

## Technical Cooperation Document

### I. Basic Information for TC

▪ Country/Region:	BRAZIL
▪ TC Name:	Financing for the Amazon: Strengthening the Financial Ecosystem for Amazon Bio-Businesses (FinAm)
▪ TC Number:	BR-T1489
▪ Team Leader/Members:	Brakarz, Barbara (CSD/CCS) Team Leader; Netto De A. C. Schneider, Maria E. (IFD/CMF) Alternate Team Leader; Alva, Maria Fernanda (CSD/CCS); Amaro Andrade, Flor Evelyn (IFD/CMF); Blandin Andino, Lourdes Gabriela (SCL/GDI); Callau Ferreira, Vanessa (CSD/CCS); Cavazzoni Lima, Rafael (IFD/CMF); Celeste Marzo, Cristina (LEG/SGO); Ceva Alvarez, Mariana Daniela (CSD/CCS); Gomez, Juan Carlos (CSD/CCS); Juan Francisco Martinez Cotrino (CSD/CCS); Marin Luna, Andrea Belen (CSD/CCS); Schweizer, Luciano (IFD/CMF); Valente Lins, Paula (CSC/CBR); Vasa, Alexander (IFD/CMF); Visconti, Gloria (CSD/CCS); Watson, Gregory (CSD/CCS); Karisa Ribeiro (Adv/BID Invest); Marco Siqueira (PPP/VPC)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	N/A
▪ Date of TC Abstract authorization:	25 Jun 2021.
▪ Beneficiary:	Banco Da Amazonia
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Institutions(INS); OC Strategic Development Program for Sustainability(SUS)
▪ IDB Funding Requested:	OC Strategic Development Program for Institutions (INS): US\$50,000.00 OC Strategic Development Program for Sustainability (SUS): US\$250,000.00 Total: US\$300,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (Execution period):	24 months (24 months)
▪ Required start date:	October, 2021
▪ Types of consultants:	Firms and Individual Consultants
▪ Prepared by Unit:	CSD/CCS-Climate Change
▪ Unit of Disbursement Responsibility:	CSC/CBR-Country Office Brazil
▪ TC included in Country Strategy:	Yes
▪ TC included in CPD:	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation; Environmental sustainability; Institutional Capacity and Rule of Law

### II. Objectives and Justification of the TC

- 2.1 The objective of this Technical Cooperation (TC) is to foster an enabling investment environment to scale up investments in sustainable bio-businesses in the Amazon region, resulting in forest conservation, reduction of deforestation, and improved capacity of governmental financial entities to deploy resources towards these

activities. The TC aims to achieve its objectives by: (i) devising and adapting innovative green financial processes to manage environmental, social and governance, and climate risks of Brazil's National Bank for the Amazon's (BASA, for its acronym in Portuguese) portfolio; (ii) designing and tailoring green financial products and vehicles to leverage and redirect investments towards those that value natural capital; (iii) support the design of the financial architecture of the state of Para's climate change "Amazônia Agora" Plan (AAP); and (iv) establishing a Public-Private multi-stakeholder forum to enhance a productive dialogue and recommendations on financial and non-financial solutions to bio-businesses.

