TRAVERSES

Proceedings of the Groupe *initiatives* study day, held on 19th October 2012

Carbon finance as a means of access to energy for the poor:

What are the conditions for successful development projects and promot-ing the use of social carbon?

Coordinated by Christophe Barron (ID)
Editor: Muriel Desgeorges (ID)

Carbon finance is being used to fund a growing number of forestry projects and initiatives to improve access to energy for disadvantaged communities in the South. This kind of innovative funding is highly attractive, but requires specific expertise to navigate its complex and restrictive procedures. Returns on the initial (sometimes substantial) investment are by no means guaranteed and can take a long time to materialise; and some feel that the economic strategies and partnerships generated by this type of funding are inconsistent with the NGO ethos.

Do NGOs have a specific approach to carbon finance? What problems do they face in implementing development projects that mobilize carbon finance? What safeguards are needed? Is there such a thing as "social carbon", and do the actors involved in carbon projects agree on a social approach to carbon? How can the values that drive these projects be upheld and developed?

Groupe initiatives *(Gi) proposed a study day on the theme "Using carbon finance as a means of access to energy for the poor". This took place on 19th October 2012, and was attended by nearly 80 participants working in development, research, the private sector and various institutions. The day's proceedings are presented below as part of ongoing efforts to structure thinking about the way that development actors – and NGOs in particular – use carbon finance.*

LES ÉDITIONS DU GROUPE *INITIATIVES*
INITIATIVE DÉVELOPPEMENT

n° 41

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GROUPE INITIATIVES AND CARBON FINANCE AS A MEANS OF ACCESS TO ENERGY FOR THE POOR

THE CONTEXT AND PROBLEMS

Carbon finance emerged from the Kyoto protocol as a means of translating the UNFCCC objectives and procedures for combatting climate change into action. The regulatory and (especially) voluntary carbon markets are structured around investors (carbon funds), carbon offsetters, project developers, and carbon standards designed to secure genuine reductions in greenhouse gas emissions (the Gold Standard, Verified Carbon Standard, etc.). In the years since NGOs started using carbon finance, questions have been raised about the diverse practices observed in this field, the role that NGOs play in it, and how they can contribute to more responsible carbon finance.

The sale of carbon credits generated by development projects represents an additional source of funding, but this is not easily accessible. Specific expertise is needed to navigate the complex and restrictive procedures associated with this attractive and innovative funding stream, while returns on the initial (sometimes substantial) investment are by no means guaranteed and can take a long time to materialise. NGOs using this kind of funding may find themselves drawn into unusual partnerships and adopting unfamiliar economic strategies.

Even though they share common ground in terms of their practices and desire to follow social and ethical approaches, NGOs and their partners in the South rarely discuss the processes, economic models, strategic choices and operational practices used to implement carbon projects.

THE STUDY DAY

Groupe initiatives suggested this study day to help structure the way that development actors, and NGOs in particular, think about the use of carbon finance, which can provide an innovative springboard for forestry and energy projects.

Several NGOs that are involved in carbon projects presented case studies detailing their practices at each phase of a particular project cycle. These presentations fed into the first round table of the day, which discussed whether there is a specific ‘development NGO approach’ to carbon finance. It was agreed that ‘carbon’ impacts should extend beyond simply reducing greenhouse gas emissions in developing countries, but as the second round table showed, it is very difficult to define ‘social’ and ethical carbon. While it seems that NGOs do share a common approach to carbon, the same can also be said of other types of actor.

The last part of the day opened up the debate to various actors who are working in different ways to improve the governance and transparency of what is often an opaque sector: the Gold Standard for carbon certification; Fairtrade, the body that certifies and labels fair trade ; and the NGOs Geres, ID and AVSF.

THE GI POSITION ON CARBON FINANCE

The Groupe initiatives position on an 'NGO approach' to carbon finance can be summarised as follows:

→ **carbon finance is not the answer to climate change.** This lies in individuals, businesses and public authorities changing their behaviour. Carbon finance is a tool, a lever for limiting greenhouse gas emissions by financing concrete projects in the field;

→ that said, **'carbon projects' represent a commitment to tackling climate change.** NGOs that work on carbon need to stay engaged in the debate about the kind of energy models that should be adopted in the South and the North, participate in international climate negotiations and contribute to the formulation of national policies on climate change;

→ NGOs need to **ensure that their standards and practices are credible and reflect their mission to assist development,** especially in terms of transparency and governance;

→ **NGOs can unite around convergent operating principles, especially on the issue of 'social and ethical carbon'.** They need to come up with new ideas and take an ideological lead that other (private and institutional) actors can follow

→ **taking a lead from the F3E/ID/Geres/AVSF study and this GI study day, French NGOs involved in carbon would benefit from working together to affirm their own vision and philosophy for action.** NGOs need to be open to discussions with other actors, especially private companies, while being mindful of the motivations and objectives of this competitive and potentially lucrative sector.

LIST OF PARTICIPANTS

NAME	ORGANISATION
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Adeline Giraud	AVSF
Marion Tréboux	Iram
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ACRONYMS AND ABBREVIATIONS

Ademe	French Environment and Energy Management Agency
Apdra	Association for fish farming and rural development in tropical Africa
AVSF	Agronomists and Veterinarians without Borders
BISS	Bolivia Inti Sud Soleil
CDM	Clean Development Mechanism
CER	Certified Emission Reduction (one CER unit is equivalent to one tonne of CO_2]
Ciedel	International centre for the study of local development
CO_2	Carbon Dioxide
CSR	Corporate social responsibility
DI	Development Initiative
ER	Emissions reduction
ERPA	Emissions Reduction Purchase Agreement
ERU	Emission Reduction Unit
EU ETS	European Union Emissions Trading Scheme
F3E	Fund to promote preliminary assessments, crosscutting studies and evaluations
FGEF	French Global Environment Facility
Geres	Groupe énergies renouvelables, environnement et solidarités Environment, renewable energy and solidarity Group
GHG	Greenhouse gas
GI	Groupe initiatives
GRDR	Groupe de recherches et de réalisations pour le développement rural Rural development research and projects group
HFCs	Hydrofluorocarbons (type of industrial gas)
HSF	Hydraulique sans frontières
IPCC	Intergovernmental Panel on Climate Change
Iram	Institut de recherches et d'applications des méthodes de développement Institute for the research and application of development methods
Iseal	International social and environmental accreditation and labelling
JI	Joint implementation
N_2O	Nitrous Oxide
NLS	New Lao Stoves
NRB	Non-renewable biomass
PDD	Programme Design Document
PoA	Programme of Activities
tCO_2equ	Tonnes of CO_2 avoided, a unit of measurement that takes account of all the greenhouse gases considered by Kyoto
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organization
VCS	Verified Carbon Standard
VER	Verified Emissions Reduction
WTO	World Trade Organisation

INTRODUCTION

I. THE CONTEXT

by Alain Guinebault (delegate general from Geres) and Benoît-Xavier Loridon (director of ID)

Groupe initiatives (GI) is composed of 10 international solidarity organisations that share a number of common objectives,[1] and was set up over 20 years ago to provide a space to explore, exchange and develop ideas. The group decided to organise a study day to determine how carbon finance can best be used as a means of access to energy for the poor and, if possible, identify a shared position on this issue. Members felt that it was important to devote a day to in-depth discussions about this complex area, which has major implications for the issues that NGOs need to address now and in the future.

Carbon finance is an appropriate tool for project implementation as it can (i) facilitate a change of scale that allows the poorest groups to gain access to effective technologies, and (ii) complement current institutional finance mechanisms (which limit project perspectives to 3 or 4 years) by allowing projects to work in the long-term (at least 10 years).

However, it does have certain drawbacks: it is methodologically complex, makes project planning much more complicated, and carries a degree of uncertainty and risk, particularly with regard to the price per tonne of carbon. At the moment, carbon credits yield almost nothing on the regulated market.

Although NGOs operate on the margins of the regulated market, they still need to think carefully about the risks of mobilizing carbon finance and its use in development projects. It is very important that NGOs do not consider carbon finance as an end in itself, but as a tool to be used for development purposes. Transparency should be the hallmark of the NGO approach to the carbon process and all those involved in it (from credit buyers to actors in the field).

KEY DATES FROM PIGOU TO THE UNCCCF

1920 AND 1960: Pigou and Coase: creation of the right to a clean environment.

1970: The *Clean Air Act*, and the American *Acid Rain* programme in 1990.

1972: The Club of Rome publishes *The limits to Growth*; the OECD defines the principle of the 'Polluter pays'.

1979 and 1985: First conferences and workshops on climate.

1988: Creation of the IPCC, the Intergovernmental Panel on Climate Change.

1992: **United Nations Framework Convention on Climate Change (UNFCCC)** adopted at the Earth Summit in Rio de Janeiro.

The following text is a summary of the presentation given by Renaud Bettin from CO_2Solidaire / Geres. For further information, see the CO_2Solidaire website: www.co2solidaire.org/

[1] Apdra, AVSF, Ciedel, Essor, Geres, GRDR, Gret, HSF, ID and Iram. See summaries of GI member associations in Annex 1.

II. CARBON FINANCE: ITS BIRTH, DEVELOPMENT AND FUTURE PROSPECTS

1. 1997-2005: THE BIRTH OF CARBON FINANCE, A HAPPY EVENT

A) FROM AN ECO-TAX ON AMERICAN RAILWAY COMPANIES TO THE CREATION OF AN INTERNATIONAL CARBON MARKET

In 1920 Arthur Cecil Pigou developed the principle of externality in order to demonstrate how one activity impacts another. The main concern at the time was the negative externalities of railway company activities, such as damage to fields caused by scattered fragments of burning coal. Pigou suggested that railway companies should be taxed in order to integrate the negative externalities of their activity into the logic of the market – showing how taking into account externalities could reduce their effect on the community and the common good, and thus paving the way for carbon finance.

In 1960, Ronald Coase condemned State intervention and proposed 'rights to pollute' that obeyed to a market logic. This led to the United States' *Clear Air Act (Acid Rain Program)*, which tackled emissions from coal-fired factories by capping sulphur dioxide emissions (SO_2) and setting quotas that could be traded on the market. The success of this law shaped the future *Kyoto Protocol*.

Three guiding principles of the UNFCCC:

- Precaution: we do not know what the impacts of climate change will be.
- Common but differentiated responsibilities: our responsibility to tackle climate change is differentiated by the extent to which we have caused it and by our needs.
- The right to economic development.

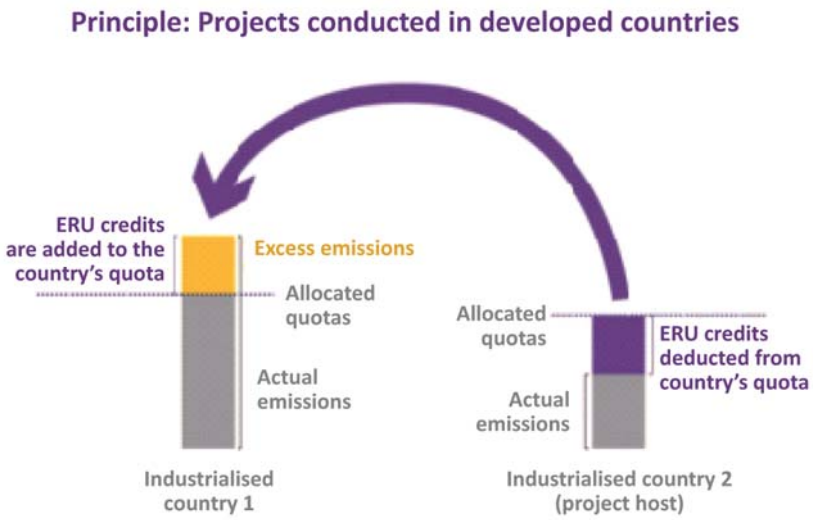
The recommendations of the Intergovernmental Panel on Climate Change (IPCC), which was created in 1988, would play an important role in the *United Nations Framework Convention-on Climate Change* (UNFCCC), and the *Kyoto Protocol*.

B) THE KYOTO PROTOCOL

The Kyoto Protocol was signed by 198 countries in 1997, ratified by 183 countries, and finally came into force in 2005. This protocol stipulates that between 2008 and 2012, signatory industrialised countries, which account for 55% of global emissions, must reduce their emissions by an average of 5% of the greenhouse gases they emitted in 1990. The United States did not ratify the Protocol, and Russia only did so at the European Union's behest in exchange for admission to the WTO. Developing and emerging countries are not obliged to reduce their emissions, but can contribute to emission reductions through the 'Clean Development Mechanism' (see below).

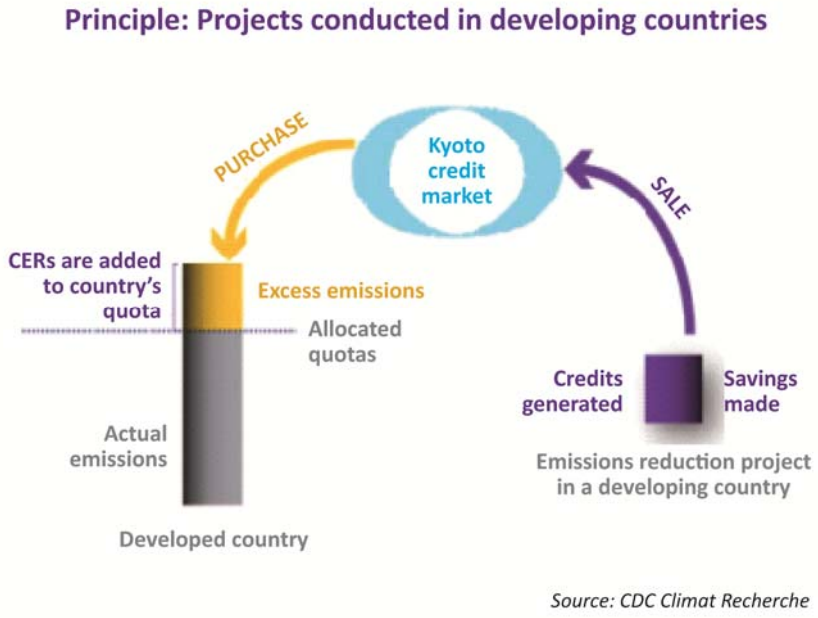
C) TWO FLEXIBILITY MECHANISMS IN THE KYOTO PROTOCOL

The countries that signed up to reduce their greenhouse gas emissions can use flexibility mechanisms in the Kyoto Protocol to fulfil part of their commitments, mainly by trading quotas on the official markets (see Section D below). There are also two other mechanisms that work through a project approach:



Joint implementation (JI) mechanism

This North-North mechanism allows an industrialised country to invest in an emissions reduction project taking place in another industrialised country, and to use the emission reduction units (ERUs) generated in the host country to meet its own target.



Source: CDC Climat Recherche

The Clean Development Mechanism (CDM)

Under this North-South mechanism, an industrialised country can invest in an emissions reduction project in a developing country. The carbon asset of this mechanism is the Certified Emissions Reduction unit (CER).

The regulated market uses the following principles to 'conform' with the Kyoto Protocol:

- a *Cap and trade* system that allows emissions to be capped and emissions quotas to be traded over the counter or on the open market;
- the principle of supplementarity, which specifies that half of the quotas and half of the carbon credits (Certified Emissions Reductions, CERs) must be repurchased if the CO_2 emissions limit is exceeded.

D) THE EUROPEAN UNION EMISSIONS TRADING SCHEME (EU ETS)

Despite its initial hostility to the logic behind the emissions trading scheme, the European Union launched its own market in 2005: the EU Emissions Trading Scheme (EU-ETS), which leads the regulated market and identifies signal carbon prices.

2. 2005-2008: THE EMERGENCE OF THE VOLUNTARY CARBON MARKET

A) THE VOLUNTARY MARKET

A voluntary market governed by the same principles as those behind the CDM developed in parallel with the regulated market. This has the advantage of making it cheaper and sometimes less onerous to register projects and credits (Verified Emissions Reductions – VER) than it is on the regulated market. Since NGOs are interested in reducing the barriers to market access and innovation, this voluntary market is better suited to their aims than the regulated one. It also meets the needs of businesses that wish to voluntarily offset their carbon emissions (through CSR procedures, for example). The CER credits generated on a CDM project can ultimately be purchased by voluntary actors who are not constrained by the need to meet emissions quotas.

B) CARBON STANDARDS

The voluntary market has various quality standards to ensure that emissions reductions are genuine and the projects concerned are credible. The two main standards that do this are:

- the Verified Carbon Standard (VCS), which focuses solely on GHG emission reductions. It simplifies eligibility procedures, halving the costs and time of certification, and also makes it possible to certify forest carbon storage projects;

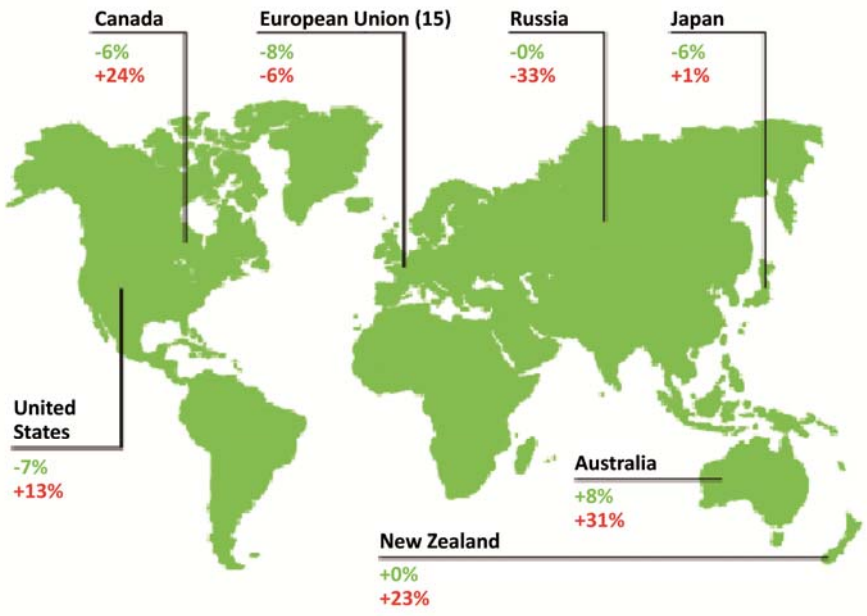
- the Gold Standard (originally created for the CDM), which takes into account of socio-economic impacts (co-benefits) as well as CO_2 reductions, to ensure that projects make a real contribution to socio-economic development.

