CARBON TRADE WATCH
Counter Balance — Challenging Public Investment Banks
RE:COMMON

The Natural Capital Financial Facility

A window into the “green” economy

Executive Summary

Shifting funds towards the use of financial instruments is a critical theme in the environmental arena. Increasingly, proponents of financial instruments argue that flexible financing is necessary in order to secure ample funding to address the climate and environmental crises. However, in this process towards building a so-called “green” economy, success becomes measured by profitability rather than the ability to protect or enhance “nature”. This paper aims to build an understanding of how shifting funds from public grants towards financial mechanisms occurs and what is lost in the process. To this end the Natural Capital Financial Facility (NCFF) is examined due to its fledgling stage which will be tracked in the coming years. The NCFF has followed a trend of putting funds before policy through bypassing policy decisions on Biodiversity Offsetting (BDO) and Payments for Ecosystem Services (PES) in Europe. In addition, this paper decodes the financial instruments that will be used in the NCFF as a window into understanding “green” finance. Finally, the dangers of what is lost in the process of financialising “nature” is discussed.

The NCFF will be a joint facility of the European Commission (EC) and the European Investment Bank (EIB) with a total budget of €100 million with an additional €10 million for technical assistance. The aim is to leverage private investments for 10-12 revenue-generating or “cost-saving” pilot schemes. Each pilot project will be awarded funding of between €5-15 million. The NCFF pilot projects fall into four categories: PES, green infrastructure projects, BDO, and pro-biodiversity and adaptation investments. The funding infrastructure will be developed in two phases, with the pilot phase aimed to begin at the end of 2014 through 2017 and an operational phase coming into effect from 2018 until 2020.
Although the use of PES and BDO has been used for decades in several countries around the world, the EU has never had a unified policy on either system. Plans are underway to implement BDO regulation by mid-2015, referred to as the No Net Loss initiative. While this legislation is still being debated, the EC and the EIB have gone ahead with their own plans to fund PES and BDO pilot projects without any democratic process in place.

NCFF project funding through intermediary investments will include combined debt and equity funding. In the former case, the EIB will either invest in debt funds or loan money to financial intermediaries through credit lines, which require these intermediaries to loan the money to the final recipients according to predetermined conditions. In the latter case, the EIB will invest in equity funds, and apply the money to the purchase of equity securities or stocks (See Decoding Finance section).
Some of our key findings include environmental and social losses in the following areas:

1. **Communitarian stewardship and care**
   Shifting from public grant-based funding requires the success of the environmental project to be measured by profitability rather than added environmental or social values.

2. **Transparency**
   Using financial intermediaries makes it impossible to measure the project’s impact, since intermediated investments do not face EIB’s due diligence. It is hard to see how the NCFF could escape this structural weakness.

3. **Control over public money**
   Building new financial instruments for “nature” replaces public grants and could be used as a precedent for future environmental and conservation funding in Europe. Central to this trend is the transfer of power from elected institutions to the same banks and companies that profit from environmental harm.

4. **Diversity of solutions**
   The imposition of a top-down, “one-size-fits-all” financial instrument that prioritises profit maximisation diverts attention from diverse action on climate and the environment.

Written by Tamra Gilbertson and Ricardo Coelho

November 2014

1. Setting the Stage for Natural Capital Financial Instruments

The 1992 UN Conference on Environment and Development (the Earth Summit), in Rio de Janeiro, Brazil, coined the term "sustainable development" and produced two international UN bodies that were expected to address the environmental crises: The United Nations Framework Convention on Climate Change (UNFCCC) and the United Nations Convention on Biological Diversity (UNCBD). Far from helping to solve these serious environmental problems, both UN fora have facilitated more time and resources to promoting financial instruments than to directly addressing reducing emissions or biodiversity loss at source.

Twenty years after the Earth Summit and years of UN negotiations, governments and "green" market promoters at the Rio+20 conference reaffirmed the position that natural capital investments are critical instruments to address climate change and biodiversity loss, as well as drivers of economic growth. In the final document of the conference, "The World We Want", a plan was set out to increase investments in the "green" economy:

> *"We encourage existing and new partnerships, including public-private partnerships, to mobilize public financing complemented by the private sector [...] governments should support initiatives for sustainable development, including promoting the contribution of the private sector to support green economy policies in the context of sustainable development and poverty eradication."*[1]

Public-private partnerships encouraged by the UN and other bodies satisfy the interests of financial institutions and corporations under the rhetoric of "sustainable development". In this process, public funds are used to jump-start new financial instruments in an effort to lure large private investments.[2] These large financial institutions, often linked to fossil fuel corporations, quickly become the "drivers" of the operations. For example, neoliberal institutions like the World Bank irresponsibly perpetuate dependence on fossil fuels while at the same time increasing their role as a leader in climate finance.[3]

A September 2014 letter sent to Ban Ki-Moon from environmental Civil Society Organisations (CSOs) in the lead up to the UN General Assembly and Climate Summit warns against this trend:

> *"The greening of private investment is an entirely different matter from the provision of international climate finance. One cannot substitute for the other. The provision of $100 billion annually by 2020 is a legal and ethical obligation of developed countries. It must be public and grant-based, and the deployment of funds must be driven entirely by the adaptation and mitigation needs of developing countries. An emphasis on private finance must not provide cover for the lack of political will to mobilize public funds by rich countries."*[4]

The approach of commodifying "natural" areas forms a key part of the architecture that governments increasingly use to address pressing environmental concerns. This trend follows the financialisation of nature, understood as the framing of "nature" as a collection of "natural capital" assets that provide "ecosystem services". It is within this logic that BDO and PES emerged.

BDO allows for the destruction of a habitat to be compensated through the preservation or restoration of another habitat. While BDO can be based on bilateral agreements between buyers and sellers, these trades can also form the basis of market-based instruments through which biodiversity credits can be traded at a price[5]. For this purpose a whole set of incommensurable practices, undertaken at different places and times, are treated as though they are the same. For example,

1 UN General Assembly, "The Future We Want", 27 July 2012. http://www.uncsd2012.org/futurewewant.html

2 See for example: Larry Lohmann, "Financialization, Commodification and Carbon: The Contradictions of Neoliberal Climate Policy," Socialist Register, 2012. http://www.thecornerhouse.org.uk/sites/thecornerhouse.org.uk/files/Socialist%20Register%20Neoliberal%20Climate%20Policy%20Contradictions.pdf. See also: Jutta Kill, "Economic Valuation of Nature: The price to pay for conservation?" Rosa Luxemburg Stiftung, June 2014. http://www.rosalux.de/fileadmin/rls_uploads/pdfs/sonst_publikationen/Economic-Valuation-of-Nature.pdf

3 See for example: Redman J., "Dirty is the New Clean: A critique of the World Bank's Strategic Framework for Development and Climate Change", Institute for Policy Studies, October 2008. http://priceoffoil.org/content/uploads/2011/01/dirtyisnewcleanfinal.pdf. See also: Sheppard K., "World Bank's Climate Hypocrisy," The Guardian, 14 December 2012. http://www.theguardian.com/environment/2012/dec/14/worldbank-climate-change. Also see examples of fossil fuel corporations involved in REDD+: Frontline/World, "Brazil: The Money Tree" http://www.pbs.org/frontlineworld/stories/carbonwatch/moneytree/

