

## **EXECUTIVE SUMMARY**

### **EXECUTING AGENCY:**

A private equity fund (Terra Capital Fund- "the Fund") will be established as a for-profit investment corporation incorporated in the British Virgin Islands. The Fund, expected to be around US\$15-25 million, is sponsored by Banco AXIAL, S.A. ("AXIAL"), Environmental Enterprises Assistance Fund ("EEAF"), and Sustainable Development, Inc ("SDI").

### **PROJECT OBJECTIVE:**

The project objective is to support, primarily by equity financing, small-size businesses with solid growth potential, whose activities have a positive impact on biological diversity ("biodiversity") -- the large number, variety, and variability of living organisms.

### **PROJECT DESCRIPTION:**

MIF will make an equity investment in the Fund, whose principal objective is to achieve long-term capital appreciation over its ten-year life. The Fund will operate under investment guidelines that call for due diligence procedures typical of emerging markets equity funds. The Fund will respond to the growing need for equity financing in these biodiversity-linked sectors, a niche under-served by the few equity capital investment funds already established in the region. MIF's resources are meant to have a multiple leverage particularly of supporting the capital needs of small enterprises. A Biodiversity Advisory Board will be formed to provide expertise on environmental and technical issues, both in general and on a deal-by-deal basis. The Advisory Board will include representatives from Global Environment Facility ("GEF"), International Finance Corporation ("IFC"), Brazilian Government, and other specialists mostly from Latin American NGOs, the private sector, and government.

### **COST AND FINANCING:**

MIF SEIF FACILITY III-B	EQUITY	US\$4,000,000
Co-financing	IFC	US\$5,000,000
	Swiss Government	US\$4,000,000
	Private Investors	US\$2,000,000-\$12,000,000
Total		US\$15,000,000-\$25,000,000

The Fund will be supported by GEF, which is administered by the World Bank to assist in the protection of the global environment. GEF will provide to the Investment Manager US\$5 million in grant funds during the life of the Fund.

### **TERMS:**

The investment will be disbursed to better match the expected timing of the capitalization. There will be a covenant that at least US\$ 8,000,000 be invested in small companies located in South America with less than 100 employees and annual turnover of less than US\$3 million. 1/ As is standard in an investment fund structure, the MIF and other investors will be repaid from the proceeds of

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1/ MIF has invested in three funds of a similar nature which can cover Mexico, Central America and Panama

the divestment of the fund's investments, after paying a management fee and a performance incentive.

**MANAGER:**

A new company, Terra Capital Advisors ("Manager") will be established to provide investment management services to the Fund. The Manager, staffed largely by Latin American professionals, will operate in Brazil from the headquarters of AXIAL, and will be owned by the Fund's sponsors. The Managers' partners combine experience in venture capital, biodiversity project management, and commercial banking with relationships with a wide range of stakeholders and NGOs throughout Latin America.

**ENVIRONMENTAL  
/SOCIAL REVIEW:**

The project abstract was approved by the Environment and Social Impact Committee on its meeting on April 17, 1998. The project document was approved on June 19, 1998.

**EXCEPTION TO  
POLICY:**

None