

# International Workshop on Nested Approaches to REDD+

Innovative Finance: Dealing with Risk

Forest Trends & Climate Focus

March 2011



## Risk Mitigation: Key Assumptions

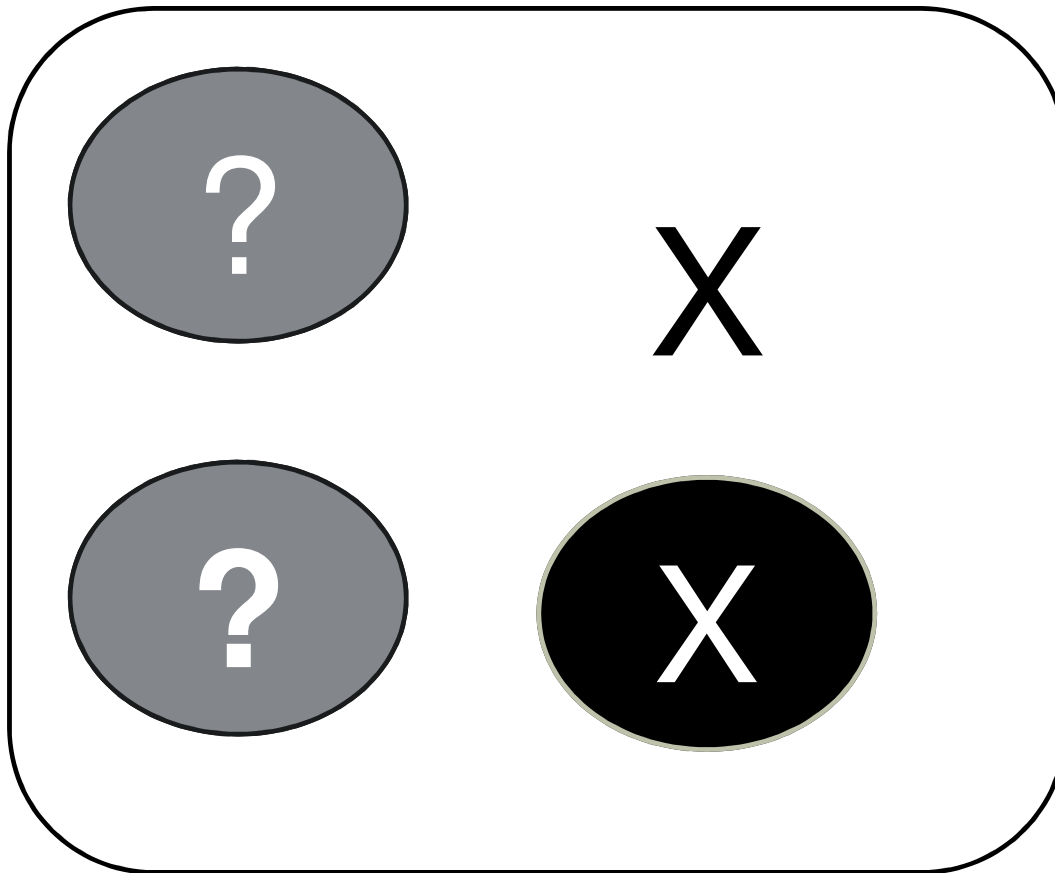
- Need both public and private sector
- Many potential options for private sector engagement
- Private investment into nested projects important
- Need to align both “bottom up” and “top down” policy signals
- Private capital markets are agnostic to “cause” of REDD
  - capital will go where risk-adjusted return is highest
  - need to reduce risk (and return) to move from speculators to institutional investors
- Environmental integrity essential for market:
  - Does environmental integrity have to suffer to attract scaled private sector investment?
- New “asset” being created by policy
  - Extent to which private sector invests in REDD asset depends on the policy design



# Key Risks

- Project Performance
- Counterparty Credit
- Enforceability of Contracts/Dispute Resolution
- Currency
- Market
- Sovereign/Rule of Law/Political
- Policy
  - Permanence
  - Leakage
  - Land Rights/Property Rights
  - Carbon Rights
  - Indigenous Rights
  - MRV
  - Reputational
  - Lack of Policy creating demand