4 Civil Society Letter to Ban Ki Moon. September 2014. http://libcloud.s3.amazonaws.com/93/6e/3/4884/9-18-14_Ban_Ki_moon_green_bonds_letter.pdf

5 Robertson M. "The neoliberalization of ecosystem services: wetland mitigation banking and problems of environmental governance", Geoforum 35 (361-373), 2004. http://illinois-online.org/krassa/hdes598/Readings/Wetlands/Neoliberalization%20of%20ecosysterm%20services.pdf

BDO has been used in the US since the late 1980s in the State of Minnesota to compensate for roadwork destruction, usually by converting agricultural tiled land back to wetlands. However, this process disregards whether the habitat of one destroyed region is similar to another. Calculating BDO is often done by measuring land area and the "level" of biodiversity in a region. These calculations, which rely on arbitrary equivalences between irreplaceable habitats form an unlikely recipe for instituting the deep structural changes that the loss to biodiversity demands.

PES follow the same financial logic to frame the benefits people receive from ecosystems – such as water provision, carbon storage or crop pollination – as services that can be bought and sold for a price, often through "voluntary" bilateral agreements.[6] This framing involves simplifying complex natural systems and "converting" incommensurable values into a single exchange value. Pricing "ecosystem services" effectively renders the social and ecological relations inherent to producing and interacting with ecosystems invisible to the market. As researchers Kathleen McAfee and Elizabeth Shapiro put it, "nature, in the form of the functions of ecosystems, must be decontextualized ecologically and disembedded socially to create standardized, fungible units of value."[7] The conversion of "nature" into a provider of services is not, therefore, merely a matter of language, but rather represents the expansion of the borders of the market, inevitably focused on profit and economic growth, at the expense of practices of relating to "nature" that rely on care and solidarity.

Transactions in PES demand that property rights over ecosystems functions be defined. Where territories rich in "ecosystem services" are public or common property, the definition of property rights can lead to their privatization. In the case of Costa Rica, for example, where schemes are predominantly carried out on privately owned land, researcher Brett Matulis argues that land management still becomes exclusionary with the introduction of PES:

> *"Participating landowners are required to shut down access to the broader community where access to ostensibly private lands by the landless is fairly common. So even though the land was already technically 'private', this can actually be seen as a further level of privatization. Meanwhile, champions of PES can claim that the program does no harm because dispossession cannot happen if there is no change of ownership. However, dispossession is happening, if we look closely at how particular patterns of access are changing."*[8]

The resulting loss of community control over the fate of local territories increases, since the traditional uses of the land can clash with providing "ecosystem services", even if these uses are environmentally sustainable.

These problems have been identified in Reduction of Emissions through Deforestation and forest Degradation (REDD+) schemes, which are in effect PES schemes that categorise the carbon sequestered in forests and soils as a service. Complexities regarding how to measure the carbon sequestered and the rate of deforestation are routinely ignored, as is the distinction between forests and industrial tree plantations. The diversity of approaches to valuing and relating to forests is similarly ignored, in the process of creating a single exchange-value, as described above. Land rights for Indigenous Peoples and land tenure conflicts in REDD+ are often sidelined and existing disputes are aggravated, leading to increased struggles and corruption.[9] As a result, not only is REDD+ an inadequate instrument to address climate change but it also aggravates problems of inequalities and profiteering that are at the heart of deforestation and land use conflicts.[10]

6 Some authors define PES more broadly, to include some or all government subsidies or donation schemes for environmental protection. Such a definition can be problematic, as it can involve using a commercial language to describe a non-commercial financing scheme. For the purposes of this report, we follow the definition of PES that will be used by the NCFF. In addition, we put "voluntary" is quotes because in many cases people are coerced into accepting PES (See Matulis reference below). For more on PES see: Gómez-Baggethun, Erik, et al., "The history of ecosystem services in economic theory and practice: from early notions to markets and payment schemes." Ecological Economics 69.6 (2010): 1209-1218. [http://foreststofaucets.info/wp-content/uploads/2010/03/The-History-of-Ecosystem-Service-in-Economic-Theory-and-Practice-Journal-Citation.doc.pdf]

7 McAfee, Kathleen, and Elizabeth N. Shapiro. "Payments for ecosystem services in Mexico: nature, neoliberalism, social movements, and the state." Annals of the Association of American Geographers 100.3 (2010): 579-599.

8 Interview between Brett Matulis and Tamra Gilbertson, 21 October 2014. See also: Matulis, B.S. "PES and Property: The Expansion of Exclusionary Land Management Practices in Costa Rica", Human Geography (forthcoming).

9 See: No REDD in Africa network website: http://www.no-redd-africa.org/ and the REDD Monitor site: http://www.redd-monitor.org/. Also see: Friends of the Earth, "The great REDD gamble: Time to ditch risky REDD for community-based approaches that are effective, ethical and equitable", October 2014. [http://www.foei.org/wp-content/uploads/2014/09/The-great-REDD-gamble.pdf]

10 Hall, R., "The Great REDD Gamble: Time to ditch risky REDD for community-based approaches that are effective, ethical and equitable", Friends of the Earth International, October 2014. http://www.foei.org/wp-content/uploads/2014/09/The-great-REDD-gamble.pdf

In the communication to Cities and Biodiversity Outlook (CBO) session at the Rio+20 conference, the EC argued that "experience shows that market-based approaches such as emissions trading are not only cost-effective tools to address environmental problems but are also a source for investment."[11] Accordingly, the EC has been promoting both BDO and PES as instruments to divide the environment into commodities that can be managed by private firms and traded in exchanges by financial institutions, arguing that "financial innovations" can be used for environmental protection.

The creation of a habitat banking system, through which biodiversity credits can be traded, has been promoted by the EC since 2007, when a Green Paper on market-based instruments for environmental protection was issued for consultation.[12] In 2010, the EC insisted on the idea, after receiving support from industrial lobbies, having ordered a study on habitat banking in the EU.[13] This was followed by the Biodiversity Strategy to 2020, which introduces the concept of "No Net Loss" to designate the use of biodiversity offsets and includes increased funding for Biodiversity and Environmental Services (BES).[14] The EP resolution was adopted on Friday 20 April 2012 called "Our life insurance, our natural capital: an EU biodiversity strategy to 2020" which was tabled by the European Commission in May 2011.[15]

The EU Biodiversity Strategy to 2020 is committed to the view that ecosystems function as services, and that putting a price on these services is viewed as a benefit to the economy. In this view, "natural capital" fuses complex natural systems with a growth economy. According to the Liberal Dutch MEP, Rapporteur Gerben-Jan Gerbrandy:

> *"The services that nature provides us with, like clean water, clean air, fertile soil, food, are not only crucial for the well-being of human kind, they also represent an astronomical economic value. According to economists, each year we lose 3% of GDP due to the loss of biodiversity. That costs the EU €450 billion year after year. Compared to these figures, investing €5.8 billion per year in Natura 2000 is a bargain!"*[16]

The conversion of ecosystems into providers of services is aided by the Mapping and Assessment of Ecosystems and their Services (MAES) initiative. This initiative follows Action 5 of the Biodiversity Strategy, which mandates Member States to not only assess and map the state of ecosystems and their "services" but also to calculate the economic value of ecosystem services, which is expected to be integrated into EU's accounting and reporting systems by 2020.[17]

Although the use of PES and BDO has been used for decades in several countries around the world, the EU has never had a unified Member State policy on either system. Plans are underway to implement BDO regulation by mid-2015, referred to as the No Net Loss (NNL) initiative. While this legislation is still being debated and it is yet unclear if NNL will even be approved, the EC and the EIB have gone ahead with their own plans to fund PES and BDO pilot projects without any democratic process or ironclad EU environmental legislation in place.[18]

2. The LIFE Programme: From nature conservation to financialization

LIFE is historically one of the key EU funding sources for environmental, nature conservation and more recently climate change adaptation and mitigation projects. The programme began in 1992 and has funded over €3.4 billion towards 4,000 projects across the EU throughout three completed phases (LIFE I: 1992–1995, LIFE II: 1996–1999 and LIFE III: 2000–2006).[19] The majority of these projects take place on Natura 2000 sites, which are conservation areas under the Bird or Habitat Directives. Past criticism of the LIFE programme has largely focused on unequal funding distribution which benefits regions

11 European Commission, "Rio+20: towards the green economy and better governance", COM(2011) 363 final, p.5, 2011. [http://ec.europa. eu/environment/international_issues/pdf/rio/com_2011_363_en.pdf].

12 European Commission "Green Paper on market-based instruments for environment and related policy purposes ", COM(2007) 140 final , pp. 13-14, 2007. [http://ec.europa.eu/environment/ enveco/green_paper.htm]

13 Eftec, IEEP et al. "The use of market- based instruments for biodiversity protection – The case of habitat banking – Summary Report", 2010. [http://ec.europa.eu/environment/enveco/studies. htm#2].

14 EU Biodiversity Strategy – Towards Implementation [http://ec.europa.eu/environment/nature/biodiversity/comm2006/2020.htm]

15 European Parliament, "Our Life Insurance, Our Natural Capital: An EU biodiversity strategy to 2020," April 2012. [http://ec.europa.eu/environment/nature/biodiversity/comm2006/pdf/EP_resolution_april2012.pdf]

16 European Commission "The European Parliament adopts resolution on the EU 2020 Biodiversity Strategy," April 2012. [http://ec.europa.eu/environment/nature/biodiversity/comm2006/2020.htm]

17 Ibid.

18 Although it is unclear if NNL will be employed, other legislation could include BDO in the future, such as during the revision on the Birds and Habitat Directives in 2015.

19 European Commission LIFE website: http://ec.europa.eu/environment/life/

that have ample resources and information to successfully maneuver the application process. The ENEP Newsflash journal stated, “A recent evaluation has shown that funds from the EU’s LIFE programme have been unevenly distributed, with Italy, Spain and Germany receiving substantial amounts from the current €2.2bn pot, while take-up in new member states has been much lower.”

The journal continues to critique the internal expenses, “The evaluation has been critical of the Commission in showing that the administrative burden of the programme has increased over time and procedures for project application are too long and complex.”[20] Line 127 in “Our life insurance, our natural capital” noted, “... with concern that the number of projects financed under the LIFE+ programme each year is below the indicative allocation in various Member States; [the European Parliament] invites the Commission to assess the reasons for this under-implementation and where necessary to propose changes to the rules governing the programme, particularly as regards co-financing levels.”[21] The unequal financing for protecting certain regions has led to questions around fairness and transparency.

The new LIFE Programme builds upon its predecessor, LIFE+, but it is not clear how the above mentioned problems will be addressed. The new programme is divided into two programming periods: 2014-2017 and 2018-2020. The programme is now divided into two sub-programmes: Environment and Climate Action, with an overall budget of €3.457 billion.[22] The Environment sub-programme will receive 75% of the total budget, nearly €2.6 billion to be spent on environment, resource efficiency, environmental governance and information, and biodiversity. The EU Natura 2000 network will receive the majority of funding towards “nature” and biodiversity sites. The Climate Action sub-programme will receive the remaining 25%, just over €864 million and will cover climate change mitigation; climate change adaptation; and climate governance and information.[23] During the first period between 2014-2017, €449.2 million was allocated to climate action with €44.26 million available to the 2014 call for proposals.[24]

20 Newsflash, “Innovative funding to boost green investment on the way for 2014-2020,” Issue 25, July 2013.

21 http://ec.europa.eu/environment/nature/biodiversity/comm2006/pdf/EP_resolution_april2012.pdf

22 European Commission LIFE website: http://ec.europa.eu/clima/policies/budget/life/faq_en.htm

23 Ibid.

24 Ibid.

Until now all LIFE funding has been awarded as public grants to conservation and other environmental projects throughout Europe. The new LIFE Programme is being promoted as more “flexible” and “strategic” because some of the funding from 2014 will be channeled through financial institutions to provide loans and financing for bank lending and through other financial mechanisms to projects.[25] Two pilot facilities will test the profitability of switching from public grants to using other financial instruments: The Natural Capital Finance Facility (NCFF) and the Private Financing for Energy Efficiency instrument (PF4EE).

The pilot NCFF falls under both LIFE sub-programmes with a total budget of €100 million euros for investments, plus €10 million euros for technical assistance.[26] The LIFE Programme will contribute €30 million euros from the Environment sub-programme and €30 million euros from the Climate Action sub-programme.[27] The EIB will provide matching funds of €50 million euros.[28]

The second pilot facility, PF4EE, will seek additional debt financing for energy efficiency projects. The PF4EE will be implemented through local banks and national energy efficiency action plans. The pilot aims to incentivise banks to provide loans to energy efficiency investments in the range of €40,000 - €5 million.[29]

The EC DG ENVI is ultimately responsible for policy and decision-making while the EIB will manage the NCFF and PF4EE by providing a risk-sharing facility for private financial institutions, tech support and long-term loans.

25 Newsflash, “Innovative funding to boost green investment on the way for 2014-2020,” Issue 25, July 2013.

26 ec.europa.eu/environment/biodiversity/business/assets/pdf/ncff.pdf

27 Ibid.

28 M. Quinn, “Info Day Nazionale LIFE, The new financial instruments under LIFE” presentation, DG Climate Action, 3 June 2014, Rome, Italy. http://www.minambiente.it/sites/default/files/archivio/allegati/life/life_infoday_2014_quinn2.pdf

29 European Commission: http://ec.europa.eu/environment/life/products/download/clima_leaflet_EN.pdf

3. The Natural Capital Finance Facility: Seizing an “opportunity”

The EU policy framework on natural capital is set out in the EU Biodiversity Strategy to 2020,[30] in the Roadmap to a Resource Efficient Europe,[31] in the Communication on Green Infrastructure[32] and in the EU Strategy on adaptation to climate change.[33] Several of these and other policy documents refer to the need for a Natural Capital Financing Facility.

