

IFACC

Innovative Finance for the Amazon,
Cerrado, and Chaco

July
2021



FINANCING
SUSTAINABLE
LAND USE



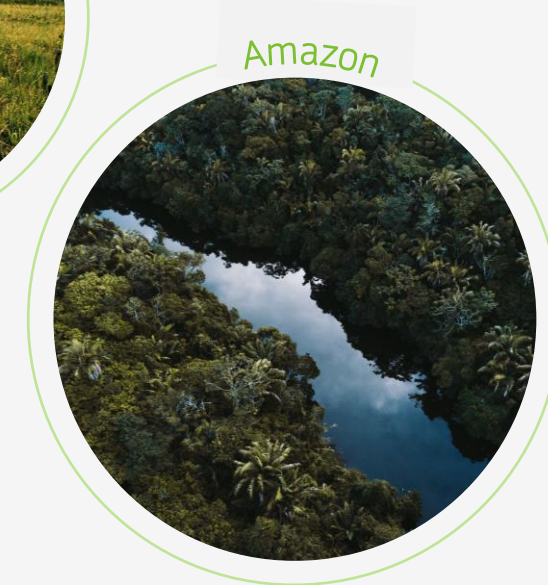
Overview

There is a **\$30 billion investment opportunity** to support farmers in the sustainable production of cattle and soy in the Amazon, Cerrado and Chaco biomes of South America.

Proven business models are available to grow production and farmer incomes while avoiding further habitat loss, water and climate impacts.

Growing international **market demand** for deforestation-free products, upcoming **regulatory changes** in consumer countries, and **investor expectations** are also driving the need for a **major transition** in our food production systems.

There is a **growing interest from lenders and investors** in innovative new finance mechanisms and several have been deployed already, however there are **multiple challenges to scale implementation**.



IFACC is working with companies, banks and investors to catalyze finance towards this transition.

Climate Change, Biodiversity and Food Security

Accelerating innovative finance in this region can make a critical contribution to three pressing global challenges.

Biodiversity

- Reduce conversion of forests and other natural vegetation by 16 mm hectares by 2030¹
- Avoid impacts on key species



Climate Change

- Reduce land-use emissions by 2.4 GtonCO₂eq by 2030²

Food Security

- Reduce productivity losses from extreme heat and reduced rainfall
- Supply the growing global demand for cattle and soy products
 - Cattle up 35% to 2040
 - Soy up 26% to 2029

IFACC will Support Leadership promotion in 2021 High Level Food, Biodiversity and Climate Change Summits.

¹TNC estimates: 5.4 mm Amazon, 6.4 mm Cerrado and 4.4 mm Chaco

² TNC estimates: 1.2 Amazon, 0.6 Cerrado and 0.57 GtonCO₂eq Chaco

Transition Opportunity in Cattle



- Cattle is the largest driver of habitat loss in all three biomes
 - 93% in Amazon
 - 70% in Cerrado

- Productivity can be increased 3 to 5 x current yields while maintaining a largely grass-fed, pasture-based system
 - ROIs > 10%

- “Sustainable intensification” can meet future demand for beef and leather, while freeing up pasturelands for expansion of soy, other ag products

- ~US\$17 billion capital investment to 2030 across Brazil Amazon and Paraguay Chaco



