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Private sector participation in REDD

REDD policy options in practice: Issues and risks for governments, local communities, and the private sector

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Assumptions

- Emissions from deforestation are significant and must be reduced to meet objectives of Art 2 of UNFCCC
- Reducing emissions from deforestation (and forest degradation) (REDD) requires significant financial investment into developing countries
- The private sector is in the best position to make the required large scale investments into developing countries
- Local communities should be engaged and benefit
- The carbon market can work to engage local communities and drive private sector investment **if designed correctly**

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Middle ground exists

Policy options

National: monitoring, accounting, credit issuance, REDD policy development, implementation, and enforcement

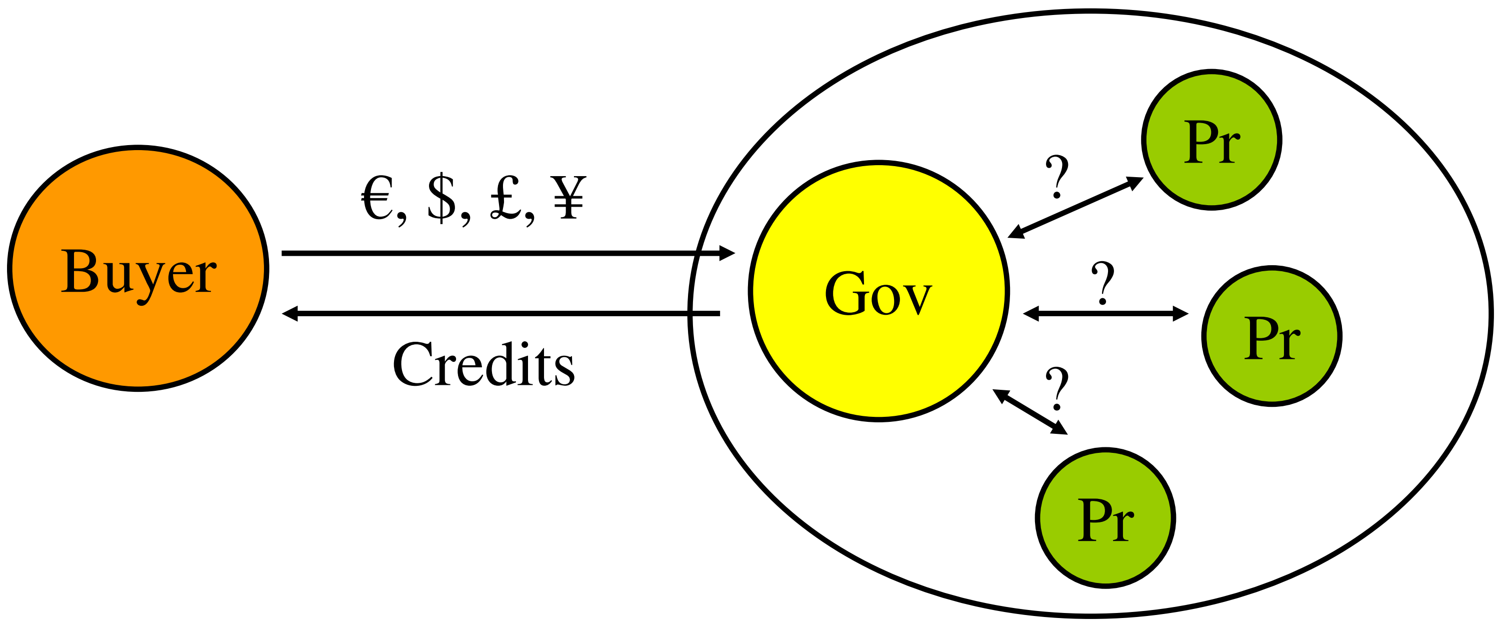
Project: monitoring, accounting, credit issuance, and forest protection

High sovereign responsibilities and liability

Minimal sovereign responsibilities and liability

Nat Monitor & Credit Approach: Sovereign transaction

- Host sovereign sells credits directly to buyer (another sovereign or private sector)



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National crediting approach with sovereign transaction: Conclusion

