

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

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

Objective: Capitalize market opportunities identified in biodiversity/ environmental markets.

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

Target Markets

- ✓ Organic Agriculture
- ✓ Sustainable Forestry
- ✓ Non-Timber Forest Products (Palms, Fruits, Nuts, Herbs)
- ✓ Ecotourism
- ✓ Aquaculture (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.

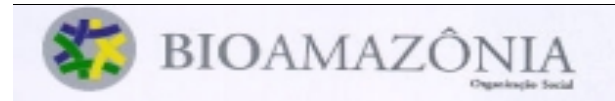
- **Partners:** EIC

- Amazon Biodiversity Permanent Fund

- US\$150-200 MM

- Funding Mechanism

- Objective: setting up property rights for bioprospection

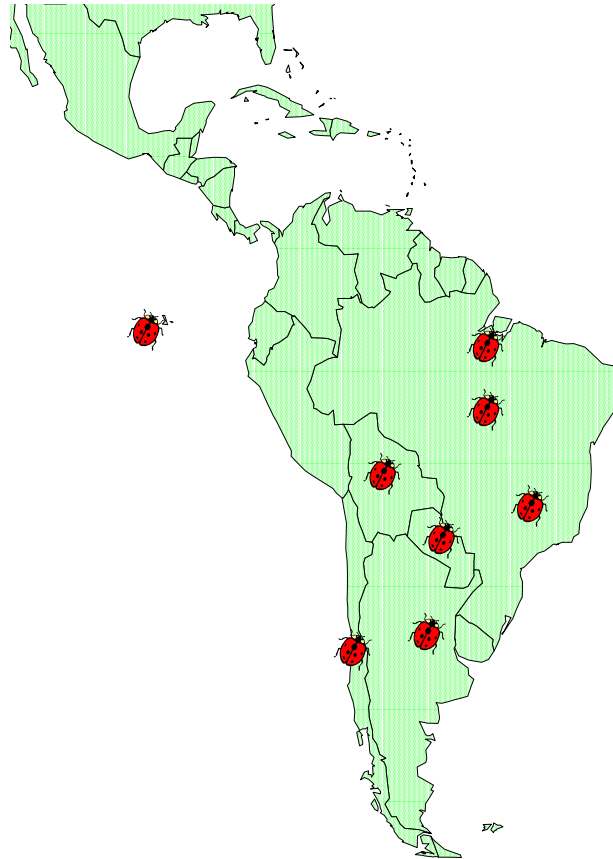


Management Team

- 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



NTEP Amazonian Heart of Palm - Marajó



Investment: US\$1.1 MM

IRR_(e): 26.6%

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

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

Investing in Biodiversity Markets

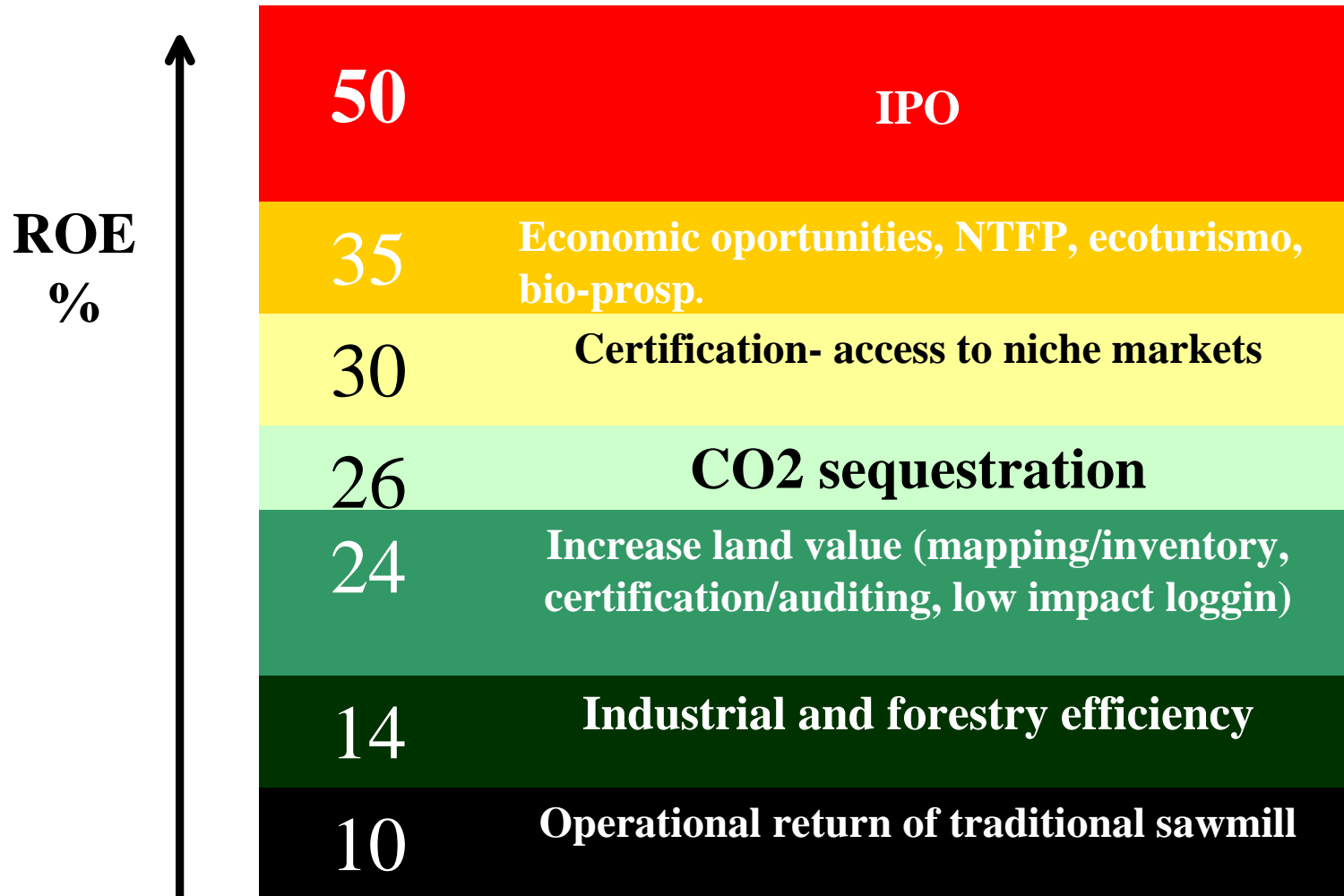
Presentation topics:

- ✓ A2R – Who we are and how we operate
- ✓ Terra Capital: biodiversity investments
- ✓ Investment characteristics – business approach
- ✓ One example of forestry trends in Brazil

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% ?)



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

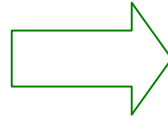
- ✓ Pick the winners
- ✓ Align interests (with partners, supplying communities, buyers, and other stake holders)
- ✓ Always look at markets
- ✓ Hands-on
- ✓ Develop management capacity
- ✓ Rely on certification
- ✓ Set-up strategic partnerships: local government, communities, NGO's.
- ✓ Do not loose focus

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

US\$10-15 MM
Investment in Amazon
Sawn mill



Seek
Certification



*Leading
Example for the
industry*

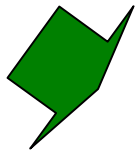
Forestry sector of the
Amazon structuring
lobby



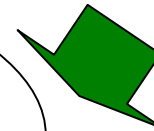
Buyers Groups
Set up in Brazil



More industries
looking to
certify to
access markets



Pressure
For policy development and new
Financial instruments
\$\$\$\$\$\$\$\$\$\$\$\$





São Paulo, Brasil

www.a2r.com.br

www.terra-capital.com.br

