

TECHNICAL COOPERATION PROFILE

(CO-X1008)

I. BASIC PROJECT DATA

Country:	Colombia
Program Name / Number:	Preparation of Full-Sized GEF Project “Mechanism for Voluntary Mitigation of Greenhouse Gas Emissions in Colombia” (CO-X1008)
Team Leader and Members:	Duval Llaguno, Team Leader (RND/CEC); Carolina Jaramillo (INE/RND); Axelle Boulay (INE/RND); Luisa Fernanda Lema (RND/CCO); Carlos Echevarría (INE/ENE); Francisco Arango (INE/ECC); Roberto Esmeral(ECC/CCO) y Rosario Gaggero (INE/RND).
Date of Request:	March 17, 2010
Beneficiaries:	<i>Fundacion Natura</i> , the Ministry of the Environment, Housing, and Land Development (MAVDT), the National Council for Sustainable Business (CECODES) and the National Stock Exchange (BVC).
Executing Agency:	<i>Fundacion Natura</i>
Name of the Fund:	Global Environment Facility - GEF
Financing plan:	GEF (non-reimbursable): US\$ 2,700,000 Local: <u>US\$ 7,616,000</u> Total: US\$10,316,000
Tentative dates:	GEF Approval January 2011 IADB Approval February 2011 Implementation start April 2011 Mid-term review April 2013 Implementation completion April 2015

II. BACKGROUND AND PROBLEM STATEMENT

- 2.1 Although Colombia’s contribution to Global Greenhouse Gas (GHG) emissions is marginal (approximately 0.37% of the world’s total), between 1990 and 2004 its emissions increased by 39%, reaching an approximate of 180.01 million tons of CO₂ equivalent, primarily from the agriculture (38.09%) and energy (36.65%) sectors. AT 336,000 ha/year, the extent of annual deforestation in Colombia is undoubtedly one of the country’s major sources of emissions, estimated at 9.24% of the total estimated emissions.
- 2.2 Beginning with its ratification of the UNFCCC through Law 164 of 1994, Colombia has made progress in addressing the issue of climate change. In 2000, it formulated a national strategy study for implementing the Clean Development Mechanism (CDM); has submitted two National Communications to the

- UNFCCC, has created a portfolio of 125 projects under the Kyoto Protocol's Clean Development Mechanism (CDM) with a potential for 15,041,501 tCO₂e (carbon equivalent tons), and has been formulating and implementing policies and programs to encourage a reduction in GHG emissions at the sector level (i.e. National Cleaner Production Policy, 2003; National Energy Plan, 2007; Low-carbon strategy 2011). In addition, the Colombian government developed an institutional strategy for the sale of environmental services for climate change mitigation (Document CONPES 3242 of 2003). This strategy, designed to support climate change policy guidelines and promote CDM projects now under way, is currently under review and is expected to be approved in late 2009. The plan also includes support for the development of corporate capacity to devise projects of this nature.
- 2.3 Despite these advances in the generation of policy and capacity building for climate change mitigation efforts, Colombia lacks an institutional and incentives framework that can facilitate a comprehensive approach to the promotion and support of voluntary mitigation efforts, particularly for the private sector.
 - 2.4 A study commissioned by Fundacion Natura for a preliminary mapping of the potential in Colombia for a carbon offsets market indicated a growing interest from national companies on carbon foot-print measurement, mitigation and offsetting. This preliminary study was deepened during the project preparation stage in 2010, when companies in a sample of forty-two public and private institutions were interviewed to diagnose the status and potential national demand of Voluntary Emission Reductions (VERs) in Colombia. Preliminary results of such assessment confirm that the current demand for VERs in Colombia is low, although all institutions interviewed acknowledged that climate change is a fundamental issue for the country and for their corporate strategy. A majority of the interviewed companies agree on the lack of basic know-how of climate change issues and how to address them, as well as on available resources to support the private sector develop integral climate change strategies. Almost all companies are in initial stages regarding their climate change policy. Yet, some have begun to measure their carbon footprint based on recognized methodologies (GHG Protocol), but very few have progressed further than such measurement. Nearly all companies interviewed reported that they monitor indicators related to consumption of electricity, water, gas, fuel and other relevant inputs pertaining to the specific industry, yet few know what type of additional data is required for establishing their carbon footprint.
 - 2.5 Moreover, companies interviewed identified primary barriers to the development of an integral climate change strategy, including: (i) lack of public awareness; (ii) lack of internal knowledge; (iii) financial burden; and (iv) existence of other higher priorities in their corporate environmental policies and objectives. These answers were essential to the identification the areas that must be targeted to make GHG mitigation activities an attractive option for Colombian private and public institutions. In addition to these barriers, the preparation studies identified that trading corporate participation in the voluntary carbon markets is very limited due to the high transaction costs, lack of familiarity with the subject matter and

