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Financing the Energy Transition | Episode 5
Adam Bornstein, Lead, Innovative Finance & System Change, Danish Red Cross

This week, we welcome Adam Bornstein into the SmarterMarkets™ studio as we continue our Financing the Energy Transition series. Adam is the Lead of Innovative Finance & System Change at the Danish Red Cross. SmarterMarkets™ host David Greely sits down with Adam to discuss how ESG, impact investing, and carbon finance can be put to work to fund humanitarian relief and resilience to a changing climate.

Adam Bornstein (01s):
So we have to think about shifting that mindset and unlocking funding and so unlocking funding that is patient and patient capital, but is willing to kind of take that risk of being there and waiting for some other kind of disaster to happen for the flows that come in, I think is really important. But also getting more money to the communities on the ground.

Announcer (22s):
Welcome to SmarterMarkets, a weekly podcast featuring the icons and entrepreneurs of technology, commodities and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together we examine the questions. Are we facing a crisis of information or a crisis of trust? And will building smarter markets be the antidote?

David Greely (47s):
Welcome back to Financing the Energy Transition on SmarterMarkets. I'm David Greely, Chief Economist at Abaxx Technologies. Our guest today is Adam Bornstein, Lead, Innovative Finance & System Change At the Danish Red Cross. We'll be discussing how ESG impact investing and carbon finance can be put to work to fund humanitarian relief and resilience to a changing climate. Hello, Adam. Welcome to SmarterMarkets.

Adam Bornstein (01m 13s):
Hey David, how are you doing today?

David Greely (01m 15s):
I'm doing well, thanks. Thank you for joining us today. Many of our guests in this series are investors allocating capital, but I was really glad to be able to talk with you today because you bring us a slightly different perspective. The perspective of someone finding innovative ways to help put that capital to work in projects, in many cases designed to make communities more resilient and our way of life more sustainable. You're the lead of innovative finance and system change at the Danish Red Cross, and I think many people associate the Red Cross more with philanthropy and charity than with finance. So I'd love to get started with, you know, how did the Danish Red Cross get involved in these new ways of financing its work, and how did you get involved with the Danish Red Cross?

Adam Bornstein (02m 01s):
Great, thanks for that question. I think there's a lot of misconception about what the Red Cross is in the United States. We look at it as an organization that might run blood banks and do very important humanitarian and crisis management and disaster relief. But in fact, the Red Cross as an overall entity is a for-profit. It's a non-profit, and it's actually quasi-governmental and being able to flex on those different legs allows a lot of room for innovation and so to take a quick step back the Red Cross is made up of two parts. The first part is the IFRC, which is the Federation, and the second bit is the ICRC, the Danish Red Cross sits under this umbrella that is known as the IFRC, which consists of about 190 national societies and we focus a lot on disaster, whereas ICRC was established by Henry Dunant in 1863, and they focus a lot on, on conflict.

Adam Bornstein (03m 03s:
And this is important because traditional humanitarian response being divided in these two segments has been funded as that way as well and typically humanitarian interventions last for maybe two or three years, and the financing will follow suit, but the world's really different in 2022 versus 1876 and so while we focus very much on saving lives as our core principle, that's not the only thing that the organizations do. And focusing on political change, on systemic social impact, on economic commodities and how all of this will

actually impact humanitarian organizations in response is something that we have to take a look at and so the current paradigm of humanitarian response has changed and so just to take a quick look at some of these numbers, humanitarian assistance today will actually, in 2022, effectively supported almost 300 million people and it's 90 million more people in 2021 versus 2019 when pandemic was upon us.

Adam Bornstein (04m 09s):
And I would say that half of these individuals live in nine countries and if you look at the type of individuals that are impacted by climate weather related events like flood storms and wildfires, it's probably about like 21, 22 million people and they've been forced to move their homes. The World Bank has a couple models and says, okay, what is climate change gonna do to impact the humanitarian sector in terms of the number of individuals that are gonna have to move because of, because of climate, they're looking at about 150 million people just in Sub-Sahara, Africa, South America, and Southern Asia by 2050. There's another model out there from IEP that predicts 1.2 billion people by 2050 will have to move because of climate change and natural disasters and so this idea of mass migration is huge. It's a huge stress on infrastructure.

