



**CLIMATE**FOCUS

Role of the Private  
Sector in Generating  
Carbon Credits from  
REDD+

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## Outlook

**Risks and Opportunities of Engaging  
the Private Sector in REDD+**

**Designing Market Options**

**Options to reduce investment risk and  
raise upfront finance**

**Recommendations**



# Risks and Opportunities for Private Sector Engagement in REDD+

## REDD+ Finance Needs

- **Capacity building/readiness**
  - Formulation of national REDD strategies: US\$200,000 - US\$1 million
  - Governance reform: US\$500,000 - US\$5,000,000
- **Upfront investment**
  - Pledges amount to US\$ 4 billion package in the years 2010-2012 to fund immediate steps to develop REDD+
- **Compensation for emission reductions**
  - Cost of reducing emissions is estimated at US\$17 billion - US\$28 billion per year in order to halve global deforestation (according to estimates of opportunity cost in major forest nations)



# Risks and Opportunities for Private Sector Engagement

## **Main purpose of engaging the Private Sector in REDD+**

- Complement public funds
- Mobilize capital fast, upfront, and then as an ongoing source of compensation to pay for GHG emission reductions and removals of GHG
- Create payment schemes that directly benefit local entities
- Involve those that contribute to deforestation in solutions that reduce deforestation and forest degradation
- Harness the implementation capacities and expertise of the private sector
- Prepare countries for their national REDD+ policies

## **Interest for the Private Sector**

- Trading a commodity/asset promises profits
- Forestry credits may be recognized by compliance regimes
- Diversification of the portfolio/risks
- Corporate Social Responsibility (CSR)



# Deterrents for Market Engagement

- **International REDD+ Policy Risk**
- **REDD+ Eligibility Risk**
- **Government Implementation Risk**
- **Market Risk**



# Designing REDD+ markets: Market Option 1

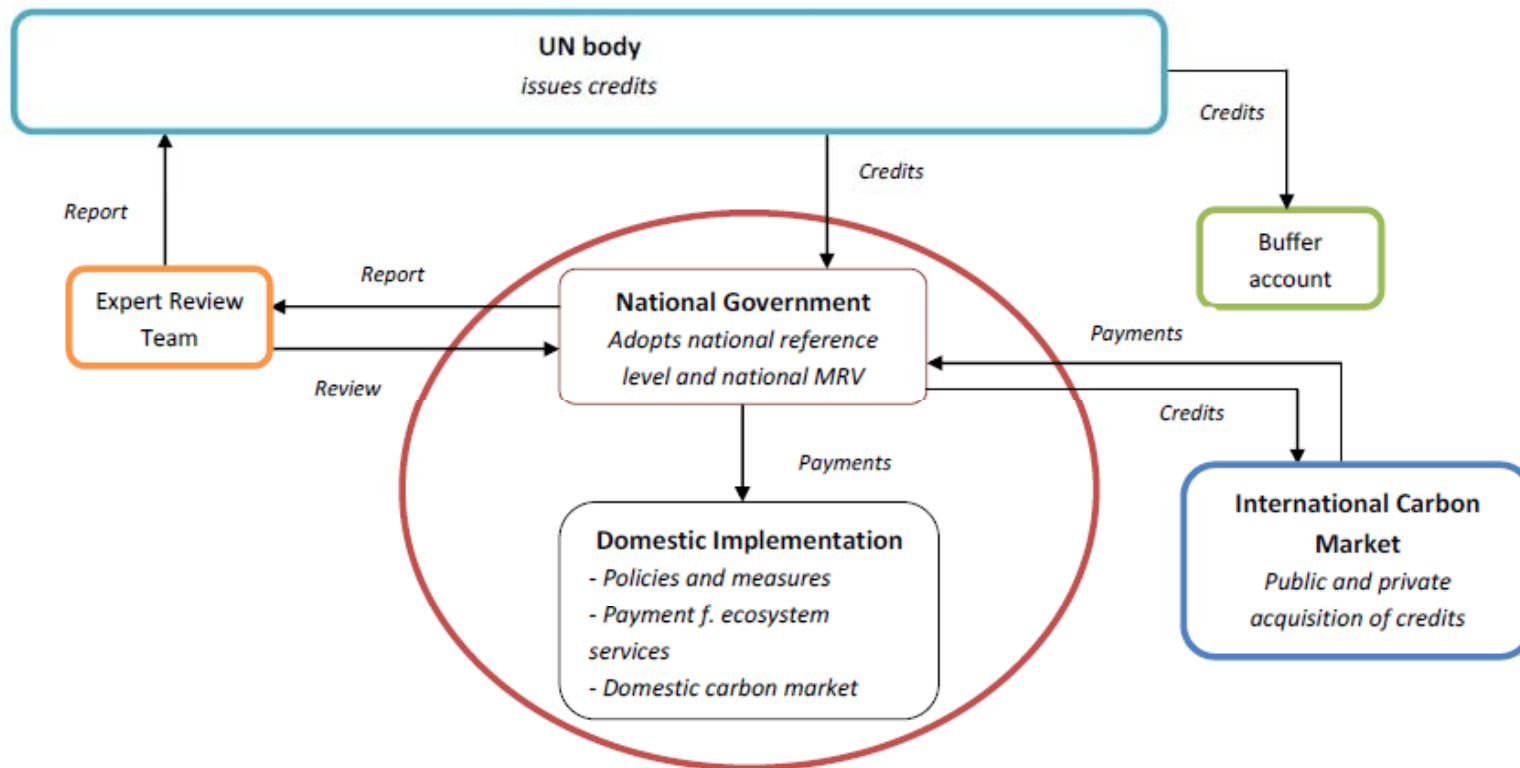
## **Sovereign Participation in International REDD+ Markets**

