Carbon Connections: Carbon Finance and Sustainable Development

Tuesday 13th November 2007
Edinburgh

REPORT ON PROCEEDINGS

AGENDA

WELCOME AND INTRODUCTION

SESSION ONE	The development of standards for energy projects to meet both sustainable development and climate benefits: experiences of the Gold Standard Foundation
SESSION TWO	Projects that have the potential to deliver Voluntary Emissions Reductions (VERs) and promote sustainable livelihoods: the experience of Plan Vivo
SESSION THREE	How does sustainable development fit into the Carbon Finance cycle?
PANEL ONE	Carbon Offsetting: who takes the risk?
PANEL TWO	How do you implement a Carbon Offsetting Project with sustainable development goals?

PLENARY

EXECUTIVE SUMMARY

WELCOME AND INTRODUCTION

Mercy Corps sees climate change as a great threat to the communities it serves, but also as opportunity. The *Carbon Connection* seminar was held to start a dialogue about whether, and how, offsetting and carbon finance can be used to achieve sustainable development goals.

SESSION ONE: THE DEVELOPMENT OF STANDARDS FOR ENERGY PROJECTS TO MEET BOTH SUSTAINABLE DEVELOPMENT AND CLIMATE BENEFITS: EXPERIENCES OF THE GOLD STANDARD FOUNDATION

The Gold Standard is a certification standard that offers market distinction for the best offset practices. It is an independent foundation committed to sustainable development, which designs methods for creating premium renewable energy carbon credits.

SESSION TWO: PROJECTS THAT HAVE THE POTENTIAL TO DELIVER VOLUNTARY EMISSIONS REDUCTIONS (VERS) AND PROMOTE SUSTAINABLE LIVELIHOODS: THE EXPERIENCE OF PLAN VIVO

Plan Vivo is a community-based carbon offsetting system focussed on agro-forestry. It has implemented projects in Mexico, India, Uganda and Mozambique over the past 10 years. Each Plan Vivo project is unique depending on local conditions, as well as the capabilities and requirements of partners, buyers and sellers. Over half a million tonnes of carbon has been sold under the Plan Vivo system, which aims for 60% of income to go directly to the farmers.

SESSION THREE: HOW DOES SUSTAINABLE DEVELOPMENT FIT INTO THE CARBON FINANCE CYCLE?

Carbon offsetting in the voluntary market is often pursued for different reasons than in the compliance market: as an identifiable activity for philanthropic or CSR pursuits. Because of this, the Voluntary carbon market is not about a commodity, but about an active engagement in environmentally sustainable project.

PANEL ONE: CARBON OFFSETTING: WHO TAKES THE RISK?

Risk protection can be attained through ensuring offsetting is part of a broader carbon management strategy. Risks include: Delivery Risk, Project Risk, Additionality, Contractual Risk, Counter-party Risk, and Reputation Risk. Risk management and mitigation can be achieved through relying on recognised standards (such as Gold Standard), developing a portfolio of projects to spread the risk and attaining insurance.

PANEL TWO: HOW DO YOU IMPLEMENT A CARBON OFFSETTING PROJECT WITH SUSTAINABLE DEVELOPMENT GOALS?

Finding commonality on vision for the outcomes of offsetting projects is the key to developing successful partnerships. Each partner takes on different roles, depending on the nature of the project. Project scale needs to make sense in terms of profits and the purchase price. Projects need to have size – or the ability to scale up – to ensure they provide profits to the project owners, and sufficient credits to the buyers.

PLENARY

There are a number of projects that could incorporate carbon finance but there needs to be a simple guide for NGOs, and others, to find their way through the maze. Moreover, there are different motivations and roles for all the partners so it is important to have common touch points and comprehensive understanding between corporate, NGO, academic and private partners.

In the future, it may be useful for a follow up seminar to cover ways in which analysis of projects can be conducted in a business sense, using standards for guidance on economic and financial analysis.

REPORT ON PROCEEDINGS

WELCOME AND INTRODUCTION

Mercy Corps works in 35 fragile economic and political states assisting transition towards sustainable economic development. It considers that while climate change is the greatest threat to the communities it serves, it also presents opportunities. One of these is the possibility of using carbon offset systems to the financial benefit of communities who, for example, are reducing carbon emissions through transition to cleaner energy or locking up carbon through agro-forestry projects.

