

# Althelia ecosphere

## Sustainable Land Use Fund

Inputs for the Standing Committee on  
Finance  
31 January 2015



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# Financing conservation and transition towards sustainable land use

Althelia ecosphere is a pioneering asset management platform initiated with the support of Conservation International, dedicated to:

1. provide finance to sustainable land use activities at scale and
2. design innovative products to allow capital to flow to conservation

with a set of large investors - public (European Investment Fund, Dutch FMO...), private (banks, insurers, family offices...) or value-driven organisations (Church of Sweden, Packard Foundation...)- looking for impact and market return.

In 2014, aside from its first fund, Althelia ecosphere has designed two innovative instruments:

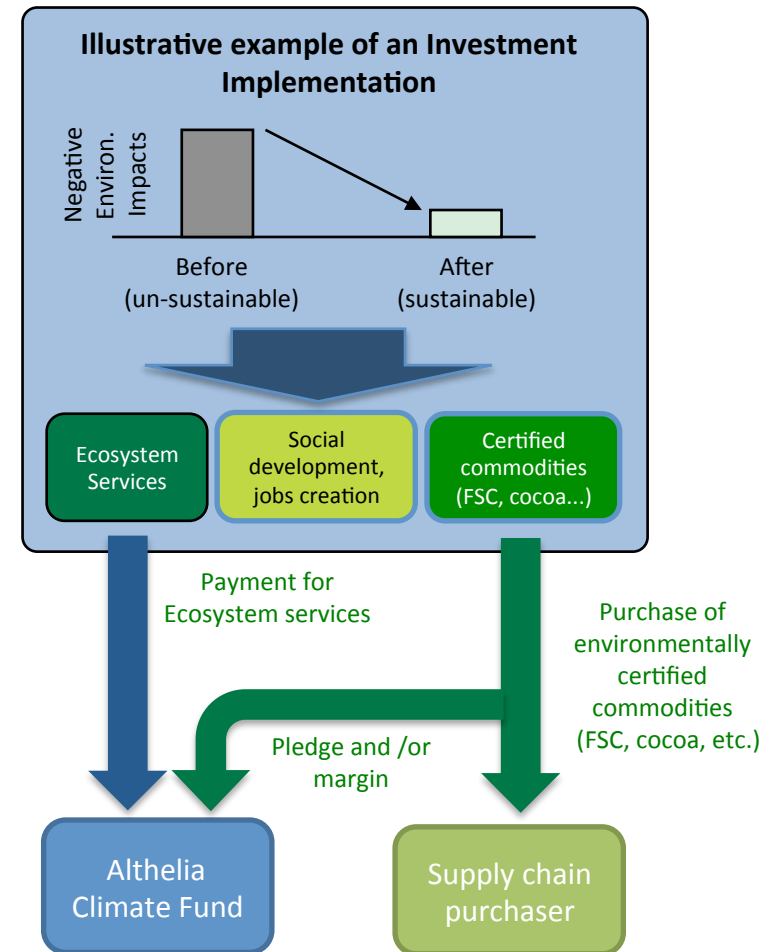
- A \$133m Forest Carbon guarantee with USAID
- Nature Conservation Notes with Credit Suisse

# Althelia achieves market return and strong impact by unlocking multiple value streams

Investments take the form of medium-term financing (commodity-based loans with result-based payments) allowing to generate at the same time conservation and economical development.

## Key points

- Loan instrument rather than equity
- Community-based finance
- Payment for performance
- Limited recourse (see guarantee later)
- Guaranteed minimum revenues with upside sharing
  - Operations and revenues are guaranteed over 5-7 years
  - Upside allows for alignment of interest

