

Timber-backed bonds in Costa Rica

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Background

Background

- Timber a growing asset class
 - Low correlation with other asset classes
 - Positive environmental benefits
- Costa Rica
 - Experience in the sector
 - Clear property rights and titled land
 - World Bank commitment to forest carbon



The background is a solid green rectangle with rounded corners. On the left side, there are three overlapping circles of varying shades of green, creating a layered effect. The largest circle is at the top, a medium one is below it, and a smaller one is at the bottom. The text 'The Problem' is positioned on the right side of the green area.

The Problem

Decreasing reforestation since 1995



FONAFIFO

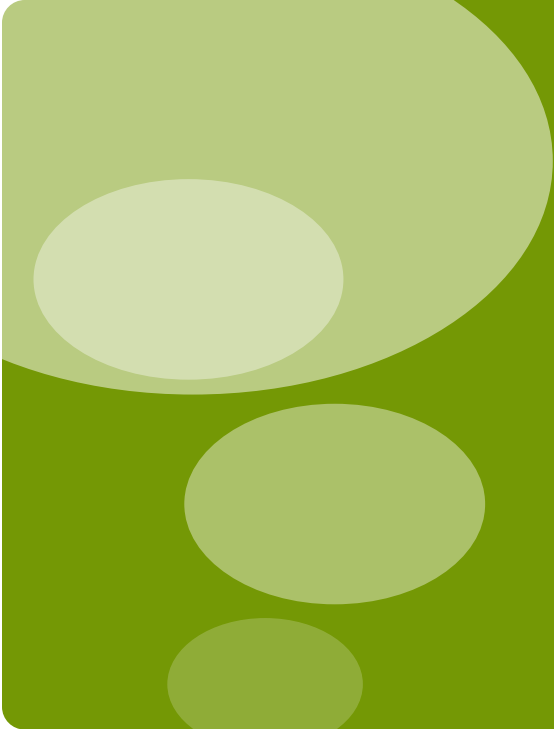
- Promotes forestry in CR
- Insufficient capital to promote reforestation through PES

SMLs

- Main owners of degraded land
- Unevenly distributed cash flow and long wait for return

TIMOs

- Produce most of the timber
- High cost of land



The Solution – Securitization of Timber Futures

What is a Timber Future?

- Certified purchase agreement on future timber



- → SML sells proportion of timber rights in advance
- →TIMOs purchase a fixed quantity and quality of timber
- →Encumbrance is placed on SML's timber
- →SML's receive upfront payment and annuities

