



UNEP Finance Initiative
Changing finance, financing change

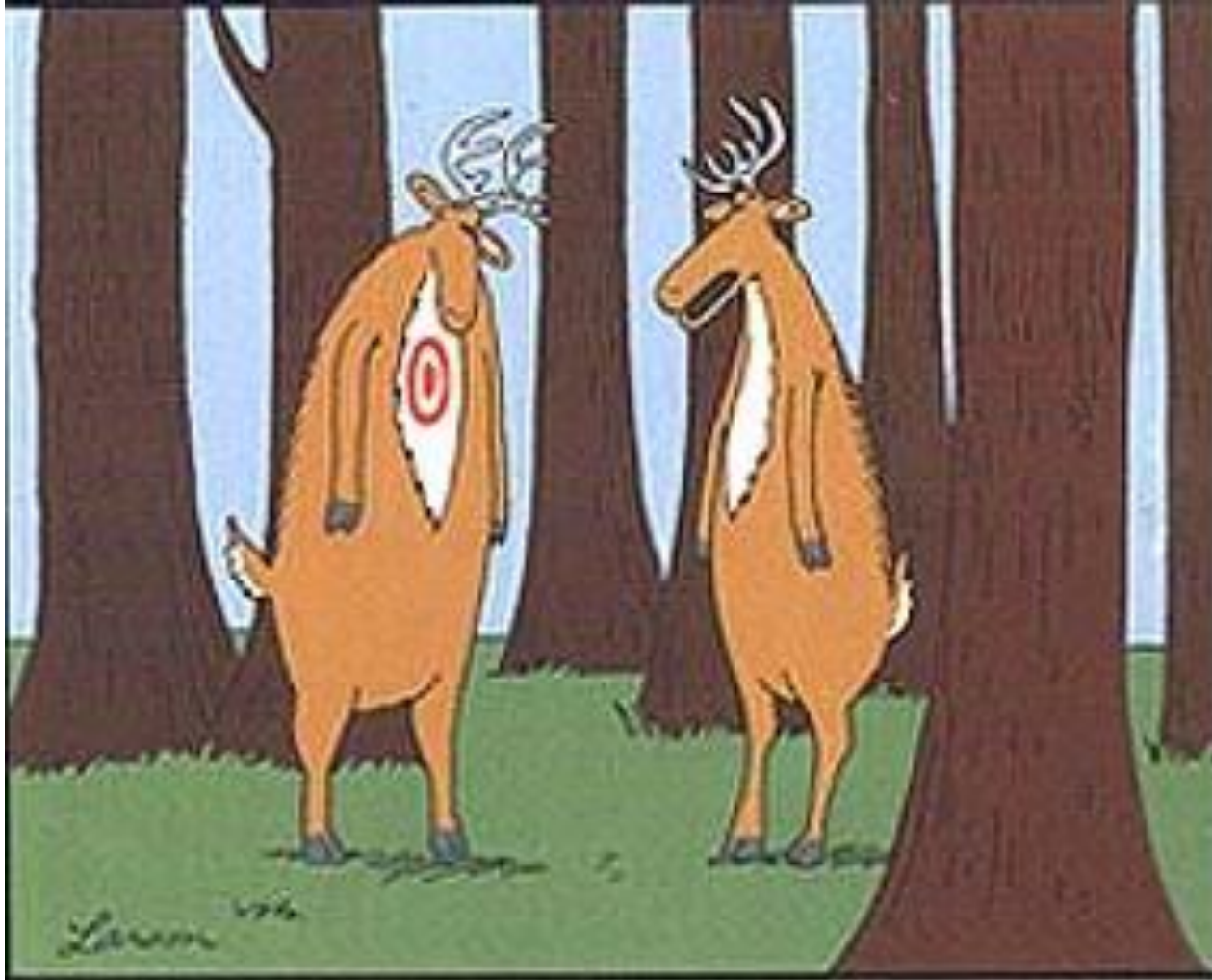
Private Sector Engagement

UNEP Finance Initiative



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1. **Stock taking- who do we have in the room?**
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5. **Group exercise- what do we want to know? Ivo**



"Bummer of a birthmark Julie Greenwalt



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Stock-taking





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WHO ARE YOU?

TAKE THE QUIZ



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Context



Setting the scene

1. Key messages

- Private sector work a more recent focus area
- Awareness raising has been a key component to date (internal and external)
- Historical perception

2. Goals of this presentation


- Increase understanding of private sector REDD+ work
- Improve understanding of how this can help forest countries/UN-REDD staff
- Learn about strategy development
- Create internal linkages and generate ideas and feedback

Why care about the private sector?

- Roughly 2/3rds of global GDP and jobs
- Largest terrestrial agents of land-use change
- BUT also part of the solution: Innovation, Investment and Implementation
- 2 main groups of relevant stakeholders
 - Production of VERs
 - Supply chains of forest-risk commodities
- Significant interest: 5,400 downloads + 1,000 hard copies

04

UN-REDD
PROGRAMME
POLICY BRIEF



The Role of the Private Sector In REDD+: the Case for Engagement and Options for Intervention

Authors: Iain Henderson^a, Jacinto Coollo^a, Ramco Fischer^a, Ivo Mulder^a, Tim Christophersen^b

Key messages

- The private sector is a source of implementation, innovation and investment and is a key REDD+ stakeholder. Private sector engagement must be broadened to slow, halt and reverse forest loss.
- Two main private sector groups are relevant in the context of REDD+: a) those focused on producing verified emission reductions (VERs) and b) those involved in the supply chains of forest-risk commodities.
- There is no single demand or supply-side strategy that is a 'silver bullet' – interventions must be used in combination and must be mutually reinforcing in order to achieve the desired outcomes.
- Approaches for engagement fall into four categories: incentives, risk mitigation instruments, setting of minimum standards and enabling conditions.
- The UN-REDD Programme can assist partner countries in engaging the private sector through convening, catalyzing and the sharing of experience and lessons learned.

Introduction

This brief aims to encourage public sector REDD+ planners and practitioners to engage with and mobilize the private sector through a range of possible interventions. It identifies relevant private sector actors, and outlines their potential role, in the context of REDD+. The brief makes the case for stronger engagement and considers various interventions that can alter the private sector's impact on land use. It also outlines the forms of support that the UN-REDD Programme can provide to countries. The brief concludes with a series of case studies examining the potential of engaging with financial intermediaries to slow, halt and reverse forest loss^a and forest degradation.

Reducing deforestation and forest degradation and restoring forests could bring significant benefits for livelihoods, climate

^aUNEP FI
^bUNEP

Activities to date

Specialised forums at the international and regional levels; private sector working meetings at the national level;

Fostering discussions on what the role of the private sector could be in the context of jurisdictional-based approaches to REDD+; including discussions on potential modalities of participation (e.g. focus on productive activities);

Presenting the mosaic of sources of medium-term finance to public sector actors; presenting the motivations of private sector actors that are active in REDD+ and some of the trends within it (e.g. commodities);

Sensitizing public sector actors about the enabling conditions and some of the existing instruments and mechanisms that could stimulate the participation of the private sector in REDD+

Raising awareness amongst private sector actors about the existence, focus and reach of REDD+ at the country level;



