

Environmental and Social Data Sheet

Overview

Project Name:	<i>Althelia Climate Fund</i>
Project Number:	<i>2010-0720</i>
Country:	<i>Luxembourg</i>
Project Description:	Luxembourg SIF dedicated to the purchase of carbon offsets and environmentally certified co-products generated by such projects. Forest carbon assets will represent a minimum of 60% of the fund. This would be the EIB's first involvement in a fund dedicated to forest carbon.
EIA required:	<i>Multiple investments</i>
Project included in Carbon Footprint Exercise ¹ :	no

(details for projects included are provided in section: "EIB Carbon Footprint Exercise")

Summary of Environmental and Social Assessment, including key issues and overall conclusion and recommendation

The project is a forest carbon fund which supports climate change mitigation efforts by investing in projects that deliver emissions reductions. The Fund's focus is the land use and forestry sectors, particularly projects at Reducing Emissions from Deforestation and Forest Degradation (REDD+) in emerging and less developed countries. The Fund will make investments that address the drivers of deforestation while at the same time generating economic, environmental and social returns. In addition to fulfilling climate change mitigation, REDD+ activities supported by this Fund compensate forest landholders for their opportunity cost lost to conserve their land, and encourages modal shift towards sustainable rural livelihoods. This represents both a key biodiversity conservation measure and a mechanism for development of sustainable livelihoods and benefit-sharing.

The Althelia Climate Fund Environmental, Social and Governance Standard is consistent with EIB standards. The Fund uses and promotes best practice for land use and forest-based climate change mitigation projects. Individual investments are implemented with internationally recognised reputable conservation partner organisations.

A compliant set of due diligence standards is in place which conforms to EIB standards. All projects are set to meet IFC Performance Standards (2012), and where applicable the best practices articulated in the REDD+ Social and Environmental Standards (Version 2). All projects will meet the certification standards of appropriate third-party verified carbon standards such as Verified Carbon Standard (VCS) and Climate, Community and Biodiversity Alliance (CCB). An Environmental and Social Management System (ESMS) is currently being developed, benefitting from the close supervision and guidance of the EIB E&S specialists.

In order to implement its Environmental and Social Strategy, the Fund has strengthened its core capacity by (a) recruiting appropriate expertise into its core team, and (b) involving suitably experienced and knowledgeable partners at project level. Further capacity-building may be required both at Fund and at project proponent levels and efforts to this end will be closely monitored and supported by the relevant EIB specialist.

A monitoring and reporting system is being put in place. Procedures are being developed together with EIB and with partner organisations, to ensure a robust and comprehensive approach to the Fund's environmental and social risks and benefits.

¹ Only projects that meet the scope of the Pilot Exercise, as defined in the EIB draft Carbon Footprint Methodologies, are included, provided estimated emissions exceed the methodology thresholds: above 100,000 tons CO₂e/year absolute (gross) or 20,000 tons CO₂e/year relative (net) – both increases and savings.

Environmental and Social Assessment

Reducing Emissions from Deforestation and Forest Degradation (REDD) is a mechanism which contributes to climate change mitigation by creating a financial value for the carbon stored in standing forests, offering incentives for developing countries to protect forests, address drivers of deforestation and invest in low-carbon paths to sustainable development. REDD+ builds on this by incorporating the increase of removals by enhancing carbon stocks through forest restoration, rehabilitation and conservation. REDD+ can contribute to a range of policy goals in addition to climate change mitigation. It can promote biodiversity conservation and secure the provision of ecosystem services including water regulation, timber production, erosion control and the supply of non-timber forest products.

To prevent the most severe impacts of climate change, the international community has agreed that global warming should be kept below 2 degrees C compared to pre-industrial times. Reducing deforestation and forest degradation is crucial to any effort to achieve this, because they account for up to 17% of global greenhouse gas emissions. Forest carbon should be a valuable tool, but it has lagged behind in development of the regulated carbon markets due to slow development of methodologies under the CDM and other factors. Therefore, the voluntary markets are currently very important for forest carbon and REDD+ credits in particular.

Recognising the importance of biodiversity, the United Nations has declared 2011 to 2020 the Decade of Biodiversity to underline the importance of biodiversity protection and the role of biodiversity and ecosystems in providing essential life support systems. The rapid disruption of tropical forests probably imperils global biodiversity more than any other contemporary phenomenon, and instruments to protect them, such as REDD+, have a potentially powerful role to play in both climate change mitigation and biodiversity protection.

