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Carbon Frontiers 2024 | Episode 1

Sandeep Roy Choudhury, Director, VNV Advisory

This week, we kick off our new series, Carbon Frontiers 2024. Throughout this series, we'll be talking with the market practitioners who've kept the carbon markets and decarbonization efforts moving forward to better understand how they're learning from the mistakes of the past, adapting to the realities of the present, and developing the markets, technologies, and strategies for a net-zero future.

We begin our series with Sandeep Roy Choudhury, Director of VNV Advisory Services. SmarterMarkets™ host David Greely sits down with Sandeep to discuss the impact of the intense media criticism last year on carbon emissions projects and how he's working to continue to use carbon financing to fund and develop carbon mitigation and adaptation projects.

Sandeep Roy Choudhury (01s):

The system itself is not perfect and we acknowledge that, but there's a lot of good out there. And I keep saying that good is really important for this world today. So, you know, instead of aiming for that perfect and waiting for the next 15, 16 years to get that perfect, that's too late. And that goes against, it's an anti on the whole urgency argument, right? We're saying we need action now, everything, oh, but we need to get everything right before we act. That's not gonna happen. So I think the idea should be that we go and learn as we go, and carbon markets are really, really an important solution. Again, not the only solution. I say that again and again.

Announcer (34s):

Welcome to SmarterMarkets, a weekly podcast featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together we examine the questions: are we facing a crisis of information or a crisis of trust, and will building Smarter Markets be the antidote?

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David Greely (01m 14s):

Welcome to Carbon Frontiers 2024 on Smarter Markets. I'm Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Sandeep Roy Choudhury, Director of VNV Advisory Services. We'll be discussing the impact of the intense media criticism last year on carbon emissions projects and how he is working to continue to use carbon financing to fund and develop carbon mitigation and adaptation projects. Hello, Sandeep, welcome to SmarterMarkets.

Sandeep Roy Choudhury (01m 46s):

Hi Dave. Thank you for having me here.

David Greely (01m 48s):

Absolutely, I really want to thank you for joining us to start off our Carbon Frontiers 2024 podcast series. In this series, we're discussing how, despite the intense criticism by the media and disappointing progress by policymakers at COP 28, carbon markets and decarbonization efforts keep moving forward and it's only fitting to start off with someone who's working on carbon reduction projects on the ground. So I want to thank you for joining us, and I was hoping for our audience, can you tell us a little bit about the work you do at VNV Advisory Services?

Sandeep Roy Choudhury (02m 24s):

Thanks, Dave. I mean yes and again, thank you for having me. I think this is really important conversation, especially, you know, with whatever was going around the world in terms of the interpretation of the carbon markets. I think as a background I lead a company called VNV Advisory. The advisory part is a bit of a misnomer, actually. We don't advise too many people. We basically are a project developer and we have been working in this for the last 17 to 18 years founded. We work predominantly in Asia, Southeast Asia, and East Africa. Our work is designed to get better access to the carbon markets for grassroot level communities, NGOs, nonprofits, et cetera. So our, our company, VNV stands for Value Networks, which is basically about building networks of different organizations who we can then help them access the carbon markets and the carbon finance that derives from those markets.

Sandeep Roy Choudhury (03m 19s):

I think that's the big buzzword for us is to get finance into communities and into on ground projects. So we've been doing a lot of work around energy access, things like water and sanitation as well as land use, sustainable agriculture, and a lot on mangroves and reforestation deforestation and agriforestry. So a lot of land use or projects with coastal communities, with small holder farmers with different kinds of social forestry, community bodies, et cetera, et cetera. So it's been a good journey. It's been in about, we, we work in about 19 countries now with, with about 130 odd projects. So yes, I mean that's, that's what we do. So it's, it's pretty much an on the ground kind of an organization, but yes, it's a network of organizations and, and that's how we, we like to talk about ourselves.

David Greely (04m 07s):

And I wanted to ask you, you mentioned the carbon markets. How do you use carbon markets to finance the work that you're doing?

Sandeep Roy Choudhury (04m 14s):

Look, I mean, the kind of work we, we are a social enterprise ourselves and for the kind of work that we needed funding for, there's a big gap in terms of where we can raise that kind of money from and, and this is work at scale. This is not a pilot scale kind of a thing, you know. So if, if you need to work on climate change, and I'm a firm believer, and this is not demeaning small efforts, but you really need to achieve scale to achieve the impact that would make a dent and that kind of money for. And we have went through the whole rigmarole of going through philanthropy. We're going through, you know, business, I mean, you know from the financial markets, you know, raising kind of debt. All of that fell flat on its face.

