PROJECT DEVELOPER FORUM

Credible Climate Action.

FROM COVID TO CREDITS:

The Role of Carbon Credits in Supporting a Green Recovery

A study report brought to you by The Project Developer Forum

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Introduction

COVID-19 has exposed our fragility as a species in the face of biological and natural phenomena, as well as the vulnerability of our economic and political systems to global emergencies. Social distancing and isolation measures recommended to contain the pandemic are triggering significant changes in the scale and the structure of the global economy with 2020 predicted to bring one of the largest recessions in modern history, with contractions close to 30% in trade and 5 % in global GDP[1], as well as impacts on 1.6 billion jobs throughout the world[2].

This current crisis starkly highlights the potential impact of the other major crisis effecting humankind – that of climate change – and provides an unprecedented opportunity to restructure our economies towards a net-zero emission path by 2050 while meeting the goals of the Paris Agreement and Agenda 2030.

Governments are now able to choose whether the incentives built into their economic recovery strategies will be directed to traditional, less competitive and more polluting industries, or towards sectors that will create economic gains and social welfare in the long term. In the same vein, companies will have to adapt to the new trends in the value chains of a less interconnected world and find input providers closer to their production centres. Only these companies and sectors able to adapt with creativity and speed will survive in the post-Covid world – and have the necessary agility to deal with the inevitable disruption of climate change.

In the coming months, trillions of dollars will be mobilized to address both the health and economic crisis triggered by Covid-19[3]. However, only a small fraction of countries have signalled their intent to consider sustainability principles and policy tools in their economic recovery plans.

A Green Recovery?

In April 2020, as the world grappled with rising numbers of cases of COVID-19 and economies faltered as lockdown kept citizens at home, representatives from over 30 governments took part in the Petersburg Climate Dialogue. The conference emphasised the importance of a 'Green Recovery'; that packages to re-boost economies post-COVID should focus on, inter alia, increasing the amount of climate finance available for developing countries; building low carbon, climate resilient infrastructure and creating green jobs.

Less than a month later, COP26, the global climate change conference was postponed until end of 2021. This had been expected to be the culmination of a year of action to increase commitments to reduce global greenhouse gas emissions; to increase the availability of finance for climate mitigation projects and to confirm the 'rule book' for a new carbon trading mechanism.

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[1] https://www.wto.org/english/news_e/pres20_e/pr855_e.htm
[2] https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_743036/lang--en/index.htm
[3] https://academic.oup.com/oxrep/advance-article/doi/10.1093/oxrep/graa015/5832003

So where does this leave governments, financiers, the private sector and individuals who want to become 'carbon neutral' as well as support a Green Recovery? With, in many cases, budgets re-assigned so that financing is available, how might this be allocated to ensure that real, measurable and sustainable impact is achieved, particularly for those with secondary aims of supporting a green recovery in the developing world?

A Credible Solution

The Project Developer Forum believes that carbon offset projects offer a solution:

- ***Projects are developed to international standards***: whether through the UNFCCC's Clean Development Mechanism or voluntary standards such as the Gold Standard or Verra, carbon offset projects are developed using internationally approved methodologies; and are subject to high levels of monitoring and independent auditing. This means that purchasers can be confident that impacts claimed are quantifiable and real.

- ***Projects have co-benefits that improve people's lives:*** As well as reducing emissions of Greenhouse gases (GHGs), carbon offset projects offer significant co-benefits to the countries, communities and households that they are located in.

  The COVID crisis has highlighted that lack of critical infrastructure (clean water, power for healthcare facilities, safe housing) means that a country's ability to manage a public health crisis is severely impeded. Carbon credit projects have been developed by PD Forum members that directly address these issues, at the same time as reducing GHGs. With the ability to operate at a variety of scales, carbon credit projects can focus on projects that deliver benefits directly to households (cookstoves, clean water, power) that would often struggle to attract financing from other sources due to the dispersed nature and small scale of individual interventions.

