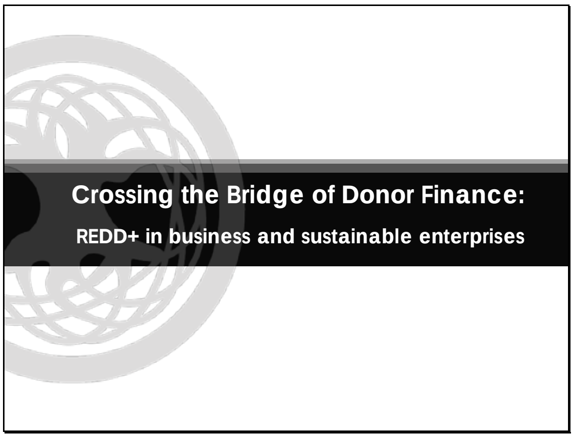
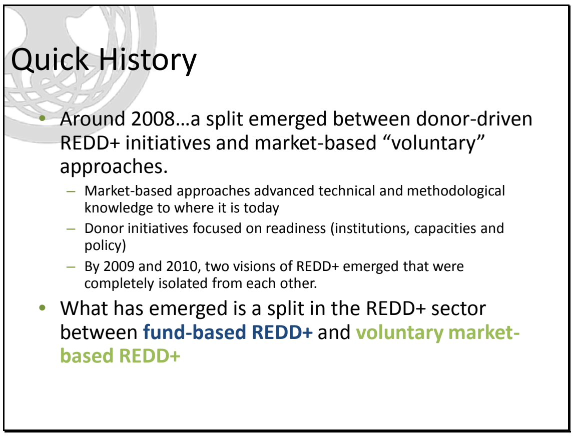
Crossing the Bridge of Donor Finance, REDD+ in Business and Sustainable Enterprises

Gabriel Eickhoff (Forest Carbon Partners)



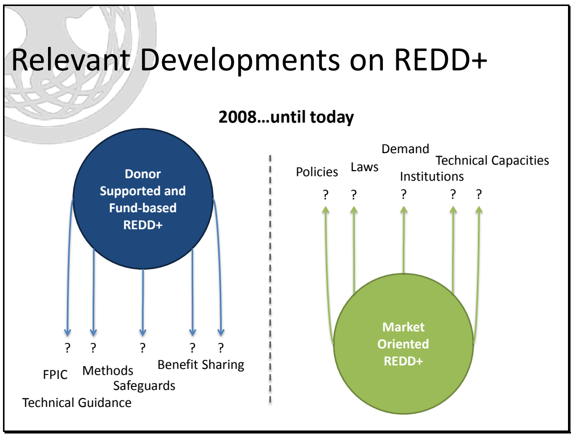
I come from a slightly different background than my colleagues here. I and my partners founded our company in 2007 and since then have been working on providing technical services to REDD projects primarily across South East Asia but as well as in Congo and Ecuador, parts of South America. We do not develop projects, we advise on them. As such have, we have been able to get a very interesting cross-section of donor, multilateral, private and NGO projects over the last years. We have worked with between 30 and 35 REDD projects on the ground quite literally. This presentation represents much of what we have seen over the years since 2007.

1. Quick History



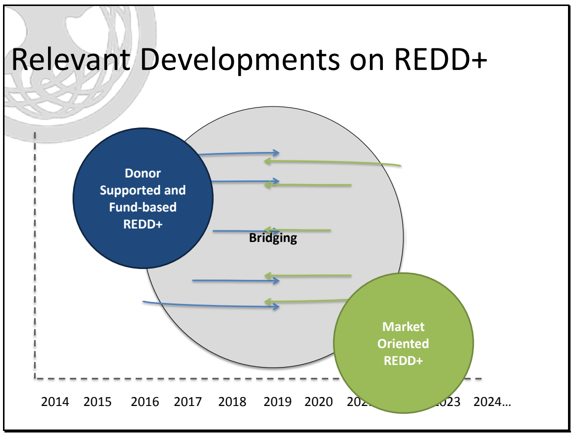
A quick history on REDD from our perspective: from around 2008 we saw a split in the REDD sector, which was represented by a divide between REDD+ initiatives that were primarily donor-driven and those which were seeking market certification. The market-based projects advanced a lot of our technical thinking that we have today and in some cases went far beyond where we necessarily needed to be in terms of methodological knowledge. Donor-driven initiatives on the other hand focused on necessary aspects of setting up institutions, policies, laws and starting to build capacities, things that private sector, for example, would not necessarily want to get their hands into. However, by 2009-2010, two really unique visions of REDD began to emerge that were in a lot of ways very isolated from each other.

