

Mobilizing Private Sector Finance for REDD+



DOHA 2012
UN CLIMATE CHANGE CONFERENCE
COP18•CMP8

VCS | VERIFIED
CARBON
STANDARD
A Global Benchmark for Carbon



Allianz 



CONSERVATION
INTERNATIONAL



PERÚ

Ministerio
del Ambiente

innovative partnerships + models

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The background image shows a tropical forest fire. Thick, dark smoke rises from the trees, filling the sky with a hazy, orange-brown glow. In the foreground, there is a small, rustic wooden house with a corrugated metal roof. The house appears to be made of weathered wood and has a simple, open structure. The ground around the house is dry and dusty. The overall scene conveys a sense of environmental destruction and the impact of climate change on local communities.

16 percent

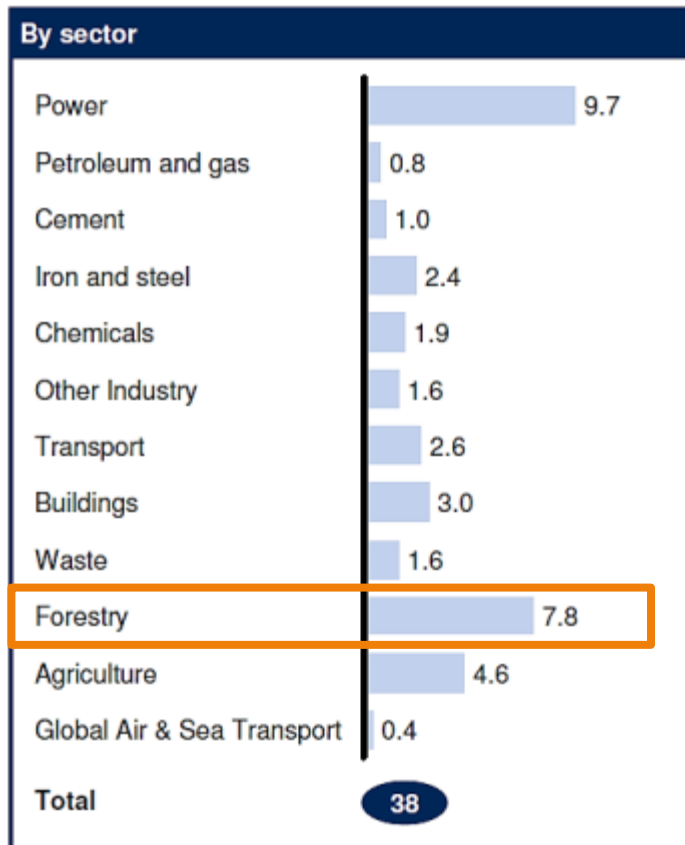
Burning and clearing tropical forests accounts for ~16% of global GHG emissions – more than all the world's cars, trucks, ships, planes and trains combined.

The poor are most impacted by climate change.

Investing in nature is a cost effective + immediate solution

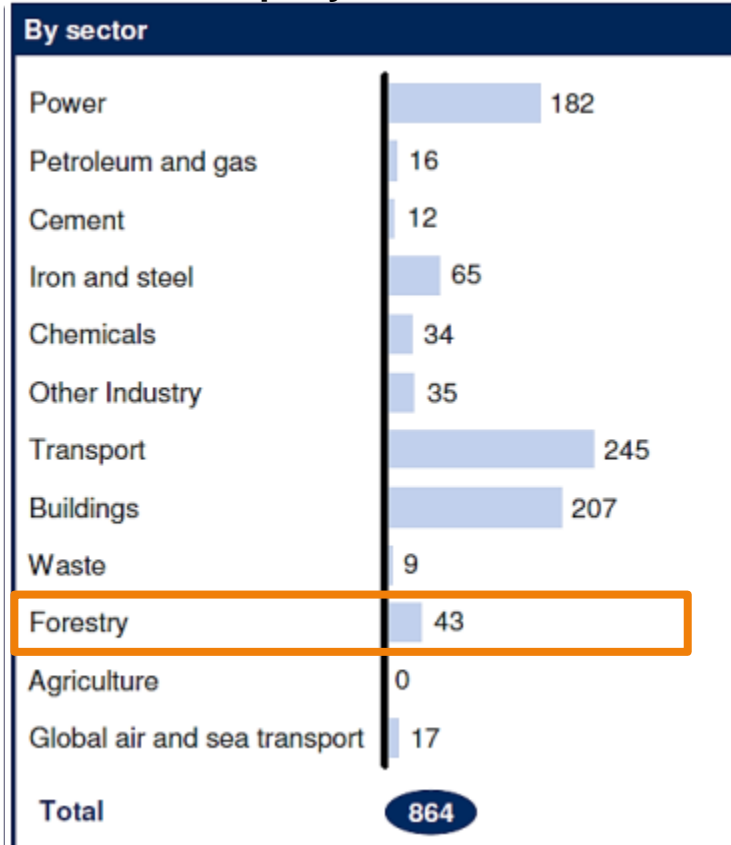
Abatement potential by sector and region – V2.

