TFD
REDD FINANCING MECHANISMS DIALOGUE
BREAKOUT SESSION

INDUSTRY AND PRIVATE SECTOR PERSPECTIVE
**PARTICIPANTS**

- **Investors**
  - Global Forest Partners - TIMO
  - EcoSecurities - Carbon market maker
- **Forestry + Forest products manufacturers**
  - KCC – consumer products
  - MWV – forestry & packaging
- **Business NGO**
  - WBCSD – sustainable development
- **Stella Schons, Yale F&ES**
TO KEEP IN MIND: TYPES OF CAPITAL FLOWS

- Grants
- Loans
- Investment
- Trade

- Flexible system (no “one size fits all”)
- Adaptable
- Phased approach
- Payment for services requires accountability
- Non-complex and clear (learn from CDM projects)
- Discounting is the primary market mechanisms that deals with variation in risks
Objective: making sure that the negotiators are aware of the value of forests and the role they play and develop a mechanism to include that value.

What are the boundary issues?
- Forestry vs. energy vs. scientific vs. development (education, health, etc.) interventions.
- Can/should REDD finance all these??
- Are there ways of embedding these other objectives within capacity building grants?
REDD mechanisms should support the widest possible range of SFM actions:
- From Avoided Deforestation to SM of primary forests to enrichment planting/rehabilitation/plantations, AR
- End game is = changing patterns of land use to deliver on carbon reductions but deliver other co-benefits
- Credible: MRV (monitoring, reporting and independent verification) = leverage forest certification underpinning the market instead of recreating things = carbon certification
Phase approach recognizing there will be different approaches for different regions and that different regions will change or graduate over time

- Grants and loans (soft/hard) to build capacity = REDD readiness
- Commercial investments and trade capital to follow once capacity is in place
Revenue raising and dispersion tied to the ways "money moves"

Who takes what level of risk? Ability to manage and absorb risk will dictate the type of flow

Return on Capacity Building:
- Grant: countries with minimal capacity to bring in larger scale project finance (capacity building around science, institutions, governance etc.)
- Soft loans

Return on Investment (sharing of benefits going forward):
- Hard Loans
- Investment
- Trade
Conditionality surrounding targeted areas will be required by the market. But also...

Transparency: clear definition of who is the buyer and seller, who owns the tons of carbon, who manages the carbon risk etc.

Transparency + Governance = predictability
DISBURSEMENTS

- Consider return of investment of governments – may be more effective for governments to invest in their own development than wait for ODA support flows.

- Role of governments (providing guarantee), insurance (if I do not deliver someone pays) and policy (require to buffer – pooling of projects) in managing the risks.
MARKET REQUIREMENTS (TAPPING ON BENEFITS)

- Clear buyer and clear seller: short distribution chains
- Funding rules
  - Property rights: transparency
  - Tenure rights: rule of law
  - Carbon rights: capacity to deliver
- Public policy approaches should leverage learnings of the voluntary market e.g. VCS, CCBA, pooling, insurance, risk spreading)
CO-BENEFITS: Agreement benefits up front is fundamental

- No premiums
- Less discounting
- Governments making their own assessments of what their priorities are and set the rules to address co-benefits
- Investments can also deliver co-benefits: social contract conditions need to be considered
STAKEHOLDERS

- Effective engagement on the ground
- Effective in-country arbitrator/tribunal (need to “define” involved stakeholders)
- Code-of-conduct on stakeholder engagement (FSC/ISO/WB???)
  - Effective participation
  - Obligation
  - Affected stakeholders
  - Avoid legacy problems (stranded investment)
- Who pays?
GOOD SCIENCE

- Data gathering (going back to stakeholder engagement): few countries ready to have projects without having enormous discounting
- ODA, government internal investment:
  - Better stakeholder engagement
  - Build the science
  - Ongoing monitoring, and
  - Establishment of rules
- Internal sharing of benefits macro/micro
- Leverage lessons learned from the existing structures: e.g. voluntary markets and certification – need to leverage processes
SUSTAINABLE FOREST MANAGEMENT

- Trying to max change of flows or monitoring of stocks?
- Keep carbon in context: carbon is only one of the values
- Other values: products, biodiversity, water, etc., many of which will never be fungible…but can be delivered via SFM