Adam Bornstein (05m 06s):
It's a huge stress on natural resources, economic and also political and it's a problem for western governments. President Biden's latest climate report links, migration and climate change very closely together to the point where it's almost US policy now to consider both one and the same but again, the issue is that humanitarian financing doesn't follow this path and in fact, overall development assistance is still lagging and so in 2021, ODA, which is Official Development Assistance hit an all-time high about 180 billion, which is up about 4% from 2020 but the amount of money that went to humanitarian organizations was about 19 billion and that's just a fraction of what's necessary for humanitarian response, which is, is around $30 to $60 billion depending on how you're gonna look at it and I think the Danish Red Cross back in 2018 when I joined, started to recognize that there was a shift in the market, that there was a paradigm change and that we had to kind of change our modalities.

Adam Bornstein (06m 13s):
We had to change our perspective, we had to change the mindset, but we had to avoid doing this in a way that completely disrupted the structure. So in other words, avoid the chaos that Elon Musk Twitter pivot took in favor of a Tim Cook to Steve Jobs transition, where you're going from strength to strength and while we don't have the complete answer for how this looks, I think that being able to apply capital markets, commercial structures and overlay that with humanitarian principles is the way to kind of address this and prior to the Red Cross, I was with a private equity and into development finance in various Asian countries, places like Geneva and Hong Kong in New York, China and my first job actually in Hong Kong was with a small investment bank that nearly blew up during the 1996, 97 Asian financial crisis. My boss, a British gentleman who were an eaten pinky ring in his father's brown shoes, basically saved me from being relegated to the streets.

Adam Bornstein (07m 28s):
And he taught me a lot of really interesting lessons and things around secondary markets you know, how to eat properly with a fork and knife being American, that's hard, I guess, and quirky limericks and one of the most important messages he taught me was, you don't need a slide ruler to understand the markets. All you need to know is that the markets are dictated by spreads. Everything is built on spreads of a spread of a spread and so I bring this up because the Danish Red Cross, our strategy is really about looking at the spreads and this is really important when we start thinking about how we finance humanitarian assistance specifically in grant financing because grant financing is very high risk and this is counterintuitive. If you imagine spending thousands of hours, like months filling out forms for a grant that may last two years or maybe one year, and you have a chance of maybe two or 5% of actually being awarded that grant, you have to ask yourself, where's the value for money there.

Adam Bornstein (08m 35s):
Like, is this time well spent, but that's how the industry is built. So the hit rate being so low means that you have to apply for a lot of grants and not necessarily be able to channel the funding in the right places because you're dictated by where the donors want the money to go sometimes. So for example, recently I was applying for a grant from the European government and they required us to work through a development bank and the development bank would receive the money and then they would transfer it to the Red Cross and so there would be kind of like this pass through entity. They wanted to justify a public private or like an institutional relationship there. But this is really complicated because very few IFIs or DFIs, these international organizations really want to put the time in for a sub hundred million dollar grant.

Adam Bornstein (09m 23s):
Eventually we found a development bank to work with us and for us to get them to work with us, we basically had to agree to give them 20% of the grant, which meant less funding for us to put money to work on the ground and so we had a really good chance of winning this. It was a very innovative process and project, but it became very impractical for us to actually go down that road because we just couldn't actually get the money we needed for the program. So with all this being said, where we land and through these different experiences and why the Red Cross and the Danish Red Cross is, is in this space, is this acknowledgement that we have to develop platforms that we control so that we can control our destiny. So we can look at the entire value chain and say, at this point or this point, we can flex or we can influence, but we're not gonna be held hostage to outside entities and a really good idea or a really good approach to this is thinking, well, what if we had a humanitarian bank, right? What if the humanitarian bank was the Red Cross or humanitarian organization that could then dictate its own future?

David Greely (10m 29s):
I'd love to dig into that. There's so many interesting things there. I mean, I'm still, my mind's still reeling from the idea of 150 million to 1.2 billion people potentially being displaced. I mean, I put that in the context of what the US population's around 330 million. So you just think of, you know, even at the low end, that'd be like half the US having to, to get up and move. It's pretty staggering and with this massive change in the nature of the need that the Red Cross is trying to address, I mean, it makes sense that you would need to change the funding sources and as you turn to look for funding from the financial industry, I'm curious how that compares to getting it from the traditional philanthropic sources. I imagine the grant process that you were talking about is very linked to, you know, getting it from governments or potentially philanthropies. How do you see moving to, you know, more, I guess just the typical finance industry approach, how does that differ from going to, to philanthropies for the money that the Red Cross needs?

