

How to make a business with Ecosystem Services

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ES – What is needed for private sector investment?

- 1) Why should the private sector care about Ecosystem Services?
 - Shouldn't everyone care about global (and local) commons?
- 2) And why should private actors invest in maintaining/enhancing ES?
 - I.e. Why should business pay for a public good?
- 3) How can a public good become a case for private investment?
 - I.e. How can ES become a commodity?

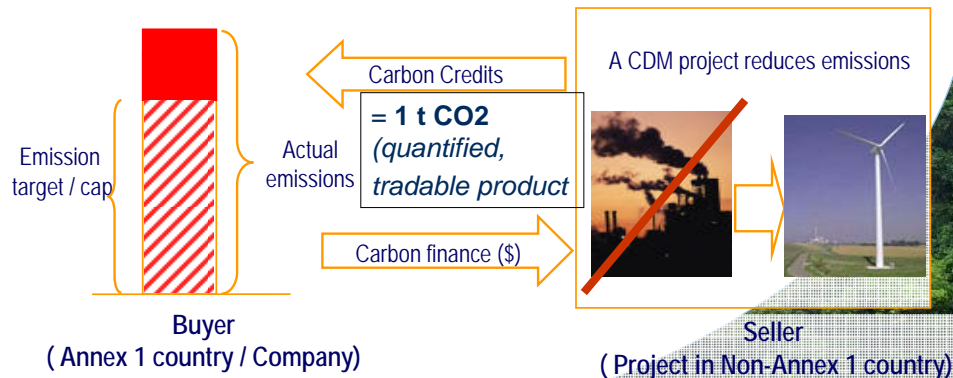
Some answers from the carbon markets

What created business interest in carbon (sequestration, emission reduction)?

- **Science & policy** defined a quantifiable product
 - 1 ton of carbon / CO₂
 - E.g. forests can provide the underlying service
- International and national **regulation** created demand for this product
 - E.g. through national limits on carbon emissions (Kyoto and EU Allowances (AAs, EUAs), National Allocation Plans)
- **Companies**, NGOs, research institutions, public agencies etc. developed technologies to supply the product
 - E.g. Emission reducing technologies, Reforestation, Avoided Deforestation

Background: Emission reduction projects (carbon offset projects), e.g. CDM

- Projects in developing countries (“Non-Annex 1”) can reduce emissions and sell carbon credits to Annex 1 countries
- Avoided deforestation currently not eligible under the CDM



Some answers from the carbon markets - What created business interest?

- But also **voluntary** demand for carbon reductions
 - CSR & PR, consumer conscience
 - Mainstreaming of climate change, e.g. Foodmiles
 - Pre-compliance “training” (not strictly voluntary)
- Supply follows and creates further demand
- However, important to note differences in market size:
 - Regulatory carbon markets: US\$ 32.2 billion in 2006
 - Of which US\$ 7.9 billion under CDM
 - Voluntary carbon markets: US\$ 92 million in 2006
 - less than 0.3 % of regulatory markets...

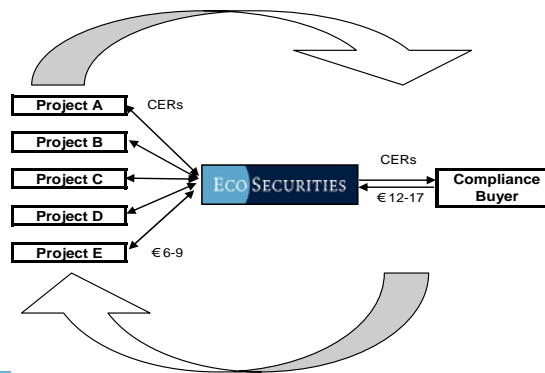
What else is needed for carbon (ES) markets to work?

