

October 21, 2021

RPM Ep 13 Transcript

Graziella Scassillo: Welcome to our RPM, the podcast that explores the world of private markets. I'm your host, Graziella Scassillo, and today I'm happy to introduce the third episode of our special on climate change. This time, Suzanne Tavill is joined by Jean-Marc Champagne, head of environmental finance for the Asia-Pacific area and bankable nature solutions at WWF. They're here to discuss new ways of bringing private capital into the natural capital sector, as well as the plethora of opportunities in the fast-growing market for nature-based solutions. It's a very interesting topic. So with that, I'd like to welcome Suzanne.

Suzanne Tavill: Welcome to all our listeners, and it's a pleasure today to be joined by Jean-Marc, who is something of a rarity having worked at the center of finance and investment banking and now having shifted his attention and being on the front line in investing around nature. We're going to really benefit from his perspectives and it is really my pleasure to welcome him and thank him in advance for his time.

JMC: Thank you, Suzanne. It's a pleasure to be here and I'm very happy to join the podcast and thank you for the invitation.

ST: So to get us started, let's ease our way in and first start by addressing the topic of biodiversity. Now, as our listeners will appreciate, biodiversity talks to the plethora of species that inhabit the planet, be they human, plant, animal, or bacteria. But we see this topic emerging more and more in mainstream media, as well as in mainstream finance discussions. Now that's my perspective on it. But would you agree with that view that it's shifting to mainstream? And also, if you could highlight some efforts or initiatives that you see happening, that potentially could be even more catalytic around this topic.

JMC: Yes, Suzanne, I think, you know, it's interesting because when I first started in this, as you mentioned in the introduction, I move from finance into the world of development or sustainable finance. And when I first came over, the big area of concentration seemed to be on climate change only. And some other areas involving carbon. But recently in for very good reasons. I think the conversation has changed. It's become focused more or started to take account of biodiversity. And that's very good because what has happened, I think we saw while let's focus on climate change, and that's a very big issue. There were a lot of areas that were lacking in terms of actual nature for finance, considering nature. So this has been, I think in the last year or so a pretty big development. And I think it's very good for nature and for more traditional conservation to get the financial industry and investments focused in this area. But I would say this, it's also a potential risk because it's a potential risk and how it's done. I should say biodiversity. While it's really important, it's also important that we don't fall into an area that is something that is a buzzword that's just being thrown around to look like for the financial industry, for example, to look like they're actually doing something that is good. With that said, getting this on the agenda in the first place is a very big step.

And some of the initiatives that I think are going forward, I mean, I mean, you have the traditional ones like the CBD and COP 15, but I think the one that is really actually going to it still in its early days, but the one that's going to make a difference in the future will be the NFD.

JMC: So that's the task force for Nature, financial related disclosure. And that to me, that is that can potentially be a big game-changer. Now, similar to the TCFD, which is the task force for climate-related disclosures, the climate-related financial disclosures. It will have a similar framework or similar methodology to trying to disclose more risks related to nature like the climate initiative does. The issue, though, is why it's still early days, and I think there's a long way to go is that the TNFD and, you know, in trying to find nature-related financial issues or risks, it's very difficult to quantify that. I mean, if you're at a financial, if you're financial, if you're an equity analyst, for example, and you're looking at a particular company, how do you value that and how do you look at where those risks lie and who is there a common framework for that? So disclosure is a big issue. At TCFD, because in Europe or the U.S. disclosures are a lot better, for example, in Asia, it's much more difficult. So it's going to be doubly but I think it's a very good start.

ST: Let's now join that topic and talk about bankable nature solutions, which is the area where you are particularly focused today. Can you explain what the space actually involves and also highlight any differences between your focus here and the broad topic of biodiversity that you just introduced?

JMC: Yeah, sure, Suzanne bankable nature solutions were something that we created about, I would say, about three years ago, almost four years ago. Now, the reason why we came up with this is that we were being asked by the private sector, mainly financial institutions, that they were saying, "look, we want to get involved with these types of projects that focus on things like biodiversity and conservation and the environment in general". But there are not enough projects out there that are large enough and good enough for us to invest in. The space is very fragmented. We want to find something. We need big projects to invest in to get involved. So the real crux of the real point behind the initiative or the whole program that we're running here is that we want to mobilize or catalyze private sector capital to go into conservation because we found that if you look at the money that goes into conservation right now, it's clearly not enough. I mean, we're talking about Development Bank and development agency money. We're talking about foundation capital that is not enough to get even anywhere close. We want to where we want to get to actually accomplishing any of the SDG targets. If you use that as a way to quantify a measurable quantification, what we need to do is to make conservation profitable or a business proposition. So therefore that because that investment money is only or that money is only going to come in for investment, it's not going to come in for donations. So we have to make these projects that we work on profitable or have some kind of revenue stream that can then pay back investors at a rate that they think is worth their time. So that's where we came out with this. So that's what it really is. And so what we try to do is we want to find projects that have a strong environmental impact and that can be, you know, from anywhere from, you know, climate mitigation and adaptation to biodiversity, you know, improvement in a particular landscape where we're focusing. And then the second thing we want to do is we want to make sure there's a business case and it has it's basically bankable, hence the word.