Sandeep Roy Choudhury (04m 50s):

Carbon markets was the only place that we could go to raise the kind of money we needed to do the work that we intended to do. So what happens is with, with the carbon markets, it's, it's a form of result-based finance, but it's, it's, it's kind of a different financial instrument from a debt equity or any other form of grant. So it's not a grant, it's not a loan, it's not an equity. It's kind of fits in very seamlessly with other financial instruments and I think that's the big draw for us and that's how we've been able to fund, I mean, we started with, I remember this is, this is almost 15 years back, we had to fund some electrification projects for villages which didn't have electricity. And we needed to deploy solar household solar systems, which cost a lot of money, and the households couldn't afford it.

Sandeep Roy Choudhury (05m 32s):

Nobody else would give us that money and somebody said that, look, if this reduces carbon, because you were using another form of fossil fuel to electrify, if you are gonna give us those carbon credits, we are happy to give you the funding to deploy this technology and that for me was the big aha moment, I think and I said, okay, this is good because this can be done at scale. Because with philanthropy, we were getting capital for about a hundred households. This company comes and says, look, we're gonna fund you 3000 households. If I can get the carbon out of this for the next five years, that was the big difference, right and then we could go ahead and do that, not in 3000 where we ended up doing almost 300,000 of these households. That's the big, when I say scale and money, that's what carbon markets can get for us, right? So that's, that was a big aha moment I would think. This is back in 2007, eight and then of course we continued on the same structure and the same way of working typically, you know, so yes.

David Greely (06m 26s):

And so given the importance of carbon markets and carbon finance to, to really being able to run these types of projects at scale, I was curious, when you read articles like the one in the Guardian last year whose headlines claim that, you know, the vast majority of certain types of carbon emission reduction projects, you know, in that case some of the red plus projects, when it's claimed that those are worthless, what's your response and, and what would you want readers of those types of articles to understand about the carbon emission reduction projects that you use carbon markets to finance?

Sandeep Roy Choudhury (07m 01s):

Yeah, I mean, it was it was disappointing to say the least. I mean, disappointing. Why, because of not so much the article, I was disappointed with the reaction to the article. I mean, articles are articles. At the end of the day, it's an opinion with some facts and figures thrown in, which are debatable that yes, the article did raise some very important questions and I commend the media and the journalists for bringing up those questions. I think that brought into spotlight some of the issues that we have been worrying about. But then that came more into spotlight, which is not the worst thing in the world that happens to the markets. But again, the market is, is a continuous improvement plan. We never said that this is perfect. I don't think anybody in the market ever claimed that this is the most perfect solution.

Sandeep Roy Choudhury (07m 43s):

I think this is one of the solutions among many other solutions. But yes, it was very, I think it was disappointing. Like I said, I was more disappointed with the reactions to it and which the reactions to it was not just about red plus, but about covered offset market as a whole. So it was, it was more of a case of throwing the baby along with the bath, you know, so for me that was the disappointing part. The carbon markets is a lot more than just one project type number one, number two, that specific project type. Red plus is a very nuanced subject. It's not, you know, it's as a, it's not black and white, should it be black and white, I don't think so. Nature, there's nothing black and white about nature, about reference region, baselines, et cetera. This is a science, and we would've liked the opportunity to talk about it.

Sandeep Roy Choudhury (08m 26s):

We would've liked the opportunity to engage with academics with other research bodies before everybody made, kind of made up their opinion on the markets and I think we never as a market got that opportunity because it was, it was out there and then everybody made their opinions and then said, this is a scam. We don't want to deal in the markets and that's stat. I think that's a little unfair. Frauds happen in every sector. There are people who will gain the system, but that is not a reflection of the system itself. The system itself is not perfect and we acknowledge that, but there's a lot of good out there and I keep saying that good is really important for this world today. So, you know, instead of aiming for that perfect and waiting for the next 15, 16 years to get that perfect, that's too late.

Sandeep Roy Choudhury (09m 07s):

And that goes against, it's an anti on the whole urgency argument, right. We are saying we need action now and we saying, oh, but we need to get everything right before we act. That's not gonna happen. So I think the idea should be that we go and learn as we go. Yes, there are some very pertinent points raised by those articles, and I commend them for that but to base an opinion on a set of articles for something this important, I mean, why is this very important because there is no other form of finance that reaches the global south. It's very clear, and I'm very clear in my head about this, you know, and, and reaches the most needy. There are different parts to the markets which will reach different constituents. Governments will also need money. There are parts of the markets which will allow governments to access that in terms of compliance markets and Article 6 and so on and so forth.

