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# **SUSTAINABLE FINANCE**

## **Nature Based Solutions**

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# Nature Based Solutions

**Maria Filmanovic** is the Co-Founder of Abatable, a platform that consults corporate clients regarding their nature-based solution strategies.

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**Aadith Moorthy** is the Founder & CEO of Boomitra, a project developer in the nature-based space.



 Abatable



 boomitra



 Manulife

## Summary

We discuss specific nature-based solutions that project finance is well-suited to support, like renewable energy and conservation projects, and sustainable agriculture. We also explore key considerations to structure and implement NBS projects, including risks, mitigation strategies, and impact measurement. **Watch the full discussion [here](#).**

## Key takeaways

- Voluntary Carbon Credit issuance has stalled in the past 12 months as a series of negative reports on the reliability of baselines has created reputational headwinds. The VCM has poorly communicated the benefits of Nature-Based Solutions and the vital role they must play in achieving Net Zero.
- Corporations are interested in nature-based solutions but require proper guidance and science-based proof. Utilizing the latest scientific techniques / MRVs is essential for new high-quality projects and for regaining confidence in older vintages via audits.
- Traditional sustainable timber management is primarily driven by timber value. Several factors contribute to this value, such as the quantity of timber a company can sell and the sustainably harvested log in the supply chain. Manulife has a holistic approach and constantly looks at value-added services termed as non-timber income-generating strategies that can provide income for investors along with other ecological and social benefits. A few examples include mitigation banking, selling recreational leases to enable the local community to access our property for sports or recreational activities, and projects involving renewable energy generation.
- Scalability requires some degree of standardization but impact investing cannot be viewed from a commodity perspective. The investment programs have always been tailored from the perspective of corporate buyers. Investors are interested in learning about the specificities of the product and the merit of the counterparty behind it.
- Corporates can provide financing in the earlier stages of project development through pre-payments or offtake agreements. In addition, building insurance products around nature-based projects will encourage investors to finance them, as most corporates hesitate to get involved in such projects due to the associated risks.



