

## 1 Summary

2 Reducing emissions from deforestation and forest degradation (REDD+) has emerged as a potentially  
3 important component of the global policy-mix to mitigate climate change. Against a background of  
4 increasing engagement between private-sector entities and conservation organisations, private sector  
5 investment has emerged in REDD+. Despite slow developments at the international scale, there  
6 continues to be private sector interest in REDD+, and continued voluntary investments in REDD+  
7 projects and initiatives.

8 In order to better understand possible models for private sector engagement in REDD+, this paper  
9 analyses the motivation of private sector stakeholders to engage in REDD+, the perception of the  
10 potential of REDD+, the critical obstacles to making REDD+ functional and how actors perceive  
11 themselves as part of future REDD+ scenarios.

12 Based on interviews and a workshop with private sector actors, this paper finds that few expect a  
13 regulatory market for REDD+ to emerge and that credits from the voluntary market have to be tailored  
14 to specific needs. As a carbon offset, REDD+ provides insufficient motivation for investment,  
15 particularly if cheaper alternatives exist. Co-benefits such as biodiversity conservation and community  
16 development are more important when traditional corporate social responsibility (CSR) motivations  
17 play a role.

18 Project scale remains important not only for the fact that smaller projects are viewed as offering more  
19 visible benefits to stakeholders but also as a means of having more control over risks on the ground,  
20 posing a challenge for the design of jurisdictional REDD+. Moving towards supply chains that are free  
21 from deforestation offers an opportunity to tackle commodity-driven deforestation. While questions  
22 remain about how such an approach might be integrated into REDD+, it could help address a perceived  
23 gap between private sector understanding of the values of REDD+ and the risks associated with these  
24 values not arising - termed here as a 'missing middle'.

## 25 Introduction

26 The private sector has been traditionally viewed as being in conflict with organisations aiming to  
27 conserve the environment (Ehrenfeld 2003), but this has shifted with increasing engagement between  
28 private sector entities and conservation organisations (Rose & Colchester 2004; Brockington & Duffy  
29 2011). The idea that firms can benefit society and the environment while making profits, has taken  
30 root; firms across the economy are being held accountable to this by conservation organisations and  
31 consumers (TEEB 2010; Robinson 2012).

32 Such corporate greening (the discovery by business of the cost, innovation and marketing advantages  
33 of improving environmental performance, Guziana 2013) has grown hand-in-hand with the  
34 development of CSR programmes (Robinson 2012) that emerged as part of the corporate response to  
35 the challenges of environmental damage and climate change (Kolk & Pinkse 2004) but are also often  
36 viewed as important marketing strategies (McWilliams & Siegel 2001; Kitzmuller *et al.* 2012). Multi-  
37 national companies in particular have high incentives to engage in CSR as a way to reduce reputational  
38 risks (Ruggie 2008), with many seeing CSR programmes as effectively a licence to operate (Earthwatch  
39 *et al.* 2002).

40 Beyond CSR, opportunities have been identified for businesses to profit directly from engagement  
41 with conservation including the development of new markets for ecosystem services (TEEB 2010).

42 Climate change policy, in particular, has witnessed great change in the 2000s, both with respect to  
43 regulations and markets established by governments, as well as voluntary initiatives and largely  
44 unregulated carbon offset markets. With tropical deforestation and forest degradation estimated to  
45 account for approximately 15% of global anthropogenic greenhouse gas emissions (van der Werf *et*  
46 *al.* 2009), stakeholders, ranging from international organisations and national governments to  
47 conservation organisations and the private sector, have sought to design strategies and policies for  
48 Reducing Emissions from Deforestation and forest Degradation (REDD+).

49 REDD+ was first termed by the United Nations Framework on Climate Change (UNFCCC), with member  
50 countries initially focusing on it as an essential and time-limited contribution to mitigate the impacts  
51 of climate change. In its simplest form, governments and firms would reward tropical countries for  
52 reducing deforestation rates, receiving carbon credits in return. Cap-and-trade schemes like the  
53 European Union's Emissions Trading System (EU ETS) were touted as a way of establishing a price for  
54 forest carbon stocks. Since 2005, and in spite of initial high motivation and commitment from many  
55 stakeholders, including national governments, local communities, conservationist NGOs and the  
56 private sector (Palmer & Engel 2009; Nhantumbo 2011), progress in REDD+ has been slow.