The NCFF pilot projects fall under four categories: PES, green infrastructure projects, BDO projects, and pro-biodiversity and adaptation investments. The funding infrastructure will be developed in two phases with the pilot phase aimed to begin at the end of 2014 – 2017 with the operational phase coming into effect from 2018 – 2020.

Eligible projects include examples such as funding for water treatment facilities, offset funding for infrastructure projects, projects in the marine and coastal environments, ecotourism and BDO beyond legal requirements. Similarly to early in the Clean Development Mechanism (CDM) process, pilot projects could be appointed to large, established projects that have the contacts and resources to ensure their financial success in order to attract future investors.[34]

BDO projects will exclude Natura 2000 network sites, listed under the Bird and Habitat Directives, since Natura 2000 sites already have a form of offsetting in place that stipulates compensatory measures for habitat loss when projects are deemed to be of “overriding public interest” and no alternative solutions exist, with the objective of maintaining the “overall coherence” of the network.[35]

NCFF Project Types and Examples

- Green infrastructure (e.g. green roofs, green walls, ecosystem-based rainwater collection/water reuse systems, flood protection and erosion control).
- Payments for ecosystem services (e.g. programs to protect and enhance forestry, biodiversity, to reduce water or soil pollution)
- Biodiversity offsets / compensation beyond legal requirements (e.g. compensation pools for on-site and off-site compensation projects).
- Pro-biodiversity and adaptation businesses (e.g. sustainable forestry, agriculture, aquaculture, eco-tourism)

At this point it is unclear how BDO funding will be calculated and where the BDO projects will take place. BDO will be used to “compensate” for the destruction of natural areas outside the Natura 2000 network, beyond the legal requirements that may already exist. The projects will take place in at least one EU Member States but offsets could be located in countries of the European Neighbourhood Policy, subjected to signing bilateral agreements (MoUs).[36]

During the pilot stage the EC and EIB will share 70% of the direct investment with the remaining 30% to be sought through intermediaries and later increase intermediary financing.[37] The aim is to leverage profitable investments

30 European Commission COM(2011)244: http://ec.europa.eu/environment/nature/biodiversity/comm2006/pdf/2020/comm_2011_244/1_FR_ACT_part1_v2.pdf

31 European Commission COM(2011)571: http://ec.europa.eu/environment/resource_efficiency/pdf/com2011_571.pdf

32 European Commission COM(2013)249: http://ec.europa.eu/environment/nature/ecosystems/docs/green_infrastructures/1_EN_ACT_part1_v5.pdf

33 European Commission COM(2013)216: http://ec.europa.eu/clima/policies/adaptation/what/docs/com_2013_216_en.pdf

34 The CDM, the main offset mechanism of the UN Kyoto Protocol, has been accused of choosing “low hanging fruit” or large, established projects that would provide the largest volume of emissions credits for the lowest possible investment. For example 70% of CERs were used for abating refrigerant gases in the first 18 months of operation. See for example: Erion G., “Low hanging fruit always rot first: Observations from South Africa’s Crony Carbon Market”, CCS – University of KwaZulu-Natal, October 2005. http://www.carbontradewatch.org/pubs/CDMsouthafrica.pdf

35 Article 6.4 http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:31992L0043

36 European Commission Welcome Europe website: http://www.welcomeurope.com/european-funds/life-2014-2020-financial-instrument-natural-capital-financial-facility-ncff-985+885.html#tab=onglet_details

37 European Commission, Summary Records of the First LIFE comity: “Information Documents Accompanying the Commission implementing decision on the adoption of the multiannual work programme for 2014 2017” 17 February 2014.

for 10-12 revenue-generating or cost-saving pilot schemes between 2014-2017. Each pilot project will be awarded funding of between €5-15 million with three to four projects to be chosen each year.[38] According to Peter Schultze of the European Commission, "We are mainly doing it here in our unit together with the EIB on financial instruments which are in line with the financial market structure; therefore we see our role not necessarily in financing the projects themselves but giving a catalytic role in this regard and bring attention to the financial intermediaries, the banks and other financial institutions to such kinds of projects."[39] Ultimately, the goal will be "to demonstrate to private investors the attractiveness of natural capital projects for the longer term".[40]

When the pilot stage has been completed (2017), the operational stage will come into affect (2018-2020) with the intention of project financing to be based mainly on intermediary investments, through banks and other financial institutions, with only occasional direct investments in projects. At this stage the objective is to use primarily market forces.

NCFF project funding through intermediary investments will include combined debt and equity funding. In the former case, the EIB will either invest in debt funds or loan money to financial intermediaries through credit lines, which require these intermediaries to loan the money to the final recipients according to predetermined conditions. In the latter case, the EIB will invest in equity funds, which then apply the money in the purchase of equity securities or stocks (See Decoding Finance Section).[41]

It is unclear at this stage how the NCFF loans and equity investments will be applied. In the European Commission "Implementing Decision on the adoption of the LIFE multiannual framework programme for 2014-2017," the document states that different types of debt would be used, specifically mentioning mezzanine debt (See Decoding Finance Section). The document also states that the NCFF will invest mostly in debt instruments (loans), with equity investments being reserved for specific cases, comprising mostly investment funds.

In a presentation made at a seminar, in April 2014, on "Scaling up Finance for Biodiversity", Eva Mayerhofer, EIB's Lead Environment Specialist, presented the NCFF as an instrument directed mostly at intermediated investments, including private equity and debt funds and credit lines, and occasionally at direct investments in projects.[42] According to this presentation, equity investments will include private equity funds.

The EC predicts a high ratio of total investments from the LIFE funding (€60 million). The EC estimated the leverage value of the NCFF to the LIFE provision between 2,2 and 3,2 fold, while the leverage of total investment to the LIFE provision is estimated at between 2,8 and 4,2 fold (considering an average of 25% for the contribution of final recipients).[43] Therefore, the EC estimates that the total investment in natural capital management projects in the NCFF could reach €420 million in the pilot phase. During the operational phase, the leverage has a predicted increase up to six fold, if more investments are made through intermediaries and funds.[44]

38 Ibid.

39 Personal Interview between Peter Schultz, the EC Directorate-General of Economic and Financial Affairs and Tamra Gilbertson, 29 July 2014.

