Case Study:
Amazon Biodiversity Fund

Name of fund:
Amazon Biodiversity Fund (advised by Impact Earth)

impact earth

Type of fund:
ABF provides a range of financing solutions (including revenue-based loans, mezzanine debt, and preferred equity) to early-stage yet scalable projects and companies with a positive impact focus that operate in Brazil's Legal Amazon*.

The Legal Amazon is a five million square kilometre area that includes the Brazilian states of Acre, Amapá, Amazonas, Pará, Rondônia, Roraima, Tocantins, Mato Grosso and part of Maranhão.

Impact objectives:
ABF aims to conserve biodiversity, address deforestation and climate risks, and create positive socio-economic and well-being outcomes for local communities in the Legal Amazon.

Financed projects and companies must align with following pillars:
1) conservation, reforestation and community livelihoods;
2) smallholder value chains; sustainable agriculture;
3) innovation in biodiversity services, finance and technology.

Overview

The concept for the Amazon Biodiversity Fund (ABF) was developed following an existing partnership between the United States Agency for International Development (USAID) and the International Centre for Tropical Agriculture (CIAT) as coordinators of the Partnership Platform for the Amazon [1][2]. In particular, USAID put out a call for proposals in response to CIAT's interest in finding ways to increase ticket sizes of existing projects and expand its impact scope beyond climate outcomes in the region.

CIAT provided $15 million in anchor investment and USAID used its Development Credit Authority (DCA) to back ABF with a de-risking 50% loan guarantee [3]. Impact Earth, a nature-based solution firm with a focus on venture capital, currently holds the role of investment advisor. Since its creation, the fund's aim has been "strengthening the autonomy of forest-dependent communities, companies, and entrepreneurs, creating opportunities to restore degraded lands and reduce biodiversity threats to standing forest, by replacing illegal, unsustainable practices with legal, sustainable options."

With a diversified portfolio of early-stage yet scalable companies and projects, ABF has sought to deliver on its strategy by integrating its risk and impact framework in its broader investment policies and processes. The fund has done so while aiming to tailor the needs of its investees with ad-hoc funding tools and implementing effective ways of monitoring performance against its KPIs.
ABF has received backing from multiple investors in addition to USAID and CIAT: ASN Impact Investors, L'Oréal Fund for Nature Regeneration, and the Restoration Seed Capital Facility (RSCF) [4]. Most recently, the Soros Economic Development Fund (SEDF) and the Brazilian Development Bank (BNDES) have jointly invested BRL 150 million, or USD 30 million, in December 2023.

Challenges

With a 2030 end date, an initial challenge for ABF has been determining how to best turn capital into financing solutions that can deliver impact at scale within a relatively short time horizon [5]. Considering the types of projects supported by the fund, some of which might require time before delivering expected outcomes, ensuring impact at scale while acknowledging timeframes has been a very important area of focus.

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[1] In 2019, CIAT joined with Biodiversity International to form the Alliance of Bioversity International and CIAT.
[2] The Partnership Platform for the Amazon is a private sector-led initiative founded in 2017 to develop solutions for sustainable development in the Brazilian Amazon.
[3] In 2019, USAID's DCA and the Overseas Private Investment Corporation (OPIC), as well as smaller offices and funds, merged to form the United States International Finance Corporation (DFC).
[4] RSCF is a UN Environment Programme Facility that supports the early-stage development of forest landscape restoration projects.
[5] The 2030 maturity date was a requirement from investors. However, the fund has the option to extend it by two extra years.

UN environment programme **WCMC**

Impact Earth participates in the Environmental and Social Knowledge Exchange Network (ESKEN), a community of practice on sustainable land use finance convened by UNEP and UNEP-WCMC.

Main Key Performance Indicators:

- CO2e reduction (in tons avoided or sequestered)
- Improved biophysical conditions (in hectares)
- Landscape conservation (in hectares)
- Improved species presence (% change in number and relative abundance of priority species selected for monitoring)
- Habitat protection (in hectares)
- Conservation of important species (in performance against a plan)
- Livelihoods support (in # beneficiaries through formal agreements)
- Community organisations (in # created, engaged and/or supported)
- Sustainable value chains (in # products of Amazonian origin for which a market has been created or supported)
- Diversity and inclusion (in # and % of jobs, leadership positions, and livelihoods created and beneficiaries)

Another challenge for ABF has been the development of a risk and impact framework that can ensure robustness without imposing too many demands on investees. While ABF's focus on the Brazilian Legal Amazon has allowed for a well-defined scope of operations, the fund's broad set of impact indicators and the need to assess and monitor them across investees with different business and operating models has come with some level of complexity.

A final challenge for ABF has been adapting its risk and impact management framework to the various requirements of an increasing number of investors. As of December 2023, the total capital committed into ABF amounted to BRL 234 million, or USD 47 million.

The Solution

To optimize time and resources and ensure impact delivery in defined timeframes, ABF, through Impact Earth, **internally oversees its risk and impact processes and ensures they are integrated in their investment decisions.** However, the ABF team does not act alone and works closely with a network of specialists. They are tasked with advising on topics that are considered sensitive, including pesticide management and Free, Prior and Informed Consent (FPIC) best practices. This outsourcing allows the fund to access key expertise on certain topics while managing the workload of the core internal team.

Due to its 2030 end date, ABF focuses **on innovative investment solutions** that allow the fund to deliver both its impact objectives and returns for investors in a reasonable time frame, while ensuring alignment of interest with investees. For instance, revenue-based loans are used to implement afforestation and reforestation projects while leveraging proceeds from carbon credit forward sales to accelerate repayment. ABF's investees that have benefitted from this mechanism include ReforesTerra and Amazonia Agroflorestal.

