## EXECUTIVE SUMMARY

### FINANCING PLAN (US$)

<table>
<thead>
<tr>
<th>GEF PROGRAM/COMPONENT</th>
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<tbody>
<tr>
<td>Program Phase 1</td>
<td>10,000,000</td>
</tr>
<tr>
<td>PDF A</td>
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<tr>
<td>PDF B</td>
<td>435,750</td>
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<td>PDF C</td>
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**SUB-TOTAL GEF**

(The Project anticipates a second phase request for an additional $10 million in GEF support.)

10,435,750

### CO-FINANCING*

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
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<tr>
<td>IFC (PDF-B co-finance)</td>
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<td>IFC (staff in kind)</td>
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<td>Financial Institutions</td>
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<td>Project partners**</td>
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<td>Bilateral donors ***</td>
<td>** see below.</td>
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**Sub-Total Co-financing**

15,114,000

**Total Program Financing**

25,549,750

### CONTRIBUTION TO KEY INDICATORS OF THE BUSINESS PLAN:

- **HECTARES OF PRODUCTIVE LANDSCAPES, INCLUDING LAND AROUND PROTECTED AREAS THAT ARE UNDER PRODUCTIVE USE, BUT SUPPORT HABITATS AND ECOSYSTEMS:** 2.8 million by the end of the Program (equivalent to 10% of area used by BACP’s target commodities in the Program’s target countries).

### WORLD BANK PROJECT ID: 523359

- **COUNTRY:** Global
- **PROJECT TITLE:** Biodiversity and Agricultural Commodities Program (BACP)
- **GEF IMPLEMENTING AGENCY:** World Bank
- **EXECUTING AGENCY:** International Finance Corporation (IFC)
- **DURATION:** 10 Years
- **GEF FOCAL AREA:** Biodiversity
- **GEF OPERATIONAL PROGRAM:** Primarily OP #2 (Coastal, Marine, And Freshwater Ecosystems) and OP #3 (Forest Ecosystems); also OP #13 (Conservation and Sustainable Use of Biological Diversity Important to Agriculture), OP #12 (Integrated Ecosystem Management), OP #14 (Persistent Organic Pollutants) and OP #15 (Sustainable Land Management).
- **GEF STRATEGIC PRIORITY:** Bd-2 (Mainstreaming Biodiversity in Production Landscapes and Sectors) and Bd-4 (Generation and Dissemination of Best Practices for Addressing Current and Emerging Biodiversity Issues).
- **Pipeline Entry Date:** December 21, 2004
- **Estimated Starting Date:** January 2007

**CONTRIBUTION TO KEY INDICATORS OF THE BUSINESS PLAN:**

- Hectares of productive landscapes, including land around protected areas that are under productive use, but support habitats and ecosystems: 2.8 million by the end of the Program (equivalent to 10% of area used by BACP’s target commodities in the Program’s target countries).

### RECORD OF ENDORSEMENT ON BEHALF OF THE GOVERNMENT(S):

**E.O. Nsenkyire**

Chief Director / GEF Operational Focal Person

Ministry of Environment and Science, Ghana

Approved on behalf of the World Bank Group: This document has been prepared in accordance with GEF policies and procedures and meets the standards of the GEF Project Review Criteria for Work Program inclusion.

Endorsement Date: January 5, 2006

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The World Bank

Date: March 22 2006

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EXECUTIVE SUMMARY

I. PROGRAM SUMMARY

A. Program Rationale, Objectives, Outputs, and Activities

Overview

Introduction. The expansion of agriculture and the associated use of land, water, and inputs is the leading cause of habitat destruction and a major threat to global biodiversity. Global production of tropical export commodities has dramatically increased in the last decade. Oil palm, cocoa, soybean and sugarcane today cover about 125 million hectares. The proposed Biodiversity and Agricultural Commodities Program (BACP) seeks to reduce these threats in an innovative and large-scale manner by leveraging market forces at all levels of the value chain in order to mainstream the use of so-called Better Management Practices (BMPs) that decrease the impact of production on biodiversity in the four above commodities. BACP will strategically target its interventions so as to have the greatest impact in each commodity and will seek replication to other commodities. In doing that, IFC will be applying to commodities its successful market transformation experience gained in other sectors such as energy. BACP is structured in two phases of approximately 5 years each. The second phase would require approval by the GEF Council based on the success of the first one in reaching certain targets, as measured by the mid-term evaluation.

Objective. The primary objective of BACP is to preserve global genetic, species and ecosystem diversity within agricultural production landscapes, by transforming markets for targeted agricultural commodities. The Program will promote global scale adoption of biodiversity-friendly Better Management Practices, by moving sustainably produced commodities from niche markets into the mainstream.

Protecting biodiversity of global importance. BACP targets commodities whose production threatens biodiversity of global significance, and which offer potential for using market forces to reduce these threats. A careful selection process identified palm oil and cocoa as fast-track commodities in which to work, and soybean and sugarcane as “next in line”. BACP’s selection of target countries for each commodity takes into account production volumes, the impact of this production on biodiversity of global significance, and the potential for lessening this impact. The initial target countries are Indonesia (palm oil, cocoa), Ghana and Côte d'Ivoire (cocoa), and Brazil (sugarcane and soy).\(^1\) During the Program’s 10-year lifetime, additional countries may be added as warranted. Each of these countries contains high levels of biological diversity and/or endemism, some of which is in biodiversity hotspots which overlap with areas of commodity production.

Better Management Practices can reduce impacts of agriculture on biodiversity of global significance, but they face barriers to adoption. BMPs encompass a broad range of environmental, social, and labor practices that allow companies to optimize resource use efficiency, create marketable by-products, reduce waste, encourage employee loyalty, secure market access and reduce risk of adverse relations with local stakeholders. Certain BMPs can

\(^1\) Malaysia will be eligible for smaller amounts of TA on a case-by-case basis; this different status reflects its importance as palm oil producer and of the global significance of its biodiversity on the one hand, but also the fact this it is nearly a “graduated” country in terms of its relationship with the World Bank Group.
significantly limit the biodiversity threats posed by production. Currently, a number of barriers limit the widespread uptake of BMPs, such as: insufficient field testing of some BMPs; lack of information on methods, costs and benefits and business case; difficulties in reaching smallholders; risk aversion; lack of tailored financial instrument; difficult access to financing; inadequate or not enforced regulations, including on land-use. BACP will work with industry players in each target commodity market in order to remove barriers and mainstream the adoption of biodiversity- and market-friendly BMPs throughout the value chain.

Opportunities for leverage through organized markets and industry roundtable processes. BACP’s chosen agricultural commodity markets and players are organized and therefore relatively easy to work in. Concentration of industry in these commodities means that a relatively small number of players up the value chain (traders, buyers) have a relatively large influence on demand, and thus on production. Industry is also grouped in accessible associations. Globalization and consumer scrutiny have pushed companies to provide, and consequently to demand, more transparency with regard to their products as well as the ingredients they use. This trend towards accountability for both product quality and production practices has enabled larger companies to influence the entire market chain, including segments of it in which they do not directly invest.

Furthermore, BACP’s selected four commodities have in common a critical asset: an existing formally structured forum dedicated to address sustainability performance. The palm oil, sugarcane, and soybean players each have initiated an international, multi-stakeholder, private sector-led roundtable process meant to define optimal performance levels and corresponding BMPs; for cocoa, a few initiatives, subsets of the overall global market, are playing a similar function. These groups and their members will be key partners for BACP: they provide an entry point and a collaborative environment for developing joint projects and disseminating lessons learned. A number of stakeholders are simultaneous members of several of these initiatives (including for other commodities than the four BACP ones) hence also insuring replication across commodities.

BACP Design: a market-based approach to biodiversity conservation.

The rationale for BACP can be summarized as follows:
- Production areas for oil palm, cocoa, sugarcane and soybeans overlap with areas of globally significant biodiversity
- BMPs can reduce the impacts of production on biodiversity, but face certain barriers to adoption
- Private sector-led commodity roundtables and the overall market forces and structure provide an opportunity for the GEF to make an incremental investment to jump-start and support market transformation efforts that mainstream biodiversity protection into commodity chains.

BACP will take a holistic approach to market transformation, using its resources to mainstream the supply of, demand for, and financing to commodities produced using biodiversity-friendly methods. As a result of the program, better commodities should account for a substantial percentage of sales (at least 10%) in each target commodity market. The Program’s structure reflects the rationale: each Program component (see below) aims at removing specific barriers and addresses a specific group of market actors: the supply-side (producers and primary processors such as millers), the demand-side (traders and buyers), the financiers, and the enabling environment (roundtables themselves, governments, NGOs). IFC has selected commodities for which the private sector has already demonstrated leadership potential; for example, the Roundtable on Sustainable Palm Oil (RSPO) has prepared and approved by an overwhelming majority of the membership.

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2 IFC, though the IFC/WWF BMP Initiative, was instrumental in establishing these roundtables, and continues to remain engaged with them.

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majority a set of Environmental and Social Principles and Criteria, and other roundtables are expected to do the same. Yet for all four target commodities, the market has yet to deliver large quantities of sustainable supply and, without BACP, the chosen BMPs would not address biodiversity of global significance to an optimal level.

**Program Components:**
The Program will fund specific projects implemented by private sector and NGO partners. The selection of projects will be guided by commodity-specific Market Transformation Strategies, with clear goals, means to achieve them, corresponding indicators, funding priorities and budget allocations for the subsequent two years. Each commodity Strategy will also indicate an optimal distribution of activities by level of intervention in the value chain (components below). BACP will then issue Requests for Proposals (RFPs) that meet the goals laid out in the Strategy, and that fit within the following four complementary program activity components.

The four project-related components, described below, were designed to provide the Program with the flexibility needed to meet the evolving needs of the market for biodiversity-friendly products, as it matures over the program’s ten-year lifetime.

**Component 1 – Support the enabling market environment** (in a broad sense) by documenting the better biodiversity-friendly practices; making the business case in terms of biodiversity, business, supply security, farm lifetime, social and other, of biodiversity friendly practices; and supporting policy dialogue with the relevant public policy makers.

The Component 1 activities focus on developing the knowledge and dialogue that are the foundations of a strong market for biodiversity-friendly products. As needed, for each commodity, BACP will:
- Ascertain biodiversity-friendly practices on a regional basis and prioritize those that merit support from BACP;
- For each priority method, document agricultural techniques and benefits, including biodiversity benefits, but also benefits relating to economics, social issues, finance, increased farm lifetime, supply security, reputational risk, etc.
- Disseminate the BMP documentation via commodity roundtables or other means;
- Participate in roundtable meetings and events;
- Conduct policy analysis to identify opportunities for changes and encourage the adoption of cost-effective BMPs;
- Support the development of landscape-level land-use planning;
- Prepare documentation or events for policy dialogue with governments;
- Disseminate lessons learned to other countries via roundtable dialogue or other means.

**Component 2 - Support better production via site-specific projects**

Under Component 2, BACP will help implement alternative production methods that have a proven positive impact on biodiversity and significant potential for development and replication. These will typically be at farm level (or for several neighboring farms). With NGOs and public partners, BACP will also implement broader landscape management activities in production areas with biodiversity of global significance. Specific types of activities BACP will support include:
- Support to the formulation and/or implementation of land-use management plans for the protection of high-value habitat and biodiversity;
- Creation or enhancement of non-production related biodiversity conservation initiatives engaged in by parties involved in the production of agricultural commodities (e.g. biodiversity set-asides, zoning);

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3 If warranted by extraordinary events, the Strategy for a given commodity can be revised before the end of the two-year cycle.

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- Support to the implementation of production methods which facilitate the expansion into abandoned or degraded lands, as an alternative to expansion into natural habitat;4
- Implementation of proven beneficial production methods when there are market failures that prevent adoption and the methods have good replication potential;
- Work through larger local market chain actors (mills, plantations, traders, and other partners) to support the adoption by smallholders of relevant BMPs;
- Creation of commodity-specific workbooks, guidance documents, or web based tools;
- Applied research of alternative production methods that have yielded biodiversity and business benefits in other landscapes.