57 In mid-2015, the final framework for REDD+ suggested broad agreement in its overall scope, objectives  
58 and monitoring, reporting and verification (MRV) (Meyer 2015). The scope of REDD+ has, however,  
59 increased dramatically from early proposals for a tool targeting reduced deforestation at project scale,  
60 funded by firms purchasing carbon credits, to potentially nation-wide programmes targeting  
61 deforestation, degradation and re-forestation, known as 'Jurisdictional and Nested REDD+' (JNR).  
62 Between 2005 and 2015, many policy initiatives and experiments have claimed the mantle of REDD+,  
63 at all scales, involving a range of stakeholders, from Norway's investments in national programmes in  
64 Indonesia (Lee & Pistorius 2015), to Bosques Amazonicos (a Peruvian company) supporting organic  
65 certification of Brazil nuts in Madre de Dios (Peru) to encourage illegal gold miners to switch activities  
66 (IGES 2013). The critical need to stem tropical deforestation, whether for climate reasons or

67 otherwise, is generally agreed upon, but concerns have been raised regarding the potential efficacy  
68 of REDD+ to reduce deforestation, including doubts over cost (Gregersen *et al.* 2010), infringements  
69 on local community rights (Larson 2011), and debates about how permanent reductions in  
70 deforestation might be achieved (Palmer 2011). This last issue is partially related to how REDD+ might  
71 be implemented on the ground, in terms of the policies, and extent to which these address underlying  
72 drivers of deforestation (see Angelsen 2010).

73 Many scholars and practitioners nevertheless agree that to work in practice, REDD+ needs to be  
74 implemented at a scale that includes as much of the world's tropical forest as possible in order to  
75 prevent 'leakage', defined as reductions of carbon emissions in one place causing emissions in another  
76 (Atmadja & Verchot 2011). Such scale would require a huge level of financing yet UNFCCC negotiations  
77 have failed to resolve the financing issue due to continuing disagreements among countries about  
78 who should pay and how (Leonard 2015). To date, finance flowing into REDD+ has been dominated by  
79 public funding from richer countries, significantly through Norway's agreements with Brazil, Indonesia  
80 and Guyana. The private sector has engaged with REDD+ for a wide range of voluntary reasons  
81 including offsetting of emissions, greening of supply-chains and counterbalancing potential future risk  
82 (Corbera & Schroeder 2011). Opportunities to profit have also arisen, for example from trading in  
83 REDD+ credits.

84 Private sector commitment to REDD+ has been strengthened through the New York Declaration on  
85 Forests, signed by 53 multinational companies and 37 governments, that pledges to halve  
86 deforestation by 2020 and end it by 2030 (UN 2014). A number of multi-nationals have recently  
87 committed to the goal of zero net deforestation, for example, Procter and Gamble have committed to  
88 eliminating deforestation across its palm oil supply chain by 2020 (Shankleman 2014).

89 Existing literature on private sector involvement in REDD+ frames the issue as a mismatch between  
90 supply and demand. Conservation International (2013) (CI) estimated that REDD+ projects in existence

91 represent more than three times current voluntary market demand, while the Global Canopy  
92 Programme (GCP) *et al.* (2014) estimate demand for REDD+ could be as little as 3% of supply between  
93 2015 and 2020. Despite the continued absence of REDD+ from existing regulatory schemes such as  
94 the EU ETS, the fact that the private sector continues to invest in REDD+ raises the question of what  
95 motivates them to do so.

96 The term 'REDD+' is nebulous and has been used to cover a range of activities concerning forests. Its  
97 scope has grown in the official UNFCCC proceedings from Reducing Emissions from Deforestation  
98 (RED) to include degradation (REDD) and then conservation of standing forests and reforestation  
99 (REDD+). REDD+ is, however, generally used as a catch-all term for projects and policies that are  
100 intended to avoid and reduce deforestation and forest degradation and contribute to regrowth of new  
101 forests. Since it has also grown in scale, initially focusing on project-based approaches before  
102 encompassing jurisdictional approaches at a regional or national scale, this paper adopts a broad  
103 definition, i.e., including projects and policies that fall both inside and outside the official UNFCCC  
104 process, and activities implemented at project and jurisdictional scales, funded both under regulatory  
105 schemes and through voluntary markets (Supplementary Material S1).

