



COMESA CLIMATE INITIATIVE

The Secretariat for the Common Market for East and Southern Africa (COMESA) has developed a comprehensive approach and program initiative to address climate change. Each of the operational platforms of the COMESA CLIMATE INITIATIVE has been defined, and there is committed funding for most.

The COMESA Secretariat is now seeking advice with regard to its proposed Carbon Finance Platform. Specifically, the Secretariat is seeking to form the relationships and mechanisms to attract investors willing to purchase carbon offsets from agricultural, forestry and land-use projects, thus providing critical financial support to make such projects feasible and channel income to local communities.

CARBON FINANCE PLATFORM

COMESA has identified two approaches as a basis to begin the conversation:

A dedicated COMESA CARBON FUND that will invest in offsets from agricultural, agro-forestry, forestry and land-use (AFOLU) projects in countries in East and Southern Africa. The fund would be managed by a private investment firm specializing in this segment of the market, provide committed capital and demonstrate the commercial viability of these projects.

A group of qualified buyers that will invest in offsets from agricultural, agro-forestry, forestry and land-use (AFOLU) projects in countries in East and Southern Africa. This would be a group of committed buyers, each represented by a participating investment firm. Each would make its own investment decisions, but the “collective” would provide some

commitments on the type and amount of credits it would purchase. The group would be branded and supported by the COMESA CLIMATE INITIATIVE.

COMESA's objective is to provide finance for projects that sequester or conserve greenhouse gases in agricultural lands, forests and other ecosystems. Through its focus on "green carbon", the fund or funds branded and supported as the Carbon Finance Platform would assure carbon finance to many countries in sub-Saharan Africa that might otherwise have few opportunities to participate in the rapidly expanding global carbon market. The larger COMESA Climate Initiative is designed to promote agricultural, forestry and land use projects and to generate high-quality emission reductions with environmental and livelihood benefits that can be measured, monitored and certified.

To provide the broadest support for a range of project types while still meeting the return objectives of investors, the fund or funds branded and supported as the Carbon Finance Platform will be expected to purchase offsets at all stages of development and include credit types that are applicable for registration under the Kyoto Clean Development Mechanism (CDM), emerging regulatory schemes and voluntary standards. Beyond the CDM, these could include California's AB 32, Greenhouse Gas Initiative (RGGI), Voluntary Carbon Standard (VCS), Climate, Community and Biodiversity Standards (CCBA), Chicago Climate Exchange (CCX), and other standards and registries as they emerge. Through the diversification effect of having a portfolio of offsets and other risk mitigation techniques, the fund or funds could offer a high degree of permanence to the marketplace.

The project offsets purchased by the fund or funds will include: Reforestation for Conservation; Reforestation for Sustainable Timber Management; Reforestation for Tree Crops; Changes in Agricultural Practices; Crop Conversion to Perennials; Sustainable Fuel Stock for Biofuels; Soil Conservation and Improvement; Conversion from Commercial Harvesting to Sustainable Management; and Avoided Deforestation. The projects supported should focus not only on carbon reduction benefits, but also meet standards that ensure community benefits and environmental co-benefits. Accepted standards in the marketplace, such as the Community and Biodiversity Standards

(CCBA), or others that may emerge as outlined in WWF's Green Carbon Guidebook, would be used to assess the co-benefits of projects. The goal is to promote projects driven by communities and nongovernmental organizations that demonstrate quantifiable outcomes beyond the carbon sequestered including: watershed stabilization; land improvement tenure incentives; market outlets information systems; and improving and refining participatory measurement and monitoring capacity.

In seeking advice, the COMESA Secretariat is open to consideration of amendments to the two options identified above or to any additional options that participants may want to suggest. In considering options, however, the Secretariat is conscious of three factors that will bear on the ultimate choice.

CARBON READINESS - Given the fragmented nature of the market for land-based carbon credits, the complex process of creating and gaining approval for carbon assets and identifying and negotiating with potential buyers in the market, it is currently very difficult for project developers in East and Southern Africa to generate revenue in any meaningful way from the sale of carbon credits. Thus, for projects to become market ready, carbon credits to be recognized, and ultimately monetized, a number of functions need to be performed to "bring these credits to market". The functions that need to be performed in order to navigate the technical complexity of accessing the carbon markets are: choice of optimal registry/protocols, approval process for new measurement methods and project types, the financial evaluation of costs to create and maintain carbon assets, the price/risk trade-offs of structuring Emission Reduction Purchase Agreements, and the final approval process. A "carbon readiness" capability will have to be created or otherwise identified to address these functions.

Issue: How best can a CARBON READINESS capability be synchronized with the financial options that will be identified at the meeting? Can it stand alone or must it be integrated with either the *designated* or *qualified* model?

ENVIRONMENTAL STANDARDS - COMESA is committed to promoting rigorous standards for evaluating land-based carbon projects that

simultaneously generate climate, biodiversity and sustainable-development benefits. A wide range of standards have been developed, while a wide range of alternatives are also being debated. It is COMESA's intent to adopt standards so as to be able to evaluate AFOLU projects in the early stages of development. The standards should facilitate the identification of projects that simultaneously address climate change, support local communities and conserve biodiversity - promote excellence and innovation in project design- and mitigate risk for investors and increase funding opportunities for project developers and owners. COMESA will work with environmental groups, project developers and owners, and the investment community in promoting consensus such that projects emerging from the COMESA CLIMATE INITIATIVE will receive international credibility and locate additional support and resources.

