Arbaro Fund: A Strategy to Expand Industrial Tree Plantations in the Global South

The false idea that industrial plantations are a solution to the climate crisis is a golden opportunity for investment funds like Arbaro, which access scarce climate funding for expanding destructive monocultures. The result is more environmental and climate devastation while communities lose their lands and livelihoods.

Launched in 2018, the Arbaro Fund was established by two companies based in Germany: Finance in Motion and Unique. The Fund invests in tree plantation companies operating in the global South and has already received millions of dollars for its plans to expand these monocultures.

The false claim that planting tree monocultures will help prevent climate chaos is increasingly popular. And this false claim is helping Arbaro Fund's managers and founders to generate high profits. Funds making similar claims and operating in similar ways include the Althelia Climate Fund and the Permian Global Fund. Althelia Climate Fund’s effort to generate profits is largely focused on investing in projects from which they can sell forest carbon credits. Likewise, the Permian Global Fund is mostly focused on selling forest carbon credits. (1)

It is important to understand how these Funds work and what hides behind their climate-friendly propaganda. One reason for this is that more such Funds will emerge as part of the new trend of so-called ‘Nature-based Solutions’. Like REDD+, this latest trend falsely considers industrial tree plantations as forests and as a solution to the climate crisis. This is a golden opportunity for investment funds like Arbaro, which can access climate funding for expanding destructive monocultures while millions in profits go to their own pockets. In reality, these Funds are facilitating the expansion of a vicious model of land-grabbing, violence, pollution and dispossession... and in consequence, they generate further climate chaos.

On March 2020, more than 100 civil society organisations including WRM signed an Open Letter to the Green Climate Fund (GCF)’s Board to oppose Arbaro’s request for finance. (3) The Board ignored the serious concerns and approved an investment of 25 million US-dollars in Arbaro that same month. Arbaro presented plans to the GCF to invest in industrial tree plantations in seven countries: Sierra Leone, Ghana, Uganda, Ethiopia, Peru, Ecuador and Paraguay. Arbaro hopes to secure even more money in the future and establish another 75,000 hectares of industrial tree plantations.

Arbaro’s management team invested 4 million US-dollars of their own funds into the Fund. They also secured pledges for 196 million US-dollars from funds and banks including the European Investment Bank, Development Finance Institutions (such as FMO from the Netherlands and GIZ from Germany), a few private investors, and the Green Climate Fund. (2)

The Private Equity Strategy: More Money For The Owners!

Arbaro is a so-called ‘Private Equity fund’, which means that its funding is made up of investments

for which the investors become part-owners. These funds bring together money from external investors, together with a small amount of their own, to invest in other companies, the so-called ‘portfolio companies.’

In the case of Arbaro, the focus of the investments is on tree plantation companies in the global South. It buys into these companies, using the money provided by the GCF and other investors (and the 4 million US-dollars that Arbaro’s management team put in). To finance the expansion plans of the companies, funds like Arbaro often take out new bank loans, usually through the portfolio companies, rather than using the Fund’s own money. The assets of the portfolio companies are usually used as security in the loans from the banks.

By having to take on large new loans and thus, having to make large interest payments, the near-term profitability of the portfolio companies is significantly reduced. This debt-fuelled strategy minimizes the company's taxable profit. It means minimal tax revenues for the state in which the plantations are set up and maximum profit for the Private Equity Fund investors. This strategy is also supposed to ensure that investors like the Arbaro Fund get maximum returns, but significantly increases the chances of investments going wrong, since the portfolio companies are burdened with very large debts.

The Arbaro Fund application to the GCF suggests that the underlying portfolio companies will be loaded with debt, as they estimate that their corporation taxes will be very low.

The Arbaro Fund is set up to exist after 15 years. In that time, the external investors hope that the investments in the portfolio companies can generate profits. Meanwhile, the payments that Arbaro’s founders will receive from the Fund do not depend on the financial success of the portfolio companies.

Arbaro's application to the GCF says that if the company were to receive its intended 200 million US-dollars investment, the fund managers will get 26.7 million US-dollars in guaranteed fees for ‘managing’ the fund and its investments, regardless of the profitability of the companies they invest in. (4) This suggests guaranteed payments of somewhere between 570% and 660% in comparison to the fund managers’ 4 million dollars investment (570% if the 4 million were lost and 660% if the investments end up being at least even). Arbaro’s management team may also charge other hidden fees to portfolio companies for extra services.