Sandeep Roy Choudhury (09m 54s):

You still need the voluntary markets for, well-meaning corporates in the developed world to be able to fund projects in the emerging countries and funnel money exactly where it's needed and that's the big, big thing about voluntary carbon markets. And I think that's where we missed the point when we go and say the carbon offsetting is a scam, well, the offsetting is a claim. Don't put that on me as on the supply side. So if you have a problem with somebody claiming, and if that you think is a scam, that's on the buy side, I think to the entire market, the market has various components to it. There is supply side where the project side is, and then there is a transaction side where the commodity side is, or the intermediary side is, and then there's the buy side which uses that carbon credit. For us, we produce that carbon credit.

Sandeep Roy Choudhury (10m 38s):

It's really important to value that carbon credit because that allows us finance that otherwise does not exist anywhere. And so that is, that is the bigger problem. I think what the articles have done, intended or not is, is create this whole buzz about this whole market being compromised and I think that's a little unfair on the markets in itself. There's a whole lot out there, you know, in terms of there, there are almost 500 methodologies, different ways of decarbonize. And this is a really important tool to decarbonize just the economic argument of it. You know, a mitigation in your own boundaries in the US and Europe is gonna be six to seven times the cost. Here, you can get six to seven times the mitigation outcome or the sequestration with adaptation benefits. Because what is climate change after all? It's not a science just of co2, there's a social science to it.

Sandeep Roy Choudhury (11m 25s):

You have to take people along with you in your decarbonization journey. You cannot just say, let's decarbonize on my own. So I take exception to that fact. I mean, I'm, I'm, I'm convinced that that's not the way the world can tackle this climate change problem. If countries or companies in the US all go net zero, that doesn't mean to think for global warming because you'd still have Tanzania and Moza big still actually em a lot more. So then it doesn't, my narrative is, has carbon markets important solution? Again, not the only solution. I say that again and again.

David Greely (11m 56s):

I thought it was really important, the point you raised of needing, to separate the supply, what's being done at their carbon project itself from the claims that may be made about it, and does this particular project offset this particular type of emission somewhere else that's being happening on the demand side and I wanted to ask you, given probably the outsized response to some of these articles was driven by, you know, or at least evidence of some skepticism out there in the marketplace or in a wider audience, what are you doing to help ensure that your projects are delivering the carbon reductions they claim and what evidence of that reduction can you provide to people at large or in the media that may be skeptical?

Sandeep Roy Choudhury (12m 44s):

Yeah, absolutely, I don't think, okay, so this, this is that, and I think this is an important, a very important question, Dave. First of all, there are ways that the developed world sees integrity and within the project side and that I think is a big perspective change from where we come from. I'll tell you why. There are lots of academic papers out there on the carbon markets talking about things like durability and permanence on how permanent is your action, what is the risk of reversal and they go on contractual agreements as being one of the ways that you can mitigate that risk. But that in a lot of our parts of the world, it does not mean a thing, a legal contract in a lot of places that we work in may or may not be enforceable. So that for me is not the way this should be looked at, you know, so is that for a question, for a red plus project, okay, so carbon credits still 30 years, but is the forest gonna be deforested after a year 40.

Sandeep Roy Choudhury (13m 36s):

We don't know A and B, a good project would've taken that into account, would bring the systems into that project within the 25, 30 years of being in that project to make sure that this ecosystem survives and that's the difference between a good project and not so well designed project and that does not only depend on contracting, it depends on something that we call a social contracting. It's a very big play in project development EU as if you are a buyer of carbon credit Google, and you have a signed contract with a small holder farmer in Tanzania, if that small holder farmer renegades on the contract, you're gonna not gonna sue that entire federation. You're not gonna do that. So that for me is not your insurance. Your insurance is to make sure that you've created a sustainable system within those farm federations to have their own sustainable income and an alternative income and wean them outta the forest level.

Sandeep Roy Choudhury (14m 31s):

You know, they could still deal with forest products, but not typically degrading and deforesting the forest. So these are important things to understand when we talk about integrity. Secondly, monitoring, reporting and verification. Not all technology out there. I know that, you know, the Silicon Valley folks love it, that, you know, we can just, this, that working, I would to have all of these MRV mechanisms done for our technology, but I'm still, I think we still about three, four or two years away from it in three, four years. Yes, I think a lot of digital technologies, Mr. Systems are gonna take over, but I wouldn't want them to take over. We still need some ground truthing, I would think and layer it on top of the data. But that's happening and that's happening from project developers like us and a host of others that we work with as well.

