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BUILDING A VOLUNTARY CARBON MARKETING SCHEME TO PROMOTE SUSTAINABLE FOREST MANAGEMENT

[Item 16 (b) of the Provisional Agenda]

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0 Summary

Climate change is a global issue that cannot and will not be ignored over the next decades, because failure to address it can lead to catastrophic events. Sooner or later the international community will approve an international agreement on climate which will include Reducing Emissions from Deforestation and Forest Degradation (REDD+), given that deforestation and degradation are responsible for a large share of green house gas (GHG) emissions annually.

The event of such agreement will serve both to increase interest of private investors to look into REDD+ - as a clear framework will bring more safety to the market -, and to compel some private sector actors to address climate issues by reducing emissions internally and by offsetting unavoidable ones. In either case, the private sector will look into the market to identify which players can be of assistance in engaging in REDD+, since the sector does not have legitimacy or capacity to act alone once projects require close collaboration with country governments and local communities. Therefore, given that REDD+ will likely become a public-private mechanism, private organizations will need to have a public counterpart. International Tropical Timber Organization (ITTO) has a good basis to offer a partnership to the private sector, as it has long been working to promote SFM, which is the foundation for REDD+, and due to its status as an intergovernmental organization.

Thus, to be able to raise private interest in ITTO, as a facilitator for private investment into REDD+, the Organization must focus on two aspects: (i) increase awareness of ITTO's work and develop a more solid relationship with the private sector; and (ii) work with country governments and project developers to improve the quality of REDD+ proposals so the Organization can offer potential REDD+ projects to be further developed through public-private partnerships (PPP).

Given that possibilities to work on REDD+ are likely to rapidly materialize, ITTO should move towards making itself an indispensable partner to work with the private sector. The road to develop REDD+ projects is long, and early movers in the private sector are already active. So, if ITTO starts now, it can become a recognized player and attract considerable private contributions to the Organization and its producer member countries as the REDD+ market evolves.

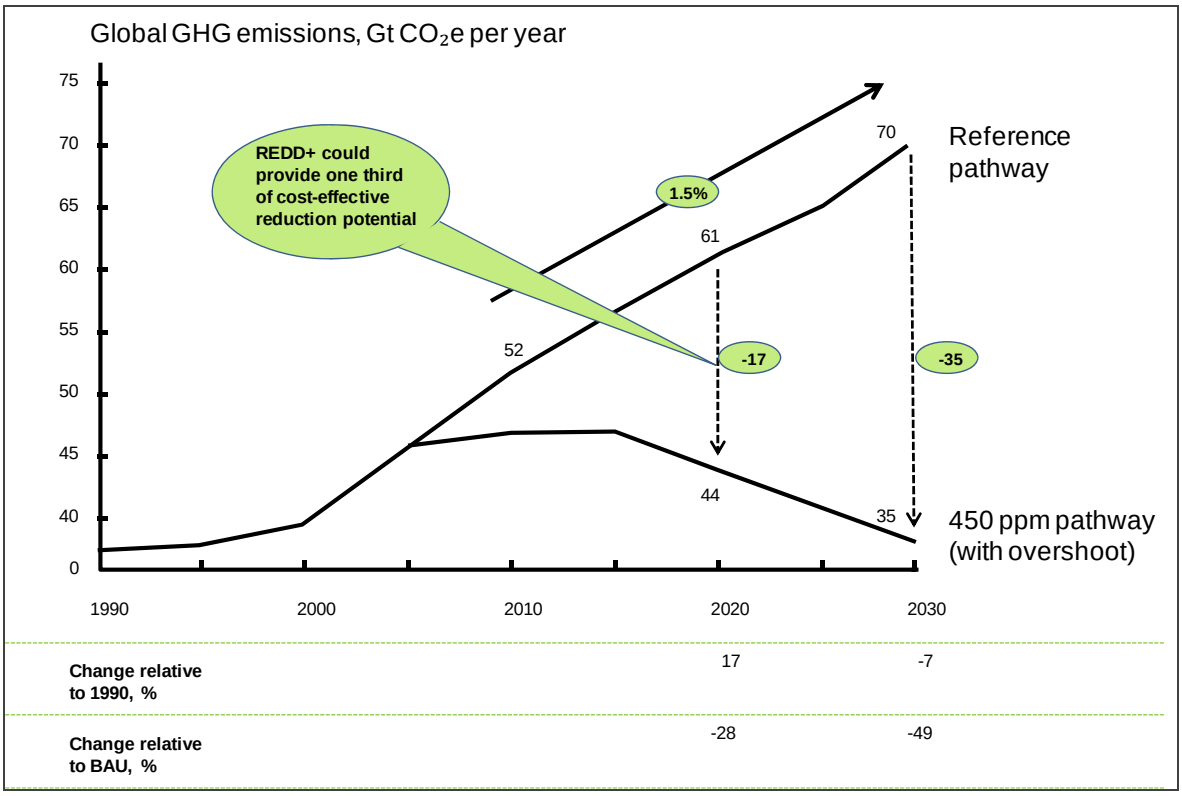
1 Introduction

The Fourth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) concluded that the international community needs to keep concentrations of GHGs in the atmosphere below the threshold of 450 parts per million (ppm) if we are to reduce the likelihood of dangerous climate change. To achieve such a goal, estimates show that, by 2020, annual GHG emissions must be reduced by 17 gigatons of carbon dioxide equivalent ($GtCO_2e$), as shown in Figure 1.1 (Project Catalyst Analysis 2009).

