

# Banking on forests

The European Investment Bank's belief in financial alchemy to fix the climate crisis: The case of the Althelia Climate Fund

Written by **Antonio Tricarico**, Re:Common  
– based on the findings of Merian Research  
Text closed on 19th August 2014

Over the last few years civil society has paid much attention to the urgent need to scale up financing for climate action, both in terms of mitigation of and adaptation to climate change.

This issue has also become central to European governments and their financial institutions in terms of meeting developing countries' urgent need to cope with climate change challenges. However, EU governments have been slow in responding to these requests, despite unfolding climate change and frequent related disasters which have affected both the global South and the global North. Most of the action undertaken so far has focused on the implementation of market-based mechanisms aimed at leveraging private financial resources, as well as on the identification of sectors and activities to which to allocate those funds.

So-called "carbon finance" – assuming that generating carbon credits and related financial assets exchangeable on open markets will move the private sector to meet reduction objectives – has become predominant within the field of climate finance. Carbon finance has attracted fierce criticism from several civil society groups, within the wider critique directed at a market-based "green economy" whose objective is to financialise nature. The current trend is to make the business of environmental protection highly profitable for few investors by allowing the existing extractivist and fossil-fuel development model to continue unchanged, therefore severely impacting the local environment and the livelihoods on which most of world population and the poor depend.

Much less attention has been paid by environmentalists, organised civil society and decision-makers to the devel-

opment impact associated with the market-based mechanisms promoted by the EU in the fight against climate change. Thus, not only do European trade, financial and economic policies seem to stand in contradiction with European development policies and goals, but there is also a clear lack of policy coherence for development regarding EU carbon finance. This has not been problematised enough nor taken into account by European decision-makers.

Despite the severe difficulties faced by the EU Emission Trading System since the end of 2012, and despite the fact that carbon markets in Europe are basically falling apart (with very low carbon prices and investors leaving this sub-sector), European governments and institutions are determined to push for the international community to adopt new market-based mechanisms for climate action in the run-up to the next climate negotiations in Lima and Paris in 2015.

While waiting for international binding agreements, voluntary markets for carbon finance are growing, in particular in the forestry sector. The "State of the Forest Carbon Market" report from Forest Trends published in November 2013 shows that "some 28 million offsets from agriculture, forestry and other land-use projects were transacted in 2012, a 9% increase from 2011"<sup>1</sup>. In contrast to the "still depressed international compliance markets (such as those for Certified Emission Reductions and Emission Unit Allowances), the voluntary market proved to be much more resilient and less volatile, as it fell only slightly from \$237m to \$216m, with the average price of forest carbon offsets stable at around \$7.8/t compared to \$9.2/t reported in 2011". However, the news was better for REDD+ (Reducing Emissions from Deforestation and forest Degradation), for which "volumes were up to over 8 million tonnes transacted at an average (secondary) price of \$8.70". The voluntary market for REDD+ has "weathered the storm of the financial crisis relatively well compared to other sectors and especially CDM"<sup>2</sup> and the market "has

<sup>1</sup> Althelia Climate Fund, *Annual Report 2013*, 31 December 2013, pag. 4

<sup>2</sup> Clean Development Mechanism, [http://unfccc.int/kyoto\\_protocol/](http://unfccc.int/kyoto_protocol/)

seen increasing corporate interests and fresh demand from notable companies including Barclays Bank and Microsoft”.

In this context, European financial institutions are playing a crucial role in promoting the development of forest carbon finance through REDD and REDD+ projects. REDD has recently been the key laboratory for expanding carbon finance to a new set of assets and projects – something which was originally excluded from climate talks and agreements during the 1990s. After a first wave of highly controversial projects developed in the global South, which had an unprecedented impact on indigenous communities whose livelihoods depend on the forest areas where they live, today fewer projects are being developed and European financial institutions such as the European Investment Bank (EIB) have been requested by European governments to back pilot projects and promote such mechanisms worldwide, once more with the risk of overlooking the associated negative development impacts.