Transition Opportunity in Soy

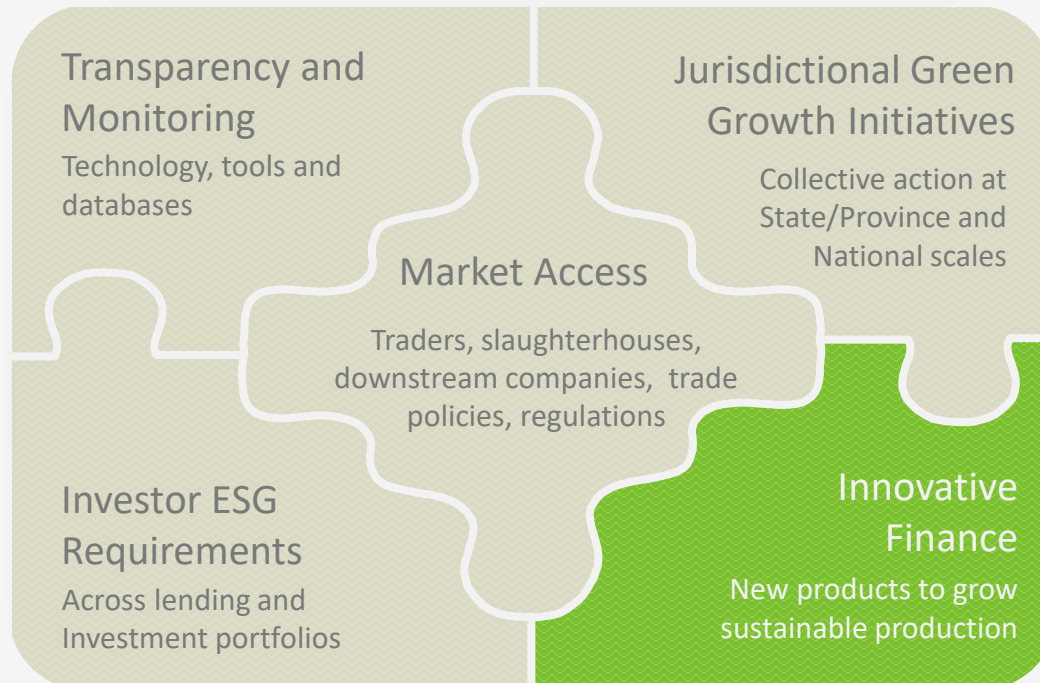


- Soy is a major driver of habitat loss in the Cerrado and Argentina Chaco
 - Soy is a lesser threat in the Amazon after the Soy Moratorium
- Soy can expand without further habitat loss through:
 - Expansion on already-cleared pasturelands (e.g. in Cerrado 18 MM has of suitable pastureland versus 7 MM has of projected soy expansion to 2030)
 - Yield increases
 - 20 to 30% in Cerrado
 - Larger opportunity in Chaco
- ROIs of sustainable expansion are competitive with clearing new lands
- ~US\$13 billion capital investment to 2030 across Cerrado and Argentina Chaco