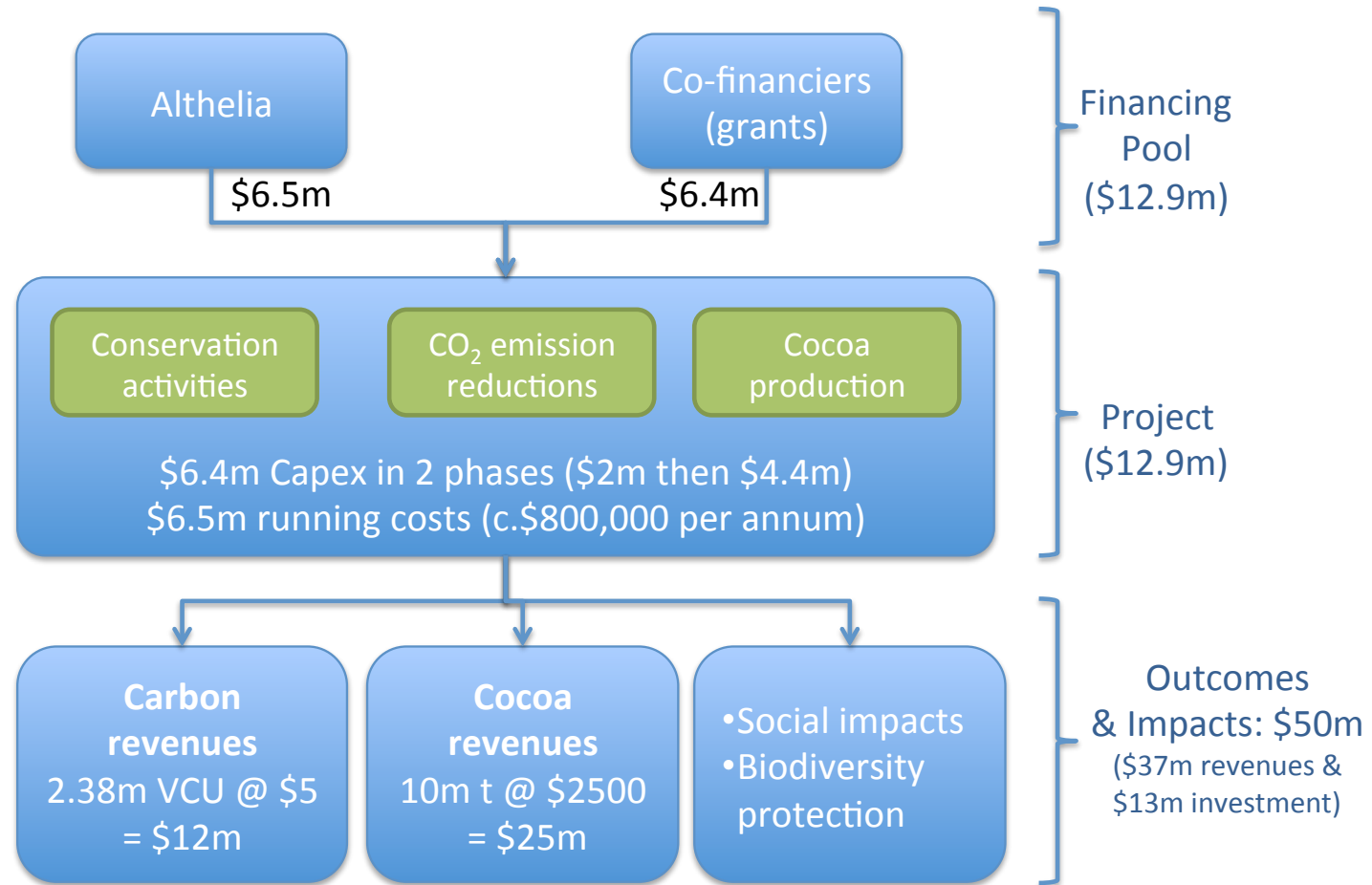


# Illustrative investment: cocoa and conservation of a National Park (1)

- The Tambopata REDD+ and Agroforestry project is protecting standing forest and restoring degraded lands through agroforestry for cocoa production purposes.
- The Tambopata National Park in Latin America represents 570,000 ha of tropical forest with some of the most biologically diverse fauna and flora in the Amazon. It currently loses in excess of 2,000 ha of pristine forest every year due to a progression of illegal timber and unmanaged slash and burn agriculture.
- AIDER, a well established NGO has been awarded a 20 year conservation concession from the government to implement a conservation and economical development plan achieving:
  - Direct protection of the core conservation area (570,000 ha)
  - Implementation of 4,000ha certified cocoa, to redirect the deforestation trend and provide alternate livelihood for 10,000 community members;
- Furthermore, the investment will reduce 4,000,000 t CO<sub>2</sub> of greenhouse gas emission through avoided deforestation up to 2020.