3. 2008-2012: ABSENT PARENTS CREATE A TEENAGE CRISIS FOR CARBON FINANCE

A) CARBON FINANCE: LIMITED SUCCESS SO FAR

KYOTO EMISSIONS REDUCTION OBJECTIVES TO BE MET BETWEEN 2008 AND 2012 (AVERAGE OVER 5 YEARS) AND CHANGES IN EMISSIONS BETWEEN 1990 AND 2008

(Source: UNFCCC and European Environment Agency)



The results of the 2013 Kyoto Protocol and its flexibility mechanisms was very disappointing. None of the regions that originally signed up to the Kyoto Protocol reduced their emissions between 2008 and 2012, and there are no sanctions in place to rectify their failure to comply with the Protocol.

The Kyoto Protocol has also failed to build capacities and transfer competences to actors in the South. There is a huge North-South skills gap, especially with regard to the Clean Development Mechanism. Actors in the North also need to be much more transparent about the trade in carbon emissions quotas, which is very hard to monitor.

In order to be eligible, savings in greenhouse gas emissions must be measurable, verifiable, permanent and additional.[2] Yet some studies estimate that about 50% of CDM projects are not additional and would have been realised without carbon finance.

VAT fraud in the European carbon quota market in 2008 and 2009 highlighted the need to harmonise the European carbon market, while civil society's bad perception of carbon finance raises more general questions about the image of carbon finance. Many individuals and companies think the offset of CO_2 emissions on the other side of the world amounts to little more than buying a clean conscience.

B) THE CDM TEN YEARS ON

A review of the CDM published by CDC Climat ten years after its launch shows that it achieved its target of generating one billion credits. CDC Climat Recherche projections show that carbon credit generation will reach the limits of its potential when a further 300 million carbon credits are generated, balancing supply and demand. It calculates that this limit (1.3 billion) will be achieved some time around April 2013, and that the cost of CDM carbon credits will fall to almost nothing by 2015.

The CDM in figures

4,546 registered projects and **4,261** projects in the process of being validated and registered.

1 billion carbon credits generated.

Current assessments show that the market is oversupplied and unbalanced. The price of CERs has risen to €1.50, and there is little interest in carbon credits due to the surplus of allocated quotas (which is largely due to the economic crisis).

The geographic concentration of CDM projects also raises questions the advantage of the mechanism (60% of carbon credits are generated in China and15% in India). Although the IPCC has shown that Africa is the geographic area most vulnerable to climate change, and recommended that the CDM supports development on this continent, only 2% of CDM projects are located in Africa.

In addition to this, the CDM's reputation is undermined by the lack of variety in its projects: two-thirds of them deal with industrial gases, and almost half of the carbon credits on the market have been generated by only 10 projects. Their environmental integrity has also been challenged, especially that of the HFC projects, which do not respect the principle of additionality.

NGOs feel that the methodologies approved by the CDM executive committee are not appropriate for local contexts or suitable for the technologies that local communities wish to develop. Lengthy delays, onerous project registration procedures (it takes an average of 500 days to process applications) and high costs (up to €250,000) make them inaccessible to many.

[2] There are two types of additionality: financial additionality (the project would not get off the ground without the sale of carbon credits), and environmental additionality (there would be no reductions in CO_2 without the project).

c) SOME POSITIVE PROGRESS ON THE CDM

The Programme of Activities (PoA) could help address the lack of projects in Africa by pooling resources and aggregating several small projects within a programme of activities. The principle of Supressed Demand is now recognised and has been incorporated into UNFCCC methodology, while methodologies have evolved and are better adapted to local contexts, with simplified calculation procedures and standardised baselines (reference scenarios). Additionality is now automatic for some disadvantaged countries and certain simple technologies. Finally, in order to encourage development of the CDM in disadvantaged areas, the UNFCCC CDM Loan Scheme has introduced interest-free loans of up to €250,000 to launch CDM projects and enable project promoters (who often lack the necessary funds) to get the procedure under way.

D) STATE OF THE VOLUNTARY MARKET

The value of the voluntary market increased by 33% (US$575 million) in 2011, despite the fact that it shrank by 28%. This highly competitive market is still evolving – losing buyers and attracting few new entrants. Prices on the voluntary market are not influenced by the regulated market; in 2011, for example, the average price of voluntary credits rose to €6.20. The voluntary market helps filling the gaps in the regulated one, putting Africa in third place in terms of global supply, with voluntary credits costing an average of US$8.

4. 2012: CARBON FINANCE COMES OF AGE?

A) WHAT IS THE FUTURE FOR THE REGULATED MARKET?

Canada and Japan have withdrawn from the Kyoto Protocol, and the European Union agreed to apply rebates to emissions reductions and caps on emissions following the 2011 conference in Durban. Limits are now determined by each country's capacity and political will to engage in the process, rather than the objectives recommended by scientists.

*"Carbon finance is a compromise between **finance**, which focuses on short-term profit, and **carbon**, which focuses on climate, sustainable development and the long-term protection of future generations"*

(Renaud Bettin, Geres)

A new binding global agreement should come into force in 2020. Negotiations were due to start in 2013 but there are no plans for a policy framework for the transition period.

Changes are also needed at the European level, in the regulated market for trading emissions, the EU-ETS. The EU will try to restore market confidence between 2013 and 2020, and bring in other sectors such as air transport, petrochemicals, and aluminium and ammonia production.

NGO innovations

The concept of 'Supressed Demand' was introduced by NGOs and is now recognised and incorporated into the carbon methodology developed by the UN (UNFCCC) and the Gold Standard.

Countries in the Southern hemisphere are not attractive for carbon finance actors because they are "too poor to pollute". Therefore, the idea is to anticipate future CO_2 emissions and start to reduce them now, thereby allowing the most disadvantaged countries to benefit from carbon finance.

The CDM and JI project mechanisms will be reintroduced, but should exclude HFCs and N_2O (adipic acid). No new CDM projects have been registered in emerging countries since the end of 2012, as part of efforts to channel carbon finance into and promote development in the least developed countries. The CDM should benefit from a resurgence in demand as national markets emerge in Japan, Australia and New Zealand, and new sectors (construction, transport and agricul-

ture) become eligible to join the CDM following the approval of project methodologies that allow these sectors to generate carbon credits.

Further information

- VAT fraud on European carbon credit quotas in 2008 and 2009:
Robert Aline, *Carbone connexion*, Max Milo, 2012.

- Ten years of the CDM:
Bellasen Valentin and Shishlov Igor, *Dix enseignements pour les 10 ans du MDP*, CDC Climat Recherche, October 2012.

B) THE FUTURE OF THE VOLUNTARY MARKET

The role of the voluntary market should be strengthened. The average price of voluntary carbon credits is still sufficient to fund investment in numerous carbon projects, monitor them and ensure their long-term sustainability. Corporate social responsibility (CSR) is playing an increasingly strategic role in the market as a growing number of companies show an interest in carbon finance.

Points to remember

- ➔ The starting point for carbon finance was the Kyoto Protocol, which was signed in 1997 in order to enshrine the objectives of the UNFCCC and determine how its principles will be implemented. The Kyoto protocol was the first written commitment by industrialised countries to reduce their greenhouse gas emissions, a political compromise whereby the regulated market is limited by each country's capacity and appetite for political engagement.
- ➔ The CDM is the only instrument in the Kyoto Protocol flexibility mechanisms that allows projects to be undertaken in developing countries.
- ➔ The voluntary market operates in parallel with the 'official Kyoto market'. It seems better suited to an NGO-type approach as it is open to smaller projects and makes it possible to finance projects in developing countries.
- ➔ Certification standards have sprang out such as the VCS and Gold Standard have been developed in response of the need to validate the quality of projects and emissions reductions on the voluntary market.
- ➔ Regulated markets need to change in order to restore confidence. They will include new sectors, and new markets may emerge (in Japan, Australia and New Zealand). The CDM should focus more on least developed countries.
- ➔ The voluntary market is developing, mainly due to the CSR procedures followed by businesses and individual initiatives.

PART 1 – CARBON PROJECTS IMPLEMENTED BY NGOs

The first section of this paper focuses on development operators. Case studies of NGO development projects that used carbon finance are presented as examples of the carbon project cycle, and then analysed to determine whether these development operators share an approach to carbon finance.

I. SETTING UP A CARBON PROJECT

Frédéric Apollin, the Director General of AVSF, moderated a session in which four NGOs gave presentations focusing on different stages of the carbon project cycle. These case studies were prepared by Christophe Barron (director of the ID Renewable Energies unit), Olivier Lefebvre (technical director of the ID Renewable Energies unit), Patrick Fourrier (Africa programme director and deputy director of BISS), Marina Gavaldão (technical director of the Geres climate unit), and Adeline Giraud (director of AVSF's small-scale agriculture, natural resource management and climate change projects). Each shared their NGO's experiences at certain specific stages of the project, highlighting key issues in the implementation of carbon projects, from feasibility studies to the marketing of carbon credits.[3]

1. FEASIBILITY STUDIES

Feasibility studies are used to identify projects that can reduce greenhouse gas emissions at a reasonable cost, and which have high social and environmental value. Although carbon will influence the technical feasibility of a project, the technological and operational aspects of particular development projects are not discussed here, as the aim is to look specifically at carbon feasibility, examine the financial aspects of carbon projects and analyse the risks associated with their implementation.

Selecting the intervention zone: carbon optimisation *vs* development goals

Southwestern China lies 1,800 metres above sea level. Winters there are very cold, and the average annual temperature is 14°. The optimum temperature for bio-digesters is 37°. Although the low ambient temperature in China slows down the methanisation process and therefore reduces projects' carbon viability, ID chose this area because of the local need for socio-economic development.

A. CARBON FEASIBILITY

The emissions reductions generated by carbon projects must be measurable, verifiable, permanent and additional.[4] A carbon feasibility study is needed to assess the project's eligibility and additionality, estimate its future costs and potential credits, secure its institutional setup and ensure good governance.

[3] See Geres sheet in Annex 2.
[4] Additionality ensures that the carbon finance project will result in a reduction in greenhouse gas emissions that would not occur without the project.

Focus: two methods of estimating a project's ER potential

Reductions in greenhouse gas emissions vary according to the technologies introduced by the carbon project (bio-digesters, low-consumption woodstoves, etc.). Technical tests are carried out in the field under standard operating conditions in order to evaluate a project's ER potential. This can be done through:

- ***Simple estimation***
Water boiling tests (WBT) or Controlled Cooking Tests (CCTs, where a typical dish is prepared by one or more women) are used to determine the differences between the original method and the technique proposed by the project.

- ***Baseline/monitoring***
The Kitchen Performance Test weighs the wood consumed over 24 hours, over two four-day periods. This uses a smaller sample as it is a more expensive process.

➢ How do realities on the ground fit into the carbon finance framework?

The biogas project implemented by **ETC Terra** and **AVSF** in Mali shows how prior experience in the field makes it easier to adapt carbon projects to local realities. In this case, the project design reflected AVSF's strong local rooting, detailed knowledge of the intervention zone and longstanding partnership with a local NGO (ICD). This enhanced the operators' understanding of and adaptation to local people's needs, and enabled them to target selected beneficiaries. Having a Malian partner on hand also provided useful information for the baseline scenario.

One of the difficulties in designing carbon projects is the fact that local realities vary considerably. The ID biogas project in Yunnan, China, had to deal with **a wide variety of practices** and take into account specificities such as:

- the **different types of fuel** used by families (charcoal, wood and agricultural residues);
- the **range of needs**, from cooking livestock feed to domestic lighting and heating.

ID dealt with these practical issues by making two strategic choices that shaped the project design:

→ **Limiting the intervention zone**: ID reduced its geographic intervention zone to a single area in Yunnan in order to work with a homogenous group of beneficiaries, and limited itself to beneficiaries who used charcoal before the project.

→ **Mobilising local competences**: ID uses local researchers, who undergo continuous training. Understanding the local dialect and having detailed knowledge of the local situation contributes to good quality carbon surveys (*baseline* and *monitoring*) and effective project monitoring.

Adapted technologies selected by ID in China

- ***Target population's needs***
Cooking up to 20 kg of livestock feed a day on woodstoves (fixed appliance).

- ***The selected technology***
Fixed appliances made of cement and cast iron.

Proven local model with a lifespan of 10+ years installed in a dedicated space.

→ The selected model is adapted to local needs, but is expensive (costing over €50).

The **BISS** solar cooker projects in the Andes had to deal with the heterogeneous geography and environments of countries like Bolivia and Peru, which include Amazonian forests and arid altiplanos. In this case, BISS did not define its intervention zone according to practical criteria of geographic homogeneity. It proved difficult to gather up-to-date and comprehensive data in Guinea, especially on non-renewable biomass (NRB), and BISS was unable to mobilise local employees for its Guinea project due to a lack of local skills.

➢ Which technical criteria influence project design, especially the target population and intervention zone?

ID prioritises regions where biomass is heavily used and lowly renewable. Supplies of renewable wood diminish as NRB levels rise, increasing the potential emissions reductions generated by the project and thus its 'carbon additionality'.

NRB levels influence the choice of site and beneficiaries, but are not the only criterion for ID, which also takes account of the level of economic development in the area. However, beneficiaries who use non-renewable wood are not always the poorest families, and some ID beneficiaries do not meet the carbon criteria: for example, they may consume wood, but the carbon component of the project only includes emissions reductions generated by lower charcoal consumption.

Focus: how to determine the level of NRB?

- **1st solution:** the simplest and cheapest solution is to use predetermined NRB rates that the Executive Board (EB) of the UNFCCC or other organisations have set for certain countries.

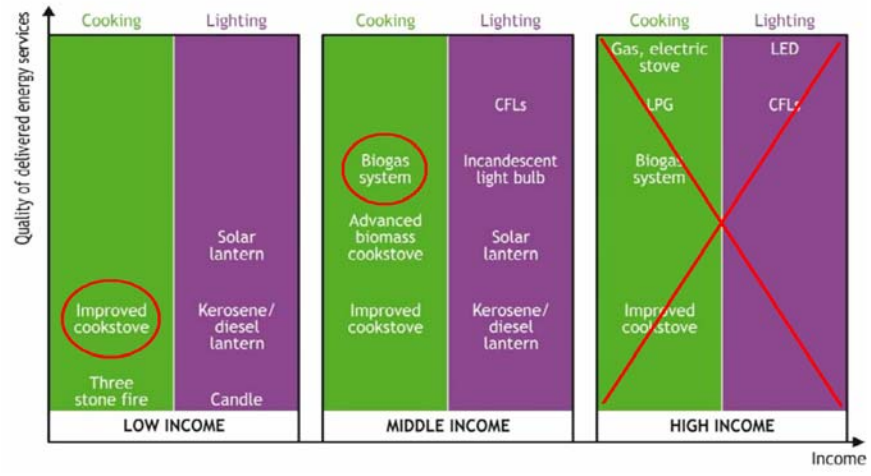
- **2nd solution:** conduct local surveys to determine how much is removed and where it comes from.

- **3rd solution:** analyse and compare satellite images of the same area taken at two or three different times. This analysis should be confirmed and supplemented by various field surveys.

→ The second and third solutions are expensive and require expertise in the field.

The technology that a carbon project uses is determined by several factors: certain technical characteristics, its suitability for the local population, and its carbon efficiency. The technology that ID chose for its projects in China not only had to perform well in terms of energy, but also had to be suitable for the target groups, easy to use, have an acceptable initial cost and a long lifespan. This meant that support was needed to ensure its long-term use.

The 'energy level' diagram (International Energy Agency, 2012, Poor People Energy Access) below shows that projects that use wood saving stoves can reach the lowest-income groups as beneficiaries do not have to make a large financial contribution to cover the cost of the technology, while the population targeted by biogas projects is less poor.



FROM THE TARGET GROUP TO THE TECHNOLOGY

Although carbon projects that work with higher-income households would be more 'carbon viable', ID automatically excludes high-income groups that are not its target public. Nevertheless, biogas project beneficiaries are not necessarily the poorest groups, as households need to be able to contribute to the construction costs of the biodigesters and need to have a certain number of animals to ensure that the biodigesters function properly. There is also a correlation between wealth and socio-cultural standing, which is a factor in the technology being properly managed.

B. FINANCIAL ASPECTS OF CARBON PROJECTS

One important component of the feasibility study is the economic and financial analysis, which sets out the proposed *business model*, evaluates the need for co-funding and determines how subsidies and carbon revenues will be allocated.