- Requires significant input from host country governments
- Community participation dependent on host country government
- Opportunities for direct private sector involvement limited
- Unlikely to generate significant private sector interest or investment

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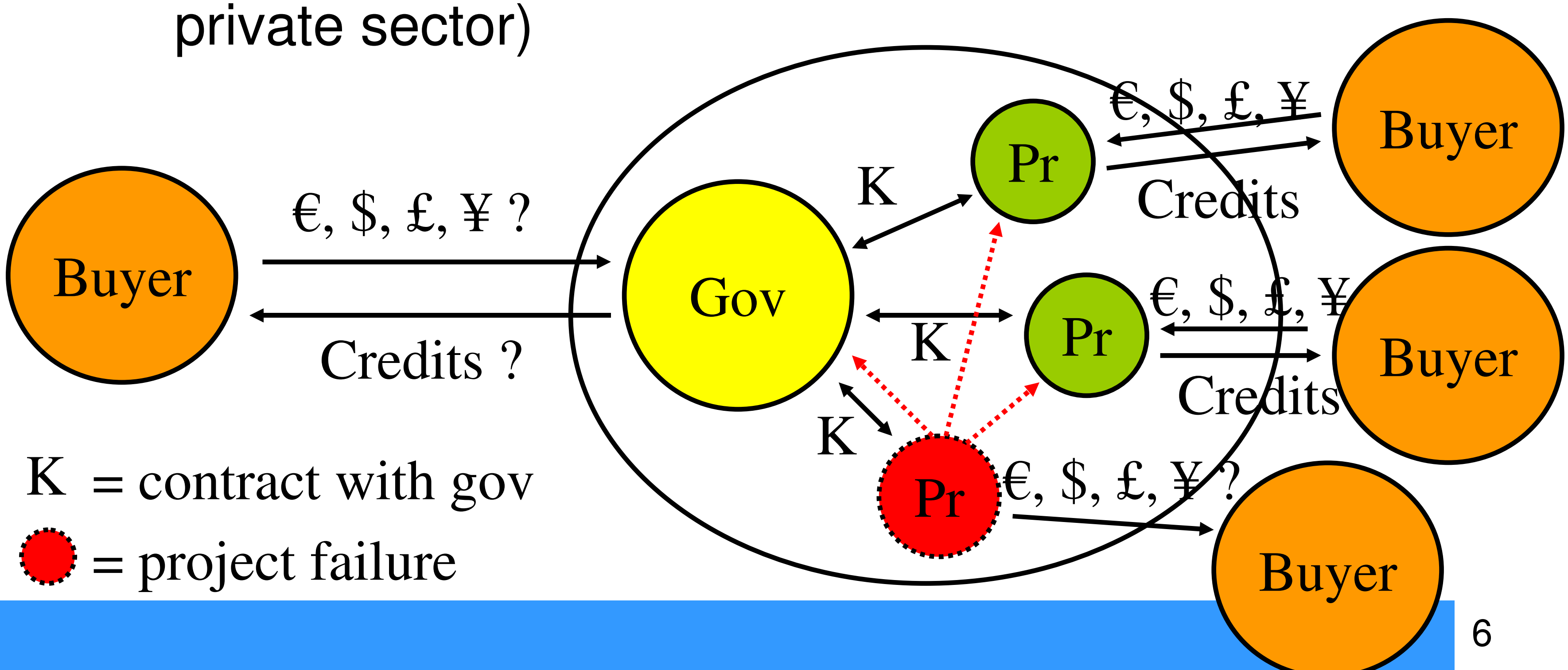
Nat monitor and crediting approach: Project level transactions

- Host sovereign receives credits, authorizes project to sell credits directly to buyers (sovereign or private sector)



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Nat monitoring and crediting with project transactions: Conclusion

- Requires reduced, but still significant input and involvement from host country governments
- Private sector and local communities are able to participate directly, but at **very high risk** to both groups because failure of one project or government policy affects all
- Unlikely to generate significant private sector investment