Adam Bornstein (11m 34s):
That's a really important question, and it's when I think a lot about in April, around April, 2018, Lebanon was awarded this package of about $11 billion at a Paris conference and it was aimed at rallying international support for investment programs to boost its economy and the pledges were broken down to about $10.2 billion for concessionary loans and another 860 plus or minus for grants and donors wanted to use this money to get long term reforms enacted in the country, both political and economic and it was a kind of a carrot for Lebanon to move forward. So we looked at that money around 2019, said, wow, you know, for the last two years or so, this money, this 11 billion hasn't moved. What, why and what could we do from the Red Cross perspective to try and to enable this to happen, so interestingly around the same time the Lebanese government owed the Lebanese Red Cross money, several million dollars for services such as ambulance care and hospital care of that nature, which Lebanese Red Cross provides the country.

Adam Bornstein (12m 53s):
And we wanted to say, is there a way that we could transfer the debt that the government had with the Lebanese Red Cross over to this Paris Conference and to do kind of a debt cancellation and so the idea was to take a hundred million from this facility that was not able to unlock because of the political reforms, hadn't happened yet and applied to health system strengthening. So we would set up a, a trust fund, they would put money into this, this trust fund for health system strengthening, and then the Red Cross would be the administrator of it and it could be used in a really interesting and humanitarian modality. Took us 10 months to go through this process, more negotiations. We had a lot of support, but ultimately it broke down for some structural issues and I can't get necessarily get into a lot of those details, but it broke down.

Adam Bornstein (13m 41s):
But that was in a way like a grant process. So as I mentioned before, the probability of the grant funding to 5% whatever it might be, is like the probability of getting into an Ivy League school, it's, it's very, very, very low. So the downsides of this grant financing or traditional financing approach is a lot of resources but not great value for money are needed and then there's very little way to actually leverage the capital because you get dollar for dollar euro for euro and leverage is important because as I mentioned earlier, you know, there's a huge funding gap that needs to be cleared and doing grant financing isn't necessarily the way to do that. So changing the system is important, right and changing mindsets and applying leverage and this is what the capital markets can do. This is the way they can bridge financing gaps.

Adam Bornstein (14m 32s):
They can do this with leverage, they can reduce development costs. They'll look at the product and say it's good or it's bad. It's very binary and it comes down to pricing you know, it's based on whether the investor risk adjusted bogie is hit, yes or no and financial investors available to the Red Cross and other humanitarian organizations are actually split into two buckets. You have traditional

investors and you have impact investors and you need to develop the product for each of these, these class of investors. So you're not gonna take a outcomes based product that's very heavily focused on the social side to a muni bond investor because they don't care, they want the financial return. So how do you kind of bridge that gap and so it's interesting for us to be able to leverage that financial capital because you're building a product for a specific set of investors who, you know, very clearly need X and Y and you're not hoping that someone's gonna read your report or your proposal and say, oh, this actually is gonna impact or this won't impact, right because it's actually really up to the, up to a committee of individuals to decide if your grant and your program's gonna work. So I think that when we're working with, with the capital markets and institutional investors, it's just a much more transparent process and we can actually bring them over the line as to trying to win their approval in some ways.

David Greely (16m 05s):
And it makes it clear why someone with your, you know, your dual background in a way of having worked in the financial markets and also worked with the Red Cross, you kind of know, okay, what, what boxes do the financial capital allocators need to check or what are they looking for as you said, if you're an impact investor or a muni bond investor, like how are you gonna be evaluating a potential investment and if someone downstream from that doesn't know their thought process and what they're go, you know, what they need to see, it's probably difficult to package the project in a way that can get funding. So I wanted to ask you, you know, given that, how do you use your experience and finance to make those connections between the need for the need on the humanitarian side and the resources on the financial side. I know you said your mentor, you know, pointed out that everything's a spread, but I'm curious, you know, digging a little deeper into, you know, how are you using your finance experience to, to help bridge these gaps?

