

# SECTOR SPOTLIGHT

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## IMPACT INVESTING IN BIODIVERSITY CONSERVATION

*October 2018*

# 1 INTRODUCTION

With the aim of better understanding trends, challenges and growth opportunities, the Aspen Network of Development Entrepreneurs (ANDE) has developed a series of publications about impact investing in four sectors: biodiversity conservation, education, financial inclusion and health.

This publication focuses on the specifics of impact investing in biodiversity conservation. It begins with an overview of the

social, environmental and economic context in Brazil, which is followed by data on impact investing in the sector taken from the second edition of the report “The Impact Investing Landscape in Latin America”<sup>1</sup>, recently published by ANDE and LAVCA (The Association for Private Capital Investment in Latin America). The publication then presents a case study of a business that received investment, before concluding with recommendations for the sector.

# 2 BIODIVERSITY CONSERVATION

Impact businesses in biodiversity conservation<sup>2</sup> create revenue through productive processes that conserve biodiversity, whether through sustainable management of natural capital (direct or indirect usage of natural resources) or through models that monetize the non-utilization of biodiversity. The value proposition must consider the conservation of ecosystems in order to maintain and/or increase provision of ecosystem services (benefits to humans of natural ecosystems, such as clean water, climate regulation, nutrient cycles,

energy and raw materials, among others) in the long term.



Although the loss of biodiversity directly affects human well-being by reducing the services the ecosystems provide to people, the global scenario is not positive. The rate of extinction of species is currently around a thousand times higher than it was before humans dominated the planet. According to the Global Biodiversity Outlook 3<sup>3</sup>, the persistence – or in some cases intensification – of the five

<sup>1</sup> [https://cdn.ymaws.com/www.andeglobal.org/resource/resmgr/research\\_library/latam\\_reports/LATAM\\_IMPINV\\_PORT\\_2018\\_Digit.pdf](https://cdn.ymaws.com/www.andeglobal.org/resource/resmgr/research_library/latam_reports/LATAM_IMPINV_PORT_2018_Digit.pdf)

<sup>2</sup> IUCN (2008): “Building Biodiversity Business”

<sup>3</sup> <https://www.cbd.int/gbo3/?pub=6667&section=6711>

primary causes of biodiversity loss contribute to this rate not coming down. They are:

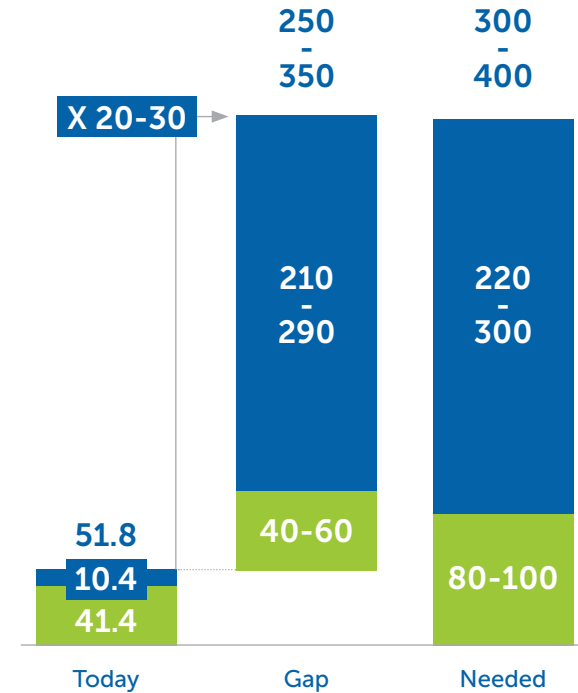
- 1 Loss and degradation of habitats 
- 2 Excessive and unsustainable exploration 
- 3 Climate change 
- 4 Invasive exotic species. 
- 5 Nutrient overload and other forms of pollution 

While the climate crises may be reversible - even if it takes centuries - there is no way back once a species is extinct, especially those that are unknown to science. It is unknown how much biodiversity can be lost without causing an ecological collapse. What is known, however, is that the loss of biodiversity is related to several socioeconomic risks<sup>4</sup>.

The majority of funding for conservation currently comes from traditional sources, such as government budget allocations, official development assistance and philanthropy. The current scale is insufficient, however, as shown in the graph on the right.

There is an urgent need to develop innovative sources of financing that allow an increase in private capital flows for conservation. Impact investing can be seen as an effective approach for this purpose.

Global Financing for Conservation



- Conservation investments
- Government and philanthropic conservation efforts (e.g., donations)

Source: Global Canopy Programme & Crédit Suisse, WWF, McKinsey & Company (2014). Conservation Finance - moving beyond donor funding toward an investor-driven approach.

