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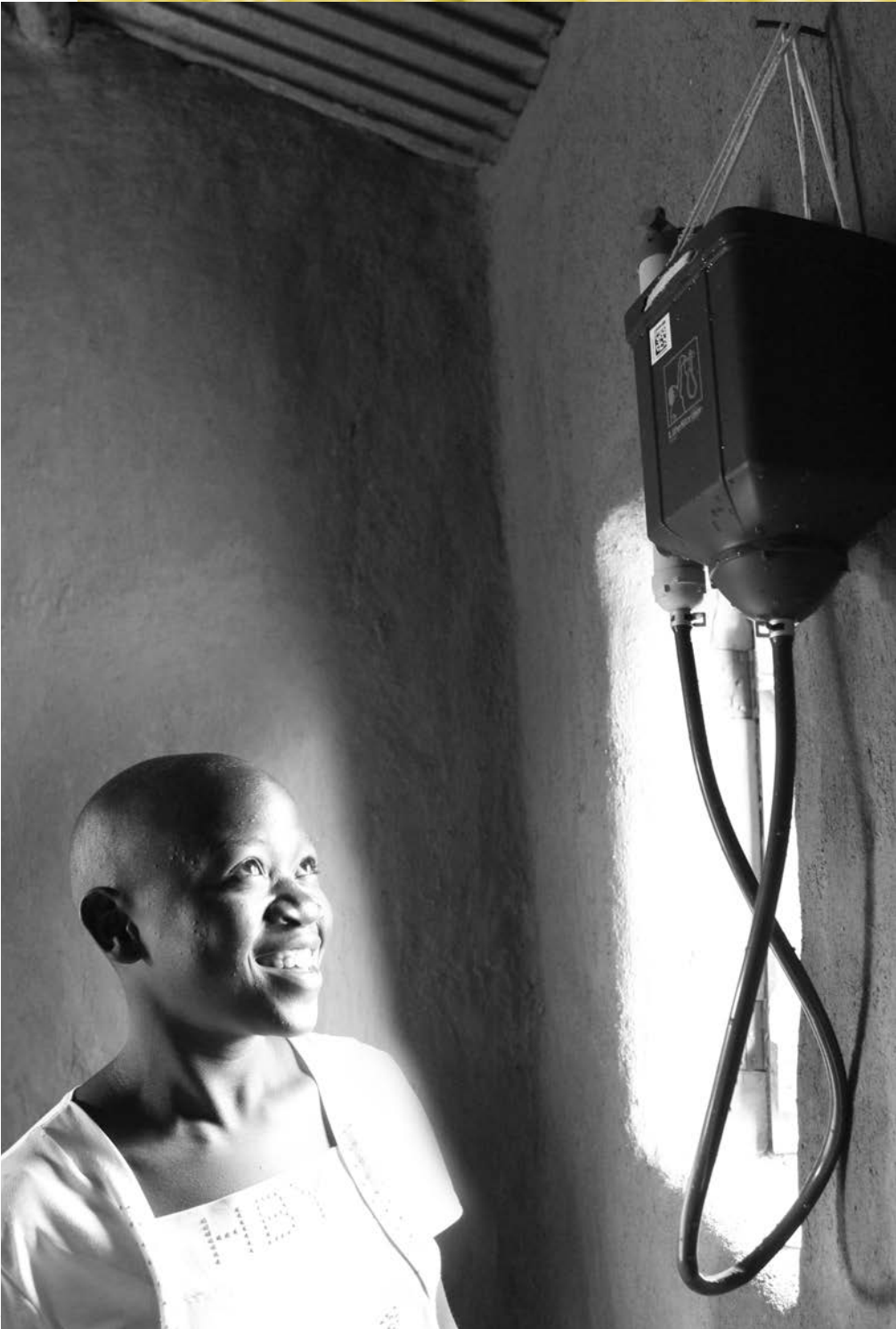


Federal Ministry
for the Environment, Nature Conservation,
Building and Nuclear Safety

based on a decision of the German Bundestag



**Breaking Down Barriers:
Scaling Up Clean Development**



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Foreword

Though best known for our ten-year track record as a best-practice certification for projects developed in carbon markets, The Gold Standard Foundation's activities are increasingly broad, building upon our expertise to serve as a vehicle for innovation in fulfilling policy goals in environmental and sustainable development finance.