GtCO₂e per year; 2030



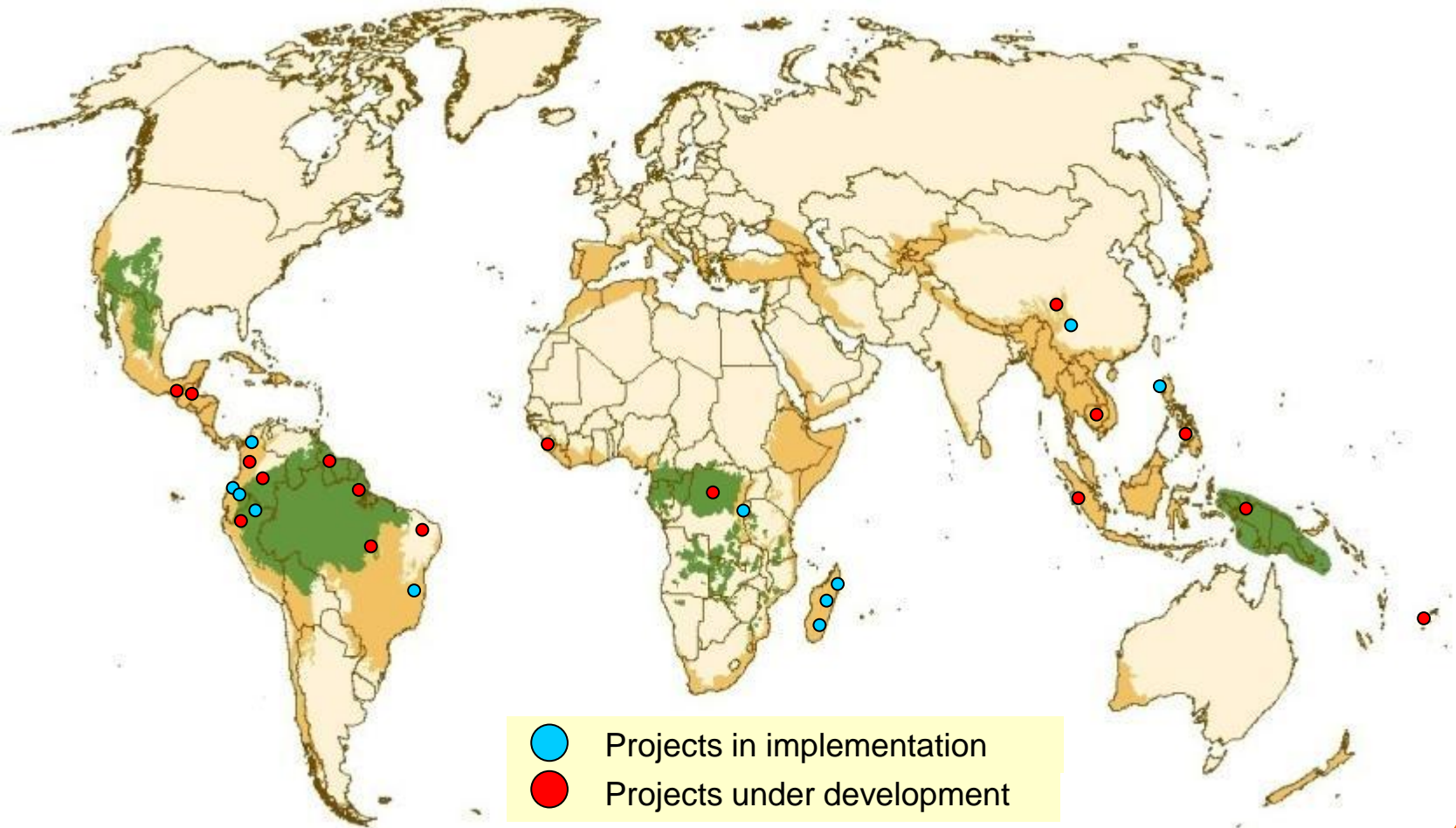
Investment required

Euros billion per year to 2030



Source: McKinsey Global GHG Abatement Cost Curve v2.1

Piloting activities + learning valuable lessons



Developing Tools



REDD Financial Tool

Please choose your language
Por favor escoja su idioma
Por favor escolha o seu idioma

English

Protection

The worksheets' cells of this tool are protected by parameter values. The protection can be removed by the user.