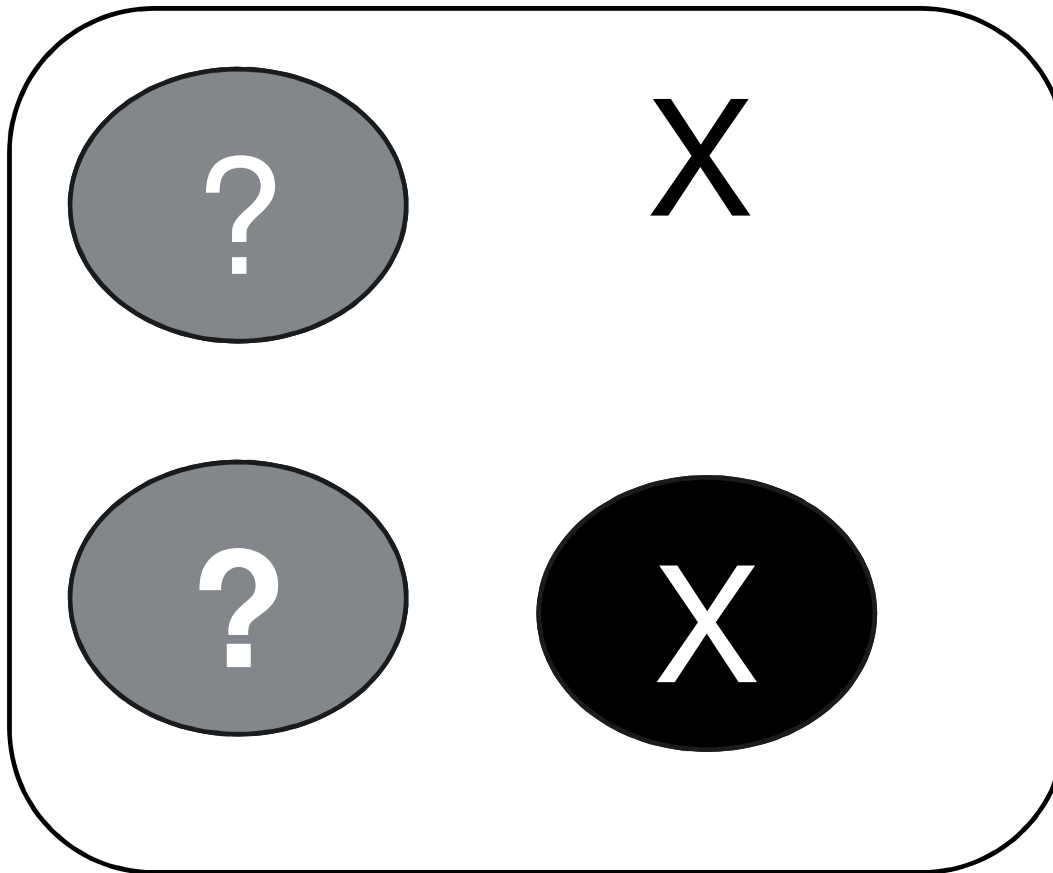
## Risk Mitigation: What happens if project performs and government does not?



- No new credits issued by Crediting Authority
- If project is not compensated, no scaled private sector investment
- Need to reconcile

Thanks for the graphics Bob!

