

## Forest Carbon Partnership Facility (FCPF)

### Carbon Fund

#### **FCPF Evaluation follow up – Assessing the potential of increasing private sector engagement**

June 2017

*This is a discussion note following up on the FCPF Second Evaluation Action Plan*

#### Background

Transitioning from the current development pathway to a low-carbon, climate-resilient one will require significant investment and innovation and, more importantly, a shift in the way governments and the private sector make decisions. To support partner countries in this context, development co-operation providers will need to better engage with the private sector to mobilize resources, knowledge and innovation for addressing climate change and promoting green growth.

The FCPF is an opportune coordinating structure for investments in REDD+ countries. The FCPF's Methodological Framework, as well as its guidance and templates for advancing through the stages of REDD+ readiness are recognized globally as signals of the level of preparation to effectively deploy and coordinate finance, efficiently sequence preparatory activities and program design processes, and demonstrate readiness for results-based payments. However, additional work is needed to address a gap in FCPF support to REDD+ countries on the vital issue of program sustainability. Without private investment in ER Programs, climate finance will be the sole projected source of revenue, making the programs high-risk endeavors for governments who are investing resources to design the programs, create new structures to support them, and staking their reputations on their success. Adding and improving tools for private investment in sustainable landscape management will strengthen the FCPF's coordination impact, support REDD+ countries in integrated planning, and leverage the systems developed through the Readiness Fund to increase investment in climate-smart landscape development.

The many recent high-visibility initiatives focused on mitigating the role of the private sector in forest destruction, and the ensuing commitments to reduced impact and sustainable sourcing, as well as the maturity of the ER-Programs under development in the FCPF process and the requests of REDD+ countries for additional support on this vital issue, point to a timely opportunity to use the framework of the FCPF to engage with private sector actors with the clear aim to attract investment in sustainable landscape management to ER-Programs supported by the FCPF.

Following initial dialogue with several CF Participants and CMIA representatives, as well as several bilateral discussions with REDD+ countries and private actors seeking to partner in REDD+ programs, outlined below are initial ideas for consideration with the goal of increasing and improving private sector engagement with the programs supported by the FCPF.<sup>i</sup>

## 1. Explore collaborative opportunities with relevant networks<sup>1</sup>

Over the past months, the FMT has participated in or initiated conversations with several networks focused on the interface between forest conservation and sustainable commodity production, including the Tropical Forest Alliance (TFA), the Commodities/Jurisdictional sourcing initiative, the Sustainable Trade Initiative (IDH), and UNDP Green Commodities Program, amongst others. There should be opportunities for leveraging the membership and/or investments of some of these initiatives and others (including the Consumer Goods Forum (CGF)) for increased dialogue and potential investment opportunities for REDD+ countries. We propose to explore concrete opportunities for regional or country-specific workshops, public-private dialogues on relevant program design issues, and other venues for linking the membership and activities of these initiatives with the REDD+ programs under development.

For example, initial discussions with the TFA have led to a potential area of collaboration. The TFA has conducted two “Implementation Dialogues”, events that bring together TFA members from the government and private sector to review and refine concrete project proposals in the areas of finance and in commodity agriculture. Governments are provided with technical support through a consultant, to help them in the development of one or more concrete program proposal in the area of finance and/or sustainable commodity production. TFA then hosts the Implementation Dialogue, which brings together governments and several private sector TFA members to discuss the proposal. The FMT and TFA Secretariat have discussed the possibility of planning joint Implementation Dialogues focused on advanced jurisdictions in the Carbon Fund pipeline. This would require financing to cover the cost of additional dialogues beyond those already programmed by TFA, particularly to focus on key Carbon Fund jurisdictions. Depending on results in FY18, these dialogues could be continued in FY19 as well.

In addition to these initial discussions focused on agricultural opportunities from the production and purchase angle, the FMT has also been in discussions with colleagues from UN Environment Programme (UNEP) and UNEP-FI (Finance Initiative) about potential opportunities for collaboration on broader issues around access to finance for sustainable landscape investments. There also is a potential opportunity for collaboration with UNEP-FI in their joint project with FAO and IUCN on forest and landscape restoration. Discussions on collaboration opportunities with UN Environment and UNEP-FI are in early stages, and a more concrete assessment of potential opportunities can be provided based on the interest of Participants.

