

Business Line

Eco bonds, the way to go

Kumar Kakumanu



Money from bond issue could be used, for instance, to improve patrolling in the national parks. — Ch. Vijaya Bhaskar

Investors want returns. Eco-warriors want to preserve forests and prevent poaching. Issuing bonds is the answer.

September 27, 2013:

Billions of dollars are required every year to protect the world's biodiversity.

Hence, the ground reality is that the paltry annual amounts the states receive as part of Project Tiger are clearly insufficient to address the scale of protection needed by our forests. Moreover, in view of the deficit situation in the country, the prospects of sufficient funding for future forest conservation efforts look bleak.

Green Bonds

Like everything else in life, time is a concern here because the longer we wait, the more forests we lose. We cannot wait for the last tree to be cut before thinking about conservation.

To obtain, in a timely manner, the scale of finance needed to combat climate change, protect and manage forests, and maintain the country's natural capital, a mutually beneficial engagement with the private sector is a must.

That engagement can come in many forms — bonds are one option. By using public funds to support private sector investment in forests, bonds could leverage additional finance from global capital markets.

The Climate or Green Bonds are suited for providing the capital for the long-term environmental infrastructure required to build a low-carbon and climate-resilient economy in areas such as urban transport, renewable energy and waste management. The extra upfront investments are often balanced by much lower operating costs, particularly in the building, energy, industrial and transport sectors.

Similarly, an established market for forest conservation bonds helps better protect the forests by raising the necessary funds from institutional and other investors, such as pension funds, in return for a steady stream of revenue from forest conservation projects.

Given that the international bond market is estimated to be worth around \$80 trillion, forest bonds could be another weapon to wield in the fight against deforestation and poaching. Borrowing allows significant up-front investment in conservation-centric, financially viable projects that create jobs and give people better opportunities than felling trees.

Though links between ecosystem services and potential forest bond incomes are a key opportunity, the demand, in the Indian context, is uncertain. Although reducing emissions from deforestation and forest degradation (REDD)+ and

forest carbon markets are an important source of cash flows that could be used to back these bonds, at the present time they are neither reliable nor standardised enough.

Mainstream investors require both liquidity and commoditised products in order to participate in this market. The investment proposition must have tangible and attractive returns to investors. Governments or other prospective issuers of forest bonds will need to convince investors that the cash flows they plan to pay the bond back with are sufficiently secure, sustainable and predictable.

Eco tourism in Kenya

The basis of repayment of Government forest bonds is to be on proven and well understood forest-based revenues. World over, there are many precedents of governments issuing revenue-backed or tax bonds in other sectors, particularly at the state or municipal level to raise finance for infrastructure projects such as railways, healthcare and toll roads. In the Indian context, the policies the government implements need to be primarily responsible for generation of forest-based revenues to pay back the bonds. Government support in the form of policy guarantees, tax incentives and credit enhancements will be essential for a stable market.

One such government policy support could be in the form of toll fees on some of the high traffic forest highways in ecologically sensitive areas. There is potential to issue long-term bonds worth about Rs 1,000 crore backed by highway fees alone to pay for upfront investments in wildlife protection, rehabilitation and to reduce the negative effects of vehicular traffic on biodiversity.

Another potential investment area is development of eco tourism and anti-poaching infrastructure in the fringe areas surrounding the forests of the country.

The country faces under-investment in the infrastructure of its national parks which limits the ability to attract premium-paying tourists while also leaving the wildlife vulnerable to poachers. Poverty reduction and conservation centric economic development of the forest fringe areas directly contribute to the health of the forest in terms of reduced dependence on the forest for livelihood.

Kenya is a case in point, where a series of conservation bonds are launched by the government to fund the eco tourism infrastructure and wildlife protection projects.

Eco tourism in Kenya generates annual revenues in excess of billion dollars and is one of the main sources of foreign exchange for the country. Contrast this with, say, Vidarbha, a region endowed with rich natural forests, but rife with farmer suicides, poverty and high pressures on the forests.

In the Indian context, the money from the bond issue could be used to improve patrolling road networks in the national parks, fund revenue generating community conservation projects and establish anti-poaching systems.

Since growth in high-quality eco tourism and healthy forests have a symbiotic relationship, returns for the bond could also be paid by the increasing numbers of tourists that will be attracted to well-managed parks with healthy wildlife populations.

Impact investors and socially responsible financiers target clear social and environmental returns alongside financial returns. Hence forest bonds should initially target them, and later target institutional investors as the forest bond market deepens. Although forest bonds alone are not the only solution to saving the forests, they could play an important role in catalysing the scale of financing needed to tackle India's forest losses while providing worthwhile investment options for many of the increasingly green-conscious funds.

(The author is Director, TigerFirst)

(This article was published on September 27, 2013)

Keywords: [world's biodiversity](#), [eco bonds](#), [eco warriors](#), [Project Tiger](#), [protecting forests](#), [environment](#), [forest conservation](#)