2021 **FCPF-ISFL** PRIVATE SECTOR WORKSHOP REPORT

Natural Climate Solutions

PHOTO SOURCE: WB flickr, Photograph by Tran Thi Hoa

EXECUTIVE SUMMARY

Unlocking Private Sector Finance for Sustainable Landscape Management

16–18 MARCH, 2021

Workshop led and funded by World Bank and
co-organized with the International Emissions Trading Association (IETA) and CDP


PHOTO SOURCE: Zena Afework Demissie, World Bank

Executive summary

Natural Climate Solutions: Unlocking Private Sector Finance for Sustainable Landscape Management

In March 2021, the World Bank's Forest Carbon Partnership Facility (FCPF) and BioCarbon Fund Initiative for Sustainable Forest Landscapes (ISFL) hosted a virtual private sector workshop focused on opportunities to partner with the private sector to drive natural climate solutions.

This three-day event, co-organized by the International Emissions Trading Association (IETA) and CDP, and facilitated by Meridian Institute, brought together 900 thought leaders, government representatives, and members of the private sector from more than 50 countries to explore:

- Financing instruments and jurisdictional approaches that facilitate private sector engagement in climate finance;
- Enabling conditions to involve the private sector and the importance of public-private sector collaboration; and
- The efforts of companies and governments to eliminate deforestation from the production of agricultural commodities and other industrial activities.

Through panels, presentations, and breakout group discussions, the workshop defined the following key takeaways, challenges, and next steps for expanding private sector engagement in natural climate solutions.

Climate Finance

Over the three-day workshop, several sessions looked at the role the private sector can play in scaling up climate finance. Below are some of the key takeaway messages.

- The World Bank Group is scaling up its commitment to helping developing countries address climate change and adapt to its mounting impacts through new result-based climate finance initiatives, such as CERF, FCPF and (upcoming) ISFL ERPAs, and IFC climate finance initiatives, complementing ongoing existent funds from IDA and IBRD and programs such as: FIP, GEF-FOLUR & PROGREEN.

- International carbon markets can play a critical role in scaling natural climate solutions to the required levels to reach net-zero emissions.
- Both public and private investment will be essential to scale natural climate solutions to the necessary levels, and it is important that these funding sources are seen as complementary. Furthermore, collaboration between the public and private sector must go beyond financing in order to successfully meet climate targets.
- Ongoing payments for results from activities to reduce emissions from deforestation and forest degradation (REDD+) are one of the most valued benefits when engaging with the private sector.
- An increasing number of financial institutions, impact funds, and investors are focusing on sustainable finance products, such as sustainability-linked loans, green and transition bonds, sustainable investment funds and insurance solutions.

Enabling Environment

Multiple breakout sessions and speaker presentations examined enabling conditions to foster and attract engagement from private sector. Below are some of the key takeaway messages.

- The private sector, governments, and local communities must work together to create or expand programs and activities that increase sustainable landscape management to eliminate deforestation. They should also understand and mitigate investment risks, and establish appropriate policy mechanisms and frameworks for climate finance.
- The Due Diligence legislation under consideration in the European Union (EU) has the potential to establish a strong anti-deforestation policy for the EU, with broader global implications affecting key players along targeted commodity supply chains.
- In order to engage the private sector, certain enabling conditions must be met, including clarity on land and carbon rights, benefits allocation, and governance. It is critical that governments understand these requirements and are able to work with the private sector to meet them.

Supply Chains

Speakers and participants underscored the importance of improving and scaling up sustainable supply chains for forest-risk commodities. Below are some of the key takeaway messages.

- Many commodity-specific partnerships, such as the Cocoa and Forest Initiative and the Forest Positive Coalition, are underway to address deforestation at the local, national, and sectoral levels.
- Leading companies which are operating in deforestation-driven supply chains, including palm oil and livestock, are advancing their efforts to delink deforestation from supply chains. They are moving beyond certification and intensifying their efforts to establish traceability. They are requiring responsible sources of production and increasing their willingness to cut ties with suppliers that are connected to deforestation.
- Companies are building pre-competitive collaborations with other companies and innovative partnerships across their supply chains, particularly with producers focused on improving livelihoods. Pre-competitive collaborations are forging new partnerships among companies in the same industry to jointly address social and environmental impacts.

Challenges

The workshop explored a number of challenges which can inhibit the deployment of private capital towards natural climate solutions. Below are some of the key takeaway messages.

- Climate finance—including upfront investments—is starting to scale up, with a broad range of transactions taking place at different levels. Rapid scaling presents a range of challenges to both those seeking to participate in and fund these efforts, including: lack of clarity on credibility; application of benefits; uncertainty about project pipeline; and technical and financial capacity of smallholders and other entities.

- The risk perception of financial institutions and funders is a key barrier to sustainable investments due to the lack of understanding of technical operations and the shortage of examples of successful implementation.

- The extra cost of sustainable production should be proportionally shared among governments, companies, and consumers to reinforce the cycle of economically-viable and sustainable production of commodity goods.

- Due to the recent and evolving nature of benefit-sharing plans, there is a degree of uncertainty regarding the effective share that the private sector could benefit from their participation in emission reduction programs (ERPs).

- There is a significant amount of private sector money to be unlocked, but governments need to understand the key requirements to attract private sector finance, and therefore design the right policies and regulatory frameworks to enable and incentivize the private sector.

- There is still a lack of coordination among diverse stakeholders operating at different levels in the same jurisdiction to advance efforts to reduce emissions. There is a need to bring these efforts together, such as through nesting of projects and public-private partnerships.

Next Steps

Workshop organizers seek to build upon the rich dialogue and connections forged throughout the event to promote further collaboration across regions and sectors. Below are some of the actions that participants and their organizations can support moving forward.

- Promote a long-term community of practice that includes the private sector, institutions such as the World Bank, and various platforms to showcase climate-smart best practices, examples of operationalizing climate finance in supply chains, and resiliency models. Through the continuation of these workshops and similar convenings, stakeholders and partners within this community will learn by doing and duplicate positive results in their respective regions.

- The public and private sector are implementing and testing innovative sustainable landscape approaches on a jurisdictional scale. Jurisdictional pilots will pave the way for activities on the national and international level that will contribute to the nationally-determined contributions (NDCs) as well as towards achieving the goals of the Paris Agreement.

- REDD+ countries need to expand their network for climate investment opportunities by collaborating with climate finance investors, initiatives, and private sector entities in future activities in the sectors of agriculture, forestry, and other land use (AFOLU) and land use, land-use change, and forestry (LULUCF).

- Market and finance actors should provide guidance for how they can participate in programs, and discover business opportunities, and/or business development from emission reductions program (ERP) countries.