As forests are vital stores of carbon, they could contribute to a potential 6 to 7 gigaton reduction of carbon dioxide equivalent if (REDD+)[1] activities are adequately supported and financed (McKinsey 2009).

[1] The plus sign (+) referring to forest carbon stock conservation, sustainable management of forests and enhancement of forest carbon stocks

Figure 1.1 450 ppm pathway



Source: McKinsey 2009

Moreover, as forests provide other environmental services (ES) than carbon sequestration and storage, such as conserving biodiversity and upstream watersheds, the international community is also assessing the possibility of marketing these services bundled with carbon credits under REDD projects. This approach increases the price of carbon credits when the project generates additional benefits; reduces transaction costs, as only one market and one buyer is needed; and seems to be highly accepted by credit buyers (Ecosecurities 2010).

Even though climate change is an acknowledged global phenomenon, most individuals, private companies, and governments are not aware of the steps necessary to address the problem. ITTO has over 20 years of practical experience in promoting sustainable forest management (SFM) in the tropics, financed mostly by the public sector. As efforts on REDD+ ultimately must build on SFM, this gives the Organization a solid base on which to build its engagement.

Due to increasing interest in the private sector in REDD+, ITTO commissioned this study to investigate the potential to build a partnership with private actors to support REDD+ initiatives in ITTO producing member countries. The aim of this report is to assess the feasibility of attracting private sector contributions to ITTO to promote REDD+ and associated ES projects, and to propose a mechanism for ITTO's engagement. The study was conducted through literature review, interviews with key experts and private companies; and participation in the workshop "First Steps after Copenhagen: The Private Sector's Role in Dealing with Climate change" in Geneva in March 2010.

2 REDD+ projects: Current status and trends

REDD+ has been viewed as the most cost-effective tools to fight against climate change[2]. There are mainly two types of markets where forest sink carbon credits can be sold: the compliance and the voluntary market. There is currently no framework under the compliance market to sell REDD+ credits. On the voluntary market, several initiatives have been developed over the past years. Historically, the voluntary "over the counter" (OTC) market for forest offset credits dominated forest carbon markets, transacting 73.4% of credits

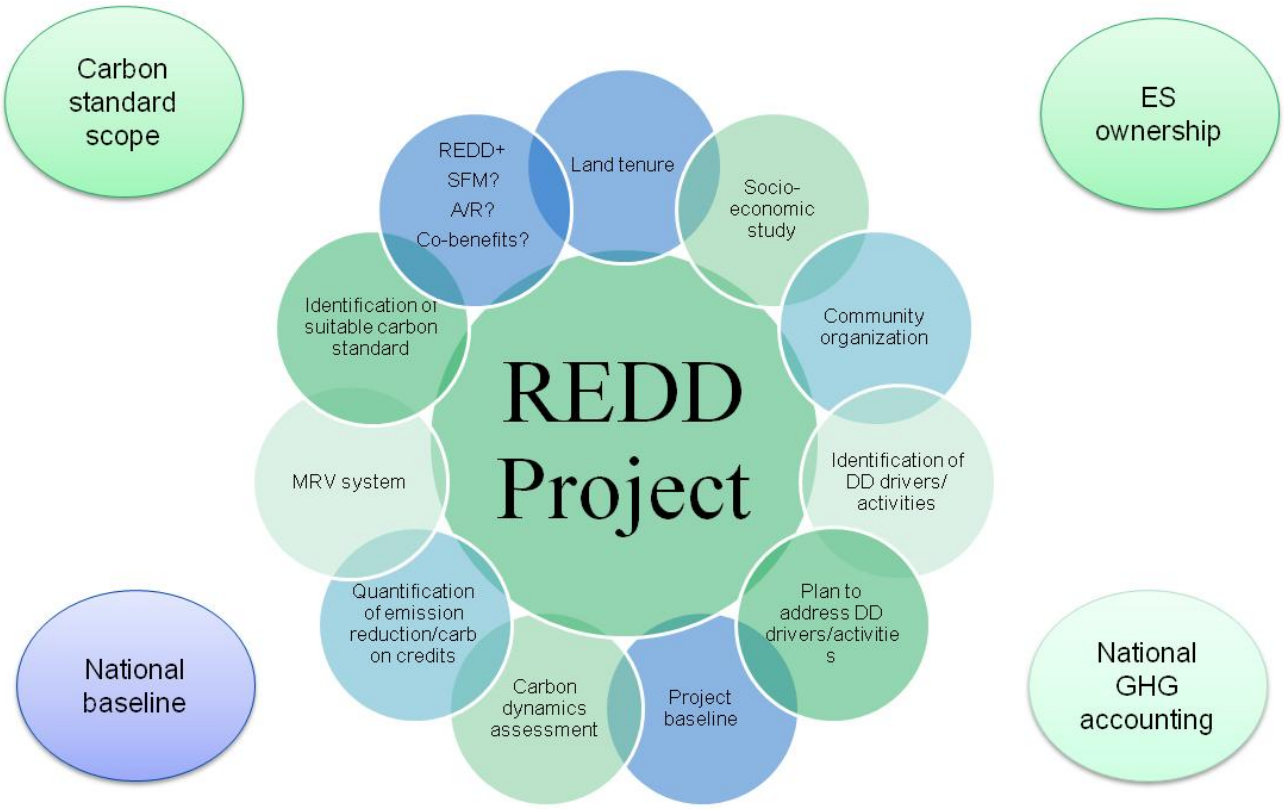
[2] During the 15th UN Climate Change Conference meeting in Copenhagen in 2009, country delegates agreed on the Copenhagen Accord, a non-legally binding political agreement. The Accord highlighted the importance of promoting REDD+, as it is the most cost-effective mitigation method available.