### **Estimated Budget for #1, Three Implementation Dialogue Events Proposed in FY18:**

**Travel for 10 participants per event: \$30,000**

**Meeting/hosting costs to put on event: \$25,000**

**Total cost per event (participant travel plus hosting event): \$55,000**

**FY18 Total for three Dialogues: \$165,000**

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<sup>1</sup> Some of these activities will benefit from discussions led by the BioCarbon Funds’ Initiative for Sustainable Forest Landscapes (ISFL.)

## 2. Support increased role of private-sector FCPF Observer

CMIA, the private sector observer to the FCPF (as well as to FIP and GCF) has played a constructive but limited role in highlighting the perspective of the private sector on the emerging REDD+ programs in the Readiness Fund and Carbon Fund. The role of the private sector observer should be not only to point out challenges or opportunities for private investment in the programs presented by REDD+ countries during meetings, but to partner with countries connecting them to resources, investors, and private sector actors who may be able to help them attract private investment into their REDD+ programs. The membership of CMIA is weighted towards carbon project developers and carbon market actors. This focal area provides a narrow but important viewpoint. However, following the trajectory of reduced investment in traditional carbon market activities, the CMIA's funding has dropped in recent years, and under the new management, the CMIA is now in a period of rebuilding, both in terms of membership, funding, and orientation. CMIA has expressed strong interest to expand its role as PS Observer, to leverage its roles in FIP and GCF to increase opportunities for the FCPF countries, as well as provide targeted country and portfolio support beyond its role in FCPF meetings. However, with a limited budget, CMIA will require support to do this, and has requested travel support from the Secretariat to attend PC and CF meetings, and will also be developing specific proposals for workshops and technical support to countries. We recommend that CMIA be supported with travel costs to ensure they can maintain their focus on the FCPF process, and that proposals for topical deep dives, on topics such as nesting, REDD+ and CORSIA, registries, etc., or country or region-specific support activities made by CMIA be considered for financing or co-financing by the FCPF, according to priorities and selection criteria defined in #3 below.

As ER-Programs reach further stages of development in many of the countries, the FMT has observed a more explicit need for private sector input from the agriculture and sustainable finance sectors. However, due to the limited scope of representation of CMIA membership to more traditional carbon market-based models, we propose to explore options for adding a second private sector observer position, one more focused on the sustainable agriculture and commodity supply chain focal area of the private sector. This expansion would facilitate a consistent level of expertise in agriculture and sustainable supply chain development at the disposal of the Carbon Fund for the review and improvement of ER-Programs. For this expanded private sector observer representative, we propose consideration of and discussions with CGF and TFA as first priority potential observers.

### **Estimated Budget for Item #2, Provide Travel Support to CMIA plus one Additional Observer:**

**CMIA participation in two FCPF Carbon Fund & two FCPF PC/PA meetings per year (travel to 4 meetings): \$14,000**

**Additional PS Observer participation in two CF meetings per year: \$7,000**

**FY18 Total: \$21,000**

### 3. Topical Deep Dives and Knowledge Products to inform private sector strategies

As CF countries enter more detailed program design stages, topical issues arise which impact the means and levels of potential private sector engagement. Issues such as nesting, CORSIA, and registries are some examples where additional analysis and the development of topical deep dive products or events may be key for addressing information gaps. The FMT will respond to priority needs for analysis and expert consultation as issues arise.

#### **Estimated Budget for Item #3, Topical Deep Dives and Knowledge Products:**

**Produce Topical Deep Dive Meetings and Knowledge Products: \$30,000**

**FY18 Total: \$30,000**

### 4. Program-Specific Private Sector Engagement Support:

REDD+ countries are faced with competing priorities as they engage in their ER Program design process. With limited funds to address the many challenges of comprehensive program design, engagement with the private sector, due to lack of experience as well as budget demands, is almost always given low priority and limited to no budget. However, as more FCPF countries become aware of the increasing scope and number of opportunities for private sector engagement due to international focus on sustainability and environmental responsibility, the FCPF is in a position to offer more concrete support to countries in engaging the private sector without needing to choose between this and other priority program design mandates.

#### **a. Develop PS Engagement Strategy for Subgroup of Carbon Fund countries**

For Carbon Fund countries with strong interest in and perceived significant opportunities for private investment in the ER-Program area, the FMT could work with the country to coordinate the production of a PS engagement strategy based on agriculture and other industries relevant to the ER-Program area, and including an analysis of markets for relevant products, production opportunities, risk analysis, and project ideas, including specific companies which may be interested in investing or co-investing in specific project concepts. This approach is being explored in a small number of countries already using readiness funds, including working with specific organizations to conduct the analyses and provide project ideas and connections with potential investors/implementation partners.