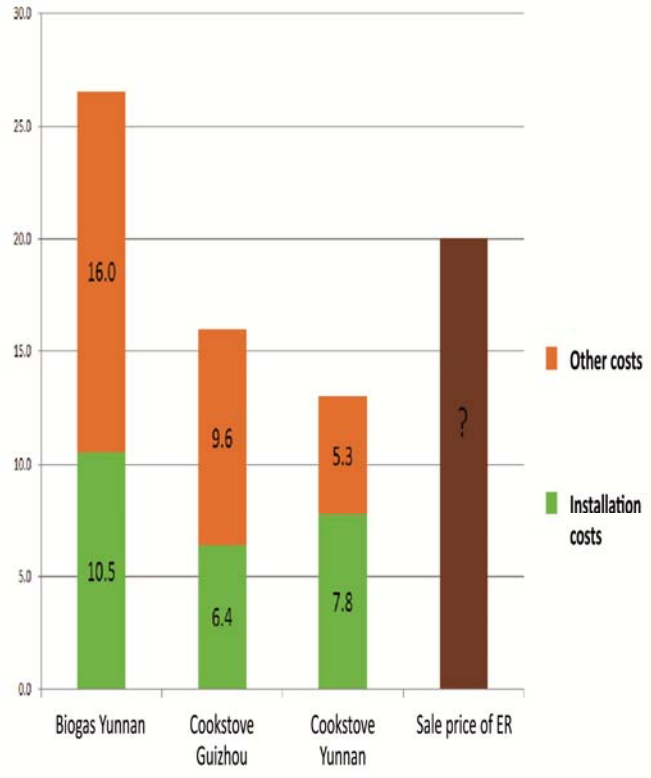
➢ What are the financial advantages of carbon projects?

NGOs have different positions on carbon finance, which is now recognised as a possible source of co-funding for development projects. AVSF is still in the process of exploring and analysing the benefits and constraints of carbon finance, and has yet to take a position on this issue. Ongoing testings on different continents will show whether local partners can appropriate these mechanisms and help assess the real short-, medium- and long-term benefits for local people and their environment. Some initial, small-scale pre-finance has been made available for classic development projects.

In 2007 GoodPlanet joined BISS in the distribution of solar cookers. This association, supported by a body specialised in offsetting, should help provide funding for 7,500 cookers by generating carbon credits. In this case, carbon finance has provided sustainable co-funding and financial visibility for 10 years.

Carbon projects need to operate on a certain scale in order to cover their fixed costs. Carbon pre-finance may force projects to amplify their actions – as BISS found in Latin America and ID discovered with its first biogas project in China, when their projects were scaled up at the request of the credit purchaser.

COST PER TONNE OF CARBON
IN THREE ID PROJECTS IN CHINA



➢ Defining the business model for a carbon project

The economic model for a carbon project is based on three parameters: the cost per tonne of carbon, additionality and risk.

- Cost per tonne of carbon

This depends on the installation costs (initial cost) and additional costs (long-term supervision, surveys, training). The Yunnan biogas project has higher per tonne carbon costs (€27) and much higher initial costs than the low-cost woodstove project, which also has greater potential to generate carbon credits. These costs are influenced by several factors, such as the number of units per project (economies of scale in the cost of carbon and oversight), and the total length of the project (covering the initial investment). Given that the cost per tonne of carbon depends on the type of project, should all carbon credits be sold at the same price (on the voluntary market)? A development approach considers the social and economic benefits of a project as well as its climatic outcomes. These impacts can affect the price per tonne, depending on the 'type' of carbon concerned.

- Type of finance and risk

So far, carbon projects have always needed other sources of funding as carbon finance has only been used to supplement project funds.

Upfront sales are complicated and risky. They can alleviate an initial lack of funding, but since there is always a risk that projects will not generate as many carbon credits as originally anticipated, it is sensible to limit the level of upfront finance in projects that are implemented in new areas or which involve new technologies.

ID used more upfront funding for its Cookstoves project in Guizhou than for its biogas project, as the improved stoves generated a quicker return on investment. Some 75% of ID's first biogas project was funded upfront, while only 25% of its second project was pre-financed by upfront sales.

Micro-finance can help improve access to technologies without the need for subsidies, and can be used to co-fund projects depending on its suitability to each context, transaction costs and so forth. ID uses micro-finance institutions for certain projects in Africa, but not in China, where this type of funding is less common.

Discussion point: who should benefit from the sale of carbon credits?

Carbon credits are usually owned by the project promoter, but their final purpose or user has yet to be determined. Should the end-users of the technologies own some of the carbon credits, as they were directly involved in generating them?

Geres does not use micro finance for its New Lao Stove project in Cambodia because of the relatively low cost of the technology. However, micro-finance was useful at the start of the production phase, allowing producers' associations to purchase the material needed to make the improved ovens and invest in the production process.

- Project additionality

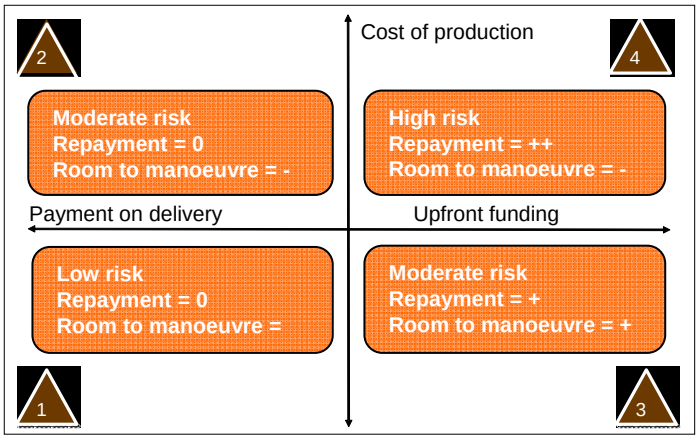
Additionality is the ability to demonstrate the extent to which carbon finance is essential to a project, and is a prerequisite for project certification on both the official and voluntary markets. In order to demonstrate additionality, it has to be shown that the funds generated by selling carbon credits will enable a project to take place by helping to overcome certain technical or financial barriers. ID uses carbon revenues in various ways:

- to contribute to the initial investment;
- to ensure that the investment is sustainable (monitoring and training beneficiaries on maintenance);
- to generate revenues for users: this financial incentive helps to encourage the use of the technology, and is compulsory under Chinese law;
- to support the development of the supply chain and fund learning costs.

C) DECISION MAKING (GO/NO GO)

Once a carbon project has been identified, its carbon feasibility assessed and funding plans put in place, its associated risks are analysed to determine whether or not it will go ahead.

FINANCIAL RISK



➢ Assessing the financial risks of carbon projects

ID analysed the financial risks of its projects in China according to the cost of the project (excluding beneficiary contributions). Here this is measured in terms of the cost of producing one tonne of carbon and when the carbon credits are sold, with credits sold upfront on the one hand (representing a financial risk as it may not be possible to deliver the credits), and payment on delivery on the other hand (which does not carry the risk of indebtedness).

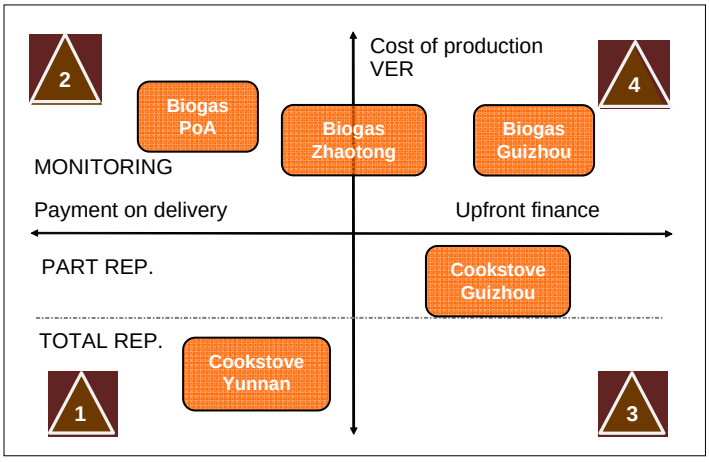
Case No.1: carbon credits are paid on delivery and the production cost per tonne of carbon is relatively low. Funding for the initial phase is still problematic, but less risky.

Case No.2: moderate to low risk. Tonnes of carbon are sold on delivery. Pre-financing is problematic, and the cost per tonne of carbon remains high. The project operator has little room to manoeuvre.

Case No. 3: moderate to high risk. Upfront finance helps to fund the initial phase of the project, but the cost per tonne of carbon is lower. Repayment is less of a problem, leaving more room to manoeuvre.

Case No. 4: highest risk. The project is pre-financed by the upfront sale of credits. Per-tonne production costs are high. Upfront sales make repayment extremely problematic and leave very little room to manoeuvre.

CARBON'S PLACE AND ROLE IN THE ECONOMIC MODEL



➢ Where does carbon fit into the economic model and what role does it play?

ID has been a working on carbon projects in China since 2006. Its first biogas project in Guizhou was the riskiest, especially as it delivered fewer ERs than anticipated, complicating the task of long-term monitoring. The second biogas project drew on the lessons learned from the first one: better estimated ERs helped to limit the risk and ensure that the project was sustainable despite the continuing high cost per tonne. A third, more recent cookstoves project in Guizhou was financed by a small number of upfront sales, and had lower VER costs. The fourth project, a biogas PoA undertaken in partnership with the provincial authorities, also carries a moderate risk as payments are made on

delivery. Finally, the fifth project (low-cost stoves in Yunnan) presents the least risk thanks to lower production costs per tonne of carbon and credits being sold on delivery.

2. INITIAL IMPLEMENTATION

A) CARBON DOCUMENTATION

Carbon documentation is a key stage in the initial phase of project implementation, when the baseline study, field studies and social and environmental impact assessments are produced, the project design document (PDD)[5] and monitoring plan are prepared, and the PDD is validated by an independent third party, the designated operational entity (DOE).[6]

➢ Mobilizing carbon skills

The carbon process is very complex, and requires highly specialised technical skills to validate projects, produce PDDs, choose standards, register projects, etc.

ID considered both **external expertise** and **internal competences** for its Yunnan biogas project. Initial efforts to mobilize external skills were hampered by poor knowledge in the field, lack of available experts and communication problems with the local population.

As a result of this setback, it set up a 'Renewable Energies' (RE) unit to develop and gradually internalise carbon-related competences. This had the advantage of:

- maintaining a continuous presence on the ground;
- building on the work done in China, and incorporating the new skills into ID's strategy for China and Africa.

The AVSF biogas project in Mali took a different, **multi-partner approach** that drew on the combined skills of the four NGOs that ran the project:

➔ *two NGOs from the North:* ETC-Terra and AVSF. ETC-Terra brought in the carbon competences needed to generate certified carbon credits for the 100 biodigesters put in place by the project;

➔ *two NGOs from the South:* SKG Sangha (an Indian NGO specialised in distributing biodigesters, which brought technical and technological biogas skills to the project), and ICD (a Malian NGO that has partnered AVSF in the field for several years, mainly providing technical support in agronomy and livestock rearing for local people in the intervention zone).

BISS has tried several approaches in its solar cooker projects:

- **a collaborative approach** with its Andean projects. As a result of the collaboration between BISS and the GoodPlanet foundation's Action Carbon programme, the solar cooker distribution project in Bolivia qualified for the Gold Standard label in 2011, followed by the project in Peru in 2012.

[5] The project design document or project document describes the actions to be taken by the project, demonstrates its eligibility and additionality and shows *ex ante* calculations of the expected amount of emissions avoided.

[6] Designated operational entities (DOEs) are independent certification bodies that are accredited by the executive board of the CDM. Their mission is to validate CDM projects, and verify and certify emissions reductions.

- **an external approach,** in a more modest project (distributing 1,000 low-cost woodstoves in northern Benin) where a specialist firm worked on the carbon labelling process. This external approach was characterised by a lack of communication between BISS and the firm.
- **an integrated approach** in Guinea, thanks to the financial support of CDC Climat, a subsidiary of Climat de la Caisse, which enabled BISS to incorporate the carbon procedure and create a post for an officer with specific responsibility for carbon labelling.

➢ Choosing a carbon offsetting standard

NGOs still have limited access to the CDM because it is more expensive and complex to register with the CDM than it is on the voluntary market. Marina Gavaldão of Geres noted that other disadvantages of the CDM include its lack of dynamism, perspective and price stability, and a register that is neither transparent nor regularly updated. The uniform market price does not distinguish between different types of project, and makes it hard to assess the qualitative aspects of carbon projects (their social and environmental benefits).

There are different standards for voluntary carbon offsetting. The Verified Carbon Standard (VCS) works well for forestry projects and uses an interesting methodological revision system. The Geres New Lao stoves project is registered under the VCS, even though there are certain gaps in this standard, especially its sustainability criteria (it has fewer than the Gold Standard).

Credits generated by Gold Standard labelled projects usually sell for a higher price, although it is difficult to define prices as they vary according to the volume of credits and whether they are sold upstream or downstream of the project.

Demand varies greatly, as does the way that labels are regarded in different countries. Adeline Giraud illustrated the problems that AVSF encountered using VCS to implement a forestry project in Latin America: even though it seemed to be the most appropriate label for the project, potential buyers in Northern Europe were more interested in Carbon Fix (which is paradoxically less well regarded in France) – suggesting that the choice of label is dictated by the purchasers. Marina Gavaldão from Geres believes that labels play an important role in carbon projects, which varies according to the clients' knowledge and perception of them.

B) IMPLEMENTING THE TECHNOLOGY

Implementing the chosen technology raises concrete questions about how the project will proceed: how businesses will be trained, technologies promoted, quality controlled and impacts monitored…

➢ Ensuring that technologies are sustainable

Less than 50% of the 40 million biodigesters constructed in China still function three or four years after they are installed. ID had to ensure that the biodigesters installed during its biogas project in Yunnan were used properly so that they would continue to work effectively in the long term, and therefore trained users on the importance of balanced inputs and regular feeding and emptying. The 20 possible causes of malfunction range from problems with the structure and ancillary equipment (lamps, cookers, etc.) to the way that biogas reservoirs are managed. ID proposed a number of training, maintenance and monitoring solutions to address these technical difficulties and lengthen the biodigesters' lifespan.

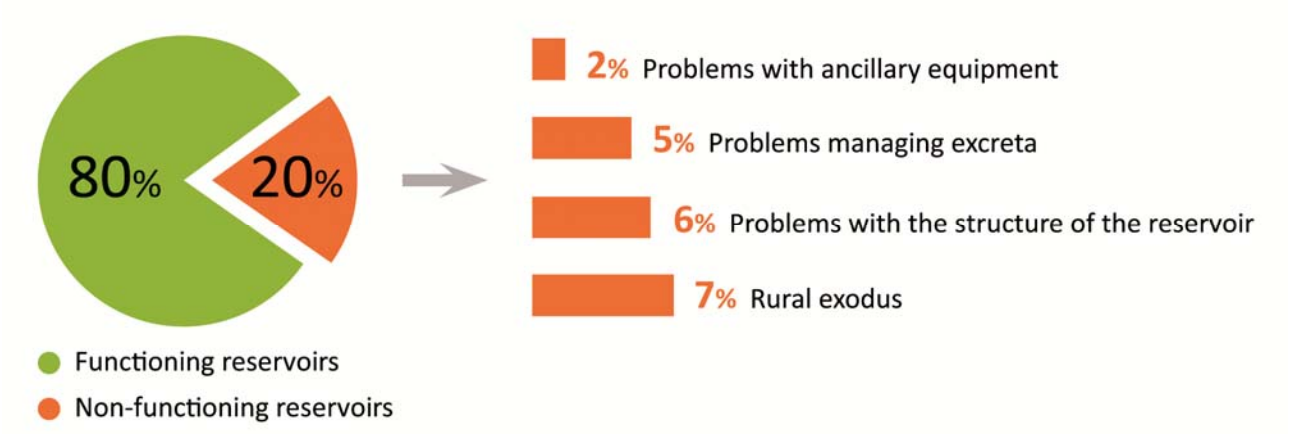
Solution 1: initial and ongoing practical training for users, targeting their needs and problems (onsite visits, testimonies and concrete cases studies).

Solution 2: local access to spare parts, mobilizing village shopkeepers and making small items of equipment available.

Solution 3: maintenance service managed by an ID team (after a failed attempt to externalise this maintenance service).

About 80% of ID's biodigesters were still functioning three years after their installation. This is a very positive result, given that the rate for government projects was only 50%.

FUNCTIONALITY OF ID BIOGAS DIGESTERS IN YUNNAN



About 7% of reservoirs do not function due to rural exodus caused by poverty. ID is trying to address this problem through its target project beneficiaries, but it is virtually impossible to reduce this figure.

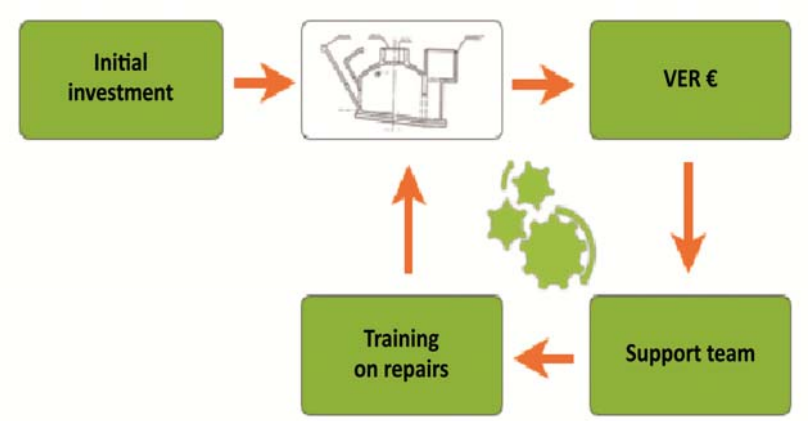
Technologies need to be adapted to the local context if they are to be sustainable. Each BISS development project includes a specific component on adapting equipment to local realities, available materials and local know-how. Efforts to improve local appropriation of the stoves are mainly directed at women, although encouraging families to make financial contributions towards the stoves has also proved effective.

In ID's first project in China, it took three years to progress from the first feasibility study to delivering ERs. The project succeeded in developing an intervention system suitable for large-scale distribution in China while ensuring that the technology was sustainable. This model of intervention is now used in the five biogas projects (involving hundreds of thousands of reservoirs) in which ID is involved as project leader or providing technical support (particularly the collaboration with AFD and FGEF on the rural carbon project). In every case carbon revenues have helped make the reservoirs more sustainable.

3. REPLICATION AND CHANGE OF SCALE

Carbon finance should have a leverage effect on project execution.

