



# THE IMPLICATIONS OF THE PARIS CLIMATE AGREEMENT FOR PRIVATE SECTOR ROLES IN REDD+



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2. convening diverse coalitions, partners, and communities of practice to promote environmental values and advance development of new markets and payment mechanisms; and
3. demonstrating successful tools, standards, and models of innovative finance for conservation.

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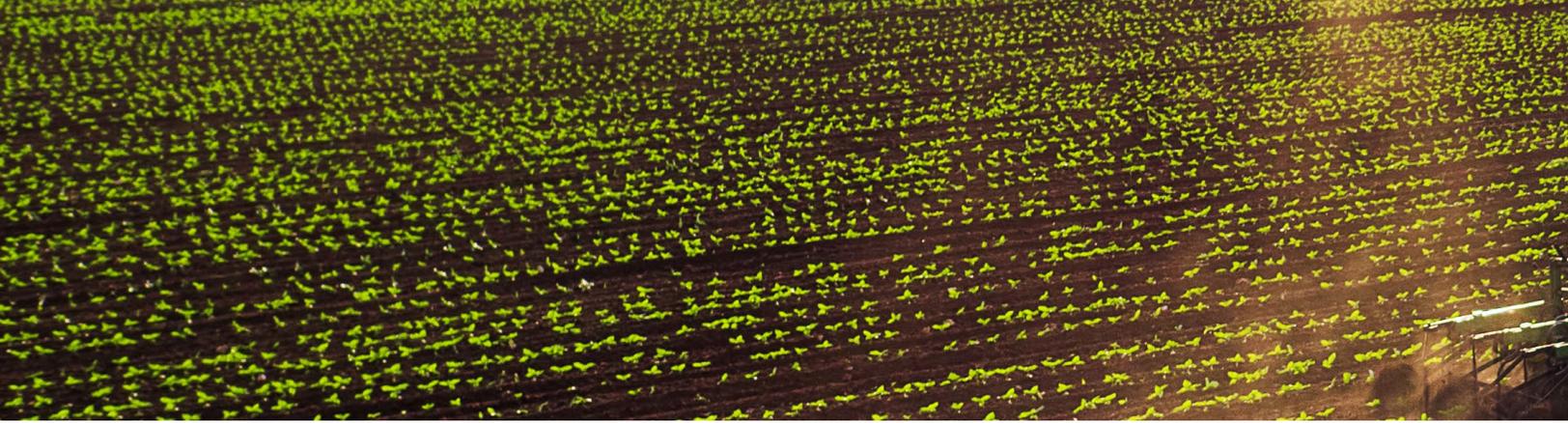
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# 1. Introduction

In December 2015, 197 Parties to the United Nations Framework Convention on Climate Change (UNFCCC) approved the “Paris Agreement” – a historic global agreement with implications for all sectors of the economy and society. The momentum towards action continues to build with an unprecedented 175 countries signing the Paris Agreement on 22 April, 2016, potentially leading to its early entry into force, before 2020. The Agreement will take effect (activating all of its rules and procedures) once it has been ratified by at least 55 countries that collectively represent 55 percent of global greenhouse gas (GHG) emissions and they deposit their instruments of ratification, acceptance, approval, or accession with the UNFCCC. At that moment, countries become bound to the obligations they agreed to undertake, and the mechanisms can be used for compliance. There are some indications that key countries, including the US and China, want this to happen as soon as possible.

It is well recognized that achieving the goals and objectives of the Paris Agreement will require all sectors of global and local economies to phase out the burning of fossil fuels. Significantly, the only sector to be highlighted explicitly is the forest and land sector. As a matter of fact, the global climate agreement reached in Paris marked a historic moment for forests as they are now enshrined in international climate action.

The reason for this is that this sector has multiple benefits in meeting climate change objectives and the framework for policies and incentives for reducing emissions from deforestation and forest degradation, and the role of conservation, sustainable managements of forests and enhancement of forest carbon stocks in developing countries – otherwise known as REDD+.

Prior to the Paris conference, in September 2015, the United Nations adopted a set of 17 sustainable development goals (SDGs) that aim “to end poverty, protect the planet, and ensure prosperity for all,” with specific targets to be achieved by 2020 or 2030.<sup>1</sup> Several of these goals reinforce the role of the land sector in the Paris Agreement, providing further motivation for governments, private sector, and civil society to develop and implement practical solutions that contribute to multiple targets and goals.

Following the adoption of the Paris Agreement, there have been several analyses of the implications of the Paris Agreement on the treatment of forests in developed and developing countries; the main conclusions confirm that there has never been a stronger call to action by as many countries to rapidly halt and reverse the trend in tropical deforestation. Countries have expanded the opportunities for forests to play a key part in our global response to climate change, helping to achieve both mitigation and adaptation goals under the new climate framework established by the Paris Agreement. Going forward, successful implementation will require further commitment and mobilization of financial support from donor countries and commensurate commitment by the participating developing countries to implement the plans that will achieve real and lasting results in terms of conserving and managing the forests on a

<sup>1</sup> United Nations Sustainable Development Goals. Accessed July 22, 2016. <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>.



sustainable basis. This will also require action from and/or support by many other different actors and at many scales (national, regional, local).

While the Parties to the UNFCCC and signatories to the Paris Agreement are national governments, it is well understood that subnational governments and the private sector are essential partners in the achievement of countries' "Nationally Determined Contributions" (or NDCs) to global climate change mitigation – i.e., their emissions targets, and/or low-emissions development strategies. The impetus for private sector actors to support a nation's climate change plan can include both "carrots and sticks," incentives and obligations, which will come in the form of new public policy and climate change impacts that can affect business performance and sustainability. The ability of governments to create a broad range of necessary policies and incentives for the private sector to act is key, whether those actions are voluntary or required by domestic law.