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- Country participates in international REDD+ markets at the country level only
- Environmental integrity is ensured through national reference levels and national level MRV
- Domestic implementation is de-linked from the international carbon market and controlled by the national government
- A portion of credits issued would be transferred to a buffer account.
- High demand on developing country government
- Limited interest for private sector



# Market Option 1





## Designing REDD+ markets: Market Option 2

### **Int'l Issuance of National and Subnational Credits (Var. 1)**

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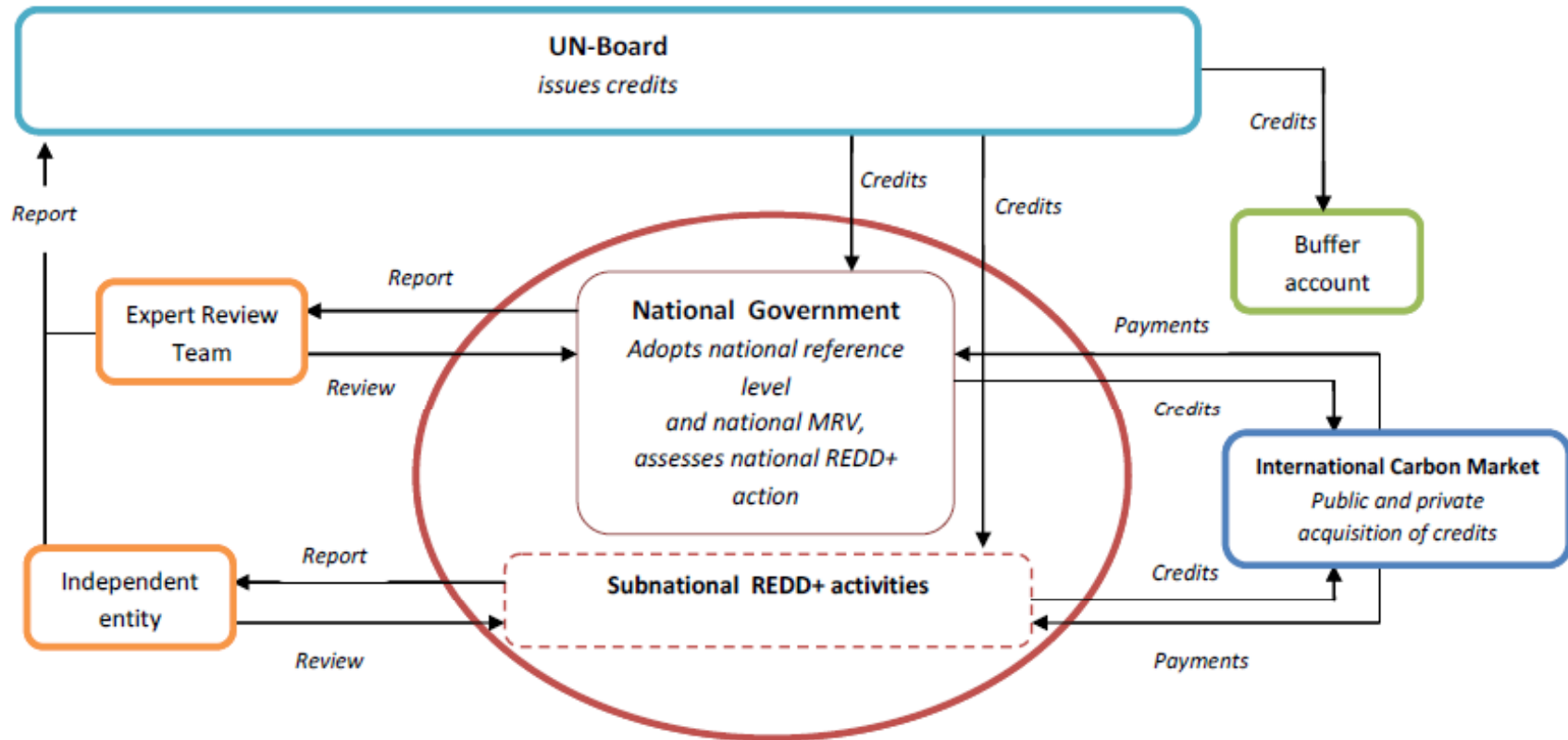
### **Inter'l Issuance of Nat'l Credits- Nat'l Issuance of Subnat'l Credits (Var. 2)**