After the 15 years of the Fund’s life, neither Arbaro nor its investors will have any saying about what happens to the established plantations – or to the carbon ‘stored’ in them. Interestingly, Arbaro’s carbon accounting is based on maintaining a “long-term average” carbon stock, which relies on keeping trees standing. This accounting runs for 24 years, with most of the carbon sequestration taking place in the last nine years. That’s exactly the period after the investment period ends. (5)

Expanding Industrial Plantations

The project presented to the Green Climate Fund is described as a ‘Sustainable forestry fund’. They claim that “Sustainably managed forests help protect the environment in multiple ways, including sequestering CO_2, combating deforestation, and preserving biodiversity.” (6) However, the reality is that their business is focused on expanding industrial-scale monoculture tree plantations. Many experiences with similar industrial tree plantations in the global South, including in Arbaro Fund’s target countries, provide evidence of the many detrimental results of such investments on communities’ life spaces and livelihoods. The Arbaro Fund states that its plantations will be certified

by the Forest Stewardship Council (FSC). That is no guarantee given the dreadful record on FSC-certified plantations involved in land conflicts. (7)

Arbaro's 2020 Annual Report states that its focus for 2021 has been on bringing in new projects. (8). Until now, Arbaro has made investments in three countries: Ghana, Sierra Leona and Paraguay. The Fund is currently preparing an investment in Ecuador. In early 2020, Arbaro and the government of Ecuador, represented by the Minister of Agriculture and Livestock, signed a letter of intent to facilitate Arbaro's investment of up to 25 million US-dollars in industrial tree plantations in Ecuador. (9) Moreover, in October 2021, Arbaro presented a proposal to the Green Climate Fund to add two new countries in which it may invest in industrial tree plantations: Colombia and Guatemala. This means that Arbaro could now use the GCF funding also to expand in those countries.

Miro Forestry in Ghana and Sierra Leona

In Sierra Leone and Ghana, the Arbaro Fund is already involved in industrial tree plantations, through a partnership with a British company called Miro Forestry Developments. Like Arbaro, Miro has been funded with large amounts of public money, mostly from European Development Banks, including FinFund from Finland, CDC from the UK and FMO from The Netherlands. In 2018, Miro received 20 million US-dollars from the Arbaro Fund – the Fund's first investment.

Miro's companies in Sierra Leona and Ghana do not own any land, but hold leases instead. Some of the leases contain variable terms so that lease payments to landowners are linked to whether profits are made from selling timber. (10) In 2019, the group actually made a loss on its "biological assets" (trees) after losses to fire, drought and community disputes. (11)

According to Arbaro's 2020 Annual Report "As plantations expand and mature, the company [Miro] has started its industrialization phase" Moreover, it states that, "In 2020 the first trials of its forestry smallholder scheme were established, with approximately 50 ha planted." (12) The company does not specify in which plantations or regions these trials took place.

In Sierra Leona, the company's Yoni plantation covers over 21,000 hectares of land located in the Tonkolili District, adjacent to the country's major highway into Freetown, the country's capital. The plantations are mostly of eucalyptus and acacia trees. Due to the proximity to Freetown, and substantial deep-water port facilities, Miro has convenient access to timber export markets.

WRM recently received information from the ground that the land leases with communities are for 50 years, and that the money that communities receive for giving up their lands for five decades is outrageously low: 2 US-dollars per hectare per year. This does not only represent a complete abuse and exploitation of communities, it also makes their survival as community a serious challenge.

Broken Promises

According to community members, Miro had promised the construction of hospitals, wells for safe water drinking, community town halls, scholarships for their children to be educated, a school transport service for the children, machinery to improve the communities' farming practices, as well as training and employment for their older children. These have all remained empty promises. At the end of the day, people are barely surviving with the extremely low annual lease rent. Furthermore, community members are forbidden to enter the company's plantations, which prevents access to some rivers and small roads. Access to water is a big concern for them. They explained that even the chiefs are not allowed to enter the company areas uninvited because the area is well protected by

guards.

According to a contract between Miro and a community council, Miro commits to pay 5 per cent of its profit into a Community Development Fund to improve the conditions in the community. However, based on how these companies organize their financial matters, Miro is very likely to hide or significantly reduce the profit they make, and therefore also avoid paying this amount to the communities.

In Ghana, Miro's Boumfoum Plantation covers over 10,000 hectares and is located in the Ashanti Region. A 2017 report by the Ghanian NGO Civic Response exposes that Miro obtained a 5 thousand hectares concession in the Boumfum Forest Reserve without consulting communities, which resulted in conflicts with small-scale farmers. The report explains that communities only found out about Miro's tree plantation plans when the company told them to remove their property from the area. Miro claims that the small farmers were occupying the land illegally, and cleared farms, food crops, and about 13,000 trees. Evicted small farmers were not paid any compensation and several have subsequently taken Miro to court. (13)

Paraguay

Arbaro's two investments in Paraguay are Forestal Apepú S.A. and Forestal San Pedro. The Green Climate Fund approved their plans for expansion in December 2020. Arbaro has fully owned Forestal Apepú since 2019, and the company will establish 6,059 hectares of eucalyptus plantations in the department of San Pedro, which has one of the highest rates of deforestation in eastern Paraguay and the nation's highest rates of poverty and extreme poverty. Arbaro established Forestal San Pedro in 2021, and the company manages 6,270 hectares of eucalyptus plantations, with plans to establish another 1,730 hectares on leased land, mostly in the department of San Pedro.