procedures, technical barriers, and inability to guarantee the quality and credibility of the emission reductions offered. In this context, the proposed project seeks to develop a mechanism for promoting and facilitating voluntary GHG emissions mitigation and offsetting in Colombia.

A. Goal and purpose

- 2.6 With the purpose of developing a market-based mechanism to promote voluntary mitigation and offsetting in Colombia under the principles of transparency, credibility and competitiveness, the proposed GEF project will finance activities grouped under three components: (i) creation of a Colombian-based market platform for Verified Emission Reduction (VERs) units that can be accessed by companies and institutions, both nationally and internationally; (ii) validation, registration and verification of a nationally-based stock of VERs generated by a portfolio of agriculture, forestry and/or reduced emissions from deforestation and degradation (REDD) projects in Colombia; and (iii) creation and implementation of a nationally-based program for corporate and institutional voluntary mitigation and offsetting activities.

B. Major components, activities and expected outputs

- 2.7 This TC will finance the following activities under each component:

2.8 **Component 1 – Creation of a Colombian-based market platform for Verified Emission Reduction (VERs) units.** Activities to the formulation and operation of this platform include: (i) a technological platform (exchange) for trading nationally-generated VERs accessible to domestic buyers/sellers and international buyers, operating at a pilot operational stage. The platform might comprise of: a carbon-related information system, a toolbox available to all the platform's stakeholders, a registry interface connected to international registries, and a transactional platform; (ii) an institutional and governance arrangement to guarantee the quality, transparency and traceability of the nationally-generated VERs and their commercial transactions; (iii) a strengthened national procedure for emission reduction approval that brings together CDM and voluntary market projects, ensuring a single accounting system for all reduction units traded per project; (iv) a national dissemination and education campaign oriented to companies, institutions and the general public on the VERs exchange platform and the opportunities for suppliers and buyers; and (v) a business plan and an operational structure designed for the VER trading mechanism.

2.9 **Component 2 – Validation, registration and verification of a nationally-based stock of VERs generated by agriculture, forestry and/or REDD projects in Colombia.** This component includes: (i) creating a portfolio of at least 5 forestry, agro-forestry or REDD projects in at least two different regions in Colombia that have been validated, registered and are generating VERs that can be traded on the national platform and/or international markets; (ii) a capacity building program on carbon accounting and monitoring tools and methodologies, including open software training for GIS analysis and GIS technical skills and on project development, validation and verification for project developers, promoters, communities, local environmental authorities, and Colombian

certification/verification/ inspection institutions, devised and under way, and information generated and disseminated about native species' potential for carbon capture and its use in VER methodologies; (iii) a toolbox for supporting the diffusion and implementation of the most appropriate voluntary carbon standards for forest-related projects in Colombia compatibles with the sustainable development criteria created by the Colombian National Authority developed.

- 2.10 **Component 3 – Diagnosis of international and national programs and approaches on corporate voluntary GHG mitigation:** The resources allocated to this component will finance the hiring of consulting services to carry out the following activities: (i) a review of similar experiences in other countries, with special emphasis in Central and South America; (ii) a review of the state of affairs of corporate carbon footprint mitigation and offsetting in Colombia, including identification of financial or other institutional incentives or programs and support mechanisms; (iii) an assessment of the institutional capacity, at the national level, to support voluntary mitigation actions and practices; (iv) an assessment of corporate emission baseline and potential reduction; and v) recommendations for the preparation of a corporate mitigation and offsetting program based on cost-effectiveness analysis, including a baseline assessment and performance/result indicators, terms of reference of project activities, and detailed budget. In addition, demand for such VERs will be promoted through the establishment of GHG mitigation and offsetting program for large-scale, high-impact companies and other relevant entities interested in advancing their climate change mitigation agenda.