An example of this is the Althelia Climate Fund, the first European carbon fund financed by the EIB to invest in REDD+ projects. The EIB, the EU “house bank”, has always been very active in supporting the development of carbon markets in Europe and abroad through investments in carbon funds. As already highlighted at the end of 2011 by Counter Balance in its publication, “Banking on Carbon Markets”<sup>3</sup>, the role of the EIB in this regard has been quite problematic, given that the Bank used to outsource the management of such funds to external firms, moved by dubious and biased interest. This outsourcing included the selection of projects to be supported and the due diligence procedure to take place. Following this approach, the EIB supported a number of controversial operations which allegedly do not genuinely contribute to effective climate mitigation: such as gas flaring, landfill gas, monoculture tree plantations and fossil fuel switch.

Given the dubious definition of emission baselines, and often opaque project implementation, EIB financing of these carbon offsetting projects might have led to little or no reduction of greenhouse gas emissions while generating the same carbon credits and profits for corporations involved.

Therefore, it is important to take a closer look at the Althelia Climate Fund, which aims to set the precedent for a future generation of carbon funds, despite growing opposition to carbon trading both within Europe and in developing countries<sup>4</sup>. The purpose of this briefing is to shed light on the set-up of this new fund and its implications for the poorest of the world, who might be left worse off in the name of “climate protection”.

## What is REDD?

Reducing Emissions from Deforestation and forest Degradation (REDD) is a mechanism which has been under negotiation by the United Nations Framework Convention on Climate Change (UNFCCC) since 2005. It has the dual objective of mitigating climate change by reducing greenhouse gas emissions and removing greenhouse gases through enhanced forest management in developing countries. REDD credits give a financial value to the carbon stored in standing forests, and therefore promoters of REDD believe that these credits – which can be traded on carbon markets – will generate a financial incentive to protect forests while compensating forest landholders for the opportunity cost lost to conserve their land.

REDD received significant attention from the UNFCCC climate summit in Bali in December 2007, where the first substantial decision on REDD+ was adopted, calling for demonstration activities to be implemented and reported within two years. REDD+ was also a pillar of the “Bali Action Plan”, referencing all five eligible activities for REDD+ (sustainable management of forests, conservation of forest carbon stocks and enhancement of forest carbon stocks constituting the “+” in REDD+). The call for demonstration activities led to a large number of projects, including the Forest Carbon Partnership Facility (FCPF) of the World Bank, the UN-REDD Programme and a range of smaller projects financed by the Norwegian International Climate and Forest Initiative (NICFI), among many others. They were all based on an interpretation of the very limited guidance coming from the UNFCCC. This resulted in a disconnection between those first projects and the emerging guidance created at later sessions of the UNFCCC.

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mechanisms/clean\_development\_mechanism/items/2718.php

<sup>3</sup> *Banking on carbon markets. Why the European Investment Bank got it wrong in the fight against climate change.* Counter Balance, CRBM, December 2011 -<http://www.counter-balance.org/wp-content/uploads/2011/12/BANKING-ON-CARBON-MARKETS.pdf>

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<sup>4</sup> <http://scrap-the-euets.makenoise.org/KV/common-concerns-to-scrap-the-eu-ets/>

# 10 things communities should know about REDD

The World Rainforest Movement (WRM) documented how all communities involved in REDD projects, “without exception, have a lot to say about REDD”<sup>5</sup>. Indeed REDD projects are often planned in areas where communities are living. REDD project developers may explain that their project is necessary because deforestation is a cause of climate change, which leads to more rain, more droughts or higher temperatures, and that REDD will provide jobs, money and social projects. At first communities often accept REDD projects because of these promises.

WRM asks whether the REDD project will be “good for the community as a whole” and whether it will really “open the doors to a better life”. The answer to this question results in a comprehensive criticism of REDD.

## **1. A proposal that comes from the outside, “from the top down”**

REDD is “not a proposal put forward by local communities”. There are also other top-down proposals such as industrial monoculture of eucalyptus or soy plantations, mining projects or hydropower dams. In order for communities to truly benefit from the activities proposed for their territory, these proposals must come from the community members themselves. They cannot be imposed from the outside.