A field investigation by Centros de Estudions Heñoi in May 2021 exposed the damaging effects of these industrial plantations. (14) A resident near Apepú's main plantation said that, "now the eucalyptus comes in, and they say that is going to be advantageous, but on the contrary not a single person here has benefited, [there has been] no benefit at all for the poor or for the community. They say they are going to help the community grow, but it is just harm; instead of helping, they want our land."

Residents highlighted how land tenure insecurities compound the economic difficulties they face. Another resident explained, "There used to be more people here, all this was village (…) with a little money, they bought people out. Before, the community was larger, now it's all occupied [by plantations]. Lots of people left, they sold for a little money or in exchange for a cow, and that's it."

Plantation companies take advantage of the difficult conditions that peasants confront, and lead small-scale producers to believing that eucalyptus monocultures can be an opportunity to improve their income. Another key problem is how companies infiltrate and divide communities. One strategy they use is contract farming or 'out-grower' schemes, whereby producers plant eucalyptus to be sold to the plantation company on their own land. A woman said: "The big companies surround you, they are all around you, and if you plant manioc, it's no good anymore, and they come and say they're going to buy you out, they corner you. And they chase the peasants off with money."

Unique, one of Arbaro Fund's co-founders, is also running a large-scale eucalyptus tree plantation project in Paraguay, through an investment in a company called PAYCO. This company uses eucalyptus plantations to support the intensification of highly unsustainable livestock production (in

part through selling carbon credits) and produces wood-based fuel, which is likely for drying one of PAYCO's other products, genetically-modified soybeans. There have also been reports of violent conflicts with Indigenous Peoples and peasant communities over PAYCO's operations. (15)

Final Remarks

Arbaro's investments are accompanied by discourses of forest restoration and climate change mitigation, and they are backed by international and public climate finance. Its structure and design are done in such a way that the management team can access scarce climate funding sources while generating astronomical profits for themselves, at virtually no risk to their own meagre investment in the venture. All these climate-friendly discourses hide a more disastrous reality that communities confront where the plantations are set up.

The Arbaro Fund is a case in point. Their management team is securing enormous profits while leaving the financial risks to external investors. Meanwhile, impacted communities are not only loosing their lands, livelihoods and ways of life, but they are also being deceived to sign abusive contracts, such as that from Sierra Leona of 2 US-dollars per hectare per year. The industrial tree plantations that are being set up with these investments are also expanding a model of destruction and pollution which only exacerbates climate chaos.

Investment funds like the Arbaro Fund are thus strengthening colonial, racist and violent structures of dispossession as well as environmental devastation and climate change.

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(1) Re:common and Counter Balance, Banking on forests, 2014; and REDD-Monitor, 2019, Indonesia's Katingan REDD project sells carbon credits to Shell. But that doesn't mean the forest is protected. It's threatened by land conflicts, fires and a palm oil plantation
(2) Arbaro GCF application, page 27, Section C: Financing information
(3) Open Letter to Members of the Green Climate Fund Board
(4) Arbaro Funding Proposal GCF April 2020, page 28, Section C.2: Financing by Component
(6) https://redd-monitor.org/2020/03/10/the-green-climate-fund-must-reject-arbaros-industrial-tree-plantations/
(7) Arbaro Advisors, Investing in Sustainable Forestry
(8) FSC-watch
(9) Arbaro Fund, Annual Sustainability Report, 2020
(10) Arbaro Fund, Arbaro and Ecuadorian Ministry of Agriculture and Livestock sign letter of intent promoting sustainable forestry development
(11) Miro Accounts 2019, Page 38, Note on right of use assets
(12) Miro Developments Accounts 2019, Post balance sheet event, page 40, note 10
(13) Idem (9)
(14) Civic Response, 2017, Assessing Community Consent in Large Scale Land Investments in Ghana, and REDD-Monitor, 2021, How the African Forest Landscape Restoration Initiative is promoting the expansion of industrial tree plantations
(15) GFC, The Arbaro Fund and monoculture tree plantations in Paraguay, 2021
(16) Idem (15)