Developing Markets for Environmental Services of Forests

Vancouver, October 4, 2000
Investing in Biodiversity Markets

Presentation topics:

✓ A2R – Who we are and how we operate
✓ Terra Capital: biodiversity investments
✓ Investment characteristics – business approach
✓ One example of forestry trends in Brazil
Objective: Capitalize market opportunities identified in biodiversity/ environmental markets.

- Focus: private equity/venture capital investments in small and medium companies.
- Coverage: Latin America

A2R = AxialRR(Brazil) + GMO-RR (Boston)
Target Markets

✓ Organic Agriculture
✓ Sustainable Forestry
✓ Non-Timber Forest Products (Palms, Fruits, Nuts, Herbs)
✓ Ecotourism
✓ Acquaculture (activities that release pressure over ecosystems).
✓ Bioprospection
✓ Clean Technologies
✓ Renewable Energy
Investment Vehicles

- Terra Capital Investors
  - US$ 15-25 MM
  - Organic, NTFP, Aquaculture, Ecotourism, Sust. Forestry (non-tropical)
  - Partners: IFC, EEAF, SDI

- Sustainable Forestry
  - US$100-150 MM
  - Partners: GMO-RR

- Clean Technology Fund
  - Target US$35 MM (+ debt facility)
  - MIF – Initiative
  - Energy Efficiency, Renewable Energy, Recycling, Water Treatment…
  - Target: CDM component.
  - Partners: EIC

- Amazon Biodiversity Permanent Fund
  - US$150-200 MM
  - Funding Mechanism
  - Objective: setting up property rights for bioprospection
Management Team

• 14 people in Sao Paulo + partners in Boston
• Multidisciplinary:
  ✓ Economists/ Finance specialist (ex-bankers)
  ✓ Business experts
  ✓ Legal Background
  ✓ Agronomist Engineers
  ✓ Forest Engineers
  ✓ Biologists

➤ Alignment of interests
➤ Willingness to travel- hands on attitude - commitment
Projects-Geographic Distribution
NTFP Amazonian Heart of Palm - Marajó

Investment: US$1.1 MM  IRR (e): 26.6%
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Terra Capital Investors

- US$ 15-50 Million
- Investors: MIF, IFC, Swiss Govt., Triodos Bank, ...
- 10 Year Venture Capital Fund
- Preservation & Promotion of Biodiversity
- Target: Latin American Enterprises
- Expected average annual ROI 20%
- US$ 5 Million GEF Grant
Biodiversity Advisory Board

- Established with the fund
- Members from different countries, institutions and fields of study
- Determine guidelines
- Evaluate project bio-consultant report
- Approve or reject a project from a biodiversity standpoint
Biodiversity Guidelines

- Maintain or Enhance Biodiversity Assets or Resources
- Reduce/eliminate Possible Negative Impacts or Threats to Biodiversity
- Consistent with IFC’s environmental policies and guidelines
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Investments Characteristics

- M&A:
  - execution needs “hands on” approach
  - Complicated logistics (remote locations)
  - emerging sectors
- Leverage needs: equity + debt
- Need to integrate NGO’s and non-profit support
- Objective: capitalize on externalities
### Sources of Financial Return (10-50% ?)

<table>
<thead>
<tr>
<th>ROE %</th>
<th>Source</th>
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</thead>
<tbody>
<tr>
<td>50</td>
<td>IPO</td>
</tr>
<tr>
<td>35</td>
<td>Economic opportunities, NTFP, ecoturismo, bio-prosp.</td>
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<td>30</td>
<td>Certification- access to niche markets</td>
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<td>26</td>
<td>CO2 sequestration</td>
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<td>24</td>
<td>Increase land value (mapping/inventory, certification/auditing, low impact logging)</td>
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<tr>
<td>14</td>
<td>Industrial and forestry efficiency</td>
</tr>
<tr>
<td>10</td>
<td>Operational return of traditional sawmill</td>
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Development obstacles

✓ Unreliable accounting (audited or not)
✓ Survival through tax evasion/avoidance
✓ Require patience and hand holding
✓ Investment needs monitoring but doesn’t like partners
✓ Need field/technicians + Certifiers
✓ No market liquidity => difficult exits
✓ Small projects scale: fix costs of prospecting and structuring investments are high.
Business Approach

✓ Pick the winners
✓ Align interests (with partners, supplying communities, buyers, and other stakeholders)
✓ Always look at markets
✓ Hands-on
✓ Develop management capacity
✓ Rely on certification
✓ Set-up strategic partnerships: local government, communities, NGO’s.
✓ Do not lose focus
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US$10-15 MM Investment in Amazon Sawn mill

Seek Certification

Leading Example for the industry

Forestry sector of the Amazon structuring lobby

Buyers Groups Set up in Brazil

Pressure For policy development and new Financial instruments

More industries looking to certify to access markets

More industries looking to certify to access markets
São Paulo, Brasil

www.a2r.com.br

www.terra-capital.com.br