

Promoting Carbon Finance in Africa: Options for COMESA

COMESA Carbon Partners

CAADP, CARE, ClimateFocus, CREEL,
ICRAF, PTA Bank, TerraGlobalCapital,
WWF

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The Carbon Market and Africa

Could provide financial opportunities to rural communities in Africa while also rewarding:

- ✓ **sustainable agricultural practices**
- ✓ **the improvement of livelihoods**
- ✓ **stewardship of the environment**

But: so far the carbon market has favored high-and middle income countries, industrial sectors, carbon buyers and intermediaries.

Unpacking the Options

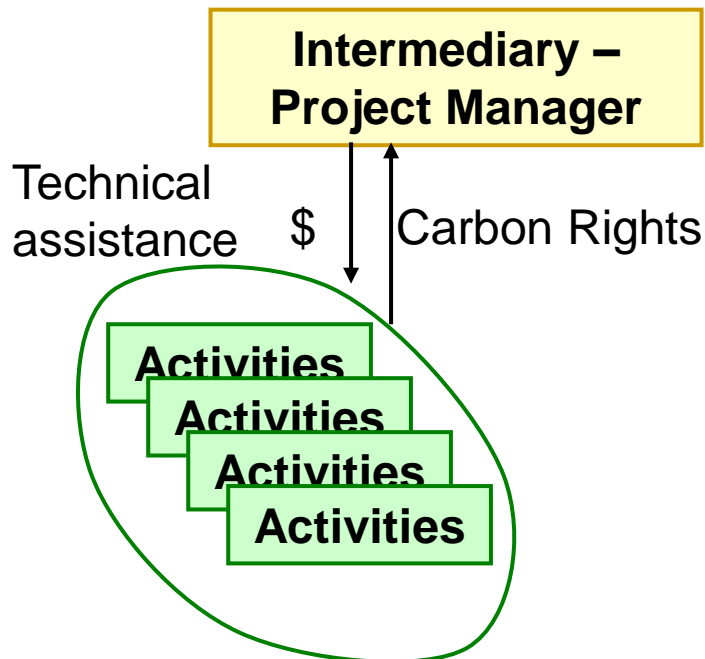
COMESA's objective is to provide rural communities with optimal access to carbon finance.

1. Traditional Carbon Fund (aligned with buyers)
2. Model Carbon Fund (aligned with sellers)
3. Brokerage Facility (traditional)
4. Brokerage Facility (model)