The UNFCCC and Paris Agreement provide a framework to guide countries' actions, provide the policy certainty to meet their climate mitigation targets, and to hold them accountable through the measuring and monitoring of progress, individually and collectively. The UNFCCC has developed some tools to assist countries, including, among others, dedicated climate finance institutions and a framework of policies and incentives for REDD+, including through results-based finance. How a country chooses to use these international tools depends on (*inter alia*) their overall mitigation targets, existing legislative and policy environment, resources and capacities, as well as their domestic climate change plan and/or low-emissions development plan.

For national governments, there are three important "lessons" that have been revealed in the course of work on implementing international climate change agreements: (1) there will be on-going limits on public finance, including amounts and purpose; (2) governments need the active engagement of the private sector in order to meet and raise ambitious mitigation targets, and provide private finance flows far greater than public sources; and (3) achieving national goals for the forest and land sector often requires implementation of policy and programs at the jurisdictional level. Achieving climate targets in light of these "truths" will require governments to enact or implement new policies and incentives that enable the necessary economic transformation. But this does not imply a win-lose proposition for the private sector. Business already has a reason to be interested in climate change solutions, as climate change represents both risks to business and opportunities for innovation and development of new markets.

***“The ability of governments to create a broad range of necessary policies and incentives for the private sector to act is key.”***

## 2. Background on Private Sector Role in Finance for REDD+

The overall picture of REDD+ finance makes it clear that public sources of funding have been the primary source of funds to pay for all three stages of REDD+, from capacity building and readiness, through early implementation, and payments for performance (results-based payments). Through 2015, US\$10 billion had been pledged for REDD+ globally. In Paris, Germany, Norway, and the UK (GNU) started off the Paris COP (Conference of the Parties) with new public finance pledges for REDD+. The pledge shows an intention to provide US\$5 billion over the six-year period between 2015 and 2020 – around US\$800 million a year – with the goal of reaching US\$1 billion a year by 2020. With the addition of these new public pledges, there is more than US\$10 billion pledged globally as of 2016.

**“Public sources of funding have been the primary source of funds to pay for all three stages of REDD+.”**

The REDDX initiative at Forest Trends tracked REDD+ finance in 13 key countries, and this included US\$6 billion in pledges and US\$4.7 billion in disbursements, with 90% of the funds from public sources. Even in the REDDX countries, it is clear that the bulk of the money has come from public sources, and private flows have been mostly on standby waiting for policy certainty.

By contrast, the Climate Bonds Initiative<sup>2</sup> reveals growing private sector interest in bond issuances for projects that have positive environmental and/or climate benefits; totaling US\$118 billion in labeled green bonds and US\$576 billion in unlabeled, “climate-aligned” bonds. However, the transport and energy sectors dominate this bond market, and less than 1% (US\$6.2 billion) of outstanding bonds are issued by companies in the agriculture and forestry sectors. The Climate Bonds Initiative is currently developing land use criteria to support the investment case for mitigation opportunities in sustainable forest, agriculture, and other land use management.

For the purposes of this report, we have divided various private sectors into specific categories (see below). Given the differences in risk exposure and investment opportunity among the different types of business, this concise categorization can help to better understand how they may react to various policy incentives or government regulations. It is also helpful to distinguish between private sector entities that work primarily in a domestic market versus those that work primarily in a global market:

### Types of Private Sector Entities

- a) Carbon market offset credit buyers;
- b) Carbon market project developers;
- c) Small and Medium-sized Enterprises (SME);
- d) Multinational and national “large industrial emitters;”
- e) Banks engaged in international lending;
- f) Banks engaged in domestic lending only;
- g) Members of internationally regulated sectors (not covered by Paris Agreement): ICAO and IMO; and
- h) Commodity traders (agriculture, forestry, mining).

<sup>2</sup> Climate Bonds Initiative. *Bonds and Climate Change. The State of the Market in 2016*. London, UK: Climate Bonds Initiative, 2016.

## 3. Why the Private Sector Should Be More Interested in REDD+

The Paris Agreement will only succeed if its signatories follow through by ratifying the Agreement and implementing the policies and actions necessary to achieve their accompanying Nationally Determined Contributions (NDCs). Richer countries must also begin to mobilize additional financial support to assist developing countries in their efforts to mitigate and adapt to climate change to the collective tune of at least US\$100 billion per year by 2020. These obligations of governments logically implicate the private sector in their implementation.

Recognizing the critical role of forests and land sector in achieving its goals, the Paris Agreement provides more reason, and some support, for bringing public and private interests together to achieve sustainable solutions to forest and land management in the context of climate change.

### 3.1 Articles 5 and 6: Forests and Collaborative Approaches

#### ***Article 5 – “The Forests Article”***

With the essential focus of countries to phase out burning of fossil fuels and increase carbon uptake – the ultimate solution to the climate crisis – it has often been difficult in the UNFCCC and national processes to adequately acknowledge the critical role of the land sector in achieving the goal of the Convention. Article 5 of the Paris Agreement does that – not loudly, nor lost in pages of confusing jargon and complex rules, but simply affirming what the COP had essentially agreed over the years while adding an acceptable level of direction and encouragement for greater ambition in this sector. But this is more than a political signal. The urgent need to reduce emissions and increase sequestration, as well as to ensure accountability and transparency, means that in countries with significant emissions from the land sector, it will be very difficult to hide those emissions and/or hide a lack of action to address them.

