

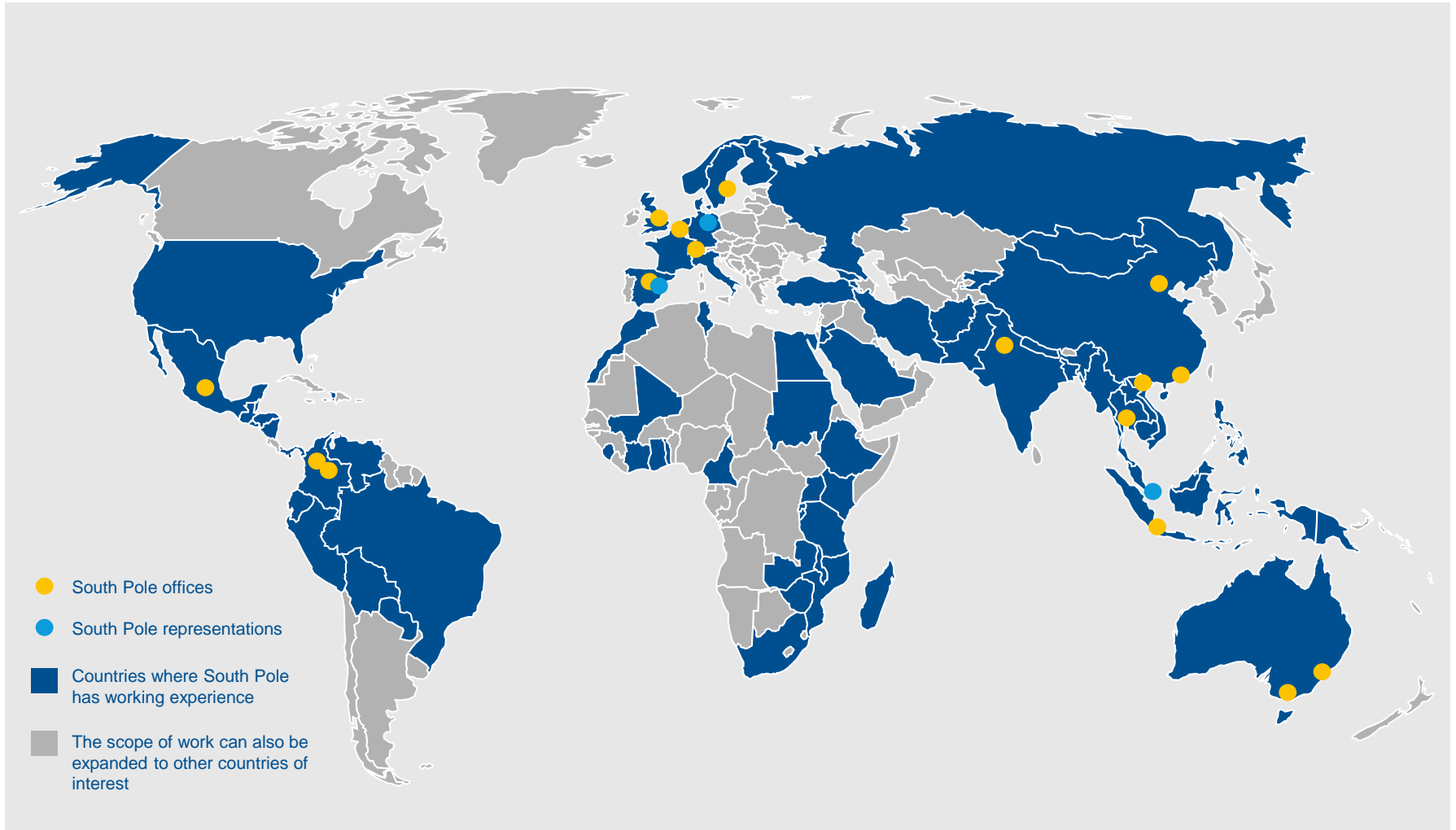
# 5<sup>th</sup> Credit Suisse Conservation Finance Conference

## Innovative financing strategies to improve life on land

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**Renat Heuberger, CEO South Pole**  
Jan 10, 2018

# South Pole: Global Experience in Project Design, Development, and Finance



# Conservation Finance: Key Barriers

## Project design:

- Typically covering large areas
- Multiple stakeholders involved
- Unclear or complex land rights / concessions / permits
- Very long time-horizons. Issues of permanency



## Business case:

- Business cases difficult to shape: What exactly is the investable instrument?
- Bankability of underlying business case
- Scalability of underlying business case
- Counterparty risk
- Currency risk

→ Can be addressed by “Payment for Environmental Benefits”

## 2 Drivers to Enhance Payment for Environmental Benefits

### Corporate Sustainability Targets:

- Clean supply-chain targets
- Zero-deforestation commitments
- Water Stewardship targets
- Science-based targets (SBT)
- Carbon neutral targets

### Government compliance schemes:

- Australia, Emission Reduction Fund (ERF)
- Colombia – Carbon Tax and Offset Scheme
- International Aviation – Carbon Offsetting and Reduction Scheme (CORSIA)
- Article 6.2 / 6.4 of the Paris Agreement