Assumptions

Projects

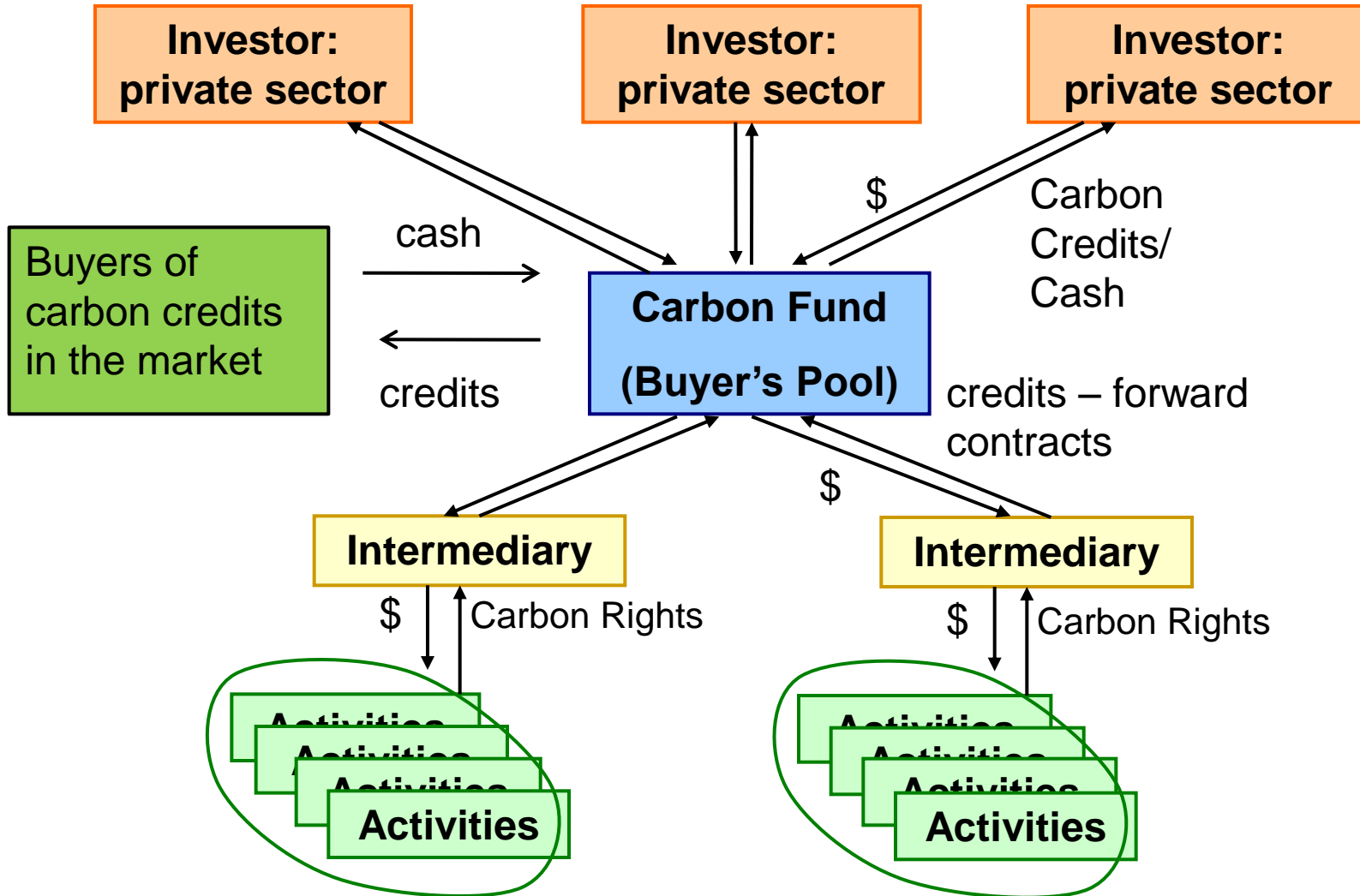
- will require technical assistance and funding to be developed
- will depend on additional income streams to carbon
- will be bundled by local intermediaries



Intermediaries

- interface with buyers of carbon and investors
- coordinate and supervise project implementation
- ensure proper monitoring of carbon benefits

