

An aerial photograph of a dry, cracked landscape. The ground is a mix of light tan and brown, with a network of deep, dark cracks forming irregular, polygonal shapes across the entire surface. The lighting is bright, casting soft shadows in the cracks.

Barriers to entry, funding  
mechanisms and potentials for  
SA



# Overview

- Barriers to entry
- How does funding work ?
- What are buyers/auditors looking for?
- What is potential for South Africa?





# Barriers

- Size project
- Funding mechanisms -upfront
- Technical support, capacity
- Monitoring, scale
- Permanence and additionality (risks)
- Policy risk – post 2012
- Political support (CDM)

### **Investor risk in land-use projects**

- Fire and pests
- Unproven implementation models / sequestration rates
- Political and governance risk
- Policy risk, especially prior to 2012

### **How to obtain funding upfront?**

- Most local based NGO's are not in position to capitalize projects
- How does one fund the development and implementation of a project for the first five years of its existence?

**Two broad sources of funding / investment:**

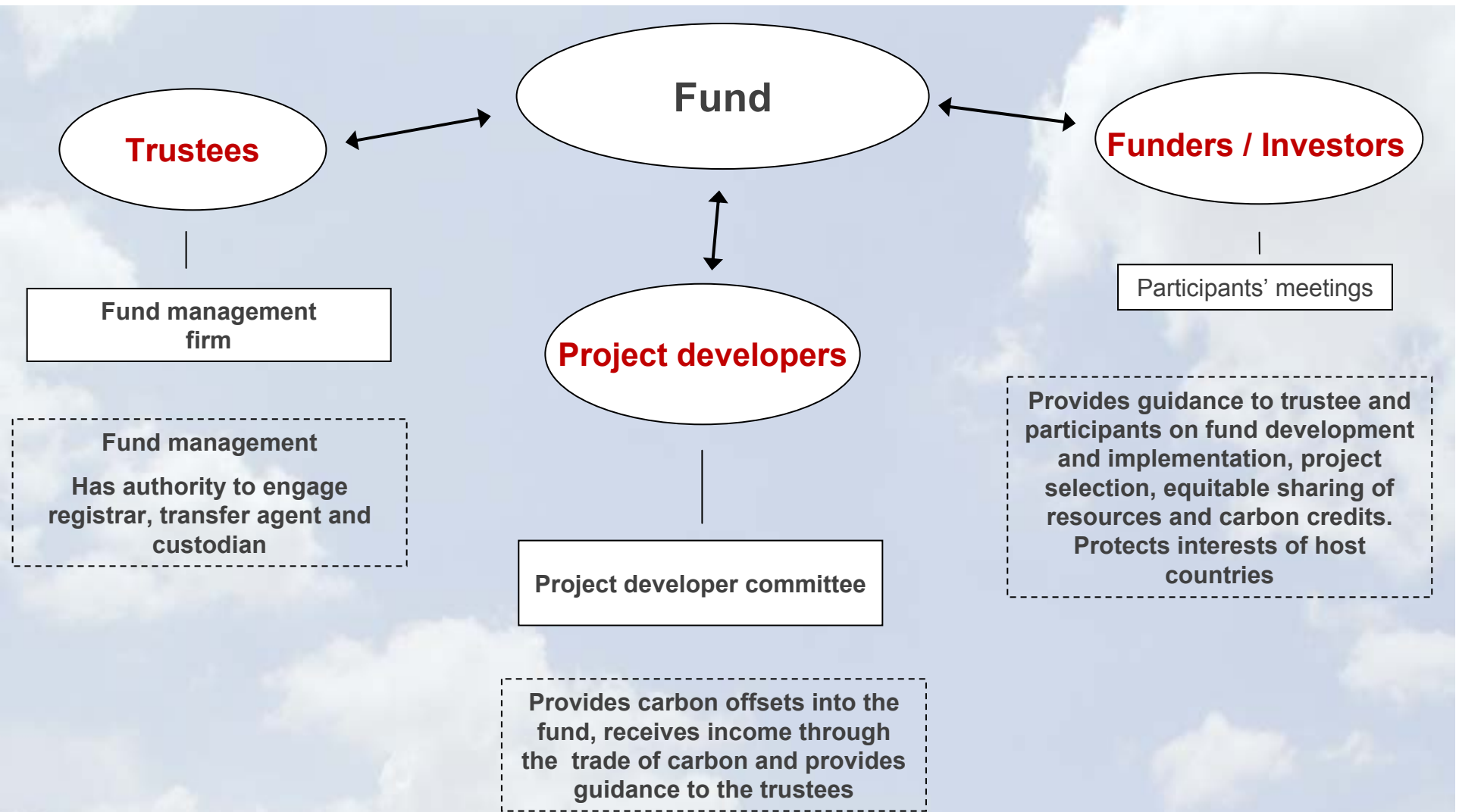
- Public sector funding through multilateral and bilateral commitments
- Private sector investment through compliance and voluntary carbon markets