## **2. A proposal that entails restrictions and prohibitions for communities**

Similar to national parks and protected areas, REDD projects place restrictions and prohibitions on communities’ ways of life and use of the forest, affecting part or all of their territory. Prohibitions can include cutting trees, hunting, fishing, and even gathering medicinal plants and fruits. Breaches are enforced by the police or private security guards working for the REDD project.

## **3. REDD threatens food sovereignty**

Clearing forest to plant crops is always subject to restriction. Occasionally communities are allowed to practice agriculture in an area that has already been deforested. Prohibiting communities from producing their own food in their own way is not only a signal of disregard for their customs and traditional knowledge, but is also a threat to their survival and food sovereignty.

## **4. REDD means communities lose control over their territories**

REDD is about taking control of communities’ land, not about recognising their rights. REDD project developers need control because they have to prove to their financiers that deforestation “has been reduced and that the ‘danger’ posed by the community has been dealt with”.

## **5. REDD projects create divisions within communities**

REDD projects often hire forest rangers or security guards from local communities, who ensure that other members of the community do not break the prohibitions on forest use imposed by the project. The most disadvantaged members of the community are generally excluded, resulting in the creation or worsening of divisions within the community.

## **6. REDD projects do not help solve the common problems faced by communities**

REDD project promoters have one main goal: to ‘sell’ carbon. Projects do nothing to solve problems such as land rights, health care services, education, transportation or the marketing of community products.

## **7. REDD projects threaten the continued existence of communities**

If community members do not follow the REDD project rules, they are persecuted. They may start to look for alternative livelihoods, often in urban areas. People begin to leave and the community breaks down.

## **8. REDD projects will not prevent forest destruction**

REDD projects may protect the forest in the project area, but destruction may continue elsewhere through hydropower dams, monoculture plantations, cattle ranching and so on. The companies buying REDD credits are often polluting companies that consume oil, coal and minerals from forest areas.

## **9. Not only the communities who depend on the forest suffer**

Among the companies that finance REDD are companies exploiting oil reserves in Canada. These activities have a serious impact on Canadian Indigenous Peoples. REDD allows this situation to continue by allowing companies to “offset” the pollution in Canada by preventing deforestation in the global South.

## **10. The final result: huge injustice**

Among the winners from REDD projects are the big NGOs, government technicians and consultants – all responsible for coordinating REDD projects and technical aspects such as verifying that deforestation has been reduced. Polluting companies benefit by receiving the “right” to continue polluting. The vast majority of the community see only small benefits, if any. Communities are accused of deforestation, while companies are not. Communities “run the risk of being evicted from the land where they have always lived”.

According to WRM it would be more effective to stop pollution where it takes place, instead of promoting REDD offsetting projects. Secondly, “the best way to take care of the forest is to guarantee the land rights of forest communities and other communities that depend on forests”.

<sup>5</sup> <http://www.redd-monitor.org/2012/12/12/10-things-communities-should-know-about-redd/>

## The EIB supports the Althelia Climate Fund<sup>6</sup>

On 13 June 2013 the EIB agreed to contribute up to EUR 25 million to the Althelia Climate Fund. Althelia is a public-private partnership that, according to the Bank, “will help reduce greenhouse gas emissions, with a focus on sustainable land use, ecosystem services and forest carbon.” Althelia is an innovative fund, launched at the beginning of June 2013, which will develop “multiple revenue streams from forest protection and sustainable land use.” It aims to demonstrate that “financial performance can be fully aligned with sound environmental stewardship and social development.”

The fund should generate returns in two ways. Firstly, by investing in forest carbon and other tradable carbon assets, the fund can generate an income stream from standing forests. Secondly the fund will increase the volume and quality of a range of sustainably produced and certified agricultural commodities. Althelia aims to invest in projects around the world, with a strong focus on Africa and Latin America.

According to Philippe de Fontaine Vive, EIB Vice-President responsible for new product development and innovation, “The European Investment Bank is very glad to support the Althelia Climate Fund which is based on performance-based payment for ecosystem services. These innovative financial instruments, especially the REDD+ mechanism, need to be deployed at large scale.” The EIB believes that this represents a “potentially powerful mechanism for biodiversity conservation and a mechanism for Althelia to invest in forest protection and sustainable land use around the world, with a strong focus on Africa and Latin America, generating revenues from carbon credits, production of certified agricultural commodities and other activities in particular REDD+ tropical forest conservation activities that reduce greenhouse gas (GHG) emissions by avoiding deforestation and forest degradation, protecting and enhancing forest carbon stocks.”