Linking actors - spreading the risk



Establishment

- FONAFIFO
- SMLs

Yield

- SMLs
- TIMOs

Price

- SMLs
- TIMOs
- Investors

Investors Risk

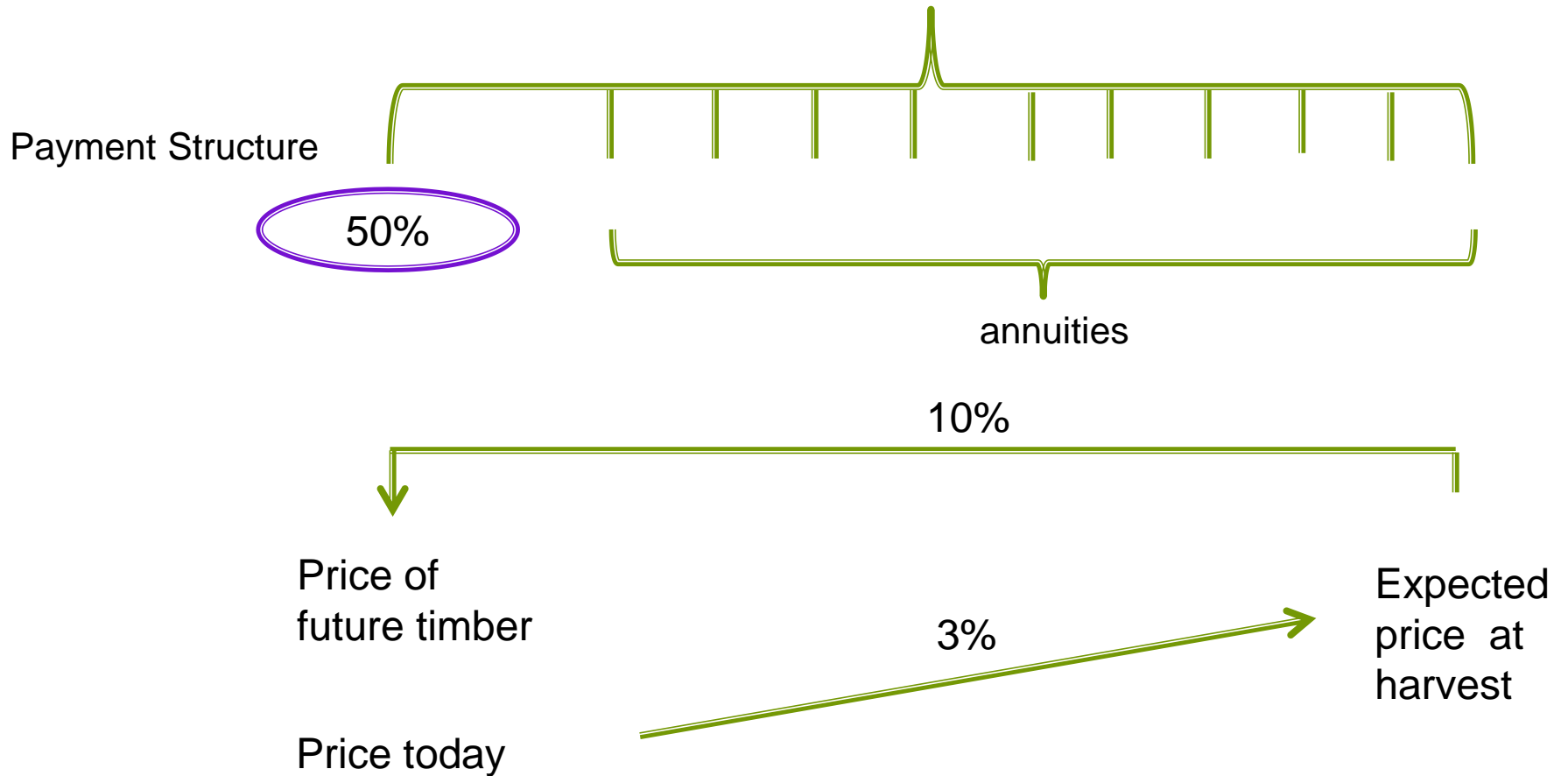


	Traditional	Timber Futures
Establishment Risk	✗	✓
Yield Risk	✗	✓
Price Risk	✗	✓ ✗



