



Financing REDD+

Opportunities, Nuances, and
Reflections on how to succeed

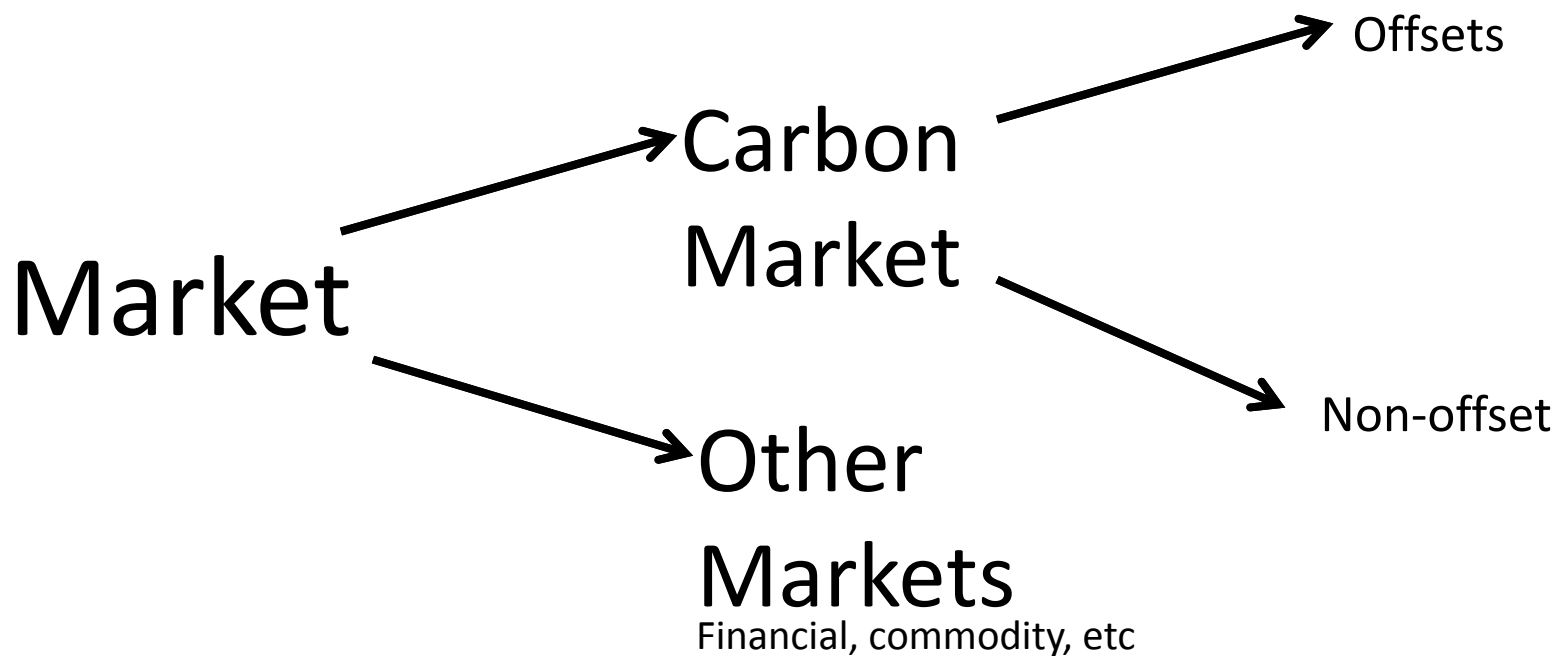
Bangkok, Thailand
September 30, 2012

Context

- We will need funding for all phases of REDD+
- Durban: Funding may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources
- Each Party will be able to choose the financing approach which best fits its needs
- Public financing is finite
- REDD+ must compete against other uses of both public and private sector funds

Market vs. Non-Market

- Non-market = many different opportunities
- Markets \neq (necessarily) carbon market



Key question

- Each REDD+ strategy is made up of various elements, many of which will need financing (internal or external)
- Key question: how to fund each part of a REDD+ strategy

Financial

TOOLS!

Possible Tools

Two categories

- **Providing Capital:** Up front or ex-post financing. Secures necessary funding for elements of a REDD+ strategy, and buys (or otherwise rewards) outputs from this strategy.
- **Reducing Risk:** Incentivizes both investors and producers by minimizing or insuring against risk. Improves environmental integrity.