2. Relevant Developments on REDD+



In this slide here we see that the donor community was really focusing on building a house, so to speak, focusing on FPIC[1], on methods safeguards, benefit sharing schemes, technical guidance but on a very general level and really setting the stage for making REDD work on a national scale. On the other hand, market driven activities were really focused on the nitty-gritty details of how you make these things work on the ground.

The problem is that both of these communities were not communicating with each other, and in often cases, they were viewing each other skeptically. What you found, and we find often today, are large scale multinational and bilateral programs which are struggling to figure out how to implement on the ground and a bunch of project level activities that are not based in any law or policy whatsoever and are struggling to survive.



What we are hoping to see and what we anticipate is that this is a bridging period. We are kind of somewhere in it where these two communities are starting to come together, share ideas, nest projects within national systems, and begin to communicate with each other. Keeping in mind that the donor community and the multinational community is doing something setting the stage and taking on the risks of establishing REDD in a way that the private sector was not able to do and was not willing to do as far back as 2006, 2007, or 2008

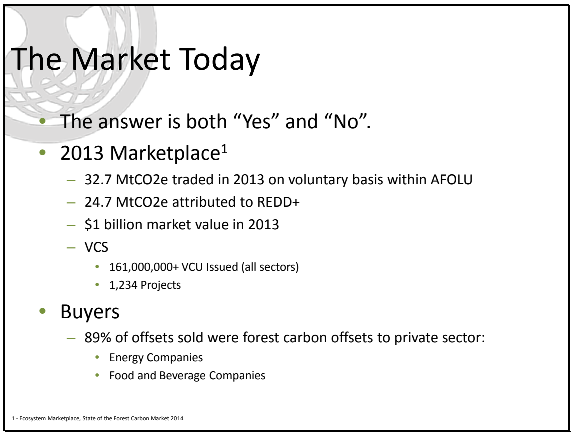
[1] Free, Prior and Informed Consent

3. The Market Today

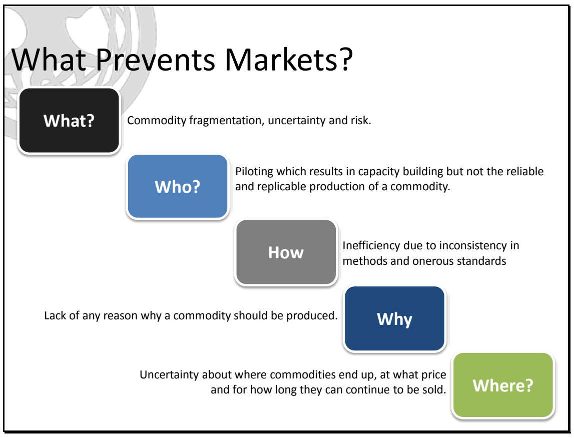
I think Maria captured this right in saying that today what we are seeing is that donor finance is filling this financial risk and that sub-national programs are starting to take off but something is missing right now.

Something is missing from the table and it is private sector. We know this. This is the sector that drives the largest amount of land use change, creates the largest amount of emissions, yet it is the sector that is most of the time totally absent when it comes to on the ground implementation and activity. However, this is also the sector that has the technical knowledge and resources and flexibility to actually work on the ground. As a former German employee of the German government working on REDD in developing countries, I often compared myself and my program's ability to cause change in the agro forestry sector versus the agro forestry sector's ability to change. It is very clear. We have to interact with the sector if we want to achieve the kind of scale and the kind of emission reductions that are necessary.

I put forward maybe a bit of a provocative question here. Is it possible that we are inefficient in REDD right now because we are fostering a market failure (which is what climate change actually is) by focusing primarily on development objectives and inadvertently avoiding the one sector that is actually able to adjust it?

