

## **Financial considerations of a carbon offsetting proposal / business plan**

For a carbon offsetting project to get the “go ahead”, the carbon broker has to “sell” the project proposal to the “buyer” (of carbon) business. The “buyer” must know what the total “purchase price” of the project is; this is calculated by:

- A. Number of trees planted X Lifetime carbon value of each tree = total number of carbon metric tons
- B. Number of carbon metric tons X value per carbon metric ton = total (carbon) cost of project

The carbon payments are not paid in one lump sum, nor in regular intervals i.e. every year, or five years; nor when the carbon payments are made, will they all be at the same %. Usually 20% of the payment will be “given” when the project gets the go ahead, to help pay for “start up” costs. The remaining 80% will be paid dependant on targets being met, trees being maintained etc. For this reason, there is external monitoring and evaluation, to prevent any malpractice, double counting etc.

The carbon payments can be seen as the “sales” or “income” of the business. It is for this reason that the proposal should be written in a similar style to a business plan, as when you mentioned income and costs, this relates to **CASHFLOW**.

There are number of associated costs to set up a carbon offsetting program. On average 60% of the carbon payment will be for organisational costs; this percentage will depend on the size of the project. The larger the project (more trees planted) the larger the carbon payment, therefore, as there are a number of “one of start up” costs i.e. 10 and 13, the smaller the overall % needed for organisational costs and the more that can be given to implementers i.e. farmers.

1. Project design / business plan (may need a consultant?)
2. Implementing organisation’s head office staff wages
3. Extension staff wages
4. Training of staff and farmers (including design of training materials)
5. Administration
6. Operating / running costs i.e. for motorbikes
7. Inputs: trees (plus establishment of nurseries?) pesticide, fungicide etc
8. Internal and external monitoring and evaluation
9. Internal and external audit
10. Certification
11. Plotting and mapping of trees
12. Carbon broker fees
13. Upgrading of infrastructure i.e. smartcard technology for farmer payments?

Each of these costs will vary over the lifetime of the project, and there maybe other costs as the project progresses i.e. start a project in a second area after 5 years? Either way, when forecasting costs over the project, it is important to take into account any “scaling up” cost pressures, as well as inflation.

Within the 60% (organisational cost), there may also be provision to start other secondary projects i.e. IGAs such as honey, fish farming, piggery etc. These projects might not have been able to start without the capital provided by the carbon offset program, and will be targeted at the same communities as the trees planters / implementing farmers. Each of these IGAs will need their own business plan, which needs to be “fed” back into the “master” business plan / project proposal.

The other 40% of the carbon payment will be given to the farmers. It will be up to the farmers / organisation how this is distributed, but generally it will be in two forms:

1. “Straight” payment to the farmer in ratio to the number of trees that they plant and manage.
2. Share dividend.

The share dividend can be distributed in a number of ways, and will depend on the type and nature of the organisation that the farmers are in, as well as their constitution.

- A. Every farmer gets an equal amount / share
- B. Only those farmers with 80% (or above) good tree management get a share i.e. with some not qualifying, those who do (qualify) get a larger %
- C. The money is split between participating sub associations for: capital expenditure, other IGAs, loan capital etc – i.e. % relative to the number of their members involved in carbon project. - 5% of members – 5% of lump sum.

The farmer can also sell the produce from the tree i.e. fruit, nut etc often in conjunction / working in partnership with Fair Trade organisation, and or process the trees themselves (depending on variety of tree).

Therefore the farmer will have four potential sources of income:

1. Direct payment from carbon offsetting, in ratio to the number of trees planted and maintained.
2. Share dividend.
3. Secondary projects i.e. IGAs financed from the carbon payment.
4. Income from the trees themselves i.e. fruit, nuts, rubber, hardwood etc.

The farmer payments / share dividend will also not be in a “straight line”. For instance, share dividends will be small at the beginning of the project, due to high start up costs. With the various organisational costs and farmer payments, these need to be inputted into a **PROFIT AND LOSS** statement. There is also need for a **BALANCE SHEET**, as the organisation will need to invest in fixed assets, as well as having a certain amount of liquid assets (cash). Unless also having a bank loan (to help with start up costs) and or taking credit for suppliers, there isn’t likely to be in creditors. This all needs to be forecasted, with each of the three main accounting tools being interlinked, to give the full financial picture at any time during the project.

### **In summary**

Carbon offsetting has potential to have long term economic and environmental impact. Though to manage a project, there needs to be careful, forecasting, accounting and auditing, to make sure that all processes are transparent. To assist in the transparency and see whether targets are being met (as well as to get proposal accepted in the first place) a comprehensive business plan needs to be designed, which takes into all aspects of the cash flow i.e. where money comes in and goes out of the organisation, which will help make sure that the project is financially viable and sustainable. This is a complicated process, especially if wanting to start secondary projects and also including income from tree produce! However, the economic and social benefits to the farmer, the long term source of funding to pay for staff, admin etc for the implementing organisation and the overall environmental impact, makes it a very worthwhile effort!

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