

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: 76283

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<b>Project Name</b>	Commercial Reforestation on Lands Dedicated to Extensive Cattle Grazing Activities in the Region of Magdalena Bajo Seco
<b>Region</b>	Latin America and Caribbean
<b>Country</b>	Republic of Colombia
<b>Sector</b>	Forestry
<b>Lending Instrument</b>	The Project does not involve Bank lending. This carbon finance transaction is based on the purchase of Certified Emission Reductions (CERs) in the amount of 888,000 tCERs until 2012 with the option of 400,000 additional tCERs post 2017.
<b>Project ID</b>	P132851
<i>{If Add. Fin.}</i> <b>Parent Project ID</b>	N/A
<b>Borrower(s)</b>	
<b>Implementing Agency</b>	ONFI
<b>Environmental Screening Category</b>	{ }A {X}B { }C { }FI
<b>Date PID Prepared</b>	March 22, 2013
<b>Estimated Date of Appraisal Completion</b>	March 26, 2013
<b>Estimated Date of Board Approval</b>	April 26, 2013
<b>Decision</b>	Project authorized to proceed to negotiations upon agreement on any pending conditions and/or assessments.
<b>Other Decision</b> <i>{Optional}</i>	<u>Teams can add more if they wish or delete this row if no other decisions are added</u>

**I. Country Context**

- Climate change impacts pose a growing threat for Colombia.** The Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report predicts that under business as usual scenarios, temperature increases in the LAC region (compared to 1961-1990) could range from 0.4°C to 1.8°C by 2020 and from 1°C to 4°C by 2050 (Magrin and Nobre, 2006). These projections, derived from global circulation models, also forecast changing precipitation patterns across the region.<sup>1</sup> A change of this magnitude is unprecedented and will result in significant impacts to be felt at a global scale.

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<sup>1</sup> Christensen et al. (2007).

2. **The Colombian economy is particularly dependent on agriculture** which for the most part is projected to be severely impacted by potential changes in climate (with impacts occurring due to both temperature and precipitation changes). A large portion of agro-ecosystems are vulnerable to increased aridity, soil erosion, desertification and changes in the hydrological system. There is an increased risk of crop flooding and projected increased incidence of wind and hails storms which negatively impact agriculture.
3. **Different land tenure dynamics in Colombia (public, communal and private) have led to the fragmentation and/or loss of natural ecosystems in Colombia in the past century**, principally forest ecosystems. Recently, a study funded by the Betty Moore foundation has established a deforestation rate of 336,000 ha per year for the period 1990-2005<sup>2</sup>, using remote sensing images 1990-2000-2005. This new data shows a significantly higher deforestation trend than previous official data which established an annual deforestation rate of 101,303 ha.<sup>3</sup>
4. **Deforestation is mainly driven by traditional extensive cattle grazing ranching as the dominant agricultural activity in the department of Magdalena.** Currently, only about 10% of the natural Caribbean forest remains. This is equivalent to 7.699 ha representing 0.007% of the area of Colombia.<sup>4</sup> This large-scale deforestation of the area decades ago has dramatically increased the threat of desertification due to the dry climate. The department of Magdalena is the third department with the largest area in the process of desertification in the country.<sup>5</sup>
5. **The harvesting of natural forests is the most important wood source for the furniture industry and construction in Colombia.** According to IDEAM data, it is estimated that between the two productive sectors, approximately 3 Million square meters of wood are consumed annually.<sup>6</sup> The Magdalena River Valley and Caribbean Region is one of the areas of extraction. This significant wood demand has put a number of native trees on the list of highly threatened species. The harvesting is conducted by selective logging in many cases, with complex processes of commercialization that often do not favor the sustainable management of the forest. Much of the income generated by these activities is not left to the local communities, but to intermediaries and buyers that resell the wood or wood products in towns or cities. The absence of an established commercialization chain for wood and wood products, and the concentration of few woods off takers in the region puts the farmers in a weak position when negotiating the price of their wood.
6. **Deforestation has drastic effects on soil erosion, in particular over the major Colombian river watershed: the basin of the Magdalena.** Erosion is responsible for the

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<sup>2</sup> Deforestation data generated by the Colombian Institute IDEAM under the project “*Capacidad Institucional Técnica Científica para apoyar Proyectos REDD: Reducción de Emisiones por Deforestación en Colombia*” with the support of Gordon and Betty Moore Foundation.

