ASB Partnership for the Tropical Forest Margins

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Engaging the Private Sector in REDD+: Challenges and opportunities

Discussion paper

REDD+ is a global mechanism for reducing emissions from deforestation and forest degradation, and for the conservation and sustainable management of forests and the enhancement of forest carbon stocks in developing countries. REDD+ enables the transfer of funds from developed to developing countries that are willing and able to undertake REDD+ actions.

Over the course of international climate change negotiations on REDD+, private sector engagement has repeatedly been identified as a key component in moving forward. Much of this discussion has revolved around financing, which remains a pressing challenge for REDD+, and the appropriate means and scope of private sector involvement. Although little has been explicitly stated in the Durban agreements, private sector engagement appears to be particularly needed as countries transition from Phase I (readiness) and Phase II (demonstration) to Phase III (results-based actions) in implementing REDD+, where payments and other forms of compensation are offered for verifiable emission reductions. These payments will require significant sums of additional funding.

The first angle of this research is to understand who the different types of players are within the private sector, at what stage of the REDD+ project life cycle or value chain they can contribute, and what their motivations are.

The private sector includes a diverse array of firm sizes, structures and operations that range from the purely local to national, regional and international in scope. This diversity is reflected in the sector's involvement in REDD+. Given the difficulty of quantifying the precise extent and scope of private sector involvement in REDD+ initiatives, this analysis instead highlights certain trends and indications.

If we consider a simplified supply chain with a continuum of producers, advisors, brokers and end buyers, the private sector can play a key role in the following ways:

- **Producers, through project development and investment.** Some medium to large private firms (e.g. Wildlife Works) are leading the development of REDD+ projects and wear various hats: as investors and implementers, by leveraging their technical expertise and by selling carbon credits. Many large multinational firms also invest in existing or new REDD+ projects in collaboration with third parties because they are motivated by corporate social responsibility (CSR) concerns (e.g. the Walt Disney Corporation's efforts in the Democratic Republic of Congo). CSR-driven investors tend to leverage their existing technical expertise and technological capacity (e.g. the Toyota Motor Corporation in the Philippines) or, alternatively, to fully involve themselves in overall project design. They are also typically interested in both carbon emission reductions and community and biodiversity co-benefits. Some major REDD+ investors, including Althelia Climate Fund and Ned Bank, are not directly developing projects themselves.

- **Advisors, through capacity building and technical development.** Private consulting companies can play a strong role by offering capacity-building and technical development services to national and sub-national authorities as well as third parties, which have limited expertise and capacity for developing REDD+ project design documents; establishing reference levels; performing monitoring, reporting and verification; or participating in the accreditation processes.
- **Brokers, through carbon-credit trading and retailing.** So far, only a few companies are focusing on this area.
- **End buyers, through carbon-credit purchasing.** Companies that are major emitters want to meet their legal obligations and buy large volumes of carbon credits to offset their own emissions and reach "carbon neutrality."

A lot of CSR-motivated companies also buy all or part of the carbon credits generated by the projects they initially invest in. The greatest challenge is to develop appealing strategies to incentivize private sector investments in REDD+ and to create demand for REDD+ emission reduction credits. The remarkable growth of REDD+ has coincided with the global financial crisis (especially in Europe and North America). This means that resources for buying emission reduction credits or for upfront investment will be limited. Therefore, project developers will need to adopt a business model that makes financial sense (offering an attractive return on investment) to attract members of the private sector as both investors and, in particular, as end buyers.

Some major options to discuss have been identified:

- Over the past year a number of new, multimillion-dollar private REDD+ investment funds have been established (e.g. Althelia Climate Fund), and there a is need to raise awareness of these funds among governments and land practitioners.
- In order to increase demand for REDD+ credits, more and more stakeholders advocate that REDD+ be included in compliance markets, including new and emerging compliance markets such as the Australia and California cape-and-trade systems.
- REDD+ is delivering more and more Verified Carbon Standard and Climate, Community and Biodiversity standard carbon credits, which could be used to access some compliance regimes and would therefore be more appealing to the private sector.
- REDD+ opportunities should be brought to the attention of banks, insurance companies and any other large companies with a CSR orientation.

REDD+ does not happen in a vacuum. The private sector requires a conducive regulatory, institutional and policy framework and active government support to protect its investments. The government also needs some guarantees from the private sector to enable it to engage in REDD+.

From the perspective of the private sector, the main issues to be clarified include:

- The need for a strong policy signal, such as enacting a national REDD+ strategy and incentive structures.
- The level (national or project) of the performance-based payment, the question of payments for overall national performance versus project-level performance, and the risk-mitigation mechanisms in the event that payments are only received at the national level.

- The need for a clear land-tenure system.
- The issue of the non-permanence of emission reductions, which needs further insurance but seems adequately addressed with the Verified Carbon Standard methodology efforts.

From the perspective of the government and third parties, the private sector expects a number of requirements to be met before it engages:

- Clear regulations on carbon, forest and land rights are needed. Regarding carbon rights, an agreement and benefit-sharing mechanism needs to be developed, in particular with communities, which need to benefit in order for REDD to be successful. Regarding forest rights, a need exists for a clear understanding of the implications for community access to forest resources. Eventually, land rights have to be clarified to avoid land-grabbing and appropriation.
- The potential role of a broker raises issues of fairness in relation to how much of the financing generated from selling carbon credits is retained by the mediating body and how much is transferred to the communities.
- Appropriate social and environmental safeguards must be developed to surround private sector engagement, but this raises the issue of whether the safeguards will increase transaction costs for REDD+ projects.

As discussed above, a number of key issues remain with regard to the engagement of the private sector in REDD+. Discussion and input is needed to inform the research.

KEY QUESTIONS	QUESTION COMPONENTS
1. Who are the private sector players, what is their type of intervention in the REDD+ value chain and what are their motivations?	• What are the prevailing current trends of private sector involvement in REDD+ initiatives? • How does the private sector interact with different jurisdictional levels (global/national/project level), and what could be the future of these trends? • What is the main motivation of the private sector (carbon offsetting, CSR, profit, strategic positioning), and how does this vary among firms?
2. What strategies/best practices should be developed or promoted to incentivize private sector investments in REDD+ and create demand for REDD+ emission reduction credits?	• Should REDD+ be allowed to access compliance markets within a future post-Kyoto regime? To access cap-and-trade systems? Under which modalities? • What are the characteristics that could make REDD+ particularly appealing to the private sector, compared with other offset types, and what types of strategies could be devised for increasing its appeal? • Is there a need for marketing studies to scan all potential investors and buyers in REDD+ and to gauge and build interest at local, national and international levels?
3. What aspects of the overall regulatory, policy and institutional environment need to be addressed to enable greater collaboration between the public and private sectors on REDD+ initiatives?	• What are the main barriers to overcome and priority measures to develop in order to tackle expectations of the private sector and the government or third parties? • Which types of safeguards should be developed to circumscribe private sector activities without serving as too great a disincentive? • Is there a need to engage the private sector in the policy arena to build a workable framework?

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