Throughout the months of exploring how to engage the carbon markets in development it became obvious that other NGOs and businesses were similarly overwhelmed by the wealth of information and diversity of opinion on the difficult topic of offsetting in developing countries. The *Carbon Connection* seminar was held as a first step in Scotland to start a dialogue about whether, and how, offsetting and carbon finance can be used to achieve sustainable development goals.

The seminar reported on here is a part of Mercy Corps' response to climate change. It is a modest effort in relation to the challenges climate change presents: one organisation cannot change the world as it can never achieve scale alone, but with the creation of pilot programmes that are replicable, the development of useful partnerships, and the inspiration and willingness from all parties, we can work together to make a difference.

SESSION ONE: THE DEVELOPMENT OF STANDARDS FOR ENERGY PROJECTS TO MEET BOTH SUSTAINABLE DEVELOPMENT AND CLIMATE BENEFITS: EXPERIENCES OF THE GOLD STANDARD FOUNDATION

The Gold Standard is a certification standard that offers market distinction for the best offset practices: a 'certifying body' which, over time, has developed a brand that consumers of carbon credits trust to indicate quality offset projects. It is an independent foundation committed to sustainable development, which designs methods for creating premium quality carbon credits – a quality assurance process and stamp.

The Gold Standard was originally of interest to boutique buyers of carbon credits, but has expanded quickly, and is continually re-examining its guidelines to ensure rigorous standards. It focuses only on 'fuel switch' offsetting projects dealing with renewable energy projects. It does not dispute the value of forestry projects, but under the rigorous guidelines forestry does not meet the 'fuel switch' aims of the Gold Standard. There will be a total of 12 approved Gold Standard projects (GS Projects) by the end of 2007. There are 22 further projects going through the validation process and 60 projects under pre-validation discussion.

Once a project is approved by the Gold Standard Foundation it will use communication and influence to ensure it is achieving the agreed credits, thus will avoid a situation of having to retract support from a project once clients have begun purchasing credits. One issue it faces because of its increased popularity is projects 'aiming' for Gold Standard which have not begun a dialogue with the Foundation, yet are publicly using the association brand. This has led to a new ruling that if an organisation wants to publicly discuss its use of the Gold Standard it needs to be registered and at least in preliminary discussions with it.

Ideally, all UN projects should include the sustainable development rigor that the GS promises, as this was a Kyoto stated goal. However, waiting for the UN, the US or Australian markets to reach these conclusions and agree to implement these standards will likely take a very long time. The Gold Standard Foundation provides an important service – acting as the lighthouse illuminating sustainable development criteria that should be included in CDM offsetting projects. Gold Standard certification and project definitions are already being used by governments such as the Philippines, who are avoiding 'reinventing the wheel' by coming up with their own standards.

SESSION TWO: PROJECTS THAT HAVE THE POTENTIAL TO DELIVER VOLUNTARY EMISSIONS REDUCTIONS (VERS) AND PROMOTE SUSTAINABLE LIVELIHOODS: THE EXPERIENCE OF PLAN VIVO

Plan Vivo is a community-based carbon offsetting system, working under the umbrella of BioClimate Research and Development (BR&D), and includes agro-forestry, wood lots, wood pasture, forest protection and management, forest restoration and soil conservation. It has existed for 10 years and has evolved through learning by doing, with a strong belief in the need for communities to have a full say in their development.

First project: Scolel Te Chiapas Mexico

The first project was initiated in 1994 during a DFID funded mixed research programme located in Mexico, including partners from The University of Edinburgh, local NGOs, private companies, farmers and regional and national governments. Previously local farmers had been forced to pursue income opportunities by deforesting their land to expand agriculture. The purpose of the project was to provide an alternative income opportunity by allowing farmers to engage in the global carbon market and develop long term sustainable income through an environmentally sustainable forestry project.

India

This was a failed project for Plan Vivo – yet learning by doing can provide good, if negative, data. The local NGO partner was not equipped to cope with problems that arose with the project's sustainability following a longer than expected drought. The lesson learned from this project: ensure you understand the underlying capabilities (not just the stated or assured capabilities) of your partners, and better anticipate external risk factors (such as drought) and incorporate these into decision-making process – in this situation the use of native trees.