Adam Bornstein (17m 10s):
Right, I don't overstate my experience. I'm probably closer to a pedestrian than anything else and I rely a lot on partners. We have a great partner in a group called Plexus that works with us on insurance. We've worked with based carbon on some projects around adaptation mitigation, another group, grass root economics that's based in Kenya that helps us with block chain and our technology and crypto stuff. So it's really a collaborative effort. But I will say is that when I was younger as an equity analyst in Asia, one of the first places I went to was Thailand to cover a company called CM Cement. I think it was around 96 or 97 and I showed up at this construction site wearing a very heavy wool suit and it's probably the same suit I wore when I was a foreign policy analyst or intern for Senator Kennedy during university.

Adam Bornstein (18m 03s):
In fact, I'm pretty sure it was, cause I remember the Abercombie in Finch Tie was Paisley and it had a lot of stains on it and so I get out of the car, I step in a huge mud pile and the mud splashes all over my, my suit and it's on my face and I'm looking at the CFO and he's looking at me and I was like, mortified. I was like 22 or 21 at the time and he took me inside and they cleaned me up, they gave me some new clothing and then we sat around the table and I sat there looking at everybody around the table wearing pretty much the same outfit. But everyone had different lived experience, different backgrounds and different perspective. They didn't make me feel bad about the experience and we just went about the business and I thought to myself like, wow, you know, the Western perspective obviously being very different than the east, but I think that taught me a really important financial lesson, which is that the cost of capital's not the only cost, right.

Adam Bornstein (18m 58s):
And so working with a humanitarian organization who and these organizations avoid private companies, there's a huge amount of skepticism working with private companies because it's kind of like this unknown entity and so rather than thinking about the financial mechanism as our starting point and saying, hey, I'm a finance person, dropping into a humanitarian setting, you have to say to yourself, okay, what's the program you know, what is the value chain. Who are the people that are involved. Who are the beneficiaries you know, what problem are we trying to solve and once you've looked at that entire value chain and you can see where the levers are, then you can apply financial engineering and you can think about it, oh, where does liquidity come from. How do we make this sustainable and that kind of experience then is where you start to pull on your partners, but really it's about this idea with the starting point, which isn't really finance at all, it's the program.

David Greely (19m 54s):
And I'd love to get into, you know, what was one of the programs that led you to, you know, need to come up with a more innovative financial instrument or start to build out some of the financial infrastructure to get the, the capital down to the program?

Adam Bornstein (20m 11s):
The Red Cross is one of probably the world's largest humanitarian organization. We have 14 plus million volunteers and close to a million staff. This organization collectively carries a lot of risk and it's not, it's not quantified and the organization is cash based, so pretty much out of pocket. We don't use risk transfer mechanisms. We don't use leverage as I mentioned and we don't use insurance and so there's a huge opportunity to step in here and say, okay, how do we deflect the risk. How do we transfer the risk to private, private sector. How do we deleverage our risk, leverage our financial and back around 2018, I was in Berlin with my colleague Simon, who was with the British Red Cross and we were attending a conference about early stage investing in disasters, which we call forecast based financing, where you say, oh, there's a river that's rising and it starts to trigger some engagement.

Adam Bornstein (21m 13s):
So let's put some sandbags, let's move people to shelters and that deals with a very small quantum of capital in a very small area. So how do we take that idea of, of trigger based financing and blow it up so that now the private sector's investing in that, and obviously insurance is a great place to do that, specifically around catastrophe bonds and so in 2021, the Danish Red Cross issued the first humanitarian, pure humanitarian catastrophe bond focused on volcanoes and we covered 10 volcanoes around the world in seven countries and we did that with our partner Replexus and another group called MITIGA, which is out of the Barcelona Supercomputer Center, who was our calculation agent and modelers, but what's really significant about this insurance product was that we didn't go through traditional brokers or even insurance companies. The Danish Red Cross set up its own insurance company, it's own captive called Do Not Read after the founder of the Red Cross.

Adam Bornstein (22m 09s):
And not only was it an insurance platform, a captive itself, we did it on block chain. and by putting it on block chain, we could actually cut several million dollars out of the process because when you're dealing in insurance, what is it, it's modeling, it's legal documents, it's clearing and settlement, it's looking at analysis and trying to deflect the risk and then paying commission to brokers. So we became our own insurance company and then we took it a step further and we became an ESG compliant entity, which meant we could issue green bonds. So we issued this catastrophe bond, it raised several million dollars, we brought institutional investors on board and were grateful for all of them and then this bond was securitized and it trades on the UK stock exchange as a green entity, as a green product, part of a sustainability bond index.

