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Prepared for

## CCB Standards for Smallholders initiative

*Assisting farmers in developing  
countries to access climate finance  
through standards that identify and  
promote high quality smallholder- and  
community-led projects*

Study led by



With support from



# STUDY ON THE DEMAND FOR SMALLHOLDER- AND COMMUNITY-LED LAND- BASED CARBON PROJECTS

AN ANALYSIS OF THE RESULTS FROM DEMAND SIDE INTERVIEWS OF POTENTIAL INVESTORS, DONORS AND OFFSET BUYERS TO UNDERSTAND THE PERCEIVED RISKS AND OPPORTUNITIES OF SMALLHOLDER- AND COMMUNITY-LED PROJECTS

## **BACKGROUND**

The Climate, Community and Biodiversity Alliance (CCBA), working with Nature Conservation Research Centre (NCRC) Ghana and Rainforest Alliance, is developing a revision of the Conservation, Community and Biodiversity Standards (CCBS). The focus of the initiative is to strengthen the CCBS to support smallholder and community-led land-based carbon projects. In order to understand the demand side for such projects, CCBA interviewed a number of market participants, who could share information about their interests in this sector, the perceived risks, opportunities and benefits, as well as their views on the role for CCBS. Joanna Durbin, CCBA and Toby Janson-Smith, Conservation International conducted the interviews by phone along with Helene Marsh, Conservation International Forest Carbon Market Advisor, who synthesized the findings. The findings reflect majority views.

## **INDIVIDUALS INTERVIEWED**

### Project Developers

- Mike Korchinsky, Founder and CEO, Wildlife Works
- Leslie Durschinger, Founder and Managing Director, Terra Global Capital

### Redd+ Investors

- Zubair Zakir, Global Carbon Director, The Carbon Neutral Company
- William Pazos, Managing Director, Standard Bank Plc
- Kevin Whitfield, Head of Carbon Finance, Nedbank Capital
- Brer Adams, Head of BioCarbon, Associate Director, Macquarie Group
- Ellysar Baroudy, BioCarbon Fund, Carbon Finance Unit, World Bank
- Christian del Valle, Founder and Managing Partner, Althelia Climate Fund

### Agricultural/Food Companies

- Duncan Pollard, Sustainability Advisor, Nestle
- Jason Green, Armajaro
- Antonio Valleneto, Manager, Environmental Markets Division, Bunge

### Others

- Jim Heyes, Vice President, Global Environment Fund
- Ruth Nussbaum, Director, ProForest

## **EXECUTIVE SUMMARY**

Overall, the market is interested and engaged in land-based carbon projects involving communities and smallholders due to the potential for greater sustainability; corporate social responsibility (CSR) value creation; revenue and benefits diversification; and strengthening supply chains. Increasingly greater attention is being paid to agricultural activities beyond forestry and their associated carbon benefits. Projects that provide improved livelihoods for small farmers, reduce poverty, have community benefits, boost economic return and reduce carbon emissions have a strong (and unique) sustainability story and could stimulate new demand in the voluntary market. However, market participants are wary of the risks and costs of these projects, primarily related to scale and aggregation; community organization and governance; benefit sharing and the flow of funds; verification and due diligence. While they recognize that proper community involvement can reduce risk, and that there may be strong benefits and opportunities, they see the need for support in managing the risks. Given that risk management for all players in this sector is key and that the market looks to standards for identifying high-quality, low-risk projects, standards that can provide guidance on the risks are critical to the future development of the market. The challenge lies in creating a set of standards that can facilitate the

development of high quality projects, which the demand side actors in the market can rely on, without being onerous and burdensome to execute for all parties.

## **INTEREST IN SMALLHOLDER- AND COMMUNITY-LED PROJECTS**

### Sustainability

Working with communities is often the key for tackling the underlying drivers of deforestation, so conservation projects that involve thriving communities with a diversified revenue base are more likely to be sustainable in the long-term. To date, project developers and investors have focused primarily on forestry initiatives, particularly REDD+ and reforestation projects. However, there is an increasing level of interest in community/smallholder projects that are focused on agricultural activities as the primary source of revenue, but may have an additional carbon revenue stream. Such projects would have the potential to improve livelihoods, provide an incentive to rehabilitate land, relieve pressure on forests, establish sustainable agricultural practices and help diversify revenues for smallholders.

### CSR Value Creation

Companies are not so committed to purchasing carbon credits to meet their CSR obligations, but if the credits have a strong sustainability/community/ smallholder improvement aspect, potentially including poverty reduction and biodiversity conservation, there is greater interest. Community benefits can enhance the value of carbon and/or agricultural projects.

