REDD and Private Sector Finance

COP-15
Asia-Europe Environment Forum

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15 December 2009
A typology of REDD finance

International

• Market based approaches
  – Gov to gov trading only
  – Authorization of sub-national trading

• Fund based approaches
  – Institutional strengthening
  – Cost based
  – Performance based

Domestic

• Budget/balance sheet financing of policy reforms (governance, land-planning)
• Fiscal incentives (PES, subsidies, tax breaks)
• Carbon trading
REDD Finance

- World Bank Trust Funds
- UN Initiatives
- COP Mandated Fund(s) for REDD+
- Bilateral agencies
- Private Carbon Finance
- FDI
- Sovereign Carbon Finance

Policies and Programs

National level REDD+ projects

- PES Systems
- Other subsidies

Forest Investments
Private Sector

Roles:
• Investment; Implementation of forest operations
• Investment in non-forest drivers of REDD+
• Develop REDD+ projects and programs
• Acquire REDD+ credits via transactions
• Providing services

Opportunities (short, medium and long term)…
Accelerate finance, generate knowledge, provide more predictable and stable investments

… and Risks (short, medium and long term)
Won’t invest in institutional strengthening, unpredictable if efficient market regulation is lacking
Financing

- Level of financing needed (regardless of the estimates) goes beyond ODA and government budgets
- Need to involve the private sector

**Status Quo:** Private sector generally interested, not much real action, actors with experience cautious (or have pulled out already)

**Needed:** Strong policy signal, reliable and predictable government action
- Investors are creative and powerful but not a given: Robust government framework, manageable risks, prospect of returns needed
- *Take into account the special features of the carbon commodity vs traditional commodities (regulatory commodity, deferred creation)*
REDD and carbon markets

Provided the carbon market shall be part of the policy mix, are we heading into the right direction to create such a market for REDD?

**Status Quo:** Carbon market “hot & sexy”, treated as a given, no time or resources invested in market feasibility, limited market consultations

Promise of high level of investment and finance.

**But:**
- Accounting for carbon in broad approaches burdened with insecurities
- Environmental credibility limited, high risk approach from a contractual point of view
- Risk of high swings in prices
- Concerns about high rents

**Needed:** Basket of approaches and efficient market regulation
National vs sub-national

Governments in need for finance for national programs and concerned about loss of sovereignty

Private sector in favor of sub-national crediting

Middle ground exists (nested approaches)

Project: monitoring, accounting, forest protection, enforcement, credit issuance

National: monitoring, accounting, REDD policies, protection, enforcement, credit issuance

High sovereign responsibilities and liability

Minimal sovereign responsibilities and liability
A basket of approaches

REDD support finance:
• Allows govs to access climate finance
• Can support PaMs
• Advance finance possible (farmer level subsidies)

Market finance:
• Demonstration activities
• Voluntary market
PoA/landscape level interventions

Fund based

Demonstration activities

Market based
A phased approach

**Phase 1:**
- national REDD-plus strategy development and core capacity-building;
- supported on the basis of needs

**Phase 2:**
- implementation of REDD+ actions
- supported on the basis of needs (Component “a”)
- incentivized on the basis of proxies for results (Component “b”)

**Phase 3:**
- implementation of REDD+ actions
- incentivized on the basis of MRV’ed GHG emissions/removals against agreed reference
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