Adam Bornstein (22m 59s):
And so, like say, this is great, we did that and from there we said, how else can we use insurance. Well, let's not make insurance the product, let's make insurance part of the solution and that's where we started looking at carbon credits and adaptation and specifically nature-based solutions and so in the Philippines, that country is rocked by typhoons fairly regularly and a way to sort of protect communities is to plant mangroves and so earlier this year we started a project and we did this with base carbon and our partner Replexus and the University of California Irvine, and we set up a trust fund. That trust fund is funded through some grant capital. We use project financing with from base carbon and that funding is then used to plant trees the mangroves and from there carbon credits are will be generated.

Adam Bornstein (23m 59s):
And then we also set up a second leg, which is an insurance product and this insurance product comes from do not re and that is a cover for the Mangrove project and so if there is a typhoon that trigger that insurance product is triggered and the funding goes back into the trust fund and then we are able to recover the loss and so we've balanced the insurance with the adaptation and nature based solution and, and link that back to livelihoods and so then this insurance is more than just a product, it's now a platform and we also looked at Somalia around famine financing where we said, look, Somalia is a Muslim country, you can't actually go in there with insurance because it's considered Haram. So how can we use insurance in that type of setting. Well, we could just use the idea of insurance and provide a a cover over health clinics so that individuals can go, they can get taken care of, they don't have to pay for it.

Adam Bornstein (24m 57s):
But then once there's some kind of health service delivered, well there's a cost associated with that, right and so we can kick that cost up to a to, to an insurance back office. And in this case we're working with Allianz to be able to process a claim and that allows us to have a validation process and so then eventually that claim is paid and then we generate outcomes from that and we can essentially monetize these outcomes, some better health outcomes and sell those to impact investors, generate more money, put that into a bucket, and before you know it, you have this kind of, this bucket of capital like an insurance company would have to be able to start to

leverage and to provide service. That's one example that we've done. We've worked with debt swaps before that we're currently doing right now, or debt cancellations in Africa where sovereign will cancel their debt in exchange for a local country to pour the money into education or to health that will be distributed by the Danish Red Cross or the local national society. There. We're working in Ethiopia where we're creating these outcome funds where we focus on destitute children, children living on the streets, where you start to say, how do you settle them with, with back, with their families and that's around displacement and being able to then say, this process works and how do we securitize that and then sell it to investors. We've done things with Bitcoin in Kenya.

David Greely (26m 23s):
Yeah, I mean I find it fascinating because you know, at least in my own mind, I always think of Red Cross with disaster relief. So of course whenever there's a natural disaster, be it volcanoes flooding you know, the Red Cross is there to respond and as you said, with it being more of a cash flow entity, I would imagine you had to raise in the past, you'd have to raise the cash at that time, you know, or draw down on savings to help meet that need, so by being able to issue these catastrophe bonds, that provides a way to make sure that, you know, the Red Cross is getting the money it needs when the disasters unfold and I'm curious, like then it sounds like you've switched from not only, you know, being able to obtain the money for disaster relief in some sense through the catastrophe bonds, but then also putting money into mitigating the impact of potential disasters and making communities more resilient, has there been a strong shift in focus that this type of financing is enabled?

Adam Bornstein (27m 26s):
So this is a complicated question because the Red Cross or humanitarian organizations are meant to deal with disaster and then the emergency response development agencies like the World Bank and others focus on the rural development, that resilience piece but as I kind of mentioned at the beginning, the world is more complex than back in 1876 and so humanitarian organizations need to need to now move a bit more center where you're thinking about resilience, but the financing available to humanitarian organizations is not necessary there for that resilience or world development. A very, very good example is with the famine that's currently happening in the Horn of Africa that's been going on for five years and we've known about it, it's like a slow moving train and the humanitarian organizations that have worked in these countries have done a lot to save lives but you can't stop climate unless you are able to build in some kind of shock absorbers to be able to allow people to absorb the pain, if you will, and then survive and thrive.