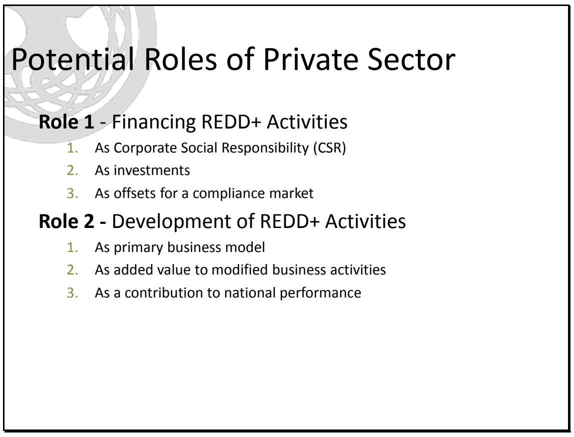


Of course, the answer is both yes and no. We are just not ready to accommodate that sector yet. As we were looking at before, from the ecosystem marketplace 32.7 million tons were traded in 2013 just within the AFOLU[2] sector. VCS projects themselves across all sectors were 161 million tons. That is the beginning of something. It is not there yet. It is the start. The private sector is acting on the fringe right now because we have not set up the right environment yet.



What prevents that environment from happening? We have too much fragmentation of what is a carbon credit. We have too much fragmentation of the market itself. We are piloting results in capacity building, but not necessarily in the replication or the reliable replication of a commodity. We are having inefficiency due to inconsistent standards, inconsistent methods and we have a lack of any reason why the private sector should engage or should act because we are not obligated to. Lastly, there is uncertainty about where those commodities end up in the end. Is it a market? Is it a fund? How do I get there? This is totally not clear to the private sector right now.

4. Potential Roles of Private Sector

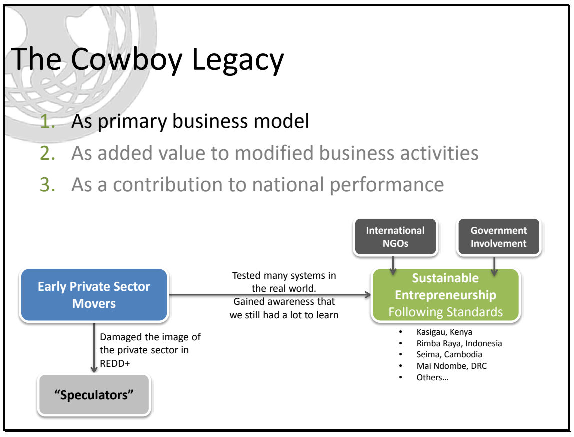


What are the roles of the private sector potentially? One is obviously financing REDD activities; CSR[3], which is the number one source of private finance right now or as investments or as offsets for a compliance market which currently do not exist. Or, in a second role development of REDD activities first as a primary business model, second as added value to modified business activities and third as a contribution to national performance.

[2] Agriculture, Forestry, and Other Land Use
[3] Corporate Social Responsibility

We have dealt a lot with this role one in the past and I think we are all very familiar with it, so I am going to focus on role two.

5. Development of REDD+ Activities



REDD as a primary business model has not worked out really well so far. As a business model, the private sector has had a very hard time early on (for the reasons we talked about before) because they started to develop projects ahead of national institutions being established, ahead of national policies and ahead of national programs being in place. Therefore, the projects that they were developing, the agreements that they were making had no institutional home, they could not be nested and they were unfortunately left out on their own while national programs were being put in place. What happened was that those which acted selfishly or too quickly ended up damaging the image of the private sector and any investments that they were trying to make at that time.

Those that did survive actually went on to form what in many ways are new business models of sustainable entrepreneurship. Those private actors that recognized that they needed partnerships with international NGOs like WWF, the Wildlife Conservation Society[4], and others and they needed government involvement. It was very clear that there was a right way for business to interact and there was a wrong way. It made us aware that we still had to test a lot of things in the real world and that there was still a lot to learn.