## Risk Mitigation: What happens if project performs and government does not?



- Not a one-size-fits-all
- Set clear rules as part of bi-lateral agreement
- Tap into risk mitigation options

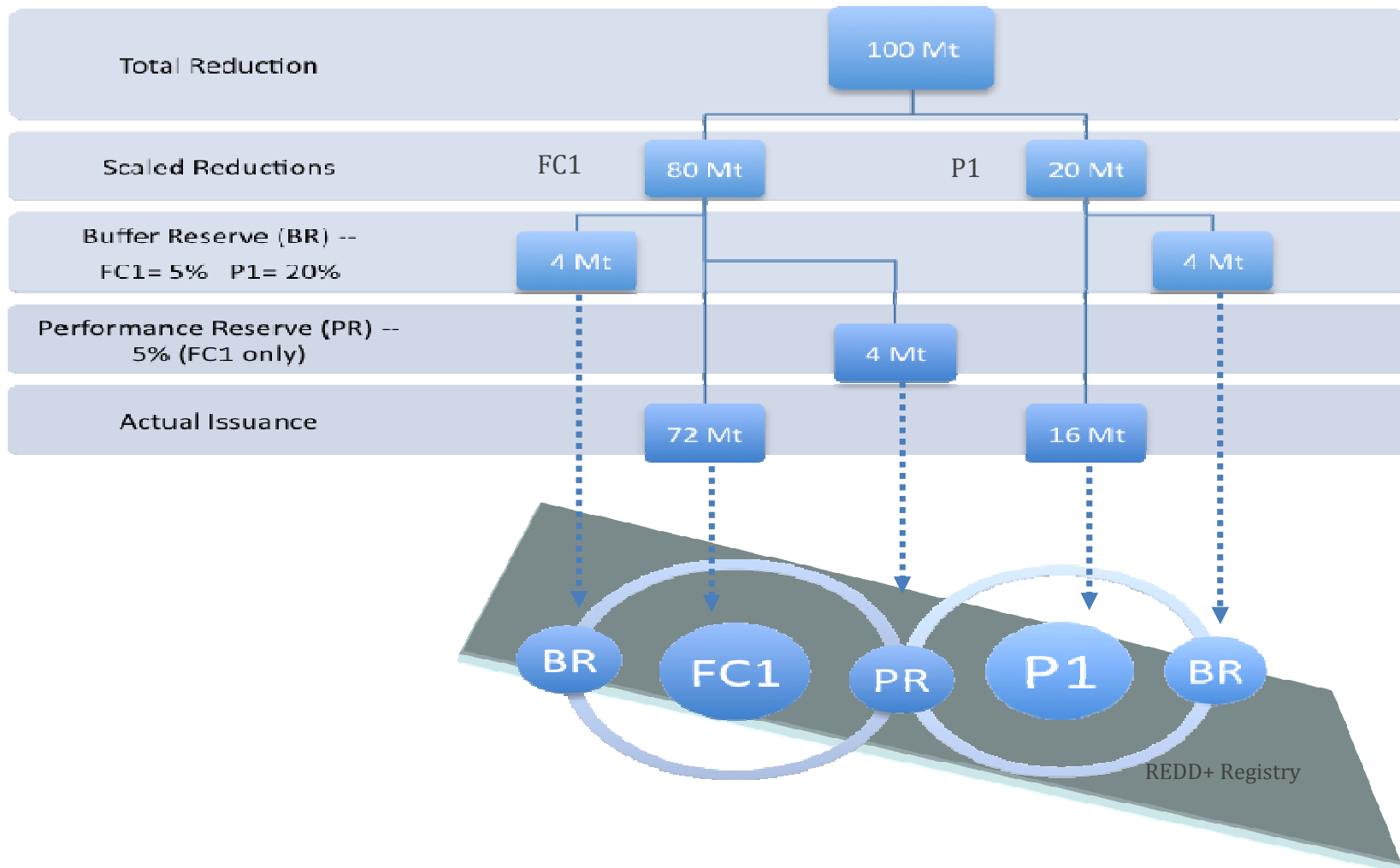
Thanks for the graphics Bob!



# Risk Mitigation: Menu of Options

- Performance Reserves
  - National, sub-national, project
- Insurance
  - Private products
  - MIGA-like product adapted for REDD
- Global fund
  - How funded
  - Provide replacement credits
    - Where sourced?
  - Provide financing compensation
- Replacement REDD credit purchases
  - Financial assurance from project sponsor

# Nested Example: Both Actors Perform



Thank you

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