Traditional Carbon Fund



Traditional Carbon Fund

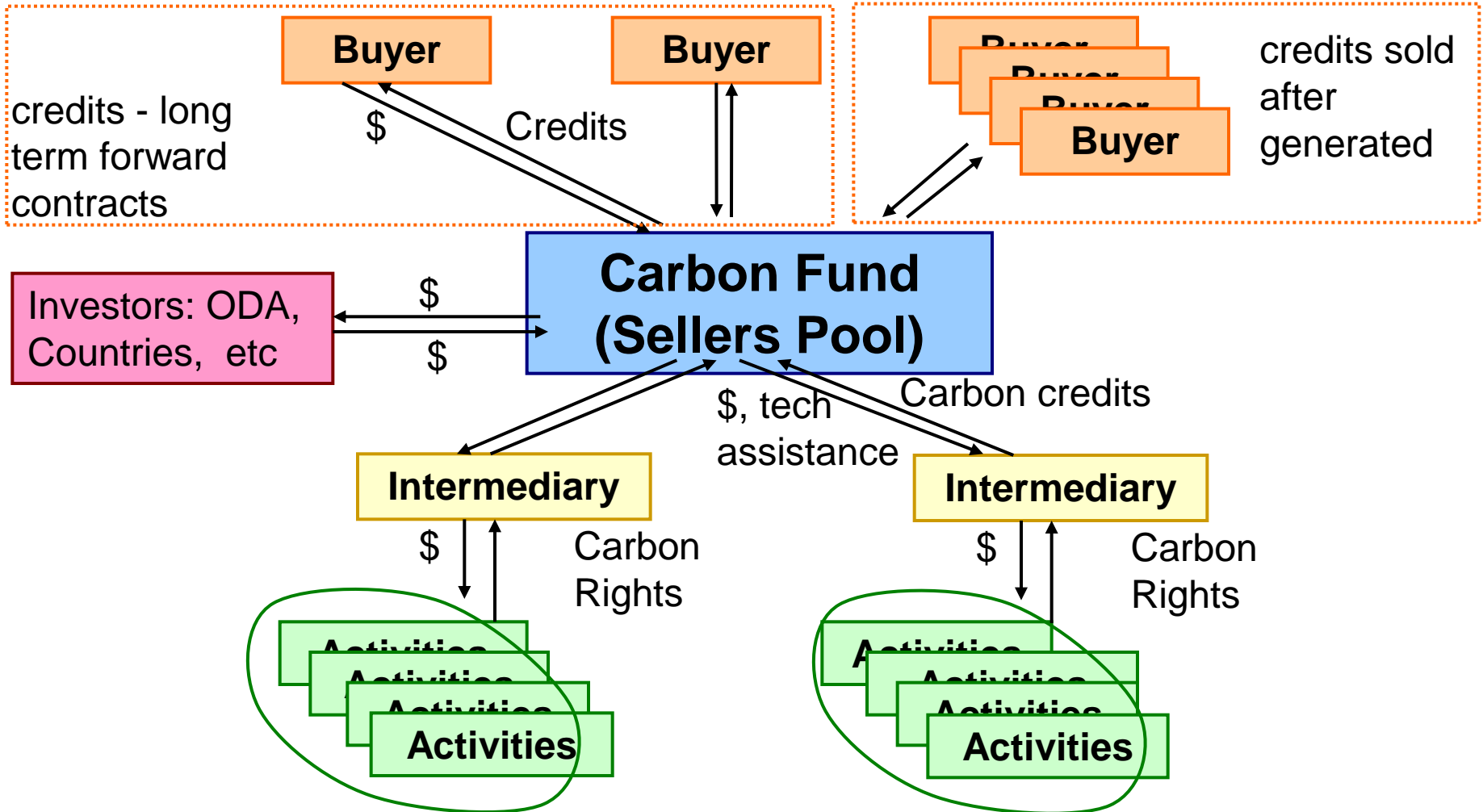
Advantages

- well-tested model
- fund can be tailored to specific project classes (eg AFOLU carbon projects in Africa)
- offers long-term sales contracts at a fixed price
- hedges price risk for sellers

Disadvantages

- fund's interest is aligned with buyers
- incentive to buy credits at low prices – forward contracting
- limited appetite to provide seed money for project development
- sellers often at disadvantage in contract negotiations