It should be noted that a portion of the Fund’s carbon credits, corresponding to the EIB investment, will be sold to companies to facilitate corporate social and environmental responsibility objectives.

<sup>6</sup> EIB, *EIB supports Althelia Climate Fund to save tropical forests*, Press release, 13 June 2013

## A SICAV in Luxembourg to save the climate

Althelia operates through Althelia Climate Fund SICAV<sup>7</sup>, based in Luxembourg. The SICAV is a close-end fund which pays nearly no taxes in Luxembourg<sup>8</sup>, with a planned duration of 8 years, beginning from 18 January 2012. The SICAV’s investment objective is to acquire Carbon Assets at a time when prices are low and “to exit investments once underlying projects are fully operational and actually generate Carbon Assets when the markets are more liquid”.

Althelia Climate Fund SICAV was incorporated on 12 December 2011 in Luxembourg. The founding shareholders of Althelia Climate Fund SICAV are the following: Althelia Climate Fund GP Sàrl (1 *General Partner* share, or 0.0032%), Sylvain Goupille (15,500 shares, or 49.99%) and Christian Del Valle (15,500 shares, or 49.99%).<sup>9</sup> In 2013 additional shares were issued<sup>10</sup>.

Althelia Climate Fund GP Sàrl was also established on 12 December 2011 in Luxembourg. The founding shareholders of Althelia GP are: Sylvain Goupille (6,875 shares, or 55%) and Christian Del Valle (5,625 shares, or 45%)<sup>11</sup>.

Althelia Climate Fund GP (i.e., Goupille and Del Valle) also fully owns Ecosphere UK Limited, based in London, which is the “investment advisor” of the SICAV (which means Goupille and Del Grande might be paid twice, first as General Partner and then as investment advisor). Goupille and Del Valle are also owners (both with 50%) of Ecosphere Capital Partners LLP, based in London, whose role remains unclear based on the information available.

As administrative agent of the SICAV, BNP Paribas Securities Services is “entitled to receive, out of the assets of the SICAV, fees and commissions”. These fees and commission vary from 0.07% to 0.12% of the Net Asset

<sup>7</sup> A Sicav is an investment company with variable capital commonly used in Western Europe.

<sup>8</sup> The SICAV is not liable to any Luxembourg tax on profits or income. The SICAV is liable in Luxembourg to tax at a rate of 0.01% per annum of its Net Asset Value.

<sup>9</sup> Luxembourg’s companies register, *Althelia Climate Fund*, 12 December 2011

<sup>10</sup> Althelia Climate Fund, *Annual Report 2013*, 31 December 2013, pag. 7

<sup>11</sup> Luxembourg’s companies register, *Althelia Climate Fund GP Sàrl*, 12 December 2011



Value of the SICAV, depending on the assets' volume. BNP Paribas gains an additional 0.0015% of the net asset value as Custodian bank<sup>12</sup>. The General Partner is entitled to receive a management fee and carried interest.

It should be noted that both Goupille and Del Valle worked for BNP Paribas on carbon finance, environmental markets and forestry in the last ten years.

The 2012 Annual Report of Althelia Climate Fund lists all financial instruments in which the SICAV may invest and the way in which they will be evaluated<sup>13</sup>:

- a. Securities (including carbon assets) which are listed on a stock exchange, dealt on another regulated market or listed on an environmental exchange (which will include the European Climate Exchange, among others) will be valued on the basis of the last available published stock exchange (price) or market value;
- b. Emissions Reduction Purchase Agreements (ERPA) and Carbon Assets which are not listed (...) will be valued in accordance with a methodology developed by the General Partner;
- c. Investments in private equity securities will be estimated (...) in accordance with the guidelines and principles set out by the International Private Equity and Venture Capital Valuation Guidelines (EVCA), the British Venture Capital Association (BVCZ) and the French Venture Capital Association (AFIC);
- d. The interest in (unlisted) UCIs (Unregulated Collective Investment schemes) will be valued at their last official and available net asset value (...);
- e. Refers to cash, bills and similar are not considered as relevant for this report;
- f. The liquidating value of futures, forward, options or derivative contracts not dealt in a stock exchange or another regulated market will mean their net liquidating value.