And then the third point, which is scalability or replicability, though that is absolutely essential to getting the private sector involved because a lot of the projects that have been out there, while they're good in their form, they're just not big enough to get the private sector interested.

ST: Now that's helpful to understand. So I think the first point, though, I want to just clarify, is when you think about these projects or I mean, looking at underwriting them for you, they need to have a commercial rate of return. Would that be correct?

JMC: Well, it depends on who our investors are. So we will come in and basically as WWF, I mean, we're not an investment bank, so we will look at them from a standpoint. We basically were conveners of parties and we help structure these first evaluate and then structure these projects to make sure they're ready for investment. And it depends on who the investors are. But yes, typically our investment or investor base, they would. They want to have projects that have a commercial rate of return. That's correct.

ST: And then, you know, when we often look at nature-based projects very quickly, the discussion or the focus becomes around the carbon sink potential of such investments. And obviously, therefore the role they play around climate change, but also because of that carbon absorption capacity, the revenue stream that can be derived obviously from that, particularly more often from, you know, voluntary carbon credits. Now, when we talk about bankable nature solutions, should we be creating such a tight link with carbon or not?

JMC: I would say it depends on the projects that we're looking at. So if it hits those three categories that I mentioned in and of itself, where you have the environmental impact, then you have the bankability in and of itself, the project, and then you have the scalability. I think we don't. The carbon element can come in as an overlay, as an enhancement. Let's say, for example, maybe it is. It is a good project, but maybe the rates of return are a little bit too low. So how do we attract investment? Maybe we can add a carbon offset or carbon quota element to these projects. So that's possible, or maybe it's a great product anyway, and we just want to add it on because it makes sense. I mean, we're looking at a project in India where it's going to be a huge opportunity for carbon offsetting and high-quality carbon offsets. So that could be a potential. They could be potential right there. But now where it could be used when something is not bankable, if we're talking about a pure nature-based solution, it could be used in that regard where let's say it's something of mangrove restoration. Well, mangroves in and of themselves are not really bankable. You can't have a business per se around mangrove restoration, but you can add the carbon offsetting element to that that will then make investors interested.

ST: Now an interesting and I think that like really brings us to the next topic, which is generally when we think about things within the natural space projects within the natural space, you know, we come to time and time again to talk about forestry or plantations, sustainable agriculture. But from your experience, really, the space is far broader. So, so can you sort of highlight examples of topics to really sort of stimulating people's ideas of just the breadth of the space? And as you yourself highlighted, the scale issue is really important.

And so out of the plethora of opportunities that potentially you see, maybe just draw attention to, you know, those spaces that you believe could absorb larger sums of capital.

JMC: We're looking at one, for example, like I mentioned earlier in India, where it's basically a project that's taking agricultural waste in this case, rice paddy straw waste, and putting it through an anaerobic digester and then turning that into energy. So that is an example of what we're doing there, and that's less so of a forestry project, but it is related to agricultural waste. Other ones that we're working on are bankable projects that are not directly related to carbon sinks at all but are related to climate mitigation and adaptation is one we're looking at in Vietnam, which is the rice and integrated rice and aquaculture project. So what we're doing there is we're working with local rice farmers in the Mekong Delta to improve their livelihoods by integrating their rice production with sustainable shrimp farming. And the idea behind that is that, yes, we improve their livelihoods and we get other products. We have sustainable shrimp and we can sell that at a higher level. But we also are working to bring in the natural sedimentation process into the delta because what's happening there? The problem is, is that the delta is sinking and it's a major problem because you have sea-level rise, you have the delta sinking because of land subsidence. And then what we're trying to do through natural irrigation is to bring that back and to help the land slowly build back up.

JMC: So there are many projects that we can go into or look at. And even here in Hong Kong, we're looking at a project that is so what we want to do here. And this won't have a carbon element to it. But what we want to do here is what we want. Basically, Hong Kong imports almost 90 percent of its fish, and they import most of their food, but 90 percent of its fish comes from overseas, and it's flown in with a huge carbon footprint. Yeah, that's right. And then we found out, though, after COVID, how reliant we are on that and how, you know, there was a scare. The shells were all the panic and people buying things, and there was a scarcity of food for a while. But then we started to realize and I think a lot of countries in territories have realized that we need to have some self-sustainability here, some self, you know, food that we grow ourselves. So what we're trying to do here in Hong Kong is actually have our own fish cultivation. There are some, but it's very small. So what we want to do is build best-in-class sustainable aquaculture, which is in the open water.