#### ***Article 6 – Collaborative Approaches, a new framework for international carbon markets***

An equally difficult and contentious issue in the negotiations has been the use of flexibility mechanisms, in particular carbon markets, to allow countries to meet their mitigation obligations in a lower-cost manner. Article 6 establishes a broad framework that creates “collaborative approaches,” which allow for the use of carbon markets. It does not establish or explicitly recognize carbon markets nor does it offer detailed guidance on how they should be structured or governed, except for the condition that double counting of emissions reductions must be avoided, regardless of the transfer mechanism. In the absence of a central market mechanism, it is effectively assumed that countries who wish to utilize such a mechanism will develop markets internally and that by trading “Internationally Transferred Mitigation Outcomes” (ITMOs) among themselves, they will deepen their NDCs.

### 3.2 Impetus of the Paris Agreement: “Carrots and Sticks”

The unprecedented level of political leadership shown by the world’s governments in Paris in December 2015 caught the attention of the business sector worldwide. There was a general impression that governments were now ready to take “real action” to combat climate change – to chart a new, low-emission course for economic development and growth. However, beyond that general appreciation, there are relatively few business leaders around the world who are aware of the specific and practical implications for their businesses of the implementation of the Agreement and its ultimate success or failure.

# UNFCCC Paris Agreement

- Emissions goal cannot be reached without REDD+
- Government commitments require the private sector

Impetus for private sector engagement in implementation of Paris Agreement and NDCs, including REDD+

## CARROTS

### Benefits for early actors

- Government and multilateral support for industry/sector transformation leaders
- Government support for establishing enabling conditions

### Emissions trading systems

- California, EU, international aviation, ITMOs
- \*Rules currently under negotiation\*

### Public-private partnerships

- Aligned interests met through complementary actions
- Access to international finance (multilateral funds)
- Benefit-sharing arrangements
- Reduce risks

## STICKS

### NDC Implementation Plans may include

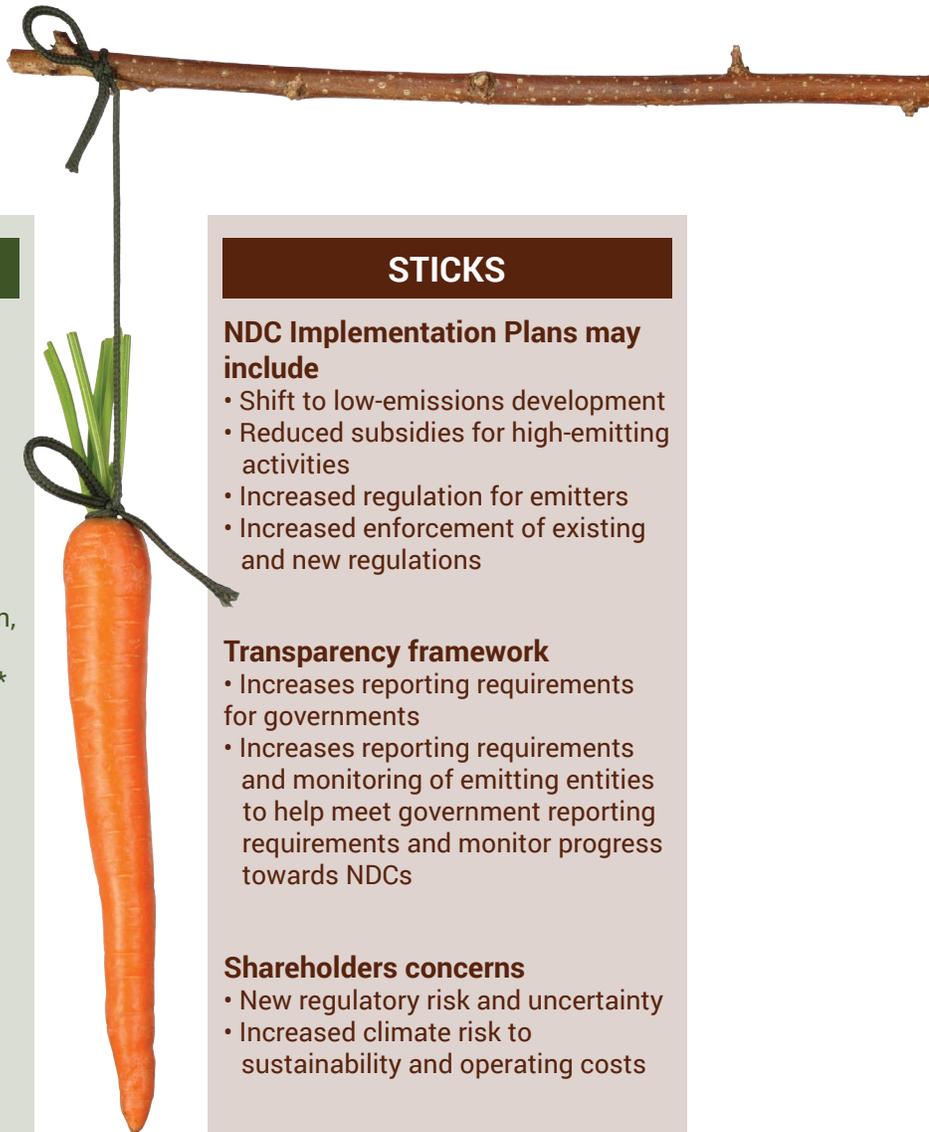
- Shift to low-emissions development
- Reduced subsidies for high-emitting activities
- Increased regulation for emitters
- Increased enforcement of existing and new regulations

### Transparency framework

- Increases reporting requirements for governments
- Increases reporting requirements and monitoring of emitting entities to help meet government reporting requirements and monitor progress towards NDCs