The role of innovative finance

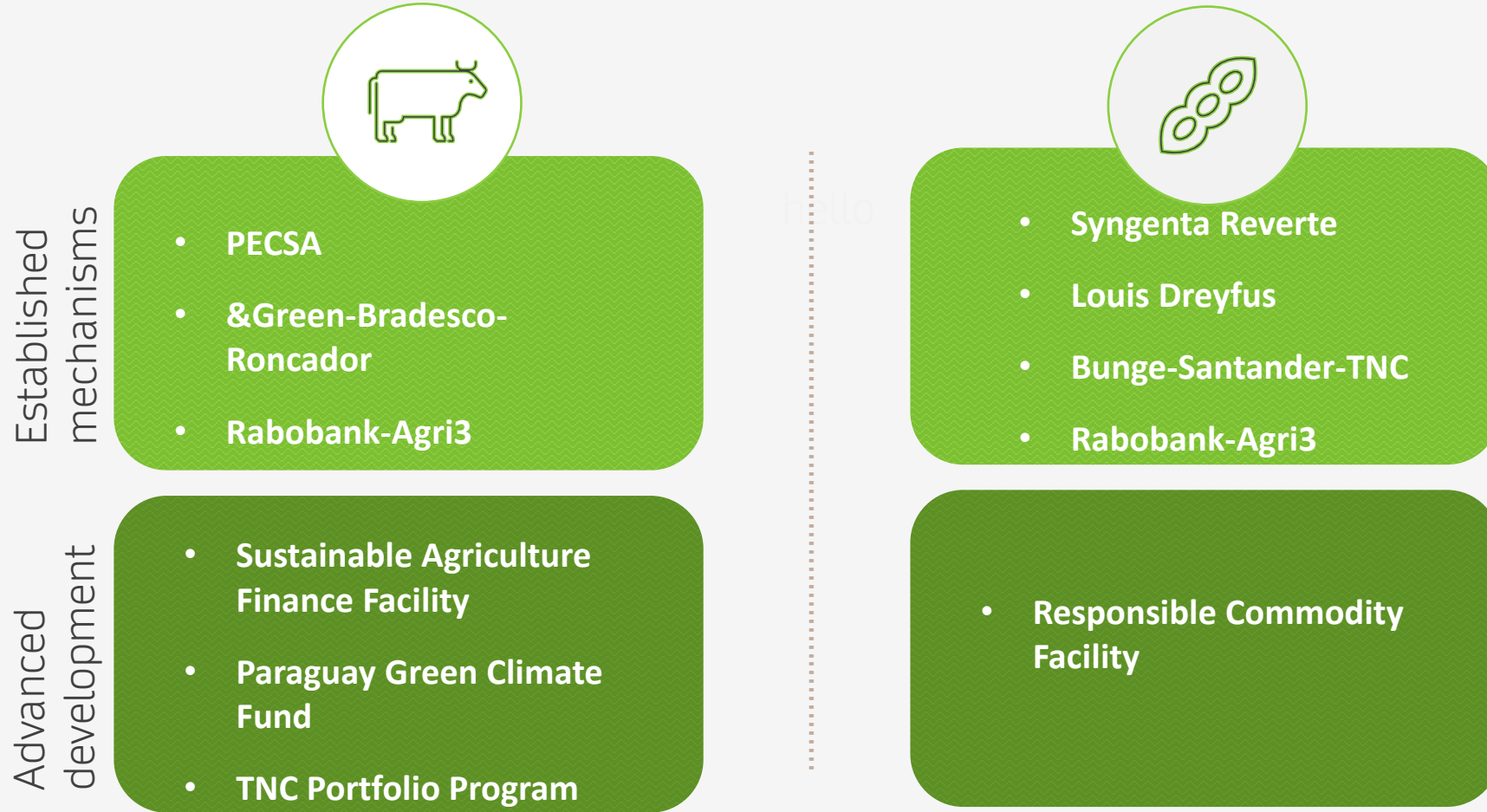
Finance can play an essential role in shifting land-use dynamics, helping to increase production through yield improvements and better use of already-cleared lands.

Drivers of the Sustainability Transition



- Innovative finance is “one piece of the puzzle” for sectoral transition
- A “must do” in order to grow production while reducing habitat loss
- Supports farmers in transition to the new market realities
- Innovative finance is also an area of common ground across industry, producers and governments

Innovative mechanisms are already being deployed ...



... But challenges remain to scale these up

Understanding of the Business Case

- Land-use dynamics and science case
- Farmer economics
- Role of finance
- Viable business and investment models

Risk Management and ROI

- Longer loan tenors
- New market segments and locations
- Transaction costs of serving rural farmers

Credibility of Impact

- Finance program design
- Environmental requirements
- Performance Indicators
- Monitoring approaches

Advice and support

- Intel on existing products and lessons learned
- Relationships with key partners
- Assistance with environmental management



