

Innovative Sustainable Finance for the Global Tiger Initiative

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Concessional Finance & Global Partnerships



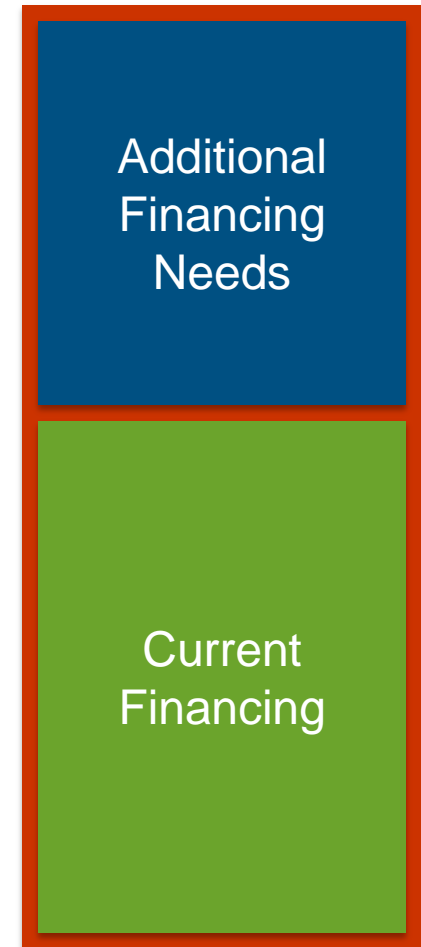
Program

- What is innovative sustainable finance?
- Recap from Kathmandu
- REDD+ for tiger conservation
- World Bank as partner in innovative sustainable finance

Innovative sustainable finance can help to:

- Generate **additional** development finance by tapping new sources; and/or
- provide **tailored financial solutions** to specific development challenges.

Most financial innovations involve combining financial instruments into a new “package” or applying existing instruments to a new context/setting such as a new sector, country or region.



Recommendation 10: Adopt innovative sustainable mechanisms to finance wild tiger conservation

TO DOS:

- ▶ **Pilot in one TRC**
- ▶ Long-term sustainable financing strategy

OPTIONS:

- Biodiversity investments
- Voluntary and mandatory levies
- Bond issuances
- Trust funds
- **REDD+**

NOT TO FORGET:

Options that increase the efficiency of financing and foster results

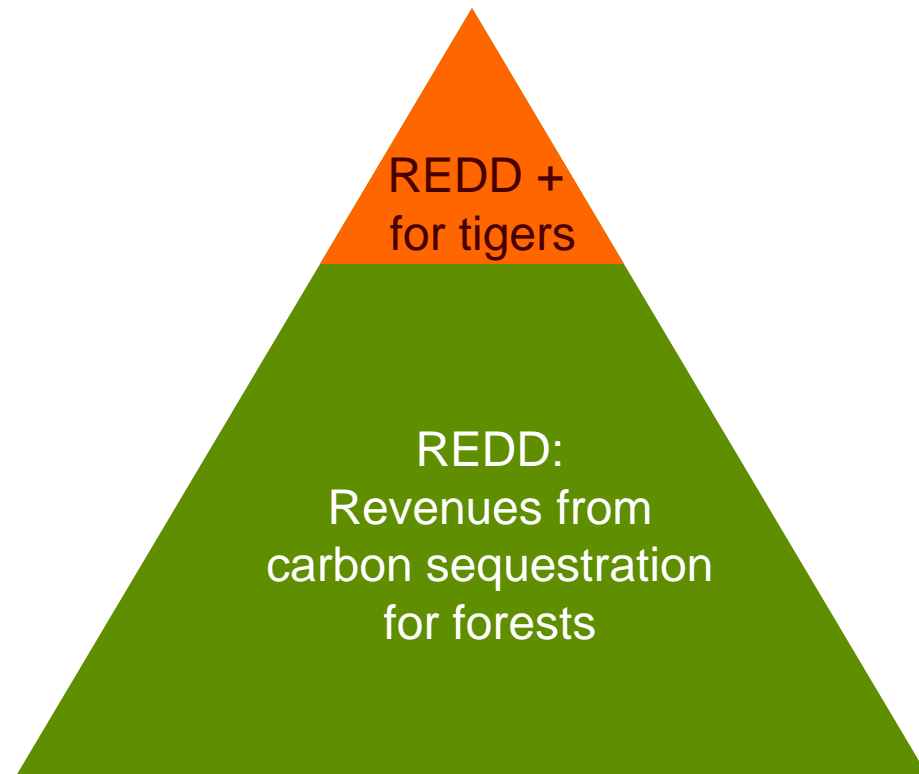
EXAMPLES:

- Insurance against loss of livestock,
- environmental mortgages

Source: Saving Wild Tigers: Kathmandu Summary Document

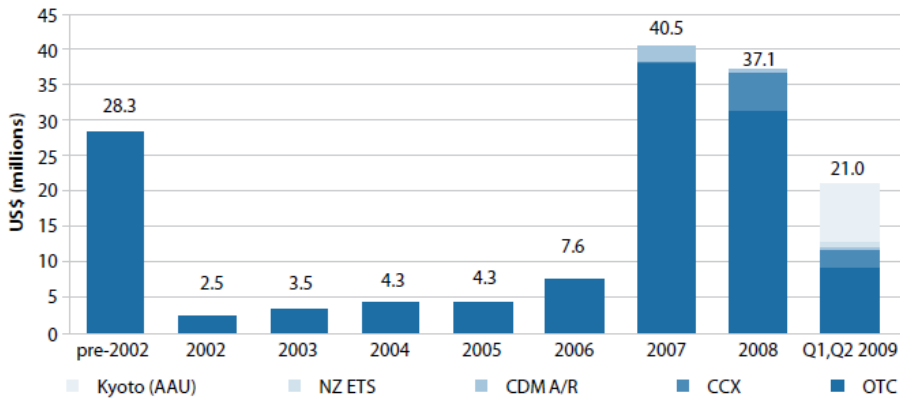
REDD+ for tiger conservation

- Voluntary vs. compliance markets
- Synergies between forests and tiger conservation
- Interim financing required
- Issues: political, institutional, legal uncertainties for compliance market
- Uncertain revenues from monetizing emissions permits