### Shareholders concerns

- New regulatory risk and uncertainty
- Increased climate risk to sustainability and operating costs



## 4. “Carrots” for Private Sector Action

### 4.1 Benefits for Early Actors

As discussed previously, governments cannot achieve their targets for emissions reductions or low-emissions development without being aligned with private sector actions, primarily in the major emitting sectors. The development of countries’ NDCs, while following a “bottom-up” approach from an international perspective, did not necessarily involve full and effective participation of the private sector across many countries. This is a particularly important consideration in developing countries (especially the least developed countries) with limited capacity and resources to carry out the necessary consultations and analysis in 2015. Countries are now in the process of reviewing their “Intended Nationally Determined Contributions” (INDCs) prior to submitting NDCs along with their ratification of the Paris Agreement; a few have already submitted.<sup>3</sup> At the same time, many countries are further developing or reviewing their domestic climate change plans to align with their NDCs. For private sector stakeholders, while there are risks inherent in investing in innovative technologies and systems, there are potentially valuable short- and long-term benefits available through collaboration with governments at this time.

Within the private sector, globally, it has been the large multinational and national corporations in the energy sector who have been most engaged with international and national climate policy development to ensure that the process of decarbonizing economies allows for the transformation of business models for their sector. Insurers and re-insurers have also been proactively engaged with governments as they face increasing challenges due to the loss and damage associated with the adverse effects of climate change, particularly in countries most vulnerable to climate change. There is also a growing interest among impact investors and other green investment entrepreneurs as national and international climate policy becomes more clear and predictable.

For companies outside the energy and mining sectors, supply chain emissions contribute four times the amount of operational emissions.<sup>4</sup> While there has been commendable policy leadership shown by several multinational companies who trade in agricultural and forest commodities, it appears that few have actively engaged with governments to assist in developing or reforming policy or implementing mitigation projects or programs in line with government climate policy.

For small and medium-sized enterprises (SMEs) and other private sector categories that do not yet see obvious and immediate risks associated with climate change and related public policy, there are opportunities and incentives for early action. International climate finance is a key source of opportunity, as donor countries have committed to mobilize at least US\$100 billion annually by 2020 for climate change mitigation and adaptation actions in developing countries. The Green Climate Fund, the Global Environment Facility, and international development agencies are actively seeking investment opportunities for these commitments. Governments (particularly of donor countries) are seeking ways to use limited public funds to leverage a much larger amount of private sector finance to achieve the sectoral transformations necessary for decarbonization, including REDD+. For example, the US Agency for International Development, through its Development Credit Authority, provided a US\$133.8 million risk-sharing loan guarantee to Althelia Climate Fund for forest conservation and sustainable land use. Early actors in the private sector have an opportunity to both inform policy and legislative development and also to accrue non-carbon benefits associated with mitigation or adaptation measures.

At COP21 in Paris, Unilever and Marks & Spencer pledged to prioritize their commodity sourcing from areas that have designed and are implementing jurisdictional forest and climate initiatives, and to work with The Consumer Goods Forum to increase collaboration between businesses and governments through such “produce-and-protect” approaches.

<sup>3</sup> See <http://www4.unfccc.int/Submissions/INDC/Submission Pages/submissions.aspx>.

<sup>4</sup> CDP. *From Agreement to Action: Mobilizing suppliers toward a climate resilient world*. CDP Supply Chain Report 2015. London, UK: CDP, 2016.

## 4.2 Improving Enabling Conditions for Investment in Green Business

A big part of the challenge for developing countries in achieving their NDCs and low carbon development goals is establishing or improving the enabling conditions for investment in transformative technologies and “green business” opportunities. Where access to domestic capital is limited and/or restricted by very high interest rates, access to international funds, from both private and public sources, is often constrained by the lack of capacity to meet the fiduciary standards or other conditions. This is not a new problem, but the commitments to mitigation, adaptation, and finance made under the Paris Agreement have created new opportunities for collaborative approaches (both domestic and international, with public and private sectors) to create the enabling conditions for investment in green business.

### Challenges Companies Face in Meeting Supply Chain Commitments:

- Weak governance
- Absence of land title
- Lack of capacity
- Traceability
- Costs

Streck, Charlotte, and Donna Lee. *Partnering for Results: Public-Private Collaboration on Deforestation-Free Supply Chains*. Prepared with support from cooperative agreement # S-LMAQM-13-CA-1128 with U.S. Department of State. Washington, DC: Climate Focus, 2016. See: <http://www.winrock.org/resources/partnering-for-results>.

There has been considerable effort underway over the past few years to entice the private sector to invest in REDD+ projects and jurisdictional programs, for example, in Mato Grosso and Acre (Brazil) and San Martin (Peru), but with limited success. Funders and multilateral funding institutions have been mainly focused on public sector REDD+ capacity building, monitoring, and strategy design. Accommodating the private sector – either as key actors in or parties affected by many of the programs – has tended to be of secondary concern. However, as noted above, we are beginning to see the greatest opportunity for success in the form of public-private sector collaboration in jurisdictional initiatives to achieve deforestation-free, sustainable production landscapes.