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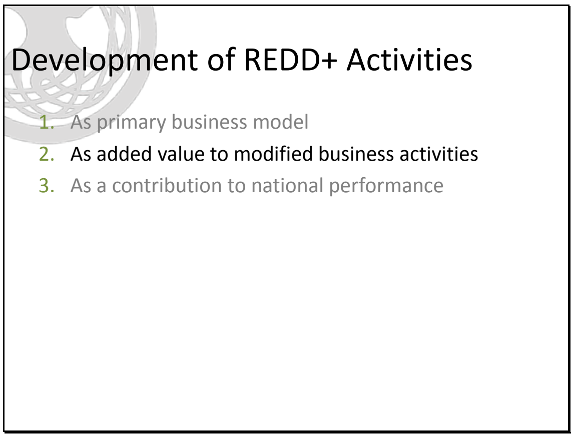
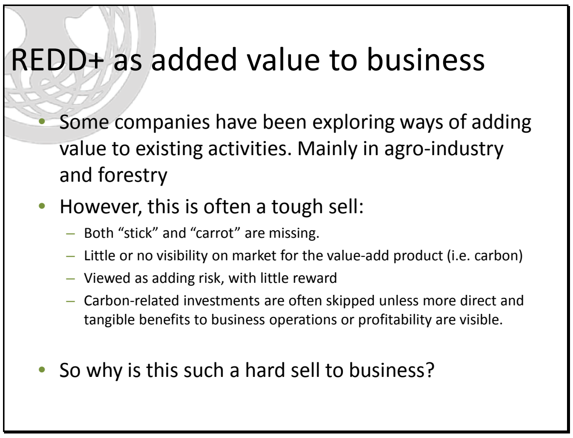
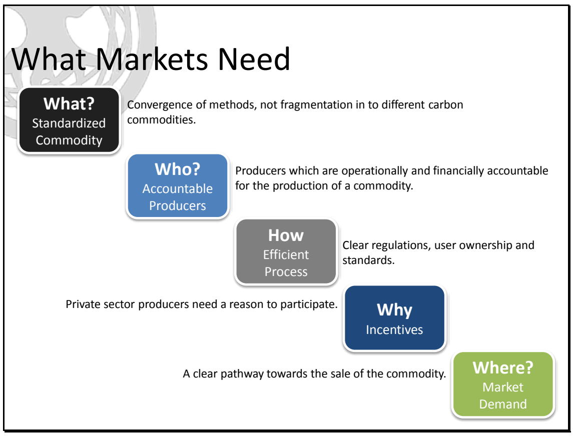
4 http://www.wcs.org/





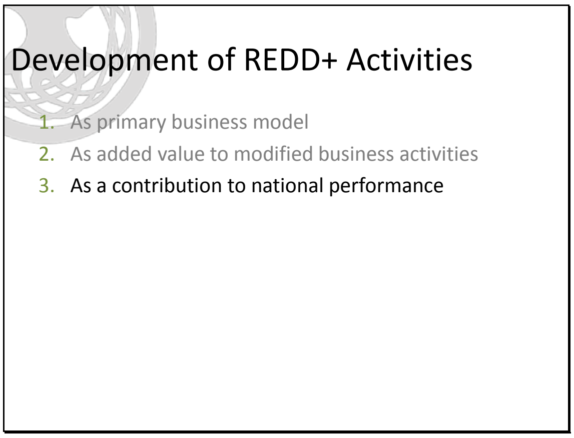
As added value to modified business activities, this is currently a pretty hard sell. Some companies have been working on exploring ways of adding value to existing activities. For example, if I am running conventional logging activities somewhere in Malaysia or somewhere in Indonesia and I can do some reduced-impact logging maybe then I can get some carbon credits on top of that. However, it really is a hard sell for industry because the stick and the carrot are both missing in this situation. They do not need to act. What they do with the commodity that they are producing and the ability to produce it are completely not clear for them still.

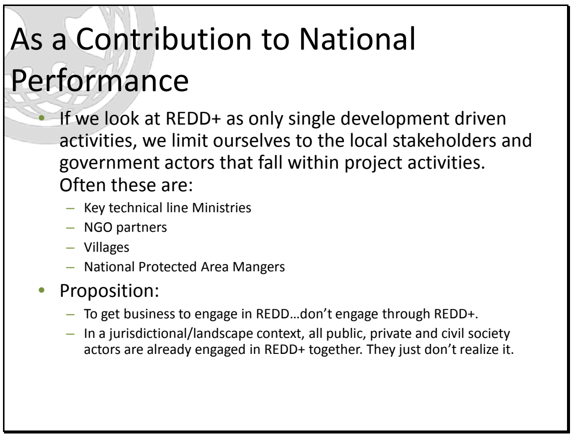


Why is it such a hard sell? What do markets actually need? How do we get these guys going? We have to combine methods. We have so much technical knowledge now that we have to set aside some of the differences between some of the leading technical standards and begin to come to common grounds. It does not mean the approaches to mitigation or the approaches of the national system need to be the same but we have to start agreeing on the fundamental underlying science behind them.

We need accountable producers. Pilot projects are great, but they end, and then what? We need to have producers in the private sector which are producing emission reductions in a way that they are accountable to producing any other kind of commodity. The process needs to be clear and efficient. Policies need to be clear at the national level. Ownership needs to be clear at the national level and standards need to be.

