CARBON CREDITS Voluntary solutions for climate change

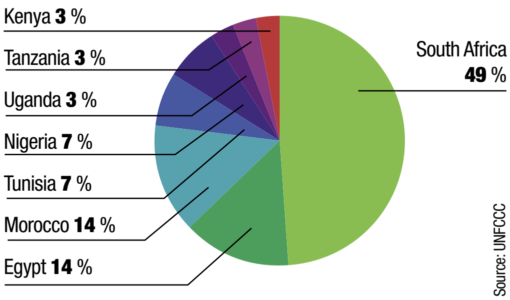
There is growing momentum to involve Africa in the carbon-credit trade, now worth some $64bn a year, but strict regulations may keep it away from certified global markets

EMILIE FILOU

A new project to protect some 425,000 hectares of rainforest in Madagascar's Andasibe-Mantadia corridor might seem a win-win proposition for the local population – which can benefit by selling non-timber products like fruits, vegetables and fibres – as well as for the rare lemurs that live there. But many African projects like this one have been left out of the lucrative regulated market in carbon credits that has been growing rapidly worldwide.

Africa is now taking the matter into its own hands and developing the conditions for more carbon-credit trade and for more direct benefits on the ground. Last December saw the launch of the Africa Climate Solution, an initiative led by the Common Market for Eastern and Southern Africa (COMESA), which is also lobbying for the inclusion of projects such as 'avoided deforestation', the 're-vegetation' of degraded land, as well as agro-forestry and sustainable agriculture schemes that can operate within regulated global carbon markets. "If they are included, we can take the pressure off our existing forests and use the carbon market to help lift poor farmers out of poverty," said Sindiso Ngwenya, COMESA's general secretary.

Registered CDM projects in Africa



Africa still only makes up only 2% of the world carbon-credit market, whether of the regulatory kind – through the Kyoto Protocol's Clean Development Mechanism (CDM), whereby industrialised countries can offset their own emissions by investing in low-carbon projects in developing countries – or in the sprawling voluntary market, which is certified mainly by independent alliances or NGOs.

The CDM market for certified emission reductions (CERs) has complex and rigid regulation mechanisms. Only projects from a number of pre-selected (mostly heavy, polluting and large-scale) industries qualify. Those industries get carbon credits through adopting new, more environmentally-friendly technology.

In Africa, 46% of the current carbon projects are forestry-based, but forestry has so far been largely excluded from the regulatory market. Only one out of the 1,383 registered CDM projects worldwide is forestry-related, and it is in China.

TAKE-OFF WILL BE DELAYED

Because CDM registration can take several years, there are long time-lags between initial investment and the first revenue from a project. Green Resources, a Norwegian forestry company that has been planting trees in East Africa since 1997, has yet to sell emission reductions, which is a "terrible frustration", according to its managing director Mads Asprem. The company's first project in Tanzania fell foul

GREEN AND GOLD STANDARDS

ACCUSATIONS OF ILLEGITIMACY are one of the biggest challenges to Africa's voluntary carbon market. Nhambita, a project in Mozambique run by Envirotrade, a British company owned by socialite Robin Birley, came under scrutiny this year for selling offsets before they were verified. But John Grace, professor of environmental biology at the University of Edinburgh and the project's scientific advisor, explained that getting money up-front – selling emissions before they have gone through lengthy certification processes – is the only way to get projects started. In fact, Nhambita is certified by Plan Vivo – the oldest carbon-offset scheme – and verification is scheduled from another scheme, SmartWood.

Part of the problem is the variety of voluntary standards, each with a different structure, methodology and focus. They include the Voluntary Carbon Standard, the Climate, Community and Biodversity Standard, and the Gold Standard, which, as its name suggests, is considered the industry's best.

Stepping up confidence could help smaller projects access carbon markets. A new initiative in Kenya plans to sell carbon microcredits, whereby people are rewarded for using a Gold Standard-certified stove through a weekly payment sent to their mobile phones. ● E.F.

of CDM criteria because it began before the CDM starting point in 2000. Other, more recent, projects in Tanzania and Uganda have been in the pipeline for months and are still not registered.

The chairman of the Uganda Carbon Bureau, Bill Farmer, who advises entrepreneurs interested in venturing into the carbon market, warns of the difficulties for companies with little financial clout operating in African economies that lack the infrastructure and business environment to facilitate project development.

