

**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

SCOPE: MANY APPROACHES TO REDUCING CARBON EMISSIONS

- ✗ 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?

SCOPE

- ✘ 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

BASIC APPROACH

- ✖ 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 in place

REVENUE RAISING: COMBINATION OF POSSIBILITIES

- ✗ 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

RELEVANT FOR REVENUE RAISING

- ✖ 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: AGREEING 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