

# Financing **REDD:** Market or Fund?

Agus Sari  
agus.sari@peace.co.id  
Bogor, March 2010



## Sources of Funds

	Market	Non-Market
Public	Compliance markets Creditable NAMA Bilateral Markets	Centralized (Global) Fund Decentralized (National) Fund Bilateral Initiatives (Performance-Based Payment)
Private	Compliance markets Voluntary markets Creditable NAMA	CSR PR Foundations or Charitables

# Carbon Market ... in a nutshell



Developed country

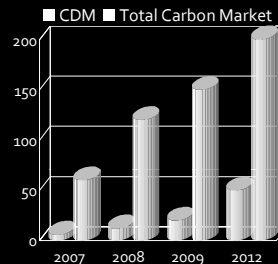
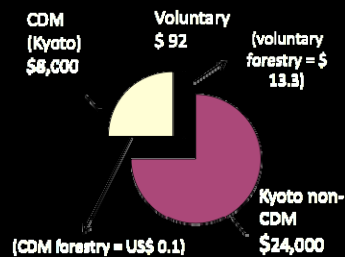
Developing country

## “Market mechanism” under the **Kyoto Protocol**

Mechanisms	Parties	
Emissions Trading	Trading of “permits” (assigned amount)	Developed countries
Joint Implementation	Trading of “credits” (emission reduction)	Developed countries
Clean Development Mechanism	Trading of “credits” (certified emission reductions)	Developing countries

# A growing market ...

- Carbon market is growing rapidly
- CDM market alone is worth about \$20 billion today.
- Total carbon markets are estimated to be about \$150 billion today.



# New and emerging markets

- CDM as we know it might be limited to only few countries. Carbon capture and (geological) storage.
- Simplification and reform of CDM. Nuclear.
- Programmatic and sectoral CDM will expand the markets. Explicit biases (multiplication and discount, co-benefits)
- Creditable NAMAs. (Reformed) afforestation and reforestation.
- US domestic markets. REDD (plus, plus)
- Voluntary market

# REDD in the carbon markets

Under the CDM  
As a new market

## Nationally-appropriate mitigation actions (NAMAs)

Unilateral NAMA	National actions planned and implemented unilaterally (domestically) without foreign involvement
Financed NAMA	National actions planned and implemented with overseas financial assistance.
Creditable NAMA	National actions planned and implemented with a view of producing emission reduction credits that can be sold in the carbon markets

**Will REDD (plus, plus) be a NAMA?**

# Perceptions of Risk

Carbon risks at the project level	Project risks	Country risks	International agreement risks
Additionality	Availability of financing	Investment and trade regime	REDD will generate (compliance) and tradable credits?
Approvals (international and domestic)	Permits and other legal compliance	Forestry sector regulations	Fund-based or market-based?
Monitoring and verification	Conservation risks	Securities regulation and regime	Governmental or private sector-oriented
Carbon title	Operational risks	Asset class regime	Developed country reduction commitments
Market risks (price etc)	Social issues	Distribution of benefits (levies, taxes, etc)	Size of the markets
		Enforcement of law (and governance regime in general)	Methodology for REDD project development
		Domestic REDD regulations	

# Quality standards

Climate Community and Biodiversity (CCB)  
 Voluntary Carbon Standard (VCS)  
 Upcoming International REDD Compliance Standard

# Deal formats ...

Investment	Direct investment, equity position in the project
Upfront payment	Securitizing payment upfront, can be used for investment
Forward contract (Emission Reduction Purchase Agreement)	Binding agreement to buy and sell, with agreed upon conditions, may include price, quantity, delivery dates. Payment upon delivery.
Options	Options (but not obligation) to buy (under certain market conditions) to buy. Payment upon delivery.
Cash-and-carry (secondary)	Buying / selling directly from the market
Spot	Selling to a spot market.
Derivatives	Buying / selling derivative products as risk-management / hedging policy