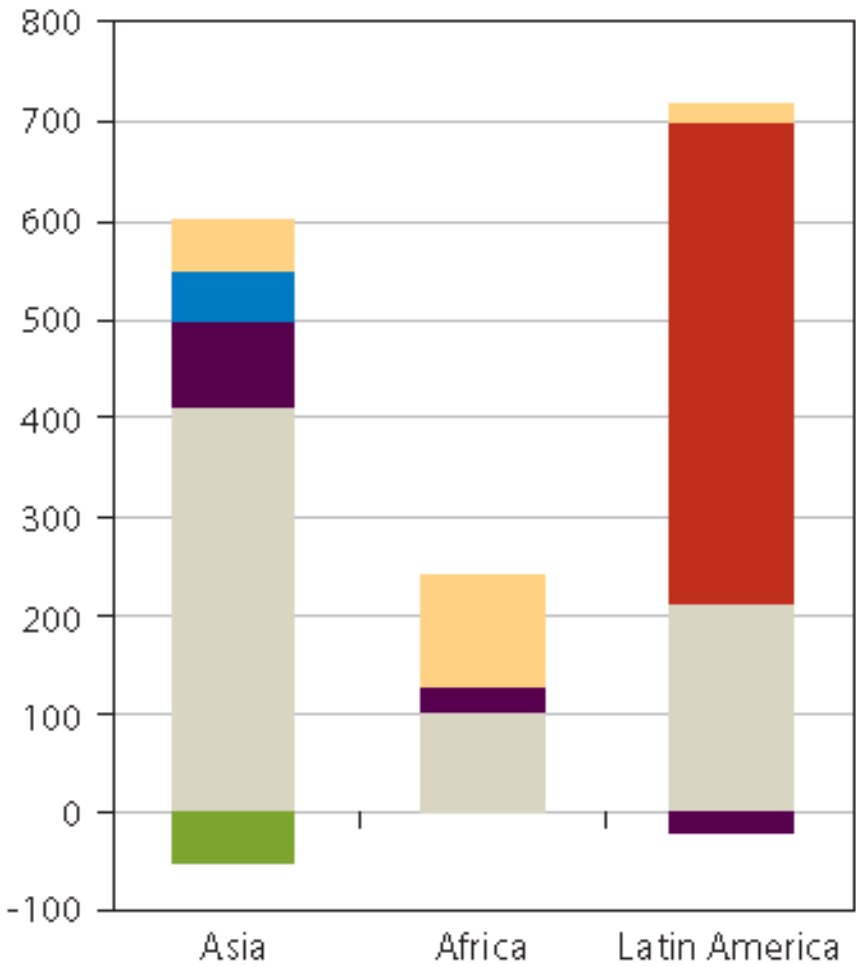
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1. UNEP/UNDP Joint Private Sector Project





Challenge: Sources of carbon emissions from deforestation and forest degradation in tropical regions averaged over 1990-2005



- Shifting Cultivation
- Fuelwood Harvest
- Pasture
- Industrial Harvest
- Croplands
- Afforestation

Notes
 -'Croplands' includes soy and palm oil
 -Asian timber harvesting is included in 'tropical harvest'
 -Units are billions tCO₂/year



Supply constraints and increasing demands

- Decades of underinvestment in agribusiness
- Urbanisation & desertification
- Water scarcity & rising energy costs
- Peak arable land?

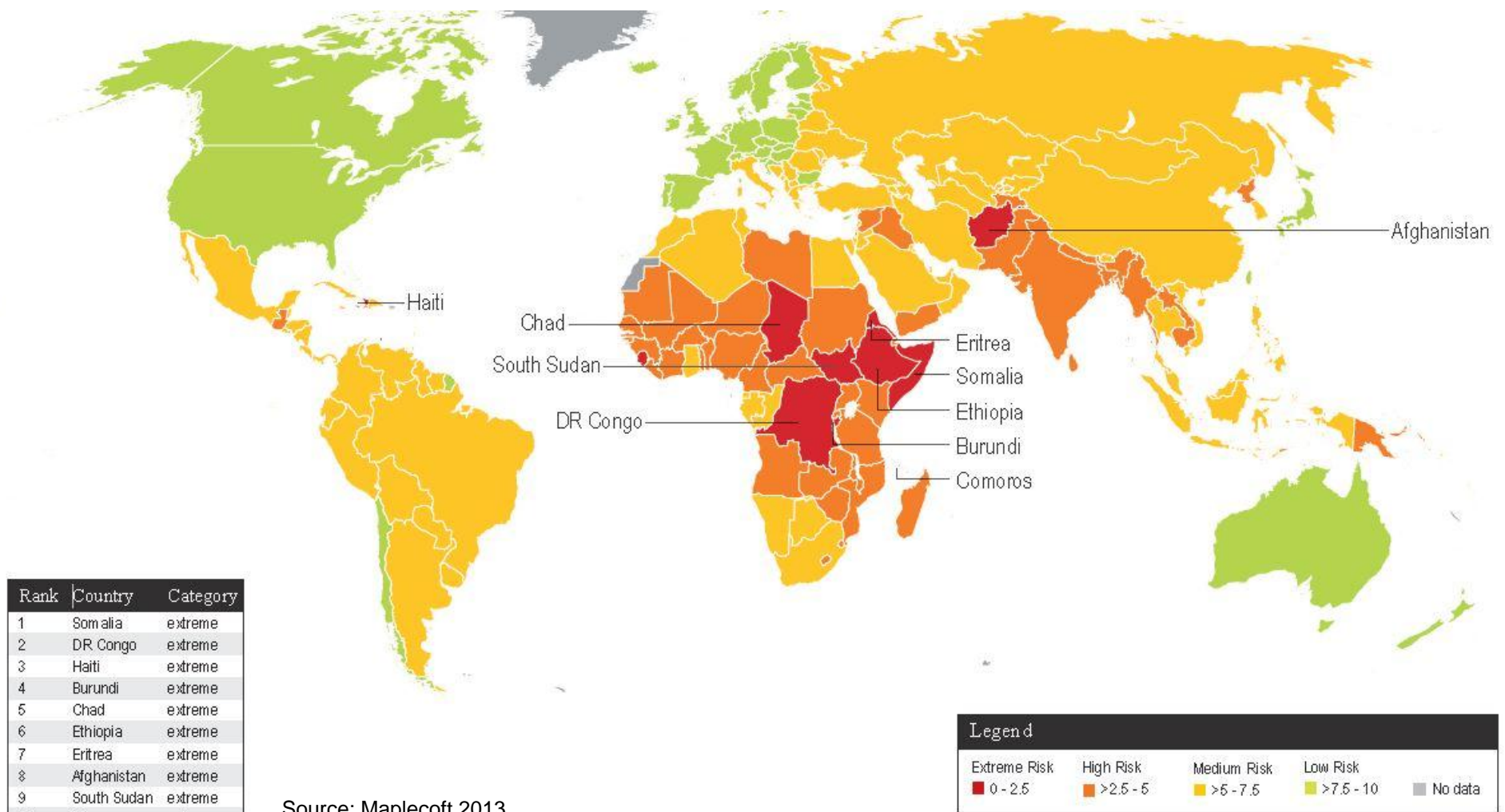
**PRESSURE ON
SUPPLY**

**GROWING
DEMAND**

- Growing population
- Increasing animal protein in developing country diets
- Increasing demand from biofuels



Food Security 2013



Source: Maplecoft 2013



Agribusiness Value Chain

Sector	Input	Farmers	Traders	Food Companies	Retailers
Sales US\$ bn (approx)	400	3,000	1,000	3,500	5,400
Number of players	Hundreds	450 million	Tens	Thousands	Millions
Composition /sub-sectors	<ul style="list-style-type: none"> • Seed • Fertiliser • Crop protection • Machinery • Animal health & nutrition • Crop insurance • Food ingredients 	<ul style="list-style-type: none"> • Grains • Fruits & vegetables • Meat • Dairy 	<ul style="list-style-type: none"> • Handling • Primary processing • Secondary processing 	<ul style="list-style-type: none"> • Meat • Dairy • Bakery • Snacks • Ready meals • Beverages 	<ul style="list-style-type: none"> • Multiples • Discounters • Wholesalers • Independents
Range	R&D based majors to generic manufacturers	Smallholders to agro-holdings	Global agribusiness to local middlemen	SMEs to multinationals	Corner shops to hypermarkets



And as we have mentioned all week.....