IFACC
can help
address
these
challenges

IFACC and the Business Case

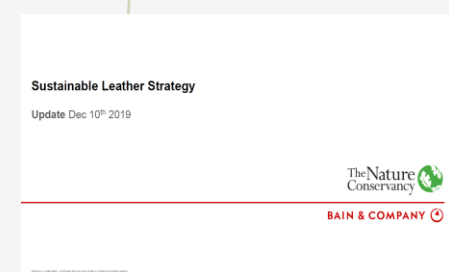
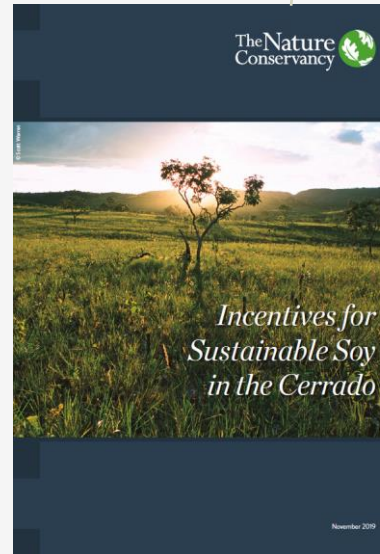
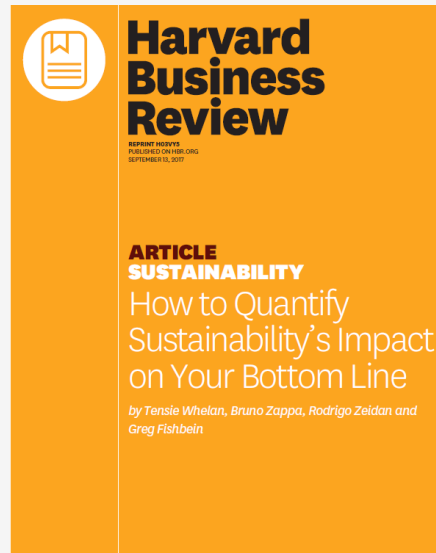
TNC and partners have completed numerous business cases on the land-use dynamics, economics and role of finance for cattle and soy.

Understanding of the Business Case

Risk Management and ROI

Credibility of Impact

Advice and support



Producer Perspectives

Our work is informed by our engagement with cattle and soy producers, particularly in the Amazon and Cerrado (and we will be engaging further with more producers in the Chaco over the coming months).



Direct Interaction through field projects

- Araguaia
- Sao Felix, Para.
- Maranhão
- Para Agora



Insights from Existing Farmer Finance Programs

- Bunge/ Santander/TNC
- Syngenta/TNC Reverte
- LDC
- PECSA



Market Surveys and Studies

- Markstrat survey of 208 producers
- Agroicone study of soy producer economics
- Cattle study



Producer Advisory Group

- A practical view from producers regarding finance programs and incentives for sustainable transitions
- ~15 to 20 cattle and soy producers across key regions who will also collect views from other farmers in their region

IFACC and Concessional Capital

Understanding of the
Business Case

Risk Management and
ROI

Credibility of Impact

Advice and support

UNEP, TNC and TFA have deep relationships and partnerships with the leading concessional capital groups active in the region.

Concessional Capital Providers for Farm
Lending and Investment in the Region



AGRI3FUND



FMO
Entrepreneurial
Development
Bank



BANCOBICE



Examples of De-Risking Mechanisms

- Partial risk guarantees, e.g.:
 - First-loss guarantee
 - Second-loss guarantee
 - Pari Passu risk sharing
- Concessional loans (e.g., longer tenors, lower costs, greater risk)
 - Senior debt
 - Subordinated debt