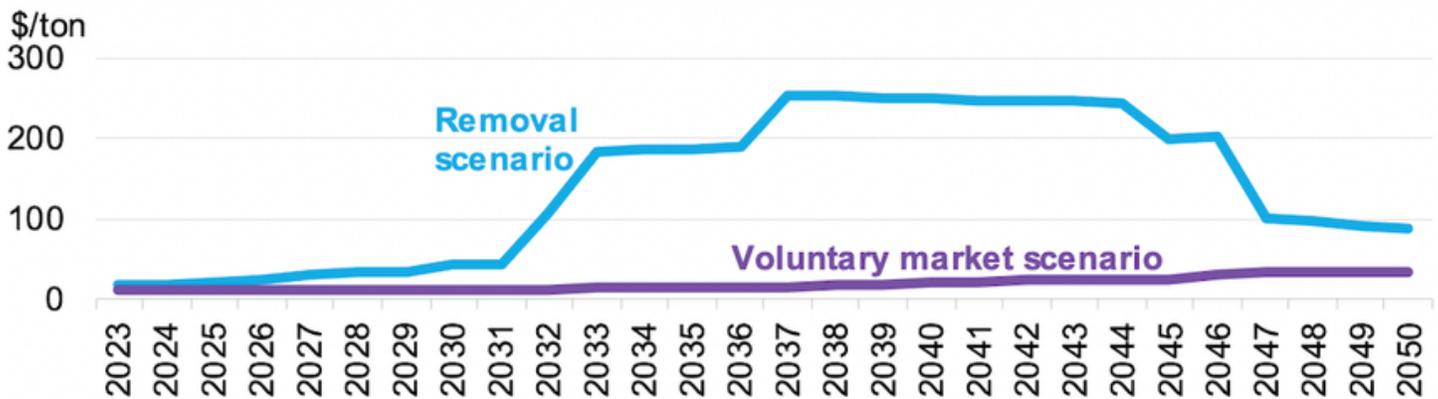
## Paul's observations

As carbon prices, as measured by the EU ETS, trade north of EUR 100 per tonne, it has shone a light on the continued struggles of the voluntary market that has seen issuance stall and pricing stagnate. The reputational challenges facing the VCM culminated in the scathing article in the Guardian claiming that 90% of Verra Redd+ credits had suspect baselines. Despite the ecosystem putting on a brave face, it is hurting end demand, and while high-quality projects will be sort after, the hurdle to qualify as such is becoming increasingly onerous.

The only solution that can restore confidence is for the baselines to be redrawn. The technology has advanced so far, and while it won't be cheap to conduct extensive audits on the over 1800 Verra projects, it is the only way to clear the air and give confidence to investors looking at earlier vintages. Given Verra is a non-profit, the cost must come back to the project developers who have benefitted from the issuance of these credits and, therefore, should be responsible for proving that the original baselines were accurate or if new baselines are warranted. Then and only then will investors gain confidence in the system and permit the market to scale.

*"Despite the ecosystem putting on a brave face, it is hurting end demand, and while high-quality projects will be sort after, the hurdle to qualify as such is becoming increasingly onerous."*

### Carbon offset prices in the voluntary market and removal scenarios



Note: Chart shows forecasted prices.

Source: BloombergNEF

# Questions & Answers

## Reputation Headwinds facing Nature-Based Solutions

*Aadith Moorthy:*

To remain in charge of the narrative, project developers providing nature-based solutions could have acted proactively in explaining the benefits of their programs. They could have collected that data and presented it transparently from the beginning to verify the emission reductions.

In a recent article, the Guardian mentioned that 90% of carbon credits from nature-based solutions do not meet the standards. That article has discussed technical details regarding how carbon sequestration is measured. Most people who read such articles do not understand these technicalities. Project developers were responsible for taking a proactive approach by reporting their processes clearly.

*Eric Cooperstrom:*

Capital generated through nature-based activities has historically been perceived as non-profit and philanthropic, but now it is moving into sustainable asset management. Any industry going through a rapid transformation does face criticism. The narrative of nature-based solutions still persists, and their role remains primary in fighting global climate crises. There is no other path to address climate change without utilizing these solutions.

Credits of diverse quality have been generated in the past few years that vary based on technicalities and have additionality factors associated. Going forward, we can expect to see standardization and better practices in nature-based solutions.

*Maria Filmanovic:*

There is a communication problem around the generation of carbon credits, which causes skepticism. However, carbon offsets are crucial for reaching net zero, as 25% of global emissions are hard to abate. So, nature-based projects are needed to be funded through conservational finance.

## What is the mindset of the marginal corporates that might be considering entering the Voluntary Carbon Market (VCM) for the first time?

*Maria Filmanovic:*

Carbon sequestration in agricultural projects is required to be improved. Corporations are interested in nature-based solutions but require proper guidance and science-based proof. They expect companies like Abatable to do due diligence. Hence, we need to build a supportive infrastructure for them to enter the VCM.

## Parameters of a high-quality project

*Aadith Moorthy:*

Project developers need to understand the tendency of a project to generate carbon credits of a certain quantity and their unit economics.

Currently, Boomitra is working on large-size projects. We perform an extensive feasibility study, and most project developers having scientific and technical approaches do the same to analyze the actual sequestration. We have our proprietary Measurement, Reporting, and Verification (MRV) process and monitoring capabilities; for instance, we use satellite technology to measure the carbon dioxide sequestered. Hence, we get a detailed feasibility study. Having such an approach keeps project developers from overestimating the potential of their projects.

Project developers should have a futuristic approach while thinking about the feasibility of the projects because nature-based projects are not short-termed, their longevity is approximately 30 years, and the moratorium period is 20 years.

