

The Private Sector in the REDD+ Supply Chain: Trends, challenges and opportunities

A key determinant of REDD+¹ success will be ensuring effective private sector engagement. Funding is a major concern in the implementation of REDD+ activities and involving the private sector will be absolutely critical to scale up investment in REDD+. The private sector can also make vital contributions to REDD+ initiatives through the range of its expertise and be part of the solution to mitigating climate change by addressing key drivers of deforestation under attractive conditions. Nevertheless, little has been done to identify who the key private sector players are, the roles they play and the sector's diversity in terms of scale, expertise, motivations and forms of involvement.

At the Conference of the Parties (COP) 17, the willingness to diversify funding approaches for REDD+—including “public and private, bilateral and multilateral, and alternative sources” as well as the recognition of the possibility of developing “appropriate market-based approaches for REDD+”—were significant moves forward to help facilitate the mobilization of private finance for REDD+.²

The ASB Partnership for the Tropical Forest Margins and the International Institute for Sustainable Development (IISD) explored the role of the private sector in REDD+ under a three-year REDD+ capacity-building initiative supported by the Norwegian Agency for Development Cooperation. Using the REDD+ supply chain as an analytical framework, and drawing on information gathered through expert meetings and interviews with over 40 developing-country REDD+ decision-makers and implementers, the research examined:

- In the REDD+ supply chain, who are the private sector players and what are their motivations and types of interventions?
- What are the current challenges for private sector engagement in REDD+?
- How can private sector engagement in REDD+ be enhanced?

The intended outcome of the research is to increase the scope and scale of effective private sector involvement in REDD+. The complete analysis is available in the forthcoming policy paper, *The Private Sector in the REDD+ Supply Chain: Trends, Challenges and Opportunities*.³

¹ REDD+: Reducing emissions from deforestation and forest degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries

² United Nations Framework Convention on Climate Change. (2011). *Outcome of the work of the Ad Hoc Working Group on Long-term Cooperative Action under the Convention*. Advance Unedited Version. Bonn, Germany: UN. See section II.C of the decision on REDD+ (UNFCCC/AWGLCA/2011/L.4).

³ See www.iisd.org/climate/land_use/redd for information on all project activities and the full policy paper.



Issues for Consideration by REDD+ Negotiators, Policy-Makers and Private Sector Actors

Understand motivations for private sector engagement and the range of roles the private sector can play across the REDD+ supply chain

Involvement of the private sector in the REDD+ supply chain is driven by several types of motivations, such as corporate social responsibility, reputational returns, pre-compliance purposes or potential monetary returns. Whether the “currency” of REDD+ project outputs is tradable carbon credits or reputational returns, the private sector needs to see some sort of net benefit from its investment that can be measured and evaluated.

Private sector actors can play a role in various business activities of the REDD+ supply chain, including: investment, project development and implementation, carbon credit retailing, technical expertise and capacity building, certification and validation, and carbon credit purchasing. These business activities are not mutually exclusive and a private sector actor can wear several “hats” simultaneously.

The private sector needs to be involved in discussions and policies to address the drivers of deforestation

The private sector players driving deforestation and those helping to conserve forest both need to be a part of REDD+ dialogues. For instance, export-oriented agribusinesses and extractive industries are important to addressing drivers of deforestation, but aside from corporate social responsibility initiatives from select firms, they have largely remained outside of the REDD+ supply chain. At a minimum, the extractive industries should be engaged in some sort of policy and regulatory process for addressing drivers of deforestation, in order to fully mitigate the negative impacts from their activities and better incorporate these sectors into the REDD+ supply chain.

Create enabling conditions for effective private sector participation by providing policy certainty and long-term, robust demand for REDD+ credits

Policy clarity and certainty are critical determinants of private sector involvement in REDD+, both internationally and nationally. Governments should clarify their intention to create and engage the private sector in future REDD+ compliance markets, and develop national legislation on REDD+. REDD+ should also be integrated in sectoral planning. Given that the REDD+ market is a policy-driven market, the United Nations Framework Convention on Climate Change should also play a central role in ensuring that the level of demand will attract private investment at scale.

Land tenure and carbon ownership remain key challenges to broader private sector engagement in REDD+ activities

Clarification of land tenure and carbon ownership is a fundamental condition for involving the private sector and mobilizing private investment in REDD+ activities. Private investors and project developers will not invest in REDD+ activities unless clear land and carbon ownership systems are in place. This requires clear understanding and a consultation process with the communities regarding how this type of investment would impact their access to forest resources and the development of clear benefit-sharing mechanisms clarifying who has rights to benefits that flow from carbon and to what extent.

Enhance investment through compliance carbon markets and country-driven nested frameworks

Compliance-driven demand for REDD+ credits from developed countries is needed to incentivize large-scale private investment in REDD+, as demand and price levels in the voluntary market are not sufficient to drive private sector investment at scale and achieve a critical mass of emissions reductions from REDD+. Allowing private stakeholders to receive direct performance-based payments while maintaining the environmental integrity of a national accounting framework through a nested crediting approach will greatly facilitate private sector involvement and investment. The direct issuance of performance-based payments to the private sector secures their investment and makes the protection of forests financially competitive with conventional land-use options that lead to deforestation and forest degradation. With integrated jurisdiction-wide accounting frameworks, a nested framework reduces risk of intra-country leakage, which gives comfort to buyers in carbon markets.

Disseminate Lessons Learned and Tools Developed

Stakeholder participation is crucial to advancing effective and appropriate private sector involvement in REDD+ and in national-level policy formulation processes. Further consultations between the private sector, governments and other affected stakeholders are needed to establish the legal framework for private sector investment and reduce regulatory risk and exposure by promoting the inclusion of flexible and cost-effective abatement options. This encompasses due diligence in the investment process, effective risk-sharing and risk-mitigation mechanisms, appropriate dispute settlement arrangements and clear and fair benefit-sharing mechanisms. Closer engagement is also needed in order to establish clear and consistent environmental and social safeguards for steering private sector involvement in REDD+.

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About the ASB Partnership for the Tropical Forest Margins

Founded in 1994 as a program on Alternatives to Slash and Burn, the ASB Partnership for the Tropical Forest Margins has evolved into a global partnership that brings together local knowledge, policy perspectives and science to understand the trade-offs associated with different land uses and the roles of markets, regulation, property rights and rewards. While ASB is coordinated by the World Agroforestry Centre (ICRAF), it is a global partnership of international and national-level research institutes, non-governmental organizations, universities, community organizations, farmers' groups, and other local, national and international organizations. The goal is to raise productivity and income of rural households in the humid tropics without increasing deforestation or undermining essential environmental services.