<http://www.siac.gov.co/contenido/contenido.aspx?catID=697&conID=892>

<sup>3</sup> IDEAM 2004: *Informe anual sobre el estado del medio ambiente y los recursos naturales renovables en Colombia*. Bogotá, Colombia

<sup>4</sup> Project Design Document Magdalena Bajo Seco, p.3

<sup>5</sup> Ibid.

<sup>6</sup> IDEAM 2006, National Forestry Information System

loss of river navigability, the diminution of fish resources and the degradation of the corrals in the Caribbean Sea.

7. **The low productivity of the traditional cattle ranching and the quasi absence of economic alternatives along with demographic changes, lead to risk of social tension in the region.** The Magdalena Bajo Seco region where the Project operates is located in a conflict-affected zone. A number of civilians in the Magdalena Department have been affected by internal displacement and land grabbing. Colombia's armed conflict generated a process of land concentration held by armed elements in certain regions. This land has been used as a source of power, as a means of laundering assets, and as a strategy for territorial control. The above reasons have led in some cases to a lack of clarity on the ownership of many lands that are held by figureheads and bona fide holders, and are being claimed by victims who were dispossessed during the conflict.
8. **The institutional framework and national forest policies exist but this has not been sufficient to reverse the phenomenon of transformation of natural ecosystems, nor to address deforestation and desertification tendencies.** As part of the National Plan of Forest Development, Colombia approved a new Forestry Law in 2006 promoting sustainable use of forests, foster its conservation, consolidate the incorporation of forestry sector into the national economy, and contribute to improving the quality of life of the population. However, concrete measures to providing alternatives to deforestation and to creating a forestry sector that promotes the sustainable use of forest resources have to be promoted.

## II. Sectoral and Institutional Context

9. **The 2012-2017 Country Assistance Strategy for Colombia highlights the importance of fostering Colombia's position as an international leader in the area of environmental management and climate change.** Early on, Colombia has been a leading participant in climate change discussions and has developed strong institutional capacity in order to both, become an important player in the international climate change arena, and effectively implement successful activities addressing climate change. One important objective identified under the National Climate Change Plan includes promoting the reduction of emissions and increasing the GHG sequestration capacity. In that spirit, Colombia has developed a total of five carbon finance operations in the land-use sector. The possibility of not materializing carbon revenues of a sizeable (one million ERs until 2012 in total) and one of the flagship A/R CDM projects could jeopardize other ongoing climate change mitigation activities in the country.
10. **The World Bank has considerable expertise and involvement in the development of forestry and model CDM projects in the forestry sector, and particularly in South America.** It is for this reason that the Ministry of the Environment and Social Development (MADS) has approached the World Bank in February 2012 to request the support of two forestry carbon finance projects registered with the UNFCCC through a purchase of Emission Reductions generated until 2012, and potentially until 2017, by the BioCarbon Fund.