Issues: How best can COMESA address the issue of ENVIRONMENTAL STANDARDS? Should it develop its own, adopt one of the many standards already used in international practice and or reference an approved list? And how best can whatever choice is made be best synchronized with the financial options identified at the meeting? Might they be simply associated with the project development process, or must they also be integrated with the *designated* or *qualified* financial options?

REPRESENTING COMMUNITY INTERESTS - One of the key concerns for project developers and owners when entering into a carbon transaction will be whether they are getting a "fair deal". Unfortunately, there is an asymmetry between carbon investors on one side and project developers and communities on the other. At the same time, one of the important considerations for many offset purchasers will be reputational risks and benefits. Communities will require a general understanding of the global carbon market—its underlying structure, dynamics and likely evolution—as well as a sense of how various market forces shape demand and supply, and hence influence prices. At the same time, project developers and owners also need to understand the various motivations of individual actors in the regulatory and voluntary markets and the factors influencing their negotiation power in relation to each other. If this

community capacity is well established, it will add to the reputational benefits associated with high quality carbon credits.

Issues: How best can COMESA assure a “fair deal” in the negotiation of carbon transactions? How can the interests of project developers and owners be best assured in an asymmetrical negotiating environment? How best can COMESA contribute to the establishment of a level playing field? And how might that playing field be synchronized with the carbon readiness demand and financial options identified above?

OUTCOMES

It is against this background that the COMESA Secretariat has organized this workshop. The agenda is structured to allow a focused discussion of options for developing a CARBON FINANCE PLATFORM for the COMESA CLIMATE INITIATIVE. Based on the discussion on Monday, June 23rd the COMESA Secretariat will put a firm proposal on the table on Tuesday, June 24th with the hope of attracting commitments, alternative suggestions or proposals from among participants.

TECHNICAL NOTE

Area available for implementing agricultural, forestry and land-use projects (AFOLU) is substantial in East and Southern Africa as is the corresponding carbon sequestration potential. For reference, Zomer et al. (2008) estimates that the land area available in Eastern and Southern Africa for these projects is 96,045,700 hectares. Assuming a sequestration of level 50 tC/ha use of this area would allow 4,802,285,000 tC to be sequestered over 20 years. On an annual basis this is about 240 million tC sequestered per year, or an amount comparable to the amount of carbon lost to the atmosphere (200 – 300 M tC) from all annual Amazonian deforestation (D. Skole per. Comm. 2008). This is also a value of a comparable magnitude to the annual estimated emissions reductions from the entire Kyoto protocol (approximately 324 million tC per year). (This assumes an annual anthropogenic emission rate of 5.4 billion tons of carbon per year excluding deforestation that is not covered by Kyoto. The six percent emission reduction then specified by Kyoto is then 324 million tons of carbon per year.)

Below are tables showing the potential area available for AFOLU projects (using the ENCOFOR online analysis tool, Zomer et al. 2008) in the three regions and the current area under forest (FAO, 2005) for the three regions.

Area available for AFOLU projects:

	Area sq km	Area ha	t C (50 tC/ha)	t CO2 (50 tC/ha)
Uganda	69,266	6,926,600	346,330,000	1,271,031,100
Rwanda	8,795	879,500	43,975,000	161,388,250
Uganda and Rwanda	78,061	7,806,100	390,305,000	1,432,419,350
Malawi	19,250	1,925,000	96,250,000	353,237,500
Zambia	73,638	7,363,800	368,190,000	1,351,257,300
Malawi and Zambia	92,888	9,288,800	464,440,000	1,704,494,800
Congo (DRC)	225,372	22,537,20 0	1,126,860,00 0	4,135,576,200

Forested Area:

	Area sq km	Area ha	t C (50 tC/ha)	t CO2 (tC/ha)
Uganda	36,270	3,627,000	181,350,000	665,554,500
Rwanda	4,800	480,000	24,000,000	88,080,000
Ugand and Rwanda	41,070	4,107,000	205,350,000	753,634,500
Malawi	34,020	3,402,000	170,100,000	624,267,000
Zambia	424,520	42,452,00 0	2,122,600,00 0	7,789,942,000
Malawi and Zambia	458,540	45,854,00 0	2,292,700,00 0	8,414,209,000
Congo (DRC)	1,336,1 00	133,610,0 00	6,680,500,00 0	24,517,435,00 0

Food and Agriculture Organization of the United Nations (FAO). 2006. Global Forest Resource Assessment 2005: Progress towards sustainable forest management. FAO Forestry Paper 147. FAO Rome.

Robert J. Zomer, R.J., A. Trabucco, L.V. Verchot and B. Muys. 2008. Land Area Eligible for Afforestation and Reforestation within the Clean Development Mechanism: A Global Analysis of the Impact of Forest Definition. Mitigation and Adaptation Strategies for Global Change, Vol. 13(3), pp. 219-239