

Finance for Forests: Green Bonds

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Climate Bonds Initiative: Mobilizing debt for climate solutions

Mobilise: act as a market catalyst

- Develop policy proposals for government and finance industry
- Facilitate rapid and large-scale mitigation opportunities suitable for long-term debt finance
- Connect with market participants through Partners Programme, issuer-investor events and in-country market development teams

Inform: provide market intelligence through reports, bond coverage and data services

Develop trusted standard and criteria:

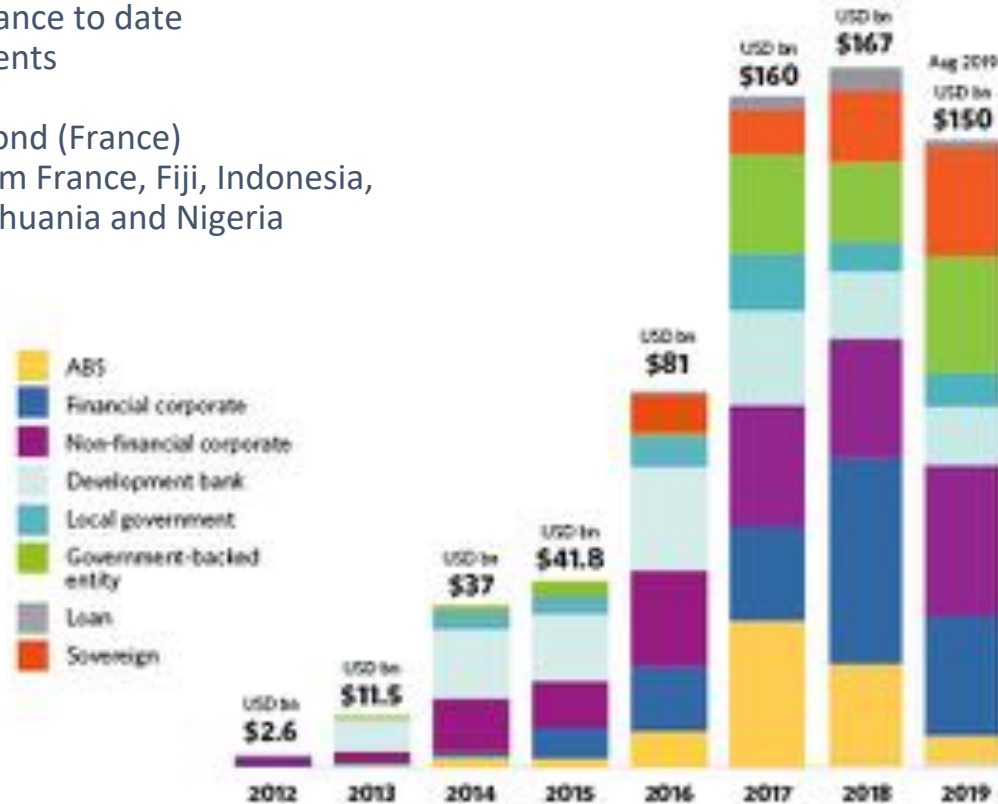
- Develop the Climate Bonds Taxonomy identifies low carbon assets broadly aligned with a 2C World
- Develop the Climate Bonds Standard which expands this to also include assets and activities delivering climate resilience
- Establish and manage the Climate Bonds Certification Scheme – a labelling scheme for green bonds



Green bonds growth

Key figures:

- **USD491 bn** green bond issuance to date
- **52 countries** from all continents
- **553** different issuers
- **USD 16.7bn** largest single bond (France)
- **8** sovereign green bonds from France, Fiji, Indonesia, Belgium, Ireland, Poland, Lithuania and Nigeria



Why is this relevant to an individual forestry operator?