### Revenue and Benefits Diversification

Project developers and investors are looking for projects that improve the livelihoods of the communities/smallholders involved through a mixed benefits approach that may involve a carbon finance component as well as social, environmental and commodity related benefits. While diversification of income stream is important, any new revenue stream, such as carbon finance, should not divert attention from the primary task of increasing productivity. Bio-char is currently being considered as a potential new carbon category in smallholder/community regions of Africa.

### Strengthening Supply Chains

Globally, large commodity buyers are concerned about the future sources and control of supply chains, some of which are already in the hands of smallholders. Additionally, as a result of a number of initiatives, such as the Consumer Goods Forum, the issue of deforestation free/low carbon supply chains has become a focus for commodity buyers, who are concerned about the traceability, transparency, reliability and quality of their supply chains. Well-managed agricultural smallholder projects that include a carbon component have the potential to meet these new criteria, as well as helping commodity buyers to understand the carbon risks and values associated with their supply chain.

## **PERCEIVED RISKS OF SMALLHOLDER PROJECTS**

### Scale and Aggregation

The high relative costs of small-scale projects limits investor interest, hence aggregation becomes a project driver and is key to the overall success. The aggregation process has its own costs and risks as there may be different goals within the group being aggregated, unclear local laws, structures and procedures for establishing

community/ smallholder groups. One party suggested using the Clean Development Mechanism (CDM)'s Programme of Activities (POA) model as an aggregation approach.

#### Community Organization/Ownership Structure/Governance

The proper involvement of communities is an important factor in alleviating risk but is challenging to implement successfully for a number of reasons. The community/ smallholder group needs to be formed into a legal entity, such as a co-operative with a clear governance structure, which in itself is difficult to achieve. There are inherent problems and risks with all the potential approaches, e.g. a bottom-up approach may lead to problems keeping households on board while a top-down approach may have an overarching dictatorial control level. The management issues around community/ smallholder groups are intensive and risky, necessitating clarity around whom in the community is part of management, the expectations, the capacity and the organizational structure.

It is difficult to grapple with local issues from a distance, thereby necessitating the engagement of a strong, respected, local partner (a private entity or an NGO), or having an in-house team on the ground. The local partner plays the role of community engagement participant to educate, mobilize, advise and assist with aggregation and other management issues. Their role is key, particularly at the beginning of a project, acting as an intermediary between the different parties involved. The experience, track record and commitment of the local partner are critical as is the community/ smallholders' trust in co-operative type activity. A lack of shared goals and mistrust from smallholders can hamper projects. Ultimately, farmers need to be able to handle the departure of a local partner, should this occur and respond appropriately.

Good governance practice will likely be dependent on the components of land tenure, which is often challenging to prove due to unclear title and differing national and local laws. Different criteria are likely to be needed for different ownership structures i.e. government alone, community collectively, community individually, corporation or a combination thereof.

More recently, sub-division of land into smallholder plots has become a favored trend away from collectively owned community land as it provides tenure rights, but it increases project development costs and complexities as unanimous approval has to be sought from a much larger number of land owners on a range of issues. Additionally, individuals can sell title to people outside the community, thereby losing the "community good" aspect of the project. Potentially, a stronger project can be created on land that is owned collectively by the community and not sub-divided. Where land is owned by the government, or controlled by a large commodity house, governance may be established by those entities and can potentially more straightforward. Some big commodity buyers are getting directly involved at the local level to assist with governance, by providing teaching, management, farm organization skills, oversight and other aspects. (This makes sense when there is a high value commodity being sourced, compared to sourcing carbon only). They see this approach as less risky than having an organization that is NGO led or led by a community with NGO support. Other for-profit companies may hire a professional management company to ensure the profitability of the operation. However, bringing in an outside manager can lead to misunderstanding with the community as well a lower financial benefits to the individual farmers.

#### Benefit Sharing and Flow of Funds

It is necessary to ensure equitable, tangible and meaningful benefit sharing to communities (macro level) and individuals (micro level). Consideration needs to be given to whether investments into a community could make a larger impact on the individuals within a community, than income distribution to individual households under a smallholders' project. Additionally, there can be considerable risk associated with the accountability and transparency of the institution receiving the funds as well as risk with the distribution of funds to individual households. There is also a risk with benefit sharing structures that what is agreed today may no longer be acceptable at some future point.

