

Factories or forests? – Bringing ecosystem service markets back to the land

Investment in environmental markets including the carbon markets has risen to 66 billion US-dollars (USD) within a decade. Yet so far these markets have widely disregarded land-use change and forestry projects. The Katoomba Ecosystems Services Incubator was created in 2007 to promote investment in forest-based carbon markets.

The last decade has seen a powerful upsurge in efforts and billions of dollars in investment in environmental markets, including the global carbon trade. But the promise that many in the conservation and rural development communities see for recognising additional value for farmers, communities and small enterprises has by and large failed to materialise on a significant scale, despite the multi-billion dollar offset markets.

The Katoomba Group's Ecosystem Marketplace (see also www.katoombagroup.org) values current biodiversity markets at 6.4 billion USD and water-related markets at over 5 billion USD, worldwide. But by far the most dynamic and largest of these markets is the global carbon trade, where vol-

ume has surged from near zero in 2004 to roughly 66 billion USD in 2007. In this market, the Kyoto Protocol's Clean Development Mechanism (CDM), which rewards industrialised countries for investing in "green" projects in the developing world, funneled nearly 7 billion USD into projects of all kinds in 2007, according to the World Bank.

Unfortunately, land use and land-use change projects like forestry (those with most potential benefits for the rural poor and protection of biodiversity) accounted for less than one percent of the Kyoto project-based carbon transactions recorded in 2007, and a declining share of the voluntary carbon market in the same year.

What's keeping community and forest-based projects from getting to market?

While emissions reduced from a factory smokestack may have the same ton-for-ton impact on the global atmosphere as those from a community forestry project, their contributions to sustainable development are markedly different. But a series of key barriers and constraints confront land-use based projects aiming to enter the global carbon market:

- **Regulatory and market barriers.** The European Union Emissions Trading Scheme (EU ETS), for example, doesn't recognise forestry offsets (essentially putting them in the same category as nuclear energy).
- **Transaction costs:** Getting local projects to demanding global markets is far from cost-free, especially with carbon, a commodity where buyers are increasingly demanding exacting standards of measurement, verification and security. Typical (pre-implementation) project development costs for the CDM or voluntary carbon market can easily exceed 150,000 USD.
- **Scale:** Very worthwhile local forestry and land-use projects lead by grassroots organisations often lack the scale necessary to attract investment and absorb transaction costs. While community projects may effectively be able to deliver 10,000 tons of CO₂ per year (tCO₂/year), most brokers and investors are looking for at minimum ten times that volume as a threshold, and ideally much more.
- **Different worlds:** Even well-intentioned transactions between communities and companies typically involve dramatically different cultural and social perspectives, understandings of how markets and economies function and assumptions about business relationships and partnerships. Getting these worldviews to mesh can require patience and flexibility often at odds with the need to demonstrate quick and reliable emissions reductions.

Getting to market: The Katoomba Group's Incubator approach

There is also, however, plenty of demand for forest-based carbon offsets. Indeed, demand far outstrips the supply of good forest-based projects with credible offsets. But the capacity of local community and conservation organisations to access these markets is still limited, with relatively few solid, well-designed projects ready for market, and

Michael Jenkins
President, Forest Trends
Washington, D.C., U.S.A.
mjenkins@forest-trends.org

Jacob Olander
Director EcoDecisión
and Manager Katoomba Ecosystem
Services Incubator
Quito, Ecuador
jolander@interactive.net.ec

Zusammenfassung

Im vergangenen Jahrzehnt konnten wir erleben, wie enorme Anstrengungen und Milliarden von Dollar in Umweltmärkte, zum Beispiel den globalen Kohlenstoffhandel, investiert wurden. Die zusätzliche Wertschöpfung für Bauern, Kommunen und Kleinbetriebe, wie sie von vielen Akteuren in Umweltschutz und ländlicher Entwicklung erhofft wurde, ist jedoch bisher nicht eingetroffen. 2007 wurde der „Katoomba Ecosystem Services Incubator“ gegründet, um bei den unterschiedlich gelagerten Interessen im Ökosystemdienstleistungsmarkt die *Versorgungsseite* zu fördern, wobei bereits frühzeitig auf die Kohlenstoffmärkte gesetzt wurde. Durch gezielte Unterstützung in technischen und finanziellen Fragen, in Business Management und rechtli-

chen Aspekten für vielversprechende kleine community-basierte Projekte mit langfristig guten finanziellen Perspektiven trägt der Incubator zur Entwicklung beispielhafter Transaktionen auf den neuen Ökosystemdienstleistungsmärkten bei und nutzt vor allem der armen ländlichen Bevölkerung sowie der gefährdeten Biodiversität.

Resumen

La última década ha sido testigo de un incremento sustancial en los esfuerzos y los fondos (miles de millones de dólares) destinados a la inversión en mercados ambientales, incluyendo el comercio mundial del carbono. Muchas personas dedicadas a los quehaceres de la conservación y el desarrollo rural percibían como prometedora la posibilidad de reconocer el valor agregado de los

agricultores, las comunidades y las pequeñas empresas, pero en general estas iniciativas han fracasado. En 2007 se lanzó la Incubadora de Servicios del Ecosistema Katoomba (Katoomba Ecosystem Services Incubator), a fin de resolver los problemas del lado de la *oferta* en la actual falta de conexión que padecen los mercados de servicios de ecosistemas, con un énfasis inicial en los mercados de carbono. Al proveer un apoyo dirigido a aspectos técnicos, financieros, legales y de gestión de negocios de pequeños proyectos comunitarios prometedores, con potencial viabilidad financiera de largo plazo, la Incubadora contribuye a desarrollar transacciones modelo en los nacientes mercados de servicios de ecosistemas, beneficiando a las poblaciones rurales de bajos ingresos y a la biodiversidad en peligro.

very few financiers ready to make the early-stage investments to help good projects get off the ground.

To address this disconnect between supply and demand and to overcome some of the barriers described, the Katoomba Ecosystem Services Incubator was created. The Incubator strategically invests in the *project development phase*, enabling projects with benefits for conservation and low-income and indigenous communities to get to the point where they can effectively engage private investors or buyers on solid footing.

The Incubator provides early stage-support, mobilising expertise through the Katoomba network of specialists and pioneering practitioners. The Katoomba Group (www.katoombagroup.org) is a catalytic network bringing together leading practitioners and specialists to promote the use and improve capacity for developing ecosystem services payments and compensation deals.

Typical Incubator project support works with partners to:

- plan strategies and identify efficient pathways to get projects to market;
- develop, adapt and test methodologies for ecosystem service quantification;

- design and conduct technical studies;
- prepare project documentation;
- identify and access services for certification, validation and verification;
- secure legal counsel for contracting and project design, using open-access templates where appropriate;
- develop business plans and offerings documents that respond to investor expectations.

While the power of ecosystem markets lies in their potential to channel significant new financial flows to communities and nature, the donor community has a significant role to play if communities and grass-roots organisations are to benefit. This is not unlike the markets for certified,

organic or fair-trade commodities, where initial support is often required before community-focused projects can become self-sustaining. The carbon market to date has demonstrated that investment will flow to where the opportunities lie. By preparing communities to position their projects and negotiate effectively, the Incubator, and donors, can play a critical role in creating these opportunities and enabling organisations to capture value from their environmental stewardship.

Up to now land use change projects like forestry have been quite neglected by the Clean Development Mechanism.