IFACC and Environmental Frameworks

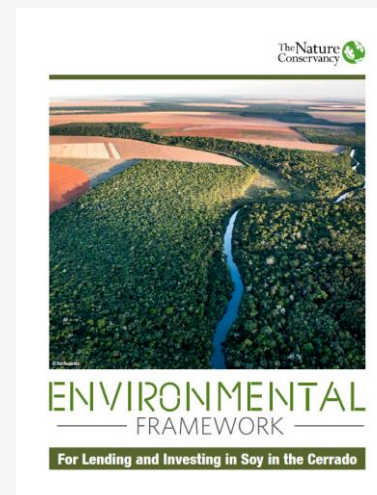
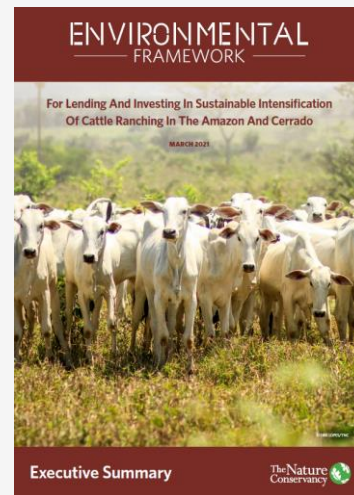
Understanding of the
Business Case

Risk Management and
ROI

Credibility of Impact

Advice and support

TNC and UNEP are leaders in establishing environmental frameworks for cattle and soy investment in the region, as well as standard-setting for finance mechanisms globally.



IFACC can aid in positive impact planning and monitoring

IFACC can help define appropriate impact and monitoring approaches for the created financial mechanisms



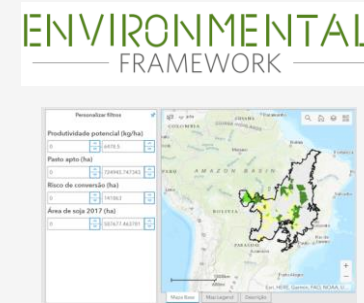
Pre-Implementation Planning

Agroideal is a free online, territorial intelligence system that supports decision-making and territorial assessment of socio-environmental risks associated with investments in the soy and cattle sectors.



Pre and Post Monitoring

MapBiomás Alerta validates alerts from multiple systems to provide the most accurate diagnosis of deforestation, degradation, and regeneration of native vegetation that is occurring.



Pre-Implementation Planning

TNC's Environmental Framework Dashboard developed a spatial model to estimate potential priority investment areas for soy expansion on already cleared land avoiding deforestation and conversion of native vegetation.

IFACC Support

Understanding of the
Business Case

Risk Management and
ROI

Credibility of Impact

Advice and support

IFACC aspires to be the “go-to” team for banks, companies and investors expanding innovative finance in the region. We can provide:



Market intelligence

Intel on products created to date and lessons learned from these experiences.



Key relationships

Connections with banks, traders, slaughterhouses, concessionary capital groups, emerging new finance facilities, institutional investors, and NGOs.



Advice on environmental management

Includes design of finance programs for impact, appropriate requirements, KPIs, and monitoring approaches.



Access to our knowledge hub

Contains the leading research and information on the science, economics and practice of innovative finance for cattle and soy in the region.

