

Dear Everyone:

It has been some time since I wrote to all of you, though I am in constant and regular touch with most of you individually, especially with those who are developing Climate Mitigation Projects, and also the different FCN Coalitions – three on LCF that have grown into a Pan India LCF Coalition, one on Biogas, etc.

The big breakthrough we have made in recent months is to establish a domestic and international market for Emission Reductions generated by Climate Mitigation Projects developed by FCN Members. I would like to place on record our deep gratitude for tireless and relentless efforts by Richie Ahuja. At a personal level, Mario and I find it a truly invigorating experience to work with you, Riche!

We have finally set up a Market Mechanism where:

- You can *forward sell* all the CERs and GS VERs that are *yet-to-be-generated*, at the *cost of generation*, and use these revenues to implement your Climate Mitigation Projects.
- LCF Offsets, even before their emission reduction value is fully certified through GHG Lab measurements of different Main Crop(s) in different sub AEZ's, can be sold through this market mechanism at an assured price of Rs 825 per tCO_{2-e}. Buyers are willing to accept EDF/FCN certified LCF Offsets.

But I want to emphasise that this is a Market Mechanism, and not a funding arrangement. One and a half decades back, when we first made our foray into Climate Change, even we at ADATS found it difficult to conceptualise Market Mechanisms that drive fundamental change to positively impact the lives of the poor. We thought that was the prerogative of those who reject the market. Therefore I can quite understand the value driven ideological discomfort that many may have in this regard.

In a recently conducted LFA workshop on Low Carbon Farming, we identified the root problem as:

“Failure to Appreciate LCF Offsets as a Tangible Commodity that can be Traded”

This led to the next level problem:

“NGOs not giving Due Priority to LCF Activities”

And yet, I am convinced beyond a shadow of doubt, that your grassroots NGOs are best suited to utilise this Market Mechanism that we have set up to reward the poor for not emitting Greenhouse Gases. Please allow me to explain why.

Market Mechanisms are commercial and business arrangements that enable certain self driven activities to be repeatedly performed, *at scale*. They are value neutral instruments.

They are what their architects make them to be. Depending on the intent and purpose of their architects, they produce different outcomes for different sections of society.

Market Mechanisms are *enabling arrangements*. It is up to different actors to get their act together and opportunise on them.

They are placed in the larger socioeconomic, political and cultural milieu where they either work or they don't. If their architects have gauged the wider milieu and the mood of the moment properly, they have a high chance of success. If not, they fail.

Many of us have come to understand that we are in the *business* of development. That we are not making undue sacrifice, nor doing the poor a favour. We do something because we believe it is the right thing to do; that there is tangible profit in it. Be the essence of this business the empowerment of women, protecting the girl child, strengthening exploited peoples, improving agriculture, promoting petty entrepreneurship, ushering good governance in the villages, or whatever. This is why we are able to articulate our goal, purpose, objectives and outcomes. Many of us have started to categorically commit ourselves to concrete Results, as opposed to merely occupying space.

In this transformation, we have discovered the need for flat and lean organisations. We have found that Efficiencies cannot be attained without an empowered staff and exception-free transparency. We have come to recognise that these are the imperatives for success in business. We see that only when all secondary stakeholders (staff as well as village functionaries) are enthused with a *common sense of Purpose* does the job get done, and done well.

Many of us have gone a step further. We have come to realise that a fine and subtle balance is needed between the horizontal and the vertical. We accept that after the setting of Goal, Purpose and Objectives is completed, and we move into operations, vertical and hierarchical lines are needed. We recognise that this is the form and structure of bottom-up, not anathema to democratic participation.

On every rating in my scorebook, many grassroots NGOs have, in recent years, transformed themselves into an epitome of good business practice and organisation. When coupled with the intimacy you enjoy with communities you work with, you are perfectly located to plunge into ambitious Climate Mitigation Projects. I have repeatedly stated that grassroots NGOs are better suited for decentralised solutions to maintain climate integrity, than fly-by-night business operators.

It is true that some of us still try to pour old wine into new bottles. We attempt to merely rearticulate what we have been doing all along. We continue to make wild, exaggerated and unsubstantiated claims. We offer the same excuses for failure. We treat our working areas as fiefdoms of sorts. We blindly defend our identities, forgetting wherefrom and what for we derived them. Having worked in a totally different style for many long years, these

withdrawal symptoms are bound to be there. Too much should not be read into initial resistance and temporary setbacks.

