

Harnessing the potential of the private sector to deliver REDD+

A briefing for policymakers



Executive summary

Partnership between the public and private sectors can offer advantages to all stakeholders in REDD+, providing finance, technology and project skills. Private sector companies may play various roles in REDD+, but there must be a business case for them to do so.

The main challenge to private sector participation in REDD+ is that most companies do not see sufficient business benefit. For those which do identify an opportunity, there are then further risks which include legal uncertainty around emissions rights, land tenure and the respective roles of national and subnational government.

National governments take different approaches to administering REDD+, both in terms of their approach to market incentives and in relation to the delegation of administrative powers to subnational level, and as a result private sector companies have

different levels of participation. Brazil and Colombia act as helpful case studies to illustrate these differences.

Based on engagement and experience with both the private and public sector, our recommendations for policy measures include:

1. Create conditions under which the private sector can identify and benefit from opportunities related to REDD+;
2. Create legal certainty around REDD+ intervention parameters in order to reduce risk and increase value;
3. Empower and resource subnational jurisdictions to effectively develop and implement REDD+ interventions.

What is REDD+?

Reducing **E**missions from **D**eforestation and forest **D**egradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries (REDD+) has been negotiated under the United Nations Framework Convention on Climate Change and is supported by Article 5 of the 2015 Paris Agreement. Under REDD+ developing countries are rewarded financially for any emissions reductions achieved associated with a decrease in the conversion of forests to alternate land uses. Having identified current and/or projected rates of deforestation and forest degradation, a country taking remedial action to effectively reduce those rates will be financially rewarded relative to the extent of their achieved emissions reductions.

About CDP



CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Over the past 15 years we have created a system that has resulted in unparalleled engagement on environmental issues worldwide. There are now companies, cities, states and regions from over 90 countries that disclose through CDP.

What does the private sector offer to REDD+ and what is the business case?

Partnership between the public and private sectors can offer great advantages to all stakeholders in REDD+, providing finance, technology and expertise.

REDD+ initiatives can be a key driver in reducing national and subnational greenhouse gas emissions (GHG) levels. Deforestation accounts for approximately 15% of global GHG emissions, thus REDD+ can contribute to National Determined Contribution targets and the global emissions reduction goal under the Paris Agreement.

Governments are responsible for setting overarching frameworks and policy incentives at national level to ensure action to protect forests within a wider context of sustainable development. Once government has set the rules, wider society must implement them. One benefit of private sector participation in REDD+ is that the private sector controls large flows of capital which can potentially support national goals and other domestic policy measures on forests.

There are other roles which the private sector can play, for example around satellite imaging that can be used to consult, map and monitor forest stocks. The International Institute for Sustainable Development and ASB Partnership for the Tropical Forest Margins¹ have noted a range of roles played by private sector organisations within REDD+ project supply chains, including investment, project development, provision of advice, auditing and broking services, and end buyers. In addition, private participation can assist in national MRV (Measurement, Reporting and Verification of Forest Carbon) and can catalyse change in national REDD+ frameworks.

For a private company to invest in REDD+ initiatives or enabling conditions there must be a business case for them to do so. For example:

- ▼ Providers of expertise or technology may seek to build a profitable business from scaling up supply of these services to support REDD+;
- ▼ Project investors may receive carbon credits which are created once the carbon saved/sequestered by REDD+ has been certified. Currently, these credits can then be sold on the market to other businesses and in 2016, REDD+ credits were the single largest type of voluntary credit traded, with 13.1 MtCO₂e traded at a value of US \$67 million². However, recently there has been discussion about the future of REDD+ credits and their sale in voluntary markets;
- ▼ Private sector companies may choose to invest in projects or credits for regulatory compliance. In the near future this could include the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)³ which will allow airlines to offset a proportion of their emissions with the purchase of carbon credits. This scheme has the potential to be the largest market for REDD+ funding to date;
- ▼ Companies may seek to invest in social and environmental benefits in order to create wider business value. For example, some companies may seek to source sustainable materials in order to meet consumer demand for sustainable products. Others may seek to demonstrate corporate social responsibility to their customers, boost their reputation and demonstrate a contribution to the UN Sustainable Development Goals.

1. The Private Sector in the REDD+ Supply Chain: Trends, challenges and opportunities, IISD 2012, http://www.iisd.org/sites/default/files/publications/redd_private_sector_report.pdf

2. Unlocking Potential: State of the Voluntary Carbon Markets 2017, Ecosystem Marketplace/Forest Trends, 2017, http://www.forest-trends.org/documents/files/doc_5591.pdf#

3. <https://www.icao.int/environmental-protection/Pages/market-based-measures.aspx>

What are the barriers and challenges to private sector participation in REDD+?