11. **The Magdalena Bajo Seco A/R CDM project is aligned with the development strategies of the Government of Colombia.** The Colombian Government is designing and implementing the “Colombian Strategy for Low Carbon Development” through which the Government intends to put in place an integral approach to climate change mitigation and adaptation. As part of this strategy, and since deforestation is a major source of emissions in the country, the government systematically promotes activities that reduce emissions in the forestry sector.
12. **Through the project, the World Bank has a unique opportunity to help alleviate both global climate change and support an innovative land use model providing a viable alternative of income to small farmers.** The World Bank’s support to this innovative operation through an Emission Reduction (ER) purchase would help the project partners and landowners to recover some of the initial investment made and to secure their economic viability in the medium term. In the project design it has been foreseen that carbon benefits would materialize in 2012 in order to maximize the volume of tCERs for the first verification period. Not materializing these benefits might bear the risk that landowners, in particular small and medium ones, will not be able to comply with their financial obligations towards the project partners. This could lead to the consequence of landowners dropping out of the project activities and reverting back to inefficient and environmentally harmful pre-project land use patterns.
13. **The current volatility in the carbon offset market presents significant challenges for these projects to secure a buyer for the ER accumulated from project inception (2000 and 2002) up to today (2012).** The World Bank is in a fortunate position of being able to meet the MADS' request with resources from the BioCF, both in terms of buying the emission reduction credits as well as covering the safeguard assessment and supervision costs.

### **III. Project Development Objectives**

14. **The development objective of the Magdalena Bajo Seco Forestry Project is to reduce emissions of Greenhouse Gases (GHG) through the reforestation and sustainable management of 3,137 ha. of land traditionally devoted to extensive cattle grazing.** The delivery of the ERs according to the delivery schedule to be agreed upon in the Emission Reduction Purchase Agreement (ERPA) will be the results indicator that is going to be monitored by the World Bank over time.
15. **In addition, the project has positive local environmental co-benefits and helps small-scale farmers to diversify their incomes, while contributing to the development of the forestry sector at the regional level.** The project activities contribute to the protection of the remaining natural forests and its biodiversity as well as to the control of soil erosion and sediments affecting the Magdalena River. Furthermore, the project produces wood thus generating additional income based on an integral land use model.

#### IV. Project Description

16. **Project Area.** The area where the project is situated spans some 917,165 ha. in the lower part of the Magdalena River basin, called the Magdalena Bajo Seco, within the departments of Atlántico, Bolivar and Magdalena. Reforestation activities have occurred within the Department of Magdalena, specifically, within the Magdalena River watershed that includes four municipalities: El Piñón, Zapayán, Plato and Santa Bárbara de Pinto. The project activity consists of the reforestation of 3,137 ha of private lands across the four municipalities, implemented as single plantations of six different species.
17. **Project Activities.** In 2002, the *Corporación Autónoma Regional del Río Grande de la Magdalena* (CORMAGDALENA), initiated a program of forest plantations with local landowners through an innovated commercial reforestation model which would allow it to overcome barriers that had historically prevented the development of commercial forestry by landowners. By increasing cattle densities per surface unit, area would be released for the establishment of commercial stands.
18. **Project Species.** Five species for reforestation activities have been selected, *Bombacopsis quinata* (Ceiba) and *Tabebuia rosea* (Oak) for native species, and *Gmelina arborea* (Melina), *Tectona grandis* (Teak) and *Eucalyptus tereticornis* (Eucalyptus) for exotic species. These species were selected based on their compatibility with the ecological conditions of the region, the availability of vegetal material and genetic quality, and for their local, national, and international economic potential.
19. **Project Background (Phases).** The reforestation and sustainable management project occurred in three phases:

Phase 1: Breaking the Barriers. In the first phase (2000-2003), CORMAGDALENA provided financial support to small and medium farmers to diversify their income from cattle grazing. Contracts were signed between CORMAGDALENA, ONFI, and 16 farmers, for plantations covering 2,055 ha on 16 farms. The investment for phase activities was made by CORMAGDALEA. CORMAGDALENA is also in charge of forestry operations, and ONFI is in charge of the administration of the CDM components. For the first three years of project implementation, CORMAGDALENA was responsible for plantation maintenance, from the third year onwards plantation maintenance is the farmers' responsibility.

Phase 2: Transition to a Business Model. In the second phase (2004-2006), FINAGRO and CORMAGDALENA provided access to finance for landowners who joined the project. Contracts were signed with 13 farmers, for 550 ha over the same number of farms. In Phase 2, capital is provided by CORMAGDALEA and FINAGRO, administration of forestry operations by CORMAGDALENA, and administration of CDM components by ONFI.