Uganda
Widespread deforestation provided an existing baseline (i.e. zero forestation) from which to develop a carbon credit forest. Civil structures were in place to administer project, with local women's groups identified as the most suitable to administer and oversee financial distribution.

Mozambique, N'hambita
Unlike the other examples, no civil governance structures existed in this area of Mozambique after years of civil war. A different model emerged for payments to farmers, that included direct funding of community projects such as schools and clinics, as well as payments to farmers. This was developed and is administered by the local community.

All projects currently under way are implemented at a local level, but are designed to be scaleable up to regional level implementation. Plan Vivo does not prescribe a process for developing a project – each project is unique depending on local conditions, as well as the capabilities and requirements of partners, buyers and sellers. There are four broad stages which are outlined as follows:

Conception: Selection of target group and activities, assessment of physical, social and economic factors, consideration of land tenure to ensure target group have ownership, evaluation of partner capacity.

Project design: Partners are recruited, roles are defined, and each undertakes delineated responsibilities for project including:

- **BR&D** issues certification and defines systems and standards
- **Project Coordinator** recruits farmers, maintains databases, administers funds, registers carbon agreements and produces annual reports
- **Local Technical Team** assists local users and assists in data collection
- **External Technical Support** provides advice on project design, and provides training

Initiation: Producers are recruited and sale agreements are formed. Local institutions are trained to understand carbon trading. The project is implemented and payments are made on a milestone basis. Prices are agreed by the buyer and seller (that is, the farmer or cooperative) with the support and advice of the Project Coordinator. Plan Vivo staff can also provide advice, especially on the lowest price that producers should accept.

Annual reporting: Covers any challenges, information about recruitment, how the project is being communicated and who the carbon buyers are.

Approximately half a million tonnes of CO_2 offsets have been sold under the Plan Vivo system, which aims for 60% of income to go directly to the farmers or local community. How the 60% is divided between these groups is decided locally. This level of funding can be achieved because verification is more limited than in CDM or CER projects. This highlights a challenge of the VER markets – buyers may want both extensive verification to reduce the risk and a high return to the farmer to make a difference, but this is not possible, especially while market prices for carbon are so low. There will always be risk associated with making a difference. If buyers become very risk adverse, they will end up making very little difference.

SESSION THREE: HOW DOES SUSTAINABLE DEVELOPMENT FIT INTO THE CARBON FINANCE CYCLE?

There is an important distinction between voluntary actions and compliance actions by companies. Carbon offsetting as a voluntary action is pursued for different reasons – often to give a company a more human face, or an identifiable activity for their philanthropic or CSR pursuits.

Because of this, the Voluntary carbon market is not about commodities. There is a major shift towards active engagement in environmentally sustainable projects, and CDM carbon finance projects reach this broader audience.

However, there must be caution to ensure sustainable development in carbon finance does not lose the rigour of quantification of carbon. This is why there is a premium for Gold Standard projects, which provide assurances on both issues.

There can be policy gaps – such as in the land use of the area designated for a forestry project. From a development perspective, 80% of Ugandan energy comes from woody biomass but this leads to increased deforestation. Preventing deforestation by investing carbon finance may be an option, but there will be implications for development.

PANEL ONE: CARBON OFFSETTING: WHO TAKES THE RISK?

When to and whether to offset

Risk protection can be attained through ensuring offsetting is part of a broader carbon management strategy. Forum for the Future refer to this as 'Avoid Reduce Substitute and Offset' (ARSO). There needs to be careful consideration of when, and whether, to move from Avoiding, Reducing and Substituting, to the final option of Offsetting.

- Offsetting may be quicker than changing your business plan to reduce your impact, but is it as effective?
- Consider the audience you are taking the offsetting to, and what issues will concern them.
- Consider whether the projects meet your desired level of verification, and whether you need third party opinions.
- Be completely transparent and ensure you have full information to back up all decisions and statements.

Risks

Delivery Risk: Projects may under or over deliver on carbon credits. Some sellers, such as The CarbonNeutral Company will bear this risk for the client and provide a guarantee: buying credits from traders if projects under deliver.

