Scaling up future jurisdictional REDD+ revenue streams to drive upfront finance

UN REDD EXECUTIVE BOARD MEETING

PRESENTED BY

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FOREST TRENDS

Agenda

- Introduction
- REDD+ and the challenge of scale
- The importance of a predictable demand signal at a sufficiently high volume and price
- Mechanisms for supporting upfront finance
- The opportunity to leverage massive private demand for REDD+ credits

Introduction

- Supporting forest country efforts to end deforestation requires international co-funding amounting to many tens of $ billions
- The critical step is a massive increase in results-based funding commitments for REDD+
- Today we are in a uniquely strong position to build a large-scale demand signal
- However, we need to address the gap between future results-dependent jurisdictional REDD+ revenue streams and current capital expenditure requirements

REDD+ AND THE CHALLENGE OF SCALE

- **Inevitably, international support at the level of $ tens of billions will be predominantly results-based.**
  - Results-based finance allows donors to commit more resources when risks of achieving results are shared
  - Allows forest countries to choose their own pathways to achieving goals

- Grants and loans have important role but transaction costs of “input-based aid” a major barrier to scale resources

- Private sector investment and innovation on the ground and efforts to take deforestation out of supply chains can only go so far in the absence of ambitious country policies and incentives, for which forest countries need fiscal resources

- The upfront finance challenge for REDD+ is not just that payments occur after results (normal for large-scale capital expenditure)
  - National forest outcomes can appear to potential financiers (including forest country governments) more uncertain than energy production or oil exploration. We need to get to position where carbon revenues are as assured as electricity or oil.
  - Even funding support of a few hundred million $ may not be sufficient

- **The great potential for REDD+ to achieve scale is also its main weakness--unlocking this potential requires very large-scale REDD+ funding commitments.**

A predictable demand signal at a sufficiently high volume and price

- … Would allow forest countries to borrow additional funds in capital markets knowing investment needed to achieve jurisdictional REDD+ outcomes would not lead to a long-term increase in the national debt.

- Credit rating agencies would not see pro-forest investment as having negative implications for credit ratings. And DFIs should feel comfortable to scale up concessional lending programs.

Example: If a forest country sovereign 10 year $ denominated bond yields 6.75% and the country were able to sell 250 million jurisdictional REDD+ credits at a value of $30 tCO_2e over ten years, this would offset almost all the 6.75% coupon costs of borrowing $12 billion to achieve jurisdictional REDD+ outcomes

- **The optimal way to overcome challenges related to upfront capital expenditure requirements is actually to develop a firm and predictable demand signal at a sufficiently high volume and price, and to do so rapidly**

- **However, a results-based approach does not, of course, preclude mechanisms to reward early progress and build capacity in forest countries.**

Mechanisms for supporting upfront finance

- Increased donor support for Phase 1 and Phase 2 of REDD+
- Linking jurisdictional REDD+ purchase agreements with the provision of additional financing facilities
- Enhanced bond structures explicitly linked to REDD+ revenues
- Project-based REDD+ and “nesting” of project-based approaches in jurisdictional REDD+ accounting systems
- Payments for jurisdictional REDD+ credits in relation to historical emissions reductions

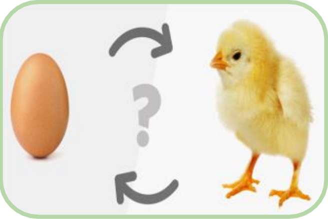
The opportunity to leverage massive private demand for REDD+ credits

- Opportunity today to leverage vastly more private co-funding for REDD+ than has been the case historically
- Corporate focus on transitioning to net-zero carbon is moving very rapidly under pressure from policy, financial regulators, investors, consumers, and market forces
- A range of private actors needs access to large-scale, and near-term mitigation options from carbon credits that provide a more flexible pathway for technology investment and de-carbonization.
- Jurisdictional REDD+ has by far the largest potential to supply credits at scale

How do we bring two sides together?

Big potential supply and need for funding

Big potential demand for credits



- **New sources of private funding could vastly increase over next years, provided jurisdictional REDD+ demand and supply can demonstrate ability to scale from current levels. Governments have critical role in underwriting demand signal.**

Conclusion

- Challenge in bridging the gap between future results-dependent jurisdictional REDD+ revenue streams and current capital expenditure requirements
- The challenge is acute for REDD+ because of scale of investment needed and inadequacy of current revenue signal
- Demand signal for jurisdictional REDD+ credits needs to grow rapidly to a volume and price sufficient to give forest countries the confidence to drive upfront investment through public budgets and domestic real economy signals
- Already we know the modest demand signal from the LEAF Coalition has led to interest from jurisdictions to supply a billion tons of credits (with provision for different accounting pathways including keeping reductions in NDCs
- While building this demand signal through UN GCF and initiatives such as the LEAF Coalition, a broader range of donor governments should provide additional readiness and implementation funding (stages 1 and 2 of REDD+).
- A growing and serious funding commitment from public and private sector actors for jurisdictional REDD+ credits would also enable the development of financing instruments to address upfront costs. Multilaterals/DFIs will have a critical role and should rapidly scale concessional ending