How do you use this tool?

Below are summarized the basic guidelines:

The cells' colors and the worksheets with their respective parameters

Color	Worksheet
Yellow	Parameters
Orange	Cost structure
Green	Carbon Pools
Red	Instructions
Blue	Parameters
Grey	Cost structure

Project general features

Crediting period (years): 30
Project start year: 2000
Verification timing: 5
Non-persistence buffer (t): 20,000
Discount rate (%): 10.00%

Deforestation rate

Baseline deforestation rate (t/ha): 1.000
Project deforestation rate (t/ha): 0
In year #1: 0
In year #2: 1.000
In year #3: 0.900
In year #4: 0.800
In year #5: 0.500
From year #6 to year #30: 0.500

Emission reductions

Project area (ha): 100,000
Total credits (tCO₂e): 5,045,619
Annual credits (tCO₂e/year): 168,187

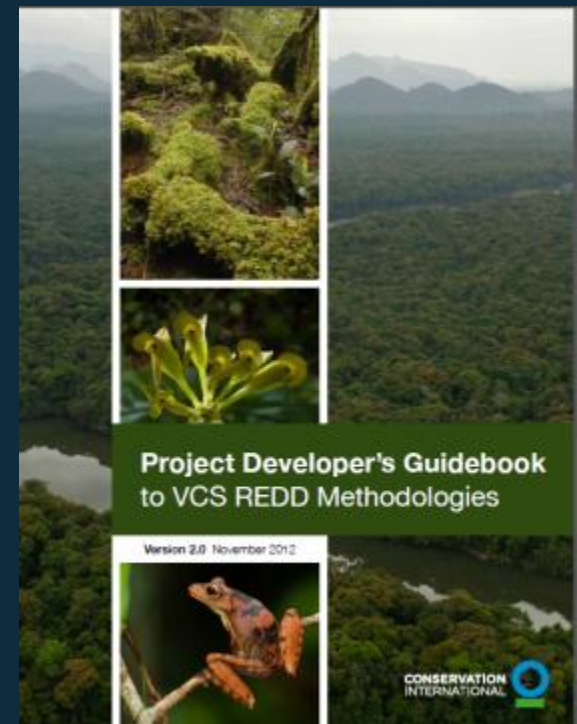
Financial summary

Net Present Value (USD) discounted at 10%: 10,000,000
Internal Rate of Return (%): 78.62%

Baseline area (ha) vs. Project area remaining (ha)

Total area of avoided deforestation due to the activities of the REDD project (ha)

Gross project credits (tCO₂e) vs. Net project credits (tCO₂e)



Unlocking Financing



Althelia Climate Fund

- REDD focused, \$250M target
- Keystone investors BNP-P, EIB, FMO



Sustainable Landscapes Partnership

- \$20M Public-Private facility meant to spur REDD investment in Indonesia
- USAID, CI, Walton Family Foundation



“Zero Forest Cover Loss by 2030”
– European Union

“Slow, Halt, and Reverse Forest Loss” – UNFCCC

“Zero Net Deforestation by 2020”
– Consumer Goods Forum



**Impact to
date**

**18 million
hectares**

Sources: State of the Forest Carbon Markets 2012. Ecosystem Marketplace

Huge Gaps Still Remain

>80% of the world's
forests are public lands..

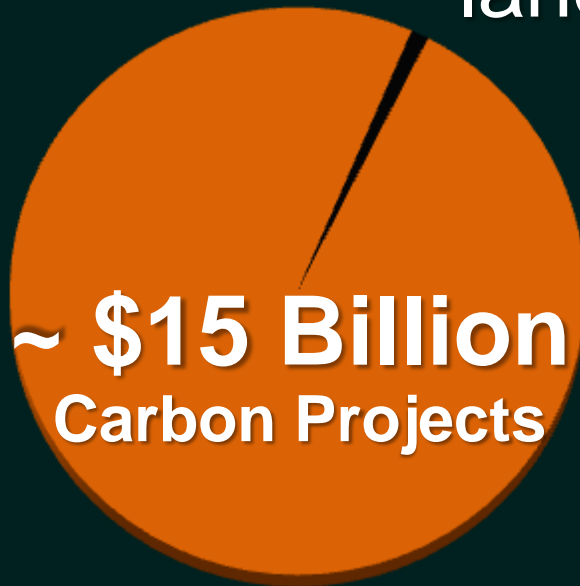
..yet attract only 18% of
current investment