(Ecosystem marketplace 2010). Of these, only 11 REDD projects so far have reported the transaction of credits between a buyer and a seller. Even though these 11 REDD projects account for only 5% of the total number of forest sink and storage projects in the OTC market, this accounted for 24% of the volume transacted, selling 3.1 million tons of carbon dioxide ($MtCO_2$) to date and generating USD 41.6 million. These numbers show the high potential of REDD+, as a smaller number of REDD projects can deliver larger amounts of credits than can numerous afforestation and reforestation (A/R) projects. This translates into reduced transaction costs and, consequently, more revenue to the projects.

Even though REDD+ is seen as a cost-effective tool to address climate change, it is also increasingly recognized as a complex mechanism to implement. This is due to several factors: the diffuse nature of the opportunity, the fragmentation of the potential actors, the complexity of implementing effective land-use policies in developing countries, and the need for substantial capacity-building. Consequently, REDD+ projects are not likely to produce tangible benefits for the first 12-18 months.

There are several upfront activities that require funding before emissions reduction can actually be generated and turned into certifiable carbon credits. These REDD+ project preparation activities vary depending on the geographic location, legal framework, actors involved, and scope of the project (e.g. deforestation and/or degradation). The main project preparation activities are summarized in Figure 2.1. .

Figure 2.1 REDD+ project preparation activities



- REDD+ requires that the land where the project is to be developed has clear tenure and that its holders have the right to sell carbon credits that eventually can be generated from it.

- In order to adequately tackle deforestation, it is crucial to identify the specific activities that are contributing to deforestation, the actors involved in the process, and their drivers, and analyze if and how these drivers can be addressed.

- To have a sound project where income compensates for transaction costs, most projects have been developed in areas between 50 000 and 500 000 ha. Given that large forest areas in the tropics are often owned by the government, REDD+ projects are likely to overlap with public and communal areas. Therefore, it is vital that private sector entities partner with other institutions in order to

develop a REDD+ project. This is also the case in the vast majority of REDD projects being planned and developed worldwide.

- Technical challenges associated with developing a REDD+ project include defining the baseline and setting up the Monitoring, Reporting and Verification (MRV) system which can be a time consuming and costly process;
- As REDD+ is currently being transacted under the voluntary market, project developers are free to build projects following (or not) any methodology. However, market studies have shown that there is a high tendency towards applying approved methodologies and third-party standards to forest carbon projects, as these ensure transparency in the process and security for the carbon buyers. In 2008, over 96% of transacted credits in the voluntary market were third-party verified; up 9 percentage points from 87% in 2007 (Ecosystem Marketplace 2009). The main standards being used to develop REDD projects are the Voluntary Carbon Standard (VCS), and the Climate, Community & Biodiversity Standard (CCBS).

In order for REDD+ project developers to tap into the voluntary market and to negotiate with potential carbon buyers and investors, they must first describe the main elements of the project in a Project Idea Note (PIN). A PIN provides 5-10 pages of indicative information on: (i) the type and size of the project; (ii) its location; (iii) the anticipated total amount of GHG reductions compared to the "business-as-usual" (BAU) scenario; (iv) the suggested crediting life time; (v) the suggested emission reductions credit price per ton of carbon dioxide equivalent (CO_2e) reduced;(vi) the financial structuring; (vii) the project's other socio-economic or environmental effects/benefits. To produce a PIN, project developers must conduct an early feasibility analysis of their proposed project to make sure that all the basic conditions to host a solid project are in place.

As discussed in chapter 1, ITTO has already been working on several of these issues for many years (SFM, land tenure, community organization, improving forest governance, forest inventories etc. Thus, instead of reinventing the wheel, there is a possibility to build upon existing processes that already have some of the basic REDD+ elements in place. There are numerous community reforestation/SFM projects that have been supported by the Organization. With some changes, these projects have high potential to deliver emission reduction (ER) credits and generate additional income to alleviate poverty in the tropics.

3 The private sector and REDD+

3.1 Barriers and Opportunities

Private entities do not question the importance of forestry and its role in addressing global climate change, but, in general, corporate management has not yet grasped the urgency of the issue. They do not plan for it and therefore are not necessarily interested in engaging in projects that plan to address climate change (UNEP FI 2009). Thus, it is essential to turn REDD+ into an easily understandable product, and to promote and disseminate several demonstration activities to raise the interest of the sector.

The lack of clear rules and of an international legally binding agreement bringing REDD+ into the compliance market make the private sector reluctant to act. Therefore, before private sector investments into REDD+ can be mainstreamed, REDD+ must be recognized in the post-Kyoto agreement, and REDD+-based credits must be integrated into a global trading scheme.