Why? Because, as our recent work for the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB) shows, through the development of trusted tools for demonstrating governance and delivering impact measurement, we increase the flows of finance into projects that transform lives and protect the environment.

In this handbook, I am proud to present a summary of our outputs during this three-year research, technical development and capacity-building programme. More importantly, we will also show the impacts that are already being delivered as a result of it.

The objective of our BMUB-supported work was to find ways of overcoming barriers to delivering carbon finance to poorer nations that were at risk of being shut out of the carbon markets entirely. The new tools and approaches developed as part of the BMUB programme, have been rapidly adopted: several organisations have completed our sustainable development assessment training; projects are underway in regions that previously hosted none; and some of the poorest people in the world are seeing their lives transformed.

In February 2014 we issued the first carbon credits ever in Sudan to a project in a conflict zone, which used the rules

developed by this work stream. Like all Gold Standard projects, it is delivering not just emission reductions but substantial additional sustainable development benefits to local communities, verified by auditors on the ground.

It is understandable that funders sometimes prefer to invest in 'boots on the ground' rather than technical frameworks. However, the leverage effect that those tools create in driving investment in many more projects and multiples of Euros invested is significant: well in excess of 40:1 in the case of The Gold Standard.

I would like to thank BMUB for its vision in recognising this and for its support and the opportunity to demonstrate that the right tools, developed with a 'Gold Standard mindset' can bring greater credibility to market-based approaches and thus effect a real transformation to the lives of those who need it the most.

Adrian Rimmer

CEO, The Gold Standard Foundation

A handwritten signature in black ink, reading "Adrian Rimmer". The signature is written in a cursive, flowing style with a large initial 'A'.

Executive Summary

This handbook outlines work undertaken by The Gold Standard Foundation to help poorer nations access climate finance. The work, supported by the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB), took place over three years.

The Foundation identified four key areas in which it could make a difference: project auditing; support for small community-based projects; training and capacity building; and creating reliable methodologies to catalyse climate finance to help reduce greenhouse gas emissions and deliver basic human needs, such as clean water.

The aim was to lower transaction costs, facilitate investment and make a real, and lasting, difference to the local communities in which projects are developed. Differences such as access to energy, clean water and education, job creation, and health improvements through cleaner methods of cooking and cleaner air will all stand the test of time.

The tools and policy approaches that The Gold Standard has created are not limited to a project approach. Rather, they were designed to be used broadly and be applicable to the new market mechanisms being discussed in the global climate policy arena. For example, our sustainable development capacity building work with national governments will endure, and could form a cornerstone of Nationally Appropriate Mitigation Activities (NAMAs) – which offer the opportunity to transform whole cities, regions and/or sectors.

Likewise, the Sustainable Development Training Programme

for auditors could also be adapted to suit a NAMA-style approach, or even to support domestic emission trading programmes.

The work presented here is an example of what can be achieved with the right policy frameworks and support. It demonstrates best practice approaches to tackling climate change, poverty and development as one interconnected problem. It shows how climate finance, applied holistically, can make a meaningful difference to people's lives.



**How the gold standard supports small
projects and drives low carbon and
sustainable development in remote areas
and conflict zones**

CHAPTER

Ensuring that Gold Standard projects deliver environmental outcomes and genuine sustainable development is central to our mission. That's why, to receive the prestigious and trusted Gold Standard label, every project must be implemented strictly according to our rules, and then be regularly and independently audited to ensure it delivers long term results.

In the past, only official UN accredited auditors were authorised to verify the carbon reduction and sustainable development outcomes of Gold Standard projects. Often, it was not possible for UN auditors to travel to conflict zones and for smaller yet high impact projects, the cost of contracting official auditors was prohibitive. These projects simply could not get off the ground.

