Zimbabwe 'bombshell' shows need for mixed financing: conference

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Quantum Commodity Intelligence – The high political risk for projects that yield carbon credits from low-income countries underlines the need for affordable and increasingly varied insurance products, as well as mixed financing involving multilateral institutions, a conference heard on Wednesday.

The comments were made as a panel at a forest finance conference in London, where market participants reacted to Zimbabwe's bombshell announcement on Tuesday that it will nullify all existing agreements and take half of future revenues from carbon credit revenues – a decision that is likely to have further major ramifications for Swiss climate finance firm's South Pole's mammoth Kariba land-use carbon project.

"Obviously political risk is always high in many African countries, and Zimbabwe is particularly high risk. But it's quite shocking," said Jenny Henman, a project developer with Plant Your Future, which is involved in nature-based projects in Latin America.

"Even though most project developers and early-stage investors often do thorough political risk assessments, hopefully other governments will be sensible and not go for policies 'that kill the goose that lays the golden egg'," she added.

"It's possible that what's been announced in Zimbabwe could kill the sector there, which benefits nobody."

Other delegates on the panel said the Zimbabwe government's announcement, which outlined plans to set up a dedicated committee on carbon credits and tightly control voluntary carbon market projects in the country, and was described by some as 'expropriation' underlined the need for 'mixed financing.'

This form of financing would involve a mixture of public and private money being allocated, with much of the capital underwritten by multilateral institutions that would – in theory – reduce the risk that governments would suddenly change ownership rules and revenue splits.

"I've had a conversation with the World Bank and asked them, 'what can be done to protect against this [political risk],' and they've replied, 'not much, but...' said Samuel Lampert, investment director at carbon strategy firm Mirova.

"Multilateral institutions can offer tools to de-risk for exactly these types of problems," Lampert added.

Another panelist said Zimbabwe's announcement underlined the need for developers to do higher shares of jurisdictional projects, which are usually done in combination with national or local governments.

"Zimbabwe isn't the first and won't be the last [country to expropriate carbon credit projects]," said Cheri Sugal, co-founder and chief executive with Integrity Global Partners, a newly-formed entity that invests in nature-based projects.

"We saw Indonesia and Papua New Guinea in the past do something similar. Zambia, around five years ago, said if you are in a jurisdiction where we are developing a jurisdictional programme, you have three years to wrap it up," Sugal said.

The conference heard that although political risk insurance products are available to developers and buyers in the least predictable countries, the premia can be "excessively" high, said Phil Cottle, head of forestry at underwriting firm ForestRe, which says it offers bespoke solutions to nature-based projects.

Cottle said major reinsurance firms can ask for a 4% premium for political risk on revenues from projects, a figure that couldn't be verified at press time.