Sources: FAO, FRA 2011; Ecosystem Marketplace, *State of the Forest Carbon Markets 2012*



Direct Investment

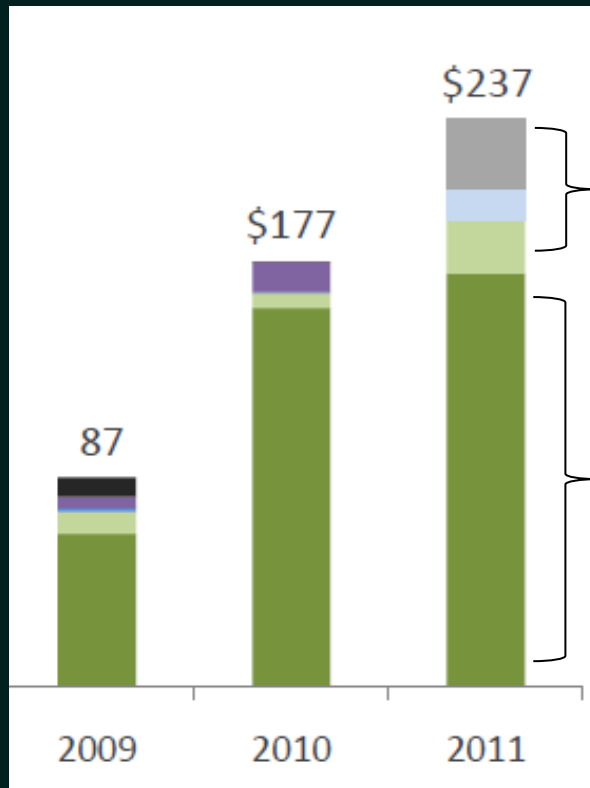
~1% forest +
land use



Sources: *State of the Carbon Markets 2011*, World Bank; *State of the Forest Carbon Markets 2012*. Ecosystem Marketplace.



Drivers of Demand



Compliance Markets

Voluntary Market



Barriers to investment

- Lack of clear “exits” for investors (demand)
- Legal uncertainty
- Technical issues
- Lack of “plain vanilla” investment options



REDD+ Bonds

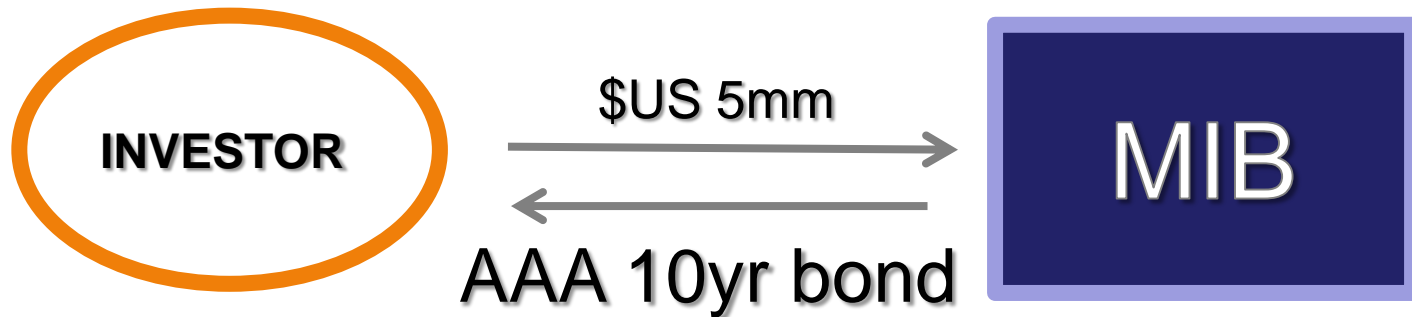
- eliminate principal risk
- tap fixed income investors
- use “known” products to structure investment

Partners: AAA multi-lateral investment bank, REDD+ implementers, top-tier commercial bank

