



Roundtable on Reducing Emissions from Deforestation

24 October, 2007

Conditions for engaging the private sector in RED

Macro issues

- Political acceptance of RED credits into a global trading scheme which includes the private sector
- Acceptance of robust monitoring regimes and national baselines by tropical forest countries
- Market demand/deepening of emission reduction obligations
- Instrument that allows some fungibility/overlap with non-LULUCF CERs

Project issues

- Additionality
- Vulnerability (positive and negative)
- Scientific & practical management capacity
- Involvement of local communities and disbursement of funds

RED projects: A buyers market

Features of RED projects in the market

- Sizes range from 250,000 Ha to 2.5m Ha
- Project duration from 10 years
- Majority have involvement from a multilateral/international conservation organisation
- Typically in areas of high biodiversity value
- Majority packaged under “VER” label with some also creating new units to sell (estimates range from 10-500m tCO₂e over the life of the project)
- Combinations include RED + A/R and RED + SFM
- Straight POD arrangements are not the norm!

What would buyers be looking for?

- Sufficient scale to ensure integrity of area under management
- Lengthy project duration
- Recognition by National and State Government of the “credits”
- Strong proof of local involvement and facility for disbursement of funds to compensate for option value of land
- Strong on-the-ground management capability to implement and monitor
- Area of high biodiversity value/ environmental service value, “charismatic value”
- Historical scientific data & monitoring
- “Credits” qualified under independent certification scheme
- Access to other asset classes and additional sources of revenue a benefit (i.e. CERs or commodities)

Given the proximity to the Bali COP, is there much incentive for “private” Carbon funds to invest in RED projects now?

Structuring RED projects

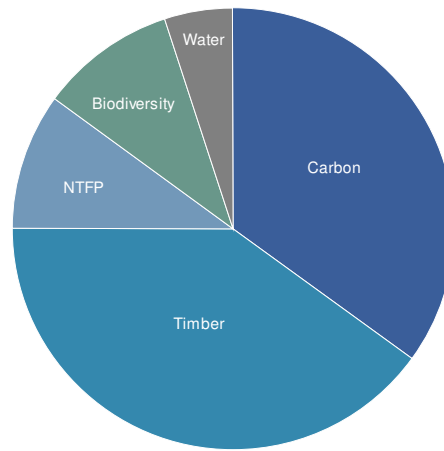
Some possible structures for buying credits from RED projects

Structure	Explanation	Benefits	Drawbacks
Contract structure			
ERPA	Typical structure where payment could be: POD (fixed or variable) or paid according to milestones.	Minimal capital at risk to buyer, particularly if POD (no payments until certified credits in buyers account).	May not be aligned with the timing of project's cash requirements. May not produce a sustainable cash flow to project; credits may have to be replaced/ re-purchased /re-issued.
Equity instruments			
Equity investment	Private equity investment in project entity or an SPV which will own the credits	Increased investor control, potential upside from rolling out and replicability of project. Greater likelihood of receiving return from other project activities.	Most risk to investor.
Debt instruments			
Bond structure	Periodic payments made to the project entity. Returns in the form of credits/ money returned at agreed time.	Steady flow of capital to project; paid in instalments so can be closed if not working.	"Double impact" if no CERs are returned and some of the money has already been released.
Drawdown facility <i>(can also be part of an equity package)</i>	Facility established for project developer to take sums of cash when they fulfil certain milestones.	Performance based payments – ensures no money goes out until milestone is reached.	Capital may still be deployed before credits are actually generated. Also not suitable if there is very large and early capital required.

One solution is not to rely purely on carbon or payments for environmental services but to have a mix of asset classes...

Final comments

Having a mix of asset classes within a single project might reduce risk...



- Products from using such a structure might include:
- Tangible assets (i.e. commodities such as timber)
 - Energy products
 - Derivatives

Further comments

- Requires an integrated approach to find a balance between returns, rural development and environmental integrity
- Might require synergistic instruments;
 - ▶ Microfinance
 - ▶ Insurance
- Not simple!

Contact Climate Change Capital



Tanja Havemann

Associate, Carbon Markets

Climate Change Capital

3 More London Riverside

London

SE1 2AQ

United Kingdom

Tel: +44 (0)20 7939 5000

Fax: +44 (0)20 7939 5030

thavemann@c-c-capital.com

www.climatechange-capital.com