106 Drawing on data from interviews and a workshop with private sector actors, this paper has a number  
107 of key objectives: it examines motivations of firms engaging in REDD+ for their investments and  
108 purchases of credits; decision-making procedures of those currently engaging in REDD+; barriers and  
109 risks that have prevented additional investors from engaging with REDD+; and, how private-sector  
110 stakeholders perceive REDD+ in the future.

## 111 Methodology

112 Views of private sector stakeholders participating in REDD+ were evaluated in a two-step process. In  
113 the first, semi-structured one-to-one interviews, following interview guides (Supplementary Material  
114 S2), were conducted with fourteen individuals. An initial mapping exercise was undertaken of key

115 organisations involved in REDD+ located in Europe. The exercise focused on firms currently investing  
116 in REDD+, those investing in other types of carbon offsets, associations representing emitting  
117 industries and REDD+ investors, commodity purchasers and carbon-market traders. Contact was made  
118 with firms, organisations and individuals and interviews were scheduled. Further contacts were made  
119 and interviewed via snowball sampling.

120 Interviews were conducted between December 2013 and June 2014 at the London School of  
121 Economics (LSE) and across London. Four participants were not available to meet in person so phone  
122 and Skype interviews were conducted.

123 The focus was on firms that had either provided investment into REDD+ projects or purchased REDD+  
124 credits, rather than project developers. Motivations and risks associated with developers are different  
125 from those of middle-men looking to purchase credits and sell them on, and different again from those  
126 looking to directly invest in REDD+ projects or purchase credits emanating from such projects.  
127 Therefore, unless explicitly stated the firms, or entities, referred to here are those investing in REDD+  
128 or purchasing credits.

129 Questions focused on the potential interest of purchasers in REDD+, motivations of existing REDD+  
130 purchasers, key decision-makers regarding offsetting in firms, time horizons of firms engaging (or not)  
131 in REDD+ and main barriers for engaging private sector finance in REDD+ (Supplementary material S2).

132 In a second step a workshop was held under Chatham House rules at LSE in April 2014. Nineteen  
133 participants were involved, drawn from the REDD+ working groups of the Carbon Market Investors  
134 Association (CMIA) and the International Emissions Trading Association (IETA). They included  
135 representatives of project developers, investors, international donors and a range of companies who  
136 provided legal and institutional support to REDD+ projects. While they shared a background similar to  
137 those selected for interview, they were mutually exclusive, in order to allow us to check the validity  
138 of hypotheses developed on the basis of interviews.

139 The workshop was structured around three main sessions focusing on: where does REDD+ stand  
140 today; barriers and risks for REDD+; and the future for REDD+ (Supplementary Material S3). Each  
141 session started with a brief presentation that raised findings from interviews, followed by open  
142 discussion to validate findings and raise fresh perspectives.

## 143 Results

### 144 *Motivations of private sector stakeholders*

#### 145 *Preparatory and pre-regulatory demand*

146 A key question asked of interviewees was their perception of motivations of existing REDD+  
147 purchasers. Responses varied, but a conclusion from all interviewees was a dichotomy between those  
148 investing for purely voluntary reasons, and those anticipating REDD+ being used in regulatory markets.  
149 Interviews with two REDD+ market experts (and validated at the workshop) led to the determination  
150 of two different categories of investors in the latter area. The first were those who faced potential  
151 future regulatory obligations and were looking to engage with REDD+ in order to gain experience. It  
152 was the consensus of participants to the workshop that this type of demand had declined recently due  
153 to declining prospects for REDD+ in regulatory markets. It was raised, both in interviews with emitting  
154 industry associations and at the workshop, that for entities looking to meet regulatory targets, the  
155 main factor determining whether they should engage in offsetting or not was minimising costs.

156 The second category of investors identified were those companies motivated by resale opportunities  
157 that investing in REDD+ might bring. A workshop participant suggested that this type of investor had  
158 also declined, not only due to the reduced short-term prospects for REDD+ in regulatory markets, but  
159 also due to the experiences of early investors in projects that were perceived to have failed.