Possible Tools

- **Providing Capital:** Up front or ex-post financing. Secures necessary funding for elements of a REDD+ strategy, and buys (or otherwise rewards) outputs from this strategy.
 - Grants
 - Loans
 - Debt Swaps
 - Bonds
 - Equity
 - Tax concession
 - Purchase of outputs
 - Credits
 - Forwards
 - Put Options
 - Call Options
 - Reverse Auctions

Possible Tools

- **Reducing Risk:** Incentivizes both investors and producers by insuring against or minimizing risk. Improves environmental integrity.
 - Guarantees
 - Commercial Insurance
 - Political Risk Insurance
 - Buffers and Discounts
 - Bundling and Stacking

Tools – Public vs. Private?

Providing Capital

- Debt Swaps
- Tax concessions
- Grants
- Loans
- Bonds
- Equity
- Purchase of Outputs
 - Credits
 - Forwards
 - Put Options
 - Call Options
 - Reverse Auctions

Primarily: Private

Reducing Risk

- Commercial Insurance
- Political Risk Insurance
- Guarantees
- Buffers and Discounts
- Bundling and Stacking

Public

Both

Tools – Market vs. Non?

Providing Capital

- Grants
- Loans
- Debt Swaps
- Tax concessions
- Bonds
- Equity
- Purchase of Outputs
 - Forwards
 - Put Options
 - Call Options
 - Reverse Auctions

Reducing Risk

- Guarantees
- Commercial Insurance
- Political Risk Insurance
- Buffers and Discounts
- Bundling and Stacking

Primarily: Non-Market * Both Market (*Here Market = traded)

Possible Tools

Providing Capital

- Grants
- Loans
- Debt Swaps
- Bonds
- Equity
- Tax concessions
- Purchase of outputs
 - Credits
 - Forwards
 - Put Options
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 - Reverse Auctions

Reducing Risk

- Guarantees
- Commercial Insurance
- Political Risk Insurance
- Buffers and Discounts
- Bundling and Stacking

Carbon market? Carbon Market Only None!

Additional resources: <http://bit.ly/P4TepR>

Scale of Potential Funding Available

Sovereign wealth funds
Assets under management
US\$5 trillion (5)

FDI by
SWFs
US\$125
billion
(6)

Private
Equity
Funds
US\$180
billion

FDI by
PEFs
US\$77
billion (4)

Agricultural Output
US\$4.28 trillion (10)

Voluntary
carbon market
US\$576
million (2)

Vol

2020
Climate
Funding
Goal
US\$100
billion

ODA
Total
US\$134
billion
(9)