The FCN itself, an unique setup from its very inception, has transformed these past 5 years. A Core Group member recently pointed out to me:

“As FCN moves into operations (the coalitions), we might want to again highlight that the first is a network, the second is an operation. The first is a horizontal, flat structure; the second is vertical and hierarchical.

“While this might seem apparent, your presence in both the roles can be confusing and can lead to a perception of a lack of role clarity within us.

“The older lot understand that you play different roles. New entrants might think they understand this, but will only do so after they have spent some time working with their projects.”

In our dealings with Client NGOs, I believe a new understanding has to come into play. The time for cajoling and handholding is getting over. Those who can either Pay, Deliver or Add Value will be in. Others are out.

There are hard nosed business rules embedded in the Market Mechanism we have set up, the most important of which is the proof chain. When we conclusively prove, through Third Party Verification, that particular SA practices are carried out on irrefutably delineated discrete plots, LCF Offsets will be generated. Otherwise not. If nothing is sold, there will be no Carbon Revenue for Participating Farmers. So too with daily usage of fuel efficient Woodstoves, Photovoltaic lamps and Biogas units. These requires an established rigour and discipline that cannot be questioned. It makes no sense to be quarrelsome. The role of the FCN is to prepare grassroots NGOs/CBOs to understand, accept and work with these rules.

In a document under preparation, I have stated that the FCN has evolved into a non-ecclesiastical body, albeit with firm positions on Climate Change, clear and ethical working principles, and an international credibility. Within this porous circle, it contains fiercely independent Members who choose to remain in order to draw on a collective synergy and pursue their individual interests.

Please let me end this long ramble with some brass-tacks on the Market Mechanism we have set up.

The done and dusted deal with a domestic Buyer is as follows:

- This will be operationalised through an MoU between the Buyer, EDF and the Fair Climate Services Pvt. Ltd., which is the legal holder of the FCN Tech Team.
- FCS will receive, into an ESCROW Account, monthly deposits totalling Rs 10 crore per annum for the next 10 years = Rs 100 crore.
- FCS will do due and initial diligence, work out the financials, and select registered Climate Mitigation Projects.
- EDF and FCN will together do the final selection.

- FCS will enter into ERPA's to forward purchase CERs at the actual cost-of-generation, arrived at in an open and transparent manner with the Project Proponent.
 - In 2012-13 we expect to enter into 3 ERPA's for Woodstoves and Biogas CDMs
 - In 2013-14 we expect to sign 3 more ERPA's for Biogas CDM
- FCS will also purchase all the Third Party Verified and EDF/FCN certified LCF Offsets at Rs 825 per tCO_{2-e}
 - From the 2012 cropping season we expect 16,900 tCO_{2-e}, 33,500 tCO_{2-e} in 2013, and 36,850 tCO_{2-e} in 2014. This is just a projection based on current adoption of LCF.
 - **There is no upper limit to the LCF Offsets we will be able to buy. It is entirely up to you to bring as many acres under LCF as you possibly can.**
- FCS will, on behalf of the Buyer, retire (i.e. cancel/destroy in the EB Registry) a total of 11 lakh CERs and LCF Offsets over the next 10 years.

We are currently negotiating several other deals with domestic Buyers.

We are also negotiating with an International Consortium of Buyers and seriously exploring the possibility to reach out to half a million families, through FCN Members, in three years flat. Your registered CDM Projects currently reach out to 130,655 families. 500,000 is imminently doable, provided all of us develop an intrinsic and intuitive understanding of the Market Mechanism.

For the moment, grassroots NGOs will still have to scout for external funding to:

- i. Meet transaction costs to develop Climate Mitigation Projects.
- ii. Run a 1-2 year long Pilot Project to develop capabilities for Low Carbon Farming.
- iii. Set up and operate GHG Labs to measure crop emissions in different AEZ's
- iv. Set up basic SA Extension Services that will soon be self-financed with carbon revenue earned by Participating Farmers.

After 2-3 years, when the FCN has generated sufficient surplus, we will bear these investments. Once again, on clear business terms. If a grassroots NGO has real presence through a demonstrated staying power, intimacy with communities, willing to develop a business sense and prepared to rationalise itself, we will step in. Otherwise not.

I will, from time to time, keep you all informed.

Best wishes,

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