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FONDS FRANÇAIS POUR L'ENVIRONNEMENT MONDIAL

8 RECOMMENDATIONS
FOR STRUCTURING CARBON PROJECTS
DRAWING ON EXPERIENCE IN FOREST PRESERVATION AND MANGROVE RESTORATION

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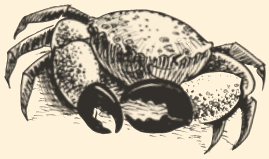
Carbon finance is an innovative financial mechanism that attributes an "economic" value to reductions in greenhouse gas emissions achieved through carbon projects. These projects also provide significant opportunities to contribute to fairer and more sustainable development in our societies.

Learnings covered in this document

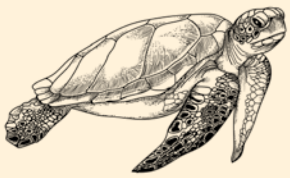
- Using carbon finance projects to work towards the Sustainable Development Goals
- Adopting inclusive governance in project preparation and management
- Developing projects in experienced host countries
- Conducting comprehensive feasibility studies in advance
- Using cautious and resilient financial models
- Devising a fair mechanism for benefit sharing
- Providing project teams with capacity building in carbon finance
- Establishing the monitoring and evaluation system

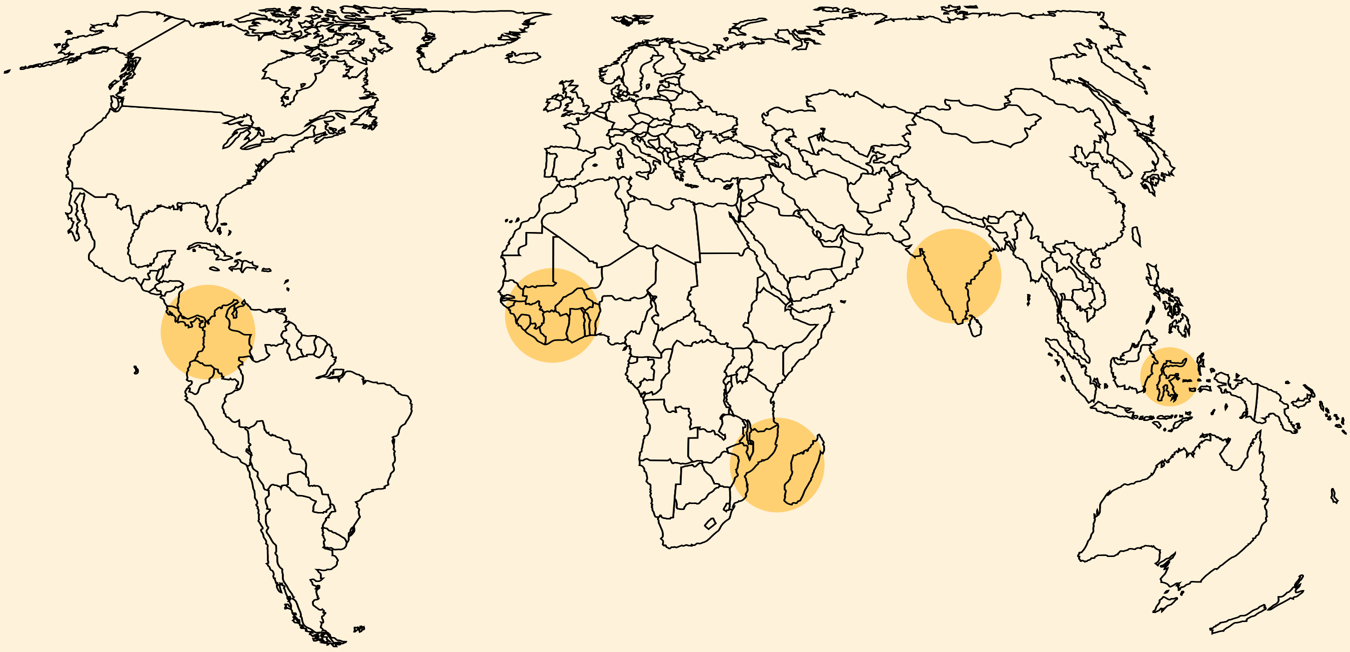


CONTEXT

The FFEM, which specialises in financing pilot projects promoting innovation and in sharing the lessons learned more widely, has supported numerous carbon projects over recent years. These include REDD+* projects in Guinea-Bissau, Colombia, Mozambique and Madagascar, and mangrove restoration projects in Costa Rica, Benin, Senegal, India and Indonesia.

Using a capitalisation approach, these projects have been analysed to highlight the added value of carbon finance and to draft recommendations for future projects requiring it. The eight main recommendations arising from this capitalisation exercise are presented here.





Reducing emissions from deforestation and forest degradation in developing countries

HAMERKOP CLIMATE CHANGE & FINANCE

01

Using carbon finance projects to work towards Sustainable Development Goals

To be considered high quality, carbon projects must today generate significant and quantifiable positive impacts, going well beyond simple carbon sequestration. By incorporating social, economic and environmental objectives, a carbon project can contribute to fairer and more sustainable development, while also addressing climate challenges.

02

Adopting inclusive governance in project preparation and management

It is also essential that projects adopt an inclusive approach, involving a variety of stakeholders in their design and implementation. These include members of the local community, public bodies and technical experts. Identifying the needs and concerns of these stakeholders helps to avoid imbalances in terms of exclusion, representation and power, as well as institutional biases. Ultimately, inclusive governance makes carbon projects more likely to be successful.

03

Developing projects in experienced host countries