<sup>4</sup> <https://www.pwc.co.uk/assets/pdf/wef-biodiversity-and-business-risk.pdf>

### Context for biodiversity conservation in Brazil

Significant business opportunities exist for biodiversity conservation in Brazil. The country covers almost half of South America and contains unique biomes, such as the largest tropical forest in the world (the Amazon), the largest floodplain in the world (the Pantanal) and 8,500km of coastline. It is also home to 20% of the total number of species on the planet.

The report “The Impact Investing Landscape in Brazil Latin America”, published in 2018 by ANDE and LAVCA, shows that there is a growing number of impact investors considering getting involved in biodiversity conservation. The numbers are still small, however, when compared with other sectors.



# 3 IMPACT INVESTING IN BIODIVERSITY CONSERVATION

### Globally

The 2018 edition of the Annual Impact Investor Survey, published by the GIIN (Global Impact Investing Network) reports that of the US\$ 228.1 billion of assets under management (AUM) controlled by impact investors around the world, only 3% is allocated to conservation, by 16% of investors. Only 7% of respondents reported conservation as one of their three priority sectors. Perspectives for the future, however, are more positive: the sector appears in third place for expected growth in the number of investors<sup>5</sup>.

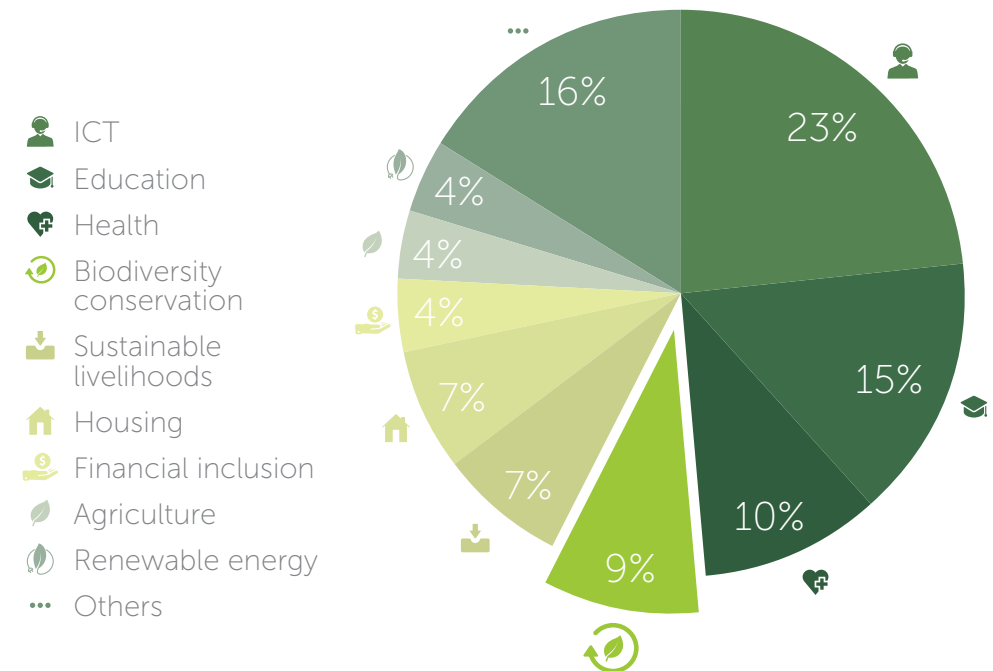
<sup>5</sup> [https://thegiin.org/assets/2018\\_GIIN\\_Annual\\_Impact\\_Investor\\_Survey\\_webfile.pdf](https://thegiin.org/assets/2018_GIIN_Annual_Impact_Investor_Survey_webfile.pdf)

## Latin America & Brazil (2016-2017)

The 2018 edition of the ANDE and LAVCA study in Latin America revealed the following:

- 8 investments made into biodiversity conservation businesses in Latin America, with a total value of US\$ 5M;
- 6 of these investments took place in Brazil, with a total value of US\$ 0.48M;
- Of the investments in Brazil, 3 had ticket sizes of US\$ 50,000 or less, and the other 3 between US\$ 50,000 and US\$ 250,000;
- Of the 22 investors that made deals in the country during the period, 2 invested in biodiversity conservation;
- One of the eight exits reported in the country was in biodiversity conservation;
- More than half of respondents align their investment strategies to Sustainable Development Goals (SDGs) that are directly or indirectly connected to biodiversity conservation;
- Biodiversity conservation appears in fourth place in the number of deals in Brazil, behind only the ICT, education and health sectors.

