Auaca Fund

Debt-for-nature swap & Impact Investments

Deforestation Prevention through Sustainable Ranching Initiatives

Key Details

Asset class	Debt fund
Investment size	US$200m
Maturity	2032
Geography	Brazil

Challenge

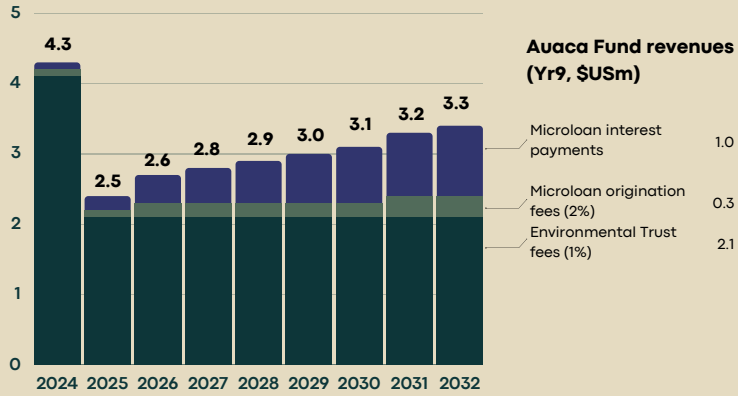
Continuing deforestation of the Brazilian Amazon is an urgent onrunning issue, reducing its role as one of Earth's largest carbon sinks. Approximately 6,000 sq.km per year is destroyed to make way for cattle grazing, driven by:

1. **Rising demand for animal protein** – global beef demand is expected to **rise by a third over the next 20 years** — with Brazil potentially supplying almost half of that growth.
2. **Low productivity** from poor, small-scale, **capital-constrained** ranchers who see the land as a means to increase their incomes; cattle farming makes up 8.5% of Brazil's GDP and supports the livelihoods of most low-income families.

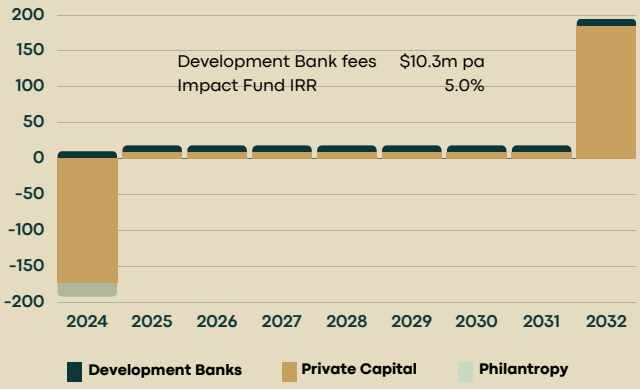
Together with the impact of deforestation and biodiversity loss, methane emissions from the beef industry are the elephant in the climate mitigation room, 28x more potent than CO2. They require immediate attention to deliver short-term impact on slowing down climate change.

Sustainable farming practices are urgently needed to future-proof this key Brazilian industry in the face of the climate crisis.

Fund's Cashflow



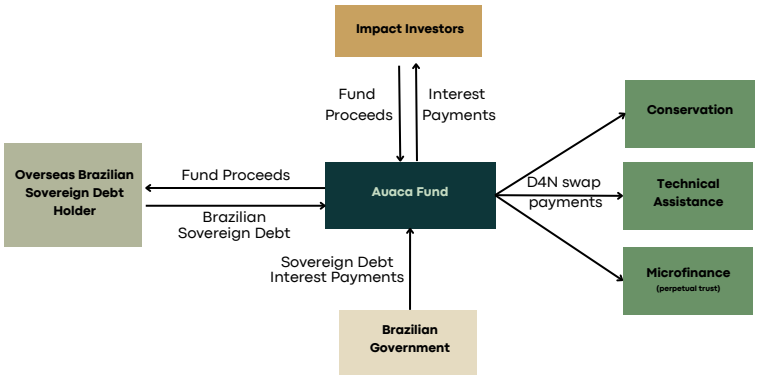
Investors' Cashflow



Sources	
Philanthropic Grants	20.0
Private Capital	180.0
Total	200.0

Uses	
Sovereign debt purchase	196.0
Financing fees	2.0
Trust administration fees	2.0
Total	200.0

