DEVELOPMENT PROJECTS ACCESSING CARBON FINANCE

HOW BENEFITS ARE SHARED AND KNOCK ON LOCAL SOCIO-ECONOMIC EFFECTS

CROSS-CUTTING STUDY - SUMMARY

MECHANISMS TO COMBAT CLIMATE CHANGE

There is a consensus within the international scientific community that climate change is real. It is primarily due to the accumulation of greenhouse gases generated by human activities.

In 1997 in Kyoto, the United Nations Framework Convention on Climate Change (UNFCCC) established mechanisms to attempt to regulate the greenhouse gas (GHG) emissions of the industrialized countries which had recognized their historic responsibility.

Carbon finance was one of these mechanisms, based on the principle of trading carbon credits each representing the saving of one tonne of CO_2. It combines market mechanisms, such as the emissions cap and trade system, with project mechanisms including the Clean Development Mechanism (CDM).

THE CARBON MARKETS

There are several carbon markets.

Developed at different regional and multinational levels, the so-called compliance markets (where stakeholders are subject to regulation) differ from the voluntary markets (where stakeholders voluntarily engage in carbon credit purchases).

Projects developed by NGOs usually relate to the voluntary markets, as they are more accessible.

CARBON AND DEVELOPMENT

Countries are not all equal in the face of the impacts of climate change and their levels of responsibility and vulnerability vary considerably.

The climate crisis is therefore an international solidarity issue and, as a result, the CDM seeks to facilitate investment in GHG emission reduction projects in developing countries. As NGOs' core mission is to support development, some of them quickly sought to tap into this new and promising funding stream by selling the carbon credits generated by their projects.

STUDY ON THE NGO APPROACH TO CARBON FINANCE

The NGOs **Agronomes et Vétérinaires Sans Frontières** (AVSF), **Groupe Energies Renouvelables, Environnement et Solidarités** (GERES) and **Initiative Développement** (ID) shared their experience of five development projects accessing carbon finance. This cross-cutting study, carried out by **P3Value** with support from **F3E**, aimed to reveal how the carbon markets could be used to fund NGO development projects, focusing on the following questions:

- What are the attractions and limitations of this type of funding for a development project and how does it fit in?
- What are the consequences for the way the project is run and what effects does it have on the local communities?
- Is it possible to determine a specific course of action and positioning for NGOs on the carbon markets?

Reafforestation (Peru)
AVSF since 2008
225 ha replanted, 300 beneficiary families

Dissemination of improved stoves (Cambodia)
GERES since 1997
600 000 beneficiary families

Biogas (China)
ID since 2007
1450 beneficiary farms

Dissemination of improved stoves (Mali)
GERES since 2010
Objective : 300 000 beneficiary families

Reafforestation (China)
ID
250 ha replanted, 40 hamlets affected

What are the impacts of carbon finance on development projects?

► *A long-term vision*

Bringing a project into a carbon finance process means that precise monitoring and reporting procedures must be developed in order to access the income. This long-term vision, which may encompass a period of up to 30 years in the case of reafforestation projects, helps to make up for the lack of continuity in project implementation.

► *Strengthened project monitoring*

A rigorous monitoring system is vital for the project to measure GHG emission reductions. Apart from the normal requirements of a classic development project, this system produces a large amount of data that can be used for project evaluation.

► *Leverage*

A carbon finance project facilitates capitalization of experience and scaling up: either by ramification, through bringing complementary activities into a programming approach, or by replication in another region or country, according to the strategy adopted by the NGO (top-down, bottom-up).

► *Freedom to allocate carbon income*

Income from the sale of credits is not earmarked for one project or specific task (unlike grants). This has the advantage of more flexible income allocation although it does not release project developers from their obligations to report on financial flow management.

Carbon funds used differently:

AVSF: Funding labour costs in the plantations.

ID: Ensuring monitoring of biogas plants and supervision of the plantations.

GERES: Setting up a supply chain, funding training, quality labelling, Research & Development, etc.

Improved stoves in Cambodia - GERES

What do NGOs raising carbon finance need to watch out for?

► *Managing overlapping project cycles*

Accessing carbon finance involves three different overlapping cycles:

- Access to carbon finance: Administrative process cycle
- Implementation of project activities: Development project cycle
- Management of carbon income: Carbon credit generation cycle

This combination requires heavier project engineering and involves managing the gaps between these cycles (budgets, partnership relations, etc.).

► *Diversifying financial risks*

A project's carbon income depends on the sale of carbon credits. This means managing the related risk, so diversification of funding sources is crucial. It will help in particular to avoid the project being held up if there are delays in the process of accessing carbon finance.

Time from starting preparation of the carbon process to project validation:

GERES (improved stoves, Cambodia): 5 years (2003-2007)

ID (biogas, China): 5 years (2007-2011)

AVSF (reafforestation, Peru): 2 years (2008-2010)

► *Building the NGO's capacities to manage the carbon project cycle*

Faced with these new project management requirements and the performance obligation as regards GHD emission reductions, the NGO's teams will need to learn new skills, which may be developed in-house or brought in from outside.