Boomitra is working on a project with some partners in Northern Mexico. We request each partner to provide us with information on a few ranches, and then we study them in detail. This enables us to estimate the potential of that land to generate carbon credits, and we build up a business case based on that. So, we start small, understand the project and scale it up.

### **Updating the baselines for a project**

*Aadith Moorthy:*

Due to the worsening climate situation, more questions are expected to arise about the effectiveness of carbon sequestration projects. Therefore, project developers must keep revising and updating the baselines of the projects. It requires effort, which is why the developers usually do not take this factor into account while estimating the finance.

At present, Verra is creating new labels to improve the quality of nature-based carbon removals. For instance, they have launched the ABACUS label, which is intended to catalyze the growth of nature-based GHG removal credits. It gives a dynamic baseline that can be monitored. Furthermore, there is a growing consensus regarding revising the baseline every year. In the VCM, we go beyond business-as-usual to make projects work.

### **The economics of forestry investments for global investors**

*Eric Cooperstrom:*

Traditional sustainable timber management is primarily driven by timber value. Several factors contribute to this value, such as the quantity of timber a company can sell and the sustainably harvested log in the supply chain. Other factors, such as biological growth per year, lead to appraisal values and the potential increase in the value of the property itself.

Manulife has a holistic approach and constantly looks at value-added services termed as non-timber income-generating strategies that can provide income for investors along with other ecological and social benefits. A few examples include mitigation banking, selling recreational leases to enable the local community to access our property for sports or recreational activities, and projects involving renewable energy generation. We look at various uses that an individual acre of timberland can provide. Similarly,

carbon sequestration is one of the additional use cases.

Manulife has managed projects in the compliance market and the VCM. We are building our forest climate strategy to lead with carbon and other impacts as the main value driver. We are seeing carbon-focused opportunities and new investors coming to this space to access high-quality sources of carbon sequestration and crediting. In 2022, Manulife launched its carbon principles regarding conducting carbon-abating activities. These principles can be carried through the project development phase to ensure the generation of credits with high quality and integrity.

### **The transition of timber into a sustainability asset**

*Eric Cooperstrom:*

The timber industry is going through an expansion rather than re-classification. Traditional timber and sustainability are linked in terms of providing sustainable fiber and building products to the market. It provides a long-term sustainable sequestration source, as the harvested wood can sequester carbon for decades. Sustainable timber has been a core product of the circular economy, and now this industry is expanding to specifically recognize the carbon sequestration capabilities of the forest as a whole. This industry focuses on providing additionality. However, an average sustainable forest does not provide additionality because a change in harvesting schedule and novel practices are required to do so.

### **What is the mindset of corporates regarding nature-based solutions?**

*Maria Filmanovic:*

Corporate clients are mainly concerned about the procurement of high-quality carbon credits. They follow a broader strategy while considering nature-based solutions for decarbonization. Most of them are considering vertically integrated agroforestry programs and offsetting activities.

A lot of confusion among corporations regarding offsetting needs to be cleared. Capital must be allocated strategically from a corporate perspective. They should consider building programs to support projects and use financing for additionality.

Most corporations are considering corporate funds that are not just a part of their operational expense, such as the carbon credit fund and the Carbon Credit and Purchasing Program (C2P2). These funds will allow them to be catalytic for building an impact program where they can participate in the development of new projects. Taking a proactive approach can also save them costs in the future.

While allocating capital, corporates emphasize understanding the quality of project developers and the counterparty behind those projects. The Voluntary Carbon Markets Integrity Initiative (VCMI) and carbon rating agencies should consider the key element of quality as well. The corporates must have discussions with the project developers to understand their carbon capabilities.

### **Do corporates prefer standardization in the VCM, or do they go for customized products?**

*Maria Filmanovic:*

The procurement cycles of carbon credits are based on the requirements of corporates. They are

interested in getting insights about the project and the uniqueness of its impacts. This approach conflicts with the commoditization of carbon credits.