Component 3 - **Support increased demand** for products with more positive biodiversity impacts

A strong demand is essential for maintaining a vibrant market for Better commodities. Therefore, BACP will support the efforts of private agricultural commodity buyers and other value-chain participants to integrate biodiversity criteria in the value-chain. This could include supporting access to new markets for biodiversity-friendly product, and supporting Identity Preserved Schemes5, quality assurance, verification, or certification systems, which are linked to new biodiversity-enhancing production practices. BACP’s demand-side activities include:
- Support for quality assurance, verification or certification schemes that address biodiversity concerns in an effective and measurable way;6.
- Support for the setting up of relevant systems and practices to allow measurability and traceability;
- Documenting and increasing awareness among purchasers;
- Increasing awareness of the availability of such products (roundtables, trade fairs, publications, etc.)
- Support to applied research that addresses removal of barriers to the uptake of such products.

Component 4 - Encourage the development of **financial services** to support biodiversity-friendly practices

Financing can play both a carrot and stick role in markets for biodiversity-friendly commodities. Where lack of finance makes more difficult for producers to adopt BMPs, specific financial instruments can be developed to meet their needs. On the other hand, through biodiversity investment screens, financial institutions can filter out the more environmentally destructive projects that pose a threat to the environment, but also to the banks’ reputation and risk profile. As needed for each commodity, BACP will:
- Work with traders or other business players who would like to use supply-chain finance, i.e., use future purchase commitments as collateral against short-term loans for agricultural inputs;
- Work with FIs towards the incorporation of biodiversity concerns into their screening methods;

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4 Contraindications for planting on degraded or abandoned land will include: (a) that such areas may already have lost much soil quality; (b) that criteria have yet to be agreed for deciding when the damage to an ecosystem is so extreme and irreversible as to justify (re)conversion to agriculture; and (c) that the processes by which lands are degraded (farming, ranching, etc.) may generate ownership claims that could affect the cost and ease of acquisition.

5 Identity Preserved (IP) commodity production uses a combination of contract farming, information and tracking technology, production, processing and distribution technologies, and process standards. Once the technology and systems exist, there is the possibility of widening the set of attributes to include environmental and social issues more broadly. Use of this technology is growing.

6 BACP will only support those certification processes which have a measurable positive impact on biodiversity. This is not necessarily the case, for example, with Fair Trade schemes, or with certain organic schemes.
- Work with FIs on the development of financial instruments that specifically address market needs related to biodiversity practices and on ways to market those instruments to their customers.

BACP also has a Management component (see 3-e below), and a Monitoring and Evaluation component (see 5-c below).

Project Selection Criteria
In addition to fitting within the Market Transformation Strategy, any project funded by the BACP must meet project selection criteria addressing the following issues:
- Reduced impact of production on biodiversity of global significance
- Incrementality
- Clear and measurable outputs, outcomes, and indicators
- Co-financing of at least 2:1
- Social impacts and local engagement
- Sustainability
- Replicability/Adaptability

Additional criteria may be specified in the Strategy on a case-by-case basis. Furthermore, the following restrictions are placed on the use of BACP funds:
- BACP will not finance production initiatives in natural habitats or in areas/sites where natural habitats have been recently cleared for commodity production
- BACP will not use GEF funds to subsidize private sector firms. BACP funds may only be channeled through private sector actors in a traceable manner, to support a specific biodiversity enhancing project that meets BACP criteria
- BACP will not promote changes that merely meet the local legal or regulatory requirements

B. Key Indicators, Assumptions, And Risks (From Logframe)

The most important indicators of Program success are:
- Companies representing 10% of global trade buy certified or verified product\(^7\)
- 25% of global trade volumes sourced from certified or verified sources
- Agreement within the roundtables on biodiversity impacts, indicators and performance levels for the indicators
- Roundtables’ landscape-level biodiversity indicators incorporate zoning and land use management
- An increase in on-farm natural habitat (selected according to biodiversity values and financial considerations), including 100% riparian area protection
- 25% reduction in use of soil amendments per unit of production (proxy for soil quality and for effluents & downstream water quality)
- 50% reduction in toxicity of Kg of active ingredients of pesticides per ton of production (for class 1 and class 2 chemicals)
- Water use per unit of production. Target: 25% reduction
- Existence of verification systems (or certification) that incorporate biodiversity performance targets defined by the roundtables
- At least 5 FIs (including IFC) incorporate biodiversity concerns into their investment screens for the target commodities (including screens for syndicated loans)

\(^7\) Sustainably produced: producer adheres to RSPO Principles and Criteria (for palm oil), or to a biodiversity-friendly certification method (cocoa).
Key Assumptions
- The barriers to implementation of BMPs can be overcome via targeted market interventions
- The roundtable processes have enough players, in the right combination, and thus function well
- The roundtables will define effective biodiversity performance levels and indicators
- Government will be open to dialogue on biodiversity issues
- BMPs promoted by the program will have a measurable beneficial impact on biodiversity
- If producers are shown that BMPs will increase productivity and profitability, and are offered TA on how to operationalize BMPs, they will adopt the BMPs
- Traders, processors and other purchasers see benefits in purchasing biodiversity-friendly commodities
- The production of certified/verified commodities leads to a decreased impact on biodiversity
- FIs recognize that biodiversity-friendly practices can increase their clients’ overall resource efficiency and productivity, and decrease social and market risks
- FIs are willing to invest time into incorporating biodiversity concerns into their lending practices
- FIs find a market for these new services

Key Risks & Responses

The cumulative overall risk of the Program may seem high due to its innovative nature and to the experimentation required to test assumptions about the market and about industry roundtables. The risk analysis below represents IFC’s efforts to disaggregate and manage those risks as much as possible. In addition, through the phased approach and through revisable commodity-specific Market Transformation Strategies, the Program design builds in high flexibility to test hypotheses and to respond to lessons learned and market changes, and thereby manage risks in real time.

Risks related to the enabling environment. The main risk here is that the roundtables fail to deliver verifiable Principles and Criteria linked to meaningful biodiversity performance levels. This would mean that the roundtable process, which is the engine through which BACP is working, would not have an optimal impact on biodiversity of global significance. In order to prevent this, BACP will closely engage with the roundtables, will be able to help with recruitment of committed members (if necessary) and will support the participation of effective biodiversity experts in the technical working groups.

There is also risk associated with government policies, which may run counter to BACP’s interests, such that it becomes more difficult for producers to adopt biodiversity-friendly practices (this is particularly relevant to land use). In anticipation of this risk, BACP will share the outcome of roundtable dialogue with relevant local and national authorities, so that they can see the biodiversity, but also the economic, and social benefits of the BMPs proposed. BACP will also coordinate with the World Bank’s Agriculture and relevant Country Departments on the agricultural, environmental or macroeconomic policy dialogue.

Production / Supply-side risks. On-farm better practices may not achieve the desired levels of biodiversity protection, leading to biodiversity protection that is lower than expected. To minimize the likelihood of this risk materializing, BACP will support the field-testing of BMPs, and will ensure that the roundtables monitor field-level performance. Another risk related to production is that BMPs will not be economic, and therefore producers would not adopt them. Here again, field-testing will play an important role, allowing BACP to gather clear data on economic costs and benefits.
**Purchasing / Demand-side risks.** Experience with other commodities (coffee, cotton) shows that that there is a low risk of insufficient production volumes of better commodities. However, the absence of a credible system to certify/verify Better commodities is a more important and medium-level risk. Its consequence would be that potential buyers would lose interest, because they could not be certain of what they are actually purchasing. In order to alleviate this risk, buyers will work within roundtables to ensure that the performance targets are backed up by a credible verification or certification system, and to ensure that the system adopted is science-based and defensible.

**Risks related to Financial Institutions.** There is a medium-level risk that insufficient financing is made available because FIs don’t see a bankable proposition in BMPs. BACP will be counter this risk by preparing material specifically for FIs to document the financial benefits of BMPs, and by only supporting BMPs with clear financial (and biodiversity) benefits.

**II. COUNTRY OWNERSHIP**

**A. Country Eligibility**

BACP’s regional focus for each commodity was determined by overlapping major production areas with areas where there is biodiversity of global significance, potential for reducing impacts on biodiversity, and possibility for constructive dialogue with major players. All selected countries are GEF-eligible and all ratified the CBD in 1994.

**B. Country Drivenness**

*Indonesia.* The Indonesian Government has adopted the Biodiversity Strategy and Action Plan 2003-2020 (supported by the GEF). Major issues related to deforestation (either legal or illegal) remain to be addressed, and oil palm producers and supply chain stakeholders have started to take into account the impact of their activity on the environment through better management practices and sustainable agriculture promotion. Members of the RSPO from the Indonesian and Malaysian palm oil sectors have expressed written interest in participating in BACP.

*Malaysia* is considered a nearly graduated country. In line with the World Bank’s country assistance strategy, BACP’s role is Malaysia is expected to be more limited than in other target countries. Nevertheless, because of the importance of its palm oil sector, and because of the close relationships between Malaysian companies and palm oil plantations in Indonesia and elsewhere in the world, it is important that BACP be able to target some of its TA to the Malaysian private sector. Site-specific projects will not be considered in Malaysia.

In *Cote d’Ivoire*, the National Strategy seeks to protect the environment while increasing the standard of living of individuals and enterprises. Reduction of habitat conversion is part of the national priorities and promotion of better agricultural production methods, adoption of sustainable agriculture techniques and promotion of biological fertilizers are also included in the national work program. The Government of Côte d’Ivoire acknowledges that institutional capacities are limited. The private sector and global supply chains can play a crucial role in this area.

*Ghana.* The Focal Point endorsement letter from Ghana states that “BACP's objectives to preserve genetic, species and ecosystem diversity within agricultural production landscapes is in

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8 [http://www.bappenas.go.id/index.php?module=ContentExpress&func=display&ceid=823&meid]
10 Côte d’Ivoire, National report on Biodiversity to CBD, 16 November 2005.
conformity with the Ghana Poverty Reduction Strategy, which also seeks, among others, to revamp agriculture so as to increase food production while promoting ameliorative programs that protect the environment.”

Brazil. BACP is consistent with Brazil’s National Biodiversity Strategy, particularly with the related agriculture programs that seek to promote integrated sustainable rural development and that prioritize the implementation of Better Management Practices\(^\text{11}\). It is to be highlighted that Brazil has signified its particular interest in supporting the engagement of the private sector in the implementation of the CBD, and is showing a strong commitment to orient public policy in that direction.

Given the global nature of commodity markets, BACP will also engage with demand-side market actors (buyers, retailers, etc) wherever they may be. While considerable purchasing power lies in industrialized economies, China and India, for instance, represent a large and growing demand for commodities, and BACP will make a special effort to reach out to players from these countries.

### III. PROGRAM AND POLICY COMFORMITY

A. **Fit To GEF Operational Program And Strategic Priority**

The BACP is fully aligned with GEF Strategic Priorities as approved by the GEF Council in 2003, and addresses two of them in particular:

- **Mainstreaming Biodiversity in Production Landscapes and Sectors**, since the BACP will facilitate the mainstreaming of biodiversity within production systems, support demonstration projects with high replication value, and develop market incentives for conservation.

- **Generation and Dissemination of Best Practices for Addressing Current and Emerging Biodiversity Issues**, since the BACP will create and disseminate biodiversity best practices in the agricultural commodities sector, and will build on lessons learned to improve the sustainability of its impact.

The BACP will reduce biodiversity impacts on a landscape level, in such diverse landscapes as Indonesian lowland forests, the lowland Guinean forest in Ghana and Côte d'Ivoire, or the Brazilian Cerrado woodland. The programs is consistent with GEF Operational Program 3 (forest ecosystems), and, because of reduced levels of agricultural runoff and erosion, with OP 2 (coastal, marine, and freshwater ecosystems). The BACP is also consistent with GEF OP 13 (conservation and sustainable use of agricultural biological diversity), as well as with as OP 12 (Integrated Ecosystem Management), OP 14 (Persistent Organic Pollutants) and OP 15 (Sustainable Land Management).