A) INVESTING IN THE SUPPLY CHAIN



Carbon revenues can be reinvested in maintenance and in creating new units to allow carbon projects to be monitored and extended.

➢ **How does carbon revenue fit into the economic model?**

ID's biogas project in Yunnan did not generate nearly enough carbon credits to finance the project, as this was a development project rather than a search of pro-fitability into the viability of carbon. Funding for the initial investment came from other sources, and the cost of constructing the biodigester was shared between ID donors and users. However, carbon credits were used to cover carbon costs (monitoring, surveys), ongoing maintenance and training, and to fund a support team.

Carbon finance can be used to create a virtuous circle, facilitating the long-term use of biogas reservoirs and encouraging the work to sustain the quality and maintenance of equipment.

The biogas project supported by AVSF in Mali is aiming for Gold Standard certification. One of its objectives is to **develop a coherent economic model during the replication phase**. Although it is still too soon for the operators to review the economic model, current assessments put the cost of materials for a digester at about €720. Rural families would only be able to pay a small fraction of this sum, meaning that subsidised State support will be needed. **It is estimated that carbon finance could cover 25-50% of the cost of biodigesters, that is to say 10-15% of the total project costs.**

➢ **How does carbon finance affect project outcomes?**

The carbon procedure led to a real **change of scale** in the BISS project in Guinea, despite some initial problems getting all the funding in place (carbon finance only accounted for some of the funds). Its ambitions for the project in Bolivia and Peru were also boosted by the use of carbon finance following the arrival of GoodPlanet in 2006. The leverage provided by this additional funding brought other financial partners on board and doubled the number of solar cookers installed. The PDD estimates that the 7,500 cookers in the Andean projects should generate 68,000 tCO_2equ over 10 years. However, it has to be said that the complex methodologies used by the Gold Standard Foundation presented a steep learning curve for BISS and GoodPlanet, and that the Gold Standard had a lot to learn about solar cookers.

ID has tried to assess how carbon finance has impacted the design of its long-term projects in China (10-30 years) in terms of:

- **Sustainability:** carbon finance will keep the projects going for between 10 and 30 years.

- **Partial replication:** the carbon generated by several thousand of the first units installed facilitates other investments and ensures that all units put in place by the project are monitored.
- **Full replication:** carbon creates a dynamic that facilitates project replication over an indefinite period (the only limitations being the size of the market and length of the credit period).

Carbon revenues have helped ID to resolve the issue of long-term maintenance of biodigesters in China, made the Guizhou cookstove project more sustainable, and should make it possible to finance equipment for additional families (partial replication). Finally, ID's new cookstove project in Yunnan could be widely replicated thanks to an approach that strengthens the supply chain, uses cheap equipment requiring few subsidies, and a lighter supervisory model.

Carbon can thus provide NGOs with the means to monitor projects over the long term and ensure their sustainability. This is a new approach for the development world.

B) IMPROVING THE INSTITUTIONAL FRAMEWORK

➢ Strengthening the institutional framework for projects

The biogas project supported by AVSF in Mali benefited from a strong institutional base, as it is implemented in partnership with the Réseau Carbon Mali – a subsidiary of the Ministry of Environment whose role is to develop CDM projects in Mali, and which will therefore support the replication phase of the project. All projects need to tie in with the host countries' local and national strategies.

4. MONITORING AND EVALUATION

Monitoring needs to start as soon as project implementation gets under way, with quality control, monitoring reports and regular project verification.

➢ Mobilizing the necessary expertise for project monitoring

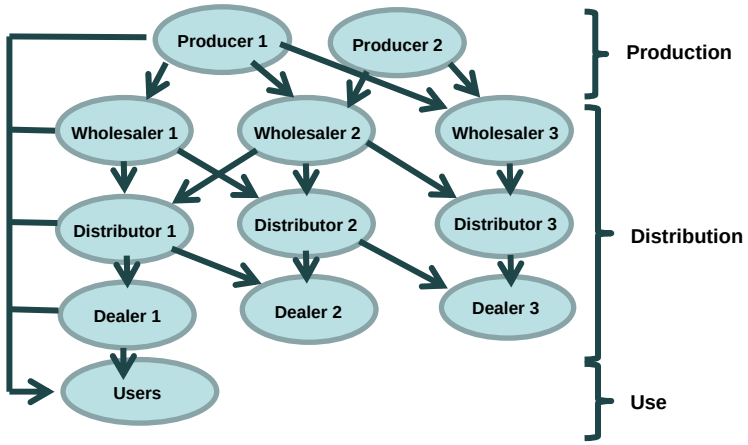
BISS chose to use local actors to monitor its solar cooker project in Peru and Bolivia. After a five-year learning period, a Bolivian member of staff acquired the necessary skills to run the labelling process in the field and train two people from each project team on data collection and monitoring.

Geres uses a 20-strong team to monitor the 37 producers and 200-plus intermediaries involved in its New Lao stoves project in Cambodia, which distributes about 30,000 cookers per month. Producers are visited every week to verify the data and collect the monitoring tools, and intermediaries also participate in the verification process. The team conducts weekly monitoring exercises to verify the data, data collection is monitored every month, and data collection and verification are cross-checked: producers' sales records, intermediaries' purchase and sales records, and even users' receipts are cross-checked with national population census databases. Data are double-checked: once in the field with producers, and then in the office before being fed into the computer database.

➢ Monitoring the production/dissemination/utilisation of technologies

As part of its New Lao stoves project in Cambodia, Geres has to monitor the whole improved stoves production chain from the producer to the user, via wholesalers, distributors and dealers.

ORGANISATION OF THE NLS PROJECT SUPPLY CHAIN (GERES)



➔ *Monitoring producers*

The improved stove **supply chain is decentralised at the global level but centralised at the local** (producer) **level**. This means that while there are numerous production units scattered across the country (34 registered producers), the metal and ceramic elements are assembled in one place to simplify production and encourage greater technical proficiency.

The Geres training centre runs sessions for producers to ensure that they understand the physical and technical requirements for the stoves. A quality sheet giving the stoves' exact dimensions is displayed in each workshop, and stoves are given labels with a unique serial number when they are sold so that they can be individually identified.

➔ *Monitoring the distribution chain*

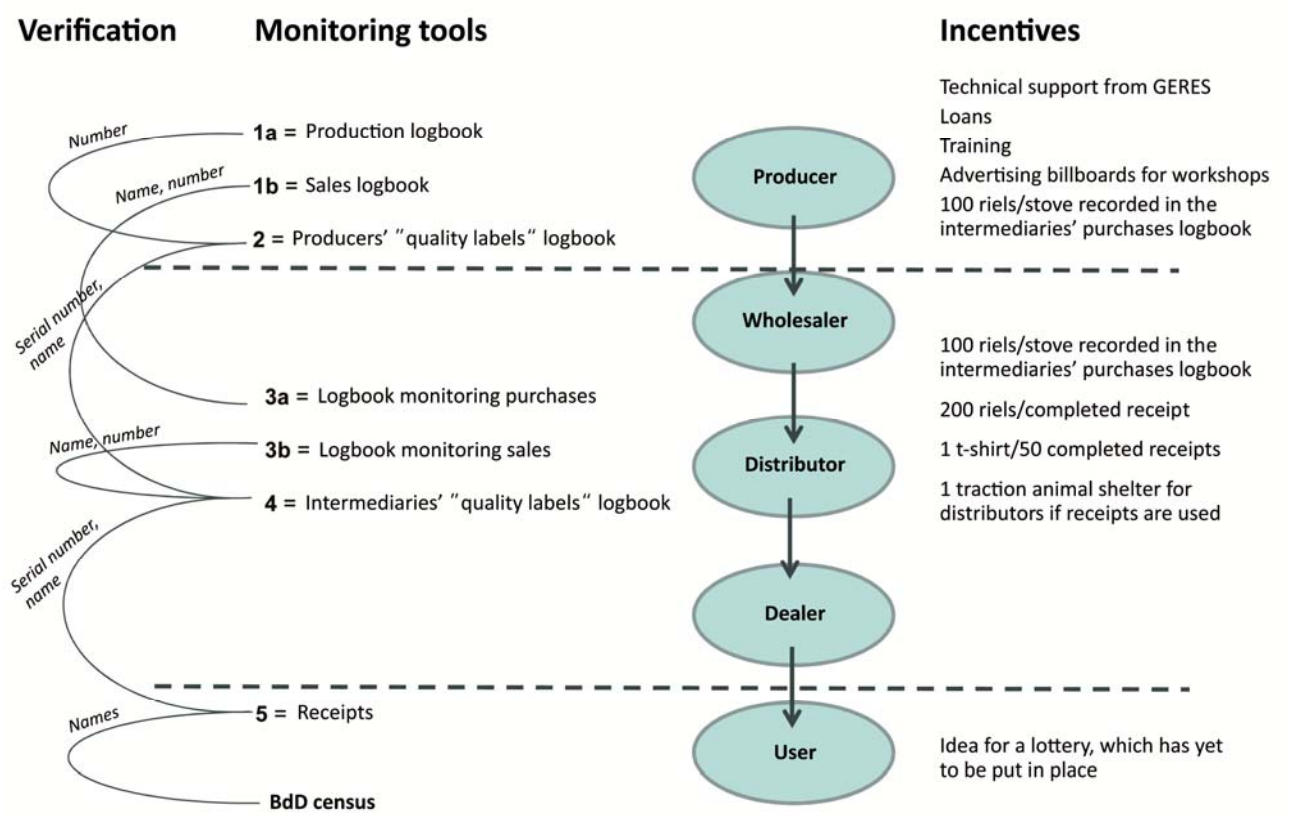
It is hard to monitor distributors because each unit follows a complicated path before it is sold to the final purchaser. Purchasers are monitored through a receipts system, and have to register their details or at least give their phone number at the point of sale. It is essential to have their contact details and the serial numbers of the stoves in order to determine how much time elapses between the unit being produced and used for the first time, when it will start generating emissions reductions.

Performance checks are an integral element of the carbon methodology. They are conducted every month, in two households per producer. At the moment there are two ways of monitoring performance: one used by the Gold Standard and one by the CDM:

- the Adapted Water Boiling Test (AWBT), which is adapted to conditions on the ground;
- the Controlled Cooking Test (CCT), which is similar to the Kitchen Performance Test (KPT) and monitors the amount of wood needed to cook a typical dish;
- checking the dimensions of the stoves: Geres includes 14 measurements in its PDD, although only seven dimension checks are really needed for quality control.

➔ *Monitoring users*

Geres has introduced an **incentive system** to make the project as efficient as possible at each stage of the chain. These incentives can take various forms, from loans to training or financial compensation:



➢ What can be done to correct or improve projects?

The monitoring process makes it possible to adapt and improve projects. Producers involved in the New Lao stoves project in Cambodia can attend training sessions if they have problems with the production process; and a large household survey was undertaken to monitor qualitative aspects of the project. The auditors that verify projects may also demand specific additional studies or corrective actions.

➢ How are emissions reductions verified?

Before any carbon credits are issued, two or three auditors (including a statistician) spend three days examining and comparing the different logbooks and paperwork with the computerised database, to determine whether the PDD target for emissions reductions has been met and the monitoring plan followed. The auditors verify the baseline fuel consumption, fuel savings, the emissions reductions calculation sheets and the monitoring logbooks (paper and database). They also conduct a field survey to verify all the monitoring tools in the supply chain – comparing the production and purchase logbooks with data from the traders, wholesalers, distributors and buyers' receipts. A total of 349,352 credits were issued after the Geres New Lao stoves project was last verified.

5. MARKETING CARBON CREDITS

➢ How is the marketing of carbon credits monitored?

When the Paris-Dakar rally was relocated to the Andes its organisers wanted to fund BISS's activities in order to offset the emissions generated by the event, but the members of the association refused to accept money from a source that seemed to contradict their actions. This case is quite unusual, as project leaders tend to have little control over the way that carbon credits are marketed. The buyers' identity and origin of the funding often remain unknown, making it hard to verify whether purchasers genuinely support global efforts to reduce emissions.

Points to remember

- ➔ In order to mobilize carbon finance, projects need to conduct a feasibility study that examines the particular issues associated with carbon, such as additionality and the need to adapt to local realities on the ground. These criteria may influence their operational choices (type of beneficiaries, technology, etc.).
- ➔ Detailed technical expertise is needed to undertake this analysis, prepare specific documents (PDD) and plan and implement carbon monitoring. NGOs have various strategies for mobilizing the necessary skills, and may internalise or outsource these tasks.
- ➔ There are many criteria for choosing a certification standard, depending on the standard's requirements and what the purchaser of the carbon credits is looking for (economic and social co-benefits, etc.).
- ➔ In order to be credible and meet the certification requirements for each tonne of carbon, NGOs have had to put in place monitoring procedures that are both demanding (in terms of their specifications) and adapted to the situation on the ground and the realities of data collection.
- ➔ The planned level of carbon funding and its associated risks will depend on different criteria, especially sale price, per tonne production costs and whether payment is made upfront or on delivery.
- ➔ Carbon finance requires a substantial initial investment but can facilitate the prolonged continuation, extension and replication of projects – thereby supporting a logic of sustainable development and a change of scale.

II. THE SPECIFICITY OF A DEVELOPMENT APPROACH TO CARBON FINANCE

The presentation of practical cases studies of NGOs whose projects have used carbon finance was followed by a round table to discuss whether or not there is a specific 'NGO approach' to carbon finance. These discussions were moderated by Frédéric Apollin (the director general of AVSF), with contributions from a range of actors including Fanny Fleuriot (a climate expert from Ademe), Adeline Giraud (head of AVSF's small-scale farming, natural resource management and climate change projects), Jean-Pierre Sicard (deputy director general of CDC Climat) and Denis Vasseur (head of Climate Change in the FGEF secretariat).[7]

1. ARE PROJECTS WITH A CARBON COMPONENT LIKELY TO CHANGE DEVELOPMENT PRACTICES?

Although it is not easy to have access to it, carbon finance does constitute a real opportunity for NGOs working in the field of development.

A) ADVANTAGES OF CARBON FINANCE FOR DEVELOPMENT PROJECTS

Leverage effect and change of scale

"*The FGEF has decided to support projects that mobilize carbon finance because carbon finance has succeeded where development practitioners have failed.*" Denis Vasseur (FGEF) believes that while public funding is increasingly constrained by institutional logics and limited timeframes, carbon finance generates continuous financial flows over a long period and can act as a lever for traditional public and private funding.

> *"Carbon finance has made public development aid dreams a reality." (D. Vasseur, FGEF)*

Adeline Giraud (AVSF) sees carbon finance as an innovative source of complementary funding that can facilitate "*a change of spatial and temporal scale*."

The carbon credits generated by a project can be used to scale it up to a broader regional or national level. Carbon finance complements classic funding and allows actions in the field to be sustained for 10 to 20 years.

Results-based management

Carbon finance is a complex and rigorous process whose results-based logic is built on quantifiable and verifiable indicators: namely, the number of tonnes of CO_2 avoided. As such, it can be used to monitor the effectiveness of projects with quantitative indicators and results which, according to Denis Vasseur (FGEF), "*do not predict social and economic impacts, but represent a real gain regardless of the current difficulties in the CDM and carbon markets.*"

NGOs are adapting to a business vocabulary (production costs, business model, etc.) that is not commonly used in development and international solidarity circles. Carbon finance is an opportunity for NGOs to develop their skills and, according to Adeline Giraud (AVSF), even "*create new institutional links around climate change and carbon offsetting*" (with state institutions in the South, for example).

[7] See Annex 3 for a summary of the different structures and their carbon finance activities.

B) THE REQUIREMENTS OF CARBON FINANCE: AN ISSUE FOR NGOS

While carbon has certain advantages for NGOs, it also presents a number of problems.

Mobilizing complex competences

The world of carbon finance follows certain standardised and complex rules. Jean-Pierre Sicard (CDC Climat) noted that some NGOs have embarked on carbon procedures without having the necessary technical and administrative skills in place at the start of the process; and that it takes time for development practitioners to acquire the rigour and technical expertise demanded by these procedures.

> *"This type of project requires certain technical skills that NGOs may lack of at the start of the process"*
> *(F. Fleuriot, Ademe)*

One possible option is to internalise the necessary carbon competences. Adeline Giraud (AVSF) believes that externalising these skills could compromise "*the ability to master the process, especially in areas where NGOs generally tend to be strongest, such as externalities, appropriation and transparency.*"

The need for pre-finance and length of time taken to offset costs due to the systemic crisis in the carbon market

The use of carbon finance also presents certain technical and operational problems. Due to the slowness of the carbon process it can take several years to make a return on the original investment, which means that project operators need to have the funds in place to make a large financial outlay at the start of the project.

> *"It is not a matter of questioning the mechanism, but of deploring the inability of European policy to provide a framework for international negotiation that can respond to the crisis and ensure that this dynamic can be sustained, especially in projects in LDCs."*
>
> *(J.-P. Sicard, CDC Climat)*

Jean-Pierre Sicard (CDC Climat) thinks that the carbon market may not be appropriate for certain types of projects "*which are not big enough to offset the cost of generating carbon credits within the Kyoto framework.*"

However, NGOs do have the advantage of not being solely dependent on carbon revenues.

Does carbon finance undermine the values espoused by NGOs?

The values that NGOs uphold determine how their actions are designed and implemented. Without questioning the associative aims of these projects, it has to be said that carbon finance has affected the way that they operate, and their target beneficiaries. Adeline Giraud (AVSF) argues that "*additionality and NRB issues may influence the choice of beneficiaries, and lead projects to work with groups that are not the most vulnerable sectors of the population in order to remain viable.*" Poverty and vulnerability are not the only criteria that determine which beneficiaries are selected, as equal weight is given to technical criteria such as 'carbon profitability'.

