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Submitted to:
UN Framework Convention on Climate Change Secretariat
Standing Committee on Finance
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Response to Call for Inputs on SCF Working Paper on Coherence & Coordination for Finance for Forests

As an accredited private sector observer organization to the UNFCCC process and closer follower of climate finance related issues under the process, the International Emissions Trading Association (IETA) welcomes the opportunity to respond to the Standing Committee on Finance (SCF)'s extended Call for Inputs on "relevant information and case studies for the working paper on coherence and coordination for finance for forests".

ABOUT IETA

IETA represents a multi-sector business voice to governments – inside and outside of the UN process – to inform low-carbon policy and financial development and innovation worldwide. Since its establishment in 1999, IETA has been at the forefront of private sector engagement on climate policy, advocating a strong role for private sector mitigation action, markets and innovative financial instruments to reduce emissions in a robust and cost-effective manner. IETA's 130+ business members hold broad and deep practical experience across the fields of climate investment, forest project development, international forest carbon standards, legal, project finance and monitoring, reporting and verification (MRV) as well as greenhouse gas trading.

OVERVIEW

At its 8th Meeting, and in accordance with Decision 2/CP.17 paragraph 121, 7/CP.19 paragraph 11 and 9/CP.19 paragraph 20, the SCF considered a Revised Background Paper on the subject of coherence and coordination for finance for forests, before deciding to expand the Background Paper into a Working Paper that "could inform the SCF's work on this topic, and also inform the design of the 3rd SCF Forum in 2015 on financing for forests. IETA welcomes the opportunity to respond to SCF's invitation to interested observers about sharing relevant information and case studies to inform this Working Paper. In particular, IETA's comments focus on:

1. Private Sector insights, experiences on transfer of payments for results-based approaches; and
2. Private Sector insights, experiences, and case studies with the provision of financial resources for alternative approaches, such as joint mitigation approaches for the integral and sustainable management of forests (Decision 9/CP.19, paragraph 8).

1. Results based financing. Experiences from the private sector:

Scalable and predictable financing for reducing emissions from deforestation is a critical component of the challenge to mitigate emissions at scale and avoid dangerous climate change. Much literature points to the financing gap that actors face and the need to leverage private sector investment for forests. IETA deems the development of emissions markets as a key criterion to establishing medium to longer-term private sector finance for forests at scale[1].

One of the options to drive private sector results-based finance is to develop policy for emission trading markets that support the use and financing of verified forest emission reduction units.[2] IETA recognizes the fastest start to drive private investment at scale is through emission trading markets with inclusion of verified forest emission reduction units.

In order to drive private investment into results based forest an emissions reduction is through the investment and transfer of verified emission reduction units. Stringent metrics are required to ensure an asset class. Many lessons and shared learning can be taken from experiences to date from private sector investment in carbon projects. Specific agreement/rules are required to ensure investor confidence in forests. IETA has a wealth of experience in supporting design of such practices.

Results-based payments outside an emission trading market are also possible through bilateral agreements, commodity investment commitments and other innovative financing mechanisms such as green bonds. However private sector investment and flow of finance can be expected to be less predictable and less scalable in the absence of key policy drivers and targets to drive a market on forest carbon investment.[3]

IETA deems domestic climate change and environmental regulations, policies on supply chains, or other regulations, and/or links to nascent domestic emissions trading or carbon neutral schemes as opportunity to provide signals to required to gain private investors in the absence of a global forest financing mechanism.

These policy tools have been used in various formulations in developed countries, but potential application to addressing flows of private finance for forests has not been explored greatly. In addition, the obligation to protect or pay for the protection of forests elsewhere as a condition to receiving approval to develop property, extract resources, or develop other large infrastructure projects can also be used to help generate demand for forest financing. For private sector investment, rules and procedures around the results metrics to support the investment would be required.

An area that we recommend SCF explore further is policies and practices that could support uptake of private sector interest and engagement in forest financing. A start could be to explore

[1] http://blogs.worldbank.org/psd/what-can-countries-do-unlock-private-forest-investment
[2] Emissions reductions verified to ensure real, measureable, permanent, additional, unique and trackable. See ICROA for best practice on verified emission reductions. www.icroa.org
[3] http://www.globalcanopy.org/sites/default/files/IFF%20report%20Jan%202014-Stimulating%20Interim%20Demand%20for%20REDD+.pdf

commodities, sustainability standards, emission reduction policies and other land use policies that would support investment shifts.

Results based payment criteria considerations

The private sector requires certain parameters to allow for investor confidence in forest emission reduction activities. Project selection criteria have to date been driven by the need to deliver real, verifiable, quantifiable and additional greenhouse emission reductions in tonnes of greenhouse gas equivalent (tCO2eq). Beyond this, other metrics arise, such as leakage, permanence and further delivery of other metrics on social and community safeguards and co-benefits that ensure the interest and commitment for private investors.

A key vehicle to replicate or study in results based payment suitable for scalable private investment is the Clean Development Mechanism. The program has generated global private sector investment to the sum of billions whilst achieving large-scale greenhouse gas emissions. Established to unlock and channel additional capital (mostly private) into greenhouse gas emissions mitigation projects across developing countries. When launched, the CDM was considered as a combination of cost-effective greenhouse gas emission reductions and a clean technology transfer mechanism to developing countries. To date, the CDM has supported over **8,000 greenhouse mitigation** projects across **110 developing countries** – while unleashing more than **USD 400 Billion** in real, quantifiable, and verifiable results-based emission reduction activities[4]. Along with channeling billions of dollars in, mostly private, capital into mitigation activities, the CDM has also fuelled complementary low-carbon capacity building activities and broader sustainable development in host countries.