# Price, risks, and quality



# What has Copenhagen left us with?

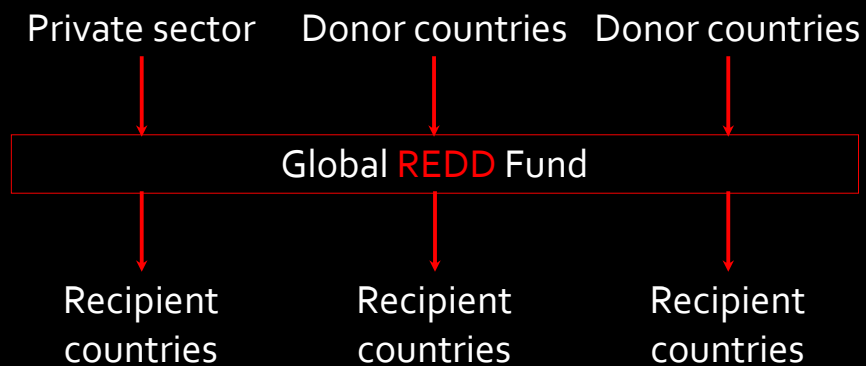


\$10 billion per year until  
2012

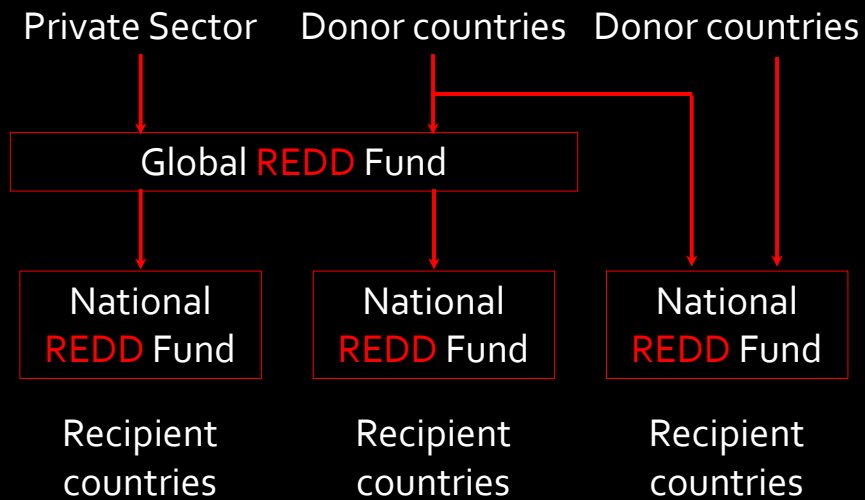
\$100 billion per year by  
2020

REDD is a big part of it

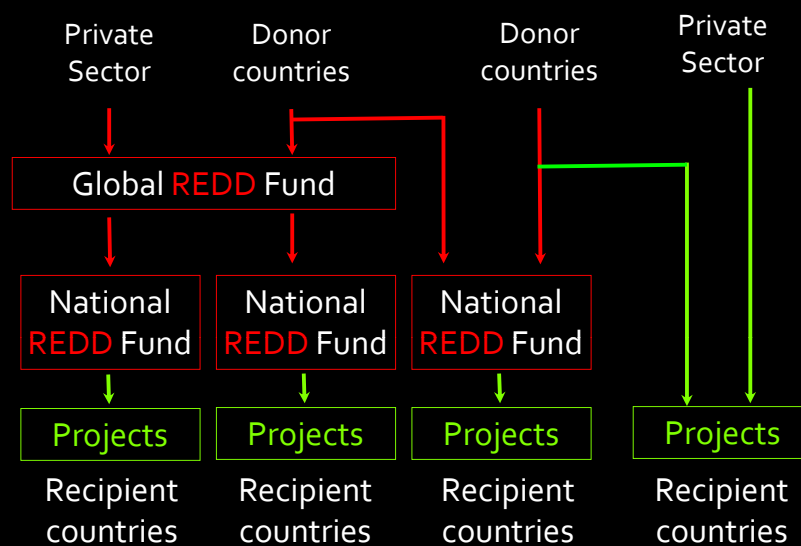
## Centralized (Global) Fund



# Decentralized (National) Fund



# Decentralized (National) Fund



# Markets

## Compliance Market

Depends on Post-2012 demands,  
currently inexistent  
Expected to be large  
(may be too big that it will flood  
and crowd-out other markets)

## Voluntary Market

It exists today and is increasing  
But remain small  
(may be too small that  
it cannot absorb voluminous supply)

# Creditable NAMA

NAMA = Nationally-Appropriate Mitigation Action

Unilateral NAMA  
Financed NAMA  
Creditable NAMA

REDD can be a NAMA

National commitment to reduce emissions from deforestation  
This commitment can be methodologically quantified, monitored,  
and measured, reported, and verified  
The resulting emission reductions can be credited and compensated

## What makes a good (profitable) REDD project?

### Additional

Secure **tenurial** regime

Secure credit **title**

Relatively large amount of **reduction per hectare**  
(usually in peat forests)

Significant **payment distribution** (benefits) to local community

Relatively low social **dispute**

Strong **biodiversity** value

## Fund or market?

- Staged approach:  
fund first to prepare  
for markets.
- Scale of financing  
needed cannot be  
met by fund alone.

■ Fund    ■ Market



# Thank you