III. COST AND FINANCING

- 3.1 The total cost of this Technical Cooperation is estimated at US\$10,316,000, to be financed up to US\$2,700,000 with resources form the Global Environmental Facility -GEF on a non-reimbursable basis, and US\$7,616,000 as local counterpart resources. This amount will be provided by the Executing Agency and the various stakeholders participating in the project (MAVDT, IDEAM, CECODES, and BVC).

Components	GEF	Local Counterpart	Total
Component I	\$250,000	\$250,000	\$500,000
Component II	\$1,600,000	\$6,366,000	\$7,966,000
Component III	\$600,000	\$600,000	\$1,200,000
TOTAL	\$2,700,000	\$7,616,000	\$10,316,000
Percentage	38%	62%	100%

IV. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 4.1 **Executing Agency.** The executing agency for the proposed project is Fundacion Natura, established under Colombian law as a non-profit private organization for public benefit. Fundacion Natura has over 25 years of experience as a leader in Colombia in the contribution to biological diversity and the quest for sustainable uses of natural resources. It also has a wide experience as a certifier for

environmentally certification programs, making it keen to private sector sustainability endeavors and challenges. The organization has worked for several years in the promotion and development of climate change mitigation projects associated to land use and land use change, as well as in carbon footprint offsetting through its carbon bank initiative. It has proved to be highly reputed in both the private and public sector, and possesses the competitive advantage for the implementation of this project of bridging both sectors and being able to foster market responses as well as policy reactions.

- 4.2 All technical and execution responsibility is under the Vice Direction of Local Development of Fundacion Natura. All Bank's procurement policies and procedures indicated in documents GN-2350-7 (Consultants Policy) and GN-2349-7 (Goods and Services) will be followed, with support provided by the Environment, Rural Development and Disaster Risk Management Division (INE/RND) of the Bank, and the Country Office (CAN/CCO) during the execution.

V. SUPERVISION

- 5.1 A project executing unit (PEU) will be conformed by, at least, a Project Coordinator, an accountant and a technical expert, and will be established for purposes of project execution. The establishment of the PEU and the hiring of its personnel will be a condition prior to first disbursement of GEF resources. Under the supervision of Fundacion Natura, and with the support of INE/RND staff in the country office, the PEU will be responsible for the execution, supervision and monitoring of the project's plan of activities. The project coordinator will be responsible for keeping the local partners (including MAVDT, IDEAM, CECODES, and BVC) engaged in project activities and evolution. The supervision of the operations will be carried out by the assigned country office specialist of INE/RND or whoever this person delegates.

VI. ISSUES

- 6.1 The value added and sustainability of the mechanism is subjected to the success of the project in promoting the supply and demand of Colombian generated VERs. Considering that the initial demand will be low, the project will have to adopt a strategy to promoting an international demand of Colombian VERs that will support the infrastructure to be developed through the project. Given that the demand and supply of VERs responds to different circumstances and obstacles, the project requires a fine coordination of all of its components for its successful implementation. To mitigate this risk, Fundación Natura will have to establish memorandums of understanding with each of the executing partners in order for the project to assure a timely and adequate execution. The details of the execution arrangements will be provided in the Plan of Operations. In addition, the cost-effectiveness of the project will have to be demonstrated throughout the preparation phase and will be included in the plan of operations.

VII. ACTION PLAN

- 7.1 The plan of operations will include a detailed budget and plan of activities, execution arrangement, procurement plan and indicative terms of reference for the

primary consultancy services to be contracted with the proposed project. The plan of operations will also include the results of the different studies that will help refine the design and scope of each component, including a monitoring and evaluation plan.

VIII. ENVIRONMENTAL AND SOCIAL STRATEGY

- 8.1 This operation has been classified as a “C” type, according to the Safeguard Classification Tool. The project is primarily focused on generating climate change mitigation and ecosystem protection, hence contributing to the environmental sustainability of Colombia. Criteria for the selection of projects and a strategy for the involvement of stakeholders will be developed during the preparation phase, including social equity and gender considerations. Hence, this operation is not anticipated to have negative direct environmental or social impacts.

IX. APPROVAL

(Original firmado)
Vo.Bo. _____
Hector R. Malarin, Chief INE/RND

Nov/05/2010
Date: _____

(Original firmado)

Alexandre M. Rosa, Manager INE/INE

Nov/05/2010
Date: _____