# Illustrative investment: cocoa and conservation of a National Park (2)



# USAID Loan portfolio Guarantee

- Althelia ecosphere has negotiated a guarantee with the US Agency for International Development (USAID) which allows the manager to substantially reduce the risk profile of the Althelia Climate Fund investments portfolio.
- The guarantee is for a loan portfolio up to \$133m
- It offers a 50% loss guarantee at both investment level and portfolio level. De facto, it also offers a country risk cover.
- It perfectly matches the countries in which Althelia operates (i.e. Africa and Latin America)

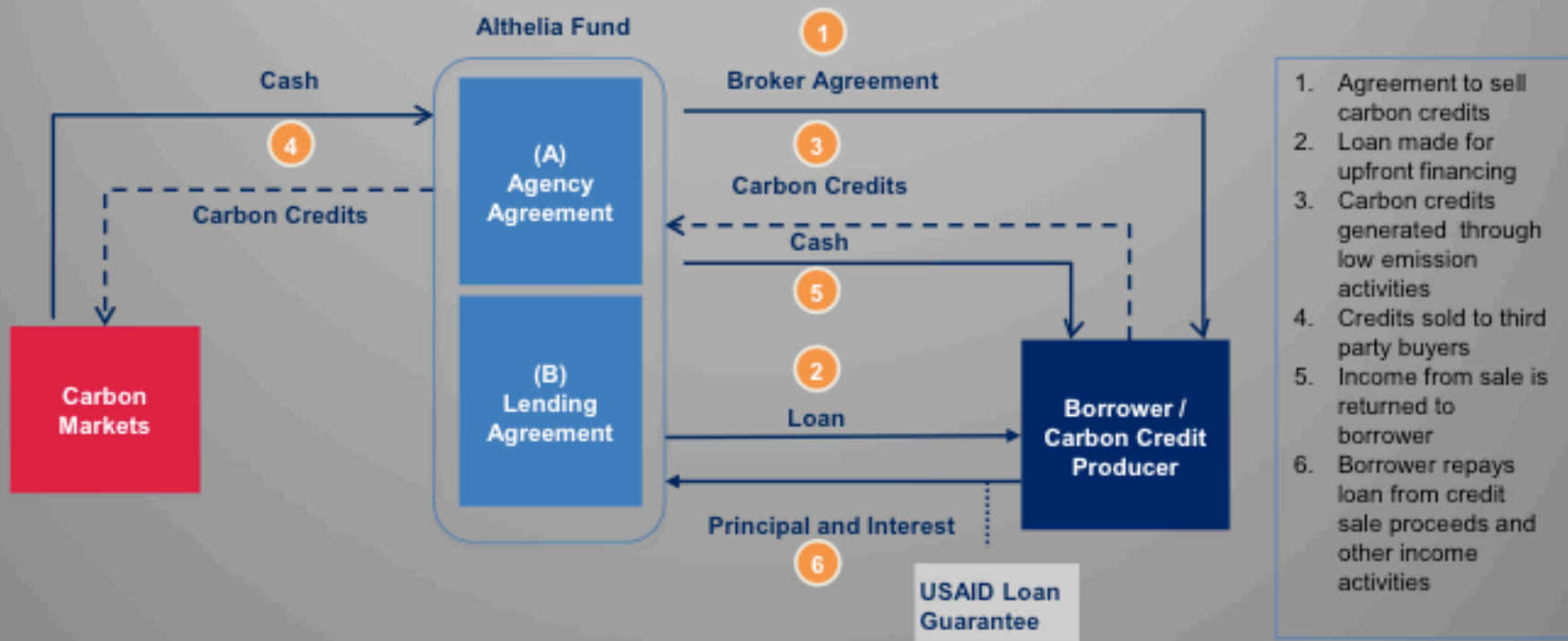
*“With our support of Althelia Climate Fund, the first private sector fund dedicated to forest conservation at this scale, the U.S. Government is working to move climate finance into viable commercial markets. This transaction alone will reduce CO2 emissions equivalent to taking 18.5 million cars off the road for one year.”*

John Kerry – US Secretary of State – 24<sup>th</sup> May 2014

- Additional guarantees are being negotiated with other Sovereigns and corporates

# USAID Guarantee structure

- Loans must be repayable in cash, not commodity-based repayments (carbon credits). Transactions may need to be structured as two integrated parts:
  - (A) Brokerage contract through an Agency Agreement to monetize project's credits
  - (B) Loan agreement to support upfront financing costs of projects