# L'Oréal:

## Peatland Restoration in Supply-Chain, Indonesia

### Goal

- Commitment: Carbon-balanced by 2020
- 400'000 tCO<sub>2</sub>e reduction with projects in l'Oréal supply chain / communities in surrounding landscapes

### Strategy

- Feasibility studies across all key commodity supply chains: palm oil, patchouli, rapeseed and coconut
- Identification of project options, cost-impact analysis
- Establish supplier– purchaser relation

### First project: Peatland restoration, West Kalimantan

- Rewetting, fire prevention, and reforestation (mix of replanting and natural regeneration) of degraded peatlands on the concession area of one of L'Oréal's suppliers
- Total project area 2,600 ha, of which 2,000 ha will be rehabilitated and 600 ha allocated to livelihoods activities. Total of 118,000 tCO<sub>2</sub> carbon gains
- Financial model: 7.30.- EUR/tCO<sub>2</sub> (total volume EUR 864,000), upfront payment of 27.5%, 7.5% during the second year, 65% upon delivery of carbon gains)



L'ORÉAL

# Coop Switzerland: Conservation Finance at the Origin of the Crop

## Challenge

- Unsustainable land use & deforestation
- Poorly functioning sewage treatment
- Large abstractors (farms, geothermal)

## Goal

- River basin reforestation 800-1'000 ha
- Corporate Water Stewardship (CWS)

## Multiple benefits

- Water risk reduction
- GHG emission reductions for COOP
- Shared value: revenue, food security

## Financing and partners

- Funded by GIZ and Coop
- Co-finance local flower farms, farmers
- Co-finance Imarisha Naivasha
- Kenyan Forestry Service
- WWF, WRMA





# Australia, ERF Fund. Example: Adopting Sustainable farming practices

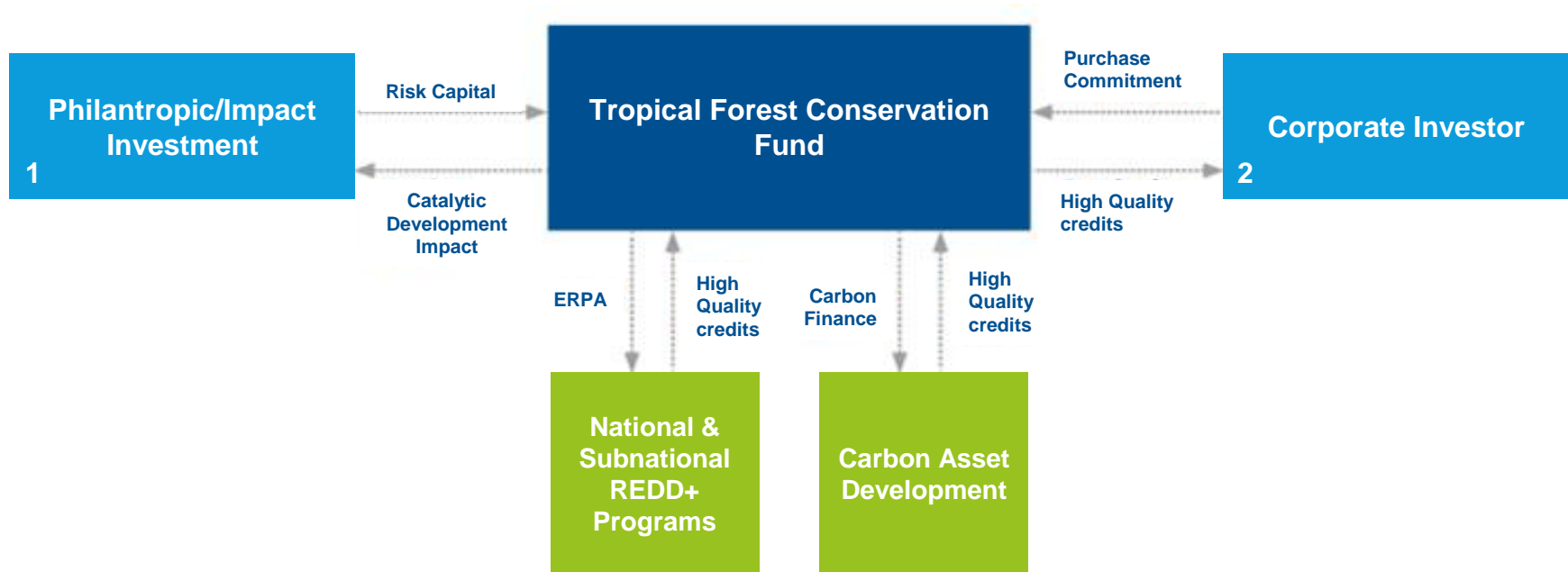
Regeneration of native forests on Australian farmland. The local environment has long suffered from grazing and irrigation pressure, invasive species and erosion. Revegetation projects such as this one lead to improvements in local and regional environmental health.

