINANCING CARBON SEQUESTRATION SERVICES

This section is dedicated to the potential for financing carbon sequestration services, and presents some experiences in this area. Margaret Skutsch reviews financing options for community forest management under the Kyoto Protocol and UNFCCC. Peter May of the Brazilian NGO Pró-Natura describes a practical carbon sink project based on community forest management in Mato Grosso. The social meaning of carbon sequestration activities and the institutional capacity building aspects of this green market, are illustrated by Miriam Miranda and co-authors, in the case of another carbon sink project in Costa Rica. In their article, Bruno Locatelli and Guillaume Lescuyer evaluate the potential for payment of carbon services in support of sustainable forest management in Cameroon, and relate this to outcomes of economic valuation. Finally, we refer to the article by Carmenza Robledo in Section III on environmental shares, aimed at financing carbon sequestration and other services

Access to finance for community forest management under the UNFCCC and Kyoto Protocol

By Margaret M. Skutsch

A previous article in ETFRN News reviewed the potential for funding for forestry under international climate agreements, particularly under the Kyoto Protocol (Skutsch, 2000). Since then, further negotiations have taken place and this article aims at giving an overview of the current situation.

Carbon mitigation projects

At the Conference of Parties in The Hague (COP6) in November 2000, the inclusion of sinks as a means of carbon mitigation was discussed. Despite initial opposition, this principle was accepted at COP6 part 2 in July 2001 in Bonn. On one hand, sinks have been accepted as a means of reaching CO_2 reduction targets in the North (with caps limiting this). In developing countries, afforestation and reforestation projects can also be included and financed under the Clean Development Mechanism (CDM). These activities, referred to as ARD projects (Article 3.3 in the Kyoto Protocol), can be used to offset up to one percent of the carbon emissions of an Annex I country [1] (UNDP, 2001).

Clearly, this provides scope for the financing of certain types of forestry projects in tropical regions. However, there are a lot of limitations. First of all, the modalities, rules and regulations as regards how a project can qualify for CDM status still have to be worked out, which will occur at COP9 in 2003. The peculiar situation has arisen that the decisions of COP7 in Marrakech in November 2001 give way for the immediate start of CDM projects, provided that these will meet the technical requirements to be decided upon in 2003.

Secondly, it is important how the terms 'afforestation' and 'reforestation', are interpreted. Article 3.3 is restricted to plantations and similar types of projects that involve a clear land use change, such as from non-forest use to forest, or from deforested areas back to forest. These definitions obviously leave room for multiple interpretations, which leads to continuous discussion [2] (IPCC, 2001).
Projects involving improved management of existing forest are at present not eligible for CDM status, as they are categorized as 'additional activities' (Article 3.4 in the Kyoto Protocol). This means that for example Joint Forest Management, and community forest management or cooperative forest management projects, where the objective is usually sustainable forest management of existing but degraded or degrading forest, cannot be funded as CDMs, at least during the first accounting period (2008-2012). This is unfortunate as such projects often have direct benefits to the local population, and therefore contribute more to local development than plantation schemes that tend to involve mono-cultures of fast growing species. In some cases, plantation projects have led to total exclusion of local people from the forest area, to safeguard the carbon stock. Even though more participatory and environmentally sensitive approaches are of course possible in such plantation projects, it is unlikely that these will be used: obviously the primary investment criterion for most Annex I countries, who are providing the funding, will be least cost carbon sequestration. Most ARD types of projects will probably not measure up to the kind of standards for sustainable forest management under CDM as proposed by CIFOR (2000).

Thirdly, there is the question of the practical availability of funds for CDM. The development of the market for CDM is still hard to predict, in particular now that the USA departed from the Kyoto agreement.

Bio-energy generation

An alternative route for CDM financing might be to manage forests for bio-energy in order to replace fossil fuel consumption. A simple example is provided by dendro-thermal electricity production. Projects based on existing forest could perhaps qualify not as sinks per se but rather as a form of alternative fuel supply, although the rules for this kind of mechanism are far from being agreed yet. A more complicated case could be argued by developing countries that sustainable management of forest for the production of fuelwood and other benefits could in itself represent a powerful means of carbon mitigation. At least 2 billion people use firewood or charcoal as their primary cooking fuels. Provided it is produced in a sustainable manner, the main energy use of these people can be carbon neutral. If forests are depleted, this will lead not only to the release of additional carbon into the atmosphere, but inevitably also to a long-term shift to fossil fuel consumption which is inherently unsustainable. There is an urgent need for research aimed at developing the approach of forest management for bio-energy generation and to bring test cases to the UNCCC. Even if pilot projects are not accepted in the current accounting period, they can pave the way for inclusion in the second.

Adaptation funds

Because of the initial belief that CDM would be a big money spinner, many foresters placed their hopes for major support to forestry in that line. In the long run however, the 'adverse effects' and 'adaptation' articles of the climate treaties provide better opportunities as far as forestry is concerned. These articles are intended to support projects or programs that counteract the adverse effects of climate change, particularly aiming at the more vulnerable countries.

An Adaptation Fund to be paid for by a percentage levy on all CDM projects had already been agreed at Kyoto and was recently set at 2% of the value of the carbon savings in CDM projects. At COP6 part 2, two new funds have been set up under UNFCCC: a Special Climate Change Fund, and a fund for Least Developed Countries (mostly in Africa). These are complementary to existing GEF funds and represent new money, that is to say money not already included in ODA budgets. The EU, Switzerland and Canada have pledged themselves to donate from 2005 onwards US$ 420 million per year to these funds, of which US$ 10 million is specifically to start up the Least Developed Countries Fund. However, contributions to these funds are made entirely on a voluntary basis.

The rules for qualification of projects as adaptation projects are even less defined than the rules for forestry under CDM but are likely to be much less stringent, as there will be no problems of leakage or lacking baselines, which have bothered the negotiations on sinks. Clearly all kinds of forest management activities could be justified in terms of adaptation to climate change, since forests can deliver such services as watershed protection and the regulation of hydrological cycles, diversification of local economies, etc. Projects that are primarily designed for adaptation are expected to fit better into the development policies of countries in the South and will probably get better accepted than CDMs, which are more demand-driven. Besides money for adaptation, the funds also cover technology transfer and assistance to various sectors. Although the funds on offer at this point in time are limited, the potential of adaptation projects certainly is worth exploring. Test cases need to be developed and submitted so that the boundaries of the possible become clear.

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1 Annex 1 (to the UNFCCC) is a list of all countries which have accepted carbon emission quotas, which include the OECD countries and Economies in Transition, Annex 11 countries are essentially the wealthier of this group including the EU countries, Switzerland, USA, Canada, Australia, New Zealand, Japan etc. The non-annex 1 countries are the developing countries that do not have emission quota (yet).

2 The IPCC's perferred definitions are - afforestation -"planting of new forests on land which, historically, have not contained forests" and - reforestation - "planting of forests on lands which have, historically,previously contained forests but which have been converted to some other use". What percentage of tree cover is recognised as "forest" is a thorny problem still.

CDM and sustainable land reform in the Brazilian Amazon

By Peter H. May

As a response to the landless peoples' movement that has aroused worldwide sympathy, thousands of families have received forest lots in the Brazilian Amazon