- 2.2 **Justification.** The Legal Amazon includes nine states —Acre, Amapá, Amazonas, Mato Grosso, Maranhão, Para, Rondônia, Roraima, and Tocantins— with 5,015,067 km<sup>2</sup>, represents 59% of Brazil's territory and eight percent of the country's gross domestic product. The region's abundant natural resources play a vital role in regulating the global climate, as an important carbon sink, and contains 20% of the world's fresh water. At the same time deforestation in the Amazon is one of the major drivers of Brazil's greenhouse gas (GHG) emissions. In 2019, 87% of the country's land-use related emissions came from deforestation in the Amazon. Specialists indicate that the Amazon may reach a tipping point if deforestation reaches 20%-25%, transforming the forest into a savannah and impacting biodiversity, and hydrological and carbon cycles.
- 2.3 Deforestation-free supply chains are being demanded by international investors and consumer markets. Although services, manufacturing, mineral extraction, and agriculture are the main economic activities in the Amazonian states, conservation-oriented production chains are being developed as a solution for a new development paradigm for the Legal Amazon, based on the protection of its natural capital and the services it provides. Bio-business have the potential to promote the sustainable use of the natural capital of the Brazilian Amazon to produce food, energy, and industrial goods by maximizing value added and minimizing waste in the region. The profitability of products as acai, cocoa and brazil nuts are four to ten times higher per hectare than soy and livestock. A study on the valuation of the Brazilian Amazon Forest's Ecosystems Services identified US\$737 per hectare of services provided, including food production (brazil nuts), raw material (rubber and timber), GHG mitigation and climate regulation.
- 2.4 However, several institutional and market failures and barriers, hinder the ability to capture the potential socio-economic and environmental benefits identified for bio-businesses in the Brazilian Amazon. These include inadequate regulatory frameworks, financial and economic barriers, infrastructure and technical limitations, knowledge gaps, etc.
- 2.5 This TC seeks to address these barriers and increase public and private investment in the region's bio-businesses, by strengthening the capacities of BASA to: (i) improve coordination among global, national and local players, including business, and technical advisory institutions and innovation centers; (ii) support the development of market intelligence and capacity of local decision-makers for investment identification and prioritization; and (iii) design and implement financial solutions supported by instruments to mitigate/transfer the risk of eligible projects. BASA is a national Public Bank with the mandate to support the economic and sustainable development of the Brazilian Legal Amazon territory, managing, beyond its own capital, over six large government funds dedicated to the region. It is the financial institution with the broadest reach in the Amazon region, having supported

over US\$2 billion in financing, in 2019 only. To ensure replicability and further uptake of the TC execution, the activities will also be designed in close collaboration with State Governments.

- 2.6 The TC will also work with the state of Para, with a particular focus on the AAP, which aims to strengthen environmental activities that lead to a reduction in GHG emissions and mobilization of resources to finance these activities. The plan is aligned with: (i) the State's Climate Change Policy (Law 9,408/2020); (ii) the Sustainable Territory Programme (Decree 334/2019); (iii) the Eastern Amazon Fund (EAF) (Decree 346/2019); and (iv) the Deforestation Taskforce (Decree 254/2019). The AAP has four pillars: (i) environmental funding, through the EAF; (ii) command and control; (iii) low carbon socio-economic development; and (iv) territorial planning. The AAP is coordinated by the State Secretariat for Environment and Sustainability, the State Treasury, and the Governor's Cabinet. Creating enabling conditions for the state government to mobilize and fund priority activities will be central to the success of the plan. The state of Para leads Brazil's deforestation ranking—with 5,192 km<sup>2</sup> deforested in 2020 alone, and a cumulative 34% of the Legal Amazon's deforestation—driven by livestock and timber activities. Thus, sustainable supply chains and bio-businesses, as well as financing solutions, will strengthen Para's capacity in delivering the AAP's objectives.
- 2.7 This TC is consistent with the Second Update to the Institutional Strategy (AB-3190-2) and is aligned with the development challenge of *Productivity and Innovation*, as it aims at providing support to the adoption of sustainable accountability mechanisms and the alignment of green financial instruments. It is also aligned with the cross-cutting themes of: (i) *Institutional Capacity and Rule of Law* as regards enhanced transparency and aims to enhance the capacity of BASA and other local stakeholders; and (ii) Climate Change and Environmental Sustainability as it supports sustainable bio business investments intended to value the natural capital and reduce deforestation. It also contributes to the delivery of the following objectives of the IDB Group Country Strategy with Brazil 2019-2022 (GN-2973): (i) promote greater economic competitiveness; (ii) increase the role of the private sector by improving business environment; and (iii) facilitate Public-Private investment in infrastructure. The elaboration of comprehensive development plans for the Amazon and the need for conservation and use of environmental goods and services are also mentioned as a strategic objective. Furthermore, the TC is also aligned with the IDB's Amazon Initiative, which focuses on the region's sustainable development by strengthening four priority areas: bioeconomy, sustainable agriculture, livestock and forest management, human capital and sustainable cities and infrastructures. The TC is also aligned with the objective 1 of the Ordinary Capital Strategic Development Program for Sustainability (OC-SDP for Sustainability): to expand the knowledge base on climate change mitigation, adaptation, and sustainable energy geared towards leveraging climate investment, by strengthening the climate knowledge base and the institutional capacities, including those focused on environmental sustainability. It is also aligned with the third objective of the Ordinary Capital Strategic Development Program for Institutions (OC-SDP for Institutions): to reduce constraints for business growth and productivity by helping improve the quality of institutions and subnational entities to support economic growth and reduce poverty, exclusion, and inequality. It is also aligned with the Climate Change Action Plan 2021-2025 action to support sustainable and inclusive, place-based development models in the Amazon, and aligned with the Corporate Results Framework indicators 3.2 Projects supporting

