REDD PROJECT FEASIBILITY TEMPLATE

the katoomba Incubator

REDD Project Feasibility Assessment

Project Name:

Country/Location:

Lead Organization:

Main contact name/details:

Partner(s):

Summary (300 words max)

1. PROJECT DESCRIPTION

1.1. Project Idea

- Very brief presentation of overall project idea and situation
- Aim of feasibility assessment

1.2. Project Context and Background

- General description of project site, including location, size; map(s) of location within country , region
- Geo-physical and ecological aspects (topography, vegetation types, climate)
- Brief description of land-use pressures on forest in the area, general summary of deforestation drivers and agents (more detail to be provided below in baseline analysis)
- General description of communities and socioeconomic situation in project zone
- Progress to date in carbon project development (brief summary of data and analyses, institutional arrangements, etc.), expected start date of carbon project.

1.3. Main Project Objectives and Activities

- State the project's overall objectives and expected outcomes
- Describe in concrete terms how the project's activities are going to tackle land-use change trends. Clearly distinguish currently ongoing and planned /envisioned activities.
- Describe main stakeholders: both for current land-use pressures (e.g. communities, land-owners, migrants) and project interventions (e.g. external project partners).

1.4. Project boundaries

- Preliminary determination of project scale, area and boundaries. (This will be important for all subsequent steps of the analysis, including baseline analysis and carbon quantification. Project interventions and local community partners will also be influenced by project delimitation.) Provide a map with geographical coordinates to indicate boundaries of the project area.
- What is the overall area (ha) of forests directly involved in the project?
- What is the approximate number of communities and/or landowners that will be involved?

2. LAND TENURE AND REDD POLICY CONTEXT

2.1. Tenure regimes in project area and relevance for REDD

- What is the legal regime of tenure rights for forest and agricultural land in the project area (incl. formal and customary titles)? Do project participants hold legal or customary land titles or could they realistically obtain them?

  This will be important to understand 1) carbon ownership aspects, 2) feasibility of specific project interventions linked to changed land uses, 3) needs for an incentive and compensation strategy to rights holders, and 4) risks to the permanence of carbon benefits.

2.2. National REDD+ policy context

- What is the status of REDD+ strategy and policy at the national level? What are implications for the project area or project type proposed here (geographic location, types of interventions, etc.)?
- What is the status of policy arrangements for sub-national activities (nested approaches, projects), and have accounting regulations been specified? Are there explicit restrictions or opportunities for crediting (or commercializing credits) on the project level?

2.3. Legal context of forest carbon rights

- Have forest carbon ownership rights been legally defined in national legislation? Can certain rights (ownership, use) be inferred from existing forestry, natural resource, or land tenure legislation?

3. FIT WITH CARBON STANDARDS & METHODOLOGIES

3.1. Applicable carbon standards

- Which carbon standards potentially apply to the project context (e.g. VCS, Plan Vivo)?

3.2. Availability of methodologies applicable and suited to project context

- Are (approved) methodologies available under the chosen standard for this project type? Review applicability criteria and scope for existing methodologies.

- Are there any challenges to applying standards and existing methodologies (e.g., baseline projections, applicability criteria, leakage requirements)?

3.3. Data Availability

- What is current and expected availability of key data needed for a confident assessment of feasibility and/or during formal carbon project development (i.e. stipulated by carbon methodologies)?
- In particular, are there any challenges that may limit the possibility for generating reliable data for estimating baseline emissions (incl. existence of a suitable reference area), leakage dynamics, and carbon stocks? What about data needed for monitoring of project performance and leakage (systems and data items)?

4. PROJECT CARBON BENEFITS

4.1. Forest area and types, carbon stocks

- How can forest area be stratified by forest types (ecological characteristics, e.g. riverine, montane, humid, semi-arid) and condition (degradation levels, e.g. logged over, degraded by fuelwood extraction)? What is the approximate forest area per stratum?
- What is known about carbon stocks for each of the above classes (forest types and condition)? Include information from site-specific studies and/or national-level inventories and/or applicable IPCC default values or data from relevant scientific studies elsewhere.