160 *Corporate social responsibility and offsetting*

161 For those companies looking to engage in REDD+ for voluntary reasons the motivations discussed by  
162 REDD+ purchasing interviewees and at the workshop were markedly different from those of pre-  
163 regulatory entities. Discussions at the workshop can be succinctly summed up by the phrase used by  
164 a workshop participant when discussing the motivations for financing REDD+: 'it's all about the story',  
165 suggesting that what was crucial was the message that could be communicated to stakeholders. A  
166 workshop attendee with experience in marketing REDD+ credits however, raised the cogent point that  
167 to a number of companies the story of REDD+ was currently unattractive. REDD+ was predominantly  
168 viewed as actors being paid to stop cutting down the rainforest. In the workshop, this prompted the  
169 question raised by one participant of 'why should I pay someone to stop doing something?' In the  
170 discussions that followed participants reached the consensus that the idea of paying for something  
171 tangible, like building an eco-lodge, was more attractive. This moves away from the idea of REDD+ as  
172 an 'emission reduction story' - the traditional view as observed by a workshop participant, where  
173 REDD+ is perceived merely as a tool to offset emissions - towards the role of co-benefits, for example,  
174 biodiversity protection. While such co-benefits were initially viewed as 'the cherry on the top for  
175 REDD+' by workshop participants, i.e. as an additional benefit above and beyond the planned  
176 objective, the discussion concluded that they should now be seen as playing a central role in  
177 investment decisions.

178 An existing REDD+ purchaser interviewee highlighted that for firms looking to engage as part of their  
179 CSR programmes, the relevance of projects to their overall strategic direction was also important, and  
180 it was this relevance that had helped determine the decision to invest in REDD+ in their organisation.  
181 Such firms looked to projects that offered wide benefits, and fitted within their corporate strategies,  
182 including a consideration of their customers. For example, a key business sustainability leader  
183 interviewee revealed that REDD+ was of particular relevance to firms with supply chains extending  
184 into forest landscapes.

185 A more hands-on approach to REDD+, where investors engage directly with the project on the ground,  
186 was reported by two interviewees to have not only helped make REDD+ attractive but also enabled  
187 greater control over risk. For one interviewee, such an approach was motivating firms to make direct  
188 investments in organisations that developed REDD+ initiatives and projects. An example of this  
189 approach is Kering, a luxury goods company, investing into Wildlife Works, a REDD+ project developer,  
190 (Supplementary Material S4).

191 With regard to the price sensitivity of CSR investors, in analysing interviews and results of the  
192 workshop, it became useful to differentiate between those seeking to use REDD+ credits for CSR only  
193 and those seeking to use it for carbon-neutral CSR (i.e. voluntarily offsetting a company's emissions).  
194 When the question regarding price sensitivity was raised at the workshop it was the consensus that  
195 prices did not seem to be important for the former, who were reported to often view the purchase of  
196 REDD+ credits, as described by one participant, as a 'charitable donation'. The latter group, however,  
197 tended to care more about prices; with the overall aim of offsetting their emissions as cheap as  
198 possible. They were only willing to pay higher prices if projects were charismatic and generated wider  
199 public relations (PR) benefits. Such firms, one interviewee ventured, often purchased large volumes  
200 of cheap offsets in order to cover the majority of emissions (e.g. renewable energy or industrial gas  
201 destruction), and a small volume of relatively more expensive REDD+ offsets with co-benefits.

#### 202 *Other potential sources of demand*

203 New pockets of demand have begun to emerge with little or no regulation from government. Instead,  
204 they have developed as a result of direct or indirect action in the private sector, responding either to  
205 internal drivers, such as the desire to move towards green supply chains, or external private sector-  
206 led drivers, such as through sustainability indices.

207 Charitable donations were identified at the workshop as being targeted by REDD+ project developers.  
208 A number of large philanthropic foundations have already been active including the MacArthur

209 Foundation and the Clinton Foundation (PwC *et al.* 2011). For example, the latter has supported  
210 carbon monitoring in countries such as Guyana, while the MacArthur Foundation has a dedicated  
211 programme aiming to minimise deforestation in countries like the Democratic Republic of Congo.

212 Other sources of demand for REDD+ identified by participants included incentives provided by  
213 sustainability targets, such as the Dow Jones Sustainability Index (DJSI), that evaluates the  
214 sustainability performance of the largest 2,500 companies listed on the Dow Jones Global Total Stock  
215 Market Index.

216 In a discussion at the workshop a participant with experience in seeking new markets for REDD+  
217 reported that they were investigating demand from companies potentially exposed to significant risk  
218 from their investments in carbon-intensive assets that could become stranded if climate or energy  
219 regulation is tightened ('stranded assets'). The Generation Foundation (2013) identified market forces  
220 and socio-political pressure, along with regulation, as risks that could lead to significant stranding of  
221 fossil-fuel intensive assets. Thus, large institutional investors, such as pension funds, could potentially  
222 diversify their portfolio away from companies holding potentially stranded assets, towards less-risky  
223 opportunities that might thrive in a low-carbon future. The extent to which such opportunities might  
224 include REDD+ would depend on the barriers and risks encountered.

