



# OPIC/Terra Global REDD political risk insurance

In a first of its kind, the Overseas Private Investment Corporation is helping to tackle deforestation through political risk insurance

**A**ll too often, environmental degradation and human conflict go hand in hand – immeasurably complicating efforts to address the underlying causes. Indeed, efforts to tackle deforestation along the Cambodian-Thai border have been devilled by a history of conflict, frustrating a partnership between the Royal Government of Cambodia and San Francisco-based Terra Global Capital to develop a major community-based project to reduce emissions from deforestation and forest degradation (REDD).

Enter the Overseas Private Investment Corporation (OPIC). In November 2011, the US government's finance institution stepped to the plate to provide a political risk insurance policy that helped get the project off the ground.

Oddar Meanchey is one of Cambodia's least-developed provinces and has experienced steady deforestation since the fall of the Khmer Rouge-controlled central government in 1979. Forest cover in the province is being lost at an average annual rate of 2.1%, the highest in the country.

Since 2008, San Francisco-based Terra Global has been developing a project that will protect 64,318 hectares of forest and sequester approximately 8.7 million tonnes of carbon dioxide (CO<sub>2</sub>). The project is unique in addressing mosaic deforestation, the many drivers of deforestation such as unsustainable fuel wood usage, small-scale illegal logging, fires and clearing for agricultural activities, says Leslie Durschinger, Terra Global's managing director.

It is also unique in that it involves working with the Cambodian government, a much larger and more bureaucratic entity than most private sector companies, and one for which something like REDD is brand new, she says.

"The government of Cambodia was very concerned about the deforestation rate in their country," Durschinger says. "They're motivated to put in place projects that reduce deforestation and improve communities' livelihood."

The project will result in the creation of 355 jobs. Its carbon credits will be sold in the international carbon markets and the revenues used, among other things, to fund community forestry patrols and fire control, community-based water resource development projects,

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Ruth Ann Nicastri, OPIC: deal "a perfect fit"



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sustainable farming systems, and fuel efficient stoves.

But for Terra Global, a small private company, insuring against political risk was a wise course of action due to the history of border conflict, Durschinger says.

"From our perspective, it was a good business decision to look at how we could minimise some of the risk of Terra's investment, although we had no reason to believe our contract with the government would not be honoured," she says.

In November, Washington, DC-based OPIC executed its first REDD insurance contract, valued at \$900,000, for the project. The policy covers risks such as breach of government contracts, denial of justice, political violence damage and confiscatory changes in regulations that cause an expropriation of the forestry project.

With the project's location, potential violence could break out that causes damage to the forest, such as a fire caused by insurgents, a risk that OPIC can cover, says Ruth Ann Nicastri, OPIC's managing director of political risk insurance.

This was the first REDD project to come to OPIC, which was interested in helping the project move forward since deforestation is the second greatest source of carbon emissions globally, she says. "This is a perfect fit for OPIC," Nicastri says.

The value of having political risk insurance as a mechanism to reduce the exposures for investors cannot be overstated, Durschinger says. "It is a very, very powerful risk-reducing financial product for investors in the sector," she says.

The Cambodia project is the first of what both sides expect to be a fruitful partnership. OPIC announced last year that it would provide \$40 million toward a \$100 million private equity fund to be managed by Terra Global that will invest in forest projects that generate carbon credits and valuable social and environment co-benefits.

Terra Global has already identified 16 "investment-grade" projects for the global fund to evaluate, Durschinger says. She is encouraged by the level of interest in participating in the fund, including by a European pension fund that is on the short-list, with a third-quarter close targeted.

"The fund offers investors the opportunity for both attractive investment returns and doing social and environmental good," she says.

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