#### **b. Pathway to Sustainable Sourcing Partnership in collaboration with *Commodities/Jurisdiction Approach* initiative**

The consortium comprising the *Commodities/Jurisdiction Approach*, sometime referred to as the "Brain Trust", has developed a process to connect companies with sustainable sourcing goals and commitments to jurisdictions in REDD+ countries that have programs on the ground to reduce, track and verify emissions from deforestation. The FCPF's Methodological Framework has already been accepted by this initiative as one standard for inclusion in the initiative's "matchmaking" platform and promotion efforts.

As more countries enter advanced stages of program development in the Carbon Fund, and become eligible for this initiative, there will be increasing opportunities to support efforts to concretely connect sourcing opportunities in qualified jurisdictions with committed companies. The FMT can play a key role in this process by working in collaboration with participants in the initiative to develop a “pathway to sustainable sourcing partnership” between eligible jurisdictions in the Carbon Fund and participating companies. This support could include the development of specific analysis of sourcing opportunities in specific jurisdictions according to the priorities of partner companies, identification of joint actions in support of sourcing commitments, co-financing of priority actions as part of ER-Program implementation, and technical, financial, and political support to address identified barriers. This support could link in certain cases to the collaboration opportunities with TFA and UNEP-FI described in #1, the private sector blueprint work proposed above, as well as with co-investment opportunities like that described in item #5 below in order to make a range of options available for the completion of a sourcing partnership agreement.

As the needs and priorities are likely to be quite different in the various jurisdictions, specific approaches, actions and budget could be co-developed with a collaborative partnership among the country/jurisdiction, company or consortium of companies, and the World Bank/FCPF as technical partner. The clear target outcome of these partnerships would be a sourcing contract or related formal partnership between actors in the REDD+ jurisdiction and the partner company or companies. This focus on addressing specific barriers towards the agreement of a sourcing partnership will produce many lessons and highlight approaches for increasing preferential sourcing opportunities for REDD+ jurisdictions.

**Estimated Budget for Item #4, Program Specific Private Sector Engagement Support:**

**Provide tailored support toward commodity-jurisdiction partnerships in priority CF jurisdictions: \$400,000**

**FY18 Total: \$400,000**

**5. Private Sector Focal Point Position**

The Senior Private Sector Development Specialist will be responsible for providing support in all the work related to the private sector for FCPF and BioCarbon Fund Initiative for Sustainable Forest Landscapes (ISFL) and work closely with their respective Fund Managers. The costs of this staff position, currently in the recruitment process, will be shared between the FCPF and the ISFL.

**The estimated costs for FY18 have been included in the budget for Carbon Fund Country Advisory Support; these costs will be shared with the ISFL.**

## 6. Following through on implementation: post-FY18 concept for on-the-ground support

As countries approach implementation of their ER-Programs, further resources will be needed to realistically secure private investment in sustainable landscape models. An additional tool to establish partnerships and secure the participation of relevant private sector actors in program development could take the form of partnership-leveraging finance, facilitating co-investment by the government and a private sector partner in sustainable production actions within the REDD+ jurisdictional program.

Resources would be sought from two sources: a limited amount made available through FCPF funding, or potential funding from external sources for increasing investments could be used. This funding would provide additional support for activities agreed between the government and a private sector partner, possibly as a result of opportunities identified through the elements above, based on a partnership agreement for specific actions in the ER program area. Accessing such funding will require an investment commitment from the private sector actor as a percentage of the funds requested. This requirement will be designed to enable a range of private actors to participate, from small local businesses to multinational corporates.

Financing agreed would cover activities such as farmer training, equipment, preparatory studies, project design support, market analysis, carbon methodology support, testing of new approaches, facilities improvement, etc., and could offer an additional link with IFC by financing IFC technical assessment or investment opportunities of the scale and type appropriate for IFC finance.

Funding support for concrete co-investment activities will establish a much-needed incentive to both governments and private sector actors to take up the challenge of investment in landscapes, while preserving flexibility for governments in the choice to engage the private sector, as well as the timing and target of that engagement. It offers a significant new opportunity for the FCPF to increase its support to REDD+ countries for effective private sector engagement in REDD+ programs. Most importantly, it will provide concrete examples of the role of partnerships in preserving the capacity of landscapes to provide the multiple services vital to sustainable development, climate change mitigation and poverty reduction.

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<sup>i</sup> Throughout, if there are efficiencies that can be made by joining forces with the ISFL, this will be considered, and costs shared accordingly.