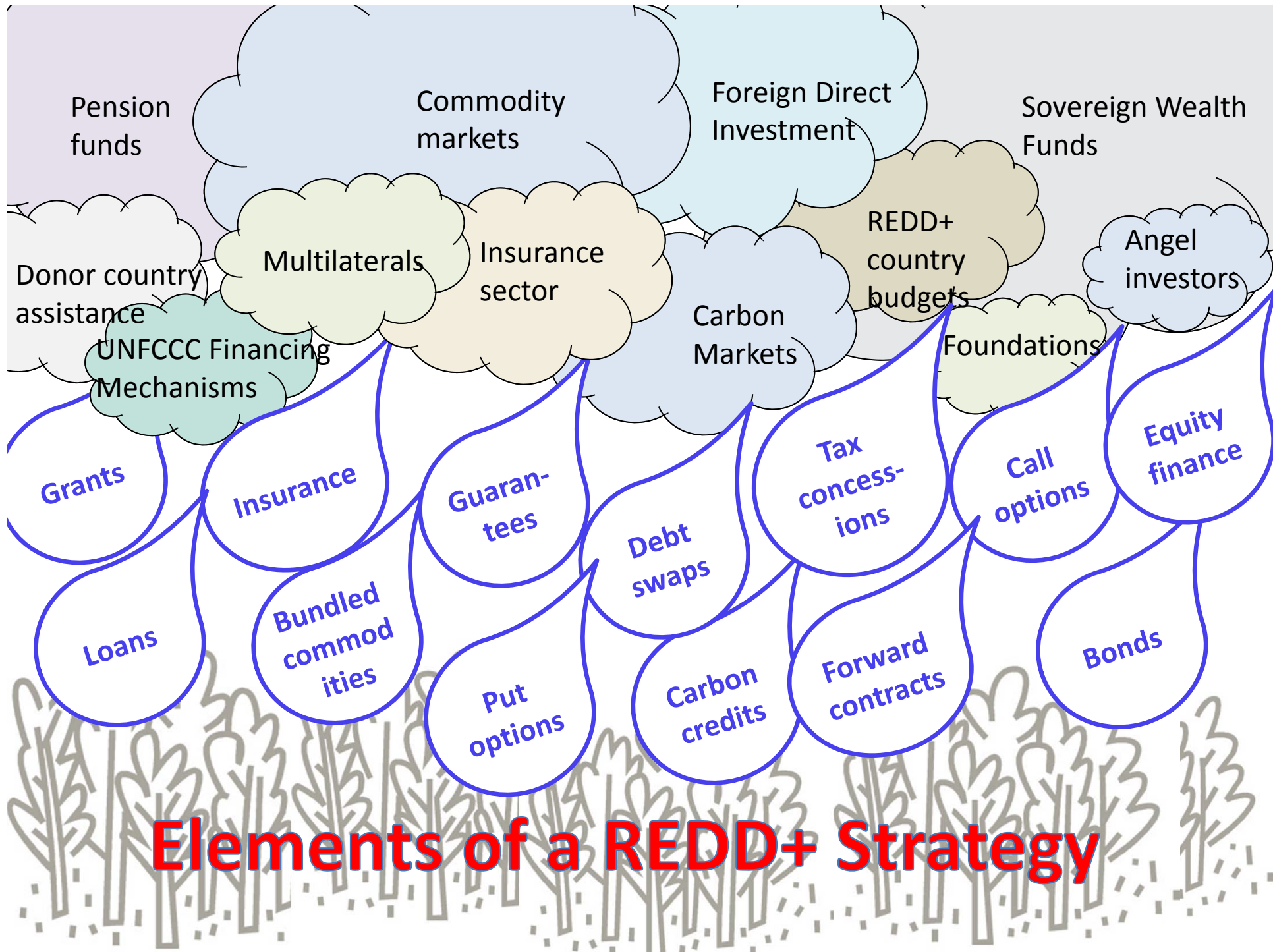
Multilater-
al lending
US\$100
billion (8)

Regulated
carbon
market
US\$175
billion (1)

FDI to
developing
countries
US\$684
billion (7)

Forest Products Output
US\$1.7 trillion (11)

- 1, 2) 2011 value; http://www.forest-trends.org/documents/files/doc_3164.pdf
3-7) 2011 value; <http://www.unctad-docs.org/files/UNCTAD-WIR2012-Full-en.pdf>
8) 2011 value; <http://www.oecd.org/statistics/>
9) 2010 value; <http://www.oecd.org/statistics/>
10) 2009 value; <http://www.faostat.fao.org>
11) 2010 value; <http://www.faostat.fao.org>



Financing a REDD+ Strategy (example)