Model Carbon Fund



Model Carbon Fund

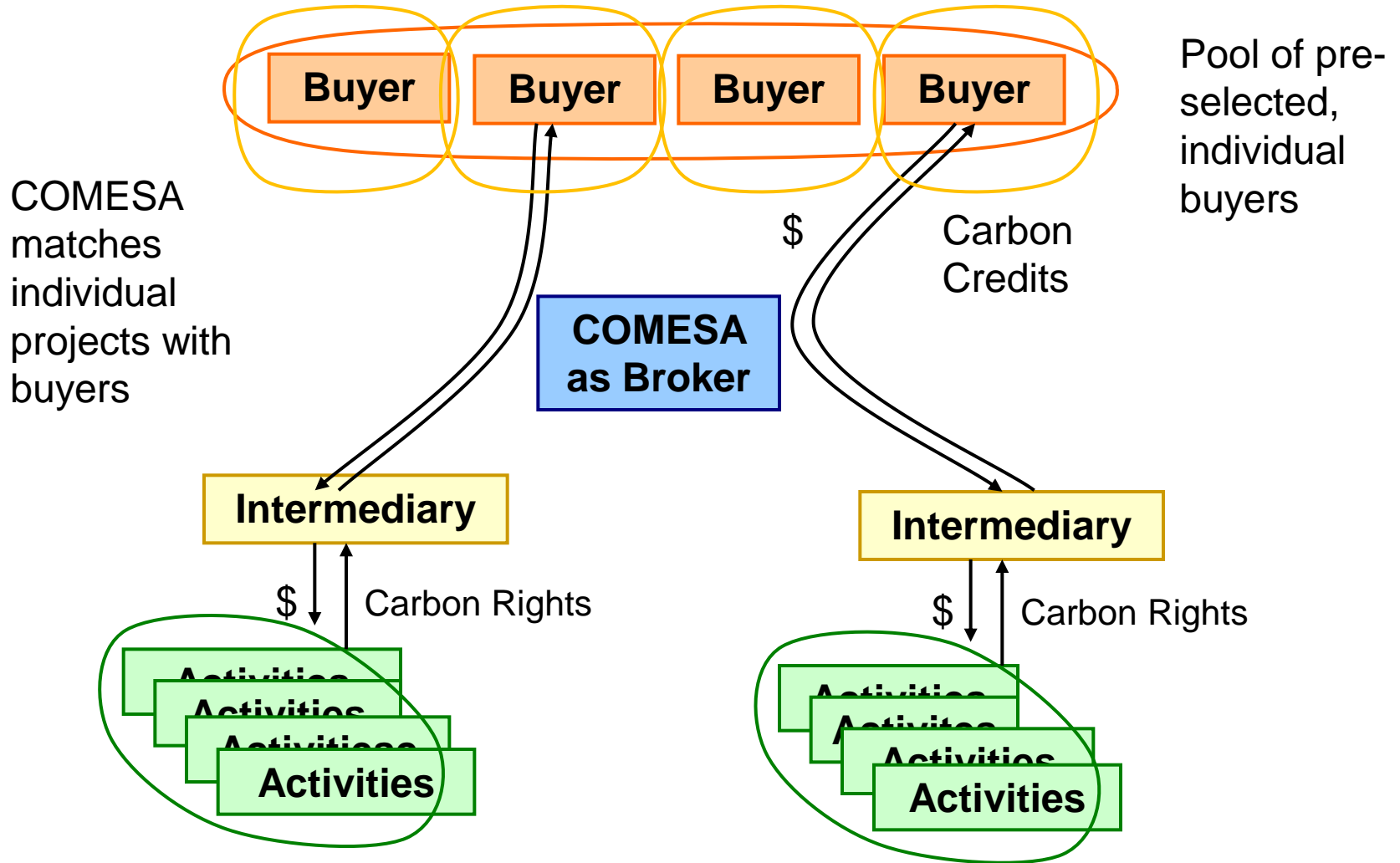
Advantages

- fund's interests aligned with sellers (rural communities and development-oriented investors)
- maximizes profits for local communities
- pools projects
- technical assistance for project development

Disadvantages

- uncertainty of finance to capitalize fund
- untested model
- need for experienced fund manager (financial management capabilities)
- carbon buyers are being identified later in the process (market risk with the fund)