The Gold Standard Sustainable Development Accreditation Programme and Objective Observers

To overcome these hurdles, The Gold Standard has developed an innovative new programme to train independent auditors to assess sustainable development outcomes. Participants, who might be locally-based NGO staff, UN workers, local consultants or academics, become 'objective observers' – the eyes and ears of The Gold Standard at site visits and during internal project validations/verifications. For projects based in conflict zones UN accredited auditors then carry out a desk review of the project, for micro-scale projects in remote areas Gold Standard technical staff can complete the review.

The first carbon credits generated from a project using this process were issued in February 2014. The project, which began in 2007, allows families in the Darfur region of Sudan to replace traditional wood-fired or charcoal cookstoves with more efficient LPG-fuelled ones.

This leads to improved air quality and thus improved health. By offering a more efficient and quicker cooking appliance, women – who traditionally undertake the domestic tasks in least developed regions – are freed to pursue other opportunities, such as employment. And switching from wood and charcoal to LPG lessens the demand for local trees, slowing deforestation – and again, reduces time spent gathering firewood, traditionally a job for women and children.

In total, 10,000 cookstoves will be delivered by this project, saving 300,000 tonnes of CO₂e emissions over 10 years. Many objective observers have been accredited and, in an ongoing process, others are completing their training, which is offered as an online course with a final assessment. To maintain their accreditation, observers must complete at least one audit a year or repeat the training course. This ensures skills and knowledge are kept up to date. With support from the German government, these accreditation programmes are successfully introducing climate finance to conflict zones and remote regions, proving that with the right support and innovation, smaller projects can get up and running, bringing benefits to those who need them the most.



Easing the way for micro-scale efforts



Often, smaller projects have the greatest visible impact on people's lives and the immediate environment. For example, changing a family's cooking appliance can lead to better health, improved incomes, more time for education for children, cleaner drinking water and less local deforestation.

Yet the actual greenhouse gas emission reductions – which, through the issuance of carbon credits, remain the primary way of funding such efforts – are small compared to larger projects, such as industrial gas or methane capture. Despite this difference in the scale of emission outcomes, for projects certified under other compliance and voluntary carbon standards there is no difference in transaction costs.

As a result, financiers looking for quick high-volume results have tended to opt for larger rather than smaller projects that come with high individual impacts, for example, clean cookstove or water filter distribution. This has meant that smaller projects have had an even bigger uphill battle to attract financing, leaving the countries that need – and stand to gain – the most through climate finance the most severely lacking.



The Gold Standard Micro-Scale Scheme

The Gold Standard Foundation set out to tackle this problem by launching a Micro-Scale Scheme. This helps projects that reduce emissions while contributing to sustainable development get off the ground in landlocked and least-developed countries and small island states with deemed additionality for regular cycle projects.

The scheme was open to renewable energy and end-use energy efficiency projects in which emission reductions were initially less than 5,000 tonnes of CO₂e per year. In 2012 this threshold was increased to 10,000 tCO₂e per year.

During implementation, projects can contract a UN accredited auditor. An alternative option is to pay a one time fee to a dedicated Gold Standard Validation Fund and The Gold Standard then decides whether to submit the project to an external UN accredited auditor or undertake an internal validation. The cost of any external audit is covered by the validation fund.

Later, after implementation and certification when a project applies for carbon credits to be issued, The Gold Standard Micro-Scale Scheme offers a similar approach: project owners can either contract a UN accredited auditor directly to verify the reductions or pay a small annual fee towards a dedicated Gold Standard Verification Fund, which, again, either contracts an independent entity or handles the verification internally.

This approach has already been widely adopted by developers with projects in under developed and poorer regions and it has been extended to even smaller efforts via The Gold Standard's Micro-Scale Programmatic Scheme (see page 16), which has also had tremendous uptake.

Helping countries that are already facing climate impacts

Climate change impacts are already being felt globally.

For developing countries, that will remain on the frontline of human-induced climate impacts over the next century, the Micro-Scale Scheme is just one way in which The Gold Standard Foundation is actively addressing the problem of carbon finance not reaching poorer nations, which are thereby not receiving the assistance they need to mitigate, and more importantly, help their communities adapt to climate impacts.