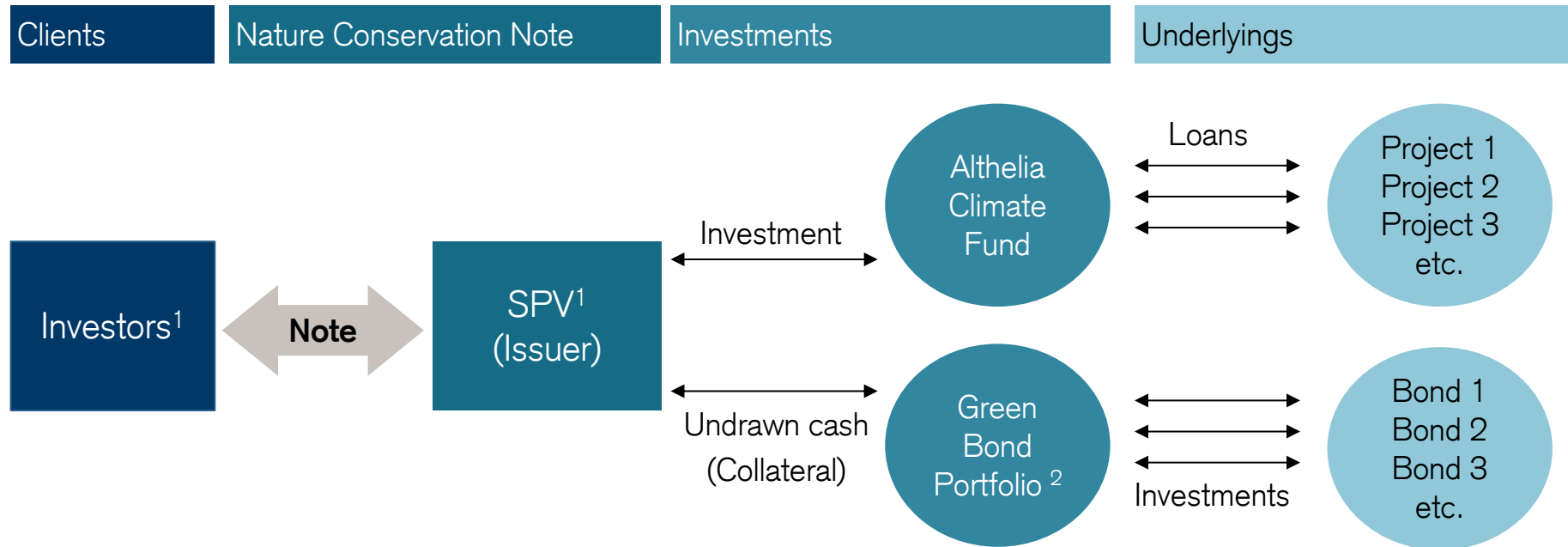




# Nature Conservation Notes

- Althelia ecosphere has designed with Credit Suisse a note instrument allowing private banking to invest into conservation.
- The Nature Conservation Notes programme was issued in December 2014, to non-US investors.
- It raised an amount of EUR15m, from c. 50 HNWI investors

# Nature Conservation Notes structure



- The Note allows to support nature conservation in countries such as Brazil, Peru or Indonesia and economic development for its local communities through the revenues generated by the projects financed by the Fund
- The undrawn cash of the Note used as collateral against the Fund investment will be invested in a portfolio of selected green bonds, providing a return enhancement and additional environmental impact to the Note holder

# Key messages

- Althelia ecosphere is a pioneering public-private partnership that aims to finance the transition to sustainable land-use through leveraging result-based payments for avoided deforestation and the growing demand for sustainable zero-deforestation commodities from responsible corporates
- The innovative credit guarantee with USAID helped Althelia to leverage additional private sector capital
- And the Credit Suisse Nature Conservation Note paved the way for more private capital to flow into sustainable land use.
- Althelia believes its model is scalable and private sector is willing to follow
- However, corporate leadership for zero deforestation commodities and carbon neutral products will not be sufficient to attract scaled up private capital into sustainable land-use
- Thus opening up result-based public payments to private sector in the form of payment for Verified Emission Reductions is key to scale up private capital for sustainable land use and tropical forest conservation in the medium to long term.

# Contacts



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