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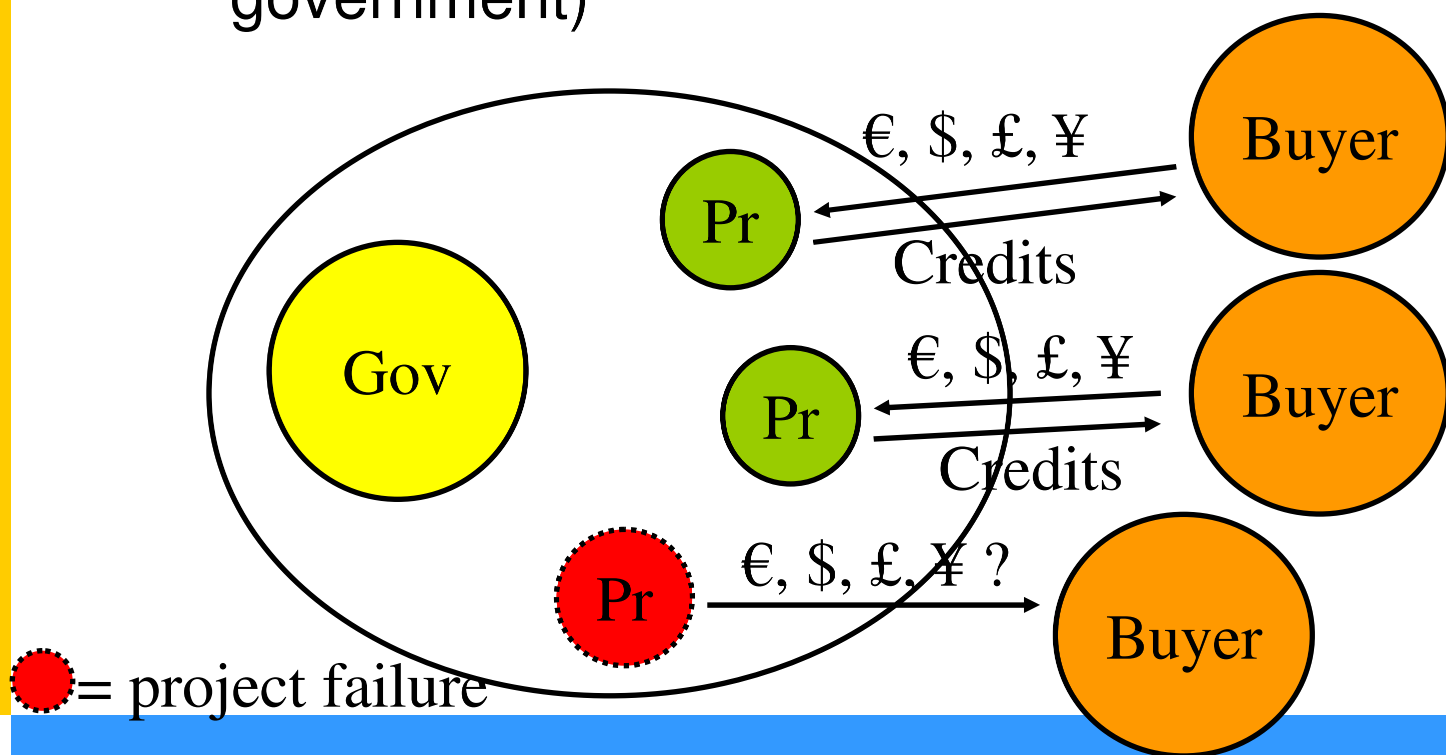
Project level monitoring and crediting approach: Transactions

- Project sells credits to buyer (private sector or government)



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Project level monitoring and crediting approach: Conclusions

- Minimal demands on host country government
- Reduced project performance and delivery risk (subject to leakage)
- Allows direct engagement of local communities and private sector
- More likely to attract private sector investment
- But, stiff opposition from some due to permanence and leakage concerns

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National Monitoring and Project Crediting Approach

National level:

- Estimate emissions
- Negotiate national reference level
- Monitor forest and emissions nationally over time
- Approve projects
- **Choice** to also implement national policies and measures to reduce emissions, implement projects
- Potential to receive credits directly

Project level:

- Design project
- Monitor emissions
- [Establish project level reference scenario?]
- Implement project
- Monitor project performance over time
- Receive credits directly based on performance of project