Sandeep Roy Choudhury (15m 14s):

And I think that world is gonna change, but that's the time is not now because a lot of these technologies really haven't worked. I mean, everybody claims they work, but we've piloted, I don't know more than 50 of these. It's, some of them work, some of them don't really work that well, but I think digitization is gonna happen and that's a good thing. I think we should embrace it, but that's, I think in a way also gonna help people understand this. But I also want to say it to people at large, but we're not there as yet. So we have to take the good and not the perfect for now. And yes, if that means you work with what your claim is or what your, you know, way of communicating your carbon purchase or your climate action is, is for the comms people to, to figure out. But I think this is where we are right now, Dave, and I'll, I'm very honest and upfront about it. This is where we are. We're not in a perfect system and I don't think we'll be there in the next five, six years, but that should not stop action on the ground.

David Greely (16m 10s):

No, and I appreciate you sharing that. The points you raise makes me think that often perhaps we're looking at these projects with too narrow, too technical a lens. You know, it's like you kind of can value what you measure to some extent, and we're measuring more and measuring it a better way. But how do we measure those transformations of social systems that are so important to make sure in your example, that the gains from a project continue, you know, beyond year 2030, because you're changing behaviors, which of course is what we ultimately need to do if we're gonna deal with the, the problems of climate change.

Sandeep Roy Choudhury (16m 50s):

And if I may, Dave, just on that, these are generational behavior changes. We sometimes forget that, you know, I mean, we believe in, as a project developer, we believe in something called a rotational epic. You know, you take consent again and again because you have to and I have a live example. I was in a meeting in 2008 on a community forest project and there was a 4-year-old kid and then when I've been back there in 2020, that same 4-year-old kid is a 16-year-old who reads about carbon markets on Google and he thinks, hey, when you came in here and I remember you, you know what we, what our forest leaders consented to as some kind of a trump, I mean, of the pricing wasn't really fair. I was like, oh, that's a good point. You know, so what I mean is that we we're talking about ecosystem building, ecosystem building does not happen in day one, you know, so it's a whole social process.

Sandeep Roy Choudhury (17m 37s):

And that's why I continually bring the argument back to the social sciences of it. I'm not saying this is a moral discussion, this a scientific discussion to be, but it's social markets in a lot of ways. Dave funds adaptation and adaptation in a lot of these countries, and you get more and more expensive if we don't do it now. So the mitigation versus adaptation, we almost look at, in VNV we look at, you know, we use a mitigation outcome to find an adaptation outcome. That's how we look at it, because when you're working with ecosystems, invariably if you're working in an agri forestry mechanism, you have to build water access. That water access would mean the groundwater goes up, in which sense that agriculture could come back into those areas. That's them adapting because they don't have water right now. And, and climate change is making it worse every day.

Sandeep Roy Choudhury (18m 22s):

So these are things that are intricately linked, and I think the discussion at some point needs to, needs to kind of converge and not get so stuck up on to itself. You know, the to itself has funded a lot more, you know, within the climate change domain, biodiversity, social systems, you know, financial inclusion, gender, a lot of things that, that are very, very important to the fight against climate change. The fight against climate change is not the 1.5 degree only. And for me, that's a very important point. But do I say that we shouldn't be looking at that science? Yes, there are other solutions to look at that science, and like I say, we all have to coexist. There will be somebody who's storing carbon in the ground. I, I actually commend that effort as well. But this has to coexist with a mitigation outcome that can fund adaptation. It's very, very important for the world to understand that. And that's for the larger world to understand that we're not in this by ourselves. This is not just my problem or your problem, it's all our problem. So if you don't help our neighbor clean up, just cleaning up your own houses not gonna be enough and it's as simple as that.

David Greely (19m 23s):

And I wanted to ask you, because it's so important that these efforts move forward and that they take time and some of the changes generational. I imagine one of the disappointing aspects of the response to the articles last year was a strong pullback in carbon finance that occurred in the middle of the year and I'm curious from your perspective, what was the impact of that pullback in carbon finance on your work and what you saw in terms of projects being developed?