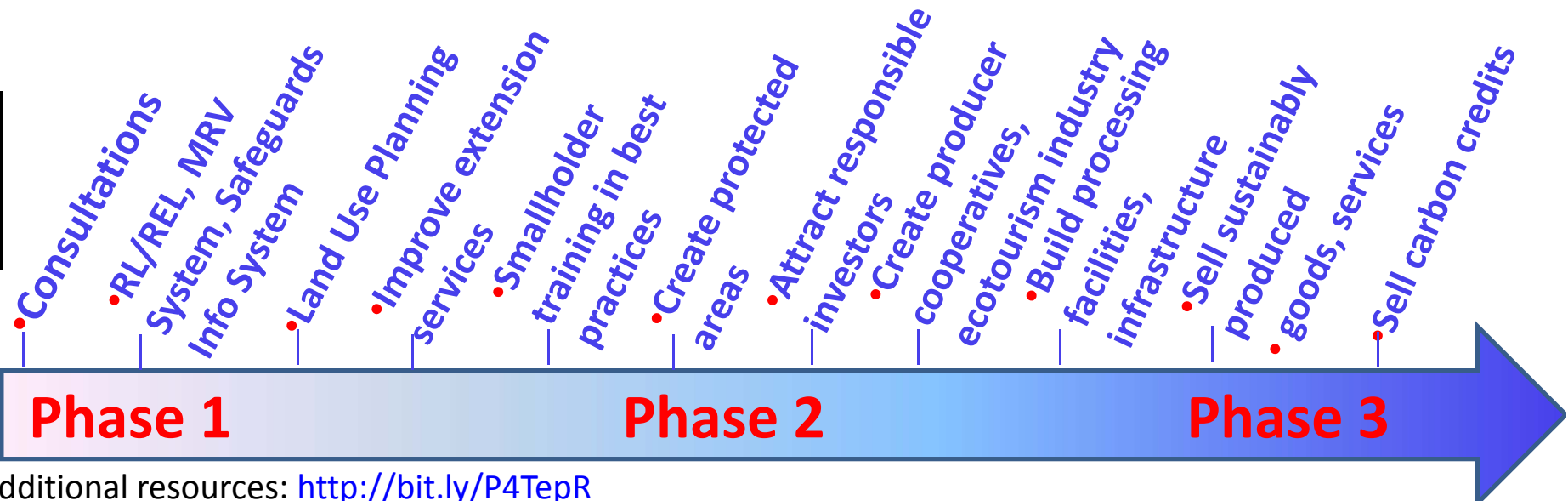
FINANCING OPTIONS

Grants, debt swaps, concessional loans, bonds...

Tax concessions, grants, concessional loans, bonds, guarantees, equity, debt swaps, commercial and political risk insurance, microcredit...

Credits, debt for carbon swaps, discounts, buffers, bundling, call/put options, forwards, long-term contracts, reverse auctions...

ELEMENTS



Additional resources: <http://bit.ly/P4TepR>

Financing Results-Based Actions

Key questions:

- What tools may be useful in securing finance of all types for results-based actions?
- How do we reduce risk (real or perceived)?
- What modalities and procedures would make REDD+ more attractive compared to other investment options?

Recommendations

➤ Encourage all possible approaches to financing results-based actions to maximize funding avenues

Possible tools to finance results-based actions include:

- **Credits:** Compliance or non
- **Forwards:** Contract to buy specified volume of credits/ product at a certain price, creates certainty in demand and volume
- **Put Options:** Create a floor price for credits/ product, increasing revenue certainty for seller
- **Call Options:** Generate certainty on price maximum, stimulating demand for credits/ product
- **Others...**

Note: Valid for carbon credits, and other REDD+-compatible products (e.g. timber from sustainably-managed forests , forest-friendly agricultural commodities)

Recommendations

➤ Encourage all possible approaches to reduce the risk associated with results-based actions

Possible tools to reduce risk and leverage finance include:

- **Guarantees:** Provide investment guarantees for investors in operations expected to generate results (credits/ products)
- **Commercial Insurance:** Insure against losses in operations expected to generate results (credits/ products)
- **Political Risk Insurance:** Insure against political change or policy uncertainty affecting operations expected to generate results (credits/ products)
- **Buffers:** Create a (pooled?) buffer to compensate for reversals
- **Others...**

Note: Valid for carbon credits, and other REDD+-compatible products (e.g. timber from sustainably-managed forests , forest-friendly agricultural commodities)

Recommendations

- **Encourage Parties aiming to undertake or support results-based actions to further reduce risk by:**
 - **Reducing policy uncertainty** at the national/ international level
 - **Improving the enabling environment** where investments in REDD+ are sought
 - **Developing financial, technical and policy architecture** appropriate to the types of financing being sought
 - **Reporting on safeguards thoroughly and transparently** to provide assurance risks are reduced on the ground
 - **Generating successful experiences** of large-scale REDD+ programs done well

Key Messages

- We need to be **creative** to attract the financing we need – for results-based actions, and for all REDD+
- We must be **careful** not to eliminate possible financing tools or approaches through carelessness with text
- We should think about how to use **all the available tools** to attract additional finance
- We should think about the **modalities and procedures** relevant to the financing approaches Parties decide to use for REDD+ results-based actions
- Success will be determined by our ability to **reduce risk** and **make REDD+ attractive** compared to other investments



Thank you!

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