

'Eco-securitisation' mulled to protect forests

Forum for the Future is carrying out an R&D programme to examine the prospects for "eco-securitisation" to finance sustainable forestry. The project is designed to test the technical feasibility of using securitisation techniques – widely used to repackage and sell on portfolios of mortgages, car loans and even rock musicians' royalties – to extract value from, and hence protect, the world's forests.

"There is a need for forests to be managed more sustainably, and for the environmental impacts of deforestation to be addressed," Alice Chapple, director of sustainable financial markets at the London-based think-tank, told *Environmental Finance*. "There is also a shortage of long-term assets that could be matched with the long-term liabilities of pension funds, for example."

Broadly speaking, securitisation involves isolating an asset or pool of assets, against which



bonds are issued. The yield from those assets pays the bond coupons.

The idea of applying securitisation principles to forestry came from Mark Campanale, head of socially responsible investment business development at Henderson Global Investors in London. In the 1990s, forestry assets began to

be listed on stock markets, or financed through private equity, treating the forest as a cross between a commodity play and a property investment.

"These assets are often under intensive pressure to produce returns of 20% or so per annum," he said. "You can't do that without aggressive logging."

Forests tend to produce sustainable yields of 4-7%/year, he continued. "They play more like 40- or 50-year gilts, given the duration of income." As such, correctly structured eco-securitisation assets, with appropriate levels of risk, could be attractive to corporate pension funds, and similar risk-averse long-term investors.

The Forum programme is funded by the UK's Department for International Development, via the International Finance Corporation. Those two organisations are joined on a steering committee by global bank HSBC.

Chapple cautions that the programme is in its early stages, but a report is due by the end of the year – to be produced by Environmental Finance, the consultancy undertaking the project – that will offer analysis of the broad feasibility of eco-securitisation, possibly present a model for a potential forest-backed bond, and make recommendations for next steps.

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