Sandeep Roy Choudhury (19m 50s):

Massive impact, massive impact. I mean, you know, it was, it was almost as if, and I hate to say this, I would, I mean, the corporates, which were on the fence on whether to get into markets or not, just turned back and said, okay, we're gonna decide of the fence. We're not interested here and that's, that's what really is disappointing. I would rather do nothing than take a chance on this market and I then you cannot be really serious about climate action. So stop talking about that in your sustainability report. You're not, you know, because somewhere at you, you should have a little bit more understanding of why this is important, rather than just saying, guys, this is too much of a chance to take. So it was a massive hit. I don't think we're the only ones. Of course, there were more sophisticated players who said, no, we're gonna be still in and we want to support good projects.

Sandeep Roy Choudhury (20m 32s):

Of course, the world will move towards a little bit on okay to understand their projects a little better and I think that's not the worst thing in the world. I think people need to understand where they're buying from and what they're getting into. And that, I think I would be a big advocate of that from day one. So I think while there is a play in, in, in standardizing a lot of different kinds of projects in vcm, it's gonna be difficult. So I think the buy side needs to move closer to the sell side. Having said that, I think there's a massive, massive pullback. And I don't think we've still recovered from that, Dave, to be honest. And that's the disappointing part. And again, going back to, I would rather do nothing is the most disappointing part here, you know, and that's what we've led the world to today.

Sandeep Roy Choudhury (21m 13s):

And that's, that's not fair on a lot of people who need the money right now or who need resourcing right now. You know, it's just, it's just one article and boom. And, and I, I often go to some of our villages and our farmers like, okay, so when is, when is our next carbon payout? I said, well, that should have happened, but it hasn't happened because of this, this, this, this, this. And they like, okay, can you ask some of these journalists to come talk to us. I said, look, I mean, if you had an opportunity, would've left to, but nobody really wants to talk to you. So decisions are made, rules are made. None of you're consulted and that's is fine, apparently.

David Greely (21m 51s):

Shouldn't be though.

Sandeep Roy Choudhury (21m 52s):

Shouldn't be.

David Greely (21m 53s):

And so I'd like to, to move on to kind of get your perspectives on some of the central questions that we're trying to address in this series, which is how are carbon projects and carbon markets moving forward after last year and maybe first specifically in terms of carbon finance, is it flowing again and what types of finance can project developers obtain now

Sandeep Roy Choudhury (22m 17s):

It is flowing again in a trickle. I might, I may add it is not yet there, but I'm optimistic because I think the world has moved a little bit now that we've had eight, nine months to understand this a little bit more. Like I said, a lot of buyers now want to move closer to, okay, what are we funding. Where are we funding and what should be the kind of project we at, which is a good thing. So I think what project developers can look at is there are now, I think buyers are trying to de-risk themselves by getting into consortium funding. They're like, okay guys, we're not gonna do this all by ourselves. Maybe we, we work with like-minded companies and set up something and then start funding projects and we see that example all throughout in the US and the EU happening as we speak.

Sandeep Roy Choudhury (22m 57s):

So I think a lot of corporates are coming together. I think financial institutions have also realized that there is no way around carbon credits. I think yes, you may disagree with the use of it, but if you are serious about in net zero claims, there is no other way you're gonna take 20, 30, maybe 40 years to decarbonize your own because, you know, grid are not getting decarbonized easily. I mean, they're not as fast as they should be. So I don't think you have any other option but to go to carbon, if not now, later, later might be more expensive. So I think people realize that. So I think there is a, there is a greater understanding of that and I think we see some movement, especially post cop Dubai, given that now I, the markets in great on net.

Sandeep Roy Choudhury (23m 45s):

So I think consortiums and financial investors coming up with different innovative financial products on the carbon side is happening. Will it completely overhaul the, the pushback or the pullback that that happened after the, maybe it's gonna take some time. I think we're, we'll be in a better place 12 months down the line. That's where we're, and I think project developers could be optimistic. Again, develop projects with the idea that there will be greater due diligence, there will be greater scrutiny on the projects. It's the reality of it. We don't mind it so much, but we've seen project developers saying that this might stall action or delay action, but I think we just need to get with it and just say that this is the new world and that's that, you know if you have to access money, you have to put processes in place, which you didn't have before. It's just the way it's,

David Greely (24:32):

And you mentioned consortium financing, some other innovations. Are there other innovations that you're seeing and how carbon finance is being structured or how public and private monies are coming together?

