



Forest-Backed Securities: alternative finance for tropical natural forest

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Agenda

Introduction:

- EnviroMarket Ltd
- EcoSecuritisation R&D

Key Points:

- Why is 'alternative' finance needed?
- What are forest-backed securities?
- How do they work?

Conclusion:

- What next?

EnviroMarket Ltd...

- Established in July 2005
- Expertise in finance, forestry, carbon, risk
- UK-based; also in S. Africa & N. America
- Advising on sustainable finance initiatives
- Broking ecosystem services e.g. carbon...
- Clients: IFIs, Governments, private clients

EcoSecuritisation R&D...

Proposal: Test the feasibility and impact of a financial instrument designed to capture the 'true' value of tropical natural forests. Accommodate multiple values, slow growth, geographic location and multiple stakeholders

Programme: feasibility study, pilot, market catalyst

Participants: International Finance Corporation, DfID, HSBC, Forum for the Future & others

Why are alternatives needed?

- Money is attracted to the best return at the lowest risk
- Risk is directly proportional to duration of investment
- Forestry delivers returns over long time frames
- A high proportion of costs are incurred upfront
- True capacity of asset *recognised*, but not *realised*
- Global thinking (e.g. PES) requires effective local action
- Time is not on our side: climate change is happening now
loss of forests = destruction of value
- Current models (e.g. TIMO) inappropriate

Asset-based alternatives

- Aim: A mechanism that enhances current value of long term revenue streams associated with sustainable management and conservation, and unlocks this value for immediate investment
- Enhanced asset value: timber + carbon, watershed etc
BUT land tenure/ownership rights remain difficult
Can this enhanced asset value unlock enhanced finance?
- Bonds: *tradable* debt obligations using assets as collateral
- Asset-Backed Securities: *tradable* rights to future income generated by assets

Key risks to future income

Investors see multiple risks:-

- Political/country risk
- Physical risk (fire, pest, wind etc.)
- Credit risk
- Market/price risk
- Operational risk
- Reputation risk

Find ways to cost effectively manage and mitigate these risks...

Conclusion

- Forestry groups monetise their future delivery of long term sustainable forest product/services
- Major buyers of sustainable forest products and services leverage the impact of their purchasing strategy
- Government/IFI support key elements of long term private commitments and catalyse activity
- Next phase: concept development/pilot with support of major commercial and financial groups
- Identification of trade/capital investment opportunities

Thank You!

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