

Accounting for projects' social environmental co-benefits

I. Methodology will be based on existing techniques such as environmental management accounting (EMA), full cost accounting (FCA) and activity based costing (ABC)

II. What will be counted?

III. Challenges

I. Methodology will be based on existing techniques such as environmental management accounting (EMA), full cost accounting (FCA) and activity based costing (ABC)

The main goal of our approach is to find the appropriate methodology to encompass the whole scope of social-environmental impacts of projects. Thus, to assure the legitimacy of our approach, we will assess and use the most relevant procedures of existing methodologies, to create our own methodological scale.

According to the United Nations Division for Sustainable Development (UNSD) (2001)¹ :

“The general use of environmental management accounting information is for internal organizational calculations and decision-making. EMA (environmental management accounting) procedures for internal decision-making include both physical procedures for material and energy consumption, flows and final disposal, and monetarized procedures for costs, savings and revenues related to activities with a potential environmental impact.”

Although that definition restrains the use of EMA to internal organizational calculations and decision-making, we will promote the EMA principles to reach a better understanding and assessment of the co-benefits linked to Carbon Plus related projects with the intention to guarantee a fair premium price for mitigation credits created by such a projects.

And to broaden the scope of the EMA principles, we will also take into consideration the commentary on EMA formulated by the United States Environment Protection Agency (US EPA):

¹ United Nations Division for Sustainable Development : *Environmental Management Accounting: Procedures and Principles* (2001)

“With the growing prevalence of environmental (and social) performance indicators being used as a basis for assessing an organisation and its managers (...) there is a need to have a mix of both financial and non-financial indicators to assess an organisation's environmental performance.”

Therefore, financial and non financial indicators will be taken into consideration to assess the social as well as the environmental costs and benefits created by the activities and develop performance indicators.

The existing methodologies:

Some methodologies have been developed to assess the real impact of activities on environment and social development, making it possible to internalize costs usually considered as external. EMA procedures focusing on the environment will inspire our approach of assessment.

And according to the UNDSO:

“Whenever possible, environment-driven costs should be allocated directly to the activity that causes the costs and to the respective cost centres and cost drivers. Consequently, the costs of treating, for example, the toxic waste arising from a product should directly and exclusively be allocated to that product.

Many terms are used to describe this correct allocation procedure, such as environmentally enlightened cost accounting, full cost accounting (FCA) or activity-based costing (ABC). ABC, activity-based costing, “is a product costing system, ... that allocates costs typically allocated to overhead in proportion to the activities associated with a product or product family”.

The three methods, EMA, ABC and FCA present similarities, and for that reason, we will not follow the detail of each method, but will instead limit our conclusions to the common practices implemented by the three accounting system.

II. What will be counted?

Projects promoted by Carbon Plus will have real environmental benefits and will represent new and additional investment towards GHG mitigation and sustainable development sound projects. Although the term “sustainable development” is open to many different interpretations, we will focus on the recognized core principles such as environmental protection, social advancement, human rights and economic development.

A dual consideration based on cost effectiveness analysis and on co-benefits evaluation will be enhanced to create a so-called triple bottom line assessment.

1- Cost-effectiveness

Based on the World Bank Operations Evaluation Department, we will develop the cost effectiveness analysis on the following criterion:

- Financial or other resource savings, and increased revenue;
- Increased income and employment for the target population;
- Improved utilization of public funds;
- Improved quality of services; and
- Integrating economic and social concerns into development policies. ²

2- Co-benefits

The co-benefits evaluation will consider differentiated criteria such as the one developed by the Global Reporting Initiative (GRI)³:

The most widely known approach done to establish relevant corporate social issues in broad terms is the so-called ‘triple bottom line’, where companies report on economic, environmental and social matters as well as the usual financial issues.

During the past decade, reporting on non-financial indicators (‘sustainability reporting’) has seen tremendous growth, greatly supported by programs such as the Global Reporting Initiative (GRI).