But the Micro-Scale Scheme can be applied in any country, paving the way for this work to be expanded and, with the right policy support, used more widely in mitigating, and adapting to, a changing climate.



Helping the smallest communities to benefit from climate finance

CHAPTER

The Gold Standard Foundation followed up its Micro-Scale Scheme with further innovations to encourage smaller projects to get off the ground. In 2012, it launched The Gold Standard Micro-Scale Programme of Activities (mPoA) Scheme.

This extends the initial Micro-Scale Scheme by allowing multiple micro-scale activities to register under one banner programme. Once the initial mPoA is registered, other activities in a pre-defined region and using the same technology, can be added to the overall project as a separate activity at any time during the original mPoA's lifetime. Among others, these can include clean cookstove distribution, water filter distribution and solar lighting etc.

The idea is to drastically reduce transaction costs, by not requiring each separate activity to go through registration and thus a costly validation process; rather, The Gold Standard charges a token fee for each activity included in the original mPoA to allow for an inclusion review.

The original mPoA is subject to a more substantial one-off fee, or the project developer can seek the services of a third-party auditor. However, The Gold Standard Foundation has found there is a strong preference among developers for the internal validation process as it tends to be substantially quicker and cheaper than using an outside service.

This is important due to the size of these efforts: micro-scale is again defined as any project reducing emissions by no more than 10,000 tCO₂e per year; in the mPoA scheme, that threshold is applied to each individual activity, not the overall combined reductions under the mPoA.

Smallest scale, big impacts

The Gold Standard Foundation has found that this approach has been particularly successful in getting more projects off the ground in Africa, often in harder-to-reach areas and communities where, without the dramatic reduction in transaction costs, projects would otherwise not have happened. Combined with the objective observer scheme, projects distributing improved cookstoves in Darfur, for example, would not have been possible. Most Micro-PoAs are being rolled out in Africa. This has largely been driven by project investors, who view that their money can make a far greater impact there than other regions. However there are increasingly Micro-PoAs being developed in Latin America, including in El Salvador and Nicaragua.

In the first two years of the scheme more than a dozen micro PoAs were submitted, with some already registered. Projects continue to be submitted, with this approach really capturing people's minds as the impacts go well beyond carbon. Improved water, access to energy, reduced respiratory infections, less deforestation and local employment – these are just some of the myriad of additional benefits these projects bring to local communities and the environment.





Helping governments set the right environment for investment



High transaction costs are not the only obstacle to getting projects started: it's also a matter of having the right policy frameworks in place and the right skills to assess and process project requests.

Under the Clean Development Mechanism (CDM), managed by the United Nations, projects must be approved and supported by host country governments so, for example, a cookstove project in Kenya must be approved by the Kenyan government. Uniquely in the voluntary carbon market, projects wanting to be implemented through The Gold Standard must invite host country representatives to the Local Stakeholder Consultations and obtain the required host country permits.

The Gold Standard also believes it is important for a host country government to be able to assess a project's contributions to sustainable development. Some are better equipped to take on this extra work than others, which is where we felt we could make a difference – building capacity with those countries that wanted to ensure all of their carbon projects had other positive environmental and sustainable development outcomes.



The Gold Standard DNA programme

To help ensure that CDM Gold Standard and Programme of Activities emission reduction projects deliver additional outcomes The Gold Standard launched a programme to train Designated National Authorities (DNAs) on project assessments. This innovative scheme provides progressive DNAs with the support and guidance required to ensure that all compliance carbon reduction projects contribute to social, environmental and economic benefits for local and national communities.

The Gold Standard assists with institutional capacity building, allowing new partner DNAs to incorporate Gold Standard sustainable development tools and principles into their screening and approval processes. By acting as a link between project developers, funders and other relevant government agencies, The Gold Standard DNA programme ensures a more effective and enhanced approval process.

This last part is key: while the CDM is meant to drive sustainable development, there is no mandate on how DNAs should assess it. Instead, they each devise their own criteria. The Gold Standard DNA programme seeks to share knowledge and best practice methods to assess sustainable development contributions, helping those governments that need it. Early partners in the programme include governments of Rwanda, Thailand, Egypt and the Philippines.