Joint UNEP/UNDP Project Overview

- Objective: helping phase out deforestation from productive and financial supply chains specifically focussed on agricultural commodities (e.g. palm oil, soy and beef)
- Building on feedback from Country Needs Assessment
- This joint project provides leadership and innovation in the field of REDD+ and commodities. A field that up until now has been disconnected
- Leveraging core competencies of UNEP Finance Initiative and UNDP Green Commodities Programme
- Contributing to directly to outcome 4.5 (Private Sector Engagement) and indirectly to outcome 6 (Green Economy) of the SNA

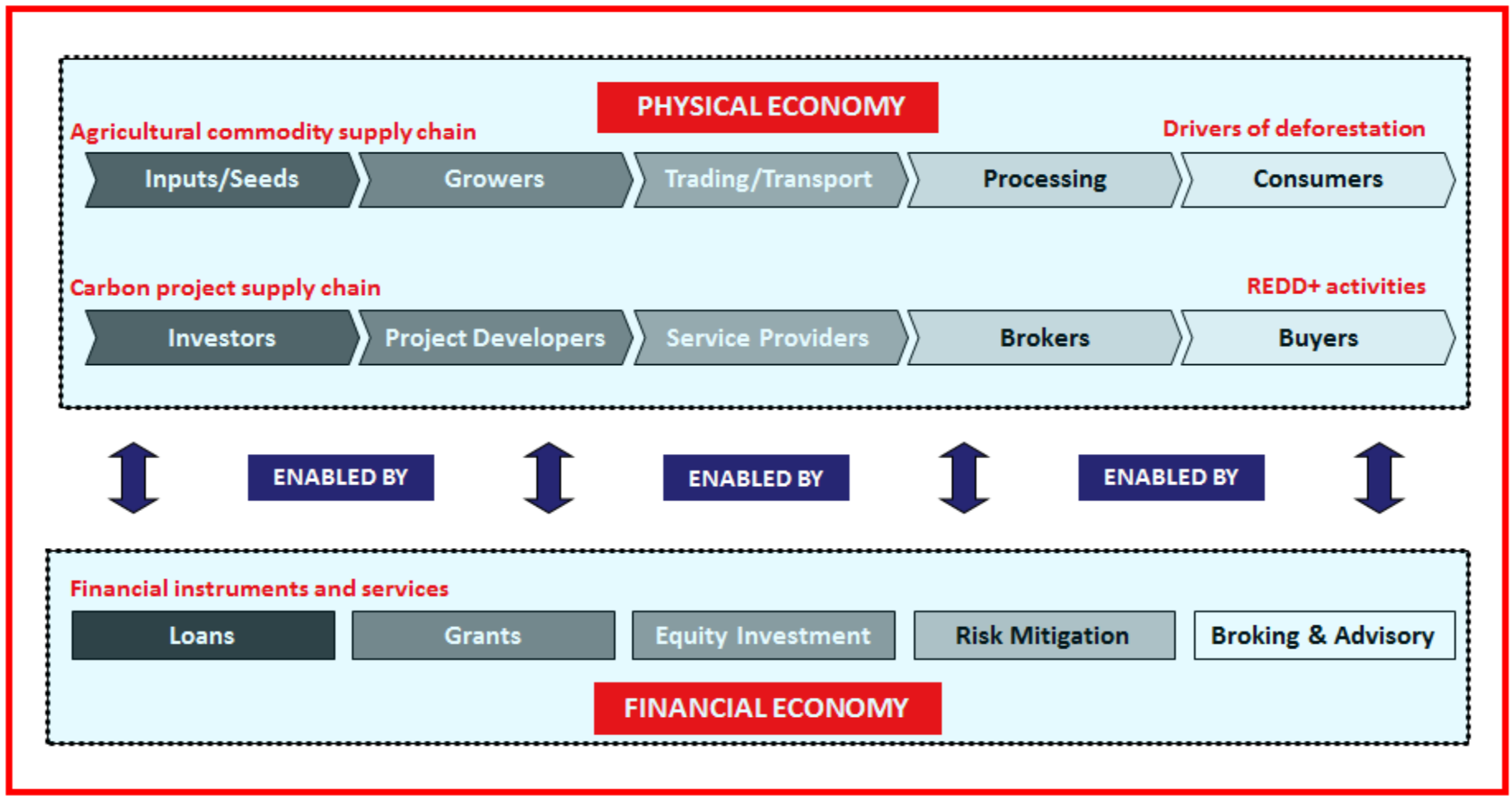


UNDP Green Commodities Programme

- Created in 2009, UNDP's Green Commodities Programme has a strong focus on addressing REDD+ objectives and private sector partners
- Commodities include: oil palm (Indonesia), cocoa (Ghana), coffee & rubber (Vietnam)
- Approach:
 - Mainstreaming REDD+ objectives (deforestation and increased carbon stock on farms) into Ministries of Agriculture and global corporate buyers.
 - Public private partnerships for collaborative solutions and investments to benefit small farmers and forests
 - Mechanisms to scale up good agriculture practices e.g. extension instead of direct farmer training
 - Build on foundations already developed in countries and global partnerships (TFA, IDH, GEF) for quick start