Therefore the GRI in our view is a good starting point for the identification of the relevant issues for sectors, industries, individual firms and in our case, micro-scale projects.

The key issues-indicators in the GRI framework can be summarized as following:

- Economic (customers, suppliers, employees, providers of capital, public sector)
- Environmental (materials, energy, water, biodiversity, emissions, effluents and waste, suppliers, products and services, compliance, transport, overall)
- Social Performance: Labor Practices & Decent Work (employment, labor/management relations, health and safety, training and education, diversity and opportunity)
- Social Performance: Human Rights (strategy and management, non-discrimination, freedom of association and collective bargaining, child labor, forced and compulsory labor, disciplinary practices, security practices, indigenous rights)
- Social Performance: Society (community, bribery and corruption, political contributions, competition and pricing)
- Social Performance: Product Responsibility (customer health and safety, products and services, advertising, respect for privacy)

² World Bank Operations Evaluation Department INFLUENTIAL EVALUATIONS: DETAILED CASE STUDIES (January 2005)

³<http://www.globalreporting.org/Home/BottomBlock3/Block3.htm>

Then, for a deeper understanding, a throughout analysis can be assessed with a more detailed data collection. Carbon Plus would merge different criteria listed by **the Gold Standard's Manual For Project Developers on Voluntary emission reductions (VERs)** with the GRI indicators. Therefore the following indicators could be used in the assessment of sustainable development:

- Local/global environmental sustainability, including indicators such as a water quantity and water quality, air quality, other pollutants, soil condition, contribution to biodiversity
- Social sustainability and development, including indicators such as quality of employment, livelihoods of the poor, poverty alleviation, access to essential services, access to affordable clean energy services, human capacity such as empowerment, education/skills and gender equality.
- Economic and technological development, including indicators such as number of employment, sustainability of the balance of payments, and hard currency expenditures on technology, replicability and contribution to technological self-reliance.

Although the economic criterion is already assessed in our cost-effectiveness analysis, it could be interesting to perform a comparison, for the three above-mentioned methodologies, related to the economic impact of the micro-scale projects promoted under the Carbon Plus umbrella.

Finally, to comprehend development goals more specifically related to climate security, justice and ethics, we will consider the Millennium Development Goals (MDG) in our methodology. The MDG were drawn from the Millennium Declaration signed by 147 heads of states and governments in September 2000. They are divided in eight quantifiable targets for “diminishing global poverty and achieving major advances in health, education, environment and equality by 2015”:

- Eradicate poverty and hunger
- Achieve primary education
- Promote gender equality
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS and malaria
- Ensure a sustainable environment
- Global cooperation

Assessing those targets will allow us to identify proper indicators to develop an over-all accounting methodology to link issues related to sustainable development and climate change; therefore building a comprehensive tool to evaluate projects on their effectiveness to address issues related to climate security, ethics and justice.

3- Data methodology ideas:

Data specifications exist for a number of assessment areas. **The Best Foot Forward**⁴ existing data specification and collection could be considered as a starting table for us, an ad hoc data specification would be created for each project.

The following objectives would be taken into consideration to assess the sustainable development goal of the projects:

- Waste and recycling
- Use of resources
- Purchasing
- Transport
- Pollution prevention
- Raising awareness and advice

4- Existing example

The Social CarbonTM example⁵:

“The core of Social CarbonTM methodology is a set of diagnostic assessments of communities affected by emission reduction projects, and of the projects themselves. These are carried out at the beginning of the project to provide a baseline (Point Zero), and repeated over time to provide a moving picture of the contribution to sustainable development.”

In order to illustrate their approach, the Social CarbonTM uses a hexagon diagram, where each corner represents one of six resources that can be assessed in a community, according to the six Methodology Resources: carbon, biodiversity, social, financial, human and natural.