Furthermore, uncertainty about carbon processes (and especially its sale price) may make NGOs less credible with their partners in the field. This is why Adeline Giraud (AVSF) emphasises the need for "*awareness-raising and training for actors in the field on the working principles of carbon [which] must follow a logic of appropriation and transparency.*"

Fanny Fleuriot (Ademe) also underlines the fact that "*it is difficult for NGOs to trace the carbon credits that are generated*" because project operators do not always have direct links with their clients, and cannot verify whether buying carbon credits will actually contribute to global efforts to reduce emissions.

2. CAN A DEVELOPMENT APPROACH BE BENEFICIAL TO THE CARBON FINANCE WORLD ?

At a time when "*private logics are moving closer to non-profit-making aims while still pursuing economically viable procedures"*, Denis Vasseur (FGEF) shows that it is not so much a matter of talking about a specific 'NGO approach', but of a development approach that is shared with the private sector, common to both NGOs and businesses. This development approach increases the status of the carbon projects' impacts above and beyond simply reducing greenhouse gas emissions, and thus helps to contribute in creating an image of more responsible carbon finance.

A) THE SPECIFICITIES OF 'CARBON DEVELOPMENT'

A strong local base to ensure that carbon projects are adapted to local contexts and needs

Several contributors argued that development actors need to be present in the field in order to deliver good quality projects. Jean-Pierre Sicard (CDC Climat) spoke of the importance of NGOs establishing long-term roots: having a local base can provide a solid foundation for operations, as understanding of the local context helps ensure that projects are properly implemented, monitored and verified.

Denis Vasseur (FGEF) maintained that projects are better adapted to local expectations, and especially to local capacities. NGOs need to understand the local context in order to help the target populations to appropriate the new technologies. According to Frédéric Apollin (AVSF), working with partners in the South also facilitates "*the exchange or acquisition of skills that Northern NGOs lack.*" Adeline Giraud (AVSF) added that this detailed knowledge of the field enables NGOs to propose innovative and more effective solutions that can address "*local demand and feasibility issues*". One of the most emblematic examples of this is the concept of Supressed Demand developed by Geres. However, NGOs do not have a monopoly on these characteristics, as private enterprises involved in development can also establish contacts in the field, make links with local people, develop the capacity to innovate, and make this a part of their strategy (although NGOs still tend to put greater emphasis on accessing the poorest people than private companies do).

Sustainable and development-oriented carbon projects

Carbon finance strengthens the NGO approach to development, and can be a tool for sustainable development by generating credits over a long period. Jean-Pierre Sicard (CDC Climat) maintains that "*NGO projects are not solely dependent on the revenues generated by carbon finance, unlike certain projects where selling carbon credits is an end in itself.*"

B) DEVELOPMENT ACTORS CAN PROMOTE A MORE RESPONSIBLE IMAGE OF CARBON FINANCE

An integrated approach to development that builds on the social and environmental impacts of carbon finance

Development projects aim to maximise their social and environmental impacts on the most disadvantaged and vulnerable populations in developing countries. This integrated vision of development builds on other outcomes apart from carbon, such as the social, economic, health and environmental co-benefits of carbon projects. According to Denis Vasseur (FGEF), NGOs take a long-term view in order to have "*a vision that is adapted to social and environmental objectives."* He also noted *"the impacts of investors who want to finance projects with significant environmental impacts and low returns on investment. These private logics follow business procedures in terms of their long-term economic and financial viability, but their main goal is not always profitability.*"

> *"NGOs have an integrated, long-term vision, not only for the carbon component of their projects, but also for other aspects such as developing economic supply chains, supporting agriculture and crop/livestock integration"*
> *(A. Giraud, AVSF)*

Use of carbon finance guided by ethical considerations

The social and environmental approach taken by NGOs raises questions about the ethics of using carbon finance. Denis Vasseur (FGEF) noted that "*these projects raise questions about revenue sharing and transparency, but* [that] *there is little difference between their practices and those used by private enterprises in terms of transparency*" – largely because they are subject to the same Gold Standard transparency procedures. Another contributor pointed out that the distinction between NGOs and the private sector seems artificial insofar as private sector interventions may also be driven by the operator's ethics and convictions.

NGO credibility as an asset

Fanny Fleuriot (Ademe) believes that it is easier for NGOs *to be transparent about project implementation, the use of funds and the cost of carbon credits* than it is for private enterprises, "*which have to contend with the competition.*" NGOs are trusted by their partners, and seen as more credible by buyers "*in terms of both the quality of carbon credits and transparency.*"

Adeline Giraud (AVSF) pointed out that NGOs "*pay particular attention to the social and environmental externalities of their projects*", and can therefore help legitimise complex and unfamiliar concepts and encourage civil society actors and local partners to accept them, by showing that buying carbon credits can have positive impacts beyond simply reducing greenhouse gas emissions.

However, Denis Vasseur noted the need to put NGOs' credibility into perspective, since "*every NGO has a different way of marketing its brand. We need to develop a common approach to the way we communicate with civil society and share practices, resources and services. Because NGOs are fragmented and scattered, it is hard to share practices and resources, pool technical and financial services and exchange skills".*

Points to remember

- ➔ Carbon finance can be used as a tool for development by providing co-funding for projects.
- ➔ Carbon finance facilitates temporal and spatial change, and reinforces project management logics based on measurable results.
- ➔ NGOs have certain advantages in terms of experience working with the most vulnerable groups, knowledge and understanding of grassroots needs, public credibility, prioritising technology transfers and local appropriation. Projects are not designed to generate carbon credits, but primarily to provide an integrated approach to development, especially in rural areas. NGOs also have their own problems with carbon finance, such as mobilizing skills on an ad hoc basis and needing high levels of pre-financing.
- ➔ Although NGOs may enjoy a certain degree of credibility, all principled development practitioners, NGOs and businesses share a desire for an ethical approach to carbon finance (traceable credits, benefit sharing).
- ➔ NGOs should do more to publicise the specificity of their approach, and work together on ethical issues and questions of transparency in order to strengthen their credibility.

PART 2 – PRACTICAL RECOMMENDATIONS FOR A MORE ETHICAL CARBON

This second section considers how carbon finance practices can be improved in the context of development projects, discusses the issues raised by a development-oriented definition of social carbon, and considers existing procedures aimed at ensuring an ethical approach to carbon finance.

I. THE ISSUES INVOLVED IN DEFINING SOCIAL CARBON

Can energy development projects provide a framework for 'social' carbon, and what is the best approach to making this carbon more social? These were some of the questions raised at the round table moderated by Marie d'Adesky (Green industry expert at UNIDO), and discussed by Christophe Barron (head of Renewable Energy at ID), Renaud Bettin (Geres CO_2Solidaire programme director), Gildas Bonnel (president of the Sidièse agency and the Commission Développement durable du Syndicat professionnel des Agences de communication, AACC), Anouck Le Crann (director of the GoodPlanet Foundation Carbon Action programme), and Bernard Giraud (president of the Livelihoods Venture and director of sustainable development and corporate responsibility for the Danone group).

Defining social carbon involves trying to explain how and to what extent a tonne of carbon amounts to more than just a finite quantity of carbon. Christophe Barron (ID) sees this procedure as part of an attempt to change the way that we talk about projects. While the exact terminology may need some adjustment ('social' could be replaced by 'ethical' or 'equitable'), the aim is to show that the potential benefits of carbon finance extend beyond simply reducing emissions.

After considering how the definition of social carbon raises questions about the clarity of carbon projects for their beneficiaries, field operators, the public and consumers of carbon credits in the North, we will analyse the practices advocated by actors who promote social carbon as a vehicle for a more responsible carbon finance.

1. THE CLARITY OF CARBON PROJECTS: AN ISSUE IN THE NORTH AND THE SOUTH

The complexity and the technical nature of carbon projects can make them hard to understand. The question here is how social carbon projects can be made more readable for their direct beneficiaries, the public and potential purchasers of carbon credits in the markets.

A) CATEGORISING SOCIAL CARBON PROJECTS ON THE GROUND

Social carbon is defined in action. Anouck Le Crann (GoodPlanet) argues that *"the benefits of a project are seen in everyday life*". This attempt to define social carbon will help identify projects that have an effect on the whole sphere of sustainable development, and summarise what has already been achieved in the name of social carbon.

➢ A response to environmental and social issues

Anouck Le Crann (GoodPlanet) sees carbon finance as both *"a lever to fund development projects and a tool to combat climate change and poverty*." It can be used as a tool to tackle the main environmental issues facing our planet, such as climate change and pollution (especially soil and groundwater pollution), meet basic needs such as access to energy, and provide other socio-economic benefits by freeing up time to educate children, sell compost, etc.

For Christophe Barron (ID), social carbon aims to add social value: "*these projects target poor, insecure or isolated groups (ID mission) in order to improve their living conditions.*" This vision of social carbon also seeks direct added environmental value for beneficiaries by protecting their immediate environment, not just the global climate.

As defined by Anouck Le Crann (GoodPlanet), social carbon also helps "*mitigate the social deficits usually encountered in carbon offset mechanisms*" by operating on three levels:

- **with beneficiaries**, maximising the direct benefits;
- **with NGOs,** providing a new source of funding to develop local NGOs and carbon technologies that can eventually be funded by carbon finance. Anouck Le Crann (GoodPlanet) cited the support that GoodPlanet provides for local NGOs such as SKG Sangha in India, and French NGOs with strong local links, such as Bolivia Inti in the Andes;
- **with private partners that fund carbon offset projects**, provided carbon offsetting is part of a global procedure to assess and reduce greenhouse gas emissions. GoodPlanet teaches people about the socio-economic benefits of social carbon in order to promote solidarity between the different groups supported by such projects.

➢ Involving beneficiaries in the process

The social aspects of carbon can be strengthened by involving local people throughout the project process. Anouck Le Crann (GoodPlanet) specifies that this should "*take place upstream, designing projects that will meet local expectations (identifying people's real needs and daily problems) and whose setup takes account of local cultural, religious, political and ecological specificities*."

In order to ensure that carbon really is more social, Christophe Barron (ID) advocates a sustainable 'development project approach', where beneficiaries and local communities participate in defining project objectives and implementation.

Renaud Bettin (Geres) highlighted the local approach adopted by Geres projects: "*Geres has already sold 20,000 tonnes of carbon under the Geres label rather than the VCS or Gold Standard label, directly reflecting needs on the ground as a result of strong local involvement."* Social carbon should be based on local people's needs, to ensure that actions are sustainable. In his view, its main aim is not to generate large quantities of carbon credits, but to guarantee the quality of carbon actions.

Bernard Giraud (Livelihoods Venture) believes that it is equally important to involve beneficiaries in creating indicators to measure impacts before projects are replicated on a large scale: "*It is not a matter of inventing indicators, which is something that consultancy firms and institutions have already explored, but of working with local people to put in place systems that enable them to measure the progress of their ecosystem themselves".*

B) NORTH-SOUTH LINKAGES

'Carbon twinning'

Romain Peyrache from Rongead gave a presentation on carbon twinning.

Carbon twinning is an idea proposed by Rongead in association with Cefrepade, in order to make it easier for citizens in the North to address carbon issues and encourage them to act responsibly. It involves promoting a carbon approach that finances development without necessarily going through the usual funding system.

According to this concept, citizens in the North can use voluntary procedures to reduce both their CO_2 emissions and financial expenditure. Efforts to promote shared values and solidarity can begin in the North and spread South.

The definition of social carbon should reflect the different benefits of carbon projects. Gildas Bonnel (Sidièse) raised the question of "*why there is no lever for consumption, as there is for fair trade organic products*." Rather than echoing the North, social carbon should find markets and consumers that will pay more for the added social value of this product, as they do for 'healthy' organic products. Carbon has to be made acceptable, understandable and connected to people's lives. Only then will it be sustainable and have any real value.

➢ Climate solidarity in action ©

North-South linkages can make social carbon more meaningful. Private partners no longer just talk about carbon; they calculate their carbon footprint and offset their CO_2 emissions. Renaud Bettin (Geres) sees carbon as more than just figures and per tonne prices; it is also about supporting development projects. Support for carbon projects is a tool that can be used to serve society, and can thus be regarded as a climate solidarity action©. Reductions in the North necessarily involve support for the South: "*We talk about climate injustice because while populations in the North are in large part responsible for climate change, it is people in the South who are most vulnerable to their impact*." While emerging countries also play an increasing role in these impacts, the North must assume responsibility for them by reducing its emissions and supporting adaptation in the South.

➢ Changing the vision of development in order to reduce the North-South divide

Bernard Giraud (Livelihoods Venture) believes that carbon actions should be implemented by local communities and organisations. However, terms like 'social carbon' or 'carbon solidarity' are not relevant, "*just as it no longer makes sense now to use the categories North/South*." He sees the key issue as "*reconciling positive and negative carbon. We only talk about negative carbon, which causes pollution, climate change and all the negative effects for people. We hardly ever talk about positive carbon like soil organic matter (trees, plants), the life cycle that affects so many people's nutrition and level of poverty. In itself, carbon is of little interest, even if it does enable NGOs to find new sources of funding*."

Rather than blaming citizens in the North for the impacts of climate change on those in the South, it is better to make people aware of the need to find new solutions to the problem: "*Tomorrow we could monetarise the large watersheds that feed cities downstream, as we are doing with carbon and other aspects of biodiversity*." We need to decide how to "*build a story*" based on sustainable solutions for all, despite the considerable differences in wealth. Bernard Giraud believes that everyone can understand the position that "*we need to find other ways of living, producing, consuming, accessing and utilising natural resources*". In Kenya, for example, small-scale production has been tripled or quadrupled by carbon storage (organic matter) and agro-forestry. Such discourses are easily grasped in both the North and the South.

2. ACCOUNTABLE CARBON FINANCE

The process of defining social carbon helps formalise an ethical vision of carbon finance pursued by a particular category of actors seeking more responsible governance of carbon funds.

A) A SHARED ETHICAL AND DEVELOPMENT DIMENSION

NGOs are not the only champions of social carbon: it is also promoted by other development actors who share certain values and an ethical approach to carbon finance.

Bernard Giraud (Livelihoods Venture) does not believe that the solutions lie with any single NGO, business or community: "*It is a mistake to think of carbon simply as a means of funding social actions, just as it is wrong to think that NGOs are the only actors capable of initiating social actions*." All actors involved in the carbon mechanism need to work together and find shared solutions.

Nevertheless, Gildas Bonnel (Sidièse) emphasised the fact that NGOs are well placed to communicate about social carbon, as their action in the field gives them a certain legitimacy that "*gives the information a veracity and traceability, despite growing French mistrust of NGOs as weary consumers accuse large NGOs of profiting from the situation*."

➢ Choices shaped by shared values

Christophe Barron (ID) sees social carbon in terms of values that are shared by all actors in the carbon chain: "*Partners at every stage of a supply chain need to have a shared vision of carbon in terms of financial logic, choice of standard (the Gold Standard in the case of ID), how credits are sold ...*"

The definition of social carbon is not intended to influence the regulated market or provide other solutions for the future of carbon finance. Renaud Bettin (Geres) cites the example of the CO_2Solidaire platform, "*whose aim was not to build a community of actors, but which arose naturally around shared values."* He believes that we should talk about the 'value' of carbon rather than its 'price'.

➢ Transferring skills and responsibilities to local actors

Projects that support the social, economic and cultural aspects of communities are sustainable. Bernard Giraud (Livelihoods Venture) argues that projects should be built upon what exists at the local level: "*Complementary actions are needed, such as making productive use of or processing local products, developing the capacity of small producers and collective organisations, improving access to markets and education programmes..."* A balance needs to be found between creating value for communities and the environment.

Christophe Barron (ID) also emphasises the importance of transferring skills by working with partners in the field to facilitate the greatest possible access to carbon finance (according to the available skills and relevance of doing so), or by making skills available inexpensively so that local actors can appropriate the project's philosophy and working methods.

B) IMPROVING THE GOVERNANCE OF CARBON FUNDS

The fact that social carbon projects are not necessarily concerned with financial viability as an end in itself raises ethical questions about the governance of the funds generated by carbon finance, whose primary purpose should be to meet local people's needs.

➢ Reallocating carbon funds to ensure that projects are sustainable, extendable and replicable

Any profits generated by carbon finance should be reinvested in the project's social objectives, to ensure that it is sustainable and can be continued and replicated. For Christophe Barron (ID), this social carbon approach follows the logic of social economic solidarity and project funding.

In order to ensure that projects are sustainable over the long term, Anouck Le Crann (GoodPlanet) advocates *"a gradual approach, starting with small replicable projects. Changes in scale can be made once it has been determined how they function and any problems encountered during the pilot project have been studied*."

The price at which a tonne of carbon is sold on the offset markets does not always reflect the real quality and value of carbon credit. Given the current problems on the carbon offset market, Anouck Le Crann argues that "*it is necessary to keep the per tonne price of CO_2 high in order to sustain the social approach to carbon."* Financial partners need to understand that these projects not only have environmental impacts; they also have strong socio-economic impacts that cannot be financed, developed or sustained at €1per tonne of carbon. Christophe Barron (ID) sees the per tonne price of carbon as a very important issue, as costs vary according to different projects, local needs and living conditions.

➢ Transparency for all carbon actors, from direct beneficiaries to potential buyers of carbon credits

Reallocating funds requires a certain degree of transparency between actors. Christophe Barron notes that "*ID is working to make the way that the benefits of carbon finance are redistributed more transparent, but there is still much to be done."* Renaud Bettin (Geres) argues that the governance of carbon funds could help make carbon more social, by sharing the value and linking it with transparency in the North and South. Defining explicit indicators of impact would help formalise social carbon in the North through these projects: "*solar passive houses in the Indian Himalayas or Afghanistan are concrete examples of tackling fuel poverty that the North can understand. It's easier for offsetting companies to support development projects in terms of access to energy, where carbon is the entry point rather than an end in itself*."