**Implications for land-use ventures**

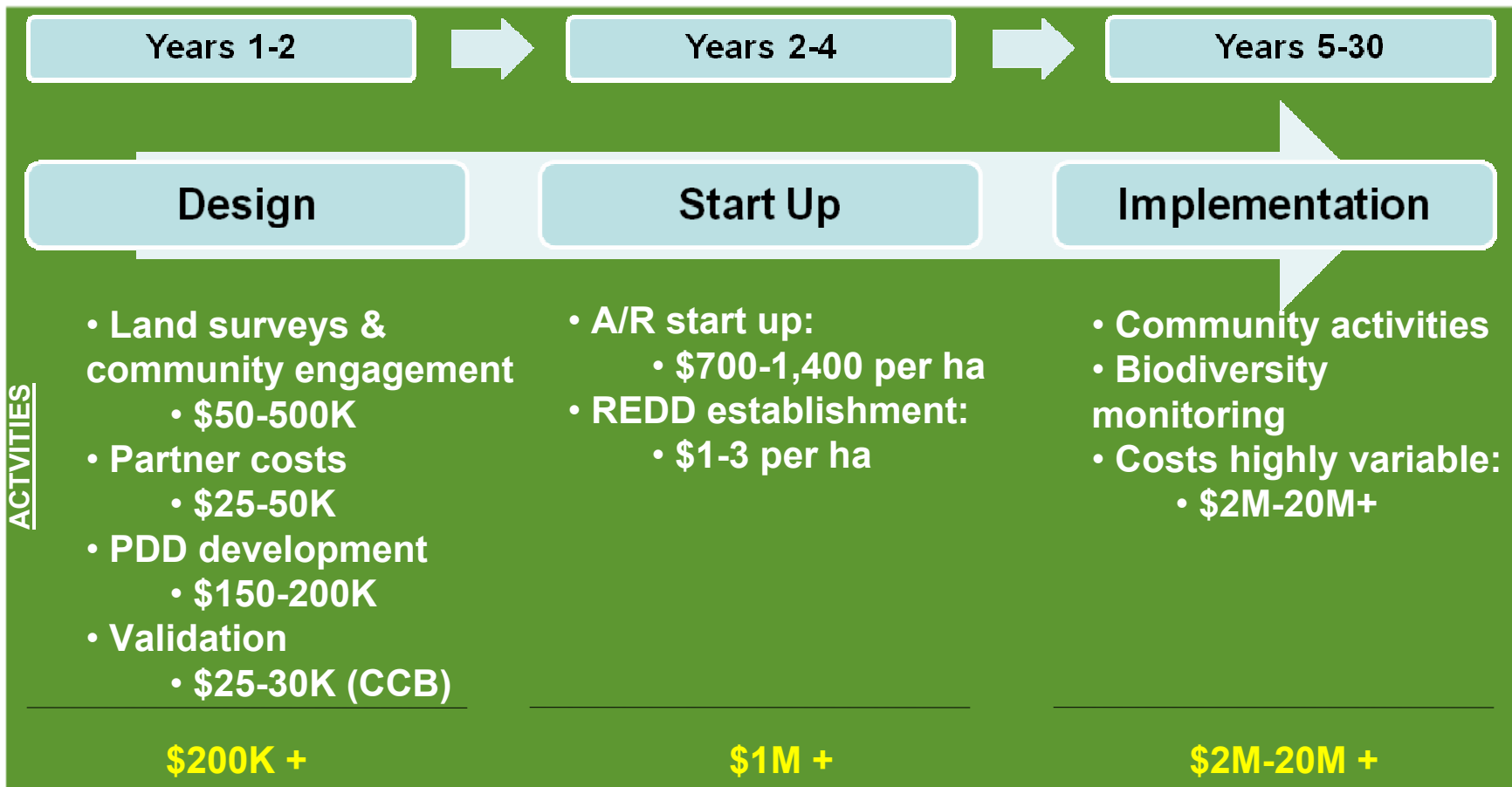
- Private sector funding is generally a fixed investment with a fixed expected return
- Public sector funding is generally more flexible and open to fixed-fund or prototype fund approaches
- Multilateral and bilateral funding through the United Kingdom, Norwegian, Japanese and Dutch governments, as well as the World Bank is applicable and substantial