IFACC support

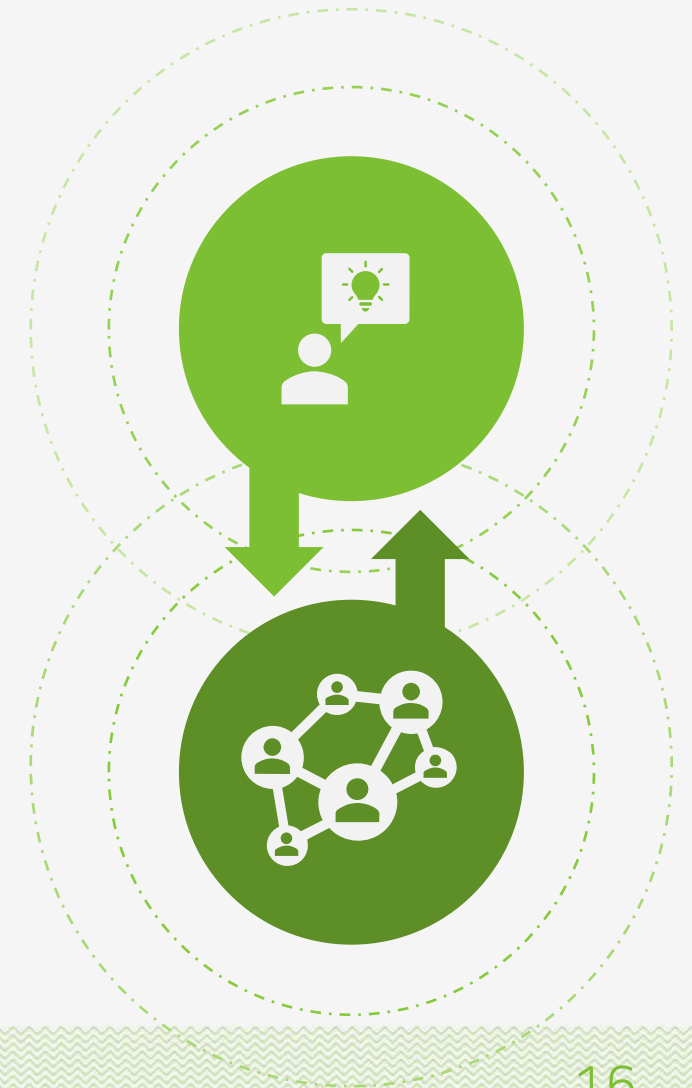
IFACC will provide bilateral support and host learning dialogues with key stakeholders.

Bilateral Support

- TNC, TFA and UNEP staff are available to work one-on-one with IFACC signatories to support your implementation needs – including insights and relationships from our work on existing innovative finance mechanisms, to advice on appropriate environmental and social frameworks and monitoring approaches.

Dialogues with key stakeholders

- IFACC will host dialogues among IFACC signatories and with other priority stakeholders (e.g. TNC Farmer Advisory Board) to extract lessons from successful finance programs, innovate to overcome transaction barriers, and share producer perspectives.
- IFACC will provide the link to other existing initiatives on the ground (e.g. Lab Financial Innovation, Brazilian Coalition on Climate Forest and agriculture)



How **you** can be part of the solution

Our ask to you is to join with others in a commitment to expand the flow of capital towards sustainable production in the region.

IFACC Declaration

- A *declaration* of need for innovative finance with other banks, companies and investors
- A collective commitment to take action.
 - \$3 billion of commitments, \$200 million of disbursements by the end of 2022.
 - \$10 billion of commitments, \$1 billion of disbursements by 2025.

hello

Individual Commitment

- Contributions your organization will make, based on your unique opportunities and circumstances
- Dollar amounts of committed capital
 - \$X of commitments,
 - \$Y disbursements by end 2022
 - Sectors, types of mechanisms
- Alignment with IFACC environmental and social framework for new IFACC-related financial products
- Specific steps to implement, e.g.
 - Plans, milestones
 - Organizational processes, responsibility and incentives

IFACC is a pathway to a net zero strategy

IFACC will help achieve the targets set by the Principles for Responsible Banking and strategies set by the Net-Zero Banking Alliance



**PRINCIPLES FOR
RESPONSIBLE
BANKING**

- Banks should set at least 2 SMART targets (e.g. climate change and Biodiversity)
- Biodiversity Guidance with indicators, metrics, and methodologies (includes 2025 deforestation free portfolio as a recommendation)
- IFACC can be part of one of the PRB targets

**Principles for
Responsible Banking**

**Net-Zero Banking
Alliance**

**IFACC is working to
catalyze finance
towards this
transition.**

Industry-led, U.N. Convened

NET-ZERO BANKING ALLIANCE

- Committed to aligning lending and investment portfolios with net-zero emissions by 2050.
- Within 18 months of joining, banks will set 2030 targets (or sooner) and a 2050 target, with intermediary targets to be set every 5 years
- Strong link with commodities production, deforestation and emissions.
- **IFACC can be the transition on the ground for agriculture portfolios and help meet the goals set to reach net zero commitments**