- REDD+ credits can be issued for authorized subnational activities.
- Credited subnational emission reductions/removals would be deducted from nationally credited emission reductions/removals.
- A portion of national credits and credits issued for subnational action would be transferred to a buffer account.
- Key features of the mechanism such as MRV requirements, credit issuance, permanence rules, and fungibility of credits would be defined at the level of the UNFCCC.
- Var.1: CDM styled, direct international issuance into subnational accounts
- Var.2: JI styled, issuance to Governments and from there to subnational accounts



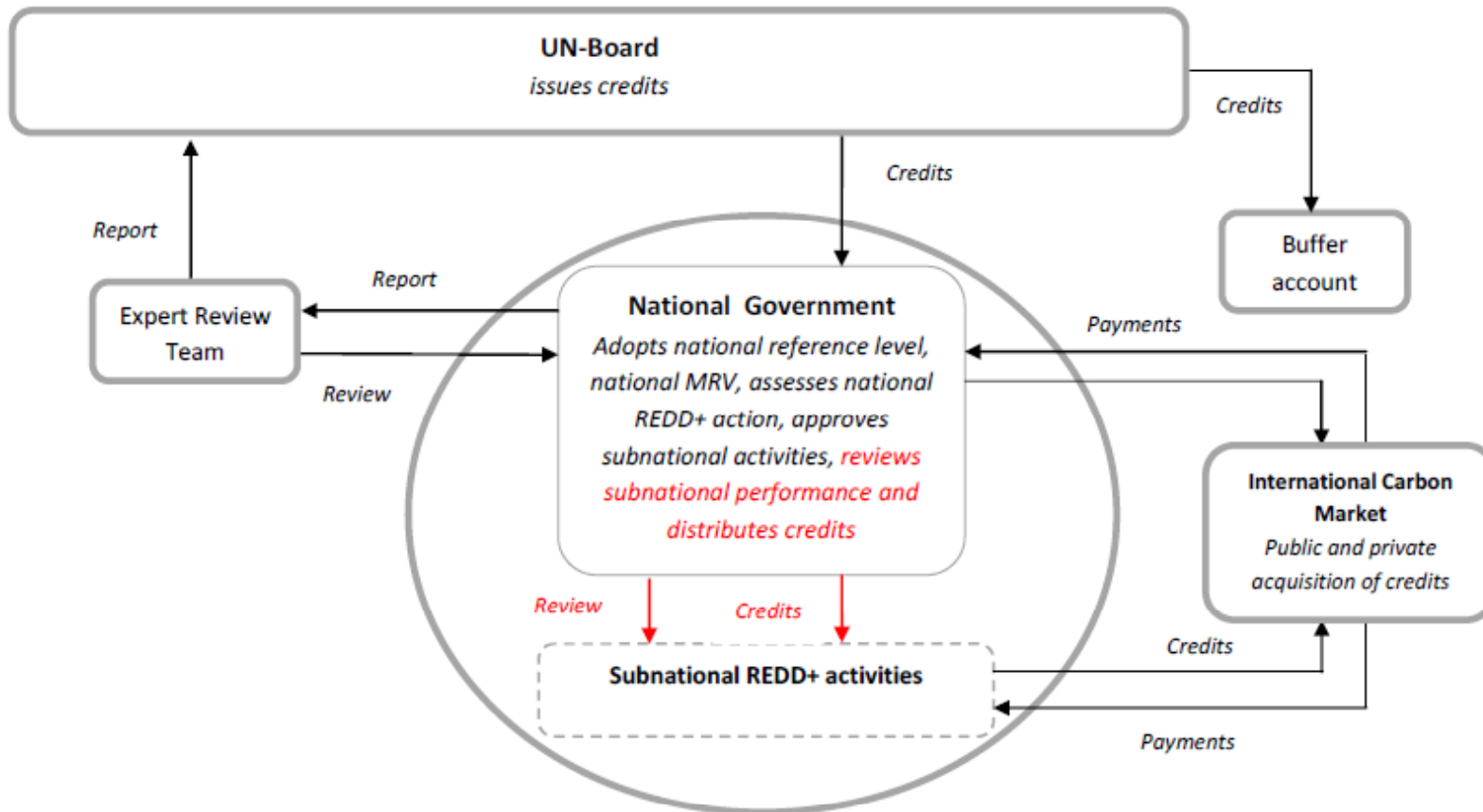


# Market Option 2: Variation 1





# Market Option 2: Variation 2





# Reducing Investment Risk and Raising Finance

## – Reducing Risk

- **Guarantees (state/development bank, political risk, payment default)**
- **Insurance (private to cover project inherent risks)**
- **Securitization (of future REDD+ credits)**
- **Rainforest Bonds**



## Final recommendations

- **Private sector engagement helps REDD+ countries at an early stage and leverages funds**
- **Design of REDD mechanism will significantly affect responsibilities, risks and market interests for the private sector**
- **A clear REDD+ design is needed to enhance investment climate and limit risks**



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