  More broadly, carbon credit projects often have clear and verified links to Sustainable Development Goals (SDGs) particularly around job creation and economic growth (SDG 8), provision of clean energy (SDG 7) and poverty reduction (SDG 1). Investment in these areas will be critical in supporting economies, in the post-COVID recovery period, particularly in emerging markets. Millions of jobs could be created in the renewable energy[4], forest and LULUCEF[5] sectors in developing countries financed with offsets from voluntary and mandatory carbon markets as well as from carbon tax regimes.

[4] https://www.irena.org/newsroom/pressreleases/2020/Apr/Renewable-energy-can-support-resilient-and-equitable-recovery
[5] https://www.ilo.org/global/industries-and-sectors/forestry-wood-pulp-and-paper/lang--en/index.htm

In 2019, PD Forum member StratCarbon carried out a study for the Ministry of Energy in Chile (with the support of the GIZ) about the potential for Chilean carbon offset potential brought about by the introduction of a Green Tax.

Based on a proposed carbon price of USD5/tCO_2e, over 30 million tonnes of emission reductions were identified from new projects in several sectors including electric mobility, forestry and landfill gas in Chile alone. Implementation of these projects would, it was estimated, lead to the following impacts:

- Creation of over 500,000 new direct and indirect jobs in 5 years
- Almost 1000 avoided deaths
- Increase in GDP of 0.3-0.6% per annum

Source: https://4echile.cl/lineas-trabajo/salida-del-carbon/mercado-global-del-carbono-chile/publicaciones/

- ***Projects can deliver quickly:*** communities will need support quickly to avoid the worst impacts of a post-COVID recession. Many big donor led support programmes can take many months to design, contract and set-up. By contrast, developers of offset projects are already working 'on the ground' to deliver interventions. A variety of financing models means that credit purchasers can pre-purchase credits, allowing developers to start implementation of new projects or scale up existing programmes in a short timeframe.

- ***Projects can build synergies with other climate/sustainable finance instruments***: The OECD estimates that close to 7 trillion dollars a year of financing is necessary to meet the goals of the Paris Agreement and the SDGs[6]. Such scale of resources implies a massive mobilization from different sources, public and private, international and domestic. Given their many attributes, including international recognition and acceptance, design flexibility and sustainability co-benefits, carbon offsets are very well placed to build synergies with other financing instruments such as impact investment funds, green loans/bonds, grants and public transfers within a comprehensive climate finance strategy. Moreover, innovative financing schemes could be designed to alleviate some of the debt and liquidity challenges in the context of the Covid-19 crisis such as debt forgiveness, as well as loans or equity that could be paid with carbon credits.

[6] https://www.oecd.org/environment/cc/climate-futures/policy-highlights-financing-climate-futures.pdf

