Differences between carbon offset projects and traditional development projects

Key points:

- Many of the opportunities and risks associated with forestry and bioenergy carbon offset projects are the same as for traditional forestry and bioenergy development projects.
- Key differences between more traditional development projects and carbon offset projects relate to the way they are structured including the governance processes and the stakeholders involved. The differences arise because carbon offset projects primarily aim to reduce or remove GHG emissions from the atmosphere.
- These differences can create new potential opportunities and risks for communities involved in carbon offset projects.

As seen in Infosheet 3, many types of forestry and bioenergy carbon offset projects are based on technologies and approaches that have been implemented in developing countries for a long time. Indeed, many carbon offset projects resemble development projects quite closely in terms of the scope, objectives sought, stakeholders involved, and technologies employed. This means that many of the opportunities and risks for the poor are similar to those of more traditional projects (see table overleaf).

How do carbon offset projects differ from more traditional development projects?

There are a number of key differences between carbon offset projects and traditional development projects. This is because carbon offset projects are primarily implemented to reduce GHG emissions, which can alter how they are designed and run. This can also affect project opportunities and risks and to whom these arise. The differences can be categorised according to several components of carbon offset projects.

This information sheet is part of a larger resource pack, Understanding the social opportunities and risks in forestry and bioenergy carbon offset projects. The resource pack has been developed by the Overseas Development Institute (ODI) on behalf of the Ford Foundation. For more information, please e-mail CCEF@odi.org.uk.

Table 4: General opportunities and risks associated with forestry and bioenergy carbon offset projects

Opportunities	Risks
• Direct employment benefits • New sources of revenue from project activities and/or cost savings • Diversification of economic activities • Health benefits (such as reduced indoor air pollution from wood burning stoves) • Local institutional strengthening • More viable and representative local government • Infrastructure improvements • Increased equity in local communities • Improved environmental quality	• Risk to non-participants who may not be able to access project benefits • Increased inequity in a community • Insufficient technology transfer • Over-reliance on project consultants • Insecure land tenure may prevent poorer people from benefitting

Methodologies, Standards and Monitoring: Unlike traditional development projects, carbon offset projects require specific methodologies in order to prove that emissions reductions or removals are occurring. Ongoing **monitoring** and the certification to certain standards is often required which could help make projects more sustainable in the long run. Different **standards** used for carbon offset projects (for example, CDM, Gold Standard, Voluntary Carbon Standard, etc) offer different levels of rigour in terms of how development and social benefits are measured and the extent to which they are required in the project evaluation process. See Infosheet 5.

Emission Reduction Purchase Agreements (ERPA): ERPAs establish the contractual arrangements made between buyers and sellers of carbon credits. The way in which this contract is designed can affect how benefits and risks are shared between those involved and the additional benefits from selling carbon. One major difference with other commodity-based projects is that carbon offset projects bring the producers face to face with their international buyers, often with no choice of the intermediary. See Infosheet 6.

Carbon finance: Because carbon offset projects create a new revenue stream through the flow of revenue from the carbon market (i.e., carbon finance), project finance

Figure 1: Elements unique to carbon offset projects

Methodology, Standards, Monitoring
Methodologies: determine which project types/activities are permitted, and therefore whether certain communities can benefit.
Standards: determines the extent to which the project secures social and development co-benefits.
Monitoring: helps to ensure the project benefits are sustained over time.

Emission Reduction Purchase Agreements (ERPAs)
Determines who is responsible for certain liabilities, when carbon finance will be delivered, etc.

Carbon finance
Determines how financial benefits flow to the community (e.g., direct financial benefits to the individual, to the group as a whole, indirect non-montary benefits, etc.)

Additionality, permanence and leakage
Additionality (i.e., there must be a baseline level of emissions to reduce): Implies that the very poor (with few emissions) will not benefit.
Permanence (i.e., emissions reductions cannot be reversed): Implies the need for strong property ownership to ensure that activities will not be disrupted.
Leakage (i.e., an emission reduction project cannot displace activities which create emissions outside the project): Implies communities will need to be provided with alternative economic activities to avoid leakage.

National policies
Determines whether carbon offset projects are encouraged and how they may or may not benefit certain communities.

is approached in new and distinct ways and creates new potential benefits (and risks) for the poor. This relates to ways in which direct financial compensation is delivered to project participants, the form and length of payment, and the liabilities and contractual arrangements associated with the carbon payment. See Infosheet 7.

Additionality, permanence and leakage: One of the primary requirements of a carbon offset project is that it must meet the principle of **additionality**: that emissions reduced by the project are 'additional' to what would have occurred in a business as usual scenario. Proving additionality can sometimes have important impacts on people's ability to participate. **Permanence** risks (the risk that carbon emissions reduced or removed are released back into the atmosphere) mean that project have to be designed in more secure ways (e.g. fire prevention in and near plantations), which can have an impact on who can participate and how. The issue of **leakage** (whereby a carbon offset project displaces activities which create emissions outside the boundaries of the project) is another important requirement that makes carbon offset projects distinct from traditional development projects. See Infosheet 8.

National policies: Different countries' policy contexts play a significant role in encouraging or discouraging carbon offset projects and the participation of the rural poor. See Infosheet 9.

Further Resources:

CD4CDM: A project by UNEP to help clarify some of the complex legal, financial and technical issues associated with the CDM. www.cd4cdm.org/

Ecosystem Marketplace: The Ecosystem Marketplace is a leading source of information on markets and payment schemes for ecosystem services, with an emphasis on carbon markets.
http://www.ecosystemmarketplace.com/