The BACP responds to the recommendation by GEF’s second Overall Performance Study (OPS 2) to engage more directly with the private sector in the area of biodiversity; BACP is also aligned with the GEF Strategy to enhance engagement with the private sector, particularly in agriculture and in the strategic use of non-grant financial instruments. Furthermore, BACP’s approach is consistent with the interim GEF report on Mainstreaming Biodiversity in Production Landscapes and Sectors, which points to “improving production practices” as one of the four priority areas for GEF intervention. Finally, the project screening process to be used by the BACP will help ensure the GEF-eligibility of individual projects.

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\(^{11}\) Brazil, Ministry of Environment, third national report to the Convention on Biological Diversity, September 2005.

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BACP is also well aligned with the Convention on Biological Diversity (CBD). Objective 4.4 of the Strategic Plan of the CBD states that “key actors and stakeholders, including the private sector, are engaged in partnership to implement the Convention and are integrating biodiversity concerns into their relevant (...) programs”. A recent document\(^\text{12}\) issued by the CBD secretariat on engagement of the private sector includes a draft decision, which “5. Invites businesses (...) to develop and promote the business case for biodiversity, to develop and promote the wider use of good practice guidelines, benchmarks, certification schemes and reporting guidelines and standards.”

**B. Sustainability (Including Financial Sustainability)**

Sustainability is intrinsically part of BACP’s market transformation goals: BACP aims to move the market to a position where BMPs (e.g., environmental sustainability) are incorporated in a financially sustainable manner into commodity markets’ flows of goods and of finance. The Program will only promote BMPs that have a sound business logic.

Long-term sustainability also depends on social factors. The roundtables, or similar business initiatives, also address social aspects, independently from the BACP. However BMPs themselves, and the resulting biodiversity benefits, are often intertwined with social benefits. For example, the reduced use of toxic agrochemicals benefits local and downstream biodiversity, and therefore benefits farmers and agricultural laborers and their families living in neighboring and downstream communities.

The Program’s sustainability is also buttressed by the fact that the use of BMPs enhances long-term farm lifetime and viability. In particular, BMPs that maintain or improve soil fertility help a farm remain productive over time. While no BMP can guarantee that a given farm will always be a viable producer of any given commodity, BMPs can guarantee that, all other things being equal, the farm can be run as profitably as possible, thus giving it a better chance of success. Furthermore, producing or enhancing on-farm assets (trees, soil, wildlife) can translate directly into increased income for the farmer.

Sustainability of agricultural soil is an unglamorous but very important benefit of BACP. Practices promoted by BACP will help maintain healthy soil. Be it in protected areas, natural habitat or farms and ranches, significant biodiversity and biomass exists in the soil. It is upon this biodiversity and biomass that literally life on Earth is built.

**C. Replicability**

Replicability is one of the explicit goals of the BACP project-level initiatives; indeed, it is one of the criteria on which proposed projects will be assessed. The Program’s emphasis on financial sustainability of site-specific projects (Component 2), further maximizes replicability potential on both a regional and a commodity-wide level. Projects are intended to assume the innovation risk / costs of new production methods to encourage replication by “second-movers”.

Activities promoted under Component 3 (Increase demand for biodiversity-friendly commodities) will obviously depend on replication to be successful. Only if demand for biodiversity-friendly commodities goes mainstream can the Program meet its goals. Similarly, BACP will do its utmost to ensure that the Component 4 Activities (Finance) are taken up by a majority of FIs. For this component (as well as the others) the Program will work with market leaders, whose practices are watched and emulated by others in the industry.

\(^{12}\) UNEP/CBD/COP/8/25/Add.1 - 23 January 2006

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Finally, replication is the essence of the TA activities in Component 1 (Creating an enabling market environment), which are intended to promote replication on a commodity-wide basis through activities such as information sharing and training on proven methods and technologies.

The lessons learned by BACP in a given commodity will also replicate to other agricultural commodities as some of the players are members of several commodity markets.

D. Stakeholder Involvement

Different stakeholder groups will be affected by or involved in the Program’s activities such as: private sector producers, traders, food manufacturers and retailers, financial institutions, civil society (e.g. NGOs, academics), local and national governments, commodity roundtables, and bilateral and multilateral organizations, research institutes and local communities.

Through IFC’s participation in different commodity roundtables, BACP will have direct access to the primary players in its target markets. For example, the membership of the RSPO includes over 100 important actors in all the categories of stakeholders mentioned above, representing approximately one-third to one-half of the production volumes of globally traded palm oil. Private sector stakeholders (producers, traders, food manufacturers and retailers, and FIs) will be engaged through roundtables, which will enable them to learn about the Program, about the practices it is supporting, and about opportunities for projects. Additionally, some companies and FIs that have a relationship with IFC could be engaged via that relationship. Similarly, BACP will reach out to NGOs via the roundtables, as they are members and closely follow new developments.

Approximately one-third of palm oil production comes from smallholders, and this figure is expected to grow; nearly all cocoa produced in West Africa is on small farms. For reasons of scale, BACP will not work directly with smallholders. However, in order to reach this important segment of producers, BACP will work through larger businesses which typically have a monopsony relationship with surrounding smallholders. These larger organizations have an incentive to build and maintain biodiversity preservation capacity among their surrounding smallholders which are their suppliers.

Local communities and stakeholders will be crucial at the specific project level. Participation and consultation of these local players will play a vital role given their knowledge in the areas of local biodiversity and production methods.

As BACP is a market-driven, private-sector-led Program, government only plays a role in implementation where specifically engaged in Component 1 activities (Enabling Environment), when certain policy changes are needed to make progress. In addition, the information published by the Program will be explicitly shared with agricultural and environmental agencies and the local and national level, and the practices implemented by industry leaders should eventually lead to government raising minimum environmental standards for the industry as a whole.

E. Monitoring and Evaluation

BACP will conduct a baseline, mid-term and terminal evaluation, assessing the program’s progress in transforming its target commodity markets, and the ensuing improvement in biodiversity impacts. The mid-term evaluation will be required prior to submission of the proposed second phase.

It is notoriously difficult to monitor a project’s direct impact on biodiversity, all the more so when the project spans three continents and production landscapes cover over a hundred million hectares globally (28 million hectares in BACP’s target countries). In addition, too many factors...
result in landscape changes, thus making it difficult to trace back the exact drivers of each change.

However, BACP’s market-based approach provides an opportunity for a simplified approach, or proxy, to impact evaluation. Indeed, BACP supports the adoption of sustainable, market-based systems that are embedded in the quality assurance, verification, or certification\textsuperscript{13} systems to be supported in each commodity market. These systems include in their design regular independent audits that check on the biodiversity performance levels (as well as performance in other areas addressed by the system). As a result, supporting the establishment and monitoring the implementation and functioning of these systems will suffice to document impacts, as long as the systems include satisfactory biodiversity standards. BACP will rely on verification systems where they exist, and will support the development of new systems where they do not exist or where existing ones do not address key impacts. BACP will work to ensure that for each commodity, there exists at least one such system that incorporates biodiversity performance criteria.

Once such a system is in place, it becomes straightforward for BACP to obtain monitoring data: the verification makes it possible to determine that certain performance standards have been met. Quantifying changes in production methods and in market volumes of biodiversity-friendly product becomes a matter of assessing the change trade volumes of certified/verified product.

### IV. INANCIAL MODALITY AND COST EFFECTIVENESS

The overall budget, with uses of funds, and sources of funds, broken down between GEF and other co-financing sources, is provided in Table A.

<table>
<thead>
<tr>
<th>Uses</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Uses</td>
</tr>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Program implementation</td>
<td>44,400,000</td>
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<td>Palm oil</td>
<td>2,400,000</td>
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<tr>
<td>Cocoa</td>
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<tr>
<td>Sugarcane</td>
<td>1,200,000</td>
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<tr>
<td>Soy</td>
<td>1,800,000</td>
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<tr>
<td>Management</td>
<td></td>
</tr>
<tr>
<td>Local Implementers</td>
<td>3,000,000</td>
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<tr>
<td>Program Management Unit</td>
<td>1,700,000</td>
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<tr>
<td>M&amp;E</td>
<td>1,000,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>50,100,000</td>
</tr>
</tbody>
</table>

[a]: Allocation of funds by commodity for Phase 2 will be done at program mid-term.
[b]: Co-finance from project partners and donors.
[c]: Co-finance from IFC for implementation. IFC also co-financed 64,000 of PDF-B activities.

\textsuperscript{13} Certification is not needed, but as it is one step beyond verification, it will allow for the same evaluation approach.
Co-financing for the program can be broken out into Project co-financing, leveraged FI investment, donor funds, and IFC contribution. BACP requires a minimum 2:1 co-financing as a condition for projects to be supported. Therefore, while it is not possible at this point to state specifically which actors will be contributing which level of co-financing, it is reasonable to assume that all TA funds will be matched at least 2:1 with funds from private sector actors, NGOs, and other implementers.

Projects targeting FIs will provide TA that will aim to influence commodity investment flows. While the amounts of TA are expected to be rather small (hundreds of thousands), the investment that can ultimately be affected would be in the hundreds of millions. Those investment flows will have a great impact on land use decisions that affect biodiversity.

The first phase is expected to last 4 to 6 years. The request for the second phase will follow the mid-term evaluation which will measure the BACP’s performance against the market transformation indicators in Annex B (Logical framework) hereto, and Annex 7 (Monitoring and Evaluation) of the main project brief.

### Table B: Co-financing Sources (in US $)

<table>
<thead>
<tr>
<th>Name of Co-financier</th>
<th>Classification</th>
<th>Type</th>
<th>Amount</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private sector, NGOs</td>
<td>Cash and in-kind</td>
<td>29,600,000</td>
<td>Dependent on projects</td>
<td></td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>Loans and other forms of investments</td>
<td>(Hundreds of Millions)</td>
<td>Investment flow that would follow TA to financial institutions</td>
<td></td>
</tr>
<tr>
<td>Bilateral development cooperation agency</td>
<td>Grants</td>
<td>TBD</td>
<td>Dependent on projects</td>
<td></td>
</tr>
<tr>
<td>IFC</td>
<td>In-kind</td>
<td>500,000</td>
<td>Part time agribusiness expert (tbc)</td>
<td></td>
</tr>
</tbody>
</table>

**Sub-Total Co-Financing** 30,100,000

V. INSTITUTIONAL COORDINATION AND SUPPORT

A. Core Commitments and Linkages

**International Finance Corporation (IFC) mainstream operations.** BACP will take advantage of IFC’s own networks and resources to maximize IFC co-financing, and especially, to incorporate biodiversity preservation opportunities into mainstream IFC investments. The BACP team will coordinate with IFC’s Agribusiness and other relevant departments to maximize the participation of their clients in the BACP and to help enhance the environmental performance of existing and future investments. BACP will also collaborate with other IFC programs, including the IFC/WWF BMP Initiative, the donor-funded Linkages Program (outreach to SMEs), and the GEF-funded, IFC-managed, Environmental Business Finance Program (EBFP).

**Industry initiatives** Several GEF and non-GEF funded sustainable agriculture initiatives are highly complementary to the BACP. A collaboration or consultation with them could greatly increase the potential impact and the quantity and quality of BACP projects. Examples of sustainable agriculture initiatives with which the BACP could collaborate or consult include

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14 IFC’s investment in BACP’s target commodities is greater than US$1.3 billion.

*BACP Executive Summary- GEF Council Work Programme Submission*
the Round Table on Sustainable Palm Oil, the World Cocoa Foundation, the Roundtable on Responsible Soy Production, and the Better Sugarcane Initiative.

**NGOs.** BACP will also rely on the knowledge and contacts of certain NGOs who are well placed to help implement certain parts of the program. These NGOs include Rainforest Alliance, WWF, Conservation International, and The Nature Conservancy.

**Local Institutions and Initiatives.** Finally, BACP will also seek to create partnerships and leverage at a local level with national market actors such as local TA providers, agricultural research centers, local environment funds and initiatives and local producers, financial institutions and civil society groups working towards the BACP’s overall goal.