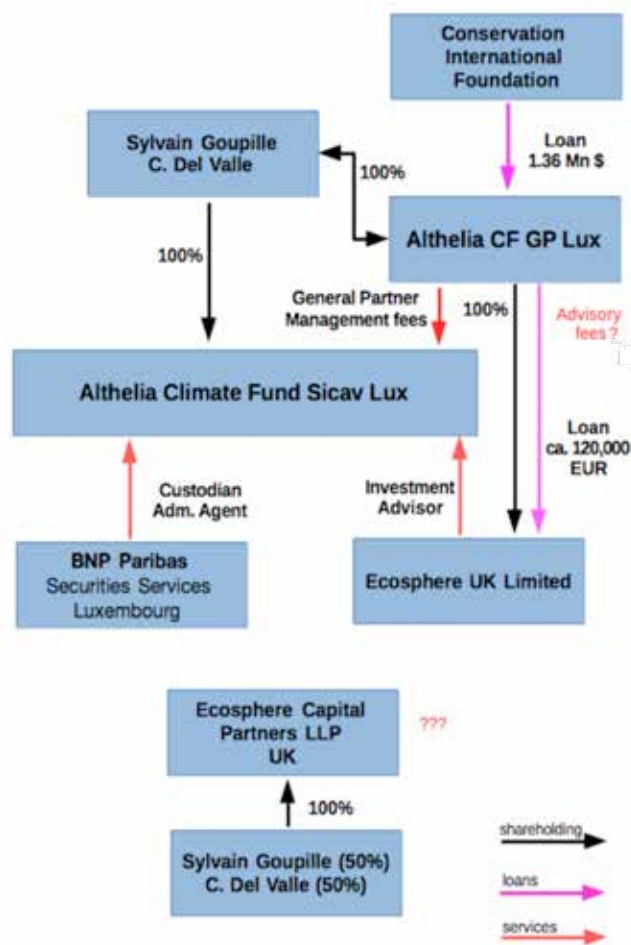


Figure 1: Althelia financial scheme – Merian Research

## 2013: An exciting year for Althelia<sup>14</sup>

The 2013 Annual Report of the Althelia Climate Fund SICAV describes “an exciting year for the Fund, as it has made its first closing on the 11th of June with EUR60m commitments with an additional EUR10m conditional commitment for further closings”. The investors for the first closing were the EIB (EUR15m), BNP Paribas (EUR15m), FMO (EUR15m), the Church of Sweden (EUR10m) and Finnfund (EUR5m). “The second closing of the fund is aimed for June 2014 with a total target size of EUR 140-160m”.

Following the first closing of the Fund, the General Partner “has finalised the recruitment of the team and thus the Fund became fully operational in the third

<sup>12</sup> Althelia Climate Fund, *Annual Report 2012*, 12 June 2013, pag. 12

<sup>13</sup> Althelia Climate Fund, *Annual Report 2012*, 12 June 2013, pag. 10

<sup>14</sup> All data in this chapter, other than those explicitly linked to other footnotes, are taken from Althelia Climate Fund, *Annual Report 2013*, 31 December 2013, page 5

quarter of 2013 with all bodies (the Board, the Expert Board, the Advisory Board and the Investment Committee) of the General Partner also completed”.

In 2013, “Althelia continued to strengthen its project pipeline (in Kenya, Peru, Brazil, Guatemala) and several project negotiations have been finalised targeting due diligence and contract execution in Q1 2014”. Althelia also continued its discussions “with key donor governments such as the UK, US and Norway as well as the IADB (Inter-American Development Bank) on collaborative structures based on public-private partnership that if executed will add greatly to the Fund’s risk mitigation and in some cases monetisation strategies”.