Even though there are still barriers to engage the private sector in forests and climate issues, several early-movers are already active, and partnerships have been formed over the past years between the private sector, country governments and other stakeholders to develop REDD+ projects.

In 2009, a study identified 100 planned and ongoing REDD projects (CIFOR 2009). Most of the financing for these activities comes from the public sector. The private sector, while financing fewer projects than the public sector, is still an important source of funding for projects, especially in Latin America. Some initiatives being promoted by the private sector are listed in Table 3.1. This list indicates that there are some private sector entities interested in investing into underlying projects and also willing to provide upfront payments to projects that are likely to result in emissions reduction credits.

Table 3.1 Examples of private sector engagement in REDD+

Initiative	Donor	Project activities	Investment sum	Remarks
Panama: The Ipeti REDD+ demonstration activity	HSBC+others	Protected area management; Forest plantation; Forest conservation	TBD (planning)	Size: 3145 ha Emissions reduced: 43,689.9 $MtCO_2e$ over 25 years
Indonesia: Ulu Masen Project (Aceh)	Merrill Lynch	Law enforcement Community funding Forest protection	USD 9 million initiate fund from Merrill Lynch	Size: 750 000 ha Emissions reduced: 3.369 MtCO2e/year or 100 MtCO2e over 30 years
Indonesia: West Kalimantan; Ketapang, Kapuas Hulu	Macquarie Bank + others	Develop community C pool. reduce land fragmentation and conversion	Tbd (planning)	Size: 157 000 ha
Indonesia: East Java: Meru Betiri National Park (MBNP) REDD Project	Public-Private Partnership (Seven & i Holdings Co. Ltd)	'improve local livelihoods' avoid deforestation and degradation, and biodiversity conservation	USD 0.9 million fund from Seven & i Holdings Co. Ltd	Size: 58,000 ha
Brazil: Juma Reserve RED Project	Marriott Int'l + others	CFM (private reserve) Revenue generation through the promotion of sustainable business Law enforcement	$2 million from Marriott Int'l, $294 117 from FAS from 2008-2011, $105 471from State of Amazonas from 2005-2007, and $469 175 from 2008-2011	Project size: 589 612 ha Emissions reduced: 190 MtCO2e over 50 years
Madagascar: Makira Forest Area Conservation Project	Mitsubishi Group, NavTech and the music group Peal Jam	Biodiversity conservation Design a new protected area Develop land use planning	WCS USD 70,000/year (ongoing) Tany Meva Foundation USD 80 000 (1 year, beginning in 2006) Imperial Tobacco £120 000 (3 years beginning in 2006) CI $110 000 (ongoing) MacArthur Foundation $90,000 (3 years, beginning in 2005)	Project size: 350 000 ha Emissions reduced: 9.5 MtCO2eq over 30 years The project is expected to offset carbon

Source: CIFOR 2009 and ITTO

Based on the cases highlighted in the box above, especially Marriott International & the Amazon[3]; Mitsubishi & Makira Forest Area Conservation Project[4]; and Madagascar & Merrill Lynch in Aceh, Indonesia[5], some general observations regarding the early-movers can be made:

- Companies tend to act in cooperation with local governments and non-governmental organizations (NGOs), as this facilitates communications with local communities.
- Companies tend to require previous knowledge that the project they plan to invest in has a solid plan to generate emission reductions in the foreseeable future.
- Some companies' main interest is to offset their emissions from a previously calculated footprint (Mitsubishi), while others would also like to donate money as a corporate social responsibility (CSR) action, but have a mid-term view of passing the costs along to the consumers (Marriot and Merrill Lynch).
- As there is currently only a small number of REDD+ projects being promoted compared to the potential of the sector, some companies are risking a higher investment, as they believe that the future might bring solid returns (Merrill Lynch).

Even though there are early-movers interested in investing in REDD+ projects with potential to generate credits, for the moment, most of private companies have shown interest in purchasing forest carbon credits already available in the market. A survey (Ecosecurities 2010) looked into what type of financing arrangements, organizations prefer when purchasing forest carbon credits. The results indicated that most

[3] See *http://www.marriott.com/green-brazilian-rainforest.mi*
[4] See *http://www.mitsubishi.com/e/csr/back/environment.html*
[5] See *http://news.mongabay.com/2008/0312-aceh_merrill_lynch.html*

respondents (59%) prefer to pay for carbon credits upon delivery. This is as expected, as it is the purchase model used to buy carbon credits in both the voluntary and compliance markets. The survey also identified that social and local community benefits, and biodiversity and other environmental benefits drive interest in forest carbon for most of the respondents (90% and 89%, respectively).

In 2008, private companies purchased at least 66 per cent of the general voluntary offsets, with purchasing for investment or resale the largest overall motivation, at 35 per cent. The main driver was CSR and public relations/branding to promote goodwill. Although many analysts perceive pre-compliance buying as a dominant driving force, a survey indicated that pre-compliance remains secondary. Pre-compliance buyers purchase VERs either to receive early-actor credit under a regulatory scheme for their voluntary offset purchase made at a cheaper price, or to sell them at a higher price to entities regulated (Ecosystem Marketplace 2009).

