

10 STEPS FOR CARBON CREDIT SUPPORTED PROJECTS:



Mercy Corps supports initiatives that fulfil our development mandate; where these also reduce greenhouse gas emissions we can look for financial support through the development of carbon credits. The following steps are a general overview of the process to get carbon-related funding and what is expected of:

- *Mercy Corps*: the project developer and implementer
- *The carbon retailer*: the business that can sell credits on the carbon market
- *The carbon verification body*: the organisation responsible for determining the eligibility of your carbon credits.

The actual process may not follow these steps in the exact order they are listed and will also be influenced by the technology adopted and the chosen “Standard” and “Methodology”. However, the purpose of this document is to provide a simple outline of the terminology and to aid decision making on whether or not carbon revenue is an appropriate source of funding for your project. A checklist is provided at the end for this purpose.

1. INITIAL CONSIDERATIONS

Not all projects are suitable for carbon financing. To be eligible projects must either significantly reduce emissions or “capture” carbon by storing it away. Projects that **reduce** emissions are categorised as either **renewable energy** (replacing use of fossil fuels by a renewable source such as solar) or **energy efficiency** (reducing the amount of energy required). **Reforestation, afforestation and REDD** – Reducing Deforestation and Forest Degradation – **capture** or sequester carbon and are also eligible.

The extent of this reduction/capture is vitally important since there are costs involved in adhering to carbon market mechanisms. Determining the **scale** of the project, and/or its potential for **replication**, is therefore important. As a general rule projects should have the potential to reduce emissions by more than 10,000 tonnes of CO₂ per annum in order to be cost effective. Smaller projects could still however, receive direct support for

a company wishing to make a voluntary offset and which does not require official monitoring.

Carbon financing can help projects to escape from the traditional donor project cycles of 3-5 years since income is related to both scale and the timeframe of the project with longer timeframes being the most cost effective. This can provide a tool to aid replication and achieve sustainability but commitments to this longer timeframe, or an exit strategy to pass on the projects to partners, are essential.

The **technology** being adopted is a vital consideration, particularly whether it would have been introduced without carbon financing, while the **location** of the project will dictate whether it is feasible to think of meeting the stringent monitoring standards. Projects in remote areas involve higher monitoring costs and are less likely to be viable. **Staff skills** also need to be considered to ensure that there is the internal **capacity** to adhere to the monitoring requirements.

Finally, carbon financed projects require **stability** since projects need to demonstrate the **permanency** of emission reductions. Projects in unstable environments, such as emergency situations, are therefore less likely to be suitable.

If the project description suggests that it may be eligible for carbon financing then the following guide can be used.

2. ADDITIONALITY

One of the first criteria to consider for a potential carbon financed project is whether or not it can demonstrate “Additionality”, i.e whether it can truly make additional savings in greenhouse gas emissions beyond what is termed “Business as Usual” – BAU. Definitions of additionality vary but normally come under the following categories:

- **Financial analysis:** where the project demonstrates that without the additional financing from carbon credits, the project would not have the resources to be implemented in the same shape or form.
- **Barrier analysis:** where it can be shown that legal, social, technological, or cultural barriers exist that prevent particular climate mitigation activities being undertaken, with projects only considered additional if they can be shown to overcome such barriers.
- **Common practice analysis:** where the technology or project is not currently common practice in the region or country and therefore carbon financing is helping to overcome barriers to new practices.

3. CARBON RETAILER

It is possible to navigate a project through the carbon market without the help of a carbon retailer but this is both complex and risky and is probably not advisable for Mercy Corps at this stage. Carbon Retailers are companies that engage in either the compliance market or the voluntary market (or both). The compliance market is the regulated arena where companies, governments or other entities buy “carbon credits” to help them comply with caps on their total emissions. The voluntary market includes individuals and companies that voluntarily mitigate their greenhouse gas emissions through the purchase of credits. One tonne of carbon equals one carbon credit. These credits are sourced from programmes and initiatives that reduce or capture carbon. Credits are either “ex-ante” (ie a forward sale) or “ex-post” (once credits have been verified).

The decision on which retailer to engage with should include:

- Whether they operate primarily in the voluntary or compliance market.
- The proposed scale of the project.
- The ethos of the company (whether they are sympathetic to the work of NGOs and will give some assurances that carbon credits will not be sold to companies that would fall outside our due diligence protocols)
- The price offered per tonne of CO₂.
- The terms offered (i.e. whether they will provide some up-front financing or wish to wait until credits are issued and whether or not they will pay for DOE project validation and verification (see below).