Companies desire public policy that creates, maintains, and enforces a predictable and transparent operating environment, thereby lowering risk. They also often require public sector support in providing the education, training, and infrastructure necessary for business development and growth. For companies operating in the agriculture, forest, and other natural resource sectors, collaboration with government is key to clarifying land tenure and facilitating

### Case Study: Ghana

**Ghana offers a good example of a national climate plan that has clear roles for jurisdictional approaches, as well as incentives for the private sector to work in partnership with the government.** Ghana’s emission reductions program for “the cocoa forest mosaic landscape” was accepted into the pipeline of the World Bank’s Carbon Fund with the expectation of signing an Emissions Reductions Payment Agreement in the near future. If Ghana is able to successfully implement this program, they will be eligible to receive results-based payments of up to US\$50 million from the Carbon Fund. In order to achieve these goals, **incentives for private sector participation are a central part of the program.**

To date, Olam (an international agri-business and major buyer of cocoa beans) and other companies and stakeholders including Forest Trends, the Nature Conservation Research Centre (NCRC), Rainforest Alliance, IUCN-Netherlands, and SNV Netherlands Development Organisation have expressed strong interest and support for the program. Olam in particular has established a business case for private sector investment to generate significant co-benefits. They have done so by working with the government on a landscape approach in order to address risk in the cocoa supply chain. **In the coming years, Ghana’s Forestry Commission and Cocoa Board expect private sector and civil society engagement to grow and contribute to leveraging additional funds to support implementation and scaling up of the program.**

engagement of indigenous peoples and local communities. Establishing public-private compacts to implement REDD+ strategies can lead to investment of REDD+ results-based finance toward further improvements in the local business environment. Public-private collaborative approaches like these, which recognize the mutual interest in improving the enabling conditions for investment and effective policy implementation, should result in a more cost-effective way for companies to meet sustainability pledges and ensure sustainable supply chains.

### 4.3 International Collaboration, REDD+, and the Role of Carbon Markets

While the Paris Agreement formalizes the framework for REDD+ and establishes the framework for collaborative approaches, which could include market mechanisms, it does not actually define operational linkages for market-based incentives for REDD+. An international market with broad participation and common standards is still years away, pending further UNFCCC negotiations. While most of the industrialized (richer) countries stated that they would not use international offsets to achieve their INDCs, they also negotiated in favor of Article 6, collaborative approaches including ITMOs and Sustainable Development Mechanisms (SDM) Programme (see Section 3.1, above). **Therefore, it would be reasonable to expect that market-based approaches will play a larger role in the future, as a means to achieve additional emissions reductions and close the gap between the aggregate of domestic targets and the expressed goal of the Paris Agreement and ultimate objective of the UN Climate Convention.**

As there are no existing regulated, international emissions trading systems that include credits from REDD+, the development of a market-based mechanism (MBM) as part of the International Civil Aviation Organization's (ICAO) GHG-emission reduction measures may be the first system to provide market-based incentives (finance) for REDD+ activities, consistent with UNFCCC rules and guidance. Given the membership of ICAO – governments and aviation companies – decisions made in the context of the MBM can be expected to set some precedents for the UNFCCC's work programme on matters related to operationalizing Article 6 of the Paris Agreement. Similar developments in regional compliance markets, such as California's (discussed in the following section), could also be expected to influence the development of rules or standards for market-based approaches under Article 6.

Supply chains are a key element of a company's climate-related risks. Supply chains must be resilient systems that account for regulatory risk, minimize adverse contributions to climate change, and adapt to climate-related disturbances ranging from resource scarcity to infrastructure damage from extreme weather events.

*CDP. From Agreement to Action: Mobilizing suppliers toward a climate resilient world.*

# 5. “Sticks” for Private Sector Action

## 5.1 How Countries Will Meet Their NDCs: Implications for Private Sector Engagement in REDD+

Nationally Determined Contributions are the primary elements or tools upon which the Paris Agreement relies to achieve its goals. They represent each country’s ambition to limit and reduce GHG emissions from sources and removals by sinks (storage) by 2025 and/or 2030. Countries must submit their NDCs by 2018, after which they will be reviewed and revised every five years, with an expectation of increasing ambition over time, so as to reach a net balance between emissions and removals in the second half of the century.

Based on the submission of *Intended* NDCs by 177 countries prior to the adoption of the Paris Agreement, there is a strong indication that most forested countries intend to undertake action in the forest and land sectors. The type of action specified by the countries varies in scope and detail, including reducing deforestation, improving forest management, restoring forest land, and creating new forests.

In order to achieve their NDCs, governments are looking at the full range of policy options, including ways to incentivize or require private sector action. At this stage, there is a concerted and growing effort to convert NDCs into action through the use of various “carrots and sticks.” Such policies and measures include enforcement of existing laws; new laws designed to meet NDCs, including REDD+ goals; subsidy reforms; and investment in low-emissions development strategy (including, where appropriate, actions in the forest and land sectors).

“First we will have to sign the Paris Agreement, then we will have to prepare for the ratification of this Paris Agreement, and of course we will have to put all of our promises into domestic legislation.”

EU Climate Action. *Post-Paris Round Up with Jos Debelke*. Accessed July 22, 2016. <https://www.youtube.com/watch?v=QohooVxNHu4&feature=youtu.be>.

In many developing countries, limited enforcement of existing policies and regulations represents an institutional driver of deforestation and unsustainable land use practices. While moving from weak to strong enforcement requires political will, adequate resources and, in some cases, acceptance of a political cost, achievement of NDCs will necessitate such transitions. For the private sector, this will be seen as both a threat to business-as-usual and as an opportunity to reduce investment risk and thereby attract greater external investment. Such transitions can also create new business opportunities for early movers.