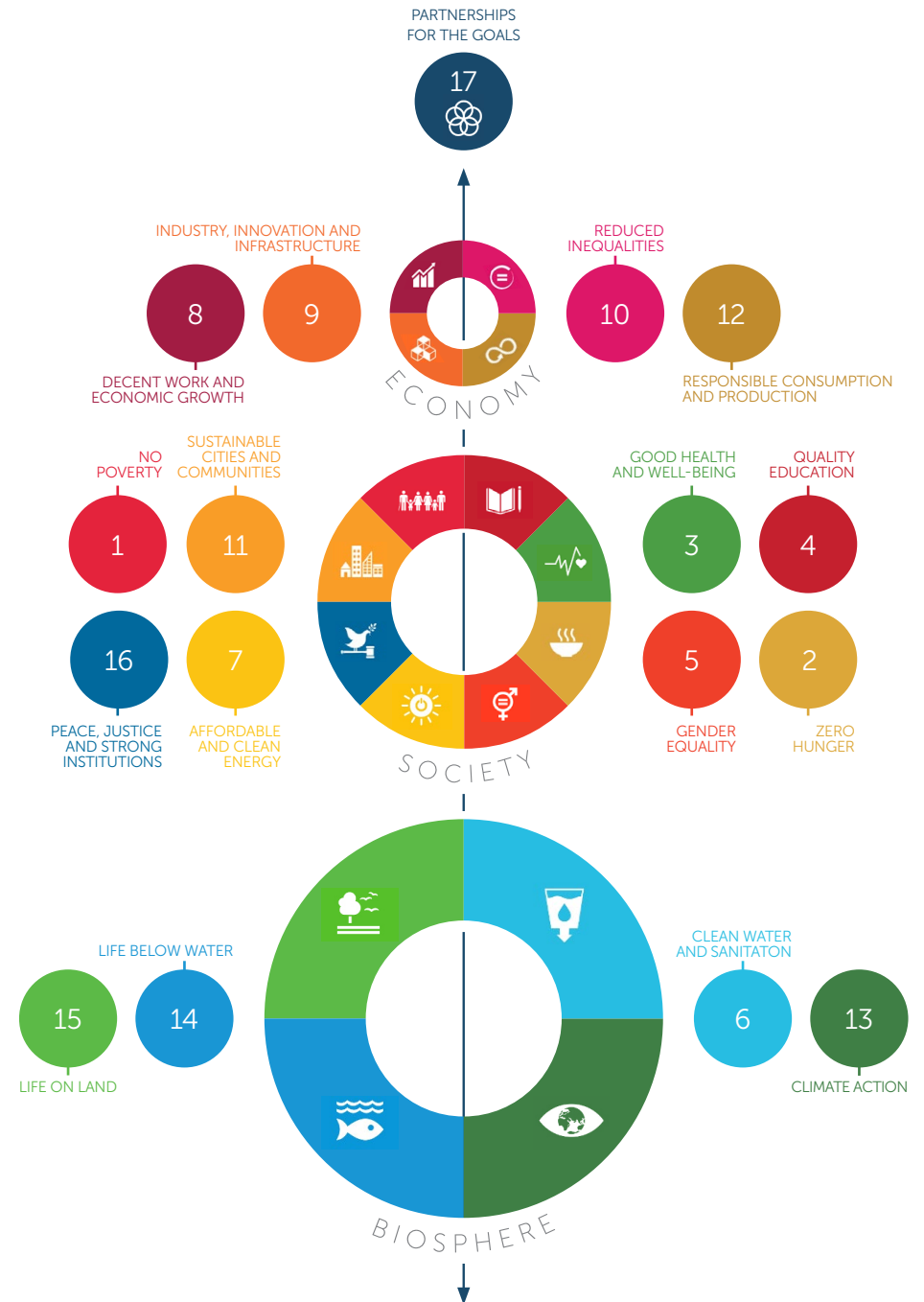
*Distribution of Deals per Sector (Brazil)*



To better understand the biodiversity sector it is important to establish causal relationships between SDGs relating to socioeconomic factors and those relating to the biosphere. By accepting that social and economic systems operate within the planet's ecological limits, it can be concluded that achieving the environmental goals sustains the attainment of the socioeconomic goals. As such, establishing the relationship between the environmental and socioeconomic aspects, and exploring synergies, is as important as defining metrics for environmental impact per se.

Of the 24 investors that are active in Brazil in 2018 and that provided information regarding alignment with the SDGs, more than 80% reported aligning their strategy to the SDGs generally. The following table shows investor alignment with each of the four SDGs that represent the biosphere. Almost 60% of respondents reported aligning their investments with at least one of the four, but only one investor selected all four.

SDG	% Of respondents	Ranking among the 17 SDGs
13 • Climate action	50%	5
6 • Clean water and sanitation	33%	10
15 • Life on land	15%	16
14 • Life below water	8%	17



Source: Stockholm Resilience Centre



# 4 CASE STUDY

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With the aim of promoting impact business and impact investing in biodiversity conservation, we present below a case study of an investment deal made in the sector.