Mechanics

Timber Futures Structure



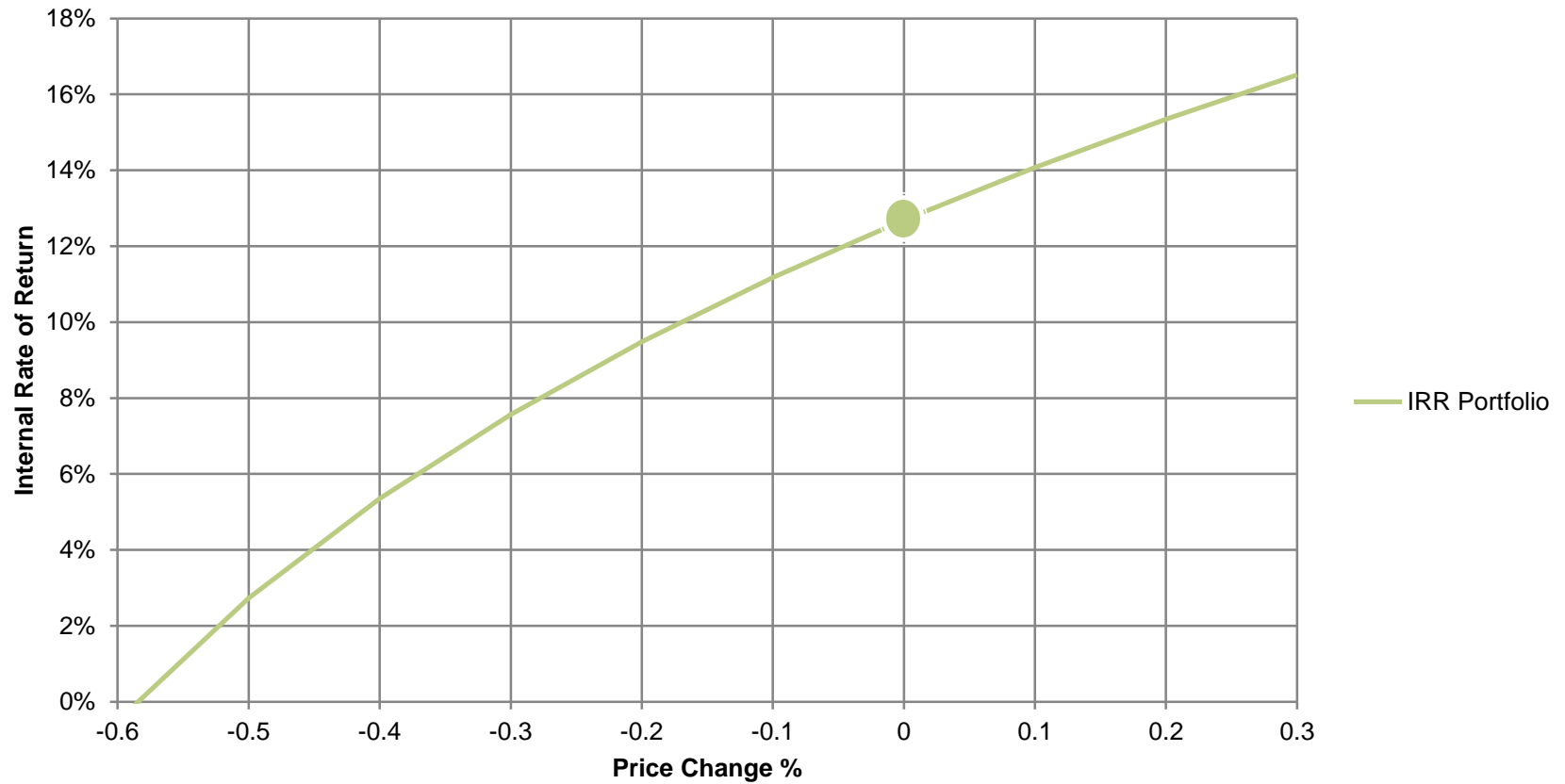
The image features a solid green rectangular background with rounded corners. On the left side, there are three overlapping circles of varying shades of green, creating a layered effect. The largest circle is at the top, a medium one is below it, and a smaller one is at the bottom. The word "Financials" is written in a white, sans-serif font on the right side of the green area.