In Brazil, for example, the initial expression of the national government’s desire to reduce rates of deforestation included the expansion of its network of indigenous reserves, and the increased enforcement of the Forestry Code and related logging laws. These actions, at both federal and state levels, were responsible for much of the 80% reduction in deforestation since 2005 (relative to a 1995–2004 baseline).<sup>5</sup>

### 5.1.1 Increased Regulation for Emitters

Developed countries seeking to achieve their mitigations targets (under the Kyoto Protocol and the Convention) are all using some form of regulation of large industrial emitters. As noted above, the drivers of the majority of deforestation lie outside of the forest sector. Therefore, where upstream emissions from deforestation and forest degradation are attributed to specific industrial sectors, it is conceivable that hard caps or intensity targets could be applied to those sectors, thereby creating an economic incentive for REDD+ activities. Further domestic policy may include domestic or regional offset markets, providing flexibility and lower-cost compliance to regulated industries, and opportunities for unregulated sectors (as well as project developers) to contribute to the national climate change plan and NDC.

<sup>5</sup> Boucher, Doug. “Brazil’s Success in Reducing Deforestation.” *Tropical Forests and Climate Briefing #8*. Washington, DC: Union of Concerned Scientists, 2011.

The State of California has made the most progress to date to embed REDD+ into its state cap-and-trade system. It has pursued a jurisdictional approach, whereby regulated entities in California would be able to meet a portion of their obligations in a lower-cost manner via REDD+ offsets, and the states of Acre in Brazil and Chiapas in Mexico would be able to receive money for these credits, subject to strong environmental and social safeguards. The REDD+ Offsets Working Group (ROW) has been tasked with developing a set of recommendations for the design of compliance-grade jurisdictional programs and with suggesting ways for how it can be included in the California system. The state of California is currently debating the next steps, which may include a decision to accept REDD+ as an international offset. This arrangement is a good example of the types of collaborative approaches and how ITMOs may be implemented in the real world.

In 2015, CDP collected information from 4,005 global suppliers, most of whom recognize the climate risks they face: 72% identified regulatory, physical, and/or a wide range of other climate-related risks, and most of those (64%) specifically highlighted their regulatory risks.

CDP. *From Agreement to Action: Mobilizing suppliers toward a climate resilient world.*

### 5.1.2 Reduced Subsidies for High-Emitting Activities

Where mitigation potential exists within the forest and land sectors, it makes sense that REDD+ strategies or action plans be considered. One of the requisite components of a REDD+ strategy is the identification of the drivers of deforestation and forest degradation. These drivers may be economic or institutional (e.g., government policy), and may be direct or indirect (e.g., market forces).

Knowing that expansion of agricultural production remains the largest driver of deforestation globally, there is growing attention to the underlying financial flows as well as the effectiveness of regulations on forest conversion. Where there are few regulatory barriers to land conversion, or their enforcement is weak, the impact of agricultural subsidies can be significant. The Overseas Development Institute (ODI) reported that agricultural subsidies worth at least US\$486 billion in 2012 dwarf the US\$8.7 billion total that developed countries have committed to REDD+ since 2006.<sup>6</sup>

### 5.1.3 Shift of Priorities to Low-Emissions Development

As keystones of the Paris Agreement, NDCs are also the newest national policy tools with which to generate political will, implement necessary national legislation, and catalyze coordination of institutions in planning and implementation. For those countries with significant mitigation potential in the forest and land sectors, the NDC can provide impetus and direction for a complementary policy and legislative environment necessary to achieve sustainable forest and land management objectives. In addition, the UNFCCC's framework of policies and incentives for REDD+, including results-based finance, provides an opportunity for early action and support for a country's low-emissions development strategies (Low Emissions Development Strategies (LEDS), a.k.a "Green Growth" strategies). For example, Mexico's National Climate Change Strategy, "10-20-40 Vision," explicitly integrates REDD+ into their national green development plans.<sup>7</sup>

Governments need help from private sector to transform the way business is done in order to reduce impacts on landscapes that contribute to climate change. They need the private sector to help drive innovation within LEDS, and more specifically, they need them to contribute to the NDCs. To gain this cooperation and collaboration, government departments with climate change and land use-related mandates need to better understand private sector needs and processes in order to properly integrate them into new policies or incentive programs.

<sup>6</sup> McFarland, Will, Shelagh Whitley, and Gabrielle Kissinger. *Subsidies to key commodities driving forest loss: Implications for private climate finance.* London, UK: Overseas Development Institute, 2015.

<sup>7</sup> Ministry of the Environment and Natural Resources, Federal Government of Mexico. *NCCS (2013) National Climate Change Strategy: 10-20-40 Vision.* Mexico, Federal Government of Mexico, 2013.

## 5.2 Increased Attention to Transparency of Actions and Results

In order to monitor progress towards the objectives of the Paris Agreement and to ensure the integrity of actions undertaken by countries, a set of provisions were established that create reporting obligations for national governments.

**These national obligations will increase accountability of governments to address major sources of emissions. Where the countries have sufficient resources to meet the reporting requirements (supplemented by international financial support, if needed), the collection and reporting of data should support efforts to improve forest and land use governance.** This could be particularly important in developing countries where illegal or unregulated logging and land conversion limits their ability to achieve emission reduction targets and also deprives governments of important revenue that could be used to support domestic budgets.

For the private, industrial sectors, the implications of this new level of transparency to meet UNFCCC reporting obligations will vary depending on their type of activity, their GHG footprint, and the country's national circumstances (e.g. level of development and industrialization).

In effect, governments and civil society in countries with significant emissions or mitigation potential in the forest sector now have greater interest and need to know what is going on. This increased scrutiny should benefit forest and other land use management: more information enables more efficient use of the available resources, bringing greater economic benefits to the local communities and tax revenue to the national governments. With the growing availability and decreasing cost of satellite and other remote-sensing technologies, it will no longer be possible to hide evidence of deforestation and forest degradation activities (legal and illegal). Countries that seek to obtain results-based payments for REDD+ will be subject to greater intensity of examination, through the established UNFCCC process as well as from civil society, non-governmental organizations, and, likely, the payer.