Standardization in the market can be achieved in the form of procurement cycles, quality initiatives of the carbon credits, or contract types. For instance, many corporates are considering forward purchasing, as they are entering the market for the first time without much information regarding the type of contract they should be using. Abatable is providing transparency to the quality of the counterparty and developers and answering procurement questions.

### **Is thinking about carbon offsets as a commodity the wrong approach?**

*Maria Filmanovic:*

Impact investing can not be viewed from a commodity perspective. The investment programs have always been tailored from the perspective of corporate buyers. Investors are interested in learning about the specificities of the product and the merit of the counterparty behind it.

We are trying to resist the push towards commoditization, as corporates do not prefer trading carbon offsets as a commodity. The current infrastructure in the carbon markets has been built to support commodity trading. We have started noticing commoditization being unable to address the needs of the market and scaling it to a multi-billion dollar industry.

### **Commoditization of carbon credits to meet SEC's Scope 3 disclosure requirements**

*Aadith Moorthy:*

Commoditization, to some degree, is inevitable as the market grows. We believe it to be necessary because if the carbon market grows to a range of 100 billion offsets, it will get harder to describe the impact created through the generation of every carbon credit.

Commoditization would be important not only for meeting SEC's Scope 3 disclosure requirements but from the governmental aspect as well, as the Intergovernmental Panel on Climate Change (IPCC) trajectories require the incorporation of a significant amount of nature base solutions.

Currently, it is possible to share stories behind carbon credits, such as how farmers or communities were positively impacted by the projects. The narratives around every aspect of the carbon markets are changing every 5 years. Therefore, we must plan future strategies based on the current situation.

*Eric Cooperstrom:*

Commoditization of carbon credits is harder to achieve as they vary based on their source of production.

### **The role of carbon capture technologies in the decarbonizing strategy from the investors' perspective**

*Eric Cooperstrom:*

Government financing and new startups have come into the removal space, specifically in direct air capture. This is a nascent technology that is both capital-intensive and energy intensive. We will require multiple solutions to address climate change. Nature-based solutions are scalable and economical that have

been around since the beginning. Therefore, we must harvest them in addition to other solutions to combat climate change. We need to ensure the transparent generation of carbon credits. The current criticism will only make the market stronger by compelling the players to adopt robust practices.

## **Global carbon regulators**

*Eric Cooperstrom:*

Currently, the Integrity Council for the Voluntary Carbon Market (ICVCM) is trying to serve as the global carbon regulator. In the US, there are various regulatory bodies in different states. So, it is hard to predict whether there will be a global regulator or not, as coordination within a country can be challenging too.

## **How do corporates deal with the levels of complexity around the standards in the carbon markets?**

*Maria Filmanovic:*

There is certainly a level of complexity in the carbon market. As this market has come under immense interest, a lot of parties, including governments and regulators, are trying to make it work efficiently. This is making it harder for corporates to stay updated with all the changing criteria and standards in the market. Secondly, not all corporates have internal resources solely focused on carbon.

Abatable helps corporations with staying updated about the standards and risk possibilities to ensure they react to them proactively.

## **How can we encourage more financing into this ecosystem?**

*Aadith Moorthy:*

We must accelerate the production and usage of digitized solutions. This approach will scale project development and its execution dramatically.

*Maria Filmanovic:*

Corporates can provide financing in the earlier stages of project development through pre-payments or offtake agreements. In addition, building insurance products around nature-based projects will encourage investors to finance them, as most corporates hesitate to get involved in such projects due to the associated risks.

## **What can we do to scale up the forestry strategy?**

*Eric Cooperstrom:*

We can scale up the forestry strategy by telling the story better and earlier in the project development process and bringing investors, corporate and potential buyers of credits along the journey of forest carbon projects. We can help them understand why these projects are beyond business as usual and have additionality factor attached to them. We must strive to incorporate higher quality and integrity into the projects for carbon sequestration.



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