## 225 ***Decision procedures, barriers and risks***

### 226 *Different decision-making procedures and time horizons*

227 Participants were asked who the key REDD+ decision-makers were in their respective firms. For those  
228 engaged in purchasing for CSR, decision-making generally lay with the CSR department, although in  
229 some instances decision-making went all the way to the CEO. Decision-making within CSR  
230 departments implies that finance for REDD+ comes out of general CSR budgets, and workshop  
231 participants highlighted the implications for the time horizon of those investments. With CSR budgets  
232 generally decided annually, investments often fluctuate from year-to-year. One participant responded

233 (and there was general agreement subsequently) that, for voluntary purchases for CSR, horizons were  
234 not more than five years and often much shorter, suggesting a severe disconnect between financing  
235 for REDD+ and the typically longer timeframe of many REDD+ projects - rates of carbon sequestration  
236 determine that newly-planted forests take decades to reach maturity.

237 A new type of REDD+ project from which investors receive not only REDD+ credits but also sustainably-  
238 sourced commodities was identified as a key potential future source of demand by a participant  
239 involved in developing projects, with longer time horizons than for CSR projects.

240 *Barriers, obstacles and risks*

241 ***Preparatory and pre-compliance market demand***

242 Initially raised by an emitting industry association interviewee, and validated at the workshop, was  
243 the perception that many stakeholders, especially those anticipating regulatory markets, view a lack  
244 of regulatory frameworks and a lack of clarity regarding future regulations as a major barrier to  
245 investing in REDD+. Concerns were also raised by both potential purchasers (through emitting industry  
246 associations) and suppliers (through project developers at the workshop) over actual emergence of  
247 regulatory markets and REDD+'s eligibility into such markets. Emerging pilot institutions and  
248 procedures to register projects were perceived by project developers as being too bureaucratic, with  
249 a lack of clarity regarding the types of projects that would be allowed to generate credits and  
250 conditions under which they might be created.

251 In addition, these investors were deemed by a project developer to be the most price-sensitive and  
252 were also concerned with technical risks relating to REDD+ such as additionality, leakage and  
253 permanence (see Palmer & Engel 2009; Palmer 2011). It was the view of the same project developer  
254 that these risks were likely to be incorporated into criteria that would allow entry of REDD+ into  
255 regulatory markets and thus are likely to form part of the risk-assessment of any regulatory  
256 purchasers.

257 ***Voluntary demand***

258 Risks related to investments in the voluntary market were perceived, by both interviewees and at the  
259 workshop, to be different from regulatory investments. A major barrier, identified by a participant  
260 marketing REDD+ projects, was the current low profitability and expectations of future low  
261 profitability of REDD+ projects that generate revenues from the sale of credits. Price was deemed, in  
262 interviews with market experts, to be less important to investors with more general CSR motivations.

263 Project failure has great potential to damage the reputations of stakeholders involved, and has been  
264 a common theme of many REDD+ projects to date, for example the Ulu Masen REDD+ demonstration  
265 project in Aceh (Indonesia) (Supplementary Material S5). However, the private sector faces a challenge  
266 in measuring, quantifying and understanding reputational risks associated with REDD+, particularly  
267 given the range of activities, initiatives, countries and contexts. Reducing reputational risk, or at least  
268 helping companies understand and quantify the risk could, in the view of participants, provide further  
269 impetus for companies to scale-up investment in REDD+. There are private sector institutions that  
270 already perform this role to some extent in the form of standards (for example The Verified Carbon  
271 Standard). However, at present these standards are extremely stringent, require huge effort and  
272 finance, and were highlighted by project developers, as a major barrier of entry to the market.

273 ***Supply chain greening risks***

274 The potential for REDD+ to find investment from companies looking to improve environmental  
275 performance in supply chains, and promote sustainable agricultural activities, was raised by a  
276 commodity trader interviewee and repeated by others including existing REDD+ purchasers. A  
277 commodity market expert interviewee proposed a mechanism for firms to certify commodities as  
278 being 'deforestation-free' via a trading mechanism with other firms, when zero deforestation sourcing  
279 is not possible within their own supply-chains. At the workshop a REDD+ market expert participant  
280 reported that there have been some moves toward such tools through initiatives such as the Round

281 Table on Sustainable Palm Oil. These, however, have encountered heavy criticism with accusations of  
282 weak standards and continued deforestation in members' concessions (Greenpeace 2013). The same  
283 market expert commented that more research was required to exploit the potentially large synergy  
284 between REDD+ and the move toward sustainable supply chains.