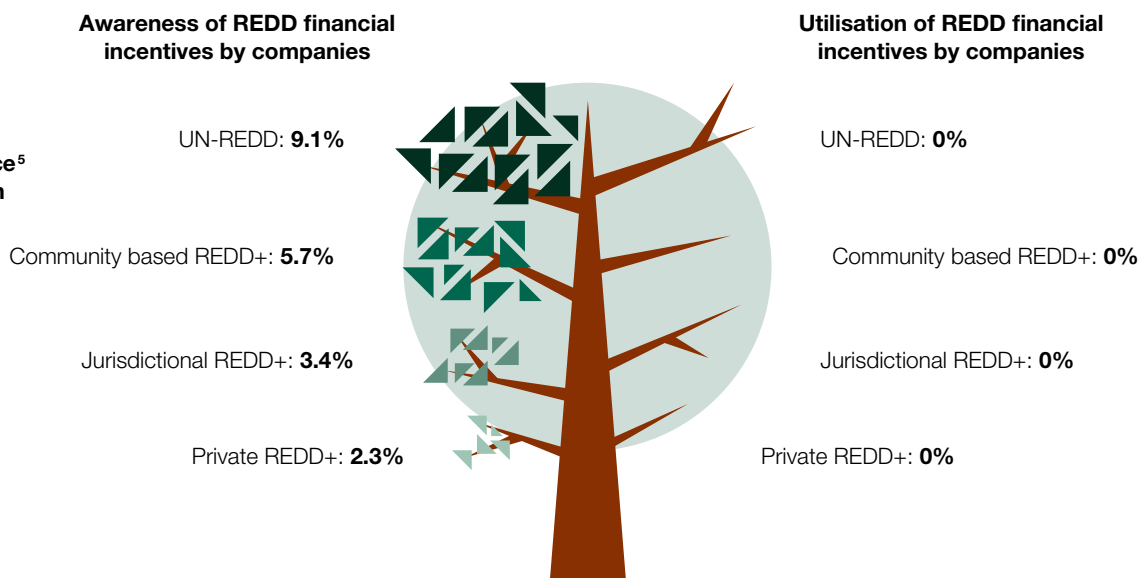
Many companies, including those with direct business involvement in the drivers of deforestation, have not identified a business case for participation in REDD+.

In 2017 CDP worked with 8 major purchasing corporations including L’Oreal, Arcos Dorados and JBS, to ask their key suppliers how they identify and manage deforestation risk and opportunities related to production and sourcing of forest risk commodities⁴. 88 suppliers from 26 countries made disclosures through CDP in response to these requests.

One of the questions asked was, “Please indicate if you have identified opportunities arising from financial incentives and, if so, which you are aware/making use of”.

- ▼ Only 9 of the 88 suppliers which disclosed via CDP in response to a request from their customers said that REDD+ was among the opportunities they had identified from financial incentives;
- ▼ None of the companies which disclosed business opportunities from financial incentives related to REDD+ said that they were making use of them.

Figure 1: Identification and uptake of opportunities from REDD+ financial incentives by companies within forest commodity supply chains in 2017. Please see CDP guidance⁵ for detailed definitions of each opportunity type.



Disclosures to CDP show that most companies, linked to agricultural commodity supply chain, are either not aware of opportunities arising from REDD+, or that they do not see REDD+ as a ‘financial incentive’ – in other words they are aware of it but have not identified that participation would provide any business benefit.

Project and policy risk can weaken the commercial business case for participation in REDD+^{6,7}. Some of the risk factors include:

- ▼ Lack of clarity around legal ownership of carbon rights⁸ on both a national and international level;
- ▼ Lack of certainty around land tenure (although at the same time, development of REDD+ projects has been found to be beneficial to local populations in clarifying and confirming land tenure rights⁹);
- ▼ Weak governance of REDD+ at the level of subnational jurisdictions;
- ▼ Lack of clarity in nesting projects in future national frameworks under UNFCCC.

4. Forest risk commodities include soy, cattle products, palm oil and timber products.

5. CDP Supply Chain – Forests, 2017 Guidance for companies reporting on forest risk commodities on behalf of supply chain members.

6. See 1

7. Source: CDP Public-Private Dialogue on Deforestation, held at COP23 under Chatham House Rules

8. See 1

9. Lawlor et al, 2013, Community Participation and Benefits in REDD+: A Review of Initial Outcomes and Lessons, https://www.researchgate.net/publication/267764337_Community_Participation_and_Benefits_in_REDD_A_Review_of_Initial_Outcomes_and_Lessons

Snapshot: Brazil's approach to private sector engagement in REDD+

Brazil is the leading proponent of the fund-based approach to REDD+.