40 EIB Press Release, "Natural Capital Finance Facility," 2014. http://ec.europa.eu/environment/biodiversity/business/assets/pdf/ncff.pdf

41 European Commission Implementing Decision on the adoption of the LIFE multiannual framework programme for 2014-2017, pg. 36, 19 March 2014. eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014D0203&rid=1

42 Eva Mayerhofer, "The role of international financial institutions and the financing of natural capital," EIB, April 2014. http://www.cbd.int/doc/meetings/fin/ds-fb-02/other/ds-fb-02-presentation-25-en.pdf

43 See reference 39. eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014D0203&rid=1

44 Ibid.

Decoding Finance

Debt funds are a type of mutual fund (many investors) that generate returns from money invested in bonds or other types of deposits (essentially a loan). The lender earns interest on the money they have lent. Debt funds can be investments in short-term or long-term bonds, products, money market instruments or floating rate debt. The fee ratios on debt funds are lower on average than equity funds because the overall management costs are lower. The interest earned from money lending (debt fund) forms the basis for the returns (money plus interest).

A bond is a debt security that is issued by the borrower to the lender, specifying the maturity date (when it can be redeemed), the interest (called coupon) or both. Buying a bond is an alternative to investing money in a fixed deposit, through which individuals can deposit money in a bank for a given period of time, basically lending money to the bank in return for an interest. Bonds can be issued by governments or companies. Some types of bonds can be bought by individuals, others can only be traded in exchanges.

A simple way of understanding debt funds is a way of lending money and making money off the interest income that they receive from the invested bonds. An added complexity of debt funds is that mutual funds invest in bonds that are tradable, just like shares on a stock market. There is also a debt market where various bond types are traded.

Just as in any financial market, in a debt market the prices of different bonds can rise or fall. For example, if a mutual fund buys a bond and its price rises, then the buyer can make additional money over what it would have made out of the interest income alone. Conversely, if the price falls, the buyer will experience a financial loss.

The most common reason that a bond price would rise or fall would be a change in the interest rates, or even the expectation of such a change. Suppose a bond pays out interest at a rate of 10 per cent per year. Later the interest rates in the economy rise and newer bonds start issuing 12 per cent. Then the old bond should now be worth less than earlier. The opposite is true as well, for example a mutual fund that holds a bond with an increased interest rate would find its holdings worth more and could make additional profits by selling the bond.[45]
In the case of mezzanine debt, as specifically mentioned in the European Commission "Implementing Decision on the adoption of the LIFE multiannual framework programme for 2014-2017," this type of loan or debt capital allows the lender to convert to equity, or ownership, in the company if the loan is not paid back in time or in full.[46] This is usually used by senior lenders such as banks or venture capital companies.

An equity fund is a type of mutual fund or private investment fund that buys ownership in businesses. The most common type of equity fund is in publicly traded common stocks in large companies like Coca-Cola or ExxonMobil. However, there are also private equity funds which invest in privately-held companies that are not traded on the stock market. In both examples, the objective is for the business to grow so that the investors can profit. This is different than a debt or bond fund or fixed income fund described above, which uses shareholder money to make loans to companies or governments, collecting interest income.

There are many types of equity funds which include: Global Equity Funds, Mega Cap equity funds (investing in mega-corporations like Walmart or Google), Large Cap, Mid Cap, Small Cap, Micro Cap (companies worth a few million dollars), Private Equity Funds (investing in private companies that do not trade on a public exchange), Equity Income Funds, Index Equity Funds, and Industry Specific Equity Funds.

Private equity funds are not quoted on a public exchange. Private equity consists of investors and funds that make investments directly into private companies or conduct buyouts of public companies that result in a public equity delisting. Private equity transactions are largely made by institutional investors and accredited investors that have the capital to commit large sums of money for long periods of time. Private equity investments often have long holding periods (up to 10 years plus extensions in the case of NCFF funds).

Equity funds are more risky than debt funds, since their interest depends on the performance of the companies. The pressure to outperform other funds is high, which can lead the equity funds' recipients engaging in unsustainable business practices or even dodgy accounting tricks to artificially inflate their earnings.

45 http://www.valueresearchonline.com/story/h2_storyView.asp?str=21999

46 European Commission Implementing Decision on the adoption of the LIFE multiannual framework programme

4. The European Investment Bank – (Natural) Capital's Big Brother

Set up in 1957, the European Investment Bank (EIB) finances projects agreed upon by the European Commission. Based in Luxembourg, it directs most of its financing towards projects inside the EU, while close to 10% of its annual budget is spent outside of the EU. It is the world's largest public multilateral financial institution, totaling €71.7 billion in lending in 2013.[47]

The EIB is supposed to "provide finance and expertise for sound and sustainable investment projects which contribute to furthering EU policy objectives".[48] Projects financed by the EIB should follow the environmental and "sustainable development" objectives of the EU and be additional, i.e. they would not take place without other financing. However, the EIB regularly invests in socially and environmentally destructive projects.

Co-financing some "risky" projects is possible because the capital is guaranteed by EU member states, which allows the bank to receive AAA status from rating agencies. Backing finance with public funds allows the EIB to promote new businesses and expand the frontiers of capital accumulation, using financial facilities like the NCFF.

While the EIB has considerably increased its investments in renewable energy and energy efficiency projects, research from CEE Bankwatch Network has shown that the EIB continues to invest considerable amounts in high-carbon infrastructure. At the end of 2013, the EIB had standing investments in carbon projects amounting to US$11 billion of which US$2.5 billion (€2 billion) were newly invested in 2013.[49] Financing from the EIB has been crucial for the expansion of fossil fuel infrastructure, for instance, though support for new coal plants in Croatia, Slovenia and Poland.[50] The EIB is also set to finance the construction of several new pipelines, including the Euro-Caspian Mega Pipeline, creating a dependency in Europe's energy sector towards long term carbon intensive imports thus generating a lock-in effect.[51] In the transport sector, the EIB has financed the construction of motorways that compromise Natura 2000 sites and/or involve mass forced displacements of local communities, namely in Poland and Slovakia.[52]

In 2013 the EIB's new energy policy introduced an Emissions Performance Standard (EPS) to restrict future financing of coal-fired power plants and some of the highest polluting gas power plants. Officially, the bank is not allowed to finance any project that exceeds the set limit of 550gCO2/kWh. This benchmark excludes all current coal fired power plants without carbon capture and storage (CCS), biomass co-firing or combined heat plants. However, restrictions to coal-fired power plants outside of the EU are often circumvented by economic development arguments.[53]

Nevertheless, a considerable chunk of the EIB portfolio still lacks coherence with EU climate targets while it continues to invest in fossil fuels and environmentally questionable energy projects (large dams, shale gas, and gas pipelines). A recent report from the Bretton Woods Project shows that the bank still has standing investments in fossil fuel projects that amounted to over €11 billion at the end of 2013.[54]

The EIB is also an important player in carbon markets. So far, the EIB has operated six carbon funds, worth a total of €589 million, investing in projects to trade in the EU ETS or in voluntary markets.[55] It also pledged €250 million for REDD+ funds since the bank aims to create new environmental markets as one of its key objectives.[56]

47 http://www.eib.org/about/key_figures/index.htm

48 http://www.eib.org/about/

49 See EIB website at www.eib.org. See also: Kenner D., "Multilateral Development Bank's unburnable carbon", The Bretton Woods Project, September 2014. http://www.brettonwoodsproject.org/2014/09/mdb-sunburnablecarbon/