### 285 REDD+'s missing middle: The difficulty for private sector stakeholders to 286 understand the complexity of REDD+

287 The workshop set out to understand two key aspects of the current market: the value or services that  
288 private sector actors obtain from REDD+, and, the risks that these values or services may fail to  
289 emerge. Although participants recognised the importance of both, discussions also raised a further  
290 dimension: a broad lack of understanding of REDD+ in the private sector inclusive of its values and  
291 risks, characterised here as REDD+'s 'missing middle'.

292 Informed by discussions at the workshop this missing middle is conceptualised as consisting of three  
293 elements: a lack of understanding of the values that REDD+ can bring to the private sector (highlighted  
294 above with regard to the lack of an attractive story for REDD+); a lack of understanding of the risks  
295 associated with REDD+ (demonstrated above in the discussion regarding difficulties in understanding  
296 and valuing reputational risks); and, a lack of understanding regarding the mapping of risks on to  
297 values.

### 298 Future scenarios for private sector involvement into REDD+

299 In a discussion on the relative attractiveness of different scales of REDD+ projects a participant with  
300 experience of marketing REDD+ commented that CSR purchasers preferred 'small, nice, cuddly'  
301 projects, and the ownership, control and PR benefits these can offer in contrast to JNR. In the  
302 discussion that followed a market expert raised the perception that there were fears from some  
303 buyers of working too closely with national or regional governments due to issues of corruption,  
304 further reducing the attractiveness of JNR vis-à-vis project-scale. Countering this, however, was the

305 opinion raised by a project developer that firms wanted projects to be embedded in overall JNR  
306 frameworks, as these were more likely to reduce technical issues such as leakage.

307 Participants of the workshop were almost equally split over the future of REDD+. The first camp held  
308 that under clarified institutional settings and rules, REDD+ could eventually re-gain momentum, while  
309 the second expressed high uncertainty in this regard. Unless a robust framework for regulatory  
310 markets emerges, for instance through JNR, it was the perception of a market expert that private  
311 sector stakeholders preferred to participate in efforts to reduce emissions from deforestation and  
312 forest degradation in a narrower context. A point of consensus across the workshop, and also seen in  
313 interviews with market experts, is the likely move away from REDD+ being the focal point of projects  
314 and activities, in the sense that the main motivation of firms investing was carbon credits. Instead,  
315 firms are looking for wider benefits from their investment, with multiple sources of income. There is  
316 an increasing focus on other benefits that arise from projects that aim to reduce deforestation and  
317 generate a return in other ways, such as agro-forestry.

## 318 **Discussion and Conclusion**

319 REDD+'s brief history has been marked by periods of optimism and pessimism. The current mood in  
320 the private sector is generally pessimistic, with doubts over the emergence of regulatory demand and  
321 supply of credits outstripping demand, reported both by participants and in the literature (CI 2013;  
322 GCP *et al.* 2014; Forest Trends 2014). While reportedly in decline, the finding that resale opportunities  
323 from investing in REDD+ remain is mirrored by Forest Trends (2012), which found that almost half of  
324 buyers of forest carbon credits (including Afforestation and Reforestation credits through the CDM)  
325 were motivated by either resale or investment or for regulatory or pre-regulatory reasons. In the  
326 voluntary market, recent commitments by companies to reduce deforestation in supply chains (UN  
327 2014) and innovative moves to market REDD+ as a tool to reduce investment-risk offer potential.

328 These voluntary actions raise the interesting proposition that at least some investment can be built  
329 on self-reinforcing action from within the private sector, with little or no government involvement.

330 Consistent with Corbera and Schroeder (2011) this paper finds that investors in REDD+ have different  
331 motivations, from pre-regulatory purchasers to those looking to voluntarily offset emissions, to those  
332 looking to reduce deforestation in supply chains. Firms seeking regulatory credits (or pre-regulatory  
333 experience) were more interested in obtaining low-cost options, whilst those purchasing for CSR were  
334 more interested in co-benefits (see also Forest Trends 2014), and the associated PR. Differentiated  
335 motivations for investing in REDD+ imply policymakers in REDD+ jurisdictions and project developers  
336 need to offer a range of different products, or at least to better understand the differentiated market.