3.2 Private sector interests and drivers

REDD+ has been developing quickly, but the role of the private sector remains uncertain. Private actors interested in REDD+ fall into three basic categories:

a. Companies interested in purchasing solely carbon credits for CSR and/or pre-compliance purposes directly from carbon credit providers available in the carbon market
b. Companies interested in donating resources to promote forest/ REDD+ project preparation activities for philanthropic purposes (with or without interest in potential carbon credits that could be generated)
c. Front-runners risking up-front investments to be the first in the market to generate large amounts of REDD+ credits

a) Focus on carbon offsetting

Most private companies not regulated on climate change issues do not seem to have a clear strategy on how to address carbon offsetting. To make decisions on getting engaged in climate projects, companies first look into the needs of their customers and the interests of their shareholders. They also choose to sponsor/invest in predictable projects that they understand – which is, unfortunately, often not the case with forest carbon projects. As climate change has become a world-wide known issue that has reached the average consumer, pressure has been growing on companies to address the issue somehow and provide, for instance, carbon neutral products. Also due to this global pressure, there is a trend for companies to calculate their carbon footprint and work out a plan to diminish their emissions internally. Some of the more proactive ones take the next step to offset the unavoidable emissions through purchasing carbon credits available in the voluntary carbon markets. This approach allows them to promote CSR, while getting prepared for the upcoming low-carbon regulations.

b) Focus on philanthropy

Engaging in forest activities and climate change mitigation for philanthropic reasons is still the objective of some companies, especially when they have an associated foundation that focuses on these types of initiatives. However, even philanthropic actions tend to be directed to areas that are somehow related to their business. Syngenta's Foundation for Sustainable Agriculture focuses on sustainable agriculture activities which are very close to their core business. The Foundation has decided to stay away from forestry at least for the next 3 years, as they consider agriculture more important.

c) Front runners:

There are, of course, some companies willing to take a higher risk and invest heavily in REDD+ projects. Merrill Lynch and the Australian company Carbon Conservation signed one of the world's first agreements to commercially finance an Avoided Deforestation project in Ulu Masen in Aceh, Indonesia (2008)[6]. The project has a 30-year lifetime and will generate carbon credits and ecosystem benefits. Merrill Lynch's intention is to structure and distribute the carbon credits to clients in its investment banking, commodities, and wealth management businesses. The organization made an initial investment of USD 9 million. The project is planned to generate about 100 $MtCO_2$ emission reductions.

Another active player in trying to commercialize environmental services is Global Eco Rescue[7]. The company's business goal is to combine forest management and capital markets. They are heavily involved in developing REDD+ in Indonesia. Other current investors in REDD+ projects in the market include the

[6] See *http://news.mongabay.com/2008/0312-aceh_merrill_lynch.html*
[7] See http://www.eco-rescue.com/; http://www.eco-rescue.info/

following: (i) Climate Change Capital; (ii) Islan Asset Management; (iii) Macquarie Group; (iv) New Forests; (v) Amazon Forests (SFM-BAM).

3.3 Investment Requirements

In order to engage in REDD+, most companies will require a tailor-made project which is somehow related to their business, such as the location of their operation or the possibility of involving their employees in the process (a tendency identified in Japan). In addition, companies are more likely to get involved if a set of projects with a clear schedule, budget, goals, and risks are presented to them to choose from, in a clearly defined and concise package. Even in this case, they are likely to require that some changes be made to the plans to accommodate their concerns and align the initiatives with their philanthropy/CSR strategy. If ITTO decides to enter into this field, the Organization needs to be prepared to offer this flexibility.

Several companies have already calculated their carbon footprint and are aware that engaging in internal emission reductions is not sufficient to reach zero-emissions. Some offsetting will also be necessary. Companies are also looking for reliable and third-party certified carbon credits to purchase, so ITTO should support projects that aim at pursuing carbon certification.

4 ITTO and REDD+

ITTO is already participating in various REDD+ related initiatives. The Organization (i) joined 13 other members of the Collaborative Partnership on Forests to develop the Strategic Framework for Forests and Climate Change in 2008; (ii) has had active participation in the recent United Nations Framework Convention on Climate Change (UNFCCC) conference of the parties (COPs) and at important side events such as CPF's Forest Day in Poznan, 2008 and Copenhagen, 2009; and (iii) is engaged in technical meetings which aim to address challenging issues of REDD+, such as the definition of the second "D" and the development of a common CPF message on SFM.

Most importantly, the Organization has launched the REDDES Thematic Program[8], which aims at preventing and reducing the loss of environmental services from tropical forests, including carbon sequestration, through sustainable management of forests, forest restoration, and other related activities. The initiative has been welcomed by many international actors. The effort will certainly generate excellent "lessons learned" and insights that can inform many international processes such as UNFCCC and United Nations Convention on Biological Diversity (CBD), as well as regional and national dialogues on REDD+.

In September 2010, the Organization signed an agreement with Japan International Cooperation Agency (JICA) to closely collaborate over the coming four years to promote sustainable use and conservation of tropical forests, and to promote capacity building in ITTO developing member countries. In this framework JICA and ITTO jointly produced a REDD+ bilingual booklet (English and Japanese) to disseminate the concept and inform about REDD+ related projects of both organizations.[9]

Additionally, ITTO has also successfully established a REDD+ PPP in 2009 with the government of Indonesia and the private company 7&I to strengthen the conservation of Meru Betiri National Park. Other partnerships involving the private sector and the Government of Indonesia, facilitated by ITTO, are also likely to be developed in the near future, in the framework of REDD+.