50 Miskun A., et. al., "Carbon Rising: European Investment Bank Lending," CEE Bankwatch Network, 2011. http://bankwatch.org/sites/default/files/EIB-carbon-rising.pdf. See also: CEE Bankwatch, "Challenges for the EIB in the transport sector," media brief, November 2010. http://bankwatch.org/documents/MediaBriefing_EIBtransport_Nov2010.pdf

51 Gallop P., et. al., "No public money for mega-gas pipeline projects," CEE Bankwatch Network, June 2014. http://bankwatch.org/sites/default/files/study-PCI-gas-12Jun2014.pdf

52 Client Earth, "Transparency and the European Investment Bank," factsheet, 2013.

53 Kenner D., "Multilateral Development Bank's unburnable carbon", The Bretton Woods Project, September 2014. http://www.brettonwoodsproject.org/2014/09/mdbsunburnablecarbon/

54 Ibid.

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

56 Advanced Global Trading, "Interview: EIB injects green in Redd carbon fund," May 2011. http://advancedglobaltrading.com/redd-carbon-fund/

The Althelia Climate Fund

In 2013, the EIB agreed to invest up to €25 million in the Althelia Climate Fund, a public-private partnership that aims to profit from PES, including offsets from forests.[57] In February 2014, of the US$60 million in total assets, the fund invested US$10 million in the expansion of the Taita Hills Conservation and Sustainable Land Use Project in Kenya, in cooperation with Wildlife Works Carbon LLC based in California, and is owned by the London based Wildlife Works Carbon UK Ltd. The Taita Hills project aims to profit from REDD+ credits and charcoal production.[58] The Kenyan government is already involved in the mass displacement of Sengwer Indigenous Peoples from their ancestral lands to pave the way for REDD+ projects in the Embobut forest.[59]

On May 28th, 2014, the US Agency for International Development (USAID) announced its support for the Althelia Climate Fund to lend up to US$133.8 million in commercial financing for forest conservation and sustainable land use.[60] The second closing of the fund was aimed for June 2014 with a total target size of €140-160 million. On the 8th of September 2014, the Althelia Climate Fund announces its participation in a US$12 million investment programme in Madre de Dios, Peru, to finance the long-term conservation of 570,000 hectares of natural forest of the National Reserve of Tambopata and National Park Bahuaja-Sonene, areas regarded as "biodiversity hotspots".[61]

The Althelia Climate Fund operates through Althelia Climate Fund Sicav set up in January 2012 and based in Luxembourg. It is a close-end fund with a planned duration of eight years. The founding shareholders of Althelia Climate Fund Sicav are Sylvain Goupille and Christian Del Grande, both former carbon finance and environmental finance managers of BNP Paribas. The General Partner of Althelia Climate Fund Sicav is Althelia Climate Fund GP Sàrl based in Luxembourg, a company controlled by Goupille and Del Grande. In addition, the advisory company of Althelia is the UK-based Althelia Ecosphere, also controlled by Goupille and Del Grande.

Althelia's business has reported expenses as well as a series of loans among different entities involved, raising serious questions around the role of the beneficiaries of the advisory fees, which should be clarified by the EIB and ultimately the citizens who fund the public financial institution. It is unclear what will be the overall economic return from Althelia's investments, given the reported losses, the difficulties faced in identifying REDD+ projects, and consequent delays in the financial closure of different investment stages.[62]

The EIB supports several other destructive forest projects including the UK-based New Forest Company's carbon offset and timber extraction projects, which led to the forceful eviction of local communities in Uganda.[63]

57 European Investment Bank, "EIB supports Althelia Climate Fund to save tropical forests," press release, June 2013. http://www.eib.org/infocentre/press/releases/all/2013/2013-086-eib-supports-althelia-climate-fund-to-save-tropical-forests.htm

58 Althelia Ecosphere website: https://althelia.com/our-investments/taita-hills/

59 No REDD Africa Network, "Kenya: Preparing for REDD in the Embobut Forest and forcing Sengwer People "into extinction," January 2014. http://www.no-redd-africa.org/index.php/27-countries/kenya/96-kenya-preparing-for-redd-in-the-embobut-forest-and-forcing-sengwer-people-into-extinction#_ednref19

60 USAID, U.S. Government, "Althelia Climate Fund Mobilize US$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

61 Tricarico A., "Banking on Forests: The case of the Althelia Climate Fund," Re:Common and Counter Balance, August 2014. http://www.recommon.org/eng/banking-on-forests/

62 Bank D., "Beyong Carbon: Althelia Climate Fund Attracts Conservation Investors," Huffington Post, 24 Oct 2014. http://www.huffingtonpost.com/david-bank/beyond-carbon-althelia-cl_b_6041646.html

63 Matt Grainger and Kate Geary, "The New Forest Company and its Uganda plantations," Oxfam International, September 2011. http://www.oxfam.org/sites/www.oxfam.org/files/cs-new-forest-company-uganda-plantations-220911-en.pdf

EIB investments are increasingly conducted through financial intermediaries, in particular through "credit lines". In these global loans, the EIB lends money to financial institutions, like banks and investment funds, which then re-lend the money to the final recipients, according to predefined conditions. Representing around 30 per cent of the global volume of loans, intermediated loans are presented by the EIB as a tool to finance small scale investments and benefit from the knowledge of local economies that commercial banks claim as their advantage. Due to commercial confidentiality the final beneficiaries are not disclosed. The lack of transparency also makes it impossible to measure the project's impact, since intermediated investments, unlike direct investments, do not face EIB's due diligence. It is difficult to see how the NCFF could escape this structural weakness.

Lack of transparency is pervasive in EIB investments. Until 2006, when its first Public Disclosure Policy was approved, the EIB answered almost exclusively to its clients, denying citizens the right to know how their money was being spent. The approval of a Transparency Policy in 2010 partially answered demands from CSOs, by having the EIB publish information on investments prior to their approval and stipulating stakeholder involvement through public consultations. Yet, the multiple exceptions to the disclosure policy, supported by notions of commercial confidentiality, and the significant delays in publishing information, have made it very difficult for CSOs to monitor the EIB activity. Worse still, the EIB is preparing a review of its Transparency Policy that is likely to broaden the exceptions, making its project approval and access to information even less transparent.[64]

5. EY: A dodgy firm for a dodgy business

Early in 2014, the EIB subcontracted EY and the ICF GHK to identify "a potential pipeline of projects for the NCFF."[65] EY (formerly known as Ernst & Young) is one of the "Big Four" audit corporations, along with PwC, Deloitte and KPMG. The firm provides a series of "professional services", including auditing, consultancy, tax and advisory services.