## ERF results:

- Fund size 2.55 bn AUD
- 189m tons CO<sub>2</sub> emission reductions contracted, thereof 122m regeneration
- Average price AUD 11.83 per ton CO<sub>2</sub>
- approx. 1.5 bn in payments for ecosystem service payment, leveraging a multiple of private sector investment



# CORSIA Compliance (upcoming): Tropical Forest Conservation Fund

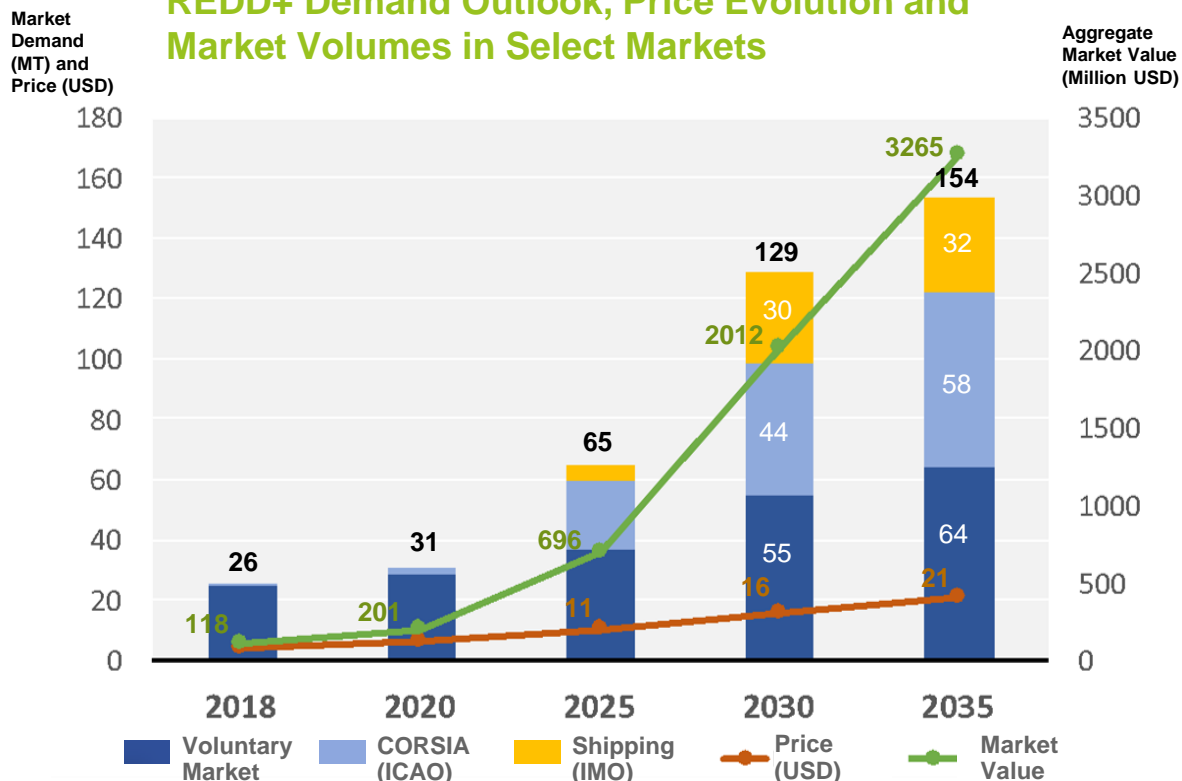


- |   |   |
|---|---|
| 1 | <ul style="list-style-type: none"> <li>• Mission-driven capital seeking catalytic development impact/ environmental market creation</li> <li>• Potential off-take guarantee/ floor-price for the credit if no market materialises (GCF?)</li> </ul> |
| 2 | <ul style="list-style-type: none"> <li>• Pre-compliance investor (airlines, fuel suppliers, etc. – price hedge and offset quality)</li> <li>• Corporate investors (credits as an investment ...)</li> </ul>   |
| 3 | <ul style="list-style-type: none"> <li>• Governments seeking additional international private sector investment for domestic forest protection</li> <li>• Development of nested/ jurisdictional REDD+ programs</li> </ul>                           |
| 4 | <ul style="list-style-type: none"> <li>• Reforestation/ Afforestation projects</li> </ul>   |



# Summary: Upcoming compliance markets and voluntary climate action create significant potential for forest conservation finance

## REDD+ Demand Outlook, Price Evolution and Market Volumes in Select Markets



- Forests offer the needed scale for emission reductions
- Voluntary commitments and upcoming compliance markets are considered major drivers of future REDD+ demand
- Political and regulatory uncertainty challenges early investment at scale in forest carbon credits
- Innovative structures and financing partnerships are needed to unlock investment in forest conservation/ protection/ reforestation

Source: Code REDD (2017), REDD+ Market Review  
 MT = Megatonnes

South Pole

# Thank You!

**[southpole.com](https://southpole.com)**

**Renat Heuberger**

[r.heuberger@southpole.com](mailto:r.heuberger@southpole.com)

**Offices worldwide**

Bangkok, Beijing, Berlin, Bogotá, Hanoi, Jakarta, London, Madrid, Medellín, Melbourne, Mexico City, New Delhi, San Francisco, Singapore, Stockholm, Sydney, Valencia, Zurich.

