



ENHANCING INNOVATION IN FORESTRY FINANCING

Pedro Ochoa
ochoa@eib.org

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- Increase the sustainable use of natural resources through environmental, social and economically sound projects
- Decrease pressure on primary forest contributing to reduce deforestation and forest degradation
- Improve climate change mitigation through carbon sequestration
- Increase forest significance and visibility in the framework of a low carbon, green economy
- Enhance biodiversity through nature Assisted Regeneration and adequate forest plantation design
- Improve living standards and reduce poverty contributing to sustainable development
- Develop agro-forestry to provide employment and revenues to the forest populations
- Involve local populations through community forest development and tree-growing farming

Megatrends in sustainable forestry



- Fulfil the increased demand for solid biomass renewable energy production and second generation biofuels
- Fulfil wood demand with production from forest plantations
- Avoid competition with food production and guarantee food security
- Managing the difficulties arising from the scattered landownership
- Enhance and improve forest certification
- Continuing to finance forest fire prevention and fighting equipment
- Improve communication between forestry investors and NGOs to manage complexity of new forestry plantations models and avoid land grabbing
- Finance nature conservation through new instruments: Forest Carbon, Ecosystem Payments and REDD
- Develop financial innovation and improve forest research



EIB's Forestry related investments are mainly eligible as Climate Change Action/Environment

- ❖ EIB is a policy driven global financier for climate change, forestry and wood industry among others
- ❖ The EIB's climate action focuses on:
 - ❖ low-carbon investments that mitigate greenhouse gas emissions
 - ❖ projects that improve adaptation to climate change impacts
- ❖ EIB's lending for climate change reached EUR 18.5bn in 2011 (over 30% of total lending) for:
 - ❖ Energy / energy efficiency, transport, water, wastewater, solid waste, research, development and innovation
 - ❖ **Forestry**

BANK's FORESTRY STRATEGY IS SIMPLE

THE EIB PLANTS

Natural Capital Asset Classes and Investment

Private

Public

ASSET CLASS

Sustainable Forest
Management & Plantations
(Pulp and Paper, Timber, Biomass)

Afforestation/Reforestation
(Forest Carbon)

Non-Timber Forest Products
(Coffee, Tea, Nuts, Herbs, Mushrooms)

Pro-Biodiversity Businesses
(Ecotourism, Research)

Forest Carbon
(REDD+)

Other Ecosystem Services
(Fire Prevention, Erosion Control,
Compensation Banking, Water)

AVAILABLE FINANCING INSTRUMENTS

Loans to Private or
Public Sector

Equity Funds

Equity/Debt Funds

Structure Debt

Equity/Debt Funds

Structure Debt

Loans Public Sector

Grants

PPI

Green Bonds

European Investment Bank



Nature conservation revenues - Payment for Ecosystem Services (PES)

- ❖ **PES:** market mechanisms to compensate land holders to undertake activities which retain the ecological integrity of their land and thus the provision of ecosystem services (ES) as a good
 - ❖ direct payments are provided by the beneficiaries of the ecosystem service to those responsible for preserving the ES, transactions are voluntary
- ❖ Examples of Ecosystem/Environmental Services include
 - ❖ maintenance of clean and abundant water supplies
 - ❖ provision of pollination for agricultural crops provision of physical commodities such as medicines and food
 - ❖ mitigation of extreme events ranging from floods and hurricanes to tsunamis
- ❖ **Carbon Credits** materialize PES for avoiding GHG emissions



Nature conservation investments- Developing REDD infrastructure

➤ **Phased Approach**

- Phase 1 - Readiness Phase: voluntary provision of funds for capacity building and demonstration activities
- Phase 2 - Fund Phase: Internationally binding funding commitments by developing countries to support the implementation of REDD at the international scale
- Phase 3 – Performance Payments: Market or non-Market compliance mechanism ex-post