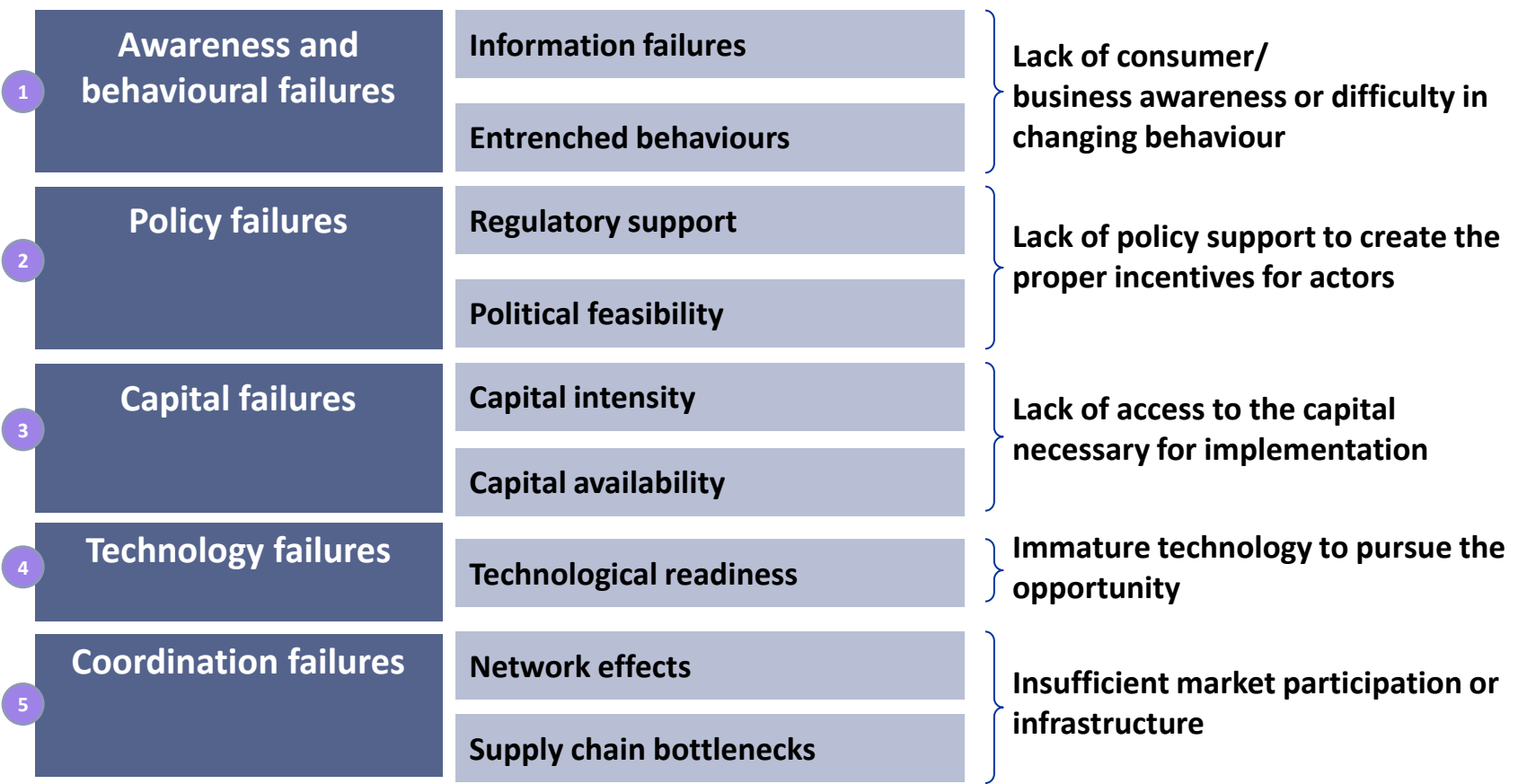


The relationship between the physical and financial economies





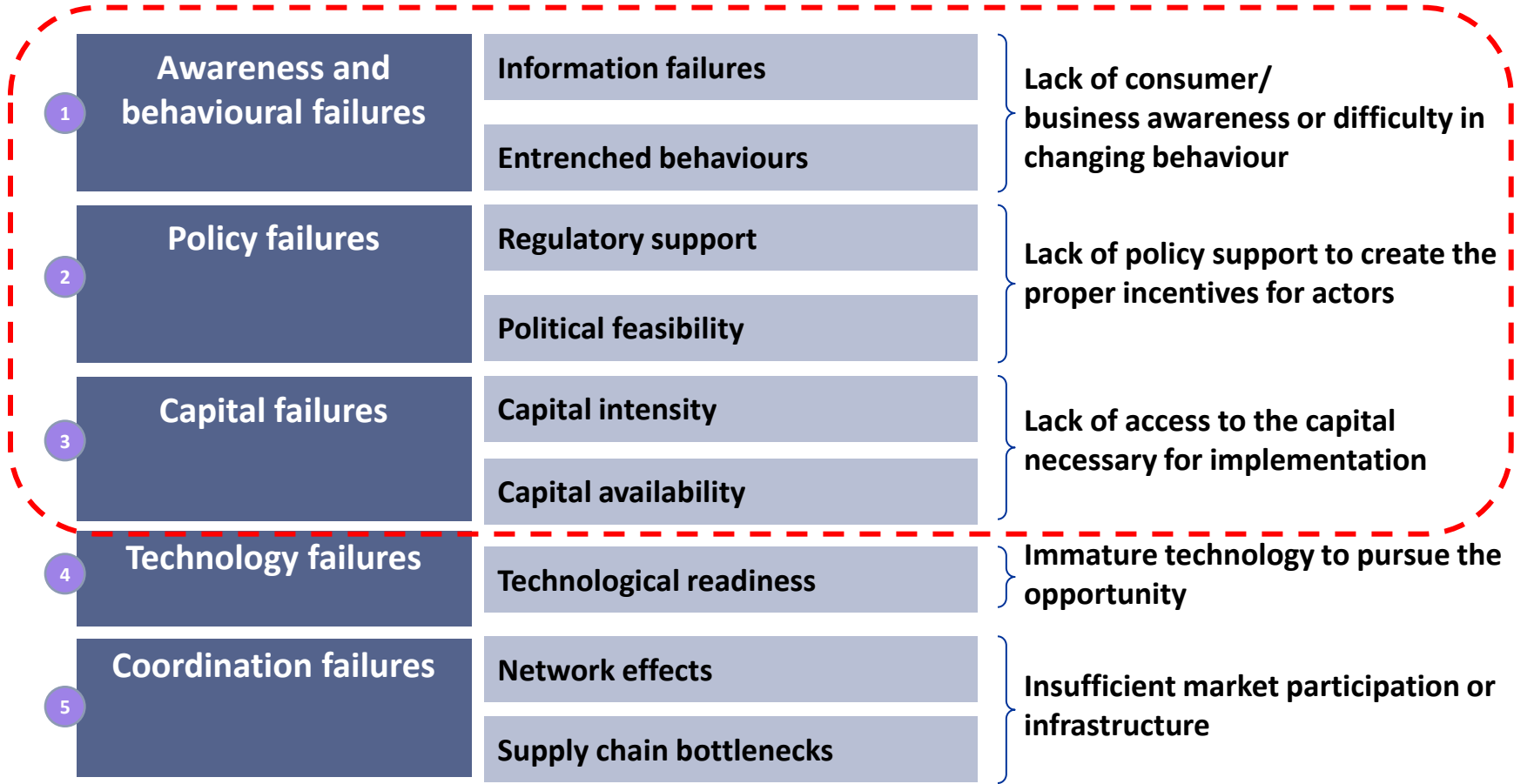
What is holding the back the private sector?



Source: 3GF, "Accelerating Green Growth through public-private partnerships"



What is holding the back the private sector?



Source: 3GF, "Accelerating Green Growth through public-private partnerships"

Building a Business Case for REDD+

Does a business case for REDD+ exist for forest countries and the private sector at:

- Global level over the long term? ✓
- National level over the short term? ✗

What are examples of areas around which a business case could exist for forest country governments and the private sector?

How can these be built or strengthened in the future? What is the role of the international community in doing so?

First event in Warsaw at COP19 with likely event likely in Jakarta in May

Building a Business Case for REDD+

What?

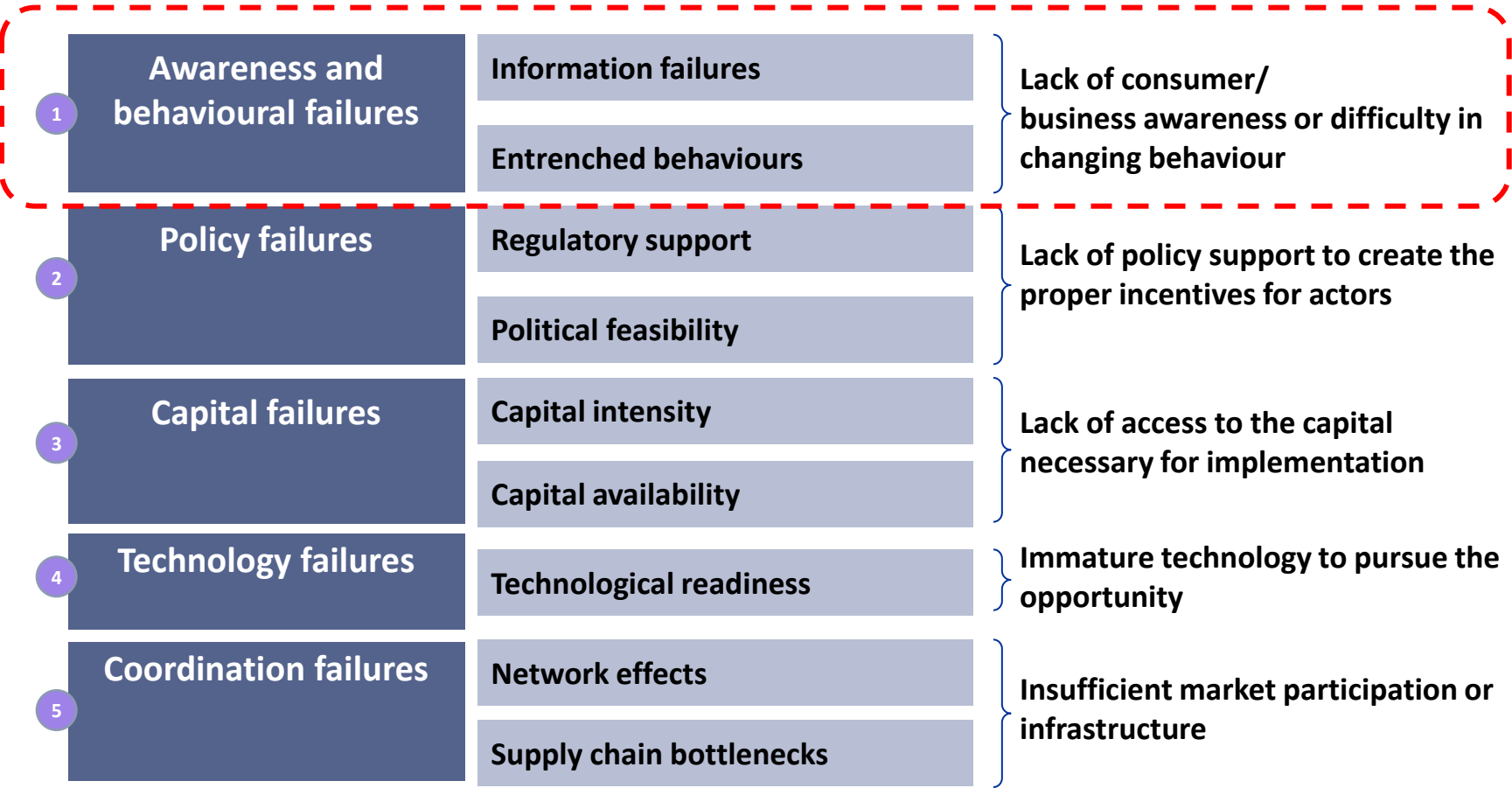
- REDD+ and higher value, non-extractive and more diversified supply chains outside the forest frontier in forest countries (i.e. REDD+ and the Green Economy)
- Forest services, including the regulation of hydrological cycles & micro-climates, ensure stability & resilience of commodity production & other land-based economic activities
- Carbon credits/markets and other international payments for ecosystem services
- ‘Premium’ prices, and/or ‘premium’ market access, for sustainably produced commodities

How?