Transparency is an important issue for the French public, and Gildas Bonnel (Sidièse) warns that "*communication strategies need to take account of widespread public mistrust*." Sidièse has become adept at guiding the public through the issues associated with sustainable development. Communication experts need to assess levels of public understanding about the highly technical, technocratic and regulated sphere of carbon finance in order to make information about it accessible. Defining social carbon will make it easier to use carbon or greenhouse gases as a vehicle to inform consumers and the public about various issues, not just the climate. "*Information introduces the notion of development and creating value without adversely affecting the development potential of others*." Rather than formulating a definition of social carbon, we are moving towards an index based on environmental labelling and the information that our public (collaborators in large companies or consumers) receives about carbon; providing information on a shared value generates a shared index of the value created.

Points to remember

- Raising questions about social carbon allows us to formalise an ethical approach to carbon projects, better communicate about carbon projects, and improve public acceptance of them.
- The definition of social carbon should draw on the experiences of all public and private actors who follow an ethical approach and act in the general interest, or aim to make the design and implementation of carbon projects more socially responsible.
- Social carbon involves local people and should be sustainable, reflect the values shared by different actors, and above all remain a tool for development rather than an end in itself.
- The governance of funds from social or ethical carbon should ensure that carbon funds are redistributed so that projects can be sustained, extended and replicated.
- It is essential that 'social' carbon measures the real economic and social benefits that projects generate for local people.

II. POSSIBLE CONCRETE OPTIONS FOR DEVELOPING AN ETHICAL APPROACH TO CARBON FINANCE

Various procedures for improving the governance, transparency and social or ethical aspects of carbon were presented by Meinrad Bürer (technical director of the Gold Standard), Carlos Canales (head of the Fairtrade climate change and sustainable development policy and strategy unit) and Swan Fauveaud (head of the Geres Climate team). These interventions, which were moderated by Michaël Kazmierczak (ID's renewable energy project director), reflect a desire to find concrete options for an ethical approach to carbon finance.

1. THE GOLD STANDARD APPROACH, A RIGOROUS CERTIFICATION AND REGULATORY AGENCY AT THE HEART OF THE CARBON PROCESS

This presentation by Meinrad Bürer (Gold Standard) gave an overview of the Gold Standard approach to governance and the tools that have made it a guarantee that carbon projects generate real impacts for beneficiaries.

A) THE GOLD STANDARD FOUNDATION, A QUALITY HALLMARK

The organisation and operational principles of the Gold Standard reflect a broad vision of carbon finance that extends way beyond simply certifying each tonne of carbon.

➢ Transparent and independent governance

The Gold Standard Foundation is a not-for-profit organisation that works on the certification and regulation of compliance and voluntary offset markets. It was created against the backdrop of climate negotiations in 2003, as an NGO initiative (WWF, Helio Int., SSN, etc.) to ensure that two of the CDM objectives were respected: economic efficiency and sustainable development. The Foundation has a transparent and independent governance structure consisting of the **board,** the **technical committee,** the **secretariat** (responsible for the development and functioning of the standard), and 85 **NGO Supporters.**

In terms of activities, the Gold Standard operates in the field of renewable energy, energy efficiency (demand-side) and waste recovery, and will soon extend to land use (afforestation/reforestation, forest renewal, *climate smart agriculture* and, following the recent acquisition of CarbonFix, forest management).

The Gold Standard deals with over 800 projects in more than 50 countries around the world. It is especially active in Africa, where one in five of its projects take place, compared with 2% of CDM projects. These Gold Standard projects generate about 15 $MtCO_2$equ of avoided emissions, a figure that is projected to rise to 65 $MtCO_2$eq in 2015. Carbon is a vector of values on the voluntary carbon market, which is still mainly concerned with projects' co-benefits and impacts.

➢ A field of regulation and certification that complements the CDM

The Gold Standard promotes a 'risk management' approach within the framework of the CDM. It has developed a standardised approach to stakeholder consultation, and systematic monitoring and evaluation of environmental and socio-economic impacts throughout the project cycle (which does not exist within the CDM).

The Gold Standard has intervened in the voluntary market since 2006. Its Gold Standard label is a vehicle for innovations, a springboard for the use of new technologies, and could possibly facilitate moves towards the regulated market. Although it deploys the same tools as the CDM, the two are very different in terms of regulation, as the Gold Standard regulates voluntary activities to reduce emissions: methodologies, adapted procedures, issuing and monitoring carbon credits (register), etc.

➢ An integrated vision of carbon finance outside the field of regulation and certification

It is useful to highlight areas that are not regulated by the Gold Standard, but with which the Foundation engages outside the rules of certification in the strict sense:

- **certification of technologies**: the Gold Standard does not certify technologies, but acts indirectly so that effective technologies are introduced as a result of monitoring project impacts;
- **financial transactions**: the Gold Standard does not intervene in the practices used to sell and buy carbon credits. These should be dealt with by the carbon market community as a whole, with the Gold Standard acting as one of its members;
- **the business models applied to projects**: the Gold Standard does not regulate business models, but uses participatory approaches and local stakeholders to indirectly evaluate an activity's impacts on sustainable development;
- **project promoters**: the Gold Standard does not select actors or have broad criteria for defining their general capacities; nor does it evaluate project promoters themselves, although it does consider their actions in the context of specific projects. Conversely, these actors need to ensure that their activities meet certain requirements in order to protect the Gold Standard trademark, maintain the Foundation's credibility and avoid damaging its image.

B) THE GOLD STANDARD: A COMPLEX, BINDING METHODOLOGY AND HALLMARK OF QUALITY CARBON CREDITS

The Gold Standard is recognised for its rigorous methodology, which ensures that projects generate good quality carbon credits as a result of strictly monitored procedures and a willingness to constantly adapt to beneficiaries' real needs and local constraints.

➢ Strong internal and external control mechanisms

The Gold Standard uses external UNCCCF-accredited auditors, external experts and 'objective observers' selected for their expertise in micro-projects. It also has various mechanisms in place to monitor and evaluate their performance: the auditors' validation and verification reports are not automatically accepted, but are filtered by the Foundation's technical team and possibly the technical committee. There is also a mechanism that allows project promoters to appeal against decisions if a project is not accepted for registration or credits are not issued. The Gold Standard works in collaboration with the Permanent Court of Arbitration in The Hague, which intervenes in environmental conflicts. If the independent technical committee rejects a project, its promoter can take the case to the Court of Arbitration.

➢ Tools for the participatory approach

The Gold Standard has set up a standardised approach for stakeholder consultations to ensure that local partners are properly represented and their views and questions taken into account.

- *Filter 1*: **Do not harm.** As with international agreements, this formal declaration is a precautionary criterion that project developers have to evaluate and make a formal commitment to uphold.
- *Filter 2*: a formal declaration of **compliance with local legislation**.
- *Filter 3*: a matrix of 12 **environmental and socio-economic indicators** (relating to air and water quality, etc.). Their parameters are defined on a case-by-case basis, in consultation with stakeholders. The score should reflect all their concerns but is less important than the procedure itself, whose aim is to put in place measures to limit the problems identified by stakeholders. A plan to monitor the indicators of sustainable development is also formulated with stakeholders, along with measures to limit/mitigate the risks identified during the consultation.

There is a **permanent mechanism for registering/dealing with grievances and complaints**. Some problems may emerge after the stakeholder consultations or not be covered by the monitoring plan. These issues can be addressed through specific procedures that allow stakeholders to register any complaints or grievances that may subsequently arise.

C) A FLEXIBLE APPROACH THAT CAN ADAPT TO DIFFERENT NEEDS

Rather than creating multiple standards, Meinrad Bürer advocates improving existing procedures such as the Gold Standard, which stand out in their capacity to innovate and adapt to different demands.

➢ Initiatives to promote access to energy for the poorest groups

Several types of initiatives are currently in place to enable projects that aim to improve poor people's access to energy to apply for carbon labelling:

- **simplified procedures for small-scale projects**, which can significantly reduce transaction costs;
- **programmatic procedures for small-scale activities**, allowing them to repeat similar activities;
- the Gold Standard **promotes the concept of 'suppressed demand'** in project methodologies, allowing countries whose emissions are close to zero to access carbon finance projects by anticipating their future emissions;
- the Foundation also has **special procedures for conflict zones**;
- important work has been done on voluntary methodologies, such as improved stoves **to reduce the decentralised use of fossil fuels/non-renewable energy**. A simplified version is being prepared for small-scale projects;
- the Gold Standard is investigating a programmatic approach and '**results-based management and finance' approach** for slums in New Delhi. While aid and development organisations have used this approach for some time, the idea here is to see whether and to what extent governance and instruments in the carbon market can facilitate this results-based financial approach;
- numerous **capacity building activities are being implemented**, including institutional capacity building.

➢ Suggestions for improving the Gold Standard approach

The Gold Standard aims to **improve and/or consolidate existing processes** rather than provide another special standard for the social aspects of carbon. It is constantly being improved and is open to suggestions as to how this can be done: through voluntary information, a charter and guide to best practices that focuses on social approaches, communication tools to develop/highlight nuances, formal (NGO supporters) and informal lobbying for the introduction of new indicators and/or other changes.

More thought needs to be given to how Gold Standard-type procedures can be applied **beyond carbon approaches** and **beyond project approaches**, in order to generate assets other than carbon (health, potable water, etc.) and promote sectoral approaches.

Finally, it is important to **demonstrate by example,** putting the approaches developed in consultation with different stakeholders into practice in the field, and showing how they work so that they might one day move across to the regulated market.

2. THE FAIRTRADE APPROACH: USING CARBON FINANCE AS A TOOL TO HELP DISADVANTAGED PRODUCERS ADAPT TO CLIMATE CHANGE

Fairtrade International (FLO) is an international coordinating organisation that is responsible for developing Fairtrade equitable trading standards (including fair minimum prices). It is a non-profit-making organisation created by various agencies that work in countries which produce and consume fair-trade products. Its objective is to facilitate equitable consumption in the North in order to promote sustainable development for disadvantaged producers in the South. The presentation by Carlos Canales, head of the Fairtrade climate change and sustainable development policy and strategy unit, argued for the need to link actions on climate change and fair trade.

A) CARBON FINANCE AS A TOOL FOR ENSURING SUSTAINABLE DEVELOPMENT FOR DISADVANTAGED PRODUCERS

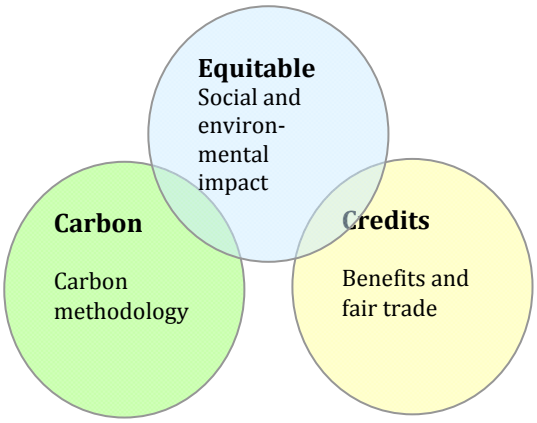
The system developed by Fairtrade International is a platform that helps producers to deal with the challenges presented by climate change by applying fair trade principles to the use of carbon finance.

➢ The impacts of climate change on the activities of the disadvantaged producers in the South

Climate change is having an increasingly visible impact on producers, as is growing pressure from the demands of the market. This affects labels too. Fairtrade is not an expert on carbon, but wishes to work on this issue with other organisations. It has developed its own strategy for taking account of climate change, which involves supporting producers at two levels: (i) with adaptation to climate change, and (ii) by reducing their emissions and thus their impact on climate change.

The carbon market could also create opportunities for producers to increase their incomes. In this context, Fairtrade hopes to develop a new system of certification for carbon credits in order to strengthen producers' capacities and ensure that they receive their fair share of the benefits generated by carbon finance.

➢ FairCarbonCredits: the principles of fair trade applied to carbon finance



THE THREE PILLARS OF FAIRCARBONCREDITS

FairCarbonCredits is a voluntary standard that aims to certify the production and trade of carbon credits. It is a voluntary standard in the sense that it is optional for producers who already work with the Fairtrade label.

The goal is to put in place a mechanism with a social perspective in order to attract funds for projects that mitigate the effects of climate change. This standard has several objectives:

- ensure the fair production and trade of carbon credits through producer participation, fair distribution of benefits, capacity building for producers, and by generating positive impacts for producers;
- guarantee the adoption of best practices in climate change mitigation and sustainable agriculture;
- ensure legitimate investment.

The aim is to work with all producers who are affected by climate change, and the standard is open to every producer regardless of whether or not they work under the Fairtrade label. As the objective is not commercial, no certification will be visible on the product (on packaging, for example).

Partnerships with other organisations will be developed, mainly to tackle technical carbon issues. This standard does not aim to further fragment the market, and Fairtrade is particularly interested in working with developers of non-profit making projects and the private sector, provided certain conditions are in place to ensure that producers benefit from the arrangement.

B) A NEW LABEL TO STRENGTHEN DISADVANTAGED COMMUNITIES AND PRODUCERS IN THE SOUTH

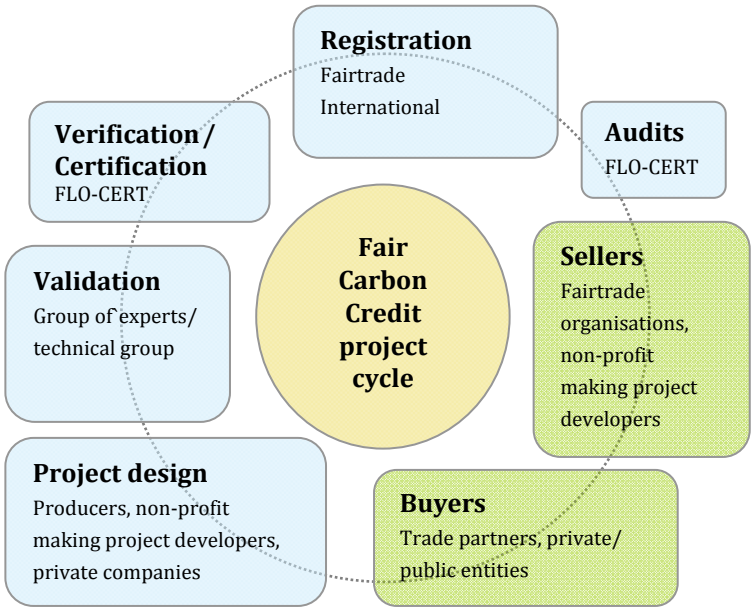
FairCarbonCredits aims to ensure that disadvantaged producers benefit from the redistribution of carbon funds, and involve them in carbon processes to ensure that projects have a positive impact on their activities.

➢ Benefits adapted to the specific needs of disadvantaged producers

Although the FairCarbonCredits standard mainly applies to **agriculture**, it will also develop complementary fields of application **in rural areas**, starting with renewable energy, energy efficiency and possibly agroforestry.

The beneficiaries of this standard are small producers and community organisations and workers in Fairtrade certified plantations. Producers and communities should have rights to projects and credits, and thus receive a fair share of the benefits they generate. As well as providing training to help reduce their impact on climate change, FairCarbonCredits will enable producers to increase their incomes through carbon benefits, and help develop more sustainable and productive agriculture, healthier ecosystems, energy efficiency and better living conditions.

➢ Involving disadvantaged producers in the FairCarbonCredits project cycle



Producers and communities should be involved in every phase of the project:

- **Project design:** representatives from small producer, community and trades union organisations participate in the process along with the other parties concerned.
- **Validation:** one representative from each group of experts/technical group.
- **Implementation:** technical assistance for producers/workers/communities.
- **Verification/certification:** producers/communities should not have to pay the costs of verification/certification, which should be covered by the project or plantation.
- **Registration:** producers/communities/workers should be kept up to date with the information that is fed into the system.
- **Audits:** audits should be jointly conducted by producers/communities/workers' representatives.

Fairtrade is part of Iseal, an association which works on sustainable standards. This standard is being developed through a long internal and external process of stakeholder and public consultations. Once it is finalised, the system will go through a certification, marketing and communication process, and is scheduled to be launched in 2013.

3. THE NGO APPROACH IDENTIFIED BY THE F3E STUDY, AND ITS ANALYSIS OF THE INFLUENCE OF FRENCH NGOs ON THE VOLUNTARY CARBON OFFSET MARKET

The F3E study was presented by Swan Fauveaud, head of the Geres Climate unit. It looks at how carbon finance can be used as an ethical and efficient means of improving access to energy and natural resources, and to support sustainable local development. This study also used case studies on three NGOs involved in carbon projects (AVSF, Geres and ID) to consider the way that French NGOs mobilize carbon finance.

A) CARBON FINANCE AS A DEVELOPMENT TOOL: QUESTIONS AND ISSUES FOR NGOs

As more and more French NGOs turn to carbon finance to help fund their development projects, some are jointly considering innovative funding mechanisms (selling carbon credits) and examining the financial models and constraints associated with carbon projects.

➢ Ethical questions raised by the professionalisation of NGOs in the field of carbon finance

The Geres Climate Unit provides support on the ground and through the CO_2Solidaire platform as part of its work incorporating and adapting carbon processes. This involves handling relatively large sums of money (the New Lao Stoves project in Cambodia alone generated €2 million of carbon revenues per annum, with 550,000 tonnes validated at the end of the project), and raises questions about how these funds are managed, particularly in terms of their benefits and beneficiaries. In March 2012 Geres validated a charter setting out the values and ethical principles behind carbon projects, and is currently engaged in important crosscutting discussions on this issue with ID and AVSF, not for marketing reasons, but to ensure that it stays in line with the values espoused by NGOs.