JMC: So it's mirror culture and we want to build a pilot and have that setup. And that's being, you know, we got some funding for that. So what we want to do is take the grant capital and then expand into basically getting investment capital or using a major private sector partner that will work with us on these projects to come and do something like, for example, supply chain financing to get the money from a bank directly to the smallholder fish farmers. And so what we want to do is see if that whole thing works and then expand that throughout the Greater Bay Area. And then another one that we're looking at what's kind of local as well in Hong Kong but can really scale up to around the region for the Asian Australasian flyways is basically looking at how we can work on projects on near or close to wetlands. Wetlands are highly important and we need to. Yeah, that's right, and we need to preserve those, and so we're looking at ways of how we can preserve wetlands now next to a lot of these wetlands you have. There's a lot of aquacultures actually next to wetlands. And so we're looking at ways of how we can use different methods to either will basically either want to revitalize current aquaculture ponds or fish ponds that are there that have been kind of abandoned or ones that are there.

JMC: But they're not doing very well in terms of money, in terms of profitability, and then these farmers want to abandon them. So what will happen is that happens then there's a potential for rezoning. There's a potential for losing the wetland. So we want to encourage these farmers to keep operating and not abandon them. So therefore we can then preserve them. So what we're trying to do is how do we add income to their already small or declining margin fish business? So what we want to do is add things like floating solar panels or what we've looked at they have in Bangladesh, which is really amazing, is looking at floating agriculture. And so those are two things that we can add or two income streams that we can add to a fish aquaculture operators' income. So there are many projects that we're looking at and we have about, say, 17 right now in the pipeline that we're trying to put through for investment and a lot of this outside of Hong Kong, as long as it's developing countries, we have a strong backing. We have the Dutch Fund for Climate and Development that we're using to fund and incubate a lot of these projects, but also invest in these projects.

ST: It sounds like quite a lot of the projects are early stage that you are seeing. We have the challenge of funding. Is it at that early stage? Is it, later on, you know, and maybe talk to us some about some innovative sort of approaches that you've seen in terms of addressing it, addressing that pipeline, if you will,

JMC: Suzanne, that is an excellent question. I'm so glad you asked that because that question is, is the I guess you can say the million-dollar question, because right now what I'm finding is that the hardest thing to get funding for is the origination and the incubation. So we're working either internally at WWF, with our conservation staff all around the world, or working with entrepreneurs that come to us. And they have an idea and they say, OK, here's our idea, and then we know some of it. Sometimes they come to us is pretty good, but we've got to fix that and change it. And with the conservation, with the actual environmental impact, but also the financial, how it looks financially for an investor. So that's what we're doing. But yeah, we're starting at the very early stage.

ST: Really sort of redefining the seed financing, right?

JMC: That's right. That's exactly right. The Dutch one for climate development is probably the most pioneering initiative in conservation. In the Dutch one, you have FMO and Climate Fund Manager, the two senior investment partners in the consortium. So they say, OK, well, how do we get a pipeline of projects? Because that's the biggest part that's missing. You know, people come to us with projects, but you know, there's just not enough. We want more. And so they basically said, OK, we're going to use WWF to go find these projects and work with us to build this pipeline of projects.

ST: So I know a lot of our listeners will be familiar with SPACs, but now we see the rise of NEX or natural asset companies, and this is pretty leading bleeding edge. Talk to us about what is Anak?

JMC: Yeah, I mean, I think this is interesting. I mean, the announcement that I saw that came out about this is, you know, it's pretty, you know, I guess on paper, it looks, it looks really good. I like the way it looks. There's certainly some I guess you can say theoretical merit to this, but you know, I guess it's you know, you can say it's a bit vague in terms of what they've come out with. You know, I guess the

question I would have is, you know, what's the, you know, financial incentive? Is there a mechanism that causes the value of these contracts to go up over time? Can they be used as carbon offsets? There's a lot of unanswered questions, and I think I've seen this and again, I don't want to. I don't want to completely write this off because from big ideas come big impact these types of contracts they could take off if governments started taxing carbon emissions that have some kind of offset. And I think the more popular they got, the more incentive there would be to create more of them.

ST: Excellent. Appreciate your time today. You know, it's really good to have someone who is really dealing with projects on the ground. Our listeners can say, well they heard it here first, right? In terms of the development of potentially a new asset class or sub-asset class out of real assets? So really appreciate you taking the time today.

JMC: Thank you, Suzanne. It was a pleasure to be here, and I really enjoyed your questions.

GS: That does it for this episode of RPM. A very warm thank you to Jean-Marc for being so generous with his time. In the 4th and final episode in our climate change special, Margaret Kuhlow, Global Finance Practice Leader at WWF International, will be sharing her expertise on sustainability as it relates to biodiversity. So please stay tuned. If you enjoyed this episode, visit our show page at www.stepstonegroup.com. You can also find RPM on Apple podcasts, Spotify, Stitcher, and other podcast providers.