► *Avoiding the mirage of carbon finance*

Precautions must be taken vis-à-vis the stakeholders as regards the income raised from the sale of future carbon credits. Instruction and information must be provided on the governance of carbon funds so as not to disrupt the project's establishment and to avoid arousing mistrust.

► *Taking account of the costs of creating, setting up and monitoring the project to ensure its sustainability that are not wholly covered by carbon credits*

How much does it cost to raise carbon finance?

The carbon certification process has many stages. The corresponding costs differ from one project to another depending on the project's features (scope, number of beneficiaries, political and economic context, etc.).

The preparation and start-up stages must be gone through prior to the production and marketing of the credits. Funding the feasibility and eligibility of a project for carbon finance is a key but particularly tough issue.

Carbon income can only cover some of the project's costs. The projects studied have therefore established financial arrangements that combine private and public sources in order to cope with the significant initial investments needed.

What impacts do carbon funds have on the project's business model?

The table below gives a simplified view of the return and costs of a carbon project:

Project resources	Project costs
GRANTS (ODA/private funders)	**CARBON COSTS** Preparation, implementation, transaction, certification, registration
INCOME generated by the project activity (sale of electricity, sale of wood, charcoal savings, etc.)	**OPPORTUNITY COSTS for users** Trade-offs, salary/benefits, price reduction/incentives
PROCEEDS from carbon credit sales	**RETURN "normally" due to the developer and any lenders**
CARBON INCOME	

In the case of the projects studied, all the resources are redirected towards the generation of socio-economic benefits.

Reafforestation in Pichanaki—AVSF

Carbon finance: What are the advantages for beneficiaries?

Rather than simply sharing out financial income, the carbon funds generated by the project will serve to spread socio-economic benefits amongst local people.

AVSF in Peru: The pine trees can be used by a local craft industry.

ID in China: The produce of the fruit trees can be used when they mature after 25 years.

Local knock-on effects can be extremely varied:

- Cash benefit (payments, wages, income from sales, etc.).
- Direct benefits (improvements in hygiene, indoor air quality and so on).
- Indirect and non-cash benefits (participation in decision-making, training, technology transfer, etc.).

Effects on beneficiaries depending on the project developer's strategy:

	ID Biogas China	GERES ICS Mali
Short term *Establishment*	Discount on biodigester Latrines Training	Training Management tools Equipment
Medium term *Course of the project*	Between 2 and 7 years: Charcoal savings Training Help with maintenance	Training Strengthened supply chain with quality label Creation of activities Cash income
Long term *After carbon finance*	Charcoal savings Training Help with	Continuity of supply chain with quality label

Construction of a biodigester—ID

What strategies are used in allocating carbon income?

Depending on the projects and management models chosen by the NGOs, carbon income is allocated differently. Mechanisms vary as regards:

- What is distributed (cash distribution or added value along the whole supply chain);
- The "hierarchy" of (direct/indirect) beneficiaries (end users or more specific stakeholders).

What is the value of the NGO approach to carbon finance?

The term "co-benefits" is used to describe any socio-economic advantage generated by a carbon project. Such benefits are, however, the foundation and primary objective of any project to support low-carbon development.

This notion of "co-benefits" is therefore a key component when it comes to assessing projects developed by NGOs. Such benefits are an NGO trademark and a genuine competitive advantage when marketing credits… A fair amount of marketing and communications work needs to be done to make the best use of the carbon credits generated by projects developed by NGOs.

What position should be taken with regard to governance of carbon projects?

There are no universal good governance rules. The only guideline given concerning compliance with international environmental legislation is that stakeholders must be consulted during the project preparation phase. In fact, however, the community consultation phase in the five projects studied goes much deeper than the consultation stage required by any carbon standard. On the other hand, governance schemes vary greatly, whether in terms of stakeholder organization, the decision-making processes or the tools used to formalize commitments.

How can the demand for transparency in carbon projects be met?

Players in the carbon markets are often criticised for the opacity of their operational arrangements and project results – including the corresponding financial flows.

Because of this, information and communications are key issue for NGOs which need to be very explicit about:

- **The genesis of the project:** funding arrangements and potential income.
- **The schedule of activities:** Time taken to generate carbon credits, details of actual financial flows.
- **Exit strategy from carbon income:** Involvement of local stakeholders.

The communications strategy depends on the local context, the project's specific features and the developer's strategy. It is generally considered that two extremes should be avoided:

- Holding back information, which makes it difficult to involve and empower the stakeholders.
- Systematic dissemination of all the data on a project, which can become counter-productive and create confusion amongst local stakeholders faced with complex financial engineering.

The study was conducted by a multi-disciplinary team of consultants from P3value on behalf of the NGOs GERES (Group for the Environment, Renewable Energy and Solidarity), ID (Initiative Développement) and AVSF (Agronomes et Vétérinaires sans Frontières), with assistance and financial support from F3E.

The summary and full report on the study are available on the F3E website: www.f3e.asso.fr

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Crédits: AVSF, ID, GERES