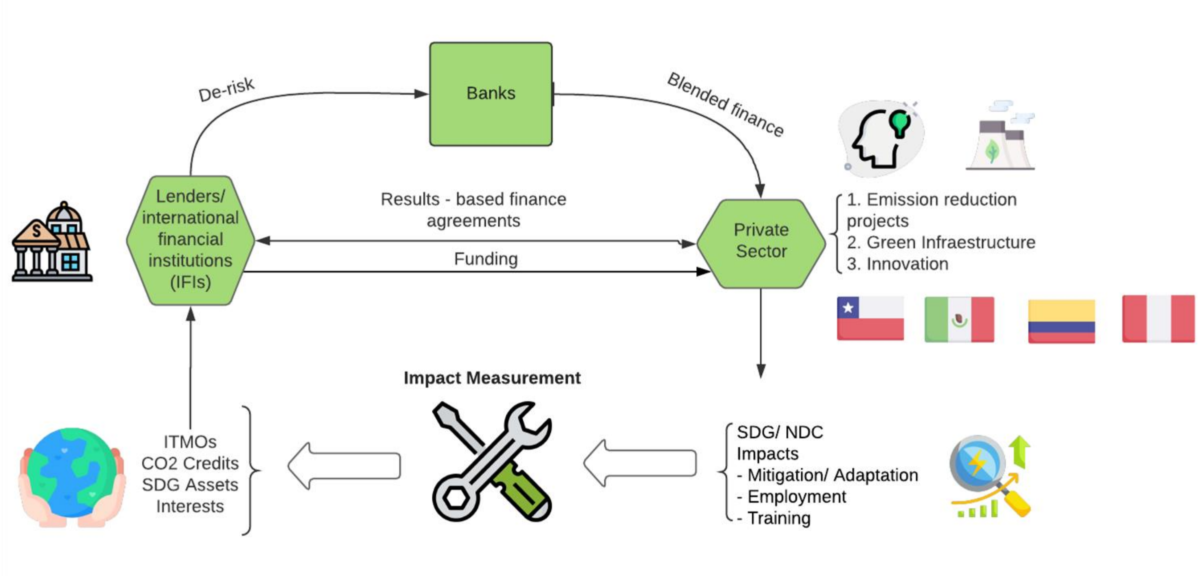

Figure 1: Potential synergies between carbon credits and other instruments (source: Allcot Group

- ***Projects can increase resilience to future events:*** the COVID crisis has shown the vulnerability of communities and countries to extreme events, be it a health pandemic or extreme weather event triggered by climate change. Of critical importance then in a post-COVID recovery period is building resilient infrastructure and adopting measures to adapt existing infrastructure to be able to withstand multiple and diverse shocks.

  At a household and community level, interventions can help communities become more resilient to future events. For example, clean cooking stoves reduce indoor air pollution, particularly those that promote a switch to significantly higher tiers with modern fuels. This means that women and children, who are mainly exposed to smoke in the kitchen, have reduced incidence to respiratory disease. In turn, they spend a lower proportion of household income on medicine and have fewer days away from work and school. This can make them more resilient to future climate shocks.

  While the Paris Agreement makes adaptation of equal importance to mitigation, the ever-growing finance gap for investments in adaptation means that instruments to mobilise finance are critical. Project crediting instruments offer a valuable mechanism to assess potential investments; monitor and evaluate performance of projects; setting targets and ensuring ESG requirements are met.

Such an instrument already exists, the climate **Vulnerability Reduction Credit** (VRC™) managed by The Higher Ground Foundation (HGF). VRCs are a measure of sustained climate adaptation; they may be priced and used as a revenue stream for project finance. VRCs may be awarded for any viable adaptation project that meets the VRC Standard Framework, which includes standards for outcomes confidence and environmental, social, and governance performance.

HGF is managing the Pilot Implementation and Partnership phase to test and improve the VRC Standard Framework. Potential partners are invited to forward project concepts that may in turn result in a partnership with HGF to "learn by doing".

VRCs to date have been used to evaluate urban climate adaptation projects in coastal towns in Bangladesh facing sea level rise, ground water salinisation, and more intense tropical cyclones, to understand the total levels of vulnerability reduction and their cost effectiveness in terms of $/VRC. This shines a light on how different project types may be prioritised.

Source: https://www.thehighergroundfoundation.org/vrcs

The Higher Ground Foundation
- stand up to climate change

Final thoughts

Despite the postponement of COP26, 2020-21 will be crucial years both in terms of activity to combat climate change but also to help the most vulnerable communities recover from the impacts of COVID-19 and to equip them to become more resilient to future events.

As policy makers grapple with the future of the CDM and Article 6 and the detail of carbon accounting in the context of NDCs, it is of vital importance that the fundamental benefits of a functioning carbon market – and the potential role it can play in supporting a Green Recovery - are not forgotten.

The carbon credit developer community is poised to support this process – with a ready pipeline of 'shovel ready' projects that offer real, quantifiable reductions in GHGs together with measurable impacts on local communities and host countries in terms of jobs, access to resilient infrastructure, health benefits and many more.

About the PD Forum

The Project Developer Forum (PD Forum) is a collaborative association and collective voice of companies and practitioners that are developing and financing greenhouse gas emission reduction projects worldwide. With over 30 full and affiliate members, we work on a global scale and evaluate opportunities to deploy climate financing and carbon market instruments to accelerate investments for greenhouse gas mitigation and sustainable development, under both compliance and voluntary carbon standards.

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