4.2. Baseline drivers and agents

- Systematic analysis of apparent and underlying drivers and agents of deforestation and forest degradation. This may consider a large variety of aspects, including potential factors arising from land management practices, food and crop markets, fuel demand, infrastructure development, population dynamics, fire; as well as potential agents such as local communities, agro-business, logging companies, etc.
- Are recent or historical dynamics likely to apply to future years (in the absence of project interventions)? What changes are likely? Is there evidence for these expectations?
    - Note: This assessment step is crucial for (1) determining the applicability of baseline emission projections, (2) designing project intervention strategies, (3) assessing leakage and non-permanence risks, and (4) evaluating the applicability of specific accounting methodologies approved under carbon standards.

4.3. Baseline Scenario of forest cover and carbon stock changes

- What are projected baseline deforestation trends? Indicate what evidence exists for all assumptions used. What are major uncertainties in projecting these developments, and are there major data gaps?

- Can deforestation trends be derived from a suitable reference area (i.e. with similar biophysical, socio-economic, cultural and access conditions and of size at least as large as project area)? What is the size and location of this potential reference area?
- What is the carbon stock of affected areas? What is the carbon stock after land-use change (e.g., in swidden agricultural systems or permanent croplands)? What carbon pools need to be considered for this calculation of emission factors (carbon stocks in forested and post-conversion areas)?
- What are total baseline emissions?

4.4. Project Scenario & Net Carbon Benefits

- By how much can the above baseline emissions be lowered – in theory, and in practice? I.e. what is a realistic assumption of the level of project intervention and effectiveness /performance?
    - Link this to assessment of non-permanence risks below (many of these may apply to immediate project performance)
- Perform a quantified modeling exercise to develop scenarios for gross carbon benefit generation, i.e. project scenario compared to baseline emissions. (This will be the basis for carbon credit generation and financial revenue projections)

4.5. Additionality of Project Activities

- Can additionality be demonstrated following requirements of the VCS or CDM additionality tools (small-scale, large-scale as applicable)? Which barriers exist (e.g., cultural, access to capital)? What is the case for financial additionality (IRRs etc.)?
- Can these barriers or financial assumptions be documented in a credible and transparent way to convince external auditors?
- What is the likely formal start date of additional project activities?

4.6. Leakage Risks & Project Emissions

- What types of leakage are likely?
    - Consider in particular potential risks from activity shifting and timber market leakage
    - For projects reducing degradation (from legal or illegal wood harvest): what are leakage risks from displaced timber and woodfuel harvest? What are likely reductions in the harvested wood products pool?
    - What actors are likely to be involved in activity shifting leakage? E.g., local agents vs. immigrants (discounts may be required for leakage caused by immigrants)
- What could a leakage belt look like, and can it be defined for this project?
- What is the overall scale of potential emissions from leakage?

- What activities are proposed to mitigate leakage risks? Are these likely to be effective (based on experiences in comparable project situations)? What percentage of leakage may be prevented?
- Are any significant emissions likely to be created through project implementation (e.g., from fertilizer application, soil disturbance, burning of vegetation for tree planting)?
    - Note that emissions created outside the project boundary are considered as leakage.
- What are net emission reductions after accounting for leakage and project emissions. Please build on the above modeling exercise (gross carbon benefits minus leakage and project emissions).
    - (Note: Non-permanence assessment is not carried out here but rather in the Risks section below.)

5. RISKS TO GENERATING CARBON BENEFITS

5.1. Risk assessment

Frank analysis of the potential risks and uncertainties that may affect the viability of the proposed project (ideally based on VCS AFOLU Non-Permanence Risk Tool).

Overall, how realistic is it to change current land-use trend, e.g., lower baseline deforestation in project area? How well do the currently envisioned activities match the underlying deforestation drivers?

