

COSTS AND BENEFITS INVOLVED IN THE DEVELOPMENT OF A CARBON PROJECT

When it comes to developing a project, there are many costs involved and this is why it is vitally important to identify a **project developer** who can assist in the development and assist in obtaining the funding for the project. It takes more than two to five years (depending on how fast the project is developed and the payment agreement) before the money will be received through the sales of carbon credits. This is because in all ALOFU projects, the carbon credits would be paid only once the carbon sequestration takes place and can be measured. Therefore, it is important to identify a project developer and donors at a very early stage of the project to **arrange for specific early (up-front) payment** or compensation arrangements for the involved farmers.

It is very difficult to determine a standard figure for the costs of AFOLU projects, as they depend on the size of the project, and costs of labour and land, as well as the availability of skills.

The costs can be separated into three areas:

- the cost of **project implementation** such as land, initial surveys, ground preparation and planting, early monitoring and treatments, on-going management and tending, and recurrent forest inventory,
- the costs of ensuring and increasing the **awareness and abilities** of local participants, and
- the costs associated directly with the **development of the GHG project documentation**, auditing and registration and then on-going monitoring, reporting and verification (Baalman and Schlamadinger, 2008).

In a survey conducted by Baalman and Schlamadinger (2008), as well as reported by the World Bank the costs for certification up to the point of registration per A/R CDM project were indicated to range between US\$ 200,000- 250,000.

The prices which farmers receive per tonne of CO₂ differ between projects. According to a study by the World Agroforestry Centre they usually reflect the lowest prices on the Chicago Climate Exchange (CCX), which is around US\$ 4 (Chomba and Minang, 2009). In the Nhambita community carbon project in Mozambique smallholder farmers are paid for their agroforestry practices and REDD. They receive US\$ 4.5 per tCO₂ or an average of US\$ 34.70 per household per annum over seven years (Jindal, Swallow & Kerr, 2008). Other projects do not provide cash incomes to projects, but access to fruits, minor timber, firewood and other non-timber forest products (see Box 6 for other co-benefits generated through carbon projects). In addition, not all land or forest sequesters the same amount of carbon, as it depends on the quality of land, and the new land use that is implemented or the planted tree species.

Table 2 gives an overview of the range of costs to be expected during the different steps when developing a carbon project.



TABLE 2
Carbon project development costs of land use projects

ACTIVITY	CDM	VCS	VER+	CCX	TYPE OF COST
PLANNING PHASE					
Feasibility study	€ 15,000-25,000	€ 15,000-25,000	€ 15,000-25,000	€ 15,000-25,000	Consultancy fee
Project documentation	€ 50,000-100,000	€ 50,000-100,000	€ 50,000-100,000	€ 20,000-40,000	Consultancy fee
Data collection	€ 5,000-25,000	€ 5,000-25,000	€ 5,000-25,000	€ 5,000-25,000	Internal costs
Validation	€ 15,000-25,000	€ 15,000-25,000	€ 15,000-25,000	Not applicable	Auditor fee
Registration fee	Same as issuance fee, but capped	Not applicable	€ 550 per year	US\$ 5000 per year	Administrative fee
Initial verification	€ 20,000-25,000	€ 20,000-25,000	€ 20,000-25,000	Not applicable	Auditor fee
OPERATIONAL PHASE					
Ongoing monitoring	€ 3,500-25,000	€ 3,500-25,000	€ 3,500-25,000	€ 3,500-25,000	Internal costs
Ongoing verification	€ 10,000-20,000	€ 10,000-20,000	€ 10,000-20,000	€ 10,000-15,000	Auditor fee
Issuance fee	US\$ 0.10 per tCO ₂ e for the first 15,000 per year, US\$ 0.20 per tCO ₂ e beyond that	€ 0.05 per tCO ₂ e	€ 150 for up to 1000 tCO ₂ , €0.03 per tCO ₂ e beyond that	US\$ 0.12 per tCO ₂ e for Non-Annex I countries	Administrative fee

Source: FAO, 2010.



Cocoa agroforestry systems in Indonesia.

BOX 6

CO-BENEFITS OF A CARBON PROJECT

- knowledge generation on project preparation, planning and management
- gum, firewood, timber and non-timber forest products
- legal aid for defining land-tenure rights
- payments to improve infrastructure, food security
- seedlings
- employment
- improved production

Source: Jindal et al, 2008.