Sandeep Roy Choudhury (24m 46s):

Yeah, I mean, one of the structure that we're working on is, is, is in bond issuance on carbon and I think that that has been done before by World Bank, if I member, but that needs to be put in out there a little bit more at terms of something that could be tying the retail end to the carbon markets, but not on random speculative markets. But putting it out there in terms of proper financial instrument, I think insurance will have a part to play in all of this because it's, it's project developers saying, I'm gonna deliver this many tons of

carbon to you. Yes, there's a third party audit of it, but if you can ensure that, that's a great way to build up a little bit more of an asset value and that's where I think this will all start interacting together.

Sandeep Roy Choudhury (25m 26s):

A lot of the fixed income markets are gonna come into the carbon markets, but with a more reliable, let's say a carbon offset asset of the underlying. So I think that's where the markets are gonna go. Of course, there'll be consortium funding and there could be, I, you know, different IRR expectations basis, different risk appetites in a consortium and know, so you might have layered funding as well, you know, and we see partial risk guarantees. We see different kinds of financial instruments working, and I think that's where the world is gonna move. But yes, it's gonna take a little while to get this whole ecosystem really believing that the carbon assets are still valuable, which I, I do think they're, I think a lot of people within the commodity space also understand this, but are shy of getting into it now But I continually say that regardless of whether you want it now or later, you'll need it. And that's, that's the reality of it.

David Greely (26m 16s):

And then you mentioned that a number of investors of companies that may purchase carbon offsets to help meet their net zero goals are putting a little bit more time maybe into, into understanding the projects in which they're investing or the projects from which they're buying offsets and that's not a bad thing. Absolutely and I'm curious, given that, has there been a change in the types of projects being funded and what types of projects are seem like they're the most attractive to companies and investors right now?

Sandeep Roy Choudhury (26m 47s):

I mean, Dave, given the SBTi guidance on removals, I think there was a lot of push towards just getting sub removal credits in and I think there's a general recognition and why that will remain. I think that will remain, even if you're talking about just 10% residual emissions of even 10% of the companies that have to be their BTI goals, you're talking about a supply line that not exists today, and you'll have your goals in 2035. 30 40, which is why we tell a lot of companies, yes, you may be on the fence right now, but if you're really serious about you need to invest right now, and when I say invest, a lot of removal projects will need capital right now and this is not just an off take agreement. So again, with going back to the structure we're working on a lot of structures where there is a funder of the project providing the CapEx, and then there's an off taker and the two of them kind of interact with each other as checks.

Sandeep Roy Choudhury (27m 36s):

So that's the world where I think a lot of things were going on, but I think there's a general recognition as well that avoidance is really important and I think from our perspective, we do think avoidance is really important. So I think it's a combination of two right now. So I think the most sophisticated buyers are like, guys, okay, we need to look at this and that together. So let's split up our targets into two or different buckets. So we can look at avoidance we look at removals, but yes, with a specific theme of how we want to go about it, I think people are strategizing more, which is a great thing, especially the larger corporates just saying, yeah, we, I'm just gonna buy carbon credits. Actually, that was the problem as well on the claim side, that, okay, so you bought the what, you know, why commens to what, what, what is your claim? So I think now it's you, I mean, with ICCM working on the supply side with a crowd working on the intermediary, the transaction side, and with VC I working on the claim side, I think we have three different components of the markets working together. I think that's a great thing for the markets in the long run to look at, again, a, a fraud here does not mean this, this is compromised. So there are three different levels to it, you know,

David Greely (28m 42s):

And I think many companies and investors also there's a learning curve in understanding what to look for in a project developer, like kind of extracting away from the project itself, but the types of developers you want to work with, how to judge that, how to do your due diligence. You've been in this business, you've been in this work for a long time are there things that you would suggest when people are looking at project developers, certain things you want to look for, or, you know, even the red flags that you want to look out for?

Sandeep Roy Choudhury (29m 12s):

Yeah, I mean, look, I welcome newcomers into the markets. I think that's really important for innovation sake. I believe that it's really hard though, Dave. I mean, when we talk about companies understanding project development, a lot of them come back at this is not easy for us, which is why they were clamoring for standardization. And I get it. I completely get it, you know, for a sustainable department of a company to suddenly say, okay, let's evaluate what projects we should get into. It's really hard, it's expensive, but I'm like, guys, yes, you have to do it. It's the hard yards that you, that, that climate action demands of you and I really don't see any other

way around it. So for me, yes, if any listeners are from these companies saying, guys, this is not our job, but I really do think, yes, you'll have to probably make this your job.