The retailer will guide the project through the process and is usually responsible for writing and submitting the **Project Design Document (PDD)** to a Standards body (see below).

4. ELIGIBILITY

Before engaging with a project developer retailers will check whether the project complies with additionality requirements and will assess project risks (risk of non-delivery, external risks, reputational risk and regulatory risks). They will also examine key issues of permanence and leakage.

- **Permanence:** The need for permanence is to ensure that the emission reductions achieved during the project are real, verifiable, cannot be reversed and will continue throughout the life of the project. For example, a forestry project may need to have a credit “buffer” to insure against the loss of carbon credits if it is destroyed by fire or there is a change of land use requiring deforestation.
- **Leakage:** Before any project goes ahead it must also demonstrate that it has considered, and dealt with, the issue of leakage. Leakage is a measurable increase in greenhouse gases that occurs outside the boundary of the project that is directly attributable to project activities. For example, a project designed to reduce deforestation in one area may prove to be ultimately unsuccessful in lowering emissions if harvesting activities are just displaced to another site.

5. COMPLIANCE OR VOLUNTARY MARKET

NGO projects are more suitable for the voluntary market for a number of reasons but particularly because of scale, choice of technology, and timelines. Carbon credits sold under the voluntary market are called Voluntary or Verified Emission Reductions (VERs) while those in the compliance market are called Certified Emission Reductions (CERs). Some of Mercy Corps’ larger projects may be eligible for CERs down the road.

6. CHOOSING A STANDARD

Previously the voluntary market was poorly regulated which gave rise to considerable adverse publicity. Over the last few years a number of robust standards (see below) have emerged, that give assurance to purchasers that credits are valid, are not double counted and contribute to sustainable development. Most operate on a not-for-profit basis and cover their costs from charges applied to registration and credit issuance. The Gold Standard, (see below) was set up by WWF and other NGOs and Mercy Corps is listed as an NGO supporter.

The standards provide benchmarks of quality for purchasers of carbon credits. Although others exist the most likely standards for Mercy Corps projects are:

- **Gold Standard (GS):** Gold Standard currently represents best practice since it requires the project to prove that it is contributing to sustainable development and will not have any adverse socio-economic or environmental impacts. This requires more rigorous monitoring which, in turn means extra expense and a need for greater staff capacity. Carbon credits attract a premium price because of this assurance. GS does not, currently, handle forestry and land use projects.
- **Voluntary Carbon Standard (VCS):** VCS is emerging as a market leader in the voluntary carbon market. It handles all types of projects, (renewable energy, energy efficiency and forestry and land use), and has slightly less demanding monitoring requirements with this difference normally being reflected in the price per tonne being offered.
- **Plan Vivo:** Plan Vivo is a system for developing community-based payments for ecosystem services (PES) projects and programmes with an emphasis on building capacity, long-term carbon benefits from community forestry and land use projects, diversifying livelihoods and protecting biodiversity.

7. CHOOSING A METHODOLOGY

All projects must follow an **approved methodology** for defining the baseline, evaluating the project emissions and emissions reductions, and defining the monitoring procedure. It is possible to design a methodology and submit this for approval to one of the Standards but it is both time consuming and costly. It is therefore likely that most Mercy Corps projects will adopt a methodology that has been through this process. The methodology used will depend upon the technology adopted and the Standard being followed.

8. THE BASELINE

Emission reductions need to be real, measurable and verifiable. This necessitates measuring the emission reductions associated with the project intervention against Business As Usual (BAU), i.e. what would have happened in the absence of the project. The actual process will vary according to the methodology and which Standard the project is adhering to. This will normally require technical assistance for the calculations of emission reductions and, in the case of forestry projects, may need detailed surveys to be carried out. The baseline analysis will normally use one sample population but multiple baselines may be required if there are substantive differences in the target population.

9. SUSTAINABILITY AND STAKEHOLDER SURVEYS

The project should demonstrate that it is contributing to sustainable development and would not have any adverse social, environmental or economic impact. The exact requirements for this will depend on whether it is complying with GS, VCS or Plan Vivo requirements. Stakeholder consultations should also be held to ensure that local opinions guide and shape the design of the project.

10. MONITORING

The need to demonstrate that carbon emission reductions are real, that credits are not double counted and that they contribute to sustainable development requires rigorous

project monitoring. Monitoring is carried out on a regular random sampling basis during the lifetime of the project with the size of samples determined by a statistical programme which takes into account the numbers involved and the level of confidence required. Costs do **not** go up exponentially as the project expands because sampling is on a statistical basis.