## Context:

*Tobasa Bioindustrial* is a Brazilian company that sells products derived from the *babaçu* coconut (*Attalea speciosa*, a native species to the Amazon rainforest and Brazilian savannah that is protected by law). Through innovation in the harvesting and industrialization processes, Tobasa vastly increases the rate of usage of the coconut, promoting conservation of the forest and increasing the income of local communities.



## Solution:

Innovative technologies that produce other products from different parts of the coconut, such as the distillation of *babaçu* alcohol (starch alcohol) and carbon activation ovens, increase the added value of the harvested fruit.



## Problem:

The extraction of *babaçu* oil, typically the primary product, uses only 6% of the weight of the coconut.



## Business model:

Tobasa produces and sells several products derived from the *babaçu* coconut. It is the market leader in Brazil in production of activated coconut charcoal, used in residential water filters and purifiers. Other products include oils and neutral alcohol for the cosmetics industry, protein food for animals and high-calorie biomass.





### Social and biodiversity impact:

Being a native species, the *babaçu* does not require pesticides or agrochemicals. By increasing the value of the entire fruit, Tobasa not only considerably increases the income of fruit-pickers in three different states, but also transforms them into partners in protecting the trees. The relationship with the communities has been built and strengthened throughout the company's history, creating a virtuous cycle that integrates positive economic, environmental and social impact.



### Investment:

Kaeté Investimentos is a private equity fund manager focusing on impact investments that offer financial returns tied to positive social and environmental impact.



### Company-investor relationship:

Edmond Baruque and Luis Fernando Laranja, respectively President of Tobasa and Director of Kaeté, share similar ideals experiences, making their relationship uncomplicated.

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**“Luis Fernando is unlike any other. He has already been in the entrepreneur's shoes and knows how to do business in the Amazon, something that is completely different. As an investor, he possesses a different analytical capacity having been through the experience of an impact entrepreneur”, says Edmond Baruque, Tobasa's President.**

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Visits made by Kaeté to Tobasa's facilities before finalizing the investment were fundamental in guaranteeing a perfect conceptual fit, giving them the opportunity to get to know the *Company in loco*.

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**“The conversations with Edmond, as well as the site visits, made clear to us both the impact of the company and the desire to quantify and measure it”, says Luis Fernando Laranja, Director at Kaeté Investimentos.**

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The company is currently consolidating the expansion of machinery and equipment in order to scale up production. Prospects for the future are good: since receiving the investment, the production volume has increased by 50%, improving financial results by more than 30%. The expectation is that similar growth will be seen in 2019.

# 5 CONCLUSIONS AND RECOMMENDATIONS

Brazil has adequate conditions for impact businesses in biodiversity conservation to flourish, and there is a social and environmental need for this. Clear opportunities exist for investors, entrepreneurs and other players to get involved. In addition to the data presented in the study, ANDE and the Boticario Group Foundation collected qualitative information from a group of specialists in impact investing and biodiversity. The group highlighted several areas for action that could increase the flow of impact businesses in the sector in the coming years.

**The main opportunity areas for impact investing in biodiversity can be summarized as:**



**1** | Creating, testing and improving new business models and sharing success stories in order to inspire entrepreneurs.

**2** | Influencing the culture change to create new expectations for long-term impact and financial returns, and for investors to recognize the socioeconomic impact of investments in biodiversity.

**3** | Increasing collaboration and understanding about the topic among existing players.

**4** | Increasing investment opportunities for current and future businesses by attracting more investors and e testing new instruments that are aligned with the regulations for biodiversity.

To facilitate action on these four fronts we need to produce and disseminate knowledge about concepts and needs, by means of research, training and education programs, and also by promoting networking spaces for exchange of ideas and mapping needs and opportunities. These spaces should promote the convergence between environmental specialists, public policy and financiers with players from the impact investing sector. Creating a common understanding about the concept of biodiversity, the primary needs and opportunities for this sector with an ecosystem perspective, is an important first step to advance with this objective. Since biodiversity in Brazil is large and diverse, we believe that supporting local ecosystems is an efficient strategy for promoting impact investing in the sector. Engaging local players and specialists to collaborate with national and international investors can improve these partnerships and the common understanding about the needs of the field.

We see that some of these activities are already being developed by players interested in impact investing in biodiversity, including Boticario Group Foundation, which has incorporated the topic as a strategic pillar for the next five years and will lead some of the efforts in the sector. Space exists, however, for engaging new and different players from the ecosystem, increasing the capacity for innovation in the field. This should attract more entrepreneurs and investors to get to know and take advantage of the opportunities. With a more structured, intentional coordination, it is possible to start a virtuous cycle of new investments and successful businesses.



# ACKNOWLEDGEMENTS

**Executive Editors:**

Aspen Network of Development Entrepreneurs (ANDE)  
Boticario Group Foundation

**Text and Content:**

Aspen Network of Development Entrepreneurs (ANDE)  
Boticario Group Foundation  
Semente Negócios

**Design:**

Trópico Design