**Government.** BACP will also make sure that the relevant local, state, or national-level policy making entities are engaged when needed to help remove certain barriers to BMP adoption that the private sector alone may not be able to address.

### B. Consultation, Coordination and Collaboration Between IAs, and IAs and EAs, If Appropriate

The Program’s collaboration with the wider World Bank Group and the other GEF implementing agencies will take advantage of complementary activities such as policy or regulatory reform, government capacity building, smallholder rural initiatives, etc. BACP will coordinate with the World Bank’s related agriculture operations; where relevant, BACP will also engage with the Bank’s policy dialogues with governments.

BACP may collaborate with some of the industrial fora set up by UNEP’s Department of Technology, Industry, and Economics (DTIE) as vehicles to disseminate information on Better Management Practices (BMPs). BACP will coordinate with the UNEP DTIE’s Initiative on Integrated Assessment of Trade-Related Policies and Biological Diversity in the Agriculture Sector to address trade policy-related issues as appropriate. For M&E purposes, BACP might also be able to consider selected biodiversity indicators from UNEP’s planned *Biodiversity Assessment Reference Manual*.

Another example of a potentially complementary initiative is UNDP’s Conserving Globally Significant Biodiversity in Cocoa Production Landscapes in West Africa. The proposed UNDP/GEF project is different from BACP in several ways. It focuses on only one country (Ghana) and one commodity (cocoa). The project works through communities rather than through the private sector. The project also includes non-cocoa related activities that have an impact on the production landscape. It is likely that opportunities for cooperation may arise around providing finance to farmers, or other topics.

### C. Program Implementation Arrangement

A small *Global Program Management Unit* equivalent to one full-time employee (FTE) will have global oversight of the Program. IFC is weighing several options for housing this Unit which will be in any case separate from IFC Headquarters. It could reside within a firm with adequate capacities, or within one of the regional implementers (see below). The Global Program Management Unit would be responsible for overall management of the Program, including management of the regional implementers, but also setting the overall direction and priorities of the BACP, working through the market transformation Strategies. The Global Program Management Unit would be supported by GEF resources.

For each program region (Indonesia, Brazil, and Ghana & Côte d’Ivoire being BACP’s three target regions), IFC will entrust day-to-day management (contracts, oversight, etc) to a field-based *regional implementer*. That implementer could be an NGO or firm with suitable experience in biodiversity and agriculture issues, or it could be a member of IFC’s network of field-based TA
delivery facilities, such as PENSA in Indonesia. (Program for Eastern Indonesia SME Assistance). During appraisal IFC will finalize its choice of implementer.

The staff of the field-based implementer dedicated to the Program would be supported by GEF resources. They will be the local “face” of BACP, conducting such work as publicizing the Program, attending local events, networking in order to generate proposals and disseminate information. They will also gather local market intelligence that will shared regularly with the Program Manager.

Projects will be implemented by third party contractors (including industry or professional associations, specialized firms, relevant NGOs or other existing organizations), under contract to the field-based implementers. If necessary, projects that don’t have a strong site-based component might be contracted through a different entity, such as an international NGO.

The BACP Steering Committee will be responsible for approving the commodity Strategies and projects over a budget threshold. It will ensure that GEF funds are only used for activities that fulfill the eligibility criteria presented above and that they help the BACP meet its priorities as laid out in the market transformation Strategy for each commodity. The Steering Committee will consist of three to five individuals from within IFC and the World Bank and an independent expert.
ANNEX A: INCREMENTAL COST ANALYSIS

A. Introduction

The primary objective of the BACP is to preserve global genetic, species and ecosystem diversity within and nearby agricultural production landscapes, by transforming markets for target agricultural commodities. BACP will reduce the impact of agriculture on the production landscape by identifying and promoting cost-effective opportunities to reduce the impacts of agriculture on biodiversity and by moving sustainably-produced commodities from niche markets to the mainstream.

BACP is targeting four commodities: palm oil and cocoa as “fast track,” as well as sugarcane and soybeans. BACP’s initial activities will take place in Indonesia (oil palm and cocoa), Ghana and Côte d’Ivoire (cocoa) and Brazil (sugarcane and soybeans). Other countries might be added as warranted in the course of the program’s 10-year lifetime.

BACP’s GEF budget is US$ 20 million, to be awarded in two US$ 10 million phases. This will have leverage of at least 1:2; leverage will come from the private sector, NGOs, bi-lateral and multi-lateral donors, foundations and other parties.

B. Incrementality of Program

The core of the Program – the rationale – is centered around incrementality. The rationale for the BACP can be summarized as follows:

a. Production areas for oil palm, cocoa, sugarcane and soybeans overlap with areas of globally significant biodiversity;

b. BMPs can reduce the impacts of production on biodiversity, but face certain barriers to adoption;

c. Commodity roundtables and the overall market structure provide an opportunity for the GEF to make an incremental investment to jump-start and support market transformation efforts that lead to the mainstreaming of biodiversity protection opportunities into commodity markets.

The BACP will promote changes in production methods that are both biodiversity-enhancing and financially sustainable in the long term. The IFC has selected commodities for which the private sector has already demonstrated leadership potential. The Roundtable on Sustainable Palm Oil (RSPO) has prepared and approved (by an overwhelming majority) a set of environmental and social principles and criteria. Similar roundtables are just getting underway for soybeans and sugarcane. Major off-takers in the cocoa industry understand the need for a supply of cocoa that is sustainably produced, and a cocoa roundtable is currently being discussed by major buyers. Yet for all four target commodities, the market is not yet delivering large-scale quantities of sustainable supply, because of the barriers mentioned above. Thus BACP represents an incremental investment that will allow the GEF to support consideration, at all levels, of the value chain to seek biodiversity-enhancing opportunities.
C. Incrementality Of Individual Projects

BACP will work in four different commodities, in a variety of countries and production landscapes, promoting measurable performance standards which can be achieved through the adoption of different agricultural Better Management Practices (BMPs). The program will use tools such as documenting the business case for a BMP that reduces agricultural impacts on biodiversity of global significance; site-specific projects to field-test such BMPs, supporting Financial Institutions to incorporate biodiversity criteria into their investment screens, building the demand for biodiversity friendly product, or strengthening the biodiversity component of roundtable dialogues in target commodities. This multiplicity of approaches, although necessary to achieve the Program’s market transformation goal, complicates the incremental cost analysis.

In order to conduct the incremental cost analysis, it is helpful to present the BACP project selection criteria. BACP will prepare a market transformation Strategy which will define, for a given two-year period, what the program’s funding priorities will be for each commodity. An RFP will be issued to solicit projects; it will include clear and transparent project selection criteria. The criteria echo the GEF’s own project funding criteria; among other things, all proposals must demonstrate that the application of BACP funds to proposed project would bring about incremental benefits to biodiversity of global significance. Proposals should identify key threats to biodiversity and indicate how the project will mitigate those threats.

The project selection criteria related to incrementality are shown below:

Incrementality
The proposal must demonstrate that without funding from BACP, the project would not have taken place, or that it would have taken place at a later date, at a smaller scale, or with fewer benefits to globally significant biodiversity.

The proposed activity must be transformational—it must be pivotal in bringing about significant change regarding the impact of producing or processing the target commodity on biodiversity, or in stimulating significant market uptake of commodities that are produced with measurably fewer impacts on biodiversity.

BACP funds will only be used to support performance levels that are beyond compliance with national or local laws and regulations, and that meet (or exceed) IFC’s Policy and Performance Standards on Social & Environmental Sustainability.

Thus, while on the one hand, it is not possible to say, before implementation, which specific projects will be implemented with BACP funds, it is possible to affirm that all such projects will meet the GEF’s incrementality requirements.

In the course of project preparation, BACP has worked with potential partners to develop a number of sample projects. This analysis will discuss the incremental cost aspects of one such project, to illustrate the incrementality expected in funded projects. Sample projects are presented in further detail in Annex 6.
D. Sample Project

Project description
The main objective of this project, “Implementing a Comprehensive System of Biodiversity-friendly Cocoa Production through the Supply Chain,” proposed by Zamacom S.A. (Côte d’Ivoire), a subsidiary of the global trading company Ecom Agroindustrial Corp. Ltd, is to train cocoa smallholders in a comprehensive model of biodiversity-friendly cocoa farming that will improve the economic, environmental and social sustainability of thousands of cocoa farmers. (See Annex 6 for a more detailed project description).

Zamacom is currently providing Technical Assistance to farmers in order to make sure the cocoa delivered was produced according to better environmental practices. Using an Identity Preserved Scheme (IPS), the delivered cocoa is traceable to the farm, which will provide an added value that the final user, including large multi-national chocolate and confectionery firms, are willing to pay for.

The BACP grant would enable the Zamacom S.A. to extend its Technical Assistance to a much wider range of farmers, ensuring reduced biodiversity impacts on a wider scope in a quicker timeframe and increasing commensurately the availability of greater volumes of biodiversity-friendly cocoa into the mainstream market. The grant would support the review and, where applicable, the enhancement of the components of Zamacom’s Technical Assistance that address biodiversity of global significance.

Baseline scenario
Zamacom’s own resources have allowed it to build capacity and deliver training to 2,500 farmers (owning 10,000 hectares and producing about 3,000 MT of cocoa per year) by working with 3 cooperatives over 4 years. The training included the following elements with relevance to biodiversity:
- Protecting indigenous trees
- Protecting water courses
- Proper pruning and sanitary removal of infected pods to avoid further contamination (IPM)
- Proper application, including quantity and timing, of low-toxicity phytosanitary products
- Planting native species of companion/shade trees

Baseline Costs.
The project has cost US $ 200,000 per year over the last four years.

Baseline Benefits.
The biodiversity impacts of the training are:
- farm lifetime prolonged by 25-50%, and thus reduced need to expand production into forested lands;
- farm productivity increased by around 15%, further decreasing the need to expand land under cultivation;
- better downstream water quality through reduced pesticide use;
- increased number of indigenous trees; and
- increased shade cover, providing habitat for forest and soil-dwelling flora and fauna.
These benefits have only reached 2,500 farmers producing on 10,000 hectares so far, and can be expected to reach an additional 4,000 hectares per year in a business-as-usual scenario (e.g. no support from BACP).

**Alternative scenario**

The alternative scenario will allow Zamacom to scale up their training operations, and to enhance the biodiversity component of the Technical Assistance provided to farmers. Whereas only 3,500 farmers a year would be trained in the baseline scenario, one of the alternatives would allow an additional 3,500 farmers to be trained over three years, resulting in an additional 16,000 hectares of land farmed according to biodiversity-friendly techniques. This scaling up could not take place without funds from BACP. Furthermore, the land under this program can be farmed for 25-50% longer, thus reducing the need to expand into forest habitat to maintain the same level of production.

The benefits to the farmers include an increase in productivity estimated at around 15%, and an 10-20% decrease in production costs. They can also expect to overall quality of their cocoa to increase. These benefits, which increase a farmer’s profitability and annual income, should lead to a permanent (and therefore sustainable) adoption of the techniques proposed.

Note that the final project proposal would include an M&E component that will allow the project to quantify the biodiversity benefits listed above (and others as applicable) so that lessons learned will be available to be shared with others. This will extend BACP’s impacts well beyond the specific investments made by the program, creating indirect impacts that will be greater than the project’s direct impacts.