The quality of the monitoring will determine the quality of the carbon credits that are verified while the documentation required will depend upon the chosen Standard and methodology. For example, Gold Standard requires the project developer to compile all data on the baseline, the sustainability matrix and the stakeholder consultations into the Gold Standard **Passport** which is then used by the retailer to develop the PDD. The monitoring process is rigorous and demands high quality record keeping and staff ability to conduct surveys.

As a rough guide project monitoring costs are likely to be in the region of \$20-30K per annum.

Projects are also checked by third party “**Designated Operational Entities**” (DOEs). The DOE for a respective country is responsible for initial **validation** that the project is eligible and meets all the criteria for the Standard that is being followed. The cost of this validation may be met by either the retailer or the project developer and will vary according to the nature and scale of the project. The DOE will also review the draft PDD submitted by the retailer. When the project is underway the DOE will pay a return **verification visit** to confirm the veracity of emissions and, based on the DOE’s report, the relevant credits will be **issued** by the Standard body

ADDITIONAL RESOURCES

Further information - including templates for baselines, energy poverty surveys and sources of additional material/helpful websites - is available from Dory McIntosh (dmcintosh@uk.mercycorps.org) or Jim Jarvie (jjarvie@hq.mercycorps.org)

CHECKLIST

Project criteria	Affirmative indicates project potential for carbon financing	Reason
Is the project located in a stable environment?		Carbon finance projects need stability to ensure the permanence of emissions.
Is the expected emission reduction/capture likely to be more than 10,000 tonnes of CO ₂ per annum - either immediately or through project scale up?		It is unlikely that smaller scale projects will cover the monitoring costs although this is technology dependent.
Does the scale and location of the project indicate that monitoring would be cost effective?		Widespread geographical coverage or remote areas make monitoring more expensive.
Monitoring costs may be in the region of \$20-30K per annum. Can the project cover this?		It is more likely that the carbon revenue will be generated after the end of the first year once emission

		reductions have been proven.
Does the technology comply with a recognised methodology?		It is possible to design and submit a new methodology but not realistic for Mercy Corps at this stage.
Does the project have skilled staff, or can acquire staff, who can handle monitoring requirements (surveys, data recording , reporting)		The carbon market requires stringent monitoring to take place.
Is the project length suitable?		Most carbon projects are 2- 10 years in length with longer projects being preferred.
Would the project involve just one product /technology?		Projects involving multiple products might require separate methodologies which raises costs.
Does the project meet additionality requirements, i.e. would it not have occurred without the incentive of carbon credits?		The project is only eligible for carbon financing if it can meet the additionality ruling.

PROJECT EXAMPLES

The following projects have been proposed or are being implemented in the Mercy Corps world.

- Fuel Efficient stoves: (DRC, Myanmar and potentially Timor Leste). Around the world millions still use traditional “three stone fires” for cooking. These are highly inefficient, contribute to wide-scale deforestation and also lead to high levels of respiratory diseases – particularly among women. The use of a fuel efficient stove can dramatically reduce the need for wood-fuel which, in turn means that women spend less time foraging for fuel and suffer from fewer illnesses. The carbon credits are associated with the reduction in unsustainable wood used.
- Community Forestry (Colombia) - The project is working with slum communities to plant trees in urban environments and surrounding hillsides which will provide useful sources of wood fuel and fruit while conserving and restoring waterways and wetlands and helping to capture carbon.
- Biogas from Waste (Indonesia) - In the population-dense slums of Jakarta, poverty and over-crowding, lack of adequate sanitation and waste disposal leads to unhealthy, unhygienic, and environmentally damaging conditions. Lack of accessible, affordable fuel and electricity inhibits income generation and raises expenditures. The installation of biogas facilities addresses the issue of poor sanitation while providing a useful source of clean and free cooking fuel to slum dwellers while reducing carbon emissions. Carbon credits are associated with the substitution of a fossil fuel (usually kerosene) by a renewable source.
- Briquettes (Democratic Republic of Congo) - Combustible biomass briquettes are produced from a wide range of waste plant and agricultural material. Benefits to local populations include reduced respiratory diseases (from lowered smoke levels), employment opportunities and the protection of one of the world’s most threatened eco-systems. Emission reductions are associated with the replacement of charcoal by a renewable fuel source.