

SOCIO-CLIMATE BENEFITS FUND

TYPE: MITIGATION, ADAPTATION

SECTOR: AGRICULTURE, FORESTRY

GEOGRAPHY: BRAZIL, SOUTH AMERICA

LAB CYCLE: 2018

PROPONENTS: KAETÉ INVESTIMENTOS

Forty million hectares of land have been deforested and degraded in the Brazilian Amazon during the last 40 years. While the government introduced policy measures in the early 2000s that have made significant progress in reducing large-scale, illegal deforestation, the practice of small-scale deforestation (areas less than 50 hectares) continues to grow.

Brazil has pledged to restore 22 million hectares of its degraded and deforested land, 5.6 million of which belongs to smallholders in rural areas. These smallholders require access to long term finance and technical support to implement forest restoration activities that would benefit them economically, and help Brazil meet its environmental goals under its NDC.

The Socio-Climate Benefits Fund reverses small-scale deforestation by creating an economic incentive to pursue forest restoration. It does this by providing long-term investments and training for implementing agroforestry systems in smallholders' lands.

INNOVATION

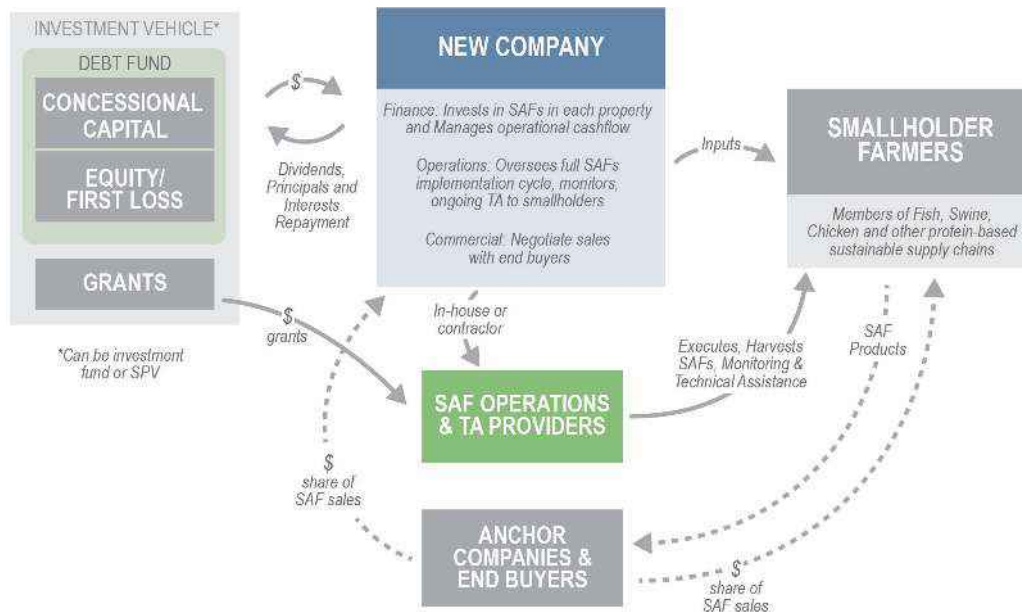
The instrument's structure addresses the main barriers preventing smallholders in the Amazon from widely adopting agroforestry systems by:

- Providing the upfront investment needed to implement agroforestry systems in smallholdings through a partnership agreement, with production shared between the smallholder and the company
- Engaging smallholders in implementation, providing them with an additional income from the start, and as such, training them in agroforestry so they can expand such systems beyond the scope of the partnership
- Developing markets to sell the shared production

SCBF will create a blueprint forest restoration business model in rural settlements that increases smallholder income by more than 50% while delivering compliance to Brazil's Native Vegetation Protection Law.

IMPACT

- Store at least ten times more carbon over the next 20 years than the current vegetation in degraded pastures
- Increase smallholders' income by at least 58% if implemented in 1 hectare, and by 234% if expanded in 4 hectares
- Develop and provide a framework for financial institutions to assess, evaluate, and approve financing of agroforestry systems presented by smallholders across the country, adjusted by regional conditions



DESIGN

The instrument consists of an investment vehicle that will be the main shareholder of a new company. The new company will be responsible for the agroforestry investments in smallholders' lands. The company will screen and select smallholders that are eligible for agroforestry investments, and enter into Rural Partnership Agreements with selected smallholders, using a portion of their degraded landholdings to invest in the production of agroforestry systems.

It will then engage smallholders by hiring them at their will and training them to implement, manage, and

harvest crops in their landholdings. It will also provide all inputs as well as logistics after harvest. At harvest, between 20% and 30% of the harvest would be owned by the smallholder.

The company will select which crops will be grown using agroforestry systems. The crops to be placed in the region will be chosen based on market liquidity, storage capacity (if possible), adaptability to the region. It will also play an aggregator role developing markets and collectively selling the shared agroforestry harvests to end buyers.

TEAM



LUIS FERNANDO LARANJA

DIRECTOR PARTNER, KAETÉ INVESTIMENTOS

INVESTMENT OPPORTUNITIES

TYPE	ROLE OF CAPITAL	AMT.
GRANT	Incorporate New Company, put in place 10 initial projects, Technical Assistance	\$1.5 M
FIRST LOSS EQUITY	Commercial investment into the Fund to prove the concept/business	\$5.0 M
CONCESSIONAL DEBT: MEZZANINE OR 2ND TRANCHE	Patient capital to match long term revenue flows, de-risk senior lenders	\$5.8 M
CONCESSIONAL DEBT: SENIOR OR 1ST TRANCHE	Patient capital to match long term revenue flow, at more commercial rates	\$5.8 M

The Brasil Innovation Lab for Climate Finance identifies, develops, and supports implementation of transformative climate finance instruments that can drive funds for Brazil's national climate priorities. The Brasil Lab is one of the initiatives that was initially launched under the auspices of the Brazil-U.S. Climate Change Working Group, led by the Brazilian Ministry of Foreign Affairs and the U.S. Department of State. Climate Policy Initiative serves as Secretariat.