- **Internal Risks**
    - Project Management, including need for ongoing enforcement to protect carbon stocks and capacity of management team.
    - Financial viability
    - Opportunity costs and associated pressures of alternative land uses
    - Project longevity based on legal agreements or requirements

- **External risks**
    - Land tenure, including ownership and resource access/use rights
    - Community engagement, consultation of households inside and within 20 kms of project boundaries
    - Political risk, based on World Bank Institute Worldwide Governance Indicators, adjusted if country is engaged in international REDD+ readiness initiatives

- **Natural risks**
    - Significance and likelihood of fire, pest and disease outbreaks, extreme weather events such as hurricanes, and geological risk such as earthquakes and volcanoes

5.2. Risk mitigation and discounts

- Are risk mitigation strategies planned? Are they feasible to implement?
- What is the likely discount for risk buffer (VCS – please follow the AFOLU Non-Permanence Risk Tool according to guidelines)

6. FINANCIAL FEASIBILITY

- This step should consider the overall financial feasibility of the project opportunity at a specific REDD site. Key is the carbon finance viability, i.e. net discounted carbon credit revenues (taking into account transaction costs) must be sufficient to cover implementation and/or opportunity costs.

6.1. Carbon revenue potential

- What is the overall net carbon credit potential (carbon benefits after deducting leakage and non-permanence risks)?
- What are gross revenues, considering different price scenarios in target market?
- What transaction costs can be expected (baseline data collection, PDD, monitoring, validation & verification, government approvals and fees, registration, possibly brokerage fees)?
    - Note: It may be valuable to highlight cash flows during first 5-10 years considering likely horizon of project participants and discount rates
    - What are the overall carbon-cycle related upfront financing needs?
- What is project's potential tax liability from carbon and non-carbon revenues?
- What are the main risks and sources of uncertainty (sensitivity analysis)?

6.2. Non-Carbon Revenues

- Will project implementation lead to other revenues apart from carbon credit generation, e.g. from timber sales or agricultural production? On what scale and in which time-frame?
- What are the main risks and sources of uncertainty (sensitivity analysis)?

6.3. Opportunity & Implementation Costs

- What are the main costs of project implementation (taking into account mechanisms for compensation for opportunity costs)?

- How do implementation costs compare to potential carbon revenues? How large is the revenue timing gap? Are there obvious sources to bridge it?
- Does initial financial analysis indicate that basic costs and revenues, from carbon market revenues and other products, are potentially attractive to both investors and project participants? Are net carbon market and other revenues likely to be sufficient to justify changes in land use for landowners (e.g., versus opportunity costs)?

6.4. Attractiveness to Buyers and Markets

- This step should assess the potential attractiveness of the particular project (site, activities, stakeholders; standard and methodology, carbon credit generation profile) to buyers in key markets. Including: Voluntary market buyers, pre-compliance value for REDD (post-2012 UNFCCC, US or other regional markets), interim non-market finance sources.
- Also briefly refer to below social impacts and biodiversity benefits.

7. SOCIAL AND COMMUNITY IMPACTS

- Key to project success, sustainability and marketability are the social and equity impacts of the project. What is the potential for poverty alleviation, what are mechanisms for stakeholder participation and capacity building, governance and potential effects on resource access and/or land tenure.
- How will various project interventions impact socio-economic dynamics in project area? How can potential negative impacts be reduced and benefits created?
- What is the strategy for benefit or revenue sharing, including financing of underlying activities (e.g. agricultural investments) and direct payments?
- If feasible, an initial formal Social Impact Assessment will be carried out to determine key opportunities and risks and to inform project design from the outset.

8. IMPLEMENTATION CAPACITY & POTENTIAL PROJECT PARTICIPANTS

8.1. Description of Participating Organizations

- What is the likely lead organization and who are critical partners in implementing the underlying project?
- What are the respective roles and responsibilities of the various partners; what are their key strengths, capacity and track record?