Even though the road to generating carbon credits from REDD+ is arduous, ITTO has a significant comparative advantage over other institutions. As discussed above, the Organization has been actively involved in promoting SFM, which is one of the core elements of REDD+, for over 20 years. It has gathered solid experience that allows it to support REDD+ project development in a more efficient manner. ITTO has established a long relationship with tropical timber producing countries and has gained experience on how to promote SFM on the ground. All this facilitates the development of REDD+ projects.

Given that most REDD+ projects have been developed in areas of 50 000 to 500 000 ha, which include both public and communal land, cooperation with country governments is key while developing a REDD+

[8] The first REDDES call for proposal has received several applications which aim at developing some of the activities required in a REDD+ project, such as the development of a MRV system. None of the proposals, however, was designed to generate verified emissions reductions by the end of the project (4 years). After 48 months of successful project implementation, the project proposals will be closer to becoming a functioning REDD+ projects with solid potential to generate ER, however, as currently stand, they will not in their lifetime generate carbon credits and trigger payment from private sector companies located overseas wishing to offset their carbon footprint through ITTO forest carbon projects

[9] The JICA – ITTO REDD+ booklet can be downloaded at http://www.itto.int/technical_report/

initiatives. Countries have proven to be sensitive towards carbon ownership rights[10], so in a number of cases the private sector has not experienced a good reception for developing REDD+ projects. Throughout its existence, ITTO has had a close relationship with the tropical forest countries' governments. When the host country decides to allocate some land for a REDD+ project, it is more likely to support an initiative in which ITTO is involved, rather than just the private sector on its own.

ITTO's involvement in carbon forestry will provide its members with the opportunity to learn more about the role of tropical forests in climate change and design proposals to help address this global problem. Furthermore, it has the potential to provide members with additional financial resources to support their efforts in managing their forest resources sustainably to generate continuous streams of income from environmental services for socio-economic development, including reducing poverty. It will strengthen further the capacity of ITTO's producer member countries to benefit from the emerging market for emission reduction credits.

Among the international forest-related organizations, ITTO is considered to have the closest link to the private sector. However, to widen its reach, ITTO can also engage with private companies through other international organizations or through financing institutions. This can be an effective way to build awareness among private companies on ITTO's potential as a partner in REDD+. The relevant organizations include: (i) World Business Council for Sustainable Development (WBCSD); (ii) The International Chamber of Commerce (ICC); (iii) Citi Private Bank, (iv) Multilateral Development Banks; and others.

5 Recommendations on a Potential ITTO Carbon Scheme

ITTO projects last between three and four years, while most REDD+ projects require at least 15 years to allow the emission reduction credits to be issued and the transaction costs to be covered. However, the initial project preparation activities are crucial for a fully functional REDD+ project to be developed. ITTO can play a significant role in helping member countries develop these activities on the ground and in ensuring that the project will run efficiently throughout its lifetime. Therefore, ITTO's role would mainly be to help solid REDD+ projects to develop, so they can generate ER credits that would later on be transacted between the project developer and international carbon credit buyers. ITTO does not need to participate in the transaction of credits, so private sector carbon credit payments does not need to be channelled through the Organization. ITTO offers an excellent interface to facilitate the connection between private investors and Governments of producer member countries for REDD+ development and carbon trade.

Based on the results of the study, it is recommended that ITTO focus on two main lines of activity (outlined in figure Figure 5.1):

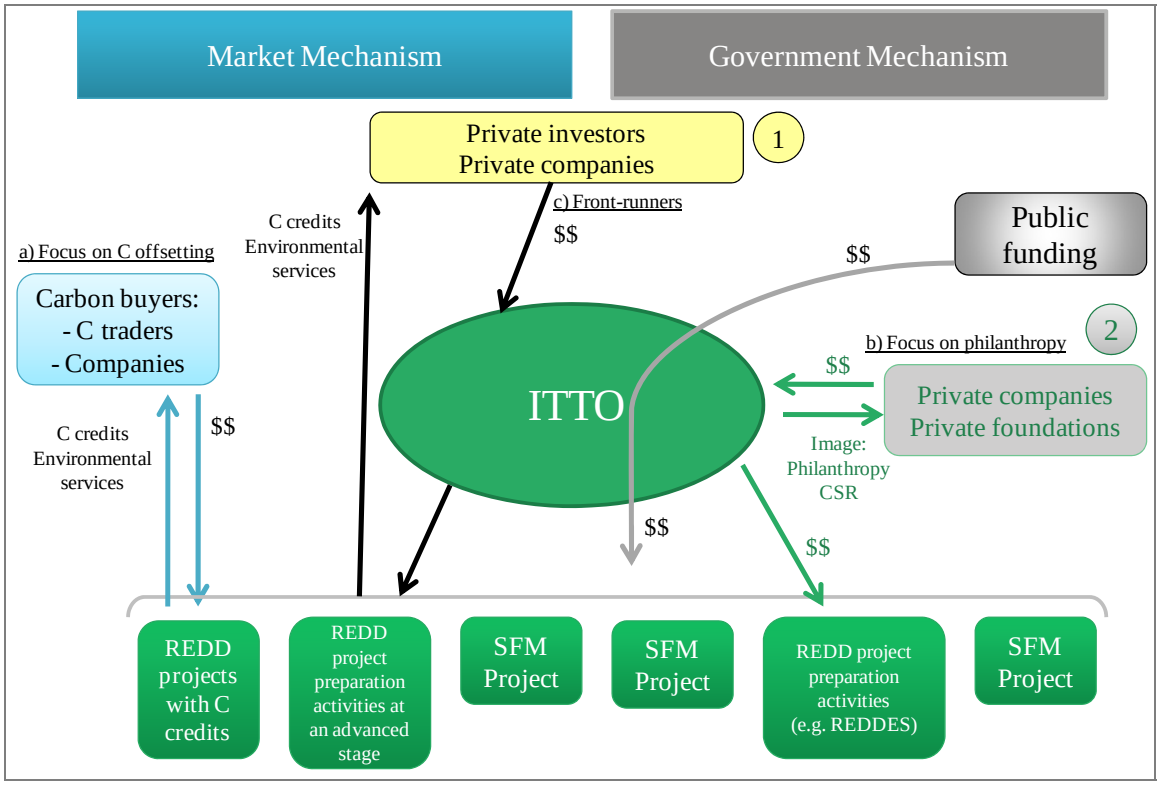
1. Improve SFM project proposals to generate emission reduction credits and offer these potential REDD+ project proposals to investors willing to engage in higher risks;
2. Attract donations from the private sector to REDD+ project preparation activities