By using a diagram, their methodology illustrative results are shown from the “Point Zero” baseline and the first three annual diagnostic assessments of a project or community. “As the plotted shape moves towards the outer boundary of the hexagon, it is an indication that access to resources is improving, and therefore that sustainability is increasing.”

See the blog for more details on the Social CarbonTM hexagon diagram.

The credibility of the Social CarbonTM is enhanced by the fact that all the projects are validated by an independent third party (as well as their verified VER's).

⁴ <http://www.bestfootforward.com/corpstepwise.html>

⁵ http://www.socialcarbon.com/en/?page=How_It_Works

“The third party must be a Designated Operational Entity (DOE), accredited by the United Nations Framework Convention on Climate Change (UNFCCC).” The Social Carbon™ appoints these bodies to ensure that the principles of Social Carbon™ are correctly applied, using the Social Carbon Guidelines drawn up by Ecológica Institute. Those Social Carbon Guidelines can be applied to different types of projects whether they are connected to energetic efficiency, renewable energy or in the forestation area, through the use and monitoring of the six Methodology Resources.

III. Challenges

1-Controlling transaction costs

Of course, controlling transaction costs will be one of the first challenges to consider. Cutting costs is the simplest way to improve the bottom line of the projects. Introducing a cost control system can bring immediate savings and ensure that the projects remain competitive in the longer term. Transaction cost control will have to be carefully managed according to the three above-mentioned methodologies (EMA, ABC, FCA).

2- Ensure compliance verification

Compliance verification is often seen as a heavy burden, paid by the different projects developers who take part in the Clean Development Mechanism Market. Due to the high costs of assessing and validating projects, the CDM Market has excluded projects that were unable to pay such fees and specifically micro-scale projects.

It is commonly argued that the most important aspect of an offset to a buyer is the quality of its project portfolio, and the quality is not influenced by the type of market the buyer uses. (CDM or voluntary markets).

According to the Tufts Climate Initiative⁶, to reach a high quality carbon offsets, it is necessary to clearly:

- demonstrate additionality,
- avoid double counting,
- have a realistically calculated baseline and emissions reduction projection,
- account for leakage
- and be permanent.

The advantage of taking part of activities on the Voluntary Market provides the Carbon Plus project with more flexibility in program design than does the CDM Market. Therefore, it will be easier for Carbon Plus to properly assess the additionality and sustainability of the projects while ensuring the above-listed issues are transparently addressed.

⁶ The Tufts Climate Initiative (TCI) is the pioneer in the field of climate change mitigation at institutions of higher learning.

In our blog, we will address in a more detailed approach the above-mentioned criteria to fulfill.

3- Ensure transparency

Ensuring accounting transparency will help Carbon Plus to achieve credibility and legitimacy. It is acknowledged that to reach full transparency, it will be necessary to implement a monitoring and validation process by third parties. (see above the Social Carbon™ example)

4- Payment for environmental services

Using a payment for environmental services (PES) is a potential means considered by the Carbon Plus initiative, depending on the progress of the concept.

What is PES?

The Department of Sustainable Development of the Organization of American States (OAS) explains that “even though there is no global definition of PES schemes, there is a series of classifications based on environmental services, structure, approaches, types of payments, and others which help define it.”

According to the WWF, the scheme ensures that those who benefit from environmental goods and services pay those who provide these services⁷.

The PES schemes are not totally efficiently implemented for different reasons, including the following ones provided by the Department of Sustainable Development⁸:

- lack of knowledge concerning the links between ecosystem management, service provision and economic activity;
- the absence of enabling policies and institutions to capture willingness-to-pay, resulting in limited effective demand for ecosystem services; and
- limited capacity to design and implement PES schemes, especially in developing countries.

Therefore, Carbon Plus will not, in a near future, use the PES schemes but it will keep a closer look on the potential evolution of those schemes.

⁷ http://www.panda.org/about_wwf/what_we_do/forests/our_solutions/protection/pes/index.cfm

⁸ <http://www.oas.org/dsd/PES/IPES.htm>