# What can help?

- Bundle projects
- Upfront funding
- Types of buyer commitments
- Funding type
- World Bank Partnership facility
- Biocarbon fund
- COMESA – setting up fund mechanism



# Components & Timing of a Financial Plan



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## What Buyers Are Looking for :

- Robust carbon accounting
  - projects must meet well established and verified standards: such as CDM, VCS, CCBS, etc.
- Project developers with experience/capacity:
  - design, formulation of project and proposal,
  - management and implementation of project
- Multiple benefit projects:
  - biodiversity, poverty alleviation/sustainable livelihoods, CCBS,





## What Buyers Are Looking for (2):

- Successful underlying business models:
  - As most projects are feasible only if carbon finance complements an underlying project, this must be sound and profitable
- Timing:
  - Buyers want to give as little upfront payments as possible, e.g. not more than 10% depending on project quality/risk factors
  - By contrast, buyers want projects with an imminent start, and which provides an instant and significant stream of credits
- Location:
  - Some buyers prefer to invest in geographical areas where they have operations



## What Buyers Are Looking for (3):

- Permanence  
(emission reductions that last forever; carbon sinks are commonly considered temporary or with risk of reversal)
  
- Quantification of offsets
  - Establishing baselines and M&V are challenging
  - Ownership and Legal title of offsets
  - Clear “chain of custody” is needed
  
- Market leakage minimization  
(and accurate accounting of rest)





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## What do we need to do?

- Policy influences – REDD
- Land tenure addressed
- Funding mechanism created
- Feasibility assessments (soil C)
- Realistic that C seen as one income stream
- ~~Source technical expertise~~



# Potential for SA

- REDD..degradation included, all land use changes, tonne is tonne..above and below ground in all vegetation types
- Restoration- Needs large scale
- National monitoring systems in place
- Robust standards and auditing
- Robust finance mechanisms
- Multiple benefits-CCBS
- In terms of corridors.... Adaptation focus, C credits may be spin off

# Key Cost Drivers Determining Financial Viability



CONSERVATION  
INTERNATIONAL



In South Africa, 200ha reforestation E Cape- VCS, CCBS, recommend 10 000ha+ for feasible economies of scale, reduce transaction costs

## ■ Project Scale & Design

- A/R: Financially viable projects must be at least 2,000-4,000 ha
- REDD: Financially viable projects must be at least 50,000 – 75,000 ha

\* *A carbon project is generally deemed “financially viable” if carbon transaction costs make up no more than 15-25% of total project costs (depending on project size).*

**Changes in project design factors require updates to the financial plan & they may affect project feasibility**

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# Financial Plan Costs: Types



	Variable Costs	Fixed Costs
Non-Recurring Costs	<ul style="list-style-type: none"> <li>• Land clearing</li> <li>• Digging holes</li> <li>• Planting</li> <li>• Transport/plant seedlings</li> <li>• Weeding &amp; other maintenance</li> <li>• Nursery maintenance</li> </ul>	<ul style="list-style-type: none"> <li>• Land selection &amp; tenure anal.</li> <li>• Feasibility analysis &amp; PDD</li> <li>• Legal, admin., travel</li> <li>• 3<sup>rd</sup> party costs</li> <li>• Nursery establishment</li> <li>• Buildings, vehicles, hardware</li> <li>• Outreach, training &amp; capacity</li> </ul>
Recurring Costs	<ul style="list-style-type: none"> <li>• Reforestation personnel</li> <li>• Monitoring</li> <li>• Community livelihood activities</li> <li>• Maintenance (vehicles)</li> </ul>	<ul style="list-style-type: none"> <li>• Annual insurance (buildings/vehicles)</li> <li>• Project management personnel</li> <li>• Forest protection (min. guards, stations, delineation)</li> </ul>

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# Funding Sources for Carbon Projects: Examples



<u>Project &amp; Type</u>	<u>Funding Sources</u>
<i>Ankeniheny-Zahamena</i> (Madagascar) (REDD + reforestation)	<ul style="list-style-type: none"><li>▪ Up-front costs paid by WB carbon purchases</li><li>▪ CI grants</li><li>▪ Community activities grants</li></ul>
<i>CHOCO2</i> (Ecuador) (Reforestation)	<ul style="list-style-type: none"><li>▪ Private company funds 100% of project costs up-front in exchange for carbon</li></ul>
<i>TENG CHONG</i> (China) (Reforestation)	<ul style="list-style-type: none"><li>▪ Private company grant for pilot activities + reforestation</li><li>▪ Up-front carbon purchases</li></ul>