The first deal approved in 2013 was the “USAID credit guarantee, which provides security over 50% of any potential loss of the Fund’s entire portfolio”. On the downstream side, in October 2013 Althelia “signed a Memorandum of Understanding (MoU) with the Dutch Consortium Biodiversity, Ecosystems and Economy (BEE), founded by the Dutch Ministry of Economic Affairs and a core group of Dutch corporations such as Eneco, Essent and Desso aiming for further expansion in 2014”. Under the MoU, Althelia “will provide verified emission reduction units to the consortium for an initial volume of 100,000 tonnes during 2015-2016, which is expected to grow significantly with the addition of new members into BEE during 2014”. “In 2014, Althelia intends to explore similar demand side initiatives in the UK and Germany”.

Althelia’s website reports that, on 28 May 2014, the U.S. Agency for International Development (USAID) “announced its support for the Althelia Climate Fund to lend up to \$133.8 million in commercial financing for forest conservation and sustainable land use”. The details of the commitment are elaborated in a press release published by USAID. The announcement was made by Secretary of State John Kerry via video message at the Carbon Expo in Cologne, Germany. The commercial financing is a “new risk-sharing loan guarantee that will enable Althelia to finance hundreds of forest-based businesses in developing countries that rely on sustainably managed land use for their livelihoods”.<sup>15</sup>

It should be noted that the 2013 Annual Report does not mention the fund’s first \$10m investment to launch

<sup>15</sup> USAID, U.S. Government, *Althelia Climate Fund Mobilize \$133.8 Million for Forest Conservation and Alternative Livelihoods*, Press Release, 28 May 2014. See: <http://www.usaid.gov/news-information/press-releases/may-28-2014-us-government-althelia-climate-fund-mobilize-1338-million-forest-conservation>

the Taita Hills Conservation and Sustainable Land Use Project in Kenya in cooperation with Wildlife Works Carbon LLC. Indeed this REDD+ project was only approved on 17 February 2014. It is, however, strange that no mention of this investment is made in the *Board of Managers of the General Partners’ Report* dated 23 May 2014.

## Interesting figures and pending questions

In order to check how profitable Althelia’s business is so far, it is worth looking into the 2013 accounts of all companies involved. The 2013 Statement of Operations of Althelia Climate Fund SICAV reports total expenses of €783,503 in 2013, including €572,489 in management fees paid to the General Partner (Althelia Climate Fund GP), €106,100 of custodian, administration and domiciliation fees (to be paid to BNP Paribas Securities Services – Luxembourg) and €37,951 of similarly ill-defined “professional fees”<sup>16</sup>. Since the SICAV did not post any earnings in 2013, the net loss for 2013 was equal to the total expenses: €783,503.

At the same time Althelia Climate Fund GP Sàrl paid €479,172.35 in “other external charges” in 2013, the main part of which constitutes advisory fees (€335,890.93; €190,953.34 in 2012), probably paid to Ecosphere Capital Limited, though this is not specified. The total income of Althelia GP for 2013 was equal to €887,803.96 due to the total management fee paid by Althelia SICAV in 2013. The net result for 2013 was equal to €372,211.67. Considering the €327,483.27 loss for 2012 (brought forward), the final outstanding balance for 2013 was equal to €45,728.40, nearly all of which was paid to the partners as dividend.

These figures tell us that in 2013, Althelia SICAV, while facing the lack of any business and income stream, suffered losses in order to pay commissions to Althelia GP and BNP Paribas. On the contrary, Althelia GP (i.e., Goupille and Del Valle) produced some profits and dividend. Furthermore, most of the income of Althelia GP is paid as commission to Ecosphere Ltd. in London, thus still to Goupille and Del Valle.

The way in which these different companies lend to each other is very peculiar too. On 6 August 2013, Althelia GP “entered into a credit facility agreement in

<sup>16</sup> Althelia Climate Fund, *Annual Report 2013*, 31 December 2013, Note 6., pag. 13

favour of Ecosphere Capital Limited for a maximum amount of €100,000. A first tranche of €50,000 has been paid on 8 August 2013<sup>17</sup>. On the same date Althelia GP signed two more loan agreements in its favour: a €150,000 loan from the company “Piccolo 5 Sa” (a company held by one of the two shareholders) and a second €150,000 loan from the second shareholder. Furthermore, in 2013 Althelia GP received a loan of €785,226.12 from the Conservation International Foundation<sup>18</sup>. It could be presumed that such an articulated lending system has been set up for taxation reasons, however this remains to be better understood.