To achieve this, the Organization also needs to make itself better known in the private sector in order to attract private funding, and to start positioning itself vis-à-vis future forest carbon markets.

A more detailed study can be developed by ITTO in the near future, explaining possible scenarios on how to enhance private sector investment in REDD+ under a post-2012 climate agreement.

[10] As an example Ecuador 2008 Constitution stipulates environmental services shall not be subject to appropriation, which, in theory forbids the sale of carbon credits. Regulation by the State is still expected to be developed on this issue.

Figure 5.1 ITTO scheme to involve the private sector in REDD+



Note: the terms "a)Focus on C offsetting"; "b) Focus on philanthropy"; and "c) Front-runners" are the same as explained in section 3.2.

1 Improve SFM project proposals and offer potential REDD+ project proposals

Given that most private sector entities are interested in purchasing ER credits instead of making donations, ITTO can assist its member countries in developing project proposals that are geared towards generating carbon credits in the near future. As the majority of investors request to see a PIN before they decide to invest in a project, it is recommended that ITTO require of its project proponents a simple version of a PIN that is submitted together with the standard ITTO project proposal, when REDD+ is to be consider in the project.

To ensure that project proposals and PINs are adequately developed and have the basic elements required by investors, it is recommended that in addition to the already established ITTO project criteria, the Organization determine the minimum activities that should be in place to gain approval of a forest and climate proposal such as (i) Delimitation of project area; (ii) Clear identification of deforestation and degradation drivers and an initial assessment if these can be addressed; (iii) Clear land and forest tenure; (iv) Organized local stakeholders; (v) Some early estimation of carbon credit potential. With these minimum requirements in place, the project proponent can then apply for funding through ITTO from potential private sector organizations/institutions for other more complex activities, such as for the development of a well-defined monitoring system.

In order to assist project proponents in preparing their proposals to meet these basic criteria, ITTO can pursue several actions: (i) explain in detail all the criteria listed above; (ii) develop an ITTO guidebook on REDD+ – following the success of *Guidebook for the formulation of afforestation / reforestation and bioenergy projects in the regulatory carbon market*; and (iii) work with country governments to increase awareness of REDD+ project requirements

Once ITTO projects will be able to compile solid PINs, it is then well equipped to approach large private companies and investors, which are willing to engage in higher risks and invest on implementing the project idea. Some of these are listed in section 3.2.

2 Attract donations from the private sector for REDD+ project preparation activities

As explained in section 2, in order to develop a solid REDD+ project, several upfront activities, such as land tenure, project baseline, and monitoring system, need to be put in place before emissions reduction can actually be generated and turned into certifiable carbon credits. These REDD+ project preparation activities are costly and require that investment comes from either public or private sources.

The right-hand side of Figure 5.1 illustrates the traditional government mechanism under which public funding is donated to ITTO and channelled to promote SFM projects in the member countries. In addition to this existing public funding channel, Box 2 in Fig. 5.1 proposes a potential role for private companies and individuals that wish to donate funds to the Organization to promote REDD+ project preparation activities. These are mainly driven by CSR and philanthropy and do not require any return on their donation.

To leverage resources from private sector to these preparation activities, ITTO can target philanthropic channels interested in supporting forest and climate projects[11].

Another possibility is for ITTO to develop a window for small contributions from individuals. The Japanese company Benefit One already has a system in place to attract individual donations, and expressed interest in opening a donation window to ITTO to support forest-related projects.

A third and more complex option for attracting small contributions is to design a “plant a tree online” feature on the ITTO web site. To offer this kind of feature, ITTO would have to select one of its existing reforestation projects and agree with the project implementer on the setting aside of an area where the paid-for trees would be planted and monitored. For those Japanese companies which prefer to involve their employees in reforestation activities, ITTO could make arrangements for them to go plant a tree in person.

If ITTO chooses to access contributions from private individuals and companies, it is essential that it packages the options that will be offered to the private sector in lay terms. Many private institutions are reluctant to invest in or donate to REDD+ because they do not know in practice what it really means. The risks and benefits associated with engaging in a REDD+ project must be made clear and real. Therefore, instead of sending the ITTO project proposal document, it is advisable to have a two-three page summary of the activities to be financed and how these will contribute to meeting the donor goals.