Innovative Solution



- Auaca Fund aims to curb deforestation and methane emissions in Brazil by aligning incentives and objectives of actors in the cattle ranching sector. Auaca acts as the intermediary to deploy both concessionary and private capital via a market led debt-for-nature swap.
- Auaca will purchase Brazilian government debt at market prices, then redirect the coupon payments towards three complementary sectors:
  (1) direct funding of REDD+ conservation projects in Acre;
  (2) technical assistance to provide know-how and demonstrate advantages of sustainable ranching initiatives; and
  (3) microfinance loans for cattle ranchers to invest and implement SRI.
- Together, this creates a double-dividend of reducing the amount of land required for cattle farming, which curbs further deforestation, reduces the carbon intensity of said farming through tried-and-tested SRI in accordance to Embrapa's Good Agricultural Practices and reduces enteric methane emissions, and elevates ranchers' profitability.
- The fund engages with sustainable commodity market makers to support purchase contracts at a pricing premium. Matching buyers with sustainably raised cattle, creating market stability for cattle ranchers under the programme.
- The fund will generate revenue via fees and interest returns on the microfinance loan portfolio.
- The sovereign bonds used in the debt-for-nature swap are assumed to mature in 2032. The repayment proceeds could be rolled over into a follow-on period.

Beef Demand Growth in 20 years

Agrobusiness' Share of Brazilian GDP

Deforestation for cattle ranching

Scalability – Market & Future Growth

- The market potential for sustainable farming in Brazil spans 220M ha across the Amazon and Cerrado biome, home to 232M cattle, with investment potential in sustainable agribusiness reaching $163B by 2030 (CBI, 2020).
- Low-tech operations that invest little in land and pasture care, or animal husbandry, account for about 90% of the country's production (IEG FNP Agribusiness, 2020).
- Projected market penetration rate of Auaca is 14% of ranching land in Acre, translating to 4x growth potential. The fund's impact potential is easily scalable dependent on the amount of private capital raised.
- Global debt-for-nature swap market expected to exceed $800B (Bloomberg, 2023).

Revenues & Operating Structure

- Revenue stream: fees, microfinance interest.
- Auaca works with appointed partners of respective functions, selected for their credibility and expertise.
- Auaca appoints The Nature Conservancy (TNC) to provide global oversight of the programme.
- SRI technical assistance provided by Instituto Centro de Vida (ICV), who operated the Novo Campo programme.
- Microfinance origination performed by BNDES who are compensated by incentive fees. Auaca will set specific eligibility criteria and loan usage conditions, similar to the Novo Campo programme.
- Monitoring of sustainable ranching performed by Embrapa, a Brazilian agricultural research agency who developed the Good Agricultural Practices.
- Direct funding of the Envira REDD+ conservation project for 164 ha of land area.
- Sustainable commodity market makers facilitate sale of commodity at premium.

Target Geography

The project will be piloted in the state of Acre, northwestern Brazil. Around 90% of Acre contains Amazonian biome, and is home to rich biodiversity. Upwards of 65% of forest cover is expected to be converted for cattle pasture and farming. Roughly 40% of the Acre population lives below the poverty line.

Past small-scale sustainable farming implementation in Acre has demonstrated positive results, showing a potential for success. Future phases of the project will consider the states of Mato Grosso and Para.

Environmental & Social Impact

KPI: farming productivity (SDG 2.3)

- >50% increase in stocking rate (animal unit/hectare) over baseline after 3 years.
- >25% increase in productivity rate (carcass kg/hectare/yr) after 3 years.

KPI: CH4 emissions from cattle farming in Acre (SDG 13.2.2)

- Sustainable farming programme includes novel feed additives that reduce methane emissions.
- Expected emissions reduction of at least 50%.

KPI: Deforestation rates (SDG 15)

- Microfinance loans would incentivise farmers to make better use of existing pastures, thus, reducing the demand for deforestation.

KPI: Rainforest area under conservation (SGD 15.1.2)

- Debt-for-nature swaps would require the state to take more action in protecting, conserving, and monitoring the Amazon rainforest.

RISK	MITIGATION
Ranchers' Credit risk	Collateralising against sales receivables
Corruption	Using a diversified network of partners for different functions of the project
Uncertainty of productivity gains and impact	Framework with targets and goals verified by the third-party auditors
Partnership management	Oversight by The Nature Conservancy (TNC) as core element of governance and framework for execution coordination
Undetected illegal resource exploitation and land acquisition	Use of satellite data from INPE (Brazilian National Institute for Space Research) and CAR land registry data

POTENTIAL PARTNERS

Overseer
The Nature Conservancy

Execution
ICV Instituto Centro de Vida

Conservation
Projeto Envira Amazônia

Microfinance
BNDES Banco Nacional de Desenvolvimento Econômico e Social

Development Banks
IFC
IDB
DFC U.S. International Development Finance Corporation

Philanthropy
Leonardo DiCaprio Foundation
Lyda Hill Philanthropies
Grantham Foundation for the Protection of the Environment
Oak Foundation