For the present Fund, a EUR 150 m scenario (20 projects) would bring between 1.2 million and 2 million ha of forest under improved conservation management, and is expected to deliver a carbon benefit of 10 million tonnes of CO₂e per year.

Environmental and Social Assessment

Operating within the scope of REDD+, the Fund centers upon the parallel promotion of the dual goals of forest conservation and human development and the reinforced synergies envisaged across them. Key therein are the livelihood trade-offs that communities on the ground will agree to for a specified yet extended period of time and the translation of such agreement into a contractual relationship that will constitute the cornerstone of each project in the Fund's pipeline. Central in this relationship from a social due diligence perspective will be the observance of satisfactory arrangements in both risk-sharing and benefit-sharing terms. As a result, the Fund is committed to effectively avoid any degree of physical or economic displacement of communities or households involved, as well as provide firm evidence of households' and communities' free, prior, informed consent (FPIC) and assured land tenure and/or use rights, including continued access to and use of natural resources to the participating communities. The Fund also commits to pursue satisfactory benefit sharing mechanisms and outcomes, as well as introducing revenue threshold guarantees for the communities as part of a risk-sharing strategy for the latter.

The Fund is 'mission-driven' to deliver leadership in environmental and social performance and centers its activities upon the parallel promotion of the forest conservation and human development. The investment projects selected under the Fund are expected to reflect such strategic pursuit, supported not only by a tailored choice of environmental and social standards but, crucially, by a tailored and responsive Environmental and Social Management System (ESMS) and relevant expertise and capacity at both the Fund and the project proponents' levels.

To date, the Fund's ESG standard – the Althelia Climate Fund Environmental, Social and Governance Standard – has been closely reviewed by the EIB and deemed satisfactory in outlining the Fund's general principles, commitments, standards and protocols guiding environmental and social due diligence. Benefit- and risk-sharing intents are duly stated in this ESS. The environmental and social standards to be guiding risk assessment and mitigation across the Fund's pipeline are clearly spelled out and include the 2012 IFC Performance Standards with the explicit application of FPIC on all communities voluntarily involved in the Fund's projects. In addition, and reflecting the specific nature of the Fund, the best practices recommended under the REDD+ Social and Environmental Standards (Version 2) shall be heeded where appropriate, whilst at the project level the proponents will be encouraged to adopt the Social and Biodiversity Impact Assessment (SBIA) methodology, or a similar approach of equivalent quality and robustness.

Biodiversity

All projects have significant co-benefits, including the prioritisation of High Conservation Value areas for incorporation into project design, which will deliver significant nature conservation outcomes. Social benefits, such as improved livelihoods (including from carbon payments), clarification of land tenure, and stronger governance, also arise from implementing REDD+.

The Fund has a policy of 'no net loss' to biodiversity, ecosystem services and functions for all projects. It requires project investments that include positive conservation outcomes in the project area. Contribution to protection of areas of High Biodiversity Value is prioritised and recognised as 'Premium Performance'.

There is a perception that carbon funds focus on carbon benefits to the detriment of biodiversity conservation. This is not the case for this Fund. The co-benefits of biodiversity conservation and social benefit-sharing are integral to the success of the Fund, and are pursued at all levels.

Capacity of the Fund Manager

Rolling out and effectively applying the Fund's ESS will require a robust Environmental and Social Management System (ESMS), which is under development in cooperation with the Fund's institutional investors including EIB. Furthermore, the engagement of EIB's social specialist is foreseen at critical milestones throughout the life cycle of selected projects, therein affording a closer monitoring of the roll-out and application in practice of the ESMS.

Questions of relevant capacity have been addressed to the Promoter since the early days of the Bank's due diligence and this is regarded a cornerstone for the Fund's success in meeting the Bank's environmental and social standards. To date, the Fund Manager has been responsive in heeding such calls by committing to hire an ESG specialist of a calibre satisfactory to the Bank. In addition, the dimension of capacity building and training has been foreseen and introduced in the ESS, highlighting relevant responsibility to be assumed by the Fund Manager vis-à-vis the various project proponents. This is a specialized, pioneering Fund, and therefore implementing its requirements in practice may be challenging. The Bank's monitoring will follow closely proof in practice of the Fund Manager's capabilities in this regard.