- NB: Make sure to match this to the implementation needs as defined by project intervention strategy

8.2. Human Resources Available to Work on the Project

- Describe the key types of expertise that will need to be mobilized for project development, indicating resources available within the lead organization, from partners and/or those which will need to be secured from third parties.
- Include consideration for technical experts, government liaison, community engagement, marketing partners, etc.

9. CONCLUSIONS & NEXT STEPS

- Please outline the next steps necessary to make a decision on project continuation and strategy. This may include additional feasibility analysis steps, preparation of underlying project activities, marketing to buyers or co-investors, and/or formal project development under a carbon standard.
- Alternatively, the feasibility assessment may indicate that the project may not be viable from a carbon market perspective. In this case, the below steps may be adjusted towards evaluating an alternative funding source, or towards shifting the focus to different project opportunities.

9.1. Summary of Feasibility and Risks

- What is the overall picture of project feasibility? What are key risks and uncertainties that are apparent from this analysis? Please consider the following dimensions
- Implementation and performance risks
    - Confidence (based on experience and analysis) of effectiveness of land-use incentive strategy and project interventions to reduce deforestation
    - Capacity to implement project interventions; potential time lags
    - Opposition of government or local stakeholders to certain project aspects
- Methodological risks
    - Key apparent data challenges or applicability issues with existing methodologies
    - Key validation and verification risks
- Legal Risks
    - What are potential issues with legal aspects of project implementation: land tenure and control over project area, legislation relevant to planned project interventions?
    - What are legal risks to carbon rights and carbon sales (including rights to commercialize credits)?
- Financial and market risks

- In addition to general carbon market uncertainties, what factors are important specifically to this project (type, location, etc.)?
- Particular funding gaps, delays in potential revenues versus upfront expenditures
- Confidence in estimating implementation costs (can projected revenues finance necessary interventions? Is co-finance available?)

- To what extent can the above risks be mitigated? Do strategies exist, or can they be developed? Please also consider impacts of engaging commercial and technical partners early on and their capacity to share in these risks.

9.2. Next Steps for Better Assessing Feasibility & Taking Decisions

- The current assessment may reveal data insufficiencies that do not allow for a confident determination of project viability in the current carbon market context. If this is the case, and if there are strong indications that potential carbon benefits justify this, a decision may be made to invest into an expanded feasibility assessment.
  - E.g., to generate better baseline data, determine overall land area that could be brought into project; thorough screen against requirements of different methodologies, etc.
- If methodological challenges create disproportionate risks for pursuing formal project development, but if substantial carbon benefits seem to exist, non-market or other innovative finance and project development options may be outlined.

9.3. Next Steps for Stakeholder Engagement and Underlying Project

- If project is to be pursued, steps may be outlined for better determining the interest of main stakeholders; proposed process for stakeholder engagement
- Key steps in designing and planning underlying project activities, including engagement /contracting of partner organizations with specific expertise (e.g. agriculture).

9.4. Next Steps for Formal Project Development

- If decision is made to proceed with formal project development (based on a positive feasibility assessment), describe data items needed for potential PDD development (e.g., baseline study, leakage-driver assessment)
- What would be a realistic (conservative) timeline for achieving key milestones in project development? Provide a graph or table. Will a commercial project developer be engaged?

9.5. Potential for replicating or up-scaling the project activities

- What is the potential – assuming viability of project idea – for up-scaling the project, by expanding the area in the current project site, or designing similar projects in other parts of the country?

- Would it be feasible to consider bundling or Programme of Activities approaches to reduce transaction costs? Could the project serve as a pilot to inform national strategies?

9.6. Near-term funding outlook / seed-funding

- Please summarize briefly secured (or expected) counterpart co-financing for project development.
- Are there any initial contacts with potential buyers or investors? Are upfront payments for potential forward-sales of carbon credits achievable and/or desirable (considering price discounts)?