In 2008 Brazil created the Amazon Fund, a voluntary project directed by the Brazilian Development Bank, to tackle deforestation in the Amazon Rainforest. Donors to the Fund include the governments of Norway and Germany, as well as the Brazilian state oil company Petrobras¹⁰. These donors receive certificates identifying their contribution to the effort to reduce CO₂ emissions; these are nominal, non-transferable and do not generate rights or credit of any nature. In addition, Brazil's national REDD+ Framework, finalised in 2015 shortly before COP21, makes it clear that REDD+ activities in Brazil cannot result in tradeable emissions rights¹¹.

Some of the benefits of this fund-based approach include:

- ▶ Avoiding 'carbon leakage', and, ensuring the environmental integrity of the REDD+ mechanism in Brazil;
- ▶ Addressing potential concerns about concentration of payments to companies that own large areas of land, or unequal distribution of credit proceeds to local and indigenous people;
- ▶ Providing a source of funds for a wide range of initiatives beyond project-related costs, from local actions by landowners or rural communities to monitoring, capacity building, land tenure clarification, improvements in forest governance and law enforcement.

A disadvantage of the approach is that there is not a clear business case for private sector participation in REDD+. The Amazon Fund, and Brazil's forest management policies, would benefit from increased funding that are only likely to come from the private sector but it has not proved easy to attract such funding.

Brazil has a long history of corporate participation in forest projects which generate voluntary carbon credits. Without the backing of emissions rights granted by the national government the emissions reductions from these projects cannot be considered 'additional' to reductions reported at national level. However, the companies investing in these credits may still see business benefits from contributing to good social and environmental outcomes.

Regional jurisdictions in Brazil are important for the implementation of national policies and have also participated in the development of voluntary REDD+ projects. Brazil has said¹² that the resources raised by results based payments from reduction of deforestation will be redistributed to protected areas and indigenous lands (40%) and to the Brazilian Amazon States (60%). In order to receive this funding, projects must maintain native forest areas and truly contribute towards the reduction of deforestation. In addition, the national government still has the primary role in controlling crucial issues such as land tenure and emissions rights.

In fact, Brazilian states are pioneering the way into jurisdictional and nested REDD+ initiatives. In the State of Acre, the local government is working with the Governor's Climate and Forest Task Force to curb deforestation and reduce carbon emissions through REDD+. To achieve this, the state is tapping into a stream of public and private results-based funding, such as those offered by the Norwegian Agency for Development Cooperation, to deliver their REDD+ initiatives¹³.

10. Yale School of Forestry and Environmental Studies, Global Forests Atlas, <https://globalforestatlas.yale.edu/amazon/conservation-initiatives/redd>

11. Friends of the Earth, 'Brazil frustrates California's hopes for international forest carbon offsets', <http://www.foei.org/press/archive-by-subject/forests-and-biodiversity-press/brazil-frustrates-californias-hopes-international-forest-carbon-offsets>

12. Comissao Nacional Para REDD+, Resolucao numero 6, 2017, <http://redd.mma.gov.br/images/central-de-midia/pdf/Documentos/conaredd-resolucao-no6-20170621-final.pdf>

13. Climate Focus, Acre, Brazil: Subnational Leader in REDD+, http://www.climatefocus.com/sites/default/files/acre_brazil.pdf

The national discourse on REDD+ in Brazil is rapidly evolving with several ongoing dialogues between private companies, NGOs and national and local governments. Therefore it is possible that the national approach to REDD+ may develop in the future. For example:

- Currently, the Amazon Fund mainly finances initiatives in the Amazon biomes, despite recent trends showing a higher deforestation rate in the Cerrado region¹⁴. Organisations from the NGO and private sectors have called for the revision of the Amazon Fund to expand its scope to include different biomes, activities and types of income generation.
- Additionally, there is a proposal to integrate an international carbon market (including REDD+ certified credits) with the domestic measures to reduce deforestation and meet Brazil's NDC targets¹⁵.
- Finally, the offsetting opportunities created by the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) is stimulating a national discussion in Brazil. Some governmental bodies and organisations, such as the Brazilian Forum of Climate Change¹⁶, are looking to inform the national government of opportunities that can arise by modifying the national position on credits.



14. Climate Observatory, 2017, <http://www.observatoriodoclima.eco.br/desmate-no-cerrado-supera-o-da-amazonia>

15. Brazilian REDD+ Alliance, Integrated REDD+ markets, 2017, <http://wp.bvrio.org/wp-content/uploads/2017/05/REDD-Brazil-Alliance-Integrated-REDD-proposal1.pdf>

16. FBMC, 2017, <https://forumbrasilclima.org/blog/>

Snapshot: Colombia's approach to private sector engagement in REDD+

The government of Colombia has actively sought to engage private sector companies in efforts to reduce deforestation, including investment in REDD+ projects.