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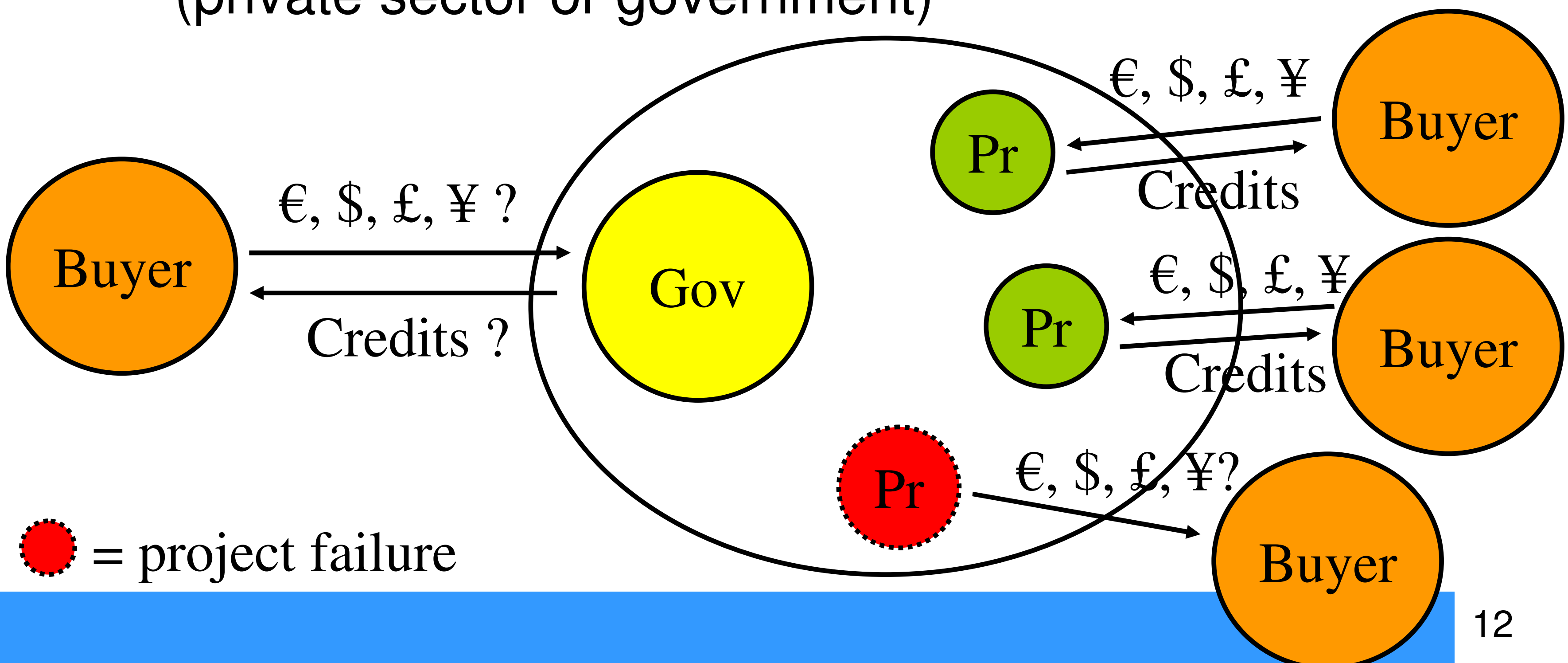
National Monitoring and Project Crediting Approach Cont.

- Domestic leakage dealt with by subtracting project level credits from national account. If there is a debit nationally, this is carried over to the next CP, if there is a national surplus after subtracting project's credits, this surplus goes to government
- Credits issued to projects and to government directly

National monitor and project credit approach: Transactions

- Project (and government) sells credits to buyer (private sector or government)



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National monitor and project credit transactions: Conclusions

- Reduced risk to:
  - Governments compared to first national crediting approach (fewer obligations)
  - Local communities and private sector (projects shielded from sovereign performance risk)
- Domestic leakage and permanence addressed through national monitoring and accounting
- Less risk means more likely to attract private sector investment (debt, equity, advance payments)