➤ **Nested Approach**

- Phase 1 – Sub-national Implementation and National Capacity Building: REDD projects proliferate at the project level while national infrastructure is secured for Measurable Reportable and Verifiable accounting
- Phase 2 – Threshold Switch: once a country has reached a threshold of REDD activity, it would be required to switch to a full national accounting scheme



Risks of nature conservation investments

- ❖ Forest carbon risks
 - ❖ Associated with the carbon instrument, rejection of the methodology , failure to register with standards
 - ❖ Non-permanence of the project applicable to AR and REDD projects
 - ❖ Ownership of the forest credits , land-holding regime , land-use rights
 - ❖ Market risks volatility of prices
- ❖ REDD projects
 - ❖ Leakage as lower deforestation in the project could accelerate deforestation outside the project area

Challenges for innovative financing



- EU Commission welcomes **pilot initiatives** in support of REDD conservation projects which are aligned with the overall policy orientation on REDD from the COP Agreements and which involve the private sector; but it remains very cautious with regards some operations that may be premature and would mislead investors on their EU ETS eligibility
- It also insists on the needs to address effectively the issues of sustainability, **additionality** (at country and global levels) and **permanence** of emission reductions with the implementation of the appropriate safeguard rules
- Receptor countries should comply with EU's FLEGT Action Plan to ensure that only legally harvested timber is exported to EU
- PES-only forest carbon credits are not sufficient: they should be complemented (i.e. provide the appropriate incentives, financing solutions and/or alternative livelihoods)
- Difficulties of defining contents of REDD projects



EIB's Forest Financing Activity- Lending

- Investment loans
 - Nearly 100 forestry and pulp and paper loans have been handled by the EIB during the past 30 years
 - In-house forestry expertise (i.e. economists and technical experts)
 - Large amounts, broad range of currencies, long maturities, attractive interest rates
 - Direct and intermediate loans
 - Non recourse project financing
 - Co-investor with other IFI's
 - Compatible with grant-schemes (i.e. European Union Rural Development policy)



EIB's Forest Financing Activity – Investment Funds

- Investment funds
 - To complement and extend lending activity to the forestry sector
 - Instrument to consolidate the scattered forest ownership
 - More efficient silviculture and harvesting operations
 - Attractive returns with value creation driven by biological growth
 - Upside potential from carbon and other non timber markets
- The Portfolio
 - c. 20 environmental (including carbon) fund investments
 - c. EUR 600m of EIB commitments
- Key Parameters
 - Ticket size in the range of EUR 10-50m
 - Target participation of 10-20%



Innovation in forest financing propositions presented to EIB

- Proposals to invest in activities at Project Level through funds:
 - REDD funds: 'forward' carbon credits as sole source of revenue with possible small equity participation at project implementation
 - Mixed funds: combining carbon revenues with income from sustainable commodities i.e. livelihoods, sustainable timber, sustainable agriculture, agroforestry...
- Proposals to intermediate between private investors and identified project through bond issuance without EIB exposure: Green Bonds
- Market conditions and EIB mandate will require it will focus on Mixed funds with emphasis on Human Development, Alternative Livelihood Strategies and Risk buffering commodities revenue



New ways explored - Additional Measures to Incentivize Forest Investment Activity



- Credit Enhancements to attract private sector involvement
 - Advanced Market Commitments
 - Risk sharing
 - First Loss
- Capacity Building through technical assistance (TA) can be an effective way to reduce costs associated with
 - Environmental, social and project integrity risk
 - Project development for small projects and SMEs
 - Example: ELENA (European Local ENergy Assistance)
- Incentivise financial intermediation of small green infrastructure projects
 - Technical Assistance
 - Financial/interest rate subsidies



EIB's Contribution to the International Debate

- ❖ European Investment Bank organized on 22ND and 23rd May 2012 a Roundtable on : "Plantation Forestry in Developing Countries: Enhancing , Innovation, Tackling Complexity"
- ❖ The roundtable was followed by forest promoters, NGO's, United Nations Agencies, International Financing Institutions and Funds Managers
- ❖ Conclusions of the roundtable and presentations to the roundtable are available



Thank you