To ensure a robust risk and impact framework, ABF has broadly **standardized management processes**, but still handles some complex topics through **continuous engagement**. This engagement is guided and agreed upon with investees through Environmental and Social Action Plans (ESAPs). ESAPs set actions that investees are required to implement and can be tailored on a case-by-case basis. However, ABF also brings attention to complex risk and impact topics by sitting on investees' boards and assuring they have veto rights on issues relevant to its objectives. This has happened in the case of setting conditions around land clearance, helping an investee progress its thinking on the issue and build capacity over time.

There is also a standardized set of Impact Thematic Areas and indicators [5]. Areas include climate, ecosystems, species, livelihoods, sustainable enterprises, wellbeing & inclusion, and investment returns to local stakeholders. The fund's investees have to choose at least one KPI per thematic area and follow the monitoring methodology outlined by the fund [6]. Each investee must provide baseline data, report on selected KPIs annually, and set 2030 targets. A project-specific theory of change and a monitoring plan are developed during the due diligence phase.

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[5] Main KPIs can be found on the left column. Other KPIs are: Job creation (in #); Economic empowerment (in # households); Enterprise creation or support (in #); Progress towards enterprise viability (in % enterprises); Community wellbeing (in perceived change); Inclusion via Forest Code compliance (in # smallholders); Value from environmental assets (in $ and % share of revenue); and Value from physical assets (in $).

[6] It might however be possible for investees to demonstrate that one or more thematic areas are not material to their business or project.

"We place a large level of ambition on E&S management. Our E&S framework is fully integrated and all our staff share E&S responsibilities.

The tasks range from helping investees define a strategic ambition to assisting them with adopting new E&S standards in their day to day operations.

It requires time, commitment, and efforts but our team is never acting alone. It gathers knowledge from a broader network of local, technical and sectorial experts who help on an on-demand basis"

- Vincent Gradt,
Co-Founder & Managing Director at Impact Earth

The fund focuses its attention on developing effective ways of monitoring the impact of its investments, but also recognizing the importance of **having an iterative process.** This holds especially true for those indicators linked to social and biodiversity outcomes, as observing relevant change might take several years. For example, it has taken ABF the help of a consultant and around three years of engagement with its investees to finalize monitoring methodologies on agroforestry systems and use of pesticides. This iterative approach allows ABF to communicate transparently with its investors, who generally ask for progress to be measured and reported every year.

In response to the challenge of getting multiple requirements from investors, ABF strategy is to adopt **a flexible approach** and be open to integrating investors' demands into its impact framework. Investors can express indicators or topics they would like the fund to address, request for specific monitoring technologies, and finance relevant pilot studies. For instance, BNDES asked ABF to incorporate FPIC and gender policies, USAID requested ABF to use the TerraBio tool to conduct eDNA analysis through soil sampling, and RSCF is financing ad hoc studies with project beneficiaries to assess social impact through Social Progress Index surveys.

Successful characteristics of ABF's impact framework

- **Defining standardized approaches to risk and impact procedures while leaving complex topics to board feedback** enables flexibility in tailoring the needs of a diverse group of investees.

- **Impact KPIs are customizable, integrated in the screening and due diligence approach for each potential investment and monitored annually.** This approach can be helpful to funds that have a broad impact scope.

- **Adopting an iterative approach to risk and impact management and communicating openly with investors ensures strong back up**, needed to develop a robust framework and have sufficient resources to implement it.

Results and Additionality

Impact Earth has recently worked on optimizing internal resource management, tailoring ABF's impact and risk strategy to the needs of a diverse range of investees, and finding ways to implement impact monitoring tools across the fund's investment portfolio. Given ABF's impact objectives and mission-driven purpose, enhancing its risk and impact framework has been key in ensuring that the fund operates smoothly on the financial and operational side.

ABF has recently published its first Impact Report covering the year 2022. This document showcases the current portfolio of investees, as well as their milestones and 2030 targets. Examples of recent results include the participation of 274 farmers and 48 households in ABF-funded projects, the creation of 4 new enterprises and 29 products of Amazonian origin, and the biophysical improvement of 132ha of land.

While the fund's impact monitoring system is in its early stages and tools like TerraBio and SPI are being implemented to ensure comparability and data quality, several investors have recognized ABF's impact potential and recent monitoring efforts by committing capital to the fund.

Lessons Learned

- **Seek to leverage and build on existing partnerships during the fund design stage.** The concept for the ABF fund came out of a trusted regional partnership to foster sustainable development in the Brazilian Amazon.
- **Understand how the fund's impact strategy influences both financial structuring and estimated costs.** As one of ABF's goals is to create new markets, the team carefully chooses specific asset classes and examines the level of resourcing needed to deliver on this strategic decision.
- **Consider how internal capacity can be optimized through partial outsourcing.** ABF's decision to use consultants with topic-specific expertise to inform aspects of its impact management procedures helps the core team focus on standardizing processes and other areas where they hold key knowledge.
- **An iterative approach to define the fund's position on complex topics allows ABF to learn through their investments.** While the fund has a template list of actions to add to ESAPs, the fund also retains the right to refer some more complex topics to discussion through board meetings.
- **Maintain regular communication with investors,** to ensure they are involved in the impact monitoring process, are aware of realistic timelines for impact outcomes, and can assist with fund's data needs.

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