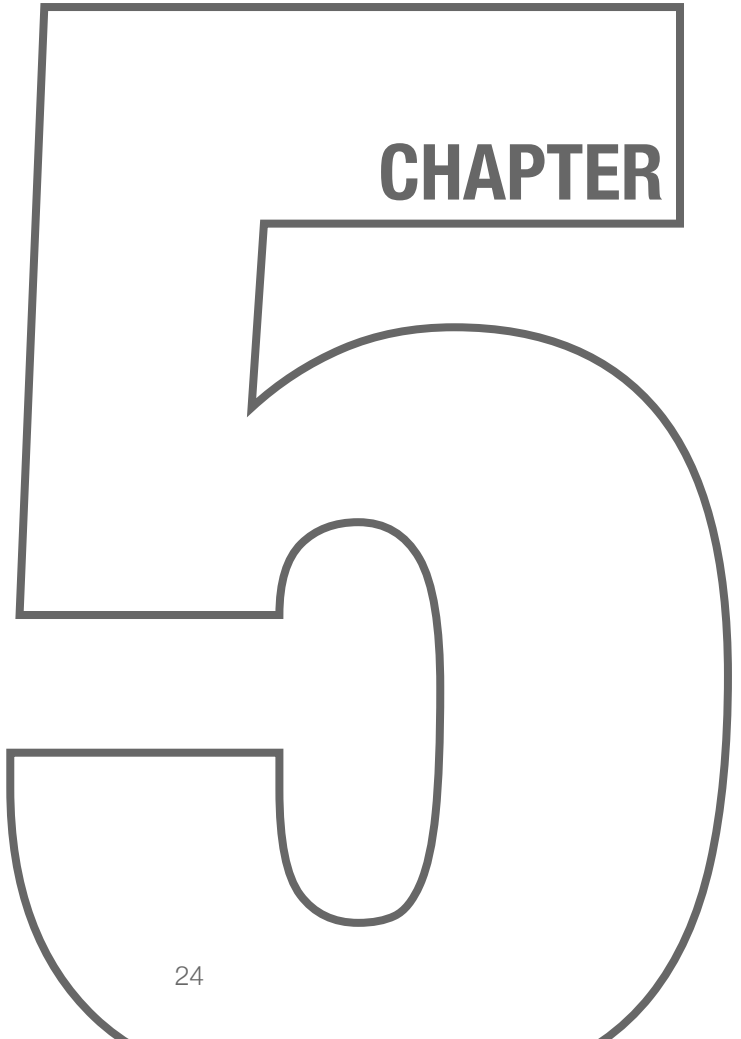
As efforts shift away from a project-by-project approach to a more sector-based or big picture approach, such as Nationally Appropriate Mitigation Actions, the need to measure and account for sustainable development contributions will only grow.

Additionally, donors, and environmental markets, are increasingly turning to a results-based finance approach, with more return expected. The Gold Standard DNA programme is one way of ensuring that funding has an impact beyond reducing emissions.



Avoiding carbon lock-in

CHAPTER



One of the greatest challenges in the carbon market is how to invest in projects in developing regions where greenhouse gas emissions are already very low. That's because their business as usual emissions baselines are either non-existent or so low that there is essentially very little opportunity to credit emission reductions. This has led to projects in such regions, typically the least-developed countries, being harder to implement and leaving these countries unable to access carbon finance.

One way of overcoming this is by applying the concept of suppressed demand. This is about reducing current emissions, as well as avoiding a default to emissions-intensive technologies as countries develop. Projects are credited against a emissions baseline calculated against development occurring on a traditional fossil fuel-driven pathway.

Suppressed demand is one of the most important principles in the carbon market. It is about bringing basic human needs and services to those that need them the most, predominantly clean water, food and energy access. With those come a whole host of other benefits, including improved health, employment and women's empowerment.