Social Assessment

Should either form of involuntary resettlement (physical or economic displacement) occur affecting participating communities in any of the Fund's pipeline projects, appropriate remedy will apply as per the Fund's stated social performance standards, reinforced by evidence of the affected persons' consent as well as the obligation to not merely restore levels of quality of life to those prior to the project but to improve them. Any further involuntary resettlement provoked by any project in the Fund's pipeline within said project's footprint but not involving the participating communities will be addressed as envisaged by the Fund's standards of choice to the satisfaction of the EIB. In either case, occurrence of involuntary resettlement shall be promptly brought to the EIB's attention by the Fund Manager, presenting accompanying arrangements such as a Resettlement Action Plan (RAP) or Resettlement Policy Framework (RPF) for the Bank's review and approval.

Presence of indigenous population groups within the wider constituency of communities engaged on the Fund's pipeline project's will be duly assessed, effectively guiding the Fund Manager and project proponents alike in their engagement with these groups in ways that fully recognize and protect indigenous people's rights and interests, respecting and promoting indigenous people's social and cultural systems. Such endeavour may require an Indigenous People's Plan (IPP) reflecting the overall livelihood and forest management systems of indigenous peoples. Such need will emerge at the level of the project proponent as a direct result of the Fund's overarching environmental and social management system.

Public Consultation and Stakeholder Engagement

Stakeholder engagement is a key component in any undertaking falling under the REDD+, advancing up to the levels of Free Prior and Informed Consent (FPIC), given it is meant to address impacts on lands and natural resources that are subject to traditional ownership or under customary and collective use. A Stakeholder Engagement Plan (SEP) will be a requirement across each project in the Fund's pipeline, whilst a robust application of FPIC with participating communities and evidence thereof will be required. Meaningful consultation and engagement with other relevant stakeholders at the level of each project will additionally be required to be planned for and carried out without discrimination, taking into account differences in risk exposure and the higher sensitivity of the most socially and economically vulnerable and marginalized population groups within the wider project footprint.

Application of FPIC will be required by all project proponents and their counterparts in the communities participating in each transaction, whether the participating communities are indigenous, mixed, or not. FPIC is expected to be established through good faith negotiation between the project proponent and the participating communities and to be fully documented as a mutually accepted process between the parties, carrying evidence of agreement between them as the outcome of the negotiations and carried into the relevant MoU at project level, clearly outlining benefit- and risk-sharing provisions. EIB does not require that FPIC ascribes to unanimity, rather than satisfactory documented evidence is provided of the meaningful engagement of the whole body of a participating community, gender dynamics appropriately addressed in the course of the process.

EIB monitoring of the application of FPIC will focus on the representativeness and legitimacy underpinning the negotiation of and arrival at a collective decision; the concerned communities' capacity to negotiate; verification of freedom from coercion and the cultural appropriateness of the engagement over adequate period of time; that timely information was provided to the communities in a culturally appropriate format; that a mutually accepted process supported the outcome, carrying evidence of consideration of community concerns. The Fund Manager has committed to the undertaking of FPIC at the level of each project; however capacity building shall be required at both Fund and project levels in this respect, as will disciplined monitoring of the FPIC processes across the pipeline.

Other Environmental and Social Aspects

Summary of E&S management arrangements

At Fund Manager level:

Establishment and operationalization of the Fund's environmental and Social Management System (ESMS);

EIB monitoring of the operationalization of the Fund's Environmental and Social Management System (ESMS) through relevant reporting requirements for the Fund Manager;

EIB monitoring of the Fund's internal needs assessment undertakings and associated capacity building activities through relevant reporting requirements for the Fund Manager.

At project level:

EIB review and non-objection of any Resettlement Action Plan (RAP) to emerge across the Fund's pipeline, including any ex-poste remediation/corrective measures;

EIB monitoring and compliance check on the implementation of any Resettlement Action Plan (RAP) to emerge across the Fund's pipeline, including any ex-poste remediation/corrective measures;

EIB selective review and approval of Stakeholder Engagement Plans and application of the FPIC processes;

EIB selective review and approval of Indigenous People's Plans;

Engagement of EIB's social specialist on two of the pipelines' projects at critical milestones throughout their life cycle.