From all these figures, it clearly emerges that Althelia's business is in its infancy. However, expenses have been incurred as well as numerous loans among various entities involved. This raises some questions which should be clarified by the public financiers, like the EIB, who decided to invest in Althelia after a presumably stringent due diligence of the deal:

**Who is the beneficiary of the advisory fees paid by Althelia Climate Fund GP? What is the role of Ecosphere Capital Partners LLP, registered in London? On which criteria was BNP Paribas chosen as custodian and administrative agent of the SICAV? What is the total of the fees that will be paid to Ecosphere UK Limited as investment advisor?**

**And, most importantly, will Sylvain Goupille and Christian Del Valle be paid twice, firstly as shareholders of the “General Partner” (management fees from the Sicav) and secondly as shareholders of the “Investment advisor” (Ecosphere UK Limited)? If so, why?** By looking at Althelia's first investment, similar questions emerge around some blurry relationships between the different entities involved.

## Althelia's first investment in Kenya

Through a press release issued on 17 February 2014<sup>19</sup>, Althelia, together with Wildlife Works, announced its first investment: 10 million USD “to launch the Taita Hills Conservation and Sustainable Land Use Project in Kenya”. The Taita Hills project is “a transformational investment that will achieve leverage from existing

REDD+ projects to deliver forest and wildlife conservation paired with economic development at scale across the Tsavo Conservation Area”<sup>20</sup>.

“The project will be implemented by Wildlife Works Carbon LLC<sup>21</sup> and will operate at a landscape level to combine forest conservation with community development and job creation, protecting standing forest and grasslands through improved agriculture and agroforestry, sustainable charcoal production, and better grasslands management.”

According Merian Research, Wildlife Works Carbon LLC is based in Mill Valley, close to San Francisco, USA. Its ultimate owner (100%) is Wildlife Works Carbon UK Ltd., based in London, incorporated on 29 October 2012. In turn, Wildlife Works Carbon UK (which has a share capital of 1 GBP) is fully owned by Wildlife Works Carbon LLC<sup>22</sup>. The UK company's directors are reported to be Pamela Baker and Michael Andrew Korchinsky (the President and founder of Wildlife Works Carbon LLC). **Therefore it is legitimate to wonder how Wildlife Works Carbon LLC, based in California, partner of the first investment in Kenya, can be owned by itself through Wildlife Works Carbon UK Ltd.**

“Working in close partnership with local landowners and community organisations, Wildlife Works has previously designed and implemented, and currently operates, two existing REDD+ projects validated to the Verified Carbon Standard's (VCS) AFOLU protocols and Climate, Community and Biodiversity (CCB) Standards in the adjacent Kasigau Corridor. These activities currently span more than 225,000 hectares connecting Tsavo East and Tsavo West National Parks and bring benefits from carbon finance to more than 100,000 local landowners and community members”.<sup>23</sup> The announced investment represents “approximately US\$10 million spread over 8 years” to “draw leverage from the neighbouring projects to enable the creation of the third project, expected to cover an additional adjacent area of approximately 200,000 hectares of remaining natural forest and savannah grassland ecosystems.”

<sup>20</sup> *Ibidem*

<sup>21</sup> Wildlife Works is one of the two partners of Althelia, the other being Conservation International. Wildlife Works defines itself as “a pioneering REDD+ project development and management company with a unique approach to applying innovative market based solutions to the conservation of biodiversity”.

