



## **Newsletter - Terra Bella Fund and Forest and Land-use Carbon Sector Developments**

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### ***Sector News***

#### **Terra perspective from COP17 in Durban**

Having arrived at COP17 with concerns that the meeting may have been the end of the UNFCCC process, Terra regarded the Durban outcome as fairly positive against expectations.

The Working Group on Long-term Co-operative Action's draft decision explicitly recognized that appropriate market-based approaches could be developed to support results-based actions and that results-based finance may come from both public and private sources.

The COP furthered the Green Climate Fund's mandate, specifying that REDD+ qualifies for adaptation and mitigation funding. Results-based financing is mentioned as an important criterion for allocating fund resources, as is a facility directed at the private sector to enable the Fund to directly and indirectly finance activities at national, regional and international levels.

In terms of implementing REDD+, the Subsidiary Body for Scientific and Technological Advice acknowledged that sub-national forest reference levels may be elaborated in the interim of transition to national reference levels, and that a country's reference levels may cover less than the entire national territory of forest area.

REDD+ will clearly be a meaningful component in Kyoto's successor mechanisms, and as a leader in the sector, Terra naturally wanted a shorter timeline for international agreement on future targets, with greater specificity on the mechanisms that will drive private sector capital inflows. However, the outcomes summarized above add to the momentum of the sector for widespread compliance acceptance and increased private sector funding that will support development of end-user demand.

#### **Key messages from State of the Forest Carbon Market Report 2011**

Early October saw the launch of the second annual compendium of forest and land-use carbon market data. To develop a sense of our market's rapid growth in transaction volume, participants and

infrastructure, it is well worth accessing the full document at: [http://www.forest-trends.org/publication\\_details.php?publicationID=2963](http://www.forest-trends.org/publication_details.php?publicationID=2963).

The report shows a surge in forest carbon activity in 2010, with 48% year-on-year growth<sup>1</sup> driven by new contracting of REDD projects. The development of REDD standards and methodologies meant that this project type accounted for nearly 70% of primary market tons contracted during the year. Market share of forest and land-use carbon projects within the total voluntary market increased from 24% to 45% and European buyers dominated.

The report identifies some noteworthy trends. Increasing recognition of co-benefits is reflected in the fact that more than half of 2010 contracted credits used the Climate, Community and Biodiversity Alliance standard to verify local community and non-emissions environmental impacts. In addition, there was a significant increase in the prevalence of buyers motivated by resale or pre-compliance. Of those reporting a motivation for purchase<sup>2</sup>, 45% of transacted volume indicated a motivation of resale and 17% indicated that their buying strategy was pre-compliance (in anticipation of future compliance needs). These two types of buyers are an important indicator of market development since they indicate early hedging or speculative activity that provides liquidity and suggests increasing early-stage “toe-dipping” driven by expectations of future market development and price.

### **Terra Updates**

#### **First anchor commitment to Terra Bella Fund: \$40 million approval by OPIC**

Through the Investment Funds program, OPIC selected the Terra Bella Fund for a \$40 million anchor investment. OPIC – the Overseas Private Investment Corporation – is a development finance institution run by the U.S. government. Terra Bella was shortlisted from 88 proposals submitted before undergoing extensive due diligence in conjunction with OPIC’s selection advisor, Cambridge Associates. The Terra Bella anchor investment was then approved by the OPIC Board at the end of October.

The \$40 million anchor investment was sized in the context of Terra Bella’s expected final close at \$100 million. The fund expects its first close in early 2012, and anticipates participation from development finance institutions, climate-themed fund of funds and mission-motivated institutional and family office investors. On first close, Terra Bella plans to deploy capital across its contracted pipeline of 14 projects, with an estimated total of 60 investments over the fund’s life.

#### **Terra’s focus on projects using a community-based forestry approach**

In this and future newsletters, we will introduce aspects of investment selection and risk management that are core to TGIM’s investment strategy, focusing this Quarter on Terra Global Advisory’s specialization in community-based forestry. Community-based forest carbon projects support local community members in sustainable management of their forests and are a critical aspect of project design.

Effective community participation, development of in-country technical capacity and project benefits-sharing structures will be core to project selection and on-going risk management by the Terra Bella Fund. Projects will bring value to local communities - through direct and indirect economic benefits, and offset sales revenue-sharing - creating on-going incentives for all participants and ensuring long-term emissions reduction performance and sustainable development in the project area.

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<sup>1</sup> Compound annual growth rate of 78% since 2002, as calculated by Terra using prior State of the Voluntary Carbon Market and State of the Forest Carbon Market report data.

<sup>2</sup> By primary market transaction volume, 69% reported motivation for purchase, representing 17.5 MtCO<sub>2</sub>e (million tons CO<sub>2</sub> equivalent).

A first step of project design is to secure land tenure and ensure carbon rights can be secured with host-country approvals. Direct economic benefits throughout project life for a typical mosaic REDD program include new employment from forest protection teams and participatory measurement<sup>3</sup>, and income from new non-timber forest products and agricultural intensification. Indirect benefits include the value from incoming social services (health, education etc.) and development of business management skills. Environmental co-benefits of project actions will contribute to stabilising watersheds and improving soil fertility in project areas.

### **Oddar Meanchey Community-based REDD Project Investment Opportunity**

Terra Global Capital, on behalf of the Royal Government of Cambodia, is initiating the sale of dually-validated VCS/CCB carbon credits from the Oddar Meanchey Reduced Emissions from Deforestation and Degradation (REDD) project.

The project involves 13 Community Forestry Groups, encompassing 58 villages in North West Cambodia, which protect 64,318 hectares of forest through the implementation of project actions designed to mitigate a variety of deforestation drivers. The project started in 2008 and is expected to sequester approximately 8.3 million metric tons of CO<sub>2</sub> over 30 years, demonstrating how communities can mobilize to protect their forests, generate sustainable income from carbon markets and positively impact climate change.

The project is completing its dual VCS / CCB validation and will verify the 2008 to 2011 vintages in Q1 2012. These vintages will produce an estimated 360,000 verified tons net of non-permanence risk buffer.

Interested buyers please contact [sales@terraglobalcapital.com](mailto:sales@terraglobalcapital.com) for more project information.

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<sup>3</sup> Project monitoring allows emissions reductions verification requires collection of field data, project activity data, social data and remote sensing analysis.