productivity and innovation (% of new approvals/commitments), and 3.6 Projects supporting climate change mitigation and/or adaptation (% of new approvals/commitments).

- 2.8 The TC is also aligned with: (i) the Government's recently announced Amazon Plan 21/22, aimed at improving environmental governance and monitoring; (ii) the Ministry of Regional Development's Development Plan for the Amazon, which will feed into the Interstate Consortium for Sustainable Development of the Legal Amazon, a high-level forum comprised of the governors of the Amazonian States; (iii) the Amazon Council, which oversees activities that ensure the protection, defense, and sustainable development of the region; (iv) the Ministry of Environment's Forest+ Program, which aims at reducing deforestation; and (v) the Low Carbon Agriculture Plan, part of Brazil's National Climate Change Policy and the country's Nationally Determined Contribution under the Paris Agreement.
- 2.9 The IDB Group, through IDB, IDB Invest, and IDB Lab, supports over 20 projects in the Amazon Region from infrastructure to low carbon agriculture, and support to start ups. This TC will consider lessons identified in such projects, as well as work in a converging manner with many of them. Some examples are: (i) the IDB Lab's Amazonia Regenerate Accelerator and Investment Trust (RG-G1033, which aims at boosting regenerative economy in the region by assessing business models; and (ii) Sustainable Bioeconomy Businesses Led by Forest-Dependent Communities, which aims at testing the viability of the Amazon 4.0 concept by increasing economic opportunities through sustainable forest-based production, business generation and reduction of deforestation in four Brazilian Amazon communities (BR-T1451); (iii) Capacity Building and Institutional Strengthening on the National Framework for Access and Benefit Sharing under the Nagoya Protocol (BR-T1304); (iv) the Low Carbon Agriculture for Avoided Deforestation and Poverty Reduction Phase II - Strengthening Sustainable Value Chains in the Amazon (BR-T1462, in preparation phase); (v) the Low Carbon Agriculture and Avoided Deforestation Phase I, closed in 2019 (BR-X1028); (vi) the Sustainable Development Plan for the Western Amazon Region and state of Amapá (RG-T3337); and (vi) a project currently in preparation phase, with the company Marfrig, which intends to provide support to MGFs Verde +, the strategic plan aimed at accelerating investments to strengthen the sustainability in the company's beef supply chain as well as in own operations across the amazon region (13032-01). Also, it is closely aligned with the objectives of the Regional Fund with the Green Climate Fund, for the Letizia Pact, which aims at applying private investments in bioeconomy to the Brazilian context and is currently at its design stage.

### **III. Description of Activities/Components and Budget**

- 3.1 **Component 1. Devising and adapting cutting-edge green financial processes (US\$35,000).** It involves working closely with BASA to carry out an internal analysis of its portfolio and subsequently propose solutions for the development of green banking strategies, and environmental and climate risk management systems.
- 3.2 **Component 2. Designing and tailoring innovative green financial products (US\$50,000).** It will focus on the design and implementation of innovative green financial mechanisms (green bonds, Public-Private Partnerships, concessions, guarantees, insurance collateral, and special purpose vehicles, among others). It will also analyze BASA's current credit lines to redirect them to finance more sustainable activities that strength bio-businesses.