***“Governments and civil society in countries with significant emissions or mitigation potential in the forest sector now have greater interest and need to know what is going on.”***

In addition, for companies whose activities contribute to reducing emissions or increasing carbon storage, enhanced reporting requirements could potentially add value to their business through linking their performance to national GHG inventories and accounting, and through potential valuation of the emissions reductions within a national climate change policy. In this way, the transparency framework under the Paris Agreement may serve as a platform for innovation and market recognition.

## 5.3 Managing Risk and Change: A Concern of Governments and Shareholders

There is a cost to the private sector – to individual businesses – of not engaging in or supporting, to some degree, government and international efforts to combat climate change. Risks to business and society continue to grow with the increasing concentration of GHGs in the atmosphere. Climate change impacts are increasing the cost of doing business as a result of more frequent extreme weather events, including storms, droughts, temperature extremes, and other climatic variations. Agribusiness is particularly concerned with the increasing risks to their supply chains, including the productivity of the land used to produce the commodities that they and their consumers demand.

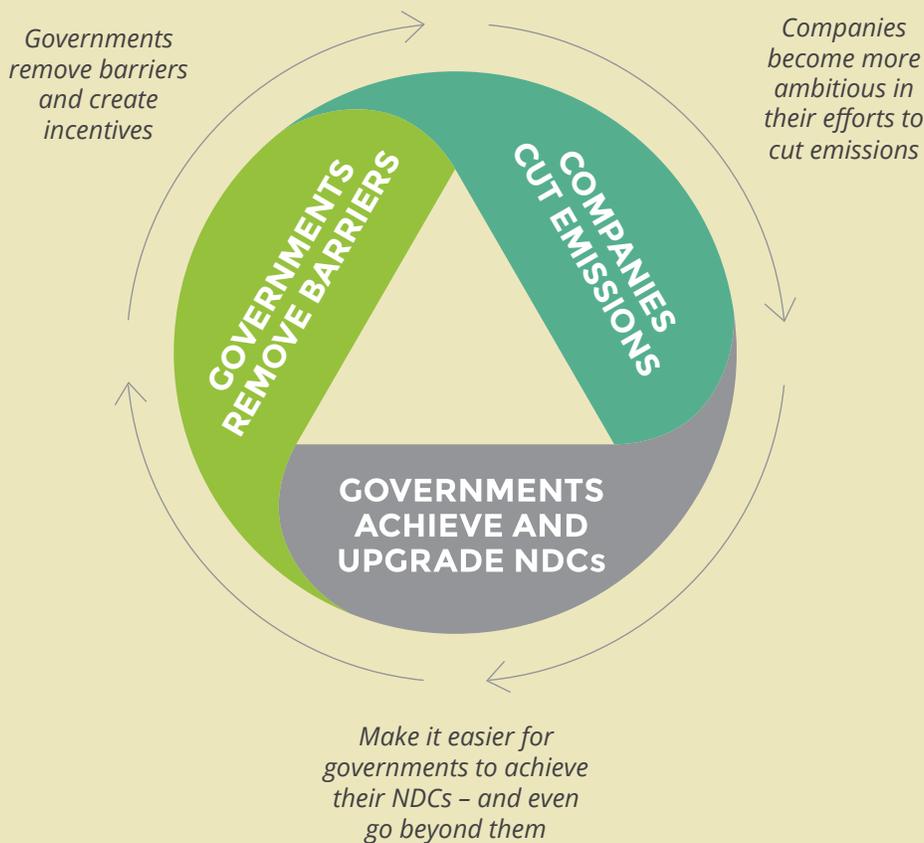
While the impacts of climate change are increasingly affecting companies' bottom lines, the urgency of the climate crisis is creating a business environment of transformation and innovation, creating new markets and shifting old markets, while also opening them up to new players.

## 6. Conclusions

The Paris Agreement, if successfully implemented, has the potential to guide the world to reverse two dangerous and related trends: global climate change and the loss of the world's most important forests. Victory on this front will require the private sector to engage (for their own benefit) in various ways including with governments and civil society to enable and accelerate concrete actions that put us on a path of low-emissions economic development. As a result, we offer the following three recommendations to bring governments and the private sector together to achieve the goals of the Paris Agreement:

1. **We urge governments and the private sector to actively collaborate in assessing the implications of the Paris Agreement in the development and implementation of strategies to achieve their NDCs.** Although this might seem to be an obvious course of action, experience over more than 20 years of climate negotiations has shown that agreements in international climate negotiations have suffered from inadequate engagement and input from the private sector. The reasons for low levels of collaboration or consultation generally range from lack of capacity (in both public and private sectors) and failure to develop domestic legislation, to general lack of awareness or concern, and suspicion. This will have to change in all countries given their new obligations under the Paris Agreement to show progress, achieve their NDCs, and, for richer countries, to provide financial support for mitigation and adaptation actions by developing countries.

In summary: Complementary and collaborative actions by governments and companies are needed to reduce risk and sustain a healthy climate for people and business.



Graphic: We Mean Business Coalition. *The Business End of Climate Change. How bold corporate action supported by smart policy can keep temperature rise below 2°C.* Accessed July 22, 2016. <http://www.wemeanbusinesscoalition.org/sites/default/files/The%20Business%20End%20of%20Climate%20Change.pdf>.