For maximum success in carbon projects, it is advisable to target host countries with experience in developing these projects and those with a robust legal and institutional context that is favourable to carbon finance. Particular vigilance is required in countries without a regulatory framework or where this is still under development, to avoid the sustainability of projects being threatened by the later introduction of rules, including retroactive ones.

04

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Conducting comprehensive feasibility studies in advance

Before launching carbon projects, it is essential to conduct in-depth feasibility studies. These studies should assess the eligibility of the project, quantify the potential for emissions reductions, identify any environmental pressures, and analyse the context in the host country. The analysis should also include a field visit, as well as a risk assessment and agreement on appropriate mitigation measures if these are not already in place. Finally, the feasibility study should include a list of recommendations on project design that will help the initiator to move forward in setting up the project and preparing it for launch.

05

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Using cautious and resilient financial models

In order to assess and plan for the financial sustainability of carbon projects, it is essential to develop robust financial models. It is advisable to establish a financial model capable of financing activities over a period of at least five years, without the need for supplementary funding. In addition to sensitivity analyses on several key parameters, these models must also include alternatives for financing in the event of under-performance, to ensure the long-term economic sustainability of projects.

06

Devising a fair mechanism for benefit sharing

To ensure projects are successful, it is essential to have a fair mechanism for benefit sharing. Project developers should involve local and indigenous communities in designing the benefit-sharing plan from the start. Payments must be tailored to suit the types of benefits, the project timeline and the needs of the various groups. It is also vital to observe the rules in the host country, while protecting the interests of the local communities.

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07

Providing project teams with capacity building in carbon finance

To ensure that project teams have thorough understanding of the rules and methodologies of carbon standards, it is vital to provide them with training on carbon finance topics. Even if some members of local teams will have only marginal involvement in the certification process, it is essential that they maintain good understanding of the key procedures.

08

Establishing the monitoring and evaluation system

To ensure transparency and effectiveness in carbon projects, it is essential to have a robust monitoring and evaluation system. This is used to monitor impacts, check progress against initial targets, and make sure that the expected benefits are delivered. The mechanism must include clear and measurable indicators, specified at the project design stage. Finally, there must be frequent and transparent communication of monitoring and evaluation findings, to maintain stakeholder trust.