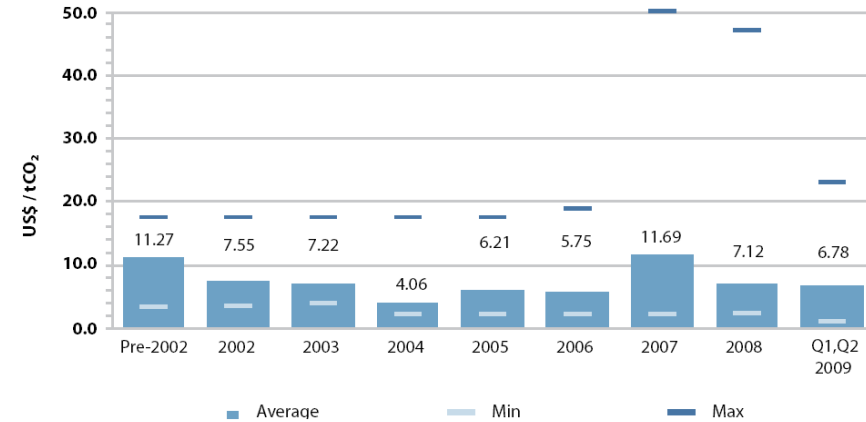


Forest Carbon Markets are Growing

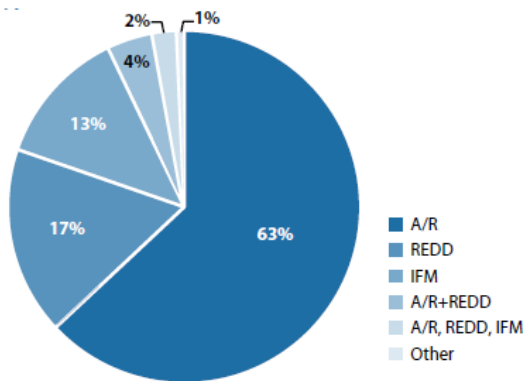
Market Value



Price Average and Range*



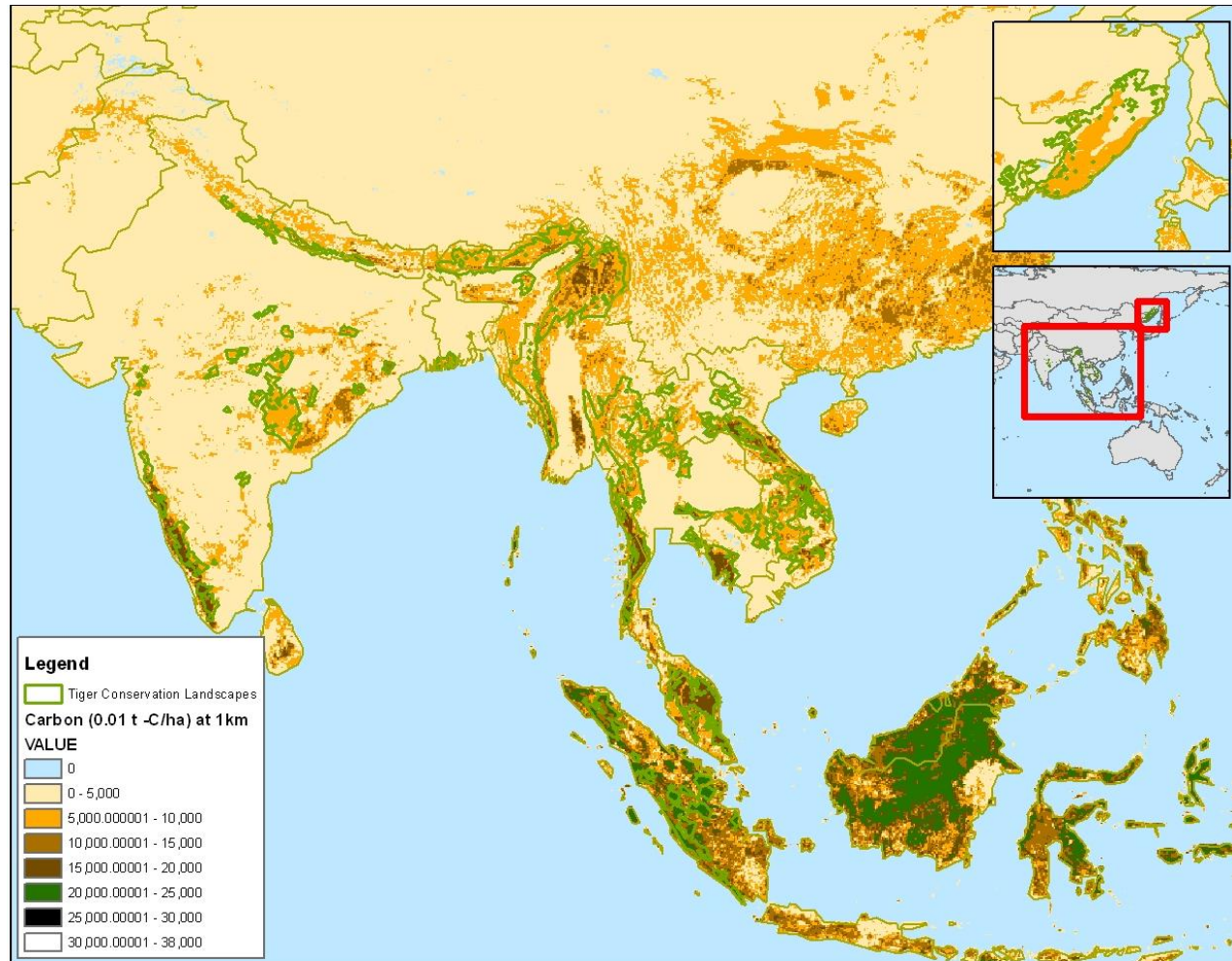
Total Volume by Project Type



* OTC only

Source: State of the Forest carbon Markets 2009, Ecosystem Marketplace

Many TRCs have great potential of producing carbon permits

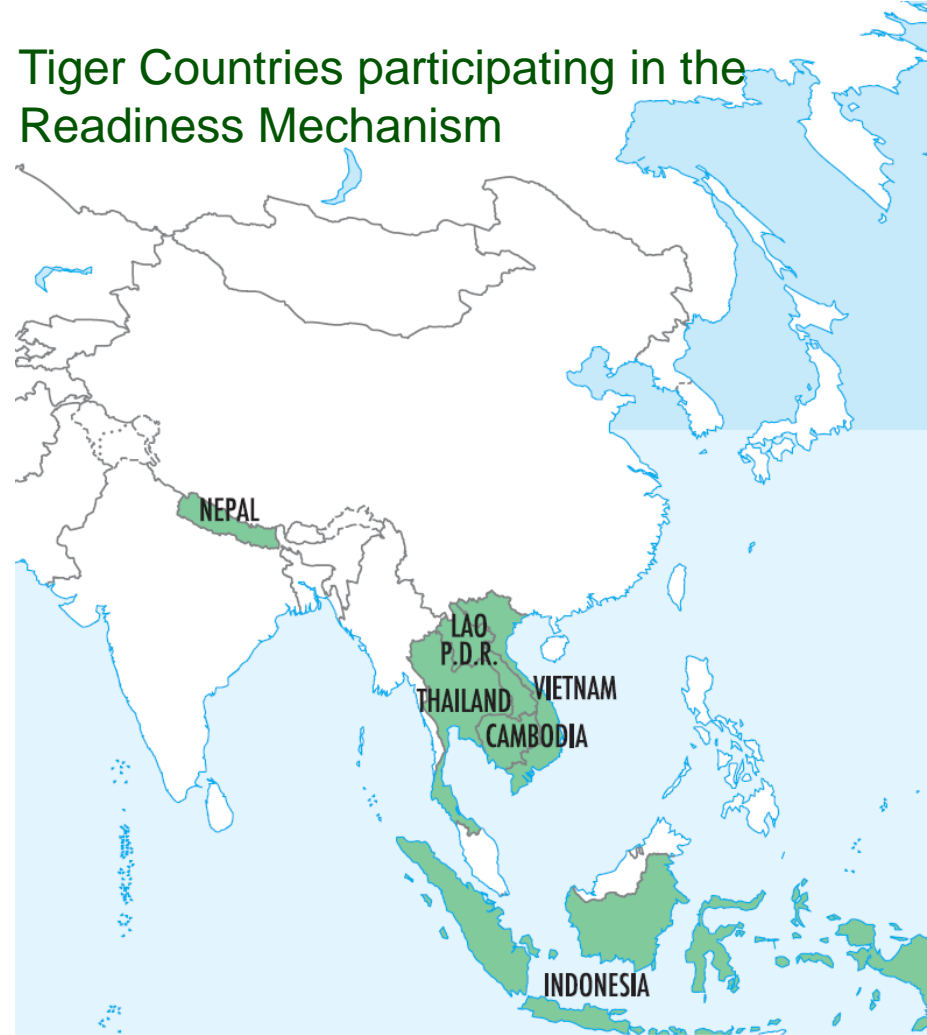


Above and Below-Ground Living Biomass. Ruesch, Aaron, and Holly K. Gibbs. 2008, <http://cdiac.ornl.gov/>

Tiger Countries participating in the Forest Carbon Partnership Facility (FCPF)

- **Readiness Mechanism**
Assisting 37 countries preparing for REDD.
 - i. REDD strategy and policy framework
 - ii. Reference scenario for emissions;
 - iii. National monitoring, reporting and verification system
- **Carbon Finance Mechanism**
Approximately five pilot countries.

Tiger Countries participating in the Readiness Mechanism



Examples for REDD projects in TRCs

Cambodia - Seima Protection Forest and the Northern Plains (WCS)

Indonesia - BBS-BBR landscape (WCS)
- Berbak, Jambi Province, Sumatra (ZSL)

Laos - Nam Et Phou Louey and Bolikhamxay (WCS)

Nepal - Dang, Banke and Bardia (WWF)
- Terai Arc Landscape (WWF)

World Bank as partner in innovative finance

- **Support pilot** with know-how and convening power
- Collect and disseminate **lessons learned**
- Scale-up: Build and strengthen **national systems**.
- Link biodiversity conservation to the potential of generating livelihoods for **the poor and vulnerable communities**

Backup slides

Experience with innovative fund-raising: 2000-08

- Innovative fund-raising efforts at the global level yielded an estimated US\$57 billion, or about 4.5 percent of total gross official development flows
- The bulk of these efforts involved *new* types of debt offerings by development banks
- Alternative sources of concessional flows -- including solidarity levies and contributions from emerging donors -- totaled at least US\$11.7 billion or 1.3 percent of gross ODA over 2000–08.
- Carbon finance and frontloading of ODA for global programs, while modest in volume terms, also grew.
- The World Bank Group accounted for more than a quarter of these innovative fund-raising efforts, primarily through the issuance of a variety of innovative bonds focused on climate-related goals (e.g., “Cool Bond”, “Eco Bond”, “Green Bond”) that targeted a new class of “sustainable investors”.