Adam Bornstein (28m 35s):
So in a lot of countries there's actually legislation that divides humanitarian and development assistance and the funding that for humanitarian response cannot be used for rural development, which creates challenges if you don't change your mindset in the way you approach the financing and so for us using insurance as a trigger based as a way to do that, because we can pay for the premium, we can bring investors in and transfer that risk to the private sector. We can also leverage carbon credits and offsets to support long-term resilient programs and we can also blend the two together for example, in Somalia, we're looking at a project right now where we bring in impact investors to pre-fund operations on the ground because what happens that for a lot of humanitarian organizations, there's a high cost to keep programs active. They may be just two or three years of financing from the grant side, but what comes after that, like you still need to maintain this, this work and that funding isn't there.

Adam Bornstein (29m 35s):
Even the United States the American Red Cross has an issue where they come in low periods of inactivity, what do you do with the staff. There's always money when there's a crisis, but there's very little when there's no crisis. So bridging that gap is important. That's that resilience area. So if you get impact investors or philanthropic investors to come in and pay for that period of that downtime and then structure a product where it's triggered because of a disaster that you can then be used to kind of repay those investors, you can create some kind of pay it forward mechanism and I think that's kind of what we need to focus on is how to pay for or how to support periods where there's not a crisis that has been identified by the country because a lot of governments don't want to identify that there's a crisis because politically that's difficult.

Adam Bornstein (30m 21s):
And you can look at Sri Lanka, right back in 2019, 2018, they changed the policies around what type of fertilizer you could use and so then it went from a period of kind of having petroleum based traditional fertilizers to all organic and it just decimated the economy and we knew this was happening, you could see it happening, but no one did anything and the only time you recognize it when there's a crisis. So we definitely have to come in earlier to build that resilience and alternative financing is a way to do that because there are strict regulations around what humanitarian system can and can't be used for.

David Greely (30m 54s):
Yeah, and, and a number of times now I've heard you mention impact investors you mentioned making the catastrophe bonds, ESG compliant in a way mentioned carbon financing and I'm curious, like how are all these newer forms of finance, like how important are they to being able to do what you're doing?

Adam Bornstein (31m 16s):
I would say that we know how to solve the problems on the ground, like the answers around resilience and food systems, how to make food systems more secure and resilient. We know those, we know what to do. The problem is how to get money there and how to accelerate the pace of engagement and there's a couple reasons why this pace isn't accelerating or what's impacting the pace of kind of the resilience building and, and making things more secure and one is the fact that disasters are more frequent and they're protracted. So in the past it might be a couple years, maybe one or two a year, now it's dozens and they last 10 years and this puts strain on the human capital and financial resources and it sparks a lot of secondary and cascading perils, like, you know, massive rains create mudslides that then take out people's homes and, and then the food and the agriculture is destroyed and then there's no, there's no way to feed your family.

Adam Bornstein (32m 15s):
So those cascading effects are, are multiplied and then gender disparities, right during massive crisis in, in conflict, women and children suffer more than anybody else and being able to get more money into those spaces is really important. The other reason why things have slowed down is that you know, as I mentioned before is that focusing on this resilience, right, like essentially the humanitarian space is very reactive as opposed to proactive, generally speaking. Not everybody, but generally speaking and so we have to think about shifting that mindset and unlocking funding and so unlocking funding that is patient, right, patient capital, but is willing to kind of take that risk of being there and waiting for some other kind of disaster to happen for the flows that come in I think is really important, but also getting more money to the communities on the ground.

Adam Bornstein (33m 07s):
And part of the reason that we struggle getting more money into the ground is that these countries aren't actually prepared to accept all of it in being ready to understand maybe how to apply for the grants or how to do the governance structure. There's a lot of work that we have to do on that capacity building side and I think there are organizations that are really doing this now, and there's one that's called the Green Climate Fund, which I think is the world's largest climate fund. They've issued $40 billion over the last 10 years to about 200 projects, and they push for this kind of paradigm shift, right and they focus on the readiness for local communities to be able to kind of step into this space to accept the capital and to know like the right language to talk in terms of like what the right lexicon is and how to work with international actors. So it's kind of a, it's a dance, it's an art. It's not completely straightforward.