- Strengthening price signals in the short to medium term
- Bridging information gaps related to new business and economic opportunities, cost advantages and/or risk management
- Building Public Private Partnerships to deliver REDD+
- Closing the ‘perception gap’ /building trust and consensus between public and private sector actors



What is holding the back the private sector?

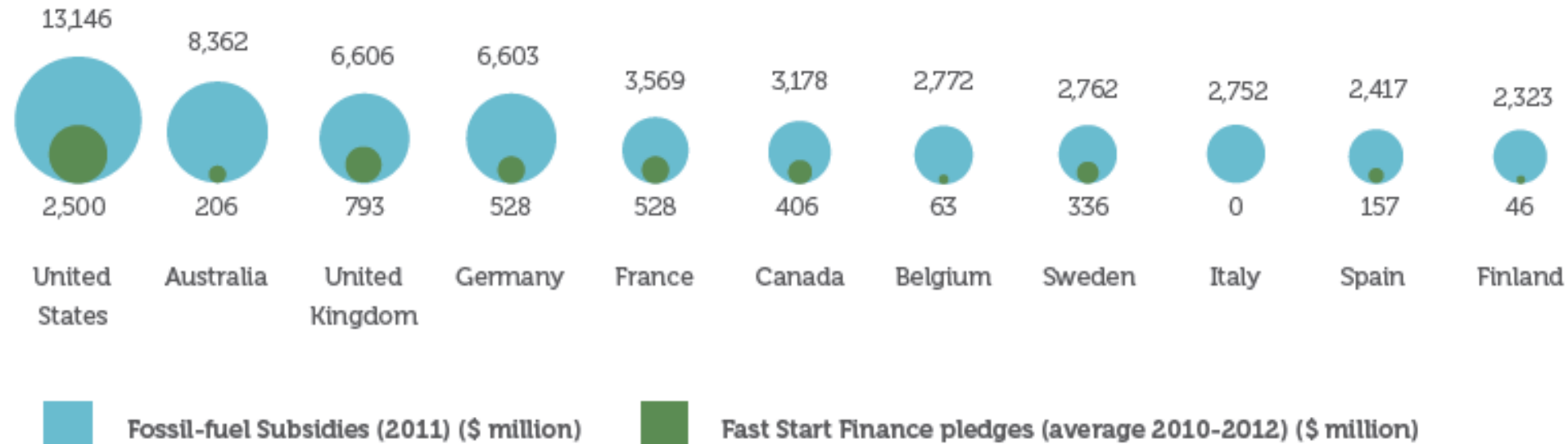


Source: 3GF, "Accelerating Green Growth through public-private partnerships"

Regulatory frameworks to attract REDD+ investment

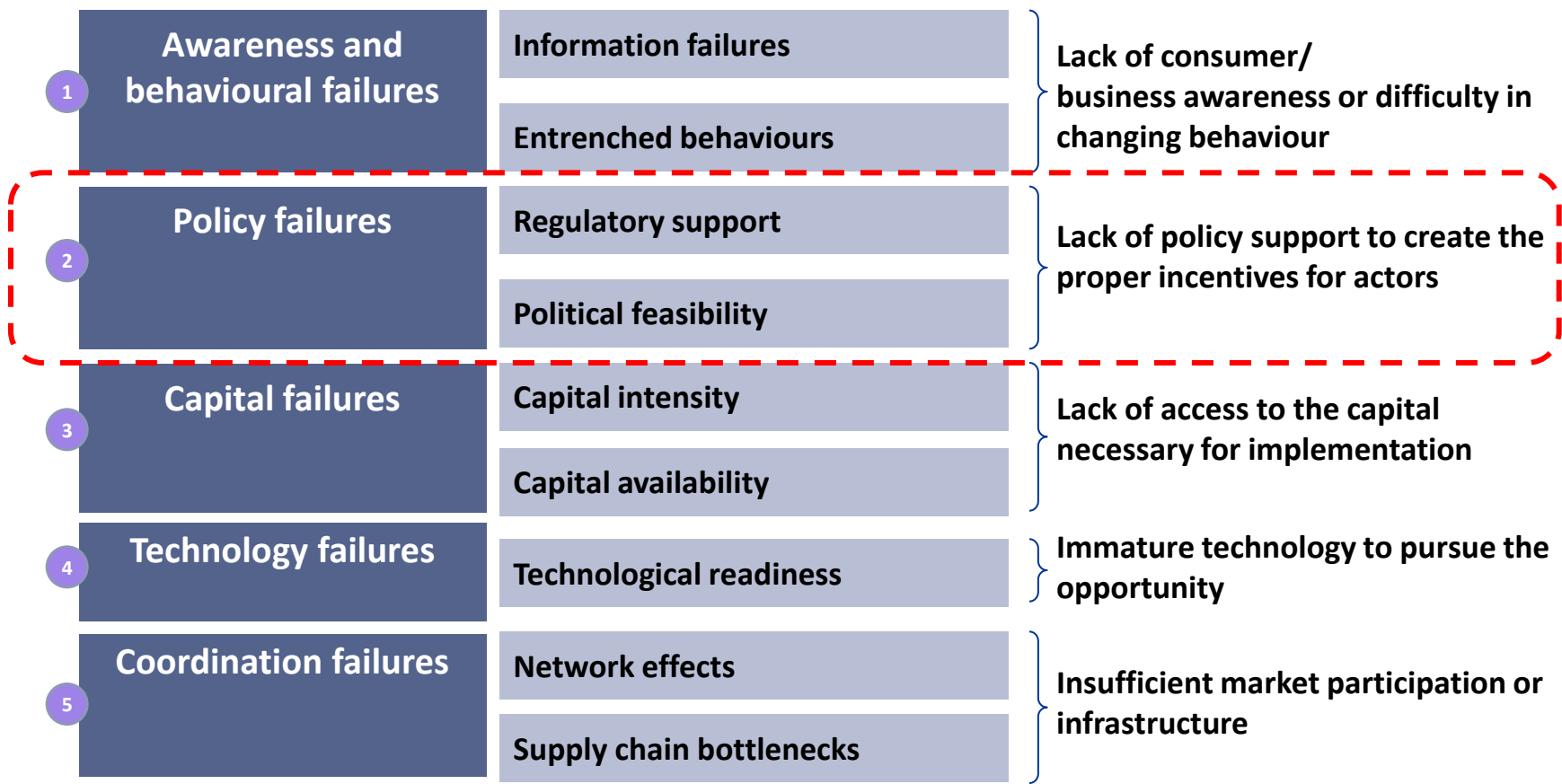
- Legal, economic and financial analysis of frameworks currently driving business-as-usual activities in a forest country
- Specific emphasis on a forest risk commodity
- Builds on a joint paper with ODI on agricultural subsidies