The alternative for the smaller projects is the voluntary market. Although the lack of regulation and liability to scams have given the market a bad name, a number of new voluntary standards have emerged, and some of these are backed by methodologies just as rigorous as the CDM process.

> Moving beyond their shaky beginnings, some voluntary schemes have a new-found legitimacy

The result is a new-found legitimacy. The voluntary market is "more adapted to our project types and sizes", says Farmer. "It's also, in many cases, a learning experience before coming head-on with the CDM."

The price of voluntary credits, unlike the market-driven CERs, can vary hugely depending on the size of the project and the type of verification. Forestry and renewable offsets tend to be the dearest on the market, with Africa proving the most expensive at $13.70 per credit, compared to $5.80 in Asia.

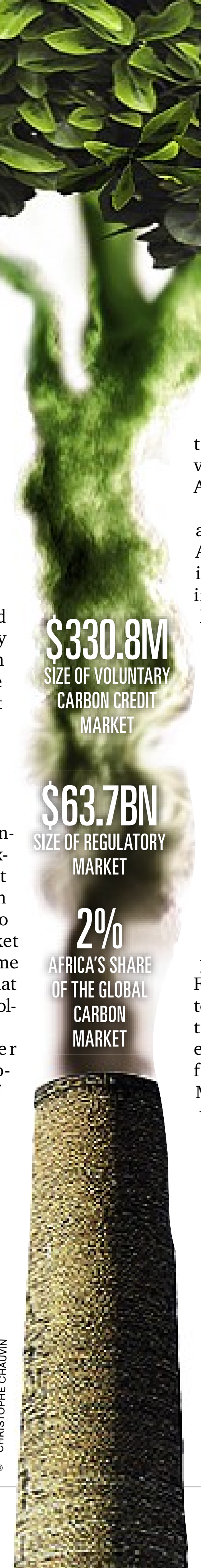
Still, while the price of CERs has gone down, the price of Voluntary Emission Reductions (VERs) has gone up. "The price difference between CERs and VERs is much smaller – €10 for CER, €7-8 for VER – and for the extra inconvenience the CDM involves, project developers may well be more inclined to opt for VER," said Edward Hanrahan, head of voluntary sales at J.P. Morgan, which last year acquired Climate Care, one of the UK's biggest sellers of carbon offsets.

BABY STEPS

The Uganda Carbon Bureau's Bill Farmer points out that conventional financial institutions are not flexible enough for a market that is still in its infancy, which is why he has been trying to create a local carbon market of companies keen to become carbon neutral, a market that is less risk-averse and more tolerant of relaxed standards.

Information provider Ecosystem Marketplace produces an annual "State of the Carbon Markets" report. Its managing director, Katherine Hamilton, says new standards have raised the bar and many projects that would have started trading credits during the CDM-registration phase are now waiting for the standard's approval.

Such was the experience of Norway's Green Resources. The company estimates it has produced 500,000 tonnes of CO_2-equivalent carbon credits since it began oper- ▸▸▸



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▸▸▸ ating – half of which has been independently verified by the Swiss company SGS – but refuses to sell them until they are certified to the highest standards available. "If we sold them now, they wouldn't have the same value," says Green Resources' Asprem.

Despite these different approaches, experts agree that Africa has huge potential in trading carbon credits, particularly if 'avoided deforestation' and land-use projects are included in climate-change-mitigation efforts. Asprem says that such projects would also help the most destitute in Africa: "If you plant trees where there is no economic activity, with no other employment, it makes a huge difference, socially and economically."

The World Bank is investing actively in Africa's fledgling carbon market: 22% of its carbon projects are in Africa, and the continent accounts for a third of projects from its BioCarbon Fund, a $91m facility dedicated to 'carbon sequestration' initiatives through forests and agro-ecosystems. It has also helped fund Madgascar's Andasibe-Mantadia project, which is now well under way.

The UN Framework Convention on Climate Change, which runs the CDM and is organising a major conference in Copenhagen in December 2009 that will draw a post-Kyoto road-map, accepts that Africa has mostly missed out on the regulatory market. But this is slowly beginning to change. While there are currently only 29 registered projects in Africa, mainly in Northern and Southern Africa, 94 more are in the pipeline. ●