64 Policy Note on the EIB Transparency Policy, Counter Balance, July 2014

65 Valuing Nature Network, "Finance facility for natural capital projects," web: http://www.valuing-nature.net/news/2014/finance-facility-natural-capital-projects

EY has been involved in controversies around corporate fraud and tax evasion. In recent years, EY has been found guilty of accounting fraud, involving the manipulation of accounts and the falsification of documents.[66] In 2010, EY was again involved in a Hong Kong-based corporate fraud regarding the bankruptcy of Moulin Global Eyecare. After settling, the liquidators described EY's accounts as a "morass of dodginess".[67] The recent financial crisis exposed more scandals involving EY. The firm failed to prevent the Anglo Irish Bank hidden loans controversy, which started with its former Chairman admitting to have hidden a total of €87 million in loans from the bank, and led to the nationalisation of the bank. The move cost €22.9 billion to Irish taxpayers and is now at the center of several ongoing investigations and legal actions.[68] EY was also accused of participating in accounting fraud for Lehman Brothers, which declared bankruptcy in 2008. Ongoing investigations are centered on a move called "repo", through which the bank would sign a repurchase agreement (a sale of assets followed by its repurchase at a later date, with interest) as a sale, instead of a loan, which would allow the bank to artificially inflate its earnings and decrease its liabilities.[69]

Tax evasion practices have also led to charges against EY. In 2013, the firm agreed to pay US$123 million, after being prosecuted in the US for engaging in tax avoidance schemes that allowed the super-rich to save US$2 billion in taxes between 1999 and 2004. Evidence that EY employees had deliberately deceived tax authorities led to four arrests.[70]

Like the other "Big Four" audit firms, EY has positioned

66 Floyd Norris, "Ernst to Pay the S.E.C. $8.5 Million," The New York Times, 17 December 2009. http://www.nytimes.com/2009/12/18/business/18audit.html;
Andrea Tan and Mark Lee, "Ernst & Young Settles Akai Collapse Law-suit, Suspends Partner," Bloomberg, 23 September 2009. http://www.bloomberg.com/apps/news?pid=newsarchive&sid=axMOMS18ZXT0;
Naomi Rovnick, "Ernst & Young pays up to settle negligence claim," South China Morning Post, 27 January 2010. http://www.scmp.com/article/704741/ernst-young-pays-settle-negligence-claim

67 Naomi Rovnick, "Ernst & Young pays up to settle negligence claim," South China Morning Post, 27 January 2010. http://www.scmp.com/article/704741/ernst-young-pays-settle-negligence-claim

68 Denise Roland, "Former Anglo Irish Bank sues Ernst & Young," The Telegraph, 29 November 2012.

69 Matthew Goldstein, "Arbitrators Ease Blame on Ernst & Young for Audits of Lehman Brothers," DealB%k, 11 August 2014. http://dealbook.nytimes.com/2014/08/11/arbitrators-ease-blame-on-auditors-of-lehman/

70 Simon Bowers, "Ernst & Young to pay US regulators $123m over tax avoidance schemes," The Guardian, 3 March 2013. http://www.theguardian.com/business/2013/mar/03/ernst-young-pays-us-regulators

itself as a key player in natural capital financing, by providing accounting and consulting services to firms that engage in environmental services trading, renewable energy development or other businesses that fit into the "green economy" concept. EY at the same time provides services for fossil fuel and other energy corporations, raising serious questions around conflicts of interest. Given this companies sordid record it begs the question of why the EC and EIB would spend tax payers' money for advice from the EY. Further watch-dogging is needed to assess potential conflicts of interest involved in the future dealings of the NCFF.

Transparency is a Ghost

Project approval for NCFF projects will follow guidelines made by the consulting firms EY and ICF GHK. Attempts to contact EY were met with silence and ICF International responded that they had completed their work so questions should be directed to the EIB directly.[71] Despite our best efforts, the consultants and the EIB staff listed as contacts for further information refused to answer our questions, particularly regarding project approval criteria and the use of NCFF funds. The EIB, in particular, expressed a total unwillingness to answer any question until the NCFF is officially set up, arguing that all questions will be answered on a dedicated website when the decisions have been made. When asked why they would not speak with us, the EIB did not reply.[72]

Correspondence with the European Commission was equally disappointing. Although there were early attempts made to set up interviews with representatives in DG ENV, these interviews were changed several times. Finally an agreement was made to answer questions by e-mail. These questions were sent over four times to three different representatives and never answered. One interview was completed with the European Commission Directorate-General of Economic and Financial Affairs. Overall, information on the NCFF has been guarded carefully. In addition, there was no civil society consultation, making the project approval process opaque and undemocratic.

71 Based on correspondence between Matt Rayment of ICF International and Tamra Gilbertson, 17 September 2014.

72 Based on correspondence between Enrico Canu of the EIB and Ricardo Coelho, 25 September 2014.

6. Funds Before Policy

Currently, the EU is in planning stages to roll out its No Net Loss policy that, if passed, would regulate BDO throughout the EU.[73] Although the No Net Loss plan is not agreed upon, BDO projects in the NCFF are already slated as potential projects while pilot project funding for the NCFF is cemented. This is not the first time that banks and institutions have jump-started financial instruments before clear public policy has been hammered out.

In 1999 the World Bank launched its first carbon fund, the Prototype Carbon Fund (PCF) with the aim of creating "a short-term catalyst to jump-start the transfer of finance for clean energy technologies to developing countries".[74] The PCF pooled funding resources from 13 countries and several multinational institutions in order to leverage a new mechanism that would later be adapted for the Clean Development Mechanism (CDM). Notably, the CDM was not slated to be launched until 2005, and in 2003, during the early pilot project stages, the UN was still in decision-making stages on the details of the CDM. With the PCF in place and money afoot the WB went on to build two other funds that would bankroll more green funding: the BioCarbon Fund and the Community Carbon Fund.

Several years later the same process was repeated in setting up funds for REDD+. The World Bank's Forest Carbon Partnership Facility (FCPF) was launched at the UN Climate Conference in Bali in 2007, amid protests that demanded "World Bank out of my forest" and "No carbon market for forests".[75] The FCPF was initiated without Indigenous Peoples' input or recognition. According to the Indigenous Environment Network (IEN), "the World Bank isn't waiting for the UN to adopt a REDD implementation framework: they have moved forward with their own REDD-type projects through R-PINs (Readiness Plan Idea Notes) and through its other carbon and climate funds."[76] Even at the time of writing, REDD+ has not been fully agreed upon by the UNFCCC, but large amounts of public and private funding have been injected into various financial schemes and

73 European Commission, "No Net Loss" webpage: http://ec.europa.eu/environment/nature/biodiversity/nnl/index_en.htm

74 www.worldbank.org

75 Gilbertson and Reyes, "Carbon Trading: How it works and why it fails," Uppsala: Dag Hammarskjold Foundation, 2009. http://www.dhf.uu.se/pdffiler/cc7/cc7_web_low.pdf

76 Indigenous Environment Network, "No REDD!" briefing, September 2009. www.ienearth.org

"voluntary" REDD-schemes are well underway.[77]

"Catalyzing" public finance before a meaningful policy process is frequent in nearly all major international markets set up for "green" economy projects including the carbon market, REDD+ and BDO in Europe. This repeated scenario starts with heavy lobbying efforts by industries and financial institutions who stand to gain from such a financial instrument. This is often followed by written statements for the "need" of a financial instrument by public officials that have often worked for or have vested interests in the banks and corporations. If the policy is not set in place quick enough then this is followed by an undemocratic process of a government body and/or a financial institution setting up an instrument before the decision-making process is completed. Most likely, the financial instrument would happen with or without the policy in place, calling into question power relations, the necessity of the financial instrument and the claim that it exists for the best interests of the climate and the environment. Further, once the financial instrument is already in its early functioning stages, it can be used to justify why the legislation must be passed. Later if the market-based instrument fails, as is the case of the EU ETS, the problem is chalked up to merely "teething problems" with proponents claiming the need for more financial injection and government support to keep it functioning.