Developed country fossil fuel subsidies vs. climate finance





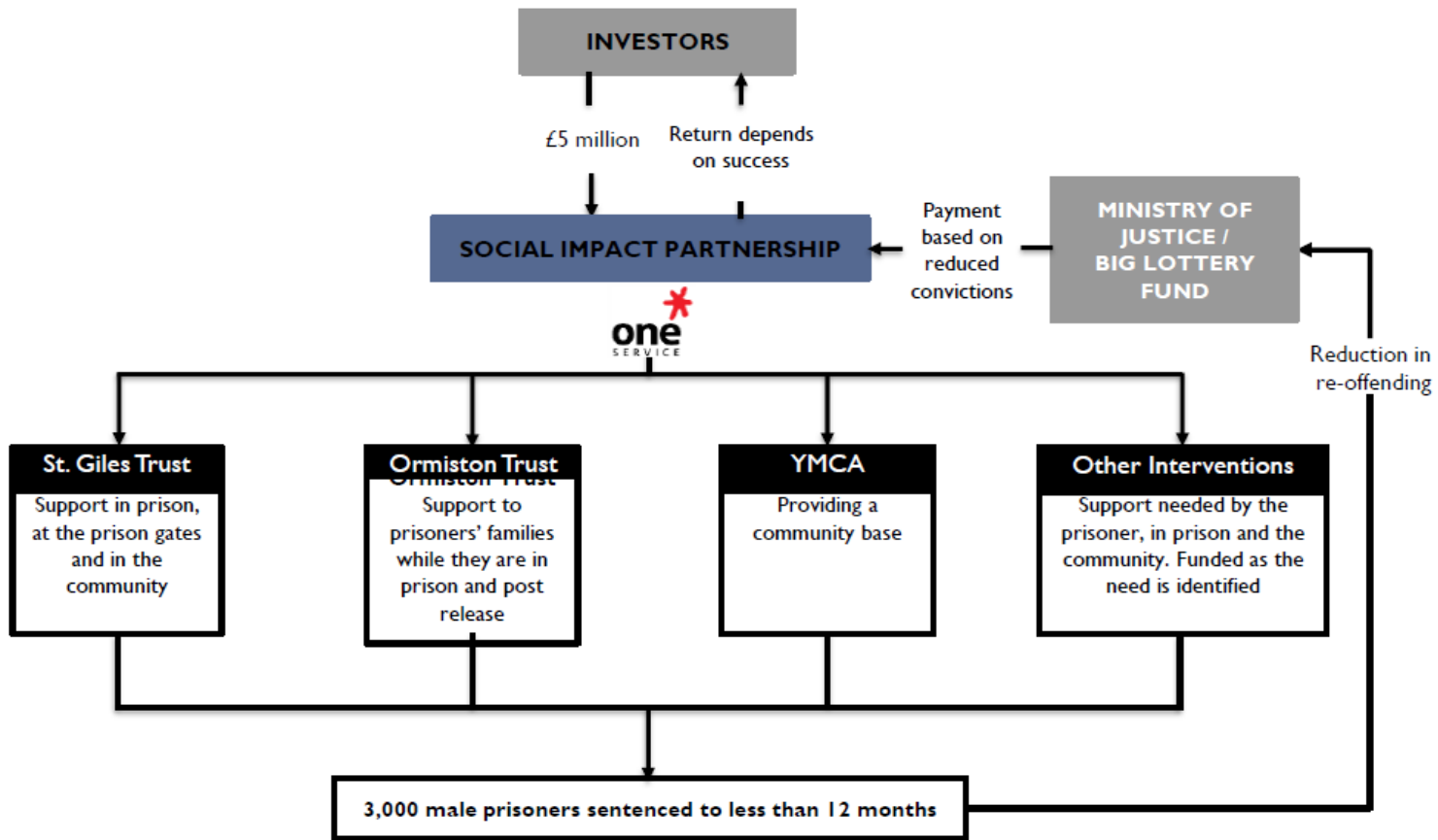
What is holding the back the private sector?



Source: 3GF, "Accelerating Green Growth through public-private partnerships"



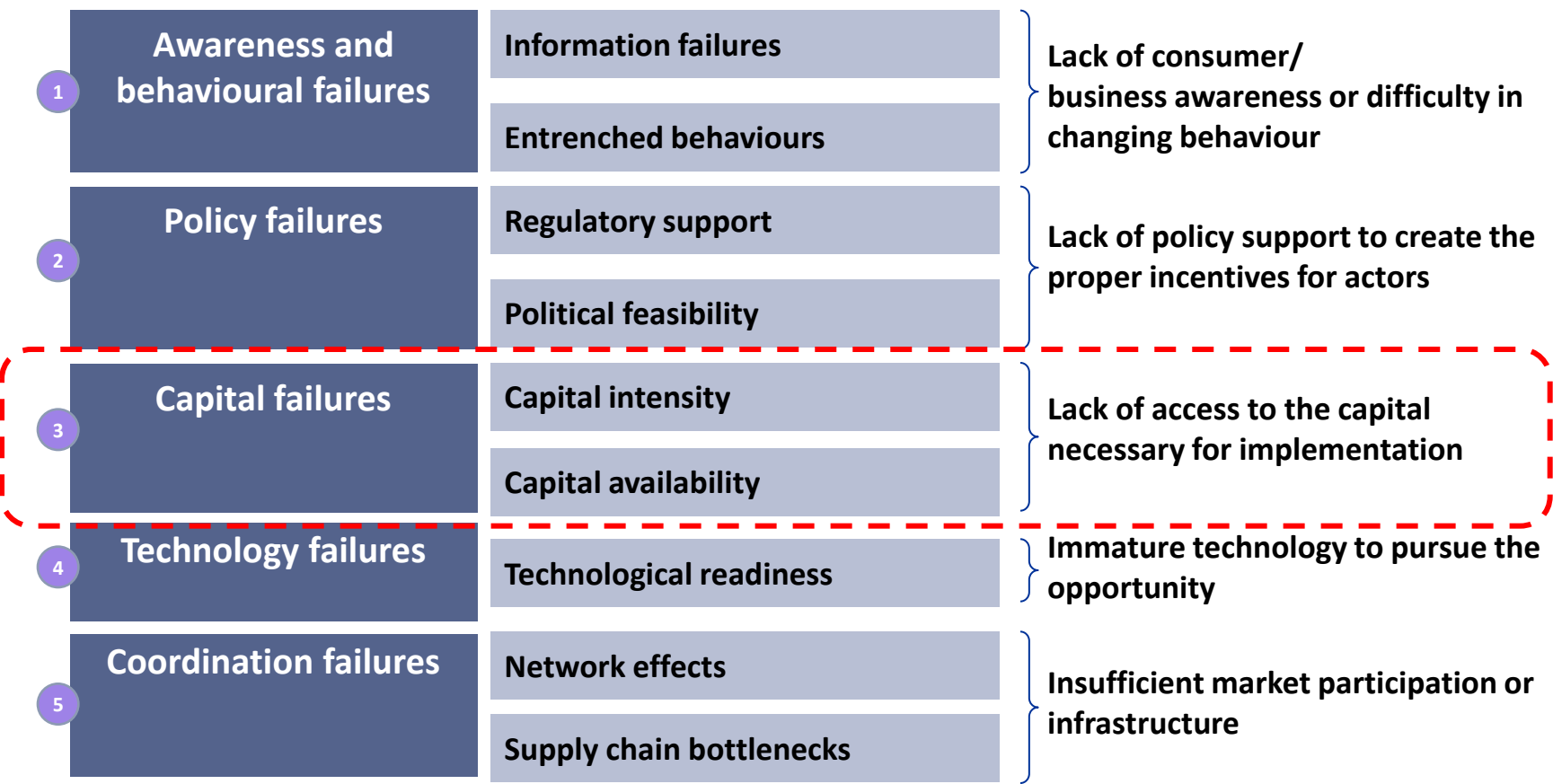
Environmental Impact Bond feasibility study



Source: Social Finance UK



What is holding the back the private sector?



Source: 3GF, "Accelerating Green Growth through public-private partnerships"

Examples of UNDP Projects

- Engagement of commodity buyers
- Support the establishment and operation of National Commodity Platforms within the Ministries of Agriculture
- Strengthened policy framework and land use planning to limit agricultural expansion into forests
- Long term (> 1 year) smallholder finance (joint UNEP/UNDP)



Identifying, classifying and prioritising private sector activities

Activity	A	B	C	D	E	F
GHG abatement potential	Green	Red	Green	Green	Yellow	Green
Scalability	Green	Yellow	Green	Green	Red	Green
Ease of implementation	Yellow	Green	Green	Yellow	Green	Green
Community and gender benefits	Yellow	Green	Green	Green	Yellow	Green
Commercial viability	Yellow	Yellow	Yellow	Green	Yellow	Green
Economic multipliers	Green	Red	Yellow	Yellow	Green	Yellow
Private sector finance required	Yellow	Red	Yellow	Yellow	Green	Yellow
Unit size of investment	Green	Yellow	Yellow	Green	Green	Green
Land tenure	Yellow	Yellow	Yellow	Green	Red	Yellow

Possible activities:

- Agroforestry
- Charcoal prod
- Processing
- Storage facilities
- Reforestation
- Certification
- Avoided deforest.
- Resource efficiency