2011	2012	2013
April 2011: Coordination SUD Climate and Development Committee organises a one-day event on **'The carbon market, elements for debate, OSI practices'**. 2nd half of 2011: Geres and AVSF meet in Mali to discuss **the ownership of carbon credits and allocation of revenues**.	February 2012: ID proposes a Groupe initiatives study day on the theme **'Carbon finance as a means of access to energy for the poor'**. 10 October 2012: AVSF, Geres and ID submit a **study to F3E on the professionalisation of NGOs in analysing financial flows and transparency in carbon finance**.	2013-2015: in addition to the F3E study, there is a **possibility that Coordination SUD's Climate and Development Committee may take up this theme.** There is a noticeable **increase in interest in carbon finance among NGOs and associated structures**.

➢ NGO financial models and principles for allocating revenues

NGOs aim to maximise the impact of their projects on local people by changing the scale at which technologies such as improved stoves and biogas are disseminated. They prioritise actions that will benefit the poorest sectors of the population and facilitate local economic development. Therefore, their goal is not to apply carbon finance to already functioning supply chains, but to use it as a lever to develop them.

Carbon finance can be used to launch or support a supply chain (maintenance, quality control, possibly subsidies) and cover the costs of carbon. It can be combined with a development approach to support and professionalise a supply chain, build capacity, and research and develop new technologies while involving stakeholders in decision-making processes along the chain.

B) ANALYSIS OF THE NGO APPROACH TO IMPROVING THE GOVERNANCE OF CARBON FINANCE

The work done by NGOs reflects their guiding principles, as does the way they incorporate carbon finance into their development strategies. The F3E study identifies and analyses various practices shared by development practitioners.

➢ Expected levels of transparency in revenue allocation

Transparency may be recognised by certain standards or modes of certification. Different actors deal with this issue in different ways:

- **internally**: within their organisation, especially in terms of financial risk;
- **with partners on the ground**: for example, the Ministry of the Environment in Cambodia wants to use the carbon revenues generated by Geres. Greater transparency with partners in the South also raises the question of who owns carbon credits;
- **with purchasers of carbon**: carbon buyers raise very specific questions about the use of carbon credits, their application in the field and project impacts.

➢ The influence of French NGOs on actors in the voluntary carbon market

The study funded by F3E aims to gather concrete examples and broaden consultations to include a wider range of actors: project leaders, carbon market actors and Southern institutions involved in the energy, forestry and environmental sectors. It is also intended to feed collective reflection by French NGOs on the ethical (and, if possible, transparent) and efficient use of carbon finance in improving access to energy and natural resources and facilitating sustainable local development. The objectives of this study are:

- for AVSF, Geres and ID to share information on the financial models and constraints to carbon projects (including the advantages and disadvantages of this type of finance);
- to enable other NGOs and development actors to have access to reliable information and recommended operating practices;
- to share and discuss recommendations regarding to the professionalization of the sector and ethical and responsible practices with carbon operators (including NGOs).

The study was conducted in three stages:

→ *Stage 1:* field visits and case studies on NGO carbon projects.

→ *Stage 2:* mapping and surveying actors in the carbon market, identifying the principles for allocating carbon funds and possible rules for transparency.

→ *Stage 3:* discussing and determining how French NGOs can play a more professional role in ethical and socially responsible carbon finance.

The goal is to share and discuss recommendations for the professionalisation of the sector and ethical and responsible practices (transparency and governance of carbon finance) with carbon operators (not just NGOs). This study intends to analyse the different financial models used by development projects that have gained access to carbon finance, and their associated constraints.

Points to remember

- ➔ The Gold Standard approach aims to be open to all *business models* and allow project developers to choose their own approach. Indicators for co-benefits focus on their qualitative rather than their quantitative aspects. Externalities should be taken into account when calculating the per tonne cost of carbon; labels can also help develop certain externalities of carbon projects (such as structuring supply chains)
- ➔ The experience with Fairtrade certification could provide interesting tools for certifying 'social carbon', especially in terms of evaluating social benefits and involving target populations in the process. The FairCarbonCredits initiative is developing this approach.
- ➔ External expertise is expensive but vital for the certification process.
- ➔ Given the considerable sums generated by carbon credits, transparency is also essential (albeit hard to measure and relatively expensive). Partners need to understand the difference between in-built costs and the large amounts of carbon revenues to be allocated.

CONCLUSION

Jérôme Coste spoke on behalf of Iram, a member association of IG that has supported rural development in the South for over 55 years, but which has no experience with carbon finance. As such, his closing statement brought a fresh eye to the day's proceedings.

I. OBSERVATIONS

1. LESSONS LEARNED

Jérôme Coste started by noting that this study day was organised by the two newest members of IG (ID and Geres), whose achievements included "*mobilizing their professional networks and making the Group aware of* ***the views of actors that we classic NGOs rarely meet***."

This is a field that has established itself with astonishing speed – developing methodologies, funding procedures and so on in the space of just 15 years. We face the dual challenge of getting grip on all the scientific, legal, financial and institutional apparatus associated with carbon finance, while making it accessible so that we can open up the discussion beyond specialist circles. How can we best manage the conflicting demands for rigour and appropriation?

This event contributed to thinking about the way that international cooperation is managed. "*Our discussions are emblematic of ongoing changes in the design and positioning of development actions, whose ambition now is to articulate support for social and economic change in the South with the issue of global public goods*." Changing the name (and mandate) of the Ministry of Cooperation to the Ministry of Development reflects these changes at an institutional level.

2. GREY AREAS AND ROOM FOR IMPROVEMENT

The term 'voluntary offset market' is ambiguous, and the word 'market' can lead to confusion as we are looking at bilateral transactions without any institutional mechanism (private or public) to create baseline information or synthesise bilateral trade-offs between actors.

More thought needs to be given to the institutional viability of actions in this field, as well as their economic and social viability. This will require capacity building. These points were not discussed in much detail today, but work on the micro-finance sector could be a useful source of information on viability, especially institutional and economic viability. The study co-financed by F3E will also consider these points and feed into thinking on this topic.

II. FUTURE THEMES AND HOW BEST TO ADDRESS THEM

1. SHARED ANALYSIS

The regulated market is disappearing in both law and practice (as CER prices approach zero). There is great uncertainty on the regulated market and little prospect of an international legal framework for several years to come. Actors who are already involved in the carbon finance market or plan to enter it should share their analysis of this matter while we wait to see how this uncertainty will affect the voluntary market.

It is also important to study the role that ethical questions play in existing standards, to help select standards and better determine our position on them. Another issue that needs to be addressed is whether requirements should centre around social and ethical questions, or if the focus should be on voluntary procedures (best practices).

2. OUTCOMES TO BE DEVELOPED AND SHARED

This event helped feed thinking on several points:

- Transferring skills and building capacities in the South.
- Changing scale: how long will it take and what conditions are needed for the economic and social dynamics supported by carbon finance to become financially autonomous? In the meantime, what roles will carbon finance, user contributions and local and national taxation play? It is worth noting that little was said about national policies on access to energy during the day's debates.
- Identifying target populations and selecting proposed technologies.
- Experiences with the methodology for PDD (project design document) and monitoring processes.
- The identity of carbon credit buyers: what is the status, motivation and requirements of those who finance voluntary offsetting? This could link into the GI study day on relations between NGOs and private enterprises held in September 2008. What criteria should be used to select carbon credit buyers? One criterion could be to ensure that offsetting is backed up with procedures to reduce the client's emissions so that they are not exploited by the buyer. Finally, how can mistrust between the two parties be eliminated in order to encourage genuine partnerships and maximise transparency about each party's objectives?
- The question of who bears the risk for carbon credits that are sold upfront (the owner or buyer?) could have negative implications for their purchase price. There is also the more general question of how risks should be shared between different actors in the carbon credit supply chain.

3. ELEMENTS OF A JOINT POSITION

Several points emerged that could provide the basis for a position on carbon finance:

- **affirmation of a clear position: carbon finance is not the answer to climate change.** What is needed are changes in the behaviour of individuals, companies and public authorities. Carbon finance is simply a tool, a lever that can be used to limit greenhouse gas emissions by funding concrete projects on the ground;
- **implementing carbon projects represents a commitment to fighting climate change.** The NGOs involved in carbon need to engage in the debates on energy models in the North and South, and get involved in lobbying on international climate negotiations and national climate change policies;
- certain practices in the carbon finance arena are questionable and do not reflect NGOs' ethical principles. NGOs should be aware of this and **ensure that their practices are credible, especially in terms of the standards they use, transparency and governance**;

- **NGOs can unite around convergent rationales, especially 'social and ethical carbon'.** They need to come up with new ideas and take the lead in a philosophy that other (private and institutional) actors can follow;

- **Following on from the F3E/ID/Geres/AVSF study and this GI study day, French NGOs involved in carbon would benefit from working together to affirm their own vision and philosophy of action.** NGOs need to be open to discussions with other actors, especially private enterprises, while remaining realistic about the constraints of the private sector, which is very competitive and bound by the need to generate returns on investments (at different rates and timescales).

4. AREAS FOR FURTHER WORK

Further food of work was identified during the study day:

- The performance criteria for carbon finance actions provide common ground for both 'classic' actors such as NGOs (GI members, etc.) and businesses (CSR procedures). Apart from guiding their actions, these performance criteria address the need for accountability, especially towards beneficiaries;

- Carbon finance is characterised by cumbersome procedures and rigorous methodologies. It could draw on other fields of development cooperation and the growing demand in the North and South for (private and public) accountability and standards. Although the world of development NGOs is traditionally resistant to standardisation and norms, it needs to address the tension between the proliferation of standards on the one hand, and the desire to appropriate initiatives, adapt to local conditions and pursue democratic objectives on the other. In this respect, carbon finance could be very useful for other aspects of international development cooperation.

ANNEXES

Annex 1 – Members of Groupe initiatives

Apdra – Association for farming, fishing and rural development

Apdra is a general interest association that was created in 1996 to support fish farming in the South and make actors in the North aware of the issues associated with this activity. As a development operator Apdra defines, formulates, implements and evaluates fish farming projects that are integrated into production systems, in order to:

- improve food security by contributing to food self-sufficiency;
- develop viable economic activities;
- strengthen representative rural farmer organisations.

AVSF – Agronomists and veterinarians without borders

Promoting sustainable living off the land

Agronomes et vétérinaires sans frontières (AVSF) is an international aid organisation that has spent over 30 years working with rural communities in developing countries in order to prevent food crises. It provides access to agriculture and livestock professionals who deliver technical and financial assistance and training, and facilitate access to local markets and fair trade.

AVSF is also involved in lobbying activities in Europe in order to influence development and cooperation policies and practices.

Recognised for its work in the public interest, AVSF runs over 60 projects whose aim is to ensure that people in 19 countries in Central and South America, Asia and Africa can live sustainably off the land.

Ciedel – International Centre for studies on local development

Ciedel is an institute of the Faculty of Law and Economic and Social Sciences at the Catholic University of Lyon. It offers academic and professional training for actors dealing with new development issues, and is one of the training centres that participates in Profadel. It also supports development actions in France and other countries, working in association with Rafod to provide expertise and support for local development processes.

Essor – Support - Training - Implementation

Essor is an international aid organisation that was created in 1992 to help the most disadvantaged groups obtain the resources they need to permanently improve their living conditions.

Our mission is to enable people to appropriate local development processes by designing and implementing concrete actions and promoting active citizenship and social justice in the countries where we work.

Geres – Renewable energies, environment and solidarity group

Geres is a not-for-profit association that was created in 1976 following the first oil shock. It now has over 195 collaborators running innovative sustainable development projects in France and 12 developing countries.

Key challenges of our time include protecting the environment, limiting climate change and its consequences, reducing energy insecurity and improving living conditions for the poorest sectors of society. The team at Geres use their development skills and specific technical expertise to help tackle these challenges.

Activities are undertaken in partnership with local communities and actors. Their main focus is improving energy efficiency, extending energy services in order to encourage local economic development, and developing renewable energy supply chains and waste recovery initiatives.

GRDR – Group for research and action on rural development

GRDR has worked on the development dynamics generated by migration since 1969, with cross-continental initiatives to harmonise development and citizenship as migrants adapt to change in both Africa and France.

In order to encourage local appropriation of decision-making processes and actions, GRDR works with the local administrative authorities, state technical services, municipalities and members of civil society in several countries from which migrants originate (Mali, Mauritania, Senegal and Guinea Bissau). It also uses this local development approach to implement social development programmes (community health, water, education) and support economic sectors (food security, natural resource management) in these countries.

In France, GRDR supports individual and collective initiatives to improve migrants' social and economic integration into their new setting; fostering their involvement as citizens of their old and new countries by encouraging cooperation between local governments on both continents.

Gret – Rural development research and assistance group

Gret is an international aid organisation that works at the interface between research and development, engaging in dialogue with the public authorities in order to combat poverty and structural inequalities in rural and urban areas. Since its creation in 1976, Gret has worked in Africa, Asia, Latin America and

Europe, systematically promoting partnerships with local intermediary organisations, and contributing to public policy formulation in the North and South through its networks and support for development and cooperation contracting authorities. It sees communication as a vital tool for development, and produces numerous publications on experiences in various fields. In addition to acting as a professional NGO and associative consultancy firm, undertaking public service missions and providing a space to produce and disseminate knowledge and methodologies, Gret also structures interactions between development and cooperation actors. At a time when the very notion of development is being reassessed and reconfigured, the association sees this hybrid identity as one of its strengths.

HSF – Water without borders

Hydraulique sans frontières (HSF) is an international aid organisation that was established in 1989 to support local village water projects. Its work accompanying local partners through every phase of the project cycle (from needs analysis to the final evaluation, if necessary providing help with fundraising and financial management) is entirely demand-led. HSF operates in over 20 countries in Africa, Asia and Latin America, working in partnership with numerous actors: local and migrants' associations seeking concrete solutions to their problems; 'Northern' NGOs already present in the field seeking specialist technical support; local governments; international organisations; French consultancy firms and businesses, and members of associations.

ID –Development initiatives

Since 1994, Initiative Développement has provided two-pronged support for disadvantaged communities in Haiti, Togo, Benin, Chad, Congo Brazzaville, the Comoros and China. This involves delivering sustainable responses to basic needs for food, drinking water, health, education, housing, sanitation, employment, renewable energies, local development, etc.; and providing the resources to enable local structures to act. In order to do this, ID builds on solid skills, expertise and results, and is always mindful of the need for rigour, professionalism and innovation.

Its actions centre around beneficiaries, to ensure that they are consulted about and participate in activities. In addition to this, ID encourages the most dynamic beneficiaries to set up associations, businesses, etc., and helps them organise themselves and acquire the skills they need to function. When ID support comes to an end, responsibility for project implementation is transferred to its partners.

Iram – Institute for research and application of development methods

Iram has developed skills in four complementary fields over more than 45 years of interventions in Africa, Latin America, the Caribbean and, more recently, South East Asia and Europe:

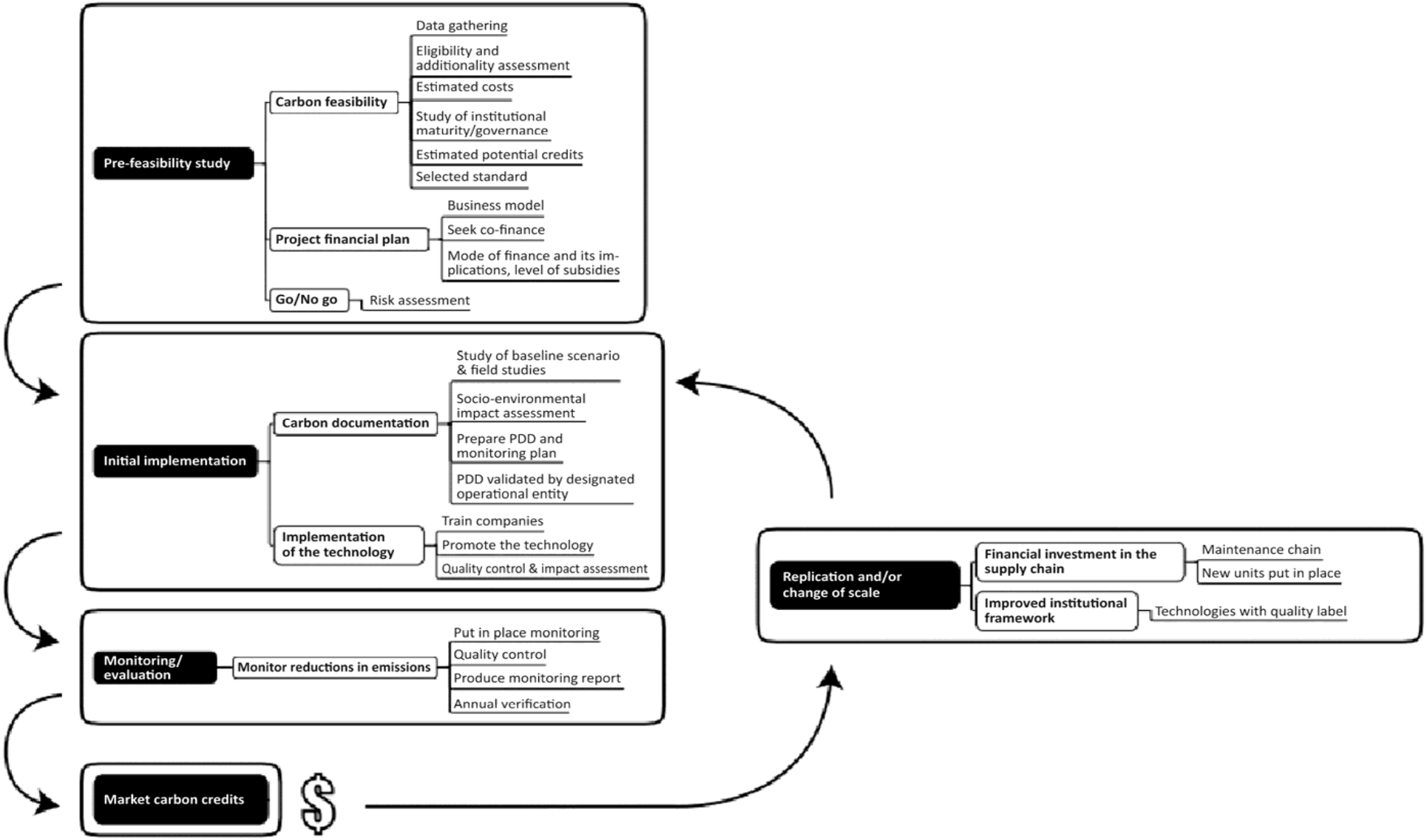
- policies on agriculture and food security, with a particular focus on establishing regional spaces, articulating agricultural, macro-economic and sectoral policies, analysing and organising supply chains, land policies and food security;
- rural organisations and micro-enterprises, supporting rural producers and farmer organisations;

- local finance and micro-finance, implementing micro-finance programmes, long-term support for micro-finance institutions (MFIs), and conducting studies (impact analyses, project and programme evaluations, sectoral policy recommendations, etc.);

- local development and natural resource management, with a particular focus on local authorities and governance, management of natural resource and agrarian systems, social management of water and pastoral resources, decentralisation and local planning.

