



# REDD Market Overview

## DEFINING REDD

Reducing Emissions from Deforestation and Forest Degradation (REDD) is a concept that has emerged in the UN climate negotiations as a way to reduce large-scale forest loss and associated CO<sub>2</sub> emissions. Over time, REDD has evolved to include avoided forest degradation, a precursor to deforestation. In 2010 REDD added under its umbrella projects that include important benefits beyond avoiding carbon emissions, such as biodiversity protection, community engagement, and income generation for forest dwellers/users. Such added benefits have become a standard for REDD projects, spurred in part by the Climate, Community and Biodiversity Standard, which project developers refer to when developing and implementing REDD projects. Tree planting, another way to sequester carbon in biomass, should be distinguished from REDD in a conceptual sense.

## VALUE FROM REDD

- Mitigate climate change by supporting forest-friendly projects that improve livelihoods
- Support targeted projects that reduce deforestation pressures and use local resources more sustainably in Asia, Africa and Latin America
- Incentivize behavioral changes for poor migrants, slash-and-burn farmers and forest-based communities
- Provide training and capacity building to improve resources use, harvesting methods and effective resource management
- Protect habitats for hundreds of forest species including endangered primates, birds and medicinal plant species

## REDD Reducing Emissions from Deforestation and Forest Degradation

A mechanism negotiated within the UN to create financial incentives for developing countries to:

- Reduce emissions from deforestation and forest degradation
- Conserve and enhance forest carbon stocks
- Sustainably manage forests

## IMPORTANCE OF REDD

REDD projects deliver significant benefits to both communities and the environment. 5.5 million hectares of tropical forest area, or an area approximately the size of Costa Rica, are lost each year. Emissions from deforestation and land degradation are cumulatively responsible for up to 20% of global greenhouse gas emissions. While forests are critical in contributing to climate change mitigation and adaptation, they also play a role in water provision, biodiversity conservation, and cultural heritage and community livelihoods. Carbon finance can provide a valuable additional income stream to sustain the management of forests and to improve community livelihoods.



## VOLUNTARY CARBON MARKET OVERVIEW

REDD credits are transacted in the voluntary market for carbon. Voluntary carbon markets emerged in the mid-1990s, are self-regulated, and exist separately from carbon markets set up by governments in response to the 1997 Kyoto Protocol. Carbon credits are transacted over-the-counter, and often directly between project developer and buyer, in voluntary carbon markets. Voluntary credits are not eligible for compliance under the Kyoto Protocol or the EU Emissions Trading System and cannot be used in other equivalent schemes. Still, major voluntary standards, such as the Verified Carbon Standard (VCS), follow a rigorous asset creation process resembling the one developed for the Kyoto Protocol.

### Market Size and Prices

Voluntary buyers have spent nearly \$4.6 billion on transacted offsets over the last decade. 0.99 billion tons of CO<sub>2</sub>e have been transacted over time. As transactions are bilateral, lack of transparency in the voluntary market complicates price discovery and creation of a reliable forward price curve.

### Avoided Deforestation Stays Large

REDD offsets/credits are the most commonly transacted voluntary offset over the past decade. As at 2014, REDD projects surpassed historical demand for wind offsets to transact a cumulative total of 87 MtCO<sub>2</sub>e. REDD projects was the top-selling offset project type in 2013 and 2014 and only wind was larger than REDD in terms of volume transacted in 2015. REDD retained high average prices in 2015, however, receiving more value than wind at \$37.5 million despite the lower sales volume.

### REDD - Growing Demand

REDD and wind offsets have existed in nearly equal volumes over time, but REDD has historically higher average prices. Demand for REDD offsets accelerated after the Bali climate negotiations (2007) brought REDD to the international stage, with the general expectation that demand would come, sooner or later, in the form of compliance offset markets. Except for the recent bilateral government deals, this demand has yet to materialize, despite reaching an all-time high in 2014.

Source: Forest Trends' Ecosystem Marketplace.

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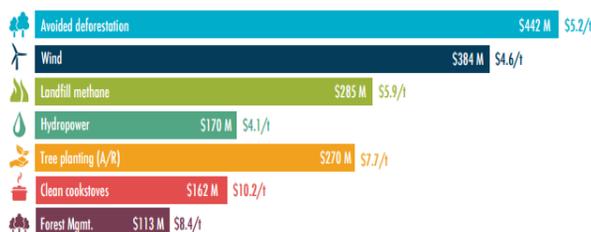
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Market Size and Average Price Comparison, 2014-2015.

	2015	2014*	% CHANGE	ALL YEARS**
VOLUME:*	84 M <sub>tCO<sub>2</sub>e</sub>	77 M <sub>tCO<sub>2</sub>e</sub>	+10%	0.99 B <sub>tCO<sub>2</sub>e</sub>
VALUE:***	\$278 M	\$298 M	-7%	\$4.6 B
AVERAGE PRICE:***	\$3.3/tonne	\$3.8/tonne	-14%	\$4.6/tonne

Source: Forest Trends' Ecosystem Marketplace. State of the Voluntary Carbon Markets 2016.

Cumulative Value and Average Price of Top 7 Project Types, 2007-2014.



Source: Forest Trends' Ecosystem Marketplace. State of the Voluntary Carbon Markets 2015.

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