



The Role of the Private Sector in REDD+ Implementation and Financing in Latin America

UN-REDD PROGRAMME

Workshop Outcomes Report
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Introduction

On August 29th on the margins of the 2013 Latin American and the Caribbean Carbon Forum, UNEP Finance Initiative in collaboration with the UN-REDD Programme organized a workshop on *the role of the private sector in REDD+ implementation and financing* with representatives of national governments, National Joint Programmes, development finance institutions, REDD+ project developers, and specialized investment funds in REDD+ and sustainable land use activities.

The objective of the workshop was to help close the perception and information gaps between private actors and the public sector related to the implementation and financing of REDD+ activities in the context of the implementation of national REDD+ programmes. The event also intended to shed light on how countries are managing the transition from a project-based to a jurisdictional-based REDD+; the mosaic of medium-term sources of finance; different modalities of participation of the private sector in jurisdictional-based REDD+; and the enabling conditions for private sector investment in REDD+ activities.

This event was held as part of the efforts of the UN-REDD Programme to engage the private sector to achieve REDD+ in the region. The structure of the event was as follows: a brief introduction to the role of the private sector in REDD+ was followed by government and national joint programme representatives providing brief updates of the status of respective their national programmes. These presentations were followed by two panel discussions on the enabling conditions for private investment in REDD+ and on sources of medium-term finance for REDD+.

Updates on the status of the national REDD+ programmes



The representatives of Ecuador, Panama, and Paraguay provided brief updates on the status of their national programmes.

A representative from Ecuador's Ministry of Environment framed how the REDD+ process was initiated and placed REDD+ in context of other mitigation mechanisms in the country. The progress made to date on both the policy and operational frameworks for REDD+ were highlighted during the presentation, including the possible creation of a resolution system for conflicts and grievances. Specific emphasis was placed during the presentation to the

implications of the Ministerial Agreement 33 and the benefit distribution framework it sets, as this may determine the different modalities of the participation of the private sector in the implementation and financing of REDD+ activities.

A representative of the National Joint Programme and a representative of the Federation for the Self-determination of Indigenous Peoples (FAPI, in Spanish) presented Paraguay's update on the development of their national programme. They presented an overview of the milestones reached within the national REDD programme so far, including developments on an analysis of the

opportunity costs of REDD+ implementation, a national forest inventory, and the identification of multiple benefits that can be accrued with REDD+. Paraguay aims to set up a National REDD+ Committee by the end of 2013.

A representative of the National Authority for the Environment (ANAM, in Spanish) presented the update of Panama's national programme. In addition to the institutional framework and legal framework for REDD+ in the country, a scenario analysis of the country considering different drivers of deforestation was presented alongside preliminary conclusions from an opportunity cost analysis undertaken in the country. Some of the preliminary findings show that under current price for Verified Emissions Reductions (VERs), REDD+ could compete with only a limited array of activities: subsistence agriculture and low intensity cattle ranching; but could not compete with intensive agriculture and cattle ranching or with real estate and mining. Efforts to engage with the private sector were also highlighted in the presentation.

A common theme during all the presentations was the importance of ensuring that both a robust safeguards system and sound mechanism for benefit sharing are in place.

What are the enabling conditions for the participation of the private sector in REDD+ financing and implementation?



Panelists agreed that there was an important role to be played by the private sector in REDD+ especially as it relates to investment, innovation, and implementation of REDD+ activities. According to participants, the success of a REDD+ activity, whether developed by the private sector or not, will depend upon its capacity to create an alternative pathway of sustainable rural economic development for partners on the ground or forest dependent communities. For this, it is crucial that activities are anchored to

a national REDD+ strategy.

It was suggested that the private sector would strongly prefer nested approaches to REDD+ where project developers would have access to multiple sources of public and private finance, including international finance, and where they would be able to sell the VERs generated from their projects directly to national or international buyers. In addition to preferring a nested approach, there are some conditions that the private sector looks for before deciding whether or not to undertake an activity in a country. In general, private sector actors prefer policy frameworks that are long, loud, legal, and light. In particular, amongst some of the conditions mentioned were: that the State can guarantee the security of the individuals developing the activity on the ground, ability to enforce contracts, secure land-tenure or ability to discern land tenure when conflicting claims exist, very low-risk of expropriation and the ability to withdraw profits from the country where they were generated when necessary. It was also suggested that the clearer the rules for engaging in REDD+

the easier it would be for the private sector to become involved in its financing and implementation, as private sector actors tend to avoid becoming involved in activities where significant legal grey areas prevail.

One of the concerns expressed by government representatives throughout the workshop was that it would be difficult to ensure that private sector actors complied with environmental and social safeguards given the current market conditions. Private sector participants argued that compliance with environmental and social safeguards is a pre-condition for the success of the project and that it significantly reduces the operational risk of a project.