- 3.3 **Component 3. Support to State of Para AAP Financial Architecture (US\$200,000).** This aims at the development of the financial architecture and flows system to enable the implementation of the State of Para's AAP, with a particular focus on the EAF. This will be achieved through: (i) the assessment of the Ecosystem of Funds to enable the delivery of the AAP and the mobilization of resources towards the EAF. Recommendations on the EAF's position and role within the broader ecosystem will be provided based on: (a) a gap analysis of the current financing requirements to deliver the AAP; and (b) a comparison of mechanisms and financial arrangements that the EAF can operate to leverage private and public climate finance; and (ii) the analysis of legal, regulatory and governance frameworks—such as payments for environmental services, biodiversity and climate, and other effective measures for conservation, among others—to ensure cohesiveness of the AAP and enable its implementation. This will result in recommendations for the EAF's long-term sustainability, structure, and governance, securing it as a permanent Public-Private vehicle in the delivery of the State of Para's climate policy goals.
- 3.4 **Component 4. Creation of a Public-Private dialogue forum (US\$15,000).** This component is intended to create a multi-stakeholder forum to facilitate a relevant dialogue and offer financial and non-financial solutions to bio-businesses in Amazonian states. It will also connect the forum to other initiatives supported by the IDB, such as the Financial Innovation Lab.
- 3.5 The total estimated cost for this technical cooperation operation is US\$300,000, which will be financed as follows: (i) \$50,000 from the Ordinary Capital Strategic Development Program for Institutions (INS); and (ii) \$250,000 from the Ordinary Capital Strategic Development Program for Sustainability (SUS).

**Indicative Budget**

Activity/Component Description	IDB SUS Fund	IDB INS Fund	Total
Component 1. Devising and adapting cutting-edge green financial process	35,000		35,000
Component 2. Designing and tailoring innovative green financial products		50,000	50,000
Component 3. Support to State of Pará Amazônia Agora Plan Financial Architecture	200,000		200,000
Component 4. Creation of a public-private dialogue forum	15,000		15,000
<b>Total</b>	<b>\$250,000</b>	<b>\$50,000</b>	<b>300,000</b>

#### **IV. Executing Agency and Execution Structure**

- 4.1 At the request of the beneficiaries and in accordance with Appendix 2 of the Operational Guidelines for Technical Cooperation Products (OP-619-4), the IDB will be the Executing Agency given its experience in the preparation and development of the operational and technical instruments proposed for this type of operation, as well as its knowledge of the scope of work.
- 4.2 The administrative and technical supervision of the proposed technical cooperation will be in charge of the Climate Change (CCS) and the Connectivity, Markets and Finance (CMF) Divisions of the IDB. The activities financed with the TC will be executed in coordination with the beneficiary and/or public entities designated by it. More specifically, CMF will mostly guide and supervise the tasks at Components 1, 2 and 4, which beneficiary is BASA. CCS will provide support to such components.

Also, CCS will guide and supervise the work implemented by TNC, at Component 3, which main beneficiary will be the government of the state of Pará, through the Secretariat for the Environment, and other government agencies responsible for the Amazon Agora Plan and for the Eastern Amazon Fund. CMF will also act in partnership with CCS at this component execution. The IDB Country Office in Brazil will: (i) act as the Unit of Disbursement Responsibility; (ii) oversee the procurement processes; and (iii) ensure that the procurement is carried out in a timely manner.