With simple and informative material about ITTO, what it has done for SFM over the years, its comparative advantages over other institutions, and a compilation of some project descriptions, the Organization could then approach these institutions to start communicating. One cannot guarantee that such efforts will lead to positive outcomes, but as the actions necessary are not too time demanding, it might pay off to make this small investment. Even if the responses are negative, at least ITTO will have had the chance to be known and to gain a presence in the private sector sphere.

In addition, taking into consideration that ITTO does not have a close relationship with many private companies, it is recommended that ITTO develop a target campaign of information to private companies on its capabilities and comparative advantages. Parallel to that, it is also recommended that ITTO start discussions with organizations which represent the private sector. These can be powerful allies in raising awareness of ITTO itself and of its work with private entities, and can provide a bridge for these institutions to participate in ITTO projects.

[11] These include (i) Biodiversity Foundation; (ii) David and Lucile Packard Foundation; (iii) Philip Morris International; (iv) Gordon and Betty Moore Foundation

6 Abbreviations

A/R	afforestation and reforestation
CCBS	Climate, Community & Biodiversity Standard
CIFOR	Center for International Forestry Research
CO_2e	carbon dioxide equivalent
CPF	Collaborative Partnership on Forests
CSR	Corporate Social Responsibility
ER	Emission Reduction
ES	environmental services
$GtCO_2e$	gigatons of carbon dioxide equivalent
HSBC	Hongkong and Shanghai Banking Corporation
IPCC	Intergovernmental Panel on Climate Change
ITTO	International Tropical Timber Organization
MBNP	Meru Betiri National Park
MRV	Monitoring, Reporting and Verification
$MtCO_2$	million tons of carbon dioxide
NGO	Non-governmental organization
OTC	over the counter
PIN	Project Idea Note
ppm	parts per million
PPP	public-private partnerships
REDD+	Reducing Emissions from Deforestation and Forest Degradation
REDDES	Reducing Deforestation and Forest Degradation and Enhancing Environmental Services in Tropical Forests
SFM	sustainable forest management
SFM-BAM	Bosques Amazónicos/ Amazon Forests
TBD	To be determined
UDS	United States Dollar
UK	United Kingdom
UNCBD	United Nations Convention on Biological Diversity
UNFCCC	United Nations Framework Convention on Climate Change
UNEP FI	United Nations Environmental Programme Financial Initiative
UN-REDD	United Nations REDD
VCS	Voluntary Carbon Standard
WBCSD	World Business Council for Sustainable Development

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8 Terms of Reference

Indufor Oy will make available the services of Marisa Camargo, Karoliina Lindroos, and Tapani Oksanen necessary to assist ITTO by conducting a feasibility study for the identification of a mechanism to capture funds from private sector and individuals, to fund voluntary forest climate projects with the potential to generate emission reductions and other environmental services.

Activities to be carried out:

1. In order to assist ITTO in determining the feasibility of building a potential carbon PES scheme, the consultants will review studies, reports and other documents as well as identify stakeholders and institutions involved on these topics to assess the current state of knowledge and actions that have been guiding the carbon and PES markets. More specifically the consultants will identify and review:

    a. ITTO legal structure, mandate, mechanisms and existing financing channels
        i. This step will require ITTO input
    b. Major studies conducted on voluntary carbon markets, especially related to forestry
    c. Current carbon financing mechanisms such as World Bank Carbon Funds and the United Nations REDD program (UN-REDD)
    d. Examples of existing PES schemes combined with carbon projects and institutions involved
    e. Carbon standards relevant to REDD projects and their criteria
    f. Private sector companies that might have interest to engage in the promotion of forest carbon and PES projects through an ITTO mechanism
        i. ITTO will assist on the identification of Japanese and South Korean stakeholders

2. After carrying intense research on the topic and identifying key stakeholders, the consultants will proceed to the interview phase. With that purpose, two consultants will travel to Japan to interview ITTO staff knowledgeable on the topic and key Japanese stakeholders, including forest agency, JICA, JBIC and private sector companies. A consultant will also make travel arrangements to another location (e.g. UK). Stakeholders located in other parts of the world will be interviewed over the phone or through e-mails if necessary. The interviews will focus on identifying the willingness of different stakeholders, especially the private sector, to engage with ITTO to promote REDD projects in the producing countries.

        i. Based on the research and interviews conducted, the consultants will analyze under which framework this proposed ITTO mechanism can be best designed as well as the necessary actions ITTO must pursue to attract private sector funding to the Organization The consultants will then prepare a draft report to ITTO describing the mechanism framework and structure, as well as general issues that must be taken into account before implementing such mechanism.

3. ITTO will have 1 month to comment on the draft document and send its considerations to the consultants so the experts working under this project are able to integrate the remarks and produce a second draft. This second draft will then be circulated through various stakeholders, including the ones interviewed. In order to assure that a large number of stakeholders contribute to the process:

    a. ITTO will post on its website the draft document and ask interested parties to submit comments
    b. one expert will travel to Japan to present the results

    Based on the reactions and comments, the consultants will produce a final version of the document. This final version will follow the structure of the first report and add elements deem necessary.