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The World Bank

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Improving Rural Livelihoods through Carbon Credits

For the first time in India, small and marginal farmers in Orissa and Andhra Pradesh will benefit from carbon finance

New Delhi, May 8, 2007: The World Bank's BioCarbon Fund (BiCF) today signed an Emission Reduction Purchase Agreement (ERPA) that will enable small and marginal farmers in Orissa and Andhra Pradesh to earn additional revenues through carbon credits by afforesting their severely degraded lands. Under the agreement, the BioCF will purchase 276,000 tCO_2e (tons of carbon dioxide equivalent) between 2008 and 2017, with an option for an additional purchase of 370,200 tCO_2e. There is also a grant component from the BioCF Plus for capacity building for the Environmental Management Framework.

"*The ERPA is the first of its kind in India,*" **said Martien Van Nieuwkoop, the World Bank's task team leader for the project.** "*It is India's first LULUCF (Land Use and Land Use Change and Forestry) project to sell emission reductions (ERs) earned through carbon sequestration in newly established agro-forestry plantations. This will not only create additional income for resource-poor farmers, but will also contribute to reducing global greenhouse gas emissions (GHGs).*"

The BioCarbon Fund will purchase ERs generated by the "India Improving Rural Livelihoods through Carbon Sequestration Project". Carbon sequestration is the term describing processes that remove carbon from the atmosphere to help mitigate global warming. The project has been developed jointly by JK Paper Ltd in Rayagada, Orissa and by VEDA MACS Ltd. - Vanitha Empowerment, Development and Advancement (VEDA) Mutually Aided Cooperative Society (MACS), Hyderabad - which addresses issues related to sustainable agro-forestry practices.

The project will cover over 3,500 hectares of severely degraded lands owned mainly by small and marginal farmers in six districts of Orissa and Andhra Pradesh. JK Paper Ltd (JKPL), the industry partner, will provide farmers with high quality planting material and will enter into buy back contracts with them to purchase sustainably harvested timber. If required, long term credit will also be facilitated from the banking sector/microfinance to meet farmers' tree plantation and maintenance costs.

The project will bring several environmental benefits such as preventing soil erosion and protecting vital water resources through sustainable land management practices. It will reduce further deforestation of natural forests as the industrial partner will source wood from afforested plots instead. Farmers will get additional income from both the sale of timber and ERS. Plantation activities like nursery operations, planting, forest management and protection will increase employment opportunities. The additional income from carbon credits will serve as an incentive for raising further agro-forestry plantations on degraded lands.

ANNEX 1

RELEVANT BACKGROUND INFORMATION

Kyoto Protocol and the Clean Development Mechanism (CDM)

The Kyoto Protocol provides an unprecedented opportunity for the Organization for Economic Co-Operation and Development (OECD) countries to reduce greenhouse gas emissions and at the same time help developing countries and economies in transition invest in climate friendly technologies and infrastructure. The Protocol's Clean Development Mechanism (CDM) and Joint Implementation (JI) provide an element of flexibility for the industrialized countries to meet their obligations under the Protocol to reduce greenhouse gas emissions by on average 5.2 percent below their 1990 levels by 2012. In so doing, the Protocol provides an unprecedented incentive for those seeking lower cost emission reductions, to leverage the flow of private capital and privately held clean technology from North to South.

Carbon Financing

Carbon finance is the general term applied to financing seeking to purchase greenhouse gas emission reductions ("carbon" for short) to offset emissions in the OECD. Commitments of carbon finance for the purchase of carbon have grown rapidly since the first carbon purchases began less than 10 years ago. Volumes are expected to continue to grow as countries that have already ratified the Kyoto Protocol work to meet their commitments, and as national and regional markets for emission reductions are put into place. Trading started in the European Union in January 2005 with the Emissions Trading Scheme (EU ETS).

Bio Carbon Fund (BioCF)

The World Bank has mobilized a new fund to demonstrate projects that sequester or conserve carbon in forest and agro-ecosystems. The Fund, a public/private initiative administered by the World Bank, aims to deliver cost-effective emission reductions, while promoting biodiversity conservation and poverty alleviation. The World Bank, as Trustee, will oversee the BioCarbon Fund's management and will be a part of the World Bank's Carbon Finance Unit. The Fund started operations in May 2004 and has a total capital of $53.8 million.

The BioCarbon Fund will provide carbon finance for projects that sequester or conserve greenhouse gases in forests, agro- and other ecosystems. Through its focus on bio-carbon, or 'sinks', it will deliver carbon finance to many developing countries that otherwise have few opportunities to participate in the Clean Development Mechanism (CDM), or to countries with economies in transition through joint implementation (JI). The BioCarbon Fund will test and demonstrate how land use, land-use change and forestry (LULUCF) activities can generate high-quality ERs with environmental and livelihood benefits that can be measured, monitored and certified, and stand the test of time.

Land use, land-use change and forestry (LULUCF) activities are of critical importance to many economies in transition, and developing countries and their agricultural and forestry sectors can benefit from carbon finance flows. LULUCF activities can foster sustainable rural development and directly affect the lives of the poorest people.