**Costs and projections according to three potential scenarios (in US $)**

**Baseline scenario**

<table>
<thead>
<tr>
<th></th>
<th>Total annual Cost</th>
<th>BACP cost</th>
<th>Better Cocoa purchases (MT)</th>
<th># of coops</th>
<th># Farmers</th>
<th>Hectares</th>
</tr>
</thead>
<tbody>
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<td>3,000</td>
<td>3</td>
<td>2,500</td>
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<td>Projected year 1</td>
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<td>Projected year 2</td>
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<tr>
<td>Projected year 3</td>
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<td>8,000</td>
<td>4</td>
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<tr>
<td>Total</td>
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<td>0</td>
<td>8,000 (annual)</td>
<td>4</td>
<td>3,500</td>
<td>14,000</td>
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</table>
**Alternative scenario A: BACP funds 33% and Zamacom 67%**

<table>
<thead>
<tr>
<th></th>
<th>Total Cost</th>
<th>BACP cost</th>
<th>Better Cocoa purchases (MT)</th>
<th># of coops</th>
<th># Farmers</th>
<th>Hectares</th>
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</thead>
<tbody>
<tr>
<td>Current figures</td>
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<td>3</td>
<td>2,500</td>
<td>10,000</td>
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<td>Alternative, year 1</td>
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<td>100,000</td>
<td>5,000</td>
<td>5</td>
<td>4,000</td>
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<td>Alternative, year 2</td>
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<td>100,000</td>
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<td>6</td>
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<td>20,000</td>
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<tr>
<td>Total</td>
<td>900,000 (3 years)</td>
<td>300,000 (3 years)</td>
<td>12,000 (annual)</td>
<td>6</td>
<td>5,000</td>
<td>20,000</td>
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</table>

**Alternative scenario B with Zamacom maintaining its current level of funding: BACP funds 33%, Zamacom 33% and third party co-finance 33%**

<table>
<thead>
<tr>
<th></th>
<th>Total Cost</th>
<th>BACP cost</th>
<th>Better Cocoa purchases (MT)</th>
<th># of coops</th>
<th># Farmers</th>
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<tbody>
<tr>
<td>Current figures</td>
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<td>Alternative, year 1</td>
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<td>Alternative, year 3</td>
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<td>17,000</td>
<td>8</td>
<td>7,000</td>
<td>30,000</td>
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<tr>
<td>Total</td>
<td>1,800,000 (3 years)</td>
<td>600,000 (3 years)</td>
<td>17,000 (annual)</td>
<td>8</td>
<td>7,000</td>
<td>30,000</td>
</tr>
</tbody>
</table>

### Global Environment Benefit

- **Baseline**
- **Alternative**
- **BACP Increment**

<table>
<thead>
<tr>
<th>Benefit Description</th>
<th>Baseline</th>
<th>Alternative</th>
<th>BACP Increment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Environment Benefit (scenario A), hectares under better management *</td>
<td>14,000</td>
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</tr>
<tr>
<td>Global Environment Benefit (scenario B), hectares under better management *</td>
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<tr>
<td>Costs (scenario A)</td>
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<td>Costs (scenario B)</td>
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<td>1,800,000</td>
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</tr>
</tbody>
</table>

*The alternative and global environmental benefit only take into account direct impacts of the project. The project will also have indirect impacts which will be at least as significant, see below for more detail.*

**Incremental Costs and Benefits.**

*Incremental costs.* Depending on scenarios shown above, the incremental cost covered by BACP over the three-years project lifetime would be US$ 300,000 (Scenario A) or US$ 600,000 (Scenario B).

*Direct benefits.* The direct incremental benefit would be an additional 6,000 – 16,000 hectares of land under better management.
**Indirect benefits.** The project would also bring about an indirect benefit: through dissemination efforts and market forces, the better practices applied during the program will be adopted more broadly. Consider that the final output figure (17,000 MT per year) represents about 1.5 percent of cocoa production in Côte d’Ivoire (about 0.6% of global production); while this may seem like a small figure, it is in fact a significant amount, that can cause a tipping point in cocoa production practices. Through its parent company ECOM, Zamacom has relationships with major buyers who are interested in purchasing better cocoa. BACP’s funds would allow Zamacom to go from its current pilot-level field-testing operations to the next level of scaled-up, improved production systems. Once that is in place, it becomes possible for buyers to purchase or forward contract higher volumes; the consequent trade levels would allow Zamacom to scale the program up further, without support from BACP. Securing significant volumes would allow producers to forward contract their production and use that to obtain cheaper working capital. This in turn would encourage even more of them to take part in the program.

In addition, the project would establish a viable commercial precedent for the private sector to invest in biodiversity farmer training as a part of their supply chain management. Through this model, other aspects of training that improve production, fermentation and overall product quality can also be incorporated into the model. If the model is successful, other industry players are likely to copy it.

Finally, and most importantly, the practices adopted through the project will lead to a significant increase in farm lifetime (estimates range from 25-50%), and therefore, will decrease the pressure on expansion into natural habitat. Given that the practices increase a farmer’s revenues, they are likely to be adopted over the long term, making the project sustainable.

Though it is not possible at this time to quantify the project’s indirect benefits, it seems reasonable to expect the indirect benefits to be greater than the direct benefits.
### ANNEX B – PROJECT LOGICAL FRAMEWORK

<table>
<thead>
<tr>
<th>Hierarchy of Objectives</th>
<th>Key Performance Indicators</th>
<th>M&amp;E / Data Collection Methodology</th>
<th>Critical Assumptions</th>
</tr>
</thead>
</table>
| **GEF Operational Program:**  
Conservation and Sustainable Use of Biological Diversity  
Important to Agriculture | | | |
| **GEF strategic priorities**  
SP-2: Mainstreaming Biodiversity (...) integrate biodiversity conservation in agriculture (...).  
SP-4: Best Practices  
Improve the analysis, synthesis, and dissemination of best practices, innovative approaches, and new tools. | | | |
| **Global Objective:**  
Preserve global genetic, species and ecosystem diversity within agricultural production landscapes, by transforming markets for the target agricultural commodities | **Outcome/ Impact indicators:**  
Companies representing 10% of global trade volumes buy certified or verified product.  
25% of global trade sourced from certified or verified sources. | **Project Reports:**  
Regional baseline assessments.  
Mid-term evaluation and program final evaluation by external evaluator. | **(from Objectives to Goal)**  
The barriers to implementation of BMPs can be overcome via targeted market interventions (e.g., provide documentation/demonstration of BMP methods and benefits). |

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15 Sustainably produced: producer adheres to RSPO Principles and Criteria (for palm oil), or to a biodiversity-friendly certification method (cocoa).
<table>
<thead>
<tr>
<th>Hierarchy of Objectives</th>
<th>Key Performance Indicators</th>
<th>M&amp;E / Data Collection Methodology</th>
<th>Critical Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Output from each Program component:</strong></td>
<td><strong>Output Indicators:</strong></td>
<td><strong>Project Reports:</strong></td>
<td><strong>(from Outputs to Objective)</strong></td>
</tr>
<tr>
<td>(i) <strong>Enabling environment:</strong></td>
<td>Agreement within the roundtables on biodiversity impacts, indicators and performance levels for the indicators.</td>
<td>Mid-term evaluation, final evaluation.</td>
<td>The Roundtables will define effective biodiversity performance levels and indicators.</td>
</tr>
<tr>
<td>Existence of private-sector-led, multi-stakeholder, international roundtables.</td>
<td>Roundtables’ landscape-level biodiversity indicators incorporate zoning and land use management.</td>
<td></td>
<td>Government will be open to dialogue on biodiversity issues.</td>
</tr>
<tr>
<td>Constructive dialogue with the public policymakers and the roundtables.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) <strong>Production and landscape level:</strong></td>
<td><em>(see note below)</em> Land management plan exists. An increase in on-farm natural habitat (selected according to biodiversity values and financial considerations), including 100% riparian area protection. 25% reduction in use of soil amendments per unit of production (proxy for soil quality and for effluents &amp; downstream water quality). 50% reduction in toxicity of Kg of active ingredients of pesticides per ton of production (for class 1 and class 2 chemicals). 25% reduction in water use per unit of production.</td>
<td>The Roundtables verify compliance with performance standards; BACP helps them define the biodiversity performance standards and verification means.</td>
<td>BMPs promoted by the program will have a measurable beneficial impact on biodiversity. If producers are shown that BMPs will increase productivity and profitability, and are offered TA on how to operationalize BMPs, they will adopt the BMPs.</td>
</tr>
<tr>
<td>Biodiversity-friendly practices are incorporated into production and on-farm processing, leading to a measurable decrease of the farm’s impact on biodiversity within the production landscape.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) There is a significant mainstream demand from traders, buyers, processors, other purchasers, and retailers, for commodities produced using biodiversity-friendly means, as identified by independently certified or verified systems.</td>
<td>Existence of certification systems (or other systems such as verification) that incorporate use the biodiversity performance targets defined by the roundtables.</td>
<td>Program Manager will obtain annual data on trade volumes from Roundtables and/or certifiers</td>
<td>Traders, off-takers, processors, and other purchasers see benefits in purchasing biodiversity-friendly commodities (traceability, long-term sustainability of supply, PR/image, response to retail consumer demand, possibility to offer a higher-quality/novel product etc)</td>
</tr>
<tr>
<td>Hierarchy of Objectives</td>
<td>Key Performance Indicators</td>
<td>M&amp;E / Data Collection Methodology</td>
<td>Critical Assumptions</td>
</tr>
<tr>
<td>------------------------</td>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The production of certified/verified commodities leads to a decreased impact on biodiversity.</td>
</tr>
</tbody>
</table>

(iv) Financial institutions recognize the economic benefits of biodiversity-friendly production methods and practices, and integrate them into their operations. At least 5 FIs (including IFC) incorporate biodiversity concerns into their investment screens for the target commodities (including screens for syndicated loans). FIs recognize that biodiversity-friendly practices can increase their clients’ overall resource efficiency and productivity, and decrease social and market risks. FIs are willing to invest time into incorporating biodiversity concerns into their lending practices. FIs find a market for these new services. 

Partner FIs will be required to report on their progress. 

(*) These levels of performance will be part of the certification systems that BACP will promote and that will developed by the roundtables with input from BACP.

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16 The level at which biodiversity concerns are integrated into FIs’ screening policies must be beyond what is specified in local and national legislation as well as beyond IFC’s Policy and Performance Standards on Social & Environmental Policy.

*BACP Executive Summary- GEF Council Work Programme Submission*
ANNEX C: RESPONSE TO PROJECT REVIEWS

a) Review by expert from STAP roster

1. Overview

The central environmental issues to be addressed by the BACP globally, but with a focus on Brazil, Côte d’Ivoire, Ghana and Indonesia, concern the production of agricultural commodities in areas of high biodiversity value, with primary reference to palm oil and cocoa, and secondarily to soya and cane sugar. These issues particularly include land conversion, soil erosion and exhaustion, over-use of agrochemicals, and over-use of water. The basic assumptions of the BACP are: (a) that it is possible to reduce the impacts of agriculture on biodiversity by using ‘Better Management Practices’ (BMPs); (b) that it is possible to work with stakeholders to remove barriers to the adoption of BMPs throughout these sectors of agribusiness; and (c) that market transformation techniques can be used to make commodities grown under BMP conditions become the norm rather than the exception in global trade. Environmental BMPs in particular can include land use planning and zoning (to set aside key ecosystems and biodiversity resources), planting on degraded lands (rather than in natural ecosystems), maintaining soil fertility (e.g. by composting and mulching), and reducing the use of agrochemicals (e.g. by integrated pest management).

The BACP is intended to encourage and enable the routine use of environmental BMPs in the production of palm oil and cocoa in the target countries, thereby contributing to the conservation of globally-significant biodiversity. To accomplish this, the project aims to collaborate with organised forums of business and other stakeholders that already exist for palm oil, cane sugar and soya, and that is incipient for cocoa. In each case, BACP will offer technical assistance to define how real-world commodity producers could introduce particular BMPs on their plantations, to make it easier for financiers to understand the merits of investment in BMPs, and to encourage the global market to accept a price premium on, or show other signs of approval for, commodities produced to BMP standards. This is expected to result in an increasing share of production being more biodiversity friendly than before.