David Greely (34m 03s):
One question I wanted to ask you was, you know, when it comes to carbon related financing, one of the appeals that's often cited about it for an investor is that carbon credits are measurable, they're quantifiable, you know, one ton of CO2 equivalent reduced or removed. Of course your humanitarian objectives are much broader than carbon emissions and often they're less easily quantified. So I was curious, like how do you see the effect of carbon finance relative to the broader humanitarian goals? Like is it, is it opening the door to financial resources or potentially diverting them?

Adam Bornstein (34m 40s):
I read a couple days ago that China coming out of COP 27 has said that they're gonna try and now link their belt and road program to carbon financing and what I thought about that was, wow, I wonder if countries can now pay back their sovereign debt and credits and I think, you know, back in the day in Europe, the cap and trade, you know, part of the idea was governments would give credits to corporations and they would use that to kind of move the mitigation scale and it would lessen the cost and then I guess EU started giving credits to foreign countries and, and it kind of blew up, right, but it's different now in some ways because the voluntary markets have more credibility and it's not, and it's not only looking at US dollar in Euro, but there's probably local markets that can spur up.

Adam Bornstein (35m 29s):
And I think that if we, if we follow this, this train of thought of how to bring leverage into the system, how to securitize the activities that can then become an asset that may trade or may not trade, maybe there's an ESG value to it, or maybe there's just the fact that you can show that your, your company's having some measurable impact to make humanity better because that still is important. Then I think

that having a carbon credit or an offset credit is a monetary value. It's really, is really important and that is stimulating a lot of the growth. For example, our project in the Philippines, if we weren't able to tap into the carbon credit markets and to work with base carbon as our project developer, it would be hard for us to try and find ways to sustain that program without grant financing.

Adam Bornstein (36:13):
Because how do you make money from climate, like if you have communities that are based on the coastal seashores, coastal seashore of the Philippines, and they're working on plantations or whatever, whatever, rice patties and things like that fisher working in aquaculture, fisheries and such, how do you actually monetize that for humanitarian response. They need that money for their families, being able to reforest and restore mangrove forests or fish ponds if you have, if you, if you will, is a really important revenue stream and I think that itself could really revolutionize humanitarian response in terms of how it's financed.

David Greely (36m 57s):
All right and a little bit earlier in the conversation, you brought up this idea of a humanitarian bank, and I wanted to go back to that for a moment. You've talked about these kind of insurance type products that you've been able to, to create and innovate. Is the humanitarian bank, is that like a vision or how far along are you to that goal?

Adam Bornstein (37m 19s):
We do not, which was set up in actually 2020 in Guernsey is set up as an ICC, which is essentially a honeycomb structure. So if you're, if you look at the honeycomb, it has different pockets in it and one of these pockets is our insurance entity that we work with Replexus and Aon as a backend support and next to this insurance company is another cell, which is set up and can be set up as bank in a box and what's really interesting about the insurance space and specifically the ILS market, which is the insurance link securities and a subset of that are catastrophe bonds, which is the volcano bond that we issued, is that investors put 80 billion into collateralized accounts, backstopping these products and that money sits there for three years, four years, whatever the, whatever the term of the bond is that they're backstopping and it's earning interest from US treasuries, right?

Adam Bornstein (38m 19s):
Or it's, it's doing something that's not ESG, but a lot of investors in the ILS space now are actually ESG investors are very focused on, on how to do that climate side, how to use insurance for climate mitigation and, and, and adaptation. But they're sitting in US treasuries, so there's a huge opportunity for humanitarian organization like, like the Red Cross to be able to say, oh, well we have an insurance entity and now we have a bank entity that's registered and licensed, and we have a source of capital $80 billion that we could leverage instead of putting it into US treasuries, put it into the Red Cross and the Red Cross can issue humanitarian bonds and we can use that to support our programs and so what about, what about credit rating. Well, there are several banks in Europe, Switzerland, and other places that would be willing to lend their credit rating, AAA rating to an entity like this that then would be able to give us much lower rates and you can actually look as if it was the World Bank. I'm not gonna say that we're there today, but pretty much all of these components are in line for, for you to push the button and to make it happen. To the extent that even the regulators have more or less given their nod their head to their head nod to say, but you know what that's fine.