Brokerage Facility



Brokerage Facility

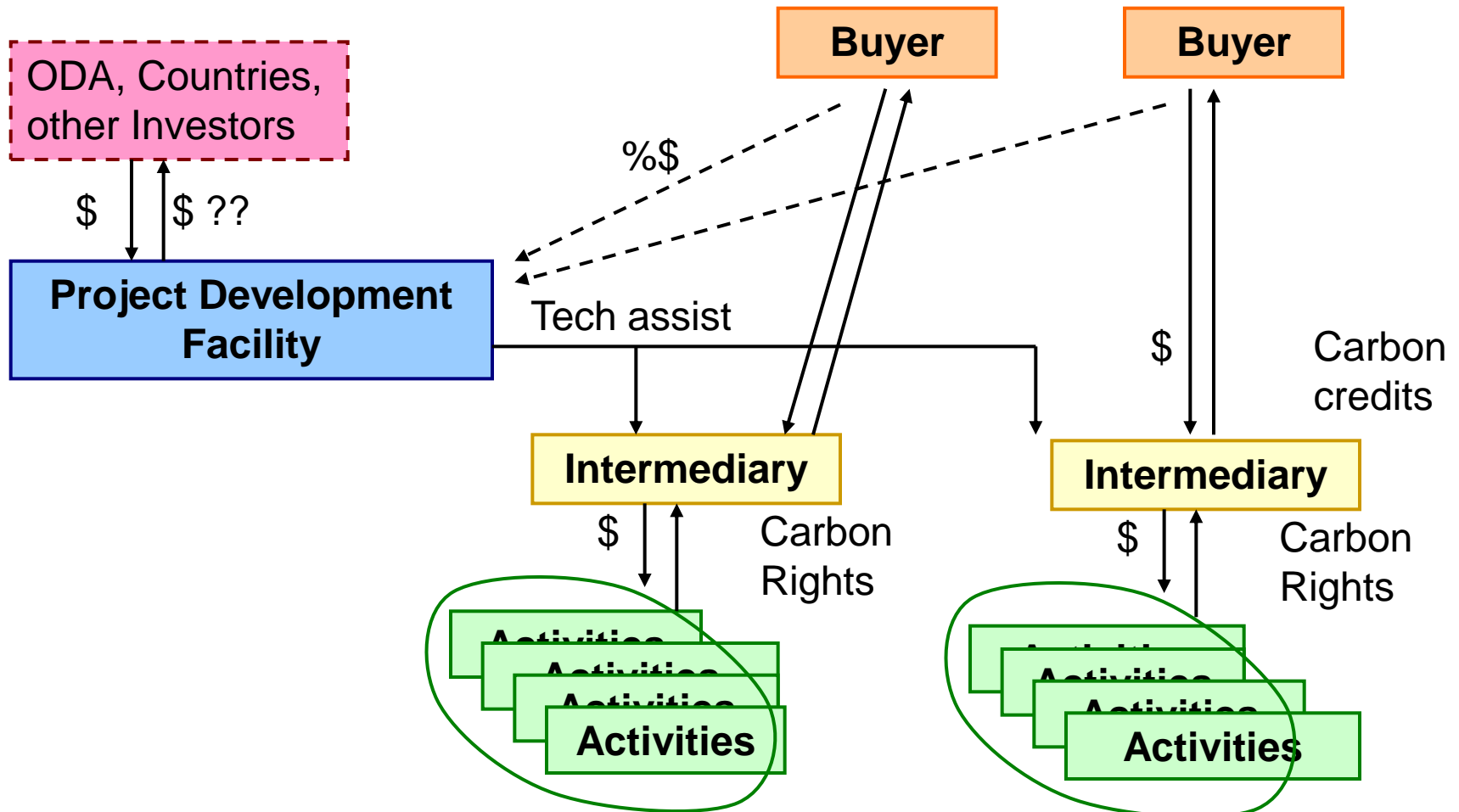
Advantages

- provides a license to buyers to operate in COMESA region
- provides buyers with access to COMESA climate services
- matches the needs of a particular project developer or seller to a pre-selected buyer (brokerage)
- promotes competition among buyers

Disadvantages

- potential disputes among buyers over allocation of projects
- increased project risk to buyers (no buyers' pool)
- limited potential to support advance payments
- provides independent tech/legal support to projects only after matching
- very involved role of COMESA
- untested

Brokerage and Project Support Facility



Brokerage and Project Support Facility

Advantages

- facility's interests aligned with projects – i.e., sellers' interests
- provides tech assistance for project development
- less \$ needed to capitalize facility than Model Fund

Disadvantages

- cumbersome management on a project by project basis
- no security that projects will find a buyer
- no opportunity for pooling

Conclusions:

Kyoto Article 12: “achieving sustainable development, while also contributing to stabilization of GHGs”

- Carbon markets are created by public policy; therefore, it is entirely appropriate for public policy to ensure that the market delivers what it was created to do
- The interests of any fund or facility must be more closely aligned with interests of sellers
- Regulatory infrastructure needs to be built before an effective market can operate in Africa
- Technical assistance for projects is an essential element to any option
- Public-private investment and partnership is probably key to success of any carbon finance initiative in Africa