The BACP is fully consistent with GEF Strategic Priorities, and compliant with GEF Operational Programmes 13 (Conservation and Sustainable Use of Biological Diversity Important to Agriculture), OP 12 (Integrated Ecosystem Management), OP 14 (Persistent Organic Pollutants) and OP 15 (Sustainable Land Management). It is judged to be scientifically and technically sound, likely to yield highly significant global environmental benefits, and scores highly on replicability and sustainability criteria. It is also likely to contribute to other GEF Focal Areas (on Climate Change, International Waters, Land Degradation, and Persistent Organic Pollutants), and strongly complements other international commodity initiatives. There has been strong involvement of stakeholders, and the capacity of key participants is likely to be strengthened through implementation of the project. Finally, the BACP is assessed as highly innovative. It is recommended that this important project with its great potential for generating global environmental benefits, should proceed swiftly to the next phase of its development.
2. OBSERVATIONS IN RELATION TO KEY GEF ISSUES

2.1 SCIENTIFIC AND TECHNICAL SOUNDNESS

The central environmental issues to be addressed by this project globally, but with a focus on four countries (Brazil, Côte d’Ivoire, Ghana and Indonesia\(^\text{17}\)), concern the production of agricultural commodities in areas of high biodiversity value. Of primary consideration is palm oil (from the African palm *Elaeis guineensis*) and cocoa (from the American shrub *Theobroma cacao*); while of secondary concern is soya (from the Chinese legume group *Glycine* spp.) and cane sugar (from the South-east Asian grass group *Saccharum* spp.). These issues particularly include the following:

- **Land conversion.** The process by which natural ecosystems are replaced by artificial ones dominated by one or other of these crops has probably destroyed more globally significant biodiversity than any other, since these tropical and sub-tropical plants have so widely replaced ecosystems that were previously very rich in species and, especially in the case of islands, endemic species. It has also undermined the lives, livelihoods and cultures of peoples who previously used the ecosystems for hunting, gathering, grazing or shifting cultivation.

- **Soil erosion and exhaustion.** Where planting and production practices take insufficient account of soil ecology and fragility under conditions of high rainfall and steep terrain, there can be a wholesale loss of nutrients, structure, diverse communities of soil organisms, and material that is washed away to damage downstream ecosystems (such as coral reefs) and economic infrastructure (such as dams).

- **Use of agrochemicals.** Insecticides, herbicides and fungicides contaminate soils and ground waters, where their broad-spectrum toxicity can destroy whole communities of organisms. Meanwhile, along with mill and processing effluents, nitrogen-based fertilizers are a chief source of excess nitrogen in terrestrial and aquatic ecosystems, which causes eutrophication, hypoxia/anoxia and ecosystem death. This can threaten fisheries and biodiversity, as well as altering food webs and simplifying ecological energy flows. Nitrogen deposition was adopted as a key global indicator of biodiversity loss by the CBD in 2004.

- **Use of water.** At a global level, the agricultural sector is responsible for about 70% of all freshwater withdrawal, more than twice the amount of industrial, municipal, and all other users combined, and this consumption can threaten downstream ecosystems or those that share aquifers with crops; where evaporation rates are high relative to rainfall, irrigation can also cause salt contamination of surface soils.

- **Land use planning and zoning.** Areas of exceptional biodiversity value can be identified and set aside for preservation, but this needs to happen at a landscape level with due attention to the need to maintain connected networks of viable ecosystems. Some of the areas required to maintain biodiversity and wildlife corridors are also areas that are marginally productive and barely worth converting, including riparian strips and areas of steep slope.

- **Planting on degraded lands.** Areas that have already been degraded by repeated logging and fire, for example, are abundant in tropical countries and are clearly more expendable from a conservation point of view than other, less disturbed, ecosystems. They can be cheaper to acquire, and easier and cheaper to plant, than natural areas, and doing so would relieve some of the pressure on natural habitats.

\(^{17}\) Malaysia is also to be considered, but it is not yet clear in what detail, or whether this will be done at a federal or state level (bearing in mind it is the states that regulate land use, and those in Malaysian Borneo – Sabah and Sarawak – are particularly autonomous, and Sabah especially has converted large amounts of lowland rain forest to oil palm).
• **Maintaining soil fertility.** Many practices reduce soil erosion and the need for chemical inputs, including the careful siting of plantings and infrastructure, the elimination of burning, setting-aside riparian strips, floodplains and areas of excessive slope, terracing, establishing cover crops (particularly nitrogen-fixing legumes), and building or maintaining organic matter in the soil through mulching, etc.

• **Reducing the use of agrochemicals.** Integrated Pest Management (IPM), precision application methods, spot applications as needed and the elimination of prophylactic use of agrochemicals are all ways to reduce their use. Composting crop residues and mill effluents for use as fertilizers can reduce amounts dumped elsewhere, while also reducing the need for artificial fertiliser inputs.

The BACP is intended to encourage and enable the routine use of environmental BMPs on their plantations, to make it easier for financiers to understand the merits of investment in BMPs, and to encourage the global market to accept a price premium on, or send other signs of approval for, commodities produced to BMP standards. This is expected to result in an increasing share of production being more biodiversity friendly than before.

The targeted forums that already exist are the Roundtable for Sustainable Palm Oil, the Better Sugarcane Initiative, and the Roundtable for Responsible Soy Production. The main players in the cocoa industry have already endorsed the creation of a Better Cocoa Roundtable, but there are other potential partners including the World Cocoa Foundation and the Sustainable Agriculture Initiative. The project document describes a “symbiotic” relationship between BACP and the various forums, in which the project helps to fund activities that address biodiversity of global importance, and makes sure that the roundtables adequately address biodiversity concerns, while participation allows BACP to track key issues in commodity markets, build contacts with the main players, and solicit potential projects. Funding from BACP would be used to support the roundtable in the following ways:

• by providing a share of core support to the forum secretariat;
• by helping to identify measurable indicators for biodiversity and habitat both at the landscape and farm level (this being done through each forum’s Technical Working Group or TWG);
• by helping to identify information gaps or the need to organise existing knowledge (also through the TWGs);
• by support research on indicators or standards;
• by helping to identify and vet global performance standards for each indicator;
• by supporting the field testing of the proposed standards; and
• by support efforts to understand the limitations or strengths of global standards.

Complementing these activities, the BACP will address ‘demand-side’ support for BMPs, since the market must be willing to absorb increased production of such commodities. One way to do this, it is proposed, is to develop quality assurance, verification or certification systems, which allow buyers to select products that meet particular standards, in this case that they are BMP-produced and therefore more ‘biodiversity-friendly’ than alternatives. The key assumption is that a significant proportion of potential buyers would exhibit such a preference. This seems likely, and the stakeholder forums have already made a start on relevant production standards to allow the design of certification schemes. Finally, the BACP will likewise address issues concerning the financing of BMPs, in the awareness that there is already
interest among leading financiers in the agricultural sector to incorporate biodiversity considerations into investment screens.

The BACP’s approach is largely to do with overcoming the following barriers to the adoption of BMPs:

- that BMPs are not yet clearly defined or field-tested, so it is hard to assess their economic and biodiversity costs and benefits, or to adapt them to different production regions;
- that there is a lack of organised and accessible knowledge about possible BMPs among producers, including their methods, costs, and benefits;
- that few financial analyses exist for potential BMPs;
- that large number of smallholders are relatively inaccessible, including those accounting for a third of palm oil production in Indonesia and nearly all production of cocoa in Ghana, Côte d'Ivoire and Indonesia, and BMPs suitable for smallholder use have not yet been documented;
- that in the absence of information and analysis about BMPs on the supply side, and informed pressure for them on the demand side, many potential investors and financiers are reluctant to commit themselves to BMPs;
- that there is a lack of tailored financial instruments to reduce the up-front costs or defer the repayment of loans, which are needed to encourage producers to rehabilitate degraded lands (rather than financing their projects by clearing and selling forests);
- that there is limited access to financing for innovative or uncollateralized investments within local banking systems;
- that laws which might encourage biodiversity-friendly BMPs may be weak, unclear, contradictory or not enforced; and
- that rising production and commodity prices create a ‘boom’ mentality that discourages innovation and change.

It is intended that these barriers will systematically be overcome by the BACP through applied research, by organising and disseminating knowledge, leveraging financing, and deploying a range of market transformation techniques. The project document summarises the proponent’s considerable track-record in these areas, and especially in investment leverage and market transformation

The aims of the BACP are explained in the following terms. First, the three major groups of market actors for each commodity will be targeted, these being the producers, traders and purchasers, and financial institutions. For each group, the BACP will create an enabling environment that generates incentives for greater supply, demand, and financing for biodiversity-friendly products. This approach is reflected in the following specific objectives

- first, international multi-stakeholder commodity dialogues and supportive government policies support the integration of biodiversity concerns at all levels of the value chain;
second, biodiversity-friendly practices are incorporated into production and on-farm processing, leading to a measurable decrease of the farm’s impact on biodiversity of global significance;

third, significant mainstream demand is created for commodities produced according to biodiversity-friendly means; and

fourth, financial institutions recognize the economic benefits of biodiversity-friendly production methods and practices, and integrate them into their operations.

To achieve these aims, the BACP will undertake activities grouped in six components. In addition to components for monitoring and evaluation, and programme management, which are addressed in detailed annexes in the project document, the four others are:

**Component 1: Supporting activities for an enabling environment.**

Activities will include, for each commodity and location:

- ascertaining biodiversity-friendly practices;
- prioritizing practices on the basis of impact on biodiversity and potential for market adoption.
- documenting each priority practice in terms of technique, biodiversity benefits, financial and economic costs and benefits, and other benefits (such as increased farm lifetime, supply security, social benefits);
- disseminating the results of each study;
- participating in roundtable meetings (with a BACP representative on each steering committee);
- contributing, financially or in-kind, to the roundtable’s TWGs on biodiversity issues;
- encouraging policy dialogue at all levels of government.

**Component 2: Supporting better production via site-specific projects.**

The types of activities that the BACP will support include:

- creating commodity-specific learning and referencing tools to give producers information about BMPs that reduce biodiversity impacts;
- implementing proven BMPs when there are market failures that prevent the private sector from adopting them, and the methods have good replication potential;
- conducting applied research to demonstrate the value of BMPs to biodiversity and businesses;
- supporting land-use management planning for protection of ecosystems and biodiversity;
- supporting production methods that contribute to the restoration of degraded habitats and/or the restoration of wetlands or biological corridors in agricultural landscapes;
- encouraging non-production related biodiversity conservation initiatives engaged in by parties involved in the production of agricultural commodities (e.g. biodiversity set-asides, zoning); and
- working through larger market chain actors (mills, plantations, traders, etc.) to support the adoption of BMPs by smallholders.
Component 3: Supporting increased demand for products with more positive biodiversity impacts.

Activities on the demand side will include:

- supporting quality assurance, verification or certification schemes that address biodiversity concerns (e.g. the formulation, field-testing, and approval of biodiversity-related principles, criteria, standards, and verifiers);
- supporting the setting up of systems and practices to allow measurability and traceability;
- documenting and increasing awareness among purchasers of the benefits to them of purchasing biodiversity-friendly commodities, and of their availability; and
- supporting applied research that addresses possible barriers to the uptake of such products, and how to overcome them.

Component 4: Encouraging financial services to support biodiversity – friendly practices.

Activities will include, for each commodity and location:

- working with traders or other private sector actors who would like to use supply-chain finance (that is, to use future purchase commitments as collateral against short-term loans for agricultural inputs);
- working with financial institutions towards incorporation of biodiversity concerns into their screening methods; and
- working with financial institutions on the development of financial instruments that address market needs related to biodiversity practices (e.g. ones that are responsive to the cost differential between developing a new plantation on degraded or forest land), and on ways to market those instruments to their customers.

2.2 GLOBAL ENVIRONMENTAL BENEFITS

As explained in the project document, expanding production of palm oil, cocoa, soya and cane sugar in countries that possess globally-significant biodiversity is likely to have continuing, strongly negative consequences for that biodiversity. The project document reviews the position in the BACP’s four target countries, and explains the global biodiversity significance of Indonesia, Ghana, Côte d'Ivoire and Brazil. Indonesia is a megadiversity country in which logging, forest fires and agricultural conversion, especially for oil palm, are precipitating a severe biodiversity crisis, with escalating rates of endangerment and extinction among the extremely rich biota of the country’s 17,000 or so islands. Ghana and Côte d'Ivoire lie in a highly distinctive biogeographical unit but one that is among the most critically fragmented biodiversity habitats on earth, where deforestation from logging and slash-and-burn agriculture is still prevalent, and where cocoa production landscapes continue to advance into the remaining forest habitat. Brazil is another megadiversity country, and includes the rain-forested Amazon Basin, the Cerrado woodland savannah which covers 21% of the country, and the highly-fragmented endemic-rich Atlantic Forest, all of which are under severe pressure from agricultural expansion, including for cane sugar and soya production.