Sandeep Roy Choudhury (29m 55s):

If you're really serious about climate action, start understanding this a little bit more. Yes, project developers, you'll look at, you know, of course some amount of experience, but I keep saying that newcomers are very, very welcome. It should be because it leads to more innovation. But yes, I think two things that are big red flags, standards that are being used for the carbon projects. I mean, I'm all in for new standards, but these new standards should be vetted and peer reviewed and have some kind of credibility around, you know, the claim of the carbon. And that is something for me is, is the big thing in terms of a lot of standalone project developers come and say, okay, I'm gonna do this project for you, and this is the standard we just made. Standard. Like, no, that's, that's a big red flag for me.

Sandeep Roy Choudhury (30m 37s):

I would still go back to the years of experience of some of those standards that we work with or, or are in the markets because we think fragmenting or too many standards is actually fragmenting the market and confusing the buy side as well. Suddenly you're like, oh, but there are 20 different stamps, what should I be buying from? So I think consolidation of the markets is more consolidation at the standard level. While I'm completely, well, I welcome innovation but I think there is this debate to be had on how many standards can we have here and what should be the, the way we measure the standards, because that's where I think lot of confusion comes. And that's where I would think my big red flags would be, okay, what standards are being used? And secondly, the social sciences of it. If you're working in the nature space, and I'm not for a moment saying the voluntary carbon market should be restricted to the nature space.

Sandeep Roy Choudhury (31m 23s):

There's a lot more out there. There's energy efficiency, there is waste management, which are all digitized MRV systems. So you don't need to worry so much about integrity over there. So if you really think you do not have the wherewithal to understand the social sciences part of it, then go for industrial decarbonization again, super important. You know, you may think that a nature credit or this is more, there is nothing which is more valuable or not, it's all needed, right? So I think that's a good start as well because I suggest to a lot of engineering companies that yes, work on nature, but do work on other things as well, on the voluntary carbon markets, things that you really understand and your knowledge actually helps the project developer in that end, because you come from a background of understanding this a lot more than probably the project developer as well.

Sandeep Roy Choudhury (32m 03s):

So it's a nuanced thing. But yes, I mean, there are general red flags. I think stakeholder management, if the project developer does not have a good hold of the stakeholder management process, for me, that's a big, no. You cannot sustain a project in the long run, and you'll never do that. You cannot say, I'll build in the processes, which does happen to a few companies saying, yeah, yeah, we have a lot of experience doing projects, but a carbon project is completely different from a mining project. So yes, if you think you've figured it out because you've, you've deployed mining projects in Brazil and Amazon, but you think you could now do a project, no, you cannot. You'd need local buy in and you'd need good local buy in. So that would be my first look at, at how you, if you, if you're looking at nature-based projects. Absolutely.

David Greely (32m 42s):

That's really helpful And I wanted to touch on one more topic with you, which is one thing we often hear on the podcast is that depending on where a person sits in the world, their understanding of some of these terms is very different for example, in dealing with climate change in more developed countries, it's often a very, it's a, it's a conversation around mitigation and reducing emissions and in areas of the worlds that are less developed, it can often be a conversation around adapting to the climate change that's occurring. So one is like, hey, let's lower our emissions to kind of slow the rate of climate change. The other is let's build more resiliency so that we can deal with the climate change that's occurring and already impacting us. And I've heard you say, I believe that, you know, mitigation finance in developed countries being put to use to fund adaptation in developing countries is much of the, the work you do. Can you explain that for our listeners and with that approach in mind, how do you see the, the global path forward?

Sandeep Roy Choudhury (33m 49s):

Yes. I mean for me, I think it's, it's a really important thing. I mean, the Paris Agreement came in in 2015. These countries had nationally contributions, commitments that we made and they were for some reason taken as, okay, these are all gonna be met but these are not gonna be met because these were commitments. And a lot of countries don't have the wherewithal, the resources to meet a lot of

these climate targets, to be honest with you. I mean, we've, we've seen budget allocations, it's, it's not gonna happen. So yes, there is one case to be made to take these countries along in your journey of, of decarbonization number one. Number two, adaptation is the biggest problem for a lot of these countries. And, and, and we work in coastal areas, for example, planting mangroves. And I said, why are planting these mangroves?

