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**IFAD**

**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**

**Executive Board – Eighty-Third Session**

Rome, 1-2 December 2004

**MEMORANDUM OF UNDERSTANDING BETWEEN THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, AS TRUSTEE OF THE BIOCARBON FUND, AND THE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT IN RESPECT OF THE DRYLAND MANAGEMENT TRANCHE UNDER THE BIOCARBON FUND**

1. The Executive Board is invited to note that IFAD intends to negotiate a memorandum of understanding with the International Bank for Reconstruction and Development (IBRD), as trustee of the BioCarbon Fund, in respect of the Dryland Management Tranche under the BioCarbon Fund.
2. The BioCarbon Fund is a trust fund created by public and private entities and administered by the World Bank. The BioCarbon Fund will purchase certificates of reductions in greenhouse-gas emissions from projects that sequester and conserve carbon in ecosystems and agriculture, while at the same time improving livelihoods and local environmental conditions. Relevant background information on the BioCarbon Fund is attached as an annex hereto.
3. In accordance with Article 8, Section 2, of the Agreement Establishing IFAD, the Executive Board is requested to authorize the President to sign a memorandum of understanding with the World Bank in which the two parties agree to work together towards the achievement of common objectives. The memorandum also outlines the basis for collaboration between the World Bank and IFAD. The Executive Board will be informed of the content of the finalized legal document at a subsequent session.



## **Background**

1. The World Bank – in recognition of IFAD’s role as a specialized agency of the United Nations with a mandate of reducing rural poverty, the host institution of the Global Mechanism of the United Nations Convention to Combat Desertification and an executing agency for the Operational Program on Sustainable Land Management (OP 15) of the Global Environment Facility – requested IFAD’s partnership in the creation of the Dryland Management Tranche under the BioCarbon Fund.

## **The BioCarbon Fund**

2. The BioCarbon Fund is set up with potentially three tranches, each with two windows having different project portfolios.

3. The first window is reserved for project activities that fulfil the eligibility criteria of the Kyoto Protocol to the United Nations Framework Convention on Climate Change, Marrakesh Accords and the ninth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, including afforestation, reforestation, prevented deforestation, forest management, grazing land management, cropland management and revegetation in economies in transition, and afforestation and reforestation in developing countries. In comparison, the second window focuses on purchasing emission reductions created through activities other than those eligible under the Kyoto Protocol, namely land-use projects other than afforestation and reforestation.

4. Tranches differ from each other with respect to the type of ecosystem they support. The first tranche, the only one to be operational so far, is dedicated to all types of ecosystem, while the projected Dryland Management Tranche (the second tranche, with which IFAD is concerned) and the Coastal Ecosystems Tranche (the third tranche), as their names suggest, would be dedicated to projects in arid and semi-arid regions and marine and coastal areas, respectively.

5. The BioCarbon Fund is projected to bring about both local and global environmental benefits to degraded lands and ecosystems. Furthermore, it is envisioned to be an innovative instrument to broaden the supplementary income of smallholder farmers.

6. The BioCarbon Fund became operational on 14 May 2004. As of 7 October 2004, the BioCarbon Fund had a capital of USD 15 million contributed by the Governments of Canada and Italy, Agence Française de Développement, Okinawa Electric Power Company and Tokyo Electric Power Company of Japan, and Eco-Carbone of France. More participants are expected from Canada, Europe and Japan.

## **The Memorandum of Understanding in Respect of the Dryland Management Tranche**

7. IFAD has a strong interest in collaborating with the World Bank to participate in the growing market for carbon credits. Through the Dryland Management Tranche of the BioCarbon Fund, IFAD will leverage financial resources available in carbon trading to foster the development of projects in arid and semi-arid regions that mitigate desertification and reduce greenhouse gas concentrations in the atmosphere.

8. The common objectives of the World Bank and IFAD set out in the memorandum of understanding include the following:

- to cooperate with a view to advance the objectives of the United Nations Convention on Climate Change, the United Nations Convention to Combat Desertification and the United Nations Convention on Biological Diversity;

- to cooperate with a view to diversify and expand the carbon market through the establishment of the Dryland Management Tranche; and
- to reduce greenhouse gas emissions in the atmosphere through projects that sequester carbon in arid and semi-arid lands while achieving additional benefits, including erosion control, increases in soil fertility and livelihood improvements.

9. In addition, the World Bank and IFAD anticipate that the Dryland Management Tranche would have a target size of USD 100 million, contain two windows as described previously and contribute the majority of its funds to projects that fall within the second window.

10. Upon the signing of the memorandum of understanding by both parties, the World Bank and IFAD will consider ways to:

- promote and raise funds for the Dryland Management Tranche;
- share knowledge, expertise, ideas and lessons learned;
- utilize and leverage their existing resources and facilities to mutual advantage and benefit;
- collaborate on the identification and development of projects to be funded;
- collaborate with other entities engaged in similar, supplemental or related activities;
- collaborate on the dissemination of lessons learned; and
- evaluate periodically the effectiveness of working together.

11. Furthermore, the World Bank will train mutually agreed IFAD staff in all aspects that relate to the Dryland Management Tranche and contribute and provide marketing support. It will also share materials, information, data and analytical tools with IFAD, and vice versa.

12. In turn, IFAD will identify potential contributors to the tranche by taking the lead in marketing the Dryland Management Tranche to private- and public-sector entities, primarily among IFAD's traditional donor constituency, with technical support from the World Bank. IFAD will also select and finance the travel, salary and other expenses of staff to be trained by the World Bank. IFAD may also contribute to *BioCFplus*, the technical assistance facility that supports the project-level work of the BioCarbon Fund.

13. The World Bank and IFAD will jointly determine the project selection and project portfolio criteria for the Dryland Management Tranche and consult on matters of implementation of the tranche.