It is hard to over-state the global importance of the biodiversity resources that are under threat in these four countries, nor the importance of finding practical ways to relieve these pressures. The systematic introduction of biodiversity-friendly BMPs into the agribusiness sector in these particular locations is likely to generate major global environmental benefits. These will be amplified greatly if, as expected, the BACP induces a
mainstreaming of similar incentive structures in other crop sectors and other countries through its influence on global patterns and preferences, both in the market and among the institutions that finance the world’s agriculture.

The BACP document itself envisions that global environmental benefits will come from:

- **commodity-wide global improvements**, on the grounds that over 125 million hectares worldwide are dedicated to producing the four target commodities, so even a small improvement in production practices, multiplied over the area concerned, will have a global impact on biodiversity;

- **local improvements in the circumstances of globally-important biodiversity**, on the grounds that changes may relieve specific threats to endangered species in a particular ecosystem (e.g. the establishment of wildlife corridors in oil palm landscapes for the benefit of orangutans); and

- **improvements in global knowledge**, since the BACP will contribute significantly to understanding of complex agricultural ecosystems and their interaction with the global economy.

### 2.3 GEF CONTEXT

The BACP is fully aligned with GEF Strategic Priorities as approved by the GEF Council in 2003, and addresses two of them in particular:

- **Mainstreaming Biodiversity in Production Landscapes and Sectors**, since the BACP will facilitate the mainstreaming of biodiversity within production systems, support demonstration projects with high replication value, and develop market incentives for conservation.

- **Generation and Dissemination of Best Practices for Addressing Current and Emerging Biodiversity Issues**, since the BACP will create and disseminate biodiversity best practices in the agricultural commodities sector, and will build on lessons learned to improve the sustainability of its impact.

The BACP is also consistent with CBD decisions on the conservation and sustainable use of agricultural biological diversity, and the directly-related GEF Operational Programme 13 (OP 13), as well as with others such as OP 12 (Integrated Ecosystem Management), OP 14 (Persistent Organic Pollutants) and OP 15 (Sustainable Land Management). The BACP also responds to the recommendation by GEF’s second Overall Performance Study (OPS 2) to engage more directly with the private sector in the area of biodiversity. The BACP’s approach is also consistent with the interim GEF report on Mainstreaming Biodiversity in Production Landscapes and Sectors, which points to “improving production practices” as one of the four priority areas for GEF intervention. In addition, the BACP is aligned with the GEF strategy to enhance engagement with the private sector, particularly in agriculture in ways relevant to globally-important biomes and the strategic use of non-grant financial instruments. Finally, the project screening process to be used by the BACP will help ensure the GEF-eligibility of individual projects.

### 2.4 REPLICABILITY

Replicability is an explicit goal in the design of the BACP project-level initiatives, and is one of the criteria on which proposed projects will be assessed. The emphasis on financial sustainability of site-specific projects, will further enhance potential replicability since projects are intended to be proven, and then copied. The market transformations envisioned to increase demand for biodiversity-friendly commodities will have an across-the-board influence on the preferences of consumers, who will apply those preferences to everything that they buy, and not just the examples trialled by the BACP. Similarly, financial institutions enlightened by concern for biodiversity will be more likely to recognise, accept and lend to a wide range of new initiatives that are perceived as ‘biodiversity friendly’ as well as sound in business sense. The dissemination of organised knowledge explaining and justifying BMPs is a process specifically designed to encourage replication on a commodity-wide basis through activities such as information sharing and training on proven methods and technologies. Finally, the
lessons learned by BACP in a given commodity, disseminated through the planned mechanisms as well as the media and word-of-mouth, may also have great replication value for other agricultural commodities.

2.5 SUSTAINABILITY

The aim of sustainability is intrinsic to the process of market transformation, since purchasers who consistently prefer goods produced to BMP standards will reward those who produce such goods, encouraging and enabling investment in their expanded production. This is an effect seen in such areas as the worldwide growth of ‘fair trade’, ‘organic’ and FSC-certified produce sales. Connected logic applies to all the other aspects of the BACP, in that discoveries and the dissemination of knowledge about how to implement BMPs creates an irreversible recognition that they could be adopted if conditions were right, while raised awareness of BMPs among financial institutions might simultaneously make it possible to adopt them. It is hard to identify a starting point in this network of causality, but the fact that the BACP will address all these dimensions at once, using established agribusiness forums to ‘crack’ each commodity, country and sector, means that no specific starting point is needed. Instead, one can envision that as all the pieces of the puzzle are played, there will eventually come a ‘tipping point’ at which market and agribusiness transformation occurs.

The project document lists a number of ways in which the social and business sustainability of the whole system will be promoted, drawing attention to the range of benefits flowing from the adoption of the BMPs. All of these may contribute to a ‘virtuous cycle’, and include:

- the reduced use of toxic agrochemicals benefits local and downstream biodiversity, as well as farmers and agricultural labourers and their families living in neighbouring and downstream communities;
- reduced soil erosion and effluents improves freshwater habitat, benefiting those who depend on fish and other aquatic organisms for protein;
- retiring marginal agricultural lands on existing farms results in increased natural habitat for wildlife, reduced erosion, wildlife corridors, protection of riparian areas, and supply of various environmental goods and services;
- reduced pesticide use makes produce more attractive to consumers while also being more wildlife friendly;
- improved soil organic matter content increases soil health and habitat quality for other species, but also increases productivity, reduces input use and increases net profits.
3. OBSERVATIONS IN RELATION TO SECONDARY GEF ISSUES

3.1 LINKAGES TO OTHER FOCAL AREAS

**Climate Change.** The encouragement of planting degraded and often treeless lands with tree crops suggests that there may be a net carbon storage advantage that could provide a linkage to the Focal Area on Climate Change. Maintenance of soil ecology may also be relevant here.

**International Waters.** Reduced nitrogen run-off may be expected to contribute to the decline of eutrophication, anoxia and dead zones in marine environments, and reduced soil erosion may reduce damage to coral reefs, both of which may provide a linkage to the Focal Area on International Waters.

**Land Degradation.** The application of BMPs that set aside and/or restore natural ecosystems, and that result in sustainable tree crops being introduced on degraded land, should provide a linkage with the Focal Area on Land Degradation.

**Persistent Organic Pollutants.** Many pesticides that are still in use in many countries are persistent organic pollutants or POPs (including Aldrin, Chlordane, DDT, Dieldrin, Endrin, Heptachlor, Hexachlorobenzene and Mirex), so any reduction in pesticide usage might be expected to contribute to the Focal Area on POPs.

3.2 LINKAGES TO OTHER PROGRAMMES AND ACTION PLANS

The BACP will seek synergy and complementarity with other international commodity initiatives, including:
- International Finance Corporation (IFC) mainstream operations;
- other IFC Programs, including the Linkages Program which features outreach to small and medium enterprises, and the GEF-funded, IFC-managed, Environmental Business Finance Program;
- industry initiatives, including the IFC/WWF BMP Initiative, Roundtable on Sustainable Palm Oil, the Sustainable Agriculture Initiative Platform, the World Cocoa Foundation, Better Sugarcane Initiative, and the Roundtable for Responsible Soy Production; and
- those by non-governmental organisations, such as the Rainforest Alliance, the World Wide Fund for Nature, The Nature Conservancy, and Conservation International.

The proponent is part of the World Bank Group, and the BACP’s collaboration with other GEF implementing agencies will synergise with policy or regulatory reform, government capacity building, smallholder rural initiatives, and other initiatives that are being progressed by the Group. The BACP will focus on any such engagement that might help remove regulatory barriers to the use of BMPs in the target countries.

Collaboration with UNEP is envisioned, such as with some of the industrial forums set up by its Division of Technology, Industry and Economics, including that on Sustainable Production and Consumption Activities, and its Initiative on Integrated Assessment of Trade-Related Policies and Biological Diversity in the Agriculture Sector.

Other examples of potentially complementary initiatives include the UNDP’s Conserving Globally Significant Biodiversity in Cocoa Production Landscapes in West Africa, and UNEP’s Conservation & Use of Crop Genetic Diversity to Control Pests & Diseases in Support of Sustainable Agriculture.
3.3 OTHER ENVIRONMENTAL EFFECTS

The overall environmental impact of the project should be favourable if its key outputs are obtained. Moreover, the potential for beneficial replication, multiplication and influence by similar initiatives across numerous other commodities sectors and countries is a real one.

3.4 INVOLVEMENT OF STAKEHOLDERS

The proponent (IFC) has a long history of engagement with the agricultural sector, and the project document summarizes about US$ 500 million in investments by its Agribusiness Department in the four BACP target crops and in all the target countries except Ghana. The project document also makes clear that the proponent has long been engaged, through the IFC/WWF BMP Initiative, with international, multi-stakeholder, industry-led commodity roundtables for the target crops. This deep familiarity with the whole sector and its participants shows through clearly in the quality of analysis and explanation of the project.

Many stakeholders will be affected by or involved in the project at implementation, including private producers, traders, food manufacturers and retailers, financial institutions, civil society (e.g. NGOs, academics), local and national governments, commodity roundtables, and bilateral and multilateral organizations, research institutes and local communities. Many of these will be accessed through the proponent’s participation in the various commodity roundtables, with the membership of the palm oil forum alone including over 100 important actors in all the above categories, representing up to half one-half the volume of palm oil traded world-wide.

Smallholders account for about a third of palm oil production, and most African cocoa production, and the BACP will work with them indirectly through larger organizations, such as mills (for palm oil and sugar) or traders (for cocoa), which often have an inter-dependent monopoly relationship with surrounding smallholders. Local communities and stakeholders will be crucial at the level of individual projects, and their participation and consultation will be needed in view of their knowledge of local biodiversity and production methods.

3.5 CAPACITY-BUILDING ASPECTS

Several of the example projects annexed to the project document specify an explicit capacity building function, for example: “The project will build capacity at cooperative and farmer level and involve the following activities: (a) build capacity at cooperative level to ensure financial credibility, transparency of management, knowledge of the member base and baseline data collection (b) hands-on training of farmers through instruction on demonstration plots (c) establishment of project logistics and product traceability (e.g., local bagging stations at coop level, local cocoa quality certification).”

3.6 INNOVATIVENESS

The BACP is rooted in recent efforts such as the IFC/GEF Environmental Business Finance Programme and the IFC/WWF BMP Initiative, and in current and emerging initiatives, such as the commodity stakeholder forums. It is nevertheless highly innovative, in attempting a rational, integrated process of transformation across huge sections of global agriculture, engaged in particular with critical locations where change can be expected to benefit biodiversity most strongly.
3.7 INCREMENTAL COST ANALYSIS

a) Baseline scenario

The agricultural commodity sector would probably transition more slowly to more sustainable production practices because of regulatory pressures from local governments and to service the small but growing consumer demand for more low-input agricultural products, mainly in developed countries. The work of the roundtables is ambitious, but slow, and meanwhile irrecoverable and large-scale biodiversity loss will occur due to soil erosion, water contamination, loss of habitat, pesticide over-use, etc. It is also unlikely that biodiversity of global significance would be specifically factored into the definition and implementation of BMPs.

b) GEF Alternative

This will accelerate the transformation to sustainable production practices, while helping to save significant global biodiversity by applying targeted TA in support of the market transformation process. GEF support will help to remove the existing barriers and push private sector players to focus their efforts in a direction consistent with the CBD and the GEF. In addition, BACP's funds will ensure that the roundtables maintain a focus on biodiversity of global significance, and that impacts are addressed as effectively as possible.

c) Project selection criteria

These aim to ensure that all projects meet GEF incrementality requirements, and include:

- that the proposal must demonstrate that without funding from BACP, the project would not have taken place, or that it would have taken place at a later date, at a smaller scale, or with less benefits to biodiversity of global significance.
- that the proposed activity must contribute to bringing about a marked change in the impact of farming or primary processing on biodiversity, or in the market uptake of commodities with a lowered biodiversity impact.
- that the proposed measures go beyond compliance with national or local laws and regulations;
- that the proposed measures meet or exceed IFC’s Policy and Performance Standards on Social & Environmental Sustainability.

d) Example projects

Project 1: Cocoa farmer training in Cote d’Ivoire.
Objective: To develop a model of ‘biodiversity-friendly’ cocoa farming.
Proponent: A Trader active in target West African countries.
Background: The Trader is currently providing Technical Assistance to farmers in order to make sure the cocoa delivered was produced according to better environmental and social management practices. The TA is provided in the context of a supply-chain finance arrangement: the trader provides the TA to improve farmer practices; in exchange, the farmer commits to using these practices. In parallel, the Trader offers the farmer financing to allow the purchase of inputs for the coming crop; a commitment to sell to the Trader acts as collateral for the financing.
Investment: The BACP grant would enable the Trader to extend its TA to a much wider range of farmers ensuring greater availability of sustainable cocoa. The grant would also be used to review and enhance the components of the Trader’s TA that address biodiversity of global significance.
**Project 2:** Smallholder training in Indonesia.

