

The Banker Investment Banking Awards 2008

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MOST INNOVATIVE IN SUSTAINABILITY

WINNER:
MERRILL LYNCH

In trying to secure a sustainable future, one of the most difficult decisions facing many developing nations is how to avoid exploiting their natural resources to the detriment of the local and global environment. Many nations are being warned not to log valuable forests because of the critical role they play in carbon sequestration, yet few are offered an alternative source of much-needed and sustainable revenue. Until now.

In the groundbreaking financing for Ulu Masen Ecosystem in Aceh, Indonesia, Merrill Lynch, in partnership with Carbon Conservation (working on behalf of the governor of Aceh), came up with a deal that provides carbon financing for the world's first independently validated avoided deforestation project, which is compliant with the rigorous Community, Climate, Biodiversity Alliance (CCBA) standard. It may not be the first avoided deforestation scheme, but it is the first to harness the power of an international investment bank and to link environmental benefits with companies' ethical product offerings.

In April 2008, Merrill Lynch essentially paid villagers in Aceh \$9m not to log the rainforest, which, as well as 'trapping' carbon dioxide, is home to rare Sumatran

tigers, clouded leopards and orangutans. In return, Merrill will get the carbon credits judged to be earned (in return for the carbon that is trapped by the forest which, if it were cut down, would escape into the atmosphere). The process is monitored and verified by CCBA.

Merrill is using the credits to create packaged products for institutional clients who want to offer ethical products to their retail customers using 'voluntary' credits; for example, a power company that wishes to offer a carbon-neutral electricity tariff, or an airline offering carbon-neutral flights, or a car manufacturer who wants to carbon-neutralise its cars.

Abyd Karmali, global head of carbon emissions at Merrill, says the deal vindicates governor Irwandi Yusuf's 'Green Initiative', which laid the foundations for the transaction. "And it's a good model for other parts of Indonesia, which faces one of the biggest deforestation challenges," he says.

Mr Karmali believes that the credit crunch and slowing global economy may have some impact on projects, but that because sustainability has become one of the variables on which companies compete, such efforts will not be derailed. "Companies compete on technology, on labour costs and on supply chains, and sustainability has become another competitive dimension. From that standpoint, the need to demonstrate a clear strategy and a strong performance in climate change efforts is critical to corporate stakeholders," he says.

THE JUDGES

J Mawuli Ababio is managing director of the African Venture Capital Association (AVCA) and is based in Johannesburg, South Africa.

Philip Alexander is the finance editor of The Banker.

Silvia Fazio is a partner and head of international-legal at Collyer Bristow.

Kenneth Ge is general manager and CEO of Bank of China's London branch, and director of Bank of China International (UK).

Stephen Kingsley is a director at analysis firm LECA.

Dawid Konotey-Ahulu co-founded pensions and insurance investment advisory firm Redington Partners in London in 2003.

Geraldine Lambe is the investment banking and capital markets editor of The Banker.

Francis Leung is senior advisor to CVC Capital Partners.

Zia Mody is a senior partner of law firm AZB, which has offices in Mumbai, Delhi and Bangalore in India.

Graham Moyse has more than 20 years' experience as an investment bank equity research analyst.

Raymond O'Neill is a founding member of investment and regulatory consultancy Kinetic Partners.

Roberto Paoletti is the head of credit trading at Banca IMI, the investment banking arm of

Intesa Sanpaolo, with responsibilities for the bond and derivatives operations.

Silvia Pavoni is the investment editor of The Banker.

Dr Mohamed Ramady is currently visiting associate professor in economics and finance at King Fahd University of Petroleum and Minerals in Saudi Arabia.

Osman Semerci is CEO and managing partner of alternative asset manager Duet Group.