Iram seeks to combine development expertise with high ethical and professional standards. In addition to conducting studies at every stage of the project cycle, it provides advice and support, runs various development programmes in association with local partners in the field, and undertakes methodological research based on its interventions.

Annex 2 – Setting up carbon projects in the energy sector



Annex 3 – Carbon finance activities undertaken by Ademe, AVSF, CDC Climat and FGEF

Ademe and carbon finance

Ademe is regularly asked for advice on carbon by local governments and businesses, even though its activities in this field are fairly modest.

- → 2008: In collaboration with numerous actors, Ademe produced a **charter of best practices** aimed at project leaders and carbon actors-offsetters.
- → 2012: Ademe produced a **guide for credit buyers,** setting out the criteria for a robust and effective carbon project.

Ademe encourages offsetting actions provided they are part of a broader process: before embarking on any offsetting procedures, purchasers should evaluate their emissions, produce an emissions reduction plan and make efforts to reduce their emissions.

www.ademe.fr

AVSF and carbon finance

AVSF brings an insider's view of a specific 'NGO approach' to carbon finance to the debate. While the main focus of its thinking on climate change has been how rural communities can adapt to climatic variations, it also works to mitigate emissions within the framework of rural development projects.

AVSF is currently involved in several pilot initiatives. For the last three years it has worked on forest carbon storage in the context of reforestation and agroforestry projects in Peru; the credits generated by these projects are already coming onto the market. More recently, it has implemented a 'biogas' type project in Mali in partnership with GoodPlanet/ETC terra, with support from AFD. It is still too early for this project to assess the business model and governance of funds in the energy sector. For AVSF, the ultimate objectives of these different experiences is to evaluate the real socio-economic benefits for local people, the level of local appropriation and, finally, the relevance of carbon finance as a tool for rural development.

www.avsf.org

CDC Climat and carbon finance

CDC Climat invests in carbon on behalf of clients, through investment funds or direct investments. It collaborates with NGOs that are involved in projects which link in with CDC Climat activities, or whose projects are sponsored by CDC Climat.

CDC Climat has stopped direct investments in carbon credits because the major systemic crisis in the Kyoto agreement means that they no longer cover the cost of setting up project mechanisms.

www.cdcclimat.com

FGEF and carbon finance

FGEF finances sustainable development projects, and since 2004–2005 has been involved in funding projects that already work on carbon finance or hope to do so.

www.ffem.fr

Annex 4 - Definitions of social carbon

actioncarbone.org
Calculez, réduisez et compensez vos émissions de CO_2 by Anouck Le Crann

How do we define social carbon?

- ✓ Efforts to combat climate change and reduce poverty.
- ✓ A lever to fund development projects that tackle both:
  - the major environmental issues facing our planet
  - people's basic needs (socio-economic benefits).
- ✓ A response to the social deficits usually found in carbon offsetting mechanisms that operates at three levels:
  - beneficiaries: to maximise direct benefits
  - NGOs: to provide a new source of funding to develop local NGOs
  - partners: to inform and spread solidarity values among populations.

How can we make carbon more social?

- ✓ Involve local people.
- ✓ Ensure projects take account of local specificities.
- ✓ Ecosystems/biodiversity, religious and political context.
- ✓ Evaluate the projects' sustainability and durability.
- ✓ Empower NGOs on the ground by training them in carbon accounting.
- ✓ Avoid current problems on the offset market by maintaining a high price/ t CO_2.

LIVELIHOODS
Act today for a better future
by Bernard Giraud

How do we define social carbon?

- ✓ Helping rural communities protect, restore and develop sustainable ecosystems (resources and food security).
- ✓ Implementation by local communities and organisations.

How can we make carbon more social?

- ✓ Ensure that the social, economic and cultural aspects of projects are sustainable.
- ✓ Develop process local production through capacity building for small producers and collective organisations, and by facilitating access to markets and education programmes.
- ✓ Find a balance between creating value for communities and the environment.
- ✓ Define the indicators for measuring impact with the communities concerned.
- ✓ Large-scale replication.

by Christophe Barron

How do we define social carbon?

- ✓ Carbon projects whose objective is to add social and environmental value:
  - projects that target poor, insecure, isolated or forgotten population groups (ID mission) in order to improve their living conditions;
  - added environmental value for beneficiaries: protecting their immediate environment as well as the global climate.

- ✓ Needs-driven projects and use of carbon funding (finance):
  - projects are driven by local needs rather than financial profitability, which is not an objective in itself. This may make projects and credits more expensive;
  - benefits are reinvested into the project: any profits are used for social objectives and to sustain, extend and replicate project outcomes.

- ✓ Shared ethical values (practices and governance):
  - social carbon is a supply chain where partners share the same vision of carbon at every stage of the process: the financial logic, chosen standard (Gold Standard), mode of selling credits, etc.;
  - transferring skills and working with partners in the field in order to facilitate the greatest possible access to carbon finance (according to the available skills and relevance of this type of finance) or making skills available at very low cost. The project philosophy and ways of working can be transmitted to local actors;
  - transparent redistribution of the benefits of carbon finance: this is one of the commitments that we have started to implement(cf. PoA Biogaz, Projet YGF, Qujing / credit sharing).

How can we make carbon more social?

- ✓ Following a development project approach (impact, sustainability, participation).
- ✓ Developing an approach that uses SSE logic and project funding.
- ✓ Using an approach that transfers skills to and empowers beneficiaries.

by Renaud Bettin

How do we define social carbon?

- ✓ Requires North-South linkages to be genuinely meaningful.
- ✓ A tool that serves society in more ways than the figures suggest: supporting a carbon project = climate solidarity action -> reduction in the North + support for the South.
- ✓ Focusing on quality rather than quantity.
- ✓ Sustainable action based on local needs.

How can we make carbon more social?

- ✓ Define explicit indicators of impacts, a label?
- ✓ Share the value and tie it in with transparency in the North and South, especially in terms of the governance of carbon funds.
- ✓ Categorise the types of project that generate social carbon.
- ✓ Give the South all the tools it needs to take charge of its own 'carbon destiny'.
- ✓ Give new meaning to offsetting in the North: choice of partners.
- ✓ Talk about the 'value' of carbon rather than its price.

by Gildas Bonnel

How do we define social carbon?

- ✓ By the fact that the value created is shared.

How can we make carbon more social?

- ✓ By making carbon acceptable, understandable, connected with people's reality and therefore sustainable.

Do NGOs have the legitimacy to promote social carbon?

- ✓ As actors in the field NGOs have the natural legitimacy to promote social carbon.

What is the external perception of social carbon?

- ✓ 1 unit of gas = 1 unit of weight = 1 cost = 1 social action.

Annex 5 – Framework paper for the study day on 'Carbon finance as a means of access to energy for the poorest people'

Practical information

Date: 19 October 2012
Location: Amphithéâtre, Jardin tropical de Paris, Nogent-sur-Marne

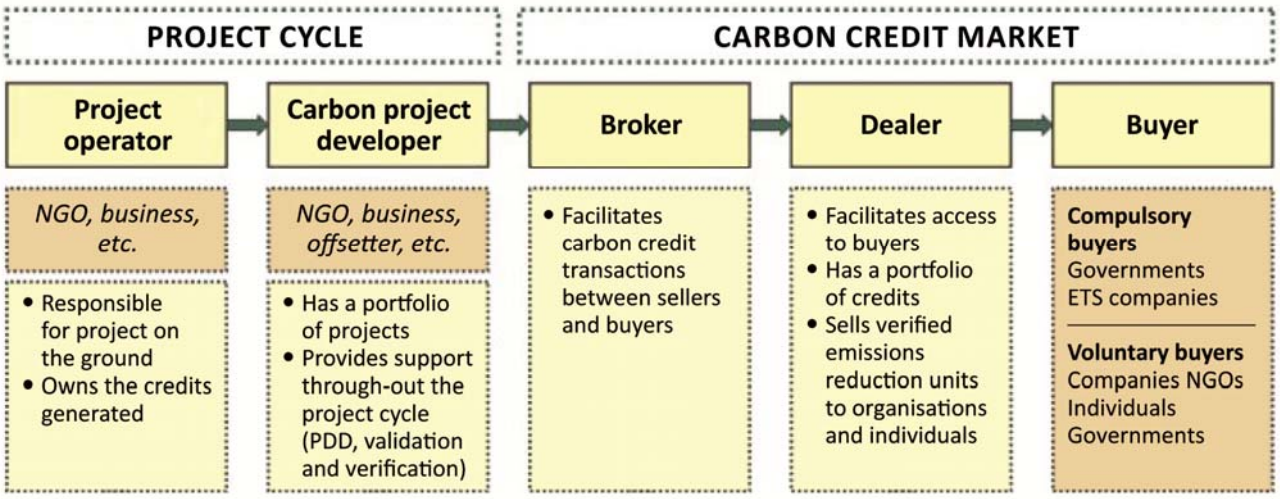
Context and issues

A growing number of French NGOs are working to improve access to energy and basic services, and launching projects to tackle these issues in the South. People can generate and sell carbon credits when they have access to clean technologies such as improved cookstoves, biodigesters and water filters. Many French NGOs are turning to carbon finance as an additional source of funding for these projects, but it is not easy to access this innovative and apparently attractive mechanism. Carbon finance is complex, requires specific expertise and may involve substantial initial investments that take a long time to generate any returns. The financial imperative to make such returns does not always sit easily with the strategies and logics that drive development efforts, or initiatives to transfer skills and technologies.

While the scale of the project and type of proposed technology will clearly affect the amount of carbon credits that are generated, little or no account is taken of the non-carbon aspects of the technologies' performance – their effects on society, health, the economy and the environment in general. The sectors in which development NGOs work are not always the most viable for this type of funding;[8] and lack of discussion about the processes, economic models, strategic choices and operational methods associated with carbon finance seems to be having an adverse effect on the carbon projects implemented by NGOs and their partners in the South.

The regulated and especially voluntary carbon markets are structured around investors (carbon funds), carbon offsetters, project operators and the bodies behind carbon standards which aim to ensure that carbon emissions really are reduced (Gold Standard, Verified Carbon Standard, etc.).

The diagram below shows the main categories of actor involved in carbon finance, and their role in the value chain.



Source: Geres

[8] The concept of suppressed demand is an interesting response by the Gold Standard to improve the eligibility of projects that affect the poorest population groups.

These actors use many different practices, some of which are highly questionable in terms of their ethics and the way that carbon finance is ultimately used. NGOs need to act as exemplars in this field, but it is hard to do so given the difficulty of determining how this type of finance is generated and used. Upstream, continuous structuring of the carbon market is needed, raising the question of where NGOs stand in this market and how they can contribute to more responsible carbon finance.

In order to address these questions, the study day will be divided into two distinct parts and focus on two main issues.

The first will consider the way that NGOs implement carbon projects within their development initiatives, especially in terms of access to energy and basic services:

- The project's financial model and supposed profitability:
  - Which financial model; what level of profitability?
  - How do donor subsidies fit with this type of funding?
- Complexity of the programme setup and specific issues facing NGOs:
  - Specific competences, market approach, competition.
  - Level of involvement/consultation with partners in the South.
- The impact of carbon finance on NGO intervention strategies and in the field:
  - On the project deployment strategy (choice of beneficiaries, technologies, method of dissemination).
  - Overall impacts (change of scale, leverage effect).
  - Timescale of carbon projects *vs* development projects.

The second issue is the debate about the way that France and Europe view 'social and ethical carbon' and the role of French NGOs in the emergence of this vision:

- Why is social carbon needed and how is it defined?
  - Social carbon: how can we move beyond purely 'carbon' projects and make social carbon more of a reality?
  - Can good social carbon projects only be implemented by NGOs?
- Current initiatives and best practices in this domain:
  - Transparency and governance: what are the underlying issues and recommended solutions? How should indicators of transparency and good governance be determined? What concrete tools can be developed to bring together actors with shared values (frames of reference, indicators, elements for standardising social carbon)?
  - Links and consultations with the national authorities concerned …
- The role of French NGOs, and how to organise them:
  - NGOs have less experience in the latter stages of the process, marketing and distribution of funds …
  - What do we do next? NGOs need a road map on transparency, financial governance, etc.

Scope of the study day

The study day will focus on the problems associated with access to energy and basic services; the agriculture and forestry sectors will not be discussed. Although the mechanisms seem similar, the operational practices, timescales, types of project and impacts of this type of funding on projects differ greatly, hence the need to limit the range of issues under discussion.

This event is aimed at a broad target audience:

- international aid organisations;
- institutions;

- networks, cooperatives, labels involved in carbon finance;
- carbon market actors (carbon standard agencies, offsetting platform, consultancy firms specialising in carbon projects);
- possibly local governments and businesses involved in carbon offsetting procedures.

Expected outcomes

The expected outcomes of this day include:

- information about the financial models and constraints to carbon projects shared with NGOs and institutional donors, including the advantages and disadvantages of this type of funding;
- NGOs that wish to mobilize carbon finance have access to reliable and realistic information and recommended operating procedures;
- carbon operators (including NGOs) discuss and share a vision of social carbon and formulate recommendations for making it a reality.

Participants agree on the need to publicise GI's position on carbon finance and these discussions about governance and transparency, in order to spread the word about where NGOs stand in this field.

Possible options:

This structuring work could be assigned to Coordination SUD's Climate and Development Committee, which identified mitigation and carbon finance as possible themes to be explored during the 2013-2015 exercise.

In the short term, this study day will feed into the crosscutting study process launched by Geres, AVSF and ID with F3E (ongoing F3E study), which is also intended to inform thinking by French NGOs. If this study is confirmed, it will also be adopted by the Climate and Development Committee.

- How do we ensure that people have access to sustainable services? How can we develop and perpetuate effective support mechanisms that respond to local needs? What is the best way of assisting local organisations and technical operators without smothering them? What kinds of intervention are needed to turn the rhetoric about people-centred development into reality?

  The institutional aspects of development were long neglected due to a focus on achieving concrete results, but are now regarded as a key issue. The idyllic image of consensual development has given way to the realisation that development operations involve complex interactions between different actors, and therefore require careful consideration at various levels. We need to look beyond speeches and principles, and discuss the 'chemistry' of interventions, how their constituent elements react with each other. The *Traverses* series uses a crosscutting, multi-disciplinary approach to contribute to strategic and methodological debate on these matters. Aimed at development practitioners, it includes working papers, grey literature and articles that build on experience in the field in order to contribute to our knowledge, analysis and understanding of development methods and strategies.

- The *Traverses* series is edited by the Groupe initiatives, an organisation composed of ten French international cooperation agencies that use action-research and institutional capacity building to promote development that genuinely meets local people's needs. Contributions are reviewed by an editorial committee drawn from our member organisations: Barbara Guittard (AVSF), Anne Lhomme (Iram), Arkouk Arezki (GRDR), Olivier Grosse (APDRA-F), Blandine Le Bourgeois (Ciedel), Christian Lespinats (HSF), Jean-Philippe Delgrange (Essor), Swann Fauveaud (Geres) and Nicols Moreau (ID), led by Christian Castellanet (Gret).

- Every issue of *Traverses* can be downloaded free of charge from the Groupe initiatives website (www.groupe-initiatives.org); and some are also available on the Vétérinaires sans frontiers (www.avsf.org), Gret (www.gret.org) and Iram (www.iram-fr.org) websites.

▶ Developing sustainable services for marginalized populations… Building and making sustainable support services that respond to the populations' needs… Reinforcing but not smothering local organizations and technical service providers… Determining methods and know-how to achieve an ideal of development that puts local populations at the heart of the intervention… These are the subjects discussed by *Traverses*.

The institutional dimensions of development have long been neglected due to an overwhelming focus on concrete results. They are once again emerging as a major issue. Far from the idyllic image of consensual development, development operations give rise to complex actors games and strategies, which must be understood and considered. It is necessary to move beyond the "boilerplate" discourse and discuss the "recipe" of the intervention. Designed for development practitioners, the Traverses series seeks to contribute to the strategic and methodological debate on these questions, with a multidisciplinary approach. We welcome working documents, intellectual literature, and analyses of lessons learned from field experiences which are noteworthy in terms of analysis and methodology.

▶ The *Traverses* series is edited by Groupe *initiatives*, composed of ten French international development organisations who share a common ambition to support development that genuinely serves local populations via action-research and institutional capacity-building. Texts are selected and approved by an editorial committee made up of representatives of Groupe *initiatives* member organisations: Barbara Guittard (AVSF), Anne Lhomme (IRAM), Arezki Harkouk (Grdr), Olivier Grosse (APDRA-F), Blandine Le Bourgeois (CIEDEL), Christian Lespinats (HSF), Jean-Philippe Delgrange (Essor), Swann Fauveaud (GERES), Nicolas Moreau (ID) and led by Christian Castellanet (GRET).

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