- 4.3 The activities to be executed under this operation have been included in the Procurement Plan (Annex IV) and will be executed in accordance with the IDB's established procurement methods. Specifically, the Bank will follow its procurement policies and guidelines related to contracting processes: (i) individual consultants will be hired according to the guidelines established in policy AM-650; (ii) consulting firms of an intellectual nature will be hired according to the "Policy for the selection and contracting of consulting firms for operational work carried out by the Bank" ([GN-2765-4](#)) and its Operational Guidelines ([OP-1155-4](#)); and (iii) other non-consulting services in accordance with the "IDB Institutional Procurement Policy" ([GN-2303-28](#)).
- 4.4 The work proposed in this TC is highly technical and requires proper quality review and monitoring of expert consultant work. Bank staff is expected to provide expertise in component activities to ensure timely dialogue and coordination of implementation between the Bank and the beneficiary.
- 4.5 The beneficiary may provide technical inputs to terms of reference and consultancies' reports, but the Bank will have the authority to issue the final approval to such reports.
- 4.6 The project team has identified the most appropriate firms to carry out the activities of Component 3. The Nature Conservancy (TNC) is one of the leading NGO working in the Brazilian Amazon. It has been present in the state of Pará for over 20 years and it possesses a broad local expertise in the Amazon region. TNC has worked closely with strategic organizations on the development of public and private partnerships, particularly in the State of Para. The organization has provided support to the state's government in the design of the mobilization strategy for the EAF and was selected as a member of the Management Committee of such fund. The organization has developed technical work for cattle ranching, government capacity building, bioeconomy and gender issues for the State of Para's wider Program, the Amazonia Agora. TNC is uniquely placed to support to State of Pará AAP financial architecture as it has significant knowledge of the state's supply chains and economic opportunities, which are essential in the identification of sustainable value chains to build a pipeline and facilitate investment in the region through the EAF. TNC is developing several field projects with companies and financial institutions that deliver conservation, production, and social results. It has been working closely with BASA, Partnership for Forests, Mondelez, Olam, and Extreme-E to recover degraded pasture lands with agroforestry systems. In addition, TNC is leading the development of territorial management plans to support communities in managing, using, and developing resources.
- 4.7 Internationally, TNC has over 28 years of on-the-ground experience in the design and implementation of conservation programs. It is responsible for the Latin America Conservation Council, an advisory group of influential corporate and development leaders in Latin America that brings powerful advocacy and influence to key markets

for economic development relying on sustainable environmental management. TNC has successfully executed IDB projects (GRT/CF12631-RG, ATN/FI-12690-RG, ATN/OC-14053-RG, and ATN/OC-15994-RG, among others) totaling more than US\$6M. This includes the implementation of the first phase of the Latin America Water Funds Partnership, a five-year, \$12.6M collaboration of TNC, IDB, FEMSA and the Global Environment Facility, that leveraged over US\$100M to implement 19 Water Funds; the second phase of the Latin America Water Funds Partnership; as well as the Early Planning Finance for Sustainable Infrastructure in Latin America (ATN/OC-16226-RG). TNC was also hired to deliver services related to ATN/AS-14436-RG, including an assessment on the state of Para's bioeconomy economic value, and a report which identifies key elements for the development of healthy agricultural systems in the Para.

- 4.8 In addition, TNC has led several programs funded by the Development Bank of Brazil (BNDES) and Brazil's Ministry of the Environment, for US \$16M to implement the Rural Environmental Registry in 12 municipalities of *Mato Grosso*, introduce agricultural intensification and land-use planning to bring producers into economically viable compliance with Brazil's forest code, and strengthen indigenous land management in the Amazon.

## **V. Major Issues**

- 5.1 The risks of the project are medium and related to upcoming elections in 2022 and potential changes to government priorities regarding sustainability. There may be lower risks on deploying innovative financing mechanisms. These risks will be mitigated throughout the project through close engagement with technical and high-level government officials and will be closely monitored by the project's team.

## **VI. Exceptions to Bank policy**

- 6.1 No exceptions to Bank policies have been identified in this operation.

## **VII. Environmental and Social Strategy**

- 7.1 Per the Environment and Safeguards Compliance Policy of the IDB (OP-703), the operation has been classified as "Category C" (see the [Safeguards Screening Form](#) and the [Safeguards Policy Filter](#)).

### **Required Annexes**

[Request from the Client - BR-T1489](#)

[Results Matrix - BR-T1489](#)

[Terms of Reference - BR-T1489](#)

[Procurement Plan - BR-T1489](#)