Colombia delegates significant powers to subnational jurisdictions, empowering them to implement REDD+ on the ground. The government and public administration in Colombia is the most decentralized in Latin America, with around 40% of government spending distributed by subnational governments, compared with about 15% in other Latin American countries¹⁷. Local authorities play an important role in decision-making, and in general are involved with REDD+ efforts along with the Ministry of Environment, NGOs and the private sector.

The REDD+ Round Table (Mesa REDD+ Colombia) was created in 2008 as a forum for discussing REDD+ issues, and member organizations include a range of national and international NGOs. Indigenous peoples and organizations, such as The Organization of Indigenous Peoples of the Colombian Amazon (OPIAC) have also participated in Colombian REDD+ workshops and discussions, as well as international discussions on REDD+. In 2017 a new broader National REDD+ Round Table was created by the National Government with participation of national and sub-national public stakeholders.

In 2017 Colombia announced the creation of the TFA 2020 Colombia Alliance, a new platform under the Tropical Forest Alliance 2020 which will bring together businesses, civil society organizations and donor agencies to support the implementation of zero-deforestation international corporate commitments.

Colombia is also introducing a voluntary carbon market trade platform in 2018, designed with the cooperation of Fundación Natura, Bolsa Mercantil de Colombia and financed by the Global Environment Fund (GEF) with the support of Interamerican Bank of Development (IBD). This platform will be a space where different carbon projects, including REDD+, can offer and trade their carbon credits with the private sector.

During 2017, the Colombian Government imposed a carbon tax¹⁸ which must be either paid or offset by buying carbon credits in national carbon markets. If companies opt to buy carbon credits their operations are certified as carbon neutral. This tax creates demand for nationally produced carbon credits, incentivising organisations and subnational governments to engage in REDD+ initiatives.

Colombia has helped to create a business case for companies to participate in measures opposing deforestation, and in REDD+. It is likely that the empowerment of subnational governments has assisted Colombia's consultative and governance process around REDD+. Its flexibility around market-based approaches has also attracted international investment, e.g. the United States has funded the \$27.9 million BIOREDD program of projects in which carbon credits are accredited for sale in voluntary carbon markets¹⁹.

17. Yale School of Forestry and Environmental Studies, Global Forests Atlas, <https://globalforestatlas.yale.edu/amazon-forest/forest-governance/forest-governance-colombia>

18. Decreto 926 de 2017, Impuesto Nacional al Carbono en Colombia, <https://www.google.com.co/url?sa=t&source=web&rct=j&url=http://es.presidencia.gov.co/normativa/normativa/DECRETO%2520926%2520DEL%252001%2520DE%2520JUNIO%2520DE%25202017.pdf&ved=0ahUKEwiKzbXmpfjXAhULzYKHYYwCkEQFghbMAw&usq=AOvVaw0dffKlPl12x7maXmXP20U6>

19. <http://bioredd.org/projects/>

Opportunities to address issues and move towards private sector participation in REDD+

Based on engagement and experience with the private and public sectors, our recommendations for potential policy measures are as follows:

Create a business case so that the private sector understands the benefits of participation in REDD

- ▼ In order to increase private sector participation in REDD+ - with all the advantages that this could potentially bring - the business case for participation needs to become stronger. Governments are crucial to making this possible as they have the power to take steps to reduce risk and increase opportunities for business involvement.
- ▼ It is important for governments to understand and respond to business motivations, and to incorporate private sector participation into national REDD+ frameworks. Private sector motivations could include developing new business in technical services, sourcing carbon credits for compliance or resale, or creating wider business value through supporting communities and the environment. National and subnational policies and measures, including green credit lines and investments on low carbon agriculture, could add to the business case.

Create legal certainty around REDD+ intervention parameters in order to reduce risk and increase value

- ▼ Commercial risk can be significantly reduced through the elimination of legal uncertainties around emissions rights and land tenure, thus increasing the commercial attractiveness of projects.

- ▼ Currently there are many private REDD+ projects generating credits for voluntary carbon markets which have uncertain environmental integrity in terms of additional emissions reductions and therefore have low market value. There is scope to integrate private REDD+ projects into national REDD+, national MRV (Measurement, Reporting and Verification of forest Carbon) and other domestic policy measures on forests.

Empower and resource subnational jurisdictions to effectively develop and implement REDD+ interventions

- ▼ Delegation of REDD+ implementation powers to subnational jurisdictions is likely to encourage the bottom-up development of regional frameworks, and to foster a practical, inclusive approach to REDD+ governance. While there are some important benefits from taking a top-down national approach, subnational leadership should also be encouraged.

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