<sup>22</sup> UK Companies' Register, *Wildlife Works Carbon UK Limited, Annual Return*, 11 February 2014

<sup>23</sup> Althelia Climate Fund, *Althelia Climate Fund, Wildlife Works announce \$10 million investment to launch the Taita Hills Conservation and Sustainable Land Use Project in Kenya*, 17 February 2014

<sup>17</sup> Althelia Climate Fund GP, *Annual Report 2013*, 8 July 2014, pag. 13

<sup>18</sup> Althelia Climate Fund GP, *Annual Report 2013*, 8 July 2014, pag. 15

<sup>19</sup> Althelia Climate Fund, *Althelia Climate Fund, Wildlife Works announce \$10 million investment to launch the Taita Hills Conservation and Sustainable Land Use Project in Kenya*, 17 February 2014

## Conclusions

The European Investment Bank is at the forefront of carbon market development through its support for REDD+ via the Althelia Climate Fund. Given the impact associated with REDD and REDD+ projects, as described above, EIB support for REDD+ through Althelia is an example of the lack of policy coherence between European development policy and the goals that the Bank claims to abide to, and the actual practice of the Bank.

The EIB decision to invest in Althelia also represents a contradiction between EU climate policy and the Bank's role in climate action. As a matter of fact, the European Union excluded forest carbon credits until at least 2020 in its Emission Trading Scheme Directive – adopted by the European Council in December 2008. This decision took various interests into account, including criticism raised against REDD by some developing countries and affected local communities.

Analysis of the set-up of the Althelia Climate Fund and the modalities of the EIB's participation confirms the criticisms of the Bank's previous engagement in other carbon funds already voiced by organised civil society. Indeed, the fund's establishment, operation and project definition is fully delegated to fund managers, with little direction coming from the Bank. In short the EIB fully relies on the expertise of carbon managers previously employed at BNP Paribas and other financial firms, without considering the possibility of a different approach to climate finance, possibly managed in-house, other than carbon markets.

From an investor perspective – whether public or private - it is particularly concerning that it is still unclear what will be the overall economic return from Althelia's investments, given losses occurred so far and the difficulties faced in identifying REDD projects to invest in and consequent delays in the financial closure of different investment stages. Without any doubt only thanks to the financial guarantee from US AID Althelia managers managed to reach some financial closure with some investors and move their business on. This public intervention is a clear evidence that without some forms of public subsidies – whether through direct investment or guarantees – such a carbon finance instrument, planned to be a market-based mechanism, would not work.

Given this central role of public financing, the approach of the EIB to entirely outsource the management of its carbon funds raises doubts about the due diligence procedures performed by the Bank regarding the fund

companies and managers who benefit from EIB investments. For instance, in the case of Althelia it remains unclear why the Bank allows complex and not fully transparent corporate structures to invest in the ultimate beneficiaries. Similarly the concrete oversight performed by the Bank's management is not detectable. Furthermore, the fact that carbon funds operate through jurisdictions where taxation is limited – as for a SICAV based in Luxemburg – raises further concerns for European citizens and taxpayers.

The determination of the EIB and European governments – which are the Banks' shareholders together with the European Commission – to rush and promote forest carbon funds through voluntary markets, as in the case of the Althelia Climate Fund, triggers the establishment of complicated and under-funded investment structures which ultimately adopt questionable inter-company lending schemes to sustain their business and pay costly consultancies and staff.

The EIB approach to carbon finance with this new fund confirms broader problems which affect the Bank's use of financial intermediaries in its lending pattern both within and outside of the EU, including the use of private equity funds<sup>24</sup>. In particular, the Bank is keen to delegate lending and investment management to private financial firms in the name of reducing transaction costs. These firms often operate via offshore financial centres and have little connection with the economic realities where their final beneficiaries work and live. So far, civil society's critique of this approach has remained unheard by the EIB management, despite being vindicated several times by recommendations and decisions from the European Parliament.<sup>25</sup>

In conclusion, the EIB still needs to address many outstanding questions concerning its approach to climate and carbon finance, including whether market-based mechanisms are the right approach to climate action and policy coherence for development. So far the Bank's ideological bias in favour of market-based mechanisms has not allowed for an open-ended debate about what role, if any, the EU house bank should play in climate finance. While waiting for decision-makers to start this debate, REDD projects and offsetting mechanisms should not be part of the EU's climate policy, and the EIB should divest from the Althelia Climate Fund.

<sup>24</sup> <http://www.counter-balance.org/new-counter-balance-report-hit-and-run-development-2/>

<sup>25</sup> <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A7-2014-0137+0+DOC+XML+V0//EN>