Innovative financial solutions

- Efforts involving the use of innovative finance to support **financial solutions** have demonstrated significant potential to help address development challenges:
- *Global Public Goods* (where needs extend beyond what market systems or individual countries can do on their own); main focus: climate change & health
- *Country-level solutions* to specific development challenges:
 - addressing risks and shocks: GDP-, commodity price- and inflation-indexed bonds, countercyclical loans, local currency bonds, currency swapscatastrophic risk insurance instruments
 - leveraging private sector resources: Public Private Partnerships (PPPs)
 - improving the results focus of development aid: various types of results-based financing mechanisms.

Revenues from tiger conservation

Ecotourism (e.g., Chitwan National Park, Nepal)

Park management

Payments for ecosystem services

Wildlife friendly certification

- + Sustainable
 - Direct link between sources and uses of finance
 - Can be implemented locally
 - Engages local communities and creates jobs
- Limited revenues
 - Complex implementation
 - Constrained by local capacity, infrastructure and international demand

Encouraging private sector investments

Impact Investing (e.g., in private park management, ecotourism; Asian Conservation Company)

Subsidies/co-payments (examples from the health sector – AMFM, AMC)

- + Can bring in smart money
 - Potentially engages local business community
 - Potentially substantial additional fund flows
- Depends on marketable “economic value” of tiger conservation
 - Not on the radar of the impact investing community
 - Competition with other causes

Internalising private sector externalities

Biodiversity offsets (e.g., Malua BioBank, Malaysia)

Biodiversity derivatives

Payments for environmental services (PES)

- + Flexible instrument
 - Creates a market for conservation efforts
- Requires relatively complex institutional and legal framework including enforcement
 - Requires methodology to measure relative losses/gains of species from individual action (measuring the “additionality”)

Financing and local communities

Insurance against loss of livestock (e.g., Namibia Human Animal Conflict Self Insurance Scheme, Pakistan's Project Snow Leopard)

Environmental mortgages

- + Can help engage local communities, creates awareness
- Supports local development and creates social impact
- Scale-up potential untested
- Implementation requires local , community-based capacity
- Limited potential to generate financial flows, at least initially
- Reliance on donor funding

New international public sources

Solidarity levies

Auctions/sales of carbon permits

- + High revenues (hundreds of millions)
Low transaction costs (low one digit percentages)
Technically feasible and technical implementation relatively fast (1-2 years)
- Need for strong political sponsorship (and creating political consensus is time consuming)
Competition for resources with other sectors

Voluntary contributions

Fundraising campaign

- + Feasible, creates awareness
- High transaction costs, low predictability and sustainability

Blended Value Products

- + Feasible, creates awareness
- Somewhat limited revenues, low predictability

Voluntary Solidarity Contributions

- + Creates awareness, potentially high revenues (hundreds of millions)
- Low predictability, limited experience of feasibility

Debt-related Instruments

Debt-for-tiger swap

- + Feasibility proven in tiger countries
Pilot debt-for-species swap (Germany)
- Depends on donors and countries willingness to engage in swaps
Depends on existing stock of debt

Buy downs

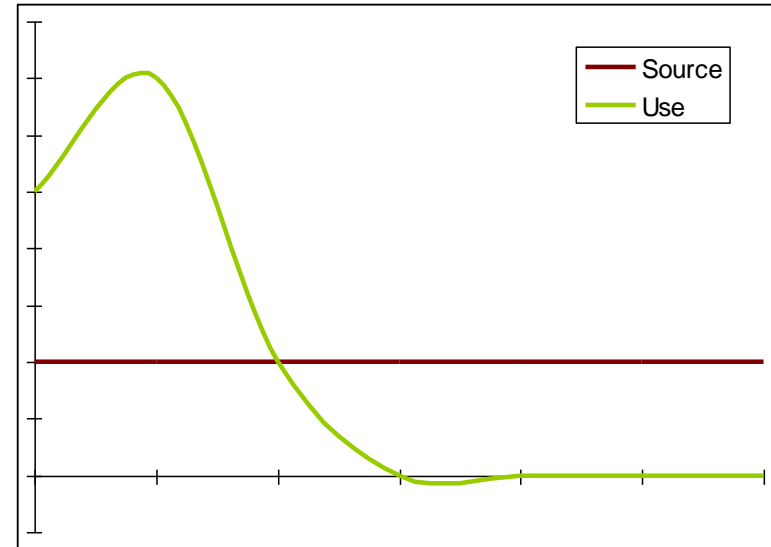
- + Potentially supports directing aid towards forest protection and tiger conservation
Can be designed performance-based
- Depends on countries willingness to take loans for tiger conservation
Needs development bank to engage in buy-down