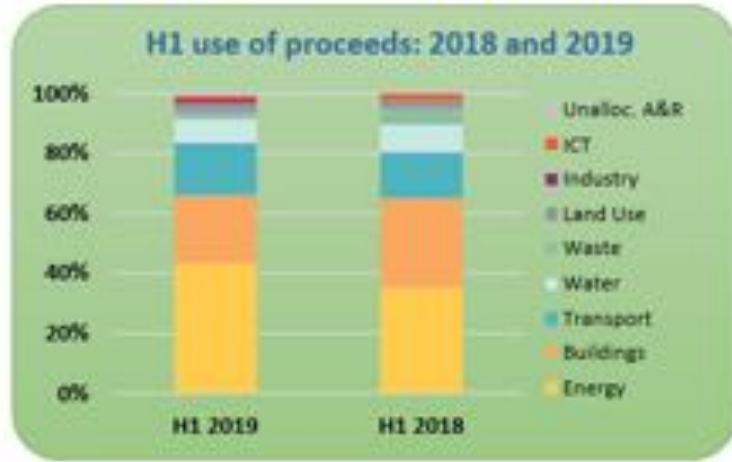
- Important to say upfront that can still access finance without applying a green label
- But, a green label confers a number of advantages for the issuer
 - Potential for better interest rates on the debt
 - Ability to attract new and wider pool of investors
 - At risk of stranded assets if *don't* take account of green aspects – physical climate risks, policy shifts, consumer trends etc

Examples of green bonds for forestry

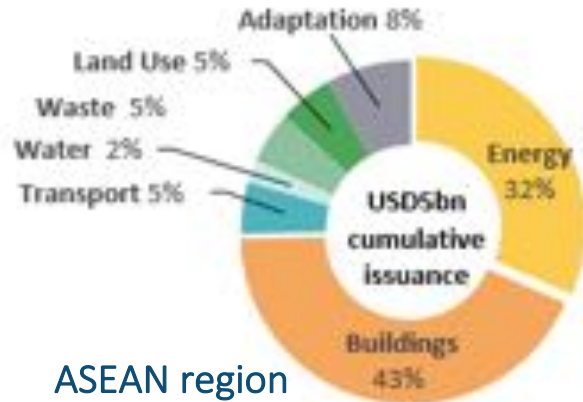
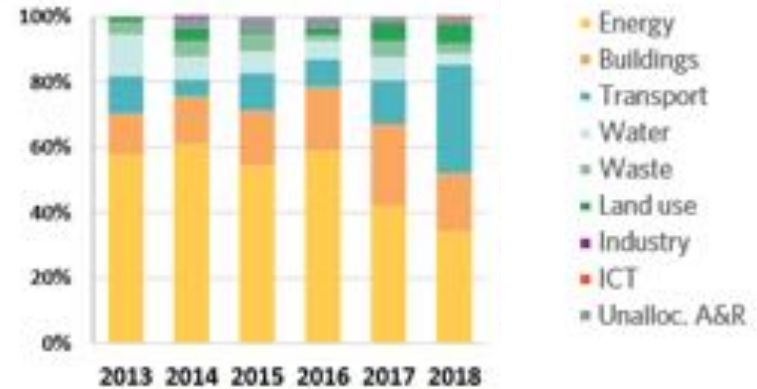
Issuer Name	Date of Issuance	Country	Value of bond	Use of proceeds
Landshypotek Bank	May 2018	Sweden	SEK5.2bn (USD605m)	Mixed bond for sustainable forestry, renewable energy and green buildings. The inaugural issue is backed by forestry loans on FSC or PEFC certified forestry assets
Sveaskog	Sep 2017	Sweden	SEK1bn (USD126m)	Proceeds will finance FSC certified forests and forestry related investments, projects and assets to promote low carbon and climate resilience growth through sustainable forestry and its related operations
Sveaskog	Mar 2016	Sweden	SEK1bn (USD116m)	General corporate purposes given it is a pure-play forestry company with all assets being FSC certified forests
Suzano Papel e Celulose	Sep 2017	Brazil	USD200m	Proceeds will be invested by Suzano in projects that feature positive environmental attributes and foster sustainable development
Suzano Papel e Celulose	Nov 2016	Brazil	BRL1bn (USD295m)	Proceeds will be invested by Suzano in projects that feature positive environmental attributes and foster sustainable development
Klabin	Oct 2017	Brazil	USD500m	Mixed bond for FSC certified new planting and replanting activities, restoration of native forests, renewable energy, clean transport, energy efficiency, waste management, water management, circular economy products and adaptation
Martha's Vineyard Land Bank	Mar 2017	USA	USD20m	Preservation of woodland for biodiversity
Martha's Vineyard Land Bank	Nov 2014	USA	USD35m	Land acquisitions to protect biodiversity and woodland