Phase 3: Business Model. In the third phase (2009-2013), an alliance was formed between the company A.W. Faber Castell & T.H. Reforestation, S.A.S and 38 small and medium landowners to plant Melina trees to the production of high quality pencils. A.W. Faber

Castell was formed in 2009 to continue funding and conducting commercial reforestation activities. Contracts were signed with 38 landowners, to cover 532 ha.

20. For all three phases, legal agreements exist between the landowners and the respective counterparts, establishing benefit sharing agreements, according to which farmers will receive approximately 30-40% of the carbon revenues, ONFI 30-40%, and the financial counterparts 20%, depending on the phase. Between 2000 and 2011, the reforested lands have sequestered 1,154,955 tCO<sub>2</sub>e.

## V. Financing

Source:	(\$m.)
Borrower/Recipient/Project Entity (US\$m.)	12.846
-ONFI (US\$m.): 703	
-Cormagdalen-Finagro (US\$m.): 10.226	
- Faber Castell (US\$m.): 1.917	
IBRD	
IDA	
GEF	
PCF (US\$m.):	5.524.560
	<b>Total US\$</b>
	<b>18.370.560</b>

## VI. Implementation

21. **ONF International (ONFI) with headquarters in Paris, France is the Project Entity.** Its subsidiary, ONF Andina (ONFA) based in Bogota, Colombia, is responsible for general management of the project activity. ONFI entered in strategic partnerships with three public and private entities that invested in the project activity.
22. **During the first phase of the project ONFI enters into a partnership with regional environmental authority CORMAGDALENA,** which lends the funding for the plantation establishment to the farmers for the duration of the rotation age of the respective species. The 16 farmers participating in this phase are owners of 100% of all proceeds from the forest plantations (wood, wood products, income generated from sale of emission reduction) but need to repay the loan to CORMAGDALENA at the end of the rotation period. For the first two years of project implementation, CORMAGDALENA was responsible for plantation maintenance, from the third year onwards plantation maintenance is the farmers' responsibility.
23. **In the second project phase, FINAGRO, the Colombian agrarian investment second tier bank joins the project activity as a partner.** FINAGRO along with CORMAGDALENA provide the funding for the reforestation activities to private landowners. In this phase, the three parties (CORMAGDALENA, FINAGRO, landowners) enter into a joint venture in which the landowners contribute the land while CORMAGDALENA and FINAGRO provide the equity financing. Based on their respective contributions, the three parties agree on a distribution scheme for all income derived from

the forest resources (70% investors, 30% landowners). During the second phase, CORMAGDALENA as well as ONFI provide technical assistance to the farmers for maintenance work and advice on future commercialization.

24. **In the third phase, ONFI enters into a strategic partnership with A.W. Faber Castell & T.H. Reforestation S.A.S., jointly held by Faber Castell**, a private company producing pens, pencils and other office supplies with headquarters in Stein, Germany and subsidiary companies in Europe, Asia, North and South America, and Australia and the individual landowner Stefan Tschampel. In this third phase, the joint venture model has been formalized between ONFI, A.W. Faber Castell & T.H. Reforestation S.A. and 38 landowners of very small land parcels (8-10ha).
25. **In addition to these contracts, for phases I and II of the project activity, ONFI has an agreement with CORMAGDALENA (“Contrato de Mandato”), the regional environmental authority of the Department of Magdalena, to develop all CDM related aspects of the project activity**, including Project Design Document (PDD), project validation, project registration, negotiation and sale of Emission Reductions. For the third phase, ONFI has reached such an agreement with A.W. Faber Castell. Both, A.W. Faber Castell and ONFI provide technical assistance to the farmers in this third phase.
26. **The project is close to fulfilling all CDM requirements before emission reduction issuance.** Project validation has been carried out by the Designated Operational Entity (DOE) TueV Sued, and the project has fulfilled all UNFCCC requirements for CDM registration on June 7, 2011. The project verification is currently being carried out by the DOE Det Norske Veritas (DNV) and is in advanced stage. At the time of writing, the project has been submitted for request of issuance and the first issuance of 1,154,955 ER is supposed to occur by April 2013. The next periodic verification will take place in 2017.<sup>7</sup>