- **Predictable regulatory framework**
- ... creating predictable **demand** for the ES product, e.g. carbon
- **Risk management** tools for
 - Project risk (affecting project performance, i.e. ES provision), incl.:
 - Technology risk (e.g. renewable energy, tree planting)
 - Project management (e.g. financial mgt)
 - Governance in country, political stability, judicial system etc
 - Policy risk (regulatory framework)
 - Market risk (carbon prices, demand)
- **Pioneers** – someone to stick out their neck (take a risk)
 - E.g. WorldBank Prototype Carbon Fund, BioCarbon Fund
 - EU (EU Emission Trading System)
 - Private investors, project developers, etc.
 - E.g. EcoSecurities

What else is needed - e.g. risk management tools

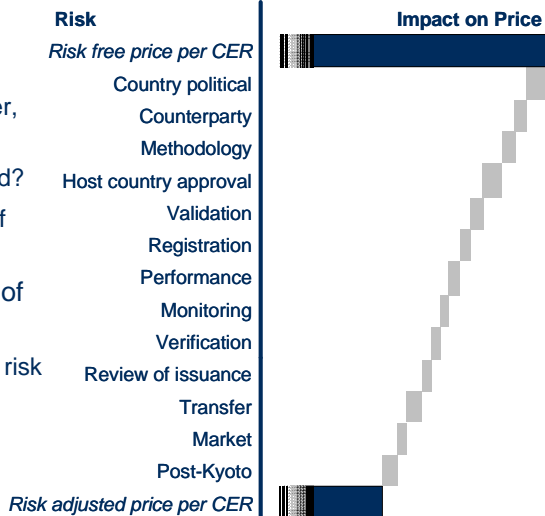
- Carbon due diligence: Standards
 - E.g. CDM, VCS, (CCBA), etc.
- EcoSecurities' portfolio approach

EcoSecurities is a leading originator and aggregator of carbon credits in the global carbon market



What else is needed - background: CDM risks and price

- Carbon sales contracts are usually forward contracts
 - Delivery risk – who bears what portion? (Buyer, seller, intermediary)
 - Price – how is risk reflected?
 - Price even lower in case of up-front payment
- How big are different types of risk?
 - Project risk & Governance risk
 - Regulatory risk
 - Carbon market risk
 - Policy risk



What does this mean for ES? Example: REDD

- We / the private sector needs
 - Risk management tools, information to calculate risk
 - Including governance (corruption), costs of implementation
 - Readiness funds for institutional capacity building
 - Some buyer commitment
 - E.g. EU for post 2012 carbon credits – also REDD ???
- Someone then needs to be brave and invest
 - Upfront finance is crucial because carbon credits are issued ex post, i.e. after emission reductions have occurred (and been verified)
 - Some certainty on the above makes bravery **more** rational

What does this mean for ES? Example: Biodiversity offsets

- Small and localised markets so far
- Some challenges
 - No defined quantifiable product
 - Little demand because of patchy regulatory forcing
 - Only little voluntary demands (e.g. mining companies)
 - No predictability of demand volume or type
 - High risk on all aspects (project, governance, market)

What could a division of labour look like for PES / IPES?

- **Public** (policy, governments, international agencies)
 - Regulatory demand has to be created for large scale markets; also needs to define product (demand for what?)
 - Pilot funds and some upfront payments
 - Capacity building and institutions design
 - Managing some risks, e.g. governance, regulatory framework
→ *Need not be international! See national schemes in Costa Rica etc.*
- **Private** (including NGOs)
 - Upfront finance = Investment
 - Implementation of projects / activities, i.e. supply
- **Jointly** (and including science)
 - Definition of product, methodological guidance
 - Risk management tools and information
 - Foster voluntary demand

Private sector is main implementer of activities, but needs clear incentives

- A few **voluntary pilot projects here and there are not going to change** the overall picture. **We need quantitative, top-down commitments by governments**
 - Unilaterally or as part of international agreement, which they may (or may not) transfer to industry
- **Clear product definition** and rules of engagement
 - 'Offsetting' system: define negative and positive activities
 - Quantitatively define equivalence between 'offence' and 'offset'
- **AND don't expect too much from PES**
 - Conservation needs additional incomes to be profitable
 - Sobering experiences from Land-use sector under Kyoto
 - Not every country is "Costa Rica" (governance capacity,...)

