



Plataforma Parceiros Pela Amazônia

Hybrid finance instruments for conservation

In 2018, **Plataforma Parceiros Pela Amazônia (PPA)** created a renowned program to accelerate and invest in impact businesses, which seeks to solve the main socio-environmental challenges of the region. The program offers an innovative combination of philanthropic resources and private capital.

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LOCATION:

Regional – Brazil's Legal Amazon



MAIN PARTNERS:

- Idesam
- USAID
- Fundo Vale
- Humanize
- NESst
- Conexsus
- Denis Minev
- FIIMP
- Grupo Rede Amazônica
- Natura
- Bemol
- Ambev
- Beraca
- Grupo Rede Amazônica
- DD&L
- Whirpool
- SITAWI Finanças do Bem
- Althelia
- Instituto Sabin
- Centro de Empreendedorismo da Amazônia
- Certi
- BH26
- Mov Investimento
- O2 Filmes
- Move.Social
- Sense-Lab
- Flowmakers
- Impact Hub Manaus
- Maniê
- Pipe.Social
- SBSA Advogados

SECTOR:

- Environment,
- Economic and Social Development



TYPE OF INVESTOR/SILO:

Professional Services Firm



FINAL BENEFICIARIES:

Rural Communities



DURATION

2018

– now



MOTIVATION/ PROBLEM TO TACKLE:

Low economic and social development in the region as a root cause of deforestation in Amazonia.



NON-FINANCIAL SUPPORT OFFERED:

- Impact management and measurement,
- Business strategy and/or model,
- Financial management,
- Governance,
- Operations (marketing, logistics, IT, sales, purchases, legal),
- Connections with actors of the impact business ecosystem in Amazonia and Brazil.



TYPE OF FINANCING:

Debt, equity, and hybrid finance



KEY RESULTS:

USD 1.6 million

invested in **12 businesses.**

USD 24,000

distributed as awards for **8 businesses.**

Acceleration of

30 local businesses.

Over a two-year period, the investment made it possible to preserve, restore, and/or sustainably manage

837,000 hectares of the Amazon rainforest.



SDGS ADDRESSED



1667

families producing sustainably.





BACKGROUND AND CONTEXT

Since 2004, Idesam (Institute for Conservation and Sustainable Development of the Amazon) has been promoting sustainable development in the region. The experience revealed a great need to complement the relevant work of NGOs with solutions and investments that stimulate the business environment as a way to fight deforestation in the Amazon.

The Legal Amazon comprises nine Brazilian states—59% of the national territory. It is the largest tropical rainforest area in the world, home to more than 20 million inhabitants, and it accounts for 8% of the national GDP, according to data from the Brazilian Institute of Geography and Statistics (IBGE). The National Institute of Space Research (INPE) points out that, in 2019 alone, 10,000 square kilometers of forest were deforested in this area, the highest figure since 2008.

“The basis of the regional economy lies in agricultural activities, mining and the industrial hub of the Manaus Free Zone. Our main objective is to create a new economy based on innovative impact businesses that promote the sustainable use of the Amazon rainforest.” Mariano Cenamo, PPA Acceleration and Impact Investment Program Coordinator.

In this context, Plataforma Parceiros Pela Amazônia (PPA) was created in 2017. Coordinated by Idesam, it brought together various regional and international players who believe in the leading role of the private sector in pursuit of solutions in the region. The main difference with other local organizations was its objective: seeking investment opportunities in for-profit businesses, rather than funding NGOs or activist projects. The PPA Investment and Business Acceleration Program was born as part of this platform.



DESCRIPTION

The PPA Business Acceleration and Impact Investment Program is coordinated by Idesam, with strategic and financial support from USAID, Fundo Vale, and Instituto Humanize. It also receives non-financial support and services from various organizations.

Idesam is an NGO that works in the Amazon region alongside rural producers and traditional, riparian, and indigenous communities. Focusing on the promotion and sustainable use of the biome's natural resources, it has benefited more than 3400 families since its foundation in 2004. The institution works in five thematic areas: Climate Change & REDD⁺, Sustainable Rural Production, Forest Management and Technologies, Public Policy and Lobbying, and Protected Areas.

USAID (United States Agency for International Development) is an international agency linked to the government of the United States of America that focuses on international development and disaster assistance. Created in 1961, it works to save lives, reduce poverty, strengthen democratic governance, and help people progress beyond immediate relief.

Fundo Vale is a non-for-profit association that seeks to establish a connection between institutions and initiatives in favor of sustainable development. Founded in 2009 by mining company Vale, its priority field of action is the Amazon region, focusing on issues such as strengthening civil society, governance mechanisms, new economy, land management, public policy, knowledge generation and dissemination, socio-environmental finance, and impact businesses.

Instituto Humanize was founded in 2017, based on a private social investment portfolio. Its actions are based on four program lines: Conservation and Sustainable Use; Cities and Territories; Governance and Public Policy; and Entrepreneurship and Social Impact Businesses.



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¹ REDD+: Reducing Emissions from Deforestation and Forest Degradation. The mission of REDD+ is to encourage developing countries to contribute to climate change mitigation efforts. (<http://www.fao.org/redd/overview/es/#:~:text=EI%20cometido%20de%20REDD%2B%20es,remociones%20de%20GEI%20de%20la>).



IMPLEMENTATION

The initial objective was to create an investment program, with a resource pool that would bring together governments (USAID), foundations (Humanize and Fundo Vale), and private investors. However, the first experiences showed the need for a more robust operation to support businesses in their main challenges. That is why the acceleration program was also developed.