The assumptions used when the emission baselines are calculated are conservative and draw from guidelines from reputable organisations such as the World Health Organization. This prevents arguments of artificially high, assumed emissions. The important thing is to break the pattern of develop dirty then clean up; rather, to encourage a cleaner, more sustainable development from the outset.

The idea of suppressed demand has, for some time, been implicit in the Clean Development Mechanism and explicit in Gold Standard methodologies, such as clean cookstove distribution and water filtration. Such projects account for a

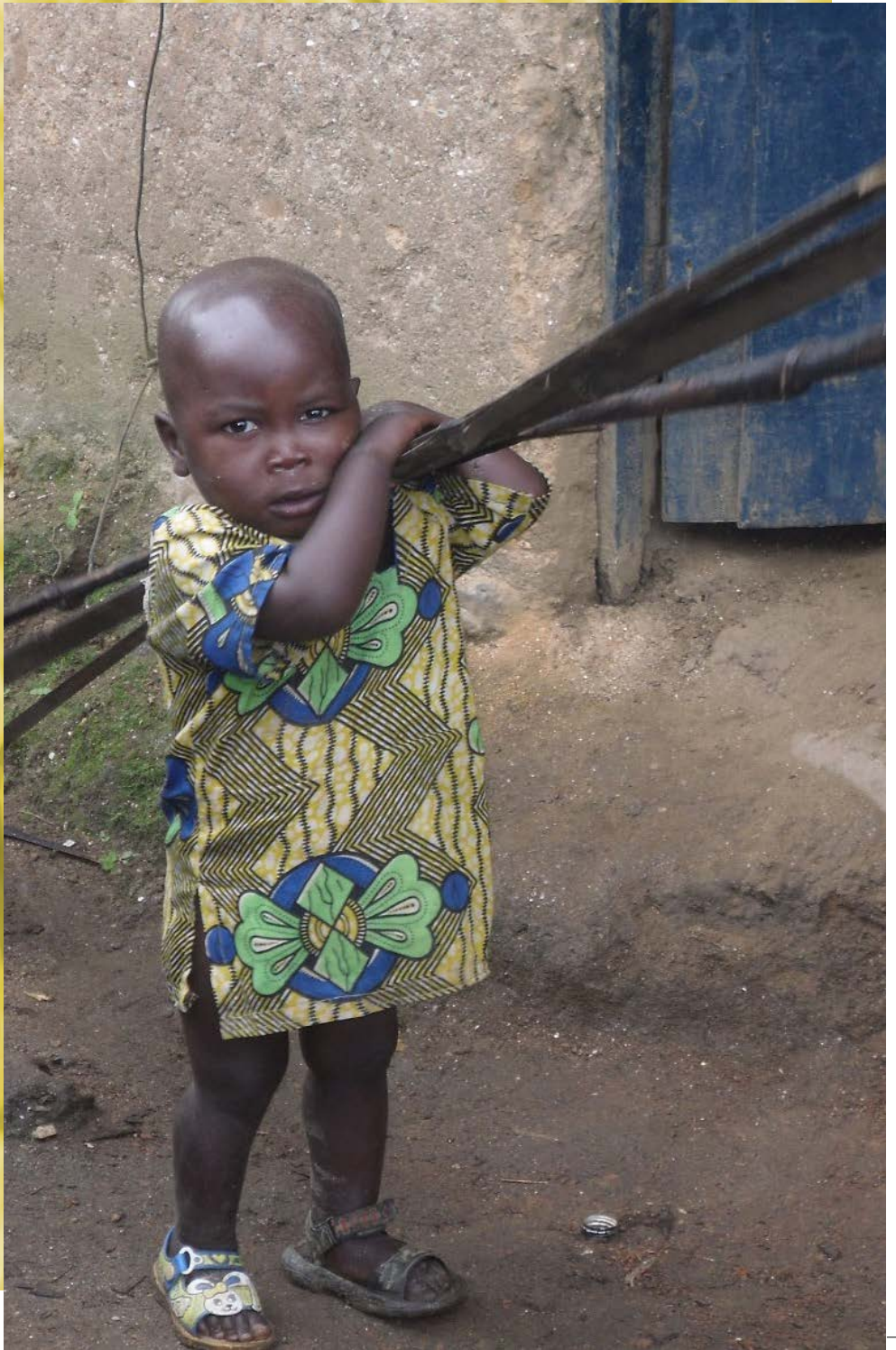
significant share of The Gold Standard's pipeline.