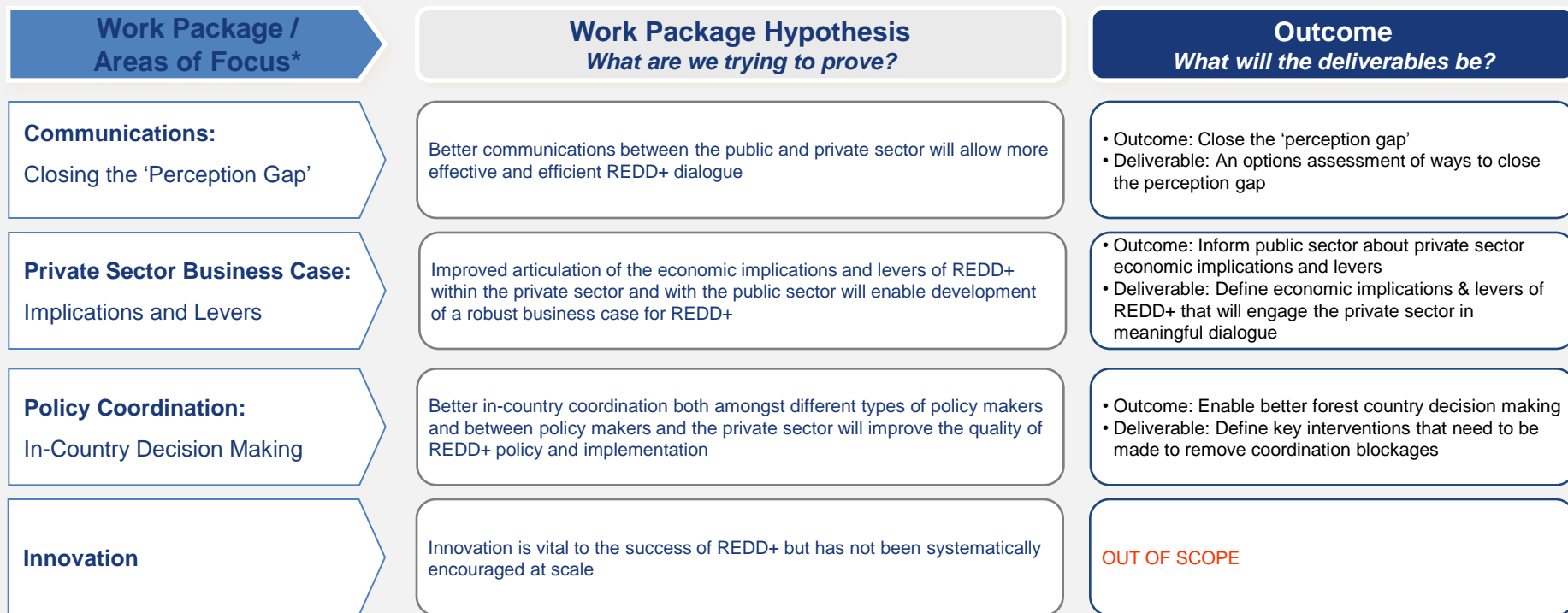


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2. Private Sector Engagement Strategy



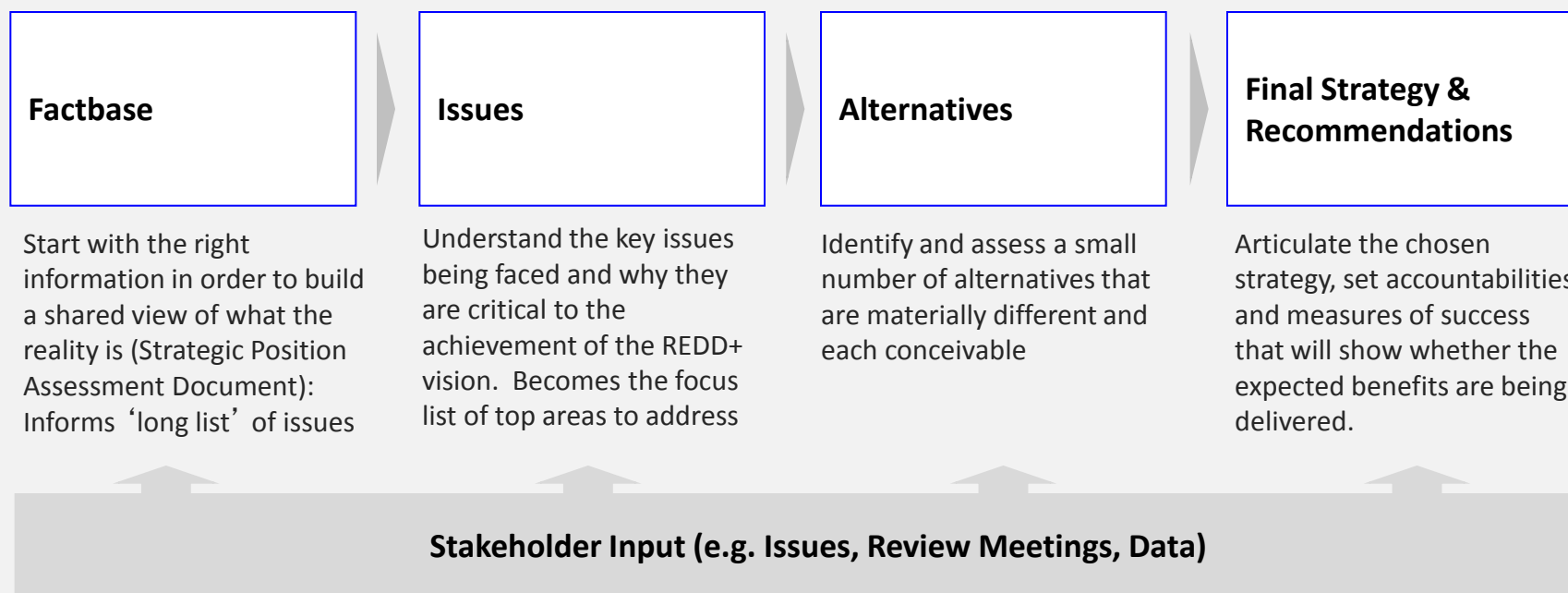
The aim of the Strategy is to identify and communicate clearly the role of the UN-REDD Programme, to effectively engage the private sector in REDD+, and to outline the support that the agencies can provide to countries and to the private sector in this regard.



*Areas of work initially considered and subject to revision

A typical approach and framework to strategy development

Strategy development is a structured approach that engages and aligns stakeholders to a common set of prioritised outcomes and actions



This framework is intended to avoid initiative proliferation, keep focused on biggest issues with highest impact and involve stakeholders in the process

Milestones

Factbase

December 2013

- Mapping of relevant initiatives to engage the private sector in REDD+
- Development of principles to inform prioritisation of issues
- Working group representatives identified
- Initial scoping with agencies to refine scope and hypotheses

Issues

February 2014

- Hypotheses tested internally (UN-REDD Programme) and externally (relevant stakeholders including representatives from UN-REDD Partner countries and the private sector)
- Remaining issues are identified and addressed by working group

Alternatives

April 2014

- Results of previous phase are articulated into a draft strategy
- Draft strategy presented to the UN-REDD MG

Final Strategy & Recommendations

June 2014

- Final strategy agreed at PB12

Stakeholder Input

Guiding Principles

- **Additional** – The proposed intervention does not unduly duplicate the efforts of others
- **High Priority** – The intervention has been identified as important and urgent by relevant stakeholders
- **Impact** – The proposed intervention achieves a meaningful impact creating change in the short to medium-term and that is lasting over the long-term (time and scale, country ownership)
- **Measurable** – The impact generated by the intervention can be measured
- **Scalable** – The proposed intervention can be replicated across different regional contexts



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3. Natural Capital Declaration



The Natural Capital Declaration and Roadmap

*Financial sector leadership
on natural capital*



Natural
Capital
Declaration

Financial sector leadership
on natural capital

Secretariat:



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GCP
GLOBAL CANOPY PROGRAMME

The NCD

- **Finance-led, CEO-endorsed** initiative to **mainstream** natural capital in loans, bonds, equities and insurance, as well as accounting & reporting.