Project Risk: Where a project underperforms, it can only sell the credits it produces, resulting in loss of revenue for the project owner.

Additionality: Integrity of carbon market is hinged on additionality. Emergence of standards helps ensure integrity and control risk, but there can be discrepancies between the written and the actual additionality.

Contractual Risk: Emissions Purchase Agreements include required standards, price (sometimes using a floating price to incorporate market price fluctuations), and contingencies arising from future changes such as legislation changes.

Counter party risk: Buyer or seller might default. This is a risk for both parties and depends on, among other things, the size of the organization.

Reputation Risk: Failed or morally questionable projects can impact reputation, especially if covered by the media. Need to consider possible negative press from each project, as well as potential increased scrutiny with high profile clients (e.g. Cold Play concert offsetting forest failure)

Regulatory Risk: Carbon trading systems are very likely to change post-Kyoto in 2012. It is difficult to contract beyond this given the uncertainty of what the market will look like.

Risk Management and Mitigation
Standards: There are certain risks that the Gold Standard process reduces: GS Projects are less likely to fail because projects are more conservative, and less likely to attract negative press because there is a high and transparent level of stakeholder engagement.

Insurance: Risks do have economic costs and there are more and less efficient ways of dealing with them. Some brokers and providers have insurance in place should there be project failure. However, buyers often want to see their carbon finance benefiting people directly and do not want to see it going to an insurance company. Project portfolios may help solve this through spreading risks across the portfolio.

Pricing
Risk is usually reflected in the negotiated price, and this varies depending on whether or not it is the primary and secondary markets:

- Primary markets: if a project under-performs it is only possible to deliver as many credits as the project as generated
- Secondary markets: brokers and banks buy from projects and can guarantee the number of credits sold to buyers

PANEL TWO: HOW DO YOU IMPLEMENT A CARBON OFFSETTING PROJECT WITH SUSTAINABLE DEVELOPMENT GOALS?

Partnerships

Finding Commonality
This is the key to developing successful partnerships. There has to be a common vision for the outcomes of the project – they do not necessarily need to be exactly the same, but they need to be complementary. Non-negotiables need to be outlined early on to ensure there are no conflicting issues. Partners should match developing communities with opportunities – an example would be an NGO assisting a community which is trying to replant a destroyed cocoa plantation, and receiving funding and assistance from an ethical chocolate producing company. There is a commonality of aims – environmentally and socially ethical cocoa production, contributing to economic development of the region.

NGOs: Passive Vs Active Roles
Mercy Corps has noted passive and active roles with partners in projects. A passive role involved facilitation of Nike's investment in solar panels to provide energy to schools devastated by Hurricane Katrina. Mercy Corps assisted with linking the corporate to the schools, and facilitating the process, but was not actively involved in the carbon aspects. An active role would involve an NGO actively implementing an offsetting project with relevant partners. There can be difficulties in creating partnerships in areas of conflict or natural devastation, but this could also prove be a novel niche area.

Corporate
This is an emerging market arena. There needs to be an evolution, but corporations do not like to learn as they go; forward planning with expectations are generally preferred. Accountability is important and the emergence of standard setting bodies is helping corporations to feel more

comfortable in the roles they can take. There is concern from smaller businesses regarding the risks of offsetting, as they do not generally have sufficient resources to manage these risks.

Academia
One role for academia is to maintain transparency, contributing to project credibility. Academia can provide independent reviews and develop new techniques and methodologies for monitoring project design, implementation and success.

Scalability
Project scale needs to make sense in terms of profits and the purchase price. Projects need to have size – or the ability to scale up – to ensure they provide profits to the project owners, and sufficient credits to the buyers. This could create tensions, as projects grow away from being small scale – such as single farmers or small community groups - and move to becoming larger-scale, conglomerate based to ensure they provide enough credits to be financially sustainable. The challenge is to ensure the sustainable development objectives and community needs are continually and mutually met.

PLENARY

There are a number of projects that could incorporate carbon finance but there needs to be a simple guide for NGOs, and others, to find their way through the maze. Moreover, there are different motivations and roles for all the partners so it is important to have common touch points and comprehensive understanding between corporate, NGO, academic and private partners.