Designing a “Tiger Bond”

- **Frontloads** future funds and makes them available now (at the expense of future funding)
- Justified for **bridge funding** (and for investments with sufficient “returns”)

→ underlines urgency

- + Flexible and predictable
- Not sustainable
Costly



Options for designing a “Tiger Bond”

		Issuer			
		New Entity (SPV)	Multilateral Development Bank	National Government	Subnational Government
Repayment of Principal and Interest	Development Aid	Donor? (IFFIm)	Donor?	--	--
	Solidarity Levies, Sales of Emissions Permits	Predictability, time, risks to investors, -> costs?	Predictability, time, risks to bank?	Risks to government? Time? Costs? Countries?	Risks to Government? Costs? Time? Municipalities
	National General Budget	Regional bond?	(Green Bond)	Country priorities?	
	Subnational Budget	Regional bond?	Green bond for subnational lending? Too specific?		Local priorities?
	Revenues from conservation (with guarantee)	Volume? Predictability, risks to investors,-> costs?	Volume? Predictability, risks to bank?	Volume? Risks to government? Time? Costs? Countries?	Volume? Risks to Government? Costs? Time? Municipalities
	Revenues from REDD	Risks to investors,-> costs?	Risks to bank -> costs?	--	--

Options for designing a “Tiger Bond”

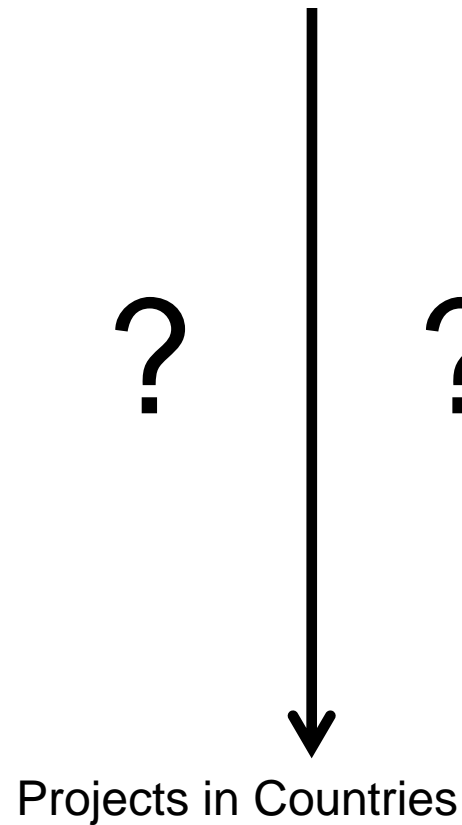
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Tiger bonds – further aspects and ideas

- Targeting the **sustainable investor** community
- Linking tiger bonds to tigers (**indexed bond**)
- Establishing **biodiversity as collateral** for lending

Potential Financing Channels

Funds from Donor, Private Sector, REDD, Bonds, etc.



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Funds from Donor, Private Sector, REDD, Bonds, etc.

COORDINATION

GOVERNANCE

Coordination
Forum

Multi-Donor
Trust Fund

Conservation
Trust Fund

Vertical
Fund

GTI
(today)

GEF

Projects in Countries

Creating trust funds

Multi-Donor Trust Fund

- + Broad experience
 - Facilitates longer-term planning
 - Relatively inexpensive way of managing funds (administrative cost smaller than 10 percent)
- Depends on donor contributions
 - Creates one more channel to be aligned with country programs
 - Proliferation of trust funds – impact on aid architecture

National or regional trust fund

- + Creates national or regional ownership and accountability
 - Could align efforts of tiger countries
 - Existing experience (Bangladesh, Indonesia, and Vietnam)
 - Facilitates longer-term planning
- Depends on donor contributions
 - Relatively expensive (10-20 percent administrative costs of budget)
 - Proliferation of trust funds – impact on aid architecture

Criteria/approach for analysing financing options

- General criteria
 - Value added
 - Country demand
 - Sponsorship
- Technical criteria
 - Technical feasibility
 - Ease of implementation (time, cost)
 - Effectiveness of use
 - Replicability
 - Scalability
- Financial criteria
 - Volume of potential flows
 - Transaction costs
 - Additionality
 - Sustainability
 - Predictability
- Double dividends
 - Creating awareness
 - Trans-boundary impact
 - Development and social impact