Numerous lessons and tools from experience with the UNFCCC's Clean Development Mechanism (CDM) and indeed other globally recognized carbon mitigation standards such as the VCS and Climate Action Registry in particular, should be drawn from to inform the UN SCF's efforts towards methods and approaches to supporting the unlocking of private investment at scale.

There are numerous private sector invested forest case studies that can be viewed here: http://www.forestcarbonportal.com/project/

Drawing from existing and internationally-accepted forest programs approaches such as the Verified Carbon Standard (VCS)[5], Gold Standard (GS), Climate Action Reserve (CAR)[6], and the American Carbon Registry (ACR)[7] rather than re-inventing criteria, indicators and methodologies – required to enable results based payment options suitable for private investors will result in both cost and time savings and help drive predictability, scale and **confidence** for private investment in

[4]UNEP CDM Pipeline http://cdmpipeline.org/. As of 1 August 2014, the total number of registered CDM projects was 7,538 (87% of the 8,707 of "live" CDM projects). Of these, 1,152 remain at the validation stage and 17 have requested registration. According to UNEP's CDM pipeline, the total issuance to date of CERs is 1,472 million.

[5] All available VCS methodologies are available here. Under the VCS, auditors known as validation/verification bodies (VVBs) are tasked with validating project descriptions and verifying actual emission reductions.

[6] All approved CAR protocol methodologies are available here. Unlike the CDM, CAR utilizes a standardized approach that promotes the relevance, completeness, consistency, accuracy, transparency and conservativeness of emissions reductions data reported by project developers. CAR verification manuals, documentation and requirements are all available here.

[7] All ACR standards and approved methodologies are available here.

forest emission reduction activities. Linking of such standards against the Warsaw Framework for REDD+ will support in longer term fungibility and ease for investors.[8]

This will also avoid duplicative efforts related to supporting, tracking, and attempting to scale private capital into mitigation activities, while also complementing these systems and tools as climate finance is effectively scaled, mobilized, channeled and tracked.

2. Private Sector insights, experiences, and case studies with the provision of financial resources for alternative approaches:

Identifying ways of creating private sector investment through domestic policies, incentive mechanisms and regulations may be an option to support finance flows to forests in the interim of international agreement developments. Whilst there are opportunities for private investment in forests, currently there stand few drivers to scale private investment to reducing deforestation. A recent report by The Carbon Disclosure Project[9] notes key barriers to corporate engagement, with lack of policy drivers named as one barrier. Other factors included options for sustainable supply of forest commodities being more costly and there being a lack of consumer demand for such certified products.

The private sector can play a number of roles across the forest investment supply chain, though business functions are not mutually exclusive. Often, a private sector actor can wear several "hats" simultaneously. Investors through project investment arenas include several pioneering investment banks seeking future investment opportunities. In 2011 a number of new, multimillion dollar private REDD+ investment funds were established, including: Althelia (US$275 million target capitalization), Macquarie-International Finance Corporation (US$25 million) and Terra Global Capital (US$50 million) (Janson-Smith & Marsh, 2012). Other examples include BNP Paribas and Nedbank Group.

These funds and major private sector firms are strategically orienting themselves to take advantage of the growth in demand for emission reduction units from forests as well as other sustainable commodity assets. Some of these deals take the form of direct investments, others of major carbon credit purchase agreements. Significant investment also comes from emissions-intensive industries searching for large volumes of offset credits in order to become "carbon neutral." Several large multinational firms are also engaged in forest investing through project grants. Many directly link these project activities to their corporate social responsibility (CSR) initiatives. These multinational firms often pursue projects that bring a triple benefit of climate change mitigation, community development and biodiversity conservation. In each of these examples, parameters have been set to ensure transfer of payment is results based.

IN CONCLUSION

IETA recognises lasting and successful low-carbon investment environments that will hold commitment and engagement from business requires bold, creative, and concentrated participation

[8] http://unfccc.int/land_use_and_climate_change/redd/items/8180.php
[9] https://www.cdp.net/CDPResults/CDP-global-forests-report-2014.pdf

from private sector players across all regions and sectors of the economy. IETA is committed to leveraging its broad network and international multi-sectoral membership base to help meet these challenges head-on. We also stand ready and willing to lend support to SCF's Secretariat, Board and various Committees/Panels to help inform future forest financing work and beyond.

If you have any questions or further information requests, please contact IETA Secretariat Sophy Greenhalgh – Greenhalgh@ieta.org

Sincerely,

Dirk Forrister
IETA President and CEO

ABOUT IETA
IETA is dedicated to the establishment of market-based trading systems for greenhouse gas emissions that are demonstrably fair, open, efficient, accountable, and consistent across national boundaries. IETA has been the leading voice of the business community on the subject of emissions financing since 2000. Our 140 member companies include the worlds, largest industrial and financial corporations—including global leaders in investment banking, mining, oil & gas power, cement, aluminum, chemical, pulp & paper as well as service providers of forest emission reduction and sustainable development projects. IETA also represents a broad range of global leaders from the industries of: data verification and certification; brokering and trading; legal and advisory services. More information about IETA, including its current regional and global membership and partner network, is available at www.ieta.org.