Future outlook

This carbon finance capitalisation was an opportunity to analyse certain FFEM-supported REDD+ and mangrove restoration projects. The projects assessed have generated significant positive impacts. These pioneering initiatives have also laid the groundwork for more robust future projects. The lessons learned from this capitalisation, highlighted here, provide a useful platform for discussion to improve the implementation and effectiveness of future carbon projects.

Carbon finance offers significant opportunities for sustainable financing. It mobilises resources for vital environmental and social initiatives that are often overlooked by the private sector. Challenges remain in several areas, however, including policy changes in host countries, evolving standards, the methodologies used for quantification, entry barriers for project initiators and the volatile prices of carbon credits.

These challenges are driving changes in the market, with investors paying increasing attention to the quality of projects, the precision of carbon quantification frameworks, and the co-benefits for sustainable development.

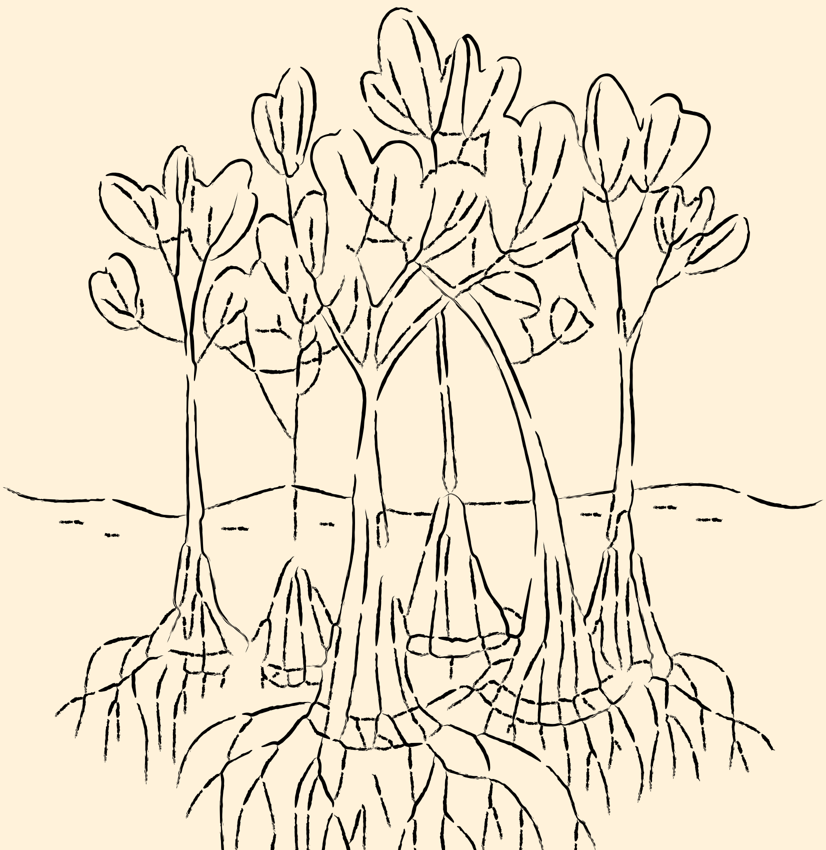
The French Facility for Global Environment (FFEM) finances innovative environmental projects in developing countries. It supports initiatives that generate environmental, social and financial benefits at the local level. Established in 1994 by the French government following the first Earth Summit, it has already facilitated support for 500 projects in over 120 countries, two-thirds of them in Africa.

Projects supported by the FFEM aim to preserve biodiversity conservation, the climate, international waters, territorial ecosystems, the ozone layer, and at tackling chemical pollution.

The FFEM seeks to learn from these pilot projects so that the most effective solutions may be deployed in other locations or on a larger scale.

The FFEM works in partnership with public and private actors in countries both in the South and North: NGOs, local authorities and communities, public institutions, companies and other backers and international organisations.

The projects it finances are also supported by the member ministries of its steering committee and by the French Development Agency (AFD).



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