

Climate Smart Forest Economy Program Unlocking Forests' Potential

# Forest Economy Financial Product Developer

A climate smart future for forests and buildings





#### Forest economy financial product developer



An entity that focuses on developing financial products that maximize the value of the forest economy. As such, the intermediary will play the role of the 'innovator' in the forest financing landscape

There is set of products that the intermediary may focus on developing such as:

- Forest preservation tokens, 'carbon credits for the climate-smart forest economy' where tokens can be used as a mechanism to quantify the impact of their climate-positive interventions and could use the tokens to generate revenue for forest practitioners
- Debt for environment swaps where the creditor government/entity exchanges debt for developing economies' investment in long term forest economy projects pipelines.
- Forestry credit guarantees which will serve as a risk-sharing mechanism to promote climate-smart forest economies as a critical sector for achieving climate goals

Given the advancements in the carbon and token market, forest preservation tokens may serve as an entry point into exploring the forest economy product developer as an intermediary

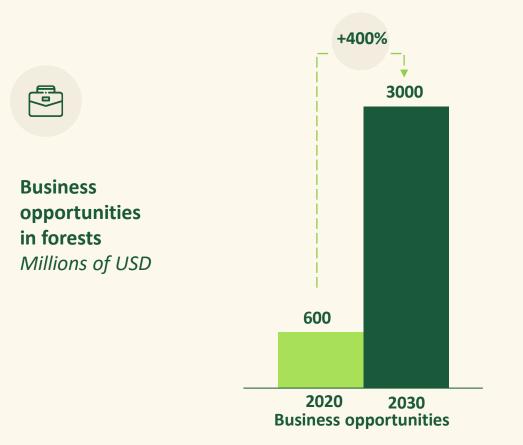


The

Need

There are numerous business opportunities in Forests that can be realized through the development of financial products

- There needs to be a wide range of financing products to encourage sustainable forest management and investments in the sector
- Recently, there have been several attempts to address financing needs outside traditional products through the development of products that offer payment for environmental services, new indirect investment products (i.e., forestbacked securities), and forest funds
- An intermediary could support this process by developing and testing innovative financial products to capture the expected 3 Billion USSD in business opportunities for forests by 2030



Source; CSFEP - Detailed overview, 2022; FAO, Financing sustainable forest management, 2016; WRI, Forest Restoration Gets a Tiny Fraction of the Money It Needs. How to Fill the Gap?, 2016



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### Comparable and operational business models

## Ownership

<u>ForestCoin</u> is looking to establish forest coins as a payment currency, for both consumers and businesses, in exchange for planting trees

Forest coin has features that qualify it as cryptocurrency without relying on high-energy consuming options such as bitcoin

The ForestCoin follows four (4) main steps

- 1. A ForestCoin is planted by a person who has planted a tree
- 2. With the forest coin app, the individual can take pictures to contribute to the tree planting evidence base
- 3. The ForestCoin is minted after other forest coin users verify tree planting
- 4. Forest coins can be spent at participating merchants or sold at exchangeforest.com

- While the tokens are not operational yet. <u>Dcentra</u> is designing and proposing the use of forest preservation tokens as a means to incentivize landowners to preserve forests.
- The forest area blocs are divided into chunks of forest area square meters which are associated to specific tokens.
- Individuals purchase tokens associated with specific forest areas, and the landowners receive the value of tokens associated with their land.
- The value of forest preservation tokens also depends on the condition of the forests

- Potential owners: We are still looking for a potential owner with expertise in tokenization and sustainable harvest management
- The owner entity/entities will either be i) a coalition of actors who each focus on specific expertise, or ii) a tokens developer who onboards forest management expertise and develops forest tokens independent





#### Forest economy financial product developer: Workplan

	Immediate (<15 months) Token development	Short-term (15-24 months) Token issuance	Medium-term (>24 months)
	Engagement to find an owner	<ul> <li>Identify and register companies and initiatives that are part of the pilot</li> </ul>	<ul> <li>Market and publicize successes in CSFE impact tokenization</li> </ul>
Activities	<ul> <li>Research to understand which CSFE practices can turn to financial products</li> <li>Assess methodologies for development of financial products from impacts</li> </ul>	<ul> <li>Assess activities and services of organizations offering products for their CSFE practices to ensure ongoing compliance with token standards</li> <li>Record impact and market products</li> </ul>	<ul> <li>Offer support to Forest Economy actors who want to adopt tokenized practices</li> </ul>
Output*	<ul> <li>Identification and engagement of potential hosts/ implementor(s) for the intermediary via MoU's</li> <li>An understanding of opportunities for tokenization and methodologies</li> </ul>	<ul> <li>A registry of companies and initiatives in the pilot</li> <li>Verified impact from a third-party auditor</li> <li>Marketed financial products</li> </ul>	<ul> <li>Marketed financial product(s) that is accessible by any interested forest economy actor</li> <li>Support provision services to stakeholders</li> </ul>
Outcomes	<ul> <li>MoU(s) with a financial product developer</li> <li>Identified opportunities for product development (i.e. tokenization)</li> <li>A planned pilot to test products</li> </ul>	<ul> <li>Validated opportunity for financial products of impact from forest economy activities and services</li> <li>Lessons to support a go-to-market plan for the financial product(s)</li> </ul>	<ul> <li>A fully developed financial product that supports investments in forests</li> <li>Potentially, a new agency/ organization to provide support services</li> </ul>

Within program reporting timelines

No additional funding is needed for these phases