Sandeep Roy Choudhury (34m 28s):

I would say, okay, one is number one, they used to be mangrove, zeros are not and these communities, and these islands are gonna be battered by storms in the next seven years. Every seven years, these mangroves could be one way for them to tide over the next tsunami that might hit them. And that's the adaptation part. And what you funding is the trees, which gets you carbon for your net zero. It's as simple as that. So you funded some kind of adaptation and how is that, it's not just a storm barrier, that mangrove forest might give you something as a produce, which we have in some projects where we have, where the villages can then on a digital marketplace and make that economic livelihood and that's where the permanence of the project comes in, where you are always worried, will this mangrove get cut off tomorrow?

Sandeep Roy Choudhury (35m 07s):

You know, so you have to create an economic incentive within the whole forest community, right. So those are ways that you're typically, because the livelihood part and disaster resilience part is your adaptation part, but you're funded it via medication. That's what I mean, that this is a great way to finance adaptation. And the longer we wait, the longer the opportunity costs of the adaptation is gonna go up. And what's gonna happen is if you don't put those gross right now, what's gonna happen is they're gonna storm battering it. This country is gonna get, you know, worsen and worsen into debt. And we've seen this happening, and I'm, I'm not being overdramatic when I say that. The more disasters come in, the more we see that countries get into debt and the fiscal deficit keeps increasing and for me, carbon markets is a great way to actually come in and say, no guys, we need agile money right now.

Sandeep Roy Choudhury (35m 50s):

Put it in because 15 years later, this is gonna be a battle that you cannot win. So for us, that's a big, big part and I think that's the understanding that we have, that you have to fund adaptation how you do it. If the governments had done this, I would've been the happiest person in the world if the UN had done it again, same here, I, but it hasn't happened, right again, I mean, the public finance doesn't go to the people that need needed the most and that's where I think the markets can come in because you're talking directly to communities. You, you figure out what they need and not a very, you know, top down approach saying, okay, I know what is best for you. I'm gonna do this. This is how you'll adapt. That's the wrong way to look at things. It's never gonna work, you know, in the long run.

Sandeep Roy Choudhury (36m 27s):

So I think that's where I come in and I'm big proponent of this and how markets can actually help fund adaptation. And I think that's, that's a narrative that's even lost in global south organizations. A lot of civil society here does not like the word carbon offset, but I'm like, okay, so give an alternative. Who else is gonna fund this? And please go and ask the communities if they have received any other form of funding for what they would think is a good way to adapt agricultural practices. For example, even in the coastal area, I give you the mangrove example, A lot of people cannot grow rice anymore, even inland because the salinity of the water has increased manifold. They cannot do that anymore. How are you gonna work with them so that again, you can have a carbon project, gives them some kind of access to sea rice seeds that grow satellite water. It's not gonna happen otherwise. So I keep talking about the alternative, if the alternative was there, there was no need for people like us, and that would be a great world to live in there, but that's not the world we live in today.

David Greely (37m 18s):

Well, I'm glad there are people like you in the world and I just wanted to get like, as, as you know, you're very much a the ground you're working with folks, you're looking at that bottoms up approach as you look forward over the coming years and beyond, what gives you optimism? What makes you energized for the, for the day ahead?

Sandeep Roy Choudhury (37m 38s):

I think what I spoke about in terms of the financial structuring part, I think that's a great thing. I think this, people are thinking about it, which I really commend them and this kind of a market six months back to think, okay guys, what can we do is going out on a lip. And I really appreciate that, and I think a lot of financial structuring folks have been working with how to de-risk projects. Of course, they still need to take a bottom up approach on how to derisk projects. And I think that's an educated process all of us have to do. Your risk

management department in a CDO environment will not understand carbon projects. So we need to be very clear about how we look at risk in carbon markets. And I think that's the big educated process. And I'm really encouraged by what I see because a lot of these asset managers, et cetera, who think that this is still an asset class come to people like us and say, okay, how are we looking at risk management?

Sandeep Roy Choudhury (38m 23s):

Which is a great encouraging side, right because they want to understand this and I think that's the way this world will move forward because this is a form of project development, which is very different for infrastructure development, but we still, still need to understand it. It's a good asset class to be in it from just financial terms because the demand is gonna supply. I mean, that's the way it's right now. So, so I think that's the encouraging side. I think the other encouraging side is the kind of work that's happening around the supply side. IBCM great work around that of trying to understand the risks and which.

David Greely (39m 12s):

Thanks again to Sandeep Roy Choudhury, Director of VNV Advisory Services. We hope you enjoyed the episode. We'll be back next week with another episode of Carbon Frontiers 2024. We hope you'll join us.

Announcer (39m 26s):

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Announcer (40m 02s):

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