## VII. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No	TBD
<a href="#">Environmental Assessment (OP/BP 4.01)</a>	X		
Natural Habitats ( <a href="#">OP/BP 4.04</a> )	X		
Pest Management ( <a href="#">OP 4.09</a> )	X		
Physical Cultural Resources (OP/BP 4.11)		X	
Involuntary Resettlement ( <a href="#">OP/BP 4.12</a> )		X	
Indigenous Peoples ( <a href="#">OP/BP 4.10</a> )		X	
Forests ( <a href="#">OP/BP 4.36</a> )	X		
Safety of Dams ( <a href="#">OP/BP 4.37</a> )		X	
Projects in Disputed Areas ( <a href="#">OP/BP 7.60</a> )*		X	
Projects on International Waterways ( <a href="#">OP/BP 7.50</a> )		X	

<sup>7</sup> According to UNFCCC policy, the first verification can take place at any point in time after project inception whereas subsequent verifications can only be scheduled in five year intervals.

\* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

27. **A substantive Environmental Impact Assessment (EIA) including an Environmental Management Plan (EMP) was prepared** as requested by the environmental safeguard policy on Environmental Assessment (OP 4.01). This EIA has, given the challenge that represents conducting a twelve year back-retrospective EIA, properly addressed issues covered in the other three environmental safeguards triggered on Forest, Pest Management and Natural Habitats. The EIA report has not shown evidence of any significant negative environmental impact generated by plantations along the last twelve years on natural habitats, forests and human health. Past environmental impacts might have been related to improper disposal of herbicides containers, used in very low volumes, and the lack of use of personal protection equipment. Consequently, in the spirit of contributing to improve the environmental performance of plantations and silvicultural practices in the future, the EIA report includes an Environmental Management Plan (EMP) with actions to be implemented by CorMagdalena, ONFA and A.W. Faber Castell. The EMP includes 24 mitigation measures groups according to the 8 following topics: (i) erosion control, (ii) surface water discharges and alteration of water quality; (iii) changes in water streams, (iv) negative impacts on air quality, (v) people exposure to potential health risks, (vi) increase in fire risks, (vii) people exposure to noise, and (viii) use of pesticides and herbicides.
28. **A retroactive Social Assessment (SA) was conducted to review the background of the project as well as to provide recommendations for its implementation phase.** As part of the due diligence process, a comprehensive Social Assessment (SA) was carried out in order to verify the background of the project design, the potential impacts on project beneficiaries, consultations processes, and other key technical aspects including benefit sharing arrangements and any other potential conflicts that could affect the project's objectives. The SA identified that the lack of systematic and consistent communication and information dissemination have cause misinformation among landowners and a certain degree of social conflict. It is strongly recommended that a communication, information dissemination and grievance redress mechanism be established by the Project as well as informing landowners actively on the status of the project and benefit sharing arrangements.
29. **The Project does not trigger Indigenous Peoples (OP4.10) or Involuntary Resettlement (OP4.12).** The due diligence process and the social assessment have confirmed that no indigenous peoples are affected by the project activities. Neither involuntary resettlement as a result of project activities nor restriction of access to natural resources in parks and protected areas are expected. Therefore, no specific actions are required to assess or resolve any compliance issues with social safeguard policies.
30. **Information dissemination and disclosure of project documents.** The Social and Environmental Assessments, and other safeguard documents, were disclosed in country on February 19, 2013 through the web-page of ONFI, ONFA and CORMAGDALENA, and at the Infoshop on February 19, 2013.

## **VIII. Contact point at World Bank and Borrower**

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