The process to search and select businesses includes the following steps:

- 1 Call for proposals in partnership with consultancy firm Pipe.Social, involving selection and interviews.
- 2 The finalists are introduced to private investors, who indicate the businesses they are interested in. This process takes place in “Shark Tank”-style events, where all social businesses make their commercial presentation under the same conditions.
- 3 After determining in which businesses the investors are interested, Idesam and its partners conduct a financial and impact due diligence process; then, they assess whether the conditions are good for the investment.

The criteria for evaluation include return potential, team capacity, ethical alignment, payment capacity, and an assessment of the positive and negative impacts of the business. SITAWI Finanças do Bem supports Idesam in this evaluation process.

Tailored Finance

Investments are always made in collaboration with a private investor (i.e., not philanthropic or governmental). For every Brazilian real provided by the investor, PPA invests another one, coming from philanthropic investors' donations.

“This is critical to attract private capital. I believe that we would not have been able to leverage all the private investments if there had not been any leverage of resources, even considering impact investors.” Mariano Cenamo, PPA Acceleration and Impact Investment Program Coordinator.

Rates are below market and only an inflation adjustment is charged to the initial capital.

Private investors invest according to various mechanisms, depending on their preferences.

Idesam is financed by philanthropic capital. USAID, Instituto Humanize, Fundo Vale, FIIMP (see the FIIMP case in this study) and other institutions make grants that are invested in the businesses as a loan. Rates are below market and only an inflation adjustment is charged to the initial capital.

Philanthropic capital within this hybrid finance mechanism reduces the cost of capital for entrepreneurs and increases security for investors. The capital cost can be reduced because the portion lent by PPA is reimbursed at a low rate, making up for any higher rates set by the private investor. Security is thus increased by having in PPA a group of investors who contribute capital together with allies who know the region and can closely support the business.

Non-Financial Support

Non-financial support—from the selection process to acceleration and support by Idesam—seeks to reduce the risk for private investments and support the development of the businesses, many of which are not initially prepared to receive investments.

Philanthropic investors are the foundations of the program, private investors not incurring any costs.

“Our model is 100% hybrid investment in order to reduce the cost of capital for entrepreneurs and reduce the risk and operational costs for investors. The acceleration program is equity-free only because it is financed by philanthropic capital. The whole process—search, selection, due diligence, etc.—is zero-cost for private investors. In practice, a non-financial investment made with philanthropic capital is even greater than the total financial investment.” Mariano Cenamo, PPA Acceleration and Impact Investment Program Coordinator.

The program was structured to address the two different business profiles chosen by PPA: impact businesses with traditional challenges and traditional businesses with the challenge of demonstrating their impact. In addition, non-financial support varies according to these profiles and may include impact, operational (fundraising), and strategic (business strategy, business models) issues.



Based on the results analyzed so far, it is estimated that it was possible to impact a total area of 873,000 hectares of Amazon rainforest—preserved, restored or is sustainable managed.

For businesses to be able to receive investments, a work plan that includes mentoring and ad hoc advice (legal, accounting, academic, etc.) must be defined.



RESULTS

"I feel that, little by little, we are building the impact business ecosystem in the Amazon. [...] We are adapting services, intelligence, and tools to our reality, which has been hard but has made us learn a lot." Ana Carolina Bastida, PPA Acceleration and Impact Investment Program Coordinator.

The program is currently in its second edition, with fifteen businesses accelerated in each edition. Based on the results analyzed so far, it is estimated that it was possible to impact a total area of 873,000 hectares of Amazon rainforest—preserved, restored or is sustainable managed.

In relation to the specific evolution of the businesses, 88 new contracts were signed with suppliers, 28 new collaborations were established, and 14 new markets, 11 new sales channels, and 8 new sources of income were opened. The total sales volume for the 15 businesses reached BRL 800,000 (USD 210,000), with goods produced by 1667 families.

Manioca, a business in Belém do Pará that developed successfully after its participation in the program, takes Amazonian biodiversity products to other markets in the form of jams, flours, and other products. Together with PPA, Manioca started a robust growth process supported by the investment received and the connections with new markets. The business formalized its theory of change by implementing systems to monitor its sustainable production chain, supplier management, and also allowing the expansion of the product portfolio.

From 2018 to 2019, Manioca increased from 15 to 48 the number of producers (from traditional villages and communities, as well as family farms) trained to manufacture Amazonian ingredients in a sustainable way. Regarding the production line, the variety of ingredients used increased from 14 to 24. All suppliers received support from the supplier development program, improving their quality of life and/or income.



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LEARNINGS AND PERSPECTIVES

Internally, the main challenge is to adjust governance and make the business financially sustainable. Today, the process is viable due to the contributions made by philanthropic collaborators, who finance operating costs and also invest on an equal footing with private investors.

“Receiving philanthropic resources has several advantages because we manage to finance activities that investors are not willing to sponsor and that social businesses could not afford either. On the other hand, there is the challenge of creating a long-term financial sustainability strategy to reduce dependence on philanthropic capital.” Mariano Cenamo.

Another relevant learning revolves around understanding the different needs of local businesses, which has guided the design of acceleration and non-financial support.

“We see the two ends of the portfolio: on the one hand, we have good entrepreneurs with a proper control of the business; on the other, we have a good theory of change. The former face the challenge of finding balance and proving impact. The latter entails a bigger challenge: attracting someone who is impact-motivated, people coming from NGOs, researchers with a business idea, associations, community ventures that are 100% impact, but not good doing business. For them it is more difficult to transform the money received into good returns, because they focus first on impact.” Ana Carolina Bastida.

Another takeaway is the need to follow up on the businesses more closely after the investment, especially with respect to financial indicators and compliance with the terms initially defined.

Standardizing investment contracts is still a challenge, as they are also new to investors. In some cases where more than one investor is involved, specific conditions are demanded in each case, including different interest rates, terms, and amounts.