Financials

IRR – No Leverage



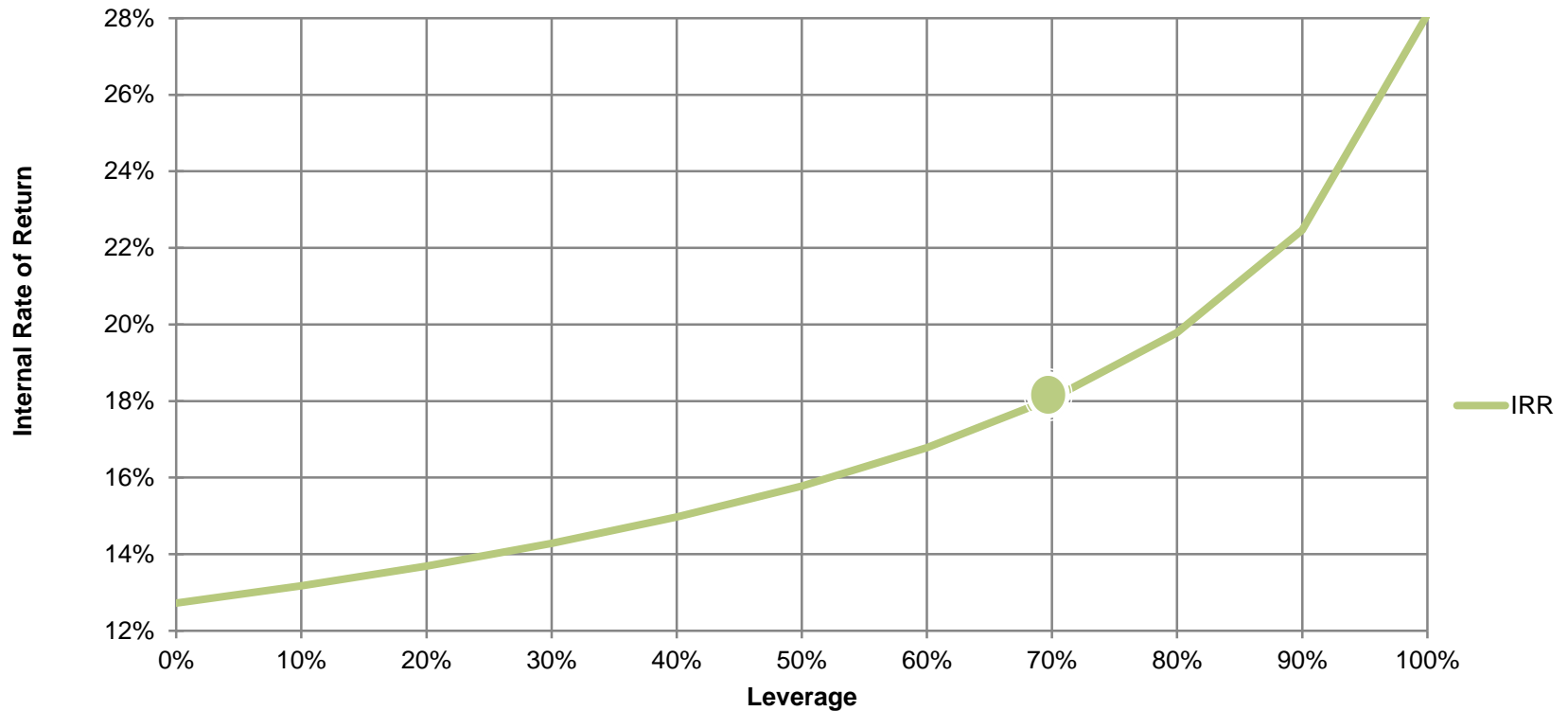
Sensitivity to Price



IRR - 70% Leveraged at 8% interest



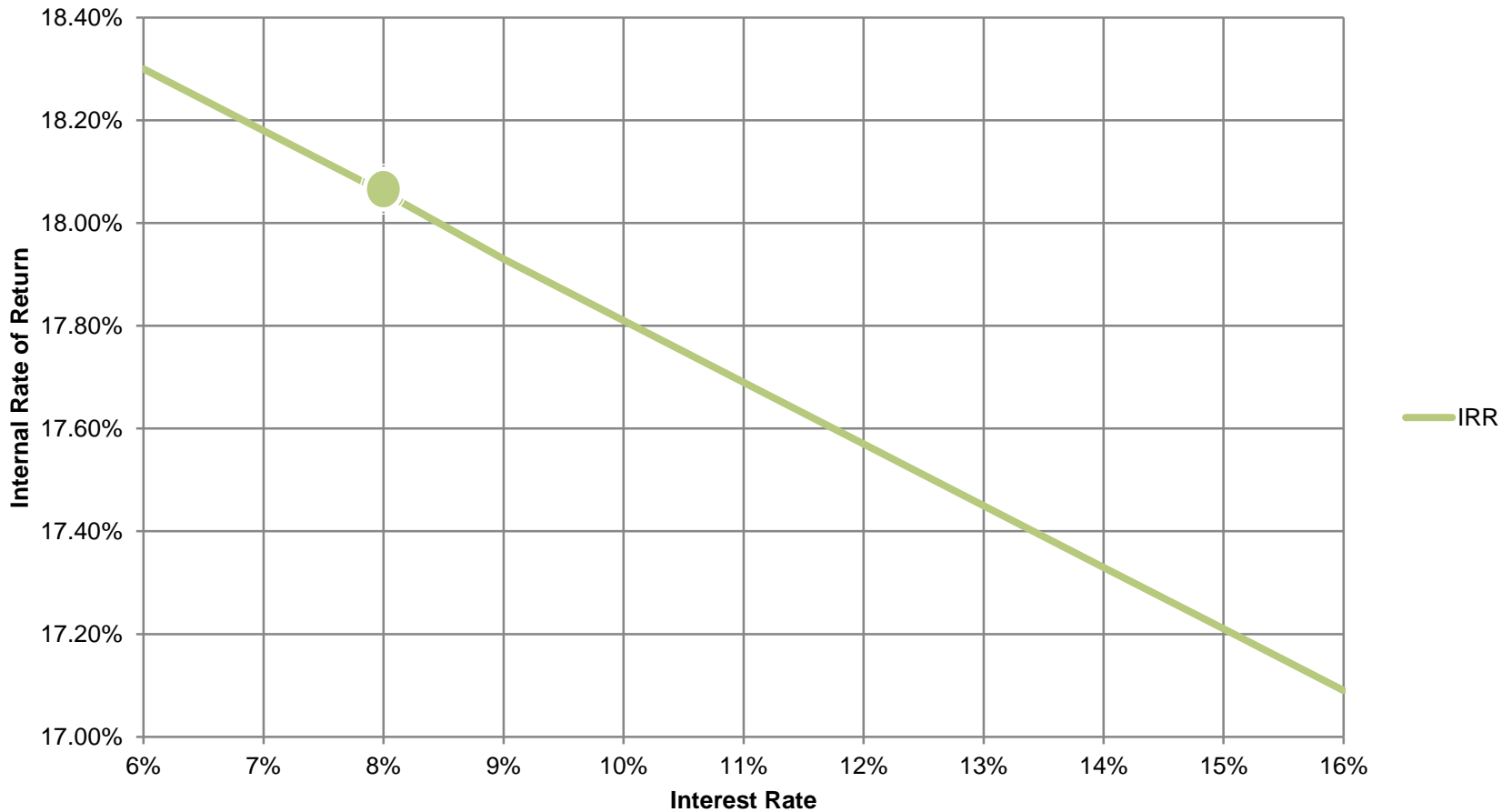
Sensitivity to Leverage



IRR - 70% Leveraged at 8% interest



Sensitivity to Interest Rate



The background is a solid green color. On the left side, there are three overlapping circles of varying shades of green, creating a layered effect. The top circle is the lightest, the middle one is a medium shade, and the bottom one is the darkest.