In 2013, the first emission reduction credits from a cookstove project employing a Gold Standard suppressed demand methodology were issued to a project in Malawi. The project distributes clean cookstoves and offers employment to local women who manufacture the stoves, using local materials.

The benefits don't stop there: mothers can now afford to send their children to school; the women are gaining life skills; local suppliers have a new revenue stream; children are no longer needed to gather firewood; cooking is quicker; air pollution has been reduced, and more. This project also feeds in to a national goal of producing and distributing 2-million cookstoves by 2020.

In parallel, with support from the German Government, The Gold Standard Foundation was taking the approach further, designing four additional project methodologies that explicitly set out to tackle suppressed demand: one for micro-scale electrification and energy generation; a simplified clean cookstove methodology; energy use for agricultural product processing; and renewable energy or energy efficiency improvements for food preservation.

Suppressed demand project methodologies aim to get basic service levels into regions that have otherwise been shunned by carbon investors. With The Gold Standard's commitment to rigour, community benefits and development, they are a good example of best practice approaches to tackling deprivation in hard to reach places and how to encourage low-carbon growth. The impacts of these projects go beyond reducing emissions.



Nigeria

Local Stakeholder Consultations in Action – New Possibilities for Programmes of Activities

IN THE FIELD

Introduction

Under traditional Gold Standard Programme of Activities (PoA) rules, it is necessary to conduct Local Stakeholder Consultation meetings at the activity level and wider PoA level, that is, for face to face meetings to take place for each single activity included in the PoA.

However, under the new PoA rules, a broader activity level approach can also be followed if it can be proven that the targeted population across the geographic boundaries, and the impacts of the various activities on the targeted population and environment, are sufficiently similar.

A broader activity approach means that a single live Local Stakeholder Consultation meeting can be organized for several activities as long as

- Convincing justification is provided in the project documentation, and approved by The Gold Standard
- That the activities are close to each other in location and time, have similar socio-economic conditions and use identical technologies etc.

This approach needs to be approved at the time of the “listing” of the activities i.e. the submission of an activity level LSC report. This alternative Local Stakeholder Consultation approach provides a way for project developers to comply with The Gold Standard’s requirements while at the same time lowering transaction costs.

On the Ground

The Improved Cook Stoves Micro-PoA promotes the dissemination of improved cookstoves to households in the Federal Republic of Nigeria. The cookstoves have a minimum thermal efficiency of 20%. One of the initial stove models sold under the PoA is the “Save80” which is made of stainless steel and is prefabricated by a German manufacturer and assembled locally within the PoA boundary.

Conducting a Local Stakeholder Consultation for a group of activities

The project developer proposed an activity level LSC approach for the first five CDM Project activities (CPAs) ready for implementation under the PoA. A set of criteria was designed to ensure that these five activities were geographically proximate, in areas with similar socio-economic conditions and that the stoves would be disseminated within three years. The project developer was also required to ensure that the cookstoves in these activities had a minimum thermal efficiency of 20% and were fuelwood based. At the time of the LSC review, The Gold Standard checked the LSC report for these activities against the already defined criteria hence ensuring that all five meet these conditions before being “listed” on The Gold Standard registry.

Ultimate Benefits

In previous versions of Gold Standard PoA rules live stakeholder meetings were compulsory at individual project and wider PoA level. The revised PoA rules developed under our programme of work for the German Government provide additional options to conduct LSC meetings. This adds flexibility according to the design of the PoA and helps to reduce transaction costs associated with conducting multiple LSC meetings, ultimately making high impact programmes more financially viable.



Rwanda

Conducting Sustainable Development Assessments – New Options for Programmes of Activities



Introduction

Under traditional Gold Standard Programme of Activities (PoA) rules, it is necessary to conduct Sustainable Development Assessments (SD) at the activity level, that is, designing an SD indicator matrix for each single activity included in the PoA.