David Greely (39m 33s):
It's, it's really impressive, Adam, the creativity that you've put to work in helping these humanitarian programs access the, the capital that's in the financial markets through these various channels and I thought maybe a, a nice place for us to wrap up today would be, I'm listening and hearing a lot of the efforts that are required from the programs to access capital by learning how to speak the language of the financial markets but, you know, if you could talk to the capital allocators, the ESG, the impact investors out there in the world, what could they be doing to make it easier for the money that they have and that they're committed to putting into good programs. What should they be doing from their end to help that capital get down to the program level?

Adam Bornstein (40m 25s):
When I worked for an organization called the Global Fund to fight aids TB and Malaria, and this was around 2015 or so, and the Global Fund is the world's largest health trust fund, if you will. It serves 140 something countries. We were, I was in a meeting and the deputy treasurer from South Africa was in our office, and he came in and said, I got $10 million. I can't really use it for what I want to use it for, because politically it's very sensitive and this was around educating 70,000 to a 100,000 South African sex workers about HIV aids and for the government to finance that, it just wasn't possible and I said, do you think you guys can come up with a way to help us. Like what should we do and so we said, well, why don't we do a social impact bond where essentially we would deliver the, the product and we would go into the market and we would support the education process.

Adam Bornstein (41m 19s):
And if we delivered a type of outcome, which was, you know, maybe 50% of the beneficiaries had a higher level of, of education or the amount of HIV transmission dropped by 20%, then the government would pay for that, right, so deliver the outcomes the government would pay for that, great. That's a really interesting way for them to get involved and then you get them on, then you get their financing as a component, and it becomes a ledger item right in, in, in the budget and every year that's there and they start to see, and it becomes part of the process and so I would say that the idea of large trust funds, like the Green Climate Fund is another example. To be able to put capital into those, into those entities and then work on the ground to support the readiness of different countries and with the private sector to provide that capacity building, I think is, is really important to go in as a private company and put money into the ground.

Adam Bornstein (42m 15s):
A lot of times you're gonna, you're gonna face political problems and you're gonna have to deal with stock, stock investors saying, why are you doing this, various challenges, but if you can actually put the money into a large entity that can then distribute it, and then you can come in and work underneath that, I think that's a really good way to bridge that gap and then also, you know, being open to not accepting the highest return on your investment to take principle back, maybe plus a little bit for capital for cost of capital, but not to try and swing the bat and to hit a home run each time you know, the world can't keep growing at the pace that it's growing and it's important that these private industries kind of a say to themselves, what is enough for us and how can we look long term into the future and on the other side, the humanitarian teams and organizations will say we understand you need to make something back. We'll work with you to try and meet you and so together, both sides working for a common good. I think, you know, not to be too hippity dippity, I, think is gonna generate some great success and I, and you know, the Red Cross has, I think, demonstrated that with our insurance products and the in the, in the carbon projects that we're working on.

David Greely (43m 27s):
Thanks again to Adam Bornstein, Lead, Innovative Finance & System Change at the Danish Red Cross. We hope you enjoyed the episode. Join us next week with Leah Wieczork, Vice President Global Carbon at Macquarie. We hope you'll join us.

Announcer (45m 24s):
This episode has been brought to you in parts by Base Carbon. The trading of carbon credits can help companies and the world meet ambitious goals for reducing greenhouse gas emissions, but how do we judge the quality of these projects and how can we ensure that our investments are creating real value. At Base Carbon, we are focused on financing and facilitating the transition to net zero through trusted and transparent partners. It's time to focus on what's important. It's time to get serious on carbon. Learn more at Basecarbon.com. That concludes this week's episode of SmarterMarkets by Abaxx. For episode transcripts and additional episode information, including research, editorial and video content, please visit smartermarkets.media. Please help more people discover the podcast by leaving a review on Apple Podcast, Spotify, YouTube, or your favorite podcast platform. SmarterMarkets is presented for informational and entertainment purposes only. The information presented on SmarterMarkets should not be construed as investment advice, always consult a licensed investment professional before making investment decisions. The views and opinions expressed on SmarterMarkets are those of the participants and do not necessarily reflect those of the show's hosts or producer. SmarterMarkets, its hosts, guests, employees, and producer Abaxx Technologies shall not be held liable for losses resulting from investment decisions based on informational viewpoints presented on SmarterMarkets. Thank you for listening and please join us again next week.