Scaling up



I. Creation of the Asset

SMLs

TIMOs

Timber
Futures

Proceeds
of Timber

II. Securitization and
Origination

Fund/ Trust

FONAFIFO

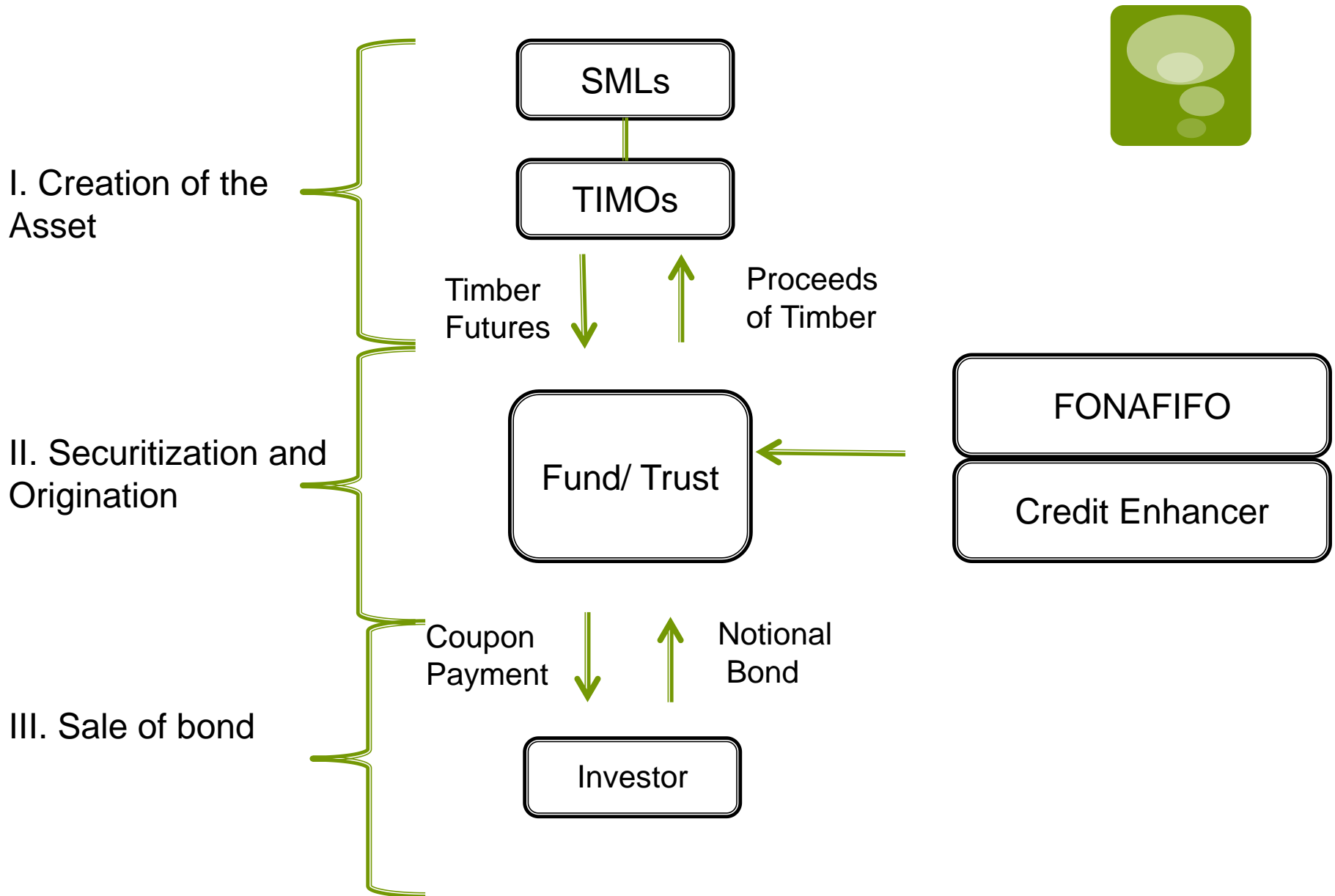
Credit Enhancer

III. Sale of bond

Coupon
Payment

Notional
Bond

Investor





Conclusions

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- Timber securities could be a new asset class for institutional investors
- Timber securities could be bundled according to investors needs
- The mechanism allocates risks strategically
- Replicable and scalable globally





Next Steps

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- Mechanism will be officially presented in CR
- **Analyze** the possibility of a guarantor for the fund
- Further engage with interested actors
 - Institutional investors
 - TIMOs
 - FONAFIFO
 - Risk rating agencies