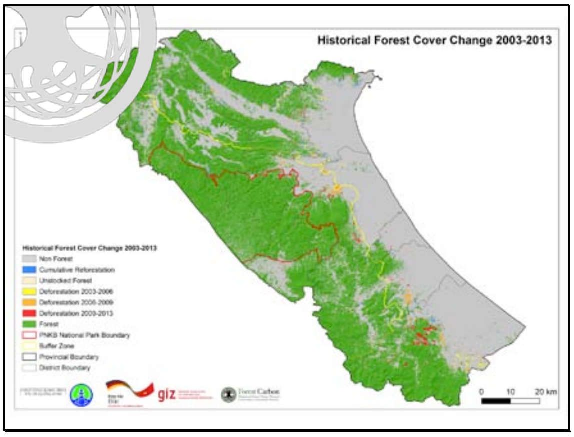
Second to last is that they need a reason to participate. Currently, they do not need to, and they need to know where they are going. Therefore, we need to show them the way to the market and where that market is.

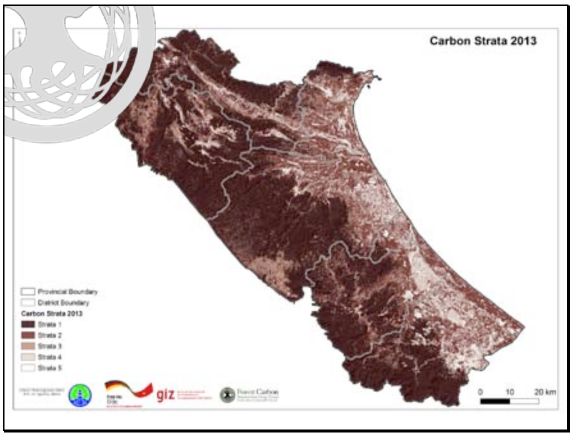


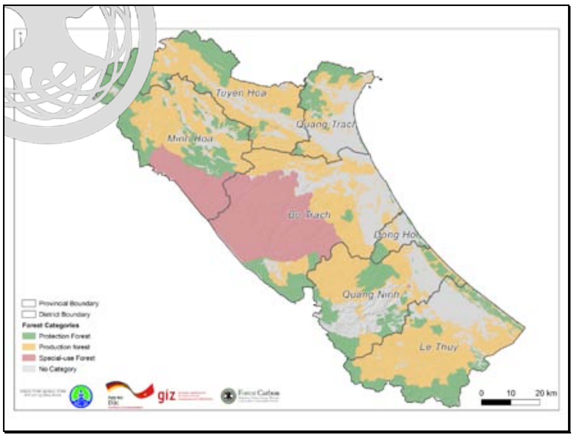


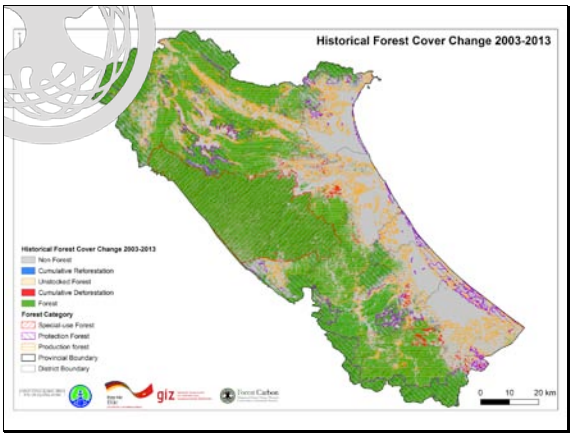
If we look at REDD as only a single development activity, project by project, which I think the JCM is really keen on doing right now then that is fine. However, that fits a very niche role in the larger landscape. Projects are very suitable when they are addressing drivers of deforestation that are not efficient or effective for government itself to address. Often times, these projects fall within key stakeholder partnerships like line ministries, NGOs, villages, and national protected areas, but not necessarily the private sector. This is the sector that is driving change. Therefore, why is there this disconnect? How do we actually get them on board and on the table?

The proposition here is to get businesses to engage, we do not start communicating with them on the context of REDD. We do not start with REDD. Start understanding business as being part of that larger landscape, jurisdiction, or whatever you would like to call it. They are part of the larger map of what we are doing. By looking at REDD across an entire landscape, every actor inside of it is already participating in the sub-national or national performance or noncompliance with performance.