But agriculture and forestry claim only a small market share

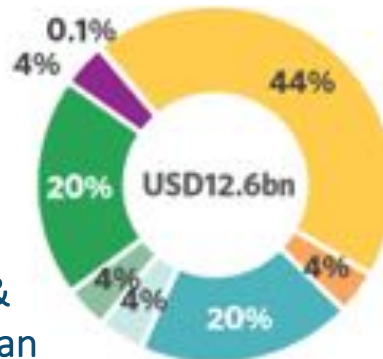
Global



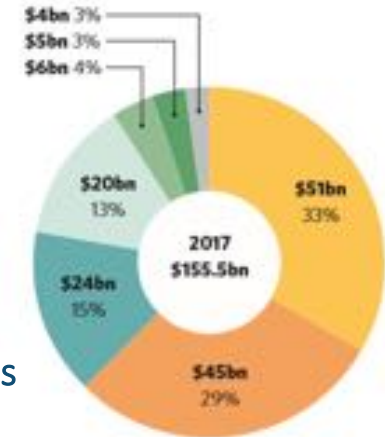
Europe



LatAm & Caribbean



Nordics



In theory, forestry a perfect fit for the green bond market, but...

- Arguably forestry is inherently green as it can provide a range of ecosystem services e.g.
 - Sequestering carbon, preventing soil and coastal erosion, improving soils, holding back floodwaters, creating wildlife habitats etc
- And forestry operations have a number of characteristics which many bond buyers (including pension funds) like:
 - Forests can be exceptionally long-term assets, they are a proven ‘technology’, and they have the potential for uncorrelated income from timber and land sales
- But, there are ways forestry holdings could be run that would mean they don’t deliver their green potential e.g.
 - Uprooting primary forests to create plantations, uprooting biodiverse landscapes to establish monocultures, over harvesting of timber, introducing invasive and/ or resource intensive species

Need for discussion and consensus on best performance

- Some forestry green bonds have attracted controversy for a range of reasons including
 - Misunderstanding of the nature of the bond market
 - Lack of consensus on key practices e.g. use of GMOs
 - Difficulty in demonstrating green impacts
- Issuers *and* investors need guidance to avoid such controversy, in form of eligibility criteria that screen for operations that are:
 - Sequestering carbon
 - Are climate change resilient
 - Use land sustainably
 - Do not harm the climate resilience of the (eco, social and economic) systems they are part of
- Development of such criteria reduces the reputational risk of low green credibility that individual bond issuers would otherwise face – in part transferring it to those developing the criteria

How this plays out in practice – over the last 5 years CBI has

- Been developing such screening criteria for various sectors on a rolling basis:
 - Developed: solar, wind, transport, buildings, geothermal energy, water infrastructure, forestry, marine renewable energy
 - In development: hydropower, bioenergy, waste management, shipping, agriculture
- Established the Climate Bonds Standard and Certification scheme through which bond issuers can authenticate compliance with those criteria
- Achieved 15%+ market penetration, i.e. by 2018, 15% of green bonds issued globally were certified under the Scheme, despite having only limited sector coverage

And

- We've seen a trend amongst regulators, governments and others who are increasingly seeking to establish climate/ green/ sustainability criteria and taxonomies to bring credibility, transparency and consistency to green finance markets