End game

- **Direct** (and **quantitative**) **link** between natural capital and **credit risk** (as opposed to a separate environmental / sustainability factor).
- **Visualize** and **integrate natural capital in the P&L and on the balance sheet** of companies, including finance institutions.
- Stimulate **business innovation** to develop new bond, equity, insurance products

Principles:

- **Beyond sustainability teams:** work with relevant business teams depending on project.
- **Not a logo initiatives:** focus on quality and having impact, rather than quantity (# FIs).
- **Practical and implementation-focused:** Develop tools and metrics that enable FIs to integrate natural capital considerations in financial products.
- **Contribute financially:** FIs require to pay annual contribution and/or project payments.

What is natural capital?

- The stock of ecosystems that yields a renewable flow of goods and services that underpin the economy and provide inputs and benefits to businesses and society (e.g. food, fiber, water, energy, timber, climate security).
- One factor of environmental, social and governance (ESG) considerations that can be material to financial institutions, mainly through loans, investments or insurance.



Natural
Capital
Declaration

Financial sector leadership
on natural capital

Secretariat:



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GCP
GLOBAL CANOPY PROGRAMME

NCD signatories (December 2013)

www.naturalcapitaldeclaration.org



althelia
ecosphere

ASN BANK

BANORTE

BANCO MULTIVA



BANCO PICHINCHA
En confianza.

BBVA



CAIXA



Calvert
INVESTMENTS

cdc
climat



招商銀行
CHINA MERCHANTS BANK



cyrte
investments



First GREEN Bank
a local bank with a global mission™

FMO
Entrepreneurial
Development
Bank

forma futura



**FUNDACION
SOCIAL**

IFC
International
Finance
Corporation
World Bank Group



**MONGERAL
EGON**
seguros e previdência



**MONTE
DEI PASCHI
DI SIENA**
BANCA DAL 1472

Mutualista Pichincha
¿Tienes un sueño? Construyémoslo.



NEDBANK

OPPENHEIM

PAX
Pax World Mutual Funds

平安銀行
PING AN BANK



Rabobank

ROBECO
The Investment Engineers

SNS Asset Management



SOVEREIGN

**Standard
Chartered**



UniCredit

VISION Banco

YES BANK

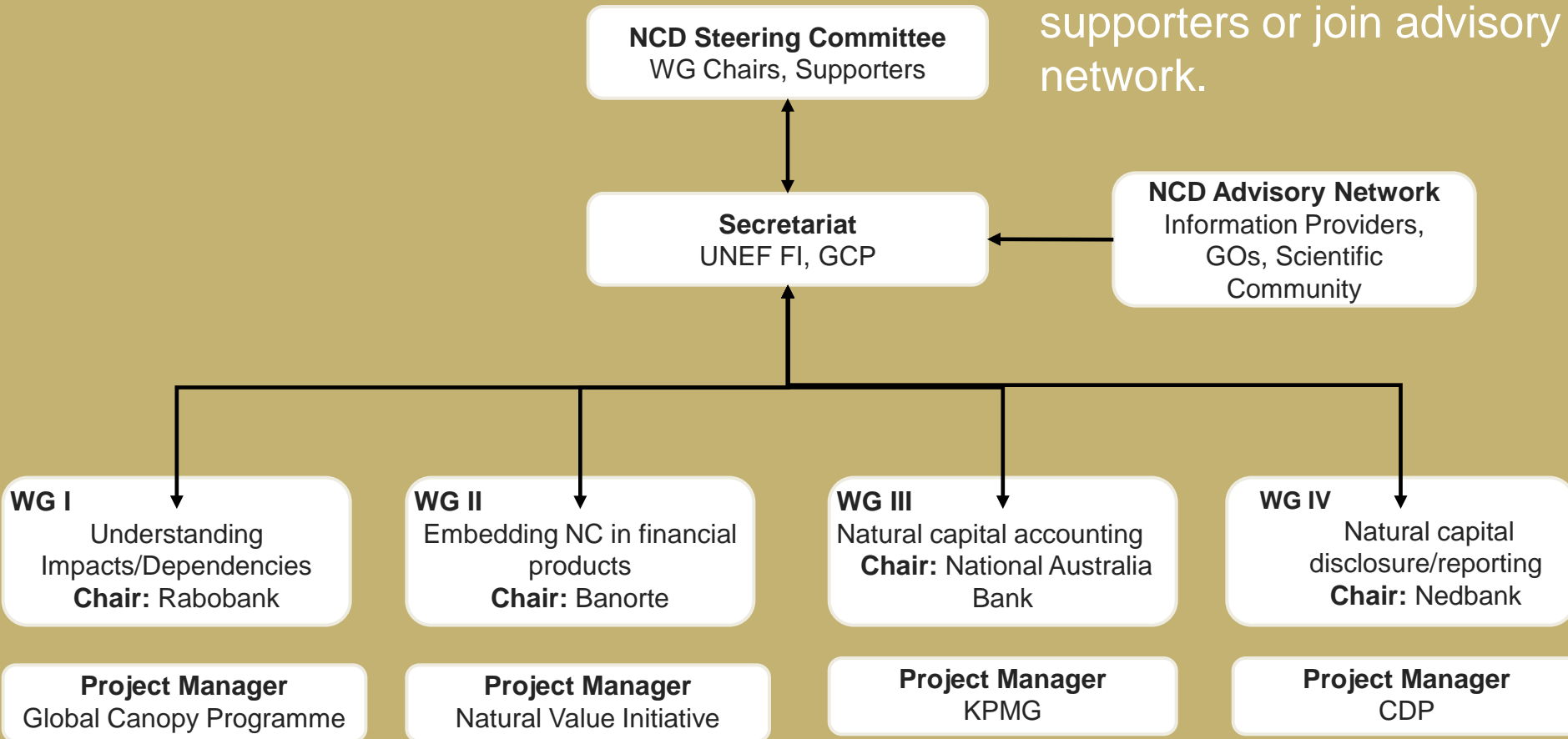
Zevin Asset Management
PIONEERS IN SOCIALLY RESPONSIBLE INVESTING

NCD supporters (December 2013)



Governance NCD

Seek multidisciplinary knowledge and expertise by inviting non-financial organizations to become supporters or join advisory network.



Natural
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Declaration
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What implementation can mean for financial institutions

1. Understand		<p>“How exposed is my institution?” / “How material is natural capital for my company?”</p>		<p>-<u>Working Groups</u> will develop and test metrics and tools through a series of <u>pilot projects</u></p> <p>-<u>Pilot Projects</u> will help FIs to ‘learn by doing’ - building practical knowledge and internal capacity on these issues</p>
2. Embed		<p>“How can I integrate natural capital in different types of loans, bonds, equities, insurance products?”</p>		
3. Account		<p>“Bringing natural capital into a company’ s (financial institution’ s) financial accounts”</p>		
4. Disclose / report		<p>“How to meaningfully combine sustainability with financial reporting”</p>		



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Examples of NCD Pilot Projects

1. Incorporating natural capital in client performance and credit risk assessments

- Led / proposed by IFC, with 7 other FIs interested
- Asset class(es): corporate lending and public and possibly private equity
- Develop and test methodologies to map impacts and dependencies (WG1) at portfolio (rather than individual loan) level
- Options to reflect in setting interest rates / conditions by FIs for clients

2. Develop risk policies for soft commodities

- Part of a ICA with UNEP under the UN-REDD Programme.
- Asset class(es): corporate lending (debt) and public equity
- Analyse whether it's possible to set A) minimal; and B) Optimal risk policies for soft commodities that banks can apply.

3. E-RISC II: Towards Market Readiness

- Led by UNEP FI and Global Footprint Network
- Asset class(es): Sovereign bonds
- Methodology that enables credit rating agencies, investors and banks to incorporate renewable natural resources in sovereign credit risk / country risk analysis

Examples of NCD Pilot Projects

August-October: Scope pilot projects and establish partners

Incorporating natural capital in client performance and credit risk assessments

1. Develop and test methodologies to map impacts and dependencies (WG1) across loan books/portfolios.
2. Develop methodology to create risk-based premiums for FI clients.

Guidance to address deforestation risk in soft commodities policies

Develop guidance to address deforestation and forest degradation caused by agricultural production (i.e. oil palm, soy, beef) through lending, advisory and investment risk policies, supporting the UN-REDD Programme.



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Group exercise





Group exercise





Questions

- What questions are you being asked by FOREST COUNTRIES?
 - What would help you engage forest countries in discussions about the private sector?
 - What training/information/communications material do you need?