How IFACC can pathway to a net-zero strategy

IFACC can be the transition on the ground for agriculture portfolios and help meet the goals set to reach net-zero commitments



Examples of Smart targets: Biodiversity Linked

- Deforestation Free Portfolios by 2025
- **USD 1 billion new lending to nature-positive clients and/or activities by 2030 (IFACC)**

Industry-led, U.N.
Convened

**NET-ZERO
BANKING
ALLIANCE**

Examples of KPIs to achieve Deforestation Free Portfolios linked to expansion of climate positive lending portfolio for the ag/ land-use sector

- Full traceability of the most significant nature-degrading commodities in portfolio required by 2025
- At least 50% of the bank's lending portfolio is allocated to nature-positive projects
- **Mobilize xx million for blended finance opportunities to fund conservation and sustainable use of biodiversity projects up to 2050. (IFACC)**

IFACC



Example of IFACC commitment

- **\$300 MM of DCF lending to cattle and soy sectors in Brazil and Argentina using IFACC E&S**

IFACC Ask and Offer

Our main ask to you.....

- Expand lending and investment mechanisms
 - Scale and disburse existing mechanisms
 - Design and implement new instruments
- Showcase your leadership in the sector by
 - Signing on to a collective commitment to take action
 - Identifying the contributions your organization will make
- Work with IFACC partners to identify and overcome key transaction barriers

... what IFACC can Offer

- Provide practical advice and support to signatories on a bilateral, as-needed basis to execute greater transaction activity
- Support in defining appropriate impact and monitoring approaches for the created financial mechanisms
- Provide a practical view from producers regarding finance programs and incentives for sustainable transitions through the Farmer's advisory Group
- Serve as a network of participants, providing easy access to financial partners with the same objectives
- Raise the visibility of innovative finance (and your organization's role) at COP, Davos and other key forums



Examples of Financial Solutions IFACC Seeks to Encourage

Farm Loan Products

- **Long-term loans** for pasture recovery, yield improvements, sustainable intensification (e.g. Syngenta / Reverte)
- **Low-cost crop finance loans** as an incentive not to convert native vegetation (e.g. RCF)

Farmland Investment Funds

- **Equity funds** that buy and manage land under a DCF model, e.g. pasture recovery, yield improvements without conversion of natural vegetation

Corporate Debt Instruments

- **Sustainability-linked loans** with transparent performance metrics aligned with the DCF transition
- **Green bonds** with proceeds targeted to DCF transition investments

Capital Markets Offerings

- **Securitized agriculture receivables** with DCF performance metrics or use of proceeds (e.g. Green CRA)
- **Other capital markets offerings** that direct investment to DCF transition

Other Innovative Mechanisms

- **Producer services businesses** that bundle technical assistance and finance to support farmer transition (e.g. PECSA)
- Other innovative business and investment models

IFACC stakeholders



Direct Farmland Lenders/Investors

Sign Commitment

- Banks
- Investors
- Concessionary Capital Groups
- Finance facilities
- Traders
- Meatpackers
- Input Companies



Supporters

Endorse Commitment

- Institutional Investors
- Asset Managers
- Investor Initiatives
- Bank Associations
- Downstream Companies

IFACC partners



- Leading environmental advisor to impact investment mechanisms globally
- Key convener of financial institutions around sustainability goals
- Active presence in Brazil, Paraguay and Argentina



- Leading NGO working with companies, financial institutions and other stakeholders to implement practical solutions for business and the environment
- Actively engaged in Brazil, Argentina and Paraguay on solutions for sustainable cattle and soy production
- Leader in creating investable deals with conservation and financial returns with our in-house unit NatureVest.



- Hosted by the World Economic Forum, convener of the WEF Annual Meeting in Davos
- Secretariat for the Investor Policy Dialogue on Deforestation (IPDD)
- Partner to the UK Government on commodity driven deforestation in the COP26 Nature Campaign



Join us!