

Outlook on Innovative Finance Mechanisms

UK-DFID Roundtable
John Clement – Convenor
Brussels Conference
26-27 February 2007

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Selection of areas for deeper research

- Payments for Ecosystem Services
- Payments for Conservation
- Asset backed lending – securitisation, forest bonds

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Payments for Ecosystem Services Carbon

- Formal trading in carbon
 - Kyoto carbon emission offsets - EU-ETS - but
 - Kyoto rules limit forests' participation to a/reforestation
- Voluntary arrangements (including CCX)
 - growing international interest in private contracts for purchase of carbon offset from natural forests.
 - Predicted growth from 10Mt 2005 to 400Mt 2010.

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Payments for Ecosystem Services

Avoided Deforestation

- A number of distinct schemes in discussion – Kyoto Protocol is so far the best existing option for development of an international scheme of incentives – next discussion due at COP13/MOP 3, Bali, Dec. 2007.
- Projects will be needed for pilot studies.
- Important for conservation of soil, water and biodiversity as well as limiting greenhouse-gas emissions
- Whichever system is eventually adopted, will require:
 - comprehensive land surveys
 - careful definition of land-use zones and assessment areas
 - national systems for monitoring and accounting (requiring initial capacity building)
 - connected distribution of benefits between national and local levels.
 - a long time – years - for income to flow.

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Payments for Ecosystem services

- Predicted growth in Voluntary carbon markets make an opportunity worth exploring for DRC.
- Preparation for Avoided Deforestation must go ahead, including capacity building and qualification of DRC as a pilot-study country at COP13 in Bali, December 2007.
- Meanwhile, selected DRC projects may qualify for Avoided Deforestation payments from the World Bank BioCarbon Fund.

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Payments for Ecosystem services

Benefits

- Large-scale opportunities
- Maximum environmental benefit
- Mutually reinforcing with development of community capacity

Requirements

- International agreements on avoided deforestation
- Solutions to technical issues: baselines, leakage, etc.
- Community capacity
- Property rights, land tenure must be secure
- Effective monitoring and enforcement.

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Payments for conservation

- Conservation is a traditional crucible for innovation in funding mechanisms as well as programmes of work; a constant source of new ideas and refreshment of old ideas as definition of 'conservation' has expanded.
- Separation of commerce and conservation is no longer so obvious: international business are evolving progressively to 'corporate sustainability' – community requirements and environmental agendas acknowledged simultaneously with economic interest.
- Conservation Concessions might be a suitable object for a trust fund structure in DRC.

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Payments for conservation

Offer

- Immediate income to landowners
- Immediate benefits to the environment and communities
- Transparency
- Not incompatible with sustainable logging
- Accessibility to both private and corporate finance

Require

- Land tenure must be secure and rule of law/enforcement is critical
- Community capacity is critical
- Community benefits may be uncertain
- Not permanent

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Asset backed lending - securitisation, forest bonds

- Uses the security of forest assets to advance loan capital for forest operations.
- Forest assets can include Ecosystem services as well as timber.
- Reduces risk to providers of capital: increases appetite among commercial investors.
- Depends on stability from local law and strength of property rights to underpin predictability of income.

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Asset backed lending

Offers

- Advance collection of forest revenue
- Combined valuation of different income streams
- Links low interest rates (3%) and long maturities (40 yrs)
- Attracts various different classes of investor
- Can finance communities, NGOs, administrations.

Requires

- Security of land tenure and property rights
- Rule of law/enforcement
- Healthy and predictable demand for forest products

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Common requirements to develop novel finance mechanisms are:

- Property rights and land tenure
- Rule of law, monitoring and enforcement
- Community capacity

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Summary outlook

- Payments for Ecosystem payments
 - Voluntary Carbon markets have potential
 - Excellent potential in AD but lengthy in preparation.
 - AD pilot-study status needed for DRC.
- Payments for conservation
 - Rich supply of established sources – available now
 - New supply from leading, international corporates.
 - DRC requires marketing
- Asset-backed lending
 - New finance based on traditional forest business
 - Once established, equally suitable for PES.

Outlook on innovative finance mechanisms

The End – Thank you

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