It was also agreed by participants that in the current transition from project-based to jurisdictional-based REDD+ it was germane that private project implementers and financiers become more involved in the different national REDD+ processes. Private sector actors can also add value to these processes as they have accrued significant experiences in the implementation of REDD+ projects in recent years. It was recognized that this transition might also pose a risk to some project implementers and financiers, as existing projects that are not consistent with the objectives or within the priority areas of the national programmes of the countries in which they operate could become “stranded.” In order to address these concerns, responsible project implementers and financiers are already establishing dialogues with national and local governments to ensure that future projects and activities could be considered as demonstration activities by clearly linking them to the objectives of the national programmes. Private sector actors have also been exploring new modalities for implementation of REDD+ activities in partnership with local and national governments.

While it was agreed that the motivations for market participants in REDD+ voluntary markets varied, panellists agreed that there is still a strong component of meeting Corporate Social Responsibility objectives, especially amongst buyers of REDD+ VERs. Private sector actors with brokering services and active in the secondary market for REDD+ VERs suggested that there are a few trends that are starting to emerge in the behaviour of buyers, these include: strong preference for VERs that have been issued under VCS and CCB guidelines (with several buyers excluding VERs that have not been certified under these two standards) and recent vintage of VERs. As motivations remain CSR driven attractiveness of the projects are not only carbon related, but also contingent upon its geographical location, environmental benefits accrued as part of the project, and, importantly, the social and development benefits that the project generates.

Relatively innovative instruments that could work to leverage private sector capital for REDD+ activities were also discussed during this session but further discussions are needed to identify how these could be tailored to specific countries. Amongst the instruments discussed were credit guarantees, price guarantees, and advanced market commitments.

Financing REDD+ in the medium and long-term – market and non market mechanisms

The mosaic of possible different sources of finance in the medium to long-term was presented during this panel discussion, this included an overview of the current carbon price schemes around the world and possible sources of compliance driven demand for REDD+ and more specifically possible demand from California.



Experiences accrued by the Inter-American Development Bank in efforts to leverage private sector capital for forestry activities were shared especially as they related to addressing some of the bottlenecks that limit finance amongst private sector smallholders. These included: lack of ad hoc credit lines adapted to sectorial demands and local needs; extended maturity periods of projects due to the biological cycle of forest products; the land tenure in communities that generates uncertainty, particularly to long term investments and lack of institutional capacity of some borrowers.

On the availability of private sector finance for REDD+ in the medium and long-term it was suggested that a clearer classification of sources of private finance is needed that differentiates between upfront capital and investment from on-going revenue. On most occasions the availability of upfront capital will be contingent upon the activity being able to secure on-going revenue. Some of the different types of upfront capital and investment include: loans, equity investments, Emissions Reduction Purchase Agreements (ERPAs), and bonds or other debt instruments. Possible sources of on-going revenue include purchases of VERs (be them CSR related or by multilateral funds), linked revenue sources (for instance certified commodities), amongst others.

A few constraints to scaling up private sector investment in REDD+ in the medium to long-term were identified. On the supply-side of REDD+ these included: lack of clarity regarding possibility of nesting projects; limited understanding of the requirements for private sector investment, and lack of clarity on the proliferation of national-based carbon accounting and social standards. On the demand side, these included: limited signals of significant long-term demand for REDD+ VERs; complexity of REDD+ activities, and limited number of actors willing to engage in REDD+ given current conditions.

A list of possible actions to be taken by national governments to stimulate private sector investment REDD+ was shared with all participants. These actions include: adopting existing and accepted carbon accounting and social standards; allow projects to be nested in national programmes with direct crediting; establishing REDD+ management entities with clear and defined mandates (for instance public-private partnerships); and, better articulate and leverage existing Payment for Environmental Schemes with REDD+.

Next Steps

As next steps, the UN-REDD Programme in collaboration with UNEP Finance Initiative will continue to foster public-private dialogues on REDD+ implementation and financing at the national level in the region during 2013 and 2014 to ensure that national REDD+ strategies are reflective of private sector engagement both in the production and sale of VERs as well as in the production of agricultural commodities.

List of Participants

Name	Organization
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Eric Rodriguez	ANAM Panama
Camilo Rojas	CAF
Diana Barba	Ministry of Environment – Colombia
Benedicto Lucas	CONAP - Guatemala
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Christian Parra	Ministry of Environment – Ecuador
Rob Friberg	Offsetters
Lilian Portillo	JNP Paraguay
João Sarmento de Vasconcellos	Permian Global
Luciana Passos	Permian Global
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Florian Reimer	South Pole Carbon Asset Management
Leslie Durschinger	Terra Global Capital
Gabriel Labbate	UNEP
Jacinto Coello	UNEP Finance Initiative
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