However, under new rules, a broader PoA level sustainable development approach can also be followed if it can be proven that the impacts of the technology or technologies implemented in the PoA do not vary within the project boundary.

A broader PoA approach means that a single Sustainable Development matrix is designed at PoA level that will be valid for all activities as long as

- Convincing justification is provided in the project documentation, validated by the UN accredited auditor and approved by The Gold Standard
- The SD impact of the implemented technology/ies is not site-dependent

This approach needs to be approved by The Gold Standard at the time of the registration of the Programme. A single Sustainable Development matrix is created at the PoA level and SD inclusion criteria, that need to be complied with by all activities at the time of their inclusion in the PoA, are designed. This alternative approach provides a way for project developers to comply with The Gold Standard's requirements while at the same time lowering transaction costs and project cycle timelines by not having to conduct multiple SD assessments.

On the Ground

The Improved Cook Stoves Programme in Rwanda promotes the dissemination of improved cookstoves. One of the initial stove models sold under the PoA is the “Save80” which is made of stainless steel, prefabricated by a German manufacturer and assembled locally within the PoA boundary. The cookstove has a thermal efficiency of 52%.

Conducting a PoA level SD assessment

The project developer proposed conducting the Sustainable Development assessment at PoA level. Considering that Rwanda is a small country and the population is largely homogeneous in terms of their cooking, cultural habits and socio-economic status, the developer was able to justify that the SD impact of their technology on the stove users and other stakeholders would be uniform within the project boundary. The developer designed SD inclusion criteria with the following parameters, with which all activities in the PoA must comply –

1. Livelihood of the poor – an activity can only be included in the PoA if it results in an improvement in the livelihood of the poor by saving money due to a reduction in wood use as a result of the project technology
2. Access to affordable and clean energy services – activities requesting inclusion will need to demonstrate that they provide clean cookstoves at a price that is affordable for households.

Ultimate Benefits

The revised PoA rules developed under our programme of work for the German Government provide more clarity on conducting SD assessment at the PoA level.

This helps reduce transaction costs associated with designing an SD matrix for each activity in the PoA and also reduces the timelines associated with the project, thereby making cookstove Programmes more attractive to investors.



Uganda

Simplification of the programme cycle for Gold Standard CDM Programmes of Activities

IN THE FIELD

Introduction

Under traditional Gold Standard Programme of Activities (PoA) rules, it is necessary for regular cycle CDM project activities (CPAs) with a project start date prior to the Time of First submission of the PoA¹ to undergo a full validation and registration review by The Gold Standard

However, under our new PoA rules, for regular cycle CPAs with start date prior to Time of First submission of the PoA, re-validation of the carbon aspects is not required and they can simply be included in the Programme. The Sustainable Development aspects of the CPA are required to be validated by the DOE and reviewed by The Gold Standard, if not demonstrated at the PoA level.

This alternative approach provides a way for project developers to comply with The Gold Standard's requirements while at the same time lowering transaction costs and project cycle timelines as CDM validated CPAs do not need to repeat validation of carbon aspects under The Gold Standard.

On the Ground

The International Lifeline Fund Uganda CPA promotes the dissemination of charcoal based improved cookstoves to households in Uganda. The project employs a renewable crediting period. The cookstove has a thermal efficiency of 30%.

Including the CPA in the PoA without Gold Standard validation

The CDM registered PoA along with the first CPA was submitted for registration to The Gold Standard. The carbon

aspects of this CPA were not required to be re-validated under The Gold Standard and only the Sustainable Development aspects (demonstrated at CPA level) was validated by DOE and reviewed by The Gold Standard to register the PoA.

Ultimate Benefits

The revised PoA rules developed under our programme of work for the German Government provide more clarity on the programme cycle. By avoiding repeating validation of carbon aspects under The Gold Standard, project developers are able to reduce the timelines associated with projects, thereby making cookstove programmes more attractive for investors.

¹ Defined as the date of submission of PoA LSC report on registry





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