337 A good understanding of the aims and function of REDD+, along with its values and risks, is lacking  
338 among many private sector investors. Both values and risks differ depending on motivations. But even  
339 where there is an awareness of risks, the private sector is unable to measure and quantify these.  
340 REDD+ lies outside the main activities of most firms, and if they are unable to understand or quantify  
341 specific risks of a particular project or initiative, they may be reluctant to invest. Improved  
342 understanding of the risks involved in different projects and initiatives might help direct capital to  
343 those with a better chance of reaching their aims. This could benefit REDD+ by helping to reduce  
344 demand for riskier projects and initiatives.

345 This lack of understanding regarding REDD+ (the 'missing middle') needs to be overcome if markets  
346 are to develop further. Helping to bridge this missing middle, aiding the private sector to understand  
347 the value that may arise from investing in REDD+ (and the positive impacts that REDD+ may bring to  
348 the environment and also to a company's image), and to understand (and quantify) the risks that may  
349 be encountered through such investment, could boost private sector investment. Given the  
350 multiplicity of REDD+ projects and initiatives, workshop participants unanimously agreed that there  
351 needs to be movement towards creating unified packages of information regarding REDD+.

352 In general, one of the greatest obstacles to innovation, especially in finance, is investors' natural  
353 resistance to change and new products often fail because investors are reluctant to shift strategy. This  
354 challenge has been met by other products in the environmental sphere such as Green Bonds (Climate  
355 Bonds Initiative 2015). Aversion to change can be even greater when investors are required to assess  
356 new products on the market themselves. Providing suitable, reliable and comparable information  
357 might remove at least one obstacle to greater engagement of private sector finance with REDD+.

358 Streamlining standards and the variety of certificates on offer could also reduce complexity for private  
359 sector decision-makers and might even help secure senior corporate backing. The recent growth in  
360 REDD+ standards and certificates mirrors the growth in certification schemes and eco-labels for timber  
361 that occurred in the 1990s. Indeed, some of the arguments for standardising timber eco-labels and  
362 certification schemes, for instance, that the diversity of labels can be confusing for consumers (making  
363 it difficult to compare products' attributes) and weaken labels' credibility (see Fischer *et al.* 2005), can  
364 also be applied to REDD+. Some degree of standardisation, under the auspices of the UNFCCC, might  
365 help raise understanding of the potential values and benefits of REDD+ and assist in the  
366 understanding, measuring and quantification of the risks involved.

367 Given the scale of tropical deforestation, the current level of public and private investment to reduce  
368 it is tiny compared to what is required (CI 2013; GCP *et al.* 2014). This is the case irrespective of whether  
369 REDD+ is implemented in the form of positive incentives (like payments for environmental services)  
370 or reducing deforestation in supply chains so that inputs to production can be certified as being  
371 'deforestation free'. Yet, at the scale of individual projects or jurisdictions such as Acre in Brazil  
372 (Climate Focus 2013), the private sector can potentially make a difference (see Edwards *et al.* 2014).  
373 Indeed, where the private sector is part of the problem, in the sense of supplying commodities that  
374 drive forest conversion, it can be argued that it should, as quoted by a workshop participant, 'pay  
375 someone to stop doing something', becoming part of the solution. Supply chains that are free of  
376 deforestation would be a step in this direction and efforts should be made to integrate these with JNR.

377 For firms with operations not directly involved in deforestation, the problem with JNR is whether it  
378 will be sufficiently attractive and offer enough of a communicable storyline while providing sufficient  
379 finance to make it work. An institutional structure could be created that attracts a (capped) number  
380 of private sector partners to pool resources, at a size that allows each partner to obtain CSR benefits  
381 and retain sufficient ownership and control. Yet, the extent to which the private sector would be  
382 willing to get involved with a jurisdiction such as Acre in Brazil, whether individually or as part of a  
383 'club', remains to be seen. It may require the incorporation of the benefits of REDD+ that appear to  
384 make it attractive to the voluntary market, such as co-benefits and associated PR. But then REDD+  
385 policy would need to be designed to tackle multiple objectives - likely to be more challenging than  
386 tackling the single objective of reducing emissions from deforestation and forest degradation.

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