2. **Private sector experience with, and interest in, carbon markets should inform government positions and proposals in upcoming UN negotiations.** Although the Paris Agreement provided the overall framework, work remains to be done to facilitate a significant increase in flow of finance for mitigation achieved by developing countries, such as REDD+. This will require the UN negotiators to resolve the lack of clarity around how ITMOs or SDM “credits” would be recognized or accounted for, while maintaining the environmental integrity of the Paris Agreement. Creating the right set of rules will make it easier and more cost-effective for governments to achieve their NDCs, leverage the financial and entrepreneurial resources of the private sector, and accelerate the reduction of emissions necessary to avoid dangerous climate change. In particular, the carbon markets rules under Articles 5 & 6 will benefit greatly from the real-world experience of voluntary carbon market actors, as well as from emerging compliance markets including California and ICAO. This work starts at the next COP in Morocco in November 2016.

### Take Action

Carbon Fund with the expectation of signing an Emissions Reductions Payment Agreement in the near future.

The UN has asked for the views from countries, and stakeholders, including NGOs and the private sector. The first deadline for this type of input, known as a “Call for Submissions,” is September 30, and focuses on Article 6 which deals with carbon markets.

(Article 6 of the agreement does not establish or explicitly recognize carbon markets nor does it offer detailed guidance on how they should be structured or governed, except for the condition that double counting of emissions reductions must be avoided, regardless of the transfer mechanism. It establishes a broad framework that creates “collaborative approaches,” which allow for the use of carbon markets.)

See: <http://unfccc.int/resource/docs/2016/sbsta/eng/l11.pdf>

3. **Develop public-private partnerships that create and enhance the enabling conditions necessary to attract private sector capital.** Countries and companies should take advantage of the agreed UNFCCC REDD+ framework by developing more collaborate approaches that link national REDD+ strategies to private sector interest in sustainable production and supply chains, and to international climate finance (or foreign investment). These complementary interests, expressed through coordinated actions, should result in the creation and/or enhancement of a business and policy environment that will attract, or facilitate access to, private and public finance. In order to achieve REDD+ objectives, to halt deforestation and restore forest ecosystems, we need to see greater alignment and mobilization of private sector finance to support developing countries’ REDD+ ambitions. While public funds have contributed to significant progress in several countries over the last 10 years, achieving and maintaining results at scale will require tapping into the financial resources of the private sector. For their part, the private sector needs the right conditions to be able to assess and manage their risk and to receive an adequate return on their investments.

# Forest Trends' Experience in Tracking and Analyzing Forest, Agriculture, and Land Use Finance

Forest Trends' programs cover a broad perspective on all levels of forest and land use finance, and currently serves as the global go-to source of information on both public and private conservation finance for policymakers and stakeholders. Forest Trends carries out this work through two strategic areas of work – knowledge capture and project demonstration – and the programs and outcomes they encompass are an established, strong and effective base upon which to launch the proposed new program. These programs include:

1. **Knowledge Capture, Awareness Raising, Transparency, and Accountability:** Forest Trends enhances the transparency and effectiveness of forest conservation finance by tracking, analyzing, reporting and disseminating information regarding major elements of both public and private forest finance:
  - **Public funding for REDD+:** Forest Trends' REDDX initiative is currently the world's most in-depth and independent source of information on public funding for national forest and climate programs in key REDD+ countries, tracking the disbursement and use of public and, to a more limited extent private, REDD+ finance to build robust REDD+ country programs;
  - **Transparency, capacity building and ownership on public funding at the national level:** REDDX also trains and supports a network of civil society organizations in each country that tracks financial flows and has connections with governments and national stakeholders needed to verify the uses of financing and needs and gaps in development of country programs;
  - **Private finance through forest carbon markets and investments:** Forest Trends' Ecosystem Marketplace program is the largest and most comprehensive global repository of data, analysis and reports that track private finance flows through analysis of conservation impact investments and through financing in voluntary and compliance forest carbon markets;
  - **Commodity supply chain commitments:** Forest Trends' Supply Change tracks 580 separate commitments by 370 corporations for low- and zero-deforestation commodity supply chains;
  - **Public-Private finance analysis:** Forest Trends' finance professionals carry out analysis on emerging developments in public and private finance, and also conceptualize models related to financing mechanisms for forest conservation and agricultural emission reductions.
2. **Demonstration of Financial Mechanisms and New Markets:** Forest Trends works with both governments and the private sector to lead efforts to:
  - **Develop new private investment concepts** for support of forest conservation, including the innovative green bond concept for protection of tropical forests;
  - **Identify enabling conditions needed for enhanced public, private and hybrid financing** for forest conservation such minimizing investor risk;
  - **Determine the interests, motivations, and concerns of potential investors** through targeted surveys, outreach and direct engagement;
  - **Establish pilot projects around forest conservation and sustainable agricultural financing** in key countries such as Brazil, Peru, Colombia, Ghana and others.



## The Family of Forest Trends Initiatives

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### **Biodiversity Initiative**

Promoting development of sound, science-based, and economically sustainable mitigation and no net loss of biodiversity impacts

### **Coastal and Marine Initiative**

Demonstrating the value of coastal and marine ecosystem services

### **Communities Initiative**

Strengthening local communities' capacity to secure their rights, manage and conserve their forests, and improve their livelihoods

### **Ecosystem Marketplace**

A global platform for transparent information on environmental finance and markets, and payments for ecosystem services

### **Forest Policy, Trade, and Finance Initiative**

Supporting the transformation toward legal and sustainable markets for timber and agricultural commodities

### **Public-Private Finance Initiative**

Creating mechanisms that increase the amount of public and private capital for practices that reduce emissions from forests, agriculture, and other land uses

### **Water Initiative**

Promoting the use of incentives and market-based instruments to protect and sustainably manage watershed services

Learn more about our programs at [www.forest-trends.org](http://www.forest-trends.org)