In the future, it may be useful for a follow up seminar to cover ways in which analysis of projects can be conducted in a business sense, using standards for guidance on economic and financial analysis. There is a need to pinpoint and address confusion in understanding of the carbon market and potentially look at developing resource materials to make it simpler. Finally, it would be useful for partners to attempt projects in carbon finance, providing transparent reports on learning throughout the process.

Attendees		
Yulia Kiryeyeva	Agrinergy Limited	Carbon Market Associate
Sarah Carter	BioClimate Research and Development	Plan Vivo Co-ordinator
Alexa Morrison	BioClimate Research and Development	Plan Vivo Team
Akira Kirton	BP	Program Manager, Emerging Consumer Markets Business
Ben Witchalls	BP	Environmental Policy
Nathalie Ritchie	Cadbury Schweppes	Head of Ethical Sourcing
Robert Harley	Camco Group	Commercial Director
Nicola Mushet	Concern Universal	Chair of Trustees
Ian Williams	Concern Universal	Executive Director
Jessica Cameron	Crichton Carbon Centre	Carbon Footprinter
Ewan Wallace	Crichton Carbon Centre	Lecturer
Andy Konigsberg	Deloitte	Global Leader, Energy & Resources Consulting
Francis Stuart	International Association for Community Development	Research Assistant
Ruth Milner	Key Travel	Environments Officer
Robert Brunt	LTS International	Consultant
Stephen Stradling	Napier University, Transport Research Institute	Professor of Transport Psychology
Joseph Kwasnik	National Grid	Head of Climate Change
Catherine Street	NIDOS	Support Officer
Joel Scriven	Oxford University, Environmental Change Institute	Doctoral Student
Andy Mason	RBS	CSR Analyst
Sam Gardner	Scottish Environment Protection Agency	Senior Policy Officer (Sustainable Development)
Imogen Walsh	Scottish International Relief	Volunteer
Blake Schaefer	Stark Investments	Director, Global Environmental Finance
Paul Adderley	The Business Environment Partnership	Manager, Business Environmental Advisor
Anna Graham	The Business Environment Partnership	Business Environment Advisor
Helen Nyul	The Business Environment Partnership	Business and Biodiversity Officer
Dr Heather Lovell	University of Edinburgh, CECS	Lecturer in Human Dimensions of Climate Change
Dr Mathew Williams	University of Edinburgh	Reader in Global Change Ecology
Dr Colin Pritchard	University of Edinburgh, Institute of Energy Systems	Senior Research Fellow
Arturo Balederos Torres	University of York	MSc, Environmental Management
Sarah Brown	Vetaid	UK Development Manager
Richard Greer	WMG Limited	Head of Investor Relations
Sara McLennan	Woodcraft Folk	Powerpod Project Co-ordinator
Tshering Dolma Sherpa		

Speaker		
William McGhee	BioClimate Research and Development	Director
Jasmine Hyman	The Gold Standard	Marketing Director
Panellist		
Richard Tipper	Edinburgh Centre for Carbon Management	Director
Iain Watt	Forum for the Future	Principal Sustainability Advisor
Bhavna Prasad	JPMorgan Chase	Vice President, Environmental Markets
Jerry Seager	The Carbon Neutral Company	Manager, Carbon Sourcing
Mercy Corps		
Nancy Lindborg	Mercy Corps	President
Mervyn Lee	Mercy Corps	Executive Director
Allan Alstead	Mercy Corps	Chairman, Board of Trustees
Djemila Cope	Mercy Corps	Trustee
Paul Dudley Hart	Mercy Corps	Senior Vice President of RD & Communications
Bill Farrell	Mercy Corps	Vice President of Program Development
Dr Jim Jarvie	Mercy Corps	Director of Climate Change, Environment and Natural Resources
Dorothy McIntosh	Mercy Corps	Climate Change: Policy & Coordination
Sarah Birrell	Mercy Corps	Climate Change Team
Sloane Grogan	Mercy Corps	Climate Change Team
James Stewart	Mercy Corps	Climate Change Team
Valerie Ceccherini	Mercy Corps	Senior Policy and Advocacy Advisor
Jez Stone	Mercy Corps	Climate Change Volunteers
Mohamed El Mongy	Mercy Corps	Climate Change Volunteers

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