Frequently in the world of "green" finance, policy does not need to be in place for financial instruments to be put into practice. The Green Bonds market has gained substantial traction in the last seven years. It began with an initiative from the EIB in 2007 to build Climate Awareness Bonds. The World Bank followed and began issuing Green Bonds in 2008 using Scandinavian pension funds. The World Bank has issued over US$4 billion since the green bond program began.[78]

Another example in the shadowy world of climate and environmental finance is the Global Climate Fund (GCF). Originally set up to distribute money from the global North to the global South, where it is needed for climate mitigation and adaptation, the GCF has quickly morphed into a financial mechanism being developed by intermediaries that will benefit the most from the financial instruments proposed. Although the GCF has not fully been agreed upon in the UNFCCC, similar financial players are hard at work to ensure it will be a profitable financial instrument rather than a means to distribute or grant money to countries in need of climate adaptation funds, thus giving a whole new meaning to "equity".

The process of setting up the NCFF before a European policy has been agreed upon for BDO and PES follows other financialisation of "nature" examples. It is interesting to compare this phenomenon to other public policy areas such as health care, education and water, where public services are also being lost. However, it might seem irrational to catalyze financial intermediaries for school books, for example, and distribute the books before the curriculum and content of the books are agreed upon. BDO seems to have slipped into the NCFF without public consultation at the same time NNL is being discussed. Will BDO in the NCFF be used to justify implementing NNL? Questions around the legitimacy of BDO in the NCFF have been raised but little has been answered by the EC or the EIB.

7. Elements for Further Discussion

The NCFF is a good example of financing for "natural capital". By using intermediaries and market-based finance, the EIB and the intermediaries increase their portfolios through interest on loans and market-based trading. Therefore, the profit is not necessarily from the projects themselves but from the capital gained during the financialisation process. Relegating environmental projects to market forces is problematic on a host of varying levels and results in several important losses:

- Loss of Communitarian Stewardship and Care
- Loss of Transparency
- Loss of Control over Public Money
- Loss of Diversity of Solutions

Loss of Communitarian Stewardship and Care

The success of a project within the NCFF will be measured more by profitability rather than the environmental protection the project facilitates. When local communities are empowered to create non-financialised common projects with grant-based funding, such as a community garden, this type of activity builds increased social relations among the group which may have many positive secondary outcomes including, community security,

77 See for example: http://www.no-redd-africa.org/ ; http://www.redd-monitor.org/ ; http://noredd.makenoise.org/

78 World Bank, "World Bank Green Bonds Surpass US$4 Billion Mark – Reflections Five Years On," Press Release, August 2013. http://blogs.worldbank.org/climatechange/world-bank-green-bonds-surpass-us4-billion-mark-reflections-five-years

sharing resources and overall public health. Because the community is invested in organising a project it is more likely that the project will succeed in terms of added environmental and social value. In addition, because the projects are not bankable, they are not attractive for financial institutions seeking new financial instruments to expand their profits.

Financial facilities like the NCFF require that the projects are profitable in order to pay back loans and attract further investors, undermining the importance of building successful, environmentally sustainable, community-based projects. In addition, the project profitability depends on loan repayments and profitability margins in the market. This implies that the type of projects chosen for the NCFF will have to be able to deliver high revenues in order to succeed in the market place. How success is measured matters in this equation.

Loss of Control over Public Money

Historically, LIFE has been funded by public grants and co-funding, with the aim to ensure important habitats throughout Europe. With the onset of the NCFF pilot facility, the EC and the EIB are setting out to experiment with financial mechanisms which could be used for other areas of LIFE funding in the future. Building new financial instruments for "nature" replaces public grants and could set a precedent for future environmental and conservation projects. Central to this trend is the transfer of power from elected institutions to the same banks and companies that profit from environmental harm.

Another aspect of this loss is that once the funding has been toyed with on the market and returns are secured by the intermediaries, projects – whether they are truly green or deeply destructive – can be abandoned and left to be paid back through public funds. Several infrastructure projects have failed due to their profit-making orientation. This is the case for many "white elephants" projects throughout Europe including abandoned airports, vacant newly-built buildings and other large infrastructure projects such as the Castor project in Valencia, Spain[79].

79 Martinez and Gilbertson, "Castles in the Air: The Spanish State, public funds and the EU-ETS" Carbon Trade Watch, May 2012. http://www.carbontradewatch.org/articles/castles-in-the-air-the-spanish-state-public-funds-and-the-eu-ets.html; See also: Elena Gerebizza, "Project bonds threaten financial and real earthquakes," Euractive, 31 December 2013. http://www.euractiv.com/euro-finance/project-bonds-threaten-financial-analysis-531417

Loss of Transparency

Market-based financing takes the debate out of the public realm and puts power into the hands of neoliberal institutions. Using financial intermediaries, in particular, lacks transparency and gives banks and other institutions power over the use of public funds and the projects.[80]
Lack of transparency is already embedded in the NCFF, considering that the EIB has failed to make information public regarding how projects are going to be evaluated, financed and monitored. The involvement of consulting firms in the project evaluation process and the exclusion of elected officials (such as MEPs) and CSOs further adds to the lack of transparency.

Loss of Diversity of Solutions

The logic of compensatory measures shares the logic of BDO with the erroneous assumption that irreversible harm to habitats can be compensated through the restoration or conservation of other habitats. BDO projects lead to false solutions to the conflict between infrastructure expansion and nature conservation and restoration. Not only is biodiversity lost in this system, but also diversity of thinking, acting and relating.
Pricing natural systems is a means not for environmental protection but rather for building a business culture towards the privatisation and financialisation of "nature" to the detriment of the environment and local communities. While we need sound policies to address the environmental and climate crises, the imposition of a top-down, "one-size-fits-all" financial instrument that prioritises profit maximisation diverts attention away from diverse action on climate and environmental issues and is a move in the wrong direction.

Acknowledgements: Joanna Cabello, Jutta Kill, Larry Lohmann, Brett Matulis, Hannah Mowat.

80 Counter Balance, "The EIB and Financial Intermediaries," factsheet. August 2012. http://www.counter-balance.org/the-eib-and-financial-intermediaries/

This publication has been produced with the financial assistance of the European Union. The contents of this publication are the sole responsibility of Counter Balance and can under no circumstances be regarded as reflecting the position of the European Union.