**Objective:** To develop a model of ‘biodiversity-friendly’ smallholder oil palm cultivation.

**Proponent:** The largest refiner and exporter of palm oil and palm-related products in Indonesia.

**Background:** The refining/exporting group depends on smallholders who sell to its palm oil mills. These mills have a symbiotic relationship with surrounding smallholders. They depend on smallholders’ production for their economic viability, and the smallholders, for reasons of geography and perishability are captive sellers to the mill. The mills are therefore in a position to work with smallholders to improve their farming practices.

**Investment:** The BACP grant would allow: (a) development of criteria for sustainability at smallholders level, focused on practices which lessen farming impacts on biodiversity; (b) implementation of pilot or research activities around one or several operations in Indonesia; (c) feedback and dissemination of results and lessons learned, focusing on those related to biodiversity; and (d) participation in the RSPO TWG on smallholders, focusing on biodiversity issues and yielding recommendations for the definition, testing, and adoption of economically viable BMPs that lessen the impacts of production on biodiversity.
3.8 Monitoring and evaluation arrangements

a) Impact monitoring

Ten percent of the BACP budget is allocated to M&E. This amount will cover the design and implementation of the detailed M&E plan, including a baseline, mid-term and final evaluation, as well as efforts to assess progress in market transformation, and the ensuing improvement in biodiversity impacts. It is notoriously difficult to monitor a project’s direct impact on biodiversity, however, and all the more so when the project spans three continents, and production landscapes covering over 125 million hectares. A proxy will therefore be used, based on the regular audits to check on biodiversity performance that are embedded in the quality assurance, verification or certification arrangements that are made for each commodity. Monitoring the establishment, implementation and functioning of these systems will help to demonstrate impacts, provided they include satisfactory biodiversity standards. It will also be necessary, however, to link the adoption of BMPs to precise area- or species-based metrics, while the broader landscape/land-use activities will be evaluated separately.

For commodities where there is not yet a certification or verification scheme in place that addresses biodiversity, the BACP will work with the roundtables to establish one. Hence monitoring will become integral to the work of the commodity roundtables, and will become third-party oriented, global, and permanent (in short, mainstreamed). The BACP will also review existing standards against minimum requirements, and will help improve them if necessary. By working through the roundtables to set up a monitoring scheme, the BACP’s role becomes to ensure that the decisions taken by the roundtables lead to a credible and effective monitoring system.

This will require the following steps to be taken with each roundtable and TWGs concerned with biodiversity issues: (a) confirm that the roundtables are sufficiently inclusive and transparent for products such as principles, criteria, indicators and standards to be acceptable to a wider audience; (b) define principles, criteria, performance standards, indicators and verifiers; (c) ensure that these are accepted by the full roundtable membership and other stakeholders; and (d) ensure that a credible verification scheme is put in place to support the performance criteria.

The specific indicators that BACP would support will vary somewhat by commodity, but will probably consist of the following: (a) existence of landscape zoning with due attention to biodiversity of global significance; (b) existence of a farm land management plan consistent with the above zoning; (c) level of on-farm natural habitat (selected according to biodiversity values and financial considerations), and in particular riparian area protection; (d) use of soil amendments per unit of production (proxy for soil quality, and for effluents and downstream water quality); (e) toxicity of kg of active ingredients of pesticides per ton of production; (f) water use per unit of production.

b) Baseline study

For the market transformation baseline, the BACP will monitor its overall impact on its target commodity markets, in order to measure the extent to which it meets its market transformation objectives. The following market indicators are relevant:

- the number of financial institutions that incorporate biodiversity concerns into their investment screens for the target commodities (including screens for syndicated loans);

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18 e.g. water quality, level of inputs per unit of production, proportion of riparian and sloped land set aside.
19 A soil amendment is any material added to a soil to improve its physical properties, such as water retention, permeability, water infiltration, drainage, aeration and structure; the goal is to provide a better environment for roots.
- the existence of verification systems (or other systems such as certification) that incorporate the biodiversity performance targets defined by the roundtables;
- the percentage of global trade represented by companies who buy certified or verified product; and
- the percentage of production and of global trade allocated to certified or verified product.

These indicators can be quickly assessed through a quick “barometer-type” market survey. The barometer survey would be undertaken in conjunction with the roundtable. It would help the roundtable take the pulse of the global market for Better commodities and track its progress through time. It is expected that the cost of the barometer survey would be shared with the roundtables.

c) Mid-term and final evaluation

The mid-term and final evaluations will revisit the studies conducted during the baseline evaluation, assess the changes that have taken place using the indicators devised by the roundtables, and discuss causality/links to BACP. The design of the final evaluation might be changed to reflect lessons learned in the course of the mid-term evaluation.

d) Monitoring and evaluation of individual projects

All site-specific projects funded by BACP will need to track baseline and final production conditions, according to indicators agreed at the outset. These indicators will vary by project and by BMP, but should generally reflect the production-level indicators set out above. Where possible, site-specific projects should also track relevant costs (changes in input costs, labour costs, etc.) and yields, as this information will be very useful for further dissemination of the BMP in question. The cost of monitoring site-specific projects will be integrated into the project’s own budget.

4. CONCLUSIONS

This has the makings of an excellent project document, which describes an important, innovative and holistic initiative which is likely to have profoundly beneficial effects on global biodiversity. This reviewer has only the following minor reservations and suggestions for further improvement:

- Reference could be made to the fact that land conversion has also undermined the lives, livelihoods and cultures of peoples who previously used the ecosystems for hunting, gathering, grazing or shifting cultivation (see suggested text in Section 2.1).
- It would help to understand how Malaysia will be dealt with in this system (i.e. is it a target country, and will Peninsular/federal, Sabah and Sarawak be treated separately – see Footnote 1).
- Reference should be made to nitrogen deposition as a CBD indicator of biodiversity loss, and one of the inputs that BMPs would reduce (see suggested text in Section 2.1).
- Reference should be made to salinisation in the context of over-use of water in agriculture (see suggested text in Section 2.1).
- Contraindications for planting on degraded land should be considered to include: (a) that such areas may already have lost much soil quality; (b) that criteria have yet to be agreed for deciding when the damage to an ecosystem is so extreme and irreversible as to justify sacrificing it through conversion to agriculture; and (c) that the processes by which lands are degraded (farming, ranching, etc.) may generate ownership claims that could affect the cost and ease of acquisition.
- Note the correct name of UNEP’s Division of Technology, Industry and Economics;
• There is a potential concern that moral hazard is inherent to any mechanism that brings together key players in a biodiversity-consuming industry, generates best practices, and then certifies its own members as being compliant with ‘biodiversity-friendly’ practices, which could be viewed as a way to avoid punishment by consumers upset by the destruction of rain forests. In this sense, full participation of the BACP in the roundtables and TWGs is a strength which could be emphasized.

• Organic farming methods might be considered as one of the BMP options, in view of the recent market transformation in favour of organic products in many countries.

• A final point to consider for the BMPs is that too often agricultural plantations are not just monocultures at the species level, but also at the clonal level. Large stands of genetically-identical plants are at high risk of pest and disease attack, and the maintenance of on-farm genetic diversity should be explicitly encouraged by the project.

That said, in the view of this reviewer, the BACP is an important and innovative project, with great potential for generating global environmental benefits, should proceed swiftly to the next phase of its development.
RESPONSE TO EXTERNAL REVIEW

IFC Response to STAP review of 18 February 2006 by Julian Caldecott.

The reviewer’s comments reflect a strong background and a clear understanding of the BACP. The IFC has addressed the Reviewer’s comments as follows.

- Reference could be made to the fact that land conversion has also undermined the lives, livelihoods and cultures of peoples who previously used the ecosystems for hunting, gathering, grazing or shifting cultivation (see suggested text in Section 2.1).
  
  See section E: Background, paragraph on Land Use.

- It would help to understand how Malaysia will be dealt with in this system (i.e., is it a target country, and will Peninsular/federal, Sabah and Sarawak be treated separately – see Footnote 1).

  See section II A, Country Selection and Eligibility.

- Reference should be made to nitrogen deposition as a CBD indicator of biodiversity loss, and one of the inputs that BMPs would reduce (see suggested text in Section 2.1).

  See section E: Background, paragraphs on Input Use, and on Reduced Use of Inputs.

- Reference should be made to salinisation in the context of over-use of water in agriculture (see suggested text in Section 2.1).

  See section A: Introduction, paragraph on Degradation of Water and Soil Resources.

- Contra-indications for planting on degraded land should be considered to include: (a) that such areas may already have lost much soil quality; (b) that criteria have yet to be agreed for deciding when the damage to an ecosystem is so extreme and irreversible as to justify sacrificing it through conversion to agriculture; and (c) that the processes by which lands are degraded (farming, ranching, etc.) may generate ownership claims that could affect the cost and ease of acquisition.

  See Section I, Component 2.

- Note the correct name of UNEP’s Division of Technology, Industry and Economics;

  Noted.

- There is a potential concern that moral hazard is inherent to any mechanism that brings together key players in a biodiversity-consuming industry, generates best practices, and then certifies its own members as being compliant with ‘biodiversity-friendly’ practices, which could be viewed as a way to avoid punishment by consumers upset by the destruction of rain forests. In this sense, full participation of the BACP in the roundtables and TWGs is a strength which could be emphasized.

  This moral hazard would indeed be present if industry were acting on its own. However, the roundtables have been careful to include social and environmental NGOs as members, precisely for this reason (ex: the social NGO Sucrethique is on the Steering Committee of the Better Sugarcane Initiative; the RSPO membership includes has 5 environmental NGOs and 4 social NGOs, and four board members are from NGOs). Thus while IFC’s presence will contribute to the overall credibility of the roundtables, it is not a determining factor.
• Organic farming methods might be considered as one of the BMP options, in view of the recent market transformation in favour of organic products in many countries.

*Organic farming is not exactly a BMP, it is a label which provides guarantees for the consumer’s health, rather than for biodiversity. While certain practices from organic farming may be applicable within BACP, BACP must remain centered on biodiversity. Organic farming alone cannot save orang-utans and other globally threatened species. In the countries and commodities where BACP will work, organic may be have its place, but must be blended with strong farm-level and landscape-level zoning. It is also worth noting that farmers can use pesticides adequately and still protect endangered species and habitat.*

• A final point to consider for the BMPs is that too often agricultural plantations are not just monocultures at the species level, but also at the clonal level. Large stands of genetically-identical plants are at high risk of pest and disease attack, and the maintenance of on-farm genetic diversity should be explicitly encouraged by the project.

*See Section I, Program Activities, Component 2.*

b) Convention’s Secretariat

c) Response to comments by secretariat and other agencies