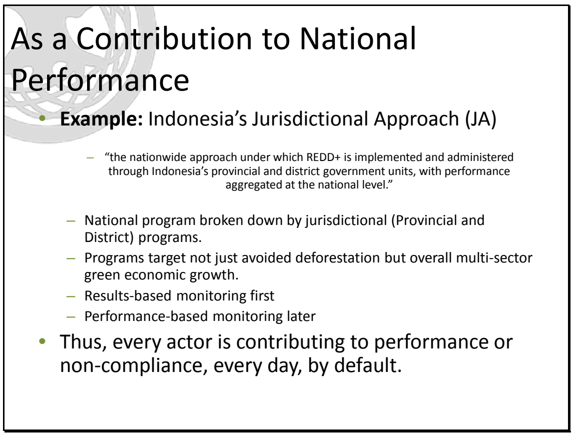


Let us look at Quang Binh province in Vietnam. If I were looking at this map, I would see some red areas here which indicate deforestation. Still, I really would not know what to do.

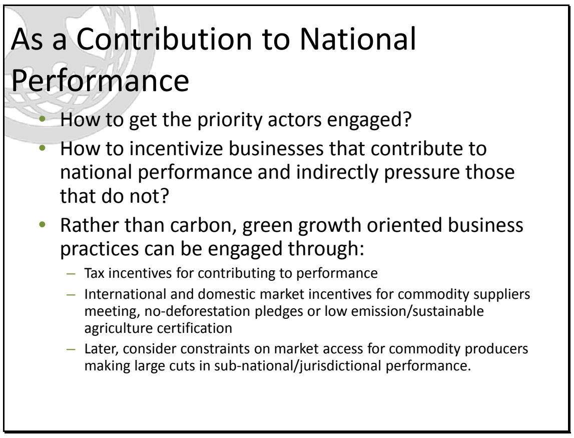
I could look at it in terms of carbon. Even then, I still really would not know what to do.

If looked at it in terms of land use then I might start to get a little bit better picture.

If I combine land use, deforestation, and carbon altogether into one thing then I start to understand these are the industries that I need to engage with. Maybe it is not the production forest. Maybe it is these other areas. What are the businesses there that need to be engaged?

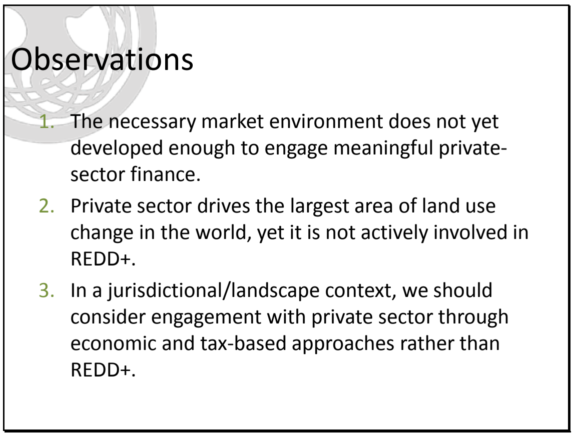


Third, as we continue on as a contribution to national performance, let us take Indonesia as an example of this larger landscape concept, trying to dovetail in with this idea that Peter was just talking about. It is looking at national programs broken down by jurisdiction, like what we are talking about in Indonesia, perhaps until recently. We will have to see. Programs target not just avoiding deforestation but overall multi-sectoral green growth. It is not just deforestation. It is industry. It is transport. It is water and sanitation. It is all of these things tied up into one thing. Results-based monitoring comes first and then performance comes later. Business is part of that landscape. That means agro industry, it means palm, it means rubber, it means cocoa, and it means everything.



If a province wants to perform then it does not need to just go around chasing little pieces of deforestation here and there. It needs to interact with all of the players, stakeholders, and business at the table. Instead of engaging with business in the context of REDD itself, maybe we can begin to engage from the context of looking at it from a jurisdictional scale and looking at talking about regulation, taxation, tax incentives and other macroeconomic drivers that business understands, not just REDD.

6. Observations



These are just some observations that we have been putting together and we have been observing and thinking about how to get private sector on board. First is that the necessary market environment does not exist yet. If we want business in, we have to create those 'who, what, how' scenarios. All of those have to be clarified, especially the demand. If there is no demand, then all the rest of it does not matter at all. It is not enough just to set up registries. It is not enough just to set up trading desks. We have to actually have a source and outlet for all that to be used.

Private sector drives the largest area of land use in the world, yet it is not actively involved in REDD. In a jurisdictional landscape context, we have to consider engagement of the private sector as though they are a partner, as though they are a player because they are. They are part of that landscape. By looking at engagement with them through other methods than just REDD, we could get through to partnerships between the private sector and government actors in order to achieve jurisdictional performance in order to achieve national performance.

DAY1
Session 3