

World Bank/IETA Forum on Unlocking Private Sector Finance for Sustainable Landscape Management

Introduction to Private Sector Financial Instruments that could be used to Finance REDD+

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Overview

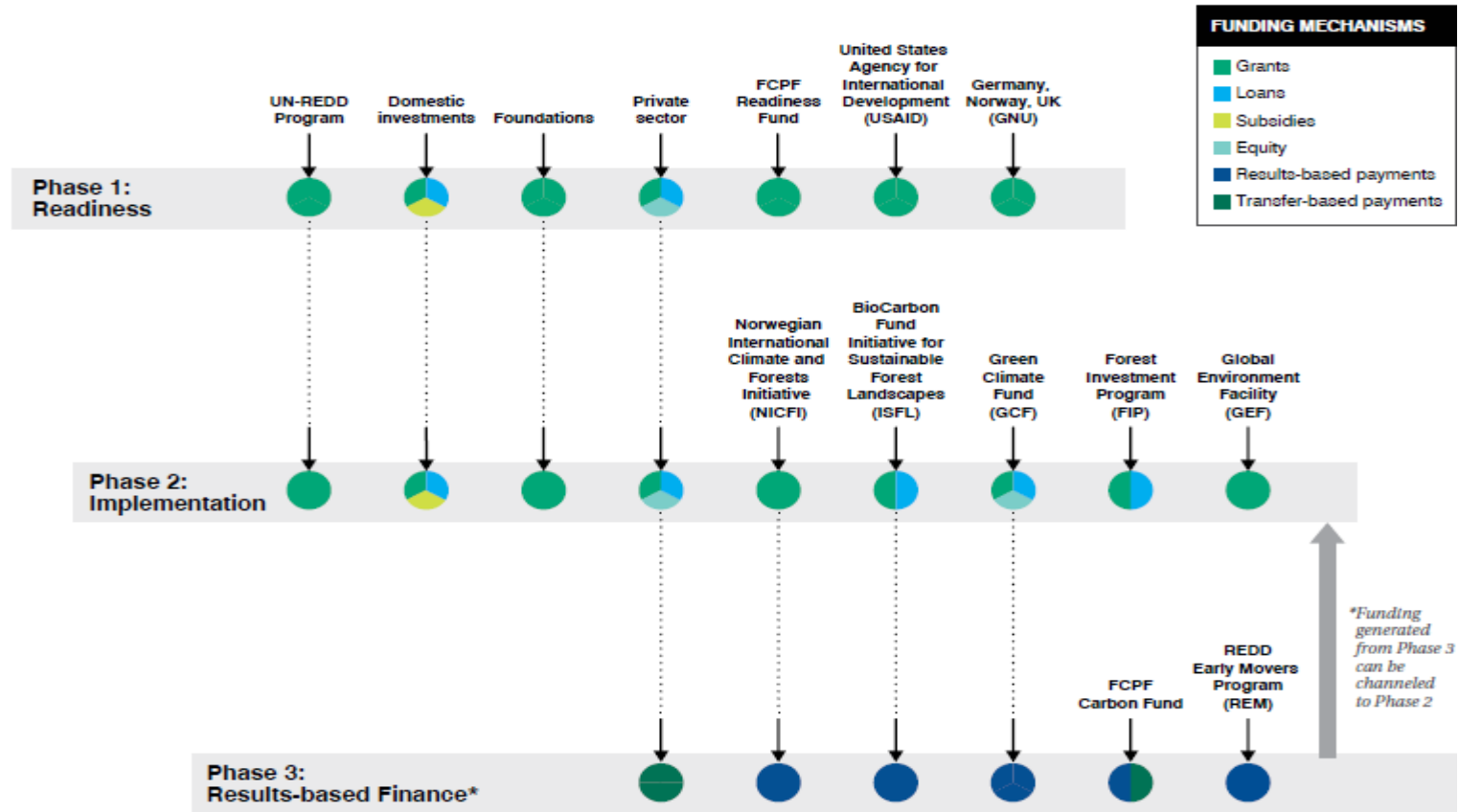
- DeMarco Allan LLP: Canada's only Climate and Clean Energy Law Firm
- Current Financial Instruments
 - Funds (FCPF/GCF)
 - Green Bonds (IFC Forest Bond)
 - ERPA instruments to Effect RBPs
 - Loans
 - Guarantees
- Issues and Challenges
- Potential Financial Levers/Instruments
 - Infrastructure Approvals
 - Articles 5, 6 and the Carbon Market
 - CORSIA
 - Supply Chain requirements
 - Corporate direct commitments
 - Indigenous Partnerships

Private Sector
Instruments intended to
enhance and derisk
NCS/REDD+ Investment



Overview of REDD+ Phases and Funds

Source EDF, *Mapping Forest Finance*, 2018



Please note:

- 1) The size of the circles and proportion of shading are not to scale and do not reflect the amount of funding each source provides or the amount of funding distributed via each mechanism.
- 2) The exact nature of transfer-based payments (TBPs) in relation to REDD+ has yet to be determined as parties in the UNFCCC are still negotiating ITMO's as part of Article 6.2.

Equity through ERPA reflecting Results Based Payments

- Under Warsaw Framework,
 - Measurement of FRELs/FRLs
 - Conversion/expression in tons of carbon dioxide equivalent per year (tCO₂eq).
 - Implementation of the REDD+ activity
 - Verification
 - Disbursement of payments on basis of results (may be through grants, loans, public or private equity)
 - Transfer- based payments (TBPs) for REDD+ results— payments made for transfer of defined REDD+ asset (i.e. for the transfer of an emissions reduction or mitigation outcome between entities)—continues to be negotiated in the context of Articles 6.2 and 6.4

Forest Based Loans/Guarantees

- Directed at sustainable forest management, including tree planting and timber management, forest products and related supply chains
- Money loaned against payments from future products and related forest commitments

Forest Based Bonds

- IFC Forest Bond
- 5 year Bond sold to major institutional investors and listed on LSE
- \$152M to support private sector investment and avoid deforestation
- Investors offered choices between cash return or carbon credit coupon
- Carbon coupon supported by REDD+ credits generated from Kasigau Corridor REDD project in Kenya; rural farmers voluntarily agree to rote the forest corridor critical to elephant migration pathway
- Carbon Coupon can be retired against a corporate commitment or traded on market
- Cash to pay cash coupon generated by BHP Billiton purchasing the the REDD+ Credits and IFC using proceeds to pay cash coupon
- CitiBank is the calculation/admin agent

Challenges

- Consistency and accuracy in measurement, monitoring and reporting
- Governance and transparency
- Governments as a party or key stakeholder
- Nature of the “asset” (permanence)
- Ownership and land title
- Tenuous security to support finance
- Relative “interest rates” when harvested timber is only growth value of forest monetized
- Aggregation and capacity building
- Traditional approaches of investment and audit committees
- Narrative*

New Potential Private Sector Investment Pathways

- Infrastructure Approvals
- Articles 5, 6 and the Carbon Market
- CORSIA
- Supply Chain requirements
- Corporate direct commitments
- Indigenous Partnerships
- Trade-based Frameworks

Thank you.

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