Is there a business case for poverty alleviation in ES markets?

- Mixed (and disappointing) experiences with the CDM
 - Investors prefer large-scale projects with high returns and established technologies (industrial gases, hydro-power,...)
 - Complex and bureaucratic standards increase transaction costs
 - High transaction costs deter from small community-based investments
- How to “commoditise” poverty alleviation?
 - Payments for emission reductions & maybe for biodiversity o.k., but for livelihood provision? (How could it be measured, how to set targets?)
- Danger of over-regulating ES markets
 - E.g. as it has happened for forestry CDM
 - Markets may not be the ideal approach for development benefits
 - However, private investment need not be via markets
- Voluntary carbon markets value (demand & price) development co-benefits
 - Different buyer motivation than in mandatory schemes

Is there a business case for poverty alleviation in ES markets?

- We need simplified and pragmatic approaches to implement pro-poor ES projects while safeguarding the ES provision (e.g. credible, verifiable carbon reductions)
 - Promising approaches via project bundling and “Programme of Activities” under the CDM (and small-scale methodologies)
 - Alternative approaches: E.g. aim for high transaction volumes that can be taxed with revenues used for targeted development interventions
- REDD is the most immediate (large-scale) ES opportunity with a large potential for poverty reduction
- **The Global Mechanism and EcoSecurities invite PEP to contribute to policy paper on REDD**
 - How to create benefits for poverty alleviation and rural livelihoods
 - How to address land degradation and its linkages with livelihoods



Thank you!

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Leveraging carbon finance for ES under a strategic partnership framework

EcoSecurities – GM Strategic Partnership Programme

- Global Mechanism aims to leverage funds for implementation of UNCCD
 - Combating desertification and land degradation
- Partnership implements projects with multiple benefits (UNFCCC & UNCCD)
- Examples: Multi-component projects (reforestation, agro-forestry & biomass energy) in Ecuador and Nicaragua

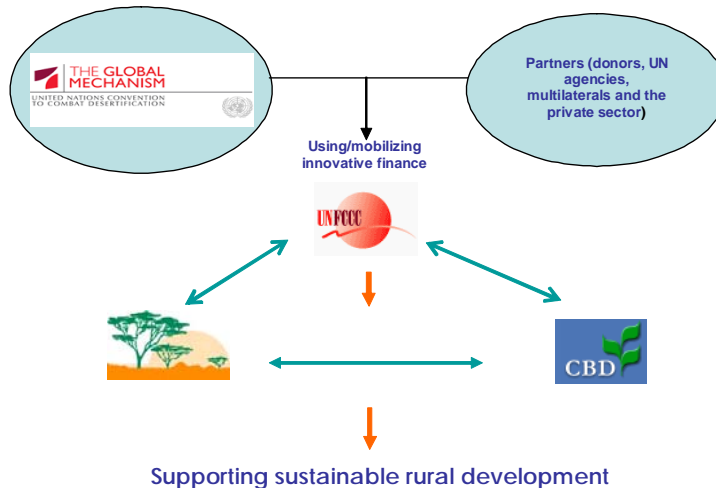


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Leveraging carbon finance for ES under a strategic partnership framework



EcoSecurities' portfolio

Carbon Credit portfolio at 5 September 2007 comprised of:

- **456** CDM projects
- Projects have the potential to generate over **142** million CERs
- **44** voluntary projects
- Projects have the potential to generate over **4.3** million VERs

Where we are



Headcount	
June 2005	27 employees
Dec 2005	90 employees
August 2006	178 employees
Dec 2006	209 employees

* No legal presence but EcoSecurities has entered into contracts with individuals to act as EcoSecurities representatives

294 projects under construction as of 5 September 2007



ECO SECURITIES

145 projects operating as of 5 September 2007



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Carbon credits - origination to commercialisation