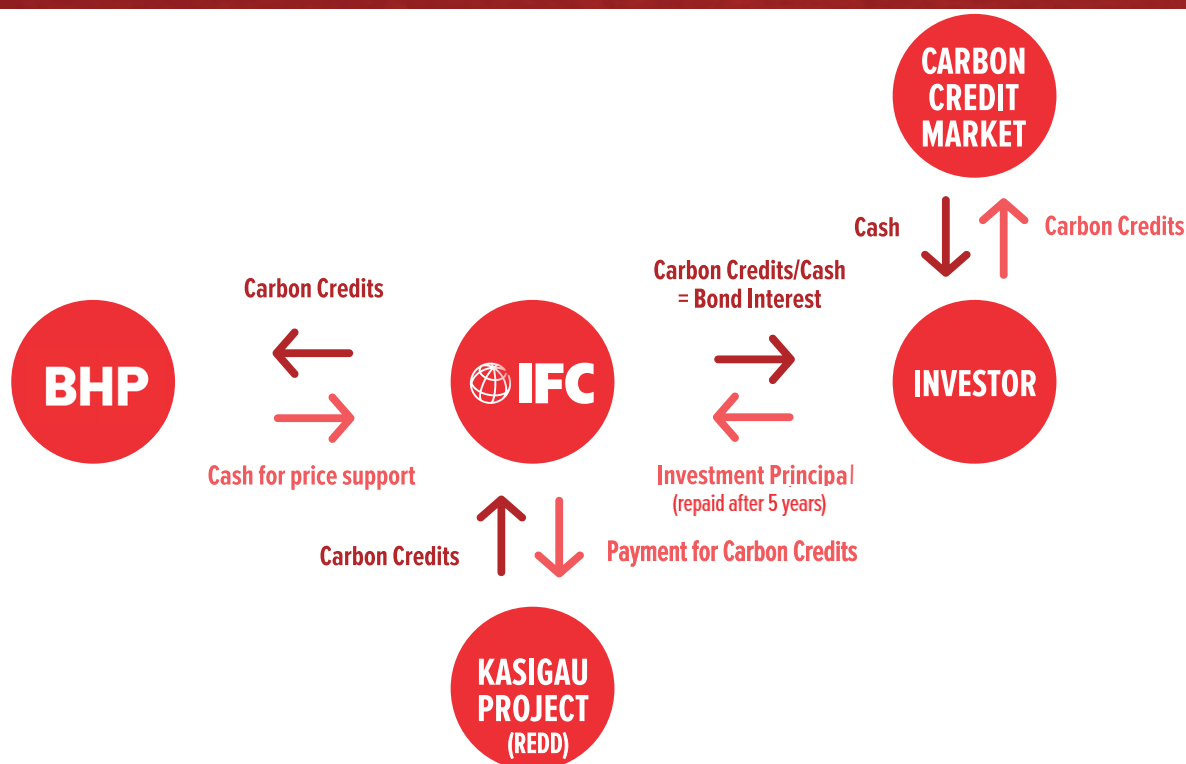


# FORESTS BOND

## FOREST CONSERVATION THROUGH FINANCIAL INNOVATION



Private-sector investment in forest carbon or the broader benefits forests provide has been limited because well-established markets do not exist. Between 2006 and 2014, less than 10% of the USD \$17-33 billion needed to halve deforestation was invested into forests. The vast majority of these funds, nearly 90%, came from the public sector<sup>1</sup>.

For years, one solution, REDD+, struggled because

<sup>1</sup> Johan Eliasch, "Climate Change: Financing Global Forests" (2008).

the lack of a carbon market left it dependent on voluntary action and without the certainty needed to attract private funding.

With this backdrop, BHP undertook an assessment of the opportunities available to enable the flow of private sector finance into REDD and through this saw an opportunity to work with the International Finance Corporation (IFC), a member of the World Bank Group, to develop a "Forests Bond" to raise

**In October 2016, the IFC issued a first of its kind \$152 million Forests Bond in partnership with BHP and with technical collaboration from CI and Baker McKenzie, in support of REDD efforts. The innovative Forests Bond unlocks private financing for reducing deforestation.**

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private sector finance to support REDD.

In the absence of a global market for both REDD+ and REDD credits, BHP plays a critical role by providing a price-support mechanism, which guarantees support for the REDD credits for the five-year life of the Bond.

The Forests Bond offers investors a choice between a cash or interest payment in the form of Verified Carbon Units (VCUs) from the Kasigau Corridor REDD Project in Kenya.

Investors may use these VCUs or sell them into the market. BHP's investment provides the price support

to ensure that the REDD project sells its carbon credits, guaranteeing support for forest finance.

Release of the Forests Bond garnered extensive interest, press coverage and recognition. Most recently, the Bond was awarded *Environmental Finance's* Sustainable Forestry Deal of the Year and was a finalist for The Financial Times Innovative Lawyers Awards. The Bond also confirmed private sector interest and demand in socially and environmentally conscious investments, given that the Forests Bond was oversubscribed by more than double its capacity.

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## WHY FORESTS: BHP'S MOTIVATION

As part its climate change strategy, BHP seeks to demonstrate the validity of REDD+ and the value it offers the private sector by focusing on governance, project support and market stimulation.

Acknowledging that greenhouse gas emissions will remain an inevitable part of its business even as low-emissions technology becomes more effective and commercially viable, BHP believes that identifying cost-effective and robust offsets is important to meeting future emissions reduction commitments.

Additionally, support for existing policy frameworks like REDD+ reduces the need for measures in the future that may prove to be more costly and disruptive to business operations.

## KASIGAU REDD PROJECT

The Forests Bond supports the Kasigau REDD Project in Kenya implemented by REDD project developer Wildlife Works Carbon LLC. Through this project communities that maintain their forests are able to profit from the services they provide. The project aims to achieve emissions reductions through a combination of forest protection and community development activities that support alternative livelihoods.

Forest protection activities include forest and biodiversity monitoring, funding for community wildlife scouts, forest patrols, social monitoring and carbon inventory monitoring. Community development activities include reforestation of Mount Kasigau, establishment of an eco-charcoal production facility, support for community-based organizations, and expanding an organic clothing facility.

For more information, please contact Jennifer Blaha at [jblaha@conservation.org](mailto:jblaha@conservation.org) Learn more: [www.conservation.org/bhp](http://www.conservation.org/bhp)

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