REDD+ Bonds

\$US 5mm example

Year 0

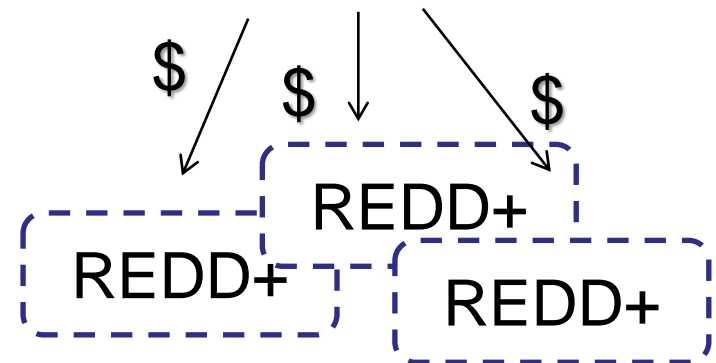


REDD+ Bonds

\$US 5mm example
Year 1

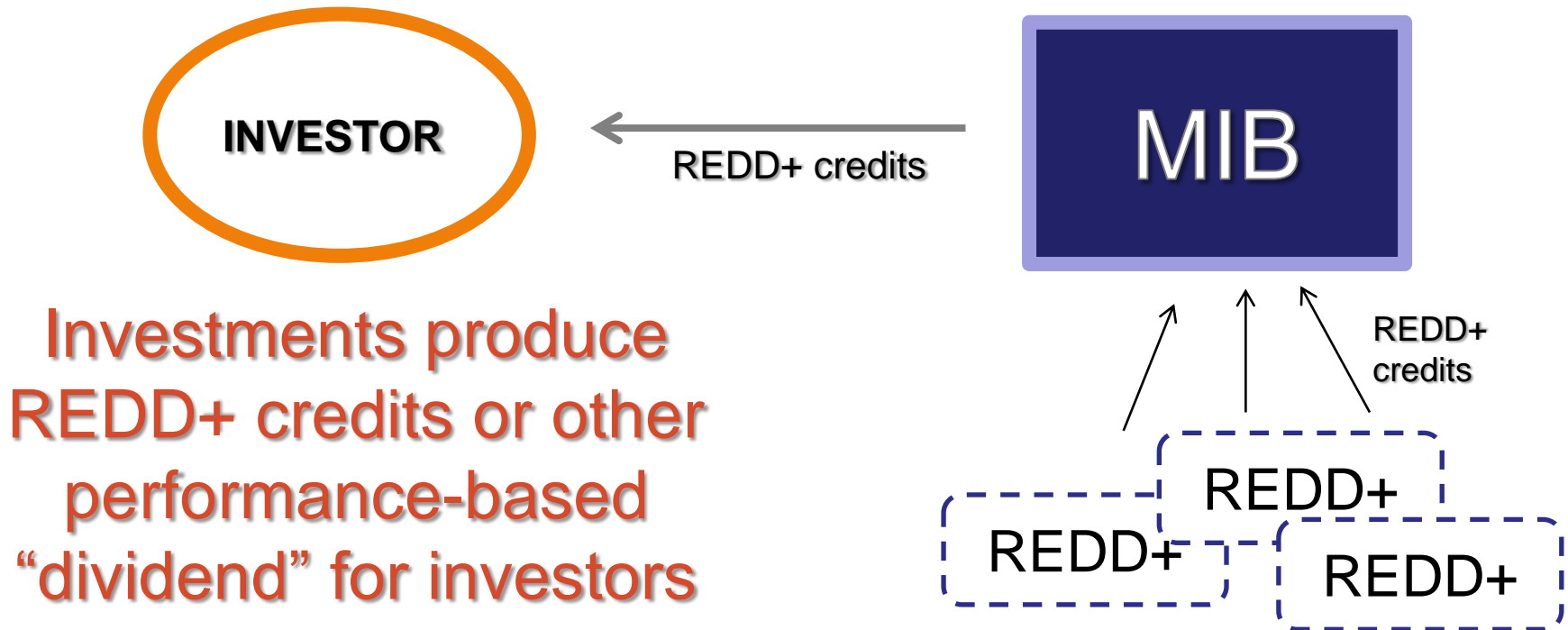


Coupon payments
are invested in
REDD+ activities



REDD+ Bonds

\$US 5mm example
Year 2-10



REDD+ Bonds

\$US 5mm example
Year 10



Principal is repaid to
investors

REDD+ Bonds

Benefits

- Impact investing with principal guarantee and possibility of upside
- On paper is a plain vanilla zero coupon bond – easy to invest in
- \$100mm issuance results in roughly \$10mm upfront cash to invest in projects
- Using current rates and prices implied yield of bonds is attractive 3-4% p.a.

VER price,US\$	Bond yield, %
1.00	0.51
2.00	1.02
3.00	1.54
4.00	2.05
5.00	2.56
6.00	3.07
7.00	3.59
8.00	4.1
9.00	4.61
10.00	5.12

REDD+ Bonds

Challenges

- Investors willing to forego coupon payments (opportunity cost)
- Finding a strong pipeline of investments
- Legal complexities

Next Steps

- Finalize legal and move to issuance
- Roadshow to investors early 2013