#### Verification, Auditing and Due Diligence

The burdens and costs associated with verification, auditing and due diligence of smallholder projects are generally high for both the farmers/communities as well as for the investors, due to the requirements of the farmers, the number of sites visited, time spent, legal costs etc. From an investor's perspective, if the capital amount to be invested is relatively small, the return may not be sufficiently high to justify investing. Hence the need for simple approaches that do not add burdens to farmers and investors without commensurate benefits and a verification model that would provide transparency for investors in the due diligence process.

#### Financing and Other

For institutions looking only at the carbon finance portion of a land-based carbon project, there is the issue of how the community/smallholder group obtains financing for the activity of the project itself i.e. planting trees, equipment, etc. Often this type of input is not available to the community.

Understanding the carbon credit ownership and accounting structures of carbon projects is critical to the carbon finance component.

Farmers' whims, crop changes, moving to a different area, additionality and leakage are all issues that smallholder projects may encounter, thereby requiring strong control and effective project management.

## **POTENTIAL OPPORUNTITIES AND BENEFITS**

#### Positive Impact/Additional Benefits

Projects that invest in local economic growth, create jobs, improve livelihoods, reduce poverty and conserve biodiversity are good for communities/smallholders and for addressing broader social and environmental issues. Investors in this sector will have different objectives for development impact value vs. financial return. For example, a company looking to meet its CSR goals may not be as concerned with the overall risk profile as the community good factor, whereas a true hands on investor managing a fund to generate returns from sale of carbon credits is likely to care more about the risk profile. Certain projects may also tackle gender issues and children's welfare, which some investors/donors value. The idea that projects could be compared and selected for investment on the basis of their "additional benefits" could appeal to a variety of investor groups.

#### CSR

Community/smallholder projects present a good opportunity for meeting CSR commitments through single project investments that focus on specific CSR interests.

#### Supply Chains

The potential exists to meet the demand from commodity buyers looking for transparency, improved environmental and social performance along with reduced carbon. An approach that helps a commodity buyer better understand the link between their supply chain and carbon could provide added value to both the buyer and the community/smallholder sector.

#### CCBS

Project developers and investors will obtain marketing benefits from the use of revised CCB Standards.

## **POTENTIAL ROLE FOR THE CCB STANDARDS**

### Risk Management

Given that risk management for all players in this sector is key and that the market looks to standards for identifying high-quality, low-risk projects, standards that can provide guidance on the risks identified above are critical to the future development of the market. In addition, including a standard that addresses the experience and track record of a proposed partner may also be beneficial.

### Free Prior & Informed Consent (FPIC)

There is a need to articulate more clearly the procedures and protocols for FPIC in the standards. Specifically, it is important to define (standardized) criteria for applying FPIC transparently and obtaining consent with respect to collective decision-making.

### Integrity of Standards

While the integrity of the standards that provide rigor and quality assurance for carbon projects is critical for the market, there is concern that revised standards might add another layer of costs and difficulty to a sector that is already struggling. Proposals such as lowering the threshold for community/smallholder projects or cost savings from simplified, reduced audit requirements merit consideration. The challenge lies in creating a set of standards that can facilitate the development of high quality projects, which the market can rely on, without being onerous and burdensome to execute.

Including a representative from the agricultural sector on the CCBS standards committee that will support the revision process (someone who understands growers, smallholders' perspective, farmer groupings, supply chain, markets etc.) could be valuable.

### Links with other Certification Programs

Certification programs in general present barriers to smallholders entering a marketplace; CCBS should not be perceived as an additional barrier. There is the potential for shared thinking and linkages with other certification programs such as the Round Table on Sustainable Palm Oil (RSPO) and Forest Stewardship Council (FSC), as well as merging community/smallholder carbon standards into existing initiatives such as UTZ Certified, Rainforest Alliance (RA) and 4C, as an "add-on" module. VCS and CCBS still need to work together as CCBS does not provide the necessary carbon accounting tools.

## **MARKETING AND COMMUNICATION INSIGHTS**

### Voluntary Carbon Market stimulator

Projects that provide improved livelihoods for small farmers, reduce poverty, have community benefits, boost economic return AND reduce carbon emissions have a strong (and unique) sustainability story and could stimulate new demand in the voluntary market.

### CSR Interest

CSR buyers are more likely to be drawn to these projects because of their community (rather than climate) benefits.

### Investment Risk

The investment risk is lower when communities are properly integrated and include a strong aggregating partner. Adding a carbon finance stream to a project diversifies the revenue base for smallholders and may reduce financial risk for investors.

### Supply Chain

Large commodity buyers are increasingly interested in ensuring high quality and sustainable supply chains that are also “deforestation-free” and low carbon.